

Ben Smith announces the cessation of "80 to 90% of Air France's activity" by the end of the weekend



I Letter from the Air France-KLM Director

François Robardet Representative of the employees and former employee shareholders PS and PNC

N°747, March 16, 2020

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Editorial

In an exceptional situation, an exceptional size.

You will find in this letter n°747 (quite a symbol!), the situation of the main European and American companies, according to the information known this morning. Most of them are trying to reassure you about their sustainability, by communicating about their available cash flow. Air France-KLM's cash position enables us to look to the future of our Group with confidence.

Last weekend a meeting was held at KLM with elected staff and management. This morning, a similar meeting took place at Air France, within the Central Social and Economic Committee (CSEC). On this occasion, it was announced that partial employment (formerly short-time working) would be introduced for most employees.

Some Air France employees will be called upon to continue their activity. Let's avoid overloading them with e-mails or calls. I invite you to consult the Intralignes and e-RH sites first. They are regularly updated.

Above all, I would ask you to respect the health rules that are prescribed for us. The virus has no odour, no colour and makes no noise. It is our

individual responsibility to help stop its proliferation.

==> Last minute: the speech by the President of the Republic will probably lead the Air France-KLM group to suspend its international flights outside the Schengen area for thirty days. This eventuality is one of the scenarios studied by the Group. It does not call into question my comments on the future of our Group.

Monday's COVID-19 Press Review

> Ben Smith announces the closure of 80 to 90% of Air France's operations by the end of the weekend

(source LCI) 16 March - This is a serious time for Air France. The passage to phase 3 of the epidemic, decided Saturday evening by the government, is fraught with consequences. This **Sunday evening, Ben Smith**, the boss of Air France/KLM, sounded the alarm. He spoke to all his employees via a video recorded that evening. In a serious tone, he **announced "that the activity of Air France and Transavia France was going to be gradually reduced by 80 to 90% by the end of the week"**. This heavy decision will take effect from Monday. It marks the almost complete cessation of activity.

"In the last few hours, everything has changed. We are living in a historic moment, where each of us has an immense responsibility. Starting with the responsibility to limit the spread of the coronavirus. I know that each and every one of you is aware of that responsibility. It's an ordeal we're all going through together. **An exceptional situation, an exceptional measure. We have to keep trade and the movement of our staff and travellers to a minimum. It is a civic duty at a time when borders are closing and whole populations are being confined.** (...) We have decided to ground all Air France Airbus A380s. Just as we decided to ground all KLM Boeing 747s", explained the group's CEO. (...)

"We have asked governments to help us in this ordeal by lowering taxes and charges, and partial activity schemes. The dialogue with the authorities is permanent and we are working in good intelligence in the face of this threat, which concerns much more than our group, the whole nations," the leader said in his video address.

However, the short-time working measures will spare employees performing "vital functions", according to the evening daily, and the way in which these measures are to be applied should be decided "during

the week". (...)

The Air France-KLM share, which was already doing badly, has seen its share price plummet even further with the coronavirus losing almost 50% since the beginning of the year. "In the aviation sector, we have experienced serious crises: September 11, SARS, the Icelandic volcano, and we have always overcome them. I am sure we will do so again," concluded Ben Smith, who also announced that he would cut his pay by 25%.

My comment: Air France has today informed its employees that the drop in activity will be at least -90% in long-haul and -95% in short- and medium-haul. The situation could change depending on the announcements to be made by the President of the French Republic on Monday evening.

Most employees will be placed in partial employment (a scheme that replaces the former "partial unemployment"). For each period out of work, the employee will receive an allowance corresponding to 70% of his or her gross salary, with a reduced rate of contributions, i.e. for the period not worked about 84% of net salary. The precise details will be communicated to the employees after the company's seven Social and Economic Committees (SECs) have met.

> **The Dutch government will do all it takes to support KLM**

(Reuters source) March 15 - **The Netherlands will do "whatever it takes" to keep the airline Air France-KLM and Amsterdam's Schiphol airport operating in the** context of the coronavirus crisis, Dutch Finance Minister Wopke Hoekstra said Sunday.

