Suspension of Air France flights to China: "The priority is the safety of our customers".

I Letter from the Air France-KLM Director

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Monday's Press Review

> Suspension of Air France flights to China: "The priority is the safety of our customers".

(source Europe 1) 30 January - (...) "The top priority is the safety and health of our customers and staff". (...)

While the toll of the coronavirus epidemic has risen to 170 deaths and more than 7,000 people infected, Anne Rigail is going back on a choice she made after "following the evolution of the coronavirus crisis" on a daily basis. "**We've taken the difficult decision to suspend our flights to mainland China until February 9th.**" A date which is far from being immutable, since the Director General of Air France is going to look with her teams at "the communications of the WHO and the Directorate General of Health in France to be able to adapt this new policy, and to know whether to resume flights or postpone the suspension".
Not wanting to leave any customers or employees stranded in China, **Air France will set up "from this Thursday evening special flights" to bring them back to France**. Flights carried out by "voluntary employees" in which the health safety conditions comply with the recommendations of the authorities. (...)

My comment: *The coronavirus is apparently less lethal than SARS but more contagious. This has led most airlines to stop their flights to China.*

If the epidemic continues, Asian airlines already in difficulty, such as HNA and Cathay Pacific, could see their situation worsen.

> A second activity for Lelystad

(source De Telegraaf translated with Deepl) 23 January - **The controversy over the opening of Lelystad airport as a leisure airport continues** and behind the scenes there is already talk of building a second runway for this controversial airport. (...)
According to some 30 Lelystad airlines, the airport has made concrete plans for this second runway in order to be able to continue to carry out, for example, training flights for professional pilots. This concerns more than 100,000 take-offs and landings per year. Eventually, leisure traffic is expected to represent 45,000 flights. (...)
In The Hague, the minister still has to cut the difficult Lelystad knot in consultation with the House of Representatives, while both supporters and opponents of enlargement are fighting hard. (...)
A decision is expected this month on whether Lelystad Airport will be open for leisure flights in 2020. The entire aviation sector is eagerly awaiting how the Remkes committee's advice on nitrogen will translate into growth plans for the Netherlands.
Tomorrow, KLM staff will present a petition in The Hague asking politicians to put their money where their mouth is. "The KLM group is at a standstill now, it's no longer possible," observes one insider.

The opening of Lelystad airport has already been postponed three times under pressure from action groups in Gelderland and Overijssel **who want to keep things calm.** According to director Hanne Buis, Lelystad Airport, which has been expanded by 250 million euros, is ready for a new start. (...)

My comment: *The extension of Schiphol and the opening of Lelystad are hotly debated in the Netherlands. Environmental issues (noise and pollution) are at the centre of the debates.*

> Three Dutch pilots are allowed to leave Argentina

(source De Telegraaf translated with Deepl) February 1 - **The three Dutch pilots arrested in Argentina are allowed to leave the country**. The time they will return home will not be announced for reasons of confidentiality, KLM reported on Saturday.

Earlier this month, the three men were arrested at Ezeiza International Airport near the Argentinean capital, Buenos Aires. **A**

consignment of cocaine had been intercepted in their cargo plane, which reportedly weighed 88 kilograms.

On Monday, it was learned that the pilots had been released because **the public prosecutor's office in Argentina saw no reason to prosecute them.** Before the three men were allowed to leave Argentina, certain formalities had to be completed, KLM reported.

My comment: *It's a relief for the three KLM pilots who were detained in Argentina after cocaine was discovered in the holds of their cargo plane.*

The decision to release them was pending. Pilots are not required to control the loading and unloading of cargo. They only check that the documents are correct and that there are no dangerous goods on board.

> ATR makes its last Air France Hop! flight and leaves the fleet

(source Actu-Aero) 31 January - Inherited from the French regional airline Airlinair (...), the **turboprops, the** number of which reached 24 in the fleet by the end of 2015, **are the first victims of** Air France-KLM's CEO's declared **desire to rationalize the** French carrier's **entire fleet.** (...)

This desire to reduce the number of cockpits is reflected in practice **by the reduction from four types of aircraft to just two** for its short-haul business, which it operates from two bases, and the objective that each of them will eventually accommodate only one type of aircraft: **the Embraer 170/190 at Paris-Orly and the CRJ-700/1000 at Lyon-Saint Exupéry.**

Since the end of December, the airline has been operating only two 72-seat ATR72-600s on its network: F-HOPX, which made its last flight on 27 January and F-HOPZ, which made its last flight under the Air France HOP banner in the morning between Nantes and Orly.

