

Air France plans to reduce its workforce by 1,500 people by the end of 2022.



I Letter from the Air France-KLM Director

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Monday's Press Review

> **Air France plans to reduce its workforce by 1,500 people by the end of 2022.**

(source La Tribune) February 26 - A little more than 1,500 people, **1,510 to be exact**. According to corroborating sources, **this is the number of job cuts that Air France foresees between now and the end of 2022** in its forward-looking management of jobs and skills (GPEC) presented to staff representatives at a meeting of the Social and Economic Committee (SESC) on Thursday 27 February. A coincidence of the calendar, since its presentation on that date had been planned for a long time, it intervenes in the middle of a coronavirus crisis that impacts the company's activity.

While the French carrier had 41,230 employees at the end of December 2019, the needs identified by management at the end of 2022 are estimated at 39,720 employees. That's 1,500 less. **These staff reductions concern only ground staff, and among them mainly "support functions" (finance, management, human resources, etc.).**

These staff reductions will not take place without forced departures or a voluntary redundancy plan (VSP), but will take place as a result of the many natural departures due to a high age pyramid. More than 3,800 natural departures are planned over the next three

years and Air France intends to recruit 2,300 people during this period, including pilots, flight attendants and maintenance staff.

This GPEC comes at a time when a voluntary redundancy plan concerning 465 positions is coming to an end. This one didn't manage to refuel. Only 275 people decided to leave the company, despite the very favourable conditions of this POS.

A coincidence of the calendar since its presentation on that date had been planned for a long time, **this GPEC also intervenes in the middle of the coronavirus crisis**, which now impacts the whole network of the company and not only the Chinese axis. **Many companies have restricted or suspended their employees' travel and tourist bookings for the summer have been severely curtailed. Air France therefore intends to tighten the bolts by making savings, ranging from reducing expenses (receptions, use of consultants, marketing expenses, etc.) to a hiring freeze for non-operational functions. (...)**

***My comment:** By the end of 2022, nearly 4,000 employees will leave Air France, mainly through retirement.*

The main challenge facing Air France will be to ensure that the knowledge held by these senior employees is passed on to those called upon to replace them.

> KLM is speelbal politiek (KLM is the politicians' toy)

(source DFT) February 27 - In recent days, the **House of Representatives has been harsh with Minister** Hoekstra (Finance). It must quickly reach a result in the negotiations with the French State on the governance structure of Air France KLM.

Exactly one year ago this week in Paris, Hoekstra explained in French why the Dutch State had bought 14% of the shares in Air France KLM for EUR 744 million. It seems that the investment is not without risk. Due to the coronavirus, the company is facing a disastrous period. What if planes, especially those of Air France, were to empty even more and turn to shareholders to alleviate their financial difficulties? Last year, the House of Representatives did not discuss such a scenario when Hoekstra defended its purchase at a hearing. The words "risk" or "additional payment" had not been mentioned. There was an agreement.

Today, a **number of MEPs**, with the VVD'er Dijkstra in the lead, **suddenly want to see "results"**. Not a word about their own role in this. Because Hoekstra negotiates with his hands tied behind his back.

KLM CEO Pieter Elbers said last week that he was being asked questions in France about the interests of the state. Because why would the Dutch State invest hundreds of millions of euros in an airline that is then cut back? KLM, which makes money, cannot grow. Thus, the growth will go to Air France, which barely makes a profit. According to Elbers, this can no longer be explained.

Growth at Schiphol is an important element in the negotiations with the French government. If you have nothing to offer, you'll get nothing. Under the leadership of Minister (...) Cora van Nieuwenhuizen, the point remains on the horizon. **Lots of words, but no action on the vision of aviation before 2040, the growth of Schiphol and the opening of Lelystad airport.** We do not hear Dijkstra talk about it in the fight that apparently broke out between the VVD and the CDA. In addition, coalition partners ChristenUnie and D66 are continually putting the brakes on aviation and attempting to distract the outside world with minor concerns about Elbers' leadership positions.

