Letter from the Director of Air France-KLM

At the forefront of more responsible European aviation, we are bringing people together to build the world of tomorrow

(Air France-KLM Group's raison d'être)

François Robardet

Representative of employees and former employees PS and PNC shareholders

N°902, 5 March 2023

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Editorial

Dear Readers,

Following comments, I have slightly modified the presentation of the share price and fuel price developments.

The prices are updated as before.

To make it easier to read the comments on these data, I have highlighted the changes made during the week.

Thus, you will notice in this letter that only the comment on the evolution of the *share price has been substantially modified.*

Enjoy your reading
François

Monday's Press Review

> Air France-KLM takes the Dutch government to court over environmental measures at Schiphol Airport

(source La Tribune) March 2, 2023 - The Dutch camp has split. Long united in defending the national interest during the time of Pieter Elbers, the former CEO of **KLM**, the Dutch company **and the Dutch government are now opposed**. The company, a subsidiary of the French group Air France-KLM, has initiated, along with other companies such as Delta, Transavia or EasyJet, a legal action against the government of The Hague, as well as the Royal Schiphol Group, manager of the Amsterdam airport.
According to an internal letter obtained by La Tribune, **KLM denounces the decision of the Dutch government to limit the number of movements**, already capped, **at Amsterdam-Schiphol airport** by reducing the number of landing and takeoff slots from 500,000 to 460,000 per year. A measure decided according to environmental considerations.
After an announcement last summer (with a target of down to 440,000 movements), when the airport was experiencing major disruptions due to the sudden recovery of traffic, The Hague is about to take action. The letter states that the **timetable has accelerated in recent days** and that **an "experimental regulation**" is being prepared. It **could be adopted in the next few weeks "to set a maximum of 460,000 movements by November 1, 2023.**

Faced with this threat to the activity of its hub, **KLM** believes internally that "this new timetable leaves us no choice but to take this legal action". The company **denounces "an authoritarian approach, contrary to the balanced approach provided by European and international regulations, while there are other scenarios to achieve the same noise reduction objective**. In the same letter, Air France-KLM said it "supports its Dutch airline in its approach".
Asked by La Tribune, the group said it "reiterates its opposition to the Dutch government's plan to restrict the number of movements at Amsterdam Schiphol airport."

Air France-KLM goes even further, expressing "its concerns about the impact and real effectiveness of the measure envisaged by the Dutch government and the Royal Schiphol Group." It highlights the economic risks with consequences on connectivity, attractiveness and employment in the Netherlands, as well as the risk of "carbon leakage" with a transfer of traffic to other countries. The group also **believes that it is on track to meet its objective of reducing its CO2 emissions by 30% with the ongoing renewal of its fleets**.

In an effort to find a way out, the group says it "remains at the disposal of the Dutch government to further discuss alternative ways to reduce the environmental impact of aviation while preserving broader national and European interests."

Indeed, it has little choice given the vital importance of Schiphol for KLM, the country's only major international airport through which all of its operations and much of those of its low-cost subsidiary Transavia Holland pass. Such a limitation would greatly constrain the development capacities of both airlines, whose prospects are already limited by the current cap. The Air France-KLM group alone, which also includes Martinair and KLM Cityhopper, accounts for 60% of the airport's traffic.

(...)

This is in any case a turnaround for the Dutch company, which had often been able to rely on the Dutch government to preserve a certain autonomy from Air France-KLM. (...) In 2019, the Minister of Finance Wopke Hoekstra (CDA) had even organized in the greatest secrecy a purchase of shares to increase his stake in the group to 14% and be able to gain influence within the group.

Then, during the health crisis, the Dutch government gave KLM 3.4 billion euros in financial support, of which one billion euros was a direct loan. There was even a plan to raise the ceiling at Schiphol to 540,000 movements.

(...) **The situation has become more difficult since the arrival of the new Dutch government in January 2022** after many months of coalition building. While Mark Rutte is entering his fourth term as Prime Minister since 2010, Wopke Hoekstra has been replaced by the less conciliatory Sigrid Kaag (D66) at the Ministry of Finance.

My comment: *In December 2021, the Dutch government approved the purchase of A320 aircraft for KLM and Transavia Netherlands. The purchase volume was based on a stable or even growing business forecast at Schiphol.*

How can we explain the change in attitude of the Dutch government towards Koninklijke Luchtvaart Maatschappij (Royal Aviation Company = KLM)?

There are two main reasons.

The first is explained at the end of the article. It is the change in the position of Minister of Finance, following the parliamentary elections of March 2021 in the Netherlands.

The second reason is more important from my point of view. The objectives of reducing noise and limiting CO2 emissions around Schiphol airport seem unavoidable.

The question is whether the airlines can achieve the targets without reducing the number of flights.

They are convinced that they can, but the Dutch government does not seem to be willing to take their arguments into account.

