



I Letter from the Director Air France-KLM

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

No. 728, November 4, 2019

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The Press Review on Monday...

> For Air France-KLM, everything will be decided on 5 November

(source Les Échos) 31 October - Air France-KLM had announced it: the exit of the A380 from the Air France fleet will have a global impact of 400 million euros. And this impact is immediate. In the third quarter of 2019, the air carrier already wrote down €100 million. In addition, there was a negative currency effect, linked to the rise in the value of the dollar and the yen, all in a less favourable macroeconomic context. "The tendency of people to travel is not at its peak," commented CFO Frédéric Gagey to journalists, referring to situations in Argentina, Brazil, Hong Kong or Lebanon.

As a result, **quarterly net profit fell by more than half compared to last year to €366 million**. The consensus, which was much more positive, was for 643 million... Also down, but much less pronounced, the **operating income amounted to 900 million euros**, compared to 1.065 billion euros a year earlier and 963 million expected by the consensus, **i.e. a decrease of 15.5%, which is due to "the commercial environment and the increase (of 135 million, editor's note) in fuel bills"**, explains the Ben Smith group. Sales increased by 0.8% to nearly €7.7 billion, in line with analysts' expectations. But there is one indicator that investors were waiting for firmly: **unit revenue in the third quarter. (...) slightly decreased by 0.6%**.

However, this is less than the market fears. According to management, the **trend is expected to continue in the fourth quarter**. On the other hand, long-haul reservation coefficients increased on average over the November-March period.

Concerning Transavia, the "nugget", as it is described, it recorded a 6.4% increase in the number of passengers carried during the quarter, an 11.1% increase in its turnover and a 3% increase in unit revenue. On the other hand, **operating income declined by 2.8% due to temporary fleet expenses**. Subsequently, management once again revised downwards its forecast for capacity growth in its low-cost subsidiary, expecting an increase from 7% to 9% to 6% to 8%.

"The environment is not like in 2018, or even in 2017," CFO Frédéric Gagey

told journalists, citing the commercial tensions weighing on freight, where the load factor fell by 3.4 points to 54.8%.

However, Air France-KLM has confirmed that it aims to increase the capacity of its network excluding Transavia from 2% to 3% in 2019 (...).

Ben Smith will be expected at the turn next week. It is **on November 5** that the Canadian **will present the group's trajectory for the coming years. The main lines have already been more or less revealed:** move upmarket, simplification of structures, fleet optimization, reduction in the performance gap between Air France and KLM, which, over nine months, posted operating margins of 2.1% and 8.5% respectively. It remains to be seen how this can be achieved.

***My comment:** In the third quarter, the decrease in Air France-KLM's operating income (-165 million) was mainly due to the increase in fuel costs (+135 million).*

For the coming months, vigilance is required. Since the beginning of the year, all European airlines have recorded a sharp decline in their Cargo business.

However, the decline in freight has often been the sign of an economic crisis.

This is probably why most European airlines have announced business growth of only 2% for 2020.

> Anne Rigail, CEO of Air France, "Aiming for Operational Excellence"

(source Forbes) November 1 - On the occasion of the first commercial

flight on board the Air France A350, Anne Rigail reviews Forbes' first few months at the head of Air France (...).

Q. A few days before Ben Smith's long-awaited presentation of the group's strategic orientations, what is your assessment of this first year at the head of Air France ?

Anne Rigail : This first inaugural A350 flight to Toronto sums up **our strategy of operational excellence and customer journey improvement.**

Our first priority was to re-establish dialogue with all employees to restore a peaceful social climate. (...) The other priority was the simplification of the brand portfolio with the removal of the Joon brand and the end of the use of the Hop brand. (...) One of the last negotiations with trade unions and staff focused on the possibility of growing Transavia (...). **Our ambition is to make Transavia the leading low-cost player from France.** It's off to a good start, because last year Transavia grew by 15%.

The other major strategic focus has been to restore trust with our customers. This was achieved through an operational excellence plan, including the installation of 4 reserve aircraft to avoid "hot" cancellations. All this has enabled Air France to move up more than 10 places in the past year in international punctuality rankings. We are in the top three in Europe.

Q. You are investing 1 billion euros over 5 years in the client project? In concrete terms, what will change for voyageurs ?

Anne Rigail : **We invest more than €1 billion a year in fleet renewal and an additional €1 billion over 5 years is dedicated to improving customer service.** The arrival of 28 A350s makes it possible to offer new generation aircraft that are more efficient for the environment, more adapted to new needs, more comfortable and much quieter. (...)

