

**AIR FRANCE KLM**

# The hub model

Pierre-Henri Gourgeon  
Deputy CEO of Air France-KLM



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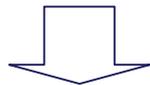
Does the hub model  
have a future?



# Two very distinct hub models

The American model  
medium-haul ↔ medium-haul

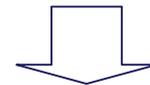
- + Domestic hub
- + Large domestic market with many large flows justifying direct flights
- + New generation aircraft allow low cost carriers to offer direct flights at lower prices



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

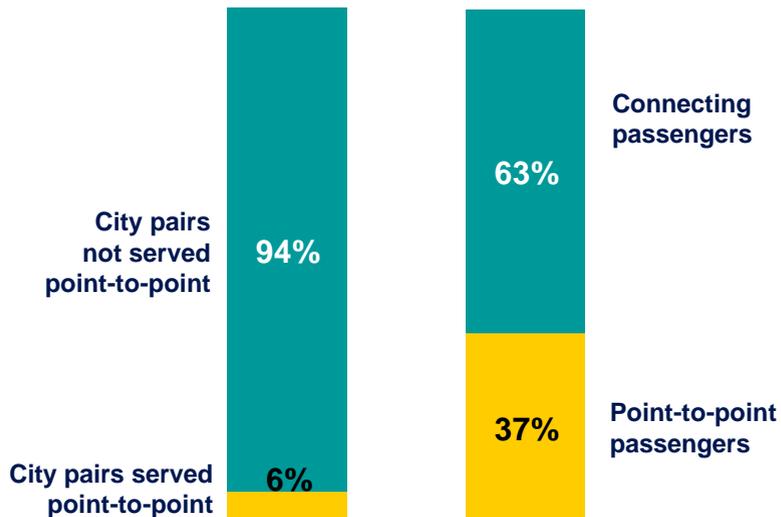
# An effective model for Europe...

