

# AIR FRANCE-KLM REGAINS THE OFFENSIVE WITH A NEW STRATEGIC PROJECT

News / Airlines



**Jean-Marc Janailac, Chairman and Chief Executive Officer of Air France-KLM, today unveils Trust Together, Air France-KLM's new strategic project.**

**“With Trust Together, Air France-KLM regains the offensive with a project which is both ambitious and realistic. It will enable us to capture our share of air transport industry growth by improving the competitiveness of our businesses. With our nine strategic priorities, we shall be fighting back on every front. Our strength lies in the fact that we are challengers. The status quo is not an option. We must launch a new dynamic to return to a leadership position in our markets.” said Jean-Marc Janailac.**



The Air France-KLM Group's ambition is to regain the offensive to return to a leadership position in the global air transport industry:

?Built around major airlines – Air France and KLM – coordinating two European hubs, mainly focused on:

?Its long-haul network, at the heart of a network of alliances,

?Its medium-haul network which feeds the dual hubs.

?A major point-to-point player within Europe, to/from its French and Dutch home markets thanks, notably, to Transavia, the Group's low-cost vehicle.

?An industry reference for its customers in terms of operational efficiency, product quality and customer intimacy thanks, notably, to digital.

?A world leader in the airline MRO business

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Defending its Cargo business in support of the Passenger business.

Trust Together must enable Air France-KLM to rise to three major challenges: capture its share within worldwide air transport growth, reinforce the Group's competitiveness and operational efficiency and further enhance the customer experience.

The Air France-KLM Group's strategic project is based on nine strategic priorities:

#### 1. Regain the offensive in long haul

Air France-KLM is targeting profitable growth for the long-haul operations of between 2% and 3% per year through to 2020, based on several levers:

?At revenue level: alliances and commercial integration with partners, together with investment in the existing tools.

?At cost level: ongoing measures to improve the competitiveness of Air France and KLM. Concerning Air France, the development of an additional tool – a new company – adapted to ultra-competitive markets and positioned on structurally loss-making routes, or those that have been closed in the past few years.

Deepen alliances modelled on the partnership with Delta

Air France-KLM will reinforce its commercial integration with its principal partners to benefit from an expanded market position, leverage joint distribution networks and be able to offer customers a global proposition in each market.

Creation of a new company alongside Air France, which is competitive and innovative and will drive growth for the Paris-Charles de Gaulle hub

This new company will constitute the Group's response to the Gulf State airlines which are developing at low production costs on key markets where Air France-KLM is pursuing its growth ambition. This initiative to regain market share has been dubbed Boost.

It will be focused on ultra-competitive markets and will enable the Group to go on the offensive by opening new routes, re-opening routes closed due to their lack of profitability and maintaining routes under threat. This new company will propose a simple, modern and innovative offer, whose positioning will not be low cost. It will offer its customers business and leisure destinations with standards comparable to those of Air France in terms of product quality and the professionalism of the crews.

The new company will also serve as a laboratory for the Group's innovative ability in terms of products, digital and technology, catering, cabin design, services and the customer experience, as well as for working methods.

It will number 10 long-haul aircraft by 2020 with some 30% of operations focused on newly-created routes. It will operate with Air France pilots on a volunteer basis at work conditions adapted to its competitive positioning. For cabin crews, an independent career path will be created to enable this new company to be operated at the level of market costs. The ground operations, handled by Air France, will also be optimized by benefiting to the maximum from digitalization. The HR framework for this new company will be negotiated with the unions in the coming weeks.

#### 2. Improve the efficiency and connectivity of the hubs

The Paris-Charles de Gaulle and Amsterdam-Schiphol hubs play a central role in the strategy of Air France-KLM and its partners. The Group is going to strengthen the measures aimed at improving their operational efficiency and supporting the economic performance of the long and

medium-haul operations to/from the hubs.

The Paris-Charles de Gaulle hub will also gain renewed dynamism, within the framework of the Boost initiative, through the launch of the new company on the medium-haul network with a simple, modern and innovative offer.

