



# AIR CANADA

[News Releases](#)

## **AIR CANADA REPORTS 2010 THIRD QUARTER RESULTS; Operating Income improved \$259 million or 381 per cent from previous year's quarter**

MONTREAL, Nov. 4 /CNW Telbec/ - Air Canada today reported operating income of \$327 million in the third quarter of 2010 compared to operating income of \$68 million in the third quarter of 2009, an improvement of \$259 million or 381 per cent. Earnings before interest, taxes, depreciation, amortization and aircraft rent (EBITDAR) of \$581 million increased \$261 million or 82 per cent from the third quarter of 2009.

"I am pleased to report very strong results for the third quarter," said Calin Rovinescu, President and Chief Executive Officer. "This progress is evidence that our revenue generation initiatives are working, and the cost transformation of Air Canada is on track. Moreover, we ended the quarter with a strong liquidity position of approximately \$2.2 billion, exceeding previously stated target levels."

Passenger revenues increased \$322 million or 13 per cent from the third quarter of 2009 due to a 9.7 per cent growth in traffic and a 3.2 per cent improvement in yield. The capacity growth of 8.2 per cent in the third quarter of 2010 is consistent with one of Air Canada's key priorities of growing its international network and leveraging its Toronto and other Canadian hubs as global transfer points for travelers en route to domestic, U.S. transborder and international destinations. The capacity growth in the quarter was accomplished entirely through increased aircraft utilization.

Premium cabin revenue growth of \$107 million, or almost 26 per cent in the third quarter of 2010, was driven by a 14 per cent increase in traffic and a 10 per cent improvement in yield compared to the previous year's quarter.

"Premium cabin revenues in the quarter accounted for almost one third of the total increase in system passenger revenues, underscoring Air Canada's strong position to capitalize on a rebound in business travel as the economy strengthens," continued Mr. Rovinescu. "Our investment in the product and our employees' commitment to deliver a superior service are paying off - 71 per cent of Canadian business travellers surveyed by Ipsos Reid in their 2010 Canadian Business Travel Study named Air Canada as their preferred airline, the third consecutive year of improvement in Air Canada's ratings. This, together with being selected as 2010's 'Best Airline in North America' in the Skytrax survey of 17 million passengers, helped us to achieve these strong quarterly results. I thank our employees whose hard work is paying off as we continue to meet the corporation's objectives and deliver award winning products and service that we can all be proud of."

"New international routes performed well, as we pursued new market opportunities in the quarter by deploying our existing fleet more efficiently and leveraging our Canadian hubs and strategic alliance partnerships to further strengthen our global network," concluded Mr. Rovinescu.

Passenger revenue per available seat mile ("RASM") increased 4.7 per cent from the third quarter of 2009 on yield growth of 3.2 per cent and a passenger load factor improvement of 1.2 percentage points. A stronger Canadian dollar in the third quarter of 2010 versus the third quarter of 2009 accounted for a decrease of \$98 million to third quarter 2010 foreign currency passenger revenues, on a system-wide basis, and reduced the RASM improvement by 3.8 percentage points. Excluding the foreign exchange impact, RASM would have increased 8.5 per cent year-over-year.

Operating expenses increased \$97 million or 4 per cent from the third quarter of 2009, mainly due to the capacity growth of 8.2 per cent, higher base fuel prices, as well as increases in pension and commission expenses. Partially offsetting these increases was the impact of a stronger Canadian dollar on foreign currencies compared to the third quarter of 2009, which reduced operating expenses by approximately \$70 million from the same period in 2009, as well as a reduction in aircraft maintenance expense year-over-year. Cost Transformation Program ("CTP") initiatives also reduced various operating expense categories, including wages and salaries, capacity purchase fees paid to Jazz, food, beverage and supplies, airport user fees, information technology, terminal handling and "other" operating expenses.

