

**BOUNCE BACK – REBUILD FOR THE FUTURE**  
**THE LEADERSHIP CHALLENGE**

IATA WORLD CARGO SYMPOSIUM

Sheraton Vancouver Wall Centre

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Check against delivery

**World Cargo Symposium**  
**Bounce Back - Rebuild for the Future**  
**The Leadership Challenge**

Thank you Aleks (Popovich, Global Head Cargo, IATA) for your kind introduction.

Good morning ladies and gentlemen. It is wonderful to be in Vancouver where I am sure you all sense the buzz of the Olympic and the Paralympic games energizing this already very dynamic city. For those of you visiting Canada, welcome to our glorious Pacific hub that is still basking in the glow of achievement and success.

For those of you here from Vancouver, congratulations on these Games and, in effect, for delivering to Canada its 15<sup>th</sup> gold medal for an outstanding performance. The entire city, indeed all of Canada, is very proud of your accomplishments. As the official airline of the Vancouver 2010 Olympic and Paralympic Games we have worked closely with VANOC and witnessed first hand the endless work that went into these Games.

Additionally, since I have now been in Vancouver and through the airport each of the last 3 weeks, I'd also like to acknowledge the excellent work of the Vancouver Airport Authority. Not only did the VAA do a superb job handling the Olympic rush, they have been a tremendous partner throughout the year. This is particularly true with respect to their cargo operations. They continually impress us with their willingness to provide solutions and out of the box thinking in their work with us and other carriers. Thank you, we really appreciate your support.

As the country's national flag carrier, we are well aware that there are high expectations for our airline. And rightly so. We planned for nearly a year to accommodate the rush of customers during the Olympics and the teams with their outsized equipment. On March 1<sup>st</sup> Air Canada boarded 15,000 customers in Vancouver including Olympic athletes, VIPs, leading business executives, heads of state and European Royalty, media, and over 22,000 bags on 155 flights from Vancouver - with near textbook perfection.

The Air Canada team had three check-in facilities in operation, including one each at the Whistler and Vancouver Athlete Villages, the Sea Island Remote Terminal as well as the main terminal at YVR. With twice the number of passengers we normally see during the morning of the big exodus on March 1<sup>st</sup> and with the Remote Terminal working concurrently with the main terminal the team checked in passengers and their bags smoothly with minimal wait times. We received feedback from IOC members who have travelled to the various Olympic Games worldwide that their Vancouver experience was the best ever.

While in the public's mind, Air Canada is a passenger airline, we do, of course, have a longstanding and significant cargo operation. Our cargo business dates back to the founding of the company and carrying freight was in fact one of the principal reasons Air Canada was created in the first place. In addition, we have historic connections to Vancouver.

Both our first commercial flight and our first cross-Canada proving flight departed from Vancouver in 1937. Trans-Canada Airlines – as we were then called – was known as much for carrying mail and other cargo as for carrying passengers. In fact, on March 1, 1939, the first transcontinental overnight mail flight in Canada left from Vancouver amid much public fanfare.

The Canadian Broadcasting Corporation breathlessly broadcast the take-off live from coast-to-coast. Astounded listeners were told the journey would *only* take an incredible *fif*-teen hours and 45 minutes. So, we were true pioneers in the air cargo business with a long and venerable history. Today we are still an industry leader and carrying cargo remains an essential part of our DNA.

I was very proud last month to personally see our cargo division distinguish itself in our Haitian relief effort, where we delivered much-needed cargo to that tragically stricken nation. We carried approximately 200 tonnes of medical supplies, generators, food, water and other supplies in the weeks after the earthquake.

And now we are assisting aid organizations in transporting relief supplies to Chile and, amazingly, starting to bring fresh fruit and vegetables out of Chile- a sign that that country is already getting back on its feet.

Air Canada Cargo is also an active member of various IATA Cargo Work Groups, helping set standards for the industry. As a founding member and staunch supporter of Cargo 2000, we were one of the first carriers to take part in the E-Freight pilot program, and remain committed to programs such as CASS.

