

The Battle of the Atlantic resumes



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-KLM, IAG, Lufthansa, Delta, United, American..., the battle of the Atlantic resumes**

(source La Tribune) November 7 - **European and American airlines** are in the starting blocks. This Monday, **with the reopening of the American borders, which have been closed for eighteen months,** they will be **able to transport vaccinated passengers on the transatlantic route.** This is a relief for carriers, particularly European ones, such as Air France-KLM, Lufthansa and British Airways. **For them, North America represented a large part of their turnover before the crisis (20% for Air France-KLM, much more for IAG)** and much more in terms of profitability.

(...)

Passengers' expectations are high. As soon as Washington announced the opening of the borders on 21 September, air ticket reservations jumped. British Airways, for example, saw a 900% increase in searches for flights and holidays to certain American cities in the days leading up to Christmas, compared with the week before the US government's announcement. At American Airlines, bookings the day after the announcement jumped by 66% to the UK, 40% to Europe and 74% to Brazil.

A resumption of traffic that allows to better fill the planes but also to increase the capacity. **Anne Rigail, CEO of Air France, expects to return to 90% of its pre-Covid capacity to the United States by**

March 2022, compared with 65% in October. Air France plans to offer 122 weekly flights to the United States this winter, compared with 95 at present.

(...)

Another positive point is that this increase in flights to the United States will also enable the hub airlines to rebuild their short and medium-haul network. Indeed, with the drop in long-haul flights, the latter have had to reduce all passenger feeder flights to the hubs.

The transatlantic battle will be tough, as the North Atlantic is "a very competitive route" on which "all competitors will also increase their capacities", Anne Rigail told AFP. Indeed, in addition to the presence of other French companies, French Bee and La Compagnie, Air France will have to deal with its European and American rivals. At United for example, the program of flights to Latin America and its tourist destinations, has already returned to 2019 levels, but its international schedule remains at only 63%. The American company is betting big on transatlantic flights.

(...)

Beyond the United States, European companies can rejoice at the announcement of several Asian countries to reopen their borders such as Thailand.

My comment: Little by little, where the sanitary crisis is under control, the borders are reopening, to the delight of the airlines ... and the customers.

On the other hand, China remains relatively isolated, despite a very low number of cases of Covid-19.

The daily Libération offers an explanation:

"Panic in Beijing.

The Chinese capital is tightening its sanitary restrictions at a time when the country is experiencing an epidemic rebound of Covid-19. The situation is "serious and complex," Health Ministry spokesman Mi Feng admitted to the press on Saturday, underlining the rapid circulation of the virus.

The proportion of worrying cases is also higher than in previous outbreaks, said health ministry official Guo Yanhong. According to her, 40 percent of the patients are over 60.

The virus in Beijing

The authorities, who apply a policy of zero tolerance to the slightest case of Covid-19, have brought out the big means to eradicate an epidemic

resumption for the moment established at less than 300 cases. If these figures seem derisory compared to those recorded daily in other parts of the world, fourteen provinces are nevertheless affected out of the thirty or so that China has, and the virus reached Beijing about ten days ago."

KLM was in tweede kwartaal opnieuw grootontvanger coronaloonsteun (KLM was again a major beneficiary of Covid aid in the second quarter)

(source ANP, translated with DeepL) November 4 - **The airline KLM was, in the fifth period of support against Covid-19, again the largest beneficiary.** Holland Casino, Schiphol, TUI Nederland and Efteling also received significant advances. Other organisations that received relatively large amounts of aid include the wholesale chain Sligro, the event centre RAI Amsterdam and the football clubs Ajax and PSV.

This is according to the UWV benefit agency, which published all interim payments made under the emergency job creation measures (NOW) between April and June. As in the previous support period, **KLM received by far the largest amount of all applicants. This time it was over 183 million euros. The subsidiary Transavia also received around €16 million and KLM Catering Services received more than €5 million from the UWV.**

Holland Casino, which had to keep its doors closed for a long time, received €48.5 million in support and Efteling received almost €11 million. Schiphol and TUI Nederland each received more than €11 million, while Sligro received more than €10 million.

(...)

This fifth aid period was followed by a sixth, which lasted until the end of September. This was the last period in which entrepreneurs could apply for massive wage subsidies due to the Covid-19 crisis.

(...)

My comment: *In the Netherlands, the main business support programme (the NOW programme) is coming to an end.*

This is not the case in France with the APLD (Activité Partielle Longue Durée) support programme.

This LTPA programme, which is less favourable than the NOW programme, allows the employer to reduce the company's activity by up to 40% of the legal working time and to have its employees work 60% of this time. This reduction is assessed for each employee concerned for

the entire duration of the agreement. In exceptional circumstances, the reduction may be increased to 50%.

