



Scotiabank Transportation & Aerospace Conference 2017

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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 25, 2017 for additional information on non-GAAP measures, as well as major assumptions relating to Air Canada's financial targets.



Path to Global Champion

Financial Stability

- Pension and liquidity risks addressed
- Record financial results
- CTP
- CASM reduction
- Lower debt

Labour Stability

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

Fleet

- Modern WB fleet
- Seat densification
- Swing capacity
- NB fleet replacement
- Award winning product

Network & Hubs

- Extensive & expanding global network
- Geographically well-positioned hubs

Air Canada Rouge

- Competitive cost structure in leisure markets
- Provides new growth opportunities

Regional Feed

- Diversification
- More competitive cost structure at Jazz

Loyalty

- Improved customer experience
- Significant financial value to Air Canada
- Credit card RFP

Solid foundation allows Air Canada to leverage its unique competitive advantages



Unique Competitive Advantages Set Air Canada Apart from the Competition

Dual Brand



Geographic Advantage



Three Powerful Hubs (YYZ/YVR/YUL)



Competitive Fleet & Product



Star Alliance



A++ Joint Venture



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
- Broadening footprint with commercial alliances and leveraging A++ revenue sharing joint venture
- Increased international-to international connecting traffic through major Canadian hubs (6th Freedom)
- Network diversification strategy lowers overall risk
- International and U.S. routes now represent 68% of total passenger revenue
- Expect rate of capacity growth to steadily decline as focus shifts from wide-body growth to mainline narrow-body fleet replacement programs

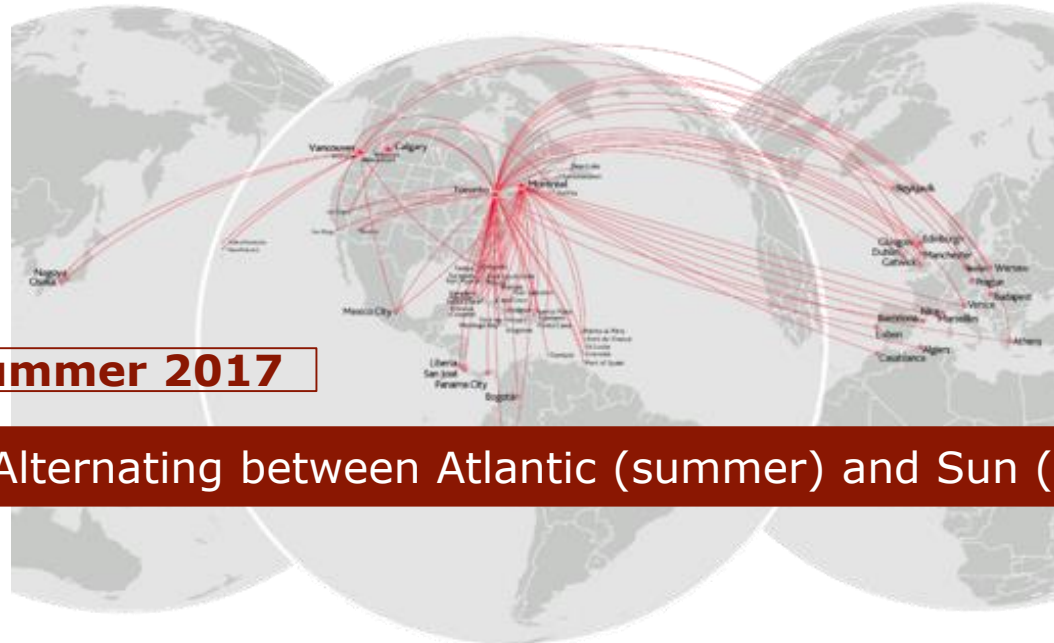


Air Canada Rouge, With Its Leisure-Oriented Product, Has Proven Its Success

Founded: July 2013
Destinations: 49 (Asia, Caribbean, Europe, U.S.)
Fleet: 49 Aircraft
Hubs: Toronto, Montreal, Vancouver

