

Speech to the Aviation Club, at 116 Pall Mall

28<sup>th</sup> April 2016

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First of all I would like to thank the Aviation Club for inviting me to speak to you all here today, it is a great pleasure to be able to do so as the CEO of a profitable Monarch Airlines – as most of you will be aware there were some dark days for us in 2014 and times when it looked as if the UK's oldest airline brand may be about to land for the last time.

I wanted to share my thoughts with you on the topical subject of the UK's referendum on our EU membership and how I see its potential effects on our industry, however I am not allowed to speak without at least touching on the progress of Monarch and our story over the last two years since I joined in April 2014.

I won't dwell on the detail of our restructure and turnaround, as it has been well publicised. As a very quick reminder however, the essence of what we did in 2014 was to remove £100m of revenue from a £900m turnover company, by streamlining into a low cost scheduled European carrier. At the same time we took out permanently £200m of costs, losing 700 colleagues with those who stayed voting overwhelmingly for 30% pay cuts and modernised terms and conditions. We moved our £158m pension deficit into the Pension Protection Fund, ended charter flying, sent back 10 aircraft including our long haul fleet of 2 and found new owners in Greybull Capital.

I joined Monarch from IAG where I had spent 20 years in various roles – and when I was approached about the Monarch opportunity – obviously not being aware of the problems the group was having, nor the potential for the owners to decide to sell – the reason I was attracted to it was that it had a reputation for great service, a great brand, excellent staff and a strong and loyal customer base. All these things, I'm pleased to report, turned out to be true – and they were the reason that the company was worth saving. They are hard to build – as hard as it is to do, it is much easier to restructure and cut costs, and rationalise a fleet than it is to build a brand, change a culture and gain customer loyalty.

I am delighted to report that Monarch moved from a loss in 2014 of £94m to a pre-exceptional profit before tax of £36m in 2015. I am pleased to say that we are on track to deliver a similar number this year, despite the challenges of terrorism and closed markets. Of course we have benefitted from low fuel prices, which began to fall in late 2014 as we were restructuring. I think it was Napoleon who said "bring me lucky generals"....and I am very happy to have benefited in this way – we decided to unwind our hedging positions and so we could benefit from the drop in price. Of course there have been many unexpected headwinds too – the closure of Tunisia and Sharm El-Sheikh, the migrant crisis dampening Greek bookings, bombs in Turkey reducing traffic by 60% and the Paris and Brussels attacks which dampened consumers desire to travel overseas for some weeks. For us to be delivering a sustainable return to decent profitability in this environment would not have been possible without the depth of restructuring that we carried out in 2014, and I am pleased to have built a cost base that could prosper with fuel at more than twice the current price.

We also placed an order for 30 firm Boeing 737 Max 8 new generation aircraft, and 15 firm options, which mean that by 2020 our average fleet age will have fallen from 12 to 2 years, and our fuel efficiency will have improved by 14% whilst delivering a 40% smaller noise footprint.

We have now set what we call our True North, which is our unchanging goal for the long term to be Europe's most recommended airline group, as measured by customers.

Our new owners, Greybull, have helped us greatly with our transformation plan and major new investment. You will have read reports that Greybull is in the final stages of discussions to take over Tata Steel's plants in Scunthorpe and elsewhere, and plans to rebrand them as British Steel. I am not party to those negotiations, but I can tell you that my experience leads me to believe that Scunthorpe would be in good hands with Greybull. I am sure we all would wish for a successful rescue of our steel industry, for the sake of all those who want to see this country stay serious about manufacturing.

So to Brexit. I speak as CEO of an Airline, assessing the implications of potential Brexit both on our industry and on my customers and my business.— First of all - I must, however, declare my personal position which is "remain".

A friend recently described himself as a reluctant remainder – and I think many of us are in that category – that is to say we can see many problems with the EU and would like to see it become more efficient and less bureaucratic – so we are not euro enthusiasts – but, when voting, will be voting with our heads, to remain, and not with our hearts, which I am sure in some cases lie elsewhere.

I have clear views on why, on balance, Remaining in the EU seems best for my company and for this industry, as I will explain. But first let me say this: with so many of all our customers likely to vote to Leave, I do not disparage at all the strength of their feelings or their right to express them. I hope that whichever side wins this Referendum will reach out to the millions who vote the other way, address their concerns genuinely, and seek to reunite our country as warmly and rapidly as possible. Whatever happens, we cannot allow this issue to paralyse us.

Being part of the EU has undoubtedly been good for airline travel in Europe and for consumers. The European airline industry has been transformed by the freedoms to trade and travel that the EU has driven across Europe.

