# 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-KLM: passenger traffic up 2.3% in August

(source Air Journal) September 9 - The **Air France-KLM** airline group **carried 9.8 million passengers in August 2019, 2.3% more than in August 2018**. The
 Dutch company **KLM carried 3.2 million passengers, or more than 3.2% compared to last year**. The low-cost subsidiary Transavia, for its part, welcomed 1.9 million passengers, an increase of 7.8%. On the other hand, **Air France recorded a slight decrease of 0.4% compared to the** same month last year with 4.7 million passengers.
In terms of passengers transported per kilometre travelled (PKT), the reference indicator for air transport, the group's traffic increased by 2.1%. The group's long-haul business grew by 0.8% in terms of PKT for a 1.7% increase in seat capacity per kilometre offered (SKO). (...)
**Cargo activity, which the group believes was affected by the trade war between the United States and China, continued to decline, with a 5.7% drop in** tonne-kilometres transported (TKT), with a load factor of only 53.7%. (...)

### > Air France-KLM's warning on the level of summer bookings has a negative impact on the course

(source BFM Bourse) September 9 - **Cold snap on Air France-KLM, which dropped from 9.27% to 8.97 euros on Monday at** around

10:20 am **after the publication of monthly traffic figures for the past month** revealing a further slowdown in the growth of long-haul traffic. This was the seventh consecutive decline in value, returning to its lowest level since July 31. (...)

"**In a macroeconomic context of slowdown, last minute bookings are lower than expected during the summer peak period,**" the group had to specify in its August traffic release (a completely unusual clarification in a document that varies little from one month to the next). "For me, it is **not the prospect of the group positioning itself as a candidate for the takeover of Aigle Azur, which was already in the air last week, but the traffic figures published this morning that are causing the Air France-KLM share price to fall,**" says an aviation analyst (...).

***My comment: The*** *mixed results of this August only confirm those of the first half of the year.*

*The Air France-KLM group suffers, less than its main competitors, from the slowdown in demand and price pressure.*

## > Air France and Air Caraïbes in pole position to share Aigle Azur

(source Libération) September 9 - Air transport continues to be a dream. No less than **14 applications have been submitted for the takeover of the airline Aigle Azur, which** has been in receivership since Wednesday. As a first step, a works council meeting on Monday at headquarters took note of each of these offers. **The most serious ones mix with the most folklore. Like those of these natural persons who, without the slightest investor, nevertheless make a point of taking over an airline company** that has at least 40 million euros in liabilities according to a trade union source.
Not surprisingly, the **most serious proposals come from the most solid players in French air transport. Air France,** which has made a commitment after being strongly encouraged by the government, **would take over the routes to Algeria, Portugal and Lebanon**. In total, 70% of the workforce based in France would have their jobs safeguarded.
The **offer from Air Caraïbes, a company owned by the Dubreuil family group, could appear complementary**. It proposes to acquire the other part of Aigle Azur's business: the routes to Bamako (Mali) and São Paulo (Brazil), as well as two Airbus A330s used for these flights. In this perspective, 106 jobs would be maintained. The end-to-end applications from Air France and Air Caraïbes would nevertheless leave

130 of Aigle Azur's 1150 employees unemployed. Precisely all those who work at the head office. In
addition to these offers, a former Air France executive, **Lionel Guérin, is in ambush and benefits from the support of the Aigle Azur pilots**. The fact that he undertakes to take them back in full and to keep their wages is probably a factor. **However, this proposal is significantly underfunded**.

Finally, **Easyjet and British Airways are also on the list, as** is the courier company Chronopost. **These candidates seem to be looking not at** Aigle Azur's activity or staff, but at the company**'s valuable take-off and landing slots at Orly airport**. This platform, which is closed between 11 p.m. and 5 a.m., has not been able to accommodate new flights for more than 20 years. The one or more selected will then get their hands on these famous slots and above all will be able to reassign them to the links of their choice. Thus British Airways, if selected, could open an Orly-New York route from the former Aigle Azur slots. And thus compete significantly with Air France, which serves the United States almost exclusively from Roissy-Charles de Gaulle airport.
For the time being, candidates still have 48 hours to improve their offer. This is what the Aigle Azur unions, led by the CFDT, will strongly encourage them to do. Then, the commercial court of Evry (Essonne) should decide at a hearing scheduled for 16 September. (...)

