

AF-KLM to share with Indigo not only in India?

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

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

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



### François Robardet

Representative of the employees and former employees shareholders PS and PNC

N°913, May 22, 2023

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## Monday's Press Review

### Editorial

*Dear readers,*

*This week, I propose you a shorter letter than usual. The long Ascension weekend has put aviation news on hold.*

*I would like to remind you that the Annual General Meeting of Air France-KLM will be held on Wednesday, June 7, 2023 at 2:30 pm at the Hilton Hotel in Roissy. It will be broadcast live via webcast on the Group's website.*

*All the documents relating to the Annual General Meeting are available on the Air France-KLM Group website, on the Shareholders page, under the heading Annual General Meeting. This includes the resolutions that will be submitted to the vote of the shareholders.*

***As in previous years, I suggest that those of you who are shareholders of the Air France-KLM group give me your proxy.***

*You will find the procedure in my [Flash n°99](#).*

*Thank you for your trust and loyalty.*

*Happy reading  
François*

### > **Air France-KLM: a share with IndiGo not only in India?**

(source Air Journal) May 16, 2023 - **Air France-KLM** would like to extend its codeshare agreement with low-cost carrier IndiGo to India's neighboring countries, in order to meet demand but also to counter the new ambitions of the national carrier Air India.

While Air India has just announced its return to Amsterdam, the Franco-Dutch group **wants to extend the agreement launched last year with the Indian low-cost specialist**, the country's leading carrier, which offered the former 30 new destinations in India and the latter 120 destinations in Europe and 50 destinations on the American continent. Claude Sarre, CEO of Air France-KLM for the Indian subcontinent, said in the local press: "**We are working to see how we can expand IndiGo's international network in the subcontinent. We are now planning an international codeshare with IndiGo for nearby countries like Nepal, Bangladesh and Sri Lanka.**" This project is subject to approvals and agreements. He stressed that demand in India "is huge" since the end of the Covid-19 pandemic: "We know we have to adapt to send more planes to India".

From their bases at Paris-CDG and Amsterdam-Schiphol, Air France and KLM already serve four airports in India: Delhi, Mumbai, Chennai and Bangalore with an average of 46 flights per week, an increase of 22% compared to last summer (flights to Hyderabad are also being considered)

IndiGo's international network includes some 40 destinations in Sri Lanka, the Maldives, Bangladesh and Nepal, as well as in all the Gulf States, Turkey, Thailand, Singapore and Vietnam. The low-cost airline also has codeshare agreements with American Airlines, Qantas, Qatar Airways, Virgin Atlantic and Turkish Airlines - with whom it already leases wide-body aircraft with their crews.

**Recall that Air France and KLM, members of the SkyTeam alliance, no longer had a codeshare partner in India since Jet Airways ceased operations in April 2019;** it still hopes to take off again, initially on domestic routes. And that IndiGo is now headed by former KLM boss Pieter Elbers...

**My comment:** *India, which became the world's most populous country at the end of April, is the world's third largest civil aviation market, behind the United States and China.*

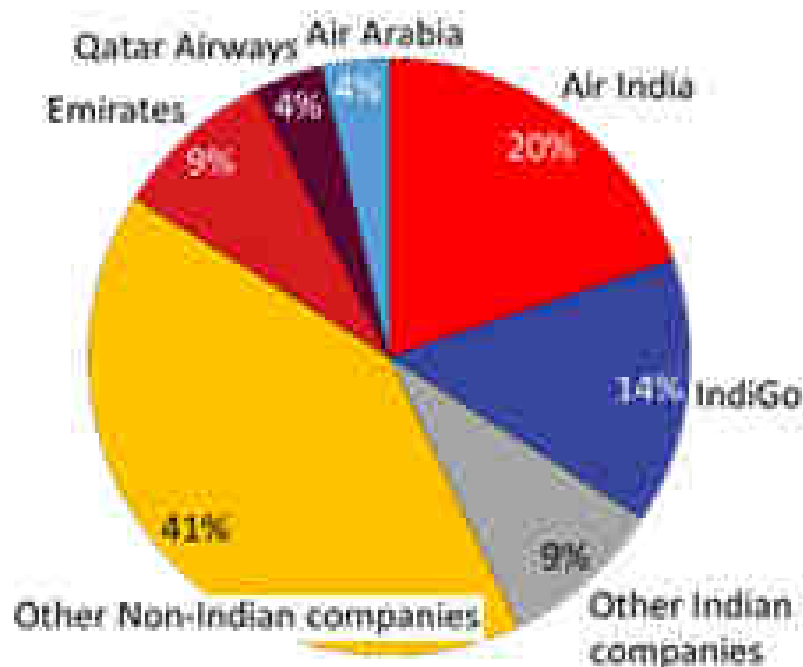
Over the past six years, domestic traffic has grown by 14.5% per year, while international passenger traffic has grown at an annual rate of 6.5%.

