I Letter from the Air France-KLM Director

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

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Monday's Press Review

> Air France will support six projects to offset CO2 emissions from its domestic flights

(source Le Parisien) 25 December - At the end of September, (...) **Anne Rigail,** CEO of Air France, **announced** in our columns "**an investment of several million euros" by the airline to "further reduce its carbon footprint".** "We already have many actions in place to limit our CO2 emissions.
This involves renewing 50% of its fleet with new-generation aircraft that consume between 20% and 25% less fuel. "There is also eco-piloting, the management of aircraft movements on the ground with the use of electrical equipment. We also have offsets for CO2 emissions on European flights under the ETS (Emissions Trading Scheme) and on international flights with the Corsia
 programme (Offsetting and Carbon Reduction for International Aviation)," she added.
Between 2011 and 2018, according to the company, the company's emissions have already been reduced by 20%.
"But we want to go further," she said. The idea? Offset 100% of CO2 emissions from domestic flights from 1 January 2020, i.e. almost 500 flights and 57,000 passengers per day. **"We are going to finance projects for tree planting, forest protection, energy transition or biodiversity conservation** (...)," she warned.

These projects "certified" by environmental NGOs such as WWF and selected by EcoAct, a company specialising in carbon neutrality, **will be implemented in** South America (Brazil, Peru), Africa (Kenya) and Asia (India, Cambodia).
Two other projects will also take place in France as part of the new low carbon label. **EcoAct will provide support for projects in the field" and monitor the concrete benefits, particularly in terms of the fight against climate change**. "(...)
According to Air France, this voluntary compensation scheme "is part of the **overall approach to reduce the environmental footprint.** "By 2030, the SkyTeam alliance airline aims to reduce its CO2 emissions per passenger/km by 50% compared to 2005.

My comment: *Air France's approach is exemplary. Its decision to offset all CO2 emissions from domestic flights as of January 1, 2020 has been taken over by British Airways.*

> New aircraft for KLM

(source Air Journal) December 25 - KLM Royal Dutch Airlines has received its fourth Boeing 787-10 Dreamliner (...).
The fourth of the eight 787-10 ordered by KLM arrived from Charleston on 21 December 2019 at Amsterdam-Schiphol Airport. **The aircraft,** registered PH-BKF and named "Sneewklokje" (snowdrop), **is configured like the others to accommodate 38 passengers in Business Class, 36 in Premium and 270 in Economy (344 seats).**

The Dutch national airline will operate the thirteen 787-9s ordered (30+48+216), and will receive six other 787-9s initially ordered by the Franco-Dutch group for Air France, for a total fleet of 27 Dreamliner aircraft. (...)

My comment: *KLM's long-haul fleet is expected to evolve to consist exclusively of B787s and B777s. Its number is conditional on the increase in capacity at Schiphol Airport. Currently, the administrative ceiling of 500,000 movements per year has been reached.*

The Dutch government is in a delicate situation. As a major shareholder of the Air France-KLM group, it has every interest in promoting KLM's growth by increasing the number of aircraft movements on Schiphol.

However, it faces hostile public opinion, both because of noise pollution and environmental considerations.

> Retirement at age 60 and at full rate for seagoing

personnel

(source Franceinfo) December 29 - **The pilots are** satisfied. They have won most of their claims. They will **still be able to retire at full retirement at age 60, and whether or not a pivotal age of 64 is introduced will not change anything for the profession.**

In addition, pilots will continue to receive their supplementary pension paid by an autonomous fund, the CRPN, the Pension Fund for Seagoing Personnel, which has substantial reserves estimated at more than 5 billion euros. The pilots did not want this fund, shared with the hostesses and stewards, to be in danger of disappearing as part of Emmanuel Macron's plan to merge the 42 existing schemes into a "universal system" by points.
The maintenance of the CRPN will also allow staff who lose their flight licences to receive allowances. On the other hand, the retirement age of 55 for NCPs will gradually disappear for the generations born after 1987 and converge towards 60. (...)

