



# AIR CANADA

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# Air Canada reports third quarter results; posts record operating income

As a result of the deconsolidation of Jazz effective May 24, 2007, Air Canada's consolidated results for the third quarter of 2007 and for the first nine months of 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").

## 2007 THIRD QUARTER OVERVIEW

- Record operating income of \$351 million in the third quarter, an increase of \$119 million or 51.3 per cent, compared to \$232 million (excluding special charge) in the 2006 quarter.
- Net income of \$273 million in the third quarter compared to \$44 million in the 2006 quarter.
- Passenger revenues of \$2,660 million, increased \$108 million or 4.2 per cent over the third quarter of 2006, mainly driven by a 3.1 per cent growth in traffic.
- Unit cost reduced by 4.4 per cent over the 2006 quarter. Excluding fuel expense, unit cost declined 2.4 per cent from the third quarter of 2006.
- EBITDAR of \$561 million in the quarter compared to EBITDAR (excluding special charge) of \$437 million in the third quarter of 2006, an increase of \$124 million.

MONTREAL, Nov. 9 /CNW Telbec/ - Air Canada today reported record operating income of \$351 million, an increase of \$119 million or 51.3 per cent from the third quarter of 2006 (excluding a special Aeroplan Miles charge of \$102 million in 2006), due to an increase in operating revenues of \$93 million or 3 per cent, combined with a decrease in operating expenses of \$26 million or 1 per cent.

The airline reported net income for the third quarter of \$273 million, which included net gains on foreign currency monetary items of \$104 million, compared to net income of \$44 million in the third quarter of 2006 which included losses on foreign currency monetary items of \$3 million.

Passenger revenues increased \$108 million or 4.2 per cent over the third quarter of 2006 mainly due to traffic growth of 3.1 per cent on a capacity increase of 3.5 per cent. System revenue per available seat mile (RASM) rose 0.7 per cent compared to the third quarter of 2006 due to a 1.1 per cent growth in yield, as measured by passenger revenue per revenue passenger mile. As a result of Air Canada's decision to reduce freighter capacity, cargo revenues decreased by \$26 million from the third quarter of 2006.

Unit cost, as measured by operating expense per available seat mile (CASM), decreased 4.4 per cent from the third quarter of 2006. Excluding fuel expense, unit cost declined 2.4 per cent over the third quarter of 2006 and included unit cost reductions in aircraft maintenance, materials and supplies, and commissions. The reduction in operating expense year over year included a decrease of \$45 million in fuel expense as a result of the favourable impact of a stronger Canadian dollar versus the US dollar, hedging gains in the third quarter of 2007 and the introduction of new, more fuel-efficient aircraft to the fleet.

EBITDAR amounted to \$561 million, an increase of \$124 million (excluding special charge) from the third quarter of 2006.

"I am very pleased to report a strong third quarter highlighted by record operating income that resulted from both strong revenue growth and reduced unit costs," said Montie Brewer, President and Chief Executive Officer. "Our domestic Canada and U.S. transborder markets performed well, with significant revenue and yield growth as we continued to effectively manage capacity in the softer U.S. market. Looking forward, with the exception of continuing weakness on the Atlantic, system wide bookings remain solid."

Continued Mr. Brewer, "Our new business model continues to perform well, delivering increases in yields and unit revenues, while reducing unit costs. In fact, I'm very pleased to note that unit costs in every major cost area were flat or down from one year ago. Almost two thirds of our domestic sales are online, and three quarters direct with Air Canada - one of the highest penetration rates of any major international carrier - resulting in substantially lower distribution costs. I would like to thank all our employees who have contributed to the tremendous progress we have made in the quarter. As always, they demonstrated their deep commitment to serving our customers by exceeding our targets for both customer service and on-time performance for the quarter."

