

2023, a year of recovery for Air France-KLM



I Letter from the Director of Air France-KLM

François Robardet

Representative of the employees and former employees shareholders PS and PNC

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Editorial

Dear readers,

Since the beginning of January, employees and former employees with shares in the Air France FCPE have been receiving statements from Natixis.

By default, these statements are sent by post. If you have indicated a contact e-mail address (which I strongly recommend), you should have received them by e-mail.

If you think you have shares and you have not received anything, I invite you to refer to the section "Good to know, Advice for employees and former employees shareholders" at the end of this letter.

There you will find instructions on how to access your statements.

*Happy reading
François*

Monday's Press Review

> 2023, a year of recovery for Air France-KLM

(source Les Echos) January 27, 2023 - Barring another disaster, **2023 should be**

the year of the end of the crisis for Air France-KLM. At a press briefing this Thursday evening, CEO Ben Smith confirmed that Air France-KLM should be "almost at the same level of activity as 2019", while in the first quarter, supply is still at 90% of the 2019 level. The resumption of Air France's daily flights to China (Beijing, Shanghai and Hong Kong) as of July 1; as well as the prospect of KLM returning to "full capacity" at Schiphol Airport next summer, should complete the turnaround.

After years of abysmal losses, Air France-KLM is also expected to announce on 17 February a respectable operating profit of more than one billion euros for the 2022 financial year, according to the latest estimates, for a turnover of 28 billion euros, almost double that of a year ago. In addition to announcing a return to profit, the presentation of accounts will also be an opportunity for Air France-KLM to specify its debt reduction schedule, with priority given to the repayment of State aid. Although Air France-KLM is not as advanced in this area as its main competitors, IAG and Lufthansa, the group has already repaid 70% of direct State aid and owes only 600 million euros to the French State. All these elements explain why **Air France-KLM is back in favor with investors and analysts, several of whom (UBS, JPMorgan Deutsche Bank...) have revised their recommendations upwards in recent days.**

And to start the year on a nice note, Ben Smith also announced this Thursday, an additional order of 7 Airbus A350. Three A350-900 passenger aircraft for Air France (which had already ordered 38 A350s, 20 of which have already been delivered), **and four all-cargo A350s for Martinair,** the group's Dutch cargo subsidiary, to be delivered starting in 2026. This A350 freighter order is in addition to the order announced by Air France-KLM in December 2021 for four A350 freighters for Air France, with four options.

(...)

However, the end of the crisis will not mean a complete return to the world before for Air France-KLM. The crisis seems to have had a lasting impact on certain behaviors in several areas, forcing airlines to adapt.

(...)

In the name of reducing their carbon footprint, many companies have required their employees to take the train on journeys of less than 4 hours, such as Paris/Marseille. For Air France, this has resulted in a persistent drop in the number of passengers on the Paris/Marseille "shuttle", as well as on the interregional routes of its Lyon mini-hub. This is a concern for the Marseille Shuttle," admits Anne Rigail. On the other hand, Toulouse and Nice are not affected, nor are the feeder flights for the Roissy hub," she emphasizes.

Businesses, as well as a part of the individual clientele, have also tightened their expectations in terms of reducing emissions from air travel. The programs to offset CO2 emissions are no longer sufficient. **In order to validate their decarbonization trajectory, companies now want more concrete commitments. "Before, we**

planted trees, and now we are asked to produce sustainable aviation fuels," explains the head of Air France.

But we still need to have some. Over the past few months, Air France-KLM has stepped up its initiatives to secure access to these new fuels, most often from foreign suppliers. A new announcement is being prepared with Safran and Airbus to push for the development of a CAD industry in France.

***My comment:** Like last year, the Air France-KLM group is optimistic in its activity forecasts.*

The conditions to reach its objectives are being met by the Franco-Dutch group: having the entire fleet and having enough pilots and cabin crew. The Paris airports will have to be able to handle the flow of passengers.

As for the passengers, it seems that they will be there.

> Air-France-KLM denounces the limitation of flights at Schiphol but says it is ready for the summer

(Reuters source, translated with DeepL) Jan. 26, 2023 - **The boss of Air France-KLM railed on Thursday against the Netherlands' decision to cut airline slots at Schiphol** in Amsterdam to reduce air and noise pollution, saying it disrupted planning for the arrival of new, more efficient jets that are better able to reduce emissions.

The Dutch government said in June that flights out of Schiphol would be limited to 440,000 a year, or 11 percent fewer than in 2019, to reduce noise pollution - down from 500,000.

Chief Executive Ben Smith said the French-Dutch airline group had invested heavily in newer aircraft based on the predictable capacity of the KLM hub, only to have the rules of the game suddenly change.

