

**AIR CANADA**



*Presents at*



*Transportation & Aerospace  
Conference 2013*

*Delivering Sustained  
Profitability  
and  
Shareholder Value*

**Toronto**

*November 19, 2013*



*Best Airline in  
North America*

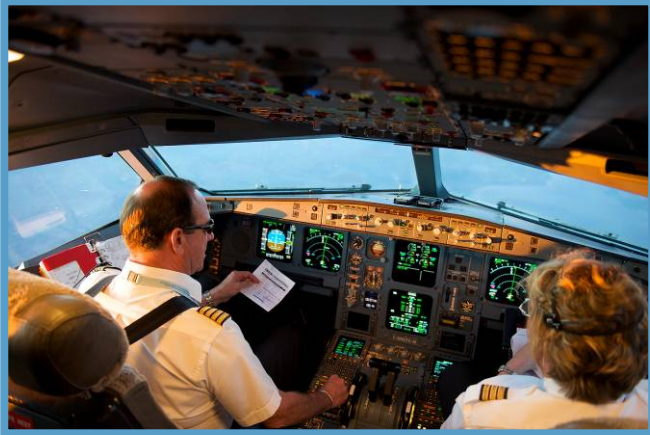
# *Caution Regarding Forward-looking Information*

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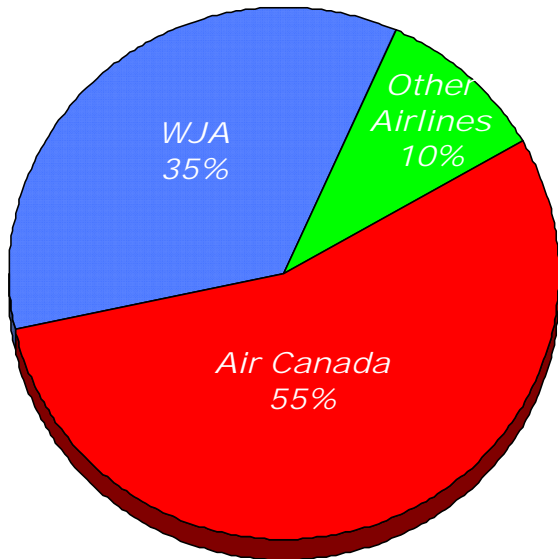
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# About Air Canada

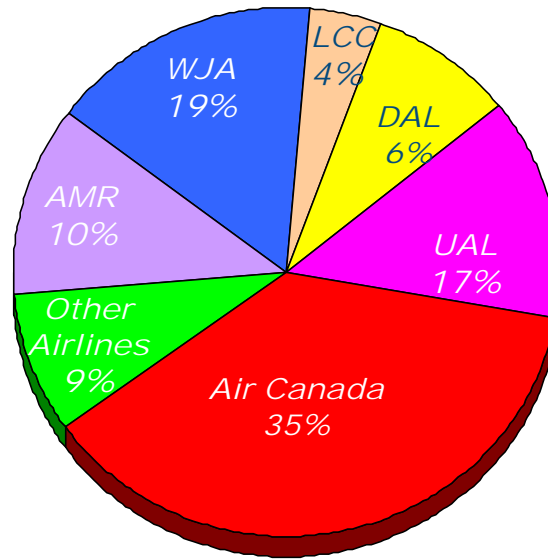


# Air Canada has Leading Share in All Markets

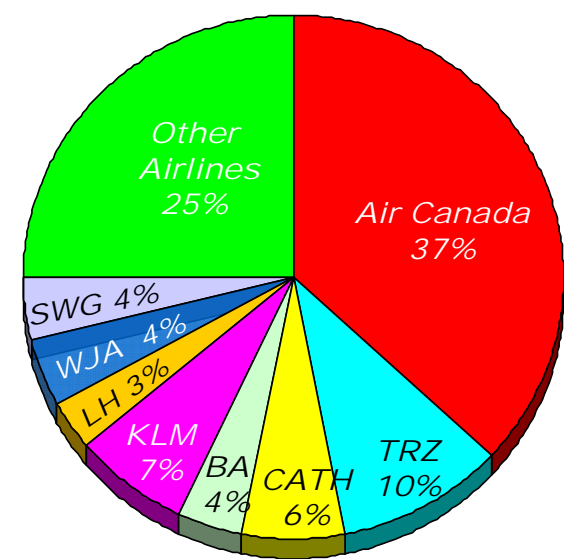
Domestic accounts for **39%** of passenger revenue



