DeepL

Letter from the Director Air France-KLM

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

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The Press Review on Monday...

> Air France-KLM shareholders welcome Benjamin Smith

(source Les Échos) May 28 - For his first appearance before the Air France-KLM General Assembly, Benjamin Smith was well received by the shareholders of the airline group. Meeting this Tuesday in La Défense, **they** not only **adopted almost unanimously** (99.58% of the votes) the **granting of a new four-year term of office** to the new Chief Executive Officer, who has been at the helm of the group since 17 September 2018. But **they also approved by an overwhelming majority** (82.12%) **the significant increase in his compensation**, which potentially more than tripled compared to that of former Air France-KLM CEO Jean-Marc Janaillac.
Increase justified, according to the group's managers, by the need to align Air France-KLM's remuneration with that of its counterparts in Lufthansa and IAG...(...)
This justifies the ambitious objective of bringing the group's profitability back to the level of its major competitors - which is far from being the case this year - and of making Air France-KLM, "the number one in air transport in Europe". (...)
To describe his roadmap, the Canadian focused on recalling his first successes, starting with the re-establishment of social dialogue at Air France and the signing of agreements with all categories of staff, "offering more flexibility". The Air France-KLM CEO also welcomed the opening of negotiations with Air France pilots on the future of the low-

cost subsidiary Transavia.
However, Air France-KLM shareholders will still have to wait before receiving a dividend again. For the **tenth consecutive year, the 2018 financial year will not give rise to any payments**, due to the slimness of the profits. (...)
Air France-KLM's current valuation, compared to that of its main competitors, offers a large margin for improvement. At €3.39 billion, the group's market capitalisation **remains, to date, 2.5 times lower than that of Lufthansa (€8.4 billion), almost three times lower than that of IAG (€9.3 billion) and 3.5 times lower than that of Ryanair (€11.74 billion).**

My comment: The *general meeting of shareholders was held on Tuesday, May 28. The five main shareholders (the French and Dutch States, Delta Airlines, China Eastern and employees and former employees) were present. Together, they hold half of the capital of Air France-KLM.*

All resolutions were adopted by a very large majority.

The issue of sustainable development occupied a large part of the question and answer session. The articles included in this press review cover most of the debates on this subject.

> Air France: Ben Smith and the SNPL negotiate the expansion of Transavia

(source La Tribune) 28 May - **New round of negotiations between the national airline pilots' union (SNPL) and Air France management (...) to allow the development of Transavia France**, Air France's low-cost subsidiary.
These negotiations, which
began on Monday 20 May with the intention, on the part of Ben Smith, the new CEO of Air France-KLM, to reach an agreement on Friday 24 May, **aim to find the conditions for breaking the 40 aircraft ceiling** that Transavia cannot exceed under a perimeter agreement renegotiated in 2014 between Air France and the SNPL.
(...) Ben Smith has high ambitions for Transavia and (...) **also**
calls for the **removal of another barrier**, much less known, concerning the seating capacity and range that Transavia must not exceed. To prevent Transavia from ever embarking on long-haul flights, the SNPL had obtained that the company could not operate aircraft with **more than 200 passengers and more than 2,500 nautical miles of range.**

Ben Smith wants the freedom to open and close routes according to the market, without having to look at an agreement with the pilots.
(...) On the other hand, the **SNPL is once again calling for a "single contract" for Air France and Transavia pilots**, as it had obtained for the creation of Joon (which will stop) in 2017.

(...) But management is very reluctant to this process, which it will not be able to offer to other categories of Air France employees. (...) The productivity gap to be closed is much larger for cabin crew and ground crew than for pilots. In other words, an agreement on mutualisation (...) would mean job losses for other categories of staff. As a reminder, Transavia does not use Air France's ground handling services, which are too expensive compared to the competition, nor Air France's cabin crew, whose salaries are also too high for a low-cost airline.
This approach irritates the other unions that have formed an interunion in order to participate in the negotiations. A letter requesting clarification on this industrial project was sent to Ben Smith. "The **future of our staff at the port of call depends on it,**" explains one employee.
Air France and the SNPL have given themselves until the end of June to reach an agreement.

