

Transform 2015 progress report: Presentation of the strategic business project

In line with the initial schedule, Alexandre de Juniac, Chairman and CEO of Air France, today presented Air France's strategic business project to the Central Works Council and Company executives as part of a progress report of the Transform 2015 plan. This project aims to regain competitiveness and reposition products and customer service at a leading global level.

Air France has chosen to maintain the outline of its scope of activity, which implies, given the Company's financial situation, a 20% increase in productivity and economic efficiency. Air France aims to regain profitability, giving rise to a return to growth.

This project is part of Air France KLM's recovery plan, where both airlines are implementing transformation measures to ensure a rapid return to breakeven.

Air France's strategic business project, the result of the work of seven project groups, is divided into five main areas:

1 – Restructure short and medium-haul operations

To regain its competitiveness, the Air France Group's short and medium-haul activity, currently loss-making, will be restructured around three complementary business units: Air France, the French regional network and Transavia France.

- Air France's own short and medium-haul operations will include flights feeding long-haul services at Paris-Charles de Gaulle hub, routes with a high proportion of business travellers in France and Europe as well as flights from the bases in Marseille, Toulouse and Nice.
- The French regional network will include Regional, Britair and Airlinair. These airlines will operate flights to the Paris-Charles de Gaulle hub on behalf of Air France, as well as point to point flights from Paris-Orly and the domestic network, excluding the regional bases.
- The "leisure" business unit, made up of Transavia France, will operate flights to destinations in Europe and the Mediterranean on departure from Paris-Orly and regional cities (excluding Marseille, Nice and Toulouse). By 2015-16, Transavia France should be operating between 20 and 22 aircraft, compared with 8 today.

These three business units will enable Air France to highlight the strengths of its offering (frequencies, loyalty program, network), to optimize the organization of its "regional" flight operations and make better use of growth in the "leisure" segment with Transavia France.

To increase productivity, the Company will be restructuring its short and medium-haul network by using the principles established at its bases at Marseille, Toulouse and Nice. Aircraft use will be increased by more than one hour per day and crews will be assigned to more flights per rotation.

In this way, while offering the same number of available seat kilometres and maintaining the quality of its product, the Air France Group will be able to remove 34 aircraft from its short and medium haul fleet by 2014 (excluding Transavia France).

Air France will also be renewing its offer on all segments. The services offered in Business Class will be redesigned. In Economy Class, a new lighter and cheaper offering will be available for travellers for whom price is the main factor, while continuing to offer an all inclusive product. Air France will also be increasing Flying Blue benefits for frequent customers on the domestic network and offering new travel saver options on its European network.

Air France will also be clarifying its offer by aligning the names of the medium and long-haul products: Business, Premium Eco and Economy.

2- Redress and reposition long-haul operations

On its long-haul services, Air France intends to redress its network around three main areas: improve efficiency to find a growth momentum, fulfil its basic contract with the customer and make a difference with the quality of its products and services.

To regain growth momentum and enhance its economic performance, the Company will be launching new routes with high potential, made possible by lower costs and greater productivity of aircrews. Air France will be developing profitable routes in winter and will be able to quickly modify the configuration of the cabins on its Boeing 777 fleet. Routes that will remain without any prospect of profitability will be suspended.

At all stages of the flight, Air France intends to improve its products and services by placing particular emphasis on on-time performance, developing new services and relying on new infrastructures at its disposal at Paris-Charles de Gaulle within the framework of the Hub 2012 project.

Air France aims to position its First and Business classes at the best possible global level by working on all areas of service in these cabins. This will involve a more personalized service, closer to the customer, with improved services and investments made in the new cabins in First and Business class on the Boeing 777 and Airbus A380 as from 2014. Changes will also be made in Economy class, which constitutes the Company's growth reservoir, including new in-flight entertainment systems.

All of these investments are of course subject to the success of the savings plan.

3 – Optimize service at airports and economic efficiency at stations

To facilitate and improve the time customers spend at airports, Air France will be increasing the use of new technologies to encourage autonomous boarding and streamline baggage drop-off procedures.

At Paris-Charles de Gaulle, the Company will soon be opening new facilities and services at terminal 2E, including the largest Business class lounge on its network. The arrival of early morning flights will be spread over a wider time slot to improve comfort and services for passengers (reduced waiting times at passport control, etc.).

Economic efficiency at stations will also be improved by reducing purchases, simplifying processes and increasing productivity.

4 – Accelerate the transformation of cargo

Confronted with a difficult economic environment, cargo will pursue and step up efforts initiated three years ago in order to cut costs and improve its economic performance, notably by implementing a new commercial policy, improving the productivity of its commercial teams and reducing its full-freighter fleet from 5 to 4 aircraft. The full integration between Air France Cargo and KLM Cargo and Martinair will be completed and new synergies will be sought in the provincial stations and abroad.

These elements shall allow cargo to contribute positively to the Company's long-haul activity.

5 – Develop growth segments in maintenance and optimize aircraft maintenance

Maintenance aims to become one of the two major global players in the "engines" and "components" segments, by developing this activity with high growth potential, improving its economic efficiency and increasing revenue generated with third-party airlines.

The performance of the Aircraft maintenance segment will be optimized to restore competitiveness with regard to the market: hangar activity will be restructured, operating costs and methods optimized in order to contribute more widely to the Company's overall performance.

Conditions for success of Transform 2015

For the transformation to be a complete success, Air France has begun renovating its organization with a view to making it simpler, more reactive and fully focussed on the customer. For example, new resources

will be mobilized to place mobile services and online sales at the heart of the commercial relationship, with a targeted objective of 3 to 3.5 billion euros of online sales in 2015, compared with 2 billion in 2011.

In order to increase productivity by 20% via social dialogue, negotiations have been underway with the ground personnel, flight deck and cabin crew unions since the end of March. The aim of these negotiations is to seek permanent structural measures within the framework of the collective labour agreements to accompany the industrial and strategic plan and limit payroll evolutions.

Air France is committed to working transparently on all these subjects, and aims to sign the new agreements at the end of June.

On the basis of this strategic project and within the framework of the new labour agreements under discussion, it has been confirmed that Air France has excess staff. The actual number of excess staff will be indicated during the second half of June, depending on the outcome of the negotiations and decisions concerning the Transform 2015 plan. Negotiations about the measures taken to deal with the excess staff will begin at that date. Avoiding involuntary lay-offs remains an objective.

“Air France now has a tailored industrial and strategic project. The objectives are ambitious but feasible. The conditions for success are clear: Air France needs to renovate its organization and increase productivity by 20%. To achieve this, we have underlined the importance of social dialogue. I am confident in the commitment of all our employees in reaching our objective: to place Air France back on the path of profitable growth, optimize customer service and consolidate its future in a context of extremely fierce international competition”, stated Air France Chairman and CEO, Alexandre de Juniac