AIR CANADA

Air Canada Presents

at the

CREDIT SUISSE

Global Credit Products Conference

October 5, 2012

Miami Beach, Florida

WORLD AIRLINE WINNER SKYTRAX AWARDS 2012

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

A STAR ALLIANCE MEMBER
MEMBRE DU RÉSEAU STAR ALLIANCE

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Agenda

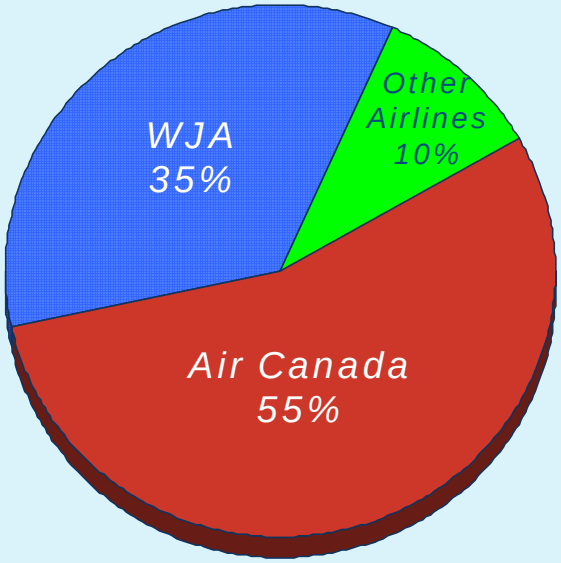
- About Air Canada
- Building a Stronger Airline
- Financial Performance
- Making Progress on Transformation

About Air Canada

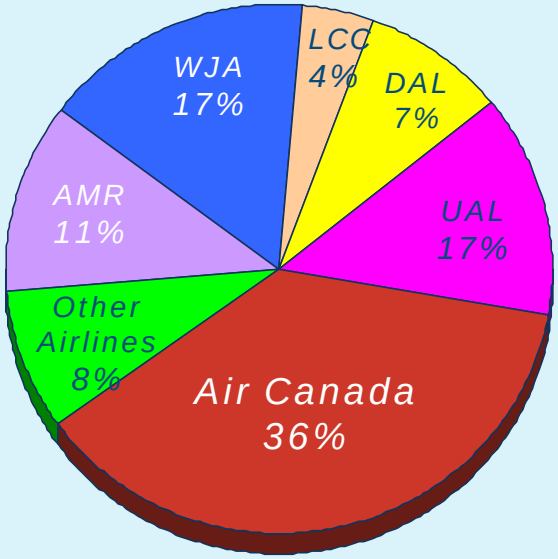
AIR CANADA

Leading Share in All Markets

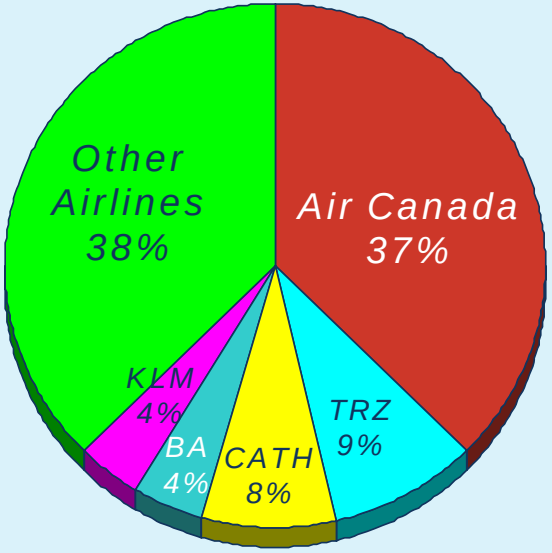
Domestic
accounts for
39% of
passenger
revenue



Transborder
accounts for
20% of
passenger
revenue



International
accounts for
41% of
passenger
revenue



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

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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 mainline fleet at June 30, 2012 is 12.1 years
- New collective agreement with pilots provides ability to operate low-cost airline with up to 50 aircraft
  - aimed at growing Air Canada's presence in leisure and low-cost markets
  - start-up of low-cost carrier expected in 2013
- Two Boeing 777s to be introduced to mainline fleet in June and September 2013
- Three Boeing 777s on order will provide optionality
- 37 Boeing 787s will provide growth opportunities starting in 2014

