



I Letter from the Director Air France-KLM

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

No. 709, June 24, 2019

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The Press Review on Monday...

> **Air France KLM and Accor strengthen their partnership by linking their loyalty programs**

(source Agefi-Dow Jones) June 20 - **The airline Air France-KLM and the hotel group Accor announced on Thursday to strengthen their partnership** by launching a dual reward system for the members of their respective loyalty programs.

Members of Air France-KLM's Flying Blue frequent flyer programmes and Accor AccorHotels Club can now earn Miles+Points each time they fly on flights operated by Air France or KLM or stay in an Accor group hotel.

"This partnership offers more opportunities to earn points or miles and more flexibility to use them. It allows the Air France-KLM and Accor groups to reward their members at different stages of their travels," the two companies said in a joint press release.

Just over a year ago, Accor announced its intention to acquire a stake in Air France-KLM, with a view to developing joint digital projects or a common customer loyalty platform.

My comment: In June 2018, the Accor Group announced its intention to buy 14% of Air France-KLM's share capital. He felt that discussions for a data-sharing agreement between the two companies had been going on

for years but that nothing had ever really worked.

One year later, the two French groups reached an agreement to strengthen their partnership. Without having recourse to an equity investment.

> Embraer: KLM Cityhopper plans to order 15 E195-E2 and sets an option for 20 others

(source Agefi-Dow Jones) June 19 - The regional airline **KLM Cityhopper, a subsidiary of Air France-KLM, plans to order 15 E195-E2 aircraft and has placed an option for 20 additional aircraft**, Brazilian aircraft manufacturer Embraer announced Wednesday.

KLM Cityhopper

's letter of intent to purchase, which still requires the signature of a purchase contract, covers a total amount of \$2.48 billion at current list prices, the manufacturer said in a statement.

My comment: The Embraer E195-2 can carry 136 passengers, much more than the 100 seats of the E190 and 88 seats of the E175 operated by KLM Cityhopper.

By increasing the average capacity of its aircraft in this way, KLM's subsidiary will be able to grow despite the saturation of Schiphol airport.

> Air France Hop: which lines could be amputated?

(source TourMaG) June 20 - As we have known for a few weeks, **Air France's domestic network will decrease**. But this restructuring of the group's short-haul activities (Air France and Hop) will not be limited to the simple voluntary redundancy plan announced in May and covering 465 jobs.

This is what we learn from an internal document from management (...): "the situation from point to point requires **an ambitious action plan**".

The latter thus **foresees a 15% reduction in short-haul activities between 2018 and 2021**, with loss-making lines closed from Orly: Lorient, Agen and Quimper. Other lines (...) will have their frequencies reduced.

Cross-country roads, from province to province, will also be affected, and some "structurally loss-making" lines will be stopped, such as Nantes - Montpellier or Strasbourg - Lille. (...)

While the operating code and the Hop brand will disappear next fall, its fleet will also be considerably simplified and reduced, with the release of the ATR and Embraer 145.

"This exit will allow the rationalization of the fleet with 2 cockpits as a target (E190/170 and CRJ 1000/700) and the refocusing on the 70/100 seat market", it is specified by the management. By 2021, the current Hop fleet will have only 51 aircraft left.

While the short-haul point has an operating result of -96 million euros in 2017, and -189 million euros in 2018, the **causes of its introduction into the dry regime are well known: the combined competition from low-cost airlines**, which have all made France a priority market and are gradually gaining market share, **especially from the TGV**.

"Since the opening of the LGV Ouest in 2017, only the far south has remained more than 3 hours from Paris. The development of low-cost Ouigo

TGVs will further increase the pressure on air traffic," the **presentation said, referring to a 45% loss of traffic in Marseille** since the Phocaean city was 3 hours from Paris in 2001, **and a 42% loss in Bordeaux** since the opening of the LGV in 2017. (...)

***My comment:** When a low-cost company competes with HOP!, Air France's subsidiary is not able to resist. The size of its aircraft, limited to 100 seats by agreements within Air France, results in costs that are disproportionate to those of new entrants. HOP! is not a low-cost company, far from it.*

Only Transavia France could compete with easyJet, Vueling or Volotea. The agreements concluded when Transavia France was created do not allow this. They prohibit Transavia from operating routes previously operated by the Air France Group.

