



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...

> **Benjamin Smith will unveil Air France-KLM's "trajectory" for the coming years**

(source Les Échos) 28 October - The next two weeks will be rich in information on Air France-KLM's ability to catch up with its main competitors. **More than a year after taking office, Benjamin Smith is expected to unveil, on November 5**, during a day dedicated to investors, "**the Group's trajectory for the coming years**", as he himself announced in an internal video message. The CEO of Air France-KLM thus hopes to "take another important step forward for the group", aimed at "strengthening market confidence and attracting new investors".

This confidence remains very limited for the time being, given Air France-KLM's stock market valuation (€4.5 billion), which is 40% lower than that of the Lufthansa group, 60% lower than that of IAG (British Airways-Iberia) and 64% lower than that of Ryanair. **While the new Air France-KLM boss has done a lot in a year to calm the social climate at Air France and clarify what should be clarified, the financial results have remained disappointing.** The

group was still in the red in the first half of the year, with Air France's operating

losses (113 million in the first half) continuing to plummet results, while

KLM's profits (202 million) were almost halved. And according to analysts' forecasts, the third quarter results, which will be released on October 31, are also expected to be disappointing. The financial situation of Air France, as well as that of its regional subsidiary Hop, which is still heavily loss-making, may even require recapitalization. To reduce structural costs and improve the group's operations and profitability, **Benjamin Smith**, like his predecessors, **is relying on simplifying procedures, the fleet and the brand portfolio.** The Air France-KLM CEO also announced his intention to move **Air France and KLM's offer upmarket**, and to **accelerate the development of Transavia's low-cost offer.** And this while respecting the identity of each of the group's brands, in order not to rob anyone. But here again, the **intentions are slow to materialize. Starting with the acceleration of Transavia's development.** While the agreement reached with Air France's main pilot union has made it possible to remove the limit of 40 aircraft at Transavia France, no target has yet been set. And for the time being, Transavia's seat offer will be slightly lower this winter and should not take off next summer either, due to a lack of additional aircraft and pilots.

The restructuring of the fleet, which began with the announcement of the distribution of A350 and B 787 orders between Air France and KLM, the upcoming exit of the A380s and the A220 order for the medium-haul, **also leaves several questions unanswered.** Which long-haul aircraft will replace Air France's A380s? And are the A220s also intended to replace the A320 and A321?

In addition, the **desire to upgrade Air France's offer also raises doubts.** The introduction on Air France long-haul flights of a new, unified and improved service in business class, which leads to a change in crew composition, has yet to obtain the green light from a majority of unions representing flight attendants. (...)

After that, it will be the passengers' turn to decide. However, improving service in business class (...) will not make the business of the greatest number of people. It will result in a reduction in service in economy and premium economy class, with (...) the abolition of the aperitif phase. Passengers in "eco" class will still be entitled to a glass of champagne, an Air France specialty, but they will have to be satisfied with a reduced service in the distribution of meal trays.

My comment: Air France-KLM's third quarter results will be published on 31 October. A few days later, on 5 November, the "Investors' Day" will take place during which the Chief Executive Officer of Air France-KLM plans to unveil the Group's trajectory for the coming years.

*The most anticipated event is the one on November 5:
. by the Group's employees who expect more than just an nth attrition plan (Transform 2015 or Perform 2020 style), synonymous with thousands of job cuts..
. by investors who expect measures to improve the competitiveness of the Air France-KLM group.*

> **Air France-KLM: +2.5% increase in its winter offer**

(source CercleFinance) 24 October - **Air France-KLM announces a +2.5% increase in its offer for the 2019-2020 winter season** (27 October 2019 to 28 March 2020) compared to the previous winter season.

The company will propose 32 new routes. **Growth was as follows: +4% for long-haul network passenger business, -2% for medium-haul and short-haul network passenger business and -1.9% for Transavia business.**

On its long-haul network, the Air France-KLM Group's offer increased by +4%, particularly to the Americas and Asia with Air France and to India with KLM. The Group is proposing five new routes and several frequency increases compared to the previous winter season.

My comment: *The winter season is the most difficult for European airlines. Generally offering fewer flights than during the summer season, they take the opportunity to carry out major maintenance operations on their aircraft.*

Some even choose not to fly their planes. This is the case with Ryanair, which every winter grounded several dozen of its B737s. Last winter, Transavia France leased eight of its B737s to Air Transat.

> **Skywise: back on the alliance between Airbus and Delta for cross-fleet predictive maintenance solutions**

(source Le Journal de l'Aviation) October 24 - This was one of the highlights of the MRO Europe show last week in London. **Airbus and the American company Delta Airlines have revealed that they have formed a digital alliance to jointly develop new predictive maintenance services based on Airbus' Skywise platform.**

Importantly, these new services will be "cross-fleet", i.e. **they will also cover aircraft types that are not part of the European aircraft manufacturer's catalogue, and** therefore in particular Boeing aircraft. The benefits of this new partnership, called "Predictive maintenance services powered by Skywise", will be offered to third party airlines from

next year.

