Air France-KLM wants to emerge stronger from a historic crisis

I Letter from the Director of Air France-KLM

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

N°808, May 17, 2021

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Editorial

Dear readers,

If you are an Air France-KLM shareholder, there is still time to give me your proxy. You will find all the information in my Flash n°85.

The Annual General Meeting of Air France-KLM will be held on Wednesday, May 26, 2021 without the physical presence of shareholders or other persons entitled to attend. It will be broadcast live via webcast on the Group's website.

In addition, starting this week, I am publishing at the end of the letter infographics on the climate impact of aviation. They provide answers to the questions raised by aviation detractors.

Let's continue to respect the barrier measures.

Enjoy your reading
François

Monday's Press Review

> Air France-KLM wants to emerge stronger from a historic crisis

((source Le Figaro) May 12 - "When I look at myself, I feel sorry; when I compare myself, I take comfort. "Ben Smith, boss of Air France-KLM, seems to have adopted Talleyrand's maxim. **Covid-19 grounding airlines since March 2020?** Air France-KLM continues to burn cash, after a record net loss of 7.1 billion euros in 2020 ? The group owes its survival only to the French state, which now holds nearly 30% of the capital?

This is not enough to discourage Ben Smith. The CEO wants to turn this historic crisis into a source of opportunities. In an interview with Le Figaro, **he says he is convinced that the group will emerge stronger from the crisis.** In a market where competition will be reduced by bankruptcies, Air France-KLM will be better placed than its major European rivals Lufthansa and IAG (British Airways) to take advantage of the rebound in air transport, even if the return to normal will be very slow. After reforming, the group is ready to face the low-cost companies.

What is Ben Smith basing his confidence on? First of all, on the size of Air France's "domestic" long-haul network. The French company is counting on the massive resumption of its flights to overseas territories. The CEO is also convinced that competition on these destinations will consolidate its market share.
The **second conviction is that Transavia, the low-cost airline shared by Air France and KLM, is ready to compete with easyJet, Volotea, Vueling and Ryanair**. In recent months, Air France-KLM's management has succeeded in extinguishing sources of losses: the domestic network has been reduced, the fleet simplified, and the provincial bases in Marseille, Nice and Toulouse are destined to close. But **Ben Smith is perhaps going too far in his bid to surpass Lufthansa and British Airways**. IAG, which is highly dependent on transatlantic traffic, has incurred a loss equivalent to that of Air France-KLM and Lufthansa in the first quarter. For a long time the most profitable airline, **IAG has a cash cushion of 10.5 billion euros**. For its part, **Lufthansa has received the green light from its shareholders to launch a capital increase of 5.5 billion euros** to repay public aid.

The German group has not hesitated to cut 25,000 jobs in one year. But it too has prepared for the future. In early May, it ordered five A350s and five Boeing 787s to modernize its long-haul fleet. **Air France-KLM**

will continue to battle with its major European rivals.

***My comment: In a** few weeks, as the health situation improves, travel restrictions will be gradually lifted. Airlines will then have to be agile to adapt quickly.*

After more than a year of partial activity, reduced pay, and work schedules often modified at the last minute, employees will be at the heart of this recovery. Once activity has regained some form of stability, their commitment must be rewarded.

> Bonus topman Air France-KLM staat nieuwe steun KLM niet in de weg

((source FD and NU, translated with Deepl com) May 10 - FD and NU report that Finance Minister Wopke Hoekstra answered questions from MPs Mahir Alkaya (SP) and Eelco Heinen and Ingrid Michon-Derkzen (both VVD), and gave his response to Alkaya's (SP) motion, which was widely supported in Parliament and which called on the government to suspend support for Air France-KLM as long as the CEO's bonus was not ruled out.

FD points out that **Hoekstra said Smith's bonus has no bearing on whether the Dutch government decides to provide additional support to the company**. Any additional support should "mainly benefit KLM, just as the French state did with its support for Air France," FD Hoekstra is quoted as saying.

