



Citizens of the World 2016

Air Canada's Corporate
Sustainability Report

 AIR CANADA





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Sustainability Report

THE AIR CANADA SUSTAINABILITY MISSION STATEMENT

Connecting people and communities is the essence of our business. We therefore share responsibility for the well-being of all communities and our decision-making is informed by considerations of economic, environmental and social sustainability.

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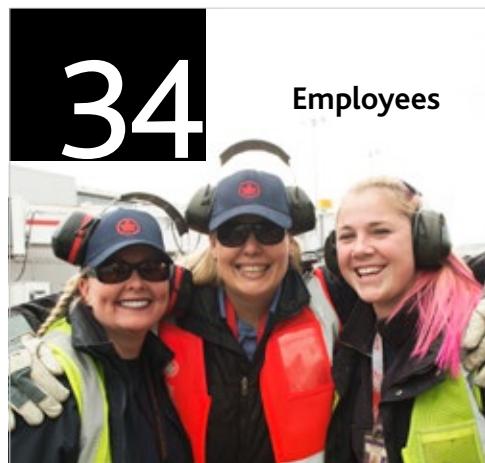
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MARKET AND INDUSTRY DATA – Market data and certain industry forecasts identified in this report were obtained from internal surveys, market research, publicly available information and industry publications. Industry publications generally state that the information contained therein has been obtained from sources believed to be reliable at the relevant time, but that the accuracy and completeness of such information is not guaranteed. Similarly, internal surveys, market research and other publicly available information, while believed to be reliable, have not been independently verified, and Air Canada does not make any representation as to the completeness or accuracy of such information.

CSR AT A GLANCE

In fulfillment of its commitment to regularly update stakeholders on its corporate sustainability activities, Air Canada presents *Citizens of the World 2016*, its most recent corporate sustainability report.

This report has been approved by Air Canada's Board of Directors and is structured around four broad areas—safety, environment, employees and community—identified as being of primary concern in stakeholder consultations.

It also encompasses the Air Canada Leisure Group, consisting of Air Canada Rouge® and Air Canada Vacations®, two wholly owned operating subsidiaries of Air Canada.

This report is based on the principles developed by the Global Reporting Initiative (GRI), an internationally recognized standard for corporate reporting of economic, environmental and social performance. Development of the report was the responsibility of a steering committee composed of senior managers representing major branches of Air Canada and chaired by the Senior Vice President, People and Culture. Air Canada declares that its 2016 report has been prepared in accordance with the Core option of the Global Reporting Initiative G4 guidelines.



Letter from Calin Rovinescu, President and CEO, Air Canada

In operating globally, we find that people everywhere voice concerns about the same issues: jobs and the economy, the environment and those obstacles to personal well-being that can keep individuals from achieving their full potential.

But there is also a parallel discussion going on. It is about shared responsibilities, working together, and our obligations to one another. This second conversation is about sustainability and it is growing louder.

We at Air Canada are already deeply engaged. This is not simply because promoting sustainability is the right thing to do; it is essential, because we know that it is only when communities and their members are flourishing that we ourselves can succeed. We therefore incorporate considerations of sustainability into everything we do and this is being recognized. In 2016, the Reputation Institute—the world's leading reputation-based research advisory firm—listed Air Canada among the top 100 companies in the world for CSR reputation, the only Canadian company and one of two passenger airlines on the list.

Accountability is fundamental. For six years now we have published *Citizens of the World*, Air Canada's award-winning corporate sustainability report. As in previous years, the 2016 edition reviews and evaluates our performance on safety, the environment, employee relations and community involvement, which are the core areas of sustainability at Air Canada. During the year, we were painfully reminded of the urgency of these matters with the tragic death of a young ramp worker in a workplace accident, prompting further, deep introspection.

Citizens of the World is a detailed and quantitative review of the year's performance, with third-party, limited assurance for key metrics. In 2016, we made progress in each area, including: conducting a major safety survey of employees; launching with partners Canada's Biojet Supply Chain Initiative to advance research into cleaner, alternate fuels; we concluded agreements with the last of our major Canadian unions for unprecedented terms of 10 years; and we supported the opening of three new Aboriginal Breakfast Club of Canada programs.

However, this is more than a retrospective document as it sets new goals for 2017. Apart from enabling stakeholders to evaluate our programs and hold us accountable, these goals give us firm targets to guide our behaviour and ensure that sustainability informs decision-making at Air Canada.



As well, the exercise of reporting on our activities during the year heightens awareness among employees of the importance of sustainability.

It is my pleasure to present to you Air Canada's 2016 corporate sustainability report. Along with this, I also commit to report back to you next year with an update on our ongoing sustainability efforts, including our success in meeting our 2017 goals.

In the interim, I invite you to assist us by providing feedback, either on this report or Air Canada's sustainability programs generally, at sustainability.developpement_durable@aircanada.ca.

Cal - Dr —.

SUSTAINABILITY PERFORMANCE HIGHLIGHTS

Key Achievements 2016

Safety

- Reduced the incidence of Lost Time Injuries (LTIs) by 5.7 per cent, measured on the basis of LTIs per 100 full time equivalent employees for Air Canada mainline
- Conducted an employee culture survey to gauge the perception of internal stakeholders
- Developed an industry leading capability to measure and assess risks that will help identify and rectify factors contributing to unstable aircraft landing approaches
- Completed Business Impact Assessments of key operational areas including System Operations Control and Security
- Managed safety risk and hazards associated with the introduction of 10 new routes¹

Environment

- Implemented the Analyzed Contingency Fuel Program onboard to reduce GHG emissions
- Launched Canada's Biojet Supply Chain Initiative (CBSCI) with partners, to advance biojet supply logistics in Canada
- Completed analysis of the Air Canada Environmental Management System to align it with the recently updated ISO 14001 standard
- Expanded employee support for tree planting and clean-up efforts at two additional Air Canada bases

Employees

- Concluded agreements with CALDA for flight dispatchers, and UNIFOR for In-Flight Service and Flight Operations crew schedulers
- Expanded leadership development programs (including coaching and mentoring) for greater reach and impact by doubling the size of classroom capacity and/or providing greater access to other branches in the organization
- Continued focus on Customer Service excellence through new programs and development opportunities for front-line employees and management

Community

- Increased Air Canada Foundation fundraising to a net \$1.46 million
- Achieved a 10 per cent increase in overall donations to Children's Miracle Network Canadian member pediatric hospitals
- Supported the opening of three new Aboriginal Breakfast Club of Canada programs

Key Goals for 2017

- Reduce Lost Time Injuries by three per cent
- Successful completion of Transport Canada SMS (Safety Management System) Assessment
- Successful completion of IOSA (IATA Operational Safety Audit)
- Manage safety risk and hazards associated with the introduction of three to five new routes

- Continue modernizing the fleet with the delivery of the more fuel efficient Boeing 737 MAX aircraft
- Participate in the Civil Aviation Alternate Fuel Contrail and Emissions Research project (CAAFERC), a project led by the National Research Council of Canada (NRC) to test the environmental benefits of biofuel use on contrails
- Conduct waste audits of Maple Leaf Lounges to establish a baseline to help reach the 2020 waste diversion target for lounges
- Improve the collection and recycling process for the Onboard Recycling Program for domestic flights to help reach the 2020 onboard recycling target

- Launch well-being platform, '*Upgrade to a Better You!*' that encompasses tools and resources to help employees improve their overall health/wellness, finances, mental health and earn rewards for participation
- Expand CSM Reconnect workshops for Middle and Senior Airport Management to target leadership, self-awareness, brand and customer perceptions, and promote healthier labour relations
- Provide airport employees training in the form of a new, self-paced digital experience in a learning café at their place of work, beginning in Toronto and rolling out system-wide

- Increase support by 20 per cent to registered charities offering access to summer camps for children with special needs
- Increase cash donation to Dreams Take Flight by 50 per cent
- Open an additional Wings of Courage program in a Canadian pediatric hospital

¹ Subsequent to the completion of the 2015 CSR report, nine additional mainline and Air Canada Rouge routes were announced or launched in 2016 which also received the appropriate safety review.

Financial Performance

For additional information, including an explanation of certain terms used in these tables, refer to Air Canada's 2016 Management's Discussion and Analysis of Results of Operations and Financial Condition dated February 17, 2017 and Air Canada's consolidated financial statements for the year ended December 31, 2016, both of which are available on Air Canada's website at aircanada.com and on SEDAR at www.sedar.com.

Strategy

Air Canada's principal objective is to be among the best global airlines, to continually improve customer experience and employee engagement, and to create value for its shareholders.

Key priorities

Air Canada is pursuing its principal goal of becoming a global champion through its focus on four core strategies:

- Revenue enhancement and cost transformation
- International growth
- Customer engagement
- Culture change

Financial performance

Canadian dollars in millions, except where indicated	2016	2015
Operating revenues	14,677	13,868
Operating expenses	13,332	12,372
Operating income	1,345	1,496
Non-operating expense	(468)	(1,188)
Net income	876	308
Diluted earnings per share	\$3.10	\$1.03
Unrestricted liquidity at December 31 ¹	3,388	2,968

Operational performance

	2016	2015
Revenue passenger miles (RPM) (millions)	76,481	67,545
Available seat miles (ASM) (millions)	92,726	80,871
Passenger load factor (%)	82.5%	83.5%
Passenger revenue per RPM (Yield) (cents)	16.8	18.0
Passenger revenue per ASM (PRASM) (cents)	13.9	15.1
Operating revenue per ASM (cents)	15.8	17.1
Operating expense per ASM (CASM) (cents)	14.4	15.3

¹ Unrestricted liquidity refers to the sum of cash, cash equivalents, short-term investments and the amount of available credit under Air Canada's revolving credit facilities. At December 31, 2016 unrestricted liquidity was comprised of cash and short-term investments of \$2,979 million and undrawn lines of credit of \$409 million. At December 31, 2015, unrestricted liquidity was comprised of cash and short-term investments of \$2,672 million and undrawn lines of credit of \$296 million.

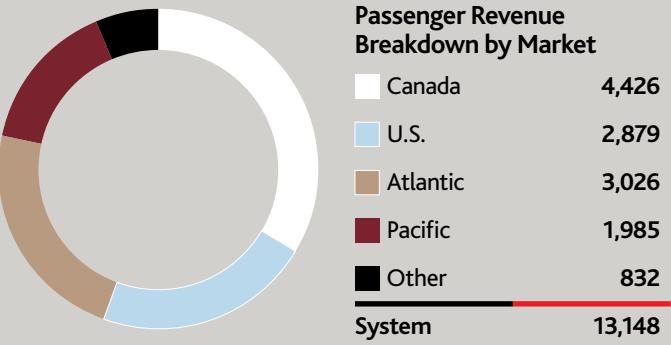
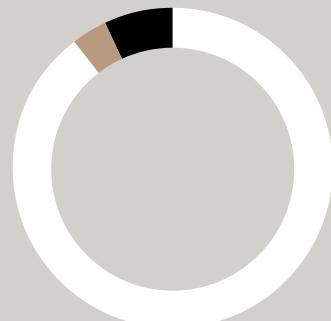
Operating expense breakdown

Canadian dollars in millions	
Aircraft fuel	2,279
Regional airlines expense	2,408
Wages, salaries and benefits	2,510
Airport and navigation fees	859
Aircraft maintenance	880
Depreciation, amortization and impairment	816
Sales and distribution costs	703
Ground package costs	489
Aircraft rent	462
Food, beverages and supplies	349
Communications and information technology	242
Special items	91
Other	1,244
Total	13,332

Revenue breakdown

Canadian dollars in millions

Operating Revenue Breakdown	
Passenger	13,148
Cargo	512
Other	1,017
Total	14,677



OVERVIEW OF AIR CANADA

All figures in Canadian dollars except where indicated

More than 200
DESTINATIONS
on 6 continents

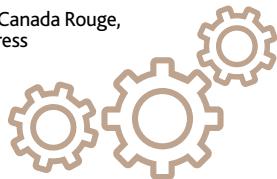


Fleet of 381
AIRCRAFT¹



Operated on average
1,570 scheduled flights
each day on more than 400 routes

Air Canada, Air Canada Rouge,
Air Canada Express



Approx.
30,000
employees



Served close to
45 MILLION
customers

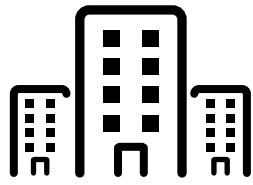


Headquarters in Montréal



Compliance

Continuous improvement in standard operating procedures, ethical standards and legal and policy compliance



One of the **largest 100**
corporations in Canada



Air Canada's shares trade on:

- the Toronto Stock Exchange (TSX) under the ticker symbol "AC"
- the OTCQX International Premier market in the U.S., under the ticker symbol "ACDVF"

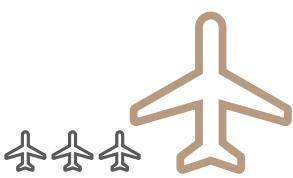


Net income
\$876 MILLION
(\$3.10 per diluted share)



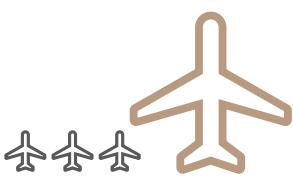
Corporate Governance
12-MEMBER BOARD

Liquidity
\$3.4 BILLION



LARGEST passenger
airline in **Canada**

Pension
\$1.9 BILLION²
solvency surplus
Approx. 75% liabilities matched with fixed income products



Among the world's
20 BIGGEST
commercial airlines by traffic

Operating expense
\$13.3 BILLION

Operating revenue
\$14.7 BILLION

¹ For a complete breakdown of our fleet, see the 2016 Annual Report, pages 38-40.

² Based on January 1, 2017 actuarial valuations.



Air Canada is the largest passenger airline in Canada. It operates the most scheduled flights in each of the domestic, U.S. and international markets for air travel within, to and from Canada.

In 2016, Air Canada, together with its leisure carrier Air Canada Rouge and its Air Canada Express® regional partners, operated, on average, 1,570 scheduled flights each day on more than 400 routes and served close to 45 million with a fleet of 381 aircraft, providing direct passenger service to more than 200 destinations on six continents.

Air Canada is a founding member of Star Alliance®¹. This makes it part of the world's most comprehensive air transport network, serving approximately 1,300 destinations in 190 countries worldwide.

Air Canada is among the world's 20 biggest commercial airlines by traffic.² In 2016, it recorded operating revenue of \$14.7 billion (all figures in Canadian dollars), which placed it among the largest 100 corporations in Canada. The corporation's headquarters are in Montréal and it employs approximately 30,000³ people in Canada and in 34 other countries throughout the world.

Founded in 1937 as Trans-Canada Air Lines, the carrier was initially owned by the Government of Canada which created it to provide passenger and air cargo services for Canadians. In 1965,

¹ Star Alliance is a registered trademark of Air Canada in Canada.

² atwonline.com/airline-traffic/world-airline-traffic-2016

³ Includes employees at Air Canada, Air Canada Rouge and Air Canada Vacations.

the corporation's name was changed to Air Canada to reflect the country's linguistic duality. The corporation was fully privatized by 1989 through a public share offering. Air Canada's shares trade on the Toronto Stock Exchange (TSX) under the ticker symbol "AC" and began trading in 2016 on the OTCQX International Premier market in the U.S., under the ticker symbol "ACDVF."

Economic footprint

Given the size of its annual operating expenses (more than \$13.3 billion in 2016, including annual wages, salaries and benefits exceeding \$2.5 billion), Air Canada's economic footprint is significant. It is the single largest contributor to aviation activity in Canada, including when taking into account foreign airlines operating into the country.

Financial sustainability

Air Canada has made tremendous progress in pursuing and achieving its goals and objectives. For information on Air Canada, including its business strategy and its financial and operating performance, refer to Air Canada's annual and quarterly Consolidated Financial Statements and Notes, annual and quarterly Management's Discussion and Analysis of Results of Operations and Financial Condition (MD&As) and Annual Information Form.⁴

Pension plans

For several years, Air Canada, like many corporations with defined benefit employee pension plans, had been dealing with a significant pension solvency deficit. At the start of 2012, Air Canada's pension solvency deficit exceeded \$4 billion due in large part to low interest rates, which are used to calculate pension obligations.

However, at the beginning of 2014, the Canadian plans moved into a surplus position and, based on actuarial estimates, its Canadian registered pension plans began 2017 with a \$1.9 billion solvency surplus. The airline has also taken steps in an effort to reduce future volatility of the plans using financial instrument risk management tools. As of December 31, 2016, approximately 75 per cent of Air Canada's pension liabilities were matched with fixed income products to mitigate a significant portion of the interest rate (discount rate) risk. This has helped improve the corporation's financial flexibility and contributed to a lower overall risk profile.

