Letter from the Director of Air France-KLM

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

N°801, March 29, 2021

If you do not see this page correctly, or if you want to read the English or Dutch versions

If you do not see this page correctly, or if you want to read the English or Dutch versions,

Als u deze pagina niet goed ziet, of als u de Engelse of Nederlandse versie wilt lezen,

follow this link, it is here, vindt u deze hier

Monday's Press Review

> Agreement in Brussels on the counterparts to the recapitalization of Air France

(source Les Echos) March 25 - The skies are finally clearing for Air France-KLM. **After weeks of sometimes tense negotiations between representatives of the French government and members of the European Commission, an agreement has been reached on the conditions set by Brussels for a new French state aid to Air France**. And according to our information, the counterparts demanded by the Directorate General for Competition would finally be less onerous for the company than might have been feared in the French camp.
The details of this agreement have not yet been revealed, as the agreement itself has not yet been validated by the Air France-KLM Board of Directors. This should be done in the next few days.
However, according to several sources, the French negotiators have obtained a downward revision of Brussels' requirements regarding the number of airport slots to be retroceded to Paris, which had caused an outcry on the French side.
Originally, **the Commission planned to impose the same conditions on Air France and KLM as those imposed on Lufthansa last June, in exchange for the green light to grant** €6 billion in **state aid.** The German airline had to give up up to 24 daily slots at its two main bases in Frankfurt and Munich, which would have allowed its competitors to

base up to four aircraft on site. Logically, Air France and KLM would have had to give up the same number of slots at Orly and Amsterdam-Schiphol, where slots are a rare and precious commodity.

But the two airlines, which were not directly involved in the negotiations, argued that the same conditions imposed at Orly and Roissy would have proportionately greater consequences. The abandonment of 24 slots would have deprived Air France and its subsidiary Transavia France of 7% of its capacity at Orly, even though the group intends to develop its low-cost activities there.

In the end, Air France would have obtained to give up fewer slots. **However, these relaxations, as well as other points of the agreement concerning in particular the conditions of reimbursement of aid and the blocking of variable shares for executives, have been the subject of a real arm wrestling match**. The Élysée even intervened in the negotiations, led by the teams of the Ministry of the Economy, as Chancellor Merkel had done for Lufthansa.

The recapitalization drama is not over, however. While the French government has reached an agreement with Brussels for Air France, the Netherlands, where elections have just been held and a new government is being formed, must do the same for KLM. In addition, France and the Netherlands must agree on the conditions attached to the governance of the group. As with the first aid package, **a delay between the recapitalization of Air France and KLM cannot be ruled out**.
Due to record losses and soaring debts, the equity of the companies has completely melted away and the Air France-KLM group must absolutely reconstitute it within a year, or risk being declared bankrupt. The only solution is a massive recapitalization of Air France and KLM by their main shareholders, the French and Dutch governments. The Air France group alone would need a recapitalization of at least 5 billion before the closing of the accounts for the year 2023. This gives the French government some time to reach an agreement with its Dutch counterparts.

***My comment:** A clarification on Lufthansa: Germany has contributed 6 billion euros to the recapitalization of Lufthansa and has provided a state guarantee of 3 billion euros on a loan.*

Otherwise, you will understand that it is impossible for me to comment on this subject today. The best person to talk about it is the French

Minister of Finance. You will find his recent interview below.

> Air France: "We are on the verge of reaching an agreement with the European Commission", says Bruno Le Maire

(source Franceinfo) March 29 - According to the Minister of Economy and Finance, the negotiation with the European Commission "is not yet fully completed", but it is about to be, while the airline has lost 7.1 billion euros in 2020 because of the health crisis.
"We are on the verge of reaching an agreement with the European Commission on the Air France file," said Monday, March 29 on franceinfo Bruno Le Maire, Minister of Economy, Finance and Recovery.

The European Commission wants to have counterparts to the rescue plan of the airline, heavily affected by the health crisis of the coronavirus Covid-19. Air France-KLM has lost 7.1 billion euros in 2020 and has already received massive public aid from Paris and The Hague, more than 10 billion euros, including 7 billion in direct loans or guaranteed by the French state, shareholder at 14.3%. The negotiation with the European Commission "has been long and difficult, it is not yet fully completed, but it is about to be completed. "**The European Commission will have to adopt this decision definitively, it is a matter of days, and it will have to be submitted to the Air France Board of Directors**.
The quid pro quos requested aim to "maintain fair competition between Air France and other airlines." But "I did not want the decisions that are requested from Air France to weaken this great national company that we want to support," explained Bruno Le Maire. "We are approaching a settlement that is fair, that will be protective for Air France, that will guarantee our interests in compliance with competition law."

