

SAS to switch to SkyTeam



I Letter from François Robardet

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Employee and former employee representative

PS and PNC shareholders of Air France-KLM

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Monday's Press Review

> Partially acquired by Air France-KLM, SAS to switch to SkyTeam in the second quarter of 2024

(source Air Journal) March 5, 2024 - **The Scandinavian flag carrier, which founded the Star Alliance in 1997 along with four other airlines, will soon be switching alliances** following its acquisition by Air France-KLM.

Air France-KLM is continuing negotiations to take a majority stake in Scandinavian airline SAS, which has been under Chapter 11 bankruptcy protection since July 2022, and SAS is scheduled to change airline alliance **in the second quarter of 2024 to join SkyTeam, of which Air France-KLM is a member.**

This decision will fundamentally change the dynamics of airline alliances, since SAS founded Star Alliance on May 12, 1997, together with Air Canada, Lufthansa, Thai Airways International and United Airlines. And looking at transatlantic routes, SkyTeam includes Delta Airlines and Virgin Atlantic.

(...)

My comment: Following the current transaction, Air France-KLM will hold a 19.9% stake in SAS (see my [letter n°937](#)). This is a significant level, which justifies SAS joining the Skyteam alliance.

A note on the three main alliances

Star Alliance, Oneworld and SkyTeam. These strategic groupings of airlines were created to offer travelers a wider global network, mutual benefits through frequent flyer programs and enhanced connectivity.

Star Alliance, founded in 1997, is the largest alliance with over 25 members, including United Airlines, Lufthansa, Air Canada and Singapore Airlines. The alliance covers over 1,300 destinations in nearly 200 countries, offering travelers easy access to a wide range of routes and services.

Oneworld, created in 1999, brings together airlines such as American Airlines, British Airways, Cathay Pacific and Qantas. It serves over 1,000 destinations in some 170 countries. Oneworld stands out for its commitment to service quality and consistency of customer experience, making it the preferred choice for frequent flyers.

SkyTeam, formed in 2000, includes carriers such as Delta Airlines, Air France, KLM and Korean Air. With a strong global presence, SkyTeam covers more than 1,150 destinations in over 175 countries. The alliance focuses on improving operational efficiency and synchronizing services to deliver a seamless travel experience. (Source Air Journal)

> IAG posts solid results for 2023 and is optimistic for 2024

(Investing source) March 3, 2024 - **International Airlines Group (IAG)**, the parent company of British Airways, Iberia and other airlines, has reported a solid financial performance for the full year 2023. CEO Luis Gallego **announced a full-year operating profit of 3.5 billion euros**, a significant increase on 2022's 1.2 billion euros and surpassing 2019's 3.3 billion euro mark.

Operating margin reached 11.9%, almost at pre-pandemic levels. IAG's strategic initiatives, including capacity growth and transformation efforts, contributed to this success. The Spanish brands, in particular Iberia and Vueling, as well as IAG's frequent flyer program, performed well.

The company also made significant strides in sustainable development, reducing carbon intensity and winning a sustainable jet fuel contract. Looking ahead to 2024,

LAG is confident in its ability to generate substantial free cash flow and maintain a fortified balance sheet, supported by a comprehensive transformation program and customer-focused investments.

My comment: IAG is returning to an operating margin close to 12% in 2023, a level unattainable by Air France-KLM in the short term.

Despite this, IAG's share price is not recovering (read an expert's opinion further on in the stock market press review).

The IAG group is penalized by high inflation in Great Britain as a consequence of the Brexit. It has had to raise salaries sharply.

Like Air France-KLM, the IAG group has heavy liabilities on its balance sheet. It remains vulnerable in the event of a cyclical downturn or unfavorable economic parameters.

> A first for Lufthansa: all Group airlines now profitable

(source La Tribune with AFP) March 7, 2024 - It's been a good year for the **Lufthansa** Group. This Thursday, the German air transport giant **unveiled** results showing **an operating profit of 2.7 billion euros for 2023, compared with 1.5 the previous year**. As a result, the adjusted operating margin improved to 7.6% (previous year: 4.9%).

"For the first time, **all airlines reported an operating profit**," said the group, which includes Austrian, Swiss, Eurowings and Brussels Airlines alongside Lufthansa, in a statement.