Very Low CASM Aircraft

- Seat Density
- Ownership Costs
- Labour Costs



Summer 2017



Winter 2018

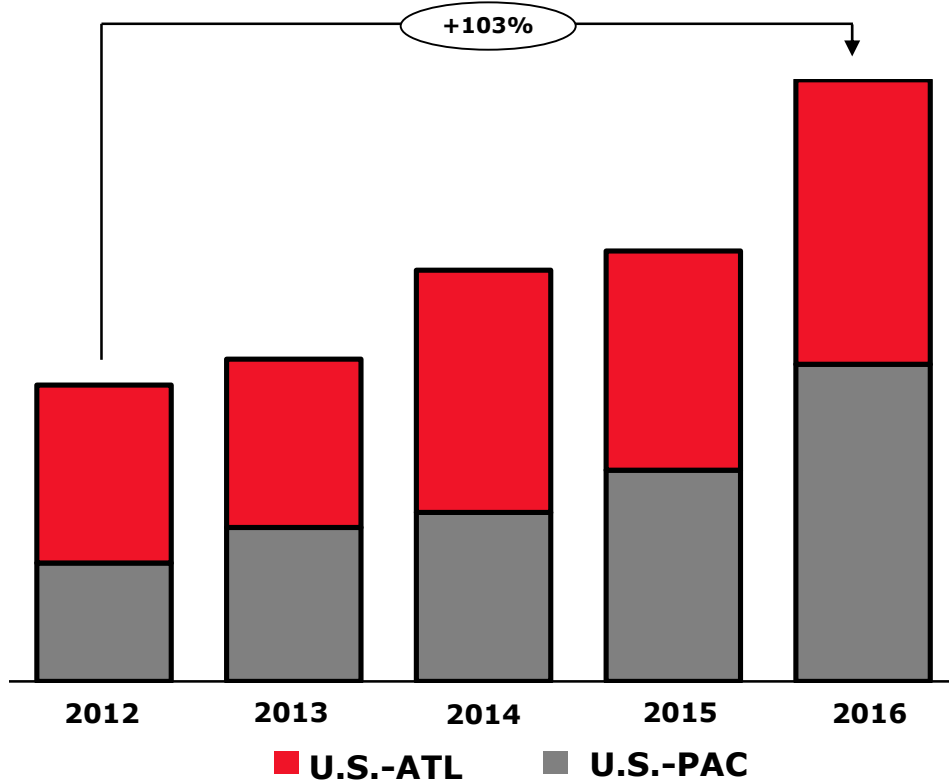
Alternating between Atlantic (summer) and Sun (winter) is a major competitive advantage



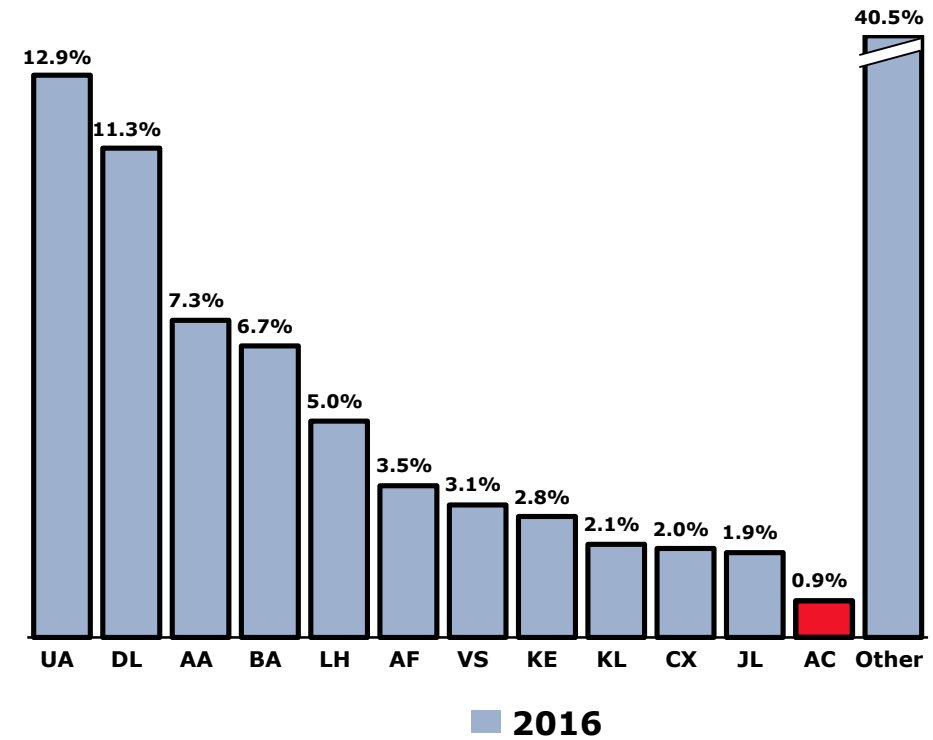
Growth of Traffic Transiting Canada to/from the U.S. (6th Freedom)