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

# 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

# *A++ Partnership with United and Lufthansa Delivers Tangible Benefits to Air Canada*

**AIR CANADA** 

**Austrian** 

 **brussels airlines**

 **Lufthansa**

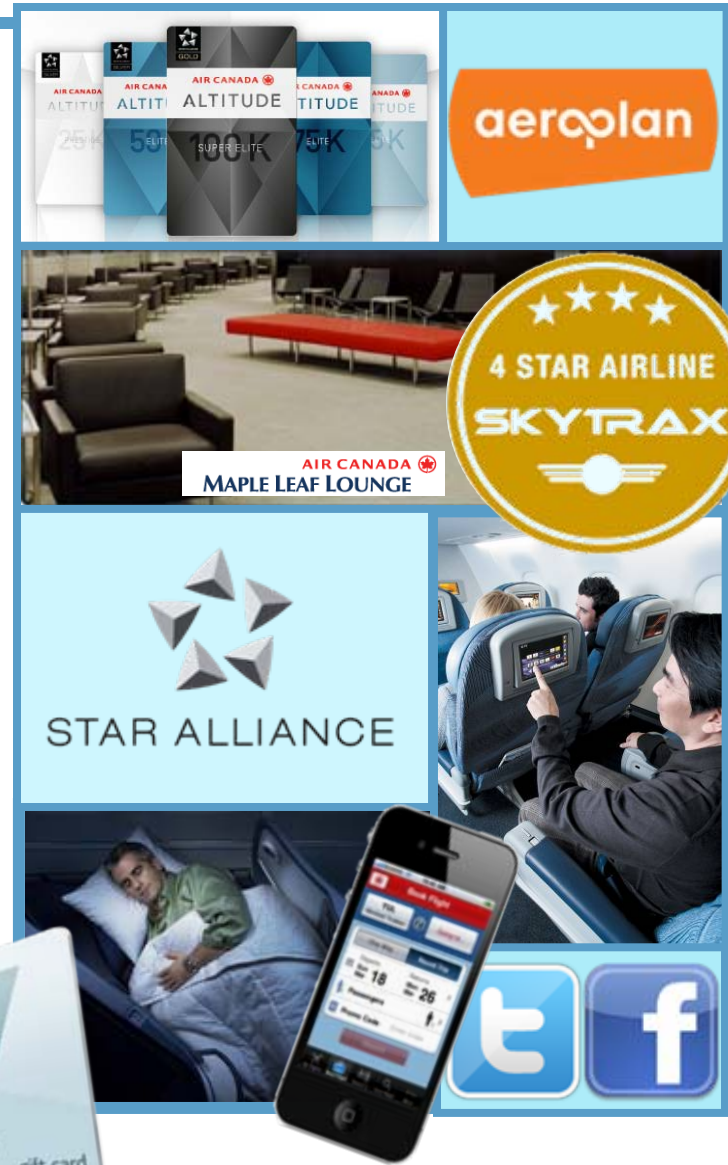
 **SWISS**

**UNITED** 

- 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

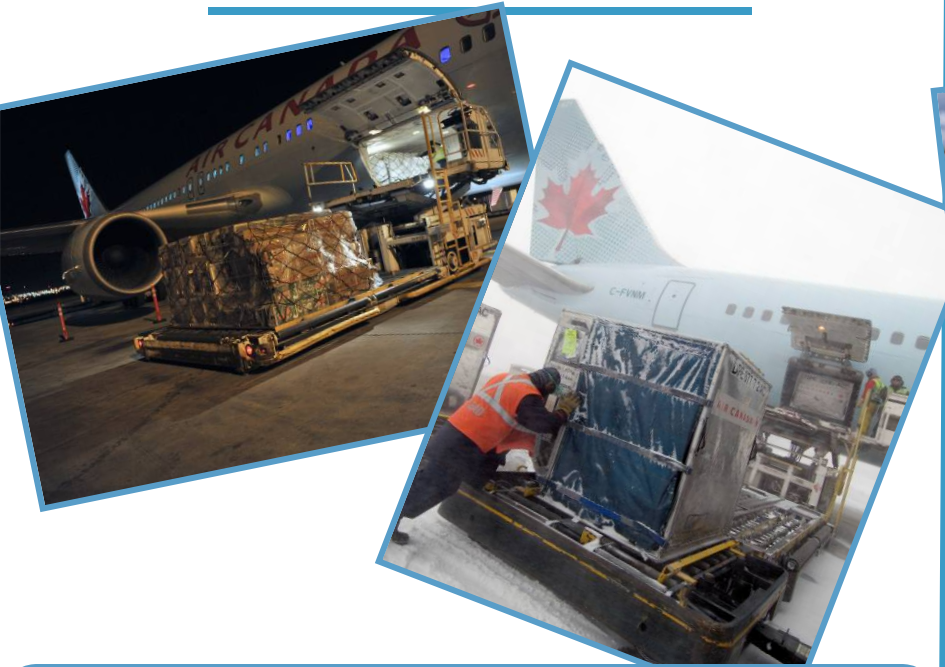




# Other Award Winning Services Contribute to Profitability

AIR CANADA  
**CARGO** 

Canada's largest provider  
of air cargo services



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

AIR CANADA   
**VACATIONS**

One of Canada's leading  
tour operators



Won 2013 **"Favourite Tour Operator"**  
award for the 4<sup>th</sup> 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*



