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...

> Rio-Paris crash: the public prosecutor asks for a trial for Air France and a dismissal for Airbus

(source Les Échos) July 17 - **After ten years of investigation into the crash of the Rio-Paris flight, which killed 228 people** on June 1, 2009, the **Paris prosecutor's office,** in its indictment dated July 12, which AFP was able to consult, is **requesting a trial before the criminal court for Air France and a dismissal for Airbus**. In this procedure, which has been going on for more than ten years, both companies were indicted in 2011 for "manslaughter".
The public prosecutor would consider that Air France "committed negligence and recklessness" by not providing its pilots, after several incidents of the same kind in the previous months, with sufficient information on the procedure to be adopted in the event of anomalies related to the Pitot probes that control the aircraft's speed. On the other hand, he considers that there are not enough charges to send the aircraft manufacturer back to correctional.
It is now up to the two investigating judges in charge of this case to decide whether or not they will follow these requisitions and order a trial for the airline alone.
This announcement provoked strong reactions from the civil parties, the families of the victims and the pilots' unions, **who have been calling for a trial of all the protagonists for years. Namely, Air**

France and Airbus, as well as representatives of the Civil Aviation.

"The **families of the victims are shocked and angry**, says the spokesman for the association "Entraide et solidarité AF447". This is an affront to families, who feel abandoned by the authorities. We expect a fair and equitable trial, which will allow us to draw all the consequences for flight safety. The
same angry reaction from (...) the SNPL pilots' union (...): "If this decision is confirmed, it would be totally scandalous, because **obviously the manufacturer bears a responsibility in this matter**", he said.
The pilots' union criticizes Airbus for having always claimed, before this disaster, that an aircraft like the A330, whose "flight envelope" is protected by on-board computers, could not pick up. This would explain the lack of an appropriate response from the pilots of flight AF447. "The crew did not understand what was happening and the training programs of the time were not designed to deal with this situation.
For its part, Air France confirms that it has read "the position of the Public Prosecutor", whose conclusions it obviously does not share. "**Air France will confirm its request for dismissal** in its observations to the magistrates," the company said. It will then be up to the investigating judges alone to decide whether to hold a trial against the accused before the criminal court.
The crash of flight AF447 was the deadliest in Air France's history. The **starting point of the disaster was the in-flight icing of Pitot probes** that led to the disconnection of the autopilot. But the subsequent events then gave rise to a battle of experts to establish responsibility for the sequence that led to the crash. In 2012, the **first report pointed to crew failures, technical problems and a lack of information for pilots in the event of probe icing, despite an increase in previous incidents reported to Airbus**.
Airbus (...) **then requested a second opinion, which focused mainly on an "inappropriate crew reaction" and Air France's shortcomings**. Considering it too favourable to Airbus, relatives of the victims and the airline had attacked the report before the Paris Court of Appeal, which had ordered its cancellation and the reopening of the investigation.
The latest counter-expertise, submitted in December 2017, again provoked outrage from the civil parties. The experts reaffirmed that the "direct cause" of the accident "resulted from the inappropriate actions[of the crew] in manual flight" and tended to clear Airbus through customs. However, the judicial soap opera is far from over. (...) In any case, and given the delays, the trial of the crash of flight AF447 cannot take place

until next year.

***My comment:** Without prejudging each other's responsibilities, the families of the victims of Rio-Paris hope that all stakeholders (Airbus, Air France, representatives of the Civil Aviation) will be heard during a trial.*

Will the investigating judges follow the prosecution's requests, prosecuting only Air France?

> Airbus close to closing a major order with Air France

(source Reuters) July 18 - **Airbus is close to signing a contract with Air France for dozens of A320neo and A220 family aircraft** worth billions of dollars, as the airline is in the process of renewing its medium-haul fleet, industrial sources told Reuters.

The contract could include between 50 and 70 A220, the former CSeries acquired by the European aircraft manufacturer from Bombardier in Canada, which will replace the approximately 50 aging A318s and A319s currently operated by Air France, continued the sources.