Growing market share to 2% would represent \$1.2B of incremental annual revenue

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



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



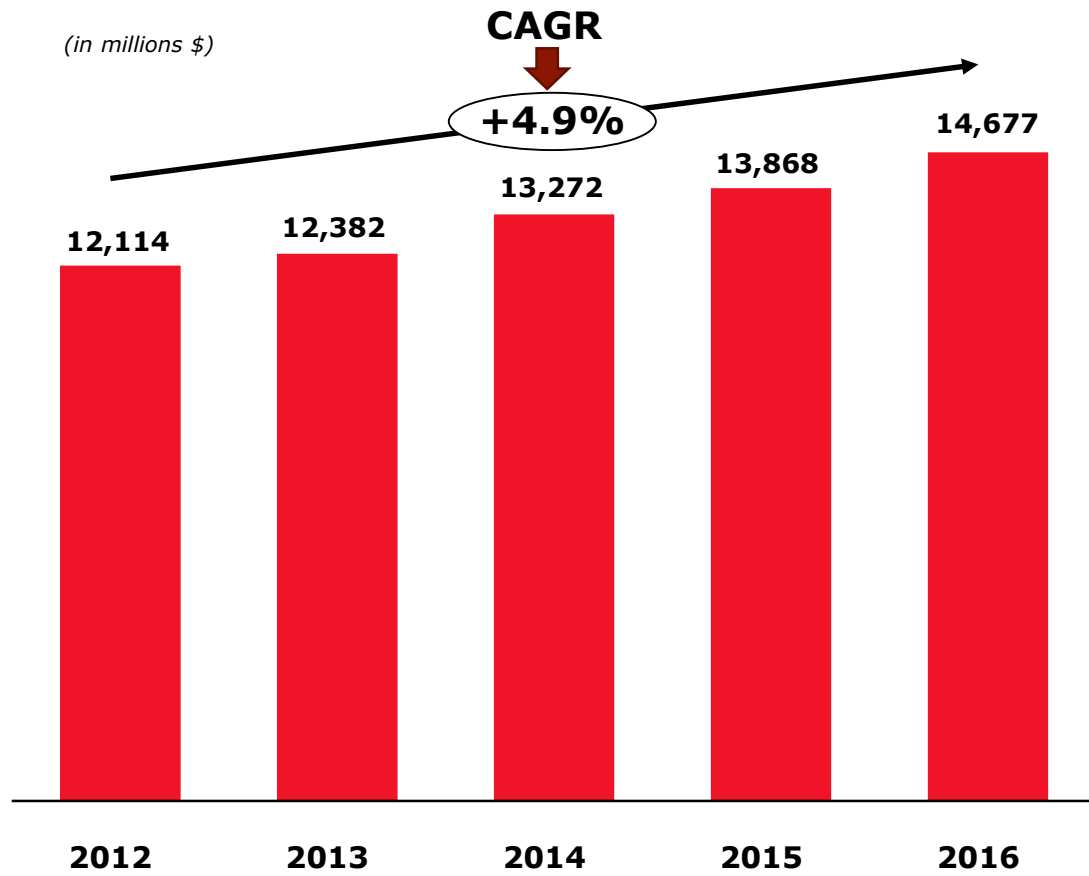
Increasing U.S. revenues provides more U.S. net coverage and reduces net U.S. FX exposure





