



AIR CANADA

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AIR CANADA REPORTS FULL YEAR AND FOURTH QUARTER 2010 RESULTS

- ***Record annual EBITDAR of \$1.386 billion, 104 per cent improvement***
- ***Operating income improvement of \$677 million***
- ***Employees to receive special cash and equity rewards of \$27 million***

MONTREAL, Feb. 10 /CNW Telbec/ - Air Canada today reported full year operating income of \$361 million (before a net reduction of \$46 million to a provision for cargo investigations) compared to an operating loss of \$316 million in 2009, a \$677 million improvement. Earnings before interest, taxes, depreciation, amortization and aircraft rent (EBITDAR) of \$1.386 billion (before the net reduction of \$46 million to the provision for cargo investigations) increased \$707 million or 104 per cent from 2009. Air Canada reported net income of \$107 million or \$0.37 per diluted share in 2010 compared to a net loss of \$24 million or (\$0.18) per diluted share in 2009. The net income in 2010 included foreign exchange gains of \$145 million while the net loss in 2009 included foreign exchange gains of \$657 million.

For the fourth quarter of 2010, Air Canada recorded operating income of \$85 million (before the net reduction of \$46 million to the provision for cargo investigations) compared to an operating loss of \$83 million in the fourth quarter of 2009, a \$168 million improvement. EBITDAR of \$334 million (before the net reduction of \$46 million to the provision for cargo investigations) increased \$167 million or 100 per cent from the fourth quarter of 2009.

"I am extremely pleased to report these very strong results for the fourth quarter and full year 2010, including the highest EBITDAR in Air Canada's history," said Calin Rovinescu, President and Chief Executive Officer.

"We had a great year, especially considering where we were just one year ago, and I am very proud of the company's achievements. I want to thank Air Canada's employees for their dedication and hard work to build a stronger, more sustainable Air Canada. In recognition of their contribution to our strong performance in 2010, our Board of Directors has approved a special employee equity grant of \$14 million to all eligible employees worldwide, where permitted, in addition to the \$13 million in cash payments we are awarding to Canadian employees according to the terms of the 2009 arrangements. In 2010, Air Canada employees also received \$28 million for achieving monthly customer satisfaction and on-time performance objectives as a component of the airline's Profit Sharing Plan. It is my desire to continue to promote and develop a focused, performance-based organization where success will breed further success.

"Our network strategy to add capacity through more efficient aircraft utilization was successful. Our full year load factor of 81.7 per cent was the highest in the airline's history. All new routes performed well as we leveraged our international network via our Canadian hubs, in cooperation with our Star Alliance and A++ joint venture partners. Cost transformation is on track, and fourth quarter premium revenues grew 21 per cent from the previous year, the fourth consecutive quarter of improvement in the quality of revenue.

"Our company is embracing the transformation of our culture to one that promotes leadership, ownership and entrepreneurship. A recent comprehensive survey of employees indicated a 20 per cent increase in employee engagement over the past two years and our customers are noticing the difference. We were named Best Airline in North America by Skytrax. Seventy-one per cent of Canadian business travelers surveyed by Ipsos Reid in their 2010 Canadian Business Travel Study named Air Canada as their preferred airline. Surveys of some of the world's most discerning frequent travellers by a number of prestigious publications have consistently ranked Air Canada among the world's top airlines. On behalf of all of Air Canada's employees, we thank our customers and are proud to have earned their loyalty."

Excluding a \$40 million favourable adjustment recorded in the fourth quarter of 2010, system passenger revenues increased \$226 million or 11.2 per cent from the fourth quarter of 2009 on an 8.0 per cent growth in traffic and a 2.8 per cent improvement in yield. System capacity increased 7.8 per cent from the fourth quarter of 2009 supported by a 9.0 per cent increase in aircraft utilization. Premium cabin revenues grew \$88 million or almost 21 per cent from the same quarter in 2009, due to a 16.9 per cent increase in traffic and a 2.2 per cent improvement in yield. Passenger revenue per available seat mile ("RASM") increased 3.0 per cent from the fourth quarter of 2009 mainly on the yield growth. Excluding the impact of a stronger Canadian dollar versus the fourth quarter of 2009, RASM increased 4.5 per cent year-over-year.

"Looking ahead, we will be in negotiations with our unions this year as all of our Canadian collective agreements are up for renewal in the first half of 2011. We've been engaged in productive dialogue and have shared information with our unions on a regular basis for the past two years. In 2010, we have seen first-hand the results we can achieve when we work together. I believe we have a good foundation to find common ground and achieve a satisfactory outcome.

