

Air France in the starting blocks for a new 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

Editorial

Dear readers,

The Annual General Meeting of Air France-KLM will be held on Tuesday 24 May 2022 at the Hilton Hotel in Roissy. For the first time since 2019, it will be held in person. It will be broadcast live via webcast on the Group's website.

All the documents relating to the Annual General Meeting are available on the Air France-KLM Group website, on the Shareholders page, under the heading Annual General Meeting. This includes the resolutions that will be submitted to the vote of the shareholders.

As in previous years, I will propose to those of you who are shareholders of the Air France-KLM group to give me your proxy. I will publish a Flash on how to proceed on Friday May 6.

Happy reading François

> Air France in the starting blocks for a new recapitalization

(source Les Echos) May 2 - **The next big check from the State to a company**

will probably be for Air France. But it remains to be seen when it will be signed. To restore its balance sheet, reduce its debt and meet the conditions set by the European Commission, its parent company Air France-KLM has already indicated, during its annual results, that it needs to raise another 4 billion euros. This should be done through a new capital increase, as well as a new bond issue. In any case, the French taxpayer will still be heavily involved. Neither the government nor the management of Air France-KLM are making any secret of this. The group's managers have already obtained the green light from its shareholders to proceed with the necessary issues, as soon as they deem it appropriate. The only question that remains is when this operation will be launched.

The management of Air France-KLM had themselves set a deadline for this new recapitalization before the General Meeting of Shareholders on May 24, 2022. In the fall of 2021, it was even planned to launch the operation at the end of the year, taking advantage of the recovery in traffic. But the Omicron wave had broken, causing the operation to be postponed indefinitely. And since then, the war in Ukraine and its corollary, the soaring price of fuel, have further accentuated the uncertainty.

At Air France-KLM, they are trying to play down this uncertainty, stressing that the company has until the end of the year to implement the resolutions relating to its recapitalization and that the solid level of cash (more than 10 billion euros at the end of 2021) does not require an urgent injection of funds. The recovery of traffic seems to be well underway in Europe and America, and Air France-KLM could just as well wait until it has collected a maximum number of bookings for the summer season before calling on investors. **"Air France has lowered its breakeven point significantly.** For it to benefit from this, it is only necessary that activity picks up again in the long term", emphasizes another expert in the field.

However, there are also other arguments in favor of a rapid launch of the operation, if possible before the end of June. In the framework of the agreement signed in 2020 with the European Commission, in return for the green light for the aid, Air France-KLM has made certain commitments that have not been made public, relating to the repayment of public aid, the first deadline for which would be June 30, under penalty of penalties.

Moreover, if **the current share price of Air France-KLM remains behind, despite the improvement of its quarterly results, often better than those of its competitors,** it is mainly due to the uncertainty about its recapitalization, according to some analysts. Potential investors are afraid of being heavily diluted by buying AF-KLM shares too early.

This could lead Air France-KLM to launch its refinancing operation without too much delay, in the wake of the first quarter results, on May 5. "

We could have the launch of a first phase after the quarterly results, which should make it possible to verify that the cost reduction observed in the previous quarters is indeed sustainable," said Yan Derocles, an analyst at Oddo Securities.

In the end, "it will depend on the state of the market", summarizes another good connoisseur of the file. If Air France-KLM's first quarter results, but also those of its

main European competitors, Lufthansa and IAG, published shortly afterwards, are good enough to trigger a rise in the share price, then its managers could decide to press the button without delay. But if, on the other hand, the market does not react or an event occurs that generates headwinds, then the wait could be prolonged. One of these events could be, for example, the triggering of a social conflict at Air France, against the project to relocate part of the IT developments to India. According to the CFDT, which says it is ready to oppose this project "by all means", it would be contrary to the government's relocation policy and incompatible with new public aid.

My comment: Air France-KLM will publish its first quarter 2022 results this Thursday.

Given the proximity of this deadline, it is impossible for me to comment on this article, nor to amend it

> Schiphol is discussing with the airlines the financial consequences of the congestion.

(LC source) April 29 - **Schiphol is already discussing with the airlines the financial damage caused by the cancellation of flights for this weekend** [April 30 and May 1]. **The airport has asked the airlines to cancel flights** (...) because of **the heavy traffic**. This request was met. KLM canceling at least 47 flights (...).

Schiphol says it always takes into account complaints "in situations like this". (...) A spokesman would not comment on the possible amount of damage.

It would probably be millions of euros. Earlier on Friday, travel agencies said they feared millions of euros in damage due to the possible chaos at Schiphol.

According to Schiphol, the rush is due to the May vacations and the lack of staff in the aviation sector. That's why Schiphol had asked companies to reduce the number of passengers this weekend. The airport speaks of an "exceptional request" which was also made for the safety of passengers and employees. (...)