The Amsterdam-Schiphol hub will be reinforced by closer coordination between Transavia and KLM, particularly in terms of investment in the fleet and the development of the network and new joint commercial approaches.

### 3. Develop the point-to-point markets on departure from the French and Dutch home markets

The point-to-point operations, i.e. the short- and medium-haul flights without connections in a Group hub, are currently operated by Transavia, HOP! Air France, Air France and KLM.

The priority for Transavia, the Group's low-cost airline, will be growth in its French and Dutch home markets. In France, Transavia will reinforce its position on some routes to compete with the TGV and the low cost carriers, and will develop its European routes on departure from Orly and the provinces.

Commercial coordination between Transavia and the Group's other airlines (HOP! Air France, Air France and KLM) will be stepped up to expand the offer to customers.

The Group will rationalize its brands and optimize its networks in the French market. Starting from 2017, HOP! Air France and Transavia will be the only two brands in point-to-point.

Concerning the ground operations at Paris-Orly and the French stations, Air France will redefine an operational model on a station-by-station basis, to reconcile changes in the professions and activity.

### 4. Strengthen the growth of the maintenance business

### 5. Defend the Cargo business in support of the Passenger activities

To seize opportunities in the air freight market, Air France-KLM will continue to rescale its activity focused on the utilization of long and medium-haul aircraft bellies. The Group will put the emphasis on digitalization and the streamlining of processes, and on a high level of service quality.

### 6. Reinforce competitiveness and the utilization of aircraft

To improve its competitiveness, the Group plans to act on all levels by pursuing and amplifying the initiatives already under way in terms of unit cost reduction.

Air France-KLM will focus its efforts on reducing fleet costs by optimizing the utilization of its aircraft.

### 7. Further develop the customer relationship to create more value

Air France-KLM is looking to differentiate itself via investment in digital tools, a more personalized service for customers and a move up market.

The Group will thus amplify its customer-focused action plans:

- ? Personalization of the customer experience and relationship thanks to Big Data,
- ? An ongoing move up market for products and services – with, for example, a new uniform for Air France and Hop! Air France by 2018-2019,

? Improvement in the operational efficiency of its airlines.

8. Optimize organizational structures and gain agility to facilitate the initiatives and accelerate innovation

The work in progress on organizational optimization and functioning modes will be pursued and intensified.

Air France plans to launch a new HR ambition for employees, in the form of a commitment to greater recognition, career development, empowerment, innovation and internal cohesion, across all staff categories, accompanied by concrete action plans.

The implementation of digital tools for Air France-KLM employees and the digitalization of processes will be accelerated to facilitate collaborative working across the Group and gain agility.

Air France-KLM will continue its investment in this high-growth market to reinforce its global number two position and improve the efficiency of its production tools. From this perspective, the Group will launch a review of this business' industrial model, examining its potential corporatization, knowing that Air France-KLM wishes to retain exclusive control.

9. Pursue lobbying initiatives in Europe and France directed at more equitable competition

The Group will pursue its lobbying initiatives at European level to establish equitable competition with the Gulf State and low-cost carriers and, at French level, reduce the structural lag in competitiveness due to higher taxes and fees.

The implementation of Trust Together must guarantee Air France-KLM's financial flexibility

Air France-KLM must pursue efforts to improve its competitiveness, by confirming the Perform 2020 competitiveness objectives and by improving the cost of fleet utilization and financing. The unit cost reduction target for the 2017-2020 period is in excess of 1.5% per annum.

The Group will also maintain strict capex discipline, by targeting annual positive free cash-flow before disposals and by limiting its investment. For 2017 and 2018, the capex forecast is between €1.7bn and €2.2bn per year.

Deleveraging will remain the priority, with a mid-cycle adjusted net debt/EBITDAR1 ratio target of below 2.5x at the end of 2020.

With this ambitious project, by 2020 the Air France-KLM Group aims to reach:

?Revenues of around €28 billion (depending on the trend in RASK);

?For 100 million passengers carried;

?With a fleet reaching 435 aircraft (excluding regional aircraft).

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