

How a discreet change in the commercial code could greatly help Air France

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.

(The raison d'être of the Air France-KLM group)



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Representative of the employees and former employees shareholders PS and PNC

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Monday's Press Review

> **How a discreet change in the commercial code could greatly help Air France**

(source: Les Echos) February 8, 2023 - It's just a matter of chance. While Air France still has to face heavy deadlines to reduce its debt, a "catch-all" bill, aiming at adapting various provisions of French law to those of the European Union, could allow it to postpone the restoration of its equity.

The bill, which passed its first reading last month in the National Assembly and the Senate, has yet to pass through a joint committee. But its adoption has not raised any debate. Under the soporific title of "draft law on various provisions of adaptation to European Union law in the fields of the economy, health, labour, transport and agriculture", it **aims to bring various articles of French law into line with Community law.**

Only one of the 31 articles of this bill is of particular importance to Air France and its parent company, Air France-KLM. This is Article 10, which provides for the amendment of two articles of the French Commercial Code (L.223-42 and L.225-248), relating to companies whose equity falls below half of their capital due to excessive losses.

This is not a very comfortable situation, which is precisely what Air France has been

in since 2020. After having lost 4.78 billion euros in 2020 and 1.57 billion in 2021, the French company has found itself, for the past two years, with largely negative equity. As the commercial code currently stands, companies have a period of two financial years to bring their equity (all of their financial resources) to a level at least equal to half of their share capital (the sum contributed at the creation of the company). Otherwise, they risk being dissolved by a commercial court.

In the name of the necessary alignment of the French rules on the Community law, less severe in the matter, the article 10 of the bill in question plans to grant them two additional years. That is four years in total. It also provides for the elimination of the penalty currently provided for in the event that this period is exceeded. Namely the possibility for any interested party (creditors, competitors...) to ask the commercial court for the liquidation of the company, for lack of equity.

In addition, the mandatory threshold for the reconstitution of equity would be established according to a threshold of share capital, set by decree by the Council of State, depending on the size of the company and its balance sheet.

All this could considerably relieve Air France and its parent company Air France-KLM, even if **the promoters of this amendment to the commercial code assure us that it was not inspired by the sole case of Air France.**

When asked about this, Air France-KLM soberly declares that it is "following the parliamentary work in progress concerning a possible change in the rules applicable to companies with a low level of equity capital". But behind the scenes, people are impatiently waiting for the final adoption of the text, probably towards the end of February.

At the end of the third quarter, despite the various recapitalization operations carried out in 2020 and 2021 and the return to profit last summer, Air France-KLM still had a negative equity position of 2.8 billion euros. A "hole" of which the largest part is attributable to Air France. And if the group was confident in its ability to restore its equity, "thanks to profits and quasi-equity projects", the situation of its main entity, Air France, seems more delicate.

In 2021, Air France had already had to use part of its reserves to absorb the losses of 2020. Its capital had then melted, from 1.14 billion euros before the crisis, to 127 million euros. This leaves little margin. As for the profits of 2022, they are still too meager to be sufficient.

In the first nine months of the year, the operating profit of the Air France group was 340 million euros. Without a massive capital injection, Air France will certainly not be able to bring its equity to the required level of more than half of its share capital, however modest, before the end of 2023.

A two-year extension, with the sword of Damocles of a liquidation request removed, would therefore be more than welcome from the Roissy side. It would allow the Air France-KLM group to devote all its resources to reducing its debt and purchasing aircraft, rather than having to bail out a subsidiary that has become profitable again,

just for legal reasons.

My comment: Regulations and decisions become automatically binding throughout the European Union on the date of their entry into force. The directives must be transposed by the countries of the European Union into their national legislation.

Concerning the subject of equity capital, France is not the only country to have (had) national legislation that is more binding than Community law.

At the beginning of the health crisis, Italy, which was in the same situation, had already adjusted its legislation.

For more explanations on equity capital, read [my letter n°778](#), in particular the part "Stock market press review".

> Parliament calls for higher wages for Schiphol baggage handlers

(source RTL Nieuws) February 9, 2023 - **If it were up to a majority of the House of Representatives, passenger and baggage handling staff at Schiphol would soon be paid more.** Previously, the airport's security guards received a pay raise. Now, according to the **VVD [the Prime Minister's liberal party]**, with the support of a parliamentary majority, other employees should also be paid more. This money should then come from the airlines.

The VVD **wants the Minister of Infrastructure and Water Management, Mark Harbers, to increase the pressure on the airlines.** (..

.)

Last summer, there were long queues at Schiphol due to a lack of security personnel.

(..)

When these employees got a pay rise, the problems were solved. The VVD now wants the same for baggage handlers, who are still in short supply

(..)

