I Letter from the Director Air France-KLM

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Monday's Press Review

> KLM is not there yet with support under tough conditions (KLM n'est pas nog nogore tirée d'affaires)

(source Het Parool translated with Deepl) June 26 - Hurrah. **KLM has been saved**. Yesterday, the support operation came to an end, the airline **having obtained 3.4 billion euros in loans and credits.** But is KLM going to make it?

Is that money already there?

Certainly not. **KLM will soon receive 942 million euros** to meet immediate needs. **Subsequent amounts will only be available if the airline gradually meets the conditions set by the cabinet** (...).

KLM, for example, is obliged to reduce its costs by 15 %. The lion's share of the costs are personnel costs. From the modal (EUR 36,500 gross per year), three times the modal (EUR 110,000) or more, at least 20% must be given up.

But the intervention can only be successful if all trade unions cooperate. Unilateral wage cuts will not work (...).

Are the government's other conditions feasible?

In part, such as the prohibition of bonuses, dividends or salary increases during the maximum 5.5 years of the support plan. But KLM must also halve its CO2 emissions. In return, this can only be done through costly investments in new aircraft, among other things (...).

Opponents of growth consider the environmental sacrifice to be totally insufficient (...). Is this correct?

It is very doubtful that some of the environmental tasks that the government is now imposing can be carried out. **KLM, for example, is unlikely to be able to consume 14% of its fuel from biological sources within ten years**. "That is the question," says CEO Pieter Elbers. "This biofuel has to be available. The same applies to the condition that **short-haul flights to at least six European destinations must be replaced by trains**. "This is only possible if there are good rail connections," says Elbers. "As long as it takes eight hours to get to Berlin, it is not feasible. In the short term, Brussels is the only suitable connection. For the rest, governments will first have to invest in better rail connections.

KLM will record losses in the coming years, will have to repay loans, bear restructuring costs and invest. Is this really possible?

The question is whether it is enough to make savings and clean up costs. In addition, other conditions imposed by the State could jeopardise the recovery - such as reducing night flights by almost a quarter, which would weaken the hub. "We need to find a balance in our operations and find a solution for our share of night flights that are cancelled," says Elbers. "We want to maintain our network. After all, that's why the government is providing this support".

Is it over with support now?

No. There is a **good chance," Finance Minister Hoekstra also acknowledges, "that there is still money to be paid to the parent company Air France-KLM this autumn**. This is due to the 14% stake Hoekstra took a year ago. The airline needs to clear its high debts, and this can only be done by issuing new shares. In order to maintain the interest of the Netherlands, Hoekstra will have to join them (...).

My comment: *KLM has obtained support from the Dutch State and the banks on a similar pattern and on similar terms to what was granted to Air France.*

KLM benefits from:
. a bank loan of €2.4 billion, 90% guaranteed by the State,
. a €1 billion loan from the Dutch State.

The funds will be made available in two stages. In the first stage, KLM will receive 940 million euros. The remainder of the loans will be made available as from 1 October, on condition that KLM has drawn up a restructuring plan up to 2025 *incorporating the conditions imposed by the Dutch State.*

These conditions are similar to those imposed on Air France with one exception. Wage reductions are required for the best paid KLM employees.

KLM managers and pilots will be the most affected. Their pay cuts will be in the order of -20%.

Within Air France there is no such measure except for the managers. It should be borne in mind that Air France flight crews are paid according to the number of hours flown. They therefore mechanically suffer a reduction in remuneration, capped at -20%, proportional to the drop in activity.

> Difficult week in sight socially at Air France

(source Challenges) 29 June - **Air France,** hard hit by the Covid-19 crisis, is **preparing for a difficult week from a social point of view,** with the presentation on Friday of the impact on employment of its "reconstruction plan" which will involve a drastic reduction in domestic routes and will result, according to the unions, in thousands of jobs being cut, with no forced departures (...).

At the end of May, Air France-KLM CEO Benjamin Smith announced a 40% reduction in the (loss-making) French network by the end of 2021. Destinations departing from Orly with a rail alternative of less than 2H30, such as Lyon, Nantes or Bordeaux, are threatened. Certain very loss-making cross-country routes - from region to region - provided by the regional subsidiary Hop! could also be eliminated (...).

