

**2010**

**Fourth Quarter & Full Year  
Financial Results**

*February 10, 2011*



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# Financial Highlights – Results of Operations

## Q4 10 / Q4 09

| <i>(millions)</i>                            | Q4 2010  | Q4 2009  | Change |
|--|----------|----------|--------|
| <b>Operating Revenue</b>                     | \$ 2,616 | \$ 2,348 | \$ 268 |
| <b>Operating Income (loss)<sup>(1)</sup></b> | \$ 85    | \$ (83)  | \$ 168 |
| <b>EBITDAR<sup>(1)</sup></b>                 | \$ 334   | \$ 167   | \$ 167 |
| <b>Net Income (loss)</b>                     | \$ 134   | \$ (56)  | \$ 190 |
| <b>Operating Margin<sup>(1)</sup></b>        | 3.2%     | (3.5)%   | 6.7 PP |
| <b>EBITDAR Margin<sup>(1)</sup></b>          | 12.8%    | 7.1%     | 5.7 PP |
| <b>Oper. RASM (cents)<sup>(2)</sup></b>      | 17.3     | 17.0     | 1.8%   |
| <b>CASM (cents)</b>                          | 17.0     | 17.6     | (3.4)% |
| <b>CASM excl. Fuel (cents)</b>               | 12.7     | 13.2     | (4.1)% |

(1) Before a net reduction of \$46M to a provision for cargo investigations in Q4 10

(2) Excludes impact of \$40M favourable adjustment recorded in Q4 10

# Financial Highlights – Results of Operations

## 2010 / 2009

| <i>(millions)</i>                            | 2010      | 2009     | Change   |
|--|-----------|----------|----------|
| <b>Operating Revenue</b>                     | \$ 10,786 | \$ 9,739 | \$ 1,047 |
| <b>Operating Income (loss)<sup>(1)</sup></b> | \$ 361    | \$ (316) | \$ 677   |
| <b>EBITDAR<sup>(1)</sup></b>                 | \$ 1,386  | \$ 679   | \$ 707   |
| <b>Net Income (loss)</b>                     | \$ 107    | \$ (24)  | \$ 131   |
| <b>Operating Margin<sup>(1)</sup></b>        | 3.3%      | (3.2)%   | 6.5 PP   |
| <b>EBITDAR Margin<sup>(1)</sup></b>          | 12.9%     | 7.0%     | 5.9 PP   |
| <b>Oper. RASM (cents)</b>                    | 17.0      | 16.4     | 3.5%     |
| <b>CASM (cents)</b>                          | 16.4      | 16.9     | (3.1)%   |
| <b>CASM excl. Fuel (cents)</b>               | 12.2      | 12.8     | (4.5)%   |

(1) Before a net reduction of \$46M to a provision for cargo investigations in Q4 10

## Financial Highlights – Financial Position and Cash Flow

### Q4 10 / Q4 09

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| <i>(millions)</i>  | Q4 2010  | Q4 2009 | Change   |
|--|----------|---------|----------|
| <b>Cash Flow from (used for) Operations</b>                                      | \$ 148   | \$ (10) | \$ 158   |
| <b>Additions to Capital Assets</b>   | \$ (26)  | \$ (42) | \$ 16    |
| <b>Free Cash Flow</b>  | \$ 122   | \$ (52) | \$ 174   |
| <b>Cash, Cash Equivalents &amp; Short-term Investments at December 31</b>        | \$ 2,192 | \$1,407 | \$ 785   |
| <b>Adjusted net debt to adjusted net debt plus equity ratio % at December 31</b> | 74.3%    | 80.1%   | (5.8) pp |

## Financial Highlights – Financial Position and Cash Flow 2010 / 2009

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| <i>(millions)</i>  | 2010     | 2009     | Change   |
|--|----------|----------|----------|
| <b>Cash Flow from (used for) Operations</b>                                      | \$ 864   | \$ (167) | \$1,031  |
| <b>Additions to Capital Assets</b>   | \$ (118) | \$ (232) | \$ 114   |
| <b>Free Cash Flow</b>  | \$ 746   | \$ (399) | \$1,145  |
| <b>Cash, Cash Equivalents &amp; Short-term Investments at December 31</b>        | \$ 2,192 | \$1,407  | \$ 785   |
| <b>Adjusted net debt to adjusted net debt plus equity ratio % at December 31</b> | 74.3%    | 80.1%    | (5.8) pp |

## Non-Operating Expense

Q4 10 / Q4 09

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| <i>(millions)</i>                    | Q4 2010        | Q4 2009        | Change        |
|--------------------------------------|----------------|----------------|---------------|
| <b>Net Interest Expense</b>          | \$ (71)        | \$ (85)        | \$ 14         |
| <b>Loss on Assets</b>                | \$ (8)         | \$ (25)        | \$ 17         |
| <b>Gain on Financial Instruments</b> | \$ 8           | \$ 22          | \$ (14)       |
| <b>Other</b>                         | \$ (20)        | \$ 5           | \$ (25)       |
| <b>Total Non-Operating Expense</b>   | <b>\$ (91)</b> | <b>\$ (83)</b> | <b>\$ (8)</b> |

