

Clément Beaune does not close the door to a cap on flights in Paris airports

I Letter from the Director of Air France-KLM

At the forefront of more responsible European aviation, we are bringing people together to build the world of tomorrow.

(Air France-KLM Group's raison d'être)



François Robardet

Representative of the employees and former employees shareholders PS and PNC

N°912, May 15, 2023

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Monday's Press Review

Editorial

Dear readers,

The Annual General Meeting of Air France-KLM will be held on Wednesday 7 June 2023 at 2:30 pm at the Hilton Hotel in Roissy. 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 special Flash on Thursday, May 18, on how to proceed.

Happy reading

> Noise pollution: Clément Beaune does not close the door to a cap on flights in Paris airports

(source 20Minutes) May 11, 2023 - (...) This Tuesday evening, **a delegation of elected officials** was received at the Ministry of Ecological Transition to meet with Clément Beaune.

(...)

)

Mobilized at the initiative of elected officials and associations concerned by the nuisances of the airports of Roissy, Orly and Le Bourget, including the Association of Defense against Air Nuisances (Advocnar), the demonstrators, among which many residents, are protesting **against the upcoming adoption of the Environmental Noise Prevention Plan (PPBE) in the Advisory Commission on the Environment.**

Announced last December, **this regulatory document, which** we were able to consult, **is based on a hypothesis of an increase in air traffic of the order of 180,000 additional flights per year at Roissy**, which would then rise from 500,000 to 680,000 annual flights. This is precisely what Terminal 4 of Charles-de-Gaulle airport would have brought, a project abandoned by the government in February 2021. "This is the opposite of what we are asking for," explains Audrey Boehly, spokesperson for the association No to T4, **"we are campaigning for a reduction in air traffic."** For several months, elected officials and local residents have been denouncing the effects of aviation on their health, nature and the climate.

If technological measures have been mentioned by the government to reduce these effects, they do not convince the protesters. "There is no technological solution today that would allow us to lower the noise and to go back under the tolerable threshold of the WHO (below 45 decibels A Lden during the day and 40 decibels A Lden at night - N.D.L.R.), adds Audrey Boehly. And the observation is the same at the environmental level.

(...)

The only solution for elected officials and local residents: reduce traffic. This is why **they have been joined by their counterparts from Orly and Le Bourget airports, also victims of air traffic.** They are all asking for a reduction of nearly 10% in air traffic compared to the figures recorded in 2019, the last year before Covid-19, i.e. a ceiling of 440,000 movements at Roissy, 200,000 at Orly (the current ceiling is 250,000) and 50,000 for Le Bourget (compared to 55,000 currently). **"This is what has been done at Amsterdam's Schiphol airport, with traffic similar to that of Roissy, which proves that it is possible. That it is a political decision,"** adds Audrey Boehly.

This request for a limit is in addition to another one, just as important for local residents, **that of the curfew.** Today, only Orly airport has a curfew established from

11:30 pm to 6 am.

(...)

Contacted by 20 Minutes, Clément Beaune praised the quality of "a serene dialogue" and "quality exchanges" that will continue and says he has proposed a method to move forward concretely on the fight against airport nuisances: "Between now and the summer, impact studies will be launched in the very short term by accelerating the timetable initially established. This approach will make it possible to establish and analyze several scenarios for additional restrictions on airports in the Paris region (caps, curfews, etc.)."

A dialogue that **the delegation of elected officials** recognizes, but through a statement issued on Wednesday, they **deplore that the minister "refuses to discuss the issue of curfew.**

(...)

My comment: *On the difficulty of governing (a company, a town or a region).*

Last week, the president of the Île-de-France region (supported by the hoteliers of the Paris region in particular) was worried about the dwindling return of Chinese customers and called for an increase in the number of flights between France and China.

This week, local elected officials are calling for a reduction in air traffic in the Paris region.

Who to listen to? Those who advocate reducing traffic or those who want more tourists?

As the law stands, if traffic reduction measures are taken to combat climate change, they would have to be shared among the airlines in proportion to their activity at the airport concerned. It would be up to the airlines to choose the destinations to which the reduction would apply.

The first destinations targeted would be the least profitable. In Paris, the question of territorial continuity would arise if Air France's services to Corsica or the French Overseas Departments were concerned.

> Aviation sustainability at risk

(source Luchtvaartnieuws, translated with DeepL) May 11, 2023 - **The cabinet can no longer require aviation to use 14% sustainable aviation fuels by 2030**, reports the Volkskrant. Under pressure from Brussels, the blending requirement has been reduced to 6%. As a result, the climate target may not be met.

