Remarks by Calin Rovinescu,
President and CEO, Air Canada

Les rendez-vous financiers - Les Affaires

November 17, 2010
Thank you, Mr. Gagné, for that kind introduction. It is a sincere pleasure to be addressing this forum.

While I know all of you are familiar with Air Canada and many of you are our regular customers, I’d like to provide you with some context on Air Canada, our future direction and where we see opportunities for the company and also for this city. It is a rare business because, how many companies could come in and say that most of the people here today are their customers at least once a year? This is a privilege and responsibility I take seriously.

CONTEXT & MONTREAL OPERATIONS

I find people are often surprised when I quote some statistics about our company, as they may not fully appreciate the breadth and scope of our operations both on a network-wide basis and here in Montreal.

Air Canada is the 15th largest airline in the world based on traffic – and there are almost 1,000 airlines in the world.

Significantly, we have grown to this size even though Canada is only about 36th in terms of population among the world’s countries. So as a nation we certainly punch above our weight.
Each day, we operate more than 1,300 flights, which equates to an Air Canada flight taking off somewhere almost every minute of every day. We have 26,000 employees stationed on five continents throughout the world and nearly $11 billion in annual revenue. In the course of a year 31 million people – virtually the entire population of Canada – walk through our aircraft doors. On a busy day we can fly nearly the equivalent of the entire population of Trois-Rivières and their baggage.

Of the 31 million passengers we carry each year, about six million of those go through Montreal. In 2010, that will be more than 94,000 flights. From Montreal, we fly to more than 60 destinations in Canada, the U.S. and around the world.

Today, I would like to talk to you about where we are going next and how Montreal can play an important role in our global expansion strategy.

Our headquarters have always been here and we are one of the largest employers in the city, employing some 7,000 people. Air Canada currently spends a total of more than $1.5 billion annually in Quebec, including $600 million in payroll-related expenses in Montreal. Our contribution to the Quebec economy amounts to approximately $5 billion in incremental economic activity. So we are an extremely important economic driver for Quebec.

This summer we hired 500 people in Canada. How many businesses can you think of that created so many well-paying jobs this year, when the unemployment rate reached 8%?
ACCOMPLISHMENTS

So we are a big company in a very tough and competitive industry. In my 18 months on the job our operation has been disrupted by volcanoes, storms and earthquakes. On top of that, last Christmas, the gift of an underwear bomber on another airline turned global security upside down yet again.

And, certainly most challenging of all, a severe recession that reduced our business by as much as 30% in key markets such as the Pacific.

Encouragingly, the airline business is improving around the world and IATA estimates the global industry will have profits of nearly $9 billion this year. This sounds good, but represents a pitiful margin of 2%.

For our part, we overcame major challenges that threatened Air Canada’s very existence over the past 18 months. But even at the darkest depths we were planning our return and we vowed to win the customer back.

And we did it! As we ended 2009, Air Canada was named Skytrax’s Best Airline in North America in a survey of 17 million frequent travelers worldwide. And in 2010, we are headed in the right direction.

- Our stock price has almost tripled since the start of the year and virtually all financial analysts in the airline sector have a Buy rating on us.
• Last week we reported one of the best quarterly operating results in our history with operating income of $327 million: a nearly 400% increase compared to the same period last year.

• Our planes flew more than 84% full in the Third Quarter.

• We are getting more efficient – this summer we flew 3700 more flights and carried 400,000 more customers than last year, and still with the same fleet.

• Passenger traffic generated a $780-million increase since the beginning of the fiscal year, and Air Canada Cargo grew 34% over the same period the previous year.

• Traffic is up more than 8.5% overall with growth in all of our markets – led by a spectacular 22% growth in the Pacific.

• And remember Canadian gross domestic product (GDP) growth this year is expected to be less than 3%.

• We have more than doubled our liquidity and now have over $2 billion in cash and short term investments. We have also opened up significant new capital sources and markets in both the U.S. and Canada.

These achievements did not just happen by chance – They are the direct result of very hard work by 26,000 people of whom I am very proud.
Now, as those of you who work in a large organization know, it is not always easy to get everyone working towards a common goal, especially in our line of work. An airline is a complex business that operates 24/7.