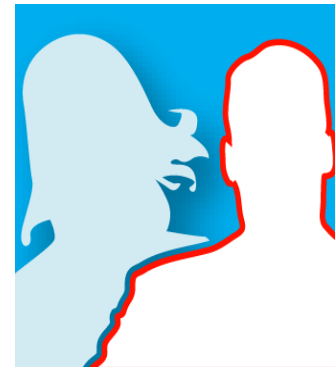
**COST  
REDUCTION  
AND  
TRANSFORMATION**



**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

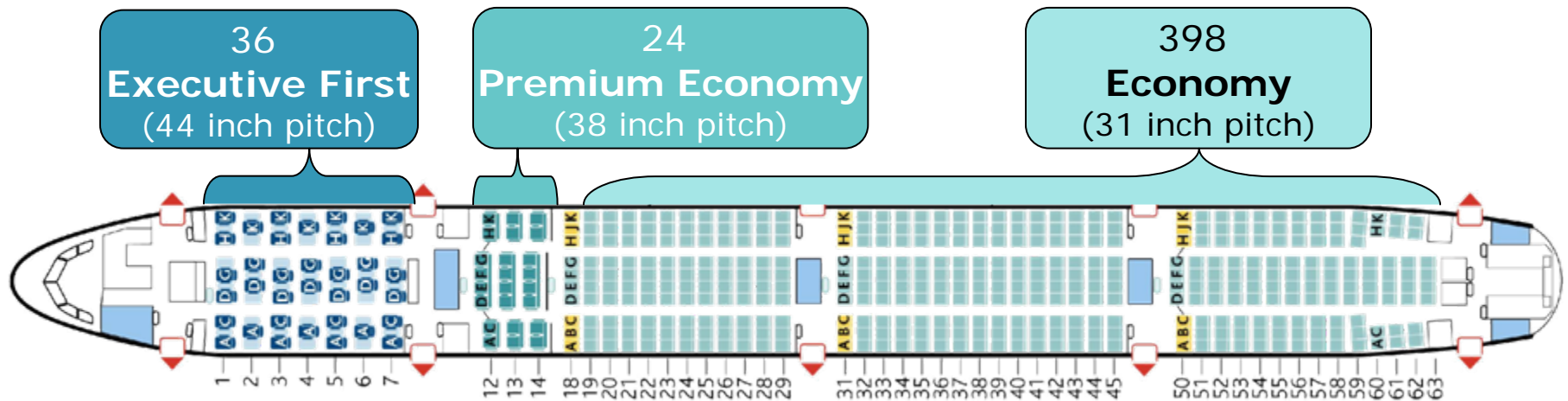
# Building a Fleet for the Future

	Actual at	Planned Fleet		
	Sept 30, 2013	Dec 2013	Dec 2014	Dec 2015
<b>Mainline</b>				
Boeing 787	-	-	6	12
Boeing 777-300	14	16	17	17
Boeing 777-200	6	6	6	6
Boeing 767-300	28	27	21	17
Airbus A330-300	8	8	8	8
Airbus A321	10	10	10	10
Airbus A320	41	41	41	41
Airbus A319	36	30	13	8
EMBRAER 190	45	45	45	45
<b>Total Mainline</b>	<b>188</b>	<b>183</b>	<b>167</b>	<b>164</b>
<b>Air Canada <i>rouge</i></b>				
Boeing 767-300	2	2	8	12
Airbus A319	2	8	25	30
<b>Total Air Canada <i>rouge</i></b>	<b>4</b>	<b>10</b>	<b>33</b>	<b>42</b>
<b>Combined total fleet</b>	<b>192</b>	<b>193</b>	<b>200</b>	<b>206</b>

