MANAGING DISTRIBUTION COST
IATA AIRLINE COST CONFERENCE

Duncan Bureau
Vice President Global Sales & Distribution
August 26 2015
We connect Canada and the World through people and technology

Nous relions le Canada et le monde grâce aux gens et à la technologie
...among the 20 largest airlines in the world

...largest provider of scheduled passenger service in Canada with leading share in all markets

...the only international carrier in North America to receive a four-star ranking by Skytrax and the best airline in North America – 5 years running

...focused on growing revenue, cost reduction and international expansion

...one of Canada's top 100 employers – 2 years running
**Record Results**

- EBITDAR of $1.671B, an improvement of $238M from 2013
- Adjusted net income of $531M or $1.81 per diluted share, an increase of $191M or $0.61 per diluted share from 2013
- Operating revenues of $13.3B, an increase of $890M or 7% from 2013
- Passenger load factor of 83.4%, an improvement of 0.6 pp from 2013
- 38.5M passengers carried, an increase of 7.7% from 2013
- As at January 1, 2015, based on preliminary estimates, solvency surplus in domestic registered pension plans of $780M

- EBITDAR of $442M, an improvement of $295M from Q1 2014
- Adjusted net income of $122M or $0.41 per diluted share, vs a decrease of ($132M) or ($0.46) per diluted share from Q1 2014
- Operating revenues of $3.2B, an increase of $184M or 6% from Q1 2014
- Passenger load factor of 81.5%, an improvement of 1.2 pp from Q1 2014
- 9.5M passengers carried, an increase of 8.4% from Q1 2014
BUILDING A DIVERSIFIED AND GLOBAL FOOTPRINT

194 direct destinations:
- 64 in Canada
- 52 in the U.S.
- 78 internationally

Among the 20 largest airlines in the world
- >360 aircraft
- >1,500 daily flights
- >38M passengers carried in 2014

Access to Canada’s wide portfolio of International route rights
By leveraging its total asset base

- Widely-recognized and respected brand - 77 years of experience
- Extensive and expanding global network
- Star Alliance membership, codeshare and joint venture agreements
- A flexible fleet mix with lower-cost swing capacity
- Air Canada rouge with its lower cost structure
- Industry-leading products and services, including Maple Leaf lounges and concierge program
- Strong airport infrastructure - Toronto, Montreal, Vancouver, Calgary - with access to 6th freedom traffic
- World-class loyalty program – Air Canada Altitude / Aeroplan partnership
- Numerous bilateral air agreements with other countries
AIR CANADA STRATEGIC PILLARS

REVENUE ENHANCEMENT and COST TRANSFORMATION

INTERNATIONAL GROWTH

CUSTOMER ENGAGEMENT

CULTURE CHANGE
The first commercial took off on January 1, 1914

- Route: St. Petersburg → Tampa
- Flight time: 23 minutes
- Distance: 18.6 miles
- Aircraft: Benoist flying boat
- Customer: Mayor of St. Petersburg

**Cost in 1914**

$400

**2015 Equivalent**

$9,317
"If I was at Kitty Hawk in 1903 when Orville Wright took off, and would have been farsighted enough, and public-spirited enough -- I owed it to future capitalists -- to shoot them down…"

Warren Buffet
US AIRLINE GRAVEYARD

- AAXICO Airlines (1946 - 1965, to Saturn Airways)
- Access Air (1998 - 2001)
- ADI Domestic Airlines
- Aero International Airlines
- Aeromech Airlines (1951 - 1983, to Wright Airlines)
- AeroSun International
- AFS Airlines
- Air America (operated by the CIA in SouthEast Asia)
- Air America (1980s)
- Air Astro
- Air Atlanta (1981 - 88)
- Air Atlantic Airlines
- Air Bama
- Airborne Express (1946 - 2003, to DHL)
- Air California, later AirCal (1967 - 87, to American)
- Air Carolina
- Air Central (Michigan)
- Air Central (Oklahoma)
- Air Chaparral (1980 – 82)
- Air Chico
- Air Colorado
- Air Cortez
- Air Florida (1972 - 84)
- Air Gemini
US AIRLINE GRAVEYARD

