

AIR FRANCE KLM

The hub model

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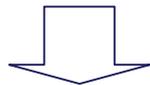
Does the hub model
have a future?



Two very distinct hub models

The American model
medium-haul ↔ medium-haul

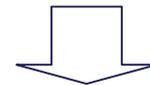
- + Domestic hub
- + Large domestic market with many large flows justifying direct flights
- + New generation aircraft allow low cost carriers to offer direct flights at lower prices



A model increasingly
under pressure

The European model
short & medium-haul ↔ long-haul

- + Intercontinental hub
- + Most of Europe-long-haul traffic flows too thin to be served point-to-point
- + "Cost sensitive" segment of the long-haul market already taken by charter airlines



An effective model for Europe
with great potential

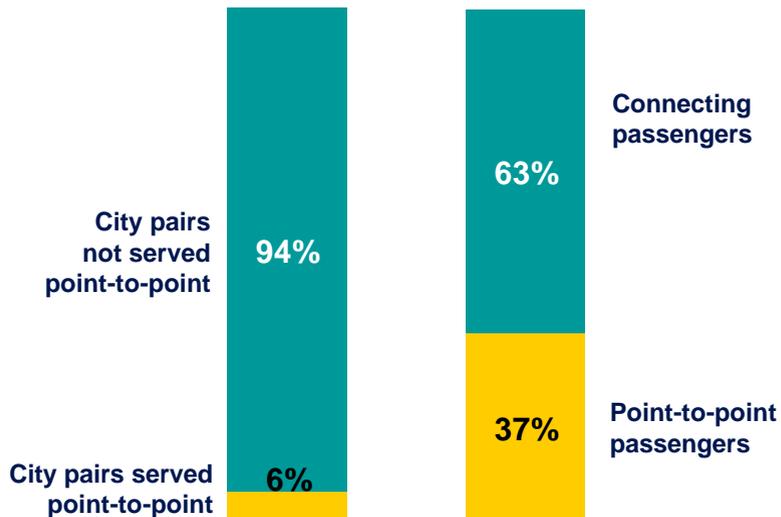
An effective model for Europe...

