

Air France-KLM

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)



former Director Air France-KLM

Representative of current and former employee shareholders PS and PNC

N°937, November 6, 2023

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Editorial

Dear readers,

In my last letter, in which I addressed the subject of contrails, I wrote :

On the climatic impact of non-CO2 effects: To date, there is no consensus on the contribution of contrails to climate change. The most pessimistic believe that condensation trails have as much influence as the CO2 emitted by *aircraft*.

I have received some corrective comments, from which I have extracted the following.

=== beginning of quote

That's not quite true.

There is now an international consensus on the net warming effect of non-CO2 effects, which have had, over the period 1940-2018, an impact on radiative forcing 2 times greater than CO2 with an uncertainty range from half CO2 to three times CO2.

The most pessimistic estimates are therefore in excess of 50%-50.

The consensus is therefore that the impact of non-CO2 effects is of the same order of magnitude as CO2.

The other parameter is the climate metric used to compare CO2 and non-CO2 effects.

Radiative forcing is better suited to the analysis of a past period. To analyze the

impact of a flight or a company on the climate, we use another metric (GWP, PGT, ATR) for a given time horizon (20, 50 or 100 years). This multiplies the number of ways of interpreting impact, and there is currently no consensus on which metric to use.

A horizon of 100 years is preferable to take into account the full impact on the climate.

If we rely on GWP, which is the metric used internationally to compare other greenhouse gases, non-CO2 effects would account for just under half of CO2 (a factor of around 0.7), and 80% of the non-CO2 impact would be due to contrails.

=== end of quote

Thanks to the readers who brought me this important information.

Enjoy your reading.

François

Monday's Press Review

> SAS signs investment agreement with Castlelake and Air France-KLM to restructure its business

(source Air Journal) November 6 - **Air France-KLM and private equity firm Castlelake LP have increased their planned investment in bankrupt Scandinavian airline SAS by \$25 million to \$1.2 billion**, SAS announced in a statement on Saturday.

The agreement was reached specifically with a consortium that also includes Danish investment company Lind Invest and the Danish state following its bankruptcy proceedings. SAS added that, as part of the transaction structure, it had entered into a new debtor-in-possession financing credit agreement with Castlelake for SEK 5.5 billion (\$505.45 million) to refinance its loans, increase liquidity and help the company emerge from its voluntary restructuring procedure.

SAS had announced on October 3 a \$1.175 billion investment from the investor group to help save the carrier, which filed for Chapter 11 bankruptcy in July amid headwinds from the Covid-19 pandemic, high fuel prices and a pilots' strike. Up to now, its main shareholders have been the Danish and Swedish governments.

Here is the shareholder breakdown after the investment, according to the press release:

- Castlelake to hold 32% of capital, 55.2% of convertible debt

- Danish government to hold 25.8% of capital, 30% of convertible debt
- Air France-KLM holds 19.9% of capital, 4.8% of convertible debt
- Lind Invest holds 8.6% of capital, 10% of convertible debt
- The remaining 13.6% of equity will be distributed among the other creditors

(...)

My comment: SAS' turnaround is on track.

Among investors, only the Air France-KLM group is limiting its exposure to SAS debt (4.8%), at a level well below its stake (19.9%).

> **KLM's future in question according to its CEO**

(source Boursier) October 31 - (...) The restriction on the number of flights at Amsterdam airport, a measure introduced by the Dutch government to reduce noise pollution, continues to cause a stir both in the Netherlands and in the airline industry. Speaking in an interview with 'Bloomberg', **KLM** CEO Marjan Rintel said that his airline **will most likely find itself with 17 fewer daily flights in the summer 2024 season**. "It's not about today and tomorrow, it's about the future of KLM.... It's about the future of the Netherlands' economic position in the world and the direction we want to take," explained the CEO.

KLM relies more heavily on its global network than most other European airlines, as the Netherlands offers no local market. Ms. Rintel stressed that access to destinations like New York and Asia is essential for KLM to pay for its investments, and that short-haul service flights of the kind the carrier might be forced to eliminate help fill long-haul aircraft: **"for KLM's business model, we feed our international network with all the small destinations in Europe"**.

The Dutch government is considering reducing annual flights at Schiphol by around 10%, to 452,500, in order to cut environmental and noise pollution. A measure which, according to airlines and pressure groups, would undermine Schiphol's position as one of Europe's leading hub airports. **KLM has taken legal action over the first stage of capacity reduction to 460,000 movements**, a cut which Rintel claims would damage KLM's ability to cope with "fierce" competition.

