

Air France-KLM wants to test the bond market with an ESG format

| Letter from the Director of Air France-KLM



François Robardet

Representative of employees and former employees PS and PNC shareholders

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Editorial

Dear readers,

A short note to explain why the article on the ranking of the safest airlines in 2023 is not included in this letter.

The reasons are very well detailed [on the Lustublog blog](#).

Here is the main one:

It is still unfortunate for a ranking that is supposed to inform passengers about the level of safety of airlines, to assign grades above average for companies deemed unsafe by the European Union to the point of being banned from its airspace.

Have a good week.

François

Monday's Press Review

> Air France-KLM wants to test the bond market with an ESG format

(source AGEFI) Jan. 5, 2023 - The airline group [Air France-KLM] presented its **sustainability-linked bond (SLB) framework to investors on Wednesday, aiming to issue two bonds of a minimum of €300 million each at 3 years and/or 5 years.** "The timing is good, confirming our positive view of management," wrote Christine Kam, an analyst at Octo Finances in a note. **The sector context is favorable**, after two years of severe travel restrictions, with strong demand and limited global capacity, providing companies with pricing power.

In addition, "credit spreads have tightened in recent months, opening the door to the primary high-yield market," it continued. The group, which is aiming for carbon neutrality in 2050, thanks to the renewal of its fleet and the use of "clean" fuels, has set itself intermediate targets that will serve as a reference for these bonds. These also provide for penalties through coupon increases if these targets are not met.

The GLA segment, which allows companies unable to raise debt to finance green projects (green bonds) to capitalize on their sustainability strategy, has grown strongly over the past two years but not without controversy. Investors criticize some companies that have issued this type of paper for setting targets that are easy to achieve and penalties that are too low.

The funds raised by Air France KLM will be used in particular to repay part of the state-guaranteed bank loans granted during the Covid crisis amounting to 4 billion euros, 500 million of which have already been repaid in 2021. "We expect spreads at issuance to be around +430% for the 3-year maturity and +470% for the 5-year maturity," says the Octo Finances analyst.

(...)

My comment: *The relatively good results recorded by the Air France-KLM group during the first three quarters of 2022 allow it to set up the continuation of its Covid repayment program.*

Last minute:

Air France-KLM has successfully placed its first sustainability bond issue today, for a nominal amount of €1.0 billion, almost double the minimum amount mentioned in the article.

The Group's goal is to reduce its kerosene-related greenhouse gas (GHG) emissions (scope 1 and 3) by 10% per revenue/ton/kilometer by 2025 compared to 2019.

The SBTi target validation team ratified the ambition of the Group's scope 1 and scope 3 targets, and determined that it was consistent with a warming trajectory well below 2°C, as determined by the Paris Agreement signed in 2015.

Reminder: Targets are considered "science-based" if they are consistent with what the most recent climate science deems necessary to achieve the Paris Agreement's goals of limiting global warming to well below 2°C above pre-industrial levels and continuing efforts to limit warming to 1.5°C.

> **Dramatic change at Air France-KLM: the head of Transavia France is dismissed**

(source La Tribune) January 4, 2023 - The rumor had been circulating for a few days in the corridors of Air France-KLM, but the surprise remains. **The CEO of Transavia France, Nathalie Stubler, is leaving her position at the head of the low-cost airline to become a special adviser on the group's decarbonization strategy.** Going from the status of CEO of a subsidiary as strategic as Transavia to that of advisor, the appointment looks more like a sideline than a promotion for the one who multiplied the fleet by three in seven years and had led the company to the profitability it was running for years. **She has been replaced by Olivier Mazzucchelli, who became president of the regional subsidiary HOP! only a few months ago** and is currently on the rise. In this game of musical chairs, **Hervé Boury** takes the last seat. **Currently Deputy Managing Director in charge of Operations at Transavia France** - which is also losing a second manager - he is **taking over the presidency of HOP!**

Nathalie Stubler will report directly to Ben Smith, CEO of the Air France-KLM group. The latter was keen to "thank her for the remarkable work she and her teams have carried out within Transavia France over the last seven years", specifying that "decarbonization, and more generally our ability to conduct our business in a more sustainable way, are among the main strategic challenges that our group must meet".

