I Letter from the Director Air France-KLM

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

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The Press Review on Monday...

> Air France is moving towards innovative carbon offsetting

(source Déplacements Pros) July 25 - Concerned about the ecological shift that its customers are making, **Air France is introducing the notion of carbon offsetting into its corporate contracts**. (...) This compensation would be based on carbon dioxide emissions calculated at the end of the annual agreement period via Air France and KLM partners working on sustainable development projects. (...)

This first is interesting, because **it formalizes the ecological shift taken by companies** (all sectors combined) that are increasingly **concerned about their image and the environment**. It will be interesting to detail this agreement in order to understand the compensation mechanism that has been negotiated.

For economic actors, the incentives for compensation action are ecological and economic (...). They are also generational, as more and more members of generations Y and Z are even rejecting the idea of flying for fear of the impact their travel could have on the environment.

Carbon offsetting can be a good intention, but far from being immediately factual if the investment does not immediately offset emissions (...).

The Air France-KLM group has long taken into account the environmental aspect of its activity and has taken strong action both in terms of investments and operations. Often silent, the group's short, medium and long-term actions allow it to show results in advance of the phase compared to the planning it had initially set itself. It will therefore be **necessary to** follow this initiative to analyse the possibility of duplicating this agreement in the group's client companies and to **see how the profession will react (actors and consumers) to this intelligent action.**

My comment: For *several years now, the Air France-KLM Group has been stepping up its initiatives to reduce its carbon footprint.*

The most difficult thing to come is to demonstrate the positive effect of all the measures taken.

> Air France will be based in the heart of Montreuil

(source Déplacements Pros) July 26 - The company's **French sales management** will leave its Parisian offices in September 2020.
Air France **will set up shop in the** Altaïs Tower located on Place Aimé-Césaire in the **heart of Montreuil**. (...)
Air France's sales management is currently located in a modern building too large for its needs, avenue Léon Gaumont, in Paris (20th) but on the other side of the ring road, on the Montreuil side.
"By choosing the Altaïs Tower, **we wanted to preserve the well-being of our employees with maintained accessibility and transport habits**, a dynamic and attractive district," said Zoran Jelkic, Air France-KLM Commercial General Manager for France. Finally, this completely restructured building, with shared services that are appreciated, has three labels. These certifications, notably BBC1 and HQE2, make Altaïs a more energy and water efficient building, offering a better working environment. This decision will also allow us to significantly improve our real estate economic balance sheet."

With more than 40,000 employees in the Île-de-France region, Air France is the region's leading private employer.

My comment: *The choice of Montreuil is a relief for most of the employees of the Commercial France management. The other potential sites, located north of Paris, would have resulted in a significant increase in their travel times.*

> Amsterdam failure: dozens of flights cancelled

(source Air Journal) July 25 - **A malfunction in the aircraft refuelling system at Amsterdam airport led to the cancellation of 180 flights on Wednesday, July 24,** and even more delays, with KLM being the airline most affected.
(...) About 200 take-off or landing delays were reported; only one flight in three landed at Schiphol yesterday afternoon.
(...) The exact nature of the problem has not been explained (...). Aircraft Fuel Supply, a joint venture between Air France-KLM and several oil companies including Shelle and Esso, is responsible for the supply of fuel - about 12 million litres per day - and the underground infrastructure that transports fuel to the aircraft.

My comment: *According to Schiphol Airport management, a power outage would be the reason for stopping the supply of kerosene.*

Aircraft refuelling resumed after an eight-hour interruption.

> Double good news at easyJet

(source Invest) July 22 - **The low-cost company easyJet generated positive revenue per seat in the third quarter** (April to June).

(...) **Annual pre-tax profit will be cut by around a quarter, between £400 million and £440 million, compared with £578 million in the previous year, due to** difficult economic conditions, warned the British airline, which at this stage of the year has sufficient visibility to make forecasts.

A non-event for the market, which had perfectly integrated these difficulties into its calculations and was expecting a profit of around £423 million. **Operators preferred to welcome the good news. Such as a 0.7% increase in revenue per seat at constant exchange rates** - a key indicator in the sector -, a **14.3% increase in ancillary revenues** and an 11.4% **increase in** total revenue, which reached £1.76 billion in the quarter.

easyJet benefited from "a combination of successful revenue initiatives and strong Easter performance," explains the company's low-cost management (...). This performance is driven by the weather - and the last-minute reservations it generates - when there were no major sporting events, unlike in 2018, and when the situation remains difficult for airlines.

