I Letter from François Robardet

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

former Director Air France-KLM

Representative of current and former employee shareholders of PS and PNC

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Monday's Press Review

> Air France-KLM ready to break the taboo on Transavia bases abroad

(source Les Echos) February 9, 2024 - Transavia Holland and Transavia France are on the move. Hitherto confined to their domestic markets, Air France-KLM's two low-cost airlines are actively considering opening bases outside France and the Netherlands.

Mentioned succinctly by Benjamin Smith, the group's CEO, at Air France-KLM's "investor day" in December, the project is already being discussed internally, both at Air France Roissy and at KLM Schiphol, although no timetable has yet been put forward.

When questioned, Air France-KLM confirms. **Air France-KLM is constantly studying opportunities to develop its network," says the Group. The development of Transavia outside its historical markets - France and the Netherlands - is one of the avenues under study, with an undetermined timeframe at this stage**."

According to our information, the subject has also been discussed by the SNPL-AF, Air France's main pilots' union, and its KLM counterpart, the VNV.

For any other airline, the subject would be commonplace. **All the major European low-cost carriers, led by Ryanair and EasyJet, already have dozens of bases abroad, with aircraft parked overnight and crews under local contract. They offer early morning departures and daytime round trips to key destinations**.

But when **it comes to the Air France subsidiary Transavia France, the subject**

has been taboo until now. Apart from Orly, the apple-green airline does have a few aircraft based in Nantes, Lyon and Montpellier. But all its aircraft and their crews return to France every evening. This has been the case **since Air France-KLM's ill-fated attempt to create a Transavia Europe in 2014, which earned Air France two weeks of pilot strikes**.

At the time, Air France's pilot unions felt that such a project would open the door to pilots being recruited on the cheap. The longest strike in Air France's history ended with the project being abandoned and management committing to using only pilots on Air France terms on Transavia France, whose development remained capped at 40 aircraft.

Ten years later, the context has changed. In return for aligning the status of Transavia France pilots with that of Air France, guarantees on the size of the Air France fleet and hiring prospects, the SNPL-AF has agreed to lift all restrictions on the development of the low-cost airline's fleet in 2019. Transavia France has even won the right to operate domestic routes, which it was previously prohibited from doing.

Freed from its constraints in a buoyant market, Transavia France has quickly become the Group's main growth driver. But it was also an alternative solution enabling Air France to reduce its loss-making domestic flights at Orly, without having to give up slots to the competition. This strategic role has been reinforced by Air France's decision to close its domestic routes out of Orly by summer 2026 (with the exception of Corsica). **The priority for Transavia is to regain slots at Orly**," says Air France, "**but that doesn't mean it can't look elsewhere**. **This may even prove necessary if the brand is to hold its own against its competitors.**

(...)

For Transavia Holland, emigration has already begun. In 2016, KLM's low-cost subsidiary, already too cramped in its own market, had already tried to set up in Munich. But without success. But since summer 2022, it has succeeded in making its mark in Brussels, where it has expanded from 4 to 13 destinations.

For Transavia France, on the other hand, the subject is less obvious. The potential markets are clearly identified, with Spain and Portugal in the lead. Back in 2014, the first base announced was Porto. But creating a base outside France would require pilots with local employment contracts. Transavia France can only use pilots with Air France contracts. Except for the practice of temporary secondments - strongly criticized by French unions in France - when it comes to other airlines, or to make do with a few flights between third countries, with a departure and return from France.

The SNPL's position also remains unclear. In a message posted on social networks after the publication of this article, the union said only that it "remains committed to respecting all the major principles and rules to combat social dumping, in France and in Europe". But it did not respond to our requests for further details.

My comment: *The first question to ask is: why create bases?*

The key principle of low-cost airlines is to get the most out of their aircraft every day.

To achieve this, they schedule the first flights of the day as soon as take-off is possible. At Orly, for example, the first slot is at 6:00 am.

Aircraft are parked overnight at these bases. To avoid flight crews having to make overnight hotel arrangements, low-cost airlines recruit their flight crews locally.

EasyJet has opened around 28 bases, including 7 in France, Ryanair more than 80, Volotea around 20. Transavia France has opened 4 bases, in Orly, Nantes, Montpellier and Lyon.

The second question is, should Transavia France open bases in Europe?

