

AF-KLM to emerge stronger from health crisis



I Letter from the Director of Air France-KLM

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Representative of the employees and former employees shareholders PS and PNC

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Editorial

Dear readers,

Since the announcement of the Air France-KLM capital increase with preferential subscription rights (DPS), many of you have written to me. I have done my best to reply to all of you.

You can find the essential information by reading my [Flash n°98](#).

Between now and Wednesday, I will make available on [my website](#) all the documents I have collected.

Moreover, in my [letter n°859](#), I pointed out that since the beginning of the war in Ukraine, there was no longer any correlation between the evolution of the price of oil and that of kerosene. This is why I present you from now on each week the evolution of the price of the barrels of Brent and kerosene, at the end of the letter.

François

Monday's Press Review

> **Paradoxically, Air France-KLM will emerge stronger from the**

health crisis

(source Les Echos) May 25 - **The rescue of Air France-KLM** will have been very expensive, but it **will have been effective**. It will not only have enabled the group to avoid bankruptcy in 2020 but also to continue its investments, and finally to emerge stronger from the Covid crisis. **Of all the major European air transport groups, Air France-KLM is the one that has managed to maintain the largest offer during the Covid crisis. This has** enabled it to regain market share, particularly in France

Air France-KLM is also one of the few European carriers that has not had to cut back on its aircraft orders. On the contrary! Air France-KLM has even taken advantage of the crisis to place the largest Airbus order in its history, in order to renew its medium-haul fleet and ensure the growth of its low-cost subsidiary Transavia France, which will pass the 100 aircraft mark this summer. And all this while reducing its costs and CO2 emissions.

Air France-KLM has also taken advantage of the crisis and its positive impact on the cargo market to find a new partner and major strategic shareholder in Rodolphe Saadé and the CMA CGM group. And **once most of the state aid has been repaid, it is not entirely out of the question that Air France-KLM could still catch up with Lufthansa and IAG in the consolidation race, with ITA Airways or other opportunities**

However, what is most surprising is the progress made on its costs and competitiveness. The support of state shareholders, added to the urgency of the crisis, has enabled Air France and KLM to increase cost reductions. To the point of achieving better financial results than its two main "comparables", IAG and Lufthansa, in the first quarter of 2022.

Part of this performance is the result of government measures to support short-time working. However, this unprecedented cost reduction is generally sustainable. **By 2022, the transformation plan** - and in particular the reduction in headcount - **should represent 1.4 billion euros in recurring savings at Air France and 800 million euros at KLM.**

This increased competitiveness, added to the strong recovery in traffic and an offer still slightly higher than that of its competitors, equivalent to 90% of the 2019 level this summer, have enabled Air France-KLM to maintain its pre-crisis objective of an operating margin of 7% to 8% from 2024. This will allow the former European airline's red lantern to return to the pack, thanks to a crisis that could have put it in the broom wagon.

My comment: *As during the "subprime" crisis in 2009, Air France-KLM has taken advantage of its highly diversified network to redeploy its aircraft to the least affected regions.*

The Franco-Dutch group is also reaping the benefits of its transformation plan

launched in fall 2019.

> Anne Rigail, the wings of desire

(source Le Figaro) May 28 - **With the Covid crisis**, when the entire air transport industry was down and its future very uncertain, **every decision was a gamble. At the head of Air France, Anne Rigail made choices that were sometimes very different from those of her competitors.** Thus, she opted before anyone else for total ticket flexibility. This measure is still in force, while competitors are tightening all the bolts. But above all, **it insisted that Air France maintain a minimum offer on almost all its network.** She is now reaping the benefits of this: the planes are full and the company has gained substantial market share.

Its flair is based on its experience. Anne Rigail, one of the few women to head an international airline, always puts herself in the passenger's shoes. She began her career at Air Inter - and what better school could there be than this Franco-French company which, long before EasyJet, invented the "easy plane"? Since then, most low-cost airlines have adopted this model and its simple pricing.

As head of Orly and then Roissy for Air France, she learned how to juggle all the different aspects of a stopover and how to best meet passengers' expectations. Anne Rigail has learned her lesson: for customers, simple things are the most effective. Today, **the satisfaction of Air France customers remains her main concern.** The competition has to be careful: it wants to be unbeatable on this issue.

