



Sheraton Gateway Hotel Toronto International Airport Terminal 3

CAUTION REGARDING FORWARD-LOOKING INFORMATION



This press release includes forward-looking statements within the meaning of applicable securities laws. Forward-looking statements relate to analyses and other information that are based on forecasts of future results and estimates of amounts not yet determinable. These statements may involve, but are not limited to, comments relating to preliminary results, guidance, strategies, expectations, planned operations or future actions. Forward-looking statements are identified by the use of terms and phrases such as "preliminary", "anticipate", "believe", "could", "estimate", "expect", "intend", "may", "plan", "predict", "project", "will", "would", and similar terms and phrases, including references to assumptions.

Forward-looking statements, by their nature, are based on assumptions, including those described herein and are subject to important risks and uncertainties. Forward-looking statements cannot be relied upon due to, amongst other things, changing external events and general uncertainties of the business. Actual results may differ materially from results indicated in forward-looking statements due to a number of factors, including without limitation, industry, market, credit and economic conditions, the ability to reduce operating costs and secure financing, pension issues, energy prices, employee and labour relations, currency exchange and interest rates, competition, war, terrorist acts, epidemic diseases, environmental factors (including weather systems and other natural phenomena and factors arising from man-made sources), insurance issues and costs, changes in demand due to the seasonal nature of the business, supply issues, changes in laws, regulatory developments or proceedings, pending and future litigation and actions by third parties as well as the factors identified throughout this news release and those identified in section 18 "Risk Factors" of Air Canada's 2012 MD&A dated February 7, 2013 and in section 13 of Air Canada's First Quarter 2013 MD&A dated May 3, 2013. The forwardlooking statements contained in this news release represent Air Canada's expectations as of the date of this news release (or as of the date they are otherwise stated to be made), and are subject to change after such date. However, Air Canada disclaims any intention or obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise, except as required under applicable securities regulations.

FINANCIAL INFORMATION CONTAINED IN THIS PRESENTATION



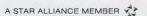
Financial information contained in this presentation has been derived from the historical consolidated financial statements of the Corporation for the applicable periods noted. Certain of the financial measures provided are non-GAAP financial measures. Reconciliations of those measures to comparable GAAP measures for the relevant periods can be found in Air Canada's Management's Discussion and Analysis reports, which are available on our website at aircanada.com.

Financial information for the year 2009 and prior are based on old Canadian GAAP (prior to the adoption of IFRS) while financial information for the 2010 period and onwards is reported under IFRS. In addition, certain changes in IFRS were adopted on January 1, 2013 with retroactive restatement to January 1, 2012 – refer to Air Canada's interim unaudited condensed consolidated financial statements and notes for the first quarter of 2013 for additional information. Financial information for 2010 and 2011 have not been restated to be on the same basis. As a result of the above, financial information across periods may not be comparable.





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Transforming Air Canada to Deliver Sustained Profitability and Shareholder Value

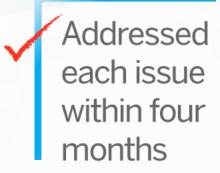
Calin Rovinescu

President and Chief Executive Officer

Overcame Past Challenges



- Weak balance sheet
- Onerous pension deficit payments
- Labour



Our Future



Working to become sustainable and profitable for the long term

- Excellent management team
- Profit and results-driven
- Performance oriented compensation structure

Liquidity and Financing



- Doubled our liquidity since 2009
 Cash levels over \$2B
- More efficient financing vehicles
 EETC closed with face value of \$715M and blended coupon rate of 4.7%
- Looking at refinancing of high yield debt to reduce interest costs

Capital Commitments



Boeing 777s mark first significant wide-body expansion in ten years

AIR CAN

 Overlap with delivery of 37 Boeing 787s



Domestic

- Replace CRJ100/200 with Q400 in Western Canada
- Introduction of Q400 at Toronto City Centre
- Grow key transcon routes at lower unit cost





Transborder

- Increased flexibility in new ACPA agreement for small jets at regional partners
- Transition of EMB 175 to Sky Regional
- Air Canada rouge on select high-volume leisure markets









International

- Air Canada rouge on Caribbean and some seasonal European leisure destinations
- Introduction of low unit cost, high density Boeing 777s
- Increase 6th freedom traffic
- Further expansion of Toronto Pearson Airport as international gateway







International

- Introduction of Premium Economy
- Introduction of Boeing 787







Service Level Expectations Within Our Markets



- Record load factor of 82.7% in 2012
- Best International Airline in North America for three consecutive years
- Ranked favourite airline by 80% of Canadian business travellers in Ipsos Reid survey



Service Level Expectations Within Our Markets



 Products and services highly valued by customers



Executive First lie-flat seats

Maple Leaf Lounges

- Concierge
- Mobile apps
- Air Canada Altitude



Becoming More Efficient



- ASMs increased 13% 2009-2012
- Average annual load factor up steadily increasing
 - 2012 record load factor 82.7%
- 30% year-over-year OTP improvement
- Reduction in unserviceable aircraft in April and May this year

Lowering Risk and Pension Funding



- Strengthening our balance sheet
- Lowering overall risk profile
- Reduced net debt by almost \$1.5B from 2009
- Reduced net debt in first three months of 2013 by \$150M
- Changes negotiated to Defined Benefit plans
- Extension of pension funding arrangements to January 30, 2021

Four Core Priorities





COST REDUCTION AND TRANSFORMATION



INTERNATIONAL GROWTH



CUSTOMER ENGAGEMENT



CULTURE CHANGE





- Achieved annual cost savings in excess of \$530M
- CTP part of Air Canada DNA and transitions to Business Transformation
- Efficiencies
 - Lower fuel consumption
 - Better turnaround times
 - Reduction of credit card fees
 - Rigorous RFP process





Flexibility

- CASM reduction through important changes to Collective Agreements such as
 - changed work rules
 - ability to launch Air Canada rouge
 - expanded use of 75-seat aircraft at regional carriers





New Opportunities

- Reduce costs through new MRO agreements following closure of Aveos
 - Expect substantial maintenance cost improvements and TATs
- Arbitration on Jazz benchmarking





Fleet Flexibility

- Can adjust to market and competitive demands
- High-density Boeing 777s and deployment of Boeing 787s provide significant cost advantages
- Deploying Q400s at Toronto City Centre
- Outsourcing flying of EMB 175s to Sky Regional





Revenue Initiatives

- Growing ancillary revenues
- Improving net Aeroplan revenues
- Loyalty program for small businesses
- Introduction of new Revenue Management System

Record operating revenue of \$12.1B in 2012





Cost transformation is continuous...