The importance of sustainable aviation fuels (SAF) figures prominently in aviation's

plans to become more sustainable. Long-haul flights using batteries or hydrogen are not an option at this time. Blending DAC with regular aviation fuel is therefore the easiest way to achieve environmental gains.

In 2019, the firm reached an agreement with the aviation industry. This resulted in a 14% CAD blending requirement by 2030, which is expected to reduce CO2 emissions to about 11 megatons per year. For the future, the firm has even greater ambitions: **by 2050, only DAC should be used in the Netherlands.** These measures would make the Netherlands a "pioneer in Europe," according to the ministry.

Today, it seems that the cabinet is abandoning this measure. **The Netherlands no longer requires airlines to use 14 percent sustainable aviation fuels by 2030,** a spokesperson for the Ministry of Infrastructure and Water Management (I&W) said. **The decision was made in late April at the request of the European Commission. Europe has recently had its own standard, which is less progressive: only 6 percent DAC.**

***My comment:** The title of the article is a bit provocative.*

It is only about lowering the mandatory level of sustainable aviation fuels. Nothing will stop the airlines from going beyond that.

Will they? Not if it's just the cost of that fuel.

But I am convinced that pressure from consumers, associations and even the financial community will increase in the coming years.

The airlines that make the least effort on this issue risk seeing their funding sources dry up.

The best example is the recent issue by Air France-KLM of two revolving credit lines ("RCF") linked to sustainable development for a total amount of 2.2 billion euros. These RCFs are indexed to sustainable development objectives linked to the Group's decarbonization trajectory.

The cost of these credits is variable and will depend on the level of decarbonization of Air France-KLM.

> Virgin Atlantic expects to return to profitability in 2024, later than expected

(source zonebourse) May 10, 2023 - British carrier **Virgin Atlantic has warned that it will not return to profitability until 2024, pushing back its previous forecast from this year, as the weakening pound, rising costs and higher interest rates**

have offset strong travel demand.

For 2022, Virgin Atlantic reported a pre-tax loss of 206 million pounds (\$256 million) on revenue of 2.9 billion pounds (\$3.6 billion), 98 percent of levels seen in 2019 before the pandemic shut down travel markets.

Virgin, founded by billionaire Richard Branson and 51% owned by Branson's Virgin Group, with the remainder held by Delta Airlines, said summer bookings were ahead of expectations.

***My comment:** Virgin Atlantic operates mainly between Great Britain and the United States. Its clientele is predominantly business, a clientele that is slow to return.*

Like British Airways, its main competitor on this market, it is struggling to emerge from the crisis.

> **Covid: European justice rejects Lufthansa's rescue plan**

(source AFP) May 10, 2023 - The recapitalization of Lufthansa by Germany does not pass with the European justice. **The Court of First Instance of the EU annulled this Wednesday the rescue plan decided in the middle of the Covid-19 pandemic to avoid a bankruptcy of the company,** then paralyzed by travel restrictions.

Launched in the summer of 2020, the plan consisted of the German state taking a 20% stake in Lufthansa, in exchange for a €5.7 billion stake financed by the National Economic Stabilization Fund (WFS), plus a €3 billion loan from the state-owned bank KfW. By the fall of 2022, Berlin had sold its entire stake - at a profit of 760 million euros - allowing the company to return to full private ownership.

The European Court of Justice has ruled that the European Commission, which validated the plan, "**made several errors**", including considering that Lufthansa "was unable to finance itself on the markets" to meet its needs. The judges also considered that the Commission had failed to require a "mechanism to encourage Lufthansa to buy back Germany's stake as soon as possible". **Ryanair also criticized the Commission for not having provided a mechanism for increasing the German state's remuneration while it was a shareholder in Lufthansa.**

The concrete impact of this judgment, which can still be appealed, **remains uncertain. The aid mechanism for the German airline, which saw the German state take a stake in its capital in exchange for new money, has already been implemented.**

Lufthansa "will analyze the verdict and then decide on the way forward," said the group in a statement. The carrier **recalls that it has already "fully repaid the**

stabilization measures approved by the European Commission and about 92 million euros in interest. The Brussels executive, which has not yet reacted, may appeal against this decision to the European Court of Justice, the judge of last instance.

On the Frankfurt Stock Exchange, the court decision did not cause any stir. The Lufthansa share was at equilibrium in the first exchanges, but gave up some ground at the end of the morning.

