I Letter from the Director Air France-KLM

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

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Monday's Press Review

> Maak KLM weer echt Nederlands bedrijf (Making KLM a real Dutch company again)

(source De Telegraaf translated with Deepl) 9 October - The airline **KLM is threatened to lose its flights, cash and cash management and part of its maintenance activities to Air France due to the Covid-19 crisis**. Sources report this to De Telegraaf.
On Wednesday, the airline KLM celebrated its 101st anniversary. Usually, CEO Pieter Elbers presented KLM's new home, but the Covid-19 provoked a new power struggle behind the scenes. Air France KLM is now entirely under the control of the Elysée Palace and French Finance Minister Bruno Le Maire.
The influence of the French government was already great before Covid-19. "Management has no right to intervene," says a senior source in Paris. Le Maire's goal is to lose as few jobs as possible at Air France, while the bill requires KLM to cut thousands of jobs.
But **now that the project to support the two airlines is under way, there is a threat of a monopoly of the lines**. Paris wants more frequencies, because we can expect larger and faster transport flows in this country, given that Air France has a larger domestic market. **This could be to the detriment of KLM**. "CEO Ben Smith will continue to erode KLM and phase out our hub. He also wants to bring cash, network and maintenance management to Paris. KLM will then only be

a French-managed airline brand. **That is why it is important that Prime Minister Rutte makes an agreement with President Macron as soon as possible,"** **says aviation expert Pim den Hartog, as does Minister Hoekstra, a former McKinsey expert.**

It is no secret that the head of the holding company, Ben Smith, is busy transforming KLM and Air France into operating companies, in order to decide everything himself at holding level. Last year, Minister Hoekstra (Finance) became a shareholder in Air France-KLM to ensure that KLM can maintain its independent operational and cash management. Although the notice period for the so-called state guarantees for this purpose was recently set at five years, the size of the network at Amsterdam Airport Schiphol has not been contractualized. (...) "**Minister Hoekstra will soon have to participate in a recapitalization, so the money will go to France. It is not too late. He'd better use this money to make KLM really Dutch**. Otherwise we will turn KLM around by paying a high price, after which Smith will choose the gemstones in five years' time," says Den Hartog. He would prefer if Minister Hoekstra would take Air France-KLM off the stock exchange and then sell Air France back to the French.
Developments are being closely monitored. "Minister Hoekstra has to react because there is a risk of routes being diverted to Paris. This KLM network, with its 185 connections, is economically very important for the Netherlands", **according to Reinier Castelein, president of the De Unie union**. **Attention is still focused on KLM, while at Air France, not a single cent has been saved.**
(...) "Transferring flights from Schiphol to Paris is like throwing the baby out with the bathwater," explains aviation economist Jaap de Wit about the risk of cannibalization. "KLM has a lower cost structure than Air France, and its staff is efficient. I haven't seen anything impressive in this respect at Air France. In addition, the reduction in the number of flights via Schiphol means that there is a risk that passengers will opt for Frankfurt, Istanbul and Dubai. If they are smart in France, they will benefit from the rescue plan in the Netherlands".

Air France KLM said that "nothing" had changed in the network's strategy. KLM made no comments.

My comment: *The health crisis is exacerbating tensions between the French and the Dutch. Each one is going on with his own argumentation, ignoring (involuntarily?) the reality of the facts.*

I take up two themes addressed in the article.

1 - Is there a risk of transferring KLM's lines to Air France?
This question comes up regularly in the Netherlands. It also arises in the opposite direction for the French: Is there a transfer of Air France routes to KLM?
If we look at the evolution since the takeover of KLM by Air France, there have been more transfers of routes from Air France to KLM than the other way round.

This is not a surprise. In the merger process between two companies of different sizes, it is usually the smaller one that benefits the most.
But beware: the larger of the two also benefits. Both KLM and Air France have benefited from the merger that began in 2004.

2 - Attention is still focused on KLM, whereas at Air France, not a single cent has been saved?
Before the health crisis, Air France made significant savings. One figure illustrates this: in recent years, more than ten thousand positions have been cut at Air France.

Since the beginning of the health crisis, savings have been made at both Air France and KLM. The survival of both airlines was at this price.

Employees have not been spared. At both KLM and Air France, several thousand subcontracted employees have had their contracts terminated.
At KLM, several thousand employees on fixed-term contracts were fired.
At Air France, Transavia and Hop, from the beginning of the crisis, all employees were placed in partial employment, resulting in pay cuts of more than 10%.
At KLM and Air France, voluntary redundancy plans have led employees of all categories (ground staff, cabin crew, pilots) to leave their company.

