AF-KLM ready to transport the vaccine

I Letter from the Director Air France-KLM

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

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Monday's Press Review

> Coronavirus: Air France-KLM is ready to participate in the transport of the vaccine.

(source AFP) November 19 - **The Air France-KLM group is ready to ensure the transport by plane of vaccines against Covid-19 when they are marketed, Air France CEO Anne Rigail said Thursday. Air France and KLM "have a real expertise in the transport of pharmaceutical products**" especially at low temperatures, she explained during a video press conference organized by the Association of Economic and Financial Journalists (Ajef).

The group will be "ready" when the time comes, to transport the vaccine as quickly as possible, classified as a vital and therefore priority commodity, with the aim of limiting storage as much as possible, she added. "It is estimated that there will be about 15 billion doses to be shipped in a very tight timeframe, and we have 8,000 all-cargo aircraft worldwide (all companies combined, Editor's note)," she said.

The group is working on "different scenarios" while waiting to find out when the vaccine will be ready, where it will come from, where it will have to be shipped, and in what quantities. Air France and KLM are equipped to transport "pharmaceuticals and vaccines under the most difficult
conditions, even at minus 80 degrees," she said.

The two airlines have a fleet of more than 150 wide-bodied aircraft

with large cargo capacity in their holds and six all-cargo aircraft (...).

An Air France all-cargo aircraft can carry more than one million doses per flight and a long-haul passenger aircraft can carry more than 400,000 doses in its holds.

***My comment: The** entire supply chain has been prepared to transport the vaccine as soon as it becomes available.*

Transporting the vaccine developed by Pfizer will require unprecedented transport conditions: its storage temperature is minus 70°C, which can only be stored in ultra-low temperature biomedical freezers worth several thousand euros each.

These freezers are in insufficient number (they are usually reserved for hospital or laboratory facilities). Additional units are currently being manufactured.

> Hoekstra talks about additional support to keep Air France-KLM in the air (Hoekstra parle d'un soutien supplémentaire pour maintenir Air France-KLM à flot).

(source RTLnieuws) November 20 - After tough negotiations, the KLM pilots agreed on November 3 to make salary efforts until 2025. As a result of the agreement reached with the pilots, KLM will also receive the remaining 3.4 billion euros from Finance Minister Hoekstra's support program.
What is good news for the people at KLM's head office in Amstelveen is just one item on the to-do list of the board of directors headed by Managing Director Ben Smith. **The group has given itself until May to organize a capital injection of several billion euros.**

This deadline has been set because shareholder approval is required for such a plan, and the annual general meeting is a good time to request it.
It is
difficult to get money from investors because things are going very badly in the aviation sector. So hope rests again on the French and Dutch states, both shareholders of Air France-KLM. Discussions with major shareholders about support are also underway, said Air France CEO Anne Rigail at a press briefing earlier this week.
The Ministry of Finance confirms this. "Of course - especially in these difficult times for aviation - discussions are underway with Air France-

KLM on the future of the airline. It is also a question of additional capital", a spokesman answers questions from RTL Z.
But this does not mean that this support will come, Hoekstra stressed today **before the start of the Council of Ministers**. "We will look into this and all options will then be on the table," he said. In the **next few months, or in six months at the latest, he expects the situation to be clarified, he** said at his weekly meeting with RTL Z earlier this week.
(...) **Air France-KLM is in very good health compared to the rest of the sector thanks to the 10.8 billion euro aid, but is suffering from its debt**. At the end of the year, the company will have negative equity of more than 5 billion, according to Haradau-Döser estimates. Investors will only be reassured when the negative equity is dealt with ...

A Dutch "yes" to a new support package for the airline will in any case be subject to conditions, said Minister Hoekstra. One of the requirements will be that the parent company must reduce its costs, just as its subsidiary KLM must reduce its costs in exchange for the €3.4 billion support package.

My comment: *The analysis of the situation of the Air France-KLM group and its subsidiaries by the Dutch Minister of Finance agrees with the analysis made by his French counterpart. This bodes well for the future of the Franco-Dutch group.*

As a reminder, the financial support plan was granted to KLM after the agreement of all the company's trade unions. The article is inaccurate on this point.

