

With the crisis, the State shareholder becomes the State fireman for strategic companies (Air France-KLM, SNCF...).



I Letter from the Director Air France-KLM

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

N°778, October 19, 2020

If you don't see this page correctly, or if you want to read the English or Dutch versions

If you do not see this page correctly, or if you want to read the English or Dutch versions,

Als u deze pagina niet goed ziet, of als u de Engelse of Nederlandse versie wilt lezen,

[follow this link](#)  [it is here.](#)  [vindt u deze hier](#) 

Monday's Press Review

> With the crisis, the State shareholder becomes the State fireman for strategic companies (Air France-KLM, SNCF, etc.).

(source La Tribune) October 16 - With the crisis, the shareholder orientations of the State have changed. The patrimonial value of the companies in its portfolio collapsed, and the time for selling off holdings gave way to emergency interventions to save strategic companies weakened by the crisis. Some twenty of them have been identified by the State Equity Investment Agency (APE) and are being watched like milk on the stove. If they need cash, they can be helped quickly, as Air France and Renault have been doing since last spring.

Result: simplified in 2017, the APE's investment doctrine has been reviewed. While it consisted for the State to remain in the capital of three categories of companies (those under sovereignty such as defense and nuclear, large public utilities and finally companies for which support was needed, such as Dexia and PSA in the past), it now focuses on two types of companies, said Thursday Martin Vial, the Commissioner for State Holdings, during a meeting with the press: "those whose model is deeply and durably impacted or modified by Covid-19" as are Air France, ADP or SNCF, and "those which were certainly very struck by Covid, but whose economic model is not questioned, like the automotive sector", he explained.

For the companies of the first category, the State is ready to play the fireman. Its shareholder policy will focus on "rescue operations", "strengthening the equity of companies that lost them", and accompanying "their change of strategy so that their business model can remain resilient," said the director of the EPA.

Thus, **operations to strengthen equity capital are planned for Air France-KLM**, which has already benefited in the spring from a shareholder loan of 3 billion euros from the French State and a State guarantee on a bank loan of 4 billion euros. But also for SNCF.

"Air France-KLM's business model is affected in different ways. The Premium clientele has almost disappeared and, before it returns on a massive scale, it may be some time before it returns, because this clientele no longer travels. The second development, the Covid crisis has also reinforced demands in terms of environmental issues. The group has gone into massive debt. At the end of the day, the group's equity will have to be strengthened. The very good news is that these support plans are abundant in the company's liquidity capacity, and there are no urgent (cash, editor's note) issues in the short term", explained Martin Vial, adding that **these public supports will have an impact on the group's governance**.

As a reminder, this is extremely complicated since the sudden arrival in early 2019 of the Dutch State in the capital of Air France-KLM to 14%, at the level of the French State's participation. With this operation, the Dutch claim more rights within the group to influence its decisions.

"Very clearly, **the relative weight of the French and Dutch governments will ultimately depend on the financial effort made by each of them**. In the strengthening of the equity capital that will be discussed with the company, the intervention that the French and Dutch governments can make will ultimately determine the evolution of governance," added the EPA Commissioner.

France's aid to Air France in the spring was double that of the Netherlands (3.5 billion euros). **According to analysts, the group will need between 3 and 5 billion euros of new money within a year.**

The SNCF will also be subject to a strengthening of its equity capital. Less than a year after taking over 25 billion euros of the SNCF's debt, the second tranche of 10 billion euros in 2022 is not called into question. Neither are the counterparts requested by the State from the company. They are still "relevant and valid", according to Martin Vial.

"The SNCF must be able to generate positive free cash flow at the group level from 2022 and before 2025 as far as the SNCF network is concerned. These two appointments are maintained in the work of strengthening equity and financial support on which we are working with the SNCF", he recalled (...).