My comment: *If an agreement were reached between the SNPL and the Air France Management on the various points mentioned in the article, it would mark a turning point in the history of the Air France Group. It could develop its various subsidiaries with a minimum of constraints.*

The consequences would be significant for all employees of Air France Group subsidiaries.

> Elbers : staat moet na aandelenaankoop ook Schiphol uitbreiden
(Elbers: the State must also develop Schiphol after the purchase of shares)

(source ElsevierWeekblad translated with Deepl) June 2 - The firm bought 750 million KLM shares. That is why Pieter Elbers, the head of KLM, does not think it makes sense for his company to be ousted from Schiphol: "This cannot continue". He also believes that the proceeds from the ticket tax should go to the aviation sector... (...)
"We had three very good financial years, but now the black clouds are approaching, at least the clouds," says Pieter Elbers, KLM's boss. (...)

"**The idea that we are still in a period of abundance is false**. (...) I have to invest in the fleet to keep the company fit and healthy. It also limits the scope for wage increases. "
Three months ago, CDA Finance Minister Wopke Hoekstra bought 14% of Air France-KLM's shares in order to protect national interests. (...)
"It really brought something. The purchase of shares by the State was a strong signal. (...) A working group with the two governments is currently in discussion. A point has been clearly established. Yes, the planes remain blue. (...)
Is it strange that the same Schiphol firm has locked the number of take-offs and landings, so that KLM is blocked at its base in Amsterdam, Schiphol?
My ambition is to maintain KLM's profitability in the long term. So you can't let this situation continue at Schiphol. At the same time, everyone understands that the period of unbridled growth is over. I also understand that Schiphol cannot simply distribute a large number of air movements. But I have to buy planes for the long term. So I need to have a vision of growth and clear limits.
(...) **Because of Schiphol, I am removing destinations that are not yet very profitable, but which have prospects. I will end up compromising KLM's future in this way**. It will also disadvantage us when it comes to landing rights elsewhere. These countries will not accept that we will not be allowed to grow up in Schiphol if they do not. IATA's
annual conference in Seoul also focused on "sustainability". Almost everywhere in the world, governments are threatening to set limits on CO2 emissions from aircraft. (...) In the
meantime, the Rutte **government is working on a flight tax of €7.50 as** part of "sustainability". (...)
"**The tax on airline tickets generates 200 million euros per year. Our proposal**: use this for innovation (...). We are not necessarily opposed to such a tax, but we are **using the money for what it is intended to do, which is to make aviation more sustainable**.
"»
However, the government rejects this idea. The coalition agreement is inexorable. The proceeds from the ticket tax will be allocated to the general budget.
"The economic model of aviation will not change much in the distant future either," says Pieter Elbers. "Yes, you can put even more beautiful seats in the cabin. **What is essential is that the aviation sector ensure that it remains a sustainable planet.** I see a time horizon of three years; another of ten years and then twenty years with new actions each time. "In the
short term, we are trying to fly more energy-efficiently with all kinds of

measures and we have the CO2 offset program. (...)
Our bio-kerosene plant in Delfzijl will be operational from 2022. Industrial waste is transformed into bio-kerosene and bio-propane. Biofuel will then represent 2 to 5% of our energy consumption. This gas is sold by the SHV partner.

In the distant future, we are working in collaboration with TU Delft and conducting research on solar energy. (...) That is why **it is** so **good to consult with stakeholders around the world** here in Seoul. **Because airlines, aircraft manufacturers, engine manufacturers, energy suppliers, we must work together to find a global solution.**

My comment: *Apart from the subject of Schiphol's saturation, KLM's immediate concerns are similar to those of Air France: to make the State understand that airlines are ready to participate in the fight against global warming, including by being taxed, provided that the money collected is actually used for this fight.*

Without delay, KLM has embarked on a new operation in Europe: the Dutch company is participating in a project for a European plant producing sustainable aviation fuel. This plant is expected to open in 2022. KLM has committed to purchase 75,000 tonnes of sustainable aviation fuel per year for 10 years.

