



## I Letter from the Director Air France-KLM

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

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### > New in my letter

***Display of images:** Last week, I included a graph in the commentary on the last article ("airlines that pollute more than coal-fired power plants"). Some of you couldn't see it. To prevent this from happening again, I invite you when you receive this email to allow the images to be displayed.*

***Multilingual version:** For some time now, you have been able to read this letter in English or Dutch. To do this, go to my website (the link is at the top of this letter). I publish the English and Dutch versions on Tuesday in the morning.*

### *The Press Review on Monday...*

### > Why we can't put out the Notre-Dame de Paris fire with a Canadair

(source franceinfo) April 15 - The question came up several times in the evening. Several Internet users were surprised by Canadair's absence to put out the Notre-Dame de Paris fire on Monday, April 15. On Twitter, civil security explained that these aircraft are technically "unsuitable to extinguish this type of fire". "The **release of water by plane on this type of building could lead to the collapse of the entire structure.**"  
(...)

***My comment:** It is impossible for me not to mention the drama of*

*Notre-Dame. I lived there for years "near the North Tower".*

## > **AIR FRANCE-KLM: Provision of the 2018 Registration Document**

(source: Zonebourse) April 9 - **Air France-KLM's 2018 registration document was filed with the Autorité des Marchés Financiers (AMF) on April 9, 2019.**

This document in French version is available under the regulatory conditions. It can be consulted (...) on the Air France-KLM website (under Finance / Publications / Annual Documents and Finance / Publications / Regulated Information).

**It includes in particular the annual financial report, the report of the Board of Directors on corporate governance**, the reports of the statutory auditors and information on the fees of the statutory auditors.

***My comment:** The combined general meeting of Air France-KLM shareholders will take place on 28 May 2019 at Espace Grande Arche - La Défense.*

*You can now read the 37 draft resolutions that will be put to the vote by consulting the registration document or the notice of meeting, published on the Air France-KLM website. I will inform you of my voting intentions. Readers with shares will be able to entrust me with their powers.*

## > **AFI KLM E&M signs a support agreement with Viva Air**

(source Air and Cosmos) April 11 - **AFI KLM E&M, in partnership with Barfield, its subsidiary in the Americas, has entered into an agreement with Viva Air to provide a comprehensive support program** dedicated to the repairable structural elements of its current fleet. (...)

Viva Air (formerly VivaColombia) is a Colombian and Peruvian low-cost airline, a subsidiary of Irelandia Aviation. It serves 23 routes in Colombia, 10 in Peru and 4 international destinations including Miami. **Viva Air's fleet consists of 20 Airbus A320-200 aircraft.** It started operations in May 2012 with a fleet of 8 A320s.

***My comment:** AFI KLM E&M signed two other agreements last week. The first with Atlas Air to provide equipment support for its Boeing 747-400 fleet.*

*The second with Philippines Airlines to support 20 CFM56-5B engines that power its fleet of Philippines Airlines Airbus A320s. They will be*

*taken care of in the engine  
workshop of Paris-Orly.*

### > **The Air France company chosen to operate the Aurillac-Paris airline until 2023**

(source La Montagne) April 12 - Already delegated by the Aurillac-Paris airline (...), **Air France will once again operate between Aurillac and Paris for the period 2019-2023 (...) via Regourd aviation (...).**

**The future Public Service Obligation**, which will start on 1 June next, provides for a third rotation at midday. This **will have a cost: between €16 and 17 million over four years.** (...) The

State supports the existence of the air link between Aurillac and Paris, considered as a spatial planning link and used by 32,000 passengers last year, up to 1.8 million per year, the Department pays 500,000 € just like the Communauté d'agglomération du bassin d'Aurillac, owner of the airport. The Region, the CCI and the interconsular also put their hands to the pocket to support this vital line to open up the Cantal and support the local economic fabric (...).

**My comment:** *Aurillac is, with Brive and Castres, one of the three cities served by Hop! under the Public Service Obligation (PSO).*

*Air France has been selected to operate the Aurillac-Paris route under certain conditions in terms of frequency of service, type of aircraft used, schedules and fares. In return, the local authorities will pay it 16 to 17 million euros over four years.*

*Air France, separating from its ATR42, has chosen to delegate this service to Regourd Aviation, which has been working for two years for Air France and has the necessary ATR42s.*

### > **Transavia: two new products at Orly and winter sales**

(source Air Journal) April 10 - The low-cost airline **Transavia France has opened reservations for the winter 2019-2020 season, unveiling (...)** two new sunny destinations in the **Canaries** from Paris-Orly: Lanzarote-César Manrique (... in direct competition with Vueling and indirectly with Ryanair from Beauvais), (...). Fuerteventura-El Matorral will also be entitled to 1 flight per week (...) against easyJet (CDG), TUI fly Belgium (CDG and Orly) and Vueling (CDG). (...)