NU writes that **Hoekstra said the Dutch state will vote against the bonus, because in times of crisis "there is no room for granting and paying bonuses**" to companies that need public support. The website notes that the CEO's bonus is linked to long-term goals and will only be paid out once Air France-KLM has repaid three-quarters of the public aid it received.

***My comment:** The CEO of Air France-KLM receives neither a "bonus" nor a "premium".*

Like the CEOs of KLM and Air France, his remuneration is made up of a fixed and variable part.

How did it feel to see your company going slowly into the wall?

((source TravelPro, translated with Deepl com) May 13 - Pieter Elbers,

CEO of KLM, was a guest on the Dutch late night show Beau on Wednesday (...). On the show, **Mr. Elbers said KLM had received "thousands of bookings" in the last 48 hours, saying he was "very relieved that we can start traveling again**. It had been a while since we had any positive news, which was necessary: everyone saw how bad the first quarter was."
Pieter Elbers further discusses the differences in travel restrictions from country to country, the mandatory double testing to travel to the Netherlands, and his experience as CEO of KLM during the pandemic. About the latter, **Elbers said that internally, people were talking about a "battle of endurance," with at the height of the pandemic, a daily loss of 10 million euros**. "We did all sorts of things to contain the situation. Think of the cost reduction, the considerable reduction in the company's workforce, the creative transportation of goods. [...] The company is much smaller, but ready to look to the future."
About the state aid received from the Dutch government, Elbers says that "a good part" of the €3.4 billion in aid is still available. "We have obtained €3.4 billion in loans and credit facilities. **Of this amount, we withdrew 940 million euros at the end of last year, which** means that we still have 2.4 billion euros, so we are stable. We are now working hard to repay the loans."

My comment: *KLM has had little recourse to state loans, as it benefits from direct support from the Dutch state via the NOW program.*

Renewed every quarter since the beginning of the health crisis, the NOW program partially compensates the loss of turnover of Dutch companies.

This support is crucial for the Dutch subsidiary of the Air France-KLM group. At this time, the question of renewing the NOW program for the three summer months is still pending.

> Air France-KLM plans to double or even triple the number of Transavia aircraft in France

((source Agefi) May 12 - The Franco-Dutch airline group Air France-KLM plans to double or even triple the number of planes of its low-cost subsidiary Transavia operating in France, its CEO Ben Smith said Wednesday.
The Transavia fleet currently has 40 aircraft in France, Ben Smith recalled on BFM Business. "**We are going to double or even triple the number of aircraft here in France**," the executive said, **noting that the fleet increase would involve new flights and not transfers**

of activity from other companies in the group.
Air France-KLM carried out the first stage of its recapitalization in April, via a capital increase of 1 billion euros and the conversion of the French State's shareholder loan of 3 billion euros into quasi-equity.
The group is considering further transactions to strengthen its equity capital. This second step could take place "at the end of the year or early next year", said Ben Smith.
Asked about the opportunity to bring a new airline into the capital of Air France-KLM - which already counts Delta Airlines and China Eastern Airlines among its shareholders - **Ben Smith replied that it was "a possibility". "What is very important is that our shareholders are aligned with our strategy"** and that they accompany the group in the long term, added the executive.

***My comment:** Despite the health crisis, the development of Transavia in Europe remains at the heart of the Air France group's strategy to bring its medium-haul activity back into financial balance.*

> IAG: launches a convertible bond issue of 800 ME

((stock market source) May 11 - **International Consolidated Airlines (IAG) is launching an issue of senior unsecured bonds convertible into common stock for an initial amount of approximately €800 million.**

The owner of British Airways, Aer Lingus and Vueling will use the net proceeds of the transaction to strengthen its balance sheet and increase its overall liquidity, given the continuing uncertainty in the industry due to the pandemic. IAG will also use the funds raised to increase its operational and strategic flexibility to take advantage of the recovery in demand.

