

Air France-KLM: patience on the recapitalization



I 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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Monday's Press Review

> Geopolitics forces Air France-KLM to be patient about its recapitalization

(source Agefi) April 7 - Headwinds are not sparing Air France-KLM. **Just as the airline group was beginning to regain momentum after suffering the full force of the health crisis, the war in Ukraine has interfered with its flight plan.**

The direct impact of this conflict remains low on the scale of the Franco-Dutch company, which has suspended services and flights over Ukraine and Russia, two countries whose routes represent less than 1% of its network activity in terms of revenue

The indirect consequences are proving more difficult to determine. "The rise in fuel prices (+65% since the beginning of the year) could have an impact on costs if it takes hold," fears Grégoire Laverne, manager at Apicil Asset Management. Air France-KLM uses hedges to protect itself in part from variations in oil prices. In February, the group indicated that it had hedged 72%, 63%, 42% and 28% of its forecast fuel consumption for the first, second, third and fourth quarters of 2022 respectively. In addition, Air France and KLM have passed fare increases on long-haul flights following the increase in oil prices. "In the **short term, we see that prices have held up well with the ability to pass on [fuel costs]**," notes Sathish Sivakumar, analyst at Citi.

Another risk is that **"a stalemate in the Ukraine conflict could weigh on growth and final travel demand and thus delay the recovery of the airline sector,"** warns Christine Kam of Octo Finances. **Supported by the lifting of health restrictions, demand seems to be holding up well for the moment.** Contacted, Air France-KLM assures that it has not noticed any impact on its bookings for the moment

The war in Ukraine has especially complicated the second wave of recapitalization of the group, after that of spring 2021. The health crisis has shaken the balance sheet of the company, whose equity was negative to the tune of 3.8 billion euros at the end of December. To strengthen its equity and repay the state aid, Air France-KLM had indicated in February that it was planning measures of up to 4 billion euros in total. The group was considering launching a capital increase and issuing quasi-equity instruments, such as perpetual dry and convertible bonds. However, **"the war in Ukraine has made the markets more volatile and less receptive to recapitalization, whereas stability is needed to carry out such operations,"** said Johannes Braun, an analyst at Stifel. Air France-KLM had not given any timetable for the implementation of these measures. But the new geopolitical situation "has probably delayed the recapitalization [of the group], which otherwise should have started at the beginning of the year", Johannes Braun continues.

(...)

The group can however afford to wait for better market conditions. "Air France-KLM is not facing a liquidity risk and is therefore not in an emergency situation to strengthen its equity," says Christine Kam. "It is better to **do well than to do quickly**", summarizes Stephen Furlong, analyst at Davy

The crucial point for the group remains above all to convince investors to take a long-term view of its recovery. "Air France-KLM must show that operations continue to improve. This would send a positive signal to the market and allow the company to benefit from better conditions for its recapitalization," said Yi Zhong, an analyst at the independent research firm AlphaValue.

(...)

With this in mind, the group's comments when it releases its quarterly results in early May will be scrutinized. "If they maintain a solid outlook for their summer capacity, close to 2019 levels, it will be positive for investors and will pave the way for their next recapitalization," judges Johannes Braun.

(...)

My comment: *The publication of the results for the first quarter of 2022 will take place on May 5, three weeks before the Annual General Meeting of Shareholders on May 24.*

The Universal 2021 Registration Document is already available on the Air France-

> BEA investigation after a "serious incident" on an Air France flight landing at Roissy

(source AFP) April 6 - **The Bureau of Investigation and Analysis (BEA) announced Wednesday that it is investigating to determine the causes of the "serious incident", which occurred in early April of a Boeing 777 of Air France, during the landing phase at Roissy.**

(...)

In the nomenclature of the international civil aviation, the serious incident is an "incident whose circumstances indicate that there was a high probability of accident". The classification of the incident as "serious" is due in particular to the fact that it occurred "in the approach phase, where there is the most risk", with the takeoff phase, according to a source close to the BEA

This type of investigations is "regularly" opened by the BEA, according to this source, specifying that the incident in question did not cause any injury.

For its part, Air France "confirms that the crew of flight AF011 of April 4, 2022 from New York JFK to Paris-CDG in a B777 interrupted its landing sequence and performed a go-around during the approach to Paris-Charles de Gaulle," according to a statement sent to AFP.

