Aeroplan Income Fund Reports 2008 First Quarter Results

MONTREAL, May 9 /CNW Telbec/ - Aeroplan Income Fund (Fund) (TSX: AER.UN) today reported its 2008 first quarter results.

First Quarter 2008 Financial Highlights

- Gross billings of $342.7 million
- Operating income, excluding amortization of accumulation partners' contracts and technology, of $63.8 million
- Adjusted EBITDA of $77.6 million
- Distributable Cash of $64.0 million
- Increase in earnings per unit of 33.4% ($0.21 vs $0.16)

"Our first quarter results reflect solid financial performance and growth in gross billings, both on the Aeroplan and LMG fronts," said Rupert Duchesne, President and Chief Executive Officer, Aeroplan. "With the LMG and RMMEL acquisitions, we are well positioned to execute our strategy of becoming the global leader in loyalty management."

Financial Performance

Gross billings from the sale of miles, points and other loyalty program currencies issued by Aeroplan and its subsidiaries (Aeroplan Miles) for the three months ended March 31, 2008 amounted to $342.7 million compared to $228.0 million for the three months ended March 31, 2007, representing an increase of $114.7 million or 50.3%. Of this growth, $100.3 million is attributable to Aeroplan Miles sold by LMG and RMMEL, and $14.4 million, which represents a quarter-over-quarter increase of 6.3%, resulted from higher purchases by Aeroplan Program accumulation partners due to growth in consumer spending through credit and charge cards issued by such partners, and strength in the travel segment, slightly offset by lower activity from retail partners.

Operating income, excluding amortization of accumulation partners' contracts and technology, amounted to $63.8 million for the quarter ended March 31, 2008 compared to $48.1 million for the quarter ended March 31, 2007, representing an increase of $15.7 million or 32.6%. This increase is mainly attributable to higher reward redemption activity, including a higher proportion of Aeroplan Miles redeemed, higher gross margins and the inclusion of LMG and RMMEL in the consolidated results.

At the end of the first quarter, the Fund had $149.7 million of cash and cash equivalents and $383.7 million of short-term investments, for a total of $533.4 million including the Aeroplan redemption reserve of $400.0 million.

Adjusted EBITDA for the quarter amounted to $77.6 million or 22.6% (as a % of Gross Billings) and Distributable Cash generated amounted to $64.0 million or 18.7% (as a % of Gross Billings), compared to $60.0 million or 26.3% (as a % of Gross Billings) and $60.1 million or 26.4% (as a % of Gross Billings), respectively for the first quarter of 2007.

First Quarter 2008 Key Operational Achievements

Acquisitions

Rewards Management Middle East Limited (RMMEL)

On January 17, 2008, the Fund purchased an additional participation of 40% in RMMEL for a purchase price of AED 40.7 million ($11.4 million, including transaction costs). As a result of this transaction, the Fund now holds 60% of RMMEL.

The Fund will continue to pursue international expansion opportunities.

Partnerships

Turkish Airlines

Aeroplan announced the addition of Star Alliance carrier Turkish Airlines to its roster of airline partners, bringing Aeroplan's roster of airline partners to 30.

Groupe Dumoulin Eléctronique Inc

Aeroplan and Groupe Dumoulin Eléctronique Inc., the largest Canadian owned and operated consumer electronics retailer, announced a multi-year national partnership which will allow Aeroplan Members to accumulate miles across Dumoulin and Audiotronic's entire range of audio, video, camera, communications and computer products.

Primus

Aeroplan and Primus, the largest alternative communications carrier in

Canada, announced a multi-year national partnership which allows Aeroplan Members to accumulate miles across Primus' entire range of consumer products and services. Members may earn three miles for every dollar spent on Primus' suite of products and services, including home phone, long distance, wireless, and internet services, as well as Primus' bundled offerings. Members can also earn bonus miles when they sign up for Primus services.

ACE Secondary Offering

On April 2, 2008, ACE Aviation Holdings Inc. (ACE) announced an agreement with a group of underwriters to sell an aggregate of 20.4 million units of Aeroplan Income Fund at a price of $17.50 per unit, for gross proceeds of $357 million. This secondary offering, from which the Fund did not receive any proceeds, closed on April 21, 2008. Pursuant to an agreement reached with ACE dated May 9, 2008, it no longer has any rights to appoint members of the board of directors of Aeroplan Holding GP Inc.