This list is not exhaustive. It simply has the merit of showing that each entity of the Air France-KLM group, each category of personnel, contributes in its own way to safeguarding the group created in 2004.

All this raises a question: sixteen years after the creation of the Air France-KLM group, why is there still so much ignorance of each other within KM and Air France?

> KLM warns of 'bad timing' flight tax (KLM with en garde

contre le "mauvais timing" de la taxe sur les vols).

(source DFT translated with Deepl) October 6 - **The introduction of the flight tax on January 1 comes at the worst possible time.** This was reported by Pieter Elbers, director of the airline, during a hearing in the Senate last Tuesday on the controversial air passenger tax. Various interested parties and experts were heard there. (...)
The Lower House voted in favour of this tax last spring, when the Covid-19 crisis was already a fact. Although State Secretary D66, Hans Vijlbrief (Finance), left open the possibility of introducing the tax at a later date, it turned out that he still wanted to apply it. However, the estimated revenue was reduced from 200 million euro to 80 million euro. The aviation sector reacted with dismay, as the crisis is seriously affecting the sector.
The Senate has not yet voted on the proposal. The meeting of the finance committee was surreal, because the plans were made at a time when the economy was doing well. Even in this scenario, the flight tax would cost the Netherlands at least 6,500 jobs. (...) "The Netherlands is the only country in the world that wants to tax cargo flights," said Steven Lak of the Logistics Alliance. He even called the tax on flights illegal. (...) As a trading country with a small domestic market, the Netherlands is very sensitive to flight taxes, according to a European Commission study conducted last year.
At the hearing, Mr. Elbers highlighted the accumulation of different tax systems (...). **Members of the Senate were also surprised that there is already a noise charge through the Schiphol airport taxes and a European tax on CO2 emissions through the ETS tax.**
According to Elbers, KLM will have to pay 60 percent of the planned flight tax. "Next year, the UN Corsia system will also come into force, and we will soon pay more because of the obligation to add biokerosene. The total amount at stake is several hundred million per year", according to the KLM head.
Elbers answered the question of what would be a good timing for the flight tax: "**It will only be in a few years, when the market will hopefully be back to normal**. We have resigned ourselves to the fact that this is inevitable, but **we continue to argue that this money should be used for investments that make flights more sustainable**". The airline has committed to using 14 percent sustainable fuel by 2030. According to experts, this cannot be done without government support (...).

***My comment:** In the Netherlands and France, the Air France-KLM group is trying to make politicians understand that airlines are already taxed on noise and CO2 emissions. Any plans for a new tax must take* *this into account.*

Furthermore, as Pieter Elbers, Anne Rigail and Ben Smith have said repeatedly, if new taxes are introduced, the proceeds of these taxes should be earmarked to "support research and development in the development of a biofuel industry for aircraft".
This proposal was formulated in these terms by the Citizen's Convention for the Climate.

> KLM-extraatje piloten onverstandig (Privileges have been imprudently granted to KLM pilots)

(source Het Financieele Dagblad translated with Deepl) October 12 - It doesn't cost the company anything more. And it makes negotiations easier. Nevertheless, **KLM's management was unwise to grant its pilots privileges for family trips and upgrades to business class for the next five years**. The 20 per cent reduction in the salaries of the 3,000 pilots, however painful it may be, does little to change the situation.
KLM has been hit in the heart by the crown crisis and can only survive on public money. Under certain conditions, the government promised 3.4 billion euros in aid in the form of a loan and state guarantees on bank loans. Finance Minister Wopke Hoekstra (...) made politically well-founded demands to KLM in the areas of night flights, cuts and levelling. (...)

At a time when the taxpayer is going to lend KLM a helping hand, experience shows that restraint is called for. Instead of increasing the number of privileges, the company would have done better to curb this development for the staff. The **fact that additional travel privileges are only granted to pilots also puts pressure on internal relations,** as the criticisms of other KLM unions show. **The concession that has been chosen is difficult to defend socially and politically and** therefore puts Minister Hoekstra in a difficult position. Until the negotiation agreement has been definitively signed, the parties would do well to delete this passage.

