Transportation & Industrials Conference 2018

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Caution Regarding Forward-Looking Information

This presentation 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.

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This presentation also includes references to non-GAAP measures, such as EBITDAR margins, Returns on Invested Capital, Free Cash Flow and Leverage Ratio. Please refer to Air Canada’s news release dated October 31, 2018 for additional information on non-GAAP measures, as well as major assumptions relating to Air Canada’s financial targets.
Solid foundation allows Air Canada to leverage its unique competitive advantages

**Financial Stability**
- Pension solvency surplus
- Record financial results
- CTP / CASM reduction / lower debt
- Record liquidity level
- Improved credit ratings

**Labour Stability**
- Long-term agreements with all major unions
- Increased flexibility and cost certainty

**Fleet**
- Modern wide-body fleet
- Seat densification
- Swing capacity
- Narrow-body fleet replacement (737 MAX and Airbus A220-300)

**Network & Hubs**
- Extensive & expanding global network
- Geographically well-positioned hubs & efficient in-transit facilities processes

**Air Canada Rouge**
- Competitive cost structure in leisure markets
- Provides flexibility to swing capacity between markets & seasons

**Regional Feed**
- Diversification (Jazz, Sky Regional, Air Georgia, EVAS)
- Improved competitive cost structure at Jazz

**Customer Engagement**
- Improved customer experience
- Award-winning products & services
- Launch of new loyalty program
- Investments in technology
Materially Reduced Risk Profile

• Network diversification
• Fleet flexibility
• Pool of unencumbered assets
• Long-term labour contracts
• Fully-funded pension plans
• Fuel and foreign exchange programs
• Lower leverage and cost of debt, and access to several financing sources
• Significantly higher liquidity levels
Four Priorities
1 International growth
2 Cost & revenue transformation
3 Customer engagement
4 Culture change
Growth Directed to International Markets

• Over 90% of growth in last several years has been directed at U.S. and international markets

• On a system basis, capacity increased 40% over last three years

• Broadening footprint with commercial alliances and leveraging A++ revenue sharing joint venture

• Increased international-to-international connecting traffic through major Canadian hubs (6th Freedom)

• International and U.S. routes represented 68% of total passenger revenue in 2017

• Expect rate of capacity growth to steadily decline as focus shifts from wide-body growth to mainline narrow-body fleet replacement programs
Air Canada Rouge – First Five Years are a Major Success

- > 25 million customers carried since 2013 launch
- > 70 destinations on five continents
- 53 aircraft (22 Airbus A319s, 6 Airbus A321s and 25 Boeing 767s)
- New routes added for summer 2018 included: Toronto & Montreal to Bucharest; Toronto to Porto & Zagreb; Toronto to Nanaimo & Kamloops, B.C.; Montreal to Lisbon & Montreal to Victoria, B.C.
- Alternating between Atlantic (summer) and Sun (winter) is a major competitive advantage
Growth of Traffic Transiting Canada to/from the U.S. (6th Freedom)
Growing market share to 2% would represent $930M of incremental annual revenue

AC 6th Freedom Passengers Carried to/from U.S.

Market Share of International Traffic to/from U.S.

Increasing U.S. revenues provides more U.S. net coverage and reduces net U.S. FX exposure
1 International growth
2 **Cost & revenue transformation**
3 Customer engagement
4 Culture change
Strong Revenue Growth Continues

• Yields expected to improve
  – Maturity of new routes
  – Stage length growth rate declines
  – Passenger mix impact diminishes
  – Focus on higher-yielding corporate customer
  – Effective yield management through O&D system
  – Expanded suite of fare offerings

• Building up diversified revenue streams

• New PSS to provide robust full retailing platform

• Launch of new loyalty program
Improving Margins through Premium Products

- International growth strategy is fueled by premium traffic
- Air Canada Signature Class
- Premium products (Air Canada Signature Suite, Maple Leaf Lounges, Priority check-in areas, concierge, priority boarding, quality in-flight cuisine) enhance the experience

