

The Empire Club Presents

CALIN ROVINESCU PRESIDENT AND CEO, AIR CANADA:

April 4, 2016

Welcome Address by Dr. Gordon McIvor, President, Empire Club of Canada

Good afternoon, ladies and gentlemen, from the Arcadian Court in downtown Toronto, welcome, to the continuation of the 112th season of the Empire Club of Canada. For those of you who are joining us either through our webcast, our podcast or on Rogers Television, welcome, to our meeting today.

Before our distinguished speaker is introduced today, it gives me great pleasure to introduce our head table to you.

HEAD TABLE:

Distinguished Guest Speaker:

Calin Rovinescu, President and CEO, Air Canada

Guests:

Mr. Bill Braithwaite, Chairman, Stikeman Elliot LLP

Mr. Barry Campbell, Founder and CEO, Campbell Strategies

Ms. Catherine Charlton, Past President and First Female President, Empire Club of Canada

Mr. Bob Dorrance, Chairman, CEO & President, TD Securities

Mr. Rupert Duchesne, Group Chief Executive, AIMIA

Ms. Barbara Jesson, President and CEO, Jesson + Company Communications Inc.; Director, Empire Club of Canada

Mr. Colin Lynch, Vice President, Strategy and Growth - Executive Office, Greystone Managed Investments; Director, Empire Club of Canada

Dr. Gordon McIvor, Executive Director, National Executive Forum on Public Property; President, Empire Club of Canada

Mr. Anthony Melman, President and CEO, Acasta Capital

And my name is Gordon McIvor. I am the Executive Director of the National Executive Forum on Public Property. Ladies and gentlemen, your head table.

We are also very pleased to have with us today a group of students who are joining us from the Aviation Program at the University of Waterloo. Welcome.

Introduction

There are few companies in Canada that are truly iconic and have played a fundamental role in shaping our country's history, culture, recreational pastimes and even basic life choices. There are even fewer that are as well known around the world as they are here at home, but when the federal government created Trans-Canada Air Lines in 1936 and began operating transcontinental flight routes two years later, they knew that this was going to be game changer in the way that Canadians lived, worked and vacationed. This company would unite the second largest land mass, second largest nation on the planet in a way that had not been done since the completion of the first national railway back in 1885.

At the Empire Club, which has always been a reflection of this country's history and, even at times, its mood, it was, therefore, not surprising that one of the most significant speeches of 1938 was given its title quite simply by the name of its new company, Trans-Canada Air Lines. The speaker was the Vice President of the new company, Philip G. Johnson, who reminded the audience that flight was no longer just a military occupation as it had been during the Great War and that, in fact, the company's first and most important mission was the delivery of mail. Passenger flight, too, would now become increasingly important. Here is a quote from that memorable speech delivered at this very podium eighty years ago.

The task of putting a transcontinental airline across Canada is really a three-party proposition: First of all, the company that is charged with the operation and the organization of the actual flying. Secondly, the government that is represented by the Post Office Department and the Department of Transport. The Post Office furnishes our payload and the Department of Transport, the ground facilities necessary to carry out this work. The third party, of course, is the public. No matter how well the first two partners cooperate or how well we do our job, the company cannot succeed, cannot be a success or the

service a success unless the public, in fact, uses it—and uses it intelligently.

By “intelligent use” of the air service for your mail, for your express, and for your passengers, I mean to use it when it serves as economic purpose, not just because of a fad that passes from day to day. And I am sure that our air service will serve an economic need in Canada and that, through such use, Trans-Canada Air Lines, which is your company, will succeed.

Now, of course, Mr. Johnson was entirely correct in noting that this was far more than a fad, and we all know the milestones the company had which followed this momentous date: The rebranding to the new name of Air Canada in 1965, the complex privatization that occurred in 1988, the acquisition of Canadian Airlines in 2000, and the subsequent growth marked by a few financial hiccups and even one heavily mediatized bankruptcy in 2003 which followed.

