I Letter from the Director Air France-KLM

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

No. 725, October 14, 2019

If you do not see this page correctly, or if you want to read the English or Dutch versions

If you do not see this page correctly, or if you want to read the English or Dutch versions,

Als u deze pagina niet goed ziet, of als u de Engelse of Nederlandse versie wilt lezen,

follow this link , it is here, vindt u deze yesterday

The Press Review on Monday...

> Air France-KLM: +3.1% passenger traffic in September

(source CercleFinance) October 8 - **Air France-KLM reports a 3.1% increase in total passenger traffic for September**, based on a 2.4% increase in capacity, resulting in **an improved load factor of 0.6 points to 89.2%.**

More specifically, the Passenger Network activity (Air France and KLM) saw its traffic increase by 2.4%, with a 5.4% increase in connections to North America, while the Transavia low-cost activity increased by 7.6%. For its part, **Franco-Netherlands' cargo traffic fell by 3.8% last month on the** basis of a 1.4% increase in capacity, resulting in a load factor that fell by 3.1 points to 57%.

My comment: *Since the beginning of the year, the Air France-KLM group has carried 80 million passengers, up 3.4% compared to the same period in 2018.*

I note that over these nine months, the load factor of the Franco-Dutch group was 6 points higher than that of the Lufthansa group (88.7% versus 82.8%); a performance to be credited to the combined Air France-KLM teams.

It will be necessary to wait until the publication of the quarterly results of the

Air France-KLM group on 31 October to have financial indicators.

> KLM celebrates its 100th anniversary

(source Air Journal) October 8 - The Dutch national airline **KLM, the** second this year to celebrate its 100th anniversary after British Airways, **held a grand celebration in Amsterdam on 7 October 2019.** Since its first flight on 17 May 1920, six months after its creation by eight Dutch businessmen, KLM has evolved into a company operating 120 aircraft within the Air France-KLM group and the SkyTeam alliance. "The fact that we are celebrating our 100th anniversary is not only a testament to a century of successful business, innovation and commerce, but also to the trust our customers and partners have in KLM. This is an ode to KLM's aviation pioneers, who have literally put civil aviation on the world map," said CEO Pieter Elbers in a statement.
KLM" is the oldest international airline still operating under its original name. **We were the first airline to successfully pursue partnerships and alliances,** after which many other countries and airlines followed our example. This brought together hundreds of millions of people around the world. As Albert Plesman said: "The ocean of air unites all peoples. "We can be proud of our long list of achievements and efforts over the past 100 years. This is how we find ourselves - energetic and confident - at the dawn of a new century. Filled with the same pioneering and entrepreneurial spirit, we look forward to meeting the challenges of sustainability and innovation with optimism," added the CEO.
The tensions between the Netherlands and France were briefly mentioned on 7 October by the CEO of the Benjamin Smith group, who stated in Le Figaro: "when you have two airlines in the same group that are so important for each country (...), it is natural to see that each government wants to protect their interests for the future". But he also told ATW that Air France could "learn from KLM in terms of efficiency" and had "a lot of room for improvement", while acknowledging that the group had made "major progress in its operations" since stabilising its relations with the unions.

My comment: *Throughout the weekend of 5 and 6 October, and again on 7 October, hundreds of KLM employees and their families took part in the celebrations organised as part of their company's centenary.*

On October 8, Air France employees were invited to a ceremony at the Roissy headquarters.

The last celebration took place at the Dutch Embassy in Paris. During the evening, KLM CEO Pieter Elbers acknowledged the benefit KLM had received from its merger with Air France.

On this point, he echoed the speech of his predecessor, Peter Hartman, which you can find in Flash n°81 published last week.

> At Air France Industries, "we do not have a penury business".