My comment: *The European justice system, requested by Ryanair, has been quick to give this judgement against Lufthansa.*

It is to be deplored that the European justice system is not as quick to deal with complaints against Ryanair (for a priori illegal aids paid by regional authorities to the low cost airline).

Some of the complaints date back more than ten years.

> **Overseas: the "supercompany" receives a refusal!**

(source TourMaG) May 10, 2023 - On **Wednesday, May 3, 2023**, our colleagues [in the newspaper **Le Monde**] published a paper entitled "**The project of a 'supercompany' for flights to overseas destinations is making a comeback.**" "Consolidation is underway. It is inevitable," admitted Pascal de Izaguirre, CEO of Corsair, to "Le Monde".

If everything is not wrong, as C. Hardin, our air transport specialist, **a large or major part of it seems to be.**

It is an understatement to say that the paper was not well received by Air Caraïbes management.

(...)

In the short message that we were able to consult, **Marc Rochet does not mince his words.**

"In view of the questions that some people may have, we confirm, in agreement with the Group, that **this article is totally unfounded, very far from the economic reality of each of the French long-haul operators.** We are focused on our performance objectives for 2023 and nothing else," signed the CEO of Air Caraïbes.

(...)

"When I see that we are in the same batch as Air Austral and Corsair, considered as the lame ducks of the airline industry, it makes us laugh. It makes you wonder if the article was not teleguided," says another Air Caraïbes manager.

(...)

If Corsair was pushed into the arms of Air France by the government, in return for the

billions granted during the pandemic, amazement reigns at the ministry. "Contrary to what the article suggests, the minister is trying to maintain competition between airlines. He wants the players to be in good financial health. The priority is not to create a supercompany to serve overseas, but rather that there are many players, to lower ticket prices," explains the cabinet entourage. This is news that comes out of nowhere and makes no sense

(...)

"The latest articles on the subject were more about a merger between Air France and Corsair, or any other company, rather than the creation of a supercompany. The analysis that we make of this news is: the national airline would not have refused to get closer to Corsair?" wonders a person close to the management of Air Austral.

(...)

Recently, during a meeting between the management and pilots, Benjamin Smith made a small clarification that showers the hopes of the employees of the carrier led by Pascal de Izaguirre.

"We have a lot of pressure from stakeholders. If there is an opportunity for our business that is interesting, without impacting our commitment to achieve an operating margin of 7 to 8%, then yes we will look. If the company puts that goal at risk or slows it down, then we won't go. And for the companies on those routes, it's not easy," Ben Smith explained a few days ago.

It seems unlikely that Corsair will be included in this framework

My comment: *The companies Corsair and Air Austral were already regularly loss-making before the health crisis. They owe their survival only to the aid provided by the State and local authorities.*

The interest of their takeover by Air France or of their merger with Corsair is debatable, except for the desire to reduce competition on routes to overseas territories. This possibility has been rejected by the government.

> **Ryanair strikes a blow by placing a huge order for 300 Boeing 737 Max-10**

(source La Tribune) May 9, 2023 - **Ryanair has** struck another blow. Accustomed for the last twenty years to orders of pharaonic aircraft, the Irish low-cost airline **announced this Tuesday a colossal order of 300 new Boeing 737-MAX-10, 150 of which are firm and 150 optional**, for a catalog price "estimated at more than 40 billion dollars". A price that airlines never pay, some can get discounts up to 50%. And that obviously did not pay Ryanair who had ended in September 2021 discussions with Boeing on the grounds that the price proposed by the American manufacturer was too high. This time, the boss of the airline group, Michael O'Leary, was pleased that the price was lower than during the previous negotiations. What Dave Calhoun, general manager of Boeing answered that the price was sufficient

(...)

As Michael O'Leary

indicated during a press conference, **it intends to receive its first copies in 2027 with deliveries until 2033.**

(...)

This contract will take over the current order book, which includes deliveries until 2025. **In particular, it will enable the company to renew a large part of its fleet. Half of these 737 MAX 10s will replace some of the 737 NGs, the previous version of the 737 that still makes up the majority of Ryanair's fleet, with more than 400 aircraft.** In line with low-cost principles, the company is counting on a young fleet with a high level of renewal to optimize maintenance costs while maintaining a high residual value for its aircraft. **The average age of its fleet is less than 9 years**

(...)

This desire to grow the fleet should continue this year in view of the strong demand currently at work, before diminishing. As Michael O'Leary himself announced, **Ryanair will take a (small) break in its growth between 2025 and 2027, i.e. between the arrival of the last 737 MAX 8-200 and the first 737 MAX 10.** He justifies this decision first of all by the lack of available delivery slots at Boeing, but also indicates the need for Ryanair to train pilots, cabin crew and engineers to implement this fleet. 10,000 jobs must be created between 2027 and 2033. It also hints that this temporary reduction in capital expenditure will improve cash generation.

