Remarks for Calin Rovinescu
President and CEO, Air Canada
Air Canada Annual General Meeting
May 6, 2019, Toronto

Introduction

Calin Rovinescu

Good Morning and thank you for taking time to be with us today.

It’s a pleasure to be here in Toronto.

What we just watched was a recent Air Canada television commercial that is part of a campaign to promote our award-winning, North American business class.

I wanted to open with this advertisement because it shows better than words alone our commitment to customer service excellence.

In addition to effectively showcasing our new premium products and services, it conveys the sophistication and the personal service that are becoming the hallmark of the Air Canada brand.

Its fast pace reinforces that we are a company in continuous motion.

We are evolving and moving ever more quickly to anticipate our customers’ needs – at every touchpoint.

All this to say, although your company is now more than 80 years old, the last decade stands out as being truly transformative for Air Canada.

During this time, we went from an airline whose continued existence was in doubt to becoming a leader in our industry, to a Canadian global champion and North America’s Best Airline.

And our objective is for this to sustain over the long term not only from quarter to quarter or year to year.
Throughout our transformation and evolution, your executive team has demonstrated that your airline can be sustainably profitable regardless of fuel price volatility, economic uncertainty, trade wars, aggressive competition or even a Black Swan event, such as we are managing today with the grounding of the Boeing 737 MAX - an overnight grounding of over 20 per cent of our mainline narrow-body fleet.

I will provide more colour on our team’s response to this challenge further in the presentation but suffice it to say that Boeing has historically manufactured very safe aircraft and we are confident that they will find the right solutions to get the MAX flying safely again.

Our final decision on returning the MAX to service will be based on our own safety assessment following the lifting of government safety notices and approval of the software modification training protocol by the FAA, Transport Canada and other relevant regulatory authorities.

As you will have read, we have removed the MAX from our schedule through the summer to provide our customers certainty and confidence when booking their vacations.

Our transformation is also evident in several years of record results, a vastly stronger balance sheet, an expanded global network, a much more resilient cost structure, a better debt rating, significant free cash flow, pension plans with a strong surplus, as well as stable, long-term labour deals with our key unionized groups.

These achievements position us well to compete on a global platform with the best in the world.

**2018 and Q1 2019 Results**

Before looking at our results, I want to specifically acknowledge the presence of our Regional partners, Chorus and Jazz, Sky Regional, Air Georgian and EVAS Air. Thank you. You collectively make us better.

Please note that the financial information for 2018 is as originally reported in our 2018 annual report.
It has not been restated for the adoption of IFRS 16 which became effective January 1st of this year.

We reported record operating revenue in excess of $18 billion in 2018, up from $16.25 billion in 2017.

Increasing revenue has been one of our key accomplishments as it signals health in our highly competitive business.

We have experienced nine straight years of revenue growth.

Passenger revenue growth of 11.2 per cent outpaced our capacity growth, which was 7.1 per cent for the year.

Our load factor in 2018 was 83.3 per cent, up a full percentage point from 2017.

We reported EBITDAR in 2018 of $2.85 billion – including record fourth quarter EBITDAR of $543 million.

This is over four times the EBITDAR we reported in 2009 when our transformation began – Unprecedented growth for Air Canada.

We generated free cash flow of $791 million which exceeded the $500-to-$600 million projection we had made for the year.

On a GAAP basis, your airline reported net income of $167 million compared to $2 billion in 2017.

The decrease in GAAP net income year-over-year was mainly due to an increase in net tax expense of $981 million, unfavourable foreign exchange results of $437 million, and Air Canada recording a $188 million loss on disposal of assets in 2018.

Adjusted pre-tax income amounted to $952 million in 2018 compared to $1.165 billion in 2017.

Costs
These solid results are also attributable to our aggressive focus on cost control.

Our CASM increased 6.0 percent versus 2017 largely as a result of higher fuel cost and our adjusted CASM increased only 0.3 per cent from 2017, and we outperformed virtually all major North American carriers in terms of year-over-year cost discipline.

Such discipline is now entrenched at Air Canada.

On capacity growth of 65 per cent, Air Canada’s adjusted CASM decreased nearly 10 per cent over the 2012-to-2018 period.

In keeping with our priority of cost control, we continued to find efficiencies through our CTP program intended to secure $250 million in savings by the end of 2019.