To carry out these rescues, the EPA has an envelope of 20 billion euros voted by Parliament, "an extraordinary strike force", according to Martin Vial. This money will be "used according to the needs of businesses, not only the portfolio but also others who would like the support of the state," said the EPA Commissioner. It will be able to intervene in the framework of the temporary relaxation of European rules on state aid.

For the second category of companies in which the State will continue to invest, i.e. those that are suffering but whose economic model is not questioned, there could be, according to Martin Vial, "specific financial support, but especially support for redeployment, because these crises always have periods of reconcentration and our objective is that the companies in our portfolio are consolidators rather than consolidators".
(...)

My comment: At the beginning of the health crisis, the airlines quickly understood that this crisis would be long and that it would have significant consequences on their financial health.

Forced to seek aid from their shareholders and their supervisory authorities, they evaluated the amount of aid based on a "V" scenario: a rapid drop in activity followed by a recovery over two to four years.

Until the beginning of August, this hypothesis seemed realistic. But the resumption of the epidemic in almost all countries thwarted their plans.

Today, most airlines believe that the aid obtained will be insufficient and that they will have to rebuild their equity capital (see the article on this subject in the Stock Exchange Press Review section).

> **Government doesn't have to save KLM (Le gouvernement n'a pas à sauver KLM)**

(source De Volkskrant translated with DeepL) October 14 - Kees Cools - former professor of corporate finance and governance and researcher at the University of Tilburg.

After the 3.4 billion euros in (state-guaranteed) loans for KLM, Finance Minister Hoekstra now wants to talk about strengthening KLM's equity capital. Should KLM be saved? If possible, but not by the government.

(...) KLM is not vital for the Dutch economy. If KLM has to be saved, so do dozens, if not hundreds of other companies.

Moreover, bankruptcy is independent of a company's viability. After a possible bankruptcy, KLM could restart, or aircraft, landing fees and

other assets could be bought by other airlines. (...)

What happens in politics? Why not let the market do its job and spend those billions significantly elsewhere? (...) Ogem, Fokker, DAF, V&D, Imtech (22,000 employees, bankrupt in 2014), DSB Bank, KPN and Hema, none of them could count on government support. Why are the tens of thousands of employees of these companies less valuable in the eyes of politicians in The Hague than the employees of KLM? **Why does Minister Hoekstra say about the rescue of KLM that "we are doing all this to save the company and preserve as many jobs as possible" and not other companies?** Maybe more jobs can be saved elsewhere with less money.

In circles in The Hague, the Ministry of Infrastructure and Water Management is called "the blue ministry". State aid keeps "our blue pride in the air", said Minister Van Nieuwenhuizen. In addition, **not only KLM, but also the entire aviation sector - as a major polluter, by the way - are favored and unfairly subsidized**, with zero VAT on tickets, zero excise duty on fuel (...), the sector does not participate in the Paris climate agreement and does not pay any CO2 tax.

We see two problems. First, there is no market failure and yet the government intervenes. With billions. It's a costly form of government failure. And secondly, **KLM is wrongly treated as ... vital to our economy**. The first appears as naivety or ignorance, a rescue reflex? The second is a major taboo in the House of Representatives in The Hague.

Based on a kind of narrow vision, The Hague made the wrong decisions. More primary emotions and feelings of blue instinct than economic rationality and common sense. It is important to conduct this debate in all its clarity and to put The Hague back on the path of (economic) rationality.

There are major social challenges (education, climate, coronavirus, growing social divide, etc.) where the role of government is indispensable and billions are involved. It should rather let the market do its job.

My comment: The debate on the future of KLM is intense in the Netherlands.

Members of Parliament have called for an impact study to be carried out on a demerger of the Air France-KLM group. Others, as in the article above, question the relevance of the aid granted to KLM.

These questions are legitimate; the Dutch government has responded to them by indicating that KLM was indispensable and that its future lay within the Air France-KLM group.

On several occasions, you have been able to read here articles reporting the fears of KLM employees about the future of their company within the Air France-KLM group. A loyal reader who has been living in the Netherlands for many years reassured me a little by saying that he was "surprised by the common sense of KLM employees on social networks".