## Non-Operating Expense 2010 / 2009

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| <i>(millions)</i>                           | 2010            | 2009            | Change         |
|---|-----------------|-----------------|----------------|
| <b>Net Interest Expense</b>                 | \$ (358)        | \$ (355)        | \$ (3)         |
| <b>Loss on Assets</b>                       | \$ (7)          | \$ (95)         | \$ 88          |
| <b>Gain (loss) on Financial Instruments</b> | \$ (3)          | \$ 95           | \$ (98)        |
| <b>Other</b>                                | \$ (20)         | \$ -            | \$ (20)        |
| <b>Total Non-Operating Expense</b>          | <b>\$ (388)</b> | <b>\$ (355)</b> | <b>\$ (33)</b> |

## Q4 2010 Versus Q4 2009

|                | Passenger Revenue (%) | Capacity (ASMs) (%) | Traffic (RPMs) (%) | Passenger LF (PP) | Yield (%)    | Passenger RASM (%) |
|----------------|-----------------------|---------------------|--------------------|-------------------|--------------|--------------------|
| Canada         | ↑ 7.5                 | ↑ 0.2               | ↑ 2.0              | ↑ 1.4             | ↑ 5.3        | ↑ 7.1              |
| US Transborder | ↑ 10.7                | ↑ 11.7              | ↑ 12.0             | ↑ 0.2             | ↓ 1.3        | ↓ 1.0              |
| Atlantic       | ↑ 7.5                 | ↑ 5.5               | ↑ 2.5              | ↓ 2.8             | ↑ 4.7        | ↑ 1.7              |
| Pacific        | ↑ 31.7                | ↑ 23.0              | ↑ 22.9             | ↓ 0.1             | ↑ 7.2        | ↑ 7.0              |
| Other          | ↑ 15.4                | ↑ 7.2               | ↑ 9.4              | ↑ 1.6             | ↑ 5.4        | ↑ 7.5              |
| <b>Total</b>   | <b>↑ 11.2</b>         | <b>↑ 7.8</b>        | <b>↑ 8.0</b>       | <b>↑ 0.2</b>      | <b>↑ 2.8</b> | <b>↑ 3.0</b>       |

**Total Operating Expense**      ↑ 4.1%

**Total CASM**      ↓ 3.4%

**Total CASM - excluding fuel**      ↓ 4.1%

\*Table above excludes impact of \$40M favourable adjustment recorded in Q4 10

## 2010 Versus 2009

|                | Passenger Revenue (%) | Capacity (ASMs) (%) | Traffic (RPMs) (%) | Passenger LF (PP) | Yield (%)    | Passenger RASM (%) |
|----------------|-----------------------|---------------------|--------------------|-------------------|--------------|--------------------|
| Canada         | ↑ 5.5                 | ↑ 0.8               | ↑ 1.9              | ↑ 0.8             | ↑ 3.5        | ↑ 4.6              |
| US Transborder | ↑ 9.5                 | ↑ 8.5               | ↑ 9.3              | ↑ 0.6             | -            | ↑ 0.8              |
| Atlantic       | ↑ 14.0                | ↑ 7.1               | ↑ 6.7              | ↓ 0.3             | ↑ 6.7        | ↑ 6.3              |
| Pacific        | ↑ 31.1                | ↑ 18.4              | ↑ 22.3             | ↑ 2.8             | ↑ 7.2        | ↑ 10.7             |
| Other          | ↑ 10.4                | ↑ 7.6               | ↑ 10.1             | ↑ 1.8             | ↑ 0.2        | ↑ 2.5              |
| <b>Total</b>   | <b>↑ 10.9</b>         | <b>↑ 7.0</b>        | <b>↑ 8.3</b>       | <b>↑ 1.0</b>      | <b>↑ 2.3</b> | <b>↑ 3.6</b>       |

