

B.2.B

When aircrafts are grounded, many of the financial commitments made by airlines continue. At KLM we run our entire operation with $\pm$ [] own staff, the remaining [] is hired temporary staff. Wages of permanently contracted staff are to be paid also in situations if there is no work to be done. Staff costs equal about 33% of our cost base.

In addition to our staff costs, we have future fuel off-take contracts, aircraft lease costs, office rentals and other binding obligations leading to a daily loss of about € [] million a day (mid- March 2020).

The situation has improved a bit since the height of the crisis, but Air France-KLM published October 30, 2020 its third quarter and nine months results showing for Q3 2020 revenues at € 2.524 billion, down 67% compared to last year and a negative operating result of €1.046 billion, down € 1.955 billion. KLM Group's share in these Q3 results show a total revenue of € 1.144 billion, down by 1.988 billion compared to last year and a negative operating result of € 234 million. Accumulating the financial results of the first nine months of 2020 KLM Group's revenues are down by € 4.400 billion and reported an operating loss of € 1.003 billion (source: https://www.airfranceklm.com/en/system/files/q3_2020_press_release_en_final.pdf and KLM internal reports).

Initially a V-shaped recovery was expected with a return to reasonable traffic numbers in September 2020. However, it is evident that recovery curve is not the case and the road to recovery will be long. KLM Management expects a return to pre-COVID operations in 2024. As far as possible, KLM uses the in September published production forecast for its internal resource planning, however if the COVID-19 crisis is not properly contained globally and the recovery curve changes, this forecast will be adjusted.

As a result of the future production, acknowledging that the recovery period is much longer than initially foreseen, the KLM Group has to restructure to bring down its costs of operations. This includes a significant reduction of employees.

Without this restructuring, the fixed costs will significantly exceed the income of operations. Rapid adaptation of the company's scope is necessary in order to restore its competitiveness and regain its investment and development capacities; otherwise the company may run into bankruptcy in time.

With a restructuring plan announced, KLM has been granted a European Commission approved loan, guaranteed by the Dutch Government and a consortium of banks, which has been registered under SA.57116 (2020/N) and approved by the EC on July 13, 2020. The Dutch Government made the submission of a restructuring plan prior October 1, 2020 conditional to grant the approved loan package approved by the EC. This restructuring plan should deliver an overall 15% lower cost base on controllable costs – including cost of staff.

The Dutch government launched a generic wage support grant for all companies in the Netherlands whose turnover is affected by more than 20% by the COVID-19 crisis. KLM Group applied for this so called NOW-grant (Noodmaatregel Overbrugging voor Werkgelegenheid - literally translated: Emergency Bridging Measure for Employment) and committed itself to the conditions bound within this regulation. This support gave KLM the opportunity to organise a proper restructuring plan without having to lay-off staff immediately.

The NOW grant covers the period from March 2020 until Jun 2021 and KLM applied for the entire period. For NOW 1 and NOW2 KLM Group received in total advance payments equalling € [] million. For NOW 3 this is estimated at € [] Million. Given the limited availability of this grant, it does not give sufficient long term perspective to overcome the entire recovery period of 3 to 4 years without reducing the workforce.

KLM's restructuring approach: Van Meer naar Beter (From More to Better)

Early 2020 KLM has adopted an agile approach to manage the effects of the COVID-19 crisis in an efficient and effective manner. Daily crisis management to minimize cash out, adapt network operations, utilize staff in the best possible manner, where possible support passengers to return home and maximize our assets in the global distribution of medical supplies and other goods needed to fight the COVID-19 pandemic. In parallel, the discussions with banks and governments took place to ensure sufficient cash to continue operations and be able to fulfil our financial commitments.

In April 2020 it became clear that this crisis was not going to be a short and vicious one, KLM initiated its initial plan to restructure. Below a graphic of the four quarters used by KLM management to explain its approach.



Part of the Crisis Management was managing the cash position, which included actions to minimize the staff costs. Staff cost was immediately reduced through discontinuation of agency hired operational staff, not hiring new staff on existing vacancies and no automatic contract extensions for staff on fixed-term contracts. This led, in combination with regular departures (ie. retirement, moving to other jobs outside KLM) to a reduction of workforce of approximately [REDACTED] FTE in total in the period February – May 2020 (KLM NV ± [REDACTED] FTE and KLM subsidiaries ± [REDACTED] FTE).

