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Air France-KLM: passengers up 1.3% in November, thanks to long-haul flights

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: passengers up 1.3% in November, thanks to long-haul flights

(source AFP) December 9 - The **number of passengers carried in November by the Air France-KLM group increased by 1.3% compared to the** same period a year ago, **with an increase in long-haul traffic of 4.8%,** according to a press release published Monday. In all, the group's three airlines, Air France, KLM and their low-cost Transavia, carried 7.7 million passengers.

In short- and medium-haul, the group's traffic was up 0.9%, excluding Transavia and expressed in passengers transported per kilometre travelled (PKT), the benchmark index for the air transport sector. (...)

Transavia's low-cost business was down by 1.6% with 900,000 passengers carried.

Cargo activity is also down with -3.4% in tonne-kilometres transported (TKT). In terms of

retail, Air France carried 4.099 million passengers in November (+1.2%) and KLM 2.745 million (+2%).

> A350 : AFI KLM E&M multiplies equipment maintenance

contracts

(source Le Journal de l'Aviation) December 5 - Air France Industries KLM Engineering & Maintenance (AFI **KLM E&M)** has **just won a new long-term contract for the maintenance of A350 equipment.** This is **Fiji Airways**, which has just received its first A350-900 in mid-November on the two aircraft leased from DAE. (...)
AFI KLM E&M has already boarded the equipment support of the A350s of Delta Airlines, three Chinese airlines including Sichuan Airlines and China Eastern, Thaï Airways, Air Caraïbes and Virgin Atlantic.
In total, nearly 170 Airbus A350s are supported.

My comment: *Of the 320 A350s already delivered by Airbus, nearly half are under contract with the maintenance branch of the Air France-KLM group.*

Air France Industries KLM Engineering & Maintenance is the world's second largest equipment maintenance company for A350s.

> Transavia[France] is developing in Montpellier

(source Business Traveler) December 3 - **Transavia will open its first base in Montpellier** in **spring 2020.** Thanks to its two B737-800 aircraft with 189 seats, Transavia France will offer the inhabitants of the Montpellier region many exclusive destinations, particularly to the Mediterranean basin: Spain, Morocco, Tunisia, Portugal, Greece and Italy. **It will be the first low-cost company to open a base in this city. It will be Transavia's fourth base after Orly, Lyon and Nantes.**

Transavia yesterday unveiled the list of these 14 new destinations: Madrid, Seville, Athens, Heraklion, Agadir, Marrakech, Oujda, Faro, Lisbon, Djerba and Tunis. (...)

> Transavia[Netherlands] sets up and opens nine destinations from Brussels airport

(source news en) 4 December - The **Dutch airline Transavia will be offering *flights* from Brussels airport in** Belgium from the **end of March. The**
airline will offer **nine destinations** and operate 28 flights per week. Transavia, which **mainly** offers destinations **in the Mediterranean**, hopes to attract passengers from northern France.

As of March 30, 2020, the company will offer nine destinations: Alicante and Ibiza in Spain, Verona in Italy, Corfu, Heraklion and Thessaloniki in

Greece, Faro in Portugal, Tel Aviv in Israel and Agadir in Morocco. (...)

My comment: *Transavia France and Transavia Netherlands are in a similar situation: their main base is located in a congested airport (Orly and Schiphol).*

The French subsidiary has an advantage over its Dutch sister: it does not need to look abroad to open new bases.

> Air France-KLM must refrain from boarding Virgin Atlantic

(source Le Figaro) December 5 - **Air France-KLM's acquisition of a stake in Virgin Atlantic, the company 51% owned by Richard Branson, is no longer relevant.** The information, unveiled by La Tribune on 29 November, was confirmed on Wednesday by the Franco-Dutch group.
This project, announced more than two years ago, was the last step in a major operation. (...) At the time, Jean-Marc Janaillac, CEO of Air France-KLM, presented Virgin Atlantic's stake in the capital as a way of rebalancing the European group's weight against Delta in their transatlantic JV (a commercial partnership on the North American-European axis). "**Virgin had set this condition at the time to enter the transatlantic JV**," recalls a close friend of the case. This had been contractually agreed in May 2018. But, at a recent board meeting, Delta's representative indicated that Virgin no longer wanted to sell the planned 31%. »

