

KLM faces difficult negotiations



I Letter from the Director Air France-KLM

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Monday's Press Review

> **KLM faces tough negotiations (KLM faces difficult negotiations)**

(source Algemeen Dagblad with DeepL) 21 August - **Never before have negotiations between KLM and the trade unions been under as much pressure as they are today.** The airline's survival is conditional on drastic cuts and huge job losses. Even then, it is by no means certain that KLM will survive the crisis in the krona (...).

Beneath this dark cloud cover, negotiations will begin tomorrow between KLM and the unions on the rescue of the airline. In recent weeks, both sides have deployed all their warning signals, including legal action over the method of dismissal, anger over the terms of government aid and quarrels over an agreed pay rise - which KLM has unilaterally suspended.

Discussions on agreements at KLM have been tumultuous in recent years, this time it is all or nothing. A comprehensive consolidation and austerity plan is to be put in place before 1 October. Otherwise, KLM will not meet the terms of the cabinet, which lent it €1 billion in June and guaranteed a further €2.4 billion in commercial loans.

The company and the unions are in complete agreement on one point. The survival of the company and of all jobs is at stake. An economic

study by SEO, affiliated to the University of Amsterdam, shows that this is not empty rhetoric. It describes how - and whether - Dutch aviation will recover from the krona crisis.

The current situation, in which travel restrictions are being lifted and then reimposed, seems to put aviation on the road to recovery in the first half of 2022. Thereafter, according to SEO, Schiphol will also grow to the 500,000 flights that were until recently the norm. A condition for such a recovery is that a vaccine against Covid-19 be found by the end of next year.

All this will be different with another Covid-19 outbreak. In that case, economists fear that KLM will have to reduce its network by at least half. Schiphol would thus serve "a few" intercontinental destinations. And in the event of new coronary heart attacks and mutations of the virus, the curtain will fall on KLM each time, leaving Schiphol with no more than a sixth of the 72 million passengers in 2019. All

eight KLM unions recognise that drastic measures are inevitable.

The majority, however, oppose what they see as a "government dictatorship". In order to comply with the rescue plan, KLM is required by the Cabinet to reduce costs by at least 15%, which stipulates that all wages above the modal value (EUR 36 500 gross) will be reduced. KLM adheres strictly to these conditions, despite a motion by the Lower House calling for the limit to be set at 1.5 times the modal value ('55 000). We have been informed of this by the government," says a spokesman for the airline. But this does not change the conditions set by the cabinet, she says. We will respect them until the government adapts them or settles for a different interpretation.

This is confirmed by the finance ministry. "It is very important for the company to reduce its costs," says a spokesman. "Unfortunately, it is inevitable that this will require a contribution from staff. Agreements have been reached between the ministry and the company, so the issues have been clarified. It's up to KLM, together with the unions and the works council, to put their hands and feet on it. We will then check whether the agreed conditions have been respected".

My comment: KLM is entering a delicate negotiation phase. This phase must be completed by 1 October, otherwise the Dutch company will not be able to benefit from government aid.

The Dutch government has made its aid conditional on the introduction of specific wage reduction measures, with wages above €36,500 per annum to be reduced by 15-20%. This is a form of diktat which the trade unions reject.

Air France did not need to resort to this procedure: the remuneration of Air France cabin crew includes a variable part calculated in proportion to the number of flight hours actually flown. Air France pilots and cabin crew have thus seen their remuneration reduced by 15 to 40% since the start of the health crisis.

KLM has carried out staff reductions (as has Air France through collective bargaining agreements or voluntary redundancy plans).

> **Air France leaves tomorrow for Beijing**

(source Air Journal) August 19 - As announced at the beginning of the month, **the French national airline's line between the two capitals will not be** frankly direct, but will be **operated on Thursdays from August 20, 2020**. A Boeing 777-300ER will take off from Paris-CDG at 9:40 p.m. and land the next day at 1:45 p.m. at Tianjin-Binhai airport, about 100 kilometers from the Chinese capital, then at Seoul-Incheon at 8:20 p.m. The return flight will leave South Korea on Friday at 22:00 and arrive at Beijing-Capital at 22:50, leaving on Saturday at 0:50 and landing at Roissy at 5:45.

