

Finally managing Air France-KLM without having one hand tied behind your back

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

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

(The raison d'être of the Air France-KLM group)



**François** Robardet

Representative of the employees and former employees shareholders PS and PNC

N°900, February 20, 2023

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### **Editorial**

*Dear Readers,*

*This letter is particularly long; during the past week, many air transport companies have published their annual results.*

*It will therefore not deal with :*

*. the current professional elections at Air France (I encourage you to participate)*

*. nor the recruitment of police officers at CDG, intended to improve the flow of passengers this summer,*

*. nor the announcement by the FNAM of the submission to the government of the roadmap for the decarbonization of the airline sector (under Article 301 of the Climate and Resilience Act).*

*Good reading nevertheless.*

*François*

### **Monday's Press Review**

> **Ben Smith: "We can finally manage Air France-KLM without**

## having one hand tied behind our backs

(source: Les Echos) February 17, 2023 - **Good news is also flying in the air. In the case of Air France-KLM, the return to profit is coupled with another highly anticipated event: the end of the constraints imposed by the European Commission in 2021**, in return for the 4.3 billion euros of state aid.

After lengthy discussions with representatives of the French government, the European Commission agreed on Thursday to reclassify 1.4 billion euros of state aid as a simple compensation measure for the damage suffered during the pandemic.

**As a result**, between the sums already reimbursed and this legal reclassification, **Air France-KLM will find itself, as of April, free of all Brussels constraints**. In particular, it will be prohibited from taking more than 10% of another airline before it has repaid at least 75% of the State aid.

"We will finally be able to manage our company without having one hand behind our backs," says Benjamin Smith, the head of Air France-KLM. "We had already repaid part of this aid, but there was still 6% to 7% to repay to reach the 75% threshold," he explains.

**With the end of the constraints**, Air France-KLM will once again be able to pay the variable part of their salaries to its executives, as well as dividends to its shareholders - even if this last option is not yet a reality, given the effort still to be made to restore the balance sheet.

Above all, **Air France-KLM will finally be able to participate on equal terms with its competitors Lufthansa and IAG in the consolidation race in Europe**. This competition is already well underway, with the takeover of Spain's Air Europa by IAG and Italy's ITA Airways by Lufthansa.

(...)

What will Air France-KLM do with this newfound freedom? "There are many companies in Europe that would be of interest to us," says its boss. The only certainty is that **ITA Airways is no longer on the list**. Even if its probable takeover by Lufthansa is not good news for Air France, for which Italy is one of the main markets in Europe, Benjamin Smith does not seem to regret having let the deal go through. **"It's a case that would have been difficult to present to the board of directors,"** he says. "Air France and KLM have already lost a lot of money in two previous attempts with Alitalia," he says. "ITA Airways had to give up its brand and its frequent flyer program. There are still two airports in Milan, which prevents it from being a hub. And since Italy gave transatlantic traffic rights to Emirates, they have become number one on Milan-New York," he continues. "As for Rome, it is mainly an import market, where it is difficult to build customer loyalty.

On the other hand, the **Air France-KLM boss does not hide his interest in another privatization: that of TAP Air Portugal**, renationalized in 2020. The official process with TAP Air Portugal has just begun," he says. Portugal is a very interesting market for us, because of its position on the Iberian Peninsula and its strong links with Brazil, which is our largest market in South America. TAP Air Portugal flies to 11 destinations in Brazil and we fly to only three."

Benjamin Smith's growth strategy will not be limited to external growth. **"We have a growth lever that our competitors do not have: our low-cost subsidiary Transavia,"** he says.

"We are in the process of doubling Transavia's fleet, which will enable us to grow organically while securing our position at Orly, where the closure of loss-making regional routes has freed up slots," he explains.

The low-cost airline, whose fleet will pass the 100 aircraft mark this year with the arrival of the first Airbus A320s, has already exceeded its pre-crisis level, with 8% more passengers than in 2019, thanks in particular to the opening of new routes to North Africa. And if Transavia is not yet profitable, it has reduced its losses by 50%, to 100 million euros, in 2022. "

It will still take some time, but with its location at Orly, its participation in the Flying Blue

frequent flyer program and a unit cost comparable to that of easyJet, Transavia has all the assets to succeed," says Ben Smith.

**As for Air France, the optimization of the fleet and its utilization, added to the reduction of staff and costs, have already given it air and prospects for the future.** For the first time in the fourth quarter, the Air France group even did significantly better than KLM, with 144 million in profits compared with 2 million in losses for its Dutch cousin, even though the latter remains twice as profitable over the whole of 2022. **The simplification of the Air France fleet, with the introduction of the A380s and the new A350s, as well as cabin optimization and better aircraft utilization, have enabled Air France to reduce its unit costs,"**

explains the CEO of Air France-KLM. For example, where we used to need one and a half aircraft to serve Buenos Aires, one aircraft is now sufficient, after modifying the timetable so that the aircraft does not remain on the ground at its destination all day.

**Another example of optimization: the priority given to customers on direct flights from Paris-CDG, rather than connecting traffic,** has also helped improve Air France's unit revenue. Connecting passengers are less profitable," explains Ben Smith. And the potential of the Ile-de-France market is enormous.