For their airport journey, our customers are looking for more fluidity. We are working to improve digital tools to remove all irritants. (...) We have also launched a plan to renovate or create exhibitions (...)

In flight, the difference is mainly due to the special attention of our staff. Digitisation makes it possible to personalise customer relations through tablets. Digital technology feeds the human being to anticipate the wishes of our customers.

Q. Your other major project is the environment. The aviation sector is under fire from criticism, what answers do you provide at vous ?

Anne Rigail : Air France has always led the way in this area. For the **fifteenth consecutive year, Air France-KLM is ranked first in the DJSI's Europe and World Index, the Dow Jones Sustainability 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. (...)
85 500 trees have already been planted since the launch of the new Trip and Tree by Air France reforestation program. This program offers Air France customers, when purchasing their tickets, to do something for the planet and reduce the carbon footprint of their trip by planting trees they can choose.

From 1 January 2020, on all our domestic flights, we have voluntarily decided to fully offset the CO2 emissions of all our passengers in order to contribute to the carbon neutrality of their travel. At

European level, **Air France already offsets 50% of its emissions under the European ETS system.** This costs us around 40 million euros per year. From 2021, for international flights, airlines have committed themselves to reducing their greenhouse gas emissions through the global system (CORSIA), concluded within the framework of the International Civil Aviation Organization (ICAO).

For us, the results are already tangible. (...) - **7% net CO2 emissions between 2005 and 2018 for the Air France Group**, in a context of increasing air traffic. (...)

***My comment:** In 2019, Air France's transformation actions were carried out with the aim of putting customers at the centre of attention, offering them better services and greater regularity. All employees contributed to this.*

The NPS (Net Promoter Score) indicator, which measures the degree of customer satisfaction, shows the effectiveness of these actions. Since the beginning of the year, it has been constantly improving, exceeding the objectives and results of previous years.

> Gulf Air signs with KLM

(source Air Journal) October 29 - **Gulf Air has signed a code-share agreement with KLM Royal Dutch Airlines, giving the latter access to four destinations in Pakistan.** (...)

According to the agreement valid since 27 October 2019 between the national airlines of Bahrain and the Netherlands, Gulf Air can now sell KLM flights between its base in Amsterdam-Schiphol and Manama and Frankfurt airports under GF code. In exchange, **the Dutch company can sell under code KL on Gulf Air flights** between its base in Manama and Sialkot, Karachi, Lahore and Peshawar **in Pakistan, a country that has been absent from its network since 2000.** (...)

> 3rd quarter: the IAG group suffers from the British strikes

(source Air Journal) November 1 - The **International Airlines Group (IAG)** saw its turnover increase by **2.4%** in the third quarter, but its **net profit fell by 10.6%** due to industrial disputes in the United Kingdom.

Composed of the airlines British Airways, Iberia, Aer Lingus and the low-cost airlines Vueling and Level, IAG recorded revenues of €7.31 billion in the third quarter of 2019, up 2.4%. **Passenger revenues increased by 2.3% but cargo revenues were down 7.2%, while overall costs increased by 4.9%.** This leaves it with an operating profit of €1.425 billion (+4.9%), with unit revenue per SKO down 0.5% to €7.08 cents.

Group CEO Willie Walsh talks about "good underlying results" in a statement. (...) In addition, **our fuel bill increased by 136 million euros during the quarter**, with unit fuel costs increasing by 4.2% at constant exchange rates. The cost of social conflicts is estimated at 155 million euros.

(...) **IAG expects its operating profit for 2019**, before exceptional items, to **be down 6% compared to 2018** pro forma. Passenger unit revenue is expected to decrease slightly at constant exchange rates, and unit costs excluding fuel are expected to improve at constant exchange rates.

My comment: For the third quarter, IAG posted a net profit of €1 billion, down by €100 million compared to the previous year.

It should be noted that, like most of its competitors, IAG reports a sharp decline in the cargo business (an activity that British Airways fully outsources).

> **IAG acquires Air Europa and puts pressure on Air France-KLM**

(source La Tribune) November 4 - **IAG**, the airline group composed of British Airways, Iberia, Aer Lingus, Vueling and Level, is **once again demonstrating its great reactivity. Less than a month after learning of the end of its alliance with its main ally in Latin America, Latam, following its merger with the American company Delta**, a member of a competing alliance, IAG found a way to preserve its positions between Europe and Latin and Central America, which are already strong with the presence of the Spanish company Iberia.

On Monday 4 November, **IAG announced that it had** reached an agreement with the Spanish tourism group Globalia Corporación Empresarial to **buy its Air Europa airline, which is** also active in this strategic area, **for €1 billion. With its 66 aircraft, Air Europa operates**

not only domestic flights but also international flights, mainly to Latin America and the Caribbean.