KLM nog aan touwtrekken met Brussel (KLM still in conflict with Brussels)

(source DFT, translated with Deepl) March 25 - **KLM continues its tug of war with the European Commission over the sacrifices the airline must make in exchange for its recapitalization. The negotiations are difficult.**

The Ministry of Finance confirms to De Telegraaf that the Dutch state has not yet reached an agreement with Brussels on support for KLM.
(...)

In The Hague, they say that the French could reach an agreement with the European Commission earlier. Air France would be in more need than KLM, so insiders say the Netherlands could afford to take more time to negotiate with Brussels.
(...)
A sacrifice, called a remedy, is needed to get approval for a concentration of power or state aid. This is expected to amount to 1 billion euros for the Netherlands. Last year, a loan of this magnitude was granted. This sum would then be converted into a perpetual loan, so that the amount would be added to the equity.
But since the European Commission sees this as a form of state aid, concessions must be made. This will be done in particular in the form of slots, Finance Minister Hoekstra said in early February, already before the House of Representatives: "They will be part of the agreement in almost all cases."
(...)
Negotiations are being conducted separately by the member states, the stakeholders confirm. They are described as "difficult."
Since the Netherlands provides less aid than France, they want a smaller sacrifice for KLM.
(...)
KLM staff and unions are very concerned about the attitude of Brussels.
(...)

My comment: *As with the first aid granted by the French and then Dutch governments in mid-2020, a delay between the recapitalization of Air France and that of KLM cannot be ruled out, without this harming the Air France-KLM group.*

Employees and politicians against the closure of Air France bases in Nice and Marseille

(source France3) March 25 - **The management of Air France announced on Sunday March 28 that it would close its bases in Toulouse, Marseille and Nice. An announcement that does not go down well with the employees**. A total of 329 flight attendants and cabin crew would be affected by this restructuring in the provinces, including 130 in Marseille.
(...)
Questioned by AFP, Air France management confirmed that it was studying "the closure of its provincial bases for its flight crews as part of the restructuring of its domestic network".
It specified that "this development should be the subject of prior discussions and negotiations with the trade unions and all the

employees concerned, who would be offered mobility within the company".
An announcement that does not pass either for the mayor of Nice Christian Estroi and Eric Ciotti.

On his Twitter feed, the mayor of Nice said he wanted to mobilize "with the employees against this closure. It is a serious mistake because these bases are relevant and it is a contempt for the employees and for the territories concerned."
For the deputy of the Alpes-Maritimes Eric Ciotti "In 1 year more than 10 billion euros have been paid by the state to save Air France. He appealed to the Minister of Economy Bruno Le Maire "to prevent the closure of the Nice base. **The State shareholder must make its maintenance a sine qua non condition for Air France to obtain public aid**".
(...)
We are all aware of the impact of the Covid crisis on the airline industry, but **we do not understand the strategy of the management, which opened these bases ten years ago to compete with low-cost airlines**," said a (...) union delegate in Marseille.
(...)

My comment: *The "province bases" project was developed in 2011. It aimed to limit short-haul losses and compete with low-cost airlines by creating Air France bases in Bordeaux, Nice, Toulouse and Marseille.*

It had a positive effect for some of the thousands of pilots and flight attendants living near the new bases: it allowed them to reach their workplace locally rather than having to fly to their Paris base.

With Air France's plan to transfer part of its domestic activity to Transavia (except for the Nice, Marseille and Toulouse shuttles), flight attendants lose this possibility.

Air France pilots are less affected since they have the possibility to join Transavia.

Orly tests facial recognition for boarding

(source Le Parisien) March 23 - IT IS THE DREAM of every traveler in a hurry. No longer having to take out your plane ticket or your ID, no longer having to wait for the hostess to check your documents, no longer having to wait for the machine to scan them. From now on, at Orly, the second largest airport in the Ile-de-France region, passengers will only have to show their face to a camera in order to open the doors and pass through the controls in an ultra-fast way.

The name of the device? **Facial recognition at boarding. Orly airport** has been **testing this new process** since Thursday, March 18, after a year's delay due to Covid-19. **Only flights to Morocco with the Air** France subsidiary **Transavia are concerned for the moment**. They have the advantage of not being fully booked and thus allowing the system to run smoothly. Then, in two months, the experiment will be stepped up with flights of more than 200 Air Caraïbes passengers to the French overseas departments and territories.

Only "a few dozen seconds"...
How does it work? When passengers arrive at the airport, they must first register their face at a dedicated terminal: they remove their mask, glasses and cap, and look at the small camera above the screen that takes a picture of their face. Then, the traveler registers his ID and his plane ticket. This was the "longest" step. "It only takes a few dozen seconds," ADP said after watching the first passengers use the system last Thursday.

