

THERMAGE INC
Form REGDEX
May 05, 2003

This document was generated as part of a paper submission.

Please reference the Document Control Number 03058220 for access to the original document.

that the North Atlantic situation will be scrutinised in more detail by both authorities in Europe and the US. However, given the structure we have chosen, we do not anticipate any major hurdles.

Have you presented the main structures set up to retain Dutch nationality to your key trading partners, in particular Japan and the US, to determine whether they would be satisfactory to them?

Leo VAN WIJK

That was, of course, a key consideration in the decision-making process. We are fully confident that, based on the new realities that we see in Europe, our structures and safeguards will protect KLM's air situation.

Jean-Cyril SPINETTA

We also feel that the structure will truly protect traffic rights. As you know, the situation is changing very rapidly in this area. The European Court of Justice handed down its ruling at the end of 2002. Prior to that, a mandate was given to the Commission by all European countries, regarding negotiations of a multilateral agreement with the US. Other areas will surely be explored later. From a legal standpoint, we can imagine that some countries will challenge the traffic rights. However, we believe that the structure implemented is the best solution to this situation and believe that KLM's traffic rights are secure, thanks to the deal.

Roissy, 30 September 2003

9

Analysis Meeting
France/KLM

Air

Where does debt currently lie, within the operating companies, and where will it go after the merger? Will it move up to the combined entity, or will it remain in the operating companies? In the latter case, are there guarantees at the level of the holding company?

Leo VAN WIJK

Debt will be combined in the holding company, of course. There will be full consolidation.

Jean-Cyril SPINETTA

I am sorry, I am not able to answer. It is very difficult to hear you, due to the technical system and my hesitant English. Leo VAN WIJK understood perfectly, though, so he will answer.

Leo VAN WIJK

Of course, debt will be consolidated in the holding company.

Jean-Cyril SPINETTA

Earlier, I presented the consolidated net debt. However, under the structure that we chose, each of the two entities will maintain relations with its original banker and use its own financial tools. That is why we referred; namely, to KLM's bank and financial conditions. There will not be any consolidation of negotiations with existing bankers and investors. I am sorry that I did not understand the question, previously, hence a bit of trouble answering

Can you go into more detail regarding the potential synergies you expect and, in particular, how they should build up? We see the Year 3 and 4 figures. Can you provide more details on Year 1 and Year 2, emphasising those that will be derived from revenue. I had assumed that there would be a certain degree of network overlap, which might have an impact on revenues in the first year, even though the greater marketing power might offset this by Year 3 and Year 5.

Leo VAN WIJK

In the network area, we will, sooner rather than later, look at the portfolio to see how we can make better use of both companies assets, to generate more revenue. This will mean re-aligning and repositioning some flights between Paris and Amsterdam. This will definitely bring about increased revenues and returns, and offer better utilisation of the fleets. In other areas, we will, as stated, take a relatively conservative approach, rather than the aggressive approach, because we want to avoid the risk of bringing about synergies and losing revenue base, in the process. That is why we have been conservative in our estimates on cost synergies in the first years. We want to be certain that, before driving cost synergies, that we do not lose the revenue base. We will thus focus, first, on realigning our portfolios in the Amsterdam and Paris hub.

Does this mean that revenue in the first year will be net positive?

Leo VAN WIJK

Yes, most definitely.

Roissy, 30 September 2003

10

**Analysis Meeting
France/KLM**

Air

What assumptions are you using with respect to traffic and yield?

Leo VAN WIJK

It is not our intention to give you such detailed information. It will be difficult to determine the alignment of the data on each side.

You predicted EUR 300 million in cost savings. Will you need to incur any additional costs in order to achieve those? Secondly, Mr VAN WIJK, what is the position of the Dutch pilot syndicate? Do they have to vote? Have they voted?

Leo VAN WIJK

No, the Dutch pilots are not set to vote. The only process left to be finalised pertains to the Works Councils. These can give advice, albeit not binding advice. In other words, there are no deal breakers present.

That being said, it is important, on both sides, to maintain good labour relations. We understand that there is quite a bit of anxiety on both sides, as to what this will mean concretely for our employees. We have the time to go over this with the unions and the relevant bodies in both companies, to make sure that they fully appreciate what we are doing for labour and understand that this transaction will create new opportunities for the stakeholder groups in both airlines.

Jean-Cyril SPINETTA

No votes are planned for Air France pilots.

I also asked whether exceptional costs would be required to achieve the synergies.

Leo VAN WIJK

One key area where we see potential costs lies in the IT systems. As you can see, there is only marginal benefit in the first three years. Real alignment of the IT systems and full integration is a longer-term project. We are planning a number of smaller investments, over time, to implement this. The process will be carried out as we make other adjustments and changes.

Aside from that, no substantial exceptional costs are foreseen.

Jean-Cyril SPINETTA

I confirm that we have no significant implementation costs.

Does your agreement include any walk-away penalty clauses, like you had with Alitalia?

Jean-Cyril SPINETTA

No. One time is enough.

Roissy, 30 September 2003

11

**Analysis Meeting
France/KLM**

Air

What does Air France gain by performing an acquisition, at this stage, rather than launching a joint venture alliance? Why not wait until the regulatory environment has fully changed?

