

**Remarks by Calin Rovinescu**

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**Empire Club of Canada**

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Good afternoon and thank you Gordon for that kind introduction.

Bonjour à tous. Il est pour moi un grand plaisir d'être parmi vous aujourd'hui.

In September 2010, just about 5 1/2 years ago, as we were coming out of the near-death crisis years of 2008 and 2009, I was invited to speak at the Banff Global Business Forum and rather than talk about the past challenges, I selected as my topic "Becoming a Global Champion in Today's Market".

We had just come off of the two worst years in commercial aviation. Jet fuel had spiked to over \$140/barrel and was hovering well above \$100. We had come off of a net loss of over \$1 billion, our pension plan deficit exceeded \$4 billion and our stock price was at less than \$1.

I called this Global Champion goal "aspirational" and was "confident" we could achieve it, but promised that we would not spike the ball on the 10 yard line. Others had more descriptive expressions for our Global Champion ambition such as "delusional". Some in fact wondered what we were smoking and whether our plight qualified us for medicinal marijuana - and those were the very early days of any discussion of legalizing it.

By 2010, Canadian business had already lost many leading global icons from diverse fields such as telecommunications, manufacturing,

retail, mining, energy, steel, breweries, high tech, etc. and there had been much debate about the "hollowing out" of Canada. So, I thought then, that I would take the theme of global leadership and build it into somewhat of an internal Air Canada challenge and indeed mantra – for our Board, our senior executives, our managers, our line employees.

To understand how highly successful champions in other industries - like Amazon, Apple, Google, Samsung, Boeing - were able to achieve what they had achieved.

Why couldn't Air Canada, a then 75 year old airline, be capable of really thinking big, despite the challenges of 2008 and 2009. And why couldn't we make the case for being a Global Champion coming out of the very deep recession we were then in.

Were we relevant enough to be a Global Champion? Were we global enough? What is a Global Champion anyways? What role does a welcoming regulatory, legislative and taxation regime play? How much does sustainable revenue growth and bottom line profitability matter? How important is it to be capable of competing with the best in the world, in terms of cost, product, service and network?

Frankly, with the history and brand strengths of Air Canada, simply having everyone in our organization asking themselves these very basic questions was already half the battle.

Moreover we learned two very valuable lessons. That one cannot be shy when all is bleakest - we had to take risk to move quickly to seize opportunities arising from the ashes of 2008 and 2009. And that one must play to one's strengths rather than see one's legacy as a weakness. We were not a 10 year old low-cost carrier and we could

not pretend to be one – we were then 75 years old and one of the world's leading international carriers with very many legacy strengths.

So how have we fared on our journey to be a Global Champion 5 and 1/2 years into it? Here is our report card. Now, frankly I must confess that whether or not we were to actually ever be recognized as a Global Champion was almost irrelevant – it was the very aspiration and ethos of continuous improvement that mattered to me, the setting of basic priorities that would put us on track to that Global Champion moniker.

Global Champions should sustain profitable growth. Six years ago our revenues were \$10 billion. In 2015, our annual revenues were \$14 billion, a 40% top line growth for a legacy company now nearly 80 years old. Our earnings, or EBITDAR were \$2.5 billion last year versus \$679 million in 2009 – an increase of 270%. We now have a pension solvency surplus of \$1.3 billion versus a deficit of \$2.7 billion

at the end of 2009. And our share price is now up more than 800% over 2009. We also just concluded our most profitable year, with adjusted net income of \$1.2 billion.

Global Champions should create meaningful employment, globally. We now employ over 28,000 people, making us one of the largest private sector employers in the country. Our people work in 29 countries on all six continents of the globe.

Global Champions should have a powerful and well understood brand. On a busy day we can fly more than 140,000 people, or a total of 41 million last year, to 200 destinations worldwide. We are now among the top 15-20 largest airlines in the world – out of almost 1,000. More importantly, however, we have grown to this size despite Canada's modest and dispersed population base. And the center of our focus has been Toronto, which has emerged as Air Canada's primary global hub.

