

AIR CANADA

presents at

Morgan Stanley *Leveraged Finance Conference*



New Orleans

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Best Airline in North America

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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



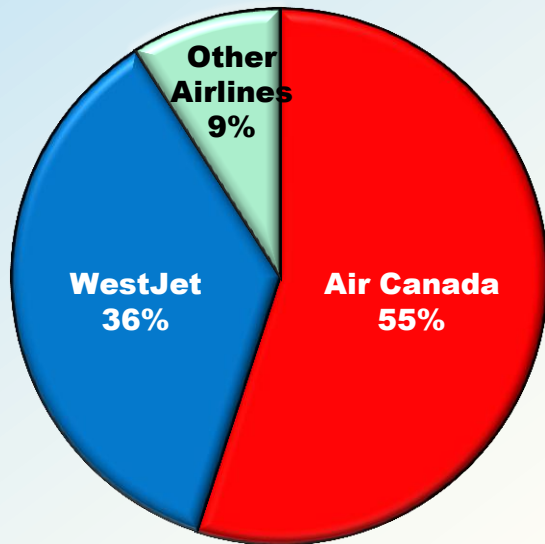
...a founding member of Star Alliance



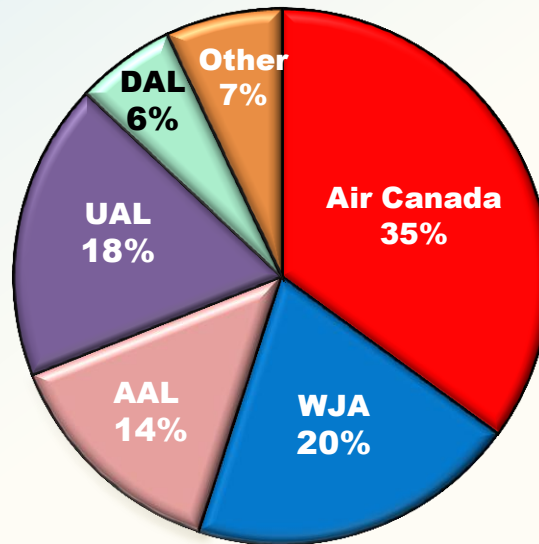
...one of Canada's top 100 employers

Air Canada has Leading Share in All Markets

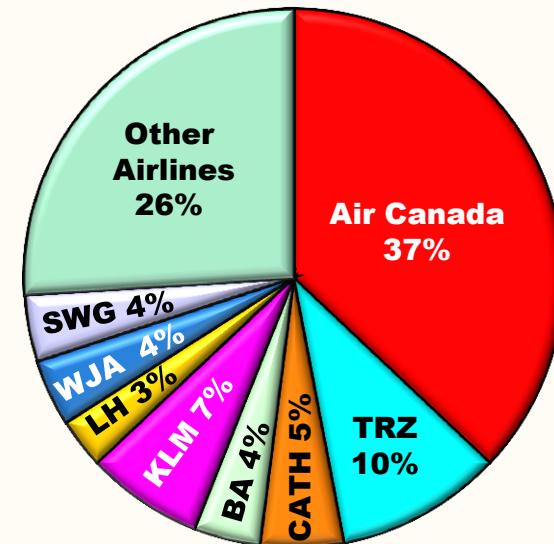
Domestic accounts for **38%** of passenger revenue



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

Air Canada/Air Canada Jazz and Air Canada rouge routes
spring-summer 2014

181 Direct Destinations:

- 60 in Canada
- 49 in the U.S.
- 72 internationally

Among the 20 largest airlines globally

- >350 aircraft
- ~1,500 daily flights
- ~36M passengers carried

**Powerful
Global
Network**



Enhancing Market Presence Through Star Alliance, Commercial Agreements & Joint Venture



- **26** Members
- **193** Countries Served
- **1,269** Airports
- **>18,000** Daily Departures
- **>637M** Passengers/year
- **>4,300** 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

