

AIR CANADA 

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AIR CANADA – TRANSFORMING INTO A GLOBAL CHAMPION





PROGRESS ON OUR BUSINESS PLAN

- Reported record results in 2015 – expanded EBITDAR⁽¹⁾ margin by 5.7 percentage points to 18.3%, increased adjusted net income⁽¹⁾ by 130% to \$1.222B and improved ROIC⁽¹⁾ by 6.2 percentage points to 18.3%, all as compared to 2014
- Fleet initiatives and capital programs on target – 19 B787s in operating fleet – B787s meeting financial and operational expectations
- Delivering a permanently lower cost structure – on track to realizing CASM savings of 21% (excluding impact of FX and fuel prices) by the end of 2018 when compared to 2012 baseline
- Enterprise and financial risk significantly reduced
 - Route diversification
 - Balance sheet leverage
 - Pension
 - Labour contracts
 - Fleet flexibility

⁽¹⁾ These measures are non-GAAP financial measures. Reconciliations of these measures to comparable GAAP measures for the relevant periods can be found in Air Canada's MD&A reports, available at aircanada.com



GLOBAL CHAMPION STRATEGY

1

2

3

4

5

Safe & Reliable Operation

Fleet & Network

- Star Alliance
- A++ Joint Venture
- Modern fleet / Seat density
- Extensive route rights
- Favourable slot times at busy airports
- Swing capacity

Brand

- Operational Excellence
- Award winning products/ services
- Iconic Canadian brand
- Rouge

Commercial Strategy

- Toronto - a true global hub
- 6th freedom connection traffic
- Improving premium value proposition
- Competitive leisure offering

Geography

- AC hubs are en route to Europe & Asia
- Logical connection for U.S. origins and destinations
- Easy transfer/ transit process

People & Experience

- 28,000+ dedicated employees
- Top 100 Employers in Canada – 3rd consecutive year
- One of Canada's Best Diversity Employers for 2016
- Labour stability with all major unions

LOWER RISK PROFILE



OUR FOUR PRIORITIES



1 International expansion



2 Cost reduction and revenue growth



3 Customer engagement



4 Culture change



1 International expansion

- 2 Cost reduction and revenue growth
- 3 Customer engagement
- 4 Culture change



TRANSFORMATION PLAN

Accelerated, balanced transformation of Air Canada toward sustained profitability

Network Optimization

- **Strategic international growth**
- **Increase diversification of route portfolio**
- **Leverage route model**
- **Sixth freedom focus**
- **Leverage strategic Toronto geography**

Aircraft Growth and Reconfiguration

- **Delivery of B787 order**
- **Densification and optimization of fleet configurations**
- **Replacement of narrow-body fleet with B737 MAX**
- **Leverage best in class products and services**

Flexibility to Adjust to Shifting Market Conditions

- **Swing capacity**
- **Leverage 10 year agreements**
 - Labour stability with major unions
 - Regional lift with Chorus (Jazz)

Team culture

▪ *Customer centricity*

▪ *Delivering brand promise*



FLEET

	<u>Actual</u> 2015	<u>Planned</u>	
		2016	2017
MAINLINE WIDEBODY			
Boeing 787	12	21	30
Boeing 777	23	25	25
Boeing 767-300ER	17	15	10
Airbus A330-300	8	8	8
MAINLINE NARROWBODY			
Boeing 737 MAX-8	-	-	2
Airbus A319, A320, A321	74	75	75
Embraer 190	37	25	25
TOTAL MAINLINE	171	169	175
Boeing 767-300ER	15	19	25
Airbus A319, A321	24	25	25
TOTAL AIR CANADA ROUGE	39	44	50
TOTAL WIDEBODY AIRCRAFT	75	88	98
TOTAL NARROWBODY AIRCRAFT	135	125	127
TOTAL MAINLINE AND AIR CANADA ROUGE	210	213	225