Total Operating Expense      ↑ 3.7%

Total CASM      ↓ 3.1%

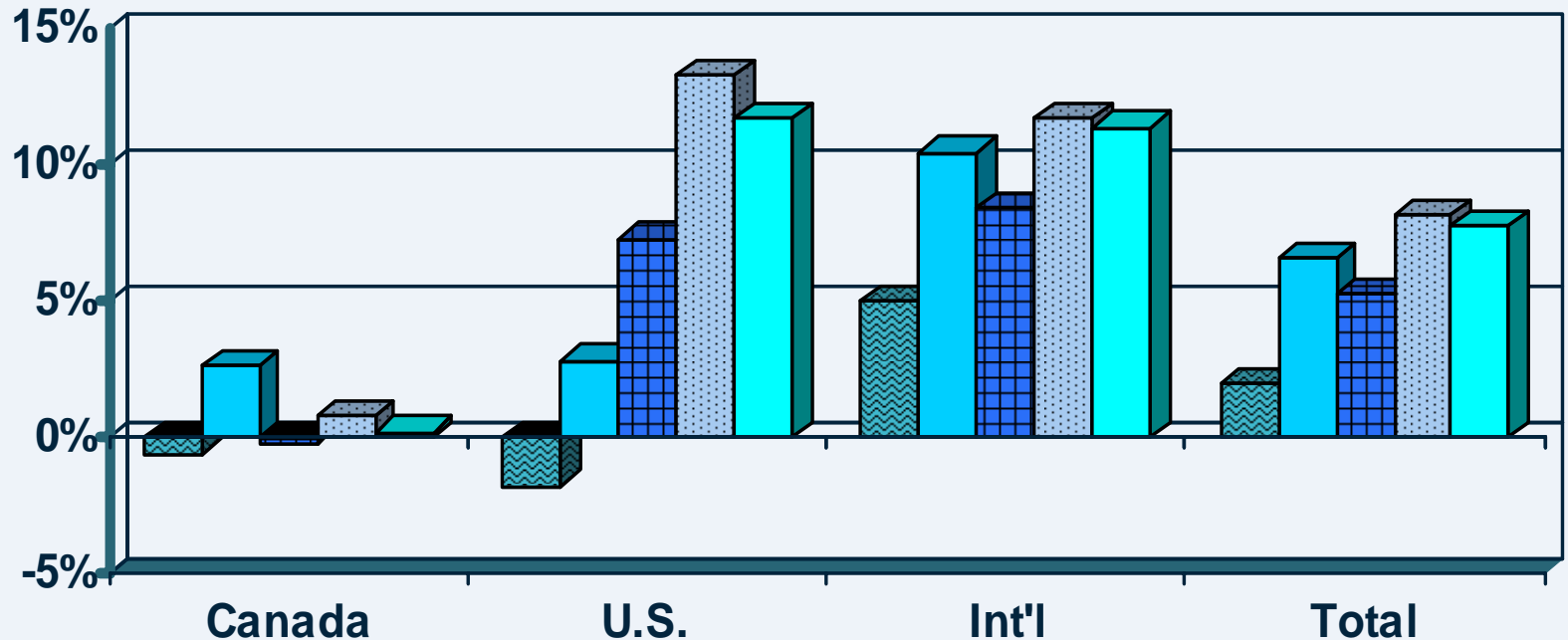
Total CASM - excluding fuel      ↓ 4.5%

System Capacity Increased 7.8% – Domestic Capacity Up 0.2% – US  
Transborder & Int'l Combined Capacity Up 11.2%

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**(Y-O-Y Changes in Capacity)**