> **Topman Transavia: 'The depth of the crisis is hard to guess' (PDG de Transavia : "La profondeur de la crise est difficile à deviner").**

(source Het Financieele Dagblad translated with Deepl) 18 October - Transavia NL hoped to exceed the €1 billion turnover limit this year, but the Covid-19 crisis meant that this growth scenario could be quickly abandoned. This year was marked by Code Orange, government support and a sharp drop in activity. "It's a real roller coaster," says CEO Marcel de Nooijer.

(...) **Transavia NL (...)** **has launched a trial in which passengers can have a special meal delivered on board by a caterer** (...). This is one of the ways in which Transavia NL is trying to get out of the crisis. (...) Transavia NL, which employs 2200 full-time staff, has used state aid to reduce labour costs. Planned investments have been postponed and 150 flexible workers have been sent home. (...) **The company also abandoned a project to lease four aircraft.**

Transavia NL currently flies at 35% of its capacity. More and more countries fall under code orange and are no longer accessible for unnecessary travel. (...)

The government offers Transavia's parent company, KLM, financial support in exchange for restructuring. How is Transavia NL progressing in the negotiations?

We are still in the process of negotiating a restructuring plan. An agreement has been reached with the ground and cabin crew. We are currently discussing employment conditions with the more than 600 pilots of Transavia NL. I do not expect any redundancies, but it is difficult to gauge the depth of the crisis. **I hope for a recovery in 2023 or 2024,** but I have already been too optimistic.

Why is Transavia NL going to offer package vacations now? Many providers are already active in this field. Your competitors say that you benefit from state aid, but this is not the case. Is this criticism justified?

This criticism is astonishing. We had foreseen it for a long time, but Covid-19 did not make it possible to carry it out. **The market for**

package vacations is very dynamic. (...) Don't forget that the government assistance program is a loan that we have to repay. We have to earn money for that. **Offering package vacations is one way to do this.** But we also remain a reliable partner for travel agencies. We are really not going to charge the customer a different price for our package vacations".

The firm sticks to the opening of Lelystad airport. Will Transavia NL be moving flights there?

Yes, it will. In the long term, **Lelystad offers us the possibility to regain our level of activity. We need this airport to recover our slots and night flights.** The total number of night flights departing from Schiphol must be reduced and this concerns us. We often fly three return flights a day and this is only possible if you fly at the end of the day. Otherwise tickets become more expensive. And the DNA of our company is that we want to make travel possible for everyone, not just for people with big wallets".

My comment: Why transfer Transavia NL flights from Schiphol to Lelystadt?

Schiphol airport reached saturation in 2019. Activity there is capped at 500,000 annual movements. It seems very difficult to change this limitation without increasing the nuisance for local residents.

This is why it is planned to open the airport of Lelystad on which would be transferred mainly "vacation flights". The decision has been postponed several times. It will now be necessary to wait for the legislative elections next March for the future government to take a position.

> Delta reduces costs to cope with two lean years

(source AFP) October 13 - "Although the road ahead of us is still long, (...) we are seeing gradual improvements in our business (...)," commented Delta Airlines CEO Ed Bastian (...). Most importantly, **consumers seem increasingly confident about flying in the midst of a pandemic, which** should allow the industry to gradually get its head above water. (...) But **a return to normal is not expected for at least two years** (...).

Delta (...) inaugurated this Tuesday the season of third quarter financial results for airlines. And **reported a heavy loss of \$5.379 billion, only slightly less than the \$5.7 billion loss recorded in the second quarter**, when a large portion of the world's population was forced to

stay at home in an attempt to stem the spread of Covid-19. As for the turnover of 3 billion dollars, it represents only a quarter of that of the third quarter 2019 (...).

