Air France-KLM SLBs 2025 observation

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Air France-KLM (ticker AFFP), is a French-Dutch airline holding company, one of the largest in Europe. Its three largest brands are Air France, KLM and Transavia, and it has reportedly made a deal to acquire SAS.[1] Airlines are considered a hard-to-abate sector, making labelled debt which can support emissions reduction potentially impactful.

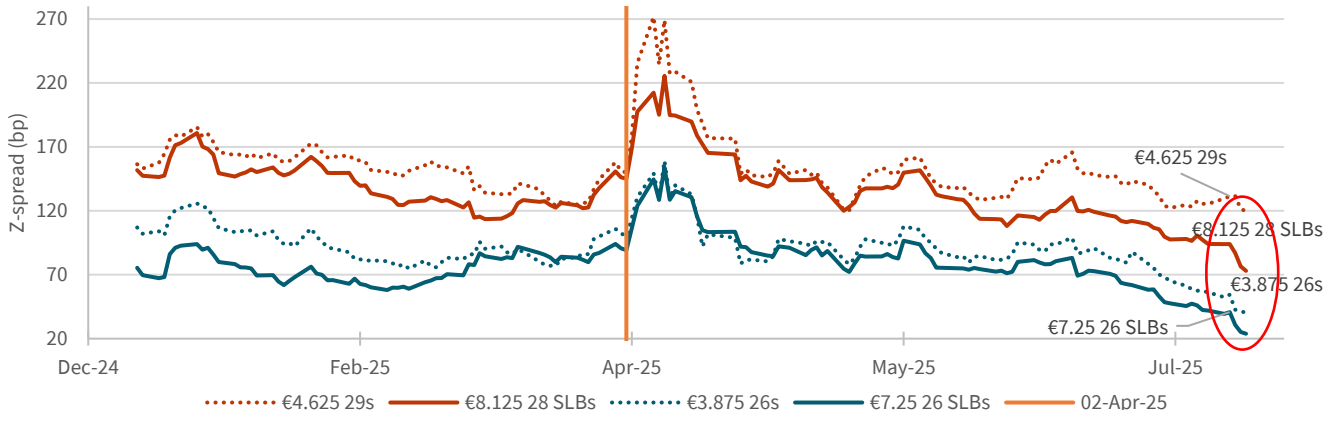
The group has two Sustainabilitity-Linked Bonds (SLBs), 7.25% 26s and 8.125% 28s with Sustainability Performance Target (SPTs) observation dates at the end of 2025. The target is to reduce the group's "well-to-wake" Scope 1 + 3 emissions intensity by 10% relative to a 2019 baseline.[2] If this is not achieved, the 26s will pay a 0.75% payment at maturity and the 28s will have a coupon step-up of 37.5bps for the last two years.

The latest group reporting, released in Apr 2025, shows that progress towards the SPT is limited. Since 2019, emissions intensity has decreased by only 3%.[2] Key drivers of emissions intensity reduction, namely the use of sustainable aviation fuel (SAF) and fleet renewal, have achieved limited progress this year. Additionally, the company has said "geopolitical circumstances" are increasing flight times, which are offsetting the reductions made by these key drivers.

Because of these factors, we classify the SLBs as likely MISS.[3] In the paper we illustrate a 75% probability of the SPTs not being achieved in turn implying a running SLB option value of 64.6bps for the 26s and 19.4bps for the 28s.

Market pricing of the bonds show that the SLBs currently trade tighter than comparable vanilla debt. Furthermore, in the aftermath of President Trump's tariff "Liberation Day" and KLM's reporting, which both occurred in early April, spread moves for the SLBs, especially the 28s, were more contained than was the case for vanilla debt.

Figure 1: AFFP bond historical pricing. Source: AFII, Bloomberg, accessed 25 Jul 2025.



[1] "Air France-KLM to take majority stake in Scandinavian Airlines", FT, 4 Jul 2025.
[2] "2024 UNIVERSAL REGISTRATION DOCUMENT", Air France-KLM, 3 Apr 2025.
[3] For earlier analysis, including the classification methodology, please see "SLBs: a summary of 2024 targets", AFII, 9 July 2024.

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Air France-KLM SLBs

Air France-KLM has two SLBs outstanding, 26s and 28s. The SPT calls for a 10% reduction of Scope 1+3 greenhouse gas emissions intensity from direct activities and fuel production. It has an observation date at the end of 2025.[4,5] If the SPT is missed, the 26s will pay an additional 0.75% payment at maturity and the 28s a 37.5bps step-up paid annually over the last two years.