- Overall, **60%** of intercontinental passengers connect

Europe – Asia

~12,000 city pairs

~30 million passengers

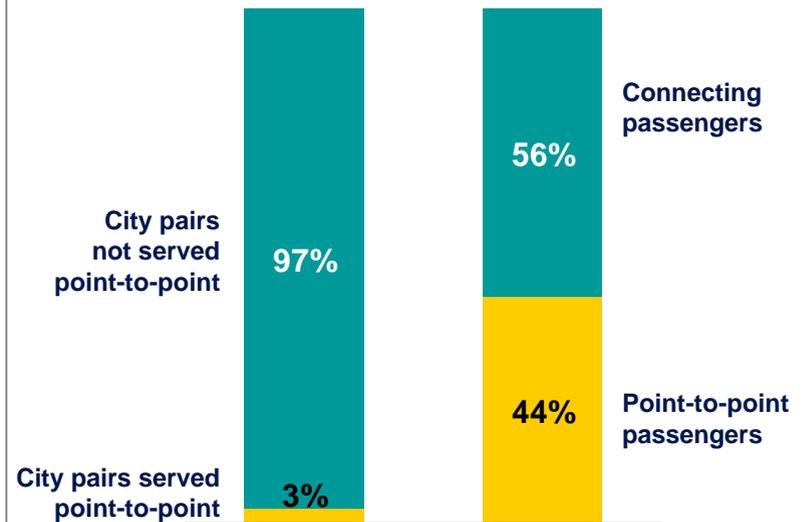


source: BCG

Europe – North America

~21 000 city pairs

~52 million passengers

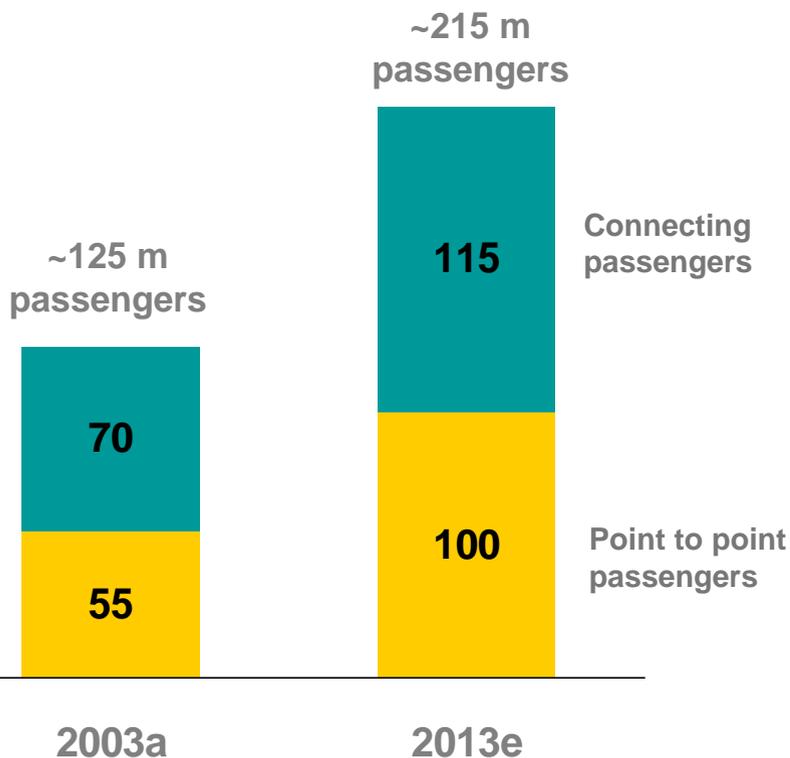


source: BCG

...with great potential

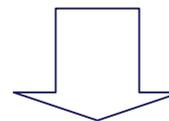
Growth in the intercontinental market