The stakes for Toronto are higher than ever because the competitive field is broader than Canada alone; it's global. And the prize is much bigger than for just Air Canada and our stakeholders.

Global Champions are significant players in terms of the economy.

They drive economic growth. We spent roughly \$9.5 billion on products and services in 2015, approximately half of that in Canada.

Last year we booked 475,000 hotel rooms just for our employees. In

Ontario alone we have 12,000 active employees plus 2,200 at our subsidiaries and partners, Air Canada Rouge, Air Canada Vacations,

Jazz and Sky Regional, all of whom spin off incremental economic

activity. And a 2013 PwC UK study has shown a very direct

correlation between airline growth and GDP growth, in bound tourism, trade and foreign direct investment.

This is why around the world countries are investing heavily in airport infrastructure. They want to create hubs to draw in global traffic flows

so travelers can converge and connect, and possibly stay to visit, or even set up a business. It is a virtuous circle. More flights mean more customers, which in turn supports more flights, and so on... all the while generating incremental economic activity.

Holland is a great case study. It is a country of 17 million people, about half of Canada, that had 58.2 million passengers travel through its main Amsterdam Schiphol airport last year. From Schiphol, travelers can fly directly to 322 destinations, almost double Pearson's - and we are working hard and fast to spread our wings to take advantage of this great opportunity.

As a country, we are playing catch-up. But there is still a lot of opportunities for Canadian airports as the global industry is projected to grow steadily over the next 20 years.

The International Air Transport Association projects that with an expected 3.8 per cent average annual growth in demand, passenger numbers will reach 7 billion by 2034. That is exactly twice as many who flew in 2015. All this explains Air Canada's strategy to make Toronto an even more powerful global hub and create other hubs in Montreal and Vancouver.

Global Champions should have an uber engaged workforce (and I am not speaking of ride-sharing types here). Here too we have seen a major change at Air Canada. We now have unprecedented 10-year labor agreements with most of our major unions. We have been named one of Canada's Top 100 employers for the third year in a row and our employees voted us one of the winners in Glassdoor's 2016 Employees' Choice Awards as one of the best places to work in Canada. This would certainly have not been envisioned 5 or 6 years ago.

*Les chefs de file mondiaux contribuent de manière durable et significative à la diversité et à l'inclusivité. La promotion de la diversité est non seulement la bonne chose à faire, mais également un avantage concurrentiel. Diverses études le démontrent, et comme l'une d'elles l'a conclut : « Une combinaison d'outils peut être plus puissante que les outils eux-mêmes ». Ce principe s'applique tout particulièrement à Toronto, qui est l'une des villes les plus multiculturelles du monde. Nous sommes fiers que nos employés parlent une soixantaine de langues. Pour vous donner un exemple de mise à profit de la diversité dans la vraie vie, nous avons exploité cette année 13 vols pour amener des réfugiés syriens au pays. Nous avons pu affecter à nos appareils des employés qui parlent arabe, ce qui, pour nombre de ces familles, a rendu plus agréable ce difficile voyage.*

*Je suis convaincu qu'en rencontrant d'emblée des Canadiens qui parlent leur langue, ces nouveaux arrivants ont découvert d'une belle façon le multiculturalisme canadien. Enfin, nous sommes très heureux d'avoir été récemment reconnus comme l'un des employeurs les plus favorables à la diversité au Canada en 2016.*

Global Champions find ways to exploit their USPs (Unique Selling Points) and have cutting edge products and services. Since 2010, we have been very determined to re-engage our customers in a meaningful way and challenge the organization to see if we have what it takes to not only excel once in a while or when our backs are against the wall but to consistently excel from year to year.

We've got the benefit of great geography – Vancouver is a natural gateway to the Pacific and Toronto, of course, benefits from being located near the centre of North America, as a superb pivot point for

customers transiting between domestic, trans-border and international flights.