**% Change in ASMs**

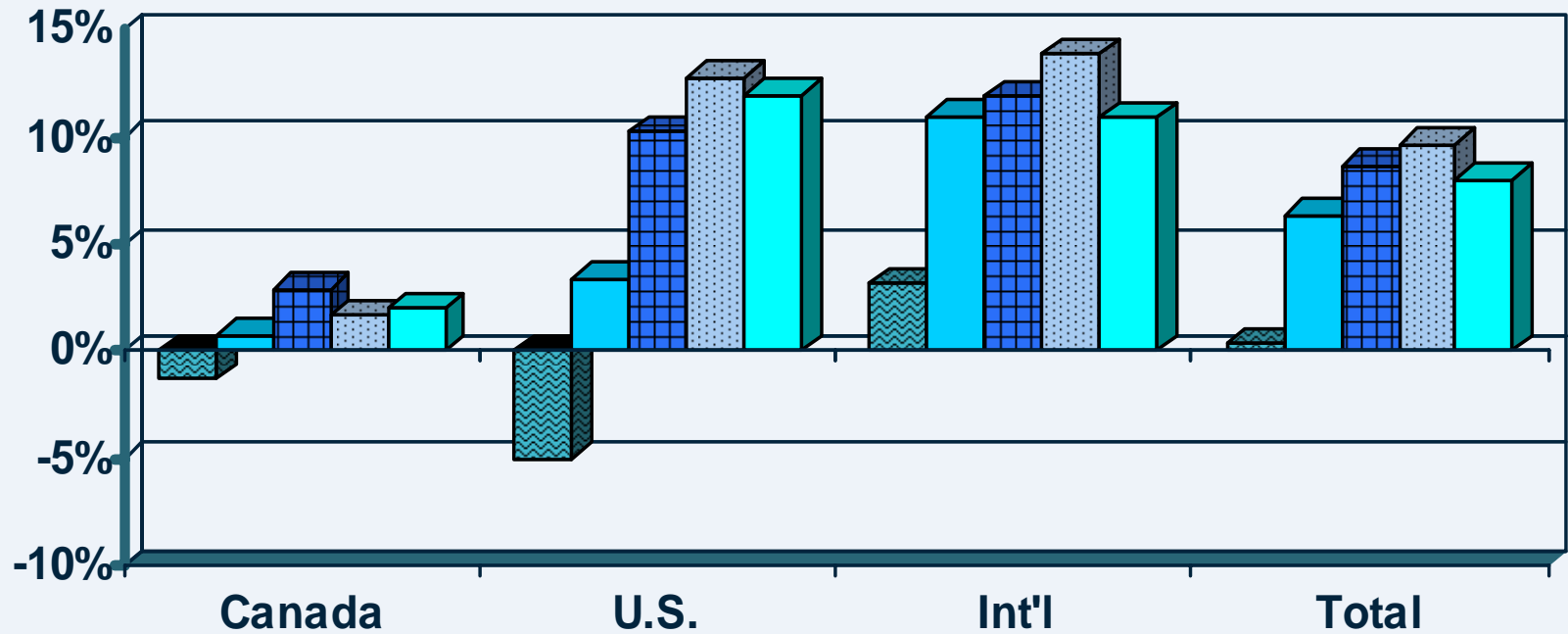


■ Q4 2009/2008 ■ Q1 2010/2009 ■ Q2 2010/2009 ■ Q3 2010/2009 ■ Q4 2010/2009

# System Traffic Increased 8.0% on Capacity Growth of 7.8%

## (Y-O-Y Changes in Traffic)

*% Change in RPMs*

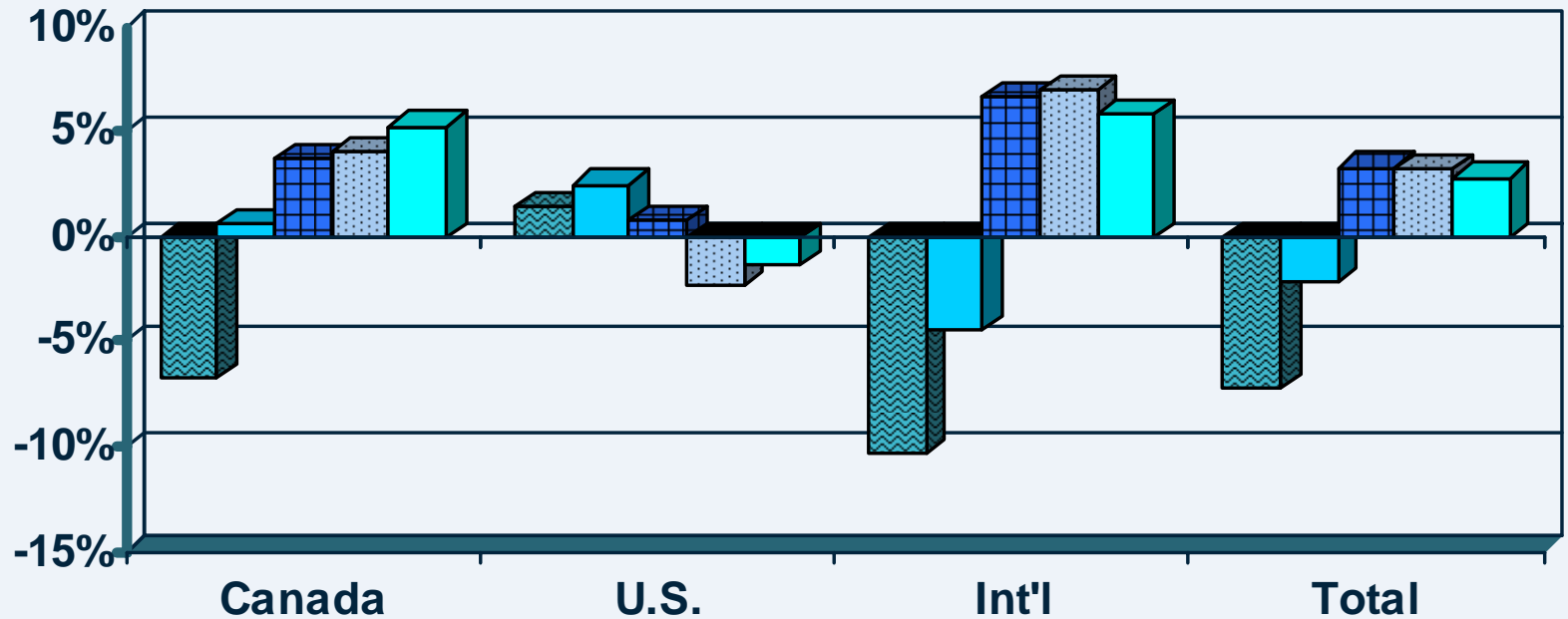


■ Q4 2009/2008 ■ Q1 2010/2009 ■ Q2 2010/2009 ■ Q3 2010/2009 ■ Q4 2010/2009

# A Renewed focus on Quality of Revenue and Business Class Services Helped Drive