My comment: *Negotiations with the KLM pilots' union (VNV) were particularly difficult. They ended four hours before the October 1 deadline, at the cost of many concessions.*

This Thursday, KLM will negotiate with the unions on the reduction of working conditions. This will be an opportunity for the ground and cabin *crew unions to express their views on these concessions.*

> Air Canada significantly reduces its offer to purchase Air Transat

(source AFP) October 10 - The airline **Air Canada has sharply revised its bid for tour operator Air Transat from C$720 million to C$190 million due to** the "unprecedented impact" of the coronavirus pandemic on air transport.
Air Canada announced on Saturday that it had entered into an "amended transaction" with Air Transat providing for the acquisition by Air Canada of all of the shares of Transat and the "combination of the two companies".
The new transaction "takes into account the unprecedented impact of Covid-19 on the global airline industry, which is facing a sharp decline in air travel" **since the first agreement between the two companies was reached and approved by Air Transat's shareholders in August 2019**, Air Canada said in a news release.
The value of the transaction at that time was C$720 million (**465 million euros**). **The amended version is now valued at** $190 million (**122 million euros**) (?).
Approval of the transaction remains subject to shareholder and regulatory approvals in Canada and the European Union. The European authorities had estimated that the combination of the two companies could lead to an increase in price and a decrease in supply (...).

My comment: *After Iberia revised its offer to purchase Air Europa, it is Air Canada's turn to review its proposal to buy Air Transat.*

It should be noted that Air Canada will hold strong positions with Air Transat on several routes between Canada and Europe, particularly to France. The competition authorities could therefore impose conditions on the takeover.

> IAG's new boss changes British Airways director

(source Reuters) October 12 - **IAG's new chief executive officer, Luis Gallego, announced Monday the promotion of Aer Lingus boss Sean Doyle to head British Airways, replacing Alex Cruz, with immediate effect.**

The decision by IAG, the parent company of British Airways, will enable Sean Doyle to make a major return to British Airways, where he led the network, fleet and alliances before joining Aer Lingus in 2019.

Chief Executive Officer of British Airways since 2016, Alex Cruz (...) has been weakened in recent months by a plan to cut 13,000 jobs, which has made him a regular target of the unions (...).
IAG raised 2.74 billion euros last month to reduce its debt and try to survive the pandemic.

***My comment: A** few months ago, British Airways announced that it would be laying off the flight and ground crews it intended to retain and then rehire them on lower-cost contracts. More than 30,000 people were affected by this "fire and hire".*

This procedure, legal in Great Britain, caused an outcry, with extremely severe criticism from a large part of the political class.

The departure of the CEO of British Airways followed the abandonment of this project.

> Historic losses for easyJet, which further reduces sail area

(source Les Echos) October 8 - **For the first time since its inception in 1996, easyJet will announce a heavy annual loss**. This is expected to be in the range of £815 to £845 million (€894 to €926 million) for its 2019-2020 fiscal year ending September 30.
Final results will not be released until November 17, but the orange airline has decided to announce the color, **along with a further downward revision of its flight schedule for this winter. And it is probably the latter information that is most worrying, in fact.**

Based on the
current travel restrictions, **we expect to operate approximately 25% of the planned capacity in the first quarter of 2021,"** announced CEO Johan Lundgren. But we retain the flexibility to rapidly increase capacity when we see demand return and anticipated booking levels for the summer of 2021 are in line with previous years," he added.
By the beginning of September, easyJet had already had to reduce its flight supply in the face of the renewed outbreak of the epidemic and increasing health restrictions. The low-cost airline, which had managed to carry 2.2 million passengers in July and 4.3 million in August, saw its traffic drop in September to 2.87 million passengers. Hence the decision to reduce the wingspan, in **order to operate only flights with a sufficient load factor to cover operating costs.**
For easyJet, as for all airlines, the priority remains to reduce cash outflows as much as possible. The company was able to avoid the worst

during the containment period, managing to raise a total of £2.4 billion ('2.6 billion) and reducing its expenses by 36%.
At the end of September, easyJet still had some £2.3 billion in cash on hand. But the company also burned 700 million pounds of cash in the last quarter of its fiscal year (compared to 774 million pounds in the previous quarter). Summer is usually the best period for easyJet, while the winter season is usually a loss making season. As a result, **easyJet could find itself in the position of** having **to call on investors or the States again next summer, if traffic does not resume.**

> Italy creates ITA, the airline company that will succeed Alitalia.

(source Le Journal de l'Aviation) October 12 - **The Italian government has laid the foundations for its next national airline**. The Ministers of Economy and Finance, Infrastructure and Transport, Economic Development and Social Policy all signed on October 9 the decree establishing the "Newco" which will replace Alitalia. **It is called ITA, for Italia Transporti Aereo**.
It will take several more months for the company to start operations, with the decree to be approved by Parliament and the industrial plan to be drawn up. But the government is hoping for a take-off at the beginning of 2021.
ITA is currently planned with an initial capital of 20 million euros, but a previous decree (from May) established that it could obtain up to three billion euros.