Moreover, as our industry struggles to bounce back, forums such as today's are essential - where we can discuss industry issues on a global basis. We are very supportive of IATA as we continue to face new challenges in our industry, such as developing common standards for security screening, customs clearance and improving the industry's environmental performance. It is neither acceptable nor practical for broad brush regulatory measures requiring 100% screening of cargo goods to be adopted without due consideration or consultation with the industry.

This industry is too fragile and the recovery is too uncertain for that.

Leadership is needed to ensure that the progress made to date by the cargo industry will not be demolished in an over –reactive knee jerk fashion. I hope that solutions will be identified in the coming days.

At Air Canada Cargo, our objective is to operate at industry leading levels of safety, reliability and efficiency. We compete not only with other airlines but with other modes of transport. Therefore, Air Canada Cargo’s contribution to building a more sustainable Air Canada will come from the revenue side as we see opportunities to increase sales, better optimize our network and develop new markets.

But I am not here today to give you a history lesson on Air Canada, or our cargo DNA but to share with you how we at Air Canada are tackling the enormous industry challenges – from survival to profitability. How we are in effect orchestrating our own “Bounce Back” and “Rebuilding for the Future”. I will then say a few words about my views on leading sustainable organizational change.

Throughout the early part of last year, Air Canada was making the news quite regularly - Like most carriers in the airline industry, we were facing severe financial challenges and our very survival was at risk.

While I could use all my time explaining our predicament last year, I think I will, as we like to do in our industry, give you the view from 30,000 feet - but I promise to avoid all “turbulence” jokes.

First, as you well know, the global airline and air freight industry suffered a severe whiplash as fuel soared to US\$147 a barrel (and jet fuel to above \$180 at times) and then back to US\$40 during 2008. While Air Canada was partially hedged, the fuel spike added some \$866 million in unexpected costs and severely weakened our balance sheet going into 2009.

This overlapped with the onset of a global recession that stubbornly and very deeply persisted well into 2009. Our hosts from IATA said 2009 saw the largest ever post-war decline in air passenger demand.

Moreover, as this audience is painfully aware, freight traffic experienced a full-year decline of more than 10 per cent, setting the industry back 3 ½ years in terms of volume. Revenue was down 25-to-30 per cent over 2008.

With the economic downturn, 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. The combination of a 40% drop in equity markets in 2008, coupled with historically low long-term government bond rates, created, on paper, a massive pension fund deficit which would have saddled us with an unmanageable pension deficit funding payments the Company. And layered on top of all this was the expiry of Air Canada's major collective agreements. We had a firm deadline for all of this to be resolved – in one way or another – by the end of July - and I started at the beginning of April – in fact on April Fool's Day.

It was immediately clear to the leadership team that we had *one* common, overarching goal – that of preserving the company. While our numerous stakeholders often conflicting interests had to be reconciled, they were a secondary consideration.

This was quite a task given the number of players involved - our 33 million customers, 26,000 employees, nearly 25,000 retirees, thousands of shippers, suppliers, the travel trade, business partners, creditors, shareholders, unions and even the federal government.

During a media interview here in Vancouver last summer, I used the analogy of a Rubik's cube to describe our environment. We were faced with multiple issues and none could be solved unless all were solved. We could not get additional funding without labour stability. We could not get labour stability without a pension solution. We could not get a pension solution without the funding. You get the picture.

To my mind, effective leadership in crisis situations requires above all clarity – in both communication and execution. State it simply and then break it down into a series of smaller bite-sized tasks. This helps those looking for direction to understand what needs to be done and their part in it. It fosters teamwork and confidence.

Because everyone realizes you have a plan and a solution seems achievable.

Then, when you make a commitment – under-promise and over-deliver.

Establish your credibility by delivering on what you have said you would do.