By comparison, for Air France-KLM, which unveiled its results on February 29, the figure was 1.7 billion euros in 2023. This figure is nevertheless more than half a billion euros higher than in 2022, and above all represents a new record, surpassing that achieved in 2017.

The British airline group IAG, for its part, reported a rise in operating profit from €1.3 billion in 2022 to €3.5 billion last year. Lufthansa's **net profit more than doubled** (+112% year-on-year) **to €1.7 billion** from €790 million in 2022, making it "the third-best result in history", according to the statement. Sales also rose to 35.4 billion euros (30.9 billion in 2022). On the other hand, earnings were slightly below the estimates of the financial tool Factset, which had forecast a net profit of 1.82 billion euros.

If **Europe's leading airline group is able to** post such results, it's because **demand has continued to grow since the** end of the pandemic. Indeed, demand has risen sharply, with passenger numbers up 20% year-on-year to 123 million, closing in on the pre-Covid record of 145 million passengers in 2019. All the more so as the group explains that it has raised ticket prices by 6% year-on-year, enabling it to generate such a high overall operating margin.

And **for 2024, it expects passenger revenues to remain stable or fall slightly as demand normalizes**.

On the freight side, demand which soared during Covid, helping to keep the Group afloat, "has largely normalized in 2023". Cargo business generated operating income of €219 million last year.

As a result, **Lufthansa has announced a return to dividend payments for the first time since the pandemic**. A dividend of 0.30 euros per share will be proposed at the Annual General Meeting on May 7.

(...)

My comment on Lufthansa's results: The title of the article speaks for itself; all Lufthansa Group companies are profitable, while Transavia is unable to break even for the reasons given in the previous letter.

My comments on the comparative results of Air France-KLM, Lufthansa Group and IAG:

Caution should be exercised when comparing the results of Air France-KLM, Lufthansa Group and IAG, which are not equally exposed to the various ongoing conflicts.

All three groups have been impacted by the war in Ukraine (Russian overflight ban) and by events in the Middle East (drop in business).

But only Air France-KLM has been impacted by conflicts in Africa (ban on flights over several countries, including Mali, Niger and Burkina Fasso).

By contrast, British Airways generates most of its business on North Atlantic routes, which were not affected, giving it a clear advantage.

2023	Chiffre d'affaires	Résultat d'exploitation	Marge	Résultat net	Dette nette
Air France-KLM	30,0	1,7	5,70%	0,9	5,0
Groupe Lufthansa	35,4	2,7	7,60%	1,7	5,7
Groupe IAG	29,4	3,5	11,90%	2,7	9,2
	milliards	milliards		milliards	milliards

The table above provides a quick comparison of the 2023 results of the three main European long-haul groups.

Of all the European airline groups, Lufthansa Group appears to have the healthiest financial situation. The proof? Lufthansa plans to pay a dividend to its shareholders.

In 2023, the sales figures of the three main European groups were close. This is not the case for their operating margins.

Lufthansa's operating margin is a third higher than Air France-KLM's, while IAG's is

double that of Air France-KLM.

Should we be worried about Air France-KLM?

In addition to the geopolitical events mentioned above, the Air France-KLM group was penalized in 2023 by restrictions on activities at Schiphol. It also had to cope with the rapid ramp-up of Transavia France.

For both Schiphol and Transavia France, the outlook for 2024 is brighter.

For Air France-KLM, as for its European competitors, 2024 will be a crucial year. Investors will be paying close attention to the ability to maintain high prices without losing customers.

As a reminder, operating margin (the ratio between sales and operating income) is a key indicator for comparing companies in the same business sector. The higher the operating margin, the greater the company's capacity for investment and debt repayment.

> EU antitrust authorities suspend their investigation into IAG's takeover bid for Air Europa for the time being

(source Reuters) March 4, 2024 - Last month, **EU antitrust authorities temporarily halted their investigation into** British Airways owner IAG's €400 million (\$434.28 million) takeover bid for Air Europa, according to an update from the European Commission published on its website on Monday.

The European competition authority was preparing to issue IAG with **an antitrust warning over the deal, a sign that it wanted the carrier to strengthen the remedies** it submitted last month, sources told Reuters.