LMG Continues VAT Appeal

On April 3, 2008, the Fund announced that HM Revenue & Customs' (HMRC) application for leave to appeal the decision in relation to the VAT treatment of Nectar to the House of Lords had been granted and that the case was referred to the European Court of Justice. The case will be heard at a future date to be set. LMG will continue to argue this case. The Fund remains confident that the case will be resolved to the company's satisfaction.

Corporate Structure

On May 9, 2008, the Fund announced that it has received board approval to reorganize its income trust structure into a growth oriented, dividend paying, global loyalty management public corporation. Further information is contained in the press release issued on May 9, 2008 titled Aeroplan Income Fund to Convert to a Corporation.

Non-GAAP Measures

In order to provide a better understanding of the results, the following terms are used: Adjusted Earnings Before Interest, Taxes, Depreciation and Amortization (Adjusted EBITDA)

EBITDA adjusted for certain factors particular to the business, such as changes in deferred revenue and future redemption costs (Adjusted EBITDA) is used by management to evaluate performance, and is used in measuring compliance with debt covenants and in making decisions relating to distributions to unitholders. Management believes Adjusted EBITDA assists investors in comparing a company's performance on a consistent basis without regard to depreciation and amortization, which are non-cash in nature and can vary significantly depending on accounting methods and non-operating factors such as historical cost.

Adjusted EBITDA is a non-GAAP measurement and may not be comparable with similar measures reported by other entities, and is not considered an alternative to operating income or net income in measuring performance. For reconciliation with GAAP, please refer to the Summary of Operating Results and Reconciliation of Adjusted EBITDA and Distributable Cash. Adjusted EBITDA should not be used as an exclusive measure of cash flow because it does not account for the impact of working capital growth, capital expenditures, debt repayment and other sources and uses of cash, which are disclosed in the statements of cash flows.

Refer to the Summary of Operating Results and Reconciliation of Adjusted EBITDA and Distributable Cash attached for a summary of operating results and reconciliation of Adjusted EBITDA and Distributable Cash.

Distributable Cash Distributable cash is a non-GAAP measure generally used by Canadian open-ended trusts as an indicator of financial performance, and it should not be seen as a measurement of liquidity or a substitute for comparable metrics prepared in accordance with GAAP. Distributable cash may differ from similar calculations as reported by other entities and, accordingly, may not be comparable to distributable cash as reported by such entities. Refer to the attached schedule for a reconciliation of cash flows from operations to Distributable Cash and Standardized Distributable Cash.

The unaudited interim consolidated financial statements and the Investor Presentation will be accessible on the investor relations website at aeroplan.com.

Quarterly Investor Conference Call / Audio Webcast

The Fund will hold an analyst call at 13:00 - 14:00 EDT on May 9, 2008 to discuss its first quarter results and the announcement relating to the proposed reorganization to a corporation. The call may be accessed by dialing toll free: 1-888-458-1598, or 416-883-0139 for the Toronto area, passcode 70570#. The call will be simultaneously audio webcast at http://events.onlinebroadcasting.com/aeroplan/051208/index.php

The conference call webcast and a presentation to investors and analysts will be archived on the investor relations website at www.aeroplan.com. A playback of the call will also be accessible until midnight EDT on June 9, 2008. The playback can be accessed at the same numbers above.

About Aeroplan Income Fund

Aeroplan Income Fund is an unincorporated, open-ended trust established under the laws of the Province of Ontario. Aeroplan Income Fund is the owner of Aeroplan Limited Partnership, Canada's premier loyalty marketing company and operator of the Aeroplan loyalty program and Loyalty Management Group Limited, operator of Nectar, the United Kingdom's leading coalition loyalty program. For more information about Aeroplan, please visit www.aeroplan.com.

Caution Concerning Forward-Looking Statements

This news release should be read in conjunction with the Fund's 2008 first quarter unaudited interim financial statements and MD&A dated May 8, 2008, filed with Canadian securities regulatory authorities (available at www.sedar.com). 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 and its corporate structure. Results indicated in forward-looking statements may differ materially from actual results for a number of reasons, including without limitation, dependency on top accumulation partners, Air Canada or travel industry disruptions, reduction in activity, usage and accumulation of Aeroplan Miles and Nectar points, retail market or economic downturn, greater than expected redemptions for rewards, industry competition, supply and capacity costs, unfunded future redemption costs, changes to the Aeroplan and Nectar Programs, seasonal nature of the business, regulatory matters, VAT appeal, appointment rights of ACE Aviation Holdings Inc. (ACE), foreign ownership limitations and impact on mutual fund trust status and value and liquidity of units, future sales or distributions of units by ACE, income tax matters, SIFT Rules, conversion to corporate structure, as well as the other factors identified throughout the MD&A. The forward-looking statements contained in this discussion represent the Fund's expectations as of May 8, 2008, and are subject to change after such date. However, the Fund 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.

