

Notes for
Robert A. Milton
President & Chief Executive Officer



AIR CANADA

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Toronto

Good afternoon. It's a pleasure to be here with you today.

I want to start with some words which you've probably heard at 35,000 ft, but are worth repeating on the ground. In case you're starting to get worried, please rest assured that I'm not going to tell you what the scenery is like on the right-hand side of the room.

Nor am I going to point out the exits – although some of you may regret that later! The phrase I'm thinking of comprises just six words and they are:

"Thank you for choosing Air Canada"

At this point in our history, that phrase probably means more to us at the airline than ever before. It would be an understatement to say that we ended last year with mixed results. The year 2000 was exceptionally challenging for Air Canada.

It seemed every day brought some kind of change to our operation. It was a year of transition which wasn't even on our radar screen back in 1999. We certainly didn't plan on it and you certainly didn't count on it.

But it was also a year when we accomplished what it takes most companies several years to do. We completed our acquisition of Canadian Airlines and brought stability to a company which was on the verge of bankruptcy.

Yet, in the face of all these challenges,

Air Canada was named the Best Managed Airline in North America by Aviation Week and Space Technology Magazine and the Safest Airline in the World by our peers.

The continued support of thousands of our customers kept us going in 2000 and it has fuelled our commitment to continue the job of improving our service and building a new airline presence in Canada.

With that in mind, I want to take this opportunity to tell you what you can expect from Air Canada and the airline industry in 2001.

The airline business is a tough business. We are slaves to so many factors entirely outside our control. From weather to wars, our industry is not for the faint of heart. A recent Merrill Lynch report on the industry described it as "cyclical, intensely competitive and mature" and they could not have been more right.

Airlines are capital intensive; highly unionised, tremendously susceptible to fuel price swings and are highly regulated. Given all these factors, it's a wonder that so many of us love this business and even more are trying to get in.

The coming year is bound to be filled with tremendous challenges. It seems that every airline CEO from any airline in the world can begin any speech with those words. We are facing two curves this year.

One is the economic curve which requires us to make important, timely decisions about the economy and how to best manage our business in the face of a potentially-worsening slowdown.

The other curve is the learning curve which we are facing as we enter into Year Two of a restructured airline industry.

That also requires some important and timely decisions which affect the airline and its customers, and I feel it's important to share that perspective.

On the economic side, it's impossible to appreciate the progress which we have made since Canadian Airlines joined us, unless you look at the "what if" scenario - a scenario which could easily have made the year 2000 the darkest year in Canada's airline industry history.

I'm talking about a scenario where 16,000 airline workers at Canadian Airlines lose their jobs in one day.

Where a major airline simply runs out of money, leaving Canadian suppliers on the hook.

Where hundreds of thousands of passengers across the country are stranded.

Or where millions of dollars in taxpayer's money are used for another industry bailout.

That's a scenario none of us wanted to see. And, fortunately, it didn't happen. The federal government, to its credit, took decisive steps to explore all other options.

Air Canada put forward an option.

It was an option to save jobs, keep Canadian Airlines running, keep passengers in the air and restructure the industry to be sustainable and profitable. This option prevailed. Then it was up to us to make it happen.

That was the cue for an extremely ambitious and rapid integration.

Rapid - because Canadian was losing

\$2 million dollars a day. Ambitious - because of the sheer size of the task.

Most mergers don't work.

Airlines, in particular, have been screwing up mergers since 1903 when two brothers named Orville and Wilbur got together. Ever since then, airline analysts have been saying that two Wrights made a wrong.

Of course, our situation in 2000 was no bowl of cherries either.

Air Canada and Canadian Airlines both have a long and distinguished history in this country.

We have spent six decades as vigorous – and generally destructive - competitors. How on earth would we turn that around?

First and foremost, we worked together to protect the jobs of 16,000 airline workers in communities across the country, who would otherwise be out of a job today.

Even against the background of recently announced job cuts, we have still succeeded in protecting 45,000 jobs.

In 2000, we also accomplished a lot of the groundwork needed to integrate two major airlines. Canadian's reservations, seat inventory management, flight, employee and maintenance scheduling and frequent flyer program moved to the Air Canada platform and are now operated in Canada.

Here, in Toronto, we merged Canadian and Air Canada's entire operation at Terminal 1 and Terminal 2.

We continued to negotiate with our unions to bring Canadian and Air Canada labour agreements in line, most notably with a breakthrough agreement with the CAW. This enabled us to significantly improve our customer service at airports and call centres with an integrated staff.

Along the way, we had our share of criticism from many stakeholders.

There's no question that there were a number of obstacles and challenges as we integrated two different companies and cultures. Last summer we launched our 180-day commitment to improve service to our customers.

Customers have since told us we did succeed in making improvements during that campaign. We succeeded in reducing waiting time at the airport and on the phone, in speeding up check in, improving baggage handling and fixing other hassles.

There are still some issues which we are dealing with at Aeroplan but those issues involve the program acquiring two million new members who have a lot of questions overnight and so are short term and will be resolved in the coming weeks.