In the past, European airlines have always found it difficult to sustain agreements with their partners in India.

Indian airlines preferred to focus on their domestic business, not without difficulty.

This time seems to be over. The Indian government plans to invest around 11 billion euros between now and 2025 to build and modernize airports. Since Mr. Modi came to power in 2014, 73 additional airports have become operational (source: Le Monde).

Read the article "Tata invests massively in Air India, betting on the country's growth" in [my letter n°900](#).



Market share in terms of international seat capacity from India in 2022

### > No need for travelers to give up flying

(source Journal de l'Aviation) May 16, 2023 - **For years, the air transport industry has been an easy target of public opinion when the discussion turns to pollutant emissions, for example CO<sub>2</sub> but also noise.** Particularly exposed, it attracts attempts by activists and politicians to curb its activities, as witnessed by the abandonment of airport projects in Europe (even before the crisis) or the actions announced to limit the activity of Schiphol.

To counter this, the entire aviation sector has tried to multiply communication on its efforts to decarbonize aviation, but this seems to have difficulty reaching the ears of

people outside the sector. **The latest study by the Pegasus Chair**, conducted on a sample of 1,000 people representative of the French population and published last week, **shows that only a third of those questioned about the technologies developed to decarbonize aviation have ever heard of them.** Since research on hydrogen propulsion has made more noise than other, more immediate and higher-impact levers, the implementation of decarbonization technologies seems to be a long way off.

**Under these conditions, 12% of respondents admit to feeling ashamed when they fly and 41% plan to fly less often for environmental reasons.**

But for now, it is **difficult to see this translated into action.** Although the travel revenge effect has passed, **demand continues to be very strong and airline after airline is announcing that they are preparing for a bumper summer** - albeit with some difficulty due to aircraft availability issues. While supply remains slightly lower on average than in 2019, fares are also rising due to fuel prices, geopolitical tensions and the need to finance airlines' decarbonization actions. The DGAC thus notes that they were more than 20% higher in April than in April last year in France, and 32.6% above those of April 2019, all bundles combined.

Rate hikes and environmental consciousness, a dangerous cocktail for demand? **In the end, it seems that the public's concerns lie elsewhere**, as we are only at the beginning of the summer season and the planes are full.

***My comment:** According to an Ipsos survey conducted for the Alliance France Tourisme among a sample of 18-34 year olds, published this weekend by the "JDD", more than one young person in two (54%) cites the plane as the preferred mode of transport for going on vacation, just behind the car (65%).*

*But only 28% say they have already offset the CO<sub>2</sub> emissions from their flights, although 79% say they are concerned about the environment.*

*Is this apparent contradiction to be welcomed?*

*On the contrary, the fact that 28% of young people have already offset their air travel is a positive sign. It shows that they are beginning to have confidence in the compensation systems.*

*It is now up to the airlines to do everything they can to offset all their emissions, in particular by using sustainable aviation fuels.*

*The challenge is great.*

**> EasyJet expects to reach its targets faster due to strong demand**

(OTP source, translated with DeepL) May 18, 2023 - The airline **easyJet expects to reach its medium-term targets faster due to strong demand for the summer season**. The low-cost airline, the second-largest user of Schiphol Airport after KLM, is benefiting from strong demand for vacation travel and has managed to significantly reduce its losses in the first half of its fiscal year.

**The total pre-tax loss for the first half of the year amounted to £411 million (about €470 million)**. In April, easyJet had announced that the loss was expected to be between 405 and 425 million pounds. A year earlier, the company recorded a loss of £545 million. The loss was reduced mainly through a number of measures, including network optimization and continued cost management.

Total revenues increased by 80 percent to approximately £2.7 billion in the first half of the year, as expected. This growth was primarily due to higher prices, increased capacity, improved load factors and increased ancillary revenues. Costs increased by more than 50% to £3.1 billion.

(...  
)

According to Lundgren, an executive, **recent studies have shown that travel is a priority for many households, despite high inflation, and that vacationers are increasingly opting for affordable airlines.**

(...)

