Letter from the former Director of Air France-KLM

At the forefront of more responsible European aviation, we bring people together to build the world of tomorrow.

(Raison d'être of the Air France-KLM group)

François Robardet

former representative of PS and PNC employee and former employee shareholders

N°925, August 14, 2023

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Monday's Press Review

> Air France suspends services to Bamako and Freetown, KLM to Bahrain and Kuwait

(source Voyages d'Affaires) August 14 - **The situation in Niger, with flight restrictions, is forcing Air France to suspend** certain routes to Africa. On Monday, Air France renewed the suspension of **flights to Mali and Burkina Faso,** following the closure of airspace in neighboring Niger.

The measure was originally temporary. But it **has been extended until August 18**. The uncertainties linked to the ban on overflights and flights in Niger's airspace remain too great.

Except that this extension of the suspension has angered the Malian authorities. They declared that Air France's decision did not respect the terms of its authorization to operate the route.

In a letter sent to Air France and verified by AFP on Friday, the National Civil Aviation Agency said that the company had not respected its notice period and had caused "inconvenience to passengers".

The agency has therefore revoked Air France's right to operate flights for the entire summer season, until the end of October. Air France will have to reapply if it wishes to return to Mali. On the other hand, Air France is scheduled to resume service to Ouagadougou in Burkina Faso on August 18.

The airline has also announced that it will suspend service between Paris-CDG and Freetown (FNA) in Sierra Leone from October 31, 2023.

KLM is also reducing its network. While Air France launches its Paris CDG-Abu Dhabi service on October 29, **KLM will suspend its flights from Amsterdam to Kuwait (KWI) and Bahrain (BAH).** The airline will officially end these services on October 28. The carrier has already closed both destinations to sales. Customers affected will be redirected to other routes, or will receive a full refund.

> How the crisis in Niger is turning into a headache for Air France

(source France Info) August 8 - **The announcement of the closure of airspace is giving airlines a real cold sweat**, to the extent that many have had to react urgently by cancelling or diverting some of their flights. **First to be affected is Air France, which remains the main operator between Europe and Africa, with 33 destinations** and over three million passengers a year, excluding North Africa. Air France is not only suspending its flights to Niamey in Niger until further notice, but also to Bamako in Mali and Ouagadougou in Burkina Faso, until August 11. Mali and Burkina Faso, two countries which are also at odds with France and which support the putschists in Niger.

Most of the airlines operating between Europe and Africa are affected, including British Airways and Virgin Atlantic. The spectrum is very broad, since it also concerns South Africa and even the Indian Ocean, with destinations such as Mauritius. As a result of the closure of Niger's airspace, some flights to Nairobi and Johannesburg have had to stop over, or even turn back, for lack of kerosene. But this ban on Niger's skies is just one more obstacle to air traffic in Africa, as it comes on top of the long-standing ban on flights over Libya and Sudan, countries too unstable to fly over.
Not to mention the American warnings about Mali, where Russian long-range anti-aircraft missile batteries are stationed, capable of reaching aircraft up to 15,000 meters in altitude, within a radius of 36 km.

All in all, more than half of the Sahel's airspace is now closed to commercial flights, forcing airlines to use either the Red Sea route further east, or the route through West Africa and Morocco.

The first consequence is longer flight times to many destinations. Air France reports an extra fifteen minutes for the least-affected stopovers, and up to two hours for those further afield. Between Europe and South Africa, for example, the detour could exceed 1,000 km, and even require a stopover for certain types of aircraft.

And longer flight times mean more kerosene consumption, and higher costs that airlines may not be able to pass on in full to passengers. The three suspended destinations - Niamey, Bamako and Ouagadougou - only represent around 15 flights a week, and most of Air France's flight schedule to sub-Saharan Africa has been maintained.

__My comment:__ Above is a map (dated August 8, 2023) showing the impact of no-fly zones (in Africa, Niger, Sudan and Libya).

If you don't see this map, I invite you to read this letter directly on my website letter n°925.

> Almost all KLM Cityhopper Embraer e195-e2s back in the air

(source Luchtvaartnieuws, translated with Deepl) August 8 - **Due to engine problems, several of KLM Cityhopper's new Embraer E195-E2s have been grounded for long periods in recent months, but almost all of them are flying again**. The last remaining grounded aircraft will also be returned to service "as soon as possible", said a company spokesman.

"KLM Cityhopper has grounded a number of E2s in recent times due to initial problems with the new engines. **In collaboration with Pratt & Whitney and Embraer, we have worked hard to find solutions over the last few months**. As a result, we can now deploy the E2s again," said the spokesman. "The problems have had no effect on flight safety.