On Wednesday, Air France-KLM presented the turnaround in a consensual way: "**Air France-KLM and Virgin considered that the acquisition of a stake in Virgin Atlantic was no longer necessary**, explains the group. They are discussing an agreement under which Air France-KLM will not take a stake in Virgin Atlantic, **without impacting Air France-KLM's position in the commercial JV combining Delta Airlines, Virgin Atlantic and Air France-KLM**. »

Richard Branson (...) explains that the green light given to the alliance in November by the American competition authorities led him to renounce the sale of the 31% "so that the family would continue to own the 51% of Virgin Atlantic". **This decision may seem like an opportunity for Air France-KLM to make savings**, whereas its management has presented a five-year plan that provides for 4 billion euros in investments[editor's note: per year].
But it raises questions about Delta's role, which is present without

counterbalancing the capital of its partners in the JV. Rather than forcing Virgin to respect the contract, he preferred to be satisfied with the proper functioning of the Transatlantic Alliance. The **flights combined in this JV represent a turnover of nearly 13 billion euros**. Virgin will open the doors of its London and Manchester hubs in January, in addition to Paris and Schiphol. The transatlantic JV represents 20% of Air France-KLM's revenue and 35% for Air France alone.

> Alitalia, a permanent industrial crisis

(source Le Temps) 8 December - On Monday 2 December, the **Italian government granted Alitalia a new deadline to find a buyer, until 31 May next, with a new bridge loan of 400 million euros** (...) after three years of extraordinary administration. (...)

The executive had to approve "urgent measures to ensure the continuity of the service", two years after Alitalia had already been allocated 900 million euros. Including interest on some 200 million euros of this first loan, **Italian taxpayers have spent one and a half billion euros on their airline since 2017**. (...)
New liquidity became necessary when, despite seven postponements of the deadlines for submitting a bid, Alitalia did not find any buyers. (...)

How does a company manage to lose hundreds of millions of euros since 2009 while being the first company on a healthy domestic market and second in Italy, behind Ryanair? Poor management and the inability of successive governments to succeed one another relentlessly, observers replied. Since its privatisation, Alitalia has had to deal with no less than seven executives and as many politicians. (...)
The company's historical error is to have opted for short- and medium-haul flights, abandoning long-haul flights. Alitalia thus suffers from competition from low-cost railways in Europe and high-speed trains in Italy. In 2018, for example, 80% of passengers between Rome and Milan preferred rail when just over 10% chose the air route (...).
This one could be saved by the European champion, Lufthansa, owner of Swiss among others. (...) The company "would be part of a large group, taking advantage of strong positions in many European hubs, such as Zurich with Swiss for example," he explains. This would stop the bleeding of public funds. **But Lufthansa demands a break with the current management**." Like employees, for very different reasons, tired of being in a situation of permanent uncertainty.

***My comment: In** 2008-2009, when Air France-KLM invested in Alitalia, the CEO of the Jean-Cyril Spinetta group mentioned the difficulties of the Italian national airline: Alitalia could not continue to operate two hubs, one in Milan and one in Rome.*

However, deleting a hub was election impossible.

Ten years later, the situation is bitter: the number of employees has risen from 19,000 to 12,500, Alitalia's financial situation has worsened, and Lufthansa is demanding 4,500 job cuts before considering a recovery process.

> SAS needs aircraft with 120 to 150 seats and is working on an order

(source Le Journal de l'Aviation) December 5 - **SAS is not satisfied with its annual report**. After suffering a drop of more than 60% in its operating and net results, the Scandinavian company regretted that it was unable to achieve only one of its three financial objectives for fiscal year 2019, **slowed down in the reorganisation of its activities by the rise in oil prices, the negative exchange rate effects and the strike by its pilots in April**. It has therefore decided to adopt new measures to make its model more effective. One of them will affect its fleet: the **company has identified a gap in its renewal planning, which concerns aircraft with 120 to 150 seats**. An order is planned in the short term.
According to the presentation made on 5 December, it could cover at least 25 aircraft, an assumption corresponding to the case where SAS decides to stabilise its fleet. (...)
SAS is already well advanced in rationalising its fleet. In 2011, it decided to replace its single-aisle aircraft (A320ceo and Boeing 737NG) with Airbus A320neo aircraft. (...)