Next, we prioritized the tasks and plowed ahead without letting up until the job was complete. In our case, because of the shortage of time and the need for unanimity amongst our various stakeholders, we had to attack all the issues simultaneously. We could not wait for one phase to be complete before getting on to the next. And while, we did not relish failure at any stage, we did not fear failure. And we maintained enough flexibility to ‘bob and weave’ if any stage failed to deliver what we expected.

Just as with a Rubik’s cube we began working all sides of the problem at once. 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 unions on a cost neutral basis. Albeit conditional on each other’s arrangements, on certain savings from key suppliers, on funding and on a pension deal.

When we faced a roadblock with one of the unionized groups, we worked around their concerns without losing momentum. We got suppliers and partners to rework and improve rates to be market competitive or to extend contracts. We got the Government of Canada to ratify a joint company-union agreement to reschedule pension deficit payments, through a change to our pension funding regulations.

With these arrangements in place, we announced – on July 29, 2009, two days before the mandatory deadline - that we had raised \$1.02 billion from a diverse group that included our major shareholder, several key business partners and other lenders and stakeholders.

It was a process undertaken at warp speed, involving many late nights, but we had lived to fight another day. The speed with which this came together was breathtaking and shocked the many nay-sayers in the bleachers. But this was the first step in our “Bounce Back” – stability- and it gave us some time to start on a more permanent transformation.

Another important factor in our re-building for the future was maintaining the public's and our employees' confidence. This was essential to protect future bookings and shipments. Throughout this period we continued to announce new routes and product enhancements to convey the fact it was not only "business as usual" at Air Canada but a new and improved "business as usual" – one focused on improved levels of customer care, of senior executive involvement, of front line employee empowerment. We also communicated frequently with our employees using both conventional and unconventional media, such as Youtube to get at our employee workforce who travel worldwide, or our "Creative Juices" web portal which encourages employees to share ideas with each other in their respective areas.

I myself travelled throughout the country meeting major customers, agencies, consolidators, partners and media. This gave me the opportunity to explain directly to our key customers and stakeholders what the company was doing and why we were certain of success.

From a leadership perspective the most important thing is that we were able to enunciate a common goal. We quickly established that every financial stakeholder's paramount interest was the survival of our company. This was the binary decision, survival or not. By articulating clearly defined outcomes, we got these diverse stakeholders to move in the same direction. Despite their unique interests, we crafted solutions that met their particular needs.

We developed trust with everyone involved because – simply put – we did what we said we would do – usually with the under-promise/over-deliver mantra. Such trust is not built overnight but is based on the continual process of engagement and the ability to convince people you have a plan to achieve goals that are demonstrably in everyone's interest.

As is well known, success will always breed success. We have definitely turned a corner and we are “bouncing back”. Early evidence of this came in October when we announced an equity financing of \$260 million. Where in spring a deathwatch had congregated, by the fall we were attracting new equity!

If in April someone suggested that could happen by October, I would wonder what medication they were taking – and might have sent them for anti-doping tests

This year, with our financial situation now stabilized, we can focus on the real transformation that needs to occur so as to properly “rebuild” for the future. The first element is our Cost Transformation Program (CTP) aimed at achieving \$500 million in annual savings and unit 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 passenger or Cargo experience. Transformation is much more than cost reduction. It means technology. It means different processes. It means employees doing different jobs. It means greater productivity. It means that despite being a big company, we will behave much more like a smaller entrepreneurial one. We will need to implement new partnerships, new ventures, new relationships and our Cargo team present here today is open for business.

The second element entails playing to our strengths and building on our position as one of the world's leading international carriers. I always find it telling that Canada is 36th in terms of population among the world's countries but Air Canada is the 13th largest airline in the world. We similarly punch above our weight in terms of cargo.

