

Air France-KLM prepares for a great summer



## Letter from the Director of Air France-KLM

### François Robardet

Representative of the employees and former employees shareholders PS and PNC

N°859, May 9, 2022

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## Monday's Press Review

### > Air France-KLM prepares for a great summer

(source: Journal de l'Aviation) May 5 - If no new major disruptions further disrupt the air transport recovery, **Air France-KLM** should have a good summer in 2022. At the presentation of its quarterly results on May 5, the group **was** indeed **optimistic for the months to come, buoyed by a good booking momentum** for the coming months.

The first quarter was rather encouraging, although the context was not very favorable. While the spread of the omicron variant, the outbreak of war in Ukraine and rising fuel prices dampened trends in January and February, **the recovery accelerated in March**. Benjamin Smith, the group's CEO, even points out that he has seen "**a significant increase in demand for business and premium traffic**", in addition to the already sustained leisure and VFR (Visit Friends and Relatives) demand for several months and "which was not expected". The best performing networks were the IOC (Caribbean, Indian Ocean), Africa and South America. As a result, the group was able to publish a revenue doubled compared to the first quarter of 2021, to 4.44 billion euros and a positive EBITDA again at 221 million euros, thanks in particular to lower unit costs. **Net income remains negative, but the loss has been reduced by almost two-thirds to 552 million euros**

The outlook for the next two quarters is therefore rather good. **The group expects to restore between 80% and 85% of its 2019 capacity in the second quarter, then between 85% and 90% of its capacity in the third quarter. It highlights**

**the case of Transavia, which is expected to exceed its 2019 supply over both periods.** Summer demand will also have a beneficial effect on yields, which should be at a higher level than in 2019 (it has already recovered this level on medium-haul). On the other hand, the group has deferred the increase in fuel prices on its long-haul fares.

In financial terms, **the operating result should return to breakeven in the second quarter** (compared to a loss of 350 million euros in the first quarter) **and become clearly positive in the third.**

**The cargo business continues to do well but is starting to show signs of weakness**, as IATA also pointed out this week. While capacity is up 10.7% thanks to increased bunker capacity, traffic is down 14.9%. With global supply still under pressure and the closure of Russian airspace affecting routes to northern Asia, yields remain strong, partially offsetting the lower load factor. Compared to 2019, revenues (910 million euros, up 6.4% at constant fuel and exchange rates) are thus still 66% higher

**Transavia** is also a separate business, benefiting fully from the demand for leisure flights. The group's low-cost airline **has increased its capacity fivefold and its traffic sixfold compared to the first quarter of 2021** (affected by the confinements in France and the Netherlands), **returning to a capacity and load factor close to those of 2019.** Here too, yield has improved significantly, with a beneficial effect on unit revenues.

Finally, **the maintenance business is slowly recovering.** Its revenues rose by 33.6%, driven by the gradual return to service of the Air France and KLM fleets, but also a 15.1% recovery in external revenues, which the group interprets as a sign of recovery in the sector.

***My comment:** Air France-KLM group airlines' recovery is underway*

*Notably, Air France-KLM Group beat its earnings forecast (and analysts' forecasts) for Q1 2022.*

## **> Air France-KLM continues its recovery, KLM repays part of its public aid**

(Dutch media source) May 6 - In their coverage of Air France-KLM's results, **the Dutch media focus on KLM's repayment of €311 million in state aid**, presented by KLM CEO Pieter Elbers as "an incredibly important step" that indicates "the worst is behind us." The airline hopes to repay more of the state aid this year

**The group** reported a net loss of 552 million euros, compared with a loss of 1.4 billion euros in the first quarter of 2021, and **beat the average analyst forecast of a loss of 580 million euros. KLM reported an operating profit of 3 million euros,**

**and Air France an operating loss of 363 million euros. KLM received 140 million euros in NOW aid during the quarter.** Transavia posted an operating loss of 92 million euros, but expects to operate at higher than 2019 capacity during the summer. The group's operating result was a loss of 350 million euros.

(...)

