

Air France-KLM reports record results, a return to earth in sight



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)

Employee and former employee representative

PS and PNC shareholders of Air France-KLM

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Monday's Press Review

> Air France-KLM reports record results, a return to earth in sight

(source Les Échos) February 29, 2024 - After a year of return to profit in 2022, **Air France-KLM quite simply achieved the best financial results in its history in 2023.**

(...)

The Group continued to capitalize on strong global demand for air transport, with passenger traffic returning to 90% of its pre-Covid level, i.e. some 93.5 million passengers, and unit revenue up 4.5%.

Air France particularly benefited, with operating income more than doubling to 1.08 billion euros, on sales up 13.7% to 18.518 billion. For the first time, this enabled the company to achieve an annual margin of 5.9%, higher than the Group's 5.7%.

Air France-KLM also succeeded in restoring its financial position, returning to positive equity of 500 million euros. This is the result of various capital increases and refinancing operations carried out in 2022 and 2023, including the latest **with the Apollo investment fund, for a total of 1.5 billion euros, and a worldwide employee shareholding plan.**

(...)

However, Air France-KLM has no interest in resting on its laurels in 2024. For while annual results are as good as expected, **those for the fourth quarter show a clear downturn.** Operating income and net income even slipped back into the red, with a

negative margin of 0.8% and a net loss of 256 million euros in the fourth quarter.

Unit revenues fell by 1.2%, while costs continued to rise, notably personnel costs, up by 14% in the fourth quarter and 19% over the year. CFO Steven Zaat also confirmed that he was still not planning to **pay a dividend this year**. Instead, profits will be used to continue reducing debt, which stood at 5 billion euros at the end of December.

(...)

In addition, **cargo business, which flourished during the crisis, continues to decline sharply**, with sales down 30% in the fourth quarter.

(...)

But as far as **traffic growth is concerned, it's more a case of normalization**, after the two-year rebound that followed the Covid crisis. Traffic has not yet returned to its 2019 level, when Air France-KLM totaled over 104 million passengers, but the airlines have begun to ease off on the increase in offer. After the 9.5% increase in 2023, Air France-KLM is forecasting 5% additional capacity this year.

(...)

My comment: The 2023 annual results are the best ever recorded by the Air-France KLM group.

The Group's net debt is down, but remains high at 5 billion euros.

Net debt means financial liabilities (13.3 billion euros) minus net cash (8.3 billion euros).

The Air-France KLM group's quasi-equity, obtained in particular through the transactions with Apollo, amounts to 3.5 billion euros.

Although they involve the payment of interest, quasi-equity is not considered debt for accounting purposes.

PROFIL DE REMBOURSEMENT DE LA DETTE AU 31 DÉCEMBRE 2023

Profil du remboursement de la dette⁽¹⁾
En m€



(1) Excluant les paiements de dettes des locations opérationnelles, les emprunts perpétuels de KLM et les quasi-fonds propres perpétuels d'Air France

=== The above table and figures are taken from the information documents on the

Air-France KLM Group website ===

However, the negative results recorded for the fourth quarter of 2023 surprised investors and led to a 10% fall in the share price.

We'll have to wait a few days to compare these results with those of Lufthansa Group and IAG.

For 2024, there are still many sources of uncertainty:

- geopolitical instabilities in Africa, Israel and Ukraine (resulting in flight bans over Russia and certain African countries),

- spare parts supply difficulties,

- labor shortages at major airports (Schiphol in particular). A worsening of these difficulties, not currently envisaged, could have an impact on the 2024 results.

Nevertheless, given the current state of bookings (against a backdrop of increased capacity), we can expect Air France-KLM's results to improve.

It should be noted that the fleet modernization policy, initiated before the health crisis and maintained since, is helping to improve results and achieve the Air France-KLM group's decarbonization objectives.

> Set to become Air France-KLM's future cash machine, Transavia still loses a lot of money

(source La Tribune) February 29, 2024 - (...) **Transavia** - which consists of Transavia Holland and Transavia France - **is still not profitable.**

(...)