 \$50M Q2 cost reduction target good example of moving quickly



- System ASM capacity to increase 9 to 11% in 2014
- Investing in wide-body aircraft, products and services









Star Alliance
Offering customers
over 1,300 airports

- Continued development of commercial alliances
- A++
- New Code share agreements
 - South African Airlines,
 Turkish Airlines,
 Etihad











New mainline destinations

 Copenhagen, Brussels, Geneva, and new Calgary-Narita route





- Adding 7 flights a week to Beijing
- 11 daily departures to Asia, 43,000+ seats/ week crossing the Pacific
- Capital investment of about \$1.5B







- 21% increase in 6th Freedom Traffic at Toronto Pearson
- New aircraft to introduce new routes
 - Toronto-Istanbul and Toronto-Seoul









Air Canada rouge



- Boeing 767s transfer to Air Canada rouge
- Operate in July to Europe and Caribbean
- 40 routes from four Canadian cities by end of 2014
- Expand to 50 aircraft by end of 2015





Air Canada rouge



- Lower cost structure
 - Flexible work rules
 - Higher-density configuration
- Combined ACV with leisure group for higher profile, more heft in leisure market
- Progress on aligning functions

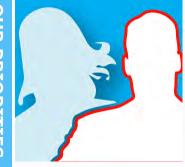
Air Canada *rouge* targets improved profitability in the leisure market



Engaging Our Customers



- Substantial investment in product since 2006 puts us ahead of competition
- Doubled movie content on free on-board entertainment system
- Refurbished Maple Leaf Lounges
- Revamped loyalty program as Altitude
- Won numerous industry awards



Culture Change



- Re-gaining momentum with agreements in place
- Cross-functional approach motivates employees
- Renewed focus on constructive and transparent dialogue
- Talent management and training
- Employees better understand the competitive landscape
- New contracts narrow cost differential

Achieving Results



- First annual profit since 2007
 Adjusted net income \$55M vs adjusted net loss in 2011
- Improvements in metrics
 Profit, revenue, balance sheet and customer demand
- Share price increased 76% during 2012

Share Price



- Trading at less than 4X EBITDAR multiple
- Share price continues to lag strengthening fundamentals

Going Forward



Focused on execution of strategic priorities

- Attack costs
- New revenues
- Improve customer experience
- Adapt to competitive environment

Going Forward

- Sustainable, profitable airline
- Attain a return on invested capital that exceeds weighed cost of capital
- Capable of rewarding shareholders

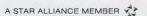








Sheraton Gateway Hotel Toronto International Airport Terminal 3





Commercial Strategy

Benjamin Smith Chief Commercial Officer

Our Objectives



- Profitable international and leisure carrier growth
- Enhance and optimize revenue stream through new technology, product offering and segmentation
- Leverage the brand
- Improved unit cost proposition

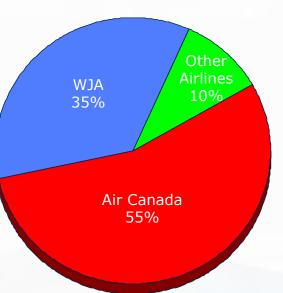


The Path Forward WHERE WE ARE

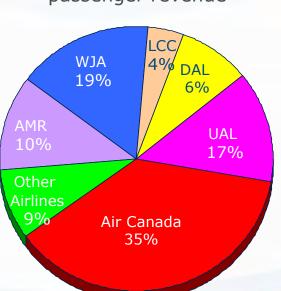
Air Canada Leading Share in All Markets



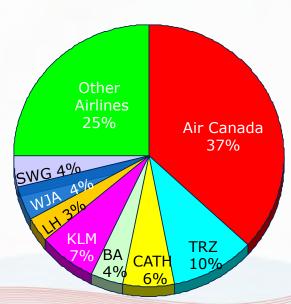








International accounts for **41%** of passenger revenue



- Source: OAG data, based on full year 2012 available seat miles (ASMs)
- AC Revenue Split based on 2012 full year revenues

International Growth Strategy Underway







- High density configuration of 458 seats
- +one in early 2014



New routes from Toronto to Istanbul & Seoul

- Toronto-Seoul three weekly eff. June 2013
- Toronto-Istanbul three weekly eff. June 2013

Expansion to Asia

- Calgary-Tokyo to daily eff. May 2013
- Toronto-Beijing to 10 weekly eff. June 2013 and Vancouver-Beijing to 11 weekly eff. June 2013



Launch of Air Canada rouge

- July 2013 start with two Boeing 767 and two Airbus A319
- Launch routes to Athens, Edinburgh and Venice
- Transferring over existing leisure Caribbean/Mexico/ Central America routes
- Toronto-Dublin route to go year-round effective winter 2014/2015

Air Canada is Not Yet a Big Player in the USA International Market



% of US-Europe/Asia Market by non-US Carriers



- Air Canada "fair share" is approximately 1.5%
- Should Air Canada meet this target – this would equate to an additional 1.1M incremental passengers per year and over \$400M in revenue
- Canadian hubs have excellent geographic positioning & efficient transit facilities vs. other global hubs
- Air Canada covers all major markets in the USA with multiple frequencies per day