> EasyJet presents its results for the last fiscal year

(source Aeroweb) November 21 - **EasyJet announced its results for the fiscal year** ended September 30. Due to the Covid-19 pandemic, **the number of passengers for the year ended fell by 50%, with 48.1 million passengers carried by** the Orange carrier compared to 96.1 million between 2018 and 2019. The aircraft load factor decreased to 87.2% also due to the coronavirus crisis.
The company's total revenue decreased by 52.9% to 3.4 billion euros this year compared to 7.2 billion euros in 2019. **The overall loss before tax is 940 million euro** (2019: 480 million euro profit) and the loss carried forward before tax is 1.43 billion euro, compared with the low-cost company's 2019 profit of 480 million euro.
EasyJet expects to operate only about 20% of its **planned capacity**

in the first half of fiscal year 2021. (...)

My comment: *To make this article easier to read, I have converted the amounts (initially in pounds sterling) into euros. They are therefore approximate.*

> Norwegian is playing for survival

(source AFP) 19 November - Struggling for its survival, **Europe's third largest low-cost airline, Norwegian Air Shuttle, declared two of its main subsidiaries bankrupt on Wednesday in order to protect itself from its creditors while it restructured financially** (...)
It suffered a setback earlier this month when the Norwegian government refused to hand over the portfolio after granting it 3 billion crowns (277 million euros) in guarantees before the summer. In the
face of headwinds, it therefore placed two major subsidiaries in Ireland under the protection of Irish bankruptcy law, the equivalent of the U.S. Chapter 11: **Norwegian Air International, which operates some of the company's international flights, and Arctic Aviation Assets, which manages its fleet** (...).
Norwegian, which had more than 10,000 employees at the beginning of the year, now employs only 600. And only six aircraft continue to fly on a pre-Covid fleet of 140.
"The (restructuring) process is expected to take up to five months," Schram said at a press conference. The company says it has enough cash to continue its now embryonic operations during this period.
The prospect of vaccines on the market this week has given the airline industry a new lease of life, but investors are doubtful about Norwegian's future: the share has fallen by nearly 99 percent since the beginning of the year.

Victim of an all-out ambition, the company has been in the red since 2017 and at the end of September was under 48.5 billion crowns (4.5 billion euros) of debt (including the (...)

> Boeing 737 MAX: Europe to return it to service in January (EASA)

(source La Tribune) November 21 - The sky is clearing for the Boeing 737 MAX in Europe. After the FAA, the U.S. federal aviation agency, gave its approval on November 18 for the aircraft, grounded since March 2019, to fly again, Europe is preparing to do the same. Questioned on this subject during the Paris Air Forum organized by La Tribune, Patrick Ky, **the executive director of the European Aviation Safety Agency (Aesa) said**:

"We wanted to have a totally independent analysis of the safety of this aircraft, so we made our own analyses, our own test flights to sift through all the aircraft's behavior. **All these studies show us that the Boeing 737 MAX can indeed be returned to service because it is safe**. It is likely that in the case of the Aesa, we will adopt the decisions that will allow it to be returned to service during the month of January, that's the timetable. »
In
addition, **the European regulator plans to review its certification process for U.S. aircraft.**

"There are many lessons to be learned from this tragedy, particularly in terms of certification risk management. We are not a primary certification authority because the Boeing 737 MAX is a U.S. aircraft. The FAA has this role. But from now on **we have decided that for everything concerning safety-critical systems, we will systematically, and even if we are not the primary authority, independently review and analyze the behavior of critical systems,**" said Patrick Ky (...) For
its part, China, the first country to ground the 737 MAX, said Friday that it has "no timetable" to allow them to fly again.

My comment: *Anomalies were observed in the initial certification process for the Boeing 737 MAX. Certification agencies in countries other than the U.S. decided to conduct their own certification campaign.*

Previously, when the certification agency in the aircraft's country of origin issued an Authorization to Release for Service, this authorization was valid for all other countries.

