

Air France-KLM in 2023

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)



former Director Air France-KLM

Representative of current and former employee shareholders PS and PNC

N°945_1, January 1, 2024

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The Press Review for Monday, January 1, 2024 features:

Air France-KLM,

the main events of 2023

Dear readers,

You will find here nine articles published in 2023, related to Air France-KLM.

Here is the list:

- > *Air France-KLM completes repayment of EMP*
- > *Ben Smith: "We can finally manage Air France-KLM without having one hand tied behind our backs"*
- > *Air France-KLM posts best-ever margin*
- > *Apollo fund to inject 1.3 billion euros into a branch of Air France-KLM*

- > *No narrowing of Schiphol in 2024 or beyond: Brussels wants alternatives first*
- > *Schiphol airport can handle 483,000 flights in 2024, including 13,000 more in summer*

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

> *Historic European agreement on sustainable aviation fuels*

> *Air France-KLM successfully completes its first worldwide employee shareholding plan*

Happy reading

François

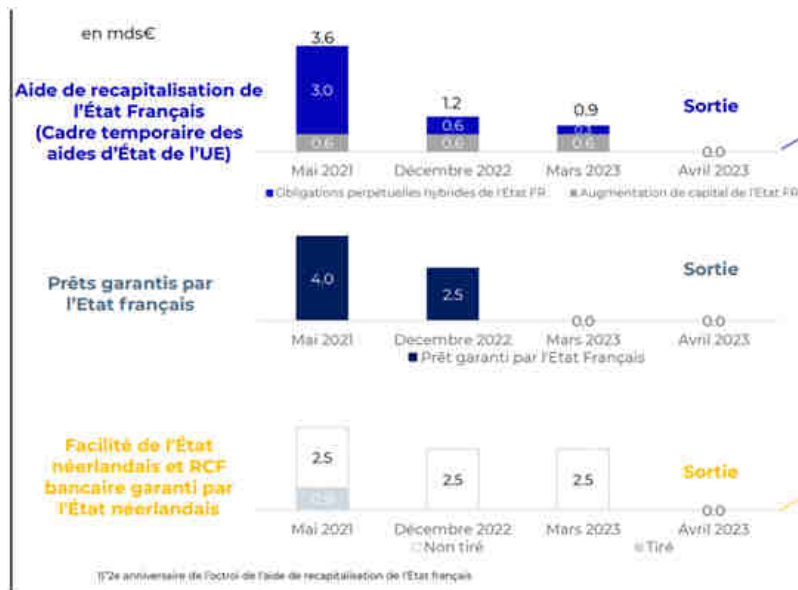
Selected articles and comments

> Air France-KLM completes EMP repayment

(source Les Échos) March 16, 2023 - **Air France-KLM has reached** yet another milestone. After returning to profit in 2022, the airline **announced at the close of Wednesday's trading session that it had finalized repayment in full of the €4 billion French state-guaranteed loan (PGE)** granted at the height of the health crisis. This was part of the 7 billion euros granted by Bercy to prevent the group, and in particular its French arm, Air France, from crashing. To settle its liabilities of 2.5 billion euros, out of the total 4 billion of the EMP, Air France-KLM has mobilized the billion raised in January, via a sustainable development bond, and dipped into its available cash to the tune of 1.5 billion. "This full repayment will help smooth the Group's debt profile, reduce financial costs and limit residual exposure to variable rates," stresses the group chaired by Ben Smith.

In addition to the EMP, in spring 2021 Air France received a shareholder loan of 3 billion euros over four years from the French government in return for the sale of flight slots at Paris-Orly airport. To date, 1.2 billion euros remain to be repaid. According to the timetable unveiled at the annual results presentation, **Air France-KLM will refinance 300 million euros of perpetual bonds into unconstrained perpetual hybrid instruments, enabling it to exceed the 75% repayment threshold of the French state aid and giving it more room to maneuver, notably to carry out acquisitions.** Then, from April 19, the remaining approximately 300 million euros of Paris perpetual hybrid instruments and the associated remuneration will be repaid in the same way.

On the stock market, Air France-KLM shares recovered 4.7%, after an eventful Wednesday session. While this repayment is a good thing, some will argue that Lufthansa, which received a total of €9 billion in aid during the crisis, used less than €4 billion, which it repaid as early as November 2021.