After an Air France Board of Directors meeting scheduled for Monday, management will present an updated version of the forward-looking management of employment and skills (GPEC) **to the trade unions on Friday at** an extraordinary Central Social and Economic Committee (CSEC) meeting at the head office at Roissy. **On the same day, an extraordinary ESC will take place at Hop!**

Announcements will be made at the following week's establishment SSCs (...). According to the unions questioned by AFP, **several thousand jobs are in any case under threat at Air France and Hop! while the low-cost Transavia, also in the group, could be given short-haul routes.**

The job cuts are to be carried out on a voluntary basis, in the form of Collective Bargaining Agreement (CBA) breaks for aircrew and a Voluntary Departure Plan (VDP) of as yet unknown scale for ground staff, from corroborating sources (...).
At the end of 2019, the Air France Group had more than 55,000 employees on fixed-term and permanent contracts, including nearly 49,000 for the French airline alone. The latter has undergone twelve voluntary redundancy plans over the last ten years and, according to the unions, has lost 15,000 positions since 2008.

My comment: *Air France management will announce its staff reduction plan next Friday.*

It will be necessary to wait several weeks to know the conditions of possible voluntary departure plans. These conditions will have to be negotiated with the social partners.

> Transavia inaugurates its Montpellier base with seven European routes

(source Air Journal) June 27 - **Transavia yesterday inaugurated its third base in the region, at Montpellier-Méditerranée airport,** launching two routes, one to Palermo and the other to Faro.
Transavia's first passengers at Montpellier-Méditerranée flew yesterday to Palermo (Sicily) at 4:30 pm and then to Faro (Portugal) at 5 pm. Others take off today for Athens (Greece) and tomorrow for Lisbon (Portugal) and Seville (Spain)...
At the inauguration of its base, the French low-cost airline, a subsidiary of the Air France-KLM group, is offering seven European destinations: Seville, Athens, Heraklion, Palermo, Faro, Lisbon and Porto. It will extend its programme to offer 15 routes to the Mediterranean basin, including services to Tunisia, Morocco and Algeria, as soon as travel restrictions are lifted (...).

My comment: *The decision to open a Transavia base in Montpellier was taken before the start of the health crisis.*

> Reopening of Orly: a "water salute" to celebrate the first take-off

(source LCI) 26 June - 6:25 am, Paris wakes up. In the sky, a strange bird cracks the air. **For the first time since last March 31, a plane took off this Friday morning from Orly airport,** the first since its reopening. Destined for Porto, it marks the smooth resumption of commercial flights from this international airport which usually welcomes

32 million travellers every year.
Before it hit the runway, Transavia's low-cost flight TO3400 was treated to a somewhat folkloric **hurdle of honour.** The aircraft had to pass through a water arch created by the airport firefighters' water cannons, which propelled nearly 10,000 litres of recycled rainwater. A ceremony known as the "water salute", as underlined by the CEO of the Aéroport de Paris (ADP) group, Augustin de Romanet. "The tradition is that major events at an airport are marked with a 'water salute'."
Before the ceremony, the airport had prepared. **Everything was done to restore the passengers' confidence.** More than 7,000 posters and stickers to mark the physical distance were put up, and 150 gel dispensers and 137 Plexiglas were installed on all reception counters, check-in and boarding desks. A thermal camera also takes the temperature of passengers on arrival. In the shops, which are almost all open, with a few exceptions such as a self-service candy store, mobile cash points have been deployed. Cloth baskets have been replaced by metal baskets for regular disinfection, as have perfume testers.
Restoring passenger confidence, a necessary step to hope for a way out of the crisis in the air transport sector. But **no one is under any illusions. While the International Air Transport Association (IATA) anticipates worldwide traffic that will not return to 2019 levels before 2023, the recovery will be extremely slow at Orly,** as ADP has already warned. And for good reason: although Transavia's flight is leading the way, before the departure of 70 other aircraft, this figure is particularly low. Under normal circumstances, an average of almost 600 movements are planned. This Friday, around 8,000 passengers are expected, i.e. less than 10% of the usual traffic (...).