This rotation is in addition to the two weekly flights offered by Air France between Paris-CDG and Shanghai-Pudong (also via Seoul), which at the beginning of July were the subject of a dispute over reciprocity; France thus becomes the first European Union country to have a direct flight from Beijing, the embassy in China recalled. On Tuesday, the latter specified that passengers "interested can directly contact the Air France call centre in China at 4008 808 808" to leave Beijing.

Since late spring, other airlines have been authorized to resume direct flights between Europe and China: KLM, Lufthansa, Finnair, Swiss, British Airways, Virgin Atlantic Airways and Neos - as well as the main Chinese airlines, Air China, Capital Airlines, China Eastern, China Southern, Hainan Airlines, Juneyao Air and Xiamen Airlines.

My comment: *Long-haul activity is resuming very slowly. Airlines are struggling to adjust their capacity, taking into account both health regulations and the lack of enthusiasm of passengers to get back on the plane.*

> **Air France: the Toulouse - Orly Shuttle is back**

(source Air Journal) August 24 - **Toulouse** airport **has found this Monday the shuttle of the airline Air France to Paris-Orly, in addition to the flights to CDG.**

Since August 24, 2020, the French national airline has been offering up to 10 flights a day between its base at Paris-Orly and Toulouse-Blagnac

airport, in addition to the six already operated to Roissy (...).

In total, up to 16 flights will be operated every day between the Ville Rose and Paris, providing connections throughout the Air France network. In a press release, it highlights the gradual revival of long-haul services at Orly: as from next Monday 31 August, connections to Cayenne (French Guiana), Fort-de-France (Martinique), Pointe-à-Pitre (Guadeloupe) and Saint-Denis de La Réunion will once again be operated (...).

***My comment:** Air France is relaunching its Orly-Toulouse and Orly-Marseille flights this week, hoping to fill its planes. In particular, the French airline will have to face competition from easyJet, already present on these routes.*

> **New Caledonia tries to save its two airlines**

(source La Tribune) 20 August - **For five months to the day, New Caledonia has been "under bell" in a way.** Scheduled international flights to and from the archipelago were suspended on 20 March and will remain suspended until at least 24 October. This measure "should enable New Caledonia to continue to control its borders in order to limit the risk of coronavirus introduction", explains the government of this French Pacific territory on its website. To date, 23 cases of Covid-19 contamination have been recorded in the archipelago since 18 March, none of them local. The last case dates back to 7 August.

The fact remains that this virtual absence of flights has direct repercussions on New Caledonia's two airlines. Majority owned by the community, **Air Calédonie Internationale (ACI) and Air Calédonie (Aircal) have seen their passenger traffic fall by 91% and 40% respectively.**

"Saving measures to reduce the wage bill by 20%, without layoffs, are being implemented and are conditional on obtaining an EMP of 4.8 billion CFP (40 million euros) that we have requested," Didier Tappero, **CEO of ACI, told the press today.** The company wants to postpone the reimbursement of airline tickets, bought before the crisis, by assets. The amount of the reimbursements has been estimated at 3 billion CFP. For its part, **Aircal has requested an EMP with a first tranche of 500 million CFP (4.1 million euros).**

Since the beginning of the crisis in mid-March, ACI has been recording monthly losses of CFP 570 million (4.7 million euros), whereas it now operates only three weekly flights to Tokyo (stopover for Paris), two to

Sydney and two to Wallis and Futuna, compared with 24 flights a week previously. Only one weekly flight from Noumea to Tokyo is open to passengers. As part of its fleet renewal, ACI has decided to defer the delivery of one Airbus A320neo from May to November 2020 and a second from February 2021 to September 2023.

As for Aircal, the domestic airline serving the Loyalty Islands in particular, it is forecasting a deficit of 1.2 billion Pacific francs (10 million euros) in 2020 and is counting on savings, fare increases and a public contribution to keep itself afloat. "The closure of the Caledonian borders and other countries in the region also makes it impossible to provide regulatory training for pilots, whose licences expire at the end of November, and to maintain one of our ATRs," said Samuel Hnepeune, CEO of Aircal. If no solution is found, the company could find itself in the position of having to cease its activity altogether, he warned.

***My comment:** When browsing social networks, the predominant feeling is that France would be the only country to impose constraints to limit the spread of the virus. This is not the case.*

In all regions of the world, similar measures are being taken. Thailand, for example, restricts access to its territory to what is strictly necessary, imposes a prior test and a systematic quarantine.

