

AIR CANADA 



Scotia Capital

**Transportation & Aerospace Conference
Toronto - May 16, 2006**

Confidential Information

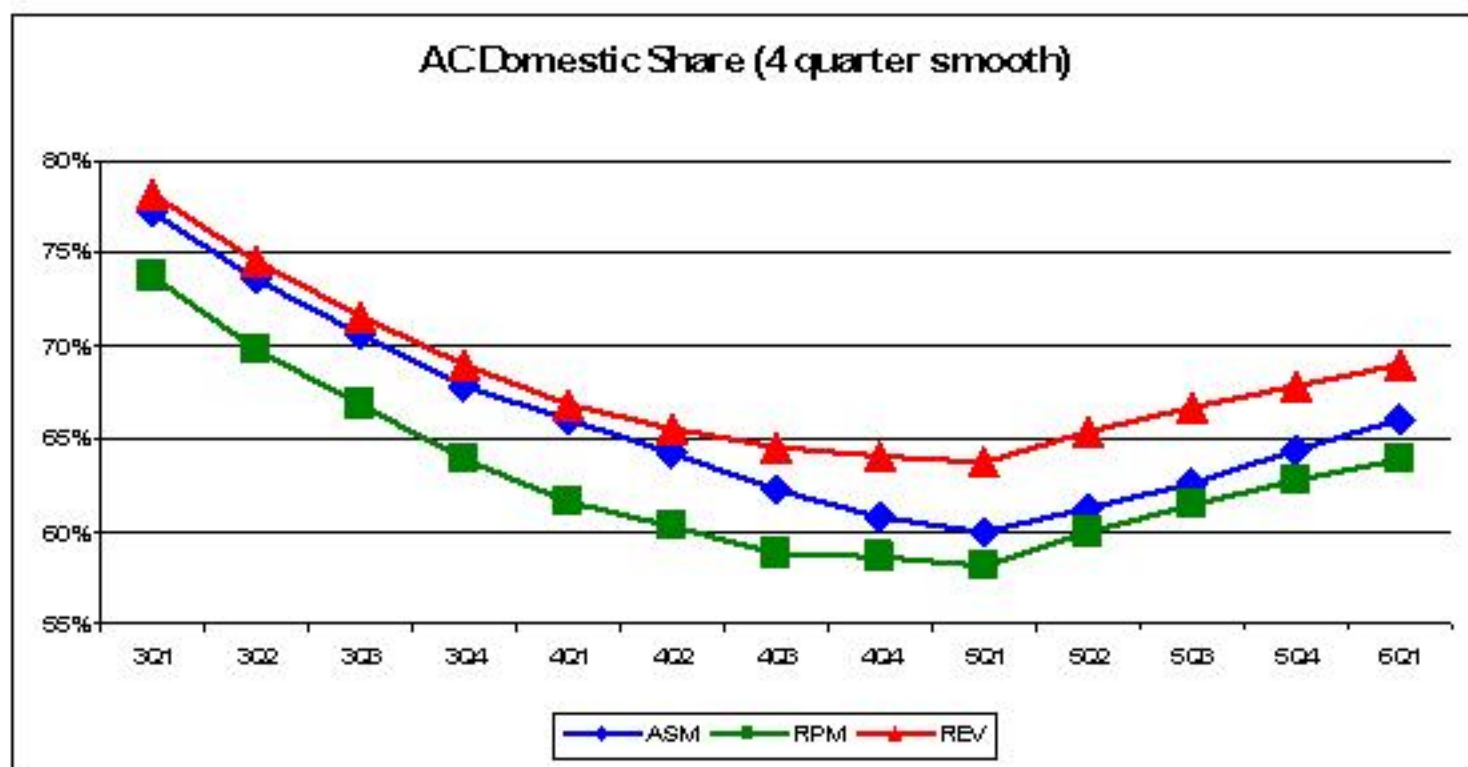
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2005 – A Great Beginning

- \$258 million net income
- 12 Additional Record Load Factor Months – 25 in total
- Improved customer satisfaction
- Solid on time performance
- Embraer 175 and 190 deliveries
- Boeing order for 777 and 787
- Voted Best Airline in North America by Skytrax

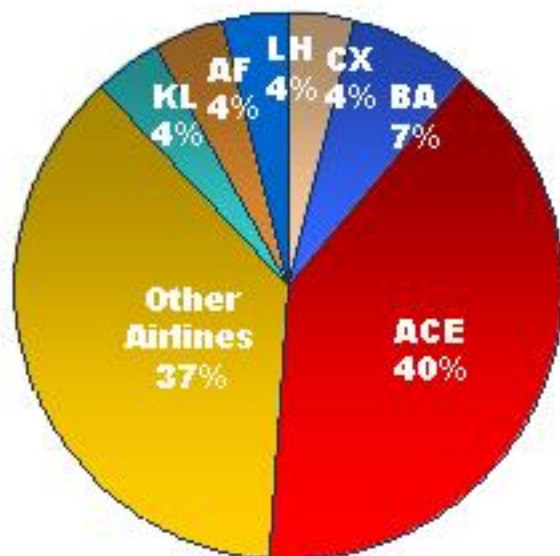
2005's Major Accomplishment

“Only legacy carrier in the world who has **profitably** grown market share against Low Cost Carriers in their home market.”



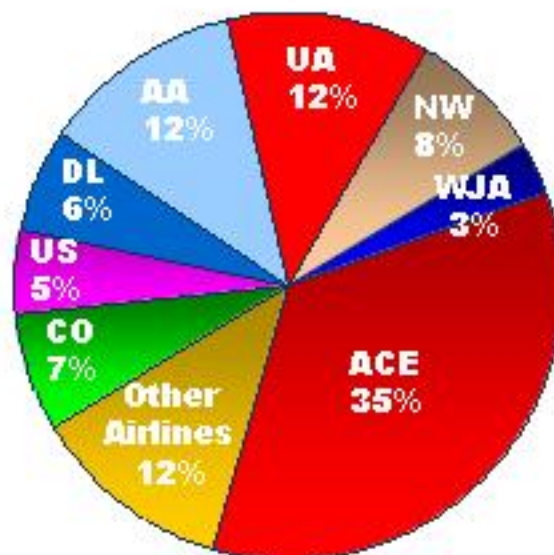
Air Canada – Leading Share in all Markets

