AIR CANADA

News Releases

Air Canada reports record fourth quarter and full year operating income

As a result of the deconsolidation of Jazz effective May 24, 2007, Air Canada's consolidated results for the fourth quarter of 2007 and for the full year 2007 are not directly comparable to Air Canada's consolidated results for the same periods of 2006. This press release highlights the performance of "Air Canada" excluding the consolidation of Jazz operations (previously referred to as "Air Canada Services"). All figures are in Canadian dollars.

2007 FOURTH QUARTER OVERVIEW

- Record operating income of $72 million in the fourth quarter compared to an operating loss (excluding special charge) of $13 million in the fourth quarter of 2006, an improvement of $85 million.
- EBITDAR of $274 million in the quarter compared to EBITDAR (excluding special charge) of $205 million in the fourth quarter of 2006, an increase of $69 million.
- Operating revenue increased 4 per cent to $2.5 billion; passenger revenue increased 6 per cent.
- Unit cost reduced by 2.0 per cent over the fourth quarter of 2006. Excluding fuel expense and special charges, unit cost declined 3.9 per cent from the fourth quarter of 2006.
- Earnings per share (basic and diluted) of $0.35 in the quarter.

2007 FULL YEAR OVERVIEW

- Record operating income of $433 million in 2007 compared to operating income (excluding special charges) of $236 million in 2006, an increase of $197 million.
- EBITDAR of $1,263 million in 2007 compared to EBITDAR (excluding special charges) of $1,070 million in 2006, an increase of $193 million.
- Operating revenue increased 4 per cent (excluding special charges in 2006) to $10.6 billion; passenger revenue increased 5 per cent.
- Unit cost reduced by 1.2 per cent over 2006. Excluding fuel expense and special charges, unit cost declined 0.4 per cent from 2006.
- Earnings per share (diluted) of $4.27 for 2007.MONTREAL, Feb. 7 /CNW Telbec/ - Air Canada today reported record operating income of $72 million for the fourth quarter, an improvement of $85 million from the fourth quarter of 2006 (excluding special charge). For the fourth quarter of 2007, the growth in operating income was due to an increase in operating revenues of $90 million or 4 per cent. As well, unit cost, as measured by operating expense per available seat mile (CASM), decreased 2.0 per cent from the fourth quarter of 2006. Excluding fuel expense and special charges, unit cost declined 3.9 per cent from the fourth quarter of 2006 with every single major cost category recording improved performance. This was the second consecutive quarterly improvement in CASM, excluding fuel expense and special charges.

Air Canada recorded net income for the fourth quarter of $35 million, which included net gains on foreign currency monetary items of $20 million, compared to a net loss of $144 million in the fourth quarter of 2006, which included net losses on foreign currency monetary items of $107 million.

Passenger revenues increased $125 million or 6 per cent over the fourth quarter of 2006 to $2.2 billion, mainly due to traffic growth of 2.6 per cent on a capacity increase of 2.6 per cent and a yield improvement, as measured by passenger revenue per revenue passenger mile, of 2.1 per cent. System revenue per available seat mile (RASM) rose 2.1 per cent compared to the fourth quarter of 2006 due to the yield growth. As a result of Air Canada's decision to reduce freighter capacity, cargo revenues decreased by $24 million from the fourth quarter of 2006. Despite a fuel expense increase of $32 million in the quarter, operating expenses increased only $13 million or 1 per cent from 2006.

EBITDAR amounted to $274 million, an increase of $69 million from the fourth quarter of 2006, excluding a favourable adjustment of $8 million related to labour restructuring charges previously recorded.

"I am very pleased to report the strongest fourth quarter and full year results in Air Canada's history," said Montie Brewer, President and Chief Executive Officer. "Our new revenue model continues to perform well and with an unrelenting focus on cost reduction and innovation, we have achieved our business plan objectives for the year. With these fundamentals in place, we are well positioned to continue managing the impact of record high fuel prices. To date, future bookings are strong.

"I thank all Air Canada employees for their dedication and hard work throughout 2007. These results as well as our accomplishments during the year, including several prestigious service awards, show what we can achieve by all working together as a team to enhance our customers' experience.