a Yield Improvement of 2.8%

## (Y-O-Y Changes in Passenger Yield)

*% Change in Yield*

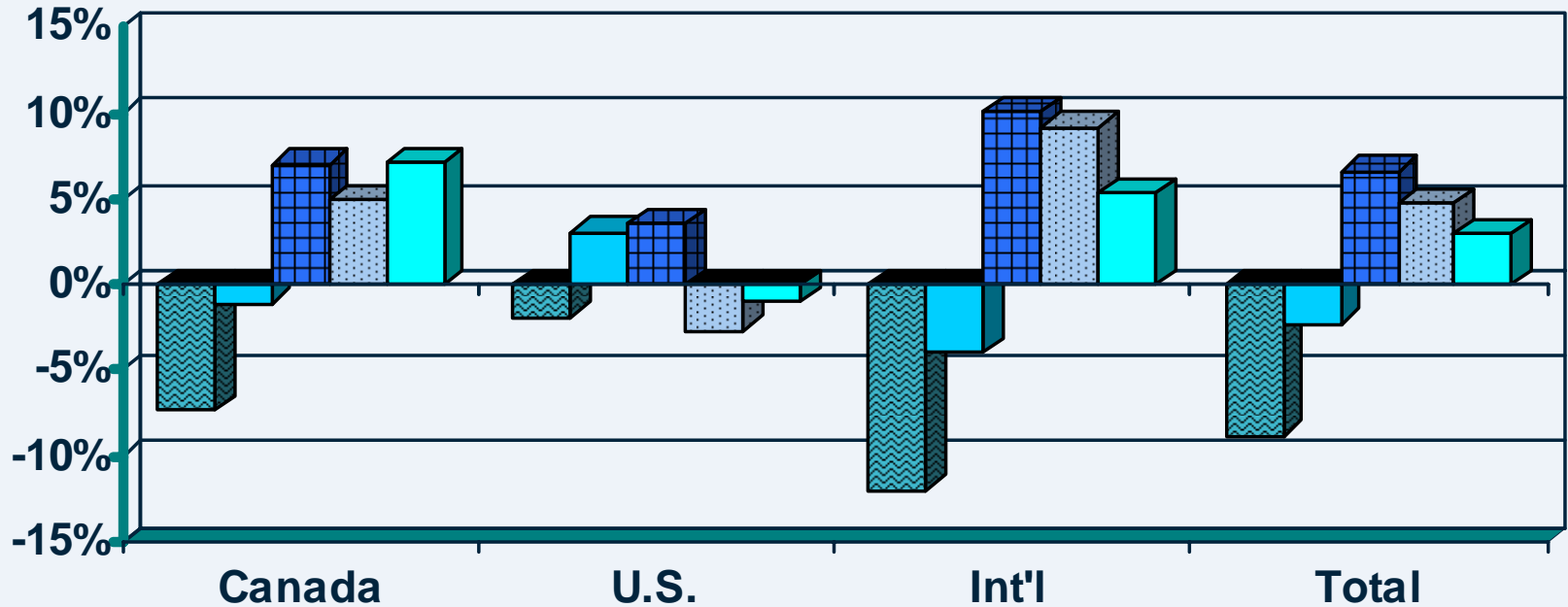


Q4 2009/2008
  Q1 2010/2009
  Q2 2010/2009
  Q3 2010/2009
  Q4 2010/2009

# System Passenger RASM Incr. 3.0% mainly due to 2.8% Yield Growth

## (Y-O-Y Changes in Revenue per ASM)

*% Change in RASM*



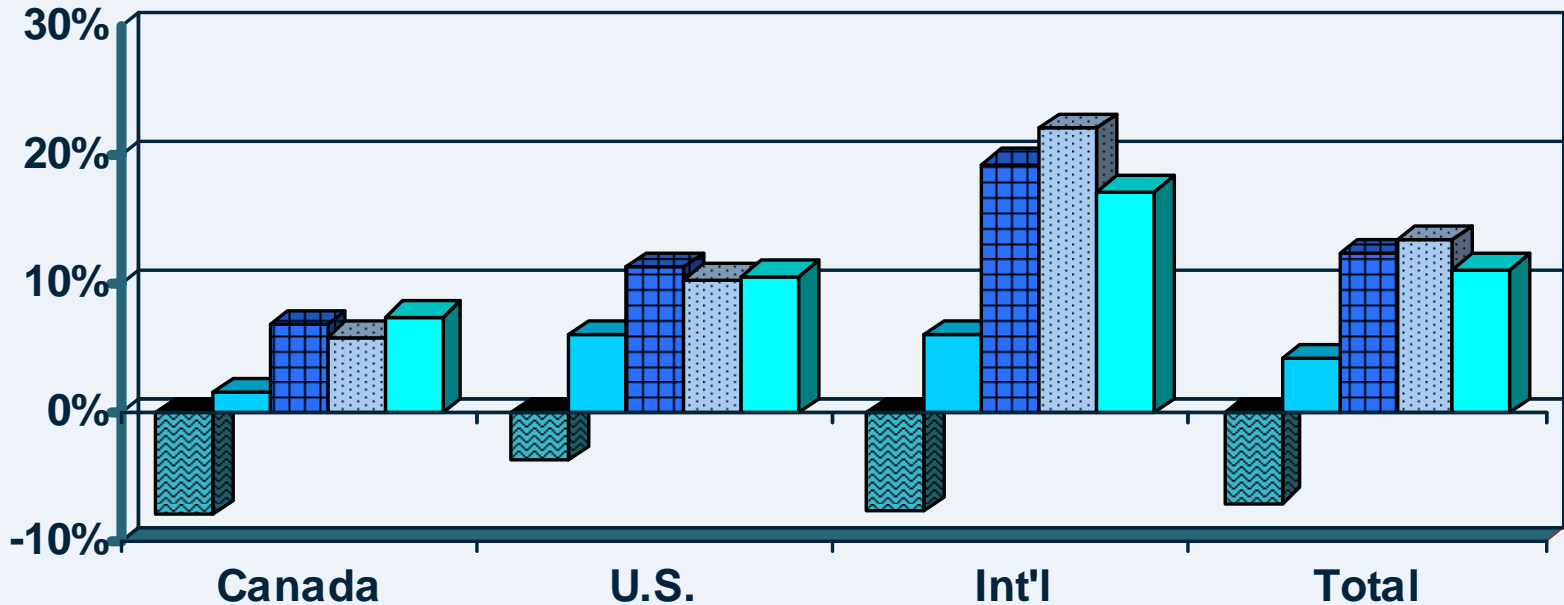
■ Q4 2009/2008 ■ Q1 2010/2009 ■ Q2 2010/2009 ■ Q3 2010/2009 ■ Q4 2010/2009