My comment: Schiphol's late request for flight cancellations has been deemed outrageous by the International Airline Association (IATA).

According to Het Financieel Dagblad, Schiphol is short 500 security guards out of a total of 5,000. There is also a high rate of absenteeism among employees.

This staff shortage situation is observed at most major European airports. The succession of waves of the Covid-19 epidemic and the war in Ukraine have not

allowed airport managers to anticipate the recruitment needed to cope with the resumption of activity.

It should be noted that the previous weekend, dozens of flights had to be canceled because cargo and luggage were not loaded on board the aircraft, partly because of a strike by KLM baggage handlers.

> **The incredible comeback of American airlines (American, Delta, United)**

(source La Tribune) April 27 - **American airlines have an incredible capacity to bounce back from the crisis.** The results of the first quarter of 2022 for Delta Airlines, United Airlines and American Airlines are not yet impressive, with losses still significant even for the beginning of the year, but **the prospects for the coming months are colossal, with several billion dollars more already earned than before the crisis.**

In terms of revenues, the picture is relatively simple: in the first quarter, the three US companies all more than doubled their revenues compared to the same period last year. (...) They have thus recovered between 80 and 90% of their first quarter 2019 revenue levels.

(...)

On the other hand, operational losses remain heavy. If Delta significantly improves its result by more than 600 million dollars, it still loses nearly 800 million. United stagnates with a loss of around 1.4 billion dollars. And American is still falling, with a reinforced operating deficit of \$400 million for a total of over \$1.7 billion. The net losses are evolving in the same proportions for each company. The balance sheet is therefore still fragile, even if we must remember that the first quarter is traditionally complicated and that this one was marked by the Omicron variant and the war in Ukraine.

(...)

If the three companies are so optimistic despite the roller coaster ride of the last few years, it is simply because they have already collected record sales for the next few months.

(...)

All in all, the three behemoths of the American airline industry have achieved a colossal result, as one analyst put it, having already sold more than \$26 billion worth of tickets for flights yet to come. That's a whopping increase of more than 42% over 2019. So the second quarter is going to generate very significant, even historic, revenue. And if the trend continues into the third quarter, the most profitable by far in air travel, it could be a top-notch summer for U.S. airlines.

(...)

The increase in revenue is due more to higher unit fares than to an increase in the number of passengers. The U.S. majors remain cautious about bringing their

capacity back online. For the second quarter, the number of seats per kilometer offered will fluctuate between 82% and 87% of the 2019 capacity from one company to another. Not to mention that there is still a significant gap between domestic, which is returning to full capacity, and international, which is still struggling

This dynamic will therefore enable airlines to absorb part of the increase in the price of jet fuel and to generate cash.

(...)

In the end, the three giants all expect to be profitable in the second quarter, as well as for the year. Delta Airlines and United Airlines are both targeting "double-digit" margins for the next few months, a few points below the 2019 level.

(...)

***My comment:** The recovery of the US airlines is helped by the predominance of a strong domestic market, which is more profitable in normal times than their international market.*

> **Russian airline Aeroflot suspended from the SkyTeam alliance**

(source The Daily) April 29 - **The SkyTeam airline alliance, led in Europe by Air France-KLM, announced yesterday the suspension of Aeroflot as a member of the group. The measure is, however, "temporary".**

A week ago, S7, Russia's second largest airline, received the same treatment from the rival alliance Oneworld. In the

case of SkyTeam, **the suspension will mainly affect customers who had earned points by flying with Aeroflot, as well as those who intended to benefit from it.**

The first Russian airline joined the SkyTeam alliance in 2006, becoming the seventh member of the group founded by Delta, Air France-KLM, Korean and Aeromexico.

"This suspension, the statement said, means that a return could be considered, as far as the armed conflict in Ukraine allows.

(...)

***My comment:** Before this announcement, Aeroflot had already seen its activity drop by 20%.*

> **Qantas confirms its switch to Airbus**

(source Le Figaro) May 1 - **Qantas Airways**, Australia's leading airline, is **preparing to switch completely to Airbus. It is to announce this Monday the order of twelve A350-1000 aircraft**, for 4.4 billion dollars. With these aircraft, the carrier will be able to connect Sydney to London in 20 hours by 2025, the longest air link in the world, or Sydney to New York.

The A350-1000s are a further step in Qantas' zero-carbon strategy. They consume 20% less fuel than older generation aircraft. This order is also a new setback for Boeing, whose 787 Dreamliner was not selected.