Unit cost, as measured by operating expense per available seat mile ("CASM"), decreased 4.1 per cent compared to the third quarter of 2009. Excluding fuel expense, CASM decreased 5.3 per cent year-over-year. The favourable impact of a stronger Canadian dollar on foreign currency denominated operating expenses (mainly U.S. dollars), the capacity growth, which results in the airline's fixed costs being allocated over a greater number of ASMs, the impact of CTP initiatives, as well as increases in aircraft utilization and average stage length from the third quarter of 2009 were all contributing factors to the CASM decrease

year-over-year.

Air Canada reported net income of \$261 million in the third quarter of 2010 which included foreign exchange gains of \$90 million. This compared to net income of \$277 million in the third quarter of 2009 which included gains on foreign exchange of \$295 million.

Air Canada reported earnings per diluted share of \$0.91 in the third quarter of 2010 on an unadjusted basis. The airline reported earnings per diluted share, on an adjusted basis, of \$0.64 in the third quarter of 2010 compared to a loss per diluted share, on an adjusted basis, of \$0.19 in the third quarter of 2009. Earnings per diluted share for the third quarter of 2010 are adjusted to remove Air Canada's gains on foreign exchange of \$90 million and a gain on assets of \$2 million. The loss per diluted share for the third quarter of 2009 is adjusted to remove Air Canada's gains on foreign exchange of \$295 million and a gain on assets of \$1 million.

At September 30, 2010, Air Canada's cash, cash equivalents and short-term investments amounted to \$2.173 billion and represented almost 21 per cent of 12-month trailing operating revenues. At October 31, 2010, Air Canada's cash, cash equivalents and short-term investments amounted to approximately \$2.3 billion.

#### Current Outlook

Air Canada plans to increase its full year 2010 system capacity, as measured by available seat miles ("ASMs"), by 6.5 to 7.0 per cent and plans to increase full year 2010 domestic ASM capacity by up to 1.0 per cent, from the full year 2009 levels. This capacity increase is expected to be achieved without adding incremental aircraft to Air Canada's fleet, but through increased utilization of the fleet. Air Canada expects its full year 2010 CASM, excluding fuel expense, to decrease from the full year 2009 level by 4.0 to 4.5 per cent.

For the fourth quarter of 2010, Air Canada plans to increase its system ASM capacity by 7.0 to 8.0 per cent compared to the fourth quarter of 2009 and expects CASM, excluding fuel expense, to decrease from the fourth quarter of 2009 level by 2.5 to 3.5 per cent.

Air Canada, United Continental Holdings, Inc. ("United Airlines") and Lufthansa expect to finalize their transatlantic joint venture, referred to as A++, by the end of this year, at which point the revenue share structure would also be implemented with retroactive effect as of January 1, 2010. Once finalized, future adjustments tied to the Corporation's performance in this joint venture will be recorded in passenger revenues. The revenue share impact is not yet determinable.

In mid-2009, Air Canada launched the CTP, identifying and implementing initiatives with a goal of generating annualized revenue gains and cost savings, including through contract and operating process improvements and productivity gains. To date, Air Canada has achieved, on a run-rate basis, its \$300 million CTP target for 2010 and \$350 million of its overall \$530 million CTP target for the end of 2011. Air Canada views the CTP as one of its most important priorities.

Air Canada's outlook assumes that the North American economy will continue to slowly recover in 2010. In addition, Air Canada expects that the Canadian dollar will trade, on average, at C\$1.03 per U.S. dollar in the fourth quarter of 2010 and C\$1.04 per U.S. dollar for the full year 2010 and that the price of fuel will average 70 cents per litre for the fourth quarter of 2010 and for the full year 2010 (both net of fuel hedging positions).

The following table summarizes Air Canada's above-mentioned ASM and CASM outlook and related major assumptions for the fourth quarter of 2010 and for the full year 2010:

	Fourth Quarter 2010 versus Fourth Quarter 2009	Full Year 2010 versus Full Year 2009
Current Outlook		
Available seat miles (System)	increase 7.0 to 8.0%	increase 6.5 to 7.0%
Available seat miles (Canada)		increase up to 1.0%
CASM, excluding fuel expense	decrease 2.5 to 3.5%	decrease 4.0 to 4.5%
Major Assumptions		
Canadian dollar per U.S. dollar	1.03	1.04
Fuel price - Cents per litre (net of fuel hedging)	70 cents	70 cents
North American economy	continued slow recovery	continued slow recovery

The outlook provided constitutes forward-looking statements within the meaning of applicable securities laws and is based on a

number of assumptions and subject to a number of risks. Please see section below entitled "Caution Regarding Forward-Looking Information."

