Air France bonds slow to digest SLB target miss

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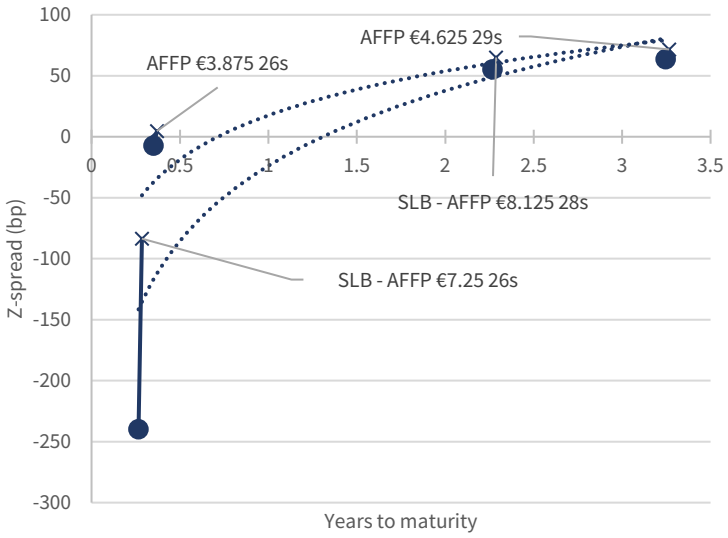
Air France-KLM (ticker AFFP) has two Sustainability-Linked Bonds (SLBs) outstanding, that reference a 10% reduction in Scope 1+3 GHG emissions intensity from 2019 to the end of 2025.[1,2] On 19 Feb 2026 the company announced that this target had been missed,[3] citing both supply delays in fleet renewal, and longer flights times due to geopolitical circumstances.

This results in an addional 0.75% premium payment at maturity on the 7.5% 26s and an increase of 0.375% to the final two annual coupons on the 8.125% 28s.

In terms of pricing, Figure 3 in the Appendix illustrates AFII's hypothetical pricing journey for SLBs, and these two bonds are in 'phase 2'; the miss is confirmed but there has been no adjustment in the bond structure in Bloomberg (at time of writing).

Figure 1 shows spread moves for AFFP's four shortest bonds in the past week. The vanilla 3.875% 26s and 4.625% 29s are roughly unchanges, as are the SLB 8.125% 28s. The SLB 7.25% 26s however has rallied 150bp, although it matures in a little over three months at the end of May 2026, so this can makes the spread calculations less appropriate for analysis. Nevertheless it is noteworthy that only this bond has reacted to the announcement so far.

Figure 1. AFFP spread moves from 16 Feb 2026 (crosses) to 23 Feb 2026 (circles). Source: Bloomberg Finance L.P., accessed 23 Feb 2026.



Historic price moves are illustrated in Figure 2 overleaf, showing the 2028 maturity SLB have been underperforming in the past 6 months, potentially reversing our conclusion in August that the bonds were pricing some chance of the target being missed. This would support a conclusion that the bonds are not yet pricing their increased payments due to target misses.