⁴ These reports are available on Air Canada's website at aircanada.com and on SEDAR at www.sedar.com.



Governance

In 2016, Air Canada was governed by a 12-member Board of Directors committed to meeting high standards of corporate governance in all aspects of the corporation's business and affairs.⁵ The Board and management believe that a strong, effective, independent board plays a crucial role in protecting the interests of stakeholders, maximizing shareholder value and ensuring ethical business practices.

This is of major importance. Stakeholders rate ethical business practices and policies highly in the materiality matrix of sustainability issues affecting Air Canada, upon which this report is based. In 2016, the Board extensively reviewed the corporation's governance practices and concluded that they comply with or exceed the requirements of *National Instrument 58-101, Disclosure of Corporate Governance Practices* as adopted by the Canadian securities administrators.

Air Canada regularly reviews its governance practices as developments warrant and implements changes to these practices as the need arises. Based on the 2016 management proxy circular and other public filings, Institutional Shareholder Services, Inc. (ISS) ranked Air Canada in the first decile in respect of corporate governance for the fourth consecutive year, which is the highest ranking given to 10 per cent of the approximately 240 companies in the S&P/TSX Composite Index and represents the lowest governance risk.

⁵ A 12th member, Kathleen Taylor, was elected to the Board of Directors on May 10, 2016.

As a means of living up to applicable corporate governance standards and maintaining best practices, Air Canada adopted and updates, as required, its Corporate Policy and Guidelines on Business Conduct, better known as the Code of Conduct.

As a means of managing applicable corporate governance standards and maintaining best practices, Air Canada adopted and updates, as required, its Corporate Policy and Guidelines on Business Conduct, better known as the Code of Conduct.⁶ Among other things, the Code addresses: compliance with laws (including those related to competition and anti-corruption); privacy; discrimination and harassment; fair dealing with other people and organizations; conflicts of interest; and reporting suspected non-compliance. All employees are required to abide by the Code, and members of the Board and management are required to review the Code and complete an acknowledgment form on an annual basis confirming their undertaking in this regard.

The Board, with the assistance of the Audit, Finance and Risk Committee, is responsible for monitoring compliance with the Code. Air Canada encourages employees to report any concerns or suspected non-compliance with laws and regulations, the Code of Conduct or the corporation's policies through specified internal channels, including an anonymous ethics reporting hotline that is actively promoted throughout Air Canada and administered by a third party. All hotline reports are promptly investigated and followed up to closure. Retaliation in any form against any employee who, in good faith, reports any concern or suspected non-compliance is strictly prohibited.

Compliance

Consistent with its stated goal of continuously improving its standard operating procedures, ethical standards and legal and policy compliance, Air Canada has a full-time General Compliance Officer (GCO). There is also a Compliance Review Board, a management committee responsible for oversight of compliance programs and culture.

The GCO manages a comprehensive annual Compliance Risk Assessment (CRA) process, methodology and related working tools for evaluating and measuring material legal, compliance, policy and contract risks integrated within Air Canada's Enterprise Risk Management Program. Such risks are then managed through an annual Compliance Plan responding to the CRA determinations and priorities, using effective working tools to help the corporation mitigate such risks, maintain ethically sound business practices, and achieve the highest possible level of compliance.

Air Canada's integrity and compliance standards are further promoted by detailed policies, guidelines and training programs. It employs a communications strategy to raise awareness of corporate values, principles and internal controls. Branches are provided with information, tools and techniques—including templates, workflows and guidance documents—to help them meet program requirements. Continued real progress has been achieved in sustainably embedding compliance awareness and reflexes into the regular business processes and rhythms of the corporation. The independence of the integrity and compliance programs is assured by the GCO's reporting streams to the Board's Audit, Finance and Risk Committee.

⁶ A copy of the Code of Conduct can be obtained on SEDAR at www.sedar.com or on the Air Canada website at aircanada.com



Sustainability reporting

Each year since 2012, the airline has published a comprehensive sustainability report in accordance with the reporting principles of the Global Reporting Initiative. The Reputation Institute (the world's leading reputation-based research advisory firm) listed Air Canada 76th in the top 100 companies in the world for CSR reputation.⁷ Moreover, the corporation was recognized by the Finance and Sustainability Initiative (FSI) with the "2017 Award for Best Corporate

Sustainability Report – Transportation" in Canada for its 2015 CSR report. FSI states that it holds this annual competition to promote excellence in sustainable development reporting among Canadian public companies.

The corporation's overall sustainability performance has also been recognized by its stock's inclusion in the Jantzi Social Index (JSI), which has been developed by Sustainalytics, an Amsterdam-based company that rates companies based on ethical behaviour.

The JSI is described as a market capitalization-weighted common stock index consisting of 60 Canadian companies that pass a set of broadly based environmental, social and governance rating criteria. Such an index can be used by institutional investors to help benchmark the performance of socially screened portfolios and by financial institutions to help develop responsible investment products. Inclusion in the JSI may make Air Canada more attractive to the growing number of ethical funds and other investors who seek to invest in responsible companies.

The ongoing commitment to sustainability at Air Canada is the responsibility of a senior management standing committee that oversees sustainability activities and reporting on the corporation's progress. The airline relies on a Materiality survey of stakeholders, including customers, suppliers and employees. The results of the 2016 sustainability report are based on how well the corporation addressed material issues identified in the survey.



Progress on 2016 goals

- To keep financial stakeholders informed, participate in investor conferences **Achieved**
- Continue achieving real progress in sustainability by further embedding compliance awareness and reflexes into Air Canada's business processes and culture **Achieved**

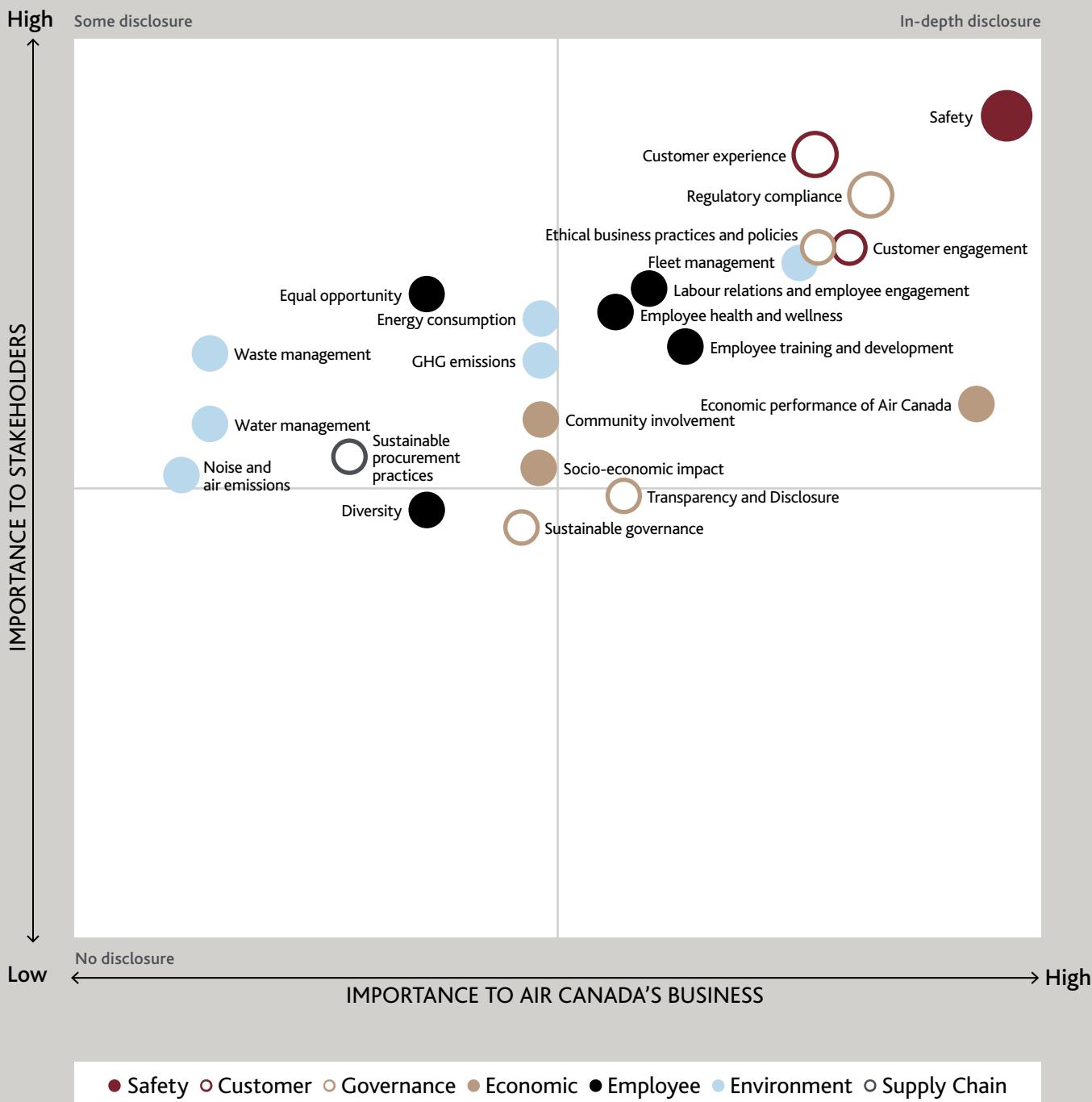
Goals for 2017

- To keep financial stakeholders informed, conduct an Investor Day in 2017
- Continue achieving real progress in sustainability by further embedding compliance and ethics awareness and reflexes into Air Canada's business processes and culture

⁷ reputationinstitute.com/Home

Results of Stakeholder Analysis Conducted in 2014

Air Canada's materiality matrix



● Safety ○ Customer ○ Governance ● Economic ● Employee ● Environment ○ Supply Chain

- Importance to Air Canada's business: evaluated through internal interviews and surveys
- Importance to stakeholders: evaluated from surveys of Air Canada customers, employees and suppliers
- Level of disclosure: all Air Canada public disclosures are considered (Corporate Sustainability Report, Annual Report, AIF, website, etc.)
- Topics are ranked by decreasing materiality score

SAFETY

Air Canada maintains a robust Safety Management System with accountability for safety ultimately lying with the most senior corporate executive. To ensure that it operates safely, it maintains an extensive reporting structure to identify, track, report and remedy any safety issues that arise. In addition, the corporation actively promotes safety throughout the organization with specialized training, education and awareness programs.

Each day, Air Canada carries more than 87,500 people to places across the country and around the world. In flying with the airline, people are doing much more than counting on it for their travel plans, they are entrusting to the corporation their personal safety and well-being.

In recognition of such responsibilities, safety is Air Canada's top priority. For everyone at the corporation, safety is the prime ethical and operational imperative, and to ensure the safe transport of our passengers and the safety of our employees, considerable energy is expended and significant investments made. Numerous overlapping systems and processes have also been adopted to reduce risk and operate with maximum safety.

Air Canada's success in inculcating a safety culture is demonstrated by the results of its 2016 Safety Pulse Survey of employees, which found that 98 per cent of employees surveyed make safety their personal priority. This paramount concern with safety is shared by stakeholders. Safety was the single most important issue identified in the materiality assessment upon which this report is based. This makes it a key sustainability attribute, as the success or failure of any airline depends directly upon its reputation for operating safely.

Despite these extensive efforts, Air Canada experienced slightly more lost time injuries (842 from 840), in large part due to increased passenger movements and flight frequencies. On an injury rate per 10,000 flights basis, lost time injuries decreased by 1.7 per cent. On an injury rate per 100 Full Time Equivalent headcount basis, they decreased by 5.7 per cent which exceeded corporate targets. These injuries also include a serious safety incident during the year when a workplace accident claimed the life of an Air Canada employee. It was the first workplace fatality at Air Canada in 11 years. While an independent government workplace safety report was still pending at the time of writing, Air Canada has worked with authorities to put in place additional safeguards to help prevent a similar accident.

98% of employees surveyed make safety their personal priority.



Safety was the single most important issue identified in the materiality assessment upon which this report is based.



Safety management

Safety management is a critical responsibility at Air Canada and impacts almost every decision the airline makes. Given its importance, Air Canada has established the appropriate structure, processes and resources to ensure that all aspects of safety and safety stewardship are always prioritized and that safety measures are enacted in a proper and effective manner.

Air Canada's Safety Management System (SMS) serves as a framework within which systematic and comprehensive processes and procedures for managing risk are developed, applied and evaluated. It also creates a common support structure for all operational groups, with clear elements and concise direction, so that they can perform their safety management functions effectively.

Air Canada's President and Chief Executive Officer is the designated accountable executive for Air Canada's SMS with Air Canada's Managing Director, Corporate Safety, Environment and Quality, responsible for day-to-day administration and corporate oversight of SMS. An integrated safety management process ensures that an appropriate flow of safety information reaches all levels throughout the corporation and the Air Canada Corporate Safety Board, chaired by the chief executive, meets quarterly to oversee and guide the safety program.

One aspect of safety is security. Air Canada has a corporate security arm whose Senior Director reports directly to the chief executive and is responsible for the security of customers, employees and corporate assets, as well as risk assessments. Air Canada is heavily dependent on information technology and an emerging threat is the possibility of a cyber attack upon its systems. Employees are repeatedly reminded to take precautions against such activities and in 2016 the carrier conducted Business Impact Assessments that involved simulations to test preparedness for events such as cyber attacks, disasters, accidents or other emergencies that could cause business disruption. In 2016, as part of their continuing education programs, all directors participated in sessions on corporate security and international risk, cyber threats and information security and IT disaster recovery.



Corporate safety structure

Within the Corporate Safety, Environment and Quality (CSEQ) branch, three separate groups are jointly responsible for safety and support a broad range of operational requirements. These are:

Safety Services and Initiatives

Its purpose is to ensure that employee safety programs are implemented and kept current. Among other things, it monitors compliance with the *Canada Labour Code* and other applicable regulations, and tracks employee safety-related incidents. Safety Services also supports the corporation's 71 health and safety and policy committees. These joint employee-management

Top flight pilots



All 30,000¹ Air Canada employees make safety their top priority, but the person most immediately responsible for customers' well-being is at the controls of each aircraft. Air Canada selects only the best pilots to fly its planes and even before being considered by the corporation, pilots require a minimum 2,000–3,000 hours of flying time.

Potential hires undergo pre-hiring medicals conducted by in-house Occupational Health physicians (with recurring annual check-ups that are conducted twice yearly after age 60). As well, there is a rigorous selection process including a video interview, three online assessments, an in-person interview (which also involves a psychological screening test), and a medical to confirm fitness to operate.

Simply getting through the process is a feat as Air Canada gets thousands of applications for every round of pilot hiring.

Once hired, pilots are regularly evaluated and get extensive ongoing training. This includes two days of intensive training and testing in a flight simulator every six or eight months, and a line check flying in a real aircraft once a year with a check pilot observing. There is also annual joint training with flight attendants.

To further ensure safety, Air Canada's internal rules are often stricter than what the Canadian Aviation Regulations set out with respect to such things as length of flight duty periods and relief pilot requirements. Additionally, there are peer support programs offered in collaboration with the Air Canada Pilots Association and provisions for those who have concerns about their fitness for duty, be it due to illness or fatigue, to book off.

¹ Includes employees at Air Canada, Air Canada Rouge and Air Canada Vacations.

groups meet regularly to discuss relevant workplace issues, safety concerns and work practices.

Additionally, the Safety Services group is responsible for other safety and training programs. These include oversight of Air Canada's safety risk management system, corporate safety-related training, and responsibility for Air Canada's continuous improvement program as it relates to safety programs. The final component of the Safety Services group is the Emergency Management team. It is responsible for the development, implementation and maintenance of the Air Canada Emergency Response Plan.

Data Management and Research

This group, consisting of experts recruited from across all the operational branches, forms the core safety team. It collects and manages information related to safety gathered through the Safety Information Management System (SIMS). Supported by its Investigation and Flight Data Monitoring experts, this group catalogues trends in incidents, reports on safety of flight, conducts flight analysis and flight re-creations, develops comprehensive statistical data for senior management and identifies operational trends, threats, risks and hazards. In 2016, for example, this group developed an industry-leading risk matrix to better identify and rectify the contributing factors associated with unstable aircraft approaches making landings even safer.

The Investigation Staff lead all formal investigations, conduct industry benchmarking activities, participate in international aviation forums and provide detailed quality analysis on the SIMS tool and the safety process itself.

Corporate Quality Services

This team provides critical oversight for all operations and, through its work, ensures awareness and effective management of risk. This is accomplished through detailed monitoring of corporate policies and day-to-day practices and by conducting internal, partner and external audits. Its members serve on international oversight committees and other organizations involved in safety, including the International Air Transport Association (IATA), assisting with formal audit assessments for the corporation, as conducted by Transport Canada, foreign regulators and the IATA Operational Safety Audit (IOSA). It also develops and manages corrective action plans to ensure policy compliance.

