



AIR FRANCE KLM about to take off on the Stock Exchange

Interview with Pierre-Henri Gourgeon, Deputy Chief Executive Officer AIR FRANCE KLM, by Marianne di Meo (Le Revenu) (week of 14 to 20 July 2006)

Interview

Pierre-Henri Gourgeon

Deputy Chief Executive Officer of AIR FRANCE KLM

Le Revenu: Could you explain how the annual results of AIR FRANCE KLM have gone well beyond your initial forecast?

Pierre-Henri Gourgeon: We were counting on a stable operating income of €500 million for the 2005-2006 fiscal year. It turned out to be €936 million. The success of the merger is clearly reflected in sales, and the synergies are coming through faster than expected. In addition, our fuel hedging policy has contributed to this.

Le Revenu: Once again you are being cautious by forecasting an annual operating income which will be at least equal to that of last year.

Pierre-Henri Gourgeon: We remain optimistic in spite of the rise in oil costs and our change in status (public to private). The application of Unedic's rules will of course represent an additional cost of €150 million in our annual accounts. We will generate sufficient income to cover these costs and will therefore maintain or possibly increase our operating income.

Le Revenu: You intend to increase capacity by 5% between now and 2010, which means you believe that air traffic will continue to develop?

Pierre-Henri Gourgeon: Long-haul operations, which account for 60% of our business – passenger transport – has certainly not reached its limit. We are currently going through a period of unprecedented economic growth (boosted by China and India in particular). This is creating a huge need for air transport, which offsets the slowdown effect the high price of oil could have on the sector. The growth of long-haul operations is twice that of global economic growth. The air transport industry is currently experiencing an undercapacity situation, and this trend will certainly continue, in spite of the planned aircraft deliveries.

Le Revenu: So you feel confident about the trend in your unit revenue?

Pierre-Henri Gourgeon: Demand is strong. We can pass on the rise in oil prices to the passenger. Unit revenue, which includes fuel surcharges, should therefore grow this year at a similar pace to last year (up 3.5%).

Le Revenu: How do you manage to survive with such high fuel prices?

Pierre-Henri Gourgeon: To begin with, hedging enables you withstand the impact, and to continue to operate old aircraft models. Then you reduce your fuel consumption by upgrading your fleet. We are investing a great deal in new aircraft. On the other hand this policy involves heavy depreciation expenses, which will weigh on our income. However the peak is now behind us.

Le Revenu: What has been the effect of the delayed delivery of the A380 on AIR FRANCE KLM, especially as you were expecting to receive three aircraft to begin with?

Pierre-Henri Gourgeon: The delayed delivery is a real problem for many airlines, as the industry is in an undercapacity situation. But this doesn't change our interest in the A380, because a group like AIR FRANCE KLM needs a large capacity aircraft. Meanwhile, we will certainly continue operating less efficient aircraft longer than planned.

Le Revenu: The trend in your share price has been disappointing since the beginning of the year, even though your annual results have surpassed the targets and you have raised the estimated merger synergies.

Pierre-Henri Gourgeon: We have trouble explaining our share price trend. There seems to be a misunderstanding on the part of the market. Observers are under the impression that our fuel hedges, which were very

good last year, will be less effective this year. This is in spite of the fact that 80% of our needs are covered at a barrel price of 50 dollars for the current fiscal year. They also seem to think that we have increased capacity too much, especially compared to British Airways. In actual fact, we are convinced we have the right strategy, as long-haul operations are in an undercapacity situation, as I have just said.

Le Revenu: Why did you take a 2% stake in Club Méditerranée?

Pierre-Henri Gourgeon: When Accor withdrew from Club Méditerranée's capital, the latter wanted to stabilize its shareholding for two years, in order to continue its recovery programme. We agreed to join the other shareholders in this move, to show Club Méditerranée that we consider them as an important customer (they account for €50 million a year in business).