

Air France-KLM: a look back at the Group's turnover



I Letter from the Director Air France-KLM

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

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Editorial

Dear Readers

By the end of the year, some of you will have left the Air France-KLM group. If you are in this situation, you can continue to read this letter. If you have subscribed via your business address, I invite you to send me your new address.

To all of you, I wish a happy holiday season. Of course, during the holidays, this weekly letter will not be interrupted.

Let's continue to respect the barrier gestures.

François

Monday's Press Review

> **Air France-KLM: a look back at the Group's Board of Directors**

(source Boursier com) December 4 - **The Board of Directors of the Air France-KLM Group**, meeting today, **unanimously decided to submit a resolution to the 2021 Annual General Meeting of Shareholders to raise the age limit for the Chairman of the Board from 70 to 72**

years old in the event of separation of the functions of Chairman of the Board and Chief Executive Officer, as applied by a number of listed companies.

The role and missions of the Chairman would remain unchanged and would comply with the provisions of Air France-KLM's bylaws and internal regulations.

The Board of Directors also decided that in this case, Mrs. Anne-Marie Couderc would assume her duties as Chairman until the General Meeting of Shareholders called to approve the financial statements for the year 2022.

The Board of Directors stressed the importance, in the unprecedented crisis that the Air France-KLM Group is going through, of stabilizing the governance of the Group and thus creating the most favorable conditions for management to focus its efforts on operational management and recovery from the crisis.

***My comment:** Usually, the Board of Directors of the Air France-KLM Group only communicates on the decisions taken, but not on the result of the votes. Announcing that a decision has been taken unanimously therefore makes sense: all the Group's shareholders represented on the Board have renewed their confidence in the woman who had, in an emergency, agreed to take over from Jean-Marc Janailac.*

You will note that this letter does not contain any article on the recapitalization of Air France-KLM. The statements made by a journalist on the TF1 TV channel on Sunday evening are unfounded. As previously announced, the Board of Directors of the Air France-KLM group is continuing its work.

Here is what I wrote in my letter of November 9:

The recapitalization of the Air France-KLM group is inevitable. Week after week, until the official announcement, the financial experts will express their views on the subject.

How will the recapitalization take place?

Chief Financial Officer Frédéric Gagey has been as clear as possible, given the constraints imposed by the stock market policeman.

Several solutions are being studied, most of which have already been implemented earlier this year in other airlines (Lufthansa, SAS, Alitalia, Norwegian, Singapore Airlines, TAP).

> Bordeaux: SNCF and Air France offer a new service to

connect the Saint-Jean train station and Orly airport.

(source 20minutes) December 3 - Will the measure satisfy the economic sector of Bordeaux, which had denounced the stop of the air shuttle between the airport of Mérignac and Orly? **The SNCF and Air France announced** this Thursday **that as of December 3, the "Train + Air" offer** - which already exists between 14 stations and the two Parisian airports of Orly and Roissy - **will also be offered between Bordeaux Saint-Jean station and Orly airport.**

The first trains on this new link will start to run on December 15. Specifically, customers will travel by train from Bordeaux to Massy TGV, before being transferred to Paris-Orly by cab. There will be five daily departures from Bordeaux Saint-Jean (...) and four from Massy TGV (...). As a reminder, before the Covid-19 crisis, ten shuttle buses a day ran between Orly and Mérignac airport.

The idea of "Train + Air" is "to allow connections on the entire international network of Air France from the Paris airport, and especially to overseas destinations (Cayenne, Pointe-à-Pitre, Fort-de-France, Saint-Denis de La Réunion)" said Air France in a statement.

Bordeaux customers will benefit from all the advantages of the Train + Air product, including a single end-to-end ticket with the guarantee, in the event of a missed connection, of a transfer to the next plane or train at no extra cost.

> Never before have so many employees left KLM at the same time (Jamais auparavant autant de salariés n'ont quitté KLM en même temps).

(source Luchtvaartnieuws, translated with DeepL) 3 December - **More than two thousand KLM employees left the company on 1 December, under the** first voluntary departure scheme (VVR1). Never before have so many employees left the airline at the same time, reports Pieter Elbers, KLM's managing director, in a column.

