

Air France-KLM and SAS sign codeshare and marketing agreements



## 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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### Editorial

*Dear readers,*

*For the Air France-KLM group, this week's newsletter is a mix of good news (SAS, government aid, Schiphol) and bad news (Delta Air Lines air pocket, Lufthansa profit warning).*

*Happy reading*

*François*

### Monday's Press Review

#### > Air France-KLM and SAS sign code-sharing and marketing agreements

(source AGEFI) July 12, 2024 - Airline carrier **Air France-KLM announced code-share and interline marketing agreements with Scandinavian airline SAS** on Thursday evening.

Under the agreements, "Air France and KLM customers will have access to 33 destinations in Northern Europe via SAS hubs in Copenhagen, Oslo and Stockholm", while "SAS customers will have access to 33 destinations in Europe via Air France and KLM hubs in Paris Charles de Gaulle and Amsterdam Schiphol", Air France-

KLM said in a statement.

Air France and KLM operate up to 200 flights a week between their hubs (Paris-Charles de Gaulle and Amsterdam-Schiphol) and those of SAS in Copenhagen, Oslo and Stockholm. SAS currently operates up to 44 flights a week to Paris-Charles de Gaulle from Copenhagen, Oslo and Stockholm, and 65 to Amsterdam-Schiphol airport.

**The agreements, the value of which was not disclosed, also provide for reciprocal loyalty program benefits. They will take effect on September 1, 2024, when SAS officially joins the SkyTeam alliance, of which Air France-KLM is a founding member.**

***My comment: The implementation of these agreements follows on from the merger between Air France-KLM and SAS.***

*The Air France-KLM group plans initially to take a 19.9% stake in SAS, then to increase its holding within two years.*

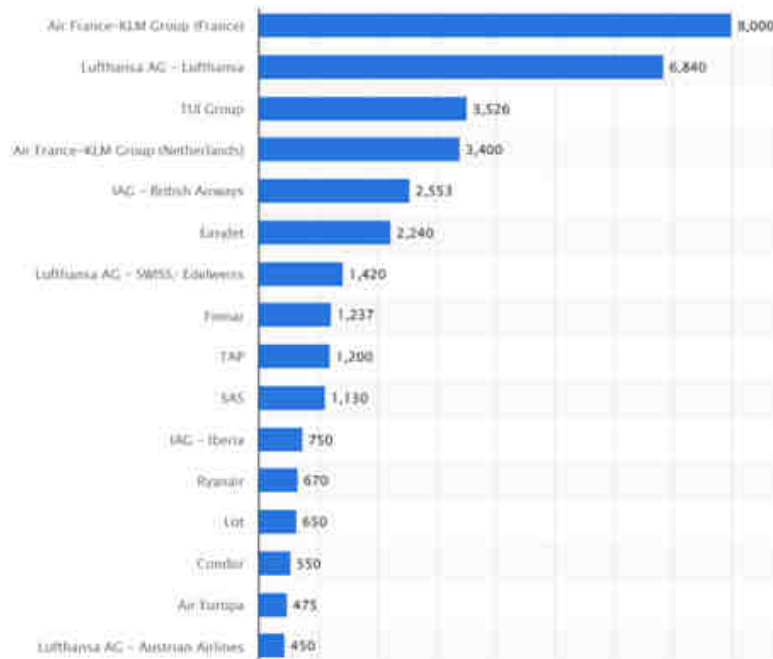
*To do this, the group will need the approval of the European Commission to avoid any distortion of competition that could penalize passengers.*

## **> European Commission authorizes government aid to Air France and KLM**

(source Journal de l'Aviation) July 10, 2024 - The European Commission confirms its initial judgment. According to its analysis, **the aid granted to Air France and KLM by the French and Dutch governments in 2020, as part of the health crisis, complies with European regulations** - it consists of a €4 billion bank loan guarantee and a €3 billion loan, on the French side, and a €2.4 billion bank loan guarantee and a €1 billion loan on the Dutch side.

It had already approved the measures in 2020, but the Court of Justice annulled them in December 2023 and February 2024. **The Commission has now reassessed the measures, taking into account the Air France-KLM group (and not just the two airlines) as beneficiaries**, and considers the aid to be compatible in this case too.