+5.5% per year



source: BCG estimates

- + Connecting and point-to-point traffic look set to continue to grow strongly
- + As a result, the role of major intercontinental hubs will be reinforced



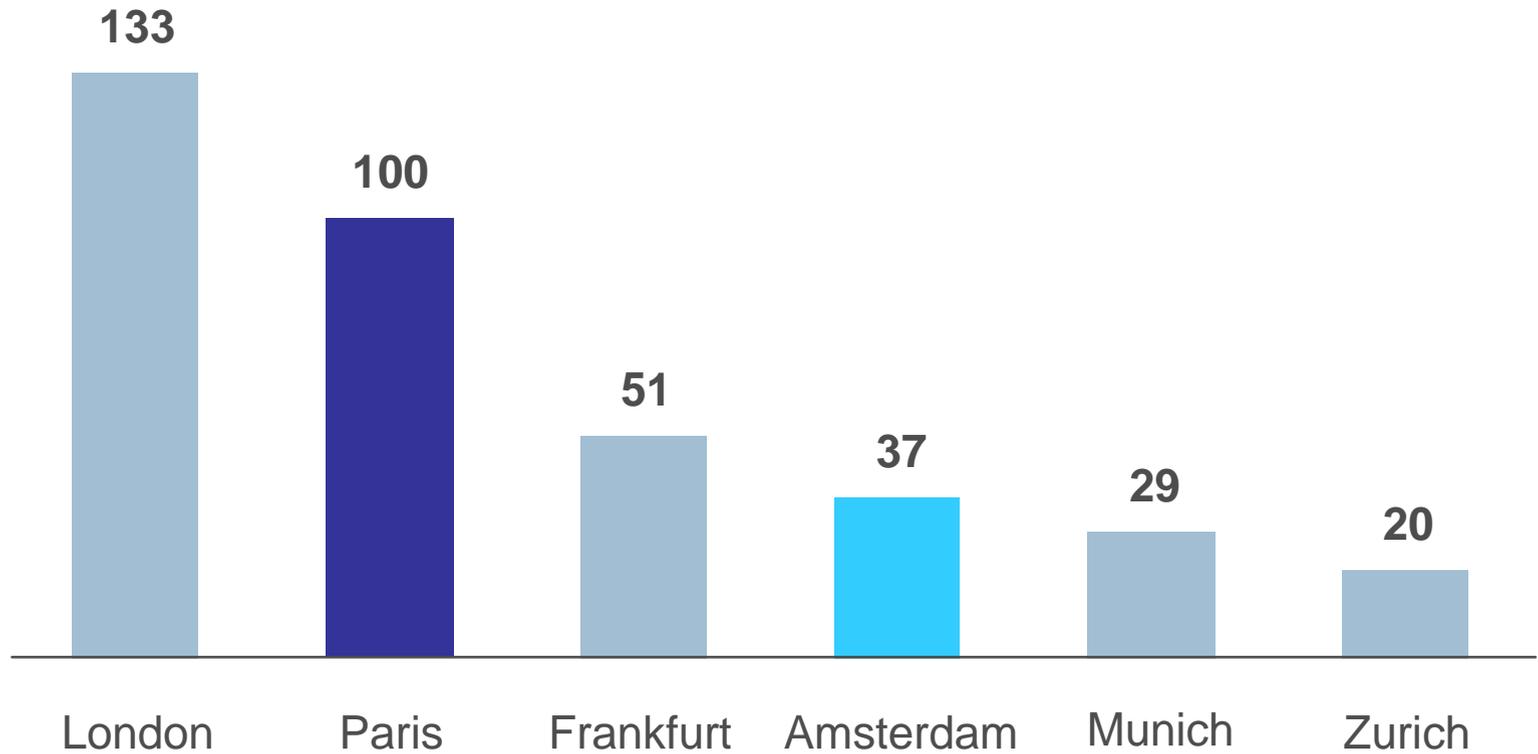
Thanks to its CDG and AMS hubs, **Air France-KLM** is well positioned to take advantage of growth opportunities in both **connecting** and **point-to-point** traffic

