

Draft agreement between AF-KLM and Apollo



| Air France-KLM Administrator's Newsletter

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Representative of the employees and former employees shareholders PS and PNC

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News of the day

> Apollo fund invests 500 million in an Air France-KLM subsidiary

(source Challenges with AFP) May 20 - **The American fund Apollo will invest 500 million euros in the capital of a subsidiary of Air France-KLM**, announced Friday, May 20, the airline group, which will thus be able to repay part of the aid from the French state. Air France-KLM said in a statement that it "has entered into exclusive discussions with Apollo Global Management concerning the injection of 500 million euros of capital into an operational subsidiary of Air France, which **owns a fleet of Air France spare engines dedicated to its engineering and maintenance activity**". According to the

same source, **"the proceeds of the transaction would enable Air France-KLM and Air France to partially repay the French government's perpetual bonds"** subscribed during a capital strengthening operation in April 2021. The French government had agreed to convert into quasi-equity a three billion euro aid granted to the group in 2020 to overcome the initial effects of the Covid-19 pandemic - which resulted in some 11 billion euros of cumulative losses for Air France-KLM.

This aid, combined with a 28.6% stake in the company's capital by the French government, compared with 14.3% previously, had received the green light from the European Commission, as part of the exceptional measures taken to deal with the pandemic. But **in the name of fair competition, the Commission forced Air France-KLM to make concessions, including the abandonment of airport slots at Orly and a ban on strategic acquisitions of more than 10% of the capital of the companies concerned until at least 75% of the State aid has been repaid.**

Air France-KLM risks missing opportunities at a time when the crisis has weakened many airlines and re-launched a consolidation cycle in the sector. **Apollo's entry into the capital of the Air France subsidiary** "would also facilitate the financing of the future acquisition of spare engines needed for the ongoing renewal of the Air France fleet", the group said. On the other hand, it "**will not lead to any change in operational or social terms**. Consequently, there will be no change in the way spare engines are used, nor any impact on the contracts of Air France or Air France-KLM employees", the company assured

Friday's announcement comes two days after the revelation of the entry of the French shipping and logistics company CMA CGM in the capital of the airline group, up to 9%, with a cooperation in the profitable freight sector. The directors of this Marseille-based company, which has prospered thanks to the surge in freight transport prices since the start of the pandemic, have thus shown their "confidence in the future success of our group", said the CEO of Air France-KLM, Benjamin Smith.

After more than two years of bad luck, with abysmal losses and a drastic cost-cutting plan, Air France-KLM is now hoping for a "good summer" thanks to a sharp rise in bookings following the lifting of international travel restrictions. But the airline is still carrying a large debt (7.7 billion euros at the end of March), and will still need new money

Air France-KLM, which is holding its general meeting of shareholders next Tuesday, indicated in February that it was ready to launch a second recapitalization, which, like the one in April 2021, could reach up to 4 billion euros.

My comment: This is the second draft agreement between Air France-KLM and industrial or financial partners this week.

These two projects contribute to the recovery of Air France-KLM's accounts. Above all, they demonstrate the renewed attractiveness of the Air France-KLM group.

The proposed agreement with Apollo will also boost AFI KLM E&M's engine maintenance business by contributing to the substantial financing required to operate this activity.

Good to know (according to an article in Les Echos, published last February):

Apollo Global Management is a New York-based private equity fund launched in 1990. In a few years, it has become number two in its sector behind the behemoth Blackstone, but ahead of KKR and Carlyle (...)

If Apollo is known for its great discretion, it is also known for its choice of targets. The fund has a powerful sectoral expertise which is supported by its 550 investment managers (out of a total of 2000 employees).

But it is its industrial operations that attract attention. Particularly in France. In 2015, Apollo acquired Verallia, Saint-Gobain's glass packaging subsidiary, and the aeronautical equipment manufacturer Latécoère.

For the past two years, Apollo has embarked on a new adventure (...): giant loans granted to large companies.

End of the Flash

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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 message deals with subjects related to the Air France-KLM shareholding.

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