> Bourget 2019 : Latécoère presents LIFI in collaboration with Air France

(source Air et Cosmos) June 21 - **LIFI (Light Fidelity) is a wireless communication technology based on light waves**, which significantly increases the available bandwidth (...) which is developing more and more and is presented at the Paris Air Show by Latécoère, in collaboration with Air France.

"We have been developing LIFI for the past 2 years, in collaboration with AFI and the start-up company Oled, which developed the modem. With this system, there is just a need for a transmitter modem, relayed by optical fiber that connects light-emitting lenses placed above the seat, and receiving lenses that are placed in the head of the seat and send back to a receiver modem," explains Serge Bérenger, Director of Innovation and R&T at Latécoère. "As long as you are in the light cone,

the connection is optimal. The very big advantage is to have individual access to bandwidth, unlike wifi where passengers have to share access. The connection is therefore about 100 times faster (100 Mb/s) than traditional wifi, and at the end of the year, we should be able to offer 1 Gb per second," explains Serge Bérenger.

"LIFI technology is very interesting because, thanks to optical fibre, **it saves significant wiring costs**. It is also installed for the entire life of the aircraft, approximately 30 years, which greatly reduces maintenance costs. This is therefore of interest to all actors in the air transport sector: companies, MRO actors, WEI suppliers, etc. The fact that the system is based on optical fibre and lenses, without electronics, means that there is **no need for very complex certification**. Finally, with this technology, there is no electromagnetic wave radiation, which does not create any nuisance for people.

***My comment:** If LIFI technology delivers on its promise quickly, it will replace wifi and challenge its deployment on board Air France aircraft.*

> **Qatar Airways voted best airline in the world!**

(source Boursier com) June 20 - Ahead of Singapore Airlines last year, the Doha-based carrier was once again voted best airline in the world at the 2019 World Airline Awards presented by Skytrax...

(...) **Qatar Airways is ahead of Singapore Airlines and All Nippon Airways**. A reference in the sector, this ranking is highly anticipated each year by specialists in the aviation sector.

The 'TOP5' is completed by Cathay Pacific Airways and Emirates. You have to go down to 9th place to find a trace of a European company, in this case Lufthansa. **As for Air France, it gained two places over a year, in 23rd position (KLM is 18th).**

Singapore Airlines was rewarded for its first class. The Asian group is ahead of Lufthansa and Air France. Qatar Airways received the award for best business class. ANA and Singapore Airlines complete the podium. Virgin Atlantic dominates the ranking of the best premium eco class, ahead of Singapore Airlines and Air New Zealand. Finally, Japan Airlines was awarded the prize for the best economy class, ahead of Singapore Airlines and Qatar Airways. It should be noted that Philippine Airlines received the Most Improved Airlines award, ahead of British Airways and Malaysian Airlines.

For low-cost carriers, AirAsia was once again recognized. The Malaysian company is ahead of easyJet and Norwegian. Ryanair is 9th

and Vueling Airlines 15th....

My comment: Skytrax's different rankings, which can be consulted on its website, give a lot of importance to Asian companies. Air France and KLM appear in nearly half of the rankings:

Best seat in business class in Europe: 1st Air France

Best Premium Economy

Catering: 9th Air France

Best Catering in Business Lounge: 9th Air France

Best Aircraft Cabin Cleanliness in the World: 15th KLM

Best In-Flight Entertainment in the World: 17th KLM, 21st Air France

Best Airline Personnel in Europe: 6th KLM, 8th Air France

It should be noted that in the alliance ranking, Star is ahead of Oneworld and SkyTeam.

> Delta takes shares in Korean Air, strengthening its owners

(source AFP) June 21 - The American airline Delta Airlines has bought shares in the parent company of Korean Air, allowing the family that owns the company to strengthen its position against funds from activist shareholders.

Delta acquired a 4.3% stake in Hanjin KAL, the carrier said on Thursday, adding that it could increase its shares to 10% "after receiving regulatory approval".

This acquisition comes one year after the two airlines launched a joint venture, which gives them access to nearly 300 destinations in the United States and 80 in Asia.

Delta Airlines' acquisition of shares is good news for Hanjin KAL's new president, Walter Cho, who **will allow him to "defend his management rights against any attack by activist hedge funds,"** said a Korean Air official, quoted by the South Korean news agency Yonhap.

Walter Cho took control of Hanjin KAL in April, succeeding his father Cho Yang-ho, who was dismissed from the board of directors by shareholders on corruption charges just days before his death.