Other Award Winning Services Contribute to Profitability

AIR CANADA
CARGO 

Canada's largest provider of
air cargo services



Won 2014 **"Excellence in Innovation"**
award at the Canadian International
Freight Forwarders' Association

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

AIR CANADA 
VACATIONS

One of Canada's leading tour
operators



Won 2013 **"Favourite Tour Operator"**
award for the 4th year at
Baxter Travel Media's Agents'
Choice Awards

Focused on Four Core Priorities



**COST
REDUCTION
AND
TRANSFORMATION**



**INTERNATIONAL
GROWTH**



**CUSTOMER
ENGAGEMENT**



**CULTURE
CHANGE**

Fleet Revenue and Cost Initiatives

- Fleet changes provide flexibility and lower Air Canada's overall cost structure
- 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

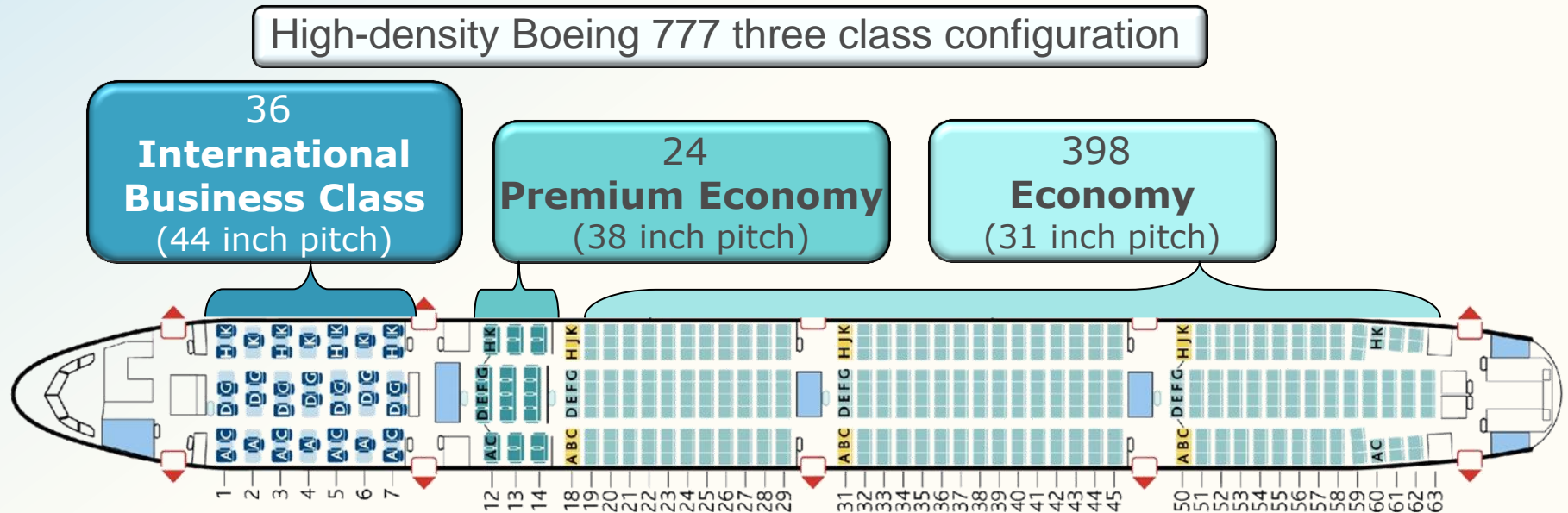
Building a Fleet for the Future

| | Actual at | Planned Fleet | | |
|-------------------------------|------------|---------------|------------|------------|
| | Dec 2013 | Dec 2014 | Dec 2015 | Dec 2016 |
| Mainline | | | | |
| Boeing 787 | - | 6 | 12 | 20 |
| Boeing 777-300 | 16 | 17 | 17 | 17 |
| Boeing 777-200 | 6 | 6 | 6 | 6 |
| Boeing 767-300 | 27 | 21 | 17 | 13 |
| Airbus A330-300 | 8 | 8 | 8 | 8 |
| Airbus A321 | 10 | 10 | 15 | 15 |
| Airbus A320 | 41 | 41 | 46 | 46 |
| Airbus A319 | 30 | 13 | 8 | 8 |
| EMBRAER 190 | 45 | 45 | 25 | 25 |
| Total Mainline | 183 | 167 | 154 | 158 |
| Air Canada rouge | | | | |
| Boeing 767-300 | 2 | 8 | 12 | 14 |
| Airbus A319 | 8 | 25 | 30 | 30 |
| Total Air Canada rouge | 10 | 33 | 42 | 44 |
| Combined total fleet | 193 | 200 | 196 | 202 |

In 2015, Air Canada plans to replace 20 Embraer 190 aircraft with 10 larger narrowbody leased aircraft. The type of replacement aircraft has not yet been determined – solely for illustrative purposes, Air Canada has assumed these to be five Airbus A320 and five Airbus A321 aircraft.

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

- All 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
