

Air France-KLM slightly accelerated its growth in 2019



I Letter from the Air France-KLM Director

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N°738, January 13, 2020

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Monday's Press Review

> Air France-KLM slightly accelerated its growth in 2019

(source Les Echos) 10 January - After years of imbalance between Air France and KLM growth, the Air France-KLM group has almost managed to balance the thrust of its two main engines in 2019. Indeed, the French airline won just over 1 million customers last year, with a total of 52.5 million passengers carried in 2019, compared with 922,000 additional passengers for the Dutch airline, which carried over 35 million.

Adding the 16.58 million passengers of Transavia Holland and Transavia France, **the traffic of the Franco-Dutch group thus rose from 101.4 million passengers in 2018 to 104.2 million in 2019, i.e. a growth of 2.7% over one year**, higher than that of 2018 (+2%) which was marked by the strike. **An average performance which should place Air France-KLM between IAG**, up 4.7% over one year to 118.25 million passengers, **and the Lufthansa group**, whose annual traffic figures have not yet been published.

This will enable Air France-KLM to maintain its fourth place in Europe in terms of passenger numbers, far behind Ryanair and its 152.4 million passengers, the Lufthansa group (around 145 million) and IAG (118.25 million), but ahead of easyJet (96 million). In more detail, **however, the Franco-Dutch group remains neck and neck, or even slightly ahead of its two main European competitors for long-haul**

traffic, with 28.3 million passengers. Air France-KLM also remains at the head of the pack over Africa, South America and the Caribbean and Asia (neck and neck with Lufthansa and IAG). On the other hand, the group seems to be falling behind in North America and intra-Europe. As for its low-cost branch **Transavia and its 16.5 million passengers**, it remains a dwarf, compared to the two European market leaders, Ryanair and easyJet. But it **is also far behind, compared to Lufthansa's low-cost division** (around 35 million passengers), strengthened by the acquisition of Air Berlin, **and compared to that of IAG** (around 58 million), which is about to become part of Air Europa. Transavia's growth even slowed last year, from 7.1% in 2018 to 4.8% in 2019, with a drop in traffic in December. The only sector of real concern, however, remains cargo activity, which fell by 4.9% in December and 2.2% over the year. However, its competitors are not much better off in this area.

We now have to wait for the financial results, which will be released on February 20. According to analysts' forecasts, operating profit is expected to fall sharply, compared to 2018 (1.3 billion), despite the strike and the "yellow jackets" crisis. (...)

***My comment:** European air transport growth has slowed in 2019.*

There are many reasons for this:

- . the cessation of B737 max flights, which penalised Norwegian and Ryanair,*
- . bankruptcies, the main one being Aigle Azur,*
- . the shame of flying, without it being possible to determine whether this has really led to a reduction in the number of passengers.*

In this context, the Air France-KLM group is doing rather better than its main competitors.

> KLM grows more than average at Schiphol

(source Zakenreis, translated with DeepL com) 9 January - **The number of passengers carried by KLM increased by 2.7% in 2019 to 35.1 million. This means that KLM is well above the 1% average, which was the increase in traffic at Schiphol last year.**

The national airline seems to be less hampered than other airlines by the 500,000 flight limit that has been reached at Schiphol in 2018. KLM's aircraft occupancy rate increased by 0.3 per cent to 89.4 per cent.

With Transavia Netherlands

' 9.2 million passengers, the KLM group will have a record 44.3 million passengers in 2019. Transavia's passenger numbers increased by 4.4% in 2019 (...)

My comment: *The saturation of Schiphol Airport limits the growth opportunities for airlines in the Netherlands.*

Nevertheless, KLM has significantly increased the number of passengers carried using slots abandoned by bankrupt airlines.

The Dutch company also benefited from the replacement of its B747 combi with B787-10.

The B747 combi are aircraft divided into two parts. The front section is designed to accommodate 268 passengers. The rear part is used to transport cargo.

The B787-10 has a capacity of 344 passengers, higher than that of the B747 combi.

> **IAG: traffic up 4.7% and the boss leaves the company**

(source Air Journal) 10 January - **The IAG group** comprising British Airways, Iberia, Aer Lingus, Vueling and Level **carried 118.253 million passengers last year, an increase of 4.7%**. (...)

(...) The Group's seating capacity grew by

4.0% last year, with revenue passenger-kilometre traffic up 5.6%; as a result, **the average**

seat load factor for the Group's aircraft rose by 1.3% to 84.6%.

