

**Remarks for Calin Rovinescu,
President and Chief Executive, Air Canada
Calgary, November 12, 2013**

Thank you David for that kind introduction.

I like coming to Calgary because it's the only place in Canada where I get to complain about the weather ... rather than the other way around.

There is always a palpable energy and optimism in your city that I find invigorating. I admire the can-do spirit that you show at all times, both good and bad, and like all Canadians I was incredibly impressed earlier this year by how the city overcame the devastating flood and rallied to hold the Stampede despite many challenges. I know work remains to be done but you have set an inspiring example for us all with your resilience.

For this and many other reasons, Air Canada is very proud to be a part of the Calgary community.

More than 1,400 Air Canada employees work in Calgary and call the city and its environs home. We enthusiastically participate in such events as the Stampede parade and the Air Canada Foundation is also very active, including bringing children from across Western Canada to the Tim Horton Children's Ranch in Kananaskis last spring.

We support about a dozen local charities including Dreams Take Flight. Each year, we donate an aircraft and crew to fly disadvantaged and ill children to Disney for a day of wish fulfillment from eight Canadian cities. The Calgary chapter, run entirely by local volunteers, has been active since 1993 and has sent nearly 3,000 children off for a magical day.

Despite some home-grown competition, Air Canada has the most flights of any carrier at Calgary International Airport with an

anticipated 80,000 take-offs and landings in 2013, representing close to 50 percent of the airport's activity.

For Alberta as whole, we have a payroll of more than \$75 million and we spend hundreds of millions more on goods and services (around 7 X that \$75 million), including -- I am sure several in the room will be pleased to hear, that we spent \$225 million on fuel in Alberta alone last year. In other words we both benefit from and contribute to maintaining the Alberta Advantage.

Today I would like to update you on Air Canada's transformation over the last several years from a position of many challenges into a sustainably profitable, award winning global carrier. And how Calgary and Alberta fit into our vision for the future of our airline. In many ways, your city serves as a textbook case of what is ultimately possible when the local businesses and the community work in partnership with a network carrier such as Air Canada to grow air services into the community.

When I was last here to speak as a guest of the Van Horne Institute, it was in 2010, the situation was much different not only for Air Canada, but the entire world. At the time the global economy was still not sure it had really avoided complete meltdown. For our part, we were breathing a sigh of relief, confident that we had overcome the worst of the turmoil in our industry.

Yet while we had managed to stabilize the company, the real work was only just beginning. And so we turned our attention to rebuilding and plotting a course for the future.

To do this I challenged the leadership team to identify key corporate priorities to make Air Canada sustainably profitable for the long term. I felt it was essential that we articulate these simply.

Partly this was to enforce clarity of thought and impose a disciplined approach, but it also had the added advantage of ensuring everyone was attuned to the plan and understood their role in fulfilling it.

We identified four basic priorities that have since become a mantra for our company- cost transformation, international growth, customer engagement and culture change. That we are successfully executing on these priorities and delivering on our commitments is being recognized by the financial community and investors. Air Canada was recently added to the S&P TSX Index and our shares have outperformed the entire index, being the number one stock this year, more than tripling in value over the past year.

As with any structure, we started with the foundation by implementing a Cost Transformation Program (CTP) aimed at achieving \$500 million in annual non labour-cost savings and unit

revenue improvements. Within three years we exceeded that initial goal by more than \$30 million but that was just a beginning.

We followed on our CTP success by modifying certain collective agreement work rules, to make our labour costs more competitive.

There is no doubt another significant cost challenge was our pension plan, which had a \$2.8 billion solvency deficit in 2009, and with historical low interest rates, further rose to about \$4.1 Billion at the peak. Apart from top quartile returns on our pension assets over the last few years, indeed top decile in some, two other factors have been vital in managing this issue. One was our ability to negotiate important pension plan amendments to early retirement benefits with our unions. And the second was settling an arrangement with the federal government to provide pension funding cost certainty over a seven year period.

We also needed to repair our balance sheet. Our net debt has been reduced by \$1.7 billion since 2009 through debt repayments, old-

fashioned cost control and innovative approaches to lower costs and produce more free cash flow.

