AF-KLM: Without our shareholders, our group simply would not have survived

Letter from the Director of Air France-KLM

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

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Editorial

Dear readers,

The Annual General Meeting of Air France-KLM was held on Wednesday 26 May 2021 without the physical presence of shareholders or other persons entitled to attend.

I would like to thank all the employee and former employee shareholders who sent me their proxy. I will continue to work to defend your interests.

As in previous weeks, I am publishing at the end of this letter an infographic (the fifth) on the climate impact of aviation. It provides new answers to the questions raised by aviation critics.

Let's continue to respect the barrier measures.

Enjoy your reading
François

Monday's Press Review

> Air France-KLM Annual General Meeting: "Without our shareholders, our group would simply not have survived

(source Investir) May 26 - "Without [our shareholders], our group simply would not have survived". **The statement** made by the Chairman of the Board of Directors, Anne-Marie Couderc, in the preamble to the General Meeting, **is clear**. **Without Paris and the Netherlands, the name of Air France-KLM would certainly have been added to the unfortunate list of airlines that went bankrupt in 2020.** The International Air Transport Association (IATA) has listed some 40 companies...

At Air France-KLM, the brutality of the Covid-19 crisis can be summarized with these few figures **for 2020**: **-** 70% of revenues, **4.5 billion euros of operating loss (a level never reached in the last twenty years)**, 11 billion euros of net debt and 10 million euros of cash burned every day at Air France. Even today, the group is consuming a lot of cash, but Ebitda could become positive again in the third quarter of 2021, management hopes. This is an industry crisis, the situation is not unique to Air France-KLM," said Frédéric Gagey, chief financial officer. **The net loss of 7 billion euros last year is close to those of Lufthansa and IAG.** »

As early as spring 2020, Paris and The Hague flew to the carrier's rescue, granting it a total of 10.4 billion euros in the form of direct shareholder loans and guaranteed bank loans. (...) **A first step to get out of the water was finalized last month: a capital increase of 1.03 billion euros** (after exercise of the extension clause).
This was
accompanied by a reorganization of the shareholding structure: **the French State**, which alone subscribed for 590 million euros, **became the reference shareholder again with 28.6% of the capital. China Eastern holds 9.6% of the shares. The Dutch state, which did** not want to participate and is continuing its discussions with Brussels to strengthen KLM's equity capital, **has seen its share in the capital fall from 14% to 9.3%.** The second part of the recapitalization plan consisted of the conversion by the French government of a 3 billion euro loan into perpetual hybrid bonds.

While the balance sheet has improved, equity remains negative. "**Additional measures will be necessary to reduce the debt ratio and put us back on a sound financial path**. The message was heard by the shareholders: resolutions 20 and 21, concerning equity strengthening operations of up to 300% of the current share capital, were approved.

"Such support [from the States] calls for recognition and also for the responsibility to contribute by all possible means to the safeguarding of the group," Frédéric Gagey recalled. One of these means is to cut staff numbers. In 2020, they have been reduced by 10%, or 8,700 FTEs (full-time equivalents). "**The number of employees will continue to decline over the** next two years," management said, adding that "**post-crisis unit costs will be lower than in 2019**. "Questioned by a shareholder, Air France CEO **Anne Rigail said that Air France has managed to sign wage moderation agreements with cabin crew, ground staff and pilots, as well as a cross-functional wage agreement covering the years 2021 and 2022.**
(...)
The environment component was very present at the AGM. The crisis, which is accelerating the trend, is pushing the group to be more ambitious in this area. The widespread use of cooking oil in aircraft is certainly not for tomorrow, but other initiatives are possible. For example, this year Air France will start replacing part of its medium-haul fleet with the latest generation A220-300s. "**Sustainable growth is a key component of our strategy, it is not an add-on or an extension,**" Ben Smith assured. By 2024, CO2 emissions on Air France's French domestic network will be reduced by 50% and carbon neutrality will be achieved for all ground operations by 2050.