> International cabin crew day: unclear skies

(source Air Journal) May 31 - This May 31 has been designated International Flight Attendant Day, but while it is generally celebrated by airlines such as Air France or American Airlines, their status is under tension in France, Europe or the United States.
(...) **On this Friday, the more than 14,000 Air France flight attendants** who "accompany our customers around the world, provide them with an exceptional travel experience while ensuring their safety on board", **were wished "a good flight and a beautiful day".** (...)
But these gentle words towards cabin crew are far from resonating everywhere, such as at **the low-cost Norwegian Air Shuttle**, which **has just announced the elimination of breaks in the rest area of the Boeing 787 Dreamliner** for its flight attendants on flights of less than nine hours (...); a measure of economy while the airline is in financial difficulties, but which has not (yet?) triggered any social movement.
And **in the United States, a group of 73 Democratic representatives wrote to Delta Airlines asking it to put an"immediate" stop to its obstruction manoeuvres preventing cabin crew and ground agents from joining the** International Association of Machinists and Aerospace

Workers (**IAM**) **union. The "Don't risk it, don't sign it" poster campaign launched in May by the airline** at the employees' premises initially caused derision, especially when it advised employees to spend their money on video games or sporting events rather than on union dues. (...) James Carlson, Deputy Airline Coordinator at IAM, replied that this campaign "**was only the tip of the iceberg of a coordinated anti-unionist campaign that Delta has been running for years**".

My comment: *To establish itself in a company in the United States, a trade union must obtain 50% of the votes after a referendum. The company concerned has the right to campaign against the union.*

Within Delta Airlines, only pilots have obtained union representation. The American company has always managed to prevent other employees from being represented. It is one of the few airlines in this situation.

> Delta continues to weave its web internationally, smoothly

(source Les Échos) June 3 - **Always more international but not hegemonic: this is Delta's strategic vision**, according to its General Manager, Ed Bastian. The most international of all American airlines, which holds nearly 9% of Air France-KLM's capital and also owns 49% of Virgin Atlantic, 40% of Aeromexico, 9.5% of Brazil's Gol and 3.5% of China Eastern, wants to pursue its global expansion, including through new equity investments.
The latest development this month is the start of a joint venture with Korean Air and the launch of a direct flight to Mumbai, while waiting to find a new partner in India to replace Jet Airways. But according to its boss, Delta is not intended to become a kind of "world company" that would dictate their conduct to its partners.
(...) "I consider ourselves first and foremost as trading partners, even though we have invested a total of $2 billion in our partners. We did this as part of a business strategy and not as a takeover. "With regard to Air France-KLM, **Ed Bastian thus refuses to pass judgment on the Dutch State's entry into the capital** or on everything relating to the group's internal affairs. At **least publicly**. (...)
Despite the turbulence, however, Delta's CEO says he has "no regrets" about investing €375 million in Air France-KLM in 2017. "Air France-KLM is a great partner," he says. They still have decisions to make to improve their competitiveness, but that is not Delta's business. **Our alliance has enabled us to build a unique joint offer on the transatlantic market,** with three major gateways to Europe, London-

Heathrow with Virgin, Paris-CDG and Amsterdam-Schiphol with Air France-KLM and possibly Rome, if Alitalia remains in the alliance. This transatlantic joint venture generates annual revenues of $13 billion. »
The next step should be the extension of the transatlantic joint venture to Virgin Atlantic, which is only waiting for the green light from the US authorities. But Ed Bastian also wants to be able to strengthen this alliance, by contributing financially to the rescue of Alitalia, if the Italian government gives the green light. (...)

***My comment: In a** previous interview (see my letter n°694), Ed Bastian, President of Delta Airlines, indicated that he wanted to invest in airlines.*

Its goal is to obtain a seat on the board of directors of its partners to help them rethink their strategy.

