

Air France-KLM refinances itself thanks to its environmental efforts



| Letter from the Director of Air France-KLM

François Robardet

Representative of employees and former employees PS and PNC shareholders

N°895, January 16, 2023

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

> Air France-KLM refinances itself thanks to its environmental efforts

(source Les Echos) January 10, 2023 - Reducing greenhouse gases from air transport can also reduce its debt. At least in the case of Air France-KLM. The airline group has successfully placed €1 billion in "sustainable" bonds, which will enable it to continue repaying its state-guaranteed loans (PGE), thanks to its commitments to reduce CO2 and NOx emissions.

This is the first time an airline group has issued so-called "sustainable bonds", the principle of which was invented in 2020. Designed to help companies finance their environmental investments, these bonds have the particularity of having a cost conditional on achieving environmental objectives.

500 million each, one with a maturity of 3.3 years and a coupon of 7.25%, and the other with a maturity of 5.3 years and a coupon of 8.125%, in return for a commitment to reduce greenhouse gas emissions from its aircraft by 10% by 2025 compared to 2019 levels. This commitment corresponds to the reduction expected as a result of the ongoing renewal of the Air France and KLM fleets.

If this 10% target is not met, the cost of this form of borrowing will be increased. However, its feasibility has already been validated by SBTi, a scientific verification body linked to the UN. Air France-KLM's stated objective is even to achieve a 30% reduction by 2030. **Beyond these environmental commitments, the group's good financial results in the second and third quarters, as well as the prospect of a return to operating profit as early as 2022, also explain the success of this bond issue.**

As proof of investor confidence, Air France-KLM's offer was oversubscribed by almost 2.6 times. It comes after a previous €300 million issue in November and other refinancing operations, which had already enabled Air France-KLM to repay €1.5 billion - of which €1 billion in 2022 - of the €4 billion in state-guaranteed loans granted in 2020 to a pool of nine banks. With this additional €1 billion, which should be entirely devoted to the repayment of the PGEs, the balance of guaranteed loans will fall to €1.5 billion.

However, Air France-KLM will not be at the end of its debt reduction efforts. In theory, the group **has until May 2025 to repay all of its PGEs. But the group wants to have repaid as soon as possible at least 75% of them.** This, in order to be released from certain constraints, such as the prohibition to take more than 10% of the capital of an airline. But also, to avoid a surge in its expenses. The cost of these PGEs is to be reduced to 7% from spring 2023, which is an additional incentive to accelerate their repayment, including through other forms of borrowing.

In addition, **Air France-KLM will have to face important deadlines in 2024 and 2025, with respectively 2.8 billion and 2.85 billion of debt to be paid off.** Not to mention the restoration of Air France's equity, which still had a deficit of 2.8 billion euros at the end of September. Air France-KLM has until the end of 2023 to bring the equity of its main entity to a level equal to or greater than half of its share capital (130 million euros), on pain of seeing Air France bankrupt.

My comment: While investors are showing confidence in the Air France-KLM group, it should be remembered that the financial situation of the Franco-Dutch group is far from being restored.

A large part of the loans granted (or guaranteed) by the French government still has to be repaid, preferably by 2025.

> NGO: Dutch flight tax is a drop in the ocean

(source OTP, translated with DeepL) January 11, 2023 - **NGOs do not expect the flight tax in effect since January 1 [in the Netherlands] to deter many people from booking air travel.** Greenpeace, Milieudefensie and Natuur & Milieu see the environmental measure as a good start, **but say the 26 euro charge is too low.** "It's a drop in the bucket," said Greenpeace.

"More needs to be done to discourage people from flying. Even today, airfare remains far too cheap," said a spokesperson for the organization. "It is disproportionate to the climate damage of such air travel." Natuur & Milieu also believes that the air ticket tax is "a step in the right direction" but believes that the ticket price should be increased further. **"Flights have been far too cheap for years and the price has been kept artificially low by the government,"** said a spokesperson. "The demand for flights is still so high that more is needed."

Friends of the Earth

said the flight tax affects only a small group of people and will have little effect on so-called frequent travelers. "It's a missed opportunity, because 8 percent of people account for 40 percent of flights," calculates a spokesperson. "It's mostly this group that should pay." The organization, **like Greenpeace and Natuur & Milieu,** therefore **advocates for a "more efficient and fairer" progressive flight tax. That means the more you fly, the more you pay per ticket.**

The NGOs also propose an increase in the price of long flights and a cap on the number of (short) flights.

My comment: *The environmental pressure is very strong in the Netherlands.*

In January 2021, the previous government introduced a flight tax of €7.845 per passenger departing from Dutch airports, regardless of distance. Transfer passengers and babies are exempt. The goal was to raise €200 million per year in normal business times.

Following the 2021 elections, the new ruling coalition decided that the tax should now raise an additional €400 million per year, for a total of €600 million each year.

> France-US flights whet the appetite of airlines

(source AFP) January 13, 2023 - **Commercial flights between France and the United States have started up again since the end of travel restrictions linked to the pandemic.** JetBlue, Norse Atlantic, French Bee, Air France, in addition to the historic American airlines Delta, United and American: all are banking on the persistence of significant demand, released after the closure of the United States to Europeans from March 2020 to November 2021.