FLEET FLEXIBILITY

- In the case of an economic downturn, Air Canada has positioned itself to be flexible with fully unencumbered, older aircraft (both widebody and narrowbody), and with a sizeable amount of staggered leased aircraft expiries
- Staggered Airbus narrow-body lease expiries give Air Canada the opportunity to manage capacity, either up or down, as we transition to B737 MAX aircraft
- Longer-term flexibility exists in our ability to defer a portion of B737 MAX aircraft deliveries

22 aircraft

owned and
unencumbered



18 aircraft

with leases expiring
in 2016/2017



40 aircraft

can be quickly removed
from the fleet

This represents nearly 20% of the Mainline / rouge fleet



1 International expansion

2 Cost reduction and revenue growth

3 Customer engagement

4 Culture change



BENEFITS OF AIR CANADA 787



- B787 operate existing B767 routes more efficiently and enable Air Canada to enter new international markets made viable by this aircraft's lower operating costs, midsize capacity and longer range
- New destinations, such as Dubai and Delhi from Toronto and Vancouver, expand Air Canada's global reach



BENEFITS OF AIR CANADA LOPA SUPERIORITY



- B777 high-density aircraft operate high-volume, leisure-oriented international routes with 29% more seats than the 349-seat B777
- 18 B777s are being converted into a more cost effective and competitive configuration (14% more seats overall), adding a premium economy cabin and refurbishing the international business class cabin to the new B787 state-of-the-art standard



BENEFITS OF AIR CANADA ROUGE

- Air Canada rouge is **enhancing margins** in existing leisure markets and pursuing new opportunities in international leisure markets made viable by its lower cost structure
- Air Canada rouge fleet (comprised of Airbus A319s, A321s and B767s) is estimated to generate 25% lower CASM when compared to the same aircraft in the mainline fleet
- Air Canada rouge leverages the strengths of Air Canada including
 - Its extensive network
 - Its enhanced connection options
 - Its operational expertise
 - Its frequent flyer program





IMPROVING COMPETITIVENESS IN REGIONAL MARKETS



- Diversification strategy being implemented
 - Sky Regional & Air Georgian have very competitive cost structures
 - Air Canada will continue to add scale to Sky Regional and Air Georgian
- Significant enhancements to Jazz CPA driven by fleet changes and pilot mobility agreement
 - CPA extended to 2025
 - Estimated \$550M in incremental value 2015-2020
 - Competitive cost structure post-2020
 - Incremental aircraft at competitive rates



- 1 International expansion
- 2 Cost reduction and revenue growth
- 3 Customer engagement**
- 4 Culture change



ENGAGING OUR CUSTOMERS

- Investing in products and services, such as the Dreamliner with newly designed cabins and next generation IFE
- Air Canada Altitude™ which recognizes and rewards frequent flyers
- Introducing airport services aimed at higher-yielding customers – dedicated check-in areas, premium agent services
- Implementing a customer relationship management system to gain valuable customer insights
- Improved on-time performance and reliability, improved boarding process and streamlined in-transit processes for connecting passengers
- Improved international connections through major hubs – streamlined in-transit process
- Improved on-board offerings and consistency of service
- Opened 22nd worldwide Maple Leaf Lounge at London Heathrow's new T2 – winner of the "First Class Lounge" design category in the aviation sector of the 2015 International Yacht and Aviation Awards

- 1 International expansion
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4 Culture change



CULTURE CHANGE EMPLOYEE ENGAGEMENT

- Employee surveys demonstrated significant improvements
- Significant increase to profit sharing pool for 2015
- 8% of total issued shares held on employees' accounts
- Multiple 10+ year union agreements reached
- One of "Canada's Top 100 Employers"





UPDATE ON LABOUR RELATIONS

- **ACPA** – union representing 3,000 pilots
 - collective agreement terms for 10 years in effect until September 2024
- **Unifor** – union representing 4,000 customer service and sales agents
 - collective agreement terms for five years in effect until February 2020
- **CUPE** – union representing 7,200 flight attendants
 - collective agreement terms for 10 years in effect until March 2025
- **IAMAW** – union representing 7,500 machinists and aerospace workers
 - collective agreement terms for 10 years in effect until April 2026
- **CALDA** – union representing flight dispatchers
 - collective agreement terms for 12 years in effect until February 2028



