DeepL

Letter from the Director Air France-KLM

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

No. 712, 15 July 2019

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The Press Review on Monday...

> After the ecotax on airline tickets, the other measure that is being prepared for aviation

(source La Tribune) July 10 - Announced on Tuesday by Transport Minister Élisabeth Borne, the **project to introduce, as early as 2020, an ecotax of €1.5 to €18 on airline tickets departing from France has provoked the anger of French air carriers and airports**, all windward of this umpteenth aviation tax that is damaging their competitiveness. But they haven't finished complaining. This tax is only the beginning of a structural process of increasing air transport costs to increase the contribution of this sector (...).
Another measure is being **studied in France for 2021**, or even as early as 2020 according to some: **that of requiring airlines to incorporate a certain percentage of biofuels. Two to five times more expensive than kerosene, they will inevitably lead to higher air transport costs**. (...)

The Ministry of Ecological Transition explains that (...) "the government is still working to promote the incorporation of biofuels in the air to gradually achieve the objectives of 2% in 2025 and 5% in 2030".
However, in line with the objectives of the roadmap drawn up so far, these objectives are considered "insufficient" by Élisabeth Borne, who believes that the sector is ready to have a larger share". Not sure.... Given the prices of biofuels, airlines are afraid, on the contrary.

An obligation to incorporate would give a high priority to oil companies, they believe.

To this extent, described as "punitive", some companies are more in favour of an incentive mechanism, as is the case in Los Angeles or Amsterdam.
(...) **This ecotax and the additional cost generated by the use of biofuels will be added to the various contributions already in place to fight global warming** or already recorded for future implementation. As a reminder, **French airlines**, like their European competitors, are **already participating in the emissions trading system** imposed by Brussels in 2012 for intra-European flights. Derisory so far (5 to 7 euros per tonne), the carbon price began to rise in 2018, to stand at around 25 euros today. **In addition, they will participate in the global CO2 emissions compensation system from 2020,** which aims to neutralize emissions between 2020 and 2035 before considering halving them by 2050 compared to 2005.
To meet their commitment, transporters will offset carbon dioxide emissions that exceed the 2020 level by financing reforestation programmes, the transformation of factories into energy-efficient sites, etc. **For Air France-KLM, the additional cost should amount to 150 million euros in 2025**. And to all this, there could also be a taxation of airlines at European level, as France asked for after refusing to introduce a tax on kerosene in France.
In the end, put together (it will also be necessary to add the future tax for CDG Express), **all these measures will amount to hundreds of millions of euros for a company like Air France** (for example, the extra cost of the ecotax alone, announced yesterday, will amount to 60 million euros per year). (...)

My comment: *The French government's decision to introduce a new tax is surprising. Last month, it had ruled out taxation at national level because of the distortions of competition that would result.*

This tax would represent an additional cost of more than €60 million per year for the Air France group, equivalent to the measures taken as part of the Air Transport Conference, which were intended to strengthen the competitiveness of the French flag.

Other taxes could be introduced in Europe to fight global warming. But for what purpose?

. To fuel research, particularly on second-generation biofuels (which do not compete with agricultural land)
? Or to force passengers to choose the train, because it is cheaper than flying?

At a time when the Air France-KLM Group is considering renewing a large part of its fleet, the answer is expected. What would be the point of ordering short-haul aircraft if governments decided to favour the train?