Economically, the answer is yes, as this would enable Transavia to attract a leisure clientele departing from the main European cities, who, if the journalist is to be believed, are keen to travel to Spain or Portugal.

The third question is: Can Transavia France open bases in Europe?

Answer: No. The agreement signed in September 2019, entitled "Accord de Groupe pilotes AF TO", is clear: "Transavia France will be able to offer pilots bases exclusively in France, in addition to Orly".

If Transavia France wishes to open bases in Europe, Air France will have to enter into negotiations with the pilots' unions to revise this agreement.

Last question: Why did the pilot unions oppose the opening of bases in Europe in 2014?

The main reason was that the company had speculated that pilots based outside France, who were paid less than Transavia France pilots, might be asked to fly aircraft on routes departing from France.

Transavia France currently has 71 aircraft, and plans to increase this to 90 by the end of 2027, and to around 100 by 2030. Barring the disappearance of a competitor, it's hard to imagine Transavia operating its fleet profitably by limiting itself to its French bases.

> Second chamber definitively opposes scheduled flights at

Lelystad airport

(source ANP, translated with Deepl) January 30, 2024 - **The Lower House wants Lelystad Airport to be permanently closed to commercial air traffic**. An appeal to this effect by the Party for the Animals, among others, has received the support of other left-wing parties, as well as the NSC, CDA and BBB.

Lelystad airport was designated as a base for Schiphol several years ago. In the end, leisure flights were to be diverted to Flevopolder airport, which underwent substantial and costly renovation.

This intervention was intended to enable Schiphol to concentrate on its role as an international aviation hub. Since then, however, social and political support for the growth of the aviation sector has weakened considerably.

In the motion adopted by MP Christine Teunissen (PvdD), the Assembly highlights "the damage caused by aviation to the climate, public health and nature". It calls on the outgoing cabinet to propose alternative investment plans for the region.

The travel industry is disappointed now that it is clear that the Lower House opposes the opening of Lelystad Airport. "It doesn't benefit the traveler," said Frank Oostdam, director of the ANVR travel industry organization.

(...)

Allowing flights from Lelystad would not only give travelers more choice, but would also free up space for other flights at Schiphol. "

We also understand that aviation emissions need to be reduced, but this can be done by including Lelystad in the discussion. "Our basic attitude has always been positive towards possible flights from Lelystad airport," explained Marcel de Nooijer, head of Transavia. "Not opening the airport will once again deprive the Dutch aviation sector and related economic sectors such as tourism of prospects. It will draw a line under a potential 45,000 flight movements".

The opening of Lelystad airport is good for Lelystad and the surrounding area

Schiphol, the owner of Flevoland airport, **is also disappointed**. "The opening of Lelystad airport is a good thing for Lelystad and the surrounding area. It also offers the possibility of shifting night flights from Schiphol to day flights at Lelystad airport. This is a good thing for those who live near Schiphol," summarized a spokeswoman. "**We are therefore disappointed by this vote and are waiting to see what the new cabinet will decide.**

(...)

__My comment:__ Personally, I haven't considered opening this small airport in Lelystad, some sixty kilometers east of Amsterdam, for several years now.

Of course, major work has been carried out there, enabling us to envisage 40,000 aircraft movements a year (Schiphol will record around 480,000 movements this year).

But the fight against climate change will undoubtedly take precedence over the demands of the airlines.

> Air France-KLM and KLM plan to appeal against a decision by the European Union General Court

(source Boursier) February 7, 2024 - **Air France-KLM and KLM take note of the February 7 ruling by the General Court of the European Union annulling a 2021 European Commission decision approving several state aid measures granted by the Dutch state during the Covid-19 crisis.**

Air France-KLM and KLM will carefully examine this ruling to assess its implications. Air France-KLM and KLM will consider whether to lodge an appeal for annulment with the European Court of Justice. Air France-KLM recalls that KLM has repaid in full the loans granted under the European Union's Temporary Framework relating to Covid-19 and that Air France-KLM has respected and applied, on April 19, 2023, all the conditions for the exit from state aid granted under the European Union's Temporary Framework relating to Covid-19.

__My comment:__ The European Court of First Instance has ruled in favor of Irish low-cost carrier Ryanair.

Last December, the European Court of Justice had already annulled the decisions approving France's massive aid to Air France and Air France-KLM.

