AIR CANADA

News Releases

Air Canada reduces fall and winter capacity in response to record price of fuel

MONTREAL, June 17 /CNW Telbec/ - In response to record high fuel prices, Air Canada today announced a reduction in capacity which will impact fleet and staffing levels effective with the implementation of its fall and winter schedule. The airline plans to reduce total system capacity by 7.0 per cent in the fourth quarter 2008 and first quarter 2009, compared to the same period a year earlier. The reduction in flying will require fewer employees to operate the airline. This will result in a decrease in staff levels of up to 2,000 positions across all levels of the organization.

"The loss of jobs is painful in view of our employees' hard work in bringing the airline back to profitability over the past four years," said Montie Brewer, President and Chief Executive Officer. "I regret having to take these actions but they are necessary to remain competitive going forward. Air Canada, like most global airlines, needs to adapt its business and reduce flying that has become unprofitable in the current fuel environment. If fuel prices remain at current levels, we can anticipate further capacity reductions," said Mr. Brewer.

The airline industry has been severely impacted as the price of oil has more than doubled from one year ago and has quadrupled since 2004. Every $1 increase in the price of oil per barrel adds an estimated $26 million to Air Canada's annual fuel expense. Fuel is the carrier's single largest expense item accounting for more than 30 per cent of total operating expense, and at current price levels will cost the airline close to $1 billion more in 2008 than in 2007.

Including the benefit of fuel hedging, at current fuel prices and capacity levels, Air Canada would spend an average of $230 in fuel costs alone to carry one passenger on a round trip journey, which is up from an average of $146 in 2007, and $110 in 2004.

In addition to record high fuel prices, Canadian carriers are forced to contend with federal and provincial fuel excise taxes, security fees and airport charges that are amongst the most expensive in the world today.

In the fourth quarter 2008 and first quarter 2009, Air Canada plans to reduce domestic capacity by 2.0 per cent, U.S. transborder capacity by 13.0 per cent and international capacity by 7.0 per cent, for a total system capacity reduction of 7.0 per cent for the two quarters compared to the prior year's period.

This 7.0 per cent system capacity reduction includes capacity adjustments previously announced including the suspension of Toronto-Rome non-stop service (with resumption planned for the peak summer season) and the withdrawal of Vancouver-Osaka non-stop service effective October 26, 2008. The revised fall and winter schedule, as well as adjustments to the fleet, will be made available at a later date.

REVISED OUTLOOK

Air Canada now expects its full year 2008 capacity, as measured in available seat miles (ASM), to change between negative 1.0 and positive 1.0 per cent, compared to the previous year (lower than the full year 2008 capacity increase of between 1.0 and 2.5 per cent compared to 2007 projected in Air Canada's press release dated May 8, 2008). As originally projected in Air Canada's May 8, 2008 press release, full year domestic ASM growth is expected to increase by 2.5 per cent compared to 2007. For the second quarter, Air Canada expects ASM growth to be consistent with previous guidance (provided in Air Canada's May 8, 2008 press release) of between 2.0 and 3.0 per cent, compared to the previous year's second quarter.

Air Canada expects full year 2008 operating expense per available seat mile (CASM), excluding fuel, to exceed the 2007 level by up to 1 per cent, which is at the least favorable end of the range of the guidance provided in the press release with first quarter 2008 results, (which was plus or minus 1.0 per cent of the 2007 level), primarily the result of the capacity reduction in the second half of the year. The airline is effectively and aggressively managing the costs of all controllable parts of its operation and is attempting to mitigate the significant increase in fuel expense anticipated for 2008. Air Canada now expects CASM, excluding fuel, in the second quarter 2008 to be up to 2.0 per cent lower than the same period in the previous year, slightly improved from previous guidance (of an improvement of up to 1.0 per cent as provided in the May 2008 press release), the result of cost reduction programs.

The above guidance reflects Air Canada's assumption that the Canadian dollar will trade, on average, at Cdn $1.01 per US dollar for the full year and second quarter in 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 93 cents per litre for the full year 2008, as opposed to the 89 cents per litre assumed in guidance provided in the press release with first quarter 2008 results (both net of current hedging positions). For the second quarter 2008, Air Canada continues to assume the price of fuel (net of hedging positions) to be

91 cents per litre, as it did at the time of guidance provided in the May 8, 2008 press release.

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."

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 12 of Air Canada's First Quarter 2008 MD&A dated May 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.

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