

AF-KLM signs final agreement with Apollo



## 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

### > Air France-KLM signs a definitive agreement with Apollo to receive 500 million euros

(source Agefi) July 14 - **Air France-KLM announced Wednesday evening that it has signed a definitive agreement with the Apollo fund**, which will enable the Franco-Dutch airline group to receive an investment of 500 million euros.

Specifically, **funds and entities managed by Apollo will subscribe to perpetual bonds issued by an operating subsidiary of Air France**, itself a subsidiary of Air France-KLM, **for an amount of 500 million euros.**

This Air France subsidiary - specially created for the occasion - will own a fleet of spare engines dedicated to the airline's engineering and maintenance activities, Air France-KLM said

**The Franco-Dutch group will use the €500 million proceeds to repay the French government's perpetual bonds.** In the spring of 2021, Paris had converted its €3 billion shareholder loan into perpetual bonds, a quasi-equity instrument. The airline group further said that the perpetual bonds subscribed by Apollo's funds and managed entities "will bear interest at 6% for the first three years, after which gradual increases and a cap will be applied." **The group will have the option to redeem the bonds at any time after the third year**, he added.

(...)

The transaction is expected to be finalized in July, the airline group said.

**My comment:** *The ambition of the Air France-KLM group is always to reimburse the state aid as quickly as possible.*

*The Dutch state aid has been fully repaid.*

*The collaboration with Apollo will enable us to get closer to the objective of reimbursing 75% of the French State aid by the end of 2022.*

*The group would then be able to proceed with acquisitions. Until then, the constraints imposed by the European Commission allow the Franco-Dutch group to buy up to a maximum of 10% of a player in the sector.*

### > **KLM ground staff are better paid and can work abroad**

(source OTP, translated with DeepL) July 13 - **The new CAO will take effect retroactively on March 1** and will be in force for one year. **On October 1, the approximately 12,000 employees will receive an additional 2% salary with a minimum of 80 euros. On March 1, another step will follow** for these employees who, among other things, handle baggage, work in the technical department and accompany the planes to and from the runways. The KLM head office staff is also covered by the collective labor agreement.

(...)

In addition, **the two lower steps of the salary scale will eventually disappear, so that the starting salary will increase.** In addition, young people will no longer be placed on their own scale.

Finally, **ground staff will no longer have to pay for parking at Schiphol and their mileage allowance will be increased.** And administrative staff will be able to work abroad (...) twice a year. This is allowed for a total of eight weeks

**At the beginning of the year, ground staff already received a 5% pay rise. At that time, it was two postponed salary increases of 2.5%, which had not yet been implemented due to the Covid-19 crisis.** Some KLM staff, such as baggage handlers, are also covered by the Schiphol agreement, which means they will be paid 5 euros more per hour during the summer

(...)

**The airline itself believes that the new CAO "will bring calm to the organization".** The agreements are also intended to offer prospects to current and future employees.

**My comment:** *KLM provided the following clarification:*

*"Rampant inflation, declining purchasing power, high labor pressure and the tight labor market are new circumstances to which KLM must respond.*

*That is why a wage package of 2% on October 1, 2022 and 2% on March 1, 2023 has been agreed.*

*A floor of €80 applies to both salary increases, to ensure that the financial situation of those on low incomes is strengthened. "*

## **> Volotea entrusts AFI KLM E&M with the maintenance of its A320 fleet**

(source Aeroweb) July 16 - **Volotea will send its A320 aircraft to Air France Industries KLM Engineering & Maintenance for full airframe maintenance**, which will be performed mainly during the winter seasons. This agreement, which will come into effect in January 2023, will last for the next five and a half years

**AFI KLM E&M has been selected to perform 120 C-Checks** following a rigorous tender process. Depending on operating conditions, the C-Checks, performed every two years, consist of inspection, overhaul, maintenance and replacement of aircraft parts, and also include preventive maintenance.

Carlos Muñoz, CEO of Volotea said: "This long-term agreement allows us to benefit from first class maintenance services for our A320 fleet. **Working with a leading and reputable MRO like AFI KLM E&M will allow us to benefit from the highest level of inspection services.** In addition, this agreement represents an essential quality guarantee for Volotea, an airline whose top priority is safety. Finally, I **would like to remind you that more than 50% of our activity is concentrated in France, which is our main market today. We are proud to work with local companies.**

Anne Brachet, EVP Air France-KLM Engineering & Maintenance, said: "We are very pleased to welcome Volotea among our customers and proud of the additional recognition this brings to the quality of our aviation maintenance services. With the proximity and flexibility offered by our global MRO network, our dual Airline-MRO expertise and our in-depth experience of the A320 product, we will ensure that Volotea's fleet is maintained at the highest possible level of operational excellence."

