

AIR FRANCE (UK) PENSION SCHEME IMPLEMENTATION STATEMENT FOR THE YEAR ENDING 31 MARCH 2023

Welcome to the Trustees' Statement of how they implemented the policies and practices in the Scheme's Statement of Investment Principles (SIP) during the year ending 31 March 2023.

INTRODUCTION

This is the Trustees' statement prepared in accordance with the requirements of the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019. This statement sets out how the Trustees have complied with the Scheme's Statement of Investment Principles during the period from 1 April 2022 to 31 March 2023 (the 'Scheme Year').

In particular, the statement:

- Sets out the extent to which, in the opinion of the Trustees, the Trustees have followed the voting and engagement policies in the Scheme's SIP during the Scheme Year; and
- Describes the voting behaviour carried out by the Scheme's investment managers on the Trustees' behalf during the Scheme Year (including the most significant votes cast by the Trustees or on its behalf) and describes any use of the services of a proxy voter during the Scheme Year.

A copy of this implementation statement is available on the following website

<https://www.airfrance.co.uk/information/legal/edito-sommaire>

WHAT IS THE STATEMENT OF INVESTMENT PRINCIPLES ('SIP')?

The SIP sets out the investment principles and practices the Trustees follow when governing the Scheme's investments. It describes the rationale for selecting the investment strategy and explains the risks and expected returns of the funds used and the Trustees' approach to responsible investing (including climate change). The SIP is reviewed (and if necessary revised) at least every three years and following any significant changes in investment policy.

This implementation statement is in respect of the Scheme's SIP that was in place over the 12 months to 31 March 2023. The last review of the Scheme's SIP was completed in March 2023 and the next review will take place no later than March 2026.

The SIP dated November 2021 applied from the start of the Scheme Year until the Trustees put in place a revised SIP dated March 2023, which applied for the rest of the Scheme Year. The Trustees considered both of these SIPs when preparing this statement.

The main changes to the SIP made as part of the March 2023 update were as follows:

- The Scheme disinvested from Alcentra and removed CBRE as the manager for the Scheme's Property allocation as it is in run-off, representing c2% of current assets as at 31 December 2022.

If you want to find out more, you can find a copy of the Scheme's SIP at

<https://www.airfrance.co.uk/information/legal/edito-sommaire>

CONCLUSION

The Trustees believe, following the review carried out as part of preparing this statement, that the relevant sections of the SIP have been followed during the Scheme Year. Where there are sections which require the Trustees to evidence alignment, the Trustees have agreed to maintain an action plan to demonstrate alignment within the next reporting period. We explain the Trustees' reasoning for this conclusion below.

THE SCHEME

The Scheme provides members with benefits on a defined benefit ('DB') basis. This means that the size of the benefits paid to members when they retire will depend on salary and length of service.

Up until 2017, members could pay Additional Voluntary Contributions ('AVCs') into the Scheme – these arrangements were closed to new contributions from 1 July 2017.

HOW THE SCHEME'S INVESTMENTS ARE GOVERNED

The primary objective of the Scheme is to provide pension and lump sum benefits for members on their retirement and/or benefits on death, before or after retirement, for their dependents, on a defined benefit basis.

The Trustees have overall responsibility for how the Scheme's investments are governed and managed in accordance with the Scheme's Trust Deed and Rules as well as Trust Law, Pensions Law and Pension Regulations.

During the Scheme Year, the Scheme's governance processes remain unchanged. The Trustees have delegated day-to-day investment decisions, such as which investments to buy and sell, to the Scheme's investment managers.

The Trustees undertook the following training / actions during the last year to ensure that their knowledge of investment matters remains up to date:

Date	Topic	Aim	Trainer
10 October 2022	Risk Transfer	Training on how a buy-in and buy-out work and the work to be undertaken to facilitate a further transaction.	Hymans Robertson LLP
5 December 2022	Professional independent trustees	Discussion of what the appointment of a Professional Independent Trustee would entail.	Hymans Robertson LLP
23 March 2023	Buy-in Strategy	Update on the Risk Transfer project, including proposing a tracing exercise.	Hymans Robertson LLP

The Trustees monitor how well their investment adviser meets the objectives agreed with them, which are designed to align with the Trustees' objectives and investment strategy set out in the SIP. The investment adviser has agreed the following objectives with the Trustees:

- Advise on a suitable investment strategy, and amendments to the strategy, to deliver the required investment returns from the Scheme's investments to progress towards the funding objective.
- Deliver an investment approach that reflects the Scheme's cashflow position and likely evolution and minimises the risk of forced disinvestment.

