

Air France-KLM to continue growing after twenty years of marriage



I Letter from François Robardet

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)

for employees and former employees

PS and PNC shareholders of Air France-KLM

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Monday's Press Review

> Air France-KLM to continue growing after twenty years of marriage

(source Les Echos) June 20, 2024 - It is said that a marriage of interest lasts longer than a marriage of love, because it is based on tangible realities. Twenty years after their union, **Air France and KLM are a** perfect illustration of this. If this marriage was never a great love story, the realities that presided over Air France's takeover of KLM in 2004 have never been so palpable.

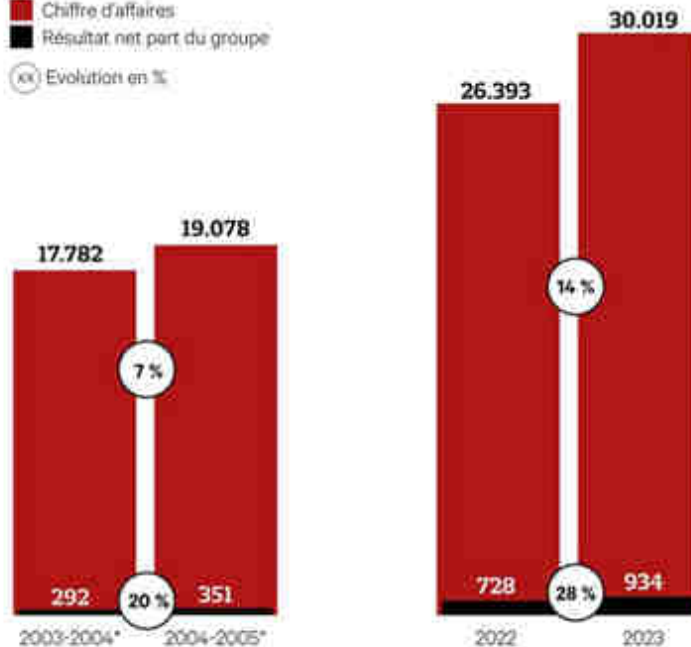
Not only does no one contemplate separation any more, but both spouses **now seem ready for a ménage à trois or quatre, following the example of their neighbors.**

The figures speak for themselves. "In 2003, the combined sales of Air France (12.68 billion) and KLM (6.48 billion) reached 19.16 billion euros. Twenty years on, the Air France-KLM group's sales exceed 30 billion euros," points out CFO Steven Zaat. Operating profit has risen from 600 million to 1.8 billion euros" and passenger numbers from 66 million to 93.5 million.

Les chiffres clés d'Air France-KLM sur vingt ans

En millions d'euros

■ Chiffre d'affaires
■ Résultat net part du groupe
⊙ Evolution en %



*Exercices clos au 31 mars

SOURCE : SOCIÉTÉ

 LesEchos

(...)

But Air France-KLM is no longer the leading airline group it became in 2004. In Europe, the Lufthansa group has overtaken it and the IAG group is hot on its heels. Nor is it the most profitable. And in the global rankings, many other airlines have overtaken Air France-KLM. Starting with the big American airlines, all of which were bankrupt at the time.

A lot has happened since 2004," points out Air France-KLM CEO Benjamin Smith. The number of major U.S. airlines has fallen from six to three. Lufthansa did very well with Swiss. Austrian and Brussels Airlines were less successful. IAG, which already benefited from Europe's most profitable market, with London and British Airways, also pulled off several good operations, with the takeover of Iberia, Vueling and, more recently, Aer Lingus. We have also seen the rise of the Gulf carriers, Turkish Airlines and Chinese airlines.

A long period during which Air France-KLM, hampered by Franco-Dutch quarrels, struggled to organize itself. Two attempts to acquire Alitalia ended in failure, while within Air France, the opposition of the main pilots' union to the development of Transavia turned into an open crisis.

(...)