***My comment: According to the statista com website, European companies received the following aids during the COVID period:***



*The ruling in favor of Air France-KLM is not shocking, given that the aid was granted in the form of loans.*

*One might have expected a different ruling if the aid had been in the form of grants... as has been the case for major airlines outside Europe.*

*Singapore Airlines, for example, announced that it had secured \$13 billion in funding commitments to stay afloat in the face of the coronavirus pandemic (source: AFP).*

*Technically speaking, the loans granted to the Air France KLM group have been repaid by issuing bonds ... which will have to be repaid in the years to come.*

*A downturn in the cycle or a drop in earnings could jeopardize the group's ability to meet its repayments.*

## > Dutch Supreme Court rules that the government must follow EU procedure to reduce the number of flights at Schiphol airport

(source Reuters) July 10, 2024 - The Dutch Supreme Court says the government must follow EU procedure to reduce the number of flights at Schiphol airport.

**The Dutch government** must follow a special procedure under European rules and **cannot simply decide to reduce the number of flights at Schiphol airport**, one of Europe's busiest hubs, the Dutch Supreme Court said on Friday.

WHY IS THIS IMPORTANT?

Although the previous government had already suspended the plan to limit the

number of flights at Schiphol to 460,000 a year, **this decision** is important for the airlines concerned, as it **removes any uncertainty for travellers and the industry.**

It also overturns an earlier ruling by an Amsterdam court that the Dutch state was entitled to implement two proposed measures to reduce noise pollution at Schiphol.

#### KEY QUOTES

"

The decision of the Amsterdam Court of Appeal that the Dutch state was authorized to implement two proposed measures to reduce noise pollution at Schiphol will not be upheld. On the basis of European rules, a balanced approach procedure must be followed (to implement) the measures," the Supreme Court said in its statement.

**"KLM agrees with the Supreme Court's clearly reasoned decision,"** KLM, the Dutch branch of Air France, said in a statement on Friday.

***My comment:*** This is good news for the Air France-KLM group.

*This decision will force the Dutch government to carry out a serious study to reduce noise and pollution.*

*Moving closer to the European framework has the advantage of maintaining a framework of fair competition.*

*Note: the European Commission monitors distortions of competition when one player enjoys an excessive advantage. However, the rules also prevent a state from undermining players operating on its territory.*

### > **Delta Air Lines: down with the masks**

(source Les Echos) July 10, 2024 - On the stock market as in the skies, airlines can find themselves brutally shaken by the weather. **For Delta Air Lines, it was** the business climate that sent shareholders into a tailspin, with the stock plummeting 10% early in the session, just after the "fasten seatbelt" signal caused by **an air pocket in summer season profits**. The stock's imperfect recovery (-5.4% mid-session), despite an altitude still a quarter lower than pre-Covid, went well beyond what the unexpected storm on summer traffic would have implied.

Neither **revenue per seat, down 2% in the second quarter** after strong double-digit increases in the post-pandemic period, nor the **slowdown in sales growth forecast for July to September**, which nevertheless remained at 4%, justified dropping the oxygen masks.

Instead of putting carriers on cloud nine, **the Olympic Games are scaring off a number of tourists, who are turning away from transatlantic routes and letting planes far from full take off, as is the case for its partner Air France-KLM.**

This little grain of sand in a tense air transport system might not have had so much

effect if Delta's boss hadn't uttered the two words that usually cause panic in the stock market: "**overcapacity**" and "**fare discounts**".

Overcapacity is barely 3% to 4%, while revenues in the front classes of aircraft are up 10%. Business travel, meanwhile, has been growing at double-digit rates for the past six months. Delta Airlines' maintenance of its annual targets remains far from the storm warning...

**My comment:** *Intense competition in Europe and overcapacity are likely to lead to fare cuts and thus lower airline revenues.*

*There is a counterproductive effect around the Olympic Games. But we must bear in mind that this event is limited in time. We can reasonably imagine a return to normal on transatlantic routes at the beginning of the last quarter.*

### > **Surprise air pocket forces Lufthansa to prepare "recovery plan**

(source Les Echos) July 10, 2024 - It's a major blow for Germany's leading airline. On **Friday, Lufthansa announced that it had revised its earnings forecasts for 2024 downwards**, forecasting annual operating income of between €1.4 and €1.8 billion, compared with the initial figure of €2.2 billion. At the same time, **Europe's leading airline group announced a "turnaround" plan for its passenger transport business**, without giving any further details.

Earlier this week, the airline warned its employees in a letter that it would be cutting costs further in response to what it called "the new reality": **strong competition driving prices down, and a weak rebound in business travel.**

The passenger business posted a second-quarter loss of 427 million euros, whereas last year at the same time the Group had made a profit of 149 million euros on this activity. Group operating income came to 686 million euros in the second quarter, compared with 1.1 billion euros a year earlier.

**This decline of almost 40% was due to "lower average sales" per passenger in all regions**, "particularly in Asia", according to the company. Lufthansa shares lost 2.31% in early afternoon trading on the Frankfurt Stock Exchange.