Last year, Air Europa carried 11.8 million passengers and generated a turnover of 2.1 billion euros and an operating profit of 100 million euros. IAG will acquire all the shares of Air Europa and expects to complete the transaction in the second half of 2020 once the various regulatory approvals have been obtained. IAG, which will finance the transaction through debt, will keep the Air Europa brand but the company will be integrated into Iberia.

This announcement is a major blow for Air France-KLM. Partners for some 15 years, **the French group and Air Europa (both members of the Skyteam alliance) concluded a 10-year joint venture agreement in July** to jointly operate air services between Europe and Central and South America. Awaiting the green light from the Brazilian authorities, this alliance is unlikely to see the light of day. It remains to be seen whether Air France-KLM will be able to compensate Air Europa's departure with Latam's entry into Delta's fold, which has taken 20% of its capital. While Latam has announced its departure from the Oneworld alliance (British Airways, Iberia, American Airlines, etc.), it has not indicated that it will join Skyteam, Delta's alliance, Air France-KLM.

My comment: *By buying Air Europa, the IAG group is carrying out a triple operation:*

- . it strengthens its Madrid hub,*
- . it increases its market share on routes between Europe and South America,*
- . and it deprives the Air France-KLM group of a long-standing partner.*

Air Europa had been a member of the Skyteam alliance since 2007.

> **Will Lufthansa finally take a stake in Alitalia?**

(source La Quotidienne) November 4 - Since May 2017, the Italian airline Alitalia, which had just failed to find a solid investor, has been managed by ad hoc directors. **To maintain a predominantly Italian shareholding, the Italian government called on the major groups on the peninsula in a project that included the acquisition of a stake in a major foreign airline. In the end,** the Italian railways, Ferrovie dello Stato, were selected. A deadline for recapitalization was set at 15 October.

(...) **Delta Airlines seemed to have won the last round and the agreement was to be finalised last month with the** arrival of a third minority shareholder, the Italian group Atlantia (Benetton Group), to complete the round.

(...) Reuters from a reliable source states that **Lufthansa would consider investing nearly €200 million to restructure Alitalia. Almost double what Delta Airlines had proposed.** (...) Previously Lufthansa had given up because it did not seem possible to carry out the desired reduction in staff numbers. (...)

Because to continue to operate without redundancies, Alitalia has built a system of technical unemployment. Every month a part of the company's staff is declared technically unemployed, so their salaries are paid by the state and not by the company.

Once their legal period of technical unemployment has been exhausted, they return to the company and return to work, while another batch of employees is in turn registered for technical unemployment. (...)

***My comment:** Lufthansa would propose to invest 200 million euros in Alitalia. This was demanded by the Italian Prime Minister at the end of September at Delta Airlines.*

It remains to be seen whether the conditions imposed by Lufthansa will be acceptable to the Italian government and to Alitalia's employees.

> IndiGo places a new giant A320neo order with Airbus

(source Le Journal de l'Aviation) October 29 - **IndiGo is** convinced that the long-awaited explosion in Indian air traffic is a serious one. The Indian airline **has just placed a new giant order with Airbus on 29 October for no less than 300 A320neo family aircraft.** This third contract, which has been closed since 2011 - with one signature every four years - will bring the Indian low-cost airline's total to 730 copies. It will thus strengthen its position as the world's leading operator, having already received 97 aircraft since March 2016.

This new order will consist of A320neo, A321neo and for the first time A321XLR. The latter, **capable of connecting New Delhi to London with its 4,700 nm range (8,700 km),** could well open the doors of Western Europe to indiGo. Details of the distribution between the different models have not been provided, but these new aircraft will be added to the 280 A320neo and 150 A321neo already ordered (not counting the 100 A320ceo signed in 2005). (...)

The choice of engine has not yet been announced, but it will certainly be CFM International's LEAP-1A. When IndiGo placed its

first order in 2011, it opted for Pratt & Whitney's PW1100G-JM, but, burdened by repeated engine problems, the company finally turned to the joint venture between Safran Aircraft Engines and GE Aviation last June. At the Paris Air Show, it signed a contract worth more than \$20 billion, catalogue price, for the engine and support of 280 A320neo and A321neo aircraft. The first deliveries of LEAP-1A-equipped aircraft are scheduled for next year.

My comment: *The disappearance of Jet Airways at the beginning of the year left the field open for other Indian companies, most notably Indigo.*

With this mega order for the A320 Neo, the Indian company is giving itself the means to strengthen its majority position on the Indian market.

