Annual Report 2022

New perspectives

Royal Dutch Airlines

KLM SKYTEAM

Contents

STORY
Pushing the boundaries of more sustainable flying
p. 23

STORY
Turning art into science
p. 44

STORY
A class act in the skies

p. 50

STORY
Pursuing a clear reduction pathway

p. 63

Key figures

per end financial year

Passengers

TRAFFIC
(in millions of revenue passenger-kilometers, RPK)
82,289
40,912
Δ +101.1%

CAPACITY
98,660
82,452
+19.66%

PASSENGER LOAD FACTOR
(%)
83.4
49.6
+68.1%

NUMBER OF PASSENGERS
(x 1,000)
25,838
14,039
+84.0%

NET PROMOTOR SCORE
37
49
-24.5%

Cargo

TRAFFIC
(in millions of revenue ton freight-kilometers, RTFK)
3,330
4,454
Δ -25.2%

CAPACITY
5,762
5,598
+2.93%

CARGO LOAD FACTOR
(%)
57.8
79.6
-27.4%

WEIGHT OF CARGO CARRIED
(in tons)
432,315
558,397
-22.6%

Fleet KLM Group

WIDE BODY
62
Average age 10.6 years

NARROW BODY
81
14.5 years

REGIONAL
61
7.2 years

CARGO
4
22.7 years

● 2022 ● 2021

Finance

REVENUES
(€ x mln)
10,679
6,065
Δ +76.1%

ADJUSTED EBITDA*
(€ x mln)
1,678
695
+141.4%

PROFIT / (LOSS) FOR THE YEAR
(€ x mln)
744
(1,258)
Δ +2,002

ADJUSTED FREE CASH FLOW*
(€ x mln)
1,544
404
+282.2%

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

Environment

CO_2 REDUCTION AMBITIONS IN 2030
(compared to 2019 (scope 1,3)

Intensity target (CO_2/RTK)	-30%
Projected absolute reduction	-12%

TOTAL CO_2
(in ktons CO_2 (scope 1)

8,993

7,357

Δ +22%

CO_2 EMISSIONS PER RTK
(Revenue Ton Kilometers) (scope 1)

873

995

-12%

TOTAL GROUND EMISSIONS
(in ktons CO_2 (scope 1)

30.1

30.5

-1%

Waste ambition in 2030

Residual waste (compared to 2011)	-50%

RESIDUAL WASTE
(non-hazardous in tons)

8,838

6,814

+30%

Social

FTEs KLM GROUP
(per end financial year)

29,867

27,564

Δ +8.4%

HEADCOUNT KLM GROUP STAFF
(per end financial year)

33,358

31,551

+5.7%

PERMANENT CONTRACTS
(per end financial year)

25,678

25,820

-0.5%

Governance

BOARD OF MANAGING DIRECTORS

Members	3
Female	33%

EXECUTIVE COMMITTEE

15

20%

SUPERVISORY BOARD

9

33%

● 2022 ● 2021

Letter from the President

New perspectives

The last few years have been hard on all of us. The pandemic brought us uncertainty and struggle, and, in many cases, loss. Lockdowns prevented us from seeing our loved ones and doing the things that mattered. But the pandemic also gave rise to compassion and hope that brought out the best in us. Under challenging circumstances, KLM staff and our colleagues from AIR FRANCE KLM, gave their very best to keep the operation running. All of us worked day and night to fly people and cargo around the world when it was next to impossible. I am impressed by and thankful for everyone's dedication and commitment.

Operational challenges

During the pandemic we had cut 16% of our staff compared to the number of staff end of financial year 2019 and we reduced capacity. Demand skyrocketed from the May 2022 holidays, which required us to deal with unexpected staff shortages in a tight labour market. Schiphol Airport also experienced difficulties in hiring sufficient staff. To our great dismay, we weren't able to deliver the service and reliability our passengers expected. Passengers experienced long queues, cancellations, delays and lost luggage, while staff, still tired from the extreme challenges from the pandemic, were pushed to the limit.

During the year, Schiphol Airport limited the number of passengers and we had to reduce flights from our schedule and blocked seats on many flights, a costly but unavoidable measure. We took many structural measures to stabilise our operation. We ramped up efforts to hire hundreds of ground staff and negotiated new collective labour agreements, with pay increases to address rising inflation. By the end of the year, our operations were stable once more. Our Net Promotor Score (NPS), a measure of customer appreciation, took a hit during the year but came back to pre-pandemic levels. We are grateful for the loyalty of our passengers and we continue to do everything we can to get our service levels back on track.

Time for a new perspective

The worst may be behind us, but our world remains turbulent. On the one hand, flying continues to be a worthwhile catalyst of social and economic life. It connects people, enables trade and allows us to create memorable experiences. On the other hand, war has erupted in Ukraine, inflation and fuel prices are very volatile and the labour market has become even tighter. Meanwhile, competition in the airline industry

"At KLM, we have realised that the traditional way of doing business is no longer the way to treat our planet, our customers and each other."

remains fierce, our operating environment is becoming more complex and technologies such as Artificial Intelligence (AI) are touching every aspect of our lives.

At KLM, we have realised that the traditional way of doing business is no longer the way to treat our planet, our customers and each other. We feel the need to reorient our focus and review who we are, what we offer and how we deliver. In short, it is time to offer our customers, staff and other stakeholders a new perspective of our future.

Frontrunner in sustainable aviation

Once again, we find ourselves pioneering, this time in sustainable aviation. We have embraced a revised purpose, which is 'Creating memorable experiences on the planet we care for' and adjusted our vision, which is 'Pioneering to become a frontrunner in sustainable aviation'. We also designed a new strategy that pursues three ambitions. First, to run a great airline for our customers and our people. Second, to transform to a net positive company. And finally, to create technological advancement.

Our new purpose, vision and strategy are rooted in the responsibility we feel for the future of our planet and the continuity of our company. In 2022, we took important steps on this exciting path. We continued our fleet renewal program and had our carbon reduction targets validated by the Science Based Targets initiative (SBTi). We committed to an even more ambitious reduction target than before, which challenges us to take bold steps and make tough decisions. For example, we began to blend 0.5 per cent sustainable aviation fuel (SAF) on flights departing from Amsterdam and signed a multi-year SAF supply contract, first steps towards achieving our 10% worldwide SAF target by 2030. We also published our Climate Action Plan and made progress on our Air-Rail product.

Innovate and invest

The Dutch are eager to continue flying and we see more people travelling worldwide. At the same time, we know that flying involves emissions and noise and we do want to take responsibility for that. We agree with the government that we must limit CO_2 emissions and reduce noise. In recent years we have done this by using new, quieter aircraft and applying more sustainable fuel. We know that acceleration is needed. In June 2022, the Dutch Ministry of Infrastructure and Water Management (I&W) announced it intends to limit the number of flight movements at Schiphol Airport from 500,000 to 440,000 as per 2024. We differ from the government on the way in which we want to achieve our sustainability targets. As far as KLM is concerned, not the number of flight movements, but the emission of CO_2 and noise should be leading in the solution.
In this way, together, we really take responsibility for the climate and local residents, while our customers can continue to travel.

We believe that the best way to reduce emissions is to continue investing in fuel efficient aircraft. In 2022, we have committed to EUR 4.5 billion investment in new aircraft. Over the next seven years, we will replace the total Boeing 737 fleet with the Airbus A320neo family. On average, the new A321neo emits 20 per cent less CO_2 emissions compared to the current fleet and these aircraft are 50 per cent quieter. In addition, the Boeing 747 freighters will be replaced by Airbus 350F freighters. The Airbus 350F is expected to emit over 40 per cent

KLM is grateful to former CEO Pieter Elbers for the 30 years he dedicated to the company.

less CO_2 and it makes 50 per cent less noise then its predecessor.

Strong recovery

Challenges remain, but in spite of them, we managed to achieve good results. Once restrictions began to be lifted, demand for flying recovered instantly. On the back of this, our leisure and business travel made a strong recovery, while Cargo, Transavia and Engineering & Maintenance made good contributions of their own. Together, we achieved revenues of EUR 10.7 billion, compared to EUR 11.1 billion in 2019 and our adjusted income from operating activities amounted to EUR 706 million. We were able to fully pay back our EUR 942 million debt related to the Dutch State support package. After the significant impact of COVID-19 KLM's equity was negative at year-end 2020 and 2021. Following the strong recovery in 2022 KLM's equity has become positive again. We are very pleased with these good results, but will continue to work on financial stability. In the coming years we will face high investments, including those postponed in previous years. Furthermore, costs will continue to rise and we have to consider persistent future uncertainties. Therefore, our future remains challenging and we will continue to focus on our strict targets.

In 2022 we improved the quality of our products and services. We launched Premium Comfort Class, a new class alongside Economy and World Business Class that taps into a growing market, and a significant step in the diversification of our product. We continued to upgrade our World Business Class with direct-aisle access. We also accelerated investments in data-driven services, which empower passengers with self-service functionalities. I am proud that for the second year running we were awarded the APEX World Class Award 2023 in recognition of our customer experience, safety, well-being and sustainability.

Ambition and confidence

All in all, we begin 2023 with ambition and confidence. We will implement our new strategy and embed our new vision and purpose deep within the organisation. We will continue to reduce our footprint, make progress on our emission reduction goal, increase our revenues and productivity, lower costs and deliver an increased but stable network schedule. And we will attract and retain talented people, and offer all of our nearly 30,000 colleagues a diverse and inclusive environment.

Our path ahead is built on responsibility and clear choices. Which is why I know we will persevere and flourish, as we have done for the past 103 years. This is in no small part due to the tremendous commitment and perseverance of my colleagues on the ground, in the air, and at the outstations. To each one of you, and to all colleagues at AIR FRANCE KLM, I say thank you for your invaluable contributions and for your loyalty.

On a final note, I would like to say that it was my great honour to become President & CEO of KLM in July of 2022. It meant returning to the company where I spent 15 years of my career and re-joining a global team of passionate colleagues. I am proud to be part of this company and I am grateful to my predecessor, Pieter Elbers, for the 30 years of his life he dedicated to KLM. Under his leadership, KLM returned to profitability, transformed itself and successfully navigated the pandemic. I look forward to the years ahead in which we build on this legacy and take KLM into a bright and sustainable future.

Marjan Rintel
President & Chief Executive Officer
March 31, 2023

About KLM

Our history

1919
Foundation of KLM Royal Dutch Airlines. The Flying Dutchman, once a legend, becomes reality.

1920
Opening of the first regular service, Amsterdam – London.

1921
KLM starts its own Engineering & Maintenance, to become one of the largest aircraft maintenance companies in the world.

1930
Opening of a regular service Amsterdam – Batavia (now Jakarta). KLM starts expanding her network in South East Asia.

1934
Introduction of the DC-2, PH-AJU 'Uiver'. The full metal aircraft in KLM's fleet becomes standard.

1935
Arrival of the first cabin crew members.

1946
The opening of a regular service Amsterdam – New York lays the foundation for KLM's transatlantic network.

1952
Introduction of the first famous drink-in-a-gift Delft Blue KLM House.
The series now consist of 103 different houses.

1958
KLM introduces the Economy Class. Travel by air becomes accessible to a growing number of passengers.

1959
For the first time in one-year, one million passengers travel with KLM.

1960
With the introduction of the DC-8, PH-DCA, 'Albert Plesman', KLM enters the jet age with considerable reduced flight times.

1971
The arrival of the Boeing 747-200, PH-BUA, 'Mississippi' marks the start of the wide body era, accompanied by a significant increase in capacity.

1971
From now on, house style and livery of aircraft becomes more and more blue. KLM's women's uniform in typical KLM-blue is a fact.

1992
The Open Skies Agreement enables unlimited air traffic between USA and the Netherlands.

1994
The introduction of the World Business Class initiates a journey to a today state of the art comfort class on intercontinental flights.

1996
The opening of the regular service Amsterdam – Beijing. KLM starts expanding her network in Asia. Amsterdam Airport Schiphol becomes China's Gateway to Europe.

2004
KLM and Air France implement the merger of all mergers: AIR FRANCE KLM. KLM joins SkyTeam.

2009
The first flight ever on bio kerosene fuel marks the considerable growing focus on sustainability.

2019
KLM celebrates 100th anniversary and transports the record number of more than 35 million passengers.

2020 – 2021
COVID-19 major crisis with significant impact on the industry.

Profile

KLM was established in 1919, making it the world's oldest airline still operating under its original name. Operating from its hub at Schiphol Airport, KLM has three core activities: Network (consisting of passenger activity and cargo activity), Engineering & Maintenance and Leisure.

Transavia, part of the KLM Group, has a unique position within the low-cost carrier market and focusses on intra-European leisure destinations. KLM, KLM Cityhopper and Transavia connect leisure and business passengers to 168 destinations via the European network and 80 destinations Intercontinental.

KLM is also a partner in the SkyTeam alliance, which serves 1,062 destinations in 170 countries. The Cargo activity is operated by AIR FRANCE KLM Martinair, while Engineering & Maintenance provides services to KLM and third-parties. KLM merged with Air France in 2004 and is part of the AIR FRANCE KLM Group.

Purpose, vision and strategy

This year, KLM developed a new strategy that will shape its actions from 2023 onwards. The strategy builds on KLM's current strengths, takes inspiration from the company's purpose and vision, and focuses on three ambitions.

KLM's previous five-year strategy dates back to 2015. With the pandemic behind us, it was time to chart a new course. This new strategy builds on KLM's proud heritage, our strong brand, our passionate workforce, and our global hub-and-spoke network. The new strategy tackles four important challenges, that impact the fundaments of KLM's business. The climate crisis is hitting hard and is perhaps the most existential challenge for KLM. Some people say that flying is no longer allowed and Schiphol is under pressure.

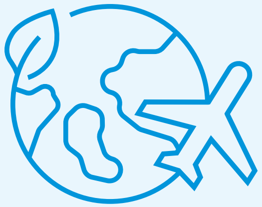
At the same time, it is clear that people want to continue flying and that global travel is increasing. KLM wants to reduce carbon and noise emissions for local residents and for the environment surrounding the airport even further than what the Dutch government wants. The shortage of specialised and non-specialised labour will continue. And finally, KLM faces various geopolitical, financial and operational constraints that put pressure on results.

In light of this KLM believes that the only way to make the company future-proof is to take responsibility and become more sustainable. KLM reframed its purpose and vision, to serve as guiding principles for these ambitions.

Purpose (Why)

Creating memorable experiences on the planet we care for

The purpose entails the responsibility to make flying as sustainable as possible and with that it sets out the targets for the short and long term. Our passion for creating memorable experiences stems from our core values, being passionate, caring, innovative and responsible.



Vision (What)

Pioneering to become a frontrunner in sustainable aviation

That is the future we wish to create, one in which KLM works with partners to catalyse far-reaching changes in the aviation industry that will make it more sustainable. Pioneering is rooted in our history of entrepreneurship and can-do spirit. We were the first airline to use a hub-and-spoke model, we pioneered the use of joint ventures and social media and are now pushing the boundaries of SAF.

Strategy

In order to achieve our purpose, values and vision, but also to achieve results every day, we have formulated a clear strategy. The new strategy responds to KLM's challenges by focusing on three ambitions: to run a great airline for our customers and our people, to transform to a net positive company, and to create technological advancement.

Run a great airline for our customers and our people

By connecting people and businesses across the world and investing in our strong brand and propositions.

Safety will remain a priority and something we will not compromise. KLM continues to invest in the product and services for its customers. KLM will continue to focus on its hub-and-spoke network but the model will be renewed anticipating changed customer behavior, capacity reduction at Schiphol and developments in the field of multimodality. We will strive for operational excellence and continue to invest in our people.

Transform to a net positive company

KLM wants to generate more value for the world than it consumes to run its business.

Our main goal is to reduce carbon emissions and noise nuisance. Flying remains a necessary form of mobility. Towards the future, we want to become an airline that eventually emits zero CO_2. We will pursue three goals, which are to reduce our negative impact now, drive the industry change and ensure responsible fundamentals.

Create technological advancement

We adopt new technologies in our business and catalyse innovation in the airline industry.

Neither the airline industry nor KLM can make meaningful progress without investments in technology. In order to achieve our sustainability ambitions, to improve our products and services and to be an attractive employer, we are preparing for future technological developments. Together with our partners, we embrace new technologies that will change our business and our processes. To achieve this, we will pursue the following three goals: research and develop the future of flying, innovate core airline processes and strengthen our technological foundations.

How we create value

Input

- Fleet & network
- Partners & stakeholders
- Natural capital
- Human capital
- Intellectual capital
- Financial capital

Added value

PURPOSE (WHY)
Creating memorable experiences on the planet we care for

VISION (WHAT)
Pioneering to become a frontrunner in sustainable aviation

STRATEGY (HOW)

ESG FRAMEWORK ENVIRONMENT SOCIAL GOVERNANCE

Output

TOP PERFORMANCE INDICATORS

DESTINATIONS
176

CONNECTIONS (INCLUDING CODESHARE PARTNERS)
29,547

ARRIVAL ON-TIME PERFORMANCE
76.9%

NET PROMOTOR SCORE
37

EMPLOYEE PROMOTOR SCORE
11

REVENUES
(€ x mln)
10,679

ADJUSTED INCOME FROM OPERATING ACTIVITIES
(€ x mln)
706

CO_2 EMISSIONS
($grCO_2$/RTK)
873

Outcome & impact

ECONOMIC

- KLM connects through a strong network for passengers and cargo
- Directly and indirectly, Schiphol and KLM provide more than 100,000 jobs
- KLM creates an attractive business climate for the Netherlands

ECOLOGICAL

- We are aware of our environmental impact, and we focus on the reduction of emissions and hindrance

UN SUSTAINABLE DEVELOPMENT GOALS

- 7 AFFORDABLE AND CLEAN ENERGY
- 8 DECENT WORK AND ECONOMIC GROWTH
- 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE
- 12 RESPONSIBLE CONSUMPTION AND PRODUCTION
- 13 CLIMATE ACTION
- 17 PARTNERSHIPS FOR THE GOALS

Our stakeholders

Stakeholder model

Stakeholder	Important themes	Matters discussed
Amsterdam Airport Schiphol		» Capacity planning » Infrastructure » Operational processes
Other airports		» Operational processes » Customer journey » Capacity planning
Customers		» Facilitating safe and responsible travel » Managing customer expectations » Improving customer journey
Employees		» Diversity and inclusion » Attract new employees » Personal development » Futureproof employment conditions
Suppliers		» Sustainable supply chain » Expected service levels » Innovations » Compliance with regulations
Business and sector partners		» Sharing best practices » Innovation/standardisation » The future of more sustainable aviation
Financial stakeholders		» The future of more sustainable aviation » Investments » Business continuity » Financial solidity
Government bodies		» Safe and responsible travel » Sustainability » Making the sector more sustainable » Public affairs
Special interest organisations		» Sustainability » Reduce nuisance
Knowledge institutions		» The future of aviation » Educating future employees » Research

Important themes

- Safety and security
- Sustainable aviation
- Customer appreciation
- Employment
- Financials
- Responsible business
- Network of destinations
- Innovation
- Compliance & regulations

Highlights 2022

January
KLM starts adding 0.5% Sustainable Aviation Fuel (SAF) to stimulate a more sustainable way of travelling.

February
KLM's B777 'Orange Pride' lands with the Dutch Olympic Team after successful Olympic Games in Beijing.

March
KLM and Thalys enter into a cooperation agreement for developing the Air-Rail product on short distances.

April
Capacity problems at Schiphol Airport lead to operational disruptions with inconveniences for passengers throughout the year.

May
The SkyTeam Sustainable Flight Challenge takes off. The aim is to accelerate the process to a more sustainable aviation.

June
KLM pays back to the Dutch State the last part of the EUR 942 million drawn amounts under the Dutch State support package.

July
Marjan Rintel starts as KLM's new President & CEO.

August
KLM presents the new Premium Comfort Class to meet the passenger's wishes and needs.

September
KLM's winter schedule presents directly flights to 163 European and intercontinental destinations.

October
For the second time in a row KLM and KLM Cityhopper wins the prestigious 'APEX World Class Award'.

November
Science Based Targets initiative (SBTi) approved AIR FRANCE KLM's target to reduce its emissions by 30% per revenue ton kilometers by 2030 compared to 2019.

December
KLM resumes the development of Blue Base campus; a new work environment that will welcome all KLM employees.

The world around us

KLM operates in a rapidly changing world, in which four trends influence its long-term trajectory as well as day-to-day operations.

Students at the KLM Flight Academy have begun using E-flight's fully electric aircraft to prepare for the next phase in aviation.

Trends

Sustainability at a crossroads

Climate change is accelerating and its impact is already being felt by communities worldwide. The share of the entire aviation industry in global CO_2 emissions is 2 to 3 per cent. It is of paramount importance that the aviation industry mitigates its negative impact. Our customers and colleagues as well as governments and public opinion, demand that KLM accelerates its decarbonisation efforts. Our competitors are under the same pressure and are advancing on sustainability, which is a positive development.

Complexity creates uncertainty

More polarised geopolitics, stronger social activism and ongoing globalisation are increasing the complexity of the world we operate in. This creates more uncertainty and unpredictability, for example in our operations, which in turn means that our workforce needs to become even more agile and flexible.

Technology development and adoption

The potential and importance of data and rapidly evolving technologies such as AI are rising exponentially. Big tech companies are at the forefront of these technologies. The airline industry, traditionally more focused on safety and operational predictability, is lagging behind. To future proof KLM, we need to adopt technology more quickly and pro-actively encourage its development. It is also increasingly important to have tech-savvy employees and leaders.

Changing competitive landscape

Although the airline industry is recovering much faster and better than expected, competition from low-cost airlines remains fierce. The industry continues to consolidate. Margins in the airline industry are under pressure, while the premium leisure segment – between economy and business class – is gaining in popularity. Growth at Schiphol Airport may be restricted, while the future of Lelystad Airport remains uncertain.

“The global economy faced various difficulties in 2022.”

The recovery of flights to Asia was hampered by ongoing COVID-19 restrictions.

Global economic developments

The global economy faced various difficulties in 2022. The year was marked by the recovery from COVID-19, inflation at its highest in decades, labour shortages, geopolitical instability caused by armed conflict, and supply bottlenecks.

The demand for goods and services surged after the pandemic due to stimulus packages and deferred demand. On the other hand, the supply side of the economy observed disruptions in supply chains, caused by uneven recovery from the pandemic and geopolitical tensions. For instance, the war in Ukraine impacted the supply of energy and food. Also, the cost of labour increased. Lastly, during 2022 the euro became weaker compared to the US dollar. This made it more expensive for euro countries to do business with US dollar countries.

The aviation industry

Many airlines are still in debt due to COVID-19, which increases pressure on margins. Almost half of governmental COVID-19 aid has been in the form of loans that need to be serviced and repaid. Airlines with access to capital markets have also raised cash by issuing debt and raising equity. Many airlines saw their cost increase.

The war in Ukraine and OPEC production control made oil prices increase significantly after the pandemic, causing the price of raw materials to increase. As of March 2022, 36 countries, including the UK, US and those in the EU, have closed their airspace to Russian airlines. Russia, in turn, banned airlines in most of those countries from entering or flying over Russia. This increased flight times and costs from European destinations to Asia.

Disrupted supply chains impacted the delivery of aircraft, parts and components. Capacity recovery also has an impact on aircraft maintenance activities and the associated demand for raw material and parts.

In response to the pandemic, many airlines and airports were forced to cut staff. When COVID-19 restrictions began to be lifted, airlines including KLM lacked the staff to meet demand, leading to unforeseen delays and cancellations. Some COVID-19 travel restrictions are still in place in Asia, slowing down the recovery of air traffic.

Europe

In 2022, the European Union (EU) was in the midst of negotiations on the details of the European Green Deal, which lays down the overall strategy and EU climate goals in order to make the EU climate-neutral by 2050. Policy areas include energy, industry, farming and, relevant for KLM, sustainable mobility. In this latter area, the EU is aiming to ramp up the supply and uptake of Sustainable Airline Fuels (SAF) and to create a true Single European Sky.

KLM has voluntarily committed to a 10 per cent SAF use globally by 2030.

In 2021, the European Commission presented its 'Fit for 55' package containing legislative proposals to reduce emissions in Europe by 55 per cent by 2030 compared to 1990. Measures pertaining to the aviation industry include a strengthening of the European Emissions Trading System (ETS), also for aviation, a blending obligation for SAF and the introduction of an EU-wide tax on kerosene. The year 2022 was spent negotiating the details of these proposals and we expect this process to conclude early 2023. KLM fully supports the 'Fit for 55' package, including the introduction of an EU Blending Mandate, which ensures 6 per cent SAF uptake across Europe by 2030. In addition to fleet renewal, SAF is one of the key drivers of the decarbonisation of aviation, as it generates up to 85 per cent less CO_2 over the total lifecycle compared to regular kerosene. KLM has voluntarily committed to a 10 per cent SAF use globally by 2030. KLM, however, believes the proposed tax on kerosene could curtail investments in next-generation aircraft and SAF, two of the most effective levers to lower carbon and noise emissions. Moreover it would lead to carbon leakage where traffic and CO_2 emissions are merely shifted to other parts of the world.

It is a very positive step that the Carbon Offsetting and Reduction for International Aviation (CORSIA) was further strengthened at the October 2022 International Civil Aviation Organisation (ICAO) Assembly. By making the CORSIA baseline more ambitious, the aviation industry's global offsetting system has more impact and applies to the whole world. In the next few years actions need to be taken to strengthen this system and address decarbonisation at global level, so that rules apply equally and distortion of competition is avoided.

The year also saw more discussion in EU around the long-drawn-out topic of Single European Sky. Currently, flight paths across the EU are still a patchwork of inefficient routes, leading to longer flight times, higher costs and, most importantly, higher emissions. A Single European Sky would redraw flight paths and optimise air traffic management, leading to a massive 6 to 10 per cent reduction of CO_2 emissions within Europe, according to the European Commission. KLM is a strong proponent of a true Single European Sky and, especially at a time when the private sector is under immense pressure to lower its emissions, we urge the EU and its 27 member states to do its part as well.

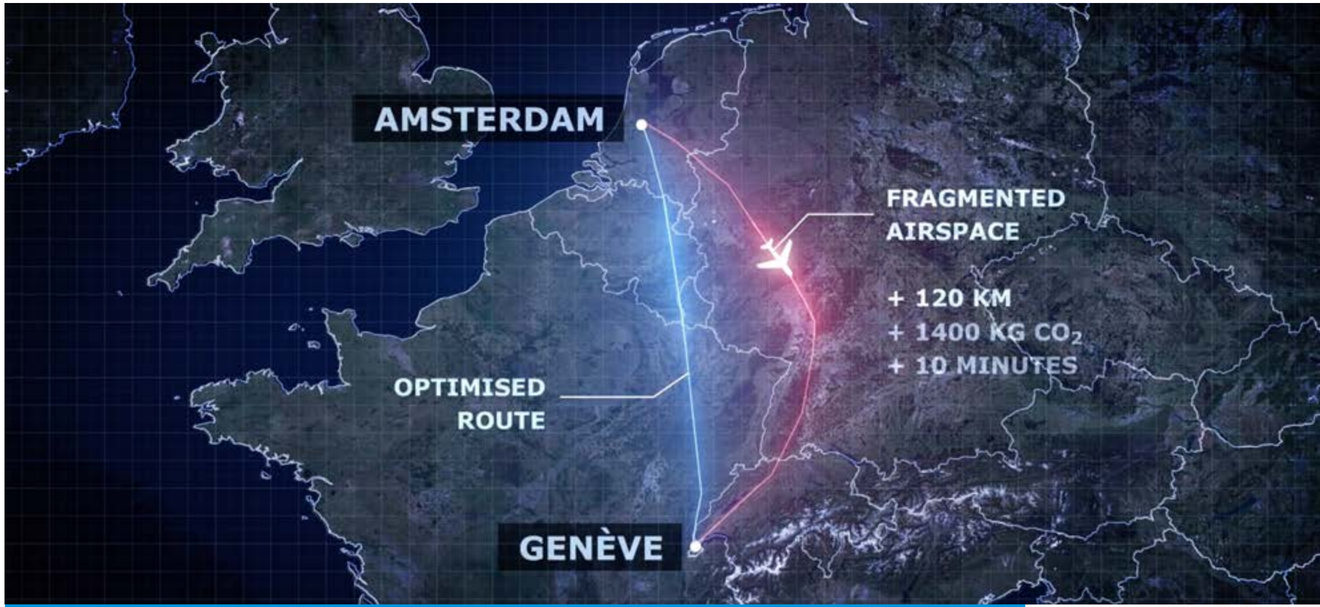
In 2022, EU Regulation 261/2004 regarding air passenger rights continued to cause confusion among passengers and airlines. Lack of clarity in the regulations leads to many court cases, forcing airlines to pay compensation for disruptions beyond their control, such as during the COVID-19 pandemic and this year's disruptions at Schiphol Airport. Between 2019 and 2022, the cost of Regulation 261 rose almost 90 per cent. KLM and European airline industry partners believe that the EU should revise Regulation 261 to increase clarity for both passengers and airlines and to reduce costs to reasonable levels.

The Netherlands

Reduction of flight movements

In June 2022 the Dutch Ministry of Infrastructure and Water Management (I&W) announced it intends to limit the number of flight movements at Schiphol Airport from 500,000 to 440,000 as per 2024. KLM wholeheartedly agrees that airlines need to reduce their carbon and noise emissions. We believe that the best way to realise our sustainability targets is to make the airline industry more sustainable and we feel the responsibility to contribute and set important steps towards a sustainable way of flying. In recent years we have reduced emissions by investing in fuel efficient aircraft and using sustainable airline fuel. In addition, we are taking numerous operational measures, such as electrification of ground operations at Schiphol and adjustments of taxi procedures. KLM has already embarked on a multi-year fleet renewal program centering on the Airbus A320/ A321neo, which will reduce carbon emissions by 20 per cent and noise emissions by 50 per cent.

This decision to reduce the capacity at Schiphol contradicts the Government's 2020-2050 national aviation policy and the 2021-2024 coalition agreement, which stresses the vital role of Schiphol Airport as a hub and encourages the industry to earn room for growth by becoming more sustainable. Aviation has changed considerably in recent years and KLM has long said goodbye to major growth ambitions. There are many alternative measures that have the same or even better results than simply reducing the number of flights. In 2022, we have therefore initiated the dialogue on making the airline industry more sustainable and we have continuously brought our alternatives to the attention of the government.



A Single European Sky would reduce CO_2 emissions within Europe by up to 10 per cent.
Watch our video #singleskynow

Schiphol Airport

Schiphol Airport, key to KLM's hub-and-spoke model at the heart of its global passenger and cargo business, experienced a challenging year. Its recovery from the pandemic was hampered by a lack of security staff, which led to delays, cancellations and unhappy passengers.

In July, Schiphol Airport decided to limit the daily number of passengers to 65,000, which it later adjusted to 71,000, still shy of the 90,000 that Schiphol Airport handled in 2019. We worked closely together with the airport's management to minimise the impact of the situation. As a result, KLM had to make significant adjustments in the flight schedules, which meant cancelling flights and leaving seats empty on outgoing flights from Schiphol. The capacity reductions remained in place until the end of the year and we expect to go back to our regular operation without passenger caps during 2023. Schiphol Airport had 398,000 flights movements in 2022, 20 per cent fewer than 2019, and hosted 52.5 million passengers, 27 per cent fewer than 2019. KLM accounted for 200,647 flight movements at Schiphol and 25.8 million passengers, respectively 20 per cent and 26 per cent below 2019.

Being the home base of KLM, it is of paramount importance that Schiphol Airport remains an efficient and attractive airport that offers passengers excellent services. Schiphol Airport maintained its focus on the expansion and modernisation of the airport in order to keep the airport competitive and enable safe and robust operations. This, in turn, is key to KLM's strategic ambitions to run a great airline for our customers and our people, transform to a net positive company and create technological advancement.

The construction of the A-pier has been suspended by Schiphol at the end of 2021 and will probably be restarted in 2023, which will increase the number of gates for wide body aircraft. Work on the expansion of the Q taxiway (an aircraft bridge over the A4 motorway), which will increase airport safety and runway capacity, will restart in 2024 and is scheduled for completion in 2025. Schiphol Airport resumed preparations for the South Terminal, halted during the pandemic, which will increase capacity for passengers and luggage. Construction is slated to begin in the second half of the decade. The C-pier is scheduled for an upgrade starting in 2026 that will make it more sustainable and offer passengers a better experience.

Being members of the Sustainability Aviation Table, KLM and Amsterdam Airport Schiphol Airport together worked on a variety of initiatives that aim at the reduction of the impact of the ground processes at Schiphol Airport. By, for instance, switching from diesel-powered to electric ground equipment, KLM can ensure a healthier environment at and around Schiphol Airport.

Schiphol Airport continued to modernise in order to stay competitive. KLM contributed to this with its landmark Crown Lounge, which offers frequent flyers an innovative and personalised experience.

Interview
Michiel Potjer
Project leader
Sustainable
Flight Challenge

Story
Sustainable Flight Challenge

Pushing the boundaries of more sustainable flying

Last year, a group of KLM colleagues dreamed up a bold idea: to invite other airlines to a friendly challenge to see who could run the most sustainable flight. Project leader Michiel Potjer speaks about the valuable lessons learnt when 16 airlines picked up the gauntlet.

Like other airlines, KLM has been taking measures to reduce its carbon footprint. But many obstacles remain on the path to lower emissions and the only way for the entire industry to reach that is by working together. Which is why KLM thought it best to organise a Sustainable Flight Challenge. "What we wanted was for all participants to share their experiences and innovations, so that we could learn from each other and develop better solutions," says Potjer, who is now the right hand of the Executive Vice President AIR FRANCE KLM Martinair Cargo.

Friendly competition

KLM approached SkyTeam, the global alliance of airlines of which it is a member, which agreed to organise the event. Sixteen airlines entered the challenge, including KLM and KLM Cityhopper, and while it was a friendly competition, some clear ground rules needed to be set. First was that all participants had to commit to open sourcing their data and the second was that airlines could execute one flight on a medium-haul distance of between 1,000 and 5,000 kilometers and/or long-haul distance beyond that.

Also, each flight had to cover all aspects of a normal flight from check-in to baggage claim. "This meant looking at carbon emissions during the flight, but also those related to taxiing, catering, waste disposal and passenger engagement for example." The challenge was divided in different categories, such as boldest move, best partnership, biggest CO_2 reduction and best innovation in cargo.

Holistic approach

The competition took place in May after months of preparation. "We took the challenge very seriously and brought together colleagues from across KLM, as well as external partners, to look at our flights with a fresh pair of eyes. Where could we cut weight? How could we engage passengers? How could we include cargo, but also improve our catering? One of the things we learnt was that a holistic approach yields better results than a series of measures taken independently from each other," Potjer explains.

KLM did the long-haul KL0675 to Edmonton and KLM Cityhopper took care of the medium-haul KL1713 to Porto. "We managed to take 50 existing and new measures to make these flights more sustainable.
On the leg to Edmonton, we used a Boeing 787 instead of the usual A330, which alone reduced emissions by 26 per cent. We also blended 39 per cent SAF instead of the normal one per cent. A further eight per cent reduction was achieved by washing the engines, optimising flights paths and creating an optimal load balance for cargo."

KLM Cityhopper, meanwhile, worked with a company called Satavia to create a flight path that minimised contrails, which can trap heat, and offered passengers a snack at the gate instead of an onboard meal/service reducing food waste by 30 kilograms.

"The flight to Porto had the lowest cruising speed, the shortest distance and still achieved the fastest time ever," Potjer proudly says.

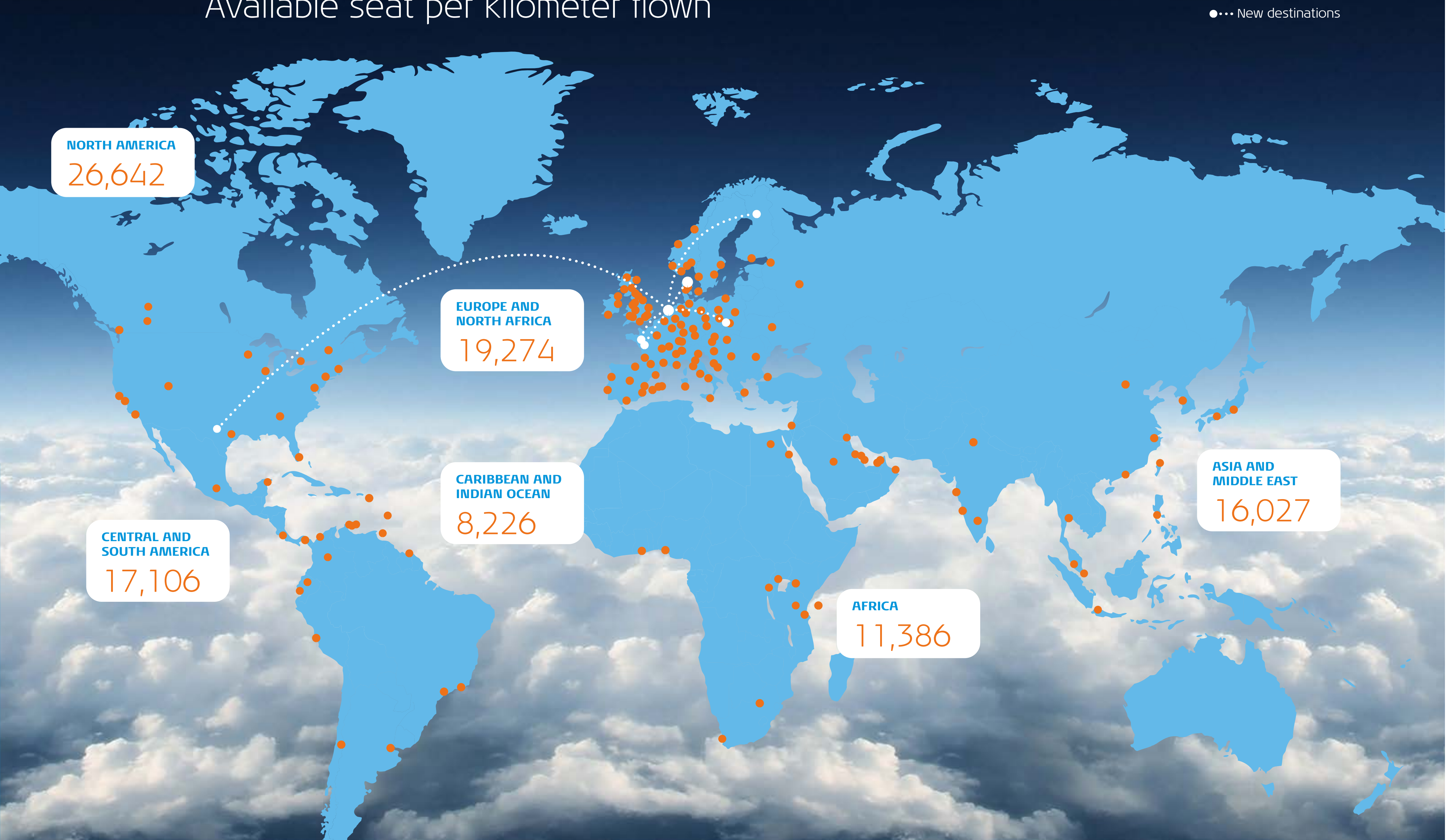
Insights and inspiration

Of all the airlines, KLM managed to make the largest emission cuts, while KLM Cityhopper made the best partnership and received an honourable mention for its gate catering. The challenge had no overall winner, but instead the participating airlines were hosted by SkyTeam and KLM on a two-day event to share lessons learnt. "This challenge was completely worth it. We acquired new insights and were inspired by the efforts of other airlines, who came up with solutions that we had never even thought of. We will continue to work together and exchange ideas, so that the airline industry as a whole can reduce its impact," Potjer concludes.

"We acquired new insights and were inspired by the efforts of other airlines, who came up with solutions that we had never even thought of."

Our passenger network

Available seat per kilometer flown



Our fleet

KLM operates a fleet of 208 passenger and cargo aircraft that connect people, communities and economies around the world. We are constantly upgrading the inflight experience and investing in quieter, more fuel-efficient aircraft.

Boeing 787-10/9 Dreamliner

Number of aircraft	7/13
Cruising speed (km/h)	920/920
Range (km)	9,900/11,500
Max. take-off weight (kg)	254,000/252,650
Maximum passengers	318/294
Total length (m)	68.30/62.80
Wingspan (m)	60.10/60.10

Personal inflight entertainment
Wi-Fi on board

Boeing 747-400ER Freighter

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

Airbus A330-300 / 200

Number of aircraft	5/6
Cruising speed (km/h)	880/880
Range (km)	8,200/8,800
Max. take-off weight (kg)	233,000/233,000
Maximum passengers	292/264
Total length (m)	63.69/58.37
Wingspan (m)	60.30/60.30

Personal inflight entertainment
Wi-Fi on board

Boeing 777-300ER/200ER

Number of aircraft	16/15
Cruising speed (km/h)	920/900
Range (km)	12,000/11,800
Max. take-off weight (kg)	351,543/297,500
Maximum passengers	408/320
Total length (m)	73.86/63.80
Wingspan (m)	64.80/60.90

Personal inflight entertainment
Wi-Fi on board

Boeing 737-900

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

Boeing 737-800 / 700

Number of aircraft	31/6
Number of aircraft Transavia	35/4
Cruising speed (km/h)	850/850
Range (km)	4,200/3,500
Max. take-off weight (kg)	73,700/65,317
Maximum passengers	186/142
Total length (m)	39.47/33.62
Wingspan (m)	35.80/35.80

Wi-Fi on board

Embraer 190/175

Number of aircraft	30/17
Cruising speed (km/h)	850/850
Range (km)	3,300/3,180
Max. take-off weight (kg)	45,000/36,500
Maximum passengers:	100/88
Total length (m)	36.25/31.68
Wingspan (m)	28.72/28.65

Embraer 195-E2

Number of aircraft	14
Cruising speed (km/h)	876
Range (km)	4,815
Max. take-off weight (kg)	56,700
Maximum passengers	132
Total length (m)	41.5
Wingspan (m)	35.12

"While KLM's fleet was largely parked at the beginning of the pandemic, in 2022 it was well utilised and grew from 202 to 208 aircraft."

KLM already phased in and ordered a wide range of aircraft that are the most technologically advanced in their category and offer significantly lower fuel consumption, carbon emissions and noise levels than their predecessors. KLM took delivery of two new Boeing 787-10s, with eight more scheduled for delivery up until 2025. KLM is upgrading its European KLM Cityhopper fleet by replacing the Embraer 190 with the Embraer E195-E2. These aircraft will reduce emissions of carbon and noise by 31 per cent per seat and 40 per cent respectively. In 2022, KLM Cityhopper took delivery of seven Pratt & Whitney powered Embraer 195-E2s bringing the total number to fourteen. The Transavia fleet with the current Boeing 737-800 and Boeing 737-700 aircraft remained unchanged. KLM further reduced the Boeing 737-700 fleet and returned one aircraft to the lessor and three are out of services and will be returned to the lessor at the beginning of 2023. In 2022 an order was placed for KLM and Transavia for the LEAP powered Airbus A320neo family and in 2022 preparations were started for their first arrival in the third quarter of 2023 for Transavia. For KLM this will be in 2024. They will replace the current fleet of Boeing 737-NGs. The Airbus A320neo family will reduce the use of fuel and carbon emission by 20 per cent per seat. Noise emission will be reduced by 50 per cent.

The Cargo fleet remained unchanged at four full freighter aircraft. Cargo will replace its four Boeing 747-400 full freighter aircraft by Airbus 350F freighters, which expect to deliver over 40 per cent less CO_2 and make 50 per cent less noise than their predecessors. KLM decided not to return one leased Airbus A330-300, which has been taken out of service at the end of 2021 on account of delays to the Boeing 787-10 program. KLM reduced its Boeing 737-700 fleet and returned one aircraft to the lessor in 2022 and three aircraft were put out of service and will be returned to the lessor at the beginning of 2023.

KLM made 200,647 flight movements at Schiphol and transported 25.8 million passengers, respectively 20 per cent and 26 per cent less than in 2019.

Fleet upgrade

In spite of limited supplies of parts due to constrained global supply chains, several aircraft were upgraded in 2022. The Cabin Midlife Improvement program on our Boeing 737 narrow body fleet was completed, providing 18 aircraft with Wi-Fi connectivity, new modern seats in both business and economy class and a more spacious Boeing Sky Interior. Midway the year, KLM began the modification of the Boeing 787 and the Boeing 777 aircraft to accommodate the newly developed Premium Comfort Class. All Boeing 787-10 aircraft were modified to a Premium Comfort Class configuration in 2022, as were the first Boeing 787-9's. The implementation of Premium Comfort Class will be finished by early 2024. In addition, the Boeing 777 will be equipped with direct-aisle access in the World Business Class, including new seats for enhanced customer experience. The Boeing 787 fleet has already been equipped with direct-aisle access.

Fleet composition KLM Group

Consolidated fleet as at December 31, 2022

		Average age in years	Owned	Finance leases *	Operating leases **/***	Total
Boeing 777-300ER	wide body	8.9	2	10	4	16
Boeing 777-200ER	wide body	17.9	9	1	5	15
Boeing 787-10	wide body	2.6	2	5	-	7
Boeing 787-9	wide body	6.0	-	4	9	13
Airbus A330-300	wide body	10.1	-	-	5	5
Airbus A330-200	wide body	16.8	6	-	-	6
Total wide body		10.6	19	20	23	62
Boeing 747-400ER Freighter	wide body	19.4	3	-	-	3
Boeing 747-400BC Freighter	wide body	32.5	1	-	-	1
Total cargo		22.7	4	-	-	4
Boeing 737-900	narrow body	20.8	5	-	-	5
Boeing 737-800	narrow body	16.0	12	2	17	31
Boeing 737-700	narrow body	12.8	6	-	-	6
Total narrow body		16.1	23	2	17	42
Embraer 195-E2	regional	1.0	-	-	14	14
Embraer 190	regional	11.0	13	4	13	30
Embraer 175	regional	5.5	3	14	-	17
Total regional		7.2	16	18	27	61
Boeing 737-800	narrow body	12.0	13	2	20	35
Boeing 737-700	narrow body	19.7	1	-	3	4
Total narrow body Transavia		12.8	14	2	23	39
Training aircraft			17	-	-	17
Total consolidated fleet		**11.4**	**93**	**42**	**90**	**225**

* With the implementation of IFRS 16, these aircraft are regarded as in substance purchases and therefore included as Owned aircraft in the financial statements.
** With the implementation of IFRS 16, these aircraft are recorded as Right of use assets in the financial statements.
*** Excluding 3 Boeing 737-700's to be returned to lessors in 2023.

