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

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Monday's Press Review

> Air France-KLM is back to conquering the European sky

(source Challenges) March 30, 2023 - It is true that **Air France-KLM** has missed the opportunity to buy ITA, the former Italian airline, which is now in the sights of Lufthansa. **Will it invite itself into the capital of TAP Air Portugal**, which Antonio Costa's government wants to privatize in part? On paper, **the Franco-Dutch group now has the means to do so.**

First of all, financially: after three years of losses, it is back in the black in 2022, with a net profit of 728 million euros. **Even if its debt remains high and interest rates are rising, the group is in a much better position**," explains Yan Derocles, an analyst at Oddo Securities. **We believe it has the resources to complete a €5**

billion consolidation deal."

In addition, Ben Smith, its CEO, has a free hand vis-à-vis Brussels. On March 16, he announced that he had finalized the repayment of the four billion euro state-guaranteed loan (PGE) granted during the health crisis, which was part of a seven billion euro package granted by Bercy to avoid bankruptcy. In addition to the PGE, Air France had benefited from a 3 billion loan from the State shareholder, which will be paid off by April 19, the company said.
However, this aid was accompanied by conditions imposed by the European Commission, including a ban on taking stakes of more than 10% in competitors. "Lufthansa, which had obtained 9 billion euros of aid, has repaid them in November 2021, which allowed it to better negotiate for the purchase of ITA, while we had the favors of the previous Italian government, "regrets a close to the flagship tricolore. **From now on, time is short, because there are not many targets left in Europe.**
(...)
Based at Lisbon airport, **the Portuguese national airline** announced on March 21 that its financial results had improved significantly. It has returned to profit in 2022, two years ahead of schedule. Its passenger traffic is approaching 14 million customers. Access to the Brazilian market, the airline's third destination, is **also of interest to Air France's European rivals**. "But Lufthansa is busy with ITA, and IAG (British Airways, Iberia, Vueling), because of the geographical proximity of the Madrid and Lisbon hubs, would have problems with Brussels," notes Yan Derocles. The Franco-Dutch group could make the link with its commercial partners, including the Brazilian low-cost airline Gol.

My comment: *Ben Smith, the CEO of the Air France-KLM group, makes no secret of his desire to participate in the consolidation of European air transport.*

The Franco-Dutch group now has the means to do so.

> KLM asks the government for a penalty of up to 100 million euros

(source Luchtvaartnieuws, translated with Deepl) March 29, 2023 - **KLM is demanding a penalty of up to 100 million euros from the government in its lawsuit over the reduction of flights from Schiphol**. In this way, KLM wants to ensure that flights can simply continue if the lawsuit is won, reports RTL News.
(...)
The summary proceedings are supported by Delta Airlines, Lufthansa and the airline organization IATA, among others.
Assuming that the court rules in favor of the companies, KLM is asking for a penalty payment of one million euros for each day that the state does not heed the verdict. The penalty payment requested by KLM is for a maximum of 100 days. In this case, the State should therefore pay 100 million euros to KLM.

My comment: *The judge's decision is expected on Wednesday, April 5.*

> Transavia = Transav+ia as Artificial Intelligence (video)

(source Air Journal) March 29, 2023 - The low-cost airline **Transavia France and its agency Marcel are launching Transav-IA, the first Artificial Intelligence that suggests destinations for your future vacations "based on what you like".**

From March 29, 2023, customers of the Air France Group's cheap flight subsidiary will be offered destinations by the artificial intelligence ChatGPT. "When we choose our vacations, we often base them on criteria that may lack originality: sea, beach, sun, hiking..." For this reason, Transavia and its agency Marcel have decided to rely on the famous AI ChatGPT to create "the tool that helps travelers find a destination based on their tastes, that is, what they really like in life."

ChatGPT's main function is to generate text to answer users' queries. Transavia has "hijacked this technology to make it a tool that helps its customers find their ideal destination" among those of the company's network. The user enters on the site what he really likes and the AI suggests "3 destinations that perfectly match his tastes". With more than 120 destinations in France, Europe and the Mediterranean basin offered by the low-cost airline, "it's hard not to find THE perfect destination", says the low-cost airline.
For example, if you make the following request: "I like naps, Bengal cats and soft sofas", Transav.ia will suggest you fly to Mallorca, "because there the nap is an art of living; cat lovers can discover the wild cats of Mallorca, which have a unique gray-blue color, and for soft sofas, head for the "chiringuitos" of Palma's beach.
(...)

My comment: *The uncontrolled development of AI and its derivatives (ChatGPT for example) worries me.*

The Tribune article "ChatGPT banned in Italy: the first domino falls in Europe"is not reassuring.