If the path is straight and well defined for these 180-seat aircraft, SAS wants to cast doubt on its choice for the 120-150-seat segment. She emphasised that it will focus on the platform that guarantees the same benefits as a perfectly homogeneous fleet. **SAS opted for an all-Airbus fleet for its medium-haul network in** order to guarantee the stability of its operations, greater flexibility and optimal performance thanks to a reduction (in the long term, once the integration phase is over) in training costs, a reduction in reserve aircraft, a reduction in fuel consumption and a reduction in maintenance costs thanks to the rejuvenation of the aircraft.
In parallel, it has also entered into commitments on three A321LRs,

acquired under lease, which (...) will modernise and expand the fleet currently composed of nine A330-300s and eight A340-300s, alongside the eight A350s it has ordered (...).
Currently, **SAS estimates that it has completed 34% of its fleet renewal program**.

***My comment: In** 2018, SAS' turnover was €4.5 billion, with a net income of €67 million (1.5% of turnover).*

Its drop in results in 2019 seems to be accelerating the process of renewing its fleet, which could eventually be all Airbus.

> Norwegian is ready for the fight

(source The Daily) December 6 - **The low-cost carrier Norwegian is now ready to compete with the main traditional airlines in Heathrow after obtaining six weekly slots at the London hub**. (...)
So
far, the airline has always concentrated its London operations at Gatwick Airport and the summer 2020 slots will be its first entry into Heathrow, where it will compete with major carriers such as British Airways, American Airlines, Virgin Atlantic and Delta among others. (...)
In the meantime, **Norwegian has revealed that it will discontinue all long-haul flights from Sweden and Denmark as** of 29 March 2020 due to "global demand and commercial viability".
The carrier also recently announced its intention to enter into an interline agreement with US airline Jetblue after **unveiling its strategy to increase capacity on transatlantic flights from Gatwick** next summer, although it has reduced its services to the US from Ireland due to the flight ban on the Boeing 737 Max and low overall demand on these routes.

***My comment:** After almost going bankrupt last year, Norwegian decided to change its strategy from growth to profitability.*

This is reflected in its recent decision: its subsidiary Norwegian Air Argentina (NAA), created in 2017, has just been sold to JetSMART Airlines, a small company that mainly serves Chile and Argentina.

> Brazil: Air Europa signs with GOL

(source Air Journal) December 6 - **Air Europa has signed a code-share agreement with low-cost GOL** Transportes Aéreos, which will allow its passengers to fly via Sao Paulo, Recife, Salvador de Bahia and Fortaleza to over 20 other Brazilian cities.

From January 2020, **the Spanish private company being acquired by the IAG Group will be able to display its UX code on 78 domestic flights operated by the Brazilian low-cost flight specialist**, with whom it already had an interline agreement. (...)

In addition to the members of the SkyTeam alliance, including Air France-KLM, Air Europa shares codes with Binter, Copa Airlines, Cubana de Aviacion Etihad Airways, Seaborne Airlines and Turkish Airlines; GOL has signed alliances with Air France and KLM, and has 14 codeshare agreements and more than 77 interline agreements.

My comment: *Delta Airlines' acquisition of a stake in Latam (resulting in Delta Airlines' withdrawal from GOL) and Iberia's acquisition of Air Europa are awaiting validation by the ad hoc authorities*

These two operations did not have any impact on the strengthening of the partnership between Gol and Air Europa.

> Air France, Easyjet, Wizzair... How the slots from Aigle Azur to Orly were distributed

(source La Tribune) December 5 - The **take-off and landing slots of the late Aigle Azur at Orly have been distributed**: HOP, Transavia, Lufthansa, Wizzair, Easyjet, Air Caraïbes, Corsair, La Compagnie and TAP Portugal are the lucky ones. (...) Cohor, the slot manager in France, announced it to the airlines on Thursday 5 December. As Orly airport has a maximum of 250,000 take-offs and landings per year, **these slots are rare and therefore extremely valuable**. (...)
The European regulation requires that slots be allocated half to companies already established at the airport and the other half to new entrants.

