

Successful capital increase for Air France-KLM



I Letter from the Director of Air France-KLM

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Representative of employees and former employees PS and PNC shareholders

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Monday's Press Review

> Successful capital increase for Air France-KLM

(source Air Journal) June 15 - **The Air France-KLM group announced Tuesday the success of its capital increase to the tune of 2.256 billion euros**, which will be allocated to accelerated repayment of state aid and debt reduction. The Franco-Dutch group's capital increase, announced in late May, attracted "strong demand from existing shareholders and new investors," according to the statement issued on June 14, 2022. **The French and Dutch governments have participated up to their rights**, their stake remaining unchanged, thus reiterating "their confidence in the performance of Air France-KLM". **CMA CGM becomes a new strategic reference shareholder with a 9.0% stake in the Group**. The net proceeds of the issue will be "used primarily to accelerate the repayment of state aid and reduce related financial costs, as well as to reduce Air France-KLM's net debt". As announced on the occasion of the publication of the annual results on February 17, the **group "wishes to free itself from the conditions imposed by the European Commission's temporary framework" in the context of the Covid-19 pandemic. Air France-KLM will allocate around €1.7 billion to the repayment of "Covid-19 recapitalization aid", with the balance (around €0.6 billion) reducing net debt.**

This recapitalization has an impact on the group's shareholding structure: **France and the Netherlands remain unchanged with respectively 28.6% and 9.3% of the capital, ahead of the newcomer CMA CGM with 9%**. The airlines **Delta**

Airlines and China Eastern Airlines have fallen back, with the American going from 5.8% to 2.9% and the Chinese from 9.6% to 4.7%. Treasury stock fell from 0.2% to 0.05%, and the public remained the largest shareholder, falling from 46.5% to 45.5%.

In terms of voting rights, the balance of power has also changed: France has risen from 28.1% to 28.5%, the Netherlands has fallen from 13.8% to 10.7%, CMA CGM has taken 8.3%, China Eastern has fallen from 11.4% to 5.6%, Delta has fallen from 8.6% to 4.0%, the company's treasury stock has fallen from 0.3% to 0.1%, and finally the public has risen from 37.8% to 42.9%.

The appointment of Rodolphe Saadé, CEO of the CMA CGM Group, as a member of the Board of Directors for a four-year term was approved at the shareholders' meeting last month, and will be effective "as soon as the regulatory approvals are obtained"

Benjamin Smith, CEO of Air France-KLM said: "The success of our capital increase is a strong demonstration of the confidence of our existing shareholders and new investors in the prospects of Air France-KLM. **This operation, which is part of** a broader strategy of transformation and reorganization of our Group, **will enable us to strengthen our balance sheet and increase our strategic flexibility.** In a context of strong travel demand, **Air France-KLM will continue to implement its strategic roadmap for** increased profitability and sustainability, while meeting customer expectations, respecting its CSR commitments and seizing opportunities as the airline industry recovers. (...)

My comment: *The press release published by Air France-KLM is hopeful. It states that:*

"In the context of an expected improvement in the Company's performance, and the target of a 7-8% operating margin by 2024, the Company is confident that no further dilutive measures will be necessary. The financial liquidity available to the Company (10.8 billion euros as of March 31, 2022) and the promising outlook will allow Air France-KLM to pursue the repayment of state aid, which will also contribute to the improvement of the Company's cost of financing.

CMA-CGM is now the third largest shareholder in the Air France-KLM group, close to the Dutch State (9.0% versus 9.3%).

We will have to wait a few months to judge the impact of its arrival on the strategy of the Franco-Dutch group.

As previously announced, the employees and former employees shareholders via the FCPEs have participated in the Capital Increase in the framework of a blank transaction by reclassifying part of their preferential subscription rights in favor of CMA CGM, in a proportion allowing them to partially finance the exercise of the

balance of their preferential subscription rights through the use of the net proceeds of this sale.

Employees and former employees now hold approximately 1.2% of the share capital, far from the 10% target suggested in the 2019 Pacte law.

> The government wants to substantially reduce Schiphol: at least 50,000 fewer flights per year.

(NU source, translated with DeepL) June 16 - **The government wants a structural reduction at Schiphol**, De Telegraaf and AD report Thursday based on sources in The Hague. The number of flight movements (take-offs and landings) is to be reduced by at least 10%. **The 500,000 annual flight movements are to be reduced in the long term to 450,000 or even 440,000.**

Minister Mark Harbers (Infrastructure) would not comment on the figures mentioned by De Telegraaf during a debate in the Dutch parliament. "I am still trying to put the pieces together," he said. However, various sources in The Hague acknowledge the figures mentioned by the newspaper

The recent heavy traffic at Schiphol Airport would not be the main reason for the airport's shrinkage. The government has already decided that the number of flights should be reduced, reports AD

The noise pollution that the airport causes to local residents would now be the decisive factor. It has been known for some time that Schiphol does not meet the noise standards, but other measures would not have been sufficient.