> **Japan Airlines (JAL): 30% drop in net profit in 1S**

(source awp/afp) October 31 - **Japan Airlines (JAL) announced Thursday a 30% year-on-year drop in its net profit for the first half of 2019/20 to 51 billion yen (425 million euros), which was affected by lower demand for international flights and freight.**

JAL, like its competitor and compatriot ANA Holdings, is suffering from Sino-American trade tensions, which are weakening its freight business, and historical frictions between Japan and South Korea, which have caused tourist flows between the two countries to fall since this summer. Pro-democracy demonstrations in Hong Kong have also affected Japanese travel to this destination. (...)

For the full year started on April 1, **JAL revised part of its objectives negatively:** the group still expects a 24% decrease in its net profit to 114 billion yen (950 million euros) but its turnover should increase less than expected, by only 1.9% instead of 5%, to 1,516 billion yen (12.6 billion euros).

> **China: airlines climbed up in the third quarter**

(source awp/afp) October 31 - China's leading airlines posted higher third quarter results, driven by the country's traffic boom despite higher kerosene prices.

China Southern Airlines, the country's largest airline in terms of passenger numbers, **saw its net profit increase by 17.1% year-on-year** to 2.38 billion yuan (304 million euros), according to a statement sent Thursday to the Hong Kong Stock Exchange.

Its competitor **China Eastern Airlines saw its profit jump by 9.83%**

year-on-year over the July-September period to 2.42 billion yuan (€308 million), said the second largest Chinese airline in terms of passengers. For its part, **Air China reported a net profit up 4.4% year-on-year** to 3.62 billion yuan (€460.8 million). (...)
With the rise in living standards and the Chinese appetite for travel, air transport is booming in the country. (...)

> **Ryanair's profit was higher than expected, but exposed to the hazards of the Boeing 737 MAX**

(source Reuters) November 4 - The airline **Ryanair** (...) **posted an after-tax profit of €1.15 billion between April and September, the most prolific period for its business, in line with last year's results and above analysts' expectations of €1.08 billion.**

The company now expects an annual profit of between 800 and 900 million euros. (...)

Michael O'Leary, Ryanair's CEO, said the goal now is to have 20 Boeing 737 MAX by next summer, adding that "there is a real risk that there will be none" by that date. (...)

For the fiscal year ending 31 March 2021, Ryanair plans to carry 157 million passengers, only 2.6% more than its target of 153 million over the period April 2019-March 2020.

This would be the lowest growth in its traffic in seven years - since 2014, Ryanair has been operating on average on a 10% increase in the number of its passengers.

And even then, **this growth could be reduced to zero in the event of further delays in deliveries.** However, CFO Neil Sorahan said there was "absolutely no risk" that the medium-term target of 200 million passengers per year by March 2024 would not be met.

My comment: For the first time, a (future) customer of the B737 Max is considering not being able to use it during the summer of 2020.

If this assumption were to be confirmed, Ryanair would have to delay the release of old B737s it had planned to replace with B737 Maxs. This situation would generate additional maintenance costs to continue using these old B737s.

> **737 MAX: Boeing's boss does not convince on safety in the US Congress**

(source Agence France-Presse) October 30 - **Boeing's boss failed to convince Boeing on Tuesday that safety, rather than money, was**

the manufacturer's priority during a tense hearing before angry U.S. senators and the families of the 346 people killed in the crashes of the 737 MAX, the manufacturer's flagship aircraft. For more than two hours, Dennis Muilenburg was questioned and criticized - often in a virulent way - by many elected officials, who denounced Boeing's attitude in this case, one year to the day after the Lion Air tragedy, followed in March by that of Ethiopian Airlines. **His apologies to the families, his voice broken by emotion, were not enough to elicit clemency from the senators.**

Straight as an i, often tense, Mr. Muilenburg was pressed for specific questions about the steps that led to the flight clearance of the 737 MAX, the latest in a prestigious line of aircraft launched in the late 1960s. **Especially on the spot, the very close relationship between the regulatory authority that gave the green light (the FAA) and the aircraft manufacturer, but also the lack of transparency surrounding the MCAS automatic system,** which was supposed to prevent the MAX from nosing down and which was implicated in both accidents.

"Boeing came to my office some time after the accidents and said that they were due to pilot errors. The truth is, these pilots never had a chance. Their families didn't know they were in flying coffins because Boeing had decided to hide the MCAS from the pilots," **said Connecticut Democrat Senator Richard Blumenthal.** (...)

Dennis Muilenburg appeared destabilized by these attacks from elected officials, while leading an American industrial giant of crucial importance in the country's economic fabric. "We must and we will do better. We make mistakes and there are things we don't do well," said the boss.