"The crew landed the aircraft normally after a second approach," the company added.

(...)

According to Air France, **"the go-around is defined by the authorities, aircraft manufacturers and Air France as a normal procedure that goes in the direction of safety"**.

"The crews are trained and regularly instructed in these procedures, which are used by all airlines to guarantee the safety of flights and passengers, which are absolute imperatives for Air France," adds the company, which "understands and regrets the discomfort felt by customers.

The black boxes containing the flight data recorder (FDR) and the cockpit voice recorder (CVR) have been recovered and are "under analysis", according to the BEA.

My comment: When the BEA investigates an incident concerning an airline, the company's managers are forbidden to communicate with the pilots concerned.

Moreover, if it is allowed to listen to the communications between the control tower and the pilots, it is formally forbidden to publish them on any media whatsoever.

For these reasons, I will refrain from any comment.

However, it should be noted that the same week

. a plane coming from Punta Cana had to abruptly go around as it was approaching the runway at Orly

. in Nantes, due to the weather, two planes also went around.

> Dutch Finance Minister blasts Air France-KLM CEO's salary

(source Reuters) April 6 - **Dutch Finance Minister Sigrid Kaag on Tuesday denounced the salary paid for the 2021 fiscal year to Air France-KLM Chief Executive Benjamin Smith**, even though the airline group lost 3.3 billion euros last year.

"It's unacceptable and what I really don't understand is that we can want it and that people think it can be normal," she said in an interview with Dutch radio RTL after the publication of Air France-KLM's annual report.

This report shows that Benjamin Smith will receive several million euros in salaries, bonuses and bonuses for the year 2021, although the payment of the latter will be staggered in time

Contacted by Reuters, a representative of the group said that the fixed part of Benjamin Smith's salary had remained unchanged since the beginning of the pandemic and that he would not receive any bonus until Air France-KLM has repaid the bulk of the public loans granted to avoid bankruptcy at the height of the health crisis

Sigrid Kaag warned that the Dutch state, which owns 14.3% of Air France-KLM, **would vote against the resolution on the CEO's salary at the next general meeting of shareholders in May.**

My comment: *Let's review the chronology of events since the beginning of the health crisis.*

As soon as the crisis began and the partial activity scheme was implemented in France, in March 2020, the CEO of Air France-KLM and the Director General of Air France reduced their fixed remuneration by 25% and waived their variable remuneration for 2020, thus marking their willingness to make an effort in the same way as Air France employees.

A few months later, when the NOW program was introduced in the Netherlands (the counterpart of the French partial activity scheme, but more advantageous), the CEO of KLM also waived part of his compensation.

When Air France received financial support from the French state, conditions were imposed on the airline by the state, such as the closure of routes or the need to drastically reduce CO2 emissions by 2030 [non-exhaustive list].

When KLM received financial support from the Dutch state, different conditions were imposed. Employees had to reduce their pay (up to 20% for the highest earners). In addition, the Dutch State prohibited the payment of variable shares to KLM managers until the aid was repaid [list not exhaustive].

Then, when Air France was recapitalized for the first time, the European Commission imposed constraints, such as giving up slots at Orly or freezing the variable portions of executives (of Air France and Air France-KLM) until 75% of the state aid was repaid.

KLM, which has still not been recapitalized, has not been forced by the European Commission.

As you can see, Air France and KLM have received different types of aid from their respective governments, so it is normal that the constraints vary from one company to another.

> **Low-cost airlines face employee protest**

(source Les Echos) April 8 - With the resumption of air traffic, social demands are back where they were least expected, in the French sky. Namely, on the French bases of low-cost airlines

In the last few days, several strike notices have been filed for the Easter vacation period at Volotea, Vueling and even Ryanair, concerning both pilots and flight attendants under French contract. This is an unprecedented mobilization, after two years of crisis, accompanied by losses in pay and downward revisions of working conditions.

(...)

All these notices concern both wage demands and improvements in working conditions, or even the simple application of the French Labor Code. This is particularly the case at Ryanair, regularly accused of not respecting French regulations. The spark that ignited the fire at the Irish low-cost airline (or rather at its subsidiary Malta Air, which operates all Ryanair flights in France) was the dismissal in early March of two stewardesses for having consumed a can of soda during a flight.

