

AIR CANADA



*Presents
at the*

**Bank of America
Merrill Lynch**



**2013 Global
Transportation
Conference**

Boston

May 15, 2013



**Best International Airline
in North America
*Meilleur transporteur
aérien international
en Amérique du Nord***

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Agenda

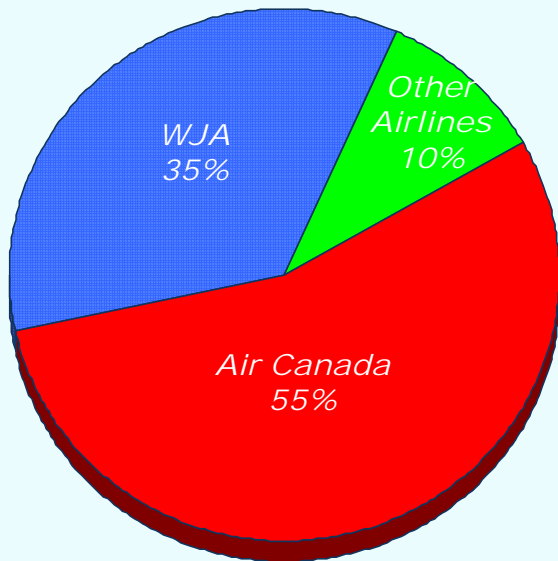
- ✈ About Air Canada
- ✈ Leveraging Competitive Advantages
- ✈ Building a Stronger Air Canada
- ✈ Financial Results
- ✈ Going Forward

About Air Canada

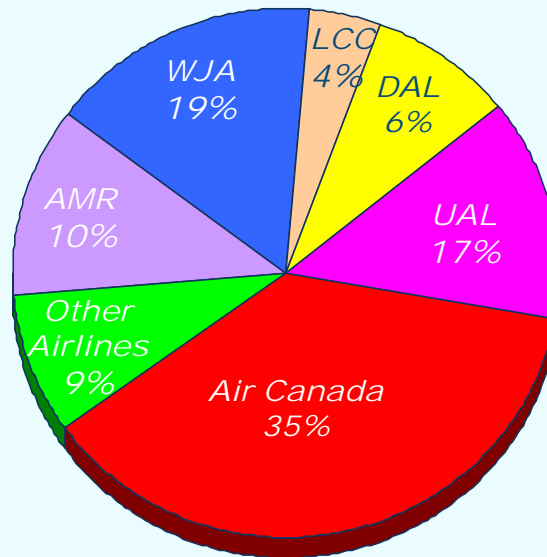


Leading Share in All Markets

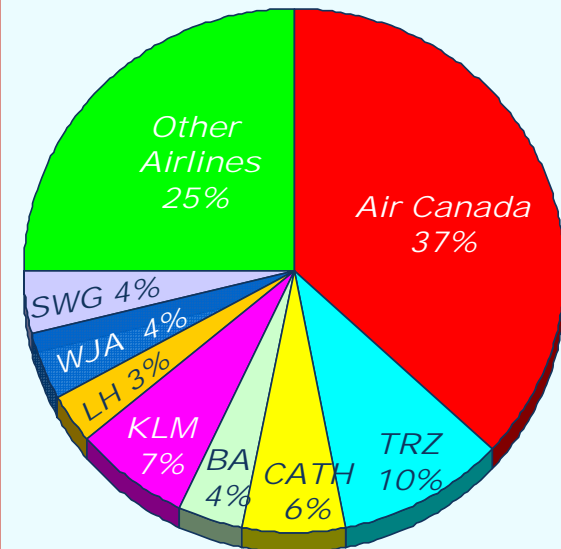
Domestic
accounts for
39% of
passenger
revenue



Transborder
accounts for
20% of
passenger
revenue



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

Fleet Flexibility to Adjust to Market Demand

	Dec 2012	Planned Fleet		
		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>rouge</i>TM				
Boeing 767-300	-	2	8	12
Airbus A319	-	8	25	30
Total Air Canada <i>rouge</i>TM	-	10	33	42
Combined total fleet	205	193	201	206

* As of May 3, 2013, four Embraer 175 aircraft have been transferred from Air Canada's mainline fleet to Sky Regional. The transfer of an additional 11 Embraer 175 aircraft, subject to certain conditions, is expected to be completed by the end of 2013.

