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: majority agreement on voluntary redundancy plan

(source AFP) Sept. 25 - The CFE-CGC and the CFDT of the Air France airline have signed the voluntary redundancy plan-job protection plan agreement negotiated with management for ground staff, making it valid, it was learned Thursday. "We signed to allow a maximum number of people to leave voluntarily and to avoid the mass dismissal of ground staff," said Bernard Garbiso, secretary general of the CFE-CGC Air France (3rd on the ground).

The CFDT (2nd representative organization on the ground) is also a signatory, which makes the agreement "majority", confirmed its secretary general Christophe Dewatine. "We have improved the arrangements for those who volunteer to leave and relaxed the departure schedule," he said. The voluntary departures could take place from January 2021 to the end of June 2022.

The PDV-PSE concerns 3640 positions among the ground staff. For flight personnel, Collective Bargaining Agreements (CBI) providing for voluntary departures have already been concluded. Contacted by the AFP, **management has confirmed the signature of a majority agreement**.

The PDV-PSE had been in negotiations with four representative organizations on the ground since the announcement in early July by

management of its desire to eliminate 7580 positions by the end of 2022 within the tricolor company and its regional subsidiary Hop! These job cuts represent 16% of the Air France workforce, which has been severely affected by the health crisis linked to the Covid-19 pandemic. **Management is counting on natural departures that have not been replaced to reduce the identified overstaffing, but also on voluntary departures, and has not ruled out forced departures in the short-haul business,** a first for a company that has never had an EPS. FO Air France, the company's leading trade union and number one among ground staff, refused to sign the POS-PES agreement. "FO has signed all the previous POS support measures agreements, this time we could not support the management in a PSE", estimated its general secretary Christophe Malloggi.
Unsa Aérien (4th) made a similar choice. "The text does not respond to the concerns of the short-haul employees we represent", explains one of its delegates, who prefers to remain anonymous. The agreement on the PDV-PSE, consulted by AFP, stipulates that "the parties intend to promote internal reclassification as much as possible for all available positions within Air France and the Air France group," which also includes the low-cost Transavia. In addition, **negotiations on long-term partial activity agreements (APLD) have begun for the various categories of staff** (pilots, flight attendants and ground staff). "We are going to ask that there be no dry layoffs over the entire duration of the APLD reference period", which could reach 24 months, said Mr. Dewatine.

My comment: *Voluntary departure plans, contrary to what is stated in the article, are decided solely by the companies. It is the companies that determine which positions will be eliminated, without the staff representatives being able to oppose them.*

It is then up to the representative unions to negotiate an agreement on the conditions of departure. It is this agreement on "accompanying measures" that we are talking about here.

The voluntary departure plan drawn up by Air France envisages, for the short-haul sector, forced departures if the number of volunteers is insufficient. Negotiations on a long-term partial activity agreement, which begin this Monday, are likely to avoid any forced departures.

> Schiphol wants to be ready for air transport of Covid-19 vaccines

(source Air Journal) September 27 - (...) **A working group led by Air**

Cargo Netherlands (ACN), Schiphol Cargo and Air France KLM Martinair Cargo, including shippers, pharmaceutical producers, freight forwarders, airlines, ground handlers and trucking companies, **met to begin work on up to four possible vaccine scenarios** based on different temperature ranges. Some of the vaccines under development will need to be frozen at minus 80 degrees Celsius and will involve large volumes, adding to the logistical complexity. **The vaccine preparedness group will hold a roundtable discussion on Tuesday on how to map air supply chain capacity and develop contingency plans.**

Industry officials and medical groups are concerned that the logistics sector, particularly in air freight, does not have adequate refrigeration facilities and equipment to ship huge quantities of temperature-sensitive vaccines under strict protocols around the world to help stop the spread of the deadly coronavirus .

"As an industry interest group, part of the supply chain, we have a social responsibility to participate and do our part in the distribution of COVID-19 vaccine - it's not just about the Netherlands, it's about getting the vaccine out to the world at speed. Many modernized countries will benefit from local production centers. **The air cargo industry will have a role to play for countries that need to receive vaccines, antibodies or drugs from far away,**" said Maarten van As, managing director of Air Cargo Netherlands at Schiphol. The most optimistic prospects for a first Covid-19 vaccine are for the first half of 2021.