**My comment:** *Volotea, which has a fleet of 40 aircraft (20 A319s and 20 A320s), entrusts AFI KLM E&M with Type C inspections.*

*For a surprise, it's a (good) surprise: last May, Volotea announced that it was entrusting these operations to Iberia Maintenance. This information is still available on the Iberia Maintenance website. The reasons for this change of heart have not been disclosed.*

*Type C inspections concern the airframes. This includes the fuselage, wings, engine nacelles, empennages (horizontal and vertical), flight control surfaces and landing gear.*

*They take place approximately every 18 months or according to a number of flight hours defined by the manufacturer.*

*These visits last one week. The entire structure of the aircraft is examined in detail. The fuselage is ultrasonically inspected for cracks. Important engine parts are checked as well as the wiring. All instruments in the cockpit must work perfectly.*

*The engines of the Volotea fleet are maintained by SR Technics, a Swiss company (formerly Swiss Technics).*

## > **Transavia, Lufthansa, Ryanair... European skies paralyzed by strikes**

(source Les Echos) July 13 - 72% of flights delayed in Brussels, 67% in Eindhoven, 62% in Roissy-Charles de Gaulle, 7.8% of flights canceled in Frankfurt... **As expected, the beginning of July is very disrupted in airports throughout Europe**, confirming the fears of a chaotic summer that industry professionals have been nourishing for several weeks.

France, Belgium, the United Kingdom, Germany: everywhere, delays and cancellations are undermining European skies and the major vacation departures. The **cause is the numerous calls for strike action by airline and airport employees**, who are demanding higher wages and better working conditions in an inflationary context. **But also a glaring lack of staff, at the very moment when traffic is suddenly picking up again** and exceeding, in some places, the levels observed before the health crisis.

As the busy weekend of July 9 and 10 approaches, ADP is nevertheless relieved: on Friday 8, employees at Orly, Roissy and Le Bourget voted to lift their strike notice after reaching an agreement with management on wage increases.

In Bordeaux-Mérignac, on the other hand, the manager SA Aéroport was forced to cancel 50 of the 180 flights scheduled for Friday, due to a massively followed call from FO, which denounced "understaffing for years" and the deterioration of working conditions, causing "burn-out"

**On Wednesday, Transavia**, the Air France-KLM low-cost airline, **had no choice but to cancel 15% of its flights in France**. According to the SNPC union, which is calling for a five-day walkout, **some 300 cabin crew, stewards and stewardesses (out of 700) did not show up that day - a figure disputed by management**. On Friday, three unions of flight attendants had accepted an agreement providing for "measures to improve work-life balance and purchasing power"

**Anger is not sparing Ryanair**, the most buoyant of European airlines, either. Buoyed by the Irish group's flourishing summer prospects, unions in five countries

(France, Spain, Belgium, Portugal and Italy) began a showdown with management in June, which refused to give in. Six days of strikes led to 70 disciplinary proceedings and one dismissal last month, but this did not calm the tempers.

In Spain, in particular, the movement has led to 15 cancellations and 234 delays between Tuesday and Wednesday, according to the USO union. In France, the SNPL pilots' union called last Thursday for a strike at Ryanair on July 23 and 24 to demand wage increases, a strike that Belgian pilots will join, RTBF reported Monday .

**SAS, finally, has also had to deal with a strike by the main pilots' union, which refuses to accept the wage cuts demanded by management as part of the rescue plan of the Scandinavian company.** Since Sunday, the latter no longer makes exceptions to allow passengers of blocked charter flights to return home.

***My comment:** When airlines set up their summer flight schedules at the beginning of the year, some put more flights on sale than they needed in view of their business recovery forecasts.*

*They planned to cancel some flights depending on the number of passengers, believing they could offer alternatives to all passengers.*

*But neither the airlines nor the airport managers had anticipated the intensity of the recovery in activity, especially for continental flights. As a result, airports and some airlines are short-staffed, causing many flights to be canceled and passengers unable to depart.*

*In addition, airlines and airport managers, whose finances are at their lowest, are struggling to compensate for inflation, leading to protests.*

*In France, the consumer price index reached 5.8% in June over one year. The French Labor Code provides for an automatic increase in the minimum wage (Smic) when the level of inflation exceeds 2%.*

*Since the beginning of the year, the minimum wage has been increased twice: on January 1 (+0.9%) and on May 1 (+2.65%). A third increase (+2.01%) will take place on August 1.*

*Within the Air France-KLM group, only Transavia France and KLM (see above) have already contracted salary increases.*

## > **Delta Airlines orders up to 130 Boeing 737-10 aircraft**

(source Journal de l'Aviation) July 18 - **Delta Airlines has signed a contract with Boeing for 100 737-10s** with options for 30 additional aircraft. Deliveries are scheduled to begin in 2025 and run through 2029 (2031 for options).