> The Transavia project opens the door to a major aircraft order for

Air France

(source Les Échos) July 13 - On **Saturday, July 13, the referendum organized by Air France's main pilot union**, the SNPL AF, **began** for or against the draft agreement on Transavia France. The **further development of Air France's low-cost subsidiary depends on the outcome of the vote, expected on the morning of 31 July**. With in the **background, an order for several dozen Boeing 737s in the pipeline**, which would be Air France's first major medium-haul aircraft order in a very long time. (...)
Of all the major air transport groups, Air France-KLM is the only one that has not ordered any of the latest versions of single-aisle aircraft. Alexandre de Juniac, then Jean-Marc Janaillac, had major calls for tenders prepared, but the industrial disputes and their early departures had not been successful (...)
But since nothing is simple at Air France, the possibility of ordering additional aircraft for Transavia is linked to the future of Air France's medium-haul business, which itself involves the renewal of its fleet. All this as part of broader discussions with Boeing and Airbus on long-haul flights. This requires having previously defined a growth strategy for Air France, KLM and Transavia. (...)
For Air France's medium-haul hub, the same draft agreement guarantees the extension until 2030 of a minimum of 110 single-aisle aircraft with a minimum capacity of 136 seats, whether A320 or B737. But knowing that the entire medium-haul fleet of Air France is made up of Airbus A320 family aircraft, the choice of A320 neo aircraft is also obvious here. Especially since the A220 Quebecers have just been added to its Airbus single-aisle offer, with the A220-300 version starting at 136 seats. This is an advantageous replacement for Air France's A318 and A319 aircraft. The fact that the flight hours guarantee concerns single-aisle aircraft in general will make it possible to include these new Airbus A220 aircraft. (...)
The order for medium-haul aircraft for Air France could even be part of a broader deal with Airbus, including long-haul A330s to replace the A330-200s and, why not, by the possible takeover of some A380s in exchange for additional A350-1000s. Since his arrival, Benjamin Smith has made no secret of his doubts about the importance of reinvesting tens of millions of euros in the renovation of the cabins of Air France's 5 A380s. But these devices are unsaleable and replacing them would be expensive. Hence the hypothesis of a solution for Lufthansa, which convinced Airbus to buy 6 A380s from it in exchange for an order for an additional 20 A350s.

***My comment: The** Air France-KLM Group's half-yearly results will be published on 31 July.*

The specialised press expects the Franco-Dutch Group to announce orders for aircraft on this occasion. By reviewing most Airbus and Boeing models, she is unlikely to be mistaken.

> Air France will test facial recognition instead of boarding passes

(source Science post) July 14 - A few weeks ago, U.S. Homeland Security made a surprising announcement. While some 15 airports already have facial recognition systems, the overwhelming majority of the country's sites are expected to gradually accommodate this technology by 2023. (...)
In February 2019, **Air France issued a press release about its digital innovations. Among these is facial recognition**, which should be tested instead of the usual boarding passes. Initially, Air France will use this technology at two international airports, namely JFK (New York) and George Bush (Houston).
Air France indicated that **if facial recognition tests prove successful, this type of device could be used by the company at all US airports as early as 2020.**

(...) It **remains to be seen whether facial recognition will be accepted by the population**. But Air France seems to have made a strategic choice by targeting the United States, which seems to support this technology.
Facial recognition is at the heart of a controversy and as everyone knows, it does not get good press. This is due in particular to privacy breaches and multiple experiences in China. However, the **turmoil is** also **affecting the United States, since recently, the city of San Francisco banned this technology in its public space**.

My comment: *The very principle of facial recognition raises ethical issues. How can we ensure that the data collected will not be used for any purpose other than a simple identity check?*

> AFI KLM E&M's activities at the forefront

(source Air Journal) July 11 - Air France Industries KLM Engineering & Maintenance (AFI KLM E&M), the maintenance division of the Air France-KLM group, took the opportunity of the latest edition of the Paris Air Show to review all its activities. Anne Brachet, Deputy Managing Director of the world's number 2 "Airline MRO" also took the opportunity to review a series of particularly strategic commercial contracts.

AFI KLM E&M (...) recalled that it is very active on traditional platforms, but also on the latest generation of devices, a new activity that has required significant investments (...).

As far as equipment is concerned, Air France KLM's MRO division has numerous contracts on the 787 (...), the 737 MAX (...), the A350 (...), the A320neo family (...) and now also the A330neo (...). The same applies to new generation reactors such as GEnX (...) and CFM International's LEAP (...).
Anne Brachet (...) also pointed out that the **strength of its activity was also based on partnerships**, such as the CSP contracts signed with Boeing on the 737NG and 777. New partnerships have been signed with Triumph in the United States in the

field of aeronautics and with Parker Aerospace for its component activities on the 787.
But **Anne Brachet also highlighted the importance of the Asia-Pacific region in AFI KLM E&M's activities,** starting with a series of contracts recently won in China. The dynamism of Asia has also strongly contributed to the fact that Air France-KLM's MRO division has exceeded $11 billion in order bookings since last year, a trend that has continued in recent months ($11.632 billion in orders in May 2019), with **Asia now representing 41% of its portfolio**. (...)
Another development axis linked to the Asia-Pacific region is obviously the **implementation of the Strategic Partnership Agreement (SPA) signed in 2018 between AFI KLM E&M and GMF AeroAsia, the maintenance subsidiary of the Garuda Indonesia group, which** set itself the objective two years ago of becoming one of the 10 most important MRO companies in the world. The two partners signed multiple cross-contracts on June 17 for various maintenance operations.

