

Air France-KLM announces that it will not make a bid for ITA



| Letter from the Director of Air France-KLM

François Robardet

Representative of employees and former employees PS and PNC shareholders

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Monday's Press Review

> Air France-KLM announces that it will not make a bid for ITA

(source AFP) January 18, 2023 - Air France-KLM has announced that it will not make a bid for a share of the capital of Italian airline ITA Airways.

The Franco-Dutch group, a member of a consortium retained by the previous Italian government for the privatization of the carrier, "only intended to participate in the process as a potential commercial partner," it explained to AFP. From the same source, "**Air France-KLM has informed the Italian government that the group will not submit a bid for the acquisition of a share of the capital of ITA**".

Indeed, the decree issued by Prime Minister Giorgia Meloni "requires companies participating in this tender to acquire the majority of ITA shares

made available at each stage of privatization and, ultimately, to hold the majority of ITA's capital on the date of the Italian government's full withdrawal from this capital", the group said.

Air France-KLM had been retained by the previous Italian government of Mario Draghi as a member of a consortium including Delta Airlines and Certares, with a view to opening exclusive negotiations. But in the absence of progress in the discussions, the new Minister of Economy Giancarlo Giorgetti announced in October his decision not to renew this period of exclusivity.

Air France-KLM "will continue to follow the privatization process with attention and reaffirms its strong interest in maintaining commercial relations with ITA, a member of the Skyteam alliance", he concluded.

The German airline giant Lufthansa, considered the favorite in the race to buy ITA, **said it has submitted to the Italian government an offer to enter the capital of the national company ITA Airways**, initially for a minority stake.

"It is initially to acquire a minority share and to agree on options for the purchase of the remaining shares at a later date," said the group in a statement. The German group did not specify the targeted stake in the Italian public company, born in 2021 from the ashes of Alitalia, which the government has been trying to sell for a year.

According to the Italian press, Lufthansa covets a 40% share, valued at around 300 million euros.

"Subject to the signature of the memorandum of understanding by both parties, further negotiations and discussions would be conducted on an exclusive basis," the statement said.

(...)

Supplement from Corriere della Serra (translated with DeepL): The Italian decree establishes that "the sale of the stake in ITA is done by direct negotiation" and is "limited to the subjects who, individually or as a group, have participated in the procedure": in other words, the procedure is open only to those who sent the expression of interest last spring, that is, Lufthansa, MSC, the American fund Certares and the other American fund Indigo Partners.

But **the Italian decree specifies** that "among the bidders, there must necessarily be an airline that must acquire the majority of the capital involved in each phase of the operation".

This is a way of signaling, for example, to **the Certares fund that if it intends to bid, it must be part of a consortium with at least one European carrier and that this carrier must also be the majority partner in the consortium.**

In addition, the decree adds that "the involvement of the (private) company in the

management of ITA" will be "preeminent". This is a key passage: while it is true that the Treasury will initially retain a majority stake in the airline and will have a role as "controller" of the strategic choices adopted in the months (and years) to come by the private entity, the decree immediately recognizes the role of the industrial partner as "commander" of ITA.

My comment: Last year, Air France-KLM was part of a consortium with Certares and Delta Air Lines. The US investment fund (Certares) was planning to invest in ITA Airways, with Air France-KLM willing to be only a commercial partner.

According to the Italian decree, in order for this consortium to bid for the takeover of ITA Airways, Air France-KLM must acquire a majority of the Italian carrier.

Today, and as long as it has not repaid 75% of the loans granted by the French government, the Franco-Dutch group cannot invest more than 10% in an airline.

Even if this constraint is lifted, previous experiences with the merger between Air France-KLM and the now-defunct Alitalia call for caution.

The Lufthansa group therefore remains the only one in the running, which puts it in a strong position to negotiate with the Italian government.

> **Airbus: Delta Air Lines exercises option on 12 A220-300s**

(CircleFinance source) Jan. 18, 2023 - **Delta Air Lines announced that it will continue to renew its fleet by executing options for 12 new Airbus A220-300 aircraft** with deliveries scheduled for 2026 and 2027.

This expansion of Delta's A220 fleet is an important step in the airline's ongoing efforts to simplify the fleet while investing in more sustainable aircraft that deliver a premium customer experience.

These aircraft will complement Delta's A321neo fleet and reinforce the airline's commitment to sustainability.

Delta currently has 14 A220-300 aircraft in service and 60 on order, including the 12 exercised today.