KLM, the Dutch branch of Air France-KLM, on Friday unveiled a package of measures to help it weather the health crisis with up to 2,000 job cuts and the cancellation of at least 40% of its flights in the coming months.

The company wants to reduce its expenses by an amount likely to reach 400 million euros.

Wopke Hoekstra did not detail the conditions for a possible bail-out but stressed that Air France-KLM was "vital for the Dutch economy".

He added that he was in close contact with his colleagues in France and with the airline's management.

A source at the French Finance Ministry said on Saturday that a rise in

the French state's stake in Air France-KLM "is not relevant today". (...)

My comment: *In a press release issued this morning, the group said: "Last week, the Air France-KLM Group drew a revolving credit line for a total amount of EUR 1.1 billion and KLM drew a revolving credit line for a total amount of EUR 665 million. 665 million. The Group and its subsidiaries thus had more than 6 billion euros of liquidity at 12 March".*

In addition, both the Dutch and French governments have expressed their willingness to support KLM and Air France.

These two pieces of information are reassuring as to the ability of the Franco-Dutch Group to overcome this crisis.

Attention: the KLM measures mentioned here predate the decision to move to phase 3 taken by the Dutch government yesterday (Sunday).

> **Transavia offers "specific flights" to repatriate French nationals stranded in Morocco and Tunisia**

(source Air Journal) March 15 - Thousands of French expatriates and tourists are stuck in Morocco and Tunisia after air links between these Maghreb countries and France were cut to contain the coronavirus pandemic. In

agreement with the respective authorities of these two countries, **Transavia is authorized to operate "specific flights" to allow the French to return to France. Also, low-cost is exceptionally allowed to operate flights from 15 March to 19 March in Morocco.** Similarly, it is exceptionally authorised to operate flights from 16 March to 18 March in Tunisia.

In Morocco alone, around 40 flights to France are operating today and tomorrow from several Moroccan cities, and others will follow in the coming days to allow French people to return, French Foreign Minister Jean-Yves Le Drian

said on his Twitter account, estimating that around 12,000 French people are stranded in Morocco.

> **Lufthansa risks cutting its long-haul flight capacity by a factor of 10**

(source Capital) 16 March - **Lufthansa** will drastically reduce its long-haul flying capacity. The German airline **will cut "up to 90%" of its long-haul capacity as the** worsening coronavirus pandemic causes an

unprecedented drop in air traffic worldwide, the group announced on Monday. The number of seats offered on long-haul routes will be reduced by "up to 90%" from Tuesday compared to the initial flight plan, with the cuts mainly affecting routes to "the Middle East, Africa and Central and South America," the group said in a statement.

In Europe, for short journeys, the group will offer only "20% of the seat capacity originally planned". Lufthansa had already announced on Wednesday 11 March that the drastic reduction in its capacity due to the coronavirus epidemic would result in the cancellation of 23,000 flights between 29 March and 24 April. Faced with the epidemic, the group will also freeze its hiring and offer unpaid leave to its employees. Lufthansa is studying the option of short-time working, a spokesman told AFP.

> **IAG and easyJet cut their capabilities**

(source: Zonebourse) March 16 - The owner of British Airways and Iberia, as well as the carrier easyJet, which are respectively number 3 and 4 among European airlines, announced drastic capacity cuts in an attempt to survive the coronavirus epidemic that is closing international trade.

IAG, the owner of BA, **said it would reduce its flight capacity by at least 75% in April and May** and that its outgoing boss Willie Walsh would postpone his retirement. However, the airline group has not asked the government for help. For its part, **easyJet is able to ground the majority of its fleet**. Its managing director Johan Lundgren has called for coordinated government support to help the airline industry survive.

Both airlines said they had strong balance sheets, providing details of their cash positions and credit facilities. **IAG, which also owns Iberia and Aer Lingus, said it had total liquidity of €9.3bn**, while **easyJet said it had £1.6bn in cash plus an unused \$500m revolving credit facility**.

