

Air France-KLM makes part of its financing conditional on its environmental progress

I Letter from the Director of Air France-KLM

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

(Air France-KLM Group's raison d'être)



François Robardet

Representative of the employees and former employees shareholders PS and PNC

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Monday's Press Review

> Air France-KLM makes part of its financing conditional on its environmental progress

(source Les Echos) April 18, 2023 - The shock of Covid past, **Air France-KLM intends to clean up its finances**. The Franco-Dutch group has signed revolving credit lines for 2.2 billion euros, indexed on sustainable development objectives, it announced on Tuesday.

Part of these instruments will replace a direct loan granted to KLM by the Dutch government, as well as a credit facility guaranteed by the latter to cope with the consequences of the pandemic.

The new revolving credit lines will effectively free the airline from the conditions set by Brussels for receiving state aid. These include a ban on dividend payments, moderation of executive remuneration and a limit on acquisitions.

In detail, **Air France-KLM and Air France have signed a revolving credit line of 1.2 billion euros, with an initial maturity of 2026, with a pool of "15 international banks"**. KLM has signed a €1 billion credit line, maturing in 2027, with 14 institutions.

"For each credit line, a set of sustainability performance indicators has been

integrated into the cost of financing," the group said. This is in line with "the commitment of Air France-KLM and its airlines to [...] the progressive decarbonization of their activities".

These two lines of credit include "a mechanism for adjusting the credit margin (upwards or downwards) based on the achievement of each of these performance indicators". These include reducing unit CO2 emissions and increasing the share of sustainable aviation fuel.
(...)

My comment: *The refinancing obtained from large banking pools testifies to the confidence of investors in the post-Covid recovery plan of the Air France-KLM group.*

The Covid state aid has now been paid off, but Air France-KLM still has a high level of debt, up to €16 billion at the end of 2022, including hybrid instruments, compared with €11 billion in 2019.

Some of the refinancing is linked to ESG objectives (Environmental, Social and Governance performance). This is a bonus-malus system, well described in the article.

For the financial community, the Environmental, Social and Governance (ESG) criteria constitute the three pillars of extra-financial analysis.

- The environmental criterion takes into account: waste management, the reduction of greenhouse gas emissions and the prevention of environmental risks.

- The social criterion takes into account: accident prevention, staff training, respect for employee rights, the supply chain and social dialogue.

- The governance criterion verifies: the independence of the board of directors, the management structure and the presence of an audit committee.

> **ACM rejects complaints about Schiphol's steep fare hike**

(source Luchtvaartnieuws, translated with DeepL) April 21, 2023 - **Schiphol Airport did not act unreasonably in raising airline fares from April 1, 2023**, the Consumer and Market Authority (CMA) has ruled. Airlines, including KLM, had complained about this.

Schiphol announced at the end of 2021 that it would increase user fees by 42% over three years. This went against the wishes of the airlines, which were barely recovering from the financial blows suffered during the Covid crisis. **Schiphol**

reduced the increase to 37%, but in the wake of the 2022 chaos, airport users felt that the value for money was not reasonable. KLM even called the increase "disproportionate". It was then decided to take the matter to the ACM.

The industry did not find support from the ACM. Last year, the supervisory body had already concluded that the tariffs had been set in accordance with legal standards. The argument that long lines hurt service quality is also rejected by the ACM.

"The ACM has asked to see what measures Schiphol has taken to restore the quality of service. Schiphol expects that these measures, which mainly concern personnel management, will sufficiently restore the quality. On this basis, the CMA has decided that Schiphol's adjusted fares are not unreasonable," the authority said in an explanation of the decision.

"According to Schiphol, staff planning is now in place so that 95 percent of passengers no longer have to wait long at security screening, although the airport still expects queues due to the busy May vacation season. Queues may also occur at passport control and baggage processing, for example, but other parties are responsible for the quality of these services."

Advocacy group BARIN, which protested the fare increase on behalf of the airlines, is not at all pleased with the CMA's decision. "Failure to pay is rewarded, if you clean up your own mess afterwards," said president Marnix Fruitema in a reaction.

***My comment:** The fare increase proposed by Schiphol airport has been accepted on the grounds that the staffing levels will allow the summer peak to pass without major disruption.*

My comment is in one word: Chiche!

> **Lufthansa's agreement to acquire a stake in ITA Airways has been delayed**

(source dpa-AFX) April 24, 2023 - **Lufthansa's entry into the capital of Italian airline Ita Airways is delayed. Despite the closing date initially announced on Monday,** negotiations with the Italian government are continuing, as confirmed by a company spokesperson in Frankfurt. The discussions are well underway, but are not yet complete. Lufthansa did not give details or a new date for the expected signing of the contract.