- Provide advice on cost efficient implementation of the Scheme's investment strategy, including but not limited to advice on the use of suitable benchmarks, active or passive management and selection of managers.
- Provide relevant and timely advice.
- Develop Trustees' knowledge and understanding of the Scheme's investment strategy, its implementation and investment matters.
- Advice is delivered concisely, and recommendations are clearly made with a compelling rationale.
- Provide suitable reporting for the Trustees to understand the Scheme's progress towards its investment objectives.
- Helping ensure the governance framework facilitates good and timely investment decision making.
- Ensure advice complies with the relevant pensions regulations, legislation and supporting guidance.
- Ensure the Trustees meet the relevant pensions regulations and legislation relating to investment, including the Scheme's Statement of Investment Principles and approach to Responsible Investment.

In January 2023, the Trustees carried out an evidence-based review of the investment adviser's performance against these objectives and were satisfied that they had been achieved during the Scheme Year.

The Trustees are satisfied that during the Scheme Year:

- **The Scheme's governance structure was appropriate;**
- **The Trustees have maintained their understanding of investment matters; and**
- **Their investment advisers met the agreed objectives.**

HOW THE INVESTMENT STRATEGY IS MANAGED

The objective and rationale for the investment strategy is set out in the Scheme's current SIP. At the end of the Scheme Year, the Trustees were aware of the Scheme's overweight position in LGIM LDI, Cash, CBRE Property and Equity, and the underweight holdings in the two buy-in policies held with Just and Aviva.

The Trustees have not carried out a formal investment strategy review during the Scheme Year, due to the fact that this has been deferred to take into account of the triennial actuarial valuation and upcoming buy-in of a proportion of liabilities proposals.

The Trustees therefore expect to review the strategy during the next reporting year.

HOW INVESTMENTS ARE CHOSEN

The Trustees review the performance of the investment managers and mandates on a regular basis against a series of metrics, including, but not limited to, financial performance against the benchmark and objectives of the mandate and the management of risks. Material deviation from performance targets may result in the mandate being formally reviewed.

The Trustees monitor the performance of the funds used by the Scheme by:

- Reviewing quarterly investment reports;
- Meeting periodically with managers; and
- Engaging with the investment adviser.

Over the year, the Trustees monitored fund performance relative to the manager's respective benchmarks and targets on a quarterly basis. The Scheme's funds have performed in line with its benchmark for the 12 months to 31 March 2023. The Scheme has existing AVC arrangements with Aviva and Standard Life. The Trustees continue to monitor these arrangements by assessing:

- Whether members hold a material exposure to their AVC holdings;
- The expected pot sizes of members at retirement;
- The performance and fee structure of available funds; and
- Current market conditions and the viability of switching provider.

The Trustees are satisfied that during the Scheme Year:

- **The Scheme's overall investment strategy was appropriate;**
- **The actions taken by the managers to navigate market conditions were appropriate.**

THE EXPECTED RISKS AND RETURNS IN THE DB SCHEME

The investment risks relating to the DB Scheme are described in the SIP on page 4 and the expected return is described in the SIP on page 5.

The Trustees' views on the expected levels of investment risks and returns inform decisions on the strategic asset allocation (i.e. what types of assets and areas of the world the Scheme invests in over the longer-term) and the style of management adopted by the Scheme.

The Trustees believe the main investment risks described in the SIP have not changed materially over the Scheme Year. The Trustees have reviewed each section of the risk register to ensure it remains up to date.

The Trustees were satisfied that the expected rates of investment return for the types of funds described in the SIP were reasonable relative to the risks, during the Scheme Year.

The Trustees were satisfied that through a diversified portfolio, systematic risks were mitigated during the Scheme Year. The Trustees accept that it is not possible to make specific provision for all possible eventualities.

ABILITY TO INVEST / DISINVEST PROMPTLY

It is important that member benefits can be received promptly, and that the Scheme's investments can be realised quickly if required, as set out on page 5 of the SIP. The Trustees also ensure that the Scheme has a robust process for the administration team processing cash payments to/from the Scheme and to/from the investment funds.

The Trustees were satisfied that money was invested in and taken out of the majority of investments without delay, as set out in the SIP.

PORTFOLIO TURNOVER WITHIN FUNDS

During the Scheme Year, the Trustees monitored the performance of the assets (net of costs) on a quarterly basis. If any material deviation in performance relative to target returns or benchmarks had been identified, the Trustees would have further investigated the activity carried out by the fund manager, including the buying and

selling of assets. In this way, the Trustees indirectly monitored portfolio turnover and the associated transaction costs.

