AIR CANADA

News Releases

Air Canada reports 2010 second quarter results

Operating Income Improves $188 Million, EBITDAR Increases 147 per cent from Previous Year's Quarter

MONTREAL, Aug. 5 /CNW Telbec/ - Air Canada today reported operating income of $75 million in the second quarter of 2010 compared to an operating loss of $113 million in the second quarter of 2009, an improvement of $188 million. Earnings before interest, taxes, depreciation, amortization and aircraft rent (EBITDAR) of $333 million increased $198 million from the second quarter of 2009 (an increase of 147 per cent). These results were in line with the preliminary range of operating income of $60 million to $80 million, and EBITDAR of $320 million to $340 million, announced in Air Canada's news release dated July 20, 2010.

"I am pleased to report stronger second quarter results that underscore the progress we've made on maximizing revenues and reducing costs, and also reflect encouraging signs of a gradual economic recovery," said Calin Rovinescu, President and Chief Executive Officer. "Although we are not at 2008 levels, premium revenue and yields have increased over the past two quarters. While there remains much work to do, over the past 15 months, we have met many of the objectives we set out to achieve - namely to build adequate liquidity and achieve strong revenue management and better cost control while expanding our international network."

Passenger revenues increased $256 million or 12 per cent from the second quarter of 2009 due to an 8.7 per cent growth in traffic and a 3.3 per cent improvement in yield. A strengthening economy, combined with revenue generation initiatives attributable to Air Canada's Cost Transformation Program (the "CTP") contributed to the improved result. A capacity growth of 5.3 per cent in the second quarter of 2010, driven by increased international and U.S. transborder flying, was achieved through increased aircraft utilization. The capacity growth in the quarter is consistent with one of Air Canada's 2010 key priorities to expand its international operations and to leverage its Toronto hub as a global transfer point for international travelers en route to domestic, U.S. transborder and international destinations.

"Asian and European markets in which we added capacity are performing well, led by our Pacific routes which recorded a 37 per cent increase in revenue from the previous year's quarter on strong traffic and yield growth," said Mr. Rovinescu. "Much of this international traffic growth can be attributed to our added focus on capturing connecting traffic at our Toronto and other Canadian hubs, as well as to our participation in the A++ transatlantic joint venture, which is in the process of being finalized."

Passenger revenue per available seat mile ("RASM") increased 6.6 per cent from the second quarter of 2009, due to both yield growth of 3.3 per cent and a passenger load factor improvement of 2.6 percentage points. Air Canada estimates that a stronger Canadian dollar in the second quarter of 2010 versus the second quarter of 2009 accounted for a decrease of $102 million to second quarter 2010 foreign currency passenger revenues, on a system-wide basis, and reduced the RASM improvement by 4.8 percentage points. Excluding the foreign exchange impact, Air Canada estimates that system RASM would have increased by 11.4 per cent. The 6.6 per cent passenger RASM growth in the second quarter of 2010 was as announced in Air Canada's news release dated July 20, 2010.

Premium cabin revenue growth accounted for almost half the total year-over-year increase in system passenger revenues in the second quarter of 2010, driven by a 15.8 per cent increase in traffic and a 12.9 per cent yield improvement. A gradual return of business traffic together with initiatives undertaken to improve revenue quality, one of Air Canada's 2010 key priorities, led to this strong improvement in premium cabin yield. Although the premium revenue growth reflected a significant improvement from the second quarter of 2009, premium cabin revenues and yield remained below second quarter of 2008 levels. RASM in the premium cabin increased 24.1 per cent year-over-year but still remained below the second quarter of 2008 level. When compared to the second quarter of 2008, second quarter 2010 premium RASM decreased 2.9 per cent. However, this was an improvement from the year-over-year decline experienced in the first quarter of 2010 where premium RASM decreased 5.2 per cent when compared to the first quarter of 2008.

Operating expenses increased $107 million or 4 per cent from the second quarter of 2009, mainly due to the capacity growth, higher fuel prices year-over-year, as well as increases in pension and commission expenses. Partially offsetting these increases was the impact of a stronger Canadian dollar on foreign currencies compared to the second quarter of 2009, which is estimated to have reduced operating expenses by $151 million from the same period in 2009, as well as a reduction in aircraft maintenance expense year-over-year. CTP initiatives also reduced various operating expense categories, including in relation to wages and salaries, capacity purchase fees with Jazz, airport user fees, information technology, terminal handling, advertising and promotion, and "other" operating expenses.

