



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...

> Air France-KLM's entry into Virgin Atlantic's capital could fail

(source La Tribune) November 29 - Announced in July 2017 as part of a vast scheme of commercial and capital alliances with several bands also involving the American company Delta, the French group's acquisition of a 31% stake in Virgin Atlantic is being called into question. (...) **When asked, Air France-KML did not wish to comment.**

As a reminder, Virgin Atlantic is 51% owned by Virgin Group (owned by British billionaire Richard Branson) and 49% by Delta. **The agreement, which was signed in the summer of 2017, allows Air France-KLM to purchase 31% of Virgin Atlantic's share capital from the Virgin group for £220 million (€258 million).** (...) Today, when everything seemed to be on track, and **the trade agreement on the transatlantic route between Air France-KLM, Delta and Virgin Atlantic received the green light from the American authorities,** Air France-KLM's entry into Virgin Atlantic's capital could fall through. According to corroborating sources, the Virgin group has expressed its wish to no longer carry out the operation, on the grounds that commercial cooperation on the transatlantic axis was sufficient. This change in position was reported to Air France-KLM by Delta. According to some sources, the American airline, which had pushed Air France-

KLM for years to do this operation with Virgin, would be strangely in tune with Richard Branson today.

The ball is in Air France-KLM's hands. Contractually, the French group can acquire a stake in Virgin Atlantic. (...) The problem is simple: either Air France-KLM goes all the way to the end of an operation that is its only capital-intensive operation for more than ten years. Either it gives up (while keeping the commercial partnership) and prefers to use the money for other external growth projects or simply to finance aircraft. (...) However, the Board of Directors has not yet given its opinion. (...)

***My comment:** The only information confirmed so far is that Air France-KLM has not yet purchased the 31% of Virgin Atlantic as initially planned.*

> **Fiji Airways entrusts the equipment maintenance of its A350s to AFI KLM E&M**

(source Air & Cosmos) 27 November - Fiji **Airways has** joined the Airbus A350 community of operators with access to AFI KLM E&M's dedicated equipment solutions. The

Fiji airline has opted for **a long-term partnership, and will benefit from services in equipment repair, logistics and access to spare parts (via the Main Base Kit and the parts pool).**

The signing of this agreement extends AFI KLM E&M's working relationship with Fiji Airways, which began in 2013 for the company's A330 fleet. At the same time, the Airline-MRO group is strengthening its leading position in the Pacific region market, and has established itself as a partner for the main airlines in the area.

The core of AFI KLM E&M's regional network is the Singapore hub, which includes a parts pool and the repair shop, Singapore Component Solutions. With nearly 170 aircraft supported on all continents, AFI KLM E&M is now a major player in the A350 equipment support market.

> **Dubai Airshow 2019 : The activity dedicated to Airbus services is strengthening in the Middle East**

(source Le Journal de l'Aviation) November 21 - In addition to the many commercial aircraft contracts signed by Airbus, **the Dubai Airshow was also a showcase for the European aircraft manufacturer's service offerings** in the region.

Rémi Maillard, **Director of Airbus Services, stressed the importance of this activity for the European aircraft manufacturer, as the entire**

market will almost double in size to generate up to 4900 billion dollars over the next 20 years if we combine services related to aircraft availability (contracts by the hour, MRO, spare parts, preventive maintenance....), in-flight operations (pilot training, flight planning, documentation...), as well as the passenger experience (retrofit cabin, connected cabin...). **We are then in the same order of magnitude as the new commercial aircraft sales market over the next two decades** (at catalogue prices). In the Middle East region alone, services represent a potential of \$515 billion over the next 20 years. (...)

The Airbus Services Director also returned to the Skywise platform, which now has more than 90 customers for more than 10,000 aircraft that will be gradually connected. Companies in the region that have chosen Airbus' digital platform include Saudia, Flynas, Emirates, Jazeera, Etihad, Oman Air, Gulfair and Air Arabia. Rémi Maillard was once again very confident that the 100 airline target would be reached by the end of the year. (...)

***My comment:** In recent years, manufacturers (Boeing and Airbus) and equipment manufacturers (engine manufacturers in particular) have been looking for growth opportunities.*

These players have turned to two markets, maintenance and data.

They compete directly with historical players such as AFI KLM E&M or Lufthansa Technik.

> **Lufthansa: Qatar Airways as a future partner?**

(source Boursier com) December 2 - Towards a complete overhaul of the European sky? The **latest statements by Qatar Airways' CEO had the effect of a small bomb on the sector on Monday morning as the CEO indicated that he was considering taking a stake in Lufthansa.** "If the opportunity to invest in Lufthansa presented itself, we would look into it," Akbar al Baker told the German agency DPA. Qatar Airways could initially propose to the German airline to enter into a partnership. "Germany is an important country for us, whether it is for air transport services or for tourism development," the leader stressed, referring to a possible code-share agreement or commercial cooperation.