**My comment:** *EasyJet is struggling to regain its former glory.*

*Its positioning differs from that of Ryanair, mainly since 2013.*

*That year, easyJet decided to target the large group of 25-35 year olds, young professionals, who have a decent purchasing power and who have no family obligations. The idea was to capture this market, especially for business travel.*

*To do this, unlike Ryanair, it chose to serve the main airports, to offer fares including luggage, priority boarding.*

*Its difficulties began with the Brexit. To continue to operate within the European Union, easyJet had to create a European subsidiary (easyJet Europe, based in Austria, with 126 aircraft) with rising staff costs.*

*Then the health crisis saw business passengers reduce their travel, thus seriously undermining the model.*

*The evolution of its market capitalization is significant: it went from \$15 billion in 2015 to \$4.8 billion this month.*

> **Singapore Airlines closes 2022-2023 fiscal year with historic**

## profit

(source Air & Cosmos) May 17, 2023 - **Singapore Airlines is back in the black. For its 2022-2023 fiscal year**, ended March 31, 2023, the company **posted a net profit** of S\$2.157 billion (nearly **1.5 billion euros**), the **highest ever in its 76-year history**, compared to a loss of S\$962 billion (660.6 million euros) for the same period the previous year.

After three years of losses due to the global air transport crisis linked to the Covid-19 pandemic, the SIA

group is now back in the black and has recorded the best results in its history. SIA achieved a turnover of SGD 17.775 billion (EUR 12.2 billion), up 133% compared to the previous year. SIA and Scoot carried 26.5 million passengers, six times more than the previous year. **The SIA Group also achieved a record average load factor of 85.4% on its passenger fleet.**

**Despite a slowdown in demand, the group's cargo business recorded revenues of over \$3 billion, the second best performance in its history.** As of March 31, 2023, the SIA group was operating 80% of its capacity compared to 2019, and operated 195 aircraft, including 188 passenger aircraft (133 for SIA and 55 for Scoot) and 7 freighter aircraft. (..)

**My comment:** *The Singapore Airlines Group (SIA Group) is composed of Singapore Airlines, Scoot (the low cost subsidiary) and Singapore Airlines Cargo.*

*As for most airlines, Singapore Airlines' good results are the consequence of a lower supply than the demand. This allows it to maintain high prices.*

*Specifically, global supply has not yet returned to its pre-Covid level, mainly due to a lack of manpower.*

*During the health crisis, airlines had significantly reduced their number of flight crews.*

*Since then, they have been struggling to recruit new staff. Unless it is a deliberate strategy to keep prices high.*

## > Rolls-Royce runs the Ultrafan, an aircraft engine crucial to its future

(source: La Tribune) May 20, 2023 - As the Paris Air Show approaches, aircraft, engine and equipment manufacturers are busy preparing for its return. Although no major new programs are expected from the main players in the sector, this will not prevent them from highlighting the various advances they have made. British engine

maker **Rolls-Royce will undoubtedly focus on its UltraFan concept, which has just undergone its first ground tests.**

A demonstrator of this new-generation engine has been running on the giant Testbed-80 test bed, which will be inaugurated in 2021 in its Derby (UK) headquarters. (...) This is an important step for Rolls-Royce. **After relying for more than 50 years on the triple-body engine concept**, first developed with the RB211 (which powered the Boeing 747, among other aircraft) **and then expanded across the entire Trent range, the British engine maker has taken a step forward by testing a new architecture for high-power engines for the first time.**

Developed through its Advance3 program, this central architecture is distinguished by the addition of a power gearbox (PGB) and the use of three independent shafts that allow the different engine modules to rotate at different speeds. This optimizes the rotation speed of these modules and reduces the number of components (particularly the low-pressure turbine at the engine outlet). Described as the most powerful gearbox in the aviation world, the PGB on the Ultrafan demonstrator developed a record 64 MW of power during testing. **Other innovations include new ceramic matrix composite (CMC) and carbon-titanium materials** for the crankcase and blades, and an optimized ALECSys (Advanced Low Emissions Combustion System) combustion system.

The Ultrafan will enable Rolls-Royce to prepare its future medium to high power engine programs (25,000 to 100,000 pounds of thrust), including the replacement of the Trent family. **The Ultrafan offers a 25% improvement in fuel consumption compared to the first generation Trent engines, and a 10% improvement compared to the latest versions such as the Trent XWB, which powers the A350.** The Trent family also powers the Boeing 787 and the Airbus A330 NEO. Some of these technologies will also be used to improve the current Trent family of engines.

**While the gains may be limited compared to the 20% gains offered by a breakthrough concept such as CFM's Rise project (Open Rotor or unshrouded fan), they are still significant, especially in the long-haul segment.** In addition, Rolls-Royce is announcing 100% compatibility with sustainable aviation fuels (SAF), which represent the only massive decarbonization option for transcontinental flights. The demonstrator's tests have so far been carried out only with SAF.

