

AIR CANADA 

presents at the

JPMorgan 

**GLOBAL HIGH YIELD & LEVERAGED
FINANCE CONFERENCE**

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Miami, FL
February 29, 2016

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AIR CANADA – TRANSFORMING INTO A GLOBAL CHAMPION





PROGRESS ON OUR BUSINESS PLAN

- Reported record results in 2015 – expanded EBITDAR margin⁽¹⁾ by 5.7 percentage points to 18.3%, increased adjusted net income⁽¹⁾ by 130% to \$1.222 billion and improved ROIC⁽¹⁾ by 6.2 percentage points to 18.3%, all as compared to 2014
- Fleet initiatives and capital programs on target – 12 B787s in operating fleet – B787s meeting financial and operational expectations
- Delivering on a permanently lower cost structure – on track to realizing CASM savings of 21% (excluding impact of FX and fuel prices) by end of 2018 when compared to 2012 baseline
- Stronger balance sheet – leverage ratio of 2.5 at end of 2015 versus 3.1 at end of 2014, with a target of 2.2 or less by 2018
- Eliminated pension deficit – deficit of \$2.2B at year-end 2010 versus a surplus of \$1.3B at year-end 2015

⁽¹⁾ These measures are non-GAAP financial measures. Reconciliations of these measures to comparable GAAP measures for the relevant periods can be found in Air Canada's MD&A reports, available at aircanada.com



GLOBAL CHAMPION STRATEGY

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Safe & Reliable Operation

Fleet & Network

- Star Alliance
- A++ Joint Venture
- Modern fleet / Seat density
- Extensive route rights
- Favourable slot times at busy airports
- Swing capacity

Brand

- Operational Excellence
- Award winning products/ services
- Iconic Canadian brand
- Rouge

Commercial Strategy

- Toronto - a true global hub
- 6th freedom connection traffic
- Improving premium value proposition
- Competitive leisure offering

Geography

- AC hubs are en route to Europe & Asia
- Logical connection for U.S. origins and destinations
- Easy transfer/ transit process

People & Experience

- 28,000+ dedicated employees
- Top 100 Employers in Canada
- Labour stability with all major unions

LOWER RISK PROFILE



OUR FOUR PRIORITIES



1 International expansion



2 Cost reduction and revenue growth



3 Customer engagement



4 Culture change



1 International expansion

- 2 Cost reduction and revenue growth
- 3 Customer engagement
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TRANSFORMATION PLAN

Accelerated, balanced transformation of Air Canada toward sustained profitability

Network Optimization

- Strategic international growth
- Increase diversification of route portfolio
- Leverage route model
- Sixth freedom focus
- Leverage strategic Toronto geography

Aircraft Growth and Reconfiguration

- Delivery of 787 order
- Densification and optimization of fleet configurations
- Replacement of narrowbody fleet with Boeing 737 MAX
- Leverage best in class products and services

Flexibility to Adjust to Shifting Market Conditions

- Swing capacity
- Leverage 10 year agreements
 - Labour stability with major unions
 - Regional lift with Chorus (Jazz)

Team culture



Customer centricity



Delivering brand promise




90% OF PROJECTED CAPACITY GROWTH AIMED AT INTERNATIONAL MARKETS

- Focused on selective expansion of network and developing synergies offered by alliances with other carriers
- Historically, margins have been the highest on international routes
- Leveraging strengths internationally:
 - extensive and expanding global network
 - geographically well-positioned hubs
 - competitive products and services
- Approximately one-third of 2016 planned capacity growth aimed at serving new international routes
- Natural consequence – anticipated negative yield impact due to increased average stage lengths and a greater mix of leisure revenues vs business revenues
- However, incremental traffic is being flown at a significantly lower-cost (Boeing 787s, increased seats on Boeing 777s, and Air Canada rouge) resulting in margin expansion
- Diversified network lowers risk profile



WIDEBODY FLEET PLAN (SUMMER PEAK)

