

COST REDUCTIONS HELP AIR FRANCE-KLM CUT LOSS



Air France-KLM Group (AF), the biggest airline in Europe, reported that the introduction of the EUR 2 billion (\$2.5 billion) savings plan has helped the company to cut down its second quarter loss by around 50%.

The company's operating loss fell to EUR 66 million in the second quarter from EUR 145 million in the same quarter last year. The increase in passenger traffic during the quarter was 2.4%. Load factor, a seat occupancy indicator, also improved in the second quarter. Further, bookings remain strong for the busiest travel period during summer.

The shares of Paris-based Air France-KLM surged the most after eight years of its inception by as much as 73 cents or 19% to EUR 4.62. The stock has advanced 16% this year, recording a market value of EUR 1.39 billion.

The Group announced last month that more than 5000 jobs or 10% of the positions would be cut in its unit in France. The airline expects to achieve job cuts through voluntary attrition and departures. According to the Jean Cyril Spinetta, the savings that accrue because of job cuts are essential to guarantee the survival of the unit. He said that the economic downturn and volatile exchange rates and oil prices have not only impacted the quarterly results, but also highlighted the importance of the turnaround plan Transform 2015.

The airline took into account a EUR 368 million charge to facilitate job cuts. This increased the airline's second quarter net loss to EUR 895 million from EUR 197 million last year. Air France-KLM said that the net loss in the quarter would be about EUR 230 million, if the exceptional items are excluded. In the second quarter, sales improved by 4.5% to EUR 6.5 billion.

Although the unions that represent the pilots and ground workers have generally expressed their agreement for job cuts, two main cabin crew groups do not agree with the proposal. This has made the airline indicate that the current agreements may be scrapped in March when they are due to expire.

In the second quarter, Air France-KLM's fuel costs rose by 13% to approximately EUR 1.9 billion. It is projected that the airline's fuel bill for the year will be about EUR 9.4 billion, an increase of EUR 400 million from a year ago.

According to Philippe Calavia, the airline has taken into account most of the charges in the quarter and hence it will be minimal in the second half. This may help Air France to record an operating profit in the second half which will be higher by more than EUR 195 million when compared with its achievement in the prior year during the same period. The airline also expects to reduce the net debt by the end of the year.

Further, Europe's biggest airline aims to organize its operations in the region into three units in order to bring down costs. One unit will be formed with Brit Air, Airlinair and Regional that serve smaller cities. The second unit will be organized as a leisure arm around Transavia, the discount division. The third unit will be formed by adding a no frills class to the short haul brand of Air

France.

Paris-based Oddo Securities analyst, Yan Derocles, said that the results of Air France-KLM are interesting as the company has been able to halve its operating loss as against the expectation that it would be the same as that for the previous year. The analyst recommends a buy as the airline's debt picture is also showing a positive trend.

Date: 2012-08-06

Article link:

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