Short-term changes in the level of turnover may be expected when a manager alters its investment strategy in response to changing market conditions. However, a change in the level of portfolio turnover might indicate a shift in the amount of risk the manager is taking, which could mean that a fund is less likely to meet the objectives for which it was chosen by the Trustees.

Over the Scheme Year, the Trustees monitored performance for all the funds on a quarterly basis by reviewing Hymans' reporting and discussed performance with the Scheme's investment advisors.

The Trustees did not identify any instances of material deviations in performance, which warranted further investigation into portfolio turnover.

CONFLICTS OF INTEREST

During the Scheme Year, the Trustees did consider conflicts of interest, but has not explicitly set out a management plan. Over the year, the managers did not disclose any potential or actual conflict.

The Trustees will consider the appropriate means to review and monitor conflicts of interest over the next reporting period.

RESPONSIBLE INVESTMENT

The Trustees believe that responsible investing covers both sustainable investment and effective stewardship of the assets the Scheme invests in.

The majority of the Scheme's assets are invested in liability-hedging assets, specifically in gilts, LDI, corporate bonds, multi-asset credit and buy-ins. A smaller portion is invested into equities and property. The Trustees recognise the importance of stewardship activity in relation to the voting activity of the Scheme's equity funds. Meanwhile, each of the Scheme's managers are separately monitored for their own engagement activity.

The Trustees' approach to sustainable investing has not changed during the last year. The Trustees are satisfied that during the year the Scheme's investments were invested in accordance with the policies on sustainable investing and consideration of financially material factors set out in the SIP.

SUSTAINABLE INVESTMENT

The Trustees believe that investing sustainably is important to control the risks that environmental factors (including climate change), social factors (such as the use of child labour) and corporate governance behaviour (called 'ESG' factors) can have on the value of the Scheme's investments.

In line with the SIP, no specific actions over the past year have been considered with respect to non-financially material factors in the development and implementation of the Scheme's investment strategy.

The Trustees have considered the duration of the Scheme's liabilities when choosing and reviewing the funds. The investment adviser provides quarterly updates on the Scheme's strategy relative to its future self-sufficiency target date and liaises with the Scheme Actuary to ensure these remain appropriate.

The Trustees' approach to sustainable investing has not changed during the last year.

POLICY IMPLEMENTATION

As outlined on page 7 of the SIP, the Trustees have delegated voting and engagement activity in respect of the underlying assets to the Scheme's investment managers. The Trustees believe it is important that its investment managers take an active role in the supervision of the companies in which they invest, both by voting at shareholder meetings and engaging with the management on issues which affect a company's financial performance.

The Trustees' own engagement activity is focused on their dialogue with the investment managers which is undertaken in conjunction with the investment adviser. The Trustees accept that investment managers will notify the Trustees about any particular stewardship activities, and the Trustees will record any dialogue with the investment managers which pertain to changes in stewardship policy.

STEWARDSHIP POLICY

The Trustees Stewardship (voting and engagement) Policy sets out how the Trustees will behave as an active owner of the Scheme's assets, which includes the Trustees approach to:

- the exercise of voting rights attached to assets; and
- undertaking engagement activity, including how the Trustees monitor and engage with their investment managers and any other stakeholders.

The Scheme's Stewardship Policy is reviewed on a periodic basis, in line with the Scheme's SIP review. The Trustees have committed to reviewing the managers' stewardship policies on a periodic basis, beginning from the next reporting year.

The Trustees and their investment advisers remain satisfied that the stewardship policies of the managers and, where appropriate, the voting policies remain suitable for the Scheme. From the next reporting period, the Trustees will consider the appropriate means to review and monitor managers' voting policies.

VOTING ACTIVITY

The Trustees seek to ensure that their managers are exercising voting rights and where appropriate, monitor managers' voting patterns. The Trustees have not discussed this issue in detail during the Scheme year but intend to monitor the investment managers' voting on particular companies or issues that affect more than one company, as part of the next reporting period.

The Trustees have invested in listed equity assets through several underlying mandates with LGIM. The Trustees' investment managers have reported on how votes were cast in each of these mandates as set out in the table below.

