

Air France-KLM: share consolidation completed

## 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.

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

### François Robardet

former representative of PS and PNC employee and former employee shareholders

N°928, September 4, 2023

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## Editorial

*Dear readers,*

*Transport Minister Clément Beaune repeated on Tuesday that taxing the means of transport that emit the most CO2 would encourage a shift to rail, in particular, and allow greater investment in the ecological transition.*

*Since then, there have been many reactions.*

*Given the importance of the subject, I'm preparing a special Flash that will be sent to you in the next few days.*

*In the meantime, you will find at the end of this letter an article on this news item and an initial commentary.*

*I wish you a pleasant reading.*

*François*

## Monday's Press Review

### > Air France-KLM: share consolidation completed

(source CercleFinance) September 1 - **Air France-KLM announces the completion of the reverse split of all its outstanding shares**, as decided by the Board of Directors at its meeting on July 4 and in accordance with the resolutions of the Annual General Meeting of June 7.

**The operation involved the exchange of 10 old ordinary shares for one new share.** The airline's share capital is now divided into 257,053,613 shares.

Shareholders who were unable to obtain a number of shares in multiples of 10 will be compensated for their remaining fractional shares within a maximum of 30 days by their financial intermediary, i.e. by October 2.

***My comment:** Following this operation, the share price rose to 14 euros, compared with 1.4 euros the previous day.*

*There is no financial impact for shareholders, since at the same time their number of shares has been divided by 10.*

### > Transport Minister Clément Beaune wants a minimum price for air tickets in Europe

(source Ouest-France) August 31 - **French Transport Minister Clément Beaune wants to "introduce a minimum air fare" in Europe to "combat social and environmental dumping"**, in an interview with L'Obs on Wednesday, August 30, 2023.

This "proposal" will be submitted to his European Union counterparts "in the coming days", he announced. **"Airline tickets at €10, at a time of ecological transition, is no longer possible! It doesn't reflect the price for the planet"**, he said, alluding to the pricing policies of certain low-cost airlines.

These introductory prices do not cover the real cost per passenger of air travel, which emits far more greenhouse gases than rail travel.

"I fully accept the need to tax polluting activities in order to invest in this ecological transition", he justifies, while the government is already planning to increase the so-called "solidarity" tax applying to all flights departing from France, in order to finance investment in railways.

Additional taxes on freeway companies and airline tickets are expected to feature in France's 2024 budget

***My comment:** I've always thought it unusual to find airline tickets that cost less than the sum of taxes and incompressible costs (fuel, salaries, etc.).*

*But before setting a floor price, it would be a good idea to look at the reasons why these fares are offered.*

*I'm thinking of the subsidies paid by local authorities to attract or keep low-cost airlines.*

*I'm also thinking of non-compliance with legislation. Of course, convictions are regularly handed down, but only after numerous actions, often led by unions.*

*And then there's the (too) large number of airports and their management. The latest report by the Cour des Comptes on "LE MAILLAGE AÉROPORTUAIRE FRANÇAIS", published last June, speaks volumes.*

*I reproduce below an extract from the press release.*

*=== beginning of quote*

*In 2019, France had 73 airports in its metropolitan area. Of these, 41 platforms handled between 10,000 and 3 million commercial passengers in the same year.*

*This report focuses on the specific situation of this category of infrastructure, known as "intermediate airports", whose traffic levels exceed those of local aerodromes, but do not match those of international hubs, and most of which have been owned by local authorities since airport decentralization.*

*Faced with common challenges, these airports have diverse vocations and contribute to opening up isolated areas or serve well-connected regional metropolises.*

*(...) When it comes to airport networks, none of the public players has any responsibility or overall vision.*

*(...)*

*Public authorities need to carry out an in-depth review of the strategy and management methods for the airport network, a strategic tool at the service of public mobility.*

*Thanks to the creation of an airport observatory with harmonized, comprehensive data, the French government, in consultation with the regions, should adopt a national airport strategy.*

*This would enable it to improve the efficiency of the airport network, and define priorities in terms of regional planning.*

*=== end of quote*

*Finally, the report sheds some light on a subject that speaks for itself:*

C - Airline subsidies: a lack of transparency (...)

)

b) Additional discounts, negotiated by mutual agreement

In addition to the modulations provided for in published fares, commercial agreements between airlines and airports are also the result of "horse-trading" (...).