From now on, there is no need to take out one's identity card. "At the baggage drop-off point, the terminal will recognize the traveler's face, and all he or she has to do is scan the baggage tag, place the bag on the conveyor belt, and that's it," explains ADP. Staff are always nearby in case of need: oversized baggage, technical problems, etc. In the boarding lounge, the same scenario: the passenger removes his mask, looks at the camera and the doors open to let him access the plane. ADP acknowledges that this system "is for people with a little autonomy". But **I thought it would be more complex," admits a Transavia flight attendant who attended the first tests**. Passengers spontaneously went to the terminal and it was very fast.

It really saves time. They especially appreciate not having to take out all their documents again and again to get on board. »

On the other hand, some travelers have voluntarily turned away from the machine, refusing outright the idea of entrusting their biometric data. "However, this data is automatically deleted as soon as the plane takes off," says ADP.
... to finally save thirty minutes
Facial recognition has also been tested since October at Lyon airport by its manager, Vinci Airports. The modus operandi is a little different. The system, which takes the form of a smartphone

application called Mona, asks passengers to prepare their journey in a few clicks at home, by taking a selfie, scanning their ID and boarding pass. Once at the airport, the application guides the traveler to the right counter, and then the glass doors reserved for "Mona" travelers open automatically, allowing them to access the boarding area.

Then, as at Orly, the passenger can use his or her face to pass through the various airport checkpoints, excluding border controls. Vinci claims to save 30 minutes per passenger for boarding formalities.

My comment: *The drop in airline activity has been used for various experiments, including facial recognition, the subject of this article.*

Other experiments have taken place. They have allowed us to find ways to reduce fuel consumption, whether over the North Atlantic or during the descent phase at Orly and Roissy-CDG (see my letter n°795).

Norwegian Air Shuttle: Norwegian Air's restructuring plan approved in Ireland

(source Reuters) March 26 - The Irish High Court of Justice approved on Friday the restructuring plan submitted on Thursday by Norwegian Air.
The restructuring plan, announced last year, puts a definitive end to the carrier's transatlantic flights, which now intends to focus on European flights, particularly to the Nordic countries.

"We can now move forward with the restructuring of the company in Norway and raise funds," said group CEO Jacob Schram in a statement.
One of the conditions of the restructuring plan is the raising of at least 4.5 billion Norwegian kroner (44 million euros) in the form of new shares and hybrid capital, of which the Norwegian government has said it is willing to contribute 1.5 billion kroner.
Norwegian Air now plans to reduce its fleet to 53 jets, down from 140 before the pandemic, and reduce its debt from 56 billion Norwegian kroner to 20 billion.
The next step for Norwegian is to get approval from a Norwegian court and then seek permission from the Norwegian financial regulator to proceed with a new share issue.

My comment: *Norwegian has separated from its long-haul activity, taken over by Norse Atlantic, a company created by former Norwegian managers.*

As a result, the employees made redundant by Norwegian have no choice but to apply for a job with Norse Atlantic under worse conditions.

Sarajevo, new base for the low-cost airline Wizz Air

(source Voyages d'Affaires) March 23 - In an economic climate that is, to say the least, negative for airlines, there is one company that continues to bet on its expansion: **Wizz Air**. The Hungarian carrier is **in the category of ultra low-cost carriers like Ryanair. But it exploits a niche positioning by connecting mainly Central European cities**. This strategy certainly contributes to the insolent growth of the company in the middle of the covid-19 pandemic.
Wizz Air has announced the opening of two new bases this spring: Palermo and Sarajevo. It will thus have 42 bases throughout Europe, 28 of which are located in Central and Eastern Europe.
Wizz Air dominates the market in Romania with seven bases. It also has a strong presence in Hungary and Poland.
The carrier has great ambitions in Sarajevo. (...) Negotiations were (...) conducted since 2015 between Wizz Air and the airport authorities. But the level of taxes on the platform was then a powerful brake to an establishment.
(...)
During a press conference, Andras Rado, Director of Communication Wizz Air, expressed his confidence for the new base in Sarajevo. "We see the potential and demand for low cost flights. I am convinced that Wizz Air will have a positive impact on the economic development of Bosnia and Herzegovina and on the growth of its tourism industry. »(...)

My comment: *What is an "ultra low-cost" airline?*

It is an airline that puts the burden of operational hazards on its flight crews.

The effect has been clear since the beginning of the health crisis: no flight, no salary.

Moreover, these are the airlines that have been approached to recover the slots returned by Air France to Paris.

