

Anne Rigail sees rail playing a bigger role in her airline's strategy

## I Letter from the Director of Air

France-KLM

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



### François Robardet

Representative of employees and former employees PS and PNC shareholders

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## Editorial

*Dear readers,*

*For those who have not read the previous letter, here is a reminder.*

*Following comments, I have slightly modified the presentation of the evolution of the Air France-KLM share price and the price of fuel.*

*In order to facilitate the reading of the comments on these data, I now highlight the changes made during the week.*

*The prices are updated as before.*

*Enjoy your reading*  
*François*

## **Monday's Press Review**

### **> Anne Rigail, CEO of Air France, sees trains playing a more important role in her airline's strategy**

(source Airlineweekly) March 7, 2023 - **Paris Charles de Gaulle is one of the few airports in the world to have a high-speed passenger rail station in the terminal. This intermodal connectivity allows Air France to be among the leading airlines offering air-rail connections**, thanks to which passengers can book combined flight and train journeys on a single ticket.

**The presence of an intercity rail station in the terminal does not mean that the passenger experience is good.** There is little signage to direct passengers arriving from a French domestic flight and connecting to a train with an Air France Train + Air ticket. If they have checked baggage, passengers must retrieve it at the baggage counter and transfer it to the train themselves. And, until last fall, they had to stop at an Air France desk in the TGV station to pick up their train ticket.

"The experience wasn't very good," Air France CEO Anne Rigail

said in a recent interview about the company's Train + Air connections at Charles de Gaulle. And the figures prove it: Only about 160,000 passengers book combined air-rail tickets on Air France each year. This compares to the 575,000 passengers who used the similar offer of Lufthansa with Deutsche Bahn at its Frankfurt hub before the pandemic.

Today, **Anne Rigail wants to increase the number of these passengers by taking what some would call an "out of the box" approach:** Make the transfer experience enjoyable.

Air France expanded its Train + Air program to 33 routes from Charles de Gaulle during the pandemic. Mr. Rigail wants to increase the number of routes, including to destinations where "there is no air service". Since late last year, Air France has improved the digital experience by allowing travelers to check in for their entire trip - flights and trains - on the Air France app.

**"What we want to do ... you come by train, you can drop off your luggage immediately with a drop-off service that is really connected to the station,"** Rigail said. "And the ultimate experience is to go directly to a shuttle to get to the gate. That's the goal. It won't be quick, but we're working on it with our partners. (...)

The development of air-rail connectivity is not an entirely altruistic undertaking for

Anne Rigail. **Air France-KLM has set a goal of reducing carbon emissions per kilometer flown by 30 percent by 2030 from 2019 levels**, and achieving net zero emissions by 2030. **The group has even issued bonds with an interest rate tied to meeting the emissions reduction targets.** As is well known, trains emit much less carbon than planes on the routes where they compete.

**Air France also has to deal with the change in public opinion in Europe regarding air transport.** France passed a landmark climate law in 2021 that bans flights on routes where trains can make the trip in two and a half hours or less; flights serving connecting passengers are still allowed. The ban was upheld by European Union regulators last year. As Air France-KLM CEO Ben Smith pointed out in February, French business travelers are increasingly turning to trains, even on routes where flights are still allowed, such as between Paris and Marseille. TGVs make the Paris-Marseille trip in just 3 hours and 15 minutes.

**Rigail described the change in passenger demand on the Paris Orly-Marseille route as "so strong [and] so fast" that Air France has cut the number of flights it will offer this summer by more than half compared with last year.**

Airport constraints also make air-rail connections more attractive to airlines. The Amsterdam and Frankfurt hubs are expected to face capacity constraints again this summer.

(...) **"We really need to promote the use of rail within 500 kilometers - 500, 600 kilometers," KLM CEO Marjan Rintel said** in November. Ms. Rintel, a former Dutch rail executive who took over as KLM's CEO last year, faces potential capacity cuts at the airline's Amsterdam Schiphol hub this fall.(...) This summer, KLM is expanding its partnership with high-speed train operator Thalys. The airline will buy more seats for connecting passengers on trains to Brussels, for example.

