

# AIR CANADA

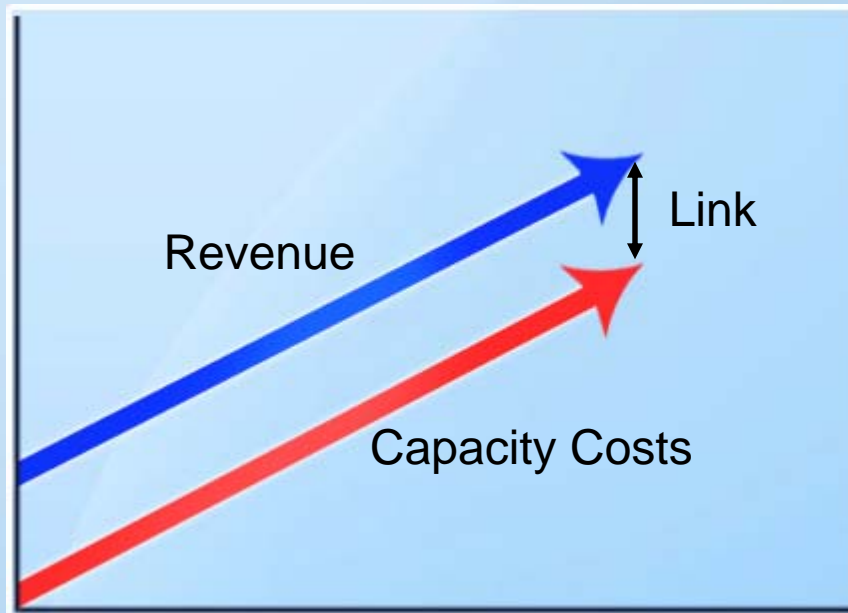


**Montie Brewer, President and CEO**

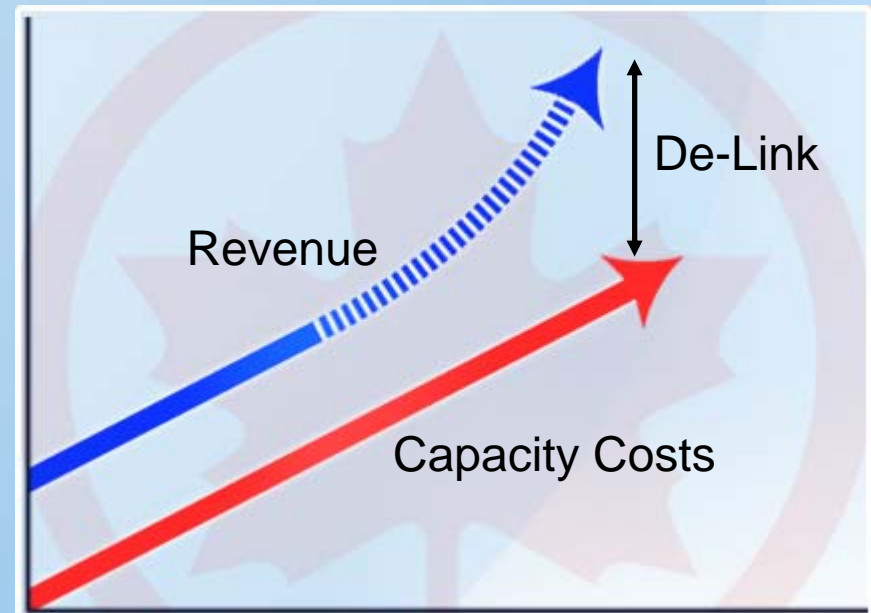


# Changing the Game - The De-Linking Paradigm

## Old Way



## Our Way



# Changing the Game

## *Old Way*

**Lack of Trust**

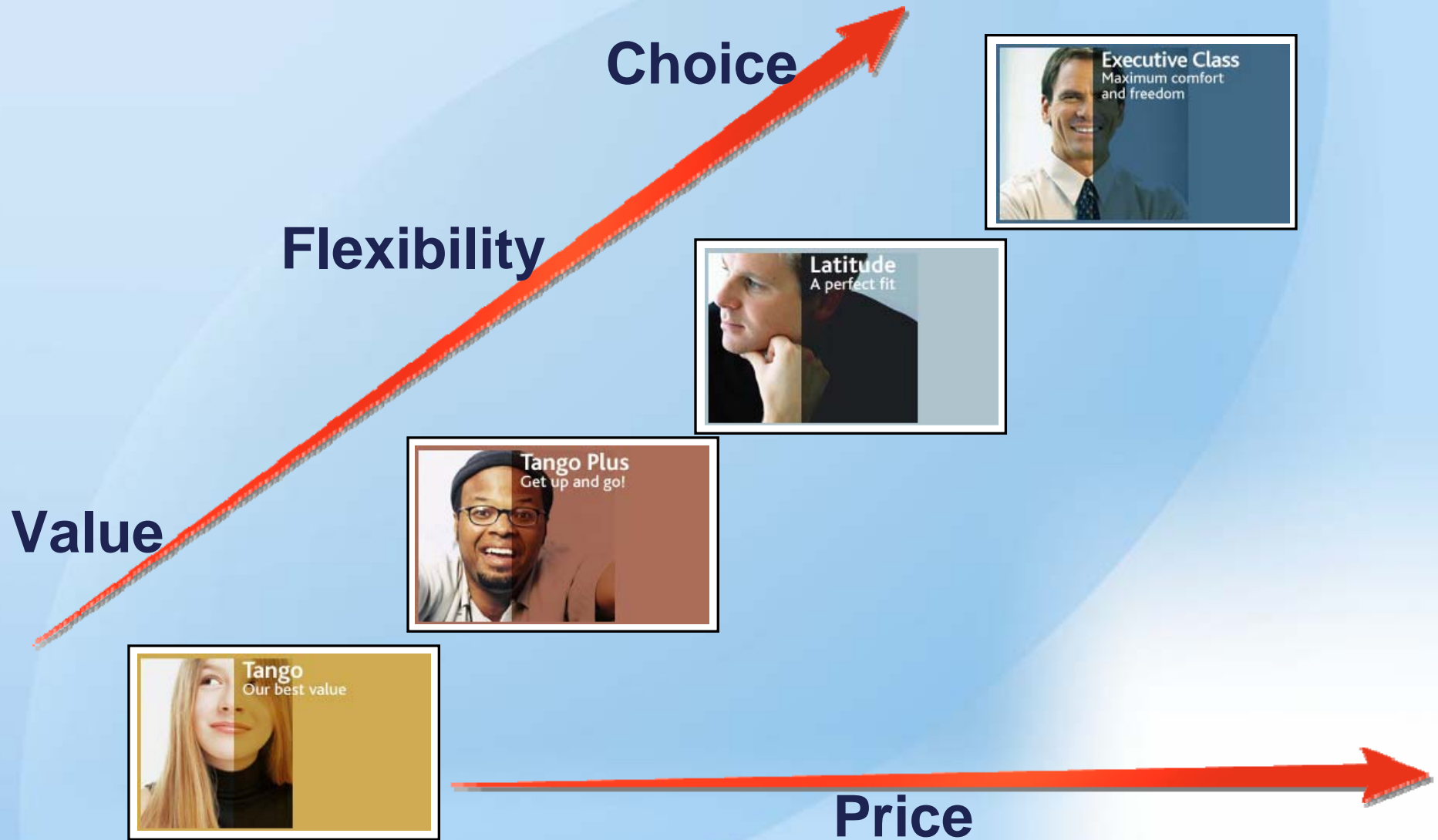
- ❶ What is being sold: travel from A to B
- ❷ Complex pricing - rules, rules, rules
- ❸ Hidden information, choices unclear

## *Our Way*

- ❶ What is being sold: *How* one wants to travel from A to B
- ❷ Product very differentiated:
  - Tailored to individual choice
  - Clear link between price and value
- ❸ Transparency and trust are guiding principles

**Loyalty**

# Simplified Fare Products



# Simplified Fare Products

	 Tango	 Tango Plus	 Latitude	 Latitude Plus	 Executive Class
ANYTIME <sup>1</sup> CHANGE FEE* <small>*Except Same Day</small>	\$40 <small>PLUS ADDITIONAL FARE DIFFERENCE</small>	\$40 <small>PLUS ADDITIONAL FARE DIFFERENCE</small>	\$0 <small>PLUS ADDITIONAL FARE DIFFERENCE</small>	\$0 <small>PLUS ADDITIONAL FARE DIFFERENCE</small>	\$0 <small>PLUS ADDITIONAL FARE DIFFERENCE</small>