Capable of operating from all of Delta's hubs, the aircraft are intended to renew the company's medium-haul fleet, but will also increase its capacity since they will have more capacity than the aircraft they replace. The company plans to install 29% premium seats (First class and Comfort Plus). On the other hand, **Delta Airlines warns that "if changes are to be made to the cockpit, we will have to rethink our order" because communality with the rest of the family is essential for it.**

Delta has also contracted Boeing Global Services to reconfigure the cabin of 29 737-900ERs. The first aircraft is currently under construction and is scheduled to return to service this year. All will have been modified by 2025.

***My comment:** Delta Air Lines was the only major U.S. airline that had not yet placed an order for the B737 max.*

*By announcing a reservation if "cockpit modifications are required", Delta Air Lines is helping to increase pressure on the U.S. Congress.*

*Boeing hopes to obtain a waiver so that it does not have to install a new warning system in its future B737-10 max. Read the article "Boeing ready to give up on the 737 MAX 10" in [my previous letter](#).*

## > **Regardless of the pandemic, Boeing expects 82% more planes in the sky by 2041**

(source AFP) July 17 - The Covid-19 pandemic has not tempered the growing appetite for air travel, and the **number of aircraft in the world should climb by 82% over the next 20 years, Boeing estimates** Sunday. **The global fleet, across all manufacturers, is expected to reach 47,080 aircraft in 2041, up from 25,900 in 2019**, the group detailed in an annual report released on the eve of the opening of the Farnborough Airshow in the United Kingdom.

This is slightly less than the 49,405 aircraft in 2040 forecast last year, as Boeing has revised its forecast for annual global economic growth downwards (+2.6% instead of +2.7% on average). This should result in lower than expected passenger traffic growth (+3.8% instead of +4.0%). However, this is slightly more than the latest Airbus forecast, unveiled on Monday, which estimates that the world fleet will reach 46,930 aircraft in 2041, compared with 22,880 aircraft in service in 2020

**Boeing now expects to deliver 42,710 new aircraft over the next 20 years** (41,170 excluding the highly uncertain Russian market), 900 fewer than in its forecast last year. "In 2022, demand is no longer the main obstacle (to aviation market growth) since people can travel again," Darren Hulst, Boeing's head of commercial marketing, said in a briefing with reporters. "It's the supply side," with all

the problems of supply chains and personnel shortages.

Already the world's single-aisle fleet, used more for domestic traffic, is back to 98% of what it was before the pandemic. (...) The rebound in international flights, on the other hand, is faster than initially expected.

With the explosion of online commerce, the trend is accelerating even more for aircraft carrying goods: **Boeing forecasts that the fleet of cargo aircraft will grow by 80% by 2041.**

Every year, the manufacturer takes into account more and more new constraints in terms of sustainable development, such as the price of sustainable aviation fuel or possible new taxes on carbon, Darren Hulst said. How much will these measures really affect the market? "That is still largely unknown," he said.

**My comment:** *If the growth forecasts of aircraft manufacturers are realized, the decarbonization objectives of air transport will be more difficult to achieve.*

*It is crucial that the alternative fuel production sector be encouraged and supported in all regions of the world.*

*Otherwise, a whole sector of the world economy - aircraft manufacturers, airlines, the tourism sector and their employees - will suffer the consequences. In France alone, this represents more than 800,000 employees.*

## **Stock market press review**

### **> Lufthansa returns to adjusted operating profit in the second quarter**

(s(source Agefi) July 15 - German airline group **Lufthansa said Friday it posted a positive adjusted operating profit in the second quarter, according to preliminary unaudited data.**

On the Frankfurt Stock Exchange, **Lufthansa shares jumped following the announcement and gained 7.2% to 6.13 euros around 4:00 pm. The other airlines are also soaring: Air France-KLM is up 6% in Paris, IAG, parent company of British Airways and Iberia, is up 4.5% in London.**

Over the period from April to June, the airline saw its revenues more than double to 8.5 billion euros, compared to 3.2 billion euros a year earlier, according to this preliminary data. Adjusted

operating profit (Ebit) was between 350 million and 400 million euros, compared to a loss of 827 million euros a year earlier, and a loss of 591 million in the first quarter.

(...)