"While there are encouraging signs the economy and our industry are continuing to recover, this remains tentative and fragile. Fuel price volatility continues to be a significant challenge. We will continue to monitor this closely and consider adjustments to pricing and capacity, if and when appropriate, as we strive to continue the momentum achieved in 2010 in growing business traffic and building a competitive cost structure," concluded Mr. Rovinescu.

Operating expenses increased \$100 million or 4 per cent from the fourth quarter of 2009, mainly due to the capacity growth of 7.8 per cent, higher base fuel prices and increases in wages, salaries and benefits, commissions, information technology and distribution costs. Partially offsetting these increases was the impact of a stronger Canadian dollar on foreign currency denominated expenses (which reduced operating expenses by approximately \$56 million when compared to the fourth quarter of 2009), a reduction in aircraft maintenance expense and, to a lesser extent, a decrease in food, beverages and supplies expense. Cost Transformation Program ("CTP") initiatives also reduced various operating expense categories.

Unit cost in the fourth quarter of 2010, as measured by operating expense per available seat mile ("CASM"), decreased 3.4 per cent compared to the fourth quarter of 2009. Excluding fuel expense, CASM decreased 4.1 per cent year-over-year. The favourable impact of a stronger Canadian dollar on foreign currency denominated operating expenses (mainly U.S. dollars), the capacity growth, the impact of CTP initiatives, as well as increases in aircraft utilization and average stage length compared to the fourth quarter of 2009 contributed to the year-over-year CASM decrease.

Air Canada reported net income of \$134 million in the fourth quarter of 2010 which included foreign exchange gains of \$111 million compared to a net loss of \$56 million in the fourth quarter of 2009 which included foreign exchange gains of \$108 million.

Air Canada reported earnings per diluted share of \$0.42 in the fourth quarter of 2010 on an unadjusted basis. The airline reported a loss per diluted share, on an adjusted basis, of (\$0.06) in the fourth quarter of 2010 compared to a loss per diluted share, on an adjusted basis, of (\$0.62) in the fourth quarter of 2009. Earnings per diluted share for the fourth quarter of 2010 were adjusted to remove Air Canada's gains on foreign exchange of \$111 million, the net adjustment to the provision for cargo investigations of \$46 million and a loss on assets of \$8 million. The loss per diluted share for the fourth quarter of 2009 was adjusted to remove Air Canada's gains on foreign exchange of \$108 million and a loss on assets of \$25 million.

At December 31, 2010, Air Canada's cash, cash equivalents and short-term investments amounted to \$2.192 billion which represented 20 per cent of 2010 operating revenues.

Current Outlook

Air Canada plans to increase its full year 2011 system capacity, as measured by available seat miles ("ASMs"), by 5.5 to 6.5 per cent and plans to increase its full year 2011 domestic capacity by up to 1.5 per cent, respectively, from the full year 2010 levels. The system capacity increase is expected to be achieved primarily through the use of aircraft in Air Canada's current fleet. Air Canada expects its full year 2011 CASM, excluding fuel expense, to decrease by up to 2.0 per cent from the full year 2010 level.

For the first quarter of 2011, Air Canada plans to increase its system ASM capacity by 7.5 to 8.5 per cent compared to the first quarter of 2010 and expects CASM, excluding fuel expense, to decrease from the first quarter of 2010 by 4.0 to 5.0 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. For 2010, Air Canada has achieved and delivered annual benefits of \$330 million, \$30 million more than its \$300 million CTP target for 2010, the result of having completed planned 2011 CTP initiatives earlier than expected. Air Canada has also achieved \$400 million of its overall CTP target of \$530 million for the end of 2011, on a run-rate basis. Air Canada views the CTP as one of its most important priorities and continuous cost transformation and improvement will remain a critical objective going forward beyond achievement and completion of the CTP targets.

Air Canada's outlook assumes that the North American economy will continue to recover in 2011. In addition, Air Canada expects that the Canadian dollar will trade, on average, at C\$1.00 per U.S. dollar in the first quarter of 2011 and C\$1.02 per U.S. dollar for the full year 2011 and that the price of fuel will average 76 cents per litre for the first quarter of 2011 and 80 cents per litre for the full year 2011.