Here is an extract:

The first version of ChatGPT was based on the GPT-3 language model, trained on more than 570 gigabytes of text, or more than 300 billion words. This colossal corpus was not really sorted out: the developers took the texts from Wikipedia, from open access books or from the social network Reddit. The result is that we find inaccurate information, opinions, and even conspiracy theories.

> China: the air transport industry has further increased its losses in 2022

(source AFP) March 31, 2023 - **China's three main airlines recorded losses of more than 14 billion euros last year**, penalized in their huge domestic market by the zero Covid policy and restrictions on travel abroad.
For nearly three years, China has applied a very strict sanitary policy against Covid-

19 with almost mandatory PCR tests, confinements and travel restrictions.
The country also virtually closed its borders between 2020 and 2023, while Chinese citizens could only travel abroad for compelling reasons.
As a result, air travel between China and other countries has been drastically reduced.
In this context, **China Eastern Airlines tripled its losses last year to** 37.4 billion yuan **(4.9 billion euros**), announced Thursday the second largest Chinese airline in terms of passengers.
(...) For
its part, **Air China**, the emblematic airline of China, **announced losses twice as large as in 2021.**
They amount to 38.6 billion yuan **(5.1 billion euros) for the** whole year 2022 - against 16.6 billion yuan a year earlier.
For its part, **China Southern Airlines**, the largest airline in Asia by fleet size, **reported** Tuesday 32.6 billion yuan (**4.3 billion euros) of losses.** They reached 12.1 billion yuan a year earlier.

After three years of restrictions, China finally resumed issuing tourist visas for foreigners in mid-March, while Chinese nationals have been able to leave their country again for tourism since January.

But the number of international connections remains low for the moment and the fares very high.

No comment

> With the acquisition of ITA, Lufthansa would strengthen its leadership in Europe

(source Le Figaro) March 28, 2023 - **For twenty-five years, the fate of the Italian national airline, Alitalia, which became ITA on October 15, 2021, has been regularly put on the table.** The company has never made any money, and has even cost the Italian taxpayer 14 billion euros in successive recapitalizations during all these years. But the refusal of politicians to let go of its control has always blocked marriages, notably with KLM and Air France, and prevented the inevitable consolidation from being completed. **This time, it is Lufthansa which, before next summer, should enter the capital of ITA, with a minority share of, it is said, 40%.** In a second phase, if all goes well, it will take control after two years.

ITA is certainly only a fraction of the former Alitalia, with only 69 aircraft and 3,600 employees today, without a handling company. The company carried 10.2 million passengers in 2022. But with this operation, the German group, which federates national airlines (Lufthansa, Austrian, Swiss) would distance itself a little more from its two challengers: Air France-KLM and IAG (British Airways, Iberia). The Franco-Dutch group has been in the running for a long time to take over ITA in a consortium with Delta Airlines and the American fund Certares, but gave up last fall. "While ITA could in no way achieve profitability by remaining independent, there

is, to date, no other credible solution on the table," says Andrea Giuricin, a transport economist at Milan's Bicocca University and at the Bruno Leoni Institute.
For the first time, finally backed by a large group that has been able to make the companies it has bought over the past 20 years (Swiss, Brussels Airlines, Austrian, Air Dolomite) profitable, ITA can hope to become profitable in its turn, by taking advantage of the know-how and negotiating power of the German company. "In a very competitive market dominated by low-cost airlines, the task will not be easy," warns Professor Giuricin. But the choice made by the Meloni government to prefer **Lufthansa**, an operator already very present in Italy (notably with Air Dolomite), seems to be the one that will give ITA the best chance of becoming profitable. Unlike Air France, the German company **has a real industrial plan for ITA, and intends to develop the Italian company from the Rome hub. The objective is to increase its long-haul presence in Latin America and Africa,** where Lufthansa is relatively weak compared to Air France-KLM and IAG. Together with Lufthansa's flights to Rome, ITA is expected to become a key part of Lufthansa's long-haul network to the South. ITA's acquisition of 39 Airbus aircraft is precisely what will make this possible. And Lufthansa will be able to exploit ITA's very strategic slots at Milan's Linate airport.

Nevertheless, **the consolidation operation is far from easy, as once again the government of nationalist Giorgia Meloni has set conditions in** a decree published in early January. First, the Italian state will retain shareholder control of ITA, initially at around 60%, which will give it the final say on strategy. ITA's industrial development plan will have to pay "particular attention to the development of national hubs, the entry into strategic markets and the increase of long-haul routes", the decree states. **As for the management of the company, while the "pre-eminent" role of the acquiring company is foreseen, the Ministry of Economy will have to be granted "adequate powers of control over the management and a right of approval over the new shareholders", as well as "option clauses relating to the sale of the residual shareholding held".** In short, Lufthansa will remain very much under the control of the state shareholder. The Bloomberg agency recently revealed that if the integration of ITA and its development disappointed its expectations, and if in particular ITA was not profitable after two years, the State reserved the right not to take over the operation.