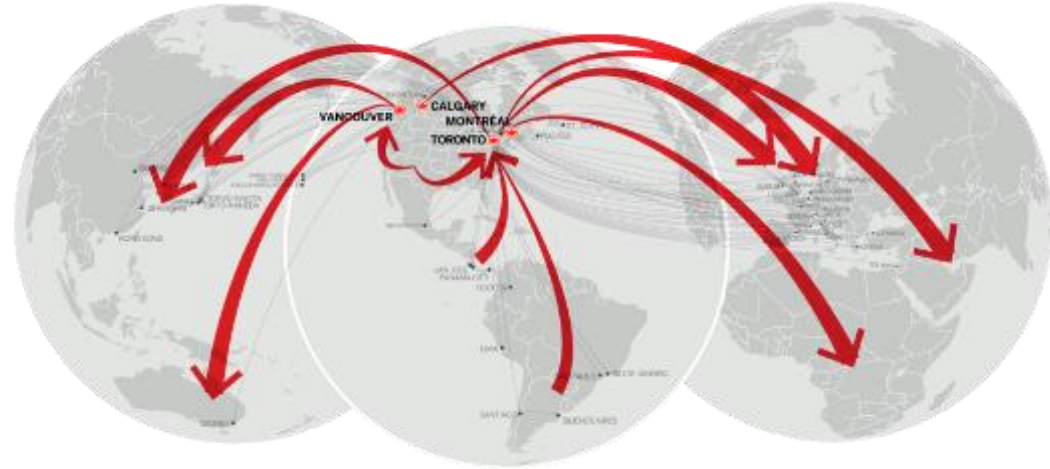
Fleet	2012 Fleet	2015 Fleet	2016 Fleet	2017 Fleet
 777	18	23	25	25
 787	0	9	21	26
 A330	8	8	8	0-8*
 767	30	17	15	0-10*
 rouge 767	0	13	19	25
Total Widebody Fleet	56	70	88	76-94*

*Swing/flexible capacity



LEVERAGING OUR GEOGRAPHY TO MAXIMIZE 6TH FREEDOM TRAFFIC POTENTIAL

- Best in class connections process at Toronto Pearson
- International-to-U.S. & international-to-international connections process is **objectively the simplest in North America**
 - Competitive **elapsed time**
 - No need to pick up and/or re-check **bags**
 - No need to change **terminals**
 - U.S. CBP pre-clearance facilities → Passengers arrive in U.S. with other **domestic** flights
 - Agreement with GTAA reduces CASM for incremental traffic growth at Toronto Pearson