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- 2 Cost & revenue transformation**
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Strong Revenue Growth Fueled by International Expansion Strategy Continues



- Historically, higher margins in international markets
- Diversified network lowers overall risk profile
- Capacity growth rate declines over the next several years as wide-body growth is replaced with narrow-body replacement program
- 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 / branded fares
- IATA - doubling of travelers over next 15 years
- Building up diversified revenue streams and counting on global flows (less dependent on Canada or what happens in the U.S.)
- New PSS to provide robust full retailing platform
- New loyalty program post-2020



Improving Margins Through Premium Products

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

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

\$100M in Annual Incremental Benefits

- Better partner integration
- Improved efficiency
- Improved shopping

Branded Fares

Re-introducing branded fares and fixed buy-across

\$20M in Annual Incremental Benefits

- Increased fare differentiation
- Improved product recognition
- Increased customer buy up

Fuel Management System

Petroleum administration, inventory control and expenditures system

\$3M in Annual Incremental Benefits

- 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

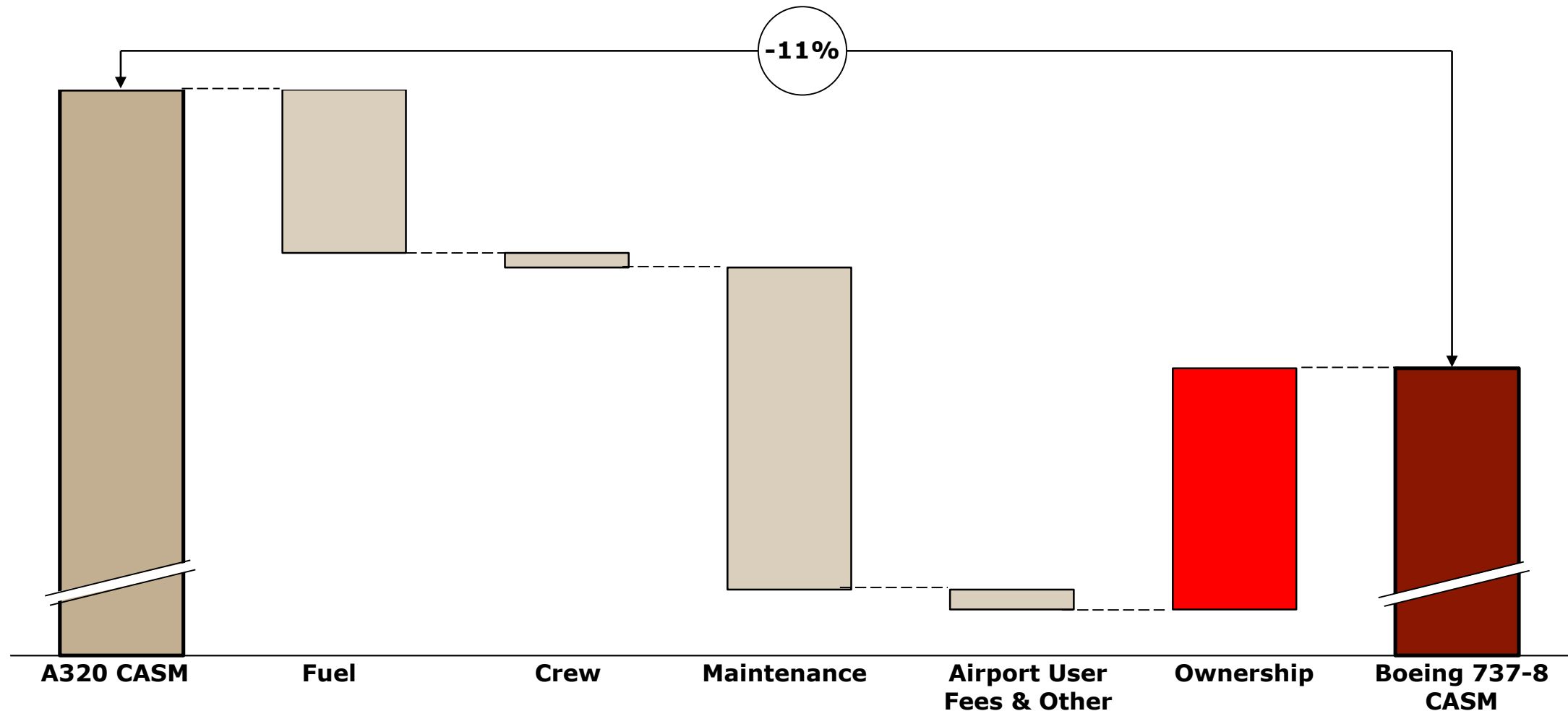
Data Roadmap

- Improved enterprise data capabilities

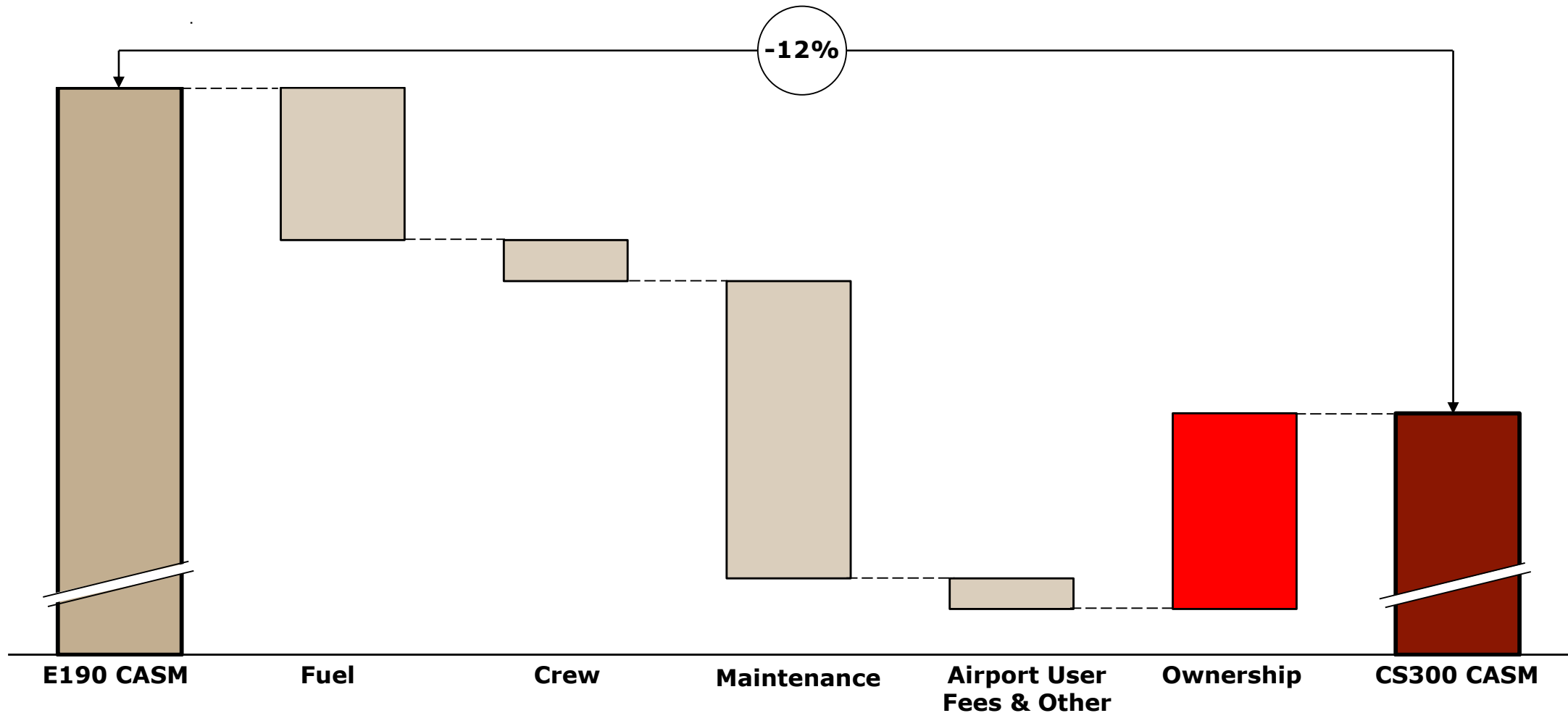
CYBERSECURITY: Increased security and reduced vulnerability



