

Air Canada Reports Third Quarter 2011 Results - Operating income of \$270 million and EBITDAR of \$535 million

MONTREAL, Nov. 4, 2011 /CNW Telbec/ - Air Canada today reported third quarter operating income of \$270 million compared to operating income of \$306 million in the third quarter of 2010, a decrease of \$36 million. Earnings before interest, taxes, depreciation, amortization and impairment, and aircraft rent (EBITDAR) of \$535 million decreased \$45 million from the same quarter in 2010. Net income per diluted share, adjusted to remove the impact of foreign exchange, was \$0.55 in the third quarter of 2011 compared to \$0.70 in the third quarter of 2010.

"Despite a 47 per cent increase in fuel prices year-over-year, our operating profit reflects our disciplined approach to capacity management and asset deployment, which resulted in a record load factor of 85.8 per cent for the quarter. This, combined with our industry leading product, drove strong revenue performance and yield growth in the quarter," said Calin Rovinescu, President and Chief Executive Officer.

"Through our Cost Transformation Program, we have now achieved our target of \$530 million in annual sustainable benefits. We view cost transformation and continuous improvement as one of our most important priorities and a critical objective going forward to support ongoing unit cost reductions. In addition, we reduced adjusted net debt by close to \$500 million when compared to September 30, 2010.

"For the remainder of this year and next we will remain focused on our four key priorities: 1) leveraging our international network while maintaining a disciplined approach to growth, 2) improving our cost structure, tackling our pension deficit and increasing revenue generation, 3) focusing on premium class passengers and products, and 4) continuing to foster positive changes to our culture.

"We will continue to manage capacity conservatively going forward given the current economic environment and therefore are planning for system ASM capacity growth of no more than 1.5 per cent in 2012. In the event of a prolonged economic slowdown affecting travel demand, our fleet would provide us with the flexibility to adjust capacity as necessary to mitigate the negative impact. We will also continue to evaluate opportunities to participate in the low cost segment of the market provided we can do so sustainably on a basis that is truly low cost.

"I want to thank our employees for their commitment to these priorities despite the many challenges presented in the quarter. Their hard work has been recognized by our customers who ranked Air Canada as Best International Airline in North America, the second consecutive year we have achieved top honours in the annual Skytrax World Airline Awards survey of international air travellers."

Income Statement Highlights

System passenger revenues increased \$215 million or 7.9 per cent from the third quarter of 2010 on a 3.8 per cent growth in traffic and a 3.8 per cent improvement in yield. System capacity grew 2.6 per cent from the third quarter of 2010 supported by increased aircraft utilization year-over-year.

A system yield improvement of 3.8 per cent reflected yield growth in all markets. The improvement was driven by higher fares and fuel surcharges to partly offset higher fuel prices, as well as traffic gains in the premium cabin year-over-year. Premium cabin revenues grew \$38 million or 7.2 per cent, on traffic growth of 5.8 per cent and a yield improvement of 1.3 per cent.

Passenger revenue per available seat mile (RASM) increased 5.1 per cent from the third quarter of 2010 as a result of the yield growth and a 1.1 percentage point improvement in passenger load factor.

Operating expenses increased \$252 million or 9 per cent from the third quarter of 2010, mainly on a 47 per cent increase in base fuel prices year-over-year, and on the system capacity growth of 2.6 per cent. Partially offsetting these increases was the favourable impact of a stronger Canadian dollar on foreign currency denominated expenses (which reduced operating expenses by \$96 million when compared to the third quarter of 2010). Cost Transformation Program (CTP) initiatives also contributed to reducing various operating expenses.

Unit cost in the third quarter of 2011, as measured by operating expense per available seat mile (CASM), increased 6.6 per cent from the third quarter of 2010. Excluding fuel expense, CASM decreased 0.4 per cent year-over-year, mainly due to the

favourable impact of a stronger Canadian dollar on foreign currency denominated operating expenses (mainly U.S. dollars), the capacity growth and the impact of CTP initiatives. An increase in aircraft utilization and average stage length compared to the third quarter of 2010 also contributed to the year-over-year CASM, excluding fuel expense, decrease. The 0.4 per cent year-over-year decrease in CASM, excluding fuel expense, for the third quarter of 2011 was better than the 1.0% to 2.0% increase projected in Air Canada news release dated August 4, 2011. The improvement was largely due to lower than forecasted aircraft maintenance expense and wages, salaries and benefits expense.

