# Letter from the Director of Air France-KLM

# François Robardet

Representative of the employees and former employees shareholders PS and PNC

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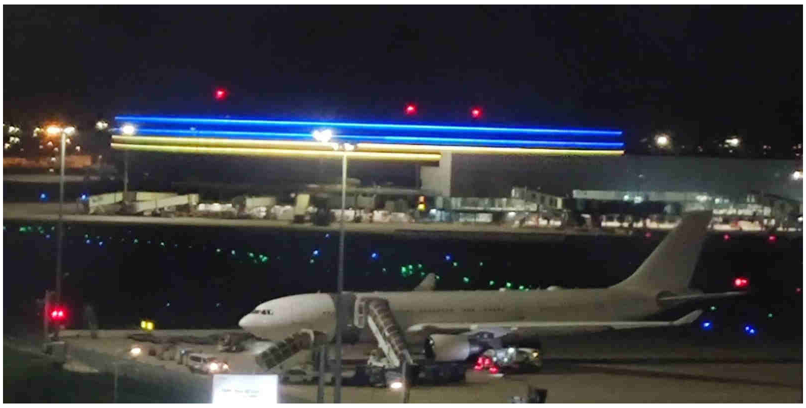

The Terminal 1 of CDG with the colors of Ukraine

## *Monday's Press Review*

### > China Eastern Boeing 737 crashes in China with 132 people on board

(source Les Echos) March 21 - A new blow for Boeing and the airline industry! While the American aircraft manufacturer had finally obtained the agreement in principle of the Chinese authorities to put back into service the 737 Max banned from flying in China since March 2020, **a Boeing 737-800 of the company China Eastern crashed this Monday morning**, with 123 passengers and 9 crew members on board. The number of victims is not yet known, but the first images of the crash area leave little hope of finding survivors.
The flight MU5735, which was supposed to fly from Kunming to Guanghzou, crashed in an area of low wooded mountains near the city of Wuhzou, in southern

China, for an unknown reason, shortly before its arrival.
(...) According to
the ADS-B data, **the plane seems to have suddenly gone into a dive from its cruising altitude of 29,000 feet** (8,839 meters), and **finally crashed three minutes later**. And this, not without having briefly attempted a recovery towards 7,000 feet (2,133 meters above the ground), for about 10 seconds, before plunging back towards the ground. Two videos of a plane in flight, broadcast on social networks seem to confirm this scenario.
"We have taken note of initial media reports and are working to gather more information," Boeing said soberly, in an initial statement. **Entering service in June 2015, this Boeing 737-800 NG does not belong to the 737 Max family**, which were grounded after the Lion Air and Ethiopian Airlines crashes. It is therefore theoretically not affected by the MCAS problems detected on the 737 Max and which led to modifications. **The 737-800 NG is, along with the Airbus A320, the most widely used single-aisle medium-haul aircraft in the world, with some 4,900 in service, including 874 in China. China Eastern is** one of the three major Chinese airlines (alongside Air China and China Southern) and **one of Air France-KLM's main partners and shareholders, with a stake of nearly 10%**. China Eastern is therefore a major customer for Boeing. The company had not experienced a major accident since 2004. Its first decision was to suspend the operation of all its Boeing 737s
.

***My comment:*** *Air France-KLM press release:*

*"We stand by our partner China Eastern. Our thoughts are with the families and loved ones of the passengers and crew of flight #MU5735".*

## > Air France-KLM increases airfares

(source Capital) March 21 - It was a consequence that many feared, but which seemed inevitable: **the price of airline tickets will increase**. With the soaring price of fuel, including kerosene, which is used to fly airplanes, already triggered by the post-sanitary economic recovery, and seriously accentuated since the beginning of the war in Ukraine, airlines could take the plunge. In this sense, Air France and KLM have already announced a fare increase for long-haul flights outside Europe. **The increases do not concern tickets already sold. RTBF reports an additional 40 euros on an Amsterdam-New York economy class flight**, while Actu.fr, citing an Air France spokesperson, reveals a similar figure for a Paris-La Havana flight.
"We have increased the price of tickets since March 17, 2022, on long-haul flights, for an amount that varies depending on the destination and the travel offer," explained a spokesman for the French company, relayed by Actu.fr. **Fuel represents 20 to 30% of overall costs**, so their impact is important on prices,

even if they are not totally linked, with other factors such as supply and demand. Uncertainty hangs over the future and it is difficult to make longer term plans due to the instability of the geopolitical situation and prices.

