

Remarks for Michael Rousseau
President and Chief Executive, Air Canada
Air Canada Annual General Meeting
June 29, 2021

Introduction

Thank you Vagn.

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

It is a great pleasure for me to make my first Annual General Meeting report to you as the President and Chief Executive Officer of Air Canada.

In fact, I am already looking forward to my second annual meeting next year, at which time I am confident COVID-19 will be behind us. By then, not only will I have been able to meet with many of you in person, but I expect I will have much better news to share.

Year in Review

Looking back at 2020, COVID-19 had a severe impact on the global airline industry, especially international airlines like Air Canada.

During the year we endured a 73% decline in passengers carried. As a result, total revenues fell \$13.3 billion, or 70%, from 2019 to \$5.8 billion.

This in turn led to an operating loss of nearly \$3.8 billion, compared to operating income of approximately \$1.6 billion a year earlier.

Our share price suffered too, losing as much as 80% of its value by March 2020. I am happy to report, however, that our stock has since more than doubled from that low and, as you will hear today, I am confident of further recovery in the future.

Although the financial results of 2020 were deeply disappointing, the response of our employees was truly inspirational.

COVID-19 revealed the depth of the resilience, resourcefulness and professionalism of the Air Canada team. I thank them for their tireless work and their commitment to our customers, our investors and to all stakeholders during this very difficult time.

Safety Measures

As it must always be, the safety of our customers and our people has been our primary consideration throughout the pandemic. You can be assured that Air Canada was an industry leader in this respect:

- In January 2020, weeks ahead of the federal government's decision to halt flights to China, Air Canada suspended its service to that country and early-on we also began providing PPE to our employees.

- In April 2020, we mandated masks be worn by all customers onboard our aircraft – a month before it was recommended that we wear masks in public.
- In May 2020, Air Canada instituted pre-boarding temperature checks for all customers, again, a month before Transport Canada ordered the same.

We also implemented Air Canada CleanCare+. This is a comprehensive biosafety program for customers and employees covering all parts of the customer journey.

So successful has this program been that earlier this year we received APEX's Diamond Status Certification. We are the only airline in Canada and one of the first in the world to attain the highest possible ranking in recognition of our health and safety measures.

Financing and Cost Savings

We also took care of the financial health of our company.

During 2020, we raised nearly \$6.8 billion in additional liquidity.

This strengthened what was already one of the strongest balance sheets in the industry, relative to our size.

Among other measures, we drew upon existing credit lines, sold equity and issued debt at attractive rates, placed several tranches of EETCs and securitized aircraft to end the year with \$8 billion in unrestricted liquidity. Even then, we still had a minimum of \$1.7 billion in unencumbered assets available to raise more funds if necessary.

Subsequent to the yearend, we obtained what I term “additional insurance” by negotiating a support package with the Government of Canada. It makes approximately \$3.975 billion available to us, should we require it.

Combined with these steps were significant cost-saving measures. Operating expenses decreased by nearly \$7.9 billion or 45% from 2019, reflecting our significant success managing variable costs and reducing fixed expenses.

For example, we moved quickly to take 79 aircraft out of our passenger fleet permanently. Apart from immediate savings on operational costs, this decision had a secondary benefit in that the aircraft grounded are older, so our overall fleet efficiency and carbon footprint will improve.

We also undertook a company-wide cost and capital reduction and deferral program that reached \$1.7 billion in savings.

Regrettably, one element of our cost savings program was a necessary workforce reduction. Nearly 20,000 employees were furloughed or let go during the year, painfully reversing a remarkable decade of job creation at our company. We did preserve 15,000 jobs – or about 40% of our workforce – even though our capacity fell 67%.

Now, we have recently begun to recall workers, with some 2,600 expected to return in June and July. We look forward to welcoming our colleagues back as we start to rebuild our network and our company.

Travel Recovery

That it is time to rebuild is evident. Everywhere we see signs of renewal.

COVID-19 case counts are dropping across Canada and vaccination programs are advancing. Governments around the globe have begun relaxing quarantine and other travel restrictions.

For our part, we know our customers are eager to fly again. In our regular frequent flyer surveys, nine of 10 respondents indicate they are now planning future travel, with 46% planning to go somewhere between now and September.

Restoring Services

In anticipation of demand returning, we have begun making preparations, recalling employees and resuming flights to certain destinations. We are reopening Maple Leaf Lounges and reintroducing onboard services such as our Bistro buy-on-board, which will be available on most flights within North America by the end of summer.

Moreover, some COVID-19 measures will become permanent. This includes touchless check-in, baggage-drop and lounge services, and we will look to expand the use of facial recognition biometrics for boarding after a successful test in San Francisco. These will make the airport experience easier to navigate and quicker for customers.

From a growth perspective, we will continue to build out our Air Canada Cargo operations. ACC came into its own during the pandemic by moving swiftly to capitalize on increased demand for air cargo capacity at a time when such capacity was at a premium due to the grounding of so many flights.