But the main factor in improving Air France's profitability remains the vast fleet renewal plan, with the arrival of 41 Airbus A350s for long-haul and 60 Airbus A220s, replacing the A318s and A319s for medium-haul, offering fuel consumption gains of 20% to 25%.

(...)

**On the other hand, the horizon seems less clear for KLM,** in the face of the determination of the Dutch government and its environmentalist component to impose a forced reduction in traffic **at Amsterdam-Schiphol airport. The announced objective is to reduce the number of flights to 89% of the 2019 level, in order to reduce noise pollution for local residents.** However, even more than Roissy-CDG, the KLM hub needs many feeder flights to operate, given the narrowness of its domestic market.

It's very worrying," admits Benjamin Smith. **But we hope to convince the authorities that a drastic reduction in traffic is not the only way to reduce noise pollution.** We could achieve the same result by investing in new, quieter aircraft," he

says. This will once again test the negotiating skills of the Air France-KLM boss.

**My comment:** "Air France-KLM is out of the tunnel," says Steven Zaat, CFO of the Franco-Dutch group.

In 2022, the Air France-KLM group exceeded expectations and returned to profit, with a net result of €728 million (compared to a loss of €3.3 billion in 2021). Current operating income reached nearly €1.2 billion (versus an operating loss of more than €1.6 billion in 2021). It should also be noted that the group's operating margin for 2022, at +4.5%, is even higher than that achieved in 2019 (+4.2%).

The main good news is that these good results have allowed the group to free itself from the constraints imposed by the European Commission following the aid granted by the French state.

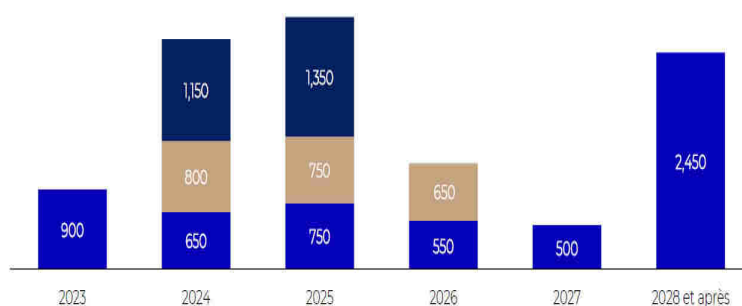
But let us not forget that the group's debt is still significant.

However, the current outlook allows us to look forward to future repayments with confidence.

The diagram below shows the amount to be repaid by the Air France-KLM Group in the coming years.

## PROFIL DU REMBOURSEMENT DE LA DETTE AU 31 DÉCEMBRE 2022

Profil du remboursement de la dette<sup>(1)</sup>  
en m€



You will find the documents related to the presentation of the results (in French and in English) on my blog [navigaction.com](https://www.navigaction.com).

For more details on the above diagram, please refer to page 36 of the presentation of the group results.

### > Schiphol has spoiled 2022: millions lost for the airport too

(source NH Nieuws, translated with DeepL) February 17, 2023 - **The ongoing chaos at Schiphol**, due to severe staffing shortages in the security field and mismanagement by the management, is **plunging the airport into the red once**

**again.** Last year, **Schiphol finally recorded a loss of 77 million euros.** Efforts to repair disruptions in the departure halls alone cost the airport an additional 120 million euros.

Schiphol could have benefited from the strong recovery in air traffic, but failed to recognize in time the major problems that the airport could have seen coming. Unions, politicians and employees themselves warned of chaos well in advance if Schiphol did not address the staffing shortage.

When announcing the annual figures for 2021, when Schiphol was still making a loss of 287 million euros due to the coronary crisis, the then director Dick Benschop did not worry about the congestion of the departure halls, the shortage of staff and the surplus of passengers.

(...)

Even his successor, **acting director Ruud Sondag, has not yet managed to reverse the trend:** "Never in the history of Schiphol have we disappointed so many travelers and airlines as in 2022. The commitment and hard work of everyone at Schiphol has not resulted in the necessary improvements to the system. As a result, we have not been able to provide the service we wanted."

**"The year 2022 will go down in our history books as a bad chapter (...),"** Sondag said.

**Schiphol** will announce after the weekend how many restrictions will apply during the upcoming May vacations. The airport actually wanted to stop limiting the number of passengers in the departure hall from the end of March, but due to staff shortages at the handling companies, it **can't always handle the passenger flow during the May vacations anyway.**

***My comment:*** *The malfunctioning of the services provided by Schiphol airport weighed on KLM's results in 2022.*

*This situation looks set to continue in 2023 during the spring and summer vacations.*

*For the year 2024, the government wants to reduce noise pollution for Schiphol residents*

*To do this, it plans to reduce the activity of its hub, one of the best in the world, by 12%.*

*Other solutions are currently being proposed by the Air France-KLM group, with the support of its partner Delta Air Lines, such as the introduction of new aircraft. These can reduce noise emissions by 20 to 30%.*

*Whichever solution it chooses, the Dutch government will have to obtain the approval of the European Commission. If it continues to reduce the number of aircraft movements, it will also have to review most of the bi-national agreements governing flights to the Netherlands.*

