I 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: agreement in sight at Transavia, but tensions at Hop!

(source Les Échos) June 27 - (...) **Negotiations on the future of Transavia France, which** began at the end of May between Air France management and the SNPL AF pilots' union, **could lead to an** agreement **as early as** next month[**July**]. This would lift the limit of 40 devices, paving the way for the development of this low-cost activity, which has become the group's main source of growth.
According to our information, the **pilots' representatives have obtained satisfaction on their main demands**. They concern the working conditions of Air France pilots at Transavia. A few points would still have to be settled, but it is not impossible that a draft agreement could be submitted to the vote of the SNPL AF Council on 4 July, before being possibly submitted by referendum to the members.
While the idea of a single Air France-Transavia employment contract has been ruled out, Air France pilots seconded to Transavia will benefit from harmonised remuneration conditions (between Air France A320s and Transavia Boeing 737s) and more favourable rules of use, within the framework of a "group agreement" limited to Air France and its low-cost subsidiary.

The pilots would also have obtained commitments concerning the future of Air France's medium-haul hub, through an extension until

2030 of the guarantees granted in 2016 - and until 2022 - as part of the Trust together project. A minimum of 110 medium-haul aircraft (now Airbus A320 family aircraft) and 342,500 flight hours.
One of the fears expressed by the pilots was indeed a cannibalization of Air France's medium-haul aircraft by Transavia. However, Air France-KLM CEO **Benjamin Smith has clearly indicated that Transavia France's development will continue to be carried out on intra-European leisure routes from Orly, Nantes and Lyon** (and possibly a third regional base), without affecting domestic flights, which will remain the prerogative of Air France and its subsidiary Hop. Similarly, **Transavia will not launch long-haul low-cost flights** or open a base outside France for the foreseeable future.
This is enough to satisfy Air France pilots, but not those of Hop, who are still worried about the future of their airline, which has a heavy deficit after a failed merger in 2016. After the decision to switch all flights to the Air France brand and flight numbers, Hop employees learned last month that a voluntary departure plan had been launched to eliminate up to 465 ground staff positions at provincial airports and that the offer would be reduced by 15% over three years, with ten lines closed. At the same time, **Hop's fleet, which had about 100 aircraft three years ago, will increase from 60 to 51 aircraft.**

In response to this attrition, **SNPL representatives of Hop pilots are demanding integration into Air France**, as was the case for Air Inter, and more recently for Joon cabin crews. But they encountered a refusal to receive from management, concerned not to increase the costs of regional flights. **As for their Air France counterparts, they do not want to see Hop pilots pass them by on the seniority list, on which career progression depends**.
Hop pilots who would like to join Air France have certainly obtained that one third of the company's hires be reserved for them, as well as a relative relaxation of the selection tests. But with the obligation to restart their careers at the bottom of the seniority list. This is not appropriate for pilots who already have 10 to 20 years of seniority at Hop, who feel blocked in their development and treated as "second-rate" personnel. In response to this blocking situation, the **Hop pilots' representatives have already passed a resolution authorizing the filing of a strike notice at any time**. A weapon that has remained in the sheath so far, with the union and management apparently agreeing to continue discussions in July. But the threat of a work stoppage during the summer is not completely ruled out.

My comment: *According to this article, Transavia's future would only be negotiated between Air France's management and an Air France pilots'* *union. This information seems surprising to me because neither French law nor the Constitution allow it. For example, it is not possible to impose restrictions on the economic and strategic development of subsidiaries by conventional means.*