"We can confirm that on March 1, 2024, the Commission stopped its investigation into IAG's acquisition of Air Europa, with effect from February 9, 2024," a Commission spokesman said, adding that the regulator had requested certain data.

"Once the missing information is provided by the parties, the clock is restarted and the legal deadline for the Commission's decision is then adjusted accordingly."

The previous deadline set by the Commission for ruling on the deal was June 7.

IAG and Air Europa abandoned a previous agreement in 2021, as the proposed remedies failed to address the EU's competition concerns.

My comment: *The interruption of the study of this dossier is only half a surprise, for two reasons.*

The first is the dismissal last year of the Director of DG Move (the European Commission's Directorate for Transport & Mobility) in the wake of the Qatargate revelations.

As a reminder, last year there was a corruption scandal targeting members of the European Parliament, which also implicated Morocco and Mauritania: in order to obtain more traffic rights in Europe, Qatar allegedly bribed European officials.

The second is that the European Commission and its management are unlikely to take any major decisions in the run-up to the European elections in early June.

The same will no doubt apply to the Lufthansa - ITA Airways case.

> **Turkish Airlines in talks to offer free Internet**

((source Business Travel) March 5, 2024 - Turkish Airlines is in talks with several companies, including Inmarsat, the joint venture between Turkcell and Satelio, and Elon Musk's Starlink.

Turkish Airlines' aim is to offer Internet access within a year, according to Professor Ahmet Bolat, Chairman of the Board, quoted by Executive Traveller in an interview in Melbourne.

Today, Business travellers have one GB of data (unlimited for Elite or Elite Plus members), compared with unlimited messaging in Economy class, and between 400 MB and unlimited Internet access, depending on frequent flyer status.

The company recently launched an automatic translation device for communication between staff and passengers. Around a hundred devices have been installed at Turkish Airlines counters.

My comment: *Turkish Airlines, supported by its government, has a very large fleet and network.*

70% of its network is operated with single-aisle aircraft, hence the importance of having a more attractive offer in this segment than that of European airlines, which operate the majority of their flights with wide-body aircraft.

Turkish Airlines' medium-haul product is positioned at the top end of the market and is highly appreciated by customers.

Turkish Airlines offers them IFEs, comfortable seats, especially in front class with a high pitch, a very respectable catering offer, and soon free Internet access.

The increasingly upmarket positioning of their flight product could become a competitive advantage.

The development of this airline, which is not subject to certain European regulations (notably environmental), is of concern not only to Gulf airlines, but also to European airlines.

> Boeing ready to buy out subcontractor Spirit in bid to end 737 MAX woes

((source La Tribune) March 2, 2024 - **Reinternalize production to avoid setbacks.** Even if it means taking a major step backwards and regaining control of an activity that was outsourced almost twenty years ago. This is what Boeing is trying to do with Spirit Aerosystems, its biggest subcontractor, whose aircraft fuselage production activity was part of Boeing's perimeter before it was sold in 2005 as part of a new strategy put in place with the launch of the B-787.

These discussions come at a time when the Boeing 737 MAX is going through yet another wave of turbulence **due to the difficulties encountered by Spirit AeroSystems, blamed for several production problems** observed on the aircraft in recent months

(...).

According to Boeing, "the reunification (...) of production operations would further enhance aviation safety, improve quality and serve the interests of our customers, employees and shareholders".

Spirit AeroSystems has been under scrutiny since an incident on January 5, when a cork door in the fuselage of an Alaska Airlines Boeing 737 MAX 9 broke loose in mid-flight. In the wake of the incident, Boeing and its subcontractor's industrial practices were called into question, with the US aviation regulator (FAA) launching an investigation into the manufacturer's quality controls. As 2023 progressed, Boeing also reported production problems, some affecting the fuselage, which reduced its production rate and deliveries.

In April 2023, the aircraft manufacturer reported defects in parts supplied by Spirit for the "rear fuselage" of certain 737s. A few months later, the company justified delays in 737 MAX deliveries by citing a problem with a watertight bulkhead. At the end of December, it also cited the risk of a "loose bolt" in the rudder control system. (...)

Boeing is by far Spirit's biggest customer, with 60% of its revenues coming from the American aircraft manufacturer by 2022.

This is not the first time Boeing has called its industrial model into question.

Back in 2008, when the 787 was also experiencing setbacks, Boeing management acknowledged that it had gone too far in outsourcing production.

