

AFKLM

| Letter from the former Director of Air France-KLM

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

(Air France-KLM Group raison d'être).



François Robardet

former representative of PS and PNC employee and former employee shareholders

N°927, August 28, 2023

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Monday's Press Review

> Air France suspends flights to the Sahel until September 10

(source Air Journal) August 25 - **Air France has decided to extend "until September 10 inclusive" the suspension of its flights to and from Mali and Burkina Faso, with flights to Niger remaining suspended "until further notice", according to the French airline.**

On August 7, the airline suspended its flights to Bamako (7 flights a week), Ouagadougou (5 flights a week) and Niamey (4 flights a week), following the closure of Niger's airspace by the military junta, in power following a coup d'état on

July 26. On August 11, it had already extended these routes until today "following the coup d'état in Niger and due to the geopolitical situation in the Sahel region".

In addition, Mali, whose military leaders have shown solidarity with the Niger putschists, **has cancelled Air France's authorization to operate flights between Paris and Bamako, citing a "notorious breach" of the terms of its operating permit.**

***My comment:** The Malian Civil Aviation Agency has criticized Air France for failing to give prior notice and causing "inconvenience to passengers". "This failure leads to the cancellation of your authorization to operate flights", it says.*

This cancellation applies to the French airline's "summer season", it adds.

This period is scheduled to run until October.

"Your slot could be granted to another airline requesting it", says the agency, which asks Air France to submit a new schedule before resuming service.

> **Amsterdam airport asks government to clarify flight reduction plans**

(source Bloomberg, translated with DeepL) August 25 - **The owner of Amsterdam Airport has urged the Dutch government to clarify hotly contested plans to restrict capacity at the hub following the collapse of the ruling coalition.**

Royal Schiphol Group said plans to cut capacity by 8% from this winter were at an impasse due to legal challenges to the measures by airlines and the fact that Prime Minister Mark Rutte

's government had gone into caretaker mode ahead of November's elections.

Lawmakers are due to vote on September 12 on a list of issues that will be considered "controversial" for the current parliament and left for the next government to decide. Adding Schiphol's capacity restrictions to the list of controversial issues will create uncertainty about the future of the hub, said Ruud Sondag, the company's managing director.

In the absence of clarity from the government, the airport will only be able to reduce the number of flights by 3.4%, or 483,000 flights, next year, Sondag said.

(...)

***My comment:** The fall of the ruling coalition in the Netherlands could delay a decision on the details of the desired reduction in activity at Schiphol by a year.*

> Boeing 737 MAX: manufacturing defects identified, aircraft deliveries disrupted

(source Air Journal) August 24 - **It's the umpteenth blow for Boeing and its 737 MAX. The American aircraft manufacturer** recently identified a new problem on several of its production aircraft. It has discovered that **one of its main suppliers, Spirit AeroSystems, has incorrectly drilled hundreds of holes in the aircraft's rear bulkhead**, which helps maintain cabin pressure. In a press release, however, the subcontractor states that "only certain units are affected", as it uses several suppliers for this structural part.

While the FAA considers that this defect "does not affect flight safety", **short-term deliveries will be delayed. Boeing will now have to carry out inspections to "determine the number of aircraft affected"** and carry out the necessary repair work in collaboration with Spirit. Over the next few days, the aircraft manufacturer is due to assess whether this could cause it to miss its delivery target of 400 to 450 Boeing 737s this year. To date, 249 Boeing 737s have been delivered. The problem comes at the worst possible time. Boeing had just accelerated production of the 737 MAX to 38 aircraft per month, compared with 31 previously.

Could the 737 MAX be Boeing's bête noire? Since its entry into service in 2017, problems have been piling up for the American single-aisle aircraft.

The aircraft was grounded for almost two years following the Lion Air and Ethiopian Airlines crashes, which claimed 346 lives. During its forced grounding, in addition to a complete overhaul of the aircraft's stall protection system (MCAS), a serious wiring problem was also identified. And since its return to service at the end of 2020, the twin-engine aircraft has been plagued by production problems. Last April, a manufacturing defect was discovered at two points where the vertical stabilizer is attached to the fuselage. This had the effect of slowing down the pace of deliveries.

