

AF-KLM starts to get its head above water



Letter from the Director of Air France-KLM

François Robardet

Representative of the employees and former employees shareholders PS and PNC

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Editorial

Dear readers,

The Ukrainian crisis has overshadowed the publication of Air France-KLM's results, which were full of hope.

Several companies have cancelled their flights to Ukraine: KLM, Lufthansa, SAS, Swiss, Vueling and Air France.

Ukraine International Airlines, the country's largest carrier, said on Monday that it had received an official notification from insurers ending aircraft coverage for its flights in Ukrainian airspace.

François

Monday's Press Review

> Air France-KLM is still making a heavy loss but is starting to pull itself out of the red

(source Les Echos) February 17 - **The turnaround that began in June has continued, despite the Omicron wave. After an initial operating profit in the third quarter, Air France-KLM still managed to**

generate an operating profit of 178 million euros in the fourth quarter, on revenues up 103% to 4.83 billion euros.

The group clearly took full advantage of the recovery in travel at the end of the year, particularly to North America. Air France-KLM's total offer increased from 48% of the 2019 level at the end of 2020 to 72% in 2021, while load factor rebounded from 40% to 71%. According to Air France boss Anne Rigail, **the return of demand is particularly strong on routes to North America, where the group has handed over more capacity than its competitors. Air France's offer to the United States should return to its pre-crisis level by next summer.** On the other hand, traffic to Asia is still very depressed.

Cost reductions, amounting to 1 billion euros at Air France and 800 million euros at KLM, have also contributed significantly to reducing losses. These will continue. **Air France's objective is to improve operating income by 1.4 billion euros by the end of 2022, 1.9 billion euros in 2024 and 2.8 billion euros in 2026**, mainly through structural cost reductions. At Air France-KLM Group level, the **objective is €4.3 billion at the end of 2026**

This objective should be reached without any new redundancy plan, says Anne Rigail: "Given the demographics at Air France, we do not plan any additional plan. We have already carried out most of the planned departures, with a 16% reduction in the workforce by the end of 2021, which should reach 17% by the end of the year. We have even been able to resume hiring pilots.

The boss is also counting on the continued modernization of the fleet to reduce operating costs and CO2 emissions. On the long-haul side, the number of Airbus A350s in the Air France livery should rise from 15 to 21 by the end of the year. For short and medium-haul flights, Air France plans to have 15 A220s by the end of 2022, compared with six today. In total, the Air France-KLM group will have 43% new generation aircraft (A350, B787, A220, A320 neo and Embraer 195) in 2025, compared with 10% in 2022.

Another positive point is that Air France-KLM's net debt, although still too high, **has begun to fall by 2.8 billion euros in 2021**, to 8.21 billion, thanks in particular to the various refinancing operations, including an initial capital increase of 1 billion euros, carried out last year. **The level of available liquidity remains comfortable, at 10.2 billion euros.**

This recovery continues in the first quarter of 2022, which is not the easiest, with operating income expected to be "around the break-even point", the statement said. Supply continues to grow, reaching 73% to 78% of 2019 levels in Q1. Oil hedges have helped offset the rise in fuel prices.

The fact remains that the two main entities of the group remain in the red in fiscal year 2021, and even very heavily in the red in the case of the Air France group, with a negative operating result of 1.4 billion

euros (against 227 million operating loss for KLM). The low-cost subsidiary Transavia is also loss-making, with a 150 million euro loss for 1 billion euros in revenues.

Air France-KLM will still need several billion euros of external contributions to turn around its financial situation and meet its commitments [read the following article]

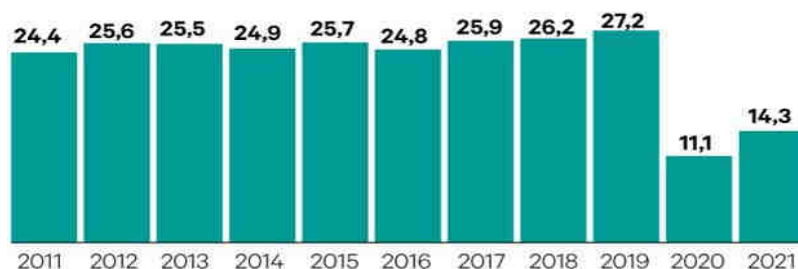
(...)