**The development of a new range of engines is crucial to Rolls-Royce's civil aeronautics business.** While the engine manufacturer has an exclusive presence on the A350 and the 787, it is not present on the 777X (re-engined version of the 777), currently under development. **It has also withdrawn from the medium-haul engine segment, leaving the field open to CFM International (a joint venture between Safran and GE Aerospace) and Pratt & Whitney to power the Boeing**

**737 MAX and Airbus A320 NEO. This is by far the most dynamic market today.** In addition to the phenomenal number of engines sold - several tens of thousands - it offers a fantastic financial windfall for engine manufacturers, with associated service contracts for the maintenance and upkeep of this equipment.

**Rolls-Royce must not miss the boat if a new aircraft program is launched by the end of the decade.** And with the Ultrafan, the group doesn't want to close any doors. While its performance seems to make it more suitable for long-haul aircraft, its wide power range should enable the British engine manufacturer to position itself on smaller aircraft. A version with 25,000 pounds of thrust could power the replacements for the A320 NEO and 737 MAX.

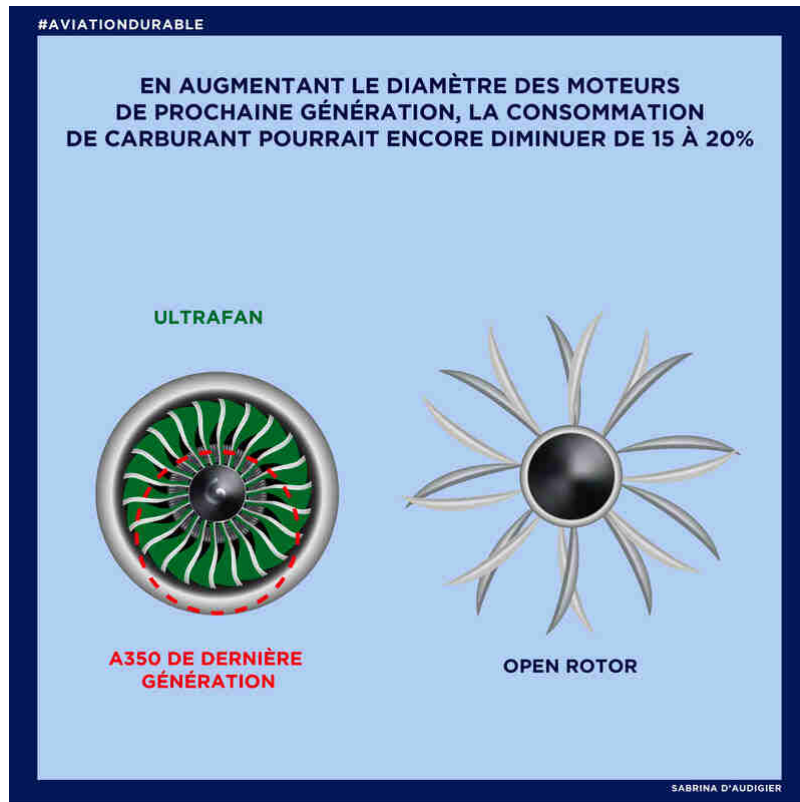
**My comment:** *The aircraft of tomorrow is being developed today. The emergence of new technologies requires ten years of research and development, to equip aircraft that will have an operating life of 30 years.*

*I wrote about the subject of engines in [our newsletter No. 835](#). I presented twelve infographics on the theme of Sustainable Aviation, the results of a working group in which I participated.*

*The 10th infographic was entitled: "Increasing engine diameter can reduce fuel consumption."*

*These ever more efficient engines (the Ultrafan and the Open Rotor) imply changes in the general architecture of aircraft: their size no longer allows them to fit under the wings of current aircraft. The next generation of aircraft will probably have its engines on top of the aircraft, which is why innovative programs like the flying wing are making a comeback...*





## Stock market press review

### > Air France KLM: +15% for the week!

(source Boursier) May 19, 2023 - **Air France KLM is continuing its bullish streak with a new rise** of 2.3% to 1.72 euros this Friday on the Paris stock exchange, which brings the stock's advance to 15% over the week. The buying flow has been fueled by several broker notes in recent hours, starting with Redburn, which raised its recommendation from 'sell' to 'neutral', while **Davy raised its recommendation on the airline to 'outperform', targeting a price of 2.3 euros, compared to 1.3 euros previously. Previously, Morgan Stanley had already upgraded the file from 2 to 2.15 euros, while remaining at 'weight in line'.**

Analysts have become clearly positive on the carrier again, with 11 'buy', 7 'hold' and only 3 'sell' according to the 'Bloomberg' consensus. (..)