Financial performance

Financial key figures

Consolidated figures in millions of euro, unless stated otherwise

	2022	2021	Δ
REVENUES	10,679	6,065	+76.1%
TOTAL EXPENSES*	9,001	5,370	+67.6%
AMORTISATION, DEPRECIATION, IMPAIRMENT AND MOVEMENTS IN PROVISIONS*	(972)	(922)	+5.4%
PROFIT / (LOSS) FOR THE YEAR*	744	(1,258)	+2,002
ADJUSTED INCOME FROM OPERATING ACTIVITIES*	706	(227)	+933
AS A % OF REVENUES	6.6	(3.7)	+10.3
ADJUSTED EBITDA*	1,678	695	+141.4%
NET DEBT/ ADJUSTED EBITDA*	1.0	4.5	improved 3.5
EQUITY	136	(695)	+831
AS A % OF TOTAL LONG-TERM LIABILITIES	2	(9)	+11
AVERAGE CAPITAL EMPLOYED	2,054	3,235	-36.5%
RETURN ON CAPITAL EMPLOYED (%)	25.5	(5.2)	+30.7
EARNINGS PER ORDINARY SHARE (EUR)	15.87	(26.90)	+42.77
CASH FLOW FROM OPERATING ACTIVITIES	2,474	1,200	+106.2%
CASH FLOW FROM INVESTING ACTIVITIES**	(640)	(481)	+33.1%
FREE CASH FLOW	1,834	719	+155.1%
ADJUSTED FREE CASH FLOW*	1,544	404	+282.2%

● 2022 ● 2021

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

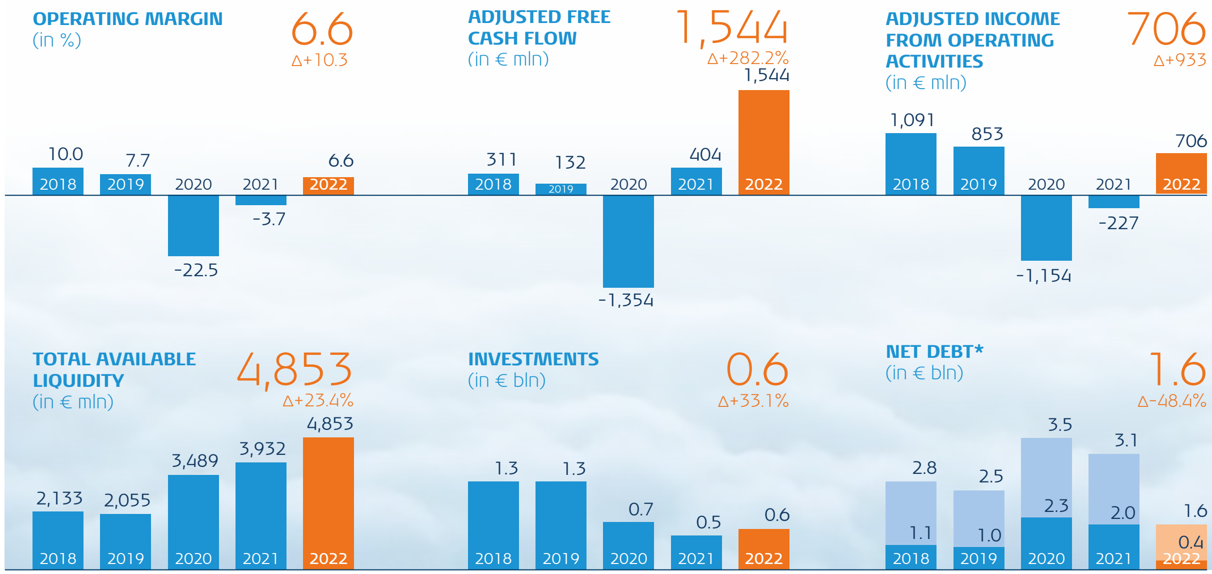
** Excluding (increase) / decrease in short-term deposits and commercial paper.

Financial performance

KLM made an impressive return to profitability and embarked on a new path forward. Faster-than-expected growth of demand allowed KLM to repay its debts to the Dutch Government, invest in sustainability and improve its products and services, according to Chief Financial Officer Erik Swelheim.

While the pandemic continued to impact European and intercontinental flights in the first quarter of the year, restrictions began to be lifted in the second quarter, resulting in a run on tickets and historically high yields. KLM achieved a strong EUR 706 million adjusted income from operating activities on revenues of EUR 10.7 billion, while the adjusted free cash flow amounted to EUR 1.5 billion due to ticket sales and working capital management. KLM's margin was 6.6 per cent, equity hovered just above zero and net debt stood at EUR 1.6 billion, down from EUR 3.1 billion in 2021.

KLM achieved these strong, across-the-board improvements of its finances in spite of several challenges. The company made costly cuts to its European schedule and incurred EUR 75 million in recovery cost. Increased inflation, a strong US dollar and higher personnel costs related to a global shortage of engineers, IT experts and ground staff put



* Net debt does not include deferred wage tax and social securities payments of in total EUR 1.4 billion (2021: EUR 1.5 billion).

upward pressure on costs as well. Oil prices continued to be high, but KLM's fuel hedge generated a positive pay-out of around EUR 500 million.

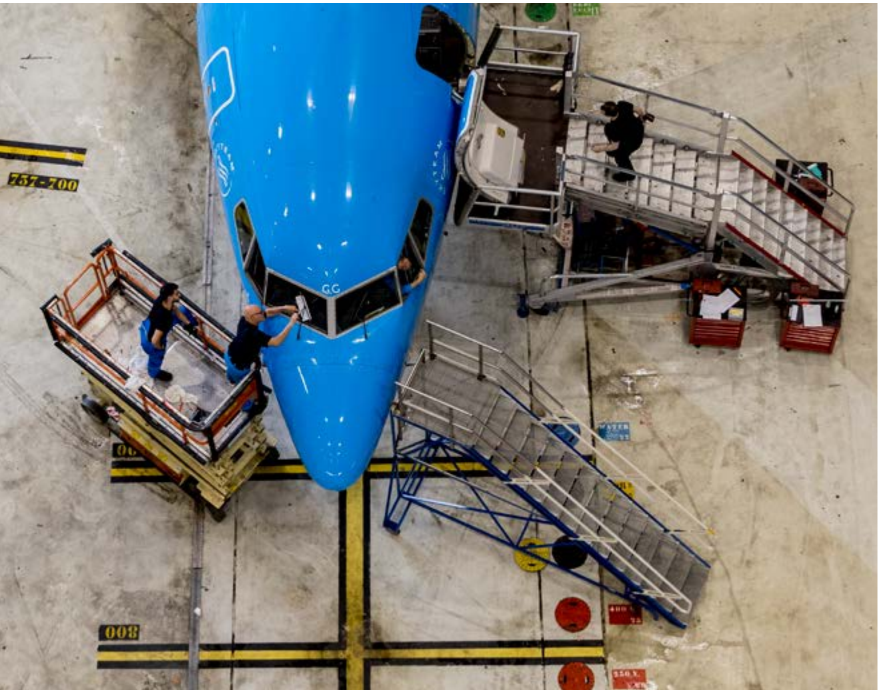
"All of us at KLM are proud that we managed to achieve 80 per cent of our 2019 capacity. The recovery was led by the leisure market, with people finally managing to go on their long-delayed holidays and family visits. The business sector also recovered, but demand didn't fully return to pre-COVID-19 levels," says Swelheim. All of KLM's markets performed above expectations, except for Asia where ongoing COVID-19 restrictions continued to hamper recovery.

"KLM's recovery from the pandemic shows its resilience, entrepreneurial spirit and the commitment of its people."

"Cargo, meanwhile, achieved high yields and continued to make a significant contribution to KLM's results, in spite of capacity restrictions related to the cuts in the European passenger schedule and the war in Ukraine. E&M recovered as well, in spite of a slowdown in third-party work and problems with the delivery of parts. Transavia had a very good summer and returned to its pre-COVID-19 revenues. All in all, KLM has emerged from pandemic feeling confident and strong," Swelheim added.

KLM steered through the pandemic by lowering investments and costs, as well as by securing a loan guaranteed by the Dutch State. In 2022, KLM reduced manageable costs by approximately 20 per cent, in line with the agreement with the State, and paid back in full the EUR 942 million loan. The revolving credit facility from the Government remained open this year, but is expected to be closed in 2023 and replaced by a commercial one. "KLM is grateful to the Government for its support during the pandemic. KLM benefited from EUR 1.9 billion in '*Noodmaatregel Overbrugging Werkgelegenheid*' (NOW) support, of which a final EUR 134 million relates to 2022. In October, we began to pay the deferred wage tax payments and by year-end KLM already paid EUR 100 million of the original EUR 1.5 billion outstanding. KLM will pay the remaining EUR 1.4 billion over the coming years," Swelheim clarified.

During 2022, the state agent monitored compliance with the conditions under the financial support package that was provided by the Dutch Government. KLM shares the state agent's ambition to emerge strong and competitive from the crisis that was caused by the pandemic. KLM took numerous measures to meet this aim and will continue to do so in future. KLM kept the focus on cost reduction and worked on a healthy business model. KLM is confident that it will continue to connect the Netherlands with the rest of the world as a future-proof airline. In December 2022, KLM agreed to start preparations for a new commercial credit facility that should justify that KLM no longer needs the financial support package of the Dutch Government.



"In line with our strategy KLM invested EUR 640 million in more fuel efficient and less noisy aircraft, aircraft modification and IT."

In line with our strategy KLM invested EUR 640 million in more fuel efficient and less noisy aircraft, aircraft modification and IT. KLM took delivery of two Dreamliners and seven Embraer 195-E2s, but also introduced the Premium Comfort Class and prepared to modify the Boeing 777 fleet to offer direct-aisle access in World Business Class.

Swelheim is optimistic about the future, arguing the future of KLM and the industry is not just tied to demand. We will continue to focus on our financial recovery. Cost will further increase due to inflation, new collective labour agreements and higher fuel cost. We also expect to make large investments. This means we need to further strengthen our balance sheet and focus on positive cash flows. Furthermore, the extent to which we can fly more sustainably will determine the future of the company. That is why KLM will continue to invest in more fuel-efficient aircraft and promote SAF, for example by committing to long-term contracts and supporting a future SAF production facility in the north of the Netherlands," Swelheim concluded.

Our performance in 2022

Traffic and capacity

Passenger

In millions	Passenger kilometers 2022	Passenger kilometers 2021	Passenger kilometers % Change	Seat kilometers 2022	Seat kilometers 2021	Seat kilometers % Change	Load factor 2022 (%)	Load factor 2021 (%)
Route areas								
Europe & North Africa	15,350	9,686	58.5	19,274	14,164	36.1	79.6	68.4
North America	21,941	8,494	158.3	26,642	18,916	40.8	82.4	44.9
Central and South America	15,126	7,174	110.8	17,106	14,888	14.9	88.4	48.2
Asia and Middle East	12,718	6,186	105.6	16,027	19,113	(16.1)	79.4	32.4
Africa	9,925	4,798	106.9	11,386	9,067	25.6	87.2	52.9
Caribbean and Indian Ocean	7,228	4,574	58.0	8,226	6,304	30.5	87.9	72.6
Total	82,289	40,912	101.1	98,660	82,452	19.7	83.4	49.6

Cargo

In million cargo ton-km	Traffic 2022	Traffic 2021	Traffic % Change	Capacity 2022	Capacity 2021	Capacity % Change	Load factor 2022 (%)	Load factor 2021 (%)
Route areas								
Europe & North Africa	4	7	(43.4)	330	233	41.5	1.2	2.9
North America	816	956	(14.7)	1,432	1,184	20.9	57.0	80.7
Central and South America	1,095	1,430	(23.4)	1,717	1,758	(2.3)	63.8	81.3
Asia	607	1,200	(49.5)	844	1,151	(26.6)	71.9	104.3
Africa and Middle East	711	764	(6.9)	1,023	946	8.2	69.5	80.8
Caribbean and Indian Ocean	97	96	1.1	415	325	27.6	23.4	29.5
Total	3,330	4,454	(25.2)	5,762	5,598	2.9	57.8	79.6

Transavia

In millions	Passenger kilometers 2022	Passenger kilometers 2021	Passenger kilometers % Change	Seat kilometers 2022	Seat kilometers 2021	Seat kilometers % Change	Load factor 2022 (%)	Load factor 2021 (%)
Route areas								
Europe & North Africa	14,806	7,477	(98.0)	16,532	10,095	63.8	89.6	74.1
Total	14,806	7,477	(98.0)	16,532	10,095	63.8	89.6	74.1

Our businesses

KLM operates three businesses: Network (consisting of Passenger Activity and Cargo Activity), Engineering & Maintenance and Leisure. This year, business was characterised by fast-growing demand, deep investments in our product and service, sustainability, IT and the protection of data and privacy, but unfortunately also by operational challenges.

Network
Passenger Activity

- **25.8 million** passengers
- **176** destinations
- **45%** Direct online pax share
- **2 million** Social media cases
- **37** Net Promotor Score (NPS)
- **79%** appreciation cabin crew
- **69** Net Promotor Score (NPS) Failure free pax

Cargo Activity

- **432,315 tons** of cargo carried
- **288** destination sales stations
- **4** full freighter aircraft
- **70,000 m^2** warehouses
- **1,788 FTE** employees

Engineering & Maintenance

Leading multi-product Maintenance, Repair & Overhaul (MRO) provider

200+ customers

3,000+ aircraft supported

12,800 employees

500+ Engine shopvisits

275+ C&D checks

Air France Industries and KLM Engineering & Maintenance

Leisure
Transavia

#1 low-cost carrier in the Netherlands

7.7 million passengers

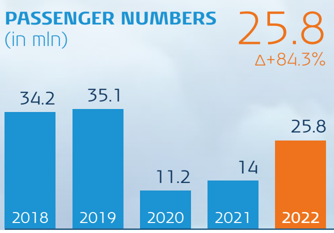
39 aircraft

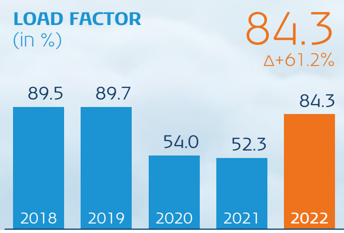
98 destinations

148 routes

2,399 employees

Network
Passenger Activity





Passengers returned to the skies en masse and KLM continued to roll out new digital tools and services to create a better customer journey, boost revenues and provide support during disruptions.

Empowering passengers

The industry is becoming more complex due to increasing regulations that differ per country and passengers have higher expectations about the quality of our products and services. That is why over the past few years, KLM has boosted its digitalisation drive through a unified platform for KLM's and Air France's websites, apps for passengers, crew and ground service personnel, AI-driven customer service, and Application Programming Interfaces (APIs) that allow third parties to use our data in a safe way. The result is a scalable, data-driven approach to meeting the needs of passengers throughout their entire journey.
This includes improved booking flows, the dynamic bundling of services, and the sharing of partner content.

Direct online - KLM's website and app - has become KLM's preferred sales channel, accounting for 36 per cent of revenues share and 45 per cent of passengers in 2022. Direct online is the most cost-efficient way to generate sales and allows for more personal contact – traditionally a forte of KLM - and data collection, key to more personalised offers. KLM also empowered passengers to meet their own needs, by making it easier to book and reschedule flights, check in, and purchase ancillaries.

One way in which KLM has increased self-service is by using the combination of bot and agent handling to answer passenger queries on KLM's social media customer service channel. In 2022, 60 per cent of interactions were (partly) handled by bots, supporting fast response times and more efficient handling of cases.

Dealing with disruptions

For some passengers, the initial excitement of being able to fly again was unfortunately replaced with disappointment and frustration as operational challenge at Schiphol Airport and KLM meant that the planned schedule could not be delivered. Passengers experienced delays, long queues, cancellations, and delayed luggage, which led to a large number of rebooking and refund requests as well as claims. KLM's NPS ended at 37, unfortunately much lower than the 53 scored in 2020 and the 49 scored in 2021. However, if the operational issues are filtered out of the scoring, the NPS is much higher. The failure-free NPS, indicating the appreciation of those passengers who do not experience a disruption, scored 69.
This score demonstrates a structural appreciation of the product.

"At the end of the year, KLM's NPS came back to its pre-COVID-19 level."

A dedicated Bag Tracing Team was set up to return suitcases that had been lost due to the operational issues at Schiphol.

KLM combines digital with human services to support passengers during disruptions, but this year this was not done to our standards for several reasons. The volume of rebooking and refund requests was unusually high due to the operational measures linked to staff shortages and the rescheduling of flights during peak summer months. This added additional strain on the call and service centers as well as the rebooking capabilities fitting our customer needs. More work needed to be done by fewer staff as KLM had to cut jobs during the pandemic. Towards the end of the year, KLM improved the rebooking and refund process and results started to become visible in throughput times and better customer appreciation. At the end of the year, KLM's NPS came back to its pre-COVID-19 level.

Delayed baggage

As a result of delays and cancellations at Schiphol Airport but also at other airports in Europe, thousands of pieces of luggage from around the world were misplaced. A dedicated Bag Tracing Team was launched at Schiphol Airport, which undertook the labour-intensive task of returning each suitcase to its rightful owner. True to the KLM spirit of caring for passengers, office staff volunteered for this work. KLM coordinated with couriers and customs agents at the international outstations to ensure people received their suitcases.

Digital Travel Credentials pilot

In order to reduce operational complexity and offer passengers a seamless experience, KLM will test Biometric Boarding at Montreal Airport for flights to Amsterdam. This pilot builds on earlier tests in Aruba and at Schiphol Airport, and will be done in close collaboration with the Dutch and Canadian authorities. KLM and its partners hope to understand how document checks can be further automated, including through the use of facial recognition.

Flying Blue

Flying Blue, KLM and Air France's joint loyalty program, saw several enhancements in 2022. KLM extended measures to ensure miles and loyalty status, which would have expired during the pandemic, will remain valid for longer. This service was well received by our members. KLM also launched Flying Blue Family, which allows two adults and up to six children to create a joint account and share miles. Furthermore, Flying Blue has begun to reward sustainable choices.

Product and Service

Passengers appreciated the newly-introduced Premium Comfort Class, improved Wi-Fi connectivity and other enhancements to KLM's product, including those tied to the company's sustainability ambitions.

In 2022, KLM continued to develop its product and service in numerous ways. The biggest achievement of the year was the launch of Premium Comfort Class on intercontinental flights, a new and separate cabin class between World Business Class and Economy Class in terms of product, seat, service level and pricing. Read the full story about how Premium Comfort Class was envisioned and realised here.

The company began preparing for the rollout of direct-aisle access in its World Business Class, which will require the Boeing 777 fleet to be retrofitted. The new seat for the Boeing 777 has already been certified and tested. The actual modification will take place as from the first quarter of 2023 at our E&M facilities. Full Wi-Fi connectivity has been achieved on all intercontinental flights, with the first two Embraer 195-E2s offering Wi-Fi on European routes. More Boeing 737-800s have been refurbished with the new Boeing Sky Cabin Interior and the Embraer 190s were retrofitted and completed with new seats. The on-board catering offer for World Business Class, ICA Economy as well as European Business Class has been upgraded.

For the second year in a row, KLM (including KLM Cityhopper) won the APEX World Class Award. This special recognition is awarded by customers and the industry for performance in relation to themes including safety, customer well-being and sustainability. Hospitality and personal contact are also key factors.

These and other upgrades were highly valued by passengers and recognised by APEX, the Airline Passenger Experience Association. KLM, including KLM Cityhopper, has been awarded the APEX World Class Award 2023 for the second year in a row. Selected on the basis of worldwide audits and customer reviews of KLM and KLM Cityhopper flights, the APEX Award is a special recognition from customers and the industry for performance on themes such as safety, customer well-being and sustainability. Hospitality and personal contact are central to this. The award reflects an airline's service, guest experiences, safety and sustainability performance. KLM is one of a handful of airlines to have received the award two years in a row.

Air-Rail

KLM introduced an Air-Rail product that will help us cut one daily flight from Amsterdam to Brussels. Air-Rail encompasses not only the substitution of air transport by rail but also network extension by combining KLM's worldwide network with the network of various European rail suppliers. Read more about Air-Rail in the Sustainability section.

Operations

KLM performed 80 per cent of its pre-COVID-19 schedule in spite of severe growing pains. Chief Operating Officer Maarten Stienen tells of the structural staffing and IT measures taken to ensure the operation will remain stable and safe at higher volumes.

Passengers experienced frustrating delays at Schiphol, which forced KLM to make last minute changes to its schedule, cancel flights and leave seats empty. During the year, measures were taken to make our operations stable again.

Mutual understanding

To meet the Dutch Government's demand to cut cost, KLM reduced its workforce by 16 per cent during the pandemic. When demand for flights suddenly increased in the first quarter of 2022, it was difficult to quickly hire sufficient ground personnel, especially in the tight Dutch labour market. "Coming out of the pandemic in such a tight labour market left us with significant staffing challenges. We agreed with a third-party supplier to hire their staff to support our operations, which prompted ground personnel to strike at the start of the May holidays. However, things calmed down once we created a mutual understanding with the unions and the Works Council that this was only a temporary measure in anticipation of hiring more than 400 FTE on a KLM contract," Stienen said.

Shortly thereafter, it became apparent that Schiphol Airport was facing difficulties finding sufficient security personnel, leading to chaotic scenes at the airport, with people queueing for hours, missing flights and losing their luggage. "The unpredictability of Schiphol's security capacity forced us to make last minute changes to our schedule, cancelling flights and leaving seats empty. In spite of our best efforts we could not prevent the trust placed in us by our customers and personnel from taking a hit," Stienen adds.

Prolonged measures

In June, Schiphol Airport took the unprecedented move of limiting the daily number of passengers, forcing KLM and other airlines to adjust their schedules. This measure was prolongated in September. The shortages and resulting long queues at security exacerbated KLM's own tight staffing on the platform, making it even harder to deal with the large volume of delayed flights and to offload bags from aircraft.

This further increased pressure on staff. According to Stienen, "the only remaining solution was to drastically cut our production for the first months of the winter schedule. This stabilised our operation overnight, resulting in better performance, higher customer appreciation, roster stability and improved staff satisfaction. A necessary, effective but also costly decision."

Outside of control

KLM's operations were further hampered by issues outside of its control. Russian airspace was closed because of the war in Ukraine, adding hours of extra flight time to destinations in the East Asian impacting flight schedules and crew rest regulations. Meanwhile, the engines of the new Embraer 195-E2, key to the company's European network, had serious teething problems. In addition, Engineering & Maintenance experienced a shortage of both engineers and materials, which increased maintenance times and reduced the availability of aircraft. Furthermore, Boeing was not able to deliver two Boeing 787-10s as planned, which had been intended for intercontinental routes.

Structural measures

KLM expects the labour market to remain tight and we have been taking measures to deliver a better operation. "Our main priority remains the hiring of qualified staff in sufficient numbers. To that end, we have launched several new recruitment campaigns to find more ground handling personnel, technical personnel, cockpit crew, and cabin crew, and we plan to launch several more campaigns in the near future", Stienen elucidates.

Operational Excellence

Stienen explains that all of this aligns with KLM's commitment to Operational Excellence, the model that underpins its operations. "This year, KLM continued to find ways to reduce process times, variability in the schedule, operational complexity and waste. We developed a tool called BagPRO, which is an AI-based program that optimises baggage flows at Schiphol Airport. Read more about the case study here. This tool reduces the time it takes to handle luggage, which in turn leads to fewer departure delays. That means it both improves customer experience and significantly lowers non-performance costs."

Our people at Engineering & Maintenance increased KLM's fleet availability and utilisation by reducing time off-wing of engines and components and using predictive maintenance to reduce unscheduled maintenance.

Network

KLM's global network was adjusted throughout the year to ensure product quality and reliability in the face of constraints.

KLM launched several recruitment campaigns to find more ground handling staff, technical staff, cockpit crew, and cabin crew. We plan to launch more campaigns in 2023.

KLM's network in 2022 included 101 European destinations and 75 intercontinental destinations, higher than the total of 160 destinations before the pandemic in 2019. In 2022 KLM started operations to Austin (Texas, USA), Katowice (Poland), Aarhus (Denmark), Rennes and Nantes (France) and Rovaniemi (Finland). While COVID-19 measures worldwide were still largely in place during the first quarter, restrictions were loosened on most continents from the second quarter onwards. Europe, North America and South America recovered well and much better than the Middle East and Asia, which markets remained at 30-40 per cent of pre-COVID-19 capacity levels due to COVID-19 restrictions and the war in Ukraine, which made it impossible to use Russian airspace.

Demand for flying skyrocketed during the year. Passenger volumes went up but as the capacity was not yet back to pre-COVID-19 levels, KLM had to adjust the summer and winter schedules. KLM did its utmost to deliver the best possible schedule, but encountered several challenges. Staff levels were not only insufficient, but also kept changing. This made it difficult to plan aircraft, crew and ground staff long in advance and often necessitated far-reaching changes to flight schedules. Furthermore, the timing and related content of the European slot waiver was late, which complicated the planning process.

KLM optimised its network by further developing IT tools that better assign the limited number of baggage handlers to flights. Read more about the science behind this data-driven tool in this story here.
KLM also increased the minimum connection time for transfers on Schiphol Airport, providing more time for passengers with their luggage to transfer from the incoming to the outgoing flight. The number of passengers per flight as well as the amounts of cargo on board were reduced. In taking these costly measures, KLM erred on the side of caution to ensure safety and quality and to reduce the workload of ground services staff.

Looking ahead, KLM is optimistic about getting back to normal and its ability to fly a reliable schedule, having made structural adjustments to its processes and tooling and because new staff have joined the company. Already, by the end of the year the operational performance went up and consequently passenger appreciation increased.

KLM is a member in the SkyTeam alliance, which sees close cooperation between 19 global airlines to deliver a collective network that spans 1,063 destinations across 173 countries.

Alliances

KLM cooperates with various airlines around the world to extend the reach of its network and create more travel opportunities for the customer.

The pandemic continued to delay the further development of the Extended Transatlantic Joint Venture Partnership Blue Skies that was implemented in 2020. Blue Skies connects the networks of KLM, Delta Air Lines and Air France with that of Virgin Atlantic Airways. As in the previous year, KLM and its partners agreed to review the financial terms related to their cooperation in order to avoid uncontrolled financial exposure. With travel restrictions lifting throughout 2022, KLM and its partners began to step up their joint activities and will resume financial settlements in 2023.

The joint venture partnership with China Eastern is in place, but given the unpredictable market conditions the financial settlement was again suspended in 2022. Chinese travel restrictions in 2022 made it difficult to reliably forecast passenger demand between China and Europe. The joint venture with China Southern/Xiamen Airlines came to a natural close at the end of 2021 and has since been turned into a tactical codeshare partnership.

In Africa, the tactical codeshare cooperation between KLM and Kenya Airways was implemented and both airlines are exploring further steps in the cooperation. In India, a tactical codeshare cooperation has been implemented with the Indian carrier IndiGo, giving KLM access to 20 Indian destinations. In South America, together with strategic partner GOL, KLM is re-establishing seamless connectivity to all GOL-operated routes in Brazil.

KLM is a member of the global SkyTeam alliance. In 2022 SkyTeam focused on health safety measures and on the further development of a seamless travel experience across the combined network of its 19 members. The new Italian carrier ITA Airways joined SkyTeam and Virgin Atlantic announced that it will join SkyTeam in 2023, enhancing SkyTeam's offering at London Heathrow and Manchester Airport.

Interview
Anique Kamphuis
Product Owner BagPRO

Story
BagPRO

Turning art into science

KLM has taken an important step towards optimising the baggage flow at Schiphol Airport, to improve the experience of passengers and reduce non-performance costs. Anique Kamphuis, Product Owner BagPRO, explains how an innovative IT tool is turning the arcane art of baggage flow control into an effective, data-driven science.

Passengers on their way to a sandy beach or an important business meeting tend not to realise the complexity involved in getting their suitcase to their destination and back again. Once checked in, each suitcase travels through a fully automated maze in the basement of Schiphol Airport, which covers 21 football pitches and includes 50 kilometers of conveyor belts. Next, the suitcase is loaded onto a cart that gets driven to the aircraft, where it is loaded into the belly. Once a plane returns, the reverse happens, until the suitcase is reunited with its happy owner, suntanned or in possession of that coveted contract.

Too complex for people

This is easier said than done. Aircraft delays, ongoing work on Schiphol's baggage halls, faulty equipment and a wide range of other variables can lead to unhappy passengers, brand damage and financial claims. Plus, with Schiphol Airport running out of baggage handling space, KLM needed to make smarter use of the space that was available. "The way we organised baggage flows had gradually evolved over 30 years and heavily relied on staff with years of experience to use their intuition. But we handle tens of thousands of suitcases a day and delays and other unforeseen events make this very complex for people to handle well," Kamphuis explains.

High time for an upgrade in the shape of an optimizer called BagPRO. "This is a computer model built in Python that inputs 10 variables, static ones such as suitcase sizes and the maximum capacity of luggage carts, as well as dynamic ones such as delays, the potential delivery cost per destination and the number of people available to unload luggage." The model was developed by a team of 10 data scientists, software engineers and business product analysts using artificial intelligence. Where it first took 15 minutes for the model to calculate an optimal route for a suitcase, it now takes just one minute to update.

Room for growth

The data is collected from a number of data sources, including a joint AIR FRANCE KLM Group database, sensors and handheld devices used by baggage handlers to scan suitcases at the outstations or

Schiphol Airport. "Currently we can get complete data on 60 per cent of our destinations, so there is room for creating an optimal baggage flow at Schiphol Airport."

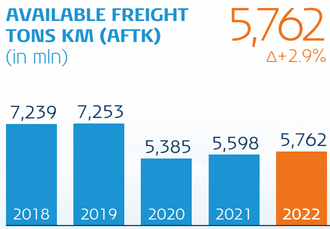
Once an aircraft has started the descent to Schiphol Airport, the optimisation is stopped for that flight. One paradigm shift is that the leading metric is not the number of suitcases but cost, and BagPRO calculates the most cost-effective combination of pick-up time, pick-up area and destination. Using that output, baggage flow controllers make decisions about the most optimal route for the bag across Schiphol Airport to make sure it makes its connection in time. "By putting BagPRO in the live operation we are becoming a more data-driven organisation in which we empower our colleagues to deal with disruptions in the best possible way," Kamphuis says.

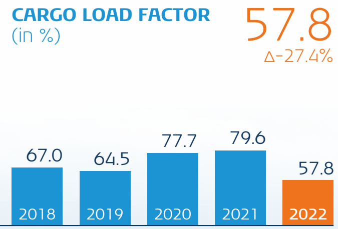
Saving money and time

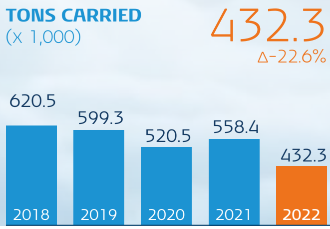
A minimum viable product (MVP) was tested on a limited number of KLM flights and will be rolled out next year to all flights, including those of partners Air France and Delta Air Lines. The first results are very promising. "The MVP is already saving 2.2 minutes of the time to handle luggage. In an environment that is complex and with limited baggage handling space at Schiphol Airport, that makes a real difference. Our projections are that BagPRO will ensure an additional 28,000 suitcases are delivered on time and that it will save us EUR 3 million a year," according to Kamphuis.

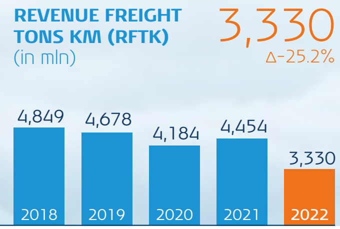
"Our projections are that BagPRO will ensure an additional 28,000 suitcases are delivered on time and that it will save us EUR 3 million a year."

Cargo Activity









KLM Cargo uses full freighters and capacity in the belly of passenger aircraft to enable global trade, with a focus on specialised products like Pharma, Express and Fresh.

The air cargo industry was dynamic in 2022. Following a very strong first half year, the second half of the year went back to more normal. While the resumption of passenger travel improved belly capacity, slower growth of global trade and the partial rebound of sea freight led to a decreasing demand for air cargo from the second quarter onwards. Airfreight volumes and load factors were impacted by the war in Ukraine, COVID-19 restrictions in Asia, technical problems in the full freighter fleet, and the closure of aircraft bellies due to staff restrictions at Schiphol Airport. Cargo nevertheless performed very well. Unit revenue was well above pre-COVID-19 levels and Cargo's contribution to KLM results was good and above the 2019 level.

Cargo laid a strong foundation for the coming years. In line with its ambition to remain a credible and prominent air cargo player, KLM together with AIR FRANCE KLM signed a ten-year cooperation agreement with CMA-CGM to jointly sell airfreight capacity. This partnership with one of the world's largest container shipping companies will enable Cargo to extend its network and the solutions offered. To replace its aging Boeing 747 freighters and strengthen Cargo's financials and sustainability, a purchase agreement was signed with Airbus for four Airbus 350F freighters with Rolls-Royce engines to be delivered in the second half of 2026 and first half of 2027.

On the commercial side, Cargo continued to optimise its distribution capabilities and product offer. As part of an ongoing effort to make it easy for customers to manage their shipments online, a unique Modify my Booking feature was added to the myCargo portal. For the third time, Cargo has been awarded International Air Transport Association Center of Excellence for Independent Validators (IATA CEIV) Pharma certification for the airline processes and Schiphol Airport operations. This assures pharmaceutical companies of reliable transportation of temperature-controlled and time-sensitive products.

The Operational Excellence (OpsX) program gained traction, resulting in numerous process improvements in our warehouse, like digital check-in of export cargo and improved volume scanning on acceptance. An important step in this year's OpsX plan was the organisation of employee sessions at our Schiphol Airport hub. In a three-week period, about 1,000 colleagues learned about the OpsX objectives and how they can contribute.

The CargoBus OPS program, which will replace the legacy systems at Schiphol Airport and around 60 outstations, is progressing steadily. The Accenture Freight and Logistics Software (AFLS) is slated to go live in the first quarter of 2023. Important steps were also taken in the preparation for the replacement of our handler system Cargoal by iCargo in 2024.

Engineering & Maintenance (E&M)

E&M provides KLM and third-parties with aircraft, engine, component maintenance and engineering support.

Most third-party customers reduced capacity because of the pandemic, leading to a decline in demand for services. Instead, E&M focused on value-adding activities, cost control, stimulating entrepreneurship and improving internal processes. Line Maintenance International kept servicing KLM, Air France and our external customers.

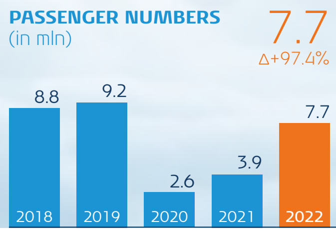
E&M increased KLM's fleet availability and utilisation by reducing time off-wing of engines and components, while predictive maintenance reduced unscheduled maintenance. Costs and supply times were lowered by developing in-house repairs, smarter repairs, repairing parts rather than replacing them and by negotiating better deals with suppliers.

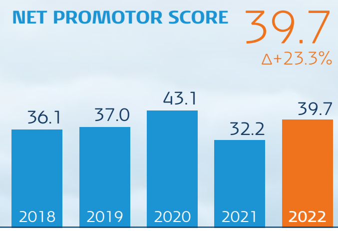
In 2022, E&M installed the Premium Comfort Class on Boeing 787-10 aircraft, with the Boeing 787-9 and Boeing 777 following in 2023. Major contracts were signed as well, such as a 30-year engine license contract for the A320Neo (LEAP 1A engine) and the Boeing 737MAX (LEAP 1B engine). In addition, KLM E&M and partners have signed a Memorandum of Understanding that paves the way for future collaboration on electric hybrid aircrafts, specifically around aircraft development, maintenance training and support and data analytics. Component Services, meanwhile, renewed the Boeing 737 partnership with Boeing for 10 years and began using its new high-tech logistics center at Schiphol Airport.

E&M experienced ongoing shortages in materials, components and high-skilled engineers needed for complex work on aircraft engines and parts. It took measures to attract and retain talent, for example by working with technical schools to create internships. E&M also implemented a teaming strategy, which maximises staff engagement and creates a learning environment.

"E&M focused on value-adding activities, cost control, stimulating entrepreneurship and improving internal processes."

Leisure
Transavia





Transavia is the leading low-cost carrier in the Netherlands with a focus on leisure destinations across Europe.

Transavia made a strong recovery from the pandemic, retaining its position as the leading low-cost carrier in the Netherlands and achieving load factors above pre-COVID-19 levels during the busy summer months. Spain was the strongest market. Transavia enjoyed high yields and revenues per available seat, while bookings with Transavia Holidays, through which Transavia offers complete holiday packages, rose as well.

Like its parent company KLM and other airlines, Transavia faced, a constraint labour market, supply chain issues with parts and operational constraints at Schiphol Airport, necessitating an impactful reduction of scheduled flights and causing less than 60 per cent of flights to be operated on time in the peak months. As a result, Transavia's Passenger Experience Index (PXI) and NPS, measures of customer experience and satisfaction, were below target. Employee engagement returned to the 2019 level. Cost levels rose on the back of high inflation, the war in Ukraine and non-performance costs related to delays and flight cancellations, while Transavia continued to invest in its employees. Transavia temporarily operated five KLM aircraft during summer to accommodate increased customer demand.

In 2022, Transavia started operations from Brussels Airport to four destinations and these flights performed above expectation. It also introduced flights to new destinations Bastia and Milan/Bergamo from Rotterdam The Hague Airport and Riga from Schiphol Airport. To make flying more sustainable and optimise its available seats in the slot constrained Dutch market, Transavia is pursuing an up-gauging strategy with the introduction of Airbus A320 neo family. This enables us to serve more Transavia customers and remain the number one low cost airline in the Netherlands.

Transavia continued advancements on sustainability. SAF blending went up to one per cent on all outgoing flights by 2022. This demonstrates that we take our responsibility to reduce our carbon emissions and makes us front runners in the low-cost market. The Airbus A321neo was selected to replace the current Boeing 737 fleet. Fleet renewal, and the Airbus in particular, ensures a reduction of our carbon, nitrogen and noise emissions both in absolute terms and per passenger. Together with KLM, Transavia embraced the Science Based Targets initiative.

In 2022, Transavia launched its diversity strategy. A new Diversity & Inclusion (D&I) team has been set up and a company-wide survey has been sent out to gauge feedback. One key element of this strategy is to empower colleagues to make greater social impact, for example through the internal crowd sourcing platform WeCare, through which several social NGOs receive financial support.

Overview of significant KLM participating interests

As at December 31, 2022

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

Interview
Jacob Post
Customer Experience Manager

Story
Premium Comfort Class

A class act in the skies

Ambition, teamwork and can-do spirit blended beautifully together during the creation of Premium Comfort Class, KLM's third passenger class. Customer Experience Manager Jacob Post explains the choices that were made and why passengers appreciate it so well.

What passengers appreciate the most about KLM is the quality of its product and the genuine care extended by crew, both in economy and business class. One thing that was missing on intercontinental flights, however, was an offering in between the two classes. Back in 2018, the Board commissioned a business case to see whether KLM should develop such a third class.

Business opportunity

"Our research and benchmarking showed a clear business opportunity. Passengers said they wanted something to bridge the gap in quality and cost between economy and business class. We also noticed our competitors and partners had launched a third class of their own and we saw that corporate clients wanted to be able to mix classes on business flights," Post recalls.

The green light was given and in 2019 a multi-disciplinary team was assembled that included experts in revenue management, design, purchasing, engineering, maintenance, sales, in-flight services, network, fleet and IT. "We thought about the kind of experience we wanted passengers to have and the appreciation this class should get from the customer. Some competitors have created a third class by upgrading one single aspect of their economy class while we opted for all three pillars of a class – seat, food and beverages and crew – to be in between economy and business. This made it a complex puzzle," Post says.

Passenger experience

Settling on a new seat, which serves as the foundation of a passenger's experience and the pricing of a class, was a research project all of its own, involving meetings with suppliers, discussions about improvements, and online calls to the factory during the pandemic. Post, who is a designer himself, was personally involved in the design of the seat. "During lockdown I worked from home and my house was filled with prototypes of seat elements. At one point I was getting daily deliveries from suppliers from around the world," Post says in amazement.

Designing the right service was equally challenging. "We wanted to offer a premium catering experience, so we developed a dedicated menu that features two warm and one cold meal, as well as a dessert in our main meal service." Extensive thought also went into hardware, such as cutlery, trays, bowls and glassware. All items can be re-used and are ultra-light.

Involving crew

Staffing was another important component. Rather than have dedicated Premium Comfort Class crew, as is the case in business class, KLM decided to let crew start in

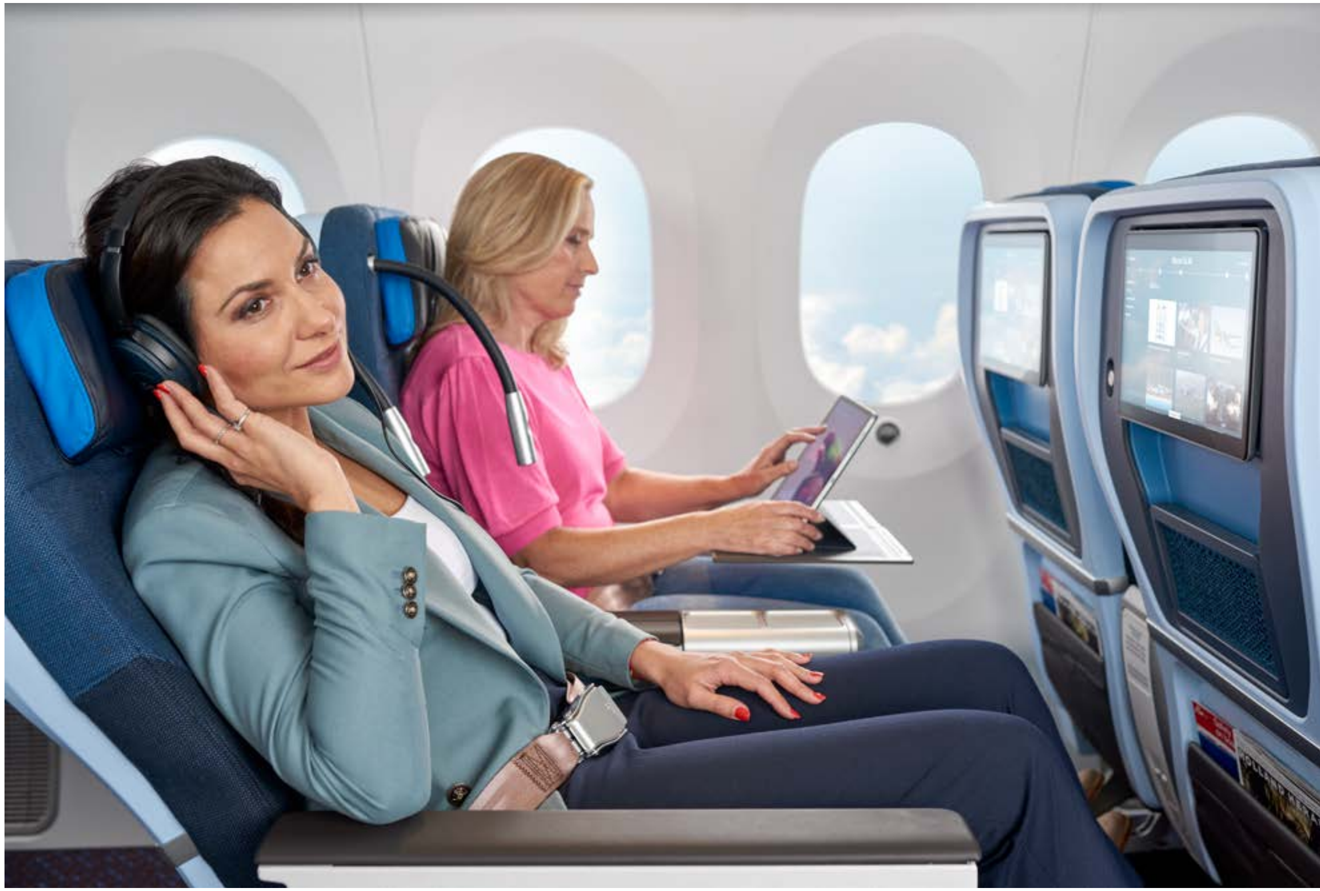
Premium Comfort Class and continue their service in economy class. Cabin crew was closely involved in the decision-making, to make sure they could fit the service into their work methodologies and work conditions as laid out in collective labour agreements.

Designing and sourcing the seat, catering and service was just one part of this massive project. Another major challenge was to retrofit KLM's intercontinental fleet, which was no small feat considering suppliers had been impacted by the pandemic and the impact on KLM's operations had to be minimised. "On the Boeing 787-10 we removed 54 economy seats to add 28 Premium Comfort Class seats along with a cabin divider, and set up a seven-day-a-week retrofit schedule with an extra shift to speed up the process. It took five days per aircraft."

KLM retrofitted all Boeing 787-10 aircraft in 2022 and began work on the Boeing 787-9 at the end of the year. Work on the Boeing 777 will begin in the first quarter of 2023 and will take 10 days instead of five, because the World Business Class is being redesigned as well to enable direct-aisle seating. "Very few airlines can retrofit their entire fleet in 20 months, especially in this period," Post proudly states.