SUMMARY OF CONSOLIDATED OPERATING RESULTS AND RECONCILIATION OF ADJUSTED EBITDA AND DISTRIBUTABLE CASH

(in thousands, except miles, unit and per unit information)	Three months ended March 31, 2008	2007(1)	% change
Gross Billings from the sale of Aeroplan Miles	$342,650	$227,977	50.3
Aeroplan Miles revenue	337,286	228,561	47.6
Tier management, contact centre management and marketing fees from Air Canada	2,824	3,701	(23.7)
Other revenue	16,105	13,052	23.4
Total revenue	356,215	245,314	45.2
Cost of rewards	(223,227)	(155,134)	43.9
Gross margin	132,988	90,180	47.5
Selling, general and administrative	(64,511)	(39,403)	63.7
Depreciation and amortization	(4,672)	(2,704)	72.8
Operating income before amortization of Accumulation Partners' contracts and technology	$63,805	$48,073	32.7
Depreciation and amortization	4,672	2,704	
Change in deferred revenue			
Gross Billings from the sale of Aeroplan Miles	342,650	227,977	
Aeroplan Miles revenue	(337,286)	(228,561)	
Change in Future Redemption Costs(2)			
(Change in Net Aeroplan Miles outstanding x Average cost of rewards per Mile for the period)	(574)	9,787	(105.9)
Foreign exchange gain	4,313	-	
Adjusted EBITDA	$77,580	$59,980	29.3
Net Interest Income (Expense)	(6,725)	2,513	(367.6)
Maintenance Capital Expenditures	(6,865)	(2,373)	189.3
Distributable Cash	$63,990	$60,120	6.4
Standardized Distributable Cash	$17,538	$70,856	(75.2)
Weighted average number of units	199,402,619	199,539,544	
Distributable Cash per unit	$0.32	$0.30	6.7

Standardized Distributable Cash per unit	$0.09	$0.36	(75.0)
Adjusted net earnings(3) = Net earnings, in accordance with GAAP + amortization of Accumulation Partners' contracts and technology + income taxes	$61,780	$50,116	23.3
Earnings per unit, in accordance with GAAP, adjusted for amortization of Accumulation Partners' contracts and technology and income taxes	$0.31	$0.25	24.0
Total monthly distributions declared	$41,994	$42,000	-
Total monthly distributions declared per unit	$0.21	$0.21	-

(1) 2007 results presented for comparative purposes are those of the Partnership;
(2) The per unit cost derived from this calculation is retroactively applied to all prior periods with the effect of revaluing the liability on the basis of the latest available average unit cost;
(3) Adjusted net earnings is a non-GAAP measurement.

RECONCILIATION OF CASH FLOWS FROM OPERATIONS TO STANDARDIZED DISTRIBUTABLE CASH AND DISTRIBUTABLE CASH

(in thousands)	Three months ended March 31, 2008	2007(3)
Cash flows from operations	$24,403	$73,229
Maintenance Capital Expenditures	(6,865)	(2,373)
Standardized Distributable Cash	17,538	70,856
Changes in non-cash working capital, foreign exchange and other items(1)	44,347	(21,235)
Stock Based compensation(1)	(1,072)	(817)
Funding of stock-based compensation plans(1)	3,751	1,529
Change in future redemption costs(2)	(574)	9,787
Distributable Cash	$63,990	$60,120
Distributions declared	$41,994	$42,000
Payout ratio - Distributions declared / Standardized Distributable Cash	239%	59%
Payout ratio - Distributions declared / Distributable Cash	66%	70%
Standardized Cumulative Distributable Cash since IPO (June 29, 2005)	$786,116	
Cumulative distributions declared since IPO	$427,194	
Cumulative payout ratio since inception	54%	

(1) The impact of the respective items is considered in the calculation of Standardized Distributable Cash but they are not part of the Distributable Cash definition in accordance with the Limited Partnership Agreement. This eliminates the potential impact of timing distortions relating to the respective items;
(2) Changes in future redemption costs are included to reflect the expected change in the future redemption liability on the basis of the most recently experienced redemption costs;
(3) 2007 results presented for comparative purposes are those of the Partnership.

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