KLM is also waiting for the European Commission to rule on whether the Dutch government has correctly followed the Balanced Approach procedure, a process that describes best practice for implementing airport capacity restrictions for noise control purposes.

Capacity restrictions at Schiphol are also likely to affect other airlines serving the Netherlands, as they are also likely to lose certain slots. As a result, some carriers are pushing for retaliatory measures to deny KLM access to other hubs abroad. **JetBlue Airways, for example, which began service to Amsterdam from**

John F. Kennedy International Airport in August, has asked the US authorities to deny the Dutch carrier access to New York airport if it loses its access to Schiphol.

Ms. Rintel said such demands from other airlines posed a "great threat" to KLM and a risk to their joint venture and international destinations. "JetBlue won't be the only one... There will be others. If you cut slots like this, without any understanding of international agreements, then it's quite normal for JetBlue to be very offended," said the carrier's CEO.

***My comment:** With the measures it is imposing, the Dutch government is trying to have its cake and eat it too.*

It wants to reduce noise pollution and harmful gas emissions by 15% by cutting activity, in the knowledge that the purchase of new aircraft by the airlines will enable this objective to be achieved.

A clarification as to the forthcoming drop in activity: initially, in the summer of 2024,

- *carriers with historical slots (such as KLM, Air France, Delta Air Lines, easyJet) will have to reduce their slots by 3.1%,*
- *airlines with no historical rights at the airport will not obtain slots for next summer.*

JetBlue Airways has protested against this measure, demanding that KLM be prevented from serving New York in retaliation.

> Norse raises DKK 400 million to pay its bills

(source check-in.dk, translated with DeepL) November 6 - (...) As part of its quarterly report, **Norse Atlantic Airways announced that it would raise an additional USD 45 million in capital through** a share issue. However, according to the company, investor interest was so strong that it raised \$55 million (around DKK 390 million).

The need for capital was urgent, and some of the money will be used to pay bills. This is emphasized in a release from the stock exchange, which states that "the company is in the process of finalizing negotiations with a key supplier that requires a payment acceleration plan".

In addition, **the company states that the additional capital will improve liquidity during the winter season until** ticket sales revenues arrive for the summer.

The capital increase comes after Norse Atlantic Airways announced last Wednesday a profitable quarter for the first time since its first flight in June 2022. However, net profit for the months of July, August and September, which correspond to the high season, was just \$1.3 million (DKK 11.6 million). This must be set against the fact that the second quarter of the year ended with a loss of \$28 million (DKK 240

million).

Norse Atlantic Airways managed to double its sales between the second and third quarters, and aircraft utilization also reached a record level for the company. **However, this progress was not reflected in the results.**

Jacob Pedersen, Head of Equity Research at Sydbank, told Check-in.dk that earnings were meager considering that airlines across Europe posted record third-quarter results.

(...)

In its quarterly report, Norse explains that it is exploring new opportunities and has been approached by "several industry players". Given the high level of interest, Norse believes that its business, market position and assets are perceived as attractive. The company will engage strategic advisors for the remainder of the process.

Norse owns a fleet of 15 Boeing 787 Dreamliners, five of which are leased to Spanish airline Air Europa. These aircraft are due to be returned to Norse between the end of March and June 2024.

My comment: Norse Atlantic Airways is a Norwegian long-haul low-cost airline. Its routes are concentrated on the North Atlantic.

It succeeded Norwegian Long Haul, itself a subsidiary of Norwegian, when Norwegian ceased operations in 2021.

Since its creation, Norse Atlantic Airways has struggled to get off the ground. It has had to borrow to cope with cash flow problems, which is never a good sign for any company.

Four articles on airline results

> Record summer for Lufthansa, even better than Air France-KLM

(source La Tribune) November 2 - **Lufthansa** confirms its good start to the year **in the third quarter**. Between July and September, Europe's leading air transport group **posted profits up 47% year-on-year, to 1.2 billion euros**, according to figures published on Thursday, November 2. Sales were up 8% year-on-year, to 10.3 billion euros. This makes it "the strongest quarter in its history in terms of sales", said the group in a statement. By mid-day, Lufthansa shares were up nearly 7% on the Frankfurt Stock Exchange.

This situation is set to continue into the fourth quarter, with **average revenue per passenger "on a par with the previous year and around 25% above the pre-**

crisis level" of Covid-19, commented Group CEO Carsten Spohr on a conference call.

