

Air France will need help to repay its EMP



## 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 will need help to repay its EMP

(source Les Echos) October 6 - The **first major French company to have benefited from a state-guaranteed loan - for 4 billion euros - in April 2020, Air France will also be one of the first to have to face its consequences.** And this will probably be well before its maturity date of 2023. Fully drawn down by 31 December 2020, this €4 billion EMP financed by nine French and foreign banks, and supplemented by a direct loan from the State of a further €3 billion, enabled Air France-KLM to avoid a liquidity breakdown in the summer of 2020.

There is no doubt that without this injection of money, the French company, as well as its sister company KLM, which also benefited from a loan guaranteed by the Dutch State (...) would have had to stop its activities - for lack of cash.

**In the case of Air France, this loan has added to an already high level of debt (...).** On 31 December 2020, at the close of the annual accounts, the Air France-KLM group had a negative equity position of 5.4 billion euros, essentially due to Air France, for a share capital of 127 million euros.

**This is a very serious financial situation in terms of the French Commercial Code, which requires all companies to restore a level of equity - equity capital and undistributed profits - equal to at least half of the company's capital within two years.** In theory, Air France's shareholders have until the end of 2022 to bail out their company or

liquidate it, as they have not been able to reconstitute its reserves as required by law.

The €1 billion capital increase carried out in April 2021, together with the conversion into bonds of the direct government loan of €3 billion, has eased the pressure somewhat. But it did not entirely solve the problem, as Air France continued to burn cash at least until the third quarter.

**In addition to the obligation to rebuild equity before 2023 by paying off the debts of 2020 and 2021, Air France must also repay its 4 billion euros of PGE during 2023.** All this with a level of debt that is too high and revenues that are still struggling to cover operating costs, even though the group is expecting its first positive EBITDA in the third quarter.

In other words, Air France has no chance of succeeding without a further helping hand from its shareholders and/or creditors. Hence the need, mentioned several times by its managers, to carry out a new recapitalization in the short term, in one form or another, towards the end of the year or early 2022.

**The General Meeting of Air France-KLM on 26 May has already prepared the ground, by giving the green light to various possibilities of raising funds,** which could exceed 3 billion euros. At the same time, the group's directors are continuing discussions with the banks on the subject of a possible "smoothing" of repayments until 2025. To pass the 2023 obstacle.

***My comment:** Here is an article that explains well the need to restore Air France's equity.*

*For the rest, it repeats information communicated in previous months by the Air France-KLM group.*

## **> Air France unions call on government not to ratify EU-Qatar deal**

(source AFP) October 11 - **All of Air France's representative trade unions have sent an open letter to members of parliament urging them to pressure the government into refusing to ratify a free trade agreement for air transport between the European Union and Qatar. "It is a completely unbalanced agreement,"** denounced the unions, which represent pilots (SNPL, Alter, Spaf) as well as ground staff (FO, CGT, CFDT, CFE-CGC, Unsa, CFTC) and cabin crew (UNPNC, UNAC, SNPNC and SNGAF). This agreement, authorised in June by the European Council, provides for a wide opening of the European sky to Qatar Airways. In exchange, European airlines will have identical access to Qatari airports, but above all, Qatar Airways will

have to comply with certain conditions in terms of transparency and social rights. "

The social impacts can only be negative", deplores **the trade union, which is concerned about "the unfair competition of French airlines with a company that is heavily subsidized at all times and applies retrograde social conditions"**. While Air France was forced by the EU to give up 18 of its slots at Orly in exchange for a 4 billion euro aid package from the French government (...), "Qatar Airways has just recently received 2.5 billion from the Qatari government without any compensation", the unions are indignant.

"It is at a time when French airlines are going through the most serious economic crisis in their 100-year history that Europe, on the basis of a French proposal, is deciding to open up the European sky to unfair competition," the unions say, denouncing in their letter France's "schizophrenic position. **As for those who hope to see the French or European social model exported to Qatar, "they are at best wishful thinkers, at worst malicious advisors," the letter warns.**

The fears concern possible job losses due to "the capture of passenger flows from French and European provinces for the benefit of the Doha hub". The unions conclude by calling on MPs to call on the government to "fight this inept, incoherent and destructive project now". The agreement still needs to be ratified by all 27 Member States before it can finally enter into force.

