I Letter from the Director Air France-KLM

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The Press Review on Monday...

> Air France-KLM's cargo business fell by 5.8%.

(source: L'antenne) 8 August - In **July, Air France-KLM's cargo business, affected by the trade war, fell by 5.8% in tonne-kilometres transported (TKT),** with a load factor of only 54.3%. On the passenger side, the group carried 10 million passengers in July, 1.8% more than a year ago, with low-cost Transavia recording a growth of more than 7% in its traffic, Air France-KLM announced on Thursday 8 August. In **terms of passengers carried per kilometre travelled** (PKT), the reference indicator for air transport, **traffic increased by 1.9% for Air France and KLM.**

On long-haul flights, Air France and KLM recorded a 2% improvement in PKT, with traffic with North America leading the way with 5.2% growth. This region is followed by Latin America (+ 2.6%) and Asia (+ 2.2%). In contrast, the Africa-Middle East and Caribbean-Indian Ocean regions saw their traffic decline by 3.8% and 0.5% respectively. On the short- and medium-haul network, growth was 1.7%.

Transavia, which should soon be able to expand further in France after a referendum by the SNPL, the leading pilots' union within Air France, which is in favour of challenging the cap on its fleet of 40 aircraft, **continued to grow in July with a 7.4% increase in capacity in seats per kilometre offered** (SKO) accompanied by a 7.5% increase in traffic in PKT **and an occupancy rate of 91.5% compared with 90.6% for the group's two incumbent airlines**. Within the group, Air France carried 5.01 million passengers (+0.1%) and KLM 3.17 million (+2.2%).

My comment: In *July, the passenger business of the various Air France-KLM Group companies increased significantly.*

The load factor for Air France and KLM aircraft (90.6%) is one of the highest among the major airlines. It is close to the record filling rates of low-cost airlines. It reflects the exceptional performance of the Group's employees, particularly in revenue management, sales and marketing.

The result of the cargo ship is more worrying. It is suffering the effects of the trade war between the United States and China, as well as the slowdown in global growth.

> KLM seems to be in sight at the end of the cargo fleet (La fin de la flotte de cargos KLM semble être en vue).

(source Telegraaf translated with Deepl) August 9 - Air France-KLM is facing a difficult decision regarding its cargo fleet. (...) CEO Pieter Elbers said on Thursday, when the July figures were released, that "preparations" are underway to weather the impending storm. (...)
The rise in oil prices is particularly affecting freight activity. The price of oil at the end of July was 22% higher than at the beginning of the year. In addition, **the air freight sector is an excellent barometer of the state of the global economy**. The trade war between the United States and China is having an impact on freight, the World Aviation Organization (IATA) said on Wednesday. **Cargo aircraft are used, for example, to transport heavy machinery. Demand is less strong today, and is expected to decline further**. KLM and its freight subsidiary Martinair were immediately affected.
What can KLM do? It still owns a number of Boeing 747-combis, which are used for the transport of important goods as well as for passenger transport. They will leave the fleet next year, but KLM could do it sooner. Otherwise, there are **few options other than to get rid of the freight fleet completely**. The size of a fleet of four aircraft is already so small that there is not much left to reduce. (...)

It would mean the end of an era, but it would solve another problem. KLM would be able to exchange cargo aircraft for passenger aircraft, as its rival Emirates did before. **In doing so, the airline would create some room for manoeuvre to continue its growth at Schiphol.** This margin for growth is currently lacking. And it would probably be more profitable than the current deficit freight transport.

My comment: *Air France-KLM's cargo business has declined significantly since the beginning of the year. It may be tempting for KLM to cease its all-cargo business. The Dutch company would recover slots on Schiphol in order to use them to develop its passenger business.*

Such a decision would have consequences for the Dutch economy. Unless the Dutch government finally decides to increase the number of movements authorised on Schiphol (currently limited to 500,000 per year).