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

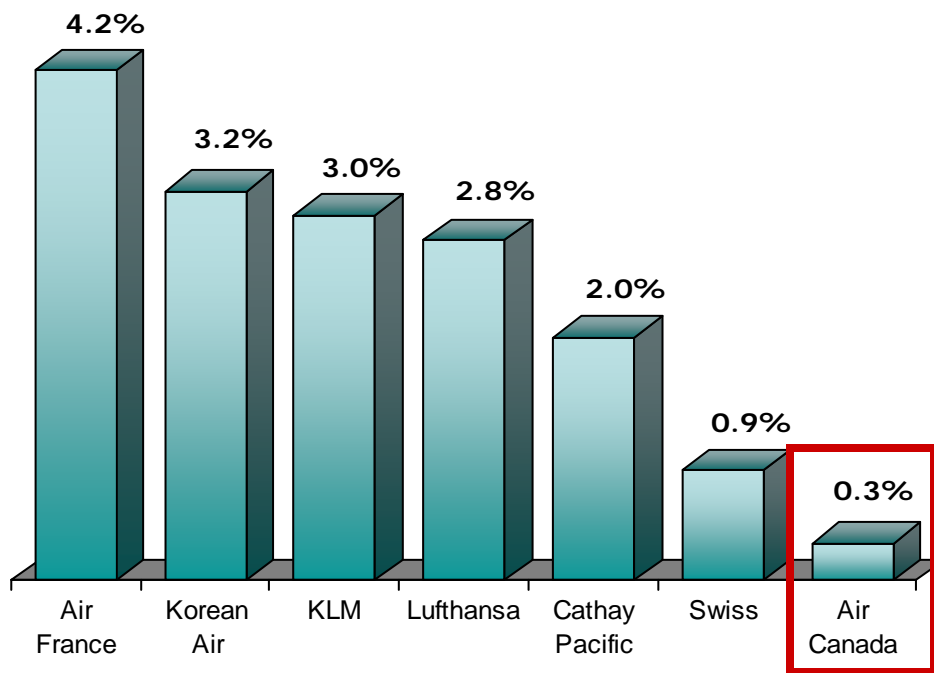
- Two of five new high-density Boeing 777s have been delivered and are in service – estimated CASM reduction of 21% compared to Boeing 777s in current mainline fleet
- Taking delivery of 37 Boeing 787 aircraft starting in Q1 2014 to replace less efficient Boeing 767s and to pursue international growth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

High-density Boeing 777 – three class configuration



# Opportunity to Increase Traffic in the U.S.-International Market

% of U.S.-Europe/Asia Market by Non-U.S. Carriers



- 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 multi-cultural 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



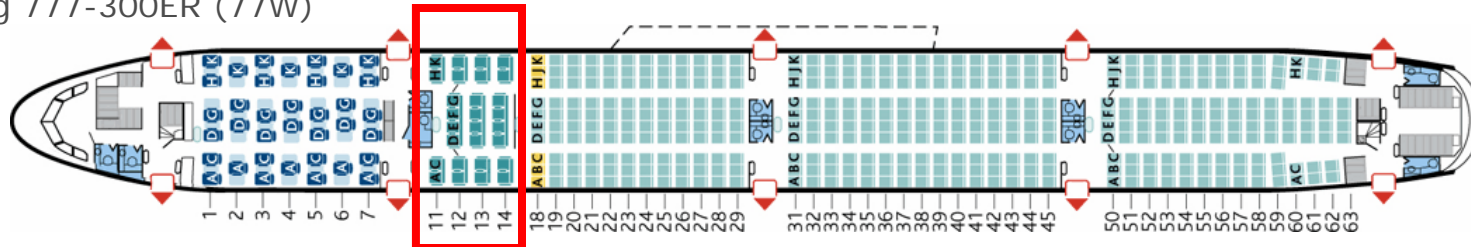
- New class of service on both mainline and *rouge* fleets
- Provides more seating pitch and width than economy class
- Segmented product aimed at higher-end customers seeking to improve comfort and travel experience
- Enhanced travel experience (priority check-in, baggage allowance, on-board meals,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



Premium Economy Class



Boeing 777-300ER (77W)



# *Air Canada Express – An 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)
  - 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



AIR CANADA 

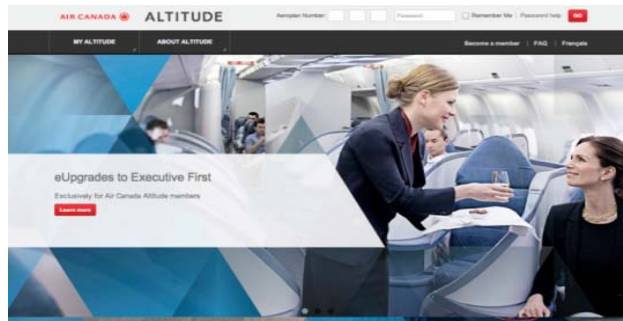
**CORPORATE  
REWARDS**



# Launched Air Canada Altitude™



*Altitude membership cards*



*altitude.aircanada.com*

- 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

# 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 –  
**4<sup>th</sup> consecutive year**



2012 Skytrax ranking:

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

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

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

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

Premier Travel magazine

2013 Ipsos Reid Business Traveller Survey

TTG Asia Travel Awards – 2013

Mediacorp's Top 100 Employers Project

2013 Canadian Occupational Safety Magazine

- **Best Airline in North America**
- **Ranked the only international Four-Star Airline in North America**
- **Best Airline in North America**
- **Best Flight Experience to Canada**
- **Best North American Airline for International Travel**
- **Best North American Airline Inflight Experience**
- **Favourite Scheduled Airline**
- **Best North American Airline for Business Class Service**
- **Best North American Airline for International Travel**
- **Best Flight Attendants in North America**
- **Canada's Favourite Airline for Business Travel**
- **Best North American Airline**
- **One of Canada's top 100 employers**
- **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







