

Air France-KLM sets new profitability targets

I Letter from François Robardet



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

former Director Air France-KLM

Representative of current and former employee shareholders PS and PNC

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Monday's Press Review

> Air France-KLM sets new profitability targets

(source Les Echos) December 14 - **Air France-KLM** will not be resting on its laurels in the coming years. After pedaling hard to mop up its losses and get back into the black, the group **aims to significantly improve its profitability by 2028, by generating an additional 2 billion euros in profits.** This is the objective of the new five-year strategic plan, unveiled on Thursday at an investor day.

Specifically, Air France-KLM plans to increase its operating margin from 7% to 8% over the 2024-2026 period, up from around 4% in 2019, **and to more than 8% between 2026 and 2028.** This would represent, on average, **some 400 million euros in additional profits per year.** And all this while continuing to renew its fleet, expand its low-cost subsidiary Transavia, grow its offer by 4% to 5% a year and reduce its carbon footprint.

The previous plan, launched by Benjamin Smith in 2019, already targeted a near-doubling of Air France-KLM's profitability by 2024, with an operating margin expected to reach 7% or 8% in 2024. This already entailed increasing operating profit by €1.350 billion from 2019 to 2024, including €900 million for Air France alone. "Despite strong headwinds, **these commitments have been met,**" Ben Smith was pleased to report. After returning to profit in 2022, Air France-KLM posted an operating margin of 7.8% for the first nine months of the year. The group should end

the 2023 financial year with an operating profit of around 2 billion euros, according to analysts' estimates, on sales of over 30 billion.

This spectacular growth is mainly due to fleet and network optimization, improved productivity coupled with workforce reductions, the absorption of losses in the domestic network and cargo... Not to mention the absence of any major strikes. Coupled with massive State support during Covid and a spectacular rebound in traffic and prices, these structural improvements have enabled Air France-KLM to outperform Lufthansa and IAG in 2022.

By 2023, however, IAG and Lufthansa had closed the gap and had both overtaken Air France-KLM in terms of profitability. In the first 9 months of the year, IAG posted a 13.5% margin, while the Lufthansa group achieved 8.5%. Hence the need for Air France-KLM to continue its efforts, if it is not to fall behind.

The new strategic plan therefore uses the same ingredients, continuing what has already been started. Starting with cost reductions and productivity gains. Fleet modernization alone, with 178 aircraft on order, should generate 430 million euros in additional operating profit by 2028, thanks to cost reductions of 10% to 15%.

Air France-KLM will invest 3 to 3.8 billion euros a year in aircraft purchases from 2024 to 2028, with the aim of having 81% latest-generation aircraft in 2030, compared with 21% in 2023 and 5% in 2019. Coupled with 10% sustainable aviation fuel in 2030, Air France-KLM hopes to reduce its CO2 emissions per passenger by 30% by 2030, compared with 2019.

The transfer of Orly slots to Transavia is expected to eliminate the last source of losses on the domestic network, estimated at 80 million euros a year. **The expansion of Transavia, which is** expected to grow by 6% a year compared with 4% for Air France, **should alone generate 400 million euros a year in additional profits by 2028.** "We are turning a source of losses - Orly - into an asset", Ben Smith emphasized.

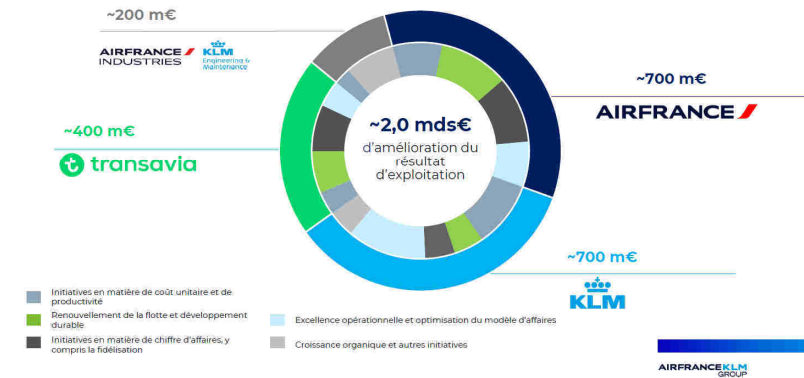
Compared with its predecessor, however, the new plan places greater emphasis on external growth operations, such as the ongoing acquisition of 19% of SAS. "An important gain for Air France-KLM and the Skyteam alliance", said Ben Smith. Air France-KLM also wants to further develop its ancillary activities, in cargo, with CMA-CGM, in maintenance, as well as by leveraging its base of loyal customers who are members of the Flying Blue program, which would already generate one billion euros a year in incremental revenues.

