



**AIR CANADA** 

to present  
at the



12<sup>TH</sup> ANNUAL EASTERN  
**INSTITUTIONAL**  
INVESTOR CONFERENCE

*Montreal*  
*September 18, 2013*



Best International Airline  
in North America  
*Meilleur transporteur  
aérien international  
en Amérique du Nord*

## *Caution Regarding Forward-looking Information*

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# *Agenda*

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- ✈ About Air Canada
- ✈ Leveraging Competitive Advantages
- ✈ Building a Stronger Air Canada
- ✈ Financial Results
- ✈ Going Forward

# *About Air Canada*



# Powerful Global Network



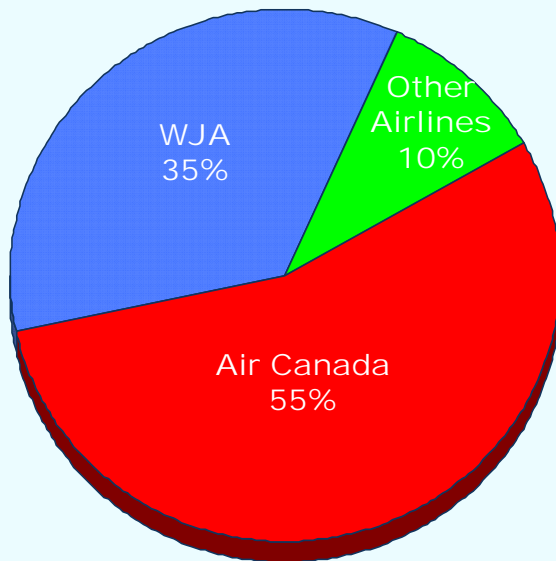
— Air Canada  
 Spring/Summer 2013  
— Air Canada *rouge*™  
 as at July 2013

**176 Direct Destinations:**  
 → **60** in Canada  
 → **49** in the U.S.  
 → **67** internationally

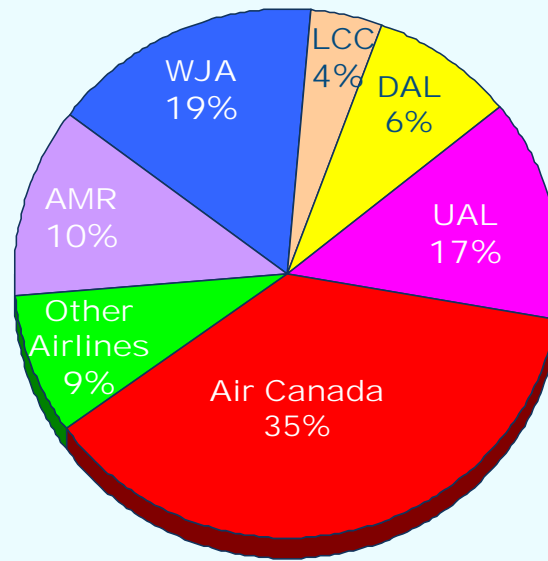
**Among the 20 largest airlines globally**  
 → **349** aircraft  
 → **> 1,500** daily flights  
 → **~35M** passengers carried

# Leading Share in All Markets

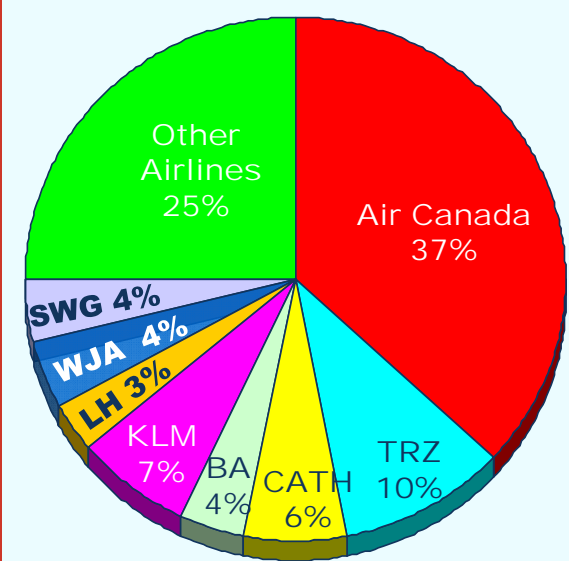
**Domestic**  
accounts for  
**39%** of  
passenger  
revenue



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



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



- Source: OAG data, based on full year 2012 available seat miles (ASMs)
- AC Revenue Split based on 2012 full year revenues

## *Fleet Flexibility to Adjust to Market Demand*

	June 2013	Planned Fleet		
		Dec 2013	Dec 2014	Dec 2015
<b>Mainline</b>				
Boeing 787	-	-	6	12
Boeing 777-300*	12	16	17	17
Boeing 777-200	6	6	6	6
Boeing 767-300	30	27	21	17
Airbus A330-300	8	8	8	8
Airbus A321	10	10	10	10
Airbus A320	41	41	41	41
Airbus A319	38	30	13	8
EMBRAER 190	45	45	45	45
EMBRAER 175*	7	-	-	-
<b>Total Mainline</b>	<b>197</b>	<b>183</b>	<b>167</b>	<b>164</b>
<b>Air Canada rouge™</b>				
Boeing 767-300	-	2	8	12
Airbus A319	-	8	25	30
<b>Total Air Canada rouge™</b>	<b>-</b>	<b>10</b>	<b>33</b>	<b>42</b>
<b>Combined total fleet</b>	<b>197</b>	<b>193</b>	<b>200</b>	<b>206</b>

(Chart is as reported on August 7, 2013)

\* Subsequent to June 30, 2013, two new 458-seat Boeing 777-300ER aircraft were added to the mainline operating fleet and the seven remaining Embraer 175 aircraft have been transferred to a low-cost regional provider

# *Air Canada Express – Important Part of North American Strategy*

**AIR CANADA**   
**express** provides feeder traffic to Air Canada's scheduled routes



**CRJ (41)**  
50-75 seats



**Dash 8 (60)/Q-400 (26)**  
37-74 seats



**Embraer (15)**  
73 seats



**Beech (17)**  
18 seats

- Jazz fleet at 122 aircraft (including 21 Q-400 aircraft)
  - Q-400 aircraft are optimized for short-haul operations and deliver fuel efficiency, passenger comfort and lower operating costs than the aircraft they replace
- New collective agreement with ACPA gives us flexibility to transfer jets/prop of less than 76 seats to regional carriers
- As of September 5, 2013, all fifteen of Air Canada's smallest aircraft type, Embraer 175 aircraft, have been transferred to Sky Regional, a lower cost regional provider – Sky Regional also operates five Q-400 aircraft
- Sky Regional has a more competitive cost structure than mainline due to lower wages, benefits and overhead costs – reduction in Embraer 175 CASM estimated at 11% vs Embraer 175 at mainline

