AIR CANADA'S RENEWED COMMITMENT TO CALGARY

CALGARY CHAMBER OF COMMERCE
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Calin Rovinescu, President & CEO Air Canada

Thank you for the kind introduction, Garth

It is tremendous to be back in Calgary again. As you may know, last fall we held a senior management meeting here in your city – and during the visit executives had the opportunity to meet and discuss issues with Calgary officials and civic leaders.

We came at that time with open ears and minds wide open. We listened and and committed to work with you to find a way to give Calgary non-stop access to Asia. Today we are here to deliver on that commitment and tomorrow I will board the inaugural flight of our Calgary-Narita non-stop service. Launching a new route in this economic environment is a risk – the success of this route is not guaranteed.

The start of this new service now is in great part a reflection of our ongoing commitment to this City and Province. It is sometimes forgotten that Air Canada is the largest airline at Calgary airport and it provides the most service of any carrier to the city. Despite the rapid growth of another carrier headquartered in this city, since 2004 we have increased the number of frequencies we fly to and from Calgary by 47 per cent. We offered 1.5 million more seats last year than in 2004. This summer we will operate 846 flights a week to 36 destinations from Calgary.

Since 2004 we have added new services from Calgary to such places as Newark, Honolulu, Maui, Portland, Seattle, London, Ontario, Whitehorse and Yellowknife. Tomorrow's flight to Narita will be your first direct Asia connection and we are **very mindful** that the city would like other new services as well.

Much of this growth was made possible by the fantastic cooperation we have received from Garth Atkinson and the Calgary Airport Authority over the years. They are tremendously responsive to our needs and the increase in business I have just described would not have been possible without the authority's unstinting encouragement and support.

I will talk a bit more about the new service in a few minutes. First, though, I want to provide some context by bringing you up-to-date on the Air Canada story.

The last two years have been difficult for our industry as a whole. Airlines are always the first to go in and the last to come out of a recession. This is especially true of an airline such as Air Canada, which relies heavily on business travelers and premium traffic. The International Air Transport Association estimates that last year our industry collectively lost more than $11 billion as traffic fell 3.5 per cent. 2009 was the worst year ever for the industry in terms of lost traffic.

For our part, we did relatively well. Air Canada's revenue performance compared favourably with that of our North American peers. In fact, we out- performed most carriers in terms of both yield and unit revenue. Moreover, we managed capacity effectively. In 2009 we flew our planes with a system-wide load factor of nearly 81% on average, versus just over 75% for the industry as a whole.

But at the start of last year we encountered a series of interconnected events that threatened our very survival.

Many of you here today no doubt look back fondly on mid-2008 as the “Good Ole Days” when oil soared to US$147 a barrel. Fuel is our single largest expense and at some points in 2008 jet fuel exceeded $180 a barrel. While Air Canada was partially hedged, the price run-up and subsequent collapse added some $866 million in unexpected costs. This severely weakened our balance sheet going into 2009 and overlapped with the onset of the very deep global recession that stubbornly persisted throughout that year.

With the economic downturn, like other legacy carriers, we suffered significant losses in 2008 that carried over into 2009. Our cash position was severely depleted, putting us in danger of slipping below the covenants of our credit card processors and other lenders. Moreover, the combination of a 40% drop in equity markets in 2008, coupled with historically low long-term government bond rates, created, at least on paper, a massive pension fund deficit of nearly $3 billion which would have saddled us with unmanageable pension deficit funding payments.

Layered on top of this was the expiry of all of Air Canada’s major collective agreements last summer.

Our firm deadline to resolve these issues – in one way or another – was the end of July 2009. And I was appointed CEO at the beginning of April – in fact on April Fool’s Day.

I have often described the process as being akin to playing a game of multi-dimensional chess in a fishbowl or playing with a Rubik’s cube. Just as with a Rubik’s cube we began working all sides of the problem at once. Yet there would be no progress unless all six sides of the cube were solved. Depleted liquidity. High cost structure. Supplier arrangements. Credit card processor covenants. Expiring collective agreements. Unmanageable pension deficit.

Early on we got lenders and credit card processors to relax their cash requirements, albeit conditional on some permanent funding coming in.

One-by-one we reached settlements and contract extensions with our lenders, credit card processors and unions. All agreements were conditional on each other’s arrangements and on certain cost savings from others. The cost-neutral settlements with our unions were conditional too on a funding and a pension deal from the Government. We got suppliers and partners to rework and improve rates to be more market competitive or to extend their contracts, so that we could show we were tackling the rest of our cost structure. The colors of the Cube started to align.

With these arrangements in place, we announced - on July 29, 2009, two days before the mandatory deadline - that we had raised more than $1 billion from a diverse group that included our major shareholder, several key business partners and other lenders and stakeholders.

We had lived to fight another day - and in the process showed that 72-year-old Air Canada, with 26,000 employees, 25,000 retirees, 7 unions and a long and remarkable history – could be creative, could be nimble, could be flexible – when it

needed to.

