

Air France-KLM



I Letter from the Director of Air France-KLM

François Robardet Representative of employees and former employees PS and PNC shareholders

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Editorial

Dear readers,

Personal constraints limit the time I have to write this letter this week. Its format is therefore reduced.

François

Monday's Press Review

> Air France-KLM launches a billion euro capital increase

(source Les Echos) April 15 - No time to lose! One week after the announcement of the agreement with the European Commission on the conditions of the recapitalization of Air France and Air France-KLM, **the group unveiled on Tuesday morning the launch of a capital increase of 988 million euros** (...) This cash injection comes in addition to the conversion into perpetual convertible bonds (TCF) of the 3 billion euros loan granted by the French State to Air France last June. Current Air France-KLM shareholders who do not want to see their stake diluted in this operation have priority access. **This capital increase will result in the issue of 186 million new shares, at an introductory price of 4.84 euros, compared with 5.31 euros at the**

close of the previous day.

This discount caused the share price to fall by more than 3% at the opening on Tuesday morning. But the operation will also be the subject of a public offering, between now and April 15 (with the possibility of an extension). In total, the capital increase could reach a "maximum" of 1.1 billion euros, says a press release. **The settlement of the capital increase is scheduled for April 22.**

The French state, which holds 14.3% of the capital, has already committed to subscribe, but will remain just below the 30% threshold, beyond which stock market regulations require a public offer for the entire capital. Its voting rights will also increase, from 18.9% to 29.4%. **The cost to the public purse of this additional boost would be around 593 million euros.**

The Chinese company **China Eastern has also announced its intention to participate in the capital increase, in order to maintain its current 8.8% stake. Its investment would be in the order of 127 million euros** and its shareholding would rise to 10% (and almost 12% of the voting rights). **This is part of a strengthening of its strategic partnership with Air France-KLM** announced Monday evening, which provides for the integration of the Paris-Beijing and Amsterdam-Beijing routes, as well as airport services activities, into the joint venture formed in 2012.

On the other hand, the other strategic partner of Air France-KLM, the American company **Delta Airlines, has indicated that it could not participate in the capital increase. Having also received financial aid from the U.S. federal government, Delta is prohibited from investing in a foreign airline until it has repaid the public money.** Its 8.8% stake in Air France-KLM will therefore be diluted to around 6%, but still with 9% of the voting rights.

Another major absentee: the Dutch state, which holds 14% of the capital, has informed the group that it will not participate. **The Netherlands apparently wants to reserve its financial support for a probable recapitalization of KLM, which is still being negotiated with the European Commission.**

During the election campaign for the March parliamentary elections, the issue of recapitalizing Air France-KLM was controversial and several Dutch politicians pledged to reserve public money for the exclusive support of KLM. In this case, the Dutch share of Air France-KLM's capital could fall to 9.76%, but with 14.41% of the voting rights (instead of 18.6% previously), taking into account the double voting rights rule for shares held for more than two years.

The Air France-KLM capital increase will therefore enable the holding company to improve its equity, but also its cash level, to the benefit of Air France. Coupled with the expected recovery in operating income in 2021, **this operation should enable the group to reduce its debt to Ebitda ratio to less than 3 by 2023**, the minimum necessary to be able to refinance itself on the financial markets. **But the stated objective is to reach a ratio of 2 by 2023, with additional measures to be specified.**

***My comment:** The Air France-KLM group announced back on April 6 that it was studying new measures to further strengthen its balance sheet, several of them to be taken before the 2022 shareholders' meeting.*

"These measures could include the issuance of appropriate amounts of new equity as well as commensurate quasi-equity instruments, subject to market conditions," Air France-KLM said.

I will do my utmost to ensure that the group's employees can participate in this second phase of recapitalization.