> **British Airways' radical methods of reducing its payroll**

(source La Tribune) 18 August - **British Airways is burning 20 million pounds a day (22 million euros)** and, in order to survive the unprecedented crisis affecting air transport and to return very quickly to the green with a level of profitability among the highest in the sector, as was the case before the Covid crisis, the British company is not going to beat about the bush.

It has been hit harder than its European competitors because of its greater exposure to the North American market and business customers, both of which are in total decline, **but also because of the severity of the quarantine measures** for passengers imposed by the British government, **British Airways, which has not received massive State aid, unlike Air France-KLM and Lufthansa, The company's cost structure, particularly its social costs, has been drastically and brutally cut to its usual size**, even if it means provoking protests from trade unions and **many Members of Parliament**, some of whom, notably those of the House of Commons Transport Committee, **did not hesitate in June to describe British Airways as a "national disgrace** for trying to take advantage of the pandemic to reduce the working conditions of its staff" (...).

After signing an agreement with the pilots at the beginning of August to limit redundancies to 270 (against 1275 initially planned), in exchange for a temporary 20% pay cut, the **management is now targeting ground staff and cabin crew** based in England, i.e. around 30,000 employees who will remain with the company once the 12,000 job cuts have been implemented. For the latter, **British Airways intends to change their contracts with lower terms for the majority of** them, even though the employer's contributions for retirement pensions will be increased by 11%. Known as "fire and rehire", this scheme, which is legal in Great Britain (but not in Ireland), is similar to a dismissal followed by re-employment under another contract with degraded conditions.

For hostesses and stewards, this measure will put an end to the existence of three different contracts in favour of a single contract, sharply reducing the remuneration of the highest paid and improving in an unspecified way that of 40% of the NCPs already on low salaries, mainly those hired after 2011. For the latter, the difference in treatment with their colleagues is such that they never fly with their older colleagues in order to avoid tensions between NCPs.

For the older ones, the drop in pay is brutal: -20% on the basic salary and a "considerable" reduction, according to one of them, of the allowances linked to the flights, such as the meal allowance (...).>

The cabin crew that the company had planned to retain **had until Monday lunchtime to say whether or not they would agree to stay with the company with a new contract**, supposed to start on November 1. If they refused, the employees had no alternative but to be laid off, even though the company did not want them to do so (...). Outraged, the Unite union does not have many cartridges. Given the extremely limited number of flights operated by British Airways (about 15% of its schedule) and passengers carried, a strike as envisaged by the union would not have much impact on management. It is therefore seeking to strike differently by demanding, together with many parliamentarians, that only "socially responsible" airlines be allowed to keep their precious take-off and landing slots.

From an economic point of view alone, it is clear that if British Airways succeeds in its aims, the company will have a huge competitive advantage over other competitors, notably Air France, which will cut fewer jobs (7,500) and does not for the moment intend to touch the working conditions and remuneration of the employees who will remain in the group.

My comment: *Social rules are different in different countries. The measures envisaged by British Airways are a good example of what is prohibited in France: the unilateral decision by the employer to reduce wages.*

Such a measure could be taken by U.S. companies that would be placed under Chapter 11 (bankruptcy protection law). The three major airlines (American Airlines, Delta Air Lines and United Airlines) have used it in the past.

> **Lufthansa: NFCs approve lower revenues**

(source Air Journal) 18 August - While negotiations are at an impasse with ground staff, **the German national airline received good news from its cabin crew** on 17 August 2020: it should be able to save more than 500 million euros following the green light given by 87.9% of them to the new collective agreement. According to the UFO union, **this agreement** is an "important step" to help Lufthansa overcome the financial difficulties caused by the Covid-19 pandemic. Above all, it **avoids the elimination of 2600 positions out of 22,000, with cabin crew accepting in exchange a wage freeze, an increase in part-time work and the elimination of certain bonuses**. According to UFO, the maintenance of jobs is guaranteed until 2024.

However, the union points out that "important" details have yet to be finalised, and reserves the right to take "action" if necessary; Lufthansa, for its part, can cancel the agreement with two weeks' notice in the event of a "dramatic" deterioration in economic conditions.