The catch-up seems to be underway. Under the leadership of Ben Smith, the Group has already undertaken the biggest external growth operation since the takeover of KLM, by acquiring a 19.9% stake in the Scandinavian airline SAS.

The deal has yet to be approved by the European Commission, but it has already led to SAS leaving the Star Alliance of Lufthansa and United to join the Skyteam alliance of Air France-KLM and Delta. And while SAS remains an independent airline for the time being, the agreement provides for the possibility of Air France-KLM acquiring a majority stake after a two-year period (...).

In the long term, therefore, an expansion of the group is on the horizon. And in the meantime, other consolidation operations could also come to fruition.

Internationally, **Air France-KLM remains interested in TAP-Air Portugal** and its South American network, even though the privatization process has been put on hold by the new Portuguese government.

In cargo, too, the Group remains on the lookout for an additional partner following the failure of its alliance with CMA CGM. "If possible in Asia", says Air France-KLM cargo boss Adriaan Den Heijer. The group does have a partner in China, with China Eastern in its shareholding, but this commercial partnership has had to be suspended, due to the ban on European airlines flying over Russia.

Air France-KLM may also want to make up for lost ground in the intra-European market, by acquiring a low-cost airline. For the time being, the plans of the group's two entities, Transavia France and Transavia Holland, are limited to recovering the slots vacated by Air France at Orly for the former, and renewing its entire fleet to comply with new noise standards at Amsterdam-Schiphol for the latter. No plans for expansion in Europe are on the table, while all the other low-cost carriers have multiplied their bases outside their home airports and countries. However, **to be able to seize opportunities and attract the necessary financial partners, Air France-KLM must already be able to generate sufficient profitability.** At 5.4% in 2023, this is not yet the case. Our No. 1 priority remains to generate sufficient profitability in the long term," stresses Benjamin Smith. To achieve this, **we have set ourselves a target of an 8% margin.** This comes before consolidation, and any acquisitions must be compatible with this profitability target.

The other necessary condition will be to have the support of the European Commission, always very watchful of consolidation operations likely to reduce competition, as illustrated by Lufthansa's difficulties in acquiring ITA Airways. (...)

***My comment:** Air France-KLM's financial performance over the past twenty years has been remarkable, with significant increases in both sales and net income.*

There is no doubt today that both airlines have benefited from the merger.

For Air France-KLM, the question is no longer whether the Group will integrate other airlines in the future, but rather when, with whom and under what conditions.

The Lufthansa group is more advanced than the Air France-KLM group in this consolidation process, with a greater number of companies under its governance, including Swiss Air, Brussels Airlines, Austrian Airlines.

Good to know:

The structures of the Air France-KLM and IAG groups are similar, with a holding company (which is not an airline) owning the airlines. Each subsidiary has a say in decision-making.

This is not the case with the Lufthansa group. The head structure is an airline (Lufthansa) which owns other airlines. Lufthansa is virtually the sole decision-maker.

> **Have Boeing and Airbus been misled by false certificates?**

(source Capital) June 18, 2024 - Are Boeing and Airbus planes flying dangerously with non-compliant parts? According to the New York Times, the **U.S. civil aviation regulator (FAA) is currently investigating counterfeit titanium from a Chinese supplier** that may have been used by the two aerospace giants. According to our report, the metal in question was accompanied by documents containing false information, written by an employee.

These falsified documents are also the subject of an internal investigation at subcontractor Spirit AeroSystems, which supplies 737 and 787 fuselages to Boeing and A220 wings to Airbus, according to the specialist media outlet Air Journal on Saturday June 15. The titanium would have been integrated into Boeing's 737 and 787 Dreamliners, as well as Airbus' A220s, built between 2019 and 2023. For the time being, it is impossible to determine the exact number of aircraft involved.

