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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Monday's Press Review

> Air France-KLM could reimburse 75% of the French state aid by the end of the year

(source Investir) June 23 - You don't have to be a long-time Air France-KLM shareholder to know that you need to have a good heart to follow the variations of the airline's stock price. Up 7.8% on Monday, on the back of IATA (International Air Transport Association) forecasts of improved financial performance in the sector, the Franco-Dutch group's share price dropped 4.5% on Tuesday, 0.5% on Wednesday and a further 5% on Thursday, caught up mainly by the rise in the dollar. **With the euro approaching perfect parity with the greenback, Air France-KLM is worried**, as 60% of its revenues were in euros in 2021 - against 20% for the greenback and 20% for other currencies, including the yen - while its costs, including jet fuel, were 25% in dollars (75% in other currencies, especially the euro)
.

To counter this negative exchange rate effect, the Franco-Dutch group will have to be agile and adapt its network to bring in more revenue in dollars. The drop in traffic to China, in particular, is enabling it to increase the number of seats available to and from North America. Given the latest statements by Air France-KLM CEO Ben Smith, **Americans have not lost their desire to travel, let alone discover France**. The most affluent among them and business travelers do not hesitate to put their hand in their pocket. Air France's first class is sold out on transatlantic flights for the next two weeks. "Trying to find a ticket to fly out of New York is impossible," he said at a press conference in Paris. Sometimes prices reach exorbitant levels: 17,000 euros for a Paris-Los Angeles round trip. "Our ability to pass on higher costs to customers is incredible. **However, this will only partially benefit the bottom line due to inflation in raw materials, among other things**.

Ben Smith also said he was "really happy" with the success of **the latest capital increase of 2.256 billion euros**. This **will allow the company to repay 1.7 billion euros of the deeply subordinated notes issued in the spring of 2021 and to reduce its net debt by 0.6 million euros**, which reached a peak of 7.7 billion euros on March 31. **The carrier does** not intend to stop there. It **plans to repay the balance of the Hague aid "in a few months" and 75% of the French government aid by the end of the year. If it succeeds in doing so, the group will then have a free hand to carry out acquisitions,** which, for the time being, is bound hand and foot by the prohibition imposed by Brussels to buy more than 10% of a player in the sector until it has repaid at least three-quarters of the aid measures. "It's just a question of whether we are comfortable closing all of those credit lines because of a future change in the situation," Ben Smith said, adding that he does not want to "be marginalized in Europe." The group is in the running, as part of a consortium led by U.S. investment firm Certares Management, to buy ITA, the heir to Alitalia, against a consortium of Lufthansa and MSC.

On the subject of the strikes that have recently paralyzed traffic, the director is serene. Since his arrival, he has pacified relations with the various categories of personnel. pilots have been hired.

My comment: *The title of the article is misleading. It is indeed Air France that could reimburse 75% of the French state aid by the end of the year.*

KLM, on the other hand, plans to repay all the Dutch state aid before the end of the year.

> KLM warns of "dramatic consequences" of Dutch plan to reduce flights at Schiphol

(source Flightglobal, translated with Deepl) June 24 - **National carrier KLM has railed against the Dutch government's decision to cut the number of annual flights allowed from Amsterdam's hub airport by 12 percent, which** it says would jeopardize its ability to provide a hub function.
The reduction in the number of flights at the airport is intended to establish a "new balance" between aviation activity and noise pollution at Schiphol and means that the airport can no longer exceed the noise regulation points. In practice, this means that **Schiphol will be able to handle a maximum of 440,000 flights per year instead of 500,000**, 20 percent less than the 540,000 envisaged in the previous government's growth plan
.