The more than 500 million euros saved in this way represents about a quarter of the savings targeted by the Star Alliance airline, which still has to negotiate with the pilots and therefore the ground. Lufthansa has just revealed a historic loss in the second quarter. At the beginning of July, the group, which also owns Austrian Airlines, Brussels Airlines and Swiss International Air Lines, announced a major restructuring programme entitled ReNew, with the aim of "maintaining the group's global competitiveness and future viability": it involves the loss of 22,000 full-time jobs throughout the group (which on 30 June had 129,400 employees), and a reduction in the fleet "by at least 100 aircraft".

> **No dry firing of pilots before April 2021 at Lufthansa**

(source AFP) 19 August - Lufthansa announced Wednesday that it has signed an agreement with its pilots to renounce all dry layoffs before April 2021 in return for reductions in salary costs in the face of the coronavirus pandemic.

"Lufthansa has signed a short-term agreement with the pilots' union Vereinigung Cockpit (VC) to put in place measures to manage the coronavirus crisis," the leading European airline group said in a statement.

The plan, which is valid until the end of the year, provides for "dry layoffs [of pilots]" to be carried out "at the earliest in the second quarter of 2021", i.e. at the beginning of April. In return, the pilots undertake to reduce certain income and bonuses. In addition, wage increases negotiated for 2020 will be postponed to 2021, the group adds.

However, Lufthansa warned that "the number of dry layoffs can only be limited with a long-term agreement". In particular, the group suggests measures to reduce working hours or wages, in exchange for jobs being kept (...).

The group was rescued from bankruptcy by the German state with €9 billion in aid and a stake in its capital held by Berlin.

***My comment:** Lufthansa was one of the first European companies to receive direct aid from its government in early June. However, it took Lufthansa three months to reach an agreement with its cabin crew and then with its pilots.*

> SAS Scandinavian: recapitalisation approved by Brussels

(source Air Journal) 20 August - After Air France, KLM Royal Dutch Airlines and Lufthansa, the European Commission continues to use its "temporary framework" to accept state aid to airlines in order to provide them with "urgent cash support in the context" of the health crisis. **The green light given to SAS Scandinavian on 17 August 2020 is for a recapitalisation of SEK 11 billion (around €1 billion)**, itself part of a larger programme, which also foresees significant private investor participation "including the conversion of outstanding private debt into equity".

EC Executive Vice President Margrethe Vestager, in charge of competition policy, said in a statement: "SAS plays a key role for the connectivity and economy of the Scandinavian countries. Like many other companies active in the aerospace sector, SAS has been hit hard by the current crisis. **With this measure, Denmark and Sweden will contribute up to €1 billion to the recapitalisation of SAS and help the airline to overcome the current crisis"**.

At the same time, the Commissioner continued, Member States "will be sufficiently remunerated for the risks borne by taxpayers and the support will be subject to conditions to limit distortions of competition. I

welcome the participation of private investors in the plan, as it limits the need for state aid, while contributing to the recovery of companies affected by the coronavirus epidemic".

> Sweden rejects credit guarantee for Norwegian Air Shuttle

(source AFP) 18 August - **Sweden on Tuesday rejected a request for a credit guarantee from low-cost airline Norwegian Air Shuttle, which is** in financial difficulty, as part of a rescue programme for airlines hard hit by Covid-19.

The Swedish Debt Institute (Riksgälden) considers "that at 31 December 2019, **there was a very high risk that Norwegian would not** be able to **meet its financial commitments** and that at that time the company would not be deemed capable of managing additional debt".

Riksgälden also stated in a statement that a state credit guarantee 'can only be granted to airlines whose financial viability has been assessed on 31 December 2019'. No official amount had been decided before this decision, a spokeswoman for the institute told AFP (...).

***My comment:** Sweden has chosen to support SAS Scandinavian but not Norwegian Air Shuttle. The future of the Norwegian low-cost airline is getting darker.*

> Health uncertainties break the recovery of air traffic in Europe

(source Les Échos) August 19 - It's a relapse! **While air traffic had returned to an upward trajectory, the decision by the United Kingdom and other States to impose quarantines on travellers coming from high-risk areas has dashed the hopes of European airlines for a recovery.** For the first time since the lifting of the restrictions at the end of May, airline seat supply fell slightly, by 0.2% this week compared to the previous week, according to figures from OAG, the British specialist in flight schedule collection. This came at a time when the total number of seats offered for sale had just returned above the 50% threshold of the 2019 level.