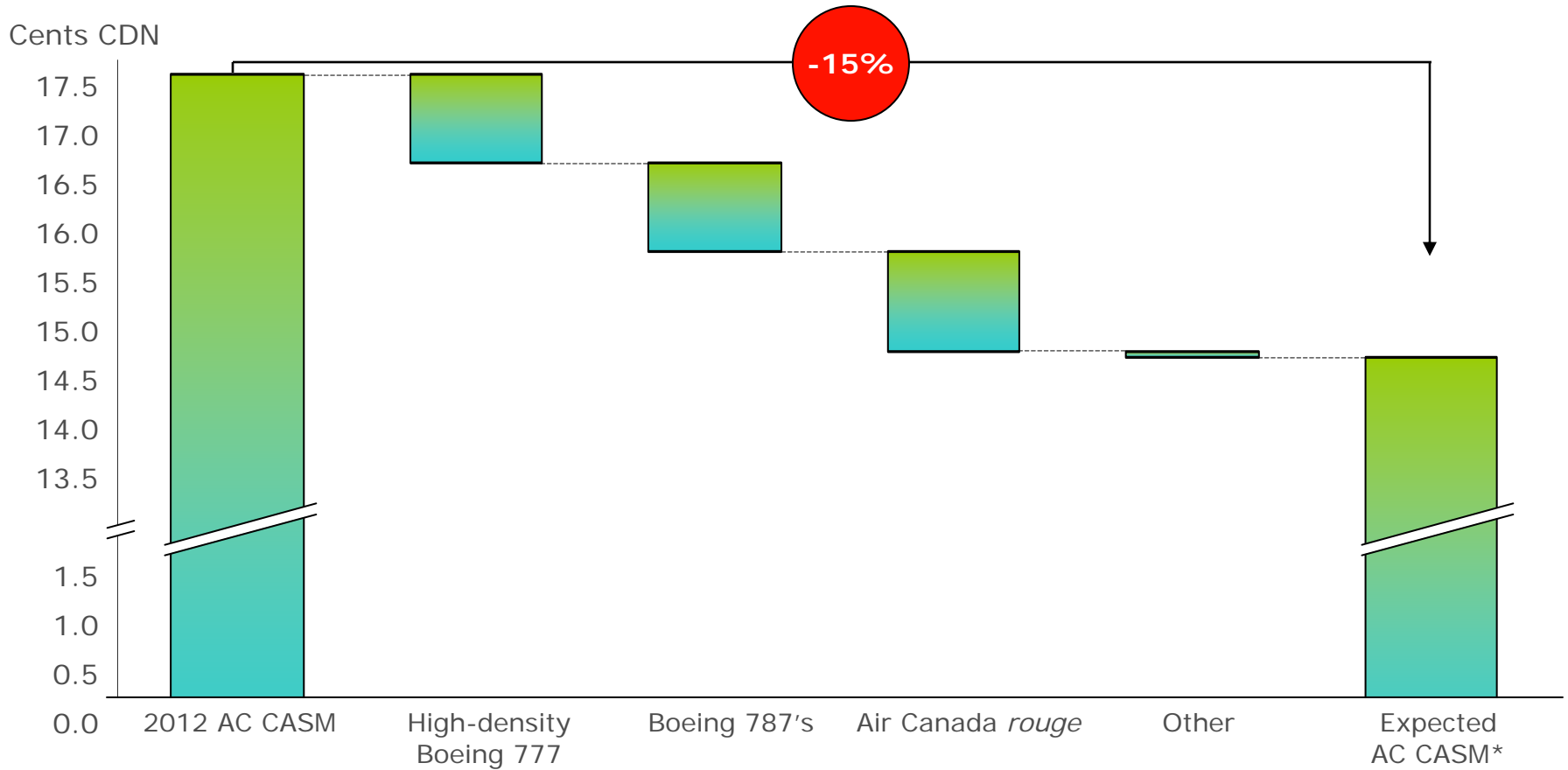
2014 -  
*Looking Ahead*

## *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

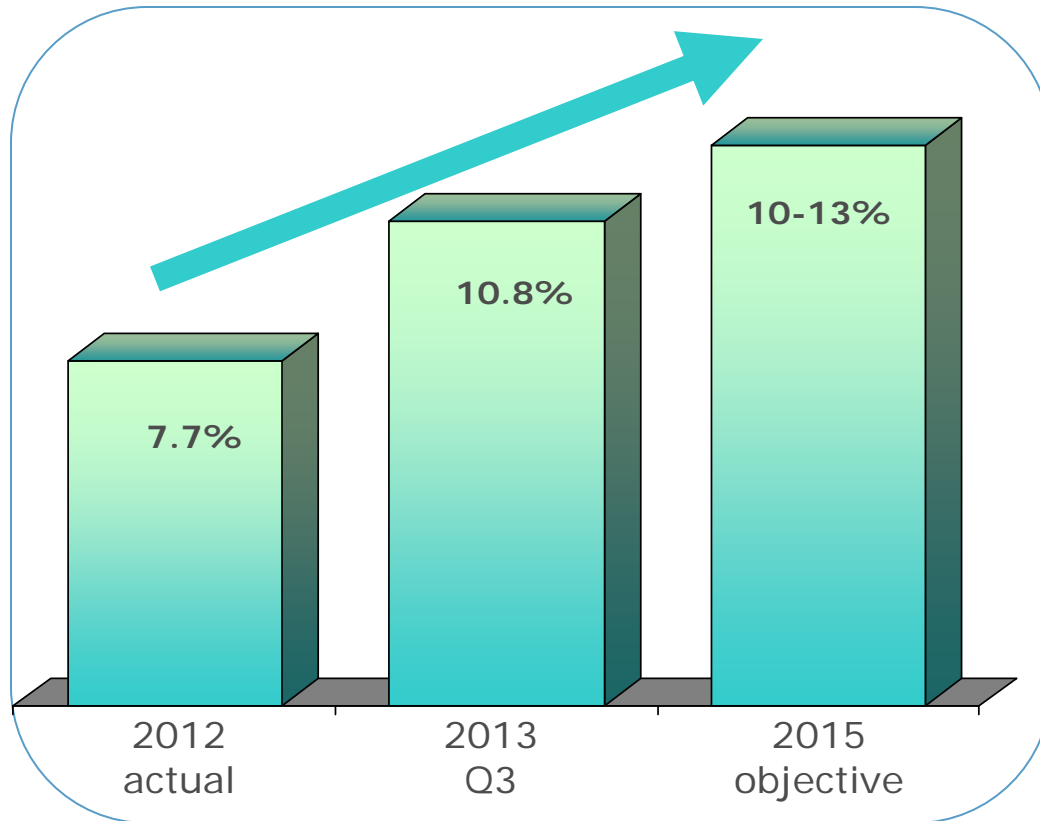
# Lower Cost Structure

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