Cityhopper has ordered 25 Embraer E195-E2s, of which 16 have been delivered. At its **lowest point, almost half the fleet was grounded**. Today, all but one of the aircraft, the PH-NXM, are flying again. According to the spokesman, **in addition to the initial problems, "global supply chain issues" also played a role in the grounding of the aircraft**.

The E195-E2 is the newest and largest aircraft in the Cityhopper fleet, with a capacity of 132 passengers. Its new, more efficient engines make it quieter and more fuel-efficient than older Embraers.

My comment: *Finally, some good news for KLM. Its KLM Cityhopper subsidiary will be able to resume almost normal operations.*

Many other airlines have also had to ground part of their fleet (Lufthansa, Go Airlines India, Go First India, Iraqi Airways, Air Tanzania, Air Sénégal and EgyptAir among others).

> Inflation: wage agreement between Lufthansa and its pilots

(source AFP) August 10 - **Lufthansa pilots have won pay rises of over 17%** in total, putting an end to a months-long tariff dispute with the airline group's management and the threat of strikes, unions and management said on Thursday. "We have reached a compromise result after a year and a half of negotiations", announced the Vereinigung Cockpit (VC) union, welcoming an agreement valid until the end of 2026. "The fare agreement creates operational stability, reliability for customers and additional planning security for Lufthansa Airline in the years ahead," the group hailed in a separate statement.

"From an economic point of view, this outcome is not easy for us", stressed **Lufthansa, which has agreed to increase the salaries of some 5,200 pilots by a total of 17% over three years**. Added to this is a one-off payment of 3.75% of annual fixed salary, capped at 3,000 euros, and an improvement in variable pay based on company performance.
(...)
After two years of crisis due to the impact of the Covid-19 pandemic, Lufthansa is now back in the black, and expects to post one of the best results in its history this year. **During the health crisis, Lufthansa owed its survival to public aid, which has now been reimbursed. Inflation in Germany eased slightly in July, to 6.2% year-on-year, but remains particularly high compared with the European**

average and the European Central Bank's 2% target.

My comment: *Persistent high inflation is leading airlines to grant substantial wage increases.*

And with the price of kerosene rising sharply, the prospect of lower ticket prices is receding.

> Corsica: low-cost carrier Volotea threatens the duopoly of Air Corsica and Air France

(source Les Echos) August 9 - There's a storm brewing in Corsica. **For the first time, Air Corsica and Air France are facing a serious competitor for subsidies on the main routes between the island and the mainland.**
On July 13,
the Spanish low-cost carrier **Volotea applied for the tender launched every four years by the Corsican Transport Office** (OTC). The aim is to win the next air public service delegation for 2024-2027, on routes between Paris-Orly and Marseille on the one hand, and Ajaccio and Bastia on the other. These routes currently account for the bulk of the business of Air Corsica and Air France, long-standing partners on services to Corsica.

This is the first time that a European low-cost airline has applied for a public service delegation (DSP) in Corsica. EasyJet, which serves Corsica from Roissy-CDG, hasn't even tried. But Volotea already has a strong presence on Corsica, where it already accounts for "80% of the overall offer, with 29 destinations served", without a penny of public money. If its bid wins, Volotea promises to increase its offer in Corsica from 900,000 seats to 1.5 million within three years, with the opening of ten new routes and the creation of a base of operations on the island, with local aircraft and jobs at stake and, above all, cheap tickets.

Enough to seduce. However, **while Volotea's bid for the** OTC tender is **theoretically good news for competition and consumers, it seems to have rather embarrassed the island's authorities. The award of public service delegations on the four routes is a major issue for the future of Air Corsica, 65% of whose capital is held by the Corsican regional authorities and 14% by Air France.**

Air Corsica's unions and a number of local elected representatives have made no mistake in denouncing Volotea's bid. (..
.)
The official decision of the Corsican Assembly will probably not be taken before the end of November. But while local pressure is strong for Air Corsica and Air France to renew their public service contracts, the Corsican authorities cannot

dismiss Volotea's candidacy out of hand. **The selection process for the best candidate** is **closely controlled by French and European regulations, and the best bidder is expected to win.**

Any breach of this rule is likely to result in an appeal to French and European institutions, with heavy fines and the cancellation of awards in the event of irregularity. The Collectivité de Corse has already experienced this with its maritime links. In September 2021, the Conseil d'État ordered it to pay 86.3 million euros to Corsica Ferries, in compensation for "illegal subsidies" to SNCM between 2013 and 2017, after the European Commission had also ordered SNCM to repay 220 million euros in undue aid between 2007 and 2012. These condemnations accelerated SNCM's bankruptcy.