MRO: IndiGo further extends its equipment support contract with AFI KLM E&M

(source Le Journal de l'Aviation) April 14 - Indian low-cost carrier **IndiGo has renewed and extended its equipment support contract with Air France Industries KLM Engineering & Maintenance (AFI KLM E&M). The agreement now covers more than 350 aircraft. The range of services** provided by the Air France KLM Group's MRO division **includes equipment repair, access to a dedicated pool, provision of a Master Base Kit (MBK) at IndiGo's Flight Operations Center in Delhi, as well as logistical support.**

"We are very pleased with IndiGo's decision to extend our long-term partnership. This extension marks another step in our strategy to strengthen our leadership position in the A320neo market segment and to further develop our regional MRO presence in the Asia Pacific region," said Dominik Wiener-Silva, AFI KLM E&M's Director of Sales for the Asia Pacific region, in a statement.

As a reminder, IndiGo has experienced significant growth since its launch, with 255 aircraft in the fleet today and more than 600 more on order, all of which are Airbus A320neo Family aircraft (A320neo, A321neo, A321LR and A321XLR).

AFI KLM E&M is thus strengthening its cooperation with India's largest airline, a relationship that dates back to IndiGo's own creation in 2006 with equipment support for its A320ceo fleet. The Airline-MRO had also taken over equipment support for the airline's 25 ATR 72-600s in 2017. (...)

> **Delta Airlines still in the red, sees the end of the tunnel**

(source AFP) April 15 - The airline **Delta Airlines**, whose quarterly results are still very affected by the Covid-19 pandemic, **showed optimism** Thursday about the recovery of air traffic thanks to vaccination campaigns.

(...)

Symbol of the optimism, **the amounts burned each day by the company returned, on average, to 11 million dollars in the first quarter**, against 12 million in the previous quarter and 24 million three months earlier.

The situation even improved significantly in March, with a positive cash flow of \$4 million per day, "as consumers regained confidence in travel and began buying airline tickets again," Delta Airlines said in a statement.

(...)

The group posted a loss of 1.18 billion dollars for the quarter, less than analysts' expectations, who were expecting 1.88 billion dollars. On a per-share basis, the Wall Street benchmark, the loss was \$3.55, compared with forecasts of \$3.13.

(...)

American Airlines, which is due to publish its results on April 22, **has said in recent days that it expects a net loss of between \$1.2 and \$1.3 billion in the first quarter**. United Airlines expects a 66% drop in revenue when it reports results on April 19.

> **After the planes, Norse Atlantic finds money**

(source Air Journal) April 16 - The future long-haul low-cost airline **Norse Atlantic Airways has raised 138.5 million euros on the markets**, bringing it one step closer to launching with Boeing 787 Dreamliners between Europe and the United States.

While **Norwegian Air Shuttle is talking about raising up to 593 million euros to reduce its debt**, its future rival has just succeeded in its entry to the Euronext Growth stock exchange in Oslo: it announced in a statement to the financial authorities that it had raised about 1.4 billion NOK (138.44 million euros), the exchange said in a statement. The issue of new shares had already brought him at the end of March almost

the same amount (126 million euros).

(...)

Norse Atlantic had already announced at the end of March an agreement with AerCap for the lease of six 787-9 Dreamliner and three 787-8, all used, with deliveries starting this year.

Announced for December 2021, the arrival of the new Norwegian cheap flight specialist in Paris-CDG, London-Gatwick and Oslo-Gardemoen airports, in a market now deprived of Norwegian which abandoned long-haul to survive the Covid-19 pandemic, is thus a little closer. **Norse Atlantic will offer "routes that have proven both popular and profitable," initially to destinations "such as New York, Los Angeles, Miami."**

Launched by Norwegian co-founder and ex-CEO Bjorn Kjos, among others, and based in the Norwegian capital, it already plans to expand its network "to include destinations in Asia" as "more and more Dreamliners enter the fleet." But the future low-cost carrier insists that its growth "will be based exclusively on demand and profitability," even if **its future network and fleet resemble those of Norwegian before its restructuring.** The recruitment of crew members has already begun, but we are still waiting for its new livery.

***My comment:** In Norway, airlines apply the principle of communicating vessels.*

Norwegian Air Shuttle abandons the long-haul and its twin-aisle planes, Norse Atlantic recovers the whole.