> Virgin Atlantic has joined the SkyTeam alliance

(source Air Journal) March 3, 2023 - **Virgin Atlantic has officially joined the SkyTeam Alliance, its 18th member and first British airline to do so, joining, among others, its shareholder Delta Airlines and transatlantic joint venture partners Air France and KLM Royal Dutch Airlines**.
As announced last September, the London Heathrow-based airline has been a full member of SkyTeam since March 2, 2023.
(...)
Codeshare agreements are already in place with Aeromexico and Middle East Airlines (MEA), in addition to existing codeshares with Air France-KLM and Delta, with options for further codeshares to follow later this year. Interline agreements with all SkyTeam members are already in place, allowing all customers to have a single point of contact and enjoy seamless travel on a single ticket.

Virgin Atlantic serves 12 destinations in the U.S. in partnership with Delta and Air France-KLM.
(...)
Virgin Atlantic's entry into the alliance builds on the success of its transatlantic joint venture with Delta and Air France-KLM, both long-time SkyTeam members, " according to the SkyTeam release. **Virgin Atlantic is located in London Heathrow's Terminal 3**, alongside Delta and current SkyTeam members Aeromexico and China Eastern, ensuring that customers benefit from smooth air transits and the most convenient connection times possible.
(...)

My comment: *The arrival of Virgin Atlantic in Skyteam and alongside Delta Air Lines, KLM and Air France in their North Atlantic joint venture will be beneficial for all these airlines.*

> Lufthansa Group back in the black after two years of losses

(source Air Journal) March 4, 2023 - **German airline group Lufthansa returned to profit in 2022**, buoyed by a strong recovery in flights after two years plagued by the impact of the Covid-19 pandemic.
Net profit, **buoyed by record results in cargo and maintenance**, came in at 791 million euros last year, compared with a loss of 2.19 billion euros a year earlier, Lufthansa Group said in a statement. Its key indicator, adjusted operating profit, reached 1.51 billion euros, in line with its last known forecast, expecting a "significant improvement" in 2023.

The German airline group's net result is roughly identical to the 728 million posted by Franco-Dutch competitor Air France-KLM, also largely back in the green after the repercussions of Covid-19, just like the other British rival IAG (British Airways and Iberia). Total sales of the Lufthansa Group, which includes the German airline of the same name as well as subsidiaries Austrian Airlines, Brussels Airlines, SWISS and the low-cost Eurowings, have almost doubled over the last year, to 32.8 billion euros.
(...) Last year
's performance was achieved despite "cost inflation", the German group said, with the increase in the cost of fuel since the outbreak of war in Ukraine. The resumption of flights has not been without hitches either: global bottlenecks in the airline industry last summer led to the cancellation of thousands of flights and many travelers complained to Lufthansa about delays or lost luggage.
The German group estimates the additional costs linked to these disappointments

at 555 million euros, including days of strikes by staff for better wages and at airports. **If the group nevertheless posted a comfortable profit, it owes it to the record operational performance of its subsidiaries Lufthansa Cargo (1.6 billion euros) in freight and Lufthansa Technik (511 million euros) in aircraft maintenance**.

In all, 102 million passengers flew the group's airlines in 2022, more than double the number in 2021, but still well below the pre-Covid-19 record of 145 million passengers in 2019. Passenger revenues have more than doubled to €22.8 billion, with revenues per seat up 148% year-on-year in a context of rising ticket prices.

My comment: *The results of the airline group led by Lufthansa are misleading.*

The passenger activity of the Lufthansa group has grown less than that of the Air France-KLM group.

The Franco-Dutch group has better anticipated the recovery of activity in 2022, by keeping more flight crews than its rival during the health crisis. It was thus able to put more long-haul aircraft back into service than its European rivals, including Lufthansa.

> Air India wants to compete with the Gulf carriers to play in the big league of air transport

(source La Tribune) March 1, 2023 - **Making India an international air hub**. Although it has become an entirely private group since its takeover by the Tata group more than a year ago, **Air India is fully embracing this ambition set by Indian Prime Minister Narendra Modi and his government**. After ordering 470 latest-generation aircraft from Airbus and Boeing two weeks ago, including 70 long-haul aircraft, **the airline intends to significantly expand its international network with direct connections from several of the country's key centers**. This will not only strengthen the country's connectivity, but also cut the ground from under the feet of the Gulf airlines that have a strong presence in the Indian market, in particular Emirates, often referred to as India's national airline.

Launched last October, the strategic plan to turn around Air India is starting to take shape. Called Vihaan.AI, "the dawn of a new era" in Sanskrit, it has three phases ("Take off", "Take off" and "Take off") to bring Air India back to the forefront within five years.