It is convinced that while price is a key criterion, high quality of service is just as important. **"The planes must be on time, but above all we must assist passengers in case of irregularities"**, she says.

(...)

Anne Rigail is a tireless worker (...) She sometimes sleeps in her small apartment in Roissy to be on the job at dawn. And to **see, in despair, the queues to pass the police control on departure and arrival at Roissy, because 180 civil servants, who had been displaced during the pandemic and the drop in traffic, have not been reinstated by the Ministry of the Interior.**

Similarly, her monthly discussions with Alain Krakovitch, the head of Voyage SNCF, for better coordination between rail and air, have not reduced the queues for the morning purchase of a ticket at Roissy station. She bitterly regrets this:

"Transportation is a long-term strategy, but it is also a succession of details that all matter," she told us, when she was in charge of customer experience at Air France. This is probably the reason why 50% of the airline's business class passengers are leisure passengers. A unique case in the world. But it is a specificity that is very useful to Air France with the increasing scarcity of business travel.

Anne Rigail chose the aeronautical industry out of desire as much as pleasure, because she is passionate about the incredible technical evolution of aircraft. **With Ben Smith, the CEO of Air France-KLM, she is defending a more sustainable policy and is multiplying innovative experiments such as flights with a high proportion of sustainable fuel, which** will be the norm tomorrow. In the midst of the Covid crisis, when all the airlines were keeping a low profile, she was pushing Air France to buy new, more fuel-efficient aircraft. This shows how much it believes in the aircraft of tomorrow.

My comment: *If this article insists on the good initiatives of Air France during the health crisis, we should not forget KLM.*

Anne Rigail and Pieter Elbers worked together continuously during the health crisis. There were frequent exchanges, so that as soon as one airline, Air France or KLM, successfully tested an idea, the other airline was inspired by it.

KLM was the first European airline to increase its cargo offer by using passenger aircraft to carry exclusively freight.

> **Report of the State Agent on KLM's compliance with the conditions of the aid plan**

(source Dutch press) 30 May - In a letter, Dutch Finance Minister Sigrid Kaag and Infrastructure Minister Mark Harbers inform Parliament and the Senate of the latest findings of State Agent Jeroen Kremers regarding KLM's compliance with the conditions of the aid package. **The Senate had requested information from the state agent following the announcement of the Dutch participation in the rights issue of the group.** Normally, Mr. Kremers provides an interim report every six months, but due to the request, he has now shared his "latest observations." Among the most striking findings is the fact that the planned collective labor agreements (CLA) with the pilots will not meet the conditions set. In addition, the planned five percent wage increase for all workers in the CLA will not meet the conditions unless other measures are taken to reduce costs. Kremers notes that he has not been informed about this, although it is part of the agreements.

A spokesperson for Dutch Finance Minister Sigrid Kaag told PNA that the conclusions are "substantial" and make it clear that "we are not there yet. The government will soon discuss the state official's findings with KLM, and the spokesperson stressed that "the starting point is that KLM must respect the agreements it has made."

In response to the report, **KLM emphasized that it had already started to repay the aid received and that it had done better by reducing "controllable costs" by 30% (the condition was a 15% reduction).** KLM further stated that it has continued to implement its sustainability program in accordance with the conditions

set by the government. Regarding **the alleged tax evasion by pilots living abroad**, **KLM said it had formed a working group** with the VNV, FNV and VNC unions to **"quickly find a solution"**, while acknowledging that existing legislation and regulations must be respected. The airline said the problem affects 2.9 percent of the total workforce and is a "small group" of flight personnel.

***My comment:** The Dutch state imposed various conditions on the support measures for KLM. One of these conditions was the implementation of a restructuring plan by KLM.*

Mr. Jeroen Kremers, who has been appointed as the State's agent, has from the beginning of his mission made remarks about the taxation of the income of pilots living abroad.

This is a subject that is not unique to KLM. In most airlines, flight crews live far from their place of work. They regularly use their company's aircraft to reach their departure station, without any apparent difficulties.

> **Why Air France-KLM wants to wrest ITA Airways (formerly Alitalia) from the clutches of Lufthansa**

(source La Tribune) May 27 - (...) Created to succeed the bankrupt Alitalia, ITA Airways looks like a real headache. So why are the two groups trying so hard to seduce the new Italian state-owned airline?

