ITA Airways : Italy has chosen

Letter from the Director of Air France-KLM

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Representative of the employees and former employees shareholders PS and PNC

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Monday's Press Review

Editorial

Dear readers,

For several weeks now I have been offering you a series of articles on climate change.

After an interview with Mr. JM Jancovici and an article on the Drawdown project, you will find in this letter a presentation of the actions undertaken by the Air France Group for a more responsible travel.

Enjoy your reading.

François

> Privatization of ITA Airways: Italy chooses the offer of Certares, Air France-KLM and Delta

(source Les Echos) August 31 - **MSC and Lufthansa beaten to the punch on the ITA Airways file, it was rather unexpected!** The Italian-Swiss shipowner and its German ally did not succeed in convincing the Italian government in the case of the purchase of the public company ITA Airways. The Ministry of the Economy announced on Wednesday that it had accepted the offer of the American investment fund Certares, associated with Air France-KLM and Delta Airlines, to open exclusive negotiations.

MSC and Lufthansa were considered until now as favorites in the race to buy the successor of Alitalia, launched by the resigned Prime Minister Mario Draghi. But **the offer of the U.S. fund was deemed "more in line with the objectives set" by the state, which owns 100% of the company, the ministry said** in a statement, without revealing the amount of the proposal. "At the end of the exclusive negotiations, binding agreements will only be signed if their content is fully satisfactory for the public shareholder," it said.

Neither the amount nor the contours of the offer made by Certares have been disclosed. (...) In a press release issued at the end of the afternoon, Air France-KLM underlines (...):
"In case of conclusion of this operation, Air France-KLM would become a commercial and operational partner of the Italian airline, within the consortium led by Certares," says the release. Air France-KLM is not investing in the capital structure of ITA
at this stage. However, the Air France-KLM group could consider taking a minority stake in ITA in the medium term.
As a reminder, the Franco-Dutch group cannot take more than 10% of the capital of a company in the sector until it has repaid at least 75% of the French public aid received to overcome the Covid-19 crisis. However, Air France-KLM has only repaid 60% of its state aid to date. And the group still has to complete the restoration of its balance sheet, before it can embark on external growth operations.
(...)
In this scheme, the Italian state would retain, in any case, a 44% share and would have two of the five seats on the future board of directors of the company. This compares with only 20% and one seat in the offer put forward by MSC and Lufthansa. **The state would also have a right of veto on strategic choices**, "as well as the possibility of appointing the president," says the "Corriere della Sera.
This option is more attractive to the coalition of right-wing parties likely to win the September 25 legislative elections. Its members have already expressed their desire to keep control of a national company.
(...)
However, beyond political considerations, **the choice of Air France-KLM and Delta is also one of continuity for the heir of Alitalia. Air France-KLM was in fact** one of Alitalia's main shareholders, with 25% of the capital, but also **its main commercial partner for more than forty years**, before Silvio Berlusconi's opposition to the takeover of Alitalia by the French led to the divorce from Air France-KLM in 2015. At the time, the Italian government preferred a takeover bid (49%) by Etihad, the Abu Dhabi company. But this alternative alliance, without any real commercial synergy, was not successful.

The choice of Air France-KLM and Delta is also a way for ITA Airways to gain power on the transatlantic market, within the Skyteam alliance and the joint venture agreement founded by Air France-KLM and Delta. (...
)
For Air France-KLM, the anchoring of ITA Airways in the Skyteam alliance guarantees privileged access to the Italian market, the second largest in Europe for Air France. Within the transatlantic alliance, ITA Airways, which only has a small long-haul network, will have an interest in transferring its long-haul customers to Air France, KLM and Delta flights in the U.S., rather than those of Lufthansa and its subsidiaries.

As for Certares, the investment fund is far from being an unknown in the travel industry. Two years after its inception, the U.S. fund, whose CEO, Greg O'Hara, holds dual Greek and Canadian citizenship, had made a strong entry into the sector in 2014, participating in the purchase of the American Express travel agency network. Certares has also invested $4 billion in car rental company Hertz. In France, Certares is a minority shareholder in the tour operator Voyageurs du monde and the travel agency network and tour operator Marietton.