Does the integration of biofuels mean higher ticket prices?" one shareholder worried. The lack of facilities for large-scale production of SAF (sustainable aviation fuel) means that biofuels are five times more expensive than kerosene today, so it is a challenge for the next few years to enable large-scale sustainable use of biofuels," replied Ben Smith. We believe that passengers, including business passengers, will choose their airline based on environmental commitments. »
(...)

My comment: *You will find on the Air France-KLM website the video of the General Meeting as well as the results of the votes.*

If we had to remember only one thing from this general meeting, it would be the adoption by a very large majority of resolutions 20 and 21. They will allow the Franco-Dutch group to reconstitute its equity via capital increases.

These operations should take place before the next General Meeting in 2022.

I will pay particular attention to maintaining employee (and former employee) shareholding at a level that allows employees and their representatives on the Board of Directors to continue to express themselves.

KLM waives layoffs of 700 people

(source Le Soir) May 27 - "Thanks to the flexibility efforts made so far, we have been able to avoid layoffs. Today, **thanks to an improved outlook for the airline sector, KLM is able to withdraw its request for notice. This means that the dismissal of 500 FTEs (700 people) of cabin crew has been definitively ruled out.** We see the light at the end of the tunnel and we dare to slowly think about the recovery," wrote the FNV Cabin union in a statement.

The airline also said vaccination programs are beginning to bear fruit, prompting countries to ease or lift travel restrictions. "**In the Netherlands and Europe**, we seem to have reached a turning point and, fortunately, **we are seeing bookings increase again**. At the same time, the health situation is still precarious and the world's evolution remains very uncertain. KLM still has a long way to go. We must continue to adapt to changing market conditions. Passenger demand remains unpredictable, especially regarding destinations."

"**We will therefore have to constantly adapt to the** constantly changing **market conditions.** This requires flexibility among our colleagues. That is why we will reach agreements with the cabin crew unions in the short term on how we can jointly ensure this room for maneuver and flexibility," KLM said.

My comment: *Since the beginning of the crisis, the trade unions of all Air France-KLM companies have been trying to negotiate agreements to limit job cuts as much as possible.*

The recent agreements signed at KLM as well as at Air France and HOP bear witness to this.

Alitalia: Brussels validates the main lines of the rebirth

(source AFP) May 25 - Ita is getting closer to its birth certificate. The Italian government said Wednesday evening that an "important step" has been taken in negotiations with the European Commission for the creation of a future company supposed to rise from the ashes of Alitalia.

"
Following intense and constructive discussions at all levels, **the Commission and the Italian authorities have managed to agree on the essential parameters to ensure the economic discontinuity between Ita and Alitalia**. Contacts will now continue at full speed at the technical level," the European Commission announced.
(...)
"The technical process has begun for the birth of a sustainable company: the new Alitalia, which should be operational as soon as possible, probably in August," said Giancarlo Giorgetti, specifying that the conditions were still to be defined and that **the process was not yet "complete.** For its part, the European Commission has welcomed the "efforts of preparation of Italy to launch Ita as a new viable market player, as soon as possible and in compliance with European laws.
(...)
But **the requirements for Italy to give its approval are tough: Alitalia will have to sell part of its slots at Milan-Linate airport** and adopt a new logo to mark a clear break with the past.

The new Alitalia would see its fleet reduced by half, to less than 50 aircraft, and its workforce reduced to about 4,500 people, compared with about 11,000 today. Alitalia accumulated losses of 11.4 billion euros between 2000 and 2020 and had to be placed under public administration in 2017. No buyer has come forward.

My comment: *The start of ITA, the new Alitalia, is scheduled for the end of the summer.*

This is a godsend for the competitors of the future Italian airline. They will be able to take advantage of the period of high activity to take market shares that ITA will find difficult to recover.