My comment (1): The table above summarizes the support given by France and the Netherlands to their airlines Air France and KLM. This support took the form of repayable financial aid.

For Air France, the support was of two kinds :

- . direct aid, in the form of a recapitalization, to the tune of three billion euros. This aid was accompanied by conditions imposed by the European Commission, such as a ban on taking shareholdings of more than 10% in competitors or other players in the same sector, a ban on paying variable remuneration to managers and shareholders (dividends), and an obligation to give up slots at Orly airport.

- . a French government guarantee for loans taken out by Air France, to the tune of four billion euros. In return for these loans, Air France had to present measures to reinforce its actions in favor of sustainable development. Air France also undertook to achieve the same level of competitiveness as its competitors within a short space of time.

For KLM, support took a different form. There was no recapitalization, and therefore no constraints from the European Commission. The Dutch government provided a loan and a guarantee on a bank RCF (Revolving Credit Facility), for a total of 3.4 billion euros. This support was subject to very strict conditions, such as wage cuts for all KLM staff and improvements in competitiveness.

The aid will be repaid in full by next month, thereby lifting the conditions imposed by the States and the European Commission.

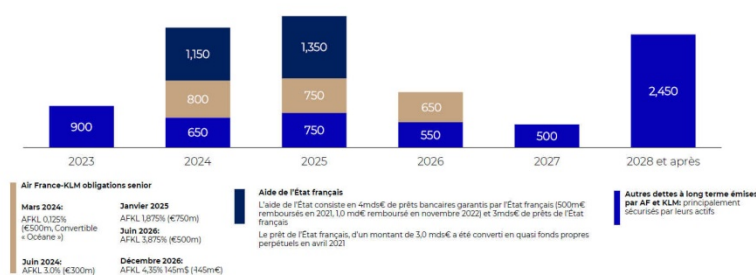
The Air France-KLM group will then be in a position to consider large-scale capital operations.

Please note: This commentary is not intended to be exhaustive.

I have not, for example, touched on the substantial headcount reductions that have affected all Air France-KLM entities, nor on state aid through long-term partial activity in France or a similar program in the Netherlands (the NOW program).

PROFIL DU REMBOURSEMENT DE LA DETTE AU 31 DÉCEMBRE 2022

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

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AIRFRANCE-KLM GROUP

My comment (2): Schematically, the French and Dutch state aid repayments were made in two ways :

- . either by using cash generated by the business
- . or by using financial instruments that will have to be repaid over a longer period and at a lower cost than the initial aid.

As stated in the Air France-KLM Group's latest press release, "This full repayment will help smooth the Group's debt profile, reduce financial costs and limit residual exposure to variable rates".

The diagram above (drawn up at the end of December 2022) clearly shows the importance of the repayments to come in 2024 and 2025.

> **Ben Smith: "We'll finally be able to manage Air France-KLM without having one hand tied behind our backs".**

(source Les Échos) February 17, 2023 - **Good news also flies by. In the case of Air France-KLM, the return to profit doubles as another eagerly-awaited event: the end of the constraints imposed by the European Commission in 2021, in return for 4.3 billion euros in state aid.**

Following lengthy discussions with representatives of the French government, the European Commission agreed on Thursday to reclassify 1.4 billion euros in state aid as a simple compensation measure for the damage suffered during the pandemic.

As a result, between the sums already reimbursed and this legal reclassification, **Air France-KLM will find itself, as of April, free of all Brussels constraints**. In particular, it will be prohibited from acquiring more than 10% of another airline until it has repaid at least 75% of the state aid.

"We'll finally be able to manage our company without having one hand behind our backs," says Air France-KLM CEO Benjamin Smith with satisfaction. "We had already repaid part of this aid, but there was still 6% to 7% to repay to reach the 75% threshold," he explains.

With the constraints now lifted, Air France-KLM will once again be able to pay the variable part of their salaries to its senior executives, as well as dividends to its shareholders - although the latter is not yet an option, given the effort still required to restore the balance sheet.

