



I Letter from the Director Air France-KLM

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The Press Review on Monday...

> The major projects of the new Air France boss

(source Les Échos) April 2 - Three months after her appointment as Air France's CEO, Anne Rigail is beginning to emerge from the shadow of Benjamin Smith. While the Canadian boss of Air France-KLM has led the way, restoring social dialogue within the French airline and setting the course, it is now up to his new CEO to achieve the most difficult task: to **make Air France as efficient and profitable as his Dutch cousin KLM.**

This is an ambitious objective to say the least. (...) The French company remains penalized by significant additional social and tax costs. Only its long-haul network is profitable and its profits are not sufficient to cover the losses of short- and medium-haul flights. **"To finance our aircraft purchases and future investments, we need to improve our margin.** It is also necessary to protect us from a market downturn," Anne Rigail (...) explained to Les Échos.

Three major projects are on the horizon. The first is simplification. (...) The second is the reduction of structural costs (...). The third is the domestic market, which lost 185 million euros in 2018. "Strategic for Air France, it must be brought back to balance" (...).

Anne Rigail believes that she should not go through yet another savings plan. **"We have enough room for improvement in our working methods to avoid touching the social contract,"** she says. (...)

In order to improve efficiency, **Anne Rigail is also focusing on fleet optimization,** reducing the number of aircraft models in service, but also and above all, **refining the configuration of the cabins in order to optimize the recipe.** (...) "The most important thing is the revenue per seat, knowing that overall, a business seat is worth three eco seats and a Premium eco seat is worth 1.5 eco seats," she explains. (...)

My comment: Make Air France as profitable as KLM, why not. But a significant part of the productivity gap between the two companies comes from factors outside the French company. This should be taken into account and Air France employees should not be asked to make an extra effort to absorb this share.

> For Air France, El Dorado is always America

(source Le Monde) April 5 - (...) **Anne Rigail** (...) **first seeks to strengthen the joint venture, which associates Air France-KLM with the American Delta Airlines for the North Atlantic.** It must be said that this joint venture (JV) has a significant impact on the accounts of both companies, with an annual turnover of €11.6 billion. It alone represents more than 20% of Air France-KLM's revenue. This weight is expected to increase further with the opening of a new route to Dallas, Texas, since March 31. (...)

This new route (...) completes the cooperation agreement between Air France and the Indian company Jet Airways. "The **joint venture with Jet Airways is working very well between Europe and India. The partnership is so positive that we will do everything we can to support[the Indian company],**" Rigail said. For Air France, the partnership with the Indian airline is advantageous, thanks to "reverse seasonality". Unlike most passengers, those from the subcontinent come to the United States on the counter-cycle, especially in winter, while the peak season for Air France-KLM is in summer. (...)

To regain its position among the world's leading airlines, an ambition set by Benjamin Smith, CEO of Air France-KLM, **Air France will invest €1 billion over five years, including €600 million between 2019 and 2020,** Anne Rigail said. (...) The airline will modernize the cabins of its 15 A330s for 140 million euros. (...) The twelve Boeing 777s bound for the West Indies (...) will benefit from an envelope of 125 million euros for their interior. The seven A380s will be given a facelift "in autumn 2020" (...) for (...) 220 million euros. Finally, as of this year, 100 million euros have been allocated to the installation of Wi-Fi on all long-haul aircraft in the Air France fleet (...), 60% of which will be equipped by the end of the year.

My comment: Anne Rigail details here only part of the investments that Air France plans to make in 2019 and 2020. It will be up to the Air France-KLM Board of Directors to decide on the entire investment plan, in particular concerning possible aircraft purchases.

> Air France: traffic up 2.8% in March

(source Déplacements Pros) April 8 - **Air France-KLM announces a 2.8% increase in total passenger traffic for the month of March, with capacity up 3.1%, resulting in a load factor down 0.3 points to 87.6%**

In retail, Air France, KLM and HOP! recorded a 1.9% increase, including a 2.9% increase in short- and medium-haul flights, while Transavia's low-cost business increased by 12%.