At Ryanair, there is no provision for cabin crew to eat and drink during flights," explains Stéphane Salmon, deputy secretary general of the SNPNC-FO. We have therefore filed a strike notice for the period from March 13 to April 18, in order to obtain the lifting of sanctions and the provision of water and food, as well as a meal allowance, for the flight crews. Management has withdrawn the sanctions, but has not agreed to anything else.

We filed a new notice, extending our demands to pay, working conditions and the

non-respect of the rules of the civil aviation code on rest times," he continues. But once again, we were presented with an unacceptable agreement, **with a fixed salary still below the minimum wage, unpaid overtime, paid vacations below the legal minimum and insufficient rest time.**

(...)

The flight attendants' strike could be renewed on April 16, in addition to the SNPL's strike call, whose request for an early renegotiation of salaries has so far remained unanswered by management

The same general dissatisfaction exists at Volotea, where despite "ongoing" negotiations, a joint strike day could involve pilots and cabin crew on April 15. In addition to wage demands, there **is a disagreement over the calculation of working hours, which led to Volotea being taken to court in Nantes by the labor inspectorate for failure to comply with regulations on working hours.** The company believed it could apply European regulations, which are less favorable to crews.

However, **at Volotea, as at Ryanair and Vueling, the main sticking point remains the level of pay, which is two to three times lower than that of cabin crew in the large traditional airlines, for a much longer working day.**

The fixed salary at the time of hiring remains below the minimum wage, overtime is not paid and to make ends meet, we work six days a week, with four or five flights a day," explains a union delegate. Flight schedules are constantly changing and with the resumption of traffic, we are already working more than before the crisis, without any compensation and without our demands being heard. There is general dissatisfaction.

My comment: *As most European airlines have drastically reduced their staffing levels to survive the health crisis, it is difficult for them to find qualified and security-cleared employees.*

With the Easter vacations approaching, the workload for pilots and cabin crew at the airlines mentioned in the article is increasing dramatically, resulting in sometimes unbearable working conditions for low wages.

The implementation of a National Collective Agreement for the French air transport industry, which does not exist today, could reduce the differences in treatment of French air transport employees. It would be advisable to start work on this Collective Agreement soon.

> **Istanbul second international airport in the world behind Dubai**

(source Les Echos) April 11 - **Three and a half years after its official inauguration, Istanbul International Airport has almost achieved its dream: to take the title of the world's leading international airport from Dubai.** According

to the Airports Association International's ACI rankings, Istanbul Airport has climbed to second place in the world's international traffic rankings for 2021, with 26.46 million international passengers, compared with 29.11 million for the Dubai hub, ahead of Amsterdam-Schiphol (25.48 million), Frankfurt (22.69 million) and Paris-CDG (22.61 million).

Adding domestic traffic, the new Istanbul airport even ranks first among European airports in 2021 for the second year in a row, according to ACI Europe's ranking, with nearly 37 million passengers, ahead of Moscow (30.9 million), Paris-CDG (26.2 million) and Amsterdam (25.49 million).

Istanbul airport has not been spared by the Covid crisis. At 37 million passengers, its traffic is still 48% lower than in 2019. **Without this crisis, Istanbul would probably have been in the "top 10" of the world's airports for all traffic combined, which is still dominated by Atlanta and the American airports, thanks to their domestic market.** Before the crisis, Istanbul International was targeting 70 million passengers in its first year and 90 million at cruising speed.

But **with only 17 days of containment, Turkish airports and airlines have suffered far less from the pandemic than their European competitors.** Hence the meteoric rise of Istanbul, from 14th place in the world ranking in 2019, to 6th place in 2020 and 2nd in 2021. A progression that is also that of its first client, Turkish Airlines. The Turkish company has moved from fourth to second place in Europe, in terms of daily flights in 2021, behind Ryanair, even though its traffic was still down by 30% last year.

(...)

The recovery of traffic in 2022 should restore things a little, allowing London-Heathrow, which has fallen from second to seventh place internationally, to climb back up the rankings.

But in all likelihood, Istanbul will not fall back in the world rankings. In the first three months of the year, Istanbul International saw its traffic increase by 106% in total, to 11.4 million passengers, and by 107% internationally (8.5 million).