Above all, **Air France-KLM will finally be able to compete on equal terms with its rivals Lufthansa and IAG in the race for consolidation in Europe**. This competition is already well underway, with the takeover of Spain's Air Europa by IAG and Italy's ITA Airways by Lufthansa.

(...)

What will Air France-KLM do with this new-found freedom? "There are many airlines in Europe that would be of interest to us," assures its boss. The only certainty is that **ITA Airways is no longer on the list**. Even if its probable takeover by Lufthansa is not good news for Air France, for which Italy is one of Europe's main markets, Benjamin Smith doesn't seem too sorry to have let the deal go through. **"It's a file that would have been difficult to present to the Board of Directors"**, he assures us. "Air France and KLM have already lost a lot of money in two previous attempts with Alitalia," he recalls. "ITA Airways had to give up its brand and its frequent flyer program. Milan still has two airports, which makes it impossible to turn it into a hub. And since Italy gave transatlantic traffic rights to Emirates, they have become number one on Milan-New York," he continues. "As for Rome, it's mainly an import market, which makes it difficult to build customer loyalty.

On the other hand, the **Air France-KLM boss makes no secret of his interest in another privatization: that of TAP Air Portugal**, renationalized in 2020. The official process with TAP Air Portugal has just begun," he stresses. Portugal is a very interesting market for us, due to its position on the Iberian Peninsula and its strong links with Brazil, which is our leading market in South America. TAP Air Portugal flies to 11 destinations in Brazil, while we fly to just three.

Benjamin Smith's growth strategy will not be limited to external growth. **"We have a growth lever that our competitors don't have: our low-cost subsidiary Transavia,"** he assures us.

"We are in the process of doubling Transavia's fleet, which will enable us to grow organically while securing our position at Orly, where the closure of loss-making regional routes has freed up slots," he explains.

The low-cost airline, whose fleet will pass the 100-aircraft mark this year with the arrival of the first Airbus A320s, has already exceeded its pre-crisis level, with 8% more passengers than in 2019, thanks in particular to the opening of new routes to North Africa. And while Transavia is not yet profitable, it has reduced its losses by 50%, to 100 million euros, by 2022.

"It will still take some time, but with its positioning at Orly, participation in the Flying Blue frequent flyer program and a unit cost comparable to that of easyJet, Transavia has all the assets to succeed," says Ben Smith.

As for Air France, the optimization of the fleet and its utilization, combined with the reduction of staff and costs, have already given the company fresh air and prospects for the future. For the first time in the fourth quarter, the Air France group even did significantly better than KLM, with 144 million in profits compared with 2 million in losses for its Dutch cousin, even though the latter remains twice as profitable over 2022 as a whole. **The simplification of the Air France fleet, with the retirement of the A380s and the arrival of the new A350s, as well as cabin optimization and better aircraft utilization, have reduced Air France's unit costs,"** explains the CEO of Air France-KLM. For example, where we used to need one and a half aircraft to fly to Buenos Aires, now we only need one, after modifying the timetable so that the aircraft doesn't have to stay on the ground all day at its destination".

Another example of optimization: the priority given to customers on direct flights from Roissy-CDG, rather than to connecting traffic, has also improved Air France's unit revenue. Connecting passengers are less profitable," explains Ben Smith. And the potential of the Ile-de-France market is enormous."

But the main factor in improving Air France's profitability remains the vast fleet renewal plan, with the arrival of 41 Airbus A350s for long-haul and 60 Airbus A220s, replacing A318s and A319s for medium-haul, offering fuel consumption gains of 20% to 25%.

(...)

The outlook for KLM, however, is less clear-cut, given the determination of the Dutch government and its environmentalist component to impose a forced reduction in traffic **at Amsterdam-Schiphol airport. The stated aim is to reduce the number of flights to 89% of the 2019 level, in order to reduce noise pollution for local residents.** But even more than Roissy-CDG, the KLM hub needs many feeder flights to operate, given the narrowness of its domestic market.

It's very worrying," admits Benjamin Smith. **But we hope to convince the authorities that a brutal reduction in traffic is not the only way to reduce noise pollution.** We could achieve the same result by investing in new, quieter aircraft", he assures us. Yet another test of the Air France-KLM boss's negotiating skills.

My comment: "Air France-KLM is out of the tunnel", says Steven Zaat, CFO of the Franco-Dutch group.

