

Ben Smith: "This crisis must be an opportunity for Air France to reform".



## I Letter from the Director Air France-KLM

**François Robardet** Representative of employees and former employee shareholders PS and PNC

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### *Editorial*

*Dear Readers*

*The Air France-KLM Annual General Meeting will be held on Tuesday 26 May 2020 at 2.30 p.m. at 45 rue de Paris, 95747 Roissy CDG, Cedex, excluding the physical presence of shareholders or other persons entitled to attend. It will be broadcast live via webcast on the Group's website.*

*In the next few days, I will send you a special Flash giving you information on the resolutions put to the vote. You will find in this Flash my explanations of vote. As in previous years, I will propose to those of you who are shareholders of the Air France-KLM Group to entrust me with your powers.*

*You can find all the documents relating to the Annual General Meeting on the Air France-KLM Group's website, on the financial information page. In particular, it contains the resolutions that will be submitted to the shareholders' vote.*

*You will also find the link to the 2019 Universal Registration Document on the home page of my blog navigation com.*

*Let us continue to comply with the containment measures.  
Happy reading*



possibly towards the end of the summer, before we can restart our long-haul programme. (...) The borders of countries important to us, such as the United States, will also have to be reopened. There are many unknowns.

*When will things get **back to normal**?*

**I don't see it for another two years, maybe even longer.** It will depend on the reopening of the borders, but also on how long it will take for our customers to get back on the planes.

*Will air transport supply be less important and more expensive at the end of this crisis?*

Everything will depend on the recovery in traffic. For a long period, we will inevitably have to reduce the frequency of our flights. But on major destinations such as Tokyo, Los Angeles and New York, we have the flexibility to adapt, while maintaining daily connections. We can, for example, choose to replace A380s with aircraft that carry fewer passengers. We will adapt as we go along. And of course we will offer attractive fares to bring our customers back, as we do after every crisis.

*Will passengers have to travel with masks on and spaced out?*

(...) Today, load factors are so low that we can easily maintain a distance between passengers. On the few flights where this is not possible, we already make masks available. If all flights are full, Air France will systematically offer them. But here again, **everything will depend on how the situation develops**. In addition, our customers should be aware that the health quality of the air in our aircraft, which is renewed every 3 minutes, is much better than in public places.

*In return for the loans, has the French government asked Air France for additional environmental commitments?*

**Air France has set itself three objectives, with the ambition of reducing its CO2 emissions by 50% by 2030. The first is to reduce CO2 emissions from its domestic flights by 50% by 2024.** We will achieve this by reducing activity, but also by using less polluting aircraft. The **second objective is to continue renewing the fleet**. We have, for example, ordered 60 Airbus A220s to replace the A318 and A319, which alone will reduce these emissions by 20 to 25%. **Finally, we have decided to use biofuels as much as possible as part of the national roadmap, as soon as they become available in France. This is not yet the case.**

*In order to be able to repay these loans, Air France-KLM has also undertaken to accelerate its cost reductions and restructuring. What are the new objectives?*

**The objectives of the transformation plan, presented last November, remain unchanged.** This plan has the support of the government and the \$7 billion in loans will enable us to carry it through despite the crisis. We are going to speed up its implementation in two areas: the rationalisation of the domestic network, which still generated EUR 200 million in losses last year, and the restructuring of support functions, which are not operational. **We must use this crisis as an opportunity to make the structural reforms that some of our competitors have already carried out.** To do this, we can rely on the 37 very good agreements signed last year with the trade unions, which enable Air France to reduce its costs without doing so to the detriment of its employees. We could already see it in the last months of 2019: Air France's unit cost reduction trajectory was faster than those of its main competitors. This was despite the salary increases agreed in 2019, which were more than offset by the increase in productivity.

*What are your plans for the domestic network? Are you going to transfer any Air France routes to Transavia?*

The details of the measures will be decided this summer. As far as Transavia is concerned, it is a very fine company and **we have negotiated a constructive agreement with the pilots**, which has made it possible to remove the limitation of the number of aircraft to 40. However, **this agreement stipulates that Transavia cannot operate from Roissy-CDG, as well as on domestic routes. We have entered into good discussions with the pilots, who are aware of the seriousness of the situation and are determined to win Air France over.**

*Could the Air France brand disappear from Orly?*

There is no question of it. **We have the La Navette service, which is operating very satisfactorily. We also have flights to the French Overseas Territories, as well as to New York-JFK from Orly. We do not plan to give them up.**

*Beyond the Orly issue, why not develop Transavia's low-cost activity further?*

Two things have slowed down Transavia's development: the Boeing 737 MAX crisis and the lack of 737 NGs available on the market and, secondly, the difficulty in speeding up crew training to keep up with growth. Today, the drop in activity gives us more leeway on this second point. But **our priorities for Transavia remain the same:** the priority is to strengthen our positions at Orly as much as possible and, **secondly**, to **increase the number of bases in the provinces, such as**

**Montpellier, for example. There are still so many opportunities in France for Transavia, in cities such as Bordeaux, Nantes, Nice, Marseille, Lyon...** And we no longer have any limit on the number of aircraft for Transavia. If we want to deploy 100 or 150 planes, it is possible. The only limit is cost-effectiveness.