Not only are Turkish airports benefiting fully from the recovery in global traffic, but some have also recovered what remains of their international traffic with Russia, as Turkey has not followed the Western sanctions against Moscow.

(...)

For its part, Turkish Airlines expects to return to its pre-crisis level of activity this year. This is already the case in early April. **The Turkish company is, with Ryanair and Wizz Air, one of the three European operators whose number of daily flights (1,101) is back above the April 2019 level,** according to Eurocontrol. And this is thanks to international traffic and the European market, which is wide open to him since the agreement of 2016, while its domestic traffic has taken a nose dive, penalized by the economic crisis in Turkey.

PASSENGERS*

2021	2020	2019	Airport	2021	% change vs 2020	% change vs 2019
1	2	1	ATLANTA GA, US (ATL)	75 704 760	76.4	-31.5
2	4	10	DALLAS/FORT WORTH TX, US (DFW)	62 465 756	58.7	-16.8
3	8	16	DENVER CO, US (DEN)	58 028 552	74.4	-14.8
4	13	6	CHICAGO IL, US (ORD)	54 020 399	75.1	-36.2
5	15	3	LOS ANGELES CA, US (LAX)	48 007 284	66.8	-45.5
6	18	34	CHARLOTTE NC, US (CLT)	43 302 230	59.2	-13.4
7	27	31	ORLANDO FL, US (MCO)	40 351 068	86.7	-20.3
8	1	11	GUANGZHOU, CN (CAN)	40 259 401	-8.0	-45.1
9	3	24	CHENGDU, CN (CTU)	40 117 496	-1.5	-28.2
10	22	30	LAS VEGAS NV, US (LAS)	39 754 366	78.6	-23.1

* Total passengers enplaned and deplaned, passengers in transit counted once

INTERNATIONAL PASSENGERS*

2021	2020	2019	Airport	2021	% change vs 2020	% change vs 2019
1	1	1	DUBAI, AE (DXB)	29 110 609	12.7	-66.3
2	6	14	ISTANBUL, TR (IST)	26 466 169	66.0	-33.1
3	2	3	AMSTERDAM, NL (AMS)	25 488 783	22.1	-64.4
4	5	8	FRANKFURT, DE (FRA)	22 697 490	34.8	-64.0
5	4	6	PARIS, FR (CDG)	22 616 995	18.7	-67.6
6	7	15	DOHA, QA (DOH)	17 701 978	41.4	-54.4
7	3	2	LONDON, GB (LHR)	17 624 931	-14.7	-76.8
8	31	26	ANTALYA, TR (AYT)	17 148 111	160.4	-40.3
9	10	11	MADRID, ES (MAD)	15 337 775	38.8	-65.9
10	28	61	CANCUN, MX (CUN)	13 261 951	94.5	-19.7

* International passengers enplaned and deplaned

ACI World

My comment: While U.S. airports occupy eight of the top ten places in terms of passengers, they are completely absent from the ranking of international traffic.

More interesting is the comparison between 2019 and 2021. In the first table above, the overall loss of business for US airports is between -15% and -30%, while in the second table, the loss of business for other airports is between -30% and -70%.

These differences help explain why U.S. airlines performed better than their European counterparts in 2021.

Special European companies

> ITA Airways: a decisive week

(source Air Journal) April 6 - (...) **The privatization of the Italian national airline should (...) become clearer this week, as the Italian Treasury has set Monday April 18 as the deadline for submitting formal takeover bids. The two main contenders are of course the Air France-KLM and Lufthansa groups, the former allied with Virgin Atlantic and Delta Airlines (the four forming a transatlantic joint venture, although Delta is not expected to invest) plus an investment fund "active in**

tourism", and the latter with the Swiss-Italian cargo and cruise giant MSC. But a third candidate is also in the running, announced La Repubblica last month: an international investment fund that has previously invested in "the world's most important low-cost carriers" (Indigo Partners comes to mind, already present in Wizz Air and Volaris). Based at Rome-Fiumicino airport, ITA Airways is already a member of the SkyTeam alliance, like Air France, KLM and Delta, and shares codes with these three airlines as well as with other members of the alliance but also TAP Air Portugal (Star Alliance), Qantas (Oneworld) or Etihad Airways among others.

