

Boeing's black series



I Letter from François Robardet

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Monday's Press Review

> Boeing black series: a second Air France flight diverted in three days for "a smell of heat".

(source Le Figaro) May 10, 2024 - (...) Second scare for Air France in the space of a few days. **A Boeing 777-200 flying from Los Angeles to Paris-Charles de Gaulle airport had to make an emergency landing on Thursday evening.** The airline explains that the plane "landed in Montreal after a four-hour flight" after a "hot smell" was detected on board. The French airline assures us that the landing and passenger handling were carried out in accordance with "the manufacturer's procedure, Air France's instructions and the precautionary principle". On X (formerly Twitter), images show the presence of firefighters on the tarmac. Last Tuesday, a Boeing 787-900 belonging to the French airline - initially bound from Paris to Seattle (USA) - had already made an emergency landing in Iqaluit, Canada, for the same reason, before being inspected by mechanics.

(...) The

U.S. Federal Aviation Administration (FAA) announced on Monday that it had opened an investigation against Boeing to determine whether it had carried out the required inspections of its iconic 787 "Dreamliner" aircraft.

Air France is not the only airline to have suffered from incidents involving Boeing's fleet this week. On Wednesday May 8, in Istanbul, a cargo plane operated

by FedEx from Paris Charles de Gaulle airport was forced to land without a nosewheel, as the landing gear door failed to deploy. **No injuries were reported, but the images are impressive and will do Boeing's reputation no favors.** The following day, an Air Sénégal airliner bound for Mali went off the runway, injuring 11 people, four of them seriously, at Diass international airport near Dakar. The Senegalese authorities said on Friday that they had opened an investigation to determine the causes of the Boeing 737-300 incident.

My comment: *Is there a "black series for Boeing" as the article title suggests?*

Since the 737 MAX accidents in 2018 and 2019, any incident involving Boeing is more suspect than if it happened to Airbus.

Several experts call for perspective in the face of incidents that seem to be multiplying at Boeing.

"We saw, for example, when a Boeing lost a wheel during takeoff, that it was surely a maintenance fault on the part of the company", says Gérard Feldzer, who believes that "we can't condemn the 737 MAX's design problem in the same way as the more 'common' incidents that have occurred in recent months on the 787 Dreamliner and 777".

For his part, blogger Lustublog has compiled press articles from sites such as Aviation Herald, PPPrupe and Aviation Safety Network.

He listed all the incidents/accidents covered on these sites between January 1 and March 10, 2024: there were 101 occurrences involving Airbus aircraft, compared with 90 involving Boeing.

In all, around 1 flight in 20,000 was involved, without passenger safety being called into question.

An emergency landing or crisis situation during a flight is never pleasant, either for passengers or for airlines.

> Italy and Lufthansa present new remedies to the EU for the ITA agreement

(source Reuters) May 7, 2024 - Italy and Lufthansa have submitted new remedies to the European Commission in order to obtain antitrust approval for the merger between ITA Airways and Lufthansa, the Italian economy ministry and Lufthansa said on Tuesday.

The **German carrier is seeking to acquire a 41% stake in state-owned ITA** - the

successor to Alitalia - **but has so far failed to persuade the Commission**, the EU's antitrust regulator, to approve the bid.

Neither the Italian Treasury nor the German carrier have given details of their latest proposal.

The Italian ministry said it had been submitted in line with the requests of EU regulators and within the timeframe required to meet the June 13 deadline by which the Commission must rule on the deal.

According to the Italian daily La Repubblica, Lufthansa has proposed a two-year freeze on any integration with ITA on long-haul flights to the USA and Canada from Rome Fiumicino airport.

It has also undertaken to cede part of its flights on Italy-Germany routes to competitors, including Easyjet, for a period of three years, and to give up more slots at Milan's Linate airport.

(...)

Italy and Lufthansa have already presented two corrective measures, which were rejected by the European Commission. Italian Economy Minister Giancarlo Giorgetti announced a third offer two weeks ago, after meeting with Margrethe Vestager, head of EU antitrust policy.