The right moment will not be easy to find. **This Thursday, the stock market prices of the main air transport and aeronautics stocks have once again taken a nosedive, probably for fear of a surge in oil prices, which would be caused by a Russian offensive in Ukraine.** The Air France-KLM share lost nearly 7% at the end of the session. Not enough to facilitate a recapitalization.

Les résultats d'Air-France KLM

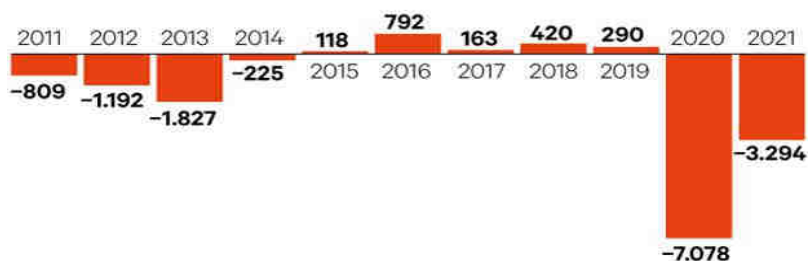
Chiffre d'affaires

En milliards d'euros



Résultat net part du groupe

En millions d'euros



« LES ÉCHOS » / SOURCE : SOCIÉTÉ

> How Air France-KLM is preparing its next capital increase

(source Les Echos) February 20 - A happy shareholder is a shareholder who returns. This is the case of **the French State shareholder**, which is satisfied with Air France-KLM's results for 2021 and **will therefore participate in the next recapitalization of the group, in the coming months.** (...) **But also the other reference shareholders - the Dutch State, Delta Airlines and China Eastern** - which, according to our information, should participate in this second recapitalization.

The total amount of this future fundraising is now known. Like the previous one, **Air France-KLM's objective is to raise "up to 4 billion**

euros", by combining a capital increase and a perpetual convertible bond issue, considered as quasi-equity.

(...)

Unlike the first operation in 2020, the aim is no longer for Air France-KLM to urgently release cash (the group has more than 10 billion euros in liquid assets) but to accelerate the repayment of debts and state aid.

This will allow the group to regain credit on the financial markets, to pay dividends, but also to participate in the consolidation of the sector.

The European Commission has forbidden Air France-KLM to invest significantly in another company before it has repaid all of its State aid. A ban that has probably already cost it the opportunity to make a bid for the Italian company ITA Airways

(...)

The operation could therefore take place quickly, as the group is ready to act as soon as the air transport stock market rebounds, as was the case in April 2021, after the announcement of an upcoming vaccine against Covid.

(...)

However, Air France-KLM's management still needs to determine the right balance between a capital increase and the issue of perpetual bonds. Unlike new shares, these hybrid instruments have a cost for the company, which must pay interest over 5 to 10 years. But the larger the capital increase, the more diluted the current shareholders' stake will be. And the lower the share price, the greater the number of shares to be issued.

The dilution of current shareholders does have one advantage, however: it allows the French state, whose current stake exceeds 29%, to put its money back into the pot without crossing the 30% threshold beyond which it would be obliged to launch a takeover bid for the entire capital.

(...)

For its part, the **Dutch state, which did not participate in the first capital increase and saw its stake reduced from 14% to 9.76%, has an interest in participating this time, so as not to be diluted further. It could do so without untying its purse, by converting its direct loan of one billion euros to KLM into new shares.**

The same goes for the American company Delta Airlines, which had to let itself be diluted in 2021, to 6.1%, because it did not have the right to invest before having repaid its own state

aid. A right that it has now recovered, as evidenced by its decision to reinvest in Virgin Atlantic. As for China Eastern, the Shanghai-based company had gone back into the pot in 2021, and seems ready to do the same in 2022 to maintain its 10% share.

