Remarks for Calin Rovinescu,
President and Chief Executive of Air Canada
Canadian Chamber of Commerce in Japan
Tokyo, Japan
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(Check against Delivery)

Good afternoon ladies and gentlemen and thank you for taking time to be here today.

It is a great pleasure for me to be in Japan [Japan crowd warmer, maybe a personal experience]

Of course, from a business perspective Japan is also very important to Air Canada. Each year 140,000 Canadians go to Japan while twice as many Japanese tourists and business people travel to Canada. We carry a large number of these travelers, so it is a significant market for our airline.

In addition, it is also very important for Air Canada cargo.

Among the things we have carried to Japan this year were 450 tons of Atlantic farmed salmon, 152 tons of BC Grown Tomatoes and, a few weekends ago, 53 tons of chilled pork from Vancouver and Calgary. Last month, we carried 20 tons of pizza dough from Toronto.

Somewhere in Japan, someone is having one fantastic pizza party.

And yes, we did not forget dessert. We have also carried 200,000 bite-size brownies here so far this year.

Certainly we at Air Canada are in a more celebratory mood these days than when I last spoke to your group three years ago. Partly this is due to the fact we are still basking in the afterglow of our 75th anniversary celebrations in 2012. We marked that event with successful employee and customer events around the world throughout the year.

But three years ago we were also more or less in survival mode. We were battling against an industry downturn brought on by the tough global economic conditions and also dealing with many of our own legacy issues that needed to be addressed.

Today, I am pleased to report that we have made tremendous progress on many fronts. To give you only a few examples of our successes:

- For three consecutive years we have been named the Best International Airline in North America by the SkyTrax World Airlines Awards, which is based on a survey of 18 million global travelers

- We have been consistently ranked the favorite airline of Canadian business travelers by the Ipsos Reid survey of Canadian business travelers – last year we were favored by 80 per cent of those surveyed, the fourth consecutive year our standing has increased in this survey

- Our average annual load factor has steadily risen and in 2012 we posted a record load factor of 82.7 per cent.

- We have grown annual operating revenue to $12.1 billion in 2012 -- a 24 per cent increase over 2009

- Adjusted net debt has decreased by almost $1.8 billion from 2009 to $3.98 billion at the end of the first quarter of 2013.

- Our liquidity has more than doubled since the beginning of 2009 and we now have cash and investments in excess of $2 billion

- Our share price has more than tripled since early 2009.

- And early this year we were named the only 4-Star international North American carrier by SkyTrax, putting us in elite company with the world’s best airlines

We are very gratified by these accomplishments but they have not come easily.

When I was last here the real work of transformation was only starting and since then we have been utterly changing the company. We are not done yet, but as our 2012 results demonstrate, we are on the way to making Air Canada a sustainably profitable company for the long term.

The clearest indication of our success is that for the first time since 2007 Air Canada reported an annual profit in 2012. We had net income of $131 million. That is a $380 million turnaround from our loss of $249 million the previous year.

To do this we have followed a relatively straightforward approach. We set four corporate priorities and committed ourselves to relentlessly pursuing them. The four are: cost transformation; international expansion; customer engagement; and culture change.

With respect to costs, I am firm believer in setting goals and putting stakes in the ground so people know what they have to do. So we announced a three-year, $500 million program of annual cost savings and revenue enhancements and we exceeded that target by $30 million. Having surpassed our goal, we transitioned into a more permanent approach to business transformation that we intend to impress on Air Canada’s DNA.

More recently, we unveiled new targets for cost savings and we have set a mid-term goal of a 15 per cent reduction in unit costs. This will advance a second commitment we have made to increase the return on invested capital to 10-to-13 per cent by 2015 from the current 7.7 per cent. We plan to boost our ROIC through strategic investments in aircraft and technology, lower unit costs and debt reduction.

Complementing cost transformation have been revenue initiatives. We have steadily grown revenue over the past three years and we had record operating revenue of $12.1 billion in 2012, an increase of $508 million over the previous year. While revenue softened in the first quarter of this year due to airline industry specific factors and a weakening of the overall economy, we have taken a number of decisive measures to counter this situation

We also remain focused on our balance sheet to be sure we have the appropriate capital structure. Net debt has been steadily decreasing and we reduced it a further $150 million in the first three months of the year, despite it being a seasonally weak quarter. Longer term, we are taking advantage of more efficient financing vehicles such as the Enhanced Equipment Trust Certificates we are using to finance our five new Boeing 777s at more attractive rates. We were the first airline in Canada and among the first in the world outside the U.S. to use EETCs.

Our second priority is to expand globally to transform Air Canada into an international powerhouse. This offers the best prospects for future growth and over the past three years we have announced a series of new international mainline destinations including Copenhagen, Brussels, Geneva and more recently Istanbul. We have ambitious plans to continue growing and project a 9 to 11 per cent increase in capacity in 2014, with the lion’s share of that on international routes

One of the brightest stars in this growing constellation has been our Calgary-Narita route. When I flew here on the inaugural flight of that route three years ago it only operated three times a week but demand has steadily grown and this summer we will operate it daily. That means we will have three daily flights between Japan and Canada, including from Toronto, Vancouver and Calgary.

Helping us immensely has been our partnership with our fellow Star Alliance member ANA. We have a long standing code share relationship with ANA that has been in place since August, 1996 – in fact it was only our third codeshare agreement. Today we code share on more than 15 different routes with ANA. It provides us additional traffic and lets us offer customers a wide range of easy connections throughout the region.