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

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

CRJ aircraft (52)
50 seats – 75 seats

Dash 8 aircraft (78)
37 seats – 74 seats

Beech aircraft (17)
18 seats

- Jazz fleet currently at 125 aircraft – to be reduced to 122 aircraft by February 2013
  - nine 50-seat CRJ 100s will be replaced with six Dash 8 (Q400s) during the first half of 2013 for a total of 21 Q400 aircraft in the Jazz fleet
  - Q400 aircraft are optimized for short-haul operations and deliver fuel efficiency, passenger comfort and lower operating costs than the aircraft they replace
  - between February and June 2013, 15 Embraer 175 aircraft to be transferred from Air Canada's mainline to Sky Regional Airlines, Inc. for flying on behalf of Air Canada

AIR CANADA

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 is currently in discussions with the federal government

Building a Stronger Airline

Air Canada's Business Strategy

- Leveraging international network while maintaining a disciplined approach to growth
- Improving cost structure and generating incremental revenues
- Engaging with customers while promoting premium class cabin and products
- Fostering positive culture change

Building on a Powerful Global Network

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

WORLD AIRLINE AWARDS 2012 WINNER SKYTRAX

Star Alliance – 6th time winner
Best Airline Alliance
in the 2012
Skytrax World Airline Awards™

STAR ALLIANCE™ 15 YEARS

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

Leveraging World Class Hubs

- 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:
  - improving aircraft turnaround times
  - increasing use of ground power instead of auxiliary power unit on aircraft
  - optimizing use of ground support equipment
  - 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

Launch of Low-cost Airline in 2013

- Plan is to form an integrated leisure group by combining the activities of Air Canada Vacations with a low-cost leisure airline
- Service will commence in June 2013 with two Boeing 767-300ER and two Airbus A319 aircraft to be released from Air Canada's mainline fleet
- Will provide service to popular holiday destinations in Europe and the Caribbean that are either currently underserved or that do not generate adequate profitability with Air Canada's existing cost structure
- At launch, the leisure carrier will also assume select Air Canada leisure services and certain new destinations not currently operated by Air Canada
- The leisure carrier's fleet will increase as Air Canada starts to take delivery of new Boeing 787 Dreamliner aircraft in 2014, thereby freeing up aircraft for transfer to the leisure carrier
- The leisure carrier may operate up to 20 Boeing 767-300ER and 30 Airbus A319 aircraft, for a total of 50 aircraft

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

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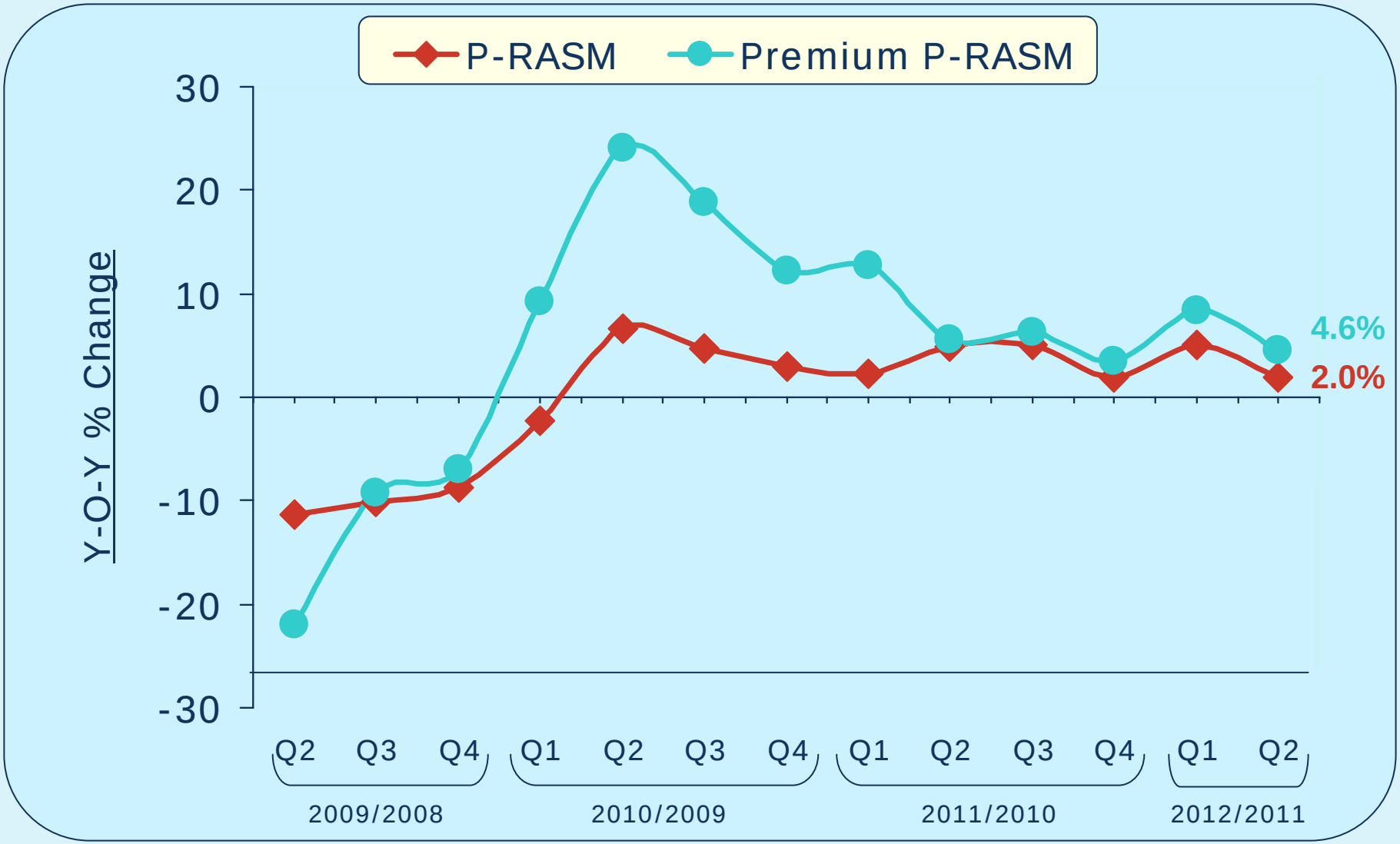
Best International Airline in North America
Meilleur transporteur aérien international en Amérique du Nord