The power of partnerships

Premium Comfort Class was launched in the summer on routes across the North Atlantic. Leveraging the power of KLM's partnership with Delta Air Lines, Air France and Virgin Atlantic, it means passengers can now combine economy, premium and business products across airlines. The first feedback has been positive, resulting in an NPS of 54. "All in all, we displayed an impressive feat of ingenuity and teamwork. The creation of a new class is a once-in-a-lifetime event and I am proud to have been a part of it."



"We thought about the kind of experience we wanted passengers to have and the appreciation this class should get from the customer."


Sheraton
KLM
KLM
KLM
G5
36R-18L
G5
36R-18L

Environment

Environmental key figures

CO_2 emission

Greenhouse gas emissions

Scope 1 (ktons CO_2 eq)

	2022	2021	Δ
AVIATION FUEL (in ktons CO_2)	9,041	7,370	+23%
CO_2 SAVINGS FROM SAF (in ktons CO_2)	87	9.8	+785%
GROUND OPERATIONS (in ktons CO_2)	30.1	30.5	-1%

(Scope 2)

ELECTRICITY (in ktons CO_2)	2022	2021	Δ
Market based	0	0	-
Location based	30.7	31.2	-2%

(Scope 3)

	2022	2021	Δ
UPSTREAM EMISSIONS FROM FUEL PRODUCTION (in ktons CO_2)	2,308	1,879	+23%

(scope 1, 2, 3)

	2022	2021	Δ
TOTAL CARBON EMISSIONS (in ktons CO_2)	11,322	9,270	+22%

Carbon offsets

Emission regulation

	2022	2021	Δ
EMISSION ALLOWANCES (in ktons CO_2 credits)	1,269	558	+127%
VOLUNTARY (in ktons CO_2 credits)	10	12	-17%
CUSTOMERS (in ktons CO_2 credits)	97.5	102	-4%

● 2022 ● 2021

KLM did not obtain assurance over the disclosed environmental key figures for 2022 and 2021.

Ground operations

Consumption

(MWh, unless stated otherwise)

	ELECTRICITY TOTAL CONSUMPTION	ELECTRICITY OF WHICH RENEWABLE	OTHER ENERGIES FUEL	OTHER ENERGIES NATURAL GAS	WATER (in m³)
2022	67,622	100%	61,317	71,121	121,729
2021	67,264	100%	55,250	80,726	104,267
Δ	+1%		+11%	-12%	+17%

Waste

(in tons, unless stated otherwise)

	NON-HAZARDOUS TOTAL QUANTITY	NON-HAZARDOUS RECYCLED	HAZARDOUS TOTAL QUANTITY	HAZARDOUS RECOVERED
2022	8,838	31%	1,248	75%
2021	6,814	44%	1,334	73%
Δ	30%	-13 pts	-6%	+2 pts

Non-CO_2 emissions

(in ktons)

	NO_x
2022	0.11
2021	0.01
Δ	x 10

Flight operations

Consumption of raw materials

(in ktons)

	CONVENTIONAL AVIATION FUEL	SUSTAINABLE AVIATION FUEL
2022	2,846	24
2021	2,332	4.2
Δ	+22%	x 6

CO_2 footprint - Fuel efficiency

(in gr CO_2)

	PASSENGERS TRANSPORT ($grCO_2$/passengers/km)	CARGO TRANSPORT ($grCO_2$/100 kg/cargo/km)
2022	75	44.9
2021	96	53.3
Δ	-22%	-16%

Noise impact

	FLEET UNDER CHAPTER 4 & 14
2022	60%
2021	62%
Δ	-3%

Local emissions

(in ktons)

	NO_x LOW ALTITUDE (<3,000 ft)	SO_2 LOW ALTITUDE (<3,000 ft)
2022	2.9	0.16
2021	2.3	0.13
Δ	+25%	+21%

● 2022 ● 2021

KLM did not obtain assurance over the disclosed environmental key figures for 2022 and 2021.

Sustainability

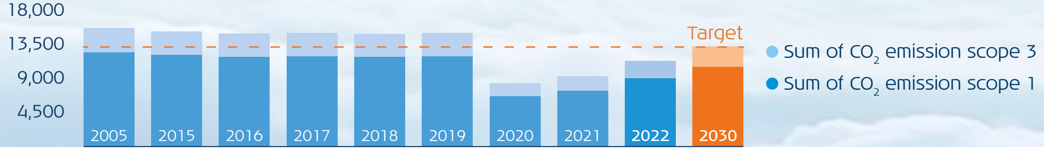
With sustainability now firmly at the core of our strategy, in 2022 KLM published its Climate Action Plan, took pioneering action on SAF, adapted operational processes and enhanced its product.

This year, KLM launched a new vision, purpose and strategy that make sustainability integral to our culture, our day-to-day business and the decisions that will affect our future. As part of this new path, KLM will focus on the strategic goal of transforming to a net positive company, which means KLM adds more value to the world than it takes. In order to achieve this goal, KLM will endeavour to reduce its impact now and to drive industry change. Below we outline what KLM has achieved in 2022 in these two areas. As part of the strategic goal of running a great airline for our customers and employees, KLM will also focus on engaging its people, which is covered in the Social segment of this report.

> "We have committed to being more transparent about progress on our sustainability goals, holding ourselves accountable and inviting our stakeholders for a constructive dialogue."

As part of our new approach, we have also committed to being more transparent about progress on our sustainability goals, to holding ourselves accountable and inviting our stakeholders for a constructive dialogue. Several NGOs, for example, have been critical of our approach. The Dutch NGO Fossielvrij NL has taken us to court claiming our communication around sustainability is misleading. We value the conversations we had with the environmental NGO Milieudefensie and we are taking their criticism to heart, although we continue to believe in the quality of our plans. In order to be more transparent about our climate actions, we have published our Climate Action Plan. While we may not always see eye to eye on the details, we acknowledge that NGOs are a key partner in the transition and we take their feedback seriously.

ABSOLUTE CO_2 EMISSIONS FROM FLIGHT OPERATIONS IN KTONS CO_2 KLM GROUP
(x 1,000)



RELATIVE CO_2 EMISSIONS FROM FLIGHT OPERATIONS
(in GrCO_2/RTK scope 1+3)

Reduce our impact now - flight operations

With radically new aircraft technology years away, the best ways to reduce emissions are to invest in new aircraft, adopt SAF and redesign products and processes.

Committing to clear targets and plans

In 2021, KLM set itself a new, ambitious target of reducing the company's carbon emissions per RTK (Revenue Ton Kilometer) by 30 per cent by 2030 compared to 2019. It then submitted its plans to the Science Based Targets initiative (SBTi), an organisation that ensures targets are in line with established climate science and the Paris Agreement goals, which validated them by the end of 2022. Read more about the SBTi in our story here. In addition, we published our new Climate Action Plan, started research on the impact of contrails and made a first high-level inventory of our Scope 3 emissions, which relate to emissions in our value chain.

Ordering a new fleet

KLM's fleet planning for the regional, European and long haul fleet remains focused on continuing to rationalise the fleet and renew with more fuel and noise efficient aircraft, thereby reducing the carbon and noise footprint.

Pioneering the use of SAF

KLM is a strong proponent of replacing fossil kerosene with SAF, which is derived from more sustainable sources and emits up to 85 per cent less CO_2. The more widespread adoption of SAF, however, is restricted by a lack of supply, which is why KLM has been supporting the development of new production facilities, mainly by becoming a launch customer. KLM and Air France signed multi-year SAF contracts with two reputable suppliers of SAF for a total of 1.6 million tons of fuel, which will cover a third of KLM's and Air France's need until 2030. KLM has followed the advice of NGOs to ensure that SAF does not compete with food and feed. This means that it is closely monitored that farmers do not grow SAF crops instead of meeting local food needs.

Due to supply and cost constraints, SAF is currently only blended, meaning it is added to fossil kerosene. As part of the EU's 'Fit for 55' strategy to curb carbon emissions by 55 per cent by 2030, the EU is mandating all airlines departing from EU airports to blend SAF, starting at two per cent in 2025, hitting five per cent in 2030 and ending at 63 per cent in 2050. KLM is ahead of this curve, starting at 0.5 per cent in 2022 and doubling that to one per cent in 2023 and committing to an ambitious 10 per cent target in 2030. Transavia, meanwhile, blended one per cent this year, marking it as a clear front-runner among low-cost carriers. Considering that even just sticking to the five per cent mandated by 2030 will cost KLM an additional EUR 1 billion per year, it is of paramount importance that KLM be allowed to be competitive and run a great airline for our customers and our people.

We have taken steps to invite passengers on our SAF journey. Since 2021 onwards every ticket sold from Schiphol Airport includes a standard SAF contribution, while Flying Blue, our loyalty program, rewards members when they voluntarily buy SAF. Cargo introduced goSAF, which allows Cargo customers to choose from one of four levels of contribution to SAF whenever they book a shipment. GoSAF is the logical follow-up to the corporate Cargo SAF program, which by year-end 2022 has generated interest from over 50 shippers and freight forwarders. KLM's Corporate SAF Program has now been joined by 130 customers.

Investment and operational decisions

KLM has been pushing sustainability deep into the veins of the organisation. In 2022, it began using an internal CO_2 price when deciding on investments upwards of EUR 500,000. In addition, KLM has been re-assessing some of its operational processes, deciding for example to curb fuel-inefficient high-speed flying to make up for lost time and refraining from economic tankering, which involves taking extra fuel on flights to avoid more expensive refueling at outstations. In 2022, KLM took the decision to stop economic takering as from 2023. Numerous actions, such as, taxiing with one instead of two engines, optimising take off procedures, flight routes and speeds before and during flights and aircraft weight reductions resulted in 2022 savings of eight million liters of fuel, which corresponds to twenty million kilograms of CO_2.

Intermodal Product

KLM and French high-speed rail company Thalys launched a trial for passengers that are connecting via Schiphol Airport to or from Brussels. KLM has purchased seats from Thalys and invested in IT systems that allow KLM passengers to easily combine air and rail travel in a unified journey. This means, for example, that someone wishing to travel from Chicago to Brussels can now make the transfer from Amsterdam using high-speed rail on a single ticket. The deal with Thalys means KLM operates one flight per day less between the two capitals, in line with the Dutch Government's Action Plan for Rail and Air Services, to which KLM committed. An evaluation of the trial learned that still a lot of work has to be done before our customers appreciate an air-rail alternative as much as an air-air transfer experience. KLM has to improve the customer communication and has to work with the air-rail sector partners on an improved airport transfer experience at Schiphol Airport as well as on a roadmap for intermodal baggage solutions. As a next step, in October 2022, KLM has agreed with Thalys to buy extra seats between Brussels and Schiphol Airport. These trains will be available during summer schedule of 2023.

Former Thalys CEO Bertrand Gosselin (right) with Executive Vice President Customer Experience at KLM Boet Kreiken (left) signing a deal to purchase seats on the high-speed train from Amsterdam to Brussels.

The plan is designed to encourage rail travel on destinations in a 700-kilometer radius from Schiphol Airport. For 2023 and beyond, KLM aims to establish partnerships with other international rail partners as well.

More sustainable cargo process

Cargo introduced cardboard beams, which hold pallets in place on board, that are 80 per cent lighter than the wooden beams they replace. This lowers fuel consumption, but also eases the physical strain on staff. The beams are less expensive, easier to recycle and less complex to use. In addition, Cargo and Jan de Rijk Logistics have taken a new Long Heavy Vehicle into operation that runs on Hydrotreated Vegetable Oil (HVO).

Reduce our impact now - ground operations

By switching from diesel-powered to electric ground equipment, KLM can ensure a healthier environment at and around Schiphol Airport.

At Schiphol Airport, KLM makes use of a wide range of ground equipment that is traditionally powered by diesel. In recent years, KLM has been transitioning to electric versions, which generate significantly less noise, CO_2 and particles, contributing to a healthier work environment. By year-end 2022, some 65 per cent of all equipment was electric and KLM aims to achieve 100 per cent by the end of the decade.

This year, KLM begun tests with electric generators that provide power to aircraft. This reduces the need to run the aircraft's engines at the airport, which saves seven million kilogram of fuel per year. KLM also took delivery of the first of two taxibots, an electric tug that pushes aircraft away from the gate. Instead of starting their engines right after pushback as they do now, taxibots push aircraft to the runway, allowing aircraft to start their engines much later. This new process, which is currently being tested in cooperation with Schiphol Airport and Dutch Air Traffic Control, could half the emissions of taxiing.

KLM aims to have electrified all its ground equipment by 2030. This will result in a cleaner work environment for our staff.

"By year-end 2022, some 65 per cent of all equipment was electric and KLM aims to achieve 100 per cent by the end of the decade."

Reduce our impact now - waste

KLM is aiming for a 50 per cent reduction of residual waste by 2030 compared to 2011 by embracing renewable and recycled materials and increasing efforts to recycle.

On all European flights, glass, cans, aluminium lids, paper, cooling material, PET plastic bottles and other forms of plastic are recycled by the catering teams.

Flying generates waste such as food and packing materials. Rather than incinerate it, KLM is reducing the amount of waste and increasing recycling. In 2022, Inflight Services set a target for using 50 per cent renewable and recycled resources by 2025. A Life Cycle Assessment tool was developed and adopted together with Dutch research institute TNO to support decision making for more sustainable packaging and to find alternatives to single-use products.

Regarding waste management a target of 50 per cent less residual waste compared to 2011 by 2030 has been adopted. Several strategies, such as improving separation on-board for effective recycling, reducing food waste and having waste management in scope at the first stages of product development, have been implemented. KLM also launched the ZerOWaste initiative. This encourages catering employees to pinpoint the biggest catering waste bottlenecks and come up with improvements. Another goal of the initiative is to collect more data.

Transavia has replaced single use plastics with renewable materials, introduced sustainable uniforms for crew and begun to recycle waste. KLM and Transavia also initiated a process of purchasing certification, which will hold suppliers to higher sustainability standards. Additionally, on all European flights, on-board waste is now being sorted and the process to collect plastic and cardboard cups has been improved. Glass, cans, aluminium lids, paper, cooling material, PET plastic bottles and other forms of plastic are recycled by the catering teams. The newly launched Premium Comfort Class uses reusable plastics that are recycled in a closed-loop process with our supplier.

Calling for smarter catering regulation

KLM and Transavia have signed an IATA declaration calling for smarter regulation of international catering waste. While waste from within the EU is efficiently processed, recycled and reused, waste generated on flights coming from outside the EU has to be incinerated or buried to meet EU regulations. While these regulations intend to prevent the outbreak of animal diseases, research commissioned by IATA shows there is no evidence catering waste actually increases this risk.

Drive the industry change

We feel called upon to lead the airline industry to more sustainable flying. This involves working with industry partners, co-creating new technologies and pushing for higher standards.

Zero Emission Aviation

KLM launched its Zero Emission Aviation program, which explores the feasibility of electric, hydrogen or hybrid propulsion systems for a new generation of sustainable aircraft. We have begun talks with aircraft manufacturers, start-ups and with various other industry parties such as universities and technology institutes.

Investing in a future vision

Transavia Ventures, which funds innovative entrepreneurs, has invested in Dutch start-up FlyWithLucy, which aims to take a five-seater electric airplane to the skies by 2025, and MuTech, which develops noise-reduction technology for aircraft.
KLM, Schiphol Airport, Airbus, the Netherlands Aerospace Centre and the Delft University of Technology launched the Flying Vision initiative in 2022. This aims to create an open and innovative ecosystem that can develop the technology needed to achieve climate-neutral flights in 2050. The partners will encourage entrepreneurship, train new talent and work on new types of energy-efficient airplanes, the utilisation of 100 per cent renewable energy, and climate-neutral logistic operations.

KLM, Schiphol Airport, Airbus, the Netherlands Aerospace Centre and the Delft University of Technology launched the Flying Vision initiative in 2022. This aims to create an open and innovative ecosystem that can develop the technology needed to achieve climate-neutral flights in 2050.

Organising the Sustainable Flight Challenge

Last year, a group of KLM staff dreamed up a challenge to see which airline could fly the most sustainable flight. This idea was adopted by SkyTeam alliance and organised this year. The challenge involved 16 airlines on two flights, showcasing the opportunities and challenges ahead. For the full story, read more here.

Partners on solar challenge

We transported the Dutch Brunel Solar Team's equipment for the 2022 Sasol Solar Challenge in South Africa. Of the 43 teams that took part, the Delft students were the first to cross the finish line with the Nuna, making them the first 'rookie' team to win this race.

Eligibility to the European taxonomy

The EU taxonomy is a classification system, establishing a list of environmentally-sustainable economic activities. It may play an important role in helping the EU scale up sustainable investment and implement the European green deal. The EU taxonomy provides companies, investors and policymakers with appropriate definitions and criteria to be met by economic activities to be considered environmentally sustainable.
The Taxonomy Regulation was published in the Official Journal of the European Union on June 22, 2020 and entered into force on July 12, 2020, with a first application in the year ended December 31, 2021.

In 2022, companies subject to this EU regulation must report the proportion of their total turnover, capital expenditure (capex) and operating expenditure (opex) related to eligible business activities and aligned under the European taxonomy regulation. An eligible business activity is considered "aligned" with one of the six environmental objectives* if

- it contributes substantially to the achievement of that objective (compliance with specific technical criteria);
- it does not harm any of the other five objectives ("Do No Significant Harm" criteria); and
- minimum safeguards (e.g. OECD, United Nations, etc. guidelines) are otherwise met.

* The six environmental objectives covered by the Taxonomy Regulation include two climate objectives on climate change mitigation and adaptation. The other four environmental objectives cover the sustainable use and protection of water and marine resources, the transition to a circular economy, pollution prevention and control, and the protection and restoration of biodiversity and ecosystems.

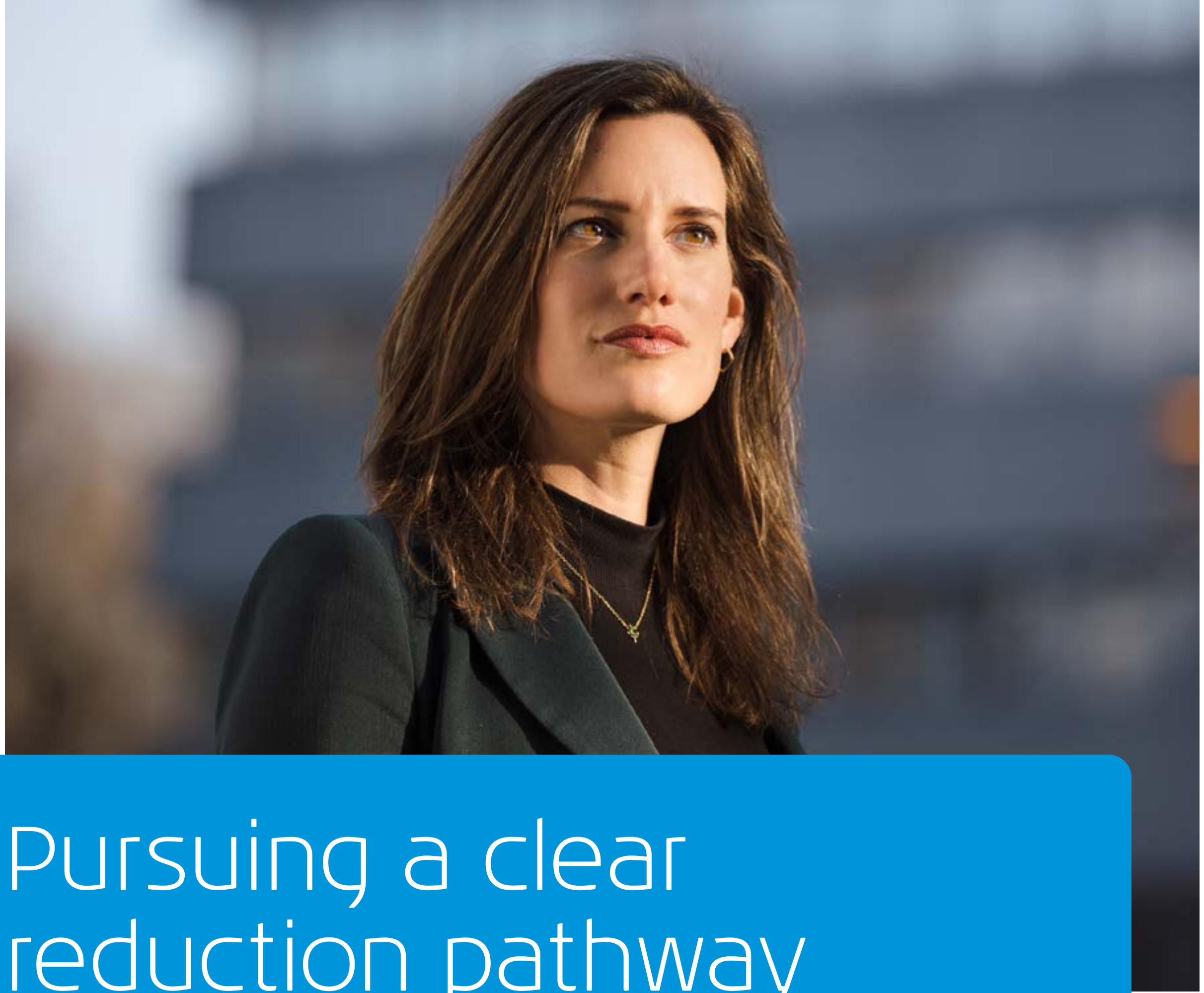
In 2022, as air transport and the maintenance of aircraft are not included in the delegated acts related to the taxonomy, the share of aligned activities in the Group's turnover was nil. Globally, in compliance with the definition provided by the Taxonomy Regulation, below 5 per cent of the Group's capital expenditure and below 5 per cent of its operational expenses, are aligned with the EU taxonomy regulation. These percentages are mainly linked to investments and costs related to Energy, Waste Management and Remediation, Transport, Construction and Real Estate activities, and Professional, Scientific and Technical activities.

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

"Together with our partners we aim to create an open and innovative ecosystem that can develop the technology needed to achieve climate-neutral flights in 2050."

KLM took delivery of the first of two taxibots. These electric tugs push aircraft to the runway, allowing then to start their engines much later. This could half the emissions of taxiing.

Interview
Hedwig Sietsma
Director
Climate Policy



Story
SBTi

Pursuing a clear reduction pathway

The Science Based Targets initiative has validated KLM's ambitious new target to reduce carbon emissions. Hedwig Sietsma, Director Climate Policy, explains what it took to achieve this, what it means and how it will galvanise action.

Goals that matter

Now that people have begun to experience the devastating impact of climate change, few will doubt humanity urgently needs to reduce its emissions. Businesses in various industries have committed to widely-differing targets, but it's hard to compare 'net zero by 2035' with 'a 20 per cent CO_2 reduction in 2040 compared to 2004'. There is risk of confusion, greenwashing, or worse, businesses not pursuing the goals that matter.

To provide more consistency and clarity, CDP, the United Nations Global Compact, World Resources Institute and the World Wide Fund for Nature set up the Science Based Targets initiative. Their mission is to align the climate goals of businesses with climate science and the goals of the Paris Agreement, which legally requires signatories to keep the rise in mean global temperatures below 2°C by 2050.

More ambitious goal

"KLM's previous target, while a good start, was based on what we felt we could do instead of what we should do. Then we decided to approach SBTi, to work on a new target and have it validated. The new target increases our ambition level to a 30 per cent relative reduction per RTK by 2030 compared to 2019, which translates to a 12 per cent absolute reduction. This target makes a proven contribution to the Paris goal representing a well-below 2°C scenario," Sietsma says proudly.

Critical questions

Throughout 2022, KLM worked with SBTi to submit emissions and operational data and answer a never-ending series of critical questions. Guiding this intense process was a validation methodology that SBTi has developed specifically for the aviation industry, using input from aviation experts and several airlines. Sietsma argues this has made the methodology more robust.

"By rooting the methodology in the reality of the industry, it is more likely airlines will adopt it. For example, the methodology accounts for the fact that radical innovations like electric or hydrogen propulsion systems are still years away and that the industry has no choice but to continue relying on fossil kerosene or SAF from sustainable feedstock," Sietsma explains.

A potentially contentious aspect of the methodology is that it assumes the industry will continue to grow. “We understand some will argue that the best way to reduce emissions is to cut flying itself. We are not convinced this is the way to go because flying has a crucial social and economic function. Reducing air traffic alone will not lead to the radical innovations that the industry needs. SBTi itself assumes demand for flying will increase because the middle class in countries like China and India will continue to grow.”

Hard work, but worth it

KLM initially focused on clarifying its Scope 1 emissions, or those directly related to its operations, but SBTi requested KLM also calculate its Scope 3 emissions, which are generated in the supply chain. “It was a lot of work but the team did an amazing job. We calculated emissions on the basis of money spent, but that is pretty high-level. We’ve already begun a pilot at Inflight Services to go through everything with a fine-tooth comb. This will allow us to rate suppliers and incentivise them to reduce emissions,” enthuses Sietsma.

Kerosene used to fly an aircraft accounts for 92 per cent of total emissions (Scope 1 and 3), with ground operations (building and equipment) accounting for less than 1 per cent of total emissions. “This strengthens KLM’s vision that the best way to reduce emissions is to invest in more fuel-efficient aircraft, SAF, and optimise our operations.”

Reduce negative impact now

Which allows this story to segue nicely from the ‘how much’ to the ‘how’. SBTi has validated that KLM’s target is in line with the Paris Agreement, but doesn’t specify how KLM should achieve it. “This is now up to us. One of the three pillars of KLM’s new strategy is to ‘reduce negative impact now’. We’ve already begun to involve everybody in making the kind of decisions and changes that contribute to the new goal.”

A lot of work remains to be done between now and 2030, but SBTi validation is an important milestone. “It tells us that we are heading in the right direction and it energises us. A few years ago, we would never have had the kind of discussions we are having right now. It gives us the right kind of pressure to do what needs to be done,” Sietsma reflects.

“This strengthens KLM’s vision that the best way to reduce emissions is to invest in more fuel-efficient aircraft, increase the use of more SAF and optimise our operations.”

Social

Social key figures

In % of headcount as per December 31, 2022

HEADCOUNT KLM GROUP STAFF
(per end financial year)

33,358

31,551

Δ +5.7%

EMPLOYEE PROMOTER SCORE

11

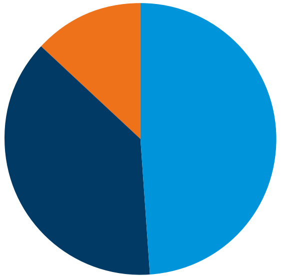
32

-65.6%

AGE DISTRIBUTION
(%)

< 30	10
30-39	19
40-49	24
>49	47

STAFF DISTRIBUTION
(%)



Ground staff	49
Cabin crew	38
Flight deck crew	13

YEARS OF SERVICE
(%)

< 5	19
5-10	9
11-20	24
>20	48

ABSENTEEISM KLM

8.8%

NUMBER OF NATIONALITIES

62

NEW COLLEAGUES SELECTED

6,340

FEMALE COLLEAGUES

45.5%

FEMALE MANAGERS

28%

Doing good for society

WINGS OF SUPPORT
NUMBER OF PROJECTS

73

54

Δ +35.2%

SUPPORTED CHILDREN

27,260

11,510

+136.8%

2022 2021

People

KLM aims to empower its nearly 30,000 employees to be 'the best of themselves' by creating an optimal, engaged, diverse and inclusive workforce that can execute the strategy in line with the KLM Compass. Whether it's by hauling luggage, flying aircraft, serving passengers or maintaining engines, it is through our people that KLM's purpose of 'Creating memorable experiences on the planet we care for' comes alive.

Last year KLM's IT division introduced 'reverse mentoring'. This is an initiative where a colleague from a different background mentors managers within KLM. The aim of the program is to learn from each other and understand each other better.

Our people showed incredible passion and resilience this year as KLM's recovery took shape. KLM supported them with a hiring spree, a new collective labour agreement that mitigates the impact of high inflation and efforts to strengthen diversity and inclusion.

Taking care of our passengers

After a challenging pandemic, in which we had to fight for our survival and make painful sacrifices, the time finally came for our recovery. Like our passengers, our people felt excited about the prospect of flying freely once again, and like them we felt frustrated when we weren't able to deliver the schedule as intended. However, our people showed tremendous resilience, pride and passion in responding to these challenges, doing their utmost to take care of our customers and improving our operation.

Tackling two key challenges

All of this highlighted two major challenges. The first is the level of absenteeism, which is relatively high just as it is in other segments of the economy. The absenteeism level shows that the pandemic has pushed our people to their physical and emotional limits and that the pressure to perform remains high in a changing, competitive landscape. Meanwhile, the Employee Promotor Score (EPS) hit 11.3 compared to 31.6 last year, showing that our people are having a rough time.

The level of absenteeism is connected to the second challenge, which is to attract and retain talent in a labour market that is incredibly tight, both in the Netherlands and beyond. KLM was forced to reduce its workforce by 15 per cent during the pandemic, but with demand for air travel recovering fast, there simply were not enough people, from highly skilled IT specialists to baggage handlers.

KLM is tackling these challenges by accelerating the recruitment of staff. This year, around 240 people were hired on a fixed contract and 1,350 people were

KLM embraces diversity in all parts of its business. This flight, for example, was powered by an all female crew of pilots and cabin crew.

hired on a temporary contract for operational activities within ground services at Schiphol Airport and KLM attracted some 1,400 cabin attendants and 500 IT talents and 220 engineering talents. KLM launched new recruitment campaigns, but also negotiated new collective labour agreements with the unions, which formalise hybrid working, expanded opportunities for education and increased salaries. The tight labour market remains an important point of attention. Therefore, the organisation of work, simplification of processes and strategic workforce planning will continue to require constant attention.

Diversity and inclusion

As part of KLM's vision of 'Pioneering to become a frontrunner in sustainable aviation', KLM has set itself the ambition to be a sustainable and diverse employer. KLM supported a number of grassroots diversity networks such as Over the Rainbow, KLM Connecting Colors, Young KLM and Women on Board and trained corporate recruiters in unbiased selection. In spite of this, a company-wide survey showed that KLM still has a way to go when it comes to diversity and inclusion. We've hired external expertise and are resolved to ensure every colleague feels safe and welcome, and that inappropriate behaviour is immediately addressed.

Opportunities for development

As one of the largest private employers in the Netherlands, KLM generates significant value for society. We offer nearly 30,000 people meaningful work and opportunities for ongoing development, but also work closely with schools and universities to create internships and ensure their curriculum meets the needs of modern work. In line with KLM's strategic goal of running a great airline, KLM will ensure its people remain productive and engaged and prioritise a diverse and inclusive work environment, operational and emotional safety, the recruitment of more staff, and a healthy work-life balance.

"KLM will ensure its people remain productive and engaged and prioritise a diverse and inclusive work environment."

KLM Connecting Colours

KLM connecting colours is an official network organisation within KLM that stands for a working environment free of racism, discrimination and micro-aggression.

Safety

Over the past few years, KLM has built an integrated safety management system that several independent auditors as well as expert stakeholders in the field of safety have rated as world-class.

This year, KLM took several measures to further improve the safety level across the company. First, Operational Behavioural Management, a program designed to incentivise people to exhibit safe behaviour, was rolled out across the company. Second, KLM focused on social safety, in part by creating a diverse and inclusive work environment, and encouraging people to report unwanted behaviour. In addition to that, we continued promoting a Just Culture, which aims to create an environment where it is safe to discuss and learn from mistakes.

In 2022, KLM took next steps in safety management. Focus was set on several safety driven initiatives, which were deployed throughout the KLM organisation. Within Flight Operations the Expert Level Group Fatigue focused on getting a better understanding of reasons for fatigue within the corps of cockpit and cabin attendants. A training based on the principles of a bio mathematical model was rolled out to ensure a better planning and rostering of cockpit and cabin crew that prevents fatigue.

KLM Inflight Services rolled out the new reporting app See It Say It to ensure better data on safety. With the help of AI, integrated in the Inflight applications, all KLM Inflight staff are empowered to analyse the safety data. For 2023, the further roll-out of the application is planned within all divisions of KLM, starting with KLM Cityhopper, International Stations and Ground Services. Replacement of the mandatory Air Safety Reports within the Flight Operations divisions of KLM and KLM Cityhopper will follow but due to complexity and compliance with EASA and EU-376 legislation, this replacement must be prepared carefully and may take some time.

Roll-out of the safety awareness initiative 'Safe & Swift' throughout KLM puts forward actual operational dilemmas in the daily operation tailored to each division and working area. Safety awareness is created by having staff solve the dilemmas themselves and providing feedback on the choices that were made.

In 2022, KLM launched the Safe & Swift module for all KLM and KLC employees. This module focuses on carrying out work related tasks safely and swiftly and finding the right balance between working in a safe and swift manner.

Doing good for society

As a responsible member of society, KLM engages in a broad range of partnerships with various organisations in the Netherlands. In line with our values, the needs of our passengers, and the nature of our business, we focus on sports, culture and humanitarian aid.

In 2022, following initiatives from previous years, KLM organised the 'Blauwe Hart dagen' (Blue Heart Days). This initiative was founded in 2020 to give something back to society. During these days KLM staff commits to volunteer on charity work. This year KLM staff participated the cleaning of the Amsterdam canals and parks, supported health care in senior homes and contributed to sustainable sewing workshops. The Blue Heart Days were experienced as inspiring and educational and engaged staff from across the company.

To promote a healthy lifestyle, KLM in 2022 sponsored various running events, such as the Dam to Dam run, the Amsterdam marathon and Urban Trails in various Dutch cities, where participants are also treated to guided tours of local cultural highlights. For the 19^{th} time running, KLM was one of the official partners of the Dutch Open golf tournament, a sport that is popular among our frequent flyers.

Our flights are an important lifeline for Amsterdam's vibrant tourism industry and cultural sector. That is why we sponsor the flight tickets of the global tour of the iconic Concertgebouw Orchestra, transport precious pieces of art to and from the Rijksmuseum and fly in the laureates of the Prince Claus Fund, which supports artists in countries where cultural expression is under pressure. We also maintain a connection to the Eye Filmmuseum, which archives part of KLM's film footage, and the Maria Austria Institute for photography, which houses our photo archive.

KLM also supports social and humanitarian causes. We have a long-standing partnership with the Dutch Red Cross to provide global support and in 2022 we worked together to transport refugee families to reunite with their families.

Wings of Support

Wings of Support is an NGO run independently by KLM staff. They aim to improve the quality of children's lives in their own living environment at many KLM destinations, particularly around education, care and medical assistance. In 2022, Wings of Support facilitated 53 local organisations and more than 21,000 children in 17 countries. Cockpit and cabin crew visit these organisations during their lay-overs and of every euro that is donated 95 cents go to the children.

KLM staff commit to a day of volunteering to give back to society.

Urbain Trails allow KLM staff to raise their heartbeat and explore the cultural heritage of the Netherlands.

Wings of Support facilitated 53 local organisations in 17 countries.

Corporate governance

Board and governance

Koninklijke Luchtvaart Maatschappij N.V. (KLM) is a public, limited liability company incorporated under Dutch law. KLM has a two-tier board structure consisting of a Board of Managing Directors and a Supervisory Board.

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

KLM's corporate governance is based on the applicable statutory requirements and on the company's Articles of Association. Although the Dutch Corporate Governance Code doesn't formally apply to KLM, KLM has voluntarily brought its corporate governance framework 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. In that context, KLM is intensively working on the implementation of the updated Dutch Corporate Governance Code, which has been published in 2022.

There have been no material changes in the company's governance in comparison with financial year 2021.

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-A, one common share-B, 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 shares-A 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, 2022, SAK I held 33.59% of the voting rights in KLM on the basis of common shares-A 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 in 2019, a bearer share certificate that has not been handed in to KLM on or before December 31, 2020, has become void and the share represented by the bearer share certificate has been acquired by KLM for no consideration. A shareholder who hands in a bearer share certificate with KLM no later than five years after December 31, 2020 is entitled to receive from KLM a replacement registered share. KLM shareholders who still have not handed in their bearer share certificates on January 1, 2026, will lose any entitlement to exchange their bearer share certificates for a registered replacement share. For this purpose, a shareholder may contact the company.

AIR FRANCE KLM

KLM and Air France share the same holding company, AIR FRANCE KLM S.A. The holding company's Board of Directors (Conseil d'Administration) has 20 members. The AIR FRANCE KLM Board has five Dutch members, of which one is appointed upon nomination by the Dutch State and two upon nomination by the KLM Supervisory Board. The fourth Dutch member is the Chairman of the KLM Supervisory Board. The fifth Dutch member joined the AIR FRANCE KLM Board as Director representing employees. The KLM President & CEO attends the Board meetings as permanent guest/observer.

"During 2022, the Supervisory Board focussed on various topics and dilemmas, such as COVID-19 related challenges and geopolitical and macro-economic developments."

Supervisory Board

The KLM Supervisory Board supervises the management conducted by the Board of Managing Directors and the general course of affairs, operational performance and corporate governance 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.

Pursuant to the Articles of Association, KLM's Supervisory Board shall consist of at least nine and at most eleven members. On December 31, 2022, KLM's Supervisory Board consisted of nine members. Supervisory Board members are appointed and reappointed by the General Meeting of Shareholders. The General Meeting of Shareholders may recommend candidates to the Supervisory Board, whereby the KLM Works Council has the legal right to recommend one third of the Supervisory Board members. Five members are appointed upon recommendation of AIR FRANCE KLM. The General Meeting of Shareholders can reject the nomination by an absolute majority of the votes cast, representing at least one third of the issued capital.

A Supervisory Board member is appointed for a term of four years and can be reappointed for another term of maximum four years. In case of a reappointment after eight years of service, the Supervisory Board states the reasons for such reappointment. The candidates are selected in accordance with the Supervisory Board's profile, which also includes its diversity policy. In light of the EUR 3.4 billion financial support package provided in 2020, the Dutch Government appointed a State Agent who is responsible for monitoring the execution of KLM's restructuring plan and its compliance with the other conditions under the financing agreements and the Framework Agreement. Although the State Agent has a standing invitation to attend the Supervisory Board and the Audit Committee meetings, he is not a member of the Supervisory Board and does not participate in the deliberations and the voting by the Supervisory Board. KLM's Company Secretary & General Counsel acts as Secretary of the Supervisory Board. The Secretary ensures that the Supervisory Board acts in accordance with the law, KLM's articles of association and its own regulations. In addition, the Secretary ensures timely and adequate provision of information to the Supervisory Board and assists the Chairman of the Supervisory Board in the organisation of the Supervisory Board meetings.

Committees

While retaining overall responsibility, the Supervisory Board has three committees to which it has assigned some of its tasks: an Audit Committee, a Remuneration Committee and a Nomination Committee. All these committees have their own regulations, which lay down, among others, their composition, role and responsibilities.

Audit Committee

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

Remuneration Committee

The Remuneration Committee is charged with the preparation of 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. In addition, the committee evaluates the performance of the members of the Board of Managing Directors against the collective and individual targets set for the financial year.
The Remuneration Committee consists of Mrs. Oudeman, Mr. Enaud and Mr. 't Hart. Mrs. Oudeman chairs the Remuneration Committee.

Nomination Committee

The Nomination Committee is charged with the draft selection criteria and appointment procedures for Supervisory Board members and Board of Managing

Directors members. Furthermore, the committee is responsible for assessing the size and composition of the Boards and the functioning of individual board members, drafting a plan for succession and making proposals for (re)-appointments and preparing the decision-making process for the Supervisory Board. The Nomination Committee consists of Mr. 't Hart, Mr. Enaud and Mrs. Oudeman. Mr. 't Hart chairs the Nomination Committee.

Board of Managing Directors

The Board of Managing Directors has final responsibility for the overall management of the company and monitors all corporate governance activities. The members of the Board of Managing Directors drive the management's agenda and share responsibility for the continuity of KLM and long-term value creation. By fulfilling their duties, each member must be guided by the best interest of KLM, its businesses and its internal and external stakeholders. 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 is required to structurally inform the Supervisory Board on developments the Supervisory Board may need to be aware of in order to adequately perform its supervision and advisory role.

Pursuant to the Articles of Association, the Board of Managing Directors shall consist of at least three Managing Directors. On December 31, 2022, 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 term of four years, unless the General Meeting of Shareholders resolves otherwise.

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

General Meeting of Shareholders

The shareholders of KLM in principle exercise their rights via the Annual or Extraordinary General Meeting of Shareholders. The date, agenda and location of the Annual General Meeting is announced through a national newspaper and registered shareholders are notified by letter. The main powers of the General Meeting of Shareholders consist of appointing, suspending and dismissing members of the Board of Managing Directors and Supervisory Board, determining the remuneration policy of the Board of Managing Directors and the Supervisory Board, adopting the financial statements, discharging the Board of Managing Directors and the Supervisory Board from liability and the appointment of external auditors. Furthermore, resolutions of the Board of Managing Directors entailing a significant change in the identity or character of the company are subject to the approval of the General Meeting of Shareholders. Resolutions amending the Articles of Association may only be adopted by the General Meeting of Shareholders. A resolution to dissolve the company may only be adopted if at least three-quarters of the issued shares are represented at the General Meeting of Shareholders and at least two-third of the votes are cast in favour of the resolution. The aforementioned powers are not limitative and the exact procedures are explained in KLM's Articles of Association.
KLM's Annual General Meeting of Shareholders will be held on April 24, 2023.

A General Meeting of Shareholders may be convened by the Board of Managing Directors, President & Chief Executive Officer, the Supervisory Board, three Supervisory Board members or the Meeting of Priority Shareholders, each of which has equal power to do so.

In 2022, an Extraordinary General Meeting of Shareholders was held at December 5, 2022. At this meeting, the shareholders adopted an amendment of KLM's Articles of Association. With this amendment, one common share in issue and held by AIR FRANCE KLM has been converted into one common share-B. The remaining common shares in issue has been converted into common shares-A. The aforementioned amendments have not changed the balance in shareholding. The amendments also relate to the allocation of profit, where the amount paid on the common share-B (as share premium) will be repaid before any other distributions will be made to the holders of common share-A.

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 held nine regular meetings in the presence of either the CEO or the COO and EVP HR & IR. Furthermore, the KLM Works Council engaged in direct dialogue with members of the Supervisory Board.

At AIR FRANCE KLM level a European Works Council is installed to jointly represent KLM and Air France. This council focuses on issues that pertain to both Air France and KLM staff at European locations. The European Works Council held two regular and three extra plenary meetings and five Select Committee meetings.

Diversity

KLM recognises the importance and added value of a diverse and balanced composition of the Board of Managing Directors and Supervisory Board and believes that the 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, 2022, one third of the members of the Supervisory Board was female. The Supervisory Board consists of four board members with Dutch nationality, four board members with French nationality and one board member with Canadian nationality.

Also, on December 31, 2022 one third of the members of the Supervisory Board was female. In KLM's leadership team (the Executive Team) three out of 15 members are female. KLM recognises that, despite the progress made in recent years, there is still room for improvement. Within this context, KLM implemented the Dutch Gender Balance Act which entered into force on January 1, 2022. Pursuant to this Gender Balance Act, large NVs and BVs, such as KLM, must set an appropriate and ambitious target figure to promote gender diversity on its Board of Managing Directors and Supervisory Board as well as in certain categories of managerial functions. For both the Supervisory Board and the Board of Managing Directors it was already common practice that KLM applies a target of at least 30% female and 30% male as it voluntarily complies with the Code. With the Dutch Gender Balance Act, this target has been confirmed in the action plan. Furthermore, the action plan includes a target of at least 30% female and 30% male for KLM's Executive Team. KLM is convinced that this Act will support the further optimisation of its diversity policy.

> "In 2022, one third of the members of the Supervisory Board was female."

Compliance and business ethics

The KLM Compliance & Business Ethics Framework requires leadership and staff to do business with loyalty, fairness, transparency, honesty and integrity. It requires KLM staff to reach out, take ownership and leadership and to be competent, to connect, to guide, to challenge and to inspire their teams in a joint effort to secure the integrity of the KLM organisation internally and vis-à-vis third parties that KLM deals with in its day-to-day business. The KLM Code of Conduct serves as a framework that reflects the basic principles of business integrity and shall be adhered to KLM staff and management. The document clarifies rules and standards that are to be complied with and sets out expected behaviour. The document also serves as an umbrella for all available corporate compliance codes, such as the AIR FRANCE KLM Bribery Manual, the AIR FRANCE KLM Gift & Hospitality Policy, the AIR FRANCE KLM Competition Law Compliance Manual and the KLM Whistleblower Policy. Designated individuals are required to complete training on antitrust and competition laws, anti-corruption law, trade compliance and data protection. KLM has published relevant codes and regulations on its intranet.
On behalf of the Board of Managing Directors, KLM's Compliance Committee monitors the effectiveness of the KLM Compliance & Business Ethics Framework. The KLM Compliance Committee meets at least quarterly and submits the Corporate Compliance Monitor to the KLM Board of Managing Directors and the Supervisory Board bi-annually. KLM has deployed an organisation dedicated to compliance and business ethics. Designated expert functions at corporate and business level are tasked with pursuing the implementation of the compliance programs within KLM.

Dutch Corporate Governance Code

Apart from the deviations listed below, KLM's Corporate Governance is in line with generally accepted principles of good governance, such as laid down in the Dutch Corporate Governance Code. On several occasions the Board of Managing Directors together with the Supervisory Board discussed the impact of the Dutch Corporate Governance Code on KLM's corporate governance.

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

- Regulations and other documents are not made available on the company website. Regulations and other documents are available upon written request;
- The composition of the Supervisory Board does not meet the Best Practice Provision 2.1.7 sub i that relates to the independence of the Supervisory Board.

Dutch Tax Governance Code

KLM is one of the 40 companies having embraced the new Dutch tax governance code presented by The Confederation of Netherlands Industry and Employers (known as VNO NCW) in May 2022.

The tax governance code not only includes relevant tax codes and principles, but is also more ambitious with regard to the view a) that tax is not a cost factor only but a contribution to society as well, b) that tax rules must be interpreted in accordance with the spirit of the law, c) to restraint to use tax havens and d) provide transparency, especially on taxes paid and collected.

