

Air France-KLM posts best-ever margin

I 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°923, July 31, 2023

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Retirement

Dear readers,

I'm approaching retirement.

Last week, I stepped down as a director of Air France-KLM, to facilitate the handover of responsibilities to my deputy.

Nicolas Foretz, who has been by my side for several years, is taking over from me, in compliance with Air France-KLM's articles of association, but not only.

He is also taking over in line with the ethical standards I set myself on the holding company's Board of Directors. I am convinced that he will be your representative, just as I was yours.

Our many exchanges are a guarantee of this. He will also provide you, as I did, with assistance in managing your equity savings. Don't hesitate to contact him and tell him about your experience within the company. After all, the attentiveness I enjoyed on the Board of Directors was due to your support and the quality of the bond we forged.

Of course, the weekly newsletter to which you are so attached will continue. I'll be

taking part in its production for a few more weeks - that's the whole point of my leaving in two stages. I'll be sure to get back to you before Nicolas takes over the entire editorial team.

I would like to thank the members of the Air France-KLM Board of Directors for having taken into account my contributions and positions in our debates.

Let's now turn to last week's news, marked by the announcement of exceptional quarterly results for the Air France-KLM group.

*Happy reading
François*

Message from Nicolas Foretz, your new administrator

"I would like to congratulate François on all his achievements and his career as a director; I am delighted to succeed him.

My priorities will be to inform you about our holding company, share my knowledge of the aeronautical sector and its challenges, and represent you on the Air France-KLM Board of Directors.

Finally, I'll be listening to you and helping you manage your employee savings."

Nicolas

Monday's Press Review

> Air France-KLM posts best-ever margin

(source Les Echos) July 28 - A clear upturn in the air. **In the second quarter, Air France-KLM doubled its net profit year-on-year to 604 million euros, and even posted a "record" operating margin of 9.6%.** With sales up 13.7% to 7.6 billion euros, the airline group benefited from sustained travel demand despite inflation, which also added to costs. Over six months, sales rose by 25.1% to 13.9 billion, and the company posted a net profit of 260 million.

These results were achieved despite seat capacity 8% lower than in 2019, before the Covid pandemic. Air France, KLM and Transavia carried 24.7 million passengers from April to June, 11% fewer than in the corresponding period four years ago.

Ticket prices have risen sharply since the health crisis began, driven by high oil prices, soaring demand and capacity constraints. **KLM** in particular, which is in

litigation with the Dutch government over traffic quotas at Schiphol airport, **is still 14% below pre-Covid capacity, while Air France is only 6% behind.** But Group CEO Ben Smith has reiterated that the Group will be back to 100% capacity by next year.

Despite inflation, which is also eating into travellers' disposable income, **Air France-KLM said it was recording booking levels similar to, or even higher than, those at the same time in 2022 for the current quarter - the crucial summer period.** This trend also applies to the end of the year. In April, **according to the Direction Générale de l'Aviation Civile, airfares in France were about 30% higher than in 2019.**

The general rise in prices has, however, begun to have an impact on the Group's unit costs, which rose by 5.6% year-on-year in the second quarter, compared with just +0.7% in the first. Air France-KLM nonetheless expects a deceleration in these costs by the end of the year, and the group has reiterated its intention to offset inflationary pressure with management measures equivalent to savings of 3 billion to reduce its unit costs over the next three years and achieve a stable operating margin of 7-8% of sales over the medium term.

The group, which returned to profit in 2022 after losing more than 11 billion euros during the Covid-19 crisis and owing its salvation only to the intervention of the French and Dutch governments, has continued to reduce its debt. **Net debt has fallen by 1.4 billion euros since the end of December 2022, to 4.9 billion.** The Group is now less indebted than in June 2019 (5.7 billion).

The ratio of net debt to gross operating profit (Ebitda), scrutinized by investors as it reflects a company's ability to repay its creditors, has fallen to 1.2, better than forecast (1.5). The group, which wants to continue strengthening its balance sheet, also announced that it had entered into "exclusive negotiations" with the investment fund Apollo Global Management to inject 1.5 billion euros into a new subsidiary backed by the Flying Blue

frequent flyer program. Looking to

the future, **the Air France group has confirmed that it would like to participate this autumn in a Portuguese tender to open up the capital of TAP.** "Yes, we are interested and we are putting ourselves in a position to make an offer when the time comes," confirmed Ben Smith. Air France, on the other hand, denied any immediate interest in Corsair.

My comment: Initially, when the quarterly results were announced, investors punished the Air France-KLM group, believing that the rise in unit costs was worrying.

Then they changed their minds. In the end, the share price remained virtually unchanged.