> **Ryanair doesn't rule out a total shutdown of its fleet!**

(source Air Journal) 16 March - Like other airlines, the Irish group is adapting drastic measures to cope with the fall in demand following the coronavirus epidemic. **For the months of April and May, Ryanair now plans to reduce its capacity** (in terms of free seats) by up to **80%** and could even ground all its planes. **The company, which has significant cash resources, with more than €4 billion in cash and cash**

equivalents as of 12 March, is also taking various steps to reduce its operating expenses and improve its cash flow.

> **Air Europa announces a short-time working plan**

(source L'Antenne) 13 March - The Spanish company **Air Europa announced on Thursday 12 March a plan to lay off its employees** after the cancellation of many flights due to the impact of the new coronavirus pandemic, union sources said. Air Europa, which has more than 3,800 employees, did not wish to communicate but "does not deny" the information provided by trade unionists. "Workers' representatives and management met today (Thursday) and the company officially announced that it would apply a temporary employment regulation procedure (ERTE)," said the spokesman of the Air Europa USO union, Francisco Borja.

> **Coronavirus: Norwegian already in big trouble**

(source: Air & Cosmos) 16 March - As expected, Norwegian **is** very strongly impacted by the consequences of the coronavirus crisis on global air transport and even more so since Donald Trump has decreed the closure of US air access to European citizens in the Schengen area. The Norwegian low-cost airline **has announced that it will cut more than 4,000 flights by May and that it will lay off half of its staff.** In total, the airline will cut 25% of its medium-haul capacity and 40 of its long-haul capacity.

From 13 March to 29 March, the airline will cancel "the majority of its flights to the United States" from Amsterdam, Barcelona, Madrid, Oslo and Paris. From 29 March to the end of April, all flights will be suspended, with the addition of the service from Athens. Usually, the airline operates from Paris-CDG seven services to the United States (New York, Los Angeles, Fort Lauderdale, Orlando, Boston, Denver, San Francisco).

At the same time, the company has welcomed the aid from the Norwegian government but is asking for more. "We welcome the government's decision to abolish aviation taxes in Norway, but unfortunately this is not enough, as we are currently in an extremely difficult situation. We need specific measures to immediately strengthen our liquidity in the short term. We need the government to look at solutions for the second phase. We ask that these solutions come quickly," the company said.

> **Rome prepares to take control of Alitalia**

(Reuters source) 16 March - **The Italian government is preparing to**

take full control of Alitalia as the health crisis linked to the coronavirus epidemic in Europe forces Rome to reconsider its plans to find a buyer for the ailing airline, Il Messaggero reported on Sunday.

According to the new plan, which is already at an "advanced stage", the daily explains, the government would take control of Alitalia's air and ground operations through a public "vehicle". This plan would be implemented "in a short space of time", the newspaper adds. (...)

A source close to the dossier had told Reuters that the company, which has been in difficulty for many years, was short of cash despite a 400 million euro injection decided by the Italian government at the beginning of the year. (...)

For its part, the daily **La Repubblica reported on Sunday that Rome was planning immediate aid for the air transport industry in the order of 500 million euros, to be followed by other measures equivalent to 3 billion euros, which would allow Alitalia to be nationalised.**

> **USA: Airlines drastically reduce their flights**

(source Le Figaro with AFP) 15 March - US airlines have announced drastic cuts in their flight plans from Monday in response to the ban on entry into the United States for travellers from Europe, which will be extended on Monday evening to the United Kingdom and Ireland.

American Airlines plans to cut capacity on international flights by 75 percent from last year's levels, according to a statement released Saturday night.

"These (flight) suspensions will last until 6 May. This change is a response to the drop in demand and the transport restrictions ordered by the American government due to the coronavirus (Covid-19)," the company said. **American Airlines will also reduce its capacity on domestic flights in the United States by 20% in April and 30% in May.**

Its competitor **Delta Airlines indicated** on its website on Sunday that it was in the **process of adapting its flight schedule to the** new ban. The airline has already announced that it is maintaining only a few daily transatlantic flights. As for Southwest Airlines, it will "probably make service reductions according to demand, but we have not made any announcement," a spokeswoman for the company told AFP. (...)