> Lufthansa Working With Banks on €3 Billion Capital Raise

((source Bloomberg, translated with Deepl com) May 11 - **Deutsche Lufthansa AG is working with banks on a plan to raise about 3 billion euros in equity** to help pay off its state bailout, according to people familiar with the matter.

The timing and size of the capital increase will be subject to market conditions and could occur as early as June, the people said.

Europe's largest airline received a €9 billion state bailout last year after the coronavirus pandemic ended a decades-long boom in air travel. The

new financing would provide enough cash to repay part of the €5.5 billion silent stake still held by the German state. Lufthansa's executive compensation and merger and acquisition activities are restricted until the company has repaid the state.
(...)
Last week, shareholders approved a potential €5.5 billion capital raise. Lufthansa had previously said it would not use the full amount available and would instead aim for "as small an increase as possible".

Lufthansa continues to lose money as the coronavirus pandemic restricts global travel. The airline **reduced its monthly cash loss to 235 million euros in the first quarter, and expects that figure to shrink to 200 million euros per month in the current period,** reducing its operating loss from 5.5 billion euros last year. (...)

My comment: It is clear that *neither IAG, nor the Lufthansa Group, nor the Air France-KLM Group are planning to pay back the debts incurred during the health crisis by themselves.*

The three main European airline groups are forced to turn to their current or future shareholders.

IAG has already turned to Qatar Airways, Lufthansa to the German government, Air France-KLM to the French government and China Eastern. A second phase of recapitalization is on the horizon for the three competing groups.

> Ryanair posts heavy annual loss, but sees recovery ahead

((source AOF) May 17 - The Covid-19 crisis has plunged **Ryanair**'s annual accounts into the deep red. **During its fiscal year 2021, which ended at the end of March**, the Irish low-cost airline **posted a net loss (excluding exceptional items) of 815 million euros**. A loss lower than the one expected by the consensus (-834 million euros). However, it compares to a net profit of one billion euros in the previous year. For its part, the turnover has collapsed by 81% to 1.64 billion euros and **the number of passengers has fallen by 81% to 27.5 million**.
(...)
For the current fiscal year, the group hopes for a recovery in traffic this summer thanks to the progress of vaccination campaigns and the gradual lifting of traffic restrictions. A solid rebound is expected in the second half of its 2022 fiscal year, when the majority of Europeans will have been vaccinated. Strong weekly bookings since the beginning of

April suggest that the recovery has already begun. At the same time, the company confirmed that passenger numbers are likely to be in the lower 80-120 million range **for its current fiscal year, which ends in March 2022. Financially, Ryanair expects to be close to breakeven.**

In any case, to get through the persistent turbulence of the coming months, the group will be able to rely on a solid cash position, which exceeded 3.15 billion euros at the end of March, compared to 3.5 billion euros at the end of December. (...)

My comment: *Ryanair's optimism seems justified. It is in its main market, intra-European transport, that the airline business should recover first.*

> Boeing: Rolls-Royce gives credence to the new aircraft thesis

((source Les Echos) May 14 - It's one of the questions that's been agitating airplane aficionados. Is Boeing going to launch a new aircraft soon, at last? **Rolls-Royce has just stirred up the Chicago rumor mill in earnest**, with the British engine maker's boss telling shareholders at a general meeting on Thursday that he is indeed talking to Airbus' American rival about a new program. "**Like other engine manufacturers, I'm sure we're discussing the subject with Boeing,**" said Warren East. **It's the first time a major engine maker has officially mentioned the potential aircraft, which would fit between the medium-haul 737 MAX and the smaller 787 Dreamliner** in Boeing's lineup, according to Bloomberg.
For the American group, the stakes are high. It is a question of not being left behind by Airbus in single-aisle aircraft, the European manufacturer amassing orders for its single-aisle aircraft and now holding about 60% of this crucial market segment. Boeing has been planning the launch of this new aircraft, dubbed "797" in the press, for almost ten years. It must be said that such a project is worth billions - ten at least - and that the group has just lost nearly 20 billion dollars in two years.
(...)
Dave Calhoun told analysts a few days ago that his group was counting on the evolution of its design and manufacturing methods and its mastery of carbon composite structures to offer competitive aircraft in the future, more than on the arrival of a new generation of engines. The director, whose term of office has been extended until he turns 70 - the board of directors has reviewed the group's rules for him - has a few years ahead of him to put these

precepts into practice and launch the "797" on the tarmac.