In 2022, the Air France-KLM group exceeded expectations and returned to profit, with net income of €728 million (compared with a loss of €3.3 billion in 2021). Recurring operating income reached almost €1.2 billion (against an operating loss of over €1.6 billion in 2021). It should also be noted that the Group's operating margin for 2022, at +4.5%, is even higher than that achieved in 2019 (+4.2%).

The main piece of good news is that these good results have enabled the group to free itself from the constraints imposed by the European Commission following the aid granted by the French state.

But let's not forget that the Group's debt is still substantial.

However, the current outlook allows us to look forward to future repayments with confidence.

> **Air France-KLM posts best-ever margin**

(source Les Echos) July 28, 2023 - A clear upturn in the air. **In the second quarter, Air France-KLM doubled its net profit year-on-year to 604 million euros, and even posted a "record" operating margin of 9.6%.** With sales up 13.7% to 7.6 billion euros, the airline group benefited from sustained travel demand despite inflation, which also added to costs. Over six months, sales rose by 25.1% to 13.9 billion, and the company posted a net profit of 260 million.

These results were achieved despite seat capacity 8% lower than in 2019, before the Covid pandemic. Air France, KLM and Transavia carried 24.7 million passengers from April to June, 11% fewer than in the corresponding period four years ago.

Ticket prices have risen sharply since the health crisis began, driven by high oil prices, soaring demand and capacity constraints. **KLM** in particular, which is in litigation with the Dutch government over traffic quotas at Schiphol airport, **is still 14% below pre-Covid capacity, while Air France is only 6% behind.** But Group CEO Ben Smith has reiterated that the Group will be back to 100% capacity by next year.

Despite inflation, which is also eating into travellers' disposable income, **Air France-KLM said it was recording booking levels similar to, or even higher than, those at the same time in 2022 for the current quarter - the crucial summer period.**

This trend also applies to the end of the year. In April, **according to the Direction Générale de l'Aviation Civile, airfares in France were about 30% higher than in 2019.**

The general rise in prices has, however, begun to have an impact on the Group's unit costs, which rose by 5.6% year-on-year in the second quarter, compared with just +0.7% in the first. Air France-KLM nonetheless expects a deceleration in these costs by the end of the year, and the group has reiterated its intention to offset inflationary pressure with management measures equivalent to

savings of 3 billion to reduce its unit costs over the next three years and achieve a stable operating margin of 7-8% of sales over the medium term.

The group, which returned to profit in 2022 after losing more than 11 billion euros during the Covid-19 crisis and owing its salvation only to the intervention of the French and Dutch governments, has continued to reduce its debt. **Net debt has fallen by 1.4 billion euros since the end of December 2022, to 4.9 billion.** The Group is now less indebted than in June 2019 (5.7 billion).

The ratio of net debt to gross operating profit (Ebitda), scrutinized by investors as it reflects a company's ability to repay its creditors, has fallen to 1.2, better than forecast (1.5). The group, which wants to continue strengthening its balance sheet, also announced that it had entered into "exclusive negotiations" with the investment fund Apollo Global Management to inject 1.5 billion euros into a new subsidiary backed by the Flying Blue frequent flyer program. Looking to the future, **the Air France group has confirmed that it would like to participate this autumn in a Portuguese tender to open up the capital of TAP.** "Yes, we are interested and we are putting ourselves in a position to make an offer when the time comes," confirmed Ben Smith. Air France, on the other hand, denied any immediate interest in Corsair.

***My comment:** Initially, when the quarterly results were announced, investors punished the Air France-KLM group, believing that the rise in unit costs was worrying.*

Then they changed their minds. In the end, the share price remained virtually unchanged.

> **Apollo fund to inject 1.3 billion euros into a branch of Air France-KLM**

(source AFP) October 27, 2023 - **A new injection of funds is in the offing at Air France-KLM. The group and Apollo Global Management have agreed for the investment fund to inject 1.3 billion euros into a new subsidiary backed by the airline group's frequent flyer program.**

When the opening of "exclusive negotiations" between the two companies was announced on July 27, the sum of 1.5 billion euros was mentioned. According to an Air France-KLM press release announcing the signing of the "definitive agreement", this remains a possibility at Apollo's initiative "prior to the finalization of the transaction", scheduled for the end of the year.