The employer must pay the employee an indemnity corresponding to 70% of his or her gross salary per hour of work lost, i.e. approximately 84% of the net hourly salary.

At Air France, the APLD scheme applies from 1 January 2021 for a maximum period of 24 months (until December 2022).

> **Air France-KLM and Lufthansa back in the black, IAG still lagging behind**

(source La Tribune) November 8 - While the figures are still far from those known in 2019, the major European airline groups are turning their heads. In light of the crisis that has hit the sector since March 2020, Air France-KLM, Lufthansa and IAG have had a good summer despite setbacks such as the United States maintaining its travel restrictions. While an overall improvement is largely palpable, differences still exist with **Lufthansa and Air France-KLM seemingly taking the lead over IAG.**

Although summer is traditionally the best time of the year for transport - both in terms of volume and profitability - a real acceleration of the recovery was felt during this third quarter of 2021. **The three groups** saw their revenues grow by 85% compared to the same period in 2020. **In three months, they have thus raked in almost €12 billion, almost as much as in the first six months of the year.**

This translates into improved financial results. Although **Air France-KLM, Lufthansa and IAG recorded a cumulative net loss of more than 800 million euros in the third quarter**, which usually fills the coffers, this deficit is far from the 5.3 billion euros lost a year earlier. Despite a strong improvement, IAG still lags behind its competitors. **The group alone, which includes British Airways, Iberia, Aer Lingus, Vueling and Level, accounted for more than two-thirds of the €800 million loss in the third quarter.** This difference can also be seen in the operating results: where Air France-KLM and Lufthansa have made initial operating profits (132 million euros for the French group and 17 million for its German counterpart), IAG has posted a deficit of 452 million euros. Heavily dependent on the transatlantic axis, the group has been strongly affected by the restrictions put in place by the United Kingdom (...) and the United States.

If Air France-KLM and Lufthansa are doing better, it is largely due to the good performance of their low-cost entities. Transavia

Holland and Transavia France achieved an operating margin of more than 20% in the third quarter, with a combined operating profit of €105 million, or more than three-quarters of the group's operating profit. For its part, Eurowings generated a result of 108 million euros, while the traditional companies (Lufthansa, Swiss, Austrian Airlines and Brussels Airlines) lost 450 million euros.

(...)

Vueling's results are less glorious, despite the good performance of the Spanish domestic market and the country's tourist appeal this summer. (...) However, Vueling was only able to do better than reach operational financial balance, whereas Eurowings and Transavia brought in over a hundred million euros each.

(...)

The complete reopening of traffic with the United States is now the focus of all attention. It is due to take place on 8 November. Air France has already announced the color: by March 2022, it wants to have put back online 90% of its capacity of 2019, against 50% this summer.

(...)

IAG is more cautious. While four of its five companies serve the United States, it will only align 63% of its 2019 capacity to the United States this winter.

(...)

This should further reduce losses compared to last year. **However, even with a very good end to the year, the first half of the year was still too loss-making for all three groups to be able to hope to turn the corner at the end of the year.**

Only Air France-KLM is projecting a possible positive Ebitda for the whole year (for the moment it is a deficit of 78 million euros for the first nine months of the year). On the other hand, the operating result (-1.8 billion euros over nine months) and the net result (3.2 billion) will remain in deficit.

Lufthansa and IAG have announced more precisely their forecasts in this respect. **The German group expects an operating loss of between 2 and 3 billion euros in 2021 (half that of 2020), while the British-Spanish group expects a loss of 3 billion euros.**

My comment: *The results of the three European majors are disparate.*

*The comparison of quarterly turnover is edifying:
. the turnover of the Lufthansa group stands at €5.2 billion,
. that of Air France-KLM is close, at €4.6 billion,*

. when IAG records a turnover of almost half, €2.7 billion.

Air France-KLM and Lufthansa are performing similarly, relying on their short-haul network, their low-cost carriers, their cargo business and, to a lesser extent, their maintenance business.

IAG, on the other hand, had a much weaker performance: much of its network is concentrated in the Americas and the performance of its low-cost carrier, Vueling, is surprisingly weak.

737 MAX: Directors' agreement to pay \$237.5 million to Boeing

(source AFP) November 6 - **An agreement made public Friday November 5 between former and current members of Boeing's board of directors and shareholders accusing them, after the two accidents of the 737 MAX, of having failed in their obligations, provides for the payment to the company of 237.5 million dollars.**

Still to be validated by a judge, the agreement was unveiled by the services of the New York State Comptroller and the Colorado Firefighters and Police Pensioners Association, which had filed a lawsuit in June 2020 in the Delaware Court of Chancery.

They accused the board members, including several former company executives, of failing to ensure the existence and proper functioning of control and information instruments relating to the safety of the 737 MAX.