The SPT encompasses 93% of the company's total emissions. The emissions intensity Key Performance Indicator (KPI) is measured in metric tons of CO_2 equivalent per Revenue Ton-kilometer (gCO_2e/RTK), a unit of measurement commonly used by airlines.[6] Indeed, Etihad Airways uses the same singular KPI in its sustainability-linked financing framework with the same units of measurement.[7]

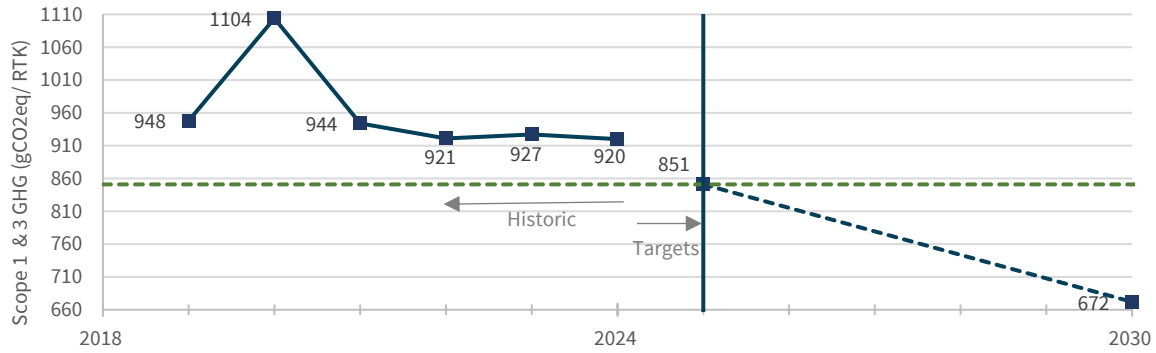
KPI Progress

Air France-KLM has reported the emission intensity KPI for its SLBs since 2019. The latest figures from the 2024 Universal Registration Document provide information on the trajectory of the KPI to the end of last year.

It should be noted that in this latest report, Air France-KLM published two figures for the KPI: one using a new methodology, and another using the same methodology from prior years. The new methodology calculates emissions intensity aligned more with SBTi (Science Based Targets Initiative) recommendations, but does not impact the SLB and their SPT.[8]

Figure 2: Air France-KLM historical and target emissions intensity figures old methodology. Source: Air France-KLM. Figure 2 shows historical KPI data, revealing a 3% emissions intensity reduction

Figure 2: Air France-KLM historical and target emissions intensity figures old methodology. Source: Air France-KLM.



since 2019. To meet the SPT, the group would need an emissions intensity reduction of 7.5% this year alone.

Drivers of the KPI

The group's Sustainability-Linked Financing Framework (SLFF) describes sustainable aviation fuel (SAF) use, fleet renewal, and fuel consumption efficiencies as drivers of emissions intensity reduction.[6]

[4] "Final Terms sustainability linked bonds- Tranche 2- 31 May 2028", Air France-KLM, Jan 2023.
[5] "Final Terms sustainability linked bonds- Tranche 1- 31 May 2026", Air France-KLM, Jan 2023.
[6] "SUSTAINABILITY-LINKED FINANCING FRAMEWORK", Air France-KLM, 5 Dec 2022.
[7] "SECOND PARTY OPINION on Etihad Airways' Sustainability-Linked Financing Framework", Moody's, 2020.
[8] See Appendix 1 for details on Air France-KLMs methodology change for calculating emissions intensity.

Air France-KLM reports progress towards SAF uptake and fleet renewal by measuring the Share of SAF (%) and Share of New Generation Aircraft (%) on an annual basis. Analysing progress on these KPIs could inform progress towards the SLB SPT.

It should be noted, however, that the effectiveness of these drivers depends on all else being equal, including a stable geopolitical and macroeconomic context.

SAF Share

Air France-KLM aims for SAF to account for 10% share of its aircraft fuel usage by 2030. However, progress towards this goal has been very limited, as shown in Appendix 2: Share of SAF (%) since 2019. In 2024, the group used 0.103 million tons of SAF, representing only 1.25% of total fuel consumption.[9]

According to Air France-KLM, SAF has the potential to reduce fuel life cycle CO_2 emissions by between 75-90% relative to traditional fuels.[10] This implies that every 1% increase in SAF use could reduce emissions by 0.75-0.9%.

