News Releases

Air Canada reports 2009 fourth quarter and full year results; Liquidity strengthened, Fourth quarter operating losses narrowed, Customer satisfaction improvements achieved

MONTREAL, Feb. 10 /CNW Telbec/ - Air Canada today reported a reduced operating loss of $83 million in the fourth quarter of 2009 compared to an operating loss of $146 million in the fourth quarter of 2008, an improvement of $63 million. While the fourth quarter continued to reflect a challenging revenue environment, Air Canada's year over year declines in passenger and cargo revenues showed a more favourable trend than what was experienced in the first three quarters of 2009. Earnings before interest, taxes, depreciation, amortization and aircraft rent (EBITDAR) of $167 million increased $59 million from the same quarter in 2008.

Air Canada reported a net loss of $56 million in the fourth quarter of 2009 which included gains on foreign exchange of $108 million. This compared to a net loss of $727 million in the fourth quarter of 2008 which included losses on foreign exchange of $527 million.

Passenger revenues of $2.03 billion in the fourth quarter of 2009 decreased $152 million or 7 per cent from the fourth quarter of 2008. The passenger revenue decline was due to a yield decrease of 7.3 per cent driven by the weak economy, greater fare discounting to stimulate traffic and reduced fuel surcharges year over year. Premium cabin yield declined 7.2 per cent from the fourth quarter of 2008. In the fourth quarter of 2009, traffic increased 0.4 per cent on a 2.0 per cent growth in capacity, resulting in a passenger load factor decrease of 1.3 percentage points compared to the same quarter in 2008. System revenue per available seat mile (RASM) decreased 8.8 per cent from the fourth quarter of 2008 largely due to the yield decline but also to the decrease in passenger load factor.

Operating expenses declined $213 million or 8 per cent from the fourth quarter of 2008, with lower fuel prices and favourable foreign exchange being the main contributing factors in the year-over-year decrease. The value of the Canadian dollar versus the U.S. dollar was stronger in the fourth quarter of 2009 compared to the same quarter in 2008, contributing $105 million to the reduction of operating expenses compared to the fourth quarter of 2008.

Unit cost, as measured by operating expense per available seat mile (CASM), decreased 9.8 per cent compared to the fourth quarter of 2008. Excluding fuel expense, CASM decreased 3.2 per cent year-over-year. The main contributing factors in the CASM decrease (excluding fuel expense) were the favourable impact of foreign exchange and lower wages, salaries and benefits expense. Partly offsetting these decreases was a year over year increase in aircraft maintenance expense, primarily driven by timing of airframe and engine events in the fourth quarter of 2009 compared to the same quarter in 2008. The 3.2 per cent decrease in CASM (excluding fuel expense) for the fourth quarter of 2009 was in line with the 3.0 to 4.0 per cent CASM (excluding fuel expense) decrease projected in Air Canada's news release dated November 6, 2009.

Air Canada reported a loss per diluted share of $0.25 in the fourth quarter of 2009 on an unadjusted basis. On an adjusted basis, the airline reported a loss per share (diluted) in the fourth quarter of 2009 of $0.62. Loss per share is adjusted to remove Air Canada's gains on foreign exchange of $108 million and a loss on assets of $25 million in the fourth quarter of 2009.

For fiscal 2009, Air Canada reported an operating loss of $316 million compared to an operating loss (before the provision for cargo investigations and proceedings) of $39 million in 2008. EBITDAR amounted to $679 million, a decrease of $255 million from 2008. Passenger revenues of $8.50 billion decreased $1.21 billion or 12 per cent year over year. Operating expenses of $10.06 billion decreased $1.07 billion or 10 per cent, including a fuel expense decrease of $971 million or 28 per cent, from 2008. CASM decreased 5.4 per cent while CASM, excluding fuel expense, increased 3.3 percent. The unfavourable impact of a weaker average Canadian dollar versus the U.S. dollar in 2009 versus 2008 accounted for approximately 40 per cent of the CASM (excluding fuel expense) increase year over year. The 3.3 per cent increase in CASM (excluding fuel expense) for 2009 was in line with the 3.0 to 3.5 per cent CASM (excluding fuel expense) increase projected in Air Canada's news release dated November 6, 2009.

For fiscal 2009, Air Canada recorded a net loss of $24 million or $0.18 per diluted share compared to a net loss of $1.03 billion or $10.25 per diluted share in 2008. The net loss in 2009 included gains on foreign exchange of $657 million while the net loss in 2008 included losses on foreign exchange of $655 million and a provision for cargo investigations and proceedings of $125 million.