# Other Award Winning Services Contribute to Profitability

## AIR CANADA CARGO

Canada's largest provider of air cargo services



Won 2013 **"Carrier of the Year"** & **"e-Business"** awards  
In Eastern & Central Canada –  
Forwarders Choice Awards

## AIR CANADA VACATIONS

One of Canada's leading tour operators

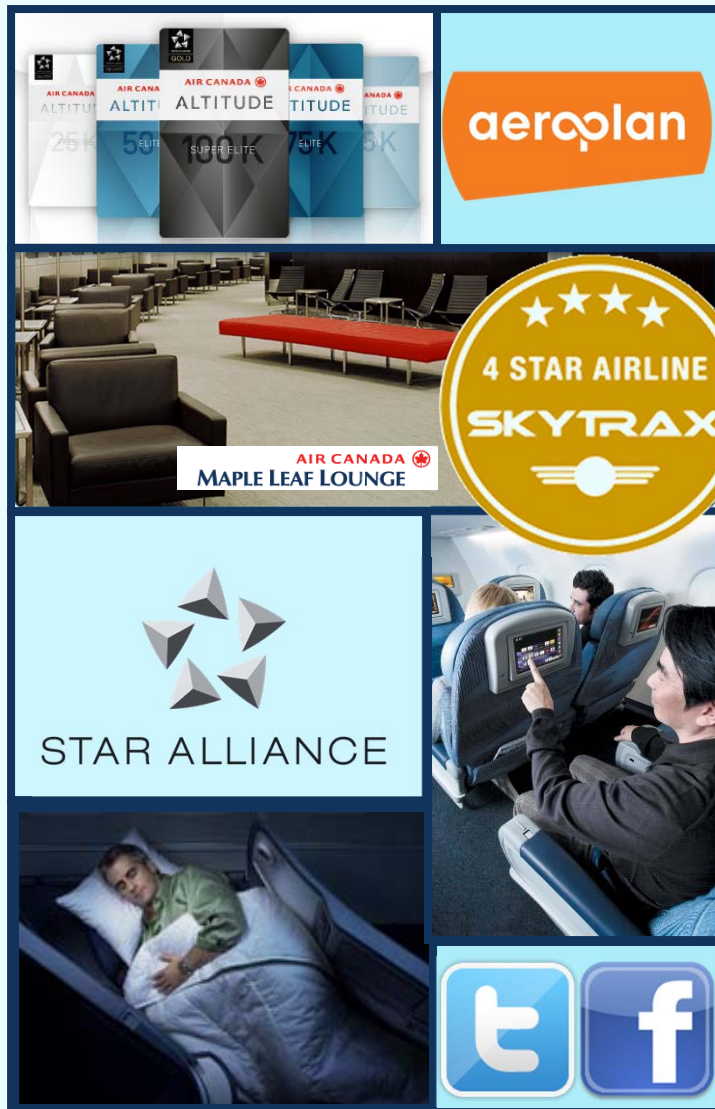


Won 2013 **"Favourite Tour Operator"** award at Baxter  
Travel Media's Agents'  
Choice Awards for the 4<sup>th</sup> year

# *Leveraging Competitive Advantages*



# Industry-Leading Products & Services

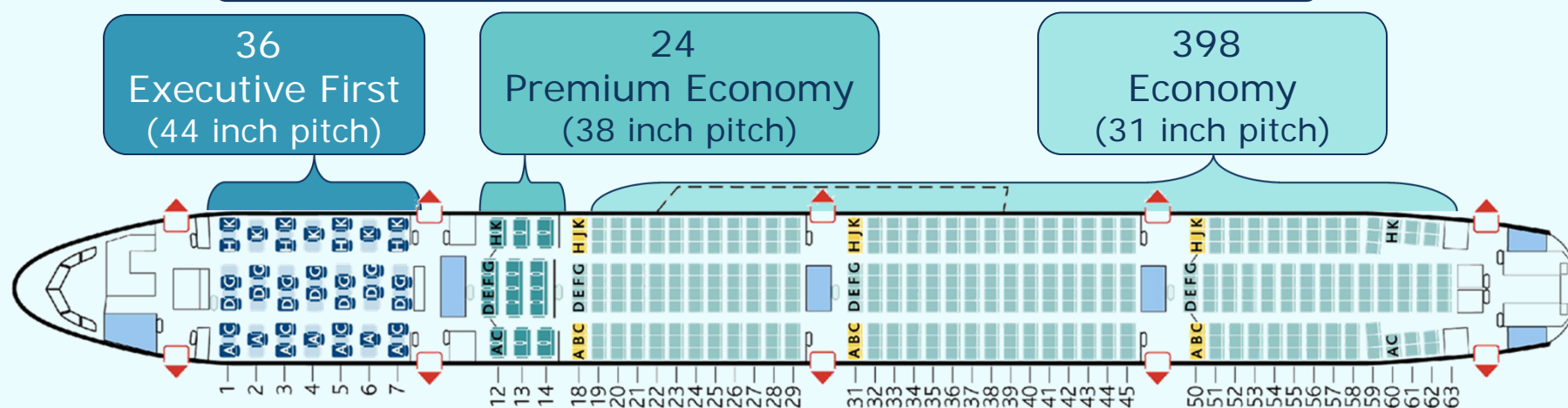


- The only international carrier in N.A. to receive a four star ranking by Skytrax
- Frequent flyer recognition program "Air Canada Altitude"
- Star Alliance membership
- Maple Leaf Lounges
- Concierge program
- Lie-flat beds in Executive First
- Personal seat back entertainment at every seat
- Mobile-friendly booking and check-in

