

International Aviation Club

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Remarks of

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Chairman & CEO

Air France

Good afternoon Ladies and Gentlemen,

I know I'm breaking the rules by offering you French wine today. Hopefully you've enjoyed the taste and it won't put you to sleep any more than my speech...

It's a great privilege for me to be one of the last to talk to you before the end of this millennium. I specially appreciate the presence of my dear friend Leo Mullin, who, as you know, was recently appointed Chairman of Delta, and who has come all the way from Atlanta. My thanks also go to Mr. Harald Bomberg, Vice President of Aeromexico, our other partner, for being here today. Thank you also Mrs. Robyn for joining us.

As you all know, the airline industry has undergone a complete transformation over the past few years. I'd like to tell you how Air France has lived through this period, and the conclusions we have drawn from this experience. I would also like to share some thoughts with you on what could be the future developments in the airline industry and environment.

To begin with, may I tell you about the new Air France.

I say NEW because, if the industry as a whole has changed, Air France has been totally rebuilt.

If you'll allow me a brief moment of self-satisfaction - I promise it will be the only one, for the new Air France also implies getting rid of the so-called French arrogance - I would like to remind you of what we have achieved over the last few years:

- We have rationalized our fleet and network. This means:

- A young fleet averaging 8 years old.

- An environment-friendly fleet complying with the strictest noise and pollution regulations.
- A simplified fleet with a reduced number of aircraft types and only 3 different cockpit versions.
- An efficient network with daily non-stop frequencies to and from our Paris hub on most of our long haul network.
- We have a very efficient hub at Paris Charles de Gaulle Airport.
 - It offers more than 11,000 weekly connections, five times more than 4 years ago and far more than any other hub in Europe.
- We are one of the Major cargo operators in the world. Our own cargo terminal, the largest and most modern in Europe, will further strengthen our position.
- We are building the most powerful transatlantic partnership with Delta Air Lines and Aeromexico, and we intend to make it the most efficient.
- We have brought our costs down. This is part of our cost-cutting programme to reduce unit costs by 10% over 3 years. After 18 months this program is right on target.
- We have improved our yield, We've been able to maintain our yield in a highly competitive environment. This is specially due to our state-of-the-art revenue management software and methods.
- We have improved our financial results by reducing our debt/equity ratio.
- Our IPO has been successful. I would just like to mention that investors responded enthusiastically to this offering by oversubscribing 40 times.

72% of Air France staff, including 78% of pilots, now hold shares representing more than 11% of the Company's stock. This is a clear sign of their commitment to their airline and their confidence in its future.

These actions have already brought results,

- First, traffic growth and an improved load factor. During the last fiscal year, Air France increased its traffic by 6.7%. Its load factor reached 75.5%. For the first 6 months of the current fiscal year, our overall growth was 15% and our load factor reached a new high of 77%.
- Second, increased market share. On North Atlantic routes, our share has increased by 15% in

just one year. For sales in the US, Air France is now the number 2 European carrier. In Europe, a 19% increase in capacity during the first 3 months of this fiscal year has gained us 2 to 3 points of market share on each of our largest European markets.

- Third, more revenue, in other words, profits. Our results soared from a nominal loss in 1996-1997 to a 1.6 billion franc profit, roughly 270 million dollars, in 1998-1999. For the first quarter of our fiscal year our profits have reached almost 150 million dollars.

At the moment, Air France is actually doing better than most of its competitors. We don't boast about it, because we know that there is no end to the search for greater efficiency and productivity. We also know that our presently less fortunate competitors will not remain idle.

This brings me to my second point:

We are now an ambitious competitor and, believe it or not, we support a procompetitive environment.

Regarding the regulatory framework, there have been countless discussions on transatlantic differences. But you may be surprised to know that Europe and the US have been going in the same direction, even if they have taken parallel tracks at different speeds.

In the US and European Union, by far the two largest domestic markets, we are fully liberalized. Airlines can operate freely within their respective territories without any undue external interference. This has enabled them to respond efficiently to the needs of the traveling public by offering expanded and improved services to their customers.

In Europe, Air France has eagerly responded to this new challenge. It has used this increased competition as leverage to improve its product and to introduce new services. May I mention for the record the introduction of our own shuttle concept on major French trunk routes, and the expansion of our cooperation with regional carriers. This cooperation has substantially improved our services over the 100 destinations we currently serve in Europe. Air France is now the European carrier offering the highest rate of daily services per city pair.

Air France has always had an intense and "demanding" relationship with the US. The 90's were the perfect illustration of this unique situation with its downs and ups.

Here the downs would be the renunciation of the 1946 air services agreement by France in 1992. And the ups the conclusion of a new bilateral agreement in 1998. As this is probably familiar to most of you, I will not go into details.

I just want to say that Air France is perfectly happy with the new bilateral framework. This is because it allows for the gradual and balanced growth of opportunities for both US and French carriers in their passenger and cargo operations during a transitional period. It will lead to an open transatlantic relationship between France and the US in 2003.

From that date onwards there will no longer be any restrictions on the operations of US and French carriers across the Atlantic. I hope, like me, you think it's an exciting challenge, Air France will do its best to take up this challenge. Since last year, we've already taken significant steps.

- These include code-share services to almost 90 points in the US;
- new non-stop services to Boston and Atlanta and double dailies to Washington and Chicago;
- increased capacity and frequencies with a modernized fleet. In summer 99, Air France was among the fastest-growing airlines on the North Atlantic, with a record load factor of 84% and a yield that is still improving;
- last but not least, our partnership with Delta.

We will maintain the pace in 2000 with the opening of two new US gateways, which we'll announce shortly. In addition, we will increase our capacity by 15%. Our medium-term objective is to offer double daily services to all the 12 US gateways we'll be serving.