If the interest of the two groups in ITA Airways was known from the launch of the Italian company, **Lufthansa was the** first to leave. At the end of January, it **issued an expression of interest to buy a majority stake in ITA Airways, together with the Italian-Swiss shipowner MSC** (Mediterranean Shipping Company). But the German group failed to obtain a 90-day period of exclusive negotiations from the Italian state, which is determined to raise the stakes.

(...)

The Reuters agency indicates that Lufthansa would like to acquire 20% of the capital of the Italian public company (against 40% was mentioned at the end of January), while its partner would aim for 60%. The balance would remain in the hands of the Italian state for the time being, before a sale between 2024 and 2026 according to the transalpine press.

It takes more to discourage **Air France-KLM**. With its capital increase which will end on June 9 and its agreement with the investment fund Apollo (which will probably take a few months to be finalized), the group will soon be able to free itself from European restrictions on large-scale capital operations.

(...)

AFP reports that the French group **has joined forces with the American investment fund Certares, specialized in tourism and very active on the European market**. Delta Airlines, a shareholder of Air France-KLM and also a

former ally of Alitalia, is also involved.

(...)

In any case, Air France-KLM confirms its intention, announced at the end of last summer, to create a strong relationship with ITA Airways. The French group had indeed started discussions very quickly to establish a new partnership, which could go as far as a "joint-venture", a very elaborate commercial partnership corresponding to the highest possible level of integration between airlines before a merger. **So far, only code-shares have been concluded between ITA Airways, Air France and KLM.** At the same time, the Skyteam alliance has offered the new airline the seat left vacant by Alitalia.

The situation will become clearer in the coming weeks. The Italian state must decide in the coming weeks between the two offers, which are two in number, unless there is a surprise. The sale should then be finalized by the end of June.

In the meantime, **the French and German appetite to strengthen their position in Italy is undeniable. And this confrontation has been going on for fifteen years, after many battles during the Alitalia era.** However, ITA Airways is still only an ersatz of the emblematic Italian airline. Despite a proliferation of announcements, its fleet is still limited to less than 60 aircraft, including eight long-haul A330s and A350s. The bulk of the effort is still to come to reach 78 aircraft by the end of the year and 105 by the end of 2025. For this summer, its program includes 64 destinations, including 23 domestic, 34 regional and 7 intercontinental. This is 20 more than a few months ago, but the company is still far from the sector's big players. On the

other hand, **joining forces with ITA Airways is undoubtedly the best way to gain a strong foothold in the powerful Italian market.** Before the crisis, it was Europe's 5th largest market with more than 150 million passengers, and even ranked 4th if only international traffic is taken into account. The northern part of the country, served by Milan airport, where ITA Airways has managed to retain most of Alitalia's slots, is a major business market with high profitability

The network inherited from Alitalia offers major synergies with that of Lufthansa and Air France, with a strong presence in Milan and its significant business traffic, as well as in Rome and its formidable tourist potential. This dichotomy has been one of Alitalia's main weaknesses. **For years, the company has been forced, partly for political reasons, to maintain a dual hub system, dividing its strengths and resources.**

Limited in its resources, ITA Airways has been forced to refocus and for the time being deploys its long-haul flights on the Italian capital alone, except for a first flight between Milan and New York. This is an understandable strategy, given that Alitalia has lost some of its feathers by playing both sides of the fence, but it leaves plenty of room for Air France-KLM and Lufthansa in northern Italy. It is up to the two groups to attract high value-added passengers to their own hubs, either on their own or in partnership with ITA Airways.

ITA Airways could also provide an additional source of revenue by integrating a joint venture like Alitalia did on the transatlantic route. For 10 years, the latter operated alongside Air France-KLM and Delta Airlines. Although the potential volume of ITA Airways business is still low, the new Italian company seems determined to develop its business in the United States. Of its 7 intercontinental destinations, its network includes Boston, New York, Los Angeles and Miami.

***My comment:** Part of the problems encountered by the defunct Alitalia comes, as explained in the article, from the difficulty for the Italian company to manage its double hub with disparate customer profiles.*

The Italian state has announced that it wants to make a decision by the end of June. Meeting this deadline would be a first in the history of the Italian airline.