My comment: In March 2019, Transavia grew by 12%, Air France by 5.2%.

KLM decreased by 2.4%, due to bad weather conditions at Schiphol and operational disruptions due to technical problems.

> **AFI KLM E&M ultra-densifies three Boeing 777s for AerCap**

(source Journal de l'Aviation) April 4 - **Air France Industries KLM Engineering & Maintenance (AFI KLM E&M) is carrying out a major project to modify and reconfigure three 777-300ERs for the AerCap lessor. The aim is to increase the cabin capacity of the three aircraft to 531 seats**, which is a world record for Boeing's aircraft. This ultra-densification is accompanied by the implementation of Safran Aerosystems' RAVE in-flight entertainment system (formerly Zodiac Inflight Innovations).

(...) This unprecedented development is characterized by the establishment of four distinct zones for the economic class. The Italian equipment manufacturer Geven was chosen to supply the economic seats, with its Steezy model (...).

In addition to this reconfiguration, one of the major challenges of the project was the installation of the RAVE video-on-demand system, which had never been done on this type of equipment or **in such volumes**. AFI KLM E&M therefore had to adapt the IFE system to the architecture of the 777-300ER (...).

(...) The first aircraft was delivered to Russia on March 12 (...). Previously leased by Emirates, the three 777-300ERs will now be operated by Russian airline Azur Air for international charter flights. (...)

My comment: Thanks to their extensive experience with the B777s, the AFI KLM E&M teams successfully completed this tailor-made project to increase the density of AerCap's aircraft to a record level.

> **Transavia: 9.3% increase in supply for the summer of 2019**

(source Business travel) April 2 - **Transavia**, the low-cost subsidiary of Air France-KLM, **will increase its offer** by 9.3% this summer. In detail, **from the Netherlands, the Group's low-cost airline will increase its flight offer by 4.5% compared to +16% from France.**

Transavia will develop its network from all its bases in France (Orly, Lyon, Nantes) and the Netherlands (Amsterdam, Rotterdam, Eindhoven) with a total of 28 new routes.

> **IAG Group: +5.7% in March**

(source Air Journal) April 8 - The International Airlines Group (**IAG**), comprising British Airways, Iberia, Aer Lingus, Vueling and Level, **welcomed 9.161 million passengers last month, traffic up 5.7% compared to March 2018.** (...) In the freight sector, the group recorded a 3.0% increase in CTK (cargo tonne-kilometre) traffic in March.

Over the first three months of the year, IAG welcomed 24.382 million passengers (+6.2%), with an average load factor of 80.7% (+0.2 percentage points).

***My comment:** IAG recorded higher growth in March than Air France-KLM. However, IAG aircraft were less crowded than those of Air France-KLM, with the Anglo-Spanish Group recording a load factor of 80.7% compared with 87.6% for Air France-KLM.*

> **Ryanair: Marseille base and traffic up 9%.**

(source Air Journal) April 3 - **The low-cost airline Ryanair inaugurated its new base in Marseille, nearly nine years after closing it.** Eleven new routes are scheduled for this summer, out of a total of 40 routes. Its overall passenger traffic increased by 9% last month compared to March 2018.

Two Boeing 737-800s with 189 seats have been based since 2 April 2019 at Marseille-Provence airport, its **first base in France, pending the opening of those in Bordeaux and Toulouse.** Sixty "new Ryanair jobs" are being created, she announced yesterday, while last September she mentioned 125 jobs under French law (with social security contributions paid in France); the total investment should reach 200 million dollars (...).

Over the last twelve months in terms of rolling traffic, Ryanair's traffic increased by 9% to 142.1 million passengers, with an average load factor of 94%.