The group is taking steps to increase its use of SAF and has made deals for 3.25 million tons with different suppliers as shown in Appendix 3: SAF future supply.

Averaging the contracted supply volumes over their delivery periods for agreements running through 2025 suggests an estimated 0.2 million tons of SAF will be available this year. Assuming fuel consumption remains the same, and no new deals are signed, this represents a 0.1 million ton increase in SAF consumption, for an estimated 1.36% share of SAF in 2025. This translates to a 0.11% increase, less than the 0.15% increase from 2023 to 2024.

Share of new generation aircraft

Air France-KLM has made better progress growing the share of its fleet made up of new generation aircraft, with a 22.7% increase from 2019, as shown in Appendix 4: Share of new generation aircraft.

At year-end 2024, Air France-KLM had 574 planes, of which 564 were in service and 153 were considered new generation, making for a 26.9% share.[11] New generation planes are more fuel efficient, and can reduce CO_2 emissions per passenger-kilometre by up to 25%.[12]

Air France-KLM publishes the delivery calendar of its new planes. There are 32 new generation models scheduled to be delivered by the end of 2025.[13] Assuming all new planes are delivered on time, and there are no new orders, this would mean 185 new generation aircraft would be in service by the end of 2025. Assuming the same total number of planes in service, this would increase the share of new generation aircraft to 32.8%, a 6% increase year-on-year, the same as between 2023 and 2024.

Given that the SPT will be measuring emissions across the whole of 2025, the emissions-reducing impact of new generation aircraft will be greater the sooner these planes are phased in. As of the latest reporting from Apr 30, Air France-KLM has phased out three aircraft and phased in nine new

[9] Pg 239, "2024 UNIVERSAL REGISTRATION DOCUMENT", Air France-KLM, 3 Apr 2025.
[10] Ibid, pg 25.
[11] Ibid, pg 55.
[12] Ibid, pg 3.
[13] Ibid pg 468.

models.[14] There is limited time in which the 23 new generation planes can be phased in, and older models phased out, such that they can contribute meaningfully to the SPT.

Geopolitical context

In its 2024 reporting, Air France-KLM cites "geopolitical circumstances", namely geopolitical conflicts constraining airspace, for the limited progress towards its SLB SPT, as these have caused flight times to be longer, resulting in higher fuel consumption.[2]

If geopolitical circumstances remain the same or deteriorate, they could lengthen flight times further and increase fuel consumption even more, slowing progress to the SPT.

Since the KPI is measured annually and the geopolitical circumstances that have increased flight times and fuel consumption remain unresolved halfway through 2025, the extent to which any improvements could support progress toward the SPT are limited.

Summary

Given the slow progress in increasing the share of SAF in previous years, the limited uptake of new generation aircraft, and the lack of resolution on geopolitical circumstances affecting fuel consumption so far this year, we classify these bonds as likely MISS.

We will therefore use an indicative 75% probability of missing the target in our pricing analysis.

Option Pricing Analysis

The option value of an SLB depends on the materiality of the coupon step-up and the probability of the target being missed.[15]

The Air France-KLM 26s pay a 0.75% payment at maturity whilst the 28s pay a 37.5bps step-up annually over the last two years. Both structures pay the same non-discounted total of 0.75% if the SPT is missed, and as the bonds share the same SPT, the probability of triggering the payments is identical.

However, the running option values of the bonds differ due to payment structure and duration. For the 26s, the total discounted value is 0.73%. For the 28s it is lower, 0.71%, due to the step-up coupons being received further in the future.

Using an illustrative example of a 75% probability that the bonds miss their targets, these values translate into a running option value of 64.6bps for the 26s and 19.4bps for the 28s.[16]

Market Pricing

Currently, Air France-KLM has seven bonds outstanding, including two perpetuals and two SLBs shown in Table 1 (overleaf). All of the bonds are EUR-denominated except for the $4.3 26s, which are USD-denominated.

