

Air transport will take off again in June

I Letter from the Director Air France-KLM

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Editorial

Dear Readers

The previous week was marked by the Air France-KLM Annual General Meeting. You can relive it by visiting the Air France-KLM website.

I would like to thank the many shareholders who have entrusted me with their powers. The voting results are also available on the Air France-KLM website.

Let us continue to respect the "barrier" measures.

Happy reading François

Monday's Press Review

> **Air transport will take off again in June**

(source Les Échos) June 1 - In June, go a little further. After two months of almost complete stoppage and a timid restart at the end of May, **air traffic should take off again in June**. Although no date has yet been officially set for a reopening of intra-European and external borders, many airlines have already put online increased flight schedules for June and July. The main French airports have announced their

reopening to passenger traffic. **The ADP group has even announced its intention to reopen Orly on 26 June, as requested by French airlines, provided that the restrictions on travel within the Schengen area are lifted.**

This resumption of traffic will, however, be gradual. **In the case of Air France, whose traffic is still limited to 10% or 15% of its normal activity, the gradual increase in the number of flights and destinations should bring it back to around 15% of its capacity, with only 75 aircraft in service out of 224 at the end of June.**

Nevertheless, the company should already be serving some 100 destinations by that date, including 15 in mainland France, some 40 European destinations, and more than 20 international destinations, including New York, Los Angeles, Chicago, Atlanta, Montreal, Mexico City, Tokyo, Seoul, Hong Kong, Singapore, Delhi, Dubai, etc. The list should continue to grow in the coming weeks.

From the end of June, the French Overseas Departments should also find three to four daily connections with the mainland, in addition to the flights of Air France, Air Caraïbes, French Bee, Corsair and Air Austral to the West Indies and Reunion Island. As for Corsica, Air Corsica and Air France are due to resume daily flights to Ajaccio and Bastia from Paris-CDG from this Tuesday, pending the reopening of Orly, followed by flights to Calvi and Figari from 5 June.

June will also be the month of the return of low-cost airlines to France and Europe, with the notable exception of Ryanair, whose flight schedule will restart in July. Easyjet plans to serve 31 European airports from 15 June, including 7 in France, with priority given to domestic routes. For its part, Vueling, the IAG group company, plans to restart 21 routes out of France by the end of June, including 14 out of Orly. Transavia announces a resumption of flights from Lyon and Nantes as of June 15, and from Paris-Orly as of June 26, first to Portugal, then to Spain, Italy, Greece, the Netherlands, Croatia, Ireland and Iceland. Spain's Volotea announces 40 routes from 16 June, including 15 from French airports...

There is reason to consider a holiday abroad, even if everything still depends on the evolution of the pandemic, but also on political agreements on reopening. In Europe, while several countries, including France, have declared themselves in favour of reopening intra-European borders as of 15 June, the United Kingdom has imposed a quarantine measure that prevents a resumption of traffic. Quarantine also remains the rule for all travellers from outside the European Union. And while a lifting of entry restrictions to the United States and Canada would be considered for 16 or 18 June, no decision has yet been taken. **China, for its part, is planning to extend the restriction on**

international flights until October....

***My comment:** Finally some good news for air transport. Starting in mid-June, traffic will gradually pick up again. This recovery could become more pronounced at the end of June if the conditions for reopening Orly airport are met.*

> **Air France to reduce its domestic network by 40% > Air France to reduce its domestic network by 40% > Air France to reduce its domestic network by 40% > Air France to reduce its domestic network by 40% > Air France to reduce its domestic network by 40% > Air France to reduce its domestic network by 40% > Air France to reduce its domestic network by 40% > Air France to reduce its domestic network by 40%.**

(source Le Journal de l'Aviation) 27 May - At its Annual General Meeting, **Air France-KLM announced that capacity on Air France's domestic network would be further reduced by 40% by 2021.** The acceleration of the restructuring of this segment had already been discussed last month before a Senate committee, but the extent had not been specified. A more precise roadmap is expected by mid-summer 2020.

The group is thus responding to a request from the State, which has made its €7 billion support to the group conditional on measures to turn around this loss-making part of the French airline's network and on ecological objectives. **The handful of lines on which there is a rail alternative of less than 2.5 hours by train, excluding the CDG hub, and the least efficient routes, in particular some transverse routes, will be closed.**

This objective, combined with the consequences of the health crisis on demand, will lead to a social plan. At Group level, **KLM has already proposed a voluntary redundancy plan to all its employees, which will be launched on 1 June. A similar plan is currently being negotiated within Air France with the social partners.** It should notably include "mobility initiatives between the provinces and the capital", said Ben Smith, the Group's CEO.

HOP! is expected to lose further ground and its unions fear a sacrifice by the province and the extent of job losses. Transavia, on the other hand, is expected to benefit and emerge stronger.