(...)

***My comment:*** *Within the Air France-KLM group, complementarity with rail is a major axis for improving the customer experience and will contribute to reducing the impact of travel on the climate.*

*In France, there are three issues to be monitored in particular: . the possibility of increasing rail traffic at Roissy Charles de Gaulle, . the implementation of a baggage check-in area near the Roissy Charles de Gaulle TGV station, . the connection of the Massy Palaiseau TGV station with Orly airport, via the future metro line 18 (planned for 2028).*

*Among the recent measures that have impacted airlines in the French domestic market, I would like to highlight one: the recommendation made by the government on October 3 in the energy efficiency plan.*

*It was formulated as follows: "Transfer from air to rail for outbound trips of less than 4 hours by rail (or less than six hours round trip if the trip is made in the same day)".*

*Although this recommendation was not mandatory, it was immediately followed by companies and individuals, proof that travelers are increasingly concerned about the impact of their trips.*

## > **The torch burns between KLM and its government**

(source Les Echos) March 10, 2023 - The torch is burning at all ends between KLM and the Dutch government. While the company has filed a legal appeal against the decision of The Hague to impose a reduction of flights in Amsterdam, **an official report accuses KLM of not respecting its commitments made in June 2020, in return for the state aid.**

In **this** highly critical **report**, sent to parliament at the end of February, the state representative Jeroen Kremers, who is responsible for ensuring the proper implementation of the 2020 framework agreement, **accuses KLM of insufficient cost reductions in 2023 and 2024.** The report also considers that the decision to pay a bonus of more than 1 million euros to the outgoing CEO, Pieter Elbers, when he leaves in 2022, as well as the reinstatement of profit sharing for all staff in 2023, contravene the 2020 commitments. The first consequence of this will be to limit the calculation of employee profit sharing to 10 months instead of 12, with the risk of amplifying social tensions.

**The state representative, who is on his fourth report, recognizes however that KLM has fulfilled its commitments to reduce costs in 2021 and 2022.** This has allowed it to achieve annual results for 2022 "better than expected and better than many competitors", he says. But **according to him, the management of KLM**, entrusted to the former head of Dutch railroads Marjan Rintel last July, **would be out of line this year, with cost reductions of 250 million euros below the objectives of the restructuring plan validated in 2020**, which aimed to reduce costs "by at least 15%" by 2025.

The gap could reach 400 million euros in 2024 and 475 million euros in 2025, "which would not allow the company to restore its competitive position, nor to justify the public aid", says the rapporteur. In total, KLM would have received 4.37 billion euros in aid, he said, including "2 billion in wage subsidies" not refundable.

"That's more than 70,000 euros per employee," says the State representative, who regrets, among other things, that KLM has not imposed more effort on its

pilots and has not taken the necessary measures to prevent some of its flight crews from residing abroad, for "tax evasion" purposes. This is a subject already denounced in one of its previous reports, which had caused some emotion in the Netherlands.

**In its defense, KLM argues that if it had to give up the freeze on salaries and hiring, it was to be able to cope with the recovery of traffic and the shortage of manpower after the crisis, as well as the surge in inflation.** Regarding the bonus of its former CEO, corresponding to his variable compensation for 2019, its payment is the result of a court decision, which also applies to all senior management, says the company.

As for the fight against "tax evasion", KLM says it has reached an agreement with its unions, putting an end to the systematic free flights for staff living abroad.