The US regulator's investigation was launched following the discovery of small holes in the titanium material due to corrosion. According to Spirit AeroSystems, the **problem affects only one batch of titanium**. "The documentation is falsified", said a spokesman for the subcontractor. He added: "The titanium is of good quality. As far as we are concerned, there is no safety problem. But we can't trace the origin" of the metal.

Following these revelations, Boeing decided to remove titanium from its aircraft not yet delivered. What about those currently in service? The company has assured us that they can "continue to fly safely". "Tests carried out at this stage have shown that the correct titanium alloy has been used," said the US aircraft manufacturer. For its part, Airbus declared that "the A220's ability to fly was intact". Air Journal recalls that last year, airlines were forced to ground aircraft following revelations by engine manufacturer CFM International concerning thousands of

components sold with falsified documents by a UK distributor.

My comment: Behind this affair probably lies a problem of raw material availability.

I've already had occasion to address this problem more broadly in the context of the energy transition, notably in [letter n°943](#).

The low availability of raw materials is one of the reasons for the shortage of aircraft spare parts.

At the Paris Air Forum, an Airbus representative explained that, to avoid disruptions in production lines, Airbus purchases critical raw materials and then distributes them to each of its suppliers.

He mentioned steel, aluminum... and titanium. For the record, over 200 grades of steel are needed to manufacture an Airbus.

For more information on raw materials requirements, I invite you to listen or listen again to the [conference "Energy versus raw materials: is the transition really possible?" by Olivier Vidal, researcher at the CNRS in Grenoble](#).

He presents several energy transition scenarios.

In each, the need for aluminum, copper, steel and concrete is considerable. So much so that in two of the three scenarios, known reserves are insufficient, but improved recycling procedures for these materials will suffice.

As for the third scenario, which prohibits all forms of energy except renewable electricity, it is unrealistic. Copper reserves would not be sufficient.

> **Air France KLM: still penalized by spare parts shortages**

(source Boursier) June 17, 2024 - Against the tide, Air France KLM lost a further 3% to 9.4 euros at the end of the Paris trading session. **Like most of its competitors, the Franco-Dutch airline continues to suffer from supply chain bottlenecks.**

"We have planes that are missing parts, cabins that are missing parts, engines, missing parts," said Ben Smith at a corporate event. **"Either these planes have to be grounded, or we have to spend more money to overhaul or redo the parts ourselves.** So it's very frustrating," stressed the carrier's CEO, quoted by 'Bloomberg'.

The executive highlighted the sliding doors that turn a business class berth into a closed cocoon as a defect-prone element, meaning the airline can't sell tickets on some of its most lucrative seats. And **the situation is unlikely to return to normal**

in the coming months. Airbus boss Guillaume Faury said this month that supply chain constraints are likely to haunt the industry for 2-3 years. **The International Air Transport Association also expects problems to persist until 2026.**

Because of the spare parts supply problems, Air France-KLM decided to have double the number of spare aircraft available over the summer compared with last year, Ben Smith pointed out. The company is also repairing aircraft, such as ovens, that would normally be replaced. "It costs us more money, more time, and it's not ideal because they'll break down more often."

Meanwhile, with M&A rumors rife in the sector, Ben Smith said AF-KLM could look for opportunities as long as they did not call into question the company's medium-term operating margin target of 8%.

My comment: *The lack of availability of spare parts is causing concern (see previous article on the shortage of raw materials).*

Although the return to normal was initially scheduled for 2025, a further delay of two to three years is now envisaged.

Airlines are feeling the pinch, and find themselves obliged to reduce their supply.

> **Transavia wants to take advantage of Ryanair's departure to set up in Bordeaux**

(source Les Echos) June 19, 2024 - Air transport also abhors a vacuum. **Ryanair hasn't quite left Bordeaux yet, and already candidates are jostling for position. And not the least. The latest applicant is none other than Transavia France**, Air France's low-cost subsidiary, which is studying the possibility of basing a plane at Mérignac airport.