In April, Ben Smith and Air France CEO Anne Rigail explained that major efforts had already been made to turn around the domestic

network, with a 40% reduction in capacity since 2006 and a 53% reduction in ground staff. The plan launched in 2018 provided for a further reduction in capacity of around 18%. However, the segment was still running a deficit of 200 million euros in 2019.

Returning to the current crisis, **Air France-KLM**, through its Chief Financial Officer Frédéric Gagey, indicated that it expected to publish "a strongly negative EBITDA [in 2020, editor's note], which had never been the case since the merger with KLM", despite all the savings measures taken. He **recalled that the group had reached agreements with Airbus and Boeing to postpone the delivery of several A350s and 787s, at the same time as** it accelerated the simplification of its fleet by the early withdrawal of Air France's A380s and KLM's 747s. It still has room for manoeuvre with the A330s.

***My comment:** Ben Smith's announcement of the 40% reduction in Air France's domestic network was the highlight of the Air France-KLM shareholders' meeting on Tuesday 26 May. The rebound plan prepared by Air France management will be discussed at the end of the month before the employee representative bodies.*

The Boards of Directors of Air France-KLM and Air France are expected to vote on this recovery plan in July.

In addition, the Dutch government's support plan is still under discussion. The Dutch government has announced that discussions could last a few weeks.

> Oorlog Hoekstra en Smith (The war between Hoekstra and Smith)

(source De Telegraaf translated with Deepl) 27 May - Minister Hoekstra (Finance) chooses again to confront Air France-KLM CEO Benjamin Smith. At the shareholders' meeting, he voted against his bonus (...).

Smith will receive €2.8 million for 2019, plus another long-term bonus of €2 million for this year. Mr Hoekstra believes that "this is not appropriate at a time when we are reaching out to the French and Dutch governments with our hands out", but he says he has to accept the fact that more than 80% of shareholders have approved the bonus. This is not the first confrontation between Smith and Hoekstra, who became a shareholder in the aviation group last year after a power struggle over the position of KLM's CEO, Elbers.

With his dissenting vote, Hoekstra complied with the Lower House's wish, but the bonus may still cause problems if political support is needed for a share issue later in the year. It will be much larger than Mr

Smith's variable compensation. "It doesn't make trading any easier," says Hoekstra about maintaining the bonus. "It is precisely for these reasons that we have always said that our money should go first to KLM. The Minister emphasised that his support, which includes €2-4 billion in guarantees and loans, is intended for the Dutch division of the company.

In recent weeks, the cabinet has strongly opposed the granting of bonuses in companies receiving state aid. But Hoekstra does not want to go so far as to withdraw the billions in support. "That is no reason to say: let KLM go bankrupt then".

The minister does not want to make nice speeches when there is another battle looming between the two on preserving jobs and the roads at Schiphol. Smith again alluded to further centralisation on Tuesday, so it seems the KLM headquarters could be easy prey for a cost-cutting operation.

"It is sad, in fact, that the discussion on remuneration has been given such an important role in a company that sorely needs it," says Jasper Jansen of the Dutch Shareholders' Association (VEB). "The Board of Directors of Air France-KLM should have foreseen that this would have a detrimental effect at a time when the company might need a lot of support and goodwill".

This confirms once again that the French State seems to be in the driving seat in the 19-member Board of Directors. Dutch supervisors, including former NATO Secretary General Jaap de Hoop Scheffer and former Aegon CEO Alex Wynaendts, do not seem to make a difference. The French have fewer problems with the Anglo-Saxon pay of Canadian "henchman" Ben Smith.

Air France-KLM's motto seems to be "one man's death is another man's opportunity," it was revealed Tuesday. "There will be more airline bankruptcies, leading to a decrease in supply. As a result, our revenues could increase," Smith said. But that will never be enough to repay the billions in loans from the airline group.

Moreover, it is not known when and to what extent customers will return, which hangs like a black cloud over the shareholders' meeting.

Ben Smith's bonus is also bitter for the airlines, because they are doing the job. Aviation expert Ruud Jansen says it is "sad" that Smith dares to ask governments and banks for EUR 11 billion without having a plan.

"Hoekstra confirms once again that he is wrong, because he did not buy any controls for €744 million of taxpayers' money. It is time to get down to work with business acumen, decisiveness and creativity to save KLM and hundreds of thousands of jobs".

My comment: Ben Smith's remuneration has made headlines in France and especially in the Netherlands.

It should be noted that the CEO of KLM, Pieter Elbers, benefits from the same remuneration policy (in four parts). Only the amounts of each part are different (source: Annual Report 2019 - KLM, pages 102 - 103).

The form of the remuneration policy is divided into four parts:

- . a fixed remuneration,*
- . an annual variable remuneration, calculated on the basis of pre-established criteria. It is paid each year after approval by the General Meeting*
- . a Long-Term Plan ("Phantom shares"), payable in 2022 under performance conditions .*
 - a Specific Long-Term Plan: payable in Air France-KLM shares in 2022 under performance conditions.*

The long-term plans cover three years, from 2019 to 2021.