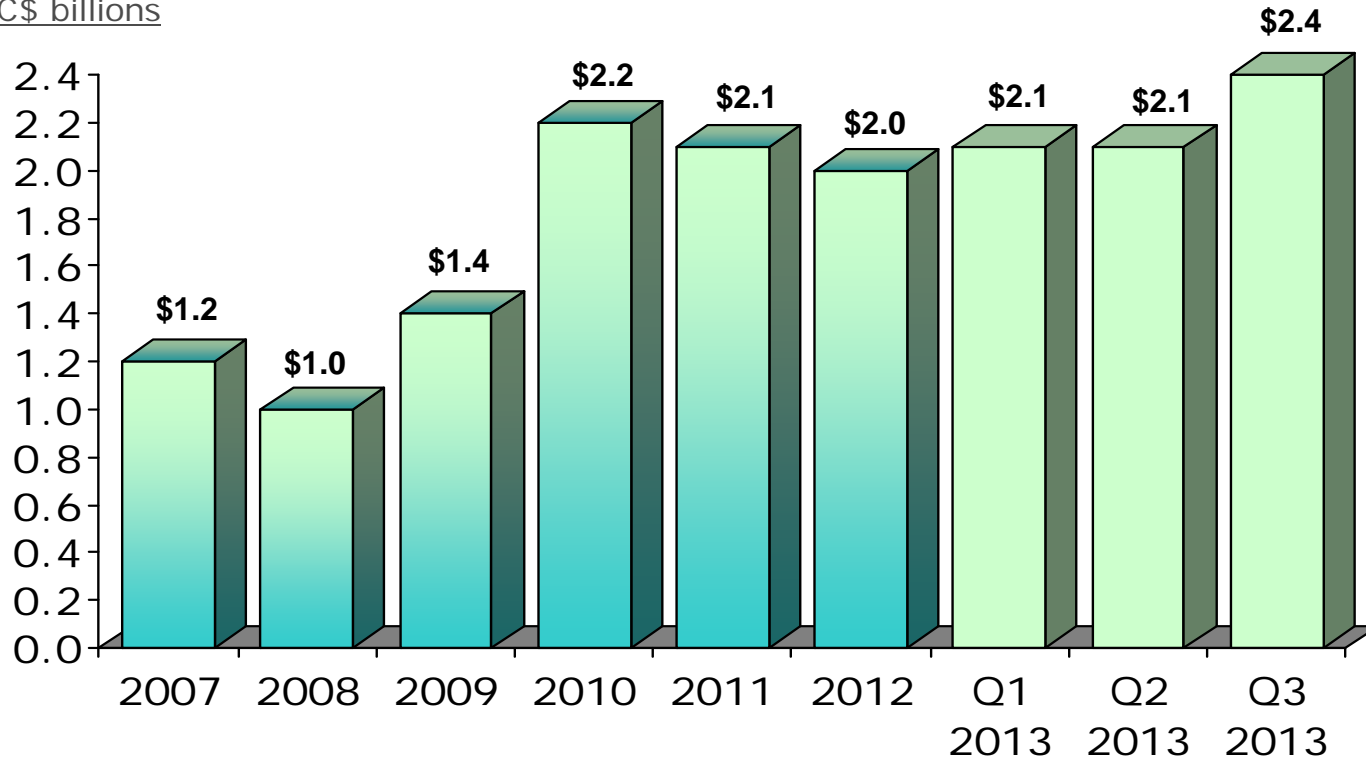


- Increase return on invested capital ("ROIC") through strategic investments in aircraft and technology, lower CASM and debt reduction
- ROIC for trailing 12 months ended Sept 30, 2013 was 10.8%

