Changing the Game - The De-Linking Paradigm

Old Way

Revenue

Capacity Costs

Link

Our Way

Revenue

Capacity Costs

De-Link
Changing the Game

Old Way

Lack of Trust

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

Our Way

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

Loyalty
Simplified Fare Products

Choice

Flexibility

Value

Price

Executive Class
Maximum comfort and freedom

Latitude
A perfect fit

Tango Plus
Get up and go!

Tango
Our best value
# Simplified Fare Products

<table>
<thead>
<tr>
<th></th>
<th>Tango</th>
<th>Tango Plus</th>
<th>Latitude</th>
<th>Latitude Plus</th>
<th>Executive Class</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Anytime</strong>&lt;sup&gt;1&lt;/sup&gt; Change Fee&lt;sup&gt;*&lt;/sup&gt;</td>
<td>$40</td>
<td>$40</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>*Except Same Day</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td><strong>Flat Fee For</strong>&lt;sup&gt;2&lt;/sup&gt; Same-Day Changes At The Airport</td>
<td>$150</td>
<td>$50</td>
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<tr>
<td>AEROPLAN&lt;sup&gt;3&lt;/sup&gt; Status Miles For Flying With Us</td>
<td>50%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>150%</td>
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<tr>
<td>50% Non-Status Miles</td>
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<td></td>
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<tr>
<td>AEROPLAN Miles For Every Dollar Spent Online</td>
<td>1 for $3</td>
<td>1 for $2</td>
<td>1 for $1</td>
<td>1 for $1</td>
<td>1 for $1</td>
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<tr>
<td>Advance Seat Selection Fee</td>
<td>$15</td>
<td>$0</td>
<td>$0</td>
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<tr>
<td>Eligible For Upgrade To Executive Class With Certificate</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
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<td>Full Refund</td>
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<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
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<tr>
<td>Priority Services</td>
<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Maple Leaf Lounge Access</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
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<tr>
<td>Complimentary Snack And Sandwich</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
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</tbody>
</table>
## Simplified Fare Products

**Simplified Fare Products**

### Move Up to a Whole New Level of Choice and Flexibility!

<table>
<thead>
<tr>
<th>Product</th>
<th>Move Up to Tango Plus From As Low As</th>
<th>Move Up to Latitude From As Low As</th>
<th>Move Up to Executive Class From As Low As</th>
</tr>
</thead>
<tbody>
<tr>
<td>TANGO</td>
<td>$30 AND BENEFIT FROM THESE FEATURES</td>
<td>$80 AND BENEFIT FROM THESE FEATURES</td>
<td>MOVE ALL THE WAY TO THE TOP OF COMFORT AND CONVENIENCE</td>
</tr>
<tr>
<td>TANGO PLUS</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>LATITUDE</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EXECUTIVE CLASS</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Advance Seat Selection
- Tango: +$15
- Tango Plus: Check
- Latitude: Check
- Executive Class: Check

### Baggage Check-in Allowance
- Tango: 2
- Tango Plus: 2
- Latitude: 2
- Executive Class: 3

### Air Canada Status Miles
- Tango: 50% non-status
- Tango Plus: 100%
- Latitude: 100%
- Executive Class: 150%

### Aeroplan Miles for Every Dollar Spent When Booking Online
- Tango: 1 for $3
- Tango Plus: 1 for $2
- Latitude: 1 for $1
- Executive Class: 1 for $1

### Optional Discounts

<table>
<thead>
<tr>
<th>Optional Discount</th>
<th>Tango</th>
<th>Tango Plus</th>
<th>Latitude</th>
<th>Executive Class</th>
</tr>
</thead>
<tbody>
<tr>
<td>Savings if you have no bags to check</td>
<td>-$5</td>
<td>-$5</td>
<td>-$5</td>
<td>-$5</td>
</tr>
<tr>
<td>Savings if you choose not to earn Aeroplan Miles</td>
<td>-$3</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Savings if you accept, prior to departure, to make no itinerary changes or cancellations</td>
<td>-$7</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Choices and confirming what is purchased.
Simplified Fare Display: The Key to Success

**Select departing flight**

| From: | Toronto, Pearson Int'l, ON (YYZ) |
| To:   | Calgary, Calgary Int'l, AB (YYC) |

<table>
<thead>
<tr>
<th>Op. Flights</th>
<th>Depart</th>
<th>Arrive</th>
<th>Aircraft</th>
<th>Stops</th>
<th>Connections</th>
<th>Tango</th>
<th>Tango Plus</th>
<th>Latitude</th>
<th>Executive Class</th>
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<tbody>
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<td>$278</td>
<td>$318</td>
<td>$548</td>
<td>$1312</td>
</tr>
</tbody>
</table>
Matching Low-Fare Competition

Air Canada Will Not Be Undersold

“Air Canada matches us, dollar for dollar on every single fare, every single minute of every single day.”

Clive Beddoe
President and CEO,
WestJet
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”
Reduced Costs Through Web Bookings

Benefit: reduction in commissions and variable labour
The Math Works

Higher average fare

+ 

Higher load factor

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Higher revenue premium

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Unit Cost Gap

= Profit Gap

Our Advantage

- Buy up for additional features
- Business class
- International feed
- Superior network & schedule
- International feed
- More appropriate aircraft size
- Transborder feed

LCC Advantage

- Labor
- Single fleet
Air Canada’s Market Share

AC Domestic Share (4 quarter smooth)
New Revenue Model As Effective As The Old Model

Domestic Passenger Revenue per ASM

- **Cents per ASM**
- **2000**: 10.2
- **2001**: 9.0
- **2002**: 8.5
- **2003**: 8.7
- **2004**: 8.6
- **2005**: 9.1
- **2006**: 9.9

- **New Model Introduction**

- **Air Canada & Jazz**
  - CDN ¢
  - **2000**: 18.7
  - **2001**: 17.2
  - **2002**: 17.2
  - **2003**: 15.2
  - **2004**: 16.1
  - **2005**: 18.1
  - **2006**: 18.6

- **U.S. Markets (DOT)**
  - U.S. ¢
  - **2000**: 12.0
  - **2001**: 17.0
  - **2002**: 22.0

(1) 4th QTR. '05 + YTD Sept. '06
Changing the Game - The De-Linking Paradigm

Old Way

Our Way

Revenue
Capacity Costs

Link

De-Link

Revenue
Capacity Costs
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

AC.com

Best fare
- Guaranteed best fare
- Transparent
- Fare Packages
- Easy to compare
- Universally acceptable

Pass/Subscription
- Customized pricing for all segments
- Personal pricing
- Relevant and simple to customer
- Not transparent
- Differentiated
- Complex to Airline
- Impossible to match
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