The Dutch government stated that it had voted against two resolutions at the Air France-KLM General Meeting (they were nevertheless adopted):

- . the 13. Approval of the fixed and variable components of the total compensation and benefits of any kind paid in 2019 or granted in respect of that year to Mr Benjamin Smith as Chief Executive Officer*
- . Approval of the 2020 compensation policy for the Chief Executive Officer Benjamin Smith*

On the other hand, unless I am mistaken, the Dutch Government approved the remuneration package for the Chairman and CEO of KLM at the KLM General Meeting.

Ben Smith and Pieter Elbers will therefore receive their variable remuneration for 2019, their fixed remuneration for 2020 (reduced by 25%) and their long-term variable remuneration for 2019.

They have both waived their 2020 variable compensation.

As for their long-term variable compensation in respect of 2020, it will be the General Meeting of Shareholders in 2021 that will decide on their allocation.

Why is there a debate on the payment of this variable compensation?

On 9 May, the European Commissioner for Competition said: "If Member States decide to intervene, we will apply the current rules to ensure that taxpayers are adequately remunerated and that support will

be subject to conditions, including a ban on dividends or bonuses, and other measures to limit distortions of competition. "

The French and Dutch governments have expressed the same prohibitions. But neither government has specified which bonuses are concerned, nor for what period of time these bans apply.

It is up to the governments and the Commissioner to clarify their requirements.

Concerning the payment of these bonuses, I consider that those relating to the year 2019 are contractually due, unless the States request otherwise. The same applies to the payment of the 2019 profit-sharing to employees, which will be made at the end of the year.

> Vertrekregeling KLM gunstig voor ouderen (Advantageous starting plan for the elderly)

(source De Telegraaf translated with DeepL) 27 May - On Thursday 28 May, **the airline KLM will hold talks with the two cabin unions about mandatory departures.**

It is not yet known how many of them there will be. Cabin crew - stewards and hostesses - with almost half of all staff make up the largest group of KLM employees. "It remains to be seen whether KLM will be able to give an idea of how many people will have to leave (...). **Last week, KLM opened a voluntary departure programme for employees.** Compensation consists of a quarter of a month's salary per year of service, rising to one month's salary if the employee has been employed for more than ten years. The allowance amounts to a maximum of one and a half years' salary.

"The scheme for employees who have been employed for less than ten years is much less generous than the statutory severance pay," says Pascal Besselink, a labour lawyer at DAS Rechtsbijstand. "The maximum allowance of one and a half years' salary, on the other hand, is more favourable than the statutory severance allowance, which is a maximum of twelve months' salary. **It seems that KLM wants to encourage older employees to take the voluntary departure scheme**" (...). The average age of cabin crew at the end of December was 44 years (...).

Many KLM employees are working with the calculator, but it is not yet known how many people will actually take the voluntary redundancy plan. "We are getting a lot of questions because **it seems that we are at a dead end at KLM. Colleagues are waiting to see how many people could be made redundant and KLM is waiting to see how**

many people will subscribe to the voluntary redundancy plan.

My comment: *Discussions on the future of all categories of staff are taking place between the unions and KLM management.*

The demands of the Dutch government to reduce high salaries at KLM have created tension among the pilots. Their remuneration system is different from that of Air France pilots. KLM pilots have a fixed salary, while Air France pilots have a variable remuneration based on the number of hours flown.

> Transavia France is gradually restarting its flights from 15 June.

(source Air Journal) 28 May - While it initially planned to resume flights on 25 June, **Transavia France is now setting its take-off ten days earlier, on 15 June**, the date on which France will open its borders to domestic travel in Europe.

The French low-cost airline will offer an initial restricted flight schedule, "adapted to current sanitary conditions and meeting in particular the expectations of family travellers" during the summer season.

From 15 June, it will operate its first routes from Lyon-Saint Exupéry and Nantes-Atlantique with flights to Portugal (Faro, Lisbon and Porto). From June 26th, new destinations from Paris-Orly (reopened then) and Montpellier-Méditerranée will be offered to passengers to Portugal, Spain, Italy, Greece, the Netherlands, Croatia, Ireland and Iceland (...). Transavia France will then carry out 25% of its flight schedule (...).

Transavia France has completely rethought the passenger route to protect its customers as much as possible. New sanitary measures will be deployed.

