



## 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...*

#### > Why Ben Smith's strategic plan for Air France - KLM is struggling to convince the market

(source BFM Bourse) November 6 - **Despite the return of dividend payments in 2022 and ambitious financial targets**, the 2024 strategic plan unveiled on Tuesday by the Canadian CEO of the Franco-Dutch airline resulted in a decline in Air France - KLM shares by nearly 6%. **In particular, the market fears that the scale of the investments announced (€20 billion over five years) will not allow the group to generate sufficient cash before 2023-2024.** (...)

Ben Smith has nevertheless taken care to brush investors in the right direction by announcing the long-awaited recovery in dividend payments, suspended since 2008. (...) Frédéric Gagey, Air France - KLM's Deputy Chief Financial Officer, said that the group should be able to pay a dividend "as soon as operating income exceeds €1.9 billion". (...)

In terms of financial objectives, **the Franco-Dutch company aims "in the medium term" at an operating margin of 7 to 8%, while analysts expect 4% for the current financial year.** To do this, Ben Smith intends to restore the group's profitability, which is 25 and 50% lower than that of its European competitors. (...) By 2024, the manager also wants to increase operating income to €2.5 billion, compared with the

€1.15 billion expected in 2019 by the market consensus. Ben Smith intends to increase Air France's operating income by 900 million euros over the next five years, KLM's by 250 million euros and its low-cost subsidiary Transavia by 100 million euros. The remaining \$100 million would come from additional synergies.

**These ambitious objectives, if achieved, would enable Air France-KLM to finance the €20 billion of investments planned over the next five years.** In order to achieve this objective, the air carrier undertakes to reduce its unit costs (measured in seat-kilometre equivalent offered, at kerosene prices and constant exchange rates) by 1% per year until 2024. (...)

Several elements of this strategic plan raised questions among investors. According to a trader, who confided to Reuters, one of the reasons for disappointment comes from the fact that the return of the dividend is not expected to materialize until 2022, if we consider the prospects for growth in the operating profit advanced by Air France-KLM.

Rishika Savjani, an analyst in charge of the project at **Barclays**, said: "While the group's strategy regarding its operating margin is both clear and impressive, these forecasts have been prepared excluding the effects of potential exchange rates, changes in raw material prices and the macroeconomic context. As the aeronautics sector is particularly volatile, **"the path taken by the group towards improving profitability is therefore still at risk"**, she adds. (...)

***My comment:*** Overall, the five-year plan presented by Ben Smith, Pieter Elbers and Anne Rigail was well received. It was considered pragmatic and consistent by most observers. In particular, they appreciated the balance between cost reduction measures and actions to increase unit revenue.

*The main surprise came from the amount of investments: 4 billion per year for 5 years. Analysts and financiers had anticipated a lower amount, about \$3.5 billion per year. They consider that this level of investment may put the Air France-KLM group's cash position under pressure. Their main fear is the emergence of a social movement whose impact would call into question the strategy presented.*

*You will find the full presentation on the Air France-KLM website. A link to access it is also available on my site.*

**> Update on the rationalisation of the Air France fleet**

(source Le Journal de l'Aviation) November 6 - (...) **The fleet transformation should contribute 300 million euros to the improvement of the 900 million euros operating profit** targeted by 2024. The **first objective is to simplify it**: "we thought we had a complex fleet that needed to be simplified at KLM, this is what we have at Air France. We don't have all the types of aircraft, but we're almost there," Benjamin Smith joked.

**The current fleet has nine different cockpits, four of which are on the regional network. This will not last long.** The first fleet yard that Benjamin Smith tackled upon arrival was the acceleration of the exit of the ATRs and ERJs145. Only four and thirteen copies of each device remain respectively. The CRJ700, CRJ 1000, Embraer 170 and 190 are intended to be retained by 2024, although the CEO of Air France-KLM and his teams are considering the relevance of maintaining the CRJ 700 and E170. Whether or not they leave, the regional fleet should retain two types of cockpits and limit itself to 50 to 60 aircraft.

The single-aisle fleet has only one type of cockpit, consisting of 114 aircraft from the A320 family. **The entire fleet is to be modernised (with no expected increase in the number of aircraft).** Air France has already placed an order for sixty A220-300s, intended to replace the first half (A318 and A319). Studies are continuing for the replacement of the A320 and A321. Benjamin Smith said that the A320neo is the natural solution but it is not the only one being considered at the moment.