My comment: *The initiative in which the Air France-KLM group is participating is to be commended. It should make it possible, when the vaccine becomes available, to rapidly transport it from the production sites to the requesting countries, while ensuring respect for the cold chain.*

> KLM huurt concurrent in voor grondafhandeling (KLM hires a competitor for ground assistance)

(source NHnieuws) September 26 - In order to reduce costs, **KLM wants to hire ramp personnel at Schiphol from ground handling company Dnata, a sister company of its competitor Emirates of Dubai**. This is according to the FNV union, which is currently negotiating with KLM on the terms of the government's billion dollar support. KLM is holding on until 1 October, the deadline for demonstrating that they meet the conditions.
The FNV estimates that hundreds of additional positions of ground

workers will be lost at KLM, in addition to the temporary jobs that have already been lost (...).

> Jean-Baptiste Djebbari: for a new European social act in transportation

(source: Les Echos) September 28 - In an op-ed piece in Les Echos, Jean-Baptiste Djebbari called for "true European social sovereignty in the field of transportation". **The Minister Delegate in charge of Transport wants to put an end to social dumping, better protect workers and harmonize legislation**.

By Jean-Baptiste Djebbari (former pilot and LREM deputy for Haute-Vienne)

When a hurricane destroys a house, it is not rebuilt identically. We improve it, we make it more resistant, we innovate. We make sure that we are better able to cope if it happens again. Like a hurricane, the health crisis has shaken the foundations of our economies. It showed our vulnerability and the need to better protect employees in the face of the unexpected chaos in the world.

In transportation, the stakes are crucial. While the State invests heavily to support industry and operators, it is the responsibility of the public authorities to regulate them better. Because the ambition of the recovery is not only to turn our economy around, but also to prepare for the future. It is not just a question of managing the emergency, but also of ensuring that France remains at the forefront of innovation, as it has been since the end of the 19th century.

Putting an end to social dumping is part of this ambition: in addition to distorting competition, it degrades the working conditions of transport employees, undermines the attractiveness of the professions, and may ultimately affect safety. **It is on a European scale that it is developing, it is on a European scale that we must fight it (...).**

Europe (...) must first of all better protect workers, who are particularly exposed to international competition. **In aviation**, the lack of harmonized rules deprives the "false self-employed" of social protection, and **"pay-to-fly" forces pilots to pay their company to acquire the first hundreds of flight hours,** so necessary for the takeoff of their career (...).

The future of transportation and, more broadly, public support for the

European project depends on this new social act. For the European ideal is not social "underdependence," a source of division between nations. The European ideal is not unfair competition, a crucible of unequal destiny. The European ideal is the fierce and obstinate will to unite in spite of our differences; to unite precisely for our differences, and to progress together.

I therefore call for a new European social act to improve Community law, harmonize national rules and ensure compliance with existing rules. Employees in transport and logistics have shown unfailing commitment during the crisis. They have demonstrated the strategic importance of the sector. Building "European social sovereignty" is no longer an option, it is our burning obligation.

My comment: *The example chosen by the Minister of Transport is a good illustration of the evils of social dumping practiced by airlines in Europe.*

He could also have mentioned the conditions for cabin crew at most low-cost airlines.

He could also have evoked the relocation of IT activities to India, the outsourcing of accounting activities to European countries where salaries are notoriously low.

Finally, he could have evoked the transfer of ground handling activities to companies that impose a triple "ground handling" (three work shifts in the same day, with one to two hours of inactivity between each shift), or to subsidiaries of competitors in the Middle East.

The list is far from being complete, as almost all the professions of traditional airline companies can be subject to social dumping. The mission that the French Minister of Transport has set for himself promises to be arduous.

> Transavia plans massive expansion next summer

(source La Tribune) September 26 - As air traffic plunges again with the rebound of the epidemic and the tightening of travel conditions, Transavia, the low-cost subsidiary of Air France, is preparing a significant offensive starting next summer. The only company in the group to have the opportunity to grow in line with management's strategy, and therefore the only company to be spared the plan to cut

7,500 jobs within the group, **Transavia has planned, according to corroborating sources, to take delivery of 8 Boeing 737-800 NGs during the summer 2021 season**. These leased aircraft will be added to the 40 aircraft already operated by the company today, increasing the fleet by 20%.
In terms of volume, this will be Transavia's biggest boost since its creation in 2007. To date, the company's growth plans have been based on a maximum of 5 aircraft per flight. When asked, Transavia made no comments.
The company intends to use these new aircraft to expand both on the intra-European network and on the French domestic network, which Transavia now intends to serve, in order to bring the accounts on this part of the network back to green in 2023. As Air France intends to discuss its strategy with the Regions, Transavia's ramp-up will take place between the summer of 2021 and the beginning of 2022.
Obviously, **this significant development plan will be adjusted to take into account the impact of the crisis at that time.** After operating 50% of its capacity in July and August, the company will be down to 40% in September and October. And the winter program has not yet been stalled.
However, even if it is difficult to establish multi-year plans, **the idea for the next two or three summer seasons** (post 2021) **is to continue growth of the same order. This means that there are major challenges in terms of pilot training** (...).