The earliest indication that our rebound was real and gaining acceptance in the investment community came in October when we announced an equity financing of $260 million. Had someone suggested to me when I started in April that we might be in a position to raise equity by October, I would have summarily dispatched them to the World Anti-Doping Agency, ahead of the Olympic rush, for hallucinogenic drug testing.

This year, with our financial situation stabilized, we are focusing on a more fundamental transformation to sustainably rebuild for the future. I am very proud of what we achieved last year but real progress can only be measured when the transformation is permanent. Broadly speaking, there are four main areas we wish to transform.

The first element is our Cost Transformation Program (CTP) aimed at achieving $500 million in annual cost and revenue improvements by 2011. We have already made significant progress toward this goal and surpassed our 2009 target by 40 per cent. Importantly, we are doing this without compromising the customer experience.

Such 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 full-service airline. We are transforming the way we engage with our customers, with particular emphasis on our premium business travellers.

We are doing this through industry leading products. Through new communication tools. Through face-to-face meetings with our top tier customers that afford us the chance to both listen and improve. And through a more engaged front-line employee workforce that intends to show 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 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 rebooking tools.

Baggage self-tagging is also growing in popularity as a self service option for customers. The underlying philosophy is that if we are easy to use, then we should be easy to choose. Moreover, we will look to further develop our customer social networking and marketing tools through proactive direct offers and communications to our regular customers, continuing to build on their trust, loyalty and engagement.

Conversely, we admitted straight up where 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 have achieved. 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 last year: including

the Best Flight Attendants in North America;
the Best In-flight Services in North America;
the Best Business Class among North American carriers;
and that Air Canada is the 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.

We do not get it right 100% of the time. But these surveys suggest that we do get it right most of the time. And for that I have to thank the great work of our employees who go "above and beyond" and make the extraordinary effort during both regular and irregular operations. In the flight deck. In the cabin. In the airport. On the ramp. In the hangar. Or on the phone.

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 provides the foundation and 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 act as if they are owners. Empowered. Able to make decisions. A place with a "Just Do It" culture. A place where managers become leaders. Where employees are ambassadors for the Air Canada brand and everything good that it represents. An airline that customers consistently choose over others.

The Olympics in Vancouver provided us an excellent opportunity to see if our culture change goal is indeed gaining traction. As Official Airline of the Games and Canada's national flag carrier, we were well aware of the very high expectations for our airline. We planned for nearly a year to accommodate the rush of customers and the teams with their outsized equipment. On March 1, the day following the Closing ceremony, always the heaviest travel day, Air Canada boarded well over half the volume of all passengers traveling through Vancouver, which was more than double the highest volumes seen in Vancouver on any given day.

This included athletes. VIPs. Heads of state and European Royalty, media, and over 22,000 bags on 155 flights. All with near textbook perfection. All with an amazingly engaged, on-the-ball, empowered and very welcoming employees, displaying with immense pride everything good about Canada and Air Canada.

Despite the enormous volumes, there were virtually no wait times. No irregular operations. No cancellations . Virtually no missed connections, few misplaced bags. Air Canada at its absolute best. We received great feedback from IOC members who travel to Olympic Games worldwide, telling us that their Vancouver airport departure experience was their best ever.

I should also add that Calgary Airport also played an important role in ensuring the success of the Games as we had a number of teams traveling via Calgary – their experience here was equally impressive. We enjoyed similar success with the Paralympics that brought the VANOC Games to a close last week. We are looking to entrench that Vancouver experience throughout our operations – in effect, to pollinate the excellence we witnessed so that it becomes contagious.

The fourth element of our transformation entails building on our position as one of the world's leading international carriers and is the focus of my remarks today. Canada is 36th in terms of population among the world's countries yet Air Canada is the 13th largest airline in the world, punching well above its weight category.

Our goal is to build an international powerhouse.

I've become intrigued with the concept of what it takes to transform companies into what the Management Consulting firm AT Kearney refers to as Global Champions. That is companies that not only excel - but consistently excel - from year-to-year.

The 2009 list of 25 Global champions includes companies from the U.S., South Korea, Japan, several European countries and even South Africa. No Canadian company made the list and none of the companies listed were airlines. What distinguished this select group of companies is that despite massive share price declines from their peaks, these companies generated nearly 15 per cent value growth annually for the past five years.

What does it really take to become a global champion?

It implies seizing new opportunities, innovating and expansion with a clear vision for the future.

Global champions also have in common: 1) a strong home base; 2) A willingness to take risks; 3) An empowered global organization; 4) Groomed global talent. The home country also has an important role to play.

I believe Air Canada has what it takes to become such a global champion. For a number of reasons. 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 close to 1100 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,

opening not only another European gateway for customers but also a convenient connecting point for travel between Canada and Africa, which is well served by Brussels Airlines.

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. Tomorrow, we launch our first Calgary-Narita flight.