Under extraordinary administration since the spring of 2017 and under investigation by the European Union for government aid received before the crisis for a cumulative amount of 1.3 billion euros, Alitalia is destined to disappear. Indeed, **the Italian government insists that the creation of ITA is "clearly out of touch with the past"** (?). When Newco becomes operational, Alitalia should be nothing more than a shell emptied of its assets.
The management of the new company has also been appointed. The management committee is composed of nine members. Its chairman is Francesco Caio, who has held this type of position in several companies and is known in the aeronautics sector for having been general manager of Avio Aero. Fabio Maria Lazzerini, currently Director of Commercial Affairs of Alitalia, becomes CEO of ITA (...).

My comment: *ITA will succeed the "new Alitalia", which itself had succeeded Alitalia in 2008.*

In 2008 Alitalia had more than 170 aircraft in its fleet. ITA will have only half of them.

Emirates is aiming for "a return to normal within eighteen months" > Emirates is aiming for "a return to normal within eighteen months".

(source L'Opinion) October 8 - *How is business going for Emirates?*

Cédric Renard: Managing Director of Emirates in France.
(...) Today, we serve 90 of our 157 regular destinations, and we will reach 100 in November. **We have never stopped flying, especially for freight, and** our goal now is to guarantee our customers reliable, operable services. (...) That said, **we hope to return to normal operations within the next eighteen months**. That is the goal of Emirates CEO Tim Clark. We believe that the Dubai hub, through which all our flights transit, remains promising. The city is the fourth most visited city in the world (16 million visitors) after Bangkok (20 million) and Paris and London (16.5 million). The destination is at the heart of global flows, and our numerous services in Asia, India and East Africa make it the gateway to the rest of the world. (...)
The airline industry is in a state of disaster, and social plans are multiplying. Has Emirates also suffered greatly from the health crisis?
Obviously, **we had to** review all our investments and also **reduce our workforce worldwide [one third of the 105,000 employees before the crisis].** (...). We did not return on the investments of 24 billion euros (list price) announced at the 2019 Dubai Air Show: 50 A350s, 30 Boeing 787s and 115,777s. They will bring our fleet to 257 aircraft, in anticipation of a return to normal in the medium term.
Can we remain optimistic about air transport, which is subject to numerous attacks and attempts to restrict its contribution to global warming?
There is nothing more wonderful than travel, than going to the end of the world. Aviation is highly criticized, especially in northern European countries, which have traditionally taken to the air a lot and would like to change this habit, which is sometimes even socially stigmatized. But for us, aviation remains a wonderful world and we remain optimistic. Not only for the emerging countries, which have a thirst for travel, but also for Europe. **The civilization of contact is not behind us**.
The aircraft has evolved a lot and will continue to do so, using, for example, biofuels and hydrogen. Innovation is coming. As it stands, the sector is responsible for 2 to 3% of the planet's CO_2 emissions. It is

unfair and disproportionate to focus on it. As far as we are concerned, the average age of our aircraft is seven years, and its renewal has already led to a 25% reduction in our emissions.

My comment: *This is an optimistic speech that stands in contrast to the gloom.*

Let's have a dream: an effective vaccine is released at the end of the winter of 2021, and passengers are gradually returning to airplanes, faster than expected. Airlines will return to a similar level of activity in 2019 as early as the summer of 2022.

Until then, complying with barrier measures remains the best way to save lives.

> Boeing 737 MAX: a resumption of flights, but under what conditions?

(source Le Point) October 12 - While the end of the tunnel seems closer **for the Boeing 737 MAX**, **the return to flight of** Boeing's medium-haul aircraft is subject to **constraints in terms of pilot training and flight control upgrades.** (...) A total of 1,000 737 MAX aircraft are waiting on airport tarmacs around the world for regulatory instructions to deliver them to customer airlines, or to return them to flight for 389 of them. (...) The conclusion of the group of experts from the United States, Canada, Brazil and the European Union, meeting recently in London, is that a **flight simulator is mandatory for pilots before taking** (or retaking) **control of the Boeing 737 MAX**. Moving from the 737 NG (the previous version) to the 737 MAX, the two-hour sessions will focus on the discovery of MCAS in normal and degraded operations, as well as how to respond to multiple cockpit alerts in unusual conditions.
This is a far cry from the hour-long iPad-based self-study that Boeing has been promoting to its MAX customers. With this minimalist introduction, the aircraft manufacturer avoided costly flight simulator sessions and sold MAX for less. The **problem** - and complicating the 737 MAX return-to-flight schedule - is **the lack of availability of MAX simulators.** Quebec-based CAE, the leading simu supplier, received 48 orders last year and 19 deliveries were made. These modest numbers are in contrast to the potential demand for nearly 15,000 pilots if the 1,000 existing 737 MAX simulators are returned to service. The queue will be long. So companies like American Airlines have already built up a schedule of training sessions for their pilots.
The 737 MAX already built or delivered as well as those to come will have to be modified. Indeed, as EASA Director Patrick Ky recently

explained at a press briefing, "the European agency has asked Boeing and the FAA to go beyond the pure correction of the factors contributing to the accidents. On the other side of the Atlantic, we would have liked to look at MCAS, and nothing else!