*What is going to happen to the regional subsidiary HOP, which seems to be the most fragile?*

We had already launched a transformation plan at HOP! before the crisis. We had decided to continue to reduce the number and type of aircraft. HOP! is the result of the merger of three regional companies. Despite the synergies achieved, its structure remains too complex. **HOP!'s operating costs are higher than the average of European regional airlines. This situation is not sustainable.** However, demand for regional flights on the French market does exist. And we will still need aircraft with less than 100 seats to supply our hub at Roissy-CDG from certain provincial and European cities, and to operate certain routes from Orly and Lyon. The average unit revenue on flights operated by HOP! is also of a good level. On the other hand, there are also many inter-regional routes that are very loss-making, and we must act on them. **The aim is therefore not to do away with our regional subsidiary, but to make it a profitable airline.**

*What will be the social impact of Air France's accelerated transformation?*

**We will ensure that the social impact is as minimal as possible in the face of Air France's transformation and the long-term decline in activity.** Some Air France staff are probably ready to leave voluntarily, if given the opportunity. **The first step would therefore be to propose voluntary departure plans. The next step would be to offer those who will remain in the Group training plans and transfer opportunities in line with our needs.** All this will be done in any case in very close consultation with the social partners, as we have been doing since my arrival.

*Has the government demanded guarantees on job maintenance?*

**The government has not made any specific request,** but it has clearly stressed that this financial effort is being made primarily to support Air France employees. We are a responsible company and our employees are our main asset. The last thing we want is to lose this asset.

*Apart from the loans, what else can the government do to help Air France improve its competitiveness vis-à-vis its competitors?*

Discussions over the last few days have focused on emergency

measures to help the group get through the crisis. But in the longer term, **we need rules of the game and a cost structure comparable to those of our main competitors.** One of the most important points for us is the competitiveness of Roissy-CDG airport. We are in discussions with the ADP group to ensure that the investments planned at Roissy-CDG for the construction of the terminal are in line with the needs of the Air France-KLM group.

*Are you questioning the construction of Terminal 4 at Roissy-CDG?*

No, not at all. However, this terminal project was launched on the basis of growth assumptions that are now to be reviewed. We therefore need to question the project's schedule to ensure that it is in line with the new traffic assumptions. One of Air France's strengths is the size of the Paris market, which is the largest in Europe and one of the largest in the world. This makes us less dependent on connecting traffic than our main competitors and gives us flexibility.

*Overall, are you going to reduce the fleet by taking out, for example, the A380s?*

In the short and medium term, we need to review our fleet, by temporarily grounding some aircraft and taking out others early, such as the A340. We had already decided to bring forward the A380s to 2022. Given the situation, does it make sense to bring them back into service by then? We will take the decision soon.

*Are you going to cut back on aircraft purchases?*

No, we are not. We are committed to reducing our CO2 emissions by having a less polluting fleet. So we must continue our efforts. We are going to take delivery, as planned, of two Airbus A350s before the summer and we still have 32 on order. We are also waiting for our first A220s, but it is still a little early to say whether we will be able to place new orders in the near future.

*Can the crisis offer opportunities for external growth for Air France-KLM?*

It is certain that many airlines will not be able to withstand this crisis. If opportunities arise, why not? But our priority for Air France is, above all, to consolidate our position on the French market, which still offers significant opportunities. **Thanks to the support of the French government, this crisis can be an opportunity to very quickly align the strategies of the various players in the industry - ADP, Airbus, subcontractors - and demonstrate France's ability to once again become a true world air transport champion. This is our objective and our commitment.**

***My comment:*** Two loans have been obtained by Air France.

*The first, amounting to four billion euros, is granted by a banking pool. It is 90% guaranteed by the French State. It is repayable over a period of between one and three years.*

*The second, amounting to EUR 3 billion, is granted by the French State. It is repayable over a period of between four and six years.*