My comment: In addition to the 14 A220-300 aircraft (140 passengers in normal configuration) mentioned in the article, Delta Air Lines also owns 45 A220-100 aircraft (120 passengers in normal configuration), which is three quarters of the A220-100 fleet in service worldwide.

{By comparison, Air France has 16 of the 60 firm orders for A220-300s.

> **Ryanair: retrofit of 737-800s has begun**

(source Air Journal) January 23, 2023 - **The low-cost airline Ryanair will install split scimitar fins on the wingtips of its more than 400 Boeing 737-800s, an estimated \$175 million investment.**

Announced last November, the retrofit of the 737-800s of the Irish cheap flight specialist has started (...). Ryanair Holdings currently has 409 737-800s, and 88 of the 210 MAX-8-200s ordered, theoretically deliverable by 2025 and equipped with "split scimitars" as standard.



An investment of at least \$175 million, then, at Aviation Partners Boeing (APB) - about \$426,000 per aircraft - but one that should improve aircraft fuel efficiency by up to 1.5%, reducing Ryanair's annual fuel consumption by 65 million liters and carbon emissions by 165,000 tons (a fuel that cost it €2.18 billion in the first half of 2022). These modifications to existing aircraft, offered as an option by Boeing since 2014, are part of a broader fight to decarbonize aviation, according to Ryanair. Patrick LaMoria, APB's chief commercial officer, said in a statement, "Having the operator of the world's largest fleet of 737-800 Next Generation aircraft install Split Scimitar winglets is the ultimate endorsement of APB and its products. We are both humbled and honored to continue to support Ryanair in its ambitious sustainability initiatives.
(...)

My comment: According to the myflightway website, winglets are the wing tip appendages that are found today on many aircraft. They were designed in the 70s by the American Richard Whitcomb, a NASA engineer.

Their purpose is to reduce the aerodynamic drag generated by turbulent air flows at the wingtips, thus saving fuel and increasing aircraft range.

But where does this idea of winglets at the wingtips come from? Quite simply from observing nature. Indeed, by observing birds, we noticed that they had a way to fight

against the induced drag. This is especially true of storks and birds of prey whose wingtip feathers go up.



> Ryanair sees itself as a winner in the post-Covid consolidation of the airline industry

(source AFP) January 17, 2023 - The low-cost airline **Ryanair sees itself as a winner in the consolidation movement of the airline sector in Europe** in the wake of the pandemic, which will eventually leave only a handful of companies in the skies of the continent, said Tuesday its boss Michael O'Leary.

The Covid "will remain as a huge inflection point for European aviation", with a once teeming market that has tightened since the pandemic around a few major players, which he said are Ryanair, Lufthansa, IAG (British Airways and Iberia) and Air France-KLM.

Michael O'Leary, who spoke at a press conference in London, assured that it will take (it) only "three or four months" for ITA Airways, born from the ashes of Alitalia, to be taken over by the German airline giant Lufthansa, considered as the favorite in the race to buy. TAP Air Portugal, whose future re-privatization is of interest to the Air France-KLM group, would rather end up in the lap of IAG, while EasyJet could be absorbed by "British Airways or Air France or both jointly" and Wizz Air by Lufthansa, he predicted. "

Covid has considerably accelerated the consolidation process in Europe" and the **sector is turning into "a market where there will be four very large carriers, much like in North America", he said.** For **Michael O'Leary**, this translates into growth opportunities for Ryanair, "the largest airline in most European markets with by far the lowest costs and fares," which is currently seeing record booking levels for the Easter and summer vacations, he argued.

The company had raised its after-tax profit forecast for the fiscal year ending March 31 in early January, thanks to a stronger-than-expected spike during the holiday season. The Irish carrier now expects an after-tax profit in the range of

1.325 to 1.425 billion euros, compared to 1 to 1.2 billion euros previously

My comment: Ryanair's boss is reshuffling the cards of European air transport.

Beyond knowing who (ITA Airways, Wizz Air, TAP Air Portugal, Air Europa, easyJet) will go to which major (Lufthansa, IAG, Air France-KLM), the most surprising point is that he envisages that easyJet could get closer to several European majors.

This is indeed possible because EasyJet is today a group composed mainly of three airlines:

EasyJet Airline Company PLC, which has its headquarters in Luton, Great Britain. It has 155 aircraft

EasyJet Switzerland is based in Geneva and has 29 aircraft. It has 29 aircraft . EasyJet Europe is based in Vienna, Austria. It has 119 aircraft.