> Air France and KLM exchange the remaining Dreamliner and A350 orders

(source Air Journal) June 29 - **Air France and KLM are continuing to optimize their respective long-haul fleets**, exchanging the remaining orders for the Boeing 787 and Airbus A350 between themselves. The objective: to achieve fleet savings through the harmonisation and accelerated growth of similar aircraft for both companies.
The implementation of the exchange between airlines means that by 2021-2023, the remaining 6 Boeing 787s ordered for Air France will be transferred to KLM and the 7 Airbus A350-900s currently ordered will be transferred to Air France. Today, **Air France operates 9 Boeing 787-9 aircraft for the first time in May 2020**. That is to say a fleet of 10 Boeing 787-9s. In addition, **Air France will receive its first Airbus A350-900 in September 2019**. It already has 20 more on firm order, in addition to the 7 A350-900s initially intended for KLM, for **a total of 28 A350-900 aircraft**.
KLM currently operates 13 Boeing 787-9s and will receive its first Boeing 787-10 in June 2019. This fleet **will increase to 21 Boeing 787s by the end of 2020, in addition to the 6 Boeing 787s initially intended for Air France, for a** total of 27 Dreamliner aircraft. Options for the future development of the Air France fleet within the Air France-KLM group are currently under consideration, in consultation with all stakeholders. "This is the first step towards harmonizing and simplifying the Air France-KLM group's fleet within its two main airlines," said Benjamin Smith, CEO of Air France-KLM.

My comment: *Air France-KLM is pursuing its strategy of rationalising and modernising its subsidiaries' fleets.*

After officially launching all its ATRs from HOP! last November, the Franco-Dutch Group announced at the Paris Air Show in Le Bourget that it had ordered 35 Embraer 195-E2 for KLM Cityhopper (15 farms and 20 optional).

For the long-haul fleet, the future B787s will be assigned to KLM, while the future A350s will all go to Air France.

Other developments in the short- and long-haul fleets are being studied.

> Air France: Joon disappears from radar screens

(source Air Journal) June 27 - Seventeen months after its first flights from Paris-CDG airport, **Joon officially disappears from the sky**, all its 18 routes being taken over by Air France. Its latest long-haul flights are from Fortaleza and Mumbai, while on medium-haul flights on Wednesday the last flights were to Stockholm, Budapest, Rome and finally Prague. (...)

Launched in 2017, the new subsidiary was designed by Air France "to meet the expectations of new generations of passengers. We are looking forward to meeting you: flexibility, personalized and tailor-made experience. Joon is for anyone who wants a new travel experience. In fact, **the company that had to attack long-haul low-cost aircraft used employees (pilots, mechanics, etc.) under Air France contract, with only cabin crew recruited "at market conditions", at** a cost about 40% lower than their counterparts at the parent company. They alone had reduced the subsidiary's overall costs by 15%.
But when **Benjamin Smith** became CEO of the Air France-KLM group at the end of November 2018, he "made it clear that he did not understand Joon's positioning or identity"; his strategy of moving up the scale for Air France **signed the end of Joon last February, via an agreement with the flight attendants' unions and stewards** reintegrating the 550 cabin crew into the parent company. Despite the "undeniably positive impacts of Joon, in particular the remarkable work of the Joon teams who launched and kept the company alive", Air France explained that the brand was "difficult for customers, employees, markets and investors to understand" from the outset; the multiplicity of brands "created complexity and unfortunately weakened the power of the Air France brand".

My comment: *Joon's end was made possible by the agreement of Air France's main cabin crew unions. They agreed that, from February 2019, the conditions of employment of cabin crew within Air France would be reduced. JOON's cabin crew will be among the first to enter this new system.*

> Lufthansa reorganizes its low-cost subsidiary in difficulty

(source Les Échos) June 24 - One week after a profit warning that caused it to go down on the stock market, Germany's **Lufthansa announced on** Monday **a savings plan to turn around Eurowings, its low-cost subsidiary currently in the red**, **by 2021.**
The first European airline group, which sought to reassure the markets