International



40 %
Total ACE Airline Revenue

Transborder



20 %
Total ACE Airline Revenue

Source: OAG June 2006, defined as Available Seat Miles (ASMs) capacity share

Tied For Second In On-Time Arrivals

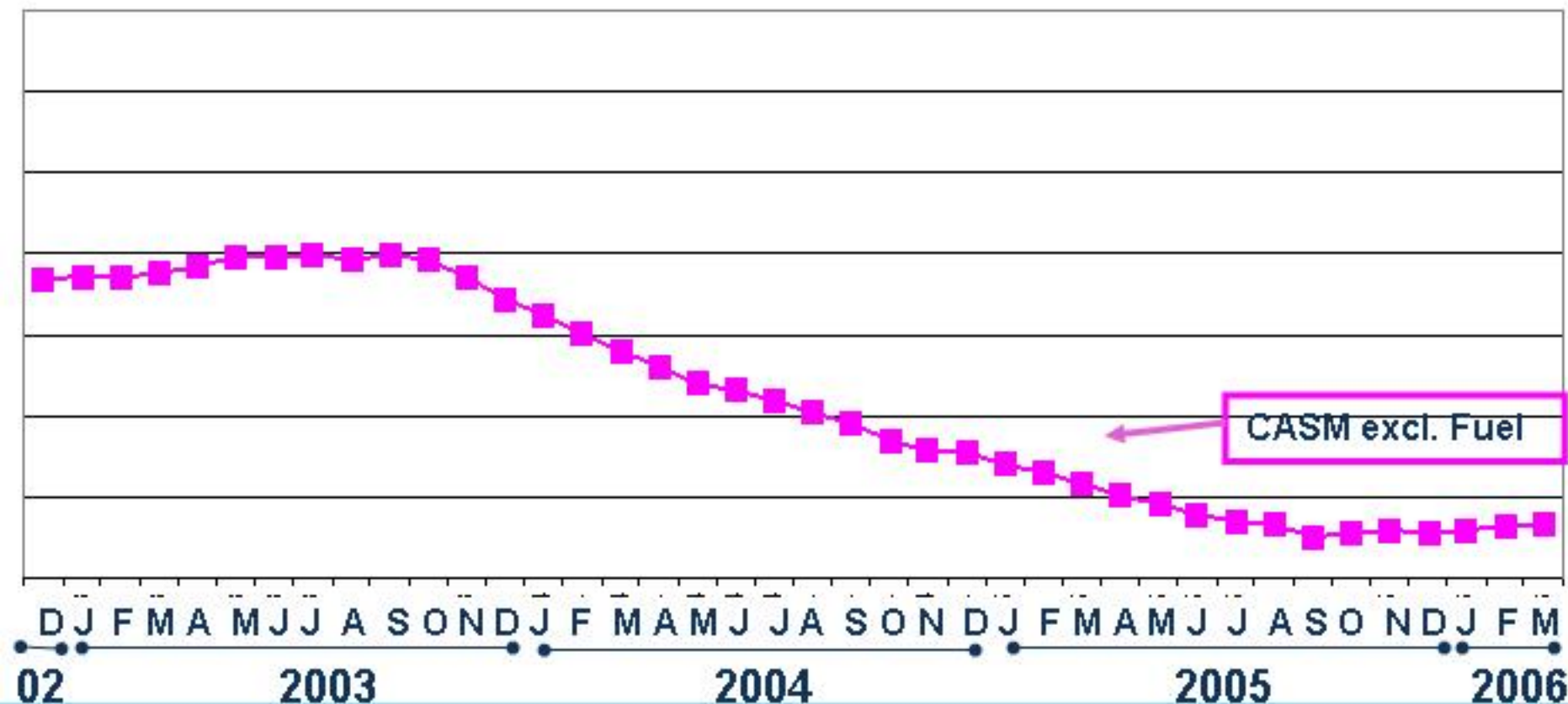
Previous 12 Month Performance Comparison Avg (March '06)

1	HAWAIIAN	95%
2	COMAIR	82%
3	AIR CANADA	82%
4	SOUTHWEST	81%
5	SKY WEST	81%
6	ATA	80%
7	US AIRWAYS	79%
8	UNITED	77%
9	DELTA	77%
10	AMERICAN	77%
11	NORTHWEST	76%
12	MESA	76%
13	CONTINENTAL	76%
14	AMERICAN EAGLE	76%
15	EXPRESSJET	75%
16	JETBLUE	73%
17	AIRTRAN	73%
18	ATLANTIC SOUTHEAST	72%
19	ALASKA	70%

Air Canada Mainline Cost /ASM Ex. Fuel Trends

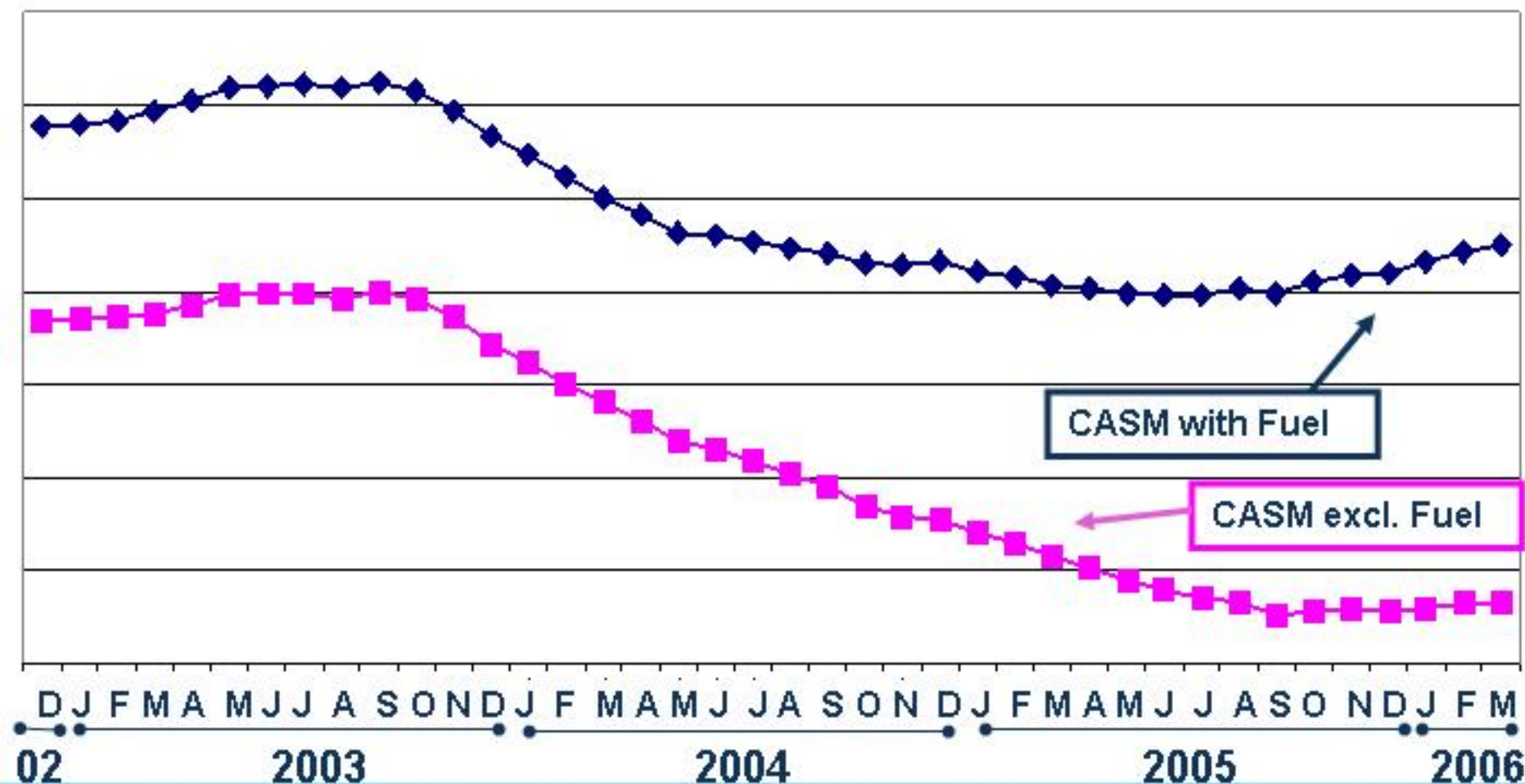
12 month rolling – Dec 2002 – Mar 2006
(excludes Special Charges Q1/06)