***My comment:** Ryanair has opened two bases in succession. The first one on April 2 in Marseille, the second the next day in Bordeaux. The Toulouse base is scheduled to open in October.*

Accused of hidden work between 2007 and 2010, the Irish low-cost airline was forced to close its Marseille base in 2011. She was then sentenced (in October 2014) by the Court of Appeal of Aix-en-Provence to a fine of 200,000 euros.

> **Qatar Airways will install the largest 3D printed part for a commercial aircraft**

(prime source3d) April 3 - German company **Diehl Aviation**, a specialist in cabin integration and avionics, **announces that it has delivered the largest 3D printed part for a commercial aircraft.** The component in question is a Curtain Comfort Header, a curtain rail that separates the seat classes, which can be up to 1.14 m

long. (...)

While qualification processes are particularly long and costly (...), **airlines and manufacturers have understood the competitive advantage of this technology**, whether in terms of geometric freedom, lighter parts or shorter production times. (...)

We learn that the component was **originally** manufactured according to (...) a tedious process that required the use of specialized and complex aluminum tools. Therefore, **adding functions to the module**, such as integrating cable channels or signalling for emergency exits, **was an additional difficulty**.

The use of 3D printing has made it possible to integrate its functions directly into the part. The 12 parts that make it up simply need to be glued together to be assembled. **The other advantage of these 3D printed parts is that they require less rework and can be easily removed for repairs or replacements.** (...)

***My comment:** 3D printing, also known as additive manufacturing, makes it possible to produce layer by layer, instead of using a block of material. As a result, the parts are lighter, which leads to a reduction in fuel consumption.*

For example, Airbus prints more than 1,000 parts in 3D for its A350 XWB.

> **Boeing in front of Pandora's box of 737 MAX**

(source Les Échos) April 5 - The week that is coming to an end will once again have been disastrous for **Boeing**, whose attempts to close Pandora's box opened by the Ethiopian Airlines crash have been in vain. On Friday evening, the group **announced that it was reducing the production of its 737 MAX aircraft by nearly 20%**. Production will increase from 52 units per month to 42. The manufacturer faces a serious logistical problem due to the accumulation of aircraft leaving the assembly lines that it can no longer deliver due to the lack of a flight permit.

Secondly, contrary to what it hoped, **Boeing failed to present to the US civil aviation authorities the modifications to the 737 MAX flight system** presented to its customers last week. According to the Washington Post, **this delay is the result of the discovery of another flaw in the 737 MAX flight system software**, which would require additional updating.

Finally, Boeing had to deal with the publication last Thursday of the preliminary investigation report into the Ethiopian Airlines crash, which clearly blames the disaster on a failure of the MCAS stall protection system, already pointed to in the Lion Air crash five months earlier. (...) For the first time, **Boeing CEO Dennis Muilenburg himself had to acknowledge the link between the two accidents on Friday, which killed a total of 346 people.**

Despite this admission, Boeing's CEO is nevertheless confident "about the fundamental safety of the 737 MAX" and even seems to be considering a resumption of flights in the coming weeks, once the software update has been

completed. **"We are in the process of finalizing it and plan to certify and implement it on the global fleet of 737 MAX in the coming weeks,"** says Dennis Muilenburg. (...)

Nothing is less certain (...) It is unlikely that the American civil aviation industry, which is already the subject of several investigations concerning the certification procedures for the 737 MAX, will simply certify the software update without carrying out extensive flight tests. The **FAA has already announced that it will not decide alone, but that it will seek as much as possible a collective decision, with the civil aviation of the countries concerned. This may delay decision-making and the outcome of the crisis.**

***My comment:** The return to service of the 370 B737 MAX could be delayed.*

Some of the airlines with the most flights, American Airlines and Air Canada, have already announced flight cancellations for the coming months.

Others like Norwegian are looking to lease aircraft to replace their B737 Maxs, while asking Boeing for financial compensation.

