I Letter from the Director Air France-KLM

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Monday's Press Review

> Topman Air France KLM vreest onnodige vluchten (The CEO of Air France-KLM fears unnecessary flights)

(source De Telegraaf translated with Deepl) 24 July - Europe's major airlines want the European Commission to exempt them as soon as possible from the slot rules for the next winter season. This is what **Benjamin Smith, Chief Executive Officer of Air France KLM,** reports on **behalf of Europe's largest airlines,** united within the Airlines for Europe (A4E) association. He **calls on the European Commission to suspend the rule requiring airlines to use 80% of their take-off/landing slots**. Normally they lose their rights if they do not respect this rule. This is what the airlines want to avoid, **now that there is no prospect of a rapid recovery of the aviation sector** following the Covid-19 pandemic.
"Take-off / landing rights are the foundation of our business model, the fleet and the number of employees we deploy. We do not want to compromise that. This is why we need flexibility now in the form of an exemption for next winter. **Otherwise there will be unnecessary flights, which is also bad from an environmental point of view,"** Smith said at an A4E briefing.
Brussels will have to take a decision before the end of next week, as airlines will then set their winter schedules (...).
According to sources in Brussels, the Commissioner only wants to do

this under additional conditions, as the rule is that unused slots are returned to the airport. The additional conditions still need to be approved by the European Council and the Parliament. The matter is not expected to be decided until September.
The airline **KLM announced** internally a few weeks ago **that it wants to try to retain as many slots as possible. In order to do this, the airline deploys smaller aircraft, which often fly to European destinations**.
According to A4E, bookings are currently mainly last-minute, which makes it difficult for airlines to make forecasts on the evolution of the schedule (...).

My comment: *At congested airports (in Europe these are mainly Orly, Schiphol, Frankfurt and Heathrow), the preservation of slots (the take-off / landing slots) is essential for European airlines.*

Already at the beginning of the health crisis, many flights had been operated by airlines that feared losing their slots. The European Commission reacted by introducing a moratorium for the summer 2020 season.

In view of the weak recovery of traffic, it is essential that this measure be extended for the winter season 2020-2021. Otherwise, companies based at saturated airports would risk losing their slots permanently, with the social consequences that we can imagine.

For more details, please refer to my letter of last week. The article in the Tribune "Wizz Air calls for an end to the moratorium on slots, a brake on its impressive development during the crisis" went into more detail on this subject.

> Biarritz, Montpellier and Nice meet Orly again

(source: Voyages d'Affaires) 22 July - **Air France is stepping up the pace at Orly by resuming flights to Nice, Biarritz and Montpellier**. However, the airline will have to rely on the return of **easyJet on the** latter two routes. In **August, easyJet is launching a regular service between Paris airport and the cities of Biarritz and Montpellier**. Air France's decision is therefore probably not unrelated to the return of the low-cost airline to these two destinations.
According to Air France's information, the Paris Orly-Nice route will operate from Friday 24 July (...).

On 30 July Air France will also be returning to Orly-Biarritz (...). On

Montpellier, the national airline will once again be operating a daily frequency on departure from Orly from 30 July (...). These two sections should in future be taken over by Transavia, with details of the new configuration of Air France's domestic network to be communicated at the end of the month by the airline's management. As for **easyJet,** in August it is launching four weekly flights to Biarritz-Orly in addition to the existing flights to and from CDG (...). The low-cost airline **has also resumed flights from Biarritz to Lyon, Mulhouse/Basel, Nice, London and Bristol.**
In Montpellier, easyJet offers until August 30 four weekly flights to and from Orly. The management of the platform is delighted with this activity. Especially since the low-cost airline **has reopened routes** from the Mediterranean hub to **Basel/Mulhouse, London and Porto**. The Orly route contributes to the revival of tourism in our region," says Emmanuel Brehmer, Chairman of the Management Board of Montpellier Méditerranée Airport. **This offer is all the more attractive as it is proposed with extremely attractive fares combined with a high quality of service**".

