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

> Air France does not make a clean sweep of the climate

(source Journal de l'environnement) 23 October - Vincent Etchebehere, Director of Sustainable Development and New Mobilities at Air France Appointed Director of Sustainable Development and New Mobilities at Air France in July, Vincent Etchebehere details the climate commitments of the tricolor airline.

In the midst of the health crisis, how does Air France envisage the Corsia system and the adjustment of the reference year?
Air France has supported the Corsia
 program since the beginning [1]. We have followed the discussions on the reference year, and the choice that was made, due to the health context, to use only the reference year 2019 instead of 2019 and 2020[i]. This will effectively delay the implementation of Corsia. But in the meantime, **Air France has been offsetting its emissions since 2012 on intra-European flows**. We already offset half of our European emissions under the ETS and **we have also made a commitment on January 1, 2020 to** go further than the ETS **by offsetting all the emissions from our domestic network**. This is a commitment that we made just before the health crisis, and that we have decided to maintain despite the difficult conditions.
What type of program will Air France invest in to offset its emissions?

For voluntary offsetting on 100% of our domestic flights, we have chosen, with our partner EcoAct, to have a combination of carbon capture **projects,** through reforestation projects, and the development of renewable energy, particularly in India. Within the framework of Corsia, we will choose the projects and mechanisms with regard to the high standard certificates provided for in this framework.
We also work with the association A Tree For You to enable our clients to voluntarily support reforestation and absorption **projects** at the time of their booking or after their trip. These projects are selected by a scientific committee composed of experts recognized for their actions in favor of the environment. More than 180,000 trees have already been planted since 2018.

Where do you stand regarding your adaptation policy?
The aviation sector is one of the most complex to decarbonize. We are fully committed to reducing our greenhouse gas emissions as much as possible using all the means currently available. The most effective lever today is the renewal of our fleet. Each new aircraft that joins our fleet emits 25% less CO2 emissions than the previous generation and reduces the noise footprint by 40%. We have ordered 38 A350s and 60 A220s, which will join our fleet in September 2021.

What will be the pace of renewal?
In 2025, new-generation aircraft will account for 50% of our fleet, and 80% in 2030. This corresponds to an investment of one billion euros a year. We have also developed initiatives to reduce fuel consumption through trajectory optimization, lighter aircraft weight and single-engine operation.
We are also seeking to reduce our emissions on the ground, by electrifying our ground vehicles. 58% of them are already electrified today, and our goal is to reach 90% by 2025. **All these actions have enabled us to reduce our CO2 emissions by 6% between 2005 and 2019 in absolute terms and without taking into account the emissions we offset,** in a context of a 32% increase in traffic. But we must accelerate the pace of our decarbonation.

Air France is committed to closing certain domestic routes when an alternative of less than 2h30 by train exists. What is the situation?
Air France is committed to reducing its CO2 emissions on the domestic network by 50% between 2019 and 2024. As such, we no longer operate routes that take less than 2h30 from Orly. Either : Nantes/Orly, Lyon/Orly and Bordeaux/Orly. These lines had already been closed at the time of confinement and have remained closed since.

Is the green aircraft (hydrogen) a future industry for air transport?
We are supporting R&D in the French aeronautical sector. It's a formidable and necessary challenge to reduce the carbon footprint of aviation. We have to keep in mind that **the hydrogen-powered plane is not expected to arrive before 2035-2040. Our priority is to act now to reduce our emissions as much as possible with existing technologies.**
And the emissions we cannot yet reduce, we are acting to offset them. Offsetting **is not an end in itself, but a transitional measure before the arrival of these technological breakthroughs** and the shorter-term development of biofuels for aviation.

Will you favour biofuels over agrofuels?
Our commitment is to take biofuel solutions that meet the highest quality standards and **that do not compete with agricultural production**. This is the most promising source (but still very much at the margin, editor's note) for reducing our emissions, as they emit 80 to 90% less CO2 at source.
We are committed to contributing to the development of an aviation biofuels industry in France, notably by taking a strong part in the call for expressions of interest for biofuel production projects in France launched by the government in early 2020. However, all these measures remain transitional, pending the development of new technological instruments such as hydrogen aircraft and synthetic fuels.

1] Developed by the ICAO, Corsia aims to offset CO2 emissions from international flights.

My comment: *The Air France-KLM group is very committed to reducing greenhouse gases, as this article reminds us. Since 2005, for example, Air France has reduced its CO2 emissions by 6% despite an increase in activity.*

In the near future, particular emphasis will be placed on the use of alternative fuels.
These may be second-generation fuels based on the transformation of oils (algae, oil plants).
Third generation fuels are also under consideration. They will be produced by the Fischer-Tropsch process, which catalytically converts a mixture of CO2 and hydrogen into kerosene.

