12th January 2012

Air France-KLM: an ambitious three year plan to restore profitability

At its meeting on 11 January 2012, the Board of Directors of Air France-KLM examined the transformation plan over three years (2012-2014) for the Group, and the implementation of the three priorities set out on 9th November last year: restoring competitiveness through cost-cutting, restructuring the short- and medium-haul operations and rapidly reducing debt.

Downward revision of capacity growth and investments

The Board of Directors first examined the Group's growth prospects for the next three years. Given the uncertain economic environment and the ongoing imbalance between transport supply and demand, the Board deemed it necessary to opt for quasi stable capacity for the Air France-KLM Group in both passenger and cargo. Consequently, over the next three years (2012-2014), the Group will only increase capacity by a little over 5% on a cumulative basis[1].

This will lead to a shrinkage of the Group's fleet with an attendant reduction in the investment program, with the exception of spending targeted at the ongoing improvement in operational safety and client service. The investment program will be reduced from over 6 billion euros over the period 2009-2011 to below 5 billion euros[2] for the coming three years. This decision has led the Group to adjust its medium-term fleet plan combining, amongst others, the deferral of aircraft deliveries and the non-exercise of options.

Two billion euros debt reduction by end December 2014

The Board of Directors also considered as a key priority the reduction of the Group's net debt by two billion euros to some 4.5 billion euros by end December 2014. Over the period 2012-2014, two billion euros in net cash flow will be generated through a combination of immediate actions and a transformation plan.

Immediate cost reduction measures

New cost cutting measures amounting to some one billion euros will be implemented immediately. They include a freeze on general pay rises in 2012 and 2013 at Air France and a policy of wage moderation at KLM. The hiring freeze introduced in September 2011 will also be pursued. Additional productivity measures, a further reduction in overhead costs and network adaptations will complete the measures.

These measures, the components of which have already been fully identified, will be implemented with immediate effect, in compliance with regulations concerning the information or consultation of the Group's social partners.

Transformation plan

These improvements on their own, however, are not sufficient to guarantee the durable restoration of the Group's competitive position and financial strength. The Board of Directors therefore decided to implement a transformation plan, encompassing all its businesses, with a target of generating an additional one billion euros in free cash flow over three years.

[1] excluding the impact of the Provincial Bases
[2] before sale and lease back agreements

Improved productivity

The return to a satisfactory level of profitability will require a significant improvement in productivity in all parts of the Group, which will imply the renegotiation of the employment rules contained in the existing collective agreements. Negotiations with the organisations representing the various categories of employees concerned will begin rapidly.

Although the passenger business will be the primary focus with the restructuring of the short- and medium-haul operations, cargo and maintenance will also have to redefine their conditions for profitability.

Break-even of medium-haul within three years

The short and medium-haul network remains indispensable to the Group's development, assuring not only its presence throughout Europe, but also feeding the long-haul operations of the two hubs, Paris-CDG and Amsterdam.

Since the financial crisis of 2008-2009, the structural decline in unit revenues has led, despite the NEO plan, to deepening losses in this business, estimated at some 700 million euros in 2011. As the financial results of recent quarters demonstrate, the long-haul operations, also subject to increasing competition, cannot alone offset these losses.

To restore the medium-haul business to breakeven, the Group is working on the following structural measures:

- better utilization rate of aircraft and assets;
- significantly improved productivity in all employee categories;
- redefinition of certain activities, potentially leading to more extensive outsourcing in some areas.

******

The Board of Directors considers this progress report has enabled the definition of ambitious but realistic objectives for the three year transformation plan. The implementation of these measures will contribute to reinforcing the Group's financial position and preserving the current level of liquidity. It will be the subject of regular updates in order to measure its progress.

Practical information

The presentation is available on line at www.airfranceklm-finance.com.

An audio conference will take place at 19h00 CET:

- to connect to the conference call, please dial

  - UK 44 (0)20 7162 0125
  - US 1 334 323 6203

- To listen to a recording of the conference in English, dial

  - UK 44 (0)20 7031 4064
  - US 1 954 334 0342

  (code: 910159)

Contacts

Dominique Barbarin
SVP Investor Relations
Tel: +33 1 41 56 88 60
Email: dobarbarin@airfrance.fr

Bertrand Delcaire
VP Investor Relations
Tel: +33 1 41 56 72 59
Email: bedelcaire@airfrance.fr