My comment: *AFI KLM E&M's order book is impressive: nearly €12 billion, or half of the Group's annual turnover.*

The explanation is simple: while ticket purchases are made a few weeks before the trip and stop a few minutes before takeoff, maintenance contracts are concluded over several years, sometimes ten years.

> Trade unions are considering actions at KLM, after the failure of collective agreement negotiations

(source Telegraaf) July 11 - **After a few days of negotiations, KLM's employees and management failed to resolve their differences**. The cabin crew union VNC says that this is "insulting", because KLM had reduced (...) its proposal. "This represents 1.35% per year, which is well below the national average," VNC told its members. (...)
"The eight unions will consult their members in the coming weeks."
Last year, the airline made a record profit, but in the first quarter, KLM fell into the red. According to management, this is a new "economic reality". Recently, many competitors have announced profit warnings. (...) The FNV union demanded 5% and the technicians 3%.

It is expected that the unions and management will soon meet again, as the airline will be 100 years old in October. In addition, the market assumes that KLM's half-yearly figures will be less good. The management is therefore not in too much of a hurry, but does not want the anniversary to be ruined. According to KLM, in recent years it has granted a 4% salary increase in one and a half years.
In addition to the wage offer, profit-sharing could be renegotiated. Last year, KLM paid no less than 168 million euros to its employees, or one and a half months' salary. The unions would like to make this amount sustainable, because they will not

get these funds when things are not going well for the airline. (...)

KLM stated in a response to the cessation of talks by the trade unions that it is "both unnecessary and incomprehensible".

My comment: *There is no NAO (Mandatory Annual Negotiation) in the Netherlands. But it is customary for negotiations to focus on wages every year.*

For the moment, the situation is blocked. KLM does not wish to make a new offer before negotiations resume, while the unions require a new wage offer before resuming negotiations.

> Delta reports record second quarter results

(source Le Figaro with AFP) July 11 - **Delta Airlines announced** Thursday **that it posted record results in the second quarter, with profits up more than 39%,** and raised its annual forecasts in the wake, citing strong demand in the air transport sector. The
Atlanta Group's net income (Southeast) increased by 39.3% to USD 1.44 billion in the three months ended June 30 (...).
Driven by an 89% load factor, a record, on its aircraft, revenue increased by 6.5% to $12.54 billion (...).
(...) Glen Hauenstein, the company's president and number 2, (...) added that the current third quarter had started "on a good footing", so that Delta "now anticipates a growth of 6% to 7% in its turnover for the whole of 2019, or 3 billion dollars more".
Delta Airlines is one of the few major US airlines that currently does not have Boeing 737 MAX in its fleet, an aircraft grounded since mid-March after two accidents that killed 346 people. (...) On
Thursday, the group raised its annual profitability target. It now expects adjusted earnings per share to be between $6.75 and $7.25, compared with $6 to $7 previously. The markets, on the other hand, had only hoped for $6.9 so far. (...)
Delta also increased the quarterly dividend promised to shareholders by 15%.

