Air Canada Presents
at the
11th Annual Eastern Institutional Investor Conference
September 19, 2012
Montreal
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Agenda

▶ Making Progress on Transformation
▶ About Air Canada
▶ Building a Stronger Airline
▶ Financial Performance
▶ Review
Making Progress on Transformation
Recent Developments

- Collective agreements now finalized with all major Canadian unions
- New pilot contract provides flexibility to compete effectively in current industry environment – potential for growth through launch of low-cost airline
- Progress made on key priority of reducing debt – adjusted net debt down $353M from December 31, 2011
- Making headway in concluding long-term maintenance arrangements following closure of Aveos – new maintenance contracts expected to result in unit cost savings
- Winner of Best International Airline in North America for 3rd consecutive year
- Maintained strong liquidity position – $2.4B at June 30, 2012
About Air Canada
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 full year 2011 available seat miles (ASMs)
- AC Revenue Split based on 2011 full year revenues
Fleet Flexibility to Adjust to Market Demand

- Average age of mainline fleet at June 30, 2012 is 12.1 yrs
- No significant fleet changes expected in 2012
- New collective agreement with pilots provides ability to operate low-cost airline with up to 50 aircraft
  - will allow Air Canada to grow its presence in leisure and low-cost markets
  - start-up of low-cost carrier expected in 2013
- 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

Jazz current fleet is comprised of 126 aircraft
- total of nine 50-seat CRJ 100s will be removed from Jazz fleet by May 2013
- additional six Dash 8 400s expected in the first half of 2013 for a total of 21
- Jazz covered fleet to be reduced to 122 aircraft by mid-2013

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
Pension Update

- Estimated pension solvency deficit of $4.2B at January 1, 2012, $2.0B higher than solvency deficit at January 1, 2011

- In light of Air Canada 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, respectively

- Collective agreements with major Canadian unions include benefit reductions which are expected to reduce solvency deficit by an estimated $1.1B (subject to regulatory approvals)
  - additionally, all new employees to join a defined contribution or hybrid DC/DB plan

- Arbitrators in the IAMAW and ACPA arbitrations concluded that extension of funding relief is essential to the viability of Air Canada's pension plans – Air Canada plans to pursue such an extension for the benefit of all stakeholders
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

Air Canada Routes - Summer 2012

178 Direct Destinations:
- 59 in Canada
- 56 in the U.S.
- 63 internationally

- 15th Largest Airline in the World
- 352 aircraft
- >1,500 daily flights
- ~34M passengers carried
Star Alliance™ & Joint Venture Enhance Market Presence

- **27** Members
- **193** Countries Served
- **1,356** Airports
- **>678M** Passengers/year
- **>4,300** Aircraft
- **>21.5K** Daily Departures
- **>990** Lounges

Leveraging World Class Hubs

- Focused on increasing global connecting traffic via Canada (sixth freedom)
- Toronto Pearson is centre of catchment area with less traffic congestion
- Number of Air Canada international passengers connecting through Toronto Pearson up 160% since 2009
- Continued strength of sixth freedom traffic through Toronto Pearson in Q2 2012 – up 18% from Q2 2011
Continuous Cost Transformation and Improvement

- Surpassed CTP target of annual revenue and cost saving benefits of $530M by the end of the third quarter of 2011

- 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

- With closure of Aveos in March 2012, Air Canada may now seek 3rd party agreements at market terms resulting in both reduced costs and increased aircraft availability
Airline industry has been subject to rapid expansion and creation of low-cost airlines

Low-cost carrier will allow Air Canada to grow its presence in leisure and other low-cost markets

Low-cost carrier would operate with key principle of maintaining long-term cost structure at/or below that of low-cost competitors

New collective agreement with ACPA allows Air Canada pilots to operate a low-cost carrier with up to 50 aircraft (30 A319s and 20 Boeing 767s)

Start-up expected in 2013

Air Canada views this evolution as important to the airline
Focus on Delivering "Best in Class" Service

- Overall customer satisfaction improved dramatically from 2009 to 2010
- Despite a difficult labour environment 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 in March and April 2012

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

Winner for the 5th consecutive year of "Best Flight Experience to Canada" in Executive Travel Magazine's 2012 Leading Edge Awards

Winner for the 3rd consecutive year of "Best International Airline in North America" in the 2012 Skytrax World Airline Awards
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
First Six Months 2012 and Annual Guidance

**First Six Months 2012**

- EBITDAR of $489M
- EBITDAR Margin of 8.2%
- Passenger load factor of 81.4%
- Unit passenger revenue (P-RASM) up 3.4%
- Premium cabin P-RASM increased 6.3%
- CASM, excluding fuel and the cost of ground packages at Air Canada Vacations, up 2.2%
- Ancillary revenues per passenger increased 28%
- Adjusted net debt of $4.2B at June 30, 2012 – decreased $353M from Dec 31, 2011

**Annual Guidance 2012**

**Guidance***

- ASM growth of 0.5% to 1.5%
- Domestic ASM growth of 0.5% to 1.5%
- CASM, excluding fuel and the cost of ground packages at Air Canada Vacations, up 0.5% to 1.5%

**Major Assumptions**

- Canadian collar 1.01 per US$
- Jet fuel price 88 cents/litre (CAD)
- Canadian economic GDP growth 1.5% to 2.0%

*as of August 8, 2012*
Continued Focus on Improving Cost Structure

**RASM**

- Q2 2009: 15.8
- Q2 2010: 16.9
- Q2 2011: 17.7
- Q2 2012: 18.0

**CASM**

- Ex-fuel

**Maintaining industry-leading RASM**

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

C$ billions

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<th>Year</th>
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<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
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<td>$2.2</td>
<td>$2.1</td>
<td>$2.2</td>
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% of trailing 12-month operating revenues

12% 9% 14% 20% 18% 19% 20%

Note: Liquidity is comprised of unrestricted cash, cash equivalents and short term investments
Focused on Improving Strength of Balance Sheet

Adjusted net debt down $353M from December 31, 2011

Millions

- Dec 31 2009: $5,768
- Sep 30 2010: $5,138
- Dec 31 2010: $4,874
- Sep 30 2011: $4,645
- Dec 31 2011: $4,576
- Mar 31 2012: $4,375
- Jun 30 2012: $4,223
Review
Review

- Extensive global network
- Fleet flexibility enables response to market realities
- One of the world’s leading air carriers
  - Skytrax 2012 award for *Best International Airline in North America* for 3rd consecutive year
  - Executive Travel Magazine's 2012 Leading Edge Award for *Best Flight Experience to Canada* for 5th consecutive year
- 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