Asked directly about KLM being held back by Air France, **Elbers explained** that he did not see it that way, pointing out **that both airlines are improving their results, "which is very important for the group as a whole."** Asked about Schiphol's plans to reduce peak flight movements, Elbers says the recovery is causing growing pains for Schiphol, adding that Schiphol's plan is "premature." He insists that discussions need to take place on how to solve the problems, and briefly touches on the issue of increased charges at the airport.

### > IAG expects to return to profit in the second quarter

(Air Journal source) May 7 -- British Airways' parent company **IAG** said Friday it expects its operating profit to be profitable from the second quarter onward, and to remain so for the full year. IAG reported a narrow operating loss for the first quarter. The airline group - home to British Airways, Iberia and Vueling, among others - said demand was recovering strongly and in line with the company's expectations. IAG said it saw no significant effect of the war in Ukraine on travel demand during the period. Premium leisure continued to be its best-performing segment and business travel was at its highest level since the start of the pandemic, IAG said

The company **said its operating loss was €731 million versus an operating loss of €1.08 billion for the first quarter of 2021.** This reflects normal seasonality, the effect of the Omicron variant, as well as costs associated with ramping up operations, IAG said. Operating loss before exceptional items was 754 million euros compared to a loss of 1.14 billion euros in the previous year. Revenue was **3.44 billion euros** compared to 968 million euros the previous year. Passenger capacity in the period was 65% of the first quarter of 2019, before the pandemic.

(...)

The company estimates that passenger capacity for the second quarter should be at 80% of 2019 levels, rising to 85% in the third quarter. In the fourth quarter, the company expects capacity to be at 90% of 2019, resulting in full-year capacity of approximately 80% of 2019 levels. It expects its North Atlantic capacity to be fully restored in the third quarter.

### > Lufthansa Group expects a record summer

(source: Journal de l'Aviation) May 6 - "Crisis management was yesterday. We are once again shaping the future," announced Carsten Spohr. **The chairman of the Lufthansa Group was very confident for the coming months, especially for**

**the summer, which is expected to be record-breaking, despite the threat of rising fuel prices.**

If the first quarter started slowly because of the omicron variant, demand quickly returned and March was rather solid for the group. Revenues **doubled compared to 2021 (to 5.36 billion euros)**, the EBIT loss was halved (to -591 million euros) and **the loss was also almost halved (to -584 million euros)**, while cash flow became positive again.

While it has re-established its entire pre-crisis network, the **group has seen a solid recovery in bookings, with** last week's bookings exceeding their 2019 level, as passengers begin to plan their trips further in advance. This puts bookings at 80% of their 2019 level, despite still limited capacity. In the first quarter, they were at 57% of their 2019 level, but they are expected to rise rapidly in the coming weeks to an average of 75% in the second quarter and then 85% in the third quarter (when Eurowings will see its bookings exceed their 2019 level)

Lufthansa will continue to monitor its capacity and pricing policy. **Carsten Spohr explains that the group has been very disciplined in this respect throughout the crisis, withdrawing more aircraft from service than its competitors and reintroducing capacity in a more measured way, in** order to protect its fares. This will continue, especially since the increase in fuel prices cannot be fully offset by the cost reductions generated by the major restructuring of operations and will have to be partially passed on in ticket prices

**The cargo business continues to break record after record.** The sanctions against Russia have put further pressure on global capacity, although more cargo space is available. As a result, the division again increased its EBIT by 57% to EUR 495 million. The group points out that yields have increased by 136% since the beginning of the crisis.

***My comment:** A comparison of the operating results between the three European majors shows that the Air France-KLM group has lost the least in the first quarter of 2022.*

*In terms of operating income*

*. the Lufthansa group is at -584 million euros (-10.9% of revenues)*

*. the IAG group is at -731 million euros (-21.3% of revenues)*

*. the Air France-KLM group is at -363 million euros (-13.4% of revenues)*

**> Decarbonized aviation: Air France achieves a 50% reduction in CO2 emissions on two flights**

(source Air & Cosmos) May 5 - **Air France manages to reduce CO2 emissions by 50% on two flights.** This performance was achieved by combining a series of

good practices, both in-flight and pre-flight, on an Airbus A350 between Paris CDG and Montreal and on an Airbus A220 between Paris CDG and Lisbon.