Transavia France and Transavia Holland posted a cumulative loss of almost 100 million euros last year, barely better than 2022. Their margin was -3.7%.

Even if exceptional events had an impact on the end of the year, such as the crisis in the Middle East, which affected traffic to Egypt, Israel and Jordan, or the bad weather in the Netherlands, **the problem is more structural** for the moment.

(...)

However, business development is well underway. Both airlines have succeeded in significantly increasing their traffic, which will reach 21.5 million passengers in 2023 (+17%), and even more so their sales (+19%). These now exceed 2.6 billion euros. This puts Transavia ahead of cargo and maintenance, and makes it the Group's second largest division after network carriers Air France and KLM.

This combination has enabled Transavia to improve its load factor and gradually catch up with the leading companies of the year, despite a complicated last quarter. In fact, it has succeeded in improving its unit revenue.

This should accelerate further in 2024. For the moment, **Transavia is maintaining a certain commercial dynamism.**

(...) In the

meantime, **Transavia will play on other levers.** Benjamin Smith affirms that the action plan to develop Transavia's revenues is now well in place, with the first results already obtained thanks to network optimization. Other measures, **such as the introduction of fee-paying cabin baggage** from April (excluding the highest fare classes), should boost Transavia's ancillary revenues and profitability

(...)

This is also the case for **dynamic pricing of fee-paying options** and enhanced Flying Blue functionalities for Transavia passengers, which will arrive in the second quarter.

The problem lies more in unit costs. Admittedly, they are rising more slowly than unit revenues, and the gap is narrowing, but the trend is not yet strong enough to enable Transavia to turn the corner for the time being. Containing the rise in unit costs will therefore be one of the major challenges if Transavia is to succeed. (..)

To remedy these cost issues, **Transavia is counting heavily on the gradual arrival of its new aircraft**, the A320 NEO in France, and the A320 NEO and A321 NEO in the Netherlands. (..)

My comment: *The positioning of the Transavia brand in relation to the Group's other brands is working well: this is reflected in high load factors (89.1%, up 3.9% on 2023).*

A return to profitability will require lower unit costs, aided by the renewal of the fleet of the two Transavias (France and the Netherlands).

The choice of aircraft from the Airbus A320 NEO family, made after the first accidents involving B737 MAXs, is proving judicious.

The other lever for a return to profitability is the development of ancillary services, more acceptable to customers of low-cost airlines than those of premium airlines.

Regarding the opening of Transavia France bases abroad, Ben Smith indicated that "We will look at what the opportunities are in the future, but not before 2027-2028".

> **Chinese airlines allowed more flights to the U.S.**

(source Air Journal) February 28, 2024 - **Chinese airlines will be allowed to increase their weekly round-trip flights to the U.S.** to 50 from March 31, up from the current 35, the U.S. Department of Transportation (DoT) said Monday, bringing the market down to about a third of its pre-pandemic level.

The approval "represents an important step in the continued normalization of the U.S.-China market in anticipation of the 2024 summer traffic season," the DoT said. (...) It's worth

noting that Reuters reported last June that **newly-approved Chinese flights to the US do not fly over Russia, giving them shorter flight times and a fuel advantage** over their US rivals stuck in Russian airspace.

The US Department of Transportation said it was engaged in a productive dialogue with China's aviation regulator with a view to "implementing a roadmap for a gradual and broader reopening of the U.S.-China air services market and a gradual and predictable return to the capacity rights" specified under a U.S.-China agreement. **China is also keen to boost tourism and stimulate the world's second-largest economy after a severe slowdown during the pandemic.**

***My comment:** The measure mentioned in the article is diplomatically important. However, it will have a limited commercial effect; traffic between China and the USA will only reach a third of pre-COVID traffic levels.*

This type of agreement shows the extent to which air transport, despite its liberalization, remains subject to bilateral agreements between countries or groups of countries.

Note: With a view to boosting tourism, China this year granted visa-free travel to a number of countries, including France.