Air Canada Express – Important Part of North American Strategy

AIR CANADA 
express provides feeder traffic to Air Canada's scheduled routes



CRJ aircraft (41)
50-75 seats



Dash 8 aircraft (86)
37-74 seats



Embraer (4)
73 seats



Beech aircraft (17)
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
- Four Embraer 175 aircraft transferred to Sky Regional
- Planned transfer of an additional 11 Embraer 175 aircraft to Sky Regional by the end of 2013 – Sky Regional will operate these aircraft under a capacity purchase agreement, at a lower cost than mainline

Other Award Winning Services Contribute to Profitability

AIR CANADA
CARGO 

Canada's largest provider
of air cargo services

AIR CANADA 
VACATIONS

One of Canada's leading
tour operators



Won 2012 **"Carrier of the Year"** award – in western, Eastern & central Canada – Forwarders Choice Awards



Won 2012 **"Favourite Tour Operator"** award at Baxter Travel Media's Agents' Choice Awards

2012 Awards & Recognition

2012 Skytrax World Airline Awards –
3rd consecutive year

2012 Skytrax ranking:



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

Global Traveler magazine – 2012
4th consecutive year

- **Best Airline in North America**
-

Executive Travel Magazine – 2012
Leading Edge Awards –
5th consecutive year

- **Best Flight Experience to Canada**
-

Business Traveler magazine – 2012
5th consecutive year

- **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**

Leveraging Competitive Advantages



Industry-Leading Products & Services

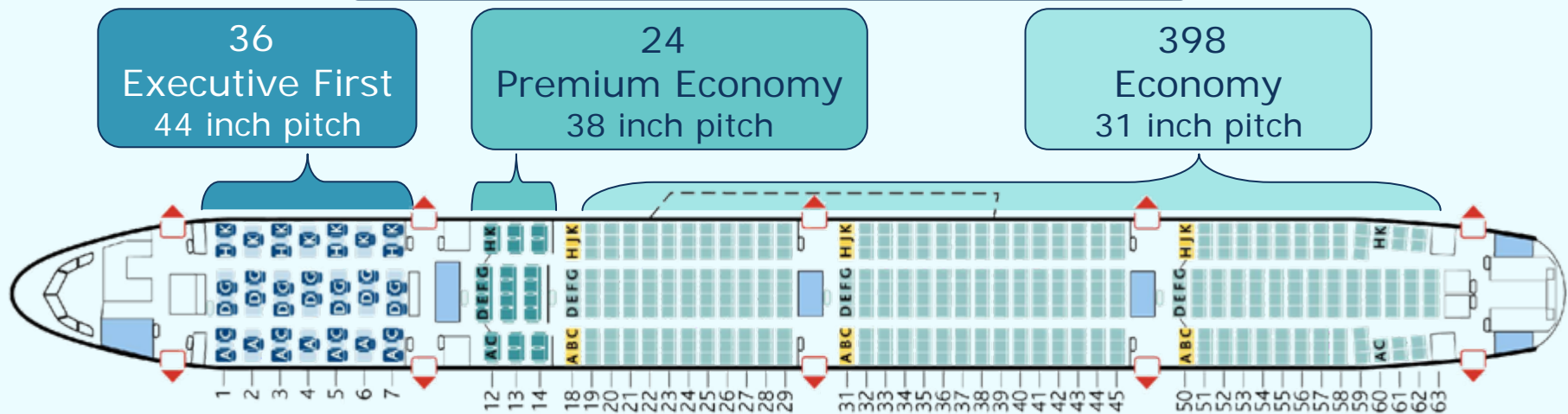


- The only international carrier in N.A. to receive a four star ranking by Skytrax
- Frequent flyer recognition program "Air Canada Altitude"
- Star Alliance membership
- Maple Leaf Lounges
- Concierge program
- Lie-flat beds in Executive First
- Personal seat back entertainment at every seat
- Mobile-friendly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