CASM excl Fuel (AC)



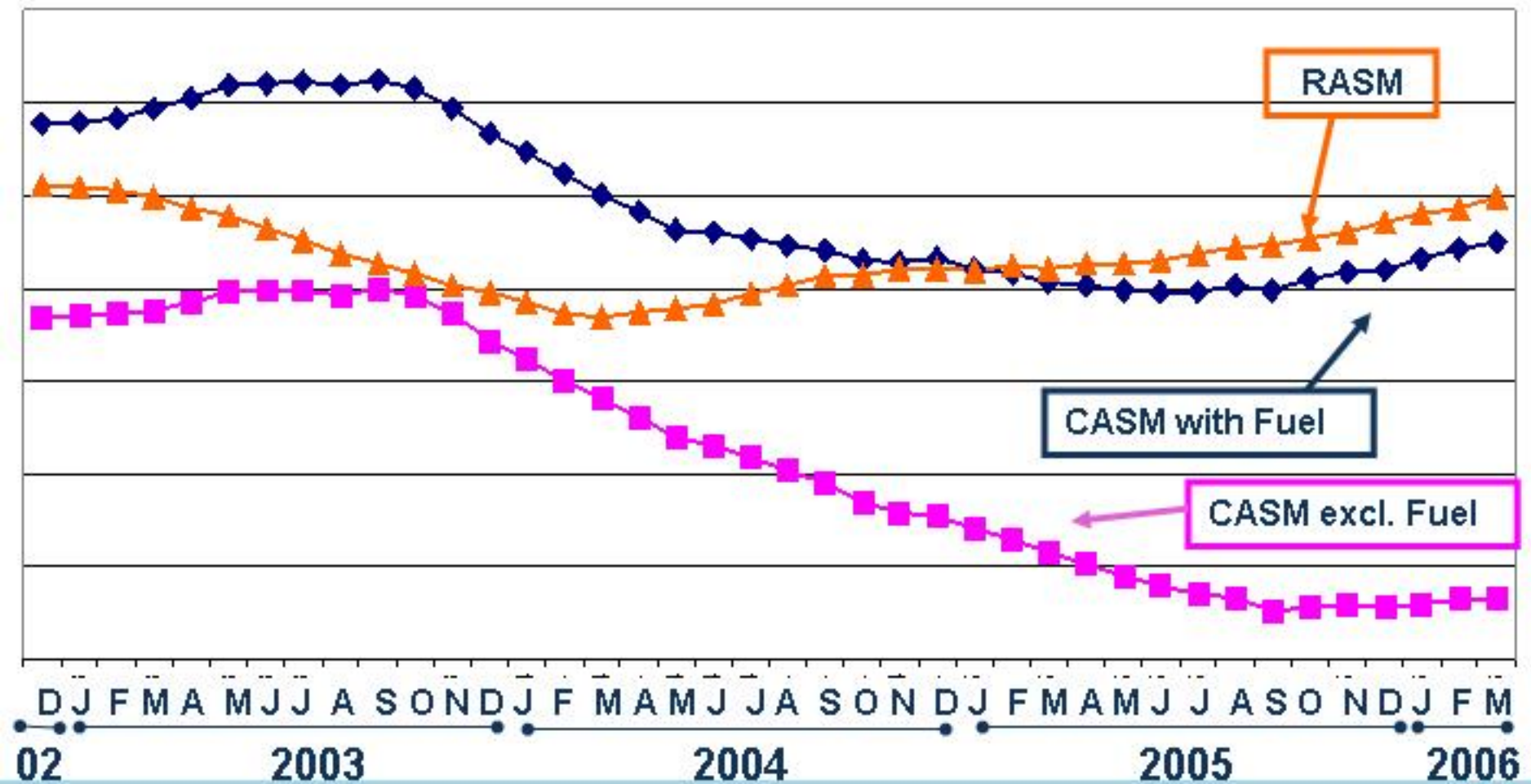
Fuel Impacting Cost /ASM Trend

12 month rolling – Dec 2002 – Mar 2006
(excludes Special Charges Q1/06)



