

Increase in Air France-KLM's share capital



I Letter from the Director Air France-KLM

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Monday's Press Review

> **Raising Air France-KLM's capital: Djebbari assures that "the State will be there".**

(source BFM TV) December 9 - After granting 7 billion euros in aid in May, **will the State increase its stake in Air France-KLM?**

Questioned this Wednesday on BFM Business, the Minister Delegate in charge of Transport, **Jean-Baptiste Djebbari, did not rule out such an option.**

"What I can tell you is that the State has responded present at the most acute moment of the crisis with our Dutch counterparts to ensure that Air France-KLM, can survive in this crisis. That was what it was all about. And the State will be there again," he said.

The State, which currently holds 14% of the capital of Air France, "**will be there to ensure that the company absorbs the effects of the crisis**, that it repositions itself, that it can be a conqueror in the future. **And of course we will be very attentive to the balance between France and the Netherlands**," added Jean-Baptiste Djebbari.

After having granted "loans so that the cash flow is sufficient and that Air France can meet its expenses", it is now a question of allowing the group to "find its own funds which are sufficient to continue to resist and develop", explained the Minister Delegate. And to conclude by indicating that "the State will be present under conditions that are still to be

defined, to be perfected".

> **"We werken samen" (We work together)**

(source rtlnieuws translated with Deepl) December 8 - **Finance Minister Wopke Hoekstra says he is not shocked by the rumors of a French government coup at Air France-KLM.** According to French media reports, the government would like to increase its stake in the airline in order to put the Netherlands at bay as a shareholder.

"We exchange well with each other. We bought shares at the time for a good reason. Thanks to that, we have enforced the guarantees," says Hoekstra in the weekly conversation with RTL Z.

"We really work together, but on the French side, they sometimes look at things differently. The recipe is different. **Hoekstra does not want to say when the Dutch government will or will not buy shares.**

> **Strategy - How the French government is preparing to rescue Air France-KLM**

(source La Lettre de l'Expansion) December 14 - **This is the main file on the desk today of Martin Vial, the head of the State Holdings Agency.** How to save Air France-KLM at the end of a year 2020 marked by the health crisis, and therefore the fall of a very large part of passenger traffic? And above all, **how can we prepare for a future that promises to be very hectic financially,** even if the arrival of several anti-Covid vaccines should allow planes stuck on the ground to gradually get back in the air.

Air France-KLM is naturally the "public" company most affected by the health crisis. And even though the State is only a 14.3% shareholder, it was very quickly concerned to ensure that the tricolor company had enough cash to cope with daily losses of more than 10 million euros. As early as the spring, **the French State granted a 3 billion euro loan to Air France-KLM and arranged for a consortium of six banks to grant 4 billion euro in loans as** part of an EMP, with an exceptional 90% guarantee. For their part, the **Netherlands, also a 14% shareholder, granted a 3.4 billion euro loan.**

Thanks to this dual sponsorship, **Air France-KLM had a cash cushion of 12.4 billion euros at the end of September.** 12.4 billion at the end of September, enough to finance the operating loss for the coming months and the restructuring plan, which involves the elimination of 8,500 jobs by 2022, including 5,000 this year. Every quarter, the company records a negative cash flow of more than 1.2 billion euros.

For the whole of 2020, this cash flow should therefore reach the astronomical figure of -5 billion euros. Net income, which was negative 6 billion euros at the end of September, is expected to reach the record level of a loss of at least 8 billion euros for the full year 2020. As a result, **Air France-KLM is expected to post negative equity of 6 to 7 billion euros, in addition to a debt of more than 12 billion euros at the time of closing its accounts for the year just ended.** Figures next to which the market capitalization of the tricolor airline no longer makes much sense with an amount of 2.2 billion euros. It **is therefore now urgent** for the State **to rebuild Air France-KLM's balance sheet in a sustainable manner.** To do this, Martin Vial, who personally sits on the board of the company, has surrounded himself with the advice of the banks Cacib and Citigroup and the law firm BDGS, with notably Antoine Bonnasse and Antoine Gosset-Grainville. The company is advised by Gide, Willkie Farr & Gallagher LLP and Natixis.

