



I Letter from the Director Air France-KLM

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The Press Review on Monday...

> **Air France-KLM: +2% capacity this summer**

(source Air et Cosmos) 21 March - The Air France-KLM airline group has just published the details of its programme for the summer of 2019 (from 31 March to 27 October). The **overall offer increases by 2% compared to the previous summer season and a total of 58 new routes are launched.**

The long-haul sector saw its capacity increase by 1.3%. To North America, Air France is inaugurating a route to Dallas on 31 March, with five flights a week on a renovated Airbus A330. KLM is launching lines from Amsterdam to Boston (March 31) and Las Vegas (June 6). (...)

On the medium and short-haul network, capacity is increasing by 1.2% with a total of 26 new routes. Throughout the season, Air France operates routes from Paris CDG to Belgrade, Tbilisi and Lorient from 31 March. KLM is launching a line from Amsterdam to Naples (21 April) and Wroclaw (6 May). Air France HOP is launching Lyon-Lorient and Brest-Amsterdam routes. In the high summer season, the group launches 19 new routes. From Paris CDG, Air France offers Heraklion, Olbia, Palermo and Split. Air France HOP operates flights from Bordeaux (Athens), Toulouse (Copenhagen and Menorca), Marseille (Heraklion and La Rochelle), Brest (Bastia and Nice), Caen (Calvi), Nice (La Rochelle and Pau), Rouen (Figari), Nantes (Toulon), Metz (Figari), Perpignan (Strasbourg) and Rennes (Calvi).

Finally, **Transavia is growing strongly with capacities up by 9.3% and 28 new routes** from Eindhoven (Krakow, and Zakynthos in continuation of winter), Rotterdam (Nador, Lanzarote in continuation of winter, Nice, Brindisi, Tangier, Corfu, Kos and Zadar), Amsterdam (Beirut in continuation of winter), Groningen (Tenerife in continuation of

winter), Paris-Orly (Tenerife in continuation of winter, Brindisi, Nador, Menorca, Kos, Rhodes and Zakynthos), Nantes (Tel Aviv in continuation of winter, Budapest, Mykonos, Santorini, Palermo, Copenhagen and Tunis), Lyon (Beirut and Casablanca).

My comment: *The Air France-KLM Group's summer 2019 program is characterized by controlled supply growth and fleet development.*

During the summer season, Air France will welcome its first Airbus A350 (324 seats), as well as its eighth and ninth B787-9. For its part, KLM will launch the latest version of the Dreamliner on July 1: the Boeing 787-10 (344 seats).

> **Ben Smith undresses power KLM despite promises**

> **Ben Smith dismantles KLM despite his promises**

(source Luchtvaartnieuws translated with Deepl) 21 March - Despite promises to KLM to be treated on an equal footing with Air France, **CEO Ben Smith is increasingly dismantling the Dutch airline's power** behind the scenes. The latest victim is René de Groot, COO of KLM, who has been dismissed from his position.

Mr. Smith, who had been hired to end the Air France staff strike, has caused a lot of unrest within the airline group since he took office. The **Air France strikes, which cost 350 million euros last year, were not sanctioned by Smith, but rewarded with additional money.** (...)

Smith (...) seems to have a hidden agenda. For example, sources around the KLM board of directors told Reismedia that **René de Groot, COO, is no longer a member of the Group Executive Committee (GEC)**, the highest management body of the Franco-Dutch aerospace group.

Air France-KLM is silent on how and why, but **insiders report that the way De Groot acted during the crisis surrounding the renewal of Elbers' mandate is the main reason.** At the time, he was critical of the Paris methodology, where the Dutch resistance is not very appreciated. The GEC is composed of eleven people, all of whom hold positions within Air France-KLM. Only Pieter Elbers (KLM) and Anne Rigail (Air France) represent an individual airline. "Smith gives the group more importance than it has."

The change in direction causes misunderstandings and unrest within KLM. Nevertheless, **according to Robert Swankhuizen, president of the NVLT union**, René de Groot's withdrawal from the GEC must be seen in the right light. "If you look in detail, there is only one Air France person in the GEC, Anne Rigail, CEO. René de Groot was KLM's

second representative after Pieter Elbers. So it **is not so strange that this measure has been taken.**"

Swankhuizen is also pleased with the appointment of the new HR manager Janet Dekker, who will also have her place in the GEC.