(...) "Our customers have experienced a significant reduction in

cancellations and long delays", welcomed the group led by Johan Lundgren (...)
In addition to easyJet's resistance, the key announcement is the appointment of Peter Bellew, 54, as Chief Operating Officer (COO), or, in French, Chief Operating Officer. He was **recruited at...... Ryanair**, where he had held a similar position since 2017. (...)

My comment: *Despite a good third quarter, easyJet expects annual results to be lower than last year.*

It should be recalled that the first half of easyJet's financial year, which runs from October to March, was particularly difficult, particularly due to the integration of part of the former Air Berlin's business.

> Ryanair: profits fell sharply in the first quarter of 2019

(source TourMaG) July 29 - **In February 2019, Ryanair reported a loss of €20 million** and a sudden reorganisation of management to deal with an extraordinary situation. The
months and seasons have passed, but **the difficulties persist** or at least are still felt, **with financial figures for the first quarter of 2019 (April to June) in free fall.**

It is not the number of passengers (+11%) that is of concern, but the **21% drop in profit, to** €243 million, nevertheless. (...)
All of its positions are showing signs of tension, **with an average 6% drop in ticket prices (36 euros), a surge in oil prices (+24%) and staff costs (+21%).**

The press release reveals that "we continue to negotiate attractive growth contracts as airports compete to attract reliable growth in Ryanair traffic.

Would Europe be moving towards increasing subsidies to accommodate low-cost? At least that is what this sentence seems to say. (...)

My comment: Increasingly, *Ryanair is required to comply with the regulations of the countries in which it operates. This explains the significant increase in its personnel costs.*

> Air traffic strike in Italy, dozens of flights cancelled

(source AFP) July 26 - **Air traffic was disrupted Friday in Italy by a general strike in the sector, which** caused dozens of flights to be

cancelled. (...)
Trade unions are calling for a wide-ranging reform of the sector, more binding rules on respect for competition, more transparency in the award of contracts and specific standards against the "contractual and wage dumping" imposed by a growing number of companies. (...) In addition to this, there is a all-day movement of the staff of Alitalia, the national company in great difficulty, who are concerned about the viability and social consequences of a takeover project currently under consideration.
Alitalia has announced the cancellation of 113 flights and the other airlines have revised their flight schedules, without specifying the total number of flights cancelled. (...)

> Barcelona: ground staff strike, traffic disrupted this weekend

(source Air Journal) July 27 - **Barcelona airport activity is severely disrupted on July 27 and 28, 2019 by a strike** that has already resulted in the cancellation of more than 100 flights and could affect a thousand at the height of the tourist season.
The Spanish airline Vueling, a subsidiary of the British group IAG, announced yesterday that it is cancelling 112 flights to and from Barcelona due to the strike by ground staff of Iberia, a company belonging to the same airline group. Iberia's ground staff called for a strike to denounce the "lack of staff" and an "abuse of overtime", especially during the high season of July-August. (...)

> IAG: the crisis is brewing at British Airways

(source Boursier com) July 23rd - The crisis is brewing **at British Airways. The** British company's **pilots**, who are demanding wage increases, **voted overwhelmingly (93%) in favour of the strike**. If no date has been set, the social movement could take place in the middle of August. (...)
IAG's subsidiary, which wishes at all costs to avoid this protest movement, has initiated legal proceedings. "The class action will be extremely disruptive" for the airline and for passengers, said John Cavanagh, the airline's lawyer. "There is no doubt that the timing of the action is deliberate and intended to cause maximum financial loss and disruption to BA".
Depending on the carrier, the movement could cost the group up to $50 million per day. (...)

> Ryanair: several strikes in August?

(source Déplacements Pros) July 26th - It is a month of August that could well be disrupted **at Ryanair**. In the United Kingdom, the **BALPA union is consulting its pilots about a possible strike** to protest against wage conditions. The results will be available on August 9. On the same day, another pilot consultation, this time in Ireland, will end with the possibility of a strike over insufficient progress in wage negotiations. (...)

SNPVAC, the **union of flight attendants and stewards in Portugal, is considering filing a strike notice with the Irish company. The movement would last 5 days in August** (...). The cabin crew criticizes Ryanair for failing to take into account commitments made last November regarding labour legislation.