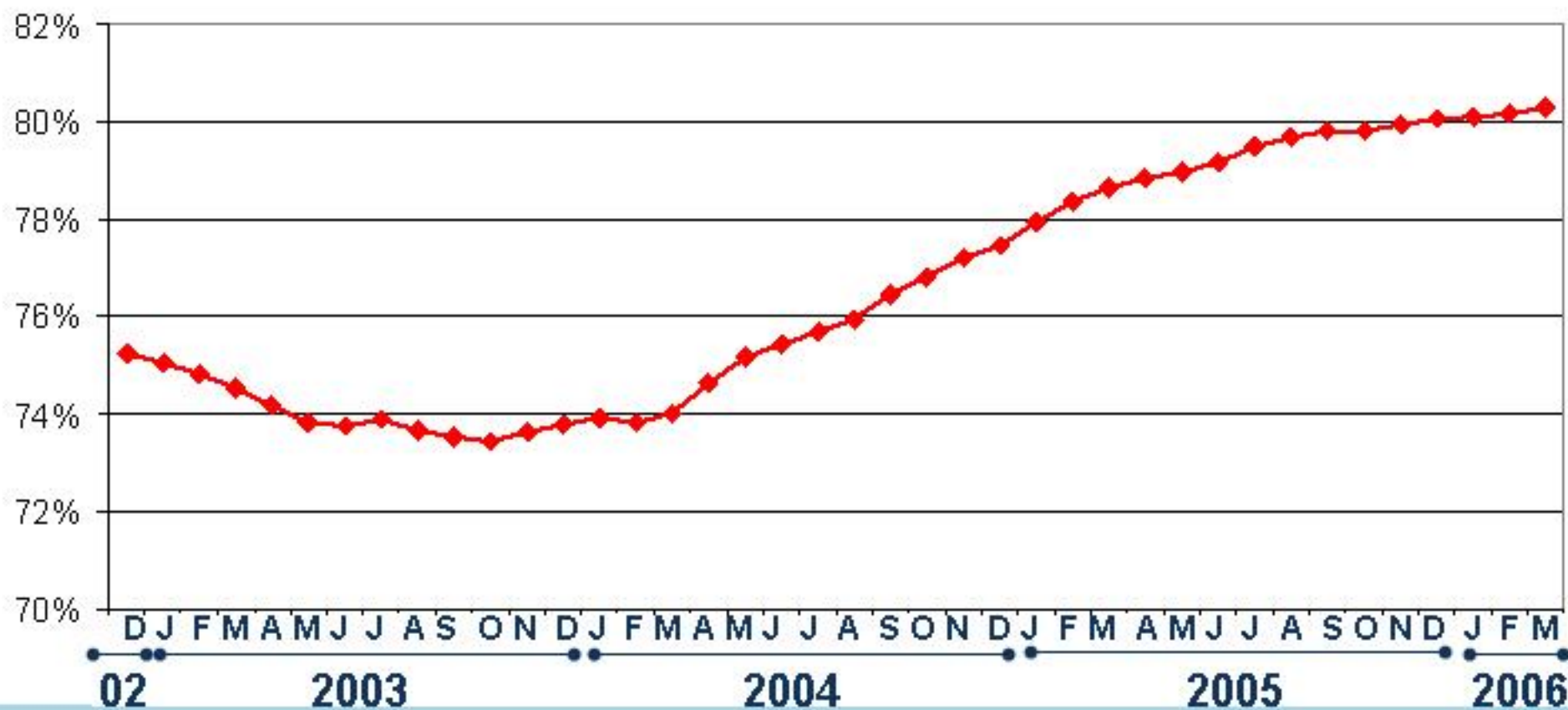
Unit Revenue Keeping Pace

12 month rolling – Dec 2002 – Mar 2006
(excludes Special Charges Q1/06)



25 Months Of Record Load Factors!

12 month rolling – Dec 2002 – Mar 2006



Yield Improvements – Up 9% Q1

- International fuel surcharges
- North America increases to base fares
- Tango Plus Sales Increase 45% In Q1

Day's lowest fare		Sun 14-May \$ 264	Mon 15-May \$ 264	Tue 16-May \$ 254	Wed 17-May \$ 189	Thu 18-May \$ 209	Fri 19-May \$ 209	Sat 20-May \$ 189	Sun 21-May \$ 264	Mon 22-May \$ 209	Tue 23-May \$ 294	Wed 24-May \$ 189
From:	Toronto Pearson Int'l, ON (YYZ)											
To:	Calgary Calgary Int'l, AB (YYC)											
<i>Compare our 5 fare options</i>												
Op.	Flight	Depart	Arrive	Aircraft	Stops	Connections	Tango	Tango Plus	Latitude	Latitude Plus	Executive Class	
Direct Flights												
✶	AC107	07:00	09:10	321	0		○ \$ 381	○ \$ 411	○ \$ 579	○ \$ 1268	○ \$ 1298	
✶	AC117	08:00	10:10	321	0		○ \$ 254	○ \$ 284	○ \$ 579	○ \$ 1268	○ \$ 1298	
✶	AC119	10:00	12:10	320	0		○ \$ 381	○ \$ 411	○ \$ 579	○ \$ 1268	○ \$ 1298	
✶	AC1153	11:00	13:10	320	0		○ \$ 381	○ \$ 411	○ \$ 579	○ \$ 1268	○ \$ 1298	
✶	AC173	12:00	14:10	321	0		○ \$ 381	○ \$ 411	○ \$ 579	○ \$ 1268	○ \$ 1530	
✶	AC121	14:10	16:20	320	0		-	-	○ \$ 579	○ \$ 1268	○ \$ 1530	
✶	AC1159	15:00	17:10	320	0		-	-	○ \$ 579	○ \$ 1268	○ \$ 1298	
✶	AC125	16:00	18:10	320	0		○ \$ 381	○ \$ 411	○ \$ 579	○ \$ 1268	○ \$ 1298	
✶	AC133	17:00	19:10	320	0		○ \$ 381	○ \$ 411	○ \$ 579	○ \$ 1268	○ \$ 1530	
✶	AC153	18:25	20:35	321	0		○ \$ 381	○ \$ 411	○ \$ 579	○ \$ 1268	○ \$ 1530	
✶	AC145	20:40	22:50	321	0		○ \$ 381	○ \$ 411	○ \$ 579	○ \$ 1268	○ \$ 1298	
✶	AC141	22:45	00:55 + 1 day	320	0		○ \$ 254	○ \$ 284	○ \$ 579	○ \$ 1268	○ \$ 1298	

Solid Dom. RASM Performance in Last Two Yrs.