Unit cost, as measured by operating expense per available seat mile ("CASM"), decreased 0.9 per cent compared to the second quarter of 2009. Excluding fuel expense, CASM decreased 4.2 per cent year-over-year and was as announced in Air Canada's news release dated July 20, 2010. The favourable impact of a stronger Canadian dollar on foreign currency denominated operating expenses (mainly U.S. dollars) was the largest contributing factor in the decrease in CASM (excluding fuel expense) in the second quarter of 2010. Partly offsetting these decreases were increases in employee benefits and commission expenses.

Air Canada estimates that disruptions to its transatlantic flying schedule following the closure of European airspace in mid-April due to volcanic ash had a negative impact of approximately $20 million on its operating income in the second quarter.

Air Canada reported a net loss of $203 million in the second quarter of 2010 which included a charge of $54 million in interest expense relating to its secured term credit facility, and foreign exchange losses of $156 million. This compared to net income of $155 million in the second quarter of 2009 which included gains on foreign exchange of $355 million.

Air Canada reported a loss per diluted share of $0.72 in the second quarter of 2010 on an unadjusted basis. On an adjusted basis, the airline reported a loss per diluted share of $0.26 in the second quarter of 2010. Loss per share is adjusted to remove Air Canada's losses on foreign exchange of $156 million in the second quarter of 2010.

At June 30, 2010, Air Canada's cash, cash equivalents and short-term investments amounted to $1.815 billion and represented almost 18 per cent of 12-month trailing operating revenues. At July 31, 2010, Air Canada's cash balances amounted to approximately $1.8 billion.

On August 3, 2010, Air Canada completed a private offering of two series of senior secured notes, consisting of US$600 million senior secured first lien notes due 2015 and $300 million senior secured first lien notes due 2015. On August 3, 2010, Air Canada also completed a private offering of US$200 million senior secured second lien notes due 2016. Air Canada received net proceeds of $1.075 billion, after deduction of fees, expenses and discounts. Air Canada used approximately $729 million of the net proceeds of the offerings to repay all of the outstanding debt under its secured term credit facility.

Continued Mr. Rovinescu, "By accessing both U.S. and Canadian capital markets, we now have current liquidity levels over $2 billion, exceeding our previously stated liquidity target of 15 per cent of 12-month trailing operating revenues. We have made solid progress on CTP initiatives over the past quarter and, as a result, we have increased our targets for 2010 from $270 million to $300 million. Our target for the end of 2011 has also been increased to $530 million from $500 million, on a run-rate basis.

"Our employees' renewed focus on customer service and delivering an award-winning product are reflected in continued improvements year-over-year in customer satisfaction ratings. Air Canada has received a number of prestigious industry awards over the past months. In the second quarter, the Skytrax worldwide survey of more than 17 million air travelers ranked Air Canada as 'Best Airline in North America.'

"These achievements reflect the on-going transformation underway at Air Canada. They are the result of a tremendous team effort on the part of the people of Air Canada, and I want to thank everyone for their hard work and intent focus on our priorities over the past 15 months. So far we've accomplished much of what we set out to do - together, we are building a strong and financially sustainable Air Canada that we can all be proud of."

Current Outlook

As announced in Air Canada's news release dated July 20, 2010, Air Canada plans to increase its full year 2010 system capacity, as measured by available seat miles ("ASMs"), by 6 to 7.5 per cent and plans to increase full year 2010 domestic ASM capacity by up to 1.0 per cent, from the full year 2009 levels. This capacity increase is expected to be achieved without adding incremental aircraft to Air Canada's fleet, through increased utilization of the fleet. Also as announced in Air Canada's new release dated July 20, 2010, Air Canada expects its full year 2010 CASM, excluding fuel expense, to decrease from the full year 2009 level by 3.5 to 4.5 per cent. For the third quarter of 2010, Air Canada plans to increase its system ASM capacity by 7.0 to 8.0 per cent compared to the third quarter of 2009 and expects CASM, excluding fuel expense, to decrease from the third quarter of 2009 level by 4.5 to 5.5 per cent.

In mid-2009, Air Canada launched the CTP, identifying and implementing initiatives with a goal of generating annualized revenue gains and cost savings, including through contract and operating process improvements and productivity gains. Air Canada's efforts in optimizing revenues through CTP initiatives have identified new opportunities and enhanced existing ones. As a result, Air Canada has increased its target for 2010 from $270 million to $300 million and its overall target of $500 million to $530 million for the end of 2011, on a run-rate basis, from what was disclosed in its news release of May 6, 2010. To date, Air Canada achieved, on a run-rate basis, $275 million of the $300 million CTP target for 2010 and $300 million of the overall $530 million CTP target for the end of 2011. Air Canada views the CTP as one of its most important priorities.