> Easyjet finally renounces layoffs in Switzerland

(source: Le Temps) May 26 - **Easyjet Switzerland has finally decided not to lay off any employees as part of the downsizing of Basel-Mulhouse airport** announced eight months ago. Negotiations with the social partners have thus been successful. However, the number of employees has been reduced by around 40 full-time equivalents (FTEs), which still amounts to around 1,000 positions.

Forced departures were avoided by adjusting working time percentages and transferring a handful of crew members from

Basel to Geneva. "Thanks to these measures, the 23 pilot positions and 45 cabin crew positions that were at risk have been fully preserved," said CEO Jean-Marc Thévenaz.

The Swiss representation of the British low-cost carrier had in fact consulted with staff representatives at the beginning of October on the fate of **some 70 jobs, threatened by the withdrawal of two of its 12 aircraft parked on the Rhine tarmac**. The Geneva base and its 15 aircraft were not affected.

> Airbus plans to produce more aircraft than ever before in the history of aviation

(source La Tribune) May 27 - The aviation detractors may not like it. The next world will not be without aircraft. On the contrary, according to Airbus' latest production forecasts. The health crisis is not yet over. But the European manufacturer is confident that it will. With the progress in vaccination, air transport is well and truly in a phase of strong recovery. And **the European aircraft manufacturer is counting on producing more aircraft than ever before in the history of aviation, with production rates capable of delivering nearly 800 aircraft a year**, or even more than 1,000 by 2025!

That's what emerged from Airbus' announcement on Thursday. Just one year after reducing its production by 40% to 40 single-aisle aircraft delivered per month, the aircraft manufacturer confirms that it will move to a monthly production rate of 45 A320s in the fourth quarter of 2021 (compared with 40 today). Above all, **it is preparing to increase to 64 in the second quarter of 2023, a level never reached in the history of aeronautics, which corresponds to more than two aircraft delivered per day.** In a press release, Airbus said it had asked "suppliers to prepare for the future by securing a firm rate of 64 by the second quarter of 2023," which will allow Airbus to surpass its pre-crisis level (rate 60) and go further than the growth projects envisaged before the crisis (63 by mid-2021). That's not all. "In anticipation of a market recovery, **Airbus is also asking its suppliers to enable a 70 cadence scenario by Q1 2024.** In the longer term, Airbus is exploring opportunities for cadences of up to 75 aircraft per month by 2025," the aircraft manufacturer says.

Airbus has already started to move forward, recently relaunching its plans to create a new A321 NEO assembly line in Toulouse.

Beyond the A320 family, **Airbus also plans to increase production**

of the A220 from five aircraft per month to six by early 2022, "then 14 aircraft by the middle of the decade.

For long-haul aircraft, which will take longer to restart than short- and medium-haul aircraft, Airbus does not provide a long-term forecast. The average production rate of five aircraft per month should increase to six by the fall of 2022, compared with five today. Production of the A330 remains at two per month.

My comment: *Willie Walsh, the head of the International Air Transport Association (IATA), is skeptical of Airbus' forecast.*

He told Reuters: "Let's wait and see, because obviously there is a huge discrepancy between what the manufacturers say they are going to produce and what the airlines decide to buy.

> Deliveries of the B787 Dreamliner suspended again, Boeing must explain

(source La Tribune) May 28 - Boeing is not yet done with the setbacks that have been occurring for more than two years. If those of the medium-haul B737 MAX are known, those of its other best-seller, the long-haul B787, are much less known.

After the problems encountered during its industrialization phase and then after its entry into service in 2011, **the American aircraft manufacturer is now experiencing a new crisis. Deliveries of the 787 Dreamliner have been suspended**, two months after they were first suspended following the discovery of manufacturing defects last summer.
Today,
the group must provide more information to the regulator on these production problems of the Dreamliner. The goal is to quickly extinguish the controversy, after the already resounding 22-month flight ban imposed on the 737 MAX and lifted at the end of 2020. Also, the American company has committed to send more justifications to the FAA (Federal Aviation Administration). As a reminder, the 787 Dreamliner is the main revenue generator for Boeing after the 737 MAX.

