I Letter from the Air France-KLM Director

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Monday's Press Review

> Air France, KLM, Delta and Virgin Atlantic launch their transatlantic joint venture

(source Le Journal de l'Aviation) 3 February - The new transatlantic joint venture is now launched. **Air France, KLM, Delta and Virgin Atlantic have made their partnership concrete** and now offer an extended network and frequent flyer programs to their passengers on flights between Europe, the United Kingdom and North America.

The idea of combining the Air France-KLM/Delta/Alitalia and Delta/Virgin Atlantic joint ventures into a single entity was formalized in July 2017 and was accompanied in particular by Air France-KLM's plan to acquire a 31% stake in its British partner. The major benefit of this project for Air France-KLM was its reinforcement across the Channel. Since then, the project's physiognomy has changed somewhat: Alitalia is no longer part of it and the stake in Virgin Atlantic was abandoned last December.

But the broad outlines remain. **Customers will be able to book a flight on any of the four airlines and combine them** to arrange the trip that suits them best. (...)

Freight transport will also benefit from the schemes. Better cooperation between cargo subsidiaries is achieved through the multiplication of co-located facilities or the pooling of road transport options, for example. The annual turnover of the joint venture, including both passenger and freight activities, is estimated at $13 billion. (...)

One of Air France-KLM's main objectives with this initiative has been preserved, as Benjamin Smith, the Group's Chief Executive Officer, points out: "**this joint venture will give Air France-KLM greater access to the British market, and in particular to London-Heathrow, the world's leading air transport market**. »

> Due to the Cabinet's indecision, the growth will be transferred to Paris

(source De Telegraf, translated with Deepl) 5 February **- If policy does not allow the growth of Schiphol and the opening of Lelystad airport, KLM lines will be transferred to France** . That is what the KLM works council wrote in a petition that is being presented today in the lower house of Parliament on behalf of 36,549 employees.

The KLM works council is very concerned about the direction the discussion on Schiphol and Lelystad is taking. Some politicians are pushing for further growth to be postponed or even pushed back, and positions are also divided within the cabinet (Editor's note: the Dutch government).

The works council is concerned that the Air France-KLM parent company may intervene with KLM if the company is not allowed to develop further. After all, there is still room for Air France in France. "As a company in the aviation sector, you have to grow, just like the competition," says the secretary (...) of the KLM works council. "If this becomes physically impossible at Schiphol, then this growth will land in other places.

"All around us, the world of aviation is spinning merrily. This year, Frankfurt will be able to grow by 7%, Heathrow will have a third runway, there is still room in Paris. We demand the 1.5% growth of Schiphol Airport that the government has promised". (...)

Despite all the political promises, the growth of Schiphol and the opening of Lelystad seem further away than ever. (...) According to the authors of the petition, the opening of Lelystad airport, which has already been postponed three times, is crucial for the future of Schiphol, as it allows the further growth of the KLM network. (...)

In addition, according to the works council, the proceeds of the flight tax to be introduced next year should not disappear into the public treasury, but should be used for pollution reduction and environmental measures. "KLM spends 3 million euros every day on the sustainability of our company. As employees, we also work on sustainability every day. We think we are keeping all our promises, now it's up to the politicians to do it".

My comment: *The Dutch government (the Cabinet), a shareholder in Air France-KLM, has repeatedly postponed decisions that would allow KLM to continue its growth. He puts his national airline, the third largest employer in the Netherlands, in a delicate situation.*

> American Airlines signs with GOL in Brazil

(source Air Journal) February 5 - **American Airlines has signed a** reciprocal code-sharing **agreement with low-cost GOL** Linhas Aéreas Inteligentes, giving its customers access to 20 destinations in Brazil. A second daily flight between Miami and Rio de Janeiro will be introduced.

As anticipated since last October and LATAM's departure from the Oneworld
alliance, of which the American airline is a member, the agreement announced on February 4, 2020 will allow American Airlines to maintain its presence in Brazil. (...)

Ten years after the signature of a first agreement, **this merger between American Airlines and GOL would have started as soon as Delta Air Lines announced the acquisition of 20% of the capital of LATAM** Airlines Group, leader in Latin America - and first in Brazil precisely before GOL. LATAM has since announced its departure on May 1 from the Oneworld alliance of which American Airlines is a member. It should also be noted that Delta Air Lines (SkyTeam) was present in the capital of GOL, with which it shares its codes, but sold its shares during the agreement with LATAM. For **its part, United Airlines has been trying since last November to set up a joint venture with Avianca and Copa Airlines,** all members of the Star Alliance, which Azul (the third largest player in the Brazilian market) could join. (...)

My comment: *The consolidation of air transport is almost complete in the United States. In order to continue to grow, US airlines are now turning to other continents.*

> Qatar Airways acquires 49% of Rwanda Air

(source Business Travel) 6 February - Qatar Airways CEO Akbar Al Baker said the company was going to buy 49% of Rwanda Air.