IAG's cargo traffic is -2.4% in tonnes transported per kilometre.

(...) The month of December 2019 was marked in particular by British Airways, which reached a final agreement on wage negotiations with its pilots' union BALPA, and Iberia, which signed a preliminary collective agreement with its ground handling services, maintenance and administration staff. And **on December 17, the British airline signed a joint venture agreement with China Southern Airlines**. IAG took the opportunity to point out that, like easyJet, it will no longer publish monthly traffic statistics.

But **Thursday's most followed announcement was the retirement of Willie Walsh, who is retiring from (...)**. Mr. Walsh joined Aer Lingus as a young pilot at the age of 17 and became CEO in 2001 before taking up the same position at British Airways in 2005 and then at IAG in 2011, when the British and Spanish national airlines merged. (...)

Iberia CEO Luis Gallego will take (...) the head of the group, whose switch to Spain seems moreover obvious (in addition to Vueling and Level, IAG will acquire Air Europa there) especially after the problems encountered recently by British Airways (computer breakdowns, social conflicts...).

> **Lufthansa and Wizz Air: operations take off at Orly Air France counterattacks!**

(source TourMaG) 7 January - Air France's new competitors at Paris Orly are advancing their pawns.

Starting with **Lufthansa, a newcomer to the southern Parisian platform.** (...) Following the bankruptcy of Aigle Azur in September 2019, the Germans recovered 1,460 of them, the equivalent of two daily flights.

As of 16 March 2020, the Star Alliance carrier **will start operating a twice-daily service to its Munich hub** (...).

The purpose of these flights, when the German airline already flies 40 flights a week between Munich and Roissy, is to facilitate connections from its Munich hub to Japan, India, Mexico and North America (...).

An early announcement by Air France, which immediately responded by unveiling, on Tuesday 7 January, the launch of a new route between Orly and Munich (...).

"Air France customers can also reach Munich from Paris-Charles de Gaulle thanks to 6 flights a day", states a press release from the French airline, in which it is announced that Munich will be the first German city to be connected to Orly, with all flights normally operated from Paris-Charles de Gaulle. **Openings to Geneva, Algiers and Madrid are also on the agenda.** For

its part, Europe's fifth-largest low-cost airline, Hungarian Wizz Air, plans to start two daily flights from Orly, again as a new entrant, from 29 March 2020 (...).

My comment: Aigle Azur's slots were redistributed at the beginning of December to HOP, Transavia, Lufthansa, Wizzair, EasyJet, Air Caraïbes, Corsair, La Compagnie and TAP Portugal.

The Air France group recovered 31% of these slots. Operated by Transavia and Hop! they will open new routes from Orly.

At the presentation to investors on 6 November, the Air France group announced its intention to develop "a quality network adapted to

business customers departing from Orly to Europe".

> **Alitalia's future called into question by the withdrawal of the "Italian SNCF" file**

(source Les Echos) January 8 - A new year but an old story... the rescue of the public airline Alitalia, which has been under trusteeship since 2017. Operation Survival becomes even more complicated in 2020. The **mission of finding a buyer for the Italian company** by 31 May next, the eighth deadline in a row granted by the government with a new 400 million euro bridging loan to enable it to continue operating until then, is **now proving practically impossible** following the wreck of the consortium imagined by Giuseppe Conte's executive.

"For us, this procedure is closed, we are out of the operation", said the head of the public Italian railways group Ferrovie dello Stato (FS), Gianfranco Battisti, at a hearing before the Transport Committee of the Italian Chamber of Deputies. Alongside the "Italian SNCF", which would have held 37.5% of the capital of a new Alitalia, the Ministry of the Economy with 15%, the American Delta Airlines with 10% of the shares and Atlantia, the holding company of the Benetton family with 37.5% (...).

Alitalia's situation is worrying. **The company lost 600 million euros in 2019. With around 100 aircraft and 21 million passengers, it has become a small operator in an increasingly competitive market with bigger and bigger players (...).**

My comment: *What will be left of Alitalia at the end of 2020?*

The Italian airline plans to take two A330s, four A320s, two A321s and its 777-300ER out of its fleet. She will then have less than 100 devices.