"She has years of experience in France and also knows how things work in the Netherlands. The contact will become much easier for us now, because there has always been some kind of language barrier. **It can help to bring Air France and KLM closer together in terms of culture and understanding.** (...)

***My comment:** The title of the article is misleading. The changes in the composition of the Group Executive Committee (GEC) in question have received a favourable opinion from one of KLM's main unions.*

> **Air Côte d'Ivoire chooses AFI KLM E&M to maintain its A320 fleet**

(source aeroweb-fr) 21 March - **AFI KLM E&M and Air Côte d'Ivoire have announced the signature of an agreement providing for equipment support for the Ivorian company's 4 A319-100 and two A320-200 aircraft.** The contract includes the future A319neo and A320neo that Air Côte d'Ivoire will integrate into its fleet from 2020. The services provided by AFI KLM E&M include repair services, pool access, provision of a Main Base Kit and logistical support. (...)

> **Delta Airlines ranked as the best airline in the USA**

(source Déplacements Pros) March 24 - The **carrier provides the best air services according to** TPG (The Points Guy), an **American travel media** that publishes its third ranking reviewing all American airlines... (...)

This list reviews the main carriers in the United States and establishes a ranking, from best to worst, based on a number of specific criteria. Flight punctuality, customer satisfaction, prices, comfort, cancellations and lost luggage.

For this new ranking established by TPG, **Alaska**, which had been in first place for two years, **is therefore dethroned by Delta with 93% of its flights per hour.** Frontier Airlines, one in four of which was delayed, finished last in the ranking. It is also the company that has recorded the most complaints and claims from its passengers. The fact that the cabin crew accepted tips did not work in his favour either. (...)

SouthWest, third in the ranking, **is named for the quality of its customer service, always cited as the best in the category.** In 2018, the company received only 603 claims for more than 160 million

passengers carried. (...)

My comment: *Delta Airlines' aircraft punctuality is impressive: 93% of flights are on time.*

Air France's analysis of the key elements of this success led the French airline to add two to three spare aircraft per day on the long-haul network

> Alitalia's future in the hands of its Skyteam partners

(source Les Échos) March 24 - After easyJet withdrew from the discussions it started a month ago with the Italian railway company Ferrovie dello Stato for the takeover of Alitalia, the **future of the Italian airline now seems in Delta Airlines' hands**. The American company remains, to date, the only declared candidate for a stake in the future Alitalia. But Delta is also at the heart of the major manoeuvres underway to try to finalize a rescue plan **with the possible participation of two other strategic partners of the Skyteam alliance: China Eastern and Air France-KLM**.

According to the Italian press, **Delta's boss, Ed Bastian, allegedly asked China Eastern to help complete the recapitalisation of Alitalia**, by taking a small stake, alongside Delta, which would hold 10% to 20%, Ferrovie dello Stato for at least 30% and the Italian State for 15% to 20%. This will at least partially remedy easyJet's defection, **two weeks before the deadline set in the recovery plan**. Delta and China Eastern are used to working together, since the American company holds 3.5% of the capital of the Shanghai company and both are also shareholders of Air France-KLM, for about 9% each.

As for Air France-KLM, the group does not intend to take over a stake in Alitalia, after its unfortunate experience ten years ago. However, he is also "in talks with Alitalia", alongside Delta, "to determine how the company could cooperate in the framework of the extended joint venture[to Virgin Atlantic, NDLR] when Alitalia exits its administrative proceedings", it is explained on the French side.

Although the Italian airline had terminated its partnership with Air France on the routes between France and Italy after their termination, Alitalia remains a partner in the virtual joint venture set up by Delta and Air France-KLM on the transatlantic market, which is a major issue. Despite the uncertainties of the relationship with Alitalia, **Italy remains Air France's fourth largest market**, operating nearly 200 flights per week and even 488 at group level. **This made Benjamin Smith say until recently that Air France-KLM cannot ignore what is happening at**

Alitalia.

It remains to be seen whether Delta and Air France-KLM's efforts to keep Alitalia in the Skyteam alliance will be sufficient. (...) After several months of negotiations, trade unions and management have still not reached an agreement on staff reductions, which would still affect some 1,500 employees, out of a total workforce of about 10,000.