## > Back to positive figures for the "Big 3" US airlines

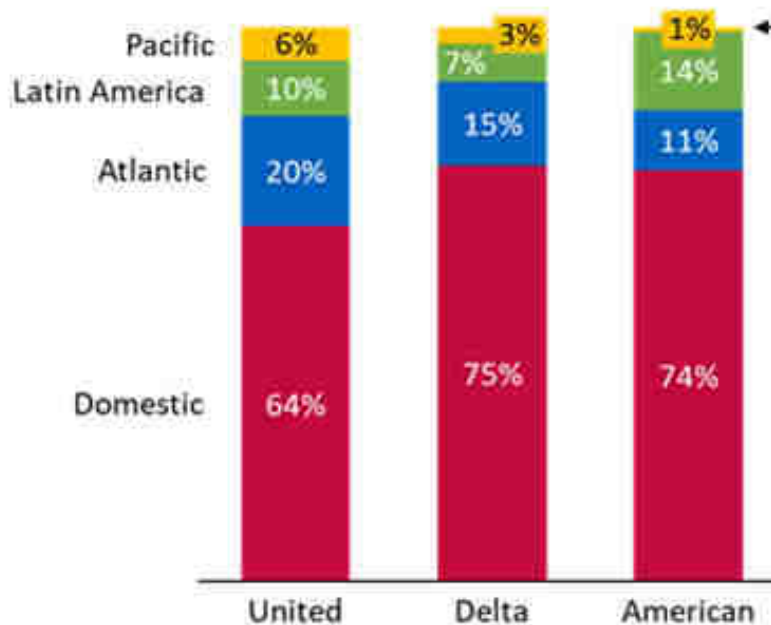
(Source Delta, American, United) February 17, 2023 - **Delta Air Lines, American Airlines and United Airlines reported earnings** (adjusted for special items) for FY 2022 with net income of \$2.1 billion, \$0.3 billion and \$0.8 billion, respectively. -

Capacity and load factors for FY 2022:

- o Delta: 85% capacity vs. 2019 with a load factor of 84% (-2pt vs. FY 2019).
- o American: 91% capacity vs. 2019 with a load factor of 83% (-2pt vs. FY 2019).
- o United: 87% capacity vs. 2019 with a load factor of 83% (-1pt vs. FY 2019). -

Operating revenue and operating margin (adjusted for special items) for FY 2022:

- o Delta: \$45.6 billion (-2% vs. FY 2019) with an operating margin of 7.8%.
- o American: \$48.9 billion (+6.5% vs. FY 2019) with an operating margin of 3.7%
- o United: \$44.9 billion (+3.9% vs. 2019) with an operating margin of 5.5%.



### Revenus générés - Parts par région, 2022

**My comment:** In terms of capacity, the big three US airlines are 6-8% behind 2019 levels in the domestic market and above 2019 levels on the Atlantic.

But unlike European airlines, the main source of profit for U.S. airlines is in their domestic market, which has allowed them to emerge quickly from the health crisis.

American Airlines exceeded the 2019 capacity level by 15% on the Latin American region, while Delta and United decreased (by 9% and 3.5% respectively).

Due to the closure of the majority of Asia's borders throughout 2022, for all three airlines, capacity in the Pacific region decreased by at least 50% compared to 2019, but yield in this region significantly higher by about 40%.

*In 2023, United expects to increase its year-over-year capacity by about 18%.*

*For next year, Delta plans to increase Capacity by 19% over 2022.*

*American plans to increase its capacity by 10% over the previous year.*

## > **Staff shortage: 34,000 flights cancelled by Lufthansa this summer?**

(source Air Journal) February 20, 2023 - The airline **Lufthansa is preparing to cut about 10% of its flights during the summer season, due to a persistent shortage of personnel. A problem encountered as early as the summer of 2022,** and which could affect the other subsidiaries of the German group.

(...)

A bleak future according to the business newspaper WirtschaftsWoche, which believes that about **34,000 flights are being preventively eliminated from Lufthansa's initial program, or 10% of its offer.**

**This decision was taken because of the shortage of personnel, which has persisted in the sector since last summer, and the faster-than-expected recovery of air traffic after the Covid-19 pandemic, particularly** at continental airports. The Star Alliance company and its subsidiary Eurowings had already cancelled some 3,000 flights in June, not to mention the multiple strikes that also affected subsidiaries such as Brussels Airlines.

**The CEO Carsten Spohr** would not like to see this chaos return, and **would therefore have opted for preventive cancellations, so that travelers can anticipate their trip with a minimum of certainty.** From March 26 to October 29, 2023, this would affect up to 500 flights per day for Lufthansa alone, mainly during peak hours. A spokesperson confirmed the decision, without specifying the number but adding that all group companies (including also SWISS or Austrian Airlines) would have to see their flight schedule "reduced."