* Source: PaxIS - TME March 2013

Air Canada is Emulating the Successful KLM Hub Structure in Amsterdam





- KLM services 132 destinations from its Amsterdam hub despite a relatively small home base
 - Focus is on sixth freedom flow traffic 70% of KLM's traffic is international flow traffic
 - KLM has seven distinct departure "waves" tight connections over the day to allow optimal connectivity
- KLM operates higher density aircraft to provide optimal seat cost for this type of transfer traffic

Roadmap to Sustained Profitability



Network

- Continue to build Toronto-Pearson into a global gateway
- Maintain a leadership position in strategic North American markets
- Drive more international traffic (sixth freedom) through Canada
- Be a relevant player in leisure markets

Product

- Offer a best-in-class business class on all mainline aircraft
- Introduce new Premium Economy to enhance revenues
- Continue to raise brand profile through SkyTrax Four Star rating & SkyTrax "Best Airline in North America"

Fleet

- Reconfigure widebody aircraft to decrease unit costs
- Delivery of new Boeing 787 enhances economic feasibility of many new route possibilities
- Grow Air Canada *rouge* fleet to improve presence in leisure markets



The Path Forward

THE INFRASTRUCTURE IS ALREADY IN PLACE

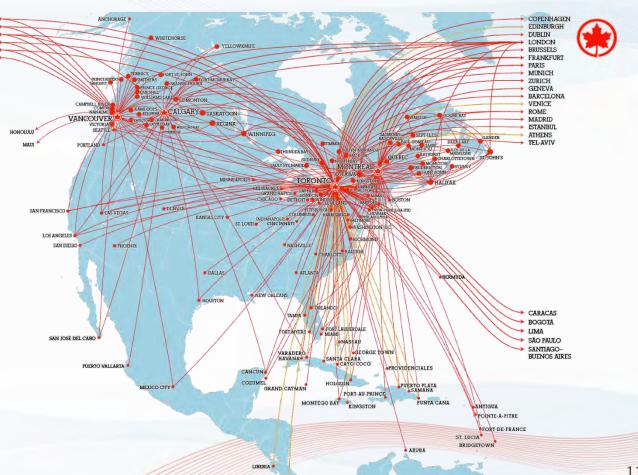
Building On a Powerful Network

Air Canada Spring/Summer 2013

Air Canada rouge™ as at July 2013

179 Direct Destinations:

- → 59 in Canada
- +53 in the U.S.
- → 67 internationally
- → 15th Largest Airline in the World
- → 349 aircraft
- \rightarrow >1,500 daily flights
- → ~35M passengers carried





A++ Partnership with United and Lufthansa Delivers Tangible Benefits to Air Canada



















- Global market presence leveraging each carriers' strengths in their home markets
- Co-ordinated approach to pricing, inventory management and capacity in this market segment
- Access to Corporate contracts in all markets where offered by A++ partners
- Results have been impressive:
 - Increased US sixth freedom traffic and revenue
 - All POS US Sales channels have shown considerable growth
 - Increased corporate revenue on all services
 - LH/UA traffic on AC Atlantic services grew significantly
 - Average fares for local and behind/beyond traffic improved



Enhancing Global Market Presence Through

Star Alliance™ & Joint Venture



Star Alliance – 6th time winner

Best Airline Alliance
in the 2012

Skytrax World Airline Awards™



SINGAPORE AIRLINES

WINNER

SKYTRA



- → 27 Members
- → **194** Countries Served
- → 1,329 Airports
- → >670M Passengers/year



- → **4,570** Aircraft
- → 21,900 Daily Departures
- → >1000 Lounges

Focusing on the International Activity at Toronto Pearson Airport





- Canada's largest city and financial powerhouse with a population of 5.5 million in the Greater Toronto Area
- Ranked as one of the most multi-cultural city in the world by UNESCO
- World Class facility to support the goal of World Class Hub
 - Terminal 1 all Star Alliance carriers under one roof
 - Superior experience vs. US gateways
- Large demand from catchment area to all continents
- Excellent geographical position for connection traffic between South America – Asia and North America – Asia/Europe

Industry-Leading Products & Services





- The only international carrier in N.A. to receive a four star ranking by Skytrax
- Frequent flyer recognition program "Air Canada Altitude"
- Star Alliance membership
- Maple Leaf Lounges
- Concierge program
- Lie-flat beds in Executive First
- Personal seat back entertainment at every seat
- Mobile-friendly booking and check-in

Air Canada Continues to Receive Numerous Awards from the Industry



2012 Skytrax W	/orld Airline Awards –
3rd consecutiv	ve year

2012 Skytrax ranking: Four-Star Airline



- Best International Airline in North America
- Ranked the only international Four-Star Airline in North America

Global Traveler magazine – 2012 **4th consecutive year**

Executive Travel Magazine – 2012 Leading Edge

Awards - 2012 Leading Edge

5th consecutive year

Business Traveler magazine – 2012 **5th consecutive year**

- Best Flight Experience to Canada

Best Airline in North America

- Best North American Airline for International Travel
- → Best North American Airline Inflight Experience

Premier Travel magazine

- Best North American Airline for Business Class Service
- Best North American Airline for International Travel
- Best Flight Attendants in North America







Provides feeder traffic to Air Canada's scheduled routes





Q400 aircraft (86) 37-74 seats



Embraer (15) 73 seats



18 seats

- Jazz fleet at 122 aircraft (including 21 Q-400 aircraft)
 - Q-400 aircraft are optimized for short-haul operations and deliver fuel efficiency, passenger comfort and lower operating costs than the aircraft they replace
- New collective agreement with ACPA allows for transfer of jets/prop of less than 76 seats to regional carriers
- All 15 Embraer 175 aircraft transferred to Sky Regional by year-end 2013 under a Capacity Purchase Agreement with substantially lower cost than mainline