Finally, this group is a key part of the CSEQ structure that verifies on an ongoing basis the corporation's safety policies,

18,096
occurrences
filed through
safety reporting
system

processes, procedures and actions. CSEQ also has responsibility for Security and Regulatory Compliance to facilitate the tracking and monitoring of trends in the relevant data to ensure that the airline is safe from a security standpoint.

Information sharing

Shared understandings through ease of communication are essential to safety. A key means by which information is shared is through the SIMS, a software tool that fully supports the corporation's centrally managed, non-punitive safety reporting system designed to facilitate timely sharing of information. In 2016, there were 18,096 occurrences filed through the SIMS, an increase of 2.4 per cent from the 17,667 occurrences filed in 2015. An increase in the level of reporting is positive because it indicates that employees have confidence they can report their observations, concerns and possible hazards without repercussions.

Operational procedures can be improved by analyzing the information gathered. As well, it encourages a strong safety reporting culture that is critical to understanding the risks and hazards an organization faces. While individual safety reports mostly address specific issues, this larger body of data allows the corporation to data mine for threats and hazards and detect trends or patterns. A prime responsibility for CSEQ is to examine the database and identify risks and hazards for the benefit of all employees, and to bring these to the attention of senior executives.

Safety risk profile

A key output to the Corporate Safety Board is the Safety Risk Profile (SRP), a quarterly report that highlights the top safety risks. The SRP covers a range of issues such as cockpit distractions, aircraft maintenance events, aircraft damage, passenger issues and non-compliance with Standard Operating Procedures (SOPs). As well, the SRP is developed from an assessment of all risks, hazards and occurrence reports, as well as from other safety inputs such as Quality Audits, Investigation reports, Flight Data Analysis, and industry and regulatory assessments. The resulting data are both general in nature to address corporate policies and detailed enough to allow specific groups within the airline to focus on challenges within their own areas.

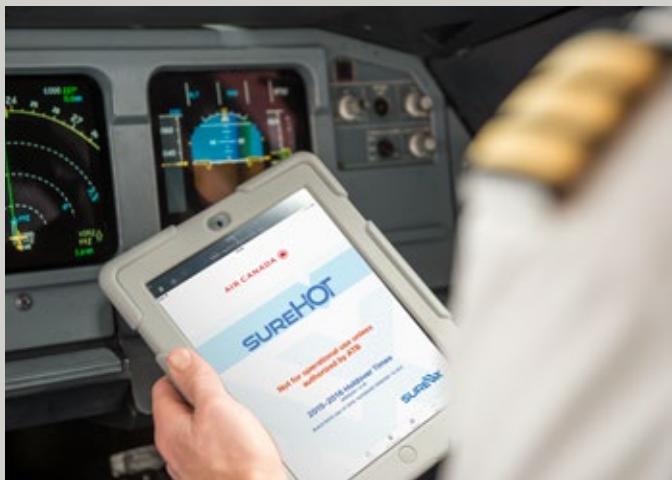
Safety pulse survey

A major safety initiative in 2016 was the biennial Safety Pulse Survey of employees. This voluntary, online survey is designed to enable the Corporate Safety team to gather vital safety information from employees in all areas of the workplace. The month-long survey allows anonymous responses to encourage candor and approximately 25 per cent of employees, primarily from the operational branches, participated and submitted 11,000 comments.

A full 95 per cent indicated a high confidence level in the survey and the results indicate improvements in six out of seven areas of safety culture over the previous survey in 2014. The answers from the survey and the free-flow comments gathered are used to help set safety priorities and goals for the corporation. They also enable Air Canada to design more effective ways of disseminating safety information to promote safety.



Flying safe in all weather



Based as it is in a country that gets severe winter weather, Air Canada continually refines its systems to be sure it is operating safely and efficiently in icy and snowy conditions.

The de-icing process uses special fluids to clean wings and aircraft control surfaces to make flying safe. These fluids prevent the build-up of ice and snow that can affect aircraft aerodynamics. In 2016, the corporation introduced a new automated Holdover Time Determination System (HOTDS) that allows pilots to more accurately determine how long the de-icing fluid will remain effective prior to take-off. With HOTDS, pilots use a computer-based application that incorporates advanced weather sensors to replace paper-based models and a simple visual inspection.

"Air Canada will be one of the first carriers in the world to have an all-digital solution for obtaining holdover times," says Captain Jason Brown, Manager, Flight Technical. "HOTDS gives pilots real-time access to a system that incorporates the latest technology for determining precise weather conditions at the airport and, along with other metrics, generally results in longer holdover times."

By more accurately measuring conditions, this system also benefits the environment by ensuring that the appropriate amount of de-icing fluid is used. It also reduces the time spent de-icing, improving the overall operational performance of the airline as well as environmental impact.

Provincial agencies

Although Air Canada is federally regulated, the corporation does work with provincial safety programs to improve workplace safety. This cooperation has contributed over the past few years to a distinct trend in injury reduction and an increased emphasis on safety. Using 2012 as a benchmark, the corporation estimates it prevented 1,461 Lost Time Injuries resulting in accumulated savings of \$9.1 million since that time. In most of these provinces, the corporation has been able to reinvest in employee health and safety by expanding trials, implementing programs that were underfunded in the past, and seeking employee comments and input on strategy moving forward.

In Alberta, obtaining a Certificate of Recognition provided the organization with \$172,000 in revenue for prior year results to the Partners in Injury Reduction Audit. With these funds the corporation was able to purchase electronic wheelchairs, wireless headsets and expand its internal, closed-circuit AC TV program, which is shown in workplaces and used to provide employees with corporate information. As well, in 2016 Air Canada Corporate Safety worked with the Nova Scotia Workers' Compensation Program to incorporate new equipment into the Halifax operation. It initiated a purchase agreement to install a Power Stow device, which is designed to reduce manual handling of bags within the Embraer aircraft.

Safety training

Safety training programs serve a dual purpose in that they provide employees with the skills and knowledge to perform their work safely and they also reinforce the safety culture at Air Canada. For this reason, there is recurrent safety training in all areas of the corporation.

Technology

Along with training, the corporation also looks to new technology to enhance safety. One significant new initiative launched in 2016 is called Connected Flight Deck. It was a trial program on certain narrow-body Airbus and Embraer aircraft that enabled pilots to use their electronic tablets to obtain the latest in graphical weather and aeronautical routing information through specialized apps. The trial enabled the corporation to collect critical data and feedback on such aspects as strategic weather assessment, optimized flight routings and connectivity. Pending a final assessment of the results of the trial, it is anticipated that Flight Operations will eventually deploy Connected Flight Deck to all fleet-types globally.

Another significant program is the Holdover Time Determination System (HOTDS) that pilots can use to more accurately determine how long de-icing fluid sprayed on wings



Desktop Emergency Handbook Guide

In 2016, all employees were issued a desktop Emergency Handbook that provides a wealth of information on how to respond to a wide variety of risky situations that could arise in the workplace.

will be effective. With the adoption of HOTDS Air Canada will be one of the first carriers in the world to have an all-digital solution for obtaining holdover times.

For the future, the corporation has begun working with an organization to begin utilizing artificial intelligence to data mine safety reports for predictive analytics. The capabilities of this realm of science are still new to the industry but Air Canada is looking to spearhead initiatives with leading IT providers.

Workplace measures

Progress in health and safety often begins with trials and innovations at local stations that, once found to be beneficial, are then rolled out across the corporation. In 2016, there were several such developments, underscoring the learning safety culture at Air Canada. The advantage of a phased-in approach is that it allows a corporation to determine the effectiveness of a new process or technology in a limited way before changing SOPs, which can incur a significant training and administrative burden.

One example is the adoption of heel clips to reduce injuries from falls in icy conditions, an ever-present risk for workers on the ramp servicing aircraft. Over the past few years, the corporation has been studying slip and trip injuries and these investigations have revealed that most such injuries result from heel slips instead of toe slips. Based on these findings, the corporation undertook an assessment of alternatives to winter footwear before settling on specialized heel clips as a promising measure to prevent slips. Front-line employees participating in a heel clip trial in Halifax reported great success and the trials have been subsequently expanded to management and select health and safety representatives to further assess their effectiveness.

Two other programs also initially trialed in Halifax have met similar success. In 2013, the station was selected for a trial of various wireless headsets to allow for better communication on the ramp and in the hangar to ensure that front-line employees can talk to each other during all steps of their procedures. The use of headsets has been fully implemented in Vancouver, partially implemented in Ottawa and Calgary, and will next begin a phased-in introduction at the corporation's largest operational hub in Toronto.

Similarly, Halifax was also the site of a trial of electronic wheelchairs, which require less manual handling, are more user-friendly and 25 per cent lighter than the wheelchair units previously used by the airline. What started out as a small trial has increased to a full system implementation and the Airports team has now expanded to have an electronic wheelchair at all primary and secondary stations in the system.

The corporation also takes numerous measures throughout the year to promote health and safety and overall wellness.¹ In 2016, all employees were issued a desktop Emergency Handbook that provides a wealth of information on how to respond to a wide variety of risky situations that



¹ For more information on employee wellness, see Employee section on page 34.

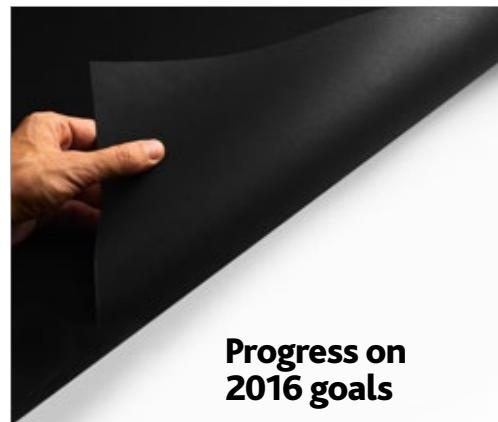
could arise in the workplace. As well, the corporation regularly issued safety reminders, such as to take preventative measures when working in extreme heat or cold, to encourage safe practices.

Reflecting the belief that simply talking about safety is one of the most effective safety precautions, the corporation made extensive efforts to communicate its safety goals and raise awareness during the year. For example, the corporate safety representatives continued to build relationships with the corporation's unions by attending a joint management-union conference hosted by the International Association of Machinists and Aerospace Workers with day-long sessions in Vancouver, Toronto and Montréal. These meetings are viewed as a way to benchmark with counterparts from the U.S. and to build connections and generate ideas that can be implemented in the future

National awareness campaigns

As part of its efforts to reinforce safety, Air Canada encourages its employees to take part in national awareness campaigns. For this reason, it actively participates in the Day of Mourning, a national event in April to commemorate workers killed on the job, and the North American Occupational Safety and Health (NAOSH) week each May. NAOSH aims to focus employers, employees, the general public and the airline's partners on preventing injury and illness, whether in the workplace, at home or in the community.

Air Canada along with Canadian airport authorities have teamed up for awareness campaigns during Canadian Airports Safety Week. It promotes safety at work as a shared vision and common goal for all, and seeks to ensure that everyone goes home safely to their families at the end of the working day. Each day was focused on a particular aspect of safety, including hazard reporting, security and airside vehicle operations.



Progress on 2016 goals

- Reduce Lost Time Injuries by three per cent **Not achieved**
- Conduct an employee culture survey to gauge the perception of internal stakeholders **Achieved**
- Manage safety risk and hazards associated with the introduction of 10 new routes² **Achieved**

2 Subsequent to the completion of the 2015 CSR report, nine additional mainline and Air Canada Rouge routes were announced or launched in 2016 which also received the appropriate safety review.

Goals for 2017

- Reduce Lost Time Injuries by three per cent
- Successful completion of Transport Canada SMS Assessment
- Successful completion of IOSA (IATA Operational Safety Audit)
- Manage safety risk and hazards associated with the introduction of three to five new routes
- Successful integration of the Boeing 737 MAX aircraft into our fleet by the fourth quarter of 2017

ENVIRONMENT



Air Canada incorporates environmental considerations into decision-making at all levels and devotes considerable resources to environmental management. The carrier's approach is centered around a four-pillar strategy to reduce emissions. These efforts are supplemented by other initiatives to curtail energy use, reduce waste and promote recycling. It also has programs to encourage employees, customers and other stakeholders to contribute to achieving its environmental goals.



Removing only one kilogram of weight fleet-wide translates into a savings of 16,180 litres of fuel, US\$10,200 in lower fuel costs, and 41 fewer tonnes of GHG emissions released over the course of a year.

Sustainability is most often associated with the environment and an evaluation of any corporation's social responsibility performance gives significant weight to its environmental programs and activities. This is certainly the case for Air Canada. Stakeholders rank energy consumption, greenhouse gas emissions, waste management, sustainable procurement and noise among their chief concerns in the materiality assessment that is the basis of this report.

Air Canada recognizes such expectations and accepts the accompanying responsibilities. In doing so, it devotes significant resources to environmental management. The carrier's goal, as set forth in its Environmental Policy, is "to be an environmental leader within the global airline industry."¹

For airlines, the primary environmental concern is curbing emissions of greenhouse gases (GHGs), which contribute to climate change. But where for many industries meeting environmental targets can be operationally and financially burdensome, for airlines there is a strong positive correlation between reducing fuel burn, emissions and operating costs.

Fuel is the single largest expense for Air Canada, which spent approximately \$2.3 billion on fuel in 2016. Any savings on fuel consumption (and its associated emissions) therefore strengthen the corporation's financial and environmental performance. Expenditures on new equipment and technology to achieve these ends are generally regarded as sound investments as even incremental gains can have a meaningful impact. For example, removing only one kilogram of weight fleet-wide translates into a savings of 16,180 litres of fuel, US\$10,200 in lower fuel costs, and 41 fewer tonnes of GHG emissions released over the course of a year.

Air Canada therefore has multiple incentives to improve its environmental performance. It is the right thing to do for the planet. Stakeholders expect it. And, it immediately benefits the business and contributes to its long-term sustainability.

Environmental management

Air Canada was one of the first airlines in North America to adopt an Environmental Management System (EMS) based on ISO 14001. It sets out a systematic approach for monitoring, planning, implementing and improving environmental performance. Following publication in September 2015 of an updated ISO 14001 standard, Air Canada conducted an assessment in 2016 to identify any existing gaps to the new standard, and will focus in 2017 on filling those gaps.

Given Air Canada's strategy of growing its international network, a function that is taking on increasing importance for its EMS is analyzing the environmental regulations of foreign jurisdictions. This keeps Air Canada focused on compliance with the laws and regulations in each jurisdiction where it operates.

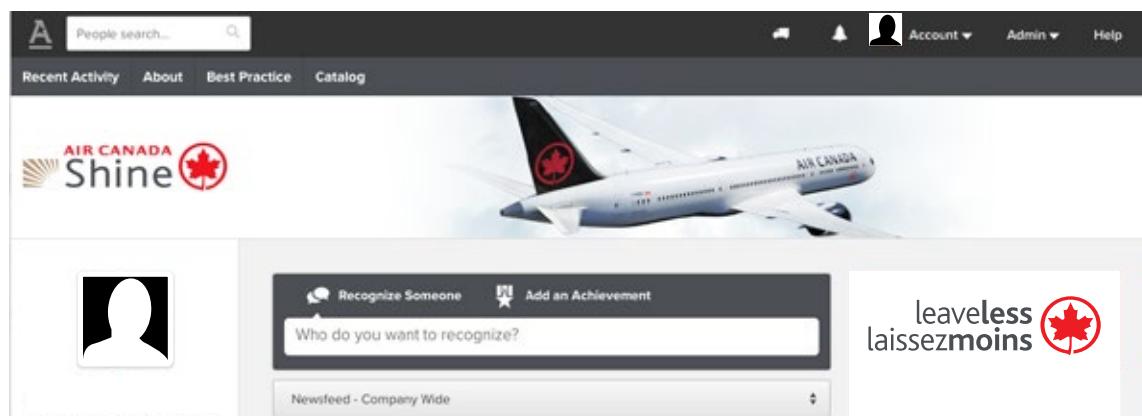
The Environmental Affairs department provides quarterly reports to the Audit, Finance and Risk Committee of the Board of Directors and to the Corporate Environment Board, comprising senior levels of management. There is also a cross-functional Fuel, Energy and Emissions Reduction Program, mandated to reduce the airline's "gate-to-gate" fuel and energy consumption and emissions. It reported during the year to the Executive Vice President and Chief Operating Officer.

¹ aircanada.com/content/dam/aircanada/portal/data/leaveless/leaveless_en/environmental_policy.pdf

This structure is designed to inject environmental considerations into decision-making. In 2016, the cross-functional group adopted quarterly all-day meetings, with representation from all operational branches and regional partners. It is a forum for new ideas and to monitor ongoing initiatives. To ensure that best practices are followed and shared, group representatives interact with other industry players, for example, being invited to present at the Lufthansa fuel group meeting in 2016.