On April 13, Air France launched "Air France ACT", a program presenting its new decarbonization trajectory aiming for -30% CO2 emissions per passenger-kilometer by 2030 compared to 2019, i.e. -12% of total emissions. To illustrate the ways in which it can achieve this objective, Air France has implemented a series of environmental actions on two flights from Paris-CDG, to Montreal on 3 May in an Airbus A350, and to Lisbon on 4 May in an Airbus A220. On these two flights, by combining a number of environmental initiatives, Air France has managed to reduce CO2 emissions by 50%

**To achieve this, Air France implemented a series of measures before and during the flight.** Before the flight, Air France has developed a communication campaign inviting passengers to limit the volume and weight of baggage carried. In order to limit food waste, they were also encouraged to pre-select their meals so as to load only the necessary products. In the lounges, Air France has proposed a more sustainable, local and seasonal catering offer, using eco-responsible materials. **On the ground, Air France has carried out all its operations in 100% electric mode:** electric push-back of the aircraft, transport of crews by electric bus between their base and the aircraft's parking area, autonomous baggage tractor, electric transport of cargo

**For the flight part, Air France used the Airbus A350 and the Airbus A220, new generation aircraft that emit up to 25% less CO2 than older aircraft.** In addition, the French airline used SAF (sustainable aviation fuel) produced by TotalEnergies, for 16% to Montreal and 30% to Lisbon. **The use of SAF on these two flights resulted in a 90% reduction in lifecycle CO2 emissions, above the industry average of 80%.** For both flights, **the pilots also applied "eco-piloting" techniques** (a single engine started during taxiing, use of on-board innovations for tactical trajectory optimization, optimization of climb and descent). In addition, Air France has used more sustainable catering equipment on board (lighter new-generation meal car, recycled and recyclable trays, tableware made from bagasse, wooden cutlery and sticks, cardboard cups, no more individual plastic bottles). Air France has also applied selective sorting on board (plastics, juice cartons and cans) and has proposed more sustainable catering, entirely prepared in France

**The whole project was part of the "Skyteam sustainable flight challenge", an initiative aimed at stimulating and encouraging innovation by inviting the alliance's member airlines to carry out the most eco-responsible flights possible between May 1 and 14, 2022.**

***My comment:*** Sixteen Skyteam member airlines are participating in this challenge to demonstrate the feasibility of a 30% reduction in CO2 emissions (target 2030).

*Air France with the two flights mentioned, KLM with the flight of a Boeing 787-10 between Amsterdam and Edmonton in Canada, have managed to reduce CO2 emissions by 50%.*

*They used between 16% and 39% of sustainable aviation fuel. The challenge in the coming months will be to convince suppliers of this type of fuel to produce it in sufficient quantities for all fleets.*

### > **easyJet forced to sell fewer seats on some flights due to staff shortages**

(source BFMTV) May 9 - Like most airlines on the planet, **easyJet is facing a shortage of flight crews and pilots** while traffic is definitely on the rise again (85% of 2019 levels).

To avoid having to cancel flights, easyJet has opted for an original approach: sell 6 seats less on some flights operated by Airbus A319 from Great Britain. Specifically, **60 of its 92 A319s with 156 seats are affected**

**This will allow the company to reduce the number of flight attendants from 4 to 3 on the flights concerned. Indeed, the legislation requires one flight attendant for every 50 passengers. With 150 seats occupied, the company must fly 3 cabin crew against 4 usually.**

(...)

**IAG, which also operates Vueling and Iberia, warned a few days ago that it does not have enough staff to cope with the increase in capacity.**

The International Air Transport Association (IATA) has expressed its concern that the lack of resources in airports and aircraft must be resolved in order to avoid breaking the travel demand of consumers.