(source: Le Journal de l'Aviation) October 3 - Air France Industries operates, like all maintenance companies, in a tense job market (...).
At the beginning of the year, Air France Industries was expecting between 250 and 300 new hires. Have the needs changed and where are you at with your goal?
Jérôme Ivanoff, Head of Employment Policy at Air France Industries: The needs we identified have not changed. (...) But that is not the only thing in our action plan.
Every year, we draw up an action plan based on an analysis of our workforce as part of a GPEC (Gestion prévisionnelle des emplois et des compétences). For this year, (...) **we are promoting access to our businesses for employees from other Air France divisions. It is an** important part of the supply of our businesses: between 80 and 90 employees enter our career paths, which are either certifying or qualifying (... for example for the logistics and structure businesses).
We also have an important policy related to learning. **Every year, we welcome a new wave of apprentices**, mainly in our aeronautical maintenance trades. At the same time, we offer a permanent contract to outgoing apprentices who have been trained at our company. They are part of our recruitment policy.
There is also an aspect of the feminisation of aeronautical professions: we are trying to make it clear that mechanics' professions may also be of interest to women, who are more present in support and management professions. Today, we have about 12.8% women in our teams.
We also have a very proactive policy related to the hiring of disabled employees. We have annual objectives for hiring disabled employees throughout Air France and we, in the general industrial management, exceed them every year. (...)
We often hear about the difficulties in recruiting in the aeronautics and aeronautical maintenance sectors. Do you have difficulty recruiting in certain trades?
We do not have a penuric profession. We are in a tense aviation maintenance market because our age pyramid is the same as that of our neighbours - maintenance groups, airlines like us or manufacturers. **We will** all be **looking for mechanics in the labour market. That said, so far we have not had any difficulty**. There are several reasons for this: according to the candidates we are interviewing, the first two criteria that stand out for

their choice are the prestige of Air France and the quality of life at work. (...)
Does the rise of predictive maintenance and new technologies change the profiles you recruit and the jobs already in place?
Our businesses are evolving. Aircraft are more and more modern, they communicate their defects themselves, anticipate them. It is not yet developed everywhere but it is starting to change. **We are still recruiting aeronautical engineers, but we are starting to recruit engineers who know how to process data** and are able to develop our maintenance policies based on what aircraft and their computers communicate. **We need this dual expertise in big data and operations**: it is not enough to have data, we must know how to interpret it. This is the work of these new engineering professions. It's a very interesting evolution because it saves a lot of time and money.

My comment: *Within AFI KLM E&M, 14,000 employees maintain the group's aircraft as well as those of nearly 200 airline customers. In 2017, revenue from external customers amounted to €1.823 billion, making AFI KLM E&M the second largest MRO (Maintenance, Repair and Overhaul) player in the world.*

The Air France-KLM group, which has chosen to maintain and develop an aeronautical maintenance activity, recruits several hundred maintenance specialists every year.

> The slots held by the late Aigle Azur in Algeria are of interest to Transavia France and ASL Airlines

(source Econostrum) October 7 - Declared in judicial liquidation on September 27, 2019, for lack of a candidate for takeover deemed serious by the Commercial Court of Evry, **Aigle Azur is now attracting more and more interest.** To be more precise, it is its 9 150 take-off and landing slots left vacant by its bankruptcy that attract several airlines. And mainly the France-Algeria routes, where it accounted for 30% of the market.
First among them is Transavia France, a low-cost subsidiary of Air France, whose general manager had declared that he did not want to get involved in the Aigle Azur project. Nathalie Stubler said on Saturday 5 October 2019 on Europe 1, "we are interested in traffic rights to Algeria (...) **Transavia will position itself to obtain these traffic rights from the authorities**.
Transavia France's CEO recalls that his company "already has routes from Nantes and Lyon to Algeria." It serves Algiers and Oran.
The Air France group (...) has an 8% market share in Algeria. But he is not the only one targeting these slots. **ASL Airlines, another French airline, says it is interested in "the entire Aigle Azur network in Algeria."** And his CEO, Jean-François Dominiak, continued, in the columns of the Tribune,

by specifying "we do not want to have crumbs. ASL is a real alternative to the Air France group." ASL Airlines currently offers a Paris Charles de Gaulle-Algiers.
The Spanish company Vueling, which was a candidate for the takeover of Aigle Azur and which already serves Algiers from Marseille, also claims to be a candidate to take over some slots.
Aigle Azur employed 350 people in Algeria out of a total workforce of 1,150.