My comment: Read the commentary on the following article.

> **IAG in talks to address concerns over Air Europa bid**

(Reuters source) May 10, 2024 - British Airways owner **IAG said on Friday it was in talks with other airlines about divesting routes to address concerns from EU regulators that its bid for Air Europa would reduce competition and lead to price rises.**

IAG, which also owns Spanish carrier Iberia, aims to gain full control of Air Europa, but the European Commission warned last month of the impact on Spanish domestic routes as well as long-haul routes.

"With regard to the acquisition of Air Europa, we continue to make progress with the European Commission and have already shared with it the potential airlines that would take over the routes it has relinquished as part of the remedies package," IAG said in a statement during a call with Spanish media.

It added that "as we have already said, we have received a lot of interest from different carriers and **we are working with Avianca, Binter, Iberojet, Ryanair, Volotea and World2Fly as potential buyers for long-haul and short-haul routes**".

IAG has until June 10 to submit corrective measures.
In February 2023, IAG said it had agreed to pay Spanish tourism company Globalia

400 million euros (\$430.84 million) for the 80% of Air Europa it did not already own, with the aim of improving its market share in Latin America, expanding into Asia and enabling its Madrid hub to compete with other major airports in Europe.

IAG CEO Luis Gallego told analysts on Friday, after releasing its first-quarter results, that the group could end its bid for Air Europa if the conditions demanded by regulators proved too onerous, but said IAG was not yet at that stage. (\$1 = 0.9284 euros) (Reporting by Foo Yun Chee, writing by Geert De Clercq, editing by Susan Fenton)

***My comment:** I have already mentioned in previous letters the transactions between Lufthansa/ITA and IAG-Iberia/Air Europa.*

In both cases, the buyers are moving forward in stages to obtain the green light from the European Commission. They have tried to minimize the compensation to be granted, without success.

The deadline for validating (or not) the projects, initially set for the very beginning of June, has been pushed back a few weeks, after the European elections.

> **Buoyed by the recovery in travel, IAG (British Airways-Iberia) significantly reduces its first-quarter loss**

(source La Tribune) May 10, 2024 - Travel appetite benefits IAG. The parent company of British Airways and Iberia has reported a net loss of 4 million euros for the first three months of the year, compared with 87 million euros a year earlier. Sales rose by 9.2% to 6.4 billion euros.

Although **the group has** returned to annual profits since 2022, already thanks to the resumption of air travel after restrictions during the Covid-19 pandemic, it **was still in the red in the first quarter, during a traditionally slack period for the sector.**

"Strong travel demand contributed to a very good first quarter and we are well positioned for the summer," IAG nevertheless argued in a statement on Friday. "We expect positive and sustainable travel demand over the long term," added the group, which also owns Spanish low-cost carrier Vueling and Ireland's Aer Lingus.

IAG announced in February that it intended to increase its annual profit sixfold by 2023. Last year, it restored passenger capacity to 95.7% of 2019 (pre-pandemic) levels.

The good results unveiled on Friday were welcomed by investors, and IAG shares on the London Stock Exchange were up 1.42% at 185.40 pence around 08:10 GMT (10:10 Paris time), while the FTSE 100, the London Stock Exchange's main index, was up 0.51%.

However, while demand has been buoyant in Europe and on transatlantic flights, the situation is "more difficult" in the rest of the world, warned IAG, particularly in the Africa, Middle East and South Asia region.

(...)

General recovery

Beyond the case of IAG, **all the major airlines are benefiting from the recovery.**

At the end of January, the International Air Transport Association (IATA), which uses revenue passenger kilometers (RPK), one of the industry's benchmarks, reported that aircraft traffic in the fourth quarter of last year was 98.4% up on the corresponding period four years earlier.

However, international routes have not yet returned to full capacity, and in 2023 will represent 88.6% of 2019 activity, despite strong year-on-year growth (+41.6%). Rotations to and from Asia-Pacific weighed on the trend, at 72.7% of 2019 activity levels, as airlines struggled to rebuild networks annihilated during Covid-19.

