



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...

> **An Air France Airbus A350 deployed its wings for the first time from Toulouse**

(source Actu fr) September 3 - French elegance. **Air France's first A350** deployed its wings for the first time on August 27, 2019. This inaugural flight, lasting nearly 5.5 hours, took place from Toulouse - Blagnac airport.

The airline has ordered 28 copies of the A350-900. The aircraft will accommodate a total of 324 passengers: 34 seats in business class, 24 in premium class and 266 in economy class.

The Airbus **will be officially delivered on September 27**. The first flight was scheduled by Air France on 7 October to Bamako (Mali). Other A350-900 destinations planned are Toronto (from 25 November), Seoul (from 23 December), Cairo (from 26 December) and Mumbai (from 10 February 2020).

As a reminder, the A350 XWB is a long-haul passenger aircraft with a final assembly line in Toulouse.

My comment: *The arrival of a new model of aircraft in a fleet is a rare and significant event in the life of an airline.*

The official delivery of the A350 F-WZFN will take place at Airbus on Friday 27 September. The A350 will reach Roissy-CDG the same day.

You can follow the event on my twitter account @FrRobardet



> **Air France-KLM: once again leader of the Dow Jones Sustainability Index**

(source: CercleFinance.com) 16 September - **Air France-KLM is once again ranked number one in the airline industry on the Dow Jones Sustainability 2019 index.** The group is once again the leader of the Dow Jones Sustainability Index (DJSI).

For the fifteenth consecutive year, Air France-KLM is ranked first in the DJSI's Europe and World Index, and regained the top spot in 2019.

Our leadership must mobilize and unite our partners, industrialists and professionals in the air **transport**

sector, because **we all have the responsibility to transform air transport on a daily basis to make it more environmentally friendly,**" said Benjamin Smith, CEO of Air France-KLM.

***My comment:** The Dow Jones Sustainability Index (DJSI) ranking is based on an in-depth analysis of the economic, social and environmental performance of more than 3,500 international groups and the assessment of many criteria such as corporate governance, customer relations, environmental policy, working conditions and social actions.*

Air France-KLM's return to first place among airlines testifies to the commitment of all employees and gives credibility to the group's discourse on sustainable development.

> **A crucial day in court for Aigle Azur and XL Airways**

(source BFM TV with AFP) 23 September - The future of two French airlines in crisis is being decided on Monday before the courts: in Evry, the Commercial Court is examining four applications to take over Aigle Azur, while in Bobigny, XL Airways is asking for its placement in a turnaround.

Aigle Azur, whose 11 aircraft have not flown since 7 September and **has been placed in judicial liquidation with continued activity until Friday[27 September]** (...).

Specialising in links with Algeria and services to the Mediterranean basin, the company, which has a liability of at least 148 million euros, is particularly affected by unfortunate strategic choices, with the opening of lines to Beijing and Sao Paulo two years ago.

Four candidates submitted takeover bids for the company, which employs 800 people in France and 350 in Algeria and carried 1.88 million passengers last year. **Two former Air France executives**, Lionel Guérin and Philippe Micouleau, **propose to take over the "entire business"**, 787 employees and "a refocusing of the network on structurally profitable lines, in particular Algeria". Their takeover offer is conditional on obtaining a €15 million equity loan from the State.

A second offer, presented by Gérard Houa, a minority shareholder of Aigle Azur via Lu Azur, provides for the takeover of 90% of the current fleet and 82.2% of the employees, and financing of €30.4 million, "half of which will come from Gérard Houa and 15.4 million in medium-term loans without a suspensive clause," said Philippe Bohn, a relative of Gérard Houa. (...) The

other two offers are that of Vueling, the low-cost airline of the IAG group which wishes to take over part of Aigle Azur's slots, and an offer in its own name. **Air France and the Dubreuil group, the parent company of Air Caraïbes and French Bee, had considered submitting a joint offer but withdrew**, particularly because of the "social risks associated with employee takeovers", according to Dubreuil.

XL Airways, which defends itself against any strategic error, declared itself in suspension of payment on Thursday. It considers itself a victim of the "unbridled international competition" of long-haul low-cost airlines and the weight of taxes and social security contributions in France, according to its CEO Laurent Magnin.

The company, which stopped selling tickets on Thursday, warned that it was likely to cancel flights as from Monday, the day on which the Bobigny Commercial Court, north of Paris, is due to consider its application for bankruptcy. (...)