> **Boeing goes to battle to put safety back at the heart of production**

(source Journal de l'Aviation) February 27, 2024 - Boeing's future within the great duopoly of global commercial aviation has undoubtedly been at stake in recent weeks, and the four missing bolts on the door cap of Alaska Airlines' 737-9 only serve to illustrate what seems to have been **a long drift in the American aircraft manufacturer's production processes** over the last few years.

This is not a problem that simply concerns the 737 MAX program in Renton, although Boeing's ill-fated re-engined single-aisle jet is obviously in the spotlight. Rather, it's a matter of **restoring a true safety culture to the entire Boeing production system**, and this will be no mean feat given that it goes so far beyond the simple scale of management or group leadership.

It concerns all employees of the American aircraft manufacturer, wherever they may be, whatever their speciality, but also its suppliers.

The FAA has just published a final report compiled by a group of experts*, at the request of the US Congress, on the state of the ODA (Organization Designation Authorization) program granted by the regulator to Boeing. The report is clearly critical of **the erosion of the safety culture within the American aircraft manufacturer**, a trend older than the accidents involving the two 737 MAXs in 2018 and 2019. In particular, the report points to shortcomings in the procedures implemented internally with its SMS (Safety Management System), with procedures

deemed "complex and constantly evolving" and leading to "confusion among employees". The study also revealed "a lack of awareness of safety-related measures at all levels of the organization, and in particular within the various production sites and teams".

Obviously, heads had already rolled long before the report's conclusions, as in the very recent dismissal of the 737 program's general manager in Renton, after "nearly 18 years of dedicated service to Boeing", replaced by Katie Ringgold, former vice-president in charge of single-aisle delivery operations.

(...)

But the panel of experts commissioned by the FAA shows that it's not just about people, with "a disconnect between Boeing's top executives and others in the company regarding safety policy".

Boeing now has 6 months to put safety back at the heart of its production toolbox, with changes in mentality that will have to go far beyond compliance with new rules or monitoring these improvements.

Last year, Airbus inaugurated its Safety Promotion Centre at the heart of its Blagnac operations, an initiative designed to promote safety among all its teams in order to improve the safety of flight operations for its commercial aircraft more generally. The idea was to foster a deeper commitment to safety among its employees, making it a real state of mind, even away from the assembly lines. Perhaps a model to follow in Seattle?

***My comment:** In my opinion, the departure of the head of the B737 MAX program is a necessary but not sufficient condition for resolving the problems at Boeing.*

The U.S. Federal Aviation Administration (FAA) had left part of the B737 MAX certification process to Boeing.

With its new requirements, the FAA is stepping up to the plate and resuming the role it had abandoned in recent years.

In so doing, the FAA is endorsing the public criticism voiced by several airlines, notably Ryanair for the B737 MAX and Emirates for the B777X long-haul aircraft.

Boeing will have to devote considerable resources to upgrading its ill-fated B737 MAX.

In the race to produce the carbon-free single-aisle aircraft of the future, Boeing is starting from a disadvantage compared with Airbus.

In the short term, this handicap puts Boeing at a disadvantage with regard to competition from Europe ... but also from China.

LAST MINUTE: The difficulties encountered by Boeing's 737 program have forced United Airlines to review its plans. The American company will have to get through 2024 by foregoing delivery of around 100 aircraft, which will entail adjustments such as postponing the withdrawal from service of some currently active aircraft. (source Journal de l'Aviation)

> **China's COMAC to present its C919 and ARJ21 aircraft in five Southeast Asian countries**

(source Reuters) February 27, 2024 - Chinese state-owned aircraft manufacturer **COMAC will conduct flight demonstrations of its C919** and ARJ21 jets in five Southeast Asian countries, it announced on Tuesday, **to pave the way for future international sales.**

(...) "The main objective of these flights is to demonstrate the aircraft's good performance and lay the foundations for future market expansion in Southeast Asia", the company added.

China has said it wants to achieve greater international recognition for the C919 this year, including seeking certification from the European Union's Aviation Safety Agency. To date, the jet has received more than 1,000 orders, mainly from Chinese airlines and aircraft leasing companies.