(...) The seven daily flights reserved for new entrants have been allocated to the airlines (...) Lufthansa for two daily flights to Munich, HOP (Air France's regional subsidiary) for two daily flights also to Frankfurt, the growing Hungarian low-cost airline Wizz Air (so far present in Beauvais) for two daily flights, one to Sofia, the other to Budapest, and Easyjet UK for one daily flight to Glasgow.
For the six daily flights reserved for the players already present at Orly, Air Caraïbes international, Corsair and Transavia (Air France's low-cost subsidiary) each obtained the equivalent of two flights per day. The remaining few "slots" have been distributed to the French carrier La Compagnie (3 flights per week, which will allow it to operate two flights

per day to New York) and to TAP Air Portugal.
At the same time, the Directorate General for Civil Aviation (DGAC) has distributed the slots reserved for public service obligation lines. (...) It can be seen that Chalair has obtained less than 2000 slots to serve Quimper, that Air France and Corsica have obtained slots to add weekly flights to Corsica and that the two Dubreuil Group companies, French Bee and Air Caraïbes have also received slots to add additional flights to Réunion and Cayenne. These two companies were the only ones on these routes that did not have any land use planning slots.
In the end, the Air France group (HOP and Transavia) obtains 31% of the available slots, the foreign low-cost airlines (Wizz Air and Easyjet) **23%** (and almost half of the slots reserved for new entrants, while the **French companies outside the Air France group obtain 31%** (and more than two-thirds of the slots reserved for companies already present at Orly).
While all these companies can be pleased, others are necessarily very disappointed. Starting with (...) Ryanair who, according to some sources, suffered from a poorly formulated dossier, Volotea and Vueling who obtained nothing (the latter two had also requested many destinations in Algeria). **Beyond Vueling, the whole IAG group (British Airways, Iberia, Aer Lingus, Vueling, Level) gets nothing. But he had been one of the beneficiaries during the previous distribution following the disappearance of Air Berlin** (...)

> United opts for the Airbus A321XLR, in the absence of a Boeing NMA

(source: Le Journal de l'Aviation) December 4 - **United Airlines** has just delivered a major blow to Boeing. The American company **has signed a firm order with Airbus for the acquisition of 50 A321XLR. The aircraft will be delivered from 2024 and will replace the 757-200 currently in service**. They will be used for transatlantic services from 2025 and will allow United to open new routes from its hubs on the east coast of the United States, Newark and Washington.
United currently operates 74 Boeing 757s, including 53 in version 200. The company points out that this will be a "one for one" replacement - which will allow it to reduce the consumption of this part of the fleet by 30%.

For several years now, it has been looking for an alternative solution for its 757s, whose -200 models are approaching 25 years old. Very interested in the NMA (new midmarket airplane), which would also be a solution for the 767s, United had however warned Boeing in July (just

after the launch of the XLR by Airbus) that it needed more visibility on an entry into service schedule and shortly before making a decision. (...).
United is not a new operator for Airbus' single-aisle aircraft: it operates nearly 180 aircraft, divided between A319 and A320, all ceo. They operate alongside a fleet of 344 Boeing 737s, fourteen of which are MAX 9 737s and have been grounded since March.
However, this contract is not as brilliant as it seems. It is accompanied by a further five-year delay in the delivery of the A350-900s ordered by the company. It was expecting 45 copies from 2022; they will not arrive until 2027. This is not the first time United has amended this agreement: initially covering 25 A350-900s in 2010 (with deliveries starting in 2016), it was expanded to 35 A350-1000s in 2013, which fell to 45 A350-900s in 2017. These devices are intended to replace part of the 55,777-200ERs in service, some of which reach 25 years of age.

My comment: *Airlines that are interested in adding A350-900s to their fleets in the near future will be able to take advantage of United's order postponement.*

> Boeing 737 MAX: the truths of Safran boss Philippe Petitcolin

(source Challenges) December 4 - Nine months after the 737 MAX was banned from flying, Safran skipper Philippe Petitcolin gave an update on the possible scenarios. (...) The big issue of 2020 is obviously the return in flight of the 737 MAX, of which Safran, with its partner GE, is the exclusive engine manufacturer.
When will the Boeing single-aisle aircraft fly again? "Every month, the return to flight is postponed by a month," says Safran's CEO. There is always a possibility of it flying before Christmas, around December 20, but we have no certainty."

