Good afternoon everyone. Thank you Tom for your kind introduction. I would also like to thank the Halifax Chamber for the invitation to speak.

It is a pleasure to be in Halifax. I am grateful so many of you have taken the time to come and join us. Today I would like to speak to you about the role Halifax and Nova Scotia play in the Air Canada story and our company's future direction.

Nova Scotia has always had a significant place in Canadian aviation. Last year, the country celebrated the 100th anniversary of flight in Canada, which began with Alexander Graham Bell's Silver Dart soaring over the frozen Bras d'Or Lakes in **Baddeck** a century ago.

Air Canada has a long history of flying in Nova Scotia too. Next year will be the 70th anniversary of our first scheduled flight to Halifax. On April 1, 1941 Trans-Canada Airlines extended its Montreal-Moncton flight by adding a leg to Halifax. It was a truly historic occasion – finally, the rest of Canada was connected by air to Halifax. Nova Scotia and Air Canada have never looked back on what has become a great relationship.

For our part, it often surprises people to learn that Air Canada is the 13th largest airline in the world – there are not many 13th largest world enterprises from Canada. This is even more striking when you consider Canada itself is only about 36th in terms of population among the world's countries. So as an airline and as a country, we punch above our weight with respect to air travel.

Today, we have 26,000 employees around the world and we fly to 59 Canadian destinations, 58 in the U.S. and 60 cities internationally.

Together with Jazz, our regional partner, based here in Halifax, we operate 1,370 scheduled flights each day. Last year, we had 31 million customers –equivalent to every man, woman and child in Canada. Our direct contribution to the national economy exceeds $12 billion. We are a big company. We touch a lot of lives – in business, in leisure, in economic terms.

As our primary Atlantic and east coast airport, Halifax is extremely important to us. Together with Jazz and Air Georgian we operate more than 60 take-offs and landings a day from your airport. Together, we flew about 2.2 million people to and from Halifax last year – roughly two-and-one-half times the entire population of the province. Combined, we accounted for 64 per cent of total passenger traffic at Halifax.

One element of our success has been Air Canada Vacations. ACV has a long history in the charter market in Halifax, which is somewhat unique in that Atlantic residents prefer to vacation later in the year than other Canadians. In winter, we put a designated aircraft in the market and this year offered non-stop service to eight sun destinations – including the Dominican Republic, Bermuda, Cuba and Jamaica – and three Florida flights a week, including a new route to Tampa. In total, we operated nearly 1,400 seats a week from Halifax to sun destinations between February and May.

Since 2004, Air Canada and Jazz's capacity – measured by what we term available seat miles in our industry – has increased by 33 per cent and our flight frequencies are up nearly 20 per cent. Travellers have responded and traffic has grown 40 per cent over the same period.

In 2009, which you know was a recession year, we carried nearly 300,000 more people than in 2004. So despite challenging times,

we have been growing our business steadily here in Nova Scotia and I want to say a sincere thank you to all of our loyal supporters.

Another important element of our business is Air Canada Cargo. We carried about 5.3 million kilograms of cargo out of Halifax last year, with seafood accounting for the largest portion. Most of that is lobster with some flights carrying up to 30,000 kilograms of them; but tuna is popular too and we carried 230,000 kilos of that last year, enough to fill nearly 1.5 million cans. This business has been growing since the early 1960s when fishermen would pull up in their pickups and hand us cardboard boxes of lobster and we intend to continue expanding and diversifying, especially with so called "hard cargo" such as parts for the oil and gas industry.

But Air Canada's presence in Halifax and Nova Scotia is about much more than filling seats on planes or cargo containers. Air Canada employs over 450 people in Halifax .We also spend $133 million annually in the province on goods and services. And the spin-off annual economic impact of Air Canada in Nova Scotia amounts to over half a billion dollars. So we mean as much to this community as it does to us – a lot.