% change qtr over same qtr previous year

Int'l Unit Rev. (RASM) Gains Traction in Q1'06



% change qtr over same qtr previous year

ACE EBITDAR Improvement Despite Record High Fuel

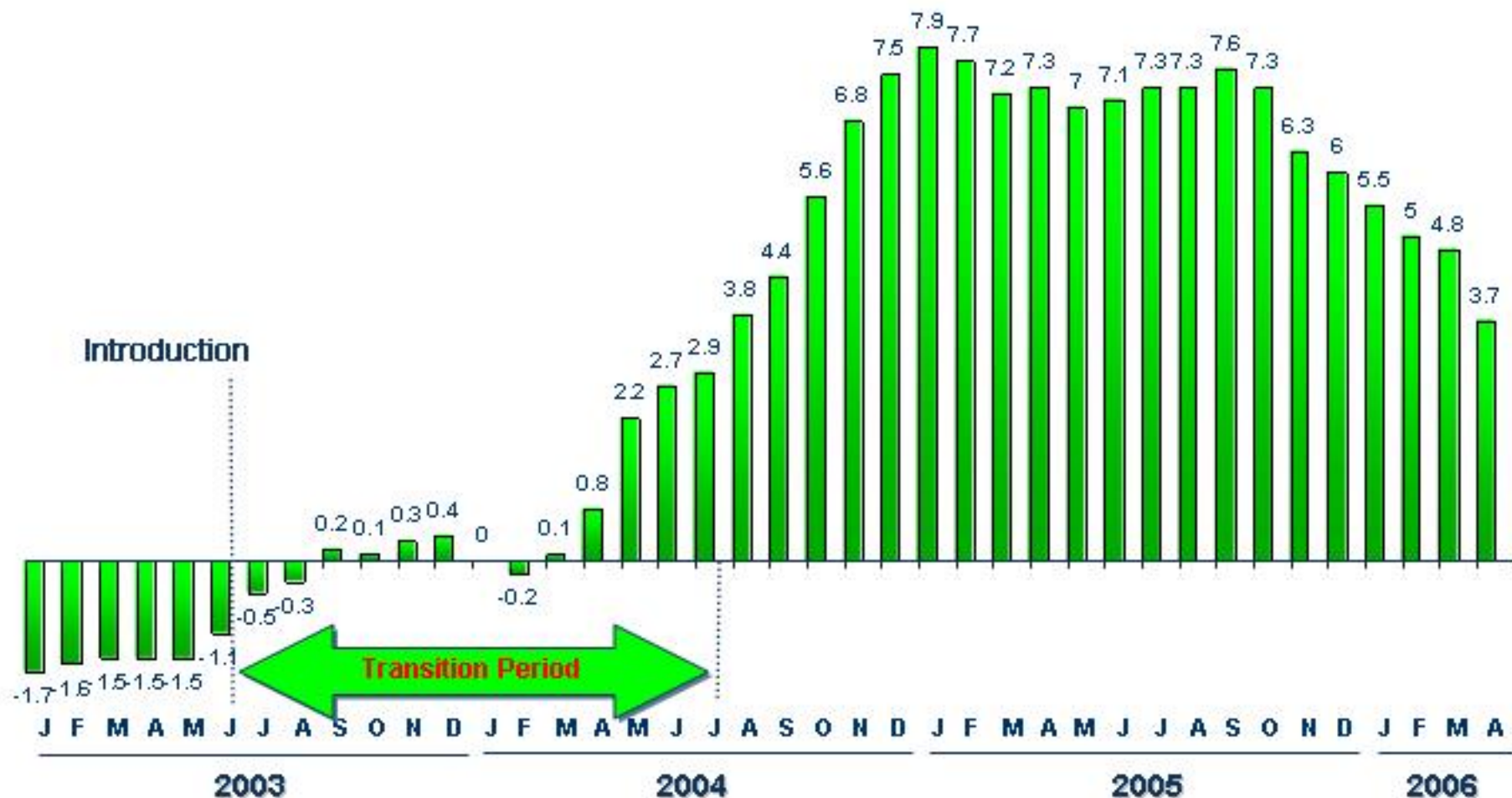


\$ change qtr over same qtr previous year

* excludes special labour charge

Domestic Load Factor Premium Diminishing

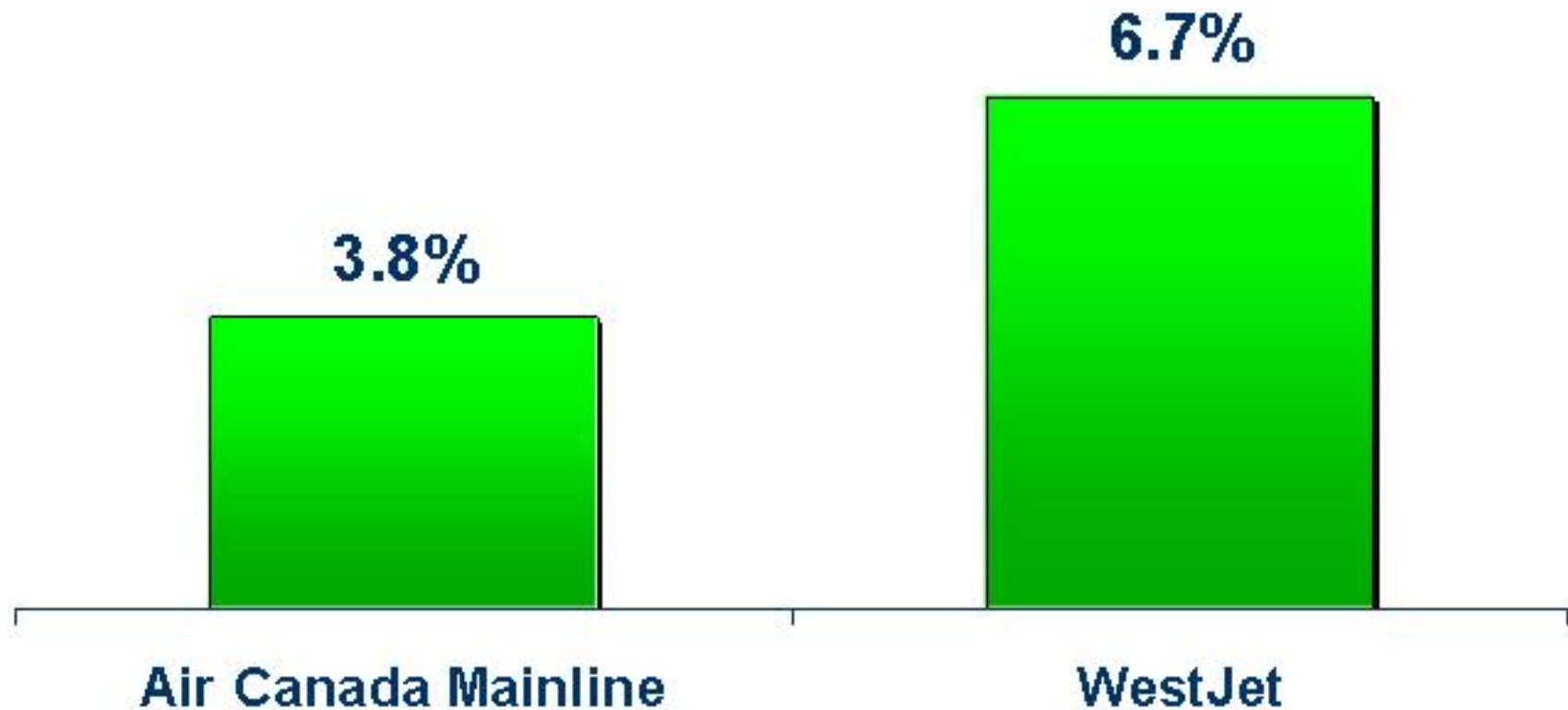
Sustainable Domestic Load Factor Premium to WestJet (1)



(1) Revenue passenger miles as a percentage of available seat miles. Air Canada versus WestJet differential in percentage points.

WestJet Unit Cost, Excluding Fuel, Escalating At A Faster Rate

% change in Q1 unit cost
2006/2005



The Math Still Works

Higher average fare

+

Higher load factor

- Buy up for additional features
- Business class
- International feed
- Superior network & schedule

Higher revenue premium

- International feed
- More appropriate aircraft size
- Larger connection banks

—

Unit Cost Gap

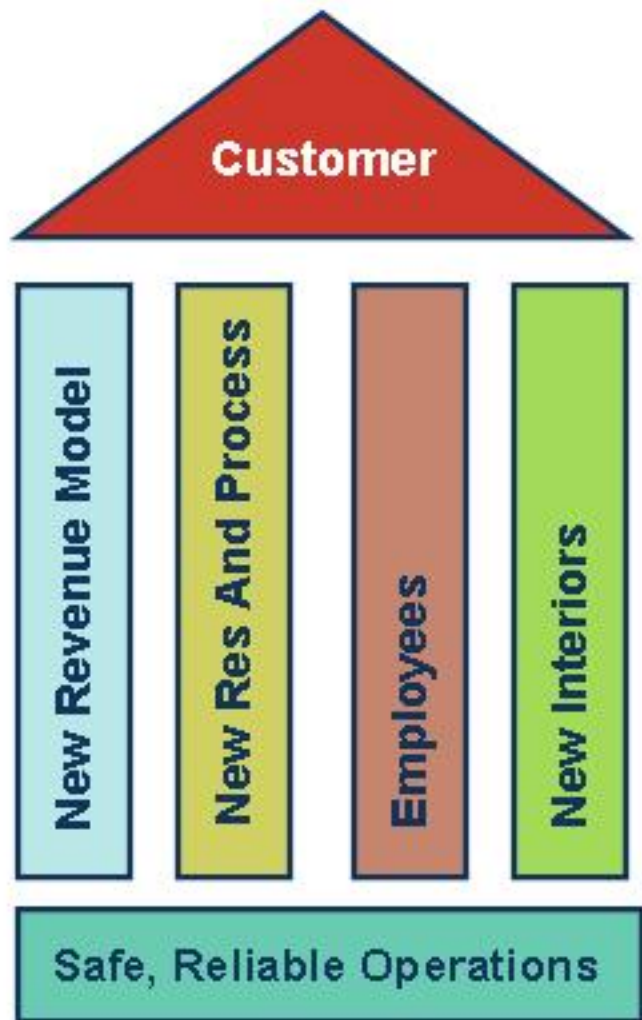
- Cost of Sale
- Fuel
- Labor

= Profit Gap

What About 2006?

