Letter from the Director Air France-KLM

François Robardet Representative of employees and former employee shareholders PS and PNC

No. 707, June 10, 2019

If you do not see this page correctly, or if you want to read the English or Dutch versions

If you do not see this page correctly, or if you want to read the English or Dutch versions,

Als u deze pagina niet goed ziet, of als u de Engelse of Nederlandse versie wilt lezen,

follow this link, it is here, vindt u deze yesterday

The Press Review on Monday...

> The environment, a new focus for Air France-KLM... and its competitors

(source Les Échos) June 6 - **Faced with the increase in attacks on air transport**, not a day goes by without an airline announcing a new initiative in favour of the environment. This Wednesday, **it was the turn of Air France and its low-cost subsidiary Transavia France to announce the elimination of plastic items on their flights by the end of the year.**

(...) In total, Air France and its subsidiary will eliminate some 1,340 tonnes of plastic from their waste next year. The two companies are thus anticipating the entry into force of the European directive adopted in March, which aims to ban the sale of these single-use plastic items from 2021.

Air France took the opportunity to highlight its efforts to reduce its greenhouse gas emissions. Since 2011, the company has reduced its CO2 emissions by 20%. Fuel consumption would have fallen to 3.21 litres per passenger per 100 km. Or 80 g of CO2 per passenger/km. This is well below the 95 g CO2/km threshold set by the European Union for 95% of cars in 2020.

Last Sunday, **KLM had already unveiled two initiatives to reduce CO2 emissions**. This includes **financial support for a more "eco-efficient" aircraft project** developed by the Dutch University of Delft **and, above all, a contract to supply 75,000 tonnes of biofuel per year from 2022, generating 85% less CO2 than kerosene**.

(...) According to its CEO, Pieter Elbers, this biofuel contribution should reduce KLM's CO2 emissions by around 200,000 tonnes per year, "the equivalent of a thousand

flights between Amsterdam and Rio".
However, this did not prevent **Ryanair from** tackling its competitors' efforts to reduce CO2. **The** low-cost airline, which was in the **Top 10 of the largest European polluters** established by the European non-governmental organisation Transport & Environment last April, has **decided to publish each month the figure of its CO2 emissions... (...)**
Supported by a study
, Norwegian **claims to be the least polluting long-haul airline on the transatlantic market,** with a 63% gap with the last in the ranking, British Airways, again thanks to more recent aircraft (Boeing 787). **These figures are difficult to verify** (...), **but they clearly illustrate the companies' desire to make environmental preservation an argument for commercial differentiation.**

My comment: The *Air France-KLM Group highlights its actions to reduce its greenhouse gas emissions.*

KLM has decided to promote biofuel production in the Netherlands. In addition, the Dutch company is working with Delft University of Technology (based in the Netherlands) on a flying wing project with the same characteristics as the A350, while consuming 20% less (see picture below).

For Air France, if there was only one thing to remember, it would be that the French airline managed to reduce its CO2 emissions by 7% between 2005 and 2018, despite an increase in its traffic. This figure alone demonstrates the effectiveness of the measures taken over the past fifteen years.

> Air France-KLM could buy an airline company?

(source Business Travel) June 6 - At the IATA summit **Benjamin Smith did not rule out the idea of buying an airline in Western Europe** to help consolidate the European market.
"It's **a very competitive industry and we have no choice,**" said Benjamin Smith.
In recent years, Air France-KLM had experienced financial difficulties while its competitors had acquired many companies in Europe. IAG acquired Iberia, Aer Lingus and Vueling, while Lufthansa acquired Austrian Airlines, Swiss, Brussels Airlines and the assets of Air Berlin.
Air France-KLM could be interested in LOT Polish Airlines, Norwegian or Scandinavian Airlines or why not the growing low-cost Wizz Air in Eastern Europe (...)

My comment: The *consolidation of the airline sector in Europe was initiated by the acquisition of KLM by Air France in 2004. Since then, the Franco-Dutch group's financial difficulties have led it to focus on setting up joint ventures, most of which have been successful: with Delta Airlines in the North Atlantic, China Eastern in Asia and Air Europa in the South Atlantic.*

> Domestic flights with Air France: Transavia will not replace Hop!

(source TourMaG) June 6 - In recent days, **negotiations have begun** between Air France management and its National Airline Pilots' Union (SNPL), whose union representatives have approved 97% of the increase in the current limit of 40 aircraft. The question of the takeover of certain short-haul and domestic lines operated by the subsidiary Hop was discussed.