In addition, Jazz's head office is located in Halifax and it employs more than 700 people, making it one of the province's largest employers. Jazz has a pilot and flight attendant base, a maintenance base, its system-wide operational control centre and a large group of management and administrative staff located here. It spends $14 million a year on vendors in Nova Scotia, making it a significant contributor to the provincial economy.

Although Jazz has been a separate company since 2004 and has its own management team, board of directors and stock listing, Air Canada has a long term partnership with Jazz that is enshrined in our Capacity Purchase Agreement.

And while today we contract most of Jazz's flying, under the leadership of Joe Randall, Jazz has evolved into a dynamic airline in its own right and is now beginning to embark on some diversification which should lower Air Canada's unit costs.

This month, Jazz signaled the next stage in its development by confirming it will purchase 15 new Bombardier Q-400 aircraft which will be used for Air Canada flying.

That Air Canada and Jazz have been able to grow and succeed is all the more noteworthy when one looks at our industry. The airline industry is one of the most challenging in the world.

There is intense competition, high costs, it is hyper-sensitive to economic change and it can be thrown into disarray by bad weather, volcanoes, earthquakes, underwear bombers, pandemics and conflict happening anywhere in the world. This is not like other industries.

Last year, with the economic downturn, the global airline industry saw the worst drop in revenue since the Second World War. The International Air Transport Association estimates the global industry lost $10 billion in 2009 and, despite signs of recovery, may lose another $2.8 billion this year.

Air Canada is not immune to these effects and there have been difficult times.

However, with the great effort of our employees, partners, and financiers in 2009, we have now stabilized our company – in fact we even raised $250 million in new equity last year despite turmoil in the stock markets – and we are now focused on the future.

So what does that future look like?

Following a luncheon discussion with a group of other Canadian CEOs recently I've started to challenge the organization to see if we have what it takes to be a truly Global Champion. These are companies that not only excel, but consistently excel, from year-to-year.

The AT Kearney 2009 list of 25 Global champions includes companies from the U.S., South Korea, Japan, Europe and even South Africa. No Canadian company made the list and none of the companies listed were airlines.
What distinguished this select group is that they generated nearly 15 per cent value growth annually for the past five years.

What does it really take to become a global champion?

It requires seizing new opportunities, innovating and expanding with a clear vision for the future.
On the whole, Global Champions pursue a growth strategy that balances economic, environmental and social considerations. Size does not matter but strong leadership, staying focused on the end goal and an ability to shift gears under changing circumstances are required.

At Air Canada, we have established four priorities that I believe put us on track to becoming a global champion. Already, we are seeing very encouraging results and I hope that you who are our customers are seeing results as well.

As with any structure, you start with the foundation. For a corporation that means finances have to be put in order. So our first priority is our Cost Transformation Program aimed at achieving $500 million in annual cost and revenue improvements by the end of 2011. We have almost achieved $255 million of our

$270 million target for 2010, after exceeding last year's $50 million target by 40 per cent.
Importantly, we are doing this without compromising the customer experience or through employee reductions.

Such a transformation has to be about much more than simply cost reduction. It means technology. It means different processes. It means new products. It means innovation and creativity.

We have to play to our strengths. We are not a low-cost carrier – we are a 72 year-old full-service airline with a great history, a great product platform, a great network. . We are transforming the way we engage with our customers, with particular emphasis on our premium business travellers, and this is our second priority.

We are doing this through industry leading products. Through new communication tools. Through face-to-face meetings with our top tier customers so we can listen and improve. We have met across Canada with our Super Elite customers including here in Halifax this morning. And through a more engaged front-line employee workforce intent on showing what we can do.

We know that no one owes us a living – we are not entitled to your business – we must earn it.

Our Lie-flat suites in international business class lead the industry. Our top of the line in-flight entertainment system on the back of each seat shows films that are still in theatres. Our Maple Leaf Lounges and our Concierge Program make the airport experience significantly more pleasant for our most frequent travelers. Aeroplan consistently is amongst the highest ranked of airline rewards programs worldwide.