LGIM EQUITIES

	UK Equity	North America Equity	Europe ex UK Equity	Japan Equity	Asia Pacific ex Japan Equity	Global Emerging Markets Equity
Proportion of Equity assets	46.0%	18.1%	16.8%	5.5%	6.2%	7.5%
No. of meetings eligible to vote at during year	733	676	618	505	503	5,086
No. of resolutions eligible to vote on during year	10,870	8,543	10,391	6,267	3,590	42,279
% of resolutions voted	99.9%	99.4%	99.9%	100.0%	100.0%	99.9%
% of resolutions voted with management	94.5%	65.4%	81.0%	88.8%	70.9%	78.2%
% of resolutions voted against management	5.5%	34.6%	18.5%	11.3%	29.2%	19.7%
% of resolutions abstained	0.0%	0.06%	0.5%	0.0%	0.0%	2.1%
% of meetings with at least one vote against management	37.9%	97.2%	79.1%	71.5%	74.4%	58.3%

Source: LGIM

The resolutions that LGIM voted against management the most on over the Scheme year were mainly in relation to executive remuneration, re-election of non-executive directors and shareholder proposals requesting greater reporting on Climate Change.

SIGNIFICANT VOTES

The Trustees have asked LGIM to report on the most significant votes cast within the portfolios they manage on behalf of the Scheme. Managers were asked to explain the reasons why votes identified were significant, the size of the position in the portfolio, how they voted, any engagement the manager had undertaken with the company and the outcome of the vote. The Trustees own understanding of what a “most significant” vote entails is aligned to the information which they have received from the managers.

From the managers’ reports, the Trustees have identified the following votes as being among those of greater relevance to the Scheme:

LEGAL & GENERAL INVESTMENT MANAGEMENT

Date	Company	Subject (theme and summary)	Manager's vote and rationale	Relevant LGIM funds
22 April 2022	Oversea-Chinese Banking Corporation Limited	Corporate Governance – Resolution 2a - Elect Ooi Sang Kuang as Director	Against – A vote against is applied as the company is deemed to not meet minimum standards with regard to climate risk management Audit Committee: A vote against is applied as LGIM expects the Committee to be comprised of independent directors. Remuneration Committee: A vote against has been applied because LGIM expects the Committee to comprise independent directors. Lead Independent Director: A vote AGAINST the elections of Sang Kuang Ooi, Kwee Fong Hon (Christina Ong), and Joo Yeow Wee is warranted given that they serve on the nominating committee and the company, under the leadership of a non-independent chairman, is not considered to have appointed an independent lead director (LID). Beng Seng Koh, the company's lead independent director, is not considered independent.	LGIM Asia Pacific (ex Japan) Developed Equity Index Fund
05 May 2022	Rio Tinto Limited	Climate Change – Resolution 17 - Approve Climate Action Plan	Against – LGIM recognise the considerable progress the company has made in strengthening its operational emissions reduction targets by 2030, together with the commitment for substantial capital allocation linked to the company's decarbonisation efforts. However, while they acknowledge the challenges around the accountability of scope 3 emissions and respective target setting process for this sector, LGIM remain concerned with the absence of quantifiable targets for such a material component of the company's overall emissions profile, as well as the lack of commitment to an annual vote which would allow shareholders to monitor progress in a timely manner.	LGIM Asia Pacific (ex Japan) Developed Equity Index Fund
12 May 2022	BP Plc	Climate Change – Resolution 3 - Approve Net Zero - From Ambition to Action Report	For – A vote FOR is applied, though not without reservations. While we note the inherent challenges in the decarbonization efforts of the Oil & Gas sector, LGIM expects companies to set a credible transition strategy, consistent with the Paris goals of limiting the global average temperature	LGIM UK Equity Fund