The corporation's Code of Conduct,² which managers are required to review and acknowledge each year, contains a specific provision outlining the corporation's commitment to comply with all applicable environmental laws. All employees are asked to conserve resources and reduce waste and emissions through recycling and energy conservation measures. The Code further states that employees have a responsibility to promptly report any known or suspected violations of environmental laws or any events that may result in a discharge or emission of hazardous materials, for which employees are trained when relevant to their jobs. It also requires that employees remain alert to the storage, disposal and transportation of waste, and handling of toxic materials and emissions onto the land or into the water or air. In 2016, all Air Canada Board of Directors attended a continuing education session on environmental management systems and strategic environmental issues.

Less formally, a new program to encourage environmental stewardship was introduced in 2016. The corporation's employee recognition program, *Shine*, was expanded with a new category for environmental responsibility. The new tool allows employees to cite and even reward one another for environmental actions in the belief that peer recognition is a strong motivator.



² www.aircanada.com/ca/en/aco/home/about/corporate-governance/corporate-policy.html

GHG targets

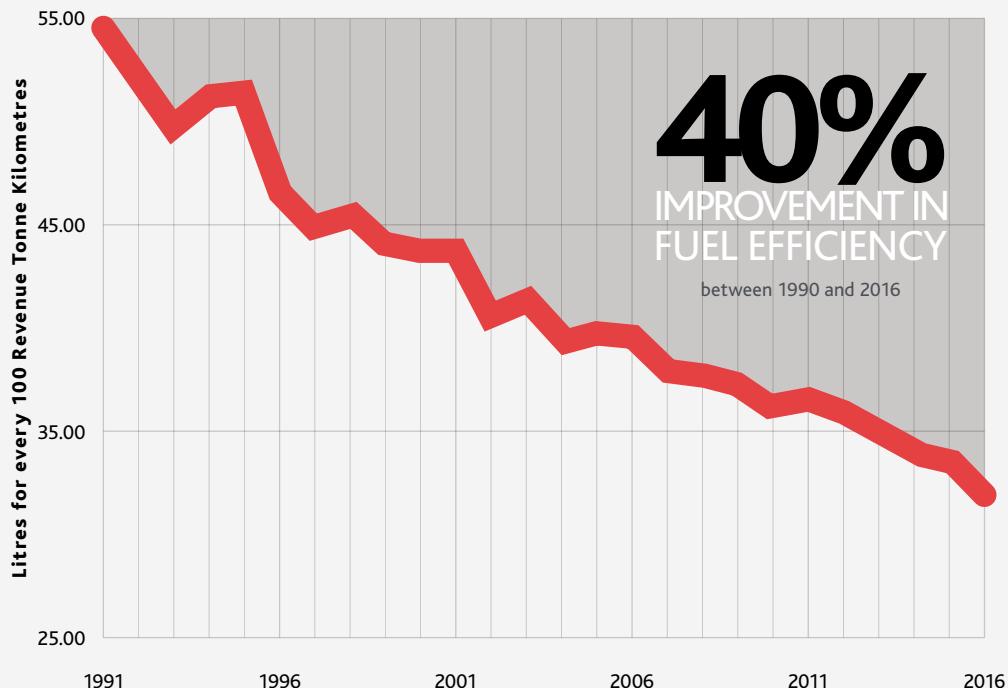
Global air travel produces approximately two per cent of the total man-made emissions of carbon dioxide (CO₂).³ This percentage is projected to increase with traffic growth but, through ongoing efficiency increases and the industry's four-pillar strategy for climate protection, the world's airlines are on track to lower the CO₂ footprint from aviation. In this context, Air Canada has adopted the ambitious collective International Air Transport Association (IATA) reduction targets for GHGs that include:

- Improving fuel efficiency by an average of 1.5 per cent per year from 2009 to 2020;
- Capping aviation CO₂ emissions from 2020, or carbon-neutral growth; and
- Reducing CO₂ emissions by 50 per cent by 2050 relative to 2005 levels.

Air Canada and the country's three other largest carriers make up the National Airlines Council of Canada (NACC), an industry association which in 2012 signed *Canada's Action Plan to Reduce GHG Emissions from Aviation* with the Federal Government and other key aviation stakeholders. This partnership sets an aspirational goal to reduce GHG emissions by improving fuel efficiency by an average rate of 2 per cent annually until 2020, measured against a 2005 baseline. In the future, Canada's progress will be benchmarked against both the 2 per cent aspirational goal and the 1.5 per cent IATA target.

Air Canada is committed to these goals and has demonstrated continual progress in terms of its environmental performance. Between 1990 and 2016, Air Canada improved fleet fuel efficiency by 40 per cent. In 2016 alone, fuel efficiency improved by 4.3 per cent compared to 2015, and fuel efficiency projects combined saved over 13,800 tonnes of fuel or approximately 44,400 tonnes of CO₂e (equivalent).

Air Canada's Fuel Efficiency Since 1990



³ The IPCC (Intergovernmental Panel on Climate Change) – report: IPCC, Climate Change 2007: The Physical Science Basis, Cambridge Univ. Press, Cambridge, UK.

Weighty savings for the environment



It is not only jockeys who worry incessantly about weight, airlines do too. At Air Canada, it is calculated that shedding only one kilogram of weight fleet-wide translates into a savings of US\$10,200 in fuel costs and 41 fewer tonnes of GHG emissions over the course of a year.

With this in mind, Air Canada's Continuous Improvement team organized an "Aircraft Clean-Up" blitz in 2016 to find weight savings on its aircraft. The initial program aimed to clean up select aircraft at the Montréal, Toronto and Vancouver stations, with the results to be later applied to the fleet. The Clean-up Days brought together employees from all branches to work on aircraft to collect, weigh and identify items for removal.

"We were looking to reduce the amount of excess weight our

planes are carrying around," said project leader Steven Truttenbach, Manager, Continuous Improvement.

Employees combed through various aircraft to remove excess supplies, outdated documents and overstocked cubbies. After a blitz of 16 aircraft of varying sizes at the three bases, a total of 1,273 kilograms of "extra stuff" was identified.

To put this in perspective, over 12 months of operating these 16 planes, the removed weight saves 153,157 kilograms of fuel, enough to drive a car nearly 2 million kilometres.

Four pillars to curb GHG emissions

To reach its emission reduction targets, Air Canada has adopted the aviation industry's four-pillar approach. The strategy entails the use of technology, operations, infrastructure and economic instruments. In 2016, significant progress was made in each of these areas.

PILLAR 1 – Technology

The single-most important factor in reducing GHG emissions has been the continuous improvement in aircraft and aircraft engine efficiency. According to IATA, since the first commercial jet aircraft began regular service, CO₂ efficiency has improved by some 80 per cent per passenger kilometer⁴; today's aircraft are 75 per cent quieter than those manufactured 50 years ago⁵; and levels of carbon monoxide have come down by 50 per cent and unburned hydrocarbons and smoke by around 90 per cent.⁶

Air Canada has kept pace with these developments with an ongoing fleet renewal program that includes plans to have 37 Boeing 787 Dreamliners in its fleet by 2019. Air Canada had 21 Boeing 787s in its fleet at the end of 2016 and initial results show them to be about 20 per cent more fuel efficient than the Boeing 767-300 aircraft they are replacing. These aircraft represent a significant investment on the part of the corporation. As an indicative measure, the Boeing 787-9 version of this aircraft carries a list price of US\$270 million.

Preparations also continue for a new narrow-body aircraft the corporation has ordered. Beginning in 2017, Air Canada will start taking delivery of the Boeing 737 MAX, for which it has a firm order of 61 aircraft in a combination of the 737 MAX-8 and 737 MAX-9 variants. These aircraft will replace Air Canada's current fleet of Airbus narrow-body aircraft that first entered the fleet in 1990.

The 737 MAX will feature the latest technology, CFM International LEAP engines and, according to the manufacturer, these aircraft will yield a significant fuel-use improvement over today's most fuel-efficient, single-aisle aircraft. The 737 MAX also has noise-reducing technology, with a 40 per cent smaller noise footprint than today's single-aisle airplanes. The Boeing 737 MAX-8 has a list price of US\$112 million, evidence of a further significant investment in technology by Air Canada.

Complementing this acquisition is Air Canada's order in 2016 of up to 75 Bombardier CS300 aircraft. The C Series aircraft's fuel burn advantage is also expected to translate directly into a significant reduction in CO₂ emissions. The C Series deliveries are scheduled to start in late 2019 and extend to 2022. Once complete, these new aircraft deliveries are expected to give Air Canada one of the youngest, most fuel-efficient fleets in the world.

Air Canada is also acting to improve the efficiency of existing aircraft by equipping its current Boeing 767-300 aircraft flying for Air Canada Rouge with blended winglets that reduce drag. The addition of winglets to four aircraft in 2016 saved approximately 1,178 tonnes of fuel and 3,800 tonnes of CO₂ e during the year.

⁴ ATAG. Aviation Benefits Beyond Borders. July 2016.

⁵ *idem*

⁶ ATAG. Local Air Quality. aviationbenefits.org/environmental-efficiency/local-air-quality/

Fueling a cleaner future



Having set itself the ambitious task of capping and ultimately reducing emissions of greenhouse gases by 2050, the global airline industry is counting heavily on new technologies to achieve its goals.

One of the most promising of these is biofuel, which contributes to sustainability by using renewable feedstocks, such as agricultural and forestry biomass resources. Air Canada has been a longstanding supporter of efforts to develop such alternative fuels, having first flown a demonstration biofuel flight in 2012.

In 2016, Air Canada announced it will participate in Canada's Biojet Supply Chain Initiative (CBSCI), the first project of its kind in Canada. The CBSCI is a three-year collaborative effort involving 14 stakeholder organizations. With the support of Air Canada,

it will introduce 400,000 litres of sustainable aviation biofuel into a shared fuel system at a Canadian airport.

The biojet will be blended with petroleum jet fuel to meet all technical quality specifications before it is introduced into the airport's shared fuel tank system. Along with demonstrating the viability of biofuels, the CBSCI project will also identify and help solve supply logistic barriers that arise when aviation biofuels are introduced at major Canadian airports.

Sustainable aviation biofuel is a major part of the industry's plan to achieve its mid- and long-term emission reduction goals. In 2016, Air Canada continued to support partners involved in biofuel research, in cooperation with the Canada Biojet Supply Chain Initiative (CBSCI).

PILLAR 2 – Operations

To maximize the benefits of modern, fuel-efficient aircraft, it is necessary that they be operated in a manner that optimizes their capabilities. To do this, Air Canada continually refines its procedures, not only in flight, but also on the ground and in its maintenance activities. One project begun in 2016 aims to limit the use of aircraft auxiliary power units while on the ground and should be in effect in 2017.

For several years, Air Canada has used a variety of approaches to conserve fuel and has been expanding their use, including efforts to reduce weight aboard aircraft. In 2016, it continued a program that introduced ultra-lightweight galley carts for international flights, resulting in significant weight savings per flight and yielding a reduction of 2,108 tonnes of fuel and more than 6,700 tonnes of CO₂e during the year. Another initiative using sophisticated technology included on the new Boeing 787 to better manage and load potable water, saved 360 tonnes of fuel and over 1,000 tonnes of CO₂e.

Weight savings can also be found in better monitoring the amount of fuel for each flight, allowing enough for safety while ensuring that not too much is loaded (because the fuel adds weight and more fuel must be burned to carry it). In 2016, steps were taken to better analyze contingency fuel requirements using statistical data to more precisely plan fueling and this saved 6,600 tonnes of fuel and over 21,000 tonnes of CO₂e. As well, a program to coach fuel suppliers to limit over-fueling was continued in 2016 and resulted in savings of an additional 86 tonnes of fuel and 276 tonnes of CO₂e during the year.

PILLAR 3 – Infrastructure

Properly designed aviation infrastructure also contributes to emission reductions. Air Canada has long advocated for improvements in this area and worked with partners, such as air traffic control management system operators, on ongoing initiatives to make the shortest, most direct routes available to aircraft.

In recent years, RNAV-RNP (area navigation required navigation performance) approaches have been a key focus. Following a successful trial in 2015 on a flight from Calgary to Vancouver using an Embraer 190 aircraft, this program expanded to many new airports across Canada in 2016 and the benefits continue to be evaluated. Such an approach allows the aircraft to fly a continuous descending path to a point a few miles from the runway, saving between 160 to 500 kg of CO₂e per approach depending on the aircraft type.

Working closely with Nav Canada, Canada's air traffic control service provider, more such approaches have been introduced across the country. The corporation's Boeing 777, Boeing 787 and Embraer 190 aircraft and crews are now taking advantage of these approaches, as will the Boeing 737 MAX and Bombardier C-Series and their crews when these aircraft are introduced to Air Canada's fleet.

PILLAR 4 – Market-based measures

Another way Air Canada strives to mitigate its emissions of greenhouse gas is by participating in relevant industry associations and partnerships in efforts to develop and adopt appropriate market-based measures for reaching the industry's goal of making the growth in international flights beyond 2020 carbon neutral. In 2016, the International Civil Aviation Organization (ICAO) received endorsement from its Member States (Air Canada had a representative on the Government of Canada's ICAO delegation) to develop a global market-based measure (MBM) for international aviation. Called the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA), it is designed to complement the basket of mitigation measures that the air transport industry is already pursuing to reduce CO₂ emissions from international aviation and will be the first global carbon offset system for a single industry.

The CORSIA will be voluntary from 2021 to 2026 and become mandatory for most countries beginning in 2027. Canadian airlines will participate in the voluntary phase of the system beginning in 2021.

Also in 2016, Air Canada joined the Carbon Pricing Leadership Coalition. It brings together governments, businesses and civil society groups to identify how to successfully use carbon pricing policies to help combat climate change. Launched in 2015 by the World Bank and the International Monetary Fund, with support from national governments and private-sector leaders, the goal is to expand the use of effective carbon pricing policies that can maintain competitiveness, create jobs, encourage innovation, and deliver meaningful emissions reductions.

Within Canada, the Minister of Environment and Climate Change leads the Carbon Pricing Leadership Coalition. Air Canada joined this coalition for the opportunity it provides to learn about and help craft effective carbon pricing policy for aviation in Canada.



Air Canada engages with airport authorities at its largest Canadian hubs to promote the installation of alternative fuel charging stations, particularly electric sources, in key areas of airports.

Ground operations

Although Air Canada's ground operations account for a small fraction of the corporation's overall emissions, it is adopting new technologies and innovative practices to reduce these emissions wherever feasible. This includes using alternative energy to power airport vehicles. As well, Air Canada engages with airport authorities at its largest Canadian hubs to promote the installation of alternative fuel charging stations, particularly electric sources, in key areas of airports.

Today, 30 per cent of such vehicles in Air Canada's ground fleet have been equipped to be powered by alternative means, including electricity or propane, with propane alone reducing emissions by 15 per cent compared to conventional fuel. During the year, through an electric conversion program that uses a kit with the latest lithium-ion battery technology, an additional 31 lithium-ion units were introduced into the ground fleet, bringing the total to 56. In 2016, total savings from lithium-ion battery vehicles amounted to approximately 885,000 litres of gasoline and diesel.

Augmenting these savings has been the continued roll-out of a technology called iRamp, which uses wireless technology to determine if a vehicle has been idling too long and remotely shuts it down when safe to do so to save unnecessary fuel burn and emissions. It also significantly reduces the dwell time of cargo delivery vehicles on the ramp and expedites deliveries for customers by making it easier to consolidate pick-up and retrieval of shipments from aircraft to cargo facilities. In 2016, an additional 75 vehicles were iRamp-equipped, bringing the total to more than 1,300. The 2016 expansion of iRamp alone saved over 480,000 litres of fuel. Further expansion is planned for 2017.

Additionally, the use of iRamp itself has also been modified so that employees are now able to process work orders directly in the system. This entails using electronic dashboards, which removes the need to print multiple reports to retrieve information.

Facilities

Air Canada continually reviews the operations of its extensive real estate holdings, both at airports and other facilities, to ensure that they are operated in an energy-efficient manner. In addition to mitigating emissions, Air Canada is active in other areas to reduce its environmental impact, notably minimizing the creation of waste and improving recycling.

During 2016, a number of programs were undertaken to increase facility energy efficiency. At its Montréal headquarters, there was a continuation of a lighting upgrade project begun in 2013 that is scheduled for completion in 2017. By the end of 2016, the majority of the buildings' fluorescent light bulbs had been replaced with cool white bulbs, which yield a 25–30 per cent energy saving.

