

Air France-KLM finally returned to profit this summer



## I Letter from the Director of Air France-KLM

**François Robardet**

Representative of employees and former employees who are PS and PNC shareholders

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### *Monday's Press Review*

#### > Air France-KLM finally returned to profit this summer

(source Les Echos) October 29 - For the first time since the crisis began, **Air France-KLM** has made money. The group **unveiled** this Friday morning **a positive operating result for the third quarter, with an operating profit of 132 million euros, for a turnover, up 80%, to 4.567 billion euros.**

**A summer result certainly modest compared to the 900 million euros generated in 2019, but which nevertheless marks a spectacular recovery, higher than analysts' forecasts,** compared to the billion euros lost over the same period last year.

**The net result remains negative by 192 million euros, but again, nothing to do with the 1.66 billion losses of the third quarter of 2020.**

These summer profits will not make up for the losses of the first part of the year. Over nine months, Ebitda remains negative by 78 million and the fourth quarter is rarely a good period. Nevertheless, Air France-KLM expects to generate a "positive" gross surplus (Ebitda) in the fourth quarter and "slightly positive" over the whole of 2021.

This improvement in the accounts is generally linked to the recovery in traffic, which **Air France-KLM had anticipated to some extent by maintaining a larger offer than that of its competitors.** In the third quarter, Air France-KLM's offer had thus returned to 66% of the 2019 level. And the recovery is continuing, with Air France-KLM expecting to

return to 75% of the 2019 level by the end of the year.

In particular, Air France-KLM is counting on the reopening of the United States to European travellers to accelerate the recovery in its traffic. The group is seeing a rapid recovery in bookings for November and the Christmas holidays, said the new chief financial officer, Steven Zaat.

**Air France can also rely on the good results of its African network, the domestic and European network, flights to the French Overseas Departments, as well as a good unit revenue.** This is thanks to a particularity underlined by its CEO Benjamin Smith: **50% of passengers in its premium classes (First, Business and Premium eco) are leisure travellers, which** has made up for the virtual disappearance of business travellers.

**The performance of the cargo branch, whose revenues have increased by more than 50% since the beginning of the year, has also helped considerably. So did the growth of Transavia, whose revenues doubled in the third quarter. The low-cost airline generated an operating profit of 105 million euros.**

Despite the contributions of its subsidiaries, **the Air France group remained slightly in the red in the third quarter**, with an operating loss of 45 million euros, **compared with 168 million euros for the KLM group. The gap between the two has narrowed but remains considerable over nine months**, with an operating loss of 1.45 billion euros for Air France compared to 354 million euros for KLM. Moreover, even if **the group no longer has a liquidity problem**, with a net cash flow of 499 million euros in the third quarter and 10 billion euros of available liquidity according to the financial director, **the balance sheet of Air France-KLM remains weighed down by a net debt of 8.12 billion euros.**

But here again, the solution to this balance sheet problem seems to be in the process of being resolved. **Regarding the renegotiation of the €4 billion of secured loans contracted in 2020, the group seems close to an agreement with the banks for a "reprofiling" that should take the form of a postponement of repayments over several years.** "We have the support of the banks," the CFO assured. At the same time, **Air France-KLM is also working on a new fund-raising operation to recapitalize itself.** No amount has been put forward, but it seems certain that the one billion loan granted to KLM by the Dutch government will also be transformed into quasi-equity, as was the case for the 3 billion loan from the French government to Air France.

***My comment:*** Essentially, thanks to the involvement of all employees, the Air France-KLM group has managed to fly its aircraft without losing

money.

*The prize goes to Transavia France, which met the challenge of having a positive operating result while operating ten more aircraft than before the crisis.*

*In this article there are many figures that may appear contradictory or alternate between Air France-KLM and Air France results.*

*First of all,  
two clarifications:*

*1. EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) is used to compare the profitability of a company's operating process with other companies in the same sector, regardless of their location.*

*2. A positive EBITDA means that the company covers all costs directly related to its operations.*

*The income statement below presents a summary of the quarterly results for Air France-KLM.*

*To go from turnover (€4.567 billion) to Ebitda (€796 million), we deduct the operating expenses.*

*To go from Ebitda (€796m) to Operating Profit (€132m), we need to take into account depreciation and provisions (-€664m).*