- Air General
- Air Great Lakes
- Air Hawaii (1960s)
- Air Hawaii (ceased Operations in 1986)
- Air Hyannix
- Air Idaho
- Air Illinois
- Air Iowa
- Airlift International (1946 - 81)
- Air Kentucky
- Air LA
- Air-Lift Commuter
- Air Lincoln
- Air Link Airlines
- Air Link Airways
- Air Metro
- Air Miami
- Air Michigan
- Air Mid-America
- Air Midwest
- Air Missouri
- Air Molakai (1980)
- Air Molakai (1990)
- Air Molakai-Tropic Airlines
- Air Neberaska
- Air Nevada
- Air New England (1975 - 81)
US AIRLINE GRAVEYARD – STILL A

- Air Niagara
- Air North (Alaska)
- Air North (1963 - 83, to Brockway Air)
- Air O’Hare
- Air Olympia
- Air Oregon
- Air One (1990s)
- AirPac
- Air Pacific (USA)
- Air Pennsylvania
- Air Resorts Airline
- Air Sierra
- Air South (1968 - 75, to Florida Airlines; 1994-1997)
- Air South (1986 – 1987)
- Air South (1994 – 1997)
- Air Speed (1974)
- Air Spirit
- Air Sunshine (1970s)
- Air Sunshine (1980s)
- Air Texana
- Air Texas
- Air Trails
- Air 21
- Air US
- Air Utah

Air Utah
US AIRLINE GRAVEYARD – STILL A

- AirVantage Airways
- Air Vermont
- Air Virginia
- Airways of New Mexico
- Air West
- Alaska Air Transport (1935 – 1939)
- Alaska Coastal Airlines (1939 – 1968)
- Alaska Coastal-Ellis Airlines
- Albany Air
- All American Aviation Company
- Allegheny Airlines (became US Airways)
- Aloha Airlines
- America West Airlines (1981)
- America Central Airlines
- American Export Airlines
- American Flyers Airline
- American International Airways
- American Overseas Airlines
- Arista International Airlines
- Arizona Airways
- Aroostook Airways
- Aspen Airways (1962 - 90)
- ATA Airlines (1973 – 2008)
- Atlantic Coast Airlines (1989 - 2004, to Independence Air)
- Atlantic Gulf Airlines
B-F

Bar Harbor Airlines (1971-92)
Boeing Air Transport (1927 - 30)
Bonanza Air Lines (1945 - 68) to Hughes Airwest
Braniff (1983-1990)
Braniff (1991-1992)
Braniff International Airways (1928 - 82 and 1984 - 89)
Britt Airways
Brockway Air
Burlington Airways
Business Express Airlines
CalPac (California Pacific) (1993 - 95 to Mesa Airlines)
Cal Sierra Airlines (1980)
Cape Smythe Air (1975 - 2005, to Frontier Flying Service)
Capitol Air Lines (1970s-1980s)
Capital Airlines (1936 - 61, to United Airlines)
Capitol Airways (1946 - 82)
Cardinal Airlines
Caribbean Sun (2002 – 2007)
Carnival Air Lines
Cascade Airways (1969 - 86)
Catalina Airlines (1940 - 69)
CCAir
Centennial Airlines
Central Airlines (1944 - 67)
Challenge Air Cargo (1978 - 2001)
Champion Air