The higher limit is expected to take effect from November this year. "With this number of flights, Schiphol can maintain its international network of destinations," the government says.
While it retains the long-considered option of using neighboring Lelystad Airport as an overflow airport for leisure flights, environmental considerations are also being taken into account here. "That takes some time. Therefore, the cabinet will not make a decision on Lelystad Airport until the summer of 2024," he says
.
Dutch Infrastructure Minister Mark Harbers said, "I want to offer certainty and perspective to both the aviation sector and local residents. This decision is the basis for a new balance. Unfortunately, it sends a difficult message to the aviation sector, which has not yet fully recovered from the dramatic consequences of the Covid-19 pandemic. In the coming period, we will further develop the decision on Schiphol in consultation with local residents and all stakeholders involved in aviation."
KLM, however, maintains that the decision to reduce operations at Schiphol will have "dramatic consequences" for the airline and for the accessibility of the Netherlands.
"**KLM is investing millions in a more sustainable fleet, fulfilling its agreements with the government. These are long-term investments, which means we need to be assured of policy stability,**" the airline says. "The government had foreseen a future with 540,000 aircraft movements. The reduction to 440,000 represents a 20 percent reduction."
(...)
The airline adds that as a network carrier operating a hub-and-spoke system, the consequences of the reduction in the number of flights means offering fewer connections.
"As a result, flights cannot be booked optimally and operations become less profitable," KLM argues. "The frequencies offered and the number of (often smaller) destinations will decrease. Shrinkage therefore has a disproportionate impact on KLM and significantly erodes its hub function
.
"**If KLM is forced to give up slots, it will have to say goodbye to its smaller aircraft and then focus on 'bigger' European traffic flows** by operating its larger aircraft at a lower frequency. Other destinations will then disappear from the network," the report suggests. "KLM's tightly connected network - which currently serves 170 destinations - will then no longer be tenable."
(...)

My comment: *Since Air France bought KLM, the priority of the Dutch government (and KLM) has always been to preserve the level of activity of its main airport, sometimes at the cost of controversies abundantly reported by the Dutch press.*

This makes the Dutch government's decision surprising.

Especially since the four-party coalition that has been in power for several terms has never publicly expressed reservations about KLM's development plans, which are based on the maximum level of activity allowed at Schiphol (500,000 annual movements).

The question now facing the Dutch government (the second largest shareholder in the Air France-KLM group) is whether it should reduce its new aircraft purchase program.

Will the Franco-Dutch group have to reduce its purchase intentions for KLM, Transavia Netherlands and KLM Cityhopper by 12%?

> Ben Smith's new grand ambitions for Transavia

(source: Journal de l'Aviation) June 21 - **The time when Transavia France unveiled its very first 737-800 at Orly is long gone,** and a few days later the plane was about to take off for Porto. That was 15 years ago, and since then, the Air France-KLM low-cost airline has continued to show particularly strong growth, especially over the last three years. It now has 61 aircraft, more than its sister company in the Netherlands, and things are not about to stop there...
While the "Soleil" project initially enabled the group to resist the flood of foreign low-cost airlines at Orly, its role has gradually expanded to other types of operations, particularly on certain French domestic routes.
And **during a conference at the Paris Air Forum held in early June** with the heads of EasyJet and Vueling, the CEO of Air France-KLM released some important information on the next phases of Transavia's growth in France, which has gone relatively unnoticed. **We learn that Ben Smith**'s ambitions for Transavia are not really satisfied yet, as he **suggests that the total fleet of the two Transavias will exceed 200 aircraft in the next few years, double the number today**. It is therefore clear that the large order placed with Airbus for 100 single-aisle aircraft (and 60 options), which partly concerns Transavia, is not only intended to replace aircraft, and that **the French side will logically be a big beneficiary**.
But **Ben Smith went further by mentioning the fact that Transavia does not really operate European services from the main provincial cities of Toulouse, Marseille, Nice, Lyon and Bordeaux, a market of interest to business customers that more generally escapes the group to the benefit of European low-cost specialists**. These new ambitions are reminiscent of Alexandre de Juniac's European bases project, the difference being that this time the traffic will be based on French passengers.
It seems that the CEO of Air France-KLM has still not really digested the sale of 18 slots at Orly, which the European Commission wanted last year in order to authorize the recapitalization of the Franco-Dutch group, and Transavia's future ambitions from the French provinces will perhaps also have a little taste of revenge.

My comment: *The CEO of Air France-KLM is clear: the development of Transavia is at the heart of his strategy.*

Given the recent announcements made by the Dutch government (see article above), Transavia France could grow more than Transavia Netherlands.

> Lufthansa reactivates its Airbus A380

(source Air & Cosmos) June 27 - **Lufthansa has decided to reactivate part of its Airbus A380 fleet parked in France and Spain** due to the crisis. Of the 14 Airbus A380s acquired by the airline, six have already been resold. Eight aircraft remain, and Lufthansa is currently evaluating the number of Airbus A380s it will need in the summer of 2023. The return of the A380 in Lufthansa's colors will take place in the **summer of 2023**, when long-haul air traffic is expected to return to pre-pandemic volumes
.
Lufthansa's decision to put some of its Airbus A380s back into commercial service is not only due to "the popularity of the aircraft among crews and passengers". The airline will **not be able to dispose of its Boeing 777-9s until 2025**. For a while, the delays in the program have, in a way, "helped the business" of the airline customers faced with the drop in long-haul traffic. Except that **the postponement of Boeing 777-9 deliveries** to 2023, which was "convenient for everyone", aircraft manufacturer, engine manufacturer and operators, **will not take place in 2023 but two years later. As a result, everyone will have to take measures to adapt.**
(...)