> **China Southern: a farewell to Skyteam, almost without consequences for travellers**

(source Voyages d'Affaires) January 6 - (...) The departure of **China Southern from the Skyteam** alliance could appear as a non-event. For the Chinese company, which wanted to regain complete commercial freedom, has not in fact severed all ties with its former alliance partners. Quite the contrary. It **continues to operate code-sharing agreements with 14 of the 19 Skyteam members** (...). The most notable absences are those of China Eastern, which has now become a rival, and Garuda Indonesia (...). The airline will also no longer have an African partner since the cooperation agreement is not renewed with Kenya Airways (...)

Skyteam's departure has already had an effect last year on the strategy of the Chinese carrier. **The company has already signed a series of bilateral cooperation agreements with carriers.** This is the case, for example, with the Dubai carrier, Emirates. However, most of the new cooperation agreements have been concluded with airlines belonging to the Oneworld alliance, a development certainly influenced by the entry of American Airlines into the capital of China Southern.

Not surprisingly, China Southern's new business partners include American Airlines, Finnair, Japan Airlines, Qantas and Qatar Airways. **On 19 December, China Southern provisionally completed its Oneworld tour with British Airways, with whom it has signed an agreement. The latter will also allow the respective recognition of loyalty programs.**

> **TAP Air Portugal carries 17 million passengers in 2019, a new record**

(source AFP) 7 January - Portuguese airline **TAP announced on Tuesday that it will carry 17.05 million passengers in 2019, an increase of 8.2% over the previous year** and a new all-time record. The carrier, which is still likely to record further losses for the 2019 financial year, carried 1.29 million more passengers than in 2018 thanks to "a very positive development in the last months of the year", he stressed in a press release (...).

During the first nine months of the year, the group increased its losses to 111 million euros despite a 6.1% increase in turnover to 1.05 billion euros (...).

Privatised at 61% in 2015, TAP saw the Portuguese State increase its stake to 50% in 2016. The private consortium Atlantic Gateway, led by the American businessman David Neeleman, has a 45% stake and the remaining 5% belongs to the employees.

At the end of November, Mr. Neeleman had to deny rumours that he wanted to withdraw from TAP due to differences with the public shareholder.

***My comment:** The recession in Brazil in 2015 and 2016 has weakened the Portuguese airline TAP Air Portugal, whose activity was very concentrated in this country.*

In 2019, TAP began to diversify by opening lines to the United States. It's still too early for the Lusitano company to make a profit.

> **Norwegian Air Shuttle ASA: progress in its recovery plan**

(source ZoneBourse) January 7 - The airline **Norwegian Air Shuttle**

reduced its capacity by a quarter in December by eliminating loss-making routes and is making progress in its plan to return to profitability. Norwegian Air stated that the capacity reduction contributed to a 14 per cent increase in average revenue per passenger. The airline shook the transatlantic travel market with low fares, but its rapid expansion and the forced grounding of its fleet of Boeing 737 MAX aircraft led to increasing debt and losses.

The company has raised funds from investors three times in 20 months to avoid joining the ranks of airlines that have collapsed due to overcapacity in the sector (...)

Norwegian occupied an average of 83.5% of seats in December, compared to 78.6% in the last month of 2018, beating an average forecast of 82.4% (...).

Over the last year, shares have fallen by 60% but have risen by 19% in the last three months as the recovery plan has gained momentum (...).

***My comment:** In 2019 Norwegian managed to limit its financial losses. Nevertheless, it is still far from being profitable. The low-cost Norwegian airline is still struggling to fill its planes.*

With a load factor of 83.5%, it is far from reaching the standards of low-cost airlines (over 90%), nor even the load factors of Air France-KLM (86.4% in December).

Ryanair raises its profit forecast, hope for the sector >
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(source Reuters) January 10 - **Ryanair** raised its annual profit forecast on Friday after a better than expected holiday season, an announcement that benefits most of the major European stocks in the sector on the stock market.

Europe's leading low-cost company is **now forecasting a profit of €950 million to €1.05 billion for its fiscal year to the end of March**, compared with the €800-900 million forecast in November (...).

For Bernstein analysts, Ryanair's announcements could be the first sign of an upturn in profits in the sector, which in recent months have been affected, among other things, by the grounding of all Boeing 737 MAX aircraft.

"European airlines, especially short-haul specialists, had better take advantage of it while it lasts," writes the US bank in a note. "With MAX still at a standstill and capacity growth reduced, **this could reflect a**

more favorable environment until the end of the winter." (...)