However, it is likely that the former CEO of Transavia France is not very happy with this position and that it is only a transitional situation before leaving the

group. This is all the more true since several concordant sources report that relations between Nathalie Stubler and Ben Smith were rather cool and that there were strategic differences. **The transformation of the Transavia France model, with the takeover of part of Air France's domestic routes, would not have facilitated communication. Nor did the concessions made by Ben Smith to the Air France pilots to allow the development of Transavia beyond 40 aircraft.** And the fact that she was on the "shortlist" to take over as CEO of Air France at the end of 2018, finally entrusted by Ben Smith to Anne Rigail, may also have contributed to weaken the position of Nathalie Stubler in the group. Conversely, **Olivier Mazzucchelli** knows this domestic market well given his past at HOP! He is continuing his ascent. **In particular, he was very present during the renegotiation of the HOP! PDV-PSE in 2021, carried out under the aegis of Oltion Carkaxhija**, Executive Vice President in charge of the transformation of Air France-KLM, who has the upper hand on labor relations in the group. He then took over as head of the company in September 2022, replacing Pierre-Olivier Bandet, who was appointed Executive Vice President in charge of information systems as of January 1, 2023. With this appointment, Olivier Mazzucchelli joins the Air France Executive Committee, as does Hervé Boury. They will both report to Anne Rigail.

My comment: *The seven years spent by Nathalie Stubler at the head of Transavia France have not been easy.*

When she arrived at the small low-cost airline of the Air France group, her mission was to develop it on the European medium-haul leisure sector.

The arrival of Ben Smith led to a change of model; an agreement with the SNPL allowed Transavia France to grow, largely on the short-haul network via the transfer of unprofitable Air France domestic routes.

Transavia France has gradually become the Group's benchmark airline at Orly airport. Only the "Shuttle" activity has remained under the Air France flag.

In 2022, while the impact of the health crisis was still high, Transavia France exceeded its 2019 activity level.

The only shadow was the cabin crew strike in the summer of 2022, which tarnished the end of Nathalie Stubler's mandate.

> ITA Airways: a new decree in favor of the Lufthansa takeover

(source AFP) January 4, 2023 - **A new decree framing the privatization of ITA Airways**, published on January 2, **provides for a transfer "in several stages"** passing through an initial phase of capital increase reserved for the purchaser who should initially buy a minority share.

Subsequently, **the suitor, who must necessarily be an airline, will be able to acquire the majority of the capital of ITA Airways**, the decree specifies.

The German carrier Lufthansa, considered the favorite in the race to buy ITA, could thus follow the path already taken for its acquisition of Brussels Airlines, acquired in two stages, in 2009 and 2016.

Once Lufthansa has acquired a minority stake in ITA, it is expected to take control of Alitalia's successor, although the Italian state will retain a say in strategic decisions. According to the daily "Corriere della Sera", Lufthansa is aiming for a share of about 40%, valued at between 180 and 200 million euros, and could increase its stake to 100% in the medium term.

Officially, however, all bidders who participated in the previous sale process led by the former government headed by Mario Draghi are allowed to submit bids. At the end of August, the Draghi government had selected the competing offer of the American investment fund Certares, associated with Air France-KLM and Delta Airlines, to open exclusive negotiations.

(...)

My comment: *It seems certain that ITA Airways will be taken over by the German company Lufthansa.*

To understand the consequences for ITA Airways, we need to examine the differences in organization between the Lufthansa and Air France-KLM groups.

The Air France-KLM Group is not an airline but a holding company that manages airlines. Air France and KLM are subsidiaries of the holding company. The other companies (HOP!, Transavia France, KLM Cargo, KLM Cityhopper, Transavia Airlines, Martinair Holland) are subsidiaries of Air France or KLM.

The Lufthansa Group is an airline (Lufthansa). The other airlines in the group (Austrian, Brussels Airlines, Eurowings, Eurowings Discover, Swiss) are subsidiaries of Lufthansa.

In terms of governance, this organizational difference is fundamental. It allows Lufthansa to impose its decisions on its airline subsidiaries. The "lively" relations between Air France and KLM show that this is not the case within the Franco-Dutch group.

What will happen to ITA Airways if it is integrated into the Lufthansa group? Will the Italian state be able to keep a say in the strategy of its future ex-national airline,

as it wishes?

The recent example of Brussels Airlines raises doubts.

> **Green light for an aid to Air Austral which will have to reduce its wings**

(source Les Echos) January 6, 2023 - On **January 5, the European Commission authorized the French government to grant restructuring aid of 119.3 million euros to the Reunionese company Air Austral**, as well as additional aid of 17.5 million euros to compensate for the damage caused by the first containment in 2020. The amount of restructuring aid covers part of the debt accumulated by the company since the beginning of the health crisis, estimated at 200 million euros.

