

Air France-KLM places 650 million euros in bonds



I Letter from François Robardet

At the forefront of more responsible European aviation, we bring people together to build the world of tomorrow.

(Raison d'être of the Air France-KLM group)

Representing current and former employees

PS and PNC shareholders of Air France-KLM

N°965, May 20, 2024

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Editorial

Dear readers,

I would like to remind you that the Annual General Meeting of Air France-KLM will be held on Wednesday June 5, 2024 at 2:30 pm at the Hilton Hotel in Roissy. It will be webcast live on the Group's website.

All documents relating to the Annual General Meeting are available on the Air France-KLM Group website, on the Shareholders page, under Annual General Meeting. These include the resolutions that will be put to the vote of shareholders.

As in previous years, I invite those of you who are Air France-KLM shareholders to give me your proxy.

You will find the procedure in my [Flash n°102](#).

Thank you for your confidence and loyalty.

*Happy reading
François*

Monday's Press Review

> Air France-KLM places 650 million euros in bonds

(source Boursier com) May 14, 2024 - On **May 14, Air France-KLM successfully placed 650 million euros worth of bonds with a 5-year maturity** and a coupon of 4.625% (New Bonds) under the Company's Euro Medium Term Note program. The bonds are expected to be rated 'BBB-' by Fitch and 'BB+' by S&P.

Investor demand was strong, with an order book of over 2.8 billion euros covering almost 4.3x the amount of bonds issued. It testifies to investor confidence in Air France-KLM.

(...)

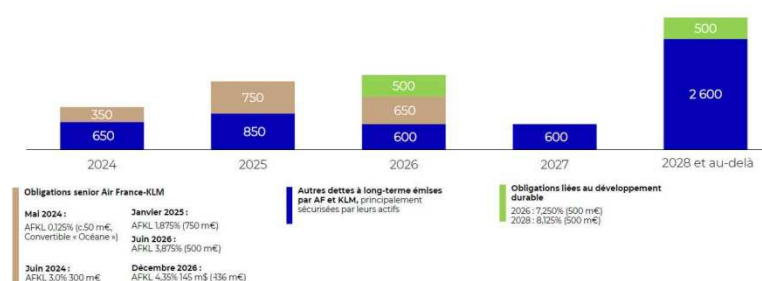
The proceeds of the new bonds will be used to refinance part of the company's existing debt by redeeming all or part of the existing bonds, and for general corporate purposes.

(...)

My comment: *The financial results of airlines in general need to be analyzed over time to identify the resources available for the fleet, personnel and debt repayment.*

PROFIL DE REMBOURSEMENT DE LA DETTE AU 31 MARS 2024

Profil du remboursement de la dette⁽¹⁾
En m€



(1) Excluant les paiements de dettes des locations opérationnelles, les emprunts perpétuels de KLM et les quasi-fonds propres perpétuels d'Air France



Debt management is an essential task for the CFO of the Air France KLM Group.

In particular, the €650 million bond issue will be used to repay debts due to mature shortly.

> Transavia France plans to recruit 600 people by 2024

(source Journal de l'Aviation) May 16, 2024 - As it works to expand its fleet by ten aircraft this year, **Transavia France will need more staff to operate**. Air France's low-cost subsidiary is announcing that it plans to recruit nearly 600 staff this year. In detail,

more than **a hundred positions are open on the ground**, in several departments including maintenance, revenue management and IT. Around a hundred positions are on permanent contracts, with a further thirty or so on sandwich courses and internships.

Transavia is also looking for 150 pilots, whom it will recruit through the Air France recruitment network.

Finally, **since the start of the year, more than 300 stewards and flight attendants have already been taken on**, including 180 on sandwich courses.

***My comment:** Since leaving the COVID, Transavia France has been steadily increasing its capacity, but its financial results have been mixed.*

To keep pace with its growth, the Air France subsidiary needs to recruit in all its business lines.