According to The West Australian, **the order also includes twenty A321 XLRs and twenty A220s, and options for another 106 aircraft.** Indeed, in December 2021, the Australian company had placed a giant order for 134 aircraft worth \$13 billion, at list price, to renew its fleet of medium-haul aircraft composed so far only of Boeing. But the official announcement has not yet been made.

(...)

The purchase of these long-haul aircraft is a sign that Qantas is betting on the recovery of very long-haul flights. In 2021, the company announced a huge loss in the second half of the year, due to the pandemic. Since the beginning of the health crisis, it has lost more than 20 billion Australian dollars.

My comment: *By buying new generation aircraft, Qantas can hope to save 20% on fuel.*

This is an important factor in the fight against global warming.

But there is another way to significantly reduce fuel consumption on long-distance flights: by making stopovers.

The reason is simple: for a plane to stay in the air for fifteen or twenty hours without stopping, it has to take on huge quantities of kerosene at the start. All that extra fuel weighs a lot, which means the plane uses more fuel to carry that weight

Making three five-hour flights (each time filling the tanks with enough fuel for the next flight) rather than a direct fifteen-hour flight could save up to 50% of fuel.

Of course, this would add take-off/landing costs and lengthen the trip. But the issue is worth considering.

> **Airbus wins first legal battle against Qatar Airways**

(source Les Echos) April 26 - **Airbus has won the first round of its months-long dispute with Qatar Airways over the A350.** The High Court of Justice in London has rejected the Doha-based airline's appeal against Airbus' decision to cancel its order for 50 medium-haul A321s. **The British court ruled that Qatar Airways' refusal to take delivery of its latest A350s allowed Airbus to cancel the delivery of these A321s, even though the two contracts are not for the same aircraft model.**

Airbus, which argued that the A321 contract was linked to Qatar Airways' compliance with the A350 contract, welcomed the ruling, which nonetheless confirmed the loss of an order worth more than \$4 billion. But the aircraft

manufacturer will be able to reposition these A321s with other customers. Qatar Airways, which has already ordered Boeing 737 Max aircraft to replace these Airbus A321s, was apparently trying to prevent Airbus from replacing these aircraft with other customers until the main A350 dispute was settled

This first court decision does not settle the fundamental question. That is, the responsibility of the aircraft manufacturer in the dispute that has opposed it for months with Qatar Airways concerning the abnormal deterioration of the paint on its A350s.

(...)

The British court will have to rule not only on the causes of this paint problem, but also on the possible amount of the damage suffered. **The initial procedure could last 18 to 20 months, before leading to a possible first judgment. After that, both parties will still have the possibility to appeal.**

***My comment:** Qatar Airways is not the only airline to encounter these paint problems on some A350s.*

But it is the only airline to have refused the repairs proposed (and paid for) by Airbus.

For more details about this paint problem, I invite you to read my comment in [my letter n°820](#).

> **Boeing postpones the first deliveries of its 777X to 2025**

(source Les Echos) April 27 - **Every time Boeing announces a new business, there is bad news.** Tuesday's first quarter results are no exception to the rule. The American aircraft manufacturer even made a double blow **with the announcement of the postponement to 2025 of the first deliveries of its latest model, the 777X, planned until now in 2023. In addition, there is an additional cost of 1.5 billion dollars for this program.**

The Chicago-based giant is also taking a \$1 billion exceptional charge to account for slippage on various military programs, including the future presidential Air Force One. This resulted in a new net loss of 1.2 billion dollars for the first three months of the year, despite improved sales of commercial aircraft. This new postponement of the first deliveries of the 777X, initially expected for 2020, is not really a surprise. **This is Boeing's third or fourth postponement on this program - which is only a new version of its long-haul jumbo jet, the 777-300 - and its main customer, Emirates, had already spilled the beans the day before...(...)** And this "assuming that the FAA does not discover any new problems". **The Boeing 777-9 is supposed to gradually replace the Airbus A380 at Emirates.**

(...)

And it is also to satisfy the requirements of the FAA, questioned for its too great leniency in the affair of the 737 MAX, that the boss of Boeing is still not able to indicate a date for the resumption of the deliveries of 787, suspended since May 2021, after the discovery of manufacturing defects on a great number of planes.

(...)

My comment: *The postponement of the B777X delivery is bad news for Boeing and Emirates.*

The hubs of Qatar Airways (Doha), Emirates (Dubai) and Etihad (Abu Dhabi) are barely 400 km apart. The airspace in the region is almost saturated, making it difficult to fly more aircraft simultaneously around these hubs.

This saturation was one of the reasons for Emirates' massive purchase of the A380 super-jumbo jets (the airline owns half of the A380s sold).

The Gulf's leading airline needs the new B777X to replace its aging, fuel-hungry A380s.