The new entity formed "will own the brand and the majority of contracts with commercial partners linked to the joint Air France-KLM frequent flyer program (Flying Blue). The latter will become the sole issuer of miles for airlines and partners", explains the Franco-Dutch company in a press release.

In this way, the group aims to "take a further step in its commitment to restore

its shareholders' equity", which has been negative since the beginning of the health crisis. Apollo's investment will take the form of a subscription to perpetual bonds, treated as equity.

Using the same financial instruments, the American fund had already twice injected 500 million euros into Air France-KLM subsidiaries, the first in July 2022 into a branch owning a fleet of spare engines, and the second a year later into Air France's engineering and maintenance components (MRO) business.

According to Air France-KLM, **"the agreed structure will not entail any changes for Flying Blue members, nor any changes in the social aspects or contracts of Air France, KLM or Air France-KLM employees"**. In addition, **"Air France-KLM will continue to manage and operate its frequent flyer program, and Air France and KLM will retain full ownership rights to their customer database"**, which numbers over 19 million.

(...)

Saved from bankruptcy by the intervention of the French and Dutch governments and twice recapitalized, Air France-KLM is seeking to restore its equity and reduce its debt, which still stood at 4.9 billion euros at the end of June.

My comment: This is the third such deal between the Apollo fund and Air France-KLM in 18 months.

In all, Apollo Global Management will have invested 2.3 billion euros in capital, which will earn it between 6% and 7% annually.

After the initial period (3 or 4 years, depending on the transaction), if Air France-KLM does not repay Apollo, the rates rise progressively until they reach a ceiling about which Air France-KLM does not communicate.

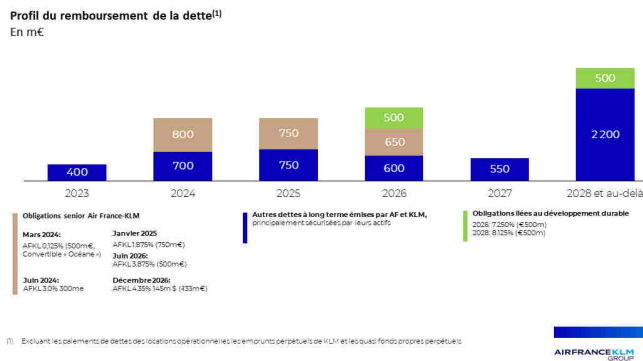
The Air France-KLM group will therefore have to pay Apollo around 150 million in interest each year.

It will also have to repay the 2.3 billion euros of capital after three or four years, failing which interest rates will rise.

This capital is considered quasi-equity. It has enabled the Air France-KLM group to repay part of its Covid debt.

This quasi-equity is in addition to the debts shown in the graph below (taken from the Air France-KLM website).

PROFIL DE REMBOURSEMENT DE LA DETTE AU 30 JUIN 2023



Note:

Quasi-equity is debt that is ultimately repayable in the event of bankruptcy. They are accounted for as debt, but in financial terms are analyzed as equity. (source: lafinancepourtous).

This is capital which, although repayable, is not repayable on a specific date and includes an element of remuneration.

> No narrowing of Schiphol in 2024 or later: Brussels wants alternatives first

(source Luchtvaart nieuws, translated with DeepL) November 15, 2023 - **The European Commission will most likely also reject the notification of the Ministry of Infrastructure and Water Management (I&W) on the balanced approach procedure at the end of this year. This procedure is necessary so that Schiphol can reduce its traffic to a maximum of 452,000 aircraft movements from 2025.**

Brussels insiders told Aviation News on Wednesday, on the sidelines of the IATA conference in Amsterdam. **The balanced approach means that all other means of reducing noise and nuisance for Schiphol's local residents** must first be used before forced slot reductions can be implemented for environmental reasons. KLM, among others, explained how this could be done, for example by investing in a modern, quieter fleet, smarter approach and departure procedures, optimal runway utilization, operational adjustments and by sparing the night as much as possible. This would also reduce noise pollution by 20% over the next few years, a target set by outgoing Transport Minister Mark Harbers.