> Lufthansa Group harmonizes the cabins of its short- and medium-haul aircraft

(source Aeroweb) May 28 - **Lufthansa Group has announced that Lufthansa, Swiss and Austrian Airlines will have the same cabin on the Airbus A320 family aircraft**. (...)
The contract for the production of the seats was won by the Italian manufacturer Geven. Instead of 12 degrees of recline, passengers will now enjoy a 20 degree recline and up to 26 degrees during the flight for business class. Each row of seats has its own USB ports. Passengers in the group will also be able to install their own touch pads more easily by inserting a special column into the pads of the seats. (...)

***My comment:** By harmonizing the cabins of its A320s, the Lufthansa Group is killing two birds with one stone: it is meeting the expectations of its passengers and achieving economies of scale.*

> Wizz Air thrives despite a difficult European market

(source Reuters) May 31 - **Wizz Air published solid annual results on Friday and says it is better positioned than its rivals** to prosper in the European aviation market, which has been made difficult by competitive pressure and rising kerosene prices.
The low-cost airline is based in Budapest and **relies on its routes to Central and Eastern Europe**, which are more protected from price wars than the routes to Southern Europe and the Mediterranean, which affect easyJet and Ryanair's margin prospects. It believes that its profit will increase in 2019-2020 and that competitors may have to remove unprofitable capacity.
Wizz Air expects a net profit of 320-350 million euros for the

financial year to the end of March 2020, after 292 million in 2018-2019, just below market expectations. (...)

My comment: *The (very) low-cost Hungarian company is in great shape. With its 112 A320 and A321 aircraft, Wizz Air generates a net profit representing 12.6% of its turnover (€2.3 billion).*

This result makes it one of the most profitable European airlines.

> Boeing: 777X, 737 MAX 7 and new problem on the 737

(source Air Journal) June 3 - The **first Boeing 777X is scheduled to make its maiden flight in late June** (...).
According to Emirates Airlines CEO, who ordered 150 Boeing 777X (...) **the entry into service in 2020**, repeated by Boeing last week, **could be delayed by regulators burnt out by the certification problems of the 737 MAX.** (...)
Boeing's single-aisle aircraft also face another problem: according to the FAA, **179,737 MAX and 133,737 NG would be affected by a problem with a defective part**, the wing leading edge nozzle. (...) If operators find parts for this batch, they must "replace them with new ones before putting the aircraft back into service," says Boeing, which should take "one or two days" per aircraft if the spare part has been delivered. The **device is considered critical** because in the event of asymmetry in deployment, a lift differential could make piloting dangerous, especially during take-off or landing. (...)
Finally, we will remember the open day in Renton of the first 737 MAX 7 (...). No delivery date is of course advanced. The MAX 7 made its maiden flight in March 2018, and has accumulated 60 orders (...) (36 orders for its rival the A319neo).

> The government wants to "lead the battle" to tax kerosene in the EU (François de Rugy)

(source AFP) June 3 - **The French government wants to "lead the battle" to introduce a tax on kerosene within the European Union and wants to act on the subject at international level**, said Minister of Ecological Transition François de Rugy on Monday. (...)
"Today, there is an international convention that dates back to 1944, at a time when there was no mention of the climate, no mention of the greenhouse effect" and "that we cannot tax kerosene in any country in the world", said Mr de Rugy. "Obviously, this convention must be changed (...), it is a priority that we are giving to the next European Commission."
In the meantime, the French MEPs have agreed, in committee, to

create a contribution of around €30 million per year from the surplus revenue of the solidarity tax on airline tickets, known as the "**Chirac tax**", to finance other modes of transport.
This proposal is part of the text of the law on mobility debated in the National Assembly from Monday.

My comment: *Will there be a kerosene tax at Christmas? European airlines fear that if kerosene were taxed only by the European Union, it would favour companies outside the European Union. Companies in the Gulf, or even Ryanair or easyJet in the case of Brexit, could fill up "duty-free" in order to avoid refuelling with taxed kerosene.*

Contrary to what is mentioned by the Minister of Ecological Transition, it is not the 1944 International Convention that prohibits the taxation of kerosene. These are the bilateral agreements between States, those that define traffic rights. In total, more than 10,000 such agreements exist. Changing them will not be an easy task.