As a result primarily of foreign exchange losses, Air Canada reported a net loss of \$124 million in the third quarter of 2011 compared to net income of \$317 million in the third quarter of 2010, a change of \$441 million. The third quarter 2011 results include foreign exchange losses of \$281 million while the third quarter results of 2010 included foreign exchange gains of \$115 million.

Air Canada reported a loss per diluted share of \$0.45 in the third quarter of 2011 on an unadjusted basis. The airline reported net income per diluted share, on an adjusted basis, of \$0.55 in the third quarter of 2011 compared to net income per diluted share, on an adjusted basis, of \$0.70 in the third quarter of 2010. Net income (loss) per diluted share in the third quarter of 2011 was adjusted to remove Air Canada's losses on foreign exchange of \$281 million. Net income (loss) per diluted share in the third quarter of 2010 was adjusted to remove Air Canada's gains on foreign exchange of \$115 million.

Liquidity Highlights

At September 30, 2011, Air Canada's cash, cash equivalents and short-term investments totalled \$2.179 billion which represented 19 per cent of 12-month trailing operating revenues.

In the third quarter of 2011, free cash flow of \$4 million decreased \$108 million from the third quarter of 2010, largely due to a decrease in net cash from operations, consistent with the reduction in third quarter EBITDAR, an increase in capital expenditures and the impact of higher pension payments. This year, Air Canada expects to make current and past service payments to its pension plans of \$308 million.

Total debt and finance lease obligations, including current portion, amounted to \$4,479 million at September 30, 2011, a decrease of \$116 million from December 31, 2010. The reduction in long-term debt and finance lease obligations from December 31, 2010 was mainly due to repayments of \$484 million, including balloon maturities totalling \$221 million. This decrease was partly offset by the unfavourable impact of a stronger Canadian dollar on Air Canada's foreign currency denominated debt (mainly U.S. dollars), which accounted for an increase of \$213 million, and by proceeds from borrowings of \$125 million.

At September 30, 2011, adjusted net debt of \$4,645 million increased \$283 million from June 30, 2011 due to an unfavourable impact of foreign exchange of \$331 million partly offset by debt repayments of \$73 million.

When compared to September 30, 2010, adjusted net debt of \$4,645 million decreased \$493 million mainly due to net debt repayments of \$459 million and the favourable impact of foreign exchange on aircraft rent, which lowered capitalized operating lease obligations.

Labour Update

Following two ratification votes by the airline's flight attendants, each rejecting a tentative collective agreement endorsed by CUPE's bargaining committee, and the subsequent referral by the federal Minister of Labour of the matter to the Canada Industrial Relations Board, Air Canada and CUPE reached an agreement on October 20, 2011 on a final and binding process to resolve outstanding issues relating to the renewal of their collective agreement under Section 79 of the Canada Labour Code. The final and binding decision will set the terms of the collective agreement renewal and is to be issued by no later than November 7, 2011. During this process and once the new collective agreement is in force, the parties are bound by the Labour Code requirement that no strike or lockouts may occur.

Following the ratification vote by Air Canada's pilots rejecting a tentative agreement reached by Air Canada and ACPA, the union representing its pilots, on March 18, 2011, that had been endorsed by ACPA's bargaining committee, Air Canada filed for the appointment of a federal conciliator on October 28, 2011 to facilitate talks towards a negotiated settlement in view of the time elapsed since the company had advised ACPA of its desire to return to the bargaining table.

A new four-year collective agreement was ratified on June 27, 2011 with the unit of the CAW representing the airline's call centre and airport customer service agents in Canada following a three-day labour disruption during which the airline maintained full operations. Air Canada has commenced negotiations with the CAW units representing the airline's 125 crew schedulers.

Air Canada has also commenced negotiations with the IAMAW representing the airline's mechanics, baggage handlers, cargo agents and certain finance and clerical staff towards a new collective agreement.

The company is in discussions with CALDA representing the airline's 74 flight dispatchers following a failed ratification vote of a tentative agreement reached on August 19, 2011.

Current Outlook

For the fourth quarter of 2011, Air Canada plans to increase its system ASM capacity, as measured by available seat miles (ASMs), by 1.5 to 2.5 per cent compared to the fourth quarter of 2010.