*To move from Operating Profit (€132 million) to Net Profit (-€192 million), we need to take into account non-recurring income and expenses (-€54 million), then the cost of financial debt (-€145 million) and finally other financial expenses (-€114 million).*

## Compte de résultat

	Troisi
€m	2021
<b>Chiffre d'affaires</b>	<b>4 567</b>
Autres produits de l'activité	0
<b>Chiffre d'affaires</b>	<b>4 567</b>
Carburant avions	-828
Affrètements aéronautiques	-85
Redevances aéronautiques	-374
Commissariat	-124
Achats d'assistance en escale	-307
Achats et consommations d'entretien aéronautiques	-389
Frais commerciaux et de distribution	-124
Autres frais	-292
Frais de personnel	-1 406
Impôts et taxes	-30
Autres produits et charges	188
<b>EBITDA</b>	<b>796</b>
Amortissements, dépréciations et provisions	-664
<b>Résultat d'exploitation</b>	<b>132</b>
Cessions de matériel aéronautique	-6
Autres produits et charges non courants	-54
<b>Résultat des activités opérationnelles</b>	<b>72</b>
Coût de l'endettement financier brut	-144
Produits de la trésorerie et équivalents de trésorerie	-1
<b>Coût de l'endettement financier net</b>	<b>-145</b>
Autres produits et charges financiers	-114
<b>Résultat avant impôt des entreprises intégrées</b>	<b>-187</b>
Impôts	-7
<b>Résultat net des entreprises intégrées</b>	<b>-194</b>
Part dans les résultats des entreprises mises en équivalence	3
<b>Résultat des activités poursuivies</b>	<b>-191</b>
Intérêts minoritaires	-1
<b>Résultat de l'exercice</b>	<b>-192</b>

> Air France-KLM joins the SBTi initiative for its ecological transition

(source Le Journal de l'Aviation) October 29 - **Air France-KLM has decided to submit its environmental targets for validation by the independent body SBTi** (Science-based Targets) in the first half of 2022.

SBTi is an organization founded by the Carbon Disclosure Project, the United Nations Global Compact and the World Wildlife Fund (WWF), which assesses companies' CO2 emission reduction targets and verifies that they are compatible with the Paris Agreement.

**For Air France-KLM, this is a further step towards the goal of zero net emissions in 2050.** The Group has also committed to setting additional reduction targets for 2035.

Its reduction program is based in particular on fleet renewal, the use and support for the development of sustainable aviation fuels and the optimization of operations.

***My comment:** Air France-KLM is one of the very first airline groups to use scientific indicators to reduce its CO2 emissions.*

*This proactive approach aims to have the Group's and its airlines' CO2 emission reduction targets assessed on the basis of a scientific approach and criteria. In particular, SBTi will ensure that the targets selected are compatible with the Paris Agreement, which aims to limit global warming to well below 2°C.*

*The world's two largest cement producers (the Franco-Swiss Lafarge-Holcim and the German Heidelberg-Cement) have signed up to this initiative. The stakes are high, as the cement industry emits three times more CO2 than air travel.*

*To find out more, read the bonus article "Concrete cement, the third largest emitter of greenhouse gases" at the end of the letter.*

## **China: airlines hit by epidemic rebound due to Covid**

(source AFP) October 30 - **Chinese airlines reported third-quarter results in bright red, weakened in their huge domestic market by epidemic outbreaks of Covid-19 that are penalizing business.**

China, the first country affected by the pandemic, has practically closed its borders since March 2020, which has drastically reduced international air links.

(...)

But the recovery is fragile. An epidemic rebound this summer in several regions - the largest in terms of geographical spread - has led to major

disruptions in transport, especially in air travel.

China Southern Airlines, the country's largest airline in terms of passenger numbers, posted losses of 1.4 billion yuan (189 million euros) in the July-September period. In the previous quarter, they amounted to 682 million yuan, i.e. twice as much.

**This year, the pandemic has had a "lasting impact" during the summer**, a traditionally good time for travel, China Southern said Friday. **The rise in global fuel prices also weighed on the company's accounts. China Eastern Airlines, China's second-largest airline in terms of passengers, reported losses of 2.9 billion yuan (391 million euros) in the July-September period. Again, this is twice as much as in the previous quarter** (1.4 billion yuan).