The information was confirmed at an air transport summit in Doha.

This acquisition follows the entry of Qatar Airways into the capital of Bugesera Airport with a 60% stake. The construction of this airport is expected to be completed by 2020. (...)

The only problem is that Rwanda Air has been in deficit since its creation with significant losses since its creation, totalling $222 million in accumulated losses by the end of 2016, according to Jeune Afrique. (...)

For Qatar Airways the entry in the capital of Rwanda Air could allow it to circumvent the embargo that forces it to bypass Saudi Arabia, the United Arab Emirates and Egypt.

Thus **Rwanda Air flights could be used for flows between Doha and Africa, which would allow the embargo to be circumvented**.

> Etihad sells part of its fleet for a billion dollars

(source Le Journal de l'Aviation) February 5 - **Etihad is getting a** little more cubits. The Emirati airline **has reached an agreement with the US investment fund KKR and the leasing company Altavair AirFinance, under which the two partners will acquire sixteen Boeing 777-300ERs and twenty-two Airbus A330s for $1 billion**. This will enable it to move forward with its transformation plan. (...)

After years of unfortunate investments that contributed to siphoning off its accounts, Etihad had to launch a restructuring plan, the second half of which it has begun. One of its major projects in recent years has been the repositioning of its fleet, for which the most spectacular decisions have been the cancellation of orders for A350s and 777Xs, with the exception of five A350-1000s and six 777-9s. The four A350-1000s already produced are currently in stock and are expected to be delivered in 2021. It is also awaiting delivery of 34 Dreamliner and 26 A321neo. (...)

My comment: *The sale and then the leasing of part of its fleet will allow Etihad, which has made a series of loss-making years, to partially* *replenish its cash flow.*

The question is whether it will be enough to get this company back on its feet. Its turnover has fallen by almost 40% in recent years, from $9 billion in 2015 to $6 billion in 2018.

> Coronavirus: Cathay Pacific asks its 27,000 employees to take a leave of absence without pay

(source AFP) Feb. 5 - **The CEO of Hong Kong airline Cathay Pacific on Wednesday asked its 27,000 employees to take three weeks of unpaid leave to** deal with the consequences of the new coronavirus epidemic.

"I hope you will all participate, from our front-line (customer-facing) employees to our senior executives," said Augustus Tang in an online video address.

This request highlights the economic difficulties faced by Cathay, already a victim of the pro-democracy protests in Hong Kong which last year heavily affected the use of its lines. (...)

"With such an uncertain outlook, conserving our cash flow is now the key to protecting our business," he said.

"I realize this is hard to hear," he said of the unpaid leave he requires his employees to take. "And **we may have to take other steps**. But by supporting this special leave, you will help us in our time of need," he said.

He also called on suppliers to reduce their prices and said the airline would make short-term capacity adjustments, confirming in particular the 90% reduction in its flights to mainland China.

My comment: *The situation of Cathay Pacific, a company based in Hong Kong, was delicate before the coronavirus crisis.*

> Ryanair takes an interest in the Boeing 737 MAX 10

(source Le Journal de l'Aviation) February 4 - During a conference call following the presentation of its third quarter results, **Ryanair confirmed its interest in the Boeing 737 MAX**. Praising its performance and the gains it expects from operating the 737 MAX 200, Michael O'Leary also revealed that he wants to commit to a more capable version, Reuters said. "We're already in discussions with

Boeing. We have an offer on the table for an order of MAX 10, a 230-seater aircraft," said the Irish group's managing director. (...)

Currently, Ryanair is a customer of the 737 MAX 200, a version of the 737 MAX 8 modified to be densified. Due to the aircraft's grounding since last March, the **delivery of Ryanair's single-aisle** aircraft **has been delayed by one year**. The company announced on February 3 that it was not expecting its first aircraft until September or October at best. Michael O'Leary even mentioned a delay that could increase to as much as two years. Initially, Ryanair was scheduled to operate 55 Boeing 737 MAX 200s in the summer of 2020; it hopes to delay this project until the summer of 2021.

The consequences are already being felt. Growth has slowed (it will be 2% this summer, mainly due to the Airbus fleet), several bases have been closed and **the objective of reaching 200 million annual passengers has been postponed to fiscal year 2025 or even 2026.** Further discussions are therefore ongoing with Boeing concerning the price of the delayed 737 MAX 200 and the compensation to be granted. (...)

My comment: *The B737 MAX crisis is slowing down Ryanair's growth. The Irish company only owns Boeing aircraft, which weakens its position.*

This is no doubt why Ryanair has just announced an order for a hundred Airbus aircraft for its subsidiary Laudamotion.