According to several sources around the negotiating table, it seems very unlikely, however, that Transavia will encroach on Hop's turf.
Nevertheless, "Transavia's development represents an opportunity for Air France's jobs and careers. The SNPL is embarking on these negotiations with confidence in order to find the terms of an agreement that will enable Transavia to become a major low-cost player," said the President of the SNPL Air France.
For Air France management, "changing the scope of Transavia France makes it possible both to protect Air France's market share on its network and to position Transavia France as a major player on the low-cost airline market".
"**Wanting to develop Transavia is very good, good for them and their drivers. But this development will certainly play a role in our future**. We are watching Transavia and the whole Air France group develop, and Hop is collapsing more and more," **warns a union source at Hop**. (...)

My comment: Although the *current negotiations are focused on Transavia's expansion, it is the future of the entire short-haul business of the Air France Group and its employees that depends on the outcome of negotiations between Air France's*

management and the SNPL.

> Ten years of joint venture for Air France, KLM and Delta

(source Air Journal) June 5 - **Air France, KLM Royal Dutch Airlines and Delta Airlines celebrate 10 years of successful transatlantic cooperation**, a partnership built around a network of seven hubs (5 in the United States and 2 in Europe) and covering Canada, the United States, Mexico and Europe. Bluebiz, the corporate loyalty program of the two European carriers and their partners, has been renewed. Over the
past decade, the three companies from France, the Netherlands and the United States have taken new steps together by opening new routes between Europe and North America and improving the service offered to **their customers**. The latter now have **38 additional routes between Europe and North America compared to 10 years ago, bringing the total number of transatlantic flights per day to more than 270.** (...)
Customers of the three SkyTeam
alliance airlines can earn Miles and redeem them for benefits or options, including upgrades, through loyalty programs; eligible customers benefit from the largest network of airport lounges in North America and Europe. (...)
The partnership between Air France, KLM and Delta was born out of a previous agreement between KLM and Northwest Airlines. Following the 2007 US-Europe Open Skies Air Transport Agreement and the merger between Delta and Northwest, the Air France-KLM Group and Delta Airlines announced on May 20, 2009 their long-term commitment with a joint venture. A year later, Alitalia joined the partnership, offering new flight opportunities between North America and Italy. Last year, Delta invested €375 million to acquire a 10% stake in the Air France-KLM group.
Bluebiz, (...) **the corporate loyalty program of Air France, KLM and their partners has been renewed with new features, a new design and additional benefits for its members. Today,** Virgin Atlantic (only in the United Kingdom, China, Hong Kong and South Africa), which is in the process of becoming a member of the joint venture, joins bluebiz following the recent addition of Kenya Airways.
Depending on the market, up to 8 airlines are part of the frequent flyer programme: Air France, KLM and Delta, GOL Linhas Aéreas, China Eastern Airlines (only from CDG, Schiphol and Shanghai), China Southern Airlines, Kenya Airways and therefore Virgin Atlantic.
Members of the bluebiz
program "benefit from immediate savings" when their employees travel on flights of partner airlines. **Members now have the opportunity to participate in the CO2ZERO program, which allows them to use their blue credits to offset the CO2 emissions associated with their travels with Air France, KLM and Delta Airlines**....
Patrick Alexandre, Deputy Managing Director Air France-KLM, Sales, Sales & Alliances, said: (...) With this renewed program, "we wanted to propose something

clearer and simpler. Clear and easy to understand, use and manage. We continue to invest in this program and this dynamic segment that is important to our business, which represents more than 30% of our total revenue. (...)

My comment: *The transatlantic joint venture between Air France, KLM and Delta is ten years old. It is governed by an agreement that defines its governance as well as commercial and operational terms.*

This alliance, extended to Alitalia and soon to Virgin Atlantic, has made it possible to compete in the highly competitive transatlantic market. Its balance sheet is positive; it has served as a model for the other joint ventures created by Air France-KLM, China Eastern and Air Europa.

> Ryanair: traffic up 13%, detailed emissions

(source Air Journal) June 6 - The low-cost airline **Ryanair** carried 14.1 million passengers in May, including all subsidiaries, with traffic up 10% over the last twelve months. It has also started to publish monthly statistics on its CO2 emissions. (...) The first European airline, **accused at the beginning of April of being in the Top Ten of the continent's biggest polluters, became Wednesday "the first airline in the European Union to publish monthly statistics on its CO2 emissions", with an average of 66g of CO2 per passenger/km in May 2019.**

(...) Ryanair's CO2 emissions per passenger/km have been reduced from 82 to 67g (-18%) over the last decade, "while high-price competitors such as Lufthansa, British Airways and AF-KLM currently generate more than 120g per passenger/km"; an assertion immediately opposed on social networks by Air France-KLM which has just published its latest sustainable development report, reporting 80g per passenger/km. (...) As part of its environmental commitment, **Ryanair will invest more than USD 20 billion in a fleet of 210 new Boeing 737 Gamechangers** (the 737 MAX 8-200 NDLR) **that** will carry 4% more passengers but **reduce fuel consumption by 16%** and noise emissions by 40%. (...)