- Took delivery of the first of 37 Boeing 787 aircraft in May 2014. 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



Boeing 737 MAX to Replace Mainline Narrowbody

- 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
- The 737 MAX incorporates the latest-technology engines to deliver high efficiency, reliability and passenger comfort in the single-aisle market



Air Canada rouge™ is 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 – brings to 58 the total number of routes operated by Air Canada rouge

AIR CANADA 
rouge

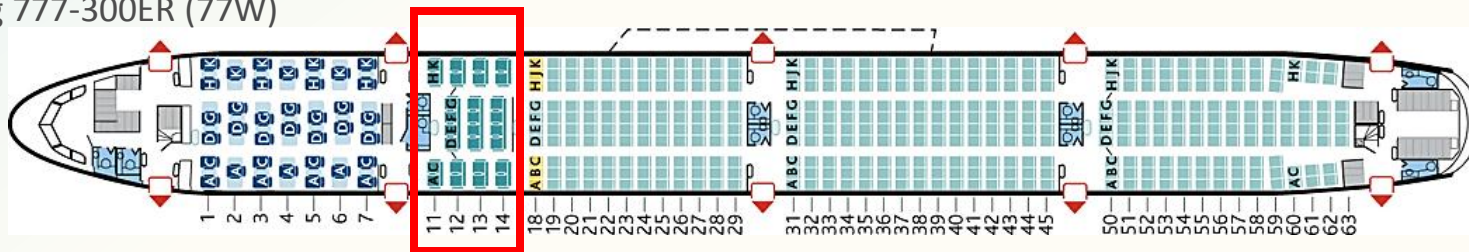


Improving Premium Revenues With New Premium Economy Class



Premium Economy Class

Boeing 777-300ER (77W)



- 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 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
- 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

Other Opportunities for Revenue Growth

- Growing ancillary revenues through various passenger-related fees, such as baggage, paid upgrades and seat selection
- Re-launched loyalty program – Air Canada Altitude – and launched Air Canada Corporate Rewards program
- Introducing new Revenue Management System (RMS) – expecting incremental annual revenues in excess of \$100M beginning in 2015
- Implementing customer centricity system (CRM) – platform will allow a 360° view of the customer, targeted campaign management and allow advanced analytics of customer insights
- Agreement with GTAA, over time, should grow international traffic flows on a more cost effective basis



Engaging Our Customers



- 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
- Launched Air Canada rouge giving customers a wider choice in leisure travel
- Continued improvements to provide the highest levels of customer service

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 – 2013
5th 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 – 2013
6th 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 of 2013
2nd consecutive year

- **Best North American Airline for International Travel**
- **Best Flight Attendants in North America**