Taking into account reported ASM capacity for the first nine months of 2011, Air Canada now expects its full year 2011 system capacity, as measured by available seat miles (ASMs), to increase by 4.0 to 4.5 per cent from the full year 2010 level (as opposed to the 3.5 to 4.5 per cent ASM increase projected in Air Canada's news release dated August 4, 2011). The system capacity increase is being achieved primarily through the use of Air Canada's current aircraft fleet.

Air Canada expects its full year 2011 domestic capacity to range between a 0.5 per cent decrease and a 0.5 per cent increase from the full year 2010, unchanged from what was projected in Air Canada's news release dated August 4, 2011.

In addition, for the full year 2012, Air Canada plans to increase its full year 2012 system capacity by 0 to 1.5 per cent when compared to the full year 2011.

For the fourth quarter of 2011, Air Canada expects CASM, excluding fuel expense, to increase by 0.5 to 1.5 per cent from the fourth quarter of 2010.

Taking into account the CASM, excluding fuel expense, results in the first nine months of 2011, Air Canada now expects its full year 2011 CASM, excluding fuel expense, to decrease by 2.0 to 3.0 per cent from the full year 2010 level (as opposed to the 1.0 to 3.0 per cent CASM, excluding fuel expense, decrease projected in Air Canada's news release dated August 4, 2011).

As a result of changes in cost and discount rate assumptions for provisions related to end of lease maintenance return conditions, Air Canada now expects its full year 2011 aircraft maintenance expense to increase by 4.0 and 5.0 per cent from the full year 2010 level (as opposed to the range of between a 1.0 per cent decrease and a 3.0 per cent increase projected in Air Canada's news release dated August 4, 2011).

Air Canada expects full year 2011 depreciation, amortization and impairment expense to decrease by \$75 million from the full year 2010, unchanged from what was disclosed in Air Canada's news release dated August 4, 2011.

Air Canada's projection on pension and other employee future benefits expense which projected an increase of approximately \$60 million for the full year 2011 compared to the full year 2010 remains essentially unchanged from what was disclosed in Air Canada's news release dated February 10, 2011.

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. Air Canada has now fully achieved its overall CTP target of \$530 million, on a run-rate basis. Air Canada views continuous cost transformation and improvement as one of its most important priorities, and a critical objective going forward to support ongoing CASM improvements. The company continues to identify and execute cost reduction initiatives to improve its overall cost structure.

Air Canada's outlook assumes that the Canadian economy will continue to recover in 2011 and assumes modest Canadian GDP growth of 1.5 per cent to 2.0 per cent through to the end of 2012. In addition, Air Canada expects that the Canadian dollar will trade, on average, at C\$1.01 per U.S. dollar in the fourth quarter of 2011 and C\$0.99 per U.S. dollar for the full year 2011 and that the price of jet fuel will average 87 cents per litre for the fourth quarter of 2011 and 85 cents per litre for the full year 2011.

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

	Fourth Quarter 2011 versus Fourth Quarter 2010	Full Year 2011 versus Full Year 2010
Current Outlook		
Available seat miles (System)	Increase 1.5% to 2.5%	Increase 4.0% to 4.5%
Available seat miles (Canada)	n/a	Decrease 0.5% to increase of 0.5%
CASM, excluding fuel expense	Increase 0.5% to 1.5%	Decrease 2.0% to 3.0%
Aircraft maintenance expense		Increase 4.0% to 5.0%
Depreciation, amortization and impairment expense		Decrease \$75 million
Employee benefits expense		Increase \$60 million
	Major Assumptions - Fourth Quarter 2011	Major Assumptions - Full Year 2011

Major Assumptions

Canadian dollar per U.S. dollar	1.01	0.99
Jet fuel price - Cents per litre (net of fuel hedging)	87 cents	85 cents
Canadian economy	Will continue to recover	Will continue to recover

The following table summarizes Air Canada's outlook for the full year 2012:

	Full Year 2012 versus Full Year 2011
Current Outlook	
Available seat miles (System)	Increase 0% to 1.5%
Major Assumptions	
Canadian economy	Modest Canadian GDP growth of 1.5% to 2.0% through to the end of 2012

