

Air France has recovered this summer



I Letter from the Director of Air France-KLM

François Robardet

Representative of employees and former employees who are PS and PNC shareholders

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Monday's Press Review

> Air France has recovered this summer

(source Les Echos) 12 September - **Air France has won the bet...**

Despite everything, one might be tempted to add, given the headwinds that have sometimes blown in this summer. The French airline, **which had bet on the recovery in demand this summer, by putting a higher offer online than its European competitors**, has managed to operate at 80% of its pre-crisis capacity for medium-haul flights and 62% for long-haul flights. **That is, on average 64% of its overall capacity in August**, compared with around 30% in April and May (and 30% in August 2020).

At the peak of its summer activity, during the week of 27 July to 2 August, Air France even climbed to 76% of the 2019 level (in number of flights), according to Eurocontrol figures, ahead of Lufthansa (55%) and British Airways (36%).

"The summer went rather well," says Olivier Piette, Air France's programme director. Despite a great deal of uncertainty when we drew up the programme, we gambled on a recovery in leisure demand this summer, with an offer and a network modified accordingly. We launched 81 medium-haul seasonal routes this summer. And overall, the demand was there", he stresses.

On the medium-haul side, Greece, Spain and North Africa were the main drivers of activity, despite the fact that Algeria remained closed overall and that Morocco and Tunisia returned to the red list during the

summer.

The same satisfaction on the long-haul route, despite the fact that many borders are still closed. Despite the resurgence of the epidemic in the West Indies, the overseas departments have generally kept their promise. In view of the success of these destinations at Christmas, Air France had increased its offer by 56% on the West Indies and Reunion. "Traffic has been a rollercoaster ride, but overall the results are positive," says Olivier Piette.

The results are also satisfactory for the United States, despite the fact that the American borders have not been reopened to Europeans. "Flights were successful, only with American customers [who were allowed to come to Europe, editor's note]," says Olivier Piette. Another satisfaction: the flights to Africa were also full, with a leisure clientele and especially affinities of Africans returning to their country to see their families.

On the other hand, traffic with Asia remained at a low level, with most countries still closed to tourists. On certain destinations such as India and China, the number of flights authorized is still very limited and cargo is often the main source of revenue.

All in all, Air France should have managed, if not to make a profit, at least to cover its operating costs this summer. Nevertheless, there is still a great deal of uncertainty for the end of the summer season and even more so for this winter. With a central question: will the recovery in business travel take over from the recovery in tourism?
(...)

In the meantime, Air France is continuing to test new leisure or VFR (visit friends and relatives) destinations, such as Zanzibar (Tanzania), Muscat (Oman), Colombo (Ceylon) and Banjul (Gambia).

And all this while remaining flexible. The flight schedule is constantly reviewed and decisions to change or cancel flights are made up to six weeks before departure, every six weeks, depending on capacity. As for customers, they will be able to continue to change or cancel without charge until the end of March 2022.

(...)

My comment: *Should we see the glass as half empty or half full for the summer season?*

For Air France, as for KLM, it is clear that the programme teams have managed to meet customer demand for travel as well as possible.

To do this, they have relied on the Air France-KLM network, which is more diversified than that of its main European competitors.

> Levering Boeing 787's opnieuw uitgesteld, ook KLM getroffen (The delivery of Boeing 787's is delayed again, KLM is concerned)

(source Upinthesky, translated with Deepl) September 6 - **The U.S. FAA halted deliveries of the Boeing 787 in May of this year due to problems with quality controls** on the newly built aircraft. The FAA is working with the manufacturer to find a solution to these deficiencies. But that doesn't seem to be in sight yet. This isn't the first time delivery of this type has been halted. In 2020, Boeing had already encountered problems. The delivery had resumed after about five months. The delay in delivery is causing many problems for both airlines and Boeing. Especially since the demand for cleaner and more economical aircraft is only increasing. **Boeing risks various fines.** Delayed deliveries could mean that the manufacturer has to pay compensation to airlines that are waiting. Boeing estimates that the company has about 100 787s ready for delivery once the FAA gives the green light.