My comment: *Let's look on the bright side: Orly airport reopened earlier than originally planned. It was Transavia that had the honour of making the first flight. Air France is not expected to resume shuttle flights until the end of the summer.*

The pace of recovery in activity is difficult to assess. It will, of course, depend on the evolution of the health situation in the various countries of the world. But it will depend above all on the number of customers who wish to travel.

> SkyTeam: 20 years and a health promise

(source Air Journal) June 23 - **The SkyTeam alliance celebrated the twentieth anniversary of its creation by the airlines Aeromexico, Air France, Delta Airlines and Korean Air**. It took the opportunity to launch a health protocol for its 19 members, SkyCare& Protect,

compatible with the recommendations of all international aviation and medical organizations.
Launched on 22 June 2000 by its four founders, the SkyTeam alliance formed the world's first cargo alliance in September of the same year; the following year it was joined by CSA Czech Airlines and Alitalia. It was not **until 2004 that KLM Royal Dutch Airlines joined them, followed in 2006 by Aeroflot and in 2007 by Air Europa (Spain), Kenya Airways and China Southern Airlines (Guangzhou, which left the alliance at the end of December 2019).**
The first SkyTeam lounge was opened in June 2009 at London Heathrow Airport, which six months later saw the first grouping of alliance members (in Q4). TAROM (Romania) and Vietnam Airlines joined SkyTeam in 2010, and two other Asian members were appointed in 2011, China Eastern Airlines (Shanghai) and China Airlines (Taipei).

2012 was a busy year for the alliance, with the accession of Saudia (Saudi Arabia), Middle East Airlines (MEA, Lebanon), Aerolineas Argentinas and Xiamen Air, and above all the launch of the SkyPriority airport service offer. By December 2012, SkyTeam had reached a total of 1,000 destinations. Finally, Garuda Indonesia joined the alliance in 2013.
Today, the 19 members "collaborate within a vast international network to welcome 676 million passengers each year on more than 15,445 daily flights to 1,036 destinations in 170 countries", according to the SkyTeam website.

In response to the Covid-19 pandemic, **SkyTeam yesterday unveiled a harmonization of its members' health protocols under a single umbrella, SkyCare& Protect, a** series of personal health measures that "will help passengers and employees" when they travel on board their aircraft. Walter Cho, President of SkyTeam, said in a news release: "Twenty years ago today, SkyTeam was founded with a promise to care more about our customers. While the world and our industry have changed dramatically over the past six months, initiatives such as SkyCare & Protect are a shining example of the alliance's commitment to take care of customers when they travel on the SkyTeam network.
SkyCare & Protect brings together the safety and health practices of each member airline and the recommendations of health and industry authorities, including the International Civil Aviation Organization (ICAO), the International Air Transport Association (IATA) and the Centers for Disease Control and Prevention (CDC, ECDC).
SkyCare & Protect" enhances the entire customer journey in light of the VIDOC-19 pandemic, but these measures will evolve, as health and safety will continue to be part of SkyTeam's foundation"; the program

currently consists of 15 measures, "based on five layers of protection", that enhance personal security at every stage of the journey (...).

My comment: *This is a birthday that went completely unnoticed. Yet Skyteam's role is essential to ensure the development of the 19 member airlines.*

> Lufthansa re-commissions half its fleet

(source Le Figaro with AFP) 29 June - (...) "The borders are gradually reopening and demand is rising, in the short and medium term. **We are extending our flight plan accordingly and continuing our recovery," Lufthansa said in a statement**. "This means that **half of the group's fleet will be back in the air again,** i.e. 200 more aircraft," the group added. After grounding almost all of its aircraft at the height of the coronavirus crisis in March, the group will return 380 aircraft to service.
Lufthansa has already taken over some routes in June, but its seat supply in the coming months will not exceed 40% of what was planned before the coronavirus pandemic. **By the end of October, however, the group intends to offer 90% of its short- and medium-haul and 70% of its long-haul services**.
The Group's Austrian subsidiary, Austrian, will also expand the number of its flights from July onwards, offering 50 destinations, compared to 36 at present. Lufthansa's other subsidiaries are also taking over flights: Eurowings is expected to reach 80% of its regular routes "in the summer", and Brussels Airlines will offer 45% of its services.
Swiss should offer 13 long-distance routes from Zurich in July, and 18 from October (...).

