Letter from the Director of Air France-KLM

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

N°820, August 9, 2021

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Monday's Press Review

> After the black year, will Air France, Lufthansa and IAG return to profitability in the third quarter?

(source La Tribune) August 5 - It's a small innovation that sums up the impact of the economic winter on airline activity following the pandemic. This week, Lufthansa, Europe's leading airline group, introduced a new economy class sleeper offer. To make up for the low occupancy rate of these aircraft, deserted in recent months because of Covid-19, the German carrier now offers its travelers to transform an entire row into a temporary bed, for an additional cost of up to 229 euros. Everything is good, indeed, to reduce abysmal losses, 5.5 billion euros of operating losses in 2020 for the German giant.
But regardless of the success of this novelty, the salvation of the sector will inevitably come from the large-scale recovery of passenger traffic (...)
According to Eurocontrol data, European traffic has recovered in July, to 65% of the 2019 level. Thus, **Lufthansa announces an increase in traffic over the next three months to 50% of the pre-crisis level.**

The trend is even more ambitious at **Air France-KLM**, which increased its seat capacity in July to more than 60% of the same period in 2019. As a result, the group **has improved its traffic assumptions for the third quarter to between 60% and 70% of levels two years ago** (from

55-65% previously).
However, this rebound does not benefit all major European companies. The British **IAG** (British Airways) is **currently forecasting a 45% increase in passenger capacity compared to 2019**
(...)
Like IAG, Air France-KLM (recapitalization by the French government) and Lufthansa, the airlines have been saved by the public authorities while reducing their costs. IAG had cut around 10,000 jobs at British Airways, i.e. a quarter of the workforce, and 500 at Aer Lingus. Lufthansa, for its part, is undergoing a vast restructuring that involves reducing the number of aircraft in its fleet. 30,000 jobs out of 130,000 have already been cut, resulting in savings of 1.1 billion euros out of the 1.8 billion targeted. Air France and KLM have also taken drastic measures, initiating voluntary redundancy plans that will have affected a total of 14,000 people by the end of 2022 and reducing their aircraft fleet (-7% between 2019 and 2022). The group is still aiming for a return to 2019 capacity in 2024.
Given the improvement in traffic forecasts and cost reductions, Lufthansa is considering a return to breakeven as early as the third quarter of 2021, for the first time since last March. For its part, **IAG is not giving a financial outlook**, due to the uncertainty linked to the resurgence of the Covid-19 pandemic. As for the Franco-Dutch alliance, **both KLM and Air France are aiming for a return to operational profitability in the third quarter of 2021,** for the first time since the beginning of the health crisis. However, the group is not commenting on the outlook for the fourth quarter of the year.

My comment: *The three European majors have different traffic forecasts for Q3.*

This is explained by their different networks: Air France-KLM benefits from its Caribbean-Indian Ocean network, while IAG is penalized by British Airways whose activity is centered on the North Atlantic. The Lufthansa group is slightly less exposed than IAG on this route.

The gap should narrow as soon as the US allows European citizens to travel to the US.

> Complete Airbus met drone geïnspecteerd (Complete inspection of an Airbus by a drone)

(source Brabants Dagblad) August 4 - There is a blue giant on the parking lot of Fokker Techniek in Hoogerheide. **An Airbus A330**. Three white letters have already been removed, but the color tells us that it

was a KLM plane. **Bought by the leasing company TrueNoord, who wants a full inspection before Fokker reworks it**.
But here there is **no aerial platform with technicians manually searching the fuselage inch by inch with a laser and a torch, which** easily takes eight to twelve hours. No, **here it's a drone equipped with a camera and sensors that takes off**, whirring like a 5 kilo mega-drone.
The measurements of the A330 are entered into the software, which sends the drone on its mission fully automatically. As it flies smoothly past the engines and windows, the 60-meter wingspan, 58-meter length and 17-meter height, every anomaly or damage is spotted, photographed, scanned and analyzed.