Today, Air Canada belongs to that very select club of international carriers that flies to all six, inhabited continents and manages to do so with one of the most sterling safety and service records of any airline in the world. This week, we welcome the man who has been at the helm of this very successful, international company for several years, Mr. Calin Rovinescu. Last Friday, in fact, some of you will know that he celebrated his seventh year in that position.

He originally joined the company back in 2000 after a highly successful career as a managing partner at the law firm, Stikeman Elliott, in Montréal, where he practiced law for over twenty years.

While he left the company for a few years to co-found and manage Genuity Capital Markets, an independent investment bank, his heart was obviously still flying on the wings of Air Canada. And when he rejoined the company, it was as though he had never left. He had already led the restructuring of the company in 2003–2004, and, now, he wanted to take the airline to the next level—going far beyond financial stability and growing into what industry associations have named “the best international airline in North American and, indeed, one of Canada’s best-managed companies.” Perhaps, his leadership ability comes from the very impressive list of different operational areas that Mr. Rovinescu has managed at the airline: Legal, information and technology, e-commerce, human resources, labour, government affairs, communications, marketing, even corporate secretary.

If anyone in Canada knows more about the aviation and passenger airline business than our guest today, we at the Empire Club have not yet discovered this person. In fact, our 1938 speaker who addressed us on the future importance of Air Canada’s predecessor company would have called him a “Renaissance Man,” an individual who has all of the multiple and complex skill sets in place to be able to

invite all Canadians and peoples from around the world to “Come fly with me.” Ladies and gentlemen, it is our great pleasure to welcome to the podium today, the President and CEO of Air Canada, Mr. Calin Rovinescu.

Calin Rovinescu

Thank you very much, Gordon. That was very, very nice and generous on your part to tell a little bit of our history and a little bit of the richness of what this company has meant to so many people for so many years. And, in fact, it is actually a great segue. You are a great setup man, so, if you are ever looking for a second career, there is one waiting for you.

In September 2010, just about five and a half years ago—and, again, as I said, this is a great segue from what Gordon just mentioned—as we were coming out of the near-death experiences of 2008 and 2009, I was invited to speak at the Banff Global Business Forum, with which some of you may be familiar. And rather than talk about the past challenges—because I thought we were getting pretty tired about hearing about the challenges and the word “challenge” in the same breath as “airlines”—I selected as my topic “Becoming a Global Champion in Today’s Market.” Air Canada had just come off of the two worst years in commercial aviation. Jet fuel had spiked to over \$140 a barrel and was hovering then well over \$100 a barrel. We had come off of a net loss of a billion dollars. Our pension

deficit exceeded \$4 billion, and our stock price was at less than \$1.00. So I called this global champion goal “aspirational” and was “confident” we could achieve it. But I promised our team 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 you will remember, of course, those were the very early days of the discussion around legalizing marijuana.

By 2010, Canadian business has already lost many leading global icons from diverse fields, such as telecommunications, manufacturing, retail, mining, energy, steel, breweries, high tech, and there had been much debate about the so-called “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 successful champions in other industries, like Amazon, like Apple, Google, Samsung, Boeing were able to achieve what they had achieved. Why could not Air Canada, a then 75-year-old company, be capable of really thinking big, despite the challenges of 2008 and 2009? And why could we not make the case for being a global champion coming out of the very deep recession that we had just been in? Were we relevant enough to be a global champion? Were we global

enough? What is a ‘global champion’ anyway? 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 strength 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 risks and to move quickly to see opportunities arising from the ashes of 2008 and 2009. Secondly, 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 with a clean sheet of paper nor could we pretend to be one. We were 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 five and a half years into it? Here is our report card. Now, frankly, I must confess that whether or not we actually were ever to be recognized as a so-called global champion is almost irrelevant. It was the very aspiration and ethos of continuous improvement that mattered to me; it was the setting of very basic priorities that would put us back on the track towards that global champion moniker. Global champions should sustain profitable growth.

Six years ago, our revenues were \$10 billion, and, in 2015, our annual revenues were about \$14 billion, a 40% top line growth for a legacy company now nearly 80 years old. Our earnings or EBITDAR was \$2.5 billion last year whereas it was \$679 million in 2009, an increase of 270%. We now have a pension solvency surplus of \$1.3 billion versus a deficit that was \$2.7 billion at the end of '09. And our share price is now up more than 800% over 2009. We just completed our most profitable year ever 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 around the world on all continents, as you just heard.