In May, the initial restructuring plan more mature and KLM started to work out details of the restructuring plan. KLM identified 10 key areas of focus during the development of the 'Better KLM'. Without ranking them in order of importance, these areas are:

1. Sustainability & Societal role	[REDACTED] [REDACTED]
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2. Customer proposition & portfolio choices	
3. Capex & cash management	
4. Demand & production scenarios	
5. Fleet adjustment & renewal	
6. Direct workforce, management & support	
7. Suppliers & expenses	
8. Data & technology	
9. Revenue initiatives	
10. Group transformation	

Much of the above mentioned will be incorporated in tasks executed by specific departments. 



With the recovery scenario used (Summer 2021 (S21) production is 20% below pre-COVID-19 volume), KLM Management announced July 31, 2020 that 4.500 to 5.000 FTE's jobs would cease (<https://nieuws.klm.com/klm-past-organisatie-verder-aan-als-gevolg-van-de-covid-19-crisis/>) to become a more efficient and agile company while also complying with the target to reduce cost levels by 15%. A smaller and better KLM is envisioned with maximum 28.000 full time employees.

The approach to achieve results in key area 6, five principles have been developed:

- I. Doing less – stop or reduce activities that are not strictly needed or exceed required internal service levels.
- II. Fewer duplications – integrate, centralize or streamline overlapping or dispersed activities across departments.
- III. Doing things differently – standardize, automate or outsource/offshore transactional activities to improve efficiency and adopt new ways of working in selected areas to improve efficiency and agility.

- IV. Flatter organization – increase spans and reduce management layers in line with High Performance Organization guidelines where needed.
- V. Adjust to market – adjust size and composition of direct workforce to production levels and (re)introduce flex, using multi-skill employees or outsource for a more flexible workforce for production related staff in areas of fluctuating demand.

The entire KLM organization and fully owned subsidiaries have been or will be reviewed, taking these 5 principles and the recovery forecast in consideration. This intense process started mid July and the KLM's central works council (Ondernemings Raad – OR) was involved from the start of this process and the approach to come to formal 'requests for advice' (adviesaanvragen) was jointly designed. Inventory of possibilities and discussions about specific departments, roles and expected capacity was part of the discussions between KLM management and decentralized works council organization (medezeggenschap). This process consisted of a kick-off sessions followed by pressure cooker sessions per work stream/department. To ensure cohesion and coordination between the various parallel discussions a support group was set up to maintain the overall avoid design errors due to a lack of companywide insight in case developments.

This took in total 6 weeks to come to in total 'requests for proposal'. These cases were submitted to KLM's central works council as soon as they were finalized, but no later than 7 September. This gave KLM's central works council 3 weeks to assess the proposal, just enough time to meet the October 1, 2020 deadline set by the Dutch Government.

KLM Staff: Divisions, Collective labour agreements and direct vs indirect staff:

KLM's organisation is built around three businesses, being 1) Transport of passengers through the airlines brands KLM, KLM Cityhopper and Transavia, 2) Cargo (KLM and Martinair) and 3) Engineering & Maintenance (E&M).

In each business, we have different types of staff. These can be divided in three main categories:

- a) Staff directly involved in the operational execution:
These functions include for example pilots, cabin staff, ground handling personnel, cargo handlers and line maintenance engineers. The number of staff needed is directly related to the production schedule, flights operated and volumes of passengers/freight.
- b) Management of direct staff:
To run a smooth operation, there is staff involved in managing the processes needed to operate flight. This involves amongst others processes such as flight, staff and load scheduling, operations control, etc.
- c) Overhead/indirect staff:
General functions such as sales, product development, IT, security, accounting, human resources and corporate functions.

KLM Management deals with in total 8 unions is and the labour conditions are set in three collective labour agreements for separate domains, namely i) Ground Staff, ii) Cabin Crew and iii) Cockpit crew. Below a matrix with an overview how KLM's three businesses relate to staff categories and collective labour agreements.

		i) Ground staff	ii) Cabin crew	iii) Cockpit crew
Category <u>Direct</u>	a) Direct operational staff	Passenger transport Cargo E&M	Passenger transport	Passenger transport Cargo

Category <i>Indirect</i>	b) Management of direct staff	Passenger transport Cargo E&M	Passenger transport	Passenger transport Cargo
	c) Indirect & Overhead staff	Passenger transport Cargo E&M		

In this complex context KLM applied the 5 principles [REDACTED] to restructure the organization.