For its part, the iconic national airline Air China reported losses of 3.5 billion yuan (472 million euros) in the third quarter. They were six times higher than in the previous quarter (580 million yuan). "With the spread of Covid-19 in the world, air transport is hard hit," Air China said, promising to "control (its) costs."

**The results come as China faces a new epidemic rebound. On Friday, Beijing's airports cancelled hundreds of flights after cases appeared in a dozen provinces linked to an outbreak in the north of the country.**

*My comment: While the United States plans to reopen its borders to vaccinated passengers on 8 November, Asia is still far from doing so.*

## **ITA joins the Skyteam alliance, like Alitalia before it**

(source AFP) October 29 - The new Italian airline **ITA Airways, which took over from bankrupt Alitalia, will also replace it in the SkyTeam frequent flyer programme alongside Air France**, the alliance announced Friday.

(...)

The move had sparked speculation that ITA Airways might prefer the rival Star Alliance, which includes German giant Lufthansa, US carrier United and Turkish Airlines, to SkyTeam.

Alitalia frequent flyer point holders will be able to continue to use their points with SkyTeam, according to **the alliance founded in 2000, which brings together 19 airlines, from Air France to China Eastern, Delta Airlines and Aeroflot**, with a claimed total of 700 million customers per year before the health crisis.

(...)

*My comment: This is a positive announcement for Air France-KLM. The*

*Italian airline remains an important partner in the Skyteam alliance.*

## > **Stock exchange Lufthansa sees "improvement" in business travel**

(stock market source) October 26 - Air traffic for business travelers is picking up faster than expected and is expected to remain strong through the winter, according to the chairman of the board of German airline Lufthansa. **"We are seeing a positive trend in business travel, which was still at a low level in the third quarter and is now recovering strongly,"** Carsten Spohr told Austrian newspaper Kleine Zeitung on Monday.

"Business travel has picked up faster and more strongly than expected," he added, noting that the upturn was being felt particularly in the German, Swiss, Austrian, Belgian and northern Italian markets, where more flights are being offered...

**The German company now expects business travel traffic in the medium term to be around 90% or more of the levels seen before the health crisis.**

(...)

***My comment:** At Air France-KLM as well as at Lufthansa, it is suggested that the return of passengers to business class is coming soon.*

*Realism or wishful thinking? It is still difficult to say.*

## **IAG: concessions to ease EU concerns over Air Europa deal**

(source Air Journal) Oct. 30 - **IAG**, owner of British Airways and Iberia, **has offered concessions to address EU antitrust concerns over its €500 million bid for Spain's Air Europa**, the European Commission said Thursday.

**IAG submitted its bid on Wednesday. As a result, the EU executive** extended by one month, until January 4, 2022, the provisional deadline to decide on the deal, which had been set for December 3 after already being extended once. Brussels did not specify the undertakings, which were sent by the two companies (IAG and Air Europa) on 27 October to obtain approval for a merger which the Commission is investigating for fear that it would reduce competition on several air routes, particularly between Spain and America. . IAG had signed an agreement with Spanish airline Volotea in March last

year to buy several of IAG's routes (which were not specified) in order to increase competition in the domestic market. (...) As Brussels explained when it opened its investigation, the concern is that the deal, as proposed, could create competition problems on some 70 routes where Iberia and Air Europa are the main or even the only operators.

**The EU antitrust watchdog is now expected to seek comments from competitors and customers before deciding whether to accept IAG's offer or demand more concessions in return for the green light.** It had previously said the deal would reduce competition on Spanish domestic and international routes.

***My comment:** Initially, IAG had proposed, via its subsidiary Iberia, to buy Air Europa for one billion euros.*

*The health crisis having led Air Europa to take out a loan of 500 million euros, IAG reduced its offer by the same amount.*

## **Boeing, speed, defence...: the answers of the Airbus boss**

(source Les Echos) October 28 - *You have announced an increase in production rates that some industry players consider too ambitious given the current air transport situation. How do you explain these divergences?*

The current situation is very fluid, with apparent contradictions. But once the pandemic is over, we will have to return to the same number of aircraft in service if we want to regain the same level of traffic. For the past two years, deliveries have been considerably reduced and many aircraft have been grounded or returned to their lessors.

(...)

**We are convinced that the reduction of CO2 emissions must be accelerated by speeding up the replacement of the oldest aircraft** and that demand is strong enough to absorb 75 aircraft per month.