The carrier is also expected to select A320neo family aircraft to replace approximately 40 units of a previous version of the A320, some of which have been flying for 18 years.
A spokeswoman for Air France-KLM, Air France's parent company, said: "**Air France is continuing to renew its medium-haul fleet. No decision has been taken at this stage**."
Airbus refused to comment on a possible order, which should be on the agenda of an Air France-KLM board of directors scheduled for the end of the month.

> KLM: Flying is like drinking, do it in moderation

(source Trouw translated with Deepl) July 18 - **KLM is working to make its image much greener**. Just as people shouldn't drink too much, they shouldn't steal too much," says Pieter Elbers, CEO of KLM.
(...)
By comparing alcohol in the air and alcohol, KLM is a powerful airline that wants to lead the way in sustainable development. (...)
Elbers' statement (...) **follows the campaign the** airline launched at the end of June with newspaper advertisements and a quality film entitled **"Fly responsibly", flying responsibly**. Previously, Elbers had already advised passengers to opt mainly for trains for short distances in Europe.

From an international point of view, KLM's message is innovative. Outside Europe, sustainability in the aviation sector is not too much on the agenda. International conferences focus mainly on the problems of the Boeing 737 Max, rising fuel prices and fierce competition. **An airline that asks passengers to opt for a train or videoconference is strange to say** the **least.**
The airline does this not only with words, but also with deeds, says Elbers. "Think of the biokerosene plant that will be built in Groningen. We have agreed to purchase the majority of the biofuel produced."
The question is what KLM's good intentions and green initiatives mean for the lively debate on the future of aviation in the Netherlands. **The Fly Responsibly campaign has met with scepticism in recent weeks. After all, it seems hypocritical to ask passengers to stop flying more often, when KLM still wants to grow**. More flights, more CO2 emissions and more noise pollution, and that is not what environmental organisations and people living near airports expect. They suspect that KLM wants to refine its image with their message. (...)
Elbers points out that theft is not an end in itself. (...) "The CO2 offset program and the biokerosene plant also have a price. Making it more sustainable costs money, a lot of money. That is why we need responsible and balanced growth. (...)"

My comment: *Like Air France, KLM is trying to convince the public opinion of its country of the validity of its actions to fight global warming.*

KLM also has to face the demands of the people living near Schiphol. They are opposed to an increase in traffic that would cause them more noise pollution.

> HOP PSE cancelled: the unions' version

(source Air Journal) July 19 - **The cancellation last week by an administrative court of the approval of the safeguard plan for employment (PSE) in the administrative supports of the regional airline HOP, was not well presented according to the unions**, which used a law firm to give their side of the story.
(...) Signed by the Works Council of the UES HOP!, the CFDT Groupe Air France section HOP!, the CGT HOP!, the Union de l'Encadrement HOP! CFE-CGC and the UNSA Aérien, the communiqué is as follows

(...) The Court notably:
- found that HOP had failed to comply with the obligation to reclassify and set up mechanisms "likely to encourage unfair behaviour on its part towards employees",

- found that the PES was "failing" and "insufficient" with regard to the resources of the AIR FRANCE group.

Far from constituting a "cancellation for technical reasons", as HOP has attempted to present it, this decision sanctions a fundamental defect and the company's methods that do not comply with the law.

(...) The **Tribunal** (...) **annulled the decision of the DIRECCTE which had certified the PSE, and therefore this PSE and all the collective and individual measures it had taken**.

Each employee who has had his or her employment contract terminated or affected in any way by the implementation of the PES, in particular by a "voluntary departure", is entitled to claim compensation and repositioning in the situation prior to that imposed on him or her by the plan implemented by the company. (...)

My comment: *In its press release, HOP's management regretted the court's decision and announced "its intention to appeal". For her, the court's decision "does not call into question the implementation of the various reorganization projects in progress".*

The HOP! unions do not have the same understanding of this decision. In particular, they would like to see proposals for reclassification within the Air France Group made to HOP! employees to prevent them from being laid off.

