News Releases

Air Canada reports 2009 second quarter results

SECOND QUARTER OVERVIEW

- Net income of $155 million in the second quarter of 2009 compared to net income of $122 million in the second quarter of 2008.

- EBITDAR of $135 million in the second quarter of 2009 compared to EBITDAR of $249 million in the same quarter of 2008, a decrease of $114 million.

- Operating loss of $113 million compared to operating income of $7 million in the second quarter of 2008.

- Passenger revenue decrease of $396 million or 16 per cent from the second quarter of 2008 due to a decline in yield of 8.9 per cent and a drop in traffic of 7.9 per cent.

- RASM decrease of 11.3 per cent from the second quarter of 2008, primarily due to the decline in yield but also to a passenger load factor decrease of 2.2 percentage points.

- Unit cost (excluding fuel expense) increase of 2.6 per cent from the second quarter of 2008, most of which was due to the negative impact of the weaker Canadian dollar versus the U.S. dollar.

- Cash, cash equivalents and short-term investments of $907 million at June 30, 2009. Air Canada's cash balance at July 31, 2009 was $1.32 billion.MONTREAL, Aug. 7 /CNW Telbec/ - Air Canada today reported second quarter 2009 net income of $155 million including gains on foreign exchange of $355 million. This compares with net income of $122 million in the second quarter of 2008 that included gains on foreign exchange of $48 million. EBITDAR amounted to $135 million, a decrease of $114 million from the second quarter of 2008.

The carrier reported an operating loss of $113 million for the second quarter of 2009 compared to operating income of $7 million in the second quarter of 2008. Operating results were adversely affected by reduced air travel demand, particularly high yield traffic, due to the weakened economy and competitive pricing initiatives to stimulate traffic.

Passenger revenues decreased $396 million or 16 per cent to $2,058 million from the second quarter of 2008, reflecting a weakened demand for air travel and lower prices. The impact of the H1N1 influenza virus on passenger demand was also a factor in the passenger revenue reduction. A weakness in premium cabin revenue accounted for over 40 per cent of the total passenger revenue decrease.

System yield decreased 8.9 per cent from the second quarter of 2008, reflecting a weak economy, reduced high-yield business travel and greater discounting to stimulate traffic. In the second quarter of 2009, traffic dropped 7.9 per cent on a 5.4 per cent cut in capacity, resulting in a decrease in passenger load factor of 2.2 percentage points compared to the same quarter in 2008.

System revenue per available seat mile (RASM) decreased 11.3 per cent from the second quarter of 2008 due to the yield decline and the passenger load factor decrease.

In the quarter, operating expenses decreased $332 million or 12 per cent from the second quarter of 2008 and included reduced fuel expense of $276 million over the same period in 2008. This reduction in operating expenses was achieved in spite of approximately $105 million in additional expense related to a weaker Canadian dollar versus the U.S. dollar over the same period.

Unit cost, as measured by operating expense per available seat mile (CASM), decreased 7.0 per cent compared to the second quarter of 2008. Excluding fuel expense, CASM increased 2.6 per cent year-over-year primarily due to a weaker Canadian dollar versus the U.S. dollar compared to the second quarter of 2008. In addition to foreign exchange, higher ownership costs, reflecting Air Canada's investment in new aircraft, increased Jazz CPA expenses, and the capacity reduction were also factors in the increase in CASM (excluding fuel expense) year-over-year. Partly offsetting these increases to CASM (excluding fuel expense) was lower employee benefits expense, the result of revised actuarial assumptions. The capacity reduction impacts CASM as Air Canada's cost structure is such that its fixed costs do not fluctuate proportionately with changes in capacity in the short term.

The 2.6 per cent increase in CASM (excluding fuel expense) for the second quarter of 2009 was less than the projected increase of between 5.0 to 6.0 per cent compared to the same period in 2008 that was provided in the Corporation's news release dated May 8, 2009. The difference was primarily attributable to the impact of a stronger Canadian dollar versus the U.S. dollar on U.S. denominated expenses (relative to the guidance provided) and lower employee benefits expense, which was the result of revised actuarial assumptions.