Simple announcement effect or real Qatari will, any entry by the Gulf company into the capital of the German carrier would trigger significant changes within the major global alliances. Qatar Airways, a **member of Oneworld in the same way as British Airways or American Airlines**, has indicated that this membership could constitute an obstacle to any

partnership with Lufthansa, which is part of the Star Alliance (United Airlines, Air Canada). However, **the Doha-based carrier has often indicated that it may have to leave the alliance due to a lack of good understanding with its other partners. To better enter Star Alliance?**

***My comment:** Qatar Airways has been a member of the Oneworld alliance since 2013, alongside the companies of the IAG group, in which it holds 20% of the shares, American Airlines, Cathay Pacific, Japan Airlinesand LATAM.*

She is expected to join Skyteam in October 2020.

> **The takeover of Alitalia is still at an impasse**

(source: Le Journal de l'Aviation with AFP) 29 November - **The takeover of the Italian airline Alitalia, which is in difficulty, has reached an impasse** after months of unsuccessful negotiations with potential buyers, causing serious concern to the unions while the Italian government remains undecided on the solution to be adopted.

"For the **moment, there is no market solution,**" Economic Development Minister Stefano Patuanelli pointed out several times this week.

"We must understand how to create a market solution (one or more private purchasers) or how to act to find a possibility, compatible with the financial means" currently available to Alitalia "to find a different solution", he added, paving the way for direct involvement of the Italian State in the rescue.

"We are thinking about the next steps we can take. At the moment, **we have taken note (...) that there is no longer a consortium that can make a definitive takeover bid,**" he added. (...)

According to AGI calculations, Alitalia's "best" year in the last decade was 2011 with a loss of "only" 69 million euros, a figure that rose to 280 million the following year to reach 580 million in 2014. (...)

"With the money wasted in Alitalia, the Italian State could have bought six airlines, namely Air France, KLM, Turkish Airlines, Fly Norwegian, Finnair and SAS," says the ADUC consumer association. (...)

***My comment:** Over the past fifteen years, several restructurings have enabled Alitalia to significantly reduce its costs. Despite this, the Italian company never managed to return to profitability.*

Its main difficulties are known: a too weak presence on its domestic

market and a double hub (Milan for business passengers and Rome for leisure passengers) which does not generate sufficient revenue.

> **Lufthansa sells its catering activities in Europe**

(source L'Écho) November 26 - **In April, Lufthansa announced the "total or partial" sale of LSG**, its subsidiary active in catering. An **activity that must face low margins in a competitive market**. Earlier this year, Lufthansa CEO Carsten Spohr said that the airline's catering business was suffering from the large number of sites it serves, high staff costs and exposure to exchange rates. (...) "

The sale is part of the Lufthansa Group's new strategy to focus on its air transport business". "

Two potential buyers remained in the running after an endless auction process, according to sources close to the case: the airline catering company Gategroup, and its Austrian rival Do & Co. And **Gategroup's offer has exceeded that of Do & Co.**

Gategroup, a former Swissair subsidiary operating under the Gategourmet brand, is owned by the Singapore public fund Temasek and the Asian investment company RRJ Capital, which took over the company from the Chinese conglomerate HNA in several stages. **With 43,000 employees and a turnover of 4.9 billion Swiss francs (4.5 billion euros) in 2018, it is the world leader in the sector.**

***My comment:** Gategroup also controls Servair. At the end of 2016, it acquired 49.99% of the capital of the subsidiary of the Air France-KLM group.*

> **Hong Kong Airlines delays payment of wages due to reduced ridership**

(source AFP) November 29 - **Hong Kong Airlines announced on Friday that the** payment of salaries to some of its staff will be delayed, as **its activities are "severely affected"** by the political crisis in the former British colony.

Almost six months of demonstrations have dealt a severe blow to Hong Kong's tourist traffic and many companies serving the megalopolis are facing difficulties. (...)

Since the beginning of the protest movement in June, the number of arrivals in the former British colony has fallen by half.

This drop in tourist numbers is severely affecting the Hong Kong economy already affected by the trade war that this book Washington and Beijing. Hong Kong entered recession in the third quarter.

Cathay Pacific is also affected by the drop in passenger traffic, although it has been criticised by Beijing for the participation of some of

its staff in the pro-democracy movement.

Singapore Airlines, China Eastern and Virgin Australia have all reduced the number of flights to Hong Kong.

> Why Boeing is sinking into the crisis

(source Le Journal du Dimanche) December 1 - (...) The last major aviation event of 2019 was supposed to give Boeing's temperature, shaken by the biggest industrial crash in its history. (...)

In Dubai, the American representatives could only confirm their growing embarrassment at a crisis expected to last at least until the first half of 2020. If by then, nothing will again thwart their plans. (...)

In September, the **American's orders for 2019 were still blocked at 170 aircraft**, 56 of which were in cargo format. **This is five times less than last year** when its sales soared to 893 units, including 665 137 Max models. (...)