on the occasion of its investor day in Frankfurt, initially aimed to bring Eurowings back into balance this year.
Plumbed by the fierce price war waged against Ryanair and Easyjet, Eurowings is also suffering from the costly integration of aircraft and employees of Germany's number two Air Berlin, which has gone bankrupt.
(...) Eurowings must therefore achieve an operating margin of at least 7% in the long term (compared to -5.5% in 2018).
To achieve this objective, **Lufthansa will now focus on its short-haul flights, leaving the commercial responsibility for long-haul flights to its Network Airlines division** (composed of Lufthansa, Swiss and Austrian Airlines). "We will focus on our core markets where we benefit from higher returns," said Thorsten Dirks, referring to Düsseldorf, Hamburg, Cologne and Stuttgart.
The German giant is also discontinuing the integration of Eurowings and Brussels Airlines, for which it will present a recovery plan in the autumn. Lufthansa's ambition was to transform this company acquired in 2016 into a low-cost company based on the Eurowings model.
Eurowings will also simplify its very heterogeneous fleet, which will consist exclusively of A320s, will be limited to a single Air Operator's Certificate in Germany, and will increase the number of days worked by its teams. To implement these measures, the group does not exclude a social plan, but has not yet initiated discussions with the unions on this subject.
To satisfy shareholders, since its share price has been roughly halved since the end of 2017, Lufthansa has also announced a change in its dividend policy: the group will pay 20% to 40% of its adjusted earnings, compared to 10% to 25% of its initial earnings before interest and taxes.
(...)

My comment: *Lufthansa had great ambitions for its low-cost subsidiary Eurowings: to integrate Eurowings and Brussels Airlines, to extend its scope to long-haul flights, to absorb Air Berlin.*

Noting the failure of this strategy, the German Group reversed its course. Its main decision is to bury the long-haul, low-cost airline project, a segment that is unable to find its balance point.

> The SNPL pilots' union accuses Ryanair of operating illegally in France

(source Ouest-France with AFP) June 27 - The **SNPL**, the airline pilots' union, **requested** on Thursday June 27 **that Malta Air, a new**

subsidiary of Ryanair to which the Irish low-cost airline will transfer its activities in France, **apply French law**, in particular regarding rest periods.
In June, Ryanair announced that its staff on French bases would obtain contracts under French law. (...) According to the pilots' union, **" depuis Ryanair's location on the Marseille and Bordeaux bases,** (...) the **flight schedules of its crews are very far from complying with the requirements of the Civil Aviation Code** even though it has not taken any steps to obtain an dérogation ". (...)

Ryanair returned to France this year, first to Marseille, while it had not had a base there since 2011 due to legal disputes.

My comment: *I support all actions to ensure fair competition in air transport. This one is one of them.*

> China Southern turns its back on alliances

(source Business Travel) June 25 - **China Southern left SkyTeam at the beginning of the year and since then rumours have been circulating that the company was likely to join the competing oneworld alliance. These were swept away by the Chinese carrier's management**. (...)China Southern Airlines wants to become the world's leading carrier over the next three years, but this will be achieved through company-to-company agreements, such as those recently concluded with Emirates for code-share on the Canton-Dubai route and with Finnair on the Canton-Helsinki route. (...)
According to Wu Guoxiang, China Southern's Senior Vice President for International and Corporate Relations, China Southern would remain independent "for a few years perhaps". "**In three to five years, we will be the world's largest carrier**. We need the flexibility to cooperate as we want," said the Vice President of China Southern. The company plans to have a fleet of 1,000 aircraft by 2021 and is expected to double again by 2035.

My comment: *Everything is possible for China Southern. Stay out of alliances, join Star Alliance or Oneworld, or even create a fourth alliance with Emirates. Everything will depend on its ability to grow in the coming years*

> Boeing 737 MAX: FAA identifies a new malfunction on the MCAS

(source Journal de l'Aviation) June 27 - **American Airlines' new project to resume flights of its Boeing 737 MAX aircraft in**

September is in danger of being called into question. While most observers agree that Boeing will need more time to get its single-aisle aircraft back into service, **the FAA** seems to agree with them. The American agency **announced** on June 26 **that it had identified a "potential risk" on the aircraft** to which the aircraft manufacturer will have to find a solution.
This risk again concerns the MCAS, which has been the focus of attention by the FAA and Boeing in recent months following the Lion Air and Ethiopian Airlines accidents. While no details have been given on the type of malfunction, news agencies report that **simulator tests last week revealed a specific situation in which pilots had difficulty regaining control of the aircraft after the stall protection software was activated.**

Boeing points out that the software modifications it has been working on for eight months do not take into account this specific situation identified by the FAA. A new deadline is therefore to be expected in the 737 MAX return to service program - according to government sources cited by Reuters and AFP, the first test flight of the modified aircraft will not take place until July 8.
Already working on this new patch, the aircraft manufacturer insisted that it would not submit the modified 737 MAX for FAA certification until it was absolutely certain that the return to service would be safe.