Its managing director, Campbell Wilson, wants Air India to become once again one of the dominant players in domestic traffic (...) He specifies that this objective will not be achieved by Air India alone, but by bringing together all the companies of the Tata group: Vistara, which should be integrated under the Air India brand as soon as approval is obtained from the competition authorities, but also Air India Express and AirAsia India, which are going to be merged in order to

create a single low-cost operator.
(...)
However, domestic traffic and the huge need for connectivity between the country's various megacities do not seem to attract **Campbell Wilson** too much, which **sees it** rather as **a way to feed its international flights. He makes no secret of the fact that international development is at the heart of his ambition**.
(...)
Air India has embarked on "a journey of transformation to return to the forefront of international aviation," according to its CEO. It will receive 40 Airbus A350s, 20 Boeing 787s and 10 Boeing 777Xs in the next few years.
(...)
For the network, **Campbell Wilson is counting on a maximum of non-stop flights by increasing the number of routes**. He will therefore base his operations around three main hubs, namely Delhi, the political capital, Mumbai (Bombay), the economic capital, which Campbell Wilson considers insufficiently served, and a third airport in the south of the country, which has not yet been announced. Although he does not mention any company by name, **this positioning is clearly designed to counter the Gulf companies.**
(...)
Before arriving at all this, **Campbell Wilson is well aware that his company is currently far from international standards**. Beyond the projections, this first phase of rolling will therefore be devoted to "solve the problems accumulated for years".
(...)
This will also **involve a review and improvement of operational processes, in India but also in international ports of call, as well as products**. In addition to upgrading the fleet and cabins, reception and catering will be reviewed, and several hundred people will be hired as a result. Work is also underway with the rest of the ecosystem - airports, ground handling, maintenance - to improve operations and prepare India to become an international hub.

My comment: *The challenge is important for the CEO of Air India.*

He has to manage an important overstaffing while the takeover agreement signed between Tata and the Indian government forbids staff reductions for one year.

He will also have to be patient, as a large number of Indian airports are under construction.

Finally, it will have to face competition. Most airlines are eyeing this huge market. At the end of 2022, India became the most populated country, ahead of China.

> Lufthansa switches to the Airbus A350-1000

(source Air & Cosmos) March 2, 2023 - **With an order for 10 Airbus A350-1000s, Lufthansa becomes the 12th customer for this version of Airbus' long-range aircraft**. With firm sales down to 140 units at the end of January 2023, the airline should also benefit from the reintegration of all or part of the 21 aircraft that Qatar Airways had yet to take delivery of. The airline and Airbus have signed a "peace of the braves" after a long legal battle. Lufthansa has also ordered five additional A350-900s, bringing its total A350 Family purchases to 60 aircraft.

Lufthansa had initially chosen the Boeing 777-9. Delays in the program, with customers such as Emirates now estimating commercial service in early 2025, are forcing airlines to get organized in the face of long-haul traffic demand that will have returned to cruising speed by 2025. The Lufthansa order does not specify the delivery schedule for its A350-1000s, but it is clear that the carrier needs available long-haul aircraft to meet the 2025 deadline.

In the meantime, Qantas Airways is starting to create a buzz around its future Airbus A350-1000s, which will enable it to connect Sydney to London and New York in one go. An ULR "Ultra Long Range" version that will take only 238 passengers, while the capacity of the A350-1000 in three classes exceeds 300 seats. The "Sunrise" project will become operational at the end of 2025.

My comment: *The trend is confirmed.*

In order to cope with airport saturation and to meet their objectives of reducing greenhouse gas emissions, airlines are giving preference to larger aircraft modules.

In addition to Lufthansa mentioned here, easyJet, for example, is gradually getting rid of its A319s. The company's CEO has confirmed that nearly 40% of the A319s will be retired from the easyJet fleet over the next two to three years.

End of the press review

> **Air France-KLM share price trend since** 2022

The event that had the greatest impact on the share price in 2022 was the capital increase in June of 2.256 billion euros. This was used to accelerate the repayment of state aid and to reduce debt.

In 2023, the removal of state aid restrictions and the gradual improvement of the company's balance sheet have been welcomed by analysts.

The share price, which was below 1.30 euros at the beginning of the year, is **now above 1.70 euros.**

No new comments

> Air France-KLM share price trend

Air France-KLM shares closed at 1.836 euros on Monday 6 March. It is up this week by +5.18%. The recent announcements on the 2022 results and on the end of the constraints imposed by the European Commission explain this rise.

It was at 1.253 euro on January 2, 2023.

The average (consensus) 12-month analysts' rating for AF-KLM shares is 1.72 euros. The highest price target is 2.30 euros, the lowest 1.10 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 new comment:** Since the beginning of the year, it has increased by 47%.*

> Fuel price evolution 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 was between $30 and $50, while in previous years it was only $10.

No new comments

> Fuel price changes this week

The barrel of Jet Fuel in Europe is up this week by $3 to $114. 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 +$4 to $86. This is close to the average level observed 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.
At the beginning of March, Brent reached $132, close to its record of $150 (in 2008).

While oil has been back to its usual level for several weeks, **jet fuel is now approaching its usual level. The spread between jet fuel in Europe and Brent crude oil is now only $28 per barrel.** Since the beginning of the Ukrainian conflict, the spread has been close to $50.

No new comments

Good to know

> 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

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.*

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

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

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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