

Air France-KLM to consolidate its shares

## I Letter from the Director of Air France-KLM

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

(Raison d'être of the Air France-KLM group)



### François Robardet

Representative of PS and PNC employee and former employee shareholders

N°921, July 17, 2023

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## Monday's Press Review

### > Air France-KLM to consolidate its shares

(source AOF) July 12 - **Air France-KLM has announced the implementation of the reverse stock split and the capital reduction through a reduction in the par value of the shares decided by the Board of Directors at its meeting on July 4, 2023.** The reverse stock split will result in the allocation of 1 new ordinary share with a par value of 10 euros for each 10 existing ordinary shares with a par value of 1 euro, and a 10-for-1 stock split.

The airline points out that the reverse split is a purely technical exchange transaction with no direct impact on the total value of the company's shares held by each shareholder.

**The reverse split will begin on July 31, 2023**, with an exchange period open from that date until August 30, 2023 (inclusive) to enable shareholders who do not hold a number of shares that is a multiple of 10 to buy or sell existing shares in order to obtain a number of existing shares that is a multiple of 10. The reverse split will take effect on August 31, 2023.

The par value of each share will be reduced from 10 euros to 1 euro, representing a reduction of 9 euros per share. The amount of this capital reduction will be allocated to the "share premium" account.

After the capital reduction, the par value of the new shares will be identical to the par value of the existing shares (before the reverse stock-split). **"The capital reduction by reducing the par value and allocating it to additional paid-in capital is a purely technical operation, with no impact on the market value of the company's shares or on the number of shares in issue"**, Air France-KLM points out.

***My comment:*** *The Air France-KLM share consolidation process was approved at the Annual General Meeting of Shareholders on June 7, 2023.*

*Information for current and former employee shareholders is already available on the website of the fund manager, Natixis.*

### > **Air France-KLM: Apollo to provide €500 million in financing**

(source AGEFI) July 14 - **The Franco-Dutch airline group Air France-KLM announced on Friday that it had signed a definitive agreement with the investment fund Apollo Global Management, which will enable the subsidiary dedicated to the engineering and maintenance components business of its airline Air France to receive quasi-equity financing of 500 million euros.**

This transaction is an integral part of the recapitalization measures announced by Air France-KLM at the time of the presentation of its 2022 results earlier this year. "Under the terms of this agreement and subject to customary closing conditions, Apollo will subscribe to perpetual bonds issued by this operating subsidiary and this financing will be accounted for as equity under IFRS," Air France-KLM said in a statement. "The proceeds of the transaction will be allocated to the Group's general requirements and to the financing of components linked to the maintenance activity", added the airline.

**Air France-KLM also indicated that the perpetual bonds subscribed by the funds and entities managed by Apollo would bear interest at 6.9% for the first three years**, after which progressive increases and a cap would be applied. The Group will have the option of redeeming the bonds at any time after the third year.

***My comment:*** *The transaction will contribute in particular to restoring Air France's shareholders' equity.*

*The contractual increase in the interest rate from the end of 2026 will encourage the company to redeem these perpetual bonds without delay.*

### > **The beginning of the end for the American Airlines - JetBlue alliance**

(source Air Journal) July 17 - American Airlines and JetBlue Airways have begun the "unravelling" of their Northeast Alliance, rejected by the US competition regulator.

**Having given up in early July 2023 on appealing a federal court ruling last May ordering it to terminate the alliance launched with American Airlines in early 2021 at Northeast airports (mainly in New York and Boston), JetBlue announced on July 14 that it was "working in concert" with its former partner to prepare for the end of their alliance.**

(...)

While the latter [American Airlines] maintains its plans to appeal, **JetBlue prefers to concentrate on the takeover of Spirit Airlines - a merger also rejected by the competition regulator.** A decision strongly contested by the two companies: they believe that "the Department of Justice is mistaken about the law and does not understand that **this merger will create a strong, low-cost national competitor" to the four companies currently dominating the sector** (American Airlines, United Airlines, Delta Airlines and low-cost Southwest Airlines control 80% of American air transport, ahead of Alaska Airlines and JetBlue Airways and Spirit Airlines, which together would become the fifth largest airline in the United States).