FLAT FEE FOR <sup>2</sup> SAME-DAY CHANGES AT THE AIRPORT	\$150 <small>NO CHARGE FOR FARE DIFFERENCE</small>	\$50 <small>NO CHARGE FOR FARE DIFFERENCE</small>	\$0 <small>NO CHARGE FOR FARE DIFFERENCE</small>	\$0 <small>NO CHARGE FOR FARE DIFFERENCE</small>	\$0 <small>NO CHARGE FOR FARE DIFFERENCE</small>
AEROPLAN <sup>3</sup> STATUS MILES FOR FLYING WITH US	50% <small>NON-STATUS MILES</small>	100%	100%	100%	150%
AEROPLAN MILES FOR EVERY DOLLAR SPENT ONLINE	1 for \$3	1 for \$2	1 for \$1	1 for \$1	1 for \$1
ADVANCE SEAT SELECTION FEE	\$15	\$0	\$0	\$0	\$0
ELIGIBLE FOR UPGRADE TO EXECUTIVE CLASS WITH CERTIFICATE		 <sup>6</sup> <small>APPLICABLE IN SOME CASES</small>			NOT APPLICABLE
FULL REFUND					
PRIORITY SERVICES				 <sup>5</sup> <small>PRIORITY CHECK-IN &amp; BAGGAGE</small>	 <small>PRIORITY CHECK-IN, BAGGAGE &amp; BOARDING</small>
MAPLE LEAF LOUNGE ACCESS				 <sup>5</sup>	
COMPLIMENTARY SNACK AND SANDWICH					