Including the improvements starting this year to the Jazz CPA, we have now realized or identified savings of $242 million, or 97 per cent, of our goal.

With Air Canada’s consistently strong results, we have also accumulated record levels of liquidity.

At the end of 2018, we had over $5.7 billion in unrestricted liquidity, up from $4.2 billion at the end of 2017.

Security we never ever had before.

It helps shield us in the event of volatile fuel prices, of trade wars, of recessions or other macro-economic factors beyond our control.

Or other unprecedented events.

Complementing this has been our success addressing our pension deficit.

From a pension liability that exceeded $4 billion, we had a pension solvency surplus of $2.5 billion as of January 1st.
And we have also significantly immunized the plans, which now have over $20 billion in assets, against future fluctuations.

**Q1 results**

These positive trends continued with strong results in the first quarter of 2019, which we released this morning, materially better than last year’s Q1.

These included:

- Operating revenues of $4.45 billion, a record for the first quarter and an increase of $382 million from the same quarter in 2018
- Net income, on a GAAP basis, of $345 million, compared to a net loss of $203 million in the first quarter of 2018
- EBITDA of $583 million compared to $504 million in 2018
- Record unrestricted liquidity of nearly $6.9 billion
- And a leverage ratio of 1.2

And all of this in a quarter where we faced severe and prolonged weather in the form of extreme cold, brutal ice storms and massive snowfalls from coast to coast.

To put it in perspective, the extreme weather and the grounding of the MAX fleet contributed to a quarter with nearly 8000 flight cancellations, over 1600 of which were on Mainline, a 40 per cent increase over Mainline cancellations in the same quarter last year.

And despite that, we delivered record revenues and EBITDA, ahead of both last year and analysts’ consensus estimates.

Rating agencies have taken note of our performance.

In fact, since the beginning of the year, we received corporate rating upgrades from two credit rating agencies, Standard & Poor’s and Fitch.
Since 2012, our credit ratings have significantly strengthened, including five-notch improvements from both Standard & Poor’s and Moody’s.

We have reduced the risk profile of the company, as evidenced by our lower leverage ratio of 1.2, in comparison to our leverage ratio of more than 8X in 2009.

Given our significant past improvements in all key metrics, and our expected improvements in leverage and margin, we believe that we are on the cusp of investment grade status.

In the meantime, our stock price has not just been hanging around, waiting for such validation.

Last year, when the TSX index fell 11.6 per cent, the Dow fell 5.6 per cent, and North American Airlines fell 22.35 per cent, our shares retained their value and in 2019 they are already up nearly 30 per cent as of last Friday and this morning went past $35.

They have now returned more than 4,000 per cent since we first set about to transform ourselves a decade ago.

And, we were again last week named a Megastar by The Globe and Mail’s “Report on Business” for the third consecutive year.

This report contains detailed data on the largest 1,000 companies in Canada and is based on a star system that ranks stocks according to their attractiveness as potential value and momentum investments.

**Going forward**

Despite these successes, there are a wealth of opportunities before us for the future.

In fact, in many ways we are just getting started.

To capitalize on these opportunities, we know we must further evolve our business and continue to transform.
This transformation will be guided by the same four, mutually reinforcing core priorities that our Chainman mentioned before that have brought us such success over the past decade.

The first of these are the twin goals of cost reduction and revenue generation with margin improvement.

In terms of cost savings, there are several initiatives underway, including our new reservation system, which is expected to yield significant operational and financial benefits as we implement it later this year.

Additionally, we anticipate cost benefits through the continued transformation of our narrow-body fleet, once the MAX is returned to service and we introduce the Airbus A220 in our fleet.

Both of these aircraft deliver substantial unit cost savings over the aircraft they are replacing.

Another cost-saving driver has been Air Canada Rouge. With its lower cost structure, it is enhancing margins in leisure markets, and has played a pivotal role in our contingency planning during the MAX groundings. Rouge has been extremely successful for us and as we look to the future, it will remain fundamental to our competitive transformation.

Rouge achieves strong load factors on an annual basis, which has contributed to our decision to add larger Airbus models, such as the A320 and the A321, to our Rouge fleet to replace the smaller A319s.

By gauging up, we can leverage further CASM reductions and increase Rouge’s overall profitability. In 2019, we will be adding 11 aircraft to the Rouge fleet-many of them the highly-efficient Airbus A321.