We were also the first North American airline to introduce popular new IT services for customers in the form of Apple and Blackberry applications with automatic flight notification and self-rebooking tools so people can manage their own travel as they like.

Conversely, we admitted straight up that certain irritants were bothering customers. We eliminated the call centre fee. We increased the availability of Aeroplan reward seats.
We allowed small pets back in the cabin. We improved our Super Elite members' access to revenue seats. And we reached out to the travel trade community to restore commissions on some of our lower fare categories.

While our effort to re-engage customers is still very much a work in progress, I was extremely pleased late last year when the most frequent travelers in the industry, including our own customers, recognized what we are achieving. In late 2009, we won a series of prestigious awards from international magazines that are, in effect, the Academy Awards of our industry, based on extensive surveys of many different carriers.

Business Traveler magazine, with 500,000 readers, and ten editions published globally, gave Air Canada more awards than any other carrier in the world, including

- the Best Flight Attendants in North America;
- the Best In-flight Services in North America;
- the Best Business Class among North American carriers;
- Best North American Airline for International Travel.

A survey of 25,000 readers of the equally respected *Global Traveler* magazine found Air Canada to be the Best Airline in Canada and the Best Airline in North America.

Last month, *Reader's Digest* declared Air Canada the country's "most trusted airline" based on an independent survey of Canadians coast-to-coast.
In addition, a recent Global Reputation Pulse survey of Canadian companies conducted by UK-based Reputation Institute found that Air Canada recorded the single largest year-over-year jump in reputation of any Canadian corporation.
And we have just learned of another international industry leading award which will be announced in the coming days.

The **third** element of our transformation will require overcoming what I consider our greatest challenge: changing the culture at Air Canada. This must happen both in terms of how customers see us and how we behave as a company. This is the most important aspect of our transformation – a corporate culture sets the tone for everything that you do.
With the right drivers – both in terms of people and tools – Air Canada will absolutely become a more entrepreneurial and nimble company. A big company that behaves more like a small company, with simpler processes. A place where employees are empowered and able to make decisions. A place with a "Just Do It" culture. A place where managers become leaders, employees ambassadors. An airline customers consistently choose over others.

A very good recent example of this was our handling of the volcano in Iceland, which shut down our European operations for the better part of a week, stranding thousands of our passengers.

On the front lines there were many examples. We have one Montreal-based employee who speaks Italian and is qualified to work in gates, check-in and ticketing. With only hours' advance notice she agreed to fly all night from Montreal to Rome and then immediately went to work helping her Italian colleagues. After a full day's work she boarded a flight home that evening.

Customers publicly praised our London agents in a column by *The Toronto Star's* travel editor, who himself was stranded in London. "They haven't been pretty good, they've been fabulous," he quoted a customer saying.

There are hundreds of stories like this – relating to the Vancouver Olympics, humanitarian relief in Haiti and Chile

The fourth element of our transformation entails building on our position as one of the world's leading international carriers. As I said, Air Canada is the 13th largest airline in the world.

There are a number of reasons for this. We benefit from Canada's excellent geographic position, we have a vast network underpinned by an array of bilateral authorities to fly to other countries, and, more than this, we are a founding partner of the 26-member Star Alliance, the largest global airline network. It enables us to seamlessly connect passengers with carriers that fly to 1,100 airports in 175 countries and this connecting traffic drives growth.

For example, Brussels Airlines' admission to Star Alliance last year made it attractive for Air Canada to begin flying to Brussels. This opened not only another European gateway for customers especially throughout France, but also a convenient connecting point for travel between Canada and Africa, which is well served by Brussels Airlines through their extensive African network.

For Halifax, the Star Alliance makes your city attractive for other member carriers. Passengers can flow seamlessly between Air Canada and Star members, and frequent flyer miles are transferable among Star Alliance partners, so customers can collect and redeem Aeroplan miles on our partners or use our partners' miles on Air Canada flights. This includes United Airlines' flights to

Washington and Chicago, Continental Airlines' flight to Newark and U.S. Airways' route to Philadelphia.