And while our self-interest in becoming a global champion is evident, what may not be as obvious is the benefit for cities such as yours and indeed the rest of the country. Only a strong national carrier can bring in connecting passengers and create the type of passenger flow necessary to keep Calgary plugged into the global airline network.

Air Canada's Calgary-Japan flights are timed to offer convenient connections to and from communities across Alberta and Western Canada served by Air Canada and also offer great connections at Narita to points throughout Asia with our Star Alliance partners, ANA, Asiana, and THAI to Hong Kong, Manila, Seoul, Beijing, Shanghai, Singapore and Bangkok. Foreign airlines cannot do this; they can only take passengers to one other place from here. Similarly with cargo, the inability to connect conveniently at both ends of the journey limits the ability to export and import vital goods.

At present, Canadian airlines are disadvantaged by government fees and charges that are added onto tickets by governments that do not seem to understand that hampering the airline industry hampers growth.

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. Due to these charges it costs twice as much to land an Airbus A320 in Calgary than it would at a U.S. airport.

Added to this is GST, PST, the recently hiked security surcharge, federal and often provincial fuel excise taxes, airport improvement fees and navigation charges. Take, for example, the issue of fuel excise taxes which airlines are obligated to collect for the federal and sometimes provincial governments. These totaled $81.3 million last year and the money primarily went to general government revenue and was not re-invested in the industry.

Happily, Alberta gets this and saw the benefit of rolling back these taxes. In April 2007, the province eliminated the excise tax on all transborder and international flights. You are to be commended for this action because direct and indirect taxes undermine the competitiveness of the Canadian airline industry. Certainly it would be much easier to conduct business in this country if the Alberta approach to business prevailed in the entire country – something I don't hesitate to point out elsewhere.

It takes many partners and broad community support for an airline to succeed. Tomorrow's launch is a case in point. The idea of a Narita route was raised in discussions with local officials during our management meeting in here last fall. Since that time, we have been in discussions with the airport, the -- especially Tourism Alberta -- and the business community about what was needed to make this happen. Starting up a new non-stop route between Alberta and Asia in this fragile economy represents a big risk for Air Canada. We could not -- and we made it clear we would not -- start up the route without tangible support to develop the new service. The Province and the Airport Authority stepped up to the plate and convinced us it was a risk worth taking.

And this is not just about Air Canada, Alberta benefits greatly because air transportation facilitates business and social transactions and it increases economic activity and opportunity. Clearly, it contributes to the economic growth of Calgary and Alberta. Taking the case of Air Canada alone, we currently employ nearly 1,500 people in Alberta and we have an annual payroll of approximately $75 million. Once you count these expenditures and what we spend on supplies and other goods and services in the province, Air Canada directly spends almost $450 million a year in Alberta. Beyond this, our activities drive total economic benefits amounting to over $1.7 billion each year in the province.

And now as this as become a controversial issue of late, I'd like to share our view on the liberalization of air travel in this country. We welcome such liberalization where it makes sense and 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 transborder market serving over 50 destinations in the U.S – that is no small feat considering the U.S represents the most aggressively competitive air travel market in the world.

We have welcomed liberalization elsewhere too, most recently with 27 countries within the European Union.

Over 60 foreign-based carriers to operate at Canadian airports and Canada has bilateral air agreements with more than 80 countries. That is why I feel obliged to speak out when carriers such as Emirates Airlines of the United Arab Emirates and its apologists accuse Air Canada of being protected. Recently, you have no doubt seen reports in the media of Emirates efforts to convince Ottawa to grant Open Skies rights to the UAE.

The fact is that further liberalization with the UAE would bring no benefit to Canada -- because so few people fly between the two countries -- and would instead undermine the Canadian industry by allowing Emirates to dump excess capacity into the Canadian market.

Ultimately, this would lead to fewer options for travellers as routes that are economically viable now become uneconomic. As I said, connecting traffic is vitally important for airlines and network growth, for this reason we should be very wary of giving it away to foreign carriers for nothing in return.

A strong national carrier is in the interest of all Canadians. Air Canada connects Canadians in over 60 communities large and small across the country to 170 destinations on five continents and does so without government subsidy. The airline provides jobs for 24,000 Canadians and our direct contribution to the national

economy exceeds $12 billion.

.I would use a hockey analogy to illustrate that becoming a global champion requires a vision for where the puck is heading rather than where it is.

Calgary and Alberta are showing the way. Our new Narita route is proof positive that in partnership we can succeed. It's a fine example of how to improve access to the opportunities lying in the world beyond for your community and I believe it will be a win/win for Alberta and Air Canada.

As globalization continues to take hold, the competitiveness of the Canadian economy will be increasingly dependent on air linkages. Supporting Air Canada as a strong global powerhouse is the best way to maintain and expand those linkages. I commit that Air Canada will fulfill its part to deliver on its true potential for your community, province and indeed the country.

It has been a pleasure to speak with you this afternoon.

Thank you