New Business Models for Network Carriers

MIT Airline Industry Conference

April 8, 2003

Washington, D.C.

Rupert Duchesne

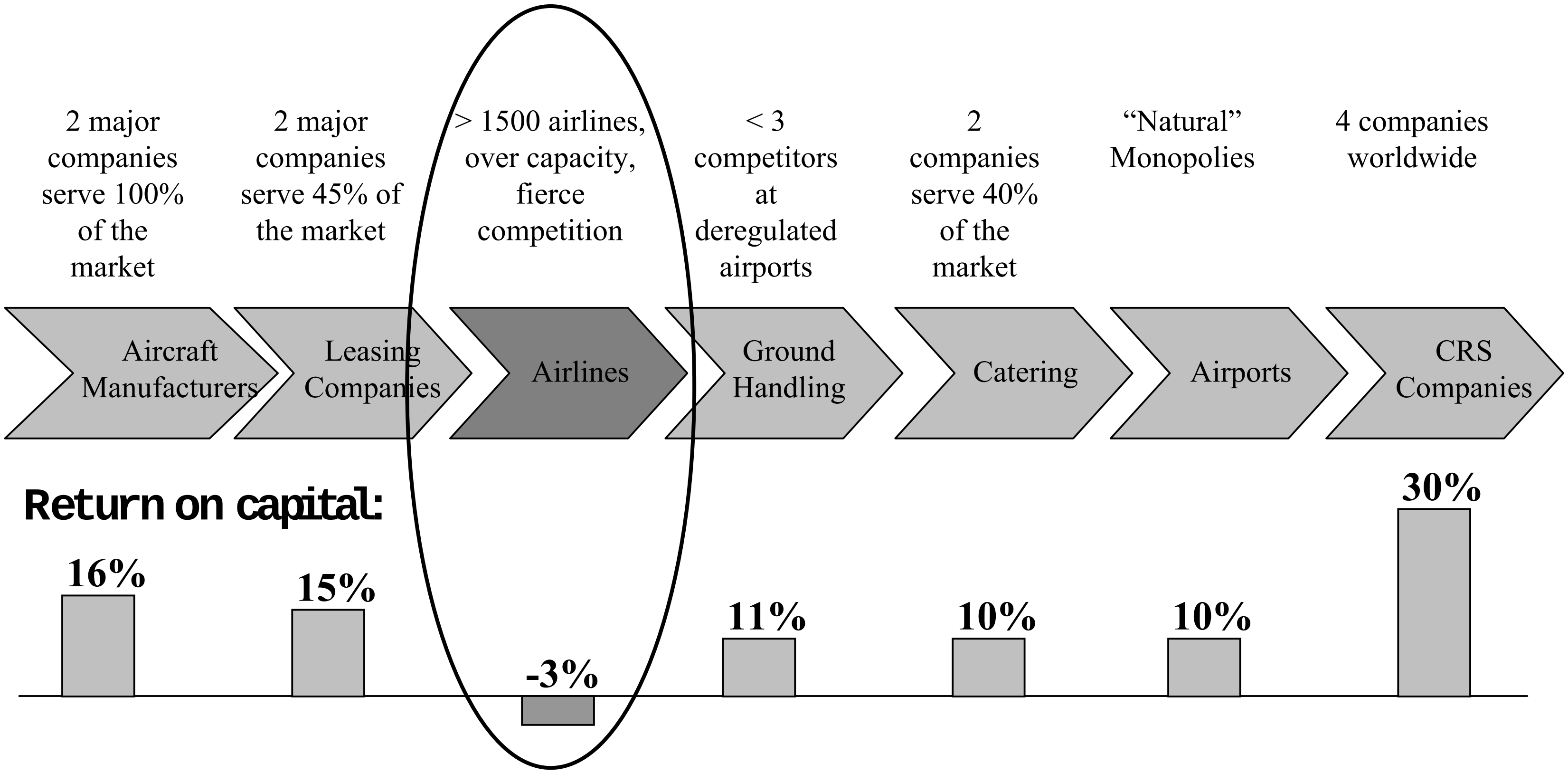
President and CEO

Aeroplan Limited Partnership

The Problem …

Return on capital of providers in value chain

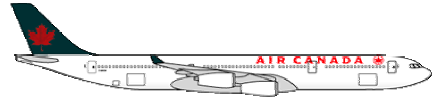
Revenues will not come back, even if the economic situation picks up



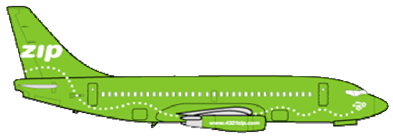
… and it’s not surprising there is a problem

- Low barriers to entry
- High barriers to exit
- High capital costs
- High fixed costs
- Significant governmental constraints
- High labour bargaining power
- Transparent pricing/immediate access
- Movable assets with low cash variable costs
- Perishable asset
- High profile in consumer consciousness
- “Positive” response to economic cycle “boom & bust”