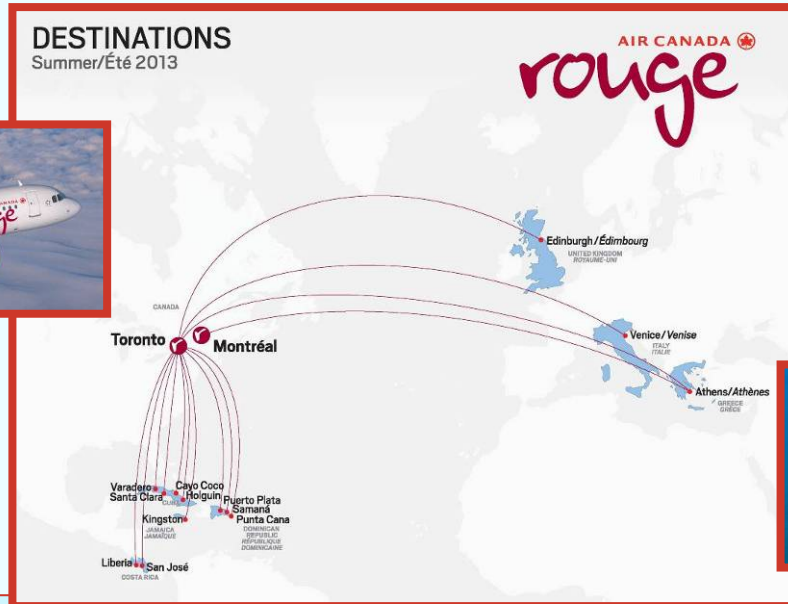
Investing in New Aircraft, Products & Services

- Five new Boeing 777s are expected to be strategically deployed on select international markets
- Boeing 787 Dreamliner aircraft, with expected delivery starting in 2014, will provide international expansion opportunities
- New Boeing 777s and 787s will be configured with three classes of service: Economy, Premium Economy and Executive First
- Air Canada *rouge*™ will be well-positioned in the growing leisure market

New Boeing 777 – three class configuration



Targeting Enhanced Profitability Through Low-cost Leisure Airline



- ➔ Air Canada *rouge*TM is scheduled to begin service with two Boeing 767 aircraft and two Airbus A319 aircraft (to be transferred from Air Canada's mainline fleet in 2013) with a transfer of an additional six Airbus A319 aircraft expected before the end of 2013
- ➔ Air Canada *rouge*TM to pursue opportunities in markets made viable by its lower operating cost structure – destinations at start-up include Venice, Italy, Edinburgh, Scotland and certain sun destinations and announced year round service to Dublin Ireland beginning in 2014
- ➔ Air Canada *rouge*TM will, subject to market conditions, expand to other destinations as Air Canada takes delivery of new Boeing 787 aircraft thereby freeing up other aircraft for transfer to the Air Canada *rouge*TM fleet – may operate up to 20 Boeing 767-300ER and 30 Airbus A319 aircraft, for a total fleet of 50 aircraft

Building on a Powerful Global Network



— Air Canada
 Spring/Summer 2013
— Air Canada *rouge*™
 as at July 2013

178 Direct Destinations:
 → **59** in Canada
 → **55** in the U.S.
 → **64** internationally

→ **15th** Largest Airline in the World
 → **350** aircraft
 → **>1,500** daily flights
 → **~35M** passengers carried

Enhancing Market Presence Through Star Alliance™ & Joint Venture



- **27** Members
- **194** Countries Served
- **1,329** Airports
- **>670M** Passengers/year
- **4,570** Aircraft
- **21,900** Daily Departures
- **>1000** Lounges

Building a Stronger Air Canada



Improving Profitability by Focusing on Four Key Priorities

- Pursuing revenue enhancements and transforming costs to enhance competitiveness
- Expanding internationally and increasing connecting traffic through international gateways
- Engaging with customers, with a particular emphasis on premium class passengers and products
- Fostering positive culture change