My comment: Air France-KLM's results for the year 2021 show a strong improvement in activity compared to the year 2020. If the group remains in deficit, its net losses have been halved over the period, even with a year-end complicated by the Delta and Omicron variants.

The restructuring plans of the different airlines of the Franco-Dutch group, the involvement of employees and government aid have contributed to these good results.

We will have to wait a few days to compare them to those of the other European majors, the IAG group and the Lufthansa group.

As mentioned in the article above, the next important step will be the recapitalization of the Air France-KLM group. The exact terms and conditions will depend on the evolution of the share price, which is currently heavily impacted by the situation in Ukraine.

The main shareholders will be approached rapidly. An operation reserved for employees can only be envisaged at the end of the recapitalization process, in accordance with the resolutions voted at the 2021 General Meeting.

> **New challenges for Volotea: questions to Céline Lacroix**

(source: La Quotidienne) February 18 - "**2022 will be exceptional in terms of development,**" **announced** Céline Lacroix, director of development for the airline **Volotea**, interviewed by La Quotidienne. And to mark this desire for growth in an airline market that is undergoing a complete overhaul, according to Covid, Volotea will open two new bases in France in 2022, including Lille in April, which will strengthen the six existing ones.

LaQuotidienne: What do you expect from the French market?

Céline Lacroix: "**Volotea's objective on the French domestic market is to connect regional capitals to each other and to a maximum of European regional capitals** (Spain, Greece, Croatia, Italy, Luxembourg...) and recently to North African cities such as Algeria (in 2021).

(...)

France is Volotea's priority market, since 200 of the 365 European routes depart from France. And of the 11.2 million seats offered 5.5 million are in France, which is more than 50% of the company's activity.

LQ: You're putting in the resources

CL: We want to open two new bases this year, including Lille in April with five routes (15 in total) and a plane based there, which means 30

jobs and as many indirect jobs through subcontracting. Lille will become the company's seventh base in France after those in Nantes, Bordeaux, Strasbourg, Toulouse, Marseille and Lyon. An eighth will be announced shortly.

(...)

Since its creation, Volotea has transported more than 35 million passengers throughout Europe. **In France, the airline intends to play a major role in the economic and social development of the region,** not only by serving but also by creating jobs in the regions where it operates.

> **Tarbes-Lourdes-Pyrénées airport: Volotea chosen for the Tarbes-Orly route**

(source La Dépêche du Midi) February 21 - The information should make the effect of a bomb on the tarmacs of the airports of Tarbes-Lourdes-Pyrénées and Pau: **it is the company Volotea which was chosen this Monday morning unanimously by the council of the mixed syndicate of the airport zone of Tarbes-Lourdes-Pyrénées, to ensure the Tarbes-Orly line subjected to an obligation of public service** because "vital for the economic and social development of the region served by the airport".

Three companies had applied for the public service obligation: Amelia (Regourd Aviation group) which operated the route on behalf of Air France, Chalais and Volotea.

(...)

Several factors tipped the scales in favor of the Iberian company with a European dimension: substantial savings for the local authorities, since it proposed "the lowest compensation" with (only) €4.750 million per year, or €19.5 million over 4 years, an average fare per passenger of (only) €39, and the provision of a 156-seat A 319 to handle two daily rotations, which should allow it to greatly exceed the obligation to provide at least 131,000 passengers per year. **A competitive offer capable of rebalancing the competition with Pau airport, whose link with Paris should be provided by Transavia, the low-cost airline of Air France,** from March 27, according to our colleagues in the Béarn press.

As a reminder, last Friday, during his visit to Lourdes, Prime Minister Jean Castex pledged that the state would provide €4.5 million in aid over four years.

(...)