**My comment:** *Lufthansa is paying for its lack of anticipation of the post-Covid-19 recovery.*

*I have said it several times here: contrary to all forecasters, Air France-KLM has anticipated the recovery by limiting the number of staff reductions among the flight crews. The Franco-Dutch group has reaped the benefits in 2022.*

*This was not the case for Lufthansa.*

## > **Volotea and Eurowings lay the foundations for a new low-cost alliance in Europe**

(source Les Echos) February 15, 2023 - This is not a marriage, nor even an



engagement, but **it is still a flirtation that two of the main European low-cost airlines - Volotea and Eurowings - have engaged in.** The Barcelona-based airline and Lufthansa's low-cost subsidiary announced on Wednesday their intention to jointly market part of their networks.

**Starting in April, Volotea and Eurowings will sell on their respective websites "more than 140 routes":** 100 operated by Eurowings and 40 by Volotea, including six new Volotea routes between France (Bordeaux, Lyon, Nantes) and Germany (Hamburg, Berlin, Düsseldorf and Stuttgart).

**This will enable the Catalan company to enter the German market, at a lower risk, where its presence is currently limited to flights between Hamburg and Toulouse on behalf of Airbus.** And it will do so without compromising its independence, since the agreement with Eurowings is strictly limited to a commercial partnership, like those already signed with TAP Air Portugal and Aegean in Greece. (...)

**Although based in Barcelona, Volotea** has become an important player in the French market, where interregional routes were poorly served by SNCF and other airlines. In just a few years, Volotea has made France its leading market, ahead of Italy and Spain, with an annual offer of 6.5 million seats out of a total of 12 million seats, and eight permanent bases.

**For its part, Eurowings remains essentially German, having taken over the network of its now-defunct cousin Germanwings. Originally, its vocation seemed to be mainly to defend the German market against the appetites of EasyJet and Ryanair.** But like Transavia in France, the Lufthansa subsidiary intends to become a true European low-cost airline, by weaving its web outside Germany

***My comment:** The upcoming partnership between Volotea and Eurowings is based on a minimal agreement between the two airlines.*

*It will be necessary to wait before making a judgment on the impact of this agreement.*

### **> Consolidation: Air France-KLM ready to move on the French overseas departments**

(source La Tribune) February 17, 2023 - **Ben Smith**, CEO of Air France-KLM, dropped a small bomb on Friday. **When asked about the competition in the French overseas territories** at the very end of the presentation of the 2022 annual results, the Canadian executive **stated that there was a need for consolidation and hinted that he might well take action.** The targets can be counted on the fingers of one hand: the Reunionese company Air Austral, Corsair, present on both Reunion and the West Indies and the two carriers of the Dubreuil group, French Bee on Reunion and Air Caraïbes on the West Indies.

(...)



Ben Smith did not say more, but it was enough to throw a spanner in the works.

Especially

since he had announced a few minutes earlier that Air France-KLM was on the verge of regaining its room to maneuver and its freedom to participate fully in a capital operation with the repayment of state aid and the lifting of European restrictions.

(...)

**The head of Air France-KLM has not revealed what form this consolidation might take.**

There are many possibilities between an acquisition, a minority stake, a joint venture or a commercial agreement. Air France and Air Austral already have an agreement on services to Reunion Island: the Reunionese airline sells an allotment of 30 seats to the national airline on its flights between Roissy and Saint-Denis.

(...)

The last three years have been tough. The companies have of course suffered significant drops in activity, chopped up between confinements, conflicts, the Omicron variant... And if traffic has been more dynamic than elsewhere, prices have remained low due to strong competition. The attitude of Air France, which has put up to 60% more capacity online without touching fares despite the increase in production costs and the explosion of the fuel bill, has in particular been criticized by the other companies.

(...)

**While volumes have been good since the spring, prices only really picked up in the fall. In fact, neither French Bee and Air Caraïbes, nor Corsair and Air Austral have yet returned to profitability, even though the situation is improving.**

(...)

Corsair and Air Austral could have married. At

least, this was the project carried out last summer by the Interministerial Committee for Industrial Restructuring (CIRI, a government department in charge of aid to airlines), but it had to give up in the face of opposition from the Reunion region, which owns Air Austral. Previously, the two companies had studied the possibility of a commercial joint venture with significant potential benefits.

Air Caraïbes had also shown interest in a merger at the beginning of the dossier, but more on a commercial level. In any case, **Marc Rochet stated at the time that he believed that the air transport sector would have to consolidate as the crisis came to an end: "There will be a concentration at the end of this sequence, and companies will inevitably be forced to come together.**

***My comment:*** For many years, the managers of each of the French airlines operating to the DOM-TOM have been talking about the need to reduce the number of operators.

*Provided of course that their airline does not disappear. What none of the bosses of French Bee, Air Caraïbes, Corsair or Air Austral want.*

**> Tata invests heavily in Air India, betting on the country's growth**

(source AFP) February 14, 2023 - One of India's largest and oldest conglomerates

**[Tata] has decided to invest several billion dollars in Air India**, which has been back in its fold for a year, banking on the country's growing middle class and its demand for air travel, experts say.

(...)

In recent years, Air India has become a debt-ridden public entity, far from its former image that earned it the nickname "Maharaja of the skies".

Since 2009, successive Indian governments have spent nearly \$15 billion to support it until Tata bought it for \$2.4 billion in 2022.