To cope with these headwinds, Delta Airlines increased its cash position to \$21.6 billion at the end of September, compared to \$15.7 billion at the end of June. Delta was able to reduce its daily losses somewhat, to \$24 million per day for the quarter, compared with \$27 million in the previous quarter. The goal is to reduce them by another half, to reach 10 or 12 million per day in December (...). In addition,

approximately **18,000 Delta employees left the group under a voluntary departure plan**, which reduced personnel costs by 32% compared to the third quarter of 2019 (...). But the company has already warned that it could lose 1,700 pilots by November 1 if it does not reach an agreement with their union.

(...) **Delta** (...), like its competitors, is **waiting to find out if new government aid will be granted**. This is not controversial in principle, but with three weeks to go before the presidential election, the issue is now at the heart of tense discussions between the Trump administration and Democratic Congressional representatives (...).

My comment: Airlines were hoping for a recovery in the third quarter. This was not the case, as Delta Air Lines' results indicate.

> Canada: Towards government involvement in airlines?

(source Air Journal) October 19 - **The federal government is not ruling out taking an equity stake in airlines such as Air Canada or WestJet to help them survive the Covid-19 pandemic.**

The example of Lufthansa, in which the German government holds 20% of the capital in exchange for 9 billion euros in aid, was cited on Sunday by the Minister of Intergovernmental Affairs (...): "We have not yet taken any decisions, but it is an option that is part of the discussions" (...). The federal government could decide to fly to the rescue of carriers "in the hope that the industry will still be healthy when the effects of the pandemic have subsided and travellers are back on planes," he added.

But Air Canada, WestJet, Porter Airlines or other Air Transat "should not expect to get a blank cheque," warned the minister; they will have to "take responsibility for refunds for cancelled flights," and put an end to the principle of credit notes in effect until then....

My comment: As a reminder, the Lufthansa rescue mentioned in this

article provides for the German State to take 20% of the group for 300 million euros, in addition to injecting 5.7 billion euros of non-voting funds.

> **The British CNIL reduces the fine of British Airways, which is in financial difficulties.**

(source L'usine digitale) October 16 - The Information Commissioner's Office (ICO) - **the equivalent of the CNIL in the United Kingdom** - has just reduced to £20 million the fine imposed on British Airways following the theft of 400,000 pieces of customer data in 2018. Originally, the amount of the fine was set at £184 million, or approximately 202 million euros (?).

The financial difficulties caused by the health and economic crisis linked to Covid-19 were the reason for the ICO's decision. The British CNIL stated that the reduction of the fine had been approved by other national data protection authorities (...). But the ICO reminds that the airline remains responsible for this data leakage, even if the penalty is lower. "People have entrusted their personal data to British Airways, which has not taken adequate measures to ensure the security of that data," ICO Commissioner Elizabeth Denham said in a statement. "**Their inaction was unacceptable and affected hundreds of thousands of people**, causing some anxiety and distress. That is why we have fined BA £20 million, the largest fine to date. When organizations make bad decisions about people's personal data, it can have a real impact on people's lives ..." she continued.

While the £20 million fine is the highest ever imposed by the ICO... it is a major step backwards from the £184 million previously imposed, which still represented 1.5% of the company's revenues in 2018.

> **German charter airline Condor receives new support**

(source La Quotidienne) October 14 - In the midst of serious financial difficulties, **Condor has had to ask for help from the German government, which has just granted it a credit line of 256 million euros.**

My comment: In April, the German charter airline Condor, formerly a subsidiary of Thomas Cook, had already received 550 million euros in loans guaranteed by the German government.

> **Ryanair further reduces its capacity for the winter season**

(source L'antenne) October 16 - **Ryanair will once again reduce its flight capacity this winter to 40% of last year's level** for the period, compared to the 60% initially planned. The Irish airline adds that **its bases in Cork and Shannon, Ireland, and Toulouse will close for the season**, from November to March.

