News Releases

Air Canada reports second quarter results

SECOND QUARTER OVERVIEW

- Passenger revenue increased 5 per cent to $2.5 billion, due to growth in traffic and yield.
- Excluding fuel expense, unit cost declined 1.7 per cent from the second quarter of 2007.
- Net income of $122 million compared to net income of $155 million in the second quarter of 2007.
- EBITDAR of $249 million was recorded in the quarter, a decrease of $50 million from the same quarter in 2007.
- Operating income of $7 million in the second quarter of 2008 compared to operating income of $88 million in the second quarter of 2007.
- Cash, cash equivalents and short-term investments of $1.5 billion at June 30, 2008.MONTREAL, Aug. 8 /CNW Telbec/ - Air Canada today reported net income of $122 million in the second quarter of 2008, compared to $155 million in the second quarter of 2007. The Corporation's operating income for the second quarter of 2008 was $7 million, compared to $88 million in the second quarter of 2007. Air Canada's operating income performance was achieved despite an increase in fuel expense of $212 million in the second quarter compared to the prior year.

Passenger revenues increased $118 million or 5 per cent from the second quarter of 2007. Traffic increased 2.4 per cent while yield increased 2.5 per cent reflecting the impact of revenue generation initiatives to partially offset the dramatic surge in the price of fuel. Due to the growth in yield, system revenue per available seat mile (RASM) rose 2.6 per cent compared to the second quarter of 2007.

Unit cost, as measured by operating expense per available seat mile (CASM), increased 6.3 per cent from the second quarter of 2007. Excluding fuel expense, unit cost declined 1.7 per cent from the second quarter of 2007, reflecting unit cost reductions in every major cost category, with the exception of ownership costs and communications and information technology expense. A stronger Canadian dollar versus the U.S. dollar, unit cost savings associated with new Boeing 777 aircraft, and other cost reduction programs were among the more important factors in Air Canada's overall unit cost decrease from the second quarter of 2007. The higher unit cost of ownership reflects Air Canada's investment in new aircraft and the aircraft interior refurbishment program.

Air Canada recorded net income for the second quarter of $122 million, which included net gains on financial instruments recorded at fair value of $176 million and net gains on foreign currency monetary items of $48 million. This compared to net income of $155 million in the second quarter of 2007, which included net losses on financial instruments of $6 million and net gains on foreign currency monetary items of $160 million. Air Canada reported earnings per share (basic and diluted) of $1.22 on an unadjusted basis. On an adjusted basis, the airline reported earnings per share (basic and diluted) of $0.80. Earnings per share is adjusted to remove gains on capital assets of $5 million (after tax) and gains on foreign exchange of $37 million (after tax) in the second quarter of 2008.

EBITDAR amounted to $249 million, a decrease of $50 million from the second quarter of 2007.

"I am pleased to report solid operating results for the quarter, despite the difficult industry environment created by unrelentingly high fuel prices," said Montie Brewer, President and Chief Executive Officer. "The more resilient domestic Canada market drove sustained revenue growth in the quarter and we achieved yield and unit growth through the successful introduction of a number of fare increases and fuel surcharges.

"I'm particularly proud of our employees who remained focused on our operation as we headed into the peak summer season. Working together, the Air Canada team achieved On Time Performance objectives for the quarter, ranking Air Canada as having the best on-time arrivals performance compared to the largest North American carriers.

"We are also making progress containing controllable costs. Excluding fuel, our unit cost was down 1.7 per cent in the quarter and our ongoing cost reduction initiatives currently represent savings of approximately $100 million in 2008. Hedging has also helped to blunt the rising cost of fuel, and while we have improved our fuel efficiency by operating the youngest, most fuel efficient fleet of any North American network carrier, it is still not enough. With a view to further reducing consumption, a cross-departmental weight reduction task force is taking a more aggressive approach evaluating various ways to shed weight on aircraft.

"As the cost of travel for consumers is brought in line with the price of fuel, we anticipate a softening in demand. We will continue to manage the challenge through new revenue generation initiatives, sound capacity management and continued focus on cost reduction. I am confident that Air Canada is well positioned to compete successfully with a young, efficient fleet, award winning revenue model, market leading product, and especially with our employees who continue to demonstrate their professionalism and dedication to earning our customers' loyalty," concluded Mr. Brewer.