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The Air France-KLM dual-hub strategy



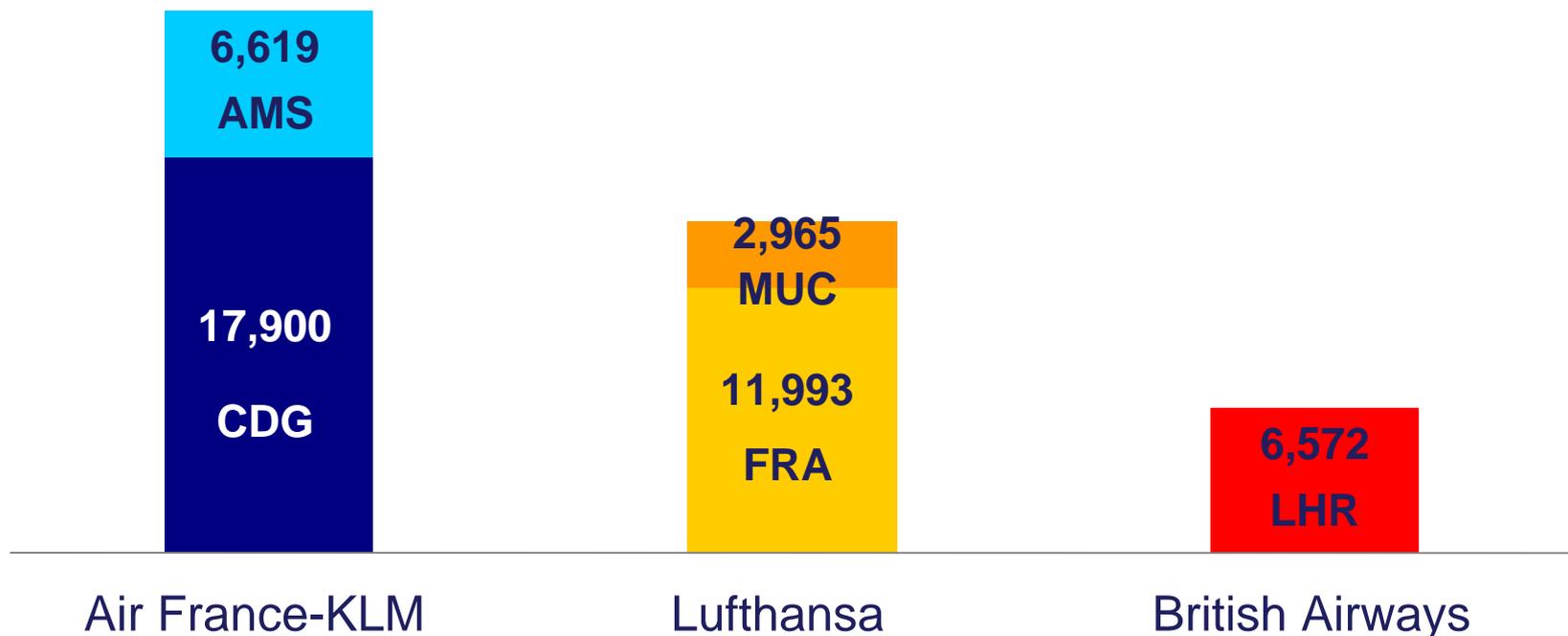
We combine a solid point-to-point base...



