



I Letter from the Director Air France-KLM

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The Press Review on Monday...

> **Air France-KLM is sinking into the red against a backdrop of tensions between Paris and Amsterdam**

(source Les Échos) May 3 - The sky is overcast for **Air France-KLM**. Despite a 3% increase in passenger numbers and revenues in the **first quarter** to €5.98 billion, the group **almost tripled its operating losses**, from €118 million to €303 million year-on-year. The net loss for **this still difficult first quarter** increased by 19% to 320 million euros. This was despite the fact that the first quarter of 2018 had been impacted by strikes at Air France.

As with the Lufthansa group, which also announced disappointing quarterly results in mid-April, Air France-KLM suffered from the increase in its fuel bill (+€140 million) and exchange rate fluctuations (€43 million). The group also recorded a 6.4% increase in labour costs, linked to hiring and wage increases at Air France and KLM, while productivity increased by only 1.7%.

In addition, increased competition, particularly on transatlantic routes, resulted in a 1.9% drop in unit revenue. "The **year was marked by a significant increase in capacity during a slow period leading to pressure on unit revenue**," says its Managing Director, Benjamin Smith. However, Air France-KLM's CEO expects unit revenue to improve in the second quarter.

Large gap between Air France and KLM

However, it is once **again Air France's underperformance that is**

driving the group's results down. Despite the headwinds, KLM managed to improve its operating income (56 million losses compared to 116 million in 2018), while the Air France group tripled its operating loss (256 million compared to 78 million in 2018). This will certainly not help to facilitate the ongoing negotiations between the French and the Dutch on the development of relations within the group.

After the Dutch government took a surprise stake in Air France-KLM in February, **discussions are continuing between representatives of the two countries. The objective on the Dutch side would be to return to the spirit of the 2003 marriage contract, which guaranteed KLM broad autonomy and control over its development in Amsterdam-Schiphol.** This objective is in contradiction with the desire for integration expressed by Benjamin Smith and the Air France-KLM Board of Directors.

(...) Before being determined, Air France-KLM employees and shareholders will still have to wait. The **announcement of the strategic plan**, initially scheduled for this summer, has been **postponed to at least November.**

***My comment:** The first quarter of 2019 was a bad quarter for all European and Gulf airlines. Only American companies are recording an increase in profits, taking advantage of their oligopolistic market.*

With regard to the remaining gap between Air France and KLM, it might be interesting to make the comparison taking into account the differences in taxes, fees and employer charges. The annual gap between the two companies is estimated at between €800 million and €1 billion, or more than €200 million per quarter.

By offsetting the effect of these differences, Air France would achieve almost break-even operating income in the first quarter, with KLM at €56 million.

> A voluntary departure plan in preparation at Air France

(source Libération) May 3 - **Air France is back on track with its voluntary departure plans.** During the decade, the national company has already implemented seven of them, which have resulted in the departure of nearly 10,000 employees. **The next one is expected to be announced during a central social economic committee scheduled for May 13, according to information revealed by the Tribune. It would cover 400 workstations, mainly located in Air France's regional bases.** The company suffers from recurrent losses on its domestic routes. Last year, it posted a negative result of €185 million in

this market, which is doubly competitive with the TGV and low-cost airlines, which are increasingly aggressively attacking the French domestic market. "To fly Nice-Toulouse with Air France you have to travel through Lyon while EasyJet offers a direct flight", notes (...) a FO central delegate. (...)

This reduction in staff shows, in any case, how much Air France is losing market share on its domestic network. According to information obtained by Libération, the eliminated positions should lead to a 15% reduction in domestic flights. A movement that will not be without consequences for the pilots, who are not affected by this departure plan. And for good reason, Air France's management (...) plans to assign overstaffed pilots to its low-cost subsidiary Transavia. However, this transfer requires the written agreement of the powerful National Airline Pilots Union (SNPL). (...)

***My comment:** It is surprising that the press can communicate on the content of the next Air France voluntary departure plan.*

At this stage, the company only confirms the date of its presentation to the Central Social and Economic Committee.