My comment: *This announcement is a setback for the Italian-Swiss shipowner MSC and its German ally Lufthansa, which had been considered favourites until now.*

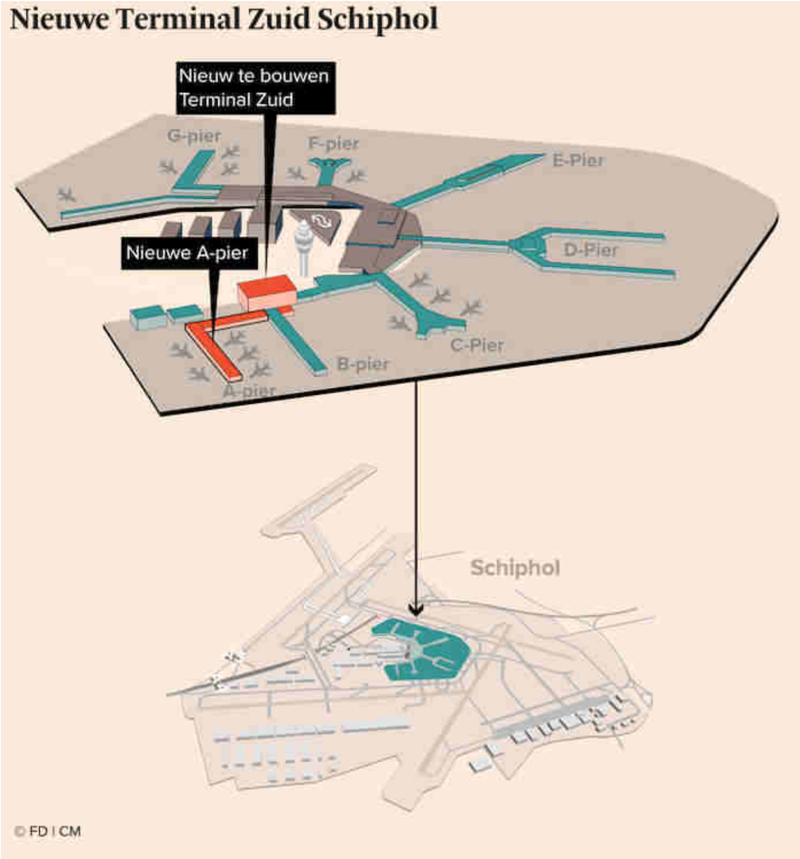
Lufthansa had repeatedly, since the beginning of the year, put pressure on the Italian government to make a quick choice.

The German company expressed its surprise: "From our point of view, our joint offer with MSC was the best solution for ITA. Apparently, a choice is being made that allows for greater state influence and does not envisage the total privatization of ITA".

It now remains for the Air France-KLM group and its partners to finalize their proposal. Italian Prime Minister Mario Draghi wants to conclude the operation before *the September 25 legislative elections.*

> Schiphol is preparing the tender for a new terminal to increase its capacity.

(source FD; translated with Deepl) September 2, August - **Schiphol is preparing the tender for a new terminal that will significantly increase the airport's capacity**. "Terminal Zuid," as the expansion will officially be called, would cost more than €1 billion. Construction is expected to be completed by 2032. This is according to
information Schiphol has published on its tendering platform Tenderned. "At the end of 2021, Schiphol Nederland B.V. has decided to have the new terminal built under the name 'Terminal Zuid'," the airport itself reports on the tendering platform.
(...)
The expansion plans are controversial and go against the cabinet's position from late June. At the time, infrastructure minister Mark Harbers announced that the number of takeoffs and landings was to be reduced from 500,000 to 440,000 per year from November 2023. In addition, farmers feel they are being treated unequally. They claim that they are paying for the reduction of nitrogen in nature, while other large emitters have not yet had to give in.
(...)
The airport has had plans for this terminal for some time, and it should have been built in 2023. Before the Covid-19 crisis, the terminal anticipated the growth scenarios used for Schiphol at 600,000 flights (540,000 later) and 80 million passengers.
(...)
Schiphol says in a statement that it is considering the design and timing of the terminal. A spokesman for the airport says that no investment decision has been made yet.
(...)
Another major construction project is the renovation and extension of Pier C over two floors (costing 250 to 500 million euros). This will increase the capacity of this part of the airport for larger aircraft, seats and passenger flow.
(...)
The terminal design is still being adjusted. The shape has been changed and the terminal will be placed further away from the air traffic control tower. Space for future expansion will be created on both sides
(...)
At the moment, Schiphol is working on another airport expansion, Pier A. This project has been considerably delayed by construction problems and disagreements with contractors, and it is also much more expensive than the 400 million euros originally planned.



My comment: *Schiphol has presented its investment program, which includes several components, the new Terminal Zuid, the renovation of Pier C and the extension of Pier A*

These investments were planned before the Covid crisis.