Air Canada reported earnings per share (basic and diluted) in the second quarter of 2009 of $1.55 on an unadjusted basis. On an adjusted basis, the airline reported a loss per share (basic and diluted) in the second quarter of $1.29. Earnings per share is adjusted to remove Air Canada's losses on capital assets of $71 million and its gains on foreign exchange of $355 million.

The losses on capital assets of $71 million in the quarter included an impairment charge of $67 million related to the development of a new reservation system, referred to as Polaris. The Corporation is currently working towards the implementation of certain components of the solution such as web and fare technology but has suspended activity relating to the implementation of the reservation system.

"Over the past several months, we achieved what we set out to do in order to strengthen Air Canada's position to manage through the economic downturn," said Calin Rovinescu, President and Chief Executive Officer. "In the quarter, we entered into revised agreements with one of our principal credit card processors. In July, we completed agreements with all our Canadian-based unions which provide for a pension funding moratorium and new solvency deficit funding arrangements as well as for 21-month extensions to collective agreements on a cost-neutral basis. Against the backdrop of current credit markets and state of the airline industry, we also finalized arrangements to raise $1 billion in additional liquidity including $122 million subject to certain conditions being met. These achievements should bring Air Canada an adequate level of stability as we reposition the airline.

"The economic downturn has significantly impacted passenger demand for the industry as a whole, and Air Canada is no exception. IATA forecasts airline industry losses in excess of $10 billion for 2009, with business and premium travel segments hardest hit. This has resulted in a weak pricing environment where airlines have been lowering their fares in an attempt to stimulate traffic and maximize revenue.

"Despite this environment of economic uncertainty, Air Canada has performed relatively well, recording one of the smallest reductions in second quarter unit revenue compared to our North American peers. However, while our revenue performance may be better than most of our North American competitors', it is critical that our unit costs become more competitive. At the end of the second quarter, we completed a company-wide assessment and identified over 100 initiatives that we will now implement on a focused and immediate basis. They encompass cash and revenue enhancing opportunities, improved workforce management, modified business processes and third party vendor cost savings.

"We are now targeting $500 million in annual revenue and cost reduction initiatives, double our previously announced target. The vast majority, $400 million of the $500 million, relate to cost reductions. We expect $50 million to be achieved in 2009, $250 million by 2010 and the full $500 million by 2011 on a run rate basis. The airline's revised capacity purchase agreement with Jazz is one of the first steps.

"With the sharp downturn in business traffic, we must also find new ways to generate revenues. We have actively and purposefully re-engaged with the travel trade. In June, we introduced a commission program for Canadian travel agents, and have also recently broadened our distribution channels with major agreements with two large retail chains and online distributors including Expedia.

"We have also launched a series of customer-focused initiatives including a last-minute paid upgrade program and the expansion of interline baggage agreements, in addition to more opportunities for Aeroplan members to redeem reward travel and the elimination of call centre fees.

"The proposed transatlantic joint venture between Air Canada, Continental Airlines, Lufthansa and United Airlines gained momentum with the approval of the U.S. DOT granting anti-trust immunity. Once implemented, this alliance will strengthen Air Canada's presence and competitive position in the world's largest international air transportation market.

"Raising the new liquidity provides us with a window of opportunity to make necessary structural changes. This will require a cultural change within the organization to simplify processes and encourage a 'just do it" mentality that will allow us to respond nimbly to opportunities and react quickly to challenges. Everything will be thoroughly evaluated over the next short while. This includes routes, schedules, fleet, supplier relationships and all our revenue activity.

"When a recovery does occur, as it inevitably will, Air Canada will be well positioned, particularly with respect to the quality of our product. Our fleet, with an average age of just nine years, is the youngest among the major North American carriers and we have completed our retrofit program of the interiors of our aircraft with state-of-the-art interiors including lie flat seats in our wide-bodies. Thanks to the hard work and dedication of our employees, our operational performance and customer satisfaction have significantly improved and we are committed to further improvements.