At this stage, it is difficult to know what impact these decisions will have on the Air

France-KLM group.

> La Rochelle airport: Ryanair refuses to reimburse aid received

(source Sud-Ouest) February 7, 2024 - The airline **Ryanair is challenging in court the European Commission's decision requiring it to repay aid received from La Rochelle-Île de Ré airport**, reports the news medium "Contexte".
Its action for annulment was published in the "Official Journal of the European Union" on Monday February 5. **Ryanair is challenging a decision dated July 26, 2022, which declared illegal the payment of nearly 8.5 million euros in aid received between 2003 and 2010 from the Communauté d'agglomération de La Rochelle, the Conseil général de la Charente-Maritime and the Conseil régional de Poitou-Charentes via the Chambre de commerce et d'industrie de La Rochelle.**

In support of its appeal, the Irish company argues that "the European Commission wrongly attributes to the State the conclusion of the airport services and marketing agreements referred to in the decision".

Subsequent subsidies paid by the airport to Ryanair are currently under investigation by the French National Financial Prosecutor's Office on suspicion of misappropriation of public funds.

Last December, the Bordeaux Gendarmerie's research section searched the airport's offices, as well as those of the CCI and Charentes Tourisme.

My comment: *Ryanair CEO Michael O' Leary was careful not to mention this unfavorable ruling.*

I quote here the commentary of the APNA (Association des professionnels navigants de l'aviation):
=== beginning of quote ===
It has taken 13 years for the European Commission to order Ryanair to repay "illegal" aid, while the 32 complaints lodged against it in 2009 have still not all been dealt with. It is paradoxical to hear the condemned singing the song of the victim, when the delays in convicting Ryanair, however obvious, have allowed a strong distortion of competition for more than 10 years, to the detriment of law-abiding airlines.
=== beginning of quote ===

Michael O' Leary also failed to mention the decision of the Aix-en-Provence Commercial Court.

At the request of UFC Que Choisir, on behalf of 88 airline passengers, the Court ordered Ryanair to compensate these customers.

Ryanair had failed to comply with regulation (EC) no. 261/2004, which defines the rights of air passengers who are victims of cancellation, delay or denied boarding.

> Norse Atlantic regulates 787 summer capacity by extending subleases

(source Flight global, translated with Deepl) February 12, 2024 - Scandinavian long-haul budget carrier **Norse Atlantic Airways is to extend the subleases on four Boeing B787s in its fleet**.
Three of its B787-8s will have their subleases extended for a further year.
These aircraft will return to the Norse
fleet between the end of March and the end of May 2025, the airline says.

Norse is also extending by two months the sublease of a B787-9, which will be delivered at the beginning of May this year.
(...)
Norse currently has 10 B787s for its Scandinavian and UK divisions, but will have 12 at its disposal for the high season.

Norse sub-leases five B787s to Air Europa.
(...) Norse
CEO Bjorn Tore Larsen said the extension agreement offered the opportunity "to increase total guaranteed profits".
"Our strategy is to grow at a steady pace in line with market demand," he added.
Norse will gradually rebuild its capacity, and expects to be flying all 15 B787s by 2025.

My comment: *In 2021, low-cost airline Norwegian Air Shuttle was on the verge of bankruptcy. It decided to cease its long-haul operations (launched in 2013) in order to preserve its short-haul activities, now operated by Norwegian Air Shuttle AOC.*

Some of the company's senior executives leave Norwegian and set up Norse Atlantic Airways, a long-haul low-cost airline.

They take over Norwegian Air Shuttle's B787s and concentrate on transatlantic flights.

Launched at the height of the Covid period, Norse Atlantic Airways is still struggling to find its footing.

Note: I've simplified my presentation. In reality, each of these airlines is a group of several companies, based either in Great Britain or in Norway. This enables them to exploit local legislation to the full.

This practice, likened to social dumping, is common among low-cost airlines. EasyJet *and Ryanair do the same.*

Most of the companies that have entered the long-haul low-cost market over the past decade have gone bankrupt. In Europe, this is the case for Norwegian, WOW, Level (an IAG subsidiary) and XL Airways. In Asia, while Malaysian carrier AirAsia X continues to operate, it came very close to bankruptcy.