Driving Premium RASM Growth



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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%**

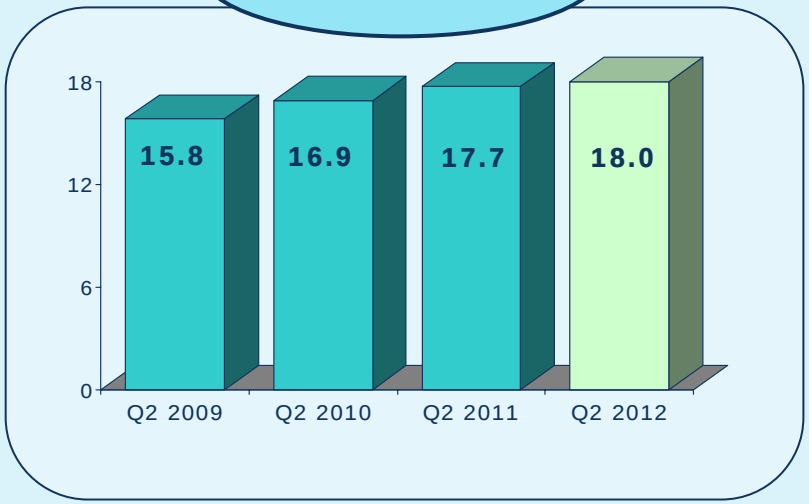
Major Assumptions

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

*as of August 8, 2012