Even so, with December 2023 up 10.8% on the same period in 2022, IATA spoke of a "solid basis for success" in 2024.

My comment: *Since the start of the year, IAG's share price has risen by 20%, with the analyst consensus clearly tilted to the buy side, according to the Boursorama website.*

This reflects IAG's strong recovery, better than that of Lufthansa Group and Air France KLM.

The reason appears simple: IAG has built its network mainly on transatlantic routes, which are highly profitable and very busy.

In contrast, its competitors have a more varied network. They are penalized by geopolitical events in Ukraine and Israel. They are suffering on routes to the Asia-Pacific region, notably due to the ban on overflights of Russian airspace.

> **TAP Air Portugal widens first-quarter losses**

(source AFP) May 10, 2024 - **TAP Air Portugal increased its losses to 71.9 million euros in the first quarter**, mainly due to the end of salary cuts linked to its restructuring plan, the state-owned airline announced on Friday. "The first quarter is traditionally the worst," TAP explained in a press release, recalling that it had recorded a loss of 57.4 million in the same period last year. The Portuguese carrier had already suffered a loss of 26.2 million euros in the fourth quarter of 2023, but for the year as a whole it posted a record profit of 177.3 million euros.

The first-quarter result was due in particular to the end of salary cuts implemented to enable TAP to recover from the Covid-19 pandemic. "This has a direct impact on our results", explained the airline group's CEO, Luis Rodrigues, who nevertheless

welcomed the "increase in sales" thanks to the rise in the number of passengers carried and the better occupancy rate of its aircraft over the first few months of the year. The company carried 3.5 million passengers in the first quarter, a slight increase of 0.6% year-on-year.

Renationalized as a matter of urgency in 2020, following the health crisis, TAP benefited from an injection of 3.2 billion euros in public funds, accompanied by a restructuring plan negotiated with the European Commission, in force until 2025.

The aim is "to make TAP a sustainably profitable company and one of the most attractive in the sector", stressed its Chairman. The outlook for this year is positive, thanks to "persistently strong demand" and an increase in supply to Brazil and North America, said TAP.

Portugal's new moderate right-wing government has pledged to resume the process of privatizing TAP launched by the previous socialist executive. The airline is attracting interest from several of its European competitors: Air France-KLM, Lufthansa and the IAG group (British Airways and Iberia).

***My comment:** These mixed results are likely to depress the value of Portugal's national airline when it is privatized.*

> **Air Austral pilots agree to lose part of their income to save their jobs**

(source Radiofrance) May 10, 2024 - **The pilots of Air Austral**, a Reunion-based airline, **have just signed an agreement that will temporarily reduce part of their income, to avoid redundancies.**

Air Austral is a Reunion-based airline operating mainly in the south-west Indian Ocean. **For the past ten years, the company has been in an increasingly fragile financial situation.** In November 2021, Olivier Dussopt, the French Minister of Public Accounts, even envisaged a merger between Air Austral and Corsair in order to save the company. Following validation of a restructuring plan in 2023, 99% of the capital was taken over by regional investors and part of the debt was written off. However, these measures had to be accompanied by an effort on the part of the company. It was the pilots who paid the price. "

Their pilots' union, SNPL, has just signed a " collective performance agreement

" with management, in which they agree to give up their 13th month's pay and 6 days' vacation for two years.

They also agree that the threshold for triggering overtime will be raised, potentially resulting in the loss of additional pay. In

short, **they agreed to work more to earn less**, and they make no secret of their bitterness. **In return, management has undertaken not to lay off any staff**, as these measures should enable Air Austral to save over five million euros. According

to the company's management, this is essential to ensure its survival.