My comment: At present, the COMAC C919 medium-haul twinjet has only been certified for domestic flights in China.

The next step is to obtain certification of the aircraft from the European (EASA) and US (FAA) authorities.

China, which has invested heavily in this program, is now looking to sell its new aircraft abroad, starting with neighboring or Sinophile countries.

Airbus' single-aisle orders are far from threatened by this new market entrant.

On the other hand, Boeing's unreliable B737 MAX could suffer from competition from China's C919.

> **Patrice Vergriete, Minister of Transport: "Mobility must be the subject of a citizens' convention".**

(source Le Monde) March 1, 2024 - Passe rail, night trains... are less of a priority for **the new Minister of Transport, Patrice Vergriete**, than for his predecessor, Clément Beaune. The President of the Dunkirk Urban Community (Nord) calls for **the return of a regional planning policy** and proposes a citizens' convention, notably

on the future of freeway concessions.

As Minister of Transport, what is your priority: trains, roads, reducing air traffic?

It's the mobility of all French people. I'm always wary of speeches that say we should travel less, or stop going abroad. Mobility means access to employment, social ties, openness to others and fundamental freedom. Of course, **there is such a thing as involuntary mobility, in the** image of the person who travels 50 kilometers to get to work, or who has to go out of his or her way to pick up an administrative document. **It's this kind of mobility that needs to be reduced.**

And what about air travel?

Should we ban vacations in Tunisia or Greece? Of course, we can always question the relevance of traveling thousands of kilometers to meet up in a club with people who are similar to us, but travel also allows us to open up to others and discover other cultures. I come from a modest background, and I'd never been abroad before I was 18. I know just how much it shapes people's minds. In Dunkirk, we've launched a program that allows all young people to go abroad before the age of 25. **I'd much rather work on decarbonizing air travel than prevent it. I'm very afraid of a world where people turn in on themselves.**

(...)

My comment: *With the change in the Minister of Transport, there has been an evolution in the discourse towards our sector.*

He recalls the important role of air transport in bringing people together, in the image of the Air France-KLM group's raison d'être: "At the forefront of more responsible European aviation, we bring people together to build the world of tomorrow."

He is in phase with the stakeholders of air transport in France to accelerate the decarbonization of air travel.

Stock market press review

> AIR FRANCE-KLM: Bernstein positive on the case

(source DPA) March 1, 2024 - Bernstein analyst Alexander Irving maintains his buy rating on the stock. The target price remains unchanged at EUR 17.50.

My comment: *In the eyes of Bernstein's analyst, the announcement of weaker-than-expected fourth-quarter 2023 results did not overshadow the good full-year results.*

End of press review

> Air France-KLM share price trend

Air France-KLM shares closed at **10.23 euros** on Friday March 1. This week, it is **down by a very sharp -10.41%**, following the announcement of mixed results for the fourth quarter of 2023.

Since the beginning of the year, the Air France-KLM share price has lost 25%.

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 16.33 euros (it was 15.0 euros at the beginning of January 2023). 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.

My comment: Air France-KLM's share price fell sharply this week.

For most investors, the announcement of weaker-than-expected fourth-quarter 2023 results overshadowed the good full-year results.

> Fuel price trends this week

The price of a barrel of Jet Fuel in Europe is down \$2 to \$109. It was \$94 at the end of June, and \$79 before the outbreak of war in Ukraine.

Brent crude oil (North Sea) is up +\$2 to \$84.

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

This gap is down to \$25 this week.

From February to July 2023, the spread had returned to reasonable levels (between \$12 and \$25). Since August 2023, the spread between Jet Fuel in Europe and a barrel of Brent crude oil 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 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](#).*

Details

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

You can react to this press review or send me any information or thoughts that will help me to keep you better informed.

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

See you soon.

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| François Robardet

Representative of PS and PNC employees and former employees who are Air France-KLM shareholders.

You can find me on my twitter account @FrRobardet

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

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

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