The Path Forward

TRANSFORMING AIR CANADA INTO A GLOBAL CHAMPION

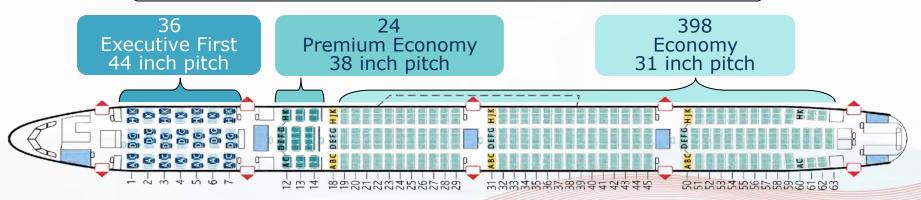


New Boeing 777-300ERs Will Substantially Reduce Unit Costs



- Five new Boeing 777s are expected to be strategically deployed on select international markets
- The product, seat configuration and cabin interior of the new Boeing 777s do not reflect the new standard being developed for the Boeing 787 arriving in 2014
- Deployment strategy is primarily focused on improving competitive position on lower yielding but high volume markets
- Unit seat costs reduce in excess of 30% versus current 349 seat Air Canada Boeing 777-300
- RASM compromise marginal given aircraft will still hold sizeable premium seating capacity

New Boeing 777-300ER – three class configuration



Improving Premium Revenues with new



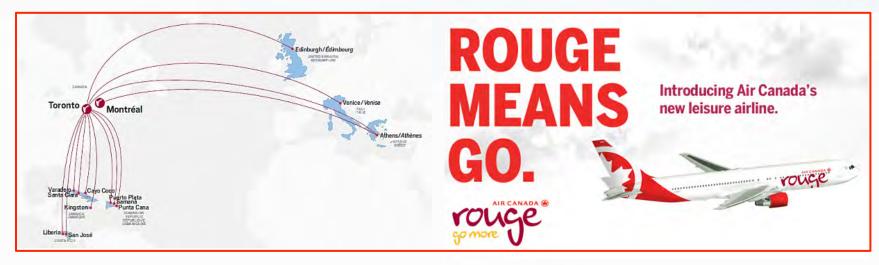


- New class of service on both mainline and rouge fleets
- Will provide more seating pitch and width than economy class
- Segmented product aimed towards higher end customers seeking to improve comfort and travel experience
- Enhanced travel experience (priority check-in, baggage allowance, on-board meals, bar, etc.)
- Easy to book on aircanada.com

To: Pa	aris, Charles	De Gaulle,	(YUL) , FR (CDG)							Compare our t	fare options
							Economy			<u>Premium</u> <u>Economy</u>	Executive First
Op. F	Flights	Depart	Arrive	Aircraft	Duration	Connections	<u>Tango</u>	<u>Flex</u>	<u>Latitude</u>		⊙ <u>Lowest</u> ⊃ <u>Flexible</u>
Direct Fligh	hts										
(*)	AC870	20:55	09:45 + 1 day	<u>77W</u>	6hr50		O \$465	O \$515	O \$1965	O \$854	O \$1910

rouge is Tool Which Will Position Air Canada Profitably in the Leisure Market





- Air Canada rouge offers significantly lower seat cost than mainline
- Air Canada rouge will pursue opportunities in markets made viable by its lower operating cost structure, and subject to market conditions, will expand to other destinations as Air Canada takes delivery of new Boeing 787 aircraft
- Air Canada rouge may operate up to 20 Boeing 767-300ER and 30 Airbus A319

Leveraging Opportunities for Revenue Growth



- Growing ancillary revenues through various passenger-related fees and opportunity to further optimize
- Improved net Aeroplan revenue
 - Reduced Aeroplan frequent flyer accumulation fees to 50% on Tango service for international routes
- Launch of loyalty program for small businesses
 - Loyalty program caters to small and medium-size businesses allowing them to earn rewards and complimentary services
 - Introduction of new Revenue Management System (RMS) which is being phased in over the next two years
 - Lowest price guarantee assures customers of best available price on-line

Enhancement of Revenue Management System



 Implementation of a new origin-destination based revenue management system



- Benefits will come from better optimization of passenger flows across the network
- Expected incremental revenue in excess of \$100M in 2015

Note: Cutover planned for Q4/2014

Ongoing Focus on Revenue Optimization

Implementation of customer centricity system

Customer Database: 360°Integrated View Of the Customer

CRM platform: Targeted Campaign

ārgeted Campaign Management **Advanced Analytics:**Segmentation, ROI,
Customer Insights

Strategic Benefits

- Ability to fully understand customers' experience with AC and act upon it
 - Recovery, retention, re-acquisition
- Modeling of Customer Lifetime Value
 - Extract max value from customers
- Sophisticated segmentation
 - Allows us to strategically develop products, services and communications differently for different customer segments

Tactical Benefits

- Optimized marketing offers
 - Maximize efficiency and ROI
 - Improvement measurement
 - Personalization
- Customer engagement
 - Relevant offers and messaging
 - Timely customer recovery
- New channels for traffic stimulation, yield improvement
- Increased competitiveness