Like the Airbus A380, the **very large aircraft in its range, the 777, is no longer as popular**. This mistrust was further confirmed by Emirates' desire to convert orders from 777 to 787, which are easier to fill. However, the American still believes in his super jumbo. The three versions of its new 777 will make their certification flights in early 2020, with first deliveries expected in 2021. (...)

With the 737 Max, (...) just six months ago, Boeing was looking to increase its production rate. Reducing it is now his priority. Because where to store the devices leaving the assembly line? They are currently parked at three sites across the United States, which are already in the process of saturation.

Their return to service will become an industrial puzzle. Once the new certification has been obtained on the American side, and then in other countries, the problems will not be over for Boeing. All the Max dormants will have to be repatriated to Seattle and "awakened", at the cost of numerous tests. The pilots of each company will have to return to training, a priori on a simulator, but why not in real conditions. "Each company will decide what it wants to do," says the aircraft manufacturer. (...)

The Max's avatars have shaken passengers' confidence in aircraft manufacturers, but also in certification bodies. (...) No more question for Europeans to follow the American opinion. (...)

After pointing out the failure of on-board software, insufficient pilot training, problems with the design of the aircraft's structure itself (particularly heavy engines), **a more serious defect in the flight control control system is now being reported.** The second accident report, that of Ethiopian Airlines, expected before the end of the year, may provide the answer.

***My comment:** Boeing has been making modifications to the B737 Max for more than a year.*

Airline customers are getting impatient and wondering: why is it taking so long? Are there any modifications other than those related to the MCAS system, which is responsible for the two fatal accidents of the B737 Max?

> **Orly runway 3 back in service on Monday after major refurbishment work**

(source Le Figaro with AFP) 2 December - **Runway 3 at Orly airport**, closed for more than four months to be deconstructed and rebuilt, **was put back into service on Monday**, announced the airport manager Groupe ADP.

In 18 weeks of work, more than 6,000 flights have been modified (moved or cancelled), the group said in a statement. Runway 3 at Orly, Paris' southern airport, was built in 1947 and extended in 1959 to a length of 3,320 m.

The western two thirds of the runway was deconstructed and rebuilt completely due to structural disorders, while the remaining third was reloaded with asphalt.

From an environmental point of view, a recycling plant, located specifically on the airport's runways, has allowed the reuse of 200,000 tonnes of materials from the former runway 3, according to Groupe ADP.

This recycling made it possible to avoid the circulation of 13,000 semi-trailers: 6,500 for evacuation to a landfill and the same number for transporting materials to the site, according to the same source.

Due to the natural drift of magnetic north, runway 3 or runway 08-26 has changed its name to runway 07/25. These numbers, which are frequently seen at the edge of the runway on landing, indicate the orientation of the runway in relation to magnetic north.

> **Stop the growth of air traffic: what if it all started in**

Beauvais?

(source Libération Par Un collectif) November 25 - Over the past two decades, **Beauvais-Tillé airport, the hub of the low-cost airline Ryanair, has become the "third airport in Paris"**. (...)

At the beginning of 2019, the airport operating company submitted a draft decree to the Ministry of Ecological and Solidarity Transition to increase its traffic from 4 to 6 million passengers per year by 2022 by allowing exemptions from the night curfew. (...)

Already in 2008 and again in 2017, the regional audit chamber pointed to the undue preferential regime enjoyed by Ryanair: the airport operating company, although it acts as a public service delegation, grants the Irish company free ground services and **reimburses environmental taxes theoretically borne by the company: 78 million euros were paid over the period 2008-2014**, in total disregard of the "polluter-pays" principle.

Here as elsewhere, Ryanair's business model is based on a massive infusion of public money, which the company ensures by waving the red cloth of relocation and job losses. (...)

Globally, the increase in traffic from 4 to 6 million passengers will have catastrophic climatic consequences: it will generate an emissions surplus of around 225,000 tonnes equivalent - CO₂ per year - even though an unprecedented collective effort would be required to reduce our emissions by a factor of four in two decades and limit global warming to 2°C.

These additional emissions are all the more unacceptable as air transport remains, even when it is low-cost, the business of a privileged minority. Under these circumstances, supporting the modification of the curfew and **continuing to comply with the demands of Ryanair** - which is one of the ten largest European CO₂ emitters - **is a real folly: at local level for residents and for public finances, at global level for the climate**. (...)

***My comment:** In Beauvais as elsewhere, the position of the elected representatives has always been delicate. Should airlines be subsidised and thus encourage job creation at the expense of the comfort of local residents?*

For years, the answer was "yes".

But the fight against global warming has changed the situation. It now seems inconsistent to seek to preserve the planet while subsidizing low-

cost airlines.

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 18, when half of the signature deadline has passed, the consultation had collected 1,001,000 signatures, or 21.22% of the required signatures.

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

The Air France-KLM share is at €10.44 at the end of Monday, December 2. It is down -1.28%, following a deterioration in opinion by Crédit Suisse.

The average (consensus) of analysts for the AF-KLM share is 11.07 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 \$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....

See you soon.

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| François Robardet

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