Revenue

But, as the high-profile failures of several Ultra Low Cost Carriers around the world show, cost efficiencies need to be accompanied by effective revenue generation.
Air Canada is well-positioned in this regard as we continue to leverage our extensive network, branded fares and our unique competitive advantages.

The acquisition of Aeroplan, finalized in January and the launch of our new program next year, will further enhance our margins and liquidity levels.

In fact, the benefits of Aeroplan were included in today’s first quarter results and are already exceeding our expectations, which were in excess of $2.5B NPV over 15 years.

Additionally, our revised CPA with Jazz has also begun boosting our results.

Ancillary revenue is key to expanding margins and we continue to innovate and explore opportunities to remain ahead of the industry.

We expect to continue generating incremental passenger and ancillary revenues through our improved suite of fare categories.

With a continued focus on ancillaries we grew our 2018 ancillary revenues 13 per cent compared to 2017.

Two other important engines of revenue growth are Air Canada Cargo and Air Canada Vacations.

Each had a very strong year in 2018 – with Cargo now exceeding $800 million in annual revenue - and we expect both to continue to play integral roles in our operation.

**International Expansion**

Our hard-won financial turnaround has given us the flexibility to pursue unprecedented international growth, making us much less reliant on domestic traffic.

Network diversification allows us to meet our profitability targets and withstand market slowdowns and increased competition.
In the past decade, our network has seen our international capacity grow by more than 80 per cent.

We have started service to more than 60 new destinations, including some 48 new international destinations.

Last summer alone we launched 25 routes, virtually all of which have met or exceeded our expectations.

Over the decade, we hit numerous milestones from a network perspective, notably flying to three destinations in Australia launching up to three daily flights to India, serving two destinations in Africa and launching up to two daily non-stop flights from the Asian continent to Montreal.

We have also grown our position in the lucrative European market by introducing 39 new routes and adding 26 new destinations.

**Competitive Hubs**

Anchoring our growth strategy has been the elevation of our three main hubs to make them globally competitive in terms of capacity and destinations reached.

Each hub offers a unique opportunity in terms of geography and demography, and therefore each is critical to the diversification of our network.

Look at Toronto on this slide, it is now number 1 to Europe ahead of Newark, JFK and Atlanta. Pretty good company.

Montreal is also a top 10 hub to Europe and poised to grow into the top five.

Toronto and Vancouver are each top three to the Asia-Pacific region, and Toronto is the largest Asia-Pacific hub in Eastern North America, surpassing Chicago and Detroit.

Essential to this growth has been increased transit traffic through these hubs.
The US market continues to be the most lucrative and desirable aviation market in the world.

Since 2013, we’ve grown the US transit business by carrying 132 per cent more passengers.

Yet, we are still not seeing our fair share of approximately 2 per cent.

Hitting this modest level would provide an incremental annual revenue upside of $675M dollars.

**Narrow-body fleet**

Going forward, the MAX, the Airbus A220 (formerly the C-Series) and the renewed capacity purchase agreement with Jazz are all critical to our ability to grow our US transit business.

Our new CPA with Jazz presents us with significant network and fleet flexibility in this market.

This year, we plan to accelerate our narrow-body fleet transition, moving away from smaller less competitive airplanes, to more efficient and CASM competitive types.

Over the period of 2019 to 2025, Air Canada will also accelerate the retirement of smaller and less efficient regional aircraft, such as the smaller Dash-8 models.

**Culture change**

When we began our transformation, we consistently stressed that culture change, another of our four priorities, was needed.

Fundamental to our success in this area was our ability to work with our major groups to secure ten-year labour contracts with most key unions.

This is unprecedented in our industry and gave us a solid foundation upon which to rebuild our culture.
Our vision was for a more entrepreneurial “can do” culture; one that would be performance-based, without silos and which would embrace our mantra of “Winning as One Air Canada”.

Vital to our success is an increased focus on customer service and putting our customers at the forefront of everything that we do.

To this end, we are investing in tools and soft skills training for our employees. Our training is much more collaborative and cross functional, with groups having the opportunity to interact with each other and management during training, rather than in an old-fashioned, classroom type setting. We are also leveraging digital ways of providing information to our frontline staff.