My comment: *This is another setback for Boeing's B737 Max. It will not be back in service until October in the United States.*

For the other countries, it will take longer since, contrary to current practices in the sector, the European and Chinese certification authorities have indicated that they will proceed with their own certification.

Belgian airspace regulator Skeyes has already announced that the Boeing 737 MAX will be grounded at least until the end of the year in Belgium.

> How Airbus is preparing to renew more than a third of its workforce by 2027

(source Les Échos) June 27 - **More than 50,000 people to be recruited over the next eight years: this is the challenge that Airbus will have to meet**. By 2027, the aerospace and defence group will have to renew nearly 40% of its workforce to replace the generation hired in the late 1990s and early 2000s. A period during which the

number of employees increased by 50%. In addition to this demographic challenge, there is another challenge. Committed, like all industries, to digital change, aeronautics must also develop the know-how of its "companions", recycle those whose professions will disappear and attract new skills. All this in a general context of growing competition between companies on certain profiles.
(...) To prepare for this, **Airbus has embarked on an unprecedented** global workforce forecasting **exercise**. **"We had a reliable view of developments at two or three years, but now the exercise is to have a clear vision at five or ten years**, which is not easy," explains Airbus' HR Director. While it is **relatively easy to identify the jobs of the future, such as cybersecurity, data analysis, artificial intelligence or robotics**, it is more difficult to identify all the jobs in decline and even more difficult to anticipate the right time to prepare for reconversions. "
To achieve this, the group is firing on all cylinders. A new IT tool will soon enable Airbus managers to know all the skills available in the group. For employees, **a smartphone application will eventually enable the 136,000 Airbus employees to be constantly informed of internal mobility opportunities**. (...)
Mobility that is also one of the aspirations of employees. "In 2007, the internal mobility rate at Airbus was 2%, compared to 13% today and probably 20% in 2 to 3 years," says Thierry Baril. **Not satisfying this need for mobility means taking the risk of seeing the best people leave, even when you are called Airbus**. "So far, the turnover at Airbus has been quite low," he continues. In France, it is in the order of 2 to 3%, but it is increasing and in some highly sought-after functions, such as cybersecurity, it is more like 10%.

> Paris airports are increasing facial recognition to avoid queues

(source AFP) June 27 - **Paris airports have almost tripled the number of facial recognition airlocks, from 102 to 37 last summer, to** avoid queues at border controls before departing on holiday, ADP Group announced Thursday.
In Paris-Charles de Gaulle, 80 Parafe airlocks (automated rapid transit at external borders) are now deployed and 22 in Paris-Orly.

The government has set a target of a maximum waiting time of 45 minutes on arrival for international flights (outside Europe) and 30 minutes for Schengen flights.
The summer of 2018 had set a "record" in terms of passenger numbers, with 20.6 million passengers welcomed at Paris airports in July and

August. Since then, in order to ensure "a better reception of passengers", ADP has acquired new infrastructures. (...)
Paris airports had had a difficult summer in 2017 due to a tightening of controls that caused long queues and frustration among passengers. To "best meet the needs of travellers, particularly in baggage delivery rooms", Groupe ADP has also provided 1,230 reception agents.

My comment: *Summer is the busiest time of the year for French air transport.*

This is the quarter in which Air France-KLM recorded its best results. Hence the importance for the Group that Paris airports improve a quality of service that left something to be desired in previous summers...

End of the press review

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

The Air France-KLM share price was €8.536 at the end of Monday July 1. It is up sharply by 11.15%.

The average (consensus) of analysts for the AF-KLM share is 10.47 euros.

The barrel of Brent oil (North Sea) **is up from $1 to $65.**

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....

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| François Robardet

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