My comment: *The problem of pilot training has already been encountered within the Air France group, at Transavia. One of the corrective actions is to offer A380 pilots and captains, who have been idle since the shutdown of the A380, the opportunity to fly Transavia's B737s.*

> CMA CGM boards Air Caraïbes and French Bee

(source Les Echos) September 23 - While most airlines are chasing after public aid to get through the crisis, Jean-Paul Dubreuil, the owner of Air Caraïbes and French Bee, has managed to attract a major new private shareholder on board: nothing less than the **world's fourth largest shipping company, CMA CGM**.
The family group headed by Rodolphe Saadé **has decided to take a 30% stake in the Dubreuil Group's air transport division, which**, in addition to Air **Caraïbes** and its low-cost sister company **French Bee, includes a maintenance subsidiary and a cargo subsidiary**. This will enable the two French companies to look to the future with optimism (...).

In total, the Marseille-based shipowner is expected to invest around 70 million euros in the Dubreuil Aero Group entity, through a capital increase of 50 million euros and share buybacks for 20 million euros. **CMA CGM will thus become the second largest shareholder of Air Caraïbes and French Bee, after the founding family**.
According to Jean-Paul Dubreuil, the need for money is not the main motivation for this alliance (...). At the beginning of the summer, the Dubreuil Group had indeed applied for and obtained a state-guaranteed loan (PGE) for an amount of 150 million euros. "But we didn't use it, as the distribution business quickly returned to its pre-crisis level," explains its chairman (...).
The alliance with CMA CGM could lead to synergies in freight transport, especially in the French overseas departments and territories, where both airlines have a strong presence. Freight already represents 7% of our business," said Jean-Paul Dubreuil. Thanks to our new A350s, which can carry 15 to 20 tons of freight, and with the help of CMA CGM's customers, we hope to do even better".

But for the rest, the **strategy of Air Caraïbes and French Bee, as well as its governance remain unchanged** (...).

My comment: *The cargo business has held up well since the start of the health crisis. The arrival of a sea freight specialist in the capital of Air Caraïbes and French Bee is a source of hope for these companies.*

> American Airlines borrows $5.5 billion from the government

(source AFP) September 26 - **American Airlines finalized Friday a $5.5 billion loan from the U.**S. government, a few days before a crucial deadline for airlines in the United States, weakened by the pandemic (...).
The government has provided a total of two envelopes of $25 billion to help airlines cope with the drop in traffic, one providing loans to be repaid in exchange for compensation for the taxpayer, the other granting subsidies in exchange for a commitment not to cut jobs until September 30. The companies were reluctant to accept the loans for fear of having to make too many concessions. **Delta and Southwest declined government assistance this summer**.
The loan accepted by American Airlines does provide for the grant of "warrants" to the US Treasury, with financial proceeds being convertible into shares. The State could thus become a minority shareholder of the company. American Airlines has also agreed not to pay dividends and to limit the compensation of certain executives until

twelve months after the repayment of the loans. **The company**, which also raised $1.2 billion in July from Goldman Sachs, **warned in late August that it would have to lay off 19,000 employees in October if the subsidy program was not extended.**
Asked by the AFP, **she did not say Friday whether the government loan would put the project on hold** (...).

My comment: *In the United States, as in most countries, the exit scenario looks like a "W".*

The recovery seen in July and early August was a long time coming. Since then, there has been a relapse that could continue through the winter season unless a vaccine is available before the end of the winter. This is a plausible hypothesis given the progress of research.

> Qatar Airways receives $2 billion in public aid

(source Air Journal) September 28 - **Qatar has come to the rescue of** its wholly owned **national airline Qatar Airways by paying an advance of** 7.3 billion riyals (**2 billion dollars**), **which will be followed by the issue of 730 million shares to the State**.
"Qatar Airways is used to facing exceptional challenges, but the year 2019-2020 has been one of the most difficult in its history," the company said in a statement introducing its annual report, adding that the state aid will help repay the losses incurred in the fiscal year 2019-2020.
Indeed, **the pandemic combined with the economic boycott of Qatar by four Arab countries and the liquidation of Air Italy,** 49 percent owned by Qatar Airways, **resulted in a net loss of** 7 billion riyals (**$1.92 billion**) for the **company for the fiscal year ending March 31, almost twice last year's losses** (...).
The United Arab Emirates, which was a key market for Qatar Airways, along with Bahrain, Egypt and Saudi Arabia, imposed a boycott on Qatar in June 2017, including the termination of all air routes and the closure of its airspace. These Sunni Arab countries accused Doha of having ties to extremist Islamist groups and of being too close to Shia Iran.
Qatar Airways is the second largest airline in the Middle East after Emirates (based in Dubai). It operates a modern fleet of 250 aircraft partly grounded due to the slowdown in air transport.