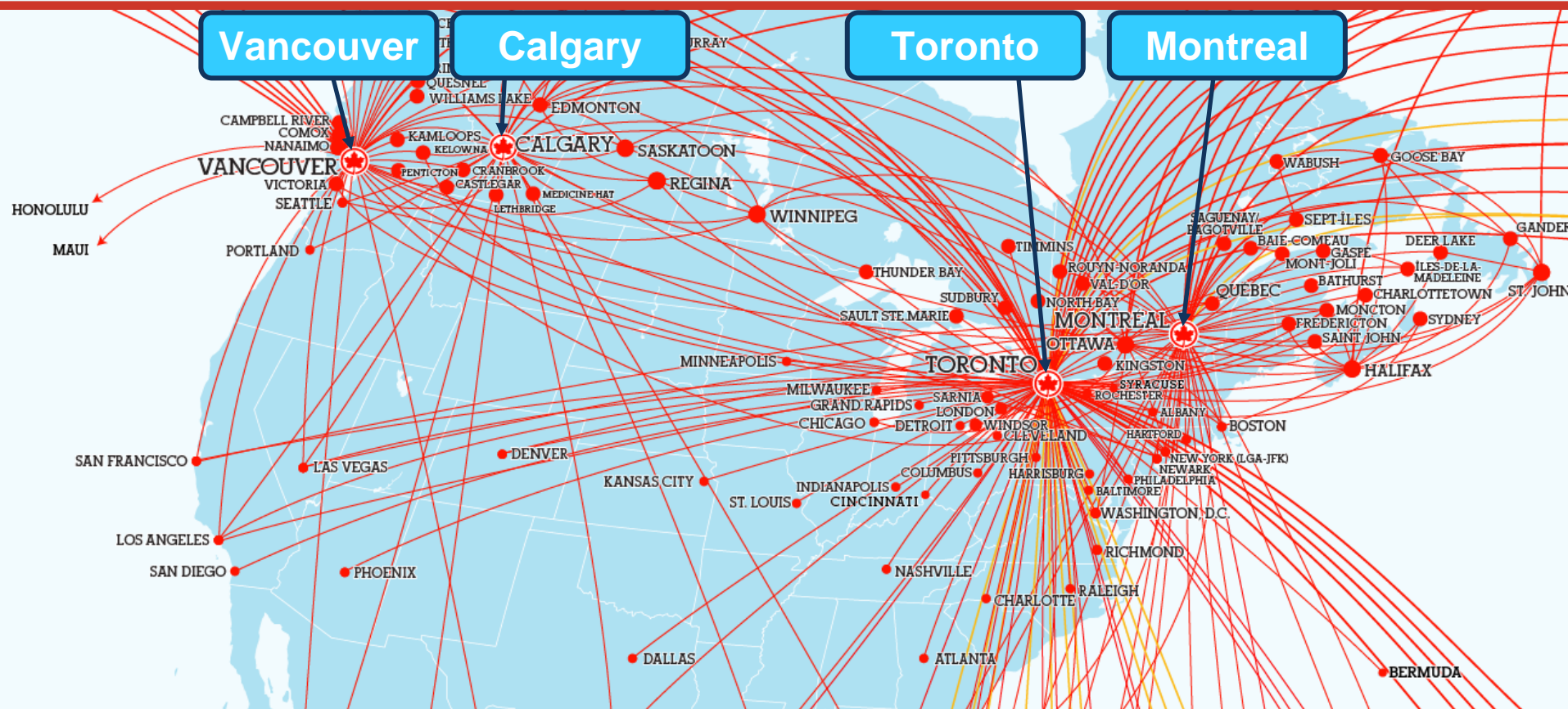
Cost Transformation and Revenue Enhancement

- Concluded collective agreements with all major Canadian unions which included modifications to the defined benefit pension plans (remain subject to regulatory approval)
- Concluded and finalizing new agreements with aircraft maintenance service providers on a cost competitive basis
- Entered into an agreement which, subject to conclusion of certain conditions, provides for the transfer of 15 Embraer 175 aircraft (four of which have already been transferred) to Sky Regional who will operate these aircraft at a lower cost
- Announced the launch of Air Canada *rouge*TM with a lower cost structure to improve profitability in leisure markets
- Re-branded frequent flyer program (Air Canada Altitude) to build loyalty and generate incremental revenue
- Announced the introduction of three class service (Economy, Premium Economy and Executive First) on new Boeing 777 and 787 aircraft
- Actively pursuing other initiatives including: lowering fuel consumption, bettering turnaround times, reducing credit card fees, improving productivity in call centres and enhancing passenger revenues through product and service innovations

Leveraging Opportunities for Revenue Growth

- Growing ancillary revenues through various passenger-related fees including:
 - Paid upgrades
 - Baggage fees
 - Seat selection fees
- 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

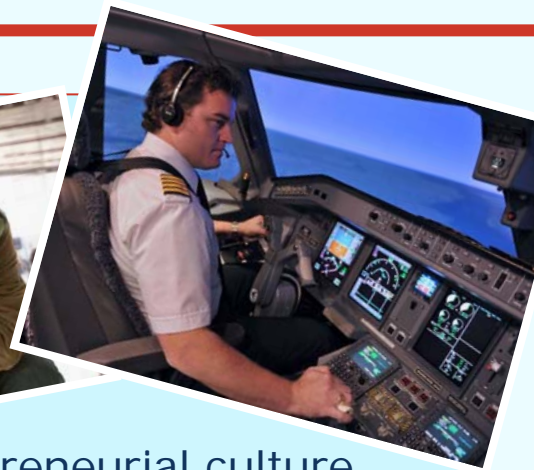
Expanding Internationally and Increasing Traffic Through World Class Hubs