> For lack of passengers, Air France falls back on freight

(source LCI) October 24 - If **Air France is** struggling to fill its planes with passengers because of the health crisis, it is quite the opposite, one floor down, in the holds. With half of its fleet grounded, the airline is losing about 10 million euros per day. **To limit losses,** it is now **focusing on freight**.
"Demand is now stronger than supply, which allows us to increase our fares," explains Christophe Boucher, Director of Air France Cargo. "By filling the planes well, we can make a profitable flight even without passengers," he says.
(...) At the airline's cargo terminal, activity has thus returned to its pre-pandemic level. No less than 13,000 tons of goods pass through there every week. "Usually, the loading capacity of a passenger-filled airliner is about 100 tons. But **if there are no suitcases, 20% more goods can be loaded on board**", explains an official.
Usually it is food products. "We can find lychees and pineapples from Reunion Island, avocados from Colombia, but also mangoes from South America, Argentinean meat or fish arriving from our African destinations", we list at the Air France freight station. But as Christmas and the end of the year holidays approach, parcel deliveries will multiply.
This is also a godsend for delivery companies whose business is not affected by the crisis. The world leader in express delivery DHL is forecasting growth of at least 40% by 2025. "We are facing a considerable increase in exchanges thanks to e-commerce which exploded with the pandemic, explains Philippe Prétat, CEO DHL Express France. Faced with the increase in demand, the company must inaugurate a brand new sorting center near Roissy within a few months. Enough to sort 120,000 parcels every day, three times more than at present (...).

My comment: *The good performance of the cargo business has enabled Air France to continue to fly aircraft with few passengers without losing money (by covering variable costs at the very least).*

> Minister Hoekstra wil langer loonoffer KLM-personeel (Minister Hoekstra wants a longer wage sacrifice for KLM-personeel)

(source DFT translated with Deepl) October 22 - **KLM unions must settle their differences**. This is what Pieter Elbers, the KLM leader, said Monday afternoon during a meeting with the unions. He emphasized the support of Minister Hoekstra (Finance), who believes that the duration of the agreements with the unions is too short.
After a long process, KLM staff waived pay conditions in order to qualify

for a 3.4 billion euro loan. On October 1, an agreement in principle between management and the unions was reached (...). There are signs that **Minister Hoekstra thinks the duration of the new agreements is too short** (...).
The duration of the **new agreements** varies between 17 and 24 months and they **are based on the renunciation of future wage increases. As a result, KLM's costs will not decrease,** although the minister said when the support plan was announced that this was necessary to survive in the long term.
Hoekstra is expected to give its opinion on the wage effort next week (...).

Another 1,500 men will have to leave KLM, which has already cut 5,000 jobs. On **Monday, KLM again opened a voluntary redundancy scheme** to limit the number of forced redundancies (...).

My comment: *To cope with the second wave of the epidemic, KLM has launched a new voluntary redundancy plan.*

> Transavia: six ephemeral destinations in Paris-Orly for Christmas

(source: L'Écho touristique) October 19 - **For the holiday season**, the low-cost airline **Transavia France** is **opening six additional routes from Paris-Orly.**
Transavia, the low-cost subsidiary of the Air France-KLM group, is entering the domestic market and will be able to compete with the Anglo-Saxon low-cost airlines. From November 2, Transavia will serve Biarritz (...) from Paris-Orly, as **well as Montpellier (...), Marseille (...), Toulouse (...) and Nice (...) from Nantes-Atlantique**. For the occasion, the company offers tickets from 29€ one way from Nantes, Brest, Marseille and Bordeaux.
From December 17, 2020 to January 4, 2021, Transavia will also operate six temporary routes from Paris-Orly. For Christmas market lovers, direction Austria (...) or Hungary (Budapest ...) ! For the aficionados of sunny escapades, it will be Spain (Alicante ...), Tunisia (Sfax ...) or Sardinia (...).
Like Air France, Transavia has relaxed its ticket exchange policy. The postponement of the trip is possible until October 31, 2021 without modification fees. The modification is possible up to two hours before departure. A price difference applies if the fare of the new flight is higher.