> The chaotic awakening of air transport

(source L'Opinion) May 27 - Empty airports, grounded airplanes, air traffic in free fall and feared to be at the bottom of the hole for a long time All this is ancient history.

The revival of tourism is turning the page on Covid, and the stewardship does not always follow. The Dutch airline **KLM was forced to take another drastic measure on Thursday: it suspended ticket sales for all flights from Amsterdam-Schiphol airport until Monday.** One of the busiest airport hubs in Europe before the pandemic is completely congested due to a shortage of security personnel, among other things. Chaos has reigned for several weeks. Between fights between passengers and long queues, the tension does not subside. **Unions** of baggage handlers and security companies are threatening to go on strike next week and are **demanding a reduction in the number of flights to ease congestion at the airport.** KLM has not turned a deaf ear to this demand, as it had cancelled dozens of flights during a previous traffic surge during the last weekend in April.

This does not solve the basic problem: **the staff shortage. A "post-pandemic" problem, from which the airline sector is not the only one to suffer, but which is crucial as the summer vacations approach.** The low-cost airline Transavia Netherlands has been forced to cancel some 500 flights during the summer season due to a lack of cabin crew. The same cause, same effect for EasyJet, which will also have to reduce the number of seats in its A319 fleet in the United Kingdom, in order to comply with the British standard of one cabin crew member per 50 seats. In early May, IATA, the world's airline association, called for "urgent action" to address the causes of congestion at many airports.

(...)

According to ACI Europe's managing director, Olivier Jankovec, "it is **now a matter of re-hiring in a very tight labor market throughout Europe. But it is impossible to make adjustments overnight given the security accreditation processes and the time required for training.** The recruitment difficulties are "enormous",

confirmed Augustin de Romanet, CEO of the ADP group, last month on BFM Business.

(...)

The overall volume of passengers in March 2022, the last known figure, has never been so close to pre-pandemic levels of 2019, even if it remains 41% lower according to IATA figures. Spring should amplify the normalization underway

This summer, for example, **Air France expects to operate 90% of its capacity compared to 2019**. The French airline, which is not affected at this stage by the congestion of foreign airports, has called on 200 ground staff on fixed-term contracts between April and September (70% at Roissy and Orly, the rest in the major provincial cities) to manage the summer rush as best as possible. After having carried out large-scale voluntary redundancy and contractual termination plans, and having made several thousand employees leave over the past two years, the French airline is also in a recruitment phase. Among pilots, in particular: no less than 300 will join Air France over the year.

(...)

My comment: *Why is it so difficult to recruit at Roissy and Orly airports?*

An article in Les Echos, published on May 28, offers the following explanation:

"In the shadow of the airlines, the service providers suffer from a lack of appreciation of their jobs and offer unattractive hours. This is not enough to attract people. All the more so since, with the latest increase in the minimum wage, the first eight coefficients of the collective agreement are now at the minimum wage."

Stock market press review

> Air France-KLM's offer includes a high but consistent discount

(source Agefi) May 25 - **The figure is impressive**. To raise 2.26 billion euros - or 80% of its market capitalization before the announcement of the operation - and to repay part of its debts, **Air France-KLM is going to issue new shares at a price 73% lower than the closing price of the share on May 23. On the surface, the discount is massive, but in reality "it is standard, given the market context and the size of the issue,"** says Alexis Bauza, executive director of equity capital markets at Natixis CIB, which is one of the banks leading the transaction with Deutsche Bank, HSBC, Crédit Agricole CIB and Société Générale.

"The 73% discount on the face value is not representative, we have to look at the discount on the value of the share minus the preferential subscription right [DPS]. On the basis of the ex-DPS price, the discount is 40%," explains Alexis Bauza. **This level**, still relatively high, takes into account the difficult market

conditions and the high stock market volatility of the airline sector. It **is** also **consistent with the latest operations carried out in the industry: "Lufthansa carried out its capital increase last autumn with a discount of 39.3%, and EasyJet granted a 35.8% discount last September"**, says the Natixis CIB expert.