My comment: *The Air France group did not apply for this route.*

Having decided to get rid of its aircraft with less than 70 seats, it usually

delegates to Amelia the task of operating low traffic routes.

If Volotea has made such a low offer, it may be in an attempt to restore its reputation. Last September, the Spanish airline had been convicted of concealed work, after having paid in Spain pilots who were actually working in Bordeaux.

Note: the airports of Tarbes and Pau are 50 km apart, for a travel time of 32 minutes (source ViaMichelin).

> **Hydrogen aircraft: Airbus and Singapore confirm**

(source Air & Cosmos) February 17 - **The initiative launched by Airbus and the Singaporean Civil Aviation Authority (CAAS)** in November 2021 has just been enriched by a new step with the official involvement of Changi Airport and especially the arrival of the American-German group Linde, specialized in engineering and industrial gases. This experience **will be invaluable for the development of a hydrogen industry and the establishment of a future hydrogen hub at Changi Airport.** The Singapore Airshow 2022 was the occasion to make the arrival of these new partners official.

(...)

The study launched by Airbus and CAAS is (...) **about the different issues related to hydrogen: production, storage, distribution, ground services for aircraft, logistics equipment and refueling systems. In partnership with Vinci Airports and Air Liquide, Airbus will transform Lyon-Saint Exupéry airport into a pilot platform with the deployment of a hydrogen gas distribution station in 2023** to supply both the airport's ground vehicles (ramp buses, trucks, handling equipment, etc.) and those of its partners, as well as the heavy goods vehicles that travel in the vicinity. This first step is essential to test the airport's facilities and dynamics as a "hydrogen hub" in its area of influence. **Between 2023 and 2030, the deployment of liquid hydrogen infrastructures is planned,** which will allow hydrogen to be loaded into the tanks of future aircraft. Finally, beyond 2030: deployment of the hydrogen infrastructure from production to massive distribution of liquid hydrogen in the airport.

My comment: *While it is impossible to say that a medium-haul hydrogen aircraft with more than 100 seats will ever take off, the operation initiated by Airbus makes sense.*

The use of hydrogen obtained from green energy will make it possible to eliminate CO2 emissions from airports.

> **The ADP group begins its recovery and aims for**

profitability this year

(source Journal de l'Aviation) February 17 - Although its traffic remains at 45.6% of its 2019 level, the **ADP group has experienced 2021 as an "exceptional" year, in the words of its CEO Augustin de Romanet. It has indeed managed to turn around its results, continued its international growth and hopes to become profitable again in 2022. The group has thus recorded a turnover up nearly 30% compared to 2020 to 2.7 billion euros (down 42.5% compared to 2019)** under the effect of the recovery of traffic, the acquisition of the Almaty airport and more sustained purchases in shops. Combined with cyclical savings (support from certain states for partial activity, closures of certain infrastructures and social measures), this enabled EBITDA to increase 4.5-fold to €751 million. Operating income is almost at break-even (-29 million euros) and net losses have been almost divided by five at 248 million euros.

In terms of traffic, the orders of magnitude are similar to those for revenues. Some 160 million passengers passed through the group's airports, up 37.2% but still at 45.6% of the 2019 level. There is a **disparity between the Paris airports and those in the rest of the world.** While the trend curve is the same everywhere (steadily rising from June), the rebound is less marked in Paris. Thus, Paris CDG (26.2 million passengers, +17.7%) and Paris Orly (15.7 million passengers, +45.6%) together recorded a 26.8% increase in traffic in 2021, which remains only 38.8% of its 2019 level.

Forecasts for 2022 are good, even if the ADP group expects the same slow recovery in Paris compared to the other airports of the group. The first piece of good news is that it expects to publish a positive net result again this year - which will allow it to pay dividends to its shareholders in 2023.

(...)

This is why the ADP group is betting on the international market.