> MRO: Air Tahiti Nui concludes with AFI KLM E&M for its fleet of 787

(source Air et Cosmos) April 30 - **AFI KLM E&M and Air Tahiti Nui signed two contracts on April 30 to provide equipment and engine support for the French company's fleet of 4 Boeing 787-9 aircraft, as well as line maintenance services.** The solutions delivered by AFI KLM E&M include repairs and pool access for equipment support, shop visits, engineering and logistics support for the 9 GENx-1Bs powering Air Tahiti Nui's Boeing 787-9s, and line maintenance support at airports in Los Angeles, Paris and Tokyo Narita. **With these new contracts, the two groups are pursuing a long-standing partnership relationship** since AFI KLM E&M has been supporting Air Tahiti Nui's Airbus A340-300 fleet for many years.

> Air France and KLM sign with Sky Express in Greece

(source Air Journal) April 8 - **Air France and KLM have signed a marketing agreement with Sky Express, enabling them to strengthen their cooperation between Paris, Amsterdam and the Greek islands.**

Customers can now book a single return ticket on the Paris-Charles de Gaulle or Amsterdam-Schiphol airports to 24 Greek destinations,

operated by Sky Express as a continuation of Athens (...)

Theodoros Krokidas, President and CEO of Sky Express (...):" (...) We are confident that this agreement will significantly improve passenger transport and tourism growth on the Greek islands. (...) ».

Sky Express" is a member of ERA (European Regional Airlines Association) and **offers 32 destinations in Greece**, connecting the most popular Greek islands to the mainland. **Its fleet consists of ATR aircraft of the latest technology.** (...)

***My comment:** The good relationship between Air France-KLM and Sky Express goes beyond this marketing agreement.*

According to the airfleets website, nine of the twelve ATRs in Sky Express' fleet come from HOP!

> **Aigle Azur** abandons Beijing

(source Air Journal) April 29 - The airline **Aigle Azur will not resume its service between Paris and Beijing this summer**, which has already been suspended since late March due to lack of profitability.

(...) **It intended to** continue with three weekly rotations "with new schedules" in order to **improve connections with the network to and from the Chinese capital of its partner Hainan Airlines (whose parent company HNA owns 48% of the capital of Aigle Azur)** (...).

Aigle Azur's original flights took off from Orly (...); it faced competition from Air France and Air China, both operating in Roissy.

Beijing was the French airline's second long-haul destination after Sao Paulo-Campinas, a route opened last July against Air France and LATAM Airlines Brasil. This route is currently offered five times a week, including code-share from Brazil by the low-cost Azul Linhas Aéreas Brasileiras - whose founder David Neeleman is also a shareholder of Aigle Azur. But according to the PonteAerea site, these flights are no longer sold by the Brazilian low-cost airline from July onwards. (...)

***My comment:** In 2012, the HNA Group acquired 48% of the capital of Aigle Azur, a company then focused on medium-haul flights. The Chinese group wanted Aigle Azur to provide long-haul flights to China.*

The HNA Group's recent financial difficulties, which have also forced it to sell many of its holdings, seem to have a negative impact on Aigle Azur.

> **Lufthansa** increases its loss in Q1 with the cost of fuel

(source Reuters) April 30 - **Lufthansa reported a net loss of €342 million in the first quarter on Tuesday due to** higher fuel costs and excess capacity in the European airline sector.

"However, we are confident that we will see a recovery in our unit income as early as the second quarter. Our confidence is based above all on our favourable booking levels for the coming month," said the German group's CFO, Ulrik Svensson, quoted in a press release.

Lufthansa still expects to achieve an adjusted operating margin of 6.5% to 8% for 2019 as a whole, but now expects capacity stability for Eurowings, its low-cost carrier, compared to an earlier forecast of a 2% increase. Fuel expenses are expected to be €700 million higher than in 2018, 50 million higher than the previous forecast.

***My comment:** The Lufthansa Group, like many other companies, had a difficult first quarter (the IAG Group has not yet published its quarterly results).*

Is this a one-time decline or is it the beginning of an air transport recession? It is too early to conclude. The second quarter results may provide some answers.