My comment: *Airlines have the worst difficulty estimating the number of planes needed to transport passengers.*

It is symptomatic that they only report on the number of planes that are back in operation and not on the number of passengers carried.

> Brussels Airlines: agreement signed between management and social partners, 75% of jobs saved

(source L'Avenir) June 26 - **The management of Brussels Airlines announces this Friday in a press release that it has reached an agreement with the social partners on restructuring. The agreement preserves 75% of the jobs, divided equally between the services, the** management (...).
Some 1,000 jobs out of 4,000 are threatened within the airline. This

reorganisation will rely as far as possible on voluntary redundancies and early retirement in order to limit redundancies. For employees who leave the company, Brussels Airlines is offering an "outplacement" for 12 months to help them in their career transition, says the company (...).

> EasyJet raises £419 million to strengthen its cash position

(source: L'Echo touristique) 29 June - The British airline **EasyJet announced** on Thursday that it had raised £419 million (**more than 464 million euros**) **through the issue of new shares**. While it has increased its losses in the first half of the year because of the coronavirus, these funds should enable it to strengthen its cash position. This operation, the principle of which had been unveiled the day before, concerns a little less than 15% of the carrier's capital, according to a press release.
The company had obtained the agreement of its shareholders in February for a possible fund raising corresponding to 10% of its capital. EasyJet is therefore going to ask shareholders for authorization for the additional 5%, at the risk of opening up a new front with the group's founder and main shareholder Stelios Haji-Ioannou, who holds more than 30% of the capital. The latter castigates the group's strategy in the face of the health crisis and had even asked for the departure of the managers before being defeated at a recent general meeting.
The group intends to use the funds raised to bail out its coffers, which have been sorely tested by the health crisis and the long paralysis of air traffic. EasyJet resumed its flights in mid-June but the recovery will be very gradual and the sector is preparing for a few difficult years with depressed demand.
As a result of the fund raising, the company will now have excess cash of £3 billion. It had taken several measures in recent weeks to strengthen its finances, with a £600 million loan from the government, a postponement of aircraft deliveries to Airbus and **a restructuring with the loss of 4,500 jobs, almost a third of its workforce.**

My comment: *Most major European companies have obtained loans to enable them to survive this unprecedented crisis. Some of them, such as Lufthansa or easyJet, have also carried out capital increases.*

In the next letter, I will try to give as complete an overview as possible of this aid.

> Norwegian Air cancels orders for 97 Boeing aircraft

(source Reuters) June 29 - Norwegian Air has cancelled orders for 92 Boeing (NYSE:BA) 737 MAX and five 787 Dreamliners, the airline said in a statement.
"Norwegian has also filed a claim for reimbursement of pre-delivery payments related to these aircraft and compensation for losses related to the grounding of the 737 MAX and engine problems with the 787," it said.

> Boeing 737 MAX: Three days of certification testing

(source Air & Cosmos) June 29 - **A campaign of certification flights for the Boeing 737 MAX is scheduled to begin on** June 29, 2020, **over three days.** Its goal: to prove that the 737 MAX can return safely to the skies. This test campaign is a crucially important step for Boeing (...).
After a pre-flight briefing that will be amply detailed, the crew will board a 737 MAX 7 with test equipment and take off from Boeing Field Airport near Seattle. The crew will methodically execute flight scenarios such as tight turns, progressing to more extreme maneuvers, all in an air corridor over Washington State. The flight tests, which will take place over at least three days, could include touch-and-go tests at the Lake Moses airport, as well as a flight over the Pacific Ocean coast. The flight plans and test schedule will be adjusted to take into account weather and other factors.
As a culmination of the flight tests, the pilots will intentionally use the software previously used in the two fatal accidents, the MCAS, which has since been reprogrammed. Aerodynamic stall conditions will also be reconstructed and the results analyzed. **The FAA states that the testing will last several days and "will include a wide range of flight manoeuvres and emergency procedures to allow the agency to evaluate whether the changes meet FAA certification standards**.
The FAA has not made a decision on the aircraft's return to service. However, this test campaign will be more rigorous than Boeing's previous test flights. The main purpose of these tests is to ensure that the software modifications undertaken by the aircraft manufacturer on its MCAS are sufficiently robust to prevent the recurrence of scenarios comparable to those of the two accidents.

