



## 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...*

#### > Embraer 190 for Air France HOP

(source Air Journal) August 26 - **HOP Airlines has received the third of seven Embraer 190s leased from NAC**, with the lessor also providing Silver Airways with two ATR -600s. As part of the agreement announced last December, Nordic Aviation Capital (NAC) announced on August 23, 2019 that it had delivered a third E190 (MSN 19000768) to Air France's regional subsidiary out of the seven planned. **HOP! now has thirteen E190s, configured to accommodate 100 passengers, alongside fifteen E170s, fourteen E145s, fourteen Bombardier CRJ1000s and eleven CRJ700s**, and last November HOP officially announced the exit from the fleet of all its ATRs by 2020, with **Airlinair's legacy turboprops suffering from fleet rationalization**; five 72-600s are still in service.

#### > XL Airways: a buyer expresses his intention to buy back

(source La Tribune) August 22 - **In financial difficulty, XL Airways** (600 employees, one million passengers carried) did not surrender its weapons. Quite the contrary. Its future **could be controlled by new shareholders**, as has often been the case over the past decade or so.

According to our information, on Wednesday, August 21, at a general meeting called in the middle of the summer to review its situation, the

shareholders of DreamJet Participations, the parent company of XL Airways (and The Company) took note of a letter of intent (Letter of Intent or LOI) to purchase all or part of XL Airways, sent shortly before the AGM. It comes from one of the two candidates (a European airline and an investment fund) for this operation with whom management was in discussions. According to our sources, this is the industrial candidate. But no name was given to the GA.

**Wishing to withdraw from air transport, which is not their core business, XL Airways' current shareholders** (there are about 40 of them - families or individuals) **have decided to engage in this transfer process** and will play this card to the full. If the negotiations are successful, the buyer will provide the necessary funds to maintain the company's business. In **particular, XL Airways needs more than 20 million euros to survive the winter**, according to a connoisseur of the case. Burdened by the €90 million already spent on The Company launched in 2014 and XL Airways, which was acquired at the end of 2016 (the Company absorbed most of this amount), shareholders are reluctant to put it back into the pot. At least the four largest (60% of the capital) who participated, alone, in the various bailout operations (...). Caution should be exercised. Last year, the sale to Air France was almost certain, but it was called into question by the surprise departure of Air France-KLM CEO Jean-Marc Janaillac after his lost referendum on the wage issue.

**DreamJet Participations shareholders, on the other hand, intend to keep La Compagnie**, a 100% business-class long-haul carrier, which is moving towards financial balance. The idea is then to develop it by self-financing, before possibly considering selling it (...).

### > **The sky is still darkening for Aigle Azur**

(source La Tribune) August 25 - There is a storm in the air at **Aigle Azur**. The second largest French airline, with 1.88 million passengers in 2018 and 1,150 employees, **will hold an extraordinary meeting of the Social and Economic Committee (SEC) on Monday. In particular, an auditor and an ombudsman are invited.** The executive committee would have met last Friday, the unions report. (...) If he refuses to comment on this subject, the volcanic leader of Aigle Azur, Frantz Yvelin, would like to point out that he is "a very social boss" and that no strike has taken place since he took over the company in 2017.

**Already at 50 million euros of losses in six years for 300 million euros of turnover, the carrier is making a series of disappointments.** However, in the summer of 2018, there was a favourable outlook. Under the impetus of its two new shareholders, the

Chinese group HNA (48%) and the American David Neeleman (30%), the company decided to leave its historic market, the Maghreb, to launch long-haul flights to China and Brazil. But from April 2019, flights to Beijing are suspended. **The heavily indebted Chinese investor drops Aigle Azur, followed by David Neeleman.** In September, the blue company abandoned its line to São Paulo, which had been won by its American shareholder.

The situation worsened in June. (...) As negotiations with the social partners approach, **Frantz Yvelin is trying to reassure.** "I have a plan that works," he says. We have the ability to be as big as Vueling."

Without replacement shareholders, the French manager plans to sell the services in Portugal to the Spanish Vueling, from which he could draw between 15 and 30 million euros. But to ensure Aigle Azur's survival in the longer term, he wants to set new productivity measures. "In our country, the regulations grant eleven to thirteen days off per month to crews when they go down to eight," he says. He gives himself six months to revive the company.