Since then, environmental pressure in the Netherlands has increased significantly. It is not certain that all the projects will see the light of day.

> Lufthansa receives its first Boeing 787

(source Aviation Journal) August 30 - **It's an event for both Lufthansa and Boeing.** Lufthansa's **first-ever 787-9** left Paine Field on Aug. 29 and landed at its new base in Frankfurt on Aug. 30. Its arrival marks another step in Lufthansa's fleet restructuring and the arrival of a new aircraft type, while it symbolizes the resumption of Dreamliner deliveries in Europe for the U.S. aircraft manufacturer.

The aircraft (...) **comes from the additional order placed by Lufthansa in May 2021 for five 787s, which allowed it to advance its deliveries by taking over aircraft already produced for other companies,** which have since cancelled their contracts due to the health crisis. They are all to be delivered this year for entry into service during the 2021-2022 winter season.

The aircraft will now enter Lufthansa Technik's facilities to undergo a cabin reconfiguration to Lufthansa's new standards. It will then operate domestic flights while crews familiarize themselves with the new model, before entering intercontinental service, normally to Toronto.

Lufthansa is expecting 32 787s (excluding options), which will enable it to renew its fleet. During the health crisis, the Lufthansa group decided to withdraw the majority of its four-engine aircraft from service. (...) **The group has repeatedly stated that it needs smaller aircraft to compensate for the departure of the four-engine aircraft**.

The delivery of this first 787-9 is good news for the German company, which has been waiting for its aircraft for months. Dreamliner deliveries have only just resumed at Boeing: a 787 was handed over to American Airlines in early August, after the FAA suspended a ban that had been in place since May 2021 due to quality defects on some aircraft.

Note that the last Boeing delivery to Lufthansa was in 2015 and its last 747-8I - did Lufthansa Cargo and Swiss receive 777s.

My comment: *During the last two years, several airlines have cancelled orders with Boeing and Airbus.*

Lufthansa with the B787, as well as Air France-KLM with the A320 Neo, have taken advantage of this to get new planes faster than expected.

These new aircraft will enable them to accelerate the reduction of their carbon footprint.

> The major American airlines take the lead in the Cirium ranking

(Source Cirium, translated with Deepl) Sept. 1 - **American Airlines leads the major U.S. airlines in the top four spots in Cirium's 2021 global airline passenger rankings.**

Ryanair remains Europe's largest airline as low-cost carriers climb the rankings. American Airlines remains at the top of the rankings again in 2021, **followed by Delta Airlines, United Airlines and Southwest Airlines**, reflecting the strength of the recovery that continues in the U.S. domestic market. Overall, North American airlines posted 75 percent growth from the 2020 low point, although they still finished last year with a 40 percent decline from 2019 traffic levels, measured in revenue passenger kilometers/miles (RPK/RPM).

The ranking, which is based on more than 600 operators tracked in the Cirium airline database, **shows that global traffic ended 2021 down 57% from the pre-**

pandemic peak.

In terms of passenger numbers, the total was 2.3 billion for the year, about half the volumes of the 2019 peak.
Low-cost carriers continued to climb in the rankings in all regions. **Ryanair cemented its place as Europe's largest carrier, coming in at number five just behind Southwest, and was the only European airline to crack the top 10.**

Europe's major network carriers have fared less well over the past two years, as demand for long-haul premium travel remains depressed. Although Air France held on to 13th place, Lufthansa fell back in the rankings and British Airways disappeared from the top 20 altogether. Virgin Atlantic also fell more than 50 places, as it too suffered from the slow return of long-haul and premium traffic.
The big three mainland Chinese carriers - China Southern, China Eastern and Air China - have retained their places at the top of the rankings, but that could change after a new round of Covid closures in Chinese cities since the beginning of the year.

Top 10 World Airline Passenger Rankings for 2021
1 American Airlines
2 Delta Air Lines
3 United Airlines
4 Southwest Airlines
5 Ryanair
6 China Southern
7 Emirates Airlines
8 Qatar Airways
9 China Eastern Airlines
10 Turkish Airlines
(...)
The Cirium ranking highlights the struggle faced by the major carriers, especially those that rely on a strong mix of business and long-haul travel.

By 2021, their share of global passenger traffic had fallen by some five percentage points to 64%. This decline was largely offset by low-cost carriers, which increased their share to 26 percent.