*Aren't you afraid that Airbus' domination of single-aisle aircraft will prompt Boeing to react by launching a new model?*

That's a question for Boeing. As far as we are concerned, our concern is to bring our products to such a competitive level that customers prefer them to Boeing's. That's how we have been able to develop our products. That's how we achieved a higher market share, not because we decided to produce more. On the other hand, **regarding the launch of a new model, we believe that this will require disruptive technologies, both in the area of production and in the performance of the aircraft. We are not ready in either of these areas.**

The equipment manufacturers are not ready and neither are the engine

manufacturers. That's why **we don't plan to launch a new aircraft before 2035. Boeing is free to do it before then if they can, but in my opinion, that would mean spending a lot of money on a product that will have little differentiation.**

(...)

*The crisis has highlighted the complementarity between civil and military. Do you intend to strengthen your position in defence or will it remain a complementary activity?*

**Defense is not an adjustment variable. Along with space and helicopters, it is one of the Group's pillars.** The crisis has underlined the importance of this activity in the event of a weakening of the civil aviation sector, but beyond this cyclical aspect, defence is, and will remain, at the heart of Airbus' raison d'être, which is to be the pioneer of a sustainable aerospace industry for a safe and united world. When headwinds arise to challenge the defence industry, we fight to defend it.

(...)

*What are the possible consequences for Europe of the Aukus military alliance between the US, UK and Australia in the Pacific?*

This announcement illustrates the shift of American interests towards the Pacific. This can only encourage Europe to take more responsibility for its security and strategic autonomy. The American defence budget is four times larger than that of all the European countries put together. Nevertheless, they tend to want to divide it between at least two major industrial players.

**If Europe ensures that it has only one major player in defence, we will be in a one to two ratio with the Americans. Moreover, we do not necessarily have the same defence needs as the Americans. If we concentrate on the few strategic sectors for Europe, then we will not be far behind the Americans.**

(...)

It is likely that civil aircraft will remain very dominant within Airbus. But that does not mean that it will always dominate our concerns. The two sectors are very complementary in terms of research and development. The electrical orders for Airbus come from the military. Conversely, cyber security in the civilian sector has spread to the military.

***My comment:*** *By announcing the launch of a new aircraft in 2035, the CEO of Airbus is clearly pointing the way forward in the next 15 years.*

*If the civil aviation sector wants to reduce its impact on the climate, it will have to do so with existing aircraft models.*

*The use of sustainable fuels (SAF) seems unavoidable. The only thing left to do is to produce it in large quantities.*

*In the Netherlands, various studies have examined the availability of bio-based fuels.*

*The E4Tech study sent to the Dutch National Assembly in March 2020 shows that there is enough sustainable biofuel available at EU level to meet the 14% target in 2030.*

*The study on biomass availability and applications carried out by the Dutch Environmental Assessment Agency concludes that in 2030 and 2050 there will be sufficient biomass available in the EU or globally to meet the demand for biomass for the various transport sectors. The Agency therefore does not expect any bottlenecks in availability, even if demand from, for example, road transport and shipping is taken into account.*

## **Bonus Article**

### **Concrete-cement, the third largest emitter of greenhouse gases**

(source AFP) October 19 - **If concrete used on the planet were a country, it would be the world's third largest emitter of greenhouse gases, just behind China and the United States.**

*Why are concrete and cement said to have one of the worst carbon footprints of any industrial sector?*

Answer: Cement is the most consumed material in the world, at about 150 tonnes per second. Fourteen billion cubic metres of concrete are poured every year, according to the London-based Global Cement and Concrete Association (GCCA), which groups together the main players in the sector, including the giants Holcim (Switzerland, formerly Lafarge-Holcim), Mexico's Cemex and China's CNBM.

**The production of cement alone, a key ingredient in concrete, generates 7% of the world's carbon dioxide (CO<sub>2</sub>) emissions, according to the GCCA - three times more than air transport.**

"That's more than the emissions of the entire European Union or India, just behind those of China and the US," Valerie Masson-Delmotte, a paleoclimatologist and co-chair of a UN climate panel, told AFP. A trend that is not ready to stop with the galloping urbanization in Asia and Africa.

*How does cement emit CO<sub>2</sub>?*

Cement, which is the binder that binds together the stones and sand in

concrete, is made primarily from clinker, which is produced by firing limestone and clay in a kiln. As it heats up, it releases carbon dioxide. To produce one ton of cement, the firing at 1,400°C generates the emission of almost one ton of CO<sub>2</sub> too!