**Some airports conclude economically unfavorable contracts, going so far as to agree to the use of airport services free of charge, and sometimes even to the capture of part of their non-aeronautical revenues, when they have any.**

**> KLM disappointed by Minister Harbers' desire to push through the Schiphol narrowing: "incomprehensible".**

(source Luchtvaartnieuws, translated with Deepl) September 1 - **KLM is deeply disappointed now that it's clear that Minister Harbers wants to press ahead with contraction plans for Schiphol, even if they are slightly mitigated by raising the final target from 440,000 to 452,500 flights.** According to the airline, an interim cabinet should not take such radical decisions, and noise pollution can also be reduced without cutting the number of flights.

"Unfortunately, the cabinet's intention to drastically reduce the number of flights at the Dutch airport Schiphol was announced today. The minister is thus opting for a one-sided focus on reducing the number of flights, as an end in itself. We find this incomprehensible. It's not about the number of aircraft movements, but about noise reduction. Noise targets can be achieved in a better way, which will really help local residents, the climate, airlines and the Dutch economy," writes KLM. "

We demonstrate in our 'cleaner, quieter, cheaper' plan that we can also achieve the noise targets with the current number of flights. This plan is a serious commitment on the part of KLM. We can achieve it if we have the space. It achieves the targets and ensures faster renewal of our aircraft, enabling us to fly cleaner, quieter and more economically." "On the

other hand, **the Minister is opting for unnecessary narrowing instead of real improvement. We find it inconceivable that the Minister would demolish what KLM has helped to build over nearly 104 years.** We are doing everything in our power to make aviation cleaner, quieter and more economical. We feel this responsibility every day. To reduce noise, it is not necessary to radically reduce the number of aircraft movements at Schiphol," said the airline.

Marjan Rintel, CEO of KLM, said: "(...) **It's hard to imagine such a radical decision being taken by an outgoing cabinet, as the Lower House votes on September 12 on the issues that will be declared controversial.** As an outgoing minister, you don't keep a store open by closing it!

(...)

**My comment:** Since the creation of the Air France-KLM Group, the Dutch state has been relentless in its efforts to ensure that its royal airline KLM was not

*disadvantaged.*

*A move that culminated in the Dutch state's surprise acquisition of a 14% stake in Air France-KLM in February 2019. Minister Harbers, who advocates downsizing, was a member of this government.*

*Furthermore,  
=== beginning of quote (source the Universal Document published at the Air France-KLM General Meeting in June 2023, page 442, chapter Assurances given to the Dutch State) In the context of the 2004 merger operation, (...) the Dutch State undertook to take into account the importance of KLM's activities at Schiphol when determining its civil aviation policy. In addition, **the Dutch State has agreed to:**  
. **maintain the existing portfolio of traffic rights granted to KLM**, other than those which have not been used by KLM over a cumulative period of twelve months;  
. continue to consider in a fair and non-discriminatory manner any future request from KLM for the allocation of new traffic rights.  
=== end of quote*

*Noting the Dutch government's failure to meet its commitments, the Air France-KLM group said it "will have no choice but to adjust its strategy to maintain its European market share within a global industry" and warned that "this includes re-evaluating its investment plans in the Netherlands for the coming years and reallocating capacity within our network."*

*For his part, Ruud Sondag, interim CEO of the Schiphol Group, drove the point home by calling on the resigning government to press ahead with its plans to downsize the airport.*

## **> An Airbus-Air France alliance planned for A350 maintenance - Figaro**

(source Reuters) August 30 - **Airbus and Air France are working on the creation of a joint venture to manage part of the maintenance operations for the A350**, one of the European aircraft manufacturer's flagship models, Le Figaro reported on Wednesday, without specifying its sources.

According to the newspaper, the two groups hope that this project, dubbed "Cyrus", can be completed by early next year, once the regulatory hurdles at national and European level have been cleared.

This new entity would focus solely on the overhaul and repair of the A350's electronic and mechanical equipment, and would not be involved in engine, cabin or seat maintenance, according to Le Figaro.

It would be headed by two managers - one from each of the two groups.