My comment: *Following the commitments made by the State as part of the pension reform, most pilot, hostess and steward trade union organisations have lifted their strike notice of 3 January 2020.*

> Emirates President Tim Clark to step down in 2020

(source rts ch) 27 December - The **emblematic president of the Emirates airline Tim Clark** will resign in June 2020 after 16 years in this position, the company announced. He's the one who made this small airline one of the largest in the world.

"We can confirm that Sir Tim will **retire** (...) in **June 2020,**" said the Emirates spokesman, without giving further details.
President since 2003, **Tim Clark, 70, joined Emirates in 1985, when the airline started with just two leased aircraft.**

Since becoming the largest in the Middle East, Emirates now owns 271 wide-bodied aircraft, including 113 Airbus A380 superjumbos and 158 Boeing 777s.

The airline, which announced in early November that it had almost tripled its half-yearly profits, has more than 150 destinations.
But **like its competitors, Emirates is facing sluggish economic growth in the Gulf countries,** while tourism figures are stagnating in

Dubai itself. **Last year, net income fell 69% to $237 million, due to** higher oil prices and exchange rate fluctuations.

> Ethiopian Airlines becomes the 5th largest airline in the world in terms of countries served

(source algérie-eco) 28 December - **Ethiopian Airlines (...)** inaugurated, on Sunday 15 December 2019, two new international routes. One bound for Houston in the United States, and the other for Athens in Greece. Thanks to this last route, Ethiopian Airlines has become the 5th largest airline in the world in terms of countries served. (...)
With a young fleet of nearly 120 aircraft, it **currently serves 127 destinations in 81 countries around the world** (Africa, Europe, America, the Middle East and Asia). This performance is well ahead of its strategic roadmap "Vision 2025", which targeted 90 international destinations and 120 aircraft by this deadline.

According to cross-referenced data from OAG Schedules Analyser, **Ethiopian Airlines joins the world's Top 5 following Turkish Airlines (121 countries served), Air France (91), Qatar Airways (87), British Airways (82). It is ahead of major companies such as Emirates (78), Lufthansa (76) and KLM (67).**

(...) In the fiscal year 2018/2019, ended June 30, Ethiopian Airlines generated a net profit of USD 180 million on sales of USD 4 billion, despite the crash of its Boeing 737 MAX 8 on March 10, 2019.
(...) This performance was achieved in a very difficult operating environment in Africa, where the price of fuel, the company's main cost driver, is on average 35% more expensive. And also in a context marked by the aggressive penetration of foreign carriers in the African market. In order to support the growth of its network, **the airline will continue to strengthen its fleet. It plans to acquire some 20 Airbus A220 aircraft and negotiations are at an advanced stage. It is also awaiting delivery of the remaining ten aircraft from its initial order of twenty-four A350 XWBs.** (...)

My comment: *African companies are finding it very difficult to compete with Gulf and European companies. Ethiopian Airlines, which enjoys the unconditional support of the Ethiopian state, is one of the few to have developed on its own, around its Addis Ababa hub.*

> 737 Max: Boeing Delivers New "Disturbing" Documents

to U.S. Congress

(source euronews) December 25 - Will **Boeing'**s 737 Max take the American airline even further down the road? The aeronautics giant **sent new documents to the U.S. Congress Transport Committee on Monday that were described as "disturbing"**. These seem to call into question the American group's response after the two fatal accidents that killed 346 people.
According to the committee, the new documents refer both to the concern expressed by Boeing employees "about the company's commitment to safety" and "the efforts of some employees to ensure that production projects (...) are not thwarted by regulators or others".
The multiple investigations carried out since then, both by the aviation authorities in Indonesia, where Lion Air's plane crashed, and by Ethiopian investigators after the crash of an Ethiopian Airlines aircraft, **have implicated the aircraft's anti-stall software**.
They also pointed to multiple shortcomings on the part of the manufacturer, **ranging from a lack of redundancy in some systems to a lack of information and pilot training.** (...)

My comment: One *revelation follows another at Boeing, resulting in the departure of several executives.*

After the head of the commercial aviation division (October 23), it was the turn of Boeing's CEO (December 24) and then the General Counsel (December 29) to leave the US manufacturer.