> Airbus warns airlines of further delivery delays

(source Reuters, translated with Deepl) February 9, 2024 - **Airbus has begun informing airlines of a new wave of delivery delays**, pushing back some deliveries scheduled for late 2024 and part of 2025 by several months, **due to persistent supply problems,** industry sources said on Friday.

An Airbus spokesman declined to comment on the delivery schedule, but said: "We are in constant dialogue with our customers. We are still operating in a complex environment".

Airbus started the year with a 50% increase in deliveries in January compared with the same month last year, which had been depressed by parts shortages and industrial bottlenecks.
But **the supply of engines and other components remains relatively limited, and the aircraft shortages needed to meet a recovery in demand could last for years**, according to speakers at last week's Airline Economics conference in Dublin.
Steven Udvar-Hazy, executive chairman of Air Lease, told the conference that many Airbus and Boeing single-aisle aircraft were already in service "a year late, nine months late, eight months late. That's pretty much the norm today".
Airbus exceeded its delivery target last year, with 735 aircraft delivered to airlines and leasing companies. Jefferies
analysts expect the European group to target around 800 deliveries for 2024 when it publishes its results on February 15.

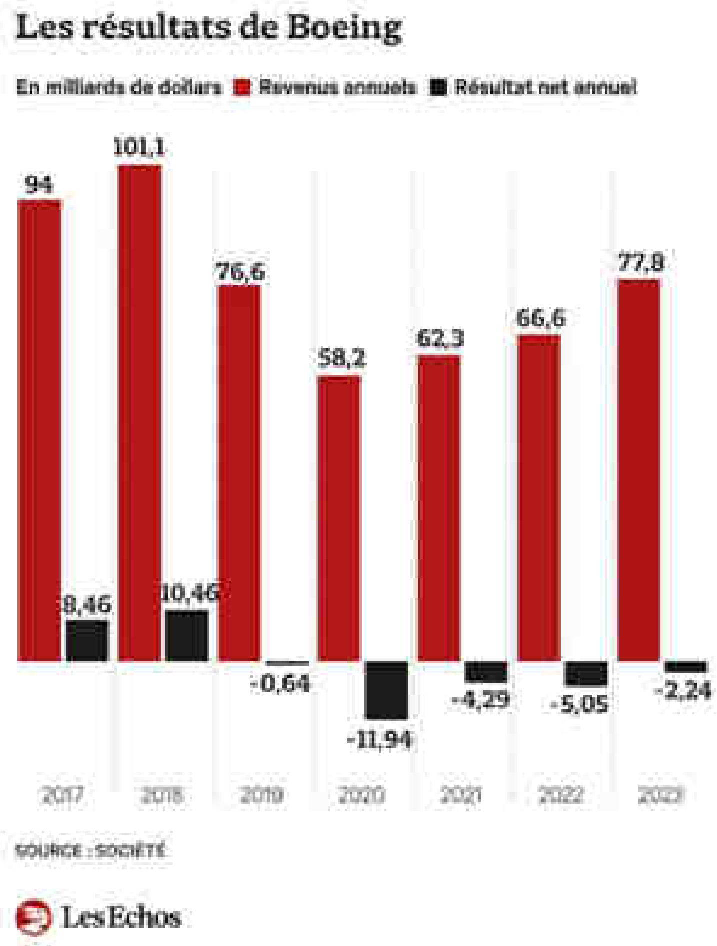
My comment: *Airbus confirms airlines' fears about delivery times for new aircraft.*

Airlines, including the Air France-KLM group, which have placed orders in the middle of the Covid period can congratulate themselves.

> Boeing reduced its losses but remains in the red and in limbo

(source Les Echos) January 31, 2024 - Another year in the red for **Boeing. For the fifth year running**, the American group **ended its 2023 fiscal year with a loss**, of $2.242 billion, on sales of $77.794 billion. But a return to normal seems a long way off. And this at a time when demand for commercial aircraft has picked up and its main competitor, Airbus, is set to announce record profits.

Boeing continues to lose money in its two core businesses. The commercial aviation division, still mired in problems with the 737 Max, posted losses of $1.635 billion on sales of $33.9 billion. The **military and space division**, weighed down by cost overruns, lost a further $1.764 billion on sales of $24.9 billion. Only the maintenance and training "services" business posted a positive result, with profits of $3.329 billion on sales of $19.12 billion.