***My comment:*** *All airlines will have to increase their fares.*

*However, it will be difficult for them to fully compensate for the increase in fuel prices.*

*The most exposed are the US airlines. Unlike European airlines, they have chosen not to take out fuel coverage. They will have to bear the full cost of the fuel price increase.*

## > In-flight masks: the fear of Dutch airlines

(source Air Journal) March 18 - **Dutch airlines have decided not to continue imposing the wearing of masks after March 23, for fear of attacks on flight attendants by passengers**. This measure has already been applied by most carriers in Great Britain.
In accordance with European regulations, the wearing of masks in airports and on board aircraft will continue to be imposed in the Netherlands after March 23, 2022, the date chosen by the government to end its use in other public transport. No way according to KLM Royal Dutch Airlines, its low-cost subsidiary Transavia, Corendon Airlines or TUI Fly Netherlands, who call the decision "irresponsible". Their fear: a resurgence of incivility on board, from passengers questioning this difference.
(...)
**All of them will continue to recommend that passengers wear masks, but they will not impose penalties if they refuse.**

The problem does not arise across the Channel, where airlines and airports alike have "dropped the mask" following the announcement of the lifting of travel restrictions. Preceded by Jet2 at the beginning of March, British Airways, Virgin Atlantic and TUI Airways (but not easyJet or Ryanair) as well as London-Heathrow, among others, have put an end to the obligation to wear a mask inside the cabin - while "strongly recommending" its use. And reminding that the rule is not necessarily valid everywhere, for example on flights to the USA where the FAA has maintained the obligation until mid-April at the earliest...

## > Air France plans to place a large order for Embraer aircraft for its subsidiary Hop

(source Les Echos) March 18 - It's been a long time since we heard such good news at Hop. After years of restructuring, Air France's regional subsidiary could finally have a real future, in the form of a major aircraft order

.

**According to our information, Air France and Hop management have held informal discussions with staff representatives concerning a possible order for 35 to 50 Embraer 190-E2s**, the latest re-engined version of the Brazilian regional jet, the previous version of which already equips Hop. This represents a potential investment of 2 to 3 billion dollars at list price, for the Air France group, already engaged in the renewal of its medium-haul fleet, with the Airbus A220, and that of its low-cost subsidiary Transavia France

.

**As with previous orders for Air France and Transavia, Air France's management has made the purchase of these aircraft conditional on the acceptance by the various categories of employees - pilots, flight attendants and ground staff - of new measures to increase productivity and reduce hiring costs**. Formal negotiations are expected to start in the next few days to try to reach an agreement. The final decision could be taken during the summer.

When asked about its intentions, **Air France refused to comment on this information, but did not deny it.**

(...)

However, such an order would not be usual for Hop. Even if limited to 35 aircraft, it would allow Hop to renew its entire fleet, currently reduced to about thirty Embraer E170s and E190s, most of which are more than 20 years old, while reducing fuel consumption and $CO_2$ emissions by 17%, in line with the group's environmental commitments. It would also put a smile on the faces of employees who have been hard hit by successive cutbacks in their companies.

Even before the Covid crisis, **the last restructuring plan resulted in a 40% reduction in Hop's activity** operated on behalf of and under the Air France brand, with a fleet reduced from 69 to 32 aircraft. The last voluntary redundancy plan, validated in July 2021, resulted in 1,007 job cuts out of a 2020 workforce of 2,400. **However, when**

this plan was finalized, **Air France management reaffirmed the need for the group to keep a regional airline to supply its hubs at Roissy-CDG and Lyon**.

In order to calm concerns, Air France had even committed to remaining a majority shareholder in Hop until at least March 2026. As a bonus, it guaranteed not to reduce the fleet to less than 29 aircraft. This implied that aircraft would be bought out.

Paradoxically, the period is rather favorable for aircraft purchases, at least for those who have the means. The Covid crisis has severely tested regional airlines, as well as Embraer's sales, which could only deliver 48 regional jets in 2021 and 44 in 2020, compared to 89 in 2019. This will allow Air France to negotiate a nice discount, as with Airbus for the A220.

***My comment:*** *Last week, HOP! announced that it was parting with its last Bombardier CRJ1000 aircraft.*

*Its fleet is now composed of 15 Embraer E170 and 19 Embraer E190 two-seater.*

*At this stage, no plans to renew this fleet have been submitted to the Air France group's decision-making bodies.*

## > Delta Air and United Airlines soar after forecasts

(stock market source) March 15 - Delta Airlines, the U.S. airline, has raised its financial guidance for the current quarter as a result of recovering demand. **Delta said it now expects March quarter revenue to recover to 78% of 2019 levels, up from previous guidance of between 72% and 76%** issued in January. The airline also expects total revenue per available seat mile to be flat compared to March 2019, according to a forecast update ahead of the JPMorgan Industrials conference in New York.
Delta said its pretax loss for the quarter would be in line with its initial expectations, despite higher fuel prices. Expected adjusted fuel prices were raised to $2.80 per gallon from the previous forecast of $2.35 to $2.50. **The group expects "solid" pretax earnings for March as higher revenues offset higher fuel costs.** The airline also pointed to strong spring and summer travel demand in its updated outlook for the March quarter, expecting positive free cash flow in March
.
**United Airlines also just raised its pre-conference revenue estimates, now seeing first-quarter 2022 revenue "near the better end" of its range of 20 to 25 percent below first-quarter 2019 levels**. United raised its fuel price estimate to $2.99 per gallon from $2.51 in January. The carrier, however, reduced its capacity forecast to -19% from 2019 levels, compared with a previous range of 16% to 18% lower. Full-year capacity for 2022 will be down a high single-digit percentage from 2019. Nevertheless, the group notes that the travel recovery is accelerating, reporting "very strong" leisure demand and the highest business travel traffic since the start of the pandemic.