*In addition to these two loans, Air France will also have to reimburse in 2021 the deferred charges and social security contributions granted at the beginning of the Covid-19 crisis.*

*In return for these loans, Air France will present within a year the measures it will implement to strengthen its actions in favour of sustainable development. I have noted the willingness of the government, members of parliament and Air France to establish a partnership with the SNCF. This could involve transferring Air France lines to the SNCF and/or developing partnerships between the two companies, as has been done in recent years on the Paris-Brussels or Strasbourg-Charles de Gaulle routes.*

*However, if this partnership were to succeed, the State would have to ensure that Air France's total or partial withdrawal would not benefit other airlines. This would undermine efforts to reduce CO2 emissions.*

*The French national airline has also undertaken to achieve the same level of competitiveness as its competitors within a short period of time. To achieve this, Ben Smith mentioned various measures, including the possible implementation of a voluntary departure plan, open to Air France group ground staff.*

*Air France's senior management should present its recovery plan at the beginning of the summer.*

*I call on all Air France unions to discuss their medium-term vision of the Air France group and to consider solutions that would enable the transition to be handled in a socially responsible manner.*

## **> Green transition: "No blank cheque" granted to Air France, according to Borne**

(source AFP) 27 April - "There are no blank cheques," the minister said on Europe 1. "There **can be no state support, with French money, without an ecological commitment from the company**". (...)

"I had a meeting last week with Air France's management to record the

ecological commitments to be made by the company. This means both reducing CO2 emissions per passenger and reducing CO2 emissions on domestic flights by 50% by 2024", the Minister assured them before detailing a number of measures envisaged.

**"It involves renewing the fleet** to have aircraft that pollute less, **the use of biofuels**, which I support, **and a reflection in France on the Air France network, particularly when there are rail alternatives of less than 2h30"**, she added. (...)

***My comment:** The Air France-KLM group has been taking action to combat global warming for several years now. For the fifteenth consecutive year, Air France-KLM has been included in the Dow Jones Sustainability Index (DJSI) Europe and World rankings. The Group is leader in the "airline industry" category. It is the only air transport company to appear in the European ranking.*

*New efforts will be required from Air France. At the risk of repeating myself, we will have to ensure that all airlines operating in France are subject to the same constraints as Air France. Whether they are supported by the State or not. There can be no free ride in the fight against global warming.*

*Note: The DJSI Europe and World indices, calculated jointly by Standard & Poor's Dow Jones and asset manager RobecoSAM, distinguish the 149 and 317 most responsible companies respectively. The DJSI ranking is based on an in-depth analysis of the economic, social and environmental performance of more than 3,500 international groups.*

## > **State aid to Air France-KLM: the Netherlands and France do it together, but each for its own sake**

(source Volkskrant, translated with DeepL) 25 April - Ministers Bruno Le Maire in Paris and Wopke Hoekstra in The Hague gave another signal on Friday evening that French hearts beat only for Air France and that the Netherlands only cares about KLM. In a brief joint statement, the ministerial duo said that they "share the same priorities for Air France-KLM and maintain close contact with each other". (...)

**At his press conference, Mr Hoekstra stressed that the Dutch state aid of €2-4 billion will go directly to KLM and will therefore not benefit the parent company. The Mayor informed the French people that the €7 billion in loans from the French State are "only intended for the subsidiary Air France". (...)**

At KLM, it is not deplorable that state aid to KLM and Air France

remains strictly separated, according to a source from the airline. Joint State support means joint debt and KLM is opposed to sharing the debt with the much more volatile Air France. (...)...

The French and Dutch governments also disagree on the conditions they set for State aid. **The Mayor said that Air France-KLM "must become the greenest airline in the world" and "must significantly improve its profitability", but France has not set firm criteria for these requirements.** (...) Air France has been trying for a very long time to become more profitable, but not all the recovery plans have so far succeeded in meeting the resistance of the French trade unions. **The Dutch cabinet**, partly under pressure from the lower house of parliament, is making more concrete demands on KLM. Hoekstra **wants KLM staff to make a wage sacrifice in exchange for the rescue with taxpayers' money. Big salaries, such as pilots and managers, should contribute more than other staff.**

The cabinet and the House of Representatives also want a ban on bonuses, profit-sharing and dividend payments until government loans have been repaid. (...) In order to limit noise pollution, KLM should also agree to a reduction in the number of night flights at Schiphol. Hoekstra hopes to reach an agreement on this within a month.