> **Turkish Airlines NDC: GDS surcharge from October 1, 2024, launch of its TKCONNECT NDC platform**

(source TourMag) May 17, 2024 - **Turkish Airlines will launch a new NDC** (New Distribution Capability) **distribution platform** called TKCONNECT **on October 1, 2024**.

As explained in a press release, it will enable "travel agents to benefit from exclusive content and services", including "differentiated ticket pricing, promotional fares booked via NDC, rich content accompanied by visuals and descriptions, enhanced and specific ancillary services such as excess baggage, seat selection and special equipment".

TKCONNECT will be offered in 3 versions. On the one hand, partners will be able to connect to TKCONNECT Direct, an IATA-certified NDC API.

Secondly, distributors will be able to access the TKCONNECT offer via Aggregator. Finally, they will be able to connect via the web to the TKCONNECT user interface portal.

(...)

Agencies that are not yet TKCONNECT partners can retain their current configuration to **access legacy Turkish Airlines content via Global Distribution Systems (GDS)**.

However, **from October 1, 2024, "bookings made via the GDS will be subject to distribution fees and differentiated content-rich products will only be available to TKCONNECT users."**

***My comment:** In the 1980s, the airlines wanted to have common sales and distribution IT platforms. This was the birth of GDS (Global Distribution Systems) such as Sabre, Galileo, Worldspan and Amadeus, of which Air France was a co-*

founder and long-time shareholder.

In the 2010s, IATA developed the new NDC (New Distribution Capability) technology standard to enable travel industry players to communicate simply and cost-effectively.

More and more airlines are using the NDC standard to present their own offers and fares, based on data from GDSs.

Several airlines (including Air France and Turkish Airlines) are encouraging travel agencies to switch to their NDC offering, either by imposing GDS surcharges, or by proposing richer offer content solely on their NDC.

It should be noted that Air France wants to impose a surcharge of 30 euros per round trip on travel agencies if they do not use the Air France NDC. The implementation of this surcharge, scheduled for June, has been postponed several times.

> Lufthansa proposes compromise on short-haul flights for ITA deal, sources say

(source Reuters) May 16, 2024 - **Lufthansa has offered to keep some of ITA's competing short-haul routes in order** to win EU antitrust approval for its bid to acquire a stake in the Italian airline, people with direct knowledge of the deal said on Thursday.

The offer is part of a package of remedies submitted last week to the European competition authorities to allay concerns that the deal would reduce competition on short- and long-haul routes linking Italy with other countries, and ITA's dominant position at Milan Linate airport.

(...)

A Lufthansa spokesman declined to comment.

The German airline is also prepared to accept interlining agreements with its rivals, according to the sources. These agreements allow airlines to handle passengers traveling on itineraries requiring multiple flights on several carriers. To address EU concerns about long-haul routes, **the German carrier has said it will not integrate ITA into its joint venture with United Airlines and Air Canada**, the sources said, adding that ITA will operate independently for two years.

Lufthansa has also offered to cede 40 slots at Milan's Linate airport to easyJet and Volotea.

The European Commission, which is expected to rule on the deal by July 4, is

asking rivals, consumer and travel organizations and pilot groups for their reactions. They have until May 19 to respond.

***My comment:** As I said in my previous letter, the chess game isn't over yet.*

> **Ryanair closes its Bordeaux base**

(source Les Echos) May 14, 2024 - **The tug-of-war between Ryanair and Bordeaux airport had been going on for weeks.** It ended on Tuesday afternoon with the publication of a strongly worded statement from the Irish airline announcing the closure of its base and the departure of its three aircraft from November 2024.

"

We are disappointed that Bordeaux airport has not agreed to the extension of our low-cost base from November 2024", explains **the company**, citing "increased costs" and having "**no other financial alternative**" than to **close the Bordeaux base and relocate the three aircraft and jobs** "to less expensive bases" elsewhere in Europe.