Inflation is still very much with us, "as in all sectors", so that current bookings "do not show any drop in prices", he added.

According to Lufthansa's press release, the third-quarter result is the direct consequence of several factors. "This increase is primarily attributable to the combination of strong demand, greater capacity offered and consistently high average prices," the group says.

(...)

At the same time, Lufthansa confirms its full-year earnings outlook "despite the persistently difficult geopolitical situation", according to the press release. Operating income should reach €2.6 billion, up from €1.5 billion in 2022. On the **other hand, the Group is suffering from the rise in kerosene prices, with an annual bill now expected to be around 8.0 billion euros, half a billion euros more than initially forecast.**

(...)

These results confirm the return to normal for the sector, following the record profits announced last week by Air France-KLM, albeit lower than those of the German group. The French giant doubled its net profit to 931 million euros, and posted sales of 8.66 billion euros (+6.8%). Above all, this summer it posted the highest quarterly operating profit in its history, at 1.34 billion euros, synonymous with an operating margin of 15.5% (a record).

On the passenger side, Lufthansa once again outperformed Air France-KLM. From July to September, the French group carried 27 million passengers, 7.6% more than during the same period last year. That's a difference of 11 million passengers. This is no surprise, given the German group's superior size (...) But Lufthansa's growth over the quarter was twice as fast as that of Air France-KLM, which now seems to have lost any lead it may have had at the start of the recovery.

My comment: Over the past few days, most airlines have been reporting exceptional results.

They all put forward the same (justified) explanations: fare increases that more than cover cost increases (wages, kerosene).

What they fail to mention is that, if their business hasn't reached 2019 levels, it's often because they've reduced or even eliminated the most loss-making routes.

> **Ryanair: half-year profit up sharply, driven by traffic and prices**

(source AFP) November 6 - Irish airline **Ryanair announced on Monday a 72% year-on-year rise in net profit to 2.2 billion euros for its first half-year**, boosted in particular by "record" traffic last summer and higher fares.

The result was marked by a "strong Easter period in the first quarter, record summer traffic and higher fares which offset significantly higher fuel costs during the half-year", Ryanair said in a statement.

My comment: *In order to reward its shareholders - who had injected 400 million euros of equity during the Covid crisis - Ryanair plans to propose an ordinary dividend of 400 million euros, half to be received in February 2024 and the other half after its next AGM.*

CEO Michael O'Leary, who owns 3.873% of the company's capital, should receive 15.5 million euros.

Furthermore, according to the Irish low-cost airline's plan (source: Les Echos), Michael O'Leary could earn up to 100 million euros if he manages to double annual profits (forecast at 1 billion euros for the 2018-2019 financial year) by 2024. This target could be achieved in the current financial year.

The Group also states that it has established a new remuneration policy from the 2024/2025 financial year, which calls for 25% of its annual after-tax profit to be returned to shareholders.

Following all these announcements, Ryanair's share price climbed by over 5% on Monday morning on Euronext Dublin, bringing its gains since the start of the year to over 31%.

> **LATAM Airlines back in the black, nine months after emerging from bankruptcy**

(source Air Journal) October 31 - **LATAM Airlines reported a net profit of \$232 million in the third quarter of 2023, compared with a net loss of \$296 million in the same period last year.**

Sales rose by 18% between July and September, to reach \$3 billion. These quarterly results are part of a solid recovery for the South American airline group, which also raised its guidance for the full year 2023, following its emergence late last year from Chapter 11 bankruptcy proceedings in the US, with a robust \$8 billion reorganization plan.

(...)

No comment

> **Air Portugal reports positive results for the first 9 months of 2023**

(source Aeroweb) November 5 - In the **first nine months of 2023, TAP Air Portugal once again achieved a historic milestone, generating a record net**

profit of 203.5 million euros.

Operating revenues for the first nine months of 2023 jumped to 3.2 billion euros, showing a significant increase of 725 million euros (+29.7%) on the same period in 2022.

The first three quarters of 2023 were marked by a significant performance in the airline's financial and commercial indicators. TAP achieved a recurring EBITDA of €752.4 million, with a margin of 24%, and a solid recurring EBIT of €400.7 million, with a margin of 13%.

At the end of June 2023, TAP redeemed the 2019-2023 bonds, for a total of 200 million euros. There was a significant improvement in the net financial debt/EBITDA ratio at September 30, 2023, reaching a level of 2.4x, marking a marked improvement on the 3.5x ratio recorded at the end of 2022.

(...)

