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Board of Trade of Metropolitan Montreal

Robert Deluce
President and CEO, Porter Airlines
Remarks

Porter Airlines: Taking off into a headwind

[CHECK AGAINST DELIVERY]

Thank you, Amadou, for your warm introduction. Ladies and gentlemen, it's my pleasure to be with you this morning. I greatly appreciate this opportunity to address the Board of Trade of Metropolitan Montreal ...the voice of commerce for one of Canada's most important cities and a cornerstone Porter Airlines destination.

As you heard earlier, just two days ago we celebrated the first anniversary of our inaugural flight to Ottawa. In a matter of a few weeks we'll celebrate the first anniversary of the implementation of our Montreal service.

It's been an exhilarating first year and we couldn't be more pleased about how much progress we have made in such a short time period.

I am especially gratified by the role Porter has played in helping build further economic ties between Toronto and Montreal. The amount of trade in goods and services between Quebec and Ontario is close to \$70 billion each year based on recent numbers. This is more than occurs between some smaller nations. Our geographic proximity encourages doing business face to face and, in so doing, strengthens the ties between Canada's two major centers...and its two major cultures. I take pride in knowing Porter has done its part by making the relationship more convenient, enjoyable and productive.

The Montreal-Toronto route is the second busiest by passenger volume in Canada. On any given weekday, there are at least 39 scheduled round-trip flights available between the two cities. Porter accounts for about 25 per cent of this.

I'm also proud of the strong relationships we enjoy with a number of Montreal-area enterprises including Bombardier - our aircraft supplier; Pratt & Whitney Canada - who build our engines in Longueuil; Telus and their business communications systems; Tremblant resorts; Hotel Germain Groupe; and our law firm-Ogilvy Renault.

I also want to say special thanks to the President and CEO of Aeroports de Montreal, Jim Cherry. He and his team have been a pleasure to deal with. Jim makes sure the airport does its part to ensure we can deliver on the unique Porter experience.

In the next 20 minutes, I'd like to share with you a bit of Porter history - some of which predates our first year of flying; touch on Porter's contribution to Montreal; explain the unique business model that is the key to our success; provide some insight into Porter's economics; and close by looking ahead to our plans for entering the U.S. market in 2008.

Even before our first flight last year, we had a certain vision and were working behind the scenes for five years to make Porter a reality. We didn't have an airline operating name, any aircraft or employees for most of this time period. Truthfully, there were many days when I wondered if we'd ever really get off the ground.

While this was initially more of a Toronto story, I know many of you are familiar with the turbulence that we encountered during our formation and launch. From the promises made and broken by Toronto's City Council, to the theatrics of local and national politicians, the early days of Porter were certainly colorful.

Some of these obstacles were certainly challenging, but the most interesting was the bridge debate that came to a head in the 2003 Toronto municipal election.

Prior to that election, on three separate occasions, city council approved the construction of a 122-metre bridge to Toronto City Centre Airport – or the Island Airport as many people know it. The bridge was part of an improved access plan for the airport that was a crucial part of establishing new service.

Mayor David Miller, however, had a different perspective. His first campaign was based on opposition to “airport expansion” as he called it, and one of his first acts as Toronto's new mayor was to trigger a City Council vote that put an end to the bridge. In the minds of many, this also sealed the fate of any significant commercial flights being added to the airport. Many business people would have given up at that point, but we had other plans.

There really is no better urban airport in the world. The airport is governed by a 1983 Tripartite Agreement among the Toronto Port Authority, the City and the federal government. It guides the airport's operations, including number of flights, noise restrictions and operating hours. The agreement is valid until at least 2033, and all three parties must agree to any changes.

This was never about a bridge. What we really needed was a better form of access than what was being provided by the 1950s-vintage, open deck barge that had been serving at the airport for many years.

At the same time, the Port Authority, which operates the airport, was looking for an airline willing to commit to the airport and help revitalize this transportation jewel.

Unfortunately, passenger service had been neglected at the island over the previous 16 years, but recent history shows there is strong demand for what we are now offering.

Air Canada helped put an end to its competitor City Express in 1991. It was content to eliminate destinations, including Montreal, until only a handful of trips to Ottawa remained. They also made minimal investment in infrastructure, did not promote the service and allowed their facility lease to expire.

These were not the actions of a carrier focused on offering a vibrant, sustainable service. Quite the opposite. Air Canada maintained its minimal presence as a deterrent to any other airline. In fact, Canada's national airline only became interested in the Island Airport, again, once Porter announced its intentions.