The long-haul airline, owned by the French holding company DreamJet Participations since 2016, "needs 35 million to get back on track", according to Laurent Magnin, who called on Air France to help.

Discussions are ongoing between XL Airways and potential buyers, including Air France, said Sunday a source close to the case. (...)

My comment: *Several reasons led Air France and the Dubreuil Group to withdraw their joint offer.*

In its press release, Air France stated in particular that "the conditions of this takeover did not make it possible to comply with the provisions of the existing agreements within Air France and could ultimately damage the more peaceful social climate that has existed within the group for a year. (...) The Air France Group is recruiting in several operational areas and will be keen to welcome into its selection processes the employees of Aigle Azur who wish to join its companies."

I regret the very short deadline, less than two weeks, which did not allow the two companies to prepare an offer that reconciled the interests of all parties. The takeover of Air Berlin had been the subject of a process lasting more than a year.

> **Corsair: fleet renewal and expansion of the transatlantic network**

(source Air Journal) September 18 - With the support of its new shareholder INTRO Aviation, **the French airline Corsair has announced a development plan based on two main areas: fleet renewal and network expansion**, "with a strong focus on service and product quality," she said. The **Corsair**

fleet modernization and development project **plans to increase to 13 all-Airbus aircraft in 2023**, with a first phase by May 2021. (...) Corsair will therefore operate a fleet of 10 A330 aircraft, including 5 NEOs, from May 2021.

"(...) **the Airbus A330 is a technical choice that is** consistent with our strategy. **It will enable Corsair to** increase the number of frequencies, thus meeting the expectations of all customer segments, and the company **to continue to develop its market share in the Business segment**," explains the company, which plans to increase the number of seats in the forward classes. (...)

In order to rebalance its leisure component, Corsair is developing and rationalising its network, targeting high-volume destinations, enabling it to operate a minimum of 5 flights per week, with the objective of operating direct and daily flights.

(...) Corsair opened Miami year-round in June 2019 (...). The company also announced the expansion of its service to Montreal on an annual basis. Finally, (...) **Corsair will open New York** as of June 10, 2020, an

emblematic line, with strong potential in all types of cabins.

"(...) **On this line where the low-cost offer is abundant, Corsair will thus be the only alternative to large companies with a quality offer in three-class cabins**", comments Pascal de Izaguirre, President and CEO of Corsair.

My comment: *The renewal and expansion of Corsair's fleet seems necessary to guarantee the sustainability of one of the last small French companies.*

But Corsair's announcement of the opening of the Paris-New York line is striking. If XL Airways succeeds in finding a buyer, there will be ten companies in 2020 that will share this market. Much more than on the London-New York (six airlines) or Frankfurt-New York (four airlines) routes.

> **Behind the black series, the untreated evils of French air transport**

(source Les Échos) September 20 - **Two French airlines in court on the same day:** this is the sad spectacle offered by French air transport. This Monday, the Evry court will examine the last chances of taking over Aigle Azur, while the Bobigny court will rule on the receivership of XL Airways. (...) **All this six months after the "Air Transport Conference", which was to lead to solutions that would strengthen the competitiveness of French air transport.**

However, it was not for lack of warning. For several years, all employers' and trade union organisations have been alarmed by the situation of French air transport, which is uncompetitive and under-capitalised. Over the past 20 years, the French flag has seen its market share decline by one point each year, to 41% in 2018. And **most French airlines are regularly in deficit. This is particularly true this year: with the exception of Air Caraïbes and its little sister French Bee, all are in the red, including Air France, whose operating result was still negative in the first half.**

Faced with this situation, **many people point to the weight of French taxation and social security contributions in the** face of competition that is sometimes considered unfair by some low-cost airlines and Gulf companies. (...)

According to a 2016 Senate report, the cost of security at French

airports is on average 35% higher than at other European airports. The difference in social security contributions between Air France and KLM or Lufthansa represents several hundred million euros. And unlike other sectors, French companies have no customs protection against competition from companies from low-cost countries.

In addition to these structural handicaps, there are other weaknesses in the responsibility of private actors. The first is the too small size of the tricolour companies. Most of these small Thumb of the Sky have less than a dozen aircraft, which is considered the minimum size to be able to amortize the fixed costs (maintenance, commercial service, crew training) of an air operation.