KLM's organisational structure is set in 18 divisions/departments. In this application we consolidate divisions having only indirect staff in the category Corporate functions. Divisions where a clear split can be made between direct and indirect staff are described individually.

Restructuring – the starting point:

KLM Group's workforce equalled in total 30,572 FTE in 2019, 33,026 including hired agency staff (source KLM Annual Report 2019, Page 176 and page 213; https://www.klm.com/travel/nl/en/images/KLM-Jaarverslag-2019_tcm542-1063986.pdf). The break down between KLM Company, its subsidiaries and the three types of labour agreement is listed below.

In FTE	Total	Permanent contract	Fixed term or hired
KLM Group employees	30,572	28,615	1,957
KLM Company NL	[REDACTED]	[REDACTED]	[REDACTED]
Subsidiaries	[REDACTED]	[REDACTED]	
Cockpit crew	3,492	[REDACTED]	
Cabin crew	8,497	[REDACTED]	[REDACTED]
Ground staff	18,583	[REDACTED]	[REDACTED]
Agency staff	2,454		2,454
Grand total KLM Group	33,026	28,615	4,411

The staff related decisions taken as part of the crisis management actions lead to a steep reduction in staff of [REDACTED] in the period March – May 2020. This affected primarily agency staff and staff with fixed-term contracts. There was no direct relation between these actions and the restructuring plan that started in May 2020.

To adapt the organization to the new situation with significantly lower production in the coming years, KLM Management initiated a restructuring plan, which was based on the principles used for the 2013/2014 organizational optimization program 'High Performing Organisation' (HPO), combined with the new production forecasts. [REDACTED]

Where possible we describe the outcome in line with the structure used to detail the effect of the VDA, but in some cases this 'one-to-one relation cannot be made due to shifts of activities and/or stopping activities. In these cases we sketch the situation consolidated.

Restructuring effects per division/department:

Divisions with direct operational staff will be described first, followed by departments/divisions with only indirect staff. The February situation is used as a starting point for the restructuring plan. The number of redundancies is the difference between the required workforce in S21 and the actuals in February 2020.

I. Inflight Services:

Responsible for all cabin crew activities and delivery of passenger services. Besides cabin crew including the management of cabin staff, this division is also responsible for the product development, supply of catering and service items to all airport KLM operate to around the world, etc.

	Feb-20	May-20	S21	Redundant
Direct				
Indirect				
Total				

Direct staff:

The reduced number of flights has a direct effect on the number of cabin staff needed. Based on the S21 production prognoses, exact calculations led to the number of staff needed, per type function on board.

	Feb-20	May-20	S21	Redundant
Senior Purser				
AP and Purser				
Cabin Att.				
Total				

Indirect staff:

The indirect workforce involved in cabin crew management and planning & assignment activities are adapted in accordance with [REDACTED] Other activities such as (but not limited to) Business Development and Supply Management and Management

[REDACTED]
[REDACTED] Activities to support the cabin crew operation at Schiphol Airport [REDACTED]
[REDACTED]

II. Flight Operations:

All cockpit crew operations and supporting activities are management by the Flight Operations division. In addition to the pilots, this division is also responsible for (but not limited to) the development of Flight Standards and Compliance procedures, cockpit training and flight planning (route development).

	Feb-20	May-20	S21	Redundant
Direct				
Indirect				
Total				

Direct staff:

The reduced number of flights has a direct effect on the number of cabin staff needed. Based on the S21 production prognoses, exact calculations led to the number of staff needed, per type function in the cockpit.

	Feb-20	May-20	S21	Redundant
Captain				
1st officer				
2nd officer				
Total				

Indirect staff:

The indirect workforce involved in cockpit crew management and planning & assignment activities are adapted in accordance with [REDACTED] Other activities such as (but not limited to) Flight tactical analysis and several digitizing activities [REDACTED]

Activities to support the cabin crew operation at Schiphol Airport [REDACTED]

[REDACTED] and some accounting functions [REDACTED]

III. Ground Services:

All activities around the aircraft at the apron and services offered to our passengers or the handling of their check-in luggage, rebooking and/or service recovery activities are handled by KLKMM Ground Services. Besides a direct relation with the number of aircraft departures and arrivals is there also a number of activities not related to flight numbers. Check-in agents should be available, knowing that passengers increasingly use self-serves kiosks (for luggage and check-in). In addition, there are several support functions developing operational procedures and new products and services.

