News Releases

Air Canada reports first quarter results

As a result of the deconsolidation of Jazz effective May 24, 2007, Air Canada's consolidated results for the first 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 first quarter of 2008, which no longer includes the consolidation of Jazz operations, in relation to the performance of the Air Canada Services segment for the first quarter of 2007, which excluded the consolidation of Jazz operations. All figures are in Canadian dollars.

FIRST QUARTER OVERVIEW

- Passenger revenue increased 8 per cent to $2.3 billion, due to growth in traffic and yield.
- EBITDAR of $222 million in the quarter, before a provision for cargo investigations, compared to EBITDAR of $129 million in the first quarter of 2007, an improvement of $93 million.
- Unit cost was unchanged from the first quarter of 2007 on a capacity growth of 4.6 per cent. Excluding fuel expense, unit cost declined 4.8 per cent from the first quarter of 2007.
- An operating loss of $12 million in the first quarter, before a provision for cargo investigations, compared to an operating loss of $78 million in the first quarter of 2007, an improvement of $66 million.
- Cash, cash equivalents and short-term investments of $1.4 billion at March 31, 2008.MONTREAL, May 8 /CNW Telbec/ - Air Canada today reported an operating loss of $12 million for the first quarter, before a provision for cargo investigations, an improvement of $66 million from the first quarter for 2007. Air Canada's operating income performance for the first quarter was achieved despite an increase in fuel expense of $130 million in the quarter.

Passenger revenues increased $174 million or 8 per cent from the first quarter of 2007. Traffic increased 4.4 per cent while yield increased 2.2 per cent. System revenue per available seat mile (RASM) rose 2.0 per cent compared to the first quarter of 2007 due to the yield increase.

Unit cost, as measured by operating expense per available seat mile (CASM), was unchanged from the first quarter of 2007. Excluding fuel expense, unit cost declined 4.8 per cent from the first quarter of 2007, reflecting unit cost reductions in every major cost category, with the exception of ownership costs. A stronger Canadian dollar versus the U.S. dollar, unit cost savings associated with new Boeing 777 aircraft, and various cost reduction programs were major factors in Air Canada's overall unit cost decrease from the first 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 a net loss for the first quarter of $288 million, which included a provision for cargo investigations of $125 million and net losses on foreign currency monetary items of $89 million. This compares to a net loss of $34 million in the first quarter of 2007, which included net gains on foreign currency monetary items of $33 million. Air Canada reported a loss per share (basic and diluted) of $(0.62) for the first quarter of 2008, adjusted to remove the provision for cargo investigations, foreign exchange losses and losses on capital assets recorded in the first quarter of 2008. This compares to a loss per share (basic and diluted) of $(0.57) for the first quarter of 2007 adjusted to remove foreign exchange gains and gains on capital assets recorded in the first quarter of 2007. On an unadjusted basis, the airline reported a loss per share (basic and diluted) of $(2.88) for the first quarter of 2008, compared to a loss per share (basic and diluted) of $(0.34) for the first quarter of 2007.

EBITDAR (before the provision for cargo investigations) amounted to $222 million, an increase of $93 million from the first quarter of 2007.

"I am extremely proud of our employees who delivered an outstanding quarterly performance in what is traditionally the industry's weakest travel demand period," said Montie Brewer, President and Chief Executive Officer. "Our revenue model delivered solid unit revenue growth, and contributed to a 4.8 per cent improvement in our unit costs in the quarter, excluding fuel. Both combined to help offset the impact of the soaring price of fuel. We achieved a strong improvement in operating income which is clear confirmation that our strategy is delivering as planned. Our new fleet of Boeing 777 and Embraer aircraft contributed to strong yield growth and, even more importantly, to significantly lower unit costs. Working together, the Air Canada team achieved better operating results than last year in a very challenging quarter, one of the few airlines around the world to do so.