Improving Operating Margin & Cost Structure

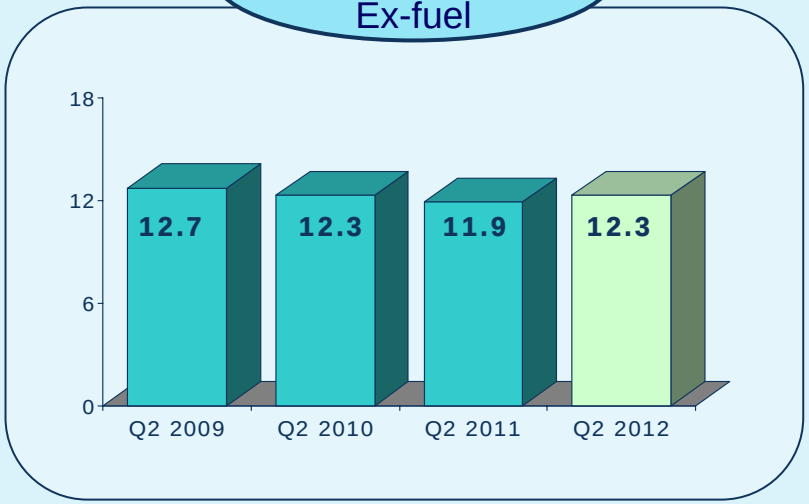
RASM*



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

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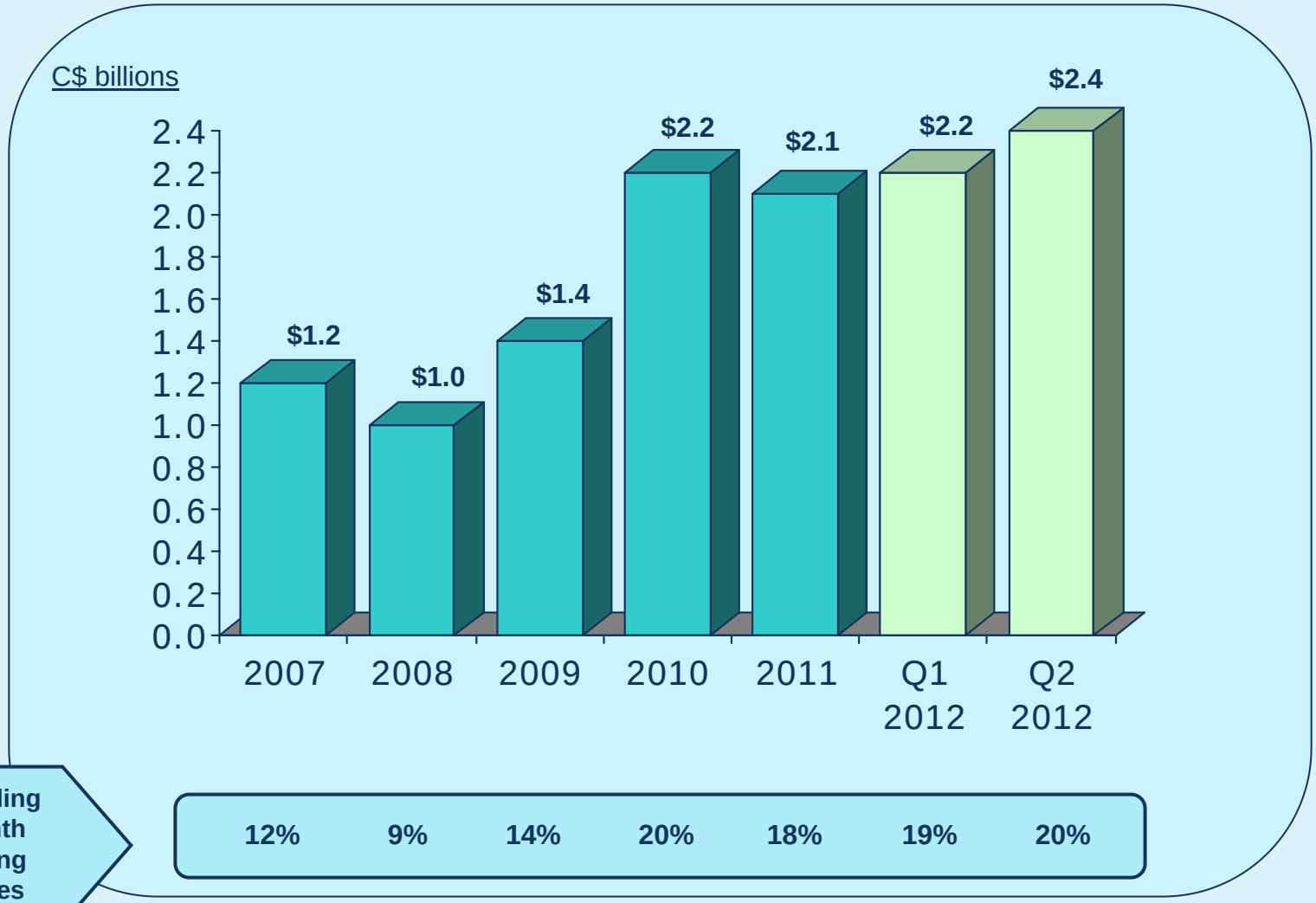
Maintaining Strong Liquidity Position