1 International expansion

2 Cost reduction and revenue growth

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4 Culture change



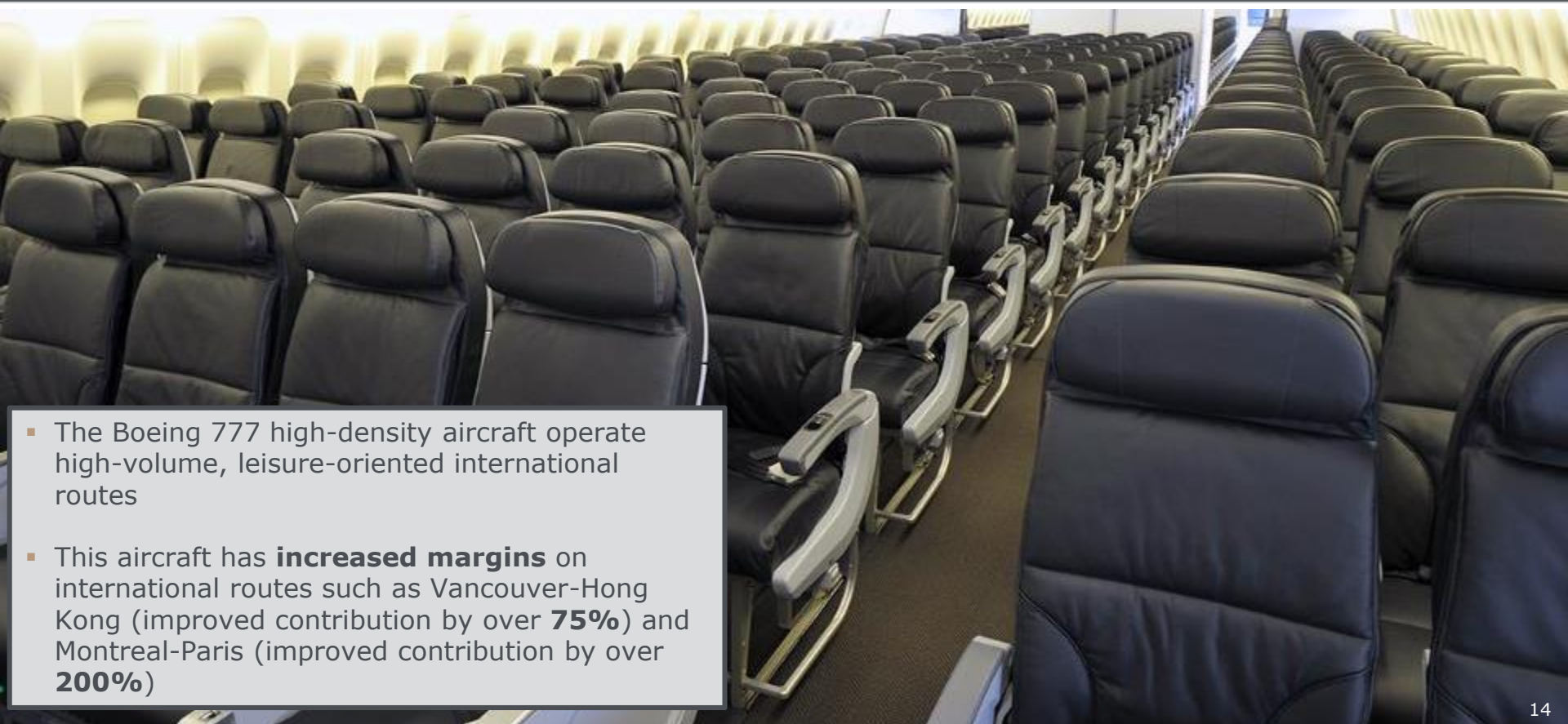
BENEFITS OF AIR CANADA 787



- B787 operate existing B767 routes more efficiently and enable Air Canada to enter new international markets made viable by this aircraft's lower operating costs, midsize capacity and longer-range
- On average, Toronto-Tel Aviv on a B787 can accommodate **31% more passengers**, **352% more cargo**, all using **3% less fuel** than the previous B767 operation



BENEFITS OF AIR CANADA LOPA SUPERIORITY



- The Boeing 777 high-density aircraft operate high-volume, leisure-oriented international routes
- This aircraft has **increased margins** on international routes such as Vancouver-Hong Kong (improved contribution by over **75%**) and Montreal-Paris (improved contribution by over **200%**)



BENEFITS OF AIR CANADA ROUGE

- Air Canada rouge is **enhancing margins** in existing leisure markets and pursuing new opportunities in international leisure markets made viable by its lower cost structure
- Air Canada rouge fleet (comprised of Airbus A319s, A321s and Boeing 767s) is estimated to generate 25% lower CASM when compared to the same aircraft in the mainline fleet
- Air Canada rouge leverages the strengths of Air Canada including
 - Its extensive network;
 - Its enhanced connection options;
 - Its operational expertise; and
 - Its frequent flyer program





IMPROVING COMPETITIVENESS IN REGIONAL MARKETS



- Diversification strategy being implemented
 - Sky Regional & Air Georgian have very competitive cost structures
 - Air Canada will continue to add scale to Sky Regional and Air Georgian
- Significant enhancements to Jazz CPA driven by fleet changes and pilot mobility agreement
 - CPA extended to 2025
 - Estimated \$550 million in incremental value 2015-2020
 - Competitive cost structure post-2020
 - Incremental aircraft at competitive rates



FOCUS ON PROCUREMENT

- Following through with procurement transformation initiatives aimed at applying best sourcing practices company-wide to leverage our global spend
 - In 2015, Strategic Procurement executed 156 agreements totaling \$1,248 million in spend with savings of 9.9%
 - Achieved savings in excess of \$130 million over life of new/renegotiated contracts which average three years
 - Investing in procurement technology, resources dedicated to supplier relationship management and supply chain risk management
- Significant improvement in maintenance productivity over past three years
 - Improved turnaround times
 - Average cost per visit down significantly to market average