Consistent with Air Canada's strategy of leveraging new technologies to simplify business processes and the travel experience for its customers, in the quarter the carrier became one of the first airlines in the world to introduce paperless mobile boarding passes, and is well on its way to eliminate paper tickets, ahead of industry targets. Customer feedback on the carrier's new Embraer aircraft in its North American fleet and new Boeing 777 aircraft in its international fleet has been extremely positive. In addition, with approximately half of the planned fleet refurbishment completed to offer a streamlined in-flight product network wide, Air Canada is well positioned to fully leverage its international network through its hubs in Toronto, Vancouver and Montreal.

Year to date, Air Canada reported operating income of \$361 million, an

increase of \$112 million over the same period in 2006 excluding special charges. The year-to-date results for 2006 included the special charge for Aeroplan miles of \$102 million and a special charge for labour restructuring of \$28 million. For the first three quarters, operating revenues increased by \$290 million, or 3.7 per cent, to \$8,133 million versus \$7,843 million, excluding the special charge, for the same period in 2006. Net income was \$394 million year to date, versus \$70 million for the same period the previous year.

For the fourth quarter, capacity is expected to increase by approximately 2.5 per cent versus the comparable period in 2006. CASM, excluding fuel expense, is expected to decrease at a slightly lower rate, year over year, than experienced in the third quarter of 2007.

For the full year 2007, it is expected that capacity will have increased by 3 per cent versus the full year 2006 and that CASM, excluding fuel expense, will have decreased by less than 1 per cent from 2006.

In 2008, Air Canada expects its capacity (ASM) to increase by 2.5 to 4 per cent, reflecting growth in each of its markets.

David Richardson to Succeed Robert Milton as Chairman of Board of

Directors

As has been previously disclosed, ACE Chairman and CEO Robert Milton will be retiring as Chairman of Air Canada and leaving the Board of Directors. The effective date will be January 1, 2008. Mr. Milton remains Chairman, President and CEO of ACE Aviation Holdings.

"Robert's contribution to the successful transformation of Air Canada cannot be over-stated," said Montie Brewer. "His passion for the business, consummate grasp of the industry and single-minded determination to succeed through new thinking and new ways of doing business made Air Canada what it is today. Under his leadership, the airline successfully fought off a hostile takeover attempt, completed a merger with Canadian Airlines and restructured the airline to allow it to compete effectively and profitably in today's environment.

"However, I believe that Robert's most important legacy at Air Canada will be the restructuring of a legacy carrier into several successful businesses which is now viewed by many as a blueprint for the industry. I will personally miss his steadfast leadership and support and on behalf of Air Canada's 23,000 employees thank him for his immense contribution to this great airline."

David I. Richardson, who currently serves on Air Canada's Board will succeed Mr. Milton as Chairman of Air Canada's Board of Directors. Mr. Richardson brings significant experience as a corporate director. He is also a director of Air Canada, Jazz Air Holding GP Inc. and a trustee of Aeroplan Income Fund. Mr. Richardson is the former Chairman of Ernst & Young Inc. (Canada) and a former Executive Partner of Ernst & Young LLP.

"The Air Canada executive team joins me in welcoming David onboard as our next Chairman," said Montie Brewer. "With his extensive business background and strong commitment as a corporate director, he has already made an invaluable contribution to the Board of Air Canada. I look forward to working with David in his new capacity."

#### Third Quarter 2007 Accomplishments

----- 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.

- Introduced one Boeing 777-200LR aircraft and one 777-300ER aircraft in the quarter. To date, Air Canada has taken delivery of five 777-300ER aircraft and two 777-200LR aircraft, and is the first North American carrier to operate these aircraft types.
- Took delivery of eight Embraer E190 aircraft in the quarter and four more since September 30th. To date, Air Canada has taken delivery of a total of 38 Embraer 190 aircraft of 45 on order.
- Recorded another three consecutive months of strong load factors, for year-to-date load factor of 81.5 per cent versus 80.9 for the first three quarters in 2006.
- Achieved on-time arrivals performance of 80.1 per cent in the quarter as measured by U.S. carriers, a 3 percentage point increase from the previous year.
- Completed almost half of the planned fleet refurbishment, with the majority of narrowbody aircraft expected to be completed by year-end 2007 and widebody aircraft by year-end 2008.
- As of today, hedged 50 per cent of fuel requirements for the fourth quarter of 2007 and 13 per cent of fuel requirements for 2008. Using equivalent WTI pricing, the remainder of 2007 is hedged at prices that can fluctuate between an average of US\$68 and US\$74 per barrel and 2008 is hedged at prices that can fluctuate between US\$74 and US\$79 per barrel.
- Year to date, 46 per cent of domestic consumers chose a higher branded fare, compared to 45 per cent in the previous year's first three quarters.
- Revenues from Flight Pass products increased 90 per cent over the third quarter of 2006, representing close to 4 per cent of North American revenues.