***My comment:** With one year to go before the Dutch elections, the debate on the future of air transport is intensifying.*

Dutch politicians are struggling to reconcile environmental requirements with the development of their national airline KLM, a development that would require an increase in slots at Schiphol airport.

> **How airlines are coping with coronavirus losses**

(source Le Figaro) 29 February - Bad weather for airlines. **As the coronavirus spreads to an increasing number of countries around the globe, more and more companies are announcing that they are tightening their belts to cope with an expected drop in the number of travellers.** Le Figaro takes stock of the groups that have decided to reduce sail area and have announced precautions for the coming months.

In its financial results, the Franco-Dutch group **Air France-KLM** explained that it expects a shortfall of around 150 to 200 million euros over the period from February to April 2020. Several reasons are cited, ranging from the suspension of flights to China to the decline in travel to the rest of Asia.

At the end of February, the two branches of the group **announced budgetary efforts to deal with the difficulties. KLM's CFO (...) advised employees to "reduce costs to the minimum level to ensure safe operations"** (...). On the other hand, **Air France has introduced a hiring freeze and a reduction in expenditure:** the

company's financial manager (...) has asked managers to limit so-called "discretionary" expenditure (travel, parties, seminars, calls for consultants), as well as to limit the operating expenditure of the various departments. At the same time, some communication or marketing campaigns have been postponed.

Brussels Airlines has announced a 30% reduction in its flights to Northern Italy, from 2 to 14 March. (...) The company is currently considering 'economic measures, such as temporary layoffs' and has frozen hiring for the time being.

Easyjet announced this Friday a hiring freeze and a reduction in its administrative expenses. Among other austerity measures, wage increases, hiring and voluntary training have been halted. In addition, **the company offered its employees the opportunity to take unpaid leave.** Just over 10% of the flights (i.e. 500 journeys) to Italy are also expected to be cancelled between 13 and 31 March. The **International Airlines Group (IAG)**

, owner of British Airways (UK) and Iberia (Spain), announced at the end of February that its earnings prospects were "affected by the drop in demand due to the coronavirus". Suspension of flights to China ... The group **has decided to make an additional turn of the screw, with "cost initiatives" throughout the company.** (...)

Qantas announced in its results a 15% reduction in flights to Asia "at least until the end of May". In total, "the impact of the coronavirus [...] is estimated by the company to be between 100 and 150 million Australian dollars" [...].

Germany's **Lufthansa announced this week** a series of cost-cutting measures to better "cope with the economic effects" of the virus, including a **hiring freeze, a suspension of training courses planned for some staff in April 2020 and a reduction in administrative budgets. The company also offers its employees "a leave of absence without pay effective immediately".**

Singapore Airlines, based in the city-state, said the outbreak represented a "major challenge" for its teams, with demand to China "severely affected". It therefore "considerably reduced" its flights to the Middle Kingdom in February and March 2020 (...).

At the end of February, the Finnish national company warned investors that it had been forced to revise its financial results slightly downwards (...).

In addition, Finnair "will assess how to adjust its costs by EUR 40-50 million, including measures relating to personnel, sales and marketing activities, development initiatives". Temporary lay-offs are envisaged, as well as reductions in the number of recruitments (...).

Of its 6,000 employees, the Israeli company El Al could eliminate

1,000. The national company announced last week that its losses would be between 45 and 63 million euros for the first quarter alone (...).

Based in Atlanta, the American **Delta has decided to reduce its flights to South Korea** next February and March. A decision taken after the sharp rise in the number of cases in the land of the morning calm. A similar decision was made by its competitor United Airlines on Friday: the Chicago-based company reported that demand to China had collapsed, and so decided to reduce its service across the continent. At the end of February, American Airlines chose to cancel its results, published a few weeks earlier. A decision justified by the significant uncertainties surrounding the activity, and the epidemic that is completely changing the game.