> Transavia France: resistance to the agreement concluded with the SNPL

(source Déplacements Pros) July 18 - **The result of the referendum organized by the SNPL on the development of Transavia France will be known at the end of the month. SPL Transavia is opposed to the conditions made to historical pilots**. (...) But they are a minority among Transavia pilots (79 against 350 seconded). These pilots, who joined Transavia between 2007 and 2014 from a company other than Air France, denounce in particular the decrease in their seniority and seniority. **SPL Transavia could file a notice or an action for interim relief against this agreement**.

The agreement allows the current limit of 40 aircraft dependent on Transavia to be capped. (...)

In addition to the SPL Transavia, the **group's strategy raises concerns among other unions**. Until 2030, Air France is committed to maintaining the current threshold of 110 single-aisle aircraft in its medium-haul fleet. We can see the glass half full and see that the draft

agreement "guarantees" this number of devices. **Sud Aérien denounces "the entire growth of the sector (medium-haul) absorbed by Transavia! This** means that the Smith team will be able to limit the number of Air France A320 family aircraft to 110 over the next 10 years, while expanding Transavia's B737 fleet to carry more and more passengers! Air France will stagnate and Transavia will fly away!". The union continues "For the Air France ground crews (maintenance, assistance, passages, etc.) and cabin crew, growth will pass under their noses, since apart from the pilots, no Air France agent would be involved on Transavia's B737s. (...)
"

Air France can argue, on this point, that it is planning to renew its medium-haul fleet. If the agreement with the pilots is approved, the group would indeed consider buying both B737s for Transavia - although the choice of MAX may not be as obvious these days, even if low-costs still opt for a single aircraft type - and A320 family aircraft for Air France, an order that would include A321 XLRs, Airbus' new single aisle very long range single aisle, allowing a mixed medium-haul/long haul activity.

My comment: The *concerns of Transavia France employees go beyond the questions raised in the article about the historical pilots of the Air France subsidiary.*

While it is assumed that there would no longer be any limitation on the number of aircraft at Transavia France, the draft agreement submitted for approval to the pilots of the SNPL Air France still governs the development of this subsidiary.

Transavia France employees and their representatives fear that these limitations do not allow Transavia France to effectively fight against low-cost airlines (easyJet, Ryanair, Vueling, Volotea) that are developing in the French domestic market.

> 24% of Ryanair airports are likely to be supported by subsidies, which fuels rapid growth in emissions

(source aviation24 Belgium, translated with Deepl) 15 July - **Almost a quarter of EU airports served by Ryanair are likely to be loss-making and supported by taxpayers' money** that is used to subsidise rapidly growing airline emissions, according to a new analysis. The report concludes that 52 of the low-cost carrier's 214 airports receive subsidies (35) or have less than 500,000 passengers per year (17) - a conservative estimate of the break-even point. (...)

Almost half of Ryanair's airports in difficulty are in France (16) and Italy (7), according to the report. They receive State aid from governments and local authorities in the form of direct payments or tax exemptions. Paris Vatry served only 108,000 passengers in 2017 but received €3 million in public subsidies, or just under €30 per passenger. Andrew Murphy, Director of Aviation at Transport & Environment (T&E), said:"This report **provides a clear picture of the public funds that subsidize Ryanair's operating costs and** boost its exceptional revenues and record emissions. As **governments struggle to limit the sector's impact on the climate, the first step should be to end subsidies that simply add fuel to the fire**. (...)

My comment: The *article mentions that Ryanair would illegally receive an aid of 30 euros per passenger in Vatry. This amount had already been mentioned in recent years, particularly in Marseille and Montpellier.*

While the French government is introducing new levies on airlines (remaining Chirac tax, ecotax on passengers applicable in 2020), it is inconceivable that local authorities continue to subsidise (directly or indirectly) Ryanair, Europe's ninth most CO2-producing company.

> Ryanair announces the closure of bases while waiting for its Boeing 737 MAX

(source Air Journal) July 16 - The **Ryanair group** has updated its growth forecasts for the coming seasons due to a lack of future aircraft. Michael O'Leary **explained that he no longer expected to receive his first Boeing 737 MAX before January or February** and that all deliveries would be postponed, which would slow down the expected increase in the fleet in 2020. Therefore, the CEO of low-cost warns that frequency reductions and base closures are to be expected for the coming winter and summer seasons.