Despite the complexity of our work, we began last year with four key priorities that we were determined to tackle by relentlessly focusing on them. Let me recap these briefly.

**PRIORITIES**

1) First, our **Cost Transformation Program** is aimed at achieving $530 million in sustainable annual cost and revenue improvements by the end of 2011. And we are right on track, having already achieved our $300 million improvement for this year.

2) Second, **Customer Service** - We are playing to our strengths rather than viewing our legacy attributes as a weakness. We are therefore actively transforming the way we engage with our customers – with particular emphasis on our **business product, the services we offer and our reputation for safety and reliability**.

3) Our third priority is to **change the very culture at Air Canada** - Significant progress has been made towards becoming a **warmer, more entrepreneurial and nimble** company. In addition to our Best Airline in
North America Award, an **Ipsos Reid survey** last month found that 71% of business travelers prefer Air Canada.

4) Our **fourth** priority, and the one I wish to focus on today, is building on our position as one of the world’s leading international carriers. This is where Montreal will play an important role. Our goal is to build an international powerhouse and to ensure that Montreal rightly occupies a central place in that strategy.

Along with Canada’s advantageous geographic location, Air Canada has a vast network supported by a wide array of bilateral authorities that enable us to fly virtually anywhere in the world. More than this, we are a founding partner of the 27-member Star Alliance, the largest alliance of its kind. Through Star we can seamlessly connect passengers with carriers that fly to nearly 1,200 airports in 180 countries. And this connecting traffic drives both growth and profitability.

As one of our three major Canadian hubs, Montreal is obviously a cornerstone of this strategy. During the recession, when all airlines were cutting back, we still added capacity in Montreal and we continue to do so, as our inaugural flight to Phoenix demonstrated earlier this month.

Since last year we have already added or announced new service from Montreal to Mexico City, Geneva, Rome, Brussels, Athens and Barcelona to strengthen our European flagship routes of London, Paris and Frankfurt.
And apart from these new European routes, we are also adding for this winter new sun service from Montreal to Cozumel, Costa Rica, West Palm Beach and, as I mentioned, Phoenix.

Earlier, we also added Houston and Fort Myers to our Montreal-North American network. Houston will figure prominently as a connection point given our new partnership with Continental Airlines, as it moved over to join our Star Alliance from the Sky Team alliance last October.

Therefore, given that three of our four major new international destinations in 2010 are served from Montreal, I trust it is clear that we very much want to revitalize Montreal as a true North American gateway to the mutual benefit of the airport, the community and Air Canada.

More broadly, we have increased capacity to Asia dramatically year-over-year and now fly nonstop daily from both Toronto and Vancouver to Beijing, Hong Kong, Shanghai and Tokyo. As mentioned, our Pacific traffic is up over 22% and this past summer we flew 70 times a week on 10 routes between Canada and the 5 major Asian cities. Put another way, we are deploying more than $2 billion in aircraft exclusively to our Asian routes.

Imagine any Canadian manufacturer building a $2 billion factory in Asia. That size investment would be a big deal for the country and certainly would get everyone’s attention.

Asia will continue to grow in importance for Air Canada. Last year, intra-Asia travel exceeded that of North America and IATA predicts that by 2013
an additional 217 million travelers will take to the skies within Asia-Pacific. The recent grant of Approved Destination Status to Canada will also stimulate Chinese tourism.

INTERNATIONAL GROWTH  KEY TO OUR STRATEGY

We firmly believe that we can build a global hub right here in Canada – This could be our chance to take our place on the international stage.

The global marketplace is increasingly becoming a battle of international hubs. And as the industry increasingly channels traffic through these select hubs, we see massive opportunities. Montreal, Toronto and Vancouver have all made many significant improvements, including terminal investments. This enabled us to concentrate all our operations and those of our Star partners, thereby facilitating transfer traffic.

Connections are now seamless and crossing international borders is as easy as transiting from a domestic to an international flight.

This year, we formed an alliance with Lufthansa and United Airlines, which now includes Continental Airlines since their merger.