> Air Europa takeover: not before 18 months according to IAG

(source Air Journal) April 7 - (...) Speaking at the "Wake Up Spain" event on April 6, 2022 in Madrid, IAG CEO Luis Gallego returned to the acquisition of the private Spanish company, announced since November 2019. **"We have to decide on a timetable to take 100%, but I think it will take at least 18 months,"** said the CEO, who has obtained a one-year exclusivity on any sale. **The executive did** not return to the price he will pay to take over Air Europa - initially 1 billion euros but reduced by half in January 2021 in view of the consequences of the Covid-19 pandemic, but **confirmed that it will anyway need the green light from the European competition regulator** (which launched an in-depth investigation last June). Last December, IAG had suspended its attempt to buy the SkyTeam alliance airline, unofficially to avoid a European veto. But a few days later, the group maintained that it had not given up on "a merger in another form" with the carrier based at Madrid-Barajas airport and owned by Globalia (to which \$75 million had been paid for breach of contract). And two weeks ago, IAG granted Air Europa a loan of 100 million euros "which can be converted into a 20% stake".

(...)

Remember that **at the beginning of this acquisition attempt, IAG highlighted the expected benefits, starting with transforming Madrid airport into a hub "rivaling London-Heathrow, Paris-CDG, Amsterdam-Schiphol and Frankfurt";** re-establishing IAG as a leader in "the attractive market between Europe, Latin America and the Caribbean"; and "offer significant potential cost and revenue synergies" while providing "significant benefits" to passengers in terms of choice, schedule flexibility and use of the Avios frequent flyer program.

> TAP Air Portugal to increase its losses in 2021, penalized by its restructuring

(source AFP) April 11 - The **TAP Air Portugal** group **has deepened its losses last year, to 1.6 billion euros** against 1.2 billion in 2020, due in particular to the implementation of its restructuring program, the Portuguese carrier announced Monday. TAP's results were penalized by "non-recurring costs of 1.024 billion euros" related to the restructuring plan, the company said in a statement. The loss of TAP in

2021 is however less than that of 1.75 billion euros provided in the public aid plan, said the group.

The group's activity has been mainly impacted by "accumulated losses" of the aircraft maintenance subsidiary in Brazil, which TAP had announced the closure earlier this year. **The closure of TAP M&E (TAP Maintenance and Engineering), which has contributed to plummeting the accounts of TAP in recent years, was one of the requirements of the European Commission in return for the aid plan it validated in December.** In 2021, TAP was also penalized during the first half of the year by restrictions related to the Covid-19 pandemic, which paralyzed air transport, the group says. Its international flights to Brazil and the United States, two of its main markets, had only resumed in the last quarter of last year, it recalls.
(...)

> **EasyJet has no more runway to turn around**

(source The Times) April 6 - **As Lobbenberg, an HSBC analyst** as perceptive about airlines as anyone in the City, **notes** in his latest study: "Evaluating airlines is like nailing jelly to a wall. We always recognized that it was a challenge. With the pandemic, this task has not become easier. Geopolitical concerns and recession fears are currently taking precedence over the pandemic as the primary concerns of the airline industry."

What he concluded is **that easyJet is the "cheapest" airline on his radar** - a polite way of saying that the largest carrier at Gatwick is the worst-performing stock in the sector or the one that is recovering the slowest

.
According to his calculations, easyJet's shares, which closed Friday at 523 pence per share, not far from their lowest level in a decade, are undervalued by more than a third. In other words, with HSBC's target price of £8, there is more than 50 percent upside for investors taking a bet now

.
Compared to its most comparable peers, Ryanair and Wizz Air, respectively the largest and third largest discount carriers, easyJet's stock has had the toughest pandemic.

In normal times, easyJet would carry 100 million passengers a year, a third fewer than Ryanair and twice as many as Wizz. **For some, the simple explanation for its comparative underperformance is that easyJet finds itself between two chairs: it is not as economical as Ryanair and Wizz, nor as comprehensive as the national airlines. While it is able to steal market share from the likes of British Airways and Air France, it struggles to be flexible and truly low-cost.**

Tomorrow, easyJet will inform the market how its winter has gone. It has already announced a loss of £213 million for the first quarter of its fiscal year, from October to the end of December. It expects to make further significant losses in the final quarter - the first three months of this year - when it has only flown at two-thirds of pre-pandemic capacity levels.