In April, we became one the first airlines outside the US to raise money through Enhanced Equipment Trust Certificates. This newly-available financing vehicle let us raise US \$715 million at a substantially lower cost to pay for five new Boeing 777s now entering our fleet.

These and other measures have strengthened our balance sheet, which in turn yields additional savings (as I said Rubik's). In September, we completed a \$1.4 billion refinancing transaction. Using the same assets as collateral we were able to raise an additional \$300 million in financing because of our improved risk profile.

An important innovation was the launch in July of Air Canada rouge, a lower cost airline wholly-owned by Air Canada. It allows

us to better compete on leisure routes where our premium mainline brand could not do so profitably enough.

Through modified work rules, lower labour costs, and aircraft configuration, rouge achieves unit cost savings of 21 to 29 per cent versus the same aircraft operating in our mainline fleet.

Like Air Canada rouge, the five new Boeing 777s I referenced earlier are in a high-density configuration targeted for certain long-haul routes that have higher leisure demand which allows us to add capacity i.e. seats and continue growing at significantly lower incremental cost, thereby lowering our overall average seat cost.

The new aircraft was deployed on the high volume Montreal-Paris route this summer to very favourable customer response and we are introducing it on the Vancouver-Hong-Kong route this weekend.

Last week, we released the best quarterly results in our history which indicate that the trend line is continuing and that our leadership team is executing on our plans.

We reported record adjusted net income of \$365 million as unit costs fell 3.4 per cent from the previous year.

We also had top line growth with revenue rising by \$148 million or nearly five per cent to nearly \$3.2 billion.

Next, putting Air Canada on the path to sustained profitability and keeping it there will require changing our culture, our second priority. To this end, we have been holding town halls to meet with employees to explain our strategy, but as importantly to listen to their concerns so we can remove roadblocks and enable them to do their jobs.

There are several indicators that we are succeeding on the culture change front.

In 2011 Randstad Canada named Air Canada one of the “Five Most Attractive Companies to Work for in Canada” and last month, Air Canada was named one of the Top 100 Employers in Canada -- and only airline -- out of an initial list of 75,000 employers. To me it is also very telling that where we have historically received about 100 applications for every Air Canada

job we fill, Air Canada route recently received 300 applications for each available position.

One case study that illustrates the benefits of culture change relates to one of the industry most important operational indicator – On-Time-Performance. While Canadian carriers are at a disadvantage due to weather, by late 2012 in part as a result of very tough labour negotiations, our OTP had slipped to among one of the lowest in the North American industry.

To tackle this problem we took an entirely new approach.

In the past, responsibility for OTP was parceled out to individual groups according to their roles and success and blame were assigned accordingly, resulting in much finger pointing but little improvement. So we assembled a cross-functional team from all parts of the operation and made OTP a collective responsibility.

The team studied various aspects of the issue, mined data, benchmarked against other carriers and identified the issues inhibiting our performance.

By working together we had, in the busy third quarter improved OTP by 20 percentage points over the previous year. This is a remarkable achievement given the size of our operation and that this was achieved at very little cost.

Another priority we identified that is closely tied to culture change was the need to re-engage customers. Through entrepreneurship, a Just Do It mindset and greater empowerment. While our customer base has long shown great loyalty we are keenly aware that this can never be taken for granted.

To this end, we invested heavily in some premium areas as our Maple Leaf Lounges and fleet, notably with Boeing 777s featuring industry-leading products such as lie-flat suites in international

business class and more recently Premium Economy on select aircraft.

Anticipation is now building for our next great leap when we introduce Boeing 787 Dreamliners into our fleet starting in March. We have 37 of these next generation aircraft on firm order that will revolutionize the customer experience in terms of comfort (composite materials, air quality, and electronics). Further, their game-changing operating efficiencies – they will be 29 per cent more efficient than the 767s they replace – will open new markets around the world we cannot serve profitably at present. Although we have not yet announced any new routes for the 787, the aircraft's ability to efficiently carry a mid-sized passenger load trans-oceanic distances make it ideal for a market such as Calgary-Beijing.