With the billions in aid, the future of Air France-KLM is guaranteed for the time being, but it all depends on the duration and severity of the aviation crisis. It cannot be ruled out that, in any event, the French side will have to knock on the State's door again. Then renationalisation will also come into play. At that point, it will become clear to what extent France and the Netherlands are committed to their joint aviation project - a marriage that perhaps does not know much love, but in which the spouses need each other more than they would like. (...)

***My comment:** It was impossible to coincide the announcements of loans by Air France and KLM. Negotiations for these loans follow different rules in the two countries, which explains why they could not be concluded at the same time.*

## > **Air France: the incredible tug-of-war between the banks and the State**

(source Les Echos) 26 April - The Air France-KLM rescue plan, announced on Friday evening by the airline and the French and Dutch governments, gave rise to an unprecedented tug of war between the banks and Bercy, as negotiations continued throughout the weekend.

**According to several sources**, after tense negotiations, **BNP Paribas and Société Générale were not part of the bank syndicate that**

**granted the airline group the giant 4 billion euro loan, 90% of which was guaranteed by the state, on Friday.**

**Half of the syndicate is thus composed of foreign banks: alongside Natixis (a subsidiary of BPCE), Crédit Agricole CIB and CIC (a subsidiary of Crédit Mutuel), there is the British HSBC, the Spanish Santander and the German Deutsche Bank.**

But the two major French banks were trying to get back into the race over the weekend, and Société Générale would eventually join the pool of banks on Sunday evening. (...)

Technically, **the original six banks have committed to contribute the sum of EUR 4 billion, of which they ultimately bear 10% of the risk**, i.e. EUR 400 million. But the final documentation has not been signed and neither has the ministerial order. (...)

In addition, **the French State granted a shareholder loan of EUR 3 billion, which** relieves the company's cash flow and can be considered de facto as capital. (...) For its part, **the airline group** headed by Ben Smith has obtained what FNAC-Darty failed to obtain last week: a rate fixed in advance for the two annual renewals of the loan when it reaches the end of the first year. (...) To

that end, he **has committed to finalizing a transformation plan in the coming months, which will include commitments to reduce costs. At the same time, the Board will consider a capital strengthening operation.**

It is on this second part that BNP Paribas wanted a firm and quantified commitment. At a time when the aviation sector has never been so fragile, the BNP Paribas Group wants to ensure that shareholders and the company are doing their utmost. It's a question of conviction.

***My comment:*** *It was a pool of six banks that granted the €4 billion loan to Air France. It is rare that for such amounts, a bank commits itself alone.*

## **> SCARA wants one billion euros for all except Air France**

(source Air Journal) 27 April - The State has just announced the scale of the support plan in favour of the Air France group, "for a historic amount of 7 billion euros, i.e. "nearly 45% of the company's annual turnover (excluding KLM)", the Syndicat des Compagnies Aériennes Autonomes (SCARA), which brings together 47% of French airlines based in mainland France and the overseas territories, as well as airport

assistance and training companies, recalled on Monday. (...) Who then asks the State a "simple question: why is Air France the only French airline to benefit from such support? »

**The overall turnover of other French airlines represents around 15% of that of Air France.** These airlines are facing the same difficulties as Air France and are equally keen to renew their fleets to improve their competitiveness and participate in the ecological transition.

**SCARA is therefore calling for a fund amounting to one billion euros, commensurate with what Air France has obtained from the State, to be set up as a matter of urgency "to help French airlines not belonging to the Air France group to cope with the current crisis and prepare for their future".**

In mid-April, the union had published a list of proposals for effective State support for air transport in overcoming the health crisis, including a 12-month moratorium on the full cost of air navigation and airport infrastructure and on Chirac or "ecological" taxes. It also called for a halt to airport privatisations, and already specified that this support should not benefit only the Air France group.

***My comment:** All French companies are suffering from the current health crisis.*

*This is particularly the case for Corsair, which is all the more in difficulty as it cannot benefit from state-guaranteed loans. In order to benefit from them, its equity capital would have to be greater than 50% of its share capital. However, this is not the case.*

**> In order to survive the health crisis, Delta Airlines will have to structure itself**

(source BFM Business) April 22 - On the front line of the coronavirus health crisis, **Delta Airlines is trying to survive by cutting costs and turning to the government to** strengthen its cash flow. The company is also going to have to "resize its activity in the short term," says its CEO. (...)

**Mr. Bastian** (...) doesn't **see the end of the tunnel for another three years.** (...) In the meantime, Delta (...) has been burning \$100 million a day since March but hopes to cut it in half to \$50 million by June. (...)

The company has also made agreements to sell aircraft which it will then lease back and **37,000 employees, or 41% of its total workforce, have been put on unpaid leave.** Like other major US airlines, the

company has made use of the employment support programme launched by the Trump administration.