In addition, Schiphol was supposed to get a new nature permit this year, but that would cause problems. And **the nitrogen problem also plays a role**, an insider tells De Telegraaf.

The coalition agreement already stipulated that the nuisance to local residents should be reduced. But the quality of the Schiphol network should be maintained

It is not yet known when the number of takeoffs and landings should be reduced. Earlier on Thursday, it was already announced that Schiphol would cancel additional flights this summer to cope with the crowds. The two decisions are separate.

My comment: *In the Netherlands, after the parliamentary elections of 2021, the Green Party has become the second political force in the ruling coalition.*

Since then, the likelihood of a reduction in the number of slots allowed at Schiphol has increased. If this happens, KLM may have to choose between reducing the number of short-haul flights (at Transavia Netherlands or KLM Cityhopper) or

reducing the number of long-haul flights.

If the option were to reduce short-haul activity in order to preserve the (more profitable) long-haul activity, Dutch customers would be the most penalized.

> **Air Austral to be controlled by Deleflie**

(source Air Journal) June 15 - The airline **Air Austral** announced Tuesday evening the departure of its CEO Marie-Joseph Malé, the withdrawal of Corsair and Tikehau Ace Capital having left the field open to the group of local investors Deleflie to take over - with the full support of the Region of Reunion.

Based at Saint Denis-Roland Garros airport, the French company **now knows its fate**. As predicted since the beginning of the month, the scenario of the announced marriage (supported by the State) of Air Austral with Corsair International and Tikehau Ace Capital is over: **Deleflie's Reunionese investors have submitted a "binding offer" to the Inter-ministerial Committee for Industrial Restructuring (CIRI)**. And they have asked for a "new governance" to relaunch the airline, which was previously controlled by the Region. **No details were provided last night on Deleflie's request for the cancellation of Air Austral's debt, some 220 million euros, nor on the 60 million euros supposedly put on the table for the operation**. After 10 years at the head of Air Austral, Marie-Joseph Malé left his position as CEO on June 14, 2022, with Joseph Bréma, Deputy CEO in charge of Economic & Financial Affairs, to ensure the transition "until the implementation of the new governance".

Marie-Joseph Malé arrived at the head of the Reunionese company in April 2012 to, according to the company, "accompany the recovery of the company. The business plan established and implemented on his arrival enabled Air Austral to break even in just one year and to initiate a necessary transformation with the aim of ensuring its sustainability. In 2017, in order to cope with the arrival of a low-cost airline, he deployed a strategy of profitable differentiation in order to return to profitability in 2019. This strategy will have enabled the company to stand out from the competition through a distinctive positioning by the comfort, modernity of its products and quality of its services, through the diversification of its network and the development of connections from its hub in Reunion and Mayotte."

(...) **It should be remembered that the French government must present Air Austral's restructuring plan by June 30 to the European Commission** (which had approved a new public aid of 20 million euros). The airline had already received 120 million euros in financing in 2020, including 86 million from SEMATRA and via an EMP.

My comment: *Like all European airlines that received financial aid during the health crisis, Air Austral had until June 30 to present a restructuring plan and a plan to repay the state loans.*

Air Austral has only a few days left to do so.

> Qatar Airways posts record annual profit

(Air Journal source) June 17 - In its June 16, 2022 statement, Doha-Hamad International Airport-based Qatar Airways Group celebrates its 25th anniversary of operations "with the best financial performance," 200% above its highest historical annual profit

(...)

Qatar Airways Group posted a record net profit of \$1.54 billion in FY2021/22.

Overall revenue increased to \$14.4 billion, up 78% from last year, "and up a remarkable 2% from the full pre-Covid-19 (2019/20) fiscal year." Passenger revenue increased 210% year-on-year, "driven by Qatar Airways' network growth, market share increase and higher unit revenue for the second consecutive year."

Qatar Airways carried 18.5 million passengers during the fiscal year, an increase of 218% over last year. **Qatar Airways Cargo remained "the world's leading player" with revenues growing by an impressive 25%** year-on-year with cargo capacity (available ton-kilometers) growing by 25% annually.

(...)

These record revenues are the result of "decisions taken during the pandemic to expand Qatar Airways' passenger and cargo networks, with a more accurate forecast of the global market recovery, reinforcing customer and merchant loyalty and product excellence combined with stringent cost control."

(...)