We anticipate the Japan market will continue to feature prominently in our future activities. I know the CCCJ has been a strong advocate of the proposed Canada-Japan Economic Partnership Agreement (EPA), which we fully support. Studies suggest the potential economic benefits of such an agreement are significant and could increase Canada's GDP by an estimated $3.8 billion while boosting Canada's exports of goods and services to Japan by around 70 percent.

That is a lot of pizza.

While agreements such as the EPA will not affect bilateral air transport agreements, Air Canada would almost certainly benefit from the new business activity and consequent additional traffic an EPA would spawn.

In particular, one area of great promise is services. Both Canada and Japan are net importers of services and, as the Canadian government has noted, given our countries' well-developed knowledge-based economies and sophisticated and competitive services industries, there is strong potential to expand bilateral trade in this area. Apart from being good for business and the economy in general in each country, increased trade in services would be expected to translate into additional passengers for Air

Canada and could support further route expansions. This would be even more likely if progress is made in another area under discussion related to the movement of business people, something both countries have expressed interest in facilitating in an EPA.

Our Japan expansion from Calgary is part of an aggressive drive across the Pacific we are launching this summer. In addition to our upgraded Calgary-Narita service, we are also adding Toronto-Seoul and seven weekly frequencies to Beijing. We will be flying 11 daily departures or more than 43,000 seats across the Pacific to Asia this summer plus a daily flight to Australia.

Helping fill these seats will be our strategy of turning Toronto and Vancouver into global connection hubs, particularly for traffic from the U.S. Going through Toronto in many cases offers customers going to and from the U.S. north east the best elapsed travel times to Asia. We have seen a 21 per cent increase in this type of traffic year-over-year and we expect to grow this aspect of our business, especially with a new baggage process in Toronto that saves U.S. bound customers the hassle of having to collect their bags for U.S. customs pre-clearance.

Supporting this priority are new fleet developments. Starting next month, Air Canada will begin taking delivery of the first of five new EETC-financed Boeing 777s -- our first significant wide-body expansion in ten years. These aircraft will arrive over the next 12 months, overlapping with delivery of the first of our 37 Boeing 787 deliveries. These new aircraft will allow us to introduce new routes or more efficiently serve existing ones. Next month, our first new 777 will begin operating on the Montreal-Paris route with other routes will follow, notably Vancouver and Hong Kong beginning this October.

The new 777s will have a denser configuration and introduce a premium economy cabin while the Dreamliners will operate at a 29 per cent unit cost advantage to the Boeing 767s they replace. In turn, the Boeing 767s will be transferred to our new Air Canada rouge leisure carrier, where different work rules will enable us to operate them more cost effectively. With Air Canada rouge, we also announced some new international destinations such as Edinburgh, Venice and year-round flights to Dublin and there will be more to come. While there are no Asian destinations for Air Canada rouge at this time, it is something we will consider in the future.

The third priority is customer engagement. As I mentioned we had a record load factor of 82.7 per cent in 2012 and we carried nearly 35 million customers, so our product is appealing. As well, we continue to win numerous industry awards.

And we have continued to improve the customer experience. Over the past seven years Air Canada has made a substantive investment in its product The refurbishment of our fleet and the introduction of our Boeing 777s offering true lie-flat seats in Executive First, put us well ahead of the competition.

We have recently taken other steps such as doubling the movie content of our free on-board entertainment system, refurbishing and opening new Maple Leaf Lounges and most recently revamping our loyalty program as Altitude to better reward customers for their loyalty.

We expect our new Premium Economy cabin and Air Canada rouge will also be popular because they will give customers more travel options suited to their desires and budget. Another important initiative has been a concerted effort to increase our On Time Performance and in only a few months we have seen a 30 per cent improvement year-over-year, which not only pleases customers but also saves money.

Of course, in order to engage customers employees must also be engaged, which is why we have made culture change another corporate priority. There is no doubt that our recent round of bargaining was difficult given the need for changes in our collective agreements to make Air Canada more competitive. However, we believe employees now better understand the competitive landscape and our new contracts give us greater operational flexibility. They also showed tremendous pride and enthusiasm during our 75th anniversary events.

As a result of our focus on our corporate priorities, we have seen a marked improvement in virtually every metric by which a company is measured -- profit, revenue, balance sheet, costs and customer demand. Additionally, we have also seen significant appreciation in our share price, which increased 76 per cent during 2012, handily beating the 33 per cent gain of the NYSE ARCA Global Airline Index.

The execution of our strategic priorities will remain our number one focus and Japan is an example of the type of international destination that is central to our global expansion priority. So we will look for new opportunities here – such as Haneda airport, should appropriate slots become available and market conditions warrant. In the same vein, no decisions have been made, but we have identified the Toronto-Osaka route as the kind of market that would be ideal for the 787.

Although there are challenges such as a weaker yen and ongoing global uncertainty, we are investing our energies and committing about $1.5 billion dollars worth of our aircraft to the Pacific region. In the first five months of the year the Pacific market is where we have seen the most growth. And, as I know many of you travel on Air Canada, I wish to thank you today for choosing our airline.

The efforts of the CCCJ to encourage increased trade between Canada and Japan are therefore most welcome. I say this not only because your group's success is beneficial to Air Canada but because you are really working on behalf of all Canadians and this is something that is highly commendable.

For our part, we are determined to build a stronger Air Canada and increase our presence internationally. To do this, we will continue to attack costs, develop new sources of revenue, improve the customer experience and adapt to the competitive environment.

In other words we have a plan to transform Air Canada into a sustainably profitable airline that takes good care of customers by delivering them safely and in comfort while rewarding shareholders and all stakeholders far into the future.

Thank you for your attention. Now, I will be pleased to take your questions.