> Boeing sees the light at the end of the tunnel for the 737 Max...

(source Les Échos) February 7 - Is it the light at the end of the tunnel for the Boeing 737 Max? After having dashed the hopes of the aircraft manufacturer at the end of 2019, **the head of the American civil aviation,** Steve Dickson, has rekindled the hope that Boeing will soon begin to emerge from the crisis. At a meeting with the trade press in London on Thursday, the FAA boss **estimated that recertification flights of the 737 Max could begin "within the next few weeks**". (...)

Steve Dickson cautiously surrounded his statements with all kinds of warnings and conditionals, stressing in particular that there was no need to commit to a timetable and that a number of issues remained to be resolved. However, **the FAA boss confirmed that the audit process for the new flight control software was complete and that**

it could be subject to joint approval with its major international counterparts, such as the European Aviation Safety Agency. And this, even though there seem to be points of disagreement on other issues. "As far as the design [of the revised MCAS] is concerned, from what I know, we are very much aligned," he said. (...)

Boeing's priority is to deliver the approximately 400 aircraft in stock. But according to David Calhoun, **it should take 18 months, at an** average of 22 per month. **During this period,** and in order to avoid further congestion in the car parks, **the assembly line will therefore run at reduced speed**. The aircraft manufacturer has not officially put forward any figures, but one of its main suppliers, the US supplier Spirit , which manufactures the fuselages of 737 aircraft, has indicated that it expects only 220 fuselage deliveries to Boeing in 2020. This is enough to produce 24 Max per month on average over nine months, compared to 42 per month in 2019 and 52 per month before the crisis.

Adding together the Spirit and Boeing forecasts, deliveries of 737 Max are therefore not expected to exceed 46 aircraft per month on average in 2020 (assuming production restarts in April). This leads the American analyst Scott Hamilton, in his specialized letter LNA, to say that **the return to normal - that is 52 Max per month - will not occur before 2022**. The pre-crisis objective of increasing production to 57 Max per month would not be reached before 2023. This will **enable Airbus, which is counting on 63 A320s per month in 2020, to maintain its lead over Boeing for several more years**.

My comment: *The return to service of the B737 MAX will be very gradual. It is likely to meet with the reluctance of the passengers.*

Some companies have taken the lead in the United States. Passengers scheduled on a B737 MAX will be able to change flights if they wish.

For its part, Ryanair has already announced that this would be impossible, the low-cost airline having indicated that it would allocate its aircraft at the last moment.

> Realistic promise or window dressing? UK aviation sector aims to be carbon neutral by 2050

(source RTBF) 5 February - **The commitment is not ordinary: to achieve carbon neutrality in the** UK **aviation sector within 30 years.** In figures, this promise includes the reduction of more than 60 million tonnes of CO_2, of which more than a third (23.5 million tonnes of CO_2) is due to the introduction of new, cleaner and more efficient aircraft, or 14.4 million tonnes of CO_2 due to fuels that use less oil.

The organization that carries this commitment is not lacking in references: created in 2005, Sustainable Aviation now brings together **most of the major players in the UK aviation sector**. (...)

All these players **recognise that meeting this ambitious commitment will not be easy**: it will require substantial investment, technological innovation and genuine cooperation between industry and government, which is being asked to work in conjunction with ICAO (the International Civil Aviation Organisation) but also with the United Nations. The UK industry claims to be acutely aware of the need for global action. (...)

In its "roadmap" (a 76-page document detailing the various measures), the British airline industry considers, for example, that flights of less than 400 km could be operated by electric aircraft, specifying that the production of the electricity needed to power the batteries would be completely neutral. "**This is what we call 'com'," reacts Waldo Cerdan, an aeronautical expert** who has been interested in this subject for a very long time. **Electricity is not a source of energy, but an energy carrier**. The difference may seem trivial, but it is not. Electricity doesn't grow on trees, it has to be produced. So, without even mentioning the weight of the batteries or the technological challenges, this path, however promising it may seem, is incompatible with the notion of climate urgency". (...)

For Waldo Cerdan, the reduction of CO_2 emissions implies an "inescapable regulation of demand" which cannot be limited to the introduction of a "carbon tax" for frequent users of airplanes: "apart from allowing the creation of an "energetic transition" fund, the aim of which would be to compensate the most fragile populations, this tax will have little effect on demand". (...)

My comment: *The air transport sector is regularly singled out for its CO_2 emissions. But the criticisms levelled at it are applicable to other sectors of the economy.*

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

By 10 February, the consultation had collected 1,092,000 signatures, i.e. 23.15% 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 8.804 euros at the close of trading on Monday 10 February. It is up +3.82%. 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.

Brent crude oil (North Sea) **is down $1 to $53 per barrel.** When the coronaviruus outbreak started, it was $69. 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...

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| François Robardet

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