The next aircraft to leave the Air France HOP short-haul fleet will be the Embraer ERJ-145s. The company currently operates 13 copies.

My comment: *The release of the ATRs in 2020 and the Embraer 145s in 2021 was announced by the Air France-KLM Group on 5 November 2019, during the presentation to investors.*

Some of the Air France HOP! routes with too few passengers to justify *aircraft with more than 70 seats are operated by companies such as Chalair Aviation.*

> 737 MAX: Ryanair considers further job cuts

(source AFP) 29 January - Low-cost airline **Ryanair is threatening further job cuts and base closures due** to additional delays in the delivery of Boeing Max 737.
In a letter addressed to its staff dated 27 January and transmitted on Wednesday to AFP, the Irish carrier regrets "the additional bad news" concerning Boeing's aircraft. (...)
Ryanair's fleet consists exclusively of Boeing aircraft and its growth plans are therefore disrupted by the problems with the 737 Max. (...)
Ryanair explains in this letter **that it will therefore not be able to receive the ten 737 Max it was hoping for before the 2020 summer season**. He now expects September or October at the earliest.
The group was expecting to receive 58 Max for this summer before gradually revising its ambitions downwards... (...)
The Ryanair group, headed by Michael O'Leary, is now reorganised into four companies, namely Ryanair DAC, which groups together the bulk of the activities, as well as the Austrian Lauda, the Maltese Malta Air and the Polish Buzz. (...)
Despite these uncertainties, **Ryanair raised on January 10 its earnings forecast for its postponed 2019-2020 fiscal year** (ended in March) thanks to a good Christmas period and better-than-expected bookings for the beginning of the year.

> India relaunches the privatisation of its state-owned airline Air India

(source Les Echos) January 27 - (...) **The government of Narendra Modi launched on Monday the umpteenth attempt to rescue the** struggling **carrier.**
The published tender document provides, this time, for the full takeover of the State's shareholding, including full control of the low-cost subsidiary, **Air India** Express, as well as a 50 % stake in AISATS, the airport services company. The candidates have until March 17 to express their interest in the takeover of the airline group, which is **indebted to the tune of $8 billion**.
And the Minister of Civil Aviation, Hardeep Singh Puri, has done nothing to embellish things. "Because of its accumulated debt, the financial situation can be described as very fragile and **Air India as a debt trap,**" he said. In the past, he had already warned of the risk of bankruptcy if the airline was not privatised. Because, according to him, "any private

investor can reverse the trend and bring operational and financial efficiency. "The **potential buyers will still have to assume liabilities of approximately $3.3 billion and retain the company's name, Air India, under the preliminary terms of the offer.**

If foreign investment is not excluded, control and beneficial ownership of the airline will have to remain in the hands of an Indian entity. With this new offer, the government assures that it has learned from the previous offer.
This time, **"the offer proposed by the Indian government is very attractive," says Kapil Kaul, director for South Asia of the CAPA-Centre for Aviation cited by the Bloomberg agency, in** particular because of the complete exit of the State from the capital of Air India. "We expect a significant response," anticipates the expert. Civil Aviation Minister Hardeep Singh Puri stressed that Air India is a "great asset". In particular, it promotes its 98 destinations, 42 of which are international. (...)

My comment: *For several years now, the price war between airlines has been raging on the domestic market in India. Internationally, Indian airlines suffer from the price of kerosene taxed at 30%.*

This has led to the bankruptcy of several Indian airlines in recent years, including Jet Airways and Kingfisher.

Only Indigo (the airline that operates the most A320 neo in the world) manages not to lose money.

> South African Airways: a state-owned bank comes to the rescue of the airline on the verge of bankruptcy

(source Le Journal de l'Aviation Avec AFP) 28 January - **The South African airline SAA, heavily in debt, is to receive 218 million euros from a state-owned bank in order to avoid bankruptcy, the** independent directors of the public group charged with restructuring it announced on Tuesday. (...)
South African Airways (SAA), Africa's second largest airline, has been going through very serious turbulence for years.
It has recorded no profit since 2011, has a debt of at least (...) 570 million euros, and survives only on a permanent infusion of public money.
To avoid bankruptcy, a safeguard procedure for the company was launched in early December. (...)