"**The fact that we are doing it here in the open air is a European first**," says technical director Jochem Verboom of Mainblades, who has just returned from drone demonstrations in America. At Schiphol, this is only allowed indoors.
(...) We work with Woensdrecht Airbase, which has already gained experience and trust with our Dutch drone center. So it is possible to do it here, it is the only place in the Netherlands. If the air force needs to take off, we will put the drone on the ground immediately."
(...)
Once in the air, a programmed drone no longer needs a pilot for its round trip. A physical inspection is slower and riskier," Verboom says. The camera sees everything that the human eye sees as well, but you can interpret the photos better. The documentation is also unambiguous, no matter where in the world we work. Every rivet, paint scratch or lightning damage is documented in a report to the owner, maintenance company or airline."
(...)
Drones are already common in agriculture and surveying. Aviation is more traditional, but drones are also becoming more common in our industry."

My comment: *While the open-air inspection of aircraft by drone is new, the use of drones dates back to 2016, when Airbus launched a first experiment.*

For its part, AFI KLM E&M has been offering drone inspections for several years. AFI KLM E&M is also introducing robots capable of reaching areas of the fuselage that are difficult for humans to access, or capable of assisting with complex, dangerous or repetitive tasks.

Montpellier - Opening of the Montpellier - Paris Orly route

for this winter

(source Transavia Group) August 7 - **From its base in Montpellier-Méditerranée, the low-cost subsidiary of the Air France group is offering up to four daily flights to the capital for travel between November 8, 2021 and March 26, 2022**.
Starting at €35 (including tax) one-way, flights between Montpellier and Orly have been available for sale since 10am this morning. Transavia will operate up to 4 flights per day (25 flights per week), starting November 8.
This new route completes the company's winter program from Montpellier, which already includes 4 new routes (suspended due to Covid): Algiers, Oran (subject to validation by the authorities), Oujda and Seville as well as an extension of the route to Bastia.
The Montpellier - Orly route is thus added to the 11 other routes served by the company over the winter to France, Europe and the Mediterranean Basin.
(...)

My comment: *The event is significant. A few weeks after the end of flights between Bordeaux and Orly, another Air France shuttle will disappear: the Montpellier - Orly route will be operated by Transavia from the next winter season.*

Covid-19: United Airlines makes vaccination mandatory for all US personnel

(source RFI) August 7 - American companies are continuing to tighten the screws on their employees' vaccinations. **After Google, Facebook and Microsoft, United Airlines has announced that all its American employees will have to receive two doses of vaccine in order to work**.
It is the first airline to take such a measure. Starting this fall, all American employees of United Airlines will have to be vaccinated, **or risk being fired**.
The company's CEO Scott Kirby was clear: the group's biggest responsibility is to ensure the safety of its employees, and according to him, they are safer when everyone is vaccinated.
United Airlines employees will have to upload their proof of vaccination by October 25, and those who provide a complete vaccination schedule by September 20 will even be eligible to receive a bonus of a full day's pay, except for pilots and flight attendants who have already received bonuses for their vaccination.
The idea was already in the pipeline at United Airlines since January.

While **its American competitors are more cautious: Delta Airlines requires the vaccination only of its new employees, and American Airlines refuses to follow the movement.**

For the moment, all the companies agree on one thing: the difficulty of implementing a vaccination obligation for their customers.