At check-in

:- Arrival 2 hours before the flight to allow strict compliance with health rules-

-Mask wearing is compulsory for passengers (including children over 11 years old) and staff. -

Reinforced cleaning of check-in kiosks and automatic baggage drop-off points -

Hydroalcoholic gel is available in the check-in and boarding areas -

Ground markings to ensure that social distancing is respected -

Arrangement of queues -

Plexiglas protection at the check-in, sales and boarding counters -

Passengers can drop off their cabin baggage free of charge at boarding:-

Anticipation of boarding phases- -

Sequenced boarding to prevent cross-flows-

-Limiting the number of customers in the boarding bridges and in the accesses

During the flight

:- - Welcome on arrival in the aircraft: the crew will be equipped with masks-

-Announcement of precautionary measures during installation and sequencing of disembarkation in order not to saturate the aisles- -

Provision of

hydroalcoholic gel dispensers- -The

service and product offer on board will be adapted. Payment will only be made by credit card and preferably contactless. -The

air is filtered every 3 minutes with HEPA filters which guarantee a filtration similar to that of operating theatres.

- -The cabins of all aircraft are cleaned and disinfected every evening in accordance with the new EASA requirements.

On arrival

:- -Disembarkation sequenced by passenger group-

-Limitation of the number of customers in the gangways- -Ground markings in the waiting areas-

-Plexiglas protection on the missing luggage counters.

My comment: *For the resumption of the flights Transavia has made all the arrangements to welcome the passengers in the best conditions. But everything will depend on the evolution of the sanitary situation.*

> **Lufthansa: Berlin and Brussels agree €9 billion rescue package**

(source Capital) 30 May - **Lufthansa has passed another hurdle in its (...). Its €9 billion rescue package** is (...) the subject of much discussion. But the good news is that on Friday a **crucial agreement was reached between the German executive and the European Commission in Brussels on the** main terms of the rescue package, which aims to prevent Lufthansa from going bankrupt (...).

The compromise provides for Lufthansa to give up to 24 take-off and landing slots to competitors, highly coveted and valuable rights for airlines, representing 8 parked aircraft, according to the company. The Executive Board "accepts the concessions", which "have been reduced in scope" compared to what was initially mentioned, and is now awaiting the green light from the supervisory authority, notes Lufthansa in the press release (...). The rights, divided equally between **Frankfurt and Munich airports**, will be reserved for "new competitors" for a year

and a half before companies already present in these two cities can buy them if they are still available. **"The slots will have to be taken over only by a European competitor which has not itself received public aid because of the coronavirus pandemic,"** the German group adds. An extraordinary general meeting of shareholders is to be called "shortly". They must also approve the rescue as it involves a capital increase. The Ministry of Economy mentioned in a press release an "important step (...) opening the way to the consultation of the general meeting", while "beyond that, negotiations are continuing" (...). Negotiations are continuing for the Belgian subsidiary Brussels Airlines, which in mid-May announced plans to cut a quarter of its workforce, and **Austrian Airlines, which has asked Austria for EUR 767 million. Berne will guarantee EUR 1.2 billion in loans to the subsidiaries Swiss and Edelweiss.**

The rescue package provides for the state to take a 20% stake in the group for €300 million, in addition to injecting €5.7 billion in non-voting funds, of which €1 billion can be converted into shares. This would be the first time that the German state would return to the company's capital since its full privatisation in 1997.

Berlin reserves the right to increase its stake to 25% and one share, the blocking minority, but only "in the event of a public takeover bid by a third party" or non-payment of interest. Germany also guarantees a €3 billion loan and gets two seats on the supervisory board of Lufthansa, which is prohibited from paying dividends and bonuses to its executives. Ryanair has announced that it wants to challenge the plan before the European Court, calling it "illegal state aid that will greatly distort competition" (...).

***My comment:** The conditions imposed by the European Commission are more important for the Lufthansa Group than for the Air France-KLM Group. This is the consequence of the increase in the capital of the German state.*

This being the case, the European Competition Commissioner has been clear: "If Air France-KLM comes back for recapitalisation, of course it will be in the same category as Lufthansa. That goes without saying".

> EasyJet will not immediately offset the decline in Air France's domestic offer

(source: Les Echos) 27 May - EasyJet will not soon compensate for the reduction in Air France's offer After a two-month stoppage, easyJet will reopen at least 18 routes in France from 15 June. Priority will be given

to the domestic market. However, the Orange carrier will not be able to offset the reduction in Air France's offer any time soon. // P. 20

It's wake-up time for easyJet. After two months of sleep, the Orange airline announced the resumption of part of its flights, as of 15 June, departing from 31 European airports, including 7 in France. Priority will be given to domestic routes, in compliance with new health regulations. The programme is constantly evolving but, as things stand at present, **we will operate at least 18 routes in France from 15 June**, departing from Roissy-CDG, Bordeaux, Lille, Lyon, Nice, Nantes and Toulouse, all of which are domestic, with the exception of Bordeaux/Geneva, Nantes/Geneva, Nice/Geneva and Nice/London-Gatwick," explains Réginald Otten, who is in charge of the French market at easyJet. This represents only 5% of our usual offer, but it should continue to increase as the weeks go by. »

After its home country, the United Kingdom, **France has become the airline's second largest market**, with 25 million seats offered in 2019. **It has 39 aircraft based there, spread over 7 bases**, with 1,700 employees under French contract and carried 21.8 million passengers to and from French airports in 2019, according to Réginald Otten. This makes easyJet the second largest airline in France and the largest low-cost (...).