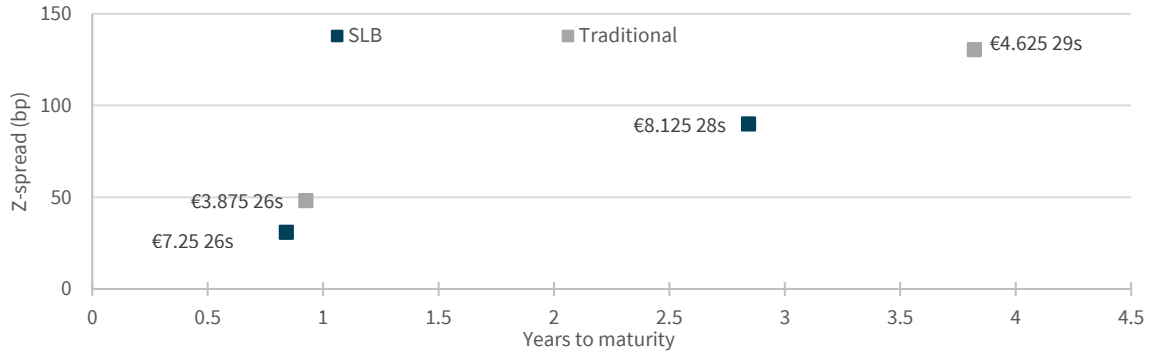
[14] Pg 5 "2025 Q1 PRESS RELEASE", Air France-KLM, 30 Apr 2025.
[15] For more background on SLB option pricing see "Sustainability-Linked Bond Handbook", AFII, 2024.
[16] For the 26s we have distributed a 0.75% upfront payment at maturity over the remaining 0.85 years of the bond accrual, so the rough calculation is 0.73% * 75% / 0.85 = 64bps. This running spread value will increase as the bond's maturity approaches, and may make the spread pricing of the bond volatile.

Table 1: Air France-KLM outstanding bonds. Source: Bloomberg, accessed 11 Jul 2025.

Description	ISIN	Issue Date	Maturity	Currency	Amount Outstanding	ESG Label
€5.75 PERP	FR001400ZKL2	21-May-25	N/A	EUR	500,000,000	
€4.625 29s	FR001400Q6Z9	23-May-24	23-May-29	EUR	650,000,000	
€3.875 26s	FR0014004AF5	01-Jul-21	01-Jul-26	EUR	282,100,000	
€8.125 28s	FR001400F2R8	16-Jan-23	31-May-28	EUR	500,000,000	SLB
€6.5 PERP	FR001400DU47	23-Nov-22	N/A	EUR	305,300,000	
€7.25 26s	FR001400F2Q0	16-Jan-23	31-May-26	EUR	500,000,000	SLB
$4.3 26s	FR0013224466	15-Dec-16	15-Dec-26	USD	145,000,000	

Figure 3 shows the current market pricing of all Air France-KLM non-perpetual bonds in EUR. Currently, the €7.25 26 SLBs price roughly 20bps tighter than the €3.875 26s and, though less comparable due to the gap in maturities and cash prices, the €8.125 28s price 40bps tighter than the 29s. It is important to note that the coupons of the analysed bonds and therefore cash prices differ, which can have an impact on spreads.

Figure 3: AFFP bond z-spreads. Source: AFII, Bloomberg, accessed 25 Jul 2025.



Looking at historical spreads of these same bonds in Figure 1 (overleaf), we see that the SLBs have generally priced below similar vanilla debt. Since the announcement of "Liberation Day" on Apr 2 and publication of KLM's reporting on Apr 3, the SLBs have traded tighter than comparable vanilla debt and are currently at the tightest spreads since Dec 2024. This suggests that the SLBs, which are also high yield, are showing more resilience than similar vanilla debt.[17]

Conclusion

Air France-KLM has two outstanding SLBs that share an SPT linked to reducing emissions intensity by 10%. The target is observed at the end of 2025 and we rank the bonds as likely MISS.

Using a 75% probability of the SPT being missed, the SLB running option value is 64.6bps for the 2026s and 19.4bps for the 2028s. These values are significant relative to the bonds' payment at maturity or step-up if the SPT is missed.

Historical pricing implies that the SLBs showed more resilience than comparable vanilla bonds in the aftermath of "Liberation Day" and Air France-KLM reporting.

[17] For more analysis on the performance of labelled debt post "Liberation Day", please see "Green bond comeback: one month after 'Liberation Day'", AFII, May 20 2025.