At June 30, 2008, Air Canada reported cash, cash equivalents and short-term investments of $1.5 billion. Air Canada also has a secured revolving credit facility of $400 million, which is not available to the Corporation until and unless the Corporation and the lenders conclude amendments satisfactory to each of them relating to a financial covenant and other business terms. Subsequent to June 30, 2008, the Corporation and the lenders have entered into an amending agreement pursuant to which the parties undertake to negotiate such further amendments to the facility and the Corporation agrees not to request any funding under the facility until such further amendments are agreed. The outcome of the negotiations remain uncertain such that there can be no assurance that amendments satisfactory to the parties will be concluded, that amounts under the facility will ever be available to the Corporation, that the Corporation will not decide to terminate the facility, or that a replacement facility will be concluded. In the event of termination of the credit facility, the assets previously securing the credit facility would be expected to generate a similar level of liquidity as they do under the credit facility. In addition, Air Canada owns or retains equity in a wide range of aircraft related assets such as nine Boeing 777s, 60 Embraers and inventory. These assets could permit Air Canada to increase its liquidity by approximately $800 million.Second Quarter 2008 Accomplishments

- Introduced three Boeing 777-300ER aircraft in the quarter. Air Canada is the first North American carrier to operate this latest generation, fuel-efficient aircraft. To date, Air Canada has taken delivery of 15 Boeing 777 aircraft of 18 scheduled to be delivered by 2009.

- Completed over 80 per cent of the planned fleet refurbishment. Remaining aircraft are planned to have completed refurbishment by fall 2008, with the exception of Airbus A330 aircraft which are expected to be completed by early 2009.

- Achieved on-time arrivals performance of 86 per cent in the quarter, a 6 percentage point increase from the previous year, ranking Air Canada as having the best on-time performance compared to the 10 largest U.S. carriers, as measured by the U.S. Department of Transportation's standards for the North American airline industry.

- Paid out $6.3 million in the quarter to Air Canada employees under the company's 'Sharing Our Success' monthly incentive program, for a total of $16.7 million in the first two quarters of 2008.

- Air Canada contributed $76 million in the quarter to funding its employees' defined benefit pension plans, of which $23 million represented funding of past service costs in accordance with the Office of the Superintendent of Financial Institutions (OSFI) agreement.

- In the quarter, 49 per cent of domestic consumers chose a higher branded fare than the lowest Tango fare available, a 3 percentage point increase from the previous year.

- Revenues from Flight Pass products increased 76 per cent over the previous year's quarter, and represented approximately 5.2 per cent of North American revenues.

- Continued to expand the offering of Flight Passes and subscription payment options for both unlimited travel and fixed credit passes with the launch of an Executive Class Pass, as well as Ontario and Quebec Passes for unlimited flying this summer.

- Web penetration for domestic Canada sales in the second quarter was 65 per cent - an increase of two percentage points over the previous year's quarter. Web penetration for combined Canada and U.S. transborder sales was 53 per cent - an increase of three percentage points over the previous year's quarter.

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

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

- Introduced self-service kiosks for baggage tagging at Paris Charles De Gaulle Airport, the first international location to join existing facilities at Toronto, Montreal and Vancouver airports.

- Improved fleet and operational efficiencies contributed to savings of approximately 18 million litres in fuel on passenger traffic growth of 2.4 per cent in the second quarter of 2008 compared to the previous year's quarter. This represented an avoidance in CO_2 emissions of 46,456 tonnes, the equivalent to taking 11,614 cars off the road for a year.

- Since launching a carbon offset program in May 2007, Air Canada customers have financed the planting of more than 1,900 trees to offset 9.5 tonnes of carbon emissions, the equivalent of taking over 2,300 cars off the road for a year.

- Selected as the Best Airline to Canada by the readers of Executive Travel magazine in their annual reader survey.2008 Current Outlook

As projected in its press release dated June 17, 2008, Air Canada continues to expect its full year 2008 capacity, as measured in available seat miles (ASM), to change between negative 1 and positive 1 per cent, compared to the previous year. Full year domestic capacity is expected to increase by approximately 1 per cent, compared to 2007 (originally projected to increase by 2.5 per cent compared to 2007 in Air Canada's June 17, 2008 press release).

This reduction in domestic capacity growth is a result of Air Canada's further review of its capacity plan for the fall-winter schedule. For the third quarter, Air Canada expects ASM growth to be minus 2.5 to 3.5 per cent, compared to the previous year's third quarter.

