



AIR CANADA

[News Releases](#)

Air Canada Provides Update on Response to COVID-19

- Withdraws 2020 and 2021 guidance
- Current liquidity level of \$7.3 billion
- Capacity reduction of 50 percent in the second quarter versus the prior year's quarter

MONTREAL, March 16, 2020 /CNW Telbec/ - Air Canada, along with the rest of the global airline industry, is facing a severe drop in traffic and a corresponding decline in revenue as a result of the coronavirus (COVID-19) outbreak and travel restrictions imposed in many countries around the world, including Canada and the United States. Although the company expects this disruption to be temporary, as the full impact and duration of the outbreak is unknown, Air Canada is withdrawing its previously announced first quarter and full year 2020 guidance as well as its full year 2021 guidance (including its free cash flow guidance for the 2019-2021 period) while it takes steps to mitigate the financial impact on its business.

"COVID-19 presents the global airline industry with unprecedented challenges, compounded by uncertainty as to the extent of its effects. However, we are confident that after a decade of transformation and record results, Air Canada today has the agility, the team and the route network to successfully navigate through this crisis. Most importantly for business continuity, it also has the necessary financial resources, including a solid balance sheet, record liquidity levels, higher debt ratings based on a low leverage ratio, and a significant pension plan surplus. These deep strengths enable us to fully focus our immediate attention on both the safety and well-being of our customers and our employees and on mitigating the financial impact of the virus," said Calin Rovinescu, President and Chief Executive Officer of Air Canada.

"The crisis facing our industry is worsening as countries around the world adopt increasingly severe measures, national lockdowns and travel restrictions. We understand that the governments of the United States and many European countries such as Germany, France, Italy, Norway and others have approved or are considering assistance for their airline industries in one form or another. Under these circumstances, we believe that the Canadian airline industry should also see similar assistance, whether through forbearance of taxes, landing fees and other charges that form part of the aviation burden in Canada or otherwise until the industry stabilizes. Our industry associations have been and will continue to make these representations to governments. However, we are not awaiting any decision on these measures before implementing our mitigation plan as we believe decisive action is the best course to follow.

"At Air Canada, our core value is Safety First, Always - for our employees and for our customers. We rigorously follow the guidance of all relevant health authorities and follow best demonstrated practices in the prevention and handling of communicable diseases in the air travel industry. Additionally, in the last year, we entered a partnership with an independent company that monitors infectious diseases and epidemics globally and provides us with information in real-time to ensure we are equipped to make the best decisions, on a timely basis," concluded Mr. Rovinescu.

Measures in Response to COVID-19

- For the second quarter of 2020, Air Canada expects, on average, system ASM capacity to decline by approximately 50 percent versus the comparable period in 2019, reflecting capacity reductions in all key markets affected by COVID-19 or by travel restrictions. The reduction in capacity in Pacific markets for the month of April is expected to be approximately 75 percent. The company will continue to proactively adjust capacity as required.
- A combination of significantly lower jet fuel prices, the projected cost savings associated with capacity reductions, including workplace reductions and other programs, and a general cost reduction program is expected to mitigate between 50 and 60 percent of the company's total revenue loss for the second quarter of 2020. Air Canada believes that, excluding fuel and depreciation and amortization expenses, approximately 50 percent of its operating expenses are variable in nature. Air Canada has no current outstanding fuel hedge positions.
- To preserve cash, Air Canada is initiating a company-wide cost reduction and capital deferral program, targeting at least \$500 million.
- Air Canada suspended its share repurchase program effective March 2, 2020.
- Air Canada drew down its US\$600 million revolving credit facility. In addition, Air Canada is working with several parties to raise additional liquidity over the next several weeks, which will require pro-rata security from its unencumbered asset pool.

- Air Canada assumes that the Canadian dollar will trade, on average, at C\$1.39 per U.S. dollar for both the second quarter and the remainder of 2020 and that the price of jet fuel will average 47 CAD cents per litre for the second quarter of 2020 and 50 CAD cents per litre for the remainder of 2020.

Liquidity

- Air Canada had cash, cash equivalents, short and long investments of \$7.1 billion at March 13, 2020, which includes the proceeds from the drawdown of the U.S.-based revolving credit facility discussed above. In addition, it has a Canadian \$200 million revolving credit facility which it intends to draw down in the next week.
- Air Canada's unencumbered asset pool (excluding the value of Aeroplan and Air Canada Vacations) amounts to approximately \$5 billion. This includes 89 unencumbered aircraft, representing ASM capacity of approximately 25 percent.
- Air Canada originally projected a capital expenditure program for 2020 of \$2.4 billion which will now decline after the deferrals noted above. This includes purchase commitments for 17 Airbus A220 and six Boeing 737 MAX aircraft totaling approximately \$1.2 billion, which are still expected to be delivered and, subject to satisfactory lending arrangements, financed in 2020. Dependent on the impact of the COVID-19 virus, Air Canada will work with its aircraft partners in exploring the potential deferment of aircraft deliveries.
- Air Canada does not have any material debt maturities in 2020 and is confident all debt covenants, which are loan-to-security value measures in nature, will be met given the excess cushion that currently exists.
- As at January 1, 2020, the aggregate solvency surplus in Air Canada's domestic registered pension plans was \$2.6 billion. Total employer defined benefit pension funding contributions are projected to be \$100 million in 2020 (\$109 million in 2019) and no additional contributions are required as a result of changes in interest rates. Air Canada has a significantly lower exposure to a decrease in interest rates and reduction in market equity values due to its pension risk mitigation strategy and, as a result, it expects to maintain a significant pension solvency surplus in its domestic registered pension plans for the year.