Transavia France CEO Olivier Mazzucchelli made the announcement himself on Tuesday, at a press conference dedicated to Air France-KLM's 20th anniversary. "We are studying the possibility of opening routes in Bordeaux and basing an aircraft there," he said.

The decision to base an aircraft in Bordeaux has not yet been taken, however. Transavia France's priority remains to fill the slots freed up by Air France's gradual departure from Orly. "This will remain our priority until 2026, but if we can come to Bordeaux, the sooner the better," said Olivier Mazzucchelli.

Last May, Ryanair announced its decision to cancel all flights out of Bordeaux as of the next winter schedule, at the beginning of November, as it had failed to reach an agreement with the local authorities responsible for managing the airport, on the discounts it had previously enjoyed for its three Bordeaux-based aircraft. In 2021, a report by the regional audit office (chambre régionale des comptes) put the value of this public aid at several million euros a year.

The head of Transavia France has made it clear that he will not be asking for the same subsidies as Ryanair to operate out of Bordeaux... Without, however, totally ruling out the possibility of financial "incentives", in line with European regulations, which authorize public aid and time-limited reductions in charges for new arrivals at an airport.

If Transavia France's arrival in Bordeaux is confirmed, Mérignac airport will become the fourth regional base for the apple-green airline, after Nantes, Lyon and Montpellier.

(...)

In addition to easyJet, which is already the leading airline in Bordeaux and could add further flights next winter, Catalan carrier Volotea could base a third aircraft here.

(...)

My comment: *In the early 2000s, Air France had planned to create an "Iberian gateway" at Bordeaux: the idea was to establish a hub between Northern Europe and the main cities of Spain and Portugal.*

Due to competition from low-cost carriers, Air France (which had not yet launched Transavia) abandoned the project.

It is still too early to envisage a return to such a project at this stage, even if the presence of a Transavia aircraft based in Bordeaux could facilitate the opening of routes adapted to a "leisure" travel clientele.

> **Why UBS is downgrading its recommendation on Ryanair**

(source Les Echos) June 18, 2024 - Concern about airfares - especially during the summer months -, increased capacity in the industry, the desire to travel further afield, the ability to pass on fuel costs... Analysts at UBS have decided to reduce their earnings per share estimates for Ryanair for 2025 and 2026, by 14% and 4% respectively.

"We see average fares in the first and second half of the year declining by around 5% year-on-year, before a rebound in 2026 of around 3%," they write, depressing that **"recent commentary and guidance on summer fare trends has been disappointing given statements from some low-cost airlines and package vacation operators."**

While they continue to believe that **Ryanair should be the medium-term winner in the short-haul sector**, for the time being, the analysts are opting for caution and lowering their recommendation from "buy" to "neutral".

Their **price target has been reduced to 20 euros, compared with 24 euros previously**. On the stock market, the Irish low-cost carrier's share price is suffering, down 2.2% to 16.35 euros at mid-day. Since January 1, it has fallen by 14.3%.

My comment: *Analysts are punishing Ryanair in the short term.*

However, the relevance of the low-cost short-haul model could soon be called into question.

The fight against climate change could lead banks to reassess their investments in companies like Ryanair, one of Europe's top ten polluters.

And can Ryanair continue to rely on long-term subsidies, which currently account for a significant proportion of its revenues?

> **Boeing boss's disastrous hearing before the US Senate: "What do you get paid to do?"**

(source Le Monde) June 19, 2024 - **Was he hoping to appease the ardor of the senators questioning him?** In any case, Dave Calhoun, Boeing's CEO since 2020, began his Senate hearing on Tuesday June 18 by turning to the public and apologizing to the families of the victims of the double crash of the Boeing 737 MAX 8 model, on a Lion Air flight in 2018 and an Ethiopian Airlines flight in 2019, who held up photographs of their loved ones. "I apologize for the pain we've caused, and I want you to know that we are fully mobilized, in their memory, to work and focus on safety for as long" as necessary, Mr. Calhoun began.