(...) Airbus Services is thus contributing its digital platform Skywise (hosting and data integration, algorithms, application building blocks such as Skywise Reliability Services, Skywise Health Monitoring...). Delta brings its extensive operational knowledge as an airline, but also its knowledge of MRO (Delta TechOps) services, **both for aircraft and their engines and systems.**

(...) But the engine and systems component of this alliance could also have significant benefits for all the services offered by the aircraft manufacturer. "Engines and systems are a natural extension for the digital part, but it is also true for the physical part of services. We invest a lot in FHS services and **our ambition is clearly to become a one-stop shop, with integrated services for the entire aircraft**, nose-to-tail, and therefore for components, engines and airframe. "We want to commit to airlines on a defined and as low a maintenance cost as possible. "» (...)

***My comment:** Delta Airlines chose Airbus' Skywise predictive maintenance platform.*

This is not the case for the Air France-KLM Group. To best satisfy its many customers, our Group has chosen to use artificial intelligence to develop its own predictive maintenance tool, Prognos.

> Threat to Air France: EasyJet deploys its connecting system in Orly

(source La Tribune) 25 October - After London-Gatwick, Milan Malpensa and Berlin-Tegel, **easyJet will launch its "Worldwide by EasyJet" connection system at Orly airport in the next few days.** This system makes it possible to connect the European network of the low-cost airline to long-haul flights of other airlines, and thus to offer long-haul end-to-end flights, whereas easyJet does not, since it only operates short- and medium-haul flights in Europe. EasyJet uses DoHop's technology.

In Orly, easyJet will start with Corsair and La Compagnie (...). The **connection is facilitated by the collection of luggage at Orly** and by a priority circuit for the passenger. This service is provided by the ground handling company G3S Alyzia.

It costs passengers about 20 euros at the time of booking, according to Thomas Waintraub, Self Connect project manager for G3S Alyzia, which registered the brand. (...)

Already operational in Lyon, but without baggage handling, Alyzia's Self Connect system should be deployed in Montpellier, Bordeaux,

Toulouse, Nantes, and probably Marseille. **Roissy-Charles de Gaulle is also under study. A danger for Air France. EasyJet could indeed establish partnerships with a large number of long-haul airlines.** At the other airports where it offers this service, easyJet has already signed with such formidable airlines as Singapore Airlines, Emirates or Norwegian. (...)

My comment: *The Worldwide by Easyjet connection system was launched in 2017 with Norwegian and Westjet in Gatwick. It has since welcomed partners such as Corsair, La Compagnie, Loganair, Singapore Airlines, Virgin Atlantic and Air Transat. This system only works with connections of at least 2h30.*

> **Lufthansa cleans its Airbus and Boeing fleet**

(source Air & Cosmos) October 23rd - The **Lufthansa Group has decided to clean up the long-haul fleet of the various subsidiary airlines. Objective: Reduce the number of aircraft models by 2025 to achieve substantial savings in the areas of flight crew and technician training, operations and maintenance.**

At Lufthansa, the aim is to gradually bring out the 17 Airbus A340-600s and 13 Boeing 747-400s still in service. Not to mention the 26 A340-300s in fleet at Lufthansa but also at Swiss, Edelweiss and Brussels Airlines.

On the Lufthansa Cargo side, the MD-11s will be replaced by Boeing 777 Freight. The Airbus A330-200s from Brussels Airlines, which would only keep the A330-300s, as well as the Boeing 777-200 and 767-300ERs from Austrian Airlines, would also have to be taken out.

The Lufthansa group has placed orders for 45 Airbus A350-900s (20 of which were placed last March) and 20 Boeing 787-9s, as well as 20 Boeing 777-9 farms and 14 options. The first 777-9 is still expected in the second half of 2020.

My comment: *The Lufthansa group is adopting the same strategy as the Air France-KLM group to reduce the operating costs of its fleet: it will reduce the number of aircraft families it operates.*

> **How United Airlines redeemed itself for driving**

(source Les Échos) October 27 - **That was just over two years ago.** On a flight from Chicago, a passenger was violently ejected from a United Airlines flight after refusing to give up his seat to United Airlines

personnel on an overbooked flight. The incident, filmed by passengers, triggered a wave of outrage on social networks. **United had become a symbol of the arrogance of the big American companies**, accused of treating customers like cattle after sharing the sky.

Two and a half years later, **United Airlines** (...) bought itself a ride and **now cultivates a friendly style and good feelings**. To the point of being able to spend a full day presenting his strategic projects last Thursday in Chicago, not to mention money, except to announce investments in the energy transition and passenger well-being. (...)

"In 2017, our priority was to offer the best operational performance and this led us to make mistakes," explains Managing Director Oscar Munoz. **In 2018, we launched our Care4 program, which puts the passenger at the heart of our concerns.** We want to change the relationship between the passenger and United. The first concrete implementation of this programme consisted in offering each of its 30,000 cabin and airport staff four hours of training in caring for passengers. In addition to this training component, **this year a series of innovations were added, all aimed at cultivating the image of passenger service.**

This ranges from the installation of new, more spacious on-board luggage compartments to a new application for viewing the interior of aircraft in 3D, as well as a new flight management information system, which has already "saved" some 60,000 connecting flights. (...)