No comment

> Engine recall will ground several Lufthansa aircraft in 2024

(source DPA) November 2 - **A worldwide engine recall is likely to ground 20 Lufthansa Airbus aircraft every day next year.** In total, the group has 64 aircraft equipped with the engine from manufacturer Pratt & Whitney, said Chairman of the Management Board Carsten Spohr during a quarterly results conference call in Frankfurt on Thursday. Including spare engines, a total of 146 Lufthansa Group engines are expected to be serviced as part of the recall. Spohr is relying on its Lufthansa Technik subsidiary for this purpose. This should considerably reduce maintenance times.

This summer, RTX subsidiary Pratt & Whitney announced a major recall of its jet engines. The reason was a problematic metal powder used by Pratt & Whitney in the production of turbine disks. This type of engine is used worldwide on around one in two A320neo series jets, Airbus' most popular model.

Spohr hopes to be able to service the engines concerned more quickly than Pratt & Whitney and **its German partner MTU.** The latter **estimates that each engine will be out of service for up to 300 days,** not least because of long waiting times for workshop appointments and spare parts. Spohr hopes that Lufthansa Technik will achieve this 100 days faster.

(...)

My comment: *The Pratt & Whitney engine recall was announced last June.*

Pratt & Whitney announced that this maintenance would cost between 3 and 3.5 billion dollars over the "next few years".

1,200 aircraft are potentially affected (out of some 3,000 equipped with this famous PW1100 GTF engine).

The main airlines concerned are Spirit Airlines, JetBlue Airways, Lufthansa and India's IndiGo.

> **And a pharaonic airport rose from the waves...**

(source Journal de l'Aviation) October 31 - **It now has an official name and will be the largest airport ever built on the sea**, like the Kansai International hub (Osaka), Chubu Centrair (Nagoya) or the forthcoming Chek Lap Kok extension (Hong Kong) for its third runway. But this time, **for the first time, it concerns mainland China**, which until now has had no offshore airport platform.



The future Dalian Jinzhou Bay international airport, to be built north of the city of Dalian (Liaoning province), on the Bohai Gulf, is already the stuff of superlatives, like many other Chinese airports built in recent years.

The first filling work to form an artificial island of over 21 square kilometers began silently in 2011, while the project was first unveiled a year later for an initial opening scheduled for 2018.

(...)

On October 19, the airport project was officially named Dalian Jinzhou Bay by the Civil Aviation Administration of China (CAAC). Earthworks and construction of the new airport began on October 28, moving from "preparation" to "combat" status.

Dalian Jinzhou Bay International Airport has been designed to handle up to 80 million passengers and 1.5 million tonnes of cargo per year, with four future

runways, two passenger terminals, a railway station and a cargo terminal.

However, the first phase of the project will comprise only two runways (3,600 and 3,400 metres) and a single passenger terminal with a surface area of 500,000 square metres and some 80 aircraft contact points. Its initial capacity will be 43 million passengers and 550,000 tonnes of freight per year, with a maximum of 540,000 movements.

The terminal's star-shaped layout will limit the maximum distance passengers have to travel to just 320 meters from the screening checkpoints (PIF), an architecture that has already proved its worth for the gigantic Beijing-Daxing international airport inaugurated in 2019. The airport will, of course, be a Category 4F to accommodate A380s and 777Xs. By way of indication, **the Middle Kingdom has 248 airports open to passenger air transport** (including 29 with annual traffic of over 10 million passengers). **There will be 270 by 2025.** In the longer term, China's 14th Five-Year Plan calls for a total of 140 airport projects by 2035 (new airports, expansion projects, etc.).

***My comment:** I used to write that nowadays all airport expansion or construction projects are doomed to failure, either because they are rejected by local populations or because they are incompatible with the fight against climate change.*

This comment applies mainly to democracies.

Stock market press review

> With a boost from the Fed, Lufthansa and Air France-KLM climb on the stock market

(source BFM Bourse) November 3 - **The German airline is up sharply on the Frankfurt Stock Exchange this Thursday.** This is also the case for other groups in the sector, which are benefiting from renewed interest in cyclical stocks due to a reassuring message from the US Federal Reserve.

(...)

Like all its competitors, Lufthansa enjoyed a fine summer, carrying 38 million passengers between July and the end of September.

(...)

But **beyond Lufthansa, buoyed by its results, all European airlines are making progress.** In Paris, Air France-KLM gained 5.4%, while in London, IAG, parent company of British Airways and Iberia, advanced by 3.3% and easyJet by 3.1%.