**The company will present its full quarterly results on August 4.**

**My comment:** *This article illustrates the difficulty of predicting stock price changes.*

*The simple announcement by Lufthansa of a good result forecast for the second quarter of 2022 was enough to push up the prices of its main European competitors.*

## **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 sites of the managers.

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 Épargne Actions (HEA), Horizon Épargne Mixte (HEM) and Horizon Épargne 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**

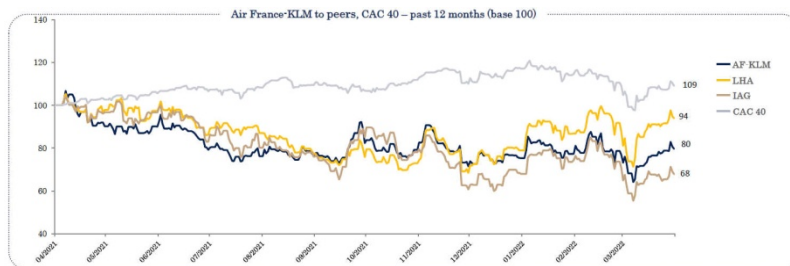
**Air France-KLM shares closed at 1.27 euros on Monday 18 July. It is up sharply this week by +14.83%.**



Since the beginning of the capital increase operation, it has lost nearly 32%.

Several reasons explain this decline. The first is specific to Air France-KLM: it is the mechanical consequence of the capital increase.

The other two reasons are valid for all airlines: on the one hand, the acceleration of inflation, and on the other hand, the numerous flight cancellations planned during the summer throughout Europe.



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

**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 was delayed.

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

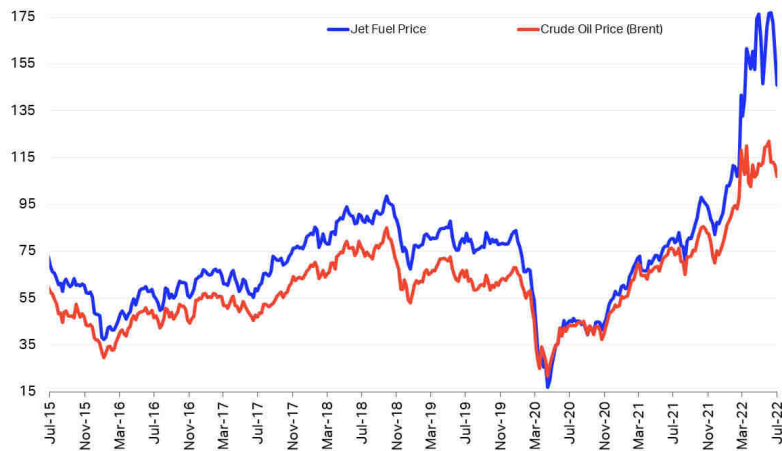
**The average (consensus) analyst price for AF-KLM shares after the capital increase is 1.39 euros.** The highest price target is 1.90 euros, the lowest 0.85 euros. I only take into account analysts' opinions after the May 2022 capital increase.

You can find the details of the analysts' consensus on my blog.

**> [My comment on the evolution of fuel prices](#)**

**Since the beginning of the war in Ukraine, there is no longer any correlation between the price of a barrel of Brent oil and the price of a barrel of Jet Fuel.** This is very clear on the graph below, which covers the period June 2015 - July 2022.

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



Source: S&P Global, Refinitiv Eikon

According to specialists, this increase is due to an increase in the fuel reserves of the armed forces, which are composed solely of Jet Fuel.

In fact, for the past few years, to ensure the strength of the infrastructure, the French Army has favored a single fuel policy aimed at powering all equipment, land vehicles and generators with jet fuel for air use.

*Jet fuel prices by region (source IATA)*

15 July 2022	Share in World Index	cts/gal	\$/bbl	\$/mt	Index Value 2000 = 100	vs. 1 week ago	vs. 1 month ago	vs. 1 yr ago
<b>Jet Fuel Price</b>	100%	348.47	146.35	1155.75	400.08	0.1%	-17.3%	85.7%
Asia & Oceania	22%	320.74	134.71	1064.21	384.90	-2.7%	-23.3%	75.5%
Europe & CIS	28%	355.56	149.33	1178.25	402.35	1.8%	-17.0%	89.5%
Middle East & Africa	7%	327.81	137.68	1087.09	411.15	-0.7%	-20.7%	79.8%
North America	39%	360.46	151.39	1196.01	402.48	0.5%	-14.0%	89.0%
Latin & Central America	4%	369.23	155.08	1225.12	429.59	0.1%	-13.5%	91.2%

**The barrel of Jet Fuel in Europe is up slightly this week by \$2 to \$149. It had fallen \$30 the previous two weeks. It was at \$79 just a year ago.**

**Brent crude oil (North Sea) is steady this week at \$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.

**This information is not intended to be a solicitation to buy or sell Air France-KLM shares.**

You can react to this press review or send me any information or thoughts that will help me better carry out my duties as a director of the Air France-KLM group.

**You can ask me, by return, any question relating to the Air France-KLM group or to employee share ownership...**

See you soon.

To find the last press reviews of Monday, it is [here](#)

**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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