These routes have recovered in the first eleven months of 2022 78.9% of the number of passengers in the same period of 2019, despite the Omicron variant, according to the latest figures from the Directorate General of Civil Aviation (DGCA).

On North Atlantic routes last summer, Air France "achieved a higher level of activity than in summer 2019" in available seat kilometers, one of the industry's benchmarks, with an 88% occupancy rate, said Olivier Piette, the airline's program director.

(...)

At Delta Airlines, they hail "12% higher revenue than 2019" on transatlantic bundles last summer.

(...)

This market, also contested by Air Tahiti Nui, which serves the west coast on the way to Polynesia, and "La Compagnie" with 100% business class aircraft, represented 9.4 million passengers per year in 2019, and even 12.2 including Canada, according to the DGAC.

"The cake is big", summarizes Yan Derocles, analyst at Oddo BHF Securities, especially since the strong demand, the still limited supply and the explosion of fuel costs have had the effect of inflating ticket prices, "20 to 40% higher" than before the crisis, according to Pascal Fabre, director at AlixPartners.

(...)

A boom fueled in part by the purchasing power of Americans, boosted by the strong dollar. **At Air France, the proportion of tickets sold from the United States "has risen from 49% in 2019 to 54% in 2022,"** reveals Olivier Piette.

(...)

New entrants are trying to take a share of the connections between the United States, the world's largest economy, and France, the number one tourist destination. The American JetBlue recently said it planned to connect Roissy-Charles-de-Gaulle from New York with its new long-range single-aisle Airbus A321LR aircraft, as did Norse Atlantic, which was partly born from the ashes of Norwegian. The latter is positioned like French Bee in the low-cost segment.

However, they will have a hard time shaking the stronghold of the Air France-KLM-Delta-Virgin Atlantic alliance, which has three quarters of the French-American market, according to AlixPartners figures.

Air France alone will offer some 200 flights per week to North America next summer, **according to Olivier Piette.** Of which no less than seven a day to New York and four to Los Angeles. In 2023, the French company "aims to increase its capacity by 10%" compared to 2022 on North American routes, he said. **"The geopolitical or economic context could affect the behavior of our customers, but, for the moment, we have no concerns" about bookings,** he said.

My comment: *The United States and Europe were the first geographical areas to emerge from the health crisis.*

Transatlantic air traffic resumed almost immediately.

> Delta Air Lines issues disappointing quarterly guidance

(AOF source) January 13, 2023 - **The American company Delta Air Lines, whose stock is losing 5.30% in pre-market trading, has published its results for the fourth quarter.** Over this period, **net income fell 25% to \$828 million**, or \$1.29 per share, **compared to 2019.** Adjusted earnings for the quarter came in at \$1.48 per share (versus consensus of \$1.32), the carrier said. Revenue was \$13.43 billion, up 17% from the fourth quarter of 2019.

Ed Bastian, Delta's chairman and CEO, expects "15 to 20 percent revenue growth in 2023 and year-over-year unit cost improvement," "which allows us to look forward to full-year earnings of \$5 to \$6 per share and keep us on track for \$7-plus earnings per share in 2024."

Delta stock is expected to decline after a five-day bullish rally that saw it gain almost 10%. **Investors are disappointed with the first-quarter 2023 outlook.** Delta Air Lines is targeting adjusted earnings per share of between 15 cents and 40 cents on revenues up 17% to 17% from 2019. The Refinitiv consensus is 55 cents for earnings per share.

(...)

My comment: *The quarterly results published by Delta Air Lines are less good than expected.*

This is likely due to the impact of the weather disruptions in late December, when the U.S. experienced a severe winter storm.

Note that according to a federal report released this Tuesday, January 10, 2023, the major weather disasters that hit the United States in 2022 caused at least \$165 billion in damage.

> In 2022, Airbus will surpass Boeing in deliveries and orders

(source Les Echos) January 11, 2023 - **Airbus will be ahead of Boeing in 2022, both in terms of the number of deliveries and the number of orders received.** This should ease the "enormous frustration" felt by Airbus boss Guillaume Faury at not having delivered as many planes as expected at the beginning of the year. **With 661 deliveries in 2022, compared with 480 for its American competitor, Airbus is doing better than in 2021** (661 deliveries) and retaining its crown as world champion in civil aviation, even if it is still far from its initial target of 720 deliveries.

On the order intake side, the gap is less clear. Airbus' sales teams have certainly had a good year, with a total of 1,078 orders excluding cancellations, 307 more than in 2021 (771) and 143 more than Boeing (935). But once **cancellations are**

subtracted, the net order balance falls to 820, compared with 808 for Boeing. This is still above the 2019 level, however.

Overall, the global market has returned to its pre-Covid crisis levels for Airbus, and even pre-737 MAX crisis levels for Boeing (...). But **both companies could probably have done even better, if their subcontractors, who are often the same, had not had difficulty keeping up with the increase in production rates.** (...)