At December 31, 2009, Air Canada's cash, cash equivalents and short-term investments amounted to $1.41 billion.

Air Canada has entered into arrangements with a group of lenders to obtain an aggregate $100 million increase to the $600 million secured term credit facility completed in July 2009 (the "Credit Facility"). Funding is expected to occur by no later than February 16, 2010.

"Over the past year we have overcome tremendous challenges to begin 2010 with satisfactory liquidity, reduced unit costs and measurable customer satisfaction improvements," said Calin Rovinescu, President and Chief Executive Officer. "We are now in a stronger position to manage through what is expected to be a slow start to the recovery for the sector. As I have said previously, airlines, especially those focused on the business traveller, are the first to be affected by recessionary conditions, and the last to recover as they wait for other sectors to fully resume business-related travel.

"In 2009, Air Canada outperformed the majority of North American carriers by recording one of the smallest reductions in full year unit revenue compared to 2008, despite the most difficult economic environment in decades. Through effective capacity management and the introduction of various initiatives to stimulate traffic and re-engage customers, we recorded strong load factors throughout the year.

"One of our key objectives is delivering a solid and sustainable unit cost performance and improving unit revenue and cost productivity. Mid year 2009, we launched our company-wide Cost Transformation Program (CTP) which targeted $50 million in annual savings and cost reduction benefits for 2009, $250 million for 2010 and the full $500 million by the end of 2011 on a run-rate basis. We are encouraged to have surpassed our 2009 CTP target by $20 million and remain on track to realize or exceed the 2010 and 2011 targets.

"The achievements of the past year to stabilize the company have allowed us to renew our focus on transforming costs and generating new revenue. We will also continue to leverage our international network and partnerships as we pursue opportunities for strategic international growth. Going forward, we remain intently focused on these key priorities as we work to foster a culture that empowers employees to re-engage customers. Improved year-over-year customer satisfaction metrics and the very significant recent industry awards based on customer feedback indicate we are on the right track. I want to personally thank and congratulate our talented and hard working employees - the people of Air Canada - for delivering the Best Airline in North America for our customers in 2009 despite the adversity we faced."

The Corporation also announced the appointment of the Honourable Roy Romanow to the Air Canada Board of Directors. His appointment was approved by the Board yesterday, effective immediately, following his nomination by Air Canada's Canadian-based unions pursuant to pension funding agreements previously reached with them.

"I very much look forward to working with Roy Romanow on our Board of Directors," said Mr. Rovinescu. "The breadth of his knowledge and experience will be extremely valuable as we move to implement our strategy to build a stronger and sustainable Air Canada, creating value for the benefit of our stakeholders."

Mr. Romanow served as Premier of Saskatchewan from 1991 until 2001. He subsequently led the Royal Commission on the Future of Health Care in Canada. In 2003, Mr. Romanow was appointed to the Privy Council of Canada. He is currently a director on the board of Torstar Corporation.

Current Outlook

Air Canada plans to increase its full year 2010 system capacity, as measured in available seat miles (ASMs), by 4 to 6 per cent from the full year 2009 level. Full year 2010 domestic ASM capacity is expected to increase by 1.5 to 2.5 per cent compared to the full year 2009. For the first quarter of 2010, Air Canada plans to increase its system ASM capacity by 5.5 to 6.5 per cent compared to the first quarter 2009.

Air Canada expects its full year 2010 CASM, excluding fuel expense, to decrease from the full year 2009 level by 2 to 4 per cent. For the first quarter of 2010, Air Canada expects CASM, excluding fuel expense, to decrease from the first quarter of 2009 level by 3.5 to 4.5 per cent.

In the second quarter of 2009, Air Canada launched a company-wide Cost Transformation Program (CTP) that is targeting $500 million in annual revenue enhancements and cost reduction initiatives. The initiatives relate to cost savings from contract improvements (representing $170 million), operational process and productivity improvements (representing $215 million) and revenue optimization (representing $115 million). Air Canada surpassed its previously announced target for 2009 by $20 million. In addition, Air Canada has increased its CTP target for 2010 from $250 million to $270 million and continues to be on track to achieve benefits of $500 million by the end of 2011, on a run-rate basis. As of the date of this news release $223 million of the $270 million target for 2010 and $256 million of the $500 million target by the end of 2011, on a run-rate basis, have been achieved.

