



**AIR CANADA** 

*Presents at the*

**Bank of America**   
**Merrill Lynch**

2012 Global Transportation  
Conference

May 18, 2012

# Caution Regarding Forward-looking Information

Air Canada's public communications may include forward-looking statements within the meaning of applicable securities laws. Such statements may be included in this presentation and may be included in other communications, including filings with regulatory authorities and securities regulators. Forward-looking statements may be 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 strategies, expectations, planned operations or future actions. Forward-looking statements are identified by the use of terms and phrases such as "anticipate", "believe", "could", "estimate", "expect", "intend", "may", "plan", "predict", "project", "will", "would", and similar terms and phrases, including references to assumptions.

Forward-looking statements, by their nature, are based on assumptions and are subject to important risks and uncertainties. Forecasts or forward-looking predictions or statements cannot be relied upon due to, amongst other things, changing external events and general uncertainties of the business. Actual results may differ materially from results indicated in forward-looking statements due to a number of factors, including without limitation, industry, market, credit and economic conditions, the ability to reduce operating costs and secure financing, pension issues, energy prices, currency exchange and interest rates, employee and labour relations, competition, war, terrorist acts, epidemic diseases, environmental factors (including weather systems and other natural phenomena and factors arising from man-made sources), insurance issues and costs, changes in demand due to the seasonal nature of the business, supply issues, changes in laws, regulatory developments or proceedings, pending and future litigation and actions by third parties as well as the factors identified throughout Air Canada's public disclosure file available at [www.sedar.com](http://www.sedar.com), including Section 18, Risk Factors, of Air Canada's 2011 Management's Discussion and Analysis dated February 9, 2012 and Section 13, Risk Factors, of Air Canada's first quarter 2012 Management's Discussion and Analysis dated May 4, 2012.

Any forward-looking statements contained in this presentation represent Air Canada's expectations as of the date of this presentation (or as of the date they are otherwise stated to be made) and are subject to change after such date. However, Air Canada disclaims any intention or obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise, except as required under applicable securities regulations.

# Agenda

- About Air Canada
- Building a Stronger Airline
- Financial Performance
- Review

