

Air France launches Business on its domestic flights



I Letter from the Air France-KLM Director

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

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Monday's Press Review

> Air France launches Business on its domestic flights

(source: Le Journal de l'Aviation) 23 January - **Perfectly in line with its desire to move up the range, Air France has indicated that it is going to relaunch business class on its domestic flights and on its short-haul international routes from the regions.** Passengers will be able to take advantage of it from 4 February. The key objective is to offer a seamless customer experience to business passengers connecting to a long-haul flight.

This does not mean the company will revolutionize its cabins. **Business class passengers will be seated at the front and the middle seat will be neutralized**, as on international medium-haul flights. Each occupied seat will have a cushion (blue) and a business headrest (red), which will visually differentiate business class from economy class. They will also be separated by a movable curtain.

However, **passengers will benefit from dedicated services.** They will be able to choose their seat at the time of booking and will benefit from a much larger baggage allowance. At the airport, they will be able to use Sky Priority and all the devices giving them priority (at check-in, controls, boarding, etc.), as well as access to the lounges. On board, they will have a dedicated catering offer.

Three fares will be offered, which differ mainly in the conditions for changing the ticket. In addition, an upgrade offer (for a fee) will be

available for economy class passengers 30 hours prior to departure.

My comment: *The return of business class is in line with the desire to enhance the Air France brand, which is prestigious abroad.*

For example, business class passengers arriving in France on a flight with a connection at Charles de Gaulle or Orly will benefit from improved service and comfort on the final leg.

> **The Operations Control Centre (OCC): Air France's "beacon".**

(source AFP) 24 January - Geopolitical crisis, cyber attack, weather event, passenger discomfort **Air France's Operations Control Centre (OCC)**, with its highly secure access, is the airline's "beacon" and **manages all possible contingencies on the spot**, such as the virus in China.

More than 500 people from 17 different professions take turns 24 hours a day in front of state-of-the-art tools, under the responsibility of a shift manager, to ensure the safety of flights - one thousand a day for Air France - and their smooth running. (...)

It is at the CCO, located at the company's headquarters in Paris-Charles de Gaulle, that cancellations are organized and commercial measures are implemented worldwide. For the past year, a social media unit has been integrated into the centre to monitor and feed social networks. (...)

It's also the most secure place in the company. "We filter the entrances and in times of major crisis we may have to close armoured doors to make the place completely watertight," explains Jean-Yves Chaumet, Director of Operations Control at Air France.

"The CCO is in a way Air France's control tower", from where we ensure that "all internal or external contingencies have the minimum impact on our flight schedules" for the comfort of passengers and the airline's economy, according to Mr Chaumet. (...)

Routes are also prepared at the OCC and then submitted to air traffic control for approval. They will, for example, help to avoid areas of turbulence and traffic jams in European skies," explains François Roppé, supervisor of the dispatch unit.

Within the OCC, the "dispatcher" is "the first point of contact for crews" with the ground, once the aircraft doors are closed. (...) It is in communication with the crew via the Acars system (Aircraft

Communication Addressing and Reporting System) and on the long haul by satellite telephone link. It intervenes in particular in the event of a major change in the weather en route.

Three times a day, a bell rings on the vast platform to discuss hot spots. (...)

But in the **event of a major event** - computer failure, climatic event, crash... - **the crisis centre, which is even more secure, is open.**

A "shadow army" was then mobilized with about twenty experts on call.

By 2019, this centre will have been opened three times. Twice for computer breakdowns and once for health reasons, each time without any consequences for passengers," says Chauvet.

***My comment:** This article is a good account of the importance of Air France's CCO (operations control centre).*

The employees of this department ensure in real time the smooth running of our company's operations.

> Lufthansa is considering an IPO of its maintenance business on the technical stock exchange.

(source Bloomberg Frankfurt translated with DeepL) 23 January - According to informed circles, **Lufthansa is considering an initial public offer by Lufthansa Technik** to finance the expansion of its subsidiary and increase the airline's market value. (...)