The two parties have been in exclusive negotiations since January to acquire a 40 per cent stake in the airline that succeeded the legendary Alitalia. The Italian state is the sole owner of the loss-making ITA. **In addition, Lufthansa wants to secure options for a later complete takeover of ITA.** The transaction is subject to review by national and European competition authorities.

***My comment:** I would be offended if this information surprised any of my readers!*

On a more serious note, the problem of the real value of ITA still doesn't seem to be solved.

> EasyJet joins FNAM, celebrates 20 years at Orly

(source Air Journal) April 20, 2023 - The low-cost airline **easyJet is joining the National Federation of Aviation and its Trades (FNAM) for the first time**, continuing its strong and long-term commitment to France. This year, easyJet is also celebrating the 20th anniversary of its Paris-Orly base, where it is investing in terminal 1B.

In France, where it is the second largest airline, (...) easyJet finally announced on April 20, 2023 that it would join the FNAM, **as well as the Groupement des Professionnels des Métiers de l'Aérien (GPMA)**, which is a member.

(...)

EasyJet presents itself as a key player in the tourism economy: it "makes French people travel to France, and allows tourists to discover the French regions". **Its direct economic contribution also comes from its 1,800 employees, all of whom are under French contract**, and its indirect contribution, notably through its contracts with Airbus and CFM (it operates more than 300 Airbus single-aisle aircraft, including more than 60 A320neo and A321neo versions).

With its strong regional roots, easyJet is joining FNAM "with the aim of defending the conditions that will keep travel affordable for everyone throughout France. **This collaboration will also allow us to address the environmental challenges of a sector that continues to invest in its environmental transition.** The low-cost carrier has been defending an "ambitious" environmental strategy for many years and is aiming for net carbon emissions by 2050, as detailed in its environmental roadmap presented in 2022. This roadmap complements the company's membership last year in "Race to Zero", a program supported by the United Nations. The company says it has already reduced its carbon emissions per passenger and per kilometer by more than a third over the past 20 years.

(...)

My comment: *For the first time a foreign airline joins the FNAM.*

In the distant past, easyJet has been pinned down for not respecting French rules. This page seems to have been turned.

By joining the FNAM, easyJet may hope to influence the negotiations of the future national collective agreement for the air transport industry, which should start by the summer.

In addition to easyJet, Newrest (in-flight catering) and CMA-CGM Air Cargo have

also joined the FNAM.

> **Arm wrestling between the State and the American Searchlight over the rescue of Latécoère**

(source Les Echos) April 24, 2023 - The matter is going up at Bercy. The aeronautical equipment manufacturer Latécoère is facing a new financial restructuring under the aegis of the office of the administrator Hélène Bourbouloux, according to our information. And the State has its back to the wall, facing its first shareholder, the American fund Searchlight.

"It is a very difficult case, all the more complex as they are engaged in their fifth financial restructuring. Everyone is unanimously looking for a way out of the crisis, with the objective of avoiding a future turnaround. But the situation will become urgent in the summer", considers a connoisseur of the file.

At the heart of the negotiations between the State and Searchlight: some 220 million euros of loans guaranteed by the public authorities, set up by banks (Société Générale, LCL and CIC Occitanie) and whose repayment deadlines have already been postponed, while the group saw its cash flow dry up and its losses accumulate.

These loans make the State the main "financier" of the equipment manufacturer, which employs nearly 5,000 people (including 1,300 in France), as the traditional financing banks have left the ship. After two negative financial years, the losses have almost quadrupled again in 2022 between the first and second semesters, and the total hole has reached 127 million euros.

The American fund Searchlight, which took control of the aeronautical subcontractor four years ago in the wake of Apollo - which itself entered during a third financial restructuring followed by a refloating of Latécoère - has put a solution on the table: **it is ready to inject another 100 million euros**, in addition to the 420 million already invested, according to several sources.

The State is a quasi-shareholder

This is a positive point, as it has not "disappeared" from the landscape and is ready to re-engage. **However, there is a "slight" condition, made necessary by the financial situation: that the banks that granted the PGEs, and therefore the State, which covers 90% of them, agree to write off the debt.**

"Of course, the shareholder reinvests. But for the state, it also means allowing Searchlight to improve its initial return on investment. The company's value will be increased by the amount of debt forgiven! This is a bit hard to swallow after the public support given to this type of private investor", comments a connoisseur of the dossier.