> **Istanbul: The big move begins**

(source Le Journal de l'Aviation) 2 April - (...) **On (...) 6 April** at 2 a.m. (...) **the new Istanbul Airport (...) will definitively replace the famous Atatürk platform,** opened in 1953 and **completely saturated in recent years with its 65 million annual passengers.**

This new platform can already be described as an airport of excess, **with an initial capacity of 90 million passengers,** i.e. practically the traffic of Dubai International Airport today...

But more than a move, it **is above all Turkish Airlines that will finally be able to benefit from a hub that meets its ambitions.** The Turkish airline already holds the record for the number of countries covered in the world and its seat capacity will very soon exceed that of Lufthansa, adopting a more measured strategy, but not dissimilar to that of Emirates or Qatar Airways. As we have understood, in **addition to becoming a powerful competitor for European airlines** on the markets linking Asia and Europe or Asia and the Americas, **Turkish Airlines will very naturally also become the real beast of the Gulf airlines.** Because by 2025, the new Istanbul airport will simply be one of the largest in the world, with five runways and a capacity of 120 million passengers per year. And Turkish Airlines has already warned: its fleet will also almost double in size within six years.

This major move may finally also be the starting point for a major upheaval...

My comment: *The geographical location of Turkish Airlines' hub is ideal for connecting Europe to South-East Asia, East Africa and the Indian Ocean.*

Unlike Gulf airlines, Turkish Airlines can supply its hub with A320 or B737 family aircraft. It can also use them for most of the destinations it serves in Africa and Asia. Overall, Turkish Airlines covers 75% of its international destinations with these aircraft.

The new Istanbul airport will allow Turkish Airlines to continue its development. A situation she had anticipated since she is the company with the most aircraft in order (208), after the four major American companies.

This makes Turkish Airlines a very serious competitor for European airlines and Gulf airlines.

> **ADP proposes a colossal investment plan for Roissy and Orly**

(source La Tribune) April 2 - (...) **On Tuesday, April 2, the management of the Paris airports manager unveiled its proposal for an economic regulation contract (CRE) to be signed next year with the State for the period 2021-2025.** The publication by ADP of the public consultation file launches the formal opening of the process of drafting this fourth economic regulation contract. (...)

ADP's management (...) plans (...) a colossal investment of 6 billion euros between 2021 and 2025. An amount he describes as "exceptional". He is. This is indeed a record.

Since the first five-year RCE in place in 2006 (...), no other RCE had provided for such an envelope. The first (2006-2010) absorbed €2.5 billion, the second (2011-2015) €1.9 billion and the third, the current one, €3 billion.

(...) For the long term (...) **"it lays the foundations for Orly's growth** while respecting the ceiling of 250,000 movements per year and the curfew at 11:30 p.m.", **and plans, "a major investment of 1.6 billion euros for the future terminal 4" planned for 2028.**

In the medium term, ADP plans to invest €1.2 billion in the growth of capacity at Roissy, Orly and Le Bourget (a new boarding lounge is planned at Roissy and Orly in particular), €1.5 billion in maintenance (runway renovation, bridge changes, etc.) and €925 million to improve road access to Roissy airport and prepare for the future terminal 4. In the short term, 180 million euros are planned to invest in new technologies to improve the customer experience at the airport.

Out of this €6 billion envelope, the **€1.6 billion investment planned for Terminal 4 is financed by ADP's "outperformance during the current CRE"**, explained Edward Arkwright. (...)

Consequently, the fees charged to airlines that finance investments are calculated on a total investment of €4.4 billion.

ADP provides for a maximum royalty increase of 1.35% (excluding inflation) per year during the period of the CRE4. The manager of Paris airports proposes, in particular, to introduce **a tariff modulation based on NOx (nitrogen oxides) emissions and to increase the one relating to noise (...)**.

Over the next 45 days, all stakeholders will be able to comment on this proposal. (...) In a letter sent to ADP on 27 March that La Tribune acquired, the various airline associations (Iata, Fnam, Scara, BAR, COSTA, EBAA, CSAE, AOC,) as well as FedEx and Easyjet, denounced the "approach adopted".