However, there have been many attempts to consolidate, but they have often come up against the difficulty of integrating staff with different status and seniority, and the lack of capital. (...)

Moreover, French companies are not spared the usual evils of air transport - fluctuations in oil prices and strong seasonality. Unless they have the cash flow to buy oil hedges or sell at a loss, the planes are empty. The weakest cannot resist it.

To this is finally added a new handicap: public mistrust. At the slightest rumour of a company's financial difficulties, bookings drop. And with them the level of cash flow. This encourages managers to hide difficulties as long as possible, at the risk of reducing the chances of recovery.

***My comment:** The possible disappearance of two French companies takes stock of the foundations of French air transport, which were completed at the beginning of the year. The few measures announced do not make it possible to compensate for the difference in charges borne by French companies compared to their competitors.*

A new Secretary of State for Transport was appointed in early September. He knows the air well. Will he be able to work for the preservation of the French pavilion?

> Volotea will open a base in Lyon Saint-Exupéry, its sixth in France

(source Le Journal de l'Aviation with AFP) September 19 - The low-cost airline **Volotea**, which specializes in direct flights between European regional capitals, **will open a base at Lyon Saint-Exupéry airport next spring.**

It will be the Spanish company's sixth base in France, its first

market, said its sales director Pierfrancesco Carino to the press... (...)

By

basing an aircraft permanently in an airport, it is possible to offer early morning destinations and late evening returns, which is appreciated by businessmen. (...)

Three companies currently base aircraft in Saint-Exupéry: EasyJet (8), Transavia (3) and the Irish ASL (1). The airport is also an important hub for Hop!, the regional subsidiary of Air France, but its aircraft do not spend the night there.

Created in April 2012 by the founders of the low-cost Vueling (since then transferred to IAG), Volotea began its operations by targeting major regional metropolitan areas poorly served by historical airlines. (...)

The company operates nearly half of its 36 aircraft from France and employs 400 people.

Volotea has B717 (125 seats) and A319 (156 seats) but has decided to take American aircraft out of its fleet and use only Airbus, Carino said.

(...)

***My comment:** The announcement of the installation of a Volotea base in Lyon is bad news for Transavia.*

As in Nantes, the low-cost subsidiary of the Air France group will find itself confronted with simultaneous competition from easyJet and the Spanish airline.

> **Giuseppe Conte calls on Delta to do more for Alitalia**

(source Air Journal) September 22 - Delta Airlines should consider increasing its investment in the rescue of Alitalia, Italian Prime Minister Giuseppe Conte said Saturday, as **talks on the relaunch of the Italian flagship carrier drag on.**

The American airline is part of a group of investors led by the Italian railway group Ferrovie dello Stato, committed to a potential rescue of the loss-making airline. The potential investors, which also include the Atlantia infrastructure group and the Italian Treasury, plan to create a new company that will take control of the struggling carrier and inject around €1 billion.

So far, Delta has committed to a 10% stake, with Ferrovie and Atlantia about to become key investors. Speaking at an event in Rome, Conte asked Delta to play a greater role in the project. **"A 10% participation seems a little low to me to strongly involve companies," said Conte.** The group of potential rescuers had more time to submit a rescue plan, while some sources claimed that there was no agreement

on key aspects of the project. (...)

My comment: The Italian Government has (still) authorised the extension of the deadline for Ferrovie dello Stato to 15 October for the submission of the final offer for Alitalia.

> Etihad puts down A350-1000s

(source Business Travel) September 23 - **The situation is worsening at Etihad**, the 3rd largest airline in the Gulf after Emirates and Qatar Airways.

Etihad reportedly stowed 3 A350-1000s recently delivered by Airbus in a hangar. According to Airbus, these 3 aircraft were delivered between May and August 2019 and are worth \$366 million each. They did not make any commercial flights and were put directly into the hangar. (...)

The airline is implementing a 5-year recovery plan that should make it profitable in the long term.

It reported losses of \$1.3 billion in 2018, a 15% reduction from \$1.52 billion in 2017. Etihad has taken various cost-cutting measures: elimination of its premium chauffeur-driven service for international destinations, introduction of an offer to purchase onboard snacks, launch of an offer of seats with more space in economy class and outsourcing the management of some of its lounges to No. 1 Lounges.

