# I Letter from the Director of Air France-KLM

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

N°806, May 3, 2021

If you do not see this page correctly, or if you want to read the English or Dutch versions,
Als u deze pagina niet goed ziet, of als u de Engelse of Nederlandse versie wilt lezen,
follow this link, it is here, vind u deze hier

## *Monday's Press Review*

### > Air France bets on Transavia to take off again

(source Capital) May 02 - Will we be able to go on vacation this summer? At **Transavia**'s headquarters in Orly, the teams in charge of the program are under severe pressure: the announcement of the third lockdown in France at the end of March and the subsequent flood of cancellations have put their recovery plan for Easter in the water. There is still some hope for the May bridges," says Nicolas Hénin, the sales manager. But now, we are mainly aiming for a recovery in July, with the same level of offers as in summer 2019, counting on the acceleration of vaccination policies in France and Europe."
The low-cost subsidiary of the Air France-KLM group **plans to open more routes - 152 - than in previous seasons, but will on the other**

**hand reduce the number of hourly frequencies**. "The crisis is forcing us to be even more flexible and reactive," explains the executive. By offering a portfolio that is as diversified as possible, with the ability to reposition our aircraft according to the opening or closing of a market. Knowing that reservations are now made on average two weeks before departure, compared to four to six weeks before the crisis!"
Created in 2007, **the small company with the green logo benefits from low costs thanks to its fleet of identical aircraft, its point-to-point flights, the outsourcing of ground handling and maintenance services, and a higher productivity of flight crews**. It is more than ever the key asset of its parent company to face the crisis.
(...)
. "The current economic situation validates the strategy of the CEO, Benjamin Smith, to make Transavia a lever of competitiveness, observes Didier Bréchemier of Roland Berger. Because it is the low-cost airlines, with their solid balance sheets, that will be at the forefront of the recovery. The pure players, such as easyJet and Ryanair, but also the subsidiaries of traditional airlines such as Vueling (IAG) and Eurowings (Lufthansa). The battle will be tough"
(...)
According to Philippe Berland, from Sia Partners, "the challenge is above all to defend the group's market share on cross-border routes between French regional capitals, which are booming, as they are less affected by competition from the TGV than the radial routes from Paris. A market where competitors, such as the Spanish Vueling and Volotea, are increasingly active. **Despite the crisis, Transavia has opened a third base in the provinces, in Montpellier, after those in Nantes and Lyon**.
Facing it, **easyJet already has 7 bases in France with 45 aircraft**. "Our objective is to position ourselves in airports that are not already saturated by the competition, as is the case in Bordeaux and Toulouse, while offering new destinations," explains Nicolas Hénin. This summer, the low cost airline will operate 20 domestic routes from Paris-Orly, but also between regional cities, such as Rennes-Montpellier, Brest-Toulon, Nantes-Toulon or Montpellier-Ajaccio.

Obviously, **this strategy risks increasing costs. Until now, they have amounted to nearly 6 euro cents per seat per kilometer offered (SKO), more or less similar to those of easyJet. By shortening the distances travelled and thus multiplying the number of landings and take-offs, they will rise to nearly 8 cents, according to Air France management**. But this is still two to three times lower than Hop! Above all, Didier Bréchemier relativizes, "**Transavia can benefit from the advantage of being backed by a group like Air France,**

**especially in terms of commercial power, with access to the Flying Blue frequent flyer program and corporate contracts that allow it to target a clientele with greater purchasing power**. In January, the airline, which unlike easyJet maintains free cabin baggage, launched a "smart connect" system at Orly. A paying option subcontracted to a partner that allows connecting passengers to take care of their baggage and guarantees reimbursement and accommodation in case of a delayed flight.
Transavia is also looking for growth relays in its historical markets of Portugal and Morocco. Last year, it obtained a large share of the slots to Algeria, after the bankruptcy of Aigle Azur.
(...)