A partial IPO would help Lufthansa Technik generate funds for investments in digitisation or acquisitions, they said. According to George Ferguson, intelligence analyst at Bloomberg, **the Technik division has an enterprise value of approximately €7.5 billion, which is more than Lufthansa's market capitalization of approximately €6.9 billion.**

***My comment:** The operation Lufthansa is launching is similar to the one Jean-Marc Janailac had imagined shortly after his arrival.*

Noteworthy difference: after a long negotiation process (several years) with the trade unions, the German company has spun off its aircraft maintenance business, guaranteeing employees to retain their acquired rights.

This has already enabled Lufthansa to increase the number of service and maintenance facilities abroad without reducing the number of employees in Germany. It has thus become the world leader in the

sector.

> **Embellished in the low-cost sky before the consolidation of the sector**

(source Le Monde) January 23 - **Low-cost airlines** can breathe a sigh of relief. Instead of facing a difficult period, as they feared, they are **finally benefiting from a clear upturn in passenger traffic**. The British company easyJet is one of the main beneficiaries of this upturn. (...)

Ryanair, its great Irish rival, has also revised its outlook upwards. (...)

For the two low-cost countries, the **clouds that were gathering on the horizon**, such as Brexit (which will come into force on 31 January) or fluctuations in oil prices, **did not have the devastating effects feared**. (...)

The golden age of the low-cost segment, when Ryanair and easyJet were the sole players in this segment, is well and truly over. **After having despised them for a long time, the regular airlines have all developed their own low-cost carriers**. Air France is now flanked by Transavia, just as British Airways is flanked by Level and Vueling, while Lufthansa has taken off its subsidiary Germanwings. (...)

The forced development of low-cost airlines is part of the consolidation taking place in the air transport sector. Already very advanced in North America, it has led to the domination of "five major airlines: United Airlines, Delta Airlines, American Airlines, Southwest Airlines and JetBlue, which have an 80% market share," says Mr. Bacchetta.

The consolidation of the European sky is still in the making. The major quintet - consisting of IAG, the parent company of British Airways, Lufthansa, Air-France-KLM, Ryanair and easyJet - controls only about 50% of the market. However, the Irish company is only a modest leader (with 13%) .

My comment: *Internal growth opportunities for airlines are limited.*

The takeover of European companies has become the preferred solution for the five major European companies.

> Air : LOT offers Condor

(source Boursier com) January 24 - Small surprise in the European sky this Friday. **LOT Polish Airlines has announced the takeover of Condor, a former subsidiary of bankrupt British tour operator Thomas Cook.**

The combination of the two carriers will create one of Europe's leading aviation groups with around 20 million passengers a year. Condor will continue to act as an independent brand under its current management, while taking advantage of the increased connectivity and operational synergies between airlines.

Founded in 1956, **Condor**, which **operates a fleet of 58 aircraft, generated an** operating profit of €57 million in 2018-2019 on sales of €1.7 billion.

Before going bankrupt last September, Thomas Cook had put its airline segment up for sale a few months earlier. Unlike its parent company, Condor was able to continue its activities thanks to an emergency loan of 380 million euros granted by the German government. A loan that both actors have committed to repay in full. (...)

***My comment:** The takeover of Condor by LOT will allow the German company to continue its activities.*

This is undoubtedly bad news for Lufthansa, which has already seen increased competition in its domestic market following the disappearance of Air Berlin.

> Lufthansa relies on Google's cloud infrastructure

(source Le Monde Informatique) January 20 - The world's leading airline **Lufthansa has chosen Google Cloud** to unify its IT infrastructure and provide machine learning capabilities. (...)

"By combining Google Cloud technology with Lufthansa Group's operational expertise, we are taking the digitization of our operations even further," said Detlef Kayser, Member of the Executive Board of the Lufthansa Group. "This will allow us to identify possible flight irregularities even earlier and to implement countermeasures more quickly. »

As part of this agreement, the amount of which has not been specified, **it is planned that Google Cloud employees will join the German airline's teams** to support it in the design and implementation of the platform and work with the group's IT and operational experts.

Moreover, no information was filtered on the set of Google solutions chosen nor on the type of cloud selected, even if a hybrid approach appears in this case as logical as it is relevant.

This is not the first time that Google has distinguished itself in the aerial. Two years ago, the group made a big impression when it managed to win over Airbus, which announced the switch of 130,000 workstations to G Suite.