> Lufthansa has stopped the hemorrhaging of cash

(source Les Echos) August 5 - After Air France-KLM and IAG, **the Lufthansa group unveiled this Thursday, half-year results that confirm the recovery, partial** but real, **of air traffic** this summer and the improvement of the financial situation of European companies. **Europe's largest airline group**, which includes Lufthansa, Eurowings, Swiss, Austrian and Brussels Airlines, **has halved its losses compared to the second quarter of 2020, with a negative operating result of 952 million euros and a net loss of 756 million.** Second-quarter revenues rose 70 percent to 3.21 billion euros.
For the first time since the beginning of the crisis, the group stopped the hemorrhaging of cash in the second quarter, even managing to generate a positive cash flow of 340 million euros. This was due to a "significant" increase in bookings for the summer period. "In June alone, the number of reservations doubled compared to the beginning of the quarter," the statement said. As a result, **the group's supply, still limited to 40% of the 2019 level at the end of June, should rise to 50% in the third quarter**.
(...)
Like Air France-KLM and IAG, the Lufthansa group should therefore return to a positive gross operating profit in the third quarter, even if the return to a profitable net position is not for tomorrow. This should mean that the company will no longer need to call on government aid, even if it still needs to consolidate its equity. During the presentation of its quarterly results, **Lufthansa confirmed that it was studying a possible partial withdrawal from its maintenance subsidiary, Lufthansa Technik**. Lufthansa Technik, the world's largest maintenance company, returned to profit in the second quarter. **A decision should be taken "before the end of the year**".
(...)
While cargo and maintenance activities have boosted revenues, the core business - air transport activities - remains very loss-making overall and the improvement is slight. The operating loss of the so-called "network routes", via the hubs, still amounts to 1.2 billion euros in the second quarter, compared to 1.5 billion for the same period in

2020, and 2.4 billion in the first half (compared to 2.5 billion last year). The cheap subsidiary Eurowings is doing a little better, with a quarterly loss reduced from 183 to 108 million euros.
Although Lufthansa has already reopened 85% of its destinations (and 100% are expected to be reopened in September), the number of **flights remains very low. With 40% of its offer in the second quarter, the group's airlines carried only 7 million passengers, or 18% of the second quarter 2019 traffic.**

The Lufthansa group, which has already cut more than 30,000 jobs (20% of its workforce), will also continue to reduce its workforce, with at least 1,900 additional departures in Germany this year and 2,000 in Switzerland, including through dry layoffs.

Finally, like all airlines, Lufthansa's debt has continued to grow and remains massive, at 10.4 billion euros, for 11.1 billion euros of available cash. **Like Air France-KLM, Lufthansa will therefore have to raise new funds before the end of the year or early 2022, for an unspecified amount.**

My comment: *If we refer to the EBITDA over 12 months, the most relevant indicator in this period of crisis (see my letter n°819), the results of the Lufthansa group are better than those of IAG but worse than those of the Air France-KLM group:*

AF-KLM group EBITDA: €1.
723bnLH group
EBITDA
: €2.
095bnIAG group
EBITDA
: €2.750bn

Air France-KLM is benefiting from its Caribbean-Indian Ocean network, while IAG is being penalized by British Airways, whose activity is focused on the North Atlantic.

> Norse Atlantic Airways takes over Boeing 787s

(source Air & Cosmos) August 4 - Bjorn **Kjos, one of the co-founders and former president of the now defunct Norwegian Air, has a lot of ideas.** After convincing a group of investors to relaunch Norwegian's long-haul network, he is now working on building a fleet of Boeing 787s for the new airline Norse Atlantic Airways with the **help of leasing**

companies that have been left with a number of long-haul aircraft on their hands since the Covid-19 pandemic.
Norse Atlantic Airways has picked up nine Boeing 787s (three 787-8s and six 787-9s) from AerCap **and has just added six more Boeing 787-9s on** lease from BOC Aviation. The aircraft are available for delivery by the end of this year, in line with the start-up airline's announced flight schedule from the three European airports to the U.S. The aim is to serve three popular American destinations in Europe: New York, Los Angeles and Miami from London, Paris and Oslo. These are routes previously operated by Norwegian Air and which have not only proved popular but also "profitable", says Bjorn Kjos.

The Asian market is also in the plans of Norse Atlantic Airways but it is first to focus on a transatlantic market that allows space for a long-haul low-cost operator since there are no intermediate "hubs" between Europe and North America, while the market between Europe and Asia is much more competitive because of the presence of Emirates, Qatar Airways and Etihad Airways.

My comment: *The North Atlantic network is the most profitable from Europe. But it is also a route where competition is strong, especially from Paris.*

It is not certain that Norse Atlantic Airways will succeed where Norwegian has failed.