# Simplified Fare Products

<p><b>MOVE UP TO A WHOLE NEW LEVEL OF CHOICE AND FLEXIBILITY!</b></p> <p> Optional attributes you can add or remove from your fare</p> <p> Attributes included in your fare</p>	<p><b>TANGO</b></p>  <p>Our best value</p>	<p><b>TANGO PLUS</b></p>  <p>Get up and go!</p>	<p><b>LATITUDE</b></p>  <p>A perfect fit</p>	<p><b>EXECUTIVE CLASS</b></p>  <p>Maximum comfort and freedom</p>
	<p>MOVE UP TO TANGO PLUS FROM AS LOW AS</p> <p><b>\$30</b> AND BENEFIT FROM THESE FEATURES</p>	<p>MOVE UP TO LATITUDE FROM AS LOW AS</p> <p><b>\$80</b> AND BENEFIT FROM THESE FEATURES</p>	<p>MOVE UP TO EXECUTIVE CLASS</p> <p>MOVE ALL THE WAY TO THE TOP OF COMFORT AND CONVENIENCE</p>	
<p><b>Advance seat selection</b> </p>	+\$15			
<p><b>Baggage check-in allowance</b></p>	2	2	2	3
<p><b>Air Canada Status Miles<sup>10</sup></b></p>	50% non-status Aeroplan <sup>®</sup> Miles	100%	100%	150%
<p><b>Aeroplan Miles for every dollar spent when booking online<sup>11</sup></b></p>	1 for \$3	1 for \$2	1 for \$1	1 for \$1
<p><b>Optional Discounts</b></p>				
<p><b>Savings if you have no bags to check</b> </p>	-\$5	-\$5	-\$5	
<p><b>Savings if you choose not to earn Aeroplan Miles</b> </p>	-\$3			
<p><b>Savings if you accept, prior to departure, to make no itinerary changes or cancellations<sup>12</sup></b> </p>	-\$7			

Choices and confirming what is purchased.

7

## Customize Your Departing Flight



[Skip customization](#)

### 1 Select your departing flight options

From: **Montreal, Dorval, QC (YUL)**  
To: Toronto, Pearson Int'l, ON (YYZ)

Fare: **TANGO**



You've selected TANGO for the best travel experience available on a budget.

You can now exercise even more freedom in customizing your flight, so that it reflects perfectly what you want from your travel experience. With 'à la carte' options, decide whether you'd like to save even more, or treat yourself to little extras to make your trip even more memorable.



#### Aeroplan Miles

- No Aeroplan Miles subtract \$3
- Earn 50% Aeroplan Miles (non status) included with TANGO
- Earn 100% Aeroplan Miles (status) and more... [Move up to TANGO PLUS](#)

[Help me choose](#)



#### Advance Seat Selection

- No Advance Seat Selection. included with TANGO
- I want to select my seats in advance. add \$15
- Complimentary Advance Seat Selection and more... [Move up to TANGO PLUS](#)

[Help me choose](#)



#### Checked Baggage Allowance

- No Checked Baggage subtract \$5
- 2 Checked Baggages included with TANGO

[Help me choose](#)



#### Flexibility

- No Change, No Cancellation subtract \$7
- Ability to change or cancel flight included with TANGO

[Help me choose](#)



#### Onboard Meal Voucher

- No Meal Voucher included with TANGO
- Onboard Meal voucher: Pay \$5 for a \$7 value. add \$5  
Applicable for [alcohol/snack/meal](#).

[Help me choose](#)

### 2 Select your returning flight options

- I want the same options for my returning flight.
- I want to select different options for my returning flight (on the next page)

[Return to Flight selection page](#)

**NEXT**



IF ALL WING

# Simplified Fare Display: The Key to Success

## 1 Select departing flight

Day's lowest fare→	<u>Sat</u> 07-Jul \$278	<u>Sun</u> 08-Jul \$278	<u>Mon</u> 09-Jul \$278	<u>Tue</u> 10-Jul \$268	<u>Wed</u> 11-Jul \$268	<b>Thu</b> 12-Jul \$278	<u>Fri</u> 13-Jul \$278	<u>Sat</u> 14-Jul \$278	<u>Sun</u> 15-Jul \$278	<u>Mon</u> 16-Jul \$278	<u>Tue</u> 17-Jul \$268
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From: **Toronto, Pearson Int'l, ON (YYZ)**

To: **Calgary, Calgary Int'l, AB (YYC)**

[Compare our fare options](#)










Op.	Flights	Depart	Arrive	Aircraft	Stops	Connections	<b>Tango</b>	<b>Tango Plus</b>	<b>Latitude</b>	<b>Executive Class</b>
<b>Direct Flights</b>										
	AC107	06:45	08:55	<u>321</u>	0		<input type="radio"/> \$278	<input type="radio"/> \$318	<input type="radio"/> \$548	<input type="radio"/> \$1312
	AC117	07:45	09:55	<u>321</u>	0		<input type="radio"/> \$278	<input type="radio"/> \$318	<input type="radio"/> \$548	<input type="radio"/> \$1312
	AC193	08:30	10:50	<u>319</u>	0		<input type="radio"/> \$278	<input type="radio"/> \$318	<input type="radio"/> \$548	<input type="radio"/> \$1312
	AC171	09:00	11:10	<u>321</u>	0		<input type="radio"/> \$278	<input type="radio"/> \$318	<input type="radio"/> \$548	<input type="radio"/> \$1312
	AC119	10:00	12:10	<u>321</u>	0		<input type="radio"/> \$278	<input type="radio"/> \$318	<input type="radio"/> \$548	<input type="radio"/> \$1312
	AC1153	11:00	13:10	<u>321</u>	0		<input type="radio"/> \$278	<input type="radio"/> \$318	<input type="radio"/> \$548	<input type="radio"/> \$1312
	AC173	12:00	14:10	<u>321</u>	0		<input type="radio"/> \$353	<input type="radio"/> \$393	<input type="radio"/> \$623	<input type="radio"/> \$1312
	AC1155	13:00	15:10	<u>320</u>	0		<input type="radio"/> \$278	<input type="radio"/> \$318	<input type="radio"/> \$548	<input type="radio"/> \$1312
	AC121	14:15	16:25	<u>320</u>	0		<input type="radio"/> \$278	<input type="radio"/> \$318	<input type="radio"/> \$548	<input type="radio"/> \$1312



