

The Little Prince flies to Paris



I Letter from the Director of Air France-KLM

François Robardet

Representative of the employees and former employees shareholders PS and PNC

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Monday's Press Review

> Saint-Exupéry: "The Little Prince" flies to Paris, leaves New York for the first time

(source France Télévisions) February 1 - Did you know that one of the most widely read books in the world, "**The Little Prince**" by Antoine de Saint-Exupéry, was written in 1942 in the United States? **Until now**, the manuscript **had never crossed the Atlantic**, but now it has finally done so and will be exhibited at the Musée des Arts Décoratifs in Paris from 17 February.

After a night flight over the Atlantic, the New York - Paris has just landed at Roissy (Val-d'Oise). The curator of the Museum of Decorative Arts is waiting impatiently for it despite the rain, because **in the hold of this Air France plane, there is a national treasure**. In the cockpit, **it is also a great emotion for the captain. "It was reading Saint-Exupéry, Kessel, Romain Gary, all these people who were pilots, that really gave me the vocation to be an airline pilot,"** says Jean-Michel Buffet. The great-nephew of the writer and aviator was also part of the trip. For as surprising as it may seem, the manuscript of The Little Prince had never left his native New York. The 141 pages of the aviator's book are kept at the Morgan Library. "This is our greatest treasure," says Colin B. Bailley, its director. In the end, **35 pages of the original manuscript will be on display at the Musée des Arts Décoratifs in Paris through**

June 26.

My comment : *The Little Prince, Terre des hommes, Night Flight, South Courier, War Pilot, ... Like most of you, I devoured all these novels in my youth.*

The Little Prince will always have a special flavor, which makes it the most widely read children's novel in the world. We all have in mind the "Please draw me a sheep".

But my favorite scene remains the meeting between the Little Prince and the fox; a beautiful story of friendship. How many times have I told it to my children, knowing it by heart.

> **Elbers: "That says a lot about the commitment of KLM staff".**

(Upinthesky source) Feb. 4 - In mid-January, **the airline announced that Elbers would step down as CEO and president of KLM "after appropriate consultation."** The departure has sparked many reactions. Dario Fucci, chairman of the KLM works council, for example, called the Schiedam native "much loved". **A petition was also drawn up, which received almost ten thousand signatures. Elbers appreciated the move. "But the petition does not change the decision.** It says a lot about the commitment of KLM employees to the company. My departure elicited many reactions, which left me with mixed feelings. I started here in short pants 30 years ago," he told the Telegraaf.

Mr. Elbers has been the chief executive of KLM since 2014. He had then succeeded Camiel Eurlings in this role. His term as CEO will end on May 1, 2023. A journey with many ups and downs. "I have been doing this for eight years now. **In agreement with the supervisory board, we have decided that there will not be a third term.** As far as I'm concerned, I'm looking to the future."

(...)

There have been rumors that PostNL CEO Herna Verhagen could succeed Elbers. There have reportedly been contacts between KLM and Verhagen at the end of 2021. Verhagen herself does not give much information and rejects the rumor. "It's a shame that Pieter is leaving KLM. He is a good colleague-CEO and I think he is the right man in the right place," she said at the time. **Other candidates are also being discussed,** such as Rabobank CEO Wiebe Draijer, Transformation Director Oltion Carkaxhija, and even Transavia CEO Marcel de Nooijer. The latter would have to give up control of the subsidiary as a condition for eventually taking over as CEO of KLM.

Elbers says he doesn't yet know what he will do after his position as KLM CEO. "Every time I'm on a plane, there is speculation (for example, spotted in Dubai where people thought he was going to take a job at Emirates, ed. I'm going to think calmly about the future and see what comes my way."

My comment: *Emotions are running high among KLM staff.*

Pieter Elbers was perceived by most employees as a colleague rather than as a boss, a feeling rarely found in France.

