

Letter of 24 May 2022 to the House of Representatives from the Minister of Finance, Sigrid Kaag, and the Minister of Infrastructure and Water Management, Mark Harbers, concerning the participation of the Dutch state in the Air France-KLM share issue

The government informed the House in confidence on 17 May 2022 about a possible imminent share issue by Air France-KLM. The government indicated that it was considering participation in this share issue.¹ In this letter we inform you about the current situation with regard to the possible strengthening of KLM's equity position, the plan that Air France-KLM presented on 24 May 2022 and the government's preference for participating in the share issue. The government has set a condition, namely that the Dutch state will only participate if parliament gives its prior approval. Participation would enable the Dutch state to retain its current 9.3% interest in Air France-KLM.

The Dutch state did not participate in the previous share issue by Air France-KLM in April 2021, because the previous government first wished to further study KLM's capital requirement.² KLM had indicated that there was no acute short-term need to strengthen its equity position. The government therefore wished to use the time to make a better assessment of KLM's capital requirement and the need for a contribution by the Dutch state, and to gain a greater insight into the industry's expected recovery.

No capital support for KLM

Over the recent period the government has, together with KLM, examined the equity position resulting from the COVID-19 crisis and also sought independent financial and legal advice in assessing this matter. In addition, talks have been held with the European Commission, Air France-KLM, KLM and the French state about the need for recapitalisation, the form this might take, and a possible contribution by the Netherlands. In the light of the uncertainties entailed by the COVID-19 crisis and the government's commitment to only providing necessary support, a critical assessment of KLM's request for support and the amount of support requested was undertaken. We informed parliament about this in confidence.

In the first quarter of 2022, KLM's capital shortfall decreased considerably. KLM's financial situation and prospects have improved because, among other things, the impact of the Omicron variant on business operations proved less serious than expected and the number of bookings rose more quickly than previously estimated. The support received in the first quarter of 2022 due to the extension of the Temporary Emergency Scheme for Job Retention (NOW) also had a positive impact on KLM's financial position. Given the reduction in KLM's capital shortfall and its improved prospects, the company now believes that it can resolve the remaining shortfall itself and strengthen its balance sheet without support from the Dutch state. The government welcomes the fact that the company can resolve its capital shortfall by itself and requires no further support from the Dutch state. The recovery has also enabled KLM to repay €311 million of the credit facility extended by banks for which the state provided a guarantee. The state's direct risk exposure on the guarantee for the €2.4 billion credit facility has consequently decreased. The government will of course continue to monitor developments and will continue consultations with KLM concerning the company's financial health.

Air France-KLM share issue

The positive developments also have an impact on Air France-KLM's financial position. Normally the first quarter is a more difficult quarter for airlines, as was also apparent before the COVID-19 crisis. However, the first quarter of 2022 was also a better quarter for Air France-KLM, partly due to strong recovery in the number of bookings. Nevertheless, there is still a capital shortfall to be resolved in due course at holding company level. Air France-KLM intends to resolve part of this shortfall independently by returning to profitability. In addition, Air France-KLM announced today that it would be issuing shares. At least 75% of the proceeds of the share issue will be used to repay capital support from the French state. This is favourable for the company because of the relatively high interest charges on this debt. In addition, the proceeds will be used to strengthen the company's equity position.

¹ This letter is attached as an annexe.

² Parliamentary Papers, House of Representatives, 2020-2021, 29232, no. 48.

As an existing shareholder in Air France-KLM, the Dutch state is entitled to participate pro rata in the share issue. Participation will enable the Dutch state to avoid the dilution of its stake, keeping it at 9.3%. It is currently expected that the costs of participation will amount to some €220 million. The participation costs also depend on the share price when the issue actually takes place. If the Dutch state does not participate, its stake is expected to be diluted to around 2%. If the Dutch state participates in this share issue, it is not possible to set conditions with regard to how Air France-KLM uses the proceeds of Dutch participation. This is because the Dutch state would be participating as an existing shareholder and as a 'normal' investor. There would therefore be no question of state aid being provided or, therefore, of conditions being set by the European Commission, such as slot remedies. The proposed transaction is on market terms and it is therefore expected that this share issue will be classified as a financial transaction. This means that there will be no charge to the EMU balance, but the public debt will increase. It is ultimately up to Eurostat to determine whether this will be deemed to be a financial transaction.