Air Canada expects full year 2008 operating expense per available seat mile (CASM), excluding fuel expense, to exceed the 2007 level by 1 to 2 per cent, (which was previously expected to exceed up to 1 per cent as projected in Air Canada's press release dated June 17, 2008), primarily the result of the capacity reduction in the second half of the year. The airline is aggressively managing the costs of all controllable parts of its operation and continues in its efforts to mitigate the significant increase in its fuel expense. Air Canada expects CASM, excluding fuel, in the third quarter 2008 to increase between 4 to 5 per cent as compared to the same period in the previous year. The increase in projected CASM, excluding fuel, for the third quarter of 2008 compared to the third quarter of 2007 is primarily due to the capacity reduction plan announced on June 17, 2008.

Operating income in 2008 will be negatively impacted by an expected increase in depreciation of between $140 million and $160 million compared to 2007, reflecting investments in new aircraft and the refurbishment of existing ones. This will be partially offset by an expected decrease in 2008 aircraft rent of up to 5 per cent versus 2007 (which was previously expected to decrease approximately 5 to 10 per cent in Air Canada's press release dated May 8, 2008).

The above guidance reflects Air Canada's assumption that the Canadian dollar will trade, on average, at Cdn $1.01 per U.S. dollar for the third quarter in 2008 and for the full year 2008. Air Canada has also assumed that growth in North America and globally will slow in 2008 and that a mild economic recession will take place in the United States. Record high fuel prices continue to impact the airline industry. Air Canada's outlook assumes that the price of fuel will average 90 cents per litre for the full year 2008, as opposed to the 93 cents per litre assumed in guidance provided in the press release dated June 17, 2008 (net of current hedging positions). For the third quarter 2008, Air Canada assumes the price of fuel (net of fuel hedging positions) to be 1.00 dollar per litre. Air Canada has hedged approximately 49 per cent of its projected fuel requirements for the remainder of 2008.

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

EBITDAR is a non-GAAP financial measure commonly used in the airline industry to assess earnings before interest, taxes, depreciation 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 2008 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).

As a result of the deconsolidation of Jazz effective May 24, 2007, Air Canada's consolidated results for the second quarter of 2008 are not directly comparable to Air Canada's consolidated results for the same period of 2007. This press release highlights the performance of Air Canada for the second quarter of 2008 in relation to the performance of the Air Canada Services segment for the second quarter of 2007, which excluded the consolidation of Jazz operations. All figures are in Canadian dollars.

For further information on Air Canada's public disclosure file, including Air Canada's Annual Information Form dated March 28, 2008, consult SEDAR at www.sedar.com or 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. Results indicated in forward-looking statements may differ materially from actual results due to a number of factors, including without limitation, energy prices, general industry, market and economic conditions, currency exchange and interest rates , competition, war, terrorist acts, epidemic diseases, insurance issues and costs, changes in demand due to the seasonal nature of the business, the ability to reduce operating costs, employee and labour relations, pension issues, 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 the MD&A and, in particular, those identified in the "Risk Factors" section of Air Canada's 2007 MD&A dated February 6, 2008 and section 13 of Air Canada's Second Quarter 2008 MD&A dated August 8, 2008. 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.

Additional assumptions were made by Air Canada in preparing and making forward-looking statements. In addition to other assumptions contained in this press release, Air Canada has assumed that growth in North America and globally will slow in 2008 and that a mild economic recession will take place in the United States. Air Canada has also assumed that the Canadian dollar will trade, on average, at Cdn $1.01 per US dollar for the third quarter of 2008, and for the full year 2008 and that the price of fuel will average 1.00 dollar per litre in the third quarter and 90 cents per litre for the full year 2008 (both net of current hedging positions).

Highlights

Prior to May 24, 2007, Air Canada had two reportable segments: Air Canada Services (which is now referred to as Air Canada) and Jazz Air LP ("Jazz"). The following table provides the reader with financial and operating highlights for Air Canada for the second quarter of 2008 and for the first six months of 2008 and the financial and operating highlights for the Air Canada Services segment, which excluded the consolidation of Jazz, for the second quarter of 2007 and for the first six months of 2007.