Will all this be enough to seduce investors and finance some 15 billion euros of investments and new acquisitions? Tonight, the stock market's response was rather positive, with AF shares up by almost 9% at the close. Nevertheless, **some of Air France-KLM's competitors are offering investors more attractive prospects. The IAG group is targeting 12% to 15%, while Lufthansa is aiming for 8% by**

2024.

My comment: During its strategy presentation to investors, the Air France-KLM group detailed the levers for improving its results. The infographic below appears on page 108 of this presentation, available on the [Air France-KLM website](#).

AMÉLIORATION PROGRESSIVE DU RÉSULTAT D'EXPLOITATION DU GROUPE DE 2,0 MDS€ AU COURS DE LA PÉRIODE



For each of the Air France-KLM group's components, the main areas for improvement are :

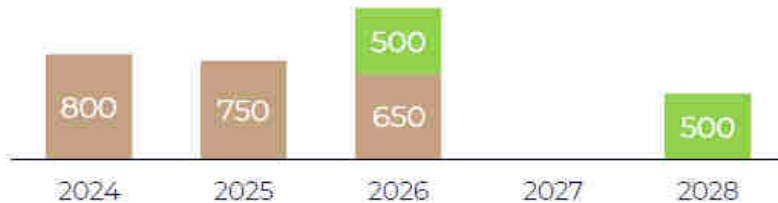
- **Air France :**
 - . Fleet renewal and sustainable development
 - . Sales initiatives, including frequent flyer programmes
- **KLM :**
 - . Unit cost and productivity initiatives
 - . Operational excellence and business model optimization
- **Transavia :**
 - . Fleet renewal and sustainable development
 - . Sales initiatives, including frequent flyer programmes
- **AFI KLM E&M :**
 - . Organic growth and other initiatives

The years 2024 and 2025 are those for which, according to observers, the targets are the most ambitious.

All the more so as the Air France-KLM group will have to face substantial bond repayment deadlines (see below).

Profil obligataire lissé sur la période

En m€



> Air France-KLM confirms its commitment to 10% sustainable fuels by 2030

(source AOF) December 13 - **By 2023, Air France-KLM Group airlines will have incorporated around 80,000 tonnes of SAF** (sustainable aviation fuels), i.e. "almost double the volume incorporated in 2022", **making the group "the world's leading SAF user for the second year running"**. Throughout the year, the Group continued its work to "secure future volumes" of SAF, with a view to achieving its objective of incorporating at least 10% SAF by 2030. Air France-KLM signed supply contracts and memorandums of understanding (MoUs) with SAF producers around the world.

Air France-KLM has also invested directly in production units, confirming its commitment to supporting the emergence of a sustainable aviation fuel industry in Europe and worldwide.

My comment: Air France-KLM has set itself a target of incorporating 10% sustainable aviation fuels by 2030, well above the 3.9% threshold imposed by the European authorities.

AIR FRANCE-KLM EST LEADER EN MATIÈRE D'UTILISATION DU SAF AVEC AU MOINS 10% D' INCORPORATION DE SAF EN 2030



	SAF OBLIGATOIRE EUROPÉEN APPLIQUÉ À AIR FRANCE-KLM <small>PRÉVISION DU TAUX DE MÉLANGE MOYEN</small>	ENGAGEMENTS EXTERNES AIR FRANCE-KLM
2022		7 ^e cons. de SAF mondial (17% de la prod.) 0.6% TAUX D'INCORPORATION SAF
2023		7 ^e cons. de SAF mondial (16% de la prod.) 1% TAUX D'INCORPORATION SAF
2025	1.2%	2.2% TAUX D'INCORPORATION SAF -10% CO2/RTK (vs'19)
2030	3.9%	Min 10% TAUX D'INCORPORATION SAF -30% CO2/RTK (vs'19) – SBTi
2035	13%	
2050	46%	Zéro émissions nettes de carbone

> Will African airlines be able to fly normally in 2024?

((source Jeune Afrique) December 12 - On December 8, **Kenya Airways** threw a spanner in the works: in the run-up to the festive season, traditionally a busy time for carriers, the Kenyan flag carrier **indicated that "due to difficulties in the global spare parts supply chain", its flight schedule "could be disrupted"**.