The airport does not deny that costs have risen, but cites first and foremost a commercial dispute. "We didn't want the airline to leave, but we did set limits on the demands it made of us, particularly in commercial terms, and they didn't appreciate it," says an internal statement, before adding: "Even so, we remain one of France's most competitive airports.

Other attractive bases

If the airport remains upright in its boots, it's a heavy blow for the city, since the low-cost airline has also announced "the loss of 40 Ryanair routes to and from Bordeaux", as well as the loss of 90 jobs for flight crews and engineers. Ryanair has already announced that discussions are being held with staff to find them "similar positions at other attractive Ryanair bases across Europe from November 2024."

Present for fourteen years, the Irish airline carried 1.7 million passengers last year, a quarter of traffic behind easyJet and Air France, but ahead of Volotea. **The airport, which has seen a very significant growth in low-cost traffic, which now accounts for 70% of passengers**, is now determined to restore a certain balance by reducing this to 60%, by "encouraging the growth of premium airlines" such as Air France, Lufthansa, Turkish Airlines and KLM.

But has the die been cast? **While Ryanair's decision to close its permanent base seems irrevocable**, the airport's local authorities and CCI shareholders seem to be working hard behind the scenes, perhaps to encourage it to maintain its routes. "**Ryanair is not leaving Bordeaux**", assures an expert in the matter, who is betting on "an epilogue in the right direction".

***My comment:** Bordeaux airport has made major sacrifices to accommodate a majority of airlines such as Ryanair, with charges around a third lower than those of*

incumbent airlines.

The report from the Cour des Comptes (the French auditing authority) gives an insight into the situation:

"During the previous audit of SA (Bordeaux Airport), the Court highlighted the non-transparent, potentially discriminatory and disproportionate nature of the incentives received by certain airlines under special contracts.

It considered that SA was running a legal risk, both with regard to the national legal framework and European regulations on state aid."

This is not the first time that there has been debate about the public aid received by Ryanair, whose attitude can be perceived as blackmail.

Unfortunately, Ryanair employees based in Bordeaux will be the main losers in this affair.

> **The comments and unexpected departure that sent EasyJet tumbling on the stock market**

(source Les Echos) May 16, 2024 - **That EasyJet has published a pre-tax loss of £350 million (€408 million) for the first half of the year comes as no surprise;** the carrier had guided market expectations in mid-April by indicating that it would post a deficit of between £340 and £360 million. The fact that EasyJet's forecasts for the summer - which corresponds to the fourth quarter of its fiscal year - are more cautious is even more of a surprise.

The market clearly expressed its dissatisfaction when it punished the low-cost airline's stock with a 7.8% fall on Thursday, its biggest in seven months.

"Comments on fourth-quarter unit revenues could disappoint," notes Liberum analyst Gerald Khoo. While he was expecting revenues to be "well ahead of schedule", EasyJet's management, through its CEO Johan Lundgren, now expects them to be "slightly up".

This degree of certainty is costly on the stock market. All the more so since, to date, only 39% of the summer program has been sold out. "There's **still too much capacity on the market**", said the CEO in an interview with Bloomberg TV. His comments come after rival Ryanair's CEO, Michael O'Leary, said he expected lower fares than he had hoped for this summer.

While EasyJet has succeeded in competing with national airlines such as British Airways, **some observers question its growth potential in a mature market where more and more airports are limiting the number of available spots.**

"Much to the frustration of some investors, Johan Lundgren refused to abandon his strategy during the pandemic and take on Ryanair and Wizz Air to win market share in new countries during the industry-wide disruption," notes an article in the FT. Instead, it preferred to focus on its travel package offering, EasyJet Holidays, which has admittedly enjoyed dazzling growth and generated a quarter of pre-tax profits in its last financial year.

Continuity

Is it this tactic that is now costing Johan Lundgren his job? After seven years at the helm of EasyJet, the 57-year-old executive, who steered the company through the turbulence of Covid-19, will leave the group on January 1, 2025. **Since change is continuity, his successor has been found internally, in the person of current CFO Kenton Jarvis.** The latter joined EasyJet in 2021, having previously headed the airline business of travel company TUI.