Highly indebted since Covid, Air Austral has not been able to get out of debt despite numerous public subsidies. Yet it is a major player in the air transport sector, not only flying between Réunion and mainland France, but also serving several destinations in the Indian Ocean, including Mayotte. On Réunion, it is also a major local employer, with over 800 employees. In March 2023, the shareholders agreed to inject a further 10 million euros into the company's capital, on condition that the staff made an effort. This has now been done. **Air Austral's recovery plan will shortly be presented to the French government.**

Such agreements are not uncommon in the airline industry. A pay cut in exchange for job retention is also what Ryanair did in 2020. Flight crews agreed to a five-year pay cut. These arrangements are seen as blackmail by the unions, who are often reluctant to sign them. But it's a safe bet that this type of agreement will multiply in the turbulent airline industry. This is borne out by the numerous industrial unrest incidents, particularly among low-cost airlines. Vueling, for example, is on strike this weekend, May 10.

(...)

My comment: *This agreement is a first step, but it is still not enough to ensure a way out of the crisis at Air Austral.*

As a reminder, Air Austral has already received several bailouts from local authorities and shareholders:

- 17.5 million euros in compensation from the French State for damage suffered at the start of the COVID period in 2020,
- 120 million euros in 2020 (30 million euros via a loan from shareholder Sematra and 90 million euros from the banks), -
- 30 million euros in 2021 (20 million from the State and 10 million from Sematra),
- 20 million euros loan from the State in January 2022,
- 30 million euros in January 2023 from shareholder Run Air,
- 10 million euros in March 2024 from public and private shareholders.

The company also benefited from a write-off of part of its debt.

This collective performance agreement appears to be the last chance to save Air Austral.

> Boeing targeted by a new investigation by the US aviation regulator

(source AFP) May 7, 2024 - The **U.S. Federal Aviation Administration (FAA)** has

opened a new investigation into whether Boeing has properly conducted mandatory wing-to-fuselage inspections "on certain 787 Dreamliner aircraft", it said in an e-mail on Monday, May 6. The agency says it is "investigating whether Boeing performed the inspections and whether company employees may have falsified documents related to the aircraft".

The investigation was launched after Boeing informed the FAA in April that it "may not have performed the required inspections". **The aircraft manufacturer is "reinspecting all 787 aircraft still in production, and must also develop a plan to address the in-service fleet"**, adds the FAA, which does not specify whether in-service aircraft are to be recalled for inspection. The agency has given the company three months to present a plan to resolve "systematic quality control issues". The 787 Dreamliner and 737 MAX have suffered numerous production problems since 2023, which have slowed down the aircraft manufacturer's deliveries. This has forced several airlines to modify their flight schedules for 2024.

"Irregularity in a compliance test"

Scott Stocker, 787 program manager, sent an e-mail on April 29 to his employees at Boeing in South Carolina, where these aircraft are manufactured, informing them that a "teammate saw what appeared to be an irregularity in a required compliance test at the wing body junction".

"He told his manager, who brought it to the attention of senior management," he added. "We quickly investigated the matter and learned that several people had violated company policies by not performing a required test, but recording the work as completed," Scott Stocker wrote further. He assured us that [Boeing's] "engineering team has assessed that this misconduct did not create an immediate flight safety issue".

Boeing is going through a difficult period following several incidents. **Three of the four commercial airplane models currently manufactured by the American group are officially under investigation by the FAA.** The regulator has been closely monitoring Boeing's flagship 737 since January, and is also investigating the 777 and 787 Dreamliner, whose structural integrity was called into question by a previous whistleblower.

(...)

Boeing CEO to step down

On April 17, four whistleblowers, including an engineer and former Boeing employees, testified before a U.S. Senate Select Committee to warn of "serious problems" in the production of Boeing 737 MAX, 787 Dreamliner and 777 aircraft.

One of the whistleblowers told the committee that he had been retaliated against for raising questions about the 787's manufacturing processes, which he claimed threatened aircraft safety. **These setbacks led to the announcement of the departure of Boeing CEO Dave Calhoun, who is due to step down at the end of the year.**

Last week, Glass Lewis, Boeing's institutional shareholder advisory firm, instructed shareholders to vote against the re-election of three former board members, including Dave Calhoun.

My comment: *I will only quote this sentence from the article;*

"three of the four commercial aircraft models currently manufactured by the American group are officially targeted by an FAA investigation."