According to the various parties involved in this major restructuring, **the financial equation changes almost daily.** But one point now seems to be clear: Air France needs an equity recapitalization solution of around 7.5 billion euros, possibly in stages, and not entirely, in 2021. And we should probably see a combination of different elements. With a significant component of hybrid equity in the form of perpetual debt. And with a "new money" component that will necessarily be limited by the current weakness of the Air France share.

According to various protagonists in this dossier, about 3 billion euros would come from the conversion of the French Treasury's debt into quasi-equity in the form of perpetual debt. As **the Dutch government wishes to maintain the balance of power**, an additional contribution of 1 billion euros should be provided to complement that of the French government, again in the form of quasi-equity. 1 to 2 billion euros of new money is to be expected. This transaction will be less difficult for Bercy to accept than for the Dutch government and the European Commission. And with a large number of caveats... While waiting for a new operation in 2022!

My comment: *The three articles above allow us to assess the situation of the Air France-KLM group.*

The French and Dutch ministers intervened last week to rectify the journalists' interpretations; the two States are working together to find the right way to strengthen the group's equity, while striving to preserve the interests of the main shareholders.

Elections scheduled for 2021 (legislative elections in the Netherlands,

regional elections in France) could complicate decision-making.

> **Bamboo Airways also turns to AFI KLM E&M for support of equipment for its Boeing 787 fleet**

(source Le Journal de l'Aviation) 10 December - (...) Air France Industries KLM Engineering & Maintenance (AFI **KLM E&M**) has **just signed a new long-term equipment support contract with Bamboo Airways for its Boeing 787 aircraft**. The young Vietnamese airline has been operating the Dreamliner for nearly a year, with three 787-9s in its fleet (...).

The MRO division of the Air France KLM Group specifies that Bamboo Airways will benefit from efficient services in terms of equipment repair, logistics and access to spare parts thanks to a stock based in Hanoi and several AFI KLM E&M pools located around the world. The Vietnamese company will also benefit from the Prognos predictive maintenance platform. **The contract covers a total of 14 aircraft in the (...)** **This contract comes on the heels of the contract signed with Air Premia, the new Korean airline, which has also chosen AFI KLM E&M for the equipment of its 10 future Boeing 787s.**

Bamboo Airways becomes the 21st customer of the MRO division of Air France KLM for its services on the Dreamliner (...).

***My comment:** Two contracts in two days, that's two good pieces of news for the Air France-KLM Group's Engineering & Maintenance business.*

> **Air France-KLM Martinair: biofuel-powered cargo aircraft**

(source Air Journal) December 11 - (...) **Air France KLM Martinair Cargo yesterday announced the launch of the SAF Cargo program**, the "world's first sustainable aviation fuel (SAF) program for the air cargo industry", enabling freight forwarders and shippers to "participate in reducing CO2 emissions from the air transport sector" (...).

The SAF Cargo program allows shippers and freight forwarders to operate flights with a percentage of sustainable aviation fuel through a book and claim system. **Customers "determine their own level of commitment", and Air France KLM Martinair Cargo ensures that their entire investment is used for the supply of sustainable aviation fuel.** By contributing to its use, customers "receive a third party audited report, justifying the volume of sustainable aviation fuel purchased in relation to traffic and indicating the reduction in CO²

emissions achieved". By participating, customers "not only contribute to the reduction of CO2 emissions, but also confirm their commitment to lead the industry towards a more sustainable future.

"Our commitment to reduce CO2 emissions is one of the pillars of our cargo strategy," said Adriaan den Heijer, Executive Vice President Air France-KLM Cargo and CEO of Martinair. (...)

Sustainable aviation fuels are not yet widely available, the group points out, which is why Air France KLM Martinair Cargo has set up this program for shippers and freight forwarders to stimulate and develop the market. Their investment "will contribute to this development and make it one of the priorities of the major players in the sector. **This new program will** bring shippers and freight forwarders together in a shared commitment to sustainability, the **development of sustainable aviation fuels at a more reasonable price compared to standard kerosene**".