Our goal moving forward is to continue improving this year against a backdrop of rising fuel prices and a sluggish economy.

Our results for 2000 bring home the impact of the economic slowdown.

Removing the one time costs associated with the integration on Canadian and the impact of higher fuel prices, our operating income would have been 793 million dollars – fully 417 million higher than 1999 our previous all-time high.

This is a clear indication that the two airlines are stronger together, than apart.

Of course, like all businesses, we are now working against a backdrop of an economic slowdown. The airline sector is a bellwether of tough times. I guess that's why they talk about 'hard landings' and 'soft landings'. We want a smooth landing. We have to be prepared to move fast and stay ahead of the curve as the economy changes and we are!

There was a lot of hand wringing after Air Canada issued its profit warning in late December.

The timing is never ideal for this kind of an announcement, but it was necessary. It's ironic that these days, it takes Alan Greenspan to make me feel good about doing the right thing. Chairman Greenspan confirmed our economic assessment and the need to make tough decisions.

Economic conditions have necessitated a 6 per cent domestic price increase related to rising fuel costs. That's our first since November 1999.

The slow economy means fewer people are flying, so we need to adjust capacity accordingly. That means reducing our former growth plans to zero, retiring some of our older, less efficient aircraft and ensuring that we have the right aircraft serving the right markets. This is also the right time to act on

the staff reductions which we had'already planned – and announced - as part of the integration process.

But let me assure you that fewer employees will not mean less service. We now have key union agreements in place and new IT systems which have freed up employees to serve customers more efficiently.

The official integration of Air Canada and Canadian is almost complete. And this also means that the market dynamic has changed. We used to have two major airlines in what can only be described as a government mandated “duopoly”.

The government deserves credit for discarding it's long held “two airline policy” which prevented true competition from taking place.

As we have seen in recent months, when left to its own devices, the market has a tremendous ability to respond. Several existing airlines have already expanded their services and new carriers are joining the fray.

And, let's remember that this is still an industry in transition.

Just last week, Canada 3000 and Royal announced a merger. This is a reflection of competitive forces at play. I believe it's just one indication that the marketplace is reacting in a way that will provide consumers with the competition they want.

It could be the signal for other consolidations, more new entrants in the market or existing carriers may see this as an opportunity to expand.

This is just the first chapter of the competition story in Canada, not the epilogue.

And the transition is not just confined to Canada. Across the border, we're seeing similar moves towards industry consolidation. It all began with the bold proposal by our Star Alliance partner, United Airlines, to merge with US Airways.

In response, American Airlines felt it necessary to propose an acquisition of TWA and now there are rumblings of a move by Delta with either Northwest, Continental or even both.

These moves, counter moves and counter-counter moves show an industry very much in flux. But one thing is certain, the issues United, American and

the others will face will be very similar to the Air Canada story. As I read the papers nowadays and see how they're going about things, its clear, they're using our playbook!

For example, the American Airlines proposal to acquire TWA has some striking similarities to the Air Canada proposal: to acquire Canadian dealing with creditors, running it through bankruptcy court, restructuring debt, integrating the airlines and dealing with the unions. When I hear Senator Jean Carnahan say that she views "this not as a merger but as a rescue mission", it makes me wonder which merger she has in mind.

While the final outcome for any of these transactions is far from decided, it is clear that the U.S. airline industry will be far different from the one we know today.

So where does Air Canada fit in to this brave new world?

Competition is alive and well. For about the price of a tank of gas and lunch at Tim Horton's, ' you can now fly to Montreal.

The fact is there are more choices for Canadian consumers than ever before and Air Canada is now being challenged by a new generation of airlines which

didn't even exist a few years ago.' And we have every intention to remain competitive not just in terms of price but also in terms of service. And just don't make an assumption we're more expensive, check our fares.

As we head into 2001, we realize that this industry must work hard at building consumer confidence in our ability to offer value, choice and selection. It must work equally hard at finding the best way to balance consumer interests with financial-sustainability for airlines – airlines which you can depend on for the long haul.

For far too long, Canada's airline industry has under-performed not just for shareholders but also for employees and consumers. We now have a unique opportunity to get things right.

At Air Canada, we will achieve that goal by sticking with some basic principles that are worth repeating.

Air Canada was, is, and always will, be safety.

Air Canada will continue to listen to its customers and provide the best service possible.

And Air Canada will support free market competition and choice in air travel.

It's going to be a tough year but we are confident that Air Canada has taken the right steps at the right time to ensure a smooth landing which will weather the economic downturn and deliver the benefits of a secure and viable international carrier.

In short, we are prepared for the worst, but expecting the best – which is no less than our customers deserve.

Thank you for giving me this opportunity to share some thoughts with you.

In keeping with the same spirit as my opening remarks, I would ask you to please remain seated until my speech has come to a full and final stop. I would also ask you to please exit from the back of the room and remember to take all your personal belongings with you. And, most importantly, thank you for choosing Air Canada.