On domestic traffic in France, we are also number two behind Air France," Réginald Otten points out. Domestic **traffic accounts for around 30% of our passengers in France, including a high proportion of business travellers. On routes such as Orly/Toulouse and Lyon/Toulouse, they account for almost half of all passengers"** (...).

Ssi **easyJet** already has a strong presence in Bordeaux, Nantes and Lyon - Air France's three stopovers served in less than 2 hours 30 minutes by train - and it **seems that the airline has no intention of replacing Air France on the Orly service. "We do not operate a route served in less than 3 hours by train"**, Réginald Otten points out.

On the other hand, easyJet could benefit from the announced refocusing of Hop, Air France's regional subsidiary, on Paris-CDG and Lyon, by trying to win back customers on certain transversal routes, as well as on several "radial" routes departing from Orly. This is already the case on Lyon/Toulouse, Lyon/Bordeaux, Nantes/Toulouse and Lille/Bordeaux. Unless Transavia, Air France's low-cost subsidiary, gets in the way, taking over from Hop and Air France on part of the domestic

network.

My comment: *The easyJet company is very well established in France. It has as many planes as Transavia France. But it competes strongly with Air France by targeting both leisure and business passengers.*

> **Ryanair wants to reduce its employees' salaries by up to 20% or face dismissal.**

(source RTL) 1 June - According to several confidential documents that RTL has been able to obtain, **Ryanair**, affected by the economic consequences of the coronavirus crisis, has made a proposal that is going very badly with its French staff. The airline **has proposed to its pilots based in France to reduce their salaries (fixed and variable) by 20%, under pain of having to lay off part of its staff.**

This reduction would start on July 1, 2020. Pilots would gradually regain 100% of their salaries after only 5 years. The loss of their income over 5 years would be 12%. Ryanair also wants to apply even lower salaries for newly hired pilots and co-pilots. Moreover, until 30 June 2025, no salary increase would be possible.

This ultimatum was presented to the Syndicat National des Pilotes de Ligne (SNPL) with a response required within 5 days. If this were not the case, Ryanair would have no choice but to dismiss 29% of the pilots and 27% of the co-pilots it has identified as redundant. This represents 23 pilots out of the 81 that the company has at its 3 French bases in Marseille, Toulouse and Bordeaux.

The Ryanair Section of the SNPL has decided to cooperate in setting up a collective performance agreement 'waiting for better days' and assures that, in exchange, it has obtained a commitment from Ryanair not to dismiss any pilots.

(...) **Ryanair also proposes to hostesses and stewards to reduce their salaries by 10% from 1 July 2020 until 1 July 2025**, when commercial flight crews would regain their full salary. There would also be no salary increase for a period of 5 years. In addition, new entrants would be paid 10% less than their colleagues.

The company also wants cabin crew to work fewer hours, from 2,000 hours per year to 1,600 hours per year, with the result that wages would fall from 1,539 euros per month to 1,231 euros per month, including for new entrants (...). Rates below the minimum wage (...). As for the pilots, if the agreement is not signed within 5 days, the company threatens to lay off 27 of them, out of about 160 based in France.

Contacted by RTL (...) Ryanair confirms (...) to be in discussion with the

French trade unions "on reasonable emergency cost-saving measures, including temporary salary reductions of up to 20% for the highest paid pilots and up to 10% for cabin crew, to be proportionally restored over 5 years."

The company adds that "these are reasonable and time-limited measures aimed at preserving as many jobs as possible at a time when all airlines in Europe are cutting jobs to survive this unprecedented crisis" (...).

My comment: *The Ryanair pilots' union has agreed to negotiate a collective performance agreement.*

This is effective January 1, 2018. Collective performance agreements may be concluded in order to meet the needs of the company's operations or with a view to preserving or developing employment. Such agreements may include stipulations aimed at :

- . organise working hours and the way in which they are organised and distributed;*
- . organise remuneration, in compliance with the minimum hierarchical wages defined by branch agreement;*
- . determine the conditions for professional or geographical mobility within the company.*

The special feature of the collective performance agreement lies in its linkage with the employment contract. The clauses of the agreement replace the clauses of the employment contract with the agreement of the employee. If the employee opposes the application of the agreement, he or she may be dismissed for a reason based on the rejection of the agreement.

In the current crisis period, the signing of a collective performance agreement makes it possible to limit the number of job cuts. In return, employees accept changes in their employment contract.

The role of trade unions is crucial. They must ensure that the concessions granted to the employer are the subject of real counterparts, in particular with regard to the guarantee of employment.

> Norwegian Air Shuttle sinks into the red

(source: Le Figaro with AFP) 28 May - **The low-cost airline Norwegian Air Shuttle went** into the red during a first quarter marked by the crisis linked to the new coronavirus, according to results published Thursday.