***My comment:** The two airlines announced in July 2020 that they would be code-sharing certain flights, offering new options on schedules, fares or non-stop flights, and enabling their respective customers to use each other's frequent flyer programs.*

*But the antitrust division of the U.S. Department of Justice indicated as early as September 2021 (read [my letter n°827](#)) that this partnership between "the world's largest airline" and "a low-cost airline" would above all lead to "higher fares, less choice and lower quality services".*

## > **ITA and Lufthansa's spring sale to the Germans**

(source veritaeaffari) July 11 - **Lufthansa buys 41% of ITA for 325 million. Or rather not.** Because **if it goes back on its decision, under certain conditions, it has the right to get it all back.** This is the option in favor of the Germans provided for in the agreement for the sale of the Italian airline to the German company.

(...)

**In a confidential memo from the Ministry of the Economy's lawyers** on the ITA-Lufthansa contract, which Verità&Affari was able to consult, it is **specified that the Germans have every right to withdraw in two cases. Firstly, if business continuity is assured between the former Alitalia and ITA. The second is if lawsuits by former Alitalia employees force ITA to absorb the former employees of the Italian airline.** Two circumstances that have already manifested themselves in the Rome court's decision in favor of 77 former Alitalia employees who must now, barring appeal, be hired by the companies headed by Fabio Lazzarini. "It is envisaged that if such events occur, after the execution date, Lufthansa will

have the right to withdraw from ITA and receive, in full repayment, the amount of the entire investment made in ITA up to that date," reads the note from law firm Gianni&Origoni, dated June 14. No indication is given, however, as to the terms and consequences of this possible withdrawal.

**Lufthansa will acquire a stake in ITA through a reserved capital increase of €350 million.** But the operation will be carried out "with the subscription by the Ministry of Economy and Finance (MEF) of a new capital increase of 250 million". A sign that ITA is in immediate need of cash to move forward. And it couldn't be otherwise, given that the loss for 2022 amounted to some 498 million euros.

**The full sale of the stake by the Treasury will take place no later than 2033, via a call option granted to Lufthansa and a put option in the hands of the Ministry of Economy and Finance (MEF).** In the meantime, the Ministry, headed by Giancarlo Giorgetti, will retain a stake in ITA, which "will be guaranteed a governance adapted to a management of the company aimed at ensuring the achievement of the objectives of the industrial plan", according to the document. In other words, "Lufthansa's pre-eminent involvement in the management of ITA and the MEF's power of control over management".

### **The feeling is that the Germans are not convinced of the success of the operation**

. They fear that Italian justice will recognize the continuity of the business between the former Alitalia and ITA. With all the consequences this would have for the more than 1,300 lawsuits still pending. "From this legal note, it emerges that Lufthansa is buying options, not ITA shares," explains Antonio Amoroso, Cub trasporti 's national secretary. "

What emerges is the subalternity not only of a public company, 100% owned by the Mef, but even of the Mef and the Italian government. Lufthansa will withdraw at any time, even if the workers obtain justice", he continues. The German carrier can withdraw if the European community has doubts about the issue of continuity, and without any date. **It's embarrassing that the Ministry of Economics and Finance can draw up such an agreement, in which it somehow makes the exercise of rights before the courts conditional on the resolution of a problem that concerns the community.** The issue in question is the ownership of an airline that can be used for the mobility of citizens and the development of tourist flows. Finally, it is paradoxical that this note was filed by ITA in court precisely to condition the magistrates to reject the hiring requests", he concludes.

But that's not all. On the one hand, the link between the former national airline and ITA is likely to put a strain on the budget in terms of salary costs. On the other hand, they are ensuring fairness in the retrocession of slots that belonged to Alitalia. Hence the tensions that emerge from the document. And the impression that, **pending the green light from Brussels, the game is far from over.** All the more so as the fate of ITA and the Lufthansa

operation is intertwined with the ambitions of Competition Commissioner Margrethe Vestager, who is aiming for the top job at the World Bank. A very high-level position for which solid sponsors are needed, such as French President Emmanuel Macron, who takes a dim view of the ITA-Lufthansa operation, believing it could harm the Franco-Dutch airline Air France-KLM.

**My comment:** *Lufthansa is proceeding very cautiously with ITA (formerly Alitalia).*

*It has learned its lesson from the previous failures of KLM, Air France-KLM and Etihad.*

### > **Royal Air Maroc plans to quadruple its aircraft fleet to 200 (like Air France).**

(source AFP) July 13 - Royal Air Maroc is putting itself at the service of the Kingdom's tourism development plan, which aims to attract 65 million visitors by 2037, i.e. around six times more visitors than today. **"RAM will quadruple its fleet from the current 50 aircraft to 200 over the next 15 years,"** according to a press release from the office of the Head of Government, Aziz Akhannouch.