At the beginning of February, the Hong Kong company **Cathay Pacific warned that its results for the first six months of the year should be worse than expected. She plans to cut back on travel significantly, and has encouraged employees to take up to three weeks of unpaid leave,** Reuters reports. (...) At the

same time, Hongkong Airlines also reported strong measures to reduce its costs: already in difficulty, the company "has never experienced such a difficult period in its history", wrote its management in a statement. She therefore chose to separate 400 employees, and asked the others to choose between taking at least two weeks of unpaid leave per month or working only three days a week, from mid-February to the end of June (...).

Overall, the current epidemic is expected to have a significant impact on the sector. The International Air Transport Association (IATA) estimated last week that the VIDOC-19 crisis could result in "a potential 13% drop in passenger demand ... for Asia-Pacific carriers", or "revenue losses of \$27.8 billion by 2020". **Worldwide, the total loss is expected to reach \$29.3 billion,** corresponding to a decline in demand of around 4.7%. For the time being, the IATA **forecasts are based on a model similar to that of SARS, i.e. a fall in demand for six months, followed by a gradual return to normal over the same period.** By way of comparison, this latest epidemic had resulted in "a 5.1% drop in revenue per passenger per kilometre" for Asian airlines.

Note, however, that this forecast will have to be revised upwards as the virus spreads. However, the companies will be able to count on State aid, on the one hand, and on the particularly low fuel prices, on the other, to limit scrapping. However, the sector is going through "difficult times", in the words of IATA Director General Alexandre de Juniac: "Airlines have to make difficult decisions regarding capacity and sometimes even route reductions," he warns in a statement, stressing

that the year promises to be "very hard" for professionals.

My comment: *The impact of the Covid-19 outbreak now exceeds that of SARS in 2003.*

For air transport, the economic risk would be that the epidemic would last a few weeks. If this were the case, it would severely disrupt the summer business, which is the most lucrative period for airlines.

> **Air: in the fog, IAG gives up forecasting for 2020**

(source: Les Échos) February 28 - Even the best student in air transport, **the IAG group**, no longer knows which forecast to devote himself to! The parent company of British Airways, Iberia, Vueling, Aer Lingus and Level **presented its annual results for the financial year 2019 on Friday morning. Results were marked by a 40.6% decline in net income to 1.715 billion euros, due to** a strike by British Airways pilots and higher fuel costs. However, analysts and investors will instead note that IAG has not been able to make any forecasts for 2020 due to the uncertainty generated by the coronavirus epidemic. The only indication: **the impact of the epidemic is no longer limited to the links with China**, which were suspended on 29 January. The group's companies are now facing a general decline in business traffic, linked to the travel restrictions implemented in large companies. In particular, IAG had to reduce its service to Italy. These cancelled flights represent, at this stage, a 1 % to 2 % reduction in capacity for the whole year. But this is only a provisional inventory.

And as at Air France-KLM and Lufthansa, the IAG Group has announced the launch of savings measures, without, however, specifying which ones. Some of the long-haul aircraft normally used on Asian routes have already been replaced on transatlantic routes. The situation is changing rapidly," said Willie Walsh, the company's chief executive officer, who believes **his group is strong enough to weather the turbulence. Indeed, IAG remains the most profitable of European heavy goods vehicles, with a 2019 operating income of 3.285 billion euros (-5.7%) for a turnover of 22.468 billion (+5%), i.e. a margin of more than 14%.** These slightly better than expected results did not prevent IAG's share price from losing 22% this week and another 6% this morning.

To make matters worse, the crisis comes as Willie Walsh prepares to hand over the group's orders to Luis Gallego , the current boss of Iberia, on 26 March. Willie Walsh, who joined British Airways in 2005, has made IAG the second largest European airline group behind

Lufthansa and ahead of Air France-KLM. **The group is set to grow further this year with the ongoing takeover of the Spanish airline Air Europa, which was not, however, discussed at the results conference.**

***My comment:** Like most European airlines, the IAG Group published lower 2019 results than in 2018.*

Nevertheless, with a 2019 profit in excess of 1.7 billion euros, the Hispanic-British group has a significant margin to face the current crisis.