REVENUE OPTIMIZATION

Best Practices

- **New dynamic pricing and inventory tool, RMODC**, is bringing Air Canada in line with **industry best practices**

6th Freedom Traffic

- Drives **network optimization**, making better economic decisions on local vs international passengers

Network Evaluation & Contribution

- Price & inventory determined by **origin** and **destination** rather than by each **segment**
- **Total passenger value** to network evaluated for each itinerary

DROS



OTHER OPPORTUNITIES FOR MARGIN EXPANSION

- Boeing 737 MAX program – estimated 10% CASM reduction vs Airbus narrowbody fleet
- Replacing 20 EMBRAER E190s with five larger Airbus narrowbodies and five Boeing 767s – estimated CASM reduction of 10%
- Buy-up through additions of Premium Economy cabin on widebody aircraft
- Growing ancillary revenues through various passenger-related fees, including baggage, paid upgrades, on-board offerings, preferred seats and seat selection – ancillary revenue per passenger up 16% in 2015
- Longer term opportunity will come from the replacement of the remaining E190s with the Bombardier C-Series aircraft and the renegotiation of the commercial agreement with Aeroplan (Aimia)



- 1 International expansion
- 2 Cost reduction and revenue growth
- 3 Customer engagement**
- 4 Culture change



ENGAGING OUR CUSTOMERS

- Investing in products and services, such as the Dreamliner with newly designed cabins and next generation IFE
- Air Canada Altitude which recognizes and rewards frequent flyers
- Introducing airport services aimed at higher-yielding customers – dedicated check-in areas, premium agent services
- Implementing a customer relationship management system to gain valuable customer insights
- Improved on-time performance and reliability, improved boarding process and streamlined in-transit processes for connecting passengers
- Improved international connections through major hubs – streamlined in-transit process
- Improved on-board offerings and consistency of service
- Opened 22nd worldwide Maple Leaf Lounge at London Heathrow's new T2 – winner of the "First Class Lounge" design category in the aviation sector of the 2015 International Yacht and Aviation Awards



CUSTOMER ENGAGEMENT AWARDS



- **2015 Skytrax Awards**
 - Four-Star ranking
- **2015 Ipsos Reid Canadian Business Traveller Survey**
 - Canada's Favourite Airline for Business Travel
- **2015 Premier Traveler Magazine Awards**
 - Best North American Airline for International Travel
 - Best North American Airline for Business-Class Services
 - Best Flight Attendants in North America
 - Best Airline Website
- **2015 Baxter Travel Media Agents' Choice Awards**
 - Favourite Scheduled Airline – 6th consecutive year

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4 Culture change



CULTURE CHANGE EMPLOYEE ENGAGEMENT

- Employee surveys demonstrated significant improvements
- Significant increase to profit sharing pool for 2015
- 8% of total issued shares held on employees' accounts
- Multiple 10 year + union agreements reached
- One of "Canada's Top 100 Employers"





UPDATE ON LABOUR RELATIONS

- **ACPA** – union representing 3,000 pilots
– collective agreement terms for 10 years in effect until September 2024
- **Unifor** – union representing 4,000 customer service and sales agents
– collective agreement terms for five years in effect until February 2020
- **CUPE** – union representing 7,200 flight attendants
– collective agreement terms for 10 years in effect until March 2025
- **IAMAW** – union representing 7,500 machinists and aerospace workers
– collective agreement terms for 10 years in effect until April 2026
- **CALDA** – union representing flight dispatchers
– collective agreement terms for 12 years in effect until February 2028