Ryanair is therefore reviewing its routes and their profitability to adapt its flight programme and **has launched negotiations with airports and trade unions.** **The** low-cost explains that it expects to receive thirty 737 MAX200 by the end of May 2020 instead of the 58 planned. "This number could increase or decrease further depending on the actual return to service date of the 737 MAX," warns Michael O'Leary. The revision of the schedule has therefore become necessary and Ryanair is now only expecting a 3% growth in its offer during the summer of 2020, instead of the 7% forecast. (...)

My comment: *Contrary to what the CEO of Ryanair claims, the reduction in activity he forecasts next winter is not the consequence of the B737 Max crisis. Every winter, the Irish low-cost airline stops between 50 and 100 aircraft to adjust its supply to demand.*

Rather, it should be seen as a way of negotiating an increase in direct or indirect aid to Ryanair (see previous article).

> EasyJet expects a one-quarter decrease in its annual pre-tax earnings

(source Le Figaro with AFP) July 18 - British airline **EasyJet announced on Thursday that it expects its annual pre-tax profit to fall by around a quarter due to** a decline in the load factor of its aircraft in a "difficult" environment.
The low-cost carrier expects this profit to be between €440 million and €490 million at the current exchange rate for the financial year from 1 October 2018 to 30 September 2019, compared to €635 million in the previous financial year, he detailed in a statement. (...)
Economic growth in Europe is sluggish, which is reflected in air carriers that have been performing less well for months.
In the United Kingdom, EasyJet estimated that demand was somewhat reduced by the uncertainties associated with Brexit, now scheduled for 31 October. (...) Like other companies in the sector, EasyJet also faces intense competition for short- and medium-haul flights, which tends to weigh on margins.
In the third quarter (April 1 to June 30), EasyJet experienced a 1.7 percentage point decline in its average aircraft load factor to 91.7%. (...)

My comment: *European airlines have been forecasting a decline in profits in 2019 in recent weeks.*

Analysts believe that easyJet is suffering the first effects of the "shame to steal" campaign from Sweden.

Others point to the end of the growth cycle that air transport is used to.

> Qatar Airways refuels in Washington

(source Air et Cosmos) July 19 - (...) **Qatar Airways has confirmed the purchase of five Boeing 777 Freight**, ordered no less than 18 Gulfstream business jets and purchased General Electric GEnx engines for its second batch of Boeing 787-9 aircraft.

(...) The **signatures were officially signed at the White House in the presence of the Emir of Qatar**, Sheikh Tamim Bin Hamad Al-Thani, **and the President of the United States**, Donald Trump. Qatar Airways has therefore finalised an order for $1.8 billion, catalogue price, for five Boeing 777 Freight. The order had already been announced with the signing of a memorandum of understanding during the 53rd edition of the Paris Air Show last June.

(...) Finally, **Qatar Airways has chosen the General Electric GEnx engine to power its second batch of 30 new Boeing 787-9 aircraft.** The airline has signed a TrueChoiceTM Flight Hour agreement to cover the MRO of both GEnx and GE9X engines that will power the 60 or so Boeing 777X aircraft ordered by the carrier.

My comment: We are *witnessing a surprising change in the attitude of the President of the United States.*

A little over a year ago, he castigated Gulf companies subsidized by their states. Today, he receives Qatar Airways at the White House.