My comment: *Boeing sees the end of the tunnel with its B737 Max.*

Once the aircraft is certified, we'll have to see if the airlines will take delivery of their orders. The weak recovery could further delay the entry into service of this new version of the B737 Max.

> Niches: companies want to extend the exception

(source L'Antenne) 26 June - **The European airline association A4E is calling for the relaxation of airport slot rules to be extended into the winter season,** again because of the uncertainties linked to the Covid-19 pandemic.

"We call on regulators to grant an extension without delay, and to give European airlines the best possible chance to recover from this unprecedented crisis," said Thomas Reynaert, Director of A4E.

In March, the European Union temporarily suspended until October airport slot rules, which require airlines to use at least 80% of the slots allocated to them at airports, failing which they lose their rights the following season.

Bookings are "at historically low levels" and are currently 59% below normal for the winter 2020/2021 (25 October to 27 March). "Passengers are also booking closer to their travel dates than usual. This lack of visibility on future demand makes it extremely difficult for airlines to plan their programmes," A4E points out.

My comment: *In view of the weak recovery in traffic, it is essential that the period of freezing of airport slots be extended at least until the end of the winter period 2020-2021.*

For the Air France-KLM group, it is essentially a question of preserving the slots it has at d'Orly and Schiphol.

> At Air France, the Airbus A380 bids final farewell to the Airbus A380

(source Paris Match) 27 June - **It is a hasty end to the career of one of the most emblematic aircraft in the Air France fleet**. On Friday, an Airbus A380 in the colours of the French airline flew for the last time in the (...). On board this final flight were 516 Air France employees who worked on this aircraft which has transformed the long-haul flight experience. Pilots, flight attendants, stewards and mechanics who had worked with the "three-eighty" made a loop over France for two hours on departure from Roissy, AFP reports. The airport firefighters gave them a "water salute", creating a spectacular water arch with their lances. At boarding, a stewardess presented a sign with the inscription: "Thank you to the A380 teams."
Air France owns ten A380s, which have made nearly 40,000 flights

and carried 18 million passengers to the United States, China, South Africa and Mexico, AFP reports. The aircraft's last commercial flight took place on 23 March between Paris and Johannesburg.
The end of the giant's career was scheduled for the end of 2022 at Air France. The reason for this was that operating costs were too high. The pandemic, which has paralysed air transport around the world, has led to a review of this schedule. "The overall impact of the depreciation of the Airbus A380 fleet is estimated at 500 million euros," according to the airline, quoted by AFP. A first A380 was returned to the leasing company Dr. Peters in January. Those still owned by Air France are at Roissy (six of them), Tarbes (one aircraft) and Teruel airport in Spain (2). According to AFP, four of these aircraft will be returned to the leasing company, while the other five, owned by the company, will be put up for sale (...).

My comment: *For the last flight of an Air France A380, staff from all sectors of the airline have been invited.*

Of particular note: all the crew members of the A380 who had to land in Goose Bay in an emergency after the loss of part of an engine were invited.

End of press review

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

The Air France-KLM share closed **at 4.135 euros on** Monday 29 June. **It is down sharply by -5.07%** over one week. After a sharp rise at the beginning of June, it has fallen by 30% in three weeks.
At the start of the coronavirus epidemic, the Air France-KLM share was at 9.93 euros.

The average (the consensus) of analysts for the AF-KLM share is 4.59 euros. Many analysts lowered their price forecasts at the beginning of the health crisis. You can find on my blog the details of the analysts' consensus.

The barrel of Brent crude oil (North Sea) **is down slightly from $1 to $42.** At the start of the coronavirus outbreak, it was $69.

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

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