We are supporting this through effective Talent Acquisition. The war for talent is fierce, but our employer brand has growing appeal. For example, our turnover average, at 5.6 per cent, is around half that of the national average. We have also won numerous employer awards, including one of Canada’s Top 100 Employers for the six consecutive years, one of Canada’s Best Diversity Employers for four straight years, and the second most attractive company brand to work for in Canada.

As we grow and as employees retire, we are constantly refreshing our talent.

As part of this, we have put an added emphasis on diversity, and today we have 25 per cent visible minorities in our Canadian workforce, up from 20 per cent in 2014.

Diversity brings untold benefits, including new ways of thinking and problem-solving, it enriches the workplace, appeals to our global customer base and opens the deepest pools of talent to our recruitment efforts.

We hired over 5,000 new employees in 2018 and we continue to receive hundreds of applicants for every job we post.

To give you an example of how attractive your company is as an employer, we posted four new positions for our Artificial Intelligence/data science labs.
You would not think a legacy carrier could be competitive with high tech, fintech, biotech or other silicon-valley tech like companies.

Well, we received over 700 highly qualified applications!

The extent and the benefits of culture change at Air Canada were made resoundingly clear this March when Transport Canada and other global regulators grounded the MAX fleet.

The immediate effect of this was to remove 24 aircraft from our fleet without warning, literally overnight, upending the travel plans of some 9,000-to-12,000 customers per day.

Employees working in every part of the company rallied immediately.

Our network planners and operations teams reorganized our schedule virtually overnight. Flight crews agreed to change shifts and work extra time. Airport colleagues and call centres took care of impacted customers.

Maintenance and other colleagues redoubled their efforts to keep the remaining fleet available and to secure additional aircraft. Our customer service protected passengers in other flights, including competitors where we needed to.

In the end, approximately 98 per cent of our affected flying was covered in March.

It was a textbook display of the type of nimble response I have, over the decade, insisted Air Canada must become capable of if it is to thrive. More importantly, everything we did was driven by a focus on safety and providing superior customer care. Our response to this exceptional event showed very clearly there are no silos any longer at Air Canada, and we are winning as one team.

**Customer Engagement**

Our fourth priority is around Customer Engagement.
Highlighting our success in this area, Air Canada was named the Best Airline in North America in 2018 based on a survey of 20 million global travellers by Skytrax.

It was the second year in a row and the seventh time in nine years we have received this recognition.

We also remain the only 4 Star international network carrier in North America and achieved a five-star rating for customer experience from APEX, the Airline Passenger Experience Association.

In addition, we are also especially strong among the all-important market segment of high yielding frequent business travellers.

Your company is far and away Canada’s preferred airline by 92 per cent of frequent business travellers, according to the Ipsos Reid 2018 Canadian Business Traveller Survey.

Additionally, readers of leading frequent business traveller magazine, Business Traveler, recently named Air Canada “Best North American Airline for International Travel” and “Best North American Airline for Inflight Experience”.

These and other awards are evidence of our customer focus.

It is for this reason we and other Canadian airlines and airports have profound concerns around the pending federal legislation known as Bill C-49 or the “Passenger Bill of Rights”.

While well-intentioned, it does not take into account the complexity of the airline business and if implemented in its current state it may well have unintended consequences, including a negative economic impact on the whole industry, resulting in higher fares.

And for those of you who are both shareholders and customers, rest assured that with or without this legislation, we have no intention of resting on our laurels as Best Airline in North America.
This is why we have invested heavily in new aircraft and onboard amenities. This is why we have introduced new Priority services at airports. This is why we have launched Air Canada Signature Service.

This is why we continue to spend on new and refurbished lounges – including North America’s best airport lounge, the Air Canada Signature Suite at Toronto-Pearson.

For most customers now transiting one of our hubs, they experience expedited security and customs and are not required to collect their bags.

This is a competitive advantage for us, particularly for the global traveller, who values connecting options that are quick and hassle-free.

**Digital**

We are also upping our game with respect to investments in IT, digital, data analytics and effective customer relationship management.

For example, our new reservation system, akin, frankly, to a heart transplant in an airline and at a significant cost in terms of both capital and people, will handle all our reservations on all platforms and power our departure control processes across our global network.

When it begins to roll out later this year it will improve customer service and operational efficiency.

We are starting to use AI to better understand our customers’ needs and deliver more relevant content, services and offers. Data for many businesses including ours, has indeed become the new oil.

