

Air France-KLM is considering a new capital increase



## I Letter from the Director of Air France-KLM

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

N°807, May 10, 2021

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### *Editorial*

*Dear Readers,*

*The Annual General Meeting of Air France-KLM will be held on Wednesday, May 26, 2021 without the physical presence of shareholders or other persons entitled to attend. It will be broadcast live via webcast on the Group's website.*

*All documents relating to the Annual General Meeting are available on the Air France-KLM Group website, on the financial information page. This includes the resolutions that will be submitted to the vote of the shareholders.*

*As in previous years, I suggest that those of you who are shareholders of the Air France-KLM Group give me your proxy. You will find all the information in my [Flash n°85](#) published this Monday.*

*Let's continue to respect the barriers.*

*Enjoy your reading  
François*

## Monday's Press Review

### > Air France-KLM Weighs Fresh Fundraising as Losses Mount

((source Bloomberg, translated with DeepL com) May 6 -- **Air France-KLM is considering raising more capital to repair its battered balance sheet**, as the struggling carrier counts on a recovery in summer air traffic to stem its losses.

Equity and quasi-equity financial instruments are being considered, the airline said Thursday in a statement, **as it announced a larger first-quarter operating loss of 1.2 billion euros**. Shareholders will be asked later this month to approve proposals that would raise billions of euros.

This action could help reduce long-term debt, which stood at 14.2 billion euros at the end of the first quarter, levels that CEO Ben Smith said "are holding back our balance sheet."

(...)

In the coming months, **Air France-KLM is counting on global vaccination campaigns to boost consumer demand for travel**. It plans to increase capacity this quarter and beyond, an approach that analysts say carries risks.

(...)

**"Air France-KLM continues to plan to return capacity faster than its peers,"** Bernstein analyst Daniel Roeska wrote in a note, saying **it risks diluting fares and leading to unnecessary spending**.

(...)

**Air France-KLM said losses this quarter would be on par with the previous three months**, as travel restrictions persist (...).

"There is still a long way to go," Chief Financial Officer Frederic Gagey said in a conference call with reporters. "There is a very low risk of a cash crisis", unless the summer season becomes "catastrophic".

(...)

Air France-KLM expects to offer about 50 percent of 2019 network capacity this quarter and 55 to 65 percent in the following period, the statement

said. That's up from about 48 percent in the first quarter, when Covid-19 jumped and many countries closed their borders.

(...)

Last month, Air France-KLM raised 1.04 billion euros in a new share issue as part of the French rescue plan (...). This follows the €10.4 billion in loans and guarantees provided by the government last year.

**Gagey declined to put a figure on how much more the carrier plans to raise, saying only that some of it could come from the Dutch**

**government**, which is still in talks with the European Commission about a bailout of KLM.

(...)

Although France has also said it is ready to offer additional support, both governments have sought to avoid a renationalization of the company.

**The CFO described the fundraising process as "recycling state aid", which means that it is gradually transformed into instruments that can be traded on the market (...).** This is part of the state exit strategy that the Commission requires, he said.

The carrier's €8.5 billion in cash and credit lines available at the end of March "can be considered comfortable, given the expected recovery in the summer," Air France-KLM said in the statement.

(...)

***My comment:*** Air France-KLM results are in line with forecasts. Unfortunately.

*The forecasts for the coming quarters may appear optimistic compared to those of our main European competitors.*

*But for our group, we have to take into account:*

*. for Air France, the positive contribution of traffic between France and the overseas territories*

*. for KLM, the impact of the NOW program (see the article "Less enthusiasm for the fifth round of wage subsidies on the first day" below).*

## > **Air France-KLM: Steven Zaat appointed Chief Financial Officer**

(source Le Figaro with AFP) May 6 - **Dutchman Steven Zaat has been appointed chief financial officer of Air France-KLM, succeeding Frédéric Gagey who is retiring**, announced Thursday the airline group, facing an acute crisis due to the Covid-19 pandemic.

Mr. Zaat, who will assume his new duties from July 1, was since 2019 chief financial officer of Air France. After a stint at the chemical company AKZO Nobel, he had joined the airline KLM in 2000 and then worked for the Air France-KLM group in various financial positions. The 51-year-old future CFO, who holds degrees in economics and business from Erasmus

University in Rotterdam and the Free University of Amsterdam, replaces Frenchman Frédéric Gagey, who is retiring at the age of 64.

