



AIR CANADA

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Air Canada Pension Funding Arrangements to be Extended with Specific New Conditions Attached

MONTREAL, March 12, 2013 /CNW Telbec/ - Air Canada and the Government of Canada have agreed to an extension of Air Canada's pension funding arrangements to January 30, 2021. After lengthy negotiations the initial Air Canada proposal was strengthened with additional required solvency payments, a shortened term and specific new conditions that will ensure that all employees and executives of Air Canada are part of the solution.

This arrangement comes as a result of the upcoming expiration of the *Air Canada Pension Plan Funding Regulations, 2009* on January 30, 2014. In the current extremely low interest rate environment, Air Canada's pension solvency deficit funding payments would be unsustainable without this extension in place.

According to the agreement reached with the federal government, new regulations will be adopted under the *Pension Benefits Standards Act* in respect of special payments under Air Canada's defined benefit plans to cover the period between 2014 to 2020 inclusive, expiring January 30, 2021. According to the terms of the agreement, subject to the maximum past service contribution permitted under the Income Tax Act for the plan year, Air Canada will make payments of at least \$150 million annually with an average of \$200 million per year over seven years. Over this seven-year period, Air Canada will contribute an aggregate minimum of \$1.4 billion in solvency deficit payments, in addition to its pension current service payments.

During the time the regulations are in force, Air Canada will be subject to a series of covenants and undertakings, including no dividends and share repurchases, certain limitations on executive compensation arrangements and no pension plan benefit improvements without regulatory approval.

Air Canada's Canadian-based unions had previously expressed their support for Air Canada's extension request and the arrangements are subject to successfully concluding a consultation process with Air Canada management and retiree beneficiaries. Air Canada will submit to the Office of the Superintendent of Financial Institutions (OSFI) all communications materials it intends to send to pension plan beneficiaries prior to funding the plans in accordance with the new regulations.

The new funding arrangements will become effective upon the execution of formal documentation and the subsequent adoption of new regulations under the *Pension Benefits Standards Act*, subject to Governor in Council approval.

In July 2009, the Government of Canada adopted the *Air Canada Pension Plan Funding Regulations, 2009*. These regulations established maximum levels of past service contributions (i.e. special payments to amortize the plan solvency deficits) to its ten domestic defined benefit registered pension plans in respect of the period ending January 30, 2014. During this five-year period, including payments required to be made in 2013, Air Canada will have contributed a total of \$1.479 billion in past service contributions and in current service costs.

Air Canada is Canada's largest domestic and international airline serving more than 175 destinations on five continents. Canada's flag carrier is the 15th largest commercial airline in the world and in 2012 served close to 35 million customers. Air Canada provides scheduled passenger service directly to 59 Canadian cities, 55 destinations in the United States and 64 cities in Europe, the Middle East, Asia, Australia, the Caribbean, Mexico and South America. Air Canada is a founding member of Star Alliance, the world's most comprehensive air transportation network serving 1,329 destinations in 194 countries. Air Canada is the only international network carrier in North America to receive a Four-Star ranking according to independent U.K. research firm Skytrax that ranked Air Canada in a worldwide survey of more than 18 million airline passengers as Best International Airline in North America in 2012 for the third consecutive year.

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Air Canada's public communications may include forward-looking statements within the meaning of applicable securities laws. Forward-looking statements, by their nature, are based on assumptions and are subject to important risks and uncertainties. Forward-looking statements cannot be relied upon due to, amongst other things, changing external events and general uncertainties of the business. Actual results may differ materially from results indicated in forward-looking statements due to a number of factors, including without limitation, industry, market, credit and economic conditions, the ability to reduce operating costs and secure financing, pension issues, energy prices, employee and labour relations, currency exchange and interest rates, competition, war, terrorist acts, epidemic diseases, environmental factors (including weather systems and other natural

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SOURCE: AIR CANADA

For further information:

Isabelle Arthur (Montréal) 514 422-5788

Peter Fitzpatrick (Toronto) 416 263-5576

Angela Mah (Vancouver) 604 270-5741

Internet : aircanada.com

A STAR ALLIANCE MEMBER 