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

## Europe – Asia

~12,000 city pairs

~30 million passengers

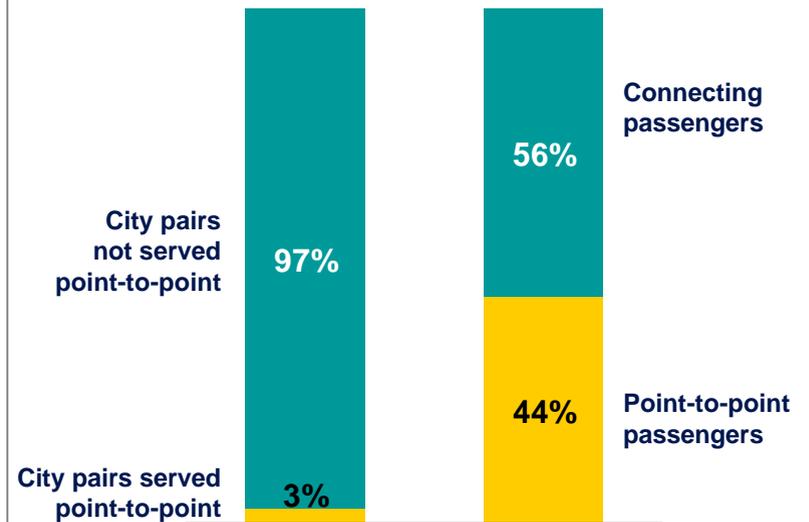


source: BCG

## Europe – North America

~21 000 city pairs

~52 million passengers

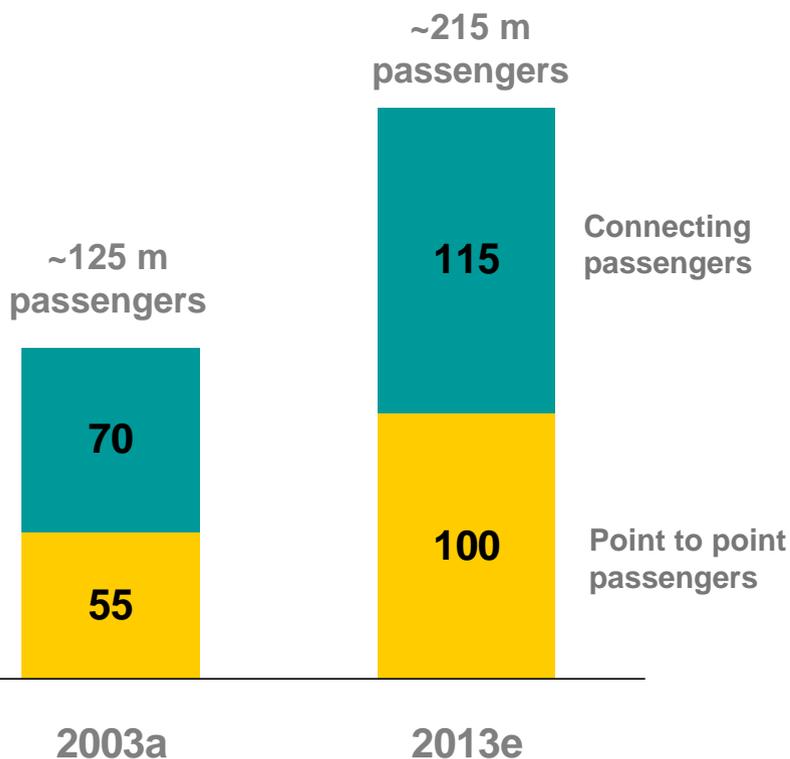


source: BCG

# ...with great potential

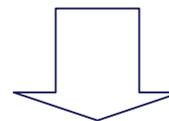
Growth in the intercontinental market

**+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



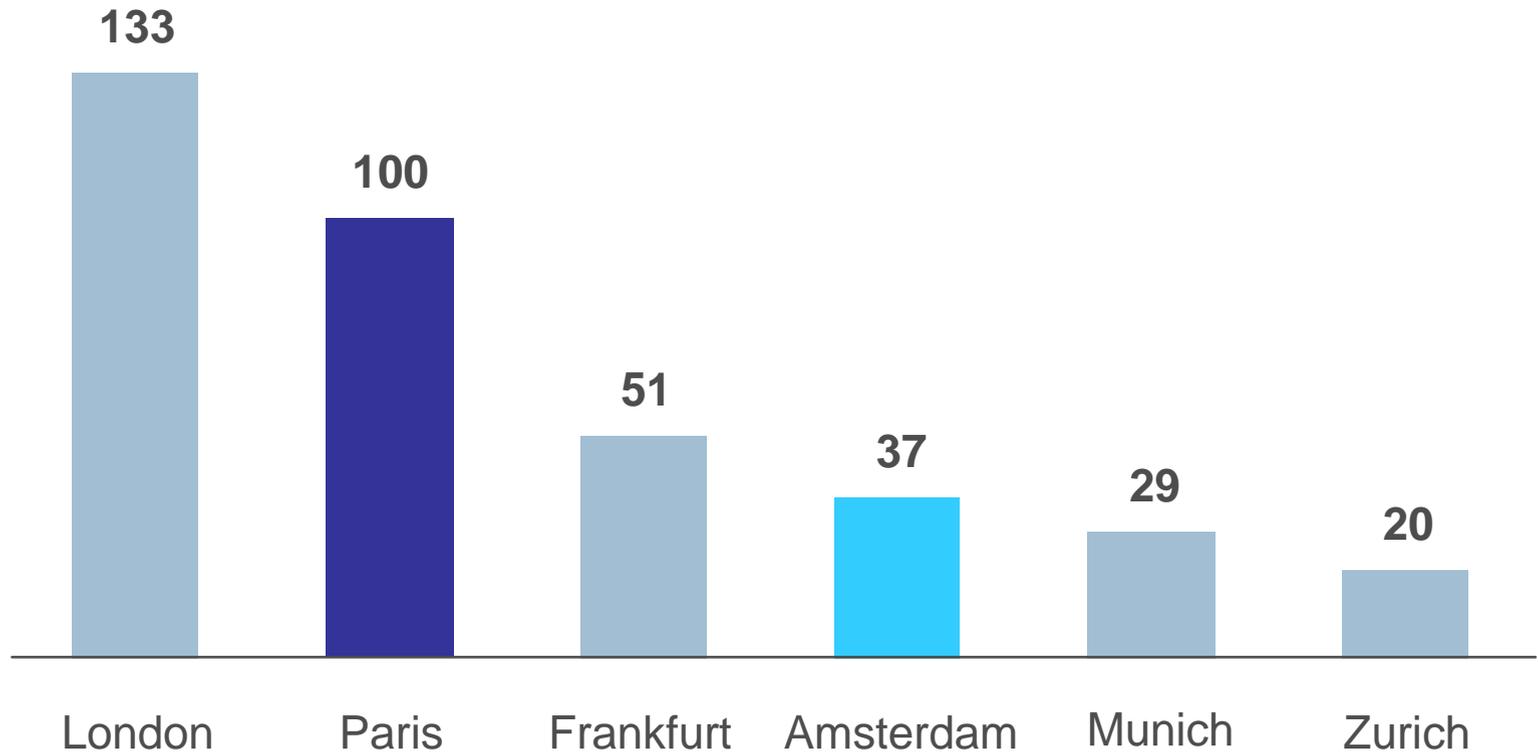
Thanks to its CDG and AMS hubs, **Air France-KLM** is well positioned to take advantage of growth opportunities in both **connecting** and **point-to-point** traffic