It is the airlines that have contracts with the baggage handlers, not Schiphol. The money should therefore come from the airlines. A ticket surcharge is now a good solution for this, said Stijn Jansen of the FNV on the subject. "As long as people are paid."

(..) It is

not clear how the cabinet should increase the pressure on the airlines to make baggage staff pay more.

My comment: Tension is mounting in the Netherlands over the lack of staff at Schiphol.

The issue of wages is crucial. The Netherlands has recorded an inflation rate of 10% in 2022.

The management of Schiphol airport, the airlines and the subcontractors are passing the buck, while the government is putting pressure on.

> **Virgin Atlantic to join SkyTeam in early March**

(source Air Journal) February 10, 2023 - **Virgin Atlantic will join SkyTeam on March 2, becoming the first British operator in the alliance founded by Air France-KLM and Delta Airlines.**

Announced last September, the integration into SkyTeam of the British airline based at London Heathrow airport will take place on March 2, 2023, announced its CEO Shai Weiss in The Point Guy. Virgin Atlantic has long counted Delta among its main shareholders (49%, with the remaining 51% held by Richard Branson's Virgin Group; and it has been a member of the transatlantic joint venture launched by the American company with Air France-KLM since 2019. SkyTeam will thus be back to its 18 companies, after the departure of China Southern Airlines in 2019. The current members of SkyTeam are, with their hubs: -

- Aeroflot (Moscow, suspended),
- Aerolineas Argentinas (Buenos Aires),
- Aeromexico (Mexico City),
- Air Europa (Madrid),
- Air France (Paris),
- China Airlines (Taipei),
- China Eastern Airlines (Shanghai),
- CSA Czech Airlines (Prague),
- Delta Air Lines (Atlanta),
- Garuda Indonesia (Jakarta),
- ITA Airways (Rome),
- Kenya Airways (Nairobi),
- KLM Royal Dutch Airlines (Amsterdam),
- Korean Air (Seoul),
- Middle East Airlines (Beirut),
- Saudia (Jeddah),
- TAROM (Bucharest),
- Vietnam Airlines (Hanoi)
- XiamenAir (Xiamen).

Several of its bases are not served by Virgin Atlantic, as its membership of SkyTeam should facilitate access to its passengers; the bulk of its network is in the USA and the Caribbean (..

.) **In the UK, British Airways has been a member of Oneworld since 1999;** British Midland International joined Star Alliance in 2002, but has since disappeared.

My comment: *While there is talk of two of the European airlines members of Skyteam going under the control of companies outside Skyteam (Air Europa /IAG*

and ITA Airways / Lufthansa), the arrival of Virgin Atlantic is good news for the alliance created by Air France-KLM and Delta Air Lines.

> **Air India places historic order with Airbus and Boeing**

(source Les Echos) February 11, 2023 - **It's the deal of the century.** According to information gathered by Reuters, Air India, the airline owned by the Tata conglomerate, has sealed an order for more than 500 aircraft from Airbus and Boeing. At list price, this represents a whopping \$100 billion (93.5 billion euros). According to the same sources, the agreement - the largest in the history of civil aviation - could be announced early this week.

The deal, which has been in the works for several weeks, will be shared almost equally between Airbus and its great rival, Boeing. In detail, **Air India plans to buy 250 Airbus aircraft, including 210 A320neo single-aisle and 40 A350 twin-aisle aircraft. 220 aircraft will be purchased from the American aircraft manufacturer Boeing, including 190 single-aisle 737 MAXs, 20 787 models and 10 777X models.**

Tata Group took over the former Indian state-owned airline just one year ago and is looking to modernize its fleet. It was **urgent. The last time Air India bought a new aircraft was in 2005.** This rejuvenation will help the Indian company to compete with its rivals, especially the Gulf companies, such as Emirates and Qatar Airlines. The latter are indeed favored by the Indian diaspora, which prefers them to fly to Europe and North America.

In this context, **the acquisition of twin-aisle aircraft is crucial. Indian airlines are under-equipped in this area, with less than 50 aircraft at their disposal.** By comparison, Emirates alone has 260 twin-aisle aircraft.

With the purchase of a total of 400 single-aisle aircraft, Air India also intends to regain ground in its domestic market. This market is in the midst of a post-covid rebound, but is dominated by low-cost carrier IndiGo, which controls more than 50% of the market. 50 aircraft could join the company's fleet by the first quarter of 2024, increasing its capacity by 50 per cent. Modernizing the fleet with more fuel-efficient aircraft will also save Air India money.