We have invested heavily in new equipment with a \$9 billion capital expenditure program, mostly for new generation aircraft. We will have one of the youngest fleets in the sky. We intend to press this advantage as we keep taking delivery of the 37 Boeing 787 Dreamliner aircraft we have on order. Complementing these will be our new narrow body aircraft, including the Boeing 737Max starting in 2017, and the Bombardier CSeries in 2019.

While our other unique selling points are our network and geographic competitive advantage, we also offer service on the only Four-Star international airline in North America. Our next generation cabin features new lie flat suites in International Business Class and the first dedicated Premium Economy cabin in North America. Recently we

completed the installation of in-flight Wifi on North American flights and announced plans to begin installing satellite Wifi on our wide-body, international fleet beginning later this year. We also plan to spend \$300 million in 2016 to refurbish our Boeing 777s and bring them up to the new standard.

Our efforts since 2010 were recognized through a series of industry awards including Best Airline in North America for five straight years, based on a worldwide survey conducted by independent research firm Skytrax.

Global champions embrace risk, seize new opportunities, innovate and expand. In our case we took a sizeable risk to launch Air Canada rouge as a leisure brand in the face of Air Canada's premium brand and conventional offering. But rouge has been an amazing success - not only contributing significantly to our profitability, but also

enabling us to maintain or expand our leisure routes, enter new markets to sun destinations, Europe and Asia, and also create a targeted opportunity for our workforce to expand and seize new opportunities. It also gives us amazing flexibility to deploy aircraft to different markets in winter and summer - at a much lower cost throughout the whole year.

Global Champions foster a culture of success – they feel like and behave like winners. Being nimble and having both flexibility and results orientation as part of your DNA. And this is what I consider perhaps our greatest success since 2010: changing the very culture at Air Canada - as a corporate culture sets the tone for everything that you do. In our business, a very complex service business, this entails giving employees more discretion and empowering them to make decisions. To create a culture of entrepreneurship and performance orientation - not easy for a company such as ours, which has historically been rule-bound and process driven. Basically, we needed

to become a big company behaving more like a small company, stealing some very basic entrepreneurial drivers.

Global Champions must have a truly global mindset. Most of our growth over the last five years has been international. We have sought to shake off parochialism and have our company adopt that needed global mindset. We have increased our capacity outside Canada by more than 47 per cent. Last year, and again this year, fully 90 per cent of our growth will be in international markets. We are investing in long range aircraft for the global arena. We are competing with all global players. We are hiring based on global skills and ambitions. We are not willing to compromise our future based on the prejudices and restrictions of the past.

Since 2009, we have launched non-stop service from Toronto to more than 30 destinations. While this has included new Canadian city

pairings, U.S. and sun destinations, the most exciting have been our international routes. Among these are non-stop flights to Athens, Amsterdam, Barcelona, Copenhagen, Delhi, Dubai, Edinburgh, Tokyo/Haneda, Istanbul, Manchester, Rio de Janeiro and Venice. This summer new routes will include Glasgow, Budapest, Warsaw and Prague.

We are not afraid to have our Toronto global hub compete with the likes of rival hubs in New York or Chicago - so we have been working very hard with the GTAA to dramatically improve the connection process to better compete for international connecting traffic – that is traffic flying from one country to another country by connecting in Canada. We are seeing meaningful growth in this type of business at all our hubs.

Let me give you an illustrative example. For someone in Philadelphia travelling to Asia, there is no non-stop service, so they will have to

connect somewhere. Due to the curvature of the earth and Toronto's location, Air Canada can offer very competitive if not the fastest elapsed travel times via Toronto. Even more, connecting through Toronto is easy compared to going through a major U.S. hub, especially for inbound travel, because customers do not need to get their bags for customs inspection until they reach their final destination.

The Canadian domestic market is limited in size and is already quite mature. There is therefore a huge opportunity in the international connecting traffic that flies to and from the U.S. At present, Air Canada has less than a 1 per cent share of such traffic flying on non-U.S. carriers. If we could boost this to even 1.5 per cent that would translate into an additional 1.68 million passengers per year, or approximately \$605 million in incremental revenue.