***My comment:*** *During the États de l'Air last week, two personalities of the air transport industry gave their point of view on this affair.*

*Laurent Magnin, former CEO of XL Airways:*

*"There has been incredible rigour in granting loans and aid to the companies and on the other hand, in the ultra consumerist vision of Europe, it signs this agreement very "far away" from the values defended in the European space"*

*State representative Damien Cazé Damien Cazé, Director General of the DGAC (Directorate General for Civil Aviation), replied:*

*"When you have entered into negotiations, it is difficult to explain to certain States that because the context has changed, you no longer want..." To summarize and saying it even more clearly: when you have orders of about 15 billion dollars with Qatar on, among other things, Rafales, Airbus, the Doha metro, you have to make concessions.*

*You will find the full text of their speech in the last article of this newsletter: "Convalescent, French air transport takes stock and gets organized".*

## **KLM has requested NOW aid of EUR 1.7 billion.**

(source RTL Nieuws, translated with DeepL) October 11 - **The airline KLM**, which will celebrate its 102nd birthday next week, **has asked the government for 1.7 billion euros in wage subsidies to be able to continue paying its staff during the Covid-19 crisis.**

The company has already received 1.4 billion of this amount as an advance. This amount corresponds to the 80% that companies receive as an advance on the final support from NOW.

(...)

The advance is calculated on the basis of the company's estimate of the loss of turnover and total payroll for the period for which the NOW has been applied for. The UWV will calculate the final amount by checking whether the expected loss of turnover corresponds to the actual loss of turnover.

It will also check whether the total wage bill was as high as the company had previously declared. In the case of KLM, this amount could be lower because of the employees who have left, explains a spokesperson of the Ministry of Social Affairs and Employment.

(...)

In addition to the salary support, KLM can also borrow a total of 3.4 billion euros from the state.

**Of the EUR 1 billion loan directly from the government, the company has actually drawn EUR 277 million.**

**In addition, the company has already drawn €665 million from a €2.4 billion loan facility.**

(...)

***My comment:*** *The NOW scheme in the Netherlands is the counterpart of the Partial Activity scheme in France.*

*The calculation methods are different. One is calculated on the reduction in employees' wages, the other on the reduction in companies' turnover.*

*KLM, one of the top three companies in the Netherlands, is by far the one that has benefited most from the NOW programme. This has*

*enabled it to use only part of the loans granted by the Dutch State.*

### > **Transavia is back on track and announces new routes for this summer**

(source BFM Business) October 7 - 1.6 million passengers in August, an 81% load factor this summer... **The managers of Transavia are rubbing their hands together.** The crisis in the airline industry is not over yet, but Transavia is one of the few companies to have recovered its margins of manoeuvre so quickly.

Guest of Good Morning Business this Thursday, Nathalie Stubler, CEO of the Air France low-cost subsidiary confirms: "**We are lucky to have a network based in Europe and the Mediterranean basin and it is this network that has recovered the fastest.** So we're back on track this summer. We should not forget that we were at -74% capacity at the beginning of the year and **we managed to get back to the same level of activity (as before the crisis, editor's note) in July and August**". The rest of the year looks just as encouraging "with very good sales in October and it's off to a good start for the Christmas holidays too", continues the manager.

(...)

**Transavia will (...) receive in the coming months a dozen aircraft to strengthen its fleet, Boeing 737-800. A fleet that should reach 61 aircraft against 38 in summer 2019.**

Developments made possible by the agreement reached between Air France KLM and the pilots in 2019 that allow them to go from one company to another. For the time being, nothing seems to stand in the way of the company's strong rise within Air France-KLM.

(...)

### > **Lufthansa closes its capital increase without difficulty**

(Reuters source) October 6 - **Lufthansa completed its 2.14 billion euro capital increase on Wednesday**, a move that was well received by investors and bodes well for an airline industry that is far from having repaired all the damage caused by the coronavirus crisis.

(...)