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 people a year to 200 destinations worldwide. We are now among the top 15 or 20 largest carriers in the world out of about a 1000. More importantly, however, we have grown to this size despite Canada's modest and dispersed population base.

The centre of our focus is right here in Toronto, which has emerged as our primary global hub. The stakes for Toronto are higher than ever because the competitive field is broader in Canada alone. It is 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 for our employees. In Ontario alone, we have 12,000 active employees plus 2,200 subsidiaries and partners, Air Canada Rouge, Air Canada Vacations, Jazz and Sky Regional, all of whom in turn spin off incremental economic activity.

And an interesting 2013 study by PricewaterhouseCoopers in the U.K. found that there was a very direct correlation between airline growth and GDP growth, inbound tourism, trade, and foreign direct investments. 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 vicious circle. More flights mean more customers which in turn support more flights and so on, all the while generating incremental economic activity.

Holland is a great case study for us. It is a country of about 17 million people—about half of Canada—and it had 58.5 million passengers travel through its main Amsterdam Airport Schiphol last year. From Schiphol, travelers can fly directly to 322 destinations, almost double Pearson's destinations, and we are working hard and fast to spread our wings to take advantage of this incredible opportunity.

As a country, we are playing catch-up, but there is still a lot of opportunity for Canadian airports, as the global industry is projected to grow steadily over the next twenty years. International Air Transport Association (IATA) projects that, with an expected 3.5%–3.8% average annual growth and demand, passenger numbers will reach 7 billion by 2034. This is exactly twice the number flew in 2015.

Global champions should have an uber-engaged workforce—and I am not referring to the ride-sharing types here. Here, too, we have seen a major change at Air Canada. We now have unprecedented ten-year deals, ten-year labour agreements with most of our unions. We have been named one of Canada’s Top 100 Employers for the third year in a row, and our employees voted us as one of the winners of the Glassdoor 2016 Employees’ Choice Award, as one of the best places to work in Canada. And this would, frankly, have been unimaginable six or seven years ago.

Global champions find unique ways to exploit their unique selling points, their USPs, and cutting-edge product and services. Since 2010, we have been very determined to reengage 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 when our backs are against the wall but to consistently excel from year to year.

We have 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 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, and we intend to press this advantage as we keep taking delivery of the 37 Boeing 787 Dreamliner aircraft we have on order. Complimenting these will be our new narrow body aircraft, including the Boeing 737 MAX 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 4-star network international carrier 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 Wi-Fi on all of our North American flights and announced plans to begin installing satellite Wi-Fi on our wide-body, international fleet later this year. We also plan to spend \$300 million, part of that \$9 billion, in 2016 to refurbish our existing 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, as you just heard, for five straight years based on a world-wide survey conducted by the independent research firm Skytrax.

Global champions embrace risk, seize new opportunities, innovate and expand. In our case, we took a sizable risk to launch Air Canada Rouge as a leisure brand in the face of Air Canada's premium brand and conventional offerings. 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, to 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 a results orientation as part of their 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%. Last year, and, again, this year, fully 90% 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 pairs and some U.S. and sun destinations, the most exciting have been our international routes. Among these are non-stop flights from Toronto 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 hub compete with the likes of rival hubs, for example, in New York or Chicago, so I have been working very hard with the GTA 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. And we are seeing meaningful growth in this type of business at all of our hubs.

Let me give you an example. For someone in Boston traveling to Asia, there is no non-stop service. 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 market is, of course, limited in size and is already quite mature. There is, therefore, huge opportunity in the international connecting traffic that flies to and from U.S. airports where Canada has open skies. At present, Air Canada has less than a 1% share of such traffic, other than traffic flying on U.S. carriers. If we could boost this to even 1.5% that would translate into an additional 1.68 million passengers or approximately \$600 million a year.