# System Revenues Increased 11.2% due to 8.0% Traffic Growth and 2.8% Yield Improvement

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## (Y-O-Y Changes in Passenger Revenue)

*% Change in Revenue*



■ Q4 2009/2008 ■ Q1 2010/2009 ■ Q2 2010/2009 ■ Q3 2010/2009 ■ Q4 2010/2009

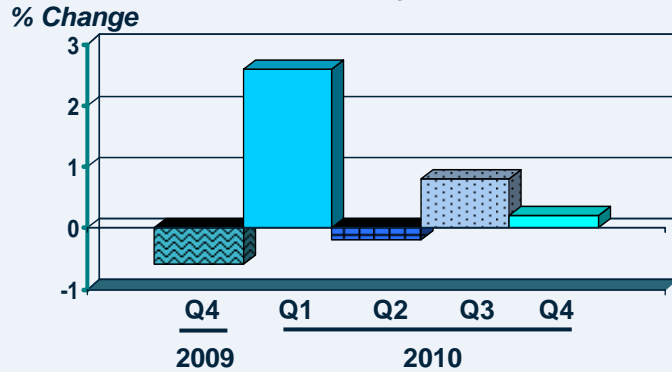
# Canada

Passenger RASM Incr. 7.1% Mainly Due to 5.3% Yield Growth & 1.4 pp LF Improv.

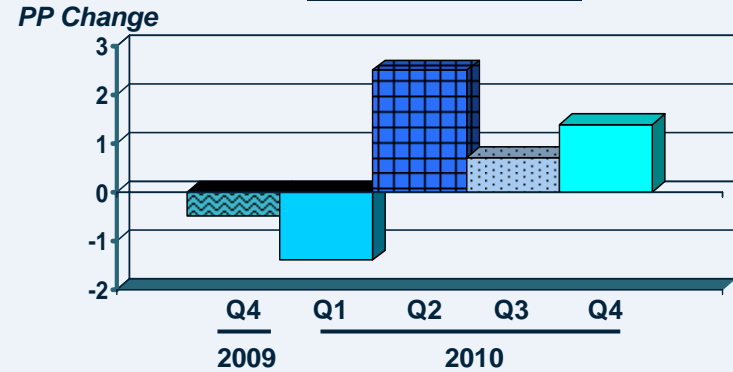
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## Y-O-Y Change

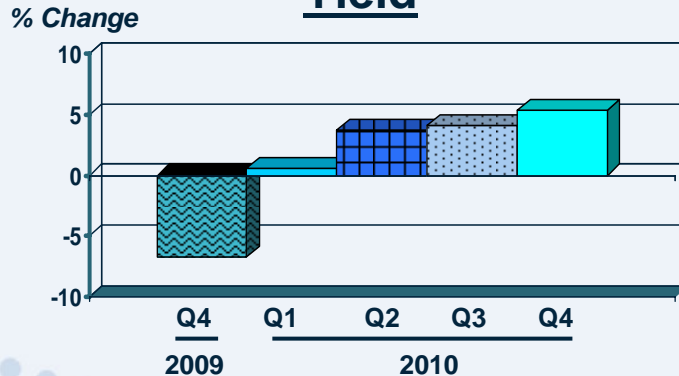
### Capacity (ASM)



