

The French government strengthens its hold on Air France-KLM



Letter from the Director of Air France-KLM

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

N°805, April 26, 2021

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Editorial

Dear Readers,

The Annual General Meeting of Air France-KLM will be held on Wednesday, May 26, 2020 at 2:30 pm at 45 rue de Paris, 95747 Roissy CDG, Cedex, France, without the physical presence of the shareholders or other persons entitled to attend. It will be broadcast live via webcast on the Group's website.

In the next few days I will send you a special Flash on the resolutions submitted to the vote. You will find my explanations of vote there. As in previous years, I will propose that those of you who are shareholders of the Air France-KLM Group give me your proxy.

You can find all the documents relating to the General Meeting on the Air France-KLM Group website, on the financial information page. It contains in particular the resolutions that will be submitted to the vote of the shareholders.

Nineteen resolutions will be put to the vote on an ordinary basis, eighteen on an extraordinary basis.

Here is an overview of one of them, extraordinary resolution no. 20:

*Delegation of authority to the Board of Directors to issue ordinary shares of the Company and securities giving access to other equity securities of the Company to be issued or giving entitlement to the allocation of debt securities, with maintenance of shareholders' preferential subscription rights up to a maximum **nominal amount of 1,930 million euros (...)**.*

*Note: Air France-KLM shares have a **nominal value of one euro**, but they are listed on the stock exchange at €4.723 today.*

Consequence: the resolution n°20 would allow for example to issue 1.930 billion shares. If it were implemented in full at today's price (€4.723), this would lead to a capital increase of close to €9 billion.

*Let us continue to respect the protective measures.
Good reading François*

Monday's Press Review

> French State Tightens Grip on Air France-KLM With 29% Stake

(Bloomberg source, translated with DeepL) April 19 - The French government has strengthened its grip on **Air France-KLM**, using a new share issue to raise its stake to more than three times that of the Netherlands.

The troubled airline **raised 1.04 billion euros from investors, raising France's stake to 28.6 percent**, according to a statement Monday.

China Eastern Airlines became the second largest shareholder with 9.6 percent, while the Dutch state was diluted to 9.3 percent, according to a statement released Monday. China Eastern Airlines became the second largest shareholder with 9.6 percent, while the Dutch state was diluted to 9.3 percent.

The stock fell as much as 3.6% in Paris (...). The new shares were sold at 4.84 euros each, with existing investors absorbing about three-quarters of the issue.

France's new dominance ends a politically sensitive balance with the Netherlands that lasted about two years. The countries each held about 14% before the capital increase.

(...)

The Netherlands has refused to participate and is considering its own

support plan. Discussions are underway between the European Commission and the country for what could be a debt-for-equity swap, Air France-KLM Chief Executive **Ben Smith** said Monday. He also **said additional support may be needed soon, saying a new recapitalization could be requested later this year.** French Finance Minister Bruno Le Maire also left the door open for additional support for the carrier if the French arm needed further help before the current aviation crisis subsides. While vaccines are being deployed across Europe, progress is slow and the lifting of blockades and border restrictions is in limbo.

Proceeds from the latest share sale will be used to strengthen the French arm, the carrier said, while the economic, financial and environmental commitments that are conditions of a state loan were "reiterated."

As part of the share issue, China Eastern and Air France-KLM have strengthened their existing partnership.

(...)

My comment: *The capital increase launched by the Air France-KLM group was a success.*

The number of Air France-KLM shares has increased by 50%, from 428,634,035 to 642,634,034 shares.

This has led to a new distribution of capital and voting rights, summarized in the table below.