***My comment:** For those who want details about the cloud, I invite them to read again my letter n°722, available on my website.*

I would simply add that the use of this type of infrastructure makes it possible to store a large volume of data at a low cost. On the other hand, this leads to high electricity consumption and therefore higher CO2 emissions.

Is it worth the risk?

> **Boeing quietly burying its mid-range aircraft project**

(source Les Échos) January 23 - The **Boeing 797 will not see the light of day anytime soon.** After three years of reflection, **Boeing's new boss**, David Calhoun, **finally announced**, at his first press conference in Seattle, the indefinite **postponement of this "mid-range" aircraft project**, christened 797 in the press and supposed to be inserted between the 737 single-aisle medium-haul **aircraft** and the 787 twin-aisle long-haul **aircraft.** (...)

"We are not giving up on the future, but all my attention and that of the management team must be devoted to getting the Max back in the air," he explained.

Designed in response to the resounding success of the Airbus A321, **this new 220 to 260-seat aircraft, known internally as the NMA** (New Midsize Market), **was likely to enter service as early as 2025**, after an initially expected commercial launch... at the latest Paris Air Show. The project seemed to be well advanced and the process of selecting the engine manufacturers had even begun. But the 737 Max crisis in March 2019 put a stop to the project. And the longer this one went on, the more the future of the NMA seemed to fade away.

With a crisis bill in excess of \$10 billion, it was hard to imagine that Boeing's board of directors would give the go-ahead for the commercial launch of a new, equally expensive program. But until now, the leaders of the American aircraft manufacturer had maintained the fiction. (...)

Before launching a new aircraft, the Boeing boss also wants to learn from the mistakes made on the 737 Max. We may have to start with the flight control philosophy before we get to the aircraft," he said. We have always favoured aircraft that required more piloting than those of our competitor. We're all going to have to think about what we want".

Future programs will also need to take into account the changing competitive environment. "We will have to take China into account," he said. **All the more reason to drop the project, to start again from scratch, even if the abandonment of this project leaves the field open, de facto, on the niche of large single-aisle long-range aircraft, to the Airbus and its A321,** which has only one problem: to produce more in order to meet demand.

***My comment:** It wasn't until the changes at Boeing's head that the consequences of the B737 max crisis were made official.*

In the medium term, the cessation of production of the B737 Max and the indefinite postponement of the B797 are likely to have a significant impact on the development of the short and medium-haul business of Boeing's airline customers.

The question now for Boeing is whether the US manufacturer will be able to relaunch its B737 Max before its Chinese competitor, Comac, is operational.

> Airbus installs its new A321neo line in Toulouse

(source Le Journal de l'Aviation) 21 January - **So it will be Toulouse.** For several months, Airbus had been considering the creation of a new final assembly line (FAL) for the A321neo, which has become one of its best-sellers in recent years. On 21 January, the group's general staff decided in favour of the Occitan site, which was a clear favourite against Hamburg in Germany. The new facility will open in mid-2022 at the Jean-Luc Lagardère plant, currently dedicated to the A380.

This will be the first time that Toulouse will produce A321neo aircraft, whose production has until now been concentrated in Germany and Mobile, in the United States. (...) The manufacturer thus broke with the priority given to Hamburg for the assembly of medium-haul aircraft, in exchange for which the Pink City had a monopoly on long-haul aircraft. (...)

In addition to the increase in production, **Airbus is also looking for ways to better manage the assembly of the A321neo,** which is more complex than that of the A320neo, particularly in its ACF (Airbus Cabin

Flex) version. The **installation of this flexible cabin on more aircraft than expected caused delays in deliveries last year.** (...) In 2020, the ACF cabin, which was previously offered as an option, will become standard on all A321neo aircraft. (...)

This decision is also a breath of fresh air for the employees of the Toulouse platform, particularly those at the Jean-Luc Lagardère plant. They will be faced with the A380 production shutdown next year. (...)

My comment: *The A321neo is the best selling aircraft worldwide last year (490 orders).*

The new production line in Toulouse will enable Airbus to accentuate its advantage in the long-range medium-haul market, especially since Boeing has just announced the redesign of its competing project (see previous article).

> **Airbus: Ryanair is reportedly in talks about a large order**

(source CercleFinance) 24 January - **Ryanair's Austrian subsidiary is reportedly about to order up to 100 Airbus aircraft,** a Laudamotion spokeswoman told WirtschaftsWoche. (...)