**Mr. Gagey**, who notably served as CEO of Air France from 2013 to

2016, "has contributed, in the exceptionally difficult period we are still going through, to ensuring the financial survival of our group.

In particular, he has successfully led the negotiations and implementation of our financial support and recapitalization plans," Air France-KLM CEO Benjamin Smith said in a statement.

(...)

On Thursday, the group confirmed that it would have to take new measures to strengthen its balance sheet, and in particular to reduce its debt which reached 12.5 billion euros at the end of March, before taking into account the recent public aid.

**Several resolutions allowing the directors to launch new capital issuance operations will be put to the vote at the general meeting of shareholders on May 26, all of which Mr. Zaat will have to lead.**

*My comment: I have had the opportunity to work with Steven Zaat many times over the past five years. I have confidence in his ability to handle the task at hand.*

**> Minder animo voor vijfde ronde loonsteun op eerste dag (Less enthusiasm for the fifth round of wage subsidies on the first day)**

(source RTL Nieuws, translated with DeepL com) May 6 - The benefit organization UWV (...) announced it Thursday. Entrepreneurs affected by the Covid-19 crisis can apply for assistance for the months of April to June as of today. They have until June 30 to do so.

**The requirements for NOW 5 are the same as for NOW 4. To be eligible, employers must be able to demonstrate at least a 20 percent loss in sales. The government reimburses a maximum of 85% of employee wage costs.**

The NOW (Temporary Emergency Measures for Bridging Employment) program was introduced more than a year ago to prevent a major wave of layoffs and bankruptcies due to coronapandemia.

(...)

In the first NOW round, 139,500 applications were granted and UWV paid out \$7.9 billion. In NOW 2, more than 63,500 applications were granted and 4.3 billion was paid out. The third round of NOW covered 77,000 grants and €2.8 billion. NOW 4 is expected to cost €3.2 billion. In total, more than 155,000 companies have benefited from the first four NOW programs. **The airline KLM, whose losses are still in the billions, is by far the biggest beneficiary, with nearly €780 million. In second and third place were Holland Casino (92 million) and**

**Schiphol (80 million).**

**My comment:** *The NOW program in the Netherlands is the counterpart of partial activity in France.*

*But whereas in France partial activity compensates for a drop in employee activity, the NOW program compensates for a drop in company turnover. As a result, in the Netherlands, employees can continue to work full time, at no cost to the companies involved.*

*This difference explains why it is less expensive for KLM than for Air France to fly planes that are not very full, as the cost of KLM employees is covered by the Dutch government.*

*It should be noted that KLM received a very large amount of aid. In terms of turnover, KLM receives twice as much as Air France under the NOW program for partial activity.*

**> To repay the State, Lufthansa asks its shareholders for a capital increase**

(source L'Echo touristique) May 5 - **Lufthansa has asked for the green light for a capital increase of up to 5.5 billion euros in order to repay the public aid** that enabled Europe's leading airline group to avoid bankruptcy in the midst of the Covid-19 crisis. A decision approved by 97.79% of shareholders. The shareholders - including the German state, which holds 20% since the rescue - thus allow the company to "return to financial stability", explained the boss Carsten Spohr in his speech.

The "largest part" of the proceeds of the new share issue, for which **neither the final amount nor the date has been decided**, will be used to "repay" the public aid. The raising will take place "this year or next" depending on "market support" and the amount will be "as small as possible", chief financial officer Remco Steenbergen told AFP last week. Such an operation is generally unpopular with shareholders, as it mechanically lowers the value of outstanding shares. But management is counting on shareholder approval. Lufthansa has so far used 2.5 billion euros of the 6.8 billion euros of the German rescue plan, of which 300 million euros represented the public participation. The group repaid one billion euros in February.

**In a restructuring phase, the carrier will separate 150 aircraft by 2023, and has already cut nearly 25,000 jobs in one year.** However, Lufthansa announced on Monday evening a new order for five Airbus A350-900s and five Boeing 787-9s to speed up the modernization of its

fleet. The first Boeings are expected for winter 2021 and the Airbus for 2027 and 2028.