These poor results come as a surprise, since last week Lufthansa obtained the green light from the European Commission for the takeover of Italian carrier ITA Airways. Lufthansa is thus acquiring a controlling interest (41%) alongside the Italian government for 325 million euros.

Over the past two years, the air transport industry has been experiencing record demand, with global traffic expected to approach 5 billion passengers this year. With passengers returning en masse, air fares and airline profits have soared in recent years. However, **airlines** face a supply problem in meeting this demand: they **lack new aircraft, spare parts for maintenance and airport slots.**

(...)

Aircraft delays have become a real headache for the airline industry, with Boeing

and Airbus struggling to ramp up production and deliver aircraft. Airbus warned at the end of last month that it would not meet its delivery targets this year, and that the planned increase in production rate for the A320 model would be slower than expected.

**My comment:** Last week, analyst ODDO highlighted the need for Air France-KLM to get a grip on unit costs (CASK = Cost Available Seat Kilometer).

*The situation is similar within the Lufthansa Group.*

*As with Air France-KLM, maintenance and aircraft delivery problems are likely to reduce the number of flights on offer, and hence revenues. The lack of new aircraft poses a second problem: fuel costs remain mechanically higher with older models, reducing operating margins.*

*Finally, I would explain the weak rebound in business traffic by formulating the following three hypotheses:*

- the massive adoption of videoconferencing meetings,*
- the gradual integration of sustainable development elements into the annual reports of listed companies,*
- the strategy of offering passengers upgrades to business class at sometimes very moderate prices: this is an interesting short-term strategy for generating revenue, but risky in the medium term if customers anticipate their upgrades.*

### > **Air Austral: no compromise between unions and management**

(source L'info la Réunion) July 11, 2024 - Affected by a worldwide engine failure, **the airline Air Austral has seen two of its aircraft** grounded. This Thursday, the extraordinary meeting ended at around 6pm, but **no solution was found between the unions and the company.**

After hours of discussions, no compromise was reached between the unions, elected committee members and management at the end of this exceptional meeting. At issue was a lack of information, notably concerning pilots' wages in the event of partial activity.

(...)

Legal and salary verifications are therefore to be expected. Air Austral declined to comment. Management has one month to provide the necessary information. If this measure is implemented, it should concern around twenty pilots.

**My comment:** Several factors have led to Air Austral's current situation:

- the unsuccessful alliance with Air Madagascar,
- recent aircraft (from Boeing B787s to Airbus A220s) too often grounded,
- geographical instabilities in Africa forcing the use of longer flight routes than usual,
- fierce competition on its flagship route between Paris and La Réunion with a brand positioning that is not very obvious.

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 damages 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 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.

In May 2024, Air Austral's pilots signed an agreement temporarily reducing part of their income to avoid redundancies. This collective performance agreement appears to be the last chance to save Air Austral.

## > 737 MAX crashes: Boeing gets a "slap on the wrist" and avoids an embarrassing lawsuit

(source Les Echos) July 8, 2024 - Here's a "deal" that's going to get people talking. **Boeing has pleaded guilty** and signed an agreement with the US Department of Justice **in the criminal case related to the two 737 MAX accidents in 2018 and 2019** - two crashes in Indonesia and Ethiopia that killed 346 people.

"We have reached an agreement in principle on the terms of a resolution with the Department of Justice," **Boeing**

says, **thus avoiding a criminal trial at a dark time for it.**

**Boeing has agreed to** install independent auditors on its premises - chosen by the public authorities - and **to invest at least \$455 million over three years to improve quality and compliance programs.**

The group will also be required to **pay a fine of \$487 million**, the maximum amount under US law for this type of case. A Texas judge is expected to rule on the exact amount, given that Boeing has already paid the authorities \$244 million in this case.

On

the other hand, **the text**, which has yet to be validated by this judge, does not give immunity to the group's employees or executives, and does not **erase any cases that may have taken place before or after the two accidents, including the**

## **Alaska Airlines affair.**

(...)

**The agreement signed today with the government could prevent the group from bidding on certain public tenders**, but the group, in search of its future boss, may apply for exemptions.

The 737 MAX issue and its nightmarish anti-stall system have troubled Boeing for many years. By the end of 2019, it had prompted the resignation of Dennis Muilenburg, Dave Calhoun's predecessor at the wheel of the group, which has set aside no less than \$8 billion for the affair.

**In 2021**, in the midst of the pandemic, the aircraft manufacturer signed an agreement putting an end to the proceedings. **The group acknowledged the fraud, paid out \$2.5 billion** (including \$1.77 billion to the airlines and \$500 million to the families) **and promised to revise its internal practices** to ensure full transparency of its safety control procedures.