This is roughly equivalent to Air France's current fleet of over 200 aircraft.

(...)

RAM plans to acquire new aircraft as early as 2024, as part of the implementation of its development strategy, said its CEO at a press conference in Casablanca, quoted by the MAP news agency. Bailed out by the government in the wake of the pandemic - by 2020, RAM had suffered losses of \$1.6 billion - the national carrier also plans to open new international destinations and set up 46 other domestic services to promote domestic tourism. **Internationally, RAM is targeting the African, American and Asian markets. Finally, the Casablanca air hub, the kingdom's megalopolis and economic capital, is set to strengthen its role as an international connecting hub.**

**This development plan is all the more crucial as tourism is one of the pillars of the Moroccan economy, providing tens of thousands of direct and indirect jobs.** Hard hit during the pandemic - Morocco was one of the last countries to open up to the world without constraints - it recovered in 2022, with around 11 million tourists, representing a recovery rate of 84% of 2019 arrivals, according to official statistics.

(...)

The Cherifian kingdom aims to welcome 17.5 million tourists by 2026, with expected revenues of 120 billion dirhams (around 11 billion euros), according to the Ministry of Tourism.

**My comment:** *Here's an announcement that will bring despair to the proponents of downsizing air transport.*

*It also raises the question of the future of air transport.*

*Is the desire to quadruple Royal Air Maroc's fleet, which will benefit the tourism sector, compatible with the objectives of decarbonizing global air transport?*

*The question arises for all countries considering the development of their air transport, such as China, India, ...*

## **Article Bonus**

**> Every hour, European governments lose 4 million euros in aviation taxes.**

(source Transport & Environment, translated with DeepL) July 12 - **European governments lost 34.2 billion euros in revenue last year due to very low levels of taxation in the aviation sector**, according to a new study by the environmental group Transport & Environment. The 34.2 billion euros would finance 1,400 km of high-speed rail infrastructure, equivalent to the distance between Hamburg and Rome[1].

**The analysis focuses on the revenues that would have been generated by air transport pricing had the sector not benefited from exemptions.** It compares these revenues with those actually collected over the course of a year. This is known as the "fiscal deficit". **The sector pays no kerosene tax, little or no ticket tax or VAT, and a carbon price on intra-European flights only.**

The British and French governments would have collected an extra 5.5 and 4.7 billion euros respectively if aviation had been taxed appropriately. The four European countries with the widest tax differentials are the UK, France, Spain and Germany, mainly due to the size of their aviation sectors. Although France, Germany and the UK levy a ticket tax, their low levels of taxation do not close the gap.

Air France and Lufthansa are the two biggest contributors to the tax gap in Europe, due to the size of their business. Europe lost 2.4 and 2.3 billion euros in revenue thanks to the activities of these airlines. **The study distinguishes between taxes imposed on passengers and those imposed on airlines. Ticket taxes and VAT are imposed on passengers, while fuel taxes and carbon pricing are directly attributable to airlines. Of the 34.2 billion euro difference, 20.5 billion euros should have been paid by the carriers in fuel taxes and carbon pricing.**

**Jo Dardenne, aviation director at T&E, explains:** "Europe is losing money by not taxing the aviation sector. Airlines are closing in on record profits this year, as they spew polluting fuels into our skies. But **governments don't want to touch their**

**precious national airlines.** How can they justify to the public that drivers pay more in fuel taxes than Air France and Lufthansa?

If no action is taken, the tax gap will increase by 38% by 2025, as the sector is set to expand in the years ahead. Eurocontrol estimates that traffic will reach 92% of pre-COVID levels by 2023, and will fully recover by 2025. By then, the fiscal gap could reach 47.1 billion euros, according to T&E.

Closing this gap and remedying aviation's under-taxation should be a top priority for governments. **The study recommends applying a kerosene tax, a 20% VAT rate on tickets and extending the aviation carbon market to all departing flights.**

These changes would make it possible to close government budget deficits. In the absence of these measures, T&E recommends applying a ticket tax equivalent to the gap found in each country.