My comment: *For the last two years, Boeing has been making losses, either because of the health crisis or because of the B737 Max debacle.*

In order to carry out its new aircraft project, Boeing will be able to benefit from the support of the US government, which has recently placed large orders for military aircraft.

> Airbus resurrects its A320 assembly line project in Toulouse

((source Le Journal de l'Aviation) May 12 - The health and economic crisis linked to the Covid-19 pandemic had put the project on hold but had not buried it. **Airbus announced on May 12 that it was relaunching its project to install an assembly line for the A320 family in Toulouse.** It will be located on the former A380 production site (Lagardère site) and should be operational by the end of 2022. The creation of this new line will enable the Toulouse facilities to also assemble A321s - which are currently only produced in Hamburg and Mobile. It will also enable Airbus to update its production facilities, replacing one of the current A320 FALs in Toulouse with a modernized and digitized FAL.
Airbus expects to be ready to meet demand for the aircraft family as the single-aisle market recovers. After having been forced to reduce production by 40% in 2020 compared to its initial forecasts, the aircraft manufacturer expects production rates to return to their pre-crisis level between 2023 and 2025 for its A320 Family. According to Reuters, **it has already contacted its suppliers to prepare for an 18% increase in production rates by the end of 2022**.
Currently, about forty single-aisle aircraft are produced each month by Airbus. An acceleration of production is already underway, to reach forty-five aircraft per month by the end of the year. Before the crisis, more than sixty A320 Family aircraft left the factory each month.

My comment: *Airbus is seeing the end of the crisis. This is good news for the people of Toulouse, many of whom work for the aircraft manufacturer or its subcontractors.*

> Airbus and Air France could be tried for manslaughter in the Brazilian crash

((source Bloomberg, translated with Deepl com) May 12 -- **Airbus SE and Air France-KLM could face manslaughter charges stemming from the deadly crash of a Paris-bound plane off the coast of Brazil**

more than a decade ago.

The Paris appeals court ruled Wednesday that the case should go to trial, according to a court official, who declined to be identified under the policy. **The decision reverses an earlier decision to drop charges against the companies in the crash that killed 228 people.**

Air France Flight 447 plunged 38,000 feet in three minutes into the Atlantic Ocean off the coast of Brazil in June 2009, in the deadliest crash in the airline's history. None of the people on board the Airbus A330 survived.
In a 2012 report, investigators concluded that the crash was caused by the pilot's confused reaction to inaccurate speed readings, while pointing to problems with the A330's training and displays.
Airbus and Air France had indicated their intention to appeal the decision to the country's highest court.
At the end of a criminal investigation that began ten years ago, the investigating magistrates had decided to drop the charges against Airbus and Air France in 2019. The prosecutors and plaintiffs in the case had appealed this decision.
Sébastien Busy, a lawyer representing the families of the victims, said the Paris court of appeal considered that Airbus had underestimated the seriousness of the deficiencies of its speed instruments and that Air France had not properly trained its crews.
The court's decision "in no way reflects the conclusions of the investigation that led to the dismissal of the case," said Guillaume Steuer, spokesman for Airbus.

Air France said it "did not commit any criminal fault that led to this tragic accident."

My comment: *The civil parties have not ceased to demand a criminal trial, in order to clearly establish the responsibilities in the accident of the Rio-Pairs flight.*

It is important to note that, despite the absence of a trial, most of the victims' families have received compensation from Air France or the insurance companies.