(Canadian dollars in millions except per share figures)	Second Quarter 2008	Second Quarter 2007	Change $	First Six Months 2008	First Six Months 2007	Change $
Financial						
Operating revenues	2,782	2,639	143	5,509	5,179	330
Operating income (loss) before a special provision(1)	7	88	(81)	(5)	10	(15)
Operating income (loss)	7	88	(81)	(130)	10	(140)
Non-operating income (expense)	128	(33)	161	21	(25)	46
Income (loss) before non-controlling interest, foreign exchange and income taxes	135	55	80	(109)	(15)	(94)
Income (loss) for the period	122	155	(33)	(166)	121	(287)
Operating margin before a special provision %(1)	0.3%	3.3%	(3.0) pp	-0.1%	0.2%	(0.3) pp
Operating margin %	0.3%	3.3%	(3.0) pp	-2.4%	0.2%	(2.6) pp
EBITDAR before a special provision(1)(2)	249	299	(50)	471	428	43
EBITDAR(2)	249	299	(50)	346	428	(82)
EBITDAR margin before a special provision %(1)(2)	9.0%	11.3%	(2.3) pp	8.5%	8.3%	0.2 pp
EBITDAR margin %(2)	9.0%	11.3%	(2.3) pp	6.3%	8.3%	(2.0) pp
Cash, cash equivalents and short-term investments	1,497	1,751	(254)	1,497	1,751	(254)
Free cash flow	(11)	(621)	610	(184)	(807)	623
Adjusted debt/equity ratio	65.9%	68.2%	(2.3) pp	65.9%	68.2%	(2.3) pp
Earnings (loss) per share - basic and diluted(3)	$1.22	$1.55	($0.33)	($1.66)	$1.21	($2.87)

Operating Statistics			Change %			Change %
Revenue passenger miles (millions) (RPM)	12,884	12,580	2.4	25,215	24,394	3.4
Available seat miles (millions) (ASM)	15,581	15,220	2.4	30,988	29,955	3.4
Passenger load factor	82.7%	82.7%	-	81.4%	81.4%	-
Passenger revenue per RPM (cents)(4)	19.0	18.5	2.5	18.8	18.4	2.4
Passenger revenue per ASM (cents)(4)	15.7	15.3	2.6	15.3	15.0	2.3
Operating revenue per ASM (cents)(4)	17.9	17.3	3.0	17.8	17.4	2.2
Operating expense per ASM ("CASM") (cents)	17.8	16.8	6.3	17.8	17.3	3.1
CASM, excluding fuel expense (cents)	12.4	12.6	(1.7)	12.8	13.2	(3.3)
Average number of full-time equivalent (FTE) employees (thousands)	24.6	24.3	1.5	24.3	23.8	2.1
Aircraft in operating fleet at period end(5)	343	329	4.3	343	329	4.3
Average fleet utilization (hours per day)(6)	9.5	9.6	(1.3)	9.7	9.6	0.6
Average aircraft flight length (miles)(6)	847	855	(1.0)	862	865	(0.3)
Fuel price per litre (cents)(7)	89.2	67.2	32.6	82.2	65.1	26.2
Fuel litres (millions)	946	941	0.5	1,893	1,866	1.4

(1) A provision for cargo investigations of $125 million was recorded in the first quarter of 2008.
(2) See section 15 "Non-GAAP Financial Measures" in Air Canada's Second Quarter 2008 MD&A dated August 8, 2008 for a reconciliation of EBITDAR before the provision for cargo investigations to operating income (loss) and EBITDAR to operating income (loss).
(3) Earnings (loss) per share - basic and diluted are the consolidated Air Canada figures as reported under GAAP.
(4) A revenue adjustment of $26 million relating to a change in accounting estimates was recorded in the fourth quarter of 2007 of which $29 million pertained to the first quarter of 2007. For comparative purposes, yield and RASM percentage changes were adjusted to include the impact of adding back $29 million to the first quarter of 2007.
(5) Excludes chartered freighters in 2008 and 2007. Includes Jazz aircraft covered under the Jazz CPA.
(6) Excludes third party carriers operating under capacity purchase arrangements. Includes Jazz aircraft covered under the Jazz CPA.
(7) Includes fuel handling and is net of fuel hedging results.%SEDAR: 00001324EF

For further information:

For further information: Isabelle Arthur (Montréal), (514) 422-5788; Peter Fitzpatrick (Toronto), (416) 263-5576; Angela Mah (Vancouver), (604) 270-5741; aircanada.com