My comment: *The results announced by Qatar Airways are questionable. While the airline announced a 2% increase in the number of passengers compared to 2019, its profit would have tripled.*

> ICAO: Qatar Airways joins the International Sustainable Aviation Coalition

(source Air Journal) September 24, 2021 - **Qatar Airways is the first airline in the Middle East to participate in the International Sustainable Aviation Coalition, an ICAO platform to "create synergies" between aviation stakeholders to decarbonize the sector.**

(...)

This coalition promotes sustainable international aviation "by acting as a forum through which stakeholders can develop new ideas and accelerate innovative solutions that reduce greenhouse gas emissions at source," said Qatar Airways in a statement. It also **aims to contribute to "the development and implementation of a set of measures and the exploration of a long-term environmental goal related to international aviation."**

The coalition's stakeholders are working on a wide range of sustainable aviation

topics, including fuels, infrastructure, operations and sustainable aviation technology. The coalition looks for early adopters when identifying potential new members. Areas of focus include raising awareness of the continued progress being made in reducing CO2 emissions in the international aviation sector, "strengthening leaderships and reinforcing existing partnerships and innovations.

(...)

My comment: ICAO is a specialized and autonomous agency of the United Nations, whose role is to establish the global regulatory framework for international civil aviation safety. One of the five objectives that ICAO has set for itself is the protection of the environment.

In my previous letter, I incorrectly stated that it was up to IATA to extend the European carbon tax to all countries and consequently to all airlines.

It is rather up to ICAO to set standards (including environmental ones) for the airline industry on a global scale.

The best solution to avoid this unfair competition would be for this carbon tax to apply to all air travel worldwide. It is the responsibility of IATA, the International Air Transport Association, to implement this measure.

The next ICAO General Assembly will be held this fall in Montreal. The objective will be to define a LTAG (Long Term Aspirational Goal) for the international air transport sector.

For Air France KLM, as for other European long-haul airlines, it is essential that environmental standards are defined on as global a scale as possible in order to avoid the distortions of competition that are inevitable if measures are taken at European level.

Stock market press review

> Air France-KLM: Oddo raises its advice, lowers its target

(source Cercle Finance) June 17 - **Oddo has raised its recommendation on Air France-KLM shares from 'underperform' to 'neutral'**, while lowering its target price to €1.45, compared with €4.4 previously.

We are raising our estimates, especially for fiscal year 2022 (+11% in EBITDA and +9% vs. consensus, EPS down following the capital increase), in **order to take into account an improvement in yields in Q2 and Q3**," the analyst said.

Oddo believes that the rise in ticket prices in the French market should continue and amplify in the coming months.

The broker adds that the reservoir of pent-up demand and the gradual -but not complete- return of business travelers (60% of the 2019 level at the end of Q1) do not argue for a collapse in demand.

The effects of the transformation plan of 4.3 billion euros by 2026 (including 3 billion euros by 2024, or 13% of the 2019 cost base) seem to us to be underestimated today, the research firm continues.

Oddo believes that while macro clouds are gathering, the current price also incorporates many risk factors (oil at \$120/bl, expectations of recession, fear of a new capital increase ...) and little good news. The stock is trading on an adjusted EV/EBITDA of 3.4x compared to 5.3x for Lufthansa and 4.7x for IAG.

End of the press review

> Advice for employees and former employees who are shareholders

You will find on my [navigation](#) site the modalities of access to the managers' sites.

To avoid forgetting to change your contact information each time you change your postal address, **I advise you to enter a personal e-mail address**. It will be used for all correspondence with the management organizations.

Keep all the documents related to your Air France-KLM shares in one place: all the letters you receive from the different managers, Natixis, Société Générale, your personal financial institution if you bought your shares through it.

> Management of employee investment funds. Good to know

When you invest money in one of the Air France FCPE funds, you get shares in these funds. You do not hold shares directly.

It is the supervisory boards, which you elected in July 2021 for a five-year term, that manage the funds and make the decisions.

The Aeroactions, Majoractions and Concorde funds only hold Air France shares.

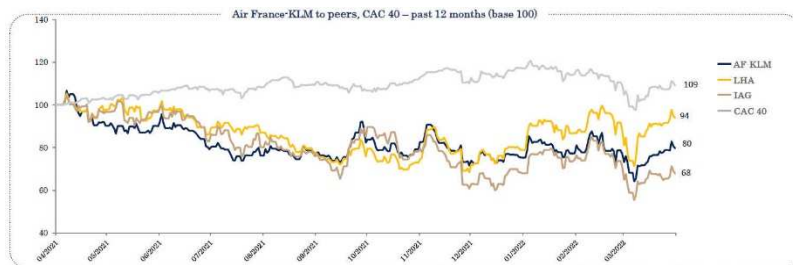
The Horizon Épargne Actions (HEA), Horizon Épargne Mixte (HEM) and Horizon Épargne Taux (HET) funds manage portfolios of various stocks.