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# The Air France-KLM dual-hub strategy



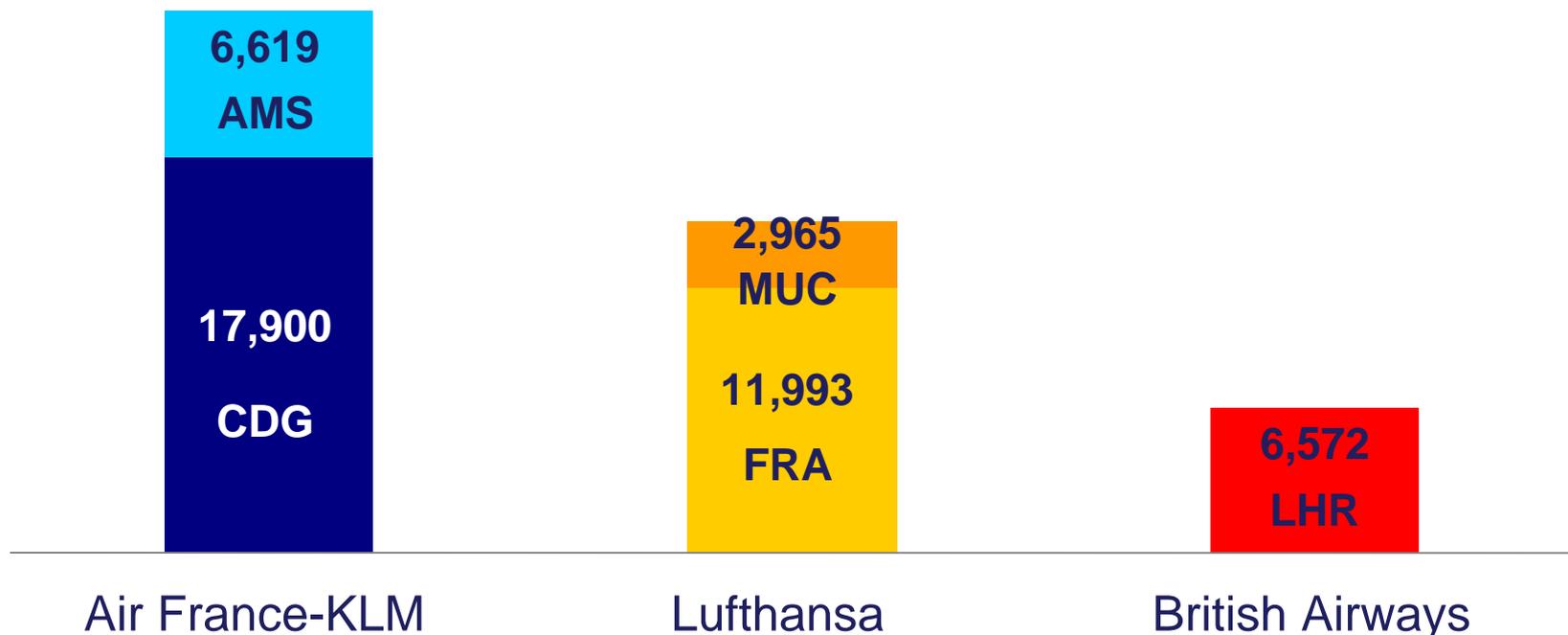
# We combine a solid point-to-point base...