***My comment:*** *Of the fourteen offers received this Monday, only three or four seem solid. Applicants for the takeover of Aigle Azur nevertheless have two days to improve their proposals.*

*A first observation must be made: while all seafarers, and even mechanics, should keep their jobs, there is uncertainty about the future of jobs for other ground staff.*

## > Strijd barst los om Lelystad Airport (Battle for Lelystad Airport)

(source Telegraaf, translated with Deepl com) 7 September - **Airlines are eager to operate flights from Lelystad airport** (...) **following the European Commission's decision to give the green light to the rules for transferring leisure flights from Schiphol to Lelystad airport**. (...)

Brussels' proposal gives priority to airlines that leave Schiphol a landing slot over Lelystad. The freed space will have to be used for flights with many connecting passengers, such as intercontinental flights. **Transavia NL, which is part of the KLM group, can benefit from this. This provokes the anger of other airlines, which say they are at a disadvantage**. They consider Lelystad airport as a new capacity and sharpen the knives in the direction of KLM and Transavia. (...)

But there is **a major hurdle to overcome: a solution to the problem of nitrogen dioxide emissions**. Following a decision by the Council of State, hundreds of infrastructure projects in the Netherlands are at a standstill, so Lelystad airport cannot yet be opened. (...) A second obstacle is that airlines not serving Schiphol must also have access to Lelystad airport. The minister lost this battle in Brussels. (...) In addition, the coalition parties D66 and ChristenUnie criticise Lelystad airport. The latter party has a lot of voters under the access road. (...) **Veluwe's Red Action Group still assumes that the airport will not open at this time due to** the nitrogen problem, says Jaap Kloosterziel. "The Minister must demonstrate that this is a major national interest. We think it would be difficult with a recreational airport."

***My comment:*** *Schiphol airport has been saturated for more than a year. Two solutions are being considered to enable the growth of air traffic in Amsterdam.*

*The first would be for the Dutch government to decide to lift the 500,000 movements per year limit on Schiphol. The second option would be to open Lelystad airport, located 60 km north-east of Amsterdam, to international traffic.*

*In both cases, local residents refuse to suffer the inconveniences of an increase in air traffic. Other voices are being heard highlighting the consequences of this increase on global warming.*

*The most likely decision seems to be the provision of 5,000 annual slots in Lelystad, or seven take-offs and seven landings per day. It remains to be seen when this decision would be made.*

## > Air transport: Transavia takes off

(source Entreprendre) September 4 - Nathalie Stubler (...) has held various management positions within the Air France-KLM group (...). Since January 2016, she has been President and Chief Executive Officer of Transavia France, a low-cost airline of the Air France-KLM group. Evolving in the air transport sector for 27 years, it brings a new breath of fresh air to Transavia.

*What were your objectives when you joined Transavia in 2016?*

The challenge was economic with profitability and growth as the key words. Growth was already present and was part of our shareholder's business plan. (...)
**Our evolution has been quite gradual and continuous without haste. We have been working on revenues and costs to achieve the objective of returning to balance by 2017**. We have adapted our network to refocus on high-potential roads, in line with our business proposal, which is mainly focused on leisure travel. Improving the competitiveness of our fleet has enabled us to reduce our costs.
Since January 2016, Transavia has had its own aircraft and we have continued to reduce the cost of the fleet. (...)
The tremendous teamwork of the product team enabled us to exceed our break-even point objective and post a positive operating result as early as 2017. In 2018, we further improved this result with an operating margin of 9.1%. **After a very successful 2018, with a 20% growth rate, our double-digit growth will continue in 2019 at around 15%.**