But that's not all. Thanks to the second VVR and other opportunities, more KLM employees will leave the airline. Elbers: "A total of **almost 5,000 colleagues have already left KLM this year, both in the Netherlands and abroad.** This will give a face to the biggest crisis in KLM's history. Literally!

"That we now have to say goodbye to a large number of enthusiastic, talented and experienced KLM employees is very painful for me, but we cannot ignore it," Elbers continues. According to Elbers, the difficult period has shown "the enormous commitment and solidarity" of all KLM employees. "In the ups and downs of the company, blue hearts, the

willingness to help in the operation or in any other way" (...).

My comment: *By the end of 2020, KLM will have recorded more employee departures than Air France. But does this mean that KLM will have to make a greater restructuring effort?*

The answer lies in the difference in the regulation of voluntary departure plans between the two countries: they are implemented more quickly in the Netherlands than in France.

Contrary to what the Dutch press likes to say, over the period 2020-2023, Air France will see a proportionally greater reduction in its workforce than KLM.

Overall, the post-covid reconstruction plans of the two main airlines of the Air France-KLM group should produce similar results.

> **Taste with limited air corridor on route Atlanta-Amsterdam (Essai sur la route Atlanta-Amsterdam)**

(source Luchtvaartnieuws, translated with DeepL) December 4 - **A trial with a limited "air corridor" between Atlanta and Amsterdam will begin on December 15.** This was decided by the Council of Ministers on Friday afternoon. **For three weeks, adapted quarantine rules will apply to a number of KLM and Delta Airlines flights between the two cities.**

During the pilot project and afterwards, it will be examined whether this method of admitting people who need to make a necessary journey from a high-risk area to the EU will lead to better compliance with the quarantine rules. It is not true that this will ease travel advice and the ban on entry into the EU.

Participants in the pilot project must be tested at COVID-19 prior to departure and, from that point on, be quarantined. They will only be allowed on board if the results are negative.

Upon arrival in the Netherlands, passengers will be re-tested five days after the first test. This can be done upon arrival at Schiphol Airport or at a commercial testing center elsewhere in the Netherlands. In this case, quarantine rules apply until that time.

If the second test is also negative, the quarantine ends immediately after this result, provided the five-day period has elapsed. In this way, the ten-day quarantine period can be reduced from half to five days and, in addition, the quarantine period can be scheduled partly or almost

entirely before the necessary journey instead of after arrival.

For the time being, this is a very limited trial: of the 21 weekly flights between Atlanta and Schiphol, four are designated; two from KLM and two from Delta. Participation is voluntary and the trial will be evaluated after three weeks.

The choice to conduct the trial on flights from Atlanta is obvious: the capital of the state of Georgia is the headquarters of Delta Airlines and was, before the creation of Corona, the world's largest aviation hub.

***My comment:** Last week, Delta announced an experiment between Atlanta and Rome. Similar projects are being finalized with other European capitals.*

> IAG sees no obstacle to British Airways' control after Brexit

(source Reuters) December 7 - **IAG said Monday that it saw no obstacle to the British group continuing to control British Airways after Brexit, disagreeing with** Ryanair's managing director that a sale of the British airline would be inevitable.

Michael O'Leary, Ryanair's CEO, had previously estimated that France and Germany would demand strict application of European regulations stipulating that a European airline must be at least 50% controlled by European interests, which would no longer be the case after the end of the transition period on December 31, 2010, which will mark the effective exit of the United Kingdom from the European Union.

"I don't see how IAG can survive as the owner of British Airways after Brexit," said Michael O'Leary at a virtual conference organised by Eurocontrol, the European Organisation for the Safety of Air Navigation.

"We are confident that we will comply with EU and UK ownership and control rules after the transition period," said an IAG spokesman.

The IAG Group, which also controls the Spanish company Iberia and the Irish company Aer Lingus, is listed on the London and Madrid stock exchanges and is registered in Spain while its headquarters are in the UK.