> Boeing kills A330neo vs. Airbus with hydrogen

(source Le Journal de l'Aviation) March 23 - "A330neo killer". That's how

Boeing's -5X project, the latest iteration of the NMA (New Midsize Airplane), is now presented. This program is supposed to fill the gap between the future 737 MAX 10 and the current 787-8 in the U.S. aircraft manufacturer's range.
What has changed from the initial project is that **Boeing no longer intends to attack the new variants of the A321neo, and in particular the A321XLR, as this market segment has definitely been in the hands of its competitor since its launch**. It has to be said that proposing a twin-aisle aircraft to occupy the bottom of this market segment was heresy, given the weight of the necessary investments, the time it would take to bring it to market, and the operational promises that would be difficult to keep in the face of the reduced operating costs of a single-aisle aircraft.
David Calhoun's tactics are now directed towards an aircraft much more in line with his market, an aircraft with slightly less capacity than the late NMA-7X (265 seats - 4,500 nautical miles), but with a range of more than 11 hours of flight. It will also need a fuselage section capable of accommodating at least 7 seats abreast in economy class. **The -5X project will thus be able to replace the 767 and take over the replacement market for Airbus A330s**, a market that is bound to grow by the end of the decade, and **which is currently promised to the A330neo**. Such a program also has the merit of leaving room for the family of single-aisle jets that will one day succeed the 737 MAX, while we know that GE Aviation and Safran are already working on the post-LEAP for 2035.
But **a large part of the credibility of Boeing's future long-haul aircraft will also depend on a thorough control of its costs, which will have to be lower than those of the A350 and out of all proportion to those of the 787, probably in the 10-12 billion dollar range to give an order of magnitude**. Obviously, the risks that will accompany the launch of the "A330neo killer" may seem excessive today when we know Boeing's financial situation, even if the aircraft manufacturer will obviously be able to capitalize on certain innovations for the future, such as the cockpit (Aviation Week magazine recently revealed that Boeing was already working on its development).
The Seattle-based giant also needs to move quickly on the industrial front if it doesn't want to miss out on commercialization, with a launch that must take place within two years to be compatible **with entry into service before 2030**. The engine for such a program is practically available by adapting the GEnx, and the largest building in the world at Paine Field is gradually being emptied (the last 787 produced at Everett was accepted by ANA a few days ago, and the 747-8F program has only 12 units left to deliver).
Finally, more than an "A330neo killer", the new long-haul intermediate-

capacity aircraft project gives new meaning to Boeing's long-term strategy for its Commercial Airplane business. What's also certain is that Airbus' communication on the mythical hydrogen-powered aircraft is likely to be a bit destabilized.

My comment: *Boeing sees the B737 Max crisis receding. According to the newspaper Les Echos, "the American company Southwest Airlines has just renewed its confidence in the aircraft, by signing for 100 additional MAX, with an option for 155 more. This brings the total number of MAX orders to over 600.*

With the help of the U.S. government, the manufacturer will be able to concentrate its efforts on competing with Airbus and its A330 neo.

A flight cancelled due to a pilot strike must be compensated by the company

(source Le Monde with AFP) March 23 - **Passengers of a flight cancelled or delayed due to a pilots' strike** to obtain increases in particular **must be compensated by the airline concerned, according to a ruling handed down on Tuesday 23 March by the Court of Justice of the European Union** (CJEU).
Such a strike, even if it is organized "in compliance with the conditions laid down by national legislation", **does not "fall within the concept of 'extraordinary circumstances'" allowing the company to avoid paying these allowances.**

The referral by a Swedish court of this case to the CJEU follows the refusal of the Scandinavian Airlines System (SAS) to compensate a passenger whose flight had been canceled in 2019, during a seven-day strike of the pilots, who were demanding a raise. The Scandinavian airline considered this strike as an "extraordinary circumstance", "since it was not inherent to the normal exercise of its activity (...) and was beyond its effective control", according to the CJEU statement. (...)

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 **5.012 euros** on Monday 29 March. It is down -0.52% over a week. Since the end of November 2020, the share price has remained around 5 euros.

Before the coronavirus epidemic, Air France-KLM shares were at 9.93 euros.

The average (consensus) analysts' price for AF-KLM shares is 3.31 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.

The price of Brent crude oil (North Sea) **rose slightly by $1 to $65 per barrel.** The price of a barrel of Brent had crossed the $70 mark in early March for the first time since the start of the pandemic, after attacks by Yemeni Houthi forces on oil installations in Saudi Arabia.
The blocking of the Suez Canal by a huge cargo ship will not have had any effect on the price of oil.
It is at 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.