My comment: *This summer, several of Air France-KLM Group's European competitors have been or will be confronted with strikes.*

If the draft agreement submitted for approval to the pilots of the Air France SNPL were to be signed (the result of the consultation will be known on 31 July), Transavia France's historical pilots could file a strike notice or an action for interim relief against this agreement.

> IndiGo expects to benefit from the collapse of Jet Airways

(source ch-aviation) July 23 - **InterGlobe Aviation, owner of IndiGo Airlines, stated (...) on July 19 that the collapse of Jet Airways**, which suspended all its air operations on April 17, **would allow it to increase its passenger capacity by nearly one-third during the current fiscal year ending March 31, 2020**.
Interglobe recorded a record after-tax profit of INR 12 billion (US$174 million) for the first quarter of the year, with "Jet Airways' discontinuation of services having had a positive impact on earnings this quarter, helping our unit revenues grow by an estimated 2% to 3%," said Ronojoy Dutta, CEO, on the conference call.
IndiGo is now India's largest airline in terms of market capitalization, Reuters reported, and in the short term, Dutta said it expects available seat kilometres (ASK) to increase by 28% over the current quarter and 30% over the fiscal year. However, the Jet effect will diminish in the longer term, he added, "since all airlines have now replaced the capacity released by Jet". (...)

> ADP records record profits and revises its traffic upwards

(source TourMaG) July 26 - Paris airports are doing better than ever. At
a press conference held on Friday 26 July 2019, the **ADP group announced a net profit of €250 million for the first half of 2019, up 22% compared to 2018**. (...)
In Paris, more precisely, cumulative traffic is still growing by 4.8% to 52.3 million passengers. International traffic grew by 6.3% and low-cost traffic by 5.5%.
By way of comparison, passenger traffic from London-Heathrow increased by only 1.8%, Amsterdam-Schiphol by 1.4% and Frankfort-Fraport by 3.0%. (...)
All the other indicators are also green: turnover is up 17%, Ebitda 11%, and net income 22%. **Excluding Turkey, all the airports managed by the ADP group internationally are seeing their traffic increase**: Madagascar (+10.1%), Santiago de Chile (11.3%), Conakry (12.2%)... (...)
The beginning of the year was also particularly busy in terms of news for the world leader in airport design and management: commissioning of the junction building in Orly and new toponymy of the single terminal, start of negotiations on the next economic regulation contract 2021-2025, public consultation on the development of the future Terminal 4, new timetable for the CDG Express project and, **above all, publication of the Pacte law, making it possible to privatise the group, and launch the procedure for a shared initiative referendum**.
"**My position is simple: I am neither against nor in favour of privatization," says Augustin de Romanet**. "We will be happy regardless of who our future shareholders are," he says. (...)

> The 737 Max has earned Boeing the worst results in its history

(source Les Échos) July 26 - From the Capitol to the Tarpeian rock. After the record profits of 2017, **Boeing published on Wednesday the worst quarterly results in its history, with a net loss of $2.9 billion, with revenues down 35% to $15.8 billion.** For the first time since 1997, Boeing even fell into the red in the first half of the year, with a net loss of 793 million, compared to a profit of 4.67 billion for the same period last year. And no forecasts are made for the end of the year. However, these figures are in line with expectations, following the announcement last Thursday of an exceptional charge of USD 4.9

billion (USD 5.6 billion before tax) to compensate customers of the 737 Max, which absorbed all the cash generated in the second quarter. In addition to this exceptional charge, there were additional production costs of USD 1.7 billion for the 737, due to the decrease in production rates from 52 to 42 aircraft per month without any reduction in staff.
The decline in revenue is due to the cessation of deliveries of 737 Max since the flight ban in mid-March, but also to the drop in order intake.
These results would have been even worse without the good performance of the "Defence and Space" and "Services" divisions, whose quarterly results increased significantly. Profits in the military and space sector jumped 159% to $975 million, with revenues up 8%. After-sales services, recently grouped in a specific division, generated a margin of more than 15%, with profits up 14% (687 million) on sales of 4.5 billion (+11%).
But these good performances are far from offsetting the collapse of the commercial aviation segment, whose quarterly revenue fell 66% to USD 4.7 billion, with an operating loss of USD 4.9 billion. Never seen before! This is despite the increase in Boeing 787 production (to 14 per month). In addition, **another small piece of bad news has crept into the release. Due to problems with GE engines, the first flight of the 777X is postponed until early next year,** Boeing announces, even if the first deliveries remain scheduled "for late 2020". (...) At the press conference, Boeing CEO Dennis Muilenburg nevertheless reiterated the optimistic estimate "in the best of cases" of a possible return to flight of the 737 Max "at the beginning of the fourth quarter" (...)
However, it will be up to the authorities to decide when and how the 737 Max will be allowed to fly, he said. Dennis Muilenburg also issued what looks like a warning. "**If our estimate of the planned return to service changes, we may have to consider other production reduction measures, including a temporary shutdown of Max's production**.