(...)

While easyJet planned to run at full capacity during the peak summer vacation season, **the money-making Easter vacation period was marred by cancellations as staff were sick or had to be isolated due to Covid-19 infections.**(...)

)

The Ukrainian crisis, meanwhile, is depressing demand for what would have been the recovery of a booming emerging market in Eastern Europe, and affecting fuel prices. **While easyJet has little exposure to the Eastern European market compared to Ryanair and Wizz Air, this cuts both ways: Ryanair and Wizz Air will redeploy their planes to Western Europe, making an already competitive summer season even more competitive.**

(...)

HSBC is not alone in suggesting that the market is underestimating easyJet's ability to emerge from the pandemic. Bank of America has a price target of 780p, Goldman Sachs 825p

The implication is that if easyJet's shares do not start to perform quickly, it may not be a sector problem, but a problem specific to easyJet.

(...)

***My comment:** The four companies mentioned in the above articles are in great difficulty.*

ITA Airways and Air Europa are subject to takeover offers.

The same cannot be said for TAP Air Portugal or easyJet. Will they be able to escape?

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.

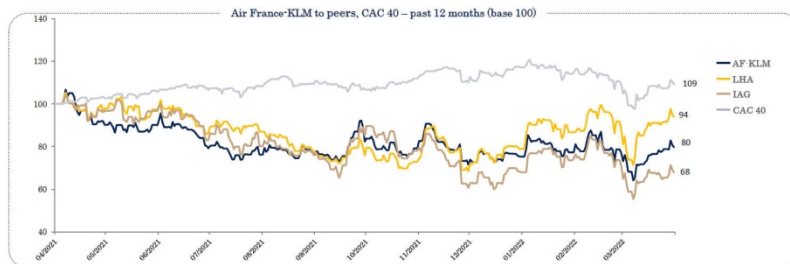
Keep all the documents related to your Air France-KLM shares in one place: all the letters you receive from the different managers, Natixis, Société Générale, your personal financial institution if you bought your shares through it.

> My comments on the Air France-KLM share price trend

Air France-KLM shares closed at **4.040 euros** on Monday 11 April. **It is down this week by -1.63%.**

It had fallen to €3.295 in early March.

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



Comparative evolution of the Air France-KLM share price vs. IAG and LH over one year.

Since March 2021, Air France-KLM's share price has evolved in much the same way as that of its two main European competitors, the Lufthansa and IAG groups.

However, there has been a divergence since the beginning of the year. Lufthansa's share price is performing better than Air France-KLM's, probably because the recapitalization of Air France-KLM is taking so long.

IAG's share price is down sharply. The high level of debt of the Anglo-Spanish group is highlighted by analysts.

The analysts' average (consensus) for AF-KLM shares is 3.31 euros. The highest price target is 5.50 euros, the lowest 1.30 euros.

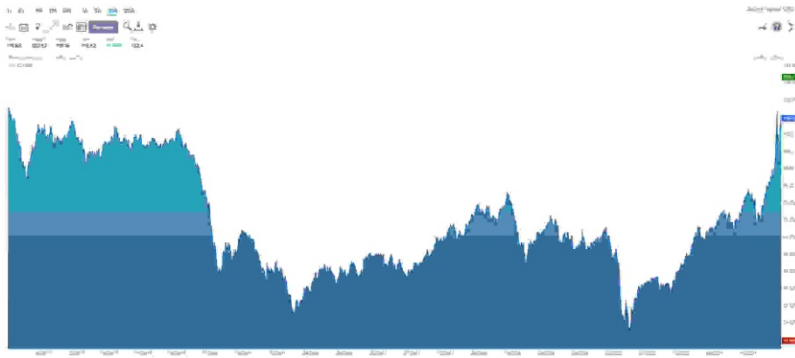
You can find the details of the analyst consensus on my blog. I do not take into account the opinions of analysts prior to the beginning of the health crisis.

The barrel of Brent crude oil (North Sea) is down sharply this week from -\$7 to \$99.

It is back to its price of mid-February, at the outbreak of the war in Ukraine.

At the beginning of March, Brent had reached \$132, close to its record of \$150 (in 2008).

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



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

This 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 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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