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...

> Transavia: pilots join the dance and file a 6-week strike notice

(source La Tribune) 18 August - **Contesting the substance and form of the development agreement for Air France's low-cost subsidiary found in July by management and SNPL Air France, Transavia's SPL (affiliated to the CFDT) filed a strike notice from 1 September to 15 October**. (...) Dates that will nevertheless allow the Aoûtiens to return from their holidays without any problems. (...)
Approved by the pilots of the SNPL Air France in a referendum, **this agreement lifts the fleet ceiling to 40 aircraft, which was set out in an agreement signed in December 2014**, after a 14-day strike in September 2014.
As has been the case for the past five years, Transavia's development will be carried out with pilots seconded from Air France. The latter will therefore remain Air France employees but will be subject to the rules of use at Transavia, which are more stringent than at Air France. And the remuneration system will be that of Air France.
With a large proportion of Transavia's 79 "historical" pilots (compared to 350 seconded from Air France), who launched the airline between 2007 and 2014 without coming from Air France), SPL Transavia rejects the terms of the company's development agreement, considered "unacceptable" both in terms of the form in which a union of another company (SNPL Air France) is authorised to decide on the working

conditions, remuneration and development of Transavia pilots and in terms of the substance, which causes the historical pilots to lose part of their seniority (which would not begin until 2014) and their seniority. (...) **Deploring having been kept out of the negotiations, the union calls for** "equal treatment between historical pilots and Air France pilots", "**the end of perimeter clauses" to put in place "a real development strategy"**, and denounces the lack of pilots, the impossibility of recruiting outside Air France, or the multiple aircraft failures due to poor "efficient" maintenance. Above all, the SPL wants to participate in the negotiations on the development of Transavia
because **the agreement reached in July between the management and the SNPL Air France on the development of Transavia has not yet been signed. It will even be modified to avoid legal uncertainty**. In a leaflet recently sent to its members, the SNPL Air France states that the law professor Maître Lyon-Caen, solicited by it, is working on "a wording that eliminates any risk of litigation and meets the initial objectives". (...)

"Transavia's historical pilots are the big winners in the negotiations. On the one hand, they will have the highest increases because they were paid less than Air France secondments, and on the other hand, because the majority of them act as instructors and will be assigned the more remunerative Air France rules," explains an Air France SNPL manager. "We have requested simulations of compensation increases. We were denied that. When we run the calculators, we don't see any increase," says Cyril Froment, SPL Transavia union delegate...
Transavia's management "regrets this call for a strike when the discussions have led to significant progress for all Transavia France pilots and this agreement would create jobs within the company".
And to add:

"**Discussions on the development of Transavia France are conducted within the framework of a draft Pilot Group agreement negotiated with the representative unions at the level of the Air France and Transavia France pilot groups: the SNPL and the SPAF. The negotiation of a Group agreement is permitted by the law of 8 August 2016 on work, the** modernisation of social dialogue and the security of professional careers, known as the Labour Law or the El Khomri Law. All Transavia pilots are represented in the negotiations through representative unions".

My comment: The *Air France management, the SNPL Air France and the SPL Transavia France agree on at least one point: the draft agreement submitted to a referendum in July is illegal.*

According to the lawyers I have been able to contact, an agreement on a company's strategy must be negotiated with the trade unions representing all categories of staff.

> For Transavia, trouble flies in squadron

(source Libération) August 14 - The Air France subsidiary is facing a strike notice period beginning Friday. In addition, there is a recurrent lack of pilots, technical problems and a case of harassment.

The star of the airline **Transavia France** may be seriously fading. Until now, this low-cost subsidiary of Air France-KLM **has been a good student**. **Continued growth and profitability finally found combined with a certain customer satisfaction with prices that have nothing to envy EasyJet or Vueling**. In addition, passengers generally prefer to take off and land from Orly, where Transavia France is based, rather than from Roissy, which is more remote, where Air France is based. Nevertheless, the summer season, by far the most important for a company like Transavia, is obviously going quite badly. **Strike notice was given earlier this week by the company's stewards**, affiliated with the CGT, the majority union in the company. It will take effect from Friday, August 16. **In particular, employees ask to be involved in the development of their company** and aspire to an employment contract equivalent to that of their colleagues who fly on Air France aircraft. (...) They have a so-called "perimeter" clause in force until recently. Behind the technical jargon, it was a veto right for Air France pilots over Transavia's aircraft purchases - a way of controlling the subsidiary's development and protecting the parent company's network. In addition, **Transavia cannot recruit captains from outside the company.** They must be from Air France. (...) This perimeter clause has weighed on the development of the company, which now has only 39 aircraft when competitors such as EasyJet have 300 (Vueling has 123). Even today, Transavia is not allowed to fly more than 5,556 kilometres, so as not to shade Air France.
Transavia also faces technical problems with at least one of its aircraft. In an open letter to Air France-KLM President Benjamin Smith on August 12, the CGT pointed out the repeated malfunctions of a Boeing 737 registered F-GZHS. (...) Two investigations, one internal and the other assigned to the Investigation and Analysis Bureau (IAB) of the Department of Transport, are ongoing.
The lack of pilots and technical problems actually force Transavia, during the summer period, to charter aircraft and crews with other companies, most of the time non-French. In this situation, a