***My comment:*** *If, as the author of the article suggests, Transavia's costs were to rise by 35%, the question of the profitability of the Air France group's low-cost airline would be a real challenge for the sales teams.*

*But I doubt the relevance of this figure; in 2019, Transavia's cost per available seat per kilometer (ASK) was 4.94 cts, for a unit revenue of 5.34 cts.*

*Transavia France's prospects for success are better than this article suggests.*

## AFI KLM E&M implements its equipment support program for the Airbus A220

(source Le Journal de l'Aviation) April 27 - **AFI KLM E&M is ready to offer its services for the maintenance of the A220 fleet. The** MRO company has designed a complete equipment support program for the aircraft and can now market it.
It has invested in spare parts inventory and trained its technical staff to ensure that its teams are ready to respond in the most efficient manner. Its offer also includes additional services such as "initial provisioning and support for entry into service or implementation of the main base kit". AFI KLM E&M also points out that its subsidiary EPCOR is capable of servicing the A220's APU's. The
company says its offer has already attracted interest: "Several A220 operators have already shown great interest in joining the AFI KLM E&M components pool," says Benjamin Moreau, SVP AFI KLM E&M Components Product.
**AFI KLM E&M has developed this service offering in particular because of the order placed by its parent company Air France-KLM in 2019.** Air France is expecting the delivery of some 60 A220s from

September (to be brought into service before the end of the year), which will replace the A318s and A319s currently in the fleet. Since then, the company's management has indicated several times that it wishes to take charge of the maintenance of its aircraft, including engines. **In February, an agreement was reached with Pratt & Whitney for PW1500G maintenance.**

***My comment:*** *MRO (Maintenance Repair & Overhaul) is a strategic activity for the Air France-KLM group.*

*To continue to perform well, AFI KLM E&M must offer its services for each new aircraft model.*

## Safety Line wants to help airlines to green up air travel

(source Les Echos) April 28 - For more than a year, aircraft engines have been idling because of the health crisis. But as the vaccination campaign accelerates and the good weather returns, airline professionals are hoping for a rebound in activity.
**Transavia** is actively preparing for this and has **just signed a partnership with the Paris-based start-up Safety Line**, founded in 2010. **The objective? To optimize its in-flight performance**. The low-cost airline of the Air France-KLM group will indeed test OptiLevel, a tool that analyzes in real time the wind power and temperature at different flight levels.
These details may seem technical, but they represent a major challenge. The flight plans of commercial airliners are marked out and sometimes lead to unnecessary fuel consumption. **By changing altitude using the data provided by OptiLevel, the pilot can take advantage of more aerodynamic conditions and reduce the aircraft's energy consumption.**
"
We provide pilots with decision-making tools," says Pierre Jouniaux, CEO and founder of Safety Line, who is himself a former pilot and investigator at the Bureau d'enquêtes et d'analyses pour la sécurité de l'aviation civile (BEA). "**Fuel represents about 30% of an airline's operating costs**," he says.

In recent years, pressure from NGOs and governments has increased on airlines to make air travel greener.
(...)
In line with this, **Transavia has already adopted two other Safety Line technologies: OptiDirect, which offers in-flight shortcuts, and OptiClimb, which optimizes fuel during the climb**. "Transavia is our

laboratory," says Pierre Jouniaux. The startup has 28 employees and raised €3 million in 2017. It claims 70 customers in France and abroad and is counting on its close ties with Transavia to attract others.

***My comment:*** *The Air France-KLM group's commitment to reducing its CO2 emissions is constant. All avenues are studied.*

*With the different modules of Safety Line, different phases of the flight are optimized, based on data collected during the flights.*

*Its tools complement those of Open Airlines, a Toulouse-based startup that I presented in the newsletter n°804.*

## Lufthansa more pessimistic for 2021, reduced loss in first quarter

(source AFP) April 29 **-** The first European group of air transport **Lufthansa** showed Thursday more pessimistic on the evolution of the traffic in 2021, leaded by the Covid-19, expecting an offer to "nearly 40%" of the pre-pandemic level, at the bottom of the range of 40% to 50% announced until then.
The company, hard hit by the effects of the pandemic and **saved from bankruptcy by the German state, has** however **reduced through savings its net loss in the first quarter to 1 billion euros, against -2.1 billion at the beginning of 2020**, despite a 60% drop in revenue over a year.