## Investing in New Aircraft, Products & Services

- ➔ Two of five new high-density Boeing 777s have been delivered and are now in service – the first between Montreal-Paris and the second between Toronto-Munich – estimated CASM reduction of 21% compared to Boeing 777 in current mainline fleet
- ➔ Taking delivery of 37 Boeing 787 aircraft starting in 2014 to replace less efficient Boeing 767s and to pursue international growth opportunities
  - Combination of fuel and maintenance efficiencies associated with Boeing 787 and greater number of seats drives an estimated 29% CASM reduction compared to Boeing 767-300ER aircraft
- ➔ Air Canada *rouge* began operations on July 1, 2013 and is well-positioned in the growing leisure market

### High-density Boeing 777 – three class configuration



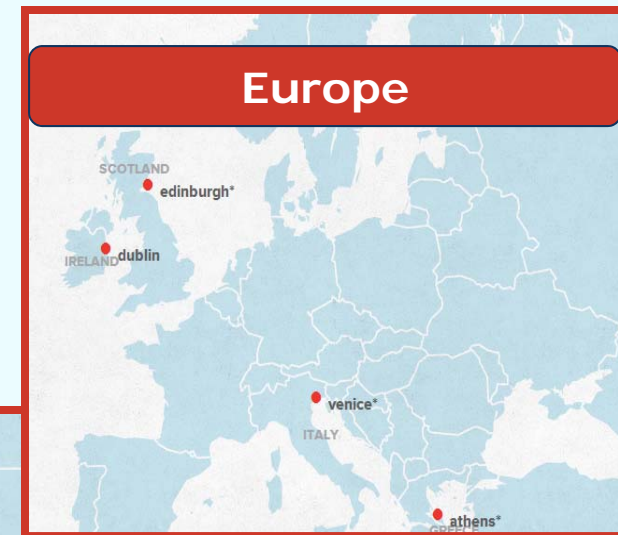
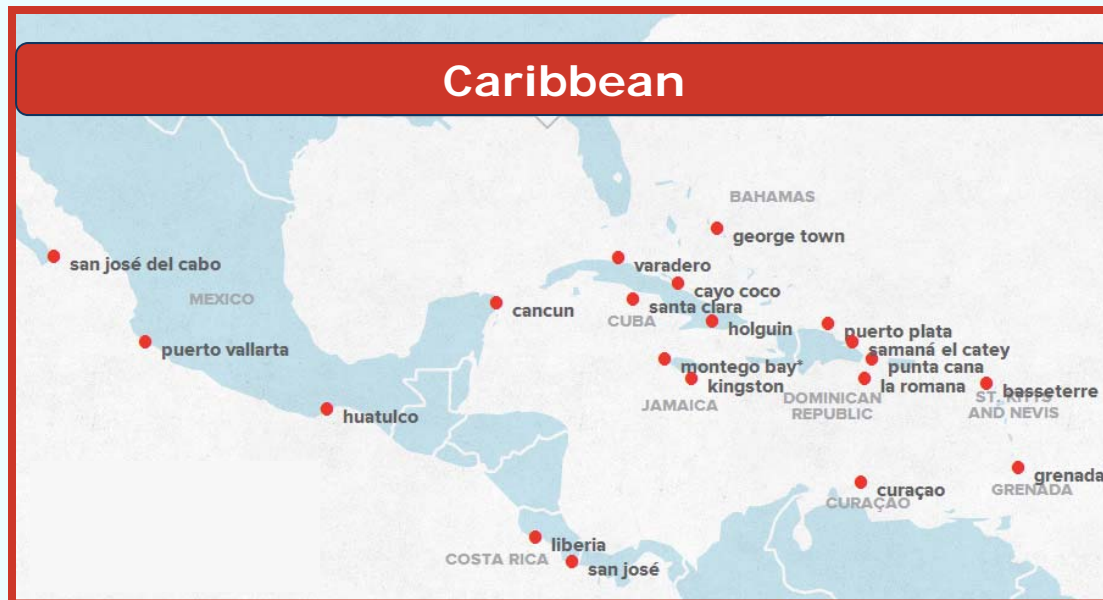
# Targeting Enhanced Profitability Through Low-cost Leisure Airline – Air Canada rouge™



- ➔ Air Canada *rouge* began service July 1<sup>st</sup> with two Boeing 767 and two Airbus A319s transferred from Air Canada's mainline fleet – an additional transfer of six Airbus A319s expected by year-end 2013 and four more by March 2014 for a total fleet of 14 by the end of the 2013/2014 winter season
- ➔ Air Canada *rouge* pursuing opportunities in markets made viable by its lower operating cost structure – A319 and B767 CASM estimated at 21% and 29% lower than mainline respectively
- ➔ Air Canada *rouge* will, subject to market conditions, expand to other destinations as Air Canada takes delivery of B787s thereby freeing up B767s for transfer to Air Canada *rouge*
- ➔ Air Canada *rouge* may operate up to 20 B767s and 30 A319s

# Air Canada rouge™ 2013-2014 Destinations

- Current destinations include Venice, Edinburgh, Athens and the Caribbean
- Fall/Winter schedule will grow to include additional Caribbean destinations, Mexico, Florida, Las Vegas and beginning in 2014, year round service to Dublin, Ireland



# Enhancing Market Presence Through Star Alliance™ & Joint Venture



- **28** Members
- **195** Countries Served
- **1,328** Airports
- **21,900** Daily Departures

- **>727M** Passengers/year
- **>4,700** Aircraft
- **>1000** Lounges

# *Building a Stronger Air Canada*



## *Improving Profitability by Focusing on Four Key Priorities*

- Pursuing revenue enhancements and transforming costs to enhance competitiveness
- Expanding internationally and increasing connecting traffic through international gateways
- Engaging with customers, with a particular emphasis on premium class passengers and products
- Fostering positive culture change