New Boeing 737-8 MAX Aircraft to Provide 11% CASM Reduction Versus A320 Aircraft



New C-Series CS300 Aircraft to Provide 12% CASM Reduction Versus Embraer 190 Aircraft



Incremental Benefits from Extended Capacity Purchase Agreement with Jazz Post-2020



Amended and extended capacity purchase agreement expected to provide \$550 million in financial value from 2015-2020 versus previous agreement

Greater network flexibility

Fleet economics

Pilot mobility agreement

The Jazz fleet is transitioning to more efficient and larger aircraft

Mix of larger, newer regional jets (CRJ705s) and turboprops (Q400s)

Fleet decreases in size over time to accommodate the addition of the Q400s, replacing, older, inefficient Dash 8-100s

From 2021-2025, CPA compensation paid to Jazz reduces by \$55 million per year, resulting in a more competitive cost structure in the regional sector





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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 our digital channels

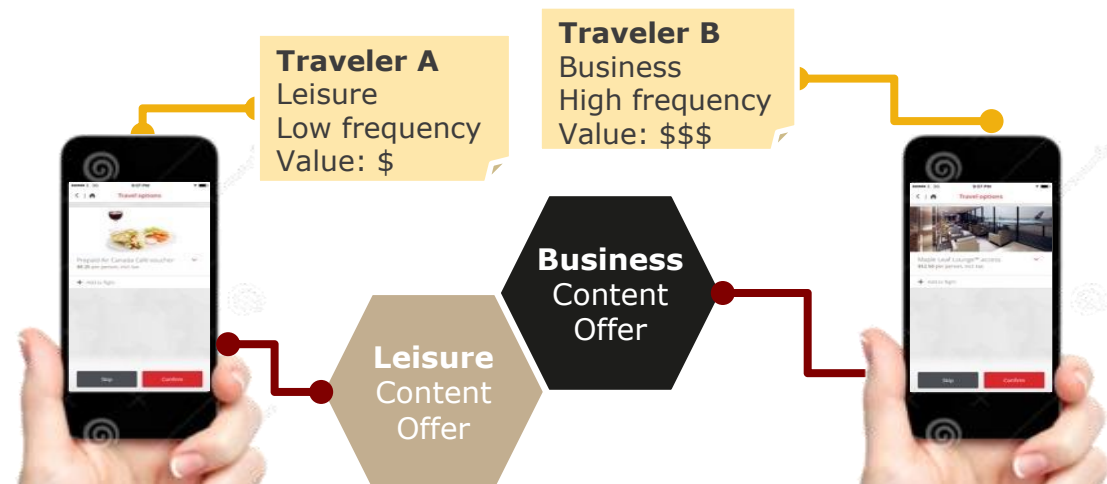
Mobile investments achieving revenue growth & behaviour shift

Personalize customer content, offers & services

Monetize customer data by enabling personalized offers and services based upon context, customer behavior and commercial value