The decline in supply is most noticeable in North America and Asia, but it does not spare Europe, which had made a strong recovery. As soon as the British decision was announced, the most proactive of them all, **Ryanair announced a 20% reduction in its offer in September and October,** to adapt to the drop in bookings. On Monday, its competitor **EasyJet confirmed the closure of three of its**

11 bases in the United Kingdom (London-Stansted, London-Southend and Newcastle). Both have also seen an increase in flight cancellations (...).

While Air France - which has not published traffic figures since April - had planned to bring 35% of its flight schedule back online in July and 40% in August, traffic at Paris-CDG in July was still 76.7% lower than in July 2019, which says a lot about aircraft load factors.

The same gap exists for regional airports. On average, traffic at French airports was still 70% lower in July compared to July 2019, which represents about 20 million fewer passengers," said Thomas Juin, president of the Union of French Airports. Flights have resumed, thanks to the efforts of the airlines, but the load factors were rather between 40% and 50%, against more than 80% usually at this time of the year (...).

Faced with this situation, **air transport representatives now expect governments to provide stable rules to deal with a lasting epidemic.** We are clearly in a worst-case scenario: a continuing health crisis," says Thomas Juin. So there is no longer any question of waiting for the epidemic to disappear; we must organise ourselves to continue to operate with the Covid.

"Following the example of the Association of International Airports (ACI) and the Association of International Airlines (IATA), **the president of the Union of French Airports advocates in particular for pre-departure screening tests for passengers coming from high-risk areas.** "This will make it possible to avoid quarantines that would bring air traffic to a complete halt," he said.

But, here again, there is no question of waiting for a possible harmonisation of rules at a global level. There is an urgency," insists Thomas Juin. France must take the lead by signing bilateral agreements with our main partners, in order to define precise operating procedures, such as the use of tests, in the event of difficulties. Otherwise, air transport will not be able to rebuild itself. »

My comment: Airlines, like all activities that bring individuals into close contact, are faced with an impossible equation: in the absence of treatment or vaccine, how can we restart activity without relaunching the epidemic?

> **Coronavirus: Airbus and Boeing, a crisis-proof duopoly**

(source Les Echos) August 20 - **Which of Airbus or Boeing will be the first to emerge from the crisis? For the time being, its impact is more or less the same for Europeans and Americans.** Both aircraft

manufacturers have seen their sales in commercial aviation halved, with customers with absent subscribers, planes piling up in hangars, factories idling... Both intend to reduce their workforce by about 10% by the end of the year. And both of them believe it is necessary to reduce production rates by 40% to 50% in order to adapt to a sustained drop in demand for new aircraft until 2023 or 2024.

However, if a sports lottery of civil aviation experts existed, Airbus would probably be the clear favourite. **Airbus has a double advantage in this crisis,**

" says Marwan Lahoud, Chairman of the Management Board of the ACE Management investment fund and former Director of Strategy of the Airbus Group. **By recreating borders, the health crisis penalises international traffic more than domestic traffic, which favours the medium-haul market.** However, Boeing has still not solved the problem of the 737 MAX. They made a mistake by trying to revive it quickly and badly. As a result, they are still not out of this crisis and they will stay behind Airbus for two or three years. **"Boeing is very supported by military orders and therefore has nothing to fear for its survival,**" said Marc Durance, partner at Archery Consulting. But they are at a clear disadvantage compared to Airbus on the medium-haul market. This was already the case before Covid-19. The imbalance between the 737 and the A320 has only increased since then, with numerous cancellations at Boeing and very few at Airbus.

"The only good solution for Boeing would be to accelerate the replacement of the 737.

But it no longer has the means to launch a new \$15 billion program and the technologies to offer sufficient fuel savings to justify ordering new planes are not yet ready," he says.

Airbus has the right products, says his boss

The boss of Airbus, Guillaume Faury, is calm. "We have the right products for a way out of the crisis, with the A321, the A220 and the A350, which offer significant reductions in costs and CO2 emissions," he believes.