"**We are working to provide the FAA with additional information regarding the analysis and documentation associated with the verification work on the undelivered 787s**," Boeing said in a statement sent Friday to AFP.

The manufacturer specifies that "there is no effect on (the) fleet in service".
(...)

Bonus of the week

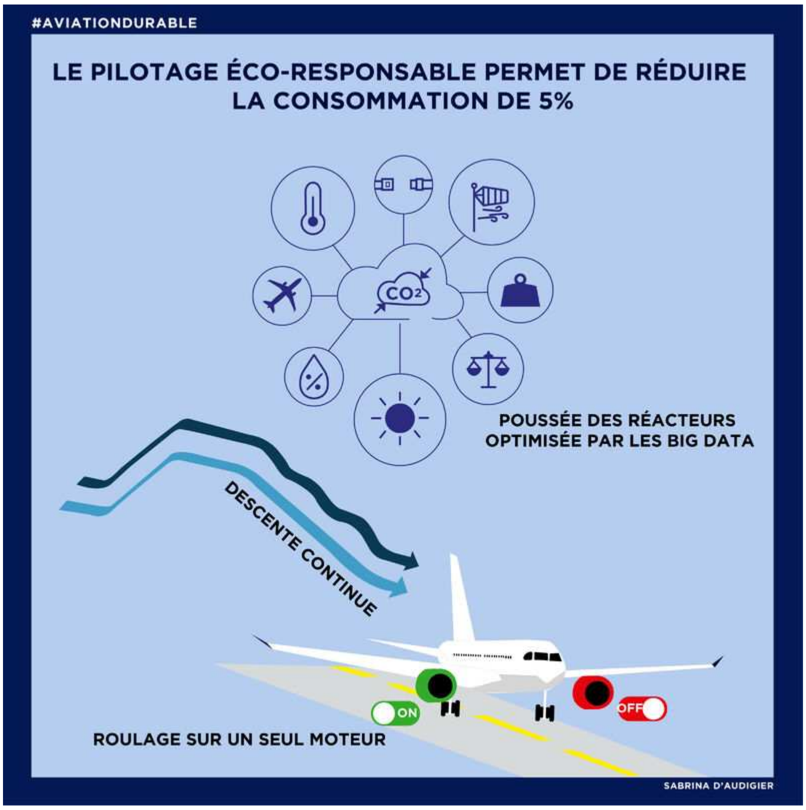
> Eco-responsible management

(source #aviationdurable) May 25 - **Ecopilotage is a group of practices aimed at reducing the environmental footprint of aviation**.

These practices have been around for some time and have accelerated significantly in recent years, **particularly under the impetus of BigData,** which can reduce fuel consumption by around 5% per flight.

Using operational data (weather, aircraft weight, runway length, etc.), **engine thrust and trajectories can be optimized. These best practices also include shutting down an engine while taxiing, moderate use of thrust reversers, optimized flap or landing gear extension, avoiding fuel tankering, flying at a low cost index, etc.**

Tools are now available to improve the correct application of all these practices, and the entire world fleet will be optimized within a few years.



End of the press review

> Advice for employees and former employees who are shareholders

You will find on my website navigaction the modalities of access to the sites of the managers **Natixis and Société Générale** .

To avoid forgetting to change your contact details 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 in one place all the documents related to your Air France-KLM shares: all your letters received 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 **4.626 euros** on Monday 31 May. It is up +3.07% over one week.

Before the coronavirus epidemic, Air France-KLM shares were 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.** It has been flirting with the $70 mark all week. You have to go back to 2018 to find a level of this order. If in the next few weeks the price is maintained, the airlines will be obliged to increase the price of tickets.

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.

If you prefer to receive the press review at another address, please let me know.

To contact me: message for François Robardet. 10907 people receive this press review online