	<i>of capital</i>	<i>of theoretical voting rights</i>
<i>Number of shares and voting rights</i>	642.634.034	860.643.182
<i>French State</i>	28,6%	28,5%
<i>China Eastern Airlines</i>	9,6%	11,5%
<i>Dutch State</i>	9,3%	13,9%
<i>Delta</i>	5,8%	8,7%

<i>Airlines, Inc.</i>		
<i>Employees (FCPE)</i>	2,5%	3,7%
<i>Auto control</i>	0,2%	0,3%
<i>Other</i>	44,0%	33,4%

> Air France-KLM: Ben Smith's €2 million bonus causes controversy in the Netherlands

(source Les Echos) April 21 - **While the recapitalization of Air France-KLM passed like a letter in the post in France, it has generated a new controversy in the Netherlands.** Not about the operation itself, approved by the Dutch government, but about the awarding to Benjamin Smith of a 2 million euro "bonus" for his management for 2020.

Revealed by the Dutch press ten days ago, the subject has become a political affair, after the Dutch Parliament voted on Tuesday for a motion instructing the current outgoing government to demand that the boss of Air France-KLM renounce this "bonus" - on pain of prohibiting any new public aid to Air France-KLM.

"The Chamber [...] noting that the top executive of Air France-KLM received a share bonus of 2 million euros, while the company is kept afloat by state aid and while [...] thousands of KLM workers have either lost their jobs or made salary sacrifices, is of the opinion that the bonuses awarded [...] are immoral and unfair," states the text, voted by the parliament resulting from the March elections. "[The Chamber] asks the government to demand the renunciation of this bonus [...] and, if this does not happen, to refrain from granting new state aid to Air France-KLM. "

To back up their demands, the Dutch MPs have tasked current Finance Minister Wopke Hoekstra, the man who led the stock market raid on Air France-KLM in 2019, to lead a mission to Paris to settle the issue with his French counterparts.

Since the capital increase, the French state has indeed become the reference shareholder of Air France-KLM again, with 28.6 percent of the capital and 28.47 percent of the voting rights, while the share of the Dutch state, which did not want to follow, has fallen to 9.3 percent of the capital and 13.9 percent of the voting rights. However, whatever the French position on this issue, it is not certain that it can force Air France-KLM and its CEO to give up **this "bonus" voted by the general meeting of shareholders last year, which is not really a bonus since it is part of his remuneration, and whose legality does not seem to be questioned.**

In line with what he had announced in March 2020, **Benjamin Smith and the group's main executives and directors have already made a significant effort in the context of the rescue. The Air France-KLM boss has accepted a 25% cut in his fixed pay (744,511 euros for 2020) and has also waived his annual variable pay, which is 768,456 euros.**

Contrary to the simplified presentation made in the Dutch Parliament, where everything related to Air France-KLM has always been politically instrumentalized, Benjamin Smith will not receive a bonus of 2 million euros this year. The sum in question corresponds in fact to the value of an element of his long-term variable compensation, which is included in his contract and payable in shares and cash, but which cannot be released before 2023 at the earliest, and under certain conditions. In order to benefit from it, Benjamin Smith will have to be still at the head of the group in 2023 and, above all, to have successfully completed the group's turnaround.

In addition to these conditions, the **European Commission has set one of the conditions for the recapitalization of Air France, which prohibits the payment of bonuses until Air France-KLM has repaid at least 75% of the aid from the French government. But also, as long as the latter has not brought its shareholding back to its pre-crisis level (14%).** This could take more than three years, as the European Commission and the French government have agreed on a maximum period of six years.

This deferred "bonus" of 2 million euros can therefore only be received once Air France-KLM is completely out of the woods, and would therefore not be contrary to the commitments made in Brussels. But the fact remains that this sum will probably return, sooner or later, to Benjamin Smith's pocket, while the loss of salary of Air France and KLM staff, as well as the jobs lost, will not be made up for in 2023. This is a particularly sensitive issue in the Netherlands, where the former government coalition had imposed larger than expected wage cuts on KLM unions in return for a 3.4 billion euro loan.

My comment: *Two weeks ago, I detailed the compensation structure of the CEO of Air France-KLM (read <http://navigaction.com/Lettre/803.htm>).*

I will be more precise: in 2020 Ben Smith received: 744,511 euros for 2020 (fixed compensation), 768,456 euros for 2019 (variable compensation).

With regard to his long-term variable compensation earned in respect of 2018 and payable in 2021, Ben Smith has requested that this be postponed "sine die".