And with good reason: this shortage is causing the Kenyan group's aircraft to be grounded for maintenance. **This tension in the supply chain concerns not only Kenya Airways, but all airlines.**

(...)

For IATA, this "terrible" situation raises issues of both access to parts and their cost. The issue is not new: **"The sector became tense in the years 2019-2020, and the situation has only worsened in the context of the post-Covid recovery"**, **deciphers Jean Adadevi, consultant at Lufthansa Systems.** According to him, the giants of the sector - notably Lufthansa Technik and Air France KLM Industries - are facing staff shortages that are forcing them to review their production rates... and to concentrate on the biggest players, which African airlines are not.

Olivier Andries, CEO of Safran, the world's leading supplier of spare parts alongside General Electric, also points to difficulties with titanium and steel supplies, but claims to have put protocols in place to increase production. Even so, supply chains will remain tense "well into 2024", he told AJPAE, the French association of aerospace journalists, in September.

(...)

On the continent, only Ethiopian Airlines - and, by ricochet, Asky, which delegates the maintenance of its aircraft to it - **are relatively spared**, due to the Ethiopian carrier's local production capacities.

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

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

He presents several energy transition scenarios.

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

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

> **IAG seeks EU antitrust clearance for acquisition of Air Europa**

(Reuters source) December 11 - **IAG**, which owns British Airways and Iberia, **has said it is prepared to offer an ambitious and wide-ranging package of remedies to address the European Commission's concerns about the deal**, and is committed to closing the transaction as soon as possible in 2024. "

Today we notified the European Commission of our proposed acquisition of **Air Europa**. The transaction will benefit consumers and the wider Spanish economy, and improve Madrid's competitiveness compared to other European hubs," IAG CEO Luis Gallego said in a statement.

In February, IAG said it had agreed to pay 400 million euros (\$429.80 million) to Spanish company Globalia for the 80% of Air Europa it did not already own.

IAG is likely to sound out various rivals, both European and non-European, to see if they are interested in the corrective measures. Airline mergers usually involve giving up airport slots to meet competition concerns, as well as access to frequent flyer programs.

My comment: Iberia's offer to buy Air Europa dates back to November 2019.

When Iberia made its intention to acquire Air Europa official in August 2022, the European Commission entered into discussions with the IAG group.

The European Commission considered that the transaction, as proposed, would give rise to competition concerns on some 70 routes on which Iberia and Air Europa were the main or even sole operators, notably between Spain and America.

The outcome of negotiations between the European Commission and IAG to resolve these issues should be known shortly.

> **Privatization of TAP Air Portugal may be delayed**

(source AFP) December 16 - As the Portuguese government embarks on the process of privatizing TAP Air, it will be hard pressed to meet its commitments.

The original timetable for the privatization of state-owned TAP Air Portugal is likely to be delayed by the political crisis in Portugal, which led to the call for early legislative elections in March, TAP CEO Luis Rodrigues said on Friday.

Privatization, launched by the Portuguese government in September, "**is possible in 2024, but it will be difficult** (...) the timetable seems complicated", said the TAP executive on the sidelines of a meeting with the foreign press at the company's Lisbon headquarters.

Portugal plunged into political crisis after the resignation of Socialist Prime Minister Antonio Costa, whose name was implicated in a case of influence peddling, leading to the calling of early legislative elections on March 10. "**We won't have a new government until the end of April or May**", so privatization in 2024 "is not impossible, but I wouldn't bet on it", Mr. Rodrigues told AFP.

(...)

No comment

> **EasyJet launches its tour operator in France to confirm its relaunch**

(source Challenges) December 14 - Every winter, it's the same anti-depression ritual: **thousands of French people** flock to the Internet to book their next getaway in the sun. **This year, they'll discover a new tour operator... EasyJet Holidays.** On December 13, the low-cost airline announced the arrival in France of its all-inclusive travel service. The service offers air + transfer + hotel packages from 16 French airports to 3,000 accommodations, starting at 399 euros for seven nights. EasyJet's CEO himself, Johan Lundgren, came up with the idea, **shortly after his appointment at the end of 2017. No surprise: he came from tourism giant TUI.** "I discovered that around 20 million of our annual passengers, a quarter of the total, booked a hotel in addition to the flight," says the Swede. It was as if we had a pile of money on the table that we didn't know about." **Hence the idea of launching a tour operator. Launched in 2019 in the UK but halted by the pandemic, it was in 2022 that the service was truly inaugurated...** and the "pile of money" became palpable: on November 28, the annual results revealed that in one year, EasyJet Holidays had generated 142 million euros in profits. That's a quarter of the airline's annual pre-tax profit of 530 million. Better still: for the first time after three years of losses, EasyJet is making money again, while its sales jump 42% to 9.51 billion euros.