The Air Canada Answer

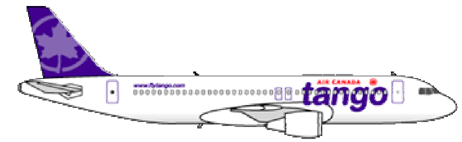


AIR CANADA



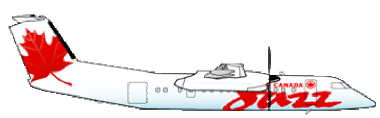
zip

AIR CANADA Cargo

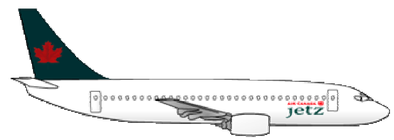


AIR CANADA tango

Destina.ca



AIR CANADA jazz



AIR CANADA jetz

AIR CANADA vacations

Aēroplan

AIR CANADA technical services

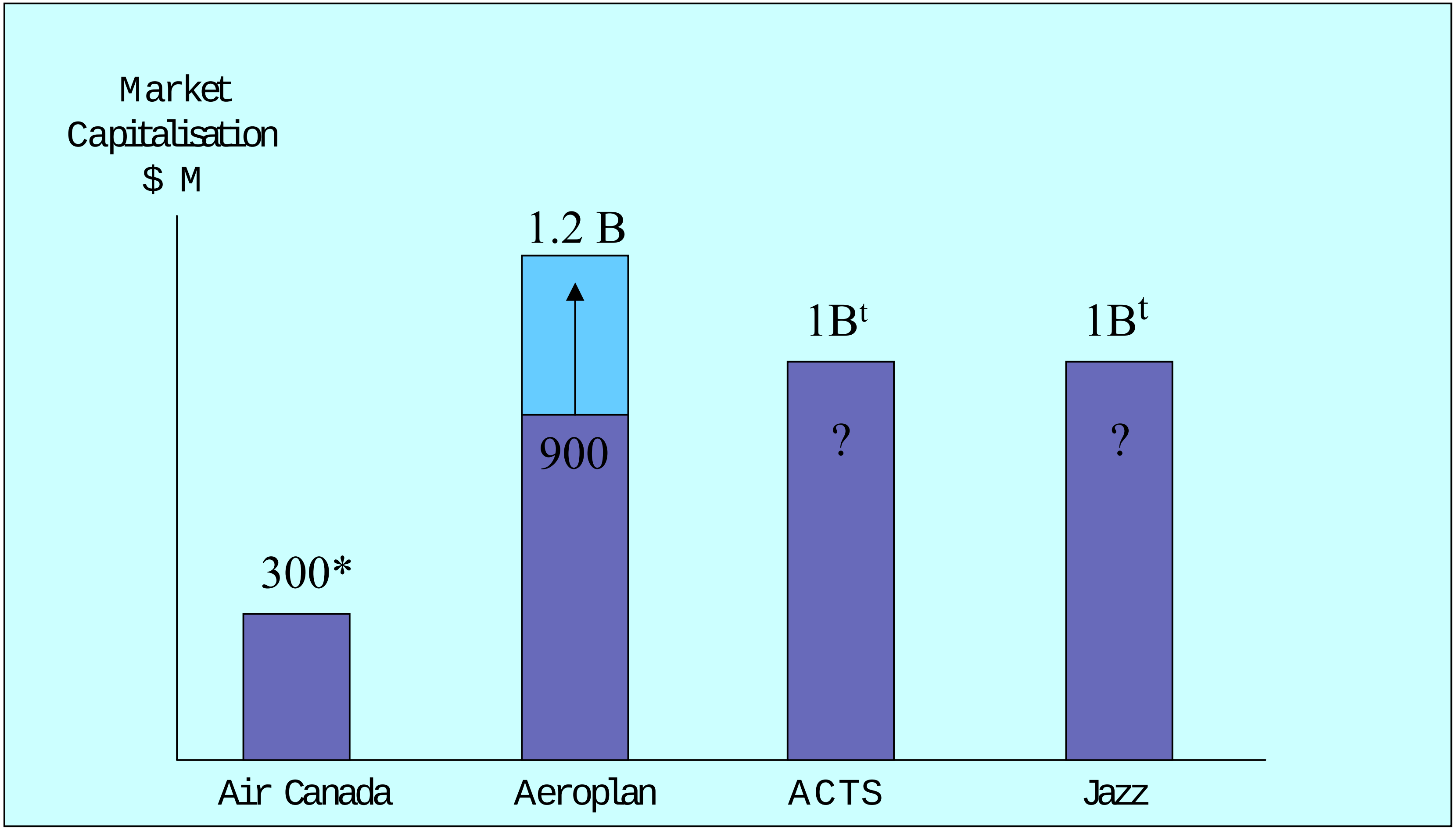
- Post restructuring: Air Canada Enterprises – AC Ground Handling plus more …

New Air Canada products launched to address industry evolution away from full service offering

- Tango (Oct. 2001)
  - Sub-brand to main line
  - Web/Call Centre only
  - All Economy configuration
  - Pay on booking, no refund
  - No interline (even AC)
  - Seasonal capacity
  - 25 A320 in 2002
  - Pay as you go
  - Mainly medium & transcon
  - Main line union agreements

- ZIP (Sept. 2002)
  - Separate subsidiary
  - Own workforce (unionised)
  - Better productivity
  - Competitive pay
  - Low cost, no frills model
  - Replaces main line flying
  - Codeshare/interline
  - 20 B737 (max)

The Market Capitalisation of the Air Canada family is significantly higher when expressed as discrete business units.



* Closing price March 28, 2003

[t]independent analyst comments Q1/03

The evolution of Network Carriers requires a keen focus on the core business within the new industry parameters.

Why Subsidiaries?

- Defined Market
- Stable Revenue
- Management focus
- Investors to suit opportunity

What about the core?

- Scale to meet demand
- Focused pressure on key cost drivers
  - Labour
  - Infrastructure
- Rethink Network Flow
  - Simplify pricing
  - Change hub dynamics
  - Alliance leverage