Also during the year, Air Canada began constructing a new hangar at Toronto Pearson airport with energy-efficient components. Design features include LED lighting; "light harvesting" sidewall panels that let in exterior light; and radiant heating. The hangar will also sport a high-efficiency door that will feature an iris, which is an aperture that allows part of the aircraft fuselage to protrude outside the hangar when the door is closed to maximize use of floor space and increase the building's overall energy efficiency.

In Vancouver, to reduce energy consumption in the Air Canada Operations Centre near the airport, the airline entered into an agreement with BC Hydro under its Power Smart program. In the spring of 2016, the lighting in the building's hangers was upgraded to LED lighting and this is projected to save over 570 MWhs of electricity annually. That will amount to an annual cost savings of approximately 60 per cent as well as a significant reduction in emissions.

In the fall of 2016, Air Canada joined BC Hydro's Strategic Energy Management Cohort Program to obtain support in identifying further electricity saving opportunities. An energy audit is planned for 2017.



During the year, Air Canada began constructing a new hangar at Toronto Pearson airport with energy-efficient components. Design features include LED lighting; "light harvesting" sidewall panels that let in exterior light; and radiant heating.

Waste reduction

The first step in waste management efforts is to reduce the amount of waste created. One example of this in 2016 was Air Canada Cargo's decision to adopt a new electronic system called Real Time Locating System (RTLS) to capture a shipment's movements and update our internal systems automatically, improving efficiency. The RTLS tags eliminate the need for a Progressive Load Assembly Manifest (PLA) which is a triple-copy paper form used multiple times for every flight build. To further reduce waste, the corporation is working on a new smaller tag which could be applied by the customer before they tender their shipment, thus eliminating the need to reprint new labels on site.

Air Canada Cargo has been active in this area in other ways. It continues expanding the use of electronic air waybills (e-AWBs) by customers. Air Canada Cargo customers can use an online tool to book and manage shipments, which allows them to log in, create a booking and obtain an e-AWB in a few steps. In 2016, as part of that effort to expand that process, it discontinued the production and distribution of the Air Canada Cargo Domestic paper air waybill. This will reduce



Frequent flyer program



When the founder and operator of the World Parrot Refuge on Vancouver Island died, resulting in the refuge's discontinued operation, its exotic avian residents were left needing a home.

Various organizations stepped up to help find places for the orphaned birds. Still, others required transport to new homes across the country.

Helping coordinate the effort was the Greyhaven Exotic Bird Sanctuary, a non-profit group located in Surrey, B.C. It took many of the birds and reached out to Air Canada for assistance. Air Canada Cargo was moved by the birds' plight and offered to help ship them.

"We saw an opportunity to help out. Not only were these beautiful birds, many of them rare, in need

of care, but we also felt a kinship with fellow aviators—even if they were of the feathered kind," said Sebastian Cosgrove, Manager, Customer Relations at Air Canada Cargo.

Eventually, Air Canada shipped a dozen birds to new homes. This included (pictured) McCoy, a green-winged macaw from the refuge, together with Buddy—another macaw who had bonded with McCoy—who were boarded on a flight to Calgary back to McCoy's original owners.

approximately 100,000 paper air waybills per year. Similarly, upgrades to iLynx, Air Canada Cargo's in-house application that runs its operating system on commercial mobile devices, eliminated the need to print various daily reports, which can be up to 50 pages long.

Even in the preparation of its CSR report, Air Canada has taken steps to reduce its impact by using recycled paper. According to the manufacturer, based on calculations of paper used, Air Canada saved the equivalent of 56 trees, 20,485 litres of water, and 2,500 kilos of waste in producing its CSR report in 2016.

Recycling

Recycling also remains a priority, both onboard domestic aircraft and in Air Canada's offices and facilities. At present, recycling of items such as cans, newspapers, bottles and Tetra Paks® occurs at eight out of nine major Canadian stations that Air Canada serves. The recycling of onboard waste is complicated, however, by regulation that mandates how waste potentially containing food or organic material from foreign stations must be handled to avoid the spread of certain diseases.

The airline continually works to increase recycling throughout both its air and ground operations. For example, Air Canada employees and caterers work together to recycle accepted materials from aircraft, and employees in the ground facilities recycle materials such as paper, cardboard, wood, metal and plastic, wherever possible.

In late 2016, the Montréal cargo facility adopted a plastics recycling program like that at other major cargo hubs in Canada. Low-density Polyethylene (LDPE) or Plastic Stretch Film plastic is used to protect and contain customers' items on pallets. This plastic will now be collected and baled, and quantities recycled will be tracked starting in 2017. LDPE is often recycled into plastic pellets that are used to make new plastic items.

Air Canada is also working at airports to reduce waste and promote recycling of ethylene glycol de-icing fluid. At Montréal-Trudeau airport, all airlines use recycled de-icing fluid; at Halifax airport, Air Canada purchases recycled de-icing fluid; and at Calgary airport plans are in place to offer recycled de-icing fluid to airlines for the 2017–2018 winter season.



Supply chain

To help it achieve its environmental goals and promote responsible behaviour, Air Canada works with suppliers. Air Canada has more than 6,000 individual suppliers and in 2016 it spent \$5.4 billion on products and services from Canadian suppliers alone, excluding fuel and labour. Its total supplier spending was \$10.1 billion.

Air Canada has developed a Supplier Code of Conduct (SCC) that, among other requirements, such as respecting human rights and labour standards, also stipulates that suppliers have due regard for the environment. This includes requesting that suppliers have an effective environmental management plan in place, that they work to reduce their footprint and demonstrate and promote environmental stewardship. The SCC continues to be the standard for new contracts negotiated by Strategic Procurement, including provisions against human trafficking as contemplated by the UK Modern Slavery Act 2015.⁷

Despite the size of the supply chain, more than 80 per cent of expenditures go to the top 100 suppliers. Several organizations within Air Canada are charged with managing these relationships but Strategic Procurement, whose purview includes fuel purchases, accounts for the majority of these expenditures. Air Canada endeavours to source locally wherever commercially feasible. A substantial representative sampling of Air Canada's contracts indicated that more than 80 per cent are with suppliers in the region where the goods or services are delivered.

Working with others

Air Canada works with industry organizations globally on climate change and other environmental issues. Among the groups Air Canada participates in are the IATA Environment Committee, the NACC Environment Sub-Committee, the Airlines for America (A4A) Environment Council and its International Noise and Emissions Committee and the Commercial Aviation Alternative Fuels Initiative (CAAFI).

Air Canada also complies with local regulations where it operates that protect endangered wildlife in accordance with the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES). The airline has banned shipments of shark fins, as well, in a move applauded by the Jane Goodall Institute and the Humane Society International/Canada, the carriage of lion, leopard, elephant, rhinoceros and water buffalo trophies worldwide as freight.

Other groups with which the airline is working on environment-related programs include:

Clean the World Canada – In 2016, Air Canada started working on a plan with the not-for-profit Clean the World Canada organization to re-use and recycle unused items in executive cabin amenity kits left behind on airplanes arriving in Montréal. Starting in 2017, unused items from the kits, which may include ear plugs, eye shades, socks, dental items, hand lotion, and lip balm, will be collected, and distributed locally.



A substantial representative sampling of Air Canada's contracts indicated that more than 80% are with suppliers in the region where the goods or services are delivered.

⁷ For more information see www.aircanada.com/ca/en/aco/home/about.html

The Syrian Canadian Foundation – Through Partners in Project Green's material exchange program, Air Canada has teamed up with The Syrian Canadian Foundation to distribute used business class duvets for reuse by people in need. Having accumulated 6,840 kg or 4,000 individual duvets at the end of their useful life, Air Canada donated these to The Syrian Canadian Foundation in the fall of 2016, which worked with local community groups to distribute them.



Partners in Project Green –

As a member of Partners in Project Green—an initiative that helps businesses in the Pearson Eco-Business Zone advance a shared sustainability agenda—Air Canada participates in collective environment-related initiatives in and around its global hub airport. It remains a member of the Waste Management Committee and for the third year, participated in the People Power Challenge (PPC), a friendly competition among companies and organizations in the Toronto area to showcase environmental efforts.

MariClaro – Air Canada is part of a project to repurpose used aircraft cabin materials for bags and accessories by Canadian company MariClaro. Handmade in Ontario, the newest black leather items are crafted from seat covers that needed to be replaced on five of Air Canada's Boeing 777 aircraft. Also available are duffle bags and purses that incorporate blue cabin interior material into their design. To date, more than 600 seat covers have been dry-cleaned and given another life. Five per cent of profits are donated to the Air Canada Foundation.

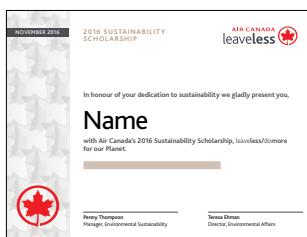


Tourism Cares – The airline belongs to Tourism Cares, which unites the travel and tourism industry to make a greater impact on shared priorities and to help each company fulfill its own Corporate Social Responsibility goals.

Employee engagement

Engaging employees at all levels is also seen as key to the sustainability of Air Canada and having the opportunity to participate in environmental programs is an effective way of doing this. For this reason, there are several programs in which employees were involved, including the annual recognition of Earth Hour and Earth Day, and the Earth Day Ball.

Another event is Waste Reduction Week. In 2016, Air Canada employees joined 15 organizations from across the Greater Toronto Area to contribute used clothing and e-waste as part of the Partners in Project Green Recycling Collection Drive. The result was over 6,900 kg of material diverted from landfill.



In 2016, Air Canada launched a Sustainability scholarship program for the children of full-time Air Canada employees. It is open to those 30 years old or younger and enrolled full-time in post-secondary educational institutions. Scholarships of \$2,000 each were awarded to 10 recipients to be applied towards post-secondary studies.

Communication

For customers seeking information on Air Canada's environmental programs, the corporation maintains a dedicated environmental website, leaveless.com. The site, which is frequently updated, provides travel tips and advice on how customers can reduce their impact on the environment. Customers can also contact Air Canada with environment-related questions at environment@aircanada.ca.

In 2016, Air Canada continued to partner with a carbon offset provider to assist our customers who wished to purchase carbon offsets and reduce the environmental impact of their individual flights. By year-end, Air Canada customers had offset 23,592 tonnes of CO₂e since the beginning of this voluntary program in 2007.



Progress on 2016 goals

- Implement the Analyzed Contingency Fuel Program onboard to reduce GHG emissions **Achieved**
- Implement a project to reduce Auxiliary Power Unit use while on the ground, to reduce GHG emissions **Not achieved**
- Launch Canada's Biojet Supply Chain Initiative with partners, to advance biojet supply logistics in Canada **Achieved**
- Complete analysis of the Air Canada Environmental Management System to align it with the recently updated ISO 14001 standard **Achieved**
- Expand employee support for tree planting and clean-up efforts at two additional Air Canada bases, in support of community sustainability initiatives **Achieved**

Goals for 2017

- Continue modernizing its fleet with the delivery of the more fuel efficient Boeing 737 MAX aircraft.
- Participate in the Civil Aviation Alternate Fuel Contrail and Emissions Research project, a project led by the National Research Council of Canada to test the environmental benefits of biofuel use on contrails
- Conduct waste audits of Maple Leaf Lounges to establish a baseline to help reach its 2020 waste diversion target for lounges
- Improve the collection and recycling process for the Onboard Recycling Program for domestic flights to help reach the 2020 onboard recycling target

EMPLOYEES

Air Canada believes employee engagement is crucial to the long-term sustainability of its business. To this end, it maintains a range of Human Resources programs and tools for its employees' entire career and life cycles, beginning with the pre-employment selection and offer period and extending into the post-employment, retirement phase. Both its Human Resources and Labour Relations branches have adopted best practices with respect to compensation, benefits and wellness, training, career management and advancement, diversity and inclusion, and recognition.



Through its entire network, Air Canada can move 150,000 or more customers a day and it is estimated that each customer can have five or more individual contact points with airline staff. The nature of those interactions largely determines the quality of the travel experience and the likelihood the customer will return or recommend the carrier to other travellers.

Air Canada's sustainability is therefore directly dependent on how its customers feel they are treated as individuals. This makes it a matter of vital importance that employees are engaged, effectively trained and properly motivated. Stakeholders agree, ranking labour relations and employee engagement highly among issues of concern in the materiality assessment upon which this report is based.

With 30,000¹ employees working worldwide, Air Canada expends significant energy and resources creating and maintaining a positive employee culture. There are considerations for the workers' varying schedules, the diverse nature of their jobs, and even their differing cultural backgrounds. Adding further complexity to employee relationship management is the fact that nearly 90 per cent of employees are unionized. In response to all these elements, Air Canada has developed extensive employee support structures.

With 30,000 employees working worldwide, Air Canada expends significant energy and resources creating and maintaining a positive employee culture.

Working at Air Canada

While all employees have a role to play in engagement and maintaining productive relationships, leadership development and guidance comes from the Human Resources (HR) branch. In 2016, it was led by the Vice President, Human Resources and supported by approximately 400 HR professionals in various divisions including Total Rewards, Talent, Employee Engagement and Diversity, Recruitment, HR Generalists, and Training.

Union relationships are managed by the Labour Relations (LR) branch, led by the Managing Director, Labour Relations. LR reports to the Vice President of Human Resources and is

¹ Includes employees at Air Canada, Air Canada Rouge and Air Canada Vacations



A culture built on tradition



To work at Air Canada is to be keenly aware of generations who have gone before, their undeniable pride in the airline and love of aviation. In 2016, this spirit was made tangible with the opening of Moments, a museum celebrating the nearly 80-year history of the corporation and the men and women who have worked for it.

Located at the carrier's Montréal headquarters, the museum houses artefacts, photos and other exhibits that tell the story of Air Canada. The displays not only recount the evolution of the airline but also reflect the development of Canada and accompanying social changes, as evidenced by the Absorbine Jr tucked neatly alongside a small jar of sodium bicarbonate in a slightly-yellowed Trans-Canada Air Lines Travel Pak from the last century.

"I felt strongly that we should have a space of our own where we could properly showcase

and express our pride in our achievements over the years," said Calin Rovinescu, President and Chief Executive Officer of Air Canada, at the museum's opening attended by employees.

Arranging for and building the facility, researching the archival material and sorting through more than 700,000 photographs took nearly two years. Employees, many of whom have parents or relatives who worked at Air Canada, eagerly supplied memorabilia, old uniforms and other Air Canada curiosities to make certain the spirit of Air Canada was properly displayed for generations to come.



responsible for negotiating, implementing and monitoring collective agreements. It also has responsibility for the ongoing management of relations between the corporation and its unionized workforce, which has become a more central role given recent long-term labour contracts that have provided the corporation labour stability.

To validate its approach to employee relations, the corporation hires an outside market research firm periodically to conduct an in-depth employee survey to measure engagement. Such a study was undertaken in 2016 and, when compared with results from similar studies, most recently in 2010 and 2014, it revealed significant progress by the corporation in engaging employees. This included a much higher percentage of employees reporting their pride in working at Air Canada and agreement with the corporation's overall direction.

The study also found that employees believe there have been substantial improvements in communication, teamwork and cooperation between departments; a greater sense of community and teamwork across the branches; more positive attitudes about the workplace; and an increased sense that senior management is connected with and 'cares about employees'. Additionally, front-line managers stated they have begun to see the impact of soft skills training.

Throughout the year, Air Canada received several awards related to human resources. This included, for the fourth year in a row, being ranked among Canada's Top 100 Employers for 2017 and, for the third year in a row, being chosen as one of the "Top Employers in Montréal." It was also declared to have one of Canada's 10 most admired corporate cultures for 2016 by Waterstone Human Capital. Other human resources awards won by the corporation in 2016 included: Canada's third "Most Attractive Employer", from the employment firm Randstad Canada; one of Canada's 15 "Top Employers for Canadians Over 40" from MediaCorp Canada; and one of the "50 Most Engaged Workplaces in North America" for commitment to employee engagement by Achievers, an employee social recognition company.

Successful bargaining

Air Canada has five unions representing employees in Canada and eight unions representing employees based in locations outside the country. Air Canada endeavors to ensure that collective agreements are consistently negotiated in line with corporate priorities. Once implemented, any negotiated productivity improvements are measured based on the value attributed to them.

In 2016, the corporation completed negotiations with the last of its main Canadian union groups, resulting in labour stability unprecedented for Air Canada and almost unheard of in the

airline industry. Air Canada now has ratified, long-term contracts with union groups representing the majority of its 25,000 Canadian-based unionized employees.