And as at the worst of the crisis, the publication of annual results was not accompanied by any forecasts for 2024. "This is not the time for that," explained CEO David Calhoun, who began his conference by apologizing, once again, to Alaska Airlines and its customers for the accident on January 7. The Boeing boss then devoted his entire speech to detailing the measures already taken by Boeing to regain control over the quality of its aircraft.

However, in the midst of this gloomy picture, a few signs of recovery remain. Boeing has, despite everything, halved its losses compared with the 5 billion deficit of 2022. The aircraft manufacturer even returned to a slightly positive operating margin in the fourth quarter, both at group level (+1.3%) and for the commercial aviation segment (+0.4%). **Boeing also achieved its main objective of significantly increasing**

cash generation, in order to meet its debt repayment obligations. This remains stable - and **considerable** - at $52.3 billion, at the end of 2023.
And if the Alaska Airlines Max accident hadn't brought to light serious quality control problems, civil aircraft production would have appeared to be on the right track. The production rate for the 737 Max family of medium-haul single-aisle aircraft has risen from 31 to 38, and Max deliveries to China, suspended since 2019, have resumed. **Production of long-haul 787s, halted in 2022, has been ramped up to 5 units per month. Production of the first 777Xs, still undergoing certification, has also restarted in 2023.**

But this progress has been called into question by the Alaskan Max affair. And there's every reason to believe that **the next quarterly results will bear the scars of this situation. They will have to bear the cost of compensation owed to airlines whose 737 Maxes were grounded, as well as the cost of restoring order to production sites**, which will require additional manpower. But there is also the cost of the freeze on production ramp-up, and the persistent uncertainty as to when the last two versions of the 737, the Max 7 and Max 10, will be certified and can start to be delivered to customers who have already been waiting for two years.
The Boeing boss confirmed that the 737 Max production rate would remain at 38 Max per month in 2024, as requested by the FAA, until doubts about the quality of the work are resolved. We know how to take breaks," stressed David Calhoun. We've taken more in the last three years than in the previous 10."

My comment: *For Boeing, the situation is serious, but not desperate.*

The production capacities of its main competitor, Airbus, are running at full capacity. It will be difficult, if not virtually impossible, for the European manufacturer to regain market share from Boeing in the next few years (see previous article).

Once Boeing has sorted out its problems, which affect all its models (the B737, B787 and B777X), its accounts will be able to recover.

But until then, Boeing will have to stop giving top priority to the bottom line.

This will be the subject of an article in my next newsletter.

End of press review

> Air France-KLM share price trend

Air France-KLM shares closed at **11.282 euros on** Friday February 9. **It is down this week by -5.48%.**

Since the beginning of the year, the Air France-KLM share price has lost 17%.

It was 12.53 euros on January 2, 2023, 17.77 euros on June 19, 2023, 13.59 euros on January 1, 2024.

The analysts' 12-month average (consensus) for AF-KLM shares is 16.54 euros (it was 15.0 euros at the beginning of January 2023). The highest price target is 23.00 euros, the lowest 9.50 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 a barrel of Jet Fuel in Europe rose this week by $9 to $120. It was $94 at the end of June, and $79 before the outbreak of war in Ukraine.

Brent crude oil (North Sea) **is up +$5 to $82 a barrel.**

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.

***My comment:** The spread between Jet Fuel in Europe and Brent crude oil was around $15 before the conflict in Ukraine. In 2022, at the start of the Ukrainian conflict, the spread was close to $50.*

It is up +$4 this week, to $38.

From February to July 2023, the spread had returned to reasonable levels (between $12 and $25). Since August 2023, the spread between Jet Fuel in Europe and a barrel of Brent crude oil has systematically exceeded $30.

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.*

Please note: After 5 years of inactivity, Natixis Interépargne will send a letter/email to those concerned asking them to log in to their account or to call Natixis Interépargne in order to reactivate their PEE account.

After 10 years of inactivity, your account is transferred to the Caisse des Dépôts et Consignations.

To unblock your PEE, click here.

> FCPE management

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.*

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.

For the latest Monday press reviews, click here.

If you like this press review, please pass it on.

New readers can receive it by sending me an email address of their choice.

| François Robardet

former Director of Air France-KLM.
You can find me on my twitter account @FrRobardet

When I was elected, I received the support of the CFDT and the UNPNC.

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

11,535 people receive this live press review