The following table summarizes Air Canada's above-mentioned ASM and CASM outlook and related major assumptions for the first quarter of 2011 and for the full year 2011:

	First Quarter 2011 versus First Quarter 2010	Full Year 2011 versus Full Year 2010
Current Outlook		
Available seat miles (System)	Increase 7.5 to 8.5%	Increase 5.5 to 6.5%
Available seat miles (Canada)	n/a	Increase up to 1.5%
CASM, excluding fuel expense	decrease 4.0 to 5.0%	decrease up to 2.0%
	Major Assumptions - First Quarter 2011	Major Assumptions - Full Year 2011
Major Assumptions		
Canadian dollar per U.S. dollar	1.00	1.02
Fuel price - Cents per litre (net of fuel hedging)	76 cents	80 cents
North American economy	Will continue to recover	Will continue to recover

Effective January 1, 2011, Air Canada will begin reporting its results in accordance with International Financial Reporting Standards ("IFRS"), with retroactive restatement of comparative figures in 2010. Management's Discussion and Analysis for 2010 includes a discussion of key accounting policy changes expected under IFRS as well as estimated adjustments to Air Canada's consolidated statement of financial position as at January 1, 2010 and the IFRS consolidated statement of operations for 2010, on both an annual and quarterly basis.

The main impacts on Air Canada's consolidated statement of operations for the year 2010 expected as a result of the adoption of IFRS are summarized as follows:

- An increase to wages, salaries and benefits of \$26 million due to the impact of the revised accounting policies for pension and other employee future benefits;
- An increase to depreciation and amortization expense of \$122 million mainly due to the capitalization and amortization of certain maintenance events as well as shortened amortization periods for certain aircraft components. In addition, under IFRS, impairment charges are recorded in depreciation expense; impairment charges under IFRS of \$49 million are expected to be recognized on A340-300 and 767-200 aircraft in 2010;
- A decrease to aircraft maintenance expense of \$28 million due to the capitalization of major engine and airframe overhaul costs, partially offset by the provision for future lease return conditions over the term of the lease; and
- An increase to non-operating expense of \$101 million mainly due to the revised presentation of interest costs on pensions and other employee benefits.

As a result of the adjustments, revised EBITDAR under IFRS for the year 2010 is expected to increase by \$2 million to \$1,388 million.

As compared to the 2010 results under IFRS, Air Canada is providing guidance on the following items for full year 2011:

- Pension and other employee future benefits expense within operating expenses is expected to increase by approximately \$60 million, mainly as a result of lower discount rates in 2011 versus 2010;
- Aircraft maintenance expense is expected to increase between 8 to 12 per cent, mainly as a result of a deferral of heavy maintenance events from 2010 to 2011. This increase is expected mainly in the second half of the year; and
- Depreciation and amortization expense is expected to decrease by approximately \$60 million, mainly as result of no forecasted impairment charges in 2011 versus \$49 million of charges recorded in 2010.

The above guidance on 2011 pension and other employee future benefits expense is based on the assumptions used to determine Air Canada's expense, including those assumptions related to market interest rates, management's best estimates of expected plan investment performance, salary escalation and retirement ages.

The information relating to IFRS is provided solely for the purpose of allowing investors and others to obtain a better understanding of the Corporation's IFRS changeover plan and the resulting expected effects on the Corporation's financial statements and operating performance measures. Readers are cautioned that it may not be appropriate to use such information for any other purpose. The accounting policy differences identified in this press release and Air Canada's 2010 MD&A should not be considered as complete or final as further changes, or other effects and other policy differences may be identified. In addition, the information provided reflects the Corporation's current assumptions, estimates and expectations, all of which are subject to change. Circumstances may arise, including changes in IFRS, regulations or economic conditions, which could change these assumptions, estimates or expectations or the information provided.

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 diluted 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 2010 Consolidated Financial Statements and Notes and its Management's Discussion and Analysis (MD&A) for 2010 are available on Air Canada's website at aircanada.com, and will be filed on SEDAR at www.sedar.com. Readers should refer to Air Canada's 2010 MD&A for a reconciliation of EBITDAR (before a net adjustment to the provision for cargo investigations) to operating income (loss) 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 26, 2010, refer to Air Canada's website at 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 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 18 "Risk Factors" of Air Canada's 2010 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 where indicated)	Fourth Quarter			Full Year		
	2010 ⁽¹⁾	2009	Change \$	2010 ⁽¹⁾	2009	Change \$
Financial						
Operating revenues	2,616	2,348	268	10,786	9,739	1,047
Operating income (loss) before a provision adjustment for cargo investigations, net ⁽¹⁾	85	(83)	168	361	(316)	677
Operating income (loss)	131	(83)	214	407	(316)	723
Non-operating expense	(91)	(83)	(8)	(388)	(355)	(33)
Income (loss) before non-controlling interest, foreign exchange and income taxes	40	(166)	206	19	(671)	690
Income (loss) for the period	134	(56)	190	107	(24)	131
Operating margin before a provision adjustment for cargo investigations, net ⁽¹⁾	3.2%	(3.5%)	6.7 pp	3.3%	(3.2%)	6.5 pp
Operating margin %	5.0%	(3.5%)	8.5 pp	3.8%	(3.2%)	7.0 pp
EBITDAR before a provision adjustment for cargo investigations, net ^{(1) (2)}	334	167	167	1,386	679	707
EBITDAR ⁽²⁾	380	167	213	1,432	679	753
EBITDAR margin before a provision adjustment for cargo investigations, net % ^{(1) (2)}	12.8%	7.1%	5.7 pp	12.9%	7.0%	5.9 pp
EBITDAR margin % ⁽²⁾	14.5%	7.1%	7.4 pp	13.3%	7.0%	6.3 pp