Air Canada's outlook assumes that the North American economy will continue to slowly recover in 2010. In addition, Air Canada expects that the Canadian dollar will trade, on average, at C$1.04 per U.S. dollar in the third quarter of 2010 and for the full year 2010 and that the price of fuel will average 67 cents per litre in the third quarter of 2010 and 69 cents per litre for the full year 2010 (both net of fuel hedging positions).

The following table summarizes Air Canada's above-mentioned outlook and related major assumptions for the third quarter of 2010 and for the full year 2010:

	Full Year 2010 versus Full Year 2009	Third Quarter 2010 versus Third Quarter 2009
Current Outlook		
Available seat miles (System)	increase 6 to 7.5%	increase 7.0 to 8.0%
Available seat miles (Canada)	increase up to 1.0%	
CASM, excluding fuel expense	decrease 3.5 to 4.5%	decrease 4.5 to 5.5%
Major Assumptions		
Canadian dollar per U.S. dollar	1.04	1.04
Fuel price - Cents per litre (net of fuel hedging)	69 cents	67 cents
North American economy	continued slow recovery	continued slow recovery

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

Air Canada uses adjusted earnings (loss) per share to assess share performance without the effects of foreign exchange gains (losses). This measure is not a recognized measure for financial statement presentation under Canadian GAAP and does not have a standardized meaning and is therefore not likely to be comparable to similar measures presented by other public companies.

EBITDAR is a non-GAAP financial measure commonly used in the airline industry to assess earnings before interest, taxes, depreciation, amortization 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.

Air Canada's Interim Unaudited Consolidated Financial Statements and Notes and its Management's Discussion and Analysis (MD&A) for the second quarter of 2010 are available on Air Canada's website at www.aircanada.com, and will be filed on SEDAR at www.sedar.com. Readers should refer to Air Canada's Second Quarter 2010 MD&A for a reconciliation of EBITDAR to operating income (loss).

For further information on Air Canada's public disclosure file, including Air Canada's Annual Information Form dated March 26, 2010, refer to Air Canada's website at www.aircanada.com or consult SEDAR at www.sedar.com.

CAUTION REGARDING FORWARD-LOOKING INFORMATION

This press release includes forward-looking statements within the meaning of applicable securities laws. 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 preliminary results, guidance, strategies, expectations, planned operations or future actions. Forward-looking statements are identified by the use of terms and phrases such as "preliminary", "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 herein and are subject to important risks and uncertainties. Forward-looking statements cannot be relied upon due to, amongst other things, changing external events and general uncertainties of the business. Actual results may differ materially from results indicated in forward-looking statements due to a number of factors, including without limitation, industry, market, credit and economic conditions, the ability to reduce operating costs and secure financing, pension issues, energy prices, currency exchange and interest rates, employee and labour relations, competition, war, terrorist acts, epidemic diseases, environmental factors (including weather systems and other natural phenomena, such as volcanic eruptions, and factors arising from man-made sources), insurance issues and costs, changes in demand due to the seasonal nature of the business, 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 news release and those identified in section 13 "Risk Factors" of Air Canada's Second Quarter MD&A and section 19 "Risk Factors" of Air Canada's 2009 MD&A. The forward-looking statements contained in this news release represent Air Canada's expectations as of the date of this news release (or as of the date they are otherwise stated to be 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

The financial and operating highlights for Air Canada for the periods indicated are as follows.