The details of the project, which was submitted to Brussels for approval in September 2022, are not yet known, but according to the European Union's press release, it **includes several measures, including "limiting the number of seats offered by Air Austral" and "limiting the number of air routes operated by the company"**. Air Austral currently has a 23% market share on the route between mainland France and Reunion Island, which attracts a total of more than one million passengers per year. Air Austral is also the only airline to offer direct services between Mayotte and Paris, while operating a network of regional routes between Reunion, the other Indian Ocean islands and South Africa, as well as links to Chennai (India) and Bangkok.

The State's support is motivated by the capital commitments of a number of local public and private players. The main shareholder, the Regional Council of Reunion, the Departmental Council and the Chamber of Commerce of the island must contribute, together, 25 million euros. Private investors led by Michel Deleflie (Clinifutur health group) have said they are ready to put 30 million euros on the table, in capital and current account

My comment: *The aid authorized by the European Commission will allow Air Austral to continue its activity.*

The Reunionese company will have to find the means to pay it back.

> **Atos: Airbus' intentions become clearer with regard to Thales**

(source Les Echos) January 1, 2023 - **Will Atos escape Thales' appetite?** Speculation is mounting about the future of its cybersecurity activities. **Airbus could well seriously thwart the ambitions of the aerospace and defense electronics specialist.** According to several sources, the aircraft manufacturer is

in preliminary discussions with Atos to take a minority stake in Evidian, the branch that will host its digital and cyber activities. This project is in line with the IT group's restructuring plan, contrary to Thales' intentions. For Atos, the latter would mean giving up 100% of its only fast-growing cyber activities. "

There are exploratory discussions with potential future minority shareholders of Evidian. Thales is not involved in this scheme at this stage," says a source familiar with the matter. When asked, **Thales maintained its position: the group is "potentially interested in any cybersecurity asset that might be available for sale", but does not want to diversify and "has no ongoing discussions with Atos".**

(...)

When asked about Airbus' approach, Atos confirms preliminary negotiations without naming any names: "in view of the implementation of its strategic plan, the company has initiated exploratory discussions with potential future minority shareholders of the business grouped under Evidian. These discussions are not sufficiently advanced to allow any further comment.

For its part, Airbus says it is "in constant discussion with its partners, customers and suppliers in all its business areas" as a global company. "These conversations remain private in nature."

For Airbus, via its Defence and Space branch, as well as for Thales, getting closer to Atos has an obvious industrial interest. Connectivity and secure communications between armored "platforms", aircraft and ships is becoming one of the keys to tomorrow's war. And the cybersecurity of these military communications is a major challenge. Atos' expertise in secure communications - the company is a key supplier to the French Army with the Scorpion information and combat system, which connects France's new armored vehicles and combatants - is of interest to all defense players.

(...)

According to several sources, Airbus would need Atos' know-how to be able to lead, as it is in charge of doing, the research on the combat cloud for the Future Air Combat System (SCAF). However, this part of the "cloud" project is also to be carried out in partnership with Thales and the Spanish company Indra.

Others see, on the contrary, the anchoring of the Airbus Defense and Space headquarters in Germany as a disadvantage in these auctions on Atos assets, while the Thales group can boast of its French core - 34.75% in the hands of the State and 29.79% in those of Dassault Aviation.

Thales would also be a better partner because it is more involved with Atos in sensitive projects for the French army. Atos is also working with Thales for the French General Directorate of Armaments to implement the Artemis project to develop data processing with artificial intelligence. Together again, through their

consortium Athea, they are competing to replace the American Palantir in the sensitive data processing tender launched by the DGSi.

My comment: *Securing communications within the military is crucial. The same is true for communications between commercial aircraft and ground infrastructure.*

For several years, before the outbreak of hostilities in Ukraine, cybercrime has increased dramatically.

In order to deal with this, the budgets allocated to the development of new communications systems, both military and civilian, have increased tenfold.

The control of specialists in the field of cyber security has become strategic.

> **Punctuality in the air: Spanish airlines at the top, French airlines still absent from the top 10**

(source BfmTv) January 5, 2023 - The Cirium Institute has published its traditional annual report showing an overall deterioration in punctuality over the last year.

