Letter from the Director of Air France-KLM

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

N°840, December 27, 2021

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Editorial

Dear readers,

This last letter of the year is an opportunity to take stock.

For air transport, 2021 was a more difficult year than expected for our Air France-KLM group. Despite this, I will only mention the positive points.

Our group has generally managed the health crisis well.

It has benefited from the support of its major shareholders, mainly through aid from the French and Dutch governments.

Our subsidiaries Transavia France and Transavia Netherlands, our maintenance and cargo activities, and the balanced global network of the Air France-KLM group have kept us afloat.

The commitment of employees has been constant despite the hazards linked to the different waves of the pandemic. Some of them will be leaving Air France this week as part of the voluntary departure plan, enabling the company to avoid having to resort to layoffs.

Finally, the Air France-KLM group has decided to renew its medium-haul fleet. This bet on the future, made in a period of crisis, is a strong *signal sent by the group's management and its Board of Directors. We are convinced that the Air France-KLM group will be a major player in air transport in the coming decades, for the benefit of its customers and employees.*

Take good care of yourself and your loved ones.
Enjoy your reading.
FrançoisPS
: If you leave the Air France-KLM group, you can continue to receive my letter. Please remember to provide me with a personal e-mail address.

Monday's Press Review

> India: Air France-KLM signs with low-cost carrier IndiGo

(source Air Journal) December 24 - **The Air France-KLM group and the low-cost airline IndiGo have signed a code-share agreement**, offering the former 25 new destinations in India and the latter access to 250 destinations worldwide.
In their brief joint press release dated December 23, 2021, the Franco-Dutch group and the Indian low-cost specialist remind us that Paris-CDG and Amsterdam-Schiphol airports are already linked to four destinations in India: Delhi, Mumbai, Chennai and Bangalore. The 25 new cities that will join them from February 2022 (subject to approval by regulators) are not specified. IndiGo customers will have access to more than 250 of the group's routes via its two European hubs, including 120 in Europe and 50 in North and South America.
Air France and KLM, members of the SkyTeam alliance, no longer have a codeshare partner in the country since Jet Airways ceased operations in April 2019; however, it hopes to take off again in the first quarter of next year, initially on domestic routes.
With a fleet of more than 250 Airbus single-aisle aircraft, including 190 A320neo and A321neo aircraft (and more than 270 awaiting delivery), IndiGo serves 71 destinations in India and 24 international; it already codeshares with American Airlines, Qatar Airways and Turkish Airlines.
Remember that France and the Netherlands have enjoyed a "travel bubble" with India since July 2020, as have some 30 other countries, with scheduled international flights suspended since the start of the Covid-19 pandemic and at least until next February.

My comment: *For more than a decade, Indian airlines have been engaged in a fierce battle in their domestic market, one of the most* *promising for the future.*

This fierce competition has led many of them to bankruptcy, making it difficult to establish partnerships with foreign airlines.

The agreement between the Air France-KLM group and Indigo offers hope. The Indian company is rather a domestic airline. As such, it is likely to attract many Indian customers to the group's aircraft, particularly in Delhi, its main base.

> Interview with KLM CEO Pieter Elbers on the impact of the omicron variant

(source Het Financieele Dagblad, translated with Deepl) Dec. 21 - In an interview, KLM CEO **Pieter Elbers says the new omicron variant is worrisome and disrupts the airline's plans**. Following the new restrictions imposed by the Dutch government, KLM held a crisis meeting to discuss the implications, in terms of bookings and cancellations, but also in terms of applying for further support under the NOW scheme.
(...)
Elbers emphasized that the aid received of 3.4 billion euros "is not a gift", adding that these are loans for which interest must be paid. Moreover, all KLM employees have had to make sacrifices. The CEO added that the airline has "sufficient liquidity" for the moment, **stressing that the state aid received has not yet been fully used**.
(...)
In the rest of the interview, **Elbers discusses, among other things, the rising cost of flying in the coming years, which is expected to become more expensive due to the energy transition. Elbers attributes the increase in ticket prices to the use of more sustainable fuel, the capital invested in new aircraft, the increase in the aviation tax in the Netherlands** as part of the new coalition agreement, **and the increase in fees by Amsterdam Schiphol Airport for the coming years**.