## > IAG lends 100 million euros to Globalia and keeps Air Europa in its sights

(source Journal de l'Aviation) March 17 - **IAG and Globalia have reached an agreement whereby IAG will provide an unsecured loan of 100 million euros to the Spanish group over seven years. It provides that this loan may be converted into an equity stake in Air Europa, subject to the approval of the relevant authorities.**

In this eventuality, IAG's stake could reach 20%.
Luis Gallego, CEO of IAG, says that a tie-up with the Spanish company remains of strategic importance. But while the market has changed a lot in the last two

years, the group is "giving itself time to evaluate alternative structures that could be interesting for both companies and offer significant advantages"
.
**The agreement provides for a one-year exclusivity period while discussions take place, and a right to match any third-party offer for Air Europa over the next three years**. It also provides for an exit right alongside Globalia if the group sells Air Europa.

***My comment:*** *The planned merger between Iberia and Air Europa seemed to be in jeopardy after the European Commission opened an in-depth investigation into the operation.*

*In December, the European Commission accused the Air Europa - Iberia merger of leading to a reduction in competition in the Spanish market, which could lead to higher prices for passengers.*

*The two groups were given one month to find a solution.*

*It is clear that this is more difficult than expected. The door is open for other potential buyers of Air Europa to come forward.*

## > France 2030 Plan: 800 million euros to develop the aircraft of the future

(source AFP) March 15 - **The aeronautics component of the France 2030 investment plan amounts to 1.2 billion euros, including 800 million euros dedicated to research and technology to develop a carbon-free aircraft,** said Thursday the Minister of Transport Jean-Baptiste Djebbari.
These 800 million will finance the technological roadmap of Corac, the Council for Civil Aeronautics Research, which brings together industry and the state, said the minister.
(...)
**This roadmap is based on the development of a regional hybrid electric or hydrogen-powered aircraft**, which would enter service around 2030 with a technology demonstrator in 2028.
This aircraft would serve as a template for developing a medium-haul aircraft that would burn hydrogen directly in its engines by 2035.
Some 78% of Corac
's funding is dedicated to decarbonization, he said.
(...)
A previous envelope of 1.5 billion euros over three years had already been allocated in 2020 as part of the aeronautics support plan to finance research on the "green aircraft" via the Corac.
The other 400 million euros of the France 2030 aeronautics plan are dedicated to

"emerging players in the aeronautics industry", mainly start-ups, as well as to the production of sustainable aeronautical fuels
.
**Regarding sustainable fuels, the most rapidly available lever for reducing air transport emissions, a call for projects worth 200 million was launched last year for demonstrators and pre-industrial studies**. "It will be extended until the fall of 2022 and may be opened to industrialization," according to the minister's office.
A €100 million call for projects "aimed at emerging players in decarbonized aviation" is also being launched for two years.

"This device aims to support innovations that can quickly feed the market for carbon-free aviation, such as light electric or hybrid aircraft, achievable in the shorter term than carbon-free airliners," according to the ministry.
(...)

***My comment:*** *Considerable sums of money will be devoted to developing the aircraft of the future.*

*During a press briefing, the FNAM (Fédération Nationale de l'Aviation et de ses Métiers) reminded the presidential candidates that the time of the aviation industry is not the time of the politicians, and not the time of the airlines either. Tomorrow's propulsion systems will be developed the day after tomorrow.*

*What is urgently needed is the development of a real SAF (sustainable aviation fuels) sector. The FNAM is calling on the future government to set up this sector, which is a political decision.*

*The State is imposing 1% of this new sustainable fuel in the tanks of French aircraft this year. "But we will not succeed and will have to pay a tax for it," said Marc Rochet, president of the FNAM.*

*And the 2% target set for 2025 may already be out of reach, even if Total thinks otherwise.*

*In other words, the creation of a French SAF industry is still in its infancy. However, it could be a strong act of sovereignty in a context of heightened competition.*

## *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 **3.935 euros** on Monday 21 March. **It is up sharply this week by +5.35%.**

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


*Evolution of the Air France-KLM share price over five years. The sharp drop corresponds to the beginning of the Covid-19 epidemic.*

**The analysts' average (consensus) for AF-KLM shares is 3.31 euros**. The highest price target is 5.50 euros, the lowest 1.30 euros.
You can find the details of the analyst consensus on my blog. I do not take into account the opinions of analysts prior to the beginning of the health crisis.

**Brent crude oil** (North Sea) is **up sharply this week by $11 to $116**.

**The crisis in Ukraine is behind the rise in oil prices, which is** also affecting copper and gold.

**At the beginning of the month, Brent crude reached $132, close to its record of $150 reached in 2008.**

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


*Evolution of oil prices over ten years. The sharp drop corresponds to the beginning of the Covid-19 epidemic.*

**This information does not constitute an invitation to sell or a solicitation to buy 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.



To contact me: message for François Robardet.

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