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

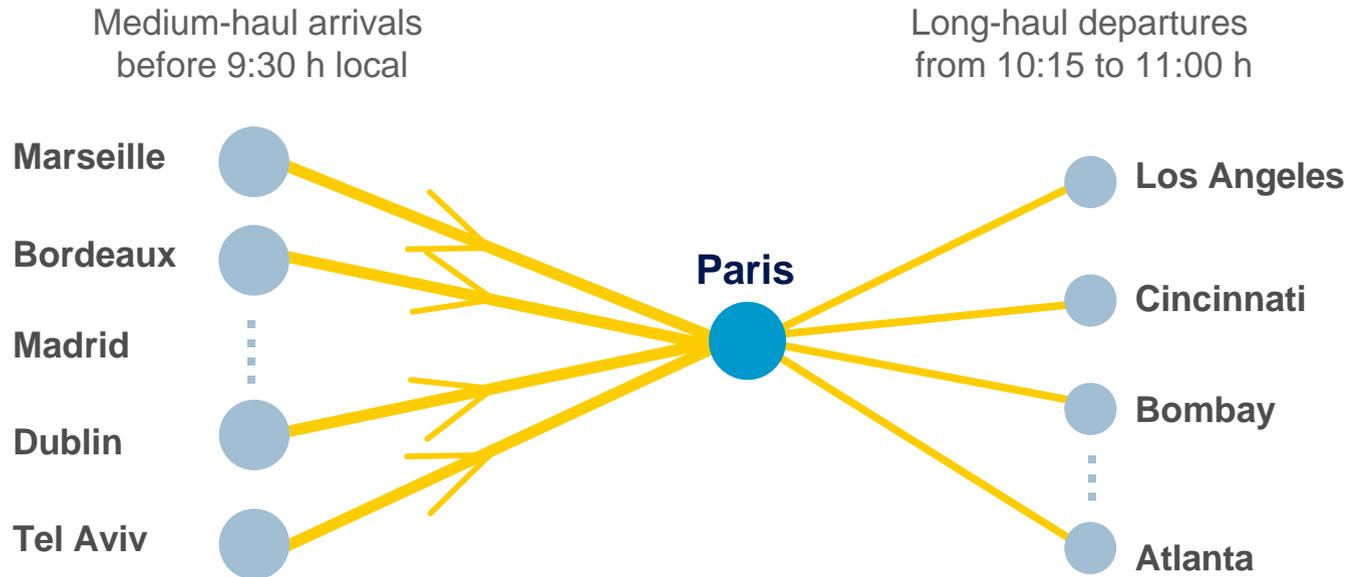
# ...with the most attractive dual-hub system in Europe