Another **problem** is that if this is done through a conversion into capital, "whatever

instrument is used, even if it is less visible than equity securities, such as warrants or financial recovery clauses, **the State will find itself indirectly exposed to a significant percentage of the capital**", says another.

A configuration even more uncomfortable than the precedent set by Pierre & Vacances. As there are no traditional bank lenders like any other company, the State would find itself a quasi-shareholder at an unprecedented level. **And the public authorities have no desire for these conversions to be copied on the large scale of the PGEs, and to enter into a system of administered economy.**

As a reminder, Latécoère is now worth only 21 cents per share, or a stock market valuation of 114 million euros as of this Friday. This is less than half of the debt (excluding lease financing) concerned.

The State is not the only one in this dilemma. **Another public party is caught in the trap: the European Investment Bank.** The latter granted a loan of 55 million euros in 2017, which has also already been rescheduled and may have to be wiped off the slate.

Searchlight would actually not have much room to maneuver. "They are in the process of raising a new \$4 billion investment fund. They can't afford to show an investment loss of several hundred million euros," says a source.

For Latécoère, these financial difficulties are added to another imbroglio: the social tensions surrounding its plans to relocate the Toulouse-Montredon plant to Mexico and the Czech Republic. Another hard point with the public authorities. "The community has sold this site at a price defying all competition and has no leverage," comments a person close to the case. Agnès Plagneux-Bertrand, the vice-president of Toulouse Metropole in charge of industry, asked for guarantees. Since then, an agreement on employment, facilitated by the context of offers in the region, has been reached, but the CGT remains opposed.

Employment will be precisely one of the key points of the upcoming negotiations. "If there is a crushing of the PGE, Bercy will be vigilant on the industrial and social counterparts," replied the Ministry of Industry to "Les Echos".

When questioned, Searchlight - as well as Latécoère and the other stakeholders - did not wish to comment.

My comment: Latécoère's debt is due to risk-sharing partnerships, which account for about two-thirds of the contracts in its aerostructures division.

Aircraft manufacturers ask suppliers to incur heavy development costs, to guarantee a price level over the life of the aircraft, and to share the risk of the aircraft's commercial success. In return, they are generally the reference supplier ("program life").

Latécoère has been particularly affected by the failure of the A380 program.

According to its website, the Latécoère Group operates in all segments of the

aeronautics industry (commercial, regional, business and military aircraft), in two areas of activity

- Aerostructures (46% of sales): doors (independent world leader) and fuselage sections. -

Interconnecting Systems (54% of sales): cabling (No. 2 worldwide for aeronautics, No. 1 in Europe for space), avionics furniture (No. 1 worldwide) and onboard equipment.

> Airlines optimistic for the summer

(source Les Echos) April 24, 2023 - Despite the return of flight demand to pre-pandemic levels, which is a source of satisfaction for airlines, French air transport players are far from serene. At a pre-summer season review, Pascal de Izaguirre, president of the National Federation of Aviation and its Trades (FNAM) and Corsair, made no commitment on the ability of the air transport industry to manage next summer's season properly.

Last February, according to the latest statistics, **air traffic in France** was back to 94% of its pre-pandemic level and **all indications are that it will be 100% this summer**. While Asia has reopened its doors in 2023, it is the French "closure" that worries the companies. In metropolitan France, traffic was only 78% of what it was in 2019 because of the strikes. **"We are living a nightmare, with 34 days of strikes, since January 1, 2023, 3,000 flights canceled in advance at the request of the state at Orly and 500 flights canceled hot,"** said Alain Battisti, president of Chalais Aviation. The Paris airports have lost 470,000 passengers.

The companies are calling for a reform of the organization of air traffic controllers to require them to implement provisions to inform passengers in advance in case of strike. 17.6% of flights have been delayed since January, which is almost one flight out of five. Worse still, most of the cancellations have been for nothing, as the threats of strikes have not actually taken place, but this has forced the Directorate General of Civil Aviation to cancel flights in advance, based on warnings from minority unions.

This chaos (about 20% of the flights cancelled) is a high price to pay, as the FNAM has negotiated the maintenance of the provisions of the transport code for flight personnel, so that pilots will still be able to retire at 60.

Air traffic controllers are still protected and can retire at 59 with a full pension.

"Discussions are still taking place with the State on the consequences of raising the retirement age from 62 to 64," said the FNAM, promising that the complementary pension fund of the flight crews would pay the additional costs. In view of this disorganization, the FNAM finds it difficult to promise a smooth summer. **We know that traffic will be sustained from June onwards and the FNAM is asking the government to mobilize the air and border police and to put all automatic**

border crossing locks into service. For the time being, it has not obtained any guarantee.