***My comment:** For Delta Airlines, an equity investment would allow it to influence Alitalia's strategy and keep it as a partner in the joint venture between Delta, Virgin and Air France-KLM in the North Atlantic.*

> Level opens a new base in Amsterdam

(source Déplacements Pros) March 24 - **The low-cost airline Level, which is part of the International Airlines Group (IAG), will offer flights from Amsterdam airport from April 6 with three Airbus A320/A321s based in Schiphol.** (...)

Level was originally a long-haul low-cost airline, departing from Barcelona and Paris-Orly to the United States and South America. However, it is now also extending to short- and medium-haul flights. (...)

Due to slot constraints at Schiphol, Level will take over 7 routes operated by Vueling, which is also part of IAG.

***My comment:** Level continues to develop. The IAG subsidiary currently has a fleet of two A320s and four A321s operated by Level Austria, as well as five A330-200s (operated by Iberia and Openskies).*

> Thanks to Intro Aviation, Corsair will double its fleet within four years

(source Air et Cosmos) March 20 - **Corsair's new majority shareholder aims to reach a one-design fleet of 13 aircraft by 2023. A first order for three Airbus A330neo aircraft was placed on 15 March. Each departure of a Boeing 747-400 will be followed by the arrival of two A330s.**

"This is a great day for Corsair, and for us." This is how Peter Oncken, CEO of **Intro Aviation, greeted the press on March 19 when the French company was officially acquired.** The German firm specialising in investment in the aviation sector, Intro Aviation, (...) thus becomes Corsair's majority shareholder with a 53% stake. (...). TUI keeps a 27% share of the capital, the rest (20%) being held by employees. (...) It should also be noted that **Intro Aviation**, which has

made itself known through the takeover and restructuring of several companies (DBA, LTU Airlines, Intersky, CityJet, VLM Airlines, etc.), **has provided guarantees to employees not to reduce their workforce, not to affect collective agreements or to transfer staff for at least 24 months. (...)**

"We had already approached Corsair a few years ago, and it seemed unthinkable to us that a company of this size could develop by having two types of aircraft, it is very expensive and it prevents us from developing synergies," says Peter Oncken, General Manager of Intro Aviation.

The first major step for the new shareholder base will therefore be to rationalise the fleet. (...)

***My comment:** Intro Aviation is known for investing in distressed companies and withdrawing as soon as they are restructured, as was the case with the takeover of CityJet from Air France in 2013 and its resale in 2016.*

It plans to rationalise and double Corsair's fleet. This is a credible approach because Corsair has many slots in Orly.

> Severe turbulence for the Indian airline Jet Airways

(source AFP) March 20 - (...) **Jet, which is burdened with more than a billion dollars in debt, currently has 78 of its 119 aircraft unable to fly due to non-payment by their lessors and creditors. (...)**

Jet Airways is on several fronts at the same time. **Many of its pilots, whose wages have not been paid, are threatening to go on strike if they are not paid soon. (...)** At the same time, the Emirates-based company **Etihad Airways, which owns 24% of Jet's share capital, has offered to withdraw** by selling its share to the state-owned State Bank of India (SBI), according to the Bloomberg Economic Agency. Jet Airways last month received \$1.19 billion from a consortium of banks led by the SBI. This bailout includes aircraft sales or leases (sale and leaseback), debt restructuring and capital injections. But since the announcement of the rescue plan, the crisis has not subsided. (...)

The number of air passengers in India has increased sixfold over the past decade, with the middle class benefiting from better connections and cheaper flights. Growth that is expected to make the country's aviation sector the third largest in the world by 2025. **However, national carriers**, including the largest in the country in

terms of market share, IndiGo, are **struggling to achieve profitability despite soaring demand. Fluctuating oil prices, a weak rupee and a fierce price war on the Indian air market put them under constant pressure.**

A failure of Jet Airways would be catastrophic for the image of Narendra Modi's government, which came to power five years ago promising a dynamic Indian economy. **The Hindu nationalist leader is preparing to face the polls in April and May in the parliamentary elections, an election at the end of which he hopes to win a second term.**

***My comment:** Jet Airways has been a privileged partner of the Air France-KLM Group since the signing of a joint venture agreement in October 2017. Developments in its situation are closely monitored by the Franco-Dutch Group.*

> Boeing 737 MAX crash: pressure on aviation authorities is increasing

(source Les Échos) March 20 - The head of the US Federal Aviation Administration is reportedly about to be replaced. The FAA is suspected of having left it to the American aircraft manufacturer to inspect and approve the 737 MAX-8. (...)