Senate members belonging to the Green Left Alliance and the Labour Party asked whether they were right in assuming that participation in the share issue would not be detrimental in any way to the conditions set by the government and the agreements made as part of the support operation. The government can confirm that the agreements and the conditions it set as part of the support package of 26 June 2020 remain fully in force until the support package has been repaid in full.

Considerations relating to maintaining the level of the Dutch shareholding

The government believes that maintaining the level of the Dutch shareholding in the holding company helps safeguard the public interest. A 9.3% interest does not give the Dutch state the ability to force through or block decisions. However, the Dutch state does have the voting rights that its shareholding confers. In addition, it is important that the Dutch state's information position is better maintained and the Dutch state's involvement in the company's strategic decisions is greater than would be the case if the Dutch state were not to participate and its interest were to shrink to around 2%. With an interest of 9.3%, the Dutch state remains one of the company's largest shareholders. It enables the Dutch state to keep better track of Air France-KLM's policy with regard to issues of importance to the Dutch state such as sustainability and equal hub development.

Maintaining the level of the Dutch stake is part of the Dutch state's policy to safeguard the Dutch public interest in Air France-KLM. The extension from nine months to five years of the notice period for terminating the state guarantees under the 2020 support package for KLM also contributes to this. The state guarantees are agreements made by the Dutch state with Air France-KLM about, among other things, the extent to which Schiphol is used as an international hub and KLM's continued registration in the Netherlands, operating under Dutch licences and traffic rights. The extension of the notice period made a substantial contribution to safeguarding the public interest.

Parliamentary procedure

The government considers it important that proper parliamentary procedure be followed and that the House of Representatives and the Senate can give their opinion on the Dutch state's participation in the share issue and are not confronted with a fait accompli. As has been observed previously, participation in a share issue by a listed company is difficult to fit into standard parliamentary procedure. This stems, among other things, from the fact that a share issue process is relatively short and the start of the parliamentary process depends on the company's announcement of the issue. Besides ensuring that proper procedure is followed in both Houses of parliament, the Dutch state must also exercise due care with regard to the public disclosure of information, since certain information is price-sensitive and must be made public by the company itself. We urged Air France-KLM to take account of parliamentary procedure in its timing of the issue, but it proved impossible for the company to adapt the share issue process any further to accommodate Dutch parliamentary procedure. Setting the time of the share issue announcement far in advance is difficult for Air France-KLM to do, since the company wants to issue the shares when market conditions are optimal in order to achieve the best result. This means that the company needs a certain degree of flexibility in choosing a date for the issue.

In order for the Dutch state to participate in the share issue and thereby retain a 9.3% stake in Air France-KLM, a decision by both Houses is needed as a matter of urgency. The government is consulting the chairs and the registrars of the finance committees of the House of Representatives and the Senate. The government is acutely aware that its request is unusual and demands significant flexibility on the part of the House. If parliament is unable to make such a decision in the near future, the government will notify Air France-KLM of its intention not to participate in the share issue, since it will not have received the prior approval of both Houses.

In the current process there is still certain information that the government cannot share openly with the House because it is potentially harmful to the state's interests, price-sensitive and/or commercially confidential. Although we understand that sharing certain information confidentially makes for a complicated process for the House of Representatives and the Senate, we consider it to be more important that parliament does have all the information at its disposal. We have therefore attached a confidential annexe to this letter. Further confidential discussion of the confidential information is possible if deemed desirable.

The attached incidental supplementary budget presents the budgetary treatment of participation in the share issue. The government will only give its definitive consent to participation by the Dutch state in the share issue once parliament has approved the incidental supplementary budget.