With this new balanced approach procedure, **the Minister for Infrastructure and Water Management (I&W) will once again cause a stir in Brussels after having cancelled his controversial experimental project for the first narrowing in 2024** under massive pressure from the European Commission and the US Department of Transportation.

The latter had threatened to retaliate against KLM in the US for cancelling historic

US slots at Schiphol and banning newcomer JetBlue in violation of the Open Skies agreement. "This triggered tensions that the Dutch government underestimated," said a political source who wished to remain anonymous.

(...)

The day after the IATA meeting, we heard everywhere: "A disgrace for the Netherlands". According to the aviation lawyers present, people often forget that the current upper limit of 500,000 take-offs and landings at Schiphol has been approved by three governments and parliaments, and is considered current legislation in Brussels. "So it's not possible to get rid of it so easily from a political point of view.

The aviation industry is both pleased and angry with Schiphol's response. **Schiphol management says it is disappointed by the postponement of the narrowing, as local residents are not the big winners in the deal.** "Many things are now unclear and uncertain, whereas it is really necessary for the nuisance for local residents to decrease. The need for a night-time closure is greater than ever", said the airport.

The airport, whose airlines are customers, should at least mention the industry's efforts and billions of investments to fly cleaner, quieter and more economically, and reduce noise and pollution.

(...)

My comment: *According to the Dutch press, Dutch Transport Minister Harbers "has been severely reprimanded by the European Union for the botched job he has done".*

The European Commissioner for Transport expressed his "serious concerns" about the "failure to respect the balanced approach procedure". Brussels also threatened to launch infringement proceedings against Mr. Harbers "for what it considers to be a failure to comply with European regulations".

If only the Schiphol 2024 activity reduction project was rejected, it is likely that the same will be true for the 2025 version.

This is obviously very good news for KLM, as we await the response from the management of Schiphol, Amsterdam's airport.

In recent months, Schiphol's management had hinted that, come what may, it would not have the manpower to handle more than 470,000 flights in 2024, which is just another way of ignoring Brussels' opinion.

> Schiphol airport can handle 483,000 flights by 2024, including 13,000 more in summer

(source Nltimes, translated with DeepL) December 21, 2023 - **Schiphol Airport announced on Thursday that it can handle 293,000 flights for the 2024 summer season, 13,000 more than previously announced. For the full year 2024, Schiphol has the capacity to handle 483,000 flights.** This means that the previous reduction of

460,000 flights is no longer applicable.

The firm wanted Schiphol to reduce the maximum number of flight movements from 500,000 to 460,000 from April onwards. The aim of the measure was to reduce noise pollution around the airport, as Schiphol has been exceeding the limits of its environmental permits for years.

The aviation industry has expressed its dissatisfaction with the plan.

(...)

The outgoing Minister for Infrastructure, Mark Harbers, suspended the project in November after strong criticism from the airline industry, the United States and the European Union.

On Thursday, the airport announced that it could handle 483,000 flights by 2024 if airlines could ease the burden of peak times. According to the airport, the past few weeks have shown that a limited reduction is needed at peak times to enable safe and stable operations.

(...)

According to the airport, **the airlines are committed to contributing to this effort.**

KLM said it was satisfied with the capacity plan. "This will enable KLM to continue its recovery from the severe coronavirus period," the airline said in a statement.

My comment: *The horizon is brightening for the Air France-KLM group at Schiphol.*

However, we need to remain cautious, as the workforce will be under pressure next summer. The slightest hiccup could disrupt business.

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

(source Les Echos) April 18, 2023 - With the Covid shock behind it, **Air France-KLM intends to put its finances on a sounder footing.** The Franco-Dutch group has signed revolving credit lines worth 2.2 billion euros, indexed to sustainable development objectives, it announced on Tuesday.

Part of these instruments will replace a direct loan granted to KLM by the Dutch state, 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 release the airline from the conditions laid down by Brussels to qualify for 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 €1.2 billion revolving credit line, with an initial maturity of 2026, with a pool of "15 international banks".**

KLM, for its part, has signed a €1 billion credit line, maturing in 2027, with 14

banks.

"For each line of credit, **a set of sustainable development performance indicators has been integrated into the cost of financing**", the Group points out. This is in line with "the commitment of Air France-KLM and its airlines to [...] the gradual decarbonization of their activities".