My comment: *The delays in the delivery of the B777-900 will cost Lufthansa a lot.*

The costs of putting the A380s back on line and training pilots on this machine will weigh on the German company's results as early as this year.

> Ryanair downplays this weekend's strike, citing "storms

(source L'Echo touristique) June 27 - **Following a weekend of strikes in several European countries, the low-cost airline Ryanair has noted "minor disruptions" to its flight schedule and blamed the cancellations on external events, contradicting the version of the unions**. "Less than 2% of Ryanair's 9,000 flights operating this weekend (24/25/26 June) were affected by minor and unsustainable crew strikes," the company wrote in a statement
.
Several flight attendant unions had called for a work stoppage starting Friday and lasting several days in Spain, Portugal and Belgium. In Italy and France, the strike began on Saturday.

The Irish company attributed the cancellation of a number of flights "from

Spain, Italy, the United Kingdom and France" **to a strike at the air traffic control center** (ATC) **in Marseille and to storms in southern Europe**.
A statement contested by the unions of flight attendants (cabin crew) (...). On Saturday, 36 flights out of 80 operated by Ryanair were cancelled due to the strike, according to the union. On
Sunday, Damien Mourgues, the SNPNC's union representative, put the number of cancellations at four in Bordeaux, eleven in Marseille and one in Beauvais.

In Spain, 75 flights were cancelled on Saturday (...). On Sunday, 42 flights were cancelled (...). In Europe, Charleroi airport in Belgium was the hardest hit with 44 round-trip flights cancelled on Saturday but none on Sunday, according to Ryanair's Scorebuddy
website.
"**All passengers whose flights were disrupted by ATC delays/strikes or weather disruptions have been informed**," **the company said without specifying whether it was setting up a refund procedure**. Another three-day strike is planned at Ryanair in Spain from June 30 to July 2.

My comment: *The demands of the Ryanair flight attendants are legitimate. They follow several court decisions against Ryanair in Spain, Belgium and France.*

The explanations given by Ryanair following the cancellation of some of its flights are a little bit funny: would Ryanair be the only European airline to have suffered so much from the storms and the ATC strike?

> Despite skepticism, Airbus continues to dream of hydrogen in aviation

(source La Tribune) June 23 - **Beyond developing an aircraft capable of using hydrogen directly as a fuel, one of the most important challenges for the spread of this new energy in commercial aviation is the establishment of a robust global airport infrastructure to supply the aircraft**. At the forefront of the development of the first zero-emission commercial aircraft by 2035, Airbus is not forgetting this aspect and is pursuing its partnership policy to this end. At the ILA air show in Berlin, the manufacturer signed a memorandum of understanding (MoU) with the U.S.-German gas and engineering group Linde on June 23.
This future partnership aims to "work on the development of a hydrogen infrastructure in airports worldwide", according to the two groups. They will work together to initiate the implementation of supply chains through several pilot projects to be launched from 2023. They are intended to cover the entire spectrum, "from production to storage at airports, including the integration of refueling into normal ground handling operations."
Airbus and Linde have already signed a cooperation agreement to study the potential of a hydrogen hub at Singapore's Changi

Airport, with the support of the local Civil Aviation Authority of Singapore.

The manufacturer has been working on this supply issue since 2020 with its "Hydrogen Hub at Airports" concept, and has already entered into partnerships with other airport and industry players for this purpose. In June 2021, it partnered with Air Liquide and the ADP Group (Aéroports de Paris) to conduct engineering studies on hydrogen supply infrastructures in airports. These two companies strengthened their collaboration last week with the creation of a joint venture, but Airbus is not a member.
Still with Air Liquide, but this time
with Vinci Airports, Airbus also participated in a pilot project at Lyon airport launched last year. It should lead to the installation of the first infrastructures on site in 2023, with the ambition of participating in the constitution of a European network afterwards. Other partnerships are underway in Italy, South Korea and Japan
.
As Airbus Executive Chairman Guillaume Faury reminded us at the Paris Air Forum in early June, "not everything depends on hydrogen-powered aircraft," whose "impact will be very limited" before 2050. Airbus is therefore betting first on sustainable aviation fuels (SAF) to massively reduce the carbon footprint of aviation in the medium term. One part of the partnership with Linde is dedicated to this. The two partners will examine the potential of synthetic fuels, known as "Power-to-Liquid", produced from hydrogen from water electrolysis and carbon from carbon dioxide taken from the air.