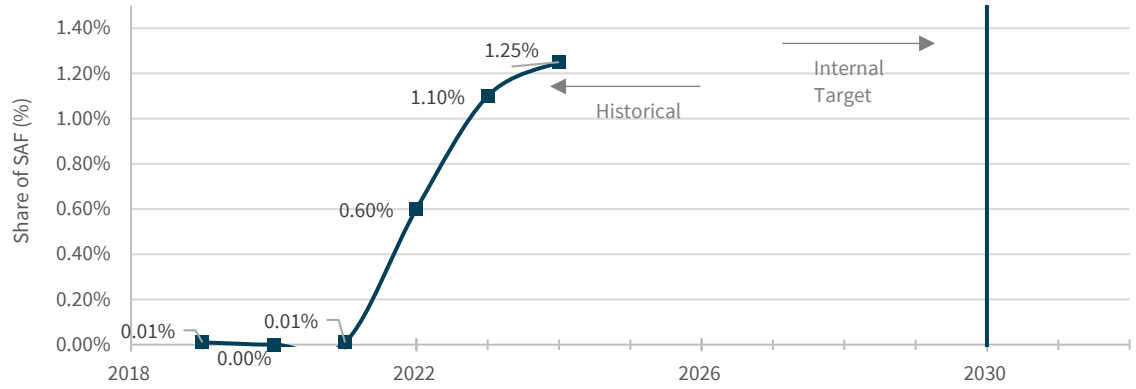
Appendix 1: Changes to emissions intensity calculation methodology

In 2024, Air France-KLM changed its methodology for calculating emissions intensity to align more closely with SBTi recommendations. This means that the 2019 value now stands at 957 gCO_2eq/RTK instead of 948. Data using the old methodology was also included in the latest reporting, giving a 2024 value of 920 gCO_2eq/RTK.

According to the base prospectus, changing the baseline against which the SPT is calculated will only impact the SLB if a recalculation event is deemed to have occurred. If a recalculation event takes place, bondholders will be informed. We see no evidence that such an event has occurred, either on Euronext Paris, where the bonds are listed, Bloomberg, or the Air France-KLM website.

Appendix 2: Share of SAF (%) since 2019

Figure 4: Air France-KLM historical and target share of SAF figures. Source: Air France-KLM.



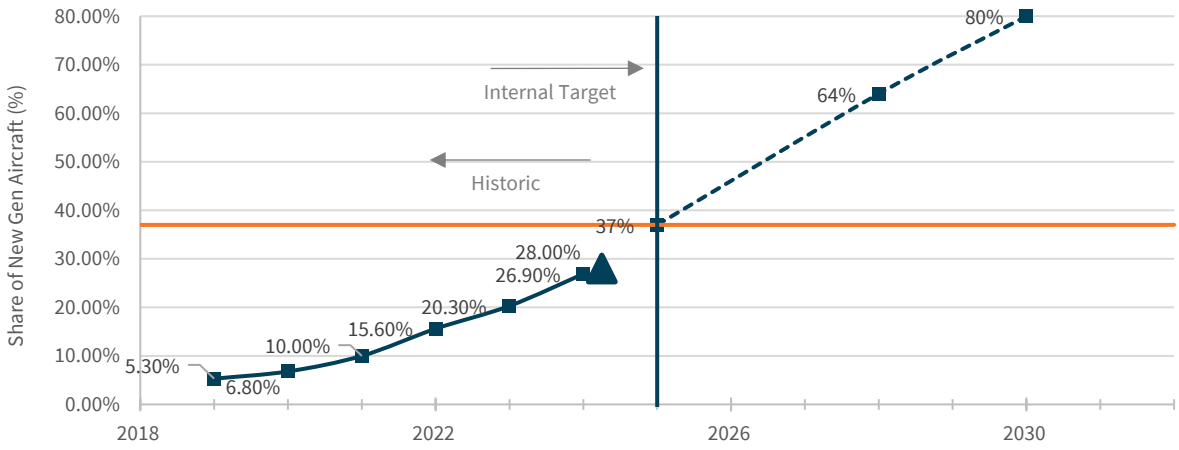
Appendix 3: SAF future supply

Table 2: Air France-KLM SAF supply figures. Source: Air France-KLM.

Supplier	Volume (million tons)	Period
Neste	0.4	2025–2030
TotalEnergies	1.5	2025–2035
DG Fuels	0.6	2027–2036
SkyNRG	0.75	2027–2037
DG Fuels	0.075	2029-undisclosed

Appendix 4: Share of new generation aircraft

Figure 5: Air France-KLM historical and target share of new generation aircraft. Source: Air France-KLM .



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