> The Italian State is desperately looking for a partner to rescue Alitalia

(source Les Échos) May 3 - **Alitalia's rescue plan has lead in the wing.** The **deadline for submitting the binding takeover bid for the airline in difficulty** was initially set at 30 April. It was **finally postponed until 15 June**, after the European elections.

Luigi di Maio, the **Minister for Economic Development (...)** **had acknowledged that there was no partner** willing to take 15% of the capital of the company placed under supervision since 2 May 2017. **The government** wishes to launch a "new Alitalia" in which the State would be the main shareholder with 15% of the capital held by the Ministry of Economy and 30% by the railway group Ferrovie dello Stato (FS). The state-owned railway company is in discussion with Delta Airlines, which would acquire a 15% stake in the initial capital, which would be between 700 and 800 million. The American company is the only one in the running after the withdrawal of the British company easyJet. The

negotiations also involved, without success, China Eastern Airlines, the Italian Post Office, the Italian Savings Bank, the shipbuilding group Fincantieri and, more recently, Toto, the former owner of the airline Air One. All rejected the government's advances and waived the right to submit a binding offer. The latter **now turns to Atlantia, the group**

controlled by the Benetton family. A discussion that proves to be delicate as this one was dedicated to the moaning of the League and the M5S after the deadly collapse this summer of the Genoa bridge, of which Atlantia was the manager via Autostrade per l'Italia.

(...) Time is running out. Alitalia loses €1 million daily. **The government's \$900 million bridge loan, \$1.1 billion with interest, is due to be repaid on June 30. By then, the European elections will have taken place and Alitalia's sky will have cleared... or even darkened, with competitors ready to take advantage of the liquidation of an airline, whose rescue is becoming more and more chimerical.**

> Turkish Airlines returns to Strasbourg

(source Air Journal) April 30 - **Turkish Airlines will launch a new route next month between Istanbul and Strasbourg**, its eighth destination in France.

From 31 May 2019, the Turkish national airline will offer four flights per week between its base in Istanbul and Strasbourg-Entzheim airport, operated by Airbus or Boeing single-aisle aircraft. (...).

Strasbourg is already due to welcome two other new airlines this year, Arkia and Israir from Tel Aviv, **while new international routes will be set up there by Tassili Airlines and Volotea.**

My comment: Since the arrival of the TGV in Strasbourg in 2007, the main city of Alsace is less than two hours from Paris and Charles de Gaulle airport. This new competition has led to the disappearance of all air links with the capital.

Only low-cost airlines seem to be able to offer destinations, except HOP! which serves a few French cities

Passengers also have the choice to travel to:

- . by train to Basel/Mulhouse airport (7th French airport in terms of traffic, 6 times the traffic of Strasbourg airport),*
- . by bus to Frankfurt airport (2h30 by road with Lufthansa Express Bus),*
- . by plane to Munich airport (connection provided by Cityline, a subsidiary of Lufthansa),*
- . and now to Istanbul with Turkish Airlines.*

> Air Italy suspends Toronto and California for the winter

(source Air Journal) April 25 - **Air Italy presented a fall-winter 2019-2020 schedule without three transatlantic routes, linking Milan to Toronto, Los Angeles and San Francisco.** It highlights the optimization of domestic routes via its Milanese hub.

The Italian airline's hub at Milan-Malpensa airport will be "at the heart of the winter offer" (...).

With 13 aircraft currently in service, it is important to "optimize our network to meet seasonal needs, while focusing on our domestic and international destinations, such as Rome, Naples, New York and Miami". It

should be recalled that it had already cancelled its routes to Bangkok, Mumbai and Delhi in the first quarter, and postponed the opening of Chicago indefinitely (...). In the case of Californian airports, the **announcement should please American airlines, which have gone to war with Gulf carriers - including Qatar Airways, a shareholder of Air Italy.** (...)

My comment: By taking 49% of Air Italy (formerly Meridiana) in 2017, Qatar Airways aimed to take Alitalia's (weak) place in the Italian domestic market.

The Gulf airline also wanted to use Air Italy to bypass the agreements with the United States, which prohibit Qatar Airways from connecting Europe with the United States.