**My comment:** *The mechanism implemented by the Lufthansa group to get out of the health crisis is in every way similar to that of Air France-KLM, except for the timing.*

*In the first phase, both European groups benefited from loans (direct or guaranteed) from their governments.*

*In a second phase, they called on the market via capital increases, while converting part of their debt into quasi-equity.*

*The third phase, announced by the two groups, will consist of issuing new shares in order to reimburse the public aid.*

## **IAG, owner of British Airways, posts a loss of 1.14 billion euros in the first quarter**

(Reuters source) May 7 - **IAG, the parent company of British Airways, reported a first-quarter operating loss before exceptional items of 1.14 billion euros on Friday**, hurt by travel restrictions related to the health crisis.

The loss was slightly higher than the 1.17 billion euro loss expected by analysts as the airline operated at only 20% of capacity in the three months to March.

IAG, which also owns Iberia, Vueling and Aer Lingus airlines, is forecasting only a small increase in flight capacity to 25% for the April-June quarter, despite hopes that travel to Europe will pick up as early as late May.

**The airline said it has reduced its weekly cash burn to €175 million**, better than the €185 million per week it had previously forecast for the period.

The group also said it had 10.5 billion euros in cash at the end of the first quarter.

Given the uncertainties surrounding the evolution of the pandemic, IAG did not provide a financial forecast for 2021.

On Thursday, Air France-KLM reported an operating loss for the January-March period of 1.18 billion euros and said it expects to operate in the current quarter at 50% of its pre-pandemic level.

**My comment:** *The three major European company groups have published their first quarter 2021 results. They are very close:*

-1.14 billion euros for IAG-1  
.18 billion euros for Air France-KLM-1  
.05 billion euros for the Lufthansa group

### > **Airbus: orders soar**

(source Capital) May 10 - **Airbus had** a strong **April**. The European aircraft manufacturer **delivered 45 commercial aircraft last month to 30 customers**. At the same time, **48 new orders were received, more than in the first three months of the year combined**. The orders were mainly for 25 A321s for U.S. carrier Delta Airlines, and 22 A320s and A321s for Irish leasing company Avolon.

In the first four months of the year, Airbus delivered 170 aircraft to 55 customers. **The group intends to deliver the same number of aircraft this year as in 2020 (566 units)**. Deliveries are a reliable indicator of profitability in the aeronautics industry, because customers pay most of the bill when they take possession of the aircraft.

At the end of April, its order book stood at 6,979 aircraft, including 6,187 single-aisle aircraft (A220 and A320 families), AFP reported.

***My comment:** Airbus deliveries in 2021 are expected to remain well below 2019 levels (566 aircraft in 2021 and 2020, 863 in 2019).*

### **IATA against the "irresponsible" increase of Spanish airport charges**

(Air Journal source) May 8 - The International Air Transport Association (IATA) has warned that AENA's proposals to increase user fees at the 46 airports it operates across Spain could harm Spain's economic recovery and employment, which has been fully affected by the coronavirus pandemic.

**The proposals submitted to the Spanish DGAC (Directorate General of Civil Aviation) for approval include a request for a 5.5% increase in charges over five years**. They would also open the door for AENA, the Spanish agency responsible for managing airports in Spain, to recoup its lost revenue from the Covid-19 crisis, for services that were never operated or accessed by airlines.

"The entire aviation industry is in crisis. Everyone needs to cut costs and improve efficiency to repair the financial damage of Covid-19. After analyzing AENA's situation, the airlines believe that AENA could reduce its fares by 4%. Therefore, **proposing to shift the burden of financial recovery onto customers with a 5.5% increase is simply irresponsible**. The DGCA should immediately reject the request and ask AENA to work with the airlines on a mutually agreed recovery plan,"

said **Willie Walsh, IATA Director General.**

**Prior to the pandemic, AENA declared €2.59 billion in dividends over the 2017-19 period** and has several options to cover its losses.

"AENA can easily finance short-term losses without increasing costs for its customers. It has an excellent credit rating to access financing. Its shareholders have been well rewarded and now have to share some of the bill. And, like the rest of the industry, it must seek operational efficiencies to reduce costs, which are by no means the cheapest in Europe," said Willie Walsh.

(...)