> Aigle Azur wants to sell its flights to Portugal to Vueling to get a breath of fresh air

(source La Tribune) August 9 - Times are tough for **Aigle Azur**. As has often been the case since the Chinese group HNA acquired a 48% stake in 2012. While the company denied the information in Le Figaro on Thursday that it was threatened with being grounded because of the desire of aircraft rental companies to recover their aircraft for fear of not being paid, it did not **deny having difficulties "like many players in the sector, particularly in Europe", and confirmed "working on different projects to ensure its sustainability both in the medium and long term".**

It's a public secret. What had been known for months by the entire French air transport community is now spread out in the public arena: unleashed by its shareholders, on whom much of its long-haul strategy was based (the Chinese group HNA in difficulty (...) and David Neeleman, (...) founder of the Brazilian (...) Azul and shareholder of TAP Portugal), Aigle Azur is once again seeking to save its skin. Certainly, **with a cash flow of around 25 million euros, Aigle Azur has enough to spend the summer.** But the situation looks more tense for winter, a period of low season... (...)
Placed for several months under the wing of the Ciri, the Inter-ministerial Committee for Industrial Restructuring, **Aigle Azur presented this week to employee representatives a new organization of the company that is indeed similar to a survival plan. (...) In**
detail, **Aigle Azur intends to create a subsidiary operating flights to Portugal** with a plane and volunteer flight crews, **which would then be sold to Vueling**. The Spanish company, whose management was

present at the last works councils to explain its project, made an offer to purchase. **This operation would enable it to recover 40% of the 9,850 take-off and landing slots held by Aigle Azur at Orly**, a capped airport where slots are extremely scarce...
In its plan presented to staff representatives, Aigle Azur would retain only part of its flights to Algeria and its flights to Eastern Europe at Orly. The rest of its business would be located in Roissy-Charles-de-Gaulle, i.e. the other part of the business to Algeria, charter flights, and those to Mali, the last long-haul destination to survive after the Beijing stop in the spring and the one scheduled for September in Sao Paulo. (...)

If it were to be implemented, this agreement with Vueling would obviously not be good news for Transavia, Air France's low-cost subsidiary. (...) According to our information, in June, Aigle Azur's management contacted these companies[Air Caraïbes or Air France] in order to be able to lean on them. Without success. Neither the Dubreuil Group (owner of Air Caraïbes and French Bee) nor Air France responded favourably, forcing Frantz Yvelin, the CEO of Aigle Azur, to find other solutions.

My comment: *Orly airport is saturated. To establish or develop, airlines must acquire slots that are left vacant.*

When a company disappears, the slots it has are divided between the companies present on Orly and the companies wishing to set up there.

The Vueling project, if successful, would allow it to recover 40% of the French company's slots. She could not expect the same if she waited for Aigle Azur to disappear.

> British Airways: 100 flights cancelled and 200 delayed due to a computer problem

(source: L'antenne) 9 August - **British Airways suffered numerous delays and flight cancellations at London airports on Wednesday 7 August due to a computer problem affecting its check-in system that could finally be resolved**. "We solved this morning's temporary system problem that affected a number of our flights," BA said. Traffic "is returning to normal, although operational disruptions may remain due to the problem identified earlier," she added. Around 100 flights were cancelled at Heathrow and Gatwick airports, with the British press reporting more than 200 delays affecting a total of 18,000 passengers.

My comment: *British Airways has already experienced a general IT failure in 2017.*

To explain this new failure, the British company mentioned the obsolescence of its IT system in a general context of cost reduction.

> July traffic: +4.2% for the IAG group

(source Air Journal) August 9 **- International Airlines Group (IAG),** comprising British Airways, Iberia, Aer Lingus, Aer Lingus, Vueling and Level, **welcomed 11.999 million passengers last month, traffic up 4.2% compared to July 2018.**
In terms of passenger numbers, the British group's strongest growth in July 2019 was recorded in Latin America and the Caribbean (+21.9%), while the lowest was in North America (+1.1%). Europe gained 2.1% with 6.610 million customers, while the domestic sector (in Great Britain, Ireland, Spain and Italy) grew by 7.2% to 2.797 million customers. Asia-Pacific posted +12.0%, and Africa, Middle East and South Asia +3.4%. In the freight sector, the group recorded a 0.6% increase in CTK (cargo tonne-kilometre) traffic in July. (...) In detail, British Airways saw its passenger traffic increase by 1.0% to 4.613 million customers. (...) In Spain, last month Iberia welcomed 2.186 million customers (+7.1%). (...) The low-cost Vueling carried 3.589 million passengers (+4.6%). (...) Finally, the low-cost Level welcomed 187,000 passengers in France, Spain and now Austria in July (+228.1%). (...)