Among these activist funds, Korea Corporate Governance Improvement (KCGI), which holds a nearly 16% stake in the company, requires higher returns and **more transparency.**

His announcement caused Hanjin KAL

's share price to fall by 15% on Friday. The share of Korean Air, the

South Korean national airline, also lost 2.6%.

My comment: *Until now, Delta Airlines has been investing in airlines to consolidate its business partnerships.*

By investing in Korean Air's parent company, the North American airline seems to be supporting the management of the South Korean company, which is at the heart of a family governance battle.

> **Wizz Air launches into long-haul flight**

(source Déplacements Pros) June 20 - The low-cost airline has announced that it wishes to launch flights of more than 8 hours. She has already placed an order for 20 A321XLR.

New devices that it should receive from 2023 over a period of 3 years.

"The **A321XLR is the most competitive aircraft and will allow Wizz Air to** expand its network and connect sites that are beyond our reach today due to the aircraft's greater range. Today we offer some 5 or 6 hour routes that delight our passengers and the XLR will allow us **to offer our services on 7 to 8 hour routes,**" said Jozsef Varadi, CEO of Wizz Air.

While low-cost airlines are struggling to make their long-haul routes profitable, Wizz Air reached a turnover of €2.3 billion in 2018, including €291.6 million in profits. (...)

My comment: *Wizz Air's good financial situation makes it one of the most successful companies in the long-haul, low-cost sector.*

> **Jet Airways: bankruptcy proceedings launched**

(source Air Journal) June 18 - Two months after the end of its operations in India and abroad, Jet Airways has not found a buyer. It is now facing bankruptcy proceedings.

Following the cessation of flights on 17 April 2019 after defaults on payments to aircraft rental companies and fuel suppliers, weighted by a debt of \$1.2 billion and failing to find a buyer, the private company that was once the first in India is facing justice...(...)

The bankruptcy proceedings will allow creditors - if the court allows it - to sell the private company's assets, including aircraft, airport slots, maintenance activity, etc.

Jet Airways' fleet would now have only six ATRs and one Boeing 737-800 compared to a maximum of 123 last December. It once employed more than 16,000 people, but most of its sailors have joined rival airlines, which have also picked up its slots at airports across the

country (until 15 July for the moment). Low-cost AirAsia India and the regular airline Vistara (both subsidiaries of the Tata Group) immediately jumped at the opportunity, especially at Mumbai Airport. (...)

My comment: *I had no illusions about the possibility of Jet Airways restarting its business. The Air France-KLM Group will have to find a new partner in India.*

> Bourget 2019 : Airbus closes its lounge with a new aircraft and orders for 383 aircraft

(source Journal de l'Aviation) June 21 - **Airbus had a good show**, even if Guillaume Faury, its president, recognized a rather special atmosphere this year, 737 MAX and environmental concerns require.

The **aircraft manufacturer has succeeded in meeting all the objectives it had set itself**, particularly in the commercial aviation sector: presenting the A220 at Le Bourget, launching the A321XLR and affirming the A330neo's place on the market. Only the A350 has moved into the background.

Christian Scherer, Airbus Sales Director, welcomed the success of the **A220**, which **recorded 95 commitments**. (...)

The A330neo could also expand its order book by twenty-four new aircraft, which will join the Cebu Pacific and Virgin Atlantic fleets if the contracts are confirmed.

But the **biggest source of satisfaction remains the launch of the A321XLR**. The aircraft recorded commitments for 249 aircraft from eleven customers - **137 new orders** and 112 conversions. "Look at the quality of customers and the extent of market penetration," Christian Scherer was pleased to note, pointing out that orders came from both low-cost and full service airlines and retailers and covered all regions of the world. JetBlue, American Airlines, Frontier, Wizz Air, Qantas, IAG or MEA, to name but a few, are ready to welcome the aircraft into their fleet from 2023.

The other success achieved by Airbus and presented during the show is the extent of conversions from A320neo family aircraft to larger models. (...) **At least 263 A320neo aircraft have been converted to A321neo**, most of them (253) by AirAsia. (...)

My comment: *Airbus successfully launched the A321XLR. It is a single-aisle vehicle capable of carrying up to 244 passengers (220 in a two-class version) over a distance of 8700 kilometres and with 30% lower kerosene consumption than current models.*

Airbus designed this evolution of the A321LR to compete with the future

Boeing 797 (NMA: New Middle Market Aircraft).