The acquisition of Almaty airport is an important move in this growth area, as is the winning of the concession for the Medan hub in Indonesia, but there have also been successes in extending the duration of its existing concessions in Antalya, five other airports in Turkey and Medina. A restructuring of the segment has also begun with the withdrawal from the joint venture with Schiphol, the non-renewal of its Mauritius operations and the closure of ADP International's Europe business. All this "paves the way for remarkable growth over the next twenty years", says Augustin de Romanet, **and "lays the foundations for a new ADP".**

This new ADP will involve the implementation of a new strategic roadmap for 2022-2025, called "2025 Pioneers", which aims to make airports multimodal and sustainable energy hubs. This program is

based on three main themes: imagining the airport of tomorrow, making the ADP Group a global and more integrated group, and relaunching a collective dynamic. Within these three areas, some twenty objectives have been set for 2025. These include, for example, the ambition to achieve 80% of flights on time, to reduce taxiing emissions in Paris by 10%, and to offer biometric facilitation to half of all Parisian passengers. The ADP group also aims to deploy a new Extime airport franchise concept that will designate the hospitality offer (reception, quality of service, shops, restaurants, lounges, digital ecosystem, etc.)

In terms of performance, it will work to maintain the average maturity of its concessions at 30 years, launch international routes and generalize continuous descent in Paris. Several initiatives should also be geared towards employees (in particular an employee shareholding operation and the integration of a CSR criterion in remuneration). Lastly, 120 experiments in social, environmental and operational innovation will be set up with the aim of industrializing around 30 of them.

***My comment:** The ADP group is making a strategic shift. No more airport extensions (the project for terminal 4 at CDG has been abandoned), but instead a concept called "boutique hotel" which will be implemented as the terminals reopen.*

With a scope extended to all commercial activities in the reserved area, the objective is to achieve a revenue per passenger of 27.5 euros, 2.2 euros more than the historical level of 2021.

To achieve this, the ADP Group plans to stimulate international traffic, the largest contributor to duty free.

> **China's new boost for its air transport**

(source Air & Cosmos) Feb. 18 - **Starting in May 2020, Chinese airlines**, like all companies in the country brutally impacted by the consequences of the Covid-19 pandemic, **have benefited from massive support measures in various forms**: facilitated bond issues for repayment of bonds or loan interest maturing in 2020, loan facilities with lowered interest rates, deferral of loan and debt interest repayments, and direct seat-kilometer financing at a rate of 0.0176 yuan per seat-kilometer on routes operated under code-share and 0.0528 yuan per seat-kilometer on routes operated by a single airline. However, **the Chinese government has just announced a new series of support measures for air transport: the bond issue component has been extended as well as the direct seat-kilometer subsidy.** In addition, the advance payment of VAT will be suspended throughout 2022. Airlines were not and are not the only ones to benefit from these measures. **Airports have not been forgotten.** Especially

since their role remains key for the future, as shown by the latest development plan presented last January by the Chinese civil aviation authorities (CAAC).

This new set of measures comes at a time when Chinese airlines' order books are gradually running dry. According to various delivery projections for the next few years, and based on information provided by Airbus and Boeing, **Chinese airlines, excluding leasing companies, had only 226 Airbus and Boeing aircraft to deliver by the end of January 2022**, with a larger share for Boeing (63%) due to the 737 MAXs that could not be delivered. There remains the question of unidentified customers, i.e. 818 aircraft for Boeing and 405 for Airbus. With no less than 711 Boeing 737 MAX, a large part of which is destined for Chinese customers, according to some observers (...).

***My comment:** Most major airlines are planning to anticipate the renewal of their fleets in order to reduce their CO2 emissions.*

The availability of new aircraft will be crucial in the coming years.

According to the author of this article on single-aisle aircraft, Chinese airlines have almost the same number of delivery slots as the Air France-KLM group alone.

This is a worrying situation at first glance, unless Chinese airlines are counting on the Comac C919. This Chinese aircraft, which is supposed to compete with the B737 Max and the A320 Neo, has still not managed to obtain its type certificate even though its first flight dates back to 2017.