My comment: *Will there be hydrogen aircraft before 2050?*

Even the CEO of Airbus is reserved on the question.

This does not preclude the possibility that airports will have hydrogen stocks by that date, if only to fuel the vehicles on the runways.

> Skytrax rankings: ADP not only has CDG on top

(source Air Journal) June 23 - The **top of the Skytrax World Airport Awards 2022 Top 100 airports ranking,** unveiled last week, was **still occupied by the trio of Doha, Tokyo-Haneda and Seoul. But Roissy surprised everyone with its sixth position, up nine places, and Paris-Orly moved up 27 places to 46th in the world**. CDG" continues to progress, year after year, since its entry into the top 100 (at number 94 in 2014). The airport is benefiting in particular from its most modern facilities finalized in the midst of the pandemic: the junction between terminals 2B and 2D, the total rehabilitation of terminal 2G, transformed by designer Dorothée Meilichzon. By December, Terminal 1 will reopen with a new 34,000 square meter boarding hall resulting from the connection of three of the seven international satellites," said ADP.

In terms of shopping and passenger services, Paris-CDG remains in 6th place worldwide for its shopping offer and experience, and is also ranked 4th worldwide in the category of most family-friendly airports and 8th worldwide in the category of best websites and digital services.

Paris-Orly is now ranked 46th worldwide (up from 73rd in 2021) and **4th for the Western Europe region.** This progression reflects the continuous improvements that have taken place since the beginning of the pandemic. For example, the new extension of ORLY 4 with its 2,500 sq.m. of glass surface area welcomed its first passengers at the end of 2020, while Orly 1B, which reopened last April, has been renovated with enhanced thermal comfort, new flooring and, above all, a new area open to all passengers, combining relaxation, comfort and a view of the ballet of planes. Paris-Orly ranks 9th worldwide in the category of the most family-friendly airports.
Three international airports belonging to the group's international network are still progressing among the world's top 100: Delhi (in 37th position, up 8 places), Hyderabad (63rd, up 1 place) and Medina (58th, up 10 places).
(...)
The ADP Group has thus achieved "a fine performance with 5 airports belonging to its network among the 100 best" airports worldwide in terms of passenger satisfaction and quality of service, in the latest Skytrax
rankings (2022 edition), a reference in the air transport sector.
(...)
For this 2022 edition, Skytrax has rewarded the world's leading airport groups according to the quality of their health care system implemented during the Covid-19 pandemic. ADP Group ranked 2nd in the world and TAV Airports 3rd.
"On the strength of these rankings, ADP reaffirms its ambition to place Paris-Charles de Gaulle in the top 10 worldwide by 2025, as well as four airports in its network in the top 50 and eight in the top 100.

My comment: *The rankings drawn up by Skytrax are based on ratings provided by airport customers in worldwide surveys.*

Roissy's progress is unexpected. In the midst of a pandemic, the French hub (15th in 2021, 6th in 2022) has overtaken Schiphol in 2021-22, with the Dutch airport rising from 12th to 15th place.

Also noteworthy is the rise of Istanbul airport from 17th to 8th place. The new Turkish airport will become the largest in the world and will be able to handle 200 million passengers by 2028.

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.

> Management of employee investment funds. Good to know

When you invest money in one of the Air France FCPE funds, you get shares in these funds. You do not hold shares directly.

It is the supervisory boards, which you elected in July 2021 for a five-year term, that manage the funds and make the decisions.

The Aeroactions, Majoractions and Concorde
funds only hold Air France shares.

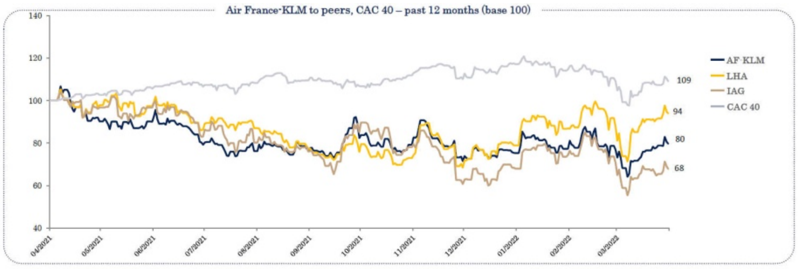
The Horizon Épargne Actions (HEA), Horizon Épargne Mixte (HEM) and Horizon Épargne Taux (HET) funds manage portfolios of various stocks.