My comment: *EasyJet Holidays competes with Transavia Holidays, the platform launched by Transavia France in August 2021.*

It should be noted that, as part of the presentation of the Air France-KLM strategy, it was indicated that Transavia Holidays was intended to "increase the share of the leisure portfolio".

> **Turkish Airlines orders 220 Airbus aircraft, including 70 A350s**

(source Journal de l'Aviation) December 15 - **The first part of Turkish Airlines' giant order has been received.** Expected since the spring, it concerns the airline's future Airbus fleet. The company has made a firm commitment to acquire 220 aircraft from the European manufacturer, divided between 70 A350 family aircraft and 150 A321neo. In detail, **Turkish Airlines has signed a firm order for 50 A350-900s (in addition to the four ordered in July and the ten ordered in September), fifteen A350-1000s and five A350Fs. In addition, purchase rights have been secured for a further twenty A350-900s and five A350Fs.**

In parallel, the company has signed agreements with Rolls-Royce for the maintenance and supply of spare engines for the fleet.

The agreement for the acquisition of the A321neo also includes purchase rights for a further 100 aircraft.

These contracts bring Turkish Airlines' order book with Airbus to 504 aircraft, of which 212 have been delivered.

These Airbus aircraft will enable Turkish Airlines to expand its fleet, as it aims to double its capacity by 2033 and exceed 800 aircraft in service. In April, the company indicated that it planned to order 600 aircraft, divided between 200 wide-body jets and 400 single-aisle aircraft. Other contracts are still to come, and the Boeing 737 MAX and 787 are still in the running.

***My comment:** While most European airlines place orders to replace their aging fleets, this is not the case for Turkish Airlines.*

Clearly, the Turkish national airline is not subject to the same environmental constraints as its European competitors.

Sustainable aviation special

> Less long-lasting condensation trails by modifying aircraft altitude

(source DPA) December 11 - **Long-lasting aircraft contrails can often be avoided by a slight change in flight altitude.** This was demonstrated by collaborators from the German Aerospace Center (DLR) in Koln and Eurocontrol's Maastricht Upper Area Control Centre (MUAC) in an experiment conducted during the Corona pandemic. According to DLR and MUAC, this is an important step towards significantly reducing the long-term climate impact of air traffic.

For their research, the researchers used the situation during the 2021 pandemic, when there was less air traffic. During this period, they studied the formation of contrails in the upper airspace over northwest Germany and the Benelux countries.

According to DLR, contrails form when aircraft engines discharge soot particles which, at typical flight altitudes, often act as condensation nuclei for small drops of water. These then congeal into ice crystals, visible in the sky as white contrails. According to the authors of the study, whether or not this happens, and to what extent, depends among other things on the air temperature and humidity on the flight route.

When weather forecasts predicted the presence of long-lasting contrails at the usual flight altitude, the route was maintained on some days, while on others an "avoidance procedure" was implemented. In concrete terms, this meant that the aircraft's flight

altitude was altered upwards or downwards by around 660 metres.

The researchers used satellite images to check whether or not long-lasting contrails had formed. Flights made on days when air traffic was not disrupted were used as a reference. The result showed that long-lasting contrails were indeed less frequent when flight altitudes were changed, reports the team of Robert Sausen from DLR's Institute of Atmospheric Physics and Rüdiger Ehrmanntraut from MUAC in the "Meteorologische Zeitschrift".

However, changes to flight routes generally result in higher CO2 emissions. Itineraries must therefore be chosen in such a way as to reduce the overall climatic impact of the flight concerned, writes DLR. It must also be ensured that all air traffic can continue to operate safely.

***My comment:** The drop in air transport activity during the Covid period has made it possible to test various ways of reducing CO2 emissions.*

In addition to the possibilities of reducing condensation trails, flights in squadrons, trajectory modification and continuous descent were evaluated.

In my [letter n°835 of November 22, 2021](#), you will find various infographics produced by the OMNES team, including this one and the one in the next commentary.