Ongoing Focus on Revenue Optimization





Altitude membership cards









altitude.aircanada.com



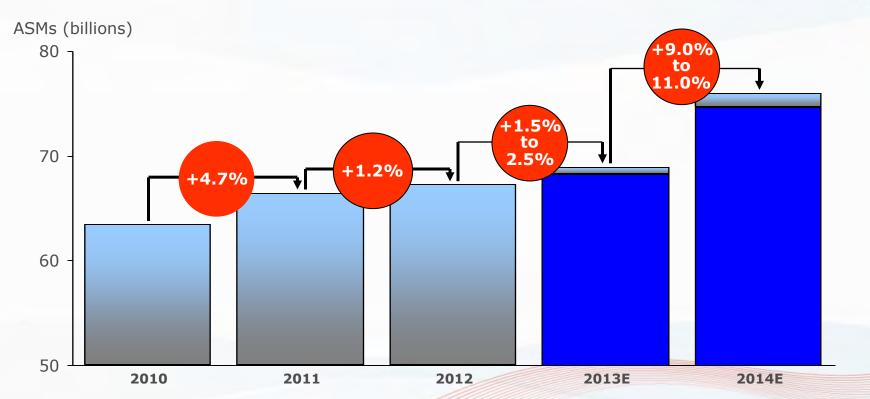
- Air Canada launched Altitude on March 1, 2013, a new brand for the program which recognizes & rewards our most frequent flyers
- Two new status levels were introduced, for a total of five:
 - Altitude Prestige 25K
 - Altitude Elite 35K
 - Altitude Elite 50K (new)
 - Altitude Elite 75K (new)
 - Altitude Super Elite 100K
- Long time members are also recognized through the Altitude Million Mile program
- Altitude offers members a range of privileges, such as upgrades, lounge access, priority reservation & airport services, recognition across the Star Alliance network and threshold gifts, depending on the status reached
- Altitude members are also Aeroplan members, and benefit from Air Canada's partnership with Canada's premier coalition loyalty program



The Path Forward 2014 AND BEYOND

System Capacity Growth Directed at Higher Margin International Flying





The Air Canada INC. Widebody Fleet Plan Calls for Growth



	Planned Fleet					
	Dec 2012	Dec 2013	Dec 2014	Dec 2015		
Mainline						
Boeing 787	-	-	7	12		
Boeing 777-300	12	16	17	17		
Boeing 777-200	6	6	6	6		
Boeing 767-300	30	27	21	17		
Airbus A330-300	8	8	8	8		
Airbus A321	10	10	10	10		
Airbus A320	41	41	41	41		
Airbus A319	38	30	13	8		
EMBRAER 190	45	45	45	45		
EMBRAER 175	15	-	-	-		
Total Mainline	205	183	168	164		
Air Canada <i>roug</i> e™						
Boeing 767-300	-	2	8	12		
Airbus A319	-	8	25	30		
Total Air Canada <i>rouge</i> ™	-	10	33	42		
Combined total fleet	205	193	201	206		



One family of new technology / low unit cost narrowbody equipment

New generation aircraft offer seat cost improvement at similar trip cost



Cost per Trip

Building a Resilient Network & Fleet for the Future





Grow Revenues

- Expand the profitable international network
- Become a serious player in the USA sixth freedom market
- Position Toronto Pearson (YYZ) as a global hub
- Leverage Air Canada rouge in leisure markets
- Enhance premium revenues through new products such as Premium Economy and Economy Plus
- · Optimize aircraft configurations to improve overall profitability



Reduce Unit Costs

- Simplify fleet to fewer types to improve commonality
- Focus on reducing seat cost and frequency to improve overall network cost





Sheraton Gateway Hotel Toronto International Airport Terminal 3





Focused on Improving On-Time Performance, Reliability, Customer Service and Sustainable Profitability

Klaus Goersch
Executive Vice President & Chief Operating Officer

Our Objectives



- Safety is foundational in everything we do
- Improve operational statistics to be in the top quartile of North American Major Carriers
- Reduce operating expense
- Redesign the organizational structure to reduce layers
- Renegotiate contracts with major maintenance vendors and OEMs



Safety



- Safety is foundational
 - Strong reporting culture and with tools and processes to validate data
 - Renewal of IOSA registration, "no findings;
 no observations" for 5th consecutive time
- Safe operations through strong SOPs
 - Reduction in employee injuries and ground damage to aircraft and other equipment
- Occupational safety and health of employees
 - Reduction in on-the-job injuries and lost time through back injury prevention programs
 - Engaged with WCBs to design safety programs



Circle of Life for a Flight





Fewer cancelled flights Improved baggage delivery

On Time Performance Initiatives



- Boarding pass checks
- Detailed roadmaps for each branch
- Renewed focus on start up
- Realigned Station resources
- "Work Together" program
- Updated block time calculation methodology
- Reduced minimum turnaround time
- Making more aircraft available to fly the schedule

Improving Operational Statistics On-time Performance in Past 13 Months

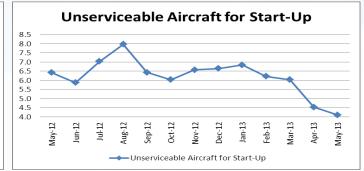


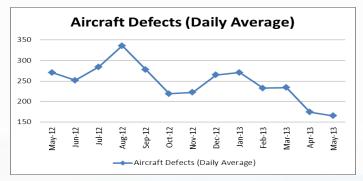


Other Performance Measures Improving





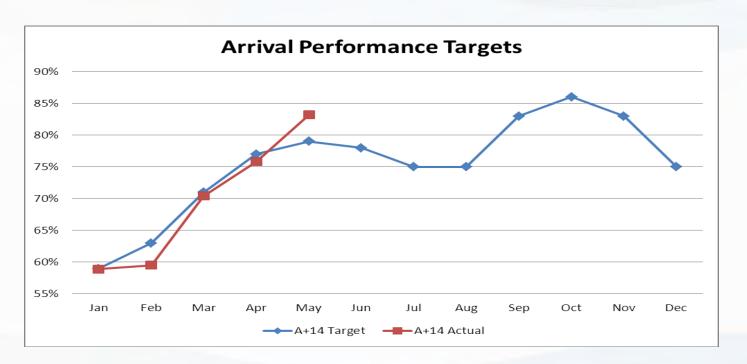






Moving Forward We are on Track





Arrival targets for the remainder of the year continue to be aggressive aiming for the 1st quartile