***My comment:** If you would like more information on the management of the various Air France FCPEs, please consult my website Navigaction, section Air France-KLM employee shareholding.*

> My comments on the Air France-KLM share price trend

Air France-KLM shares closed at 1.1925 euros on Monday 27 June. It is down this week by -12.64%.

For the past two weeks, trading volumes have been very high. It is likely that many participants in the capital increase are taking advantage of the fact that the current price is higher than the purchase price (1.17 euros) to take profits.



Air France-KLM share price performance compared to IAG and LH over one year.

Since March 2021, Air France-KLM's share price has evolved in much the same way as that of its two main European competitors, the Lufthansa and IAG groups.

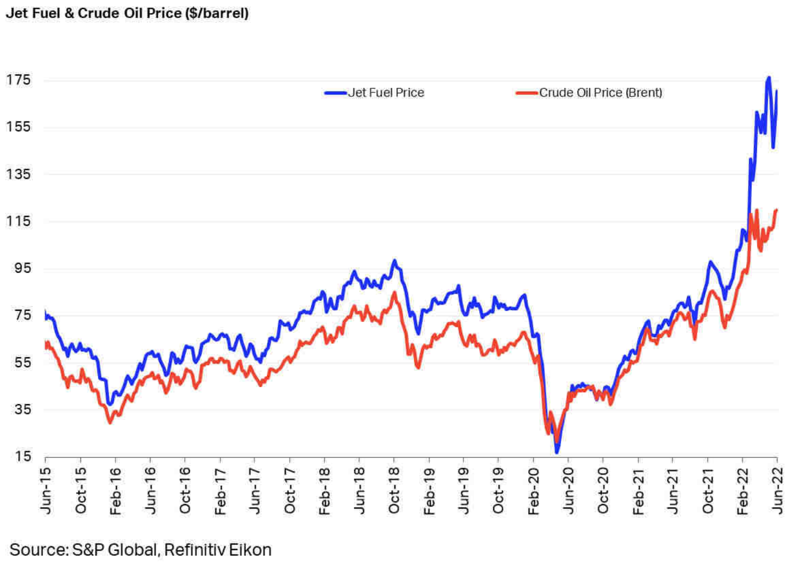
However, there has been a divergence since the beginning of the year. Lufthansa's share price is performing better than Air France-KLM's, probably because the recapitalization of Air France-KLM is taking so long.

IAG's share price is down sharply. The high level of debt of the Anglo-Spanish group is highlighted by analysts.

The average (consensus) analyst price for AF-KLM shares was 2.79 euros before the capital increase was announced. The highest price target is 5.50 euros, the lowest 1.30 euros.
You can find on my blog the details of the analysts' consensus. I do not take into account the opinions of analysts prior to the beginning of the health crisis.

> My comment on the evolution of fuel prices

Since the beginning of the war in Ukraine, there is no longer any correlation between the price of a barrel of Brent oil and the price of a barrel of Jet Fuel. This is very clear on the graph below, which covers the period June 2015 - June 2022**.**



According to specialists, this increase is due to an increase in the fuel reserves of the armed forces, which are composed solely of Jet Fuel.

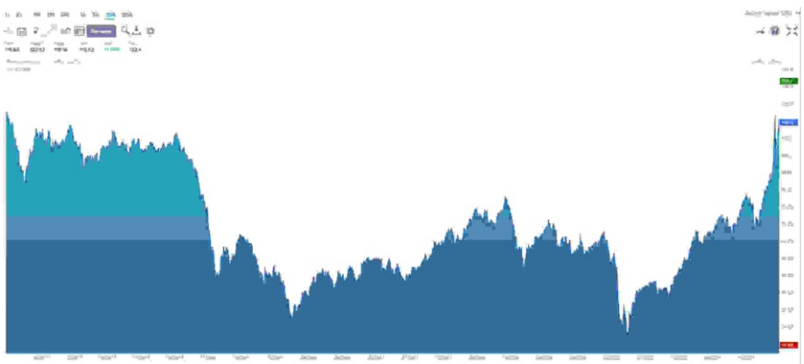
Indeed, for several years, to ensure the strength of the infrastructure, the French Army has favored a single fuel policy aimed at powering all equipment, land vehicles and generators with jet fuel for air use.

Jet fuel in Europe is down $4 a barrel to $178 this week.

Brent crude oil (North Sea) is **up this week by $1 to $115 per barrel**.
Since mid-February, it has been yo-yoing between $100 and $120.

At the beginning of March, Brent had reached $132, close to its record of $150 (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 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.

To contact me: message for François Robardet.

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