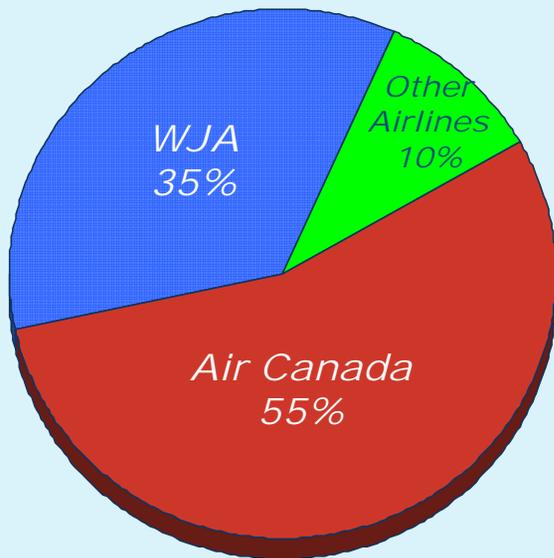


# About Air Canada

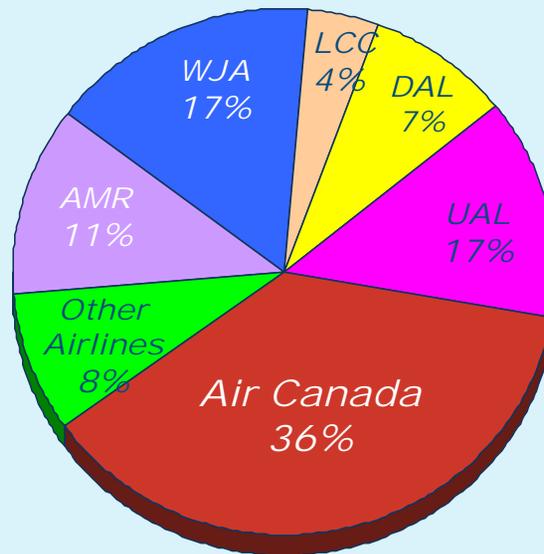


# Leading Share in All Markets

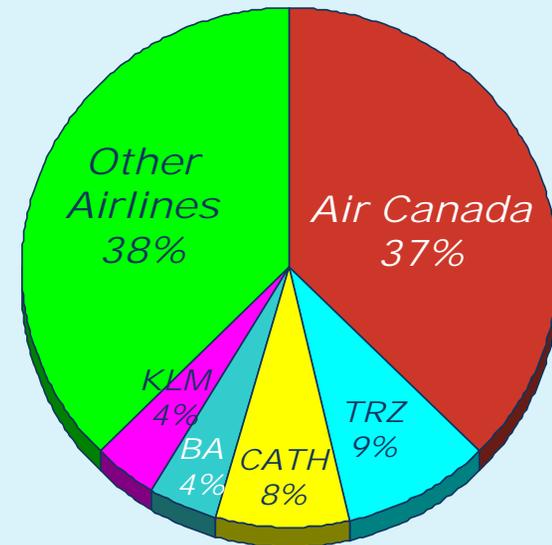
**Domestic**  
accounts for  
**39%** of  
passenger  
revenue



**Transborder**  
accounts for  
**20%** of  
passenger  
revenue



**International**  
accounts for  
**41%** of  
passenger  
revenue



- Source: OAG, based on available seat miles (ASMs) from full year 2011
- AC Revenue Split based on 2011 full year revenues

# Fleet Flexibility to Adjust to Market Demand

AIR CANADA 



**Boeing aircraft (48)**  
191 seats – 349 seats



**Airbus aircraft (97)**  
120 seats – 265 seats



**EMBRAER aircraft (60)**  
73 seats – 93 seats

- Average age of 11.9 yrs – one of the youngest among major North American carriers
- Higher aircraft utilization drove majority of capacity growth in 2011
- No significant fleet changes expected in 2012
- Projected ASM growth of up to 1.5% in 2012
- 37 Boeing 787s will provide growth opportunities starting in 2014
- 5 Boeing 777s on order will provide optionality

# Air Canada Express – Important Part of N.A. Strategy

**AIR CANADA**   
**express** acts as a feeder to Air Canada's scheduled routes



**CRJ aircraft (55)**  
**50 seats – 75 seats**



**Dash 8 aircraft (75)**  
**37 seats – 74 seats**



**Beech aircraft (17)**  
**18 seats**

- Dash 8 400s operated by
  - Jazz
    - will operate total of 15 Dash 8 400s by end of 2012
    - will remove a total of 8 CRJ 100s by end of 2012
    - Jazz covered fleet will consist of 125 aircraft throughout 2012
  - Sky Regional (5)
- Q400 NextGen aircraft are optimized for short-haul operations and deliver fuel efficiency, passenger comfort and lower operating costs than the aircraft they replace

# Industry Leading Products & Services Provide Competitive Edge



- Loyalty program
- Maple Leaf Lounges
- Concierge program
- Lie-flat beds in Executive First
- Personal seat back entertainment at every seat
- Mobile-friendly booking and check-in

# Other Leading Services Contribute to Profitability

## AIR CANADA CARGO

Canada's largest provider of air cargo services



## AIR CANADA jetz

Premium provider of jet charter services



## AIR CANADA VACATIONS

One of Canada's leading tour operators



# Status of Labour Negotiations

- New collective agreements have been concluded with all union groups other than IAMAW (union representing mechanics, baggage handlers & cargo agents, as well as certain finance and clerical employees) and ACPA (union representing pilots)
- The concluded agreements include pension amendments that would positively impact the solvency deficit and pension obligations, as well as create a new pension regime to apply to new hires, consisting of part defined contribution and part defined benefit plan (amendments to the pension plans are subject to regulatory approval)
- Air Canada has entered into a final offer selection arbitration process with IAMAW and ACPA with the assistance of federally-appointed arbitrators – new contracts are expected to be in place with both unions by no later than the end of July 2012

# Aveos and Aircraft Maintenance

- On March 19, 2012, Aveos filed for court protection pursuant to CCAA and on March 20, 2012, issued a notice of termination to all of its employees
- In the first quarter of 2012 Air Canada recorded an aggregate loss on investments of \$65M (non-cash) and a liability of \$55M related to Air Canada's commitment under an employee separation program
- Transitional plan implemented to send aircraft to alternate aircraft maintenance suppliers to undertake work originally scheduled to be performed by Aveos
- With respect to longer term arrangements, Air Canada has undertaken a Request For Proposal (RFP) process to obtain global proposals from maintenance suppliers with competitive cost structures, including some of those identified through the Aveos CCAA divestiture process
  - Air Canada expects a reduction in maintenance costs and better turnaround times over the long-term

