2014 Global Credit Products Conference

Presentation by
Pierre Houle
Treasurer

Miami
September 18, 2014
We connect **Canada** and the **World** through people and technology

Nous relions le **Canada** et le **monde** grâce aux gens et à la technologie
Air Canada’s public communications may include forward-looking statements within the meaning of applicable securities laws. Such statements may be included in this presentation and may be included in other communications, including filings with regulatory authorities and securities regulators. Forward-looking statements may be based on forecasts of future results and estimates of amounts not yet determinable. These statements may involve, but are not limited to, comments relating to strategies, expectations, planned operations or future actions. Forward-looking statements are identified by the use of terms and phrases such as “anticipate”, “believe”, “could”, “estimate”, “expect”, “intend”, “may”, “plan”, “predict”, “project”, “will”, “would”, and similar terms and phrases, including references to assumptions.

Forward-looking statements, by their nature, are based on assumptions and are subject to important risks and uncertainties. Forecasts or forward-looking predictions or statements cannot be relied upon due to, amongst other things, changing external events and general uncertainties of the business. Actual results may differ materially from results indicated in forward-looking statements due to a number of factors, including without limitation, industry, market, credit and economic conditions, the ability to reduce operating costs and secure financing, energy prices, currency exchange and interest rates, employee and labour relations, competition, pension issues, war, terrorist acts, epidemic diseases, environmental factors (including weather systems and other natural phenomena and factors arising from man-made sources), insurance issues and costs, changes in demand due to the seasonal nature of the business, supply issues, changes in laws, regulatory developments or proceedings, pending and future litigation and actions by third parties as well as the factors identified throughout Air Canada’s public disclosure file available at www.sedar.com, including section 18, Risk Factors, of Air Canada’s 2013 Management’s Discussion and Analysis of Results of Operations and Financial Condition dated February 12, 2014.

Any forward-looking statements contained in this presentation represent Air Canada’s expectations as of the date of this presentation (or as of the date they are otherwise stated to be made) and are subject to change after such date. However, Air Canada disclaims any intention or obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise, except as required under applicable securities regulations.
Air Canada Achieved Record Earnings in 2013 and is...

...among the 20 largest airlines in the world

...the only international carrier in North America to receive a four-star ranking by Skytrax

...the best airline in North America – 5 years running

...a founding member of Star Alliance

...one of Canada's top 100 employers
Air Canada Has Leading Share in All Markets

- Domestic accounts for 38% of passenger revenue
- Transborder accounts for 20% of passenger revenue
- International accounts for 42% of passenger revenue

- Source: OAG data, based on full year 2013 available seat miles (ASMs)
- AC Revenue Split based on 2013 full year revenues
GROWTH DIRECTED AT INTERNATIONAL MARKETS AND AT LOWER UNIT COSTS

182 Direct Destinations:
- 60 in Canada
- 49 in the U.S.
- 73 internationally

Among the 20 largest airlines globally
- 360 aircraft
- ~1,500 daily flights
- ~36M passengers carried

Powerful Global Network

Air Canada/Air Canada Jazz and Air Canada rouge routes spring-summer 2014
Enhancing Market Presence Through Star Alliance, Commercial Agreements and Joint Venture

A ++ Partnership with UAL and LHA delivers tangible benefits to Air Canada

- Global market presence leveraging each carriers’ strengths in their home markets
- Coordinated approach to pricing, inventory management and capacity in this market segment
- Access to corporate contracts in all markets where offered by A++ partners
- Results have been impressive:
  - Increased U.S. sixth freedom traffic and revenue
  - Growth in all POS U.S. sales channels
  - Increased corporate revenue on all services
  - Growth in LHA/UAL traffic on Air Canada’s Atlantic services
  - Improved average fares for local and behind/beyond traffic

- 27 Members
- 192 Countries Served
- 1,316 Airports
- >18,500 Daily Departures
- >618M Passengers/year
- >4,450 Aircraft
- >1,000 Lounges
FOCUSED ON FOUR CORE PRIORITIES

COST REDUCTION AND TRANSFORMATION

INTERNATIONAL GROWTH

CUSTOMER ENGAGEMENT

CULTURE CHANGE
**Revenue and Cost Initiatives**

Fleet changes provide flexibility and lower Air Canada's overall cost structure and improve revenue.

Air Canada rouge can operate up to 50 aircraft (30 A319 and 20 Boeing 767 aircraft) and is allowing Air Canada to enhance margins on leisure routes.

Introduced new class of service (Premium Economy Class) on mainline and rouge fleets which is aimed at higher-end customers seeking additional comfort.