> Japan Airlines reports poor results and remains cautious about the future

(source L'Antenne) August 4 - **Japan Airlines** (JAL) **has reported negative results for its first quarter of 2021/22** (April 1 to June 30, 2021) **with a net loss of** 57.9 billion yen (some **446 million euros**). However, this figure does not reach the record loss of 93.7 billion yen recorded in the first quarter of 2020/2021 at the height of the air paralysis generated by Covid-19.

While the operating loss (Ebit) amounted to 82.6 billion yen, the **improvement would come from domestic flights and air cargo**, but the group remains cautious about its prospects for recovery both internationally and on domestic flights. The wave of the pandemic is such that the government has just reinstated a state of emergency.

My comment: *All Nippon Airlines (ANA), the other major Japanese airline, has reported a net loss of 51.16 billion yen (390 million euros) in* *the second quarter of 2021.*

> Airbus delivered 47 aircraft and booked two orders in July

(source Actu Toulouse) August 7 - **Airbus announced on Friday August 6 that it has delivered 47 aircraft and received 2 new orders in July 2021**. Since the beginning of the year, the Toulouse-based European aircraft manufacturer has delivered 344 aircraft to 69 different customers.
In detail, the 47 deliveries in July mainly concern single-aisle aircraft (A220 or A320) for a total of 32 customers. Two stand out, Air France and China Eastern, which each received an A350 wide-body aircraft.
This level of deliveries is similar to that of 2020 for the same period. (...)
In any case, this represents a strong cash flow for the aircraft manufacturer, since customers pay most of the bill when the aircraft are delivered.
In any case, it's a sign that the aeronautics sector is doing a little better. In 2020, Airbus had delivered "only" 566 aircraft, whereas since the beginning of 2021, 344 have already been taken delivery of by their customers. **Airbus also raised its forecast a while ago, expecting 600 aircraft to be delivered in 2021**.
As for orders, there are only two for the month of July. These are A320neo aircraft desired by the Mexican low-cost airline Volaris.
At the **same time, Airbus has recorded seven cancellations**. There have been 134 since the beginning of 2021. For 167 gross orders.

My comment: *Only two Airbus ordered in July, but already 28 in August.*

LATAM Airlines has signed an agreement with Airbus to purchase an additional 28 A320neo aircraft, which will add to an order for 42 single-aisle aircraft already placed.

> Qatar Airways to ground part of its A350 fleet

(source: La Tribune) August 6 - Airbus has been dealt a blow. One of its biggest customers, Qatar Airways, announced on Thursday that it had grounded 13 of its 53 Airbus A350s on the instructions of the Qatari civil aviation authority due to accelerated wear on the aircraft's fuselage surface. The A350 is a long-haul aircraft with a capacity of 300 to 350 passengers in a basic three-class configuration. Its maximum capacity can be increased to 480 passengers. Since the failure of the A380, it has been Airbus' flagship on the long-haul market.
At the beginning of June, Qatar Airways warned Airbus of possible

"industrial repercussions" if the defect found under the fuselage's paintwork was not resolved, and announced that it would not accept any more A350 deliveries until further notice. As a reminder, Qatar Airways is the launch airline for the A350. To compensate for the grounding of the A350s, the Gulf carrier is accelerating the return to service of its A330 fleet.
Known for his outspoken statements, Qatar Airways Group CEO Akbar al-Baker said he expects "Airbus to treat this matter with the specific attention it requires.
(...)
Airbus did not wish to comment on Qatar Airways' decision.
(...)

My comment: *We should be cautious about Qatar Airways' statements.*

Nevertheless, the subject is sensitive: it potentially concerns the ageing of the A350's structure, made of composite materials like that of its competitor the Boeing 787. Manufacturers have little experience of how they age.

The use of composites in aviation has many advantages.

Replacing aluminum, carbon fiber composites reduce the weight of the aircraft. The B787 is the aircraft that contains the most carbon fiber (50%, against 17% for the B777).

For example, on a section of the B787 fuselage, carbon fiber makes it possible to use 1,500 fewer sheets of aluminum, to reduce the number of rivets by 80%, and to limit the number of holes drilled in the fuselage to 10,000, compared with one million for the B747.