# Pension Update

- Estimated pension solvency deficit of \$4.4B at January 1, 2012 – \$2.2B higher than solvency deficit at January 1, 2011
- Increase in pension deficit due to decrease in discount rate from 4.5% to 3.3%, partly offset by 6.8% return on plan assets
- In light of Air Canada's 2009 pension regulations, valuations do not increase required past service cost funding obligations until 2014 - Fixed payments of \$150, \$175 and \$225 million in 2011, 2012 and 2013
- Collective agreements with CUPE and CAW include benefit reductions (subject to regulatory approvals). If Air Canada is successful in concluding agreements with the same benefit reductions with all other groups, solvency deficit will decline by approximately \$1.1B (also subject to regulatory approvals)
- Air Canada continues to explore alternatives with respect to past service funding obligations post 2013. Sensitivity – every 1% increase in long-term interest rates would reduce the pension obligation by approximately \$1.7B

# ***Building a Stronger Airline***

---



# Air Canada's Business Strategy

- Leveraging international network while maintaining disciplined approach to growth
- Improving cost structure and increasing revenue generation
- Focusing on premium passengers and products
- Fostering positive culture change



# Building on a Powerful Global Network



# Star Alliance™ & Joint Venture Enhance Market Presence



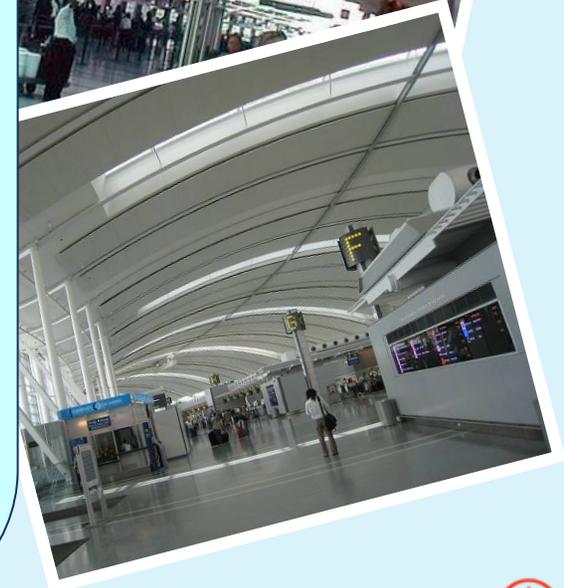
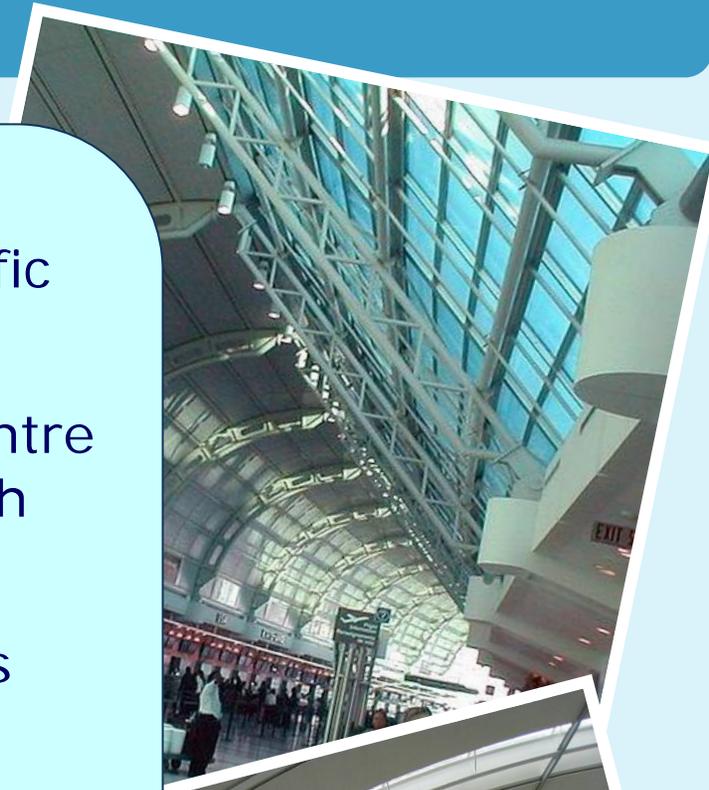
Star Alliance voted **Best Airline Alliance** in the 2011 Skytrax World Airline Awards™