Cash, cash equivalents and short-term investments	2,192	1,407	785	2,192	1,407	785
Free cash flow ⁽³⁾	122	(52)	174	746	(399)	1,145
Adjusted debt to debt plus equity ratio % ⁽⁴⁾	74.3%	80.1%	(5.8) pp	74.3%	80.1%	(5.8) pp
Earnings (loss) per share - Diluted	\$0.42	(\$0.25)	\$0.67	\$0.37	(\$0.18)	\$0.55
Operating Statistics			Change %			Change %
Revenue passenger miles (millions) (RPM)	11,756	10,885	8.0	51,875	47,884	8.3
Available seat miles (millions) (ASM)	14,918	13,841	7.8	63,496	59,343	7.0
Passenger load factor %	78.8%	78.6%	0.2 pp	81.7%	80.7%	1.0 pp
Passenger revenue per RPM (cents) ⁽⁵⁾	19.1	18.6	2.8	18.1	17.7	2.3
Passenger revenue per ASM (cents) ⁽⁵⁾	15.1	14.6	3.0	14.8	14.3	3.6
Operating revenue per ASM (cents) ⁽⁵⁾	17.3	17.0	1.8	17.0	16.4	3.5
Operating expense per ASM ("CASM") (cents)	17.0	17.6	(3.4)	16.4	16.9	(3.1)
CASM, excluding fuel expense (cents)	12.7	13.2	(4.1)	12.2	12.8	(4.5)
Average number of full-time equivalent (FTE) employees (thousands) ⁽⁶⁾	23.3	22.5	3.4	23.2	22.9	1.2
Aircraft in operating fleet at period end ⁽⁷⁾	328	332	(1.2)	328	332	(1.2)
Average fleet utilization (hours per day) ⁽⁸⁾	9.4	8.6	9.0	9.8	9.2	6.5
Revenue frequencies (thousands)	131	126	4.2	537	525	2.4
Average aircraft flight length (miles) ⁽⁸⁾	850	823	3.3	868	847	2.5
Fuel price per litre (cents) ⁽⁹⁾	70.2	72.6	(3.3)	69.6	69.4	0.3
Fuel litres (millions)	906	825	9.8	3,791	3,510	8.0

- (1) In the first quarter of 2008, Air Canada recorded a provision for cargo investigations of \$125 million. In the fourth quarter of 2010, Air Canada recorded a net reduction of \$46 million to this provision.
- (2) EBITDAR (earnings before interest, taxes, depreciation and amortization, and aircraft rent) is a non-GAAP financial measure. See section 20 "Non-GAAP Financial Measures" of Air Canada's 2010 MD&A for a reconciliation of EBITDAR before a provision adjustment for cargo investigations to operating income (loss) and EBITDAR to operating income (loss).
- (3) Free cash flow (cash flows from (used for) operating activities less additions to capital assets) is a non-GAAP financial measure. See section 9.5 of Air Canada's 2010 MD&A for additional information.
- (4) 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 9.3 of Air Canada's 2010 MD&A for additional information.
- (5) A favourable revenue adjustment of \$40 million related to Air Canada's transatlantic joint venture, which was finalized in December 2010 but with effect as of January 1, 2010, with United Airlines and Deutsche Lufthansa AG and to other interline agreements was recorded in the fourth quarter of 2010. For comparative purposes, these measures were adjusted to exclude the impact of the \$40 million favourable adjustment recorded in the fourth quarter of 2010.
- (6) Reflects FTE employees at Air Canada. Excludes FTE employees at Jazz and other third party carriers operating under capacity purchase agreements with Air Canada.
- (7) Includes Jazz aircraft covered under the Jazz CPA.
- (8) Excludes charter operations. Also excludes third party carriers operating under capacity purchase arrangements, other than Jazz aircraft covered under the Jazz CPA.
- (9) Includes fuel handling and is net of fuel hedging results.

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