Stock market press review

> Air France-KLM: Oddo BHF raises its target

(source Cercle Finance) May 6, 2024 - **Oddo BHF** reiterates its 'underperform' rating on Air France-KLM, but **raises its target price from nine to 9.5 euros, 'to reflect a lower cash burn than previously anticipated, driven by buoyant bookings'**.

U'An upside certainly exists in yield for fiscal 2024, but we believe that the recovery in CASK (unit cost) will have to be visible before we can return to the stock", warns the analyst.

Air France-KLM is trading on unattractive multiples compared with its major peers, with an EV/EBITDA 2025 of 3.9 times, versus three times for Lufthansa and 2.8 times for IAG", adds Oddo BHF, which still favors low-cost airlines.

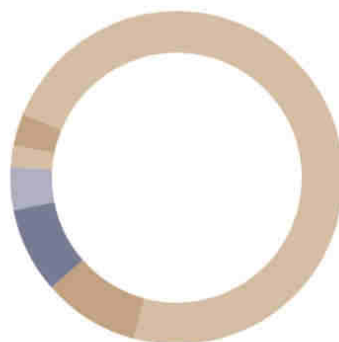
My comment: *I haven't yet given you an update on Air France-KLM's capital breakdown following the capital increase reserved for employees.*

Employees and former employees holding shares in employee shareholding funds (Majoractions, Aéro pélican and/or Concorde funds) are now behind the French and Dutch governments, CMA-CGM and China Eastern, but ahead of Delta Air Lines and SPAAK.

For the record, SPAAK (Stichting Piloten Aandelen Air France - KLM) is "a foundation set up for and by KLM pilots, to represent their collective interests over the long term and promote the continuity of KLM". The foundation holds 0.87% of Air France-KLM shares.

Répartition du capital au 31 décembre 2023*

Etat français - 28%
Etat néerlandais - 9,1%
CMA CGM - 8,8%
China Eastern Airlines - 4,6%
Delta Air Lines - 2,8%
Salariés (FCPE) - 3,2%
SPAAK - 0,9%
Auto contrôle et auto détention - 0,1%
Autres (au nominatif et au porteur) - 42,6%



Last minute: Last week I announced that Air France-KLM had redeemed 452 million euros worth of "OCEANE" bonds (Obligations Convertibles En Actions Nouvelles ou Existantes) in March.

The Group has now announced that it has redeemed the remaining 48 million euros worth of "OCEANE" bonds.

End of press review

> Air France-KLM share price trend

Air France-KLM shares closed at **10.520 euros** on Friday May 10. It is **up this week by +5.52%**.

Like other companies in the airline sector, Air France KLM has had to cope with flight disruptions due to Iran's attacks on Israel.

It was 12.53 euros on January 2, 2023, and 17.77 euros on June 19, 2023.

The average (consensus) 12-month analyst price for AF-KLM shares is 15.09 euros (it was 15.0 euros at the beginning of January 2023). The highest price target is 23.00 euros, the lowest 9 euros. I only take into account analysts' opinions subsequent to the May 2022 capital increase.

You can find [details of the analyst consensus](#) on my blog.

My comment: For the past month and a half, the Air France-KLM share price has been hovering between 9.50 and 10 euros.

First-quarter results haven't worried investors, and the share price has risen by over 8% in two weeks.

> **Fuel price trends this** week

The price of a barrel of Jet Fuel in Europe is up +\$2 to \$104. It was \$94 at the end of June, and \$79 before the outbreak of war in Ukraine.

Brent crude oil (North Sea) is **down \$1 to \$83.**

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.

My comment: The spread between Jet Fuel in Europe and Brent crude oil was around \$15 before the conflict in Ukraine. In 2022, at the start of the Ukrainian conflict, this differential was close to \$50.

The Jet Fuel spread in Europe and Brent crude oil per barrel is up this week, to \$21. It has been two months since the spread returned to a level of \$25 or less.

> **FCPE management**

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](#).

Details

This information does not constitute 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 to keep you better informed.

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

See you soon.

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| François Robardet

Represented Air France-KLM's employee and former employee PS and PNC shareholders.

You can find me on my twitter account @FrRobardet

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

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

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