My comment: *The weakness of French domestic traffic leaves airlines* *with few opportunities. Transavia but also HOP are trying to offer a maximum of connections.*

> IAG announces a €1.3 MDS loss in Q3 and reduces its flight program

(source Reuters) October 22 - **IAG**, the parent company of British Airways, **announced Thursday a loss of 1.3 billion euros in the third quarter** and further reduced its flight schedule for the end of the year as coronavirus restrictions continue to weigh on the airline industry.
This loss is significantly higher than analysts expected (-920 million euros). IAG reported a profit of 1.4 billion Euros in Q3 2019 (').
The group, which also owns the airlines Iberia, Vueling and Aer Lingus, announced its preliminary results for the third quarter a week ahead of schedule, with revenues down 83% to 1.2 billion euros, as the company operates in an environment of "high uncertainty", according to IAG.
IAG said that in the fourth quarter, its flight program would be limited to 30% of capacity, whereas it had previously planned to cap it at 40%.

Under these conditions, the Group (...) stated that it had strong cash flow. The group raised 2.74 billion euros in early October after a capital increase, bringing its cash position to 9.3 billion euros (...).

> Lufthansa accumulates losses

(source Les Echos) October 20 - The timid resumption of air traffic during the summer was not enough to plug the gaps created by the coronavirus in **Lufthansa'**s accounts in the spring. While it will publish its full results on November 5, the German airline company already **reported on** Tuesday **a new operating loss of 1.26 billion euros in the third quarter,** compared to a gain of 1.29 billion euros a year ago.
In the second quarter, Lufthansa incurred a loss of 1.7 billion euros due to the global economic downturn. In the first nine months of the year, the operating loss amounted to 4 billion euros. (...)
The Group (...) had 10.1 billion euro in cash at the end of September. To this must be added the funds related to aid granted by the German, Swiss, Austrian and Belgian governments: out of 9 billion euros, 6.3 billion euros are still to be paid out. However, its financial cushion is in danger of melting like snow in the sun under the pressure of claims for reimbursement of cancelled flights and the costs of keeping its aircraft on the ground.
(...) By the **end of the year, Lufthansa plans to use only 25% of the capacity mobilized a year ago**. To limit scrappage, the company has

already announced that it intends to step up its savings program by cutting more than the 22,000 job cuts already announced in the spring. It will also be scrapping 150 aircraft between now and 2025, or nearly 20% of its fleet.

My comment: *Third quarter results for both Lufthansa and IAG are only slightly better than those of the second quarter.*

Air France-KLM will announce its quarterly results this Friday, October 30.

> (Incredible) rescue of Corsair: the buyers reveal themselves

(source La Tribune) October 22 - The rescue plan for the French airline company is on track. This Thursday, members of the consortium of investors ready to take over 100% of Corsair presented their project to staff representatives. They were Eric Kourry, founder of Air Caraïbes and boss of Air Antilles and Air Guyane, and Patrick Vial-Collet, notably president of "des hôtels et des Îles" and of the CCI of Guadeloupe.
The **consortium, which is**
dominated by the private sector (even if local authorities will be present), **wants to refocus Corsair's activity on overseas territories to** maintain competition on these routes. While these investors are ready to invest "several tens of millions of euros, a memorandum of understanding has yet to be signed with the State and the current shareholders. (...) Negotiations are underway with TUI, a 27% shareholder of Corsair, to have it contribute as well. The transaction could be finalized by the end of the year.

(...) An incredible plan in terms of its scenario and the players involved, since it involves the State at the bedside of a 100% private company with 1,200 employees, the German tourism giant, TUI, a minority shareholder of Corsair (...) The plan will be implemented by the German government, which will have a (...)), five private entrepreneurs from overseas (but also from mainland France) and public players also from overseas, (...) grouped together in a consortium ready to put "several tens of millions of euros" to hold 100% of the capital of Corsair, currently held by Intro Aviation (53% of the capital), TUI (27%%) and employees (20%).
(...) According to our information, **the members of the consortium have signed a binding letter launching the rest of the rescue process**. This is a real puzzle.

The State, through the Interministerial Committee for Industrial Restructuring (Ciri), (...) **is ready to grant more than 100 million euros to the company**, **mainly through loans.** This is enough to compensate for the cash shortfall that the company will inevitably experience for the duration of the crisis. (...) Without financial strength, Intro Aviation, the majority shareholder of the company, has been out of the game for a long time. On the other hand, even if it is also hit hard by the crisis, **TUI** is in the front line. Sole shareholder from 2002 to 2019 before starting to disengage, the German tourism group **intends to contribute to the plan without remaining in the capital**. A balance of all accounts, so to speak. Discussions are still ongoing about the amount.
(...) **Corsair will reduce its social costs** and gain in productivity. The unions are indeed contributing their share. After management had denounced 134 company agreements and practices, they signed new agreements to reduce the payroll of pilots and flight attendants. In particular, the pilots agreed to cut their night-time pay increase by half and to reduce their days off. **In total, the reduction in costs is 10 to 15%.** In addition, a collective bargaining agreement (CBA) is planned for cabin crew. It is expected to affect around 100 people.
The idea is to ensure the program with about ten A330s when the situation is stabilized. Corsair currently operates five A330s. The delivery schedule and price of the five A330 Neo ordered are currently under negotiation.