KLM is also suffering from the continuing problems. A brand new Boeing 787 is ready for delivery to that airline, but it won't be delivered because of the FAA. This aircraft is the sixth 787-10 for the Dutch airline. Other aircraft that are still under construction are also experiencing delays. **KLM is still in talks with Boeing for a new delivery date.**

Transavia and its low-cost flights are already looking to resume their growth

(source Les Echos) September 12 - **The summer has kept its promises for Transavia France.** Despite some setbacks, the low-cost subsidiary of the Air France group has returned, as expected, to its pre-crisis level of activity. But what would already be enough to make most airlines happy is only a first step for Transavia France, which is now aiming for a return to growth, starting this winter. The summer went rather well, and even very well in August," says Nicolas Hénin, Transavia France's Deputy Managing Director for Sales and Marketing. At the end of the last lockdown, in May, we had planned to submit an offer equivalent to that of 2019 for this summer and overall, the traffic followed. **We have managed to return to our 2019 level of activity, with 1.6 million passengers carried in July and August and 81% load factor in August."**

(...)

On some weekends, Transavia France's 48 Boeing 737-800s operated up to 220 flights in a day.

The gamble was far from won. Just before the summer, we were very late," says Nicolas Hénin. Bookings for July and August did not start until May.

(...)

The hardest part is still to come for Transavia France. The company plans to not only match but exceed the 2019 level this winter, by increasing its fleet to 50 aircraft, "in line with the growth trajectory" defined at the top of the group. And this, without much visibility on the evolution of demand. "The booking times are still very short," admits Nicolas Hénin. **We have a good level of commitment for September, but beyond that, it's total uncertainty.**

To get its planes flying, Transavia France is counting heavily on the reopening of Algeria, which has just granted it 9 flights a week, as well as Morocco and Tunisia. The company has also added Rome, Stockholm and Berlin to its list of European capitals, banking in particular on the resumption of "city breaks" in the autumn. But bookings for the All Saints' Day holidays have barely begun.

And **unlike others, such as Ryanair, Transavia France cannot afford to sell tickets for less than 15 euros. We will not go below the level of taxes, i.e. 35 euros at Orly," explains its commercial director. But we will be offering a larger number of tickets at introductory prices.** To get the pump going again, we have to offer attractive prices.

***My comment:** As soon as vaccines became available, Europe, the United States and China implemented large-scale vaccination policies.*

The success of these policies has led to a return of travel within these geographical areas (but little between regions and even less with other regions of the world).

This explains why the best established airlines - the majors in the United States, the low-cost airlines in Europe, including Transavia - have been able to resume significant activity.

Delta Airlines: commits to align with the Paris Agreement

(source CercleFinance) September 9 - **Delta Airlines announced today that it has signed a letter of commitment to move closer to the Science Based Target initiative (SBTi) and set a new emissions reduction target in line with the Paris Agreement.**

The company also states that it intends to accelerate the ongoing renewal of its fleet, improve its operational efficiency and **support the development of SAF, the sustainable aviation fuel.**

In 2020, Delta Airlines' fuel efficiency improved by 5.7% per seat mile compared to 2019. The company added that it purchased more than 300,000 gallons of SAF in 2021 and expects a supply of 70 million gallons per year starting in 2025.

(...)

My comment: *To reduce their CO2 emissions, airlines do not currently have many levers for action.*

In the short term, they are focusing on fleet renewal, route modification and the use of renewable energy for ground operations.

In the medium term, sustainable aviation fuel seems to be the most credible solution to replace kerosene.

Brussels sanctions Alitalia but preserves its heir

(source Les Echos) September 10 - A final slap in the face before burial. The airline **Alitalia, which is in the process of going out of business, has been ordered by the European Commission to pay back to the Italian state two loans, totalling €900 million, granted in 2017 and deemed to contravene EU rules on state aid.**

At the time, the state had to come to the rescue of the company, which had been loss-making since 2008 and whose financial situation was cutting off its access to private credit. Such a rescue is not strictly forbidden but the State must then, under European competition rules, intervene, explains the Commission, "under conditions that a private operator guided by market criteria would have accepted".

Brussels, whose investigation was launched in 2018 following complaints from competing companies, found that this condition was not met. This was because the Italian state "did not assess beforehand the likelihood of repayment of these loans". The Commission stresses that the study of Alitalia's financial statements "showed that it was unlikely that the company would be able to generate sufficient liquidity to repay [...] or that it could sell its assets to raise sufficient liquidity". In short, **for Brussels, the loan looked like a grant from the start.**

How much of the 900 million euros will actually be repaid? As Alitalia is undergoing liquidation proceedings, the repayment must be made, according to Brussels, "within the limits of the sale of the remaining assets, of its capacity". Above all, the **key point in this case is that Italia Trasporto Aereo ("ITA"), founded in 2020 to take over from Alitalia, will not inherit this debt.**

(...)

My comment: *The most surprising thing about this case is the position of the European Commission.*

It has taken four years to realise what all observers had noticed from the start of the affair: that Alitalia would never be able to repay the Italian State aid.