In 2010, aircraft rent and depreciation and amortization expense is projected to increase by $40 to $50 million compared to 2009. This increase is largely driven by a decrease in residual values of certain aircraft and the resultant unfavourable impact on depreciation expense. Pension expense, which is a non-cash charge, is projected to increase by approximately $100 million, subject to change based on the finalization of the January 1, 2010 actuarial valuation to be completed in the first half of 2010 and certain other factors that have not yet been determined.

The above guidance reflects Air Canada's expectation that the North American economy will start to slowly recover in 2010. In addition, Air Canada expects that the Canadian dollar will trade, on average, at C$1.06 per U.S. dollar in the first quarter of 2010 and C$1.04 per U.S. dollar for the full year 2010 and that the price of fuel will average 69 cents per litre in the first quarter of 2010 and for the full year 2010 (both net of fuel hedging positions). The above guidance on 2010 pension expense is based on the assumptions used to determine Air Canada's Canadian GAAP pension expense, including those assumptions related to market interest rates, management's best estimates of expected plan investment performance, salary escalation and retirement ages.

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."

2009 Accomplishments

- Concluded agreements with the five unions representing all Canadian-based employees for a 21-month pension deficit funding moratorium and collective agreement extensions on a cost neutral basis.

- Received federal government regulatory approval for amendments to the airline's pension funding rules following ratification of pension funding agreements by the membership of all five unions and successfully concluded a consultation process with retirees and all non-unionized employees for these same pension funding arrangements.

- Contributed $389 million to fund Air Canada employees' defined benefit pension plans.

- Paid out $29 million to Air Canada employees under the Corporation's 'Sharing Our Success' monthly incentive program.

- Raised $1.02 billion in new liquidity through a series of financings and other transactions with certain lenders and key stakeholders.

- Finalized an agreement amending the terms of its capacity purchase agreement with Jazz which provides Air Canada with significantly reduced purchase costs for the Jazz network feed over the terms of the contract.

- Amended credit card processing agreements with one of Air Canada's principal credit card processors on favourable terms.

- Completed a public common share offering for net proceeds of $249 million.

- Introduced a series of customer-focused initiatives: added 250,000 seats for redemption of reward travel by Aeroplan members; eliminated call centre fees; and introduced a Lowest Fare Guarantee, a first in the Canadian airline industry.

- In 2009 readership surveys, voted by the readers of Business Traveler magazine as the top airline in North America for Best Flight Attendants, Best In-Flight Services, Best Business Class Service and as Best North American Airline for International Travel, and voted by the readers of Global Traveler magazine as the Best Airline in North America and Canada.

- Launched the first iPhone and Blackberry mobile applications for a North American airline, in tandem with expanded access and continued enhancements of web and mobile self service features. 56 per cent of Air Canada's customers used self-service check-in products world wide in 2009.

- Welcomed Continental Airlines as a new Star Alliance partner, providing Air Canada customers with new travel options throughout Continental's network in the eastern United States and Central America, expanded Aeroplan benefits, and new revenue stream opportunities for the airline.

- Received approval from the U.S. Department of Transportation (DOT) for the formation of a transatlantic alliance among Air Canada, Continental Airlines, Lufthansa and United Airlines. The DOT granted antitrust immunity to the four carriers that allows them to develop an integrated joint venture, referred to as "A++", and strengthen their transatlantic network creating new options and benefits for customers.

(1) Non-GAAP Measures

Air Canada uses adjusted earnings (loss) per 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.

Readers should refer to Air Canada's 2009 Management's Discussion and Analysis (MD&A), which will be filed on SEDAR, and made available on Air Canada's website at www.aircanada.com, 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 28, 2009, consult SEDAR at www.sedar.com or Air Canada's website at www.aircanada.com.

CAUTION REGARDING FORWARD-LOOKING INFORMATION

Air Canada's public communications may include written or oral forward-looking statements within the meaning of applicable securities laws. Such statements are included in this press release and may be included in other communications, including filings with regulatory authorities and securities regulators. 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 strategies, expectations, planned operations or future actions. Forward-looking statements are identified by the use of terms and phrases such as "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, 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 press release and, in particular, those identified in section 19 "Risk Factors" of Air Canada's 2009 MD&A dated February 10, 2010. The forward-looking statements contained in this press release represent Air Canada's expectations as of the date of this press release 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.