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*



2<sup>nd</sup> 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

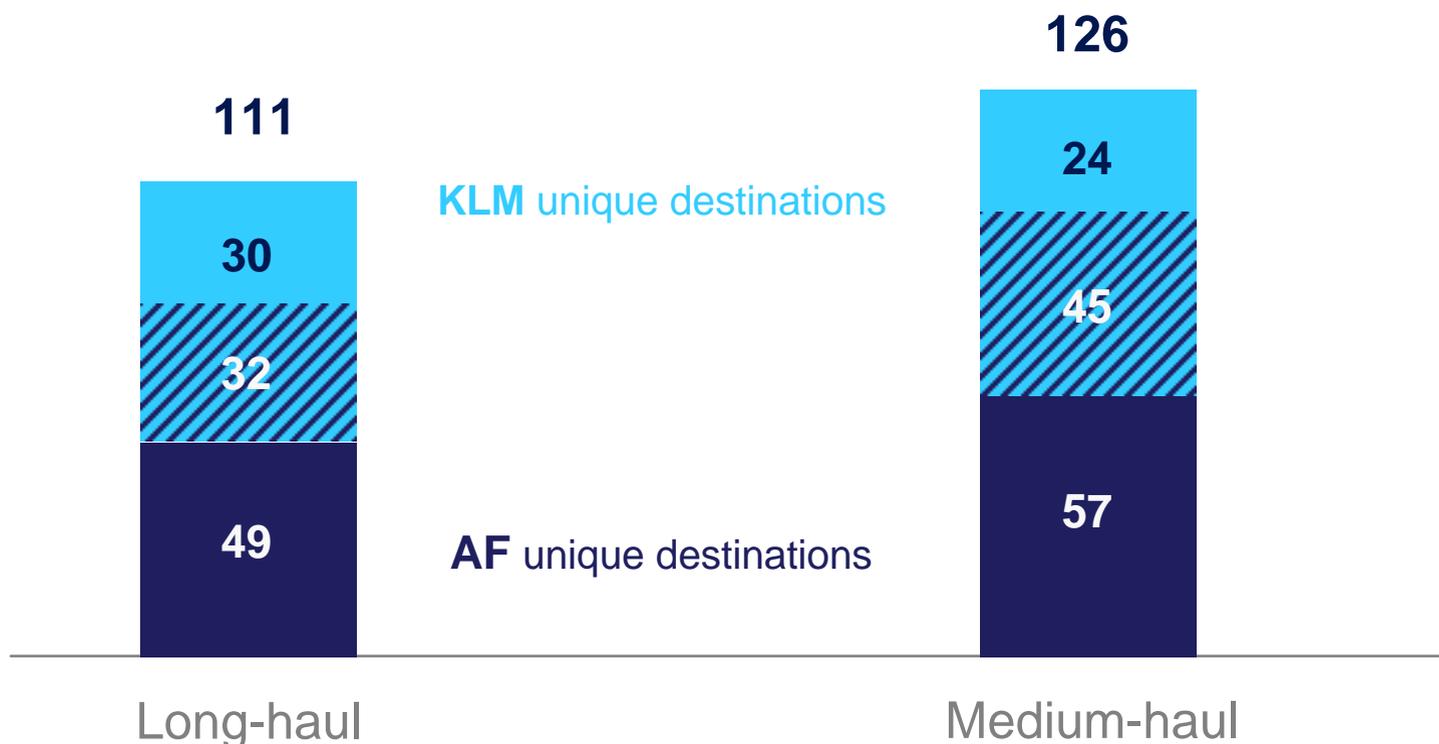
Greater appeal /  
cost effectiveness

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