Airbus followed the same strategy on composites for the A350 XWB, but with more conservative choices, with composite panels assembled by rivets rather than the choice of the "one piece barrel", sections assembled in one block.

(commentary based on information published in the magazine, Challenges "Et si les composites étaient le boulet du B787 de Boeing?" dated February 10, 2012)

Bonus Article

SNCF, FlixBus, Air France... how will your health pass be

checked?

(source Capital) August 6 - **The health pass created a small earthquake in the transport sector**, when Emmanuel Macron announced its extension for early August. Finally implemented on Monday, August 9, professionals had to organize themselves in a hurry.

"There is a law and we are here to apply the law. **We will be ready**", **said recently the boss of the SNCF**, Jean-Pierre Farandou. His lieutenant Christophe Fanichet, the CEO of SNCF Voyageurs, talks about "a real operational challenge" to put in place in four weeks --since Emmanuel Macron's announcement on July 12-- the entire procedure to check 300,000 to 400,000 travelers a day in the heart of summer. "We won't be able to do systematic controls," he concedes. But passengers are warned: agents will be likely to check their pass at departure, during the journey or on arrival.
The SNCF is planning a big effort on information, with systematic messages to passengers, audio announcements, stands in the main stations and possibly barnums of friendly pharmacies for last minute tests. With the new trinity of travel in TGV and Intercités: "a ticket, a mask, a health pass". "We are supplementing the red vests (volunteers who guide travelers, editor's note) with blue vests for the health pass," notes Christophe Fanichet. **The passes will be checked by agents, controllers, security teams or information volunteers, possibly supported by the police. All of them will wear blue chasubles or armbands**. The SNCF will also experiment with pre-boarding controls: travelers will then have a single-use bracelet -- blue -- that will allow them to access the platform. "Like at festivals."
"The objective for us is for travelers to distinguish between what is a ticket and what is a health pass, so that it is as smooth as possible," notes the manager, preferring to remain discreet about the extra costs for the public group. Tickets will be exchanged or refunded free of charge if a passenger does not have a valid pass at the time of boarding. **In case of control on board or on arrival without the precious sesame, he risks a fine of 135 euros.**

On the coach side, **FlixBus and BlaBlaCar intend to have the health pass checked by the driver on boarding**, at the same time as the ticket. "A FlixBus spokeswoman said: "Although this measure is restrictive from an operational point of view, we welcome it because it will allow our passengers to travel even more serenely this summer", said Nicolas Brusson, CEO of BlaBlaCar. And **if the health pass is not mandatory for carpooling, the platform promises "in a few weeks" a feature that will allow its users to indicate whether or not they**

agree to present the famous sesame at departure, "to reassure people who want to travel with them.

The implementation of the health pass will have less impact on the airline industry: companies already control the documents for international flights as well as for Corsica and overseas. **Air France does not expect any increase in boarding times, especially since the company has set up a process to validate passengers' health documents beforehand. This system, called "Ready-To-Fly", is used in particular to Corsica, the French overseas territories and Greece, and has already been adopted by a quarter of passengers. It is intended to become more widespread.**

"The logic of the health pass (...), is to preserve the freedom of movement and encourage vaccination," explained the Minister of Transport Jean-Baptiste Djebbari, Thursday on Franceinfo. The health protocol in place since May 2020 has proved its worth, he stressed. "And it obviously passes by the respect of the wearing of the mask."

End of the press review

> Advice for employees and former employees who are shareholders

You will find on my navigaction site the modalities of access to the managers' sites.

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 **4.059 euros** on Monday 9 August. It is down slightly this week by -0.44%. The announcement of better-than-expected half-year results was offset by new restrictive health measures in the West Indies and Reunion.

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

The average (consensus) analyst price for AF-KLM shares is 3.24 euros. The highest price target is 5.5 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) is **down sharply from $4 to $69 per barrel.**

Since a low point at the end of October 2020 ($37), it has risen steadily, until it reached $69 at the beginning of March 2021. Since then, it has oscillated between $69 and $77.

As air traffic recovers, this high price is bad news for airlines.

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

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| 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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