(...)

The text also includes the creation of an ombudsman position to which certain employees can directly report their remarks on working conditions, as well as the appointment of an additional director with experience "in aviation/aeronautics, engineering and/or product safety supervision". It also plans to continue to include aviation safety criteria in the calculation of executive compensation and to publish an annual report on safety improvements.

(...)

The shareholders highlighted the fact that none of the board committees dealt specifically with safety. The agreement does not include an admission of negligence on the part of those involved in the proceedings.

(...)

Since the accidents, Boeing "has taken significant steps to emphasize and strengthen its commitment to aviation safety," a company spokesman said Friday. Among other things, the company has already appointed Stayce Harris, who has more than 10,000 hours of flight time

on Boeing planes, and David Joyce, a former executive at engine maker GE Aviation, to its board in 2021. The additional reforms in the agreement "will further advance the safety and quality of our work," the spokesman added.

My comment: Whether it is an aircraft manufacturer or an airline, safety is the absolute imperative.

It is the responsibility of the board of directors to ensure that all safety measures are taken.

> Voli (quasi) gratis, quanti sono davvero i posti super scontati? (Flights (almost) free, how many super cheap seats are there really?)

(source Corriere, translated with DeepL) November 2 - **"Fly from Milan to Catania for €4.99"**, announces the banner of a major low-cost company. A one-way ticket, of course, including taxes and without extras. The figure attracts attention - you can buy a cappuccino and a brioche for that amount - and it's no coincidence that it's the element that appears most frequently in advertising campaigns. But **how many of these seats actually sell for such small sums?** It's one of the airlines' best kept secrets. But **an analysis by Corriere della Sera of the three main low-cost airlines calculates that there will be about 6 million seats sold at the lowest price in 2021. Across Europe.**

First of all, one thing should be clear: in airlines - traditional, hybrid, low-cost - there is a dedicated revenue management area. **Each seat on a flight does not have the same price, because it varies not only according to the time of purchase** (the highest value is reached when the flight is about to depart), but **also according to the speed with which the aircraft sells out** and the routes we are talking about (whether they are routes that have to attract customers by lowering prices or which, structurally, always have a sufficient number of bookings). **Whoever pays the minimum fare is likely to end up in one of the least comfortable seats.** To fly more comfortably, they will have to pay extra, but this is in the realm of ancillary revenue.

Over the **years, European low-cost airlines** - Ryanair, easyJet, Wizz Air, Volotea, Vueling, Eurowings - **have often drawn attention to their fares, which are so low that in some cases they are even lower than the taxes:** in Italy, for example, for each passenger departing from an Italian airport, each airline has to pay 6.5 euros in local tax (which rises to 7.5 euros for those departing from Rome Fiumicino and Ciampino). However, it is not uncommon to find tickets starting at €0.99,

well below the tax, but without the extras such as seat selection, priority boarding or checked baggage.

Ryanair, Europe's largest low-cost airline and Italy's largest in terms of passengers carried, **sells** something like **two million seats at €9.99** (one way) **and one million at €4.99**, according to information gathered from company sources. Hungarian carrier **Wizz Air** - another low-cost competitor that has been particularly active in Italy in recent months - is **selling a total of about half a million seats at €4.99 and another million at €9.99**. **EasyJet** - which is increasingly positioning itself as a "hybrid" between low-cost and traditional airlines - **has recently released more than 300,000 seats at €9.99 and about a million seats at €13.49** (again including government and airport taxes).

But how many seats per flight are sold at the minimum price?

According to Corriere's estimates, based on the weighted average capacity and flights put on sale throughout 2021, the average number of seats sold is 6 on each of easyJet's Airbus, 7 on Ryanair's Boeing 737s and even 11 on Wizz Air's Airbus. These figures, it should be noted, also track the performance of a given route. If, for example, the A-B route is struggling to fill planes, the airline is likely to lower its price further in that market. If, on the other hand, the plane fills up without difficulty on the C-D route (even in low traffic periods like November or February), it is impossible to find seats at €4.99. Or almost.

My comment: *Is it legal for an airline to sell tickets at a price that does not cover taxes?*

It seems that in Europe, the answer is "yes". The French Parliament has addressed this issue in Law No. 2021-1104 of August 22, 2021 on combating climate change and strengthening resilience to its effects.

Article 34 of this law states:

In order to encourage the modal shift from air to rail and to contribute effectively to the reduction of greenhouse gas emissions from air transport, the State has set itself the objective of combating the sale of air tickets at a loss, in particular by changing European regulations to introduce a minimum ticket price. At the end of the French Presidency of the Council of the European Union in 2022, the Government will submit a report to Parliament on the results of the measures taken to combat the sale of airline tickets at a loss.