***My comment: There are** now nearly 700 B737 Maxes nailed to the ground. In addition to the 400 aircraft in service at the beginning of the year, 300 aircraft gradually came off the production lines.*

> Medical confidentiality: towards a suppression for airline pilots?

(source TourMaG) July 22 - Do doctors have the right to override medical confidentiality if they believe that an airline pilot is not fit to fly? This is a very sensitive debate that is emerging.
According to the Direction générale de l'aviation civile (DGAC), which

sent a note to all doctors in France, it is yes.
As for the powerful National Airline Pilots Union (SNPL), there is no question of it.
On behalf of possible "serious and imminent risks of endangering others" and "after having exhausted all other options", the **DGAC recently proposed to French doctors to "express their concerns by name to the DGAC medical evaluators**".
A recommendation which, although cautious and in the direction of greater flight safety, goes against the principle of general and absolute medical confidentiality.
"**A legal study commissioned by the SNPL confirms that the DGAC note is illegal in many respects**. We are going to refer the matter to the Order of Physicians in order to communicate the conclusions of this study, which may jeopardize the legal security of doctors who would follow this instruction to the letter," the SNPL hastened to reply in an internal note. For the
pilots, the "school canteen cooks" or "bus drivers" are equally responsible for the safety of the users.
"Airline pilots are the only ones for whom the lifting of medical confidentiality is presented as a normal and legitimate practice," the SNPL letter points out, pointing out a risk for French pilots of no longer taking care of themselves for fear of loss of anonymity and flight arrest.

While the issue seems complicated to resolve, it should be remembered that pilots are subject to a very thorough medical examination each year, which may lead to the suspension of their licence.

On the other hand, the debate will sadly bring to mind the crash of Germanwings flight 9525, which was deliberately caused by the co-pilot in the French Alps in 2015. The latter suffered from a severe burn-out syndrome and had had suicidal tendencies in the past.
Psychiatrists, general practitioners or ophthalmologists: he had consulted no less than 41 different doctors in the 5 years preceding the crash, and torn certificates of incapacity for work had been found at his home....
Something to make you think...

My comment: *I am concerned about the DGAC's position. It could suggest that the medical evaluators do not have all the necessary information to assess the pilots' ability to fly.*

Press review Stock market

> Air France-KLM, Lufthansa, Ryanair: Analysts' recommendations

(source Investir) July 23rd - **Crédit Suisse**, which has yet to be "retained", is **lowering its price target** from 10.72 to 9.49 euros **on Air France-KLM**.

Credit Suisse has lowered its recommendation on the share price of the German airline Lufthansa. The analyst firm has shifted to a'neutral' opinion instead of'outperforming'. (...) The analysis office mentioned a'probable expectation' of a recovery in investments due to the pressure on the group's profits and cash flows.

Credit Suisse has downgraded its advice on the Ryanair share for sale ('underweight') by considering that the low-cost airline is the most vulnerable to the current air transport environment. Analysts are concerned about the group's ability to'control its margins'. (...)

My comment: The *analyst's assessment of Lufthansa and Ryanair is understandable in view of the results recently published by these companies.*

However, it is unexpected for Air France-KLM, since the Franco-Dutch Group's half-yearly results will only be published on Wednesday.

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 29 July, the consultation had collected 578,000 signatures, or 12.25% of the required signatures.

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

The Air France-KLM share price was €8.89 at the end of Monday 29 July. It is down by -1.68%.

The average (consensus) of analysts for the AF-KLM share is 10.39 euros.

The barrel of Brent oil (North Sea) **is up from $1 to $64.**

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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