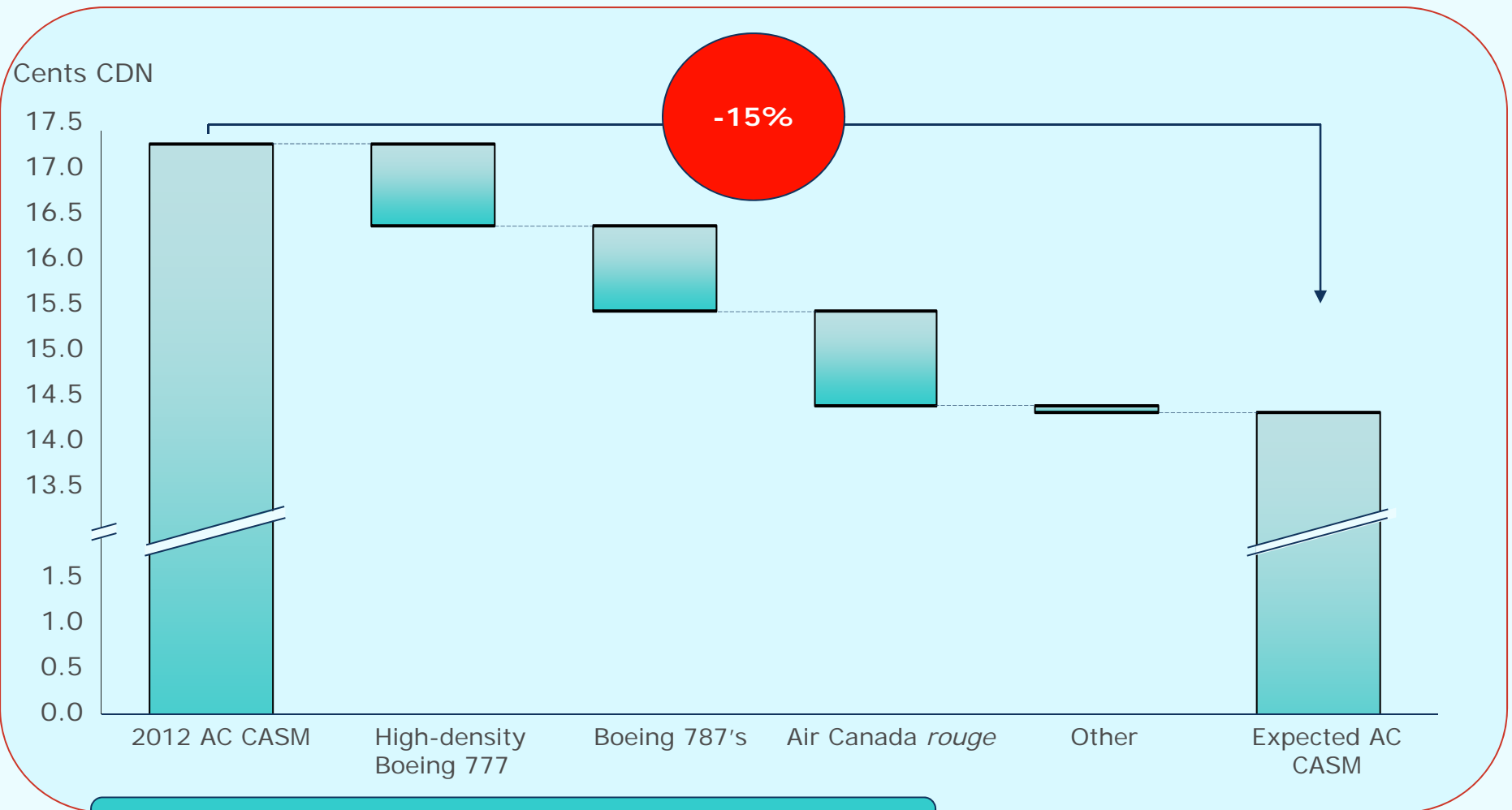


## *Continuous Cost Transformation*

- Concluded collective agreements with all major Canadian unions which included modifications to the defined benefit pension plans (subject to regulatory approval)
- Concluded new agreements with maintenance service providers on a cost competitive basis
- Launched Air Canada *rouge*<sup>TM</sup> with a lower cost structure to improve profitability in leisure markets
- Transferred all 15 Embraer 175s from mainline to lower cost regional operator
- Introducing high density Boeing 777s (two of five currently operating) and more efficient Boeing 787s in three class service (Economy, Premium Economy and Executive First)
- Actively pursuing other initiatives including: negotiating competitive contracts with key suppliers, proposed change to crew complement requirements, lowering fuel consumption, bettering turnaround times, reducing credit card fees, improving productivity in call centres

## Lower Cost Structure

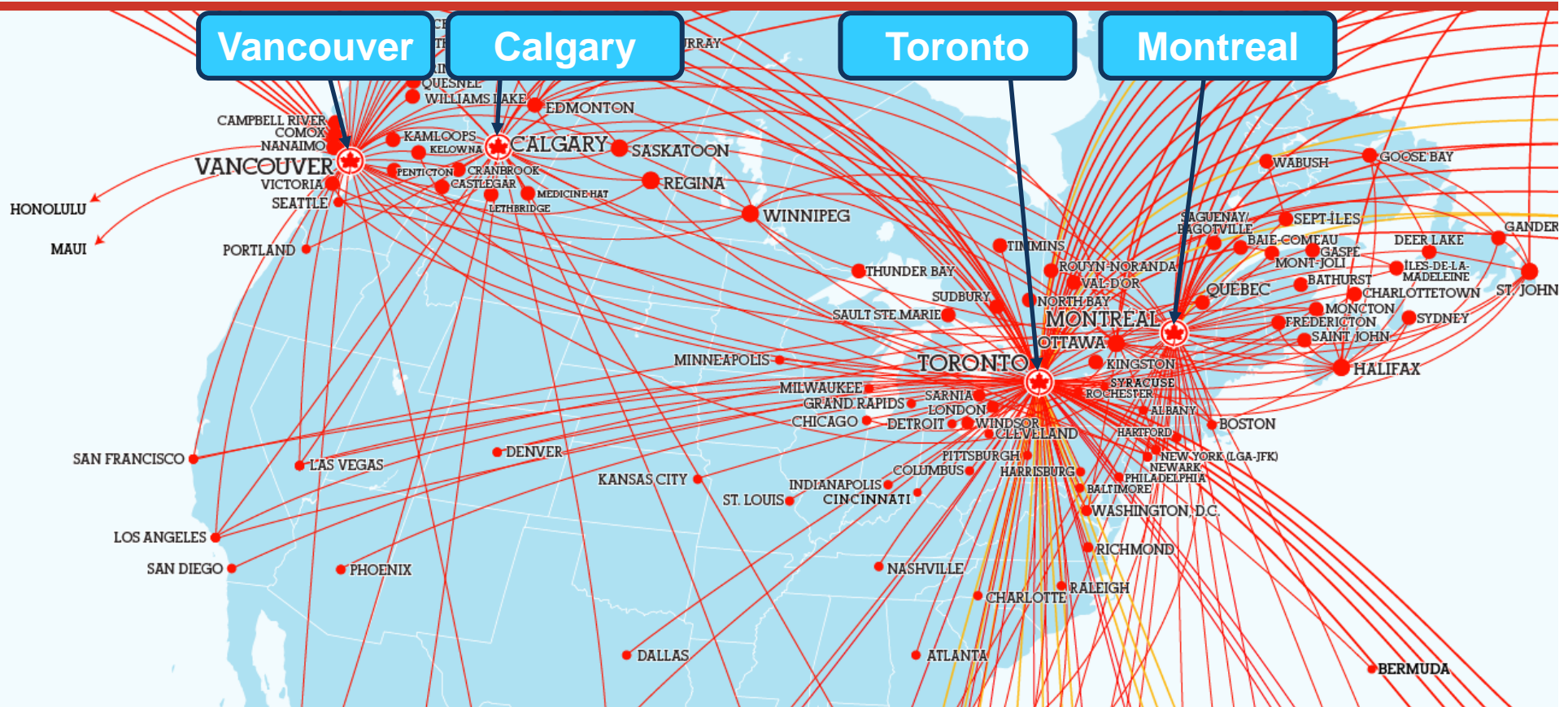
- ➔ If implemented today, cost reduction initiatives would be expected to decrease CASM by an estimated 15%