We were one of the first airlines to convert cabin space to accommodate cargo and we operated over 4,000 all-cargo flights in 2020. Based on this success, we are fully converting a number of Boeing 767s into dedicated freighters, with the first two arriving this year. The expansion of Air Canada Cargo is expected to play an important role in Air Canada's recovery.

As part of this initiative, we intend to generate incremental cargo revenue by entering the e-commerce business. Our goal is to drive end-to-end value through enhanced technology, dynamic pricing, and transparency across the delivery supply chain over the next year or so in Canada.

Ongoing programs

Finally, understanding COVID-19 was only temporary, we completed long-term, foundational programs started prior to the pandemic with the objective of positioning us well for the future.

First, as mentioned, we have made substantial changes to our fleet, grounding older Boeing 767, Airbus A319 and Embraer 190 aircraft. Their retirement will reduce Air Canada's cost structure, simplify the fleet and shrink our carbon footprint.

Concurrently, we carried on with our narrow-body fleet renewal program. Most importantly, we brought the Boeing 737 MAX 8 safely back into service, which took a tremendous effort by our technical and flight operations teams. As well, we continued to take delivery of Airbus A220 aircraft.

At yearend, we had 24 of a firm order of 40 MAX and 15 of a planned 33 Airbus A220s in the fleet. The capacity, range and versatility of these aircraft make them ideal for Air Canada both from a customer and economic perspective.

Two other major projects that will be fundamental to our long-term success are the new Passenger Service System, or reservation system, and our new loyalty program. PSS was a complex, multi-year project that was completed early last year. It gives us greater ability to serve customers, manage our inventory and work with partner carriers.

The second project, the transformed Aeroplan, was launched last fall. Although we have yet to see its full potential due to COVID-19 travel restrictions, it has been extremely well received.

Members will find improved value on flight rewards, more options, such as family sharing to pool points, and it has replaced the Altitude program to better reward our best customers. We have started to add important new relationships like Starbucks, and we expect to add more in the near future to further enhance the utility of the overall program.

Additionally, we have strong relationships with major credit partners, including TD, CIBC and American Express and, in the U.S., Chase and Mastercard. Apart from providing wide accumulation opportunities for members, these strategic partnerships give our program incredible exposure and enhance our ability to attract new members.

ESG

Another area where we have not relented is sustainability and social responsibility.

We know we have an obligation to the communities we serve and to the places where our employees live and work. For this reason, we continued through the year to promote through various programs the well-being of our people and customers, including an emphasis on diversity and inclusion. As well, The Air Canada Foundation continued to support ill and disadvantaged children.

A key component of social responsibility is the environment. Apart from our own desire to be good corporate citizens by behaving responsibly, it is increasingly important to investors, customers and employees.

Throughout the year we undertook a number of environmental initiatives. This included installing electric chargers for airport vehicles, reducing waste including by diverting more than 800 tonnes of waste from landfills, and working with third-party groups, such as we did with IATA to obtain Illegal Wildlife Trade certification for our cargo operations.

Early this year, we took another major step forward by setting an ambitious climate target of net-zero greenhouse gas emissions throughout our global operations by 2050. This included establishing interim goals so that our progress can be tracked. We also committed to invest \$50 million in Sustainable Aviation Fuel and other measures for carbon reduction and removal.

These are very substantive yet very achievable goals.

Conclusion

After a decade of incredible success, growth and profitability at Air Canada, the onset of COVID-19 and its disastrous impact on the global airline industry has been a severe blow.

However, the worst of the pandemic appears to be behind us, and our attention is now upon a safe restart. Our vision for recovery rests on leveraging the solid foundation we have built to re-establish ourselves as a Canadian global champion.

This will involve rebuilding a strong global network, with a focus on hub-to-hub flying, providing seamless connectivity with Air Canada's partners, delivering consistent and superior customer service and diversifying our revenue base, such as through Aeroplan and Air Canada Cargo.

It will also require that we remain diligent in finding and implementing measures to reduce costs and increase revenues.

Supporting all of this will be key investments in technology.

Technology will play a central role in our business processes. It is the primary way to cost-effectively ensure consistency while staying flexible. It is only through technology that airlines can provide a satisfying, individualized experience to tens of millions of customers each year. This is why we are devoting considerable resources to such things as AI, machine learning and analytics, as well as mobile and digital technologies.

That said, while customers like the convenience technology can provide, there will always be a need for positive human interaction. At the end of the day, airlines are in the customer service business. Nothing can replace the warm greeting, friendly smile or the added assurance that comes from personal attention. For this reason, we are committed to enabling our people and encouraging them to create meaningful personal connections through the customer experience.

For these and many other reasons, I am extremely optimistic about our future. It is also why, as I said at the beginning, I am looking forward to our next annual meeting where I will update you on the progress we are making.

Finally, I wish to call out the talented leadership team I have the pleasure of working with through these unbelievable challenging times. I would also like to thank the Board of Directors of Air Canada for their staunch backing, leadership and thoughtful input during these difficult times. As well, I wish to thank our shareholders for their ongoing support. We know better times are ahead and that Air Canada will rise higher than ever.

Thank you.