The low-cost airline will also drastically reduce the number of aircraft at its bases in Belgium, Germany, Spain, Portugal and Vienna. The carrier wants to maintain 65% of its network, but with reduced frequency and a 70% load factor. Ryanair announced at the end of September the opening of a new base in Beauvais in December.

> **Norwegian: threat on London-Gatwick, 787 sold**

(source Air Journal) October 14 - The low-cost airline **Norwegian Air Shuttle is considering laying off a quarter of its staff based at London-Gatwick airport as** it intensifies its cost-cutting efforts to survive the Covid-19 pandemic. It has also sold two of its Boeing 787-9 Dreamliner aircraft to Neos.

Inaugurated in 2015, the Norwegian low-cost flight specialist's base at Gatwick is now the subject of 45 days of negotiations with the unions concerning the future of its 1,142 employees. A spokesperson confirmed that around 259 positions, mainly pilots, flight attendants and stewards, were targeted by the measure.

Norwegian (...), in the spring, had laid off or laid off 90% of its workforce, i.e. 7300 employees, some of whom were recalled during the summer when it restarted limited operations (...). **Norwegian had acquired last December six pairs of slots at Heathrow**, in the hope of launching a route to Orlando in the summer of 2020; **the health crisis has of course put an end to its plans, and it returned the slots in February (...).**

> **The Boeing 737 MAX is "safe", according to the head of the European air policeman's office.**

(Reuters source) Oct. 19 - **The European Aviation Safety Agency (EASA) is satisfied with the modifications to the Boeing 737 MAX.** "Our analysis shows that it is safe, and that the level of safety achieved is high enough for us," EASA executive director Patrick Ky said in an interview with the Bloomberg agency on Friday, Oct. 16. EASA may issue a draft airworthiness directive on the 737 MAX in November. (...) **The EASA boss nevertheless stressed the importance of developing a new "synthetic sensor" to improve the redundancy of the aircraft's systems in the event of a malfunction on the two**

angle of attack probes. "We could achieve even higher levels of safety," explained Patrick Ky. However, the development of this new sensor is only expected to lead to certification of the 737 MAX 10 version in 2022.

In the United States, American Airlines announced on October 18 that it plans to return its Boeing 737 MAX to commercial service by the end of 2020. This remains subject to re-clearance of the aircraft for flight in the United States by the Federal Aviation Administration (FAA). (...) The company says it will notify passengers that they are flying a 737 MAX.

My comment: I am surprised that the Boeing 737 Max is being returned to service while improvements to the system involved in the two fatal accidents are being developed. Especially since the lack of system redundancy had been identified at the outset of the investigations.

> **Curfews in France: no impact on air transport**

(source Air Journal) October 16 - **The 9:00 pm to 6:00 am curfew implemented in France from Saturday, October 17, 2020 should have no impact on passengers whose flights take off or land in the evening.** Prime Minister Jean Castex announced Thursday that among the exceptions to the rule is the holding of a plane (or train) ticket, including for accompanying persons - with mandatory presentation in case of control (...)

The airline company Air France confirmed yesterday that its flight schedule will not be affected by the curfew (...).

Bonus Article

> **Covid screening: Antigenic tests to be launched by the end of October in French airports**

(source La Montagne) October 16 - "We are winning the battle of delays in terms of access to tests," Health Minister Olivier Véran said Thursday, October 15.

Antigenic tests are going to be launched by the end of October in French airports, announced the next day on Cnews the Minister of Transport, Jean-Baptiste Djebbari. Less efficient than PCR tests but much faster, they are already being tested in the Paris region, in 80 Ehpads.

Demanded by tourism and air transport

"We are going to launch them in airports, especially on departure to

destinations such as the United States or Italy and on arrival in red countries, so that we will no longer have people returning from red countries to France without being tested," explained Jean-Baptiste Djebbari. "All this is intended to increase when it is authorized, when it is reliable, when it is safe, and when it improves the fluidity and security of travel".