**However, KLM's main argument to get out of the 2020 commitments remains its promise to have repaid all state aid by April.** According to the report, KLM still had to pay back 1.387 billion euros at the end of February, which should allow it to regain its freedom of action in terms of wages and jobs. But **according to Jeroen Kremers, this does not mean that KLM will be free of all obligations towards the shareholder state. "The conditions for improving the profit margin by reducing costs and improving productivity have been worked out in the framework of a restructuring plan up to and including 2025,"** he writes. Furthermore, the future of KLM will continue to depend on "government policy on the environment", such as the decision to reduce traffic at Amsterdam-Schiphol by 12% by 2024, the rapporteur recalls. This decision is being challenged in court by KLM, but should have been included in the budget forecasts for the period up to 2025.

***My comment:*** *The Dutch unions (among others) reproach the representative of the Dutch State for exceeding his mission.*

*While he was supposed to check that KLM would keep its commitments until the loans were repaid (they were fully repaid in 2022), he acts as if he were the CEO of KLM in charge of the strategic plan.*

*More importantly, as mentioned in the article, the representative of the Dutch State fails to take into account the changes that have occurred since KLM signed the commitments.*

*For example, the inflation rate in the Netherlands has risen from 2% at the end of 2021 to 14% in October 2022, leading KLM to increase salaries to compensate for part of this increase.*

*In addition, the Dutch government, having ratified the decisions to replace KLM's*

*and Transavia Netherlands' B737 medium-haul aircraft with A320/A321s, has unilaterally decided to reduce take-offs/landings at Schiphol, thus depriving KLM of part of its revenues.*

## > U.S. lawsuit to block JetBlue-Spirit merger puts a damper on future airline deals

(Reuters source) March 8, 2023 - The lawsuit filed on Tuesday by the U.S. Justice Department comes at a time when U.S. airlines are struggling to expand capacity because of a shortage of pilots and planes. They also face higher costs due to rising fuel and labor bills.

Mergers and acquisitions are a traditional way for companies to increase revenues and profits by cutting costs. But the Justice Department's lawsuit could send a chill through airline boards.

(...)

**If the Justice Department scuttles the \$3.8 billion JetBlue-Spirit deal, the two airlines could consider other forms of collaboration, including codeshare agreements in which the airlines market and sell tickets on the same flight under their own names and flight numbers.**

**Some Democratic lawmakers do not support further industry consolidation, fearing it would harm consumer interests. American Airlines, United Airlines, Delta Airlines and Southwest Airlines control 80 percent of the domestic market.**

"Americans want more choices and lower prices for airline tickets, not another giant merger," U.S. Senator Elizabeth Warren said on Twitter Tuesday.

(...)

**Analysts say the lawsuit against the JetBlue-Spirit deal was widely expected because of the Biden administration's crackdown on large transactions between publicly traded companies.**

In fact, Spirit repeatedly cited it as a risk when it initially rejected JetBlue's proposals.

(...)

JetBlue argued that the deal with Spirit, which would create the fifth-largest U.S. carrier with a 9 percent market share, was good for competition and would allow it to better compete with the major airlines.

(...)

The Justice Department said the proposed merger would lead to "higher fares and fewer seats, harming millions of consumers on hundreds of routes."

**My comment:** *While the European and US markets are of similar size, the top five European groups (Ryanair, easyJet, IAG, Lufthansa and Air*

*France-KLM) hold 60% of the European market,  
. the top four US airlines (Delta Air Lines, American Airlines, United Airlines and Southwest) hold 80% of their domestic market.*

*The US airlines are in an oligopolistic situation, which allows them, for example, to pass on almost the entire increase in fuel costs to their customers, unlike the European airlines.*

*The U.S. government's opposition to the JetBlue-Spirit merger looks like a rearguard action.*

## **> TAP Air Portugal: the general manager dismissed by the Portuguese State**

(source La Tribune) March 10, 2023 - **Manuel Beja, president of TAP, and his general manager, Frenchwoman Christine Ourmières-Widener, will not have survived the "TAPgate"**. They were sacked on Monday after the scandal that broke in December when the press revealed that Alexandra Reis, then Secretary of State for the Treasury, had left the company's board of directors with an indemnity of 500,000 euros. They will both be replaced by the Portuguese Luis Rodrigues, who until now headed the regional company of the Azores archipelago SATA.