Once Porter committed to making a significant investment at the airport, the Port Authority built new ferry terminals and commissioned a modern ferry to go along with them. This \$15 million investment on the part of the Port Authority was privately financed and is being repaid through airport improvement fees, which are part of each passenger's ticket price.

The new ferry and other improvements provided the access we needed and allowed us to move forward with our plans.

Since we started flying, we've managed to put a lot of the debate surrounding our operation on the Island behind us... largely because it's easier for people to understand something that you can see and experience.

For example, many critics predicted the worst in terms of aircraft noise along the waterfront, but Bombardier's Q400 has delivered on its promise as one of the quietest commercial aircraft operating anywhere. Official noise complaints are minimal and many waterfront and island residents have commented on the plane's quietness. In some cases, they can't understand why it was ever an issue.

Our first year has provided a number of notable highlights. Some of these include:

- Launching three successful destinations – Ottawa, Montreal and Halifax;
- Creating over 270 direct jobs to date;
- 9,100 flights;
- 91.7 per cent on-time performance;
- And bringing a true element of choice and competition to Canada's skies.

Perhaps the most controversial decision of all for a Toronto-based airline was the use of a raccoon as our brand mascot. It would be safe to say that Toronto has more raccoons per capita than any city in the world and they are responsible for a great deal of mischief...to put it bluntly.

We actually call our mascot Mr. Porter. He helps lighten up our otherwise corporate image and gives our overall branding effort some flexibility.

Ottawa and Montreal were always the main foundation of our business plan. Halifax and our just announced service to Tremblant are destinations that weren't on our original target list of 17 short-haul destinations that we intended to serve from Toronto.

We took a chance on Halifax knowing that business-oriented Montreal and Ottawa traffic drops off in the summer. Plus, Halifax had recently lost all of its scheduled CanJet service when that carrier decided to focus its efforts on charters.

There was a gap in the market and we took advantage of it, with the response being considerably better than we had hoped for.

Beginning December 22nd, we add Tremblant to the Porter destination map for holiday periods and weekends until the end of March. With just a 70-minute flight, our passengers will be further adding to the activity of the number one ski resort in Eastern North America.

Our Halifax and Tremblant initiatives illustrate another point. As business people, we always need to have a plan. Certainly, we had many versions of different plans before Porter actually took off.

It's also important, though, to maintain flexibility and take a different course if it makes sense, given the circumstances. While plans need to be well-researched and thought out, reality often has a way of changing things.

At Porter, we're convinced that our plan is a good one. City Centre airport's revitalization is driving business and tourist traffic to the waterfront, generating hundreds of jobs and some \$800 million in economic benefits for the downtown core. The Toronto Board of Trade recently issued a report recognizing the airport's contribution to the city's economic development and business community.

On the employment front, Porter itself has already created over 270 direct jobs – including about 20 in Montreal – and this number will grow to more than 500 in coming years. Our passengers also spend money on conferences, hotels, restaurants, taxis, tourist attractions and more.

Porter's 20 aircraft order is worth over \$500 million, and helps support thousands of skilled aerospace manufacturing jobs at Bombardier and with its key suppliers, including Pratt & Whitney.

Not only is the Bombardier Q400 a state-of-the-art, ultra-quiet and elegant turboprop, it is also remarkably economical. The PWC 150 engines burn 30 to 40 per cent less fuel on a per seat mile basis than most narrow-body jets and regional aircraft, contributing to an environmentally-friendly operation.

At this point, I'd like to take more of an industry-wide view for a moment.

Our success over this first year is due largely to the unique market niche we identified and are filling. The two existing dominant airline models seen today are "legacy" and "low cost."

We can see [on screen] examples of each model using the Canadian market, where possible. The recent trend has been for legacy carriers and low cost operators to encroach on each other's territory, leaving some niche opportunities for different players.

To offer a brief explanation, full-service legacy carriers such as Air Canada, American Airlines and US Airways built up cost structures that were unsustainable. Eventually, operating costs and services were slashed – often aided by bankruptcy protection.

Meanwhile, discount carriers are seeing their operating cost advantage shrink as their business matures and as legacy carriers trim costs. In response, the discounters are offering more passenger amenities, such as in-flight television and more legroom, that justify charging higher average fares.

Essentially, we are seeing a rush toward the middle. It's becoming increasingly difficult to distinguish between traditional legacy carriers and newer discount carriers. Market share is eroding for legacy carriers around the world. This is especially true on domestic and regional routes.

So, what opportunities are available for new entrants in this environment? I believe we are seeing the emergence of two particular niches – Premium long-haul and Premium short-haul.