My comment: *The French West Indies, Reunion Island and Polynesia are among the few long-haul tourist destinations still open.*

Air France, Corsair, Air Caraïbes, French Bee, Air Austral and Air Tahiti Nui are competing fiercely to attract passengers.

> SAS completes its recapitalization plan

(source AFP) 23 October - **SAS finally managed to complete its rescue plan worth more than a billion euros**, **but Sweden and Denmark were forced to increase their stake in the airline more than expected.**
After the recapitalization plan launched in August, which was mainly based on debt to equity conversions, **the Swedish and Danish governments now each own 21.8% of SAS, the** company said in a statement. Before the crisis, their respective shares were 14.8% and 14.2%, according to the group's website.
Like many airlines, SAS is suffering heavily from the effects of Covid-19 on the sector: the company is suffering heavy losses and at the end of

April launched a plan to cut 5,000 jobs, i.e. 40% of its staff, mainly in the three Scandinavian countries (Denmark, Norway and Sweden). Negotiations on this redundancy plan "have now been finalised, and as a result **5,000 employees have received notifications" of redundancies,** a spokeswoman told AFP (...).

My comment: *SAS and Norwegian both operate from Northern Europe. If the crisis persists, one of the two could disappear.*

> Major low-cost airlines prepare for a ruthless fight in Europe

(source Le Journal de l'Aviation) October 20 - While European air transport continues its descent into hell with a multiplication of health restrictions on the Old Continent, it is clear that **only the low-cost airlines seem to have been somewhat proactive in recent weeks, even if it means showing a certain audacity.**
The example of the arrival of the Spanish company Vueling on the French domestic market since this Friday is particularly striking, even if we have also been able to see for ourselves that it will obviously take time to make this initiative profitable in the current context (...).
The logic is obviously the same at easyJet, Volotea or Wizz Air, the latter now coming to attack the Norwegian domestic market, to the great displeasure of the government in Oslo, which even officially calls for a boycott, with the excuse of the lack of union representation, which is the **last straw** when one remembers the social conditions with which the Norwegian long-haul network had developed in recent years.
As for the European leader in low-cost, Ryanair, its solid financial balance sheet still allows it to anticipate a blow further than its competitors in spite of the current market difficulties, even if certain strategic choices are still difficult to identify, particularly for the related activities of Lauda and Buzz. A future massive order for 737 MAX aircraft from Boeing has not been formally denied by its CEO Eddie Wilson, even if the priority will remain for a long time to be able to absorb the 210 single-aisle aircraft already ordered once EASA's return-to-flight authorization has been obtained.
At a time when the large traditional airlines are once again going to be in a quest for additional financing to hold out even longer, the large low-cost carriers are clearly already in a more strategic mindset to increase their market share in the coming years.

But between the two models, what will happen to the others?

My comment: *At the beginning of the health crisis, the low-cost* *companies seemed to be the best armed to resist. But the summer traffic was not at the expected level, they continued to lose a lot of money.*

The poor traffic forecasts for the winter do not give cause for optimism.

Airbus to produce 40 A320neo Family aircraft per month until summer 2021 > Airbus to produce 40 A320neo Family aircraft per month until summer 2021

(source AFP) October 26 - **Airbus will maintain the production rate of the A320 family at 40 aircraft per month until the summer of 2021**, a spokesman for the manufacturer told AFP on Friday.
"**We have asked our suppliers to protect their ability to sustain a production rate of 47 aircraft per month** and to prepare for a potential market recovery," starting next summer, but "this is in no way a decision to increase production rates to 47 A320 Family aircraft per month," he said.
The request to suppliers is "to give visibility to our supply chain and to ensure that the industrial ecosystem is prepared to increase production when the right conditions are met," according to the spokesman.
"It also reflects our analysis that the single-aisle market will be the first to rebound," he said, adding that "more generally, Airbus wants to preserve its ability to meet customer needs and to be able to adapt to market changes".
Faced with the collapse of the air transport sector, hard hit by the coronavirus crisis, Airbus lowered its production rates in April and is currently producing 40 A320s per month, whereas before the crisis, according to the manufacturer, the aircraft manufacturer was producing 63 to 65 aircraft per month (...)