AIR CANADA'S FUTURE EXPECTATIONS

AIR CANADA'S UPCOMING MAINTENANCE MAKEOVER HAS SEVERAL KEY ATTRIBUTES

1. Optimize our inventory positions and reduce spares purchase and overall inventory ownership

2. Lock in smooth and predictable maintenance costs

- Where possible, look to longer-term flight-hour deals that minimize T&M costs
- Focus on achieving Service Level Performance Guarantees to reduce exposure to spot market pricing and other mitigation options (loans, borrows, etc.)
- Focus on relatively few suppliers to as to control our internal vendor management costs

3. Infuse risk mitigation into our contracts and behaviors

- Secure contracts that allow risk sharing by AC and Suppliers
- Require full AOG support and services
- Optimize stocking and sparing requirements with Suppliers
- Have Suppliers build to CMM (currently disjointed mod status/configuration)
- Full reliability support and focus, with clear obligations on Suppliers and Air Canada

4. Leverage prevailing market dynamics

- Keep the market competitive between OEM and MRO
- Secure low escalation capped against CPI/materials



EXTERNAL FACTORS

- **Profit margins for the global airline industry are less than 1% according to IATA, the International Air Transport Association.**
 - Maintenance costs are an important growing expense over time

- **This industry, more than any other, deals with numerous external factors over which we have little control, such as:**
 - Fuel costs
 - Airports and their numerous construction projects
 - Weather
 - Evolving international market,
 - Any other “Black Swan” event you can imagine from 9/11 to the SARS epidemics, volcanoes in Iceland, earthquakes in Chile, the well-known “underwear bomber”.



AIR CANADA'S AFTERMARKET VIEW

→ **The dynamics in the aftermarket have shifted dramatically in the past 10 years**

- Through the beginning of the decade significant waves of outsourcing helped develop a robust and significant independent MRO aftermarket, with OEMs being ill-equipped to handle the bow wave of R&O work
- Significant non-OEM providers emerged within both the R&O and material space
- While the majority of material revenue continued to flow to OEMs (directly or indirectly) the emergence of these alternate providers benefited all airlines by creating real and credible alternatives

→ **Over the past 5 years OEMs have concentrated far more attention on the aftermarket, swinging the competitive balance and squeezing 3rd party MROs**

- Long-time OEM rivals have become more aggressive over time
- OEM License agreements limit cost-saving opportunities once provided by independent MROs
- OEMs have been able to deploy effective strategies to minimize impact of PMAs and DERs
- OEMs have captured airline customers directly through long-term agreements at the time of sale