The two credit lines include "a credit margin adjustment mechanism (upwards or downwards) conditional on the achievement of each of these performance indicators". These include reducing unit CO2 emissions, and increasing the proportion of sustainable aviation fuel.

(...)

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

The Covid state aid has now been paid off, but Air France-KLM remains heavily indebted, to the tune of €16 billion by 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, Environmental, Social and Governance (ESG) criteria are 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.

> **Historic European agreement on sustainable aviation fuels**

(source Les Echos) April 26, 2023 - This time, it's done! Following the failure of an initial dialogue in December, **representatives of the European Commission, the Council of the European Union and the European Parliament have finally reached agreement on the** centerpiece of Europe's plan to decarbonize air transport. Namely, **the rules governing the use of sustainable aviation fuels**

(SAF), considered to be the main tool for reducing CO2 emissions.

The text adopted overnight, which still has to be ratified by the Council and Parliament, is even more ambitious than the Commission's initial proposal. This seems to satisfy both environmental organizations and airlines, who found the first draft insufficient. **"This pioneering agreement provides unwavering support for the world's largest mandate for sustainable aviation fuels," stresses Matteo Mirolo, head of sustainable aviation fuels at the European NGO Transports & Environnement, which has worked extensively on this issue.** "They give airlines the certainty that sustainable fuels, and **e-kerosene in particular**, will gradually become cheaper and more widely available."

The future regulation has increased the minimum percentage of fuel of non-fossil origin that should be incorporated into kerosene. This incorporation rate will start at 2% per year from 2025, then rise to 6% in 2030, 20% in 2035, 34% in 2040, 42% in 2045, rising to 70% by 2050, the date by which air transport is committed to carbon neutrality.

The triologue also increased the share of synthetic fuels, produced from hydrogen, which are more ecologically virtuous than fuels produced from vegetable or organic matter. They will have to account for 1.2% on average per year between 2030 and 2031, then 2% in 2032 and 2035, 5% from 2035 to 2040, 10% from 2040 to 2045, 15% from 2045 to 2050 and 35% from 2050 onwards.

These percentages may seem low, but they are considerably higher than the 0.7% initially proposed by the Commission between 2030 and 2034. And they will require a considerable effort on the part of fuel producers to achieve the necessary quantities, given that the quantity of ADC is still very inadequate.

World ADC production in 2022 will be around 125 million tonnes, so 350 to 450 million tonnes will be needed to cover air transport needs by 2030. In Europe alone, nearly 4 million tonnes of ADC will be needed annually by 2030, requiring the construction of some 30 production sites.

This also represents a financial effort for airlines, given that ADCs are on average four times more expensive than conventional kerosene. According to the A4E association of European airlines, annual expenditure on sustainable fuels in Europe will reach 20 billion euros by 2030.

(...)

The agreement also removed a number of obstacles that could have made these targets unattainable. **The negotiators endorsed the idea that the hydrogen needed to produce synthetic fuels could be produced with either nuclear or renewable electricity.** At the previous triologue in December 2022, anti-nuclear representatives scuppered the agreement by demanding that nuclear hydrogen be excluded from the scope of sustainable aviation fuels. Given the huge amount of decarbonized electrical energy needed to produce the quantities of hydrogen requested, this was tantamount to torpedoing the plan to decarbonize air transport in

advance. In the same spirit of realism, **the negotiators also rejected the idea of limiting the quantity of biofuels produced from animal fats and used cooking oils.** This would also have made the targets more difficult to achieve. The text sticks to the guarantees initially envisaged, **prohibiting the use of raw materials likely to compete with agri-food production or deemed too harmful for the environment, such as palm oil.**

All in all, the European bill is the most ambitious in the world when it comes to ADC production, and the most restrictive when it comes to authorized raw materials. It is also the first to take account of greenhouse gas emissions other than CO₂, notably by paving the way for regulations on aromatic fuel additives, which are major contributors to emissions. As the icing on the cake, an "ecolabel" will also be created, to inform passengers of the environmental performance of their flight.