While always respecting the privacy expectations of our customers and new privacy laws, we are planning on exploring, drilling, and commercializing our customer and process-rich data reserves over the coming years in a meaningful fashion, building new efficiencies in our operations, a stronger customer experience, and powerful loyalty to our brand.

And, on the subject of loyalty, with the successful acquisition of Aeroplan, we have re-acquired what many consider the second most valuable
currency in the country after the Canadian dollar. With it also came tremendous analytics, loyalty marketing, technology and customer care talent.

Our Digital and Loyalty teams are now comprised of over 200 people devoted solely to these areas, and we fully expect to deliver not only the best loyalty program in the country, but one of the best airline loyalty programs in the world starting in 2020.

**Sustainability**

We operate in over 200 communities and another way we engender loyalty is by contributing to these communities.

When it comes to our values expressed through our Corporate Social Responsibility, safety is our foremost core value.

First, last and at all times. To ensure safe operations we have a very robust Safety Management System and standard operating procedures throughout our airline. Our SMS not only reacts to safety incidents, but also combines extensive reporting systems and data mining techniques to identify in advance potential risks so that they do not arise in the first place or if they do, that they are corrected quickly.

This is also why we are being extremely prudent in our response to the issues with the MAX and had in any event purchased all recommended additional safety features for this aircraft.

We believe that it is also by fully participating in the communities we serve, that our airline truly prospers. This is why we set up the Air Canada Foundation, which in its eight years has helped thousands of ill and disadvantaged children.

We have also made and continue to make meaningful contributions to alleviate major problems and assist with humanitarian crises when they arise, both in Canada and globally. This explains why we respond so quickly to natural disasters and humanitarian crises around the world.

**Environment**
I am also proud of our efforts to reduce our environmental footprint. Today, based on over $12 billion invested in our new aircraft, our fleet is 44 per cent more fuel efficient than it was in 1990 and since 2012, we have achieved a 3 per cent average annual fuel efficiency improvement, doubling the IATA industry target of 1.5 per cent. These are achievements we are very proud of and represent gains that few in the industry can match. And we will do even better once the Airbus 220 enters our fleet in replacement of less fuel-efficient.

We are also pleased to demonstrate our environmental commitment on Earth Day each year. This year, Air Canada announced a partnership with environmental organization 4ocean, a company dedicated to actively removing waste plastics and trash from the ocean and coastlines while inspiring individuals to work together for cleaner oceans. As the exclusive Canadian airline to sponsor 4ocean, this partnership marks an important step in Air Canada’s plastic reduction strategy – which we also highlighted last year with a commitment to remove single-use plastics from our aircraft.

In 2018, Air Canada was the lead partner in a pilot project to introduce biofuel into the shared fuel system at Toronto Pearson. Through this one project we reduced our emissions by 160 tonnes in one day. 160 tonnes. Moreover, we showed it is feasible to supply aircraft with biofuel through regular airport systems. This sets our whole industry up for success in reducing emissions in the future.

And our crowning achievement last year was being named, as our Chairman mentioned, the 2018 Eco-Airline of the Year by the respected airline industry publication Air Transport World at its 44th Annual Airline Industry Achievement Awards.

This is a global award. Being number one in the world in sustainability sends a strong message to both governments and to our various stakeholders that we are serious about this - with or without an imposed carbon tax!

Finally, we have made taking care of our people one of the four pillars of our Sustainability program. In fact, this is the part of our story that I am
proudest of. Besides record financial results over the last years and our stock market performance, our transformation saved 26,000 jobs.

We created an additional 5,000 positions, and we saved pensions for another 32,000 retirees and their families.

And we also improved career prospects and job progression for all front-line employees.

Conclusion

Our global team of 33,000 and especially the talented executive team I have the privilege to work with everyday have worked hard to transform your company over the last decade.

And looking to the future, your company will keep leveraging Air Canada's natural advantages such as our geography, our brand and our legacy – while we continue to invest in people, fleet, network, product, loyalty and data.

To not only deepen the bonds with our customers but to further raise the bar.

Consider us an 80-year-old startup. Although we are over 80 years old, we are doing all this with the vigour and upbeat mindset of a startup – with the confident expectation of exponential growth and the audacity to say we can truly be amongst the best on the planet.

Before closing I want to thank our Board of Directors for their constant support and you, our shareholders, for your confidence in investing with us and following our story.

Thank you

END