Delivering Sustained Profitability and Shareholder Value

Toronto
November 19, 2013
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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 data, based on full year 2012 available seat miles (ASMs)
- AC Revenue Split based on 2012 full year revenues
Powerful Global Network – Future Growth
Directed at Higher Margin International Markets

>175 Direct Destinations:
• 60 in Canada
• 49 in the U.S.
• 67 internationally

Among the 20 largest airlines globally
• 351 aircraft
• >1,500 daily flights
• ~35M passengers carried
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

*Star Alliance – 6th time winner Best Airline Alliance in the 2012 Skytrax World Airline Awards™*
**A++ Partnership with United and Lufthansa 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
Products and Services Highly Valued by Our Customers

- 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 seatback entertainment at every seat
- Air Canada gift cards
Other Award Winning Services Contribute to Profitability

Canada's largest provider of air cargo services

Canada's largest provider of air cargo services

One of Canada's leading tour operators

Won 2013 "Carrier of the Year" award in all regions of Canada for 2nd consecutive year – Forwarders Choice Awards

Won 2013 "Favourite Tour Operator" award for the 4th year at Baxter Travel Media's Agents' Choice Awards
Financial Results – First Nine Months 2013

- EBITDAR of $1,156M, an increase of $119M or 11.5%
- EBITDAR Margin of 12.2%, an improvement of 1.0 PP
- Passenger load factor of 83.6%
- Unit passenger revenue (P-RASM) up 1.4%
- Adjusted CASM decreased 1.2%
- Adjusted net income of $337M or $1.19 per diluted share, an increase of $277M or $0.97 per diluted share

Excludes benefit plan amendments
Focused on Four Core Priorities

COST REDUCTION AND TRANSFORMATION

INTERNATIONAL GROWTH

CUSTOMER ENGAGEMENT

CULTURE CHANGE
Strategic Initiatives at a Glance

• Grow profitability through international expansion and leveraging of leisure carrier

• Become a major player in the U.S. sixth freedom market – focus on international activity at Toronto Pearson Airport

• Enhance margins and improve competitive position through new aircraft, leisure carrier, regional airline diversification, and by leveraging the brand and improving customer experience

• Enhance and optimize revenue stream through new technology, product offering and segmentation
## Building a Fleet for the Future

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High-density Boeing 777s and 787s Provide Significant Cost Advantages

- Two of five new high-density Boeing 777s have been delivered and are in service – estimated CASM reduction of 21% compared to Boeing 777s in current mainline fleet
- Taking delivery of 37 Boeing 787 aircraft starting in Q1 2014 to replace less efficient Boeing 767s and to pursue international growth opportunities – estimated CASM reduction of 29% compared to Boeing 767-300ER aircraft
Opportunity to Increase Traffic in the U.S.-International Market

• Air Canada target "fair share" is approximately 1.5%

• Meeting this goal would equate to an additional 1.1M incremental passengers per year and over $400M in revenue

• Canadian hubs have excellent geographic positioning and efficient transit facilities versus other global hubs

• Air Canada covers all major markets in the U.S. with multiple frequencies per day
Focusing on the International Activity at Toronto Pearson Airport

- Canada’s largest city and financial powerhouse with a population of 5.5 million in the Greater Toronto Area
- Ranked by UNESCO as one of the most multicultural cities in the world
- World class facility to support the goal of world class hub
  - Terminal 1 – all Star Alliance carriers under one roof
  - Superior experience vs. U.S. gateways
- Excellent geographical position for connection traffic between South America–Asia and North America–Asia/Europe
- Recently concluded agreement with GTAA which should, over time, grow international traffic flows on a more cost effective basis
Air Canada rouge™ is the Tool Designed to Position Air Canada Profitably in the Leisure Market

- Air Canada rouge offers significantly lower seat cost than mainline – A319 and B767 CASM reduction estimated at 21% and 29% vs. mainline, respectively
- Air Canada rouge to pursue opportunities in markets made viable by its lower operating cost structure, and subject to market conditions, will expand to other destinations as Air Canada takes delivery of new Boeing 787 aircraft
- Fall/Winter schedule will grow to include additional Caribbean destinations, Mexico, Florida, Las Vegas and beginning in 2014, year-round service to Dublin, Ireland
- Air Canada rouge may operate up to 20 Boeing 767-300ER aircraft and 30 Airbus A319 aircraft
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 North American Strategy**

Jazz fleet at 122 aircraft (including 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

New collective agreement with ACPA gives Air Canada flexibility to transfer jets/prop of less than 76 seats to regional carriers

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

Selecting new regional airline to operate certain U.S. regional transborder routes
**Other Opportunities for Revenue Growth**