But Air Italy is based in Milan-Malpenza, less attractive than Milan-Linate, and does not have a sufficient short-haul network to power its long-haul flights. It seems that this Italian operation is destined to suffer the same fate as Etihad Airways' with Alitalia.

> Emirates: sharing in Brazil with LATAM

(source Air Journal) May 2 - (...) In Brazil, **Emirates announced on Wednesday a code-share partnership with LATAM Airlines Brazil on 17 Brazilian domestic routes, offering greater choice and connectivity to its customers.**

Passengers arriving from or bound for these cities will now be able to connect seamlessly to São Paulo (by Airbus A380) and Rio de Janeiro (by renovated Boeing 777-200LR as of June 1) thanks to Emirates' flights to its Dubai hub, where it serves over 150 destinations worldwide. (...)

My comment: By launching a collaboration with LATAM Airlines Brazil,

Emirates is competing with Air France-KLM on the Brazilian market.

In recent years, Air France-KLM has strengthened its position in Brazil with flights from Charles de Gaulle and Schiphol to Fortaleza, in close collaboration with GOL, a major competitor of LATAM.

> As early as 2017, Boeing identified a malfunction of the 737 MAX without talking to its customers about it

(source L'Usine Aéro) May 6 - Sunday, May 5, **Boeing** provided details of the anomalies noted on the alarm signal of the 737 MAX angle of attack (AOA) sensor. It appears that the American manufacturer **had identified malfunctions as early as 2017 without notifying the airlines or the American air regulator (FAA)**. A revelation that once again puts Boeing's communication at the centre of criticism as the company goes through a crisis related to the immobilization of its aircraft around the world.

As early as 2017, **well before the crashes of the Lion Air and Ethiopian Airlines flights, Boeing had identified malfunctions related to the alarm signal of the 737 MAX's angle of attack (AOA) sensor**. The aircraft manufacturer issued a statement on Sunday, May 5, detailing the anomalies found on this cockpit warning system supposed to inform pilots... (...)

Boeing's statement moves the controversy to another subject: as early as 2017, the company's engineers reportedly identified a problem with the AOA Disagree: "Neither the angle of attack indicator nor the AOA Disagree warning system are necessary for a safe operation of the aircraft. They only provide additional information and have never been considered as safety devices on commercial transport aircraft," says Boeing. The

manufacturer adds that at the time and before the Lion Air flight crash in October 2018, **senior managers were not informed of these malfunctions. As a result, between 2017 and the Lion Air accident, neither the airlines nor the United States Air Traffic Control Authority (FAA) were informed of these anomalies.**

In a notice issued on May 5, the FAA considers the AOA Disagree alert anomaly to be a "low risk" one. "However, a one-time or earlier communication by Boeing with operators would have helped to reduce or eliminate possible confusion," the air regulator said in a statement quoted by the American media. **While Boeing is going through a major crisis related to the 737 MAX, these new revelations may**

increase criticism of its lack of transparency.

***My comment:** If the information in this article is correct, it could jeopardize the entire aircraft certification system, or even make Boeing liable for the Lion Air and Ethiopian Airlines crashes.*

> Oil: American production record, prices fall

(source bfmbusiness) May 3 - **U.S. production reached a new record high of 12.3 million barrels per day (mbd) on average**, confirming that the country is the world's largest producer. (...) U.S. crude oil inventories also jumped 9.9 million barrels last week.

On Friday, May 3 at 6am, a barrel of North Sea Brent for delivery in July was worth \$70.38 in London, compared to over \$74 last week. (...)

Finally, the "falls" were fairly contained since, in **parallel with this increase in American supply, the clamp was tightened around two other producers**. On the one hand, Donald Trump announced the end of exemptions for Iranian oil imports granted to certain countries such as China or India. Similarly, the Venezuelan oil embargo was implemented last weekend. (...)

End of the press review

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

The Air France-KLM share price was €9.386 at the end of Monday, May 6. It is down 9.14%, after a 7% decrease the previous week.

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

The barrel of Brent oil (North Sea) is stable at \$72. 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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