My comment: Under normal circumstances, this problem would probably be dealt with without it making the headlines in the trade press.

But we have to admit that nothing seems normal for this aircraft, designed in a hurry to meet the arrival of the A320NEO.

Almost 50 years after the first 737 flew, the 737 MAX made its maiden flight in January 2016, a few days after the first A320 NEO was delivered to Lufthansa.

The 737's aging architecture, with its reduced ground clearance, meant that compromises had to be made, particularly in terms of engine size and positioning.

Although the first year of service went relatively smoothly, tragedy struck on October 29, 2018, when Lion Air flight 610 crashed shortly after takeoff from

Jakarta, killing 189 people. Pending the investigation report, the 737 MAX continues to fly around the world

Following the first crash, airlines began sending memos to their pilots, an emergency procedure was established by Boeing, but it would not be enough to avoid the second fatal accident five months later. On March 10, 2019, Ethiopian Airlines flight 302 also crashed, killing 157 people in conditions relatively similar to those of the Lion Air flight.

Since then, problems have been piling up, even delaying to 2024 the launch of the stretched version (B737-10) designed to compete with the A321NEO.

End of press review

> Air France-KLM share price performance (and that of four other airlines) over the past five years

Air France-KLM share price over the past five years :



Lufthansa share price over the past five years :



LAG share price over the last five years :



easyJet share price over the last five years :



Delta share price over the past five years :



My comment: The tables above (source: Boursorama) show the respective share price trends of Air France-KLM, Lufthansa, IAG, easyJet and Delta over five years.

The Covid-19 effect is obvious. The effect of the conflict in Ukraine is also obvious, but less significant.

IAG and easyJet are struggling to return to their pre-Covid levels, no doubt paying for the consequences of the Brexit.

Lufthansa, which quickly repaid its Covid debts, is now close to its 2019 level.

Delta has returned to its 2019 level, buoyed by a strong domestic market and an oligopoly situation in the United States.

Air France-KLM has followed a similar pattern to Lufthansa, except since the beginning of the year. While the Franco-Dutch group has been able to pay off its Covid debts, its shareholders' equity has still not risen to a satisfactory level.

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

Air France-KLM shares closed at **1.40 euros** on Monday August 28. It is **down** this week by **-3.58%**. **Good quarterly results announced by Air France-KLM and Lufthansa were offset by higher-than-expected unit costs. Shares in the two air transport groups fell similarly.**

It stood at 1.253 euros on January 2, 2023.

The analysts' 12-month average (consensus) for AF-KLM shares is 1.97 euros (it was 1.50 euros at the beginning of January). The highest price target is 2.45 euros, the lowest 1.10 euros. I only take into account analysts' opinions subsequent to the May 2022 capital increase.

You can find details of the analyst consensus on my blog.

My comment: *In two months, the Air France-KLM share price has lost over 20%. Other airlines are no better off.*

Lufthansa lost 12%, Delta 15%, easyJet 11%.

The only one of the five airlines mentioned in the previous commentary, IAG, is up by +5%, but is still a long way from its 2019 level.

> **Fuel price trends this** week

The price of a barrel of Jet Fuel in Europe is up +\$5 to \$129. It was \$94 at the end of June, and \$79 before the outbreak of war in Ukraine.

Brent (North Sea) oil is stable at \$85 per barrel.

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

The spread between Jet Fuel in Europe and Brent crude oil is still abnormally high. It now stands at \$39, whereas it was around \$15 before the conflict in Ukraine. In 2022, at the start of the Ukrainian conflict, the spread was close to \$50.

My comment: *The spread between Jet Fuel in Europe and Brent crude oil is still abnormally high.*

It now stands at \$44, whereas it was around \$15 before the conflict in Ukraine. In 2022, at the start of the Ukrainian conflict, the differential was close to \$50.

This decorrelation between the price of Brent crude and the price of jet fuel has led airlines to review their fuel hedging strategies. Before the Ukrainian crisis, most fuel hedging was based on the price of Brent crude oil.