**Low-cost is also consolidating its flight programme from its 3 bases, with a reinforcement towards Morocco, Algeria, Tunisia and Spain.** Transavia also takes advantage of winter to extend 3 lines from its bases in Paris-Orly and Lyon (...).

**With a punctuality rate of more than 80% for the whole of 2018, Transavia also distinguished itself by the quality of its online customer relationship with a fine reward:** the Qualiweb Trophy in the Tourism and Transport sector. We put comfort and operational excellence at the heart of our services (...)," says Nicolas Hénin, Deputy Commercial Director of Transavia France.

### **> Air Caraïbes and French bee continue their profitable growth**

(source Les Échos) April 11 - Despite headwinds, **Air Caraïbes and its low-cost sister French bee continued to gain market share - but also money - in 2018.** The two companies of the Dubreuil family group carried a total of more than 2 million passengers last year, 359,000 more than in 2017. This is enough to make the "Dubreuil aero" hub the main French long-haul competitor of Air France. This is with an operating margin of 3.1% in cumulative terms (4% for Air Caraïbes, close to zero for French bee) higher than that of Air France (1.7%). (...) **French bee (...) is now the third operator on Reunion Island, behind Air Austral and Air France, and the second on the Paris-Papeete route,** opened last year, just behind Air Tahiti Nui, but ahead of Air France. French bee also leads Air France on San Francisco.

This is enough to reinforce the challenge of the group's founding president, Jean-Paul Dubreuil, and its general manager and "accomplice", Marc Rochet. "We are not yet at the 5% margin that I consider to be the minimum level of profitability to be achieved. But others would already envy these results, knowing that **French bee is only in its third year,**" the first one told the press on Thursday. "Despite the upheavals, we remain convinced that long-haul low-cost flights are a way forward, provided they are managed with the utmost rigour," added the second.

**For 2019, French bee (...) will not open a new line.** "It will be a year of consolidation," says its director, Muriel Assouline.

(...) **Despite Level's arrival in the West Indies, Air Caraïbes still increased its traffic** by 11.5% to 1.614 million passengers (including 1.26 million on long-haul flights) and its turnover by 10.9% to 481.63 million euros, for a net profit of 10.43 million, compared with 12 million a year earlier. "For the **first time, we passed in front of Air France on Paris-Fort-de-France,**" said Patrick Malval, the new Air Caraïbes director. **The company's growth will continue in 2019 (...). In particular, Air Caraïbes will take delivery in July of a third A350-900**

**and in December of a first A350-1000**, the extended version of Airbus' new long-haul twin-engine aircraft, equipped with 429 seats. "We are still the only French company to operate A350s and we will be the first French company to receive an A350-1000," said Marc Rochet.

## > **Delta Airlines: net profit up 31.1% in the first quarter of 2019**

(source Air Journal) April 13 - U.S. airline **Delta Airlines posted better than expected financial results in the first quarter of 2019, posting a 31.1% increase in net income (to \$730 million)** and a 5.1% increase in revenue (to \$10.47 billion).

(...) The American company is not affected by the Boeing 737 MAXs grounded after two successive accidents (Ethiopian Airlines and Lion Air), which do not operate this single-aisle model, unlike its main competitors Southwest Airlines and American Airlines. (...) **Delta Airlines**

**also emerged as number one in Airline Quality Rating, the annual North American airline quality ranking** compiled by two American universities. Last year Delta Airlines was number two in this ranking.

***My comment:** Improving punctuality is Delta Airlines' priority. This has enabled it to be at the top of the North American airline quality ranking.*

*The rest of the ranking is more surprising since there are two low-cost companies, JetBlue and Southwest. They are ahead of United (6th) and American (8th).*

## > **JetBlue, this low-cost that can be a hit on long haul flights**

(source La Tribune) April 12 - While the bankruptcies of Primera Air in the fall, WOW Air in March and the difficulties of Norwegian have rekindled the debate on the relevance of the low-cost model on long-haul flights, a heavyweight from the American low-cost airline is embarking on the adventure. And this, with weapons that no other low-cost company has had in possession so far. **JetBlue, the second largest low-cost player in the United States behind Southwest, announced the launch of transatlantic flights** between London and its operational bases in New York JFK and Boston in **early 2021**. Its Managing Director Robin Hayes said that Paris and Amsterdam could be launched at a later date. In particular, the latter wants to reduce the "obscene" fares currently charged by airlines.