My comment: *To compete with Air France on the French domestic network, easyJet has in recent years evolved its model. The low-cost British airline has developed an offer that is increasingly appealing to business customers.*

Transavia France, which is set to replace Air France on certain routes, including those out of Montpellier, will also have to develop its model to attract business customers.

> President Macron questioned on the closure of the Clermont-Orly line

(source La Montagne) 26 July - **Air France's decision to stop the Clermont-Orly route is really not going through**. (...).

Already co-signatory with Auvergne parliamentarians of a letter addressed to the president of the Air France-KLM group, MEP Brice Hortefeux wrote again about the announcement of the closure of the Orly-Clermont route.
This time it is to the President of the Republic that Brice Hortefeux addresses himself. He mentions the contradiction between this announcement and Emmanuel Macron's speech of 14 July, in which he said: "When you have the train that takes three, four, five or six hours, is the plane line justified? Yes ".
By recalling that Clermont is not served by the TGV, Brice

Hortefeux asserts that "the State shareholder not only has the means but above all the duty to prevent the return to the isolation of the Auvergne".

My comment: *If Air France has decided to stop the Clermont-Paris route, it is mainly because of the deficit on this route.*

There is one way to preserve a route when it is in deficit: the use of a Public Service Delegation (PSD).

The implementation of a PSD is the responsibility of the local authorities, with the support of the State. They issue a call for tenders to which airlines respond. These indicate the amount of losses to be compensated.

If a company is retained, to make up its operating deficit, it will benefit from State funding as a land-use planning line.

This is notably the case for services to Brive, Aurillac and Rodez.

> U.S. Airlines Prepare for Dramatic Autumn

(source Les Échos) July 27 - U.S. airlines are not out of business. Despite a recent increase in air traffic due to holidays and the Independence Day weekend in early July, they continue to lose money. And, as the **United States struggles with the rising number of Covid-19 cases and casualties, the outlook remains bleak**.
The second quarter results released in recent days leave little doubt as to the extent of the damage they are suffering. Delta Airlines has seen its revenues fall by 88 per cent year-on-year, United Airlines by 87 per cent, American by 86 per cent and Southwest by 83 per cent. Between them, the four largest American airlines have suffered cumulative losses of more than 10 billion dollars in three months: 5.7 billion for Delta, 2.1 billion for American, 1.6 billion for United and 915 million for Southwest (...).

While the increase in cases threatens the timid recovery, the priority for US airlines today is to reassure customers. American Airlines has thus reinforced security measures on its aircraft: in some cases, passengers will have to certify that they do not feel any symptoms of Covid-19, the wearing of masks will be extended for ground staff, and the cleaning of each aircraft will be thorough between each flight (...). The
same is true of **Delta**, which has begun to ban passengers who refuse

to wear masks from its aircraft. **Air France's partner and shareholder in the Sky Team alliance recorded its biggest loss since 2008.** "Given the combined effects of the pandemic and its financial impact on the global economy, we believe it will take more than two years to see a sustainable improvement," said Delta's CFO, Paul Jacobson, during the presentation of the results. **At Delta, 17,000 employees, or 20 percent of the workforce, could take early retirement or negotiate their departure. "But it is too early to say that we can avoid layoffs," Jacobson** said.
Most airlines are unlikely to avoid them. They cannot do so before 1 October, according to the terms of the agreement with the federal government, which made the first aid to the sector conditional on maintaining jobs. **But some are already anticipating this, once that deadline has passed.** If air traffic does not resume, United has already warned its employees that it could lay off 36,000 workers, or 45 percent of its U.S. workforce, by October 1. At American, 25,000 employees would be under threat. Some of them could be rehired once the situation returns to normal. Southwest has also recognized that without improvement, it will have to operate on a "different scale" in the future....

My comment: *The increase of Covid-19 cases in the US is bad news for US airlines. Their domestic market is their primary source of profit.*

This is also bad news for the main European airlines, Lufthansa, British Airways and Air France and KLM, which make a large part of their profits on Europe-US routes.