(...)

According to Shakti Lumba, former chief operating officer of IndiGo, which has long since replaced Air India as the country's largest domestic airline, **the Tata group "can build a world-class brand."**

**India**, one of the world's fastest-growing major economies, **said in February that it was investing in developing about 100 airports across the country by 2024.**

India's middle class is growing by millions each year, **many airports are being expanded and several regions have just added their first airports.**

Experts estimate that the **Indian market will need at least 2,000 aircraft over the next 10 to 15 years**, and long-established Indian groups such as Tata will play an important role in meeting the demand.

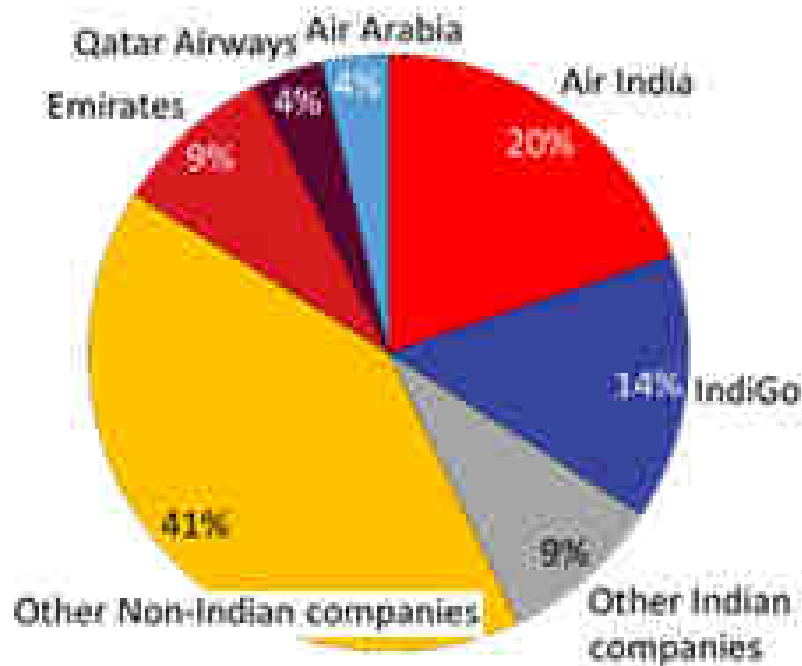
(...)

Air India's merger with Vistara, a joint venture between Tata and Singapore Airlines, is expected to make the Indian carrier the country's second largest in the domestic market behind IndiGo.

But Air India's expansion will not be without turbulence for the 154-year-old group, Mark Martin, CEO of Martin consulting, told AFP.

"They will need to recruit talent and recapture the warm Indian hospitality that made (Air India) one of the top five airlines in the world in the 1960s and 1970s," Martin added.

(...)



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

**My comment:** For a long time, the long-haul development of Indian airlines was doomed to failure.

There were many reasons for this, such as a lack of airport infrastructure, a lack of appetite for international transport or a lack of political will.

This time seems to be over. New airports are being built, and old ones are being expanded and upgraded.

Indian airlines will soon have the infrastructure to expand internationally.

### > Airbus posts new record profit

(source Journal de l'Aviation) February 16, 2023 - **Airbus** released its annual results on February 16. The aircraft manufacturer **saw revenue rise 13% to €58.76 billion, driven by** higher deliveries in the Commercial Aircraft division and a stronger dollar, as well as growth in services and a more favorable mix in the Airbus Helicopters business. Adjusted EBIT is growing in parallel by 16% to €5.6 billion, while **net profit reached a record €4.25 billion, up 1% on 2021.**

Airbus recalls that it has recorded 1,078 gross orders in 2022, or 820 net orders after cancellations. The aircraft (net) have a value of 59,727 billion euros.

Commercial aircraft deliveries reached 661 aircraft, an 8% increase over 2021 but a disappointment for Airbus, which had forecast twice the growth but was slowed by its supply chain.

For 2023, the aircraft manufacturer is targeting adjusted EBIT of €6 billion and free cash flow of €3 billion. It is also returning to its original 2022 delivery target, aiming

for 720 commercial aircraft deliveries.

**My comment:** Airbus' CEO has reaffirmed the goal of 65 single-aisle A320s per month by the end of 2024.

*The target of 75 aircraft per month has only been shifted from mid-2025 to 2026.*

*This will allow Airbus to maintain a serious lead over Boeing, whose production rate forecasts are currently limited to 42 B737s per month starting in the second quarter of this year, and up to 60 at an undetermined date.*

*But the challenge of ramping up single-aisle aircraft goes beyond competition with Boeing. With more than 6,000 A320s on order (60 percent of them A321s), the single-aisle order book already represents more than ten years of production.*

*Without being able to offer delivery dates within a reasonable timeframe, Airbus is likely to lose customers. For example, Airbus could have sold more aircraft to Air India if its first delivery slots were not so far away.*

### > **Safran Group to return to pre-crisis revenue in 2023**

(source Air & Cosmos) February 17, 2023 - **The Safran group expects to reach, with all the usual precautions for the financial markets and the relevant authorities, a turnover of at least €23 billion in 2023. This is a far cry from the €24.64 billion achieved in 2019 before the outbreak of the Covid 19 pandemic.** This is an aggravating factor for a group that has already been severely shaken by the Boeing 737 MAX debacle, with a flight ban and then a production stoppage of the medium-haul aircraft for many months. This was a double whammy for the Safran Group, which saw its sales drop to €16.5 billion in 2020, and then shrink further to €15.25 billion in 2021. This head-on collision was handled with great composure.