Source: MIDT – annual point-to-point traffic (PARIS = 100)

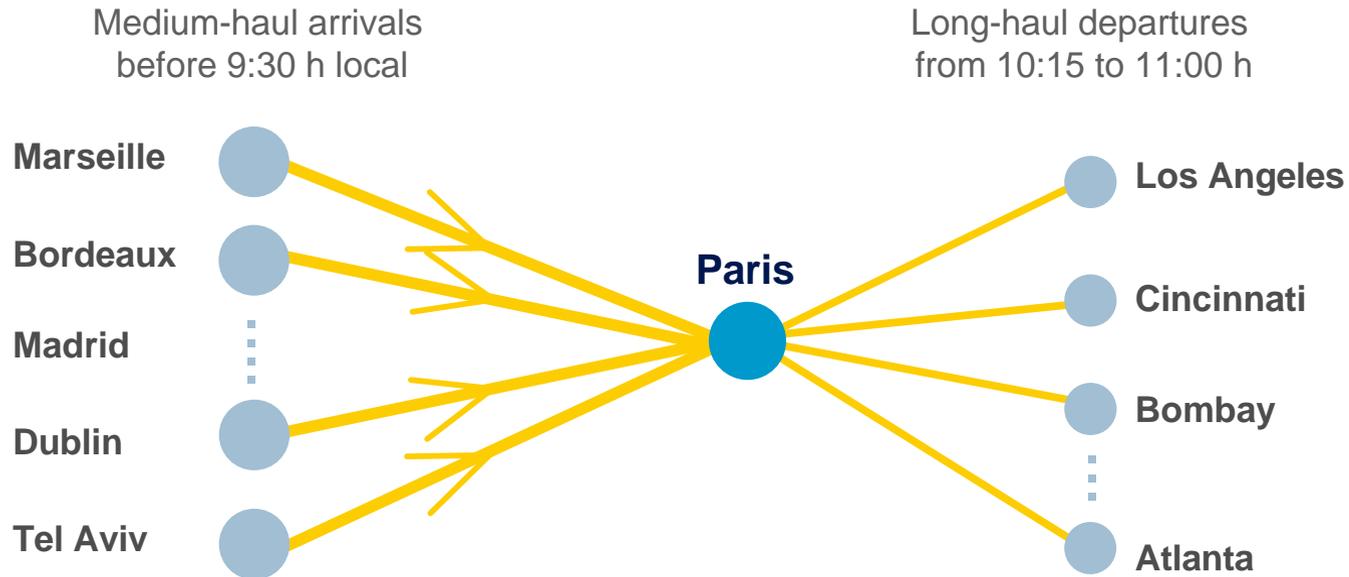
...with the most attractive dual-hub system in Europe

Weekly long-haul / medium-haul connections
in under two hours (Summer 2005)



What do we mean by an attractive hub?