- **25** Members
- **190** Countries Served
- **1,293** Airports
- **>648M** Passengers/year
- **>4,200** Aircraft
- **>20K** Daily Departures
- **>950** Lounges

# Leveraging World Class Hubs

- Focus on increasing global connecting traffic via Canada
- Toronto Pearson is centre of catchment area with less traffic congestion
- Number of passengers connecting through Toronto Pearson up 110% since 2009
- Continued strength of sixth freedom traffic through Toronto Pearson in Q1 2012 – up 32% from Q1 11



# Continuous Cost Transformation and Improvement

- Committed to making cost containment/reduction a permanent part of culture
- Surpassed CTP target of annual revenue and cost saving benefits of \$530M by the end of the third quarter of 2011
- Formed Business Transformation team to implement best practice findings and lower cost structure – focus is on waste reduction in cross functional business processes
- A number of projects are currently in progress to deliver cost savings during 2012 – these include:
  - Increasing use of ground power instead of auxiliary power unit on aircraft
  - Optimizing use of ground support equipment
  - Improving aircraft turnaround times
  - Lowering catering costs and credit card fees

# Ongoing Evaluation of Low-cost Business Model

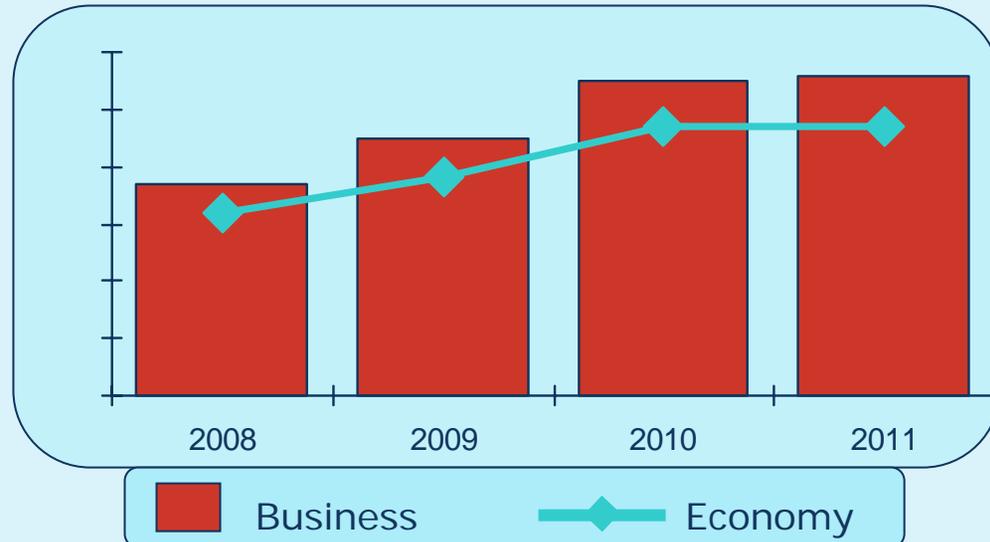
- Airline industry has been subject to rapid expansion and creation of low-cost airlines
- Air Canada is evaluating various low-cost carrier business models
- Low-cost carrier would operate with key principle of maintaining long-term cost structure at/or below that of low-cost competitors
- Air Canada views this evolution as important to increasing stability, reducing seasonality and improving profitability