**Airbus and Air France would thus aim to rival Lufthansa, leader in this market with, according to the newspaper, a 40% market share, compared with 20% for the aircraft manufacturer and 20% for the airline.**

***My comment:** The news was confirmed by an Air France-KLM press release, an extract of which follows.*

*Air France-KLM and Airbus announce today that Air France and Airbus have entered into exclusive negotiations to establish a joint venture for the worldwide provision of maintenance services for Airbus A350 equipment (supply chain management, repairs and creation of a shared worldwide inventory of equipment).*

*The envisaged cooperation would take the form of a 50-50 joint venture between Air France and Airbus, and would involve the transfer of certain aircraft equipment held by both partners into the joint venture's shared inventory.*

### **> European pilots worry about fatigue and associated risks**

(source Air Journal) September 2 - **The European Cockpit Association (ECA), a pilots' representative body, has shared a report highlighting fatigue-related risks in the European aviation system and warning of safety management shortcomings.**

The report, which surveyed nearly 6,900 European pilots from 31 countries, was carried out on behalf of the ECA by aviation safety management consultancy Baines Simmons and published on August 28, 2023. During the survey period from July 1 to July 22, 2023, Baines Simmons asked pilots various questions about fatigue and fatigue-related safety factors. The number of respondents was higher than initially anticipated. **According to ECA, "the report shows that fatigue was building up in cockpits even before the peak summer season", with three out of four pilots experiencing at least "one microsleep" while flying an aircraft in the last four weeks.** Meanwhile, a quarter said they had experienced five or more microsleeps while on active duty. "In addition, 72.9% of pilots reported not getting enough rest to allow them to recover from fatigue between tasks," ECA continues.

According to the representative body, while many pilots surveyed reported insufficient rest periods, almost one in five pilots used "Commander's Discretion (CD) to extend flying duties on two or more occasions in the last four weeks". **Worryingly, over 60% of pilots surveyed are concerned about negative consequences if they refuse to extend their flight duty hours.** "These are worrying signs and clear indications that fatigue-related risks are not being well managed in many European airlines," said Otjan de Bruijn, president of the ECA, adding that the report was "worrying".

The ECA

president also pointed out that pilots were surveyed at the start of peak summer operations in July 2023, meaning that "fatigue levels in August could only have gone



one way - up". **Another worrying trend noted by de Bruijn is a structural problem within the European aviation system, with airlines not effectively managing fatigue-related safety risks.** The report's data "showed that there are challenges and shortcomings in operator fatigue risk management arrangements in all the countries represented, as well as gaps in the oversight provided by regulators", added de Bruijn.

Looking at the report, 53.2% of pilots surveyed said that "fatigue risk was either 'mostly poorly managed' or 'poorly managed' within their airline". **"The UK (72.0%), Malta (66.5%), Spain (63.1%) and Ireland (61.7%) were the countries where the highest proportion of crews indicated that [fatigue risk management (FRM)] was generally not or not well managed,"** the report continues.

The ECA also pointed out that "only 10.8% of pilots responded that fatigue reports had led their airline to make operational changes to improve safety", while only 13.2% said that their employers communicated "well with the crew about fatigue reports". Finally, according to the representative body, "only 12% said they trusted their airline's reporting system". "

We hope that [the European Union Aviation Safety Agency (EASA)] and national authorities across Europe will carefully examine the report and take the necessary steps to ensure that airlines provide effective fatigue reporting systems and properly manage their fatigue-related safety risks," concluded Philip von Schöppenthau, ECA Secretary General.

***My comment:*** *The results of this survey should be treated with caution; it mainly concerned Anglo-Saxon countries, and nowhere does it mention the airlines in which the pilots work.*

*Percentage of responses by country (for a total of 6,893 responses): United Kingdom 12.7% (874) Spain 12.1% (834) Germany 11.3% (777) Switzerland 11.2% (771) Ireland 9.4% (648) Malta 6.9% (474) Netherlands 6.1% (418) ... In France, very few pilots (66, or 0.8% of respondents) took part in the survey.*

*It should be noted, however, that most of the "countries where the highest proportion of crews indicated that [fatigue risk management (FRM)] was generally not or not well managed" are home to major low-cost airlines (Great Britain, Ireland, Malta).*

## > **The French air transport industry is up in arms against the introduction of a new tax**

(source AFP) September 4 - Unsurprisingly, **the air transport industry, through Pascal de Izaguirre, President of the Fnam, has reiterated its hostility to the introduction of a new tax.** "Needless to say, we are firmly opposed to this tax, which has not been the subject of any consultation," he declared on BFM Business.

**This was in response to Clément Beaune, the French Minister for Transport, who had repeated on Tuesday that taxing the means of transport that emit the most CO2 would make it possible to encourage a shift towards rail, in particular, and to invest more in the ecological transition.** He then confirmed, at the Medef summer university, that the next finance bill would include taxes on freeway companies and airline tickets.