> Qatar Airways: annual loss of \$639 million

(source Air Journal) September 20 - **Qatar Airways reported a net loss of \$639 million for the fiscal year April 2018 to March 2019**, despite an increase in revenue to \$13.2 billion.

Already, in the previous fiscal year, the Qatari company had recorded a net loss of \$69 million. The **first and main cause of Qatar Airways' losses was the economic and diplomatic blockade imposed since 2017 by Sunni Arab countries** (United Arab Emirates, Saudi Arabia, Bahrain and Egypt) on Qatar, accused of being too close to Shiite Iran. "Although it is disappointing to see that Qatar Airways recorded a net loss of Qatari rials 2.3 billion (\$639 million) - attributable to the loss of traditional routes, rising oil prices and currency effects - our company's fundamentals remain extremely robust," Qatar Airways said in a statement.

The Qatari company has added 31 new destinations to its catalogue "since the beginning of the illegal blockade". It points out that its fleet

has expanded by 25 aircraft, welcoming its 250th aircraft in March 2019.

My comment: *Qatar Airways and Etihad are recording unprecedented losses. The measures taken by these two companies to adjust their accounts have been slow to produce the expected results.*

> **Rolls Royce is taking longer than expected to solve the problems of the Trent 1000**

(source AFP) September 20 - British industrial group **Rolls-Royce warned on Friday that it would take longer than expected to fix problems on its Trent 1000 aircraft engines powering the Boeing 787.**

The engine manufacturer explains in a press release that the replacement of defective parts is more difficult than expected, due to the large number of engines to be repaired.

He adds that he will be able to reduce the number of aircraft grounded for repair to less than a dozen only in the second quarter of 2020, whereas he had previously hoped to achieve this objective by the end of the year. (...)

This case has been poisoning the engine manufacturer's life for many months at an astronomical cost of around £1.6 billion (€1.81 billion), a significant part of which is in compensation to injured airlines. **The problem with these Trent 1000 engines is that their compressors are exhausted too quickly.** This prompted Rolls-Royce to develop a new part that the manufacturer must install on these engines, causing problems for user companies since some aircraft are grounded. (...)

My comment: *Most of the 800 Boeing 787s in service (including those of Air France-KLM) are equipped with GE (General Electric) engines.*

Only about 40 B787s are equipped with Rolls-Royce Trent 1000 engines and must be checked. British Airways, Singapore Airlines, ANA, Virgin Atlantic and Air Austral have seen their operations severely disrupted.

> **Boeing 737 MAX: Indonesian authorities question the design of the aircraft in the Lion Air crash**

(source Air Journal) September 23 - In their preliminary conclusions on the Lion Air crash, **Indonesian investigators implicated a series of failures in both the design and supervision of the Boeing 737 MAX,**

according to the Wall Street Journal, which had access to the report. These preliminary conclusions would be the first to formally determine that the design of Boeing's single-aisle aircraft and its certification by the United States Federal Civil Aviation Administration (FAA) have been deficient. They also point to a series of piloting and maintenance errors as factors that could explain the crash, says the Wall Street Journal. However, Indonesian investigators, who are expected to release their report in early November, may still change their conclusions.

The aircraft manufacturer Boeing and the FAA would be very concerned that "the final report will unduly focus on[Boeing's] design and certification errors by the FAA," writes the Wall Street Journal. (...)

Last minute: The US Federal Aviation Agency (FAA) reported on Monday that the lifting of the flight ban on the Boeing 737 MAX, grounded after two accidents with 346 fatalities, will be on a country-by-country basis, seeming to acknowledge the differences between the world civil aviation authorities.

> **C919 production is scheduled to start this year**

(source Air & Cosmos) September 20 - According to "Le Quotidien du Peuple", Comac, or to make it longer the **Commercial Aircraft Corp of China, has announced that production of its medium-haul C919 will begin by the end of this year for delivery to China Eastern Airlines in two to three years, 2021/2023.**

This information comes as the Comac C919 test campaign is still in full swing. The four prototypes (101, 102, 103 and 104) multiply flight and ground tests (...).

Comac claims 815 orders (farms, letters of intent, memoranda of understanding, letters of purchase, etc.....) for C919.

My comment: The Chinese C919 has a capacity of between 158 and 174 passengers. As a competitor of Airbus and Boeing, it should initially equip Chinese airlines.

Will it then be able to penetrate the European and American markets?