> **New problems plague the Boeing 737 MAX**

(source La Tribune) April 17 - The setbacks of Boeing and its 737 MAX continue. **On April 9, the U.S. aircraft manufacturer asked no less than 16 companies to ground their aircraft while it investigates a "potential electrical problem.**

"The recommendation is made to allow verification of the existence of a sufficient ground connection for a component of the electrical power system," the U.S. aircraft manufacturer explained in a statement. "We will provide (the companies) with instructions on appropriate corrective action," the manufacturer added.

The problem is that this problem is more widespread than expected, said the Wall Street Journal on Friday. **This one would affect, clearly, more parts of the cockpit than initially observed.** This complication "comes from the use of a paint coating that could

potentially disrupt the grounding system", which, in an electrical circuit, avoids a possible overload when the aircraft is poorly insulated, according to the economic daily newspaper, which cites sources close to the case.

Boeing has not confirmed this information. The American giant said to the AFP that it was working today with its customers on new instructions, which will soon be submitted to the American aviation authority. The objective: to ensure that the grounding in the cockpit of the affected planes is sufficient, adds the group, without giving more details. Boeing also refuses to reveal the identity of the affected customers, as well as the number of grounded aircraft.

The 737 MAX continues to suffer. The aircraft was cleared to fly again last November by U.S. authorities, after being grounded for nearly two years. The aircraft's MCAS anti-stall system was blamed for the two disasters. These had caused the death of 346 victims in late October 2018 and mid-March 2019.

> **"The crisis accelerates the appetite of airlines for ecopilot" (Openairlines)**

(source La Tribune) April 16 - At a time when the debate is heating up over whether air travel should continue to be a dream, and the Climate Law has just eliminated certain domestic routes if there is no alternative to train travel, **there is growing interest in solutions to reduce the environmental impact of air travel. "The crisis is accelerating the appetite of airlines for ecopilotage," observes Alexandre Feray, founder of OpenAirlines.**

NEARLY 600,000 TONS OF CO₂ AVOIDED IN ONE YEAR

The company has designed a software for aircraft pilots with the ambition of achieving 2 to 5% fuel savings on each flight, with a significant reduction in CO₂ emissions in the process. Its operation is simple: after each flight, the airlines retrieve a memory card from the back of the aircraft where all the flight data is recorded. The pilot has access to a 3D map of the route: the route is blue when the pilot has mastered his driving and turns red when there has been a mistake. The airlines have access to another interface with more global data on the conduct of all pilots and indications on the causes of fuel losses: landing too hard, detour during the journey ... In 2019, all of the company's customers, have avoided the emission of 590,000 tons of CO₂, or as much as what all the cars of a city the size of Toulouse for example emit per year.

The solution currently equips 46 airlines worldwide, including Air France since last summer, but also for several years its

subsidiaries Hop! and Transavia, Malaysia Airlines, etc. Even though the pandemic is grounding planes, OpenAirlines has signed up seven new airlines in 2020.

"Before the crisis, a very strong movement emerged in Europe around flygskam (the shame of flying in Swedish). This pushed airlines to show that they were not passive in the face of the climate emergency. With the crisis, some of them have been helped, but in return, they must accelerate their transition to sustainable development. Their second biggest challenge after Covid will be the environmental transition. We are observing this movement, including in Asia. Malaysia Airlines communicates on all its actions in terms of the environment. The same thing is happening in the Middle East with Oman Air. In the United States, since the election of Joe Biden, airlines are communicating much more on the environment. It is really a global movement," notes Alexandre Feray.

OpenAirlines wants to go further and is starting to deploy a second solution embedded in aircraft cockpits that allows pilots to receive real-time alerts during the flight to improve their navigation. This system can save between two and five percent more fuel," said Jean-Louis Gauthier. It is therefore possible to double the potential savings between the on-board solution and the one on the ground," says the company's president. The new module is already being tested by Malaysia Airlines and should be on board the Transavia fleet by 2021.