## Rome hopes to launch its new national airline on July 1

(source Reuters) April 27 **- Rome hopes to launch a new national airline to replace Alitalia on July 1, the** carrier's chief executive said on Tuesday, conceding that **some regulatory hurdles remain**.
The Italian government began last year a new plan to restructure Alitalia, which led to the ITA project, designed to make up for the difficulties encountered by the historic company, which has been plagued by years of losses.
However, the launch of ITA has been delayed by the long negotiations with Brussels and **the viability of the project could *even* be totally questioned if the new airline is not ready by the summer season,** warned Fabio Lazzerini, the group's managing director.
(...)

***My comment:*** *The Alitalia soap opera is turning into a commedia dell'arte. It is to be feared that when the masks fall, the epilogue will be* *dramatic.*

## Good first quarter for Airbus despite the crisis

(source Le Journal de l'Aviation) April 29 - **Airbus believes it had a good first quarter**, even if it "shows that the crisis is not yet over for [the] industry," in the words of Guillaume Faury, its president. The aircraft manufacturer managed to maintain its turnover **at the same level as last year (10.5 billion euros)** and published a positive net result of 362 million euros, when it had published a loss of 481 million euros last year.
This result reflects a good level of deliveries: **the Commercial Aviation division delivered 125 aircraft (compared to 122 in the first quarter of 2020) -** nine A220s, 105 A320 Family aircraft, one A330 and ten A350s. Despite this, Commercial Aircraft revenues were down 4%. The order book was also unfavorable, with 39 aircraft ordered (compared with 356 in 2020) but a net loss of 61 aircraft. The backlog at March 31 stood at 6,998 aircraft.
**Airbus Helicopters deliveries have slowed down a little**, with 39 helicopters delivered (versus 47 in 2020), but services have increased, allowing revenues to remain relatively stable. Forty net orders were booked.
**The Defence & Space business reported stable results, thanks to the renewal of service contracts in the military sector and the signing of major new contracts in the space sector.**
(...)
Under these conditions, and although uncertainty continues to prevail regarding the short-term evolution of air transport, the group maintains the forecasts it made in February and expects a stable volume of deliveries for the year and an adjusted EBIT of around 2 billion euros.

***My comment:*** *Airbus' situation is improving. If (unlike Boeing) nothing disturbs the European manufacturer, it will be able to devote itself to the development of the aircraft of the future, which will be mostly carbon-free.*

## > Boeing begins to stem its losses

(source Le Journal de l'Aviation) April 28 - The transformation plan is starting to take effect. **Boeing reported first-quarter 2021 revenue of $15.2 billion**, down 10% from the first quarter of 2020. The aircraft manufacturer explains that this decline is due in particular to the suspension of 787 deliveries and the drop in demand for services. It was partially offset by the resumption of 737 MAX deliveries and an increase

in revenue from the KC-46A program.
The operating loss was $83 million, a significant improvement over 2020 when the loss was $1.35 billion. The net loss is $561 million (compared to $641 million in 2020).
In the **commercial aircraft business, 77 deliveries were made in the first quarter**, an increase of 54%. The period was driven by the resumption of 737 MAX deliveries, 85 of which have been handed over to their customers since December. Since its return to service, the active fleet has flown 58,500 hours in 26,000 cycles.
However, the activity's revenues are still down 31% ($4.27 billion), as the delivery mix is unfavorable due to the absence of 787s (deliveries only resumed at the end of March). On the other hand, orders were announced: around 100 737 MAXs for Southwest Airlines, 25 for United Airlines, 27 for Alaska Airlines and four 747-8Fs for Atlas Air.
The Services activity remains slowed down by the health and economic situation. Revenues were down 19% to $3.75 billion and operating income was down 38% to $441 million.
**Defense is putting some color back into the picture. It saw its revenues increase by 19%** thanks to an order for 27 KC-46A aircraft and the absence of charges related to the tanker program.