On the other hand, **the FNAM has confirmed that the disorganization of the post-Covid production and maintenance chain in the aviation industry is far from over.** Finally, the third reason for dissatisfaction for customers, the prices in average increase of 15% since 2017. An increase justified by the rise in kerosene, maintenance costs and rising wages.?

My comment: *For the airlines, the signals are green. Passenger traffic should return to normal next summer.*

The situation is less good in the cargo and business aviation sectors. Their activity had soared during the crisis. Now it is slowing down significantly.

The cargo sector is suffering from the counter-blow of the decrease in rates observed in the maritime sector.

As for business aviation, it had benefited in 2021 and 2022 from the health crisis to take market share from traditional airlines. The trend is reversing.

Uncertainties remain. Air transport, like all sectors of the economy, is affected by difficulties in the supply chain: disruption of logistics flows, rising costs of materials, maintenance, etc.

Airlines (as well as manufacturers) must deal with delivery times not only for aircraft but also for equipment.

Bonus Article

> Netherlands: towards the end of the agribusiness model?

(source Radio France) April 10, 2023 - **The deployment of the plan to halve nitrogen emissions by 2030 has set off the fire.** This plan imposes a drastic reduction of the Dutch livestock population.

In front of Richard Veeraaf's farm stands a brand new tractor bought for his 26-year-old daughter Lotte, who wants to take over the farm. "But the government doesn't want us anymore!" the beef cow and pig farmer near Breda, the Netherlands, complains. The farmer fears that he will have to part with at least 35 percent of his livestock, he says. In some areas, he says, some will lose 94% of their livestock. How are we going to make a living?"

But in the Netherlands, between the farms and the 160 or so Natura 2000 classified nature parks protected by European Nature and Biodiversity legislation,

cohabitation is no longer possible! **The air is becoming unbreathable and the soil is full of nitrogen, a gas produced by animal waste.**

A few dozen kilometers to the east of Richard Verhaaf's farm is the Oisterwijk nature reserve, where Lex Querelle can be found. Lex is one of the curators of this beautiful place, a mixture of forest and marsh. But here, nitrogen is everywhere. It kills trees and biodiversity, says the conservationist: "**Nitrogen kills the fungi around the roots of the oaks, and they slowly die. Instead of living between 400 and 600 years, they die after 80 years, barely**".

With a flick of his finger, Lex rips off a large piece of bark. Around us, the trees are as if "peeled off" and many species are threatened. 70% of birds are born with bones that are too fragile because of nitrogen, says the curator, who nevertheless acknowledges that "farmers have made a lot of efforts to reduce pollution thanks to technology". But this is no longer enough: "Look at nature and act! We must take radical decisions, enough is enough!" says the 50-year-old.

In North Brabant, the local government is also tackling nitrogen emissions in the building sector. Most building permits are now suspended. Only construction sites that do not emit greenhouse gases are spared. For Erik Marteens, spokesman for the southern part of the Netherlands for the LTO, the country's main farmers' union, all this is neither acceptable nor realistic, and it is the source of the deep-seated anger of the voters of the Citizens' Farmers' Movement.

"**When you want to invest, to build, everything is blocked here, because nitrogen is everywhere,**" laments the unionist. "It's a problem that we created ourselves and that we have to solve ourselves", he acknowledges nevertheless, even if the equation is complicated. **The Netherlands produces a lot, vegetables, flowers, meat.** We admit that the world is changing, says Erik Martens, but "we are a small country, we don't have the same space as France and we still have the responsibility to feed people!"

The Netherlands is the world's leading exporter of meat for 17.5 million inhabitants on an area no larger than the Pays de la Loire region.

To make her movement the first party in the Senate, BBB leader Caroline van der Plas **capitalized on the anger of the rural world but also on the rejection of the ruling urban elite.** We have to change our methods, admits a disappointed Micky Adriaansens, the Dutch Minister of Economic Affairs: "We were a little surprised and a little scared by the emergence of this new party," she admits. The challenge will be to reach these people and help them make the ecological transition."

For Philippe Lamberts, president of the Green group in the European Parliament, these radical but necessary changes must be accompanied as was done in another era with the end of coal: "This means a change of profession. We have to see what the government wants to put in place to sweeten the pill.

Politicians have to take responsibility because we're paying the price of inaction today."

