



AIR CANADA

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Air Canada Reports First Quarter 2011 Results

Continued year-over-year improvement; operating loss narrows by \$70 million

MONTREAL, May 5 /CNW Telbec/ - Air Canada today reported a first quarter operating loss of \$66 million compared to an operating loss of \$136 million in the first quarter of 2010, a \$70 million improvement. Earnings before interest, taxes, depreciation, amortization and impairment, and aircraft rent (EBITDAR) of \$207 million increased \$57 million from the first quarter of 2010.

"I am pleased to report continued improvement during the first quarter of 2011, despite the significant increase in fuel prices year-over-year. This progress was the result of our rigorous commitment to pursuing the corporate priorities that have underpinned Air Canada's transformation," said Calin Rovinescu, President and Chief Executive Officer.

"In the quarter, we incurred over \$120 million in additional fuel expense from the same quarter last year. Based on expected jet fuel prices and system capacity, we estimate that these higher fuel prices will add approximately \$800 million to our operating costs in 2011. While fully offsetting increased fuel prices poses a significant challenge for an international carrier, we are aggressively pursuing a number of initiatives including capacity adjustments, fare and fuel surcharge increases, where competitively feasible, and incremental cost reduction opportunities in an attempt to mitigate the impact on Air Canada's 2011 results," continued Mr. Rovinescu.

In the first quarter of 2011, system passenger revenues increased \$216 million or 10.3 per cent from the first quarter of 2010 on a 5.7 per cent growth in traffic and a 4.2 per cent improvement in yield. System capacity increased 7.7 per cent from the first quarter of 2010, the result of capacity increases implemented after the first quarter of 2010 which continued into the first quarter of 2011, and supported by a 7.3 per cent increase in aircraft utilization of existing aircraft. The system yield growth of 4.2 per cent mainly reflected higher fares and fuel surcharges to partly offset higher fuel prices. Premium cabin revenues grew \$57 million or almost 13 per cent from the same quarter in 2010, mainly due to traffic growth of 12 per cent. Passenger revenue per available seat mile ("RASM") increased 2.2 per cent from the first quarter of 2010 due to the yield improvement. Excluding the unfavourable impact of foreign exchange on foreign currency denominated revenues, RASM increased 3.3 per cent in the first quarter of 2011.

Operating expenses increased \$164 million or 6 per cent from the first quarter of 2010, mainly due to the system capacity growth of 7.7 per cent and an increase in fuel expense of \$123 million, or 20 per cent, from the previous year's quarter. Partially offsetting these increases was the favourable impact of a stronger Canadian dollar on foreign currency denominated expenses (which reduced operating expenses by approximately \$63 million when compared to the first quarter of 2010). Cost Transformation Program ("CTP") initiatives also contributed to reducing various operating expenses.

Unit cost in the first quarter of 2011, as measured by operating expense per available seat mile ("CASM"), decreased 1.4 per cent compared to the first quarter of 2010. Excluding fuel expense, CASM decreased 5.3 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 first quarter of 2010 contributed to the year-over-year CASM decrease.

Air Canada reported a net loss of \$19 million in the first quarter of 2011 compared to a net loss of \$112 million in the first quarter of 2010. The net loss in the first quarter of 2011 included foreign exchange gains of \$104 million, while the net loss in the first quarter of 2010 included foreign exchange gains of \$123 million.

Air Canada reported a loss per diluted share of (\$0.07) in the first quarter of 2011 on an unadjusted basis. The airline reported a loss per diluted share, on an adjusted basis, of (\$0.45) in the first quarter of 2011 compared to a loss per diluted share, on an adjusted basis, of (\$0.85) in the first quarter of 2010. Loss per diluted share for the first quarter of 2011 was adjusted to remove Air Canada's gains on foreign exchange of \$104 million. The loss per diluted share for the first quarter of 2010 was adjusted to remove Air Canada's gains on foreign exchange of \$123 million.

At March 31, 2011, Air Canada's cash, cash equivalents and short-term investments amounted to \$2.114 billion which represented 19 per cent of 12-month trailing operating revenues.

Air Canada has now commenced labour negotiations with all its Canadian labour unions as all its collective agreements in

Canada expire this year. "Over the past two years we have worked hard to build a more transparent relationship with our labour unions. We have also seen higher engagement levels among our employees, improved customer satisfaction ratings and our employees have helped us win a number of industry awards and recognitions. I am confident we can build a stronger airline together," said Calin Rovinescu.

Current Outlook

In its March 16th, 2011 news release, Air Canada projected that its 2011 system wide capacity growth would be in the range of 4.5 to 5.5 per cent and that its full year 2011 domestic capacity would increase by up to 1.5 per cent. In response to higher fuel prices, Air Canada now expects to increase its full year 2011 system capacity, as measured by available seat miles ("ASMs"), by 3.5 to 4.5 per cent and now expects to decrease its full year 2011 domestic capacity by up to 0.5 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. As projected in its March 16th, 2011 news release, Air Canada continues to expect 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 second quarter of 2011, Air Canada plans to increase its system ASM capacity by 5.5 to 6.5 per cent compared to the second quarter of 2010 and expects CASM, excluding fuel expense, to decrease from the second quarter of 2010 by 0.5 to 1.5 per cent.