This announcement is obviously not good news for the incumbent

airlines, such as British Airways, Virgin Atlantic, Air France or KLM. JetBlue brings together all the assets that make it possible on paper to succeed where others have failed. **JetBlue is first and foremost a large company (...). With its 240 aircraft**, it carried more than 40 million passengers last year. It has more than \$7.5 billion in sales and strong results. Unlike all the low-cost players currently operating on the transatlantic route, **it will be able to supply its long-haul flights with connecting passengers thanks to its extensive network of destinations in New York and Boston**. At "JFK", JetBlue is one of the main operators with Delta. In addition, it will not have any difficulty in making itself known because of its notoriety and reputation for the quality of its services.

The type of aircraft planned for its transatlantic flights is also an asset. **JetBlue will convert some of the ordered A321 Neo to the long-haul version of this medium-haul aircraft, the A321 LR**. Cheaper than wide-body aircraft, these aircraft are also easier to fill because of their lower capacity (220 passengers). **This type of aircraft can make it easier to increase the frequency of flights and reach professional travellers**. (...)

***My comment:** JetBlue announces that it is launching into the North Atlantic market, one of the most lucrative. She seems armed to succeed.*

*However, with thirteen A321LRs (which it has exchanged for A321 Neos), it will have difficulty competing with existing companies. By way of comparison, since the joint venture is a joint venture between Delta, Air France-KLM, Virgin offers 250 daily transatlantic flights, ten times more than JetBlue can offer.*

## **> Lufthansa launches its onboard catering subsidiary for sale**

(source BfmTv) April 11 - **"Lufthansa's management board has launched a sale process with a view to a possible full or partial sale of LSG Group,"** a Lufthansa spokesman told AFP. "This procedure is aimed in particular at strategic investors in the bunkering sector," the group said, adding that it was still "open" on the outcome of the procedure.

**LSG employs nearly 35,500 people and last year achieved a turnover of €3.2 billion**, more than 75% of which was generated with customers outside the Lufthansa Group. LSG Sky Chefs provides fuel for Lufthansa flights, but also some 300 other airlines, including United Airlines, American Airlines and LATAM, as well as "several" railway

companies, according to the group's 2018 annual report. In December, the Austrian group Do&Co showed interest in LSG. To finance the operation, he would seek the support of investors, according to Reuters. Do&Co has been providing catering services to Austrian Airlines, a Lufthansa subsidiary, since 2007 and to its Swiss subsidiary SWISS since mid-2018. Turkish Airlines is also one of its customers. Do&Co will also serve British Airways and Iberia, part of the IAG group, from 2020.

***My comment:*** *LSG Group, put up for sale by the LH group, is the second largest in-flight catering operator in the world.*

*Two companies have so far expressed their interest:  
. the Austrian Do&Co, whose turnover is less than one billion euros...  
the Swiss Gategroup, world leader in the activity with a turnover of nearly 4 billion euros. He appears to be the most suitable to buy LSG.  
He already owns 49.9% of Servair.*

## > **Critical meeting of Jet Airways' creditors**

(source AFP) April 15 - **Creditors of Indian airline Jet Airways, on the verge of the crash, are meeting on Monday to decide on a possible injection of funds essential to the company's survival.**

The fleet of what was until recently the second largest airline of the South Asian giant has grown from nearly 120 aircraft in January to just seven today, due to the non-payment of lease payments. Flights are cancelled in a cascade, leaving thousands of passengers behind. Borrowing more than \$1 billion in debt, Jet Airways came under the control of a consortium of creditors led by the State Bank of India (SBI) last month.

Creditors had promised to inject \$218 million as "immediate financial support", through debt instruments. But the majority of the funds have not been released to date and Jet is reportedly a few days away from bankruptcy, according to the Indian press. (...) On Friday, the government held a crisis meeting to discuss the fate of the company. **A failure of Jet Airways would be catastrophic for the image of Prime Minister Narendra Modi**, who came to power five years ago promising a dynamic economy and is currently running for a second term in the parliamentary elections. (...)

***My comment:*** *According to the Indian daily The Economic Times, "bankruptcy is not excluded. This would allow an investor to declare himself for a takeover of the Indian carrier and restructure it, without this*

*sword of Damocles that represents the debts towards the banks. This solution seems to be increasingly favoured by government circles.*

*Pending a solution, Jet Airways was forced to suspend all international flights. Air France-KLM, the Indian airline's partner, has taken care of all passengers who have booked on Jet Airways flights on a code-share basis.*

### **> Norwegian postpones the delivery of several Airbus A320neo and A321LR**

(source Journal de l'Aviation) April 12 - **Norwegian's** recovery is not looking like a easy one. The Norwegian group **has announced a new measure in its cost reduction programme: the postponement of the delivery of several A320neo and A321LR aircraft** to its subsidiary Arctic Aviation Assets. While it did not specify the number of aircraft involved or the extent of the postponement, the group points out that **the agreement with Airbus will allow it to avoid \$570 million in expenditures in 2019 and 2020.** (...)