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

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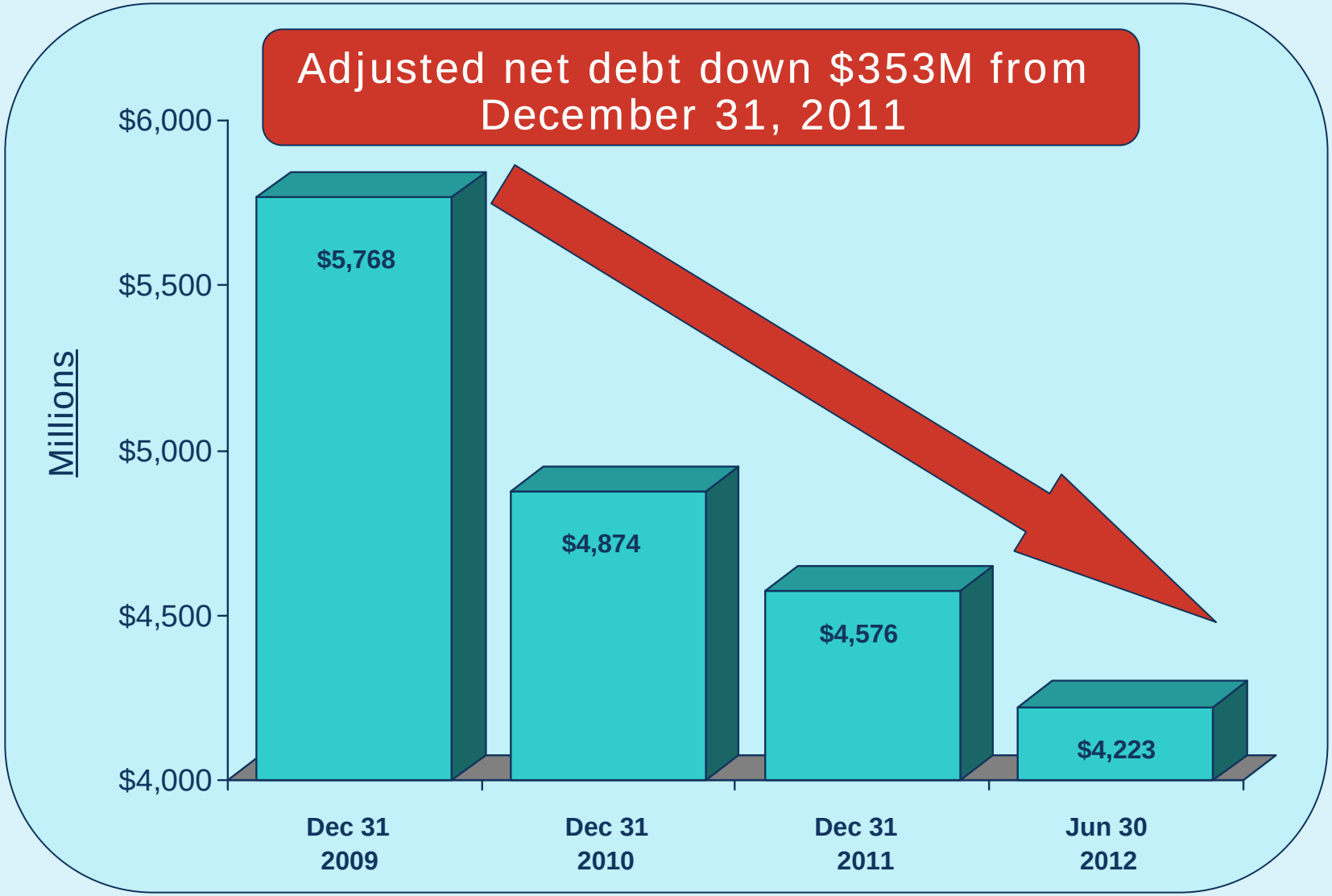
Improving Strength of Balance Sheet



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Making Progress on Transformation

Committed to Improving Profitability

- Leverage and expand international network by capitalizing on competitive advantages
  - widely-recognized brand
  - extensive global network
  - Aeroplan program
  - competitive products and services
  - geographically well-positioned hubs
  - introduction of new Boeing 787 aircraft
- Extend global reach by further developing commercial alliances with major international carriers
- Increase sixth freedom traffic from the U.S. to connect through the airline's hub airports in Canada to onward international flights

Committed to Improving Profitability

- Launch low-cost carrier to grow the airline's share of the leisure segment of the market, compete more effectively in the current industry environment, lower unit costs, and lower the risk of seasonality
- Promote premium class cabin and broaden the airline's access to corporate customers by focusing on small and medium size enterprises
- Introduce new products and services, such as premium economy, and modify existing products and services, where appropriate, to increase competitiveness
- Continue cost reduction efforts and capitalize on new opportunities, including through the execution of new MRO agreements
- Leverage positive changes in collective agreements to reduce costs and expand use of jets/props of less than 76 seats at regional carriers

Go Far…

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