***My comment:** Another acronym that will come up regularly: SAF for Sustainable Aviation Fuel.*

The Air France-KLM group is stepping up initiatives to reduce the carbon footprint of its fleet, in favor of aviation that preserves the planet. The launch of SAF Cargo is an example of this.

To better demonstrate their involvement in reducing their sector's CO² emissions, airlines would be well advised to summarize the results of their efforts using simple indicators, established in collaboration with the authorities and NGOs.

This would allow them to improve their communication and (perhaps) reduce the public hype surrounding the pollution generated by air transport (aviation bashing).

> Lufthansa agrees with unions on the elimination of 29,000 jobs

(source: Les Echos) December 7 - On the flip side, **Lufthansa** displays a cheerful Finnish Santa Claus to announce the resumption of bookings for Christmas. On the flip side, the German company reduced the canopy with an axe. This weekend, it **confirmed that 29,000 jobs will be cut by the end of the year, including 20,000 outside Germany. The airline mastodon, which had 124,500 employees in September,** had already begun to reduce its workforce abroad, particularly with the elimination of 14% of positions at Brussels Airlines.

An agreement approved on Friday by the Verdi trade union, delays the cutback until March 2022 for the 10,000 or so additional jobs threatened

in Germany. In compensation, employees will waive vacation bonuses and salary increases by the end of 2021. This concession is expected to save the company some 200 million euros.

Ground staff are primarily affected by the agreement, but the group boss, Carsten Spohr, warned back in November that Lufthansa has at least 1,100 extra pilots out of its 5,000. Negotiations are underway and job cuts could be announced in early 2021. The pilots' union, Cockpit, is ready to accept "job cuts but not outright layoffs," comments its spokesman (...)

Lufthansa is moving up a gear as the hull is leaking all over the place, with losses of 5.6 billion for the current year, for a turnover of 11 billion, compared to 28 billion for the same period in 2019. In the spring, the breach was urgently plugged by nine billion in public aid from Germany, Switzerland, Austria and Belgium (...).

***My comment:** The number of job cuts announced by the Lufthansa Group is impressive. I remain cautious about the 20,000 job cuts outside Germany, for a workforce estimated at less than 65,000 people. This would represent a decrease of about 30%.*

Furthermore, one should be careful not to compare the figures with those published by the Air France-KLM Group. Employment and remuneration conditions are very different, particularly for flight crews.

Air France has the particularity of remunerating cabin crew and pilots according to the number of hours flown. This is not the case for other airlines, which are forced to resort to either layoffs or pay cuts through negotiations with unions.

> **Flyr** : New Norwegian airline braves the crisis

(source Forbes) December 10 - When it was announced earlier this year, the launch of Flyr, a new Norwegian airline, seemed far-fetched in this period of pandemic (...).

Flyr **will enter the Norwegian domestic market next year** and will serve selected European destinations to/from Norway. If the airline's name sounds like a smartphone application, it's because **an application is at the heart of the strategy. All customer bookings and changes will have to be made using it.**

(...) Founder Erik G. Braathen (...) is not a newcomer to aviation. For ten years he managed Braathens SAFE, an airline that was eventually acquired by Scandinavian Airlines System. Since then, he has been

involved with Norwegian in various capacities, including as Chairman of the Board from 2004 to 2009.

Flyr's new CEO, Tonje Wikstrøm Frislid, will take over the reins in 2021. She has more than 10 years of experience with Norwegian Air, where she rose through the ranks to become Vice President Crew Management (...).

Until this year, Norway's domestic air transport market was dominated by Scandinavian Airlines System and Norwegian. Widerøe instead serves smaller regional airports (...).

If Norwegian survives its latest crisis, Flyr will be competing with four other airlines on the Norwegian tarmac. Indeed, just hours after the announcement of the launch of the new airline, the Hungarian company Wizz Air announced its entry into the Norwegian domestic market.

In a recent press release, Flyr's new CEO appears to be targeting Norwegian. It states that the management team is "building an airline that does not depend on bringing more and more aircraft into service to become profitable". Norwegian has long been criticised for its aggressive growth strategy, which has earned it huge debt and played a major role in its recent difficulties.