> Low-cost Norwegian loses its leader and transatlantic routes

(source Air Journal) July 12 - The **co-founder and CEO of** low-cost airline **Norwegian** Air Shuttle Bjorn Kjos **has resigned, his interim replacement having to manage a complicated financial situation** even though the latest results are presented as going in the right direction. Two transatlantic routes are eliminated and ten others reduced to seasonal operations.
(...) Over the past 17 years, (...) during Bjorn Kjos' tenure, **Norwegian has grown** from a "small national company with 130 employees and four aircraft" to an airline with more than 11,000 employees and 162 aircraft, **the third European low-cost airline behind Ryanair and easyJet and the second in the world on long-haul**

low-cost aircraft behind AirAsia X. (...
But between the rise in fuel prices, fleet problems (Boeing 737 MAX grounded, engine problems with the 787 Dreamliner) and above all a very (too?) rapid expansion on the transatlantic, **Norwegian's accounts have gone into the red, with a loss of 400 million euros last year and successive recapitalisations**. This forced it to change its strategy in 2018 to focus on profitability. (...)
However, Norwegian reported "positive" financial results for the second quarter of 2019, with revenue up 12% compared to the same period last year (...) and operating profit quadrupling to €64.7 million. Unit revenue (RASK) was up 13% in Q2, (...) the load factor increased by 1.2 percentage points in the second quarter to 88%, on stable traffic at nearly 10 million passengers. (...)

These financial results are expected to continue to improve according to decisions taken on the network, with a serious reduction in the transatlantic offer. (...)

> The railway company FS, Atlantia and Delta will take over Alitalia

(source Le Figaro with AFP) July 15 - **The Italian railway company FS** (Ferroviere dello Stato), the **Atlantia group, which** belongs to the Benetton family, **and the American company Delta intend to take over the airline in great difficulty Alitalia together**, FS announced on Monday in a statement.
The Ministry of Economy will also participate in the rescue plan for Alitalia, which has been under supervision since 2017. "The State will continue to have an absolute majority in the company and will therefore retain control of the new company," Luigi Di Maio, Deputy Prime Minister and Minister of Economic Development,
said on Facebook.
(...) Ferroviere dello Stato Italiane (...) stated that it would "start working as soon as possible with the selected partners to share an industrial plan and other elements of the possible offer".
Atlantia is the manager of Rome's airports and has already injected money twice into Alitalia, during the company's recapitalization in 2008 and with the arrival of Etihad (United Arab Emirates). The **5-star Movement** (M5S, anti-system), one of the two political parties in the government, **has long been standing up against Atlantia's entry into Alitalia's capital, accusing the Benetton family of culpable negligence in the deadly collapse of the Genoa bridge last year**, which Atlantia manages via Aspi (Autrostrade per l'Italia).

My comment: The *Italian State will be at the helm of Alitalia with 15% of the capital held by the Ministry of Economy and 35% by the Ferrovie dello Stato group (FS). Atlantia would have a 35% stake and Delta Airlines would have to invest 15% of the initial capital of approximately €1 billion.*

The hardest part begins for the four partners.

The Italian company loses €1 million every day and has to repay a bridge loan of €900 million.

> Air Austral records its first operating loss in five years

(source Journal de l'Aviation) July 12 - **The economic and political environment in which Air Austral has operated has not helped it**. The Reunionese company has published its first operating losses in five years, with a deficit of 2.7 million euros. **Net income was** also **negative at €4.5 million.**

However, the company managed to maintain a solid activity during the 2018-2019 financial year (closed on 31 March 2019). Revenues increased by 5% to €394.4 million, supply grew at a slower pace than traffic (+3% and +4% respectively, improving the load factor by one point) and the number of passengers transported and freight volumes increased.
However, **operating expenses increased faster than the rest** (+8% to €397 million). They were driven in particular by **the increase in fuel prices over the** first half of the year, which increased the invoice by €14.4 million. The **strength of the dollar** also caused an increase in maintenance costs, while the **company had to immobilize its 787 fleet to undergo the inspections imposed by Rolls-Royce** and use chartering to compensate for their absence (which has both a financial and an image cost).

Finally, the yellow vest crisis, particularly virulent in Reunion Island in the first few weeks, cooled passengers' travel plans. With a decline in bookings during the crisis and an effect that continued thereafter, unit revenue declined.

> Lufthansa Group: passenger traffic up 4.5% in June

(source Air Journal) July 12 - Last month, the Lufthansa Group's airlines welcomed 13.808 million passengers, an increase of 4.5% compared to June 2018, with an increase in the average load factor of 1.6 percentage points to 85.2%. (...)