"This timing and haste seems unreasonable to us (...)," say the **carriers. In particular, they would have liked to wait for the results of the audit commissioned by the Ministry of Transport on the allocation of assets and expenses in the regulated area and the conclusions of the debate on the construction of Terminal 4.** Two elements, according to them, that may impact the elements of the file for consultation with ADP.

***My comment:** Aéroports de Paris is anticipating the presentation of its 2021-2025 investment plan by one year. This approach improves the attractiveness of the ADP Group in the event of a forthcoming sale of the French government's shares.*

> **The Chinese conglomerate HNA sells Gategroup**

(source Le Figaro with AFP) April 1 - **The Chinese conglomerate HNA**, under strong pressure from Beijing, **will sell the Swiss** air transport onboard service provider **Gategroup** to the investment fund RRJ Capital in a transaction that is expected to increase the value of Gategroup to €2.5 billion. HNA, a diversified group whose activities range from tourism to finance, will sell "100% of Gategroup" **to the Hong Kong-based investment fund RRJ Capital**, Gategroup Holding said in a statement on its website (...).

***My comment:** The change of ownership of Gategroup, a 49.9% shareholder of Servair, is not such as to call into question the commitments entered into with Air France.*

> **Ryanair, Easyjet... these airlines that pollute more than coal-fired power plants**

(source Le Parisien) April 2 - This is a first (...). **Ryanair has made its way into the Top 10 of the largest CO2 emitters in Europe, which until now has been exclusively composed of coal-fired power plants.** It ranks ninth in this ranking by the NGO Transport & Environment (T&E), based on annual data from the European Union.

(...) "Ryanair is the new coalsmith!" says Andrew Murphy, T & E's director of aviation at T & E. According to the calculations of his association, airline carbon emissions increased by 4.9% overall in Europe last year, while the trend is rather downward across all sectors. Looking back over the last five years, it is worse:

carbon pollution from air traffic in Europe has increased by 26.3%, far exceeding all other modes of transport.

(...) Yet the **Irish low-cost**

fleet is among the most modern, with the lowest fuel consumption. But the volume of aircraft and flights is such that it is by **far the leading airline in the ranking**.

Among them, EasyJet comes second, with a release equivalent to about 16% of what polluter number 1 emits with its large 300-metre chimneys. Lufthansa is in third place in the ranking of issuing companies and British Airways in fourth place. Each one pollutes more than power plants such as EDF's in Cordemais (Loire-Atlantique) or Total's Normandy Refinery in Gonfreville-l'Orcher (Seine-Maritime).

KLM, Air France's Dutch partner, is in ninth place, while the French airline is very far from the Top 10. Overall, however, most companies have increased their CO2 emissions.

(...) Taxing kerosene is one of the solutions (...). But it's not that simple. France is bound by an international agreement, the 1944 Chicago Convention, which already prevents it from taxing international flights. To amend it, a unanimous vote of the 191 member states of the International Civil Aviation Organization (ICAO) is required...

