Air Canada Presents
at the
CREDIT SUISSE
Global Credit Products Conference

October 5, 2012
Miami Beach, Florida
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Agenda

- About Air Canada
- Building a Stronger Airline
- Financial Performance
- Making Progress on Transformation
About Air Canada
Leading Share in All Markets

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

- **Air Canada** 55%
- WJA 35%
- Other Airlines 10%

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

- **Air Canada** 36%
- Other Airlines 38%
- KLM 4%
- BA 4%
- CATH 8%
- LCC 4%
- DAL 7%
- UAL 17%
- AMR 11%
- Other Airlines 8%

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

- **Air Canada** 37%
- Other Airlines 38%
- KLM 4%
- BA 4%
- CATH 8%
- TRZ 9%

- 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 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

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
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

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**

**Star Alliance** – 6th time winner of **Best Airline Alliance** in the 2012 Skytrax World Airline Awards™
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
Driving Premium RASM Growth

Y-O-Y % Change

Q2 Q3 Q4 Q1 Q2 Q3 Q4 Q1 Q2 Q3 Q4 Q1 Q2

P-RASM
Premium P-RASM

4.6%
2.0%
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***

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

**CASM**

- Ex-fuel
- Q2 2009: 12.7
- Q2 2010: 12.3
- Q2 2011: 11.9
- Q2 2012: 12.3

Continue to focus on CASM reductions.

Maintaining industry-leading RASM.

* 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
Improving Strength of Balance Sheet

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

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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...