**Norwegian is not out of the woods.** After two very difficult years with its Boeing 787 fleet, which had to be immobilized for engine inspections, it had concluded a compensation agreement with Rolls-Royce that was to benefit the 2019 accounts and thought it had turned the page on the unavailability of its Dreamliner. But **new problems have appeared on the Trent 1000 TENs (early deterioration of high-pressure turbine blades), which could disrupt the low-cost.**

Above all, it is **now facing the flight ban on the 737 MAX, for which it was the launch operator in Europe.** It has eighteen aircraft in its fleet and its flight schedule had been developed with a view to receiving an additional sixteen aircraft this year. After rejecting the idea of renting them to compensate for the resulting lack of capacity (which had contributed significantly to the deterioration of the accounts in the case of the 787 in 2018), Norwegian reversed its decision. She also postponed the sale of six 737-800s to keep them a little longer in her service. (...)

**My comment:** *Compensating for the shutdown of the 737 MAX will be expensive for Norwegian. Its high indebtedness forces the low-cost company to take new cost-saving measures.*

*Norwegian's debt (€3 billion) represents 70% of its 2018 turnover (€4.14 billion).*



## > Southwest and American Airlines cancel their flights in 737 MAX until August

(source actu-aero) April 15 - While North American airlines were hoping for a quick return to service of the Boeing 737 MAX fleets, in June for the most optimistic, American airlines **Southwest and American Airlines successively announced that they would cancel MAX flights until August.**

Initially, the 28 aircraft of 737 MAX American Airlines were scheduled to return to flight on June 5, but on April 14, the company announced in a press release that their immobilization would continue until August 19.

(...) This cancellation of 115 flights per day represents approximately 1.5% of the airline's total number of daily flights at low fares.

Last weekend, Southwest Airlines, the largest US operator of 737 MAX with 35 aircraft in fleet, announced the cancellation of flights until August 5.

(...) It should be recalled that **the Boeing 737 MAX is now banned from flights all over the world and that the 371 aircraft already delivered are grounded** until Boeing provides solutions to guarantee the complete safety of its aircraft, which has suffered two crashes in the space of 6 months in similar circumstances.

(...) **Last week the American manufacturer introduced a series of software improvements and MAX pilot training, which apparently did not convince the FAA.**

## > Tom Enders' heavy legacy as head of Airbus

(source Journal de l'Aviation) April 9 - More than just a succession between two executives, Airbus' annual general meeting on April 10 will mark the end of an era. Tom Enders', the latest in EADS' history. When his designated successor, Guillaume Faury, takes over the reins of the group, he will have to assume the complex and contrasting legacy of the seven-year reign of the man who will remain as "Major Tom".

Executive Chairman since 2012, **Tom Enders leaves a solid group with a turnover of 64 billion euros and an operating margin finally close to 10%.** He has benefited from the growth prospects of air transport - and John Leahy's legendary efficiency - to ensure a full commercial aircraft order book. **This success goes hand in hand with the commercial and industrial launch of the A320neo family (6,500 orders and 730 deliveries).**

Major Tom's main feat of arms will undoubtedly remain the transformation of the group, which is now integrated and autonomous. (...)Not everything was done smoothly, with the affirmation of personal

power that led to a leaders' war with Fabrice Brégier. (...) **He had to face the commercial failure of the A380** - which he decided to stop a few months before his departure - **and the industrial problems of the A400M, which have not yet been solved.** The tactical transport aircraft programme **represents a financial abyss that would have reached 31 billion euros, an increase of more than 50% compared to the initial forecasts.** Finally, Enders will have enabled Airbus to truly enter the digital era, but probably at the cost of opening the group's doors too wide to the Americans.

**Guillaume Faury will therefore have to establish a new organisation chart and his own mode of governance,** hitherto largely organised around Tom Enders. It will also have to face the end of the A380, the difficulties of the A400M and the impact of anti-corruption investigations, while ensuring the success of the A350 and the continuation of the A320neo in **a context that could prove much less favourable in the coming years.**

*End of the press review*

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

**The Air France-KLM share is at 11.09 euros at the end of Monday, April 15. It is up 4.03%.** Since 2011, it has exceeded this threshold of 11 euros only twice, briefly in 2014 and for 6 months at the end of 2017.

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

**The barrel of Brent oil (North Sea) is stable at \$71, the highest level in 6 months.** Oil prices continue to be driven by Opep's production declines and geopolitical tensions in Venezuela and Iran.

**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  
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