==> quote: Air France-KLM Group UNIVERSAL RECORDING DOCUMENT 2022, page 173:

(Thus) the Air France-KLM Group had put in place a policy of systematically hedging its fuel price risk essentially based on the price of oil (Brent).

At the start of the Ukrainian crisis, against a backdrop of high volatility and tension on the commodities market, the Air France - KLM Group integrated new hedging instruments on cracking margins in order to better cover the risk linked to the decoupling between indices reflecting the price of crude oil (Brent ICE) and indices reflecting the price of refined products (Gasoil ICE and Jet CIF NWE).

<== end of quote

To put it plainly, part of the Air France-KLM Group's fuel hedging is now based on the price of Jet Fuel kerosene).

Good to know

> Advice for current and former employee shareholders

You'll find [details of how to access the managers' websites](#) on my [navigaction](#) site.

To avoid forgetting to change your contact details each time you change your postal address, **I advise you to enter a personal e-mail address.** This will be used for all correspondence with management bodies.

Keep all the documents relating to your Air France-KLM shares in one place: all the letters you receive from the various managers, Natixis Interépargne, Société Générale, and your personal financial institution if you bought your shares through it.

My comment: *If you have shares in one of the funds managed by Natixis Interépargne, remember to log in to your account manager once a year, to avoid it being considered inactive.*

PEE inactivity is governed by the Eckert law.

After 5 years of inactivity, Natixis Interépargne sends a letter/email to those concerned asking them to log in to their account or to call Natixis Interépargne to reactivate their account.

Natixis Interépargne sends this information every year after 5 years of inactivity and up to the 10th year. After 10 years of inactivity, the assets are transferred to CDC, which holds them for 20 years.

This is the old 30-year prescription period, which breaks down into 2 stages: 10 years with the account keeper and 20 years with CDC.

Inactivity means not carrying out any transactions and/or not logging on to your account and/or not calling and/or not writing to Natixis Interépargne.

This system also applies to PERCO/PER since the PACTE law.

> **FCPE management / Air France-KLM share consolidation**

When you invest in one of Air France's FCPE funds, you obtain 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 equities.

My comment: *If you'd like to find out more about the management of the various Air France employee shareholding funds, please visit the [Air France-KLM employee shareholding section of my website](#).*

My specific comment on the share consolidation: On July 21, Natixis Interépargne sent information to all current and former employee shareholders by e-mail.

It reads as follows:

On July 12, 2023, Air France-KLM published a press release (click [HERE](#) to access this document) announcing a share consolidation (1 new share will consolidate 10 old shares, resulting in a 10-fold increase in value) and share capital reduction.

Holders of FCPE units are not affected by the exchange period running from July 31 to August 30 mentioned in the press release.

On this date, the Concorde, Majoractions and Aeropelican FCPEs will carry 10 times fewer shares, the share value having been multiplied by the same amount.

As this operation offsets each other, holders of shares in these FCPEs will see no impact on the amount of their savings.

For your information, on August 31, the share price (multiplied by 10) will be re-correlated with the unit value, which will remain unchanged:

- so that the value of the FCPE unit will be as close as possible to the share price;*
- with the effect of reducing the total number of FCPE units.*

A new communication will be sent to you before the end of the trading period, on August 31, by our services [Natixis Interépargne].

Details

This information does not constitute a solicitation to buy or sell Air France-KLM shares.

Please feel free to react to this press review, or to send me any information or thoughts that will help me better carry out my role as a director of the Air France-KLM Group.

By return, you can ask me any questions you may have about the Air France-KLM group or employee share ownership...

See you soon.

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| François Robardet

former Director of Air France-KLM.

You can find me on my twitter account [@FrRobardet](#)

Nicolas Foretz, PNC, Director of Air France-KLM representing employee and former employee shareholders, PNC and PS



To write to Nicolas: [message for Nicolas Foretz](#).

During our election, we received the support of the CFDT and the UNPNC.

This press review deals with subjects related to Air France-KLM shareholding.

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