- Increasing global connecting traffic via Canada – continued strength of sixth freedom traffic through Toronto Pearson
- Fully automated baggage handling for Air Canada customers connecting to the U.S. through Toronto
- Announced plans for a major international expansion with a focus on key gateways to Asia and launching service to new destinations including Istanbul

Enhancing Culture to Increase Competitiveness

- Promoting
 - Entrepreneurship
 - Engagement
 - Empowerment
 - Earnings for performance
- Emphasis on cost containment is forging a more entrepreneurial culture
- Cross-functional approach to operational excellence is motivating employees, reducing costs and increasing customers' satisfaction levels
- Renewed focus on constructive, respectful and transparent dialogue with employees through various vehicles including town halls and online forums
- Implementing a talent management plan to focus on defining and developing key behaviours for employees
- Encouraging employee feedback and ideas
- Focused on employee awareness of the importance of achieving financial goals
- Many industry honours and awards are indication Air Canada employees are participating in transformation



Financial Results



Full Year 2012 & First Quarter 2013 Results

Full Year 2012

- Adjusted EBITDAR⁽¹⁾ of \$1,327M
- Adjusted EBITDAR⁽¹⁾ Margin of 10.9%
- Passenger load factor of 82.7% - up 1.1 pp
- Unit passenger revenue (P-RASM) up 3.2%
- Adjusted CASM⁽²⁾ increased 1.0%

First Quarter 2013

- EBITDAR of \$145M
- EBITDAR Margin of 4.9%
- Passenger load factor of 81.0% – up 1.8 pp
- Unit passenger revenue (P-RASM) up 1.1%
- Adjusted CASM⁽²⁾ increased 1.4%
- Adjusted net debt of \$4.0B at Mar 31, 2013 – decreased \$249M from Mar 31, 2012

(1) Excludes the impact of benefit plan amendments

(2) Excludes fuel expense, the cost of ground packages at Air Canada Vacations and unusual items

Maintaining Strong Liquidity Position

C\$ billions



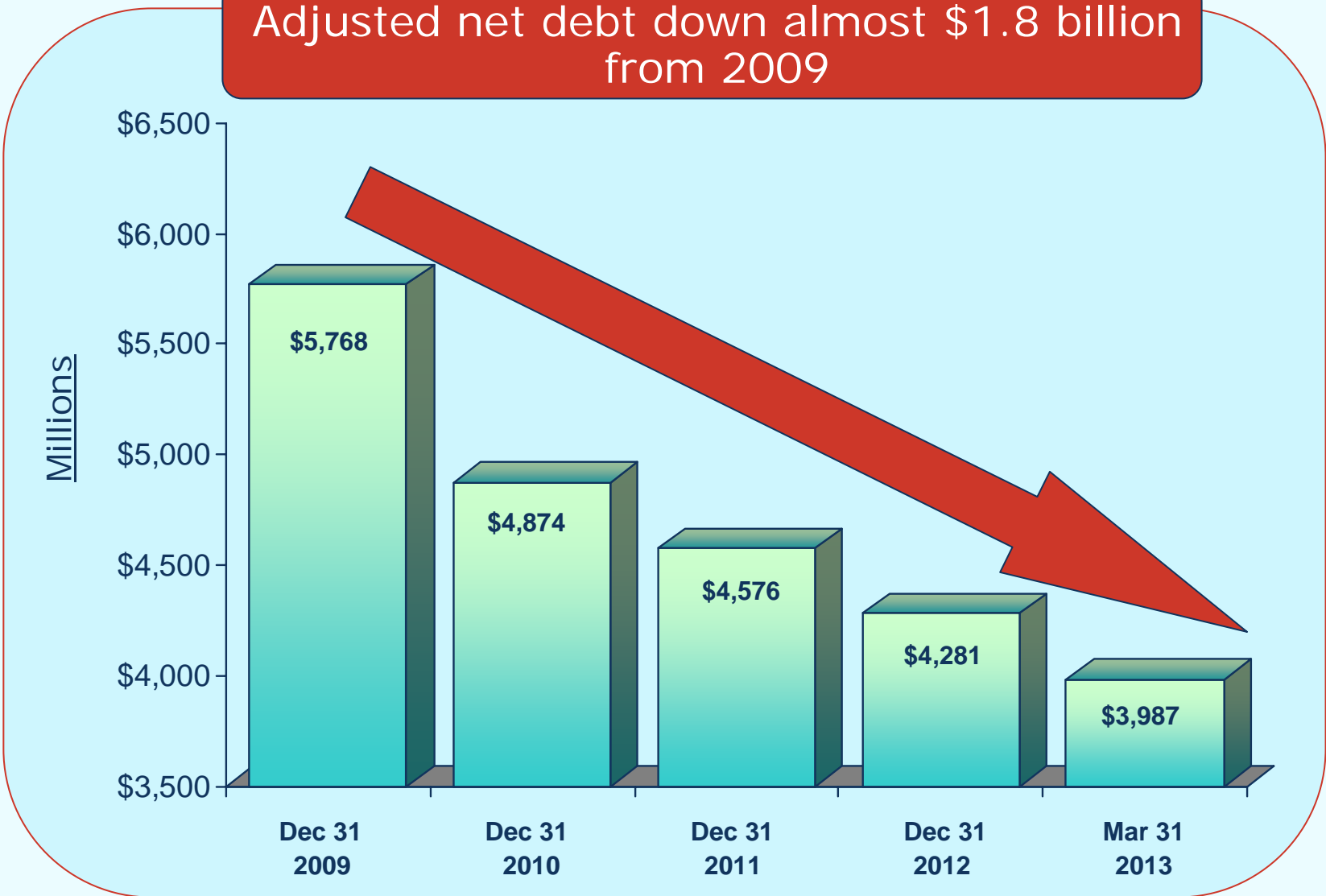
% of trailing 12-month operating revenues



