



I Letter from the Director Air France-KLM

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

No. 734, 16 December 2019

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The Press Review on Monday...

> Air France confirms the Airbus A350 as a replacement for its A380s

(source Le Journal de l'Aviation) December 12 - (...) Air France-KLM has (...) placed an order with Airbus to purchase ten additional copies of the A350-900.

This measure allows Air France to continue and intensify the modernisation and rationalisation of its fleet. The **A350-900s had been considered from the very beginning of the search for a replacement for the Super Jumbo** but were in competition with the A330neo and Boeing 787. Rather than creating or reinforcing the weight of a sub-fleet, the company has therefore chosen to consolidate the A350's position as a new pillar of the long-haul fleet. The **ten new devices are in addition to the twenty-eight already in the process of being acquired.** (...)

Anne Rigail, Chief Executive Officer of Air France, said that the **operational results of the first three A350s "are excellent at all levels:** customer satisfaction, operational performance and reduction of the environmental footprint". This is another reason for this choice.

(...) With this decision, the **carrier is moving towards simplifying its long-haul fleet, which will be composed of three types of cockpits in 2023:** A330/350, 777 and 787. But another opportunity for simplification still exists: the transfer of the ten,787 Air France aircraft to KLM, an option mentioned in November. For a

long time frozen, **Air France-KLM's fleet has been on the move since Benjamin Smith took over as head of the group.** In one and a

half years, the new CEO of the group will have accelerated the withdrawal of ATRs and ERJs145s from Air France HOP! fleet, decided to strengthen KLM Cityhopper's fleet by 21 Embraer 195-E2, to integrate sixty A220s at Air France to replace the A318 and A319s, to review the distribution between Air France and KLM of the A350 and 787 order book and to increase commitments for the A350 and 777-300ERs. The **Air France A320/321 single-aisle fleet still needs to be modernised, even though the** company has already announced that it will invest €1 billion a year to modernise its fleet.

My comment: *The Airbus A350 is the ideal replacement for the A380s and will allow Air France to achieve significant fuel savings.*

It also has an advantage in attracting passengers. The A350 is even quieter than its predecessor, the A380.

> **Air France-KLM: Anne-Marie Couderc will be reappointed as President**

(source La Tribune) December 14 - **According to corroborating sources, the Group's Board of Directors** unanimously **validated** this Wednesday the proposal of the Appointments Committee to propose to the next General Assembly to be held in May 2020 the **reappointment of Anne-Marie Couderc in her functions**. (...) Anne-Marie Couderc will be (...) constrained by the Articles of Association on the age limit for resigning from her duties as President (...) one year later, in May 2021 (...).

When asked, Air France-KLM did not comment.

The question of whether it would be appropriate to renew the presidency for only one year was quickly dismissed. Anne-Marie-Couderc's good relations (and complementarity) with Air France-KLM's CEO Ben Smith, but also with the French State and KLM's management, led to the renewal of the contract, which she had requested.

Given the stalemate in negotiations between France and the Netherlands on the governance of the group, which has been completely disrupted since the Dutch State took over the group's capital last February, no one wanted to create new tensions on the subject of the group's presidency. (...)

My comment: *The term of office of the President of Air France-KLM expires in May. Its succession or renewal is therefore topical.*

Other positions of responsibility within the Air France-KLM Group are held by women (non-exhaustive list):

- . the chairmanship of two of the main subsidiaries (Air France and Transavia France),*
- . the Group's General Secretariat,*
- . the Group's Maintenance Department,*
- . as well as the chairmen of the four committees responsible for preparing and facilitating the work of the Board of Directors on specific issues (appointment and governance, audit, sustainable development, compensation).*

It should also be noted that more than 40% of the directors of the Air France-KLM Group are women.

> Parliament wants clarification on the shrinking of KLM

(source De Telegraaf translated with Deepl) December 11 - **Parliament is concerned** (...) that **KLM must remove a Boeing 747 from its fleet for the** benefit of French pilots. (...)

"Ben Smith, CEO of Air France-KLM, has just met with the Dutch Airline Pilots Association (VNV) to dispel his concerns," says MP Paternotte (D66). "We find too often that KLM does not take a stronger position in the group, even if a stake has been acquired for this purpose. It is time for us to obtain solid guarantees from Paris, which were promised to us after the acquisition of the shares."

At the end of February, the Dutch government became the second largest shareholder of Air France-KLM, in order to preserve the public interest of KLM and Schiphol for the Dutch economy. Since then, a working group of the Dutch and French governments has been examining the governance of airline consolidation. Hoekstra[Dutch Finance Minister] wants guarantees on independent trade operations and KLM routes, but the negotiations are "complex", the minister said a few weeks ago.