> **British Airways pilots to be paid less than budget rivals at easyJet**

(source The Telegraph) September 5 - **British Airways pilots are set to be paid less than their easyJet counterparts, as part of a radical overhaul of the UK flag carrier's short-haul operation at Gatwick Airport.**

(...)

New working practices will replicate those employed by low-cost airlines such as easyJet, Ryanair and Wizz Air, allowing BA's Gatwick operations to significantly reduce costs during the typically leaner winter months.

(...)

This weekend BA responded to suggestions of a "no frills" service. A spokesman said services would remain under the British Airways brand and customers would "continue to receive the same quality of service". The spokesman added: "British Airways continues to lose money at Gatwick and has done so for over 30 years. We can't afford to continue this. This is about creating a sustainable platform from which we can rebuild BA's operations at London Gatwick. If we don't, BA will not serve the short-haul market at London Gatwick.

(...)

"Pilot savings are just one element of the savings proposed by the new subsidiary, among other plans needed to turn this business around."

Balpa, the pilots' union, has reportedly agreed to the changes and recommended its members support them in a vote scheduled for this month.

Unite, which represents cabin crew and ground staff, who will also be affected, has yet to agree to the reforms.

If the changes are approved, BA intends to operate up to 17 Airbus A320s from Gatwick next summer. It has stopped operating short-haul flights from the Sussex airport because of the pandemic.

According to industry insiders, the basic salary of an Airbus captain will start at £73,000 and rise to £90,000 over 12 years as part of BA's deal for Gatwick. They will receive an additional £30 for every hour

they fly. Based on 800 flight hours a year, this means BA pilots' gross pay **will be** between £97,000 and £114,000 (**between €114,000 and €134,000**).

In contrast, **easyJet pilots receive between** £108,000 and £148,000 (**€127,000 and €173,000**), **plus variable pay of £34 per sector** - rather than per hour, the sources added.

Balpa has, however, won a key concession from BA. Under the terms and conditions of the deal, **the new operation will be limited in where it can fly. It will not be able to serve routes to sub-Saharan Africa or across the Atlantic, according to the Daily Telegraph.**

The BA spokesman said: "**Current BA pilots will have the choice to join the new subsidiary, they are not obliged to leave the main airline.** We hope the pilot community will choose to support this proposal, which will create jobs and retain the BA brand on short-haul flights at Gatwick.

(..)

***My comment:** The airline that British Airways is planning to set up at Gatwick is very similar to Transavia France, the airline launched by Air France fifteen years earlier.*

> **Attempted takeover of EasyJet: the powerful Wizz Air in the running**

(source La Tribune) September 9 - Faced, like the rest of the air transport industry, with the shock of the health crisis, **EasyJet is launching a capital increase of 1.2 billion pounds (1.4 billion euros)**, with a subscription period open until September 27. While financial manoeuvres were expected (recapitalisation, new bond issue, sale and leaseback of additional aircraft, etc.), the **scale of this operation had not been anticipated.**

This recapitalization is largely defensive, as has been the case for other European airlines until now, starting with Air France. It should enable the orange company to increase its equity capital and significantly improve its balance sheet, which has been damaged by the health crisis.

With 1.4 billion euros to come, EasyJet also wants to be offensive. Its CEO, Johan Lundgren, believes that this capital increase "will also allow us to position ourselves for growth, so that we can take advantage of strategic investment opportunities that should arise as the European aviation industry emerges from the pandemic

The low-cost airline therefore intends to take advantage of the difficulties of traditional operators by taking over the slots that the latter would be forced to give up due to a lack of financial resources. This will strengthen its market share, with **priority given to the main airports, especially those subject to slot constraints. Paris-Orly, Amsterdam-Schiphol and Milan-Linate** are potential targets.

(...)

The cards could nevertheless be turned upside down by the possibility of a takeover of the company in the coming months. A first approach has been formulated. The board of directors "studied it carefully before rejecting it unanimously. In particular, it judged that **this proposal for a transaction per share "fundamentally undervalued the company"**. However, he obviously did not close the door to future offers.

According to Bloomberg, **this approach would be taken by Wizz Air**, but the Hungarian company has not wished to comment until now. According to observers, the move could also be made by its shareholder, the American investment fund Indigo Partners, which also has stakes in Frontier Airlines in the United States and Volaris in Mexico.