> How cargo planes and air freight are thriving in the shadow of Covid

(source Les Echos) February 2 - Air freight can thank the coronavirus. While airlines are still far from having all their passengers back, **cargo planes have been breaking records for load factor and profitability since the beginning of the health crisis.** In 2021, air cargo even experienced the second highest growth in its history, according to statistics from the International Air Transport Association (IATA), with an increase in volumes transported of 18.7% over one year.

Air cargo has not only recovered the 9.9% of cargo volume lost in 2020, but has already **surpassed its previous record level, with total traffic, expressed in tons per kilometer carried (CKT), 3.5% higher than the previous peak in 2018.**

With the exception of Latin America, all major regions of the world are benefiting, although North American airlines, which are among the world leaders in air cargo, are the main beneficiaries with 20.5% year-on-year growth, compared to 8.8% for Asians and 6% for Europeans.

In Europe, cargo is the only market segment whose traffic is, month after month, still above the pre-crisis level, a feat that has been underway since June 2020. In 2021, the number of cargo flights was 9.6% higher than in 2019, according to Eurocontrol. The only European airlines to post higher traffic than in 2019 last year were DHL, Sky Express and ASL Belgium - three air cargo specialists. And **for many airlines, including Air France and KLM, cargo was still the main, if not the only, source of profit in 2021,** in the face of abysmal losses in passenger transport.

This surge in air cargo is the result of two combined phenomena. Firstly, the urgent need for medical products due to the pandemic, and **secondly, an insufficient supply of maritime transport to meet the return of global demand.** A rebound in demand led to a surge in

shipping prices and supply tensions in many sectors, such as electronics, thus justifying the use of air transport for products that used to travel by ship.

The surge in air freight would have been even greater if the market did not continue to suffer from a lack of capacity due to the reduction in the number of passenger aircraft in service. By forcing airlines to ground aircraft to adapt to the drop in passenger traffic, the crisis has deprived air freight of part of the cargo holds of passenger aircraft, which usually represent half of the cargo offer. In 2021, the latter was still 10.9% below its pre-crisis level. Last December, the decline was only 4.7%.

Paradoxically, **this lack of supply, far from penalizing operators, has made the party even more beautiful by propelling air freight rates to their zenith.** Already up sharply in 2020, prices continued to climb last year, reaching 150% of the December 2019 level by the end of the year.

It remains to be seen whether this craze will survive the pandemic and the end of shortages. Airlines believe it will, judging by cargo aircraft purchases in 2021. For the first time in a long time, Boeing's orders for cargo planes have surpassed those for wide-body passenger aircraft in 2021, with 41 deliveries out of a total of 77 long-haul aircraft. The U.S. aircraft manufacturer has also booked 84 orders for freighter aircraft (42 B777Fs, 38 B767Fs and four B747-8s), plus more than 100 conversions of passenger aircraft to all-cargo models.

This success has convinced Boeing and Airbus to each launch a new cargo aircraft model - a cargo version of the 777X for Boeing and the A350 for Airbus. For Boeing, it's the beginning of the renewal of a complete but aging range, which had not seen anything new for 15 years. For Airbus, it's simply a return to the air cargo market after the abandonment of the A380 cargo project and the commercial failure of the A330F Neo.

For the time being, this gamble seems to be paying off. In three months, Airbus has managed to secure some 30 orders, purchase commitments and options for its A350F, including that of Air France (four purchase intentions and four options) and that of the French shipping group CMA CGM, which has just set up its own air cargo subsidiary. As for the 777XF, Qatar Airways has just signed an initial purchase commitment for 34 aircraft, with an option for 16 more. As further evidence of the new interest in cargo, 20 of the 50 777XFs targeted by Qatar Airways are conversions of part of a previous order for 60 B777Xs in passenger version.

My comment: *At the beginning of the health crisis, Air France-KLM was*

one of the first airlines to position itself on the air cargo market, as of April 2020.

To meet the demand, passenger aircraft were quickly dedicated to the transport of cargo, making Cargo one of the three profitable activities of the Franco-Dutch group in 2021, along with maintenance and Transavia.