***My comment:** With 23 days to go until the Brexit deadline, the conditions for finalizing an agreement are not in place. A decision on whether or not to conclude an agreement must be made by Wednesday 9 December.*

Discussions are still stalled on the same three subjects:

. European access to British waters,
. how to settle disputes in the future agreement, . the guarantees demanded in London by the European Union in terms of competition in exchange for access without tariffs or quotas to its immense market.

The airlines worked on all the scenarios, depending on whether or not a global or temporary agreement is reached. Whatever the scenario, operations should not be greatly affected. However, customs and logistics issues will require close monitoring and likely contingency plans.

> **Ryanair plays double or quits with the Boeing 737 MAX**

(source La Tribune) December 3 - Is it a masterstroke that will allow **Ryanair** to increase its supremacy in European skies, or is it a decision that will turn tomorrow into a nightmare? This is one of the questions (...). The low-cost airline **converted 75 options to purchase the aircraft into firm orders this Thursday**, which, in addition to the 135 already ordered, brings Ryanair's MAX order to 210 (...), group CEO Michael O'Leary told Reuters.

While O'Leary has made no secret of his intention to place an order as soon as the aircraft is cleared for flight, today's announcement is no less resounding, as it marks not only the first major MAX order since its ban, but also the first major aircraft order since the Covid-19 crisis began. Above all, it's like a huge poker game. For **this order may allow Ryanair to distance itself from its competitors, just as it may cause its downfall.**

Indeed, such an order is obviously accompanied by a huge discount. Already in normal times, companies as powerful as Ryanair can get discounts of more than 50% off the list price. **According to some experts, the discount snatched by Ryanair can, including compensation for late deliveries, exceed 70%, or a price of less than \$30 million each**, compared to \$125 million listed in the sales catalog. In other words, by buying these aircraft for a pittance, the Irish carrier will thus have a considerable competitive advantage over its competitors, which will strengthen its low-cost model and its ability to offer attractive prices. All the more so since **the aircraft's performance will enable a significant reduction in fuel consumption (16% according to Ryanair) and operating costs. With these 210 new aircraft that will join the fleet by 2026, Ryanair expects to operate 600 aircraft by 2026, compared with 453 last year, to carry 200**

million passengers, compared with 149 million in 2019. This is enough to increase Ryanair's market share at a time when almost all airlines are reducing wingspan.

This contract would obviously be the blow of the century, if it were not for the Boeing 737 MAX with all the doubts surrounding the acceptance of passengers to board. Will the plane be boycotted? Or will passengers quickly forget the setbacks of this aircraft if the months following its return to service go well? This is the big question. Examples from the past have shown that passengers have short memories. All the more so when the prices are attractive as those of Ryanair? (...)

(...) In this

age of social networks, the plane will find itself in the spotlight as soon as it is put back into service, with the risk that the slightest technical glitch, as is common in aeronautics, will take on irrational proportions. The risk for all of the aircraft's customers is that such incidents will multiply and dissuade passengers from flying on the MAX, to the point where Boeing will be forced to launch a new aircraft. A nightmare for all MAX operators who would see the residual value of their 737 MAX fleet, but also that of all 737 NGs, reduced to zero (...)

My comment: *The B737 MAX bet seems risky for Ryanair.*

Especially since another danger weighs on the very low cost Irish airline. In order to reduce the carbon footprint of airlines, the European Union, followed by several European governments, has announced :

. introduce a floor price on tickets (the pre-tax price is sometimes negative),

. sanction companies that benefit from illegal subsidies from local authorities.

These two measures would particularly penalize low-cost airlines.

> SAS deep in the red, "more normal" levels will wait until 2022.

(source AFP) December 3 - (...) For its financial year ending in October, **the Scandinavian airline SAS posted a net loss of** nearly SEK 9.3 billion (**over 900 million euros**), compared with a profit of SEK 621 million last year (60 million euros). At the same time, turnover was more than halved to 20.5 billion SEK (2 billion euro). "We still believe that the take-off phase of the airline industry will last until 2022 before demand reaches more normal levels, with a return to pre-Covid-19 levels a few

more years later," the company writes in its annual report. For the lagged fiscal year 2020/21, the company remains very cautious and the first quarter is already looking bad for the (...)