- Growing ancillary revenues through various passenger-related fees, such as baggage, paid upgrades and seat selection
- Improved net Aeroplan revenue
  - Reduced Aeroplan frequent flyer accumulation fees by 50% on Tango service on certain international routes
- Re-launched loyalty program – Air Canada Altitude – and launched Air Canada Corporate Rewards program
- Launched Air Canada gift cards
- Introducing new Revenue Management System (RMS) – being phased in over the next two years
- Implementing customer centricity system (CRM) – platform will allow a 360° view of the customer, targeted campaign management and allow advanced analytics of customer insights
Launched Air Canada Altitude™

- Altitude launched on March 1, 2013, a new brand which recognizes & rewards Air Canada's most frequent flyers
- Two new status levels were introduced, for a total of five:
  - Altitude Prestige 25K
  - Altitude Elite 35K
  - Altitude Elite 50K (new)
  - Altitude Elite 75K (new)
  - Altitude Super Elite 100K
- Long time members also recognized through the Altitude Million Mile program
- Altitude offers members upgrades, lounge access, priority reservation & airport services, recognition across the Star Alliance network and threshold gifts, depending on the status reached
- Altitude members are also Aeroplan members, and benefit from Air Canada’s partnership with Canada’s premier coalition loyalty program

altitude.aircanada.com
Engaging Our Customers

- Substantial investment in product gives Air Canada a competitive advantage
- Refurbished Maple Leaf Lounges
- Air Canada Altitude
- Improved on-time performance and reliability
- Improved international connections through major hubs by not having to re-claim luggage
- Improved on-board offerings and consistency of service especially on long-haul international flights
- Streamlined boarding process
- Doubled movie content on free on-board entertainment system
Awards & Recognition

2013 Skytrax World Airline Awards – 4th consecutive year
2012 Skytrax ranking:
  - Best Airline in North America
  - Ranked the only international Four-Star Airline in North America

Global Traveler magazine – 2012 4th consecutive year
  - Best Airline in North America

Executive Travel Magazine – 2013 Leading Edge Awards – 6th consecutive year
  - Best Flight Experience to Canada

Business Traveler magazine – 2012 5th consecutive year
  - Best North American Airline for International Travel
  - Best North American Airline Inflight Experience

2013 Baxter Travel Media Agents’ Choice Award 4th 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

TTG Asia Travel Awards – 2013
  - Best North American Airline

Mediacorp’s Top 100 Employers Project
  - One of Canada’s top 100 employers

2013 Canadian Occupational Safety Magazine
  - Silver Medal Employer
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
2014 - 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 Return on Invested Capital to Exceed Cost of Capital

- Increase return on invested capital ("ROIC") through strategic investments in aircraft and technology, lower CASM and debt reduction
- ROIC for trailing 12 months ended Sept 30, 2013 was 10.8%

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

% of trailing 12-month operating revenues:
- 2007: 12%
- 2008: 9%
- 2009: 14%
- 2010: 20%
- 2011: 18%
- 2012: 17%
- Q1 2013: 17%
- Q2 2013: 17%
- Q3 2013: 20%

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

(Number of times)

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

Target ceiling 3.5 times

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<td>Q3 2013</td>
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Solid Progress on Net Debt Reduction

- Dec 31 2009: $5,460
- Dec 31 2010: $4,874
- Dec 31 2011: $4,576
- Dec 31 2012: $4,137
- Sept 30 2013: $4,104
New Financing Arrangements

- Implementation of Cape Town Convention (CTC) in Canada provides new and attractive source of aircraft financing 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
- Recently refinanced 2010 notes ($1.1B principal amount) with U.S.$400 million senior secured first lien notes; C$300M senior secured first lien notes; U.S.$300M secured second lien notes; and a U.S.$400M senior secured credit facility, comprised of U.S.$300M term loan, and a U.S.$100M revolving credit facility (which has not been drawn upon)
- Refinancing transaction extends the maturity of Air Canada long-term debt to 2019 and lowers the effective interest rate by approximately 300 basis points
Concrete Actions Taken to Reduce Pension Deficit and Manage Future Risk Profile

- Elimination of 90% of company sponsored defined benefit pension plan accruals for new hires
- Benefit changes to all defined benefit pension plans resulting in approximately $1.1B reduction in solvency liabilities based on January 1, 2012 actuarial valuations (subject to OSFI approval)
- New funding relief to January 30, 2021 agreed to with the Government of Canada, subject to the adoption of enabling regulations
- The Government of Canada published proposed pension funding regulations on October 5th and final regulations are expected before year-end
- Assuming funding relief adopted, plausible conditions (discount rate, return on assets) could have solvency deficit eliminated no later than 2020
Outlook

Outlook* - Full Year 2013

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

Major Assumptions* - Full Year 2013

• Canadian dollar per U.S. dollar........... $1.03
• Jet fuel price – CAD cents per litre........ 89 cents
• Canadian GDP growth.................. 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 November 8, 2013
** Adjusted CASM excludes fuel expense, the cost of ground packages at Air Canada Vacations and unusual items
Our Investment 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!