Four Pillars














Major Objectives - Four Pillars



- **Revenue Model**
- Fleet Refurbishment and IFE
- RES III Replacement
- Labour Relations/Employees

Growth Of Attributes – Food Added

Current North American Branded Fare Attributes

	 Tango	 Tango Plus	 Latitude	 Latitude Plus	 Executive Class
ANYTIME CHANGE FEE ¹ *Except Same Day	\$30 PLUS ADDITIONAL FARE DIFFERENCE	\$30 PLUS ADDITIONAL FARE DIFFERENCE	\$0 PLUS ADDITIONAL FARE DIFFERENCE	\$0 PLUS ADDITIONAL FARE DIFFERENCE	\$0 PLUS ADDITIONAL FARE DIFFERENCE
FLAT FEE FOR SAME-DAY CHANGES AT THE AIRPORT ²	\$150 NO CHARGE FOR FARE DIFFERENCE	\$50 NO CHARGE FOR FARE DIFFERENCE	\$0 NO CHARGE FOR FARE DIFFERENCE	\$0 NO CHARGE FOR FARE DIFFERENCE	\$0 NO CHARGE FOR FARE DIFFERENCE
AEROPLAN STATUS MILES FOR FLYING WITH US ³	50% NON-STATUS MILES	100%	100%	100%	150%
AEROPLAN MILES FOR EVERY DOLLAR SPENT ONLINE	1 for \$3	1 for \$2	1 for \$1	1 for \$1	1 for \$1
ADVANCE SEAT SELECTION FEE	\$15	\$0	\$0	\$0	\$0
UPGRADE CERTIFICATE		 APPLICABLE IN SOME CASES			NOT APPLICABLE
FULL REFUND					
PRIORITY SERVICES				 PRIORITY CHECK-IN & BAGGAGE	 PRIORITY CHECK-IN, BAGGAGE & BOARDING
MAPLE LEAF LOUNGE ACCESS					
COMPLIMENTARY SNACK AND SANDWICH					

Improved Display And Price Points

North American Branded Fare Display

Day's lowest fare→							Sun 14-May \$ 264	Mon 15-May \$ 264	Tue 16-May \$ 254	Wed 17-May \$ 189	Thu 18-May \$ 209	Fri 19-May \$ 209	Sat 20-May \$ 189	Sun 21-May \$ 264	Mon 22-May \$ 209	Tue 23-May \$ 294	Wed 24-May \$ 189	
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Pay For Use – Growth In Options

- Food
- Seat
- And now.....

Pay For Use – Growth In Options

- Food
- Seat
- And now.....

GO Discount



Save an extra \$20 round trip when you don't check bags or change your itinerary

- More to come
- Goal to have at least five options per fare product

New International Fare Products



Choice And Transparency To Int'l Travel

Different Attributes Than North American Products

	 TOURIST	 LEISURE	 LATITUDE PLUS	 EXECUTIVE FIRST
ROUND TRIP/ ONE WAY	ROUND TRIP REQUIRED	ROUND TRIP REQUIRED	ONE WAY	ONE WAY
CHANGE FEE (NOT SAME DAY)	NOT PERMITTED	\$200 CAD/ \$100 GBP	FREE	FREE
SAME-DAY CONFIRMATION	N/A	\$100 CAD/ \$50 GBP	FREE	FREE
MINIMUM STAY	SATURDAY NIGHT	SATURDAY NIGHT	NO	NO
FULL REFUND	NO	NO	YES	YES
ADVANCE SEAT SELECTION	AT CHECK-IN	FREE WITH \$40 CAD/\$20 GBP DISCOUNT OPTION	FREE	FREE
MILEAGE ACCUMULATION	N/A	100%	100%	150%
PURCHASE INCENTIVE	500 MILES	1,000 MILES	2,000 MILES	3,000 MILES
UPGRADE CERTIFICATE	N/A	SSWU	SSWU/SWU	N/A

New International Display Makes It Possible

International Branded Fare Display

Select Flights

Search Select Review Passengers Purchase Itinerary

Each-Way Select Page

Select departing flight

Day's lowest fare: **Fri 04-Nov \$539** Sat 02-Nov \$663 Sat 04-Nov \$663 Mon 07-Nov \$583 Tue 08-Nov \$253 Wed 09-Nov \$253 Thu 10-Nov \$253 Fri 11-Nov \$253 Sat 12-Nov \$253 Sun 13-Nov \$253 Mon 14-Nov \$253

Book **Leisure** round-trip fare and get a rebate on your Hotel reservation and your car rental during your stay. [Details](#)

From: Montreal Trudeau, QC (YUL)
To: London Heathrow, GB (LHR)

Compare our fare options

Op.	Flight	Depart	Arrive	Aircraft	Stops	Connections	Tourist	Leisure	Latitude Plus	Executive First
Connecting Flights										
★	AC413	13:00	14:15	320	0	Toronto (YYZ)	-	★ \$945	\$1567	\$1567
	Terminal Change									
★	AC755	17:55	20:32	320	0					
★	AC415	14:00	15:15	320	0	Toronto (YYZ)	-	★ \$945	\$1567	\$1567
	Terminal Change									
★	AC755	17:55	20:32	320	0					
★	AC417	15:00	16:14	333	0	Toronto (YYZ)	-	\$945	\$1567	\$1567
	Terminal Change									
★	AC755	17:55	20:32	320	0					
★	AC419	16:00	17:15	320	0	Toronto (YYZ)	-	★ \$945	\$1567	\$1567
	Terminal Change									
★	AC759	20:25	23:02	333	0					

Op.: Operated by
1 United Airlines

* indicates flight is sold out or not applicable

★ Book early and save an extra \$40 CAD on selected round-trip fare per person if you don't require Advance Seat Selection.

Non-air offering

New Fare Products

Seat Opt out identifier. This will show the customer which flights are available for the discount.