The tax governance code establishes a clear and transparent system in which accountability and supervision of tax policies are intrinsic elements. Similar to the corporate governance code accountability is based on the principle of 'comply or explain': companies must render account for any principles in the Code where they are not, or not yet, compliant. This opens up possibilities for Board of Management and Supervisory Board to initiate a dialogue on KLM's tax profile, and offers any interested party a much better understanding of the company's tax position and what and how it contributes to the societies where it operates.

For financial year 2022 KLM complies with the principles of the Code. For financial year 2022 the tax contribution report shows the total tax borne and collected by the company for the Netherlands and for the rest of the world. KLM strives to further develop detailed tax breakdowns for the rest of the world in the coming years.

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. KLM's Articles of Association explicitly state that a Managing Director or member of the Supervisory Board may not participate in any discussion or decision-making on a subject in which he or she has a direct or indirect personal interest that conflicts with the interests of KLM and the business connected to it. A member of the Board of Managing Directors or the Supervisory Board is required to report any conflict of interest or potential conflict of interest that is of material significance to the company and/or to the member concerned, to the Chairman of the Supervisory Board. Decisions to enter into transactions in which there are conflicts of interest with members of either board that are of material significance to the company or such member requires the approval of the Supervisory Board.

Internal regulations

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

In control statement

In 2022, KLM has experienced a strong recovery of air traffic, which has resulted in a difficult operational summer as the tight labour market resulted in operational disturbances due to internal and external staff shortages. Notwithstanding the difficult operation the financial performance of KLM has strongly improved. Revenues have shown a positive development based on a healthy demand and strong yields. Costs have also increased as a result of inflation but the operational result has shown a strong improvement. Cash flow was positive resulting in a full repayment of the State aid package. The geopolitical environment remains volatile.

Also, during 2022, extra activities have been performed on risk management including IT security, safety management, internal control and compliance. Overall, the outcomes and progress give reasonable comfort despite the ongoing transformation. Further improvements are envisaged in 2023.

In accordance with the section on risk management and control, in addition to the assessment of going concern, all currently known circumstances taken into consideration, the Board of Managing Directors states to the best of its knowledge that:

- The Annual Report 2022 provides sufficient insights into potential material failings in the effectiveness of the internal risk management and control systems;
- The internal risk management and control systems of the company provide reasonable assurance that the financial reporting does not contain any material inaccuracies;
- Based on the current state of affairs, it is justified that the financial reporting is prepared on a going concern basis; and
- The Annual Report 2022 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 Annual Report.

"Notwithstanding the difficult operation the financial performance of KLM has strongly improved."

Report of the Supervisory Board

The Supervisory Board is entrusted with supervising and advising the Board of Managing Directors and overseeing the general course of KLM's businesses. In addition, the Supervisory Board provides support to the Board of Managing Directors on the development of KLM's strategy for realising long-term value creation.

The Supervisory Board performs its tasks as defined by the law, the Dutch Corporate Governance Code, KLM's Articles of Association and its own regulations. Each individual Supervisory Board member is expected to act in the best interest of KLM, its businesses and all of its internal and external stakeholders.

Supervisory Board meetings

In 2022, the Supervisory Board held five regular and seven extraordinary meetings. Furthermore, the Supervisory Board convened for a full day strategy meeting in order to deliberate in-depth on key strategic themes and strategic challenges ahead.
With the gradual relaxation of the COVID-19 related government measures, the Supervisory Board alternated between virtual and in-person meetings, which were transparent and in-depth.
Throughout 2022, the Supervisory Board focused on numerous business matters for which its consent was required. COVID-19 matters were gradually replaced by other topics such as the operational situation at Schiphol Airport and the macro-economic developments where the Supervisory Board focused on the post-COVID-19 era.
The Board of Managing Directors kept the Supervisory Board also well informed on any significant business developments that arose between the meetings.
In addition, on a frequent basis, the Chairman of the Supervisory Board and the President & Chief Executive Officer engaged in direct dialogue on the progress of actual topics. At the same time, the Chairman of the Audit Committee had close contact with the Chief Financial Officer on financial topics. Executive sessions were held in order to discuss topics in the absence of the Board of Managing Directors.

The Supervisory Board members showed maximum flexibility and availability when they were called upon. They performed their tasks with the utmost diligence and reserved adequate time to perform these tasks. Except for a limited number of occasions, and for valid reasons, most Supervisory Board members attended all meetings in 2022. The average attendance of the regular Supervisory Board meetings was 87 per cent. The State Agent, appointed in light of the Dutch State Support, has a standing invitation to attend the Supervisory Board and the Audit Committee meetings and attended a number of meetings during the year.

Long-term value creation

The successful implementation of KLM's purpose and ambition in the years prior to the pandemic meant KLM entered the crisis in a relatively strong position. However, the pandemic severely impacted KLM's financial position and changed the world. These developments encouraged KLM to critically reassess its business model and its view on the future of aviation.
In 2022, the Supervisory Board was extensively involved in the process of reviewing and enriching KLM's purpose and ambition. The Board of Managing Directors and the Supervisory Board agreed that KLM's business model remains valid and valuable, but the company must transform to become more sustainable and to pioneer to become a frontrunner in sustainable aviation. Taking this pioneering role requires a holistic look at levers as well as bold choices. During a full day strategy meeting, the Supervisory Board fully focused on sharpening the ambition and vision. In this regard, profitability will need to increase in order to execute the investment agenda towards a more sustainable airline.
Throughout the year, the Supervisory Board was well engaged in the Board of Managing Directors' process of developing of KLM's strategy for long-term value creation.

Highlights 2022

During 2022, the Supervisory Board focused on various topics and dilemmas, such as COVID-19 related challenge and geopolitical and macro-economic developments. This paragraph outlines the highlights of the Supervisory Board meetings held during the year.

Despite the recovery cautiously started in the second half of 2021, it remained uncertain how the pandemic would evolve. During the first months of 2022, the Board of Managing Directors therefore extensively reported on the various scenarios to strengthen KLM's equity position. The Supervisory Board deliberated in depth on these scenarios and agreed with the Board of Managing Directors that – depending on developments – preference should be given to equity recovery on KLM's own merits.
As from February 2022, the situation around Ukraine deteriorated rapidly. The Board of Managing Directors regularly informed the Supervisory Board on the geopolitical developments and KLM's measures to mitigate the consequences on its operations and commercial agreements. The Supervisory Board supported KLM's adequate and immediate response and efforts to keep pace with the (humanitarian) crisis in Ukraine. In this context, the Supervisory Board also discussed the development of the global oil price, which further climbed with the Russian invasion.

With the gradual loosening of travel restrictions worldwide, demand for air travel increased rapidly from the second quarter of the year. This quick increase led to significant operational disruptions at Schiphol Airport. The Board of Managing Directors updated the Supervisory Board on a structural basis about the situation at Schiphol Airport. The Supervisory Board stressed the need for a sustainable solution and assessed the Board of Managing Directors' actions towards Schiphol Airport and other stakeholders.

During the year, the Supervisory Board was updated on the projects to improve customer satisfaction. The Supervisory Board underscored that KLM should continue to enhance its product quality in order to keep excelling in the highly competitive market. In this context, the Supervisory Board concurs with the Board of Managing Directors that changing customer behaviour requires KLM to adapt its network, product and service. In 2022, the Supervisory Board followed the continuing fleet renewal, the launch of the Premium Comfort Class on the Boeing 787 and Boeing 777 fleet and the cooperation with Thalys on the Air-Rail product. In that regard, the Supervisory Board welcomed the news, that KLM won the APEX World Class Award 2023, which is a recognition for KLM's efforts on service, guest experience, safety and sustainability.

Coming from a very intensive COVID-19 period, the operational situation at Schiphol Airport tested the resilience and flexibility of KLM's employees. In addition, the strong rise of inflation in the Netherlands on top of KLM employees' contributions as part of the Dutch State support package, severely affected people's purchasing power. Therefore, the Supervisory Board endorsed the Board of Managing Directors' efforts to improve the employee's working conditions, including financial compensation. However, at the same time, the Supervisory Board urged that macro-economic uncertainties require strong cost control. The Supervisory Board welcomed that despite this challenging context, Collective Labour Agreements (CLAs) have been concluded with Cockpit, Cabin and Ground unions.

In addition to the CLAs negotiations, the Supervisory Board closely followed the Board of Managing Directors' actions on other topics related to KLM's role as employer. The Supervisory Board approved the further development of the Blue Base Campus program, which was paused during the pandemic. Furthermore, the Supervisory Board was regularly updated on the status of the Chromium-6 file and noted that a collective compensation scheme has been finalised in 2022.

Early 2022, the Supervisory Board announced that, after close consultation with Pieter Elbers, it has established that he will not enter into a third term as CEO & President of KLM. Furthermore, Mr. De Groot informed the Supervisory Board on his resignation as Managing Director and COO. Following these developments, the Supervisory Board carefully worked on the selection of new candidates for the positions of President & CEO and COO. With the assistance of the Board's Nomination Committee, the Supervisory Board prepared a proposal to the General Meeting of Shareholders. At the Annual General Meeting of Shareholders of May 2, 2022, Marjan Rintel was appointed as Managing Director. Effective from July 1, 2022, she succeeded Pieter Elbers as President & CEO. At the Extraordinary General Meeting of Shareholders of December 5, 2022, Maarten Stienen was appointed as Managing Director. Maarten Stienen succeeded René de Groot as COO. On behalf of the Supervisory Board, I would like to thank both Pieter Elbers and René de Groot for their excellent leadership and contributions to the company.

Throughout the year, the Supervisory Board and the Board of Managing Directors regularly assessed opportunities on strategic partnerships based on the consensus that it is essential to continuously improve and extend KLM's position in the market. The Supervisory Board deliberated on the collaboration between AIR FRANCE KLM Martinair Cargo and CMA-CGM. During various meetings, the Supervisory Board challenged the Board of Managing Directors to have a clear view on the contribution of this partnership to KLM cargo's position at Schiphol Airport. Following extensive discussions on the matter, the Supervisory Board approved the partnership agreement with CMA-CGM.

During the year, the Board of Managing Directors reported on the fleet development strategy. As regards KLM Cargo's full freighter fleet, the Supervisory Board critically reviewed the intention to replace the four Boeing 747 full freighters by four Airbus A350F full freighter aircraft. Within this context, the Supervisory Board underscored the importance of having a sharp eye on the evolution of the cargo market in the coming years. Regarding the medium-haul fleet, the Supervisory Board was intensively involved in the engine selection for the Airbus A320/A321neo family. KLM's sustainability ambitions emerged as a constant in the Supervisory Board's deliberations on fleet and engine choices.
As from June 2022, the Board of Managing Directors structurally informed the Supervisory Board on the Dutch Government's decision to reduce the number of movements from 500,000 to 440,000 per year. The Supervisory Board shares the Board of Managing Directors' analysis that such reduction will severely affect KLM's competitiveness and ability to invest in the transformation to a sustainable aviation.

The Supervisory Board therefore fully supports the Board of Managing Director's efforts taken with other national and international stakeholders.

Throughout the year, the Supervisory Board received updates on the developments at AIR FRANCE KLM Group and Air France. Other topics discussed during the financial year, some of which are recurring, were the safety performance, competitive landscape and the relations with internal and external stakeholders.

Financial topics

Since the emergence of the pandemic, the Board of Managing Directors and the Supervisory Board have taken radical decisions on cost saving. In addition, the Dutch State support package of EUR 3.4 billion in total was concluded in 2020 to deal with the deteriorated financial situation. KLM drew EUR 942 million under this support package. Following the structural relief of border restrictions worldwide, KLM realised a solid financial recovery in 2022 in spite of several challenges. This enabled KLM to fully repay the EUR 942 million. However, the Dutch State support package is still in place, which means that KLM is able to draw from it if the financial situation so requires.

A strong cost increase due to unprecedented inflation levels, supply chain challenges and a tight labour market in the Netherlands was observed in 2022. The Supervisory Board closely monitored the Board of Managing Directors' cost saving measures, which are necessary to remain competitive. Discussions with the State Agent on the manageable cost target as agreed under the Dutch State support package continued in 2022.

Despite the trend of recovery, the Supervisory Board and the Board of Managing Directors agree that a challenging geopolitical and macro-economic reality is ahead of us. Hence, during the budget 2023 discussions, close attention was paid to a potential recession, the possibility of higher fuel prices and a continuation of operational issues. In this context, the potential financial implications of the envisaged reduction of slot capacity has also been on the agenda. The Supervisory Board emphasised the importance of building the necessary flexibilities in the budget in order to adapt to potential headwinds in 2023 and thereafter.

Risk management

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

During the financial year 2022, the Supervisory Board was regularly updated on KLM's strategic, financial, operational and compliance risks. Particular attention was paid to the macro-economic developments with risks of higher interest rates, inflation, geopolitical instability and recession. Within this context, the Supervisory Board discussed with the Board of Managing Directors the biggest risks and the shift of these risks during the crisis.

Compliance and business ethics

Within the Company's Legal and Business Ethics Compliance Framework and the Compliance Charter, the Supervisory Board monitored KLM's compliance with rules and regulations. During the February and July meeting, the Supervisory Board was updated on the main compliance activities. The Supervisory Board was informed about the various eLearning programs in the fields of competition law, anti corruption and trade sanctions.
Furthermore, the Board reported on KLM's actions regarding unwanted behaviour. Also, the Board of Managing Directors updated the Supervisory Board on the main investigations and litigations.

Composition of the Supervisory Board

Effective as per the Annual General Meeting of Shareholders of 2022, Mrs. Pellerin has been reappointed as Supervisory Board member for a second term of four years, in accordance with the proposal of AIR FRANCE KLM. During the same meeting, I have been reappointed for a third term of two years, in accordance with the Works Council's enhanced right to recommend a candidate. The Supervisory Board concluded that continuity is considered to be necessary in view of the challenges KLM is facing, which explains the reappointment for a third term.
The current term of Mrs. Vos, Mr. De Jager and Mr. Smith will end as per the closure of the Annual General Meeting of Shareholders in April 2023. For the position of Mr. Smith, AIR FRANCE KLM has the right to propose a candidate. For the position of Mrs. Vos, the KLM Works Council has the enhanced right to recommend a candidate. See chapter 'Supervisory Board and Board of Managing Directors' for the composition of the Supervisory Board.

Independence

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

Committees

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

Audit Committee

In 2022, the Audit Committee held three regular meetings and two extraordinary meetings. The majority of the Audit Committee meetings were held via video call.

Except for one member, all members of the Audit Committee attended all of the meetings. Furthermore, the Chief Financial Officer, the Vice President Internal Audit, the Senior Vice President Corporate Controller and the external auditors also attended all Audit Committee meetings. Senior managers and other experts within KLM were invited to Audit Committee's December meeting. The State Agent, responsible for monitoring the execution of the Restructuring Plan, has a standing invitation to attend the Audit Committee meetings.

The meeting held in February 2022, primarily focused on KLM's financial results for 2021. Furthermore, the Audit Committee discussed the KLM Group operational risk report and the internal audit activity report for the period July-December 2021.
In April 2022, the Audit Committee organised an extraordinary meeting to discuss the external KPMG/Deloitte 2021 statutory audit report. During this meeting, the Audit Committee also discussed the final version of KLM's annual report for 2021.
During the July 2022 meeting, the Audit Committee discussed KLM's first half-year results. Particular attention was paid to manageable cost reductions. Furthermore, the KPMG Accountants N.V. and PricewaterhouseCoopers Accountants N.V. (KPMG/PwC) audit plan for financial year 2022 was discussed and approved by the Audit Committee.

In anticipation of the Supervisory Board's December meeting, the Audit Committee held an extraordinary meeting in November 2022. During this meeting, the Audit Committee focused on KLM's 5-year financial plan. The Chairman of the Supervisory Board also attended this meeting.

The meeting held in December 2022, was dedicated to discussing the Budget 2023 and the financing and financial risk plan for 2023. The Audit Committee also discussed fuel hedging and Sustainable Aviation Fuel. Furthermore, the 2022 management letter of the external auditors was discussed. The February 2023 Audit Committee meeting focussed on the KLM's financial results of 2022. In March 2023, the Audit Committee organised an extraordinary meeting to discuss the KPMG/PwC statutory audit report and the final version of KLM's Annual report for 2022.

Remuneration Committee
In 2022, the Remuneration Committee convened for five meetings in 2022. All members attended all meetings. Further information on the work of the Remuneration Committee can be found in the Board and Governance and the Remuneration Policy and Report chapter of this annual report.

Nomination Committee
In 2022, the Nomination Committee met on seven occasions during the financial year 2022. During these meetings, the composition of the Supervisory Board and the Board of Managing Directors, including succession planning, was discussed. In particular, the Nomination Committee intensively prepared the successions of Mr. Elbers and Mr. De Groot.

Within this context, the Nomination Committee advised the Supervisory Board on the candidate profiles where the challenges ahead have been taken into account. Following an extensive candidate research, Mrs. Rintel and Mr. Stienen were selected as the candidates for the positions of Managing Director. See also paragraph 'highlights 2022' for further information.

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.

As part of the Dutch State support package of EUR 3.4 billion, the Dutch State imposed that no dividend may be distributed to the shareholders during the term of the State support. In addition, KLM received NOW support during the first quarter of 2022, which also prohibits a distribution to the shareholders.

Financial statements 2022
The Supervisory Board hereby presents the annual report and the financial statements for financial year 2022. KPMG and PwC have audited the financial statements. The Supervisory Board has discussed the financial statements and the annual report with the external auditors and the Board of Managing Directors. The unqualified auditors' report can be found in the Other Information section of the financial statements.

The Supervisory Board is satisfied that the annual report and the financial statements comply with all relevant requirements and proposes that the shareholders adopt the financial statements and endorse the Board of Managing Directors' conduct of KLM Group's affairs and the Supervisory Board's supervision thereof in financial year 2022.

Closing remarks
After a long period of uncertainty caused by the pandemic, in 2022 KLM embarked on the road of recovery. The Board remains thankful to the Dutch State for the broad financial support, which helped KLM to weather the COVID-19 pandemic.

In 2022, the Board closely followed the unprecedented efforts of the entire organisation to deal with the challenges faced throughout the year.

I am confident that with the dedication and resilience of our colleagues, KLM will be able to adapt to new realities in the next years.

I hereby would like to express my gratitude to the Board of Managing Directors, the Executive Team and all colleagues around the world for their hard work and loyalty during 2022.

Cees 't Hart
Chairman

March 31, 2023

Remuneration report and policy

In 2022, KLM could still rely on the Dutch State support package. In addition, NOW was received in the first quarter of 2022. Therefore, as was the case in 2021 and 2020, KLM's remuneration policy was also not applicable in 2022. As a result, this chapter only considers the remuneration for 2022 in the context of the conditions set by the State for the support package and the NOW. A summary of the regular remuneration policy is included at the end of this chapter.

Remuneration 2022

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

The total remuneration of each of the Managing Directors was in compliance with the aforementioned condition. No short-term incentive and long-term incentive in 2022 were awarded.

Details of the remuneration received by the individual members of the Board of Managing Directors are provided in note 33 of the financial statements.

Base salary

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

Upon joining on July 1, 2022, Mrs. Rintel's base salary was set at the same level as the previous CEO at EUR 600,000 per calendar year. She therefore received a base salary of EUR 300,000 for the year 2022. Mr. Swelheim's base salary was EUR 406,453 in 2022. Upon his appointment as COO, Mr. Stienen's base salary was set at EUR 330,000 per calendar year, hence he received a base salary from the date of his appointment (September 1, 2022) of EUR 110,000.

Short-term incentive plan

As per the conditions attached to the Dutch State support package, no short-term incentive has been awarded in 2022 under KLM's short-term incentive plan.

Long-term incentive plan

As per the conditions attached to the Dutch State support package, no phantom shares have been granted in 2022 under KLM's long-term incentive plan.

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 (annualised for the current CEO) and the average annual total compensation for an employee of KLM was 7.7 for the 2022 financial year, which is in line with the pay ratios of 2021 (8.1) and 2020 (7.6) and well below the ratios at peer companies in the Netherlands. The annual total compensation includes base salary, variable income (if any) and pension benefits. KLM will continue to monitor and disclose the development of this ratio.

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

Remuneration policy for the Board of Managing Directors
For the third year in a row, the execution of the remuneration policy is affected by the conditions imposed by the State in connection with the financial support package. Therefore, the existing policy has not been applied in 2022 with respect to the variable income (both short term - and long term incentive). For the sake of completeness, a summary of the policy, has been included in this annual report.

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

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

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

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

1. Base salary (which is set at around the median of the market, taking into account external reference data as well as requirements and responsibilities of the Managing Directors' position);
2. Short-term incentive in cash related to performance in the past financial year; and
3. Long-term incentive in the form of phantom shares, and, in addition for the CEO, partially also in AIR FRANCE KLM shares, based on a percentage of the base salary, related to certain pre-determined financial and non-financial targets.

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

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

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

In line with the fiscal regime, pensionable income is capped at EUR 114,886 (2022). 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 114,886, 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 term of four years. With regard to the current members of the Board of Managing Directors:

- Mrs. Rintels' employment contract contains a fixed-term appointment clause as a board member for a period of four years until the Annual General Meeting of 2026;
- Mr. Swelheim's employment contract of indefinite duration contains a fixed-term appointment clause as a board member for a period of two years until the Annual General Meeting of 2024;
- Mr. Stienen's employment contract of indefinite duration contains a fixed term appointment clause as a board member for a period of four years until the Annual General Meeting of 2027.

Severance pay

In case of newly appointed members of the Board of Managing Directors from 2022 onwards, severance pay in the event of dismissal has been capped at one year's base salary. In case of newly appointed members of the Board of Managing Directors until 2022, the severance pay in the event of dismissal may be set at a maximum of two years' base salary.

Remuneration policy for the Supervisory Board

Remuneration policy

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

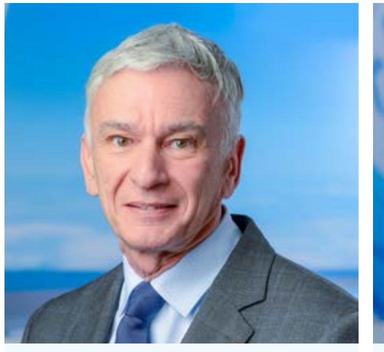
Remuneration 2022

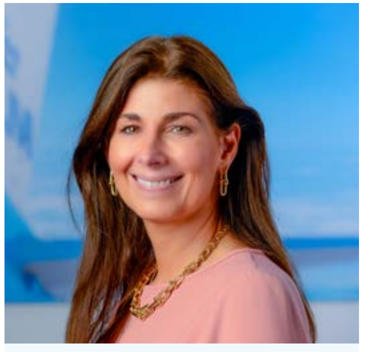
The remuneration for the Supervisory Board is as follows: The fixed fee payable for services amounts to EUR 42,500 for the Chairman and EUR 26,500 for the other members of the Supervisory Board. The fee per meeting of the Audit Committee attended amounts to EUR 2,000 for the Chairman of the committee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

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

Supervisory Board

(situation as per December 31, 2022)

					
	Cees 't Hart Chairman	**François Enaud**	**Jan-Kees de Jager**	**Christian Nibourel**	**Marjan Oudeman**
	1958, Dutch	1959, French	1969, Dutch	1958, French	1958, Dutch
Appointed upon recommendation of	KLM's Works Council	AIR FRANCE KLM	–	AIR FRANCE KLM	KLM's Works Council
First appointment/ current term	2014 / 2022 - 2024	2016 / 2020 - 2024	2019 / 2019 - 2023	2020 / 2020 - 2024	2021 / 2021 - 2025
Current function/ Supervisory Board memberships and former functions	» CEO Carlsberg Group » Former CEO of Royal Friesland Campina » Former SVP Marketing Operations Unilever Europe	» President FE Development » Vice President GSF » Board Member of Talan, Visiativ, Taleo and Erium » Managing Partner of Towerbrook and Omnes Capital » President of ANSA » Former Group CEO Sopra Steria Group	» President and investor at Easygenerator » Investor and strategic advisor at Sana Commerce » Former CFO and member of Board of Managing Directors of Royal KPN N.V. » Former managing partner and CEO of ISM eCompany	» Chairman of Association de Garantie des Salaires » Former Chairman of Greater Paris Investment Agency » Chairman of INSA-Lyon (Engineer School) » Chairman of ESSCA (Management School) » Board Member of SMILE » President OneUp » Former CEO Accenture France Benelux	» Member of the Boards of UPM-Kymmene Corporation, SHV Holdings N.V., Solvay SA » Former President of the Executive Board of Utrecht University » Former member of the Board of Statoil ASA/Equinor ASA » Former member of the Executive Committee of Tata Steel

				
	Fleur Pellerin	**Pierre François Riolacci**	**Benjamin Smith**	**Janine Vos**
	1973, French	1966, French	1971, Canadian	1972, Dutch
Appointed upon recommendation of	AIR FRANCE KLM	AIR FRANCE KLM	AIR FRANCE KLM	KLM's Works Council
First appointment/ current term	2018 / 2022 - 2026	2016 / 2020 - 2024	2019 / 2019 - 2023	2019 / 2019 - 2023
Current function/ Supervisory Board memberships and former functions	» CEO Korelya Capital, Korelya Consulting and Korelya Fondateurs » Board Member of Devialet » Board member of Ledger » Board member of Synapse Medicine and Finn » Director of Talan » Director of Stanhope » Director of Gaumont » Director of Eutelsat » President of Canneseries Festival	» EVP Finance, CSR, Procurement of Engie » Former CEO Europe of ISS World Services » Former Group CFO of ISS World Services » Former CFO of AIR FRANCE KLM » Former CFO of Veolia	» 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	» Member of the Managing Board and CHRO of Rabobank » Member of the Advisory Board Topvrouwen.nl » Member of the Advisory Board Social Capital » Former CHRO of Royal KPN N.V.

Board of Managing Directors

(situation as per December 31, 2022)

Marjan E.F. Rintel

President and
Chief Executive Officer

1967, Dutch

First appointment/ current term: 2022 / 2022 - 2026

Maarten P.A. Stienen

Managing Director and
Chief Operating Officer

1974, Dutch

First appointment/ current term: 2022 / 2022 - 2027

Erik R. Swelheim

Managing Director and
Chief Financial Officer

1965, Dutch

First appointment/ current term: 2014 / 2022 - 2024

Company secretary & General counsel

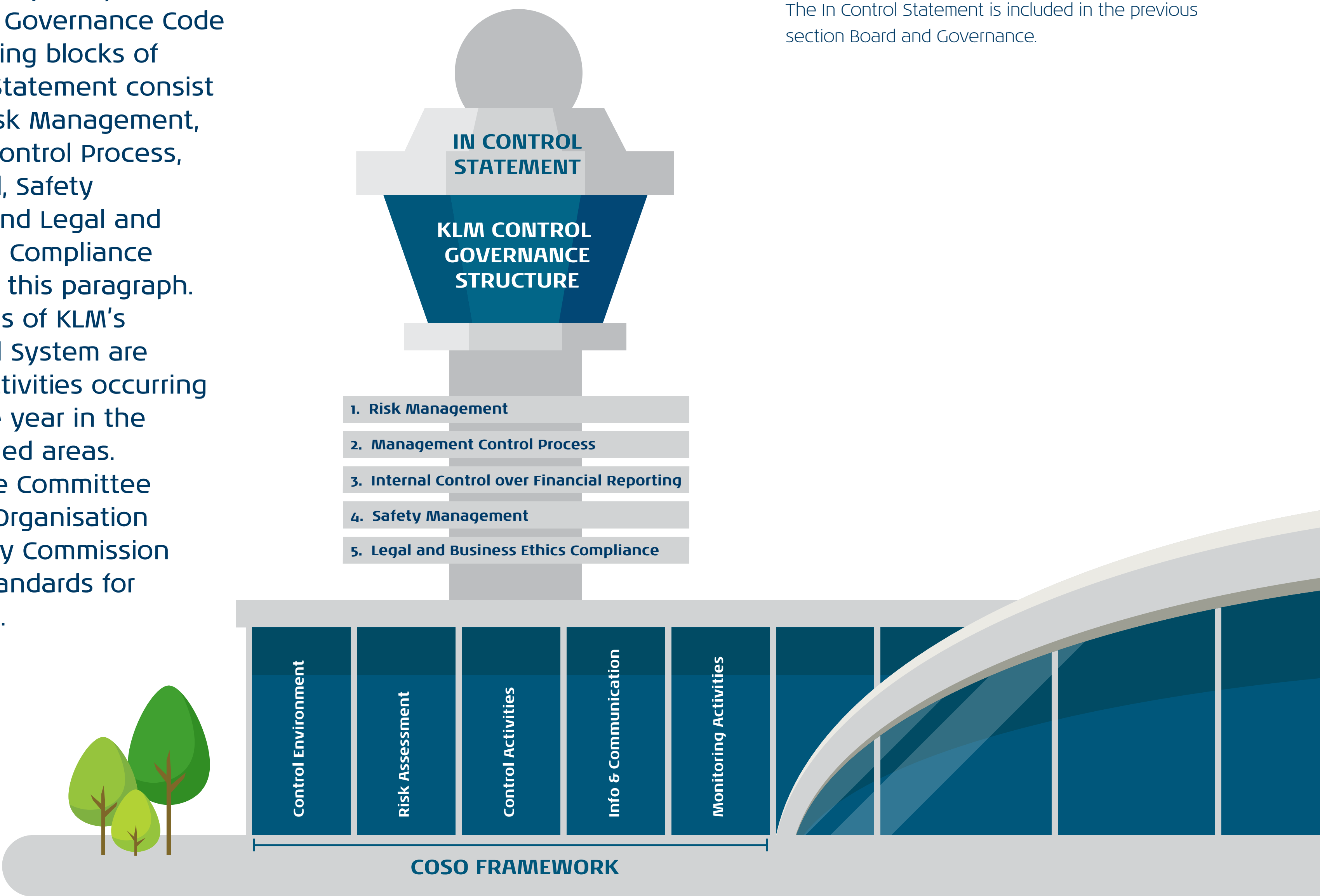
Barbara C.P. van Koppen

1966, Dutch

Risk management and control

Risk management and control

KLM's In Control Statement stems from our voluntary compliance with the Dutch Governance Code 2016. The building blocks of the In Control Statement consist of the areas Risk Management, Management Control Process, Internal Control, Safety Management and Legal and Business Ethics Compliance as described in this paragraph. The foundations of KLM's Internal Control System are the ongoing activities occurring throughout the year in the above-mentioned areas. KLM applies the Committee of Sponsoring Organisation of the Treadway Commission (COSO) 2013 standards for internal control.



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

1. Risk management

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

Risk profile

The airline industry is a cyclical, capital and labour-intensive business with high levels of fixed cost and relatively small margins. Additionally, the airline industry has to deal with strongly fluctuating oil prices and currencies, high inflation, supply chain challenges, a tight labour market as well as with increasing numbers of laws and regulations, for instance in the areas of compliance, environment, flight safety, security and passenger rights. KLM is recovering from the impact of the COVID-19 crisis which has had an adverse impact on KLM's financial position. KLM is fully aware of this risk profile and has a risk management process and internal control monitoring in place to manage this profile.

Risk appetite

The risk appetite of KLM differs per risk type:

- Strategic risk: a revised purpose, 'creating memorable experiences on the planet we care for', taking and accepting strategic risks is inevitable;
- Operational risk: KLM's operations are diverse. KLM accepts zero risks in the field of flight safety and operational safety, other operational risks are considered in view of the (daily) business;
- Compliance risk: KLM is averse to risks that could jeopardise compliance with applicable external laws, and internal rules and regulations; and
- Financial risk: KLM is averse to risks that could endanger the integrity of finance and reporting.

Risk management process

KLM has implemented a system to identify, analyse, monitor, manage and control risks, which is in line with international risk management standards (COSO Enterprise Risk Management) and complies with the risk management part of the 8th EU Company Law Directive. The execution of the risk management process is supported by the strategic and operational risk mapping processes and have been established by all the relevant entities. The fraud risk management process was also performed in 2022 using a completeness check list and a modified fraud tree.

Twice per year, the most significant strategic, operational, compliance and financial risks are presented to the Board of Managing Directors, the KLM Executive Team and the KLM Supervisory Board.

1.1. Strategic risks

Competition from other transport operators and passenger demand

Risk: On its short and medium haul flights to and from the Netherlands, KLM competes with alternative means of transportation. Furthermore, KLM faces competition from low-cost airlines for European point-to-point traffic. KLM expects downward pressure on airfares in Europe to continue due to further competition from low-cost airlines. On its long-haul flights, KLM competes with a multitude of airlines. Non-EU airlines operate under different regulatory and state aid regimes that allow them to compete successfully in the global market and with lower cost bases. Furthermore, after emerging from the COVID-19 pandemic, the existing capacity of Middle Eastern carriers and the already visible accelerating growth of Turkish and expected growth from Chinese carriers will further increase the imbalance between supply and demand to and from the East and South East Asia.

Passenger demand increased during the year 2022 but business demand and traffic to and from Asia (mainly due to China's ongoing COVID-19 restrictions) stay behind pre-COVID-19 levels.
The resulting growth in the near future can differ per continent, with respect to demand, the business/ economy class mix and competitive positioning.

Mitigating action(s): Network, sales and revenue management are involved to mitigate the risks.
This includes relevant joint ventures and partnerships, flexibility in network, balancing market share and pricing, adaptation of frequent flyer programs and corporate contracts (e.g. SAF contracts).

Cargo market

Risk: The year 2022 was still a good year for the air cargo markets in general and KLM in particular. Downward pressure on yield and traffic is expected due to a further increase of cargo capacity, an improved availability of alternative means of cargo transportation and slowing market demand.

Mitigating action(s): KLM addresses the cargo risks by further enhancing the connection to the customers, supported by digital solutions, revenue management and structural reductions of unit costs.

KLM transported Brunel's equipment for the 2022 Sasol Solar Challenge in South Africa. The students from Delft became the first 'rookie' team to win this race.

Jet fuel

Risk: Jet fuel is one of the largest cost items for an airline. The volatility of oil prices, but also the availability of jet fuel therefore represents a material risk for KLM. Both an increase and decrease of the oil price may have a material impact on profitability. The war in Ukraine led to a global energy crisis, where the supply of oil is at risk, leading to additional costs to get access to fuel. Furthermore, any change in the US dollar/euro exchange rate also results in volatility in the fuel expenses.

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

Securing the supply of fuel is key, therefore KLM spreads the supply risk as much as possible amongst multiple suppliers whilst having flexibility on the method of supply to our hub.

Terrorist attacks, geopolitical instability and epidemics

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

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

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

Loss of airport slots or lack of access to flight slots

Risk: Due to congestion at major European airports, including Schiphol Airport, all air carriers must obtain airport slots, which are allocated in accordance with the terms and conditions set out in EU Council of Ministers Regulation 95/93. Pursuant to this regulation, at least 80 per cent of airport slots held by an air carrier must be used during the period for which they have been allocated. Unused slots will be lost by the relevant carrier and transferred into a slot pool. Any loss of airport slots or lack of access to airport slots due to airport saturation could negatively impact market share, results or even future development. Furthermore, the current number of allowed Aircraft Traffic Movements at Schiphol Airport is under discussion linked to the environmental permit. In addition, capacity constraints resulting from a situation of not being able to attract the sufficient amount of staff to run the operation forms a risk in safeguarding the slot portfolio. For outstations the post COVID-19 period forces us to take up our previous slots again. This is applicable in Asia as well as in Europe.

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 Airport has reached the maximum capacity, agreed in the 2008 Alders Agreement. Therefore access to new airport slots will be limited. At the start of the COVID-19 pandemic, the EU Council of Ministers decided on an exemption to the 80/20 utilisation rule, but expectation is that these exemptions / waivers will disappear in 2023 due to the return to a more standard business operation again.

Consumer compensation regulations

Risk: Many states have adopted legislation on passenger rights to determine rules for compensation and assistance in the event of irregularities (cancellation, delay, denied boarding downgrading). Passenger rights in the European Union are defined by regulation EU 261/2004, which is applicable to all KLM flights departing from or to the EU. Interpretation differs per EU jurisdiction and the European Commission published a proposal to amend the regulation issued in March 2013. The amendment however has been held off, as review is being postponed by the Council of the EU. Given public sentiment, operational problems at Schiphol Airport and other EU airports and consumer oriented approach by EU institutions, opening up the regulation also creates the risk that it will involve stricter rules on compensation on air carriers. KLM is now being confronted with many claims and court cases due to the situation at Schiphol Airport and our own operational restrictions due to (the ad hoc and planned) cancellations of flights. This relates to passengers' right to receive a refund of their ticket, within seven days (after cancellation by the airline) and flight schedule changes or cancellations in which the passenger was notified less than 14 days in advance. Almost all National Enforcement Bodies (NEBs) within the EU – and many within other jurisdictions based on their regulations – have expressed their intent to enforce these rules by way of penalties. The Dutch NEB has already done so and the US Department of Transport has announced its intention to impose a fine.

Mitigating action(s): KLM actively supports a global standardisation of passenger rights; also in light of a level playing field and the competitive position of EU carriers. There is continuous monitoring and advocacy for more balanced regulation, both on airline and consumer side. KLM defends itself against imposed fines and has a pragmatic handling of claims and court cases.

Competition, customer and financing risks E&M

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

Leveraging the power of big data, KLM replaces aircraft components before they actually fail, increasing reliability and reducing time aircraft spend on the ground.

Loss of current and future turnover may occur, due to deferred or partial payments by customers resulting from COVID-19, the war in Ukraine, unprecedented hyperinflation or rising (energy) cost (due to Chapter 11 or bankruptcy of customers). Higher costs are associated with the Boeing 787, due to reliability issues. Staff shortages can be a large obstacle in carrying out our business activities and ambitions. Finally, a shortage exists of materials and components in all units, due to parts shortage, manpower shortage and worldwide supply chain distortion.

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

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

Risks linked to the environment

Risk: There is increasing public pressure on the airline industry to reduce their environmental impact. KLM has a responsibility towards its customers, employees, its home base in the Netherlands and the world beyond. The air transport industry must manage its impact on the environment and is subject to numerous environmental laws, regulations and financial measures covering carbon emissions, such as the Dutch Aviation Act ('Luchtvaartnota'), ReFuelEU, the EU Emission Trading Scheme and CORSIA.

Mitigating action(s): KLM has formulated a comprehensive strategy to become more sustainable with clear targets and timelines. One of our most important goals is to reduce our CO_2 emissions by 30% per RTK in 2030. In 2022, KLM's target has been validated by the Science Based Targets initiative to put its ambitions in line with the goals of the Paris Agreement. In order to realise these ambitions, KLM is acting to reduce its fuel consumption and carbon emissions by:

- Fleet renewal, improved fuel management, continuous reductions in weight carried and improved operating procedures;
- Scaling up the use of sustainable aviation fuel (SAF);

- Support for research on alternative transport modes and aircraft design at the Delft University of Technology, and developing low carbon alternatives for the KLM network; and
- Cooperation with the relevant national, European and international authorities, e.g. on optimisation of traffic control.

The Dutch Aviation Act ('*Luchtvaartnota*') sets out a vision including related policy covering carbon emissions, local emissions and noise. In addition, aviation is subject to laws on aircraft noise and engine emissions, the use of dangerous substances and the treatment of waste and contaminated sites. Over the last few years, the Dutch and European authorities have adopted various measures, notably regarding noise pollution and obligations for the airlines to ensure compliance of their operations.

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

KLM is further subject to the European Union Emission Trading Scheme (EU ETS), implemented by the European Commission and covering emissions from flights within Europe. CORSIA, the global climate agreement for international aviation, came into effect in 2021. KLM has set a strategy to reduce its fuel consumption and defined targets towards 2030 to reduce the carbon footprint from its operations. This will reduce exposure to both ETS and CORSIA. In addition, KLM hedges the EU ETS price two years forward to limit the price volatility.

Risks linked to labour cost and labour disruptions

Risk: In 2022, KLM and all unions have renegotiated the Collective Labour Agreements (CLAs) for ground staff, cockpit crew and cabin crew. The duration of these CLAs is until March 2023. New CLAs have to be negotiated with the unions in 2023, in a context of high inflation and shortages on the labour market (mainly production and IT staff). The outcome of these negotiations is unknown.

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

1.2. Operational risks

Safety and security and airline accident risk

Risk: Safety and security are fundamental elements of KLM operations and essential to our customers, our employees, our environment and therefore KLM's future. KLM is committed to maintaining the highest level of safety and security.

Mitigating action(s): KLM builds upon the best safety and security practices through a Safety Management System (SMS), a working environment of continuous learning and improvement and independently positioned oversight of the four safety domains: operational, occupational, environmental safety and operational security.
The pandemic has prompted KLM to re-engineer its procedures in order to operate in a safe way for its customers, employees and the environment. This includes continuous adaption to all restrictions imposed by local governments and agencies within the operation based on the result of safety studies and risk analysis.

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

In addition to this regulatory framework, IATA member airlines need to meet the requirements for IATA Operational Safety Audit certification (IOSA). The IOSA audits for the renewal of KLM's and KLM Cityhopper's certification were carried out at the end of 2020 and resulted in the renewal of the certificates in March 2021 with validity until March 2023.

Operational integrity

Risk: Operational integrity is one of the essential conditions for success in the airline industry. Airline operations are sensitive to disruptions because delays reduce the quality of the network and are costly. Air transport depends, among others, on meteorological conditions, which can lead to flight cancellations, delays and diversions. Adverse weather conditions such as heavy fog and heavy storms may require the temporary closure of an airport or airspace and thus lead to significant cost (repatriation and passenger accommodation, schedule modifications, diversions, etc.). The risk of closure of destinations due to COVID-19 has decreased but new risks have emerged. The unavailability of KLM and/or Amsterdam Airport Schiphol staff and fleet not being available mainly due to supply chain issues could threaten our operational integrity.

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

IT risks and cybercrime

Risk: The IT and telecommunications systems are of vital importance to day-to-day operations. They comprise the IT applications in the operating centers that are used through the networking of tens of thousands of different devices. The number of cloud providers, and thus dependency, is increasing, as well as virtualization of and transformation towards 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 from both inside and outside the organisation concerning continuity of functioning, data security and regulatory compliance. The cybercrime program covers the prevention and detection procedures such as cyber threat surveillance, evaluations of information system security and tests to pinpoint any information system incursions via the internet. The threats and number of attacks are increasing. The fast-moving technologies of this risk means that the AIR FRANCE KLM Group will always retain a certain level of vulnerability.

Mitigating action(s): The secure functioning of IT systems is continuously monitored, and vulnerabilities are addressed. The related processes are regularly evaluated and adapted to the changing risk scenario. Tools, services and security rules have been implemented to prevent and respond to cyberattacks and to reduce the risks linked to new technologies, (mobile) devices and data. The access controls to IT applications, to the computer files at each workstation together with the control over the data exchanged outside the company are in line with international standards. Dedicated help centers and redundant networks guarantee the availability and accessibility of data, IT systems and that they stay reasonably safe by integrating cybersecurity into business contingency, investing in qualified staff and in the AIR FRANCE KLM cybercrime program. Where appropriate, activities are further strengthened such as patch management, monitoring of cloud usage, end-point detection and response tooling for devices like workstations, laptops and servers. The IT Security Operating Center has grown, and a dedicated cyber threat hunting team is set up.

Furthermore, the exchange with our subsidiaries about cyber defense has increased and CIO/IS is working with procurement and business departments to review the cyber security risk impact in the supply-chain. Due to COVID-19 many qualified people have left the IT department. After COVID-19 we see activities rapidly scaling up but attracting and securing the right staff takes time, which puts pressure on a timely remediation of issues from control testing and audit findings.

Risks linked to availability of production staff and fleet availability

Risk: KLM's recovery plan and growing network requires increased staff resources. KLM and/or Schiphol airport face the risk of not having the required number of staff due to e.g. absenteeism and shortages on the labour market. Due to technical quality and supply chain issues our fleet availability is under pressure.

Mitigating action(s): Multiple initiatives within KLM and with suppliers to increase availability of staff. Lease extensions are evaluated to limit the risk of fleet not being available. The network schedule is redesigned to be balanced with the available resources.

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

Risk: KLM's activities depend in part on services provided by third parties, such as air traffic controllers, airport authorities and public security officers. KLM also uses suppliers, which it does not directly control, such as aircraft handling, maintenance, catering and fuel supply companies. Any interruption in the activities of these third parties or any increase in taxes or prices of the services concerned could have a negative impact on KLM's activity and financial results. Additionally, KLM could suffer reputational damage in case a supplier violates a sustainability principle. KLM must further

The use of drones enables us to better monitor the condition of our fleet and therefore we can make better decisions that lead to a better fleet availability.

comply with trade sanctions applied by various countries. Incorrectly applying these policies can result in financial or other penalties. KLM is confronted with pressure on services provided by suppliers due to various disruptions in supply chains and shortages of especially manpower in most markets. Also, KLM is confronted with strongly increasing prices for a range of services.

Mitigating action(s): In order to secure the supply of goods and services, contracts signed with third parties include, whenever applicable, clauses for services, continuity and responsibility. The financial health of key suppliers in core operational categories, such as airport and inflight services is followed on an ongoing basis. Additionally, business continuity plans have been developed to ensure the long-term viability of all commercial and operational activities.

To mitigate sustainability risks, suppliers in categories with a higher sustainability risk, such as the production of inflight hardware, are being assessed by a specialist rating agency. KLM's Code of Conduct is added to our standard contracts to explicitly stipulate and require our high standards of fair and ethical behavior.
A highly demanding supplier registration process has been introduced requiring all kinds of information from suppliers to assess and act on their risk level. E.g. in order to comply with trade sanctions policies KLM has included in its supplier registration process a screening of suppliers on possible trade sanctions.

An 'inflation observatory' has been introduced to identify sources of inflation and to assist with defining alternative actions to control cost increases.
KLM has implemented specific policies to ensure compliance with anti-bribery and corruption laws and regulations. Procurement staff needs to sign a Code of Ethics and conduct anti-bribery courses. Anti-bribery clauses are included in all standard contracts. Contracts are always signed following a 'four eyes' principle; powers of attorney are limited and strictly adhered to.