) The order would be for medium-haul A320 and A321 aircraft to **be operated by the Austrian subsidiary Laudamotion, which** already has 23 Airbus aircraft in its WirtschaftsWoche fleet. (...)

The group had already indicated that it was in negotiations for a large order for 100 Airbus aircraft at the beginning of last year. But in October, Ryanair's management did not follow up the discussions.

My comment: *Ryanair's decision is surprising. Is it to anticipate delays in the delivery of the B737Max? Is it to strengthen its presence within the European Union after Brexit?*

If this order was finalized it would be a great operation for Airbus.

> **In 2020, French air traffic growth could be the lowest in 10 years**

(source La Tribune) 21 January - **The Directorate General of Civil Aviation (DGAC) is forecasting an increase in passenger traffic of only 2% in 2020,** Patrick Gandil, the director of the DGAC, said on Monday. In 2019, traffic increased by 4% to 179 million passengers (...), despite the bankruptcies of Aigle Azur and XL Airways.

If this forecast proves to be correct, it will be the lowest growth in ten years. In 2010, after the financial crisis of 2009, traffic had

increased by 1.70%.

Since the elasticity of traffic growth is usually more than two times that of GDP, these forecasts are more or less in line with those of French economic growth. In mid-December, the Banque de France revised its growth forecasts for 2020 downwards to 1.1% from 1.3% so far.

Beyond economic activity, some airlines will not be able to grow as they would have liked. Transavia, for example. (...) Air France's low-cost subsidiary must train the pilots needed for its growth. Furthermore, the immobilisation of the B737 MAX obviously hinders the growth of customer airlines, mainly Ryanair in Europe.

***My comment:** In air transport several indicators are observed in order to assess the traffic evolution prospects.*

The first, cited in the article, is GDP.

The second indicator monitored is that describing air freight activity. Generally, it prefigures the evolution of passenger traffic at the end of nine months.

Both indicators show signs of shortness of breath. Thus, since the beginning of 2019, cargo activity has been declining.

2020 could therefore be a difficult year for airlines.

> The green kerosene is ready, but no one wants to pay for the gas.

(source La Tribune de Genève) 18 January - **Ten years after the flight of a Boeing 747 Virgin Atlantic carrying for the first time a mixture of kerosene and biofuel, the latter weighs less than one hundredth of the hydrocarbons burned by civil aviation. For cost reasons.**

However, this "biojet" remains "the only solution to limit [our] CO2 emissions", according to the IATA - the "voice" of air transport in Geneva - and aviation has "no alternative to liquid hydrocarbons".

The change in practice is all the more pressing because, faced with the threat of an international ecotax, airlines have committed to halving their CO2 emissions by the middle of the century... while the number of their passengers, which doubles every fifteen years, shows little sign of slowing down. (...)

Green fuel costs between \$2,000 and \$3,000 per tonne, or nearly \$4 per litre. While good old-fashioned kerosene is available for less than \$650. It's a quick calculation. Adding a quarter of a "biojet" when

filling an Airbus often costs as much as a full tank. (...)

Unless there is another oil price spike, as in 2007, biojet will remain more expensive than conventional kerosene. (...) **"Turning it into a real market will require government support** so that travellers do not pay the full cost of its adoption," says Sami Jauhiainen, head of renewable aviation fuels at Neste, one of the world's largest biodiesel producers. Everything remains suspended, he said, to the uncertainties surrounding the decisions on the promotion of biokerosene that are due to be taken, particularly in the European Union. (...)

A full-scale test was launched last May by The Hague Airport to host a pilot plant. Fuelled by solar panels, it will be capable of producing 1,000 litres of biokerosene per day - enough to fill about 3% of the fuel tank of an Airbus A320. (...)

Lufthansa, for its part, announced a year ago a project with the German Heide refinery to produce synthetic kerosene using wind power from the North Sea.

"We are closely monitoring these technologies and the start-ups behind them, these efforts are still at the research stage and the key to transforming CO2 into liquid hydrocarbons is still to have renewable electricity (editor's note: in quantities)," says Sami Jauhiainen, the biojet specialist at Finnish giant Neste.