AirlineRatings.com – 2014

- **Best Long Haul Airline (Americas)**

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



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



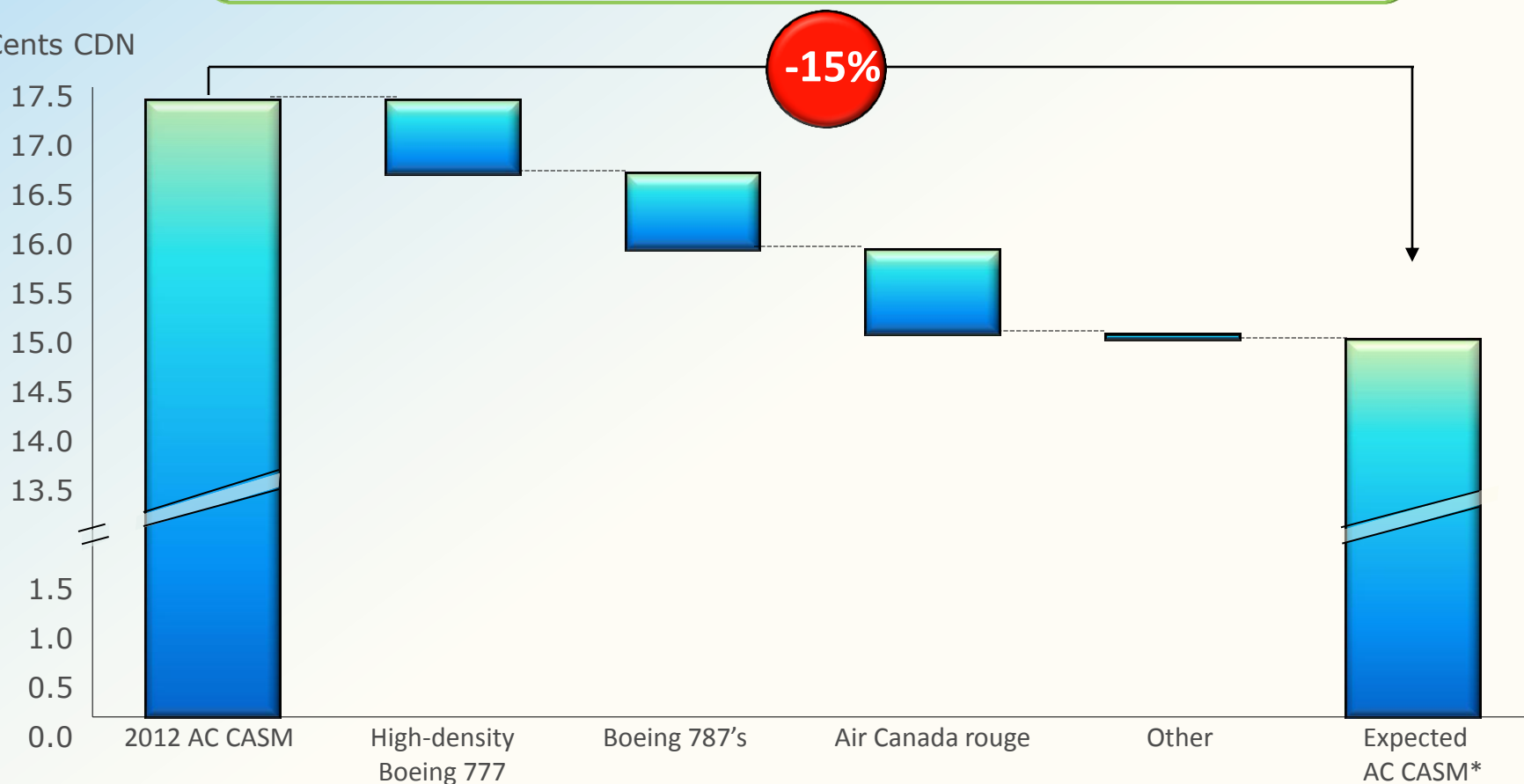
Create shareholder value