In spite of these weighting elements, this new order will nevertheless fully serve **Ryanair**

's growth ambitions. The company **has not given up on its goal of capturing a quarter of European traffic in the next decade. It aims to increase its traffic by no less than 80% over the next 10 years**, with 300 million passengers per year by March 2034. To achieve this, it will rely on the additional capacity offered by the 737 MAX 10.

My comment: *A little personal reflection: I must admit that I find it difficult to bear the environmental attacks against Air France-KLM, which does not mention growth prospects ([read the Group's Strategy page](#)), while I am not aware of any questioning of the Ryanair model, which plans to almost double its activity in ten years.*

Coming back to the article, the characteristic elements of the Ryanair model are mostly well known. Costs are driven down, especially wages, and revenues are diversified.

For example, Ryanair offers discounted tickets, sometimes at prices below the transportation taxes, with the shortfall made up by revenue from ancillary fees :

. commissions on hotel bookings,

. sales to partners of frequent flyer points

. à la carte services available before, during and after the flight: cabin or hold luggage, choice of seats, early boarding, meals on board, etc.

But another source of profit for Ryanair is rarely mentioned: the transactions on the purchase / resale of aircraft.

As mentioned in the article, Ryanair places large orders for aircraft when it is able to obtain (very) high discounts.

Then, when the second hand market is favourable, Ryanair takes the opportunity to resell some of its planes at their purchase price!

A godsend for Ryanair's finances.

> **Latécoère obtains a new financial restructuring**

(source Les Echos) May 11, 2023 - After bitter negotiations, **the State and the American shareholder Searchlight Capital Partners have agreed to save Latécoère**. The Toulouse-based aeronautical equipment manufacturer has announced that it has obtained an agreement in principle on a new financial restructuring.

On the verge of collapse with a net debt of 297 million euros at the end of 2022 for a cash flow of 74 million, the group had to negotiate a global recapitalization agreement under the aegis of the Interministerial Committee for Industrial Restructuring (Ciri).

Searchlight Capital, a 75% shareholder, will subscribe to a capital increase of at least 100 million euros by the end of 2023. It will also provide an immediate loan of 45 million euros, which "will be repaid as part of the capital increase". A shareholder for four years, the fund had already injected 193 million during the previous capital increase in 2021.

In exchange, the State, which guaranteed nearly 220 million euros of PGE during Covid, **and the EIB**, which provided a loan of 55 million euros in 2017, **have agreed to lose most of their loans. They are giving up €183 million** of the total and postponing repayment of the balance until 2027.

They have certainly obtained to benefit from "the creation of future value through a mechanism of return to better fortunes", as stated in the communiqué. The Ministry of Industry told Les Echos that this mechanism provides for them to recover "up to 25% of the value of the company when it is sold by Searchlight", but the group's growth prospects remain unclear at this stage. Moreover, this value sharing will only be triggered once a minimum level of return on investment is reached for the American fund, according to a party to the case.

The banks that granted the PGEs are better off: the State will in principle have to reimburse them 90% of the amount of the abandoned PGEs (128 million euros) as part of its guarantee.

(...)

In return, the State has insisted on the need to maintain industrial activity in Toulouse, while Latécoère is currently relocating 109 manufacturing jobs from its Toulouse "factory of the future", which opened in 2018, to the Czech Republic and Mexico, and 36 jobs from a cabling factory to Tunisia. The staff went on strike for ten days and denounced the use of the PGE to invest abroad.

(...)

In difficulty for fifteen years, Latécoère has experienced a "difficult" year 2022, suffering in particular from the setbacks of the Boeing 787. It has increased its turnover by 39% to 468 million euros, still far from the 713 million achieved in 2019 before Covid. But it must return to profitability, after losing 127 million in 2022 and 112 million in 2021.

My comment: Last month, in my [letter n°909](#), I informed you of the tug of war between the State and the American Searchlight on the rescue of Latécoère.

An agreement has been reached between the parties involved. The operation will cost the French State and the EIB (European Investment Bank) 200 million euros, while the American Searchlight will have to invest 100 million euros.

I mentioned this in my letter: at the root of Latécoère's indebtedness are risk-sharing partnerships, which account for about two-thirds of the contracts in its aerostructures division.