**The forecast for 2023 is based on a number of assumptions.** "The absence of any new disruption in the global economy" but also "a return during 2023 to the 2019 level in terms of overall capacity on the short- and medium-haul aircraft segment," said Olivier Andriès, Safran group CEO, and who continued, **"an increase of about 50% in the number of Leap engine deliveries (1,700) and a 20% to 22% increase in revenues from civil engine services activities."** With "one element of attention: supply chain production capabilities." There are still bottlenecks in components and raw materials. So much so that the **production of recycled titanium by Aubert & Duval has become "a point of vigilance".** "There is a strong expectation on the part of the French and European industry," Olivier Andriès stressed.

**Despite these supply chain constraints and the shutdown of operations in Russia** (€300 million in revenue) following the invasion of Ukraine, **the Safran Group benefited from the recovery in air traffic throughout 2022, the resumption of Boeing 737 MAX deliveries and the good performance of Airbus deliveries.** This is reflected in the deliveries of the main programs: +34% for the

CFM Leap (1,136), +10% for landing gear and +28% for Airbus A350 toilets, +160% for A330neo nacelles, and +24% for A320 escape slides. The only downside was the problems with the Boeing 787, which weighed on deliveries of landing gear (down 49%) and electric cores (down 30%).

The strong recovery in equipment and engine deliveries, combined with a 29.3% increase in civil engine services, led to a nearly 16% rise in organic revenues, which were rounded out by €1.4 billion thanks to a positive euro/dollar exchange rate effect. All in all, revenues slightly exceeded €19 billion, a 25% jump compared to 2021.

**My comment:** Safran is benefiting from the recovery in aircraft sales and deliveries in 2022.

*Engines represent a significant portion (about 25%) of the purchase price of new aircraft.*

### > **ADP has inflated its margins in 2022, waiting for the impact of inflation**

(source La Tribune) February 16, 2023 - Traffic has not yet fully returned for **the ADP group** (Aéroports de Paris), yet the revenue is there. Certainly benefiting from an expansion of the scope of its activities, the airport group **has done very well in 2022 and has almost matched its 2019 level**. But in these times of recovery and rebuilding of the business, synonymous with a sharp rise in costs, the focus is primarily on profitability. And in this respect, the airport group has done very well. While business should continue to grow in 2023, caution remains the order of the day: certain cost factors that have been avoided until now should now have an impact.

**"We have achieved all our objectives,"** said **Augustin de Romanet, CEO of the ADP group**, before the presentation of the 2022 results on Thursday. With 4.7 billion euros in revenues, the group has seen its activity grow by nearly 70% compared to 2021, signing a return to the record level of 2019 to about ten million euros.

**This performance is driven by the recovery in traffic.** Traffic has more than doubled at Paris airports, reaching 87 million passengers. And the ADP Group has passed the 280 million passenger mark, including its international holdings in the Turkish group TAV Airports, India's GMR Airports and its other airports. This means that ADP is back to a level of traffic equivalent to more than 80% of that of 2019, whether for the Paris airports alone or for the entire group. The recovery is even faster towards the end of the year and the group should have recovered all of its traffic by this year (95 to 100% expected). For the Paris airports alone, it will probably be necessary to wait until the end of 2024 (90 to 100% expected), or even 2025 (95 to 105%).

(...)

As Philippe Pascal, the group's financial director, explains, the scope has changed with the purchase by TAV Airports of Almaty airport in Kazakhstan in 2021, which has allowed the integration of 229 million euros in ADP's revenues.

**In addition, the good performance of retail and services in Paris, which grew more strongly than aeronautical revenues with a 75% increase. They are now almost back to their pre-crisis level, and even higher for activities in the reserved area, now grouped under the name Extime Paris (formerly Société de distribution aéroportuaire). Average revenue per passenger reached 27.4 euros for the year, and even 31 euros in the last quarter, compared to less than 20 euros in 2019. Augustin de Romanet points out that this amount can rise to 60 euros on certain terminals at Roissy, far ahead of its European competitors.**

This performance was achieved despite the low proportion of Asian passengers, and especially the absence of Chinese passengers, who before the crisis represented 2% of traffic but 15% of revenues. The gradual resumption of flights with China - 6 flights per week today and around 30 in June, compared to around 100 in 2019 - should further improve commercial revenues. Extime Paris ' target has been raised to 29.5 euros per passenger for 2025, although the Paris airports remain cautious about this amount

(...)

**Regarding the net result of 516 million euros, "it does not call for any other comment than to say that it is one of the best ever achieved by the ADP group because it is close to the result of 2019 and allows us to distribute a dividend of 3 euros per share,"** said Augustin de Romanet, CEO of the ADP group.