Increase earnings and ROIC leading to a higher multiple and lower risk profile

Lower Cost Structure

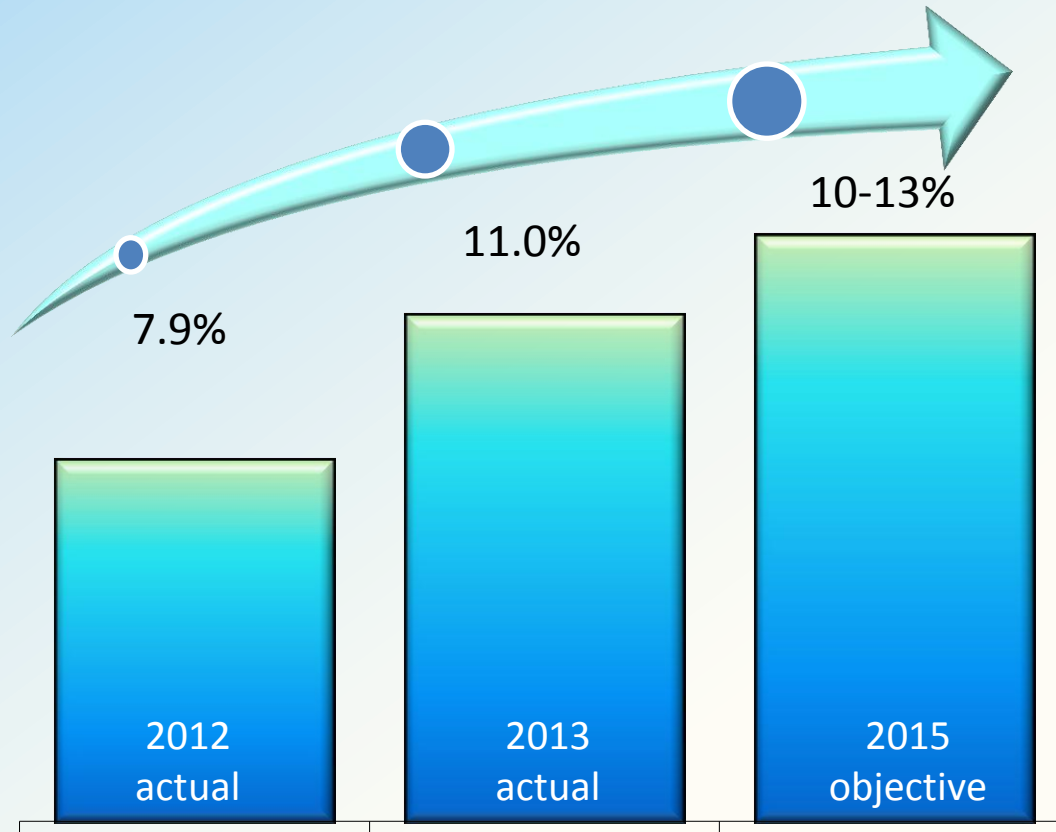
If implemented today, cost reduction initiatives would be expected to decrease CASM by an estimated 15%