"During the quarter, we successfully introduced a number of fare increases which the market has absorbed. Advance bookings remain strong, reflecting the growing Canadian economy and strong currency. However, the increase in fuel prices over the past several months has been unprecedented and the acceleration of these increases combined with price volatility presents an increasingly difficult challenge.

"Air Canada is undertaking a number of revenue and cost initiatives to address the effects of the unrelenting, record high price of fuel. We will continue to introduce new sources of ancillary revenues as well as adjust pricing and fees to ensure they correctly reflect the true cost and value of the service delivered.

"We will continue to aggressively review all routes to determine if they are economically feasible, and make adjustments as required in light of the current record price levels of fuel. As a result, we have adjusted capacity for the remainder of the year, including late fall suspensions of service to Rome and Osaka. These reductions will allow us to remove four older, less fuel efficient Boeing 767-200 aircraft in addition to what was originally planned.

"We will also continue to aggressively cut costs as we have successfully done to date. This includes a number of initiatives underway with a combined improvement target of $100 million.

"We will continue to monitor closely the effectiveness of all initiatives and will take additional measures to offset rising fuel costs, as required," concluded Mr. Brewer.

The European Commission, the United States Department of Justice and the Competition Bureau in Canada, among other competition authorities, are investigating alleged anti-competitive cargo pricing activities of a number of airlines and cargo operators, including Air Canada. Air Canada is also named as a defendant in a number of class action lawsuits that have been filed before the United States District Court and in Canada in connection with these allegations. In the first quarter of 2008, the airline recorded a provision for cargo investigations and proceedings of $125 million. This provision does not address the proceedings in all jurisdictions, but only where there is sufficient information to do so.First Quarter 2008 Accomplishments

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- Introduced three Boeing 777-200LR and one Boeing 777-300ER aircraft in the quarter. Air Canada is the first North American carrier to operate these aircraft and, to date, has taken delivery of 13 Boeing 777 aircraft of 18 to be delivered by 2009.

- Took delivery of the final three of 45 Embraer E190 aircraft ordered. Air Canada's North American fleet now includes 60 Embraer aircraft, with 15 Embraer E175s.

- Improved fleet and operational efficiencies contributed to savings of approximately 5.2 million litres in fuel on passenger traffic growth of 4.4 per cent in the first quarter of 2008 compared to the previous year's quarter. This represented an avoidance in CO_2 emissions of 13,500 tonnes, the equivalent to taking 3,300 cars off the road for a year.

- Completed over three quarters of the planned fleet refurbishment including 74 of 86 narrrowbodies and 20 of 35 widebodies by the end of the first quarter. To date, refurbishment of the entire Airbus A319 and A321 fleets has been completed. 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.

- In the quarter, 48 per cent of domestic consumers chose a higher branded fare than the lowest Tango fare available.

- Revenues from Flight Pass products increased 64 per cent over the previous year's quarter, and represented approximately 4.4 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 introduction of Spring Getaway and New York Weekender passes.

- Web penetration for domestic Canada sales in the first quarter was 65 per cent - an increase of four percentage points over the previous year's quarter. Web penetration for combined Canada and U.S. transborder sales was 54 per cent - an increase of more than 4 percentage points over the previous year's quarter.

- 75 per cent of domestic Canada sales in the first quarter, or 65 per cent when combined with U.S. sales, were made directly with Air Canada, either online or through call centres.

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

2008 Current Outlook

Air Canada expects its full year 2008 capacity, as measured in available seat miles (ASM), to increase between 1.0 and 2.5 per cent, with the Canadian market being at the high end of this scale. This is approximately 1.5 percentage points lower than what was provided in guidance at year-end 2007. The airline expects its ASM capacity in the second quarter of 2008 to increase between 2 and 3 per cent compared to 2007, with planned ASM growth in Canada of approximately 3 per cent.