And he insists, "These changes are going to affect everyone's lifestyle. But when it's a matter of survival, you do what you have to do!**The economic model of Dutch agriculture is unsustainable! The Netherlands is, after the United States, the largest agricultural exporter in the world!** There is something wrong, it is not possible." To accompany the transition, 24 billion euros have been set aside by the government.

My comment: I owe you an explanation on the presence of this article in a press review dedicated to air pollution.

It has been a long time since I read the Dutch press and realized that nitrogen pollution (in the Netherlands we call it NOx) is more important to the Dutch than CO₂ pollution.

Thus, the reductions of activity at Schiphol are more aimed at reducing NOx emissions than CO₂, whereas in France only the problem of CO₂ is associated with aviation.

It should be recognized that with more than half of its surface area devoted to agriculture, the Netherlands is a pioneer in greenhouse horticulture. Dutch farmers are developing innovative methods to produce more food with fewer resources. The Netherlands has become one of the world's largest producers of tomatoes and the largest exporter of onions and potatoes.

More surprisingly, Schiphol can offset its nitrogen emissions by buying up farms and land that will then no longer be used.

While this article helps us understand the reasons for this, it does raise a question: how did the Netherlands become the second largest agricultural exporter in the world?

I found this hard to believe. And yet, according to Business France, here are the 10 countries that exported the most food products in the world in 2019, based on customs data:

- 10. Belgium - €41.27bn: Belgium is one of the largest exporters of beer in the world.*
- 9. Italy - €44.79bn: Italy dominates in tomato products thanks to its exports of canned tomatoes.*
- 8. Canada - €45.48 billion: Canada is the world's leading producer of maple syrup.*
- 7. Spain - €53.57 billion: Spain is the leading producer of olive oil. It produces more than 50% of the world's olive oil.*
- 6. France - €65.03 billion: France largely dominates world wine exports with a 30%*

market share over the last decade. 5

. China - €68.83bn: China is one of the main tea producers in the world.

4. Brazil - €69.96 billion: Brazil is the world's leading producer and exporter of soybeans, chicken, sugar. 3

. Germany - €76.39 billion: Germany is the leading producer of pork in Europe.

2. Netherlands - €96.12 billion: One of the leading producers of tomatoes and the world's largest exporter of onions and potatoes.

1. United States - €126.52 billion: The U.S. is a major exporter of corn and soybeans.

The infographic below is based on 2020 figures.



End of the press review

> **Air France-KLM share price performance over the past year**



Two events have impacted the share price over the past year:

- . in June 2022 the capital increase of 2.256 billion euros
- . in February 2023, the announcement of good results for 2022.

***New comment:** Two events have impacted the share price over the past year :*

- . in June 2022 the capital increase of 2.256 billion euros*
- . in February 2023 the announcement of good 2022 results.*

> **Air** France-KLM **share price trend**

Air France-KLM shares closed at **1.541 euros** on Monday 24 April. It is **up** this week **by +0.88%**.

It was at 1.253 euros on January 2, 2023.

The 12-month analyst average (consensus) for AF-KLM shares is 1.85 euros (it was 1.55 euros in early February). The highest price target is 2.40 euros, the lowest 1.10 euros. I only take into account analysts' opinions after the May 2022 capital increase.

According to AFP, the markets are mixed, between slowing inflation and fears of recession in the United States.

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

No new comments

> **Fuel price evolution in 2022**

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. In 2022, the difference between the two products has fluctuated between \$30 and \$50, while in previous years it was no more than \$10.

My (new) comment: For the past two months, the spread between the two products (Jet Fuel and crude oil) has been narrowing and approaching the spread that existed before the war in Ukraine.

> **Fuel price changes this week**

The barrel of Jet Fuel in Europe is down this week by **-\$7 to \$97**. After peaking at \$182 in June 2022, it was down to \$132 in early August. It was at \$79 before the outbreak of the war in Ukraine.

Brent crude oil (North Sea) is down this week by -\$2 to \$83. The effect of OPEC+ production cut announcements is fading.

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

While oil has been back to a normal level for several weeks, **Jet Fuel is now very close to its normal level. The difference between jet fuel in Europe and Brent crude oil is now only \$14 per barrel.** In 2022, at the beginning of the Ukrainian conflict, this gap was close to \$50.

My (new) comment: This is the first time since the start of the war in Ukraine that the spread between Jet Fuel and oil is so small.

If it is too early to draw a definitive conclusion, it is good news for the airlines. If confirmed, they will be able to devote more resources to sustainable aviation fuels.

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 sell or a solicitation to buy 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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