In January 2022, the Indian government sold Air India to Tata. Riddled with debt, **the company had not made a profit since 2007. Since its privatization, the carrier has recovered.** In one year, Air India has doubled its daily turnover and increased its number of flights by 30% to carry 72% more passengers

My comment: *Indian airlines have never really succeeded in developing internationally.*

With this order for 70 long-haul aircraft, Air India (a member of the Star Alliance alongside Lufthansa) will try to succeed where its Indian competitors have failed.

> International air traffic to approach pre-crisis levels in 2023

(source La Tribune) February 6, 2023 - **Long-haul travel has great prospects ahead of it.** Still completely amorphous at the beginning of 2022, as it has been since the beginning of the health crisis, international traffic has woken up as border restrictions have been lifted and has continued to grow throughout 2022. And the phenomenon is set to continue in 2023 with a strong sales dynamic, to the point of catching up with domestic activity, which had already started to grow again in 2021. (...)

Over the whole year, international traffic has thus reached 62% of its 2019 level. The recovery was held back until February by the Omicron variant before taking off from the spring. Although the summer season was marred by cancellations due to major disruptions at airports, the end of the year was again strong with 75% of activity recovered in December.

Growth was largely driven by the trans-Atlantic axis, between Europe and North America, which almost regained its 2019 volume in the summer. A few months earlier, it was only a third of this performance. The Europe-Africa routes, which started earlier, have seen more gradual growth, but by the end of 2022 they were not far from having fully recovered their pre-crisis activity either. **Only the routes to Asia, with the late reopening of Japan and Korea and finally China, still show a very significant gap.**

In December alone, Asian traffic was still halved, but North America was almost back to its pre-crisis level (93%), with Europe and Africa not far behind (86%) followed by the Middle East (84%) and Latin America (82%).

If sales figures are anything to go by - and they set the trend for the coming months, as international tickets are usually snapped up several weeks or even months in advance - this momentum is expected to continue in early 2023. **In recent months, international ticket volumes have reached 75% and then nearly 90% of 2019 levels.** This is more than for domestic tickets, which were much higher at the beginning of the year. **Nothing seems to be stopping this momentum for the time being, whether it be inflation or international tensions.** Provided that the Asian reopening is confirmed on the commercial level, the beginning of the year could be a good one for international transport. As IATA says: "Recent developments related to the reopening of international travel in China give a positive outlook for the months to come. (...)

My comment: *The return to air travel close to its 2019 level is taking shape.*

The airlines, which have not fully repaid the loans that helped them overcome the health crisis, will do everything they can to keep prices high, as in 2022.

> Air travel continues to grow on French interregional routes

(source Les Echos) February 7, 2023 - **Despite the priority given to rail in public policies**, air travel still has a bright future on French domestic routes. While the TGV has largely supplanted air travel on radial routes between Paris and regional cities, **air travel continues to progress on interregional cross-country routes. On these routes, the SNCF's offer, which is still concentrated in Paris, does not, on the whole, provide credible alternatives.**

This is what emerges from the evolution of traffic in France in 2022 and from a study conducted by Oxera on behalf of the Union of French Airports (UAF). Over the 2010-2019 period, traffic on French cross-border routes has increased by 72%, from 6 to 10 million passengers, while traffic on major radial routes has remained stable at around 16 million passengers. In 2019, this "cross-border" traffic represented 40% of total domestic traffic, compared to 29% in 2010. During the same period, the number of cross-city routes increased from 111 to 168, while the number of radial routes declined slightly, from 39 to 37, the Oxera study said. **The debate about competition between rail and air is the tree that hides the forest,"** says Thomas Juin, director of UAF. **In reality, intermodal transfer has already taken place. The lines on which the train is more relevant have already closed and the airplane is playing its role where other transport offers are not satisfactory,"** he stresses. For regional airports with 1 to 5 million passengers per year, this interregional traffic represents two-thirds of domestic traffic. For some, such as Strasbourg, which has lost its route to Paris, it is even 100%.

This dynamic has only increased during the crisis. Less affected than international and European traffic by the traffic restrictions, **cross-border traffic** has declined less and, above all, has recovered more quickly. By **December, it had already returned to 94.5% of the 2019 level, compared with 82.4% for radial routes**, according to Civil Aviation figures. Moreover, if we subtract the 20% of connecting passengers at Roissy and Orly from the traffic of the radial routes, the traffic of the transverse routes has almost equaled that of the radial routes, with 9.04 million passengers for the former, compared to about 10 million for the latter.