**Delta is thus to receive \$5.4 billion, of which \$3 billion is in the form of aid and the rest in the form of 10-year loans with an interest rate of 1% for the first 5 years and 2% for the rest of the maturity.** The Treasury's aid tranche is conditional on the preservation of jobs at least until 30 September, and the elimination of dividends and share buybacks until September 2021.

**Delta also plans to borrow up to USD 4.5 billion from the Treasury** as part of the air transport rescue plan adopted by the US Congress.

(...)

### > **Virgin Atlantic is looking for a new shareholder**

(source BusinessTravel) April 27 - (...) Virgin Atlantic founder and co-owner Richard Branson has already said that most of the \$250 million cash injection into the Virgin group would go to the airline, but it is now understood that he is prepared to increase it.

Initially, **Virgin had tried to get support from the British government**, similar to that received by EasyJet. The British government said it was unimpressed by this request and demanded further proof that Virgin was seeking money from its shareholders.

**Delta Airlines** is a major shareholder of Virgin Atlantic, which owns 49%. However, CEO Ed Bastian said the ownership rules would not allow for an additional injection into the airline. (...) In addition, Ed Bastian **said Virgin already owes Delta hundreds of millions of dollars through their joint venture.**

This weekend, there were several reports that Virgin was seeking new financing. (...) This confirms the Financial Times story that the airline has hired the investment bank Houlihan Lokey. **The France Télécom quotes a spokesman for the Virgin group saying that the group is not looking to sell the airline, but rather that it is "working with Houlihan Lokey to approach private investors for an investment opportunity".** (...)

It should be noted that **Richard Branson is also reported in the press to be studying his Caribbean island pledge to raise money.**

Paradoxically, Richard Branson must be biting his fingers that he did not accept the Air France-KLM group's capital increase a few months ago. (...) As part of the joint venture between Virgin, Air France-KLM and Delta, Air France should have taken 31% of the capital of the British airline. But the Virgin group had finally decided to keep 51% of Virgin Atlantic's capital...

**My comment:** Controversy is growing in Britain about whether the British state should support Virgin Atlantic. In particular, Richard Branson is accused of his fiscal exile.

### > **Lufthansa Group will employ 10,000 fewer people after the crisis**

(source L'avenir) 24 April - **Lufthansa boss** Carsten Spohr **estimates that the German aeronautics group, which** includes Brussels Airlines, **will employ 10 000 fewer people and have 100 fewer aircraft in its fleet as a result of the economic crisis** caused by the coronavirus.

This is what he told staff in an internal communication. (...)

According to him, it will take years before demand for air transport returns to pre-crisis levels. He therefore expects his group to be unable to come out of the red before 2023. "We were the first sector to be affected by the global crisis and we will be among the last to emerge from it," the leader said. (...)

**Negotiations are underway with the German, Swiss, Austrian and Belgian governments for state aid** worth several billion euros. In particular, there is talk of €290 million to rescue Brussels Airlines. (...)

### > **Berlin did not make a decision for Lufthansa**

(source Reuters) 27 April - Berlin will only decide on the aid that the German state could provide to **Lufthansa once all the** facts have been put on the table, German Economy Minister Peter Altmaier said on Monday.

"What we want is for the large companies that play a leading role to remain competitive after the crisis," the Minister told Radio Deutschlandfunk.

Reuters sources said on Thursday that the German airline, hit like the rest of the industry by its near shutdown, **hoped to finalise a €10 billion rescue package with the authorities this week.** (...)

**My comment:** The aid requested by Lufthansa is of the same order of magnitude as that granted to Air France. This reflects the scale of this crisis, which affects all airlines without exception.

### > **IAG would like to reduce the price of the Air Europa takeover price**

(source Boursier com) 22 April - **International Airlines Group would seek to renegotiate the purchase price of Air Europa.** While the parent company of British Airways and Iberia agreed last November to

pay one billion euros to buy the third Spanish airline, it would like to revise this amount downwards as the value of the two companies has fallen against the backdrop of the Covid crisis<sup>19</sup>.

<sup>19</sup> According to people close to the case cited by 'Bloomberg, the two parties are studying the clauses of the contract that would allow an adjustment of the terms, but there is no guarantee that they will accept these possible changes. While IAG still believes in the strategic logic of the operation it wishes to close, the compromise previously reached around EUR 1 billion does not take into account the collapse of the market and the fall in the valuation of the various players. (...)