Smith has concluded unilateral agreements with the French pilots' union concerning the allocation of the fleet. **In order to calm the French pilots, the CEO promised Air France more aircraft for the French division. Air France will now receive 2.5 aircraft for each new KLM aircraft.** The weak point of these agreements is that KLM makes more profits than Air France.

With the new agreements, Air France-KLM is financially disadvantaged and this could be to the detriment of routes and jobs in the Netherlands. The VNV considers it "unacceptable" that

Smith should solve a French problem to the detriment of KLM's activities. The PvdA and D66 want to know from Hoekstra to what extent KLM will be limited in its commercial activities.

My comment: *The concerns of the KLM pilots are legitimate, but they are unfounded.*

While important decisions, such as fleet renewal, are taken by the Air France-KLM Board of Directors, the subsidiaries finance them from their own revenues. Contrary to some popular belief, there is no cash transfer between Air France and KLM.

As Peter Hartman, CEO of KLM between 2007 and 2013, recently pointed out, "KLM has been able to grow over the years thanks to Air France - and not despite it. KLM has won an incredible number of long-haul destinations, destinations that we should have abandoned as an independent carrier."

> **China Southern uses AFI-KLM E&M for its Airbus A350s**

(source Air & Cosmos) December 12 - While the Airbus A350 has just joined **China Southern Airlines'** fleet, **the latter has just signed an MRO equipment support contract with AFI KLM E&M for all twenty Airbus A350s.** The maintenance program includes maintenance, repairs and logistics services. In addition to the global "pools" in Paris, Singapore and Detroit, the operator has access to a regional parts pool based in Shanghai as well as an MBK (Main Base Kit) in Guangzhou and Beijing.

With this regional pool, AFI KLM E&M can immediately take over China Southern Airlines' A350 fleet at any stopover in China, eliminating **the risk of operational delays due to long customs clearance and transport processes when shipping equipment from other countries.**

> **Air France KLM strengthens its cooperation with Qantas**

(source: Boursier com) December 10 - Air France KLM is expanding in Australia and Southeast Asia by strengthening its collaboration with the Qantas Group. By the end of December, **Air France and KLM plan to launch a code-share agreement on routes operated by JetStar Asia Airways and JetStar Airways, two member airlines of the Qantas Group.**

This new agreement will provide new destinations in Southeast Asia and Australia via JetStar Asia Airways flights **from Singapore and JetStar Airways flights from Denpasar**. Air France and KLM customers will thus benefit from a seamless travel experience, with the same ticket for their entire trip and the transfer of luggage to their final destination (...).

During the winter 2019 season, KLM plans to set up code-share agreements on JetStar Airways flights to 4 Australian destinations as a continuation of its Denpasar service: Adelaide, Melbourne, Perth and Sydney. Also in December 2019, Air France, KLM and Qantas will extend their code sharing to their respective flights to and from Bangkok, in addition to the existing agreements on routes via Singapore and Hong Kong. This extension will allow a third possibility to be added to link Amsterdam and Paris to Sydney. (...)

***My comment:** Air France-KLM is re-establishing links with Qantas and its subsidiaries to serve Australia.*

In 2013, following the alliance signed between Qantas and Emirates, the Air France-KLM group had to terminate its partnership with Qantas.

> **When analysts marry Air France-KLM and easyJet**

(source Les Échos) December 12 - **In a very detailed study, Citigroup experts develop the hypothesis that easyJet will be acquired by Air France-KLM by 2025.** They present it as the best solution to halt the decline of the Franco-Dutch group on the intra-European market.

What if Air France-KLM bought easyJet with the help of its partners Delta and China Eastern? This is the hypothesis developed by a team of Citigroup analysts in London in a study on the prospects for consolidation in the European sky by 2025. "We imagined what European air transport might look like in 2025," says Mark Manduca, Citi Research's lead analyst for Europe, Africa and the Middle East. **We have come to the conclusion that four main players should dominate the intra-European market by this date: Air France-KLM, IAG, Lufthansa and Ryanair.** With three main consolidation scenarios: the acquisition of easyJet by Air France-KLM or IAG, and that of Wizz Air by Ryanair. »

Compared to the United States, where American, United, Delta and Southwest account for 80% of the market, **European consolidation is far from complete.** According to Citi Research, in 2018, Lufthansa, Ryanair, IAG, easyJet and Air France-KLM accounted for 51.1% of intra-European supply, or 13.2%, 12.2%, 10.1%, 8.4% and 7.2%

respectively. About forty companies follow far behind, which have to settle for the crumbs in this market and are as many prey or potential bankruptcies.

But **why would easyJet be a target**, with a market capitalization exceeding that of Air France-KLM by a good €1 billion? "easy-Jet has an existential problem: **it is positioned in the mid-range segment, with a product that is neither premium nor really low-cost like Ryanair,**" says Mark Manduca. All those who were in the same situation, such as Vueling or Norwegian, found themselves in difficulty. In addition, easyJet is surrounded by increasingly larger competitors. What place will it have left if Ryanair buys Wizz air or if IAG gets its hands on Norwegian?"

