



HIGH FLIER

Air France treasurer Frédérique Lacombe explains how her team is helping the airline to reduce its costs, pay down its debt and manage its business risks

Words: **Sally Percy** / Photography: **Sébastien Dolidon**



➤ If the airline industry is considered one of the most glamorous businesses to work in, then that must be doubly true when it's a French airline that we are talking about. So there will be many European treasurers who would secretly covet the job of Air France treasurer Frédérique Lacombe. But a business in any industry faces its own unique challenges and, as Lacombe herself will be the first to admit, airlines are no exception to this rule. They face very strong headwinds, both in the sky and on the ground.

Since the financial crisis and the economic meltdown that followed it, the Air France-KLM Group has been battling to curb its operating costs and to get on top of its net debt (which stood at €5.27bn as of 30 September 2014). With this in mind, Air France launched the Transform 2015 turnaround programme in 2012, which aimed to slash its cost base by €1.5bn. At the same time, it moved to regain competitiveness and take its brand 'upmarket' by enhancing its customer service and improving its seats, lounges and catering.

Since 2012, Air France has indeed succeeded in reducing its controllable costs by €1.5bn, down 7.9% in three years. But the process was inevitably painful, with employees being asked to accept salary freezes and longer working hours, as well as seeing the headcount of the workforce cut by 10%. Then, in September 2014, the Air France-KLM Group revealed its new Perform 2020 strategy, which is the successor to Transform 2015. Under this strategy, it is targeting an 8% to 10% growth in EBITDAR between 2013 and 2017. Lacombe describes the new strategy as setting out to achieve growth and improve competitiveness, while still having a "strong focus on costs and financial reinforcement". Part of this strategy entails expanding into selective growing markets in Africa, Asia and South America.

Air France's treasury has two main responsibilities with regards to supporting Perform 2020. Firstly, it is reducing costs through improved working capital management, lower banking

fees and increased productivity. Indeed, such is the importance that Air France stores by working capital that it has a cross-functional finance committee specifically dedicated to the issue of improving it. "We make people more sensitive to cash management," Lacombe explains. "We ask our operations staff to be more careful about when they pay their suppliers and when they get their cash in." Secondly, treasury is helping to create a smoother payment experience for customers by accepting more payment methods (for example, wire transfer and e-wallets) and facilitating payments on tablets and mobiles.

Headwinds

Air France has a small treasury given its size (it turned over €16bn in 2013). The team consists of 10 people, including Lacombe herself, and is based at Charles de Gaulle Airport. It carries out a wide spectrum of duties that range from worldwide cash management and investment to FX interest rate hedging and payment coordination.

One preoccupation is managing credit card payments, which are the source of around 65% of the group's turnover. Credit card payments are challenging, Lacombe says, because of the technological and regulatory issues associated with them, and also because of the many places where customers can pay for their flights or other services. "They can pay in travel agencies, at airports, through the call centre, on the web and on mobiles," she explains. "So we have to work with a lot of different teams."

She continues: "We are present in more than 100 countries and we get payments from all over the world by credit card. We need to be able to cash that money, so we need to have international acquiring banks acting for us. We centralise all the payments that we get and every day we make the remittance for all the transactions that have been done."

The treasury team works with a group of 12-15 core relationship banks globally. But it also uses a lot of local banks, >



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since it needs to draw on their cash management services in the various countries in which it does business. “Our activity is cyclical and seasonal,” says Lacombe. “Therefore, we have all our cash pooled at the centre so that we are able to operate.” This cash is in the region of €1.5bn, which is invested in deposits, term accounts and money market funds. Just in case you’re wondering, the interest rates it gets are positive, not negative.

Asset-based finance is Air France’s preferred form of financing for its aircraft and buildings. But, as part of its policy of diversification, it also uses bonds and syndicated loans. The airline, which gets away with being unrated because it is a fifth owned by the French state and is so well known, taps the bond market from time to time and Lacombe says there is “a good liquidity”.

Fluctuating fuel prices are a concern for Air France because they constitute around a third of the group’s costs and make up its second-biggest cost after payroll. They are also dollar-denominated, which presents the group with a significant currency exposure that treasury has to manage.

The airline holds a short position on the dollar, although it is long in all the other currencies in which it operates. This is because while it sells tickets in dollars, the proceeds of these are heavily outweighed by the costs of fuel, plane leasing and spare parts. It also has capex exposure in dollars due to its investment in planes. So it buys around €3bn in dollars annually. “We have hedging policies for the group,” Lacombe explains. “On the plane investment side, we try to smooth the FX risk by hedging on a long-term basis. On the operating side, and for the fuel, we have a two-year rolling hedging policy. We hedge the net exposure between our income and our expenses.”

Airlines are assumed to be major beneficiaries of the fall in oil prices that has hogged the headlines in recent weeks. Lacombe confirms that Air France will partly benefit from the price drops, since it was only partly hedged for 2015. Furthermore, the fall in oil prices naturally reduces the group’s exposure to the dollar.

The absence of growth in the eurozone clearly causes Air France some concern. “When you have no growth in economic activity, people don’t travel,” Lacombe says. “Even though we are an international business, our largest markets are still our home markets and the lack of growth is impacting on us.” In particular, fierce competition for passengers within the airline industry is squeezing ticket prices. Nevertheless, Lacombe is optimistic that the weakening of the euro against the dollar may boost the European economy this year and encourage Air France’s customers to travel more.