Talking about our partnership with Delta makes me want to insist on the ever-increasing importance of cooperation in the field of air transport, at a time when competition is at its toughest.

Only a few years ago the word alliance was unknown to the industry. Now it's the name of the global game. There are now four alliances representing more than 50% of the total worldwide air traffic.

I'll come back to the subject of our global alliance shortly. But first, you may ask what made us choose Delta as our US partner.

As you know, we had entered into cooperative arrangements with both Continental Airlines and Delta Air Lines some time ago. These were fully implemented last year. They have been fruitful and mutually profitable. However, we realized that a choice had to be made between those two great partners, to be able to compete more effectively with other carriers on a global scale. This was not an easy task. Eventually it became clear that an Air France/Delta alliance made more sense. It offered better opportunities for our two airlines and for our customers. I would, however, like to take this opportunity to publicly underline how much Air France appreciated the attitude of our

friends at Continental throughout this process. We fully intend to maintain a friendly relationship with them.

On June 22nd, Leo Mullin and I announced our global alliance. Linking Atlanta, the world's busiest airport and most powerful hub, with Europe's largest fast-growing connecting hub - Paris-Charles de Gaulle - already makes our alliance one of the major competitors in the world's most competitive market, the North Atlantic. In summer 2000, the opening of Air France's services to Delta's Cincinnati hub and of Delta's services to our secondary hub in Lyon will further synchronize our operations.

Delta and Air France offer their customers a second-to-none range of services and products. This includes the unique marketing and moneymaking tool called Concorde, on which Delta will soon be the first US airline to put its flag.

But the story doesn't end here, it is only beginning. Delta and Air France teams are working together with one aim in mind. We want to give our customers the best quality of service. This obviously comes with improved connections, codesharing and frequent flyer programs. But our joint efforts will gradually be extended to all sectors of our operations. At the same time, we are also looking at opportunities to expand our alliance to other partners throughout the world. Aeromexico, one of our longest standing partners - we concluded a strategic agreement with them back in 1992 - has been the first to join. It will be followed by others, and we'll probably be in a position to reveal the shape of our alliance at the beginning of next year.

So basically our idea is very simple. Delta, Aeromexico, Air France and our other partners will form one of the few global alliances that will be able to offer seamless travel to business and leisure travelers worldwide with an excellent quality of service. This is an ambitious but reasonable goal that we can achieve.

In order to do so, no effort will be spared. But we also need some outside help from players that in many ways condition the future of air transport. I'm not just talking about the regulatory authorities but also airports and ATC systems.

Speaking of airports, I think I can safely say that Air France is in a unique situation. This is because we are the only major European airline to operate from a hub that has so much potential for future expansion. But what's the use of this magnificent asset if our planes cannot land at the other end? Or have to circle in the hope of obtaining a landing slot, which sometimes takes as long as the journey itself? Almost all Europe's major airports are saturated, and the situation in US airports is much the same, I think it's high time the industry acted on this important issue.

Airlines must push the relevant authorities in Europe and the US to take the necessary urgent steps to solve this problem for the benefit of both airlines and customers.

But we cannot stop there.

The next logical step is quite obvious. It is the creation of a Transatlantic Common Aviation Area, in other words, a single Euro-American market. This will allow US and European airlines to operate freely under equivalent regulatory conditions allowing for fair and equal competition.

Air France therefore strongly supports transatlantic negotiations between the European Community and the US. In our opinion, this is the most effective way to reach this goal.

Many issues remain to be solved and I must say that some of them are on the US side. Without going into details that most of you know anyway, I will only list a few of the issues to be addressed: ownership, cabotage, wet leases and the Fly America Act. At this stage, all I need to say is that the position of the European carriers including Air France, summarized recently by the Association of European Airlines, is very straightforward. It can be summed up in one sentence. One cannot talk about a single market unless the players can play all the cards according to the same rules.

I would nevertheless like to insist on one specific issue that I feel is crucial to the success of the whole project competition policy. This is because, in a liberalized environment, it is essential to guarantee equal treatment to all players and to preclude anti-competitive behaviour. Even if in broad terms competition authorities on both sides of the Atlantic share the same goals; they differ substantially on the methods. There is therefore a need for convergence and harmonization of these rules and policies.

Along the same lines, it seems essential to me that the competition rules, which have to be harmonized of course, take into account the emerging now reality of air transport. I mean the inevitable shift from competition between airlines to competition between alliances. This requires a new set of rules if we want to avoid the emergence of structures that would stifle competition. If this were not the case, we would deprive customers of the extensive opportunities that are now available.

I'm totally in favor of competition between alliances. But competition authorities should act swiftly to avoid unretrievable situations, One of the first things to do could be to review the analytical methods used by the relevant authorities in the US and Europe to assess the specific effects of alliances. It is, for example, quite obvious that the analysis of an alliance cannot be confined only to its effects on point-to-point markets. It has also to take into consideration various other impacts. For example, on one-stop and multi-stop markets served over the alliances' hub-to-hub routes.

Obviously, the goal should not be to impose unnecessary constraints on airlines or to «re-regulat-

ed». On the contrary, the common aim of the authorities and airlines should be to define a clear, predictable and non-discriminatory legal environment. This would guarantee alliance partners a stable legal framework for their partnerships. It would also allow for the preservation of competition between alliances for the benefit of the travelling public.

On all these issues, difficult decisions will have to be made and not only on the US side. But the successful emergence of a Transatlantic Common Aviation Area is well worth the effort. It would set a standard for the rest of the world and lead us towards a new era in air transport. This is the real challenge we have to face, if we want to go beyond open skies.

Thank you