## *Leveraging Opportunities for Revenue Growth*

- ➔ Growing ancillary revenues through various passenger-related fees including paid upgrades, baggage fees and seat selection fees
- ➔ Re-branded frequent flyer program (Air Canada Altitude) to build loyalty and generate incremental revenue
- ➔ Improved net Aeroplan revenue
  - Reduced Aeroplan frequent flyer accumulation fees to 50% on Tango service for international routes
- ➔ Launched loyalty program for small businesses
  - Loyalty program caters to small and medium-size businesses allowing them to earn rewards and complimentary services
- ➔ Introducing new Revenue Management System (RMS) which is being phased in over the next two years – expect over \$100M of incremental annual revenues in 2015

# Expanding Internationally and Increasing Traffic Through World Class Hubs



- ✈ Increasing global connecting traffic via Canada – continued strength of sixth freedom traffic through Toronto Pearson
- ✈ Fully automated baggage handling for Air Canada customers connecting to the U.S. through Toronto

# Awards & Recognition

2013 Skytrax World Airline Awards –  
**4<sup>th</sup> consecutive year**

2012 Skytrax ranking:



- **Best International Airline in North America**
- **Ranked the only international Four-Star Airline in North America**

Global Traveler magazine – 2012  
**4<sup>th</sup> consecutive year**

- **Best Airline in North America**

Executive Travel Magazine – 2013 Leading  
Edge Awards –  
**6<sup>th</sup> consecutive year**

- **Best Flight Experience to Canada**

Business Traveler magazine – 2012  
**5<sup>th</sup> consecutive year**

- **Best North American Airline for International Travel**
- **Best North American Airline Inflight Experience**

2013 Baxter Travel Media Agents' Choice  
Award  
**4<sup>th</sup> consecutive year**

- **Favourite Scheduled Airline**

Premier Travel magazine

- **Best North American Airline for Business Class Service**
- **Best North American Airline for International Travel**
- **Best Flight Attendants in North America**

2013 Ipsos Reid Business Traveller Survey

- **Canada's Favourite Airline for Business Travel**

# Enhancing Culture to Increase Competitiveness

- Promoting
  - Entrepreneurship
  - Engagement
  - Empowerment
  - Earnings for performance
- Emphasis on cost containment is forging a more entrepreneurial culture
- Cross-functional approach to operational excellence is motivating employees, reducing costs and increasing customers' satisfaction levels
- Renewed focus on constructive, respectful and transparent dialogue with employees through various vehicles including town halls and online forums
- Implementing a talent management plan to focus on defining and developing key behaviours for employees
- Encouraging employee feedback and ideas
- Focused on employee awareness of the importance of achieving financial goals
- Many industry honours and awards are indication Air Canada employees are participating in transformation



# *Financial Results*



## Second Quarter and First Six Months 2013

### Second Quarter 2013

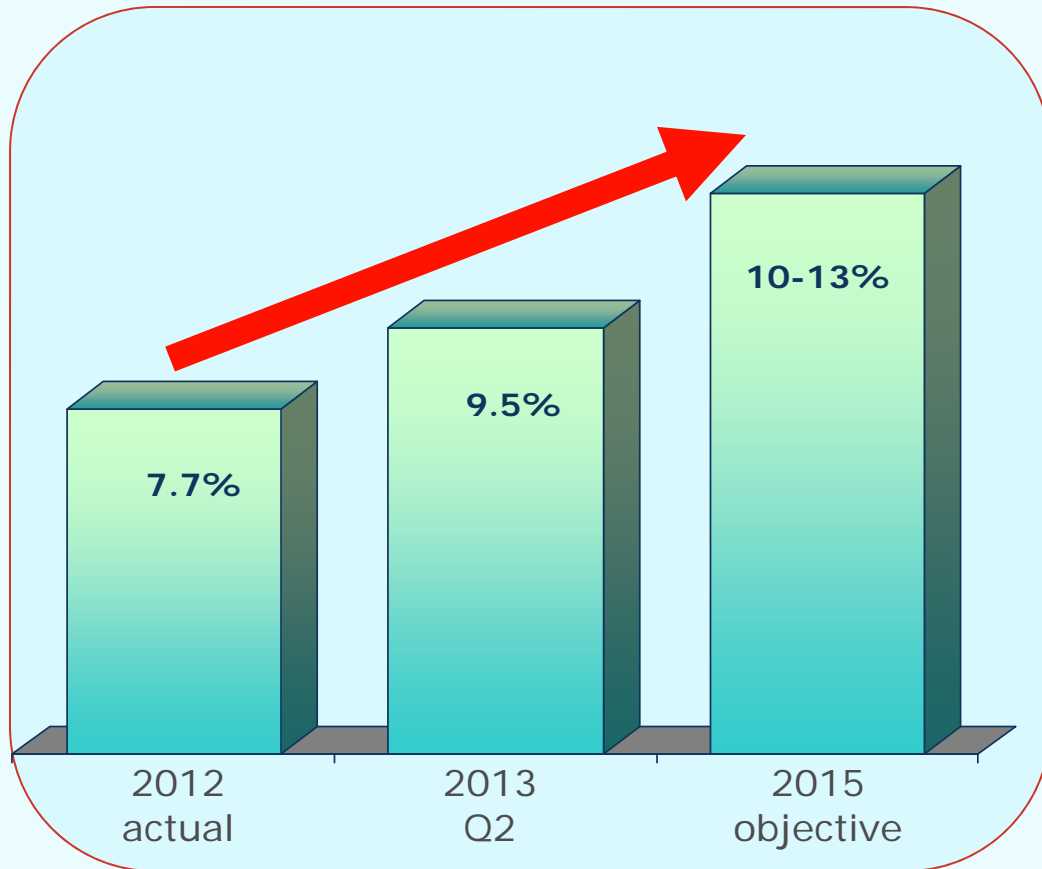
- EBITDAR of \$385M
- EBITDAR Margin of 12.6%
- Passenger load factor of 83.0%
- Unit passenger revenue (P-RASM) up 0.9%
- Adjusted CASM<sup>(1)</sup> decreased 1.4%
- Adjusted net debt of \$3.975B at June 30, 2013 – decreased \$106M from June 30, 2012