We sell seats on the other as if we were de facto one large airline with a single network. In effect, we strive for “metal neutrality”, so that over time we become indifferent as to which carrier is flown over the Atlantic as long as it is one of the three.
Last month, we announced a similar venture in the U.S. market with the newly merged United Airlines, subject to obtaining regulatory approvals. We believe this agreement can be transformative. While we fly to 59 U.S. cities, United flies to 210 U.S. airports, so you can easily see how this will broaden the range of routings and destinations we will now be able to offer customers.

**AVIATION AS ECONOMIC DRIVER**

But in order for Air Canada to capitalize on the advantages and potential that Montreal, Vancouver and especially Toronto, have as global hubs, we as a country need to recognize with certainty and conviction that the airline industry is indeed a powerful engine of economic growth, in the same way that several other countries, especially emerging economies have.

To this end, I have been saying publicly for some time now that we need to amend the policy framework around our industry to make Canadian airlines more competitive with carriers around the world. And that means adjusting rates, charges and policies for airports, rail infrastructure, air navigation, security, fuel excise taxes, income taxes, trade policies etc. etc.

Air Canada is recognized as the Best Airline in North America and to my thinking there is no reason why, in the right environment, it cannot truly become a champion on a global scale in the airline sector.
Economists tell us that transportation is one of the four sectors that are vital to our economy—along with finance, telecommunications and natural resources.

There is a well-documented link between air connectivity and economic growth, so any disincentive to travel de-stimulates the economy. At a time when all countries are looking to promote competitiveness and economic growth, transportation should be a preferred way to achieve these twin goals.

Airlines in general are at the centre of the air transport industry. They are the focal point in an important value chain—globally and nationally—which includes feeding directly or indirectly these industries:

- Manufacturers of airframes and engines
- Aviation services such as aircraft leasing, maintenance and repair
- Airports, catering services, Air Navigation Services;
- Hotels, restaurants, cars, travel agents and other tourism companies; and
- The cargo industry etc. etc.

According to a recent independent study for Canadian airlines, the industry directly generated $6.5 billion of Canada’s GDP in 2009. The total GDP impact of the industry is estimated at $12 billion and once the aggregate economic impact (direct, secondary and catalytic) is taken into account, that impact exceeds $35 billion in GDP. Air Canada’s own contribution is
estimated at slightly more than 50% of the Canadian industry. So I would argue that this is an industry that we, as a country, should be paying attention to.

For Montreal, this message should resonate especially loudly because Quebec is the heart of the Canadian aerospace industry. Here we have Bombardier, CAE and Pratt and Whitney, to name only a few major players still with us. And these companies are important partners for us. We are also a very important customer for them.

WHAT DOES IT TAKE TO WIN/ GLOBAL CHAMPIONS

Canada has the means to succeed and the financial incentives to do so. What, then, is holding back Canadian aviation?

Outdated policies respecting aviation that originated with previous governments not only hobble airlines but frankly the entire country and the economy in this global environment.

Even before the 2008 report “Compete to Win” by the Competition Policy Review Panel chaired by Red Wilson, there was a lot of debate around whether or not it is desirable in Canada to nurture so-called global champions. We saw this debate again with the recent takeover attempt of Potash Corporation.

In my view, Canada needs to be more strategic as to maintaining corporate or global champions in industries that are core drivers of our economy - such as natural resources, transportation, telecommunications and finance.
As I’ve said before, we cannot be boy scouts running around in short pants when it comes to global competitiveness especially when we see what other countries are doing.

Let me tell you. There is no such debate in Singapore as to whether or not to develop Singapore into a global trade hub or to nurture a global champion out of its pool of companies in such sectors as energy, consumer and industrial products or airlines.

There is no such debate in Korea with respect to say, Samsung. There is no such debate in the United States with its “Buy American” stimulus programs.

Or closer to home, there is no such debate in the UAE, either with respect to development and growth of its ports and cargo infrastructure or, of more relevance to me, of its airlines and airports.