Suspected of having left it to Boeing to inspect and approve the 737 MAX-8, the FAA is under pressure. According to the Wall Street Journal, the **White House is about to fire its boss**, Daniel Elwell, who has been in office since January 2018, and replace him with Steve Dickson, a former senior Delta Airlines official.

And that's not all. On **Tuesday, Transport Secretary Elaine Chao asked the Inspector General of her department**, Calvin Scovel, to **conduct an audit to "ensure that its safety procedures have been effectively implemented"**. This audit, the note states, should gather "a factual and objective history of the actions that led to the certification of the 737 MAX-8". Boeing had requested an amendment to this type of certification in January 2012, issued in March 2017 by the FAA, it writes (...).

For its part, Boeing, for which the 737 MAX represents 85% of the order book, **is preparing to redesign its organizational chart**. John Hamilton, who was Vice President and Chief Engineer in the Commercial Aviation Division, "will focus solely on the role of Chief Engineer," CEO Kevin McAllister announced Wednesday (...).

After China, Australia, the United Kingdom, Europe and many other

countries, the United States in turn last week ordered the 737 MAX-8 and MAX-9 to be shut down until a software update to the Manoeuvring Characteristics Augmentation System (MCAS) can be tested and installed on all aircraft.

A procedure that could take weeks. **While the aircraft manufacturer has suspended deliveries of the 737 MAXes assembled in its factory near Seattle, it continues to produce the reengineered version of the 737 at a rate of 52 units per month.** For how much longer?

WHY THE FAA IS ON THE SELLETT since the Ethiopian 737 MAX 8 accident (157 fatalities), **the very close links between Boeing and the FAA have been pointed out. Over the past ten years or so, the latter has in fact partly outsourced aircraft certification to it. Canada has distanced itself from the FAA. He will do his own review of the aircraft manufacturer's changes to his 737 MAX before allowing them to fly again. The European Aviation Safety Agency is on the same line.** "I can assure you that on our side, we will not allow this aircraft to continue to fly if we do not find acceptable solutions and acceptable answers to all our questions. No matter what the American FAA does, let's be clear," his boss, Patrick Ky, told the European Parliament's Transport and Tourism Committee on Monday.

Finally, with regard to pilot training at MCAS, Bertrand Vilmer, of the aviation consulting firm Icare, told AFP that "Boeing and the FAA had refused the airlines' request that pilots re-train with this system". This, according to him, "for economic problems"

My comment: *The conditions under which the B737 Max was certified appear questionable to specialists. This leads some countries (Canada, the European Union) to take an extremely rare decision: they will themselves judge the relevance of the changes made by Boeing.*

This decision could delay the return to service of these B737 MAXs by several months.

> Ryanair: no compensation in the event of a strike according to two court decisions in Germany and Italy

(source Air Journal) 22 March - Low-cost airline Ryanair welcomes court decisions in Germany and Italy confirming that compensation for passengers under the EU261 Directive is not due in the event of an internal strike.

(...) Ryanair has always refused to compensate the passengers affected, citing "force majeure"; two decisions on 21 March 2019

confirmed its position. **The District Court of Cologne in Germany and the Justice of the Peace of Catania in Italy confirmed that no EU261 compensation was due to customers whose flights were delayed or cancelled due to internal strike actions** last year, which were beyond the airline's control.

Ryanair recalls in its press release that it fully complies with EU legislation²⁶¹, and **that it has "redirected or reimbursed all customers affected by the small number of delays/cancellations due to strikes and provided full assistance to customers, including accommodation, meals and re-routing"**. However, as these cancellations are beyond Ryanair's control, no EU261 compensation payments are due under these court decisions. (..)