"You know we have a whole network, a whole fleet plan that has been for 25 years based on these slots," he told reporters at a company event in Paris.

"It's a big blow they gave us there," he said, adding that government efforts to reduce emissions would be better directed if they helped increase the production of sustainable aviation fuel.

The aviation industry says installing SAFs in the newest jets, which use up to a quarter less fuel, is the most effective way to reduce emissions in the short term.

Environmental groups say this is still not enough and that the only way to fight climate change is to fly less.

The government has pointed to the airport's impact on "nature and climate" to justify the cuts, following criticism from environmentalists and the left-wing opposition over its greenhouse gas and nitrogen oxide emissions.

(...)

My comment: *When he arrived last autumn, the new Director of Schiphol Airport promised to hire enough people to ensure that the next summer season will be as busy as 2019.*

However, the Dutch government will have to authorize the airlines to carry out as many take-offs and landings as in 2019.

This is not a given. However, the airlines are committed to decarbonizing their activity.

> **Boeing in the red in 2022 for the fourth consecutive year**

(source Les Echos) January 25, 2023 - **For the fourth year in a row, Boeing finished in the red in 2022, with a spectacular annual net loss of \$5.05 billion**, compared to \$4.2 billion in 2021, on sales of \$66.6 billion (+7%). This is the second worst result in its history, after the \$11.94 billion loss in 2020. And this **while its rival Airbus is expected to unveil a record profit for 2022, on February 16.**

The fourth quarter result, which some analysts were hoping for, also ended with a loss of \$663 million, weighed down by the extra costs of the commercial aviation branch, whose deliveries have nevertheless increased by 54% (152 in Q4 and 480 for the year). In particular, the aircraft manufacturer had to absorb some \$600 million in extra costs on the 787 program, due to the failure of an undisclosed subcontractor.

Boeing's turnaround seems to be well underway. The group reduced its losses to \$663 million in the fourth quarter, compared with \$4.16 billion in the same period of 2021, and its quarterly revenue jumped 35% to \$19.98 billion. Over the same periods, cash generation rose from \$716 million to \$3.45 billion.

But above all, the group has not announced any new exceptional charge this time, as it did in the third quarter. This gives hope for a return to control of its various civil and military programs, after years of wandering and bad surprises. **For the first time since the end of 2018, Boeing is in particular able to deliver all its models of civil aircraft, since the green light from the authorities to resume deliveries of 787 last August.** Boeing had to interrupt deliveries of its "dreamliners" for more than a year, following the discovery, in the summer of 2021, of manufacturing defects on more than a hundred examples.

The "defense & space"

branch, which had been heavily penalized by budgetary slippages in several programs, such as the future MQ-25 naval refueling drone, the KC-46 tanker, the T-7A trainer and the future Air Force One presidential aircraft, returned to profit in the fourth quarter, with an operating profit of 112 million dollars, for a turnover of 6.1

billion.

Over a year, Boeing's military and space division, which was once a success, is still largely in the red, with an operating loss of 3.54 billion dollars, essentially linked to these extra costs on programs whose price was fixed in advance.

Overall, CEO David Calhoun is relatively confident about 2023, even if **the aircraft manufacturer continues to struggle, like Airbus, with delays in its subcontractor chains**. "Demand in our portfolio is strong and we remain focused on the stability of our operations and supply chain to meet our commitments in 2023 and beyond," says the Boeing boss, who signed one of the largest orders in Boeing's history, "for more than 200 aircraft" in 2022, with United Airlines.

(...)

Barring another disaster, Boeing should return to profit this year. However, the road to a return to normalcy will be long. About two to three years, according to Boeing. **The delivery rates of its two flagship products, the 737 MAX and the 787, are indeed far from being back to their pre-crisis levels.**

Produced at 52 units per month in 2018, before the 2019 stoppage, the 737 MAX just barely got back to 31 units per month last year. Adding in the pending deliveries, Boeing expects to deliver between 400 and 450 by 2023. But the aircraft manufacturer, which is still waiting to resume MAX deliveries in China, does not expect to pass the 50 MAX per month mark again until "2025-2026." By the same time, Airbus is expected to be producing more than 70 A320s per month.

The same goes for the 787, whose production dropped from 12 per month in 2019 (with a target of 14 per month), with two assembly lines, and now finds itself with a target of 5 per month in 2023 and a single assembly line. Boeing expects to deliver between 70 and 80 this year. "We will maintain a low rate longer than expected," announced this Wednesday, the chief financial officer, Brian West. As for the latest model, the 777X, the first delivery of the world's largest jet has been pushed back to the end of 2025.