**The funds raised should enable it to repay part of the nine billion euros of public money received last year** to enable it to survive the pandemic, a bailout that saw the German federal state, via the Economic Stabilisation Fund, take a 15% stake in the group's capital.

(...)

"There was a relaxation for transatlantic travel on the day the capital increase was announced; we expected the restrictions to be lifted, but

not on the same day," said Stephane Gruffat, co-head of EMEA securities markets at Deutsche Bank.

He added that **the timing was right for capital raisings in the sector as passenger traffic and the number of flights are increasing and airlines have cut costs and seen their cash flow stabilise.**

Lufthansa is far from the only player in the sector to have raised or said it was considering raising funds recently: EasyJet recently completed a £1.2 billion (about €1.0 billion) capital increase, tour operator TUI announced on Wednesday that it intended to raise €1.1 billion and Air France-KLM said last week that it was looking at various options.

**My comment:** *The German airline is working hard to pay back the aid it received from its government as quickly as possible.*

*This will enable it to lift the counterparts imposed by the European Commission, in particular those prohibiting it from taking stakes in other airlines.*

*On the subject of the compensatory measures, Lufthansa has benefited from what I call a windfall effect: although it was supposed to make 24 take-off/landing slots available in Frankfurt and the same number in Munich, no airline has come forward to take them over. Lufthansa will therefore be able to continue operating them.*

*Air France was not so lucky, the 18 slots it was supposed to make available at Orly were all taken over by Vueling.*

### > **Air India: why Tata wants to revive its 'Maharaja**

(source Les Echos) October 11 - "Happy to have you back at Air India," tweeted Ratan Tata, the chairman emeritus of the group of the same name. After weeks of suspense, the announcement of the sale of the national airline to Tata Sons was finally made public on Friday 8 October by the Indian government. Affectionately nicknamed the "Maharaja", **Air India is thus returning to the fold of the conglomerate that founded the company in 1932 under the name of Tata Air**, before the latter was nationalized in the early 1950s.

By winning this tender, Tata Sons has ended a process of privatisation that has been marked by failure. Twice in the past 20 years, the government has sought to privatise the heavily indebted airline, but never succeeded. The airline has not made a profit since 2007.

The **cost of this operation for Tata amounts to more than 2 billion euros**. The group will pay more than 310 million euros to the Indian government and will take over about a quarter of Air India's debt, or 1.7

billion euros. The remainder of the aircraft manufacturer's debt will be transferred to a special government structure.

(...)

**This acquisition represents a long-term gamble. Tata already has a majority stake in AirAsia and in Vistara, a joint venture with Singapore Airlines.** With Air India, Tata Sons adds a fleet of more than 100 aircraft, thousands of pilots and crew members, and landing and parking slots around the world, including at London's Heathrow Airport and New York.

(...)

The new owner of Air India intends to integrate its operations with Vistara to build a premium international airline, according to the Business Standard. AirAsia, meanwhile, could merge with Air India's low-cost subsidiary to position itself in this market.

Between them, **the**

**three companies owned by Tata will also control 25% of the very competitive Indian domestic market, which should become one of the most dynamic in the world.**

(...)

***My comment:** Before the health crisis, the fare war between airlines was raging on the domestic market in India.*

*Internationally, Indian airlines were suffering from the 30% tax on jet fuel.*

*This situation had led to the bankruptcy of several Indian airlines, including Jet Airways and Kingfisher. Only Indigo (the airline that operates the most A320 neo aircraft in the world) managed not to lose money.*

*In this context, the challenge of successfully relaunching Air India after two years of inactivity is daring.*

## > **Skirmish between airlines and airports over fee increases**

(AFP source) October 5 - The world's leading airline and airport organisations laid their differences bare on Monday, with the former blaming infrastructure managers for sharp fee hikes to make up for losses due to Covid-19. **"Some airports and air navigation service providers are trying to boost their finances by recovering "lost revenue" from their customers, the airlines," said the director general of the International Air Transport Association (Iata), Willie**

Walsh. Willie Walsh, who addressed the members of his organization gathered in general assembly in Boston (United States), ironized on "some of our so-called partners (who) want to increase the fees to recover the money that the airline companies could not spend at home during the health crisis".