**My comment:** *The Hidalgo family, owners of Air Europa, fears that the takeover operation will fail. They have just asked the Spanish government to intervene with Brussels to get the European Commission to quickly approve the transaction.*

### > **Alitalia will be nationalised in June, announces the Italian Minister of Industry**

(source Reuters) 23 April - **The Italian government will take full control of Alitalia in June**, which the coronavirus crisis has pushed into bankruptcy, Industry Minister Stefano Patuanelli announced Thursday. (...)

According to Stefano Patuanelli, Alitalia's turnover has fallen by 87.5% this year. "**The new Alitalia will start with a fleet of more than 90 of its current 113 aircraft**", he said, denying reports that the fleet could be reduced to 30 aircraft. (...)

### > **For the takeover, Ryanair and EasyJet will give preference to airports that will make gifts on the fees.**

(source La Tribune) 24 April - (...) Unsurprisingly, **several airlines are putting pressure on airports to obtain very advantageous conditions to stimulate traffic**, such as the temporary abolition of airport charges, for example. **Ryanair is one of them.**

According to airport sources, the company has sent a letter to this effect to European airports in which it makes several requests for the abolition of charges by October 2021, first on all passengers (until October 2020), then on 50% of aircraft loadings (until October 2021), except on new routes where the total absence of charges is requested.

**As usual, the company is speaking "cash" because it clearly states that it will give preference to airports that play the game by reminding them that they will have a "decisive advantage" in order to be chosen.** (...)

The Irish low-cost airline is not alone in making such demands. Without using such a direct tone, other companies are asking the same thing, explain airport sources, citing for example EasyJet, the IAG group and TAP Portugal.

Without being precise in its requests, **EasyJet**, for example, is **also very clear about its intentions**. (...)

(...) According to one airport, the IAG group (British Airways, Iberia, Aer Lingus, Vueling, Level) also sent similar mail to several airports without, however, engaging in any blackmail. (...)

**What action will the airports take? According to one observer, airports have a vested interest in securing the flight schedules of strong companies like Ryanair, because they know they will get through the crisis. However, the airports still have to be able to afford it.** (...) The

whole connectivity of the territories is at stake. (...)

***My comment:** For years, low-cost airlines have been receiving financial aid from local authorities, which is often illegal. Ryanair has been condemned on several occasions and is obliged to reimburse them.*

*The current crisis should be an opportunity to return to sound practices. It would seem wise for local authorities to be more concerned with improving regional transport, TER or bus, rather than subsidising an airline, Ryanair, the ninth most CO2-emitting company in Europe.*

### > 1 € flight: the FNAM says it is "ulcerated" by Ryanair's practices

(source TourMaG) 23 April - **The FNAM** (Fédération Nationale de l'Aviation Marchande) alerts the State to the extremely difficult financial situation of airline companies. It asks for the State's support.

"It is a strategic activity and a tool of sovereignty for the nation, the current health crisis has reminded us of the role of airlines in the repatriation of our fellow citizens and the transport of health equipment" recalls the FNAM which adds that it envisages "a very gradual resumption of activity, protecting in particular the health situation of its customers and employees, and contributing to territorial continuity in metropolitan France, towards overseas territories and major world cities".

**It says it is 'ulcerated' by the practices of certain companies in times of crisis and points the finger at Ryanair 'based outside France, not paying any tax in France and making their employees**

**escape French social security rules at the slightest opportunity'. It also denounces the strategy of resuming low-cost activity and its announcements of 'predatory' fares of EUR 1.**

In this context, the FNAM calls on the French and European authorities "to urgently put in place the regulatory conditions in France and in Europe for fair and virtuous competition in environmental and social terms, so that companies that comply with the rules do not see their efforts and those of their employees ruined to the benefit of companies guided solely by the desire to impose a predatory model". (...)

***My comment:** How is it possible for an airline to offer tickets for sale at a price lower than the amount of airport taxes, without the Direction générale de la Concurrence, de la Consommation et de la Répression des Fraudes (DGCCRF) finding fault with it?*

### **> The alliance between Boeing and Embraer explodes in flight**

(source Le Journal de l'Aviation) April 25 - The information came this Saturday, April 25. The **joint venture projects between Boeing and Embraer will not take place**, as the American aircraft manufacturer has exercised its right to terminate the Master Transaction Agreement (MTA) that was to lead to their creation. Embraer considers itself aggrieved and intends to use all possible means against Boeing to obtain damages. **"Boeing has worked diligently for more than two years** to finalize its transaction with Embraer

. In recent months, we have had productive but ultimately unsuccessful negotiations on the unfulfilled terms of the MTA," said Marc Allen, Senior Vice President of Boeing and President of Embraer Partnership & Group Operations in a statement. He continued: "This is deeply disappointing. **But we have reached a point where continued negotiations under the MTA will not resolve the outstanding issues.**