> Loyalty program: Air France-KLM in negotiations with the Apollo

fund

(source AFP) July 27 - **Air France-KLM has entered into "exclusive negotiations" with Apollo Global Management for the investment fund to inject 1.5 billion euros into a new subsidiary, which will become the sole issuer of Miles to airlines and partners.**

The entity will "own the Flying Blue frequent flyer program brand and the majority of contracts with partners", says the **Franco-Dutch group** in a press release, **as it aims to "further strengthen its balance sheet"**.

The American investment fund, which rescued the ailing Scandinavian airline SAS in the summer of 2022, has already twice injected 500 million euros into Air France-KLM subsidiaries. A branch owning a fleet of spare engines benefited from an injection a year ago, and in mid-July, Air France's engineering and maintenance components (MRO) business benefited. **"The proposed structure would entail no change to the operation of the Flying Blue loyalty program for Flying Blue members, and no impact on the social plan and contracts of Air France, KLM and Air France-KLM employees,"** says Air France-KLM.

The airline group would retain operational management of the loyalty program, and the two airlines would retain full ownership of the Flying Blue database, which boasts over 19 million members.

(...)

My comment: *This operation is intended to restore the Air France-KLM group's equity.*

As mentioned in the press release, if confirmed, it will have no impact on the social plan.

It is important to remember that, while in accounting terms the various sums invested by the Apollo group are considered as quasi-capital, in financial terms they are comparable to debt.

These sums are intended to be repaid within three to five years.

Note that Lufthansa has followed the same procedure (see [my letter n°807](#)).

> Train vs. plane: "We have to make planes pay a little more for the environment," says the French Transport Minister.

(source Europe 1) July 25 - With the latest Greenpeace report showing that trains are

twice as expensive as planes in Europe, Clément Beaune spoke to Europe 1 about this issue, which is also an environmental one.

"We need to get the competitiveness of trains back on track. We need to make airplanes pay a little more of the right environmental price. Unfortunately, **planes don't cost a lot of money because they require little infrastructure compared with trains. A high-speed line costs 10 to 20 million euros per kilometer to build, so it's extremely expensive.** And that's why we subsidize the train", assures the Minister.

Could a tax on jet fuel be introduced? Yes, according to Clément Beaune: "This is a discussion that we in France have launched at European level. I hope that in the next few months, there could indeed be some sort of fair environmental tax that makes aircraft pay for kerosene. And then it's not a question of pitting one against the other, it's above all a question of making trains cheaper; for example, plane tickets need to be taxed more. Not for the sake of the tax, but to finance investment in our rail system".

My comment: *Only intra-European flights would be affected by a kerosene tax.*

The tax exemption for kerosene is enshrined in the Chicago Convention on International Civil Aviation, ratified by France in 1944. The aim at the time was to encourage the growth of international traffic.

To amend the text, a unanimous vote of the 191 member states of the International Civil Aviation Organization (ICAO) would be required. However, the international convention only governs international flights. There are no exemptions for domestic flights.

In fact, some countries have taken the lead and introduced a tax on aircraft fuel for their domestic flights. These include the United States, Brazil, Japan, Norway, Switzerland and the Netherlands (source: article in Les Echos, November 2018).

Germany, for example, introduced a tax on airline tickets in 2020, which was expected to raise an additional 740 million euros a year (read [my letter n°726](#)).

If kerosene taxation were to be introduced, it is to be feared that this would accelerate the decline in frequentation of short-haul routes, with a consequent drop in employment.

> **Flight reductions in Amsterdam: airlines appeal to the French Supreme Court**

(source Air Journal) July 26 - **A number of airlines and associations are planning to appeal to the Court of Cassation after the Dutch Court of Appeal ruled in**

favor of the government's attempt to reduce the number of flights at Amsterdam-Schiphol airport in order to limit noise pollution and environmental impact.

The ruling handed down at the beginning of the month is still not sitting well with the air transport industry. On July 25, 2023, KLM Royal Dutch Airlines announced that "numerous airlines" would be appealing to the Court of Cassation against the Amsterdam Court of Appeal's ruling on "the proposed implementation of a temporary experimental rule". **These carriers include KLM and its subsidiaries Cityhopper, Martinair and Transavia, as well as Delta Airlines, United Airlines, JetBlue, Air Canada, easyJet, Corendon and TUI fly.**

But also the trade associations IATA, which has 300 member airlines worldwide, and Airlines for America (A4A), which represents 10 US airlines. This step is "supported", according to the KLM press release, by the airline industry associations BARIN, Air Cargo Netherlands (ACN), Airlines for Europe (A4E) and the European Regions Airline Association (ERA).