"While common in the U.S., CFOs rising to the position of CEO are less common in European airlines, Bernstein analysts note. In our opinion, Kenton Jarvis should be seen as representing continuity of the existing strategy."

(...)

My comment: *for over twenty years, easyJet's strategy has differed from that of its low-cost competitors. It consists of offering low fares while essentially serving the main airports in each country. At the same time, easyJet aims to attract business travellers.*

This is not the case with Ryanair, which deserts these airports in favor of regional hubs, enabling it to obtain substantial discounts on airport charges.

Ryanair is known as low-cost and easyJet as middle-cost.

If easyJet fails to turn around its results, it could become the target of a capital operation by a competitor or a European major.

> "Get a grip": Emirates and Lufthansa bosses complain about Boeing delays

(source BFMTV) May 13, 2024 - The American aircraft manufacturer's production is collapsing due to multiple investigations by the regulator following the various incidents that have affected its aircraft.

Boeing's major customers are losing patience. And they are expressing their frustration at the numerous delays in the delivery of new aircraft, while traffic continues to grow.

These delays are "extremely annoying", according to Lufthansa CEO Carsten

Spohr, interviewed by Swiss newspaper Neue Zuercher Zeitung.

"It's in everyone's interest that Boeing should soon be able to build large aircraft more reliably again", he explained.

"Not satisfied"

Sheikh Ahmed ben Saeed Al Maktoum, Chairman and CEO of **Emirates, Boeing's biggest customer, is less diplomatic.**

"Management has promised to change things and make things go faster, I hope," he explained.

(...)

Impact on summer flight plans

While demand for air travel is expected to be very strong for the vacations, and the number of travellers worldwide is set to reach historic levels, with 4.7 billion people expected in 2024, compared with 4.5 billion in 2019, the **sector is currently facing a shortage of new aircraft.**

(...)

This is forcing some airlines, particularly those most dependent on Boeing, to review their flight plans or even reduce the capacity offered, even though they have levers to compensate for these missing deliveries (by leasing aircraft in particular).

At Ryanair, for example, 17 Boeing aircraft will be missing this summer (40 instead of 57), so "adjustments" will have to be made in July and August on around ten routes, warns the low-cost airline. This means less frequent service to certain destinations.

***My comment:** The fall in Boeing deliveries is disrupting flight schedules, with financial consequences for the airlines that are customers of the US aircraft manufacturer.*

Disgruntled airline bosses are preparing their arguments to put Boeing in a difficult position during upcoming trade negotiations.

> **Green kerosene: how Brussels hopes to lighten the bill for European airlines**

(source Les Echos) May 16, 2024 - After the stick, the carrot? Eight months after the vote on the Refuel EU regulation, which will oblige European airlines to purchase an increasing proportion of non-fossil fuels or face fines, the **time has come for accompanying measures to mitigate the impact of this unique regulation on the sector's competitiveness.**

These support measures have been urgently called for by all **European airlines.** Not only are they finding it **difficult to procure the quantities of CAD (sustainable aviation fuel) required to meet their legal obligations, but they also have to pay much more for it than their American competitors,** who

benefit from tax incentives for the purchase of "green" fuels. For the time being, however, none of the measures envisaged seem capable of restoring the competitive balance.

Free ETS

The most successful initiative so far is the launch, at the beginning of the year, of a **European scheme enabling airlines to offset all or part of the price differential between kerosene and "green" fuels. This would enable airlines to obtain free CO2 emission allowances (European ETS) for their intra-European flights, representing 70% to 100% of the price differential between fossil kerosene and "green" fuels, which are currently three to five times more expensive.**

Since 2013, airlines have been subject to increasingly expensive CO2 quotas.