My comment: In *July, the IAG Group's growth was mainly due to its Spanish subsidiaries Vueling and Iberia.*

> London-Gatwick: £1.1 billion over five years

(source Air Journal) August 9 - **London Gatwick Airport has unveiled a five-year investment plan whose main project is the extension of Pier 6 in the North Terminal**, with innovation and technology also being highlighted.
While its 15-year master plan was publicly endorsed, London Airport presented a new five-year capital investment programme (CIP) on 8 August 2019, which places greater emphasis on investment in automation and technology "as a catalyst for sustainable growth". **New initiatives include robotic parking and automated boarding technology, which will speed up boarding and give passengers more choice in how they spend their time**. Gatwick's total investment since 2009, combined with this new five-year plan, now

stands at £3.21 billion. The airport now serves 46 million passengers per year, and is committed to "exploring ways to pursue sustainable growth, create jobs and stimulate the local economy". (...)

For VINCI Airports
President Nicolas Notebaert, "being part of the world's largest and most diversified airport network is a unique opportunity for everyone to find inspiration and capture the best airport managers in the world. As such, **Gatwick's investment programme will benefit from the sharing of best practices through the VINCI Airports network** and considerable expertise in programme management, customer experience and new innovative services such as robotic parking. "» (...)

My comment: The *Vinci Group reported a net income of €1.4 billion (+4.5%) in its half-yearly results. Traffic at the airports managed by the group increased by 6.7%.*

Vinci Airports became the world's second largest airport operator this year with the completion of the takeover of London Gatwick Airport in May.

> Debris from a Boeing 787 falls near Rome, houses and cars damaged

(source bfm) August 12 - Fortunately, no one was injured in the incident. On Saturday, **debris from a Norwegian Airlines Boeing 787 fell in the suburbs of Rome**, near the Fiumicino airport from where it had just taken off, reports La Corrierre della Sera. The aircraft carrying 298 passengers to Los Angeles was forced to turn around after 23 minutes of flight.
"The debris has damaged cars, houses, roofs and other objects in the gardens," said a spokesman for the Italian Civil Protection. The **fragments would have detached from the aircraft's left engine at an altitude of about 400 metres**. Norwegian Airlines confirmed that the Boeing 787 had safely landed at Fiumicino "due to a technical failure of one of the engines".
(...) A spokesman for Rolls Royce, which supplies engines to Boeing, said he "was aware of the event". He assured that the company was working with the aircraft manufacturer "to provide support and technical assistance". (...)

My comment: A *blow to Boeing, Rolls Royce... and Norwegian Airlines. The Norwegian company, already deprived of its eighteen*

B737 Max aircraft, will have to do without one of its thirty-five B787 aircraft operating on long-haul routes.

Press review Stock market

> Analysts' opinions: Air France-KLM

(source: zonebourse) 6 August - Air France-KLM: Bernstein goes from underperformance to market performance with an objective raised from 7 to 10 EUR.

My comment: *Following the announcement of the Air France-KLM Group's half-yearly results at the end of July, several analysts raised their share price targets.*

They appreciated that the Franco-Dutch Group is better able to withstand the rise in fuel prices and the overcapacity observed in medium-haul flights in Europe than its competitors.

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 August 125, the consultation had collected 616,000 signatures, or 13.06% of the required signatures.

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

The Air France-KLM share price was €10.315 at the end of Monday, August 12. It is up by 4.96%.

The average (consensus) of analysts for the AF-KLM share is 10.59 euros.

The barrel of Brent oil (North Sea) **is down from $3 to $58.**

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 employee shareholders You can find me on my twitter account @FrRobardet