> **Ryanair, EasyJet, Wizz Air: the share of ancillary revenues jumps**

(source La Tribune) February 4 - The traffic is there, the profits will wait. **Ryanair, EasyJet and Wizz Air**, the three major independent European low-cost airlines, have ended 2021 with strong growth in line with the recovery that began during the summer period, especially to southern Europe. They **have multiplied their passengers by at least three compared to last year**. However, all three airlines still recorded losses in the last quarter, with operating costs also soaring.

(...)

This improvement in traffic has had a direct impact on revenues.

Ryanair and EasyJet have even seen their revenues grow faster than their passenger numbers. (...) The situation is more complicated for Wizz Air, whose revenues have grown less quickly than its passenger numbers.

(...)

Despite these differences, **a clear trend is emerging: the share of ancillary revenues in revenues continues to grow at all three airlines**. They are driving the increase in revenues, while the average ticket price remains below the pre-crisis level. The phenomenon is obvious for the two ultra low-cost airlines. **At Ryanair, in the last quarter, ancillary revenues reached 22 euros per passenger, or 8% more than two years ago, when the average ticket price was 25 euros (-24%)**. If the trend continues, they could soon represent more than half of the revenue. This has already been the case **at Wizz Air** for over a year, but the trend is accelerating. **Ancillary revenues continue to grow faster than ticket revenues until they reach 60% of revenues by the end of 2021**. Despite a different model, the trend is just as palpable at EasyJet, which is evolving its ancillary revenue offering. Ancillary revenues accounted for a third of revenues in the last quarter. This compares to just 21% two years ago.

Despite these positive indicators, **none of the three airlines made a net or operating profit** in the last quarter.

(...)

This lack of profitability is largely due to the strong rise in costs for

all three companies: +73% for EasyJet, +113% for Wizz Air and +136% for Ryanair. This surge is due to several factors. First of all, the three operators have been working hard to redeploy capacity to capture the growth in traffic, thus causing a significant rise in variable costs. However, they have not succeeded in achieving the load factors necessary to make the model profitable. **Where their planes were filled between 91 and 95 percent in fall 2019, last quarter's rates hovered between 77 and 84 percent.**

(...)

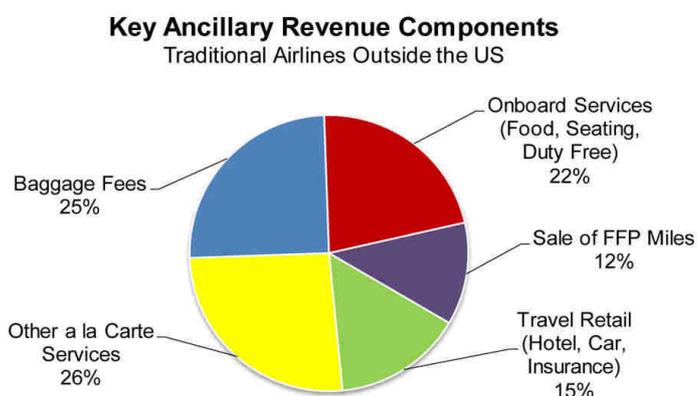
In this rise in variable costs, fuel has weighed heavily despite the fuel hedging mechanisms. With a 60% hedge until September 30 at \$504 per ton (for a spot price of \$840 on January 26), EasyJet seems to have done well. Wizz Air estimates that the average price of its fuel, including hedging, has doubled compared to the previous year to reach \$718 per ton. A surge that has partly erased its efforts to reduce its unit costs. Ryanair also points to the soaring price of jet fuel, as well as costs related to air traffic control, airport fees and ground handling.

For the beginning of this year, the trend should remain more or less the same with the effects of Omicron continuing into January.

Ryanair, which took the lead in reducing its capacity by 33%, estimates that it has lost 3 to 4 million passengers out of the 10 million previously expected. EasyJet has also cut back and is expected to slowly build up its capacity during the quarter. (...) In fact, Wizz Air expects a slightly larger operating loss than in the previous quarter. The increase in capacity of the three companies should then resume strongly in preparation for the summer.