Premium long-haul carriers are typically configured with all-business class, combined with elevated in-flight service. SilverJet and Eos are examples targeting high-volume business routes, such as New York-London.

The target market is business and first-class passengers who would otherwise fly on legacy carriers, and the price point is comparable or better. It's a model that hasn't yet arrived in Canada.

Premium short-haul is Porter's area of focus. This model requires an understanding of business travel needs – namely, frequency of flights, speed and efficiency throughout the trip, and an experience that delivers convenience and genuine customer service – in order to make it a compelling option.

Every aspect of Porter, from the:

- stylish brand;
- Toronto shuttle bus service;
- simple check-in process;
- well-appointed Toronto passenger lounge;
- convenient Montreal airport gates;
- and premium in-flight service;

is geared toward increasing passenger comfort and creating a stress-free, refined experience. This is exactly what our core business passenger is looking for.

We've often had to dispel the notion that Porter is a discount carrier, mainly because almost every new airline in recent years has used this model. I hope you can see that Porter is something quite different. If you've traveled with us, it will already be obvious.

This approach is also paying off on the financial side. Porter has been in positive cash flow since March, and in June, we achieved an eight per cent net income margin, which is among the strongest in the North American airline industry.

To put this into perspective, Southwest Airlines took three years to achieve profitability – we did it in eight months.

The financial community believed in our business plan from the start. We raised over \$125 million in equity from some of the most sophisticated institutional investors around before our first plane had taken off – EdgeStone Capital Partners, Borealis Infrastructure Management, GE Asset Management and Dancap Private Equity.

This was not only a strong vote of support for our business plan, but it allowed us to withstand the inevitable onslaught from Air Canada and, to a lesser extent, WestJet.

The biggest weapons used against new entrants by established airlines are price and capacity. By slashing fares and adding flights, the objective is to keep passengers from trying the newcomer on the basis that they can still get the lowest price and flight they want on the carrier they already know. In addition, profits from routes with little or no competition are used to subsidize lower fares on the highly competitive routes.

Once the new entrant disappears; fares magically rise to previous levels or higher...and the consumer takes it on the chin.

In our case, since we started selling tickets on the Ottawa and Montreal routes, we've seen the lowest fares drop by approximately 50 per cent, pushed lower by both WestJet and Air Canada.

Air Canada also inflated capacity by adding larger aircraft on already well-served routes. WestJet, meanwhile, is still struggling to translate its leisure-focused approach to these business-based routes.

However, as you'll remember, Porter is not a discount airline and we're not interested in competing through low airfares in a race to the bottom. We certainly have competitive fares, but we will rarely have the lowest.

Instead, we offer a value proposition that competes on service, convenience and the total passenger experience.

For those who really watch their costs, it's not hard to figure out that savings on taxis to Pearson airport, our no-cost lounge and complimentary in-flight service add up to at least \$100 every trip. Not to mention the two hours or so saved on round trips by avoiding the hassle of Pearson, which can be even more valuable to many passengers.

On the frequency side, our nine daily Montreal flights give passengers the options they're looking for.

Porter is a different kind of competitor for Air Canada. They haven't seen anything like us in the past and we are more than holding our own.

I don't want to imply that Air Canada has left us alone, though. We are well acquainted with their various legal teams who are fond of dragging us into court on different matters – quite unsuccessfully so far, I might add. They also helped delay our U.S. licensing application for over six months, although we were ultimately successful.

So, with the necessary licenses now in hand, 2008 will see Porter's big push into the U.S. We take delivery of six more Bombardier aircraft during the next year, bringing our fleet to 10.

We are targeting six to eight daily flights from Toronto to New York via Newark Liberty airport starting in early 2008.

People have been asking us about New York since well before we started flying last year. The mix of business and leisure travel on this route is quite unique and, when combined with convenient frequencies, will help ensure our success.

After this, Boston and Chicago are the leading candidates for service next year, with Washington and Philadelphia also high on the list.

To accommodate this growth, we're currently in the midst of construction and significant renovations at City Centre Airport. We're adding three new gates and tripling our passenger lounge space.

So, it has been quite a year with lots more on the horizon. I hope you've been able to learn something about Porter's business strategy, where we've been and where we're going. If you've flown with us, I thank you. If you haven't, I hope to see you on a flight soon.

The airline business is not easy, and certainly not for the faint of heart. At one point in time you could start an airline with a silk scarf and a friendly banker. Today, it's a lot tougher, but I can tell you that we're extremely pleased with our progress to date.

Thank you, again.