Premium products enable revenue growth to keep pace with capacity growth
Investments in Technology Driving Future Benefits

### Passenger Service System
Principal IT system supporting reservations and departure control operations
- Better partner integration
- Improved efficiency
- Improved shopping

### Branded Fares
Expanded suite of fare offerings
- Increased fare differentiation
- Improved product recognition
- Increased customer buy-up

### Fuel Management System
Petroleum administration, inventory control and expenditures system
- To provide visibility to fuel movements from refinery to wing

### OTHER TECHNOLOGY INVESTMENTS

**Mobile 3.0**
- AC mobile application upgrade

**Plusgrade**
- To allow customers to bid on premium seats

**SmartSuite**
- To replace operating system on critical digital devices

**Customer Relations System**
- To replace customer relations and baggage claims system

**Workday**
- New HR system

**Data Roadmap**
- Improved enterprise data capabilities
New Boeing 737-8 MAX Aircraft Expected to Provide 11% CASM Reduction versus Air Canada’s A320 Aircraft
New Airbus A220-300 Aircraft Expected to Provide 12% CASM Reduction versus Air Canada’s Embraer 190 Aircraft
Cost Reduction Program

Adjusted CASM declined 6.1% over the last four years

• Company-wide initiatives – savings of $90 million in 2017
• Procurement initiatives – savings of $120 million over life of agreements
• Jazz CPA compensation declines $55 million per year from 2021
• New Cost Transformation Program to secure $250 million in savings by end of 2019
1 International growth
2 Cost & revenue transformation
3 **Customer engagement**
4 Culture change
Strengthening Customer Loyalty through Digital Experience

**Enhanced Customer Relationship Management system**
Holistic view of the customer and their journey covering the online, offline & on-board worlds

**Redesign & optimize digital channels**
Mobile investments achieving revenue growth & behaviour shift

**Personalize customer content, offers & services**
Monetize customer data by enabling personalized offers and services based upon context, customer behaviour and commercial value

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**CRM**
- Loyalty
- Reservations
- Operations

**Traveler A**
Leisure
Low frequency
Value: $

**Traveler B**
Business
High frequency
Value: $$$

**Leisure Content Offer**

**Business Content Offer**
Loyalty Program

Expect to unlock significant value through the launch of loyalty program

- Program design in process after extensive research
- Process on schedule and on budget

August 2018
- Consortium (AC, TD Bank, CIBC, Visa Canada) reaches agreement in principle with Aimia for acquisition of Aeroplan Loyalty Business
  - Subject to definitive agreements, regulatory approvals and other conditions
  - Completion expected by end of 2018
Industry Awards

**Best Airline in North America**
(Skytrax)

**Four-Star ranking**
(Skytrax)

**Best Long-Haul Airline in the Americas**
(AirlineRatings.com)
1 International growth
2 Cost & revenue transformation
3 Customer engagement
4 **Culture change**
Long-Term Collective Agreements with Unions

Long-term collective bargaining agreements provide:

1. Cost certainty
2. Significantly enhanced efficiency
3. Team engagement
4. Additional flexibility to respond to competitive threats and internal business challenges
5. Solid platform from which to invest in increased team engagement initiatives
Fostering Positive Culture Change with Engaged Workforce

Employee surveys and several awards demonstrate marked improvements in employee culture and engagement as Air Canada is voted one of:

- Canada’s Top 100 Employers (2019)
- 50 Most Engaged Workplaces in North America (2018)
- Montreal’s Top Employers (2018)
- Canada’s Best Diversity Employers (2018)
- Top 20 employer brands in Canada (2018)
- North American Candidate Experience Award (2018)
Financial Targets
## Investor Day Targets and Current Outlook (1)