Then it was all **downhill from there**, especially since a whistle-blower had made new revelations about failures hidden from regulators. Did Mr. Calhoun ever meet any whistleblowers? No. The senators suggested that it would be a "good idea". How many executives have been sanctioned for tracking down whistleblowers? He doesn't know. Is he an engineer, like the whistle-blowers? "I'm not an engineer," replies the CEO. Were the indemnities paid to the victims tax-deductible or paid by insurance companies? Mr. Calhoun doesn't have the details.

Throughout the hearing, the first since the Alaska Airlines incident, Boeing's president was repeating generalities, while problems with the 737 MAX's design by the engineering offices were compounded by the industrial manufacturing problem that led to a plug door on an Alaska Airlines 737 MAX 9 being ripped off in early January - the screws removed for a repair had not been put back in place.

Recently, it was learned that counterfeit titanium produced by an obscure Chinese subcontractor had been used in the fuselage of Boeing and Airbus aircraft, but Boeing had known nothing about it, as the material was supplied by a supplier of suppliers. "Our culture is far from perfect, but we are taking steps and making

progress," Calhoun reiterated. "You and your board of directors have a duty to your shareholders, but they will be deeply ill-served if you fail to correct course and address the root cause of this failing safety culture," Connecticut Democratic Senator and hearing chairman Richard Blumenthal had said at the outset.

The final straw came from Missouri Republican Senator Josh Hawley, who asked Calhoun if he deserved his \$32.8 million (approx. €30.6 million) compensation. "A 45% increase," Mr. Hawley recalled. "What do you get paid for?" asked the senator, who enumerated his grievances in the face of the CEO's lenient answers.

"You're under investigation for falsifying 787 inspection reports. Boeing is under criminal investigation for the Alaska Airlines flight. You're under investigation by the Department of Justice for criminal conspiracy to defraud the FAA [Federal Aviation Administration]. This is all within your mandate," charged the senator, who eventually explained what he thought Mr. Calhoun was being paid to do.

"You focus on what you were hired to do, which is save money. You eliminate safety procedures. You're going after your employees. You're cutting jobs because you're trying to squeeze as much profit out of this company as possible. You're exploiting Boeing to the bone," accused Hawley, who finally asked the boss why he hadn't resigned.

"Senator, I stand by that. I'm proud to have accepted this position. I'm proud of our safety record," Calhoun ventured. "Frankly, sir, I think it's a travesty that you're still in your position," the senator judged.

Tension remains high as the Department of Justice decides whether to launch criminal proceedings against the company. Meanwhile, Boeing is looking for a successor to Mr. Calhoun, who is due to step down at the end of the year, but candidates are in no hurry. General Electric boss Larry Culp, who successfully split the former conglomerate into three and heads its aircraft engine division, has said he is staying with GE. David Gitlin, current CEO of manufacturer Carrier Global and formerly of United Technologies, asked that his name be withdrawn from the list of suitors. Internally, Stephanie Pope, the new COO, is not an engineer. "The search for a new CEO at Boeing hits a bumpy road", ran the modest headline in the Wall Street Journal.

My comment: *Dave Calhoun has been CEO of Boeing since 2020, just after the fatal accidents of 2018 and 2019, which claimed 346 lives.*

According to La Croix (January 2021)
It was under his tenure that Boeing agreed in January 2021 to pay the United States a criminal fine of 198.82 million euros, as well as 1.44 billion euros in compensation to the airlines that ordered the 737 MAX and 500 million for a fund to compensate the relatives of the victims of the Lion Air accidents in October 2018 and Ethiopian Airlines in March 2019.

Under the terms of the agreement, which formally accuses Boeing of conspiracy to commit fraud, the group had agreed to continue to cooperate with the authorities in all current or future investigations and to abide by certain commitments.

The Ministry planned to drop the charges in early 2024 if Boeing complied with all its obligations.