And to note that "these aircraft are the ones that are still flying the most at the moment. We therefore have the means to emerge from this crisis faster than the others, but only if we make the necessary efforts". As

for Boeing (...) the boss of the group, David Calhoun, acknowledges that medium-haul flights "will open the way to a recovery", he says he is convinced that **"the fundamental principles that have underpinned air transport over the last five decades and have enabled air traffic to double over the last two decades remain intact".**

The first of these fundamentals is the development of the middle class in Asia, which has been driving air traffic growth for years. **The other, more recent factor is environmental concerns and the need to**

replace, in the short term, some 2,500 aircraft more than 20 years old, the majority of them Boeing, with less fuel-intensive and less polluting aircraft.

Even if the crisis delays their replacement, airlines will have an interest in investing in new-generation aircraft, whose fuel consumption is "25% to 40% lower", Boeing points out. However, the **gain is potentially greater for long-haul than medium-haul aircraft. There could therefore be a catch-up effect that would favour the American aircraft manufacturer, which has the most aircraft in service and the widest range of products on offer.**

Moreover, while the 737 MAX crisis had enabled Airbus to increase its market share to 80% on single-aisle aircraft in 2019, the health crisis is preventing it from increasing its advantage. The European aircraft manufacturer, which was aiming for 63 A320s per month in 2021 and up to 67 in 2023, plans to stay at 40 per month until at least 2022. For its part, Boeing is aiming at a production of 31 MAX per month, beginning in 2022. It already has 450 MAX that are just waiting for the lifting of the flight ban to be delivered. A green light could be given as early as next month, although it will probably take longer to get them back into service.

Once the flight ban is lifted, 737 MAX customers will have no choice but to take delivery of the aircraft ordered. Especially if the return to service is on schedule. Not only will Airbus not be able to offer them an alternative within a reasonable period of time, but **switching from a Boeing fleet to an Airbus fleet would be too costly in terms of training crews and mechanics. "Monotype companies like Ryanair are captive customers,"** says Marc Durance. As a result, **the delivery gap between Airbus and Boeing is likely to narrow in the end, to return to the usual 50/50.** On the basis of the rate reductions already announced, Airbus and Boeing should deliver a little over 500 each by 2022. This would correspond to the 2011 level. And while Airbus will continue to offer more single-aisle aircraft, Boeing will continue to lead the way in long-haul wide-body deliveries, thanks to a wider range (777,787 and 767 vs. A350 and A330) and its near-monopoly on cargo aircraft. The crisis was then only a parenthesis in a duopoly that had been in place for a long time.

My comment: Aircraft manufacturers and airlines are in a similar situation: the crisis is restricting their activity, without it being possible to determine with certainty when this crisis will end.

Will there be a redistribution of the cards in favour of Boeing or Airbus? It seems unlikely. As far as airlines are concerned, there is more competition, especially in Europe. Many companies are in danger of

disappearing.

> **Canada to conduct Boeing 737 MAX certification flights**

(Reuters source) Aug. 21 - **Canada's transportation regulator told Reuters Thursday it plans to conduct certification flights next week of Boeing's 737 MAX**, grounded worldwide since March 2019 following two fatal accidents.

Transport Canada is expected to become the first regulator outside the United States to conduct such tests, after the U.S. Civil Aviation Administration (FAA) completed a major step toward the aircraft's return to service in early summer (...).

No certification flights are currently planned by the European Union, a spokeswoman said.

The Canadian tests will be conducted as part of an "independent review" to determine if the changes to the 737 MAX proposed by Boeing can be validated, Transport Canada said.

Stock Exchange Press Review

> **Air France-KLM: Bernstein is no longer a buyer**

(source Zonebourse) August 17 - Broker Bernstein is less optimistic about the stock and is readjusting its opinion downwards. Analyst Daniel Roeska is now neutral. The target price is reduced from 6.70 to 4.00 EUR.

The Bonus Article

> **Short selling: definition and examples**

(source Capital) August 29, 2019 - **Short selling (DS) consists of selling securities that one does not yet own, in the hope of buying them back later at a lower price.** Individuals have access to short selling through the Deferred Settlement Service (DSS). Short selling allows investors to benefit from leverage.

Short selling: definition

In most cases, investors buy shares by betting on their potential upside. With a short sale, the investor is betting the opposite. He immediately sells a stock he doesn't own in the hope that it will lose value. If he is right, he can buy the stock back for cash (when its price has fallen) and

pocket the difference.

Short sellers usually use this strategy to speculate or to hedge a position.

How Short Selling Works

To make a short sale, you must first find a broker who accepts VAD through DRS.