**My comment:** *Competition between the major European airlines tends to reduce competitiveness gaps with smaller airlines.*

*Among the latter, the least solid companies are threatened with extinction.*

*In France, both XL Airways with its five aircraft and Aigle Azur with its nine aircraft are experiencing great difficulties. The new taxes introduced by the French government could lead to their disappearance.*

## **> New management at Aigle Azur, against a backdrop of dissension**

(source Le Figaro with AFP) August 26 - The **company Aigle Azur, in difficulty, has changed direction and is now chaired by Gérard Houa, shareholder of Lu Azur which holds 19% of the capital, she announced Monday amidst dissension between its former president Frantz Yvelin and its shareholders.** "Gérard Houa is now President of Aigle Azur and Philippe Bohn is Chief Executive Officer," according to a statement signed by the two new executives.

"The strategic mistakes of the last two years must stop," they say, targeting Frantz Yvelin, who took over the company in September 2017 and blamed his shareholders in mid-August for "abandoning" it. "To continue to exist, Aigle Azur requires vigorous and immediate action," they say.

The company is owned by the Chinese group HNA (49%), the American businessman David Neeleman (32%) and the Lu Azur company (19%).

**My comment:** Last week, the now former CEO of Aigle Azur announced his intention to sell Vueling an aircraft, the France-Portugal route and 40% of its slots to Orly.

Will today's change of management call into question this draft agreement?

### > Delta: pilots suspicious of the joint venture with Air France-KLM and Virgin Atlantic

(source Air Journal) August 22 - **Delta Airlines' MEC-ALPA pilot union has asked the authorities to stop the merger of its transatlantic joint ventures with Air France-KLM and Virgin Atlantic**, disappointed by the impact on employment of the agreements already in force.

After the DoT's

provisional agreement in early August to extend the transatlantic joint venture between the American company and the Franco-Dutch group to Virgin Atlantic, the Master Executive Council (MEC) explained in a formal complaint that they had "serious concerns" about how Delta and Virgin had distributed the growth in their supply between the various crews since 2013. (...) But almost six years later, the promised growth in services between the United States and the United Kingdom "has returned almost exclusively to Virgin, and the employment and career prospects promised in the United States, linked to Delta's operational expansion in this market, have not materialized," says the union, for whom "Delta's flights in the critical market between New York and London have actually declined" since their joint venture came into effect. (...) The **union therefore asks the DoT[Department of Transport] to impose an "interim review" at the end of December to ensure that progress is indeed made on employment as a result of the new joint venture**, and to extend its examination of these consequences to the number of flights actually added by Delta Airlines in relation to its partners. (...)

The Transatlantic Marketplace Partnership, estimated at \$13 billion between Europe, the United Kingdom and North America, will offer more than 300 transatlantic flights per day, 108 direct routes and more than 340 destinations, according to figures published last March. It should be recalled that at the end of the transaction, which should be completed by the end of the year, Air France-KLM will acquire a 31% stake in Virgin Atlantic currently held by Virgin Group for £220 million; Virgin

Group will retain a 20% stake and the presidency of the British airline, while Delta Airlines will retain its 49% stake (it also owns 9% of Air France-KLM). (...)

**My comment:** *At Delta Airlines, as at most airlines, the pilot unions are trying to influence the strategy. Their objective: to guarantee pilot employment within their company as well as optimal working conditions and remuneration.*

*The actions of these unions vary from country to country, in order to adapt to national legislation.*

### > **Transat agrees to be purchased by Air Canada: Air France-KLM was ambushed**

(source La Tribune) August 26 - Nineteen years after swallowing Canadian Airlines, **Air Canada is in the process of buying the Transat tourism group, which owns the Canadian airline Air Transat.** At a general meeting on Friday, August 23, the tour operator's shareholders voted 95% in favour of Air Canada's takeover bid for a total amount of more than C\$720 million (€485 million). The **agreement has yet to receive the green light from various authorities, including the competition authorities of Canada, the European Union and the Superior Court of Quebec.** The Transat brand will be retained.

Air France-KLM was closely following this general meeting. Managed for the past year by former Air Canada number 2, Ben Smith, the French airline group was in ambush and was considering positioning itself in the event of Transat shareholders refusing Air Canada's offer. The Canadian press reported an alliance with Onex, the new owner of Westjet, an Air France partner company, and Quebec investors. According to internal sources, Air France-KLM believes that **Air Canada will hold strong positions with Air Transat on several routes between Canada and Europe, including France.** In the summer, Air Transat operates numerous flights between Canada and several French cities. The French group can only hope for a refusal of this acquisition by the competition authorities.