***My comment: On both sides of the Pyrenees, airport managers are taking advantage of their monopolistic position to increase charges.***

*These decisions highlight the delicate situation of airlines within the air transport value chain.*

*Two manufacturers, two engine manufacturers, are able to supply them with aircraft. The choice is limited.*

*The situation is even worse at the airport level, with most major cities having only one international airport. It is impossible to compete.*

*The situation is a little different for low-cost airlines. Since they carry fewer business people, they can concentrate on serving regional airports that are close to each other.*

*It is these airlines that are then able to put pressure on airport managers to subsidize part of the cost of transport.*

## **Bonus Article**

### **Europe's transport system must not be at the service of competition, but of Europeans**

(source Opinion, By Jean-Baptiste Djebbari, Minister Delegate for Transport) May 6 - Do we want the billions of euros of our recovery plan to benefit airlines that refuse to pay their taxes in France? This is the question that was put to us when the European Commission asked for competitive compensation for the recapitalization of Air France. It calls for a second, broader question, the answer to which is less obvious:



what kind of competition do we want in Europe's transport sector? For too long, we have put this question off until later. The pandemic and its economic consequences now make it unavoidable. The European Transport Ministers have understood this: at France's initiative, seventeen of us have called for innovative European support for rail freight. After the relaunch of night trains, this is further proof that we are ready to coordinate our action and to clean up the rules of European mobility.

Social and environmental dumping To recap

: as it was being built, the European Union acquired the powers and means to support the development of infrastructure, and strove to make the European market a market of free competition. Its initial (and laudable) objective? To provide users with a quality service at the lowest price. The result? **Airline tickets from Paris to Venice at 10 euros.**

**When the price of a service is so far removed from its real cost, there is a problem.**

In fact, the crisis is exacerbating the strengths and weaknesses of the current model. Today, transport liberalization is at a turning point. Our systemic operators need state support, or they risk disappearing. But this support only makes sense if the authorities - including European authorities - set new rules. Community legislation can no longer ignore social and environmental dumping.

Competition in transport must no longer be an end, but a means, at the service of Europeans. What do they expect from their transport? That it allows them to travel quickly and safely; that it is modern and less polluting; and that employees in the sector are protected. Experience has shown that the desire to combat barriers to competition at all costs is not always compatible with these expectations. This can lead to untenable situations for our companies, which are subject to strict rules while other international players, even though they are active in Europe, do not comply with them.

Let's stop

being naive brokers of the global village. The post-Covid challenges will be numerous, while Asia and the United States are off to a fast start. To face them, we need more regulation. We have taken a first step in our negotiations with the European Commission to regulate air transport, by demanding that the slots left by Air France at Orly cannot be granted to a company that does not pay its social charges in France.

But we must do much more. More on social regulation, to avoid the intra-European competition that has so destructured road freight transport. More on economic and fiscal regulation, with regard to players who want to take advantage of our market without respecting our rules. More politics, less bureaucracy: only under these conditions will we make Europe a power amplifier for our transport.

European construction is not set in stone for all time. I am convinced that we can create, with the Member States and the Commission, this new framework for a Europe that protects us and makes us stronger. The Europe of transport must not be at the service of competition, but of Europeans. It has sometimes forgotten this. We are here to remind it.  
Jean-Baptiste Djebbari, Minister Delegate for Transport

**My comment:** *How to regulate airfares? The question is simple, the answer is complex.*

*I have expressed myself several times on this subject. The notion of sale at a loss is inapplicable to air transport.*

*Indeed, it would be necessary to determine whether the sale at a loss relates to the air ticket or to the flight as a whole. An example:*

*If the ticket price should cover the cost of the flight, then the freight transportation would be reduced (only the handling cost would be charged). Passengers would have the right to protest.*

*On the other hand, if the loss leader were to take into account the entire freight + passenger revenue, the ticket price would vary according to the amount of freight carried. This is difficult for passengers to accept.*

*This is why I advocate the introduction of a minimum ticket price. This minimum price could be the sum of taxes, CO2 offsets, and a fixed mileage rate linked to kerosene consumption per passenger.*

*Last year, when the Austrian government announced its intention to set a minimum price of 40 euros, the French Minister Elisabeth Borne declared herself in favor of the introduction of a minimum price for air tickets (see my [letter n°761](#)).*

*To illustrate my point, here is an example of a (genuine) ticket sold by a low-cost airline between two French cities. Note the negative fare.*

Passager	Aller	
François Robardet	Tarif	-19,86€
	Taxes/Frais	28,61€
	-----	
	Frais de dossier:	0,25€
		<b>TOTAL 9,00€</b>

## 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 **4.629 euros** on Monday 10 May. It is down slightly by -1.51% over one week. The publication of the first quarter 2021 results had little impact.

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 outbreak, the Air France-KLM share price was 9.93 euros.

**The average (consensus) analyst price for AF-KLM shares is 3.27**

**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 (North Sea)  
oil is stable at \$68  
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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