The Amsterdam Court of Appeal ruling "creates a lack of clarity and uncertainty for passengers and the aviation sector. Indeed, it is unclear how the experimental program will be applied, how it should be applied and, ultimately, how the decision will affect the number of aircraft movements at Schiphol," explains KLM. **"Moreover, the ruling is contrary to national, European and international regulations. It is in the interest of all parties to obtain clarification".**

The government's plan is to reduce the number of annual flights from 500,000 to 460,000 under "experimental regulations". An initial ruling in favor of the airlines was overturned on appeal. "The court does not specify in concrete terms how an experimental regulation can be applied. As a result, we currently do not know when, how or in what way the decision will be implemented and what it means for the number of aircraft movements at Schiphol", was the reaction of Air France's sister company within the Franco-Dutch airline group.

My comment: *The clarification requested by the airlines could be a long time coming.*

Following the recent fall of the Dutch government, new elections are expected in the autumn.

In the meantime, the Dutch parliament must define the list of issues to be tackled as a matter of priority. It is not certain that the program to reduce activity at Schiphol will be one of them.

> Transport: CMA CGM's profits sharply cut by a factor of six

(source Les Echos) July 29 - **As expected, the "super-profits" of shipping company CMA CGM, which almost single-handedly triggered parliamentary commissions a year ago to consider their redistribution, were short-lived.** The "King Midas" of the French economy, like his shipping and logistics peers, has suffered the inevitable and very violent backlash of freight rates, from which his profits are derived. This phenomenon began at the end of 2022 and has continued ever since.

In the second quarter, the Marseille-based giant, the world's third-largest shipowner, suffered an impressive fall in net profit (group share), down to "just" 1.33 billion dollars from 7.6 billion a year earlier. At the same time, quarterly sales declined by 37% year-on-year to \$12.3 billion, **while container volumes were stable** (-0.3%).

Over the quarter, sales of \$8.35 billion were generated by the Saadé family's original business, shipping (down by a steep 47.9%), and \$3.8 billion by logistics, which is currently stable pending the integration of the Bolloré division into its accounts, the acquisition of which was announced at the beginning of July.

The margin that made MPs and senators salivate so much was 21.1% from April to June, down 28.1 points year-on-year, continuing the downward trend already evident in the first quarter.

According to the Marseille-based headquarters, this is nothing new compared with the expected context. "As expected, our industry continued to normalize in the second quarter. In difficult market conditions, our performance remains very solid", commented CEO Rodolphe Saadé, who will continue to decarbonize his global fleet and integrate his logistics activities, which will complement those of Ceva and ex-Gefco (car transport).

(...)

The market remains highly uncertain between now and the end of the year.

(...)

My comment: *The decline observed by CMA-CGM concerns both sea and air freight.*

For the time being, only prices are falling, approaching pre-Covid levels. Transported volumes remain stable, which reassures operators.

> IAG returns to profit in 1st half thanks to strong travel demand

(source AFP) July 28 - Airline group **IAG, parent company of British Airways and Iberia, returned to profit in the first half of the year, thanks to strong travel demand** as the sector recovers from the Covid-19 pandemic.

It posted a group share net profit of 921 million euros for the six months to the end of June, compared with a loss of 654 million a year earlier, with sales up 45% to 13.6 billion euros over the period, according to a statement on Friday.

The Group attributes this performance to strong demand everywhere and to "an outperformance in our Spanish business".

(...)

IAG notes "an encouraging outlook for the summer, with around 80% of anticipated third-quarter (journeys) already booked".

(...)

In the first quarter, IAG, which also includes Aer Lingus, Level and Vueling, still posted a loss of 87 million euros, albeit considerably reduced year-on-year.

(...)

***My comment:** All the airlines are reporting exceptional quarterly results and predicting a very profitable summer season.*

> **Boeing again posts quarterly loss, confirms 2023 guidance**

(source AFP) July 26 - **US aircraft manufacturer Boeing posted a second-quarter loss that was** smaller than analysts had expected, and confirmed its full-year forecasts.

(...)

The net loss amounted to \$149 million, whereas analysts were expecting a loss of \$212 million. A year earlier, however, the Group posted a profit of 193 million. This is the **fourth quarter in a row that Boeing has posted a loss**, but it is much smaller than in the first quarter (425 million). On a per-share basis and excluding exceptional items - the benchmark for the markets - the loss came to 25 cents. This is also better than expected.

In terms of sales, the aircraft manufacturer outperformed consensus with \$19.75 billion between April and June (+18% year-on-year). Shares were up 6% at \$226.96 at 14:30 GMT on the New York Stock Exchange. "Boeing achieved several crucial milestones in the second quarter, most notably on the cash front," noted Peter McNally of Third Bridge in a note. "Boeing's execution has improved and will need to continue on this path to achieve sustainable profitability," he noted.