1.3. Compliance risks

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

Risk: On July 14, 2021, the European Commission presented its Green Deal 'Fit for 55', which contains EU climate proposals that will have a direct and decisive impact on the future of aviation in Europe. It concerns a strengthening of the EU Emission Trading System for aviation, including the proposed phase out of free allowances, a proposal for an EU Sustainable Aviation Fuels (SAF) mandate and the proposed introduction of an EU kerosene tax. EU negotiators have reached a balanced deal on the EU ETS reform, and the other proposals are still in the final phase of negotiations with the Council (27 EU Member States) and the European Parliament before the EU plans for decarbonising aviation towards 2050 are final. Moreover, implementation of a Single European Sky is still one of the European Commission's key priorities. The airline industry also closely follows the possible upcoming revisions of passenger rights regulations, the airport charges directive and the slots regulation. At a national level, the Dutch Government in June announced its intention to reduce the number of flight movements at Schiphol Airport from 500,000 to 440,000. The proposed reduction should take effect in November 2023. The Government will first have to notify the European Commission and work towards a new system together with Schiphol Airport and Luchtverkeersleiding Nederland (LVNL).

Mitigating action(s): For KLM it is important to monitor that the implementation of laws and regulations does not lead to a distortion of the level playing field in the airline industry and does not disproportionately impact our industry. KLM, in close coordination with

Air France, actively clarifies its position towards the European institutions and the Dutch Government, both directly and through industry bodies such as IATA, Airlines for Europe (A4E), BusinessEurope, Board of Airline Representatives In the Netherlands (BARIN) and VNO-NCW, regarding changes in European and national regulations.

Risks linked to commitments made by KLM and Air France to the European Commission
Risk: For the European Commission to approve the merger between KLM and Air France in 2004, a certain number of commitments had to be made, notably with regard to the possibility of making landing and take-off slots available to competitors at certain airports. The fulfilment of these commitments should not have a material impact on the activities of KLM and Air France.

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

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

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

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

Mitigating action(s): A governance structure is in place, in which privacy is the responsibility of the business with support from the Corporate Privacy Office. KLM staff is considered to be the first line of defense against any non-compliance risk. Training and awareness and a strong 'tone from the top' were and will remain key to further bolstering our defenses. The Privacy Office, being the second line of defense, provides policies, standards and the necessary expert advice. Internal audit, the third line of defense, performs privacy compliancy audits to identify independently any room for improvement of compliancy.

KLM must be able to demonstrate compliance and, to that aim e.g., performs and registers Data Protection Impact Assessments (DPIA), maintains a processing register, implements a data protection policy, keeps a data breach register, puts contractual agreements in place with processors and employs a Data Protection Officer.

Following the Schrems II court case, Data Transfer Impact Assessments (DTIA) are performed for data transfers to outside the European Economic Area to countries without an EU adequacy decision, to determine whether additional technical, organisational or contractual measures must and can be implemented to maintain a similar level of data protection. This may be costly and, in those instances where there are no adequate security measures available, data flows may need to be suspended or even terminated. A dedicated project team facilitates the business representatives performing these DTIAs.

Risks linked to non-compliance with antitrust legislation and compliance in general
Risk: KLM and its subsidiaries have been exposed to investigations by authorities alleging breaches of antitrust legislation and subsequent civil claims. Following the annulment on formal grounds of the initial decision of 2010, the European Commission (EC) adopted a new decision on March 17, 2017 and fined the same eleven airlines including KLM, Martinair and Air France, for practices in the air cargo sector that are considered anti-competitive and relate mainly to the period between December 1999 and February 2006. The fine for KLM and Martinair, as announced on March 17, 2017, amounts to EUR 142.6 million. KLM and Martinair appealed this new decision. The General Court of the EU rendered judgment on March 30, 2022 and dismissed the appeals of KLM and Martinair. KLM and Martinair again have appealed the judgment. While the decision is under appeal, there is no obligation to pay the imposed fines. Reference is made to note 23 "Contingent Assets and Liabilities" of the consolidated financial statements.

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

Customs, trade sanctions and export controls

Risk: Possible trade compliance (customs, export and trade sanctions) violations still exist, although several mitigation actions resulting from the export and customs compliance programs have been executed and consequently procedures have been implemented. The main remaining risks are in the unlicensed exports of controlled items, in irregularities resulting from incorrect customs procedures and in the possibility of non-compliance with continuously changing international trade sanctions.
In particular the trade and financial sanctions against Russia in response to the war in Ukraine increased the necessity of organisational awareness and a solid framework of implemented mitigating measures.

Mitigating action(s): KLM has a company-wide corporate trade compliance program in place, which among others entails the Corporate Trade Compliance Policy. This policy describes governance, responsibilities, processes and procedures in relation to customs and export compliance and trade sanctions within KLM.

1.4. Financial risks

Financing Risks

Risk: Among others, KLM finances its capital requirements via secured financing (with aircraft as collateral), through bilateral unsecured term loans with banks and drawn bilateral standby facilities. A portion of KLM's financing consists of perpetual debt that does not have a repayment obligation but qualifies as debt.

On top of that KLM has, after the full redemption of the drawn part in 2022, the availability of the remaining undrawn part of the State Loan and revolving credit facility with State guarantee from the State support package concluded in 2020.

Any long-term obstacle to KLM's ability to raise capital could reduce the borrowing capability and any difficulty in securing financing under acceptable conditions could have a negative impact on KLM's activities and financial results. In addition to refinancing risk, KLM is exposed to financial risks. Market risk and credit risk could have a material negative impact on profitability.

Mitigating action(s): KLM has a policy in place to manage refinancing and financial risks, which are set out in the section "Financial Risk Management" in the notes attached to the consolidated financial statements.

Risks related to transfer pricing

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

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

Risks related to pension plans

Risk: KLM's main commitments in terms of defined benefit schemes as per December 31, 2022 is the KLM UK Pension Scheme based in the United Kingdom. This scheme has been closed to new entrants for many years. As per December 31, 2022, the scheme has a pension asset under IAS 19. Reference is made to note 18 "Provisions for Employee Benefits".

Mitigating action(s): After the derecognition of the main KLM pension plans over the last couple of years, KLM still has some defined benefits schemes in the Netherlands and abroad. Under IAS 19 these remaining defined benefit schemes can create some accounting volatility in KLM's equity, but the related risks are less material. For more information reference is made to note 18 "Provisions for Employee Benefits".

Risks linked to the impact of external economic factors on equity

Risk: KLM's equity became volatile, following the implementation of the revised IAS 19 for pensions, as of January 1, 2013. Besides the results for the year (related to the COVID-19 related net losses in 2020 and 2021) and dividend distributions, which can have an impact on equity, the non-cash impact of "Other Comprehensive Income" coming from the defined pension plans or the changes in the fair value of cash flow hedges (predominantly related to fuel hedges) can have a significant impact on equity.

Following the de-risking of the KLM ground staff pension plan in 2021, the non-cash impact of "Other Comprehensive Income", decreased significantly, but remains for some smaller defined benefit schemes. Please refer to note 10 "Share Capital" and note 11 "Other Reserves" in the consolidated financial statements for more information.

Mitigating action(s): KLM needs to strengthen its balance sheet and equity after the significant impact of COVID-19. As a result of the COVID-19 related net losses in 2020 and 2021 the equity position became negative as at December 31, 2021. Following the 2022 net profit, the December 31, 2022 equity position is positive again. The potential non-cash changes in re-measurements of defined benefit plans, decreased significantly in 2021 but still exist to a lesser extent and changes in fair value of cash flow hedges will remain volatile.

Insurance Risks

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

Mitigating action(s): Many of these risks are mitigated by measures or mandatory insurance. The remaining risks are accepted or insured against. 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. Besides, KLM maintains insurance 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 2022 and various time horizons have been considered and such analysis included trend and scenarios related to shifting of customers' demands, global tensions, the war in Ukraine, trade wars, environmental developments (including the EU Emissions Trading Scheme), high inflation, volatility of fuel prices, tight labour markets and the recovery of the global COVID-19 pandemic. 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 2021 due to a combination of developments and achievements;
- A strong recovery in post-COVID-19 demand for travel as from the first quarter in 2022;
- A strong 2022 operating income, back to pre-COVID-19 level;
- Equity position is positive again at the end of 2022;
- A very strong 2022 positive adjusted free cash flow of EUR 1.5 billion;
- KLM fully repaid the EUR 942 million State aid loans in 2022. As per year-end 2022 KLM can, if necessary, still draw EUR 2.5 billion of the State loan and revolving credit facility;
- Overall gross as well as net debt are significantly lower than at the end of 2021;
- The current macro-economic situation is challenging but positive;
- The supply demand balance is currently very positive but still at a lower supply level than pre-COVID-19, so that increasing cost, including fuel, can be passed on to passengers and cargo customers; and
- KLM revised its purpose, to 'creating memorable experiences on the planet we care for', which clearly embraces KLM's responsibility to become a frontrunner in sustainable aviation and to transform to a net positive company.

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.

KLM's approach to mitigating 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.

With regard to the annual planning horizon, which has most emphasis in the context of this Annual Report, based on all information and analysis available and taking into account the current liquidity position, business outlook, (flexibility in the) investment plan, fuel price sensitivity, availability of funding (KLM can still draw EUR 2.5 billion of the State Aid package as per year-end 2022) and the redemption profile, the Board of Managing Directors concludes, that as per the date of this annual report, there are no triggers that might impair the going concern assumption applicable and as such the going concern assumption is applied.

2. Management control process

2.1. Management control cycle

KLM's organisation is based on the network business, (in which both passenger and cargo activities are combined), E&M, leisure, central staff functions and the subsidiaries controlled by KLM. The KLM budget and five-year plan process is fully aligned with AIR FRANCE KLM on common key assumptions and timing and review meetings. KLM's Corporate Control department manages this process for the three core business units and the most significant subsidiaries, covering the entire business of KLM. A management report is prepared every month by each of the businesses, analysing the monthly development of the financial results in relation to the forecast, budget and previous year. Furthermore, these management reports analyse the operational performance of the company. The management reports are discussed with responsible managers of the businesses and the Board of Managing Directors in regular review meetings. KLM's most significant subsidiaries are monitored through KLM's Corporate Strategy Department on a monthly basis. KLM Board members are represented in the management of the most significant subsidiaries.

2.2. Planning and control process

This process is based on the following three structural procedures:

- The Group Strategic Framework which was updated in July and October in close cooperation with AIR FRANCE KLM and Air France;
- The Corporate five-year plan that translates KLM's vision into growth and investment. The corporate budget for the next financial year is fully embedded in the first year of the Corporate five-year plan. The budget is drawn up on an entity level and consolidated at company level. As mentioned before, this process is fully aligned with AIR FRANCE KLM. The 2023 budget, which is included in the five-year plan, has been approved before the start of the financial year 2023; and
- The regular review meetings on a business level, where the performance of the businesses is evaluated (and updated) in the context of the budget.

2.3. Accounting process and establishment of accounts

The Corporate Control department prepares monthly group financial information based on the information submitted by the businesses and subsidiaries. The AIR FRANCE KLM accounting manual meets the compliance objectives for accounting records. The accounting information feedback from the subsidiaries is required to follow the Group's accounting rules, methods and frames of reference are laid down by the company and presentation of financial statements must be in the format circulated by the Group. The consolidated and company financial statements are submitted twice a year (half-year and year-end) for review by the Vice President Reporting & Control to the external auditors prior to their closure at a summary meeting, and are then forwarded for discussion to the Audit Committee.

2.4. Management reporting process

The Corporate Control department coordinates the company's reporting process. At the beginning of the month, an estimate is prepared in a bottom-up process by the businesses and most significant subsidiaries based on the planned network 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. In addition, each month, the Corporate Control department examines and analyses with the businesses and main subsidiaries the financial performances for the month and evaluates the forecast for the coming months up to the end of the current financial year. The Corporate Controller reports monthly to the KLM Board of Managing Directors and on a bi-annual basis to the Audit Committee, focusing on the variances between actuals versus budget and forecast, explaining incidental results recorded during the month and the variances in the full-year forecast.

3. Internal control

3.1. Internal control

KLM has a system of internal control in place to provide reasonable comfort regarding reliability of accounting and financial information and to comply with applicable laws and regulations. The Corporate Control Administrative Organisation Internal Control (AO/IC) team supports and guides all activities in relation to the annual assessment of internal control activities. The principles are laid down in the AIR FRANCE KLM Internal Control Charter and outlines the methodology to assess its effective implementation and functioning of financial internal controls. The Internal Control activities oversee the annual testing of the entity level controls, testing of the operational effectiveness of the transaction level controls and testing of the IT general controls that are relevant for the financial disclosure processes. The results of the testing are the cornerstones for signing the internal Document of Representation (DoR) by business executives and business controllers. Based on information from the DoR and the Internal Control reporting during the year and at year-end an Internal Control memo is prepared and shared with the Board of Managing Directors and the Audit Committee. Via this memo Corporate AO/IC reports on the effectiveness of the internal control process over financial reporting processes in the Internal Control Statement document.

Internal Control Charter

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

3.2. Internal Audit

KLM has an independent Internal Audit Function (IAF) to assure proper risk management, governance and internal control. The IAF has been subject to a regular external quality assessment by the Dutch and French affiliates of the worldwide Institute of Internal Auditors. Its overall assessment is positive.

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

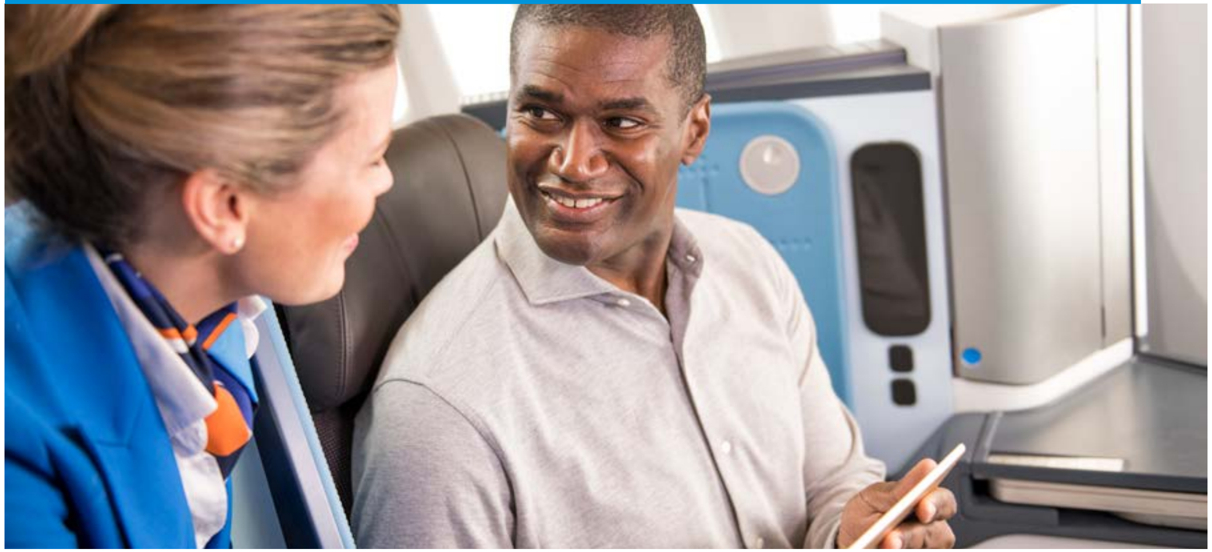
The IAF conducts audits at KLM and AIR FRANCE KLM level at request of the AIR FRANCE KLM and KLM Audit Committees, the AIR FRANCE KLM Group Executive Committee, the KLM Executive Team and the KLM Board of Managing Directors. An annual audit plan, covering the main processes and risks, is presented to the Boards and Executive Committees and approved by the Audit Committees.

The IAF performs operational audits, information and communication technologies or electronic data processing audits, compliance audits, post audits, fraud risk assessments and consulting engagements.

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

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

KLM actively supports a global standardisation of passenger rights.



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

This Charter establishes the framework of the Internal Audit Function and contains the guidelines to which it adheres regarding:
- Internal Audit mission and objective, scope of work and types of work;
- Accountability, independence and relationship to other assurance functions;
- Authority and ethics; and
- Applicable standards.

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

4. Safety management

4.1. Safety Organisation and Governance

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

Safety governance is accomplished by the Safety Review Board (SRB), the Integrated Systems Board (ISB) and the Safety Action Groups (SAGs).

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

The SRB sets strategic safety objectives, establishes the safety policies, decides on KLM wide safety improving initiatives and provides the platform to:

- Monitor the integrated safety and compliance performance against safety policies and objectives; and
- Ensure appropriate resources are allocated to achieve the desired safety and compliance performance.

Integrated Systems Board

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

Safety Action Group

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

The Safety & Compliance Organisation (SCO) assures that the measures applied by all the company's entities are consistent.

Safety & Compliance Execution

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

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

Safety & Compliance Monitoring

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

4.2. Safety manual and references

Safety Management System manual

The Safety Management System Manual (SMS manual) describes the Safety Management System (SMS). The SMS is an integrated system that is used in the following KLM domains: operational safety, occupational safety, environmental safety and operational security. The Safety Management System assures the safe performance of all processes within these domains through effective management of safety risk.

The SMS complies with relevant national and international legislation. The SMS is also based on the requirements of other regulatory systems: IOSA, ISAGO, ISO 14001, etc. The SMS encompasses all safety management system components and elements as given in ICAO Doc 9859.

By means of the Safety Management System, risks are predictively indicated and proactively eliminated or mitigated before accidents and incidents occur. The SMS is also used to continuously improve safety by collecting and analysing data, identifying hazards, threats and safety issues, and assessing safety risks to ensure the optimal allocation of company resources.

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

External Frames of Reference

- Statutory: European and Dutch regulations (including those for operational security) and general implementing regulations;
- Industry: IATA Operational Safety Audit (IOSA), a standard that ensures a transparent level of operational safety to enable codeshare operations without further audits on KLM and ICAO Doc 9859, for the Safety Management Manual, and
- Environment: ISO 14001; 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 Safety Management System Manual (SMS manual) and associated general procedures.

5. Legal and business ethics compliance

5.1. Compliance and Business Ethics Organisation

The Compliance and Business Ethics Framework, which has been adopted by the Board of Managing Directors and the Supervisory Board, ensures staff is capable of adhering to rules of conduct, internal procedures and relevant laws and regulations. Several expert functions, including the Director Compliance and Business Ethics, the Data Protection Officer, the Corporate Legal Counsels and the Trade Compliance Officer, manage (parts of) the Compliance and Business Ethics Framework. This is done under the supervision of the Board of Managing Directors, who delegated the day-to-day monitoring to the Compliance Committee. The Compliance Committee's primary role is to support KLM's Board of Managing Directors and the Executive Team on compliance matters under the scope of the Compliance and Business Ethics Framework, excluding all operational safety, occupational safety, environmental safety and operational security compliance matters.
The Compliance Committee will (i) monitor the adherence by all concerned to the KLM Code of Conduct and related codes and regulations and (ii) assist the KLM Board of Managing Directors and Executive Team in fulfilling their responsibilities relating to compliance with applicable laws and regulations.
The KLM Compliance Charter was released by the Board of Managing Directors and has subsequently been adopted by the Supervisory Board. The charter applies to all employees and regular temporary employees. Its purpose is to inform them regarding the principles, roles, tasks and responsibilities of the compliance function within the company. The Corporate Compliance Monitor provides an overview of the compliance status of KLM. The Corporate Compliance Monitor is discussed with the Supervisory Board twice a year.

5.2. Compliance and Business Ethics Framework

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

KLM Compliance Charter

The KLM Compliance Charter applies to all employees and regular temporary workforce. The charter informs them of the principles, roles, tasks and responsibilities of the compliance function within the company.
The Corporate Compliance Monitor provides an overview of the compliance status of KLM.

Code of Conduct

The KLM Group has published the KLM Code of Conduct for all staff addressing the following principal matters: safety, business integrity, social responsibility and reporting.

KLM also has a Code of Ethics for the Finance Function for staff in finance positions.

Anti-Fraud policy

An Anti-Fraud Policy is in place at KLM and includes a Fraud Risk Management Framework and Fraud Risk Assessments, a zero tolerance stance on fraud, an Anti-Fraud Policy Statement and a Fraud Response Protocol. By means of the KLM Anti-Fraud Policy, KLM mitigates the risk of intentional acts designed to deceive or mislead others mainly to obtain unjust or illegal advantage to the detriment of KLM.

Policies to prevent the risks of corruption and antitrust

The AIR FRANCE KLM Code of Conduct and its underlying appendixes affirm KLM's commitment to conducting its business with loyalty, fairness, transparency and integrity, and in the strict respect of anti-corruption laws wherever it or its subsidiaries exercise their activities. It establishes the guidelines for preventing corruption, and for identifying and handling at-risk situations with regard to the anti-corruption legislation.

The AIR FRANCE KLM Competition Law Compliance Manual targets employees who are or may become involved with competition law in the course of their professional duty.

Compliance training sessions are organised to create awareness with regards to, among others, corruption and antitrust. A new competition law compliance eLearning was issued in 2021 and a new anti-corruption eLearning was launched in Q4 2022.


325
302
308
313

Financial statements 2022

Consolidated balance sheet

Before proposed appropriation of the result for the year

In millions of Euros	Note	December 31, 2022	December 31, 2021
ASSETS			
Non-current assets			
Property, plant and equipment	1	5,017	5,095
Right-of-use assets	2	1,606	1,630
Intangible assets	3	543	512
Investments accounted for using the equity method	4	17	17
Other non-current assets	5	165	154
Other financial assets	6	779	570
Deferred tax assets	17	450	122
Pension assets	18	27	-
		8,604	8,100
Current assets			
Other current assets	5	139	230
Other financial assets	6	167	162
Inventories	7	255	220
Trade and other receivables	8	1,205	1,094
Cash and cash equivalents	9	1,533	819
		3,299	2,525
TOTAL ASSETS		**11,903**	**10,625**

In millions of Euros	Note	December 31, 2022	December 31, 2021
EQUITY			
Capital and reserves			
Share capital	10	125	94
Share premium		474	474
Reserves	11	473	426
Retained earnings		(1,683)	(433)
Result for the year		743	(1,259)
Total attributable to Company's equity holders		132	(698)
Non-controlling interests		4	3
Total equity		136	(695)
LIABILITIES			
Non-current liabilities			
Financial debt	12	1,604	1,305
Lease debt	13	954	879
Other non-current liabilities	5	1,283	1,520
Other financial liabilities	14	816	1,840
Deferred income	16	235	259
Provisions for employee benefits	18	228	372
Return obligation liability and other provisions	19	1,380	1,263
		6,500	7,438
Current liabilities			
Trade and other payables	20	2,604	1,794
Financial debt	12	241	155
Lease debt	13	278	288
Other current liabilities	5	56	31
Other financial liabilities	14	184	188
Deferred income	16	1,536	1,081
Current tax liabilities	17	39	-
Provisions for employee benefits	18	25	27
Return obligation liability and other provisions	19	304	318
		5,267	3,882
Total liabilities		11,767	11,320
TOTAL EQUITY AND LIABILITIES		**11,903**	**10,625**

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

Consolidated statement of profit or loss

In millions of Euros	Note	2022	2021
Revenues	23	10,679	6,065
Expenses			
External expenses	24	(6,232)	(3,702)
Employee compensation and benefit expenses *	25/28	(2,955)	(2,792)
Other income and expenses	26	180	160
Total expenses		(9,007)	(6,334)
EBITDA *	28	1,672	(269)
Amortisation, depreciation, impairment and provisions *	27/28	(929)	(907)
Income from operating activities *	28	743	(1,176)
Cost of financial debt	29	(178)	(219)
Income from cash and cash equivalents	29	30	14
Net cost of financial debt		(148)	(205)
Other financial income and expenses	29	(156)	(135)
Income before tax		439	(1,516)
Income tax income/(expense)	30	305	255
Net income after tax		744	(1,261)
Share of results of equity accounted investees		-	3
NET PROFIT/(LOSS) FOR THE YEAR		**744**	**(1,258)**

In millions of Euros	Note	2022	2021
Attributable to:			
Equity holders of the company		743	(1,259)
Non-controlling interests		1	1
		744	**(1,258)**
Net profit/(loss) attributable to equity holders of the Company		743	(1,259)
Dividend on priority shares		-	-
Net profit/(loss) available for holders of ordinary shares		743	(1,259)
Average number of A and B ordinary shares outstanding		46,809,699	46,809,699
Average number of A and B ordinary shares outstanding (fully diluted)		46,809,699	46,809,699
Profit/(loss) per share (in EUR)		15.87	(26.90)
Diluted profit/(loss) per share (in EUR)		15.87	(26.90)

In millions of Euros	Note	2022	2021
Income from operating activities*	28	743	(1,176)
Total APM adjustments income from operating activities	28	(37)	949
Adjusted income from operating activities (as per AIR FRANCE KLM Group reporting)	28	**706**	**(227)**

* See note 28 Alternative performance measures (APM for the reconciliation to adjust EBITDA of EUR 1,678 million positive (2021: EUR 695 million positive) and adjusted income from operating activities of EUR 706 million positive (2021: EUR 227 million negative). Also see the Alternative performance measures section in the Notes to the consolidated financial statements.

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

Consolidated statement of profit or loss and other comprehensive income

In millions of Euros	2022	2021
Profit/(Loss) for the year	**744**	**(1,258)**
Cash flow hedges		
Effective portion of changes in fair value of cash flow hedges recognised directly in equity	(560)	(127)
Change in fair value transferred to profit or loss	468	289
Exchange differences on translation foreign operations	(3)	(1)
Tax on items of comprehensive income that will be reclassified to profit or loss	24	(42)
Total of other comprehensive income/(expense) that will be reclassified to profit or loss	(71)	119
Remeasurement of defined benefit pension plans	166	729
Fair value of equity instruments revalued through OCI	3	3
Tax on items of comprehensive income that will not be reclassified to profit or loss	(42)	(173)
Total of other comprehensive income that will not be reclassified to profit or loss	127	559
TOTAL OF OTHER COMPREHENSIVE INCOME AFTER TAX	**56**	**678**
Recognised income and expenses	**800**	**(580)**
Equity holders of the company	799	(581)
Non-controlling interests	1	1

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

Consolidated statement of changes in equity

Attributable to Company's equity holders

In millions of Euros	Share capital	Share premium	Reserves	Retained earnings	Result for the year	Total	Non-controlling interests	Total equity
As at January 1, 2022	**94**	**474**	**426**	**(433)**	**(1,259)**	**(698)**	**3**	**(695)**
Transfer to retained earnings	-	-	-	(1,259)	1,259	-	-	-
Reclassification A and C Cumulative preference shares from financial debt to equity	31	-	-	-	-	31	-	31
Contributions	31	-	-	(1,259)	1,259	31	-	31
Net gain/(loss) from cash flow hedges	-	-	(92)	-	-	(92)	-	(92)
Fair value of equity instruments revalued through OCI	-	-	3	-	-	3	-	3
Exchange differences on translation foreign operations	-	-	(3)	-	-	(3)	-	(3)
Remeasurement of defined benefit pension plans	-	-	166	-	-	166	-	166
Transfer to/(from) retained earnings	-	-	(9)	9	-	-	-	-
Deferred tax on items taken directly to or transferred from equity	-	-	(18)	-	-	(18)	-	(18)
Net income/(expense) recognised directly in equity	-	-	47	9	-	56	-	56
Profit for the year	-	-	-	-	743	743	1	744
Movement recognised income/(expenses)	-	-	47	9	743	799	1	800
Dividends paid	-	-	-	-	-	-	-	-
As at December 31, 2022	**125**	**474**	**473**	**(1,683)**	**743**	**132**	**4**	**136**

Attributable to Company's equity holders

In millions of Euros	Share capital	Share premium	Reserves	Retained earnings	Result for the year	Total	Non-controlling interests	Total equity
As at January 1, 2021	**94**	**474**	**(441)**	**1,303**	**(1,547)**	**(117)**	**2**	**(115)**
Transfer to retained earnings	-	-	-	(1,547)	1,547	-	-	-
Net gain/(loss) from cash flow hedges	-	-	162	-	-	162	-	162
Fair value of equity instruments revalued through OCI	-	-	3	-	-	3	-	3
Exchange differences on translation foreign operations	-	-	(1)	-	-	(1)	-	(1)
Remeasurement of defined benefit pension plans	-	-	729	-	-	729	-	729
Transfer to/(from) retained earnings	-	-	189	(189)	-	-	-	-
Deferred tax on items taken directly to or transferred from equity	-	-	(215)	-	-	(215)	-	(215)
Net income/(expense) recognised directly in equity	-	-	867	(1,736)	1,547	678	-	678
(Loss) for the year	-	-	-	-	(1,259)	(1,259)	1	(1,258)
Movement recognised income/(expenses)	-	-	867	(1,736)	288	(581)	1	(580)
Dividends paid	-	-	-	-	-	-	-	-
As at December 31, 2021	**94**	**474**	**426**	**(433)**	**(1,259)**	**(698)**	**3**	**(695)**

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

Consolidated cash flow statement

In millions of Euros	Note	2022	2021
Profit/(loss) for the year		744	(1,258)
Adjustments for:			
Depreciation, amortisation and impairment	27	983	942
Changes in provisions	27	(11)	(21)
Results of equity shareholdings		-	(3)
Changes in pensions		(4)	28
Changes in deferred tax	30	(344)	(255)
Other changes		154	1,033
Net cash flow from operating activities before changes in working capital		1,522	466
Changes in:			
(Increase) / decrease in inventories		(46)	(48)
(Increase) / decrease in trade receivables		(82)	(79)
Increase / (decrease) in trade payables		300	198
(Increase) / decrease in other receivables and other payables		780	663
Change in working capital requirement		952	734
Net cash flow from operating activities		2,474	1,200
Purchase of intangible fixed assets	3	(140)	(132)
Purchase of aircraft	1	(513)	(332)
Proceeds on disposal of aircraft		28	15
Purchase of other tangible fixed assets	1	(52)	(49)
Proceeds on disposal of other (in-)tangible fixed assets		37	17
Investments in equity accounted investees		(2)	-
Proceeds on sale of equity accounted investees		-	4
Dividends received		-	1
Proceeds on short-term deposits and commercial paper		76	(12)
Net cash flow used in investing activities		(566)	(488)

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

In millions of Euros	Note	2022	2021
Proceeds from long-term debt		649	577
Repayment on long-term debt		(1,315)	(679)
Payments on lease debt		(290)	(315)
Proceeds from long-term receivables		(279)	(161)
Repayment on long-term receivables		30	195
Dividend paid		-	(1)
Net cash flow used in financing activities		(1,205)	(384)
Effect of exchange rates on cash and cash equivalents		11	9
CHANGE IN CASH AND CASH EQUIVALENTS		**714**	**337**
Cash and cash equivalents at beginning of period		819	482
Cash and cash equivalents at end of period *	9	1,533	819
CHANGE IN CASH AND CASH EQUIVALENTS		**714**	**337**
Interest paid (flow included in operating activities)		(177)	(188)
Interest received (flow included in operating activities)		16	3

In millions of Euros	2022	2021
Net cash flow from operating activities	2,474	1,200
Net cash flow used in investing activities (excluding investments in and proceeds on sale of equity accounted investees, dividends received and purchase of short-term deposits and commercial paper)	(640)	(481)
Free cash flow	1,834	719
Payments on lease debt	(290)	(315)
Adjusted free cash flow**	1,544	404

* Including near cash (other highly liquid investments, such as Triple A bonds, long-term deposits and commercial paper with an original maturity between 3 and 12 months) amounts to EUR 2,395 million as at December 31, 2022 (December 31, 2021 EUR 1,474 million).

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

Notes to the consolidated financial statements

General

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

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

These financial statements have been authorised for issue by the Board of Managing Directors on March 31, 2023 and will be submitted for approval to the Annual General Meeting (AGM) of shareholders on April 24, 2023.

Subsequent event

In March 2023, KLM reached a final agreement with the unions on the determination of profit share 2022, which is expected to be paid out in the first half of 2023.

Assessment of going concern

In the 2021 financial statements a material uncertainty over KLM's ability to continue as a going concern, due to the impact of COVID-19, was reported.

As per the date of this 2022 Annual Report an assessment of going concern has been performed. Based on all information and analysis available and taking into account the current liquidity position, business outlook, (flexibility in the) investment plan, fuel price sensitivity, availability of funding (KLM can still draw EUR 2.5 billion of the Dutch State support package as per year-end 2022) and the redemption profile, the Board of Managing Directors concludes that there are no triggers that might impair the going concern assumption applicable and as such the going concern assumption is applied.

Sustainability and climate

The transition towards more sustainable aviation is at the core of KLM's strategy. Within that, the contribution to climate change is of major concern. Not only for KLM, but for the whole AIR FRANCE KLM Group and airline industry. Attitudes towards the acceptability of air transportation growth are changing at both political level and in terms of wider society.

KLM Group intends to be a key player in the transformation of its sector towards more sustainable aviation, and aims to take a leading role. Playing an active role in advancing the ambition of Net Zero emissions by 2050 as an industry, and committing to Science Based Targets initiative (SBTi) in line with their criteria approved in November 2022, is a strong marker for the whole AIR FRANCE KLM Group, reflecting people's changing perception of travel and calls for a more responsible use of aviation. KLM's climate ambitions and how to reach those are outlined in a Climate Action Plan.

Third party accreditation

AIR FRANCE KLM assesses its financial performance on a regular basis, through Standard and Poor's (S&P), DJSI, Carbon Disclosure Project (CDP), Ecovadis, Climate Action 100+ and Sustainalytics ratings. In 2022, for the eighteenth consecutive year, AIR FRANCE KLM was included in the Dow Jones Sustainability Indexes (DJSI World and Europe), the Ecovadis rating agency awarded AIR FRANCE KLM a gold medal (ranking in the top 3%), while the CDP gave the AIR FRANCE KLM Group a C-rating (awareness level) for the climate change questionnaire.

Furthermore, to objectify its ESG performance and improve its strategy and practices, AIR FRANCE KLM, proactively requested an independent ESG rating from Standard and Poor's, becoming the first airline group to be evaluated through a requested ESG rating. In 2021, Standard & Poor's (S&P) Global Ratings thus assigned to AIR FRANCE KLM an ESG rating of 64/100. With this rating, the AIR FRANCE KLM 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. In KLM's consolidated financial statements climate change and sustainability issues are integrated in various items as described below.

Valuation of assets and consideration of environmental risks

The impact of climate change in the short to medium term has been taken into account in preparing KLM Group's financial statements for the year ending December 31, 2022. However, the physical risks identified have not been considered material to KLM Group's operational continuity, given the operation of a balanced network across the different continents and the flexibility of the fleet, which minimizes the economic consequences of extreme weather events that may occur. The impacts of expected or probable changes (increase in carbon credit prices, CO_2 compensation and development of sustainable aviation fuel – "SAF") are included in the KLM Group's five-year plan and consequently in the tested recoverable value of assets (see "Impairment of assets" paragraph in these notes to the consolidated financial statements). In 2022, the Group's environmental objectives have not led to the recognition of any impairment trigger or accelerated depreciation of assets.

Fleet modernisation

AIR FRANCE KLM and KLM Group have committed to reduce its CO_2 emissions by 30% by 2030 compared to 2019 (in line with SBTi). Currently, the most impactful way to reduce the carbon footprint is to invest in a more fuel-efficient fleet. KLM's transformation is therefore continuing with the arrival of more modern, high-performance aircraft with a significantly lower environmental impact and a reduced noise footprint. The renewal of KLM's airline fleet for new generation aircraft resulted in capital expenditures on aircraft equipment amounting to EUR 513 million as of December 31, 2022 (EUR 332 million as of December 31, 2021) (see the "Consolidated cash flow statement"). Pursuing its fleet renewal plan, KLM will continue to receive new generation aircraft over the next few years.

Sustainable Aviation Fuel

Replacing fossil kerosene by a more sustainable alternative is a second measure that contributes to reaching the climate ambitions. KLM aims to incorporate at least 10% SAF by 2030. In October 2022, AIR FRANCE KLM Group signed two contracts with the suppliers Nesté and DG Fuels for the supply of 1.6 million tons of SAF between 2023 and 2036. In December 2022, AIR FRANCE KLM Group also signed a memorandum of understanding with TotalEnergies for the supply of 0.8 million tons of SAF to the AIR FRANCE KLM Group's airlines over a 10-year period, starting in 2023. Since January 1, 2022, KLM Group has introduced a specific surcharge on tickets departing from the Netherlands and France. In addition, KLM offers its corporate, cargo and individual customers the option of purchasing an extra amount of sustainable fuel.

Other investments

In order to adapt its business to climate change and in particular to achieve the objective of zero emissions of ground operations by 2030, KLM is pursuing a sustainable investment policy and is notably investing in fully electric ramp equipment (vehicles, tractors and loading equipment) and the energy renovation of its buildings.

Emission allowances

Since January 1 2012, airlines have been subject to the Emission Trading Scheme (ETS) regulations for all flights to or from the European Economic Area. As such, the KLM Group must purchase CO_2 allowances to offset its emissions. The Group accounts for the CO_2 quotas as intangible assets. These assets are not subject to amortisation (see Note 3 "Intangible assets"). To meet its obligation to surrender the allowances corresponding to its emissions, the KLM Group recorded a net expense of EUR 78 million as of December 31, 2022 (EUR 16 million as of December 31, 2021) corresponding to the best estimates of its emissions for the year 2022 (see Note 26 "Other income and expenses").

Other expenses and commitments

KLM has made sustainability commitments as part of the conditions associated with the direct loan granted by the Dutch State.

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, 2022. The consolidated financial statements have also been prepared in accordance with Section 362(9) of Book 2 of the Dutch Civil Code. As permitted by Section 402 of Book 2 of the Dutch Civil Code the Company statement of profit or loss has been presented in condensed form.

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

Significant accounting policies

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

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

- Amendments to IAS 16 “Property, Plant and Equipment”. These amendments aim to standardise the accounting method for the proceeds and costs while an item of property, plant or equipment is in the testing phase.
- Amendments to IFRS 3 “Business Combinations”. These amendments update the conceptual framework that changed the definition of assets and liabilities, which could have resulted in the derecognition of some liabilities immediately after an acquisition. The amendments also clarify that contingent assets acquired in a business combination should not be recognised.
- Amendments to IAS 37 “Provisions, Contingent liabilities and Contingent Assets”. These amendments standardise the identification and assessment practices related to the provisions for onerous contracts, especially regarding losses upon termination arising from contracts concluded with customers within the scope of IFRS 15 “Revenue from Contracts with Customers”.
- Amendments to IFRS 9 “Financial instruments”. The amendment to IFRS 9 is included in the annual improvements to IFRS standards 2018-2020. The amendment indicates that the fees included in the 10 per cent test for assessing whether a financial liability must be derecognised are only the costs paid or fees received between the borrower and the lender, including those which are paid or received on behalf of the other party.

All amendments which are applicable on a mandatory basis to the 2022 financial statements have no significant impact on the Group’s financial statements as of December 31, 2022.

IFRS standards which are applicable on a mandatory basis to the 2023 financial statements

- Amendments to IAS 1 “Presentation of financial statements”. These amendments aim to identify the disclosures about accounting policies that are useful to users of financial statements. The main change is to provide information about “significant” accounting policies rather than “major” accounting policies.
- Amendments to IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors”. These amendments aim to facilitate the distinction between accounting policies and accounting estimates. However, they focus exclusively on accounting estimates, now defined as “monetary amounts in the financial statements that are subject to measurement uncertainty”.

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

- Amendments to IAS 1 “Presentation of financial statements” (Effective for accounting periods as of January 1, 2024). These amendments clarify the classification of current or non-current liabilities and aim to promote a consistent approach to this classification.

Use of estimates and the exercise of judgments

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

The preparation of these financial statements also requires management to exercise its judgment in the process of applying the Company’s accounting policies.

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

Alternative performance measures (APMs)

Adjusted EBITDA and adjusted income from operating activities

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

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

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

Adjusted EBITDA (Adjusted Earnings Before Interests, Taxes, Depreciation, Amortisation, Impairment and provisions): by extracting the main line of the statement of profit or loss which does not involve cash disbursement ("Amortisation, depreciation, impairments and provisions") from income from operating activities, adjusted EBITDA provides a simple indicator of the Group's cash generation on operational activities. Elements that have less predictive value due to their nature, frequency and/or materiality to arrive at adjusted EBITDA are:

- Restructuring costs;
- Infrequent elements such as derecognition of a pension plan and recognition of provisions for litigation.

Elements that have less predictive value due to their nature, frequency and/or materiality to arrive at adjusted income from operating activities are:

- Result on sales of aircraft, other flight equipment and disposals of other assets;
- Impairment of assets;
- Income from the disposal of subsidiaries and affiliates;
- Infrequent elements such as the recognition of badwill in the statement of profit or loss.

Adjusted free cash flow

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

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

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

Near cash

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

Consolidation principles

Subsidiaries

In conformity with IFRS 10 "Consolidated Financial Statements", the Group's consolidated financial statements comprise the financial statements for all entities that are controlled directly or indirectly by the Group, irrespective of its level of participation in the equity of these entities. The companies over which the Group exercises control are fully consolidated.

An entity is controlled when the Group has power over it, is exposed or has rights to variable returns from its involvement in this entity, and has the ability to use its power to influence the amounts of these returns. The determination of control takes into account the existence of potential voting rights if they are substantive, meaning they can be exercised in time when decisions about the relevant activities of the entity need to be taken. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control begins until the date this control ceases.

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

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

Intra-group operations

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

Scope of consolidation

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

Foreign currency

Functional and presentation currency

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

Transactions and balances

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

Group companies

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

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

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to equity. When losing control, such exchange differences are recognised in the statement of profit or loss as part of the gain or loss on sale.

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

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

In Euros	Balance Sheet December 31, 2022	Average in Statement of profit or loss 2022	Balance Sheet December 31, 2021
1 US dollar (USD)	0.94	0.95	0.88
1 Pound sterling (GBP)	1.13	1.18	1.19
1 Swiss franc (CHF)	1.02	0.99	0.97
100 Japanese yen (JPY)	0.71	0.73	0.77
100 Kenya shilling (KES)	0.76	0.79	0.76

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 testing.

Segment reporting

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

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

Business segments

The activities of each segment are as follows:

Network

Includes air transport of passengers and cargo activities:

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

Maintenance

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

Leisure

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

Other

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

Geographical segments

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

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

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

Accounting policies for the balance sheet

Property, plant and equipment

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

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

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

Depreciation

Property, plant and equipment are depreciated to estimated residual values using the straight-line method over average estimated useful lives in the profit or loss. Land is not depreciated.

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

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

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

Lease contracts

Lease contracts as defined by IFRS 16 "Leases", are recorded in the balance sheet, which leads to the recognition of:
- An asset representing a right-of-use of the asset leased during the lease term of the contract; and
- A liability related to the payment obligation.

Arrangements with the following financing features are not eligible to an accounting treatment according to IFRS 16:
- The lessor has legal ownership retention as security against repayment and interest obligations;
- The airline initially acquired the aircraft or took a major share in the acquisition process from the Original Equipment Manufacturers; and
- In view of the contractual conditions, it is (virtually) certain that the aircraft will be purchased at the end of the lease term.

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

Measurement of the right-of-use asset

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

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

Measurement of the lease liability

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

Amounts involved in the measurement of the lease liability are:

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

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

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

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

- Change in the lease term;
- Modification related to the assessment of the reasonably certain nature (or not) of the exercise of an option;
- Remeasurement linked to the residual value guarantees; and
- Adjustment to the rates and indices according to which the rents are calculated when rent adjustments occur.

Types of capitalised lease contracts

Aircraft lease contracts

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

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

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

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

Real-estate lease contracts

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

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

Other assets lease contracts

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

Types of non-capitalised lease contracts

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

Short duration lease contracts

There are contracts whose duration is equal to or less than 12 months. Within the Group, they mainly relate to leases of:

- Surface areas in our hubs with a reciprocal notice-period equal to or less than 12 months;
- Accommodations for expatriates with a notice period equal to or less than 12 months; and
- Spare engines for a duration equal to or less than 12 months.

Low-value lease contracts

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

Sale and leaseback transactions

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

Sale according to IFRS 15

If the sale by the vendor-lessee is qualified as a sale according to IFRS 15, the vendor-lessee must:

(a) de-recognise the underlying asset; and
(b) recognise a right-of-use asset equal to the retained portion of the net carrying amount of the asset.

Sale not according to IFRS 15

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

Intangible assets

Goodwill

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

Computer software

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

Amortisation takes place over the estimated useful lives (mainly 5 years and with a maximum of 20 years) of the software using the straight-line method. The useful life of each software application is determined separately. Amortisation commences when the software is taken into use. Prior to this moment the cost are capitalised as prepaid intangible assets.

The estimated useful life and amortisation method are reviewed during the annual operational planning cycle, including the effect of any changes in estimates being recognised prospectively if the change relates to future periods.

Impairment of assets

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

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

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

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

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

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

Financial instruments: Recognition and measurement of financial assets and liabilities

Valuation of trade receivables and non-current financial assets

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

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

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

Investments accounted for using the equity method

Associates are all entities over which the Group has significant influence but not control or joint control. 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.

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 9, 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.

Offsetting

Financial assets and liabilities are offset and the net amount presented in the balance sheet when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Inventories

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

Deferred income

Advance ticket sales

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

Deferred gains on sale and leaseback transactions

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

Flying Blue frequent flyer program

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

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

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

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

Deferred income taxes

Deferred tax assets and liabilities arising from the tax losses carried forward and temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and for tax purposes are determined using the balance sheet liability method and calculated on the basis of the tax rates that have been enacted or substantively enacted at the balance sheet date and that are expected to apply to the period when the asset is realised or the liability is settled.

Except for goodwill arising from a business combination, deferred tax assets are recognised to the extent that is probable that taxable profit will be available against which the tax losses carried forward and the temporary difference can be utilised.