The amount of the DPS, which amounts to 2.345 euros, "is mechanically explained by the size of the offer and the size of the discount", underlines another banker. Each DPS giving right to three shares at a discounted price, its value is calculated accordingly. These rights, which can be sold on the market from 7 June, will be the subject of intense exchanges to enable **CMA CGM to take a** stake in Air France-KLM. Two of the company's reference shareholders, China Eastern Airlines and Delta Air Lines, will sell part of their rights and will exercise the remainder with a view to making a clean operation.

The logistics giant **should recover up to 9% of the airline's capital for a maximum cost of 400 million euros. China Eastern Airlines and Delta Air Lines will see their weight diluted from 9.6% and 5.8% to 4.7% and 2.9% respectively. The French and Dutch governments** will exercise all of their preferential subscription rights - via a debt compensation in the case of France - and will therefore **retain 28.6% and 9.3% of the capital respectively**. With more than 37% of the shares, French shareholders have regained control, while the stranglehold that prevented Air France-KLM from participating in the sector's consolidation is being loosened.

End of the press review

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

The Annual General Meeting of Air France-KLM was held on Tuesday 24 May 2022 at the Hilton Hotel in Roissy.

Nearly a thousand employees and former employees gave me their proxy.

All the resolutions were adopted.

It should be noted that the two representatives of employees and former employees who are shareholders were officially appointed by the General Meeting:

. For the pilots, Michel Delli-Zotti, with Guillaume Gestas as a possible replacement, succeeds Paul Farges.

.

For the cabin crew and ground staff, I have been reappointed, my possible replacement being Nicolas Foretz (cabin crew).

Thank you all for your trust and loyalty.

> **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.

> **Management of employee investment funds. Good to know**

When you invest money in one of the Air France FCPE funds, you get shares in these funds. You do not hold shares directly.

It is the supervisory boards, which you elected in July 2021 for a five-year term, that manage the funds and make the decisions.

The Aeroactions, Majoractions and Concorde funds only hold Air France shares.

The Horizon Epargne Actions (HEA), Horizon Epargne Mixte (HEM) and Horizon Epargne Taux (HET) funds manage portfolios of various stocks.

My comment: *If you would like more information on the management of the various Air France FCPEs, please consult [my website navigaction, section Air France-KLM employee shareholding](#).*

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

Air France-KLM shares closed at 1.875 euros on Monday 30 May. It was quoted at 2.030 euros on May 24. It is down this week by -7.64%.

The Air France-KLM DPS is at 1.630 euros at the close on Monday, May 30. It was quoted at 1.441 euros on May 25 at the opening. It is up this week by +13.12%.

If we consider the overall value of the share + DPS, it has risen in one week

from 3.471 to 3.505 euros, a variation of +0.98%.



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 average (consensus) analyst price for AF-KLM shares was 3.26 euros before the capital increase was announced. The highest price target is 5.50 euros, the lowest 1.30 euros.

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

> My comment on the evolution of fuel prices

Since the start of the war in Ukraine, there is no longer any correlation between the price of a barrel of Brent crude oil and a barrel of Jet Fuel.

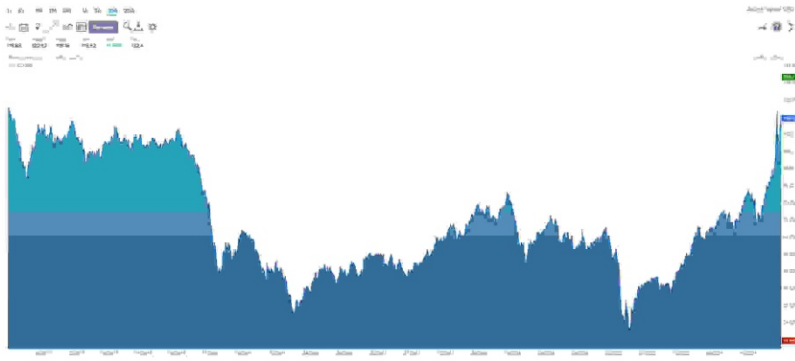
Jet fuel is up this week by \$12 to \$158 a barrel.

Brent crude oil (North Sea) is up this week by \$8 to \$121.

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](#)

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

Air France-KLM director representing employees and former employees who are PNC and PS shareholders.

You can find me on my twitter account @FrRobardet

When I was elected, I received the support of the CFDT and the UNPNC. This press review deals with subjects related to the Air France-KLM shareholding.

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