Long-term variable compensation (over three years) will be assessed, year by year, on the basis of quantitative and qualitative criteria (notably social and societal). The criteria are detailed on pages 112 to 114 of the Universal Registration Document 2020, available on the Air France-KLM website.

*As a member of the Air France-KLM Compensation Committee, I took part in drawing up this compensation system. I felt it was relevant, even during this period of crisis.
I therefore approved it.*

Furthermore, the payment of variable compensation will be subject to the approval of the European Commission, depending on the conditions linked to the approval of the Air France recapitalization plan.

Why this controversy in the Netherlands?

The pay structures (and short-time working) within the two subsidiaries of the group are very different.

For example, KLM pilots have a fixed monthly salary, while Air France pilots have a variable salary, depending on the number of hours flown.

These differences led the Dutch government to condition its first aid package (in 2020): salary cuts were imposed on KLM employees, including managers.

The French government did not need to impose such conditions; the short-time working scheme has de facto led to a reduction in the remuneration of Air France employees.

In my opinion, the misunderstanding of these differences between our two countries is at the origin of this controversy.

Other observers evoke the bad faith of personalities wishing to put an end to the Air France-KLM group. I leave it to you to judge.

, .

One last remark: shortly after his arrival, Ben Smith personally invested 900,000 euros to buy 100,000 shares of Air France-KLM, thus marking his confidence in the recovery of the Franco-Dutch group. Since then, the health crisis has caused the share price to fall. It has been divided

by two.

> **Air France-KLM: when a press release from 2020 calls into question Ben Smith's 2021 compensation**

(source La Tribune) April 26 - Ben Smith is under great pressure. While a majority of Dutch parliamentarians are protesting against the decision voted last year by Air France-KLM shareholders to pay him in 2022 two million euros of "long-term bonus" for 2019, another pebble has slipped into the shoe of the group's CEO.

It is a **press release published a year ago, on April 23, 2020 to be exact**, which **may call into question the amount of his fixed remuneration of 900,000 euros provided for this year**. Why?

Because after the 25% cut decided last year, this sum of 900,000 euros corresponds today to a return to normal fixed remuneration whereas it should remain, according to the press release published last year, reduced by a quarter of its value. Indeed, **when Ben Smith announced on April 23, 2020 that he was lowering his fixed salary by 25%** (and that he was also giving up his annual variable compensation), he specified in this press release that the measure applied "**during the crisis linked to Covid-19**", and not only for the year 2020.

However, as some people at Air France point out, "the crisis linked to Covid-19" is still as intense as last year. Air France-KLM still posted an operating loss of 1.3 billion euros in the first quarter, and the situation is such that Air France staff are still on partial activity with the accompanying pay cuts, and management is also seeking to reduce their 13th month.

(...)

Ben Smith's annual variable pay is not affected by this ambiguity.

Contrary to the fixed remuneration, the famous press release of April 23, 2020 clearly stated that its abandonment by Ben Smith was valid only for the year 2020.

(...)

My comment: *The decrease in the remuneration of the Air France-KLM group's executives can take different forms: voluntary reduction of the fixed part, modification of the criteria for calculating the variable part, ...*

It is only in 2022 that we will be able to assess the level of remuneration of the group's executives for 2021.

Delta adds 25 A321neo aircraft and accelerates A350 and A330neo deliveries

(source actu-aero) April 23 - U.S. carrier **Delta Airlines has placed a new firm order with the European aircraft manufacturer for an additional 25 Pratt & Whitney PW1100G-JM-powered A321neo aircraft to add to the 100 A321neo aircraft ordered by Delta at the end of 2017.** In addition to this A321neo order, Delta has decided to accelerate the delivery of two A350-900s and two A330-900neos.

Airbus' wide-body aircraft are assembled in Toulouse, France, while **the A320 Family aircraft including the A321neo for U.S. airlines are prioritized for assembly from the Mobile, Alabama, site.** This is where the European aircraft manufacturer installed a new assembly line inaugurated in September 2015. It delivered its very first A321neo in June 2018 to Hawaiian Airlines.