The development of this cross-border domestic traffic has gone hand in hand with that of low-cost airlines in France. **Easyjet and Volotea, in particular, have largely targeted these cross-border routes, while the Air France group has reduced its regional network to cut its losses.** However, these low-cost carriers have only responded to a demand for transport that is less and less satisfied by the SNCF's offer, 92% of whose TGVs serve the Paris area. Going from Nantes to Toulouse, La Rochelle to Lyon or Bordeaux to Nice by TGV requires seven to nine hours of travel time, compared to less than an hour by plane. **It is very complicated to travel by train from one region to another,"** says Thomas Juin. That's why air travel continues to play a role on domestic routes. Air transport is not only the best adapted, but it will also be the first decarbonized mode of transport, he adds. **Starting in 2024, 100% of CO2 emissions from domestic flights will have to be offset**, and by the end of the decade, we will also see the arrival of the first decarbonized regional

aircraft on small domestic routes.

However, **on condition that public policies finally encourage this complementarity between rail and air on domestic routes (...) by reforming the public service obligation (PSO) system**, which consists of allocating public subsidies to an operator in exchange for compliance with a set of specifications. (...)

"In France, the constraints imposed by PSOs are much heavier than elsewhere in Europe," explains the UAF director. This results in a lack of candidates. We could develop these routes much more if France aligned itself with European standards. This is what we are asking for.

My comment: This article offers an interesting analysis of the sustainability of French cross-country lines.

Passenger flows on these lines are relatively low.

Electric or hydrogen-powered aircraft with a small capacity (about 50 seats) would be perfectly adapted.

If the industrialists succeeded in developing this type of aircraft, it would avoid a large part of the CO2 emissions in France.

End of the press review

> **My comment on the evolution of the Air France-KLM share price in 2022**



The event that had the greatest impact on the share price in 2022 was the capital increase in June of 2.256 billion euros. This was used to accelerate the repayment of state aid and to reduce debt.

The French and Dutch governments participated to the extent of their rights, their participation remaining unchanged. CMA CGM became a new strategic reference shareholder with a 9.0% stake in the group.

The employees and former employees shareholders via the FCPEs had participated in the capital increase to a lesser extent, via a blank transaction.

As a result, the share price, which was around 2 euros before the operation, has since been around 1.30 euros. It is now close to 1.60 euros.

> **My comment on the evolution of the Air France-KLM share price this week**

Air France-KLM shares closed at 1.543 euros on Monday 13 February. It is down this week by -3.56%. Since the beginning of the year, it has risen by nearly 30%.

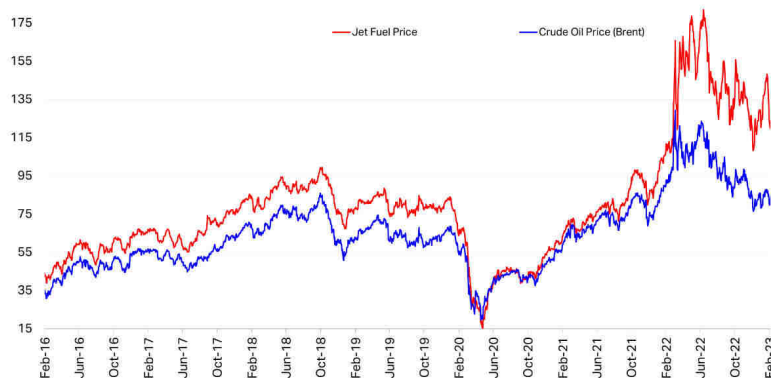
The average (consensus) analysts' rating for AF-KLM shares is 1.55 euros. The highest price target is 2.00 euros, the lowest 0.85 euros. I only take into account analysts' opinions after the May 2022 capital increase.

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

> **My comment on the evolution of fuel prices in 2022**

Jet fuel price developments - longer term perspective

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



Source: S&P Global, Refinitiv Eikon

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. The difference between the two products is between \$30 and \$50, whereas in previous years it was

only \$10.

> **My commentary on the evolution of fuel prices this** week

The barrel of Jet Fuel in Europe is stable this week at \$114. After peaking at \$182 in June 2022, it was down to \$132 in early August. It was at \$79 a little over a year ago.

Brent crude oil (North Sea) is **up this week by +\$5 to \$86. This is close to the average level observed over the past five years, excluding exceptional events.** From mid-February to the end of July, it was yo-yoing between \$100 and \$120. Since then, it has oscillated between \$85 and \$99.

At the beginning of March, Brent reached \$132, close to its record of \$150 (in 2008).

While oil has been back to its usual level for several weeks, **jet fuel is now approaching its usual level. The spread between jet fuel in Europe and Brent crude oil is now only \$28 per barrel.** Since the beginning of the Ukrainian conflict, this spread was close to \$50.

Good to know

> **Advice for employees and former employees who are shareholders**

You will find on my [navigation](#) 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**

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](#)

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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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