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

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

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

Provisions for employee benefits

Pensions and other post-employment benefits

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

The amount recognised as a liability or an asset for post-employment benefits at the balance sheet date is the net total of:

- The present value of the defined benefit obligations at the balance sheet date; and
- Minus the fair value of the plan assets at the balance sheet date.

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

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

It should be noted that when discount rates decline or rates of compensation increase pension and post-employment benefit obligations will increase. Defined benefit cost recognised in profit or loss and post-employment cost generally also increase, when discount rates decline, since this rate is also used for the accrual of new pension benefits (service cost) and expected return on fund assets, partly offset by the lower interest cost on the present value of defined benefit obligations.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Emission Trading Scheme
European airlines are subject to the Emission Trading Scheme (ETS). In the absence of an IFRS standard or interpretation regarding ETS accounting, the Group applied the intangible assets approach to account for emission certificates.

Accounting policies for the statement of profit or loss

Revenues

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

Both passenger tickets and freight airway bills are consequently recorded as “advance ticket sales”. The booking of this revenue known as “ticket breakage” is deferred until the transportation date initially foreseen. This revenue is calculated by applying statistical rates on tickets issued and unused. These rates are regularly updated and adjusted for non-recurring and specific events that may have an impact on passengers’ behaviour based on management’s judgement.

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

Legally enforced compensations to passenger after irregularities in the 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.

NOW subsidy

During the COVID-19 crisis, the Group applied for the "Temporary Emergency Bridging Measure for Sustained Employment" (NOW) as installed by the Dutch Government. The Group applied for the NOW compensations. NOW 1, 2 and 3.1 in 2020, NOW 3.2, 3.3, 4 and 5 in 2021 and NOW 6 in 2022 and recognised the subsidy as there is reasonable assurance that KLM will comply with the relevant conditions of the NOW schemes and thereupon the compensation will be received (IAS 20.7). The compensation is recognised as cost deducting over the period necessary to match them with the related cost, for which they are intended to compensate, being wages and salaries, on a systematic basis (IAS 20.12).

In 2021 the required separate audit for NOW 1 has been finalised and in 2022 the required separate audits for NOW 2 through NOW 5 have been finalised and filed at the Dutch Employee Insurance Agency (UWV). The Group aims to finalise and file NOW 6 in the second quarter of 2023.

Other financial income and expense

Cost of financial debt

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

Income from cash and cash equivalents

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

Foreign currency exchange gains and losses

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

Fair value gains and losses

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

Share-based payments

Phantom shares

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

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

Cash flow statement

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

Accounting estimates and judgments

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

Key sources of estimation uncertainty

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

Impairment of assets

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

The strong recovery in 2022 resulted in a positive adjusted income from operating activities and a positive equity position as per December 31, 2022. No impairment trigger was identified.

Revenues (network, leisure and maintenance), costs and investments forecasts are based on reasonable hypothesis and are management's best estimates for the coming five-year period.

The discount rate used for the test corresponds to the Group's average weighted average cost of capital (WACC) before and after tax. This stood at 7.7% before tax and 5.7% after tax as at December 31, 2022 (December 31, 2021 8.7% before tax and 6.45% after tax).

Moreover, cash flow projections used in the impairment tests are based on the 2023 Budget and five-year forecast plan, presented by the Board of Managing Directors to the Supervisory Board in December 2022. Cash flows extrapolated beyond the five-year period are projected to increase based on a long-term growth rate of 1%.

At December 31, 2022 the Board of Managing Directors reviewed the recoverable amount of each of the CGUs and concluded the recoverable amounts exceeded the carrying values.

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

Useful lives of property, plant and equipment

The carrying amount of flight equipment and other property and equipment is determined by using estimates of the depreciation periods, which are derived from the expected technical and economic useful life of the assets involved. Due to advancing technology, evolving market circumstances and changes in the use of the assets involved, the expected technical and economic life of the asset may be subject to alteration.

Valuation of inventories

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

Valuation of accounts receivable and the allowance for bad or doubtful debts

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

Return obligation liability and other provisions

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

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

This assessment comprises both a determination of the probability of a successful outcome of the legal action and the expected amount payable.

Determination of fair value

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

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

Financial Risk Management

Risk management organisation and hedging policy

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

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

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

The treasury departments of each company circulate information on the level of cash and cash equivalents to their respective executive managements on a daily basis.

Every month, a detailed report including, among other information, interest rate and currency positions, the portfolio of hedging instruments, a summary of investments and financing by currency and the monitoring of risk by counterparty is transmitted to the executive managements. The instruments used are forwards, swaps and options.

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

Financial Risk Management

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

1. Market risk

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

a. Currency risk

Most of KLM, revenues are generated in euros. However, because of its international activities, 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 KLM's financial results.

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

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

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

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

b. Interest rate risk

At both KLM and AIR FRANCE, most financial debt is contracted in floating-rate instruments in line with market practice. KLM and AIR FRANCE use swap strategies to convert a significant proportion of their floating-rate debt into fixed rates.

c. Fuel & carbon price risk

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

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

Main characteristics of the fuel hedge strategy:

- Hedge horizon: a maximum of four quarters rolling;
- Maximum hedge percentage, to reach at the end of the current quarter:
  Quarter underway: 70% of the volumes consumed;
  Quarter 1: 70% of the volumes consumed;
  Quarter 2: 55% of the volumes consumed;
  Quarter 3: 40% of the volumes consumed
  Quarter 4: 25% of the volumes consumed.
- Increment of maximum coverage ratios: 15% by quarter;
- Underlyings: Brent, Gas Oil and Jet Fuel;
- Hedging instruments: Swap, call, call spread, three ways, four ways and collar. These hedging instruments must be eligible hedging instruments in accordance with IFRS 9.

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

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

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

The hedge relationship for carbon exposure is assessed as effective per December, 31, 2022.

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, 2022, KLM identified the following exposure to counterparty risk:

LT Rating (Standard & Poor's)	Total exposure in EUR millions
AAA	682
AA+	157
AA-	75
A+	1,014
A	403
Total	2,331

At December 31, 2022, the exposure consists of the fair market value of marketable securities, deposits and bonds.

3. Liquidity and solvency risk

Liquidity and solvency risk is related to the risk that the Group might be unable to obtain the financial resources it requires to meet its short- and long-term obligations on time. All anticipated and potential cash flows are reviewed regularly. These include, among other, operational cash flows, capital expenditures and financing cash flows. The objective is to have sufficient liquidity, including committed credit facilities, available that are adequate for the liquidity requirements for the short- and long-term. KLM has sufficient undrawn standby facilities available to manage liquidity risk. Furthermore, KLM has unencumbered fleet assets available for financing. Reference is made to 'Going concern' paragraph in the Notes to the consolidated financial statements section.

1. Property, plant and equipment

	Flight equipment			Other property and equipment					
	Owned aircraft	Other flight equipment	Total	Land and buildings	Equipment and fittings	Other property and equipment	Total	Prepayments	Total
Historical cost									
As at Jan. 1, 2022	4,898	2,594	7,492	760	288	341	1,389	505	9,386
Additions	1	128	129	-	1	1	2	433	564
Disposals	(14)	(217)	(231)	(5)	(4)	(10)	(19)	-	(250)
Reclassifications	83	268	351	19	4	13	36	(465)	(78)
Other movements	-	-	-	-	-	-	-	(10)	(10)
As at Dec. 31, 2022	4,968	2,773	7,741	774	289	345	1,408	463	9,612
Accumulated depreciation and impairment									
As at Jan. 1, 2022	2,330	1,121	3,451	410	205	225	840	-	4,291
Depreciation	227	222	449	34	13	22	69	-	518
Disposals	(1)	(205)	(206)	(5)	(4)	(10)	(19)	-	(225)
Reclassifications	-	88	88	-	-	-		(78)	10
Other movements	-	-	-	1	-	-	1	-	1
As at Dec. 31, 2022	2,556	1,226	3,782	440	214	237	891	(78)	4,595
Net carrying amount									
As at Jan. 1, 2022	2,568	1,473	4,041	350	83	116	549	505	5,095
As at Dec. 31, 2022	2,412	1,547	3,959	334	75	108	517	541	5,017

	Flight equipment			Other property and equipment					
	Owned aircraft	Other flight equipment	Total	Land and buildings	Equipment and fittings	Other property and equipment	Total	Prepayments	Total
Historical cost									
As at January 1, 2021	4,873	2,553	7,426	751	309	340	1,400	735	9,561
Additions	43	224	267	5	9	15	29	77	373
Disposals	(73)	(192)	(265)	(25)	(31)	(14)	(70)	-	(335)
Other movements	55	9	64	29	1	-	30	(307)	(213)
As at December 31, 2021	4,898	2,594	7,492	760	288	341	1,389	505	9,386
Accumulated depreciation and impairment									
As at January 1, 2021	2,270	1,061	3,331	394	223	215	832	-	4,163
Depreciation	222	189	411	35	12	24	71	-	482
Disposals	(67)	(191)	(258)	(20)	(31)	(14)	(65)	-	(323)
Other movements	(95)	62	(33)	1	1	-	2	-	(31)
As at December 31, 2021	2,330	1,121	3,451	410	205	225	840	-	4,291
Net carrying amount									
As at January 1, 2021	2,603	1,492	4,095	357	86	125	568	735	5,398
As at December 31, 2021	2,568	1,473	4,041	350	83	116	549	505	5,095

In 2022 an impairment of EUR 4 million was recorded related to a project, which was stopped before putting in use. The asset is related to Other business. In the table above this amount is included in prepayments other movements and reference is made to note 27 Amortisation, depreciation, impairments and provisions and note 28 Alternative performance measures.

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

As at December 31,	2022	2021
Aircraft	93	121
Land and buildings	130	132
Other property and equipment	38	43
Carrying amount	261	296

Borrowing cost capitalised during the year amounts to EUR 7 million (2021 EUR 9 million). The interest rate used to determine the amount of borrowing cost to be capitalised was 3.8% (2021 3.1%).

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, 2022 amounts to EUR 220 million (December 31, 2021 EUR 227 million).

2. Right-of-use assets

	Aircraft	Maintenance	Land & Real Estate	Others	Total
Net value					
As at January 1, 2022	813	599	120	98	1,630
New contracts	145	76	10	5	236
Renewal or extension options	113	(8)	25	1	131
Disposals	-	(36)	-	-	(36)
Reclassifications	(6)	101	-	(62)	33
Depreciation	(225)	(131)	(18)	(13)	(387)
Other movements	-	-	(1)	-	(1)
As at December 31, 2022	840	601	136	29	1,606

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

Information related to lease debt is available in note 13.

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

	2022	2021
Variable rents	4	3
Short-term rents	60	26
Low value rents	3	2
Carrying amount	67	31

3. Intangible assets

	Goodwill	Software	Software under development	Other	Total
Historical cost					
As at January 1, 2022	47	650	190	56	943
Additions	–	2	79	60	141
Reclassification	–	95	(95)	–	–
Disposals	–	(4)	(4)	(21)	(29)
Others	–	–	(4)	–	(4)
As at December 31, 2022	47	743	166	95	1,051
Accumulated amortisation and impairment					
As at January 1, 2022	31	400	–	–	431
Amortisation	–	80	–	–	80
Disposals	–	(3)	–	–	(3)
Others	–	–	–	–	–
As at December 31, 2022	31	477	–	–	508
Net carrying amount					
As at January 1, 2022	16	250	190	56	512
As at December 31, 2022	16	266	166	95	543

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

Main part of the software and software under development relates to internally developed software. As at December 31, 2022, software additions mainly relate to commercial, operational and aircraft maintenance systems.

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

Related to software under development an impairment of EUR 4 million was recorded in 2022. The asset is related to the other business segment. In the table above this amount is included in the line others and reference is made to note 27 Amortisation, depreciation, impairments and provisions and note 28 Alternative performance measures.

4. Investments accounted for using the equity method

As at December 31,	2022	2021
Associates	9	9
Jointly controlled entities	8	8
Carrying amount	17	17

Investments in associates

	2022	2021
Carrying amount as at January 1	9	9
Movements		
Investments	-	-
Share of profit after taxation	-	3
Other movements	-	(3)
Net movement	-	-
Carrying amount as at December 31	9	9

The share of profit/(loss) after taxation as at December 31 has been adjusted to reflect the estimated share of result of the associate for the year then ended.

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,	2022	2021
Country of incorporation	-	-
Percentage of interest held	53%	53%
Percentage of voting right	45%	45%
Non-current assets	5	5
Current assets	11	11
Profit after taxation	-	-
Share of profit after taxation	-	-

The Group did not receive dividend in 2022 and 2021 from Schiphol Logistics Park C.V.

5. Other (non-current) assets and liabilities

2022	Assets Current	Assets Non-current	Liabilities Current	Liabilities Non-current
Exchange rate risk				
Fair value hedges	9	22	(6)	(2)
Cash flow hedges	62	15	(7)	(12)
Items not qualifying for hedge accounting	4	1	(2)	–
Total exchange rate risk hedges	**75**	**38**	**(15)**	**(14)**
Interest rate risk				
Fair value hedges	–	–	–	–
Cash flow hedges	25	41	–	–
Items not qualifying for hedge accounting	–	4	–	–
Total interest rate risk hedges	**25**	**45**	**–**	**–**
Commodity risk hedges				
Cash flow hedges	25	–	(37)	–
Items not qualifying for hedge accounting	–	–	–	–
Total commodity risk hedges	**25**	**–**	**(37)**	**–**
Total derivative financial instruments	**125**	**83**	**(52)**	**(14)**
Others	14	82	(4)	(1,269)
Total as at December 31, 2022	**139**	**165**	**(56)**	**(1,283)**

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

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, 2022 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	931	436	495	–	–	–	–	21
Forward sales								
USD	335	144	191	–	–	–	–	2
Total fair value hedges	1,266	580	686	–	–	–	–	23
Cash flow hedges								
Options								
CHF	–	–	–	–	–	–	–	–
GBP	–	–	–	–	–	–	–	–
Forward purchases								
USD	1,625	921	594	110	–	–	–	51
GBP	43	43	–	–	–	–	–	–
Forward sales								
CAD	–	–	–	–	–	–	–	–
GBP	244	219	25	–	–	–	–	7
JPY	–	–	–	–	–	–	–	–
SGD	–	–	–	–	–	–	–	–
USD	–	–	–	–	–	–	–	–
Other	–	–	–	–	–	–	–	–
Total cash flow hedges	1,912	1,183	619	110	–	–	–	58
Items not qualifying for hedge accounting								
Forward purchases								
GBP	–	–	–	–	–	–	–	–
JPY	22	22	–	–	–	–	–	1
USD	119	100	19	–	–	–	–	2
Forward sales								
USD	–	–	–	–	–	–	–	–
Other	–	–	–	–	–	–	–	–
Total items not qualifying for hedge accounting	141	122	19	–	–	–	–	3
Total exchange rate risk derivatives	3,319	1,885	1,324	110	–	–	–	84

The total fair value hedges of EUR 23 million positive relates to exchange rate hedging on future fleet purchases denominated in USD. Fair value adjustments included on the carrying amount of the hedge items amount to EUR 21 million negative and are recognised in the balance sheet in the line item property, plant and equipment. The related costs of hedging amount to EUR 9 million negative and are recorded in other comprehensive Income.

The total cash flow hedges of EUR 58 million positive relates to exchange rate hedging on operational exposures. The cash flow hedge reserve relating to the outstanding hedges amounts to EUR 58 million. An amount of EUR 0 million is included in the cash flow hedge reserve relating to hedges that are unwound in 2022 (2021: EUR 4 million).

Exposure to interest rate risk

In the frame of cash flow hedges, maturities relate to realisation dates of hedged items. Therefore, amounts of fair value presented in equity are recycled in the statement of profit or loss at realisation dates of hedged items.

	In millions of Euros							
As at December 31, 2022	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	882	262	247	155	63	112	43	66
Total cash flow hedges	882	262	247	155	63	112	43	66
Items not qualifying for hedge accounting								
Swaps	56	11	12	21	12	-	-	4
Total items not qualifying for hedge accounting	56	11	12	21	12	-	-	4
Total interest rate risk derivatives	938	273	259	176	75	112	43	70

The total cash flow hedges of EUR 66 million positive relates to interest rate hedging on borrowings. The cash flow hedge reserve relating to the outstanding hedges amounts to EUR 60 million.

Exposure to commodity risk

In the frame of cash flow hedges, maturities relate to realisation dates of hedged items. Therefore, amounts of fair value presented in equity are recycled in the statement of profit or loss at realisation dates of hedged items.

In the normal course of its business, the Group conducts transactions on petroleum product markets in order to effectively manage the price risks related to its purchases of fuel.

The nominal amounts of the Group's commitments on the crude and refined oil markets as at December 31, 2022 are shown below:

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	140	140	-	-	-	-	-	(1)
Options	518	518	-	-	-	-	-	(11)
Total cash flow hedges	658	658	-	-	-	-	-	(12)
Items not qualifying for hedge accounting								
Swaps	-	-	-	-	-	-	-	-
Options	-	-	-	-	-	-	-	-
Total items not qualifying for hedge accounting	-	-	-	-	-	-	-	-
Total commodity risk derivatives	658	658	-	-	-	-	-	(12)

The total cash flow hedges of EUR 12 million negative relate to commodity price risk hedging on fuel and carbon certificate purchases. The cash flow hedge reserve relating to the outstanding hedges amounts to EUR 12 million. The related costs of hedging amount to EUR 15 million positive and are recorded in other comprehensive income.

Valuation methods for financial assets and liabilities at their fair value

As at December 31, 2022, the breakdown of the Group's financial assets and derivative instruments, based on the three classification levels, is as follows:

	Level 1	Level 2	Level 3	Total
Financial assets available for sale				
Shares	13	21	-	34
Assets at fair value through profit or loss				
Marketable securities	-	1,469	-	1,469
Deposits and marketable securities	-	50	-	50
Derivatives instruments (asset and liability)				
Currency exchange derivatives	-	84	-	84
Interest rate derivatives	-	70	-	70
Commodity derivatives	-	(12)	-	(12)

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, 2022.

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

Fuel price sensitivity

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

	December 31, 2022		December 31, 2021	
	Increase of 10 USD	Decrease of 10 USD	Increase of 10 USD	Decrease of 10 USD
Income before tax	-	-	-	-
Reserves	66	(65)	93	(88)

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, 2022	Dec. 31, 2021	Dec. 31, 2022	Dec. 31, 2021
USD	657	511	619	429
JPY	-	-	168	183
CHF	-	-	391	363
GBP	-	-	-	-

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

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

	USD		JPY		GBP	
	Dec. 31, 2022	Dec. 31, 2021	Dec. 31, 2022	Dec. 31, 2021	Dec. 31, 2022	Dec. 31, 2021
Income before tax	(3)	(7)	13	17	-	-
Reserves	(137)	(95)	-	-	21	15

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 2022 (EUR nil million for 2021).

Others

The other non-current liabilities in 2022 and 2021 mainly relates to deferred payments for wage tax and social securities. Following the COVID-19 crisis, the Dutch Government issued a number of measures to support Dutch companies, such as deferral of wage tax and social securities payments for the period between March 2020 and October 2021. As from October 1, 2021, the Group pays the regular monthly wage tax and social securities and as from October 1, 2022, the Group pays the related deferred payments over a period of 60 months. As per December 31, 2022 the related undiscounted non-current deferred payments amount to EUR 1,115 million (December 31, 2021 EUR 1,398 million). As per December 31, 2022 the current deferred payments amount to EUR 285 million (December 31, 2021 EUR 73 million) and is included in note 20 in the line Taxes and social security payments. This non-cash transaction is in line with IAS 7.43 included in other payables as part of the movement in working capital in the cash flow statement.

6. Other financial assets

	Debt investments at amortised cost		At fair value through profit or loss		At fair value through OCI		Total	
	2022	2021	2022	2021	2022	2021	2022	2021
Carrying amount as at January 1	543	532	158	145	31	29	732	706
Movements								
Additions and loans granted	274	164	-	11	2	-	276	175
Loans and interest repaid	(28)	(195)	(74)	-	-	-	(102)	(195)
Interest accretion	15	12	-	-	-	-	15	12
Foreign currency translation differences	26	34	-	-	-	-	26	34
Other movements	(1)	(4)	(1)	2	1	2	(1)	-
Net movement	286	11	(75)	13	3	2	214	26
Carrying amount as at December 31	829	543	83	158	34	31	946	732

	December 31, 2022		December 31, 2021	
	Current	Non-current	Current	Non-current
Debt investments at amortised cost				
Bonds, long-term deposits, other loans and receivables	115	714	32	511
At fair value through profit or loss				
Deposits and commercial paper with original maturity 3-12 months	50	-	126	-
Other restricted deposits	-	-	-	-
Deposits on operating leased aircraft	2	30	4	24
AIR FRANCE KLM S.A. shares	-	1	-	4
	52	31	130	28
At fair value through OCI				
Kenya Airways Ltd. shares	-	13	-	13
Other non-consolidated entities	-	21	-	18
	-	34	-	31
Carrying amount as at December 31	167	779	162	570

The Group's stake in Kenya Airways Ltd. is 7.76% as at December 31, 2022 (December 31, 2021 7.76%). The Group has no significant influence on Kenya Airways and due to its strategic 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,	2022	2021
USD	657	511
Kenyan shilling	13	13
Total	670	524

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, 2022		December 31, 2021	
in %	EUR	USD	EUR	USD
Debt investments at amortised cost	0.1	2.1	0.1	1.9

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 224 million (December 31, 2021 EUR 229 million) is restricted.

The maturities of debt investments are as follows:

As at December 31,	2022	2021
Debt investments at amortised cost		
Less than 1 year	114	31
Between 1 and 2 years	186	61
Between 2 and 3 years	128	148
Between 3 and 4 years	95	31
Between 4 and 5 years	123	67
Over 5 years	183	205
Total	829	543

The fair values of the financial assets are as follows:

As at December 31,	2022	2021
Debt investments at amortised cost		
Bonds, long-term deposits, loans and receivables	829	543
At fair value through profit or loss		
Restricted deposit EU Cargo claim	50	51
Restricted deposits	-	75
Deposits on operating leased aircraft	32	28
AIR FRANCE KLM S.A. shares	1	4
	83	158
At fair value through OCI		
Kenya Airways Ltd. shares	13	13
Other non-consolidated entities	21	18
	34	31
Total fair value	946	732

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, 2022 and December 31, 2021;
- AIR FRANCE KLM S.A. shares: Quoted price as at close of business on December 31, 2022 and December 31, 2021;
- 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,	2022	2021
Less than 1 year	164	157
Between 1 and 2 years	186	61
Between 2 and 3 years	128	148
Between 3 and 4 years	95	32
Between 4 and 5 years	123	67
Over 5 years	183	209
Total interest bearing financial assets	879	674

7. Inventories

As at December 31,	2022	2021
Carrying amount		
Maintenance inventories	269	209
Allowance for obsolete inventories	(88)	(82)
Maintenance inventories - net	181	127
Other sundry inventories	74	93
Total	255	220

8. Trade and receivables

As at December 31,	2022	2021
Trade receivables	615	538
Expected credit loss	(77)	(68)
Trade receivables - net	538	470
Amounts due from:		
- AIR FRANCE KLM group companies	102	92
- associates and jointly entities	-	1
- maintenance contract customers	101	48
Taxes and social security premiums	31	24
Other receivables	191	278
Prepaid expenses	242	181
Total	1,205	1,094

	December 31, 2022	December 31, 2021
< 90 days	458	381
90-180 days	22	33
180-360 days	9	7
> 360 days	49	49
Total trade receivables	538	470

In 2022 an EUR 9 million increase (December 31, 2021 EUR 14 million increase) of provision trade receivables has been recorded in other financial income and expenses in the Consolidated statement of profit or loss.
Maintenance contract cost incurred to date for contracts in progress at December 31, 2022 amounted to EUR 101 million (December 31, 2021 EUR 48 million).
Advances received for maintenance contracts in progress at December 31, 2022 amounted to EUR 158 million (December 31, 2021 EUR 137 million).

9. Cash and cash equivalents

As at December 31,	2022	2021
Cash at bank and in hand	64	56
Short-term deposits	1,469	763
Total	1,533	819

The effective interest rates on short-term deposits are in the range from 0% to 4.45% (2021 range -0.65% 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,	2022	2021
USD	18	11
GBP	2	4
Other currencies	13	14
Total	33	29

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

10. Share capital

Authorised share capital

On December 30, 2022, the 149,998,125 ordinary shares have been split into 149,998,124 A ordinary shares and 1 B ordinary share. This did not change the total authorised share capital, which is unchanged 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
A Ordinary shares	2.00	149,998,124	299,996
B Ordinary shares	2.00	1	-
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 changes, other than the split in the authorised share capital as per December 30, 2022 as mentioned above, have occurred in the issued share capital since April 1, 2004. All issued shares are fully paid.

	Issued and fully paid			
	December 31, 2022		December 31, 2021	
	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
A Ordinary shares	46,809,698	93,619	46,809,699	93,619
B Ordinary shares	1	-	-	-
A Cumulative preference shares	8,812,500	17,625	-	-
C Cumulative preference shares	7,050,000	14,100	-	-
	62,673,511	125,347	46,811,011	93,622
Included in financial liabilities				
A Cumulative preference shares	-	-	8,812,500	17,625
C Cumulative preference shares	-	-	7,050,000	14,100
	-	-	15,862,500	31,725
Total issued share capital	62,673,511	125,347	62,673,511	125,347

Following amendments in the Articles of Association as per December 30, 2022, the A and C Cumulative preference shares have, under IFRS, been reclassified from Other financial liabilities to Share capital. Reference is made to note 14 Other financial liabilities.

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. The reserve and dividend policy of the Company may only be amended with the prior approval of the Supervisory Board and the meeting of priority shareholders (art. 32.4 AoA)
c. Distribution of interim dividends, subject to the approval of the Supervisory Board (art. 32.6 AoA);
d. 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. 32.7 AoA);
e. 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, 2022 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, 2022	86	(129)	12	457	426
Gains/(losses) from cash-flow hedges	(91)	-	-	-	(91)
Exchange differences on translating foreign operations	-	-	(3)	-	(3)
Remeasurement of defined benefit pension plans	-	166	-	-	166
Transfer to/ (from) retained earnings	-	-	-	(7)	(7)
Tax on items taken directly to or transferred from equity	24	(42)	-	-	(18)
As at December 31, 2022	19	(5)	9	450	473
As at January 1, 2021	(37)	(890)	13	473	(441)
Gains/(losses) from cash-flow hedges	165	-	-	-	165
Exchange differences on translating foreign operations	-	-	(1)	-	(1)
Remeasurement of defined benefit pension plans	-	729	-	-	729
Transfer to/ (from) retained earnings	-	205	-	(16)	189
Tax on items taken directly to or transferred from equity	(42)	(173)	-	-	(215)
As at December 31, 2021	86	(129)	12	457	426

The volatility from the main KLM pension plans has reduced significantly after the transfer to a collective defined contribution pension schemes for cockpit crew and cabin crew in 2017 and ground staff in 2021. However, the volatility in the value of fuel derivatives and the remeasurement of current defined benefit pension plans remains for other smaller KLM Group defined benefit pension plans. The non-cash changes in pension obligations together with the level of plan assets linked to the changes in actuarial assumptions that need to be recognised in the Company's equity do not directly affect the statement of profit or loss.

For an elucidation on the remaining volatility of smaller KLM Group defined pension plans and equity, reference is made to the paragraph Risks linked to the impact of external economic factors on equity and Risks linked to pension plans in the Risks and risk management section.

Due to the significant impact of COVID-19 the Company's equity was negative end 2021. Following the strong recovery in 2022 the Company's equity is positive again. Going forward KLM needs to strengthen its balance sheet and equity.

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

The ground staff plan was derecognised in 2021. Reference is made to note 18 Provisions for employee benefits.

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.

Currency hedges
Most of the aircraft lease contracts are denominated in US dollars. The Group designates the cash flows from these lease contracts as hedging instruments in cash flow hedges with its US dollars revenues as hedged items. This limits the volatility of the foreign exchange variation resulting from the currency related revaluation of its lease debt. The effective portion of the foreign exchange revaluation of the lease debt in US dollars at the closing date is recorded in "other comprehensive income". This amount is recycled in revenues when the hedged item is recognised. This also included the fair value changes in equity investments which are deemed to be business investments.

Because of COVID-19 US dollar revenues sharply decreased as from March 2020. As a consequence the Company temporarily stopped to record the foreign exchange revaluation of the lease debt on US dollars at the closing date in "other comprehensive income" since the hedge was not effective, but records those in foreign currency exchange gains/(losses) in the Consolidated statement of profit or loss. As from July 2021 the US dollar revenues increased again and consequently the Company started to use the US dollar revenues as hedging instruments again.

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

Other reserve
The other reserve relates to development cost incurred on computer software and prepayments thereon amounting to EUR 433 million as at December 31, 2022 (December 31, 2021 EUR 440 million) and investments accounted for using the equity method amounting to EUR 17 million as at December 31, 2022 (December 31, 2021 EUR 17 million) as required by Article 365.2 of Book 2 of the Dutch Civil Code.

12. Financial debt

	December 31, 2022			December 31, 2021		
	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	279	38	241	167	12	155
Total current	279	38	241	167	12	155
Between 1 and 2 years	232	37	195	210	15	195
Between 2 and 3 years	268	32	236	185	15	170
Between 3 and 4 years	264	26	238	195	12	183
Between 4 and 5 years	245	21	224	234	8	226
Over 5 years	765	54	711	548	17	531
Total non-current	1,774	170	1,604	1,372	67	1,305
Total	2,053	208	1,845	1,539	79	1,460

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 1.81% (average fixed rate 1.35%, average floating rate 2.47%). Taking into account the impact of hedging the average interest rate is 1.89% (average fixed rate 2.52%, average floating rate 0.97%). After hedging 77% of the outstanding lease liabilities have a fixed interest rate.

The carrying amount for the financial debt approximates the fair value as at December 31, 2022. 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 deposits are held. Reference is made to note 6 Other financial assets.

13. Lease debt

	December 31, 2022		December 31, 2021	
	Current	Non-current	Current	Non-current
Lease Debt - Aircraft	230	730	241	672
Lease Debt - Real estate	15	152	15	137
Lease Debt - Others	28	72	27	70
Accrued interest	5	-	5	-
Total	278	954	288	879

Change in lease debt:

	As at January 1, 2022	New contracts and renewals of contracts	Payment of lease debt	Currency translation adjustment	Other	As at December 31, 2022
Lease Debt - Aircraft	913	258	(247)	39	(3)	960
Lease Debt - Real estate	152	34	(17)	-	(2)	167
Lease Debt - Others	97	27	(26)	3	(1)	100
Accrued interest	5	-	-	-	-	5
Total	1,167	319	(290)	42	(6)	1,232

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

The lease debt maturity breaks down as follows:

	2022	2021
Less than 1 year	351	352
Between 1 and 2 years	292	259
Between 2 and 3 years	227	208
Between 3 and 4 years	173	161
Between 4 and 5 years	125	134
Over 5 years	266	298
Total	1,434	1,412
Including		
- Principal	1,232	1,167
- Interest	202	245

14. Other financial liabilities

	2022	2021
Carrying amount as at Jan 1	2,028	2,117
Additions and loans received	93	291
Loans repaid	(1,139)	(432)
Foreign currency translation differences	12	21
Other changes	6	31
Net movement	(1,028)	(89)
Carrying amount as at December 31	1,000	2,028

The other financial liabilities comprise:

	December 31, 2022		December 31, 2021	
	Current	Non-current	Current	Non-current
A Cumulative preference shares	-	-	-	18
C Cumulative preference shares	-	-	-	14
Revolving credit facility	-	-	-	682
Direct State loan	-	-	-	279
Subordinated perpetual loans	-	523	-	516
Other loans (secured/unsecured)	184	293	188	331
Total	184	816	188	1,840

The remaining maturity of financial liabilities is as follows:

As at December 31,	2022	2021
Less than 1 year	184	188
Between 1 and 2 years	196	44
Between 2 and 3 years	97	178
Between 3 and 4 years	-	775
Between 4 and 5 years	-	250
Over 5 years	523	593
Total	1,000	2,028

A and C Cumulative preference shares

Following amendments in the Articles of Association as per December 30, 2022, the A and C Cumulative preference shares have, under IFRS, been reclassified from Other financial liabilities to Share capital. Reference is made to note 10 Share capital.

Revolving credit facility and direct State loan

As mentioned in the 2020 and 2021 Financial statements, from the start of the COVID-19 crisis, the Group was aware it needed additional financing to ensure that the Group can continue its activities and that its position is strengthened towards the future.

After careful discussions with both the Dutch Government and banks, KLM secured a Dutch State support package to ensure liquidity.

This has been announced by the Dutch Government and KLM on June 26, 2020. The Dutch State support package and the conditions imposed by the Dutch Government in connection therewith have been approved by Dutch parliament and by the European Commission on July 13, 2020.

The Dutch State support package consists of:
» A 90% State guaranteed revolving credit facility of EUR 2.4 billion with a maturity of 5 years. The facility is granted by 11 banks, of which three Dutch banks and eight foreign banks. The EUR 665 million drawn under the previous revolving credit facility on March 19, 2020 has been redeemed on August 26, 2020 and on that date the same amount was drawn under the 90% State guaranteed revolving credit facility. The facility has an interest of EURIBOR (floored at zero) plus a margin of 1.35%. The cost of the associated Dutch Government guarantee equals to 0.50% in year 1, 1.00% in year 2 and 3 and 2.00% after year 3; and
» A direct State loan of EUR 1 billion with a maturity of 5.5 years and an interest of EURIBOR 12 months (floored at zero) plus a margin of 6.25% for year 1, 6.75% for year 2 and 3, and 7.75% for year 4 and 5. The loan, provided by the Dutch Government, will be subordinated to the revolving credit facility. On August 26, 2020, KLM received EUR 277 million of this loan.

Both the revolving credit facility and the direct loan will be drawn simultaneously on a pro rata basis.

On October 1, 2020, KLM submitted its restructuring plan to the Dutch Ministry of Finance. The presentation of this restructuring plan was a key condition in obtaining the aforementioned direct State loan and guarantees to the value of EUR 3.4 billion.
The plan outlines how KLM intends to fulfil the conditions imposed by the Dutch Government.
Substantively, the plan includes elements such as the reassessment of strategy, becoming more sustainable, the restored performance and competitiveness of the entire KLM Group, including a comprehensive restructuring plan, manageable cost improvements, financial considerations and how KLM staff will contribute by way of reduced employment conditions. In addition KLM has undertaken to suspend dividend payments to its shareholders until these two loans have been repaid in full.

On November 3, 2020 the Dutch Ministry of Finance approved the plan and KLM has the possibility to draw additional amounts under the Dutch State support package in full. As per that date KLM can draw an additional amount of EUR 2,458 million under the Dutch State support package.

As per December 31, 2021 KLM has drawn in total EUR 942 million (the aforementioned EUR 665 million under the revolving credit facility and the aforementioned EUR 277 million under the direct State loan). Following the strong recovery in 2022, KLM fully repaid the EUR 665 million under the revolving credit facility and EUR 277 million under the direct State loan in the first half of 2022. As per December 31, 2022 KLM has no drawings under both the revolving credit facility and the direct State loan.

Going forward KLM can, in total, still draw EUR 2,458 million under the revolving credit facility and direct State loan. As per December 31, 2022 the revolving credit facility has a remaining contractual maturity of 2.5 years and the direct State loan has a remaining contractual maturity of 3 years. Furthermore, a quarterly 12 months rolling cash flow forecast is required as from September 2021. Other financial covenants include a required interest coverage ratio and a required ratio of Consolidated

Unsecured Assets to Consolidated Unsecured Net Debt. The minimum required interest coverage ratio is 2.5 under the revolving credit facility and 1.67 under the direct State loan. The applicable ratio of Consolidated Unsecured Assets to Consolidated Unsecured Net Debt remains constant and is set not to be between 0 and 1 under the revolving credit facility. Under the direct State loan the applicable ratio of Consolidated Unsecured Assets to Consolidated Unsecured Net Debt also remains constant and shall not be between 0 and 0.67. Per December 31, 2021, the intermediate quarters and December 31, 2022 the financial covenants were met. It is expected that KLM will continue to meet the financial covenants going forward.

During 2022, the state agent monitored compliance with the conditions under the Dutch State support package that was provided by the Dutch Government. In January 2023 the state agent reported to the Minister of Finance his fourth monitoring report on compliance with these conditions. The state agent notes that steps are taken on the road to recovery of KLM. However, it is also reported that certain conditions are not met. KLM shares the state agent's ambition to emerge strong and competitive from the crisis that was caused by the pandemic. KLM took numerous measures to meet this aim and will continue to do so in future. KLM kept the focus on cost reduction and worked on a healthy business model. KLM is confident that it will continue to connect the Netherlands with the rest of the world as a future-proof airline. The state agent is critical concerning the rising cost, but KLM needed to increase wages to match the high inflation and tight labor market. KLM complied with the 15% reduction of manageable cost in 2021 and 2022. The state agent is positive regarding KLM's activities related to sustainability In December 2022, KLM agreed to start preparations for a new commercial credit facility to replace the currently available direct State loan and 90% State guaranteed revolving credit facility.

Subordinated perpetual loans

The subordinated perpetual loans are subordinated to all other existing and future KLM debts. The subordinations are equal in rank. Under certain circumstances, KLM has the right to redeem the subordinated perpetual loans, with or without payment of a premium.

As per August 28, 2019 KLM has reduced the principal amount of the Japanese Yen subordinated perpetual loan to JPY 20 billion (EUR 164 million) by repaying JPY 10 billion to the lender. As from this date a fixed JPY interest of 4.0% is applicable.

The Swiss Franc subordinated perpetual loans amounting to CHF 375 million, being EUR 381 million as at December 31, 2022 (December 31, 2021 EUR 363 million) are listed on the SWX Swiss Exchange, Zurich.

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

As at December 31,	2022	2021
CHF	381	363
JPY	142	153
Total	523	516

Other loans

On December 31, 2022, KLM has a portfolio of other loans amounting to EUR 477 million (December 31, 2021 EUR 519 million). Other loans mainly consist of unsecured bilateral loans and mortgage loans. Other loans either carry a fixed interest rate or a floating interest rate based on EURIBOR or USD LIBOR. The outstanding other loans on December 31, 2022 have a maximum remaining maturity of 3 years.

The fair values of financial liabilities are as follows:

As at December 31,	2022	2021
A Cumulative preference shares	-	18
C Cumulative preference shares	-	14
Revolving credit facility	-	665
Direct State loan	-	277
Subordinated perpetual loans	414	434
Other loans (secured/unsecured)	478	539
Fair value	892	1,947

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 year and < 5 years	> 5 years	Total
As at December 31, 2022				
Total borrowings	451	27	522	1,000
	451	27	522	1,000
As at December 31, 2021				
Total borrowings	1,411	23	594	2,028
	1,411	23	594	2,028

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

	December 31, 2022		December 31, 2021	
in %	EUR	Other	EUR	Other
Cumulative preference shares	-	-	4	-
Revolving credit facility	-	-	4	-
Direct State loan	-	-	7	-
Subordinated perpetual loans	-	4	-	4
Other loans	3	-	3	-

The interest rates of the revolving credit facility, direct State loan, subordinated perpetual loans and other loans, taking into account the effect of derivatives, are as follows:

	Variable interest loans	Fixed interest loans	Average variable %-rate	Average fixed %-rate	Average %-rate
Revolving credit facility	-	-	-	-	-
Direct State loan	-	-	-	-	-
Subordinated perpetual loans	-	523	-	4.25%	4.25%
Other loans	447	30	3.16%	0.21%	2.96%

The variable interest rates are based on EURIBOR or the USD LIBOR rate.

The total financial liabilities are as follows:

		As at December 31,	
	Note	2022	2021
Finance lease obligations	12	241	155
Lease debt	13	278	288
Other financial liabilities	14	184	188
Total current		**703**	**631**
Finance lease obligations	12	1,604	1,305
Lease debt	13	954	879
Other financial liabilities	14	293	331
Revolving credit facility	14	-	682
Direct State loan	14	-	279
Perpetual subordinated loan stock in YEN	14	142	153
Perpetual subordinated loan stock in Swiss francs	14	381	363
Cumulative preference shares	14	-	32
Total non-current		**3,374**	**4,024**
Total		**4,077**	**4,655**

The total movements in financial liabilities are as follows:

	Note	As at January 1, 2022	New financial debt	Reimbursment of financial debt	Currency translation differences	Other	As at December 31, 2022
Finance lease obligations	12	1,460	519	(175)	30	11	1,845
Lease debt	13	1,167	318	(290)	41	(4)	1,232
Other financial liabilities	14	519	130	(180)	5	3	477
Revolving credit facility	14	682	-	(682)	-	-	-
Direct State loan	14	279	-	(277)	-	(2)	-
Perpetual subordinated loan stock	14	516	-	-	7	-	523
Cumulative preference shares		32	-	-	-	(32)	-
Total		4,655	967	(1,604)	83	(24)	4,077

15. Net debt

As at December 31	2022	2021
Current and non-current financial debt	4,075	4,644
Financial debt	**4,075**	**4,644**
Cash and cash equivalents	1,533	819
Restricted deposits	58	130
Cross currency element of CCIR swaps	13	4
Near cash *	843	556
Financial assets	**2,447**	**1,509**
Total net debt	1,628	3,135

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

	2022	2021
Carrying amount as at January 1	3,135	3,536
Adjusted free cash flow	(1,544)	(404)
Repayment lease debt	(290)	(315)
New lease debt	318	204
Other (including currency translation adjustment)	9	114
Net movement	(1,507)	(401)
Carrying amount as at December 31	1,628	3,135

Total net debt does not include the non-current and current deferred wage tax and social securities payments of in total EUR 1,400 million (December 31, 2021 EUR 1,471 million). Reference is made to the "Others" paragraph in note 5 Other (non-current) assets and liabilities.

16. Deferred income

	December 31, 2022		December 31, 2021	
	Current	Non-current	Current	Non-current
Advance ticket sales	1,439	-	1,019	-
Sale and leaseback transactions	15	1	2	3
Flying Blue frequent flyer program	79	231	54	251
Others	3	3	6	5
Total	1,536	235	1,081	259

Advance ticket sales corresponds to sold passenger tickets and freight airway bills which will be recognised in revenues at the date of transportation.

17. Deferred tax assets

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

	2022	2021
Carrying amount as at January 1	(122)	(77)
Income statement expense	(305)	(255)
Tax (credited)/charged to equity	18	215
Other movements	(2)	(5)
Net movement	(289)	(45)
Carrying amount as at December 31	(411)	(122)

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

As at December 31,	2022	2021
Current income tax liabilities Dutch tax fiscal unity	39	-
Deferred tax asset other tax jurisdictions	(2)	(24)
Deferred tax liability/(asset) Dutch tax fiscal unity	(448)	(98)
Total	(411)	(122)

As per December 31, 2021 the Group had significant tax losses, related to the COVID-19 losses, carry forwards amounting to EUR 1,651 million, for which due to the degree of uncertainty about the timing and degree of recovery and in line with IAS 12, no deferred tax asset for unused operating losses was recognised as per December 31, 2021. KLM had an amount of EUR 426 million for unused operating losses not recognised as per December 31, 2021.

As from January 1, 2022, the maximum future period for utilising tax losses carried forward is indefinite under income tax law in the Netherlands for the KLM income tax fiscal unity. However, utilising tax losses carried forward is limited to 50% of taxable profits per year. Current income tax has to be paid over the other 50% of taxable profits per year. Also in the United Kingdom, the maximum future period for utilising tax losses carried forward is indefinite. Also per that date, the Dutch income tax increase from 25.0% in 2021 to 25.8% as from 2022. In the UK the income tax rate remained at 25%.

Following the strong recovery in 2022, the Group made a 2022 fiscal profit and expects to achieve fiscal profits going forward. Consequently the Group recorded, in line with IAS 12, a deferred tax asset for unused operating losses as per December 31, 2022. Taking into account the 2022 fiscal profits, the tax losses carried forward, amounts to EUR 1,503 million as per December 31, 2022 and the related deferred tax asset is EUR 388 million per that date.

Following the 2022 fiscal profits, Dutch KLM tax fiscal unity also has a current tax payable of EUR 39 million as per December 31, 2022 (December 31, 2021, no current tax payable), which is shown as a current liability in KLM Group's balance sheet.

The amounts of deferred tax assets recognised in the KLM income tax fiscal unity in the Netherlands are included in the deferred tax asset line within non-current assets on the balance sheet. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

As per December 31, 2022 the KLM income tax fiscal unity in the Netherlands has a deferred tax asset relating to deductible interest expense carried forward with an indefinite period, amounting to EUR 15 million (December 31, 2021 EUR 57 million).

The Group includes a fully consolidated Cell in Harlequin Insurance PCC Limited – Cell K16, St. Peter Port (Guernsey). Respective income from the Cell is also included in the taxable basis of the KLM income tax fiscal unity in the Netherlands.

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

As at December 31,	2022	2021
Deferred tax assets		
Deferred tax assets to be recovered in 12 months or less	56	-
Deferred tax assets to be recovered after more than 12 months	414	137
	470	137
Deferred tax liabilities		
Deferred tax liabilities to be settled in 12 months or less	-	-
Deferred tax liabilities to be settled over more than 12 months	22	39
	22	39
Net Deferred tax asset KLM income tax fiscal unity (offset)	(448)	(98)

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					
2022					
Tax losses	–	388	–	–	388
Deductible interest expenses carried forward	57	(42)	–	–	15
Provisions for employee benefits	24	–	(22)	–	2
Other tangible fixed assets	35	6	–	–	41
Pensions and benefits	42	–	(19)	–	23
Other	3	(8)	6	2	3
Total	161	344	(35)	2	472

	Carrying amount as at January 1	Income statement (charge)/ credit	Tax (charged)/ credited to equity	Other	Carrying amount as at December 31
Deferred tax assets					
2021					
Deductible interest expenses carried forward	10	47	–	–	57
Provisions for employee benefits	27	–	(3)	–	24
Other tangible fixed assets	29	6	–	–	35
Derivative financial instruments	17	–	(56)	39	–
Pensions and benefits	–	–	–	42	42
Other	2	(16)	13	4	3
Total	85	37	(46)	85	161

	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					
2022					
Derivative financial instruments	39	-	(17)	-	22
Total	39	-	(17)	-	22

	Carrying amount as at January 1	Income statement charge/ (credit)	Tax (charged)/ credited to equity	Other	Carrying amount as at December 31
Deferred tax liabilities					
2021					
Derivative financial instruments	-	-	-	39	39
Pensions and benefits	8	(218)	168	42	-
Total	8	(218)	168	81	39

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 2 million, EUR nil million is expected to be recovered in 12 months or less and EUR 5 million is expected to be recovered after more than 12 months. An amount of EUR 3 million negative relates to taxes on remeasurement via other comprehensive income of defined benefit pension plans and will not be recycled through the statement of profit or loss.