# Matching Low-Fare Competition

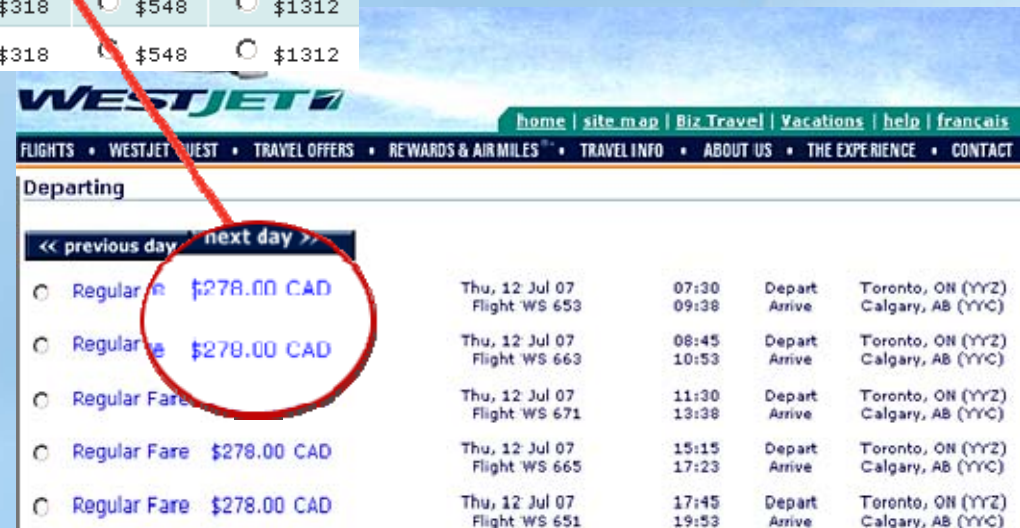
□ Air Canada Will Not Be Undersold



Op.	Flights	Depart	Arrive	Aircraft	<b>Tango</b>	<b>Tango Plus</b>	<b>Latitude</b>	<b>Executive Class</b>
	AC107	06:45	08:55	<a href="#">321</a>	<input type="radio"/> \$278	<input type="radio"/> \$318	<input type="radio"/> \$548	<input type="radio"/> \$1312
	AC117	07:45	09:55	<a href="#">321</a>	<input type="radio"/> \$278	<input type="radio"/> \$318	<input type="radio"/> \$548	<input type="radio"/> \$1312
	AC193	08:30	10:50	<a href="#">319</a>	<input type="radio"/> \$278	<input type="radio"/> \$318	<input type="radio"/> \$548	<input type="radio"/> \$1312
	AC171	09:00	11:10	<a href="#">321</a>	<input type="radio"/> \$278	<input type="radio"/> \$318	<input type="radio"/> \$548	<input type="radio"/> \$1312
	AC119	10:00	12:10	<a href="#">321</a>	<input type="radio"/> \$278	<input type="radio"/> \$318	<input type="radio"/> \$548	<input type="radio"/> \$1312
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*“Air Canada matches us, dollar for dollar on every single fare, every single minute of every single day.”*

**Clive Beddoe**  
President and CEO,  
WestJet



WESTJET

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Departing

<< previous day | next day >>

<input type="radio"/> Regular	\$278.00 CAD	Thu, 12 Jul 07	07:30	Depart	Toronto, ON (YYZ)
		Flight WS 653	09:38	Arrive	Calgary, AB (YYC)
<input type="radio"/> Regular	\$278.00 CAD	Thu, 12 Jul 07	08:45	Depart	Toronto, ON (YYZ)
		Flight WS 663	10:53	Arrive	Calgary, AB (YYC)
<input type="radio"/> Regular Fare	\$278.00 CAD	Thu, 12 Jul 07	11:30	Depart	Toronto, ON (YYZ)
		Flight WS 671	13:38	Arrive	Calgary, AB (YYC)
<input type="radio"/> Regular Fare	\$278.00 CAD	Thu, 12 Jul 07	15:15	Depart	Toronto, ON (YYZ)
		Flight WS 665	17:23	Arrive	Calgary, AB (YYC)
<input type="radio"/> Regular Fare	\$278.00 CAD	Thu, 12 Jul 07	17:45	Depart	Toronto, ON (YYZ)
		Flight WS 651	19:53	Arrive	Calgary, AB (YYC)