The restructuring plan for SAA, which employs some 5 200 people, **should result in redundancies, the privatisation of several of the group's services and the elimination of some of its destinations.**

My comment: *Two days after this announcement, South African Airways cancelled about 100 flights in February, including about 50 international flights, in an effort to cut costs.*

> Wright Electric launches development of an engine for a 186-seat electric aircraft

(source Air & Cosmos) 31 January - **EasyJet partner** Wright **Electric will develop an electric motor and** announces its collaboration with UK aerospace company BAE Systems to accelerate the development of this new technology. The American start-up intends to carry out ground tests of its engine as early as 2021, followed by flight tests in 2023.
Wright Electric is developing megawatt scale electrical systems that will be required for the flight of its 186-seat commercial electric aircraft, the Wright 1. To achieve this, the US start-up is building a 1.5 MW electric engine and a 3 kilovolt inverter. This engine will be the power plant for the Wright 1 electrical system. (...)
Wright Electric will conduct aerodynamic tests on its fuselage, which will form the basis for the design of the propulsion system. **The company expects Wright 1 to enter service in 2030.** Many government agencies in the United States fund research in the field of electric aviation, including Nasa and the Air Force Research Laboratory (AFRL).

My comment: You have to *be very careful when talking about a future electric plane.*

Here, Wright Electric, a startup with about ten employees, is working on the design of an electric motor, not an airplane. This electric motor should have a power of 1.5MW (mega watts).

By way of comparison, the four engines of the A400M develop 35MW. A nuclear power plant provides an output of 1000 MW, equivalent to the power of about 30 airplanes.

In the future, it will be impossible to power an electric plane with batteries. Their weight is prohibitive.

One of the solutions being considered would be to produce electricity from hydrogen. With one problem: hydrogen storage requires a cylindrical tank, like on rockets. The whole plane should be redesigned *accordingly.*

> Aviation industry advocacy for sustainable alternative fuels

(source Reuters) 23 February - **Six major players in the French aeronautics sector are calling on the government to promote the development of a sustainable alternative fuel industry** "within a competitive and viable framework" in order to contribute to the reduction of CO2 emissions, considering that the eco-contribution of the 2002 finance law "will in no way contribute to the ecological transition". (...)
The signatories are Guillaume Faury, President of Airbus, Anne Rigail, CEO of Air France KLM, Alain Battisti, President of the French National Federation of Merchant Aviation (Fnam), Eric Trappier, CEO of Dassault Aviation and President of the French Aerospace Industries Grouping (Gifas), Augustin de Romanet, CEO of the Aéroports de Paris Group, and Thomas Juin, President of the Union of French Airports (UAF&FA).
The new tax "voted in the 2020 finance law will in no way contribute to the ecological transition of the sector," they say.
"We welcome the government's announcement of a roadmap on sustainable alternative fuels for aviation," they continued.
For the signatories, **it would be "desirable for France to encourage the development and financing of such a sector in** a competitive and viable framework for all players".
They suggest incentive mechanisms such as tax credit, tax exemption or tax allocation.
"Sustainable fuels could save up to 80% of CO2 emissions compared to fossil kerosene," they say.

My comment: *Sustainable fuel is today the only credible alternative to kerosene. Its development needs to be supported by governments.*

A first step was taken on 27 January with the announcement by the Minister for Ecological Transition of the launch of a roadmap for sustainable aviation biofuels in French air transport.

> United States: Airbus evades prosecution for corruption

(source RFI) 23 January - **3.6 billion euros. This is the amount of the fines that the Airbus group will have to pay to the French, British and American authorities for acts of corruption committed between 2004 and 2016** in no less than 15 countries. A record amount, but one that allows the aircraft manufacturer to avoid legal action.
Luxurious gifts to Chinese officials, the payment of bribes to fictitious intermediaries or not, all under the supervision of a department in

charge of imagining the schemes to conceal these embezzlements. It is a legacy of Airbus that has been uncovered by the three jurisdictions working together. **"The agreements we have reached turn the page on unacceptable practices of the past,"** conceded Denis Ranque, Chairman of the Board of Directors, adding that important reforms have been adopted. In addition to eliminating the department in charge of remunerating the network of intermediaries, the group has strengthened its anti-corruption policy. (...) This had the effect of softening them up, including the dreaded US Department of Justice, before which **Airbus admitted to lying and pledged to tighten controls**. Same on the French side, where the French Anti-Corruption Agency will monitor the group's compliance programme. Airbus, which states that these three agreements do not amount to an admission of guilt, thus avoiding a real trial, or even a conviction, which would certainly have cost it much more.

My comment: *The fine imposed on Airbus will be distributed as follows: EUR 2.1 billion to France, EUR 984 million to the United Kingdom and EUR 526 million to the United States.*

A similar procedure is underway against Boeing. Its outcome could be announced in the course of 2020.