My comment: If you would like more information on the management of the various Air France FCPEs, please consult [my website Navigation, section Air France-KLM employee shareholding](#).

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

Air France-KLM shares closed at 1.365 euros on Monday 20 June. It is down this week by -13.39%.

Trading volumes are very high. It is likely that many participants in the capital increase are taking advantage of the fact that the current price is higher than the purchase price (1.17 euros) to take profits.



Air France-KLM share price performance compared to IAG and LH over one year.

Since March 2021, Air France-KLM's share price has evolved in much the same way as that of its two main European competitors, the Lufthansa and IAG groups.

However, there has been a divergence since the beginning of the year. Lufthansa's share price is performing better than Air France-KLM's, probably because the recapitalization of Air France-KLM is taking so long.

IAG's share price is down sharply. The high level of debt of the Anglo-Spanish group is highlighted by analysts.

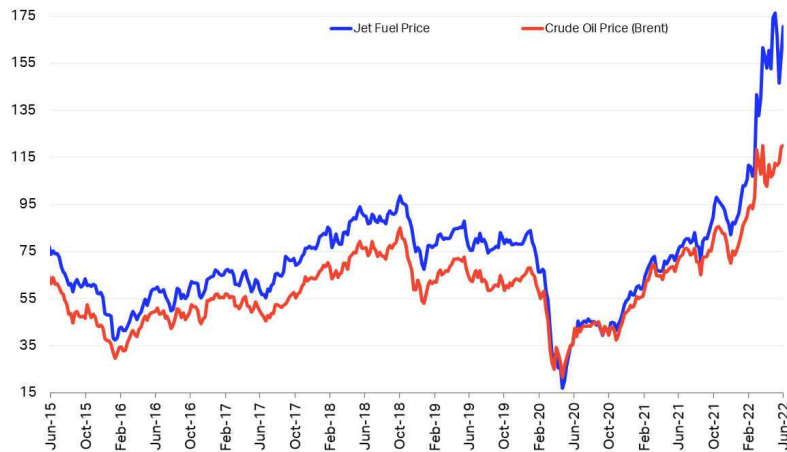
The average (consensus) analyst price for AF-KLM shares was 2.79 euros before the capital increase was announced. The highest price target is 5.50 euros, the lowest 1.30 euros.

You can find on my blog the details of the analysts' consensus. I do not take into account the opinions of analysts prior to the beginning of the health crisis.

> My comment on the evolution of fuel prices

Since the beginning of the war in Ukraine, there is no longer any correlation between the price of a barrel of Brent oil and the price of a barrel of Jet Fuel. This is very clear on the graph below, which covers the period June 2015 - June 2022.

Jet Fuel & Crude Oil Price (\$/barrel)



Source: S&P Global, Refinitiv Eikon

According to specialists, this increase is due to an increase in the fuel reserves of the armed forces, which are composed solely of Jet Fuel.

Indeed, for several years, to ensure the strength of the infrastructure, the French Army has favored a single fuel policy aimed at powering all equipment, land vehicles and generators with jet fuel for air use.

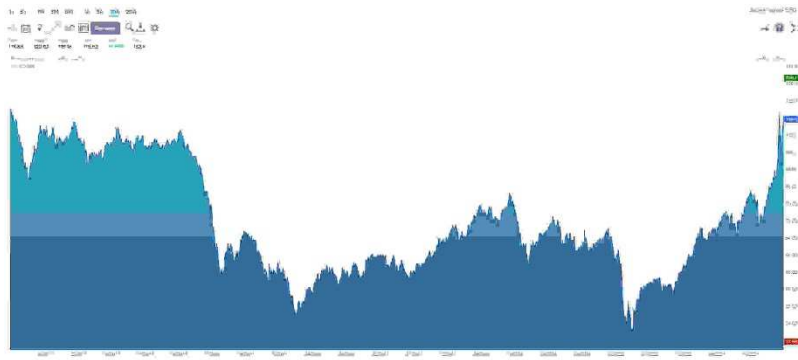
The price of jet fuel in Europe is up this week, reaching \$182 per barrel.

Brent crude oil (North Sea) is down this week by \$8 to \$114.

Since mid-February, it has been yo-yoing between \$100 and \$120.

At the beginning of March, Brent had reached \$132, close to its record of \$150 (in 2008).

At the end of October 2020, it was at a low of \$37.



Evolution of oil prices over ten years. The sharp drop corresponds to the beginning of the Covid-19 epidemic.

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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