The Group has tax loss carry forwards in the United Kingdom in the amount of EUR 7 million (December 31, 2021 EUR 9 million) as well as deductible temporary differences in the amount of EUR 28 million (December 31, 2021 EUR 36 million) for which no deferred tax asset has been recognised, due to the uncertainty whether there are sufficient future tax profits against which such temporary differences and tax losses can be utilised.

18. Provisions for employee benefits

As at December 31,	2022	2021
Pension and early-retirement obligations	117	255
Post-employment medical benefits	18	26
Other long-term employment benefits	110	108
Termination benefits	8	10
Total Liabilities	253	399
Less: Non-current portion		
Pension and early-retirement obligations	106	240
Post-employment medical benefits	17	24
Other long-term employment benefits	98	99
Termination benefits	7	9
Non-current portion	228	372
Current portion	25	27

As at December 31,	2022	2021
Assets		
Pension assets non-current portion	27	-
Total assets	27	-

Pension plans

In 2021 KLM and KLM ground unions agreed on a protocol to arrive at a future proof pension agreement in December 2020. At the end of May 2021, all conditions, such as, the approval of the Board of the KLM Ground pension fund and the modified plan qualifying as a defined contribution scheme (collective defined contribution) under IFRS, were met and derecognition of the related pension asset took place.

The pension asset, based on specific actuarial assumptions for the Ground staff plan as at end May 2021, amounted to EUR 875 million and has been recorded, as a non-cash settlement expense. In addition a cash settlement expense contribution, for pension premium savings since 2014, of EUR 49 million was paid to the Ground staff plan in 2021. Lastly it was agreed that KLM will pay additional employer premiums as from January 1, 2021 going forward. The related amount for the period January through May 2021 is EUR 14 million and has been recorded as a cash settlement expense and paid to the Ground staff plan in 2021. In total a settlement expense of EUR 938 million (non-cash EUR 875 million and cash EUR 63 million) has been recorded. Reference is made to note 25 Employee compensation and benefit expenses and note 28 Alternative performance measures. In 2022 no KLM Group pension plans have been derecognised.

The Company sponsors a number of pension plans for employees world-wide. As per December 31, 2022, the major defined benefit plans include the United Kingdom, Germany, Hong Kong, and Japan. These plans are funded through separate pension funds which are governed by independent boards and are subject to supervision of the local regulatory authorities. In addition to these major plans there are various relatively insignificant defined benefit and defined contribution plans for employees located in- and outside the Netherlands.

Developments 2022

In 2022 the financial markets showed a strong decrease. Overall this resulted in decreased plan assets with EUR 131 million, from EUR 534 million end 2021 to EUR 403 million end 2022. This was more than off set by the considerable increase of the discount rate during 2022, resulting in much lower pension obligations of EUR 296 million, from EUR 789 million end 2021 to EUR 493 million end 2022. For the KLM UK pension plan this resulted in a pension asset of EUR 27 million as per end 2022.

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 %	2022	2021
Weighted average assumptions used to determine benefit obligations		
Discount rate for year-ended	4.40	1.56
Rate of compensation increase	2.48	2.27
Rate of price inflation	3.21	3.24
Weighted average assumptions used to determine net cost		
Discount rate for year ended	1.56	0.79
Rate of compensation increase	2.27	1.03
Rate of price compensation	3.24	1.46

The Company refines its calculations, by retaining the adequate flows, on the discount rate used for the service-cost calculation.
In the Euro zone, this leads to the use of a discount rate of 0.10% higher for the service-cost calculation compared to the one used for the discount of the benefit obligation.

Recognition of pension assets and liabilities in the balance sheet

	Pension and early-retirement obligations	
As at December 31,	2022	2021
Present value of wholly or partly funded obligations	493	789
Fair value of plan assets	(403)	(534)
Net liability/(asset) relating pension and other post-retirement obligations	**90**	**255**

The funds together have a liability totaling EUR 90 million as at December 31, 2022 (December 31, 2021 a liability of EUR 255 million), consisting of a pension asset of EUR 27 million and pension obligations of EUR 117 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 pension asset is recognised in the balance sheet is applied since, based on the current financing agreement between the KLM UK pension plan and the Company, future economic benefits are available in the form of an unconditional right to a refund assuming gradual settlement of the plan liabilities over time until the last member has left the plan. This corresponds to the situation described in IFRIC 14,11.b, under which a refund is considered available to an entity.

This pension asset recognised is not readily available for the Company, but is, with reference to IFRIC 14.8, considered available even if it is not realisable immediately at the end of the financial year.

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 KLM UK pension plan and the Company can have a significant impact on the net pension assets (IFRIC 14).

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

	Pension and early-retirement obligations	
	2022	2021
Carrying amount as at January 1	789	10,819
Current service cost	12	107
Interest expense	13	41
Settlements/curtailments	-	(9,670)
Actuarial losses/(gains) demographic assumptions	(3)	(13)
Actuarial losses/(gains) financial assumptions	(262)	(414)
Actuarial losses/(gains) experience adjustments	(3)	(12)
Benefits paid from plan/company	(29)	(113)
Exchange rate changes	(24)	44
Net movement	(296)	(10,030)
Carrying amount as at December 31	493	789

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

	2022	2021
Fair value as at January 1	534	10,718
Interest income	10	39
Return on plan assets excluding interest income	(111)	291
Employer contributions	14	146
Member contributions	-	16
Settlements/curtailments	-	(10,608)
Benefits paid from plan / company	(21)	(101)
Exchange rate changes	(23)	33
Net movement	(131)	(10,184)
Fair value as at December 31	403	534

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

The experience adjustments are as follows:

	2022	2021
Benefit obligation	(3)	(12)
Plan asset	(111)	291

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	2022	2021
0.25% increase in the discount rate		
Impact on service cost	-	(1)
Impact on defined benefit obligation	(16)	(33)
0.25% decrease in the discount rate		
Impact on service cost	-	1
Impact on defined benefit obligation	18	37

The sensitivity of the defined benefit cost recognised in profit or loss and the defined benefit obligation to variation in the salary increase is:

In millions of Euros	Sensitivity of the assumptions for the year ended December 31, 2022	2021
0.25% increase in the salary increase		
Impact on service cost	-	-
Impact on defined benefit obligation	5	5
0.25% decrease in the salary increase		
Impact on service cost	-	-
Impact on defined benefit obligation	(4)	(5)

The sensitivity of the defined benefit cost recognised in profit or loss and the defined benefit obligation to variation in the pension increase rate is:

In millions of Euros	Sensitivity of the assumptions for the year ended December 31, 2022	2021
0.25% increase in the pension increase rate		
Impact on service cost	-	-
Impact on defined benefit obligation	7	18
0.25% decrease in the pension increase rate		
Impact on service cost	-	-
Impact on defined benefit obligation	(7)	(21)

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

in %	As at December 31, 2022	2021
Debt securities	22	21
Real estate	7	6
Equity securities	48	48

Debt securities are primarily composed of listed government bonds (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 (listed and unlisted) in Europe and the United States of America. Equity securities are mainly listed and invested in Europe, the United States of America and emerging countries.

Post-employment medical benefits

This provision relates to the obligation the Company has to contribute to the cost of employees' medical insurance after retirement in the United States of America and Canada.

As at December 31,	Post-employment medical benefits 2022	2021
Present value of unfunded obligations	18	26
Net liability/(asset) relating pension and other post-retirement obligations	18	26

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

	Post-employment medical benefits	
	2022	2021
Carrying amount as at January 1	26	24
Interest expense	1	1
Actuarial losses/(gains) financial assumptions	(8)	(1)
Actuarial losses/(gains) experience adjustments	-	1
Benefits paid from plan/company	(2)	(2)
Exchange rate changes	1	3
Net movement	(8)	2
Carrying amount as at December 31	18	26

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 %	2022	2021
Weighted average assumptions used to determine benefit obligations		
Discount rate for year	5.85	2.80
Weighted average assumptions used to determine net cost		
Discount rate for year	2.80	2.75
Medical cost trend rate assumptions used to determine net cost *		
Immediate trend rate Pre 65	1.90	2.30
Immediate trend rate Post 65	1.90	2.30
Ultimate trend rate	3.80	3.60
Year that the rate reaches ultimate trend rate	2073	2074

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

Other long-term employee benefits

	2022	2021
Jubilee benefits	63	65
Other benefits	47	43
Total carrying amount	110	108
Less: Non-current portion		
Jubilee benefits	58	62
Other benefits	40	37
Non-current portion	98	99
Current portion	12	9

The provision for jubilee benefits covers bonuses payable to employees when they attain 25 and 40 years of service.
The provision other benefits mainly relates to the own risk carrier long-term disability plan.

Termination benefits

	2022	2021
Redundancy benefits		
Non-current portion	7	9
Current portion	1	1
Total carrying amount	8	10

Termination benefits relate to a provision for projected dismissal benefits (also called severance or termination indemnities) to current employees in case they voluntary choose to leave the Company.

19. Return obligation liability and other provisions

			Other provisions			
	Return obligation liability on leased aircraft	Maintenance liability on leased aircraft	Legal and civil litigations	Restructuring and voluntary leave	Other	Total
As at January 1, 2022	70	1,290	176	10	35	1,581
Additions and increases	8	(2)	6	7	87	106
Unused amounts reversed	-	-	(1)	(1)	-	(2)
Used during year	(3)	(39)	(2)	(10)	(23)	(77)
New/ Changes in lease contracts	(2)	(45)	-	-	(2)	(49)
Foreign currency translation differences	1	68	-	-	1	70
Accretion impact	(1)	54	-	-	-	53
Other changes	-	-	-	1	1	2
As at December 31, 2022	73	1,326	179	7	99	1,684
Current/non-current portion						
Non-current portion	62	1,158	154	-	6	1,380
Current portion	11	168	25	7	93	304
Carrying amount as at December 31, 2022	73	1,326	179	7	99	1,684

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

Return obligation and maintenance liabilities on leased aircraft

The movements in return obligation and maintenance liabilities (escalation costs and change in discount rate) are booked in the components corresponding to the potential and restoration work performed on leased aircraft and recorded in right-of-use assets. Effects of accretion and foreign exchange translation of return obligation liabilities recorded in local currencies are recognised in "Other financial income and expenses" (see note 29).

The discount rate used to calculate these restitution liabilities relating to leased aircraft, determined on the basis of a short-term risk-free rate increased by a spread on risky debt (used for companies with high financial leverage), is 5.5% as of December 31, 2022 versus 3.6% as of December 31, 2021.

Other provisions

Legal and civil litigations

The provision as at December 31, 2022 mainly relates to the Cargo anti-trust investigations in Europe for KLM and Martinair and a court case brought against KLM by (former) Martinair pilots. For more details, reference is made to note 22 Contingent assets and liabilities.

Restructuring and voluntary leave

In 2022 only small additional expenses related to restructuring and voluntary leave plans have been recorded. The provision as at December 31, 2022 fully relates to the remaining expected cash out for some small restructuring plans. Reference is made to note 25 Employee compensation and benefit expenses and note 28 Alternative performance measures.

Other

Other provisions include provisions for onerous contracts (third party maintenance contracts in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it), onerous leases of aircraft and site restoration cost for land and buildings under long-term lease agreements.

20. Trade and other payables

As at December 31,	2022	2021
Trade payables	1,076	771
Amounts due to AIR FRANCE KLM Group companies	86	105
Taxes and social security premiums	653	332
Other payables	631	460
Accrued liabilities	158	126
Total	2,604	1,794

The line Taxes and social security premiums include the current deferred payments for wage tax and social securities amounting to EUR 285 million as per December 31, 2022 (December 31, 2021 EUR 73 million). Reference is made to note 5.

21. Commitments

As at December 31, 2022, KLM has commitments for previously placed orders amounting to EUR 4,667 million (December 31, 2021 EUR 1,376 million).
EUR 4,510 million of this amount (December 31, 2021 EUR 1,226 million) relates to future owned and new right-of-use aircraft of which EUR 375 million is due in 2023. In the amount for new right-of-use aircraft EUR 158 million relates to future interest.

The balance of the commitments as at December 31, 2022 amounting to EUR 157 million (December 31, 2021 EUR 150 million) is related to property, plant and equipment.

As at December 31, 2022 prepayments on aircraft have been made, amounting to EUR 493 million (December 31, 2021 EUR 442 million) and are included in the prepayments net carrying amount in note 1.

22. Contingent assets and liabilities

Contingent liabilities

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

Antitrust investigations and civil litigation

a. **Actions instigated by the EU Commission and several competition authorities in other jurisdictions for alleged cartel activity in air cargo transport.**

AIR FRANCE, KLM and Martinair have been involved, since February 2006, with up to twenty-five other airlines in investigations initiated by the antitrust authorities in several countries with respect to allegations of anti-competitive agreements or concerted actions in the airfreight industry.

As of December 31, 2016, most of these investigations and related public proceedings have been concluded, with the following exceptions:

On March 17, 2017, the European Commission announced that it would fine eleven airlines, including KLM, Martinair and AIR FRANCE, for practices in the air cargo sector that are considered anti-competitive and relate mainly to the period between December 1999 and February 2006. This decision follows the initial decision of the Commission of November 9, 2010, which was issued to the same airlines for the same alleged practices and was annulled on formal grounds by the General Court of the European Commission in December 2015.

The fine for KLM and Martinair, as announced on March 17, 2017, amounts to EUR 142.6 million and is slightly lower than the initial fine imposed in 2010. On 29 May 2017, KLM submitted its appeal to the General Court of the EU. The General Court of the EU rendered judgment on March 30, 2022 and dismissed the appeal of KLM and Martinair. On June 13, 2022 KLM and Martinair have appealed the judgment at the Court of Justice of the EU. 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 have challenged the decision rendered by the Swiss Competition Authority (WEKO) imposing a EUR 3.2 million fine before the relevant administrative court (the Federal Administrative Tribunal (FAT). On December 20, 2022, the FAT annulled the WEKO decision. WEKO did not file an appeal in January 2023 and therefore this case is closed.

As of December 31, 2022, the total amount of provisions in connection with antitrust cases amounts to EUR 154 million (including accrued interest).

b. Related civil lawsuits

Following the initiation of various investigations by competition authorities in 2006 and the EU Commission decision in 2010, several collective and individual actions were brought by forwarders and airfreight shippers in civil courts against KLM, AIR FRANCE and Martinair, and the other airlines in several jurisdictions.

The only civil lawsuits still pending are in the Netherlands and Norway and the latter procedure is stayed. The claimants, shippers and freight forwarders, are claiming from the defendants AIR FRANCE, KLM and/or Martinair and other airlines, damages to compensate alleged higher prices as a consequence of the alleged anticompetitive behaviour from the defendants. AIR FRANCE, KLM and/or Martinair as main defendants have initiated contribution proceedings against other airlines.

c. 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 June 2022 an agreement was reached to settle the claims for USD 3.9 million, which has been split on a 50/50 basis between KLM and AIR FRANCE.

Case brought against KLM by (former) Martinair pilots

A case was brought against KLM by a number of (former) Martinair airline pilots on the basis that the cargo department of Martinair was transferred to KLM and that all former cockpit crew are entitled to remuneration from KLM, taking into account the Martinair seniority.

After several court cases the supreme court ruled that the judgment of the court of appeal lacked sufficient motivation and referred the case to another court of appeal in November 2019. On June 8, 2021 the Dutch court ruled against KLM in the case of former Martinair pilots. The pilots have become employed by KLM per January 1, 2014 and KLM is obliged to offer the pilots to be reinstated in their former position at Martinair. KLM is executing the court ruling and thus has offered the former Martinair pilots a renewed employment. Furthermore, the court has ruled that KLM is due to pay any damages caused by not correctly adhering to the laws of ‘transfer of undertaking’. Subsequent (individual) court cases have been initiated regarding the interpretation of the verdict. As of December 31, 2022, KLM maintained a provision of EUR 22 million.

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 37 million as at December 31, 2022 (December 31, 2021 EUR 54 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 consolidated companies to third parties amount to EUR 498 million as at December 31, 2022 (December 31, 2021 EUR 514 million).

Contingent assets

Other litigation

The Company and certain of its subsidiaries are involved as plaintiff in litigation relating to commercial transactions and tax disputes. Although the ultimate disposition of asserted claims and proceedings cannot be predicted with certainty, it is the opinion of the Company's management that the outcome of any such claims, either individually or on a combined basis, will not have a material favourable effect on the Company's consolidated financial position, but could be material to the consolidated results of operations of the Company for a particular period.

23. Revenues

	2022	2021
Services rendered		
Passenger transport	7,210	3,109
Cargo transport	1,748	1,980
Network	8,958	5,089
Maintenance contracts	710	471
Leisure	992	484
Other services	19	21
Total revenues	10,679	6,065

24. External expenses

	2022	2021
Aircraft fuel	2,700	1,185
Chartering costs	267	263
Landing fees and route charges	676	496
Catering	187	92
Handling charges and other operating costs	533	352
Aircraft maintenance costs	827	615
Commercial and distribution costs	378	196
Insurance	24	24
Rentals and maintenance of housing	151	139
Sub-contracting	204	150
Other external expenses	285	190
Total external expenses	6,232	3,702

Aircraft fuel expenses include an amount of EUR 498 million positive (2021 EUR 110 million positive), which was transferred from other comprehensive income to the consolidated statement of profit or loss.
Aircraft fuel expenses include a net amount of EUR nil million (2021 EUR 1 million) related to fuel delivered to SkyTeam partners at Schiphol. The net amount consists of EUR 282 million cost (2021 EUR 80 million) and EUR 282 million income (2021 EUR 79 million).

25. Employee compensation and benefit expenses

	2022	2021
Wages and salaries	2,383	1,977
NOW subsidy	(134)	(771)
Social security premiums other than for state pension plans	242	216
Voluntary leave and restructuring plans	6	4
Legal provision	-	22
Share-based remuneration	(1)	-
Hired personnel	145	77
Pension and early-retirement plan costs	304	316
Curtailment pension plans	-	938
Post-employment medical benefit costs	3	1
Other long-term employee benefit costs	7	12
Total employee compensation and benefit expenses	2,955	2,792

Following the COVID-19 crisis, the Group applied for the "Temporary Emergency Bridging Measure for Sustained Employment" (NOW) as introduced by the Dutch Government. The 2022 NOW compensation amounts to EUR 134 million for the period January until March 2022 and relates to NOW 6, the last NOW period. The 2021 NOW compensation amounts to EUR 771 million for the period January until December 2021.

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

Pension and early-retirement plan cost comprises:

	2022	2021
Defined benefit plans	16	93
Defined contribution plans	288	223
Total	304	316

Defined benefit plans and early-retirement plan cost comprises:

	2022	2021
Current service cost	11	86
Interest expense	13	41
Interest income	(10)	(39)
Administration cost	2	5
Total	16	93

In the financial year 2022 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 16 million (2021 EUR 93 million) and the total contributions paid by the Group amounted to EUR 14 million (2021 EUR 83 million, excluding EUR 63 million cash settlement related to the KLM Ground staff plan in 2021). The 2022 amounts are far less than for 2021, following the derecognition of the KLM Ground staff plan in the course of 2021. Reference is made to note 18 Provisions for employee benefits. The contributions paid in the financial year 2022 include additional deficit funding for the Dutch KLM plans amounting to EUR nil million (2021 EUR nil million) and in the United Kingdom amounting to EUR 12 million (2021 EUR 12 million). The Group's projected defined benefit plans and early retirement plan cost for 2023 amount to EUR 11 million. The Group's expected cash contributions for these plans amount to EUR 8 million.

Post-employment medical benefits cost comprises:

	2022	2021
Interest cost	1	1
Total	1	1

Other long-term employee benefits comprise:

	2022	2021
Current service cost	5	5
Interest cost	1	-
Immediate recognition of (gains)/losses	1	7
Other	-	-
Total	7	12

Number of full-time equivalent employees:

	2022	2021
Average for year		
Flight deck crew	3,432	3,427
Cabin crew	7,670	7,089
Ground staff	16,322	16,091
Total	27,424	26,607

	2022	2021
Average for year		
The Netherlands	24,525	23,705
Outside the Netherlands	2,899	2,902
	27,424	26,607

As at December 31,	2022	2021
Flight deck crew	3,465	3,392
Cabin crew	8,021	6,795
Ground staff	16,715	16,089
Total	28,201	26,276

26. Other income and expenses

	2022	2021
Capitalised production	235	213
Operating currency hedging recycling	74	14
Other expenses	(129)	(67)
Other income and expenses	180	160

Other expenses includes European carbon emission (ETS) expenses of EUR 78 million for 2022 (2021: EUR 16 million).

27. Amortisation, depreciation, impairments and movements in provision

	2022	2021
Amortisation of intangible assets	79	82
Depreciation of flight equipment	451	411
Depreciation of other property and equipment	67	70
Amortisation of right of use assets	387	380
Sale of assets	(53)	(15)
Impairment of fixed assets	8	-
Movements in provision	(10)	(21)
Total	929	907

For sale of assets and impairment of fixed assets, reference is made to note 28 Alternative performance measures.

28. Alternative performance measures (APMs)

As at December 31,	Note	2022	2021
Income from operating activities		743	(1,176)
Amortisation, depreciation, impairment and movement in provisions	27	929	907
EBITDA		1,672	(269)
APM adjustments to EBITDA:			
Voluntary leave and restructuring plans	25	6	4
Settlement pension plans	25	-	938
Legal provision	25	-	22
Total APM adjustments to EBITDA		6	964
Adjusted EBITDA		1,678	695
Income from operating activities		743	(1,176)
APM adjustments to income from operating activities:			
Total APM adjustments to EBITDA		6	964
Result of sale of assets	27	(53)	(15)
Impairment of fixed assets	27	8	-
Movement in provisions	27	2	-
Total APM adjustments		(37)	949
Adjusted income from operating activities		706	(227)

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

The 2022 APM adjustments show an overall positive amount of EUR 37 million (2021: EUR 949 million negative). The definition of APMs was not adjusted in 2022.

The 2022 APM adjustments to EBITDA relate to voluntary leave plans and restructuring provisions amounting to EUR 6 million. Reference is made to note 18 Provisions for employee benefits.

The 2022 APM adjustments to income from operating activities relate to the profit on the sale of London Heathrow slots of EUR 31 million, release of maintenance and phase out provision related to the conversion of Right-of-use assets to in substance purchases of aircraft of EUR 18 million, sale of B747 engines of EUR 3 million and sale of tangible fixed assets abroad for EUR 1 million. Partly off set by the impairment of a tangible and an intangible fixed assets related project of in total EUR 8 million. All with reference to note 27 Amortisation, depreciation, impairments and movements in provision.

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

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

29. Cost of financial debt

	2022	2021
Cost of financial debt		
Loans from third parties	69	82
Interest on financial debt	26	18
Interest on lease debt	82	86
Other interest expenses	1	33
Total gross cost of financial debt	**178**	**219**
Income from cash and cash equivalents		
Finance income	(30)	(14)
Total income from cash and cash equivalents	**(30)**	**(14)**
Net cost of financial debt	**148**	**205**

	2022	2021
Foreign currency exchange gains/(losses)	(11)	43
Fair value gains/(losses)	(90)	(133)
Other financial income and expenses	(55)	(45)
Total other financial income and expenses	**(156)**	**(135)**

The fair value results recorded in the financial year mainly consist of the unrealised revaluation of other balance sheet items amounting to EUR 76 million negative (2021: EUR 133 million negative), the ineffective/time value portion of fuel, interest rate and foreign currency exchange derivatives for EUR 14 million negative (2021: EUR 2 million negative) and revaluation of AIR FRANCE KLM S.A. shares for 3 million negative (2021: EUR 2 million negative).

Other financial income and expenses includes additions of EUR 53 million (2021: EUR 43 million) to (maintenance) provisions resulting from the discounting effect in provision calculations.

30. Income tax expense/benefit

	2022	2021
Deferred tax (income)/expense relating to the origination and reversal of temporary differences and tax losses	(344)	(255)
Current tax (income)/expense	39	-
Total tax (income)/expenses	**(305)**	**(255)**

The applicable average tax rate in the Netherlands for the financial year 2022 is 25.8% (2021: 25%).

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

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

in %	2022	2021
Applicable average tax rate in The Netherlands	**25.8**	**25.0**
Impact of:		
Non-deductible expenses	(7.5)	(1.3)
Increase/Reduction tax rate	(0.3)	0.1
Provision deferred tax asset	(87.5)	(6.9)
Effective tax rate	**(69.5)**	**16.9**

31. Share-based payments

Phantom shares

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

	2022	2021
As at January 1	399,998	680,694
Granted	-	98,955
Forfeited	(11,320)	(1,650)
Conditional	-	(297,919)
Exercised	(146,773)	(80,082)
As at December 31	241,905	399,998

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

Grant related to financial year	Phantom shares expiry date	2022	2021
2015	April 1, 2021	-	22,000
2016	April 1, 2022	-	107,253
2017	April 1, 2023	96,694	107,155
2018	April 1, 2024	84,606	92,154
2019	April 1, 2025	60,605	71,436
	Carrying number	241,905	399,998

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 2017, executive employees of KLM have received (conditional and unconditional) phantom shares per April 1, 2018. The first tranche has vested for 114.0% per April 2018. The second tranche has vested for 74.8% per April 2019. The third tranche has vested for 102.1% in April 2020. The 2017 plan has an intrinsic value of EUR 0.1 million as at December 31, 2022.

Under the Long-Term Incentive plan 2018, executive employees of KLM have received (conditional and unconditional) phantom shares per April 1, 2019.
The first tranche has vested for 74.8% per April 2019. The second tranche has vested for 102.1% in April 2020. The third tranche relates to the 2020 financial results and have, with reference to the Dutch State support package conditions and the applicable NOW regulations, not been vested. The 2018 plan has an intrinsic value of EUR 0.1 million as at December 31, 2022.

Under the Long-Term Incentive plan 2019 (pertaining to the financial year 2019), executive employees of KLM have received (conditional and unconditional) phantom shares per April 1, 2020. The first tranche has vested for 102.1% per April 2020. The second and third tranche respectively relate to the 2021 and 2022 financial results and have, with reference to the Dutch State support package conditions and the applicable NOW regulations, not been vested. The 2019 plan has an intrinsic value of EUR 0.1 million as at December 31, 2022.

Under the Long-Term Incentive plans 2020, 2021 and 2022, no grantings have taken place for the years 2020, 2021 and 2022, due to the same the Dutch State support package conditions and applicable NOW regulations.

32. Supervisory Board remuneration

	2022			2021		
(Amounts in EUR)	As Supervisory Board member	As Committee member	Total	As Supervisory Board member	As Committee member	Total
C.C. 't Hart	42,500	12,000	54,500	34,000	2,400	36,400
F. Enaud	26,500	12,000	38,500	21,200	2,400	23,600
M.T.H. de Gaay Fortman (until May 4, 2021)				7,238	1,200	8,438
J.C. de Jager	26,500	5,000	31,500	21,200	2,400	23,600
C. Nibourel	26,500	-	26,500	21,200	-	21,200
M.J. Oudeman (as from May 4, 2021)	26,500	14,500	41,000	13,963	2,400	16,363
F. Pellerin	26,500	2,000	28,500	21,200	2,400	23,600
P.F. Riolacci	26,500	10,000	36,500	21,200	4,800	26,000
B. Smith	-	-	-	-	-	-
B.J. Vos	26,500	-	26,500	21,200	-	21,200
Total	228,000	55,500	283,500	182,401	18,000	200,401

Due to COVID-19 and its significant impact on the Company, the Supervisory Board voluntarily reduced, its 2021 remuneration by 20% compared to the 2019 base remuneration. In 2022, this voluntary reduction has no longer been applied. The remuneration paid to the Supervisory Board is not linked to the Company's results.

Mr. Smith, in his capacity as Chief Executive Officer of AIR FRANCE KLM, does not receive a remuneration for his KLM Supervisory Board membership.

For further information on the remuneration policy relating to Supervisory Board members, see the Remuneration Policy and Report in the Board and Governance section.

Other transactions with Supervisory Board members

Apart from the transactions described above there were no other transactions such as loans or advances to or from or guarantees given on behalf of members of the Supervisory Board.

33. Board of Managing Directors remuneration

The execution of the remuneration policy is affected by the conditions imposed by the State in connection with the Dutch State support package. Therefore, the existing KLM remuneration policy has again not been applied in 2022, similar to 2021 and 2020 with respect to the variable income (both short-term and long-term incentive). For the Dutch State support package conditions with respect to remuneration, the financial year 2019 serves as a reference year. For this reason, the 2019 comparative figures have been included.

Total remuneration (base salary, short- and long-term incentive plan and pensions)

(amounts in EUR)	2022	2021	2020	2019	2022 versus 2019 in %
M.E.F. Rintel (as from July 1, 2022)	401,863				
P.J.Th. Elbers (until October 1, 2022) *	480,543	705,142	722,818	1,322,953	(52)%
M.P.A. Stienen (as from September 1, 2022)	129,379				
R.M. de Groot (until October 1, 2022)	334,916	494,041	494,829	754,217	(41)%
E.R. Swelheim	508,331	508,116	474,870	764,753	(34)%
Total	1,855,032	1,707,299	1,692,517	2,841,923	

* Mr. Elbers was succeeded as President & Chief Executive Officer and thus as statutory director of the company on July 1, 2022. His employment agreement was terminated by KLM as of October 1, 2022. In the so-called Article 96Rv proceedings, the court has ruled in August 2022, that Mr. Elbers, duly giving consideration to his 30 years of service, is entitled to the statutory transition payment for an amount of EUR 894,214 (which equals approximately 1 annual salary, including some additional elements, such as pension allowance). The court also ruled that pre-COVID obligations had to be paid, including statutory interest and legal increase. Excluding the transition payment, Mr. Elbers' total remuneration in 2022 was EUR 480,543, which is 52% lower than his remuneration over the comparable period in 2019. Related to the statutory transition payment a tax levy is payable by the Company of EUR 619,100 as required pursuant to Article 32bb under the Dutch payroll tax law. Including the aforementioned statutory transition payment and the tax levy the total 2022 Board of Managing Directors cost is EUR 3,368,346.

As per the conditions attached to the Dutch State support package, no STI and LTI have been awarded in 2022.

Base salary

(amounts in EUR)	2022	2021	2020	2019
M.E.F. Rintel (as from July 1, 2022)	300,000			
P.J.Th. Elbers (until October 1, 2022)	450,000	600,000	535,185	585,000
M.P.A. Stienen (as from September 1, 2022)	110,000			
R.M. de Groot (until October 1, 2022)	292,500	390,000	390,000	390,000
E.R. Swelheim	406,453	390,000	390,000	390,000
Total	1,558,953	1,380,000	1,315,185	1,365,000

Base salaries of Board members have been kept stable in 2020 and 2021. In 2022, Mr. Swelheim's base salary has been increased, partially compensating for inflation impact.

Short-term incentive plan

Because of the conditions imposed by the State in connection with the Dutch State support package, no short-term incentive has been awarded in 2022, as has been the case in 2021 as well. In 2020, the Board of Managing Directors voluntarily waived the short-term incentive, before the Dutch State support package was concluded.

(amounts in EUR)	2022 Short-term incentive plan	2021 Short-term incentive plan	2020 Short-term incentive plan	2019 Short-term incentive plan
M.E.F. Rintel (as from July 1, 2022)	-			
P.J.Th. Elbers (until October 1, 2022)	-	-	-	342,000
M.P.A. Stienen (as from September 1, 2022)	-			
R.M. de Groot (until October 1, 2022)	-	-	-	159,120
E.R. Swelheim	-	-	-	154,050
Total	-	-	-	655,170

With reference to the Article 96Rv judgment, in which the court also ruled that certain deferred obligations must be settled by KLM, the postponed short-term incentives, relating to calendar year 2019, have been paid out in the second half of 2022 to the managing directors who were still entitled to this.

Other allowances and benefits in kind

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 and a fixed monthly allowance of EUR 440 for business expenses not otherwise reimbursed.

Pensions

As per the remuneration policy the total pension benefits for the Board of Managing Directors, like for other KLM employees with a salary above the fiscal regime of EUR 114,886 (2022), consist of two parts: 1) pension cost and 2) pension allowance.

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

Pension cost (post-employment benefit)

(amounts in EUR)	2022	2021	2020	2019
M.E.F. Rintel (as from July 1, 2022)	14,818			
P.J.Th. Elbers (until October 1, 2022)	20,822	29,878	20,417	25,593
M.P.A. Stienen (as from September 1, 2022)	10,342			
R.M. de Groot (until October 1, 2022)	23,324	30,375	22,404	23,261
E.R. Swelheim	31,098	30,375	16,247	15,117
Total	100,404	90,628	59,068	63,971

Pension allowance (short-term benefit)

Given the Dutch fiscal regime the members of the Board of Managing Directors receive a pension allowance for the pensionable salary above EUR 114,886 (2022). This gross pension allowance can, after deduction of applicable wage taxes, either be used to participate in the KLM net pension savings scheme (defined contribution plan) or be paid out as net allowance. This scheme is similar to that of all other employees with a salary above the pensionable salary threshold.

(amounts in EUR)	2022	2021	2020	2019
M.E.F. Rintel (as from July 1, 2022)	84,405			
P.J.Th. Elbers (until October 1, 2022)	116,527	167,445	162,841	149,381
M.P.A. Stienen (as from September 1, 2022)	7,603			
R.M. de Groot (until October 1, 2022)	78,729	102,777	100,134	97,676
E.R. Swelheim	119,762	116,852	113,866	111,061
Total	407,026	387,074	376,841	358,118

External Supervisory Board memberships

According to the remuneration policy the Board of Managing Directors may retain payments they receive from other remunerated positions with a maximum number of 2 positions per Managing Director. The amount ceded to the Company amounts to EUR 15,000 (December 31, 2021 EUR 15,000) and concerns a remunerated position in connection with Supervisory Board membership in Transavia.

Other transactions with members of the Board of Managing Directors

Apart from the transactions described above there were no other transactions such as loans or advances to or from or guarantees given on behalf of members of the Board of Managing Directors.

Long-term incentive plan

No grantings and vestings have taken place for the years that relate to the performance of financial year 2020, 2021 and 2022 for both the KLM LTI scheme (all Board of Managing Directors members) and the AFKL SLTI scheme for the former CEO. The current CEO is, in line with the Dutch State support package, not entitled to a 2022 AIR FRANCE KLM LTI plan.

In general, as an incentive to make a longer-term commitment to the Company, phantom shares are granted to members of the Board of Managing Directors on the basis of their reaching agreed personal performance targets. Subject to restrictions relating to the prevention of insider-trading, (phantom) shares may be exercised at any time between the third and the fifth anniversary of the day of grant. After five years any then outstanding (phantom) shares are forfeited.

Under the AIR FRANCE KLM specific long-term incentive (SLTI) plan, the former KLM CEO was entitled to a number of AIR FRANCE KLM shares. The shares granted in 2019 under this SLTI have vested partially per April 1, 2022 (14,990 AIR FRANCE KLM shares).

As part of past obligations (financial years 2019 and earlier), current and former members of the Board of Managing Directors still have the positions, as included in the table below, with respect to the phantom shares granted over the years 2015-2019 under the KLM LTI plan.

The vested phantom shares related to the financial years 2015 and 2016 have been sold and paid out at, the March 31, 2021 AIR FRANCE KLM share price and the March 31, 2022 AIR FRANCE KLM share price respectively, as shown in below table.

At December 31, 2022, 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 pertaining to the years 2019 and earlier:

Grant related to financial year	Number of phantom shares granted	Expiry date	Number of phantom shares forfeited	Number of phantom shares exercised	Average share price at exercise	Number of phantom shares conditional	Number of phantom shares vested	Total outstanding as at December 31, 2022
M.E.F. Rintel (as from July 1, 2022)								
2022	nil							–
	–		–	–		–	–	–
P.J.Th. Elbers (until Oct 1, 2022)								
2015	10,000		–	10,000	5.10	–	–	–
2016	10,000	1-Apr-22	–	10,000	4.09	–	–	–
2017	10,000	1-Apr-23	303	–		–	9,697	9,697
2018	21,354	1-Apr-24	4,834	–		3,929	12,591	16,520
2019	46,875	1-Apr-25	18,203	–		12,719	15,953	28,672
2020	nil							–
2021	nil							–
2022	nil							–
	98,229		23,340	20,000		16,648	38,241	54,889
M.P.A Stienen (as from Sept. 1, 2022)								
2017	750	1-Apr-23	23	–		–	727	727
2018	750	1-Apr-24	170	–		138	442	580
2019	750	1-Apr-25	291	–		204	255	459
2020	nil							–
2021	nil							–
2022	nil							–
	2,250		484	–		342	1,424	1,766
R.M. de Groot (until Oct. 1, 2022)								
2015	6,000		–	6,000	5.10	–	–	–
2016	6,000	1-Apr-22	–	6,000	4.09	–	–	–
2017	6,000	1-Apr-23	182	–		–	5,818	5,818
2018	11,688	1-Apr-24	2,645	–		2,151	6,892	9,043
2019	24,375	1-Apr-25	24,375	–		–	–	–
2020	nil							–
2021	nil							–
2022	nil							–
	54,063		27,202	12,000		2,151	12,710	14,861
E.R. Swelheim								
2015	6,000		–	6,000	5.10	–	–	–
2016	6,000	1-Apr-22	–	6,000	4.09	–	–	–
2017	6,000	1-Apr-23	182	–		–	5,818	5,818
2018	11,688	1-Apr-24	2,645	–		2,151	6,892	9,043
2019	24,375	1-Apr-25	9,465	–		6,615	8,296	14,910
2020	nil							
2021	nil							
2022	nil							
	54,063		12,292	12,000		8,765	21,006	29,771
Total	208,605		63,319	44,000		27,905	73,381	101,286

As mentioned, no granting took place in connection with financial years 2022, 2021 and 2020. All above mentioned positions thus relate to the pre-COVID-19 years.

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

Cost in 2022 of the vested phantom shares and the AIR FRANCE KLM SLTI plan for Mr. Elbers of EUR 110,766 negative, including legal interest, (2021: EUR 97,461 negative) relate to an annual technical revaluation of the phantom shares portfolio and AIR FRANCE KLM shares following the 2022 decrease of the AIR FRANCE KLM share price.

Cost in 2022 of the vested phantom shares for Mr. Stienen of EUR 326 negative, for Mr. de Groot of EUR 63,597 negative (2021: EUR 34,391 negative) and for Mr. Swelheim EUR 54,262 negative (2021: EUR 34,391 negative) relate to an annual technical revaluation of the phantom shares portfolio following the 2022 decrease of the AIR FRANCE KLM share price.

As at December 31, 2022 Mrs. Rintel, Mr. Stienen and Mr. Swelheim did not hold any AIR FRANCE KLM shares.

34. Related party transactions

The Group has interests in various associates in which it has either significant influence in but not control or joint control over operating and financial policy.

As part of its business operations, the Group enters into transactions with related parties which are negotiated at commercial conditions and prices and are not more favorable than those which would have been negotiated with third parties on an arm's length basis.

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 per December 31, 2022, the State of the Netherlands has a 9.3% stake in AIR FRANCE KLM S.A. in addition, the Dutch Government is a direct shareholder in KLM N.V. (reference is made to Note 10).

Transactions conducted with the Dutch State are limited to normal economic transactions, taxation and other administrative relationships, with the exception of items specifically disclosed in this note. Normal economic transactions mainly relate to air transport and are entered into under the same commercial and market terms that apply to non-related parties.

In financial year 2020, 2021 and the first quarter of 2022 the Group applied for the "Temporary Emergency Bridging Measure for Sustained Employment" (NOW) as installed by the Dutch Government (reference is made to Note 25), made use of the possibility to delay payment of taxes (reference is made to Note 5) and received a Dutch State support package in 2020. The amounts drawn under this package in 2020 have been repaid in the first half year of 2022. As per June 30, 2022 no amounts have been drawn (reference is made to Note 14 Other financial liabilities).

The transactions with Royal Schiphol Group relate to land and property rental agreements and airport and passenger related fees. In addition Royal Schiphol Group collects airport fees on their behalf.

The following transactions were carried out with related parties:

	2022	2021
Sales of goods and services		
AIR FRANCE KLM Group companies	276	233
Associates	-	-
Other related parties	42	22
Purchases of goods and services		
AIR FRANCE KLM Group companies	373	342
Associates	-	-
Other related parties	191	138

For details of the year-end balances of amounts due to and from related parties see notes 8 and 20. In 2021 and 2022 no dividends have been received from jointly controlled entities interests (see note 4).

For information relating to transactions with members of the Supervisory Board and Board of Managing Directors, see note 31 to 33. For information relating to transactions with pension funds for the Group's employees see note 18.

35. Primary segment reporting

2022	Network	Maintenance	Leisure	Other	Eliminations	Total
Revenues						
Revenues External	8,958	710	992	19	-	10,679
Revenues Internal	112	742	-	193	(1,047)	-
Total revenue	9,070	1,452	992	212	(1,047)	10,679
Adjusted EBITDA*	1,392	147	112	27	-	1,678
APM adjustments to EBITDA*	(6)	(1)	-	1	-	(6)
Income from current activities	632	42	25	7	-	706
APM adjustments to income from operating activities*	43	(1)	(3)	(2)	-	37
Financial Income and expenses						(304)
Income tax income/(expense)						305
Share of results of equity shareholdings						-
Profit for the year						744
Amortisation, depreciation and movements in provision	(708)	(105)	(89)	(27)	-	(929)
Other financial income and expenses	(129)	14	(30)	(11)	-	(156)
Assets						
Intangible assets	256	278	32	(23)	-	543
Flight equipment	3,373	666	393	-	-	4,432
Other property, plant and equipment	294	280	3	8	-	585
Right-of-use assets	1,278	102	224	2	-	1,606
Trade receivables	422	(28)	10	3	-	407
Other assets	3,408	651	182	89	-	4,330
Total assets	9,031	1,949	844	79	-	11,903
Additions to fixed assets	398	105	110	-		
Liabilities						
Deferred revenues on sales	1,639	157	148	-	-	1,944
Other liabilities	6,268	2,093	1,371	91	-	9,823
Total liabilities	7,907	2,250	1,519	91	-	11,767

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

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

The intangible assets, flight equipment, other property, plant and equipment, right-of-use assets and allocated working capital have been tested for impairment as disclosed in the Impairment of assets section in the Accounting policies for the balance sheet in the Notes to the consolidated financial statements.

36. Secondary segment reporting

Revenues by destination 2022	Europe, North Africa	Caribbean, Indian Ocean	Africa, Middle East	Americas Polynesia	Asia, New Caledonia	Total
Scheduled passenger	2,244	486	876	2,561	887	7,054
Other passenger revenues	50	11	19	56	20	156
Total passenger revenues	2,294	497	895	2,617	907	7,210
Scheduled cargo	11	33	317	826	236	1,423
Other cargo revenues	2	8	72	189	54	325
Total cargo revenues	13	41	389	1,015	290	1,748
Total network revenues	2,307	538	1,284	3,632	1,197	8,958
Maintenance	710	-	-	-	-	710
Other revenues	1,011	-	-	-	-	1,011
Total maintenance and other	1,721	-	-	-	-	1,721
Total revenues by destination	4,028	538	1,284	3,632	1,197	10,679

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

Geographical analysis of assets: the major revenue-earning asset of the Group is the fleet, the majority of which are registered in the Netherlands. Since the Group's fleet is employed flexibly across its worldwide route network, there is no suitable basis of allocating such assets and related liabilities to geographical segments.

37. Subsidiaries

The following is a list of the Company's significant subsidiaries as at December 31, 2022:

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.

Company balance sheet

Before proposed appropriation of the result for the year

In millions of Euros	Note	December 31, 2022	December 31, 2021
ASSETS			
Non-current assets			
Property, plant and equipment	38	4,060	4,177
Right-of-Use asset	39	1,047	1,153
Intangible assets		499	479
Investments accounted for using the equity method	40	658	544
Other non-current assets	5	164	156
Other financial assets	41	516	452
Deferred tax assets	49	438	70
Pension assets	18	7	-
		7,389	7,031
Current assets			
Other current assets	5	179	230
Other financial assets	41	165	51
Inventories		192	171
Trade and other receivables	42	2,272	1,643
Cash and cash equivalents	43	459	214
		3,267	2,309
TOTAL ASSETS		**10,656**	**9,340**

In millions of Euros	Note	December 31, 2022	December 31, 2021
EQUITY			
Capital and reserves			
Share capital	44	125	94
Share premium		474	474
Reserves	44	473	426
Retained earnings		(1,683)	(433)
Result for the year		743	(1,259)
Total attributable to Company's equity holders		132	(698)
LIABILITIES			
Non-current liabilities			
Financial debt	45	1,320	960
Lease debt	46	648	695
Other non-current liabilities	5	1,215	1,352
Other financial liabilities	47	773	1,829
Deferred income	48	234	259
Return obligation liability and other provisions	50	1,131	1,100
		5,321	6,195
Current liabilities			
Trade and other payables	51	2,903	2,097
Financial debt	45	205	100
Lease debt	46	196	212
Other current liabilities	5	107	88
Other financial liabilities	47	175	185
Deferred income	48	1,388	986
Current tax liabilities	49	39	-
Return obligation liability and other provisions	50	190	175
		5,203	3,843
Total liabilities		10,524	10,038
TOTAL EQUITY AND LIABILITIES		**10,656**	**9,340**

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

Company statement of profit or loss

In millions of Euros	2022	2021
Profit/(loss) from investments accounted for using equity method after taxation	30	13
Profit/(loss) of KLM N.V. after taxation	713	(1,272)
Profit/(loss) for the year after taxation	**743**	**(1,259)**

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 2022 financial statements of KLM Royal Dutch Airlines (the "Company").