My comment: It is *important to distinguish between slots and traffic rights.*

The take-off and landing slots are managed in France by Cohor (Association pour la coordination des horaires). They are allocated to the companies without prejudging the lines served. They are precious at Orly, the only French airport to be saturated.

Traffic rights are defined in bilateral agreements between States. They define flight frequencies, service and stopover points, and the possibility of code sharing between two states.

To ensure the lines between France and Algeria, following the bankruptcy of Aigle Azur, the candidate companies must therefore first obtain traffic rights from the French State. Then they will be able to operate these lines either by using the slots they already have or by requesting new ones from Cohor.

> Air: Delta does better than expected in the 3rd quarter

(source Le Figaro with AFP) October 10 - **Delta Airlines announced Thursday that it posted better-than-expected results in the third quarter** thanks in particular to passengers who pay the high price and to a demand that surprised by its strength.
The Atlanta group's net income jumped 13.1% to USD 1.495 billion in the three months ended September, resulting in earnings per share adjusted for exceptional items, the benchmark in North America, of USD 2.32, compared with the average expected by analysts of USD 2.26.
Sales increased by 5% to $12.56 billion, slightly below expectations, the company said Thursday in a statement. Revenue in the United States was the driving force behind this quarter's growth of 7.8% with an increase of more than 3% in revenue per passenger. Sales of premium products increased by 11% and sales to businesses by 8%.
Transatlantic routes also contributed to the increase in overall revenue, with a 3.2% increase in revenues and a 4.9% increase in capacity. On the other hand, revenue per passenger fell by 1.6%, but this was due to currency effects. The increase observed for first and business classes exceeds that of the normal cabin.

Delta Airlines is one of the few major US airlines that currently does not have Boeing 737 MAXs in its fleet, a model aircraft that has been grounded since mid-March after two accidents that killed 346 people. American Airlines, United and Southwest have already had to cancel thousands of flights as a result of this shutdown.

My comment: *North American airlines are among the most affected by the B737 MAX's flight shutdown. Air Canada, American Airlines, United and Southwest have 80 such aircraft.*

> Lufthansa: traffic up 2.3% in September

(source: Boursier com) October 11 - **The Lufthansa group welcomed 13.95 million passengers in September, an increase of 2.3% year-on-year**. At the same time, capacity increased by 2.2%, allowing the load factor to improve by 0.1 point to 84.7%. Traffic for Lufthansa alone increased by 1.7%, while **its load factor reached 84.2%** (+0.2 points).

My comment: *Since the beginning of 2019, the airlines of the Lufthansa Group have carried around 110 million passengers, 30 million more than the Air France-KLM Group.*

> EasyJet falls after its preliminary results

(source AOF) October 8 - EasyJet reported on Tuesday that its annual pre-tax earnings will be in the upper half of its forecast range. For example, the British low-cost airline is targeting a taxable profit of between £420 million and £430 million for its 2018-2019 financial year (closed at the end of September). Previously, the group was targeting 400 to 440 million pounds. Johan Lundgren, CEO of easyJet, spoke in particular about the positive impact of the flight disruptions at British Air and Ryanair.

(...) Such profitability will represent a significant decline from last year's taxable profit of £578 million.
For the full year ended end September, easyJet notes that passenger numbers increased by 8.6% to 96 million, driven by a 10.3% increase in capacity to 105 million seats. For its part, the **load factor for the year as a whole will fall by 1.4 percentage points to 91.5%.**

However, total revenue per seat is expected to decrease by approximately 2.7% at constant exchange rates. (...)
"**Rising oil prices and headwinds in the foreign exchange market are impacting results,** but cost savings are paying off," commented Neil Wilson, Senior Market Analyst, at Markets.com.

The group's full annual results will be announced on November 19. EasyJet will take the opportunity to reveal its priorities for 2020.
IATA predicts that the global airline sector will improve in 2019, thanks in particular to the decline in the price of a barrel of oil, which is expected to stabilize at around $65 (compared to an average price of $73 in 2018). The net profits of international airlines are therefore expected to increase by 9.9% to USD 35.5 billion in 2019. (...)
IATA forecasts a doubling of global air traffic by 2037. On the other hand, **airlines are experiencing continuous rate cuts, with an average rate that has fallen by more than 50% over the past 20 years**.