> Paris airports need to recruit 4,000 people but are struggling to attract

(source AFP) April 28 - **The airport platforms of Orly and Roissy-Charles-de-Gaulle are facing "enormous" recruitment difficulties while 4,000 positions are to be filled**, announced this Thursday, April 27, the CEO of ADP Group Augustin de Romanet on BFM Business. **"What concerns us is the good experience of the passenger and especially in the positions of screening** (security control, editor's note). And today, companies are having a hard time recruiting" in this sector, said de Romanet. (...) "We are looking for maintenance technicians, engineers" (...).

(...)

The boss of the airport group has listed the sectors where there is a lack of staff in addition to positions in the security business such as in shops, duty-free, restaurants or bars.

(...)

The unions say they fear a glaring shortage of staff this summer as the resumption of traffic is expected to be strong. "We had not anticipated the dynamic economic recovery with many job offers, where qualified people have the choice" which complicates recruitment, said the secretary general of the CGT Daniel Bertone.

My comment: *The long queues seen in the last few weeks at most major European airports do not bode well for the upcoming summer season.*

> CDG Express: the court validates the rail line between Paris and Roissy airport

(source AFP) April 28 - **The Administrative Court of Appeal of Paris validated on Thursday April 28 the continuation of the construction of the future fast train CDG Express between Paris and Roissy airport, reversing a previous court decision.**

(...)

The dispute that brought this case to court concerns more specifically the 4.4 kilometer section of new tracks at Mitry-Mory (Seine-et-Marne).

This municipality (...) had challenged the prefectural order authorizing the project to cross areas where protected species live.

The progress of the project was initially disrupted by a ruling of the administrative court of Montreuil (Seine-Saint-Denis), which stopped the work in early November 2020 by cancelling this exemption.

(...)

In fact, the project leaders had however quickly obtained the authorization to resume the works while waiting for the decision on the merits.

In the eyes of the project's opponents, including left-wing elected officials and environmental protection associations, the train for the rich is being built at the expense of daily public transport.

The CDG Express project is being managed by CDG Express, an infrastructure manager owned equally by ADP Group, SNCF Réseau and Caisse de Dépôts

This 32 km link will provide a direct connection between the Gare de l'Est in Paris and Roissy airport in 20 minutes, with a train every quarter of an hour.

***My comment:** Initially planned for the Paris 2024 Olympic Games, the new link between Roissy Charles-de-Gaulle and Paris should be operational by early 2027.*

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

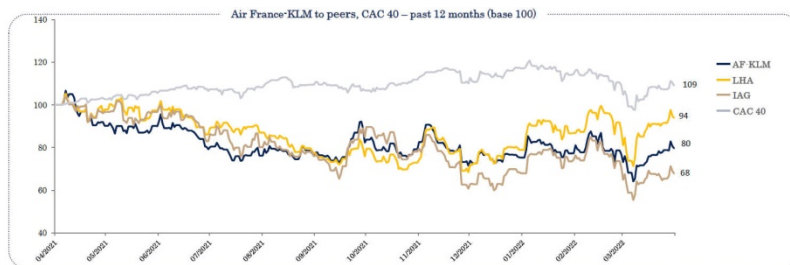
personal financial institution if you bought your shares through it.

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

Air France-KLM shares closed at **3.893 euros** on Monday 2 May. **It is down this week by -4.00%.**

It had fallen to €3.295 in early March.

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



Air France-KLM share price performance compared to 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 3.24 euros. The highest price target is 5.50 euros, the lowest 1.30 euros.

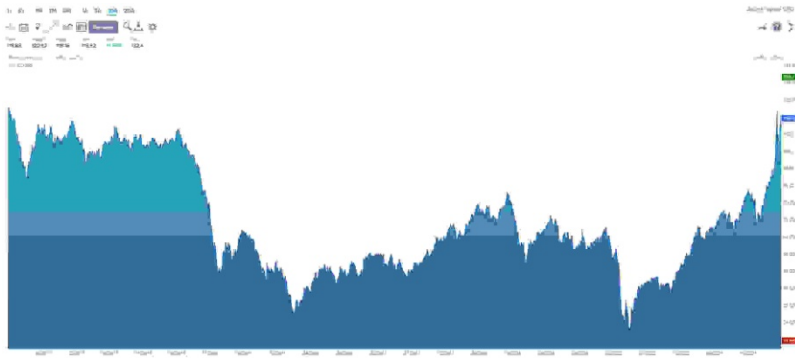
You can find the details of the analyst consensus on my blog. I do not take into account the opinions of analysts prior to the beginning of the health crisis.

The barrel of Brent crude oil (North Sea) is up sharply this week from \$8 to \$109.

Since mid-February, it has been yo-yoing between \$100 and \$120.

In early March, Brent 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](#)

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 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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