In order to survive, SAS has already cut 5,000 jobs in the spring, a redundancy plan now completed representing 40% of its workforce. After obtaining a first credit line of 3.3 billion crowns in May, **the company also had to launch a recapitalization plan in August agreed with its main shareholders - including Sweden and Denmark.**

Based mainly on debt-to-equity conversions, the plan resulted in **an increase in the capital of the Swedish and Danish governments. The Swedish and Danish governments now each own 21.8% of SAS, compared with 14.8% and 14.2% respectively before the crisis.** Several other European governments have come to the rescue of their historic airlines, such as Paris with Air France and Berlin with Lufthansa.

> **TAP Air Portugal prepares for major restructuring**

(source TourMag) December 3 - (...) TAP Air Portugal (...) has just launched a vast restructuring plan, faced with an activity that should not exceed 30% or 50% in the coming years.

If the employees have taken to the streets in their hundreds to defend their jobs, the management has decided to trim the workforce to adjust the company's sizing with demand. **Despite the potential 1.2 billion euro aid from the government, TAP Air Portugal has announced the elimination of 1,800 jobs out of a total workforce of 10,000.**

That's not all, according to the Portugal Resident site, this reduction could reach 3,600 jobs, 17 aircraft would be sold, or a third of the employees (...).

In all, the operation would save 188 million euros per year. The plan has a 3-year target, so that the company becomes profitable in 2023.

TAP Air Portugal is now 72.5% owned by the Portuguese State.

> **Logistics strategies The challenges of air transport of Covid vaccines**

(source: Logistics Strategies) December 3 - The International Air Transport Association is calling on airport authorities, governments, carriers, and logisticians to implement a number of actions to address the challenges of delivering vaccines against covid.

IATA estimates that 8,000 B-747 cargo aircraft will be needed to transport the 15 to 20 billion doses of vaccine that the world's

population needs to defeat Covid. That's four times the current fleet of freighters in operation, most of which are not capable of carrying the B-747. This assessment excludes the cargo capabilities of passenger aircraft grounded by the pandemic and poses a first challenge: optimized planning and scheduling of available cargo aircraft. In a guide to prepare for the distribution of Covid vaccines published on November 16, IATA along with other international entities such as the World Customs Organization (WCO) and the World Trade Organization (WTO) listed the main challenges ahead. In addition to the **management of air capacity, the document** reminds that the supply chain to be implemented in the air as well as on the ground via airports will be under negative or positive temperature control or even frozen at -70°C. It **also underlines the need for flexibility without quarantining flight crews and airport personnel.**

Faced with these challenges, **IATA is** calling on airport authorities and their supervisory bodies, as well as public authorities, carriers and logisticians to implement several actions. Echoing the preservation of the cold chain, the Association **mentions "the availability of temperature-controlled storage facilities with redundant solutions in the event of contingencies"**. Emirates in Dubai, **Air France KLM Martinair Cargo in Amsterdam Schiphol and Roissy CDG**, Lufthansa in Frankfurt and Kuehne+Nagel, declaring a network of 230 "Pharma" sites around the world, Bolloré Logistics or DHL, Fedex and UPS are currently engaged in extending and strengthening their refrigerated storage and cross-dock capacities.

To avoid bottlenecks, IATA is asking government authorities to "define and clarify the roles and responsibilities of each link involved in vaccine distribution". IATA recommends that states restore "air connectivity" by adapting their transit and customs health rules and procedures for overflight and landing permits for aircraft carrying vaccines.

This adjustment also concerns refrigerants to maintain very low temperatures down to -70°C. Most are classified as hazardous and their volume during air transport is strictly limited.

Like Interpol, which has issued an alert to all states against the risk of vaccine theft from supply chains, the guide also encourages governments to deploy large numbers of police and civil security forces to prevent and combat this crime (...).

My comment: The Air France-KLM Group does everything possible to

contribute to the safe delivery of vaccines from their production sites.