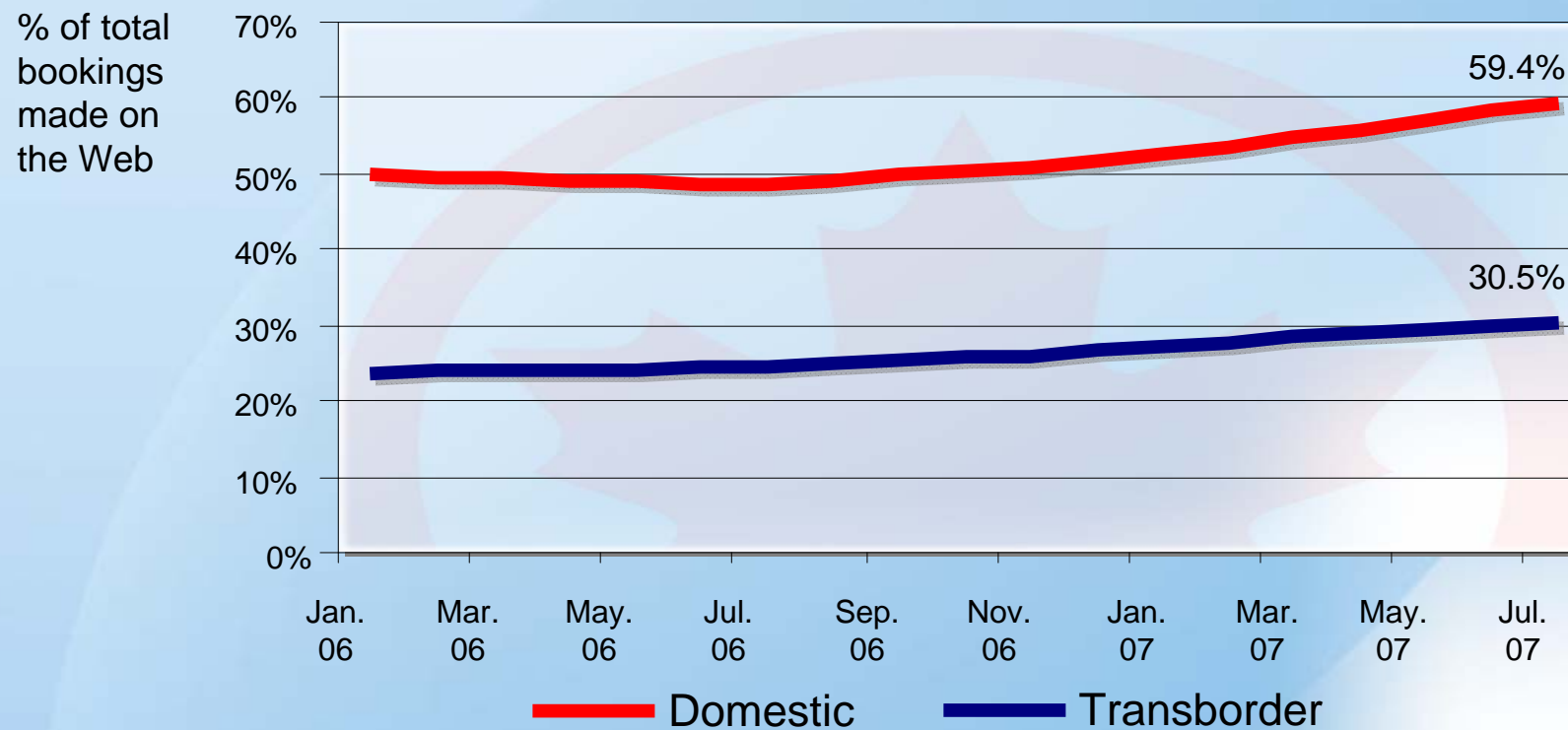
# People will “Buy-Up”

- 🍁 Tango Plus sales increase 39% in Q3, 34% in Q4 year over year
- 🍁 Tango only accounts for 45% of domestic sales in Q4
- 🍁 48% “buy-up”

## 1 Select departing flight

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From: <b>Toronto, Pearson Int'l, ON (YYZ)</b>							To: <b>Calgary, Calgary Int'l, AB (YYC)</b>					
							<a href="#">Compare our fare options</a>					
Op.	Flights	Depart	Arrive	Aircraft	Stops	Connections	<u>Tango</u>	<u>Tango Plus</u>	<u>Latitude</u>	<u>Executive Class</u>		
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🍁	AC121	14:15	16:25	<u>320</u>	0		<input type="radio"/> \$278	<input type="radio"/> \$318	<input type="radio"/> \$548	<input type="radio"/> \$1312		

# Reduced Costs Through Web Bookings



 Benefit: reduction in commissions and variable labour

# The Math Works

Higher average fare

+

Higher load factor

- Buy up for additional features
- Business class
- International feed
- Superior network & schedule