Whatever the date of return in flight, the resumption of deliveries looks like a gigantic project. "There are 380 MAX in fleet in airlines, and 380 to 400 in Boeing car parks. It will therefore be necessary to retrofit nearly 800 devices. **Catching up on deliveries will take time**." Boeing would have a maximum delivery capacity of 70 aircraft per month, which would allow it to lock about 30 aircraft per month in addition to the 42 that it continues to produce every month. At this rate, it **would take more than a year to deliver the parked MAXes**.
What **if the flight ban continues**? **Boeing has not ruled out stopping production of the aircraft**. (...) "This is not our number one hypothesis,

but it is a scenario that we have to study, because everything can change very quickly," says Philippe Petitcolin. The MAX is strategic for Safran: Boeing having sold about 5,000 engines, the French group and its partner GE must deliver 10,000 engines, excluding spare engines. Safran's boss is still confident. "If Boeing does the job of getting back in flight right, things should get back in order fairly easily," he says. (...)
 Another possible scenario, unfortunate for Boeing, would be the early retirement of the 737 MAX... (...) In this case, I would see a launch in 2022 for entry into service in 2030." That is five years before the date of 2035, which has been mentioned so far for the future generation of single-aisle vehicles. "There would probably be an answer from Airbus within two years," says Safran's CEO. (...)
If Boeing were to embark on a 100% new aircraft project to replace the MAX, Safran and GE could offer it a more efficient engine than the current Leap. "Every 15 years, we achieve a fuel consumption gain of about 15%, or 1% per year on average," says Philippe Petitcolin. **We could therefore propose a more efficient engine by 5 to 10% than the current Leap." This is a significant improvement, but far from the 30% reduction in fuel consumption that Safran is aiming for in the next generation of single-aisle boats in 2035-2040.**

Boeing's New Midmarket Airplane (NMA) project, on the other hand, seems to be in limbo. With this mid-range aircraft project, called the Boeing 797 by some, the American aircraft manufacturer wanted to develop a range of aircraft from 240 to 270 seats to fit between the 737 MAX and the long-haul 787. A segment estimated at between 4,000 and 5,000 devices over the next twenty years. Last April, Safran hoped to be selected, with its partner GE, to power the aircraft, but the MAX crisis put the project on hold. "We are still promised a selection of the engine manufacturer in the first half of 2020," says Philippe Petitcolin. Following the abandonment of Rolls-Royce, the GE-Safran team now has only one competitor, the American Pratt & Whitney. It remains to be seen whether Boeing will ever launch this aircraft: with the success of the Airbus A321XLR, 50 units of which were ordered this Wednesday morning by the American United, the market is being captured by the European aircraft manufacturer.

My comment: The *reaction of Safran, supplier of the B737 MAX engine, is symptomatic of the opacity surrounding Boeing's work.*

No one today is able to say whether the return to service of this aircraft will begin in the next few days, in three months,... or never.

This uncertainty is not likely to restore passenger confidence in the *aircraft.*

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 9 December, when half of the signature deadline has passed, the consultation had collected 1,028,000 signatures, or 21.79% of the required signatures.

***My comment: As a** reminder, the consultation mechanism on the privatization of the ADP group concerns the following legislative proposal:*

The development, operation and development of the Paris-Charles de Gaulle, Paris-Orly and Paris-Le Bourget aerodromes are a national public service within the meaning of the ninth paragraph of the preamble to the Constitution of 27 October 1946.

I would like to remind you of the next steps in the process:

1- At the end of the nine-month support period, the Constitutional Council will check whether the proposed law has the support of at least one-tenth of the voters registered on the electoral lists.

*2- **If the proposed law has not been examined at least once by each of the two assemblies** (National Assembly and Senate) within six months of the publication in the Official Gazette of the Constitutional Council's decision declaring that the 10% voter threshold has been reached, the **President of the Republic shall submit it to a referendum.***

> No decision on the privatisation of ADP until the end of the referendum procedure, says Bruno Le Maire

(source Reuters) December 8 - The **government will not take any decision on the privatization of Aéroports de Paris until the end of the collection of signatures for the organization of a referendum**, Bruno Le Maire said Sunday on France 3.
This referendum project on the privatisation of ADP has collected more than one million signatures, according to a count published Wednesday by the Constitutional Council.
Emmanuel Macron said in April that he was in favour of lowering the threshold for a shared initiative referendum (RIP) to one million signatures.
Bruno Le Maire nevertheless insisted on Sunday that the current legislation applied and that this referendum proposal had to be signed by one tenth of the registered voters, or 4.7 million people, by mid-March to be successful.

End of the press review

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

The Air France-KLM share is at €10.21 at the end of Monday 9 December. It is down by -2.20%.

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

The barrel of Brent oil (North Sea) **is up from $3 to $64.**

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

AA Air France-KLM director representing PS and PNCV employee shareholders You can find me on my twitter account @FrRobardet