

ALEX CRUZ, CEO British Airways: AVIATION CLUB SPEECH, 6 December 2017

Check against delivery

INTRODUCTION

Good day everyone and many thanks to Jane for giving me the chance to come back to this prestigious venue and meeting. It is always great to catch up with everyone and I am very thankful for the opportunity to share with you some thoughts about our industry and about how we at British Airways are developing our modernisation plans as a premium airline committed to customer choice.

2012 AND TODAY

It's been five years since I last addressed you. I recently glanced back at my speech from 2012, when I was chief exec of Vueling in Barcelona - and clearly, the context for global aviation has changed a great deal since then. Then, we were paying \$111 per barrel of oil; we had no low-cost long-haul businesses; the US major airlines were only just starting to reap the financial benefits of Chapter 11 and consolidation; Barack Obama was in the process of being re-elected and the conflict in Syria was only just beginning.

And yet, as I reflect about some of the messages I shared with you five years ago, it is clear that many other things haven't changed. European short-haul competition has intensified yet further, leading in only the last few months to some consolidation (very light so far) with the unfortunate demise of Monarch and Air Berlin and the likely transformation of Alitalia.

We also continue to face an unreasonable tax burden which unnecessarily restricts the true ability of our economies to develop. And of course, we continue to be an industry which is required to become more efficient every day.

Oh, and I can't resist mentioning my prediction from back then that EasyJet would start providing feeder traffic for other airlines.

EUROPEAN SHORT-HAUL

Let me say a little more about three of those themes. I spoke about the intensity of competition in the European short-haul market. Well, whether you're sitting in Vueling's offices in Barcelona or British Airways' offices at Waterside, that intensity is just as hot.

I dare say you will have different views about the success of European legacy carriers in facing up to low-cost competition on short-haul – and you may even have different views about how British Airways has taken on this challenge. So let me make our position clear: we are, and always will be, a premium airline. And we are, and always will be, committed to customer choice.

Given some of the fares in the market-place, we make no apology for making ourselves more efficient in various ways so we can consistently compete effectively. Thirty years ago when BA was privatised, our cheapest return fare to Rome was – in today's money - £398. Now, it's £80.

Low fares are popular – and for many customers expected. But they do not happen by magic. They happen because an airline has got itself in the right shape to be able to offer them. So I'm very pleased when we offer hundreds of thousands of seats from London for £30 or less, as we have this autumn. And I'm equally pleased that the customers seem happy about that too.

There has been quite a focus on our short-haul product in the course of this year, so I think it's worthwhile setting out what differentiates us in that market.

For example, our airports - we fly from London's most convenient airports and we have far and away the best networks from London's two most central airports, Heathrow and City. And we fly to convenient airports at your destination too.

We have a fantastic loyalty programme, which has won awards many times, and offers great benefits including lounge use (with complimentary catering) and priority in seat selection, check in and boarding.

We have our unique Avios scheme that gives you points when flying or shopping, which you can spend on future flights – either with British Airways or one of our airline partners.

We have the best punctuality record on departures from London of all the 'big three' short-haul carriers.

We are the only UK operator to offer customers a choice of cabin on short-haul flights, and this year restored a premium cabin on UK domestic services. And if you're an economy customer, we're the only airline to have partnered with a leading British brand, namely Marks & Spencer, to supply the onboard catering.

On many of our routes, we have the biggest schedule and therefore offer more choice of flight times. When severe weather disrupts flying, we give you more journey options – and of

course we have our brilliant flight crew and cabin crew, who have an unrivalled bank of experience and expertise.

Forgive me for listing so many of the distinctive attributes British Airways offers. I know many of you are familiar with them but sometimes, in the hurly-burly of debate, they can be overlooked.

AIR PASSENGER DUTY

Here in 2012, I also mentioned tax. Then I was concerned about a new tax on Spanish airport users. Now I'm concerned about what is becoming an old tax that continues to weigh down the potential economic contribution of the whole UK aviation industry.

Despite its negative impact on wealth creation and jobs, APD remains with us. It is the highest aviation tax in Europe and it continues to rise: to £78 for long-haul economy from next April, and £172 for all other cabins including premium economy from April 2019. It discourages UK businesses and individuals from interacting with the world and the world from visiting the UK. As the country prepares for life after Brexit, this tax makes less sense than ever.

EFFICIENCY

And I stressed the importance of efficiency in all things. We are certainly very conscious of that at British Airways. We benefit from the economies of scale and synergies available to us as part of the IAG group. We are reducing back-office headcount. We are continually reviewing our processes and ways of working and, as many of you know, we are currently discussing our future pension arrangements with our colleagues and trade unions.

Naturally, we don't pursue efficiency for its own narrow sake. We do it to strengthen our business, enable us to take on the competition and create the financial headroom to invest for customers.

MOVING TO BRITISH AIRWAYS

Five years ago, I was in a different job. Since then, of course, I have moved from Vueling back into a very large iconic airline, British Airways. The first 10 years of my working career at American Airlines were perhaps just a small taster for what I was to find when I joined BA

20 months ago. The differences with Vueling are stark: size, strength of the brand, complexity, the appreciation of BA's heritage and, frankly, BA's values.