According to industry insiders, **such a merger could make sense given the networks of the two airlines, with little overlap between Wizz Air, which offers unrivalled density in Central and Eastern Europe, and EasyJet, which is established in the main Western European markets.**

The homogeneity of the fleet should also not be overlooked: both airlines operate a 100% Airbus fleet composed of A320 and A320 NEO (new engine option) family aircraft. Wizz Air operates around 140 aircraft and has 236 orders with the European aircraft manufacturer, while easyJet operates 330 aircraft and is due to receive around 100 more.

The question of the model of the two companies remains the main obstacle to a potential merger. On the one hand, EasyJet has been evolving its practices for several years by setting up operations in the main airports and offering more frequency, in particular to reach business customers in addition to its leisure offer. On the other hand, Wizz Air has an ultra low-cost model, close to that of Ryanair, favouring secondary airports and limiting free services to a minimum. Nevertheless, the Hungarian company could evolve as its Central European markets mature. It could thus seek new growth drivers to sustain its business by turning to new customer segments.

(...)

The deal could therefore interest other players beyond Wizz Air.

There are nevertheless a certain number of obstacles. First of all, the operation remains very consequent on the financial level: according to an analyst, taking into account EasyJet's market capitalization of about 4 billion euros, the debt which exceeds two billion and the consequent issue premiums, **it would be necessary to put in at least seven billion euros to hope to win the bid. An amount that excludes most of the players in the European airline industry.**

Despite a genuine interest from an operational point of view, Air France-KLM, which looked at the dossier in 2009, or Lufthansa would have difficulty in releasing such sums when they themselves have called on the States to recapitalise. Moreover, in return for this public aid, the two groups have been forbidden by Brussels to make large-scale equity investments until the States have recouped 70% of the sums they have committed (including guaranteed loans). That leaves IAG, but the Anglo-Spanish group already owns Vueling and has no real interest in such an operation.

(...)

***My comment:** At this stage, only the information on easyJet's capital increase is worth remembering.*

Like the majority of airlines, the British airline was expecting a gradual recovery in activity from this summer.

The arrival of the variant Delta has called this forecast into question and is pushing companies in the airline sector to take new measures.

> **Air Europa will need further assistance**

(source Air Journal) September 10 - (...) Air Europa is preparing to ask for new public aid.

In 2020, the Spanish company based at Madrid-Barajas airport suffered a loss of 427.7 million euros, compared with a profit of 29 million the previous year. As early as last November, shareholder Globalia received 475 million euros in public aid from SEPI, approved by Europe last May. But this financial windfall, which would have saved some 3,000 jobs, has already been used up.

And **Air Europa is lagging behind its rivals in terms of recovery, with capacity capping at 50% of 2019 levels** when rivals Iberia and Vueling are down only 28% and 24% respectively (not to mention Ryanair). **The company therefore said that it was expected that "depending on the need, the company will receive an additional**

amount to resolve its future liquidity needs that will require the corresponding aid modification request subject to applicable regulations".

The SkyTeam alliance airline is, of course, still "working" on its €500 million takeover by the IAG group (which already owns Iberia, Vueling and Level). **But the group's CEO Luis Gallego has already said that he is "fully" considering the possibility of pulling the plug on the deal**, especially if the price is not lowered before these possible new debts, and if Brussels (whose in-depth investigation is still ongoing) does not make routes and airport slots available...

And if the government ever grants new state aid to Air Europa, low-cost carrier Ryanair will no doubt relaunch legal actions. Its CEO Eddie Wilson recently said he could not understand why Spain would continue to invest in a company when the previous attempt failed...

***My comment:** Initially, Iberia had offered 1 billion euros to buy Air Europa. With the crisis, the price was lowered to 500 million euros.*

Any new debt of Air Europa is likely to reduce the price by as much. This will whet the appetites of other airlines, which could be tempted to position themselves to counter the operation initiated by IAG.

Finnair manages to recycle 99.2% of an Airbus A319

(source Le Journal de l'Aviation) September 9 - **Finnair** is giving news about its aircraft dismantling and recycling project. **Last February**, the company **decided to withdraw one of its Airbus A319s from service and to dismantle it itself in Helsinki** - a first for the company and the country - in order to evaluate the relevance of internalizing the dismantling activity as much as possible. Although the company did not give a clear answer to this question, it was pleased to have completed the project and exceeded its objectives: **it managed to recycle 99.2% of the aircraft.**

The A319 (...) had reached the end of its life cycle, after 21 years in service and 54,710 flight hours in 32,966 cycles. Finnair and its partner Kuusakoski thought they could reuse 90% to 95% of its structure. In the end, they succeeded in limiting the waste to 0.8%.