"The new financing along with labour stability and new pension funding moratorium and solvency deficit funding arrangement buys us breathing room. By maintaining the focused determination that allowed us to stabilize the company, I am confident that we will be able to achieve sustained profitability," concluded Mr. Rovinescu.Current Outlook

---------------Air Canada expects its full year 2009 system capacity, as measured in available seat miles (ASM), to decline between 4.5 per cent and 5.5 per cent compared to the full year 2008 (as opposed to the full year 2009 system capacity reduction of 4.0 per cent to 5.0 per cent previously projected in Air Canada's press release dated May 8, 2009). Full year 2009 domestic ASM capacity is expected to decline between 4.5 per cent and 5.5 per cent compared to the full year 2008 (as opposed to the 2009 domestic ASM capacity reduction of 3.0 per cent to 4.0 per cent previously projected in Air Canada's press release dated May 8, 2009). The airline adjusted its projected system and domestic ASM capacity from what it had previously projected in order to better match its capacity with passenger demand. For the third quarter of 2009, Air Canada expects its system ASM capacity to decline by between 3.0 per cent and 4.0 per cent compared to the third quarter of 2008.

Air Canada has identified approximately $500 million in annual revenue enhancements and cost reduction initiatives which it expects to fully realize over the next three years through more efficient operational processes, better vendor contract management and more effective manpower planning.

Air Canada expects its full year 2009 CASM, excluding fuel expense, to increase between 4.0 per cent and 5.0 per cent compared to the full year 2008 (as opposed to the full year 2009 CASM (excluding fuel expense) increase of between 5.5 per cent and 6.5 per cent previously projected in Air Canada's press release dated May 8, 2009). The difference is largely attributable to a stronger Canadian dollar versus the U.S. dollar and its impact on U.S. denominated expenses. For the third quarter of 2009, Air Canada expects CASM, excluding fuel expense, to increase between 5.5 per cent and 6.5 per cent compared to the third quarter of 2008.

The above guidance reflects Air Canada's assumption that the North American economy will remain weak for the third quarter and remainder of 2009. In addition, Air Canada expects that the Canadian dollar will trade, on average, at C$1.11 per U.S. dollar in the third quarter of 2009 and C$1.16 per U.S. dollar for the full year 2009 and that the price of fuel will average 64 cents per litre in the third quarter of 2009 and will average 67 cents per litre for the full year 2009 (both net of fuel hedging positions).

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."Second Quarter and Other Recent Accomplishments

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

- In July, 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 the successful conclusion of a consultation process with retirees and all non-unionized employees for these same pension funding arrangements.

- In July, finalized arrangements to raise $1.02 billion in new liquidity, including $122 million subject to certain conditions being met, through a series of financings and other transactions with certain lenders and key stakeholders.

- In July, reached agreement with Boeing to amend the Boeing 787 Dreamliner purchase agreement to reduce the number of options for additional Boeing 787 aircraft by ten, from 23 to 13, and to provide for purchase rights for ten Boeing 787 aircraft. Air Canada continues to have 37 firm orders for Boeing 787 aircraft. Air Canada and Boeing also agreed to amend certain commercial terms, including to revise delivery dates and to provide for certain financial adjustments. Air Canada's first Boeing 787 aircraft is now scheduled for delivery in the second half of 2013.

- In July, took delivery of its 18th Boeing 777 aircraft in special themed livery in recognition of the carrier's role as Official Airline of the Vancouver 2010 Winter Olympic and Paralympic Games. Air Canada thus completed its fleet-wide renewal program, giving the carrier one of the youngest, fuel efficient fleets in the world with an average age of just nine years.

- In July, agreed on terms, subject to conditions, to revise its Capacity Purchase Agreement with Jazz on a mutually beneficial basis, providing Air Canada with significantly reduced capacity purchase costs for the Jazz network feed over the term of the contract, as extended.

- In the quarter, Air Canada contributed $110 million to funding its employees' defined benefit pension plans, of which $56 million represented funding of past service costs in accordance with Air Canada's agreement with the Office of the Superintendent of Financial Institutions (OSFI).

- Paid out $12 million in the second quarter of 2009 to Air Canada employees under the Corporation's 'Sharing Our Success' monthly incentive program.