*Air France hub at CDG
Summer 2005*



2nd bank medium-haul ↔ long-haul
→ **59** medium-haul origins
→ **21** long-haul destinations

1,319 origin-destination combinations
in under 2 hours
(equivalent 7/7)

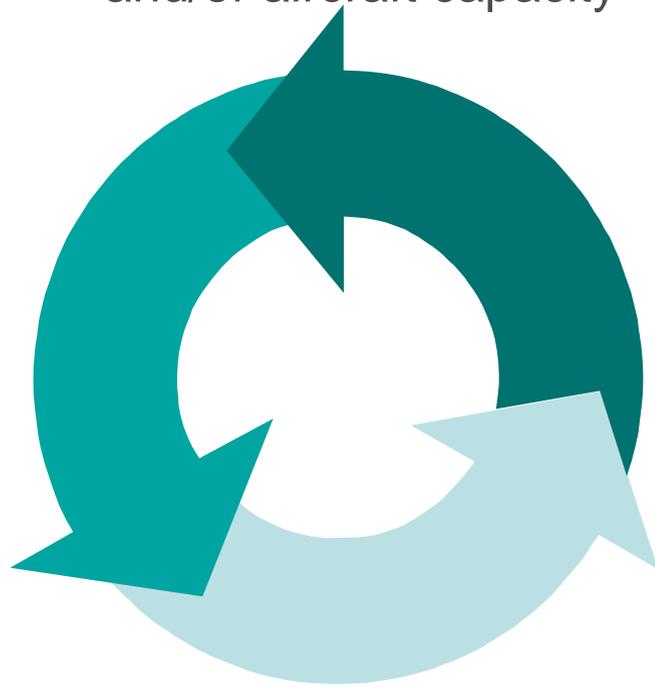
Leveraging the dynamics of the hub

Connections provide between 50 and 150% of additional traffic on any given route

Increased frequencies
and/or aircraft capacity

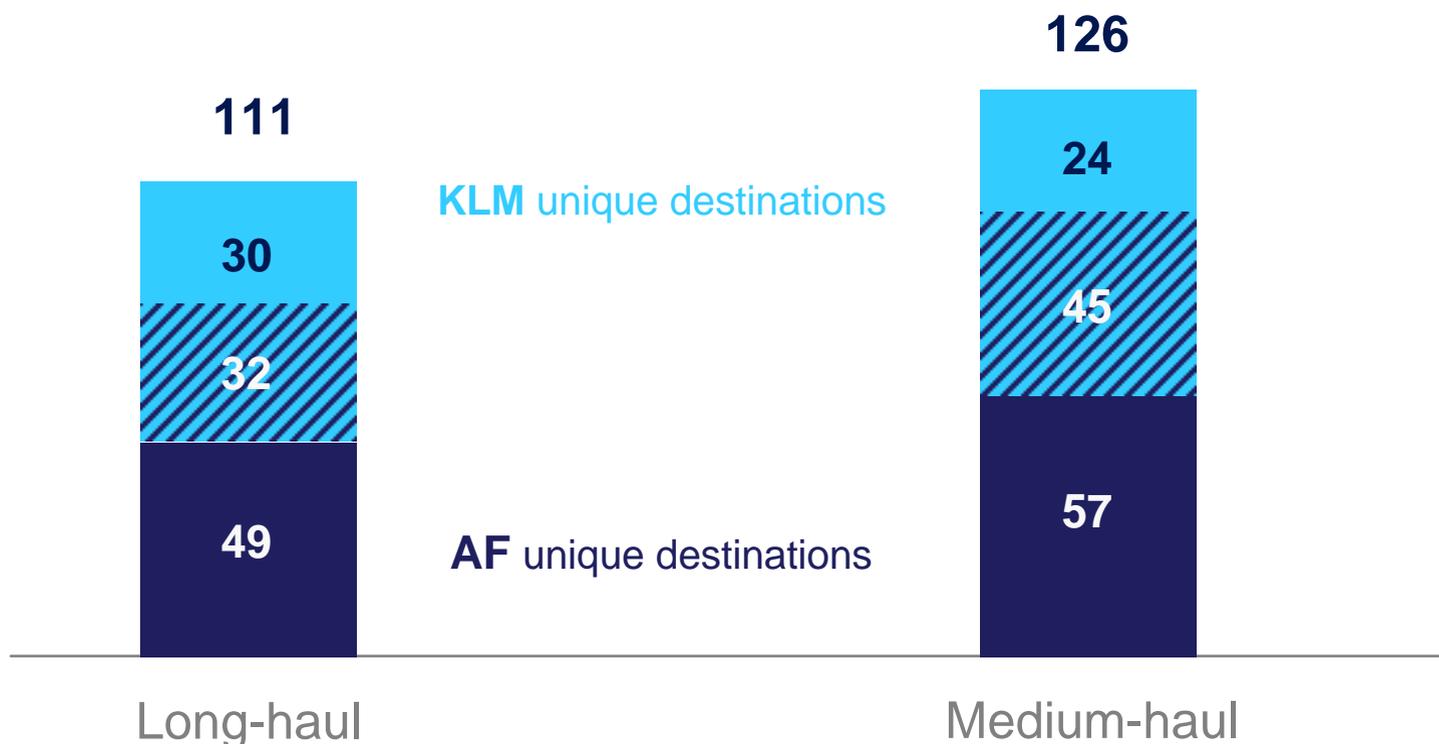
Greater appeal /
cost effectiveness

Point-to-point traffic
Connecting traffic



How do we take full advantage of our two hubs?

We use the high complementarity of the two networks to offer a greater choice of destinations and schedules



Main prerequisites

- ✦ Link the Air France and KLM hubs
 - ▶ Shuttle service between Paris and Amsterdam
