

Update on the company's business transformation plan "TransForm 2015"

Air France Chairman and CEO Alexandre de Juniac presented an update on the company's business transformation plan, "TransForm 2015," at a scheduled March 29 - 30 meeting with the Central Works Council and key executives.

The presentation reflected the work by seven project groups set up to identify critical issues, key objectives necessary for recovery and priority actions to achieve them. Over the past three months, hundreds of employees have been involved in the project groups' work. On the basis of the groups' recommendations, Air France's Executive Committee has defined a series of priority actions to return the company to a path of sustainable growth:

- **Restore competitiveness**

Although passenger unit revenue is better than competitors, Air France's costs remain too high. The objective is to reduce controllable costs 20% to reach the industry level. This objective is included in the framework and methodology agreements signed with the majority of unions representing pilots, flight attendants and ground staff.

- **Win back customers**

Air France's customer focus has become insufficient. An action plan will refocus the organization and its processes on the customer as Air France's central pre-occupation, to improve products based on clearly identified points of excellence, to develop digital and e-business communications to solidify the company's leadership in mobility and personalization and to create new business models.

- **Simplify the organization**

To make the company more responsive and agile, a new organization will be established, streamlining processes and procedures, reducing the number of hierarchical levels, improving management practices and deepening the integration with KLM.

- **Revamp and reposition long haul**

Long haul, Air France's historical growth engine, is today moving in slow motion under the combined effect of the economic crisis, higher fuel costs, increased competitive pressure and higher costs than the competition. Apart from the priority to lower production costs and return to operational excellence, including for on-time performance, Air France must find ways to better respond to growing leisure travel demand. To win back customer preference, significant investments will be made in the product, conditional on the success of the savings plan.

- **Restructure short and medium haul**

Air France will continue to offer short and medium-haul service on the condition of achieving extensive restructuring and a drastic reduction in costs. The goal is to return to break-even for point to point service in 2013 and for the entire short and medium haul business in 2014.

The first steps identified and presented include developing the Transavia subsidiary under its own or another brand to respond to the growing leisure travel segment. The regional commercial offensive also will be extended to the rest of the point to point network, including Orly, with all components of the offer clarified and optimized. Finally, a true, standardized regional division will be created to optimize the working relationship between Air France and its regional subsidiaries.

These initiatives, which will be reviewed in detail with employee representatives, will improve short and medium haul economic performance. However, additional savings still must be found in order to reach the break-even point in 2014.

- **Accelerate the transformation of freight**

Confronted with a difficult economic environment and insufficient competitiveness, several improvement priorities have been identified in freight, particularly in the areas of purchasing, fleet and business development via enhanced integration between Air France, KLM and Martinair.

- **Develop growth segments in Maintenance**

Maintenance is a growing business but the company's competitiveness in major overhaul maintenance is wholly inadequate. Priority actions will significantly improve competitiveness and accelerate development of the promising Engines and Equipment segments. Maintenance also will contribute more widely to the Group's profitability, with a goal to be No. 2 globally.

"The work performed by the TransForm 2015 project teams will enable us to fundamentally transform the company to restore competitiveness, win back customers and return to a growth trajectory," said Air France Chairman and CEO Alexandre de Juniac. "By next June, we will be able to present the company's business plan. The 20% cost reduction objective is a minimum threshold; to fall short would jeopardize the recovery and the company's future. These equitably shared efforts must be implemented without delay. I am confident that with the commitment of our employees and the responsible spirit of our social partners, working together we will regain our leadership position."