The carrier, which had forecast a disappointing quarter, **recorded a net loss of 3.28 billion crowns (302 million euros)** between January and March, compared with 1.98 billion over the same period a year earlier. Its operating loss (EBIT) amounted to almost SEK 2.1 billion. Turnover fell by 19% to SEK 6.5 billion.

As a result of the crisis which is particularly affecting the airline industry, "Norwegian has gone into hibernation after taking drastic measures to preserve its liquidity", the airline stated in a press release. **Norwegian's rescue plan provides for the conversion into shares of more than 10 billion kroner (€880 million) of debts** owed to bondholders and leasing companies.

The conversion will be followed by a capital increase, the fourth in just over two years. The carrier has also benefited from guarantees provided by the Norwegian Government. "Our objective is to ensure that Norwegian maintains a strong position in the future airline industry (...). As soon as the world returns to normal, we will be ready to come back with improved services for our customers," said group CEO Jacob Schram, quoted in the statement.

> **New austerity measures at American Airlines**

(source Trends) May 28 - **This new austerity measure will affect some 5,100 jobs out of the 17,000 managerial positions currently held by the airline. It comes on top of an ongoing voluntary departure plan that 39,000 of the company's 100,000 employees have already accepted, according to** Elise Eberwein, one of American Airlines' top executives.

"We need to reduce our structural costs, including the most important expenses, i.e. pay and benefits. We also need to prepare to operate a smaller airline in the short term," says Eberwein. **American Airlines (...)** in order to survive has obtained financial assistance from the federal government in the form of very low-interest loans. In return, the company **has pledged**, like its compatriots and rivals, to **preserve jobs until September 30.**

American Airlines states in the document that **these job cuts will only take effect from October**, although those affected will be informed in July. They may decide to leave under a new departure plan, which is already open and will be closed on 10 June. Should the 30% target not be met, the airline will proceed with outright redundancies.

American Airlines is also considering cutting pilot and cabin crew jobs to bring their respective workforces into line with its melted flight schedule. It promises specific announcements in the "coming weeks", after discussions with the unions (...).

My comment: American Airlines is the most struggling airline in the United States. Its indebtedness is 30 to 40% higher than that of its competitors. Last month, several observers raised the possibility that it might be placed under Chapter 11 protection.

In the United States, Chapter 11 of the Bankruptcy Act allows a company to obtain a respite to restructure its debt and propose a rescue plan that will be validated by the court. The three major airlines (Delta Air Lines, American Airlines and United Airlines) have all been placed under Chapter 11 protection at least once. This makes the companies in the Gulf say that these three U.S. companies were also helped by their government.

> **Latam Airlines: the real reasons for bankruptcy**

(source La Quotidienne) May 27 - (...) The airline **Latam Airlines officially filed for bankruptcy yesterday in the United States.**

According to the airline's statement: "On May 26, 2020, the Latam Airlines Group filed for reorganization under Chapter 11 protection of the U.S. Bankruptcy Act. The decision, which concerns subsidiaries in Chile, Peru, Ecuador and Colombia, will not result in the cessation of operations.

The airline emphasizes that U.S. Chapter 11 "provides an exciting opportunity to work with our creditors and all stakeholders to reduce our debt and address our many business challenges.

"This is by no means a liquidation process," said Roberto Alvo, CEO of Latam. **"Chapter 11 provides a legal framework within which Latam and its subsidiaries in Chile, Peru, Colombia, Ecuador and the United States can restructure and adapt their operations. The debts will probably be restructured to give the airline room for manoeuvre and enable it to ensure what it calls "long-term sustainability" (...).**

The group says it has the support of its main shareholders, including the Cueto and Amaro families and Gulf carrier Qatar Airways. Together, these stakeholders will provide up to \$900 million in debtor-in-possession financing.

However, it is not yet known whether its main shareholder, Delta Airlines, which owns 20 per cent of the company, will step in to assist it.

My comment: As the Chilean government cannot afford to help its national company, it is forced to restructure. It has obtained the help of its main shareholders, which will enable it to hope to get through the

current crisis.

> **The Safran group is sinking into the "hard" part of the crisis**

(source: Le Journal de l'Aviation) May 29 - **Safran (...)**, the French engine and equipment manufacturer group, **saw its sales halved in April compared with the same period last year**, impacted by the sharp drop in deliveries of new single-aisle aircraft, both at Boeing (one year after the 737 MAX grounded) and Airbus (consequence of the pandemic on airlines). The next two months should logically show a decrease in sales of the same order, or even greater, given the increasing number of postponed deliveries of new aircraft.

The Safran group now expects fewer than 1,000 deliveries of LEAP engines over the year, given the expected decline in commercial aircraft deliveries. "A few weeks ago, I mentioned the figure of a thousand LEAP engines to be manufactured by 2020, but unfortunately today we are below that figure," said CEO Philippe Petitcolin.