Air fares to Corsica remain a sensitive issue, particularly for residents. Despite subsidies, the resident fare for a round trip to Paris is already 199.85 euros (including 69.85 euros tax) and 100.91 euros to Marseille. But it is set to rise by a further 10 euros in 2024, despite a 33 million euro extension granted to the OTC to keep pace with inflation. However, one of Volotea's main arguments is its ability to offer lower fares, thanks to lower costs and the size effect already achieved on the Corsican market. At a time of inflation and falling tourist numbers, it's hard to remain totally unmoved by the sirens of low-cost.

My comment: *Three bids have been submitted for the 2024-2027 public service delegation between Corsica and the mainland.*

Air Corsica has applied for the on-board service (routes between Corsica and Nice or Marseille); Air Corsica and Air France for routes to and from Paris-Orly and finally Volotea for 4 lots (details not specified).

The future of Air Corsica and Air France employees in Corsica will depend on the final choice. It is to be hoped that the social aspects can be taken into account before the financial ones.

> Turkish Airlines postpones mega-order for 600 aircraft as engine problems weigh heavily

(source Air Journal) August 13 - Expected to be announced this summer, **Turkish Airlines has postponed its decision on its planned mega-order of 600 new aircraft**, a setback due to production problems with quality engines on some of the latest Airbus and Boeing models.

The deal, which Turkish President Ahmet Bolat has already discussed, will include around 400 Airbus A320neo and Boeing 737 MAX narrow-body aircraft, and around 200 Airbus A350 and Boeing 787 and 777-9 wide-body jets. At 600 aircraft, it could be the largest aircraft order in history, eclipsing recent mega-deals by Air India and IndiGo. "While we are trying to decide which type of aircraft to choose, **we are also**

in the process of investigating the types of engines to be obtained as well as the type of maintenance contract," said Turkish CFO Murat Seker at a press conference on Thursday. "This is the reason why we have not yet announced a decision." At the
end of July, RTX, **Pratt & Whitney's parent company, recalled some 1,200 turbofan engines on A320neo family aircraft. The problem is a "rare condition in the powdered metal" that could cause some parts to wear out faster than expected**. Of the recalled engines, 200 are due to be inspected by September, and the remainder within a year. The A320neo family is equipped with P&W turbofan engines or CFM International LEAP-1A engines. The CFM LEAP-1B is the only engine offered for the 737 MAX. **At the end of June, we reported** in our columns on the engine problems encountered by airlines such as Turkish Airlines, Go First in India (A320neo), Wizz Air, Air Astana, KLM Cityhopper in Amsterdam, the A220s of Iraqi Airways, airBaltic, Air Tanzania and Air Sénégal, and EgyptAir, among others. At the **time, it was estimated that 121 Airbus A320neo Family aircraft were affected,** representing 9.8% of all single-aisle aircraft powered by P&W engines. Despite the postponement of its planned order, Turkish Airlines continued to expand with breathtaking speed in the second quarter. Capacity, measured in ASK, increased by 14% year-on-year. (...) So much so that **Turkish Airlines considers itself to be "one of the few global carriers** to successfully adapt to the 'new normal' and **exceed 2019 capacity levels by almost 25% in the first half of the year**". In fact, it has even raised its profit forecasts, expecting strong demand to more than offset cost inflation.
The Star Alliance airline operates both Airbus single-aisle aircraft, including neos (with 40 A321neos yet to be delivered), and Boeing single-aisle aircraft (including 737 MAX 8s and 737 MAX 9s, with no orders in hand). On the long-haul side, it has 49 Airbus A330-200s and -300s and 14 A350-900s (with a further 12 expected), as well as 33 Boeing 777-300ERs and 18 of the 25 787-9 Dreamliners on order.

My comment: *The reasons for the postponement of the Turkish Airlines aircraft order have been explained many times :*

. problems with the Pratt & Whitney engines powering the B737 and certain A320neo (letter n°911),
. defects on the B787 (letter n°901),
. multiple postponements of delivery for the B777-X (letter n°858),
. certification difficulties for the B737Max (letter n°908).

The consequences are manifold: keeping older, fuel-hungry aircraft in service, or putting A380s back on line while awaiting B777-X deliveries.

For airlines wishing to buy new aircraft, the selection criteria are changing. Delivery time has become a major criterion.

End of press review

> **Air France-KLM share price over the past** year

Two events have had an impact on the share price over the past year:
. in June 2022, the capital increase of 2.256 billion euros
. in February 2023, the announcement of good results for 2022.