EasyJet in a dead end?

The growth of easyJet, although still very strong in France, **would also show signs of weakness**. "Look at the fleet evolution forecasts in their latest 2019 presentation. They are not those of a growing company," the analyst points out. **easyJet expects an average assumption of 361 aircraft in 2023, compared to 352 in 2020, due in particular to delays in Airbus deliveries**. "Stelios Haji-Ioannou[founder and main shareholder of easyJet, editor's note] doesn't want to let easyJet grow," says Mark Manduca. On several occasions in the past, the founder of the company with the orange livery has opposed his management on aircraft orders, perhaps preferring dividends to investments. For Citi Research

analysts, **easyJet has something to appeal to more than one potential buyer**. Not only "**its current stock market valuation is close to the value of its fleet**", they point out, but **the company also has an invaluable portfolio of slots** at London's Gatwick and Luton airports, as well as in Amsterdam, Paris-CDG, Frankfurt, Munich, Madrid, Vienna and Brussels. This will enable Air France-KLM to double its market share on the intra-European market. But other factors could also push it to do so, such as a possible privatization of ADP. In this case, "the new owner will want to increase revenues by increasing traffic, by inviting Ryanair to Roissy-CDG. To resist, Air France-KLM would then have no better solution than to buy the second largest airline in the French market, easyJet," explains Mark Manduca.

Provided that easyJet is for sale and that Air France-KLM management dares to make such a bet. More than ten years ago, the leaders of the Franco-Dutch group studied a possible takeover (...). Finally, they had given up for fear of an outcry from Air France employees, who would have much to fear from a merger of the two airlines' medium-haul networks. Today, Citi Research

's alternative scenarios are not pleasant for Air France-KLM. If the

situation were to remain unchanged, its market share on the intra-European market would continue to decline. And in the worst-case scenario - that of an acquisition of easyJet by IAG - the Franco-Dutch group would probably definitively lose the first European air transport division.

My comment: *First of all, it should be said that this very interesting article is based on a study carried out outside the Air France-KLM group.*

The study is based on one observation: the consolidation in European air transport, which has been under way for about fifteen years, is accelerating. There are many reasons for this.

In recent months, several airlines have gone bankrupt. Iberia has announced its intention to buy Air Europa. British Airways tried to buy Norwegian. Alitalia, in a bad position, sees its future taking shape in dotted lines.

In addition, the hubs of the main airlines are saturated: Heathrow for British Airways, Frankfurt for Lufthansa, Schiphol for KLM. As the saturation of these airports limits the prospects for internal growth, European airlines are looking for external growth solutions.

The year 2020 could well be a decisive step in the consolidation process. How many large European companies will remain once consolidation is completed? Four as suggested by the Citigroup study? Five if easyJet remains independent?

> Air transport does not believe in a recession in 2020

(source Les Échos) December 11 - And ten! For the **tenth consecutive year, international air transport generated solid profits in 2019**, with an estimated net profit of \$25.9 billion (compared to \$27.3 billion in 2018), on a cumulative revenue of \$838 billion. According to the latest International Air Transport Association (IATA) forecasts released Wednesday in Geneva, this decade of profits is expected to continue into 2020, with net profit expected to rise to 29.3 billion. (...)

European companies are, on the whole, far from being the most efficient financially. Their cumulative profits in 2019 (\$6.2 billion) are almost three times lower than those of North American companies (\$16.9 billion). Their average margin remains low (3.6%). And the situation shouldn't be very different next year. This is a difference that IATA attributes to higher social costs and taxes in Europe than

elsewhere.

However, this geographical divergence masks an even greater divergence between the leading group of international airlines and the rest of the pack. **"About thirty companies accounted for most of the profits**, while a very large majority recorded no improvement in financial performance. **A significant number even stayed in the red,"** says Brian Pearce.

This category of lame ducks includes around 40 small European companies, whose market share rarely exceeds 1% and **which seem doomed to be bought out or disappear**. But it also includes almost all African companies, a number of Asian companies and even companies from the Middle East, which remain in the red overall.

***My comment:** While airline net profit is expected to increase in 2020 (\$29 billion), it will still be far from the 2016 result (\$38 billion).*

> CO2-free aviation: let's forget the electric aircraft, the solution is elsewhere, says Safran

(source La Tribune) December 9 - **The abolition of short-haul flights and the race to the electric plane will never**, according to the French aeronautical group Safran, **reduce CO2 emissions generated by aviation by 50% in 2050 compared to 2005**, as set by the International Civil Aviation Organisation (ICAO). (...)

Electric batteries, which today have a power of 200 watt-hours per kilogram[Wh/kg], are too low. And battery specialists don't have solutions in the boxes.