End of press review COVID-19

Press review ...

> **The South-West is rallying around Safran to launch a biofuel industry**

(source Le Journal de l'Aviation) March 12 - An engine manufacturer, players in the food, chemical and gas transport industries, competitiveness clusters, a university and a Chamber of Commerce and Industry, it is a seemingly heterogeneous team that met on March 10 in Bordes (New-Aquitaine). Yet it had a single goal: to **lay the foundations for the creation of an end-to-end supply chain for aeronautical biofuels** with local players from the Southwest of France. To this end, the ten participants signed a letter of intent to launch a technological and economic feasibility study.

This project, initiated by Safran Helicopter Engines with the support of the New Aquitaine region, should enable them to respond to the call for expressions of interest (AMI) launched by the French Ministry of Ecological and Solidarity Transition on January 27, as part of the Commitment to Green Growth (ECV). The ECV sets short-term targets for the substitution of fossil fuels by sustainable biofuels, of around 2% in 2025 and 5% in 2030 (representing around 400,000 tonnes of biofuels), in order to initiate a broader movement and reach the 50% target for 2050 set in the national low-carbon strategy.

There are therefore ten signatories at the moment: Safran Helicopter Engines, Euralis, Teréga, ACD (Aquitaine Chimie Durable), Chemparc, Agri Sud Ouest Innovation, Xylofutur, the Pau Béarn Chamber of Commerce and Industry, the University of Pau and the Pays de l'Adour and Aerospace Valley. (...)

The consumption of biofuels is currently negligible in the aeronautics industry in France and in the rest of the world, notably because of their prohibitive cost. (...) It costs three times more than conventional kerosene. For Franck Saudo, president of Safran Helicopter Engines, the challenge is therefore to create an industrial sector capable of lowering this cost, by ensuring the availability, distribution and consumption of sustainable aviation biofuels.

This industry will have to set up virtuous processes to guarantee the sustainability of these new-generation fuels, i.e. a low carbon footprint throughout their life cycle. Indeed, as Nicolas Jeuland, senior expert on Safran's future fuels,

explains, **the difference with conventional kerosene lies in production, storage and delivery (with a drop in emissions of 65 to 90% compared with Jet A-1) and not in combustion (a drop of a few**

percent). (...)

The choice of the biofuel to be used by this industry has not yet been decided. So far six types have been approved and six others are under development worldwide for "drop in" use, which allows up to 50% biofuel to be mixed with conventional kerosene without modification on the aircraft. The partners will have to pool their skills to make the best economic, technical and environmental choice and above all avoid "the wrong good idea".

As an agricultural co-operative, Euralis could thus propose different sources available for making biomass without affecting food production or resorting to deforestation. At the same time, the expertise of Safran Helicopter Engines would help to establish technical criteria, with the study of the impact of the different fuels on the performance and lifespan of its engines, etc. Safran Aerosystems could also participate for fuel systems.

Finally, **the project includes a direct outlet for the industry. Safran Helicopter Engines** should commit to purchasing a volume of fuel for its engine tests, which are currently one of its main sources of CO₂ emissions. Safran Aircraft Engines could follow suit if the experiment is conclusive. **However, there is still a need for a major consumer, more precisely an airline company, to guarantee a sufficient volume of purchases for the industry to reach its critical mass.** (...)

Finally, each of the participants seems well aware that **biofuels alone will not be enough to achieve the objective of reducing CO₂ emissions from air transport by 50% by 2050 compared to 2005.** They are only one element among others that will contribute to reducing the carbon footprint of current aircraft in the short term, some of which will still be flying for 30 or 40 years. **In the longer term, aeronautics must study the possible use of electricity, hybrid electric, hydrogen, biomethane and natural gas. This will necessarily involve technological breakthroughs in aircraft design.**

***My comment:** Manufacturers are mobilising to launch a French sustainable biofuels development sector.*

It will be necessary for the government to support this approach if it is to be successful.