**My comment:** *It is mainly the British airlines that are affected by the shortage of stewardesses and stewards, especially because of the Brexit.*

*For detailed explanations, read again my comment on the opening by British Airways of a base in Madrid in my [Letter n°837](#).*

### > **Ill-equipped to face the recovery, the European airline industry is worried about the summer**

(source AFP) May 6 - **Endless queues, planes stuck on runways and even cancelled flights: the airline industry**, ankylosed by two years of pandemic and facing a surge in demand, **fears a disastrous summer scenario**

Was the spring break a dress rehearsal for even greater chaos? Evidence has

been mounting in recent weeks of airport gridlock in Europe, which like North America and unlike Asia has cancelled most Covid-19-related travel restrictions. The appetite for travel that had been suppressed for two years has finally been released. Eurocontrol counted at the end of April a number of flights equivalent to 83% of the level of the same period in 2019, despite the war in Ukraine, the oil shock and inflation. **For the summer, the European air traffic monitoring body is forecasting up to 95% of the 2019 level**, while companies are reporting massive bookings

**But the airports no longer seem to be sized to cope:** the airline KLM was forced last weekend to cancel dozens of flights to and from Amsterdam-Schiphol, overwhelmed by heavy crowds and Lufthansa had to give up more than a hundred flights around Easter at Frankfurt airport.

(...)

**"It's now a matter of re-hiring, in a very tight labor market across Europe,"** added Jankovec [the director general of ACI Europe, the main association of European airports], **noting that "it's impossible to make adjustments overnight given the security accreditation processes and the time needed for training," which can take up to 16 weeks.**

(...)

The entire sector is experiencing "operational difficulties", summarized Air France-KLM CEO Benjamin Smith on Thursday.

(...)

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Also on arrival, **the passage to the border police at Roissy, the main point of entry into France, creates long queues, which "is unbearable for passengers," said the CEO of ADP to AFP.**

"We are fighting like lions for this," said Augustin de Romanet, while acknowledging that "the Ministry of the Interior had strong constraints" in terms of staffing.

***My comment:*** *The scenario described here seems unavoidable.*

*The most astute airlines (such as Air France-KLM) have already taken this issue into account by adjusting their flight schedules and recommending that passengers anticipate their arrival at the airport.*

## > **Nigeria: airlines cancel suspension of operations**

(source AFP) May 9 - **Nigerian airlines are abandoning the suspension of their activities initially planned for Monday because of soaring kerosene prices**, the Association of Nigerian Airlines (AON) announced.

The AON had initially announced on Friday the suspension of domestic flights on

Monday and "until further notice" due to the surge in the price of JetA1 kerosene, whose price per liter has almost quadrupled.

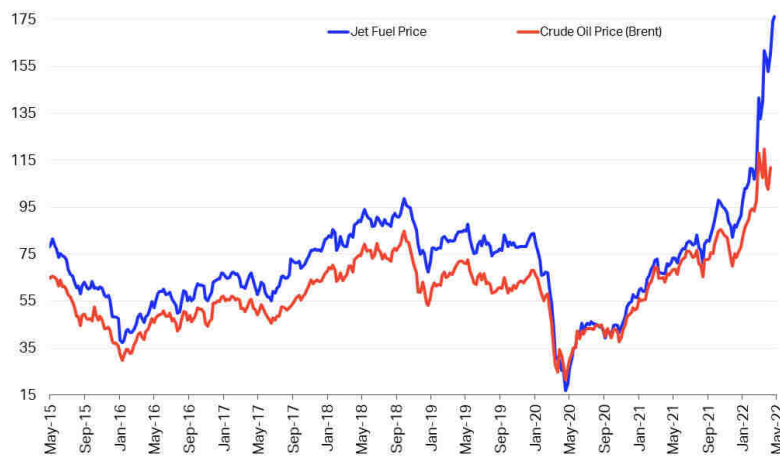
After receiving "numerous calls from the highest levels of government promising to intervene urgently (in the face of) the astronomical and ever-increasing cost of JetA1", the AON said in a statement issued on Sunday - which AFP had access to on Monday - lifting "for the time being" the suspension of domestic flights.