Lufthansa, Austrian Airlines, Brussels Airlines, Eurowings and Swiss International Air Lines (...) broke **a** new traffic record in the **first half of the year (...**) with 68.9 million passengers (+3.9%), and **a record load factor of 80.8%** (+0.9 points) (...).

My comment: The *Lufthansa Group posted a record load factor in the first half of 2019 (80.8%), but it is still far from that of the Air France-KLM Group (90.7%).*

Financial results will be published towards the end of the month, both for the Lufthansa Group and for the Air France-KLM Group.

> Boeing revises the direction of the 737 program

(source Reuters) July 12 - **Boeing has appointed Mark Jenks**, previously director of its future mid-market aircraft project, **to lead the 737 program** (...).
Eric Lindblad, director of the 737 program, will retire in a few weeks after about 12 months in this position (...).
Mark Jenks, who leads the New mid-market airplane (NMA) project, will replace Eric Lindblad and become the manager of the 737 program and the Renton, Washington, plant.
(...) The task is huge for Mark Jenks and it will now be up to him to manage the stock of 737 MAX not delivered (...).
The stakes are all the higher since the 737 is the group's best-selling aircraft and the profits it generates are used for new projects such as the NMA. (...)
The replacement of Eric Lindblad is the second overhaul in four months in Boeing's management. Boeing announced in March that John Hamilton, former Vice President and Chief Engineer of the Commercial Aviation Division, would focus solely on the role of Chief Engineer (...).

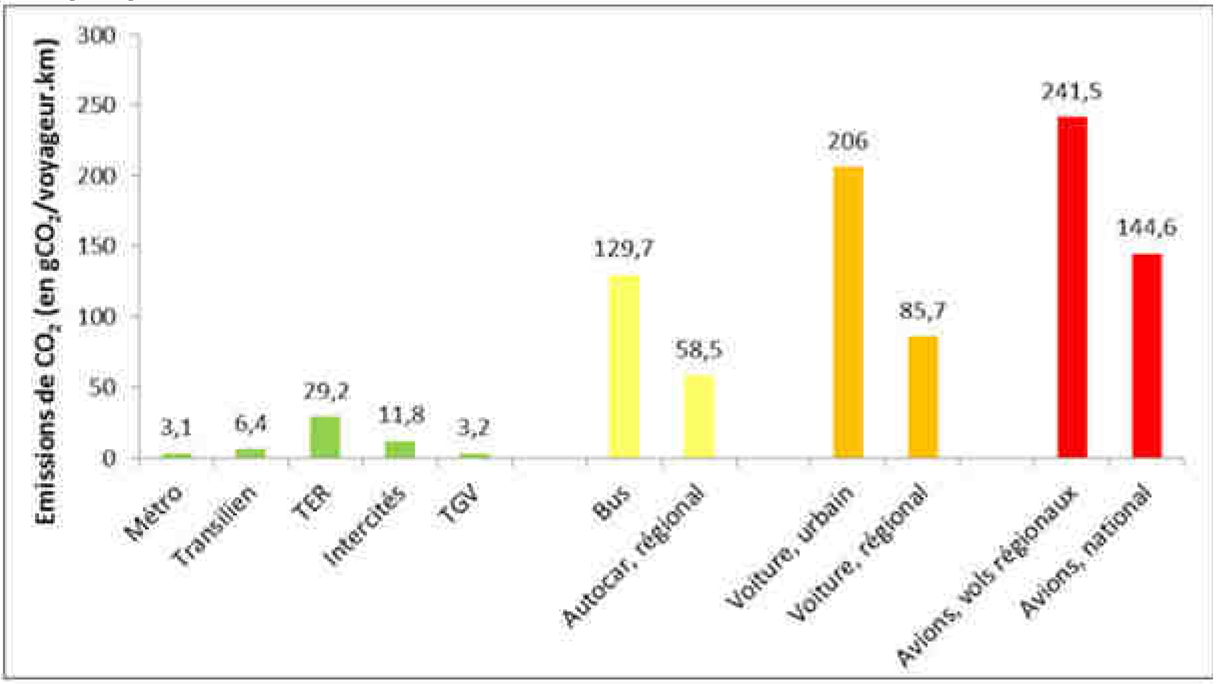
My comment: The *mission of the new 737 program manager will be difficult: to convince the certification authorities that the B737 Max can be put back into service.*

American Airlines has already cancelled flights of its B737 Max until November. Some experts say that flights will resume in 2020.