The agreements reached during the year included 10-year contracts with Unifor, representing the airline's flight operations and in-flight crew schedulers and with the International Association of Machinists and Aerospace Workers (IAMAW) for three separate groups, namely, (i) technical services, airport & cargo operations and logistics & supply personnel ("TMOS"); (ii) finance staff and (iii) clerical staff. A 12-year agreement was negotiated with the Canadian Airline Dispatchers Association (CALDA), representing flight dispatchers based at the airline's Operations Centre.²

Cross-branch cooperation

Both Human Resources and Labour Relations collaborate with other branches or departments within the corporation including Law, Commercial, Corporate Safety and Environmental Quality, Employee Communications and all the operational branches. This cross-functional approach encourages fair and consistent treatment of all employees and the sharing of best practices among branches in managing employee relations.

Air Canada's workforce is relatively mature, with an average age of 44 years. It consists of 13,504 female and 16,414 male employees. Almost all are classed as permanent, full-time. Most are based in Canada but they are also found in 34 other countries.

Total Rewards

Employees are provided with a balanced Total Rewards package. It consists of competitive pay, incentive programs that provide another layer of potential earnings, share-based programs that are designed to align their interests with those of shareholders, and rewards based on the growth of the corporation and the value they create. There are also benefit plans and wellness programs that help ensure that employees and their families have peace of mind and financial protection, pension plans designed to help employees become more financially secure in retirement, and perquisites that maintain a healthy balance between work and personal life.

Employees are eligible for a profit-sharing bonus based on the profitability of the airline. In addition, management is eligible for an Annual Incentive Program (AIP) which may pay out when certain targets are achieved. Payments authorized by the Board of Directors are calculated based on a variety of factors, including individual, branch and corporate performance, with the aim of rewarding individual contributions while at the same time encouraging teamwork.

The corporation also facilitates the purchase of Air Canada stock by employees through an Employee Share Ownership Program (ESOP) that matches on a one-third basis each employee's total dollar investment. Employee share ownership has been growing since 2013 and at the end of 2016, there were 6,500 employees enrolled in ESOP, holding approximately 4.5 million shares in total. Moreover, as at December 31, 2016, Air Canada employees held in aggregate 24,293,473 shares, or nearly nine per cent of total issued and outstanding shares of Air Canada. This included 17,647,059 shares held under a trust arrangement in connection with pension arrangements concluded in 2009.

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² For a complete list of Air Canada union contracts and expiry dates, see the 2016 Annual Information Form, page 17.

**On average,
each year there
are over 390
applicants per
position for each
vacancy filled.**

All permanent employees are enrolled in a corporate-sponsored pension plan, with the majority belonging to defined benefit plans, which is unique in the Canadian airline sector and increasingly rare in Canadian workplaces. During 2016, Air Canada contributed \$97 million to its corporate sponsored pension plans, which are currently fully funded.

Centered around the employee's life journey, the Human Resources branch provides all its employees and retirees with an internally developed web-based platform so that they can access their HR tools and programs either at work, at home or abroad.

Recruitment

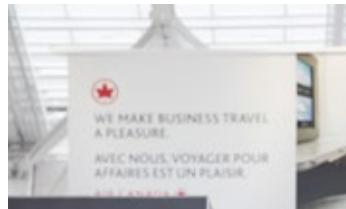
As the above awards suggest, Air Canada's reputation as an attractive place to work makes it a popular destination for jobseekers. It receives 56,000 visits each month to the employment page of its website. On average, each year there are over 390 applicants per position for each vacancy filled.

Yet, with high demand for top talent in the workplace generally, Air Canada also recognizes that it must actively recruit to remain competitive. Air Canada reaches out through online and video technology in the belief that such media appeal to younger jobseekers. This is just a small part of the candidate experience created to attract and retain the right talent.

As well, it frequently attends job fairs and other recruitment events, including those for identifiable groups such as Aboriginals or people with disabilities. It continues to focus specific outreach efforts in French communities outside of Quebec to support its language policies and commitments. One such event in 2016 was Vitrines 2016—organized by Aéro Montréal—to showcase for young people the wide range of career opportunities in the aerospace and aviation industry in the Montréal area. Air Canada was not only a sponsor of the event but sent its Talent Acquisition team along with a group of employees, among them female employees in male-dominated jobs such as an aircraft maintenance engineer, a pilot and a baggage handler. The aim

The advertisement features a photograph of two Air Canada flight attendants, a man in a dark suit and a woman in a dark uniform with a red scarf, standing side-by-side. To the left is the Air Canada logo (a red maple leaf inside a circle). Below the photo, the text reads: "NOUS EMBAUCHONS DES AGENTS DE BORD BILINGUES". Underneath that, the Air Canada slogan "Tout un monde vous attend." is visible. At the bottom, there is a call to action: "NOUS VOULONS VOUS RENCONTRER!" followed by social media icons for LinkedIn, Twitter, and Facebook. To the right of the photo is a circular badge that says "2016 Palmarès des 100 meilleurs employeurs".

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was to steer young students towards considering a possible career in aviation.

Once qualified candidates are identified and hired, it is necessary to provide them with guidance and equip them with the skills and knowledge they need to succeed. For new and recently hired managers, Air Canada offers a supportive Onboarding Program. It guides new recruits through the first year of their integration and includes training programs, visits to other branches, a buddy system to provide support, and the development and ongoing review of performance management models and targets.

Onboarding begins with an event called Arrivals Connection. It is a day-long awareness and networking experience that features presentations by senior executives and branch representatives (including an introduction to Air Canada's corporate sustainability activities). Two editions of this event were held in 2016 with a total of 450 participants.

To further support the Air Canada culture, the corporation has adopted the "Air Canada Employee Value Proposition." This serves as a declaration of principles that reinforces the prized values of the corporation, its priorities and aspirational goals.

Diversity

Although always a progressive corporation, Air Canada in recent years has taken deliberate steps to increase diversity in its workforce. There are an estimated 80 languages spoken by Air Canada employees and 22 per cent of employees belong to visible minorities, up from 14 per cent a decade ago, and represented 31.6 per cent of all newly hired employees in 2016. Diversity entails promoting gender equality and inclusiveness, something that was recognized in 2016 when Air Canada was named one of Canada's Top Diversity Employers.

There are an estimated 80 languages spoken by Air Canada employees and 22% of employees belong to visible minorities.

Diversity through opportunity



As a progressive employer, Air Canada has long advocated the advancement of women. It has had great success, as nearly half of employees today are women, occupying some of the most senior positions in the corporation, including at the Board level where they account for 25 per cent of members.

Yet the airline also recognizes the need to continually attract and recruit women, particularly for unconventional jobs. Air Canada Maintenance is taking this to heart, reaching out to girls and young women at an age when they are beginning to consider career possibilities.

In 2016, The Women of Air Canada Maintenance Committee held its second special Women in Aviation Day. The event was geared to young women

between the ages of 15–21 who might be interested in a multi-disciplinary aviation career and more than 50 attended.

The day not only showcased women in key maintenance roles, but other positions at the airline as well, such as pilots, baggage handlers and cargo agents. The Human Resources team was present to answer questions regarding the hiring process and job requirements.

In total, it is estimated that 420 women at Air Canada work in non-traditional professions such as pilots, flight dispatchers, mechanics, engineers, technicians, and in aircraft operations. Thanks to the efforts of the Committee this number should grow in the years ahead.

Apart from meeting social norms and expectations, these efforts yield tangible business and sustainability benefits by increasing the pool of candidates and giving the corporation access to the best available talents and ideas. Secondly, it serves a retention function by creating a workplace environment where people are welcomed and feel they can comfortably grow. Thirdly, a global airline with international ambitions requires a diverse workforce to ensure that the cultural sensitivities of customers are respected, and customers also like to see themselves reflected in the employee make-up. Lastly, experience shows that diversity stimulates creativity and innovation, promotes flexibility among all employees and develops human capital.

In 2016, a new module on diversity was added to the corporation's online reference library for managers called Harvard ManageMentor®. It covered such topics as how to recruit diverse talent, problem solving related to diversity and communicating with employees from different cultural backgrounds. Moreover, during the year a sensitivity and education workshop was developed with the help of an external partner on managing unconscious bias for human resources advisors, recruiters and partners. The intent is to adapt the workshop so it can be offered to all managers involved in hiring decisions.

Air Canada also supports three Diversity Committees, one each in Montréal, Toronto and Vancouver. They bring together employees from various employment categories, often from completely different areas (pilots, corporate offices, airports, maintenance), so they can pass on their questions or share good work practices. To validate that the corporation's approach is meeting objectives, for the first time in 2016 questions relating to diversity and inclusion were included in the biennial employee engagement survey and additional demographic data regarding designated groups was collected.

Partnerships

More broadly, Air Canada maintains partnerships with other organizations whose mandate is to promote diversity and inclusiveness, such as the Canadian Institute of Diversity & Inclusion. It is an organization designed to help employers effectively address issues of diversity, equity and inclusion within the workplace.

Nearly half of Air Canada's employees are women and they are found throughout the corporation and at all levels, from the airport ramp, to the flight decks of aircraft, to the senior executive offices. Forty-three per cent of managers are women and in 2016 women occupied some of the most senior roles at the airline, including Chief Commercial Officer, Chief

Information Officer, and Senior officers responsible for Human Resources, In-Flight Service, Cargo, Corporate Secretariat and Corporate Communications.

In a further sign of its commitment to gender equality at all levels, Air Canada's Board of Directors supported the corporation in signing the Catalyst Accord. This was an undertaking sponsored by the international non-profit organization, Catalyst, whose mission is to expand opportunities for women in business. Under the Accord, Air Canada agreed to increase the number of women on its Board to 25 per cent by 2017. It met this goal in 2016.

Air Canada actively celebrates the role of women and promotes opportunities for women. In 2016, the corporation participated in Women of Aviation Worldwide Week, including sponsoring a Montréal conference. The weeklong event coincides with International Women's Day, which Air Canada marked with a flight from Toronto to Fort Myers operated with all female pilots, flight attendants and ground crews. At other times during the year it takes part in recruitment events designed to draw women and girls into aviation careers. Air Canada Maintenance itself hosted an event, "Young Women in Aviation Day" to raise awareness among young women of the opportunities for a rewarding technical career with Air Canada.

Another area where Air Canada specifically aims to recruit is in Canada's Aboriginal communities. To assess whether these efforts are effective, with the help of the Aboriginal Human Resources Council (AHRC), it conducted in 2016 a survey among the Aboriginal population. The aim was to measure such things as: the corporation's image among Aboriginal people; what they know about Air Canada career opportunities: its workplace; and the airline's recruitment strategies. The results will be used to shape future recruiting.

The airline also remains engaged with Aboriginal organizations and uses targeted sourcing through online job boards like AMIK and Aboriginal Careers, or ads in publications such as Diversity Magazine, First Nations Drum, and the Aboriginal Human Resources Council program. Moreover, the corporation supports Aboriginal cultural and educational activities detailed in the Community Section of this report.

Air Canada employs approximately 240 individuals self-identified as disabled. It has partnerships with organizations geared to advancing people with disabilities—such as the Comité d'adaptation de la main-d'œuvre (CAMO), the Canadian Council on Rehabilitation and Work (CCRW) and the MAB-Mackay Rehabilitation Centre.



In 2016, in collaboration with CAMO, a workshop was offered to recruiting team members on pre-selecting people with a disability. The workshop examined ways of recruiting and selecting candidates to increase Air Canada's appeal to people with disabilities and it also sought to better equip the corporation to respond to managers' needs and concerns in recruiting such candidates.

Finally, Air Canada provides a positive environment for employees regardless of sexual orientation or gender identity or expression and is a major sponsor of Pride events nationwide. It has partnered with Pride at Work Canada, which brings together leading Canadian employers aiming to fully actualize inclusive

workplaces for their lesbian, gay, bisexual and trans-identified (LGBT) employees. During the year, a group called DiversAC was created with the goal of bringing Air Canada and the LGBT community closer together.



One year after her retirement, Air Canada's first female pilot, Captain Judy Cameron, was presented with a 2016 commemorative postage stamp honouring her 37-year flying career by the Canadian Ninety-Nines—the largest organization of women aviators.

A perfect fit

Few things are as personal as clothing or as public as a uniform. So, when it came time to design a new look for thousands of pilots, flight attendants, airport and maintenance employees, Air Canada had a delicate balance to strike.

To get it right, the airline hired Canadian designer Christopher Bates. He brought to the task the flair and design talents necessary to achieve the appropriate look, along with a sensitivity to Air Canada's culture and the practical needs of employees.

"At the end of the day, [employees] are the most important stakeholders here. They are the ones who will be wearing the uniforms and representing the Air Canada brand around the world," said the designer.

To gather their ideas and be sure employees would be receptive to the new design, the corporation invited more than 270 of them to voluntarily wear-test the new uniforms for eight weeks in 2016. After the trial, each filled out a detailed survey to provide information about how the fabric wore, the fit and comfort of the uniform components, ease of maintenance and durability, safety and functionality.

The feedback collected was used to incorporate final design changes before the uniform was officially unveiled publicly as part of a nationwide, new livery reveal in early 2017.



Training

All the energy spent recruiting top talent would be for naught if Air Canada did not follow up with effective training, including recurrent training. This is essential in the airline industry, where training is required to reinforce safety and also where new products, technologies, systems, services and principles of customer service excellence are being continually introduced to stay competitive.

Air Canada regularly promotes its Management Competency Model to support its leadership attributes. It achieves this by standardizing processes impacting employees with respect to recruitment and performance management. It extends from senior leaders through all levels to front-line managers, with links to development and succession planning. To reinforce goals of the Model, there are support systems in place, such as online learning activities, coaching and distinct messaging to emphasize good performance practices. This process aims to establish regular and purposeful exchanges between individual contributors and their direct manager and will help build confidence in attributing performance ratings.

Air Canada maintains several programs focused on developing innovation and leadership skills. *Managing the AC Way* and *Leading the AC Way* are foundational leadership programs. Their goal is to foster leadership skills, improve the customer experience and successfully maintain brand loyalty. There is an evident appetite for such programs as enrolment in 2016 increased to over 500 from 363 in 2015.

Supplementing these are programs for non-management and front-line employees. One such program is Applause, which provides customer service employees with a learning experience that also allows them to network across customer service branches in Airports, In-Flight Service, Contact Centres and Cargo.

Number of employees trained per year

Non-Management Total

2012	19,325
2013	19,446
2014	20,480
2015	20,412
2016	21,526

Management and Administrative & Technical Support Total

2012	1,336
2013	1,324
2014	1,610
2015	1,750
2016	1,783

Mid-career training

During 2016, a new initiative was designed that will be formally launched in 2017 called the Emerging Leaders Program (ELP). The three-year program is geared for mid-level managers and offered by invitation only. ELP combined existing programs plus some new ones to open new avenues to develop leadership skills, expand personal networks, and promote the sharing of ideas and best practices among peers.

ELP emphasizes having people take charge of their own career planning. This not only enables them to set their own pace but also to pursue specialized interests. Participants have a menu of development options including mentoring and an ad hoc development component, where people can seek out unique development experiences for personal growth and skills development. In 2016 for example, some employees travelled to the Boeing company's Seattle headquarters for an intensive five-day seminar to explore the industry in-depth.

In a similar spirit, there have also been more targeted programs. Extensive training programs through all levels of the organization continue with the ongoing deliveries of Air Canada's Dreamliners. Working committees have also been set up for certain projects, such as simulators, seats, in-flight entertainment systems and avionics in anticipation of deliveries of the Boeing 737 MAX due to begin in late 2017. There were also new "soft skill" programs introduced in 2016, such as a module on customer engagement for pilots during initial and recurrent training that builds on the findings of numerous surveys showing that customers are appreciative when pilots take time to interact with them directly.



Customer initiatives

Another important area of training is language training and courses are regularly offered to employees. In recognition that multilingualism is a competitive advantage for a global carrier, language services were expanded during the year. This included making the Contact Centre French Translation Phone Line available system-wide in 2016, so employees at any international airport can contact it to assist customers travelling from an international station who prefer to be served in French. Also during the year, Air Canada began offering Spanish service to customers in Canada and the United States.

Air Canada takes its responsibilities as the only Canadian airline subject to the federal *Official Languages Act* seriously. To ensure that it meets the Act's requirements, it regularly surveys customers. A survey of more than 5,300 customers conducted by Ipsos Reid in 2016 found 94 per cent said they were satisfied or extremely satisfied overall with Air Canada's ability to deliver service in the official language of their choice, an improvement of three percentage points from the previous year. In addition, the majority of both Francophones and Anglophones said Air Canada improved its bilingual service delivery in the past year, with close to a quarter recognizing that bilingual service improved significantly.

A survey of more than 5,300 customers conducted by Ipsos Reid in 2016 found 94% said they were satisfied or extremely satisfied overall with Air Canada's ability to deliver service in the official language of their choice.

Dialogue

In 2016, the social media team was increased to 15 members from five and its services became available on a 24/7 basis to better serve customers at all hours anywhere in the world.