> Invendable, the first Airbus A380 has just been "deboned" by a French SME

(source BFMTV) December 29 - **What can the owner of an aircraft as large and recent as an A380 that is already no longer flying, for lack of a buyer? Reselling in spare parts** is the option chosen in 2018 Dr Peters Group. This German leasing company owns several A380s (of which Airbus has stopped the programme) which it leases to airlines. But Singapore Airlines
returned two copies to him, which it then decided to "dismantle" because it had not found new customers for them. This is a first a priori for a recent generation aircraft whose first commercial entry into service took place in 2007.
Although **the Rolls Royce engines of** the air giant, which had been scrapped by its owner, **were quickly dismantled and sent back to the British engine manufacturer**, a company with the appropriate know-how had to be found to "deconstruct" the rest of this aircraft with its

huge wingspan (80 m).
A first A380 was thus entrusted to the French company **Tarmac Aerospace,** which **carried out the "boning". To achieve this, this subsidiary of Airbus (33.6%), Safran (32.8%) and Suez (33.6%), created in 2007, has vast facilities (car park, hangars) at Tarbes airport, at the foot of the Pyrenees**. (...)
In this case, **it took a year to strip the A380 of the major parts (landing gear) likely to find a buyer on the second-hand market and** then to remove the many other parts of the aircraft (cabin, electrical cables). The sale of spare parts and used equipment has been entrusted to the American company VAS Aero Services.
Once the spare parts were recovered by the owner of the aircraft (Dr Peters Group), the French company sorted the materials and recycled what could be recycled. To cut the hull, she uses a diamond wire saw, a kind of "butter cutting wire" very effective for cutting metal.
A total of 90% of the A380's mass could be processed. (...)

My comment: *Singapore Airlines was the first airline to return an A380 to its owner.*

Other A380s are expected to be gradually returned to aircraft lessors. If these aircraft are not depreciated, the lessors could run into financial difficulties.

It should be noted that the two main aircraft rental companies, Aercap and GECAS, are not affected. They each have a fleet of about 1,200 aircraft, but not a single A380.

> Istanbul Airport: ADP subsidiary to receive €389 million from the Turkish State

(source Les Échos) December 26 - **On April 6, 2019, the Turkish authorities decided to transfer all commercial flights from Atatürk Airport to Istanbul's new,** pharaonic-size airport. **A decision that will cost the Turkish State €389 million. This is the amount that it will have to repay to TAV Airports, a** 46,1 % subsidiary of the Aéroport de Paris (ADP) group.
The company held the right to operate Atatürk National and International Airport in Istanbul for fifteen and a half years, from July 2005 to 2 January 2021. However, it had not obtained the concession for the new Turkish hub. The decision of 6 April resulted in the early closure of commercial flights at Atatürk airport, a little less than two years before the end of the concession contract granted to TAV, ADP points out in a press release. Since then, Atatürk Airport has

been open only for cargo flights. (...)
TAV Airport manages 15 airports worldwide, including Ankara Esenboga (Turkey), Tbilisi (Georgia) and Zagreb (Croatia), with a total traffic of 152 million passengers in 2018. **Aéroports de Paris had acquired 38% of the Turkish company in 2012, before increasing its stake to 46.12% in 2017.** (...)

> Toulouse Airport: the Chinese leave, Eiffage arrives

(source La Tribune) December 30 - It's done. **The sale of the 49.99% held by the Chinese company Casil in Toulouse-Blagnac airport to Eiffage is now closed.** It was signed on Monday, December 30 for the sum of 507 million euros (net of the 8 million euros in dividends received in respect of 2018 results). The agreement was concluded on an enterprise value of approximately EUR 1.1 billion (including approximately 100 million in debt). (...)

On the advice of Lazard Bank, **the Chinese investors have obtained the 500 million euros they were hoping for and are thus realising a nice capital gain compared to their initial investment. 308 million in 2015 to acquire this stake**.
Although **the sum** cooled most of the contenders, it did **not deter Eiffage, which is seeking to expand in the airport sector.** Concessionaire of Lille-Lesquin airport, the public works group has taken over France's third largest regional airport. (...)