The study shows that higher taxes will have an impact on passenger ticket prices. **This could lead to a drop in demand** and a reduction in CO2 emissions. The study finds that the end of exemptions in 2022 would have saved 35 Mt of CO2, with an even higher total climate impact if the effects of aviation on emissions other than CO2 are taken into account. As the sector seeks to decarbonize, the revenues generated by taxation should be partly reinvested in green technologies, including e-kerosene.

Jo Dardenne concludes: **"Taxation should not be seen as a punishment, but as a way of making those who benefit most from aviation's under-regulation pay fairly.** The better-off in society have paid far too little for their flying habits.

Furthermore, taxation will not limit aviation's investment capacity. On the contrary, **taxing aviation will benefit citizens and the sector in the long term, as governments will step in to finance the transition to clean energy, including for aviation.** It's time to put an end to the era of cheap flights and rising emissions."

[1] According to a report by the European Court of Auditors, building a TGV line in the EU costs an average of €25 million per kilometer. We have calculated that 1,368 km of track could be built for a total of 34.2 billion euros. This would cover the distance between Hamburg and Rome (1309 km).

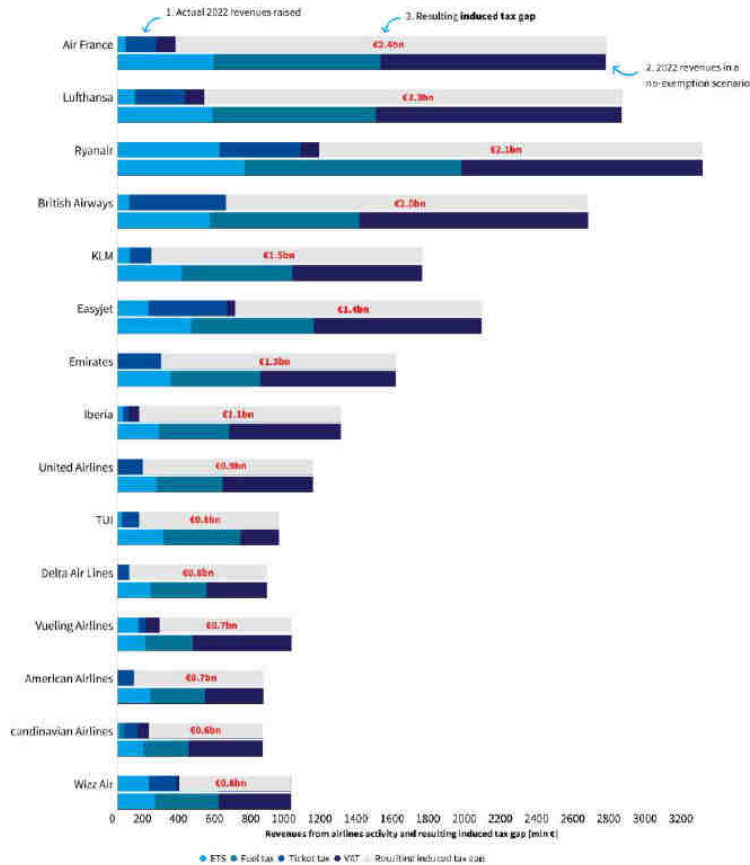


Figure 10: Induced tax gaps for the top 15 emitting passenger airlines in 2022

**My comment:** Several media (Le Monde, Air Journal) have reported on the study published by the Brussels-based NGO Transport & Environment.

Rather than offer you an article, I preferred to publish a summary of the study extracted from the NGO's website.

During the work carried out by my team (which led to the creation of the Sustainable Aviation Observatory), I had the opportunity to exchange views with some of the report's authors. My interlocutors were sincere people seeking to understand the problems of air transport.

The full 78-page study is [available here](#).

According to the NGO, tax differentials (VAT, fuel taxes, carbon prices) between European countries are significant. Similar discrepancies are found between airlines operating in Europe (see table above).

To remedy this, the NGO proposes (page 39) a variable tax depending on the route:

- €23 for domestic travel
- €51 for intra-European travel



- €259 for extra-European travel.

The proceeds from these taxes would be used in part to finance the decarbonization of air transport in Europe.

But as is often the case, the study fails to address the economic and social impacts. A few examples:

- What will happen to jobs in the tourism sector?
- What will be the consequences for North African countries if passengers from Europe have to pay an additional €259 tax?