Above all, he called Airbus with his foot and indicated that Air France would be very interested in an A220-500 for the second half of its fleet. Finally, the long-haul part now includes fifteen A330-200s, four A340-300s, one A350 (all under common certification), nine 787-9s, 68 Boeing 777s and ten A380s. The departure of the A340s and A380s is recorded. The former are replaced by the A350s, while the reflection is coming to an end on the latter. **Benjamin Smith explains that this is a good time to acquire wide-body aircraft because orders have slowed down, resulting in better prices.** Since Air France excludes any introduction of a new type of aircraft, their replacement is between the A350 and the 787, a choice that also considerably improves the flexibility of the fleet. "We hope to make a decision in the coming weeks."

**If more A350s are chosen, the question may also arise of maintaining a micro-fleet of ten 787-9s at Air France.** Benjamin Smith points out that there is an option to transfer these devices to KLM. However, their joint pilot certification with the 777 family does not make such a transfer essential. Similarly, the withdrawal of the A330-200s is a point of reflection but not in the short or medium term (...).

**My comment:** *Over the next five years, a large part of Air France-KLM's*

*investments will focus on fleet modernization, which will result in either cabin redesign or the purchase of new aircraft.*

*KLM's fleets are all expected to increase slightly: the regional fleet will increase from 49 to 52-54 aircraft, the medium-haul fleet from 51 to 52-54 aircraft, the long-haul fleet from 66 to 71-73 aircraft.*

*Within Air France, only the long-haul fleet is expected to increase from 107 to 118-123 aircraft. The medium-haul fleet is expected to be stable (around 114 aircraft), while the regional fleet is expected to reduce from 70 to 50-60 aircraft.*

*Finally, Transavia's fleet (France + Netherlands) is expected to increase by 5 to 8 aircraft per year.*

## > Why the airline Transavia is setting up a base in Montpellier

(source Challenges) 6 November - **Transavia**, the low-cost airline of the Air France-KLM group, **announced on Tuesday 5 November the installation of a base on the runway at Montpellier airport. Two Boeing 737-800 NG aircraft will therefore be stationed in the Hérault region from April 2020.** They will serve around twenty destinations, mainly in the Mediterranean region. (...)

In fact, the choice of an airport in the south of France to open a fourth base after Orly, Nantes and Lyon is a logical step for Transavia, which is getting closer to its targets in terms of flight time. (...)

However, it is not on this specific point that the company insists on justifying its choice of the Hérault. "From the moment Air France pilots approved this summer the cap on the 40 aircraft limit for the airline, **we considered a plan to develop a new base based on a population pool of 2 million inhabitants located less than 60 minutes from an airport,**" explains Nathalie Stubler, CEO of Transavia France. (...)

Transavia's installation strengthens the Montpellier square, which is eaten by passengers at the neighbouring airports of Nîmes and Béziers, each of which welcomes 200,000 passengers, mainly thanks... to Ryanair.

Indeed, like its Irish

counterpart, Transavia's target audience is primarily leisure-oriented. For this reason, the **airline will not offer domestic flights to its other bases.** (...)

**My comment:** Transavia France will operate two additional aircraft next year, based in Montpellier. This will bring the number of aircraft operated by the group's nugget to 40.

## > Less ambitious GIT due to the global economic slowdown

(source AFP) November 8 - **The IAG airline group**, owner of British Airways and Iberia, **expects slower than expected growth in earnings** per share and seat supply for the **2020-2022 period due to the global economic downturn**. (...)

The carrier now forecasts growth in the number of seats offered, a key indicator for the sector, of only 3.4% per year, whereas it had previously forecast a 6% increase over the 2019-2023 period. (...)

On the results side, the current year looks more difficult for IAG, due to an unprecedented strike by British Airways pilots in September that sealed the third quarter accounts and forced it to lower its forecasts for 2019.

**My comment:** Like most European companies, the IAG group is lowering its growth forecasts. The Spanish-British group now expects growth of 10% over the next three years, compared to 18% previously forecast.

*This announcement confirms that air traffic growth will be driven mainly by growth outside Europe (especially in Asia). IATA still expects air traffic to double over the next fifteen years.*

## > Lufthansa continues to work to control its costs

(source Le Journal de l'Aviation) November 8 - Despite being one of the most efficient groups in Europe, **Lufthansa continues to look for savings everywhere** and to find ways to improve its performance. Presenting its results for the third quarter of 2019, the group recalled the measures being implemented to improve its revenues and margins, **particularly in its worst performing entities such as Eurowings, Austrian Airlines and Brussels Airlines**, and in particular by simplifying its fleet. But it also confirmed the early withdrawal of its MD-11s from its cargo subsidiary.

Wishing to be less exposed to the continuous decline in the cargo business, **Lufthansa Cargo will reduce and standardise its fleet. The reduction will be significant** as it consists of taking its ten MD-11 cargo aircraft out of the fleet by the end of 2020 and introducing two new Boeing 777Fs (bringing their number to nine). The company points

out that operations are particularly difficult between Europe and Asia.  
(...)