The fight against global warming is obviously not forgotten. (...) United is the only American company to have invested in a biofuel production site in California. (...)

> **American Airlines: 737MAX downtime weighs on results**

(source: Boursier com) October 24 - **American Airlines reports quarterly results slightly above analysts' expectations**, although revenue is a little short. For the third quarter, the carrier posted net income of \$425 million compared with a profit of \$372 million (...). Sales increased by 3% to \$11.91 billion where the market expected \$11.94 billion. Unit revenue, an element that is closely monitored by operators, improved by 2%. (...)

Management now estimates the cost of capitalizing the MAX 737 at \$540 million in 2019, whereas it had previously thought that its pre-tax income would be reduced by \$400 million due to **flight cancellations due to aircraft unavailability**. American Airlines, which has 24,737 MAX, currently expects the aircraft to be back in the air by mid-January.

(...)

> Time is running out for Boeing's 737 MAX

(source Le Journal de l'Aviation) October 22nd - The weeks follow one another and are similar at Boeing, each bringing its share of bad news for the 737 MAX program. (...)

But **the 737 MAX crisis is also about planes leaving in the sun for the winter period in North America and Europe, or planes moving away from their favourite hub to save on parking costs, a sign that aircraft cockpits could still last for months.** For the time being, the two main American operators, Southwest and American Airlines, expect their fleets to return to service very gradually in February and January respectively. For Europe, Patrick Ky, the Executive Director of EASA plans the month of January at the earliest, depending on the test flights that will be carried out by European pilots on the aircraft in mid-December.

Because time is running out for Boeing's 737 MAX. The aircraft manufacturer has not delivered a single aisle civil version for months and **it will now take at least a year to bring into service all the aircraft already produced** (modifications and redelivery of aircraft already delivered, new deliveries, new crew training), not to mention the immense communication work that will be necessary to gradually regain the confidence of passengers, now well informed, who will not be satisfied with a simple change in the name of the programme.

And if it does not return to service in the coming months, the worst-case scenario would then become the most likely with a further reduction in production or even its temporary shutdown, which would have devastating effects on the entire supply chain of the programme.

***My comment:** The consequences for the aviation industry of a permanent shutdown of the B737 Max are so important that no observer would dare to consider it. No manufacturer would be able to replace the thousand B737 Maxes expected within the next two years.*

But no customer will want to get back on that plane if they are not sure they feel safe. The challenge facing Boeing and the certifying bodies is immense.

> The European Parliament for protection against airline bankruptcies

(source La quotidienne) 28 October - (...) Following the gigantic bankruptcy of Thomas Cook, the **European Parliament is now calling**

for better protection for travellers. The resolution also requires protection of customers' money for airlines. (...)

In concrete terms, **Parliament proposes that, in future, airlines should be required to secure funds for flights already paid for in advance by customers but not yet carried out** via guarantee funds or insurance contracts. An addition could be included in the regulation, according to a resolution recently adopted in Strasbourg.

Tourism business unions such as Ectaa, DRV, ASR, EDV or VUSR have also campaigned for a Europe-wide introduction of security for the purchase of airline tickets in the event of insolvency, **similar to the deposit protection that already exists for package holidays.** EU Member States have yet to decide on the revision of the Passenger Rights Regulation.

IATA remains out of phase for the time being (...):"It is essential that governments, regulators and air passengers understand the balance between protecting consumer rights and protecting sustainable air services. Appropriate regulation, coordinated at the global level, can give passengers confidence while guaranteeing the freedom to fly. Rather than regulations "defending" passengers, they should be defined as a partnership between consumers and industry, in order to encourage competition, innovation, consumer confidence and improved air connectivity" (...).

***My comment:** Since the beginning of the year and the succession of European airline bankruptcies, consumer associations and governments have been looking for solutions to protect customers.*

The major airlines are reluctant. They fear that they will have to bear the financial consequences of bankruptcies for which they are not responsible.

> Vinci benefits from the strength of its concession activities in Q3

(source Reuters) October 24 - **Vinci announced Thursday an 11% increase in its turnover** to €34.9 billion in the **first nine months of the year, benefiting from the solid performance of its airports and motorway concessions.**

In the third quarter alone, the group, which acquired a majority stake in Gatwick Airport in December, recorded organic growth of 6.3% to 13.1 billion.

Vinci says that it did not feel any particular effect of the uncertainties related to Brexit on its UK operations in the first nine months of the year, even though Gatwick's traffic declined by around 1% in the third quarter

alone. This decline, according to the group, may also be due to the bankruptcy of tour operator Thomas Cook and a strike at British Airways.

Vinci, which is a candidate for the privatisation of the French airport operator ADP, has confirmed that it expects its turnover and profit to increase in 2019.

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 25 October, when half of the signature deadline has passed, the consultation had collected 896,000 signatures, or 19% of the required signatures.

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

The Air France-KLM share price was €10.755 at the end of Monday 28 October. It is up (for the seventh consecutive week) by 1.94%.

The average (consensus) of analysts for the AF-KLM share is 10.81 euros.

The barrel of Brent oil (North Sea) is up from \$2 to \$61.

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....

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| François Robardet

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