"Our fleet renewal program is well underway. In 2007, Air Canada introduced next-generation Boeing 777-300ER and 777-200LR aircraft, becoming the first carrier in North America to operate this fuel efficient, customer friendly aircraft. In addition, two-thirds of the planned refurbishment of our existing fleet has been completed. The fleet renewal as well as our leadership in customer focused initiatives such as mobile check-in and self-serve kiosks enhance our brand as a leading North American carrier."

For 2007, Air Canada reported record operating income of $433 million compared to operating income of $236 million in 2006, excluding special charges, an improvement of $197 million. The airline recorded net income for 2007 of $429 million, which included net gains on foreign currency monetary items of $317 million, compared to a net loss of $74 million in 2006, which included the special charges for Aeroplan miles and labour restructuring of $122 million and net gains on foreign currency monetary items of $12 million.

2008 Outlook

Air Canada expects its full year 2008 capacity as measured in available seat miles (ASM) to increase between 2.5 and 4 per cent, both for the Canadian market and on a system-wide basis. The airline expects its ASM capacity in the first quarter of 2008 to increase between 5 and 6 per cent compared to 2007, primarily due to its planned ASM growth in Canada of between 6 and 7 per cent.

CASM, excluding fuel, is expected to improve between 2 and 3 per cent in the first quarter of 2008 compared to the first quarter of 2007. Air Canada expects full year 2008 CASM, excluding fuel, to improve between 0.25 to 1.5 per cent as compared to the full year 2007.

Operating income in 2008 will be negatively impacted by an expected increase in depreciation of between $120 million and $140 million compared to 2007, reflecting our 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 par with the U.S. dollar in the first quarter of 2008 and throughout the full year 2008. Air Canada has also assumed that growth in North America and globally will slow in 2008 but that an economic recession will not take place, despite an increasing risk of one 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 76 cents per litre in the first quarter and 74 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."

2007 Accomplishments- Introduced five Boeing 777-300ER aircraft and three 777-200LR aircraft in 2007. Air Canada is the first North American carrier to operate these aircraft types and, to date, has taken delivery of nine Boeing 777 aircraft of 18 to be delivered by 2009.

- Took delivery of 24 Embraer E190 aircraft in 2007 bringing the total of Embraer 190 aircraft delivered to date to 43 of 45 on order. We expect the remaining two aircraft to be delivered in the first quarter 2008.

- Completed two-thirds of the planned fleet refurbishment including 66 of 86 narrowbodies and 15 of 35 widebodies. Remaining aircraft are planned to undergo refurbishment by the end of 2008, with the exception of the Airbus A330 aircraft which are expected to be completed by early 2009.

- Recorded a fourth consecutive year of record load factors. Full year 2007 passenger load factor reached 80.6 per cent versus 80.2 per cent in 2006. Fourth quarter load factor was 77.8 per cent, identical to the fourth quarter of 2006.

- Average staffing levels in 2007 increased by almost 300 or one per cent on a full time equivalent (FTE) basis compared to 2006, mostly reflecting additional pilots, flight attendants and ground handling personnel to support additional capacity.

- Employee productivity, as measured by ASMs per FTE, increased 1.6 per cent in 2007 versus 2006.

- Contributed $378 million to funding its employees' defined benefit pension plans for 2007, in accordance with the OSFI agreement, of which $134 million represented funding of past service costs.

- Paid out $29.2 million to Air Canada employees under its 'Sharing Our Success' monthly incentive program.

- In 2007, 45 per cent of domestic consumers chose a higher branded fare than Tango, our lowest fare.

- Revenues from Flight Pass products increased 87 per cent over 2006, and represented approximately 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. The launch of the Hong Kong/China Pass and the expanded Sun Passes significantly enlarged the geographical reach of the Flight Pass product.

- Web penetration for domestic Canada sales in 2007 was 63 per cent, a 10 percentage point increase from 2006. Web penetration for combined Canada and U.S. transborder sales was 52 per cent - an 11 percentage point increase over 2006. In the fourth quarter, combined Canada and U.S. web penetration was 55 per cent, a 9 percentage point increase over the same period 2006.