### First Six Months 2013

- EBITDAR of \$530M, an increase of 9% yoy
- EBITDAR Margin of 8.8%
- Passenger load factor of 82.0%
- Unit passenger revenue (P-RASM) up 1.0%
- Adjusted CASM<sup>(1)</sup> at last year's levels

(1) Excludes fuel expense, the cost of ground packages at Air Canada Vacations and unusual items

## Targeting Return on Invested Capital



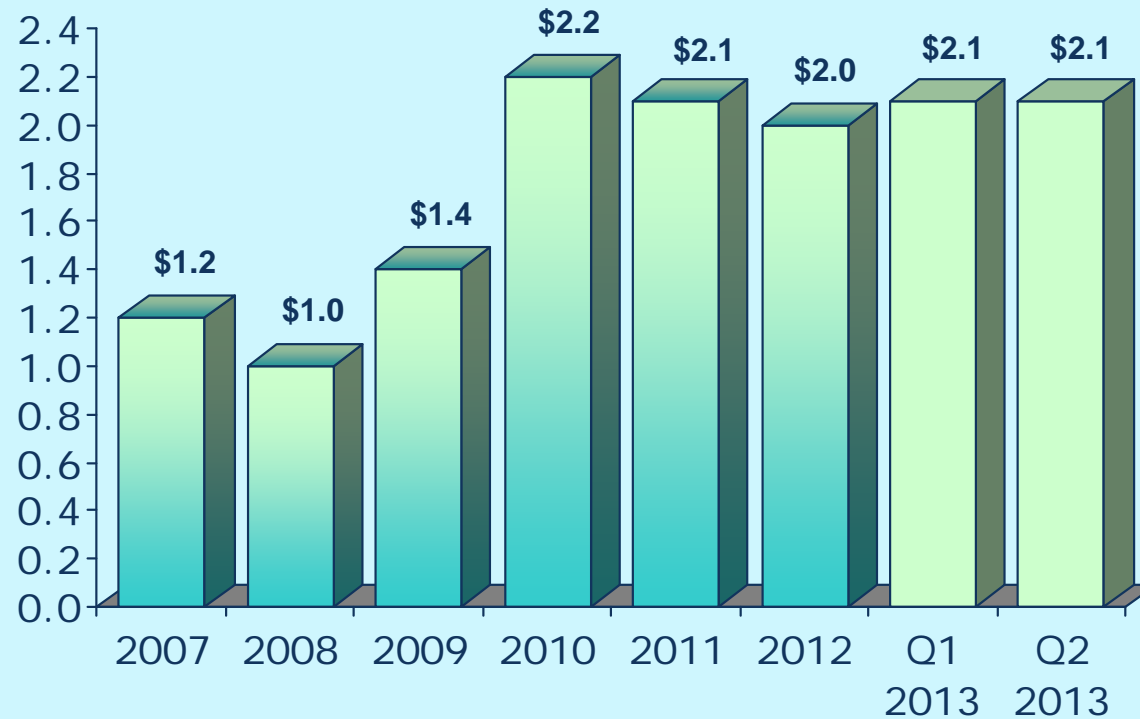
### Roadmap

- Increase return on invested capital ("ROIC") through strategic investments in aircraft and technology, lower CASM and debt reduction
- ROIC for trailing 12 months ended June 30, 2013 was 9.5%

Return is calculated based on adjusted net income, excluding interest expense and implicit interest on operating leases. Invested capital includes average long-term debt and finance leases, market capitalization and capitalized aircraft operating leases.