Governance does not change. The shareholders' agreement that existed between the State (10.01% of the capital) and Casil is transferred to **Eiffage,** which will **have control over most matters**. As a
reminder, **the Occitanie region, the Department, Toulouse-Métropole and CCI de Toulouse** hold 40% of the capital. The latter **will not regret the departure of the Chinese**. The conditions under which they arrived and their dividend distribution policy have drawn strong criticism from local investors. The Court of Auditors has even pinpointed the "lack of experience of the Chinese investor".

My comment: *Toulouse-Blagnac airport has recorded an 18% increase in traffic in two years, reaching 9.6 million passengers. This increase is mainly due to the growth of low-cost airlines.*

It has become the fifth largest airport in France, behind Charles-de-Gaulle, Orly, Nice and Lyon. Enough to attract investors.

> Loyalty programs, a good plan for airlines

(source Les Échos) December 30 - If you thought airline loyalty programs were only designed to retain passengers, you've got a late Airbus.
(...) If **this** baroque **system**, which amounts to offering millions of free trips every year (the equivalent of three wide-body aircraft every day for Air France-KLM) has retained such an appeal with air carriers, it is because it **has** also **become an unsuspected source of additional revenue, amounting to** tens of billions of dollars... thanks to the sale of "miles" or "loyalty points" to the companies that are partners in the frequent flyer programmes.
According to the annual study by the consulting firm IdeaWorksCompany (...), the sale of "miles" and loyalty points would account for half of the ancillary revenues of the major airlines today, estimated at $92.9 billion in 2018. The **four major American companies** alone - American, United, Southwest and Delta - **have pocketed more than $17 billion in 2018,** mainly thanks to financial institutions and their co-branded cards.
The principle is always the same. To encourage you to buy here rather than elsewhere, **shops, hotels, car rental companies or any other company that has nothing to do with air transport offer you free "miles"** on your "Flying blue" account or other. "Miles" **that they themselves bought from the airlines**. (...) The "miles" trade really took off with the entry of banks and payment card providers (American express, Visa or Mastercard) first in the United States and then in Europe.

The all-around champion in this area is **American Airlines**, whose AAdvantage program is the oldest of all. The Dallas-based company **sold $5.57 billion in "miles" to its customers and partners in 2018**, according to the IdeaWorksCompany study. **Delta,** the Air France-KLM partner, **sold for $4.1 billion, or 74% of its total ancillary revenues.** Also in the "Top 10" of the IdeaWorksCompany ranking are Australia's Qantas ($1.14 billion), Air Canada ($571 million), Aeromexico ($250 million) and Brazil's Azul and Gol ($253 million and $232 million). However, European companies are absent from this ranking. Most of them, including **Air France-KLM and Lufthansa, do not give details of their ancillary revenues in their accounts**. As a reminder, the legalization of co-branded cards came later in Europe, not before 2007 in France. Moreover, the two largest European airlines in terms of passenger numbers - **Ryanair and easyJet - have not (yet) developed a loyalty programme** comparable to those of traditional airlines. (...)

My comment: *Loyalty programs are at the heart of airline marketing strategy. Their redeemable mileage system is a very effective loss leader.*

It encourages passengers to travel as often as possible in order to acquire a maximum number of miles. They will then be able to obtain free travel or additional services.

For the airline, this lowers costs: it is easier to sell to a known and loyal customer.

When AccorHotels attempted to acquire a stake in Air France-KLM in 2018, it was looking to take advantage of the Franco-Dutch group's Flying Blue loyalty programme.

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 30 December, halfway through the signature deadline, the consultation had collected 1,042,000 signatures, or 22.09% of the required signatures.

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

The Air France-KLM share is at 9.932 euros at the close of trading on Monday 30 December. It is down -0.54%.

The average (the consensus) of analysts for the AF-KLM share is 11.19 euros.

Brent crude oil (North Sea) **is up $1 to $68 per barrel.** Crude oil prices have risen to a level more observed since the attacks on two Saudi production sites in mid-September, with the announcement of a significant drop in U.S. inventories. This decline reflects the growing demand for oil worldwide (source: BFM Bourse).

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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