**My comment:** *During the winter seasons, Transavia France provides Air Transat with up to eight of the B737s it cannot operate. This allows Transavia France to adapt the size of its fleet to the seasonal nature of its destinations.*

*Will Air Canada's future takeover of Air Transat call this agreement into question?*

### > **Ryanair cuts four bases in Spain, threatening 512 jobs**

(source Le Monde) 23 August - Tenerife, Lanzarote, Gran Canaria and Girona. The **airline Ryanair will abolish four bases in Spain, and launch a social plan** that "could affect" 512 pilot and cabin crew jobs, **announced Friday, August 23 in a statement by the union Unión Sindical Obrera** (USO - Union syndicale des travailleurs). The closure should take place "as of January 8, 2020," the company explains in an email to its employees consulted by Agence France-Presse. To justify this decision, it invokes "significant overcapacity in the European short-haul market". Ryanair also highlights the poor financial results and late delivery of the Boeing 737 MAX. The airline says it wants to "minimize job losses" by using employee "transfers", but warns that there will probably be "duplicates" given "the current surplus of cabin crew across the network". (...)

**For the USO, all these manoeuvres are part of a more global strategy to hire at a lower cost.** The organisation considers that Ryanair "actually dismantles its bases in Spain because applying Spanish labour law costs it more than hiring new seafarers through other companies where conditions are more precarious":

"How can you explain that on the same day you announce to your employees the closure of bases, job offers for Laudamotion[Ryanair's Austrian subsidiary] in Madrid and Barcelona are published? ». (...)

***My comment: Every winter, Ryanair grounded dozens of planes. Flight crews who do not fly are not paid, but they resume their activity when the aircraft are reintegrated during the summer season.***

*This year, Ryanair seems to be changing its method. The low-cost company would have chosen to dismiss the Spanish flight crews affected by the decline in activity in order to hire flight crews from countries where wages are lower than in Spain in 2020.*

### > **The number of flights available between Nice and New York is increasing**

(source La Tribune) August 25 - **After the Company's arrival this summer, United Airlines will open a non-stop flight next summer between New York and Nice. With Delta, which has been present on this line for years, there will be three operators in Nice. A unique case in the region.** (...)

The presence of these two colossuses is not good news for The Company. Such an offer will lead to a fierce struggle between these three companies. However, **for some observers, it is likely to erode connecting traffic via European hubs such as Paris, London or Frankfurt.** According to one expert, the summer air market on this route is now estimated at 200,000 passengers, including 100,000 in direct flights and 100,000 in connecting flights. The arrival of United confirms the long-haul development of Nice airport. In June Air China opened direct flights from Beijing. Nice is also directly connected to Dubai and Doha or Montreal in the summer.

**My comment:** *It would be surprising if three airlines could coexist on a route with such low ridership.*

*The Company, which is struggling to achieve balance, could be affected by a price war.*

#### > **Qantas Airways: annual profit down 6.5%.**

(source Air Journal) August 24 - **Qantas Airways announced a 6.5% decrease in its annual net profit**, a decline that the Australian airline attributed to higher fuel costs and the weakening of the Australian dollar. Despite record sales of €10.9 billion, Qantas Airways generated a net profit of only €543 million, compared to €580 million a year earlier. As a result, it suffered an increase in fuel costs of €374 million and currency effects of €94 million.

"Despite the difficulties generated by fuel costs and currency effects, **we remain one of the most efficient airlines in the world,**" said its **Managing Director**, Alan Joyce, in a statement. **However, he reported a "mixed" outlook for the Australian company due to the weakness of the domestic tourism market and a weak demand in the business travel sector.**

**My comment:** *The announcement by the Chief Executive Officer of Qantas of a mixed outlook is more worrying than the decline in its annual profit.*

*It shows that air transport is facing difficulties in most geographical areas, with the notable exception of North America.*

#### > **Lufthansa launches its carbon offset program**

(source RTBF with AFP) August 25 - While the issue of the carbon footprint of air traffic has been in the news all summer, the **Lufthansa**



**Group has announced the launch of a platform to invite all its passengers to offset the CO2 emissions generated by their flight journeys.**

Lufthansa promises travellers that they will be able to reduce CO2 emissions from their flight by up to 80% through its "Compensaid" program.

(...) And the German group does not just specify the details of its own trips: **Internet users can enter the flight numbers of airlines around the world** and specify whether they have travelled in economy, business or first class.

(...) To perform the calculations, the platform converts the data into "sustainable aviation fuel". It calculates the surcharge in relation to the fossil fuel bill. Internet users discover precisely what is the impact of their travel.

**An Air France flight between Paris Roissy Charles de Gaulle and London Heathrow on Wednesday, August 21, which is equivalent to a distance of 397 km and 64 kg of CO2, represents a surcharge of €3,213.77, if a climate-neutral fuel was preferred.** By participating in this financial effort, Lufthansa promises to use sustainable fuel for its flights within the next six months. (...)