(...)

Beyond these accounting considerations, ADP CFO Philippe Pascal points out above all "a major cyclical effect 2022". He explains that to cope with a more dynamic traffic than expected, the ADP group "has recruited quickly but not completely, hence a temporary overperformance" last year. This overperformance will be reduced with the current recruitments to adapt to the level of activity. A plan to hire 600 people was launched last year to support the recovery in traffic.

"In 2023, we will enter into a normalization of our cost structure, which will lead to a small decline that we are trying to reflect in our objectives," continues the CFO, who also assures us that "this is not linked to underperformance or a difficulty in containing our costs for 2023 and the following years.

(...)

**In addition, there will be the impact of inflation, mainly from 2024 and 2025.** For the time being, this impact is not yet being felt on expenses for several reasons, as Philippe Pascal explains: "We were well protected on our energy costs with globally favorable indexes and fixed-price contracts as a rule, which are not yet up for renewal. This will no longer be the case from 2024 onwards, and ADP should therefore feel the effects of rising energy prices. The general salary increases of 3%, granted in the summer of 2022 to enable staff to cope with this same inflation, will also come into full effect with the return to full staffing levels.

**The forecast current costs per passenger have therefore been revised upwards for 2024 and 2025. The range is now between €17 and €20.**

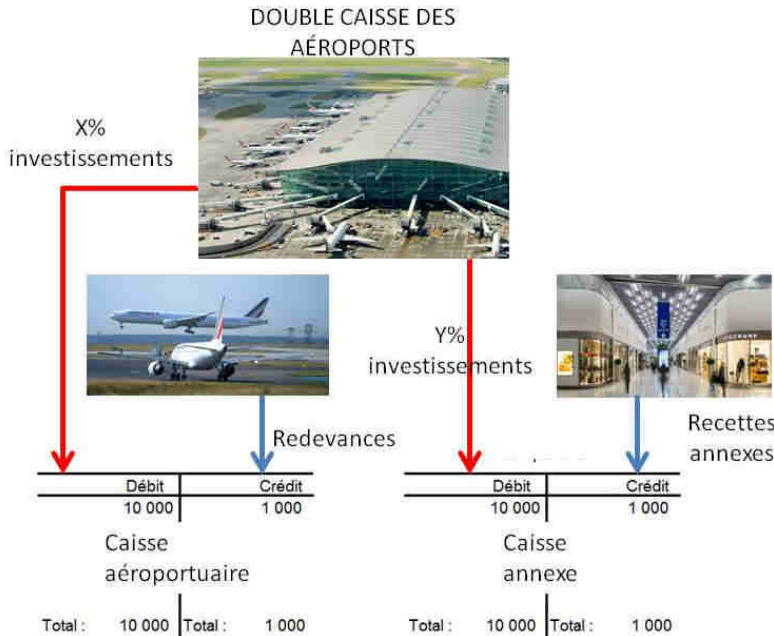
This effect will also be felt in capital expenditure. The group, including its

subsidiaries, is therefore moving from an average annual target of around one billion euros in constant euros until 2025 to 1.3 billion euros in current euros. 300 million increase, two-thirds of which should be absorbed by inflation, with the remaining third to finance new projects. "We have been immune until now, but from now on, when we sign the construction of a small infrastructure, we will have to include the entire cost of materials to date," concludes Philippe Pascal.

**My comment:** The very good results of the ADP group (a margin of 35%), higher than those of Air France-KLM (a margin of 5%), raise the question of the sharing of value.

Thus, the preponderant share of the commercial and service activities in Paris is not taken into account in the calculation of the fees.

As I indicated in my letter No. 888, the case of airports is special, because their revenues and investments are managed via a dual fund.



The dual-use system consists of separating the fees collected for purely airport activities, the amount of which is validated by the Transport Regulation Authority (ART), from ancillary revenues from shops, real estate and parking lots.

The double-cash system also allows airports to allocate investments according to rules that are open to discussion. How do you ensure that the cost of building a terminal (which houses airlines and stores) is not split between the two funds to the detriment of the airlines?

As a result, aeronautical services, which are part of the regulated perimeter, cannot be subsidized by revenues from shops or parking lots (so-called non-aeronautical services), on which airports are free to set prices and which generate very high margins.



Consequently, deprived of this windfall to reach the profitability levels expected by shareholders in the aviation fund, airports are increasing airport charges.

This leads the airlines operating at Roissy and Orly to regularly request that all ADP revenues be accounted for in a single fund.