The Pavlovian reflex would be to think that all these groups are benefiting from a positive cross-reading of Lufthansa's results. But this is not the case.

"Frankly, there's nothing very surprising about Lufthansa's results for the sector as a whole, given that Air France-KLM and IAG published their results last week. **The reaction is rather due to the US Federal Reserve's (Fed) statement on Wednesday evening**", says a London-based industry analyst.

The Fed kept its key rates unchanged and its Chairman, Jerome Powell, delivered a message of caution during his press conference. However, his comments were seen by the market as reassuring, pointing in the direction of maintaining key rates at their current level before potential cuts in 2024.

As a result, bond yields are falling, with the rate on the 10-year US Treasury note dropping to 4.66% on Thursday from 4.9% on Wednesday before the Fed meeting. **Relief on the yield front has been good for cyclical stocks on the stock market**, and has eased fears about household purchasing power, threatened by the tightening of credit costs.

"It's really this respite on US rates that is supporting sectors that have suffered a lot recently, such as airlines", continued the London analyst previously quoted.

My comment: *When Air France-KLM announced record quarterly results last month, the share price barely shuddered.*

All it took was a message of caution from the U.S. Federal Reserve (Fed) for it (Air France-KLM shares) to jump +5.4%.

I'll leave it to the specialists to discuss the subject. I couldn't possibly.

End of press review

> Air France-KLM share price trend

Air France-KLM shares closed at **11.786 euros** on Monday November 6. It is **up** this week by **+7.77%**.

In four months, the Air France-KLM share price has lost over 33%. Other airlines are hardly better off.

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 18.16 euros (it was 15.0 euros at the beginning of January). The highest price target is 23.00 euros, the lowest 11.0 euros. I only take into account analysts' opinions subsequent to the May 2022 capital increase.

You can find details of the analyst consensus on my blog.

My new comment : Read my previous comment !!!

> **Fuel price trends this** week

The price of a barrel of Jet Fuel in Europe is up \$1 to \$121. It was \$94 at the end of June, and \$79 before the outbreak of war in Ukraine.

Brent crude oil (North Sea) is down \$2 to \$86.

From mid-February 2022 to the end of July 2022, it was yo-yoing between \$100 and \$120. Since then, it has oscillated between \$75 and \$99.

My comment: *The spread between Jet Fuel in Europe and Brent crude oil has risen again this week, from \$32 to \$35 per barrel.*

It was around \$15 before the conflict in Ukraine. In 2022, at the start of the Ukrainian conflict, the spread was close to \$50.

Good to know

> **Advice for current and former employee shareholders**

You'll find [details of how to access the managers' websites](#) on my [navigation](#) site.

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

Keep all the documents relating to your Air France-KLM shares in one place: all the letters you receive from the various managers, Natixis Interépargne, Société Générale, and your personal financial institution if you bought your shares through it.

My comment: *If you have shares in one of the funds managed by Natixis Interépargne, remember to log in to your account manager once a year, to avoid it being considered inactive.*

Please note: After 5 years of inactivity, Natixis Interépargne will send a letter/email to those concerned asking them to log in to their account or to call Natixis Interépargne in order to reactivate their PEE account.

After 10 years of inactivity, your account is transferred to the Caisse des Dépôts et Consignations.

To unblock your PEE, click [here](#).

> 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 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 the management of the various Air France employee shareholding funds, please visit the [Air France-KLM employee shareholding section of my website](#).*

> Reminder: Air France-KLM, employee shareholding operation planned

Air France-KLM has announced its intention to launch 'Partners for the future', an employee shareholding operation offered to around 75,000 eligible employees in 20 countries, to strengthen the bond between the group and its employees.

Around 95% of the airline's workforce will have the opportunity to participate. The proposed shares will be issued as part of a capital increase, involving a maximum of 3% of Air France-KLM's share capital.

According to the indicative timetable, the decision setting the subscription price will be taken on November 7, the subscription period will run from November 13 to 24, and the capital increase will take place on December 21, 2023.

My comment: *A clarification: Air France-KLM group employees in some twenty countries are eligible.*

In France, retirees and early retirees still holding assets in the PEE/PEG on the last day of the subscription period can subscribe but do not benefit from the matching contribution.

You can find all the information you need on the [dedicated website](#).

Details

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

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

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

See you soon.

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

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| François Robardet

former Director of Air France-KLM.

You can find me on my twitter account @FrRobardet

At the time of our election, Nicolas and 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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