Global champions support other key industries for a win/win outcome, if 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 that 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 business for the long-term, not for quick hits or short-term trading opportunities—and I am not looking at anyone in particular by the way in this room. 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. For example, aircraft purchasing. First, you typically study an aircraft's requirements to 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, for example. The aircraft then typically has a life cycle of 25 years. It amounts to a serious commitment that cannot be measured significantly 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, the CEO at BlackRock, and many of our own pension funds here in Canada, are increasingly speaking to the im-

portance of long-termism in both investing and in managing businesses. I wholly endorse that. We need to run our business and make our 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 with respect to 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% increase on fuel excise taxes. The industry carries burdensome security surcharges that are not reinvested in the industry. Policies, such as these, translate into a higher level of costs that indirectly impede economic activity; moreover, in Air Canada's case, in particular, our company has been subject to some of the 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 years ago. These include 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 in the world is subject to restrictions such as those imposed on Air Canada—not WestJet, not Porter, not Air Transat, not Sunwing, not British Airways, not American Airlines, not Cathay Pacific, not Emirates, et cetera, et cetera, et cetera.

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 competition. Last month, the federal government tabled a bill to amend and modernize that Air Canada Act, dating from privatization, 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; it is owned by private sector interests which operate 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 that are created by strong, private sector employers. For employers to thrive, let alone to develop into the kind of global champion that this country needs, it must be a competitive, business-friendly, landscape, where companies, such as ours, are permitted to compete with the best in the world on a level playing field with the market determining costs and inputs. We cannot wring our hands continuously and wonder why Canada has hollowed out its global champions without starting to deal with some of these challenges.

In Air Canada, Canada has an iconic, global brand that has succeeded through eight decades of incredible change to product, network, markets, and customer expectations. And while we may or may not be anywhere near that elusive ten-yard line near the global champion goal, I can tell you that we are and will continue to embrace that change. There is no risk of spiking the ball prematurely. We intend to keep evolving, innovating and reinventing ourselves to find that new new—as they like to say in the technology playbook, that global champion playbook—and to stay ahead of the curve.

There is a world of possibilities out there awaiting us, and the best I believe is still yet to come. Thank you very much for your attention.

Note of Appreciation by Colin Lynch, Vice President, Strategy and Growth - Executive Office, Greystone Managed Investments; Director, Empire Club of Canada

Thank you. On behalf of the Empire Club and the folks assembled here today, I would like to thank Calin for his speech. There are many companies in Canada that aspire to a global platform, that aspire to greatness. Few have actually accomplished that feat. What we have heard today is an outline of the transformation that you have led in Air Canada and a roadmap to accomplish even greater things in the future. So, thank you for taking the time to share it with us today.

Concluding Remarks by Dr. Gordon McIvor

Thanks very much, Colin. Thank you as well, ladies and gentlemen, to our generous sponsor today, Aimia, for being our event sponsor.

We would also like to thank the *National Post* which many of you will know is our national print media sponsor and Rogers Television, our national broadcaster. We would also like to thank Mediaevents.ca, which is Canada's online event space, for live webcasting today's event at a global level. Please, follow us on Twitter at @Empire_Club. You can also join us or follow us on Facebook, LinkedIn and Instagram.

And, please, join us again. For those of you that are not regular guests at the Empire Club, we welcome you to come back. We have got lots of great events lined up. Tomorrow, in fact, we have a remarkable story: Jan Westcott, the President and CEO of Spirits Canada and the Association of Canadian Distillers, will be here to talk about how Canada got to be the top whiskey producer in the world. We have the Minister of Finance, Bill Morneau, who will be joining us this Friday to talk about, obviously, the recent budget. That will be April 8th at the Metro Toronto Convention Centre. And we just booked our first speaker in the sesquicentennial series, which is Canada's 150th birthday, which you all know is next year. And that will occur this June 3rd, and we have invited Chief Justice Beverley McLachlin, the

head of the Supreme Court of Canada. She will be talking about the role of the Supreme Court in the past and in the future in shaping many of Canada's moods and aspirations. We welcome you to join us for these events, and, thank you, especially, ladies and gentlemen, for your attendance today. This meeting is now adjourned.