- Achieved on-time arrivals performance of 89 per cent in the quarter, a 3 percentage point improvement from the previous year, based on Air Canada's domestic Canada arrivals as measured by the U.S. Department of Transportation's standards.

- 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.

- Continued to re-engage travel professionals with the introduction of a commission for Canadian travel agents to sell Tango fares on domestic Canada flights, and further broadened distribution channels with major agreements with two large retail chains and online distributors including Expedia.

- In the quarter, inaugurated the following non-stop services: Toronto-Sydney (Nova Scotia), Calgary-London (Ontario), Calgary-Whitehorse, Calgary-San Diego, Calgary-Portland, Toronto-Madrid, Montreal-Geneva, Montreal-Rome, and on July 4th, Montreal-Martinique.

- In the quarter, introduced codeshare services in the Canada-Spain and Canada-Portugal markets in cooperation with Star Alliance partners Spanair and TAP Portugal.

- Received final approval from the U.S. DOT in the quarter, granting anti-trust immunity to form a transatlantic joint venture with Continental Airlines, United Airlines and Lufthansa, while continuing to cooperate with competition authorities in other jurisdictions prior to implementation of the arrangements.

- North America flown revenues from Flight Pass products represented approximately 6.1 per cent of North American revenues in the second quarter. While Flight Pass flown revenues decreased 5.5 per cent from the second quarter of 2008, Flight Pass yield increased by 11 per cent over the previous year's quarter.

- Web penetration for domestic Canada sales in the second quarter of 2009 was 67 per cent - an increase of two percentage points over the second quarter of 2008. Web penetration for combined Canada and U.S. transborder sales was 55 per cent - an increase of two percentage points from the same quarter in 2008.

- 76 per cent of domestic Canada sales, or 65 per cent when combined with U.S. sales, were made directly with Air Canada, either online or through call centres in the second quarter of 2009, compared to 74 per cent of domestic Canada sales, or 63 per cent when combined with U.S. sales, in the second quarter of 2008.

- 59 per cent of Air Canada's customers used self-service check-in products world wide in the second quarter - an increase of 3 percentage points over the previous year's quarter.

- In the quarter, introduced electronic boarding passes for flights departing Geneva and Zurich, expanding availability of electronic boarding passes to include select international flights to Canada, in addition to all domestic Canada and international flights departing Canada (with the exception of U.S. transborder flights).

- Since launching a carbon offset program in May 2007, Air Canada customers have funded the planting of more than 2,700 trees to offset 13,500 tonnes of carbon emissions, the equivalent of taking over 3,300 cars off the road for a year.(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 Second Quarter 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 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. These 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 below, and are subject to important risks and uncertainties. Any forecasts or forward-looking predictions or 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 18 "Risk Factors" of Air Canada's 2008 MD&A dated February 13, 2009 and the Risk Factors section of Air Canada's Annual Information Form dated March 28, 2009. The forward-looking statements contained in this press release represent the Corporation's expectations as of the date of this press release and are subject to change after such date. However, the Corporation 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 remain weak for the third quarter of 2009 and for the remainder of 2009. In addition, Air Canada expects that the Canadian dollar will trade, on average, at C$1.11 per U.S. dollar in the third quarter of 2009 and C$1.16 per U.S. dollar for the full year 2009 and that the price of fuel will average 64 cents per litre in the third quarter of 2009 and will average 67 cents per litre for the full year 2009 (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)	Second Quarter 2009	Second Quarter 2008	Change $
Financial			
Operating revenues	2,330	2,782	(452)
Operating income (loss) before a special provision(1)	(113)	7	(120)
Operating income (loss)	(113)	7	(120)
Non-operating income (expense)	(80)	128	(208)
Income (loss) before non-controlling interest, foreign exchange and income taxes	(193)	135	(328)
Net income (loss) for the period	155	122	33
Operating margin before a special provision %(1)	-4.8%	0.3%	(5.1)pp
Operating margin %	-4.8%	0.3%	(5.1)pp
EBITDAR before a special provision(1)(2)	135	249	(114)
EBITDAR(2)	135	249	(114)
EBITDAR margin before a special provision %(1)(2)	5.8%	9.0%	(3.1)pp
EBITDAR margin %(2)	5.8%	9.0%	(3.1)pp
Cash, cash equivalents and short-term investments	907	1,497	(590)
Free cash flow	(140)	(11)	(129)
Adjusted debt/equity ratio %	89.7%	65.9%	23.8 pp
Earnings (loss) per share - basic and diluted	$1.55	$1.22	$0.33
Operating Statistics			Change %
Revenue passenger miles (millions) (RPM)	11,862	12,884	(7.9)
Available seat miles (millions) (ASM)	14,735	15,581	(5.4)
Passenger load factor %	80.5%	82.7%	(2.2)pp
Passenger revenue per RPM (cents)	17.3	19.0	(8.9)
Passenger revenue per ASM (cents)	13.9	15.7	(11.3)
Operating revenue per ASM (cents)	15.8	17.9	(11.4)
Operating expense per ASM ("CASM") (cents)	16.6	17.8	(7.0)
CASM, excluding fuel expense (cents)	12.7	12.4	2.6
Average number of full-time equivalent (FTE) employees (thousands)(3)	23.2	24.6	(5.7)
Aircraft in operating fleet at period end(4)	334	343	(2.6)
Average fleet utilization (hours per day)(5)	9.2	9.5	(2.8)