My comment: *Lufthansa CEO Carsten Spohr, who was to meet the Italian government on Monday, was cautious. He said that the discussions were about the purchase price and that no decision would be announced immediately.*

He said that the possible agreement could be announced at the end of April.

ITA Airways recorded a loss of 486 million euros in 2022, for revenues of 1.57 billion euros.

> In the port of Rotterdam, a huge refinery to quench aviation's thirst for sustainable fuels

(source AFP) March 31, 2023 - The scaffolding is entangled with kilometers of green piping: in its huge refinery **in the port of Rotterdam, the Finnish giant Neste is preparing to increase tenfold its production of** sustainable **aviation fuel** (SAF), the main lever for decarbonizing air transport.

Within a few months, the world's largest SAF producer will be producing 500,000 tons per year of aviation kerosene made from used cooking oil and animal fats from this facility.
This process reduces CO2 emissions by up to 80% over the entire use cycle compared to conventional aviation kerosene, according to the International Air Transport Association (Iata).
(...)
"We are increasing our production drastically, from 100,000 tons to 1.5 million tons next year" and 2.2 million in 2026, says Neste
CEO Matti Lehmus, during a press visit.
Because the demand is there. The European Union is preparing to impose gradual obligations on airlines to incorporate SAF in aviation kerosene (2% in 2025, 6% in 2030, at least 63% in 2050). France has already implemented a 1% mandate for all flights departing from its territory since last year.

Neste's production at its Rotterdam and Singapore sites, which is due to start in April, will enable the company to meet the European mandate for 2025 on its own, assures Jonathan Wood, head of sustainable aviation fuels at Neste.
But "by 2030, there will be more demand than supply of SAF, hence the interest in securing long-term supplies" for airlines, notes Vincent Etchebehere, director of sustainable development at Air France.

Last year, Air France-KLM signed an agreement with Neste to supply one million tons of sustainable fuel between 2023 and 2030. The airline group has signed other agreements or protocols over 10 years with the American DG Fuels (600,000 tons) and TotalEnergies (800,000 tons). Such agreements are multiplying between airlines and SAF suppliers.
At the Neste
site in Rotterdam, two huge 15,000 cubic meter storage tanks that still need to be painted are next to a quay from which ships will transport the fuel to Air France-KLM's main bases: Schiphol airport or the Paris hubs by pipeline via Le Havre.

The Franco-Dutch group is voluntarily committed to the use of sustainable fuels to reduce its carbon footprint: it alone consumed 15% of global SAF production in 2022, which represented 0.6% of its own fuel needs.
And it is counting on an incorporation of "10% SAF in 2030 at the global level, not just from Europe", as the EU mandate will impose, says Air France's General Manager Anne Rigail.
Currently, only the so-called HEFA process, based on cooking oils and fats, is produced on an industrial scale, but this biomass is limited. Neste estimates it at 40 million tons at most, enough to meet the needs in 2030. "

To go beyond that, **we need other processes**, and the technologies need to mature in order to go to a higher scale," says Matti Lehmus, who mentions **algae, wood residues and, in the longer term, synthetic fuels combining hydrogen and CO2**.
While the availability of FAS is a key issue, so is its cost, insists Anne Rigail.

Sustainable fuels cost 3,500 euros per ton, but are available at 2,000 dollars in the United States thanks to support mechanisms put in place by Washington. In France, they are invoiced at more than 5,000 euros per ton.

Between the "risks of distortion of competition and deportation of traffic at the gates of Europe" to Turkish or Gulf airlines, the Air France director insists: "We need support and we really think that the EU can do more."

My comment: *The agreement between the Air France-KLM group and Neste is the most important ever signed by an airline.*

It shows the strong commitment of the group in the fight against climate change.

> Paris airports and the police unveil their plan to improve border control

(source AFP) March 29, 2023 - The group Aéroports de Paris (ADP) presented this Wednesday its barometer of waiting times at the borders, a tool to improve the situation, while the **border police (PAF) will recruit 500 contractuals in Paris airports to increase by the 2024 Olympic Games.**

The Paris-Charles de Gaulle airport is "the fifth largest airport in the world, the first in Europe, so we have remarkable results and yet", its image remains tainted "by the fact that waiting times at the borders would be excessive", noted the CEO of ADP, Augustin de Romanet, at a press conference.
According to the first barometers unveiled for the months of January and February, between 83% and 90% of passengers waited less than 10 minutes during border control at Charles de Gaulle. At Orly, this rate reached 87% in January and 85% in February.
Better still, less than 1% of the 6.5 million passengers who passed through these two airports in January and February were forced to wait more than 40 minutes, according to the barometer. **"We have a job of managing queues when problems arise that must be much improved," said Augustin de Romanet, considering the distribution of drinks and food**.