He then reiterated that safety was Boeing's priority. But parliamentarians accused the manufacturer - on the basis of internal documents unveiled late - of having accelerated the development and certification of the MAX to face competition from Airbus, which had taken a lead in this very lucrative niche. (...)

My comment: *If you have the opportunity, I invite you to find an excerpt from the Boeing boss's hearing on my @FrRobardet twitter account. His attitude is more eloquent than a long speech.*

You can also find the video by visiting [my blog](#).

> Dozens of Boeing aircraft immobilized worldwide due to cracks, according to the manufacturer

(source Atlas info) November 1 - **Cracks discovered on Boeing 737**

NG aircraft have resulted in dozens of aircraft around the world being immobilized for repair, the manufacturer announced Thursday. (...)

Earlier this month, Boeing (...) reported a problem with the pickle fork, the part of the aircraft that connects the wings to the fuselage and manages aerodynamic forces and stresses.

In an Airworthiness Directive (AD), the US Federal Aviation Agency (FAA) (...) requires inspection, within seven days, "before the accumulation of 30,000 flight cycles" of each aircraft. (...) The FAA also requested that aircraft with accumulations between 22,600 and 29,999 cycles be inspected within the next 1,000 cycles. On

Thursday, **a Boeing spokesman told AFP in Sydney that less than 5% (50 aircraft) of the 1,000 aircraft inspected at this stage had cracks and had been immobilized for repair.** He refused to provide the exact figure. (...)

Stephen Fankhauser, an aviation expert at Swinburne University of Technology, **explained that the parts in question were built in such a way that "the structure can tolerate a certain level of damage or degradation"**.

Of the four major U.S. airlines, only Southwest has detected defective aircraft (three). (...) The world's largest operator of 737 NG, with "more than 450 Boeing 737-800", Ryanair has indicated that it is not affected by the problem at the moment. (...)

As for **Transavia France, a low-cost subsidiary of the Air France-KLM group, "checks have begun" on its 38 aircraft and "to date no anomalies have been detected"**, according to a spokesman.

***My comment:** The US Security Agency (FAA) has indicated that the defects observed on the B737 NG (the predecessor of the B737 Max) are not likely to cause the entire B737 NG fleet to stop.*

> The Airbus A220s will no longer have to fly full throttle after several incidents

(source AFP) October 29 - **The Airbus A220, the former Bombardier Canadian Airbus A220 Series, will no longer be required to operate at full capacity from a certain altitude**, after several engine failures on Swiss aircraft, the Canadian and European Aviation Safety Agencies (EASA) have announced. (...)

This decision follows "several cases of in-flight engine shutdown" on Airbus Canada BD-500s, now A220, notes Transport Canada. "Preliminary investigation results indicate that high altitude climbs at high thrust levels on engines of a certain nominal thrust could be a

contributing factor" to these incidents, the agency adds. (...)

My comment: Security agencies have decided to limit the power of the A220 engine to 94% of its potential above 29,000 feet (8,840 meters).

At this time, there is no information on corrective measures to remove this restriction.

Stock market press review

> Air France KLM: a step higher?

(Boursier.com) October 30 - Broker **Bernstein** is still at "market performance" with an adjusted target price on the file of 10 to 11.20 euros. **Berenberg** also remains a buyer on the airline, targeting 12.40 euros, while the Franco-Dutch airline reported an increase in its activity in September with 9.3 million passengers transported (+2.2%)...

Among other opinions, **AlphaValue** decided to bring back to 'accumulate' to 'reduce' its advice, despite an adjusted target of 10 to 10.1 euros. **Bank of America Merrill Lynch**, which recently took over the case with a "buy" advice and a target of 12 euros, expects market share gains and improved margins, while the solidity of the balance sheet also makes it possible to consider the payment of dividends...

UBS raised its Air France-KLM price target from €10 to €10.7 while reiterating its Neutral recommendation. **HSBC** raises its target from 0.5 euros to 12.50 euros.

My comment: Air France-KLM's quarterly results were well received by analysts. Those who spoke revised their price targets upwards.

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 November 4, when half of the signature deadline has passed, the consultation had collected 922,000 signatures, or 19.54% of the required signatures.

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

The Air France-KLM share is at €10.57 at the end of Monday, November 4. It is down (after seven weeks of increase) by -1.72%.

The average (consensus) of analysts for the AF-KLM share is 11.10 euros, up following the announcement of the 3rd quarter and first nine months of the year results

The barrel of Brent oil (North Sea) is up from \$2 to \$63.

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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