British Airways and Lufthansa are the most exposed; the North Atlantic represents more than 50% of their long-haul business.

> Brussels Airlines regains "long-term prospects" thanks to its rescue plan

(source AFP) 25 July - (...) **The agreement reached on Tuesday between the Belgian federal government, Lufthansa and Brussels Airlines provides for a 290 million euro loan from the Belgian state and a 170 million euro capital injection by Lufthansa,** which will cover "part of the losses incurred" by the company.
Brussels Airlines intends to use this money to finance its restructuring plan, which provides for the elimination of a quarter of its workforce, i.e. around 1,000 positions (...).

"The government stabilisation plan enables the Belgian airline to overcome the unprecedented crisis caused by the coronavirus

pandemic and to create a sustainable future," Brussels Airlines said in a statement on Friday.
The agreement has yet to be endorsed by the German Economic Stabilisation Fund and the European Commission.

My comment: *Brussels Airlines is the last of the Lufthansa Group companies to receive financial support after Swiss in May (EUR 1.6 billion), Lufthansa at the end of May (EUR 9 billion) and Austrian in June (EUR 600 million).*

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(source Air & Cosmos) 22 July - The situation is taking shape for the new Alitalia. **Government representatives announced** in the Italian press **that the new nationalised air carrier would have a maximum fleet of 70 aircraft, a reduction of almost 40% compared to the 113 aircraft that still operated for Alitalia last year**. The fleet reduction is a request from European regulators who estimate that the company would carry 40% less passenger traffic in 2021 than before the Covid-19 crisis.
The new company is expected to employ 6,500 people, 4,000 fewer than the old Alitalia. However, Italian Minister of Economic Development Stefano Patuanelli said there would be no layoffs. **The European authorities specify that the new airline's structure will have to show a "discontinuity" in relation to the old company, so that the Italian State aid will not be considered anti-competitive**.

> Ryanair had the most difficult quarter in its 35-year

history

(source AFP) 27 July - **Ryanair announced on Monday that it had suffered a net loss of 185 million euros between April and June,** the first quarter of its postponed financial year, due to the paralysis of air traffic caused by the (...).
The number of passengers carried was reduced to almost nil at 0.5 million, compared with 42 million in the first quarter a year earlier when it had made a net profit of 243 million euros (...).

Ryanair has resumed its flights since 1 July, a crucial period with holiday departures and a month in which the company should be operating at 40% of its usual capacity, before increasing its capacity to 70% in September (...).
To cope with the shock of the pandemic and a demand that should be depressed for a while, **the group recently announced a restructuring plan that involves the elimination of 3,000 jobs, i.e. 15% of its workforce** (...).
The group says it has one of the strongest cash positions in the sector, at EUR 3,9 billion, which it is preserving by reducing costs and expenditure.
Ryanair said it was unable to give a target for results for the year and explained that a second wave of Covid-19s in the autumn in Europe was its main fear at the moment.

However, it expects a lower loss in the second quarter compared to the previous quarter due to the recovery in traffic.

My comment: *Ireland's low-cost company is the first to sound the alarm about the resumption of the pandemic in Europe. The stock market effect was immediate (see stock market press review below).*

> Air Austral and Air Madagascar separate

(source Le Point) 24 July - **Air Austral and Air Madagascar have just signed a memorandum of understanding on 21 July 2020 ratifying Air Austral's definitive exit from Air Madagascar's capital**. The Malagasy State and the Cnaps (Caisse nationale de prévoyance sociale) officially take over the control and governance of the company based at Antananarivo-Ivato International Airport (...).
In 2017, the strategic partnership agreement provided for Air Austral to acquire a 34% stake in the Malagasy airline (eventually 49%). However, it appears that the capital was not fully paid by Air Austral, a public company of Reunion Island, financed by the taxpayer ... **The extent of**

Air Madagascar's deficit is said to have been underestimated .... **The extent of Air Madagascar's deficit is said to have been underestimated (...). In addition to the Malagasy government's procrastination, the extent of Air Madagascar's deficit is said to have been underestimated (...). Admittedly, it had (somewhat) ruled out competition by abolishing the traffic rights of the French company Corsair. But it also took a step backwards by giving flight authorisations to the very powerful African company Ethiopian Airlines**. The possibility for Air Austral to obtain worldwide traffic rights thanks to its partner was therefore a dream (...).