Flyr also promises to use Norwegian-based flight crews, who work under Norwegian collective agreements. For its part, Wizz Air has been subject to criticism and calls for a boycott because of its refusal to deal with unions and collective agreements.

***My comment:** The upturn in activity after a crisis is conducive to the launch of a new airline.*

Existing airlines are weakened, and qualified personnel are looking for jobs.

In this context, the launch of the Norwegian airline Flyr could be successful. Its founders are counting on the collapse of Norwegian and are betting on greater respect for social rules than the main competitors.

It remains to be seen whether customers will be receptive to this argument.

> **First delivery of a Boeing 737 MAX**

(source Le Journal de l'Aviation) December 9 - The **sky begins to clear for the 737 MAX**. As **GOL puts its first aircraft back in the air today, deliveries have resumed at Boeing**. For the first time since March

2019, a 737 MAX passed through the aircraft manufacturer's delivery center on December 8. It joined the United Airlines fleet (...)
Boeing, for its part, will be able to begin reducing the inventory of aircraft it has produced and has not been able to deliver since the fleet was grounded twenty months ago. **Greg Smith, its CFO, recently recalled that 450 aircraft were parked at its facilities. The aircraft manufacturer will have to wait many months to deliver all of them.**
At the same time, production continues at a very low pace today, after being temporarily suspended.
However, Smith had shown his faith in the program, saying he was "confident in its long-term fundamentals" and still considered the 737 to be "the main revenue driver" for the commercial aircraft division. In the short term, it should benefit from the emerging recovery profile, led by the domestic sector.

My comment: *Will passengers accept to board a Boeing 737 Max?*

Many specialists are asking the question. But how many customers know what model of aircraft they are flying?

> **Socially responsible connectivity to support the airline industry**

(source ecologie gouv fr) December 8 - (...) In preparation for the European Transport Council (TTE) meeting on December 8, 2020, the **transport ministers of Austria, Belgium, Denmark, France, Italy, Luxembourg, the Netherlands and Portugal signed a joint declaration entitled "COVID-19 Recovery": Towards Socially Responsible Connectivity**". The Ministers took this initiative to underline the importance of ensuring that the recovery of the aviation sector from the pandemic is translated into socially responsible and equitable air connectivity across Europe.

The declaration comes against a background of profound changes in the aviation sector, which represent a challenge for airlines, their staff and national authorities, but which the crisis is likely to accentuate : the emergence of transnational airline business structures with bases throughout Europe, legal uncertainty regarding applicable labour and tax law, the multiplication of atypical forms of employment for crews and different levels of social protection for workers, unequal conditions of competition between airlines and inadequate enforcement of rules at national level.

The 8 Member States invite the European Commission and other Member States to consider these challenges as a priority and to take

action, for example by ensuring legal certainty, effective enforcement of the rules, better coordination between Member States' authorities and by taking into account the social dimension when revising Regulation 1008/2008.

"A stronger and more resilient way out of this unprecedented crisis is to **ensure healthy and fair competition and socially responsible connectivity for European travellers,**" the ministers said.

The declaration remains open to the accession of other EU Member States, and to promoting the need for a meaningful social agenda in the aviation sector in Europe.

***My comment:** In October 2018, Belgium, Denmark, France, Germany, Luxembourg and the Netherlands had already published a similar statement: "The Social Agenda in Aviation - Towards Socially Responsible Connectivity".*

Will this declaration be followed up? Hopefully, the way out of the health crisis will make it possible.

> **What future for "wet-lease" players in the next world?**

(source: Le Journal de l'Aviation) December 10 - While the **world's major leasing companies are on the way to increasing their market share at the end of the crisis, breaking the symbolic 50% mark for the world commercial aircraft fleet over the next few years, the fate of the ACMI players, and in particular that of companies specializing in the leasing of aircraft with crews, is the subject of debate.**

While a

large number of airlines are still simply trying to survive the next six months, **the need for capacity that can be provided by wet-lease companies has logically collapsed with the crisis, directly calling into question their business model.**

One of the most visible signs of the wet-lease industry's difficulties was the thunderous withdrawal of Hi Fly's single Airbus A380 in November, even though it had been converted into a "Freighter" a few months earlier (along with some of its A330 and A340 aircraft). The Portuguese group didn't hesitate to sell one of its A330s for dismantling at the same time.