Cents CDN



* Assumes that all other cost drivers remain at 2012 levels

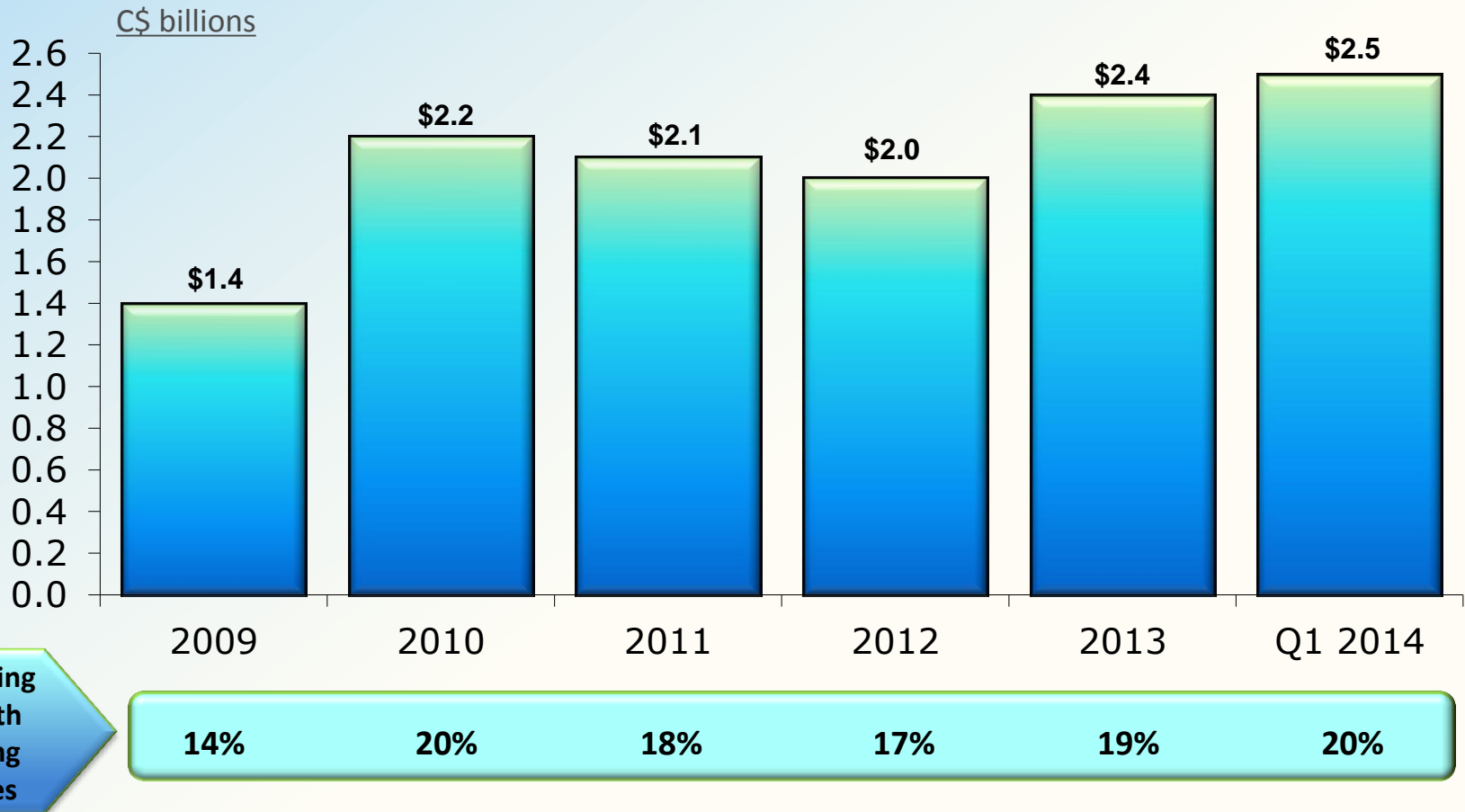
Targeting Return on Invested Capital to Exceed Cost of Capital



- Increase return on invested capital ("ROIC") through strategic investments in aircraft and technology, revenue growth, lower CASM and debt reduction
- As at March 31, 2014, ROIC of 10.7%

- 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, average market capitalization and capitalized aircraft operating leases