More generally, in the fight against climate change, two questions are, in my view, at the heart of the debate:

- how should the efforts required be distributed within a country?
- should the inhabitants of countries with a lower standard of living than Westerners be allowed to erase the differences?

The example of Morocco (see previous article) is typical.

Anecdotally, the study highlights the extra aid granted to Ryanair (page 46): for the same flight, the Irish airline pays 2 to 3 times less tax than traditional airlines.

## End of press review

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



Two events have had an impact on the share price over the past year:

- in June 2022, the capital increase of 2.256 billion euros

. in February 2023, the announcement of good results for 2022.

### **No further comments**

#### **> Air France-KLM share price trend**

**Air France-KLM shares** closed at **1.592 euros** on Monday July 17. It is **down** this week **by -7.55%**.

It was at 1.253 euros on January 2, 2023.

**The analysts' 12-month average (consensus) for AF-KLM shares is 1.94 euros** (it was 1.50 euros at the beginning of January). The highest price target is 2.45 euros, the lowest 1.10 euros. I only take into account analysts' opinions subsequent to the May 2022 capital increase.

You can find details of the analyst consensus on my blog.

***My comment:** In a note entitled "Please return to your seats", sent to Deutsche Bank's research clients (trading rooms, fund managers, institutional investors), industry analyst Jaime Rowbotham announced that he was downgrading his recommendation to "hold", with a price target for Air France-KLM lowered from 2.3 to 1.85 euros.*

*On the same day, July 12, the Air France-KLM share price lost almost 4%.*

#### **> Fuel price trends in 2022**

**Since the start of the war in Ukraine, there has been no correlation between the price of a barrel of Brent crude oil and the price of a barrel of Jet Fuel.** In 2022, the gap between the two products hovered between \$30 and \$50, whereas in previous years it was no more than \$10.

Since the beginning of the year, the gap between the two products (Jet Fuel and crude oil) has narrowed, and is approaching the gap that existed before the war in Ukraine.

### **No further comments**

#### **> Fuel price trends this week**

**The price of a barrel of Jet Fuel in Europe has risen this week by \$1 to \$103.** It was at \$79 before the outbreak of war in Ukraine.

**Brent crude oil (North Sea) is up this week by \$1 to \$79.**

From mid-February 2022 to the end of July 2023, it was yo-yoing between \$100 and \$120. Since then, it has oscillated between \$75 and \$99.

While oil has been back to its usual level for several weeks, **Jet Fuel is now very close to its usual level. The spread between Jet Fuel in Europe and Brent crude oil is now \$24 per barrel.** In 2022, at the start of the Ukrainian conflict, this gap was close to \$50.

**No further comments**

## Good to know

### > Advice for current and former employee shareholders

You'll find [details of how to access the managers' websites](#) on my [navigation](#) site.

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

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

**My comment:** *If you have shares in one of the funds managed by Natixis, remember to log in to your account manager once a year, to avoid it being considered inactive.*

*PEE*

*inactivity is governed by the Eckert law.*

*After 5 years of inactivity, Natixis sends a letter/email to those concerned asking them to log in to their account or call Natixis to reactivate their account.*

*Natixis sends this information every year after 5 years of inactivity and until the 10th year. After 10 years of inactivity, the assets are transferred to CDC, which holds them for 20 years.*

*This is the old 30-year prescription period, which breaks down into 2 stages: 10 years with the account keeper and 20 years with CDC.*

*Inactivity means not carrying out any transactions and/or not logging on to your account and/or not calling and/or not writing to Natixis.*

*This system also applies to PERCO/PER since the PACTE law.*

## > FCPE management

When you invest in one of Air France's FCPE funds, you obtain 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 equities.

***My comment:*** *If you'd like to find out more about the management of the various Air France employee shareholding funds, please visit the [Air France-KLM employee shareholding section of my website](#).*

## Details

**This information does not constitute a solicitation to buy or sell Air France-KLM shares.**

Please feel free to react to this press review, or to send me any information or thoughts that will help me better carry out my role as a director of the Air France-KLM Group.

**By return, you can ask me any questions you may have about the Air France-KLM group or employee share ownership...**

See you soon.

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**| François Robardet**

**Director of Air France-KLM representing employees and former employees who are PNC and PS shareholders.  
You can find me on my twitter account @FrRobardet**

***Substitute Nicolas Foretz, PNC***



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

This press review deals with subjects linked to Air France-KLM shareholding.

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