**Our Advantage**

- International feed
- More appropriate aircraft size
- Transborder feed

Higher revenue premium

—

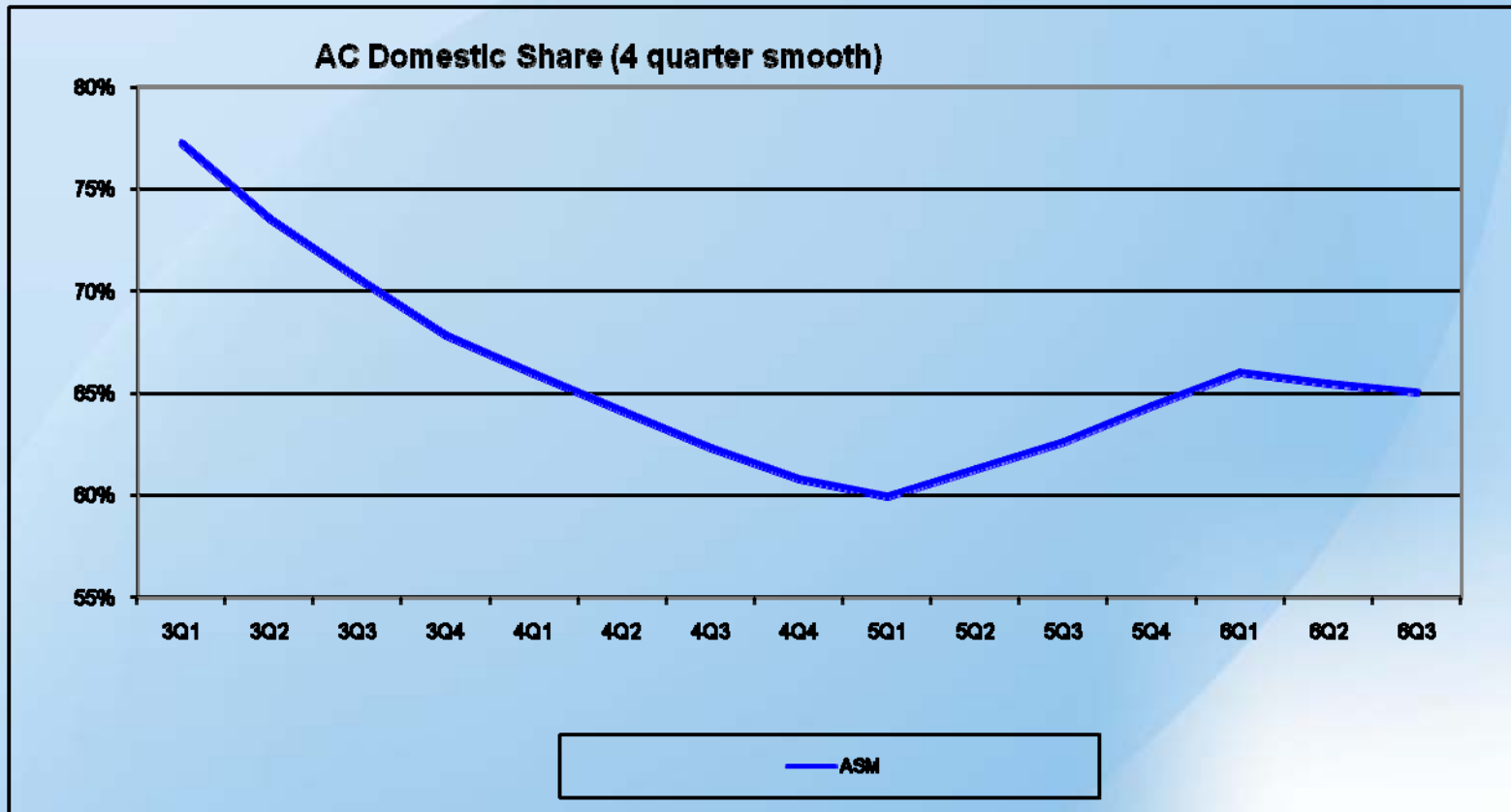
Unit Cost Gap

- Labor
- Single fleet

**LCC Advantage**

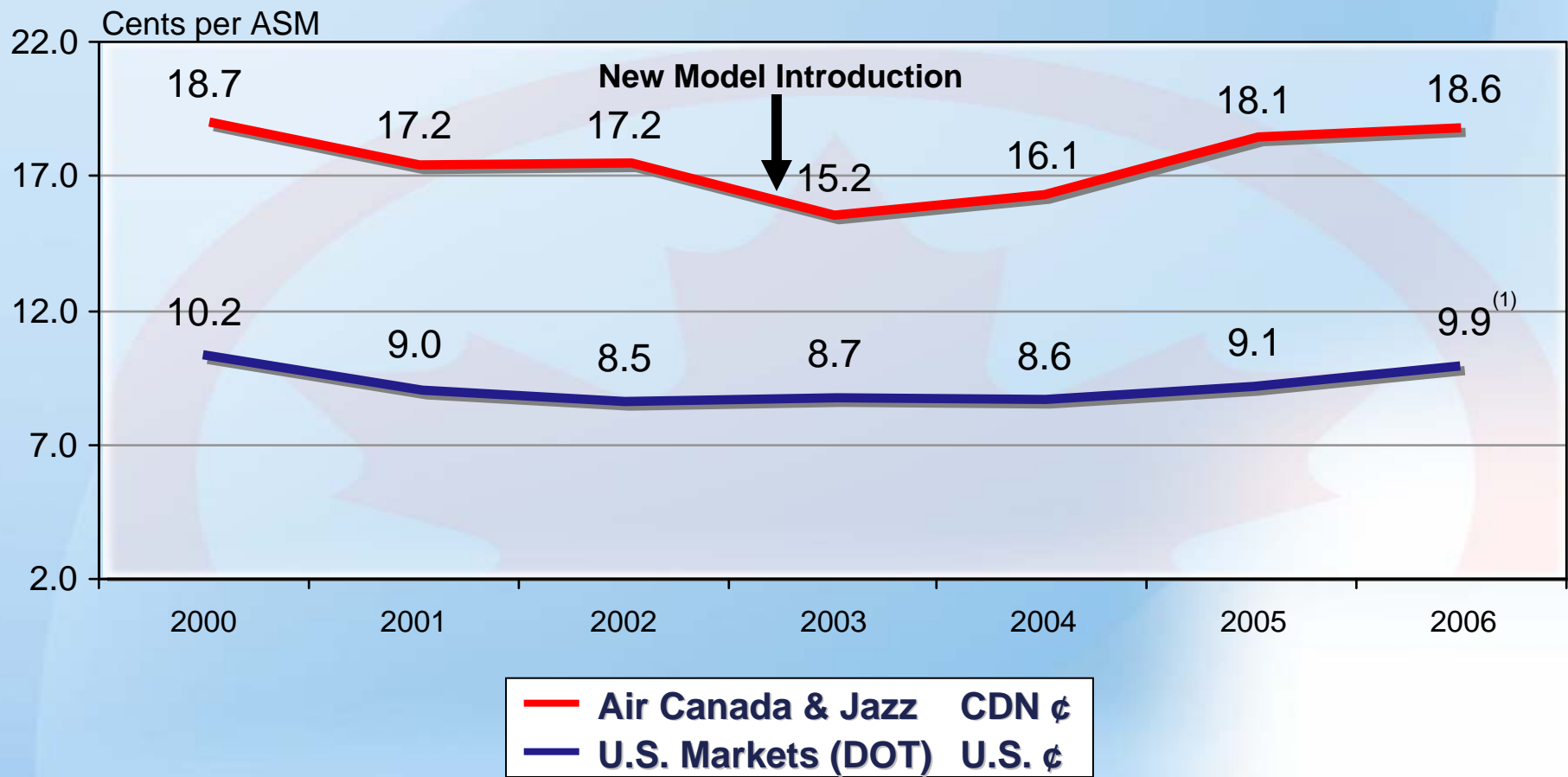
= Profit Gap

# Air Canada's Market Share



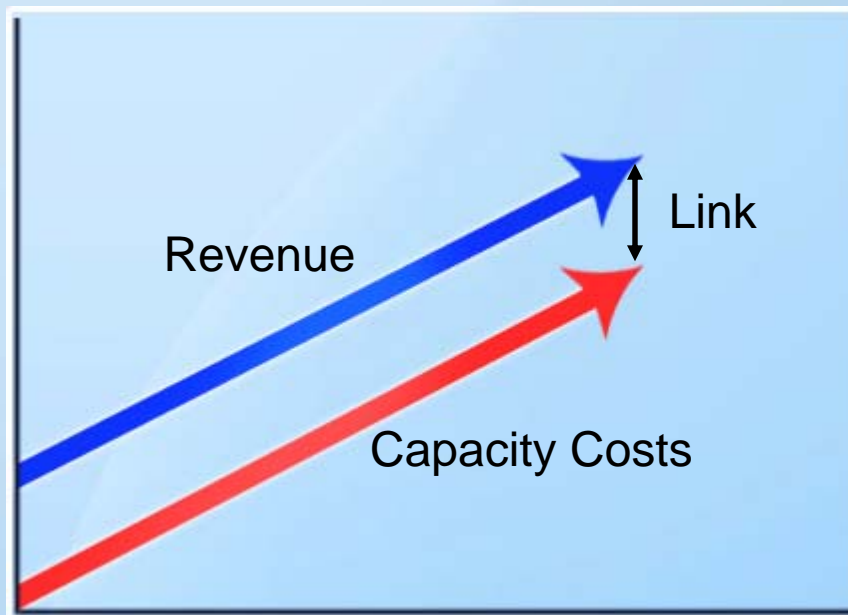
# New Revenue Model As Effective As The Old Model

## Domestic Passenger Revenue per ASM

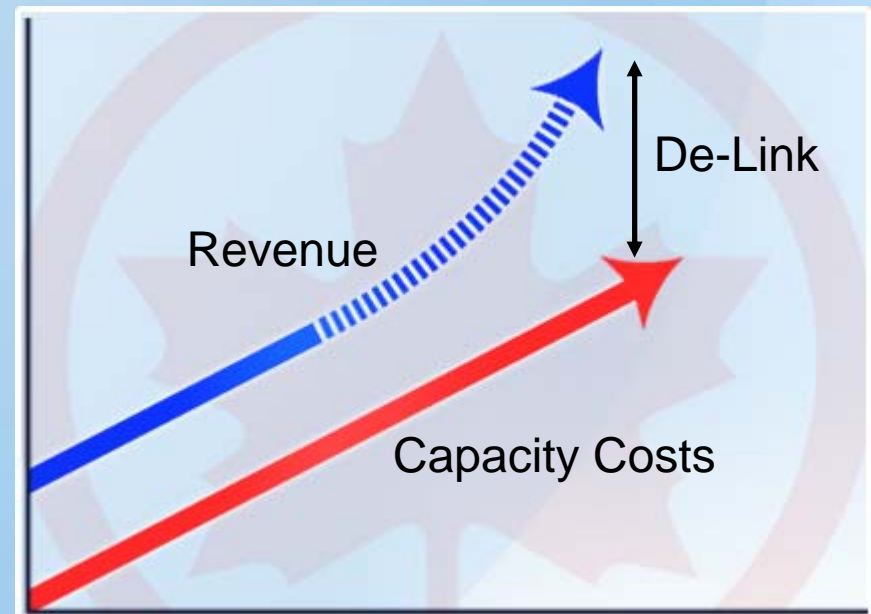


# Changing the Game - The De-Linking Paradigm

## Old Way



## Our Way



# Passes Allow Us To De-Link

## De-Linking Revenue from Capacity

### Increases Revenue

- Locks in long-term loyalty and revenue stream
  - Less shopping
- Buying network access
  - Focus on ‘when/where to travel’ not ‘who’ positions Air Canada as My Airline of Choice

### Decreases Expenses

- Fewer flights
- Reduce related labor expenses
- Reduce distribution expenses
- Decrease advertising spend or passenger acquisition expense