→ **Leading global carriers will shape the future of the aftermarket**

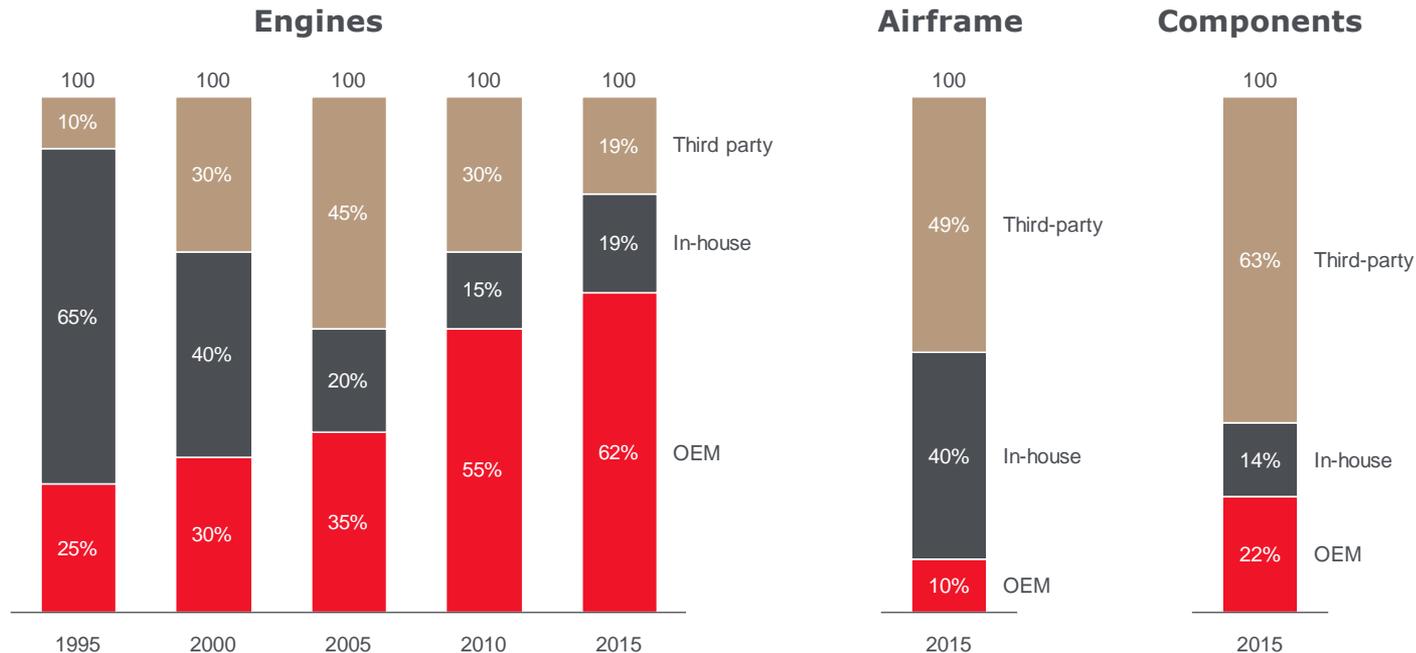
- Air Canada will continue developing and supporting a competitive aftermarket (balance of OEM and non-OEM solutions)



AIR CANADA'S AFTERMARKET VIEW

ENGINE OEMS CONTINUE TO GAIN SHARE FROM OTHER PARTICIPANTS; WHILE OEMS ARE LESS RELEVANT IN AIRFRAME MRO WORK, A SHIFT TOWARD OEMS IS EXPECTED FOR COMPONENTS

MRO market share by provider type
% of annual commercial aftermarket spend



Source: betterinsight™ by Oliver Wyman



AIR CANADA – MRO / DISTRIBUTOR GOING FORWARD

- **Continue to be there, be present in our location**
- **Be innovative and creative**
- **Bring new ideas**
- **Develop different ways to do business**
- **Get my head out of the sand box**
- **Move aggressively up front**
- **Compete and/or be a partner with MROs (aircraft, engines, components,...)**
- **Assume more risk: variation in time on wing, component reparability & reliability, scrap rates, ...**
- **Protect AC against inflation**
- **Do not be shy and do not keep it secret, share what you are doing internally or with others**
- **Be simple and transparent (Ex: agreement, ...)**
- **Keep the relationship at all levels**

**AC NEEDS TO REDUCE COSTS AND IMPROVES PERFORMANCES OVERALL
PARTNER SHALL BE THERE**



CONCLUSION

- ✓ Reported record results, expanded margins, increased adjusted net income, improved ROIC
- ✓ Achieved/exceeded 2013 Investor Day financial targets
- ✓ On track to meet 2016-2018 targets for EBITDAR margin, ROIC and leverage
- ✓ Eliminated pension solvency deficit
- ✓ Engaged employees and an experienced and results-driven management team
- ✓ Focused on value creation
 - Expand earnings through strategic initiatives
 - Stronger balance sheet – reducing net debt/share buyback program

THANK YOU