> **Lion Air victim of hackers**

(source Les Échos) September 19 - In the last century, hijackers were the airlines' pet peeve, now it is the turn of hijackers on the Internet to

give them a cold sweat. **After British Airways, Delta Airlines or Cathay Pacific, their latest victim is the Malaysian airline Lion Air.** Or more precisely its subsidiaries, Thai Lion Mentari Airlines and Malindo Airways (Malaysia and Indonesia).

"Malindo Airways' passenger information, which is hosted on the cloud, may have been compromised," acknowledged the largest private Malaysian airline in a statement issued Thursday. **"We are still investigating the extent of the problem. Malindo is working with its data service provider Amazon Web Services** and its e-commerce partner GoQuo to investigate the security breach....".

Not only do these high-profile piracy damage the reputation of air carriers, but it also exposes them to severe financial penalties.

After admitting in September 2018 that the theft of its customers' confidential data would involve 380,000 credit cards, British Airways faces a fine of £183 million (€206.5 million) for "failing to protect its customers' personal data" (...).

My comment: For those who wonder what the cloud is, I repeat the explanation found on the culture-informatique net site: "cloud computing is about being able to use computer resources without owning them".

The providers of this service offer companies to host their data on machines located anywhere in the world. Many companies have been attracted, with suppliers permanently having a stock of machines immediately ready for use.

There are two major disadvantages regarding the security and confidentiality of data hosted in the cloud.

. The first, discussed in the article, is that companies outsource the protection of their most sensitive data to external providers. In the event of piracy, it is always the companies that are penalized, not their suppliers.

. The second disadvantage, which is less frequently discussed, stems from the adoption of the Cloud Act in March 2018 by the US Parliament. The Cloud Act requires service providers in the United States to produce the data they hold, whether the data is physically located in the United States or hosted outside the United States.

Some European companies, which fear industrial espionage, have opted for European suppliers or even preferred to keep their data in their own machines.

> Thomas Cook declared bankrupt: 22,000 jobs threatened, 600,000 tourists to be repatriated

(source L'avenir net) September 23 - British tour operator **Thomas Cook is ceasing operations with immediate effect...** All flight and holiday bookings have been cancelled. (...)

Thomas Cook's late discussions with his creditors and Chinese shareholder Fosun did not result in the rescue of the world's oldest independent tour operator. (...)

Thomas Cook's boss said the group's bankruptcy caused "a deep regret" and apologized to the company's "millions of customers and thousands of employees", PA reports.

This **bankruptcy presents a risk of job loss for 22,000 of the group's employees**, including 9,000 in the United Kingdom. **The British authorities will also have to immediately organise the repatriation of 150,000 British tourists. But in total, 600,000 tourists will have to be repatriated**, the largest operation for civilians since the Second World War.

The highly indebted **tour operator has seen its horizon darken in recent years due to fierce competition from low-cost travel websites and the reluctance of tourists worried about Brexit in particular.** He had announced an abyssal loss of £1.5 billion for the first half of the year, with a turnover of some £10 billion. Its fate was decided in a few days: last week, creditors asked it to find 200 million pounds (227 million euros) in additional financing so that a rescue plan already accepted for 900 million pounds and led by the Chinese Fosun, the largest shareholder, could be validated. Marathon discussions took place all weekend, but to no avail.

My comment: The Thomas Cook Group operates four airlines: Thomas Cook Airlines (34 aircraft), Thomas Cook Scandinavia (13 aircraft), Thomas Cook Balearics (6 aircraft) and Condor (53 aircraft). Condor announced that it was continuing its operations after applying for a loan from the German government to avoid a liquidity crisis.

Thomas Cook's bankruptcy will have consequences for its employees, customers and suppliers. Among them are aircraft rental companies. With the exception of five aircraft, all Airbus and Boeing are under lease with some 40 rental companies and investment funds.

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 23 September, the consultation had collected 769,000 signatures, or 16.30% of the required signatures.

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

The Air France-KLM share price was €9.206 at the end of Monday 23 September. It is up by 0.35%.

The average (consensus) of analysts for the AF-KLM share is 10.66 euros.

The barrel of Brent oil (North Sea) is down from \$4 to \$64. It is back to the average price of recent months, after having risen sharply last week following the attacks on oil installations in Saudi Arabia.

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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shareholders PS and PNC**

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This press review deals with topics related to Air France-KLM shareholding.

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