- Continued to expand its line of Flight Passes with the introduction of a Sun Pass to 18 countries, and Hong Kong and China passes for the first time to and from Asia.
- Web penetration for domestic Canada sales in the third quarter was 64 per cent, a 9.0 percentage point increase from the third quarter of 2006. Web penetration for combined Canada and U.S. transborder sales was 50 per cent - a 7 percentage point increase over the previous year's quarter.
- 74 per cent of domestic Canada sales for the third quarter, or 61 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-serve check-in products world wide in the third quarter.
- Expanded mobile check-in services with the introduction of paperless boarding passes.
- Expanded self-service kiosks for baggage tagging to Toronto hub, in addition to Montreal and Vancouver airports.

#### (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 Third Quarter 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](http://www.aircanada.com), for a reconciliation of EBITDAR to operating income.

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](http://www.sedar.com) or [www.aircanada.com](http://www.aircanada.com).

#### CAUTION REGARDING FORWARD-LOOKING INFORMATION

Certain statements in this news release may contain forward-looking statements. 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. Such statements may involve but are not limited to comments with respect to strategies, expectations, planned operations or future actions. Forward-looking statements, by their nature, are based on assumptions 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. Such statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements to differ materially from those expressed in the forward-looking statements. Results indicated in forward-looking statements may differ materially from actual results for a number of reasons, including without limitation, energy prices, general industry, market and economic conditions, war, terrorist attacks, changes in demand due to the seasonal nature of the business, the ability to reduce operating costs and employee counts, employee relations, labour negotiations or disputes, pension issues, currency exchange and interest rates, changes in laws, adverse regulatory developments or proceedings, pending and future litigation and actions by third parties as well as the factors identified throughout Air Canada's filings with securities regulators in Canada and, in particular, those identified in the Risk Factors section of Air Canada's 2006 Annual Management's Discussion & Analysis dated February 14, 2007 and in section 11 of Air Canada's Third Quarter 2007 Management's Discussion & Analysis dated November 8, 2007. The forward-looking statements contained herein represent Air Canada's expectations as of the date they are made and are subject to change after such date. However, Air Canada 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.

#### HIGHLIGHTS

Effective May 24, 2007, Air Canada no longer consolidates the operations of Jazz Air LP ("Jazz"). The following table provides the reader with financial and operating highlights for Air Canada, excluding the consolidation of Jazz operations (previously "Air Canada Services") for the periods indicated.

	Third Quarter		
(\$ millions, except per share figures)	2007	2006	Change \$

Financial

Operating revenues	2,954	2,759	195
Operating income	351	130	221
Operating income, excluding special charges (1)	351	232	119
Non-operating expenses	(45)	(53)	8
Income (loss) before non-controlling interest, foreign exchange and provision for income taxes	306	77	229
Income for the period	273	44	229
Operating margin %	11.9%	4.7%	7.2 pp
Operating margin %, excluding special charges (1)	11.9%	8.1%	3.8 pp
EBITDAR (2)	561	335	226
EBITDAR, excluding special charges (1) (2)	561	437	124
EBITDAR margin %	19.0%	12.1%	6.9 pp
EBITDAR margin %, excluding special charges (1)	19.0%	15.3%	3.7 pp
Cash, cash equivalents and short-term investments	1,502	1,422	80
Cash flows from operating activities	54	2	52
Earnings per share - basic and diluted (3)	\$ 2.73	\$ 0.50	\$ 2.23