(...)

My comment: *What are the ancillary revenues of airlines made of? Here is an example:*



Distribution based upon analysis of 2015 results of non low cost carriers based outside the US.

Ancillary fees are generated by any sale not related to the base fare, i.e., the purchase of a seat. Examples of ancillary revenues include

extra baggage, premium meals, unsolicited upgrades, in-flight entertainment and other a la carte products. These revenues can also come from a variety of sources such as commissions earned for hotel bookings and the sale of miles to partners, providing more options for consumers but also more profits for the airlines.

The traditional airlines (Air France-KLM, IAG, Lufthansa) have followed the lead of the low-cost carriers. They have all adapted to the consumer demand to pay for each of the services offered only when needed.

> **Qatar Airways in open conflict with Airbus places huge order with Boeing for 777X freighters and 737 MAX**

(source La Tribune) January 31 - In a dispute with Airbus over the A350, **Qatar Airways has placed a giant order with Boeing for 50 B777X freighters, including 16 options.** The contract is worth more than \$20 billion at list price, allowing the aircraft manufacturer to launch the program. The Gulf company is the first carrier to buy this wide-body aircraft in a freighter version. A breath of fresh air for the American aircraft manufacturer, which has guaranteed two years of production, according to its CEO, Dave Calhoun.

(...)

The company, which made the agreement official during a visit by the Emir of Qatar to the White House, **also signed a letter of intent for 25 737-10 aircraft and said it was ready to order a total of up to 50 737 MAXs. This is a way to compensate for the cancellation by Airbus of an order for 50 A321 NEOs due to a dispute between the aircraft manufacturer and the company over the A350.**

> **Politicians and air transport actors united for decarbonization in the Toulouse Declaration**

(source Journal de l'Aviation) February 4 - **Efforts to decarbonize aviation are getting organized.** While initiatives, partnerships and declarations of intent are multiplying in an attempt to reduce the environmental impact of the aviation sector, **the French presidency of the EU wanted to give greater coherence to the measures taken and envisaged at the industrial level, while taking a leading role at the global level for an equitable implementation. This is the purpose of the Toulouse Declaration, which was signed on February 4 by 42 States and nearly 150 industry players.**

The Toulouse Declaration is the first public-private initiative supporting the aviation industry's goal of achieving "net zero" CO2 emissions by 2050. It endorses the European Commission's commitment to work with

industry to define the principles and actions to achieve this ambition, and to create an ecosystem of stakeholders focused on a common goal. The next step is to set up a European pact to decarbonize aviation, which will provide a framework for dialogue between the authorities and industry, and define a concrete policy and the financial measures that must accompany it. **Airbus, Air France-KLM, ATR, Dassault Aviation, the ADP Group, Safran and Thales, for example, are already calling for alliances to be set up for the value chain of renewable and low-carbon fuels, or for raw materials.**

They are also calling for the EU to ensure a level playing field with non-signatory players, a subject also raised by EU Transport Commissioner Adina Valean.

In parallel, work should be done with ICAO and partners around the world to adopt a "long-term ambitious goal" (LTAG), which would coordinate actions at the global level, at the organization's next general assembly in September.

***My comment:** The Toulouse Declaration must be a first step towards the development of a global framework defining the obligations of air transport to participate in the fight against climate change.*

Acting only at the European level would be derisory. We must not forget that most of the growth in air transport will take place far from Europe, mainly in Asia.