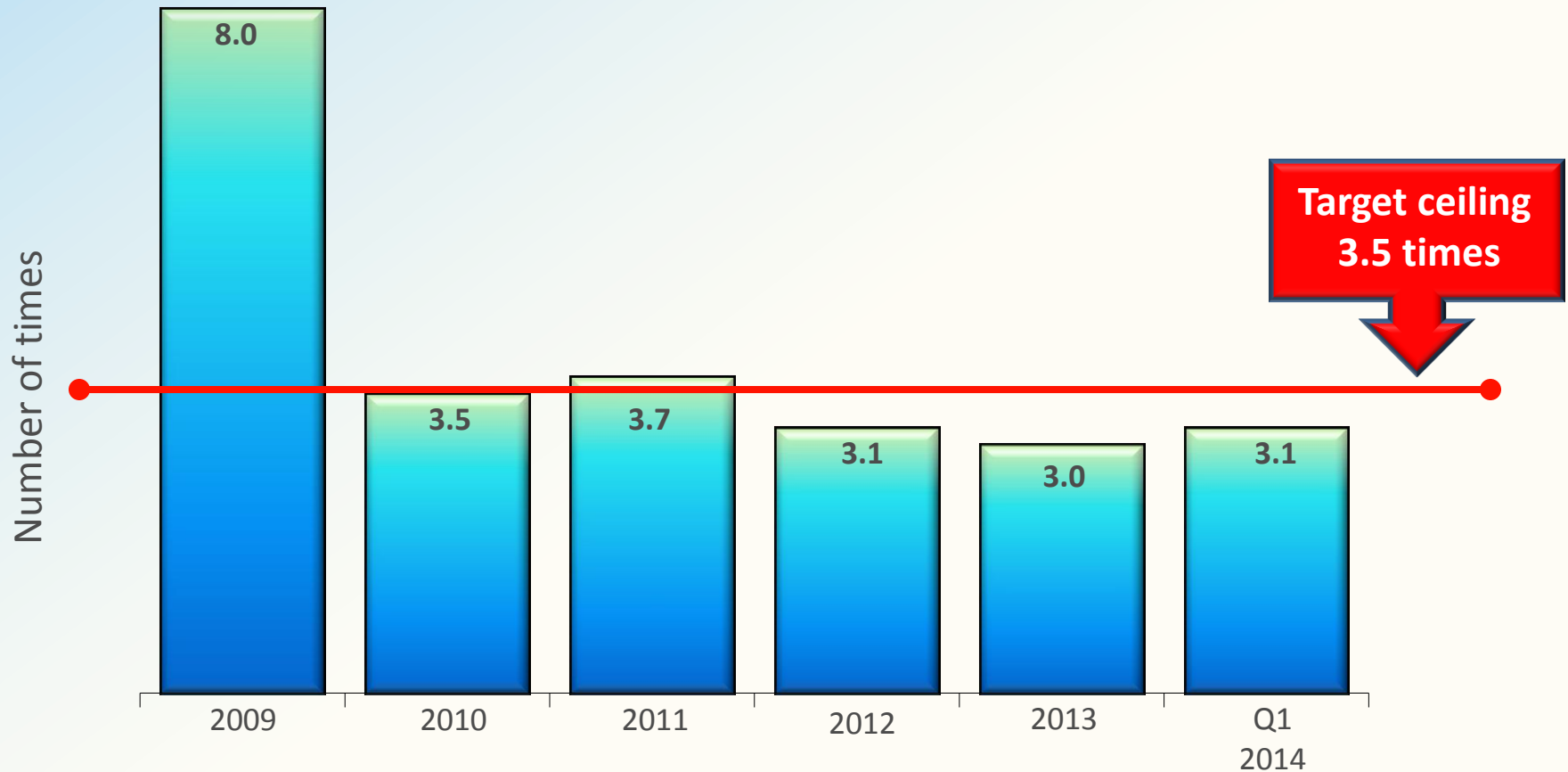
Maintaining Strong Liquidity Position – Well Above Target Minimum Level of \$1.7B