According to the latest management comments, **Air France KLM said it was not feeling the impact of the rising cost of living, citing more than 1.5 billion euros in airline ticket sales in the first quarter and solid demand across its network...** It should also be noted that AF generated an Ebitda of 214 ME over the past quarter, compared to 70 ME for KLM. On the other hand, the French airline suffered an operating loss of EUR 181 million, representing a margin of -4.6%, compared with a loss of EUR 128 million and a margin of -5.1% for the Dutch carrier.

The group anticipates a stable unit cost for the whole of 2023 at constant fuel prices and exchange rates and excluding employment support measures compared with 2022. Its net investments for the full year 2023 are estimated at E3 billion.

Towards a good summer...

**Citi ('buy') believes the group's results were driven primarily by higher pricing,** with Q1 passenger network unit pricing up about 21% from 2019 levels, a consensus +19%. Overall, the group did better than expected on prices and worse on costs, the bank had said.

**For Bernstein, Air France KLM is preparing for a "strong" summer and is, like many airlines, optimistic for the peak travel period this year.** The broker also points to a slight reduction in the capacity outlook, with a target of 95% of 2019 levels in 2023 versus 95% to 100% previously expected...

Air France-KLM shareholders are now invited to attend the Combined General Meeting to be held on Wednesday 7 June at 2:30 pm at the Hilton Paris Charles de Gaulle Hotel in Tremblay-en-France. The AGM will be broadcast live on the company's website.

***My comment:*** At the beginning of the year, the consensus for Air France-KLM was 1.50 euros. Most analysts have revised their estimates, bringing the consensus to 1.95 euros.

*On Monday, Air France-KLM shares were trading near 1.70 euros.*

## **End of the press review**

**> Air France-KLM share price performance over the past year**



Two events have impacted the share price over the past year:

- . in June 2022 the capital increase of 2.256 billion euros
- . in February 2023, the announcement of good results for 2022.

**No new comments**

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

**Air France-KLM shares** closed at **1.69 euros** on Monday 22 May. It is **up strongly** this week **by +11.44%**.

It was at 1.253 euros on January 2, 2023.

**The 12-month analysts' average (consensus) for AF-KLM shares is 1.95 euros** (it was 1.50 euros in early January). The highest price target is 2.50 euros, the lowest 1.10 euros. I only take into account analysts' opinions after the May 2022 capital increase.

Air France-KLM's share price suffered from the announcement of mixed quarterly results and a weaker than expected annual forecast (passenger activity at 95% of 2019 levels). Since then, the prospects of strong activity this summer, as well as the end of the constraints imposed by the European Commission have seduced analysts.

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

**My comment:** Air France-KLM's share price suffered from the announcement of mixed quarterly results and a weaker than expected annual forecast (passenger activity at 95% of 2019 level).

Since then, the prospects of strong activity this summer, as well as the end of the constraints imposed by the European Commission, have attracted analysts.

### > Fuel price evolution in 2022

Since the beginning of the war in Ukraine, there is no longer any correlation between the price of a barrel of Brent oil and a barrel of Jet Fuel. In 2022, the spread between the two products has fluctuated between \$30 and \$50, while in previous years it was no more than \$10.

For the past three months, the spread between the two products (Jet Fuel and crude oil) has been narrowing and is approaching the spread that existed before the war in Ukraine

**No new comments**

### > Fuel price changes this week

The barrel of Jet Fuel in Europe is almost stable this week at \$92. After peaking at \$182 in June 2022, it had fallen back to \$132 in early August. It was at \$79 before the outbreak of the war in Ukraine.

Brent crude oil (North Sea) is almost stable this week at \$76. The effect of OPEC+ production cut announcements is fading.

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

While oil has been back to a normal level for several weeks, **Jet Fuel is now very close to its normal level. The difference between jet fuel in Europe and Brent crude oil is now only \$16 per barrel.** In 2022, at the beginning of the Ukrainian conflict, this gap was close to \$50.

While it is too early to draw any definitive conclusions, this is good news for airlines. If confirmed, they will be able to devote more resources to sustainable aviation fuels.

**No new comments**

## Good to know

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

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

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

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

### > Management of employee investment funds

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

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

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

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

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

## Details

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

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

**You can ask me, by return, any question relating to the Air France-**

## **KLM group or to employee share ownership...**

See you soon.

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

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

New readers will be able to receive it by [giving me](#) the email address of their choice.

## **| François Robardet**

**Director of Air France-KLM representing the employees and former employees shareholders of PNC and PS.**

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

## ***Alternate Nicolas Foretz, PNC***



When I was elected, I received the support of the CFDT and the UNPNC.

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

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