These values are special and timeless: our essential Britishness; our history of innovation; our expertise and professionalism; and our personalised service that puts quality and reliability first. As an adopted Londoner who has lived here for more than 21 years, I know well the place British Airways holds in the affections of this country and right around the world.

I often share with my colleagues and others how I felt when I started working for BA. I found a group of 45,000 professionals who were, first, extremely passionate about the company they work for – and I thought I was the king of culture at Vueling! No, BA's staff live and breathe British Airways every day.

Secondly, I found a tremendous amount of experience about our industry - IATA rulebooks partly written by new colleagues of mine; deep knowledge about extremely technical topics in engineering; tremendous breadth and depth on everything related to security; and yes, pilots, cabin crew and airport staff that have been there, done that and made BA great over the years. Huge passion and experience.

I also found some intensifying challenges to British Airways as a business. Yes, my predecessors, including a certain Irishman who continues to be my boss today, had achieved an incredible list of structural changes which fundamentally place BA today at the top of its peer league across multiple measures, underlined by a solid balance sheet. And thanks to that work, today I can focus on building a British Airways that will make it through all the competitive headwinds, old and new, short-haul and long-haul - as well as some different types of pressure.

DIGITAL CHALLENGE

Because for the first time, we are facing challenges that don't have much to do exclusively with the airline industry.

The digital revolution is here; it's happening; and it is already affecting our industry, full-on, every day. There are many angles to it but I would like to share two which are very much occupying a great deal of our time and increasingly our budget: customer expectations and digital disruptors.

The customer expectations discussion is easy: have you ever had a problem with Uber, Amazon, Deliveroo or any of the new service providers? They are incredibly wonderful on

how they recover from any problems they may have. They are fast, generous and leave you with a sensation that they will really do everything in their power for whatever problem it was never to happen again.

And they are educating you and me as consumers in terms of what to expect when dealing with brands. So consumers are becoming more and more demanding in relation to what we expect in terms of service. It is essential we interact with our customers quickly, accurately, consistently and in line with their expectations. If not, consumers will drift to competitors who do it better!

And on disruptors, well. Have you ever heard questions like... 'Why don't you know where my bag is... right now?'; 'Why are you posting a 15-minute delay when I know your average delay over the last year on this route is six minutes?' More and more start-ups are coming up with apps and services that inch into our operating models, providing an attractive proposition to our customers. And frankly, we should also be aware of the significant inroads that the large online players are making in AI, machine language and analytics. It's happening. Now. In our industry. At British Airways, we are working very hard on our response and we'll have more to say next year.

MODERNISING AND INVESTING

We are focused on modernising our airline, from the inside to the outside. Because of the changes we're making, we were able to announce a £4.5bn investment plan last month – which will see us take delivery of 72 new aircraft over the next five years, including four new types for BA.

If I just look at our plans for 2018, what can British Airways customers expect to see?

We will be welcoming 18 new aircraft, including our first Airbus A320 and A321 'NEOs' with their significantly improved environmental performance.

We will also be operating our biggest-ever route network, with new long-haul services launching to Nashville and the Seychelles from Heathrow and Toronto and Las Vegas from Gatwick. We're continuing to expand our short-haul network too and, in total, will be flying 39 more routes in 2018 than we did in 2016 – an increase of 17 per cent.

And that is without including our new slots at Gatwick. We look forward to choosing which destinations to fly them to, and we will let you know as soon as we can.

We're also growing our new leisure services from the regions, which we introduced this year. From May 2018 there will be extra weekend flights to the Mediterranean from Manchester, Birmingham and Bristol.

Our transformation of Club World continues with our very well-received catering and bedding changes starting to roll out beyond our New York JFK services. We launched Newark yesterday, Boston follows on Friday, and San Francisco and San Jose next week. From January, you will see these products spread right across our long-haul network. And you will also see significant upgrades to catering for our economy customers in the World Traveller cabin.

We will also open completely redesigned lounges in JFK (Club and First), Rome and Aberdeen. The vast majority of our long-haul fleet will be embodied with wifi by the end of next year and we will have installed 72 more self-service bag drops at Heathrow – that's triple the current number to continue to make our customers' journey through the airport as fast and smooth as possible.

And that's just 2018! Over the next few years, we have many more plans that will further strengthen our position as a premium airline committed to customer choice.

CONCLUSION

I would just like to end by reminding you that at British Airways, we are coming up to a very special anniversary, our Centenary, in 2019. A fantastic, inspiring and motivating anniversary. And 2019 looks a special year for the UK too, the year designated for Brexit to commence.

I am not going to add to the vast amount of commentary on that issue – I'm sure you've heard and read more than enough! My simple message is that whatever Brexit brings, British Airways will be flying the flag across the globe linking the UK economy to the world.

Ladies and gentlemen, it's been a privilege to address this distinguished audience for a second time. Supported by that passion and fantastic experience of our great British Airways team, I am completely committed to maintaining and strengthening the position of British Airways at the forefront of world aviation. We have an exciting future and I firmly believe our best days lie ahead.

Thank you very much.