My comment: *This article illustrates the difficulty of understanding the issue of co2 emissions. Ryanair, the airline with the highest overall CO2 emissions in Europe, is one of those with the lowest CO2 emissions per passenger-km transported.*

> France-USA: Norwegian passes the symbolic barrier of 1.5 million passengers

(source Déplacements Pros) June 7 - **The low-cost airline announced that it has carried 1.5 million passengers from France to the United States since 2016**. (...) "I am delighted with Norwegian's success in France. By carrying 1.5 million passengers on its transatlantic flights, half of whom are American, Norwegian has succeeded in less than three years in imposing its long-haul low-cost model in

France, in an extremely competitive market," said Bjorn Kjos, CEO of Norwegian Air Shuttle, in
a statement.
(...) In 2018, low-cost carried 37 million passengers worldwide and now has a fleet of 160 aircraft, including Boeing 787 Dreamliner aircraft less than 2 years old.

My comment: *Norwegian announces that it has transported 1.5 million passengers between France and the United States over 3 years. By way of comparison, the Air France-KLM Group carried nearly 24 million passengers to North America over the same period.*

> Airbus: Virgin Atlantic would order A330neo aircraft

(source Boursier com) June 3 - **Airbus** (...) **is close to closing a sale of long-haul A330neo aircraft to Virgin Atlantic airline**. Citing sources close to the file, Reuters points out that the British carrier is reportedly looking for about 6 to 10 aircraft. He would have preferred the upgraded version of the A330 to Boeing's 787 Dreamliner.

My comment: *The A330neo is a reengineered version of the A330, designed to compete with the B787. Both aircraft are expected to be powered by similar Rolls-Royce engines. The A330-900neo will be able to carry 310 passengers, compared to 330 passengers for the B787-9.*

The announcement of Virgin Atlantic's order could be made at the Paris Air Show, which will take place from June 17 to 23, 2019.

> Boeing now has to deal with engine problems on its 777X

(source Boursier com) June 6 - When nothing is going well... **Boeing is** definitely **facing a series of headwinds**. After the 737MAX crisis following the two fatal crashes in less than six months, with Rolls-Royce engine problems equipping some Dreamliners, **the American giant** also **has to deal with difficulties with General Electric's new GE9X engine that will power the future 777X.** This is in addition to the delays in mounting the engine and wings of the aircraft already identified. These unforeseen events could complicate **Boeing**
's task of bringing the **777X into service in 2020**, industrial sources have told Reuters... The
problems with this engine, among others, make it increasingly unlikely that a first test flight of the 777X will take place in late June (...). A source close to the file told Reuters that the test flight period was originally set at 14 months, but a stricter certification procedure after the October and March MAX 737 accidents means that this schedule will probably not be accelerated. This means that the **first deliveries of 777X would probably take place towards the end of 2020, or even in 2021, according to professional sources. Best case scenario.**

> France now wants a European air transport tax

(source Les Échos) June 6 - After a year of tax cuts to restore the competitiveness of French air transport, the **French government now wants a new Europe-wide air tax "to strengthen its contribution to the ecological transition".** The Minister of Transport, Elisabeth Borne, officially put the subject on the table at the European Union's Council of Transport Ministers, which was held this Thursday in Luxembourg, on behalf of the "urgency of the climate issue".
(...) At this stage, it is only a question of "preparing the ground", before the installation of the new European Commission in the autumn, explains one adviser. A new informal meeting of Transport Ministers, dedicated to the pricing of CO2 in aviation, is already scheduled for 23 and 24 June in Amsterdam. Nevertheless, the process has been launched and the idea of a tax on airline tickets already has supporters in Europe. In addition to Sweden, which introduced a tax ranging from €4 to €40 on all flights departing from Swedish airports at the beginning of the year, Holland and Belgium have also announced their plans for a European tax.
(...) As **regards the modalities, the text limits itself to mentioning "different pricing options[...] to strengthen the polluter-pays principle**". These include a tax on kerosene, "ticket and flight charges" - which could take the form, according to our sources, of a carbon tax or a tax on the price of the ticket - or a "reinforcement" of the European greenhouse gas emission allowance (ETS) system, which already obliges European companies to pay for their CO2 emissions on intra-European flights. However, no indication is given as to the amount of this tax, its basis and its final destination. (...)