# Focus on Delivering "Best in Class" Service

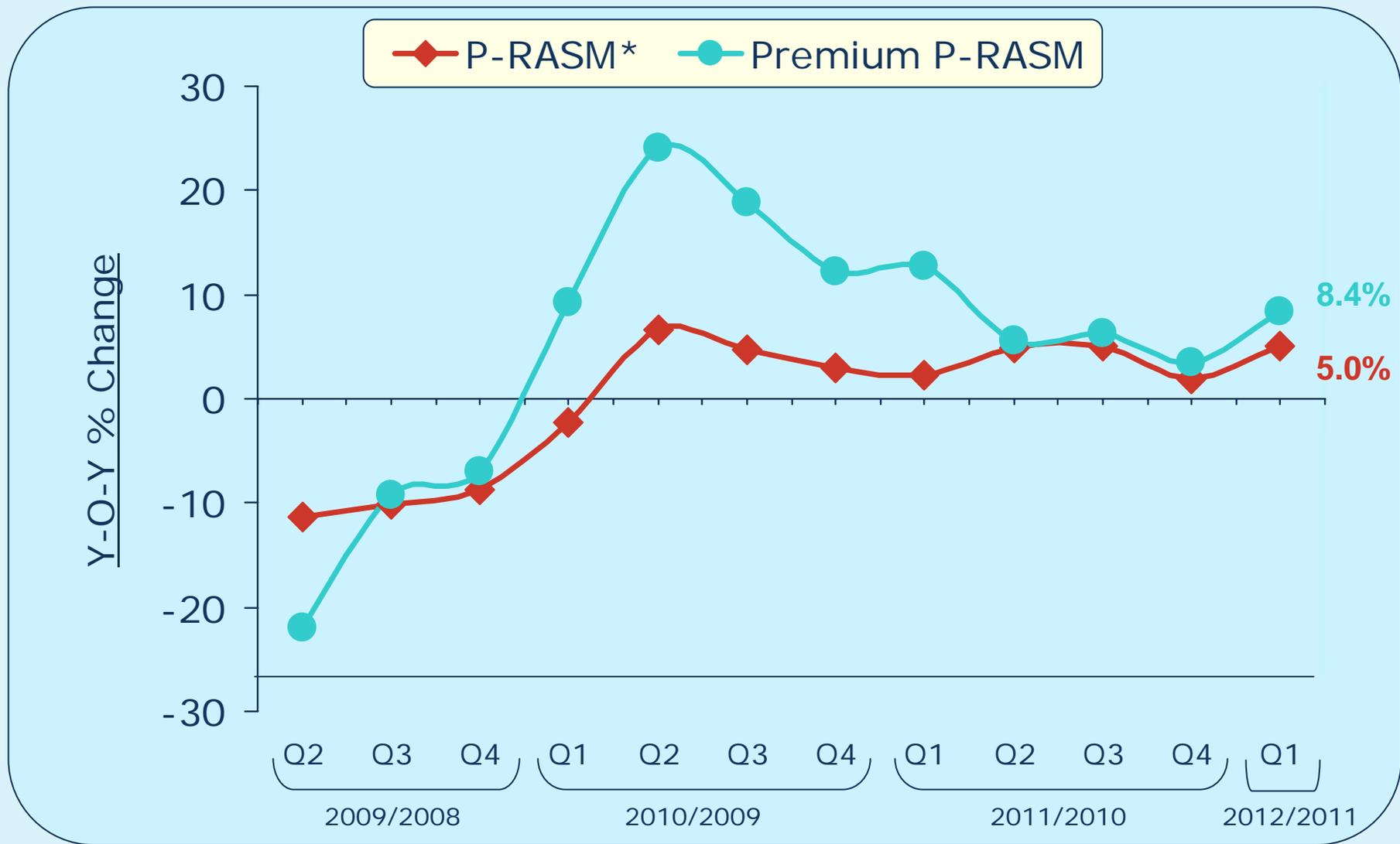
- Overall customer satisfaction improved dramatically from 2009 to 2010
- Despite a difficult labour situation in 2011, the higher level of customer satisfaction was maintained
- Numerous awards received confirm that Air Canada is delivering on its priority of engaging its customers
- Air Canada is focused on maintaining customer confidence and is actively working on customer-related initiatives following labour-related disruptions to its operations during the first quarter of 2012

*Ranked Among Top Five Most Attractive Companies to Work for in Canada*

*20% Improvement in Employee Engagement*



# Focus on Premium Cabin Driving Premium RASM Growth



\* Excludes favourable adjustment in Q4 2010

# Enhancing Culture to Increase Competitiveness

- Promoting leadership, ownership and entrepreneurship
- Emphasis on cost containment is forging a more entrepreneurial culture
- New training courses for managers: continuous improvement and change management
- Empowering employees to make decisions
- Industry honours are indication Air Canada employees are participating in transformation