That we are re-engaging customers has been demonstrated not only by record load factors but also by several awards and recognitions.

Air Canada is the only Four Star network airline in North America and for four straight years we have been named the Best Airline in North America by the universally-respected Skytrax World Airline Awards. The annual Ipsos Reid study of frequent Canadian Business Travellers found Air Canada is the preferred carrier of 81 per cent of respondents – an improvement of 12 percentage points over five years.

At this point, I would like to digress for a minute to discuss something I know is of interest to the Haskayne School of Business -- Corporate Social Responsibility, also now often referred to as corporate sustainability.

I congratulate your school for finishing near the top in the recent Corporate Knights Global Green MBA rankings; this is an impressive and important accomplishment as corporations, including Air Canada, are putting greater emphasis on sustainability.

We recently issued our second Corporate Sustainability report, and one thing that is notable is how sustainability touches upon the three priorities I have mentioned. Customers like to buy from socially responsible companies, employees get enthused about sustainability programs such as recycling or community involvement and sustainability can boost the bottom line. In our case, improved fuel efficiency trims our fuel bill and also reduces greenhouse gas emissions.

Corporate sustainability virtues are their own reward, but they also provide the bonus of helping you run your business.

In our case, we have identified four key areas of CSR activity: safety, the environment, our employees and communities. By having due consideration for each of these areas in our decision-making we make better decisions.

The fourth priority we set for our company -- which also serves as a good segue for a discussion of Calgary -- is our intent to transform Air Canada into an international powerhouse. This entails playing to our strengths to build on our position as one of the world's leading international carriers and one of its 20 largest.

Since 2009, through Air Canada and Air Canada rouge, we have added or announced new international routes or destinations such as Madrid, Lisbon, Nice, Istanbul, Manchester, Venice, Edinburgh, Geneva, Brussels, Athens, and Copenhagen. Moreover, this past summer we expanded our Asian flying to 11 daily departures from Canada – that's more than 43,000 seats a week across the Pacific.

Incredibly, we added this flying while the fleet size stayed more or less the same, even contracted slightly. At the start of 2009 we had 200 aircraft in our mainline fleet and at June 30 this year we had 197. We did this through better, more focused aircraft utilization, better efficiency etc,

Our expansion activity is strategic and focused on building an inter-connecting global network based on our major hubs in Montreal, Toronto, Calgary and Vancouver. Toronto, for example, lying near the centre of North America, is an important pivot point, particularly for U.S. bound and originating customers who are transiting between domestic, transborder and international flights.

We have seen a 21 per cent growth in so-called 6th Freedom connecting traffic at Pearson from, say, the United States via Canada to overseas destinations, but we believe there is much more.

To better illustrate the upside, consider this. Air Canada currently has 0.3 per cent share of the traffic from Europe and Asia to the U.S. that flies on non-U.S carriers. If we could grow that to what we think is a reasonable 1.5 per cent share, our so-called “fair share” would translate into an incremental 1.1 million passengers and \$400 million in revenue.

For its part, Calgary has shown itself a willing partner in our strategy and I commend the Calgary Airport Authority, Travel Alberta and the provincial government, our travel partners and of course the Calgary business community for their commitment.

Five or six years ago, the Calgary community, led by the Calgary Airport Authority, was actively looking to add a new non-stop link to Asia. They well understood that the chances of making this route a success were greater by working with Air Canada than with a foreign carrier for one main reason – connectivity at both ends. Our extensive global network provides connecting traffic here in Calgary and at the other end in Asia through our Star Alliance

code-share partners. Now, despite the best market research, new long-haul international routes do not typically spring into being fully-formed and profitable; they often take time to develop, require an enormous finance commitment on the airline's part (usually in the tens of millions), and require support and nurturing both from the airline and the community.

As well, routes may only be sufficiently profitable for part of a year, which requires us to cross-subsidize leaner periods in order to maintain profitable year round service. The Calgary community clearly understood this and expressed a willingness to work with us to build a route to Japan.

We launched the Calgary-Tokyo route with seasonal, three-times a week service which was increased within two years to five-times a week during the summer peak.

And this year we introduced daily service in peak due to the strong response from both ends of the route.