He took particular aim at London's Heathrow airport, which has proposed a 90% increase in charges paid by airlines to use its facilities next year. "Are you kidding me? Do you really think that a 90% increase is going to help the airlines?" shouted Willie Walsh.

**The virulence of these remarks provoked an equally strong reaction from the European branch of Airports Council International (ACI Europe), which denounced the "scandalous" criticism and felt that IATA had painted a "distorted" picture of the airport sector.** "The airlines are in no position to give us lessons on protecting the interests of customers when they have refused for months to reimburse passengers for flights that could not take place," ACI Europe director general Olivier Jankovec said in a statement. And ACI World, which federates airport operators around the world, said Walsh's criticism was "taken out of context and does not reflect the efforts airports have made to support the aviation ecosystem during the pandemic. "We will continue to work with our partners and others to rebuild" the industry, "but it must be fair to the entire aviation ecosystem," according to a statement from the organisation.

***My comment:** With the end of the crisis looming, airports are considering significant fee increases. Amsterdam-Schiphol, for example, wants a 40% increase in charges over the next three years. The fee increases we are talking about are perfectly legal.*

*It will be up to the airlines to get their customers to accept paying more than they did before the crisis.*

*This will be no easy task, especially as the airlines will also have to pass on the sharp rise in fuel prices to their customers.*

*The increase in ticket prices could be a brake on the recovery. If so, the whole sector, including airports, would be penalised.*

## **Convalescent French air transport takes stock and organizes itself**

(source TourMag) October 10 - The 2nd edition of the States of the Air was held Thursday, September 30, 2021.



Deprived of this "communion" last year, Marc Houalla, President of the ENAC Alumni Association and also Director of Paris Charles de Gaulle Airport, did not sulk in his pleasure, introducing the debates of this 2nd edition of the States of the Air, Thursday, September 30, 2021, to finally be able to meet "in person".

(...)

**The crisis has had an interesting aspect, it has challenged manufacturers and operators to completely review their short-term objectives.**

**Not to do more but to do better.** Better on the operational side, better on the environmental side, better on the new mobilities.

*1. To project ourselves and also to take stock of the situation of air transport*

(...)

**Laurent Timsit, for the FNAM**, (...) recalled the fragility of airlines "still in the throes of the crisis" and pleaded for the extension of the support that is still necessary and from which airlines must benefit.

Taking advantage of the presence of the Executive Director of ADP and the Director General of the DGAC, he **publicly called for a moderation of airport taxes**, which is more than welcome in the times to come.

"Let's get around the table and look at how, in a reasoned, prudent and bearable way for all players, we can rebuild French air transport."

And this, taking into account the health crisis of course, but also the other phenomenon that is disrupting air transport, the urgent need to adapt, sometimes at a forced march, to climate change.

(...) Whatever the

difficulties and the immense efforts involved in these major changes, all the players in the air transport industry, administrations, manufacturers and operators agree that this "race", **this path towards decarbonisation, which must be speeded up, is definitively validated, as Damien Cazé pointed out.**

Describing the airline of tomorrow, Laurent Timsit, optimistic, hopes for a green airline, improving the pleasure of travel and creating jobs.

This first round table was coming to an end in a quiet and rather consensual atmosphere. This was without counting the intervention of a member of the public, **Laurent Magnin** himself, who wanted to challenge the speakers.

With the energy and outspokenness that we know him for, the former CEO of XL Airways, as a "surprise guest", **denounced "a dual personality of Europe"**.

He explained: **"We're going to give Europe 50 billion in loans to save the big European airlines and at the same time we're signing an open skies agreement with Qatar. This is the cult of the double**

personality.

**We have shown incredible rigour in granting loans and aid to the companies and on the other hand, in the ultra consumerist vision of Europe, it is signing this agreement which is very "far away" from the values defended in the European area and which are not accepted and validated by the major players in European aviation."**

In passing, Laurent Magnin revealed this anecdote: a trip to Qatar Airways in an attempt to save XL Airways with the boss of Qatar Airways where the latter would have asked him straight away to know "how much social costs him, and why he was doing social..."