It is not before 2025 or 2026 that Boeing hopes to return to its 2018 revenue level, when the group had crossed the \$100 billion threshold for the first time in its history. Since then, the group has shrunk by nearly \$40 billion. **As for profitability, there too, the recovery looks set to take a long time, with a target margin of 10%, compared with -5.3% in 2022.**

***My comment** : During these last years, Boeing has been facing industrial and air disasters.*

Its situation is slow to recover.

> **Airline: the race for synthetic kerosene is launched in Europe**

(source Les Echos) January 24, 2023 - **To achieve carbon neutrality by 2050, air**

transport will have to make massive use of new sustainable fuels. But which ones? Like wine, DACs also have their great vintages and their "tout-venant". While they all have in common that they significantly reduce net CO₂ emissions and can be used directly in today's aircraft, the various manufacturing processes, based on agricultural or forestry waste, used cooking oil, oilseeds and algae, are not all equally virtuous.

The most promising is synthetic kerosene, or e-kerosene. Produced from hydrogen (H₂) and carbon dioxide (CO₂), these two components are available in almost unlimited quantities, unlike the biomass needed for biofuels. **Its production does not compete with food production.** And unlike pure hydrogen, it does not require special tanks and produces almost no contrails. All this for performance equal to or better than that of conventional kerosene.

"E-kerosene holds one of the keys to decarbonizing aviation," says Matteo Mirolo, who is in charge of sustainable aviation issues at the Brussels-based NGO Transport & Environment. "If it is mass-produced in Europe, it would represent an unprecedented opportunity in terms of reducing the climate impact of aviation, creating jobs and strategic autonomy," he says. But only if it is made with "green" hydrogen, produced from electricity from renewable sources, as well as from CO₂ captured from the atmosphere.

Unfortunately, these two requirements make e-kerosene the most expensive aviation fuel and the most difficult to find. For the time being, its production, even if extended to other sources of CO₂ than the one captured in the air, is still limited to a few experimental sites around the world. To hope to obtain a few tons of the precious liquid in the future, airlines are forced to commit themselves several years in advance with potential producers. This is the case of **Air France-KLM, which recently placed an order for 600,000 tons of synthetic kerosene with the American company DG Fuels, for the period 2027 to 2036.**

However, this thirst for e-kerosene should not remain unfulfilled for long. The draft European regulation RefuelEU, which should lead this year to a mandatory 2% incorporation rate of e-kerosene as early as 2030 (and perhaps even 0.04% as early as 2025), has aroused interest among energy producers and investment funds. This is particularly true of the Paris-based fund Swen Capital Partners, which has just invested €26 million in the Arcadia synthetic fuel production project in Denmark, which aims to deliver up to 75,000 metric tons by 2027. **It's time to get involved,"** says Olivier Aubert, manager of Swen Capital's Swift fund. **With RefuelEU, we will have a legal framework that sets a first threshold of 2% in 2030.** This may not seem like much, but according to our calculations, it already represents 3 million tons of e-kerosene. That's the production capacity of about 30 plants the size of Arcadia in Denmark. At 800 to 900 million euros per plant, this represents an overall investment of nearly 30 billion euros," he says.

But Europe should be there. **According to Transport & Environment, some 30 projects for e-kerosene production sites have already been launched in Europe, of which a dozen should already be producing around 25,000 tons by 2025. By 2030, e-kerosene production is expected to reach 1.85 million metric tons per year, which would cover up to 3.69% of Europe's air transport fuel needs.** This would reduce CO2 emissions by about 5 million tons per year, equivalent to the emissions of 30,000 transatlantic flights, the NGO said. However, while production site projects are flourishing in Europe, **France seems to be lagging behind, with only two e-kerosene plant projects**, one in Dunkirk, involving Engie, ArcelorMittal and the American Infinium, and the other in Meyreuil-Gardanne, near Aix-en-Provence, led by Hy2gen. **The reason for this is the lack of wind and solar power, administrative obstacles, and the cost of electricity. To produce e-kerosene, you need a lot of cheap and sustainable electricity,"** explains Olivier Aubert. The two most favorable areas in Europe are the Scandinavian countries, where we can make off-shore wind power at a very low cost (35 to 40 euros per kW/h) and Spain and Portugal, with solar. On the other hand, countries where electricity is expensive and mainly of nuclear origin, such as France, are less favorable.

My comment: I have regularly discussed the subject of alternative fuels: in French CAD (for Carburant d'Aviation Durable) or in English SAF (for Sustainable Aviation Fuel).

There are different origins: in the United States, CAD is produced from vegetable crops that compete with food.

Europe, on the other hand, has chosen to produce its SAF either from vegetable crops that do not compete with food, or from waste (used oil, wood chips and sawdust).

In both cases, the availability of raw materials is uncertain.