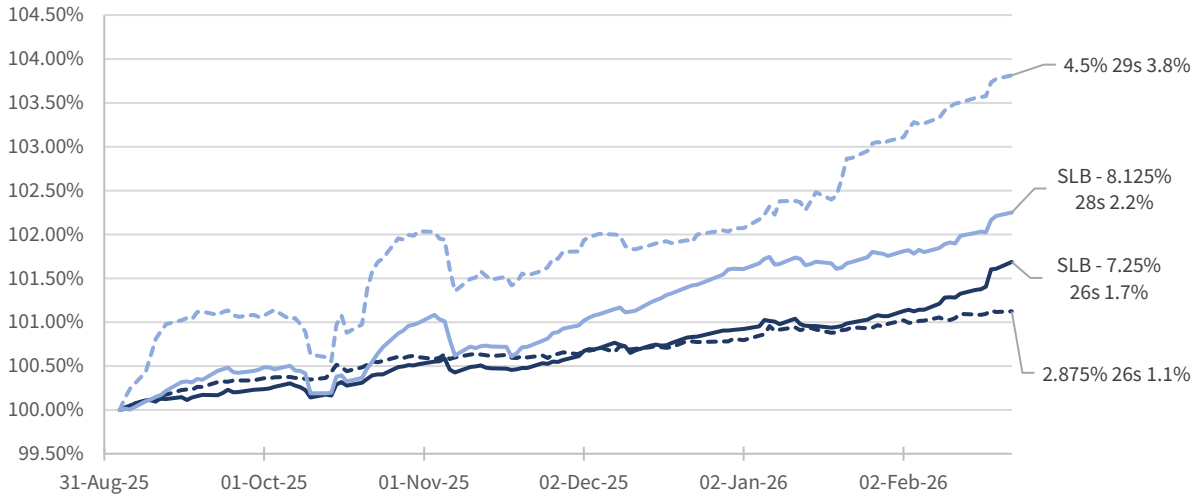
The 2026s have outperformed c0.2% in recent days, however the bond is due to receive an increased premium payment of 0.75%. The 2028s will now receive a step-up coupon worth c32bp in running terms, which does not yet appear reflected in market pricing.

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[1] "Final Terms sustainability linked bonds- Tranche 1- 31 May 2026", Air France-KLM, Jan 2023 and "Final Terms sustainability linked bonds- Tranche 2- 31 May 2028", Air France-KLM, Jan 2023.
[2] For our earlier analysis of the bond please see "Air France-KLM SLBs 2025 observation", AFII, 5 Aug 2025.
[3] Pg 74 "Consolidated Financial Statement 2025", Air France-KLM, 18 Feb 2026.

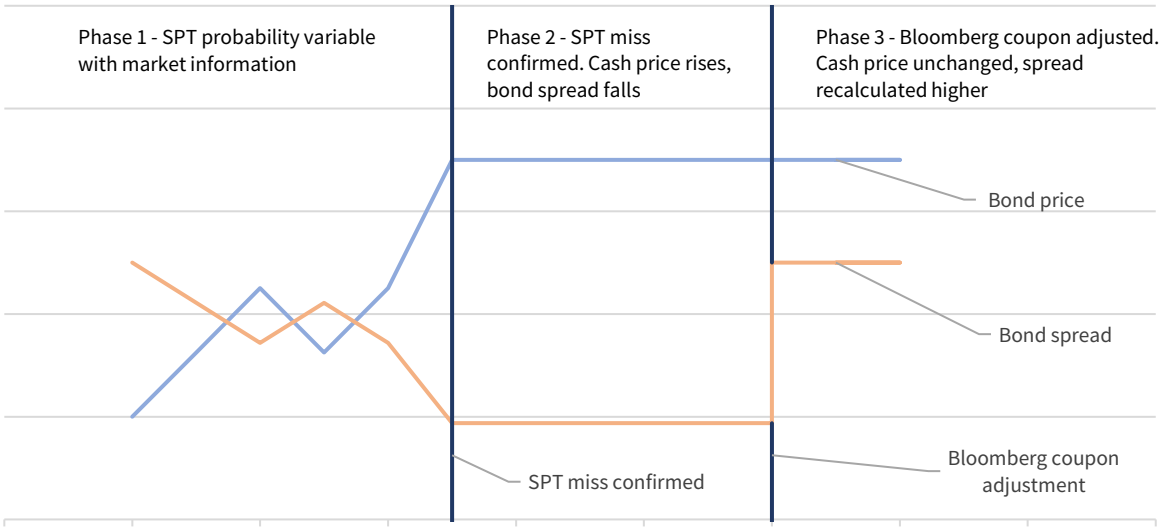
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Figure 2. AFFP historic prices normalised from 3 Sep 2025 including carry. Source: Bloomberg Finance L.P., AFII, accessed 23 Feb 2026.



Appendix

Figure 3. Hypothetical pricing journey of an SLB missing its target. Source: AFII.



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