As a reminder, when Boeing launched its B787 in 2004, it set up a new industrial system in response to its difficulties at the time. The American company chose to concentrate on aircraft design, sales and assembly, and to outsource the rest.

Thus, **70% of the 787 was "outsourced" to a multitude of subcontractors,** who assumed a large share of the development costs (and whose return on investment depended on the aircraft's success).

The WSJ also reported that Spirit AeroSystems was considering the possibility of selling its Irish operations, which supply Boeing's European rival Airbus.

My comment: *The outsourcing strategies of major groups are often aimed at optimizing cost reduction and operations.*

This presents risks in an activity with such high safety requirements as aircraft manufacturing.

We need to be extremely rigorous in our choice of subcontractors and in our control of them.

Boeing's decision, as with the B787, to re-source production of the B737 MAX bears witness to the erosion of the company's safety culture, and is an admission of strategic failure.

> **Single European Sky: towards less CO²-emitting air travel?**

((source TourMaG) March 6, 2024 - (...)) **The European Parliament, the Council and the European Commission have finally reached agreement on the Single European Sky. It will have taken no less than 10 years for the 3 entities to reach agreement.**

(...) The challenge of the Single Sky is (...) to move beyond national borders, to have an overall vision and management of traffic.

(...) The harmonization of European air traffic flows means that we can zoom out, take a more global view, and not just design the skies on the basis of national territory, but on a European scale," is how Brussels puts it.

The text adopted by the three European bodies **provides for the introduction of performance plans for air navigation services** to improve the management of the EU airspace network.

Binding targets **and incentives to make flights more efficient and environmentally friendly** will also be added.

(...) Achieving this harmonization has not been easy, even at the last minute. "I particularly regret the lack of ambition on the part of France, which was determined to preserve its national prerogatives at all costs," continued Karima Delli.

In concrete terms, for passengers, the Single European Sky should significantly improve flight punctuality, but that's not all:

(...)

By eliminating national borders, flights will be able to shoot straight ahead and no longer take detours. **"According to the European Commission, the completion of the Single European Sky would lead to a 10% reduction in CO₂ emissions.**

This may be a bit of an overestimate, but it's not insignificant when you consider the difficulties the aviation sector is currently facing in decarbonizing.

(...)

My comment: *It's an understatement to say that some European air routes are far from direct.*

During the work carried out by OMNES and ENAC Alumni to create the Observatoire de l'Aviation Durable (Sustainable Aviation Observatory), we proposed a number of infographics, including this one on the Single European Sky:



A number of countries, not least France, have been slow to take the plunge, either because of the sovereignty of their national skies, or because of pressure from their national air navigation service providers and controllers.

The operational and environmental benefits of the project will require reorganization of air navigation services.

In France, this is likely to take place in a context of major change.

Air navigation services are currently deploying Thales's new 4-Flight air traffic control IT tool.

Stock market press review

> Why isn't IAG's share price rising?

(source fool.co, Jon Smith, translated with DeepL) March 5, 2024 - The airline industry is now benefiting from the exit from the pandemic, and travel bookings have increased. International Consolidated Airlines Group has benefited, moving from a loss-making to a profit-making position. Yet **IAG's share price is down 6% over the past year and has no spark**. Here's what I [Jon Smith] think is happening.

Recent results call for caution

Even though the results for fiscal 2023 have been excellent, I think there's still some reluctance to believe that the airline is completely out of the woods. Even though capacity has returned to pre-pandemic levels, the **impact of the pandemic is still visible in financial terms**.

For example, total liabilities for last year amounted to 34.4 billion euros. Yet in the 2019 results (the last full year before the pandemic), the same figure was 28.6 billion euros. Clearly, then, the measures taken to support the company during difficult times are still relevant.

The other factor to consider is the rise in costs. Wage inflation has led to a 16.7% rise in labor costs in 2023 compared with 2022. Fuel and oil costs have also risen by 23.5% year-on-year. The company needs to keep these costs under control, otherwise future profitability could quickly be wiped out.

(...)

My comment: Since the start of 2024, IAG's share price has fallen by -1.7%.

Over the same period, Lufthansa's share price has fallen by -15.3%, and Air France-KLM's by -28%.