Note: Liquidity is comprised of unrestricted cash, cash equivalents and short term investments

Improving Strength of Balance Sheet

Adjusted net debt down almost \$1.8 billion from 2009



Managing the Risks

- Reached important agreement with Government of Canada on extending pension funding arrangements to January 30, 2021
 - Required payments of at least \$150 million annually with an average of \$200 million per year over seven years, to contribute an aggregate minimum of \$1.4 billion in solvency deficit payments
- Successfully completed a private offering of enhanced trust certificates (EETCs) to finance five new Boeing 777-300ER aircraft
 - Enormous interest by investors
 - New attractive source of financing
 - Three tranches of certificates with combined face value of \$715 million and blended coupon rate for all tranches of 4.7%
- Lowering fuel price risk through effective fuel hedging policy
 - Strategy is to hedge at least 40% of the next 12 months' expected consumption
 - As at April 30th, 2013, Air Canada had hedged 33% of its anticipated fuel consumption for remainder of 2013 at WTI-equivalent capped price of US\$98 per barrel
 - Hedge portfolio comprised of call options and call spreads – protects against significant spikes in fuel prices and allows Air Canada to benefit fully from declining jet fuel prices

2013 Outlook

Outlook*

- ➔ Available seat miles (system)..... Increase 1.5 to 2.5%
- ➔ Available seat miles (Canada)..... Increase 0.5 to 1.5%
- ➔ Adjusted CASM** Decrease 0.5 to 1.5%

Major Assumptions*

- ➔ Canadian dollar per U.S. dollar..... \$1.02
- ➔ Jet fuel price – CAD cents per litre..... 86 cents
- ➔ Canadian GDP growth of 1.25% to 1.75%

* As reported on May 3, 2013

** Adjusted CASM excludes fuel expense, the cost of ground packages at Air Canada Vacations and unusual items such as impairment charges

Going Forward



Committed to Improving Profitability

- ✈ Leverage and expand international network by capitalizing on competitive advantages
 - widely-recognized brand
 - extensive global network
 - loyalty program (Aeroplan)
 - competitive products and services
 - geographically well-positioned hubs
 - introduction of new Boeing 777 and 787 aircraft
- ✈ Launch of Air Canada *rouge*TM to compete more effectively in the current industry environment, lower unit costs, improve margins and better manage seasonality
- ✈ Extend global reach by further developing commercial alliances with major international carriers

Committed to Improving Profitability

- ➔ Increase sixth freedom traffic from the U.S. to connect through the airline's hub airports in Canada to onward international flights
- ➔ Promote premium class cabin and broaden the airline's access to corporate customers by focusing on small and medium size enterprises
- ➔ Introduce new products and services and modify existing ones to increase competitiveness including premium economy cabin on international widebody fleet
- ➔ Continue cost reduction efforts and capitalize on new opportunities, including through the execution of new MRO agreements
- ➔ Leverage positive changes in collective agreements to reduce costs and expand use of jets/props of less than 76 seats at regional carriers
- ➔ Maintain a strong balance sheet



AIR CANADA 