In addition to Star, we have joined with Lufthansa, United Airlines and Continental Airlines to form Atlantic-Plus-Plus, a venture through which each carrier sells seats on the other as if we were one large airline with a single network. This results in new routes and city-pairings as we integrate our route maps to connect traffic flowing between the four partners.

Since last year we have already added or announced new service to Geneva, Rome, Brussels, Athens and Barcelona that will strengthen our European flagship routes of London, Paris and Frankfurt. In March, we launched our first Calgary-Narita flight and next month we will launch St. John's-London service. I have just returned from Brazil for an event in which TAM formally joined Star Alliance as its 27th member airline. TAM's joining Star also presents us with huge opportunities.

Success, however, is rarely achieved alone. It takes strong partnerships to thrive and I am pleased to tell you we have a great partner in the Halifax International Airport Authority, under the leadership of **Tom Ruth,** and the Halifax Stanfield International Airport.

Tom and his team embody the notion of partnership and we have worked with them in marketing and building routes, such as Halifax-Gander and Halifax-Boston flights that we could not develop alone. The ultimate beneficiary has been Halifax and Nova Scotia, who enjoy more travel options for business, tourism and leisure as a result.

In many ways, your airport authority exemplifies the “Just Do It” approach I am trying to instill in Air Canada. The cooperation and the support we get from the authority shows they understand the challenges and the opportunities airlines represent for a community. [Expand on what it takes for an Airport to build a Global Champion in Air Canada – good infrastructure including access, efficient connecting and transit processes and competitive costs]

To survive, thrive and further grow, airlines cannot be the cash cow that is milked dry by fees and charges that are added onto tickets by governments. Hampering the airline industry simply hampers economic growth. Among other things, there is GST, PST, the recently hiked security surcharge, federal and often provincial fuel excise taxes, airport improvement fees and navigation charges.

Looming above all is federal airport rent, collected by airports on behalf of the Government – something no other industrialized country collects. Although Canada privatized its airports in 1992, Ottawa continues to collect more than $300 million annually in rent for these facilities for general revenue. Due to these charges it costs Air Canada an average $3,400 to land an Airbus A320 at Canada’s largest airports versus an average of only $1,650 at major U.S. airports. More than double. How can one expect to compete, to globally compete for hubs, and traffic by paying double the costs.

In Halifax alone, last year, the federal government collected $3.2 million in rent from the Halifax International Airport – indirectly from passengers as airlines have to pass this charge on. This year, that amount will increase to $4.2 million and it is projected to rise to $5 million by 2014. This adds extra costs to tickets not used to

improve airport infrastructure, improve passenger flows or passenger services.

Another area of government policy that is important to Canadian carriers is liberalization of air travel. The federal government is to be commended for the approach it has taken over the years toward liberalizing the aviation market. Air Canada has grown to the 13th largest airline in the world in large part because of its international flying.

We welcome such liberalization where it makes sense, where the respective market sizes mandate it and where there are benefits for Canadians. To give you an example, Canada opened its skies to U.S. carriers on a reciprocal basis in 1995 and since then we have become the largest single airline in the highly competitive US transborder market, serving nearly 60 destinations in the U.S – the most aggressively competitive air travel market in the world.

On the Canada-U.K. market, there are 10 players and Air Canada now offers up to 12 flights daily – including daily 767 service from Halifax this summer. We have welcomed liberalization elsewhere too, most recently with 27 countries within the European Union.

Air Canada has what it takes to become a Global Champion and the country will benefit because there is a direct and strong correlation between air connectivity and economic growth. We are seizing opportunities, innovating with new products both on and off our aircraft, we are expanding both organically and through our global partners, and we have a clear vision for the future of our company.

It has been a pleasure to speak with you this afternoon. I look forward to sharing many more years of success with the Halifax and Nova Scotia business community and to keep finding ways to build on each other’s strengths.

Thank you