The punctuality of aircraft in the world in general and in Europe in particular has been disrupted by the numerous strikes and staff shortages at airports, particularly last summer, all against a backdrop of strong recovery in global traffic. In this difficult context, Spanish airlines are once again doing well in terms of punctuality, according to the latest annual report* "The On-Time Performance Review" by Cirium, a century-old company specializing in data for the travel and aviation industry.

In Europe, it is Iberia that takes the crown with a punctuality rate of 85.87% for 91,154 flights operated, thus gaining 4 places in one year in the ranking. The Iberian national airline dethroned another Spanish operator, Vueling, first in 2021, which is now fourth with a rate of 83.80%.

The second place is also occupied by a Spanish company: Air Europa with a punctuality of 84.10% as the third with Iberia Express (83.80%).

The absence of any French company in this European Top 10 is noteworthy, as it was last year. Other European heavyweights such as KLM and Lufthansa are also conspicuous by their absence.

(...)

On a global level, the Brazilian airline Azul has the highest score with a punctuality of 88.93% on 279,222 flights. This is a notable performance, as the company was not in the Top 10 last year.

Azul overtakes the Japanese airlines that are used to top this intercontinental ranking. ANA (1st last year) has a punctuality of 88.61%, ahead of JAL with 88%. (...) **"In 2022, airlines had difficulty anticipating the sudden recovery in demand.** They had been repeatedly disappointed throughout the pandemic when it seemed that demand was picking up. When the recovery finally came last year, **the industry** - including airlines, airports, air navigation providers and other stakeholders - struggled with **understaffing and insufficient capacity. Delays and cancellations have become problems,**" comments Jeremy Bowen, CEO of Cirium.

Over a year, punctuality has deteriorated significantly, even for the highest-ranked companies.

(...)

My comment: Is it sensible to rank airlines on a punctuality criterion in 2022?

A significant part of the delays was the consequence of malfunctions within some airports. This was not taken into account in the ranking.

Furthermore, the article states that the lack of anticipation on the part of airlines was cited by airport managers as the reason for their lack of responsiveness.

It is worth noting that when Air France-KLM reported a higher annual outlook than its competitors as early as January 2022, skepticism was the order of the day.

However, the evolution of air traffic throughout the year validated the Air France-KLM group's forecasts.

End of the press review

> My comment on the evolution of the Air France-KLM share price in 2022



The event that had the greatest impact on the share price this year was the **2.256 billion euro capital increase in June**. The funds were used to accelerate the repayment of state aid and to reduce debt.

The French and Dutch governments participated to the extent of their rights, their participation remaining unchanged. CMA CGM became a new strategic reference shareholder with a 9.0% stake in the group.

The employees and former employees shareholders via the FCPEs had participated in the capital increase to a lesser extent, via a blank transaction.

As a result, the share price, which was around 2 euros before the operation, has since fallen to around 1.30 euros.

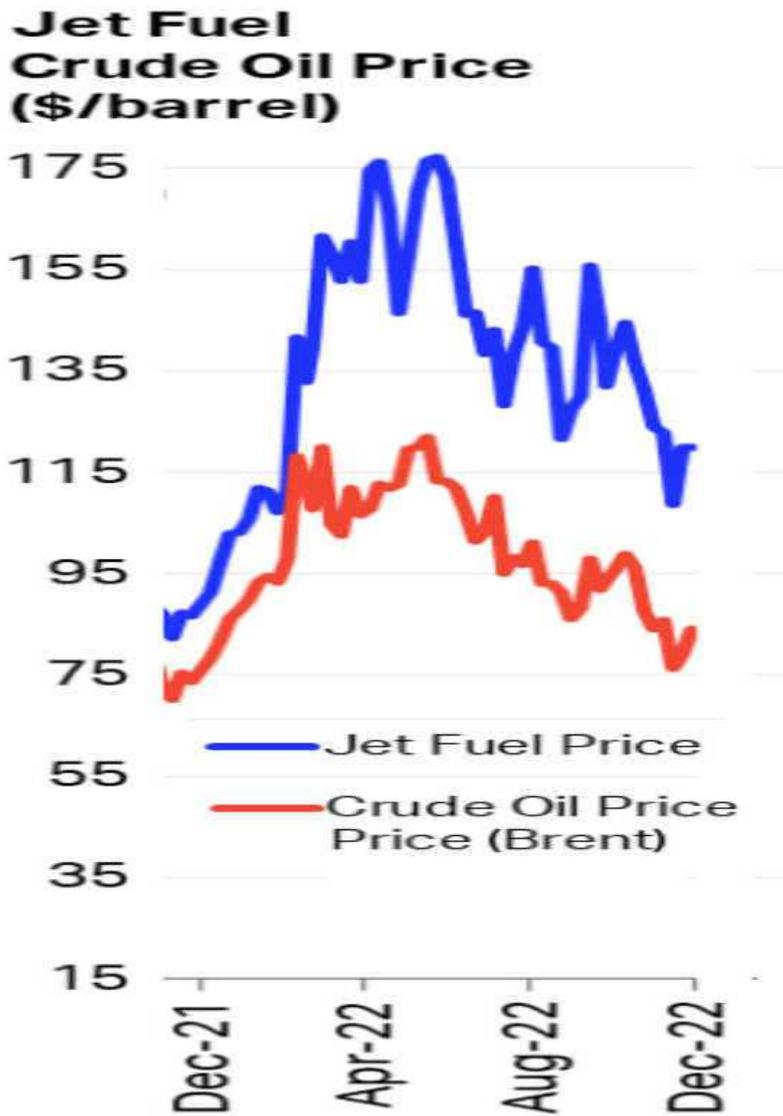
> [My comment on the evolution of the Air France-KLM share price this week](#)