My comment: *The bankruptcies of European airlines and the halt of B737 Max flights have limited the overcapacity observed in Europe at the beginning of 2019.*

This may have led to an increase in fares and could be a boost to airline profits (if confirmed).

> **US airline JetBlue will offset the polluting emissions of all its domestic flights.**

(source FranceInfo with AFP) 7 January - It is an important step towards carbon neutrality, the stated objective of **JetBlue**, which **announced on Monday 6 January its intention to become the first major US airline to offset the polluting emissions of all its domestic flights from July onwards.** (...)

JetBlue carries more than 42 million passengers each year to nearly 100 U.S. cities and operates an average of more than 1,000 daily flights. (...)

"We reduce [carbon emissions] where we can and offset where we can

t," said company CEO Robin Hayes. (...) He also stressed that **carbon offsetting is not a "miracle solution" but a "bridge to a less polluted future"**.

To obtain carbon

credits, JetBlue will invest in projects to protect forests from destruction. It will also develop solar and wind farms instead of using coal, diesel or fuel oil to generate electricity. Another project is the capture of landfill gas in order to convert it into a renewable energy source. (...)

My comment: *Like Air France, JetBlue has chosen to offset emissions on all its domestic flights.*

This decision is all the more significant as the low-cost airline operates the majority of its flights in the United States.

> **737 MAX: Boeing recommends pilot simulator training prior to return to service**

(source Le Journal de l'Aviation with AFP) January 8 - After a long resistance, **Boeing finally resolved Tuesday to recommend simulator-based pilot training, which is considered more costly and likely to further delay the return to service of the 737 MAX**

aircraft that has been grounded for nearly 10 months after two accidents that killed 346 people.

The American aircraft manufacturer is thus complying with the requirements of the European and Canadian civil aviation authorities, which had made it a sine qua non for giving the green light to lifting the flight ban.

Prior to the Lion Air and Ethiopian Airlines accidents, pilots flying the Boeing 737 MAX were trained only on computers, and on iPads for those who were already familiar with the 737 NG, the predecessor of the MAX. (...)

One of Boeing's commercial arguments for selling MAX to airlines was that they would save money because there would be no need to specially train pilots accustomed to 737 NG, according to a promotional brochure consulted in November by the AFP.

Under pressure from its rival Airbus, Boeing wanted to go as fast as possible.

Boeing had even committed to give Southwest Airlines a rebate of \$1 million per aircraft in case its pilots had to take special simulator training, according to a source close to the negotiations. (...)

"The agency will review Boeing's recommendation" during joint operations with U.S. and foreign airline teams because the training is part of the 737 MAX certification, an FAA spokesman told AFP Tuesday. (...)

Simulator training will be costly and time consuming, which is expected to disrupt the flight schedules of 737 MAX customers, as there are currently only 34 737 MAX-specific simulators worldwide, eight of which are owned by Boeing. In contrast, approximately 800 MAX aircraft have been produced to date, of which almost half (387) were already in service before the aircraft grounded in mid-March 2019. Southwest Airlines, the 737 MAX's first customer and the company's entire expansion strategy is based on this aircraft, has no operational simulator. (...)

United Airlines indicates that it has not yet established a schedule for training its pilots if simulator training is a prerequisite. (...) The carrier has only one machine in his possession and has placed orders for three others, which he should receive by the end of March.

My comment: For several months, Boeing had been trying to persuade the certification bodies that there was no need to train B737 Max pilots on simulators.

The stakes were high: the investments required to manufacture the simulators are substantial (several tens of millions of euros per aircraft).

Above all, it would take several months before all B737 Max pilots would be trained. Even if these training courses could start in the first half of 2020, it is likely that all the aircraft currently grounded could not be returned to service before the end of the year.

> Airbus outperforms Boeing with more than 1,000 aircraft sold and 863 delivered in 2019, a record number.

(source Capital) January 11 - **Airbus announced on Friday, January 10 that it has booked 1,131 orders in 2019, including 768 net orders.** The aircraft manufacturer also delivered 863 aircraft last year, the highest total in its history. (...)

Conversely, its competitor **Boeing saw its deliveries collapse as a result of the 737 MAX crisis.** The US aircraft manufacturer, which has overtaken Airbus in deliveries since 2012, has not yet released its annual figures, but had delivered only 345 airliners in the first eleven months, half as many as in 2018 over the same period. (...)

