Passport 2009: Transportation and Industrial Products Conference

Toronto
September 8, 2009
Agenda

• Air Canada – leading carrier in all markets
• Managing through challenging economic conditions
• Repositioning for success
• Questions and answers
Air Canada – Leading Carrier in all Markets
Leading Share in all Markets

Domestic

- AC: 57%
- WJA: 36%
- Other Airlines: 7%

International

- AC: 40%
- Other Airlines: 29%
- TRZ: 7%
- CX: 4%
- BA: 5%
- AF: 4%
- LH: 4%

Transborder

- AC: 36%
- WJA: 5%
- NW: 5%
- US: 5%
- DL: 4%
- CO: 6%
- UA: 14%
- AA: 11%
- Other Airlines: 8%

42% of airline revenues
39% of airline revenues
19% of airline revenues

Source: OAG, based on available seat miles (ASMs) from Jan 08 to Dec 08; AC Revenue Split based on Jan 08 to Dec 08

AIR CANADA
Strong Presence Provides Additional Revenue Opportunities

- Fleet flexibility to respond to market demand
- Leading competitive product among NA carriers
- Unused route rights
- Well positioned to funnel traffic from the US
- Benefits from Star Alliance Network
Diversified Network – Further Enhanced by Other STAR ALLIANCE Members
Youngest\(^{(1)}\) Fleet Among the Major North American Legacy Carriers

Average fleet age as at December 31, 2008

<table>
<thead>
<tr>
<th>Carrier</th>
<th>Average Fleet Age</th>
</tr>
</thead>
<tbody>
<tr>
<td>AC</td>
<td>8.8</td>
</tr>
<tr>
<td>CAL</td>
<td>9.4</td>
</tr>
<tr>
<td>LUV</td>
<td>10.1</td>
</tr>
<tr>
<td>LCC</td>
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<tr>
<td>UAL</td>
<td>13.0</td>
</tr>
<tr>
<td>DAL</td>
<td>13.2</td>
</tr>
<tr>
<td>AMR</td>
<td>15.0</td>
</tr>
</tbody>
</table>

\(^{(1)}\) Average fleet age as at December 31, 2008

AIR CANADA
New Interiors – Fleet-wide Refurbishment Completed in Business & Economy Cabins
Purchase With Ease – Enjoy the Rewards

aircanada.com
Continued Improvement in Operational Performance (1)

- Achieved on-time arrivals performance of 89% in Q2 09

<table>
<thead>
<tr>
<th>Quarter</th>
<th>On-time Performance (2) (OTP)</th>
<th>On-time Performance (2) (OTP) is a measure of operational performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q3 07 08</td>
<td>88%</td>
<td></td>
</tr>
<tr>
<td>Q4 07 08</td>
<td>85%</td>
<td></td>
</tr>
<tr>
<td>Q1 08 09</td>
<td>91%</td>
<td></td>
</tr>
<tr>
<td>Q2 08 09</td>
<td>89%</td>
<td></td>
</tr>
</tbody>
</table>

(1) Based on Air Canada's domestic Canada arrivals as measured by the US Dept of Transportation's standards

(2) A higher index level indicates better operational performance
Improved Customer Service

Customer Service Index\(^{(1)}\) (CSI) is a measure of customer satisfaction

- Monthly monitoring keeps us abreast of measures driving customer satisfaction

- Business Class
  - "overall employee attitude" = +7 pp
  - "value for money" = +20 pp

- Economy Class
  - "likelihood to choose AC again" = +5 pp
  - "overall customer satisfaction" = +12 pp

\(^{(1)}\) A lower index level indicates a higher level of customer satisfaction
Other Leading Services by Air Canada
Managing Through Challenging Economic Conditions
Canada & US Economies Forecasted to Remain Weak in '09 – Slow/Uncertain Recovery in 2010

What are we doing about it?

- On-going effective capacity management to respond to changes in leisure and business demand
- New initiatives implemented to generate revenue and stimulate demand
- Aggressively pursuing new route opportunities
Disciplined Capacity Management Keeps Load Factors Stable

Achieved record load factors of 83.6% in July and 86.8% in August 2009
New Initiatives to Stimulate Traffic, Generate Revenue and Re-engage Customers

- Establishing new pricing and inventory initiatives
- Engaging in market segments in which we may not have participated in better economic times
- Implementing new upgrade promotion programs
- Offering customers option to purchase upgrade at time of check-in
- Making additional Aeroplan redemption seats available
- Adding new international routes
Lower Oil Prices Provide Temporary Offset to Deteriorating Revenue Environment

- No fuel hedges entered into in 2009
- Unfavourable hedge fair value fully collateralized
- Restructured portfolio: No cash impact for ROY 2009 and 2010
- Discontinuation of hedge accounting as of July 1, 2009

Fuel hedging positions:
- Avg capped price = $105/bbl
- Avg floor price = $84/bbl
- Avg capped price = $110/bbl
- Avg floor price = $101/bbl

ROY 2009  2010

% floor price  % capped price
Net USD Exposure Largely Covered by Cash, Investments and Derivative Instruments

- Policy is to progressively fully cover net USD exposure over 24 months
- Net USD exposure is covered at 75% for ROY 2009 and 10% for 2010
- Relationship between jet fuel prices and CAD/US exchange rates creates a natural hedge
Repositioning for Success
Success in Achieving Pension and Labour Stability

- Canadian-based unions' Labour agreements extended 21 months on a cost-neutral basis
- Adopted new pension funding regulations – pension funding will be almost $600 million less with 21 month moratorium
- Fixed payments of $150, $175 and $225 million in 2011, 2012 and 2013
- Unions will receive 15% ownership equity

Provides us with flexibility to manage through our next set of priorities
$1.0 billion\(^{(1)(2)}\) raised in July 2009

Rebuilt Cash Levels to See Us Through the Economic Downturn

- $600 million secured term credit facility
- Non-refundable proceeds from a supplier of $220 million
- Sale and leaseback\(^{(2)}\) of three Boeing 777 aircraft for net cash proceeds of $122 million
- An extension to an $82 million loan from 2009 to 2013
- Amended agreements with our principal credit card processor

\(^{(1)}\) In addition to the $600M raised at the end of 2008
\(^{(2)}\) Subject to certain conditions
Cost Transformation Program – Targeting $500M Improvement to the Bottom Line*

Everything is being thoroughly evaluated; primarily business processes and supplier relationships, but also routes, schedules and fleet

*As announced in Air Canada's news release dated August 7, 2009
Finding New Approaches to Generate Revenue

- DOT approved the formation of a transatlantic alliance
- Actively re-engaged with the travel trade
- Broadened distribution channels
- Launched a series of customer-focused initiatives
- Penetrating markets where we have not traditionally participated

Creative new ways to grow revenues
Company-wide Focus on Cost Reductions – Over 100 Initiatives Identified

- Amending CPA with Jazz under mutually beneficial terms
- Renegotiating agreements with large 3rd party vendors
- Improving company-wide operational and business processes

Targeting $400M in annual cost reductions by 2011
In Review

- Obtained pension relief and labour stability
- Strengthened liquidity position
- Capitalizing on new revenue opportunities
- Focusing aggressively on being more cost competitive
- Leveraging partnerships and competitive position
- Continuing to improve customer satisfaction
- Instilling an entrepreneurial culture

Air Canada... Building a solid future
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Q&A

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