(...)

**Since the invasion of Ukraine by Russia at the end of February and the sanctions imposed in the wake of Moscow, world oil prices have soared, causing a surge in fuel prices in many countries.**

(...)

Jet Fuel & Crude Oil Price (\$/barrel)



Source: S&P Global, Refinitiv Eikon

**My comment:** The possibility of airlines suspending operations due to a surge in the price of kerosene may seem surprising.

The price of a barrel of oil (Brent) has increased during the health crisis, but without reaching records.

The graph above provides a beginning of explanation. Since May 2015, there has been a close correlation between the evolution of the price of oil and that of kerosene.

This has not been the case since the start of the war in Ukraine. If, since the beginning of the year, the price of oil has risen from \$75 to \$110 per barrel (+50%), the price of kerosene has, over the same period, risen from \$80 to \$175, an increase of nearly 100%.

According to some experts, the stockpiling of kerosene by the armed forces is at the origin of this price surge.



*For airlines, the impact is all the greater because the hedges used to reduce the effects of price variations are based on the price of oil, not kerosene. The reason is simple: the volumes of kerosene sold are much lower than the volumes of oil traded, so there are few institutions willing to hedge changes in kerosene prices.*

## **End of the press review**

### **> Air France-KLM Annual General Meeting on Tuesday, May 24, 2022**

**The Air France-KLM Annual General Meeting will be held on Tuesday, May 24, 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 suggest that those of you who are shareholders of the Air France-KLM Group give me your proxy.**

I have published [Flash n°95](#) on how to proceed.

### **> 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.

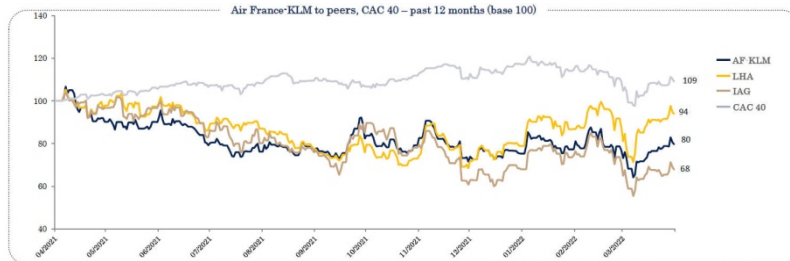
### **> My comments on the Air France-KLM share price trend**

**Air France-KLM shares** closed at **3.860 euros** on Monday 9 May. **It is down this week by -0.85%.** The good results of the Air France-KLM Group were undoubtedly overshadowed by the announcements of the strong increase in the price of

kerosene and the lack of staff in airports for the summer season.

**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 3.26 euros.** The highest price target is 5.50 euros, the lowest 1.30 euros.

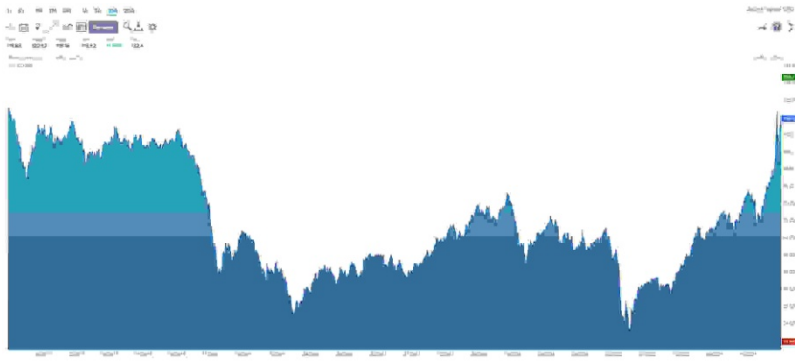
You can find the details of the analyst consensus on my blog. I do not take into account the opinions of analysts prior to the beginning of the health crisis.

**Brent crude oil (North Sea) is down this week by \$3 to \$106.**

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

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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