 - ▶ 15 flights per day
 - ▶ Up to 1 flight every 30 minutes during peak hours

- ✦ Open up Air France and KLM's markets to each other
 - ▶ Development of routes between French regions and Amsterdam
 - ▶ Direct flights between Amsterdam and Lyon, Bordeaux, Marseille, Nice, Toulouse
 - ▶ A common frequent flyer program to incite Air France and KLM legacy customers to fly both airlines
 - ▶ "Flying Blue" operational since June 2005
 - ▶ 10 million members

Rationalization of long-haul networks

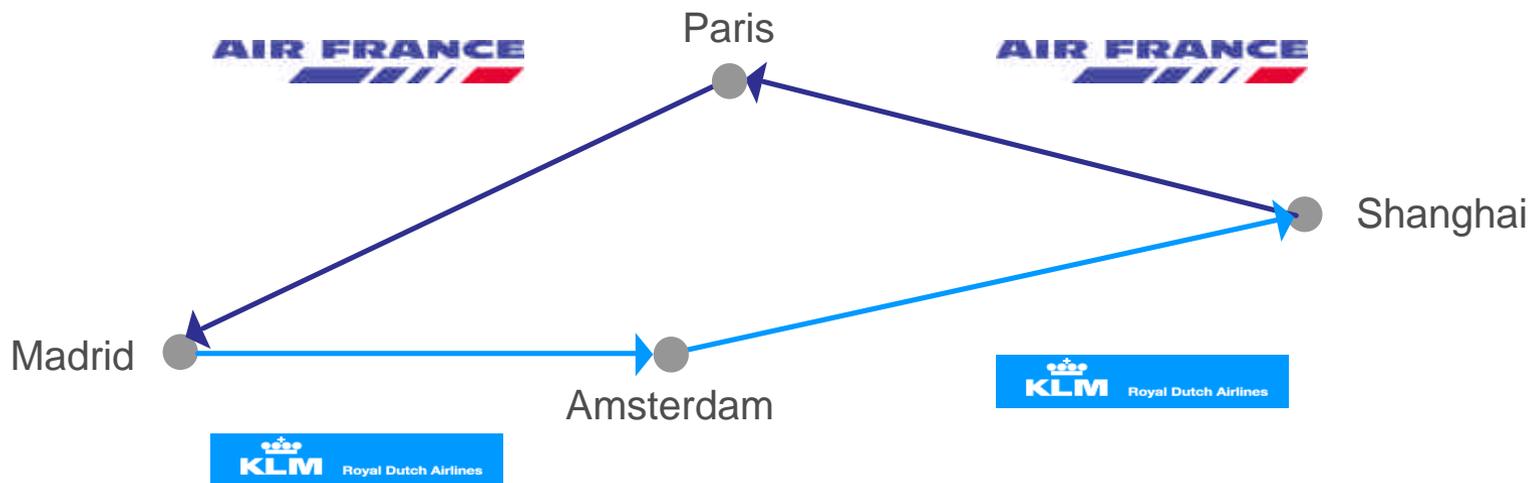
- ✦ Concentrate thin long-haul flows on one hub
 - ▶ A single daily flight from one hub is more efficient than non-daily flights from both hubs
 - ▶ A single non-stop flight from one hub rather than indirect flights from both hubs