As part of its strategy to promote bilingualism, each year the corporation presents Dialogue Awards to employees providing exemplary bilingual service. In 2016, to increase awareness and broaden participation in this award program, the nomination process was opened through the Shine online employee recognition program.

As the foregoing suggests, many of Air Canada's training programs are designed to enhance customer service. In 2016, Air Canada expanded its year-old Premium Agents program to Vancouver, Calgary and Montréal airports. The program uses specially selected and trained agents to provide an additional level of customer care at its airports.

During the year, the Concierge and Contact Centre teams collaborated to launch a new customer service initiative to resolve concerns from Super Elite 100K and International Business Class customers in real time and, if possible, in person. Additionally, Air Canada has been investing in its social media team, recognizing that customers increasingly prefer social media to interact with the corporation, particularly to resolve travel issues as they arise. During the year, the social media team was increased to 15 members from five and its services became available on a 24/7 basis to better serve customers at all hours anywhere in the world.

Air Canada's success in providing customer service can be measured by the number of recognitions the corporation has won. It remains the only Four-Star network carrier in North America, as determined by the widely respected Skytrax global airline ranking company. The carrier was also named Best Airline in North America for International Travel by readers of the well-regarded U.S. publication *Business Traveler*. As well, the strength of the Air Canada brand was recognized by Brand Finance, a U.K. brand evaluator, as the fastest growing among the Top 50 most valuable Canadian brands.



The only Four-Star international network carrier in North America

Retention and engagement

Apart from the direct benefits of training—such as improved customer service, safety and business efficiencies—the corporation's investment in training serves another important function. It sends a clear signal the corporation is supportive of employees' skills and personal development. This serves a valuable retention role and a stable workforce is an important underpinning of sustainability.

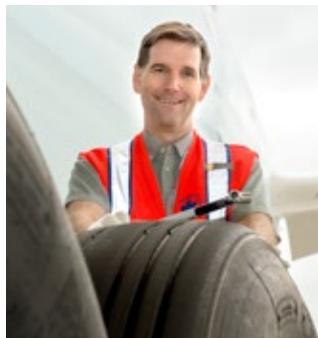
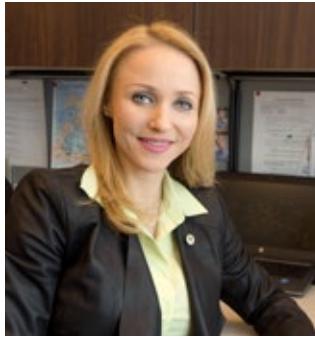
Recognition

Perhaps second only to financial compensation, recognition is another effective engagement and retention tool.

Air Canada's premier recognition program remains the *Excellence Awards*, which in 2016 honoured 48 employees at the 28th edition of the program. As well, two employees received the Award of Bravery for significant actions during the year. Those selected are featured publicly in the *Air Canada enRoute* onboard magazine, and internally in the monthly employee magazine *Horizons* and on the Air Canada employee intranet site, ACaeronet. They are also feted during a celebration event at a Caribbean destination.

Another popular mechanism is *Shine*, which empowers managers and employees to bestow social recognition upon one another. *Shine* empowers all employees to give unlimited online "shout-outs" for the small but special acts. As well, each employee has an allotment of points that can be awarded for more significant actions. These points can be accumulated and redeemed for goods and merchandise of the employee's choosing. In its first year of operation, beginning in October 2015, employees awarded each other 54,337 point-based recognitions and 59,831 social recognitions. In 2016, *Shine* was expanded to include employees in France, Germany and the U.K. and the corporation is working to make it available globally.

Employee accomplishments are marked throughout the year with regular events to celebrate milestone service anniversaries, volunteer projects and awards, and contests won by employee groups. Each month, *Air Canada enRoute* magazine's "Behind the Scenes" feature focuses on particular employees and their responsibilities. Employees appreciate seeing their colleagues acknowledged for their daily contributions and it also heightens awareness among customers about how the airline functions and the efforts of those who work at Air Canada.



Air Canada offers employees other programs, notably space available or discounted airline tickets and vacation packages for themselves, family and friends. Air Canada's GoAC program provides employees with more travel options for confirmed seating. In 2016, the corporation made it easier for employees to access and plan around their travel privileges with the introduction of an employee travel app to provide better real-time access to travel information.

Beyond remuneration and benefits, recognition and travel, Air Canada maintains programs to promote employee well-being. In part, this is based on the fact that healthy employees are more productive, which contributes to the corporation's sustainability.

The airline offers tools, services and a top quartile benefit program related to health and safety, including a confidential counselling service. Throughout the year, it sponsors programs to encourage healthy behaviour, usually involving friendly challenges and contests such as in 2016 the "Take Off Challenge" weight loss competition and the "Walk the World" fitness challenge. There are also education campaigns where workplace health and safety are emphasized, including participation in North American Occupational Health and Safety Week (NAOSH), flu shot clinics, and the simple promotion of healthful measures ranging from eating well to hand-washing.

For those who are injured or need assistance, the corporation has a disability management system³. Air Canada monitors the incidence and duration of disability claims (both occupational and non-occupational) to help ensure that the appropriate safety and prevention measures are in place.

The airline offers tools, services and a top quartile benefit program related to health and safety, including a confidential counselling service.

³ For more information on Health and Safety, see Safety section on page 14

Employee communications

Communication is a vital component of engagement, as people expect to be informed about events that affect them and appreciate having their views considered. Air Canada devotes considerable resources to employee communications, which resides within the Corporate Communications branch. Each operating branch has its own "communicator" whose job is to keep employees informed and help share information, including success stories, with other branches of the corporation.

To facilitate communication, the corporation maintains numerous channels, including an intranet site called the ACaeronet portal, *The Daily* employee e-bulletin and a monthly magazine called *Horizons* that is produced in a glossy paper version and distributed across the corporation. These are supplemented by regular messages and letters from the President and Chief Executive Officer and the President, Passenger Airlines. As well, in 2016 there was a weekly operational overview sent to all employees from the Chief Operating Officer and branches have their own individual communication vehicles to update policies and provide other job-specific information.



During 2016, the corporation also held numerous town hall sessions in person with senior executives and employees across the country. The President, Passenger Airlines instituted quarterly meetings in Toronto, Montréal and Vancouver where extensive presentations are made and employees updated on financial and operational performance. A question-and-answer component is also included for direct exchanges. To extend the opportunity for employees to participate, one town hall was broadcast live and included an interactive question-and-answer period. Sessions were recorded and made accessible online for all employees.

Yammer[®]



Employees are also encouraged to share best practices and collaborate directly with one another through online media. In 2016, the corporation made Skype for Business available to employees. They can use it for their day-to-day work, with such features as instant messaging, e-mail integration and to hold online meetings. It is also available as a mobile app that employees can access on tablets or other mobile devices.

Another online collaborative tool that is popular with employees is Yammer. During the year, the number of members of the Yammer community increased by 5,000 to reach approximately 23,000 and the system averages about 21,000 messages a month. It is used to discuss a range of issues, both professional and personal. Among the popular topics are *Shine*, In-Flight Service Travel Tips, Catering, Operations and Supply Chain and Employee Discounts. In 2016, the program was upgraded to allow video sharing.

During the year, the corporation also engages Air Canada employees' families. This included the creation of a website to make flying more memorable for children for which employees were invited to have their own children appear as models and actors. The corporation also supported an International Youth Exchange organized by global airlines that makes it possible for children of airline employees to visit and stay with the families of airline employees in another country. As well, a new program of environmental scholarships, valued at \$2,000 each, was created and awards were made to 10 children of Air Canada employees to be applied toward post-secondary education.



Progress on 2016 goals

- Conclude agreements with CALDA for flight dispatchers, and Unifor for In-Flight Service and Flight Operations crew schedulers **Achieved**
- Expand the leadership development programs (including coaching and mentoring) for greater reach and impact by doubling the size of classroom capacity and / or providing greater access to other branches in the organization **Achieved**
- Continued focus on Customer Service excellence through new programs and development opportunities for front-line employees and management **Achieved**

Goals for 2017

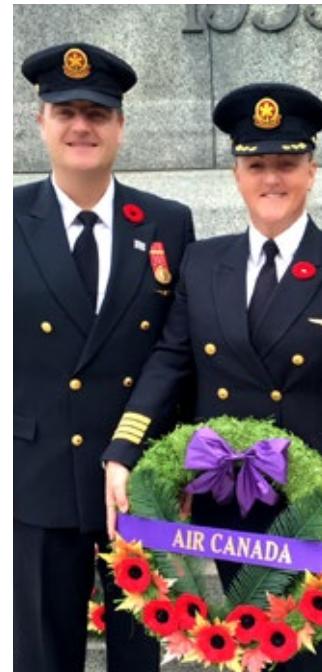
- Launch wellbeing platform, '*Upgrade to a Better You!*' that encompasses tools and resources to help employees improve their overall health/wellness, finances, mental health and earn rewards for participation
- Expand CSM Reconnect workshops for Middle and Senior Airport Management to target leadership, self-awareness, brand and customer perceptions, and promote healthier labour relations
- Provide airport employees with training in the form of a new, self-paced digital experience in a learning café at their place of work, beginning in Toronto and rolling out system-wide

COMMUNITY



Air Canada uses three channels to engage with communities. Through the Air Canada Foundation, it directly funds or otherwise supports charitable organizations to benefit vulnerable children. Government and Community Relations maintains linkages with local communities, particularly with respect to economic development. Lastly, through marketing and sponsorship initiatives it supports a wide range of cultural activities, including in the arts, sports and other areas where achievement is celebrated.





In many ways sustainability is essentially a recognition of the interconnectedness of all things. Actions by one person or entity within a community affect others and the overall well-being of the community itself, upon which all depend. All members therefore have both an ethical and self-interested reason to behave in a positive fashion by contributing.

This includes large corporations such as Air Canada. To succeed, the airline needs the communities where it operates and where its employees, customers and other stakeholders live and work to be healthy, financially strong and dynamic. This is widely understood, as community involvement and socio-economic impact are among the concerns identified in the materiality assessment that forms the basis of this report.

For this reason, the airline participates in local communities through a wide variety of programs whose focus can range from basic health and well-being to individual enrichment, including through the arts, entertainment and sports. There are three main mechanisms by which Air Canada gets involved: the Air Canada Foundation; corporate community outreach initiatives; and through commercial and other sponsorships.

The illustration features a friendly cartoon character of a pilot with blonde hair, wearing a dark blue uniform with a maple leaf cap emblem. Below the character, a red banner contains the text "THE AIR CANADA FOUNDATION" in white, bold, sans-serif letters, followed by the website "aircanada.com/foundation" in a smaller font.

The Foundation is registered in Canada as a not-for-profit entity and assists Canadian registered charities. Its priorities are the health and well-being of children and youth, connecting sick children to the medical care they need, wish fulfillment, and the alleviation of child poverty. Additionally, it supports other major health-related causes that have a broad impact on the lives of Canadians and, when the necessity arises, in communities throughout the world.

The Foundation is governed by a standalone Board of Directors. It fulfills its mandate by providing eligible registered charities with donations of cash, in-kind support (including promotional tickets) and Aeroplan® Miles.¹ For greater accountability, the Foundation board submits an annual report of the year's activities to the Air Canada Board of Directors.

The Foundation's funding comes from several sources and in 2016 it raised approximately \$1.72 million, a nearly 10 per cent increase from 2015. The majority of those funds, \$1.05 million, came from its annual golf tournament. These funds were augmented by donations, including a voluntary employee payroll deduction plan as well as through CanadaHelps, a website that permits the Foundation to accept credit card donations on a monthly or one-time basis from the



**\$1.05 million
raised at the
annual golf
tournament**

¹ The Aeroplan program is a coalition loyalty marketing program owned and operated by Aimia Canada Inc.



Donated 1,200 promotional tickets to charities



public. There are also miscellaneous fundraising activities throughout the year, many designed to promote employee engagement.

In 2016, the Foundation partnered with the Toronto Hospital for Sick Children to launch a second major annual fundraiser called Wanderluxe®. It was attended by approximately 400 guests and the inaugural dinner gala raised \$1 million for the Foundation and the SickKids Hospital Foundation.

Customers are encouraged to contribute through the Every Bit Counts™ program, which invites them to donate change of any denomination onboard aircraft or through branded receptacles in airport Maple Leaf Lounges. In 2016, this program raised more than \$120,000. Customers also have an opportunity to donate Aeroplan® Miles, notably through a dedicated Aeroplan® Match Week promotion held each year that in 2016 yielded 1.7 million Aeroplan® Miles.

Beneficiaries of the Foundation

To meet its mandate, the Foundation provides support in various forms, including financial grants, promotional tickets, and donations of Aeroplan® Miles. In 2016, the Foundation made more than \$1.4 million in financial grants, a 30 per cent increase over 2015, donated more than 1,200 promotional tickets to charities, and 7.5 million Aeroplan® Miles.

The largest recipient of financial grants, \$700,000, was the Children's Miracle Network—Canada's 14-member pediatric hospitals. This non-designated grant will allow hospitals to address urgent needs. Other major recipients included the Breakfast Club of Canada, \$160,000, which enabled the organization to open three more programs covering 1,500 students (over the past five years support for this organization has helped feed 7,000 students, for a total of nearly 1.2 million breakfasts served). As well, the Starlight Children's Foundation Canada was given a donation of \$67,500 for the purchase of nine Fun Centres for pediatric hospitals.



The Foundation also donated \$50,000 to Dreams Take Flight. This employee-led charity has eight chapters operating in major Canadian cities that provide a fun-filled, all-expense-paid day at Disney®² for ill or otherwise disadvantaged children. Each year, Air Canada donates through the Foundation aircraft for eight Dreams Take Flight trips and since it was launched 27 years ago more than 26,000 children have had the chance to journey to the Magic Kingdom. In 2016, 712 children were taken to Walt Disney World in Florida and 436 others visited Disneyland in California.

In 2016, the Foundation also donated more than \$400,000 to a number of local charities across Canada.

An important role played by the Foundation is facilitating the transport of young patients for treatment outside their communities. In 2016, 6.5 million Aeroplan® Miles were donated to pediatric hospitals across Canada through the Hospital Transportation Program. A further one million Aeroplan® Miles were given to Hope Air, a registered national charity that provides free flights for both children and adults who cannot afford the cost of air travel to access medical expertise or specialized medical technologies unavailable locally. Miles are replenished on the basis of need by pediatric hospitals and donations received by Aeroplan members.

² Disney® is a registered trademark of Disney Enterprises, Inc.

Children's Miracle Network and its affiliated pediatric hospitals across Canada \$700,000

Breakfast Club of Canada \$160,000

Starlight Children's Foundation Canada \$67,500

Reach for the Rainbow \$53,905

Canadian Red Cross \$50,000

Dreams Take Flight \$50,000

Camp Oochigeas \$50,000

ErinOakKids Centre \$35,087

Jovia Foundation \$35,000

Cystic Fibrosis Canada \$30,000

Children's Aid Foundation \$25,000

Jack.Org \$15,000

Variety Village \$10,000

Fondation Yvon Deschamps Centre-sud \$10,000

Canadian Hemophilia Society – New Brunswick \$6,000

Covenant House \$5,000

Fondation Tel-Jeunes \$5,000

Suicide Action Montréal \$2,500

Individuals making a difference



Through the Volunteer Involvement Program, the Air Canada Foundation supports charitable organizations for which Air Canada employees volunteer in their communities. The Foundation provides airline tickets that charities can use to fundraise. Nearly 100 employee-volunteers took part in the program in 2016.

One such dedicated volunteer was Danielle Ferrante, Manager, Language Training. She volunteers for the ALS Cycle of Hope.

The ALS Cycle of Hope (www.cycleofhope.ca) consists of a team of cyclists who train annually and organize events to raise awareness and funds to support families in communities around B.C. that are directly touched by the disease.

"When I heard about the Air Canada Foundation Volunteer Involvement Program, I was thrilled that such a program for employees existed and that Cycle of Hope could benefit from a donation to help the cause. The tickets were raffled and the event itself raised over \$50,000, with a total of \$8,300 raised from Air Canada tickets!"

The money raised will be used to create "the ALS Cycle of Hope Lemon(Aid) Education Fund" for young adults from B.C. who have lost a parent to ALS.

Volunteer Involvement Program

The Foundation runs an in-house Volunteer Involvement Program in support of employees who are actively involved in their community. Airline tickets are supplied in support of fundraising activities by charitable organizations in which employees are involved. Nearly 100 individual employees requested support through the program during the year for a wide range of causes, many of which were featured in employee communications vehicles to raise awareness. This program has the added benefit of promoting employee engagement.