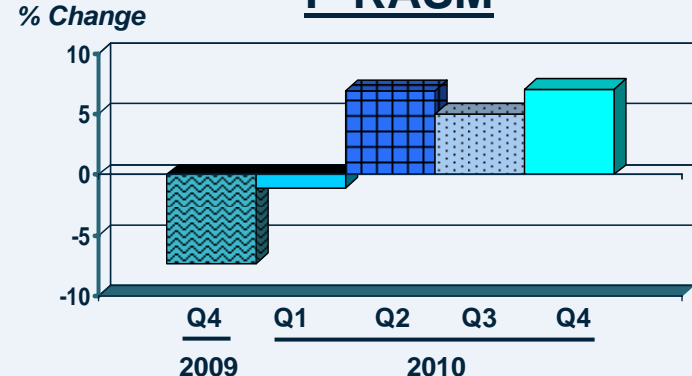
### Load Factor



### Yield



### P-RASM

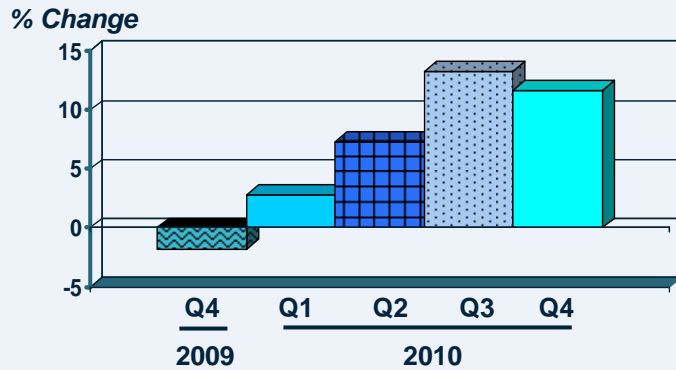


# US Transborder

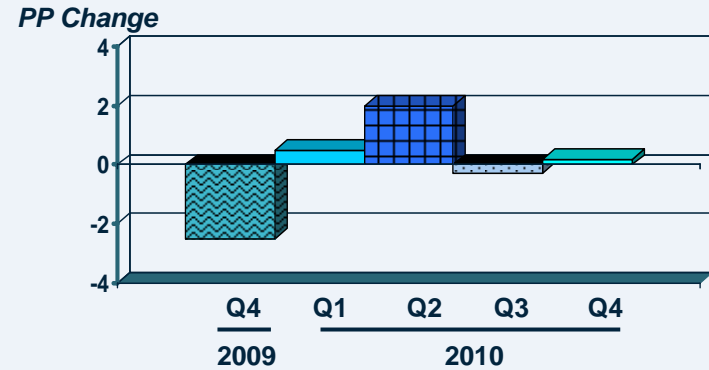
Passenger RASM Decreased 1.0% Due to a 1.3% Decrease in Yield

## Y-O-Y Change

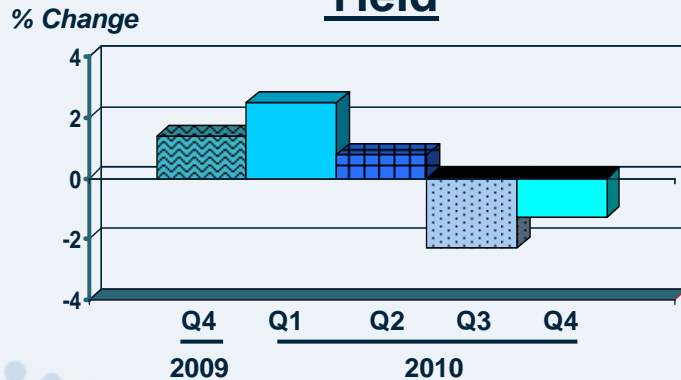
### Capacity (ASM)



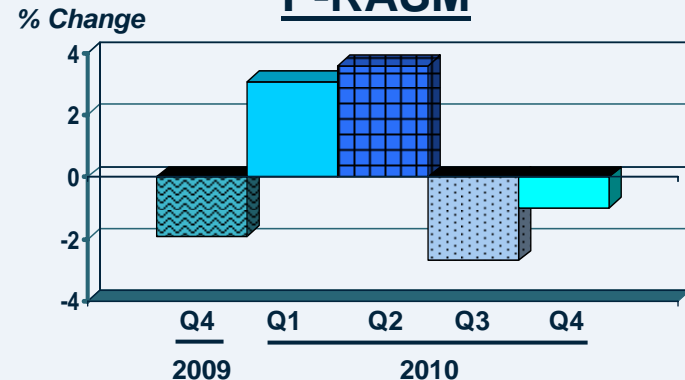
### Load Factor



### Yield



### P-RASM



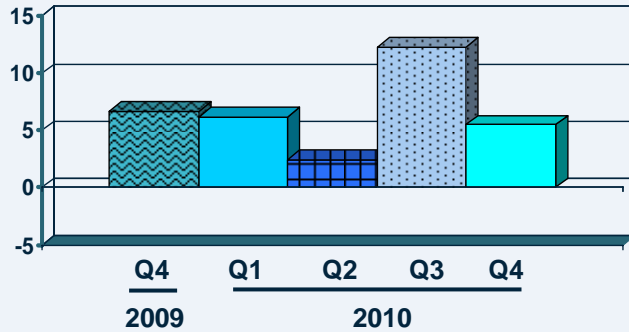
# Atlantic

Pass. RASM Incr. 1.7% Due to 4.7% Yield Growth - Partly Offset by 2.8 pp LF Decr.