> Decarbonized aviation: a synthetic kerosene plant for Lufthansa

(source Air & Cosmos) September 3 - At the end of August, German airline **Lufthansa announced that the new plant in Werlte, in the Ems region (Lower Saxony) is now in production and commercialization phase**, after the structure was initially inaugurated late last year. The production plant is managed by Atmosfair, a non-profit organization founded in 2005 that specializes in carbon

offsetting systems and which, with the management of the Werlte plant, is diversifying its environmental actions.
Within the large family of sustainable biofuels or aviation fuels, the **Werlte plant has chosen to produce synthetic kerosene (or "e-kerosene"), made by electrolysis from hydrogen.** The electricity used is generated from air turbine systems and solar installations, which guarantees the sustainable origin of the electrical energy used in the process. Through electrolysis (a step managed by Atmosfair's partner Siemens Energy), the hydrogen (H) and oxygen (O2) molecules in the water are chemically separated. **At the same time, CO2 is captured directly from the atmosphere**. Then comes the synthesis process of recomposition of the hydrogen and carbon dioxide molecules, which are combined through the Fischer-Tropsch process, developed by the two German chemists Franz Fischer and Hans Tropsch in 1920. At a temperature of 150 to 300°C, hydrocarbon chains are formed into fuel, which must be further refined to become synthetic kerosene for use in air transport. The final processing takes place at the Heide refinery in Lieth, in the German state of Schleswig-Holstein. The synthetic kerosene is then transported to Hamburg International Airport. The whole process is also known as "PtL" fuel ("Power-to-Liquid").

The Lufthansa Group is not only a partner in this pioneering project, it is also the first customer to purchase this paraffinic fuel, which is produced from electrical energy. The airline group **has committed to purchasing at least 25,000 liters of Ptl fuel per year over the next five years**. In this way, the Lufthansa Group is making an important contribution to the production of Ptl in Germany and to promoting the use of PtL as a fuel. At present, these electricity-based fuels are still in the development phase towards industrial production.
(...)

My comment: *Germany has invested in the synthetic kerosene sector. The Werlte plant is the first to produce it, in small quantities.*

In addition, Germany has just launched the construction of the world's largest synthetic kerosene production facility in Frankfurt.

But the quantities that will be produced there (3,500 tons per year) are negligible.

By way of comparison,
an A350 can carry about 120 tons of kerosene,
and the annual requirement at Frankfurt airport is estimated at 4.7 million tons.

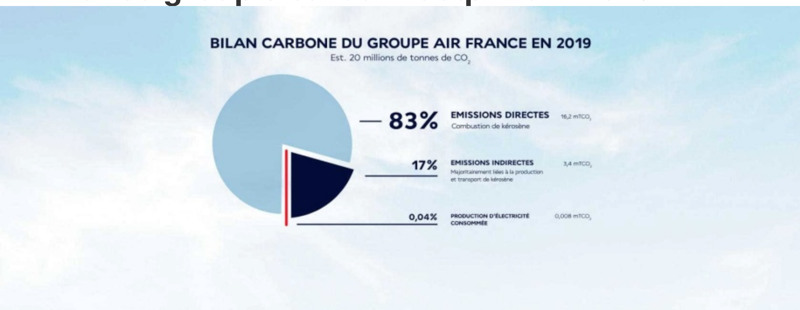
These figures illustrate the difficulty that airlines will have in obtaining biofuel in the coming years. Not to mention the price, which is expected to be higher than the price of kerosene.

Bonus Article

> Aware of its responsibility in the face of the ecological emergency, Air France is taking action.

(source Airfranceacts) April 2022 - Discover all our actions for a more responsible travel.

Air France group's carbon footprint in 2019:



Our commitments:
Air France is acting for a more sustainable air transport.
-30% of emissions per passenger-kilometer by 2030 compared to 2019, i.e. -12% of our emissions in absolute terms,
-25% of CO2 emissions on average for a latest-generation aircraft such as the A350,
- 63% incorporation of sustainable aviation fuel by 2050,
- 0 net CO2 emissions by 2050.

Our actions to : -
01 REDUCE our direct greenhouse gas emissions as much as possible,
- 02 REDUCE our indirect emissions with our partners and suppliers,
- 03 REMOVE CO2 from the atmosphere.

Our major actions
To reach its objective of zero net emissions by 2050, Air France is accelerating its environmental transition. Discover our actions to
- renew our fleet,
- develop the use of more sustainable aviation fuels,
- generalize eco-piloting,
- encourage the use of low-carbon transport,
- and improve the environmental footprint of our inflight catering.