Stock market press review

> Air France-KLM: Liberum remains a sell, raises its target

(source CercleFinance) February 21 - While maintaining its 'sell' recommendation on Air France-KLM, **Liberum is raising its price target from two to 3.5 euros, pointing to positive points about the fourth quarter performance despite a substantial loss for the year.**

The long-haul business ignored Omicron, cargo remained strong and further progress was made in cost reduction,' the **broker** said, **noting sequential increases in revenue and EBITDA in the fourth quarter, contrary to usual.**

However, debt remains extremely high, especially when repo and

hybrid securities are included. Management has announced a recapitalization of up to four billion euros, pending appropriate market conditions', he adds.

My comment: Like Liberum, other analysts have positively assessed the 2021 results of the Air France-KLM group .

This is notably the case of UBS, which states "Progress is being made, but with a potential balance sheet recapitalization of four billion euros, we expect limited upside to the current share price".

Bonus Article

> Downfall: The Boeing Affair (Netflix): the shocking scandal revealed by this documentary

(source program-tv) February 18 - **Released Friday, February 18 on Netflix, DownFall: The Boeing Affair, directed by Rory Kennedy, highlights the failings of a company that, in an effort to save money, doomed its passengers.** Downfall shows these excesses led to the crashes of two Boeing MAX 737s, which occurred back to back in 2018 and 2019. The film, well documented, leaves this impression that the very existence of this model was a mistake.

Built in a hurry to increase short-term profits, the plane cost neither time nor investment, two conditions necessary for the design of a new plane. Design that is involved in the crash of Lion Air in 2018 and the Ethiopian Airlines 302 in 2019, whose models had been released a year earlier. Five months separate these two fatal crashes. The first, which occurred on October 29, 2018, was the Lion Air. It was flying from Jakarta to Pangkal Pinang in Indonesia. It crashed into the Java Sea thirteen minutes after takeoff, killing 181 passengers and eight crew members. Five months later, on March 10, 2019, it was the turn of another Boeing 737 to crash. It was the Ethiopian Airlines plane, bound for Nairobi. Six minutes after takeoff, it crashed in conditions similar to the first. The number of victims was 149 passengers and eight crew members.

What Rory Kennedy

's film shows is the struggle of the pilots who, in a few seconds, had to fight against a system they did not know existed on board their plane. For 89 minutes, the documentary brings in experts, journalists, ex-Boeing employees, but also relatives of the victims. "How often do we hear companies say: 'We are committed to excellence, we are committed to the safety of our customers'?" sighs Andy Pasztor, journalist who reported the case in the columns of the Wall Street Journal.

And Andy Pasztor concludes: "We should always be wary". **The documentary aims to show the consequences of a culture pushed to the extreme of cost cutting and concealment, within a company that was once prestigious.** Rory Kennedy seeks to lift the veil on American corporate culture and its impact on human cost.

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 managers' sites.

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 were at 4.021 euros at the close on Monday 21 February. **It is down by -4.31%, despite good 2021 results.**

Several elements explain this decline :

- . the uncertainty in Ukraine, generating a rise in oil prices
- . the strategy of hedge funds which are taking advantage of the situation by playing the very short term. Some of them are borrowing securities that they sell and then buy them back at a much lower price.

Before the coronavirus epidemic, the Air France-KLM share price was 9.93 euros.



Evolution of the Air France-KLM share price over five years. The sharp drop corresponds to the beginning of the Covid-19 epidemic.

The analysts' average (consensus) for AF-KLM shares is 3.46 euros. The highest price target is 5.50 euros, the lowest 1.30 euros. You can find the details of the analyst 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 this week by -\$1 to \$95.

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

At \$96 last week, Brent had reached a level not seen since 2014. The crisis in Ukraine was at the origin of the rise in the price of oil, which also affects copper and gold.



Evolution of the oil price over five years. The sharp drop corresponds to the beginning of the Covid-19 epidemic.

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](#)

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| 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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