- Loyalty
- Reservations
- Operations



Launch of Own Loyalty Program

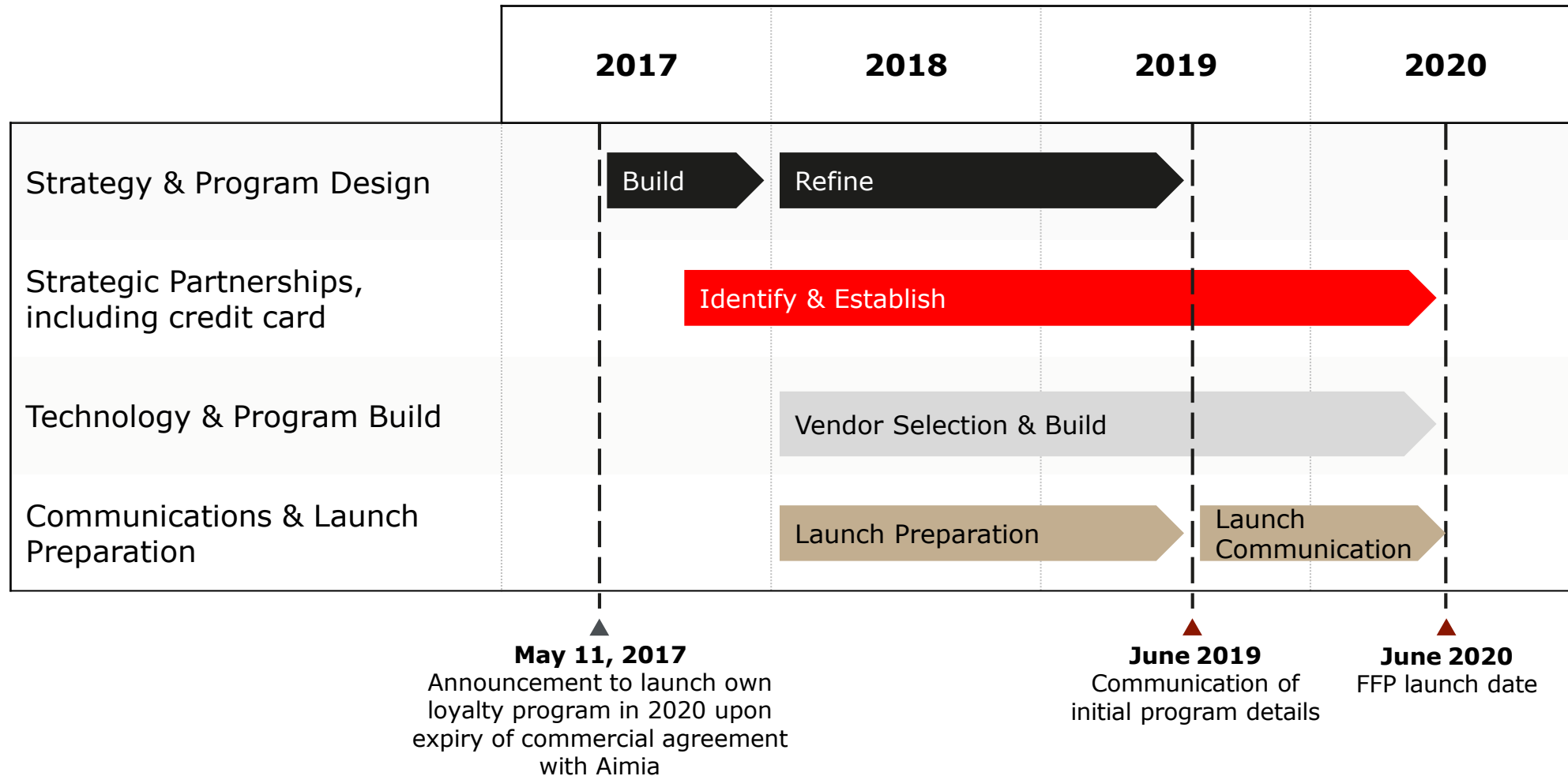
Expect to unlock significant value through the launch of loyalty program

- Net present value of \$2.0 billion to \$2.5 billion* (on a pre-tax basis) over a 15-year period
- Initiating RFP for credit card partnership

* Assumes the current regulatory environment and a discount rate in line with Air Canada's WACC



Path to the New Loyalty Program in 2020



Delivering Best Airline in North America

Numerous industry awards:

- Best Airline in North America (Skytrax)
- Four-Star ranking from Skytrax
- Best Long-Haul Airline in the Americas (AirlineRatings.com)
- The Wall Street Journal: *"Why Savvy U.S. Fliers Take Air Canada"*
August 16, 2017