My comment: *Here is the third part of the series dedicated to climate change.*

What is Air France doing to contribute to the fight against climate change?

To find out the answers, I invite you to visit the public website airfranceacts, from which the lines above are taken.

End of the press review

> Advice for employees and former employees who are shareholders

You will find on my navigaction site the modalities of access to the managers' sites.

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

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

> Management of employee investment funds. Good to know

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

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

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

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

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

> My comments on the Air France-KLM share price trend

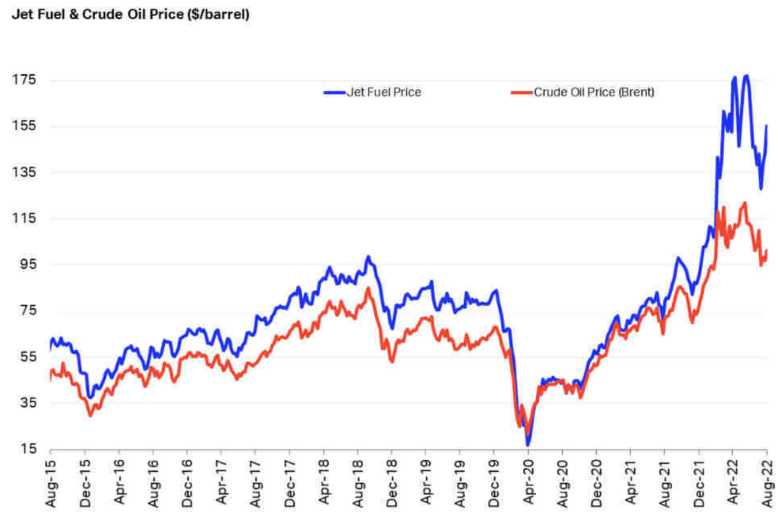
Air France-KLM shares closed at 1.447 euros on Monday 5 September. It is up slightly this week by +0.84%.

The average (consensus) analyst price for AF-KLM shares after the capital increase is 1.50 euros. The highest price target is 1.90 euros, the lowest 0.85 euros. I only take into account analysts' opinions after the May 2022 capital increase.

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

> My comment on the evolution of fuel prices

Since the beginning of the war in Ukraine, there is no longer any correlation between the price of a barrel of Brent oil and the price of a barrel of Jet Fuel. This is very clear on the graph below, which covers the period June 2015 - August 2022**.**



Source: S&P Global, Refinitiv Eikon

According to specialists, this increase was due to an increase in the fuel reserves of the armed forces, which consist solely of Jet Fuel.

Indeed, for several years, to ensure the strength of the infrastructure, the French Army has favored a single fuel policy aimed at supplying all equipment, land vehicles and generators with jet fuel for air use.

I have no explanation for the sharp rise in fuel prices over the past month.

Jet fuel price per barrel by region (source IATA) as of August 29, 2022

Fuel Price Analysis

The jet fuel price ended last week up 8.1% at $155.2/bbl:

26 August 2022	Share in World Index	cts/gal	$/bbl	$/mt	Index Value 2000 = 100	vs. 1 week ago	vs. 1 month ago	vs.1 yr ago
Jet Fuel Price	100%	369.40	155.15	1225.17	424.12	8.1%	8.5%	95.9%
Asia & Oceania	22%	352.26	147.95	1168.78	422.73	10.7%	9.1%	93.4%
Europe & CIS	28%	378.68	159.05	1254.88	428.52	7.4%	8.1%	101.9%
Middle East & Africa	7%	355.70	149.39	1179.57	446.13	9.5%	8.4%	96.9%
North America	39%	373.58	156.90	1239.54	417.13	7.4%	8.8%	92.7%
Latin & Central America	4%	380.29	159.72	1261.79	442.45	5.6%	4.7%	96.2%

The barrel of Jet Fuel in Europe is down this week by -$11 to $144. After peaking at $182 in June 2022, it was down to $132 in early August.
It was at $79 a little over a year ago.

Brent crude oil (North Sea) is **down this week by -$8 to $93**.
Since mid-February, it had been yo-yoing between $100 and $120.

At the beginning of March, Brent had reached $132, close to its record of $150 (in 2008).

At the end of October 2020, it was at a low of $37.

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

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

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

See you soon.

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

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

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

| François Robardet

Director of Air France-KLM representing the employees and former employees shareholders of PNC and PS.
You can find me on my twitter

account @FrRobardet

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

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

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To contact me: message for François Robardet.

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