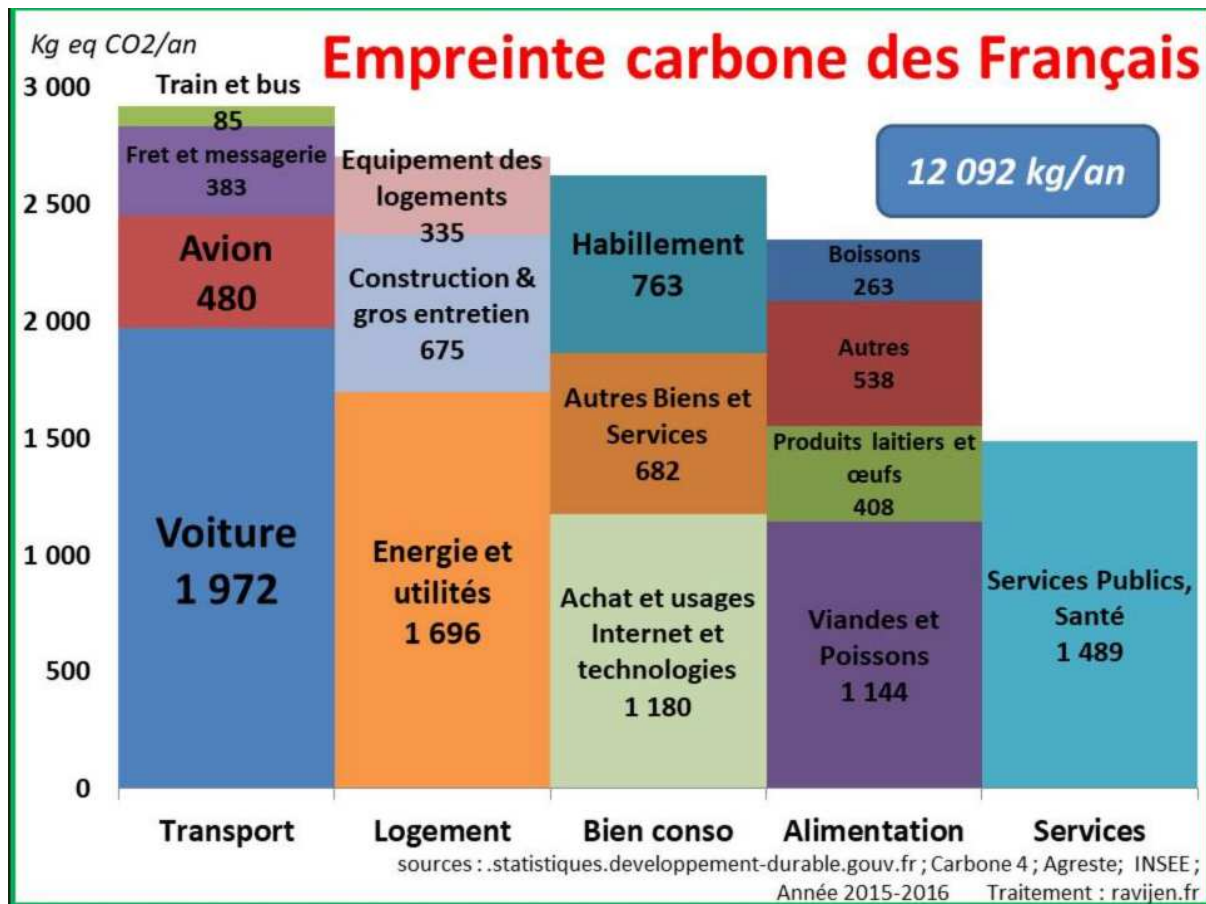
As for the Corsica

project, recently adopted by the International Civil Aviation Organization, "governments are pursuing a controversial aviation compensation program that will allow aviation emissions to continue to increase," says Andrew Murphy.

Companies can now buy "offsets" to continue emitting carbon dioxide, by investing in environmental projects to match their pollution. However, according to the expert, these projects are not always viable in the long term and this is no more or less than granting airlines a "right to pollute".

***My comment:** It is possible to dispute this or that point in the article, or to point out that air transport is responsible for only 2.5% of CO2 emissions. But it is undeniable that in recent months airlines have been the target of many criticisms about the future increase in their CO2 production.*

The airline industry as a whole, airlines, airports and manufacturers, would do well to communicate clearly on how it intends to reduce its carbon footprint. It could thus serve as a model for all sectors producing CO2.



End of the press review

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

The Air France-KLM share is at €10.66 at the end of Monday, April 8. It is up 6.55%.

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

The barrel of Brent oil (North Sea) is up from \$3 to \$71, at its highest level in 6 months. Oil prices continue to rise, driven by lower production in Opep 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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