(...)

Delta still has one of the largest aircraft fleets in the world today consisting of nearly 1,000 aircraft, including 339 Airbus aircraft (57 A319s, 40 A220s, 61 A320s, 115 A321s, 51 A330s, 15 A350s).

The U.S. airline based in Atlanta, Georgia, took delivery of its first A330-900 [MSN 1915 / N401DZ] in May 2019, out of a total of 35 on order.

My comment: *The opening of an assembly line for the A321neo in the United States had allowed Airbus to circumvent the tax system put in place by the Trump administration.*

TAP Air Portugal: loss of 1.2 billion euros in 2020

(Air Journal source) April 24 - **TAP Air Portugal announced Thursday a loss of 1.2 billion euros last year compared to a negative result of 95.9 million euros in 2019,** due to the Covid-19 pandemic that has paralyzed global air travel.

In 2020, the Portuguese company carried 4.6 million passengers, a drop of 72.7% compared to 2019, while the group's revenue reached just over 1 billion euros, a drop of almost 68% year-on-year.

In exchange for financial aid from the state, its main shareholder, TAP is forced to submit a rigorous restructuring plan to the European Commission, which includes wage cuts, the elimination of staff and the reduction of its fleet. **The Lisbon government still has to convince Brussels of the viability of its national airline, renationalized last July and rescued last year with a 1.2 billion euro public loan.**

(...)

In addition to this loan, the Portuguese company's financing needs amount to more than 2.2 billion euros by 2025, according to the government's initial estimates.

Boeing 737 MAX: India just allows overflight

(source Air & Cosmos) April 20 - **China and India have not yet given the green light for Boeing 737 MAX flights in their skies.** The civil aviation authorities of these two countries have decided to take all the time they need before following the decisions of their American, Canadian, European, Australian and Emirati counterparts This time taken and the delays do not help the business of the airline Spicejet which had received a dozen Boeing 737 MAX before their immobilization around the world. The carrier has ordered more than 140 of them. The other big Boeing 737 MAX customer in India was Jet Airways, which was liquidated.

Another big Boeing 737 MAX customer is Flydubai, which operated a substantial network in India before the pandemic and is starting to rebuild that network, especially since the airline can operate its medium-haul routes again with the first 737 MAX flights starting earlier this month. Flydubai's aircraft are still not allowed to land in India. However, the Indian civil aviation authorities have given permission for Flydubai's 737 MAXs to fly over the country to Dhaka and Chittagong, if the health situation allows it.

The decision of the Indian civil aviation authorities does not only apply to possible overflights. It also allows aircraft leasing companies to be able to recover Boeing 737 MAX operated by foreign airlines and still blocked in India since April 2019. **It is now also allowed in India the control and validation flights of Boeing 737 MAX for the purpose of their future conveying to other countries than India.**

***My comment:** Last week, I reported on a potential electrical problem on some recent 737 MAX aircraft.*

The U.S. Federal Aviation Administration (FAA) said Thursday that the electrical problem affects a total of 106 737 MAX aircraft, including 71 in the United States.

> **Prospects for air traffic recovery dim further**

(source Le Journal de l'Aviation) April 22 - With **each attempt to forecast a recovery in air traffic, IATA sees it getting further away and more pessimistic.** At the end of last year, airlines were still hoping to break even from the fourth quarter of 2021, but they quickly gave up this hope and are now counting on an even slower recovery than expected and a worsening of their losses.

The international association estimates that its members' losses will reach \$47.7 billion in 2021, \$9 billion more than it expected in its November 2020 forecast. It should be noted that it also downgraded the 2020 balance sheet, where losses reached \$126.4 billion instead of the

\$118.5 billion originally projected.

With potential revenues of \$458 billion, down 45% from 2019 but up 23% from 2020, the net margin will remain negative 10.4% (compared to -33.9% in 2020), still far from balance.