I commend the Federal Government for having the backbone to put the overall interest of Canadians before other considerations on the two issues that have been the subject of so much heated debate recently – the foreign takeover of Potash Corporation and the Canada-UAE bilateral air negotiations. In both cases the Government’s actions are in the interests of Canadian commerce, Canadian jobs and encouraging growth in the Canadian economy. There would be no real benefit to Canada to caving in. This type of approach by the Government is key to assure the long term viability of Canadian companies in two of the key sectors that drive our economy.
COMPETITIVE FRAMEWORK

A domestic competitive framework is essential to becoming a global champion. So in Canada, with respect to our aviation industry, we need to decide.

- Do we want a viable airline industry in Canada that is on par with other countries? Yes or no?

- Do we want direct access from Canada to Asia, Europe and South America from multiple Canadian cities, including smaller markets such as Edmonton, Halifax and Ottawa? Yes or no?

- Do we want competitive aviation costs in light of the North American free trade context? Yes or no?

We can continue to debate, but as we do so other regions of the world are actively working to create global aviation hubs and gateways. In certain parts of the world, we are seeing impressive construction of massive airport capacity exceeding Heathrow, Frankfurt and Charles De Gaulle combined. We are seeing massive aircraft orders. We are seeing huge investment in rail infrastructure.

COSTS

A competitive framework means addressing costs. Canada’s aviation sector has taxation and other fiscal burdens which are a net drain of resources from
this critical sector. Air travel in this country is subjected to more taxes than tobacco or alcohol!

So, between airport rent, airport infrastructure, navigation fees and charges, and other direct and indirect taxes, we estimate Air Canada would save approximately $1B if it was a U.S. airline with the same volume of business. $1B - This $1B million could be reinvested to develop new routes, acquire new aircraft, create jobs, build new facilities and lower airfares.

**INFRASTRUCTURE**

As for rail infrastructure, despite decades of talk and some good work by ADM on the proposed Aérotrain, we still seem years away from having a high speed airport link here in Montreal. We are getting close but I still don’t see it anytime soon.

Vancouver is the only city in this country with a rapid transit link to the airport, thanks to the Olympic Games.

**TRADE AGREEMENTS**

As for balanced trade agreements, Air Canada is fully supportive of fair and balanced Open Skies with all countries where there is reciprocal demand.

We support liberalization agreements with the United States and more recently with the European Union, two of the most competitive markets in the world where there is real two-way demand with Canada.
And we are actively encouraging agreements with other countries such as Japan. However, I work for our shareholders and our customers and have responsibility for 26,000 employees and 25,000 retirees.

So, we are not supportive of demolishing our hubs and gateways or turning over our hard-earned network and flow traffic to state supported carriers of other countries. Ultimately, this will translate into less economic activity, fewer jobs and fewer routes served.

**CANADA’S FUTURE AS AN AVIATION HUB**

International gateway airports like Montreal and Toronto are considered by economists to generate far more value for their respective regional and national economies than regional hub, or stub airports.

And with very few exceptions, international gateway airports develop because major carriers use them principally for their networks. Here in this city, Air Canada has a tremendous partner in Aéroport de Montreal, and they do an excellent job redeveloping Montreal- Trudeau Airport in a financially responsible manner.

I guess the message I want to leave you with is that collectively, we have huge opportunities here in Canada if we play our cards right. We can truly compete in the Global marketplace.
Air carriers, including Air Canada have the potential to be one of the leading drivers, globally coming out of this recession and can yield multi-fold benefits in terms of economic return. To become a Global Champion in our sector, however, we do need a competitive framework for the industry which must address:

1) the cost structure; fees, charges, taxes etc.

2) the aviation infrastructure or our lack thereof, including rail;

3) Balanced trade agreements with third countries;

4) Partnerships with airports in Canada similar to those in Singapore, Amsterdam, Hong Kong, and the UAE; and

5) the building of strong domestic hubs which can become global gateways.

Given this, we are doing the rest.

We have the very best airline in North America right here in Montreal, Canada.

- We have stabilized our financial picture.
- We have new aircraft on order that will make new non-stop routes viable.
- We have strategic alliances and ventures that will help support these routes.
- We are in the process of changing the culture of our company; it’s a dynamic and engaging environment.
• We are committed to stimulating international growth in addition to developing global gateways.
• And, most importantly, we have the mindset and the capabilities to win – on a consistent, sustainable and globally competitive basis.

Thank you