			increase to 1.5 C. It is LGIM's view that the company has taken significant steps to progress towards a net zero pathway, as demonstrated by its most recent strategic update where key outstanding elements were strengthened. Nevertheless, LGIM remain committed to continuing their constructive engagements with the company on its net zero strategy and implementation, with particular focus on its downstream ambition and approach to exploration.	
25 May 2022	Exxon Mobil Corporation	Climate Change – Set GHG Emissions Reduction targets Consistent With Paris Agreement Goal	For – A vote FOR is applied in the absence of reductions targets for emissions associated with the company's sold products and insufficiently ambitious interim operational targets. LGIM expects companies to introduce credible transition plans, consistent with the Paris goals of limiting the global average temperature increase to 1.5 C. This includes the disclosure of scope 1, 2 and material scope 3 GHG emissions and short-, medium- and long-term GHG emissions reduction targets consistent with the 1.5 C goal.	LGIM North America Equity Fund
01 June 2022	Alphabet Inc.	Climate Change – Resolution 7 - Report on Physical Risks of Climate Change	For – A vote in favour is applied as LGIM expects companies to be taking sufficient action on the key issue of climate change. LGIM considers this vote significant as it is an escalation of their climate-related engagement activity and public call for high quality and credible transition plans to be subject to a shareholder vote.	LGIM North America Equity Fund
21 October 2022	Insurance Australia Group Ltd.	Corporate Governance – Resolution 1 - Elect Tom Pockett as Director	Against – A vote against is applied as LGIM expects a company to have a diverse board, with at least 25% of board members being women. LGIM expect companies to increase female participation both on the board and in leadership positions over time.	LGIM Asia Pacific (ex Japan) Developed Equity Index Fund
23 June 2022	China Construction Bank Corporation	Corporate Governance – Resolution 10 – Elect Graeme Wheeler as Director	Against – A vote against is applied under LGIM's Climate Impact Pledge as the Company has not published a clear thermal coal policy and no disclosure of scope 3 emissions associated with investments. As members of the Risk Committee, these directors are considered accountable for the bank's climate risk management.	LGIM Global Emerging Markets Equity

24 March 2023	NEXON Co., Ltd.	Corporate Governance – Resolution 1.1 - Elect Director Owen Mahoney	Against – A vote against is applied due to the lack of meaningful diversity on the board. Accountability: A vote against has been applied as the Company has not provided disclosure surrounding the use of former CEO as Advisor to the Board.	LGIM Japan Equity Fund
29 March 2023	Telefonaktie bolaget LM Ericsson	Corporate Governance – Resolution 12 - Elect Jan Carlson as Board Chairman	Against – Diversity: A vote against is applied as LGIM expects a company to have a diverse board, with at least one-third of board members being women. LGIM expect companies to increase female participation both on the board and in leadership positions over time.	LGIM Europe (ex UK) Equity Index Fund

Source: LGIM

The Trustees and their investment advisers remain satisfied that the voting activities of the managers remain suitable for the Scheme. In the case of significant votes, the Trustees believe that the managers have taken the appropriate steps to pursue further engagement with the companies they hold, and that the outcomes have been satisfactory.

ENGAGEMENT ACTIVITY

The Trustees receive annual reporting on each manager's engagement activity. The following table summarises the key engagement activity for the 12 month period ending 31 March 2023.

Manager	Voting rights / engagements	Topics engaged on
LGIM Equities	Voting rights as these funds invest in equities. The team initiated 1033 engagement with companies on an ongoing basis over the year.	Climate risk management, Remuneration, Human Rights, Diversity (gender and ethnicity), Board composition & Effectiveness, Strategy, Supply Chain, Environment, Energy, Company Disclosure
LGIM Corporate Bonds	No voting rights, as this is a fixed income portfolio.	
CBRE	Voting rights exist, as this fund invests in indirect real estate strategies, however these are limited to an administrative nature only. The team initiated 9 engagements with underlying managers an ongoing basis over the year.	Environment - Climate change

Source: LGIM

The Trustees and their investment advisers remain satisfied that the level of engagement activity of the managers remain suitable for the Scheme, and cover a broad range of topics, including but not limited to climate change.

USE OF A PROXY ADVISER

The Trustees' investment manager LGIM has made use of the services of Institutional Shareholder Services ("ISS"), a proxy voting advisor, over the Scheme year.

While the services of ISS have been used by LGIM, the Trustees have also sought to compare the extent of the manager's alignment with their proxy advisor, ISS, in order to judge the independence of their voting processes. Below is a summary of the voting activity of LGIM relative to the proxy advisor.

Manager	No. meetings voted at	Of which they voted against ISS recommendation (%)
LGIM UK Equity	733	4.2%
LGIM North America Equity	676	26.6%
LGIM Europe ex UK Equity	618	9.7%
LGIM Japan Equity	505	9.2%
LGIM Asia Pacific ex Japan Equity	503	17.9%
LGIM Global Emerging Markets Equity	5,086	8.1%

Source: LGIM

From the above we note that LGIM votes on a significant majority of occasions with the proxy advisor, but maintains further independence on voting against resolutions.

REVIEW OF POLICIES

The Trustees have committed to reviewing the managers' RI policies on an annual basis. Although the Trustees did not review these in the Scheme year, future reviews will consider managers' broader approach to responsible investment issues and any change in approach by the managers over the year. The Trustees will also consider changes to their managers' voting policies.

The Trustees will consider the appropriate means to review and monitor managers' RI policies over the next reporting period.