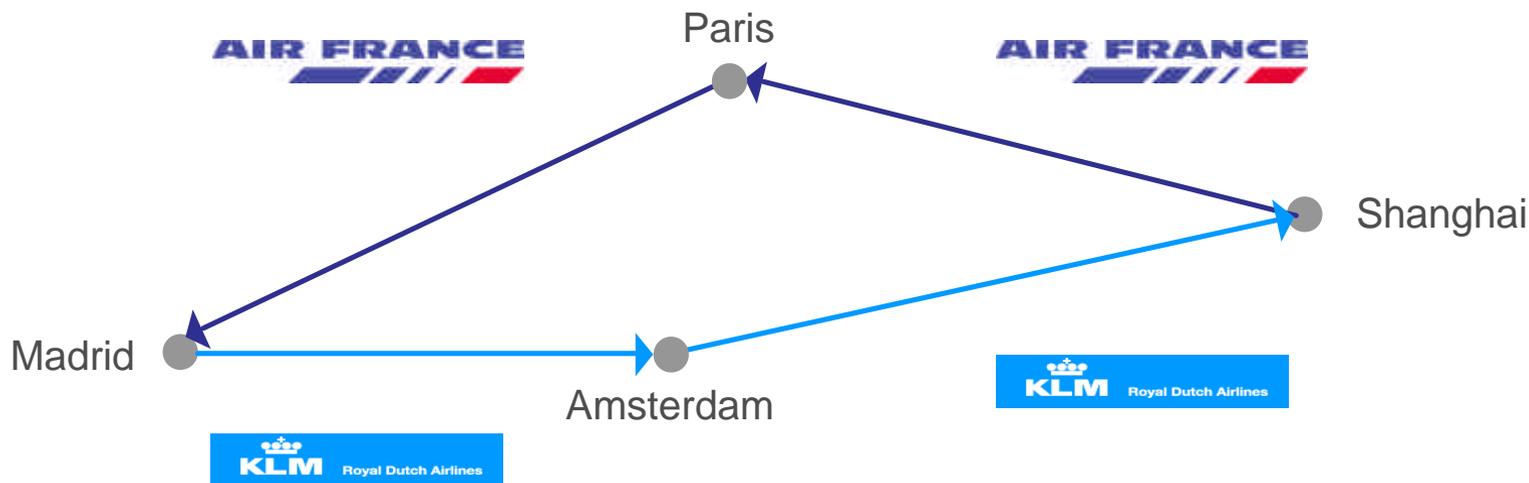
# Rationalization of long-haul networks

- ✦ 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

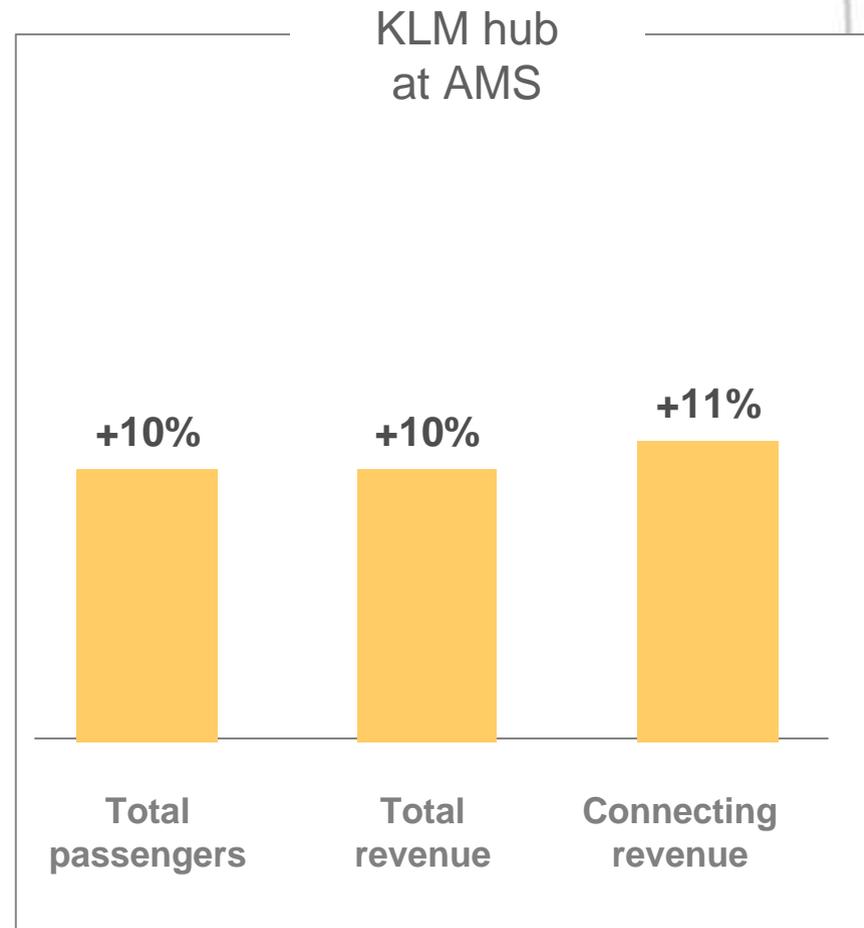
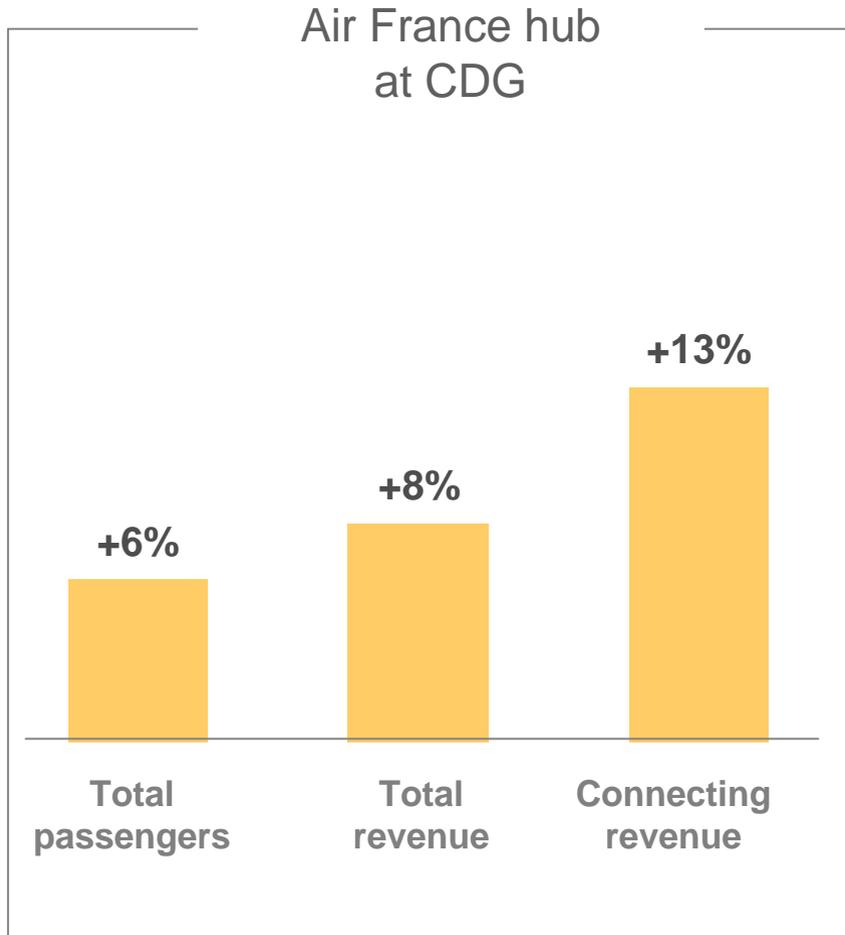
1	AF2001	MAD-CDG	20:25	22:30
	AF112	CDG-PVG	23:15	16:25+1
2	KL1702	MAD-AMS	12:50	15:35
	KL895	AMS-PVG	17:10	09:45+1

## 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

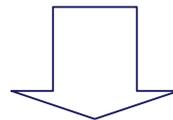
# Our dual-hub strategy is both efficient and profitable

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