**Other airlines offer travellers the opportunity to offset the CO2 emissions of their travel by purchasing biofuel, such as Finnair, or by participating in environmental projects, such as those of A Tree For You, associated with Air France.** However, until now, their carbon emissions have been calculated mainly when booking a trip. And the Internet users were forced, or not, to entrust a donation. Lufthansa is moving forward with a platform entirely dedicated to this hot topic, and thus involving all stakeholders in the air transport sector.

***My comment:** The Lufthansa Group's approach to reducing its own carbon footprint is subtle and unprecedented.*

*The German group is offering passengers of competing airlines to offset their CO2 emissions by joining its programme.*

*Small companies, which do not have the means to set up such efficient carbon compensation systems, could be the most disadvantaged.*

**> IAG stands up against the cost explosion of the third runway in Heathrow**

(source La Tribune) 21 August - **IAG Group, which** also owns Iberia, Vueling, Level and Aer Lingus, **issued a press release on Wednesday**



**denouncing the soaring costs of the project**, which will lead to an increase in airport charges to airlines. **This is at a time when Heathrow is already by far the most expensive airport in Europe.**

Heathrow plans to build a third runway from 2021 that will be operational by 2026 to accommodate 135 million passengers compared to 78 million today.

(...) IAG explains in a contribution to an open consultation by the British Civil Aviation Authority (CAA) that (...) **the total cost will exceed €35 billion once all the work is completed, far from the €16 billion initially planned by the airport.** This figure is known. Alexandre de Juniac, the Director General of the International Air Transport Association (IATA), has already mentioned this on several occasions in the past.

This cost inflation is mainly due to increased environmental constraints and complex road network development work. (...)

The project, which is widely criticized for its impact on the environment or the quality of life of residents, must be financed by the private owners of the airport, a consortium including the Spanish transport giant Ferrovial but also American and Chinese pension and investment funds.

The construction of the third runway received the green light from the previous Conservative government in June 2018 and then from the British Parliament. (...) As a reminder, in 2015, when he was Mayor of London, Boris Johnson declared that the third runway was doomed to failure. A year earlier he was fuelling the project to close Heathrow and build a huge airport east of London and south of the Thames estuary, which had been rejected because of its astronomical cost.

This third runway is bad news for British Airways. **Solidly established at London Heathrow Airport and relatively protected from competition by the saturation that has plagued the airport for nearly 25 years, the British company will face much more intense competition.**

***My comment:*** *In recent years, most airport construction or expansion projects have failed, usually for environmental reasons.*

*Will it be the same for the third track project in London-Heathrow?*

**> Airbus A380: all GP7200 engines must be inspected**

(source Air Journal) August 24 - **The American engine manufacturer Engine Alliance**, a joint venture between General Electric and Pratt & Whitney, is **asking airlines to inspect the GP7200 engines of their**

**Airbus A380 aircraft** equipped with them.

**This inspection request comes after the French Bureau of Investigation and Analysis (BEA) identified the cause of the in-flight loss of components of an Engine Alliance GP7200 engine from an Air France aircraft over Greenland in September 2017.** The BEA was recently able to analyse a part of a titanium piece weighing about 150 kg that was found almost two years after the incident, on 1 July 2019, under more than four metres of snow and ice in this vast territory. For

its part, the Federal Aviation Administration (FAA) has issued two guidelines for Airbus A380 operators powered by the Engine Alliance GP7200 (7270, 7272 and 7277): the first requires an inspection of the seals at the high-pressure compressor (HTC) to detect possible cracks or lack of coating, and the second concerns the fan hub of certain GP7200 and GP7277 models (visual inspection of the assembly, search for cracks at the bottom of the blades).

**150 A380 wide-body aircraft equipped with GP7200 engines and operated by Air France, Emirates, Etihad Airways, Korean Air in South Korea and Qatar Airways, are concerned. The other 86 A380s in operation are equipped with Rolls-Royce engines.**

***My comment:** Two years after the Air France A380 incident, control bonds are issued.*

*It will be necessary to wait for the results of the inspections to determine whether this incident was due to a manufacturing defect or a design problem.*

## **Stock market press review**

### **> AIR FRANCE-KLM**

(source Boursier com) August 23 - **Citigroup raises** its recommendation to "buy" against "neutral" and **its price target to 14 euros against 10 euros.**

***My comment:** After the increase in Citigroup's recommendation, the analysts' consensus on Air France-KLM slightly exceeds the current price (+5%).*

## ***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](http://referendum.interieur.gouv.fr)

As of August 26, the consultation had collected 673,000 signatures, or 14.27% of the required signatures.

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

**The Air France-KLM share price is at €10.29 at the end of Monday 26 August. It is down by 0.24%.**

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

**The barrel of Brent oil (North Sea) is stable at \$59.**

**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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