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

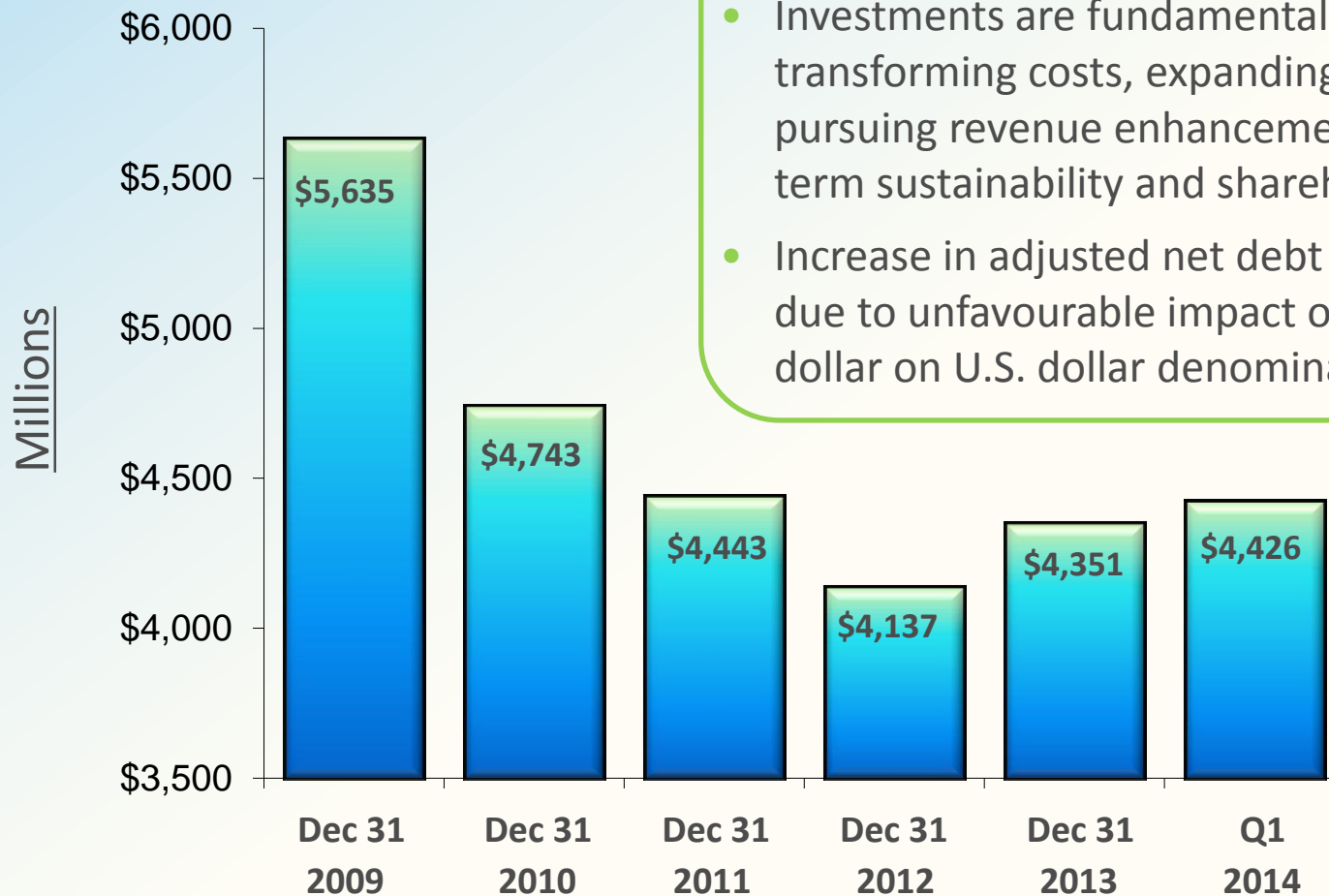
Managing Financial Leverage

Adjusted Net debt to EBITDAR ratio



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

Driving Long-term Sustained Profitability Through Investment in Aircraft



- Debt levels increasing due to investment in Boeing 777 and 787 aircraft
- Investments are fundamental to strategy of transforming costs, expanding internationally, pursuing revenue enhancements and driving long-term sustainability and shareholder value
- Increase in adjusted net debt in 2013 almost entirely due to unfavourable impact of weaker Canadian dollar on U.S. dollar denominated debt

New Financing Arrangements

- Concluded a private offering of US\$400M of 7.75% senior unsecured notes due in 2021
- Refinanced 2010 notes (\$1.1B principal amount) with US\$400 million senior secured first lien notes; C\$300M senior secured first lien notes; US\$300M secured second lien notes; and a US\$400M senior secured credit facility, comprised of US\$300M term loan, and a US\$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
- 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
 - 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

Concrete Actions Taken to Reduce Pension Deficit and Manage Future Risk Profile

As at January 1, 2014, based on preliminary estimates, Canadian registered pension plans are in a small surplus position

All new employees join 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

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