**The São José dos Campos aircraft manufacturer immediately retaliated by stating that Boeing had "fabricated false allegations as a pretext to try to avoid meeting its commitments to complete the transaction and pay Embraer the \$4.2 billion purchase price. »**

Embraer also intends to use all possible means against Boeing for damages suffered as a result of Boeing's "wrongful termination and violation of the MTA". (...) Nevertheless,

notwithstanding the official reason put forward by Boeing to put an end to the planned merger between the two aircraft manufacturers, the creation of Boeing Brasil - Commercial seemed doomed a few months

ago, particularly with the 737 MAX crisis.

**The potential synergies between the E2 family and the 737 MAX family were far from being obvious to the market and** the commercial prospects of the new generation of E-Jets may not have convinced Boeing sufficiently in view of the approximately 4.2 billion dollars to be invested, and while its Commercial Aircraft activity is particularly impacted by the crisis linked to the coronavirus pandemic due to the lack of capacity to deliver a single aisle. Boeing Commercial Aircraft (BCA) plans to cut up to 10% of its workforce to get through the crisis. (...)

***My comment:*** This failure of the alliance between Boeing and Embraer is good news for Airbus. The European manufacturer has a very wide range of single-aisle aircraft, which account for 80% of world aircraft sales.

### > Airbus survival is at stake says its president.

(source Reuters) 27 April - **Airbus has reported bleak prospects** linked to the impact of the coronavirus crisis, **calling on its 135,000 employees to prepare for greater than expected cuts because the group's survival is threatened** if it does not act immediately.

In a letter to staff on Friday, which Reuters was able to consult, Airbus executive chairman

Guillaume Faury said the European aircraft manufacturer is "losing money at an unprecedented rate" and that a cut of a third or more in production is not the worst-case scenario, as the company is likely to reconsider the plan.

Airbus was asked to comment, but declined to do so. (...)

According to industry sources, a new restructuring plan inspired by Power8 could be implemented this summer.

Guillaume Faury, for his part, stated that the manufacturer was studying 'all options' and that the new production measures could remain in place while demand was reassessed, which could take between two and three months.

According to sources close to the dossier, **Airbus is also in intense discussions with several states in Europe on the various aid plans for the sector.** (...)

### > **Coronavirus:** Aéroports de Paris plans to test passengers "before they take off".

(source Le Figaro) 23 April - "Traffic is not going to start up again overnight with a wave of the magic wand on 11 May," Augustin de Romanet, CEO of Aéroports de Paris (ADP), told BFM Business on

Thursday. While the group published on the same day a turnover down 5.6% in the first quarter due to the effects of the Covid-19 pandemic, its boss is calling for the creation of a worldwide health "habeas corpus" in view of the resumption of activity. (...)

**How is this recovery shaping up? "This will depend on the evolution of the pandemic - the less severe it is, the more traffic will resume -, (...) on the existence of a vaccine and tests (...) but also on the climate of confidence that needs to be created for passengers",** answered the ADP boss. In the event of "generalisation of tests, rapid and accessible", **Augustin de Romanet said he was in favour of the idea of "testing passengers before they take off"**. "We have proposed a number of measures for departing passengers as part of the deconfinement plan to ensure that no passengers with fever are taken on board". In addition, "inside an aircraft, air filtration every three minutes is better than in any other mode of transport (...) and masks will be required," he said. (...)

Augustin de Romanet spoke about the pace of post-resumption traffic and its impact on ADP. "I'm not counting on anything because I don't have my diploma from Madame Irma (...)," he commented. Our economic model will be turned upside down because the growth rates we were expecting will probably be revised. But **we will also have to realise that in the fight against the decarbonisation of air transport, the fact that the rate of traffic is slowing down is not bad news**. More than ever, we will put the emphasis on decarbonisation and quality of service," he continued.

***My comment:** The requirement to wear a mask may become a headache for air transport.*

*Will it be possible to test everyone? And once on the plane, will it still be possible to serve drinks or meal trays?*

## **Stock market press review ...**

### **> Air France-KLM: a broker aims at a price of 1.30 euro**

(...) (source Boursier com) 24 April - (...) Among the latest broker reviews, Morgan Stanley downgraded the stock to 'underweight' while reducing its target price to 4 euros.

Barclays, for its part, has reduced its target price from EUR 10.3 to EUR 4.2 while remaining 'line-weighted'.