> **How the French aeronautics industry plans to decarbonize aviation by 2050**

(source Les Echos) February 3 - **Decarbonizing air transport, yes, but how? The "Aviation Summit" in Toulouse**, which ends this Friday, February 4, **has reaffirmed the desire of the European Union and its main partners to achieve carbon neutrality by 2050.** But while this "Toulouse Declaration" paves the way for the internationalization of the objective, via the International Civil Aviation Organization (ICAO), **it remains rather vague on the means to achieve it.**

The Council for Civil Aeronautics Research (Corac) has nevertheless done this clarification work by publishing a study last month devoted to the decarbonization of air transport. The study is a roadmap drawn up by major private-sector players (Airbus, Safran, Dassault, Thales, Air France, ADP, etc.) and public-sector players (DGAC, ONERA, the French Ministry of the Army, the French Ministry of Transport, etc.) to guide research and development efforts in the French aeronautics industry over the next decade. **Achieving carbon neutrality by 2050 is a huge challenge,**" says Bruno Even, head of Airbus Helicopters and

chairman of Corac. It's a collective challenge that concerns the entire ecosystem and **will require a major investment effort. We're talking about more than €10 billion in R&D investments to be ready by 2030,**" he said. A first envelope of 1.5 billion euros has been committed in 2020 as part of the stimulus plan, and it is not limited to hydrogen aircraft projects. "It's a range of solutions and implementations," says Bruno Even.

The launch of a new generation of short- and medium-haul aircraft, with a conventional design but lower fuel consumption, is the first step. "By 2030, we can put ultra-frugal aircraft into service, with a conventional architecture, but with 30% less fuel consumption," says Corac's president. **Coupled with the possibility of using 100% biofuels,** which themselves offer a 70% to 80% reduction in CO2 emissions compared to conventional kerosene, this new generation of aircraft **would already be carbon neutral.**

Hydrogen-powered aircraft, although they figure prominently in Corac's work, would only arrive later, around 2035 for a regional model and 2045 for a medium-haul aircraft. **The contribution of hydrogen technologies to carbon neutrality should therefore not exceed 29% in 2050 in the most optimistic scenario.** "It's a more complex technical challenge, but we are convinced that we are capable of meeting it, and we are working on it within Corac," says its chairman. In any case, **the main lever for decarbonization will be sustainable biofuels.** They alone will account for nearly 50% of the path to carbon neutrality by 2050, compared with 35% for new technologies," says Bruno Even. They are not a technological challenge. Current aircraft are already certified to use 50% sustainable fuels. However, we need to accelerate the development of the production chain.

These different scenarios should make it possible to divide CO2 emissions "by a factor of between 5 and 8" by 2050, according to the Corac study. However, it is not the most optimistic. The Waypoint 2050 study by the European group ATAG expects a faster and more significant reduction. Corac's scenario 1 is even more cautious than one of those of the environmentalist association "Shift project".

Whatever the scenario, Corac expects a balance of 7% to 9% of CO2 emissions to remain in 2050 (i.e. 157 to 207 million tons of CO2), **to be compensated by ETS or Corsia-type programs.** However, even in the least favorable scenario, this balance of CO2 emissions from air transport would be equal to or less than the level recommended by the IPCC (Intergovernmental Panel on Climate Change) to keep the temperature increase below 2°C.

My comment: *Week after week, the same trends are emerging.*

In order to meet the airlines' CO2 reduction commitments, technological solutions exist, but the necessary investments are slow to be budgeted.

Within the team that initiated the process of creating the Sustainable Aviation Observatory, we are working to facilitate exchanges between the worlds of agriculture, agribusiness and air transport.

We believe that it is now possible to manufacture fuel from used oil or forest and agricultural residues, allowing a 75% reduction in CO2 emissions over its life cycle compared to fossil kerosene. These fuels, whose production does not compete with the food industry, can be safely incorporated into aircraft without modification.

End of the press review

> Advice for employees and former employees who are shareholders

You will find on my [navigaction](#) site the modalities of access to the managers' sites.