- ✦ Examples
 - ▶ Caracas is now only served by AF, on a daily basis and with a larger aircraft (B747-400)
 - ▶ Manila is now only served by KL, on a daily basis (B777-200)
 - ▶ Jakarta is only served by KL, on a daily basis

Strengthening of competitive position

- ✦ On high-demand routes, offer customers a wider choice of schedules and fares thanks to:
 - ▶ Differentiated timings
 - ▶ Fare combination
 - ▶ Enabling passengers to travel on an origin-destination by flying on one of the 2 airlines on the outward journey and the other one on the return
 - ▶ Fare applied = $\frac{1}{2}$ return fare AF (or KL) + $\frac{1}{2}$ return fare KL (or AF)

Fare combination optimizes the dual-hub strategy



Outward Madrid-Shanghai

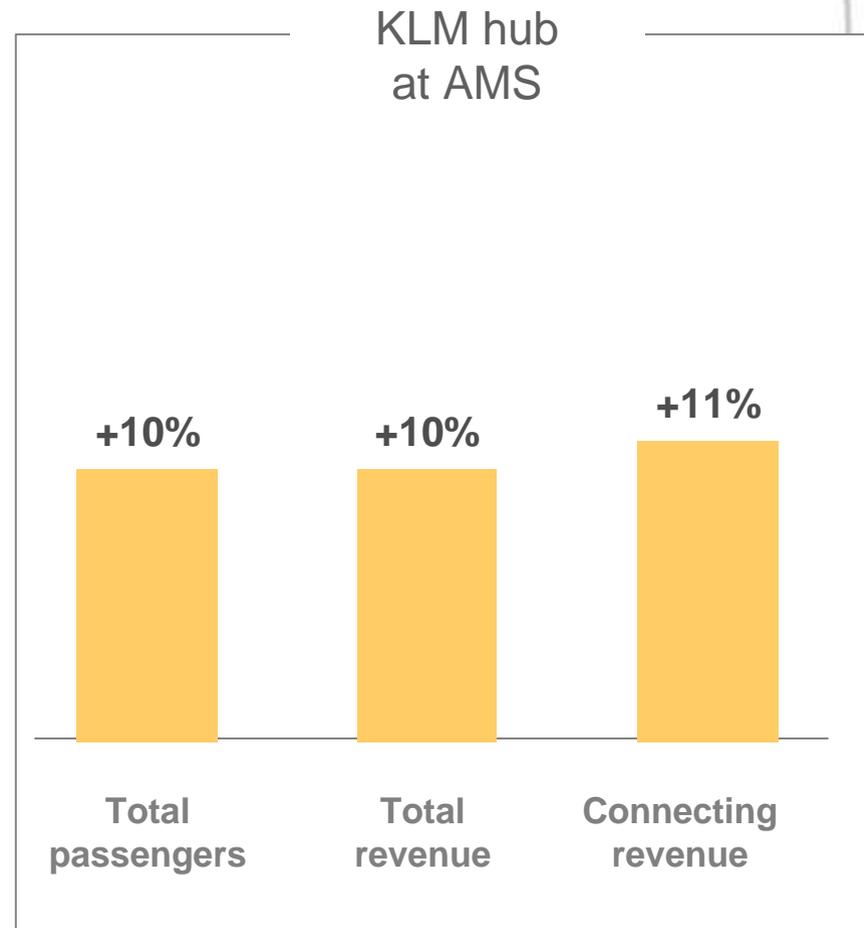
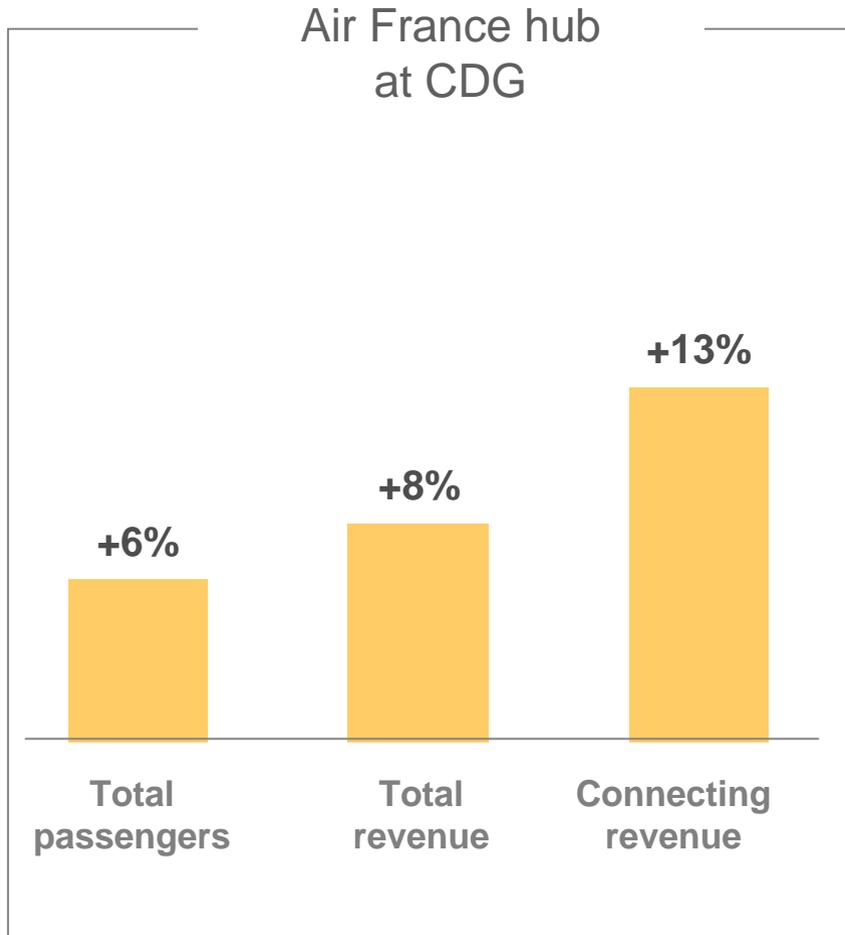
1	AF2001	MAD-CDG	20:25	22:30
	AF112	CDG-PVG	23:15	16:25+1
2	KL1702	MAD-AMS	12:50	15:35
	KL895	AMS-PVG	17:10	09:45+1

Return Shanghai-Madrid

1	KL896	PVG-AMS	12:15	17:40
	KL1707	AMS-MAD	19:40	22:15
2	AF117	PVG-CDG	23:55	06:00+1
	AF1000	CDG-MAD	07:15+1	09:20+1

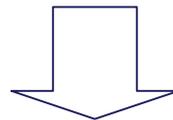
Our dual-hub strategy is both efficient and profitable

Financial year 2004-05



So, does our hub model have a future?

- ✦ A solid point-to-point base
- ✦ Highly complementary networks
- ✦ Efficient network coordination
- ✦ Key marketing tools: common FFP and fare combination
- ✦ Two airport bases with strong development potential



The hub model is undoubtedly the way forward
for Air France-KLM