EXTENDING ITS SOLUTION TO AIRPORTS

OpenAirlines is also participating in the experiment currently being conducted at Roissy airport with the air navigation services of the Paris region and Air France in particular to develop optimized descent procedures. "

During this experimentation, we are supporting the measurement of the efficiency of one approach compared to another and have data in terms of kerosene savings to assess whether the study is producing the expected results," says Alexandre Feray. "I think we can save another 5% of fuel by optimizing trajectories at the air traffic control level. **By combining the three solutions, we could save up to 15% of kerosene, it's almost a new generation of aircraft," says the entrepreneur.**

The company currently sells its solution directly to airlines, which use it to communicate with ANSPs, navigation service providers like the DGAC. Within two years, it plans to offer its services directly to navigation operators.

Hard hit by the air transport crisis (its service is billed according to the number of aircraft in flight), the company has seen its turnover drop from

3.6 million euros in 2019 to 2.6 million in 2020. It hopes to return to its pre-crisis level in 2021. Based in Toulouse, the company has 37 employees and offices in Miami and Hong Kong.

My comment: *In just a few years, the Toulouse-based company OpenAirlines has developed software solutions that can save as much fuel as a new generation of engines.*

It demonstrates that it is possible for the airline industry to meet its objectives of reducing its climate footprint in the coming years.

> Restrictions on domestic flights adopted by the National Assembly

(source Le Journal de l'Aviation) April 12 - **This weekend, the National Assembly adopted the third part of the Climate and Resilience bill, called "getting around"**. According to Barbara Pompili, Minister of Ecological Transition, transport is the main source of greenhouse gas emissions in France. The aim is to make it less polluting, in order to meet environmental and public health challenges. With this vote, the deputies have endorsed the principle of limiting domestic flights and the supervision of airport expansion projects.

The now famous article 36 prohibits the proposal of a flight between two cities when an alternative of less than 2h30 by train exists. An exception is made for connecting flights. Thus, a Bordeaux - Orly flight will be prohibited but a Bordeaux - Roissy - Miami flight will be authorized. Although this measure is being debated, it has already been reduced from what the Citizens' Climate Convention was calling for, namely a ban on flights when an alternative of less than 4 hours by train exists. However, the government feared that such restrictions would have a very strong impact on employment at Air France and would seriously harm the connectivity of certain territories.

Article 37 strictly regulates projects involving the expansion or construction of airports. It prohibits declaring this type of work to be in the public interest if it leads to an increase in greenhouse gas emissions generated by the airport activity. Exceptions are made for work related to health, national defense or standards.

Finally, **Article 38 requires airlines to compensate for domestic flights (in mainland France), a principle that has been voluntary until now.** Compensation remains on a voluntary basis for flights to the overseas territories. The timetable foresees a gradual implementation of this measure, starting in 2022 and leading to 100% compensation from 2024.

Jean-Baptiste Djebbari, Minister of Transport, welcomed this law, which

also affirms, via Article 35, the government's ambition to establish "better carbon pricing for air transport at the European level, consistent with the unprecedented support plan for decarbonization of the sector that we launched last year" by 2025.

My comment: *Air France has been offsetting CO2 emissions for all its domestic flights for two years now.*

End of the press review

> Advice for employees and former employees who are shareholders

The annual statements from Natixis and/or Société Générale must be sent to you by e-mail or by post.

You will find on my [website](#) the access modalities to the managers' websites.

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.

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

Air France-KLM shares were at 4.980 euros at the close on Friday 16 April. It is down sharply by -6.29% over one week. Since the end of November 2020, the share price has remained around 5 euros. The announcement of the recapitalization has pulled the share price down.

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

The average (consensus) analysts' price for AF-KLM shares is 3.31 euros. The highest price target is 5 euros, the lowest 1 euro. You can find the details of the analysts' consensus on my blog. I do not take into account the opinions of analysts prior to the beginning of the health

crisis.

Brent crude oil (North Sea) is **down \$4 a barrel to \$67**. It is at its pre-pandemic level.

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**

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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