	Feb-20	May-20	S-21	Redundant
Direct				
Indirect				
Total				

Direct staff:

It is foreseen that the operation will be ran [REDACTED] in coming years to mitigate the number of forced resignations.

Indirect staff:

The management and operational support departments will be restructured. There will be a rationalization of activities and [REDACTED]

IV. Engineering & Maintenance:

KLM Engineering & Maintenance operates in a joint organization with AirFrance. All AF/KL group-restructuring activities are included in VIII 'KLM Staff seconded to AFKL Group' (part of this application).

Besides staff seconded to the Group for overall commercial and/or strategic work, a large part of the organization works at Schiphol Airport to take care of daily maintenance activities (line maintenance) and or specific repairs (i.e. engines, components of systems). KLM engineering has also a training department to train (certified) engineers en mechanics.

	Feb-20	May-20	S21	Redundant
Direct				
Indirect				
Total				

Direct staff:

Line maintenance activities are directly affected by the flights operated (mostly number of take-off and landing cycles and hours in air). With the significant lower production forecast, these line maintenance activities are reduced as well. KLM phased-out its Boeing 747-400 aircrafts sooner than original planned, leading to a reduction of staff as well.

Indirect staff:

Management decided to reduce indirect staff in line with the forecasted production volumes to avoid too high overhead costs.

V. Cargo:

Cargo has a joint sales organization with AF. Operational work is done at the hubs by the individual airlines. KLM employees seconded to AFKL Cargo are not included in this part of the applications. The AFKL Group is described in part VIII 'KLM Staff seconded to AFKL Group'. Cargo has been one of the few highlights during the COVID-19 crisis. KLM anticipated on quickly to play an important role in the distribution of medical supplies to China and later on from China to Europe. However in the long term is Cargo also hit and will the production reduce.

	Feb-20	May-20	S21	Redundant
Direct				
Indirect				
Total				

Direct staff:

All operational departments will reduce as a result of the market adjustment (Principle V). With the discontinuation of KLM's 747-400 (including combi aircraft) operation, a significant Cargo volume is gone.

Indirect staff:

Some supporting positions and the organization structure

VI. KLM Cityhopper:

KLM's short-haul operation is executed by KLM Cityhopper (KLC). The ground staff and support organization has a KLM NV contract. Cabin crew is contracted by KLM Cityhopper BV – which is a separate legal entity fully owned by KLM NV. KLC operates the entire Embraer fleet, which has a smaller seat capacity then the KLM Boeing 737 fleet. It is foreseen that KLC will be important in an efficient recovery of the network. When traffic picks-up it will be a gradual grow, which makes the use of smaller aircrafts much more cost efficient.

	Feb-20	May-20	S21	Redundant
Direct				
Indirect				
Total				

Direct staff:

Directs staff is in this case cabin crew. With the uncertain market, KLC operations are expected to pick-up sooner than the KLM NV operation. In the daily operations KLM and KLC operations can be changed relatively easy, which makes it likely that in case of shortages of cabin crew KLM redundant cabin crew will be seconded to KLC. The exact numbers are at this stage not know. The below stated quantities are based on the scenario selected for the restructuring plan.

	Feb-20	May-20	S21	Redundant
Inflight Supervisor				
Senior Cabin Attendant				
Cabin Attendant				
Total				

Indirect staff:

The indirect workforce involved in cabin crew management and planning & assignment activities are adapted in accordance with

Activities to support the cabin crew operation at Schiphol Airport will

VII. Corporate functions:

Corporate functions are very diverse and consist of several departments and numerous types of expertise. In all cases these jobs are considered to be Indirect, meaning that there is no direct relation to the daily operation. But in some ways requires a smaller operation also smaller corporate support functions. Corporate functions are also reduced to contribute to meet one of the conditions related to the support package (-15% of controllable costs). In general the are part of the restructuring of departments.

Not all 'Request for Advice' processes are formalized at the moment of application. As a result of this, the above mentioned number will be subject to change and the number of actual redundancies will increase.