We therefore plan to take advantage of Canada's excellent geographic position, the array of bilateral authorities we enjoy, the relationships we have with other carriers and our consolidated state of the art facilities. Our cargo terminal in Toronto handles approximately 500,000 kilograms of cargo daily. At nearly 300,000 square feet, the warehouse space is equivalent to five American football fields, or, for non-North Americans, the metric conversion equivalent of four soccer fields. It offers cool storage, freezers, truck interface transfer and 42 truck doors.

Our goal is to build an international powerhouse and to this end, and despite the enormous challenges of last year, we have already announced four new major international destinations for this summer – Brussels, Copenhagen, Athens and Barcelona. Our expanded network will obviously open new opportunities for our cargo division.

The third transformation driver towards our Bounce-Back will be a concerted focus to improve the “quality” of our revenues and to re-engage with customers, whether they are passengers or freight shippers.

For Air Canada Cargo, this will mean the adoption of new business tools, such as the E-Freight initiative to reduce our customers’ paperwork and costs. Just like on the passenger side, we are also re-engaging with cargo customers through new products. Last summer we became the first approved carrier in North America to carry the Envirotainer RKN e1 container, which allows for the maintenance of temperatures between plus-two and plus-25 degrees Celsius.

From the customer perspective, we are already seeing positive changes flowing from the renewal of our fleet, which was particularly significant for our cargo operation. Our 18 Boeing 777s have incredible cargo capacity, each carrying up to 30 tonnes.

To complete the transformation will require overcoming what I consider the 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. Arguably, this is most important aspect of our transformation of all because a corporate culture provides the foundation and sets the tone for everything that you do.

As a 72 year old former Crown corporation, some think this is not achievable. However, with the right drivers – both in terms of people and tools - Air Canada can absolutely become a more entrepreneurial and nimble company, a place where employees act as if they are owners. A place with a "Just Do It" culture, where things happen much more quickly without countless committees and white papers. A place where managers become leaders; where employees are ambassadors.

This sort of re-building requires a grass-roots commitment. We have launched a number of employee engagement and empowerment initiatives including a web portal called Creative Juices, where employees can suggest and discuss new ideas and where managers are obliged to respond.

So, what lessons can be drawn from our experiences in meeting the challenge to “Bounce Back” and “Rebuild for the Future”?

While every situation, every company and each challenge is unique, I would suggest there are some common themes on leading change, especially during times of crisis:

- Make a plan and stick with it
- Present the alternative to stakeholders simply with clarity as to the consequences of each course of action
- Expect success but model (and do not fear) failure – have a viable Plan B, C, D and E if Plan A does not work
- Keep your customers engaged, enthusiastic and supportive by proactively improving – by under-promising and over-delivering

- Do not hide – it is tempting to hide but much better to be present – at the highest levels of leadership in front of creditors, shareholders, analysts, prospective lenders, customers, distributors, unions, employee groups, middle management, industry groups
- There is no substitute for great communications with all stakeholders, all the time – use the new tools available through the internet, whether YouTube, Blogs, social networking, whatever works.
- Create an employee brand that strives towards empowerment and trust
- Transformation cannot only mean lowering costs -that is too facile – it must include permanent changes in processes, systems, interactions with customers, employees and suppliers
- Recognize your strengths and play to them – in our case, international growth and premium revenues – make that known and make it happen
- Accept the premise that if things go right 80% of the time, that will be pretty good for now. Lots of great plans fall apart when someone goes for that last 20% and loses it all.

By way of conclusion, I share your cautious optimism that the air freight industry is gaining traction. We have indeed detected some improvement on the cargo front but no one is spiking the ball in victory just yet.

While the industry had a full year decline of more than 10% in 2009, in fact in the fourth quarter our cargo traffic was up 25 per cent year-over-year. Cargo traffic trends are continuing in the same positive vein this year, although yields remain very depressed.

Like everyone we are anxiously watching for further evidence of sustained improvement. One way we can maintain that momentum is through a symposium such as this where ideas can be exchanged and turned to the greater good of our industry. Thank you for taking time to listen to me and I wish you all a successful conference and an enjoyable stay in this beautiful city.