> The share of leasing companies in the world fleet of commercial aircraft is close to tipping point

(source Le Journal de l'Aviation) November 19 - This will undoubtedly be one of the lasting consequences of the crisis triggered by the pandemic on airlines. **The share of lessors in the world's commercial aircraft fleet will continue to grow over the next few years to exceed the 50% mark.**

However, lessors [lessors] owned only 44% of the total fleet just a few months ago, and the trend will even accelerate in the coming years, especially among airlines that have received substantial state financial aid to survive the crisis.
However, this phenomenon is difficult to see in the short term, as

airlines often only have to wait until the end of the lease to return their aircraft in a context that will continue to be marked for a long time to come by the overcapacity of their fleets in the face of the market collapse. Lease
terminations will logically outnumber new contracts in the current situation, even though there has obviously been an increase in sale and leaseback operations around the world, which have enabled airlines to free up valuable cash to last as long as possible. In addition, a leased aircraft is obviously more expensive for the operator than if he had bought it directly, even through a financial arrangement.
Steven Udvar Hazy, **the** famous **founder of Air Lease** (and of ILFC at another time) **made it very clear a few days ago,** however, when **he indicated that he saw the share of leasers coming to between 50 and 55% of the total fleet in the near future. The same goes for Aengus Kelly, AerCap's CEO,** who, during the presentation of the lessor's quarterly results, estimated that the share of leased aircraft in the world fleet will exceed 50% in just 36 months, with a trend that will accelerate among airlines. According to him, "their number one objective will be to reduce their debt, especially for those that have accepted government participation". For Steven Udvar Hazy, these companies were even lining up too many old aircraft that should have already left their fleet before the crisis emerged, a discourse that can only satisfy the lessors, and obviously the aircraft manufacturers as well when the time of recovery comes.
The replacement of fleets with latest-generation aircraft will no doubt continue, with greater participation by rental companies over the next few years. But this shift will not only be symbolic for the airlines, which used to balance the way they acquired their aircraft (own, financial arrangements and long-term leasing), with important implications for lessors throughout the life cycle of their aircraft. In
other words, **client airlines will lose some latitude (limited aircraft modifications, more standardized fleets, maintenance, etc.) in order to guarantee the optimal value of the owners' assets. For some of them, this will even be a real philosophical change.**

My comment: *Contrary to what is stated in the article, renting an aircraft (rather than buying) does not reduce the indebtedness of an airline.*

For financiers, when the lease is for a long term, the amount of rent due for the entire term of the lease is recorded as a debt.

> Aeronautics awaits regulatory measures for biofuels

(source: Les Echos) November 23 - (...) Meeting on Friday at the Paris Air Forum, the heads of Airbus, Safran and Total agreed on the need to make it mandatory to incorporate a percentage of biofuels, considered to be the best tool immediately available to reduce the sector's carbon footprint. This would require a slight increase in the price of airplane tickets.
In January, the entire industry welcomed the French government's launch of a "roadmap" for the creation of a "sustainable" biofuels industry in France. **Produced from raw materials that do not compete with agricultural production,** such as waste oils, **these "green" fuels would reduce the carbon footprint by 80% to 90%,** using current aircraft. But for the time being, their production remains non-existent in France and anecdotal worldwide. **Four times more expensive than oil, they still account for only 0.01% of air transport fuel consumption.**