The scheme, which came into force on January 1, has a budget of 20 million ETS, with a total value of around €1.6 billion at current prices per tonne of CO2. Any company operating intra-European flights subject to the emissions quota system can benefit, on a "first come, first served" basis. But its effectiveness has yet to be proven.

(

...) While the

airlines welcome this first European initiative, they stress the limits and complexity of the system. **The first criticism is that it can only benefit airlines operating intra-European flights.** In France's case, this excludes Air France's main long-haul competitors from the scheme. It is also limited in time, until 2030 at best, if the 20 million ETS envelope is not used up before then. A review is scheduled for 2028.

(...)

But whatever the success of this system, **the planned envelope will be a long way from covering all the additional costs associated with DACs. For Air France alone, the incorporation of 1% DAC in 2023 already represented an additional expense of 100 million euros**, and the additional cost should reach one billion euros in 2030, for 10% DAC.

CAD more expensive in France

Furthermore, the European Union will only be redistributing part of the increase in ETS revenues, the cost of which is set to double by 2030 with the phasing-out of the free allowances allocated up to now. **For Air France, the ETS bill will rise from 100 million euros in 2023 to 500 million in 2030.**

For French airlines, the additional cost is greater than elsewhere, due to the application to DACs of the tax designed to encourage the use of renewable energies (the TIRUERT), which sets a penalty (...) if the incorporation target set by law is not reached. The

result is that, in the absence of sufficient production in France, this tax has added around 30% to the cost of CAD in the country.

My comment: The problem of availability of Sustainable Aviation Fuels in the

European Union persists.

Brussels is finally becoming aware of the need to support European airlines in achieving the Refuel EU objectives.

But these measures are still inadequate compared with the support provided across the Atlantic.

End of press review

> Air France-KLM share price trend

Air France-KLM shares closed at **10.560 euros** on Friday May 17. It is **up this week by +0.38%**.

Like other companies in the airline sector, Air France KLM has had to cope with flight disruptions due to Iran's attacks on Israel.

It was 12.53 euros on January 2, 2023, and 17.77 euros on June 19, 2023.

The average (consensus) 12-month analyst price for AF-KLM shares is 15.09 euros (it was 15.0 euros at the beginning of January 2023). The highest price target is 23.00 euros, the lowest 9 euros. I only take into account analysts' opinions subsequent to the May 2022 capital increase.

You can find [details of the analyst consensus](#) on my blog.

My comment: *For the past month and a half, the Air France-KLM share price has been hovering between 9.50 and 10 euros.*

First-quarter results did not worry investors, and the share price has risen by almost 9% in two weeks.

> Fuel price trends this week

The price of a barrel of Jet Fuel in Europe is stable at \$104. It was \$94 at the end of June, and \$79 before the outbreak of war in Ukraine.

Brent (North Sea) oil is up \$1 a barrel to \$84.

From mid-February 2022 to the end of July 2022, it was yo-yoing between \$100 and \$120. Since then, it has oscillated between \$75 and \$99.

My comment: *The spread between Jet Fuel in Europe and Brent crude oil was around \$15 before the conflict in Ukraine. In 2022, at the start of the Ukrainian conflict, this differential was close to \$50.*

The Jet Fuel spread in Europe and Brent crude oil is down slightly this week, to \$20. It has been two months since the spread returned to a level of \$25 or less.

> **FCPE management**

When you invest in one of Air France's FCPE funds, you obtain shares in these funds. You do not hold shares directly.

It's 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 equities.

My comment: *If you'd like to find out more about how the various Air France FCPEs are managed, please [visit the Air France-KLM Employee Share Ownership section of my website](#).*

Details

This information does not constitute 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 to keep you better informed.

By return, you can ask me any questions you may have about the Air France-KLM group or employee share ownership...

See you soon.

For the latest Monday press reviews, [click here](#).

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| François Robardet

Represented Air France-KLM's employee and former employee PS and PNC shareholders.

You can find me on my twitter account @FrRobardet

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

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

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