In its April 6th, 2011 news release, Air Canada had projected EBITDAR for the first half of 2011 to be approximately at the same level as the first half of 2010. Air Canada now expects first half 2011 EBITDAR to exceed first half 2010 EBITDAR by up to 5 percent.

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. In 2010, Air Canada achieved and delivered annual benefits of \$330 million. To date, Air Canada has achieved \$440 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\$0.97 per U.S. dollar in the second quarter of 2011 and C\$0.98 per U.S. dollar for the full year 2011 and that the price of fuel will average 90 cents per litre for the second quarter of 2011 and 88 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 second quarter of 2011 and for the full year 2011:

	Second Quarter 2011 versus Second Quarter 2010 *First Half 2011 versus First Half 2010 re EBITDAR	Full Year 2011 versus Full Year 2010
<u>Current Outlook</u>		
Available seat miles (System)	Increase 5.5 to 6.5%	Increase 3.5 to 4.5%
Available seat miles (Canada)	n/a	Decrease up to 0.5%
EBITDAR ⁽¹⁾	*First half 2011 will exceed first half 2010 by up to 5%	n/a
CASM, excluding fuel expense	Decrease 0.5 to 1.5%	Decrease up to 2.0%
	Major Assumptions - Second Quarter 2011	Major Assumptions - Full Year 2011
<u>Major Assumptions</u>		
Canadian dollar per U.S. dollar	0.97	0.98
Fuel price - Cents per litre (net of fuel hedging)	90 cents	88 cents
North American economy	Will continue to recover	Will continue to recover

The outlook provided constitutes forward-looking statements within the meaning of applicable securities laws and is based on a number of additional 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 impairment, and aircraft rent. EBITDAR is used to view operating results before aircraft rent, depreciation, amortization and impairment 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 First Quarter 2011 Interim Unaudited Condensed Consolidated Financial Statements and Notes and its First Quarter 2011 Management's Discussion and Analysis (MD&A) 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 First Quarter 2011 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 30, 2011, 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 and section 13 "Risk Factors" of Air Canada's First Quarter 2011 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

Effective January 1, 2011, Air Canada began reporting its financial results in accordance with IFRS, including comparative figures for 2010. The financial and operating highlights for Air Canada for the periods indicated are as follows.

(Canadian dollars in millions, except where indicated)	First Quarter		
	2011	2010	Change \$
Financial Performance Metrics			
Operating revenues	2,753	2,519	234
Operating loss	(66)	(136)	70
Non-operating income	47	23	24
Loss before income taxes	(19)	(113)	94
Loss for the period	(19)	(112)	93
Operating margin %	(2.4%)	(5.4%)	3.0 pp
EBITDAR ⁽¹⁾	207	150	57
EBITDAR margin % ⁽¹⁾	7.5%	6.0%	1.5 pp
Cash, cash equivalents and short-term investments	2,114	1,621	493
Free cash flow ⁽²⁾	190	215	(25)
Adjusted net debt ⁽³⁾	4,643	5,254	(611)
Loss per share - Diluted	(\$0.07)	(\$0.41)	\$0.34
Operating Statistics			
	Change %		
Revenue passenger miles (millions) (RPM)	12,355	11,692	5.7

Available seat miles (millions) (ASM)	15,859	14,727	7.7
Passenger load factor %	77.9%	79.4%	(1.5) pp
Passenger revenue per RPM ("Yield") (cents)	18.6	17.9	4.2
Passenger revenue per ASM ("RASM") (cents)	14.5	14.2	2.2
Operating revenue per ASM (cents)	17.4	17.1	1.5
Operating expense per ASM ("CASM") (cents)	17.8	18.0	(1.4)
CASM, excluding fuel expense (cents)	13.1	13.8	(5.3)
Average number of full-time equivalent (FTE) employees (thousands) (4)	23.6	22.9	3.2
Aircraft in operating fleet at period end (5)	328	327	0.3
Average fleet utilization (hours per day) (6)	10.1	9.4	7.3
Revenue frequencies (thousands)	132	127	4.2
Average aircraft flight length (miles) (6)	890	856	4.0
Economic fuel price per litre (cents) (7)	78.2	66.2	18.1
Fuel litres (millions)	938	872	7.6

- (1) *EBITDAR (earnings before interest, taxes, depreciation, amortization and impairment, and aircraft rent) is a non-GAAP financial measure. Refer to section 15 "Non-GAAP Financial Measures" of Air Canada's First Quarter 2011 MD&A for a reconciliation of EBITDAR to operating income (loss).*
- (2) *Free cash flow (cash flows from operating activities less additions to property, equipment and intangible assets) is a non-GAAP financial measure. Refer to section 6.4 of Air Canada's First Quarter 2011 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. Refer to section 6.2 of Air Canada's First Quarter 2011 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. Economic fuel price per litre is a non-GAAP financial measure. Refer to section 4 of Air Canada's First Quarter 2011 MD&A for additional information.*

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