> Airlines denounce the "hypocrisy" of climate states (IATA)

(source La Tribune) June 2 - As voices are raised to impose taxes on kerosene and stop flying, Alexandre de Juniac, **Director General of the International Air Transport Association (IATA), denounced the attitude of governments who prefer to impose "punitive taxes" rather than help support research and the creation of biofuel sectors**. Airlines have reaffirmed their commitment to neutralize their CO_2 emissions from 2020 and then halve them by 2050 compared to 2005.

(...) Social pressure is indeed increasing on airlines, accused of not taking part in the fight against global warming. (...) This social pressure is mainly observed in Europe, where many people are raising their voices to tax kerosene or even stop flying (...).

Companies point out the dangers of sail reduction (...). **Air transport is indeed crucial to the global economy**. For example, it represents 35% of world trade in value terms and spending by tourists travelling by air will exceed 900 billion euros this year, according to IATA.
"A world without an aircraft makes no sense," Anne Rigail told Air France-KLM's general shareholders' meeting on May 29.
Faced with this challenge, **airlines reaffirmed in Seoul the ambitious commitment they made in 2009 to neutralize carbon emissions from 2020 and then gradually reduce them from 2035 onwards to**

achieve a halving by 2050 compared to 2005. (...).

To halve air transport emissions while continuing to grow, the companies intend to use several levers. First of all, there is the use of the latest generation aircraft, which consume 15 to 20% less fuel than the previous generation. But also the implementation of effective operational measures (such as improving trajectories, using a single engine during the taxiing phases at airports....), and a modern air traffic control system to optimise aircraft journeys and reduce delays.

But **above all, there are biofuels**. Now in its infancy due to its very high cost (two to five times more expensive than kerosene), biofuels are the main factor in reducing emissions. "They can reduce our carbon footprint by 80%," says Alexandre de Juniac.
(...) To develop them, IATA urges governments to invest in supporting the creation of biofuel sectors. "It has never happened that new energy emerges without government support," explained the former CEO of Air France-KLM. He added: "**Governments must** also act. They should **develop supportive policies to reinvigorate the sustainable fuel industry**. But too many of them focus instead on punitive environmental taxes. This is climate hypocrisy. Putting money into the government's coffers does nothing to reduce carbon emissions. (...) "

My comment: There are *many opportunities for air transport to reduce its environmental impact:*

. the optimisation of aircraft flight paths, which involves improving air traffic management and artificial intelligence,
. the improvement of internal combustion engines, which should further reduce their fuel consumption by 15% by 2030.

More importantly, new biofuels, which produce much less CO2, could gradually replace kerosene. Provided that their production is encouraged by governments.

The Stock Market Press Review...

> Oil: price plunge, against a backdrop of record production

(source Capital) May 31 - **Oil prices remain under pressure due to the** disappointment caused by the official report on the state of US reserves, which have fallen much less than expected. And U.S.

production has risen to a record level, fuelling the global supply of black gold. (...)

"The barrel (WTI) may remain under pressure in the short term, **especially if concerns about global growth remain due to trade tensions between China and the United States**." (...)
Denouncing a turnaround by the Chinese government in trade negotiations, US President Donald Trump had imposed increased tariffs on 200 billion goods from the Asian giant.

End of the press review

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

The Air France-KLM share price was 7.71 euros at the end of Monday, June 3. It is down by 1.51%. This is the fourth consecutive week that it has declined. It is necessary to go back to July 2018 to find trace of such a low price

The average (consensus) of analysts for the AF-KLM share is 10.77 euros. It decreased following the announcement of the first quarter's results and the announcement of a new voluntary departure plan for port of call staff.

The barrel of Brent oil (North Sea) **is in very sharp decline from $9 to $61.** Oil prices continue to be driven by Opep's production declines and geopolitical tensions in Venezuela and Iran.

This indicative information does not in any way constitute an incentive to sell or solicit the purchase of Air France-KLM shares.

You may react to this press review or provide me with any information or thoughts that may help me to better manage my role as a director of the Air France-KLM group.

You can ask me, by return, any questions about the Air France-KLM group or employee share ownership....

See you soon.

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| François Robardet

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