**According to the U.S. Department of Justice, this last condition was not respected, which** led to the reopening of the proceedings last May, leading to today's "guilty plea".

In recent months, **Boeing has done everything in its power to reassure the authorities, even if this has meant reducing its production rate**. Much to the dismay of airlines, which are running out of new aircraft, as Airbus is unable to meet demand.

(...) For

their part, **the families of the victims of these two air disasters say they are "very disappointed" by the agreement**, according to a Clifford Law lawyer representing them. "Much more evidence has been presented over the past five years to show that Boeing's culture of putting profits ahead of safety has not changed," says Robert A. Clifford. "

This settlement is just a slap on the wrist that won't lead to any major changes in the company," says Erin Applebaum of Kreindler & Kreindler LLP. Some of the families are expected to ask Texas judge O'Connor, who is due to validate the "deal" struck between the Ministry and Boeing, not to do so in order to hold a public trial and "reveal the facts".

**On Wall Street, Boeing shares gained nearly 3% in the wake of the deal announcement.**

***My comment:*** *Boeing had the choice between :*

*- Plead guilty and sign an agreement: in this case, the aircraft manufacturer runs the risk of losing certain government contracts, but pays a moderate fine and avoids a disastrous trial for its image.*



*- Refuse to sign an agreement: in this case, the aircraft manufacturer would have to go to trial with a fine of up to \$24.8 billion, and the \$2.5 billion paid to avoid this trial would have been paid in vain.*

*On Wall Street, Boeing shares gained nearly 3% in the wake of the settlement announcement. Investors welcomed the payment of less than a billion dollars more, instead of the almost \$25 billion maximum.*

*Behind this purely financial appreciation, there are human factors and the legitimate frustration of victims' families.*

### > **Cold snap at Airbus: hiring could be frozen in the civil aircraft division**

(source Les Echos) July 12, 2024 - A cold snap at **Airbus**. Unable to increase its production rate, the European aircraft manufacturer seems to have decided to adjust to the situation. According to Reuters, the group's management **has decided on a cost-cutting plan, including a hiring freeze in the commercial aviation division**. A memo has been sent to staff.

Some jobs could be cut and the total number of positions will be capped, **but the European aircraft manufacturer is not planning any formal layoff plan**, explains Christian Scherer, CEO of the commercial aviation division, in this missive, according to the agency. Costs will be examined "without taboos", but the strategy remains unchanged, the executive added.

"We have indeed launched an internal improvement program, in response to the complex economic situation and the constant pressure on our supply chain," confirmed Airbus, where it was stated that several "initiatives" were underway, with more to come. These include "internal transfers to critical activities, and a review of recruitment to synchronize our workforce with the increase in production rates. This is not a redundancy plan.

**This program, dubbed "Lead!", has already been launched. "We will be concentrating on our core business and fundamentals**, to secure our deliveries, production rate increases, and our ability to invest in future programs, without compromising on safety, quality and compliance," explains group management.

**At the end of June, Airbus lowered its total aircraft delivery target for 2024 to some 770, from around 800 previously, due to difficulties in its supply chains.** The group, which had forecast adjusted operating profit for 2024 of "between 6.5 and 7 billion euros", now expects only 5.5 billion euros.

**My comment:** *This announcement needs to be put into perspective: it's a question of adjusting headcount by freezing hiring until the pace of production picks up again.*

*The end of supply chain difficulties was originally scheduled for 2025. The current*

*trend is more towards 2026, or even 2027.*

## **End of press review**

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

**Air France-KLM shares** closed at **8.046 euros** on Friday July 12. It is **down this week (-3.73%)**.

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 13.79 euros, down one euro in ten days** (it was 15.0 euros at the beginning of January 2023). The highest price target is 23.00 euros, the lowest 8 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:*** *The Air France-KLM share price had regularly exceeded 10 euros for a month and a half. It has fallen by 25% in a month and a half.*

*Analysts' average (consensus) 12-month forecast for AF-KLM shares is 13.29 euros, down 1.5 euros in two weeks.*

*The announcements by Lufthansa and Delta Air Lines (see above) and by Air France-KLM last week had a negative impact on the share price.*

### **> Fuel price trends this week**

**The price of a barrel of Jet Fuel in Europe is down -\$4 to \$105.** It was \$94 at the end of June 2023, and \$79 before the outbreak of war in Ukraine.

**Brent crude oil (North Sea) is down -\$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 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 hold only 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 the management of the various Air France employee shareholding funds, please visit the [Air France-KLM employee shareholding 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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