#### (1) Non-GAAP Measures

Air Canada uses adjusted earnings (loss) per diluted share to assess share performance without the effects of foreign exchange gains (losses). This measure is not a recognized measure for financial statement presentation under Canadian GAAP and does not have a standardized meaning and is therefore not likely to be comparable to similar measures presented by other public companies.

EBITDAR is a non-GAAP financial measure commonly used in the airline industry to assess earnings before interest, taxes, depreciation, amortization and aircraft rent. EBITDAR is used to view operating results before aircraft rent, depreciation and amortization as these costs can vary significantly among airlines due to differences in the way airlines finance their aircraft and other assets. EBITDAR is not a recognized measure for financial statement presentation under GAAP and does not have a standardized meaning and is therefore not comparable to similar measures presented by other public companies.

Air Canada's Interim Unaudited Consolidated Financial Statements and Notes and its Management's Discussion and Analysis (MD&A) for the third quarter of 2010 are available on Air Canada's website at [aircanada.com](http://aircanada.com), and will be filed on SEDAR at [www.sedar.com](http://www.sedar.com). Readers should refer to Air Canada's Third Quarter 2010 MD&A for a reconciliation of EBITDAR to operating income (loss).

For further information on Air Canada's public disclosure file, including Air Canada's Annual Information Form dated March 26, 2010, refer to Air Canada's website at [aircanada.com](http://aircanada.com) or consult SEDAR at [www.sedar.com](http://www.sedar.com).

#### CAUTION REGARDING FORWARD-LOOKING INFORMATION

This press 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 preliminary results, guidance, strategies, expectations, planned operations or future actions. Forward-looking statements are identified by the use of 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, industry, market, credit and economic conditions, the ability to reduce operating costs and secure financing, pension issues, energy prices, currency exchange and interest rates, employee and labour relations, competition, war, terrorist acts, epidemic diseases, environmental factors (including weather systems and other natural phenomena, such as volcanic eruptions, and factors arising from man-made sources), insurance issues and costs, changes in demand due to the seasonal nature of the business, supply issues, changes in laws, regulatory developments or proceedings, pending and future litigation and actions by third parties as well as the factors identified throughout this news release and those identified in section 13 "Risk Factors" of Air Canada's Third Quarter MD&A and section 19 "Risk Factors" of Air Canada's 2009 MD&A. The forward-looking statements contained 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 as a result of new information, future events or otherwise, except as required under applicable securities regulations.

#### Highlights

The financial and operating highlights for Air Canada for the periods indicated are as follows.

	Third Quarter		
	2010	2009	Change \$
Financial			
Operating revenues	3,026	2,670	356
Operating income (loss)	327	68	259

Non-operating expense	(75)	(83)	8
Income (loss) before non-controlling interest, foreign exchange and income taxes	252	(15)	267
Income (loss) for the period	261	277	(16)
Operating margin %	10.8%	2.5%	8.3 pp
EBITDAR(1)	581	320	261
EBITDAR margin %(1)	19.2%	12.0%	7.2 pp
Cash, cash equivalents and short-term investments	2,173	1,209	964
Free cash flow(2)	112	(268)	380
Adjusted debt to debt plus equity ratio %(3)	77.1%	84.7%	(7.6) pp
Earnings (loss) per share - Basic	\$0.94	\$2.77	(\$1.83)
Earnings (loss) per share - Diluted	\$0.91	\$2.44	(\$1.53)