Jean-Cyril SPINETTA

In Europe, we needed to deliver full synergies, something that a mere alliance would not have afforded us. There can be many different approaches and views on any number of items. Each company is in a situation where it can produce its own analysis of the situation. In the press, you probably saw that a specific agreement has been signed between Alitalia and Lufthansa in the area of engine maintenance. The market is free and each player will make the decisions that best suits its needs. When partnerships occur, they will be justified by a common bottom line. The only way to achieve a full cooperation strategy is to merge the shareholding structure. It is an absolute necessity.

The second problem specific to Europe is that Air France and KLM are very strong brands. They are tangible assets, and it would be a strategic error and a truly stupid decision to kill them off. The only possible answer is thus a merger of the shareholding units, with a full cooperation strategy. This makes it possible to maintain strong brands, as well as the identity and culture of the companies involved. I am certain that the fit is right between us. The organisation we are setting forth today is simple and efficient.

Leo VAN WIJK

From first-hand experience, I can tell you that, when we implemented the joint venture with Alitalia, four years ago, the complexities were tremendous. Here, there is a transaction, which can be implemented and from which the organisational integration can be built up, step by step, as we see fit. After careful discussions and consideration, and having reviewed all options, we concluded that, in our opinion, this is, by far, the best approach.

Will the new holding company guarantee any of the debt built up by Air France or KLM? Secondly, will the new operating company guarantee any of KLM's debt?

Jean-Cyril SPINETTA

I am not sure that I understood your question, but I believe the answer is no.

Leo VAN WIJK

Unfortunately, we cannot hear you very well, but based on what we did hear, the answer is no.

Why did you include warrants in the deal, rather than issuing additional Air France shares?

Jean-Cyril SPINETTA

As you know, warrants are a sign that the respective shareholders of the company believe in the soundness of the deal. The strike price is 20 euros, while the maturity period is three years and six months. The warrants will be exercisable after only 18 months (I did not state this earlier). Their value can be easily determined by specialists, and they give a clear sign to the stakeholders and markets that we believe in this deal.

Leo VAN WIJK

Our synergies table shows that we have taken conservative approach to this aspect. It will only tip in if we bring the synergies about.

Roissy, 30 September 2003

12

**Analysis Meeting
France/KLM**

Air

Did the fact that you would derive EUR 600 000 or EUR 1 million upon exercise of the warrants affect your decision?

Leo VAN WIJK

We did not think about that.

What are your comments regarding expectations that the US will renegotiate agreements in three years? How will you prevent the synergies from leaking away in reductions to travellers, for instance?

Jean-Cyril SPINETTA

It is not our responsibility to predict the US government's behaviour. As you know, the European Court of Justice stated that it was prepared to take away ownership clauses on traffic rights. Further, a mandate was given by the countries to negotiate a multilateral agreement. Following that, the US government stated that it was prepared to re-consider some of the components of the agreements previously signed with the European countries.

Leo VAN WIJK

This is also a clear signal from US carriers that, given their situation and their linking up in alliances, they need a change in regulatory environment, as well. This statement is, by no means, the result of chance, but the outcome of intensive negotiations with regulators. It is a sign that this transaction meets the requirements of the industry and could be a starting point for something new.

Regarding the renegotiation between Europe and the US, much more is at stake. At this point in time, we have reason to believe that this transaction does not go beyond what the regulatory authorities on either side are willing to approve.

How will you prevent synergies from benefiting only travellers, rather than the company?

Leo VAN WIJK

This is a problem for the industry as a whole, and is not specific to our Group. We have been active and successful in bringing our cost levels down, in the last ten years. However, because of the hyper-competition present in this industry, almost all of the benefits have gone to the customer, leaving the airlines with insufficient returns.

I believe that most of the industry, on both sides of the Atlantic, is in a position where they cannot afford to give present benefits to new customers. We need to keep them in our business, and aim to provide exceptional returns to our shareholders. This is probably truer on the US side than the European side. Consolidation in itself will have to bring about a more rational type of competition, which is much more aligned with what can be seen in other industries. It is impossible to sustain 25 or 40 small players engaged in a global game. It is vital to consolidate and come to more rational terms. This transaction is one step toward making this industry more rational, even though it will not be sufficient on its own.

How does this alliance affect your presence in Asia?

Leo VAN WIJK

Our combined presence in Asia is quite significant. In particular, in our presentation, we stated that we will become the leading European airline, ranked as one of the largest carriers on a global scale. This will certainly also have a positive effect on our joint alliance in Asia.

Roissy, 30 September 2003

13

**Analysis Meeting
France/KLM**

Air

Do you see any need to adjust your alliances, with respect to Asia?

Leo VAN WIJK

No, we do not see any particular need for this.

Jean-Cyril SPINETTA

No.

Leo VAN WIJK

We certainly have room for improvement there. Given that this transaction will reinforce the presence of Sky Team on a global basis, we will have further discussions or welcome new partners to the Asian domain.

Jean-Cyril SPINETTA

As many people know, Northwest, though an American company, is a very important player in Asia and Japan, and will thus be a significant asset for us.

Thank you very much. We apologise for the sound problems that prevented us from understanding some of your questions in full.