Global Champions support other key industries where a win-win outcome is possible. We are proud to be the first major North American carrier to order Bombardier's CSeries. We believe it sends an important signal to the market that should give other airlines the confidence to purchase this extremely efficient, next generation aircraft. Moreover, we also think it is extremely important to support the Canadian aerospace industry and invest in Canadian jobs and technology provided both Air Canada and the industry can stand to gain. At list prices, our order is valued at \$3.8 billion for the firm order alone. This is a substantial commitment to the CSeries, which is not simply a signature aircraft program for Bombardier, but also one of the most important innovative technology projects in Canada today.

Global Champions invest and manage their businesses for the long term, not for quick hits or short term trading opportunities. Think about the amazing business that Amazon has been building, with virtually no profit for years. Airlines in particular, operate over a long,

virtually generational cycle. Take aircraft purchasing. First you typically study an aircraft's requirements and try to understand what the market will require several years in advance.

Once you order an aircraft it typically takes four or five years until delivery and of course you will have no clue whether or not the universe will have changed by then or whether you might be in the middle of a new recession. The aircraft then, typically has a lifecycle of 25 years. It amounts to a serious commitment that cannot be measured meaningfully in any given quarter. Therefore, an investment timeframe has to match this long term strategy and more and more, well-known investors, such as Larry Fink, CEO at Blackrock, are increasingly speaking to the importance of “long-termism” in investing and in managing businesses. I wholly endorse that. We need to run our business and make capital allocation decisions based on sustainable profitability in the long term interests of our stakeholders.

A level playing field is crucial for global success. True Global Champions from other countries are often unconstrained in their ability to compete and win based on exploiting their strengths. In this area, the public policy framework in Canada has not always been favourable and in particular with respect to our industry and Air Canada. The federal government continues to collect billions of dollars in hefty airport rent on facilities that operators have now paid for many times over. In Ontario, the government has imposed a 148 per cent increase on fuel excise taxes. The industry carries burdensome security surcharges that are not reinvested in the industry. Policies such as these translate into higher travel costs that impede economic activity.

Moreover in Air Canada's case in particular, our company has been subject to some rather unique provisions of a 30-year-old privatization statute, *The Air Canada Public Participation Act*, dating from the time the company ceased to be a Crown Corporation three decades ago.

These include certain obligations for mandatory provisions in our Articles as to where we are required to perform aircraft maintenance.

No other airline in Canada or to our knowledge, any private sector airline anywhere, is subject to restrictions such as those imposed on Air Canada. Not Westjet, nor Porter. Not Air Transat, nor SunWing. Not British Airways, nor American Airlines. Not Cathay Pacific, nor Emirates. Etc, etc.

Fundamentally, to continue to succeed and thrive in the global marketplace and to create high-skill job opportunities in Canada beyond those held by our 28,000 employees, we need a level playing field and the same ability to manage our business and affairs as our competitors.

Last month the Federal government tabled a bill to amend and modernize the Air Canada Act, which we believe was long overdue. The amended Act recognizes the reality that Air Canada is a private

sector company, not an instrument of state policy, owned by private sector interests, which operates in a highly competitive global industry that has undergone dramatic transformation over the past three decades.

It is also recognition that the best jobs are those created by strong, private sector employers. For employers to thrive, let alone to develop into the kind of Global Champion that this country needs, there must be a competitive, business-friendly landscape; one where companies such as ours are permitted to compete with the best in the world on a level playing field, with the market determining price and cost inputs.

In Air Canada, Canada has an iconic, global brand that has succeeded through eight decades of incredible change to product, networks, markets and customer expectations, and while we may or may not be

on that elusive 10 yard line near the Global Champion goal, I can tell you that we are and will continue to embrace that change.

And we intend to keep evolving, innovating and reinventing ourselves to find the new Global Champion playbook and to stay ahead of the curve. There is a world of possibilities out there awaiting us and the best is yet to come.

Thank you.