Continued focus on optimizing revenue stream through new technology, product offering and segmentation.
HIGH-DENSITY BOEING 777S AND 787S PROVIDE SIGNIFICANT COST ADVANTAGES

- All five new higher-density Boeing 777s have been delivered and are in service – estimated CASM reduction of 21% compared to Boeing 777s in current mainline fleet
- Took delivery of three of 37 Boeing 787 aircraft to date – these aircraft will replace less efficient Boeing 767s on existing routes and will provide international growth opportunities – estimated CASM reduction of 29% compared to Boeing 767-300ER aircraft

Higher-density Boeing 777 three class configuration

- 36 Int'l Business Class (44 inch pitch)
- 24 Premium Economy (38 inch pitch)
- 398 Economy (31 inch pitch)
Air Canada concluded an agreement with Boeing which includes firm orders for 33 737 MAX 8 and 28 - 737 MAX 9 aircraft and provides for options for 18 aircraft and rights to purchase an additional 30 – deliveries are scheduled to begin in 2017

Air Canada has estimated that these aircraft will provide a CASM reduction of approximately 10% when compared to the airline's existing narrowbody fleet

The 737 MAX incorporates the latest technology engines to deliver high efficiency, reliability and passenger comfort in the single-aisle market
**DESIGNED TO POSITION AIR CANADA PROFITABLY IN THE LEISURE MARKET**

- Air Canada rouge is enhancing margins in leisure markets and pursuing opportunities in international leisure markets made viable by its lower cost structure.

- Air Canada rouge offers significantly lower seat cost than mainline – Airbus A319 and Boeing 767 CASM reduction estimated at 21% and 29% vs. mainline, respectively.

- Recently announced Air Canada rouge expansion including routes from Vancouver to Los Angeles, San Francisco, Las Vegas, Phoenix, Anchorage, Honolulu and Maui; Toronto to San Diego, Phoenix and Honolulu; and Calgary to Las Vegas, Los Angeles and Phoenix.
IMPROVING PREMIUM REVENUES WITH NEW PREMIUM ECONOMY CLASS

- New class of service on both mainline and rouge fleets
- Provides more seating pitch and width than economy class
- Segmented product aimed at higher-end customers seeking to improve comfort and travel experience
- Enhanced travel experience (priority check-in, baggage allowance, on-board meals, bar, etc.)
Air Canada Express – An Important Part of N.A. Strategy

- Air Canada Express fleet at 164 including Jazz fleet of 122 aircraft (includes 21 Q-400 aircraft)
- Replaced CRJ 100/200 with Q400s in western Canada
- Q-400 aircraft are optimized for short-haul operations and deliver fuel efficiency, passenger comfort and lower operating costs than the aircraft they replace
- Collective agreement with ACPA gives Air Canada flexibility to transfer jets/prop of less than 76 seats to regional carriers and allows for multiple regional partners
- All 15 of Air Canada's smallest aircraft type, Embraer 175 aircraft, have been transferred to Sky Regional, a lower cost regional provider – reduction in Embraer 175 CASM estimated at 11% vs. Embraer 175 at mainline
- Selected new regional airline to operate a number of regional routes, including U.S. transborder routes, starting in mid-2014

Air Canada Express provides feeder traffic to Air Canada's scheduled routes

- CRJ (46) 50-75 seats
- Dash 8 (60)/Q-400 (26) 37-74 seats
- Embraer (15) 73 seats
- Beech (17) 18 seats
OPPORTUNITIES FOR REVENUE GROWTH AND COST REDUCTION

- Growing ancillary revenues through various passenger-related fees, such as baggage, paid upgrades and seat selection
- Introducing new Revenue Management System (RMS) – expecting incremental annual revenues in excess of $100M beginning in 2015
- Concluded an agreement with GTAA which, over time, should grow international traffic flows on a more cost effective basis
- Implementing a ratio of one flight attendant for every 50 passenger seats on our narrowbody mainline and rouge aircraft which, when fully transitioned, is expected to result in annual cost savings of $28M
- Outsourced London operations to a third party provider effective May 1, 2014 – expected to result in net savings of $10M on a run-rate basis
ENGAGING OUR CUSTOMERS