# *Financial Performance*



# Full Year 2011 and First Quarter 2012 Results

## Full Year 2011

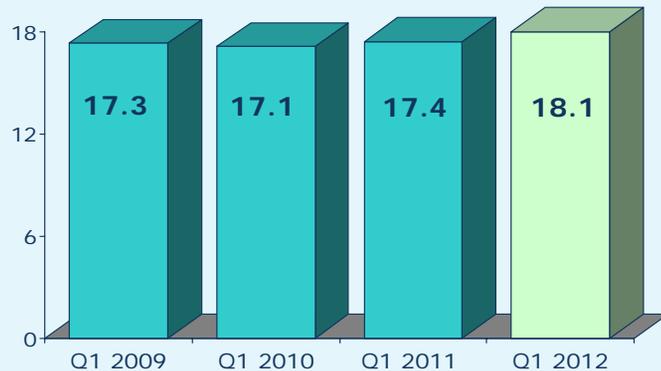
- EBITDAR<sup>(1)</sup> of \$1,242M
- EBITDAR Margin<sup>(1)</sup> of 10.7%
- Passenger load factor of 81.6%
- Unit passenger revenue (P/RASM) up 3.2%
- Premium cabin P/RASM increased 4.5%
- CASM, excluding fuel and the cost of ground packages at Air Canada Vacations, down 2.9%
- Ancillary revenues per passenger increased 18%
- Adjusted net debt of \$4.6B at Dec 31, 2011 – decreased \$298M from Dec 31, 2010

## First Quarter 2012

- EBITDAR<sup>(1)</sup> of \$175M
- EBITDAR Margin<sup>(1)</sup> of 5.9%
- Passenger load factor of 79.2%
- Unit passenger revenue (P/RASM) up 5.0%
- Premium cabin P/RASM increased 8.4%
- CASM, excluding fuel and the cost of ground packages at Air Canada Vacations, up 1.0%
- Ancillary revenues per passenger increased 28%
- Adjusted net debt of \$4.4B at Mar 31, 2012 – decreased \$201M from Dec 31, 2011

# Continued Focus on Improving Cost Structure

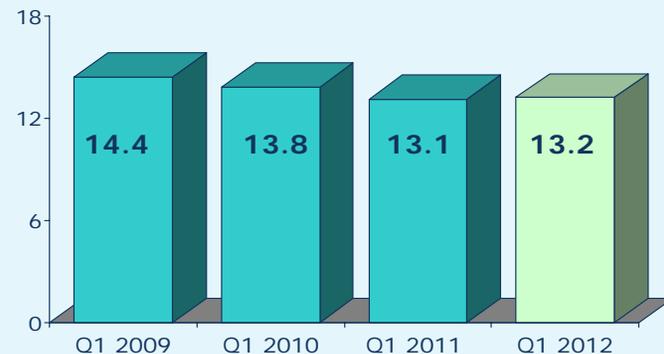
## RASM\*



Maintaining industry-leading RASM

Continue to focus on CASM reductions

## CASM\*\* Ex-fuel



\* Operating RASM  
\*\* 2009 is reported on a Canadian GAAP basis while subsequent periods are reported on an IFRS basis – information may not be directly comparable

# Maintaining Strong Liquidity Position

C\$ billions



% of trailing  
12-month  
operating  
revenues

12%

9%

14%

20%

18%

19%

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

# Focused on Improving Strength of Balance Sheet

Adjusted net debt down \$201M from December 31, 2011



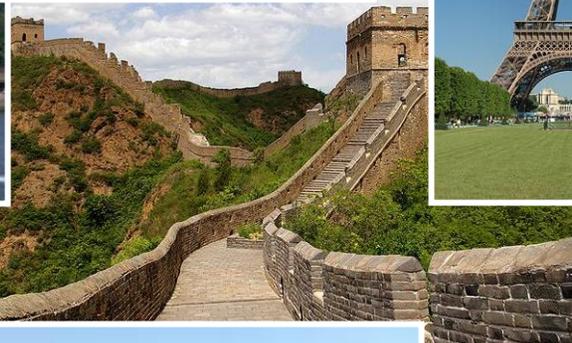
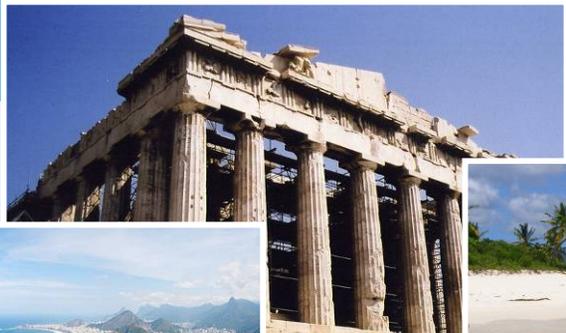
# Review



# Review

- Extensive global network
- One of the world's leading air carriers – twice winner of the Skytrax award for *Best International Airline in North America* in 2010 and in 2011
- Powerful and respected brand franchise
- Industry-leading product and award-winning business class – generating market leading RASM
- Focused on lowering cost structure and debt levels
- Committed to transforming corporate culture to one that embraces leadership, accountability and entrepreneurship

*Go Far...*



**AIR CANADA** 