The cause is the persistence of the health crisis. The recovery is slowing down, due to vaccination campaigns that are slower than expected and very disparate between regions of the world, as well as the extreme caution of governments, which are not ready to lift the restrictions on travel.

The traffic of 2021 could thus recover only 43% of its level of 2019, which is "far from being a recovery" judges the association, instead of the 51% on which the airlines counted at the end of last year.

International traffic remained 86.6% below 2019 levels over January and February but could recover to 34% of its level thanks to vaccination (especially in North America and Europe) and the deployment of screening tests. Very positive signs have been sent by US companies, which are moving towards restoring their pre-crisis capacities (...). But **overall, growth in this segment will remain flat between 2020 and 2021.**

The situation will not be the same **in domestic markets.** Driven by economic growth, consumer savings, strong but pent-up demand for travel, and the near absence of restraint, demand could return to 96% of its 2019 level in the second half of the year. **Growth in 2021 compared to 2020 could thus reach 48%.**

Cargo will continue to perform well in recent months, still driven by e-commerce, the transport of pharmaceutical goods and capacity constraints. Yields could increase by a further 5% in 2021 (after gaining 40% in 2020) and volumes could grow by 13%, exceeding their 2019 level. Cargo, which traditionally represents between 10% and 15% of airline revenues, will see this proportion increase to one-third. Given the force and speed with which the crisis has hit **airlines**, they have not been **able to reduce their costs as quickly as their revenues have collapsed.** Major efforts have been made to bring them down as much as possible, which will bear full fruit in 2021. As a result of this and the dilution of fixed costs over increased capacity, unit costs are expected to fall in 2021. On the other hand, the price of oil is once again evolving unfavorably for airlines and the price of a barrel of jet fuel could average around \$68.9 for the year (compared to \$46.6 in 2020 and \$77 in 2019).

But IATA is also concerned about the actions that some airports and air navigation service providers may take. Willie Walsh, IATA's director general, points the finger at London Heathrow Airport, which wants to

expand its regulated cost base to make up for its losses.

IATA has been drawing attention to Europe for months, pointing out that this region is the one that is experiencing the most difficulties and where the recovery is expected to be the slowest. This has not changed: the continent's airlines will record the biggest **losses in 2021**. These **could reach \$22 billion, almost double what IATA forecast in November** (\$11.9 billion), with a negative net margin of 23.9%.

This is mainly due to the fact that domestic flights represent only 11% of its traffic. In addition, the uneven deployment of vaccination and its relative slowness may delay the recovery in the North Atlantic market.

On the **contrary, North American airlines are best positioned**, with a large domestic market, a flourishing cargo business thanks to a solid economic recovery, and a very rapid rollout of vaccination in the United States. **This could reduce their losses from \$35 billion in 2020 to \$5 billion in 2021.**

Bonus Article

> Airbus A400M: in-flight refuelling of a helicopter (photos)

(source Aeroweb) April 24 - **Airbus announced that it has successfully completed a certification campaign for its Airbus A400M helicopter air-to-air refueling aircraft**. Airbus aims to achieve full helicopter air-to-air refueling certification later this year with the completion of all operational testing including mandatory night flights.

The flight tests, conducted in coordination with the French defense procurement agency (DGA), involved operations with two French Air Force H225M helicopters. The campaign took place during the day and at night on the west coast of France between 1,000 ft and 10,000 ft **with low flight speeds up to 105 knots**. During these flights, a total of 81 wet contacts and 6.5 tons of fuel transfers were performed, including for the first time the simultaneous refueling of two helicopters.



My comment: *With this new feature, the Airbus A400M does as well as the Lockheed C-130J Super Hercules*

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 **4.723 euros** on Monday 26 April. It is down sharply by -5.16% over a week. The announcement of the recapitalization has pulled the share price down -11%.

Before the coronavirus epidemic, Air France-KLM shares were at 9.93 euros.

The average (consensus) analyst price for AF-KLM shares is 3.23 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 down \$1 to \$66 per barrel. 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

When I was elected, I received the support of the CFDT and the UNPNC. This press review deals with subjects related to the Air France-KLM shareholding.

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