The **objective of the French government,** which has already launched calls for projects for energy producers, **is to increase this percentage to 2% in 2025 and 5% in 2030.** The Total Group has already responded to the call, deciding to invest €500 million to turn the Grandpuits refinery in Seine-et-Marne into a production center specializing in "sustainable" kerosene and diesel. However, as its CEO, Patrick Pouyanné, has pointed out, there is a risk that this will not be enough to guarantee the development of the sector. **We know how to make biofuels," said the Total boss**. Road transport has been using biodiesel for 15 years. **If they are not more used in air transport, it is not a problem of technology, but because it is not mandatory. Biofuel is four times more expensive than jet fuel,** but it is the same ratio for biodiesel that goes in the cars of the French. What has happened is that the parliament has made it mandatory to use 8 percent biodiesel in diesel," he explains.
Airbus CEO Guillaume Faury and Safran CEO Philippe Petitcolin are in favor of this
requirement. The **European Commission must put in place regulations," insists Philippe Petitcolin. Today, we're aiming for 5% in 2030; that's not enough. We need to have a regulatory target of 15% or 20% use of these biofuels by 2035**. **The aircraft we deliver today are capable of running on 50% biofuels," emphasizes the Airbus boss**. So the challenge is not to develop the technology, but to rapidly expand their use, in order to reduce CO2 emissions without delay.
However, the introduction of such an obligation will have to be done, at the very least, at the European level, and not just in France," said the Airbus and Safran bosses. This is so as not to put French airlines at a

disadvantage. According to Patrick Pouyanné
's estimate, **incorporating 1% biofuel** into aircraft **fuel** tanks would represent an additional cost of around 120 million euros for air transport in France. "It **would cost around 4 euros more for a round trip from Paris to New York,**" he says. At first glance, this is a modest additional cost, but it may be enough to lose customers, in a sector where it is possible to instantly compare the fares of all airlines (...).

My comment: *If the use of biofuels reduces CO2 emissions, it is up to the legislator to impose a higher rate of use than announced.*

This would give security to biofuel producers who have to invest large sums of money to develop their production.

> The ADP Group ready to take up the dual challenge of health and the environment

(source La Tribune) November 20 - As the second wave of Covid-19s sweeps across Europe, **the airline industry is facing a massive and lasting drop in traffic, while some criticisms about the carbon footprint of air transport are growing**. More than ever, the airport operator that is the ADP Group is mobilizing in favor of air connectivity and is betting on innovation to put in place a new health framework and move towards carbon neutrality... to better take off?

With less than a quarter of the residual traffic in the only terminals left open, Paris airports have been living in slow motion since the beginning of the Covid-19 pandemic. To date, no sign of recovery is expected before next spring and the launch of the IATA summer season, and according to ADP Group forecasts, the return to normal will take several years: at the earliest in 2024, or even 2027.
Another likely consequence of the crisis is that videoconferencing is becoming a commonplace and is mortgaging a portion of post-Covid business travel, while environmental awareness is increasingly prompting some passengers to opt for less carbon-intensive means of transport... **We are facing a dual health and environmental challenge** that requires us to reinvent ourselves," said Augustin de Romanet, Chairman and CEO of the ADP Group. We need to rethink our model and our airports to recreate a bond of trust with passengers. »
(...) Overcoming the crisis in air transportation - which accounts for 2 to 3% of global greenhouse gas emissions - will **have to be accompanied by an acceleration of its ecological transition.** Paris airports have already reduced CO2 emissions per passenger by 71% since 2009, while aiming for carbon neutrality by 2030 and zero net

emissions by 2050. In concrete terms, this has resulted in a series of actions to reduce CO_2 emissions: development of renewable energies (geothermal power plant, biomass power plant, photovoltaic solar panels), green electricity, energy performance of our facilities, greening of vehicle fleets, support for airlines to help them reduce their emissions on the ground (...).

My comment: *The health crisis will have had an unexpected consequence: the acceleration of awareness among air transport stakeholders, including public authorities, of the efforts to be made to contribute to the fight against global warming.*

However, air transport alone will not make it possible to achieve the objectives set by the Paris Agreements: to limit global warming to 1.5°C or even 2°C by 2100.

A study carried out by Project Drawdown identifies the actions to be taken in 82 areas to achieve this goal.
Air transport appears in 41st position in this list. Its contribution represents 0.58% of the global effort required in the 82 areas. Fifteen times less than the contribution of wind turbines, or ten times less than the decrease in food waste.

The complete list is available on the drawdown site, choice "solutions", then "table of solutions".

> Jean-Baptiste Djebbari: "We must put an end to unfair competition from low-cost companies".