> Boeing still expects the 737 MAX to be back in flight before the end of the year

(source Les Échos) July 22 - It is **another high-risk week for Boeing**. On Wednesday, July 24, the group will unveil its second quarter results, which were severely impacted by the 737 MAX crisis, as well as its new financial forecasts for 2019. The aircraft manufacturer will have to convince investors of the relevance of its scenario, which is based on a possible resumption of flights "at the beginning of the fourth quarter". This is despite the fact that no date can yet be put forward with certainty for a lifting of the four-month flight ban on Boeing 737 MAX aircraft. Last Friday, **Boeing already tried to prepare minds by announcing a charge of $4.9 billion in the second quarter (and even $5.6 billion before taxes)**, supposed to cover "estimated potential compensation and other concessions granted to its customers due to disruptions caused by the grounding of the 737 MAX, as well as delivery delays". In **addition to this exceptional provision, the aircraft manufacturer also estimated the additional production costs at $1.7 billion**, "mainly due to [...] the decrease in production rates" of the MAX, reduced from 52 to 42 aircraft per month since April. (...)

However, "these estimates are based on the most optimistic assumption that flights will resume before the end of the year," says Marc Durance, of the French consulting firm Archary consulting, which recently

published a study on the various scenarios for ending the 737 MAX crisis. "**A resumption of 737 flights in November** requires Boeing to have been able to apply for certification from the Federal Aviation Authority (FAA) in September," he explains. This **would mean leaving aside some of the requests of the European Aviation Safety Agency**.
According to Bloomberg, the European Aviation Safety Agency (EASA) has sent its FAA counterparts a list of "major problems", including a possible defect in the autopilot system that has never been mentioned before and which, according to EASA, must be the subject of "settlement proposals" from Boeing before allowing flights to resume. EASA experts reportedly discovered that the autopilot does not disengage in certain emergency situations, which could lead to a stall. In addition, **the $4.9 billion provision seems just enough to cover the equivalent of six months of lost revenue for airlines** whose MAX 737s have been grounded since mid-March. But in addition to a possible prolongation of the problem, **this estimate leaves aside other possible additional costs, such as those related to the return to service of some 600 aircraft stored at this time, as well as the additional training costs for pilots, in the event that they have to switch back to the simulator.**

As for the additional costs related to lower production, the $1.7 billion estimate provided by Boeing is limited to the second quarter, while, as the aircraft manufacturer acknowledges, the program's margin will still be impacted "in the coming quarters". In addition, this estimate remains based on the optimistic assumption that production will increase from 42 to 57 units per month in 2020. This is the objective stated by Boeing before the crisis. This implies that it would have no long-term impact on the sales of the Boeing 737 MAX.

My comment: *Boeing provides its first estimates of the financial impact of immobilizing its B737 Max aircraft: more than $7 billion.*

This amount, which will most likely be exceeded, is in line with Boeing's 2018 annual net income: $10.1 billion.

Press review Stock market

> Air France-KLM: Oddo is still in the process of purchasing, confirms the objective

(source CercleFinance) July 19 - **Oddo believes that the new**

strategy, whose foundations Ben Smith is currently methodically consolidating, **could provide a net additional EBIT margin of 2% (compared to 4.6% in 2019) thanks to the activation of manual management levers over a three-year period.**

A commitment from the pilots would make it possible to make an in-depth evolution (...) ' says Oddo.
The analysis office confirms its advice to purchase with a target of 11.70 €.

> Air France-KLM: UBS lowers its sights

(source Boursier com) July 18 - (...) The news on the air carrier is dominated by a new broker adjustment. In **advance of the Franco-Dutch group's half-yearly publication**, scheduled for 31 July before the stock market opens, **UBS has just recalculated its calculations and lowered its price target from 10.6 to 9.70 euros, while remaining "neutral" on the matter**.

End of the press review

> Follow-up to the referendum on the privatisation of Aéroports de Paris

The consultation mechanism on the privatisation of the ADP group is open from 13 June to March 2020. To lead to a shared initiative referendum (RIP), it requires the signature of 4.7 million voters.

On the Internet, the consultation is signed on the website referendum.interieur.gouv fr

As of July 22, the consultation had collected 556,000 signatures, or 11.8% of the required signatures.

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

The Air France-KLM share price was €9.042 at the end of Monday 22 July. It is up by 1.71%.

The average (consensus) of analysts for the AF-KLM share is 10.39 euros.

The barrel of Brent oil (North Sea) **is down from $2 to $63.**

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

Director Air France-KLM representing PS and PNCV employee shareholders You
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