Air Canada presents at the Scotiabank Transportation & Aerospace Conference 2012
Toronto – November 20, 2012
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Agenda

- About Air Canada
- Building a Stronger Airline
- Financial Performance
- Making Progress on Transformation
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, based on full year 2011 available seat miles (ASMs)
- AC Revenue Split based on 2011 full year revenues
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 August 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 – 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

CRJ aircraft (52)
50 seats – 75 seats

Dash 8 aircraft (78)
37 seats – 74 seats

Beech aircraft (17)
18 seats

acts as a feeder to Air Canada's scheduled routes
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

**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

- Given that the Air Canada special funding regulations expire in January 2014, we have also entered into discussions with the federal government with respect to an extension of pension deficit funding relief. Air Canada’s Canadian-based unions support the extension request.
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

- **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 Best Airline Alliance in the 2012 Skytrax World Airline Awards™*
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 over 160% since 2009

Continued strength of sixth freedom traffic through Toronto Pearson in Q3 2012 – up 23% from Q3 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 has concluded 3rd party agreements at market rates and terms, resulting in both reduced unit costs and increased aircraft availability.
Launch of Low-cost Airline in 2013 Aimed at Improving Margins

- 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 July 2013 with two Boeing 767-300ER and two Airbus A319 aircraft to be released from Air Canada's mainline fleet.

- Low-cost carrier 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 may operate up to 20 Boeing 767-300ER and 30 Airbus A319 aircraft, for a total of 50 aircraft.
Leveraging Opportunities for Revenue Growth

- Paid upgrades
- Baggage fees
- Seat selection fees
- Improved net Aeroplan revenue
  - Reduced Aeroplan frequent flyer accumulation fees to 50% on Tango service for international routes
- Launch of loyalty program for small businesses
  - Loyalty program caters to small and medium-size businesses allowing them to earn rewards and complimentary services
- Introduction of new Revenue Management System (RMS) which is being phased in over the next two years
Delivering "Best in Class" Service

Winner for the 3rd consecutive year of "Best International Airline in North America" in the 2012 Skytrax World Airline Awards

Numerous awards received confirm that Air Canada is delivering on its priority of engaging its customers

Winner for the 5th consecutive year of "Best Flight Experience to Canada" in Executive Travel Magazine's 2012 Leading Edge Awards

According to the 2012 Canadian Business Travel Survey conducted by Ipsos Reid, Air Canada was the preferred airline for more than 79 percent of frequent business travellers in Canada

Air Canada is focused on maintaining customer confidence and continuously works on customer-related initiatives
Driving Premium RASM Growth

[Chart showing Y-O-Y % Change for P-RASM and Premium P-RASM from Q2 2009/2008 to Q3 2012/2011]
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 Nine Months 2012 and Annual Guidance

**First Nine Months 2012**
- Adjusted EBITDAR\(^{(1)}\) of $1,043M
- Adjusted EBITDAR\(^{(1)}\) Margin of 11.2%
- Passenger load factor of 83.2%
- Unit passenger revenue (P-RASM) up 2.9%
- Premium cabin P-RASM increased 4.2%
- Adjusted CASM\(^{(2)}\) increased 2.0%
- Ancillary revenues per passenger increased 27%
- Adjusted net debt of $4.3B at Sept 30, 2012 – decreased $308M from Dec 31, 2011

**Annual Guidance*\(^\)**

**Guidance -2012**
- ASM growth of 0.75% to 1.25%
- Domestic ASM growth of 0.5% to 1.0%
- Adjusted CASM\(^{(2)}\) up 0.75% to 1.25%

**Guidance -2013**
- ASM growth of 1.5% to 3.0%

**Major Assumptions - 2012**
- Canadian dollar 1.00 per US$
- Jet fuel price (CAD) 89 cents/litre

**Major Assumptions – 2012 & 2013**
- Canadian economic GDP growth 1.5% to 2.0%

*as of November 8, 2012

\(^{(1)}\) Excludes the impact of benefit plan amendments
\(^{(2)}\) Excludes fuel expense, the cost of ground packages at Air Canada Vacations and unusual items
Improving Operating Margin & Cost Structure

RASM*

CASM** (adjusted)

Continue to focus on CASM reductions

Maintaining industry-leading RASM

* Operating RASM
** Excludes fuel expense, the cost of ground packages at Air Canada Vacations and unusual items

Note: 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 $1.5 billion from 2009

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Making Progress on Transformation
Leverage and expand international network by capitalizing on competitive advantages

- widely-recognized brand
- extensive global network
- loyalty program (Aeroplan)
- competitive products and services
- geographically well-positioned hubs
- introduction of new Boeing 777 and 787 aircraft

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, improve margins and better manage seasonality

Extend global reach by further developing commercial alliances with major international carriers
Committed to Improving Profitability

- Increase sixth freedom traffic from the U.S. to connect through the airline’s hub airports in Canada to onward international flights
- 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 and modify existing ones 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
- Maintain a strong balance sheet
Go Far…