Strong Performance Against Industry



Apr 1	9 - Apr 25	Apr 26	- May 02	May 0	3 - May 09	May 1	10 - May 16	May 1	7 - May 23	May	24 - May 30
	Arrivals		Arrivals		Arrivals		Arrivals		Arrivals		Arrivals
	@14		@14		@14		@14		@14		@14
ACM	87.0 %	9E	89.4%	ACM	93.2%	DL	91.5%	00	84.8%	DL	89.2%
WS	84.1%	ACM	<i>87.8</i> %	FL	88.3%	9E	88.5%	ACM	84.6%	ACM	88.9%
00	83.5%	DL	87.6%	WS	87.3%	FL	88.1%	WS	82.1%	FL	88.8%
DL	82.7%	UA	86.0%	DL	87.1%	US	87.4%	US	77.3%	WS	85.3%
9E	80.7%	00	85.7%	9E	85.7%	00	85.0%	DL	77.2%	В6	84.6%
FL	76.3%	B6	85.5%	00	82.8%	ACM	83.1%	UA	76.0%	US	83.5%
US	73.9%	US	84.8%	US	81.7%	UA	82.2%	9E	74.9%	00	82.5%
UA	73.4%	AA	84.0%	UA	81.1%	В6	82.1%	В6	73.3%	UA	80.3%
AA	73.4%	MQ	83.1%	AA	81.0%	AA	80.4%	FL	69.7%	9E	79.9%
EV	70.5%	FL	81.3%	В6	78.6%	WS	78.9%	AA	68.8%	EV	78.6%
MQ	66.1%	WS	80.9%	EV	78.5%	EV	78.2%	EV	67.2%	AA	75.3%
B6	58.3%	EV	77.6%	MQ	76.1%	MQ	75.6%	MQ	63.2%	MQ	68.8%

LEGEND
9E - Pinnacle Airlines
AA - American Airlines
ACM - AC Mainline
B6 - JetBlue Airways
DL - Delta Air Lines
EV - ExpressJet
FL - AirTran
MQ - American Eagle
00 - SkyWest Airlines
UA - United Airlines
US - US Airways
WS - WestJet

Data Source: FlightStats

North American Operations exclude Mexico and Caribbean



Reduce Operating Expenses and Improve Productivity



- Improve crew and aircraft scheduling parameters to enhance crew productivity
- Several maintenance initiatives underway to improve aircraft reliability and to reduce out-ofservice costs and customer interrupted trip cost
- Applied to Transport Canada to change the flight attendant ratio from 1:40 passengers to 1:50 seats

Reduce Operating Expenses and Improve **Productivity**



- New fuel initiatives to reduce consumption
 - In collaboration with IBM, Watson and Simon, new route optimization that is estimated to reduce 6M kilos of fuel annually, or about \$7M
 - Increased engine compressor washes estimated to save 4.6M kilos of fuel or about \$5M
 - Flight re-dispatch, contingency fuel and over fueling initiatives estimated to reduce consumption by 1.7M kilos per year, or about \$2M
 - Transitioning to a new lighter paint to reduce aircraft weight by about 500 - 800 kilos per wide body aircraft

Reduce Operating Expenses and Improve Productivity



- We have negotiated new, more cost effective maintenance component contracts for our entire fleet
- Currently in negotiation with providers to further reduce our engine maintenance cost and enter into a long term power by the hour program for the majority of our fleet
- Reevaluating our crew optimization software to improve crew efficiencies and cost reductions
- We have introduced new maintenance planning software to improve maintenance forecasting and streamline our supply chain

Reduce Operating Expenses and Improve **Productivity**



- Flattened the organization by eliminating a senior vice president in operations
- Streamlined reporting lines
- Consolidated crew scheduling into one department
- Continuing to review the organization to further eliminate duplication and gain further efficiencies throughout the organization

Improving the Customer Experience



- Improvements in on-time performance and reliability
- Streamlining the boarding process
- Improved international connections through our major hubs by not having to re-claim luggage
- Improving our on-board offerings and consistency of service especially on our long haul international flights







Sheraton Gateway Hotel Toronto International Airport Terminal 3





Focused on Improving ROIC and Sustainable Profitability



Michael Rousseau

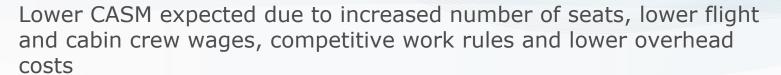
Executive Vice President & Chief Financial Officer

Our Objectives

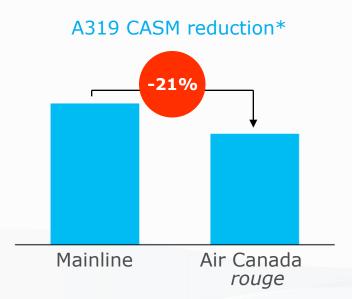


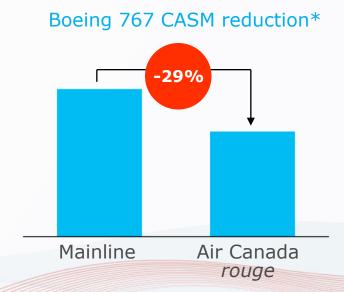
- EBITDAR, adjusted net income and ROIC improvement
 - Execute strategic initiatives
 - Lower cost structure
 - Targeted deployment of growth capital
- Stronger balance sheet
 - Lower risk profile
 - New financing arrangements
- Create shareholder value
 - Increase earnings and ROIC leading to a higher multiple and lower risk profile