=== end of quote

According to Les Echos (March 2024)

However, this 2021 agreement, which had scandalized victims' families, was conditional on Boeing's compliance with full transparency vis-à-vis the FAA in its safety control procedures. However, this commitment has not enabled the aircraft manufacturer to avoid a recurrence of defects since 2021 and the spectacular event aboard the Alaska Airlines Boeing.

Hence this investigation by the Department of Justice, to verify that the aircraft manufacturer has complied with its safety monitoring commitments. This is by no means obvious, given that the technical investigation has already brought to light a serious oversight - the absence of securing bolts after the door panel was reassembled at Boeing's Renton

plant - and that the aircraft manufacturer itself has admitted that it was unable to provide the documents relating to this intervention.

If the investigation were to find in the negative, Boeing could be in big trouble. The U.S. justice system could cancel the 2021 agreement, which allowed the group to escape criminal prosecution for the 2018 and 2019 crashes. With consequences that are hard to imagine for the aircraft manufacturer and its executives.

=== end of quote

> **EU plans to exempt long-haul flights from new emissions rules**

(Reuters source) June 18, 2024 - **The European Commission has drawn up plans to exempt long-haul flights from rules on monitoring their non-CO2 emissions**, after international carriers lobbied for a derogation, according to documents seen by Reuters.

The EU is currently drawing up plans to oblige airlines to monitor and report their contribution to climate change from January 2025, not only with regard to carbon dioxide, but also soot, nitrogen oxides and water vapor.

According to the European Aviation Safety Authority, airline emissions other than CO2 have at least as great an impact on global warming as their production of CO2.

A draft Commission proposal for the new rules, seen by Reuters, would

exclude international flights - defined by the EU as those departing or landing in Europe from non-European destinations - from emissions disclosure rules for two years, limiting them until 2027 to flights within Europe only.

(...)

It has not justified this exclusion. **The exemption reflects current EU rules** requiring airlines to disclose and pay charges for CO2 emissions generated on flights within Europe only, although these rules are due to be reassessed in 2026.

The proposed new rules have divided the industry, with lobby group International Air Transport Association calling for an exemption for long-haul flights, while European low-cost carriers Ryanair and easyJet believe that all flights - including long-haul international travel - should be included.

IATA said that it was currently not possible to accurately monitor a flight's non-CO2 emissions, and that EU emissions monitoring requirements should be voluntary and not apply to international flights.

"Any intention to extend the scope to non-EU international flights would raise legal issues," said IATA Director General Willie Walsh in a letter to the European Commission in April, seen by Reuters.

(...)

***My comment:** I'm surprised by the statement made by the head of IATA: requiring airlines to declare their gas emissions (CO2 or other) for international flights outside the EU could pose legal problems.*

How can their decarbonization efforts be monitored in this context?

End of press review

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

Air France-KLM shares closed at **9.352 euros** on Friday June 21. It is **down this week (-3.51%)**.

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

The analysts' 12-month average (consensus) 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: Air France-KLM's share price had regularly exceeded 10 euros for a month and a half. It has fallen by 10% since the European elections.

For their part, Lufthansa, Ryanair and easyJet have been down for a month. Only IAG is stable.

Mixed forecasts for the summer have cooled investors' spirits.

> Fuel price trends this week

The price of a barrel of Jet Fuel in Europe is up +\$3 to \$106. It was \$94 at the end of June 2023, and \$79 before the outbreak of war in Ukraine.

Brent crude oil (North Sea) is **up +\$2 to \$85 per barrel.**

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 new comment: *Since the beginning of the year, the price of a barrel of oil has been relatively stable. It fluctuates between \$80 and \$90.*

The price of a barrel of Jet Fuel in Europe is falling steadily, from \$120 to \$100.

The spread between Jet Fuel in Europe and Brent crude oil has followed the same trajectory as Jet Fuel, approaching its pre-Ukraine level.

> 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...

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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

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This press review covers topics related to Air France-KLM shareholding.

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