The EASA has obtained a review of the flight control architecture. A number of failures were identified, including excessive proximity of electrical cables, which could have generated interference. Without EASA's intervention, the 737 MAX would fly again with a critical flight control configuration.

Another point: the presence of only two incidence probes. If one fails, the indications of the second are questioned by the MCAS. However, one is missing to remove the ambiguity. **Boeing is therefore going to develop a third "virtual" sensor,** independent of the other two, which will calculate the incidence value from other sensors. This will appear on the MAX 10 version of the 737 in two years, and will then be retrofitted to the entire MAX fleet in service. In the meantime, pilots will be trained in a safety procedure "so that a sensor failure does not lead to a disaster," Ky says.

The management of alarms in the cockpit has been overhauled to avoid saturating the crew. Another upgrade, the deployment of the manual trim, which is used to reduce flight control effort, has been domesticated to prevent the two pilots from having to handle it together. Yet another unimaginable concept on a modern, duly certified aircraft...

My comment: Little by little, *we are discovering the extent of the patches to be applied to try to ensure reliable operation of this B737 Max.*

> Faced with the colossal hemorrhage of cash, airlines are asking for new state aid to get through the winter (IATA)

(source La Tribune) October 6 - **With the Covid-19 rebound and travel restrictions, demand for travel is spiking**. Begun last March, the crisis that airlines are going through is still as violent as ever.
(...
) According to the International Air Transport Association (IATA), **the sector is expected to consume** (...) **$77 billion over the entire six-month period between early July and late December. This haemorrhage is in addition to the 51 billion dollars of cash consumed between April and the end of June** (...). And we must add the colossal cash consumption estimated by IATA in 2021 since, according to Alexandre de Juniac, IATA Director General, "**the air transport sector should burn between 60 and 70 billion dollars next**

year to return to a positive cash situation in 2022".
Despite the violence of this shock, airline bankruptcies have been rare. The massive support of the States has indeed helped to avoid breakdowns. "To date, **governments around the world have provided $160 billion in** support," said (...) IATA's chief economist. A figure that includes direct aid, "wage subsidies" such as compensation for short-time working in France, tax breaks for companies and tax breaks specific to air transport.
However, in spite of drastic restructuring, **these aids appear to be insufficient** (...).

"Since governments have no timetable for reopening borders without quarantine, which is putting a damper on travel, we cannot count on a rebound at the end of the year to bring us a little extra money to last us until spring," laments Alexandre de Juniac
" (...) The crisis is deeper and longer than any of us could have imagined. And the first support programs are running out. Today, we have to sound the alarm again. If these support programs are not extended, the consequences will be disastrous (...). **It is time to ask governments to take additional measures to** replace or extend them over the longer term. The potential for bankruptcies and job losses in the coming months is enormous," he said.
Half of the world's airlines have less than 8.5 months of cash in their coffers (...).
While waiting for a vaccine, one measure would, according to the companies, increase the level of activity without returning to pre-crisis levels: **Covid tests in airports for all departing passengers with results before takeoff**. These are antigenic tests that promise faster results (30 minutes) than PCR (...).
Still, everyone must agree on the definition of a standard that applies to all passengers (...).

End of the press review

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

The Air France-KLM share closed **at 3.109 euros on** Monday, October 12. **It is up +3.74%** over one week.

Before the coronavirus epidemic, the Air France-KLM share was at 9.93 euros.

The average (the consensus) of analysts for AF-KLM shares is 3.24 euros. The highest target price is 5 euros, the lowest is 1 euro. You can find on my blog the details of the analysts' consensus. I no longer take into account the opinions of analysts prior to the beginning of the health crisis.

The barrel of Brent oil (North Sea) **is up $1 to $42.** At the beginning of the coronavirus epidemic, it was at $69.

This indicative information in no way constitutes an incitement 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 related to the Air France-KLM group or to employee shareholding...

See you soon.

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| François Robardet

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