The PAF therefore plans to recruit 255 additional control agents for the Paris airports by June and 500 before the end of 2024. For the whole country, the PAF wants to recruit 1,200 staff by the summer of 2024.

An improvement in the use of Parafe (Automated Rapid Border Crossing) **locks is also on the agenda**. Currently, one agent is needed to operate five Parafe

airlocks and the PAF plans to increase this to six.
The director of the PAF, Fabrice Gardon, insisted on the challenge of ensuring a smooth passage while guaranteeing security: "It is the whole image of the country that is at stake, all the more so with the approach of the Rugby World Cup and the Paris Olympics.
(...)
Augustin de Romanet also said that the Paris airports, which currently have 122 airlocks, should "have 170 by summer 2024.

My comment: *Long live sport! It's good for your health.*

But above all, the organization by France of the Rugby World Cup in the fall, then the Olympic Games next year, will finally encourage the Air and Border Police (PAF) to increase its staff and the number of Parafe airlocks.

Warning: do not confuse the PAF with the PIF, the Screening Inspection Station, in charge of passenger and cabin baggage control.

Stock market press review

> Air France-KLM: Deutsche Bank raises its buy recommendation

(source CercleFinance) March 31, 2023 - **Deutsche Bank on Friday raised its advice on Air France-KLM shares to 'buy' from 'hold', with a price target raised to 2.30 euros** from 1.75 euros previously. As part of a study devoted to the airline sector in Europe, **the intermediary particularly welcomes the deleveraging process initiated by the airline.**

While the analyst acknowledges that the market may still have some concerns about the carrier's debt level, he **believes that fears of further dilutive fundraising should start to dissipate, supporting the share price.**
Its new target shows a potential appreciation of around 45% compared to the previous day's closing price, he said in his note.
Deutsche Bank also raised its recommendation on Lufthansa and IAG shares from 'hold' to 'buy' on Friday.

My comment: *Barclays also considers the stock as a buy opportunity. The price target has been revised upwards from €2.30 to €2.40.*

Since Air France-KLM announced good 2022 results in mid-February, eight analysts have raised their price targets.

The analysts' consensus is now 1.85 euros, compared to 1.55 euros at the beginning of February.

End of the press review

> Air France-KLM share price performance over the past year

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

In 2023, the removal of state aid restrictions, the good 2022 results and the gradual improvement of the company's balance sheet have been welcomed by analysts.

No new comments

> Air France-KLM share price trend

Air France-KLM shares closed at 1.657 euros on Monday 3 April. It is up strongly this week by +7.15%.

It was at 1.253 euros on January 2, 2023.

The 12-month analysts' average (consensus) for AF-KLM shares is 1.85 euros (it was 1.55 euros in early February). The highest price target is 2.40 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 commentary: *After three consecutive weeks of decline, Air France-KLM shares are picking up, buoyed by positive analyst recommendations.*

The analysts' consensus has risen from 1.81 to 1.85 euros.

> 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. In 2022, the difference between the two products has fluctuated between $30 and $50, while in previous years it was no more than $10.

No new comments

> Fuel price changes this week

The barrel of Jet Fuel in Europe is up this week by $4 to $105. After peaking at $182 in June 2022, it had fallen back to $132 by early August.
It was at $79 before the outbreak of war in Ukraine.

Brent (North Sea)
oil is up sharply this week from $7 to $85, following announcements of production cuts by OPEC+.

From mid-February 2022 to the end of July, it was yo-yoing between $100 and $120. Since then, it has oscillated between $75 and $99.

While oil has been back to a normal level for several weeks, **jet fuel is now approaching its normal level. The difference between jet fuel in Europe and Brent crude oil is now only $30 per barrel.** In 2022, at the beginning of the Ukrainian conflict, this spread was close to $50.

My new comment: *Brent (North Sea) oil is up sharply this week from $7 to $85, following OPEC+ production cut announcements.*

Note (source: prixdubaril website)
The OPEC+ alliance (or OPEC+ in its English-speaking form) also known as the "Vienna Group" is made up of 24 oil-producing countries with the aim of bringing relative stability to the oil market through joint agreements on oil production.

It is composed of the 14 OPEC countries (Organization of the Petroleum Exporting Countries) as well as 10 other producing countries including Russia, Mexico and Kazakhstan.

The 14 OPEC members control 35% of the world's oil supply and 82% of proven reserves. With the addition of the 10 non-OPEC countries, these shares increase to

55% and 90% respectively. This gives OPEC+ a level of influence on the world economy never before achieved.

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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