- 73 per cent of domestic Canada sales in 2007, or 61 per cent when combined with U.S. sales, were made directly with Air Canada, either online or through call centres.

- 57 per cent of Air Canada's customers used self-serve check-in products world wide in the fourth quarter.

- Expanded mobile check-in services with the introduction of paperless boarding passes.

- Introduced self-service kiosks for baggage tagging in Toronto, Montreal and Vancouver airports.

- Since launching a carbon offset program in May 2007, Air Canada customers have financed the planting of more than 1,200 trees to offset 6 tonnes of carbon emissions, the equivalent of taking over 2,000 cars off the road for a year.

- Celebrated Air Canada's 70th anniversary with the participation of thousands of employees and customers at events showcasing the new Boeing 777 aircraft and onboard product.

- Launched Olympic and Paralympic sponsorships: official airline of the 2010 Olympic and Paralympic Winter Games, official transportation provider for Canadian Olympic teams to Beijing 2008, Vancouver 2010 and London 2012, and donated $600,000 to the Canadian Paralympic Committee.

- Ranked 'Best Airline in North America' for the second time in three years in a passenger survey of 14 million air travelers conducted by Skytrax.

- Voted 'Best Airline in North America' and 'Best Airline in Canada' by the readers of U.S. frequent flyer magazine, Global Traveler, and 'Best Airline in Canada' by the readers of Business Traveler magazine.

- Named the favourite scheduled airline of Canada's travel agents in the Eighth Annual Agents' Choice Awards for the Canadian Travel Industry based on a survey of travel agents conducted by Baxter Travel Media.

- Received Air Transport World magazine's 2007 Airline Industry Achievement Award for Market Leadership.

- Recognized for innovation by the Canadian Information Productivity Awards (CIPA), for Air Canada's Corporate Flight Pass, web check-in and kiosk products.

(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, amortization and obsolescence 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 2007 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 Initial Annual Information Form dated March 27, 2007, 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 attacks, 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 17) of Air Canada's MD&A dated February 6, 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 but that an economic recession will not take place, despite an increasing risk of one in the United States. Air Canada has also assumed that the Canadian dollar will trade, on average, at par with the U.S. dollar in the first quarter 2008 and throughout the full year 2008 and that the price of fuel will average 76 cents per litre in the first quarter and 74 cents per litre for the full year 2008 (both net of current hedging positions).

Highlights

The following table provides the reader with financial and operating highlights for Air Canada, excluding the consolidation of Jazz Air LP ("Jazz") operations (previously "Air Canada Services") for the periods indicated.

($ millions, except per share figures)	Fourth Quarter 2007	2006	Change $
Financial			
Operating revenues	2,513	2,423	90
Operating income	72	(5)	77
Operating income, excluding special charges(1)	72	(13)	85
Non-operating expenses	(52)	(52)	-
Income (loss) before non-controlling interest, foreign exchange and provision for income taxes	20	(57)	77
Income (loss) for the period	35	(144)	179
Operating margin %	2.9%	-0.2%	3.1 pp
Operating margin %, excluding special charges(1)	2.9%	-0.5%	3.4 pp
EBITDAR(2)	274	213	61
EBITDAR, excluding special charges(1)(2)	274	205	69
EBITDAR margin %	10.9%	8.8%	2.1 pp
EBITDAR margin %, excluding special charges(1)	10.9%	8.5%	2.4 pp
Cash, cash equivalents and short-term investments	1,239	2,110	(871)
Free cash flow	(892)	(365)	(527)
Adjusted debt/equity ratio, excluding PDP financing	65.4%	65.7%	(0.3)pp
Earnings per share - basic(3)	$ 0.35	$(1.55)	$ 1.90
Earnings per share - diluted(3)	$ 0.35	$(1.55)	$ 1.90
Operating Statistics			Change %
Revenue passenger miles (millions) (RPM)	11,446	11,160	2.6
Available seat miles (millions) (ASM)	14,715	14,343	2.6
Passenger load factor	77.8%	77.8%	-
Passenger revenue yield per RPM (cents)(4)	18.9	18.5	2.1
Passenger revenue per ASM (cents)(4)	14.7	14.4	2.1