Chicago Air
Chicago and Southern Air Lines (1934 - 53)
Chicago Express Airlines (1993 - 2005)
Coastal Airways (1929 – 1930)
Cosihese Airlines
Colgan Airways (1971 – 86)
Colonial Air Transport (1926 - 30)
Command Airways
Conquest Sun Airways
Crown Airways
Curtiss Flying Service (1929 - 32)
Desert Sun Airlines (1995 - 97 to Mesa Airlines)
Eastern Air Lines (1926 - 91)
Eastwind Airlines
Ellis Airlines (1936 – 1962)
Emerald Air (1978 - 91)
Empire Airlines (1976 - 85, to USAir)
Eureka Aero (1975 – 1979)
Falcon Air Express (1995 – 2007)
Florida coastal Airlines (ceased operations 2006)
Florida Express (merged with Braniff, Inc.)
Florida Gulf Airlines (1991 - 97 to Air Midwest)
Flying Tiger Line (1945 - 88, to Federal Express)
Freelandia
Frontier Airlines (1950-1986)
Galaxy Airlines
Gem State Airlines (1979)
Gemini Airlines
Global International Airways (1981-?)
Golden West Airlines
Great Western Aviation Company (to AirVantage Airlines)
Gulf Air Transport (1979-1990)
Hooters Air (2003-2006, currently charter flights only)
Hughes Airwest (1968-80, to Republic Airlines)
Imperial Airlines (1964-82)
Independent Air (1966-1990)
Indigo Airlines
Intermountain Airlines
Irving Airways (1936)
Island Pacific Air
Jet 24 (1981-1986)
Jet Express
Key Airlines
Kitty Hawk Airways
Kitty Hawk International (to Kalitta Air)
Kiwi International Air Lines
L’Express Airlines (1989-1992)
Lake Central Airlines (1949-68, to Allegheny Airlines)
Lakeland Airlines (1980-84)
Las Vegas Airlines (1973-87)
Liberty Express Airlines ((1994-97 to Air Midwest)
Lone Star Airlines
Mackey Airlines (1957-81)
Maddux Airlines (1927-29, to Transcontinental Air Transport)
Mahalo Air (1993-97)
Mall Airways (1973-89, to Business Express)
marine Airways (1936-1939)
MarkAir (1947-95)
Marquette Airlines (to Trans World Airlines)
MAXjet (2005-2007)
Mayflower Airlines (1936-1945)
MetroJet
Mexus Airlines
MGM Grand Air
MidAtlantic Airways
Mid-Continent Airlines (1928-1952, to Braniff)
Mid-Pacific Air (1981-88)
Mid-State Airlines (1964-, to Sentry Airlines)
Mississippi Valley Airlines (1969 - 85)
Modern Air Transport
Mohawk Airlines (1952 - 88, to Allegheny Airlines)
Morris Air to Southwest Airlines
Mountain Air Express
Mountain West Airlines (1995 - 97 to Mesa Airlines)
Muse Air to Southwest Airlines
National Airlines (1929 - 80, to Pan American World Airways)
National Air Transport (1926 - 30)
Nationwide Airlines Southeast
New England & Western Air Transportation Co. (1930)
New York Air (1980 - 86, to Continental Airlines)
New York Airways (1949 - 1979)
New York, Rio, and Buenos Aires Line (to Pan American World Airways)
North Central Airlines (1953 - 79)
Northeast Airlines (1940 - 72, to Delta Air Lines)
Overseas National Airways (1950 - 78)
Ozark Airlines (1943 - 86, to Trans World Airlines)
Pacific Air Lines
Pacific Air Transport (1926 - 27)
Pacific Alaska Airways (1973 - 86)
Pacific East Airlines (ceased operations 1984)
Pacific Express
Pacific Nevada Airlines
Pacific Southwest Airlines (PSA) (1945 - 86, to USAir)
Pan American-Grace Airways (Panagra) (1928 - 67, to Braniff International Airways)
Pan American World Airways (1927 - 91)
Pan Am Express
Paradise Island Airlines
Pennsylvania Central Airlines
People Express (1981 - 87, to Continental Airlines)
Piedmont Airlines (1940 - 89, to USAir)
Pilgrim Airlines
Pioneer Airlines
Planet Airways (???- June 8, 2005,
Potomac Air
Presidential Airways (1985 - 89)
Private Jet Expeditions (????-1995)
Pride Air (August 1985 - November 1985)
Pro Air (1997 - 2000)
Provincetown-Boston Airlines
Ransome Airlines (1967 - 86)
Rahm Rescue ( ? – 1971)
Red Carpet Airlines
Red Dodge Aviation
<table>
<thead>
<tr>
<th>Airline Name</th>
<th>Years</th>
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<tr>
<td>Reeve Aleutian Airways</td>
<td>(1932 – 2001)</td>
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<td>Regent Air</td>
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<td>RegionsAir (1996 – 2007)</td>
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<td>Reno Air (1990 - 99, to American Airlines)</td>
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<td>Republic Airlines (1979 - 86, to Northwest Airlines)</td>
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<td>Rich International Airways (1971 - 96)</td>
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<td>Riddle Airlines (1945 – 1965)</td>
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<td>Robertson Air Service</td>
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<td>Rocky Mountain Airways (1964 - 86)</td>
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<td>Russia Jet Direct (2005)</td>
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<td>Samoa Air (2003)</td>
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<td>Saturn Airways (1960 - 76, to Trans International Airlines)</td>
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<td>Seaboard World Airlines (1946 - 80, to Flying Tiger Line)</td>
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<td>Shawnee Airlines (1968 – 1977)</td>
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<td>Shuttle by United and United Shuttle (1994 - 2001)</td>
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<td>SkyTrain Airlines</td>
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<td>SkyValue (2006 - 2007)</td>
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<td>Skyway Airlines</td>
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<td>Slick Airways (1946 – 1965)</td>
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<tr>
<td>Song (2003-2006 Merged back in with it's parent company, Delta Air Lines)</td>
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<td>South Pacific Island Airways</td>
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<td>Southern Jersey Airways</td>
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<td>Southwest Airways (1926 – 30)</td>
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<td>Standard Airlines (1926 - 30)</td>
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<td>States West Airlines</td>
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<td>Sunbird Airlines (1979 – 1987)</td>
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<td>The Hawaii Express (1982 – 1983)</td>
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<td>Tower Air (1983 - 2000)</td>
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<td>Trans Air (1979-1985)</td>
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<td>Transamerica Airlines (1948 - 86)</td>
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<td>Trans-Central Airlines</td>
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<td>Transcontinental Air Transport (1928 – 1930)</td>
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US AIRLINE GRAVEYARD