In a press release dated August 30, **the FNAM** had already expressed surprise at "the form of this announcement, which has not been the subject of any consultation or information gathering with players in the airline industry". For the federation, "the accumulation of tax measures needlessly threatens the future of the French flag", and if the project is not accustomed, it **"will study the legal recourses available against the implementation of such a measure"**.

This tax increase "comes on top of the planned increase in the solidarity tax on airline tickets", and augurs a further rise in ticket prices, asserted Pascal De Izaguirre. De Izaguirre, who is also Chairman of Corsair, added that the sector's margins remained "extremely low", despite the upturn in business and the sharp rise in fares following the health crisis.

**Air France has already been able to demand that "fair conditions of competition be respected,** to avoid reinforcing the existing distortion of competition with non-European operators." On this point, **Clément Beaune says he intends to extend the discussion to the European level at a meeting of European transport ministers at the end of September:** "There's no point in taxing French airlines if the others don't make an effort. **I'm very vigilant to make sure that our airlines, like Air France, and our airports aren't the ones who get the short end of the stick.**" A meeting that could also address the idea of a kerosene tax at European level. **"If there are to be new taxes, they must be earmarked for the decarbonization of air transport, and not to finance the SNCF,"** pleaded the Corsair Chairman, pointing out that his sector had committed to zero net CO2 emissions by 2050, which will require massive investment in equipment and non-fossil fuels. Clément Beaune also announced that the tax increase would "also finance the 300 million euros a year that the French government is investing in the aeronautical industry to fund sustainable fuels and the green aircraft of tomorrow".

***My comment:*** Minister Clément Beaune changed his tune this week. He no longer says that the proceeds of the new taxes on air or freeways will be entirely devoted to rail. Part of it could also go to air transport.

*Not enough to reassure the FNAM, which only half believes in this change of foot. " We won't know for sure until the PLF (Finance Bill) is presented at the end of September," says FNAM General Delegate Laurent Timsit.*



## **Stock market press review**

### **> Air France-KLM: Oddo BHF remains 'neutral', reduces its target**

(source CercleFinance) September 4 - **Oddo BHF maintains its 'neutral' rating on Air France - KLM shares, with a price target reduced from 21 to 17.5 euros (post-capital reduction) in order to 'act a little more cautiously on unit costs' (...)**

After a fine summer season, we anticipate a stable yield passage in Q3 2023 compared with Q3 2022 (but an increase of +25% compared with 2019, driven by the Americas) and a yoy (year-on-year) decline of -5% in Q4, in order to integrate the slightly dilutive effect of the return to capacity', stresses Oddo BHF.

**The broker is now counting on the Investor Day to be held on November 7, believing that it 'will be key to restoring confidence in the company's ability to neutralize the effects of inflation'.**

Although Air France-KLM believes it has resolved its negative equity problems (via the transactions finalized with Apollo (500 ME based on MRO components and 1.5 MdE on the Flying Blue frequent flyer system), Oddo BHF continues to prefer Ryanair in this sector.

**No comment**

## **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 last five years :**



Lufthansa share price over the past five years :



IAG 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 repay 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 **14.10 euros** on Monday September 4. It is **down** this week by **-0.76%**. **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 were similarly down.

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%.*

*IAG is the only one of the five airlines mentioned in the previous commentary to have gained +5%, although it 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 down \$4 to \$125.** It was \$94 at the end of June, and \$79 before the outbreak of war in Ukraine.

**Brent crude oil** (North Sea) is **up slightly by \$1 to \$86.**

From mid-February 2022 to the end of July 2022, it was yo-yoing 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 is now \$39, 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 [navigation](#) 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 / Consolidation of Air France-KLM shares**

When you invest in one of Air France's FCPE funds, you obtain shares in these funds. You do not hold shares directly.

It's 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 how the various Air France FCPEs are managed, please [visit the Air France-KLM Employee Share Ownership 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 concerned by the exchange period running from July 31 to August 30 mentioned in the press release.***

*On August 31, the share price (multiplied by 10) was re-correlated with the unit value, which will remain identical:*

- so that the value of the FCPE unit is as close as possible to the share price;*
- resulting in a reduction in the total number of FCPE units.*

*The Concorde, Majoractions and Aeropelican FCPEs carry 10 times fewer shares,*

*with the share value multiplied by the same amount.*

*As these two operations offset each other, the holders of shares in these FCPEs did not suffer any impact on the amount of their savings.*

## **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.

For the latest Monday press reviews, [click here](#).

**If you like this press review, please pass it on.**

New readers can receive it by [sending me](#) an email address of their choice.

**| 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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