"To fly an A320 that carries 80 tons of cargo over distances of up to 5 hours, you would have to carry 180 tons of batteries that are 5 times more energy efficient than those we know how to make today and **that are beyond the scientists' roadmap,"** explains Stéphane Cueille, Safran's Director of Innovation and R&T.

However, addressing the problem of flights over 1000 km is the sine qua non condition for achieving the objectives set. They account for 80% of global CO2 emissions[from civil aviation] and cannot, in most cases, be replaced by other modes of transport. And will never be equipped with 100% electric motors by 2050, let alone 2035. (...)

On the other hand, if Safran excludes electric aircraft for flights over 1000 km, the aerospace group does not say that the objective of reducing CO2 emissions by 50% in 2050 compared to 2005 is not achievable. Quite the contrary. (...)

There is no single solution, but a combination of several levers.

Exactly three:

. the entry into service around 2035 of a new ultra-efficient short- and medium-haul aircraft;

. the development of alternative fuels, initially biofuels, then **synthetic fuels**, all compatible with internal combustion engines;

. optimized flight operations management. (...) The debate between traditional architectures with a fuselage and engines under the wings and broken architectures such as the introduction of "open rotor" engines, located at the rear of the aircraft, continues. If aircraft manufacturers have not been very hot recently with the concept of an "open rotor", the increase in environmental pressure can put this type of engine back on top of the stack. (...)

To halve CO2 emissions in 2050 compared to 2005, this new aircraft will need a "green" fuel, which will necessarily be more expensive than today's kerosene. (...)

But (...) it would not cover all air transport needs by that date.

"We believe that alternative fuels will be able to take over," says Stéphane Cueille.

For him, two paths are clear: the first is to use **synthetic green fuels**, which are in fact solutions **based on green hydrogen** (or Power to liquid). (...)

However, if this technology does not succeed in breaking through, Safran believes that there is still another, much more complex solution: **using hydrogen as it is**. This option, which could only be considered after 2040, would represent a "huge" leap forward. Specific aircraft, larger, would be needed to carry the very large cryogenic tanks needed to store liquid hydrogen 2 to 3 times larger than kerosene.

In the end, Safran's roadmap holds water on paper. But (...) **hopes for sustainable and synthetic fuels are conditioned on political support to develop a biofuels sector**, first of all biofuels, then green hydrogen, for aviation.

(...) In view of the international specificity of air transport, **such regulation can only take place on a global scale**, at the risk of creating competitiveness gaps between companies that would be obliged to use much more expensive alternative fuels and those that would not be obliged to do so. (...)

"Ideally, this should be in ICAO. At least in Europe", explains Stéphane Cueille. "Europe must be in a position of influence and not be at odds

with certain countries," he added. (...)

My comment: Safran is the leading manufacturer of aircraft engines. His opinion deserves to be read carefully.

I would just like to make one further comment: if European governments decide to introduce a "carbon tax" on airlines, this measure will only make sense if the proceeds of this tax are used to finance the production of alternative fuels to kerosene.

> **LAST MINUTE: Boeing decides to suspend production of the 737 MAX, a flight ban**

(source AFP) December 16 - **The aircraft manufacturer Boeing decided on Monday to suspend production of its flagship aircraft, the 737 MAX, from January**, after two accidents that killed 346 people in a few months, without obtaining the approval of the aviation authorities to fly it back.

The American aircraft manufacturer claims to have "continuously" assessed its production plans in the event of a prolonged MAX shutdown. "As a result of this ongoing evaluation, we have decided to give priority to the delivery of stored aircraft and to temporarily suspend production of the 737 program as of next month," he said in a statement. At this stage, it does not foresee any job cuts, but this decision could greatly disrupt its subcontractors. (...)

This decision, taken during a meeting on Monday, **is motivated by a number of factors**, the aircraft manufacturer further explained, **including uncertainty regarding the timing and conditions of the aircraft's return to service and approvals for pilot training worldwide**. (...)

"We continue to work closely with the FAA (the American regulator) and regulators around the world for its safe return to service," a spokesman told AFP Sunday evening after speculation in the press. (...)

There is no return to service date for daylight saving time.

And **the American regulator**, the FAA, which has been heavily criticized in the certification process, **says it will not give its consent until it is satisfied that the corrective measures taken to the aircraft ensure maximum safety**. (...)

Boeing's share lost 4.3% on Monday in a formal meeting.

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 16 December, when half of the signature deadline has passed, the consultation had collected 1,042,000 signatures, or 22.09% 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.

End of the press review

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

The Air France-KLM share is at €10.60 at the end of Monday 16

December. It is up by +3.82%.

The average (consensus) of analysts for the AF-KLM share is 11.19 euros.

The barrel of Brent oil (North Sea) is up from \$1 to \$65.

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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