Transavia stewardess must nevertheless be on board, so that at least one crew member can speak French. "On a daily basis," notes one steward, "the one who finds himself in this position must suffer the dissatisfaction of passengers who have bought a Transavia ticket and do not appreciate being seated on a plane from another airline, often unknown." (...)

Last year, Transavia France exceeded, for the first time, the 7 million passengers carried and increased the load factor of its aircraft by 1.5%. This year's results could be weaker, given the costs associated with aircraft charters and flight cancellations, which must be offset by compensation for passengers. By chance or coincidence, on July 12, **Transavia's CEO**

Nathalie Stubler **announced to employee representatives that she would likely have to lower her financial targets for 2019**. Would the good student subsidiary of the Air France-KLM group now risk the donkey cap?

My comment: *The situation of Transavia France is strangely similar to that of HOP! two years ago. Chartering foreign companies to spend the summer peak, at the risk of dissatisfying customers, shortage of captains...*

Solving these problems will be a prerequisite for the development of the Air France group's low-cost airline.

> The end of lost luggage? Air France orders 120 million labels to track them

(source L'Usine Nouvelle) August 15 - **In 2018, nearly 25 million travellers' suitcases were delayed, lost or damaged in the** meanders of airports. **A major source of stress for passengers and a cost for airlines. The** latter are testing different technical and organisational solutions to stem this scourge.

Air France has decided to adopt RFID radio identification technology. It will buy 40 million communicating labels every year for three years. Paragon ID's solution was chosen; the labels, integrating the NXP Ucode 8 chip, will be manufactured at its Berrichon site in Argent-sur-Sauldre, in the Cher region. The company hopes to convince other companies in the Sky Team alliance to trust it.

Air France will start deploying RFID at its Charles de Gaulle base in Terminal 1, in partnership with Paris Airport. This deployment will require RFID sensors to be installed at various key points in baggage logistics, in order to be able to track them efficiently.

Once the first tests have been completed, Air France plans to gradually extend the technology to other airports. (...) In this way, it hopes to improve efficiency and reduce expenses related to lost luggage, while improving the passenger experience.

My comment: *The system tested by Air France will increase customer satisfaction.*

Extended to the Air France-KLM Group, it will make it possible to accentuate the difference with low-cost airlines that offer connecting flights without assuming baggage transfer.

> Aigle Azur gives itself some time in Brazil

(source Air Journal) August 16 - **The removal by the airline Aigle Azur of the line between Paris and Sao Paulo has been postponed to the end of September**, with a possible return in November. (...)
Aigle Azur did not directly comment on the suspension or closure of this line, which would mark the end of its long-haul activity outside Africa while it was still hoping in spring to relaunch flights to Beijing (a line suspended at the end of last winter, after six months of activity). On the other hand, **it confirmed the cessation of flights between France and Portugal and the "probable" sale of these operations to the low-cost Vueling, after having recognised difficulties such as "a good number of players in the sector, particularly in Europe (...**) in a particularly difficult context (flygscam, eco-contribution project, overcapacity last winter in Europe, oil impact autumn 18)". The main shareholders of Aigle Azur (HNA and Azul's founder David Neeleman) are facing their own difficulties and are refusing to reinvest in the airline.

It should be recalled that Algeria represents more than half of Aigle Azur's activity (...). Its network also includes Germany (Berlin), Italy (Milan), Russia (Moscow), Senegal (Dakar), Lebanon (Beirut) and Ukraine (Kiev). It carried 1.881 million passengers last year.

My comment: *Aigle Azur wants to sell its operations between France and Portugal to Vueling. Vueling would recover 40% of the slots from Aigle Azur to Orly.*

This operation would bring in around €20 million for Aigle Azur. This is a significant sum for the French company, which has just announced that it has a cash position of twenty-five million euros.