> Sustainable aviation fuels: new €200 million call for projects

(source AOF) December 15 - "**Support projects for the industrial production of sustainable aviation fuels in France**". This is the aim of the new call for projects launched this Friday by ministers Agnès Pannier-Runacher (Energy Transition), Roland Lescure (Industry) and Clément Beaune (Transport), with Bruno Bonnell, Secretary General for Investment, in charge of France 2030. With a **provisional budget of up to 200 million euros, this scheme follows the announcement made by the French President at the Paris Air Show in June 2023.**

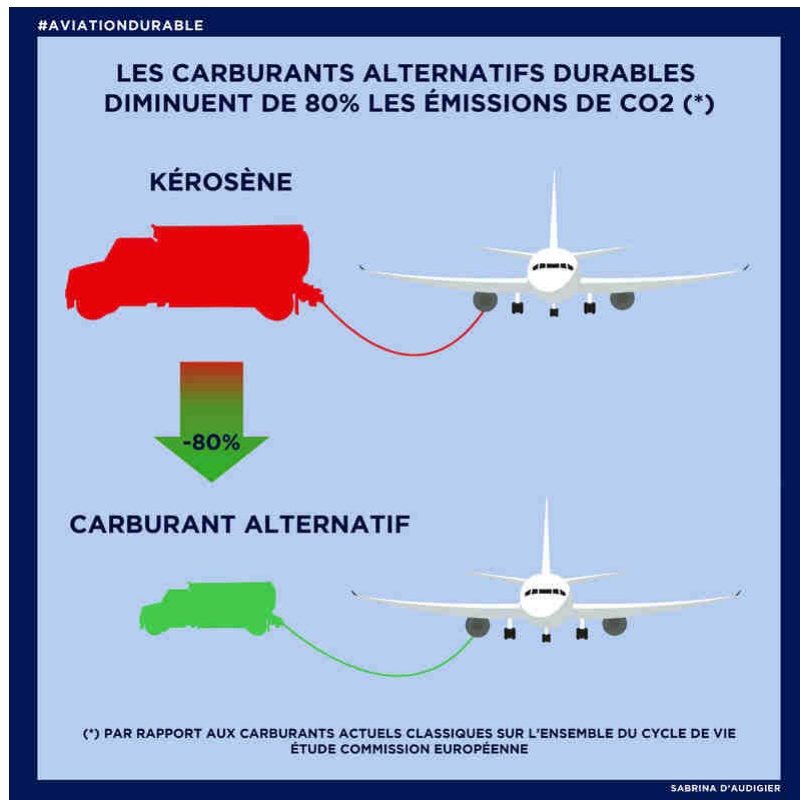
At that time, Emmanuel Macron pledged the State's support for the development of a national industry capable of producing 500,000 tonnes per year by 2030.

According to the French government, the aim is to "enable the aviation sector to achieve its objectives of reducing greenhouse gas emissions and decarbonizing by 2050", while preserving the country's energy independence and creating jobs in the regions in conjunction with our agricultural and waste industries.

Sustainable fuels, whether biofuels derived from biomass or synthetic fuels (e-fuels), can reduce greenhouse gas emissions by 70% to 95% over their entire life cycle, compared with fossil kerosene.

***My comment:** This call for projects responds to the concerns of airlines about the lack of sustainable fuel available to them.*

If the French industry succeeds in producing 500,000 tonnes of sustainable aviation fuels by 2030, French airlines will be able to meet their targets in this area.



End of press review

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

Air France-KLM shares closed at **13.35 euros** on Monday December 18. It is **up** this week by **+9.27%**.

Since the beginning of November, the Air France-KLM share price has risen by over **22%**.

It stood at 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 **17.19 euros** (it was 15.0 euros at the beginning of January). The highest price target is 23.00 euros, the lowest 9.50 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.

No comment

> [Fuel price trends this](#) week

The price of a barrel of Jet Fuel in Europe is up +\$2 to \$107. It was \$94 at the end of June, and \$79 before the outbreak of war in Ukraine.

Brent crude oil (North Sea) is **up \$1 to \$77 a 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: *The spread between Jet Fuel in Europe and Brent crude oil was around \$15 before the conflict in Ukraine. In 2022, at the start of the Ukrainian conflict, the spread was close to \$50.*

This week, it is virtually stable, rising from \$29 to \$30.

From February to July this year, the spread had returned to reasonable levels (between \$12 and \$25). Since August, it has systematically exceeded \$30.

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

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

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

My comment: If you'd like to find out more about how the various Air France FCPEs are managed, please [visit the Air France-KLM Employee Share Ownership section of my website](#).

Details

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

Please feel free to react to this press review or to send me any information or thoughts you may have to 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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