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2019 and 2020</th>
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</thead>
<tbody>
<tr>
<td><strong>Annual EBITDAR Margin</strong></td>
<td>approximately 16% in 2018</td>
<td>17% - 20% in 2019 and 2020</td>
</tr>
<tr>
<td><strong>Annual ROIC</strong></td>
<td>approximately 12% in 2018</td>
<td>13% - 16% in 2019 and 2020</td>
</tr>
<tr>
<td><strong>Free Cash Flow</strong></td>
<td>$500-$600 million in 2018</td>
<td>$2.0-$3.0 billion cumulative over 2018 to 2020 period</td>
</tr>
<tr>
<td><strong>Leverage Ratio</strong></td>
<td></td>
<td>1.2 by end of 2020</td>
</tr>
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(1) As reported on October 31, 2018
Expect Continued Strong EBITDAR Margins

• Expect revenue growth to continue
  – Leveraging unique competitive advantages and fleet investments
  – Air Canada Rouge
  – Revenue enhancement initiatives
  – Revenue diversification – International points of sale revenue
  – Ancillary sales
  – Technology

• Continuous focus on cost transformation
  – New more-efficient narrow-body aircraft
  – Lowering cost structures of regional partners
  – Cost reduction initiatives
  – Process/productivity improvements
  – Technology

• Outstanding customer service

Expect EBITDAR margin of approximately 16% in 2018 (1) and an annual EBITDAR margin of 17% to 20% in 2019 and 2020 (1)

(1) As reported on October 31, 2018
Expect Improvement in ROIC and Growth in Free Cash Flow

| Free Cash Flow | - Plan on using excess cash to purchase new aircraft to effectively reduce gross debt  
|               | - Will continue to leverage Normal Course Issuer Bid (NCIB) opportunities  
|               | - Will consider other uses of cash as plan matures  
|               | - Expect cumulative free cash flow of $2B to $3B over 2018-2020 period (1)  

| ROIC | - Continue to expect ROIC to continue to exceed weighted average cost of capital by a wide margin  
|      | - Forecast annual ROIC of approximately 12% in 2018 (1) and 13% to 16% in 2019 and 2020 (1)  

(1) As reported on October 31, 2018
## Projected Capital Expenditures (1)

<table>
<thead>
<tr>
<th>$ millions</th>
<th>Remainder of 2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
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<tbody>
<tr>
<td>Projected committed expenditures</td>
<td>$176</td>
<td>$1,623</td>
<td>$1,422</td>
<td>$775</td>
<td>$716</td>
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<tr>
<td>Projected planned but uncommitted expenditures</td>
<td>100</td>
<td>718</td>
<td>340</td>
<td>305</td>
<td>226</td>
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<tr>
<td>Projected planned but uncommitted capitalized</td>
<td>39</td>
<td>173</td>
<td>175</td>
<td>56</td>
<td>95</td>
</tr>
<tr>
<td>maintenance</td>
<td></td>
<td></td>
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</tr>
<tr>
<td><strong>Total projected Expenditures</strong></td>
<td><strong>$315</strong></td>
<td><strong>$2,514</strong></td>
<td><strong>$1,937</strong></td>
<td><strong>$1,136</strong></td>
<td><strong>$1,037</strong></td>
</tr>
</tbody>
</table>

(1) As reported on October 31, 2018
Lower Leverage Supports Investment Grade Credit Ratings

• Creating shareholder value by lowering gross debt and leverage remains a top priority followed by shareholder distributions via share buybacks

• Forecast continued improvement in financial leverage as debt is paid off and gross debt is reduced

• Reduced overall risk profile by aggressively managing our financial leverage, leading to credit rating upgrades
  
  - **Standard & Poor’s**
    BB with positive outlook (from B- in 2010)
  
  - **Moody’s**
    Ba2 with stable outlook (from B3 in 2010)

(1) As reported on October 31, 2018

Expect projected decline in leverage ratio to 1.2 by the end of 2020 (1) to support drive for investment grade credit ratings
Air Canada – A Global Champion

• Proven strategy
• Sustainable business model
• Improved financial targets
• De-risked the airline
• Many opportunities ahead, including:
  – New more efficient narrow-body aircraft
  – Launch of loyalty program
  – RFP for new credit card partner
  – New Passenger Service System
  – Digital initiatives
  – Lower-cost Rouge growth
Thank you