Passes – The New Frontier

Benefits of the Pass Products:

- Freedom
- Control
- Ease of use
- Certainty



RAPIDAIR PASS

**CANADA EAST PASS
CANADA WEST PASS
CANADA EAST–WEST PASS
CROSS CANADA PASS
U.S. COMMUTER PASS
EASTERN PASS
WESTERN PASS
NORTH AMERICA PASS**

**SUN PASS EAST
SUN PASS WEST
HAWAII PASS**

SMALL BUSINESS PASS



Major Objectives - Four Pillars



- Revenue Model
- **Fleet Refurbishment and IFE**
- RES III Replacement
- Labour Relations/Employees

New Fleet Focuses On Efficiency



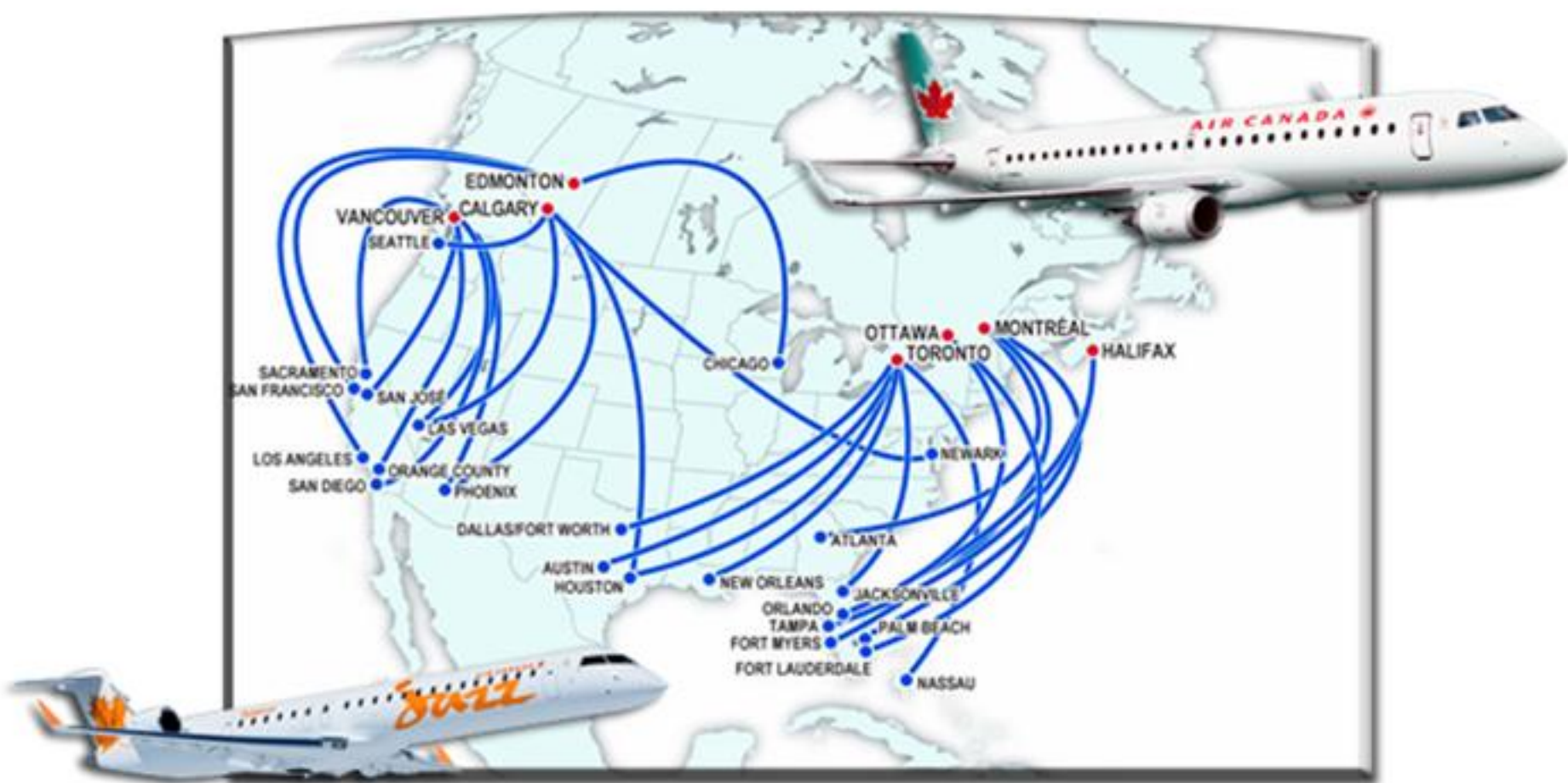
Embraer & CRJ 705 Fleet Levels

ERJ 190	-	-	-	4	7	10	16	20	26	32	38	45
ERJ 175	-	-	9	15								
CRJ 705	-	4	10	15								
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	2005				2006				2007			