My comment: *This article rightly points out that the average oil price in 2019 is 15% lower than the average price in 2018 ($65 vs. $73). It is therefore difficult to attribute the difficulties currently encountered by airlines to oil.*

> Boeing 737 MAX: JATR denounces the FAA's insufficient expertise

(source Air Journal) October 12 - In a 71-page report released yesterday, **a committee of** global civil aviation authorities, called the Joint Authorities Technical Review (JATR), **denounced the US Federal Aviation Administration's (FAA) lack of resources to approve the Boeing 737 MAX**.
JATR experts point in particular to "an insufficient number of FAA specialists" to evaluate the design of the 737 MAX, "limited experience and knowledge of the key technical aspects of the 737 MAX program" and insufficient knowledge of the MCAS stall protection system (implicated in the Lion Air and Ethiopian Airlines accidents that resulted in the deaths of 346 people). In addition, **MCAS interactions with pilots were not sufficiently assessed, which** was particularly detrimental because **the FAA itself was not fully informed of the MCAS changes that occurred during the aircraft's development**. In September, the National Transportation Safety Board (NTSB), which regulates U.S. transportation, had already pointed to these FAA deficiencies.
"Although human-machine interaction issues are at the heart of all recent aircraft accidents and are involved in the two 737 MAX accidents, the FAA has very few human factors experts (...) on its certification staff," say JART experts who have identified "several human factors issues in the certification process" of the 737 MAX. In short, the FAA was therefore unable to properly assess the pilot training needs on the Boeing aircraft.
In response to this report, the new FAA boss, Steve Dickson, pledged to "review each recommendation and take appropriate action" to strengthen aviation safety around the world.

My comment: *The Joint Authorities Technical Review (JATR) committee was created in April 2019 after the second accident involving a 737 MAX.*

He was "responsible for evaluating certain aspects of the 737 MAX automated flight control system, including its design and pilot interaction with the system, to determine whether it complies with all applicable regulations and to determine any future improvements that may be required".

The committee's initial conclusions confirm the shortcomings of the FAA, the American authority in charge of certifying the B737 MAX.

> Roissy: ADP campaigns for its giant terminal project

(source Le Parisien) October 9 - (...) **Terminal T4 at Roissy** (Val-d'Oise) **raises concerns among local residents** overflown by aircraft in the area. On paper, it is true that this mega project is scary. It is **no more and no less than adding the equivalent of Orly airport (Val-de-Marne) to the Roissy perimeter**. That is, at the end of the project in 2037, **Roissy will increase from 70 to 110 million passengers per year, and from 1300 to 1800 aircraft passages per day**. (...)

With 500 additional aircraft per day, the T4 is likely to make the walls of residents of Roissy shake. Of the 29 commitments made by ADP at the end of the consultation, six therefore concern noise pollution, which is the number one cause for concern. In particular, ADP has launched a "balanced approach study" aimed at banning the noisiest flights at night (...).

More generally, ADP wants to prove its good environmental conscience. The group will also update the 2006 study on soot deposits around the airport, set a zero waste ambition for Q4, commit to achieving carbon neutrality by 2030, and zero net emissions (without compensation) by 2050. The group will even repopulate the Montmorency forest next year (...).

Q4 is based on a forecast of continuous air traffic growth of 2 to 3% per year. But with the "flygskam" movement (the shame of flying for environmental reasons), will the plane still have the same momentum? "Our forecasts are already in the low range," says Edward Arkwright, ADP's Managing Director. But **if, after the first phase of the T4 in 2028, something happens and there is no longer any need to do the second phase, we can stop. »**

In the meantime, the project will continue its course: a public environmental inquiry is scheduled for June 2020, before the start of the work expected by ADP in 2021. The group promises to come back to the public at least twice a year to prove that it is meeting its commitments. "We're going to be in a public inquiry until 2037," says Edward Arkwright, Executive Director of ADP.

My comment: *I am concerned about the statement made by ADP's CEO.*

If the second phase of the construction project for Terminal 4 is abandoned, will the T4 at the end of Phase 1 be able to accommodate all the Air France group's activity? Or will the Air France group have to stay at Terminal 2?