These two aircraft could be used by long-haul low-cost airlines or even by major airlines to serve secondary cities without going through hubs.

> **Bourget 2019: an atypical exhibition for Boeing**

(source Journal de l'Aviation) June 21 - "We said from the beginning that this would not be a usual exhibition for us. It wasn't," said Ihssane Mounir, Boeing Sales and Marketing SVP. With the aircraft manufacturer in the middle of the 737 MAX crisis, the time was not yet ripe for a celebration this week and the Commercial Aviation division was keeping a low profile (...). The contract announcements were contained, but the two agreements with Korean Air and IAG, to name but a few, gave the aircraft manufacturer a new lease of life. In total, six clients have signed commitments of approximately \$35 billion in value (excluding conversion contracts).

While in the **short term, emerging from the MAX crisis will remain Boeing's number one priority** - which must at the same time manage the problems of the 777X engine and the failures in the production of the KC-46 - the long-term prospects are brilliant. (...)

Boeing reiterated that it was very conscious that it would have to work hard to regain the trust of its customers. (...) Willie Walsh, President of the IAG Group (...) saved his salon by signing a letter of intent for up to 200,737 MAX 8 and 10, worth \$24 billion. However, this hand on the shoulder was not enough for Boeing to give an estimate of the MAX's return to service date or the evolution of production rates in the coming years. (...)

For long-haul aircraft, Boeing has revised the test program for its 777X to make as much progress as possible on testing the aircraft's systems until GE solves GE9X problems (premature wear of a compressor stator) - the new part design is being tested. The first flight of the aircraft is postponed but its entry into service remains planned for 2020. These difficulties do not affect Boeing's optimism about its future developments. (...)

Over twenty years, the commercial aviation market is estimated at 16 trillion dollars, divided between 6800 billion dollars for the acquisition of 44040 new aircraft - 44% to replace aircraft in service, 56% to increase the world fleet - **and 9100 billion services.** (...)

Not surprisingly, it is **still the single-aisle segment that is the most important**, both in terms of number of aircraft (32420) and value (3775 billion dollars). Boeing also forecasts a requirement for 8340 wide-body aircraft. **And it is still the Asia Pacific region that will drive growth.**

(...)

My comment: *Over the next 20 years, Boeing expects that 60% of commercial aviation revenue (€16 trillion) will be generated in services.*

In this market, which ranges from aircraft and engine maintenance to predictive maintenance, there are many operators. Manufacturers will be in competition with engine manufacturers and companies such as Lufthansa and Air France-KLM, world leaders in this sector.

> France is considering obliging airlines to use biofuels

(source La Tribune) June 21 - (...) The strengthening of the contribution of air transport to the fight against global warming will gradually result in an increase in the cost of French air transport. (...) The **Minister of Transport, Elisabeth Borne, is considering (...) obliging airlines to use a certain percentage of biofuels in kerosene for all flights from France.** (...)

The objective is twofold: the first is to accelerate the development of aeronautical biofuels. Elisabeth Borne intends to revise upwards the objectives of the roadmap drawn up so far, which was based on a biofuel incorporation rate in aviation of 2% in France in 2025 and 5% in 2030. (...)

The second objective is to create an aeronautical biofuels sector in France. (...)

Mandatory consumption would allow tankers to produce biofuels for aviation with the certainty that they will be purchased by airlines. And therefore to create a market that does not exist today. (...) Biofuels are indeed two to five times more expensive than kerosene.

With such an additional cost, this system is in fact similar to a tax but has the advantage of having a direct impact on the environment. This is better than yet another tax whose use of the revenue is unclear. (...)

While the **government** has rejected the idea of a tax on kerosene on domestic flights alone (...), it **has not given up on increasing taxation at European level.** While this will bring all European players on an equal footing, it will nevertheless increase the cost of air transport and will probably have a negative impact on traffic growth.

Rather than a tax on kerosene deemed too complex from an operational point of view, **Elisabeth Borne suggests the idea of a passenger tax based on the model of the Solidarity Tax or the British Air Passenger Duty.** Indeed (...) the Minister of Transport wants to be vigilant with regard to the differences in taxation of the air sector in Europe. (...)