> Boeing's results go into the red for the first time since 1997

(source: Le Journal de l'Aviation) January 29 - (...) As a direct consequence of the halt in deliveries of the 737 MAX from March 2019, **a quarter of Boeing's sales have soared** compared to 2018. This brought the group's total assets to $76.6 billion. **This decrease was reflected in the operating result, which showed a loss of USD 1.98 billion, compared with a profit of USD 12 billion in the previous year. Similarly,** net income went from positive to negative, from $10.5 billion in 2018 to -$636 million in 2019.

In detail, the Commercial Airplanes branch - which delivered only 380 aircraft in 2019 compared with 806 the previous year - generated only $32.3 billion in revenues (-44%). The operating profit of 7.8 billion in 2018 gave way to a deficit of 6.7 billion last year. (...)

These results were largely impacted by the $8.3 billion of "pre-tax charges related to estimated potential concessions and other customer considerations" over the year due to the capitalization of the 737 MAX. An **additional $6.3 billion in additional costs were added**

for the production of the 737s, whose output increased from 52 aircraft per month to 42 in April. In spite of this decrease, the manufacturer is keeping about 400 aircraft in cockpits awaiting delivery. (...)

Boeing expects "approximately $4 billion of abnormal production costs to be expensed as incurred, primarily **in 2020**.
The Defense, Space & Security division stagnated with sales of $26.2 billion (-1%) despite significant deliveries of new and upgraded AH-64 Apache and KC-46A tankers. Its operating income, on the other hand, improved by 57% to USD 2.6 billion. This was despite a $410 million charge for Nasa's Commercial Crew program, as Boeing suffered a half failure when it launched its first CST-100 Starliner (unmanned) CST-100 Starliner capsule in December.
Boeing Global Services was the exception with an 8% increase in revenues to $18.5 billion. The division reported operating income of 2.7 billion, up 6%. (...)

My comment: *In a standard year, commercial aircraft represent only half of the US manufacturer's turnover.*

The other half is made up of military and space activities on the one hand and services on the other.

This service division (Boeing Global Services) combines the traditional activities of parts management, aircraft modification and modernization, information processing and advanced data analysis. It is the only one on the rise in 2019.

> Brexit and airlines: what consequences?

(source Radio France) 2 February - For the time being, **Brexit does not change anything for British airlines.** For a long time now, Brussels has been defining measures that allow airlines flying between the two sides of the Channel to maintain their flight schedules for nine months, on the date of the United Kingdom's exit from the European Union. (...)
EasyJet has anticipated this exit from the Union as early as 2017 with the creation of a subsidiary, based in Austria, which enables it to operate all its flights within Europe or between a European destination and a third country other than the United Kingdom. (...) What **remains now is to find bilateral agreements, in the longer term, and to resolve the problem of the composition of the capital of British companies.**

The IAG group, for example, the parent company of British Airways, which owns Iberia, Vueling, will eventually have to 'Europeanise' its shareholding. British investors will reduce their shareholding below the 50% threshold. The same goes for Ryanair, and EasyJet.
No real change for passengers, however, as the UK is not part of the Schengen area, which allows the free movement of persons and harmonises controls on travellers. (...)

The companies and the competent authorities therefore have nine months to find solutions to this Brexit.
What may take a little longer will be regulations and safety. The UK will choose between rebuilding its safety and regulatory measures (experts estimate that this could take up to 10 years) or joining the European Common Aviation Area under EASA as a third country member.

End of the press review

> Follow-up to the referendum on the privatisation of Aéroports de Paris

The consultation procedure on the privatisation of the ADP group has been open since 13 June and will run until March 2020. It requires the signatures of 4.7 million voters to lead to a referendum on a shared initiative (RIP).

On the Internet, the consultation can be signed on the site referendum.interieur.gouv en

As of 3 February, the consultation had collected 1,086,000 signatures, or 23.02% of the signatures required.

My comment: *Since the one million signatures milestone was passed (early December) the number of signatures has been stagnating.*

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

The Air France-KLM share is at 8.48 euros at the close of trading on Monday 3 February. It is slightly up by +0.47%. The luxury goods, air transport and hotel sectors are affected by information on the spread of the virus from China. Air-France-KLM is impacted by the freezing of many air routes with China.

The average (the consensus) of analysts for the AF-KLM share is 11.13 euros.

The barrel of Brent oil (North Sea) **is down sharply from $5 to $54.** In three weeks, it went from $69 to $54. Oil prices fall, penalized by concerns about global demand, particularly in China. The measures taken to counter the viral epidemic could slow down economic activity.

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

You can react to this press review or provide me with any information or thoughts that will help me better carry out my duties as a director of the Air France-KLM Group.

You can ask me, by return, any question relating to the Air France-KLM group or employee shareholding...

I'll see you soon.

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| François Robardet

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