The engine manufacturer CFM International, a 50/50 joint venture between Safran Aircraft Engines and the American company General Electric (GE), delivered 1,736 LEAP engines last year for the A320neo and 737 MAX platforms. Safran's previous projections, announced at the presentation of the group's annual results in February, were based on the delivery of 1,400 LEAP engines this year, i.e. without the impact of the global health crisis a few weeks later.

Of course, this reduction in activity does not only concern engines, as the other branches of the group are just as affected (nacelles, landing gear, cabin equipment, etc.). Moreover, we know that after-sales services are even more severely impacted by the immobilization of airline fleets, even though they represent a very important part of the Group's profitability (...).

In particular, the equipment manufacturer has decided to reduce its capital expenditure by 60%, its R&D expenditure by 30% and its operating costs by 20%. In the shorter term, around thirty of the group's sites are now temporarily closed (including five in Russia for health reasons). In France, 40% of employees have been placed on short-time working (35% worldwide) (...).

The Safran group is now counting on a gradual recovery in air traffic, as many airlines are starting to benefit from various support measures around the world to continue their business.

(...) **In China, for example, traffic is beginning to recover, down around 45% from 2019 levels, with load factors of 60%.** We are also beginning to see early signs of improvement in other parts of the world,"

he wrote at the time, as domestic air traffic will pick up in many countries in the coming weeks.

We know that the single-aisle sector will not be the hardest hit by the crisis, and Safran indicates that in the longer term it will continue to benefit from the fleet of second-generation CFM56s installed, with 57% of CFM56-5B/7Bs now less than 10 years old, which makes it unlikely at this stage that the A320ceo/737NGs concerned will be retired.

As for the slightly more distant future, the French aerospace group has indicated that it is continuing to work on the successor to the LEAP engine with its partner GE "to offer a fuel consumption gain at least equal to or greater than that provided by the LEAP compared to the CFM56".

My comment: Engine manufacturers are as much affected by the health crisis as aircraft manufacturers. However, they have reason to hope despite the problems facing Boeing, since they supply engines for both Boeing and Airbus.

> **Boeing restarts production of the 737 MAX**

(source Le Journal de l'Aviation) 28 May - The outlook remains bleak for **Boeing**, which has just announced the closure of its voluntary departure plan and its decision to lay off 6,770 people in the United States this week alone. But the aircraft manufacturer **has** nonetheless **kept its promise to resume production of the 737 MAX**: it was restarted on May 27, after a five-month interruption.

The initial production rate will be very limited. Boeing has several hundred aircraft already produced for delivery, demand for new aircraft has weakened considerably and production is being refurbished. The aircraft manufacturer has explained that a dozen measures have been adopted in recent months and will be put in place with the return to work. They concern a reorganisation of workspaces to improve safety, employee productivity and product quality. They come after several quality defects were noted on the 737 MAX, including the presence of foreign objects (FOD) in the wing fuel tanks in February. **Above all, the aircraft is still not flying and the program is moving towards a further postponement of its tests with FAA inspectors** - necessary to validate the modifications made, particularly to the stall protection system (MCAS) (...). No date has been set at this time (...). **In addition to this very poor industrial performance, the current health crisis has further worsened the impact on the program's order book.** March saw the cancellation of orders for 150 aircraft (including 75 from Avolon and 34 from GOL), while April saw 209,737 MAX disappear from the order book (108 cancellations and 101

underfunded commitments). At the same time, negotiations are multiplying with airlines that are desperate to postpone their deliveries (...).

My comment: *The number of new B737 Maxs in stock represents almost a year's worth of deliveries. The relaunch of the production of this model is for the moment symbolic.*

Concerns about future airline debt levels > Concerns about future airline debt levels

(source Le Journal de l'Aviation) May 27 - After having urged governments and financial players to help airlines by all means, **IATA is now qualifying its position**. A more detailed analysis of the **nature of the aid received has led the association to worry about one of the consequences of this rescue, which is otherwise indispensable: the level of debt to come**. It estimates that this will increase by 28% by the end of the year compared with the beginning of 2020, i.e. by \$120 billion, which is likely to weigh on the ability of carriers to bounce back as quickly as possible.

To date, \$123 billion has been released by several governments around the world to help the industry and avoid bankruptcies as much as possible. This support has come in a variety of forms, but 54%, or \$67 billion, will create new debt as it consists of loans, tax deferrals and loan guarantees. In addition to this, support from commercial sources (banks, leasing companies, etc.) amounting to 52 billion dollars has been provided. As far as **government aid is concerned**, it is **"very unevenly distributed around the world" and within regions**, notes Brian Pearce, chief economist at IATA, and is very limited or non-existent in developing countries. North American governments have thus provided support to their airlines equivalent to 25% of their operating revenues in 2019 (with a very wide disparity between the United States and Canada, thanks to the CARES Act). For Europe, the proportion is 15% and for Asia Pacific 10% (driven by very significant support from Singapore and, to a much lesser extent, Japan and South Korea). On the other hand, carriers in Latin America and the Africa/Middle East region can only rely on themselves, with an average support of less than 1% of 2019 turnover.