On the traditional airlines side, **Lufthansa and Swiss seem to be meeting their performance targets, unlike Austrian Airlines and Brussels Airlines**. For them, corrective actions are planned, which have already been launched. Austrian Airlines will thus refocus on its Vienna hub and abandon all its bases outside the capital, in order to throw its forces into the fight against low-cost airlines in Austria - the Vienna hub is the only one in the group in which Lufthansa expects competition to increase this winter. The standardization of its fleet has also been launched, with the gradual replacement of Q400s by A320s. Together with productivity and personnel cost reduction measures, Austrian is expected to achieve annual savings of €90 million by the end of 2021. (...)

**On the fleet side, Lufthansa is reviewing the pace of its future deliveries** - currently it receives a new aircraft about every two weeks. The **level of its investments** (the overwhelming majority of which is represented by this item) **is expected to fall in 2020 compared to the €3.6 billion in 2019**, mainly due to the delay in the 777X. The company is no longer waiting for the four copies of the aircraft it was supposed to receive in 2020.

***My comment:** In 2019, the Lufthansa group invested 3.6 billion euros, less than the 4 billion euros that Air France-KLM plans to invest in each of the next four years.*

### > Emirates almost triples its half-year profit

(source TourMag) November 8 - **Emirates has just announced that it has almost tripled its half-yearly profit** (up 282%) to **€211.83 million**. This increase is mainly due to the fall in fuel prices. (...)

However, despite the increase in its net income, turnover was **down 3% compared to the** same period last year, at €11.62 billion. (...) As a reminder, in 2018, the company recorded a 69% drop in net profit to €213.9 million.

***My comment:** Emirates, which has chosen not to cover its kerosene purchases, is taking full advantage of the fuel cut in 2019.*

### > In difficulty, Norwegian Air Shuttle announces a new capital increase

(source Le Figaro with AFP) November 6 - The low-cost airline **Norwegian Air Shuttle announced Wednesday a capital increase of SEK 2.5 billion (€247 million)**, the **second of the year**, to ease its

severe financial difficulties. The announcement sealed Norwegian's share price, which dropped more than 11% on the Oslo Stock Exchange. (...) With a new focus on profitability rather than on further expansion in all directions, the **company believes that this operation should ensure its finances "until 2020 and beyond**, on the basis of the current business plan". (...) A pioneer in low-cost long-haul flights, **Norwegian is burdened with massive debt**, which now forces it to reduce its costs and increase its margins. (...) In recent months, the company has negotiated a rescheduling of its debt, closed bases and air links or delayed the delivery of new aircraft. (...)

### > **Aeronautics: Rolls-Royce issues a profit warning**

(source Les Échos) November 7 - Engine manufacturer **Rolls-Royce**, who had announced four warnings about results in 2015 alone, is back on track with his old demons. Its CEO, Warren East, **announced on Thursday that operating profit for 2019 should be "at the bottom of its expectations"**, between £600 million and £800 million (€695 million and €926 million).

**The main explanation for this "profit warning" is the premature ageing of certain parts** (fins, compressors, high-pressure turbine blades, etc.) **on the Trent 1000 engines that power Boeing's 787 Dreamliner**. Unable to provide a quick solution to customer airlines (including British Airways, Norwegian Air Shuttle, Air Austral or Virgin Atlantic), the British engine manufacturer has therefore incurred an exceptional charge in its accounts. (...)

However, despite progress in maintenance and spare engine stocks, the manager added: "**The improvement of the high-pressure turbine blade (HPT) for the Trent 1000 TEN - the last issue to be resolved - has been postponed to 2021**". And to estimate at 2.4 billion pounds (2.77 billion euros) the global bill related to the problems of the Trent 1000 over the period 2017-2023. (...)

***My comment: Rolls-Royce is going through a serious crisis. The aircraft engine manufacturer is struggling to correct the malfunctions observed on the engine that powers some of the B787s.***

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

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

## > France and eight other European countries are pushing Brussels to tax aviation more

(source La Tribune) 7 November - **New call for more taxation of air transport in Europe.** Three weeks after Bruno Le Maire's speech in favour of a tax on kerosene in Europe, **the French Minister of Economy and Finance and eight European counterparts** (Germany, Italy, the three Benelux countries, Sweden, Denmark and Bulgaria) **urged the European Commission to propose new measures to target aviation**, without however claiming a specific pollution tax. **Initiated by the Netherlands**, which has been pushing this issue for months, this joint declaration comes one month before the new European Commission, chaired by Germany's Ursula von der Leyen, takes office. (...)