#### Change %

#### Operating Statistics

Revenue passenger miles (millions) (RPM)	14,789	14,345	3.1
Available seat miles (millions) (ASM)	18,144	17,528	3.5
Passenger load factor	81.5%	81.8%	(0.3)pp
Passenger revenue yield per RPM (cents)	17.9	17.7	1.1
Passenger revenue per ASM (cents)	14.6	14.5	0.7
Operating revenue per ASM (cents)	16.3	15.7	3.4
Operating expense per ASM ("CASM") (cents)	14.3	15.0	(4.4)
CASM, excluding fuel expense (cents)	10.4	10.7	(2.4)
CASM, excluding fuel expense and the special charge for labour restructuring (cents) (1)	10.4	10.7	(2.4)
Average number of full-time equivalent (FTE) employees (thousands)	24.1	23.5	2.8
Aircraft in operating fleet at period end (4)	338	333	1.5
Average fleet utilization (hours per day) (5)	10.7	10.4	2.9
Average aircraft flight length (miles) (5)	911	920	(1.0)
Fuel price per litre (cents) (6)	64.7	69.9	(7.4)
Fuel litres (millions)	1,102	1,085	1.6

#### YTD

(\$ millions, except per share figures) 2007 2006 Change \$

#### Financial

Operating revenues	8,133	7,741	392
Operating income	361	119	242
Operating income, excluding special charges (1)	361	249	112
Non-operating expenses	(70)	(139)	69
Income (loss) before non-controlling interest, foreign exchange and provision for income taxes	291	(20)	311
Income for the period	394	70	324
Operating margin %	4.4%	1.5%	2.9 pp
Operating margin %, excluding special charges (1)	4.4%	3.2%	1.2 pp
EBITDAR (2)	989	735	254
EBITDAR, excluding special charges (1) (2)	989	865	124
EBITDAR margin %	12.2%	9.5%	2.7 pp
EBITDAR margin %, excluding special charges (1)	12.2%	11.0%	1.2 pp
Cash, cash equivalents and short-term investments	1,502	1,422	80
Cash flows from operating activities	347	371	(24)
Earnings per share - basic and diluted (3)	\$ 3.94	\$ 0.79	\$ 3.15

#### Change %

#### Operating Statistics

Revenue passenger miles (millions) (RPM)	39,183	37,833	3.6
Available seat miles (millions) (ASM)	48,099	46,740	4.7
Passenger load factor	81.5%	80.9%	0.6 pp
Passenger revenue yield per RPM (cents)	18.1	18.0	1.0
Passenger revenue per ASM (cents)	14.8	14.5	1.7
Operating revenue per ASM (cents)	16.9	16.6	2.1
Operating expense per ASM ("CASM") (cents)	16.2	16.3	(0.9)
CASM, excluding fuel expense (cents)	12.1	12.1	-
CASM, excluding fuel expense and the special charge for labour restructuring (cents) (1)	12.1	12.1	0.7
Average number of full-time equivalent (FTE) employees (thousands)	23.9	23.7	0.9
Aircraft in operating fleet at period end (4)	338	333	1.5
Average fleet utilization (hours per day) (5)	10.0	9.6	4.2
Average aircraft flight length (miles) (5)	881	882	(0.1)
Fuel price per litre (cents) (6)	65.0	67.0	(3.0)
Fuel litres (millions)	2,968	2,907	2.1

(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 14 "Non-GAAP Financial Measures" of Air Canada's third quarter 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) Operating fleet excludes chartered freighters in 2007 and 2006. Includes Jazz aircraft covered under the Jazz CPA.

(5) Excludes third party carriers operating under capacity purchase arrangements other than Jazz aircraft covered under the Jazz CPA (which are included).

(6) Includes fuel handling and fuel hedging expenses.

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