Finally, Société Générale downgraded the share to be "sold" with a target cut from EUR 4.5 to just EUR 4.5... 1.3 euro! (...)

***My comment:** These course objectives were published on Friday 24th April, a few hours before Air France announced that it would be obtaining loans.*

*The share price remained stable on Monday 27 April.*

### > **Air France-KLM: behind the massive loans to Air France-KLM, the danger of debt**

(source BFM Bourse ) 27 April - The agreement in principle reached on Friday by the group with the French government and its banks should enable it to avoid the liquidity crisis that could have occurred as early as the third quarter. However, **the increase in its debt puts Air France-KLM in a more subordinate position**, without removing all the uncertainties. (...)

According to the draft agreement, which has yet to be finalised, a banking syndicate would contribute 4 billion euros via a loan 90% guaranteed by the French State, with a 12-month maturity, with two options for extension for one year in a row, while the State would directly contribute 3 billion euros via a shareholder loan with a four-year maturity, again with two options for extension for one year. (...)

**These operations, in contrast to an equity injection, would therefore lead to more than doubling the group's indebtedness, whose net debt at the end of 2019 amounted to EUR 6,147 billion** (on which the carrier paid EUR 393 million in interest last year).

**In order to reimburse part of it as quickly as possible** - starting with the guaranteed bank debt, which has a shorter maturity - the **Group intends to proceed with a capital increase** once it has better visibility on the parameters of post-Coronavirus crisis air traffic, once it has a better visibility on the parameters of post-Coronavirus crisis air traffic, the **Group intends to proceed with a capital increase**. This operation, which is intended to strengthen shareholders' equity, could take place at the latest after the meeting approving the financial statements for the financial year 2020. (...) If so, the State would then simply have to waive all or part of its debt in exchange for a fraction of the capital to be determined.

Failing to raise funds, the repayment of the entire loan envisaged would absorb more than 10 years of operating cash flow (based on the EUR 623 million in 2019), with Citigroup

's engineering office even counting on 15 years.

The US bank also believes that if the emergency loan is necessary, paradoxically this could affect Air France-KLM's ability to negotiate effectively with its suppliers, unions and airport operators, who may argue that the group now has access to significant cash, albeit in the form of a liability that will have to be managed in a complicated environment.

In addition, vis-à-vis the stock market, the anticipation of an upcoming more or less inevitable capital increase could limit the share's progression.

***My comment: There are many legitimate questions about Air France-KLM's ability to repay the loans. They are in addition to the existing debt and the repayment of the deferrals of charges and taxes granted from 2020.***

### > **Oil: market mechanisms explain the collapse of prices**

(source Reuters) April 21 - **Market mechanisms** and in particular the role played by exchange-traded funds (ETFs) **explain the collapse in oil prices**, which saw a benchmark crude oil futures contract go into negative territory for the first time on Monday, says La Banque Postale Asset Management (LBPAM).

**The contract due in May on a barrel of U.S. light crude** (West Texas Intermediate, WTI) **fell on Monday to -40 dollars**, an unprecedented move fueled by a depressed economic outlook and the near-saturation of storage capacity in the United States. This contract was "deliverable" Monday evening, meaning that those who bought it were supposed to receive a "physical" delivery of oil, which was impossible in the **absence of storage capacity**, explained Stéphane Déo, strategist of the management company, in a note published on Tuesday.

**"All the players therefore had to resell their May 2020 contracts, whatever the price, even negative,"** he wrote. (...)

The overabundance of supply in the face of ever-contracting demand is keeping prices down, explains John Plassard, investment specialist at Mirabaud, which is very bad news for companies in the shale oil sector in the United States, which need a barrel of oil at 50 dollars to be profitable. (...)

## ***End of press review***

## > **My comment on the evolution of the Air France-KLM share price**

**The Air France-KLM share is at 4.50 euros at the close of trading on Monday 27 April. It is down -5.52% over one week.** At the start of the coronavirus epidemic, it was at 9.93 euros.

**The average (the consensus) of analysts for the AF-KLM share is down for the second week in a row, dropping from €8.97 to €6.93 and then to €6.08 on Monday.** The announcement by the French government of the loans granted had no impact on the share price. On the other hand, several analysts have downgraded their share price targets. You can find on my blog the details of the analysts' consensus.

**Brent crude oil (North Sea) is at \$20 a barrel, down \$6 for the second week in a row.** At the start of the coronavirus outbreak, it was \$69. Production is always higher than (low) demand.

**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.

To find the latest press reviews of Monday, it's [here](#)

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## **| François Robardet**

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

**You can find me on my twitter**

## account @FrRobardet

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

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