> **EU investigation into a 400 million Rome loan to Alitalia**

(source awp/afp) 28 February - The European Commission announced on Friday the opening of an in-depth investigation into a €400 million loan granted by Italy to the airline Alitalia to determine whether this aid is in line with competition rules. (...)

At the end of 2019, the Italian authorities announced that they would grant a new loan of €400 million to Alitalia to facilitate the rationalisation of the company in an attempt to sell its assets. (...)

Faced with competition from low-cost companies, Alitalia has been accumulating difficulties for years. It has been under supervision since 2017, following the rejection by employees of a restructuring plan providing for 1,700 job cuts out of 11,000. (...)

State aid is always subject to very strict monitoring by the EU executive as it can give an undue advantage to a company to the detriment of its rivals and therefore distort competition in the Union. They are in principle prohibited but there may be exceptions.

***My comment:** Nth attempt to find a buyer, nth loan to allow Alitalia to survive for a few months.*

Is there still an investor willing to take over the assets and debt of the Italian company?

> **Qatar Airways and American Airlines sign strategic partnership agreement**

(source TourMaG) 25 February - **Two years after the petty squabble over the subsidies granted by the Emirate to Qatar Airways**, and the latter's possible acquisition of a stake in American Airlines, the hatchet has been buried.

Indeed, the **two former enemies have signed a strategic and code-sharing partnership.**

"We have turned the page on our past differences and are very excited

to work closely with American Airlines to build a world-leading partnership for the benefit of all our passengers," said Mr. Akbar Al Baker, Chairman and CEO of Qatar Airways Group. (...)

Doug Parker, CEO of the American Airlines Group, said : (...) "It will allow us (...) to create new growth opportunities for American Airlines.

We are delighted with this renewed cooperation between our two airlines and look forward to building an even stronger relationship with Qatar Airways over time".

My comment: *This agreement comes a few days after Qatar Airways increased its stake in IAG's capital from 21.4% to 25.1%. It enshrines Qatar Airways' growing place within the Oneworld alliance.*

The Gulf company, which has been subject since 2017 to the economic blockade imposed by Saudi Arabia and its allies, is thus finding an alternative to develop.

> **Safran posts staggering profits despite the Boeing 737 MAX crisis**

(source La Tribune) February 27 - (...) Despite the setbacks of the Boeing 737 MAX, for which CFM International, a 50-50 subsidiary of **Safran** and General Electric, supplies the engines, the French group **achieved excellent financial results in 2019: Turnover increased by 17.1% to 24.6 billion euros; current operating profit jumped by 26.4% to 3.8 billion euros; the operating margin was 15.5%** (which is extremely rare in aeronautics), with peaks at 20.6% for the "propulsion" business. (...)

In 2020, in spite of the cessation of production of the 737 MAX since 1st January (...), and in spite of the impact of Covid-19, **Safran is still counting on solid results. The group is expecting a 5% increase in current operating profit**, despite a turnover that could either stagnate or fall by a maximum of 5%, bringing the operating margin to 17%! (...) **These forecasts are based first of all on deliveries to Boeing of 10 Leap-1B engines per week on an annual basis**, which, unlike in 2019, will this time be paid for in 2020 by the aircraft manufacturer under the terms of an agreement between the two parties. Engines delivered in 2019 will be paid for in 2020 and 2021. De facto, Safran will be making sure there is an inflow of cash. (...) In

total, including the Leap 1-A engines delivered to Airbus, whose deliveries will increase, Safran expects to deliver 1,400 Leap engines in 2020, compared with nearly 2,000 expected before the MAX crisis, and 1,738 in 2019. (...)