For e-kerosene, the problem is different. The raw materials are available in sufficient quantities (see article above), but the green energy needed (from wind turbines, photovoltaics or nuclear power) is coveted by other industries.

To arbitrate between sectors of activity, the law n° 2021-1104 of August 22, 2021 (fighting against climate change and strengthening resilience to its effects) provides that each sector of activity establishes a roadmap.

Here is an excerpt from the law: "
No later than January 1, 2023, for each sector that is a major emitter of greenhouse gases, a roadmap shall be drawn up jointly by the representatives of the economic sectors, the Government and the representatives of the local authorities for the

sectors in which they have jurisdiction.

(...)

This roadmap coordinates the actions implemented by each of the parties to achieve the greenhouse gas emission reduction targets set by the national low-carbon development strategy provided for in Article L. 222-1 B of the Environmental Code."

The deadline is fast approaching.

> **Basel-Mulhouse-Freiburg: 7 million passengers by 2022**

(source Air Journal) Jan. 28, 2023 - **Basel-Mulhouse-Freiburg** International Airport **has recorded 7 million passengers in 2022**, nearly double the number in 2021.

Located on the French-Swiss border and also known as EuroAirport, the hub had reached a peak of 9.1 million passengers in the year before the Covid-19 pandemic, before seeing its traffic drop to 2.6 million passengers in 2020, then rebound slightly to 3.6 million in 2021.

(...)

In 2022, **the British low-cost carrier easyJet has confirmed its status as the leading airline at Basel-Mulhouse-Freiburg with a 58% share of total traffic.** The low-cost and charter airlines **Wizz Air (Hungary), Sunexpress (Turkey), Enter Air (Poland), Corendon and Pegasus (Turkey) rank second to sixth in order of importance**, ahead of the traditional airlines (Turkish Airlines, Lufthansa, British Airlines and KLM).

My comment: *The contrast with Strasbourg international airport is striking.*

In 2022, the Alsatian airport recorded a traffic of one million passengers, seven times less than its Franco-Swiss neighbor.

The choice made in the 2000s to favor "classic" airlines to the detriment of low-cost airlines is one explanation for this gap.

Strasbourg will not see a jump in traffic in 2023, as the runway will be closed for renovation work for one month (from March 14 to April 14).

End of the press review

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



The event that had the greatest impact on the share price this year was the **2.256 billion euro capital increase in June**. The funds were used to accelerate the repayment of state aid and to reduce debt.

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

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

As a result, the share price, which was around 2 euros before the operation, has since fallen to around 1.30 euros.

> [My comment on the evolution of the Air France-KLM share price this week](#)

Air France-KLM shares closed at 1.561 euros on Monday 30 January. It is down this week by -3.82%. Since the beginning of the year, it has risen by nearly 30%.

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

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

> [My comment on the evolution of fuel prices in 2022](#)

Since the beginning of the war in Ukraine, there is no longer any correlation between the price of a barrel of Brent oil and a barrel of Jet Fuel. The difference between the two products is between \$30 and \$50, whereas in previous years it was only \$10.

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

The barrel of Jet Fuel in Europe is down this week by \$5 to \$135. After peaking at \$182 in June 2022, it was down to \$132 in early August. It was \$79 a little over a year ago.

Brent crude oil (North Sea) is down this week by \$3 to \$86. This is close to the average level seen over the past five years, excluding exceptional events.

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

In early March, Brent crude reached \$132, close to its record of \$150 (in 2008).

If oil is back to a normal level, this is not the case for jet fuel, which costs \$49 more per barrel, a record! The increased need for diesel fuel to compensate for the reduced availability of gas is pushing up the price of kerosene, as both fuels are produced in a similar manner.

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 sites of the managers](#).

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

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

> **Management of employee investment funds**

When you invest money in one of the Air France FCPE funds, you get shares in these funds. You do not hold shares directly.

It is the supervisory boards, which you elected in July 2021 for a five-year term, that manage the funds and make the decisions.

The Aeroactions, Majoractions and Concorde funds only hold Air France shares.

The Horizon Épargne Actions (HEA), Horizon Épargne Mixte (HEM) and Horizon Épargne Taux (HET) funds manage portfolios of various stocks.

My comment: If you would like more information on the management of the various Air France FCPEs, please consult [my website navigation, section Air France-KLM employee shareholding](#).

Details

This information is not intended to be a solicitation to buy or sell Air France-KLM shares.

You can react to this press review or send me any information or thoughts that will help me better carry out my duties as a director of the Air France-KLM group.

You can ask me, by return, any question relating to the Air France-KLM group or to employee share ownership...

See you soon.

To find the last press reviews of Monday, it is [here](#)

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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