The most penalized by these subcontractor problems is Airbus, which planned to return to 60 A320 Family medium-haul aircraft per month in 2022, and which in the end was only able to deliver 516 over the year, or a few hundred less than planned. Production problems are still visible for the A220, the smallest of Airbus' single-aisle aircraft, whose deliveries have remained almost stable (53 in 2022 versus 50 in 2021).

And far from improving, the situation for Airbus and its subcontractors seems to have worsened at the start of this year, under the combined effects of soaring energy costs in Europe, widespread inflation and the chaos caused in China by the Covid boom.

Nevertheless, Guillaume Faury reaffirmed the medium-term objective of gradually increasing production to 75 A320s per month by the middle of the decade. **In the main market segment - medium-haul single-aisle aircraft - Airbus' dominance remains clear and lasting**, not only in deliveries but also in orders, with 888 A320 and 127 A220 gross orders, compared with 697 for Boeing and its Max. This is despite the fact that the European aircraft manufacturer lacks a short-term delivery window. For

its part, **Boeing retains the advantage in the long-haul widebody market**, even if the match is close this year, with 94 deliveries compared with 92 for Airbus in 2022. Helped by a wider range and the good health of cargo aircraft, Boeing has won 238 orders, compared with 63 for Airbus (19 A330s and 44 A350s) in 2022. But the American aircraft manufacturer is still far from having regained its pre-crisis level (more than 500 single-aisle aircraft) and also remains below expectations for 787 deliveries, which were only able to resume last summer after a year's suspension.

My comment: *The order books of the two aircraft manufacturers have filled up nicely in 2022.*

But at what cost?

Boeing's many problems in 2022 (whether it was with the delivery of the B737 MAX, B787 or B777X) likely led it to lower its prices significantly.

This was not the case for Airbus, which only had to deal with the impact, albeit significant, of the health crisis.

> **China flies Boeing 737 MAX again**

(source Les Echos) January 13, 2023 - **The Boeing 737 MAX is making its return to Chinese skies.** A commercial flight of the aircraft took place this Friday, according to flight tracking site FlightRadar24. The aircraft, operated by China Southern Airlines, took off at mid-day from the southern city of Guangzhou to the central city of Zhengzhou.

This is the first flight of a Chinese company with this aircraft since March 2019. China was the first country in the world to order its carriers to suspend flights of Boeing 737 MAX for safety reasons, after two accidents in a few months that killed 346 people.

(...)

After 20 months on the ground, the aircraft was allowed to fly again in the United States. Then in most regions of the world, after modifications of the software of flight controls at the origin of the two accidents and a new training of the pilots.

China, on the other hand, maintained its ban. **In December 2021, the Chinese regulator officially deemed the aircraft fit to fly again, predicting that it would return to Chinese skies by "the end of the year or early [2022]". The delays have finally been longer than expected**

My comment: *The proximity of the Chinese New Year (January 22) and the delay in the delivery of the Comac C919 (the first one will enter service in March 2023 at the earliest) have undoubtedly accelerated the resumption of the B737 MAX flights in China.*

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

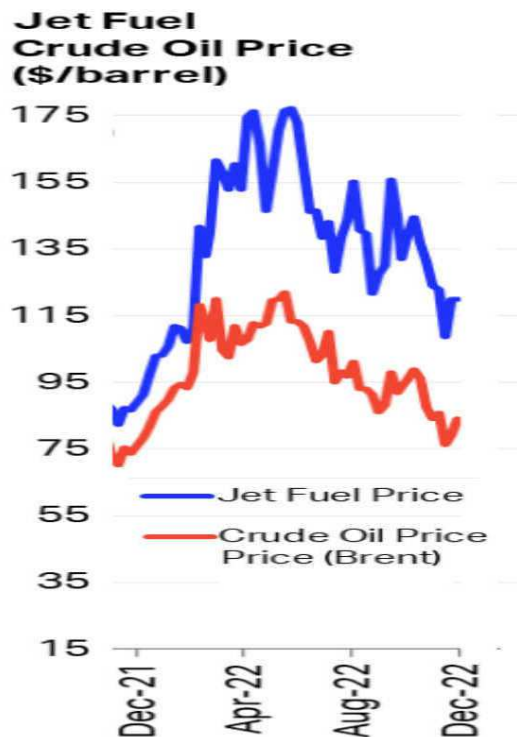
This week, four analysts have raised their recommendations.

Air France-KLM shares were at 1.544 euros at the close on Monday 16 January. It is up sharply this week (+11.56% after +10.46% the previous week).

The average (consensus) analysts' rating for AF-KLM shares is 1.52 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 up this week by \$14 to \$135. After peaking at \$182 in June 2022, it was down to \$132 in early August. It was \$79 a little over a year ago.

Brent crude oil (North Sea) is up this week by \$4 to \$84. This is in line with the average level seen 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).

If oil is back to a normal level, this is not the case for jet fuel, which costs \$51 more per barrel, a record! 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 a similar manner.

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.

If you no longer wish to receive this press review, [unsubscribe](#)

. If you wish to change the reception address of this press review, please [send](#) me [your new email address](#)

. To contact me: [message for François Robardet](#).

11.386 people receive this press review live