***My comment:*** *Boeing's relative recovery is due to the indirect help it receives from the US government via orders for military aircraft.*

*The Boeing KC-46 Pegasus is a version of the Boeing 767-200, with a cockpit derived from the Boeing 787. It is intended for in-flight refueling.*

## > Boeing must correct a new defect on 100 737 Max aircraft

(source Les Echos) May 3 - Alerted by Boeing to the discovery of an electrical problem on a 737 Max just before its delivery, **the U.S. Civil Aviation Authority issued a directive on Friday requiring modifications to the electrical network of 71 Boeing 737-8 and 737-9 aircraft already in service in the United States** with American Airlines, Southwest Airlines, United and Alaska Airlines, which have been temporarily withdrawn from service since April 9. But in total, the defect to be modified would affect 106 aircraft at 16 airlines around the world, including 737s in service in Europe at Turkish Airlines and TUI, all grounded, at Boeing's request, since last month.
The 737 Max in question are said to be at risk of electrical failure due to a lack of grounding of certain equipment in the cockpit. All electrical systems must be equipped with a ground connection to evacuate any electrical leaks and avoid the risk of electrocution and power failure.

In the case of an aircraft, this is a connection to the aircraft's metal infrastructure. However, on the 737 Max aircraft concerned, a change in the fastenings of certain electrical panels, which occurred in 2019, dangerously reduced the grounding of the circuit. While no problems occurred in flight, the issue was detected during an inspection on an aircraft awaiting delivery in Seattle.
Although potentially dangerous, the problem seems relatively simple to solve. (...) According to the FAA directive, the necessary modifications would represent 24 hours of work per aircraft, for a global cost of 152,320 dollars (...).
(...)
**But this umpteenth problem will earn Boeing a new audit of the 737 Max manufacturing process by the FAA** (...). **It will also have an impact on the deliveries planned for April and May**, and therefore on the finances of Boeing, which is still heavily in deficit in the first quarter, unlike Airbus. Moreover, according to the Chinese press, this new difficulty makes it more unlikely that the ban on flying the 737 Max in China will be lifted in the second half of the year, as Boeing had hoped.
(...)

***My comment:*** *I learn today this new rebound that Boeing knows with its B737 Max.*

*Even if it is a benign problem, it tarnishes even more the image of the American manufacturer.*

## Jean Castex accelerates the Bordeaux-Toulouse TGV line project

(source Les Echos) April 29 - It's a 222-kilometer-long, 30-year-old sea serpent that is finally taking shape: the **Bordeaux-Toulouse high-speed rail project (GPSO), which would put the capital of the Occitan region within 3 hours and 15 minutes of Paris, is now well underway**. The Prime Minister, Jean Castex, wrote on April 27 to the president of the Occitanie region Carole Delga (PS) and the mayor of Toulouse Jean-Luc Moudenc (LR) to confirm **the commitment of the State to finance the fast line in parity with the local authorities, "that is to say, a commitment of 4.1 billion euros",** for this project already included in the law of orientation of mobilities (LOM) of December 2019. "A contribution from the European Union will be sought up to 20% of the total cost," adds Matignon.
Jean Castex reaffirmed that the local authorities will be able to create a financing company in order to "raise local taxes and resort to borrowing", as provided for in Article 4 of the LOM law. "The work was

scheduled to start in 2029. The implementation of my announcements should allow them to start in 2024," he said to France Bleu.
(...)
**The Bordeaux-Toulouse high-speed line project** has had many ups and downs and is **still opposed by environmentalists, who prefer a redevelopment of the current line**, which is less expensive than this high-speed line at about 8 billion euros, excluding the Bordeaux-Dax section, which is financed separately. The new line was the subject of a public debate in 2005. The route was validated in 2012 with two new stations on the outskirts of Montauban and Agen.
The State then called on the Midi-Pyrénées local authorities to finance the Tours-Bordeaux high-speed line to the tune of 300 million euros in exchange for continuing the line to Toulouse. The latter have interrupted their financing in view of the delays in the project. The public inquiry gave a negative opinion in 2015 but the State signed three declarations of public utility (DUP) in 2015-2016, first invalidated then today purged of appeal by the Council of State.
(...)
In this case, the government plays a very delicate game, and sometimes not very readable in terms of political message addressed to local elected officials. While it has long and insistently sounded the death knell for the "all TGV", it is nevertheless seeking to complete the extensions of the national TGV network, long planned in the infrastructure master plan.
(...)
**High-speed lines are less fashionable in the context of the Climate and Resilience Act, and the Ministry of Transport would prefer to announce the launch of new "regional balance trains**" (TET) **within a few years**, successors to the Corail trains running day and night, to complete the national network not covered by the TGV. A study on the subject has been completed with a view to being sent to Parliament, but Bercy seems to have strong reservations about this new state investment, which would combine the purchase price of the new trains with recurring operating deficits, multiplied by those of the current night trains.