Of the world's ten largest air markets, the country with the strongest government support is France: aid exceeds 36% of the level of the unit price of the ticket in 2019 - the United States being just behind with 32.7%. The country has indeed made an effort of 7 billion euros in favour of the Air France-KLM group, to which should be added, in particular, the short-time working measures or the state-guaranteed

loans of Aircalin and Air Tahiti Nui. Additional support is planned for the other companies - SCARA estimates that it should reach €1 billion to avoid distortion of competition with Air France.

IATA praises all the support that has been provided so far as it avoids imminent bankruptcies and the collapse of the sector. But it warns that another problem has arisen in the longer term: "the next challenge will be to prevent the airlines from sinking under the weight of the debt that the aid creates," says **Alexandre de Juniac, its director general**. Looking more closely, he **also calls on the next states that wish to act to focus on increasing the equity of their companies**.

The increase in the industry's level of indebtedness poses the risk that the recovery will be slowed down and that the effects of the crisis will be prolonged beyond the period it will take for demand to return, especially as the new health measures will increase costs. This is the price of survival.

***My comment:** The management of airlines' equity capital will be crucial in the coming months.*

Those of the Lufthansa group will increase in the near future when the German State takes a stake in the capital.

For its part, the Air France-KLM group has taken a provision 'of such a nature as to allow the incorporation into the Company's capital of all or part of the amount of the shareholder loan' granted by the French State.

> **Skytrax: the best airports in 2020 are... empty**

(source Air Journal) May 12 - In the 2020 Skytrax World Airport Awards, **Singapore-Changi and Tokyo-Haneda retain their places as champions and runners-up**, while Doha-Hamad International moves up to third place. Next come Seoul-Incheon (3rd last year) and Munich (+2), followed by Hong Kong (-1), Tokyo-Narita (+2), Nagoya-Centrair (-2), **Amsterdam-Schiphol (+5, for the first time in the Top Ten)** and Osaka-Kansai (+1).

Places 11 to 20 in the Skytrax ranking are occupied by Zurich (-1), London-Heathrow (-4), Vancouver (+4), Frankfurt (-2), Helsinki (+1), Vienna (+3), Melbourne (+6), Taipei-Taoyuan (-5), Copenhagen (-4) and finally **Paris-CDG, which moves up 10 places in 2020 after gaining seven places the previous year**.

In the rest of the top 100 airports, **we find** Montreal-Pierre Elliott Trudeau in 57th position (+5), and **Paris-Orly in 76th, up from 137th in 2019**. Mauritius' SSR airport appears in 82nd place, while those of Geneva and Brussels are not visible.

(...) **Paris-Charles de Gaulle**, now ranked 20th in the world (up from 30th in 2019), continues to progress year after year since its entry into the top 100 (to 94th place in 2014). **Terminal 3 has been voted World's Best Low-Cost Airlines Terminal and Hall M of Terminal 2E is recognized as the 4th best boarding lounge in the world.**

In terms of shopping and passenger services, Paris-Charles de Gaulle is up 1 place to 6th in the world for the shopping offer and experience. Paris-Charles de Gaulle is also in the world's top 10 in terms of the range of leisure activities offered in the terminal (...).

For the first time, **Paris-Orly has been included in the top 100 of the world's best airports at 76th place** and is now at the level of the best international standards.

This success reflects the efforts made in terms of reception, signage and the work undertaken to modernise the airport, **notably with the commissioning of the Orly 4 international jetty (in June 2016), then the new Orly 3 (in April 2019) (...).**

***My comment:** The hubs of the Air France-KLM group are all progressing in the ranking of the best airports. A performance to be applauded.*

End of press review

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

The Air France-KLM share is at 4.28 euros at the close of trading on Monday 1 June. It is up sharply by +13.6% over one week. It has returned to its price at the beginning of May. It had only fallen below 4 euros during the 2011-2012 crisis, between November 2011 and July 2012. Three major events had caused this crisis: the nuclear disaster in Japan, the crisis in the Euro zone, and the "spring" in the Arab world. During this period, the barrel of oil was at 110 dollars. At the beginning of the coronavirus epidemic, the Air France-KLM share was at 9.93 euros.

The average (the consensus) of analysts for the AF-KLM share is 4.80 euros. Many analysts lowered their price forecasts at the beginning of the health crisis. You can find on my blog the details of the analysts' consensus.

The barrel of Brent crude oil (North Sea) is up slightly from \$1 to \$37. Announcements of the start of deconfinement are giving the signal for a resumption of industrial activity. At the beginning of the coronavirus epidemic, it was at \$69. Production is still 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.

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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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