Air Canada rouge







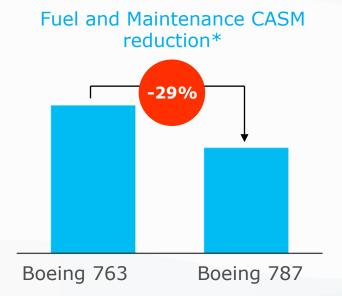


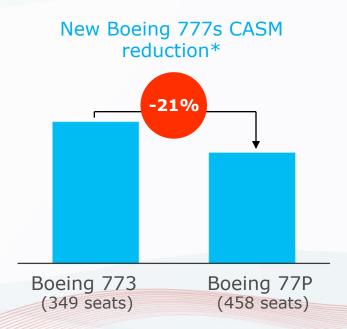
Boeing 787s and 777s





 Boeing 777 CASM reduction expected due to increased number of seats

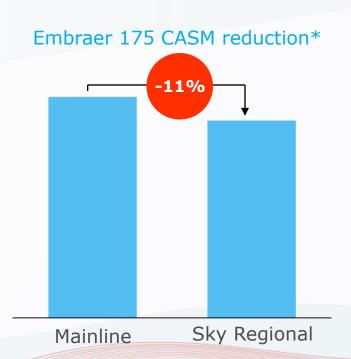




Transfer of Embraer 175 Aircraft to Lower Cost Regional Provider

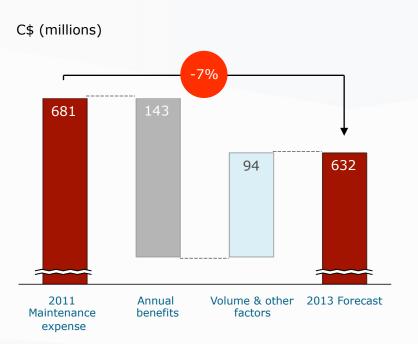


Embraer 175 CASM reduction expected due to lower wages and benefits and lower net overhead



Realizing Significant Cost Savings Through New Maintenance Agreements

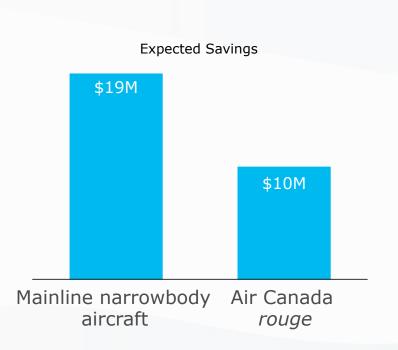




- Annual benefits of \$143M represent the value of preand post-Aveos rates
- Expected revenue benefits of increased aircraft availability from improved turnaround times is estimated at \$100M over the 2013-2016 period
- Additional annual depreciation savings of \$40M - incorporated in guidance

1:50 Flight Attendant Rule





- Proposed change to go to 1:50 seats rather than 1:40 passengers
- Expected savings of \$19M at mainline narrowbody
 - Full impact at mainline in 2014
- Expected savings of \$10M at Air Canada rouge
 - Impact at Air Canada rouge when it reaches 50 aircraft

Other Strategic Initiatives



- Air Canada is aggressively pursuing its claim for a meaningful reduction in the mark-up rate under the Jazz CPA
 - Arbitrator's decision is expected by the end of 2013
- Procurement initiatives
 - Since mid-2010, achieved annual savings of 12%, representing \$70M per year on a run-rate basis
 - Spend areas being addressed include marketing & communications, global airside services and IT end-user services

Other Strategic Initiatives cont'd



 Business transformation initiatives - Expected run-rate benefits of \$55M to \$75M annually

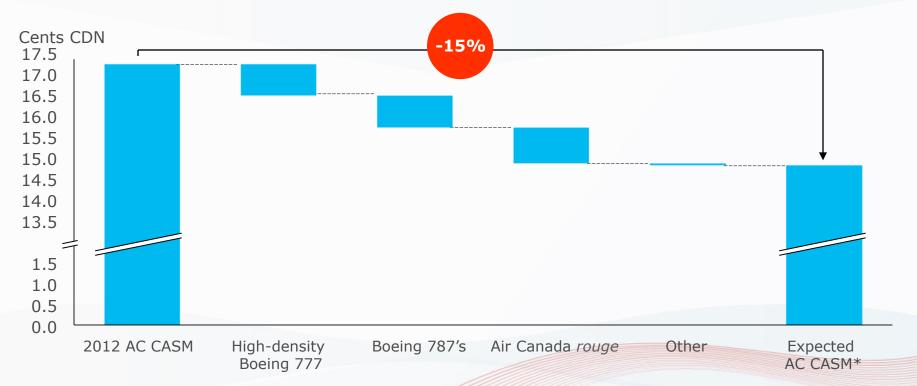
Initiatives include:

- Improving productivity in Call Centres
- Enhancing supply chain & maintenance planning processes
- Maximizing check-in automation and streamline gate processes
- Employing better processes involved in turnaround of aircraft and increase asset utilization
- Lowering fuel consumption

Lower Cost Structure

 If implemented today, cost reduction initiatives would be expected to decrease CASM by an estimated 15%





Tactical Approach to Cost Reduction

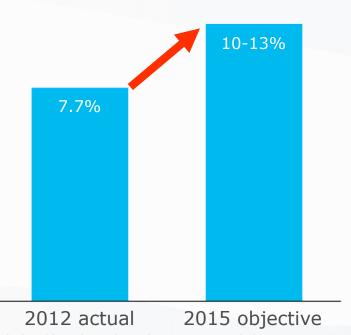
 Implemented a \$50M cost reduction program to support earnings growth in short term



- Company-wide hiring freeze
- Manpower cost reductions
 - promoting undertime
 - providing leave of absences
 - maintaining strict control on overtime
- Termination of consultant arrangements
- Reductions negotiated with key suppliers
- Further improvements being identified for Q3 and Q4
 - crew complements
 - peak December capacity
 - aircraft maintenance requirements

Targeting Return on Invested Capital to Exceed Cost of Capital





Roadmap

- Increase return on invested capital through strategic investments in aircraft and technology, lower CASM and debt reduction
- Reduce weighted average cost of capital
 - 9.6% (pre-tax)
 - 7.6% (after tax)

Return is calculated based on adjusted net income, excluding interest expense and implied interest on off-balance-sheet aircraft operating leases. Invested capital includes average long-term debt, average finance lease obligations, market capitalization and off-balance-sheet aircraft operating leases.