On the other hand, the draft regulation remains above all coercive, based on obligations and fines for those who fail to meet them, and it **still largely overlooks any incentive measures** likely to help airlines finance their energy transition. This could result in a **further loss of competitiveness for European airlines, particularly in the face of their competitors across the Atlantic,** who benefit from government subsidies for the purchase of sustainable fuel. **But it could also lead to a sharp rise in air fares, limiting travel opportunities for the less fortunate.**

***My comment:** This agreement is a step in the right direction, but there's still a long way to go.*

One of my interlocutors recently pointed out to me why the United States will produce sustainable aviation fuel faster than the Europeans.

In Europe, to get support for sustainable fuel production, you have to go through a never-ending administrative procedure.

In the United States, there's nothing like that. For every tonne of sustainable fuel produced, you automatically receive a flat-rate subsidy.

> Air France-KLM successfully completes its first worldwide employee share ownership plan

(source Les Echos) December 21, 2023 - Air France-KLM's trendy end-of-year gift was a share in the company. **Nearly 17,000 group employees in 19 countries took part in Air France-KLM's capital increase,** which closed on Thursday. This represents a subscription rate of around 22%, for an average amount of 2,100 euros per subscriber, excluding employer's contribution, **bringing to 3.3% the share of Air France-KLM capital held by its employees,** for an amount of over 46 million euros.

While these figures may seem modest, they nonetheless place Air France-KLM in the mid-range of CAC 40 companies, and constitute a first at Group level.

In the past, Air France and KLM had already launched employee shareholding plans on their own. But **this was the first time that Air France-KLM had launched a worldwide operation, open to all staff of entities with over 100 employees** (i.e. some 75,000 eligible employees) in the 19 countries where the group operates.

The terms and conditions on offer were quite attractive. With a subscription price set at 8.06 euros per share, the operation offered a 30% discount - the legal maximum - on the average AF-KLM share price between October 10 and November 6. In addition to this discount, the company offered a matching contribution of up to 750 euros gross (excluding CSG) for the first 1,000 euros of shares purchased.

Any Air France-KLM employee could thus obtain 1,000 euros' worth of shares against a salary deduction of just 80 euros. The most responsive were Air France-KLM employees in Germany, where the subscription rate was close to 40%, compared with 26.4% in France and 14% in the Netherlands. The difference between France and the Netherlands can be explained by the Dutch tax system, which is less favorable to employee share ownership than in France.

The main aim of the operation for Air France-KLM was not so much to raise additional funds - the 46 million euros raised are a small amount compared with the billions raised by Air France-KLM in its previous capital operations - but rather **to restore employee shareholding, diluted by the last two capital increases.**

From 3.7% on December 31, 2021, this participation had fallen to 1.2%, calling into question the presence of two employee shareholder representatives on the Board of Directors.

Thanks to this capital increase reserved for employees, employee representatives will retain two seats on the Board, one for pilots and the other for cabin crew and ground staff. They will therefore remain involved in strategic decision-making.

This employee shareholding is also intended to provide an additional incentive, over and above profit-sharing, for the company's success.

"By offering our employees the opportunity to become Air France-KLM shareholders, we want to involve them closely in our Group's collective performance and share in the creation of value over the long term," explains Air France-KLM CEO Benjamin Smith in a press release. The high level of employee participation testifies to their confidence and commitment, as well as their desire to contribute to our future success."

The only drawback concerning the financial interest of the operation is that

beneficiaries of the employee share ownership plan will not be able to resell their shares for five years. Hopefully, the share price will have taken off by then. Over the last five years - which were admittedly particularly difficult - the Air France share price has tended to follow the opposite trajectory. **As for dividends, Air France-KLM has not distributed any to its valued shareholders for some ten years.** And although the group is once again generating record profits, no date has been set for the resumption of dividend payments, as the priority is to reduce debt.

***My comment:** Several of us on the Air France-KLM Board of Directors have worked hard to ensure that employees and certain former employees - those who had held shares in employee shareholding funds - could obtain shares in the Group at a preferential rate.*

The entry of employees from all over the Group into the capital of Air France-KLM is a welcome innovation.

It should be noted that crossing the 2% employee shareholding threshold secures the presence of your two directors representing employee shareholders.

End of press review

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

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| François Robardet

former Director of Air France-KLM.

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

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