My comment: *Over time, aircraft manufacturers have become assemblers of parts made by suppliers around the world.*

Both Airbus and Boeing have a vested interest in ensuring that their suppliers can withstand the health crisis.

> Boeing surveys airlines on future single-aisle aircraft

(source BFM) October 22 - Affected by the 737 MAX crisis and plagued by the pandemic that is penalizing air traffic, the aircraft manufacturer is evaluating the possible interest of airlines for a new single-aisle aircraft with 200 to 250 seats, according to the Wall Street Journal.

Boeing has begun sounding out the interest of its major customers (airlines and leasing companies) in a **new commercial aircraft**. A reflection carried out while it is mired in the 737 MAX crisis and has to face (like Airbus) the fall of its orders, due to the reduction of air transport caused by the pandemic.
The U.S. aircraft manufacturer has been talking to some of its customers, including aircraft leasing companies and suppliers, about their potential interest in **a single-aisle aircraft with upgraded engines capable of carrying between 200 and 250 passengers,** explains the Wall Street Journal, which cites sources close to the issue.
In terms of range, the potential new aircraft would fall between the largest versions of the 737 MAX and its long-haul 787 Dreamliner.
But these discussions are still at a preliminary stage. They may not come to fruition, notes the business daily, knowing that the development of any new program takes several years (...).

My comment: *Given the setbacks Boeing is experiencing with its B737 Max, it is surprising that the American manufacturer does not plan to study a successor to this aircraft.*

Note that in Japan, Mitsubishi Heavy Industries plans to stop the development of its regional aircraft "SpaceJet". This project for aircraft with less than 100 seats was launched in 2007. It cost more than 8 billion euros. A prototype made its first flight in 2015.

> The nationalization of the airline company must be temporary, according to the French minister

(source Bloomberg) October 25 - The French Minister of Transport, Jean-Baptiste Djebbari, does not hesitate to consider a possible temporary nationalization of airlines affected by the slowdown in travel caused by the coronavirus epidemic.
The nationalization of airlines is "a technical, temporary option, but it requires a project, a strategy," Mr. Djebbari said on Radio Europe 1 on Sunday. "Nationalizing a company, getting into the capital of the company, is a short-term solution".
France and the Netherlands each hold 14% of the capital of Air France-KLM, which has agreed to a government rescue plan with loans and state guarantees. But as the pandemic accelerates in Europe, uncertainty about travel and the future of airlines is growing, and **governments may be called upon to intervene again.**

Smaller airlines, such as Corsair in France, are also struggling, and some wonder whether injections of public funds are not just prolonging

the pain.
"**In a world where we travel less, the question is what should Air France-KLM's business model be? What are its cash requirements and what should be the role of the State?"** said Mr. Djebbari.

My comment: *The Dutch Minister of Finance announced in June that a recapitalization of the group could be envisaged before the end of 2020.*

In what form? Nationalization? Capital contribution without fundamentally altering the balance between the main shareholders? A financial arrangement similar to the one that enabled the German government to bail out Lufthansa?

All the hypotheses have been the subject of rumors lately. In a recent interview, Martin Vial, the State Participation Commissioner (and director of the Air France-KLM group), indicated that the tools, the amount and the timetable will be discussed with the management of the Franco-Dutch group.

He specified that "Very clearly, the relative weight of the French and Dutch State will ultimately depend on the financial effort made by each of them. In the strengthening of equity capital that will be discussed with the company, the intervention that the French and Dutch governments may make will ultimately determine the evolution of governance".
(Source: La Tribune)

Stock market press review

> ABN AMRO puts Air France-KLM on its sales list (ABN AMRO with Air France-KLM sur la liste des ventes)

(source ABM FN-Dow Jones translated with Deepl) October 23 - On Friday, **ABN AMRO lowered the recommendation for Air France-KLM to** Keep for Sale and adjusted the price target downwards from 3.90 to 2.00 euros.
Analyst Eric Wilmer pointed out that the airline's situation is only getting worse now that the Covid-19 outbreak is reappearing and stricter measures are being introduced. "This makes us more cautious with Air France-KLM," Wilmer said. **He is now counting on a W-shaped recovery**.

Given the situation, the analyst expects the French and Dutch governments to convert their loans into shares. Since Paris lends more than The Hague, this would mean that France would once again become the dominant shareholder.

End of the press review

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

The **Air France-KLM share is at 3.157 euros at** the close of trading on Monday 26 October. **It is down -2.02%** over one week. The decline in the recommendation of Dutch analyst ABN AMRO seems to be the cause of this price variation.

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 2.96 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 down $2 to $40.** 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.

To find the latest press reviews of Monday, it is here

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| François Robardet

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