	Feb-20	May-20	S21	Redundant
KLM NV				
Total				

VIII. KLM Staff seconded to AFKL Group:

The AFKL group functions are similar to Corporate functions all Indirect. Request for Advice will be developed in concert with AF. Reductions in the Group are always done while maintaining the balance of seconded staff from AirFrance and KLM. Below stated redundancies are an initial

assessment done by KLM.

	Feb-20	May-20	S21	Redundant
KL Staff in AFKL group				

A. **KLM subsidiaries:**

The KLM Group is subject to the conditions bound to the governmental support package. Concrete action to reduce the controllable costs at subsidiary level is also needed. But as these legal entities have their own staff and payroll, in many cases with different collective labor-agreements, we cannot provide meaningful details yet.

The overall KLM organization should shrink to a maximum of 28.000 FTE. In the below stated overview, we calculated for those departments who did not complete their formal advise request to the works council organization a s FTE reduction of 15%,

But we need to note that the 15% is an estimate which in practice can be adjusted based on the detailed assessment of management and the input from the works council.

Total overview of all cases:

	Resources February 2020	Resources May 2020	Resources needed Summer 21	Redundancies based on Feb. FTE numbers
Inflight total				
Flight Ops total				
Ground Services total				
Engineering & Maintenance				
Cargo				
KLM Cityhopper total				
Corporate Functions				
KLM staff seconded to AF/KL Group				
KLM NV - sub total				
KLM subsidiaries - total excl. KLC				
Grand total				

Actions taken to avoid forced resignations:

KLM faced several economic crisis that required adaptation of its workforce in the last 25 years. Given the KLM culture, management did its utmost to avoid forced resignation as much as possible. With the COVID-19 crisis management applied this approach again to minimize the number of KLM staff becoming redundant.

As indicated were agency hired staff and employees with a fixed-term informed that their assignments would stop.

By far not enough to reach the maximum 28.000 FTE.

With KLM's experience from previous restructuring projects, a companywide Voluntary Departure Arrangement (VDA) was launched to enable staff to leave the company with a favourable package. Staff was invited to sign-up between during summer before the final restructuring plan was completed. In total [REDACTED] employees, equalling [REDACTED] FTE made use of this offer. The table below provide the breakdown per division and included also details on scheduled retirements and ending fixed term contract engagements. All departures included in the overview will take place before December 31st 2020



In the negotiations with the unions, it was agreed to take include measures to mitigate forced resignations in the social plan/redundancy scheme. The outcome is a three-phase approach applied, with some minor differences, in all domains. As only few of the measures are eligible under the European Globalisation Fund (EGF), a brief overview is given. Measures eligible under EGF are explained in G. Proposed actions in this application. The execution of the restructuring plan is currently in Phase 1, which means that actions are taken to mitigate forced resignations. The exact outcome of these actions will not be known before the end of 2020. Phase 2 is expected to start Q1 2021.

Phase 1:

Based on the requests for advice, numbers of redundancies are determined. In this phase various measures are used to minimize the number of redundancies and forced resignations. Measures are (amongst other) a 2nd Voluntary Departure Arrangement (VDA-2), Early and partial retirement schemes, secondment to other (KLM Group) entities and stimulating part-time work (for a longer period with partial financial compensation). Part of Phase 1 is also an offer to migrate from KLM to dedicated sectors, especially these sectors with a (emerging) shortage in staff, such as health and elderly care, ICT, installation technologies, education and logistics.

Phase 2:

If the actions launched in Phase 1 did not deliver enough reduction in FTE, Phase 2 will start. In this phase KLM might decide to reassign redundant staff to positions where vacancies are. In case assignment to a new position is not possible, meaning KLM Management informs individual employees about their redundancy. In case a contract termination with mutual consent is agreed upon, the employee gets the choice to get support to find new work (including education) in addition to a financial package. If the employee does not accept the offer, the contract will be terminated in line with Dutch law without any additional benefits.

Phase 3:

Employees that became redundant in Phase 2 get the right to apply to vacant positions within KLM within 2 years after termination of their contract. Through this clause staff gets priority over other people to return to KLM.

With the VDA-1 departures being executed in the period October 1 – December 31 2020 and additional actions to mitigate forced resignations, we estimate a maximum of 1.201 redundancies with KLM NV as a result of this restructuring plan. Employees effected will leave the company starting in

January 2020 and this might take up to Q2 2022 based on the development of not yet completed requests for advice and the formal notification periods to take in consideration.