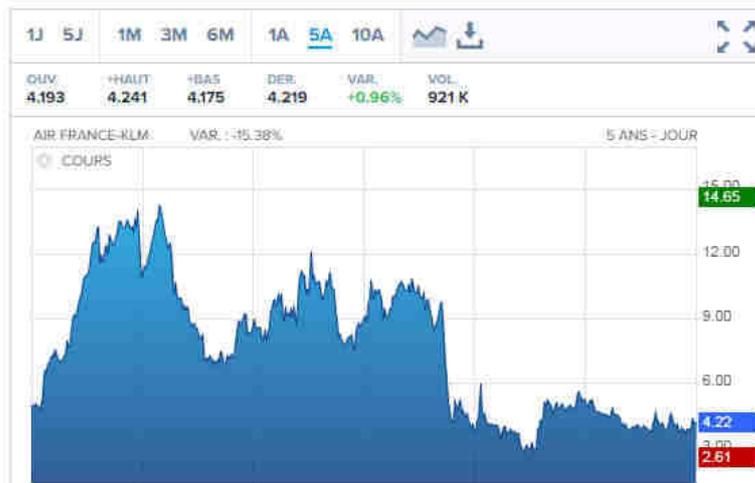
To avoid forgetting to change your contact information each time you change your postal address, **I advise you to enter a personal e-mail address**. It will be used for all correspondence with the management organizations.

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

> My comments on the Air France-KLM share price trend

Air France-KLM shares closed at **4.103 euros** on Monday 7 February. **It is up +3.22%**.

Before the coronavirus epidemic, Air France-KLM shares were at 9.93 euros.



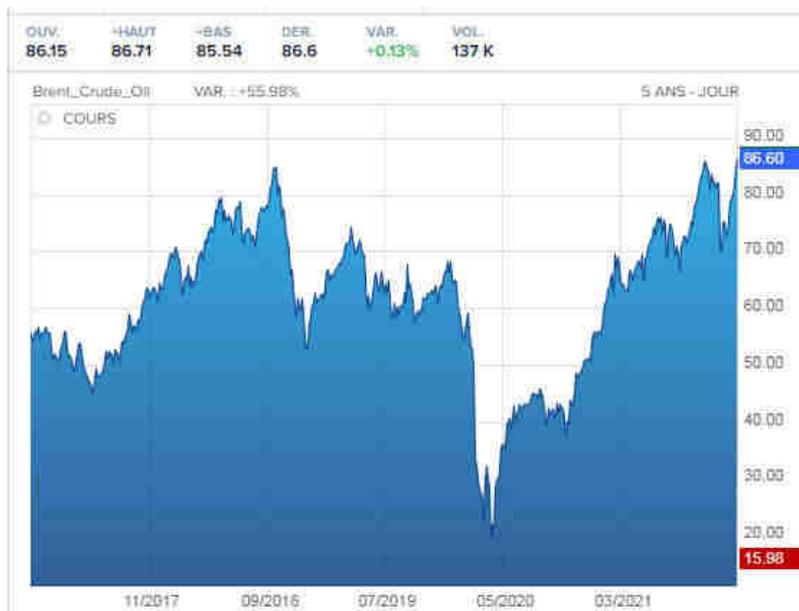
Evolution of the Air France-KLM share price over five years. The sharp drop corresponds to the beginning of the Covid-19 epidemic.

The analysts' average (consensus) for AF-KLM shares is 3.46 euros. The highest price target is 5.50 euros, the lowest 1.30 euros. You can find the details of the analyst consensus on my blog. I do not take into account the opinions of analysts prior to the beginning of the health crisis.

Brent crude oil (North Sea) is up again this week by \$2 to \$93.

At the end of October 2020, it was at a low of \$37.

At \$86 on October 25, Brent had reached a level not seen since 2014, supported by supply disruptions and underlying demand. It surpassed this record last week, the crisis in Kazakhstan explaining the rise.



Evolution of the oil price over five years. The sharp drop corresponds to the beginning of the Covid-19 epidemic.

This information is not intended to be a solicitation to buy or sell Air France-KLM shares.

You can react to this press review or send me 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 to employee share ownership...

See you soon.

To find the last press reviews of Monday, it is [here](#)

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| François Robardet

**Director of Air France-KLM representing the employees and former employees shareholders of PNC and PS.
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 related to the Air France-KLM shareholding.

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