The first step in the project was for Finnair's maintenance teams to **remove nearly 2,000 parts, components and equipment from the aircraft, which were either added to the company's inventory or sold**, after inspection and repair where necessary. Finnair points out that this part of the job alone made the whole project economically viable, avoiding the expense of acquiring spare parts and eliminating the

downtime that can be incurred when a part is missing. In February, Timo Rossi, project manager for Finnair Technical Operations, explained that the A319's landing gear had just been overhauled and would therefore be quickly installed on another aircraft. In addition, **49.1% of the structure could be recycled**. Some fifteen tons of aluminum were recovered, which will be reused by the automotive industry - notably on future Mercedes-Benz automatic models, the company said.

Kuusakoski managed to recover 7.4% of the aircraft by producing energy from some waste that could not be recycled. The Finnish recycling company has also taken 4.2% of the A319's composite materials for its own research in this field.

Timo Rossi explained at the launch of the project that the crisis, amidst all its negative effects, had given work to Finnair's mechanics. His assessment today is that not only was this project a positive ray of light in this dark period, but above all that it enabled the technicians and engineers to gain in skills.

If the dismantling of the A319 was an enriching experience, it is however not certain that the company will repeat it, in particular for a very simple reason: "We make these decisions for one aircraft at a time. We don't have any plans to take any other aircraft out of service at the moment, so we haven't made any decisions," explains Timo Rossi. But Finnair still operates six A319s, four of which have reached or exceeded 21 years of service. So it may be that it will be thinking fairly quickly about renewing the experiment. "We now know that we have the skills and capabilities to do it again if necessary, as we have already gone through this process."

***My comment:** If they are not very present on the old planes of conception (like the A319 of Finnair) the composite materials are more and more used in the planes (50% for an A380) and in the wind turbines (for the blades).*

The recycling of composite materials is not perfected; this is why the Finnish recycling company recovered them from the A319 without treating them.

Stock market press review

> Air transport: what to do with Air France-KLM and ADP

shares?

(source Le Revenu) September 8 - Down 15% over three months, **ADP and Air France-KLM are not benefiting from the favourable winds that are driving the Paris stock market.**

The two air transport stocks contrast with the SBF 120, which is sailing close to its all-time high. **The reason for this is the lack of a clear recovery in passenger traffic**, after a major air pocket last year with Covid.

Business remains hampered by the sluggishness of the lucrative business class - which has been permanently undermined by the rise of videoconferencing - **and by the numerous and unstable health restrictions.** Destinations such as the French overseas territories, North Africa, the United States and Asia are virtually closed.

As a result, visibility is limited for the two major players in the sector, who are cutting back on costs and investments. This was evidenced by the lowering, at the end of July, of annual targets by the management of ADP, whose highly profitable retail business is still struggling.

For its part, Air France-KLM (ADP's largest client) has not released any capacity forecasts for the fourth quarter and expects to post only a positive EBITDA in the third quarter, when the summer season is traditionally the most profitable.

In this unpromising environment, we remain cautious on both stocks, whose debt has soared with the crisis. **A new dilutive recapitalisation is even in sight for Air France-KLM, whose equity is significantly negative.**

> **IAG: Credit Suisse reduces its price target**

(source CercleFinance) September 10 - **Credit Suisse has reaffirmed its 'outperform' rating on IAG with a price target cut to 195p from 256p to reflect what it sees as the growing risk of a capital increase by the Anglo-Spanish airline** (British Airways and Iberia).

The broker recognises that until the transatlantic market reopens unhindered, IAG will remain a difficult case, but continues to see it as 'one of the best cards to play in the ultimate recovery of the airline in the value chain'.

End of the press review

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

You will find on my [navigaction](#) site the modalities of access to the sites of the managers.

To avoid forgetting to change your contact details 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 bodies.

Keep all the documents relating to your Air France-KLM shares in one place: all the letters you receive from the various managers, Natixis, Société Générale, and 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 **3.880 euros** on Monday 13 September. It is down this week by -0.69%.

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

The average (consensus) analyst price for AF-KLM shares is 3.24 euros. The highest price target is 5.5 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 slightly by \$1 to \$73 per barrel.

Since a low point at the end of October 2020 (\$37), it has risen steadily until it reached \$69 at the beginning of March 2021. Since then, it has fluctuated between \$69 and \$77.

As air traffic recovers, this high price is bad news for airlines.

This indicative information does not constitute an invitation to sell or a solicitation to buy 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](#)

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| François Robardet

**Director of Air France-KLM representing employees and former employees who are PNC and PS shareholders.
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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