## Maintaining Strong Liquidity Position – Well Above Target Minimum Level of \$1.7B

C\$ billions



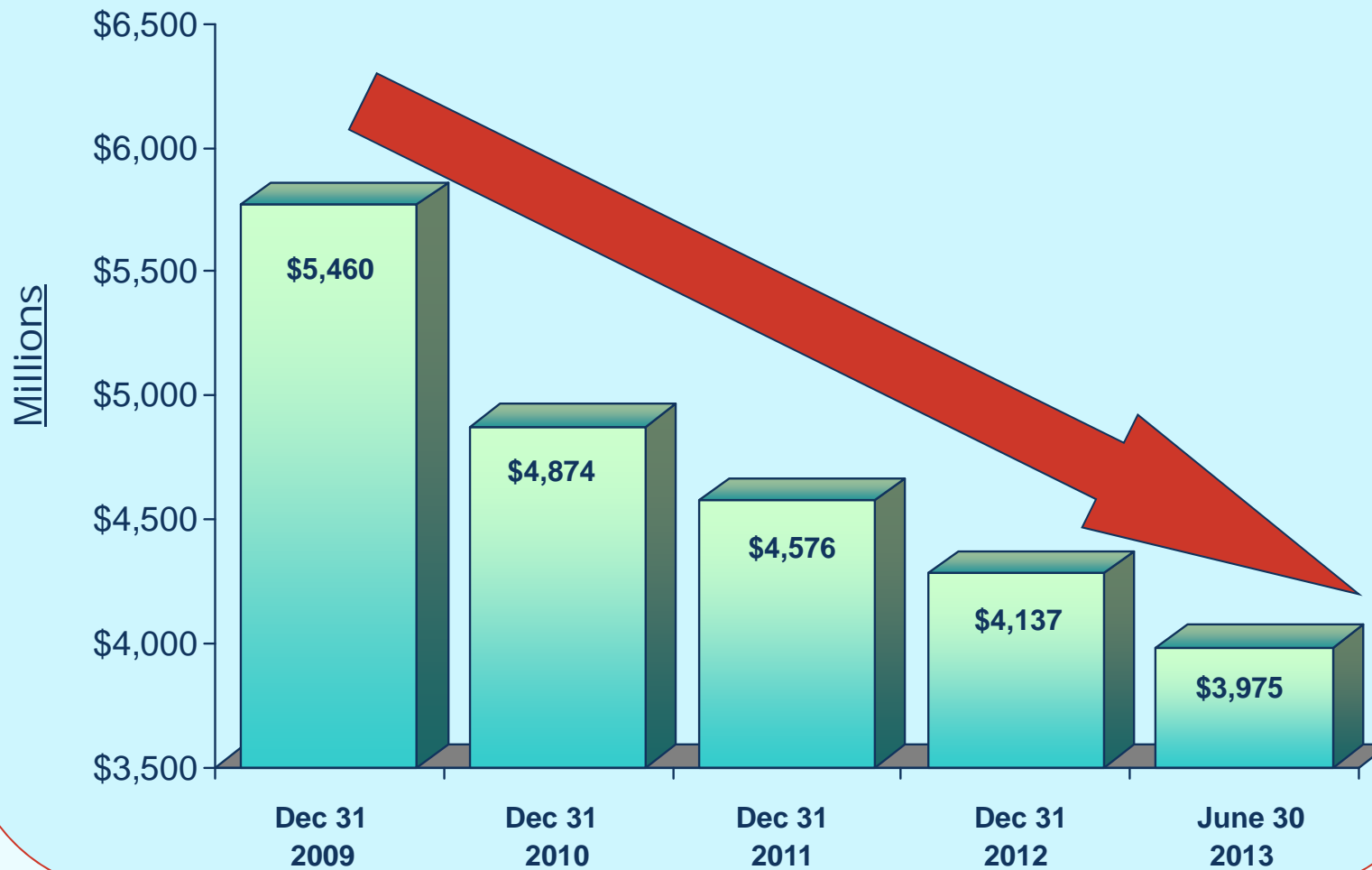
% of trailing  
12-month  
operating  
revenues

12%    9%    14%    20%    18%    17%    17%    17%

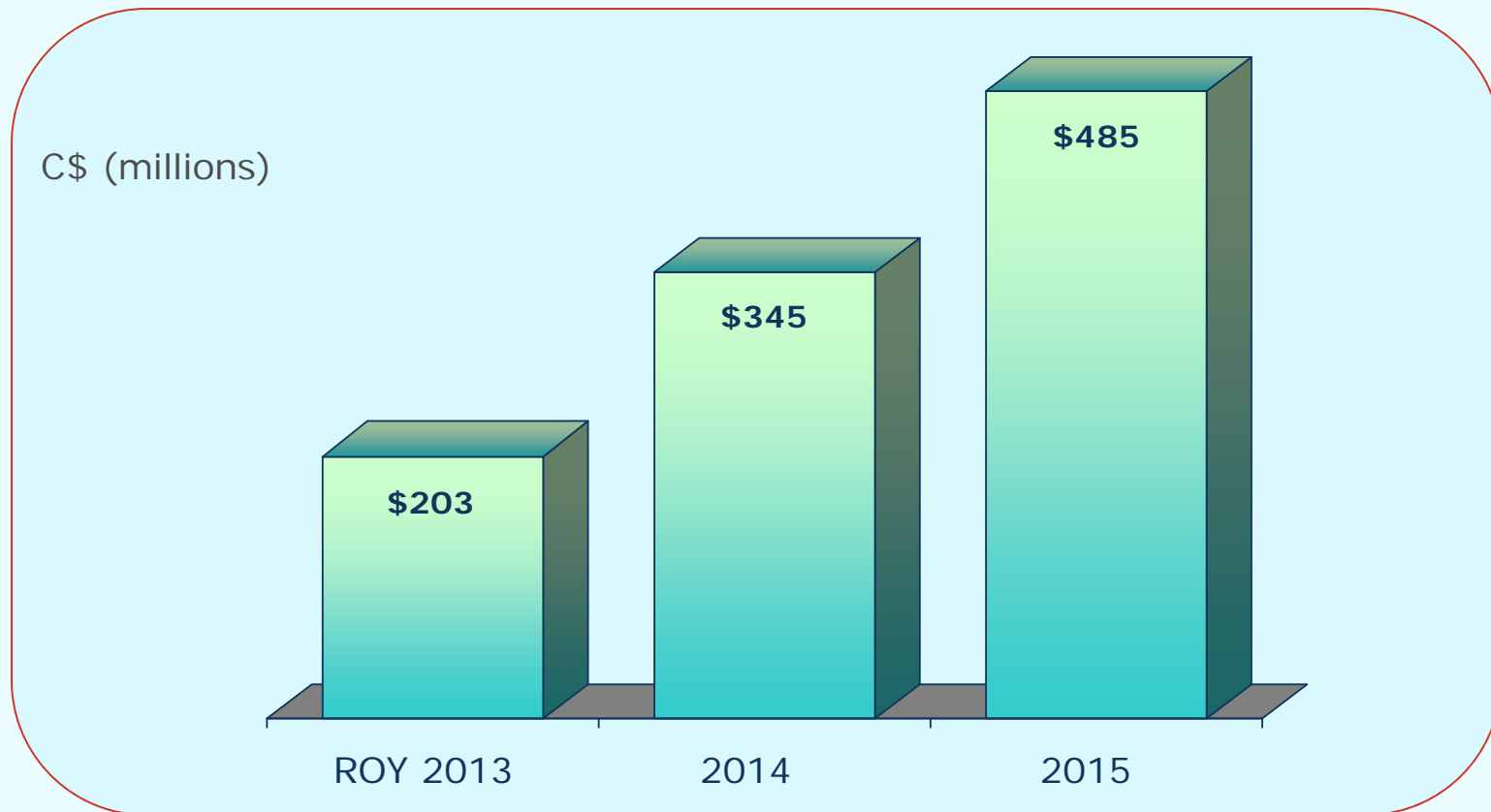
Note: Liquidity is comprised of unrestricted cash, cash equivalents and short term investments