**Voted Best Airline
in North America**





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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 multiple awards demonstrate marked improvements in employee culture and engagement

- Canada's 15 Top Employers for Canadians Over 40
- 50 Most Engaged Workplaces in North America
- Canada's Top 100 Employers
- Montreal's Top Employers
- Canada's Top Two Most Attractive Employees
- Canada's Best Diversity Employers
- Canada's 10 Most Admired Corporate Cultures





Financial Targets



Ambitious Targets for the Next Level of Performance Improvement

	2018-2020 Targets ⁽¹⁾
Annual EBITDAR Margin	17% - 20%
Annual ROIC	13% - 16%
Free Cash Flow (Cumulative over the period)	\$2.0-\$3.0 billion
Leverage Ratio ⁽²⁾	1.2 by end of 2020

2018 – 2020 Outlook – Major Assumptions: As part of its assumptions, during the 2018 to 2020 period, Air Canada assumes moderate Canadian GDP growth, Canadian Consumer Price Index (CPI) growth of approximately 2%, and an average annual wage rate increase of 2% throughout the period. Air Canada also assumes that the Canadian dollar will trade, on average, at C\$1.32 per U.S. dollar and that the price of jet fuel will average 62 CAD cents per litre for 2018, 65 CAD cents per litre for 2019 and 67 CAD cents per litre for 2020.

(1) As reported on October 25, 2017

(2) Air Canada continues to expect to achieve a leverage ratio not exceeding 2.2 by the end of 2018. The 2020 leverage ratio is based on a foreign exchange rate of US\$1 = C\$1.32



Expect Continued Strong EBITDAR Margins

- Expect revenue growth to continue
 - Leveraging Air Canada's 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

**Project annual
EBITDAR margin
of 17% to 20% over
2018 to 2020 period ⁽¹⁾**



(1) As reported on October 25, 2017

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 to 2020 period ⁽¹⁾

ROIC

Expect ROIC to continue to exceed weighted average cost of capital by a wide margin

Forecast annual ROIC of 13% to 16% over 2018 to 2020 period ⁽¹⁾

(1) As reported on October 25, 2017



Fleet Plan

	Actual		Planned	
	2016	2017	2018	
Wide-body				
Boeing 787-8	8	8	8	
Boeing 787-9	13	22	27	
Boeing 777-300ER	12	12	12	
Boeing 777-300ER (higher-density)	7	7	7	
Boeing 777-200LR	6	6	6	
Boeing 767-300ER	14	8	5	
Airbus A330-300	8	8	8	
Narrow-body				
Boeing 737 MAX-8	-	2	18	
Airbus A319, A320, A321	75	75	67	
Embraer 190	25	25	25	
Total Mainline	168	173	183	
Boeing 767-300ER	20	24	25	
Airbus A319, A321	25	25	25	
Total Air Canada rouge	45	49	50	
Total Wide-body Aircraft	88	95	98	
Total Narrow-body Aircraft	125	127	135	
Total Mainline and Air Canada rouge	213	222	233	



Normalization of Capital Expenditures by 2020

\$ millions	2015	2016	2017	2018	2019	2020
Aircraft and Aircraft-related	\$1,415	\$2,516	\$2,198	\$1,895	\$1,751	\$1,224
Information Technology	38	36	68	125	115	58
Facilities and Ground Equipment	84	77	83	107	84	82
Capitalized Maintenance	208	234	107	95	132	132
Capitalized Interest	70	58	49	48	48	48
Total Capital Expenditures	\$1,815	\$2,921	\$2,505	\$2,270	\$2,130	\$1,544



Lower Leverage Supports Investment Grade Credit Ratings

- Creating shareholder value by lowering gross debt and leverage remains 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 stable outlook (from CCC+ in 2010)
 - **Moody's**
Ba3 with stable outlook (from B3 in 2010)

Expect projected decline in leverage ratio to 1.2 by the end of 2020 ⁽¹⁾ to support drive for investment grade credit ratings



(1) As reported on October 25, 2017



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

aircanada.com