Airbus (...) had nevertheless had to revise its delivery targets downwards during the year. (...) While initially expecting '880 to 890' deliveries in 2019, the group indicated in October that it planned to eventually deliver 'around 860 commercial aircraft', compared to 800 in 2018. **The aircraft manufacturer is indeed encountering production difficulties linked to the increase in production rate of the A321 ACF,** a model allowing a more flexible configuration of the cabins but more complex to produce than an A320.

Airbus delivered 642 A320 Family aircraft last year. (...) This corresponds (...) to an output of 53.5 aircraft per month on the eight production lines for the A320 family available to Airbus: four in Hamburg (Germany), two in Toulouse (France), one in Mobile (USA) and one in Tianjin (China). The aircraft manufacturer plans to increase this production rate to 63 single-aisle aircraft per month by 2021 in order to clear an order backlog that exceeded 6,000 aircraft in this range at the end of December. (...)

Airbus also announced on Friday that it had booked (...) 768 net orders. (...) Of these, 654 net orders are for A320 family single-aisle aircraft. (...) The aircraft manufacturer (...) welcomes "an exceptional market response to the new A321 XLR" (its new very long-range single-aisle aircraft) since its launch announcement in June. (...)

My comment: *If Airbus is delivering more aircraft than Boeing for the first time since 2012, it is only because of the halt in deliveries of the*

B737 Max, which accounts for almost 80% of Boeing's production.

> **Global aviation growth to slow in 2019**

(source TourMaG) January 9 - ForwardKeys has just delivered its first analyses on the health of global aviation in 2019.

Based on capacity, flight searches and flight booking transactions per day, the institute reveals that **in 2019, growth in international air travel, as measured by passenger travel, increased by 4.5%.**

This is ahead of global economic growth, but much slower than in 2018, when it reached 6%, and **slower than in the last decade (6.8% per year on average).**

The slowdown can be explained in particular by a number of events that have held back growth: US trade disputes with Canada, China, Mexico and the EU, riots in Chile, France, Hong Kong and India, the grounding of the Boeing 737 Max, terrorism in Sri Lanka, the emergence of the 'shame of flying' and the bankruptcy of Jet Airways. (...)

Asia-Pacific experienced the strongest growth, with international travel abroad increasing by 7.7% while travel between countries in the region increased by 8.7%.

It is followed by Africa, where international travel increased by 7.5%. (...)

Next comes the Americas region, where international travel abroad increased by 4.8%. Travel between countries in the region increased by 3.2%. (...)

The outlook for the first three months of 2020 is much more optimistic, with international flight bookings as of January 1, 2020 8.3% ahead of the beginning of 2019.

Africa is the market that stands out. On 1 January, international bookings were 12.5% ahead of schedule, with 10% going to other African countries and 13.5% ahead of the rest of the world. Bookings from other continents are also 12.9% ahead of schedule.

The second most promising market is Europe, with international bookings for the first quarter up 10.5%. Bookings between European countries are ahead by 9.6% and bookings to other continents by 11.8%.

Next comes the Asia-Pacific region, where international bookings are 8.3% ahead of schedule. Between the countries of the region, bookings are ahead by 7.7% and long-haul bookings by 9.7%. (...)

My comment: *At the global level, we can see that the growth of air transport is generally twice as high as economic growth.*

It is therefore not surprising that the Asia-Pacific region is the region where airlines are growing the most.

End of the press review

> Follow-up to the referendum on the privatisation of Aéroports de Paris

The consultation procedure on the privatisation of the ADP group has been open since 13 June and will run until March 2020. It requires the signatures of 4.7 million voters to lead to a referendum on a shared initiative (RIP).

On the Internet, the consultation can be signed on the site referendum.interieur.gouv.fr

By 13 January, when two thirds of the signature deadline had passed, the consultation had collected 1,042,000 signatures, or 22.09% of the required signatures.

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

The Air France-KLM share is at 9.912 euros at the close of trading on Monday 13 January. It is down -6.01%. It's back to the level it was at two weeks ago, before the tensions between Washington and Tehran.

The average (the consensus) of analysts for the AF-KLM share is 11.20 euros.

The barrel of Brent oil (North Sea) is down sharply from \$5 to \$64.

This indicative information in no way constitutes an invitation to sell or a solicitation to buy Air France-KLM shares.

You can react to this press review or provide me with any information or thoughts that will help me better carry out my duties as a director of the Air France-KLM Group.

You can ask me, by return, any question relating to the

Air France-KLM group or employee shareholding...

I'll see you soon.

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| François Robardet

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