Assessment of going concern
Regarding the assessment of going concern as at the date of this Annual Report reference is made to the Assessment of going concern paragraph in the Notes to the consolidated financial statements.

Subsequent event
Regarding the subsequent event as at the date of this Annual Report reference is made to the Subsequent event paragraph in the Notes to the consolidated financial statements.

Significant accounting policies
The principal accounting policies applied in the preparation of the Company financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Principles for the measurement of assets and liabilities and the determination of the result
In determining the principles to be used for the recognition and measurement of assets and liabilities and the determination of the result for its separate financial statements, the Company makes use of the option provided in Section 362 (8) of Book 2 of the Dutch Civil Code. This section permits companies to apply the same principles for the recognition and measurement of assets and liabilities and determination of the result (hereinafter referred to as principles for recognition and measurement) of the Company financial statements as those applied for the consolidated EU-IFRS financial statements.

The Company makes use of the option provided in Section 402 of Book 2 of the Dutch Civil Code. This section permits companies to present a condensed company statement of profit or loss given that the Company's financial information is consolidated in the Consolidated financial statements of the ultimate parent company AIR FRANCE KLM S.A.

Subsidiaries are accounted for using the equity method and investments accounted for using the equity method, over which significant influence is exercised, are stated on that basis. The share in the result of these investments comprises the share of the Company in the result of these investments. Results on transactions, where the transfer of assets and liabilities between the Company and its investments and mutually between these investments themselves, are not incorporated insofar as they can be deemed to be unrealised.

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

For notes and/or details, which are not explained in the notes to the Company financial statements reference is made to the notes and/or details of the Consolidated financial statements.

38. Property, plant and equipment

	Flight equipment			Other property and equipment					
	Owned aircraft	Other flight equipment	Total	Land and buildings	Equipment and fittings	Other property and equipment	Total	Prepayments	Total
Historical cost									
As at Jan. 1, 2022	4,031	2,057	6,088	717	221	300	1,238	491	7,817
Additions	-	117	117	-	-	-	-	285	402
Disposals	-	(183)	(183)	(5)	(2)	(7)	(14)	-	(197)
Reclassifications	60	180	240	18	1	11	30	(341)	(71)
Other movements	-	-	-	-	-	-	-	(26)	(26)
As at Dec. 31, 2022	4,091	2,171	6,262	730	220	304	1,254	409	7,925
Accumulated depreciation and impairment									
As at Jan. 1, 2022	2,017	886	2,903	381	160	196	737	-	3,640
Depreciation	183	175	358	31	9	19	59	-	417
Disposals	-	(180)	(180)	(4)	(2)	(7)	(13)	-	(193)
Reclassifications	-	73	73	-	-	-	-	(73)	-
Other movements	-	-	-	2	(1)	-	1	-	1
As at Dec. 31, 2022	2,200	954	3,154	410	166	208	784	(73)	3,865
Net carrying amount									
As at Jan. 1, 2022	2,014	1,171	3,185	336	61	104	501	491	4,177
As at Dec. 31, 2022	1,891	1,217	3,108	320	54	96	470	482	4,060

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

In 2022 an impairment of EUR 4 million was recorded related to a project, which was stopped before putting in use. The asset is related to Other business. In the table above this amount is included in prepayments other movements and reference is made to note 27 Amortisation, depreciation, impairments and provisions and note 28 Alternative performance measures.

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

As at December 31,	2022	2021
Aircraft	93	121
Land and buildings	130	132
Other property and equipment	38	43
Carrying amount	261	296

Borrowing cost capitalised during the year amounted to EUR 7 million (2021 EUR 9 million). The interest rate used to determine the amount of borrowing cost to be capitalised was 3.8% (2021: 3.1%).

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, 2022 was EUR 220 million (December 31, 2021 EUR 227 million).

39. Right-of-use assets

	Aircraft	Maintenance	Land & Real Estate	Others	Total
Net value					
As at January 1, 2022	613	351	94	95	1,153
New contracts	-	22	7	4	33
Renewal or extension options	56	(4)	23	1	76
Disposals	-	(8)	-	-	(8)
Reclassifications	(2)	129	-	(60)	67
Amortisation	(156)	(92)	(14)	(12)	(274)
As at December 31, 2022	511	398	110	28	1,047
Net value					
As at January 1, 2021	700	390	106	114	1,310
New contracts	-	-	2	12	14
Renewal or extension options	95	(8)	-	9	96
Disposals	-	(55)	-	(5)	(60)
Reclassifications	(1)	79	-	(5)	73
Amortisation	(181)	(55)	(14)	(30)	(280)
Other movements	-	-	-	-	-
As at December 31, 2021	613	351	94	95	1,153

Information related to lease debt is available in note 46.

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

	2022	2021
Variable rents	7	5
Short-term rents	59	26
Low value rents	3	2
Carrying amount	69	33

40. Investments accounted for using the equity method

As at December 31,	2022	2021
Subsidiaries	641	527
Associates	9	9
Jointly controlled entities	8	8
Carrying amount	658	544

	2022	2021
Subsidiaries		
Carrying amount as at January 1	527	404
Movements		
Investments	-	-
Share of profit/(loss) after taxation	29	14
OCI movement	87	107
Dividends received	-	-
Foreign currency translation differences	(3)	(2)
Other movements	1	4
Net movement	114	123
Carrying amount as at December 31	641	527

For details of the Group's investments in subsidiaries see note 37 to the consolidated financial statements. For details of the Group's investments in associates and jointly controlled entities see note 4 to the consolidated financial statements.

41. Other financial assets

	December 31, 2022		December 31, 2021	
	Current	Non-current	Current	Non-current
Debt investments at amortised cost				
Bonds, long-term deposits, loans and receivables	115	469	1	404
At fair value through profit or loss				
Deposits and commercial paper with original maturity 3-12 months	50	-	50	-
Deposits on operating leased aircraft	-	14	-	15
AIR FRANCE KLM S.A. shares	-	1	-	4
	50	15	50	19
At fair value through OCI				
Kenya Airways Ltd. shares	-	13	-	13
Other non-consolidated entities	-	19	-	16
	-	32	-	29
Carrying amount	165	516	51	452

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

42. Trade and other receivables

As at December 31,	2022	2021
Trade receivables	578	500
Expected credit loss	(73)	(64)
Trade receivables - net	505	436
Amounts due from:		
Subsidiaries	1,200	695
AIR FRANCE KLM group companies	91	85
Associates and jointly entities	-	1
Maintenance contract customers	95	42
Taxes and social security premiums	24	18
Other receivables	171	236
Prepaid expenses	186	130
Total	2,272	1,643

Maintenance contract cost incurred to date for contracts in progress at December 31, 2022 amounted to EUR 81 million (December 31, 2021 EUR 29 million). Advances received for maintenance contracts in progress at December 31, 2022 amounted to EUR 108 million (December 31, 2021 EUR 106 million). The maturity of trade and other receivables is within one year.

43. Cash and cash equivalents

As at December 31,	2022	2021
Cash at bank and in hand	47	33
Short-term deposits	412	181
Total	459	214

The effective interest rates on short-term deposits are in the range from 0% to 4.45% (2021 range -0.65% to 3.35%). The short-term deposits are invested in money market instruments or in liquid funds with daily access to cash.

44. Share capital and other reserves

For details of the Company's share capital and movements in other reserves see note 10 and 11 to the consolidated financial statements. For details of the Company's equity see the consolidated statement of changes in equity.

The Company has other reserves relating to hedging, remeasurement of defined benefit plans, translation and other legal reserves. Reference is made to note 11.

45. Financial debt

As at December 31,	2022	2021
Non-current portion	1,320	960
Current portion	205	100
Carrying amount	1,525	1,060

46. Lease debt

	December 31, 2022		December 31, 2021	
	Current	Non-current	Current	Non-current
Lease Debt - Aircraft	152	451	170	516
Lease Debt - Real estate	13	126	13	110
Lease Debt - Others	27	71	25	69
Accrued Interest	4	-	4	-
Total	196	648	212	695

Change in lease debt:

	As at January 1, 2022	New contracts and renewals of contracts	Payment of lease debt	Currency translation adjustment	As at December 31, 2022
Lease Debt - Aircraft	686	56	(163)	24	603
Lease Debt - Real estate	123	31	(15)	-	139
Lease Debt - Others	94	26	(24)	2	98
Accrued interest	4	-	-	-	4
Total	907	113	(202)	26	844

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

The lease debt maturity breaks down as follows:

	2022	2021
Less than 1 year	252	268
Between 1 and 2 years	214	207
Between 2 and 3 years	172	173
Between 3 and 4 years	131	142
Between 4 and 5 years	92	116
Over 5 years	135	220
Total	996	1,126
Including:		
- Principal	844	907
- Interest	152	219

47. Other financial liabilities

	December 31, 2022		December 31, 2021	
	Current	Non-current	Current	Non-current
A Cumulative preference shares	-	-	-	18
B Cumulative preference shares	-	-	-	14
Revolving credit facility	-	-	-	682
Direct State loan	-	-	-	279
Subordinated perpetual loans	-	523	-	516
Other loans (secured/unsecured)	175	250	185	320
Total	175	773	185	1,829

For details about the other financial liabilities see note 14.

48. Deferred income

	December 31, 2022		December 31, 2021	
	Current	Non-current	Current	Non-current
Advance ticket sales	1,292	-	924	-
Sale and leaseback transactions	15	1	2	3
Flying Blue frequent flyer program	79	230	54	252
Others	3	3	6	5
Total	1,388	234	986	259

Advance ticket sales corresponds to sold passenger tickets and freight airway bills which will be recognised in revenues at the date of transportation.

49. Deferred tax assets

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

	2022	2021
Carrying amount as at January 1	(70)	(20)
Movements:		
Income statement expense	(314)	(260)
Tax (credited)/charged to equity	(11)	212
Reduction due to tax rate	-	(1)
Other movements	(4)	(1)
Net movement	(329)	(50)
Carrying amount as at December 31	(399)	(70)
Current income tax liabilities	39	-
Tax (assets) as at December 31	(438)	(70)

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,	2022	2021
Deferred tax assets:		
Deferred tax assets to be settled in 12 months or less	56	-
Deferred tax assets to be settled after 12 months	404	109
	460	109
Deferred tax liabilities:		
Deferred tax liabilities to be settled in 12 months or less	-	-
Deferred tax liabilities to be settled after 12 months	22	39
	22	39
Carrying amount	(438)	(70)

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					
2022					
Tax losses	–	388	–	–	388
Pension asset	9	–	(13)	5	1
Non-deductable interest	57	(42)	–	–	15
Other tangible fixed assets	35	6	–	–	41
Derivative financial instruments	–	–	–	–	–
Other	8	1	7	(1)	15
Total	**109**	**353**	**(6)**	**4**	**460**

	Carrying amount as at January 1	Income statement (charge) / credit	Tax charged/ (credited) to equity	Other movements	Carrying amount as at December 31
Deferred tax assets					
2021					
Pension asset	–	–	–	9	9
Non-deductable interest	10	47	–	–	57
Other tangible fixed assets	29	6	–	–	35
Derivative financial instruments	17	–	(56)	39	–
Other	–	(10)	13	5	8
Total	**56**	**43**	**(43)**	**53**	**109**

	Carrying amount as at January 1	Income statement (charge) / credit	Tax charged/ (credited) to equity	Other movements	Carrying amount as at December 31
Deferred tax liabilities					
2022					
Derivative financial instruments	39	-	(17)	-	22
Total	39	-	(17)	-	22

	Carrying amount as at January 1	Income statement (charge) / credit	Tax charged/ (credited) to equity	Other movements	Carrying amount as at December 31
Deferred tax liabilities					
2021					
Pensions & benefits (asset)	36	(217)	170	11	-
Derivative financial instruments	-	-	-	39	39
Total	36	(217)	170	50	39

Tax fiscal unity

The Company, together with other subsidiaries in the Netherlands, has entered into a fiscal unity for the purpose of filing consolidated corporation tax and VAT returns. As a result, every legal entity in this tax group is jointly and severally liable for the tax debts of all the legal entities forming the group.

50. Return obligation liability and other provisions

	Return obligation liability on leased aircraft	Maintenance liability on leased aircraft	Other provisions: Employee Benefit	Other provisions: Legal Issues	Other provisions: Restructuring and voluntary leave	Other provisions: Other	Total
As at January 1, 2022	50	846	177	160	10	32	1,275
Additional provisions and increases in existing provisions	5	(1)	19	3	7	68	101
Unused amounts reversed	-	-	-	(1)	-	-	(1)
Used during year	(1)	(15)	(11)	(2)	(11)	(18)	(58)
New/changes in lease contract	-	(15)	-	-	-	-	(15)
Foreign currency translation differences	1	43	-	-	-	-	44
Accretion impact	(1)	37	-	-	-	-	36
Other changes	(2)	(21)	(46)	-	-	8	(61)
As at December 31, 2022	52	874	139	160	6	90	1,321
Current/non-current portion							
Non-current portion	49	825	114	138	-	5	1,131
Current portion	3	49	25	22	6	85	190
As at December 31, 2022	52	874	139	160	6	90	1,321

			Other provisions				
	Return obligation liability on leased aircraft	Maintenance liability on leased aircraft	Employee Benefit	Legal Issues	Restructuring and voluntary leave	Other	Total
As at January 1, 2021	56	887	193	138	55	47	1,376
Additional provisions and increases in existing provisions	3	(3)	17	24	6	17	64
Unused amounts reversed	-	-	-	(1)	-	(9)	(10)
Used during year	(6)	(29)	(21)	(1)	(52)	(22)	(131)
New/changes in lease contract	(4)	(97)	-	-	-	-	(101)
Foreign currency translation differences	1	59	5	-	-	-	65
Accretion impact	-	29	-	-	-	-	29
Other changes	-	-	(17)	-	1	(1)	(17)
As at December 31, 2021	50	846	177	160	10	32	1,275
Current/non-current portion							
Non-current portion	43	754	150	148	-	5	1,100
Current portion	7	92	27	12	10	27	175
As at December 31, 2021	50	846	177	160	10	32	1,275

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

51. Trade and other payables

As at December 31,	2022	2021
Trade payables	957	668
Amounts due to subsidiaries	670	599
Amounts due to AIR FRANCE KLM Group companies	82	102
Taxes and social security premiums	570	286
Employee related liabilities	369	205
Accrued liabilities	148	152
Other payables	108	85
Total	2,903	2,097

Other notes

For information relating to contingency assets and liabilities, including guarantees, see note 22. In addition the Company, as parent company of Transavia Airlines B.V. and its wholly owned subsidiary Transavia Airlines C.V., issued a letter that the Company provides such financial support as is necessary to enable Transavia Airlines B.V. and Transavia Airlines C.V. to continue as going concern and to meet all their liabilities as they fall due, at least for the next twelve months after the date of this Annual Report.

The Company makes use of the exemption provided in Section 382a (3) of Book 2 of the Dutch Civil Code. This section permits companies to not disclose the statutory audit fees, given that these are included in the Consolidated financial statements of the ultimate parent company AIR FRANCE KLM S.A.

For information relating to share-based payments, Supervisory Board and Board of Managing Directors remuneration see note 31 to 33.

Amstelveen, March 31, 2023

The Board of Managing Directors

Marjan. E.F. Rintel
Maarten P.A. Stienen
Erik R. Swelheim

The Supervisory Board

Cees C. 't Hart
François Enaud
Jan Kees de Jager
Christian Nibourel
Marjan Oudeman
Fleur Pellerin
Pierre-François Riolacci
Benjamin Smith
Janine Vos

Other information

Independent auditors' report

To: the General Meeting of Shareholders and the Supervisory Board of KLM Royal Dutch Airlines ('Koninklijke Luchtvaart Maatschappij N.V.')

Report on the audit of the financial statements 2022 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 together with its subsidiaries as at December 31, 2022 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, 2022 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

What we have audited

We have audited the accompanying financial statements 2022 of KLM Royal Dutch Airlines ('KLM' or the 'Company') based in Amstelveen. The financial statements include the consolidated and the company financial statements.

The consolidated financial statements comprise:

- the consolidated balance sheet as at December 31, 2022;
- the following consolidated statements for the year ended December 31, 2022: profit or loss, profit or loss and other comprehensive income, changes in equity and cash flows; and
- the notes comprising a summary of the significant accounting policies and other explanatory information.

The Company financial statements comprise:

- the Company balance sheet as at December 31, 2022;
- the Company statement of profit or loss for the year ended December 31, 2022; and
- the notes comprising a summary of the accounting policies and other explanatory information.

Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the 'Our responsibilities for the audit of the financial statements' section of our report.

We are independent of KLM in accordance with the 'Wet toezicht accountantsorganisaties' (Wta, Audit firms supervision act), the 'Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten' (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA, Dutch Code of Ethics).

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach

We designed our audit procedures with respect to the key audit matters, fraud and going concern, and the matters resulting from that, in the context of our audit of the financial statements as a whole and in forming our opinion thereon.
The information in support of our opinion, such as our findings and observations related to individual key audit matters, the audit approach fraud risk and the audit approach going concern was addressed in this context, and we do not provide a separate opinion or conclusion on these matters.

Summary

Materiality

- Materiality of EUR 60 million
- 0.6% of total revenues

Group audit

- Audit coverage of 93% of total assets
- Audit coverage of 98% of total revenues

Fraud/Noclar and going concern

- Fraud & Non-compliance with laws and regulations (Noclar) related risks: we identified management override of controls and revenue recognition as fraud risks.
- Going concern: the outcome of our procedures did not result in outcomes contrary to the Board of Managing Directors' assumptions and judgements used in the application of the going concern assumption.

Key audit matters

- Sustainable business model of KLM
- Fraudulent revenue recognition due to fictitious revenue
- Recognition of government grants from the Temporary Emergency Bridging Measures for Sustained Employment ('NOW') program

Opinion

- Unqualified

Materiality

Based on our professional judgement we determined the materiality for the financial statements as a whole at EUR 60 million (2021: EUR 45 million). The materiality is determined with reference to the relevant benchmark revenues, of which it represents 0.6% (2021: 0.7%). We consider revenues as the most appropriate benchmark because of the needs of the stakeholders. 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. With regards to component materiality, we have allocated materiality to each component in our audit scope that is less than the materiality for the financial statements as a whole. The range of materiality allocated across components was between EUR 6 million and EUR 45 million based on our professional judgement.
One component is audited with a local statutory audit materiality that was also less than our overall group materiality.

We agreed with the Supervisory Board that misstatements identified during our audit in excess of EUR 3.0 million (2021: EUR 2.25 million) would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Scope of the group audit

KLM heads a group of components and has its principal business segments: network activities, which include air transport of passengers and cargo, aircraft maintenance, leisure, and other activities linked to air transport. The financial information of this group is included in the financial statements of KLM.

In establishing the overall group audit strategy and plan, we determined the type of work that needed to be performed at the components by the component auditors working under our instruction. Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those components.

We provided detailed instructions to all component auditors in our audit scope. These instructions included amongst other the main developments of the Company, significant audit areas, component materiality and the required scope of the audit work. We had individual meetings with each of the component auditors during the year and upon completion of their work. During these meetings, we discussed the significant accounting and audit issues identified by the component auditors, their reports, the findings of their procedures and other matters, that could be of relevance for the consolidated financial statements.

Our group audit mainly focused on significant components that are (i) of individual financial significance to KLM, or (ii) that, due to their specific nature or circumstances, are likely to include significant risks of material misstatement of KLM's financial statements.

We have considered in this respect, amongst others, KLM's business and its internal and external environment.

We have:
- performed audit procedures ourselves in respect of areas such as going concern, accounting for government grants from the Temporary Emergency Bridging Measures for Sustained Employment ('NOW') program, assessment of the valuation of non-current assets, the group consolidation, financial statements disclosures and topics related to litigations and claims, the group's income tax position, intangible assets, property, plant and equipment and external expenses;
- selected 8 components (2021: 8 components) to perform audits for group reporting purposes on a complete set of financial information as well as 5 components (2021: 7 components) to perform audit procedures for group reporting purposes on selected account balances and classes of transactions;
- performed specified audit procedures for 1 component (2021: 0 components).

For the residual population not in scope we performed analytical procedures in order to corroborate that our scoping remained appropriate throughout the audit. None of the remaining components represented more than 5% of total group revenue or total group assets.

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 assets

67%	17%	9%
Audit of the complete reporting package	Audit of specific items	Specified audit procedures

Revenues

98%	0%	0%
Audit of the complete reporting package	Audit of specific items	Specified audit procedures

Audit scope in relation to fraud and non-compliance with laws and regulations

The Board of Managing Directors performs a fraud risk assessment and describes its procedures in respect of the risk of fraud and non-compliance with laws and regulations and the Supervisory Board reflects on this.

As part of our audit, we have gained insights into KLM's business operations and environment, and assessed the design and implementation of KLM's risk management in relation to fraud and non-compliance. Our procedures included, among other things, assessing KLM's code of conduct, whistleblowing procedures, incidents register and its procedures to investigate indications of possible fraud and non-compliance. Furthermore, we performed relevant inquiries with the Board of Managing Directors, the Supervisory Board and other relevant functions, such as Internal Audit and KLM's Legal and Compliance Counsel. As part of our audit procedures, we:
- assessed other positions held by members of the Board of Managing Directors and/or other employees and paid special attention to procedures and governance/compliance in view of possible conflicts of interest;
- assessed, together with our forensics specialists, KLM's fraud and non-compliance evaluation and incorporated relevant risks of material misstatements in our audit;
- evaluated investigation reports on indications of possible fraud and non-compliance;
- evaluated correspondence with regulators, if any, as well as legal confirmation letters.

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

Firstly, KLM is subject to laws and regulations that directly affect the financial statements including financial reporting legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, KLM is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect:
- anti-bribery and corruption laws and regulations;
- trade sanctions and export controls laws and regulations;
- data privacy regulation; and
- anti-competition laws and regulations.

As part of our process of identifying fraud and non-compliance risks, we evaluated, together with our forensic specialists, the fraud and non-compliance risk factors with respect to financial reporting fraud and misappropriation of assets. We evaluated whether these factors indicate a risk of material misstatement in the financial statements.

Based on the above and on the auditing standards, we identified the following fraud risks, and responded as follows:

Management override of controls

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

Responses:
Our procedures primarily consisted of:
- we assessed the design and the implementation of internal controls that mitigate fraud risks with respect to journal entries;
- we performed data analyses on journal entries based on risk criteria and evaluated key estimates and judgements for bias by management, such as estimates relating to unearned passenger revenues and the recognition of deferred tax assets for unused operating losses, including retrospective reviews of prior year's estimates. Where we identified instances of journal entries based on risk criteria or other risks through our procedures, we performed additional audit procedures to address each identified risk, including evaluating the business rationale of the transactions. These procedures also included testing of transactions back to source information;
- we assessed the post-closing adjustments and the appropriateness of the accounting for transactions that are outside KLM's normal course of business, or are otherwise unusual (if any);
- we incorporated elements of unpredictability in our audit, including revising our selection criteria in our data analyses of journal entries based on risk criteria; and
- we evaluated whether the selection and application of accounting policies by KLM, particularly those related to subjective measurements and complex transactions, may be indicative of fraudulent financial reporting.

Revenue recognition

Risk:
- Fraudulent revenue recognition due to fictitious revenue.

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

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

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

Audit response to going concern

The Board of Managing Directors has performed its going concern assessment as included in the Assessment of going concern paragraph in the notes to the consolidated financial statements and has not identified any going concern risks. Our main procedures to assess the Board of Managing Directors' assessment were:

- we considered whether the Board of Managing Directors' assessment of the going concern risks includes all relevant information of which we are aware as a result of our audit;
- we inquired and challenged the Board of Managing Directors regarding the most important assumptions underlying its going concern assessment. Amongst other, whether the assessment included the impact of the climate action plan, war in Ukraine, high inflation and recovery of the global COVID-19 pandemic;
- we assessed KLM's financial position as at year-end and compared it to the previous financial year in terms of indicators that could identify going concern risks;
- we evaluated KLM's 2023 budget and 5-year plan, including the cash flow forecast for at least 12 months from the date of the authorisation of the financial statements taken into account current developments in the industry such as the investments made for new fleet and all relevant information of which we are aware as a result of our audit;
- we inspected the financing agreements, including the financial support package provided by the Dutch Government, in terms of conditions that could lead to going concern risks, including the term of the agreement and any covenants; and
- we performed inquiries of the Board of Managing Directors as to its knowledge of going concern risks beyond the 12 months from the date of the authorisation of the financial statements.

The outcome of our procedures did not result in outcomes contrary to Board of Managing Directors' assumptions and judgements used in the application of the going concern assumption.

Our key audit matters

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

Compared to last year the key audit matters with respect to derecognition ground staff pension plan and provision for litigation and contingent liabilities for the anti-trust claim ('Cargo Claim') are not included, as these were specifically related to events that occurred in financial year 2021. Furthermore, the risk related to fraudulent revenue recognition due to fictitious revenue has been extended to all relevant business segments given the recovery of air travel. The key audit matter with respect to the sustainable business model of KLM causes a matter that was most significant given the macro-economic and geopolitical challenges that directly impact KLM's current business model.

Sustainable business model

Description

The Company is facing macro-economic and geopolitical challenges that directly impact its current business model. These challenges include risks related to an increased focus on the transition towards a more sustainable aviation, labor shortages, the intended reduction of flight movements at Schiphol Airport and operational disruptions at airports. During 2022 the Company assessed its current business model and issued a new strategy and a climate action plan to safeguard the sustainability of its business model and included the outcome thereof in KLM's 2023 budget and 5-year plan.

These risks could have an impact on the Company's financial position, results and cashflow forecasting. We therefore focused on matters which require judgement, such as future scenario's including the impact of KLM's climate action plan, which may affect the going concern assumption, the valuation of aircraft, deferred tax assets and other non-current assets in the 2022 financial statements.

Our response

The following are primary procedures we performed to address this key audit matter:

- made enquiries of management and the Supervisory Board to understand the assessment of the potential impact of aforementioned developments and risks on KLM's financial statements in relation to the background of KLM's business and operations and position in the aviation sector;
- inquiring and challenging management on the effects of the new strategy and its climate action plan on the financial position, results and cashflow forecasting, in particular on reasonableness of assumptions applied in the future scenario's which include potential changes in regulations regarding carbon credit prices and CO_2 compensation, potential changes in capacity and productivity, investments for KLM's fleet renewal program, depreciation periods, lease contracts, potential refinancing of the revolving credit facility from the Dutch Government, the use of sustainable aviation fuel and the related disclosures;
- assessing that the carbon reduction targets of KLM are validated by the Science Based Targets initiative;
- assessing KLM's 2023 budget and 5-year plan and evaluating the assumptions and judgments underlying the assessment of going concern, valuation of aircraft, deferred tax assets and other non-current assets, by amongst others evaluating the appropriateness of management's sensitivity analyses of reasonable profit forecasts and liquidity;
- assessing the adequacy of the assessment of going concern, sustainability and climate paragraph, deferred tax assets and non-currents assets disclosures in the financial statements in respect of this judgmental estimate including challenging management to ensure this reflected the macro-economic and geopolitical developments which they have assessed and embedded into the Company's future cash flow assumptions in the current year; and
- furthermore we have read the 'Other information' with respect to these developments and risks as included in the Annual Report and considered the material consistency with the financial statements, our knowledge obtained through the audit, in particular as described above and our knowledge obtained otherwise. The extent of the procedures we performed over 'Other information' is further described in section Report on the other information in the Annual Report of our report.

Our observation

The results of our procedures were satisfactory, and we conclude that the related disclosures in the Assessment of going concern paragraph and Sustainability and climate paragraph in the notes to the consolidated financial statements are adequate. We note that these disclosures are balanced in the current circumstances and forecasts were made based on the current available information of the Company's operations and its environment. We expect that these disclosures will continue to evolve to reflect the impact of these developments and risks on the Company's future operations and financial performance.

Fraudulent revenue recognition due to fictitious revenue

Description

The revenue related to KLM's ordinary activities is recognized when the transportation and/or maintenance services are provided to customers in accordance with IFRS 15, as disclosed in paragraph 'revenues' of the section accounting policies for the statement of profit or loss. As air travel is recovering rapidly from the COVID-19 pandemic, management may have the incentive to overstate revenues of the current financial year in order to present better results after two consecutive years of reported losses.

We considered fraudulent revenue recognition to be a key audit matter as there may be a tendency to record fictious revenue given the importance of financial recovery in the post COVID period, in particular in the transactions in the last period of the financial year. This resulted in a risk that revenue might be overstated.

Our response

Our procedures primarily consisted of:

- evaluation of the design and implementation of controls around revenues that we considered the most relevant in determining the appropriate timing of revenue recognition;
- inquiring several individuals involved in the financial reporting process whether

there have been any instances of overrides of controls through recording of journal entries or other adjustments;
- assessing whether revenue was appropriately recognized in line with IFRS 15 requirements, for selected sales transactions recognized around year-end we inspected passenger tickets, airway-bills, flight information and maintenance contracts;
- assessing underlying data and assumptions of accounting estimates for biases that could result in a material misstatement due to fraud related to the issued but unused passenger tickets and COVID-19 related vouchers;
- analysing manual revenue journal entries by comparing it to the nature and extent of the manual journal entries in last year; and
- assessing the appropriateness of high-risk manual revenue journal entries in December 2022 and January 2023, primarily focusing on the possibility of improper shifting of revenue from January 2023 to December 2022.

We assessed the appropriateness of disclosures in note 16 and 23 to the consolidated financial statements.

Our observation
Our audit procedures did not reveal indications and/or reasonable suspicion of fraudulent revenue recognition. The results of our procedures performed regarding fraudulent revenue recognition due to fictitious revenue are satisfactory and the related disclosures (note 16 and 23) are adequate.

Recognition and measurement of government grants from the Temporary Emergency Bridging Measures for Sustained Employment ('NOW') program

Description
As described in note 25 of the financial statements, KLM applied for government grants from the Temporary Emergency Bridging Measures for Sustained Employment ('NOW') program and recognized for the last tranche of the program an amount of EUR 134 million in 2022 (2021: EUR 771 million). As disclosed in the accounting policies these government grants are deducted from the related expense in the statement of profit or loss, as the threshold of reasonable assurance that KLM will comply with all conditions attached to the government grant are met.

The recognition and measurement of the government grant was significant to our audit due to the financial impact, the one-off nature of the NOW grant program and its social relevance.

Our response
We inspected the NOW regulations issued by the Dutch government and other underlying documents to gain an understanding of the relevant terms and conditions related to the government grant program.

Our audit procedures included, amongst others, assessment of management's evaluation and representation over the recognition of the government grants in the statement of profit or loss. In 2022, we continued to assess the appropriateness of the applied definition of a NOW-group, the revenue decrease compared to reference period under the NOW regulations and compliance with other terms and conditions.

With the involvement of component auditors in the Netherlands and France, our additional NOW related audit procedures over the revenue, including its decrease compared to the reference period, and employee expenses included, amongst others:
- reconciling and evaluating the revenue in the NOW reference and measurement periods;
- performed procedures to verify the accuracy and completeness of the revenue in the measurement periods and considering the results of our standard audit procedures over revenue for the entire financial year;
- reconciling the wages to be included in the final NOW applications to the payroll administration and verifying the correct application of NOW reductions resulting from lowering wages or dismissals;
- reconciling the received government grants from the NOW program to supporting documentation such as external information and bank statements;
- obtaining KLM's assessment of compliance to the key NOW requirements and

verifying compliance with key aspects such as the NOW consolidation group, a restrictions dividend payment, share based payments and bonuses;
- challenging the reasonable assurance assumption required to recognize the government grants in the statement of profit or loss as defined by IAS 20; and
- assessing the adequacy of the presentation and disclosures in note 25 to the consolidated financial statements.

The scope of above procedures is less than the scope of those to be performed in connection with the audit of the outstanding NOW applications for final settlement.

Our observation
The results of our procedures performed regarding recognition and measurement of the government grants from the Temporary Emergency Bridging Measures for Sustained Employment ('NOW') in the financial statements were satisfactory and we determined that the related disclosure (note 25) is adequate.

Report on the other information included in the Annual Report

In addition to the financial statements and our auditors' report thereon, the Annual Report contains other information. This includes all information in the annual report in addition to the financial statements and our auditors' report thereon.

Based on the following procedures performed, we conclude that the other information:
- is consistent with the financial statements and does not contain material misstatements; and
- contains the information as required by Part 9 of Book 2 of the Dutch Civil Code for the Report of the Managing Directors and other information.

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is less than the scope of those performed in our audit of the financial statements.

The Board of Managing Directors is responsible for the preparation of the other information, including the information as required by Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Engagement
KLM engaged us, KPMG Accountants N.V. and PricewaterhouseCoopers Accountants N.V., to perform a joint audit. We were engaged by the General Meeting of Shareholders as auditors of KLM, on May 2, 2022, for the audit of the year 2022, whereby KPMG Accountants N.V. has operated as statutory joint auditor since financial year 2005. PricewaterhouseCoopers Accountants N.V. operated as statutory joint auditor since financial year 2022.

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

Description of responsibilities regarding the financial statements

Responsibilities of the Board of Managing Directors and the Supervisory Board for the financial statements
The Board of Managing Directors is responsible for the preparation and fair presentation of the financial statements in accordance with EU-IFRS and Part 9 of Book 2 of the Dutch Civil Code. Furthermore, the Board of Managing Directors is

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

As part of the preparation of the financial statements, the Board of Managing Directors is responsible for assessing KLM's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the Board of Managing Directors should prepare the financial statements using the going concern basis of accounting unless the Board of Managing Directors either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so. The Board of Managing Directors should disclose events and circumstances that may cast significant doubt on KLM's ability to continue as a going concern in the financial statements.

The Supervisory Board is responsible for overseeing the Company's financial reporting process.

Our responsibilities for the audit of the financial statements

Our objective is to plan and perform the audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not detect all material errors and fraud during our audit.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

A further description of our responsibilities for the audit of the financial statements is included in appendix this auditors' report. This description forms part of our auditors' report.

Amstelveen, March 31, 2023	Amsterdam, March 31, 2023
KPMG Accountants N.V.	PricewaterhouseCoopers Accountants N.V.
R.C. de Boer RA	F.S. van der Ploeg RA

Appendix:
Description of our responsibilities for the audit of the financial statements

Appendix

In addition to what is included in our auditors' report, we have further set out in this appendix our responsibilities for the audit of the financial statements and explained what an audit involves.

Description of our responsibilities for the audit of the financial statements

We have exercised professional judgement and have maintained professional scepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included among others:

- identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than the risk resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of KLM's internal control;
- evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Managing Directors;
- concluding on the appropriateness of the Board of Managing Directors' use of the going concern basis of accounting, and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on KLM's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause a company to cease to continue as a going concern;
- evaluating the overall presentation, structure and content of the financial statements, including the disclosures; and
- evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We are ultimately responsible for the opinion and therefore responsible to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the financial statements. In this respect we are also responsible for directing, supervising and performing the group audit. We have determined the nature and extent of the audit procedures for components of the Group to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole. Determining factors are the geographic structure of the Group, the significance and/or risk profile of group entities or activities, the accounting processes and controls, and the industry in which the Group operates. On this basis, we selected group entities for which an audit or review of financial information or specific balances was considered necessary.

We communicate with the Audit Committee of the Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identify during our audit. In this respect we also submit an additional report to the Audit Committee of the Supervisory Board in accordance with Article 11 of the EU Regulation on specific requirements regarding statutory audits of public-interest entities. The information included in this additional report is consistent with our audit opinion in this auditors' report.

We provide the Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee of the Supervisory Board, we determine the key audit matters: those matters that were of most significance in the audit of the financial statements. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

Miscellaneous

Five-year review

(in millions of EUR, unless stated otherwise)	2022	2021	2020	2019	2018 Restated*
Consolidated statement of profit or loss					
Passenger	7,210	3,109	2,518	7,952	7,766
Cargo	1,748	1,980	1,535	1,171	1,284
Other revenues	1,721	976	1,067	1,952	1,839
Revenues	10,679	6,065	5,120	11,075	10,889
Expenses**	(9,001)	(5,370)	(5,195)	(9,132)	(8,769)
Adjusted EBITDA**	1,678	695	(75)	1,943	2,120
Amortisation, depreciation, impairment and movement in provisions**	(972)	(922)	(1,079)	(1,090)	(1,029)
Adjusted income from operating activities**	706	(227)	(1,154)	853	1,091
Total APM adjustments**	37	(949)	(191)	22	(13)
Income from operating activities	743	(1,176)	(1,345)	875	1,078
Financial income and expenses	(304)	(340)	(340)	(275)	(315)
Pre-tax income	439	(1,516)	(1,685)	600	763
Income tax expenses	305	255	136	(162)	(201)
Net result after taxation of consolidated companies	744	(1,261)	(1,549)	438	562
Share of results of equity shareholdings	-	3	3	11	4
Profit/(loss) for the year	744	(1,258)	(1,546)	449	566
Consolidated balance sheet					
Current assets	3,299	2,525	1,937	2,576	2,599
Non-current assets	8,604	8,100	8,510	9,195	8,737
Total assets	11,903	10,625	10,447	11,771	11,336
Current liabilities	5,267	3,882	3,800	4,701	4,636
Non-current liabilities	6,500	7,438	6,762	5,510	5,739
Group equity	136	(695)	(115)	1,560	961
Total equity and liabilities	11,903	10,625	10,447	11,771	11,336

* 2018 restated following implementation of Customer compensation and Component approach for Life Limited Parts in 2019.

** See note 28 Alternative performance measures (APM) for the reconciliation to adjust EBITDA and adjusted income from operating activities for the financial years as from 2019. Also see the Alternative performance measures section in the Notes to the consolidated financial statements.

(in millions of EUR, unless stated otherwise)	2022	2021	2020	2019	2018 Restated*
Key financial figures (KLM Group)					
Adjusted income from operating activities for the year as percentage of revenues**	6.6	(20.7)	(30.2)	4.1	5.2
Earnings per ordinary share (EUR)	15.87	(26.90)	(33.05)	9.57	12.07
Capital expenditures (net)	(640)	(481)	(681)	(1,323)	(1,320)
Net debt/adjusted EBITDA ratio	1.0	4.5	47.4	1.3	1.3
Dividend per ordinary share (EUR)	-	-	-	0.415	0.4
Average number of staff (KLM Group)					
(in FTE)					
The Netherlands	24,525	23,705	26,866	27,293	26,601
Outside the Netherlands	2,899	2,902	3,102	3,279	3,219
Employed by KLM	27,424	26,607	29,968	30,572	29,820
Total agency staff	1,561	837	772	2,454	2,592
Total KLM Group	28,985	27,444	30,740	33,026	32,412
Traffic (KLM Company)					
Passenger kilometers***	82,289	40,912	33,873	109,476	107,676
Revenue ton freight kilometers***	2,353	3,333	3,020	3,583	3,696
Passenger load factor (%)	83.4	49.6	52.2	89.4	89.1
Cargo load factor (%)	53.4	79.6	77.7	61.9	64.4
Number of passengers (x 1,000)	25,838	14,039	11,231	35,092	34,170
Weight of cargo carried (kilograms)***	306	412	371	453	466
Average distance flown per passenger (in kilometers)	3,185	2,914	3,016	3,120	3,151
Capacity (KLM Company)					
Available seat kilometers***	98,660	82,452	64,842	122,452	120,815
Available ton freight kilometers***	4,402	4,155	3,882	5,811	5,758
Kilometers flown***	378	322	271	471	462
Blockhours (x 1,000)	561	465	390	706	689
Yield (KLM Company)					
Yield (in cents):					
Passenger (per RPK)	8.6	7.3	7.1	7.1	7.0
Cargo (per RTK)	42.7	37.3	31.8	21.0	22.5
Average number of staff (KLM Company)					
(in FTE)					
The Netherlands	18,424	18,036	20,787	21,146	20,670
Outside the Netherlands	2,008	2,037	2,277	2,421	2,431
Employed by KLM	20,432	20,073	23,064	23,567	23,101

* 2018 restated following implementation of Customer compensation and Component approach for Life Limited Parts in 2019.
** See note 28 Alternative performance measures (APM) for the reconciliation to adjust EBITDA and adjusted income from operating activities for the financial years as from 2019. Also see the Alternative performance measures section in the Notes to the consolidated financial statements.
*** in Millions.

Provisions of the articles of association on the distribution of profit

UNOFFICIAL TRANSLATION OF ARTICLE 32 OF THE ARTICLES OF ASSOCIATION OF KLM ROYAL DUTCH AIRLINES

1. Out of the profit established in the adopted financial statements, an amount may first be set aside by the meeting of priority shareholders in order to establish or increase reserves.
   The meeting of priority shareholders shall only do so after consultation of the Board of Managing Directors and the Supervisory Board.
2. So far as possible and permitted by law and these Articles of Association 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 the fiscal year concerned, with a maximum of five per cent (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 six per cent (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; if and to the extent that the profit is not sufficient to make the full aforementioned distribution on the cumulative preference shares-A, in subsequent years a distribution to the holders of cumulative preference shares-A shall be made to recompense this shortfall entirely before the following paragraph may be given effect;

c. next the holders of preference shares-B shall receive five per cent (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 one half per cent (0,5%) 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 five per cent (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 profit is not sufficient to make full payment of the dividend on the cumulative preference shares-C referred to in this paragraph, in subsequent years a distribution to the holders of cumulative preference shares-C shall be made to recompensate this shortfall entirely before the following paragraph may be given effect. 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 6 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 paragraphs 1 and 2 of this Article.

3. The Board of Managing Directors, with the approval of the Supervisory Board, resolves on distributions at the expense of the share premium reserve maintained for the holder of the common share-B. Until the share premium reserve maintained for the holder of the common share-B has been distributed in full, the Company shall not make any other distribution (neither from profit nor at the expense of the reserves nor in the context of a repurchase or withdrawal of shares) on common shares.
4. The reserve and dividend policy of the Company may only be amended with the prior approval of the Supervisory Board and the meeting of priority shareholders.
5. 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.
6. 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.

7. Subject to the approval of the Supervisory Board, the meeting of priority shareholders may, to the extent possible and permitted by law and these Articles of Association, 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.
8. Subject to the approval of the Supervisory Board, the meeting of priority shareholders may, to the extent possible and permitted by law and these Articles of Association, 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.
9. 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 2022 amounting to EUR 743,138,000 be appropriated as follows:

Transfer to reserves

Retained earnings EUR 743,138,000

For an elucidation, reference is made to the Distribution to the Shareholders paragraph in the Report of the Supervisory Board section.

Glossary of terms and definitions

Adjusted EBITDA
EBITDA adjusted for alternative performance measures (APMs) not defined by IFRS.

Adjusted free cash flow
Free cash flow minus redemption payments on lease debt.

Adjusted income from operating activities
Income from operating activities adjusted for alternative performance measures (APMs) not defined by IFRS.

Alternative performance measures (APMs)
The Group considers it relevant to the understanding of its financial performance to use certain alternative performance measures (APMs) not defined by IFRS. These APMs should not be viewed in isolation as alternatives to the equivalent IFRS measures and should be used as supplementary information in conjunction with the most directly comparable IFRS measures. APMs do not have standardised meaning under IFRS and therefore may not be comparable to similar measures presented by other companies. See the Alternative performance measures section in the Notes to the Consolidated financial statements and note 28 Alternative performance measures in the Consolidated financial statements.

Available Seat Kilometer (ASK)
One aircraft seat flown a distance of one kilometer.

Available Ton Freight Kilometer (ATFK)
One metric ton (1,000 kilograms) cargo capacity flown a distance of one kilometer.

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.

Cargo load factor
Total Revenue Ton Freight Kilometers (RTFK) expressed as a percentage of the total Available Ton Freight Kilometers (ATFK).

Codesharing
Service offered by KLM and another airline using the KL code and the code of the other airline.

Earnings per ordinary share
The profit or loss attributable to ordinary equity holders divided by the weighted average number of ordinary shares outstanding.

EBITDA
The earnings before interests, taxes, depreciation, amortisation, impairment and movements in provisions. EBITDA provides a simple indicator of the cash generation during the year.

Free cash flow
This corresponds to the cash available after investments in (prepayments in) aircraft, other tangible fixed assets and intangible fixed assets less the proceeds of disposals.

Net debt
The sum of current and non-current financial liabilities, current and non-current loans from parent company, current and non-current finance lease obligations, current and non-current lease debt, less cash and cash equivalents, short-term deposits and commercial paper and held-to-maturity financial assets.

Passenger load factor
Total Revenue Passenger Kilometers (RPK) expressed as a percentage of the total.
Available Seat Kilometers (ASK).

Revenue Passenger Kilometer (RPK)
One passenger flown a distance of one kilometer.

Revenue Ton Freight Kilometer (RTFK)
One metric ton (1,000 kilograms) of cargo 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.

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 COVID-19 pandemic), hostilities or war, including the adverse impact on general economic conditions, demand for travel, the cost of security and the cost and availability of aviation insurance coverage and war risk coverage;
- The effects of natural disasters and extreme weather conditions;
- Changing relationships with customers, suppliers and strategic partners; and
- Developments in any of these areas, as well as other risks and uncertainties detailed from time to time in the documents we file with or furnish to relevant agencies, could cause actual outcomes and results to differ materially from those that have been or may be projected by or on behalf of us.

We caution that the foregoing list of important factors is not exhaustive. Additional information regarding the factors and events that could cause differences between forward-looking statements and actual results in the future is contained in 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

Headoffice
Amsterdamseweg 55
1182 GP Amstelveen
the Netherlands

Postal address
P.O. Box 7700
1117 ZL Schiphol
the Netherlands

Telephone
+31 20 649 9123

Internet
www.klm.com

Registered under number
33014286 in the Trade Register
of the Chamber of Commerce
and Industry Amsterdam,
the Netherlands.