T-Z

Trans Ocean Airways (1979 – 1990)
Trans International Airlines (1947 - 1986)
TranStar Airlines (1981-1987)
Trans-Colorado Airlines
Trans-Texas Airways
Trans World Airlines (1930 - 2001, to American Airlines)
Trans World Express
Trump Shuttle (1989 - 91, to US Airways)
UltrAir (1993)
Universal Airlines (1966 – 1972)
ValuJet Airlines (to AirTran Airways, 1997)
Vance International Airways (1949)
Varney Airlines
Vintage Props and Jets
WestAir Commuter Airlines
West Coast airlines (1940s – 1968)
Western (2007)
Western Airlines (1925 – 1987)
Western Pacific Airlines (1998)
Wien Air Alaska
Wilmington – Catalina Air Line

Wright Airways
Wright Airlines
Zantop Air Transport
Zantop Flying Service
Zantop International Airlines
In 2Q2015, Sales and Distribution Costs (including commissions and credit card fees) represented 4.9% of Air Canada’s Total Operating Expense.

Air Canada aggressively controls its distribution mix
- 65% Direct in Canada
- 48% Direct globally
- Agency web booking portal
- Ac2u distribution APIs

Strategy of “appropriate” distribution cost vs “free”
- Content distribution comes at a cost
- “Free” distribution is a myth
- Distribution cost should be proportional to the value created by that channel
GLOBAL DISTRIBUTION 2015 MANDATE

- Enable Air Canada as a Product Leader in the industry
- Deliver profitable and innovative distribution solutions
- Protect brand visibility, product integrity and accessibility
- Be proactive and engaged in the travel marketplace with vendors and partners

- Build a network of distribution options
  - Margin positive
  - Cost effective
  - Product integrity
  - Wide and Deep
  - International focus

- Set the future strategy of Global Distribution
Strategic Pillars of Distribution

COST EFFICIENCY
ENGAGE CUSTOMERS
INTERNATIONAL POWERHOUSE
PRODUCT INNOVATION

Profitable & innovative distribution solutions
**Strategic Objectives**

- **Cost Efficiency**
  - Favourable distribution agreements
  - Channel neutrality
  - Ensure integrity of distribution channels
  - System optimization and improvements

- **Engage Customers (internal & external)**
  - Communication - no silos
  - Teamwork
  - Improving and redesigning processes
  - Role development
  - Internal/External accountability

- **International Powerhouse**
  - Local market knowledge
  - Strong local websites
  - Local relationships with SMEs
  - Supporting implementations

- **Product Innovation**
  - New forms of payment
  - New customer touchpoints
  - Merchandising and content delivery
  - EMD
  - New Revenue Management system
  - Leverage new features in existing channels
Overall Distribution Strategy