- 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

C\$ billions

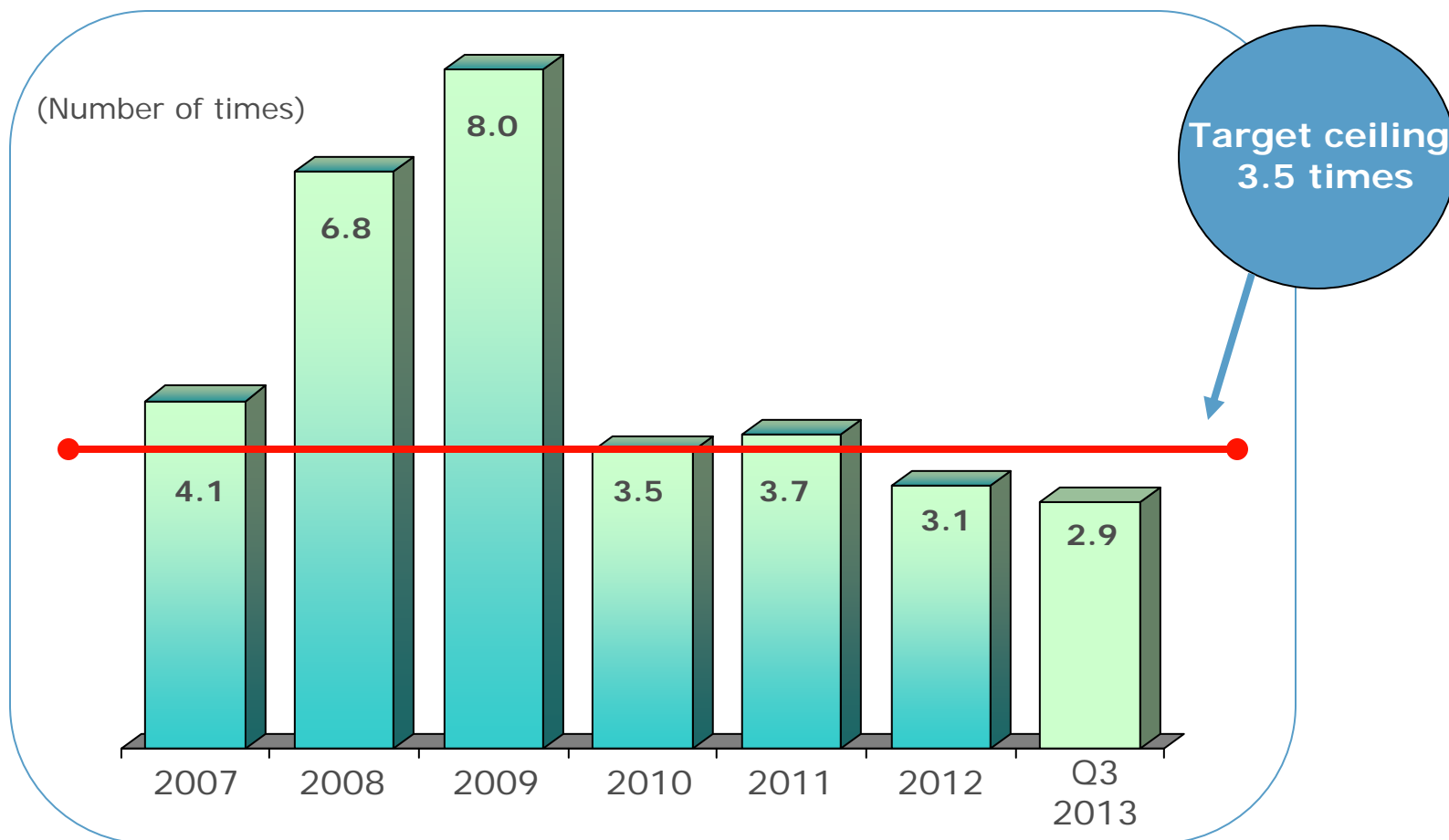


% of trailing 12-month operating revenues

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

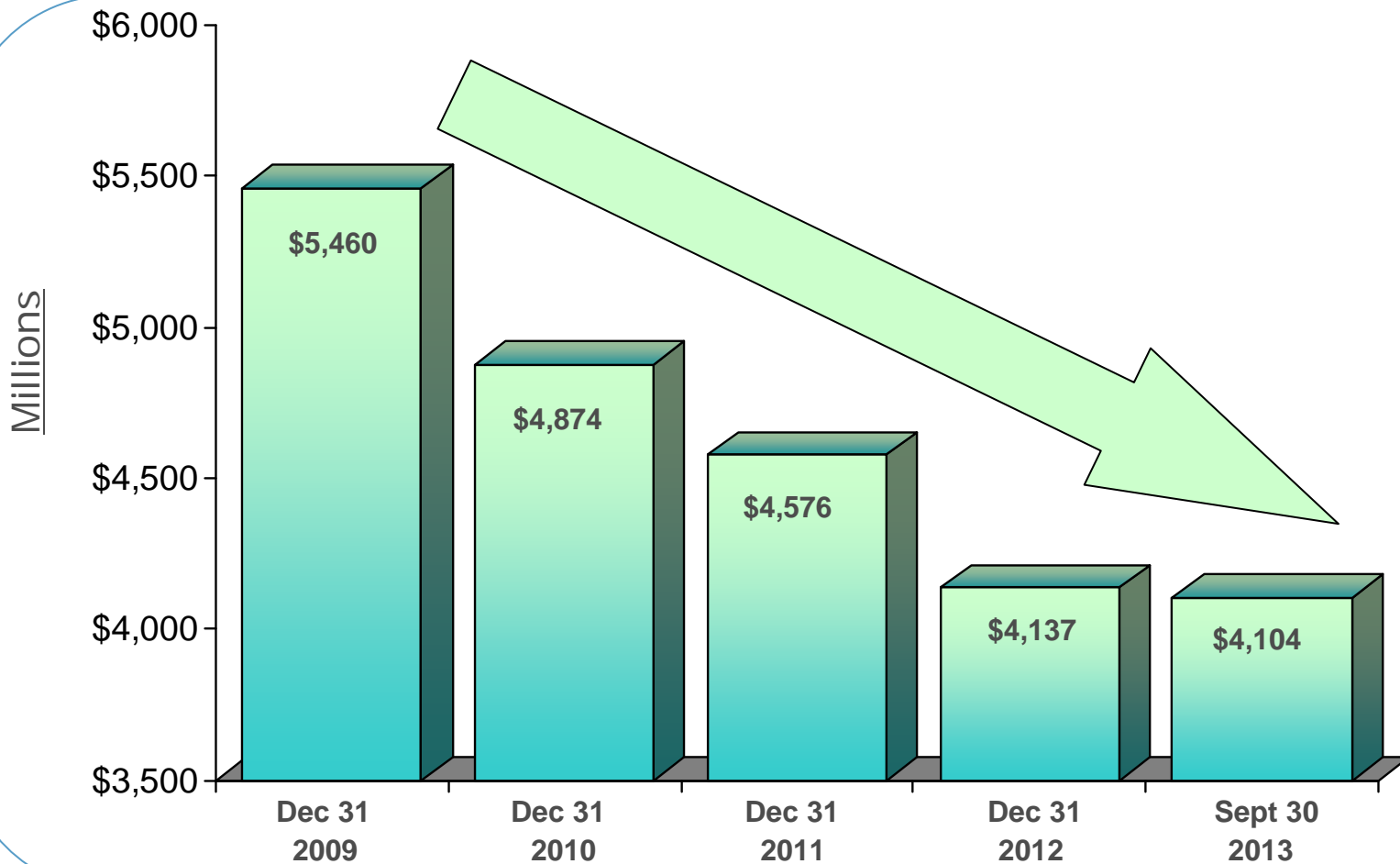
# Managing Financial Leverage

Adjusted Net debt to EBITDAR ratio



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

# *Solid Progress on Net Debt Reduction*



## *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 5<sup>th</sup> 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!*