Operating revenue per ASM (cents)(4)	17.0	16.9	0.4
Operating expense per ASM ("CASM") (cents)	16.6	16.9	(2.0)
CASM, excluding fuel expense (cents)	12.4	12.9	(3.5)
CASM, excluding fuel expense and the special charge for labour restructuring (cents)(1)	12.4	12.9	(3.9)
Average number of full-time equivalent (FTE) employees (thousands)	23.9	23.3	2.5
Aircraft in operating fleet at period end(5)	340	332	2.4
Average fleet utilization (hours per day)(6)	9.3	9.1	2.2
Average aircraft flight length (miles)(6)	851	847	0.5
Fuel price per litre (cents)(7)	67.5	64.1	5.3
Fuel litres (millions)	905	906	(0.1)

	Year		
($ millions, except per share figures)	2007	2006	Change $
Financial			
Operating revenues	10,646	10,164	482
Operating income	433	114	319
Operating income, excluding special charges(1)	433	236	197
Non-operating expenses	(122)	(191)	69
Income (loss) before non-controlling interest, foreign exchange and provision for income taxes	311	(77)	388
Income (loss) for the period	429	(74)	503
Operating margin %	4.1%	1.1%	3.0 pp
Operating margin %, excluding special charges(1)	4.1%	2.3%	1.8 pp
EBITDAR(2)	1,263	948	315
EBITDAR, excluding special charges(1)(2)	1,263	1,070	193
EBITDAR margin %	11.9%	9.3%	2.6 pp
EBITDAR margin %, excluding special charges(1)	11.9%	10.4%	1.5 pp
Cash, cash equivalents and short-term investments	1,239	2,110	(871)
Free cash flow	(2,233)	(652)	(1,581)
Adjusted debt/equity ratio, excluding PDP financing	65.4%	65.7%	(0.3)pp
Earnings per share - basic(3)	$ 4.29	$(0.83)	$ 5.12
Earnings per share - diluted(3)	$ 4.27	$(0.83)	$ 5.10

Operating Statistics			Change %
Revenue passenger miles (millions) (RPM)	50,629	48,993	3.3
Available seat miles (millions) (ASM)	62,814	61,083	2.8
Passenger load factor	80.6%	80.2%	0.4 pp
Passenger revenue yield per RPM (cents)(4)	18.4	18.1	1.6

Passenger revenue per ASM (cents)(4)	14.8	14.5	2.1
Operating revenue per ASM (cents)(4)	17.0	16.6	1.9
Operating expense per ASM ("CASM") (cents)	16.3	16.5	(1.2)
CASM, excluding fuel expense (cents)	12.2	12.3	(0.8)
CASM, excluding fuel expense and the special charge for labour restructuring (cents)(1)	12.2	12.3	(0.4)
Average number of full-time equivalent (FTE) employees (thousands)	23.9	23.6	1.3
Aircraft in operating fleet at period end(5)	340	332	2.4
Average fleet utilization (hours per day)(6)	9.8	9.5	3.2
Average aircraft flight length (miles)(6)	874	873	0.1
Fuel price per litre (cents)(7)	65.6	66.2	(1.0)
Fuel litres (millions)	3,873	3,813	1.6

(1) A special charge for labour restructuring of $28 million was recorded in the first quarter of 2006. The fourth quarter of 2006 includes a favourable adjustment of $8 million relating to the special charge for labour restructuring recorded in the first quarter of 2006. A special charge of $102 million was recorded to operating revenues in the third quarter of 2006 in connection with Air Canada's obligation for the redemption of pre-2002 Aeroplan miles.

(2) See section 19 "Non-GAAP Financial Measures" in Air Canada's 2007 MD&A for a reconciliation of EBITDAR to operating income.

(3) Earnings per share - basic and diluted are the consolidated Air Canada figures as reported under GAAP.

(4) Yield and RASM percentage changes for the fourth quarter of 2007 exclude a favourable adjustment of $26 million relating to a change in accounting estimates.

(5) Operating fleet excludes chartered freighters in 2007 and 2006. 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 fuel hedging expenses.%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; Internet: aircanada.com