Air Canada recently amended its 2013 order originally placed with Boeing for 61 Boeing 737 MAX aircraft, reducing its initial order by 11 Boeing 737 MAX 9 aircraft previously scheduled for delivery in 2023 and 2024. This amendment reflects the company's evolving and long-term fleet planning requirements, and Air Canada intends to backfill this capacity. Air Canada currently has 24 Boeing 737 MAX 8 aircraft in its fleet and has firm orders for 26 more Boeing 737 MAX 8 aircraft.

In its news release dated February 18, 2020, Air Canada disclosed that it was in discussions with Boeing to settle the terms of an arrangement in relation to the grounding of the Boeing 737 MAX aircraft. These discussions have now concluded, however, as the terms of the arrangement are subject to confidentiality restrictions, Air Canada will not be disclosing its terms.

CAUTION REGARDING FORWARD-LOOKING INFORMATION

This news release includes forward-looking statements within the meaning of applicable securities laws. Forward-looking statements relate to analyses and other information that are based on forecasts of future results and estimates of amounts not yet determinable. These statements may involve, but are not limited to, comments relating to guidance, strategies, expectations, planned operations or future actions. Forward-looking statements are identified using terms and phrases such as "preliminary", "anticipate", "believe", "could", "estimate", "expect", "intend", "may", "plan", "predict", "project", "will", "would", and similar terms and phrases, including references to assumptions.

Forward-looking statements, by their nature, are based on assumptions, including those described herein 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, our ability to successfully achieve or sustain positive net profitability, economic and geopolitical conditions, the timing and conditions of the return to service of Boeing 737 MAX aircraft in our fleet (including the introduction of those on order and the management of our fleet and operations until their return to service or introduction), epidemic diseases such as COVID-19 and their effects on economic conditions and travel demand, industry and market conditions and the demand environment, competition, energy prices, our dependence on technology, our ability to successfully implement appropriate strategic and other important initiatives (including our ability to reduce operating costs), cybersecurity risks, war, terrorist acts, our dependence on key suppliers, casualty losses, changes in laws, regulatory developments or proceedings, our ability to successfully launch and operate our new loyalty program, climate change and environmental factors (including weather systems and other natural phenomena and factors arising from man-made sources), interruptions of service, our dependence on regional and other carriers, our ability to preserve and grow our brand, employee and labour relations and costs, our dependence on Star Alliance and joint ventures, limitations due to restrictive covenants, our ability to pay our indebtedness and maintain liquidity, pending and future litigation and actions by third parties, currency exchange, pension plans, our ability to attract and retain required personnel, insurance issues and costs, as well as the factors identified in Air Canada's public disclosure file available at www.sedar.com and, in particular, those identified in section 20 "Risk Factors" of Air Canada's 2019 MD&A. Furthermore, the acquisition of Transat A.T. Inc. is subject to regulatory approvals

and certain customary conditions, and there are no assurances that the acquisition will be completed as described in Air Canada's 2019 MD&A or at all. The forward-looking statements contained or incorporated by reference in this news release represent Air Canada's expectations as of the date of this news release (or as of the date they are otherwise stated to be made) and are subject to change after such date. However, Air Canada disclaims any intention or obligation to update or revise any forward-looking statements whether because of new information, future events or otherwise, except as required under applicable securities regulations.

About Air Canada

Air Canada is Canada's largest domestic and international airline and, in 2019, served nearly 220 airports on six continents. Canada's flag carrier is among the 20 largest airlines in the world and in 2019 served over 51 million customers. In 2019, Air Canada provided scheduled passenger service directly to 62 airports in Canada, 53 in the United States and 101 in Europe, the Middle East, Africa, Asia, Australia, the Caribbean, Mexico, Central America and South America. Air Canada is a founding member of Star Alliance, the world's most comprehensive air transportation network and, in 2019, served more than 1,300 airports in 195 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, which also named Air Canada the 2019 Best Airline in North America. For more information, please visit: aircanada.com/media, follow @AirCanada on [Twitter](#) and join Air Canada on [Facebook](#).

Internet: aircanada.com/media

SOURCE Air Canada

For further information: media@aircanada.ca

A STAR ALLIANCE MEMBER