> British Airways will offset its emissions

(source Air Journal) October 11 - (...) On the environmental side, like Air France last week, **British Airways announced** yesterday **that it will be the first British airline to fully offset its CO2 emissions on domestic flights in the United Kingdom as early as January 2020.** All customers of these lines will then see their flights' carbon emissions offset by the airline, and invested in carbon emission reduction projects around the world: these "quality assured projects will include renewable energies, the protection of tropical rainforests and reforestation programmes". The company operates up to 75 flights a day between London and 10 British cities (...). Its "domestic emissions" amount to about 400,000 tonnes of CO2 per year. The announcement comes at a time when British Airways' parent company, International Airlines Group (IAG, which also includes Iberia Aer Lingus, Vueling and Level) has become the first airline group in the world to commit to achieving the goal of zero net carbon emissions by 2050, "contributing both to the British government's commitment to a net zero carbon economy by 2050 and to the United Nations' objective of limiting global warming to 1.5 degrees". The IAG's emissions target will be achieved through a number of environmental initiatives, including the investment of more than US$400 million in the development of sustainable aviation fuel over the next 20 years.

British Airways CEO Alex Cruz said:"(...) this initiative (...) follows (...) the announcement of our partnership with the renewable fuels company Velocys, for the construction of a facility that converts household and commercial waste into renewable and sustainable jet fuel to power our fleet" (...)

My comment: *Ten days after Air France, British Airways announces its decision to offset 100% of its CO2 emissions on its domestic flights.*

If this decision is laudable, it should be put into perspective. It concerns 75 flights a day to the United Kingdom, far from the 500 daily flights that Air France will compensate.

> Civil aviation is committed to limiting carbon emissions "in the long term

(source actu-environment) October 8 - Meeting in Montreal, Canada, the **193 member states of the International Civil Aviation Organization (ICAO) have pledged to "set a long-term goal" for reducing carbon emissions (CO2) from international flights**. The 40th ICAO General Assembly was held from 24 September to 4 October in Montreal. States meet every three years. According to the AFP, they have "committed themselves to work" on an objective, set for 2050, **which will be discussed at the next assembly** in **2022.**
ICAO States also reaffirmed the "continued implementation" of the global mechanism to offset CO2 emissions from the sector, known as "Corsia". Adopted in October 2016, this mechanism obliges airlines to offset the increase in their CO2 emissions from 2020 onwards. To this end, airlines will purchase "emission units" generated by projects that reduce emissions in other sectors of the economy.

In a statement issued on 7 October, Jean-Baptiste Djebbari, French Secretary of State for Transport, welcomed "the vote on two resolutions". "In these two areas, **European voluntarism, and in** particular that of France, **has come up against a coalition led by China and Russia, which has limited the progress expected**. However, work will continue on these issues, with Europe continuing to implement its ETS[greenhouse gas] emission allowance mechanism, which has not been challenged," Djebbari said.

My comment: *China and Russia, supported by India, rightly believe that the CORSIA (Carbon Offsetting and Reduction Scheme for International Aviation) system will penalise aviation in developing countries, since it only covers increases in CO2 emissions from 2020 onwards.*

Europe, which will see its aviation develop at a slower pace than Asia, will be less affected.

This applies to other sectors of activity. Should we penalize emerging countries if they bring their CO_2 emissions into line with those of developed countries?

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 October 14, the consultation had collected 832,000 signatures, or 17.64% of the required signatures.

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

The Air France-KLM share is at €10.14 at the end of Monday 14 October. It is up (for the fifth consecutive week) **by 0.90%.**

The average (consensus) of analysts for the AF-KLM share is 10.74 euros.

The barrel of Brent oil (North Sea) **is up from $1 to $59.** Apart from two short periods, it recorded its lowest price since the beginning of the year.

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.

To find the latest press reviews on Monday, it's here

If you enjoy this press review, circulate it.

New readers will be able to receive it by providing me with the email address of their choice.

| François Robardet

Director Air France-KLM representing PS and PNCV employee shareholders You can find me on my twitter account @FrRobardet