In addition to the debts estimated at $88 million, the appeal judgment of $46 million to be paid to Air France following the judgment of the Paris Commercial Court concerning the rental arrears of the Airbus A340 is suspended. To date, due to the health situation in Madagascar, Air Madagascar's traffic to France has not resumed (...).

My comment: *The task of turning around Air Madagascar has proved to be insurmountable for Air Austral, Reunion's public company.*

> The Boeing 737 MAX not back in the sky until mid-October?

(source Capital) July 23 - Boeing will have to wait a little longer before its 737 MAX can take to the skies again. According to information reported in particular by The Seattle Times, the aircraft should not take off again before the middle of October at the earliest. The reason? In **addition to the other steps underway as part of the aircraft recertification process, the Federal Aviation Administration (FAA) will give the public no less than 45 days to review Boeing's updates**. Updates that have contributed to changes to the stall protection system and pilot training for the 737 MAX.
The FAA announced its decision on July 21, in a press release, stating that it will soon make public the changes made by Boeing, including the long-awaited changes to the MCAS software, the same software involved in the fatal accidents on Lion Air and Ethiopian Airlines flights. These modifications (...) will be the subject of observation and comments from pilots, but also from engineers, operators, and possibly the families of the victims and political leaders, the American daily specifies.
After these 45 days, the FAA should take "a few weeks" to study the remarks and comments observed. **Experts in the sector estimate that a total of 30 to 60 days would be needed to put the entire fleet of 737 MAX back into service**. The fleet has been grounded for nearly 20

months now.... **A crisis that has had a major impact on Boeing: its order book has shed no less than 800 737 MAX.**

Stock Exchange Press Review

> Air France KLM: backs off in Ryanair's wake

(source Boursier com) July 27 - In the last positions of the SBF120, **Air France KLM cedes 3.4% to 3.8 euros in the** wake of **Ryanair,** which abandons more than 8% in London. The low-cost airline **reported a 'rather gloomy' publication, evoking fears of a second wave of Covid-19s and local containment measures on the Old Continent.** It expects to lose money again in the three months to the end of September after a loss of 185 million euros in the three months to the end of June.
The unexpected decision taken by the United Kingdom to introduce a "fourteen" for all travellers from Spain arriving in the UK is also having a major impact on the whole sector. Nor did the UK government on Monday rule out taking action against France and Germany if there is an increase in the number of cases in these two countries.

My comment: *Uncertainty about the pace of recovery in air transport activity is growing.*

Ryanair's announcement, combined with the unexpected decision by the UK to introduce a "fourteen" for all travellers from Spain, has led to a fall in the share prices of most European airlines.

End of press review

> My comment on the evolution of the Air France-KLM share price

The Air France-KLM share closed **at 3.785 euros on** Monday 27 July.
It is down sharply by -8.42% over one week, as is the case for most airlines (see article above) .
Before the coronavirus epidemic, the Air France-KLM share was at 9.93 euros. Since the beginning of April, it has fluctuated between 4 and 5 euros.

The average (the consensus) of analysts for the AF-KLM share is 4.43 euros. Many analysts lowered their price forecasts at the beginning of the health crisis. You can find on my blog the details of the analysts' consensus.

The barrel of Brent oil (North Sea) **is stable at $43.** At the beginning of the coronavirus outbreak, it was $69.

This indicative information in no way constitutes an invitation to sell or a solicitation to buy Air France-KLM shares.

You can react to this press review or provide me with 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 employee shareholding...

I'll see you soon.

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| François Robardet

Director Air France-KLM representing employee shareholders PNC and PS.
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