- Improved on-time performance and reliability
- Streamlined boarding process
- Improved international connections through major hubs – streamlined in-transit process
- Improved on-board offerings and consistency of service especially on long-haul international flights
- Launched Air Canada rouge giving customers a wider choice in leisure travel
- Continuous improvements in customer service levels
<table>
<thead>
<tr>
<th>Award</th>
<th>Recognition</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014 Skytrax World Airline Awards – 5&lt;sup&gt;th&lt;/sup&gt; consecutive year</td>
<td>▪ Best Airline in North America</td>
</tr>
<tr>
<td>2012 Skytrax ranking</td>
<td>▪ Ranked the only international Four-Star Airline in North America</td>
</tr>
<tr>
<td>Global Traveler magazine – 2013 5&lt;sup&gt;th&lt;/sup&gt; consecutive year</td>
<td>▪ Best Airline in North America</td>
</tr>
<tr>
<td>Executive Travel Magazine – 2013 Leading Edge Awards – 6&lt;sup&gt;th&lt;/sup&gt; consecutive year</td>
<td>▪ Best Flight Experience to Canada</td>
</tr>
<tr>
<td>Business Traveler magazine – 2013 6&lt;sup&gt;th&lt;/sup&gt; consecutive year</td>
<td>▪ Best North American Airline for International Travel</td>
</tr>
<tr>
<td>▪ Best North American Airline Inflight Experience</td>
<td></td>
</tr>
<tr>
<td>2014 Baxter Travel Media Agents' Choice Award 5&lt;sup&gt;th&lt;/sup&gt; consecutive year</td>
<td>▪ Favourite Scheduled Airline</td>
</tr>
<tr>
<td>Premier Travel magazine – Best of 2013 2&lt;sup&gt;nd&lt;/sup&gt; consecutive year</td>
<td>▪ Best North American Airline for International Travel</td>
</tr>
<tr>
<td>▪ Best Flight Attendants in North America</td>
<td></td>
</tr>
<tr>
<td>▪ Best Long Haul Airline (Americas)</td>
<td></td>
</tr>
<tr>
<td>AirlineRatings.com – 2014</td>
<td>▪ Canada’s Favourite Airline for Business Travel</td>
</tr>
<tr>
<td>2013 Ipsos Reid Business Traveller Survey</td>
<td>▪ Best North American Airline</td>
</tr>
<tr>
<td>TTG Asia Travel Awards – 2013</td>
<td>▪ One of Canada’s top 100 employers</td>
</tr>
<tr>
<td>Mediacorp's Top 100 Employers Project</td>
<td>▪ Silver Medal Employer</td>
</tr>
<tr>
<td>2013 Canadian Occupational Safety Magazine</td>
<td></td>
</tr>
</tbody>
</table>
CULTURE CHANGE

- Promoting
  - Entrepreneurship
  - Engagement
  - Empowerment
  - Earnings for performance
- Cross-functional approach motivates employees
- Renewed focus on constructive and transparent dialogue
- Talent management and training
- Better understanding of competitive landscape
- Recent industry awards are proof that employees are participating in transformation
- Recognized as one of “Canada’s Top 100 Employers” in Mediacorp Canada Inc's annual national competition
Looking Ahead
Focused on Improving ROIC and Sustainable Profitability

- **EBITDAR, adjusted net income and ROIC improvement**
  - Execute strategic initiatives
  - Lower cost structure
  - Targeted deployment of growth capital

- **Stronger balance sheet**
  - Lower risk profile
  - New financing arrangements

- **Create shareholder value**
  - Increase earnings and ROIC leading to a higher multiple and lower risk profile
Lower Cost Structure

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

*Assumes that all other cost drivers remain at 2012 levels
TARGETING ROIC TO EXCEED COST OF CAPITAL

- Increase return on invested capital ("ROIC") through strategic investments in aircraft and technology, revenue growth, lower CASM and debt reduction
- As at June 30, 2014, ROIC of 11.0%

- Return is calculated based on adjusted net income, excluding interest expense and implicit interest on operating leases
- Invested capital includes average Y-O-Y total assets, net of average Y-O-Y non-interest-bearing operating liabilities and the value of capitalized operating leases

2012 actual

2013 actual

2015 objective
**Maintaining Strong Liquidity – Well above Target Minimum of $1.7B**

- Refers to cash, short term investments and the amount of available credit under revolving credit facilities.
MANAGING FINANCIAL LEVERAGE

Adjusted Net debt to EBITDAR ratio

Reflects adjusted net debt to trailing 12-month normalized EBITDAR ratio
CONCRETE ACTIONS TAKEN TO REDUCE PENSION DEFICIT AND MANAGE FUTURE RISK PROFILE

As at January 1, 2014, surplus in Canadian registered pension plans was $89M

Effective January 1, 2014, new employees participate in defined contribution plans versus historical defined benefit plans

Made changes to defined benefit pension plans which lowered the pension solvency deficit by close to $1B as of January 1, 2014

Concluded an agreement with the Government of Canada on extending special pension funding arrangement to December 31, 2020
**Outlook**

**Outlook - Full Year 2014**

- Available seat miles (system)............................. Increase 7.0 to 8.0%
- Available seat miles (Canada)......................... Increase 4.0 to 5.0%
- Seats dispatched (system)................................. Increase 5.0 to 6.0%
- Adjusted CASM................................................ Decrease 3.2 to 4.2%

**Major Assumptions - Full Year 2014**

- Canadian dollar per U.S. dollar.............................. $1.09
- Jet fuel price – CAD cents per litre....................... 91 cents
- Canadian GDP growth....................................... 2.0% to 2.5%
Our Success Proposition

- Strong brand, extensive and powerful network and award-winning products and services
- Investing in fleet and products for the future
- Leveraging opportunities for revenue growth
- Unrelenting on costs and creatively responding to competition
- Strong financial performance
- Engaged employees and profit and results-driven management team
- On track to execute strategy and well-positioned for earnings growth
Thank You