According to them, the price of air tickets for international flights does not sufficiently reflect the average cost of CO2 emissions and the negative consequences of air transport. (...)

**However, the adoption of an EU-wide tax will be complicated to implement.** All decisions on tax matters must be validated by unanimity of the Member States. However, some countries where the weight of tourism is very high, such as Spain or Greece, are reluctant. Served massively by the low-cost airlines that are most at risk from tax increases, they fear that rising air travel prices will slow down traffic and deprive them of revenue.

In any case, in the absence of a European tax, the Netherlands will introduce it from its airports in 2021. (...)

**My comment:** *Like many others, I wonder. How will the introduction of an additional tax on airline tickets help to combat global warming?*

*Is the objective of the nine governments to limit the number of people flying?*

*As the Air France Group deploys a major investment plan (€25 billion over the next five years), the answer to these questions is crucial. It could be of such a nature as to call into question part of the planned investments.*

## > The boss of the ADP group, who came to Roissy as a "mystery shopper", was confronted with a recurring



## problem

(source Le HuffPost) November 11 - On Twitter, **Augustin de Romanet** told us that he came "as a mystery shopper" at 7am at Roissy-Charles de Gaulle airport. He **was** then **able to see "incredulous" that there was a 1h30 waiting time at the arrivals of an Air France terminal**. "I can only tell the passengers that I share their distress. This is unacceptable," he wrote. (...)

Augustine de Romanet, however, defended himself from any naivety regarding this problem on which "he has been working for 7 years", i.e. since taking office in 2012.

**Referring to a file worthy of the "barrel of the danaïds"**, impossible to fill because it has been drilled with holes and has become synonymous with endless work, **he detailed several measures put in place to overcome this problem**. "It is because I have put in place the tightest monitoring available that I sent this morning's alarm message," he told his critics. (...)

On its website, the ADP group recommends that passengers count "30 minutes" to cross border controls. In reality, however, the waiting time is often much longer. (...)

***My comment:*** *Border control management is the responsibility of the State.*

*Given the size of the queues observed in 2017, the government set itself the objective of limiting the waiting time for holders of European passports to thirty minutes and forty-five minutes for those who do not. It must be noted that this objective is not always achieved.*

*Note: France is the only country where airlines bear the cost of border control operations.*

## Stock market press review

### > **AIR FRANCE-KLM: Barclays always weights online**

(source Agence Option Finance) 6 November - **Barclays** has reiterated its recommendation to weight Air France-KLM online, as well as its objective of 9.40 euros, in the wake of the five-year strategic plan unveiled yesterday. The airline group presented its recovery plan to achieve a margin of 7-8% and an operating profit of €2.5 billion,

compared to the 4.2% and €1.15 billion expected by consensus for 2019.

Overall, the broker **considers the strategy to be credible**. However, he believes that the execution path will take time and require material investments.

Given where we are in the economic and air cycle, **investors' concern about the increase in investment triggered the decline in the stock** yesterday, Barclays believes.

### > **AIR FRANCE -KLM: Oddo BHF, when buying, appreciates the ambition**

(source Cercle Finance) November 6 - On Wednesday, **Oddo BHF, the analyst**, confirmed his recommendation to buy the Air France-KLM group's shares, **appreciating the presentation of a 2020-2024 plan considered "ambitious"**, with increased investments, but also levers "at all levels".

We believe that **more than 2/3 of this plan can be considered secure**, but investors doubt the group's ability to maintain most of this additional profitability. Or expressed otherwise, that the **risk of deterioration of the current social agreement is high**. Admittedly, the history does not plead in favour of Air France-KLM, but the agreements signed since the arrival of Ben Smith show a significant change,' the broker believes.

Oddo BHF confirms its target price on the value of 11.80 euros, for a potential increase of +18%. Nevertheless,'a margin of 7 to 8% would bring an additional €4.6 to €6.4 to our target', the analyst says.

### > **AIR FRANCE-KLM: UBS always Neutral**

(source Agence Option Finance) 6 November - As a first step, **UBS** maintains its Neutral opinion on the Air France-KLM share, as well as its objective of a price of 10.70 euros, in line with the medium-term financial objectives presented by the airline group. Overall, the broker **considers that all these announcements are close to what was expected by the market**. The group is targeting an operating margin of 7 to 8%, compared to 5% in 2018.

## *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 November 11, when half of the signature deadline has passed, the consultation had collected 944,000 signatures, or 20.01% of the required signatures.

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

**The Air France-KLM share price was €10.285 at the end of Monday 11 November. It is down by -2.70%.** The combined effect of the announcements of quarterly (average) results and the strategic plan received with reservations has led to a cumulative decrease of 4.37% over the past two weeks.

**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 down from \$1 to \$62.**

**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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