Before these dismissals, this affair had already caused the resignation of the previous Minister of Infrastructure and his Secretary of State, damaging the image of the socialist executive of Prime Minister Antonio Costa.

(...)

During a parliamentary hearing, **Christine Ourmières-Widener, had explained that the departure of Alexandra Reis from the company was the consequence of "differences" related to the implementation of the rescue plan, specifying that she had followed the "recommendations of the lawyers"** as to the information communicated and had always informed the state, the shareholder.

She also said that efforts to turn around TAP were beginning "to produce results". The Portuguese airline group, whose difficulties had increased with the pandemic, was completely renationalized in 2020, in exchange for the implementation of a restructuring plan imposed by Brussels. 3.2 billion, the rescue plan for TAP provided for, among other things, a reduction in its workforce, a reduction in salaries and a reduction in its fleet.

These results "give us confidence" for 2023, but **TAP, whose government has announced its intention to reprivatize it, needs "stability". Air France KLM has not hidden its interest in taking a stake, just like Lufthansa.**

Christine Ourmières-Widener

, a former Air France employee who began her career in 1988 in maintenance, headed the British regional airline Flybee between 2017 and 2020, after having

been at the helm of CityJet in 2010 when the Irish airline belonged to the French group. She had taken over the management of TAP on June 24, 2021.

## > Heathrow ordered to lower prices after a battle with the airlines

(source AFP) March 8, 2023 - **The British Civil Aviation Authority (CAA) asked London's Heathrow airport on Wednesday to reduce the fees charged to carriers, after a tug of war with airlines who consider them too high.** The charges will remain at their current level for 2023 but "the average maximum price per passenger will then fall by around 20% (...) to 25.43 pounds (around 28.6 euros) per passenger in 2024 and will remain broadly stable until the end of 2026," the CAA said in a statement.

"Passenger volumes are expected to return to pre-pandemic levels" over this period, the CAA predicts, and **these lower fares "should benefit passengers** (...) while also allowing Heathrow" to continue to invest and fund its operations, the statement continued. **This decision "makes no sense"** at a time when "airlines are making huge profits and Heathrow remains in deficit," **said the UK's largest airport** in a statement, saying it was considering what to do about the announcement.

(...) **"The CAA has not gone far enough" in lowering fares,** judged the British airline Virgin Atlantic in a statement, saying that **Heathrow, the "most expensive airport in the world", has put forward a forecast of passengers voluntarily too low to justify its requests for price increases.** The airport had suffered last spring, and then during the summer vacations, from strikes and a shortage of staff that resulted in long queues, delays, baggage handling problems and flight cancellations.

As the industry struggled to absorb the upturn in demand, Heathrow also had to cap the number of passengers passing through its facilities each day. The CAA said Wednesday that its decision takes into account a £3.6 billion investment program by Heathrow and incentives for the airport to provide a quality service.

***My comment:*** *It cannot be repeated enough. The health crisis has had an unprecedented impact on the airline industry as a whole.*

*But airports and airlines are in very different competitive situations.*

*Unlike airlines, airports are in a monopolistic position that sometimes leads to abuse of dominance.*

*It is the role of the regulator to prevent such abuses. In France, this mission is the responsibility of the Transport Regulatory Authority (formerly Arafra).*



## Stock market press review

### > Air France-KLM in sight in the new composition of the indices

(source Boursier) March 9, 2023 - **The Scientific Council of Indices has just submitted to Euronext its copy of the quarterly review of the Parisian indices.** Unsurprisingly, the CAC40 remains unchanged. On the other hand, **Air France-KLM is the big winner of this index review, since the airline is joining the CAC Next 20 and the CAC Large 60.** No file is leaving these two leading indices.

(...)