No further comments

> **Air** France-KLM **share price trend**

Air France-KLM shares closed at **1.452 euros on** Monday August 14. It is **down** this week by **-2.39%. Good quarterly results announced by Air France-KLM and Lufthansa were offset by higher-than-expected unit costs. Shares in the two air transport groups fell similarly.**

It stood at 1.253 euros on January 2, 2023.

The analysts' 12-month average (consensus) for AF-KLM shares is 1.97 euros (it was 1.50 euros at the beginning of January). The highest price target is 2.45 euros, the lowest 1.10 euros. I only take into account analysts' opinions subsequent to the May 2022 capital increase.

You can find details of the analyst consensus on my blog.

No further comments

> Fuel price trends this week

The price of Jet Fuel in Europe has risen sharply for the fourth week running, up $5 to $127. It was $94 at the end of June, and $79 before the outbreak of war in Ukraine.

Brent crude oil (North Sea) is **stable this week at $86.**

From mid-February 2022 to the end of July 2022, it was yo-yoing between $100 and $120. Since then, it has oscillated between $75 and $99.

The gap between Jet Fuel in Europe and Brent crude oil is widening. It now stands at $41. In 2022, at the start of the Ukrainian conflict, this gap was close to $50.

My new comment: *The gap between Jet Fuel in Europe and Brent crude oil has been widening since the end of June 2023. It now stands at $41.*

In the space of seven weeks, Jet Fuel in Europe has risen by 35%.

Good to know

> Advice for current and former employee shareholders

You'll find details of how to access the managers' websites on my navigaction site.

To avoid forgetting to change your contact details each time you change your postal address, **I advise you to enter a personal e-mail address**. This will be used for all correspondence with management bodies.

Keep all the documents relating to your Air France-KLM shares in one place: all the letters you receive from the various managers, Natixis Interépargne, Société Générale, and your personal financial institution if you bought your shares through it.

My comment: *If you have shares in one of the funds managed by Natixis Interépargne, remember to log in to your account manager once a year, to avoid it being considered inactive.*
PEE
inactivity is governed by the Eckert law.

After 5 years of inactivity, Natixis Interépargne sends a letter/email to those *concerned asking them to log in to their account or to call Natixis Interépargne to reactivate their account.*

Natixis Interépargne sends this information every year after 5 years of inactivity and up to the 10th year. After 10 years of inactivity, the assets are transferred to CDC, which holds them for 20 years.

This is the old 30-year prescription period, which breaks down into 2 stages: 10 years with the account keeper and 20 years with CDC.

Inactivity means not carrying out any transactions and/or not logging on to your account and/or not calling and/or not writing to Natixis Interépargne.

This system also applies to PERCO/PER since the PACTE law.

> FCPE management / Air France-KLM share consolidation

When you invest in one of Air France's FCPE funds, you obtain 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 equities.

My comment: *If you'd like to find out more about the management of the various Air France employee shareholding funds, please visit the Air France-KLM employee shareholding section of my website.*

My specific comment on the share consolidation: *On July 21, Natixis Interépargne sent information to all current and former employee shareholders by e-mail.*

It reads as follows:

On July 12, 2023, Air France-KLM published a press release (click HERE to access this document) announcing a share consolidation (1 new share will consolidate 10 old shares, resulting in a 10-fold increase in value) and share capital reduction.

Holders of FCPE units are not affected by the exchange period running from July 31 to August 30 mentioned in the press release.

On this date, the Concorde, Majoractions and Aeropelican FCPEs will carry 10 times fewer shares, the share value having been multiplied by the same amount.

As this operation offsets each other, holders of shares in these FCPEs will see no impact on the amount of their savings.

For your information, on August 31, the share price (multiplied by 10) will be re-correlated with the unit value, which will remain unchanged:
- so that the value of the FCPE
unit will be as close as possible to the share price;
- with the effect of reducing the total number of FCPE
units.

A new communication will be sent to you before the end of the trading period, on August 31, by our services [Natixis Interépargne].

Details

This information does not constitute a solicitation to buy or sell Air France-KLM shares.

Please feel free to react to this press review or to send me any information or thoughts you may have to help me better carry out my role as a director of the Air France-KLM Group.

By return, you can ask me any questions you may have about the Air France-KLM group or employee share ownership...

See you soon.

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New readers can receive it by giving me the email address of their choice.

| François Robardet

former Director of Air France-KLM.

You can find me on my twitter account @FrRobardet

Nicolas Foretz, PNC, Director of Air France-KLM representing employee and former employee shareholders, PNC and PS

To write to Nicolas: message for Nicolas Foretz.

During our election, we received the support of the CFDT and the UNPNC.

This press review deals with subjects related to Air France-KLM shareholding.

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. To contact me: message for François Robardet.

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