*Will you continue to expand Transavia's fleet in the coming years?*
Our fleet has undergone a significant evolution, from 21 aircraft in 2015 to 38 aircraft this summer. **Our ambition is to continue to develop our fleet**. **We are currently finalizing a draft agreement with the organizations representing all Air France and Transavia France pilots. This paves the way for Transavia France's development in its market, that of medium-haul low-cost flights, without any restrictions. This is good news for our Company**
Transavia's fleet of 83 aircraft in 2019 - 38 aircraft at Transavia France and 45 at Transavia Netherlands - is relatively small compared to our pan-European competitors. **We** therefore **have development potential from France to Europe and the Mediterranean basin**. (...)
*What is your vision for the future of the company?*

**Transavia has strong growth potential**. France is one of the countries least served by low-cost airlines in Europe compared to the United Kingdom, Spain and Germany. With a penetration rate of only 42%, France is well behind other markets. (...)

***My comment: The*** *line drawn by Transavia France's CEO is clear: thanks to the signing of an agreement with Air France pilots, Transavia France will be able to develop without any restrictions on its market.*

*This is not the opinion of the historical pilots of the low-cost subsidiary of the Air France group. In a letter they sent to me, they said: "After* *studying the draft group agreement negotiated between Air France's management and the Air France SNPL, we are certain that Transavia France will not be able to face competition within France".*

## > British Airways cancels nearly 100% of its flights due to a strike by its pilots

(source Boursier com) September 9 - Very complicated start to the week for British Airways customers. **Due to a historic 48-hour strike by its pilots, the British airline was forced to cancel almost all its flights on Monday**. The British Airline Pilots Association (BALPA), the pilots' association, warned group management last month of a three-day strike in September due to a wage dispute. (...) These first two days of the strike are expected to cost the British carrier nearly $100 million.

**The IAG subsidiary reiterated that this strike was unjustifiable and indicated that its wage proposal was fair**. It is offering its pilots a salary increase of 11.5% over three years. A proposal "very fair and well above the current inflation rate in the United Kingdom and, unlike BALPA, which has been accepted by members of the Unite and GMB unions, which represent nearly 90% of all British Airways teams, including engineers, cabin crew and ground staff. In addition to basic pay, pilots also receive annual increments and regular flight allowances. "**This strike will cost the company considerably more than the investment necessary to resolve this dispute,**" said BALPA Secretary General Brian Strutton. "It is time to return to the negotiating table and make a serious proposal to end this dispute," he added.

## > Emirates withdraws A380s from service and will still wait to finalize its other orders

(source Le Journal de l'Aviation) September 5 - The **time for unbridled growth at Emirates has definitely passed**. The company's general manager, Tim Clark, explained at a conference in London on September 4 that its Airbus A380 fleet would now stabilize around 115 aircraft and that the withdrawal plan had begun. In addition, it indicated that it intended to wait until aircraft and engine manufacturers are able to supply their products with the promised availability before finalizing its other agreements (for 787, A330neo and A350).

**As far as the A380 fleet is concerned, the withdrawal of the oldest aircraft has already begun**. (...) They will be used to collect spare parts. (...)
Tim Clark also confirmed that he saw no way out of his devices in the

second-hand market. The fleet is expected to stabilize at around 115 aircraft and then fall to between 90 and 100 by the mid-2020s. (...) In parallel, the CEO of Emirates has expressed his dissatisfaction with the difficulties facing engine manufacturers at this time, aiming to postpone the 777X program and the problems of Rolls-Royce. (...)
However, **Emirates is also going through a difficult period. "We are not in a good position but we will get through this,**" he said. Fiscal 2018 was a difficult year for the company, which saw its net income decline by 69%. However, the trend continues. **Tim Clark continues to see signs of slowing demand and growth**, due to trade tensions between China and the United States, but also to the political climate in some regions (Hong Kong, Europe) and environmental concerns. These difficulties, which he assesses more structural than in the past, seem to persist and **Tim Clark does not see growth accelerating for three to five years.** (...)