Contrary to what the airlines want, the proceeds of this new tax should not be reinjected into air transport but rather, as will be the case for the surplus of the Solidarity Tax, into the financing of land transport: "Isn't investing in rail transport a contribution to the environment?" Élisabeth Borne answered the question concerning the use of the proceeds of this new tax. (...)

My comment: In the medium term, the development of aeronautical biofuels seems to be the best solution for air transport to reduce its carbon footprint.

Their use could reduce by half emissions of CO₂ (carbon dioxide, the main greenhouse gas, which contributes to global warming) and NO_x (these nitrogen oxides are harmful exhaust gases).

There is an urgent need for incentives to promote biofuel production. In 2011, the SWAFEA study coordinated by Onera already recommended this.

> Referendum Aéroports de Paris: how does citizen consultation work?

(source La nouvelle république) 19 June - The **consultation mechanism on the privatisation of the ADP group was opened on 13 June and will run until March 2020. To lead to a shared initiative referendum (RIP), it requires the signature of 4.7 million voters.**

Explanations.

The privatisation of part of the ADP Group (formerly Paris Airports) was definitively adopted by Parliament on 11 April.

However, nearly 248 socialist, communist (...) deputies and senators have launched a procedure to hold a referendum on a shared initiative (RIP) against the privatisation of ADP. A procedure introduced by the reform of the Constitution in 2008. (...)

On 13 June, a platform was therefore opened to collect signatures. It will be open until March 12, 2020.

The subject of the possible referendum: a draft law affirming the character of Paris airports as a "national public service" in order to prevent their privatisation.

How to participate?

On the Internet, the consultation is signed on the website www.referendum.interieur.interieur.gouv.fr

Far from online petitions where an email address and a click are enough

to register, this consultation requires more data. **You must provide yourself with an identity document (its unique number and date of issue will be requested)** and then inform the department and municipality in which you vote. It is also possible to vote "in the town hall, in an equivalent administrative district or at the consulate", via a form (Cerfa n°15264*02) to be printed. (...)

***My comment:** Many of you have asked me how to participate in this consultation.*

Attention: This article does not constitute an invitation to participate in the consultation.

Good to know: the list of signatories will be made public.

The Stock Market Press Review...

> Air: an analyst leads the sector

(source Boursier com) June 19 - Air France KLM is increasing its morning losses with a share that now yields more than 3.5% to 7.9 euros in Paris. In fact, the **entire airline sector is under pressure in Europe after a cautious rating from HSBC**. The **broker downgraded the Franco-Dutch group's share of 'buying' to 'hold' while reducing its target from €13.5 to €9** but also lowered its recommendation on Finnair, IAG and easyjet after Lufthansa's earnings warning. Trends in demand for long-haul and business travel will follow the weakness already visible in short-haul travel in Europe, according to the analyst. The **weakening of demand is mainly due to the decline in consumer confidence**. Many carriers will follow Lufthansa's warning, HSBC believes.

> Air France: sharp increase after Deutsche Bank's analysis

(source CercleFinance) June 21 - The share price ended up sharply (+2.4%) after Deutsche Bank's increase in opinion. **Deutsche Bank has raised its advice on the Air France-KLM share, previously a seller, to 'neutral'. Even if the associated target is reduced from 8 to 7.6 euros.** According to analysts, **the warning issued by Air France-KLM's German competitor (Lufthansa) was primarily due to overcapacity**

and fierce competition in Germany and Austria, not to mention that Lufthansa's management forecasts were considered 'overly optimistic'.

The consequences for other airlines, and in particular Air France-KLM, therefore seem limited, even if Deutsche Bank slightly reduces its forecasts due to recent traffic developments. The note also notes that Air France-KLM is the largest beneficiary of the recent drop in the price of kerosene.

My comment: *Analysts' comments differ on Air France-KLM, although both (HSBC and Deutsche Bank) agree to reduce their price targets.*

We will have to wait for the results of the 2nd and especially the 3rd quarter to know which one was right.

End of the press review

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

The Air France-KLM share price was 7.68 euros at the end of Monday, June 24. It is down by 2.61%. The Lufthansa earnings alert and HSBC's analysis (see above) are the main causes of this decline (-5.1% in two weeks).

The average (consensus) of analysts for the AF-KLM share drops to 10.47 euros. It fell by €0.30 following the deterioration of analysts.

The barrel of Brent oil (North Sea) is up from \$2 to \$64. For the past four weeks, the price of a barrel has been almost stable, around \$62.

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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