Bonus of the week

The CO_2 emissions required to transport a passenger

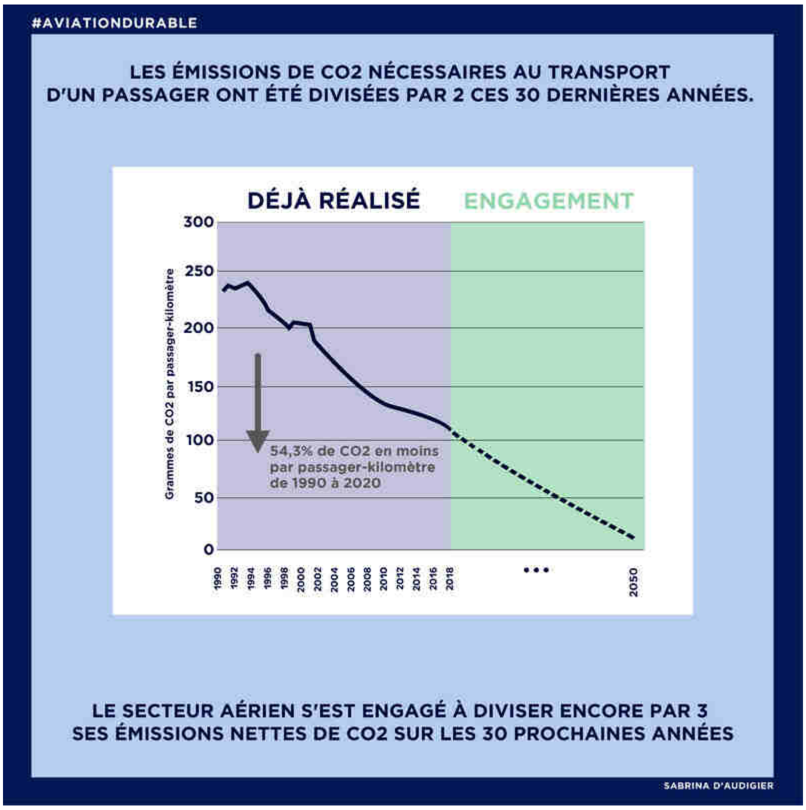
have been halved in the last 30 years

((source #aviationdurable) April 27 - The air transport sector has not waited for society's awareness of global warming to reduce its environmental footprint, and **airplanes emit 80% less CO2 than the equivalent aircraft of the 1960s**.

This improvement in fuel efficiency has made it possible to decouple the growth in greenhouse gas emissions from the increase in traffic. As a result, over the **past 30 years, fuel consumption per passenger-kilometer carried and associated CO2 emissions have been reduced by more than 50%.**

Each new generation of aircraft consumes about 20% less fuel than the previous generation, and new aircraft consume about 2 liters per passenger over 100km.

The entire airline industry has already committed to continue reducing its environmental footprint through energy improvements of more than 1.5% per year to achieve carbon neutral growth by 2020. By 2050, the commitment is to halve net CO2 emissions from the airline industry compared to 2005 levels.



My comment: *Yes, airlines have been working for decades to reduce* *greenhouse gas emissions.*

Is this enough to meet the CO2 reduction targets set by the Paris agreements? Of course not.

One of the main avenues being explored is the supply of synthetic fuels, made from CO2 in the atmosphere.