RISK MANAGEMENT



PENSION DEFICIT ELIMINATED – SIGNIFICANT REALLOCATION OF CAPITAL TO OTHER USES

- As at January 1, 2016, aggregate solvency surplus in domestic registered pension plans is projected to be \$1.3 billion*
 - Plans are in a solvency surplus position therefore no past service cost payments expected in 2016
 - Plans funded at 105% or more therefore no contributions are required for current service as long as the solvency position is not reduced to less than 105% - total pension funding contributions are forecast to be \$76 million on a cash basis for 2016 – \$140 million less than they would otherwise have been
- Risk significantly mitigated
 - 75% of pension liabilities matched with fixed income products
 - Overall risk profile lower by 50%
- Improved financial flexibility to fund capital expenditure programs, lower debt levels and return value to shareholders

*As reported on February 17, 2016



RISK MITIGATION – FUEL AND CURRENCY

- Fuel hedging strategy designed to manage exposure to fuel price volatility
 - Use of call options protects against short-term price spikes while allowing to participate 100% in fuel price declines
 - Hedging horizon in line with forward booking curve
- Foreign exchange risk strategy is to cover 70% of net U.S. exposure on a rolling 18-month basis using derivatives and U.S. cash reserves
 - U.S. dollar revenues together with foreign currency net revenues converted to U.S. dollars essentially cover non-fuel U.S. dollar costs
 - Fuel expenses are a significant U.S. dollar requirement but the impact in Canadian dollars is mitigated by a correlation between the Canadian dollar and the price of crude oil
 - Impact of hedging benefits cash flow but hedging results reported in non-operating income



COMMITTED TO STRENGTHENING BALANCE SHEET USING FREE CASH FLOW

- \$9B in capital expenditures to acquire widebody aircraft to better position Air Canada for the future
 - Access to EETC market at investment grade rates
- Lowering adjusted net debt and leverage levels is top priority followed by shareholder distributions via share buybacks
- Leverage ratio and credit ratings continue to improve
- Building an unencumbered asset base
 - Total value at \$1B (3 years ago <\$100M)
 - Continue to unencumber aircraft and related assets
 - Significant over-collateralization of high yield notes
- Income tax shelter of \$4.7B* - Operating loss carry-forwards of \$400M and tax shields related to fixed assets and pension obligations of \$4.3B



*As of December 31, 2015

FINANCIAL TARGETS / RESULTS



FINANCIAL TARGETS

June 2013 Target	As of February 17, 2016	
CASM reduction of 15% over medium term <i>(excluding the impact of foreign exchange and fuel prices)</i>	Trending to 21%	
Financial Targets 2015-2018	Target*	F/Y 2015
EBITDAR margin <i>(on a 12-month trailing basis)</i>	15-18%	18.3%
ROIC (return on invested capital) <i>(on a 12-month trailing basis)</i>	13-16%	18.3%
Leverage ratio by 2018	2.2	2.5

*As disclosed on February 17, 2016



RECORD RESULTS IN 2015

- Operating revenues of \$13,868M, an increase of \$596M or 4.5% from 2014
- EBITDAR⁽¹⁾ of \$2,534M, an improvement of \$863M from 2014
- EBITDAR margin⁽¹⁾ of 18.3%, 5.7 percentage points above 2014 and surpassing the 2015 target
- Adjusted net income⁽¹⁾ of \$1,222M or \$4.18 per diluted share, an increase of \$691M, 130.1% or \$2.37 per diluted share from 2014
- Return on invested capital⁽¹⁾ (ROIC), of 18.3%, exceeding 2014 by 6.2 percentage points and surpassing the 2015 target
- 41.1M passengers carried, an increase of 6.7% from 2014

⁽¹⁾ These measures are non-GAAP financial measures. Reconciliations of these measures to comparable GAAP measures for the relevant periods can be found in Air Canada's MD&A reports, available at aircanada.com



CONCLUSION

- ✓ Reported record results, expanded margins, increased adjusted net income, improved ROIC
- ✓ Achieved/exceeded 2013 Investor Day financial targets
- ✓ On track to meet 2016-2018 targets for EBITDAR margin, ROIC and leverage
- ✓ Eliminated pension solvency deficit
- ✓ Engaged employees and experienced and results-driven management team
- ✓ Focused on value creation
 - Expand earnings through strategic initiatives
 - Stronger balance sheet – reducing net debt/share buyback program

THANK YOU