***My comment:** In order for the green fuel industry to develop, a coordinated decision by the governments of the countries that are the largest users of air transport would be required.*

An obligation to use this fuel gradually would be the only way for industrialists to make the major investments necessary for the development of this sector.

> **Basel-Mulhouse Airport: more than 9 million passengers in 2019, a record high**

(source france3-régions with AFP) 21 January - **The EuroAirport of Basel-Mulhouse, the third largest in Switzerland and the fifth largest of France's provincial airports, will handle 9.09 million passengers in 2019, up 6% over a year,** it said in a press release published on Tuesday 21 January. "This is a new record," said its director Matthias Suhr at a press briefing.

The growth in 2019 is "rather in the upper end of the pack" of airports of comparable size in Europe, Suhr said. **The British airline EasyJet remains by far the leader on the ground, with a market share of 60%,** which it has consolidated with growth slightly higher than the average for the French-Swiss airport (+7.5%). It is now followed by

Hungary's low-cost airline Wizz Air (7.8%), whose traffic last year jumped by almost 38% on its flights, mainly to Eastern Europe. Air France and Lufthansa, on the other hand, saw a decline of 11.3% and 1.6% respectively, which EuroAirport management explains by the impact of strikes by their flight crews. **For the year 2020, "we expect a small increase" in traffic, in the** order of 100,000 additional passengers, Suhr said, adding that this forecast was "comparable" to that of airports of the same size. (...)

The EuroAirport aims in particular to continue the reduction of noise between 23:00 and midnight, which began last year **with a** 14% reduction in the number of flights scheduled in this time slot, and **the more frequent use of "latest generation"**, quieter **aircraft**, such as the Airbus A320Neo, Mr Suhr explained. In April, **it will introduce a financial incentive** for this type of aircraft, in the **form of a reduction in their landing fee of 60%** during the day and **80% after 22:00**, the director announced.

***My comment:** The development of Basel-Mulhouse airport contrasts with that of its neighbour Strasbourg-Entzheim, 130km away.*

In 2003, Basel-Mulhouse (2.5 million passengers) and Strasbourg-Entzheim (2 million passengers) .

The former has focused on developing low-cost leisure flights, while the latter (with the prestige of the European Parliament as its seat) has given priority to business activity.

Today, the facts are startling: Basel-Mulhouse welcomes 9 million passengers and continues to develop, Strasbourg-Entzheim has seen its traffic stable at 1.2 million passengers since 2008.

Stock exchange press review

> The Paris Stock Exchange remains weighed down by concerns about the Chinese virus

(source AFP) 23 January - **The Paris Stock Exchange lost ground on Thursday for the fourth consecutive session, still concerned about the spread of a new virus in China** that has infected more than 570 people and led to the confinement of several cities in the country. (...)

Opting as expected for the status quo for its first meeting of the year, the European Central Bank (ECB) for its part was slightly more optimistic about the economic situation in the euro zone, due in

particular to the Sino-US trade agreement. In addition, the Frankfurt institution launched the first review of its strategy in 17 years to adjust its objectives and integrate climate protection into its instruments. (...)

Luxury was again affected by the latest information on the spread of the virus from China, as were air transport and hotels.

***My comment:** Airlines are closely monitoring the evolution of the Chinese virus. During the previous epidemic (SARS in 2002), they had seen a sharp decline in activity.*

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

As of 27 January, the consultation had collected 1,073,000 signatures, i.e. 22.75% of the signatures required.

***My comment:** Since the one million signatures milestone was passed (early December) the number of signatures has been stagnating.*

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

The Air France-KLM share is at 8.44 euros at the close of trading on Monday 27 January. It is down -10.57%. The luxury goods, air transport and hotel sectors are affected by information on the spread of the virus from China. Air-France-KLM is impacted by the freezing of many air routes with China.

In one month, the stock lost 20% of its value.

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

11.15 euros.

The barrel of Brent oil (North Sea) is down sharply from \$5 to \$59. In two weeks, it went from \$69 to \$59. Oil prices fall, penalized by concerns about global demand, particularly in China. The measures taken to counter the viral epidemic could slow down economic activity.

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

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

This press review deals with subjects related to Air France-KLM shareholding.

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