Another major player in wet-lease in Europe, the operator Air Atlanta Icelandic, for its part, has just abandoned its plan to become a passenger charter company and has just created a new company in Malta, Air Atlanta Europe, in order to take full advantage of the tax

benefits of the smallest EU state to strengthen its cargo aircraft charter business, a market that is developing with the crisis, but which will also become increasingly competitive with the return of passenger aircraft holds during the recovery.

New projects have thus come to offset the collapse in ACMI's foreseeable demand for passenger transport, such as the creation of the OWG company by the Canadian operator Nolinor Aviation. In the United States, an ambitious start-up is also preparing to take off in the coming weeks.

The new U.S. airline Global Crossing Airlines (GlobalX) is building a fleet of A320/A321, A330 and A321F single-aisle aircraft to operate wet-lease and ACMI passenger and cargo flights in the U.S., Latin America and Canada. A first A320 leased to DAE is expected at the end of December, as is an A321 from Magnetic MRO's leasing subsidiary. GlobalX positions itself as a company providing flights for airlines as well as charter flights for tour operators, professional and university sports teams and other groups requiring a 150-seat aircraft capable of flying up to six hours.

The benefits of wet-lease for airlines should also become apparent early on in the takeover,

as they seek to find a fleet size that exactly matches their profitability constraint, even if it means leaving some of their aircraft in long-term storage to avoid additional risk as long as the market situation remains uncertain with travel restrictions prior to the mass distribution of vaccines. ACMI also offers some flexibility to airlines that will not want to commit directly to dry-lease contracts with lessors when looking to expand capacity again in the coming years.

My comment: *The current crisis has put the cards back on the table for renters.*

Airlines have reduced their flight crew. They have also taken advantage of the end of rentals to return the planes to the renters.

When business resumes, some airlines will not have the flight crew available immediately.

They will then opt for wet leases. Hirers are trying to anticipate this demand by creating airlines with staff.

Some details

The rental of aircraft can take different forms depending on the needs: short or long term charters, with or without crew. We talk about ACMI (aircraft, complete crew, maintenance, and insurance). The other elements of the flight (fuel, airport assistance, traffic rights, overflight taxes...) remain the

responsibility of the client company.

The wet lease is the rental with crew (pilots and cabin crew).

Damp lease is the rental with technical crew (pilots). The cabin crew is that of the client company.

The dry lease is the rental without crew.

The wet lease is the solution chosen for a specific need (replacement of a broken down aircraft, a peak of activity).

The wet lease is also interesting for the launch of a company or the opening of a line. It enables passengers to be transported before the flight crew has been recruited. Then, when the cabin crew is trained, the customer opts for a damp lease contract. Then, when the pilots are trained, the contract is transformed into a dry lease .

End of the press review

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

The **Air France-KLM share is at 4.90 euros** at the close of trading on Monday 14 December. **It is down sharply by -8.10%** over one week.

Before the coronavirus epidemic, the Air France-KLM share was at 9.93 euros.

The average (the consensus) of analysts for AF-KLM shares is 3.16 euros. 3.16. No analyst sets a target price higher than the current price. The highest target price is 5 euros, the lowest is 1 euro. You can find on my blog the details of the analysts' consensus. I no longer take into account the opinions of analysts prior to the beginning of the health crisis.

The barrel of Brent oil (North Sea) is up from \$1 to \$50. Since the announcement of a potential vaccine, the price has risen by \$10 (+26%).

At the beginning of the coronavirus epidemic, it was at \$69.

This indicative information in no way constitutes an incitement to sell or a solicitation to buy Air France-KLM shares.

You can react to this press review or provide me with 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 related to the Air France-KLM group or to employee shareholding...

See you soon.

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| François Robardet

Director Air France-KLM representing employee shareholders PNC and PS.

You can find me on my twitter account @FrRobardet

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

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