It serves as a best practice study of how a route can be developed.

We know communities are especially keen on direct international service to their airport for many reasons, but most importantly because there is a proven linkage between air connectivity and economic development. For this reason, we are solicited to provide additional air service at almost every airport in Canada and so we have judicious and very difficult decisions to make.

A number of factors come into play but ultimately we owe it to our shareholders to base our network planning decisions on each and every flight's overall sustainable contribution to the profitability of our network, throughout the entire year.

Case in point, between 2004 and 2012, we have grown the number of flights to Calgary by 45 per cent, or 5.6 per cent per year on average. And we continue to grow...

During the peak next summer, we will be adding 30 per cent more capacity in Calgary in terms of seats over the Atlantic by having larger Boeing 777-300 aircraft flying to London and Frankfurt.

Early this year, as part of an overall Western expansion, we added

as much as 36 per cent more capacity on domestic routes between Calgary and the cities of Fort McMurray, Regina, Grande Prairie, Victoria, Yellowknife and Edmonton where we are also growing, having added 5 percent more capacity or 160,000 seats in the past year.

More recently, we launched a new service to Red Deer from Calgary that received an amazingly enthusiastic reception in that community.

So we will continue to grow in Calgary and in Alberta. Sometime next year, we expect Air Canada rouge will begin serving Alberta to vacation destinations.

Last month we opened a new cargo facility at the airport with 4,000 additional square feet of space that backs onto the airport apron for easier freight movement. Calgary is a major consolidation point for oil, gas and mining equipment and it saw

the fourth largest volume of air cargo in Canada in 2012, with 16.5 million kilograms passing through the facility.

Moreover, the airport's expansion plans to double the terminal space and add a new runway create a foundation for our future expansion, including a strong likelihood of more Asian service.

Our team is actively participating in joint planning meetings for the new terminal – and this cooperation will undoubtedly yield benefits for passengers.

There will be new priority check-in areas for premium customers and state-of-the-art self-service kiosks to speed the airport process.

We are also working with the authority to streamline the connection process, which in turn will enable us to establish a stronger flight network and more direct flights to the city and region.

These investments are proof that this community understands the importance of air travel and the necessity to have the right support and infrastructure in place, at the right cost structure.

But when we are talking about infrastructure, it is not only bricks and mortar that need to be considered. We must also be sure to have the right regulatory infrastructure if our industry is to be healthy.

The World Economic Forum Travel and Tourism Competitiveness Report ranked Canada fifth with regards to access, but 136th based on aviation cost structure.

Let me share another fact with you. The federal government collected \$989 million in 2012 from the Air Travellers Security Charge; Airport ground lease payments; and Federal and provincial government excise taxes on jet fuel. Collectively, these charges are what gives Canada the unenviable 136th ranking out of the 144 countries surveyed.

We have to get Canada's outrageous aviation "sin taxes" down if we are, as a country, to truly compete on a global basis. (Alcohol, Cigarettes, Aviation- which doesn't fit?)

Another needed change is to find ways to facilitate travel from certain key countries, particularly by easing visa requirements for emerging markets.

One example is our NAFTA partner Mexico which offers true bilateral traffic and trade opportunities that we are not fully capturing due to visa restrictions. Business and leisure visitors from Mexico, Chile, Brazil and many other countries cannot visit or even connect through Canada in a seamless fashion because of these visa restrictions – this too needs to change.

Measures such as these will ensure the Canadian airline industry remains competitive, strong and able to support jobs for the tens of thousands of Canadians across the country, which we, at Air

Canada, are able to directly or indirectly support through our more than \$5.5 billion contribution to the Canadian economy.

In conclusion, Air Canada has come a long way in only a few short years. Still, our transformation into a sustainably profitable global carrier continues apace and my intention today was not to spike the ball and declare victory. Let me assure you. We will not allow complacency to sink in.

We must and will continue to maintain a disciplined approach to our business and focus on the execution of the strategic initiatives that have brought us thus far.

These efforts have led to increased service and better connections, better jobs and more investment and I personally look forward to deepening our partnership with the people of Calgary and with Alberta generally.

Thank you.