Article Bonus

> Airports and airlines: the Olympic challenges of Paris 2024

((source TourMaG) March 6, 2024 - Without wishing to offend our beloved Baron Pierre de Coubertin, **for those in charge of Paris's infrastructure, airports and airlines, notably Air France, the important thing will be not just to take part, but to win the event that is the arrival and movement of 15 million people expected during the period of the 2024 Olympic Games.**

(...)

For those involved in the air transport industry, this is not a time for rejoicing, but for making an effort.

(...)

However, as **French airlines**

usually fill up well at this time of year, there is **no specific peak for the Games period**.

Recently, Pascal de Izaguirre, President of the FNAM, said that while the number of trips generated by the event had to be taken into account, so too did the number of

trips that would not be made or would be postponed due to the games. To date, Frenchbee has reported only a small increase in flights from the United States. According to some analysts, **the positive impact could be explained more by higher fares than by increased volume**

(...).

In the long term, however, increased brand awareness should boost new customer acquisition and revenue prospects"... If all goes well, of course, because Air France, like other airlines, must not fail in its service to travelers coming to Paris, and in particular to athletes and delegations.

(...)

For the ADP group, the situation is the same. Will the Olympics be profitable? Nothing is less certain, given the high costs involved in preparing for this extraordinary period.

(...)

Investments will be needed to ensure the success of the missions shared with the airlines, to ensure that the first moments of the festivities are a success for the hundreds of delegations of athletes, thousands of journalists, spectators, ambassadors and heads of state from all over the world.

"The vast majority will forge their first and last memories at our side," said Augustin de Romanet, who publicly pledged that "the Paris 2024 Olympic and Paralympic Games will demonstrate both our airport expertise and our sense of hospitality."

At the height of the Games, there will be 4,000 arrivals per day of delegation members and journalists to manage, as well as 114,000 pieces of luggage and 47,000 items of sports equipment, including 17,000 oversized items (4,000 per year in a normal year).

Luggage will therefore be a major concern

(...).

For border controls, the ADP Group is investing in the deployment of additional automated airlocks: 188 Parafe airlocks will be deployed in summer 2024, compared with 121 in summer 2023 (152 at Paris-CDG and 36 at Paris-Orly).

The data currently available indicate that the vast majority of accredited passengers will be arriving and departing from Paris-Charles de Gaulle.

(...) **For the three "hot" days of the athletes' mass return after the closing ceremony on August 11, Augustin de Romanet recently mentioned the construction of an ephemeral terminal, "a terminal that will only be used for three days, and which we have built in the pampas of CDG".**

(...)

When leaving or accessing the airports, delegations will be given priority, and will benefit from a partially privatized system.

Dedicated lanes for accredited passengers will be set up between Paris and

Roissy-CDG, to avoid what Parisians experience on a daily basis: saturated road infrastructures and the endless "chienlit" of the RER B. A privatization of the tracks which, it should be remembered, was a requirement of the conditions laid down by the International Olympic Committee (IOC).

For ordinary people, especially airline employees, the risk of struggling to get to Roissy remains very real. Traffic restrictions on the A1, A13 and two-thirds of the Paris ring road can turn into a nightmare.

(...)

Interviewed by TourMaG, **Arnaud Duplay, ADP's project manager for the Paris 2024 Olympic and Paralympic Games, asserts:** "We're taking the issue of road conditions as seriously as possible.

With Air France, we have signed a joint letter to the national authorities to ensure smooth access to airport platforms, particularly for all employees. Finally, we have obtained the same attention for our case as for the other Olympic sites".

(...)

***My comment:** Welcoming the participants in the Olympic Games will mean a huge increase in activity for airline and airport staff.*

Traffic restrictions between Paris and Roissy-CDG are likely to have an impact on access to the airport, for customers and employees alike.

End of press review

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

Air France-KLM shares closed at **9.71 euros** on Friday March 8. It is **down sharply this week by -5.04%**, following the announcement of mixed results for the fourth quarter of 2023.

Since the start of the year, the Air France-KLM share price has lost 28%.

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 again 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 \$4 to \$105. 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 \$82.

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, this differential was close to \$50.

The Jet Fuel spread in Europe and Brent crude are down this week, to \$23 a barrel. This is the second week that the spread has fallen below \$25.

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'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.

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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