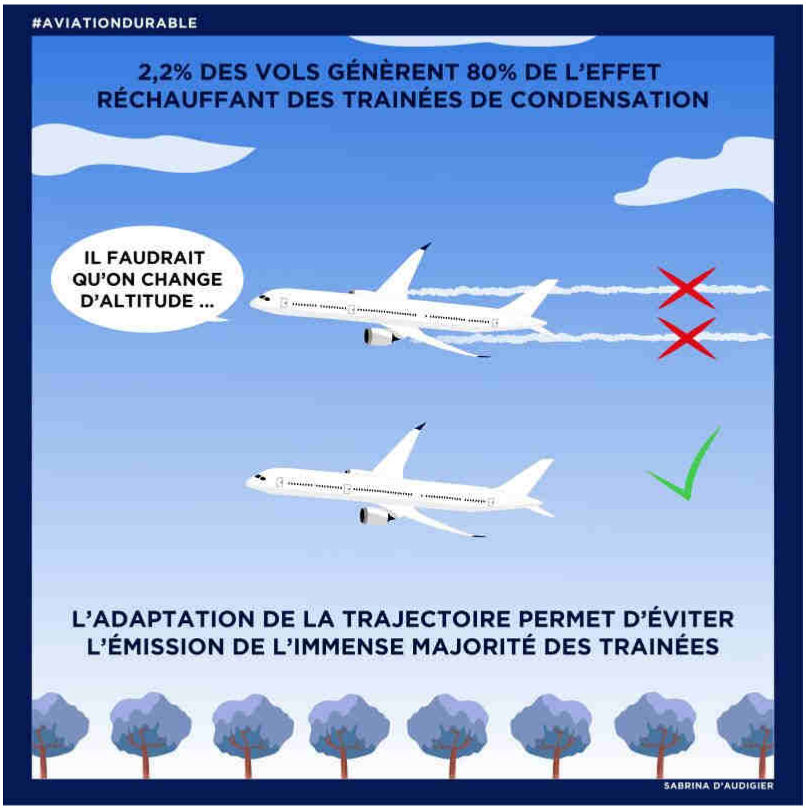
Next week I will propose an infographic on this subject.

2.2% of flights generate 80% of the radiative effect of contrails

((source #aviationdurable) May 4 - The impact of "air traffic" on climate change comes from CO2 emissions related to the combustion of kerosene, but also from its non-CO2 emissions.

Contrails (white streaks sometimes visible at the back of aircraft) can in some cases form high-level clouds called induced cirrus clouds.
The latest estimates indicate that these contrails **and induced cirrus clouds could be responsible for more than half of the sector's impact**, with CO2 accounting for about a third of the impact.

A British scientific study published in 2020 estimated that 2.2% of flights contributed to 80% of the radiative effect of contrails. Adapting the trajectory of these flights by 1.7% would reduce the warming effect of these trails by 59.3%.



My comment: *I was surprised to discover the importance of the radiative effect of condensation trails.*

With the help of big data, it is possible to modify the trajectories of aircrafts at a lower cost to reduce considerably the emission of these trails.

End of the press review

> Advice for employees and former employees who are shareholders

The annual statements from Natixis and/or Société Générale must be sent to you by e-mail or by post.

You will find on my website the access modalities to the managers' websites.

To avoid forgetting to change your contact information each time you change your postal address, **I advise you to enter a personal e-mail address**. It will be used for all correspondence with the management organizations.

Keep all the documents related to your Air France-KLM shares in one place: all the letters you receive from the different managers, Natixis, Société Générale, your personal financial institution if you bought your shares through it.

> My comments on the Air France-KLM share price trend

Air France-KLM shares closed at **4.581 euros** on Monday 17 May. It is down slightly by -1.04% over one week.
Since the announcement of the recapitalization the share price has fallen by 14%.

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

The average (consensus) analyst price for AF-KLM shares is 3.27 euros. The highest price target is 5 euros, the lowest 1 euro. You can find the details of the analysts' consensus on my blog. I do not take into account the opinions of analysts prior to the beginning of the health crisis.

Brent crude oil (North Sea) is **up slightly by $1 to $69 per barrel.** It is above its pre-pandemic level.

This information is not intended to be a solicitation to buy or sell Air France-KLM shares.

You can react to this press review or send me 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 to employee share ownership...

See you soon.

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

If you like this press review, please pass it on.

New readers will be able to receive it by giving me the email address of their choice.

| François Robardet

Director of Air France-KLM representing the employees and former employees shareholders of PNC and PS.
You can find me on my twitter account @FrRobardet

When I was elected, I received the support of the CFDT and the UNPNCChis

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

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