> Lufthansa: dynamic activity in July

(source Boursier com) August 14 - **The Lufthansa group welcomed**

14.6 million passengers in July, an increase of 3.3% year-on-year. At the same time, capacity increased by 2.5%, **allowing the load factor to improve by 0.6 points to 86.9%, a record level for a month of July**. Traffic for Lufthansa alone increased by 2.8%, while its load factor reached 86.9% (+0.9 points).

> Air Italy: triple loss compared to Meridiana

(source Air Journal) August 19 - **Air Italy is reported to have lost €164 million in its first year of operation under its new colours**, three times more than that recorded by Meridiana, which it replaced. The current year should be of the same kind, and it could give up its Boeing 737 MAX.
According to Corriere della Serra, **the former Meridiana, relaunched in March 2018 with Qatar Airways as a 49% shareholder, did worse on all fronts at the end of March 2019**: revenues fell by 21.3% to €283.76 million, miles travelled and flight hours down, and the number of passengers carried fell from 2.44 to 1.91 million - only 379 of them.000 on long-haul flights, as charter activities were discontinued, resulting in a loss of €65 million in revenue.
Three factors are cited by Air Italy to explain these results from the daily newspaper: the investment in recovery, including in the fleet with Airbus A330-200s and Boeing 737 MAXs, but also to transform the network around the Milan-Malpensa airport hub and pay for the costs of overstaffing; the launch of new long-haul routes to India and Thailand, which did not have the expected results and were cancelled; and last March the grounding of its Boeing 737 MAXs.
For 2019, Air Italy expects to record similar losses, in particular because of the 737 MAX 8s grounded and which forced it to rent other aircraft. The five-year business plan consulted by the Italian daily clearly raises the question of replacing its fleet of single-aisle aircraft (3 MAX 8 delivered since May 2018 out of 20 expected, 4 737-800 and 1 737-700 aged around 20 years) with more modern aircraft "in particular those of the Airbus family, with emphasis on technical homogeneity". On the
positive side, the Italian company has a unit revenue (RASK) of 6.68 cents in 2018 according to Corriere della Serra, "just above the 6.4 cents" of its rival Alitalia. And it states that this year, excluding exceptional events such as MAX grounded "and territorial continuity in compensation", performance will be better than expected and will allow "additional growth". The composition of the fleet will be strictly based on "growth needs and operations", with Qatar Airways' plans to equip it with 50 aircraft not mentioned, as well as the replacement of the A330s by

787 Dreamliner aircraft.

My comment: *When Qatar Airways took over the former Meridiana, the Gulf airline announced its intention to use it to circumvent the restrictions imposed by the US administration. This would allow it to increase its service to the United States.*

Resistance from US airlines has thwarted Qatar Airways' plans, increasing Air Italy
's difficulties.

> Norwegian sells its banking assets to bail out

(source Les Échos) August 19 - Norwegian low-cost Norwegian airline **has just announced the sale of its banking assets to Nordic financial groups for 222 million euros**. The company is thus divesting its 17.47% stake in Norwegian Finans Holding (Nofi) in order to "strengthen its core business in air transport and focus on the transition from growth to profitability", said Geir Karlsen, Managing Director.
This cash inflow was necessary for Europe's third low-cost airline, a specialist in long-distance transatlantic flights, which has been suffering significant financial losses since 2017. The carrier, which saw its historical Managing Director and co-founder, Bjørn Kjos, leave the group in mid-July, is currently having its 18 Boeing 737 Max aircraft, whose model is suspended from flight after two fatal accidents in October 2018 and March 2019.
Already **last January, the company raised €309 million in the** form of a capital increase, notably from Norway's main public bank, DNB Bank. This subscription had enabled the company to avoid a sudden bankruptcy.
In the second quarter of 2019, the group posted a net profit divided by 4 compared to 2018, amounting to €7.6 million. Several of its bases of 737 Max are scheduled to close during the year, ending a few lines considered unprofitable.
The carrier has already announced the suspension of its transatlantic flights from Ireland. An effective decision from next September. (...)

My comment: *As early as March 2019, Norwegian began using multiple charters to mitigate the grounding of its B737 Max aircraft, which worsened its financial situation.*

As the date of return to service of the 737 MAX remains undetermined, the Managing Director of Norwegian has decided to reduce charters and eliminate the most loss-making lines.

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 August 19, the consultation had collected 661,000 signatures, or 14.01% of the required signatures.

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

The Air France-KLM share price was €10.465 at the end of Monday 19 August. It is up by 1.45%.

The average (consensus) of analysts for the AF-KLM share is 10.59 euros.

The barrel of Brent oil (North Sea) **is up from $1 to $59.**

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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