Air France-KLM shares closed at 1.384 euros on Monday 9 January. It is up sharply this week (+10.46%).

The average (consensus) analysts' rating for AF-KLM shares is 1.50 euros. The highest price target is 2.00 euros, the lowest 0.85 euros. I only take into account analysts' opinions after the May 2022 capital increase.

You can find the details of the analysts' consensus on my blog.

> [My comment on the evolution of fuel prices in 2022](#)



Source: S&P Global,

Since the beginning of the war in Ukraine, there is no longer any correlation between the price of a barrel of Brent oil and a barrel of Jet Fuel. This is very clear on the graph below, which covers the period January 2022 - December 2022. The difference between the two products is between \$30 and \$50, whereas in previous years it did not exceed \$10.

> [My commentary on the evolution of fuel prices this week](#)

The barrel of Jet Fuel in Europe is down this week by -\$13 to \$121. After peaking at \$182 in June 2022, it was down to \$132 in early August. It was at \$79 a little over a year ago.

Brent crude oil (North Sea) is down sharply this week from -\$6 to \$80. This

corresponds to the average level observed over the past five years, excluding exceptional events.

From mid-February to the end of July, it was yo-yoing between \$100 and \$120. Since then, it has oscillated between \$85 and \$99.

In early March, Brent crude reached \$132, close to its record of \$150 (in 2008).

While oil has returned to a normal level, this is not the case for jet fuel, which costs \$41 more per barrel. The increased need for diesel fuel to compensate for the reduced availability of gas is pushing up the price of kerosene, as both fuels are produced in similar ways.

Good to know

> Advice for employees and former employees who are shareholders

You will find on my [navigation](#) site the modalities of access to the managers' sites.

To avoid forgetting to change your contact information each time you change your postal address, **I advise you to enter a personal e-mail address.** It will be used for all correspondence with the management organizations.

Keep all the documents related to your Air France-KLM shares in one place: all the letters you receive from the different managers, Natixis, Société Générale, your personal financial institution if you bought your shares through it.

> Management of employee investment funds

When you invest money in one of the Air France FCPE funds, you get shares in these funds. You do not hold shares directly.

It is the supervisory boards, which you elected in July 2021 for a five-year term, that manage the funds and make the decisions.

The Aeroactions, Majoractions and Concorde funds only hold Air France shares.

The Horizon Épargne Actions (HEA), Horizon Épargne Mixte (HEM) and Horizon Épargne Taux (HET) funds manage portfolios of various stocks.

My comment: If you would like more information on the management of the various Air France FCPEs, please consult [my website navigation, section Air France-KLM employee shareholding](#).

Details

This information is not intended to be a solicitation to buy or sell Air France-KLM shares.

You can react to this press review or send me 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 to employee share ownership...

See you soon.

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

If you like this press review, please pass it on.

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

| François Robardet

Director of Air France-KLM representing the employees and former employees shareholders of PNC and PS.

You can find me on my twitter account @FrRobardet

Alternate Nicolas Foretz, PNC



When I was elected, I received the support of the CFDT and the UNPNC.

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

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