The SRD allows investors to take a short (short) position on a list of eligible securities. They pay only a fraction of their value, which allows leverage. The financial intermediary is responsible for financing the investor's position until the end of the trading month.

Please note: securities listed in Paris may be eligible for either the SRD or the "Long-only" SRD. **The SRD is only possible in the first case and only concerns securities with a market capitalization of at least the equivalent of 1 billion euros.** Long-only" shares cannot therefore be subject to a VAD.

In practice, short selling involves reporting a VAD to a broker who will only deliver the securities on the last day of the trading month.

The date of this term is slightly different from that of the calendar month since it occurs 5 days before the end of the calendar month (e.g. 27 August for the month of August). At this stock market deadline, the investor must choose between paying for his securities or extending his credit for an additional month, subject to a fee (deferral).

Since the investor does not own the securities he sells, they are loaned to him by a financial intermediary in exchange for a commission. The commission runs for the duration of the loan (end of the trading month).

On liquidation, if the shares have actually lost value, the investor takes advantage of this price drop to buy back the previously sold securities at a lower price and close his position with the broker.

Example: a stock market trader estimates that the value of the shares of pharmaceutical company X will fall, because the marketing authorisation of an innovative molecule is delayed. The share of this company is quoted at 20 euros, but the investor thinks it will fall to 16 euros. To bet on this fall, he carries out a VAD: he immediately sells at 20 euros a share that he hopes to buy back cheaper. If this scenario occurs and the stock loses, for example, 4 euros, he then buys back the stock at 16 euros to settle his VAD. The gain is then 4 euros per share (20 - 16 euros = 4 euros), minus the cost of the stock loan.

Namely: prohibited in the context of a PEA, short selling is only possible through an ordinary securities account.

Advantages and drawbacks

advantage of the DSV is that it provides leverage, since it is sufficient to own a portion of the amount to be settled on liquidation in order to position oneself.

In addition, it allows an investor to "work" shares that he does not have in his portfolio.

In the event of erroneous anticipation, i.e. if the price of the security rises instead of falling, the investor may find himself in a difficult situation: he is then forced to buy back the securities due at the time of liquidation. The difference between the initial position and the final position results in a debit.

The investor can request the extension of his position from one month to the next, subject to the agreement of his broker, but the result will be the same if the stock goes up rather than down.

My comment: *Short selling is a mechanism that allows investors to bet on the fall in the share price.*

At the beginning of the Covid-19 crisis, this mechanism was frozen on the Paris stock exchange for a few weeks (from March to May 2020) in order to avoid an acceleration of the fall in share prices.

When short selling became possible again at the beginning of June, the Air France-KLM share was particularly hectic. In a few days, it rose from 3.8 euros to 6 euros before falling back to 4.1 euros.

It is interesting to note that if a company's capitalization is less than one billion euros, it is no longer possible to make short sales.

Air France-KLM's capitalisation fell below the EUR 1 billion threshold only once: it was during the crisis of 2011-2012, between 1 and 19 June 2012 (the number of Air France-KLM shares was 300,219,278, the price corresponding to a capitalisation of EUR 1 billion was EUR 3.33). 3.33. Some experts believe that this provision then halted the decline in the Air France-KLM share price.

Today, the number of Air France-KLM shares is 428,634,035 . The floor price corresponding to a capitalization of one billion euros is therefore 2.33 euros.

End of press review

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

The Air France-KLM share was at 3.803 euros at the close of trading on Monday 24 August. **It is up +3.34%** over one week.

Before the coronavirus epidemic, the Air France-KLM share price was 9.93 euros.

The average (the consensus) of analysts for the AF-KLM share is 3.24 euros. The highest target price is 5 euros, the lowest is 1 euro. You can find on my blog the details of the analysts' consensus. I no longer take into account the opinions of analysts prior to the start of the health crisis.

The barrel of Brent oil (North Sea) is stable at \$45. For the past two months, it has varied very little. When the coronavirus outbreak started, it was \$69.

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

You can react to this press review or provide me with any information or thoughts that will help me better carry out my duties as a director of the Air France-KLM Group.

You can ask me, by return, any question relating to the Air France-KLM group or employee shareholding...

I'll see you soon.

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| François Robardet

Director Air France-KLM representing employee

shareholders PNC and PS.
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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