**Representing the State, Damien Caze replied to defend and assume the European choices**, conceding however that this agreement, the result of negotiations started when the sector was better than today, "came at the worst time".

Pragmatically, and in carefully chosen terms, the DGAC Director General clearly explained that there are interests with certain States that go beyond aviation, which also interest certain industries.

"When you have entered into negotiations, it is difficult to explain to certain States that because the context has changed, you no longer want..."

**To summarize and saying it even more clearly: when you have orders of about 15 billion dollars with Qatar on, among others, Rafales, Airbus, the Doha metro, you have to make concessions.**

## *2. Big Data as a value creator*

**Another important topic because increasingly present in all areas, Big Data as a creator of value has been the subject of reflection during these exchanges of the States of the Air.**

Considered already in 2019 as "a real gold mine", air transport companies have taken the measure of the possibilities offered by the transformation of very large volumes of data into useful and indispensable information to improve the customer experience and operational performance.

**The stakes are clear: if the processing of this data is mastered, if it is accurate, complete, organized and standardized, it will contribute to the growth of the organization.**

(...)

**One of the most interesting applications in terms of environmental preservation is the one developed by a young French company, OpenAirlines**, whose CEO, Alexandre Feray, presented its activity, and in particular its collaboration with Transavia France, thanks to the development of a solution using Big Data and artificial intelligence with the objective of reducing fuel consumption.

(...)

And the results are impressive. **For Transavia, it is a saving of 3,200 tons of kerosene for 2019 and still over this year, for all customers of OpenAirlines is 600,000 tons of CO2 saved.**

And Alexandre Feray illustrates this figure with an image: "this volume is what all the Tesla drivers in the United States have saved by driving this electric car"

(...)

3. *A necessary revolution in intermodality between train and airplane*  
a final round table, **Jean-Baptiste Djebbari**, the Minister of Transport (...), **confirmed "a sustainable and important growth in air travel", but with a model that needs to be totally rethought.**

The question is not whether we will continue to fly, but rather how. **The crisis has accelerated the major transformations already underway, including decarbonisation, which is now essential.**

**The minister also insisted on the necessary revolution of intermodality between train and plane.** (...) There is a need for partnership with these major players, the SNCF and the airlines, who are not yet used to working together.

(...)

Before leaving, Jean-Baptiste Djebbari delivered a final message to **Air France**: "France is a welcoming country, it is a country with a lot of tourists, connected to the world via, among other things, an airline, a major international group, but which is **going to have to organise itself differently by preserving its national and European interests in a competitive world.**

A bon entendeur salut!

(...)

***My comment:** I attended with interest these 2nd States of the Air. The round tables were very instructive, I invite you to read the full article on the TourMag website.*

*From the final speech of Marc Houalla, President of the ENAC Alumni Association and Director of Paris Charles de Gaulle Airport, I remember his wish to see the creation of an air transport observatory become a reality.*

*Since the beginning of the year, the creation of an observatory has been discussed on several occasions.*

*The Académie de l'Air et de l'Espace has recommended the creation of a forum on aviation practices.*

*A working group of aviation specialists has proposed the creation of an international observatory to evaluate the actions of the air transport sector.*

*This working group, in which I participate, has also published a dozen infographics highlighting the actions taken by the civil aviation sector to reduce its impact on global warming.*

*As soon as these infographics are translated into English, I will post them on my website [navigation.com](http://navigation.com).*

## **End of the press review**

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

You will find on my [navigation](http://navigation.com) 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 **4.351 euros** on Monday 11 October. **It is down this week by -5.13%.**

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.

**The price of Brent crude oil (North Sea) has risen sharply from \$3 to \$84 per barrel.**

From a low point at the end of October 2020 (\$37), it has risen steadily, reaching \$69 in early March 2021. Since then, it has oscillated between \$69 and \$77. It exceeded this threshold at the end of September.

**At \$84, Brent has reached a price not seen since 2014**, supported by supply disruptions and underlying demand. Natural gas prices continue to rise to their highest level in at least seven years. Investors seem to feel that hydrocarbon producers have cut back too much during the pandemic so that demand pressure is unbalancing the market.

**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](#)

**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 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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