Moreover, while the **French proposal takes care to stress the need to "take into account the world situation** [...] in **order to avoid distortions of competition**", it does not say how. Compared to national taxes, a European taxation would have the advantage of avoiding distortions of competition between European companies on intra-European routes. Provided that the proposal is unanimously decided by the European States. The French Government has reportedly assured French professionals that there would only be a new tax at European level, thus excluding following the Swedish example of a national tax.
On the other hand, on international routes, European carriers would be penalised compared to their foreign competitors. Thus, to travel from Nice to Bangkok, a passenger will be taxed on the entire journey if he chooses Air France via Paris or Lufthansa via Frankfurt, while he will only be taxed on the Nice-Dubai section, if he chooses Emirates, the Dubai-Bangkok flight being exempt from European regulations. The same applies to a tax on kerosene loaded in Europe, with the additional risk that some companies may replenish their supplies outside Europe or take more fuel with them. However, the **biggest risk for all airlines operating in Europe is that higher ticket prices will result in either lower traffic or lower margins. That is what happened in Sweden.**

My comment: *Supporters and opponents of air taxation have been firing on each other for the past few weeks. They sometimes use specious arguments.*

For example, one of the strongest advocates of flight restrictions proposed that each individual should only be allowed to make one round trip per year. Without realizing that if this proposal were implemented, it would lead to an immediate doubling of air traffic. Indeed, in 2018, "only" 4 billion people flew while the world population is 7.7 billion.

For their part, air transport advocates argue that unit consumption of kerosene should be reduced, while it would be more appropriate to report overall consumption.

More seriously, let's get back to the root of the problem. Aircraft mainly operate on kerosene. They therefore contribute to global warming and are responsible for 2 to 4% of CO2 emissions. As much as watching videos on the Internet or shipping.

I agree with Anne Rigail's statement that "decisions must necessarily be taken at global level, and above all by actors who have a global vision of the sector", in order to prevent Europeans who would like to travel internationally from going through hubs outside Europe (Istanbul and Dubai) rather than through European hubs.

Taxing the air transport sector would only make sense if the funds raised were directly allocated to the fight against global warming. One solution could be to promote the production of biofuels.

Finally, a new tax would increase not only the price of tickets, but also the cost of transporting goods. It would lead to an increase in imported products, and consequently a decrease in purchasing power.

The Stock Market Press Review...

> EasyJet ousted from the London Stock Exchange's flagship index

(source Le Figaro with AFP) June 5 - The British airline **EasyJet will exit the London Stock Exchange's flagship index** after seeing its capitalization decline in recent months, London Stock Exchange (LSE) announced today. (...)

This eviction of EasyJet is not a big surprise since the group has seen its share price drop by 18% since the beginning of the year to the point that **its market capitalization has fallen to** around £3.5 billion (**€3.9 billion**), the lowest of the FTSE-100. In particular, it suffered from a difficult environment at the beginning of the year for stocks exposed to the British economy, which tended to be neglected by investors worried about the consequences of Brexit. In

addition, the **European airline industry is experiencing turbulence, particularly among short-haul specialists**, due to rising fuel costs and fierce competition on the continent that is driving prices down and squeezing margins. The orange and white logo company had published fourfold losses in mid-May in the first half of 2028-2019, to £218 million and had been cautious for the rest of the year due to unfavourable market conditions.

My comment: *Two years ago, before the Brexit announcement, easyJet's stock market valuation was 2.5 times higher than that of Air France-KLM. They are now identical.*

End of the press review

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

The Air France-KLM share price was €8.092 at the end of Monday, June 10. It is up by 4.95%.

The average (consensus) of analysts for the AF-KLM share is 10.77 euros. It had fallen following the announcement of the first quarter's results and the announcement of a new voluntary departure plan for port of call staff.

The barrel of Brent oil (North Sea) is on the **rise again, +$2 to $63,** Saudi Arabia having announced that Opep was close to an agreement to extend the production reduction pact beyond June. The barrel of Brent oil had dropped by $9 the previous week, following an unexpected increase in crude oil inventories in the United States.

This indicative information does not in any way constitute an incentive to sell or solicit the purchase of Air France-KLM shares.

You may react to this press review or provide me with any information or thoughts that may help me to better manage my role as a director of the Air France-KLM group.

You can ask me, by return, any questions about the Air France-KLM group or employee share ownership....

See you soon.

To find the latest press reviews on Monday, it's here

If you enjoy this press review, circulate it.

New readers will be able to receive it by providing me with the email address of their

choice.

| François Robardet

Director Air France-KLM representing PS and PNCV employee shareholders You can find me on my twitter account @FrRobardet