***My comment:*** *The statement by Emirates' CEO reinforces my feeling that global air transport is going through a delicate phase. With the exception of the United States, most airlines have posted lower results since the beginning of the year.*

*If it were confirmed that environmental concerns are among the reasons for the slowdown in activity, it would be worth asking: will customers return as many times as before, or will the feeling of "shame of flying" limit the prospects for a recovery?*

## > Safran resists the Boeing 737 MAX crisis

(source Challenges) September 5 - (...) The 737 MAX crisis has left Safran in awe. **Despite the flight ban on Boeing's single-aisle aircraft, whose engine the French group is designing with GE, the French champion presented more than solid half-yearly results** on **Thursday, September 5.** Turnover? It jumped 14.2% organically to €12.1 billion. The operating margin? It reached 15.6%, one point higher than in the first half of 2018 (14.6%), peaking at 20.8% in the propulsion branch (engines). **The group has even raised its 2019 earnings forecasts. It now forecasts a** 15% increase in revenue, compared to the 7 to 9% initially forecast, and **a 20% increase in operating income, compared to the 10 to 12% previously forecast.**

Oh, my God. Would Safran be totally impervious to the difficulties of the 737 MAX, whose Leap 1-B
engines it designs in partnership with GE? Not quite. The **French group indicates that the MAX's immobilisation has already deprived it of**

**200 million euros of cash**. "Each additional quarter will cost around 300 million cash," said CFO Bernard Delpit. Why? Why? Since Boeing cannot deliver its aircraft to airlines, they withhold the cash they have to pay to engine manufacturers. The good news is that this situation is only temporary. The money will reach the Safran crates as soon as the MAX deliveries resume. "It's **not a loss of cash, it's just cash being pushed to the right,**" says Managing Director Philippe Petitcolin.
**Safran can therefore look to the future with confidence. The group has confirmed its forecast of 1,800 Leap engines produced in 2019**, which puts it in an ideal position to achieve its major objective, the 2,000 Leap engines assembled in 2020. The Paris Air Show last June added a little more to the order book: with 1,150 orders and purchase intentions announced at the show, **Safran now has nearly 16,000 Leap to deliver**. The aeronautical and defence equipment branch is also in good shape, with organic growth of 8.6%. Even the internal aircraft branch (seats, toilets, panelling, etc.), integrated as part of the acquisition of Zodiac Aerospace and which for a long time gave the group headaches, seems to be on the right track: its operating margin has risen from 3.3 to 5.2%.
Once again, **Safran is proving to be the most profitable of the French aeronautical and defence groups**. The group's operating margin reached 15.6%, well ahead of Thales (10%), Dassault Aviation (8.2%), Airbus (8.1%) or Naval Group (7.3%). This leadership can be explained in particular by the importance of Safran's ultra-efficient service and after-sales activities. These activities represent nearly 60% of the turnover of the engine branch. (...)

## > AF447 crash: outcry after the dismissal of Air France and Airbus

(source Air Journal) September 6 - **Tolle, indignation and anger are the reactions of the victims' families after the dismissal for Air France and Airbus, which was issued by the investigating judges in charge of the case of the crash of flight AF447 between Rio and Paris, caused the deaths of 228 people on June 1, 2009.**

"How can we not think that this decision is guided by economic interests superior to those of justice? ", denounces in a statement the main association of victims' relatives, AF447 Mutual aid and solidarity. She added that she would appeal an order "insulting the memory of the victims". (...)
**The lawyers for the civil parties have already announced their intention to appeal the dismissal to the** investigating division of the Paris Court of Appeal. "I have the feeling that we are trying by any

means to give the aeronautics industry a blank cheque, or to decriminalize this kind of disaster. We can't just give a cheque to families and then say goodbye. This dismissal is nonsense," Sébastien Busy, lawyer for the association Entraide et solidarité AF447 and the Fédération nationale des victimes d'attentats et d'accidents collectifs (Fenvac), told the newspaper Le Parisien.
By clearing Air France and Airbus through customs with a dismissal, the **investigating judges attributed the cause of the crash of Airbus A330-200 flight AF447 to the crew's "manual piloting"**, then composed of a captain and two co-pilots: "The direct cause of the accident was the crew's loss of control of the aircraft's trajectory, which caused the aircraft to stall on a downward path until impact. This loss of control is the result of inappropriate actions in manual control [...]" .