EasyJet had created EasyJet Europe in 2017 to continue to enjoy the benefits of free movement between European Union countries despite the Brexit.

If as suggested by Mr. O'Leary easyJet were to be absorbed by British Airways and Air France, EasyJet Airline Company would join British Airways and EasyJet Europe would join Air France.

A hypothesis that neither British Airways nor Air France have ever mentioned.

> Boeing and NASA to develop a large-scale sustainable commercial aircraft

(source Journal de l'Aviation) January 19, 2023 - Boeing clearly has no intention of falling behind in the decarbonization of commercial aviation. The U.S. aircraft manufacturer has just unveiled a demonstrator project using the work of the Transonic Truss-Braced Wing (TTBW) project, formerly known as the Rogar Volt, as part of a more global strategy, the Sustainable Flight Demonstrator (SFD) program, which promises to meet the commitments of zero net carbon emissions by 2050, as well as the objectives of the U.S. aviation climate action plan dictated by the White House.



In the meantime, **NASA is partnering with the U.S. aircraft manufacturer to fly a "full-scale" demonstrator of a high-stretch, high-stay wing aircraft by 2028**, with the TTBW configuration theoretically able to reduce fuel consumption and emissions by up to 30 percent compared to the latest generations of current single-aisle aircraft, also capitalizing on ongoing advances in propulsion, materials and systems architecture.

The SFD program currently has a total budget of \$1.15 billion (\$425 million from NASA and \$725 million from Boeing and its industrial partners), **a substantial amount, but not enough to create a true ultra-thin-wing demonstrator** that could serve as a prototype for a future aircraft that could succeed today's medium-haul aircraft.

However, Boeing says it will use elements from its existing programs and integrate them with brand new components to produce the first experimental demonstrator. NASA has been studying high aspect ratio wings for years (with effective aspect ratios more than double those of today's commercial airplanes), banking on the inherent thinness of these architectures (reduced induced drag).

(...)

My comment: Dare I say that this project is ten years late?

Its main asset is that it can accommodate large engines. Exactly the solution that would have allowed to answer the B737 MAX problem, without having to resort to palliatives.

End of the press review

> My comment on the evolution of the Air France-KLM share price in 2022



The event that had the greatest impact on the share price this year was the **2.256 billion euro capital increase in June**. The funds were used to accelerate the repayment of state aid and to reduce debt.

The French and Dutch governments participated to the extent of their rights, their participation remaining unchanged. CMA CGM became a new strategic reference shareholder with a 9.0% stake in the group.

The employees and former employees shareholders via the FCPEs had participated in the capital increase to a lesser extent, via a blank transaction.

As a result, the share price, which was around 2 euros before the operation, has since fallen to around 1.30 euros.

> My comment on the evolution of the Air France-KLM share price this week

Air France-KLM shares closed at 1.623 euros on Monday 23 January. It has risen sharply this week by 5.15%. Since the beginning of the year, it has risen by nearly 30%.

The average (consensus) analysts' rating for AF-KLM shares is 1.55 euros. The highest price target is 2.00 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 in 2022

Since the beginning of the war in Ukraine, there is no longer any correlation between the price of a barrel of Brent oil and a barrel of Jet Fuel. The difference between the two products is between \$30 and \$50, whereas in previous years it was only \$10.

> **My commentary on the evolution of fuel prices this week**

The barrel of Jet Fuel in Europe is up this week by \$5 to \$140. After peaking at \$182 in June 2022, it had fallen back to \$132 in early August. It was \$79 a little over a year ago.

Brent crude oil (North Sea) is up this week by \$5 to \$89. This is close to the average level seen over the past five years, excluding exceptional events. From mid-February to the end of July, it was yo-yoing between \$100 and \$120. Since then, it has oscillated between \$85 and \$99. In early March, Brent crude reached \$132, close to its record of \$150 (in 2008).

If oil is back to a normal level, this is not the case for jet fuel, which costs \$51 more per barrel, a record! The increased need for diesel fuel to compensate for the reduced availability of gas is pushing up the price of kerosene, as both fuels are produced in a similar manner.

Good to know

> **Advice for employees and former employees who are shareholders**

You will find on my [navigation](#) 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**

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 Navigation, section Air France-KLM employee shareholding](#).*

Details

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](#)

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| 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](#)

Alternate Nicolas Foretz, PNC



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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