Stock exchange press review ...

> The Paris stock market in free fall as a recession approaches (-11.4%)

(source AFP) March 16 at 1:55 pm- **The Paris stock market was experiencing another black Monday, continuing to sink at mid-session** (-11.4%), with the spectre of a recession looming and taking over the all-out responses of central banks to lessen the economic impact of the new coronavirus. (...)

"We have never seen downward pressure like this. Even in 2008, when we were close to a cataclysm, the movements were different," notes Alexandre Hezez at Richelieu Gestion.

"Sales are massive and indiscriminate," he told AFP.

Central banks and governments are employing major resources in an attempt to stem the economic consequences of the new coronavirus epidemic that is now raging in Europe, which has become the epicentre of the disease, and is gradually contaminating the United States. (...)

Many market participants consider that the response would have to be much more budgetary than monetary to be effective.

In China, industrial production has contracted for the first time in nearly 30 years while retail sales have collapsed, showing the extent of the damage while waiting to see more clearly the economic impact of the pandemic in Europe and the United States.

The entire transport sector was suffocating: Airbus (-18.4% to 60.6 euros), Air France-KLM (-16.86% to 3.99 euros), which has announced a drastic reduction in its offer, Renault (-19.4% to 13.44 euros) with its four Spanish plants at a standstill, and Peugeot (-16.6% to 9.90 euros).

ADP (-15.97% at 78.15 euros) fears a negative impact of 190 million euros in 2020 on its gross operating income. (...)

***My comment:** Many of you have asked me about the opportunity to buy or sell your Air France-KLM shares. Please be aware that ethically I cannot answer this question.*

But I answer all your messages to make it easier for you.

End of the press review

> Privatisation of ADP: Constitutional Court rules that the referendum project has failed

(source Le Figaro with AFP) 13 March - **The Constitutional Council has validated 1,090,570 supports for the referendum project of shared initiative (RIP) on the privatisation of Aéroports de Paris at the end of the period of collecting signatures opened nine months ago,**

the "wise men" announced on Friday in a press release. The figure of the last score remains insufficient to start the RIP on ADP which, to be validated, required the support of 4.7 million citizens or 10% of the electorate. (...)

If this result removes the last legal obstacle to the privatization of ADP, the government said on Wednesday that this question "cannot be raised immediately given the current market conditions due to the coronavirus crisis. "We would be a very bad manager if we made the immediate choice to sell off the state's assets and holdings in ADP," explained government spokeswoman Sibeth Ndiaye. The government's initial plan was to invest the proceeds from the sale of ADP's assets in government bonds, generating an annual return of €250 million, to finance innovative projects. But since then, the Coronavirus crisis has changed the situation, hitting air transport hard, with companies and airports suffering from containment measures, the caution of holidaymakers and cancellations of business trips. (...)

> My comment on the Air France-KLM share price evolution

The Air France-KLM share is at 4.319 euros at the close of trading on Monday 16 March. It fell by -16.59%. At the start of the coronavirus epidemic, it was at 9.93 euros.

The average (the consensus) of analysts for the AF-KLM share is down to 10.71 euros.

A barrel of Brent Oil (North Sea) is at \$30 a barrel, down \$6 this week. At the start of the coronavirus outbreak, it was \$69. That's the biggest drop since 1991.

This indicative information in no way constitutes an invitation to sell or a solicitation to buy Air France-KLM shares.

You can react to this press review or provide me with any information or thoughts that will help me better carry out my duties as a director of the Air France-KLM Group.

You can ask me, by return, any question relating to the Air France-KLM group or employee shareholding...

I'll see you soon.

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| François Robardet

Director Air France-KLM representing employee shareholders PNC and PS.

You can find me on my twitter account @FrRobardet

This press review deals with subjects related to Air France-KLM shareholding.

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