Average aircraft flight length (miles)(5)	837	847	(1.2)
Fuel price per litre (cents)(6)	65.4	89.2	(26.7)
Fuel litres (millions)	870	946	(8.0)

	First Six Months		
(Canadian dollars in millions except per share figures)	2009	2008(1)	Change $
Financial			
Operating revenues	4,721	5,509	(788)
Operating income (loss) before a special provision(1)	(301)	(5)	(296)
Operating income (loss)	(301)	(130)	(171)
Non-operating income (expense)	(189)	21	(210)
Income (loss) before non-controlling interest, foreign exchange and income taxes	(490)	(109)	(381)
Net income (loss) for the period	(245)	(166)	(79)
Operating margin before a special provision %(1)	-6.4%	-0.1%	(6.3)pp
Operating margin %	-6.4%	-2.4%	(4.0)pp
EBITDAR before a special provision(1)(2)	192	471	(279)
EBITDAR(2)	192	346	(154)
EBITDAR margin before a special provision %(1)(2)	4.1%	8.5%	(4.4)pp
EBITDAR margin %(2)	4.1%	6.3%	(2.2)pp
Cash, cash equivalents and short-term investments	907	1,497	(590)
Free cash flow	(79)	(184)	105
Adjusted debt/equity ratio %	89.7%	65.9%	23.8 pp
Earnings (loss) per share - basic and diluted	($2.45)	($1.66)	($0.79)
Operating Statistics			Change %
Revenue passenger miles (millions) (RPM)	22,846	25,215	(9.4)
Available seat miles (millions) (ASM)	28,557	30,988	(7.8)
Passenger load factor %	80.0%	81.4%	(1.4)pp
Passenger revenue per RPM (cents)	17.8	18.8	(5.8)
Passenger revenue per ASM (cents)	14.2	15.3	(7.3)
Operating revenue per ASM (cents)	16.5	17.8	7.0
Operating expense per ASM ("CASM") (cents)	17.6	17.8	(1.2)
CASM, excluding fuel expense (cents)	13.5	12.8	5.9
Average number of full-time equivalent (FTE) employees (thousands)(3)	23.0	24.3	(5.6)
Aircraft in operating fleet at period end(4)	334	343	(2.6)
Average fleet utilization (hours per day)(5)	9.2	9.7	(5.6)
Average aircraft flight length (miles)(5)	839	862	(2.7)

Fuel price per litre (cents)(6)	68.3	82.2	(16.9)
Fuel litres (millions)	1,697	1,893	(10.4)

(1) A provision related to investigations of alleged anti-competitive cargo pricing activities of $125 million was recorded in the first quarter of 2008.
(2) See section 17 "Non-GAAP Financial Measures" of Air Canada's Second Quarter 2009 MD&A for a reconciliation of EBITDAR before the provision for cargo investigations 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.%SEDAR: 00001324EF

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