The major players in tourism, air transport to tour operators through the hotel and restaurant industry, had asked Wednesday the government to introduce rapid tests in airports to facilitate travel.

Results known in 10 to 30 minutesThe

High Authority of Health (HAS) issued on October 9 a "favorable" opinion for the use of antigenic tests, recognizing their performance "generally satisfactory". They are useful, the HAS said, for "sensitively detecting infected subjects with a high viral load, i.e. the most contagious subjects.

The test is carried out in the nostrils using a swab, like the so-called RT-PCR tests, which currently give the best results. But **antigenic tests do not require laboratory analysis and the result can be known in 10 to 30 minutes.**

"We now have all the recommendations to allow hospitals, but also private doctors, pharmacists, pharmacists, nurses to be able to acquire these tests as well as the appropriate protective equipment to be able to carry out these samples directly", announced Olivier Véran.

"We can even expect that within a few weeks, a person who would have fever with respiratory signs can be tested directly at his doctor's office if he participates in this movement of your antigen.

What is an antigen test?

Like the RT-PCR test, antigen testing is done by swabbing in the nostrils. As the name suggests, the test focuses on the antigen: the place where the antibodies that we produce to fight the virus bind. Antigenic tests have the same purpose as the current reference test, RT-PCR: to know whether or not you are infected when you are tested. It is the viral proteins that are searched for, unlike the PCR test, which searches for the genetic code of the virus (RNA), and the serological test, which probes for antibodies. The antigenic test cannot determine whether a person has been infected in the past.

Unlike RT-PCR tests, antigenic tests provide faster results on a staining strip. It is the same principle as a pregnancy test.

My comment: The introduction of rapid tests in France was expected. The next step will be to harmonize this procedure in all European

countries, and then in the rest of the world.

Stock market press review

> Air France-KLM's equity capital will have to be strengthened - APE

(source Reuters) October 15 - **Air France-KLM AIRF.PA's equity capital will have to be strengthened but the date and amount will have to be determined with the group's management, the state equity commissioner, Martin Vial, told journalists on Thursday.**

This future strengthening will determine the evolution of the governance of the group, added the head of the Agency of State Holdings.

Like other players in air transport, Air France-KLM is hit hard by the consequences of the coronavirus pandemic. Its short-term survival is assured by the financial support of the French and Dutch governments with cumulative loans of 10.4 billion euros.

Details on shareholders' equity :

Definition of equity capital (source: droit-finances_com)Equity capital is a term derived from the accounting and financial language that refers to the equity capital contributed by the shareholders of a company. This equity capital is contributed in the form of a sum of money at the time of the company's incorporation or subsequently. It can also be dividends that are not redistributed and left at the disposal of the company. The role of equity capital is twofold. On the one hand, it is used to finance part of the investment. On the other hand, it serves as a guarantee for the company's creditors who agree to finance the other part of the investment.

To put it simply, the share capital of a company represents the funds contributed at the time of its creation. The equity capital is initially equal to the share capital. Then, year after year, profits and losses are added to it (among other things). When a company goes from one deficit year to the next, it reduces its equity.

In the current situation, airlines are incurring losses that considerably reduce their equity.

End of the press review

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

The Air France-KLM share is at 3.222 euros at the close of trading on Monday 19 October. It is up +3.63% over one week.

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

The average (the consensus) of analysts for AF-KLM shares is 3.03 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 beginning of the health crisis.

The barrel of Brent oil (North Sea) is up \$1 to \$42. At the beginning of the coronavirus epidemic, it was at \$69.

This indicative information in no way constitutes an incitement 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 related to the Air France-KLM group or to employee shareholding...

See you soon.

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

If you like this press review, please circulate it.

New readers will be able to receive it by [giving me](#) the email address of their choice.

| 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.

If you no longer wish to receive this letter/press review, [\[Unsubscribe\]](#).

If you prefer to receive the press review at another address, please let me know.

To reach me : [message for François Robardet](#). 10721 people receive this press review live