2012 Global Transportation Conference

May 18, 2012
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Agenda

- About Air Canada
- Building a Stronger Airline
- Financial Performance
- Review
About Air Canada
Domestic accounts for 39% of passenger revenue

Air Canada 55%

Other Airlines 10%

WJA 35%

Leading Share in All Markets

Transborder accounts for 20% of passenger revenue

Air Canada 36%

Other Airlines 38%

WJA 17%

KLM 4%

BA 4%

CATH 8%

LCC 4%

DAL 7%

UAL 17%

AMR 11%

TRZ 9%

Other Airlines 8%

International accounts for 41% of passenger revenue

Air Canada 37%

Other Airlines 38%

KLM 4%

BA 4%

CATH 8%

LCC 4%

DAL 7%

UAL 17%

AMR 11%

TRZ 9%

Other Airlines 8%

• 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

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**AIR CANADA**

### Aircraft Types

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

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

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

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- 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

acts as a feeder to Air Canada's scheduled routes

<table>
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<tr>
<th>CRJ aircraft (55)</th>
<th>Dash 8 aircraft (75)</th>
<th>Beech aircraft (17)</th>
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<tr>
<td>50 seats – 75 seats</td>
<td>37 seats – 74 seats</td>
<td>18 seats</td>
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- 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

**Canada's largest provider of air cargo services**

**Premium provider of jet charter services**

**One of Canada's leading tour operators**
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.
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

180 Direct Destinations:
- 60 in Canada
- 57 in the U.S.
- 63 internationally

15th Largest Airline in the World
- 331 aircraft
- >1,500 daily flights
- >33M passengers carried

*as at December 31, 2011*
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
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

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.
Focus on Premium Cabin Driving Premium RASM Growth

* Excludes favourable adjustment in Q4 2010
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**

- EBITDAR\(^{(1)}\) of $1,242M
- EBITDAR Margin\(^{(1)}\) 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

\(^{(1)}\) Before provision adjustment for cargo investigations

**First Quarter 2012**

- EBITDAR\(^{(1)}\) of $175M
- EBITDAR Margin\(^{(1)}\) 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

**CASM**

Continue to focus on CASM reductions

* 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

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

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<td>Millions</td>
<td>$5,768</td>
<td>$5,138</td>
<td>$4,874</td>
<td>$4,645</td>
<td>$4,576</td>
<td>$4,375</td>
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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