Elbers further justifies the decision to buy new Airbus aircraft, pointing to benefits such as a lower environmental impact and the necessary renewal of the fleet. "This is responsible business management, especially bearing in mind that global air traffic will most likely return to normal during 2024." For 2022, Elbers expects "a long and bumpy road" to recovery.
(...)

My comment: *Once the health crisis is over, KLM will be faced with the same problem as before the crisis: how to grow while its hub, Schiphol, is saturated?*

The arrival of the Airbus 321neo and 320neo in its medium-haul fleet will be one of the means to achieve this.

The average capacity of this new fleet is higher than that of Boeing's B737 Max, so KLM will be able to feed its hub with more passengers in the same number of slots.

> Wizz Buys Norwegian Slots at Gatwick to Boost U.K. Business

(Bloomberg source) Dec. 23 -- Ultra-low-cost airline **Wizz Air will boost its presence in the U.K. after buying 15 daily slot pairs from Norwegian Air Shuttle at** London's **Gatwick hub.**
(...)
At Gatwick, where operations are limited by a single runway, this will allow it to increase the number of its aircraft from four to five, according to a statement released Wednesday. While no sale price for the slots was given, DNB Bank estimates they are worth (...) $34 million to $45 million at current prices.
(...)
According to DNB, the slots could have been worth nearly 10 times that amount before the coronavirus pandemic disrupted air travel.
(...)
The increase in flights in Britain will bring Wizz a bigger share of Europe's largest low-cost aviation market and help it compete with rivals EasyJet, whose biggest base is Gatwick, and Ryanair.
(...)

My comment: *Wizz Air is a Hungarian company qualified as ultra low-cost. More low-cost than Ryanair, even if it seems impossible.*

Mostly developed in Eastern Europe, it has been trying to establish itself in Western Europe for several years. It targets saturated airports, hoping to recover slots abandoned by bankrupt airlines.

Gatwick airport is saturated, which makes the operation very interesting for Wizz Air.

> Coronavirus: why were nearly 8,000 flights cancelled

worldwide over the Christmas weekend?

(source AFP) December 27 - **The disaster scenario happened for a good number of travelers this Christmas weekend**. Thousands of people could not join their family or their close relations to celebrate Christmas as it should be, since **7.900 flights were cancelled by the airline companies**, and thousands of others were delayed everywhere in the world. The main cause of course: the coronavirus.
(...)
Pilots, stewardesses and other staff members had to be quarantined after being exposed to the virus, which forced the companies Lufthansa, Delta or United Airlines to cancel flights. According to the Flightaware website, United Airlines had to cancel about 439 flights on Friday and Saturday (...). Delta Airlines also cancelled more than 300 flights on Saturday, and 170 the day before (...).

Chinese airlines are responsible for the largest number of cancellations: China Eastern cancelled about 540 flights, more than a quarter of its flight plan, while Air China cancelled 267 flights, also almost a quarter of its planned departures.
(...)

> France is still a bad pupil in air traffic control

(source Les Echos) December 23 - **On December 14, the European Commission officially launched Sesar 3,** the third phase of the European air traffic control modernization plan, which will be completed in 2030. **This is an opportunity to take stock of one of the European Union's most important projects, launched in 2004 to support the expected doubling of traffic by 2025, and which has already spent nearly 4 billion euros, with rather mixed results.**