Stock Exchange Press

> Air France KLM: more opinions

(source Les Echos) December 3 - Air France KLM takes over 3.3% to 5.45 euros this Friday, December 3, in a market that remains attuned to the latest research advances in the race for vaccines to overcome the coronavirus epidemic. With a view to emerging from the crisis within 6 to 8 months, **Deutsche Bank has upgraded the airline from 2.1 to 3.5 euros, while remaining for sale. UBS had previously raised its target price from EUR 3.35 to EUR 4.45 while remaining 'neutral'.**

For the broker, it is likely that the biggest beneficiaries of the development of anti-Covid tests will be carriers with a large international network in 2022 . Although 2021 is not expected to be easy, the testing campaign and the development of coronavirus vaccines, combined with carrier restructuring and cash flow, should lead to a further recovery in European aviation in the second half of next year.

The stock, which has so far been one of the big winners in November's sector rotation in favor of the stocks most affected by the crisis, is seeking a second wind. The recent profit-taking seemed logical, especially since in a note devoted to cyclical stocks, Morgan Stanley's research team ranked the airline among the stocks to be 'sold' after the recent rally...

Since January 1st, the stock has lost another 46% on the Paris stock exchange.

My comment: *Week after week, analysts revise upwards the "target" prices of airlines.*

Concerning Air France-KLM, the consensus of the analysts (3.16 euros) is lower than the share price (5.33 euros). The competitors of the Franco-Dutch group, IAG and Lufthansa, are in the same situation.

According to analysts, the weak traffic this winter and the announced decline in business travel are likely to drive down ticket prices, which will not help the airlines' recovery.

> Bonus Article

> **Cyber Attack: Coronavirus Vaccine Supply Chain Targeted, IBM Reveals**

(source AFP) December 3 - The **IBM** IT group **revealed Thursday that a series of cyber attacks have targeted the coronavirus vaccine supply chain, which requires doses to be stored and transported at very low temperatures.** "Our team recently uncovered a global phishing campaign targeting organizations associated with the Covid-19 cold chain," wrote Claire Zaboeva and Melissa Frydrych, analysts for IBM X-Force, a cyber security working group, in a blog post.

The Directorate General for Taxation and Customs, a service of the European Commission, was one of the targets of these attacks. Energy and IT companies based in Germany, Italy, the Czech Republic, South Korea and Taiwan have also been targeted, according to IBM. The vaccine developed by Pfizer and Germany's BioNTech, which received the go-ahead for commercialization in the UK on Wednesday, must not be exposed to temperatures above -70°C to be effective.

To trap their victims, the **hackers are said to have used the method of spear phishing**, which consists of pretending to be a legitimate actor in order to retrieve confidential and sensitive data. In this case, fraudulent emails were allegedly sent by an alleged head of the Chinese company Haier Biomedical, which is effectively part of the vaccine supply chain and collaborates with the World Health Organization, UNICEF and other UN agencies. In the messages, the so-called executive said he "wants to place an order with your company" and attached malicious software asking recipients to provide personal information, IBM said.

The American group specifies that it is not able to say who is behind these attacks, but assures that their nature and sophistication are reminiscent of the methods of a state actor.

"Without a clear path to a loot, it is unlikely that cybercriminals would spend their time and resources to implement such a premeditated operation with so many interconnected targets spread around the world," write Zaboeva and Frydrych. IBM says it does not know whether the hacking attempts were successful. The U.S. federal cyber security agency, CISA, said the IBM report should be taken seriously by organizations involved in the vaccine supply chain.

"ICAR encourages all organizations involved in vaccine storage and transportation to strengthen their protections, especially for cold storage operations, and to remain vigilant to any activity in this area," Josh Corman, ICAR researcher, told AFP.

End of the press review

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

The **Air France-KLM share** closed at **5.332 euros** on Monday, December 7. **It is up +6.64%** over one week. Since the announcement of a potential vaccine on November 6, the share has increased by +80%.

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

The average (the consensus) of analysts for AF-KLM shares is 3.16 euros. 3.16. No analyst sets a target price higher than the current price. 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 \$2 to \$49.** Since the announcement of a potential vaccine, the price has risen by \$10 (+26%).

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.

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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

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