# Customer Can Customize

**Rapidair**



**Western Triangle**



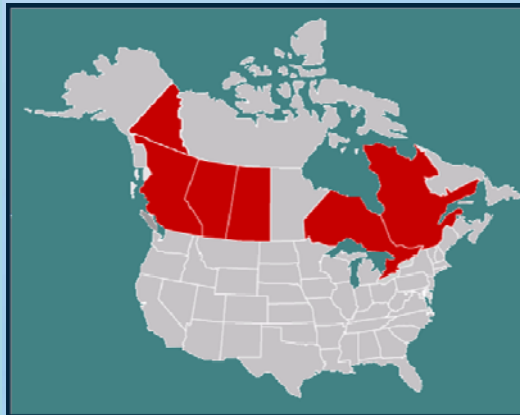
**Canada East**



**Canada West**



**Trans Canada**



**Canada Coast to Coast**






# Consumer Focused Products




## Who is buying?

-  Frequent business flyers and their companies

## Why?

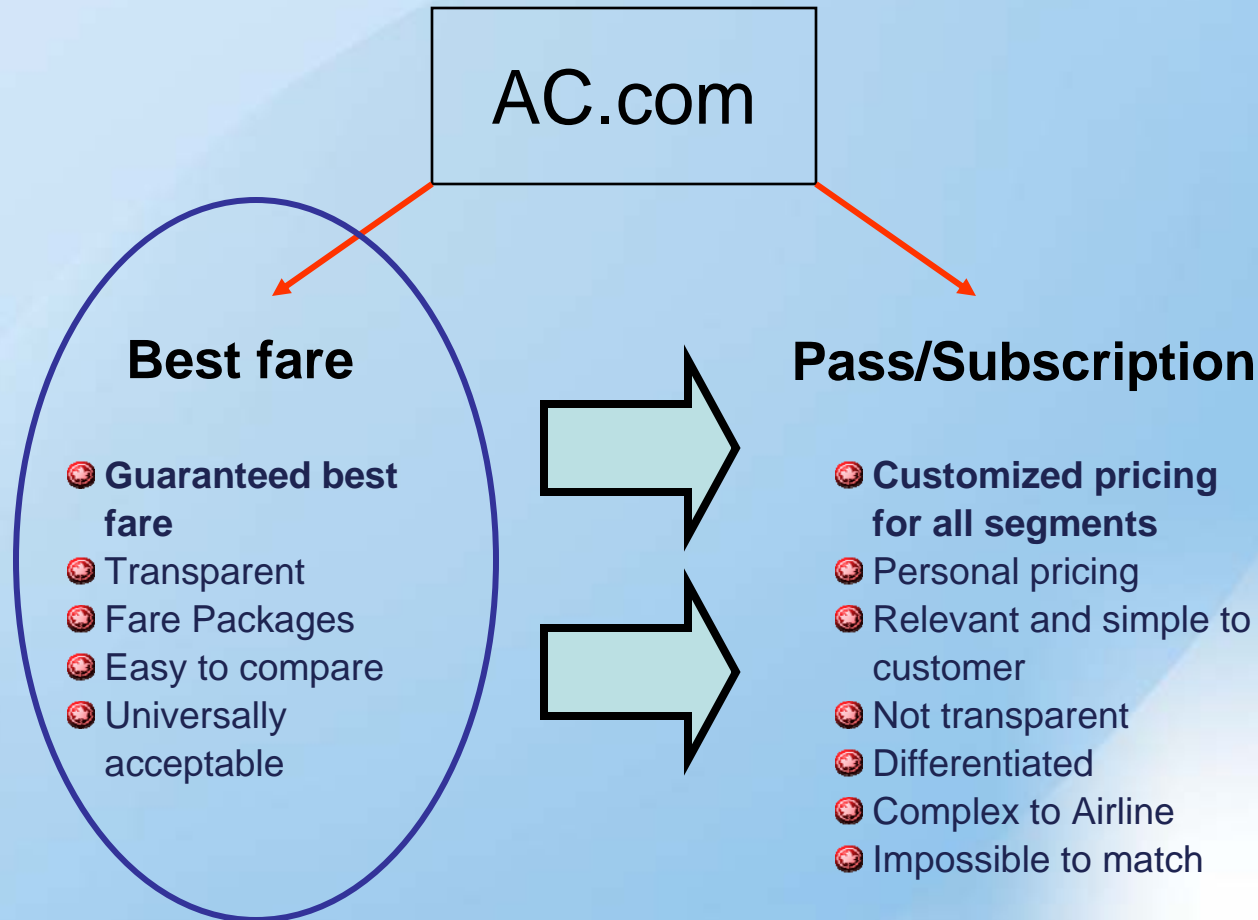
-  Price predictability
-  Ease of use and online flexibility
-  Transaction cost savings

## Encouraging Results







-  Penetration Improving
  - 7.7% of Domestic Sales
-  Creates loyalty
  - 30% increase in eligible travel
-  High satisfaction
  - 90% of pass holders repurchase



# Objective Is To Develop Personalized Products



# Transition To New Way of Doing Business

-  Gain customer's trust through transparency
-  Maintain historic revenue premiums through buy ups
-  Encourage development of products that encourage bulk purchase
  
-  Change what we sell
-  Change our competition
-  Change our historic financial performance

# AIR CANADA



**Montie Brewer, President and CEO**