The French presidency of the Council of the European Union will be

effective between 1 January and 30 June 2022. It will be able to draw on the example of Austria, which last year planned to set a minimum price of €40 for a plane ticket.

Consolidation in the air

(source Le journal des Finances) November 6 - **A veritable Arlesian, the consolidation of the airline sector in Europe, which has been hesitant until now, could accelerate under the impetus of the health crisis.** External growth operations and slot acquisitions are ready to come out of the drawers. This union of forces seems essential in a sector bent under fixed costs, and while the recovery is taking place, this time, in a gradual and differentiated way, benefiting mainly domestic flights, less so international travel.

(...)

" When we look at more mature markets, such as the United States, we see that restructuring has already taken place," says Philippe Berland, associate partner specialising in air travel at Sia. It has led to the emergence of four major players, Delta Airlines, Southwest Airlines, American Airlines and United Airlines, with fairly large market shares.

The intra-European market, which is similar in size to North America in terms of seat capacity, is characterized by fragmentation and, as a result, lower profitability. Admittedly, there have already been marriages, from which large groups have emerged. (...) But beyond that, transcontinental marriages remain very difficult because of regulatory barriers, and a multitude of European operators, of varying sizes, continue to coexist. Some of them have been crushed by the pandemic, becoming de facto targets.

(...)

EasyJet has become a target. Massive layoffs, fleet reduction, deferral of orders and a Treasury loan have done nothing: in 2019-2020, the British middle cost carrier has suffered the first loss in its history, twenty-five years after its creation. And it will be red again in 2020-2021, with an expected deficit between 1.3 and 1.4 billion euros.

(...)

The Hungarian Wizz Air, (...) at the beginning of September, (...) **put a (hostile) offer** on the desk of the orange company's managers, who immediately rejected it on the grounds that it "fundamentally undervalued" the holding.

(...)

Does the operation make sense? Yes," say the experts at JPMorgan Cazenove. An opportunistic bid by Wizz Air for easyJet makes a lot of sense: both airlines operate all-Airbus fleets, Wizz Air

has placed a large order for new aircraft that could replace easyJet's older A319s, and their geographic footprints are highly complementary." Wizz Air is well established in Eastern Europe, easyJet in the West. (...)

In this Meccano, the low-cost carriers seem to be the most likely to have a role as buyers. With their positioning on medium-haul routes, Ryanair and Wizz Air have taken full advantage of the upturn in leisure travel," notes the Sia partner. They were also in better financial health before the crisis. **The large groups**, those with extensive international ambitions, **are on** the other hand **penalised**. And their freedom of acquisition is sometimes hindered. **This is the case for Lufthansa and Air France-KLM, which have received generous aid from their respective governments. Since it received 10 billion euros in financial support, the Franco-Dutch carrier has been forbidden to buy holdings or assets exceeding 10% of the capital of a company in the same sector (including upstream and downstream).**

(...)

If there is to be consolidation, the **movement may find a major obstacle in its path, that of the competition authorities in the event of the emergence of dominant positions** on certain airports or routes. In the past, the European Commission has already opposed the merger of Aer Lingus and Ryanair. IAG had to make concessions to allay Brussels' fears following its bid for Air Europa. **Another obstacle, and not the least, is protectionism and nationalism.** Unlike in the automotive or pharmaceutical industries, they are tenacious in the airline industry, preventing or complicating merger and acquisition projects. (...)

My comment: *While preparing this commentary, I found an article from Les Echos dating from 2005, with the same title: "De la consolidation dans l'air"!*

What has happened in sixteen years?

Lufthansa acquired Brussels, Austrian and Swiss. British formed IAG with Iberia and Vueling.

Air France-KLM tried to buy Alitalia, without success.

Meanwhile, the low-cost airlines have stayed away from the consolidation process, favouring internal growth.

The result is that while the European and US markets are of similar size, the top five European groups (Ryanair, easyJet, IAG, Lufthansa and

*Air France-KLM) hold 60% of the European market,
. the top four US airlines (Delta Air Lines, American Airlines, United Airlines and Southwest) hold 80% of their domestic market.*

The US airlines are in an oligopolistic situation, which allows them, for example, to pass on almost the entire increase in fuel costs in their ticket prices, unlike the European airlines

End of the press review

> Advice for employees and former employees who are shareholders

You will find on my [navigation](#) 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 **4.637 euros** on Monday 8 November. **It has risen sharply this week by 9.11%. In two weeks, following the announcement of better-than-expected quarterly results, it has risen by 19.5%.**

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

The average (consensus) analyst price for AF-KLM shares is 3.29 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 down slightly by \$1 to \$84.

At the end of October 2020, it was at a low of \$37.

At \$86 on 25 October, Brent had reached a level 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](#)

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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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