Stronger Balance Sheet



Our Objectives

- Maintain at least \$1.7B in unrestricted cash
- Reduce net debt
- Eliminate defined benefit pension plan deficit

Maintaining Strong Liquidity Position

Liquidity position well above target minimum level of \$1.7B





Solid Progress on Net Debt Reduction

Reduction accomplished through free cash flow



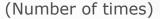


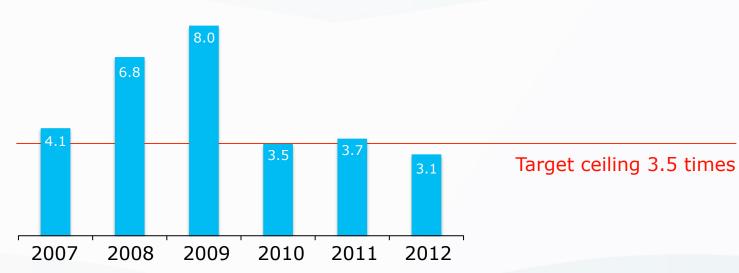
Operating leases have been capitalized using 7x aircraft rent expense

Managing Financial Leverage



Net debt to EBITDAR ratio*



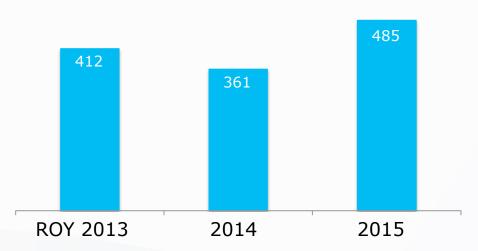


*Reflects adjusted net debt to trailing 12-month normalized EBITDAR ratio

Schedule of Principal Repayment on Debt is Manageable







- Assumes potential refinancing
- Includes principal repayments from EETC financing
- U.S. dollar amounts are converted using the March 31, 2013 closing rate of CDN \$1.016

Concrete Actions Taken to Reduce Pension Deficit and Manage Future Risk Profile



- Elimination of 90% of company sponsored defined benefit pension plan accruals for new hires
- Benefit changes to all defined benefit pension plans resulting in approximately \$1.1B reduction in solvency liabilities based on January 1, 2012 actuarial valuations (subject to OSFI approval)
- New funding relief to January 30, 2021 agreed to with the Government of Canada, subject to the adoption of enabling regulations

Concrete Actions Taken to Reduce Pension Deficit and Manage Future Risk Profile

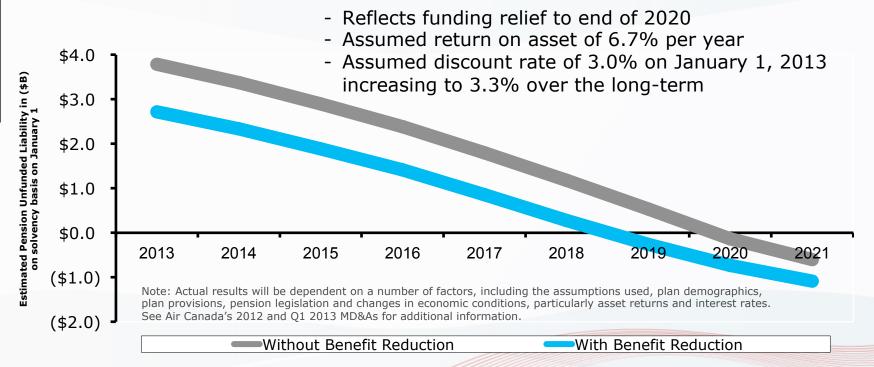


Interest Rate Sensitivity

- Discount rate of 3.0% at January 1, 2013, compared to 4.5% at five years previous and 6.2% at ten years previous
- Increase of 1% in discount rate causes a decrease of \$2.0B in solvency liabilities

Assuming Funding Relief Adopted, Plausible Conditions (discount rate, return on assets) Could Have Solvency Deficit Eliminated No Later Than 2020





Pension – Solvency Position Update



C\$ (millions)	Solvency Deficit
Estimated solvency deficit at January 1, 2013	\$3,660
Interest on deficit + solvency incremental cost	110
Past service contributions — YTD May 31, 2013	(90)
Estimated impact of economic factors to May 31, 2013	
21 bps increase in solvency discount rate	(450)
Return above assumption (2013 year-to-date estimated return of 5.6% before expenses)	(470)
Estimated solvency deficit as at May 31, 2013	\$2,760
Estimated solvency deficit including \$1.1B solvency liabilities reduction*	\$1,660

^{*} Estimated reduction in solvency liabilities from benefit reductions based on January 1, 2012 assumptions; subject to OSFI's approval

New Financing Arrangements



- Implementation of Cape Town Convention (CTC) in Canada provides:
 - New and attractive source of aircraft financing in the U.S. markets
 - Level playing field with U.S. airlines
- Successfully concluded a private offering of enhanced trust certificates (EETCs), which relies on CTC, to finance five new Boeing 777-300ER aircraft

New Financing Arrangements cont'd



- Offering comprised of three tranches of certificates (with the A tranche rated investment grade) with a combined face value of US\$715M and blended coupon rate for all tranches of 4.7% for a maximum term of 12 years
- Positive development for the financing of Air Canada's upcoming Boeing 787 aircraft deliveries as more financing alternatives overall should lead to more favourable terms

Roadmap to Sustained Profitability and Investor Value Proposition



- Execute strategic and tactical initiatives to reduce CASM
- Strengthen balance sheet and reduce overall risk profile by aggressively managing leverage
- Increase return on invested capital through significant investment in new aircraft, technology, lower CASM and debt reduction
- Strong brand, extensive worldwide network and partnerships, and award-winning service