To compensate for this loss of business, management launched an "adaptation plan" in December, which is expected to generate 300 million euros in savings. This plan concerns all areas of the group worldwide, including those not affected by MAX issues. **Its social impact is strong. 2,130 positions will be eliminated by the end of the first quarter.** This figure includes redundancies, as was the case for 200 employees at a Los Angeles site specializing in the 737 MAX cabin business, but also "major departures" in Mexico and Morocco in the cable business.

However, no layoffs are planned in France, where the workforce will be reduced by the non-renewal of short contracts, temporary contracts and the end of the use of external service providers present on Safran's sites.

The Group's 2020 objectives are also based on the impact of the coronavirus, which would not go beyond the end of March on its civil engine services activities. (...)

***My comment:** Production of the Boeing 737 MAX was halted in early 2020. This explains why Safran, the main supplier of the engine powering this aircraft, has suffered little from Boeing's problems.*

On the contrary, the Safran group has seen its operating profit increase in 2019. This unexpected increase is mainly due to sales of engine spare parts.

> Boeing 737 MAX: U.S. Senators Want to End "Self-Certification" Rule

(source Capital) February 29 - **The 737 MAX will go down as one of the biggest scandals in the history of modern aviation.** Boeing's twin-engine plane continues to cause a stir while it is still grounded after being involved in two crashes in five months. At the heart of the scandal: Boeing's attitude, which favored profit over the safety of its aircraft, and the certification process set up by the Federal Aviation Administration (FAA) in the United States. **To prevent history from repeating itself, senators have therefore tabled a bill** to restore some credibility to the regulator.

The "Restoring Aviation Accountability Act" aims to correct the "substantial weakness" in the aircraft certification process, details the Air Journal site. **This text should thus prevent any possibility of self-certification', a system that had enabled Boeing to validate, in particular, its MCAS anti-stall system, which was pointed out in the Lion Air and then Ethiopian Airlines crashes.**

(...) **The bill includes the protection of whistleblowers and calls for the creation of a commission to review FAA certification delegations.** In addition, the new legislation would prohibit the sale of U.S.-built aircraft to foreign companies that do not comply with International Civil Aviation Organization (ICAO) safety standards. (...)

***My comment:** It's hard to estimate whether the action the US Senators wish to take will have an impact on the time it takes to certify the new version of the B737 Max.*

One thing is certain: it highlights the shared responsibility of Boeing and the Federal Aviation Administration (FAA) in MCAS-related accidents.

> **Great Britain: Heathrow airport extension project comes to a halt**

(source: Le Figaro) 27 February - **This is undoubtedly a final stop to the project to expand London's Heathrow airport, which** has been a politically sensitive subject for many years. The British court ruled on Thursday that the environmentalists who oppose the construction of a third runway at Europe's busiest airport are right.

The court ruled on appeal that this extension was not sufficiently environmentally friendly and compatible with the commitments made to limit global warming. "The Paris agreements should have been taken into account by the Minister of Transport but they were not," said Justice Keith Lindblom. Environmental movements have long denounced the risks of increased pollution and noise pollution. (...)

Heathrow Airport immediately announced its intention to appeal to the Supreme Court. The **general manager of the airport**, John Holland-Kaye, says he is convinced he will be able to turn things around (...) On the other hand, the government of Boris Johnson does not currently intend to appeal, which could bury the project for a long time. (...)

With some 80 million passengers a day, Heathrow is already one of the busiest airports in the world. The third runway was supposed to allow the landing of 700 additional aircraft per day, bringing the number of passengers to more than 140 million per year. (...)

At the time of Brexit and Global Britain, John Holland-Kaye **touted a project that would ensure the country's new global reach and support economic growth.** On Wednesday, **he even said that rejecting the extension of Heathrow would give an advantage to Paris-Charles de Gaulle airport and "cede control of the economy to the French, once our friends and partners and now our rivals".**

***My comment:** I am not surprised by the decision of the British court.*

In recent years, in similar situations (Mexico City, London, Munich, Nantes, Schiphol, Frankfurt, ...), projects allowing an increase in traffic have been either suspended or cancelled.