My comment: *On September 17, Qatar Airways Chief Strategy Officer Thierry Antinori told Les Echos: "By continuing to fly, we did not make a profit, but the revenue covered the operating costs of the flights. We lost less money than if we had stopped everything. In the first quarter, we* *even reduced our losses compared to the same period last year. And we generated enough cash so that we didn't have to ask our shareholder for financial assistance.*

Ten days later, its declaration lapsed.

This cash contribution will enable Qatar Airways, a 25% shareholder of IAG, to participate in the capital increase of the Spanish-British group for approximately 700 million euros.

It should be noted that Qatar Airways' rival, Emirates, received 2 billion dollars from the Dubai government at the end of August.

> The European Commission wants to modify the "Single European Sky" to reduce CO2 emissions

(source Air Journal) September 23 - **The European Commission yesterday presented a new proposal for a "Single European Sky**".
The project is designed to ease congested traffic (excluding health crises) and thus reduce CO_2 emissions.
The fragmentation of national airspace within the European Union (EU) leads some companies to avoid using the most direct route in order to avoid charges. Or to fly at lower altitudes to avoid congestion, thereby consuming more fuel and generating delays. **In 2019 alone, delays and detours would have cost around six billion euros and generated 11.6 million tons of unnecessary CO_2 emissions, according to the European Commission (...).**
One of the ideas of the Single Sky, in the making since 1999, was to create nine regional airspace blocks to fluidify traffic and manage surveillance. Belgium, for example, would have been included in the largest block, comprising France, Germany, the Netherlands, Luxembourg and Switzerland. But this overly rigid and restrictive concept led to blockages and was abandoned. One of the problems, for example, was related to the status of Gibraltar's airport, disputed between Spain and the United Kingdom. With the Brexit, this obstacle has been removed, notes the European Commission's new "Single European Sky" proposal.
The new approach favors more flexible regional cooperation between air traffic operators, through alliances based more on needs (infrastructure, capacity) and data exchange," explains Commissioner Adina Valean.

In the new proposal, it would no longer be the European Commission, but a professional European economic regulator that

would examine the performance of "en-route" services. To reduce the administrative burden, this new body would be integrated into the European Aviation Safety Agency (EASA). Similarly, the national supervisory authorities would be strengthened and given responsibility for reviewing the performance of services instead of the European Commission, as is the case today.

My comment: *The overhaul of air traffic would make it possible to reduce fuel consumption and consequently greenhouse gas emissions.*

In addition to the solutions presented in the article, there are others such as the systematization of continuous descent. This is a technique that allows pilots to perform the descent phase while avoiding level flight phases as much as possible. The stress on the engines is reduced, which limits noise pollution and saves fuel.

Roissy-CDG, Orly and Nice have the lowest continuous descent rates in France: 26%, 37% and 29% respectively (DGAC figures for 2019). There is significant room for improvement.

> Rolls-Royce, Airbus' future Achilles heel?

(source Le Journal de l'Aviation) September 22 - As we know, the **position of the engine manufacturer Rolls-Royce has been particularly delicate since the beginning of the pandemic and the** prospects for recovery in the wide-body market are clearly not encouraging, with travel restrictions that are dragging on and airlines seeing their financial situation deteriorate from day to day (...).
And to make matters worse, while the United Kingdom has already officially left the European Union, the trade agreement that will govern relations between the two sides of the Channel is still in the making, with only three months to go before the end of the transition period.
The engine manufacturer has already burned 3 billion pounds of cash in the first half of the year, **and the next few six months are likely to be just as bad if the air transport situation does not improve.** It is therefore not surprising to learn that Rolls-Royce is seeking to raise an additional £2.5 billion to rebalance its balance sheet, despite the major cost-cutting measures already in place, including the elimination of 17% of its workforce, even if this means turning to sovereign wealth funds such as Singapore's GIC.

And even if Rolls-Royce's place in the three zero-emission aircraft concepts presented by Airbus in its long-term strategy seems very difficult to grasp, **it is clear that there will not be any new wide-body**

aircraft programs at the European aircraft manufacturer for a very long time. The commercial future of this market segment at Airbus ultimately rests as never before, on the shoulders of the British engine manufacturer, on its ability to improve its products and provide after-sales support for at least another two decades.