## Stock market press review

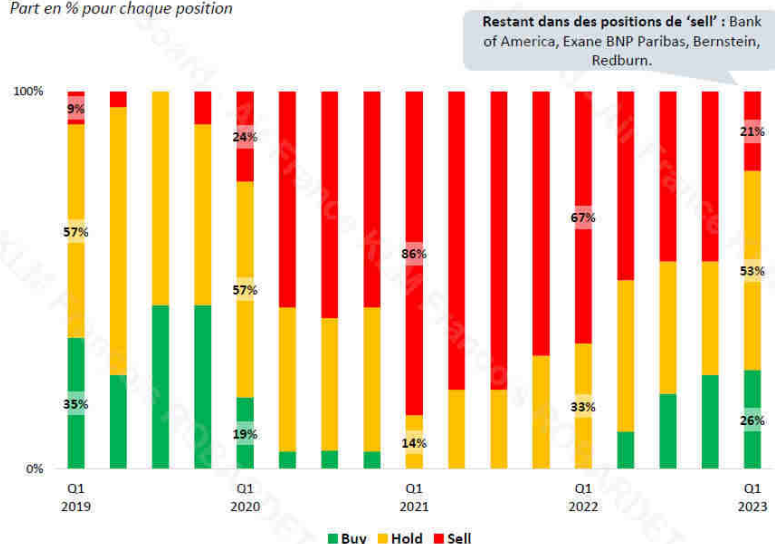
### > Air France KLM falls back, caution prevails

(source Boursier) February 20, 2023 - **Air France KLM is down 1.5% to 1.74 euros at the start of a slightly bearish week** in Paris. The news around the airline is marked by several analysts' notes after the publication of the carrier's annual accounts. **Oddo BHF has thus raised its target from 1.65 to 2.1 euros while remaining 'neutral'**. The turnaround is certainly impressive but the analyst would like to obtain assurances of the company's rational attitude in potential external growth operations. Moreover, the broker is also attentive to the evolution of the cargo business, which is under increasing pressure with the return of passenger aircraft holds. The stock is trading on an EV/EBITDA 2023e multiple of 2.8x, in line with its 5-year pre-Covid average. At 'underperform' on the stock, Bernstein raised its target from €1 to €1.25.

Despite a clearly better situation than a short time ago, the market remains cautious on the file. Of the 19 analysts following the stock listed by 'Bloomberg', only 4 are 'buy', 10 are 'hold' and 5 are 'sell'. The 12-month target is set at 1.63 euro.

#### Recommandation des analystes publiée sur Air France-KLM

Part en % pour chaque position



**My comment:** The chart above represents the evolution of analyst recommendations since Q1 2019.

The impact of the Covid-19 crisis is obvious.

The recent announcements of the end of the constraints imposed by the European Commission are likely to decrease the reluctance of analysts.

## End of the press review

> My comment on the evolution of the Air France-KLM share price in 2022



The event that had the greatest impact on the share price in 2022 was the capital increase in June of 2.256 billion euros. This was used to accelerate the repayment of state aid and to reduce debt.

The French and Dutch governments participated to the extent of their rights, their participation remaining unchanged. CMA CGM became a new strategic reference shareholder with a 9.0% stake in the group.

The employees and former employees shareholders via the FCPEs had participated in the capital increase to a lesser extent, via a blank transaction.

As a result, the share price, which was around 2 euros before the operation, has since fallen to around 1.30 euros.

Following the announcements of mid-February 2023, it is now close to 1.70 euro.

> My comment on the evolution of the Air France-KLM share price this week

Air France-KLM shares closed at 1.696 euros on Monday 20 February. It is up sharply this week by +9.92%. The recent announcements on the 2022 results and on the end of the constraints imposed by the European Commission

**explain this rise.**

**Since the beginning of the year, it has risen by 35%.**

The average (consensus) 12-month analysts' rating for AF-KLM shares is 1.62 euros. The highest price target is 2.10 euros, the lowest 1.10 euros. I only take into account analysts' opinions after the May 2022 capital increase.

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

> [My comment on the evolution of fuel prices in 2022](#)

**Since the beginning of the war in Ukraine, there is no longer any correlation between the price of a barrel of Brent oil and a barrel of Jet Fuel.** The difference between the two products was between \$30 and \$50, while in previous years it was only \$10.

> [My commentary on the evolution of fuel prices this week](#)

**The barrel of Jet Fuel in Europe is down this week by -\$7 to \$107.** After peaking at \$182 in June 2022, it was down to \$132 in early August. It was at \$79 a little over a year ago.

**Brent crude oil (North Sea) is down this week by -\$3 to \$83. This is close to the average level seen over the past five years, excluding exceptional events.** From mid-February to the end of July, it was yo-yoing between \$100 and \$120. Since then, it has oscillated between \$85 and \$99. At the beginning of March, Brent reached \$132, close to its record of \$150 (in 2008).

While oil has been back to its usual level for several weeks, **jet fuel is now approaching its usual level. The spread between jet fuel in Europe and Brent crude oil is now only \$24 per barrel.** Since the beginning of the Ukrainian conflict, this spread was close to \$50.

## ***Good to know***

> [Advice for employees and former employees who are shareholders](#)

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

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

Keep all the documents related to your Air France-KLM shares in one place: all the

letters you receive from the different managers, Natixis, Société Générale, your personal financial institution if you bought your shares through it.

## > **Management of employee investment funds**

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

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

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

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

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

## **Details**

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

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

**You can ask me, by return, any question relating to the Air France-KLM group or to employee share ownership...**

See you soon.

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

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

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

# **| François Robardet**

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

You can find me on my twitter  
account @FrRobardet

## *Alternate Nicolas Foretz, PNC*



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

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

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