When I was running leisure sales for British Airways some 15 years ago often a ticket to Paris would cost the same as one to New York. This has been transformed by the growth of the low cost carriers. They could not have grown at such speed without the freedom to fly anywhere in Europe, to open bases across Europe and to easily gain flying rights. Passengers have moved across Europe in historically unprecedented numbers, taking advantage of the EU's freedom to travel at will, to live anywhere in the EU, to own a holiday home, and to travel at lower and lower fares as competition from lean fast growing airlines drove down fares, which traditionally had been amongst the highest in the world.

British travellers today take for granted the EU's European Health Insurance Card reciprocal health cover scheme – but without it, many especially older travellers would be excluded from travelling by the high cost of travel insurance.

If we do decide to leave on June 24<sup>th</sup>, not much will change immediately – but it will create a period of unwelcome uncertainty for us all, which is never good for consumer confidence. As the rules of the UK's EU membership unwind and the UK (or will it be England as the UK breaks up?) starts trying to renegotiate freedoms to fly with dozens of countries – no longer even possessing the skills and resources to do so, as low cost carriers stop focussing on the UK as a major base for European expansion, as fewer Brits invest in holiday homes in the EU and as travellers come to terms with higher costs including medical insurance – this will I predict blow a chill wind through our industry and I can see no real upside for consumers in this scenario.

Having said that as a Board we believe that, as a mainly British carrier, with no overseas bases and with 85% of our customers being British, Monarch is potentially less exposed to Brexit than most of our low cost carrier competitors.

In summary it seems likely that the result of us voting to leave the EU will be at least two years of uncertainty, followed by the renewal of the all the bureaucracy and rules that we are currently bound by – all of the cost of membership, but without any influence at the seat of power in Europe whatsoever.

When we read about EU bureaucrats stifling British creativity - whilst they are often amusing stories of crazy rules from Brussels, anyone who has spent anytime living in our great country will be fully aware that our civil servants are more than capable of creating our own bureaucracy without any help from the EU!

My fear is that if we vote to leave the EU, we will create a period of economic uncertainty, after which we will end up signing up to all the rules of membership – to access the world's largest free trade bloc, including the free movement of people – and we will have to pay almost as much as we pay today – only we will have no influence as we will have no vote at the table. This Norwegian type model seems to be the most likely end point. I have yet to hear the Leave campaign articulate a more positive economic solution which allows us to continue to trade with Europe as we do today. As a consequence I find myself drawn to the position of reluctant remainer – although I would be much happier if the ballot contained a third option – which was Reform. However, in the end I believe Reform is better achieved from within the EU.

So, having discussed Britain's current battles with Europe, here in the former home of the United Services Club, where the Duke of Wellington built his own mounting block just outside where we sit to help him mount his horse in old age. I looked for something I could share with you from history which picks up the themes of bureaucracy and Europe and the military history of this great venue. As I am flying to Lisbon straight from here to mark the inaugural service of Monarch airlines to that destination, this letter from the Iron Duke himself written to his Whitehall masters seemed somehow to be appropriate to our discussion today. Indulge me for a few moments and I shall read you the words of the great man:-

"Gentlemen,

Whilst marching to Portugal to a position which commands the approach to Madrid and the French forces, my officers have been diligently complying with your request which has been sent by HM Ship from London to Lisbon and then by dispatch rider to our headquarters.

We have enumerated our saddles, bridles, tents and tent poles, and all manner of sundry items for which His Majesty's Government holds me accountable. I have dispatched reports on the character,

wit, spleen of every officer. Each item and every farthing has been accounted for, with two regrettable exceptions for which I beg your indulgence. Unfortunately, the sum of one shilling and nine-pence remains unaccounted for in one infantry battalion's petty cash and there has been a hideous confusion as to the number of jars of raspberry jam issued to one cavalry regiment during a sandstorm in western Spain.

This reprehensible carelessness may be related to the pressure of circumstances since we are at war with France, a fact which may come as a bit of a surprise to you gentlemen in Whitehall.

This brings me to my present purpose, which is to request elucidation of my instructions from His Majesty's Government, so that I may better understand why I am dragging an army over these barren plains. I construe that perforce it must be one of two alternative duties, as given below.

I shall pursue one with the best of my ability but I cannot do both.

1. To train an army of uniformed British clerks in Spain for the benefit of the accountants and copy-boys in London, or perchance
2. To see to it that the forces of Napoleon are driven out of Spain

Your most obedient servant

Wellington"

May I conclude by thanking you once again for listening to me today, and thank you to the Aviation Club for allowing me to speak at the beginning of lunch, so that I can get to Lisbon for the launch of our inaugural service. I do have a few minutes to take some questions and would be happy to do so.

Thank you