(Canadian dollars in millions, except per share figures or where otherwise indicated)	Second Quarter 2010	2009	Change $
Financial			
Operating revenues	2,625	2,330	295
Operating income (loss)	75	(113)	188
Non-operating expense	(147)	(80)	(67)
Loss before non-controlling interest, foreign exchange and income taxes	(72)	(193)	121
Income (loss) for the period	(203)	155	(358)
Operating margin %	2.9%	(4.8%)	7.7 pp
EBITDAR(1)	333	135	198
EBITDAR margin %(1)	12.7%	5.8%	6.9 pp
Cash, cash equivalents and short-term investments	1,815	907	908
Free cash flow(2)	297	(140)	437
Adjusted debt/equity ratio %(3)	81.0%	89.7%	(8.7) pp
Net income (loss) per share - basic and diluted	($0.72)	$1.55	($2.27)
Operating Statistics			Change %
Revenue passenger miles (millions) (RPM)	12,896	11,862	8.7
Available seat miles (millions) (ASM)	15,523	14,735	5.3
Passenger load factor %	83.1%	80.5%	2.6 pp
Passenger revenue per RPM (cents)	17.9	17.3	3.3
Passenger revenue per ASM (cents)	14.8	13.9	6.6
Operating revenue per ASM (cents)	16.9	15.8	7.0
Operating expense per ASM ("CASM") (cents)	16.4	16.6	(0.9)
CASM, excluding fuel expense (cents)	12.2	12.7	(4.2)
Average number of full-time equivalent (FTE) employees (thousands)(4)	23.1	23.2	(0.8)
Aircraft in operating fleet at period end(5)	328	334	(1.8)
Average fleet utilization (hours per day)(6)	9.7	9.2	5.4
Average aircraft flight length (miles)(6)	853	837	1.9
Fuel price per litre (cents)(7)	71.1	65.4	8.7

Fuel litres (millions)	924	870	6.2

(Canadian dollars in millions, except per share figures or where otherwise indicated)	First Six Months		
	2010	2009	Change $
Financial			
Operating revenues	5,144	4,721	423
Operating income (loss)	(51)	(301)	250
Non-operating expense	(222)	(189)	(33)
Loss before non-controlling interest, foreign exchange and income taxes	(273)	(490)	217
Income (loss) for the period	(288)	(245)	(43)
Operating margin %	(1.0%)	(6.4%)	5.4 pp
EBITDAR(1)	471	192	279
EBITDAR margin %(1)	9.2%	4.1%	5.1 pp
Cash, cash equivalents and short-term investments	1,815	907	908
Free cash flow(2)	512	(79)	591
Adjusted debt/equity ratio %(3)	81.0%	89.7%	(8.7) pp
Net income (loss) per share - basic and diluted	($1.03)	($2.45)	$1.42
Operating Statistics			Change %
Revenue passenger miles (millions) (RPM)	24,588	22,846	7.6
Available seat miles (millions) (ASM)	30,250	28,557	5.9
Passenger load factor %	81.3%	80.0%	1.3 pp
Passenger revenue per RPM (cents)	17.9	17.8	0.6
Passenger revenue per ASM (cents)	14.5	14.2	2.2
Operating revenue per ASM (cents)	17.0	16.5	2.9
Operating expense per ASM ("CASM") (cents)	17.2	17.6	(2.3)
CASM, excluding fuel expense (cents)	12.9	13.5	(4.2)
Average number of full-time equivalent (FTE) employees (thousands)(4)	23.0	23.0	-
Aircraft in operating fleet at period end(5)	328	334	(1.8)
Average fleet utilization (hours per day)(6)	9.6	9.2	4.9
Average aircraft flight length (miles)(6)	855	839	1.9
Fuel price per litre (cents)(7)	70.9	68.3	3.8
Fuel litres (millions)	1,796	1,697	5.8

(1) EBITDAR (earnings before interest, taxes, depreciation and amortization, and aircraft rent) is a non-GAAP Financial Measure. See section 15 "Non-GAAP Financial Measures" of Air Canada's Second Quarter 2010 MD&A for a reconciliation of EBITDAR to operating income (loss).

(2) Free cash flow (cash flows from (used for) operating activities plus additions to capital assets) is a non-GAAP financial measure. See section 7.5 of Air Canada's Second Quarter 2010 MD&A for additional information.

(3) Adjusted net debt (total debt less cash, cash equivalents and short-term investments plus capitalized operating leases) is a non-GAAP financial measure. See section 7.2 of Air Canada's Second Quarter 2010 MD&A for additional information.

(4) Reflects FTE employees at Air Canada. Excludes FTE employees at Jazz

and other third party carriers operating under capacity purchase agreements with Air Canada.

(5) Includes Jazz aircraft covered under the Jazz CPA.

(6) Excludes charter operations. Also excludes third party carriers operating under capacity purchase arrangements, other than Jazz aircraft covered under the Jazz CPA.

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

%SEDAR: 00001324EF

For further information: Isabelle Arthur (Montréal), (514) 422-5788; Angela Mah (Vancouver), (604) 270-5741; Peter Fitzpatrick (Toronto), (416) 263-5576; Internet: aircanada.com