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 net income (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 Third Quarter 2011 Interim Unaudited Condensed Consolidated Financial Statements and Notes and its Third 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 Third 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 14 "Risk Factors" of Air Canada's Third 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)	Third Quarter			First Nine Months		
	2011	2010	Change \$	2011	2010	Change \$
Financial Performance Metrics						
Operating revenues	3,242	3,026	216	8,913	8,170	743
Operating income	270	306	(36)	277	217	60
Non-operating income (expense)	(394)	11	(405)	(467)	(331)	(136)
Income (loss) before income taxes	(124)	317	(441)	(190)	(114)	(76)
Net income (loss) for the period	(124)	317	(441)	(189)	(113)	(76)
Operating margin %	8.3%	10.1%	(1.8) pp	3.1%	2.7%	0.4 pp
EBITDAR ⁽¹⁾	535	580	(45)	1,080	1,058	22
EBITDAR margin % ⁽¹⁾	16.5%	19.2%	(2.7) pp	12.1%	12.9%	(0.8) pp
Cash, cash equivalents and short-term investments	2,179	2,173	6	2,179	2,173	6
Free cash flow ⁽²⁾	4	112	(108)	435	624	(189)
Adjusted net debt ⁽³⁾	4,645	5,138	(493)	4,645	5,138	(493)
Net income (loss) per share - Diluted	(\$0.45)	\$1.10	(\$1.55)	(\$0.70)	(\$0.43)	(\$0.27)
Adjusted net income (loss) per share - Diluted ⁽⁴⁾	\$0.55	\$0.70	(\$0.15)	(\$0.09)	(\$0.41)	\$0.32
Operating Statistics						
			Change %			Change %
Revenue passenger miles (millions) (RPM)	16,126	15,531	3.8	42,158	40,119	5.1
Available seat miles (millions) (ASM)	18,799	18,328	2.6	51,170	48,578	5.3
Passenger load factor %	85.8%	84.7%	1.1 pp	82.4%	82.6%	(0.2) pp
Passenger revenue per RPM ("Yield") (cents)	18.1	17.4	3.8	18.5	17.7	4.4
Passenger revenue per ASM ("RASM") (cents)	15.5	14.8	5.1	15.2	14.6	4.2
Operating revenue per ASM (cents)	17.2	16.5	4.5	17.4	16.8	3.6
Operating expense per ASM ("CASM") (cents)	15.8	14.8	6.6	16.9	16.4	3.1
CASM, excluding fuel expense (cents)	10.8	10.8	(0.4)	11.9	12.2	(3.0)
Average number of full-time equivalent (FTE) employees (thousands) ⁽⁵⁾	23.9	23.5	1.8	23.7	23.2	2.3
Aircraft in operating fleet at period end ⁽⁶⁾	330	326	1.2	330	326	1.2
Average fleet utilization (hours per day) ⁽⁶⁾	10.8	10.7	0.8	10.3	10.0	3.6
Revenue frequencies (thousands)	148	145	1.8	418	406	2.9
Average aircraft flight length (miles) ⁽⁷⁾	931	909	2.4	903	874	3.3
Economic fuel price per litre (cents) ⁽⁸⁾	85.8	64.6	32.8	84.1	65.8	27.8
Fuel litres (millions)	1,103	1,089	1.3	3,025	2,885	4.9

(1) EBITDAR (earnings before interest, taxes, depreciation, amortization and impairment, and aircraft rent) is a non-GAAP financial measure. Refer to section 16 "Non-GAAP Financial Measures" of Air Canada's Third Quarter 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 7.4 of Air Canada's Third Quarter 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 7.2 of Air Canada's Third Quarter MD&A for additional information. Reflects adjusted net debt as at September 30, 2011 and as at September 30, 2010.

(4) Adjusted earnings (loss) per share (diluted) is a non-GAAP financial measure. Refer to section 16 of Air Canada's Third Quarter MD&A for additional information.

(5) Reflects FTE employees at Air Canada. Excludes FTE employees at Jazz Aviation LP ("Jazz") and other third party carriers operating under capacity purchase agreements with Air Canada.

(6) Includes Jazz aircraft covered under a capacity purchase agreement with Jazz (the "Jazz CPA"). Excludes aircraft operated by other third party carriers pursuant to capacity purchase agreements with Air Canada. Refer to section 6 of Air Canada's Third Quarter MD&A for additional information.

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

(8) Excludes third party carriers, other than Jazz, operating under capacity purchase agreements. Includes fuel handling and is net of fuel hedging results. Economic fuel price per litre is a non-GAAP financial measure. Refer to sections 4 and 5 of Air Canada's Third Quarter MD&A for additional information.

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