Air France-KLM has been removed from the CAC Mid 60 and the CAC Mid & Small index

(...)

These index changes will be taken into account after the market closes on Friday 17 March. They will be effective as of Monday, March 20.

The next meeting of the Index Committee will be held on June 8. The full annual review of the CAC family of indices will take place in September.

**My comment:** *The Paris stock exchange ranks companies of national or European importance.*

*Each company has its own index which is weighted according to the value of its securities available on the market. The weights vary from one company to another depending on its free float capitalization.*

*The SBF 120 (for Société des Bourses Françaises) is a stock market index of the Paris stock exchange. It groups the 120 largest French companies.*

*The SBF 120 is broken down as follows:*

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*CAC 40: the top 40 market capitalizations*

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*CAC Next 20: the next 20*

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*CAC Mid 60: the next 60.*

*Note: the CAC Large 60 includes companies listed in the CAC 40 and the CAC Next 20.*

## Bonus Article

## > Air France: FO remains the number one union, the CGT is once again representative

(source AFP) March 7, 2023 - FO has remained the leading union at Air France after professional elections marked by a historically high participation and a return of the CGT among the representative organizations, according to results consulted Tuesday by AFP. **The election, which was held from February 13 to March 6, saw a higher turnout than four years ago with 77.83% of voters.**

**FO, allied with the SNPNC** for cabin crew, **obtained 20.11% of the votes for the entire company**, a slight decrease compared to the last election (-1.2 points). **The CFDT, allied with the UNPNC, followed** with 18.55% of the vote (+2.1 points), **Unsa-Aérien** with 16.28% (+3 points) **and the CGE-CGC, allied with the UNAC**, with 15.09% (+0.7 points). **The CGT**, which had failed to pass the representativeness threshold set at 10% four years ago, succeeded this time **with 10.77%** of the votes (+1.5 points).

Another notable fact is that **the SNGAF**, a cabin crew union that had achieved an unexpected breakthrough with more than a third of the votes in the flight attendant college in 2019, **has this time lost its representativeness**. Its number of votes has been almost halved. Among the pilots, **the SNPL retains its overwhelming majority with 77.35% of votes**. The SPAF (11.70%) and Alter (10.95%) unions have nevertheless retained their representation in the pilots' college.

***My comment:** Thank you to the Air France employees who were numerous to participate in the professional elections.*

## **End of the press review**

> **Air France-KLM share price trend since 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.

In 2023, the removal of state aid restrictions and the gradual improvement of the company's balance sheet have been welcomed by analysts.

**The share price**, which was below 1.30 euros at the beginning of the year, is now above 1.70 euros.

**No new comments**

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

**Air France-KLM shares closed at 1.673 euros on Monday 13 March. It is down this week by -8.88%. The recent announcements on the 2022 results and the end of the constraints imposed by the European Commission explain this rise.**

It was at 1.253 euro on January 2, 2023.

**The average (consensus) 12-month analysts' rating for AF-KLM shares is 1.72 euros.** The highest price target is 2.30 euros, the lowest 1.10 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 new comment:** In one week, it has lost nearly 9%, half of the increase observed after the publication of the good 2023 results.*

### > **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 difference between the two products has fluctuated between \$30 and \$50, while in previous years it was no more than \$10.

*No new comments*

### > **Fuel price changes this week**

**The barrel of Jet Fuel in Europe is down this week by -\$8 to \$106.** 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 down this week by -\$5 to \$81. This is close to the average level observed over the past five years, excluding exceptional events.**

From mid-February 2022 to the end of July, it was yo-yoing between \$100 and \$120. Since then, it has oscillated between \$85 and \$99.

While oil has been back to a normal level for several weeks, **jet fuel is now approaching its normal level. The difference between jet fuel in Europe and Brent crude oil is now only \$25 per barrel. In 2022**, since the beginning of the Ukrainian conflict, this gap was close to \$50.

*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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