Operating Statistics	Change %		
Revenue passenger miles (millions) (RPM)	15,531	14,153	9.7
Available seat miles (millions) (ASM)	18,328	16,946	8.2
Passenger load factor %	84.7%	83.5%	1.2 pp
Passenger revenue per RPM (cents)	17.4	16.9	3.2
Passenger revenue per ASM (cents)	14.8	14.1	4.7
Operating revenue per ASM (cents)	16.5	15.8	4.7
Operating expense per ASM ("CASM") (cents)	14.7	15.4	(4.1)
CASM, excluding fuel expense (cents)	10.7	11.3	(5.3)
Average number of full-time equivalent (FTE) employees (thousands)(4)	23.5	23.2	1.3
Aircraft in operating fleet at period end(5)	326	335	(2.7)
Average fleet utilization (hours per day)(6)	10.7	9.9	8.6
Revenue frequencies (thousands)	145	140	3.6
Average aircraft flight length (miles)(6)	909	883	2.9
Fuel price per litre (cents)(7)	66.9	68.6	(2.5)
Fuel litres (millions)	1,089	988	10.2

First Nine Months			
	2010	2009	Change \$
Financial			
Operating revenues	8,170	7,391	779
Operating income (loss)	276	(233)	509
Non-operating expense	(297)	(272)	(25)
Income (loss) before non-controlling interest, foreign exchange and income taxes	(21)	(505)	484
Income (loss) for the period	(27)	32	(59)
Operating margin %	3.4%	(3.2)%	6.6 pp
EBITDAR(1)	1,052	512	540
EBITDAR margin %(1)	12.9%	6.9%	6.0 pp
Cash, cash equivalents and short-term investments	2,173	1,209	964

Free cash flow(2)	624	(347)	971
Adjusted debt to debt plus equity ratio %(3)	77.1%	84.7%	(7.6) pp
Earnings (loss) per share - Basic	(\$0.10)	\$0.32	(\$0.42)
Earnings (loss) per share - Diluted	(\$0.10)	\$0.30	(\$0.40)
Operating Statistics			
	Change %		
Revenue passenger miles (millions) (RPM)	40,119	36,999	8.4
Available seat miles (millions) (ASM)	48,578	45,502	6.8
Passenger load factor %	82.6%	81.3%	1.3 pp
Passenger revenue per RPM (cents)	17.7	17.4	1.6
Passenger revenue per ASM (cents)	14.6	14.2	3.2
Operating revenue per ASM (cents)	16.8	16.2	3.5
Operating expense per ASM ("CASM") (cents)	16.2	16.8	(3.0)
CASM, excluding fuel expense (cents)	12.1	12.7	(4.6)
Average number of full-time equivalent (FTE) employees (thousands)(4)	23.2	23.1	0.5
Aircraft in operating fleet at period end(5)	326	335	(2.7)
Average fleet utilization (hours per day)(6)	10.0	9.4	5.7
Revenue frequencies (thousands)	406	399	1.8
Average aircraft flight length (miles)(6)	874	854	2.3
Fuel price per litre (cents)(7)	69.4	68.4	1.5
Fuel litres (millions)	2,885	2,685	7.4

- (1) EBITDAR (earnings before interest, taxes, depreciation and amortization, and aircraft rent) is a non-GAAP financial measure. See section 15 "Non-GAAP Financial Measures" of Air Canada's Third Quarter 2010 MD&A for a reconciliation of EBITDAR to operating income (loss).
- (2) Free cash flow (cash flows from (used for) operating activities plus additions to capital assets) is a non-GAAP financial measure. See section 7.5 of Air Canada's Third Quarter 2010 MD&A for additional information.
- (3) Adjusted net debt (total debt less cash, cash equivalents and short-term investments plus capitalized operating leases) is a non-GAAP financial measure. See section 7.2 of Air Canada's Third Quarter 2010 MD&A for additional information.
- (4) Reflects FTE employees at Air Canada. Excludes FTE employees at Jazz and other third party carriers operating under capacity purchase agreements with Air Canada.
- (5) Includes Jazz aircraft covered under the Jazz CPA.
- (6) Excludes charter operations. Also excludes third party carriers operating under capacity purchase arrangements, other than Jazz aircraft covered under the Jazz CPA.
- (7) Includes fuel handling and is net of fuel hedging results.

%SEDAR: 00001324EF

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 