These decisions follow similar court decisions in Dublin last month and in Barcelona, Badajoz, Orense and Pontevedra in Spain (...). It should be recalled, however, that according to the Centre Européen des Consommateurs (CEC) of Luxembourg, recent case law has held that pilot strikes do not constitute an exceptional circumstance exempting the airline from paying compensation to consumers. Having been unable to reach an amicable agreement with Ryanair, two Luxembourg passengers went to court on the advice of the CEC, before the Justice of the Peace of Luxembourg - who ruled in their favour. The plaintiffs are now entitled to compensation of 250 euros per person.

***My comment:** The rules on compensation in the event of a strike differ from country to country. In Germany, Italy and Spain, flight cancellations due to internal strikes do not give rise to the payment of compensation.*

In contrast, in France, in the event of a strike within the company, compensation is due if the company has cancelled the flight less than two weeks before departure.

> Air: self-connecting, a new opportunity for agencies?

(source TourMaG) 23 March - While the share of self-connecting may seem anecdotal in terms of global air transport figures*, the trend is nevertheless very real. The **autonomous connection made (excluding interline) by passengers between two flights, with two separate tickets**, is becoming more and more **important**. (...)

"It is a major tourist product, invented by the customer himself and which goes hand in hand with the explosion of low-cost traffic", explains Fabrice Dariot, CEO of Bourse des Vols (...).

easyjet has understood the stakes well by launching its network

called "Worldwilde", which allows easy connections in partnership with several companies, such as Cathay Pacific, Emirates, Virgin Atlantic, Norwegian, WestJet, Singapore Airlines, Corsair (...).

With this evolution, **airports are also getting started and are not waiting for airlines to target this clientele. London Gatwick Airport has launched Gatwick Connects**, which offers passengers a range of services that simplify connecting: easy rechecking of baggage, shortened routes and insurance in the event of lost or missed baggage or connections.

On the same principle, in France, **Nice airport will set up its own self-connecting solution called Nice Connect (...)** this summer.

"I have already offered it in an agency," says (...) a branch manager (...), "but I informed the client that in the event of a strike, delay or any other event, she could lose one of the coupons" (...).

Amadeus, which has acquired the low-cost content integrator Pyton, is also working on self-connecting. "We are developing a virtual interline solution that will eventually allow us to do interline with two separate products," said Jamel Chandoul, Sales Director France. It is difficult to ignore a trend that comes directly from the market!

***My comment:** Self-connecting is growing. Several low-cost companies (easyJet, Ryanair, Norwegian,...) are integrating it into their offer. This system is in place in Gatwick, Milan and soon in Nice.*

Its success is based on a change in customer attitudes. They are willing to accept connections of three or four hours to save 200 euros.

For network companies, the risk of losing loyal customers is major. At the 2018 Air France-KLM General Assembly, Jean-Marc Janailac warned Air France-KLM shareholders: "Self connecting technologies will inevitably impact the dominant model of the hub on which, for twenty years, we have built the strength of our group".

It will require a high degree of flexibility and responsiveness to resist these rapidly spreading practices.

Stock market press review

> Air France-KLM: The French State subscribes to a bond issue

(source Reuters) March 20 - On **Wednesday, Air France-KLM placed approximately €500 million in bonds** convertible into and/or

exchangeable for new or existing shares (OCEANEs) due 2026, **an operation to which the French State subscribed for €71.45 million, equivalent to its share of the capital (14.3%).**

The group stated in a press release that the net proceeds of the issue would be used for general financing purposes, **including the refinancing of the perpetual subordinated bonds issued in 2015** and redeemable at the company's option in October 2020.

"The French State wishes to express its full confidence in Air France-KLM's

assets to successfully improve its competitiveness and consolidate its development," said the State Participation Agency (APE).

***My comment:** The bonds issued by the Air France-KLM Group were privately placed only with institutional investors, including the French State. The proceeds of this placement will be used in particular to refinance the perpetual bonds redeemable in 2020, for an amount of approximately €400 million.*

End of the press review

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

The Air France-KLM share price was €9.888 at the end of Monday 25 March. It is down by 7.5%. European stock exchanges, as well as Wall Street, finished in sharp decline on Friday, with the release of disappointing indicators in Europe and the United States boosting fears about global growth (source Reuters).

The average (consensus) of analysts for the AF-KLM share is 11.17 euros.

The barrel of Brent oil (North Sea) is stable at \$67. Opep's deliberate efforts and the crisis in Venezuela have kept prices at the highest level recorded over the past three months.

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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