While the number of flights in European skies has increased by about 50% over the last 15 years, reaching an average of 30,000 flights per day before the health crisis, **delays due to inefficient air traffic control have tripled over the last four years.** Tens of thousands of flights could not be operated due to lack of control capacity.
As for the ultimate goal of achieving a "single European sky", mentioned as early as 1999, it still seems out of reach. The European sky remains a mosaic of airspaces managed by heterogeneous national systems, with their borders and obligatory crossing points. One of the consequences of this fragmentation is an increase in fuel consumption - and therefore in pollution - of about 10%

per year, with the distance flown by aircraft being unnecessarily extended by an average of 42 km.
However, while the results are slow in coming, the progress made under Sesar 1 and 2 is real. "The first versions of the technological tools that will enable the virtualization and digitization of air traffic control will be ready by the end of 2022 and will be deployed between 2023 and 2025," explains Laurent Renou, in charge of innovation at Eurocontrol, the European organization in charge of coordinating air traffic management in Europe.
"They will automate data exchanges between control centers and considerably improve aircraft trajectory forecasting. This will enable us to better anticipate localized congestion problems and provide additional control capacity where it is needed.
For airlines, modernized control will result in significant time and cost savings by using more direct, free-route trajectories, rather than having to zigzag from one control point to another. "The free route would reduce consumption by 2 to 3%," says Laurent Renou. In addition, Sesar 3 will make it possible to integrate drones and future intercity flying vehicles into existing traffic.

Unfortunately, **although air traffic control tools have made great progress thanks to the Sesar programs, their implementation remains very uneven within the European Union. The worst performer is France,** where the modernization of air navigation services has fallen considerably behind.
The latest European barometer of air traffic control delays is proof of this. **From January to November of this year, the Directorate of Air Navigation Services (DSNA) alone accounted for more than half of all delays in Europe, far ahead of its German, Greek and Spanish counterparts**. And it was not the fault of bad weather, because more than half of these delays were generated by a lack of air traffic controllers.
A position of dunce of Europe denounced for years by air traffic controllers' unions, as well as several official reports, including the one written in 2018 by Senator Vincent Capo-Canellas, entitled "Air traffic control delays: France stalls in Europe" . "From internal sources, I am told that my report remains relevant," says the senator. France is still far behind technologically. There has been an awareness at the level of the Ministry and the DGAC, but apart from a change in management, not much has happened since then.
This is the result of a decade of accumulated delays in the modernization of tools and the recruitment policy for controllers," says Loïc Parisi, national secretary of the SNCTA, the majority union of air traffic controllers. **In terms of modernization, we are fifteen years**

behind our European counterparts. We are still working with a system from the 1980s.
As for the lack of controllers, it's not for lack of alerting governments! Recruitment is underway, but it takes five to six years from the decision to recruit to the moment when the controller becomes fully operational.

***My comment:** Here is what my predecessor, Christian Magne, wrote on December 8, 2014 (7 years ago!) in letter 472:*
"Finally, Europe must play its role in the modernization of air transport, for example by bringing to fruition the Sesar project for a single European airspace, a major efficiency factor for the entire sector."

The Single European Sky is on the verge of becoming a 21st-century aviation
dream. Expected by all airlines flying through European airspace, its implementation is postponed year after year.

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 **3.934 euros** on Monday 27 December. **It is up strongly this week by +4.38%.**

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

The average (consensus) analysts' price for AF-KLM shares is 3.29 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.

Brent (North Sea)
oil rose sharply this week by $9 to $79, following the announcement that the Omicron variant is relatively safe. The announcement of the arrival of the Omicron variant had led to a drop of nearly $10.

At the end of October 2020, it was at a low of $37.

At $86 on 25 October, Brent had reached a level not seen since 2014, supported by supply disruptions and underlying demand.

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

You can react to this press review or send me any information or thoughts that will help me better carry out my duties as a director of the Air France-KLM group.

You can ask me, by return, any question relating to the Air France-KLM group or to employee share ownership...

See you soon.

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

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

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

| François Robardet

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

When I was elected, I received the support of the CFDT and the UNPNCChis press review deals with subjects related to the Air France-KLM shareholding.

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To contact me: message for François Robardet. 10988 people receive this press review online