Rolls-Royce is a crucial part of the European aircraft manufacturer's supply chain, a link that has been weakened over the long term and is **now beyond the reach of EU aid**. This may also be Airbus' future Achilles heel.

My comment: *British engine manufacturer Rolls-Royce powers all Airbus A350s. A failure on its part would be detrimental to Airbus.*

> IATA wants to make testing mandatory for all before boarding

(source Le Journal de l'Aviation) September 23 - Desperate to see quarantine measures multiply and break the resumption of air traffic, **IATA** has revised its position on testing. The association **now recommends making covid tests before boarding systematic and mandatory worldwide**.
"We did not take this decision lightly," said Alexandre de Juniac, IATA Director General. He explained that the association now considers that this is the only way to allow air transport to resume, while international traffic has lost 92%. The **introduction of pre-boarding tests would reassure all passengers** as it would ensure that people travelling at the same time as them do not have symptoms and the harmonization of the process at a global level would also allow travellers to be reassured about how they will be treated on arrival (...).
Eurocontrol had indicated earlier that the curve of traffic recovery in Europe had broken in September and was heading more towards stagnation until the end of the year, with traffic down 50% to 60% compared to 2019. Eamonn Brennan, the director general of Eurocontrol, was even more pessimistic on September 22, saying he feared that traffic would be even lower than forecast, given current trends.
IATA recommends the use of antigenic tests, which could be available in October and have the advantage of providing a result in about 15 minutes (...).
The proposal has already been discussed within ICAO and bilaterally with several governments. However, there is a need to define common, global standards so that the result will be accepted everywhere on arrival. This harmonization of measures between States has so far been

sorely lacking (...).

My comment: *It is important that Covid-19 testing be generalized in all countries to reassure passengers.*

How can a passenger be confident to travel if they are tested upon arrival in a foreign country but not upon return to their home country?

Stock exchange press review ...

> Air France-KLM: complex situation, Oddo remains neutral

(source: CercleFinance) September 24 - Despite the peak of the summer season, Air France-KLM has experienced a "notable deterioration since the end of August," according to Oddo, who also points to poor visibility during the winter season. **In the fourth quarter, the objective is to reach 60% of the short- and medium-haul capacity offered in 2019 and 50% for long-haul**.
In a conservative scenario, **Oddo considers that the level of liquidity should be sufficient 'to meet the financing needs of a fiscal year 2021 that will not see any significant improvement**'.
Due to the very high short-term volatility, Oddo finally maintains its neutral recommendation and lowers its share price target to 4 euros (compared to 4.2 previously).

> Air France-KLM: a little worried about broker's comments

(source: CercleFinance) September 25 - Air France-KLM drops nearly 5% against a **Credit Suisse** rating, which reaffirms its 'underperformance' view and lowers its share price target by 15% to 2.20 euros on the Franco-Dutch airline's stock.
At sector level, the financial intermediary **now forecasts a 65% decline in business travel traffic in 2021 compared to 2019,** and expects a gradual recovery of 10-20% by 2024.
With approximately 30-35% of Air France-KLM's passenger revenues driven by business traffic in 2019, this outlook is particularly bleak for the company," warns the broker, who is raising its forecast for the operating loss for 2021 from 706 million to 1.7 billion euros.

My comment: *For the first time, the Air France-KLM share price is below three euros. In 2012, the share price had fallen to 3.01 euros for a* *short period of time.*

> Air France KLM still in the red

(source Boursier com) September 28 - Air France KLM fails to raise its head. While the market rallied by more than 2% on Monday, the French-Dutch airline's share price remains stuck in the red, down 0.4% to 2.95 euros. **The spectre of a forthcoming capital increase to strengthen the group's balance sheet continues to weigh on the value,** while the carrier, which suffered an operating loss of 1.55 billion euros in the first half, is expected to post an operating deficit of nearly 3 billion euros for the year as a whole. It reported last month losing 10 million euros per day due to the crisis.
(...) According to the 'Bloomberg' consensus, **only one specialist is now recommending 'buying' the stock, while 11 are 'keeping' and 11 are 'selling'.** The average 12-month target is set at 3.13 euros.

End of the press review

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

The Air France-KLM share closed **at 2.979 euros on** Monday 28 September. **It is down 11.86%** over one week, bringing the decline over the last three weeks to -22%. The weak traffic forecasts for the fourth quarter (announced by most airlines) and the prospect of a recapitalization are at the origin of this decline.

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.

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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