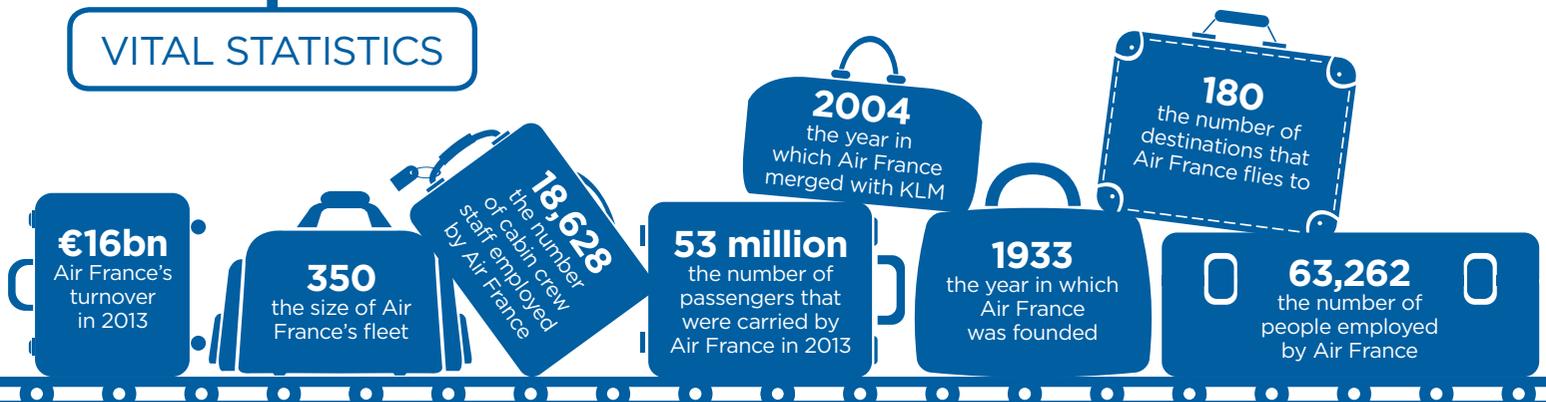
“In the financial world, it’s an issue that women don’t have the same possibilities as men”

Regulatory burden

It isn’t just FX that troubles Air France’s treasury. The airline’s international exposure poses other issues. For example, it runs into problems with sanctions issued by the Office of Foreign Assets Control when it needs to pay charges for flying over countries such as Iran, North Korea or Sudan. “It’s getting more and more complicated to pay the charges that we owe to these countries,” Lacombe explains. “The banks don’t want to transfer money to them.”

Then there is other legislation to consider. “We are affected by many different types of regulation,” notes Lacombe. “The Single Euro Payments Area [SEPA] affected our wire transfers and direct debits. Meanwhile, the European Market Infrastructure Regulation affected all our derivative transactions. Because we are required to match and declare these transactions on a regular basis, we have to do a lot of additional work.”

VITAL STATISTICS





The upcoming Payment Services Directive, which aims to make cross-border payments as easy, efficient and secure as 'national' payments within a member state, is also a bugbear. "Even when rules are made with the good intention of simplifying processes and reducing costs, they can be difficult to apply," Lacombe notes. She also has concerns about the Payment Card Industry Data Security Standard, a regulation relating to data protection that will impose costs on airlines – because it requires investment in IT systems, for example – without generating any additional revenue.

Of all the new regulations, SEPA is the only one that has added value so far, she concludes, "because we have a wide European exposure and it simplifies transactions".

Career trajectory

As a woman in a senior treasury role, Lacombe is one of the fortunate few. She does, however, believe that the gender imbalance could be worse than it actually is. "It is still a profession where there are more women compared with some other professions," she says. "I don't find it either an advantage or a disadvantage to be a woman in treasury. But there is a glass ceiling, globally, which is a real problem. In the financial world, it's an issue that women don't have the same possibilities as men."

While there are limited domestic professional qualifications available to treasurers in France, there is a very active treasury association in the country called the Association Française des Trésoriers d'Entreprise. Lacombe values being a member of that association and praises the training that it offers, as well as the "very useful material that its working groups provide on the main issues affecting treasurers".

Despite the challenges that come with her role, Lacombe still gets a buzz from working for the group that she joined in

FRÉDÉRIQUE'S TOP TIPS FOR SUCCESS

“Never lose an opportunity to learn. In our jobs, we have the chance to meet a lot of different people, so it can be very enriching.”

“The French treasury association offers a lot of value and it's very interesting being part of this association. It's good to be able to exchange your views and discuss issues with your peers.”

“My favourite gadget is my iPhone. I use it a lot. On it, I have market information, press information, my contacts, my music and even my transportation timing schedules.”

“The secret to my career success is having deep technical knowledge and being able to form good relationships. Also, I am curious.”

“The most difficult question my CFO could ask is: ‘Where will the euro-dollar exchange rate be in six months?’ No one would be able to answer that question!”

“The best way to unwind after a stressful day is by going for a run or having a good dinner with friends or family. For French people, food is important!”



FRÉDÉRIQUE'S CURRICULUM VITAE

2003-present

Treasurer, Air France

1991-2001

Deputy director of finance and treasury, Framatome

1986-1991

Broker, GREL

Qualifications

Diploma from Rouen Business School (1986)

Master in finance from Dauphine University (1987)

2003 after a decade-long stint in the nuclear industry. What Lacombe loves about the airline is its “international exposure, size and culture”, she says, and the fact that it is focused on people and service rather than on machines. And she says that she generally sleeps well despite the stress and responsibilities that come with her job, explaining: “I try to solve my issues during the daytime.”

Sally Percy is editor of *The Treasurer*