The impact on the environment was generally the first reason given.

Stock exchange press review ...

> Panic on world stock markets in their worst week since 2008

(source AFP) Feb. 27 - Wall Street ended in turmoil on Thursday, a tough day for **global stock market indices**, which are **heading into their worst week since the 2008 crisis as the** new coronavirus epidemic spread across the globe. (...)

Oil is also in free fall, with the London (-2.3% to \$52.18) and New York (-3.4% to \$47.09) oil prices falling to their lowest levels in more than a year after plunging more than 10% since the beginning of the week. (...)

In addition to growing concerns about the coronavirus, the markets are facing "winds of panic over technical thresholds" which are leading to "forced sales", i.e. automatic intervention based on algorithms, Laurent Gaetani, managing director at Degroof Petercam, told AFP.

The new coronavirus has infected more than 82,000 people and killed more than 2,800 people in some 50 countries and territories. The Director-General of the World Health Organization (WHO) said Thursday that the epidemic had reached a "tipping point" and called on countries to act "quickly" to contain this "very dangerous virus". (...)

Contingency plans with immediate funding are ready to be deployed, including by the International Monetary Fund (IMF), to assist countries that would be unable to cope with an outbreak of the new coronavirus.

In the European Union, Brussels plans to propose in a month, if necessary, "accompanying measures" to economic sectors weakened by the coronavirus, said Thursday the European Commissioner for Industry, Thierry Breton. (...)

> Airlines hit hard on the stock exchange (airlines are expensive to touch on the stock exchange).

(source ABM FN-Dow Jones, translated with Deepl) February 28 - In a turbulent week on the stock market, **airlines suffered losses of more than 20%**.

Following in the footsteps of Air France-KLM, Lufthansa, Consolidated Airlines Group (IAG) and easyJet warned of the impact of the virus on results. (...)

This week, **KLM CFO** Erik Swelheim said in a letter that the coronavirus is already impacting air traffic to KLM destinations in China and elsewhere in Asia, "and this could now happen to the rest of the KLM network".

This will have a "very significant" impact on KLM's turnover, according to the CFO. Lower fuel and other costs will only compensate to a very limited extent, Swelheim continues. He **sees a "serious risk" that the operating margin for 2020 will again be under pressure as a result.**

Analyst Jos Versteeg of InsingerGilissen is concerned about the aviation sector. "The **first quarter is not the most important, but the second and third quarters are. But if it stays that way, people won't book holidays, and that's how the industry will feel**".

***My comment:** The start of the coronavirus crisis coincided with the publication of Air France-KLM's annual results on 20 February.*

Since this date, the Air France-KLM share price has fallen by 35%, from €9.73 to €6.37.

End of the press review

> Follow-up to the referendum on the privatisation of Aéroports de Paris

The consultation procedure on the privatisation of the ADP group is open from 13 June 2019 until 12 March 2020. It requires the signatures of 4.7 million voters to lead to a referendum on a shared initiative (RIP).

On the Internet, the consultation can be signed on the site referendum.interieur.gouv.fr en

By 2 March, the consultation had collected 1,111,000 signatures, i.e. 23.55% of the signatures required.

***My comment:** There are 10 days left to sign the request for a referendum on the privatisation of Aéroports de Paris.*

> My comment on the Air France-KLM share price

evolution

The Air France-KLM share is at 6.37 euros at the close of trading on Monday 2 March. It's down 23.18%. The announcements concerning the coronavirus epidemic caused the fall in prices for all the players in the air industry.

The average (the consensus) of analysts for the AF-KLM share is 11.28 euros.

Brent crude oil (North Sea) is down \$4 to \$52 per barrel. When the coronavirus outbreak started, it was \$69.

This indicative information in no way constitutes an invitation to sell or a solicitation to buy Air France-KLM shares.

You can react to this press review or provide me with 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 employee shareholding...

I'll see you soon.

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| François Robardet

Director Air France-KLM representing employee shareholders PNC and PS.

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

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