Boeing still expects operating cash flow of between \$4.5 and \$6.5 billion and free cash flow of between \$3 and \$5 billion for the year. It also **confirmed its delivery targets for the year** (400 to 450 for the 737 and 70 to 80 for the 787).

(...)

***My comment:** The American manufacturer still hasn't solved its problems.*

After the results were announced, Boeing stated that "We continue to expect the

737-7 to be certified in 2023, and we now expect first delivery in 2024". As for the largest model in the MAX family, Boeing added: "We continue to expect the 737-10 to begin FAA

certification flight testing in 2023, with first delivery in 2024."

The FAA is still dragging its feet on certifying these two MAX family models, following revelations about Boeing's behavior during the MAX 8 - whose planes claimed 346 lives in crashes at Lion Air and then Ethiopian Airlines, resulting in the worldwide MAX fleet being grounded for twenty months (source: Air Journal).

> ADP Group rolls out its roadmap for the first half of the year

(source La Tribune) July 27 - After the turmoil of the last few years, **the prospect of an unsurprising first half of the year is undoubtedly a source of delight for the ADP Group's management team.** And the fact is, the Paris airports operator **has published results in line with its forecasts for the first half of 2023.** It is thus on track to return to a level of traffic - with the contribution of its network of foreign airports - and profitability equivalent to its performance before the health crisis.

(...)

There is, however, **a distinction to be made between the Paris airports and the rest of the Group. As CFO Philippe Pascal explains, the Paris hubs are still lagging behind in restoring traffic to Asia, particularly China.** This is still only 61% of its 2019 level, and is picking up more slowly than other sectors such as Africa and North America. For the time being, Paris Airports has only recovered 90% of its 2019 traffic, i.e. 47 million passengers, while its Turkish partner TAV Airports is at 96% and its Indian partner GMR Airports is at 108%.

Augustin de Romanet pointed out that this was in line with the forecasts made at the start of the year, which predicted a recovery in traffic of between 95 and 105% of the 2019 level for the group - which would take it to between 320 and 350 million passengers - and only between 87 and 93% for the Paris airports.

(...)

The increase in revenues is nonetheless largely offset by the rise in operating expenses, notably for external services with the rise in traffic, and for payroll between employee measures and recruitment, as Philippe Pascal explains.

(...)

Despite this operational and financial performance, the ADP Group saw its debt increase by around 9% to just over 8 billion euros. This was due to the payment of 309 million euros in dividends and 353 million euros in investments, but also to two one-off events: the subscription of 331 million euros in convertible foreign currency bonds (FCCB) issued by GMR Airports Infrastructure (GIL) as part of its merger with GMR Airports (GAL), and the payment of 119 million euros to the Turkish Airport Authority for the early payment of 25% of the Ankara concession.

(...) In

addition, Augustin de Romanet announced the launch of an employee shareholding

plan for Paris airports. To be deployed between 2023 and 2024, it will consist of a free allocation of shares to employees, followed by the possibility of acquiring further shares on preferential terms.

My comment: ADP forecasts a return to 2019 traffic levels "between 2023 and 2024" at group level and "between 2024 and 2026" for Paris Aéroport.

End of press review

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



Two events have had an impact on 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 further comments

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

Air France-KLM shares closed at **1.571 euros** on Monday July 31. It is **down** this week by **-1.29%**. **The announcement of good quarterly results was offset by a higher-than-expected increase in unit costs.**

It stood at 1.253 euros on January 2, 2023.

In a July 12 note entitled "Please return to your seats", sent to Deutsche Bank's research clients (dealing rooms, asset managers, institutional investors), sector specialist analyst Jaime Rowbotham announced that he was downgrading his recommendation to "hold", with a price target for Air France-KLM lowered from 2.3 to 1.85 euros. On

the same day, July 12, the Air France-KLM share price lost almost 4%.

The analysts' 12-month average (consensus) for AF-KLM shares is 1.94 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 new comment: *The announcement of good quarterly results was offset by a higher-than-expected increase in unit costs.*

> **Fuel price trends this** week

The price of Jet Fuel in Europe has risen sharply for the second week running, up \$8 to \$117. It was at \$79 before the outbreak of war in Ukraine.

Brent crude oil (North Sea) is up sharply this week by \$5 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 gap between Jet Fuel in Europe and Brent crude oil is widening. It now stands at \$31. In 2022, at the start of the Ukrainian conflict, this gap was close to \$50.

My new comment: *The gap between Jet Fuel in Europe and Brent crude oil continues to widen. It now stands at \$31.*

In the space of five weeks, Jet Fuel in Europe has risen by 25%.

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 / Air France-KLM share consolidation**

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

It'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 affected by the exchange period running from July 31 to August 30 mentioned in the press release.

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

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

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

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

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

Details

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

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

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

See you soon.

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

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

New readers can receive it by [giving me](#) the 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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