Air Canada expects full year 2008 CASM, excluding fuel, to be at the 2007 level plus or minus 1 per cent, slightly less favorable to the guidance which was provided at year-end 2007, primarily the result of the capacity reduction in the second half of the year. CASM, excluding fuel, is expected to be unchanged or to record an improvement of up to 1 per cent in the second quarter of 2008 compared to the second quarter of 2007. Air Canada's first quarter CASM, excluding fuel, came in better than guidance due to lower costs in a number of areas. The airline is effectively and aggressively managing all controllable parts of its operation and is attempting to mitigate the significant increase in fuel expense anticipated for 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 approximately 5 to 10 per cent versus 2007.

The above guidance reflects Air Canada's assumption that the Canadian dollar will trade, on average, at Cdn $1.01 per US dollar in the second quarter of 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 91 cents per litre in the second quarter and 89 cents per litre for the full year 2008 (both net of current 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."

(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 First 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 before the provision for cargo investigations and 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, 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 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.

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 second quarter of 2008 and for the full year 2008 and that the price of fuel will average 91 cents per litre in the second quarter and 89 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 first quarter of 2008, which no longer includes the consolidation of Jazz, and for the Air Canada Services segment, which excluded the consolidation of Jazz, for the first quarter of 2007.

(Canadian dollars in millions except per share figures)	First Quarter 2008	2007	Change $
Financial			
Operating revenues	2,727	2,540	187
Operating loss before the provision for cargo investigations(1)	(12)	(78)	66
Operating loss	(137)	(78)	(59)
Non-operating income (expenses)	(107)	8	(115)
Loss before non-controlling interest, foreign exchange and income taxes	(244)	(70)	(174)
Loss for the period	(288)	(34)	(254)
Operating margin before the provision for cargo investigations %(1)	-0.4%	-3.1%	2.7 pp
Operating margin %	-5.0%	-3.1%	(1.9)pp
EBITDAR before the provision for cargo investigations(1)(2)	222	129	93
EBITDAR(2)	97	129	(32)
EBITDAR margin before the provision for cargo investigations %(1)(2)	8.1%	5.1%	3.0 pp
EBITDAR margin %(2)	3.6%	5.1%	(1.5)pp
Cash, cash equivalents and short-term investments	1,394	1,969	(575)
Free cash flow	(173)	(183)	10
Adjusted debt/equity ratio	68.8%	68.6%	0.2 pp
Loss per share - basic and diluted(3)	($2.88)	($0.34)	($2.54)
Operating Statistics			Change %
Revenue passenger miles (millions) (RPM)	12,331	11,814	4.4
Available seat miles (millions) (ASM)	15,407	14,735	4.6
Passenger load factor	80.0%	80.2%	(0.2)pp
Passenger revenue per RPM (cents)(4)	18.7	18.3	2.2
Passenger revenue per ASM (cents)(4)	15.0	14.7	2.0
Operating revenue per ASM (cents)(4)	17.7	17.4	1.5
Operating expense per ASM ("CASM") (cents)	17.8	17.8	-
CASM, excluding fuel expense (cents)	13.1	13.8	(4.8)
Average number of full-time equivalent (FTE) employees (thousands)	24.0	23.4	2.8
Aircraft in operating fleet at period end(5)	341	332	2.7
Average fleet utilization (hours per day)(6)	9.9	9.6	3.5
Average aircraft flight length (miles)(6)	876	875	0.1
Fuel price per litre (cents)(7)	75.2	62.9	19.5
Fuel litres (millions)	947	925	2.4

(1) A provision for cargo investigations of $125 million was recorded in the first quarter of 2008.

(2) See section 14 "Non-GAAP Financial Measures" in Air Canada's First Quarter 2008 MD&A for a reconciliation of EBITDAR before the provision for cargo investigations to operating income (loss) and EBITDAR to operating income (loss).

(3) Earnings (losses) 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 other than Jazz aircraft covered under the Jazz CPA (which are included).

(7) Includes fuel handling and is net of fuel hedging results.

For further information:

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