Boeing 777 & 787 Fleet Levels

		2007	2008	2009	2010	2011
B777	200 LR	4	13	-	-	-
	300 ER	4	-	-	-	-
	200 F	-	-	2	-	-
B787	800	-	-	-	7	14

Transborder Expansion Has Started



Improved Onboard Standards

- **Two cabins - all aircraft**

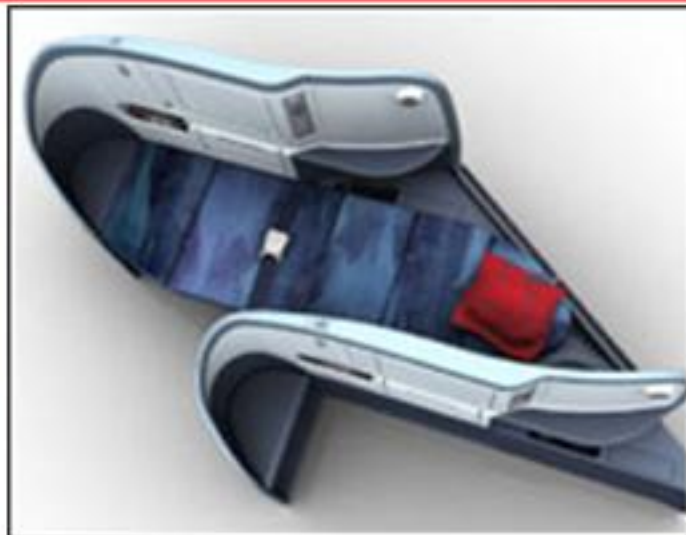


- **Inseat video**
- **Inseat power**



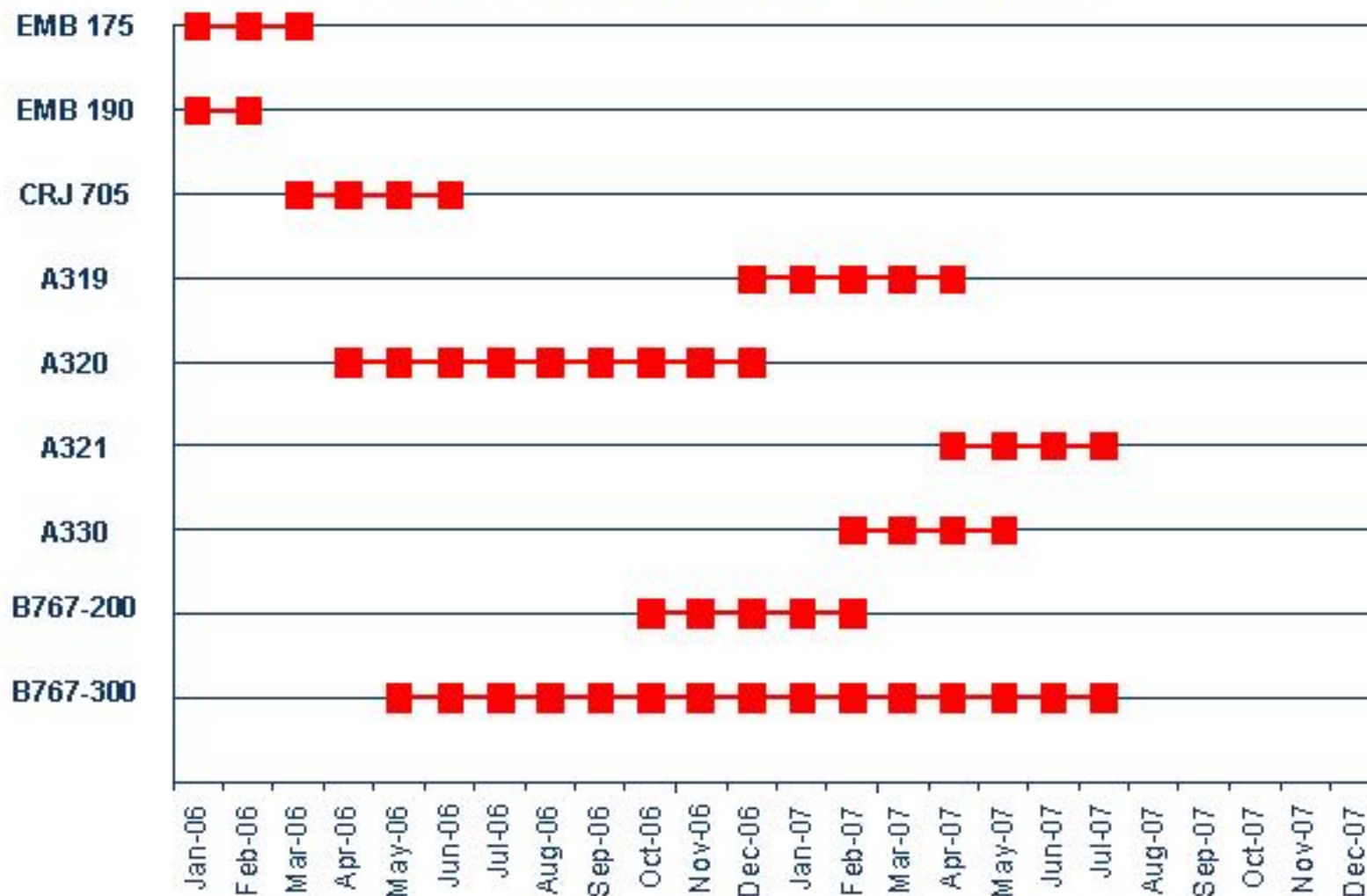
Premium Executive First Product

New Executive Suites

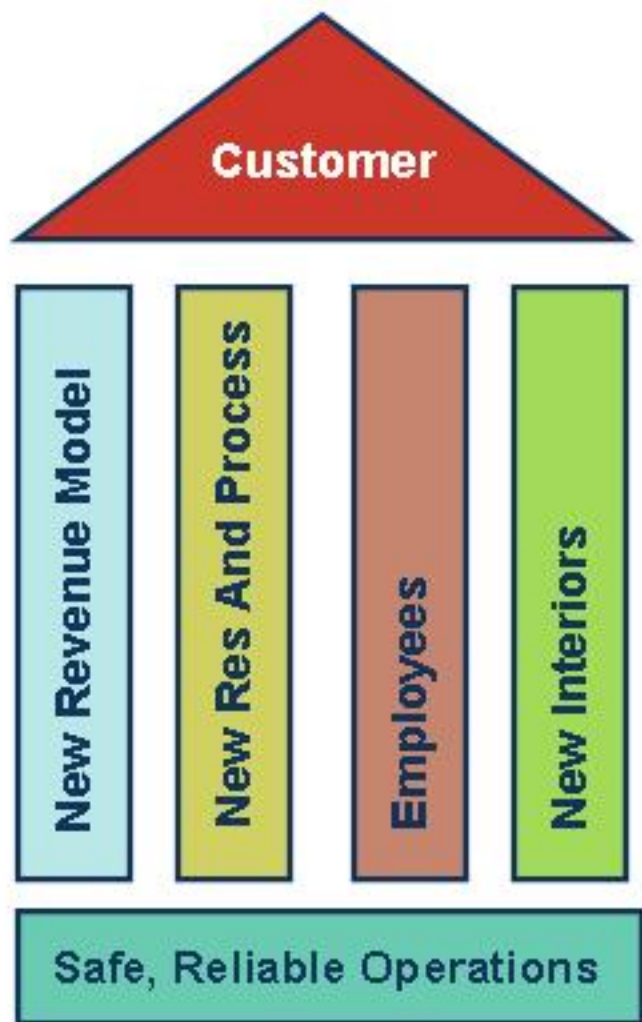


Refurbishment Complete By Next Summer

Fleet Conversion Schedule



Major Objectives - Four Pillars



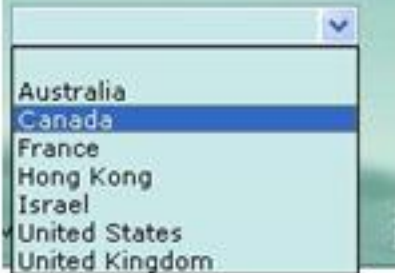
- Revenue Model
- Fleet Refurbishment and IFE
- **RES III Replacement**
- Labour Relations/Employees

RESIII Replacement

- Design Principles
- Reengineer - Make it simple and pull out cost
- Web based
- Single Engine
- Scalable and adaptable
- Low cost of operation

Leverage Technology

WorldWide sites
Please select the country where you live. This will allow us to provide you with the most relevant information about our products and services.



2D Barcode



iMuse Express



Web Check-in



RFID



Major Objectives - Four Pillars



- Revenue Model
- Fleet Refurbishment and IFE
- RES III Replacement
- **Labour Relations/Employees**

Labour Relations & Employees

- Renewed focus on employee relations
- Short term focus on the wage re-opener in 2006
 - Two groups in mediation/arbitration process
 - Negotiations set for remaining groups
- Long term focus on collective bargaining process in 2009
 - Improved communication
 - Transparency
 - Understanding of long term business issues

Future Performance

Focus on Costs

Policy Changes Focusing On Cost Savings

- “Same day confirmed”
- Change fees – Add/Collect
- Sporting goods
- Baggage allowance
- Pets
- Connecting baggage
- Stretchers - gone

Major Cost Reduction Initiatives

- Fuel efficiency
- Commissions and distribution fees
- IT
- Maintenance processes and materials
- Ground and airport handling
- Non-union reduction

2006 – A Year of Change

- Changing what and how customer purchase travel
Differentiation
- Changing the travel experience for the better
Creating demand
- Changing to gain efficiencies
Generating profits

Q & A