***My comment:*** *This announcement is likely to satisfy the detractors of air travel.*

*However, I wonder about the carbon footprint of the construction of this line. What is it? For how long?*

*Until now, the CO2 emissions resulting from the construction of a TGV line were "amortized" over a century. However, they only impact the* *climate over a few years.*

*Moreover, what will be the reaction of the elected representatives who welcome this decision when this new service is put into service? When a high-speed train connects two cities in 3 hours and 15 minutes, the competition is such that the airlines are forced to halve their offer.*

## > Health passport: Europe speeds up to be ready this summer

(source Les Echos) April 28 - **It is a political and economic emergency**. In Brussels, the European institutions are trying to re-establish free movement in the Schengen area as quickly as possible. Symbolically, Europe wants to revive what is one of its pillars and one of its most appreciated daily manifestations by its citizens. The latter are in demand after thirteen months of disorderly border closures and reopenings. And summer is approaching: under pressure from tourism professionals and countries of the South, for whom this period is economically vital, **the race against the clock is launched to introduce a health passport, renamed "green certificate", from June**.
An important step was taken on Wednesday with the European Parliament's broad adoption of the project unveiled in mid-March by Justice Commissioner Didier Reynders. (...) Technical discussions to ensure the interoperability of certificates - each state will issue its own - are already well underway.
**In concrete terms, the green certificate aims to guarantee that the holder has been vaccinated, that he or she has had a negative test less than 72 hours ago or that he or she has already caught the virus and still has antibodies. The aim is not to create discrimination and not to limit freedom of movement to those who have been vaccinated**, a point that Paris and Berlin have insisted on. **This certificate will not be strictly mandatory for travel**: it is a tool to facilitate travel through mutual recognition of vaccinations and tests, but **it will still be possible to exercise the right to free movement without it. However, each State is free to impose restrictions on entry** (tests, quarantines, etc.), which is a strong indirect incentive to play the green certificate game. Europe promises that the latter will be irreproachable in terms of data protection.
(...)

***My comment:*** *The health pass should not be considered as a passport, but as a part of the vaccination booklet.*

*Access to certain regions of the world is already conditioned by vaccinations. This is the case, for example, in French Guiana: vaccination against yellow fever is compulsory for anyone wishing to go there.*

## *End of the press review*

### > Advice for employees and former employees who are shareholders

**The annual statements from Natixis and/or Société Générale must be sent to you** by e-mail or by post.

You will find on my website the access modalities to the managers' websites.

To avoid forgetting to change your contact information each time you change your postal address, **I advise you to enter a personal e-mail address**. It will be used for all correspondence with the management organizations.

Keep all the documents related to your Air France-KLM shares in one place: all the letters you receive from the different managers, Natixis, Société Générale, your personal financial institution if you bought your shares through it.

### > My comments on the Air France-KLM share price trend

**Air France-KLM shares** closed at **4.70 euros** on Monday 3 May. It is down slightly by -0.49% over a week. The effect due to the recapitalization seems to be fading.
Since the end of November 2020, the share price has remained around 5 euros. The announcement of the recapitalization pulled the share price down.

Before the coronavirus epidemic, the Air France-KLM share price was 9.93 euros.

**The average (consensus) analysts' price for AF-KLM shares is 3.31 euros**. The highest price target is 5 euros, the lowest 1 euro. You can find the details of the analysts' consensus on my blog. I do not take into account the opinions of analysts prior to the beginning of the health crisis.

**Brent crude oil** (North Sea) **is up $1 a barrel to $68.** It is at its pre-pandemic level.

**This information is not intended to be a solicitation to buy or sell Air France-KLM shares.**

You can react to this press review or send me 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 to employee share ownership...**

See you soon.

To find the last press reviews of Monday, it is here

**If you like this press review, please pass it on.**

New readers will be able to receive it by giving me the email address of their choice.


# François Robardet

**Director of Air France-KLM representing the employees and former employees shareholders of PNC and PS.**
**You can find me on my twitter account @FrRobardet**