In some instances, employees also get involved through means outside the Foundation. For example, Air Canada Vacations employees participate in the annual Pedal for Kids to raise funds for the Montréal Children's Hospital Foundation. Air Canada Vacations has actively participated in this campaign since 2010 and, at last tally in 2016, has raised over \$110,000 with various employee fundraising activities. In 2016, Air Canada Rouge employees volunteered and helped prepare items at Moisson Montréal, a charity that gathers food donations and basic products that are distributed free of charge to community organizations. It is the largest food bank in Canada distributing foodstuffs and provides food aid each month through partner organizations to over 137,000 people of whom close to 45,000 are children.

On occasion, the Foundation serves as a mechanism for Air Canada to deliver support for exceptional events or causes. In 2016, in response to the wildfires that ravaged the city of Fort McMurray, Alberta, Air Canada assisted in the evacuation of residents by adding substantial capacity to the city. The Foundation donated \$50,000 to the Canadian Red Cross for relief efforts. In the aftermath, Air Canada further assisted the community, supporting concerts in Edmonton and Toronto, including flying in both musicians and a group of first responders who had combatted the fires.

Finally, through the Foundation, Air Canada was the first airline in Canada and the second in North America to air on-board videos exposing the scourge of child sexual exploitation. The carrier continued during the year to feature three short public service videos denouncing child abuse that are exhibited on the in-flight entertainment system on all Air Canada flights.

Community presence

Air Canada devotes considerable resources to community relations and regional markets to ensure that it remains relevant and responsive. Management of these programs is the responsibility of its Senior Vice President, Regional Markets and Government Relations with overall responsibility for the strategic direction of Air Canada's regional operations, including direct involvement in strengthening regional business and community relationships.

In 2016, the team was bolstered with the creation of a Senior Director position for government affairs and the addition of a new Director, Government Relations for Western Canada, based in Vancouver. Such a significant commitment of resources reflects Air Canada's desire to work in partnership with local political and business leaders with the objective of profitably meeting local demand and contributing to the development of Air Canada's global network.

During 2016, Air Canada made two announcements related to the local economies of Quebec and Manitoba. The airline committed to the provincial governments to help support the creation of centres of excellence for aviation. The first agreement with Quebec supports Air Canada's C Series airframe heavy maintenance performed in the province for a minimum of 20 years as the airline begins to take delivery of its new Bombardier C Series aircraft beginning in 2019.

Under a second agreement, with Manitoba, Air Canada committed to help establish maintenance activities for certain aircraft. This agreement provided for Air Canada to bring aviation suppliers and partners with specific expertise and capabilities to Manitoba. The new maintenance activities are expected to start in 2017.

The intent of both agreements is for Air Canada to contribute to the creation of a critical mass of expertise in each province to enable local maintenance companies to attract additional business from other carriers, contributing to the sustainability of the local aviation industry. These agreements were reached as part of a broader settlement of issues, including potential litigation, related to the closure in 2012 of the maintenance company Aveos.



Welcoming new Canadians



The world was moved in 2016 by the harrowing plight of Syrian refugees fleeing civil war in their country. Canada took a leading role in accepting them and Air Canada eagerly assisted, operating a total of 13 charter flights to the region.

The task engaged the entire corporation, as the airline has no flights to Jordan where the refugees were to be picked up. This entailed meeting the logistical and security challenges of setting up to operate the flights, including making sure there were proper maintenance, catering, crew accommodations and other support on site.

To make these passengers feel at home, the flights were crewed with English/Arabic-speaking flight attendants and a special

Halal menu and an English/Arabic Tip Sheet were prepared to welcome them aboard and provide information about the aircraft and the journey. Even the boarding process was specialized to respect cultural sensitivities around the seating of unrelated women and men.

Starting a new life in a foreign country is both frightening and exciting. Air Canada's aim was to give the refugees fond memories of their journey and demonstrate the values Canadians hold dear: warmth, compassion, tolerance and acceptance.

As the aircraft wheels touched down, many employees sang "O Canada" marking the end of one journey and the start of another for the refugees.

Community outreach

A crucial element of community engagement is outreach. During 2016, the airline's Senior Vice President for Regional Markets and Government Relations made public presentations to stakeholders in 12 local communities throughout Canada and in the United States.

Air Canada also maintains relationships with tourism boards and other bodies representing travel industry stakeholders. For example, a new Travel Advisory Board was created during the year to connect Air Canada Vacations with its travel agent partners, providing an opportunity to meet regularly to discuss policies and processes. Such relationships were also deepened in 2016 when the carrier and Destination Canada, the tourism marketing body for the Canadian federal government, reached an unprecedented three-year cooperative agreement.

Through its Business Development team, Air Canada participated in nearly 300 local events during the year with organizations and groups involved in virtually every aspect of community development. These included such events as innovation forums, meetings of ethnic business associations, entrepreneurial awards and conferences, and export development and trade missions.

Although such activities are in the airline's commercial interests, they promote sustainable communities. Community leaders recognize that air linkages stimulate business and economic activity as evidenced by the fact more than 500 civic officials, travel partners and corporate clients attended an Air Canada reception in Montréal in early 2016. Members of this same group later lauded Air Canada when it announced the launch of a long-desired, non-stop flight from the city to Shanghai.

And even small gestures can be meaningful. In one instance, at a town council meeting in Cobourg, the significance of receiving a mention in Air Canada's *enRoute* in-flight magazine was publicly noted because it gave the small Ontario community exposure to millions of Air Canada customers.

Education

Air Canada is also supportive of research and education. It operates apprenticeship and work/study programs as well as sponsoring scholarships, including starting in 2016 a new scholarship in honor of the late Chairman, President and CEO Claude Taylor. Air Canada committed to invest \$100,000 at the University of New Brunswick over the next five years to create a scholarship named for Mr. Taylor. Air Canada also has a five-year agreement that started in 2014 to help fund scholarships through the Rideau Hall Foundation (Queen Elizabeth II Diamond Jubilee Scholarship) and is a sponsor of the Bridge to S.U.C.C.E.S.S. Gala in Vancouver, which supports the organization's programs to help settle new immigrants to Canada. Additionally, Air Canada also supports Canadian military families through the True Patriot Love organization and was a sponsor of Gala Dinners in Winnipeg and Toronto in 2016.

For five years, the airline has partnered with Parks Canada in a contest called Canada's Coolest School Trip. It encourages students from across Canada to research and compete in a contest to visit historic sites. In 2016, the prize was an all-expense-paid voyage to Jasper National Park won by a grade 7/8 class from Toronto's Duke of Connaught Jr. and Sr. Public School.

Air Canada supports a program for young entrepreneurs called Next Canada (previously The Next 30). It is a mentoring and support program that connects business leaders with young entrepreneurs aiming to launch or scale-up innovative start-ups in such fields as Artificial Intelligence. Another group the airline involved itself with in 2016 is G(irls)20, which is cultivating leaders among the upcoming generation of girls and young women.

The carrier also aids research and development at the university level. Some of this is through financial contributions, such as its participation in the Brain Project, which aims to raise funds for brain research and increase awareness of brain health and diseases. More directly, the carrier helps researchers by providing access to in-house experts and assists Master's and PhD level graduate students with projects. In some cases, Air Canada also facilitates testing, for example on anti-laser coatings for the windscreens on aircraft.

As well, Air Canada collects in the normal course of business a vast amount of data on human and technical performance and shares this with researchers. In one area of special interest to an



Air Canada creates scholarship honouring former Chairman, President and CEO Claude Taylor

airline, Air Canada has been active in sharing turbulence data, most recently with the National Research Council of Canada. It provides specific flight and weather data upon request to assist with turbulence and turbulence prediction models. Such data would otherwise be difficult or prohibitively costly for researchers to obtain.

Finally, in 2016, Air Canada was a sponsor of the first Six Degrees conference organized by the Institute for Canadian Citizenship in Toronto. The conference brought thought-leaders from around the world to a forum to discuss issues of citizenship and inclusion.

Standing with a community



When the news broke that wildfires were raging in Fort McMurray forcing residents to flee the Alberta city, Air Canada immediately jumped into action to find extra capacity and personnel to move evacuees.

"Our capacity had increased overall to more than 5,500 seats—comparable to about 14 of our Boeing 777s," said David Hutchinson, Manager, System Passenger Planning.

Media exposure and social media mentions spiked around the world. One story caused social media to react particularly strongly: the delivery of a wedding dress to a bride who lost everything in the fire and was getting married in a few days.

Among other gestures to help the community, the Air Canada Foundation donated \$50,000 to the Canadian Red Cross and Air Canada Cargo delivered more than 5,000 personal hygiene kits and about 1,500 personal care

kits, as well as medical supplies and equipment to evacuees.

Two benefit concerts took place with Canadian artists donating their time and talent. For "BackFortMac" in Toronto, Air Canada flew in 10 Fort McMurray First Responder Firefighters and Canadian soprano Measha Brueggergosman from Europe. For "Fire Aid for Fort McMurray" in Edmonton, the carrier flew 25 musicians from across North America to the city.

Local fundraisers were also held across the corporation and the Operations Centre even made a video called "Fort Mac We Have Your Back," in support of Air Canada Jazz colleagues.

"Many of us have friends and family that were affected by the fires and this felt so close to home," said Kevin O'Connor, Managing Director System Operations Control.

Sponsorships

A third area of involvement is Air Canada's extensive program of sponsorships, nationally, regionally and at the local level. These are undertaken not only for commercial reasons but also on the understanding that Air Canada can play a vital cultural role in the communities it serves. This includes the arts, entertainment, sports and other areas of human endeavour that enrich life.

Air Canada sponsors nine symphony orchestras across the country. This includes the Vancouver Symphony Orchestra, Calgary Philharmonic Orchestra, Edmonton Symphony Orchestra, Winnipeg Symphony Orchestra, Toronto Symphony Orchestra, National Arts Centre in Ottawa, Orchestre Symphonique de Montréal, Symphony Nova Scotia in Halifax as well as the Toronto-based National Youth Orchestra Canada.

In 2016, the corporation developed the Travel Through Music virtual concert hall. It featured recordings of 24 professional artists from Canada's leading symphony orchestras that allowed music enthusiasts to combine these to create their own personal, pan-Canadian interactive concert experience. The program won several awards from Montréal's *Grands Prix de la commandite* awards, including the Grand Prix award as well as the awards for 'Best Strategy' and 'Best Arts and Culture Brand Activation'.





Air Canada's support extends beyond classical to other Canadian music and events. The carrier has partnered with Stingray Music, a digital music provider, for musical content on its in-flight entertainment system. Stingray is a Canadian company with a commitment to promoting new and emerging Canadian musical talent. Air Canada is also the exclusive airline carrier, major sponsor and presenting partner of the Just for Laughs Montréal Vodotron Galas and the Toronto Just for Laughs JFL42 festival.

Canadian film

The airline is also deeply committed to Canadian film and television. All mainline aircraft are equipped with digital, seatback In-Flight Entertainment (IFE) systems that offer at no charge hundreds of hours of films to 3.4 million customers every month, essentially making Air Canada one of the country's largest movie exhibitors. The IFE has a Canadian film channel that gives domestic artists' productions broad international exposure. Each year, Air Canada salutes National Canadian Film Day on April 29, and in 2016, offered customers a choice of 19 new Canadian features, 10 short films and three short programs.

Beyond simply exhibiting Canadian film, Air Canada supports the development of Canadian talent. One way it does this is through the *enRoute* Film Festival, a national competition. The

festivals marked its 10th anniversary in 2016 and Air Canada celebrated by expanding the event to venues across the country, from Vancouver to Halifax. Over the past decade, there have been 1,600 submissions, with more than 100 of these films showcased on Air Canada planes as a result.

Bilingualism

To serve its diverse customer base and meet its obligations as the only Canadian airline governed by the *Official Languages Act*, Air Canada makes its services, including its entertainment, accessible to both a French and English audience. The IFE's Franco Cinema channel features Canadian programming produced in French in Canada and Air Canada is a sponsor of the Cinéfranco festival, whose goal is to make French cinema accessible to audiences in Toronto. As well, in 2016 Air Canada sponsored the national Rendez-vous de la francophonie, a weeklong celebration of French culture through a variety of community activities across Canada to coincide with the *Journée Internationale de la Francophonie* each March.

Canadian artists in other media also gain exposure through *Air Canada enRoute*, which features work from Canadian writers, photographers and illustrators. The magazine co-sponsors a literary prize and publishes the work of winners—both established and developing Canadian writers—in three editions each year. Additionally, Air Canada is active with

Encouraging tomorrow's Paralympians



As part of Air Canada's sponsorship of the 2016 Rio Olympics and Paralympic Games, the Air Canada Foundation had the opportunity to send a Canadian youth with disabilities on a trip of a lifetime.

Jacob Calvert, who was 17 years old at the time of the Games, is a para-athlete who plays sledge hockey. He, along with his family, was chosen by the Air Canada Foundation and the Holland Bloorview Kids Rehabilitation Hospital in Toronto to experience the Paralympics in Rio in September 2016.

Since one of Jacob's dreams is to play for Team Canada and compete in the 2022 Winter Olympics in Beijing, this once-in-a-lifetime experience was invaluable for him to view the Paralympic athletes' experience first-hand.

When Jacob and his family arrived in Rio, they were provided with passes to see the opening

ceremony. They spent a few days watching the various sports in the main Olympic Village, including swimming, men's and women's basketball competitions, wheelchair tennis, judo and seated volleyball. They also had the chance to tour the Athletes' Village and meet some medal-winning Canadians.

"One thing that really hit me was how friendly everyone was with each other. Everyone was there to compete but we got chatting with athletes from Ireland, Italy, China and Puerto Rico, just to name a few. Everyone was there for a common goal and it was exciting to see," said Jacob. "This visit has really made me think of how I can make my dream of going to the Olympics a reality."

Aboriginal artists through the imagineNATIVE Film + Media Arts Festival, which programs film, video, radio and new media works made by Canadian and international indigenous media artists in key creative roles as producers, directors and writers.

Canadian subjects and destinations account for a large proportion of *Air Canada enRoute* magazine's content with the most popular edition being the annual food issue. The magazine's list of the ten best new restaurants in Canada is extensively covered by national and local media, giving these establishments welcome publicity. The magazine's microsite accompanying the restaurant awards won a silver medal in the Best Digital Design category at the National Magazine Foundation's Digital Publishing Awards. In 2016, *Air Canada enRoute* itself won two prestigious National Magazine Awards.

Celebrating achievement

Air Canada sponsors other awards too, notably The Indspire Awards to recognize indigenous professionals and youth for their outstanding career achievements. Recipients are chosen to serve as role models for all indigenous peoples. Air Canada has been involved in these awards since their inception in 1993, presenting a lifetime achievement award.

Another award, popular among aviation enthusiasts, is the Webster Memorial Trophy Competition. It is an event sponsored by the corporation for the top amateur pilot in Canada each year. Air Canada is also a sponsor of The Northern Lights Aero Foundation Elsie MacGill Awards, named for the first woman to earn an aeronautical engineering degree.

Support for sports—both amateur and professional—is another important expression of Air Canada's commitment to communities as health and fitness are elements of sustainability. Air Canada has been the official airline of Canada's Olympic Team since 2006 and Canada's Paralympic Team since 2007. Through the Altitude podium program, each qualified athlete received the 50K Altitude frequent flyer status to provide an enhanced level of comfort during their travel to their competitions to help them perform at their best. In 2016, Air Canada carried Canada's teams to the Rio Olympic and Paralympic summer games.

Each year, Air Canada also invites Canadians to vote for the Air Canada Athlete of the Year Award. It is presented annually to an exceptional Canadian athlete who excels in leadership and excellence in an Olympic sport, while inspiring the athletes



of future generations. This year's recipient was sprinter Andre De Grasse, three-time medalist at the Rio Games.

Air Canada Jetz has a commercial arrangement to carry all Canadian National Hockey League (NHL) hockey teams. Its presence in these NHL markets allows Air Canada to engage with fans and give them behind-the-scenes access to their favourite players as well as a chance to win prizes through online and in-arena contests.

With the return of World Cup of Hockey in 2016, Air Canada transported all eight World Cup teams as the tournament's official airline. It carried teams throughout Europe and North America for the pre-tournament games and then to Toronto for the main tournament at the Air Canada Centre.



Progress on 2016 goals

- Increase fundraising target goal to \$1.5 million (net) **Not achieved**
- Increase overall donations to Children's Miracle Network Canadian member pediatric hospitals by 10 per cent **Achieved**
- Support the opening of three new Aboriginal Breakfast Club of Canada programs **Achieved**

Goals for 2017

- Increase support by 20 per cent to registered charities offering access to summer camps for children with special needs
- Increase cash donations to Dreams Take Flight by 50 per cent
- Open an additional Wings of Courage program in a Canadian pediatric hospital



Citizens of the World 2016

Air Canada's Corporate
Sustainability Report