## *Solid Progress on Net Debt Reduction*

Adjusted net debt down almost \$1.5 billion from 2009



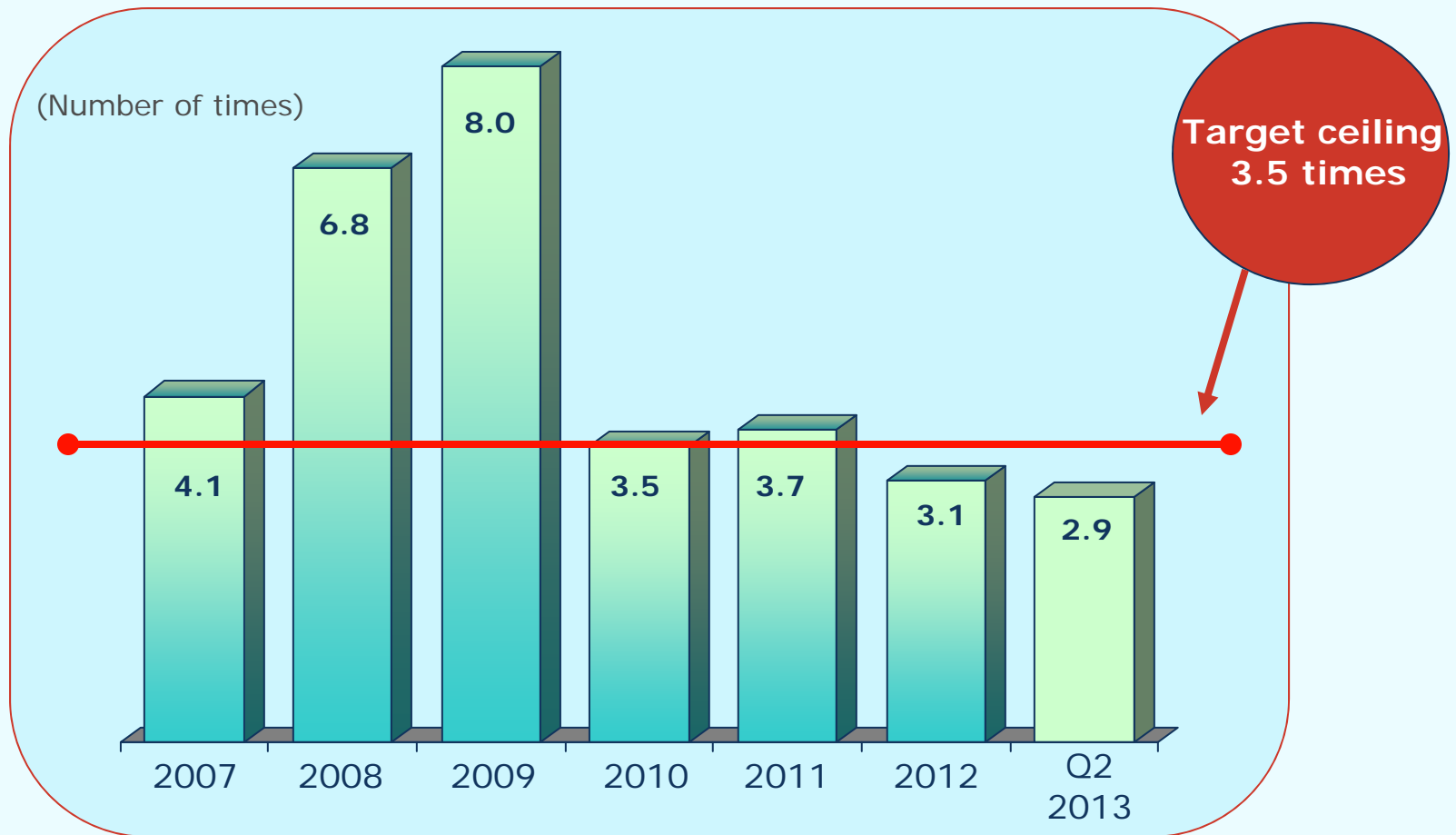
## *Schedule of Principal Repayment on Debt is Manageable*



- Assumes potential refinancing
- Includes principal repayments from EETC financing
- U.S. dollar amounts are converted using the June 30, 2013 closing rate of C\$1.0518

# Managing Financial Leverage

Net debt to EBITDAR ratio\*



\*Reflects adjusted net debt to trailing 12-month normalized EBITDAR ratio

## *New and Potential financing Arrangements*

- Implementation of Cape Town Convention (CTC) in Canada provides new and attractive source of aircraft financing in the U.S. Markets and a level playing field with U.S. airlines
- Successfully concluded a private offering of enhanced trust certificates (EETCs) with an aggregate face value of US\$715M to finance five new Boeing 777-300ER aircraft – blended coupon rate for all tranches of 4.7% for a maximum term of 12 years
- Announced intention to refinance approximately \$1.1B principal amount of outstanding existing notes
- Proposed refinancing transaction will extend the maturity of Air Canada's long-term debt and lower its financing costs
- Subject to market conditions, Air Canada plans to enter into a new senior secured term loan and revolving credit facility of US\$800M and commence private offerings of C\$300M of senior secured notes and US\$300M of senior second lien notes

# Outlook

## Current Outlook\* - Full Year 2013

→ Available seat miles (system).....	Increase 1.5 to 2.5%
→ Available seat miles (Canada).....	Increase 1.5 to 2.5%
→ Adjusted CASM** .....	Decrease 1.0 to 2.0%

## Major Assumptions\* - Full Year 2013

→ Canadian dollar per U.S. dollar.....	\$1.03
→ Jet fuel price – CAD cents per litre.....	87 cents
→ Canadian GDP growth of .....	1.25% to 1.75%

## 2014 Outlook\*

→ Available seat miles (system).....	Increase 9 to 11%
→ Canadian GDP growth of 2% to 3%	

\* As reported on August 7, 2013

\*\* Adjusted CASM excludes fuel expense, the cost of ground packages at Air Canada Vacations and unusual items

# *Going Forward*



## *Financial Roadmap*

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- Execute strategic and tactical initiatives to reduce CASM
- Strengthen balance sheet and reduce overall risk profile by aggressively managing leverage
- Increase return on invested capital through significant investment in new aircraft, technology, lower CASM and debt reduction
- Leverage strong brand, extensive worldwide network and partnerships, and award-winning service



AIR CANADA 