- **Be widely available**
  - Participate more fully in current distribution channels
  - Enter channels previously avoided where possible
  - Maintain market intelligence on new entrants and alternatives

- **Be channel agnostic**
  - Execute distribution agreements that support cost parity
  - Implement channel solutions that generate consistent revenue upsell
  - Protect the integrity of the product
  - “Get out of the way of the buying customer”
  - “Simplify the AC purchase process”

- **Diversify geographically**
  - Implement market specific distribution solutions
  - Support AC revenue diversification goals
Impact of Technology

- Historical distribution strategy based on content fragmentation

- “Base content” will now be broadly distributed
  - All basic fare products available in all channels
  - Ancillary product distribution using EMD settlement

- “Widely available” and “Channel agnostic” distribution objectives are modified by technology
Impact of Technology

- Some AC content is only available directly from AC systems
  - Flight Pass
  - AC Corporate Rewards
  - Derived Fares
  - Promotional code discounts
  - eUpgrades

- In addition, base content will be modified and enhanced using new AC commercial systems
  - Merchandising
  - EMD
  - PROS
  - CRM

A “pull” distribution strategy is necessary
WHAT IS NDC?

NDC is an aspirational objective of the airline industry to focus on essential commercial strategies

1. improving customer experience
2. growing loyalty
3. generating new revenues
4. competing through new products and services
Selling to the Outside World

- Revenue Management pushes fares to ATPCO
- Network Planning pushes schedules to OAG
- GDS’s extract data & package it together in a generic format for the end user
- AC is not involved in this transaction at all
- AC receives an anonymous sale at the end of this process

If you are selling a commodity like Coal, Diamonds, or Lumber then this model may be ideal
SELLING INTELLIGENTLY

- NDC allows an airline to insert itself in the economic transaction
- At the time of agency search or traveler inquiry, the airline needs to offer dynamic packages based on the customer’s unique desires
- We need to monetize perishable products
- We need to leverage relevant ancillary and bundled products for increased revenue

If the buyer wants a Porsche why are we offering him a Vespa?
Travel agents have access to limited & commoditized airline information.
Distribution partners can now articulate & “Sell” vs. “Order Take” an airlines product offerings based on attributes NOT price.
Product differentiation
- Marketing the richness and uniqueness of airline products
- Marketing personalized offers

Access to full and rich Content
- Compare flight products based on schedule, price **AND** value
- Work with real-time product and fare data

Transparent shopping
- Deliver the right products at the right prices
- Offer each traveler the opportunity to shop based on what they value – be it anonymous or personalized
Competitive advantage is quickly being defined by an ability to excel in a modern eCommerce marketplace beyond our websites.

How do airlines maintain our brand when we extend it to OTAs, TMCs and corporate booking tools?

New technologies, including IATA NDC, put us in control of merchandising, pricing, and distribution rules across channels.

We gain:
- Product and brand differentiation
- Dynamic customer engagement
- Unlimited flexibility in bundling product/service offers
- New revenue management opportunities
- Levers to grow revenues, customer service and loyalty
- More rapid innovation
EVOLUTION OF DISTRIBUTION

Past • Content Removal
  • Tango Fares

Content Rationalization

Content Creation • New content
  • Preferred Seats
  • Flight Pass
  • Ancillary Products

Content Differentiation • Preferred features
  • Better discounts
  • Better Terms

Present

Future
### Merchandising Evolution Mania Genesis

<table>
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<tr>
<th>Merchandising</th>
<th>Evolution</th>
<th>Mania</th>
<th>Genesis</th>
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<tbody>
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<td>Customer ownership</td>
<td>Branding</td>
<td>Enhanced offers</td>
<td>Fuel Surcharges/Bag fees</td>
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<tr>
<td>Maximizing value</td>
<td>Direct channel</td>
<td>Valued added</td>
<td>Flight specific</td>
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<tr>
<td>Multi-channel</td>
<td>Customer journey focused</td>
<td>Bundling and/or a-la-carte</td>
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</table>

**Air Canada**

*Growing Revenue and Loyalty in a Multi-Channel World*

April 14 2015
Thank you
Merci