Aircraft manufacturers ask suppliers to incur heavy development costs, to guarantee a certain price level over the life of the aircraft, and to share the risk of the aircraft's commercial success. In return, they are generally the reference supplier ("program life").

I am surprised that Airbus is not involved in the program to save its subcontractor. Many of Latécoère's problems are the result of difficulties encountered by Airbus on some of its models.

Stock market press review

> Air France-KLM, IAG, Lufthansa: the window of opportunity

(source Les Echos) May 8, 2023 - Happy who, like airline investors, are getting ready for a nice summer trip? **The quarterly results of Air France-KLM, IAG and**

Lufthansa only confirmed the correctness of the ticket they had taken in advance (+26% in the stock market in euros for the European sector since the beginning of the year according to AlphaValue) without convincing them to push the gas of an outperformance that has been stalled for the last two months.

Ticket prices remain 15% to 20% higher than before Covid-19, allowing the three former monopolies to reap healthy free cash flows. But the **return to pre-crisis capacity will not happen this year (95% at Air France-KLM, 98% at IAG).**

Some orange signals are lighting up on the dashboards, between the disappointing cargo rates at Lufthansa and IAG, or the increasing losses at KLM and Transavia (partly explained by the restrictions at Schiphol airport and the air traffic controllers' strike).

Despite the drop in jet fuel, costs (+5.2% at Air France-KLM due to the end of salary support measures) could be even more of a focus as those of decarbonization are considered underestimated by a recent Oddo BHF study. Between the fading of the stigma of Covid-19 and the accumulation of CO2 clouds between 2024 and 2026, there will be less than a small window on the stock market...

NOTE

Despite traffic still below pre-pandemic levels, the listed European airline sector is already trading at an enterprise value 5% higher than at the end of 2019.

However, this average masks strong disparities between easyJet 29% below its enterprise value (market capitalization + net debt) before the health crisis, IAG (22% above), Lufthansa (+21%) and Air France-KLM (-0.8%).

The only stock on the exchange in the green compared to the end of 2019, Ryanair is 6% above in terms of enterprise value.

My comment: *Analysts are cautious about the earnings forecasts of European airlines.*

More than the 2023 outlook, it is the ambitious 2024 forecast that has analysts cautious.

They are skeptical about the ability of European airlines to maintain the high prices needed to offset expected cost increases.

End of the press review

> Air France-KLM share price performance over the past year



Two events have impacted the share price over the past year:

- . in **June 2022** the **capital increase of 2.256 billion euros**
- . in **February 2023**, the **announcement of good results for 2022**.

No new comments

> [Air France-KLM share price trend](#)

Air France-KLM shares closed at **1.517 euros** on Monday 15 May. It is **up** this week **by +3.91%**.

It was at 1.253 euros on January 2, 2023.

The 12-month analyst average (consensus) for AF-KLM shares is 1.88 euros (it was 1.55 euros in early February). The highest price target is 2.40 euros, the lowest 1.10 euros. I only take into account analysts' opinions after the May 2022 capital increase.

The Air France-KLM share price suffered from the announcement of mixed quarterly results and a weaker than expected annual forecast (passenger activity at 95% of 2019 level).

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

No new comments

> Fuel price evolution in 2022

Since the beginning of the war in Ukraine, there is no longer any correlation between the price of a barrel of Brent oil and a barrel of Jet Fuel. In 2022, the spread between the two products has fluctuated between \$30 and \$50, while in previous years it was no more than \$10.

For the past three months, the spread between the two products (Jet Fuel and crude oil) has been narrowing and is approaching the spread that existed before the war in Ukraine

No new comments

> Fuel price changes this week

The barrel of Jet Fuel in Europe is stable this week at \$91. After peaking at \$182 in June 2022, it was down to \$132 in early August. It was at \$79 before the outbreak of the war in Ukraine.

Brent crude oil (North Sea) is stable this week at \$75. The effect of OPEC+ production cut announcements is fading.

From mid-February 2022 to the end of July, it was yo-yoing between \$100 and \$120. Since then, it has oscillated between \$75 and \$99.

While oil has been back to a normal level for several weeks, **Jet Fuel is now very close to its normal level. The difference between jet fuel in Europe and Brent crude oil is now only \$16 per barrel.** In 2022, at the beginning of the Ukrainian conflict, this gap was close to \$50.

While it is too early to draw any definitive conclusions, this is good news for airlines. If confirmed, they will be able to devote more resources to sustainable aviation fuels.

No new comments

Good to know

> 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**

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 navigation, section Air France-KLM employee shareholding](#).*

Details

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

Alternate Nicolas Foretz, PNC



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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