Assumptions were made by Air Canada in preparing and making forward-looking statements. Air Canada assumes that the North American economy will start to slowly recover in 2010. In addition, Air Canada expects that the Canadian dollar will trade, on average, at C$1.06 per U.S. dollar in the first quarter of 2010 and C$1.04 per U.S. dollar for the full year 2010 and that the price of fuel will average 69 cents per litre in the first quarter of 2010 and for the full year 2010 (both net of fuel hedging positions).

Highlights

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

(Canadian dollars in millions except per share figures)	Fourth Quarter 2009	Fourth Quarter 2008	Change $	Full Year 2009	Full Year 2008(1)	Change $
Financial						
Operating revenues	2,348	2,498	(150)	9,739	11,082	(1,343)

Operating loss before a special provision(1)	(83)	(146)	63	(316)	(39)	(277)
Operating loss	(83)	(146)	63	(316)	(164)	(152)
Non-operating expense	(83)	(44)	(39)	(355)	(170)	(185)
Loss before non-controlling interest, foreign exchange and income taxes	(166)	(190)	24	(671)	(334)	(337)
Loss for the period	(56)	(727)	671	(24)	(1,025)	1,001
Operating margin before a special pro-vision %(1)	-3.5%	-5.8%	2.3 pp	-3.2%	-0.4%	(2.8)pp
Operating margin %	-3.5%	-5.8%	2.3 pp	-3.2%	-1.5%	(1.7)pp
EBITDAR before a special pro-vision(1)(2)	167	108	59	679	934	(255)
EBITDAR(2)	167	108	59	679	809	(130)
EBITDAR margin before a special pro-vision %(1)(2)	7.1%	4.3%	2.8 pp	7.0%	8.4%	(1.4)pp
EBITDAR margin %(2)	7.1%	4.3%	2.8 pp	7.0%	7.3%	(0.3)pp
Cash, cash equivalents and short-term investments	1,407	1,005	402	1,407	1,005	402
Free cash flow	(52)	(428)	376	(399)	(985)	586
Adjusted debt/equity ratio %	80.1%	89.6%	(9.5)pp	80.1%	89.6%	(9.5)pp
Loss per share - Basic and diluted	($0.25)	($7.27)	$7.02	($0.18)	($10.25)	$10.07

Operating Statistics			Change %			Change %
Revenue passenger miles (millions) (RPM)	10,885	10,845	0.4	47,884	50,519	(5.2)
Available seat miles (millions) (ASM)	13,841	13,571	2.0	59,343	62,074	(4.4)
Passenger load factor %	78.6%	79.9%	(1.3)pp	80.7%	81.4%	(0.7)pp
Passenger revenue per RPM (cents)	18.6	20.1	(7.3)	17.7	19.2	(7.6)
Passenger revenue						

per ASM (cents)	14.6	16.0	(8.8)	14.3	15.6	(8.4)
Operating revenue per ASM (cents)	17.0	18.4	(7.8)	16.4	17.9	(8.1)
Operating expense per ASM ("CASM") (cents)	17.6	19.5	(9.8)	16.9	17.9	(5.4)
CASM, excluding fuel expense (cents)	13.2	13.6	(3.2)	12.8	12.4	3.3
Average number of full-time equivalent (FTE) employees (thousands)(3)	22.5	23.6	(4.8)	22.9	24.2	(5.3)
Aircraft in operating fleet at period end(4)	332	333	(0.3)	332	333	(0.3)
Average fleet utilization (hours per day)(5)	8.6	8.8	(2.3)	9.2	9.6	(4.2)
Average aircraft flight length (miles)(5)	823	827	(0.5)	847	863	(1.9)
Fuel price per litre (cents)(6)	72.6	95.8	(24.2)	69.4	90.4	(23.2)
Fuel litres (millions)	825	822	0.4	3,510	3,763	(6.7)

(1) A provision related to investigations and proceedings related to alleged anti-competitive cargo pricing activities of $125 million was recorded in the first quarter of 2008.
(2) See section 21 "Non-GAAP Financial Measures" in Air Canada's 2009 MD&A for a reconciliation of EBITDAR before the provision for cargo investigations and proceedings to operating income (loss) and EBITDAR to operating income (loss).
(3) Reflects FTE employees at Air Canada. Excludes FTE employees at Jazz.
(4) Includes Jazz aircraft covered under the Jazz CPA.
(5) Excludes charter operations. Also excludes third party carriers operating under capacity purchase arrangements, other than Jazz aircraft covered under the Jazz CPA.
(6) Includes fuel handling and is net of fuel hedging results.

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