**This massive chemical reaction, which has hardly changed in the 200 years that cement has been manufactured**, accounts for 70% of the emissions from the cement sector. The remaining 30% comes from the energy consumption of the kiln itself, which is necessary to calcine the limestone.

*How to decarbonize construction?*

**The global concrete industry**, which announced its intention last year to become carbon neutral by 2050, **set a target in early October of reducing its emissions by "a further 25%" by 2030**, which would avoid releasing 5 billion tonnes of CO<sub>2</sub>.

The sector is then counting heavily on the deployment of future carbon capture and storage technologies to continue the effort until 2050. In addition to an increase in the recycling-reuse of old concrete, among the new avenues of greening is the replacement of fossil fuels by waste and biomass in cement kilns (animal meal, demolition wood, etc.). In terms of carbon capture, a technology that is still at the prototype stage, the global industry is planning to install "ten industrial-scale carbon capture structures by 2030," according to the GCCA. Giants like China's National Building Material Company (CNBM) have promised to "play their part" in this decarbonisation.

**Many start-up companies have launched their own projects: the American company Solidia proposes to capture CO<sub>2</sub> and reuse part of it to dry concrete, which reduces water consumption. In Canada, CarbonCure technologies injects liquefied CO<sub>2</sub> that is permanently embedded in the concrete.**

But above all, **the industry is counting on the new "green" cements** that use reclaimed materials instead of clinker.

**In Great Britain, the substitution rate is already 26%**, according to the GCCA. In France, a new low carbon cement standard was published in May.

*What is green or low carbon cement?*

For now, these new cements are mostly launched by start-ups. Traditional cement manufacturers are having more difficulty modernizing their production tools, heavy investments related to quarries. In France, Hoffmann Green Cement, based in the Vendée region, is particularly advanced with its cements made from industrial waste, clay sludge, blast furnace slag (a waste product from the steel industry, editor's note), or even fly ash from biomass.

Even with an estimated additional construction cost of 25 euros per

square meter, the young company, which has just been listed on the stock exchange, says it is overwhelmed by requests.

"The cement industry plans to eliminate its emissions by 2050. With our disruptive solutions, we can do it today," founder Julien Blanchard told AFP, who plans to expand from one to three sites in France.

**The issue is crucial: "Three quarters of the infrastructures that will exist in 2050 are not yet built," warned the secretary general of the United Nations, Antonio Guterres.**

***My comment:** The air transport sector is regularly singled out for its CO2 emissions (about 1 gigatonne per year).*

*However, it is far from being the largest emitter of CO2. The cement sector emits three times as much as the airline industry.*

*Food waste is responsible for the emission of 6 gigatons of CO2 per year (source drawdown project), six times more than air transport.*

## **End of the press review**

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

You will find on my [navigaction](#) site the modalities of access to the sites of the managers.

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.** It will be used for all correspondence with the 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, Société Générale, and your personal financial institution if you bought your shares through it.

### **> My comments on the Air France-KLM share price trend**

**Air France-KLM shares** closed at **4.25 euros** on Monday 1 November. **It is up sharply this week by +9.54%, following the announcement of better than expected quarterly results.**

Before the coronavirus epidemic, Air France-KLM shares were at 9.93

euros.

**The average (consensus) analyst price for AF-KLM shares is 3.24 euros.** The highest price target is 5.5 euros, the lowest 1 euro. You can find the details of the analysts' consensus on my blog. I do not take into account the opinions of analysts prior to the beginning of the health crisis.

**Brent crude oil (North Sea) is down slightly, by \$1, to \$85. This is the first decline in ten weeks.**

At the end of October 2020, it was at a low of \$37.

**At \$85, Brent is at a level not seen since 2014**, supported by supply disruptions and underlying demand. Natural gas prices continue to rise to their highest level in at least seven years. Investors seem to feel that hydrocarbon producers have cut back too much on production capacity during the pandemic so that demand pressure is unbalancing the market.

**This indicative information does not constitute an invitation to sell or a solicitation to buy 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 employees and former employees who are PNC and PS shareholders.**

## You can find me on my twitter account @FrRobardet

When I was elected, I received the support of the CFDT and the UNPNCChis  
press review deals with subjects related to the Air France-KLM shareholding.

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