(source La Tribune) November 20 - It's not easy to be Minister of Transport when the global health crisis is closing borders and grounding planes. For Jean-Baptiste Djebarri, the air sector faces two major challenges: the resumption of traffic and the energy transition. "It will be necessary to restore passenger confidence and establish harmonized border crossing rules," said the minister. The announced arrival of a vaccine in early 2021 should reassure travelers, but it will only be effective with a minimum vaccination coverage of 40 to 50 percent of the population, which could take several months. As for business tourism, uncertainty remains due to the sharp increase in teleworking, a model that is expected to continue. While waiting for a substantial resumption of air activity planned by the Minister in 2022, it is a matter of agreeing with other European nations on health corridors to avoid quarantine. Antigenic tests on arrival are already available in some airports such as Roissy, Orly, Marseille and Nice.

In France, the restructuring of Air France's domestic network is central. Which air routes will be preserved? What is the place for Transavia (the group's low-cost subsidiary) and other French regional players? How can rail replace air transport? **For Jean-Baptiste Djebbari, the priority is first of all to solve the low-cost equation: "we must put an end to the unfair competition from certain low-cost companies**, bogus self-employment (employees forced to declare themselves as self-employed) and pay-to-fly (pilots without experience pay to fly on commercial flights). Social Europe has failed at the level of regulation. The crisis can be an opportunity to find a fairer social framework". **A desire shared by European environmentalist MEP Karima Delli, who was very upset with Ryanair and easyJet at another round table** (...).
Another ongoing project: environmental transition. The Citizen's Convention on Climate Change has proposed increasing the eco-tax for air transport, currently from €1.50 to €18 per ticket. The Convention calls for a fare of 30 euros for flights of less than 2,000 kilometers and 60 euros for those over 2,000 kilometers in eco class (180 and 400 euros in business class). The cost to the aviation sector is estimated at €4.2 billion, an "irresponsible and catastrophic" project according to Ben Smith, CEO of Air France KLM. "It is **normal to ask for environmental compensation for the massive State support**. For example, by favoring rail rotation for journeys of less than 2 hours 30 minutes. Like many French people, I myself take the TGV to Bordeaux. There will be a democratic debate, **but this ecotax would jeopardize between 120,000 and 150,000 jobs in a sector already very weakened by the crisis,**" concludes the Minister of Transport.

My comment: *Organized by the newspaper La Tribune, the Paris Air Forum is an annual event that brings together most of the players in the civil, military and space aeronautics industry.*

The stance taken by the French Minister of Transport and MEP Karima Delli (President of the European Parliament's Transport and Tourism Committee) marks a turning point. Both of them denounced the unfair competition from low-cost companies. The rise of European low-cost airlines owes much to the incentives provided by the European Union for more than ten years.

These companies are among the biggest CO2 emitters in Europe. Ryanair is in the top 10, surrounded by nine coal-fired power plants.

Moreover, European low-cost airlines are circumventing social legislation, practices that are regularly denounced and condemned, *without changing their strategy.*

It remains to be seen whether these positions will be followed by action.

End of the press review

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

The **Air France-KLM share is at 4.453 euros at** the close of trading on Monday 23 November. **It is up +2.34%** over one week. Since the announcement of a potential vaccine on November 6, the share price has risen by 45%.

Before the coronavirus epidemic, the Air France-KLM share price was 9.93 euros.

The average (the consensus) of analysts for AF-KLM shares is 3.00 euros. The highest target price is 5 euros, the lowest is 1 euro. You can find on my blog the details of the analysts' consensus. I no longer take into account the opinions of analysts prior to the beginning of the health crisis.

The barrel of Brent oil (North Sea) **is up $2 to $46.** At the beginning of the coronavirus epidemic, it was at $69.

This indicative information in no way constitutes an incitement 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 enable me to better carry out my duties as a director of the Air France-KLM group.

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

See you soon.

To find the latest press reviews of Monday, it is here

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| François Robardet

Director Air France-KLM representing employee shareholders PNC and PS.
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