**A conclusion that caused the SNPL, the National Union of Airline Pilots, to jump to conclusions, considering this dismissal as "unbearable and scandalous" for both companies**. The SNPL considers that an "accumulation of charges" has been "highlighted throughout the investigation against both Airbus and the other parties involved". "We will make further comments as soon as we are aware of the "reasons for this order," says Vincent Gilles, Vice-President of the SNPL, who also announces that his union, "as a civil party, will appeal this order. For the time being, Air France and Airbus have not officially reacted to the investigating judges' order in their favour.

***My comment:*** *I understand the reactions of the victims' families. They hoped during a trial to hear explanations from Airbus and Air France on the circumstances of the accident.*

# *Special low-cost companies*

## > Poitiers airport pays more than 912,000 euros per year to Ryanair

(source La Nouvelle République) 7 September - (...) Last month, the **European Commission ordered the Irish low-cost airline Ryanair to repay €8.5 million of public money** received between 2010 and 2017 under marketing services contracts concluded at Montpellier airport. For the Commissioner in charge of competition, these contracts did not correspond to real marketing needs but only served as an incentive for Ryanair to maintain its activities locally.
This is not an isolated case. **While prosecutions are rare, the practice is almost widespread. In Poitiers, the airport operating syndicate**

**has been paying more than 912,000 euros per year to a subsidiary of Ryanair since 2014 under** a marketing service contract providing for advertising on the company's website, representing 40% of the local authorities' annual contributions to the mixed syndicate.
As an implicit counterpart, Ryanair offers several flights a week to London all year round and to Manchester to replace Edinburgh in the summer.
Since 2014, the guidelines adopted by the European Commission have authorised start-up aid. They also tolerate direct or indirect aid to companies provided that the operation of the lines is profitable. Until now, this has not been the case for the lines operated by Ryanair in Poitiers. (...)

## > Volotea: 100 000 plane tickets from 9€ to travel until November 2019

(source Kelbillet) 3 September - Until 5 September 2019 inclusive, **the low-cost airline Volotea has 100,000 flight tickets from €9 to travel from 14 French airports**. These discounted airline tickets are available for travel until November 2019. (...)

## > Ryanair offers new flights from Toulouse... and tickets for less than 10 euros!

(source Actu fr) 6 September - Ryanair, the Irish low-cost airline, announced its intention to strengthen its presence at Toulouse-Blagnac airport in February 2019. New lines were put into service on Tuesday, September 3, 2019. And for the occasion, **Ryanair offers tickets at 9.99 euros** (one way) on some of its flights. (...)

***My comment:*** *Intrigued by these unbeatable offers, I was able to check their accuracy. But I went from surprise to surprise.*

*For the first offer, at 9 euros, I received the detail that shows a negative rate (excluding taxes)!*
*Rate -19.86€ Taxes 28.61€ Processing fee 0.25€ Total 9.00€*

*The second offer does not detail the price, as required by European Directive 1008/2008 (In addition to the indication of the final price, at least the following elements are specified: (a) passenger fare or freight fare; (b) taxes; (c) airport charges; and (d) other charges, supplements or fees, such as those related to security or fuel).*

*How do these companies manage to offer such rates? By receiving* *subsidies from local authorities estimated at twenty euros per passenger (in Montpellier or Poitiers for example).*

*I intend to refer the matter to the DGCCRF (Direction Générale de la Concurrence, de la Consommation et de la Répression des Fraudes) in order to know its position. I will keep you informed of the follow-up.*

## *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 September 9, the consultation had collected 724,000 signatures, or 15.35% of the required signatures.

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

**The Air France-KLM share price was €8.92 at the end of Monday 9 September. It is down by 12.85%, for the** reasons given in the second article of this letter (*Air France-KLM's warning on the level of summer bookings seals the price*).

**The average (consensus) of analysts for the AF-KLM share is 10.79 euros.**

**The barrel of Brent oil** (North Sea) **is up from $5 to $63.**

**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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