> Record: 202,157 aircraft in one day. A sign of a society rushing towards a climate crash

(source La Relève et la Peste) July 12, 2018 - **202,157 aircraft in one day. This is the record set on June 29, 2018 by the Swedish collaborative site FlightRadar24**, the highest number of aircraft flying in the sky on the same day. Far from rejoicing, on the contrary, this exponential increase should be seen as a sign of a society rushing towards an uncontrollable climate crash, and act accordingly by putting in place essential safeguards.

(...) Already, 2017 had been a prolific year for aviation, with more than four billion users taking the plane, an increase of 7.1% compared to 2016. By **2036, the number of air passengers could reach 7.8 billion people taking the plane in one year!** These figures include commercial and private flights.
According to the International Air Transport Association, **air traffic is growing by 6% to 8% each year. A disaster for the climate when we know that if aviation were a country, it would be the seventh largest emitter of greenhouse gases in the world and that the sector pollutes as much as the 129 least emitting countries**.
This continuous development is possible thanks to the many investments made by companies to create new aircraft and terminals, but also **to the exemptions granted to aviation**. These preferential fares encourage the multiplication of low-cost flights, contributing to the democratization of this mode of transport (particularly for rich countries) at the expense of much more environmentally friendly transport such as rail.
According to ADEME, "for long distances, trains are the most energy-efficient and least polluting means of transport: at comparable filling rates, **a Paris-Marseille trip produces about 10 times less CO2 by train than by air**. "And yet, a study conducted by GoEuro reveals that domestic flights have an average cost of €14.74/100 km compared to €17.59/100 km for trains. Thus, **air travel is 20% cheaper per kilometre than rail travel in France**!



CO2 emissions per kilometre travelled by different modes of transport depending on the type of journey. ADEMEL

International civil aviation is not even included in the Paris Climate Agreement, i.e. it is not subject to any international regulation, except the "goodwill" of the member countries of the International Civil Aviation Organization (ICAO).

To fight this nonsense, (...) the **Utopia movement's bill aims to tax domestic flights**, mainly used by the wealthy classes, to finance the State's assumption of SNCF's debt, or our taxes:
"The State has just taken over 35 billion euros of SNCF's debt - or 1228€ per household according to Le Monde. To finance this debt, to invest in the network, or even to have a more accessible pricing policy for trains, **our request would be to go further than the lifting of taxation, and to tax kerosene in sufficient proportions so that domestic flights are at a minimum at the cost of rail travel,** or even up to 50% more expensive so that their price is dissuasive on the one hand and allows more accessibility to trains and fewer cars on the roads on the other hand. "» (...)

For the Climate Action Network: "**Contrary to what the industry and airlines claim**, technological innovations (engines and fuels) and new processes in the sector will not be enough to offset the increase in traffic. Even in the most ambitious scenario, **projections reveal a gap of 153 to 387 million tonnes of CO_2 to reach the target of a 50% reduction in emissions by 2050, or about one-third of current emissions**. "
(...) Many measures still need to be put in place to ensure that air transport is treated in a way that is commensurate with the pollution it generates and the energy it consumes. **Will we have to experience a climate crash before policies finally regulate the expansion of aviation?**

My comment: *This article is one year old, but it is still relevant. There is much to be said against some of the comparisons between train and plane. Nor does it address emissions from other sectors of activity.*

But it does pose the problem of air transport. If there is no cleaner fuel to replace kerosene, airlines will have to offset their increases in greenhouse gas emissions by purchasing "emission units", as stipulated in the CORSIA programme.

These emission units can be purchased from carbon offset programs (renewable energy projects, reforestation projects, for example), certified by ICAO (International Civil Aviation Organization).

It is up to the airlines to demonstrate the effectiveness of these compensations.

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 July 15, the consultation had collected 519,500 signatures, or 11.0% 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 15 July. It is up by 4.15%.

The average (consensus) of analysts for the AF-KLM share is 10.47 euros.

The barrel of Brent oil (North Sea) **is stable at $65.**

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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