## Y-O-Y Change

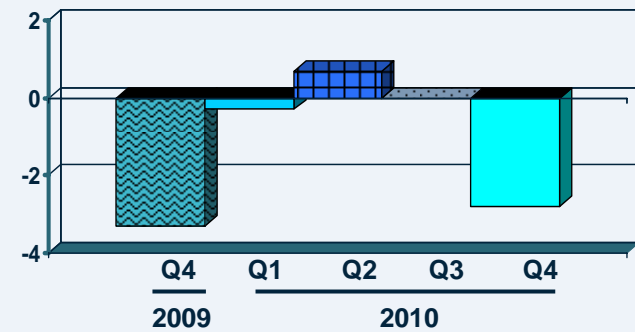
### Capacity (ASM)

% Change



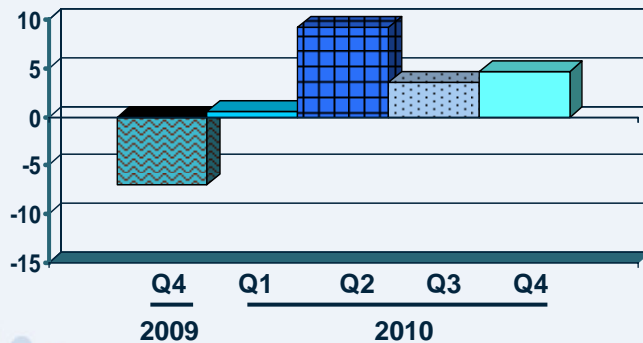
### Load Factor

PP Change



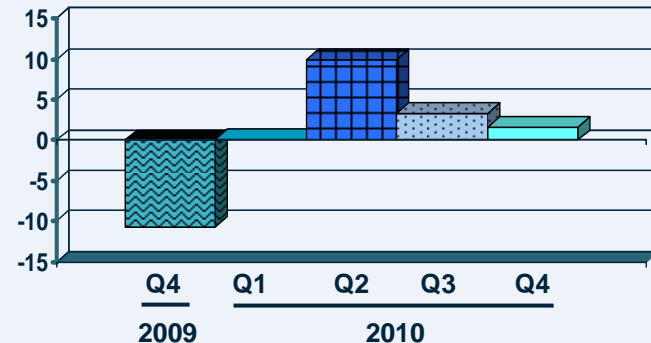
### Yield

% Change



### P-RASM

% Change

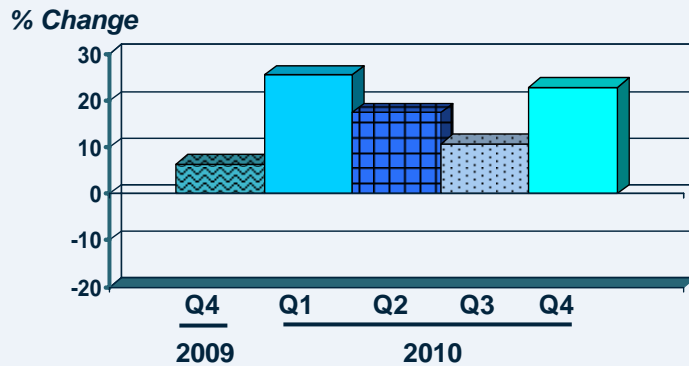


# Pacific

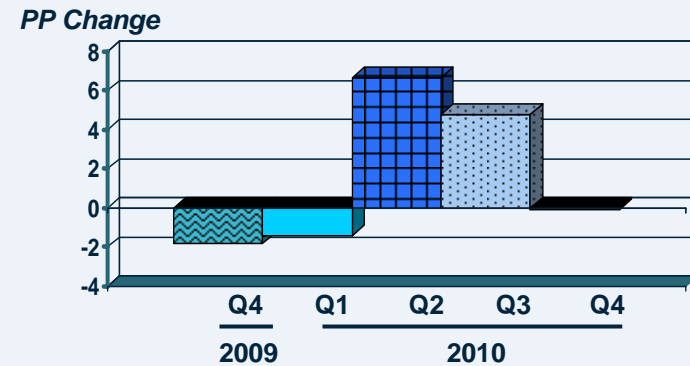
Passenger RASM Increased 7.0% Due to 7.2% Higher Yield

## Y-O-Y Change

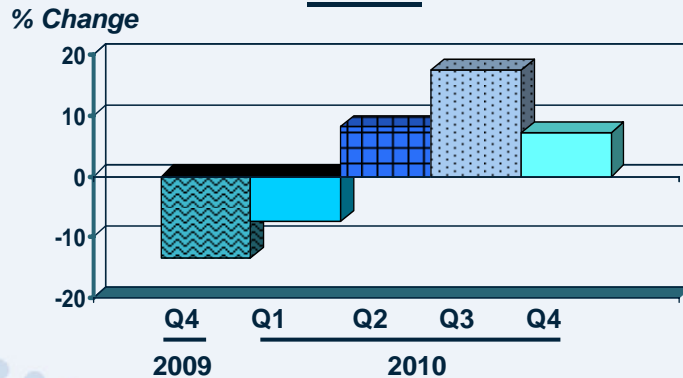
### Capacity (ASM)



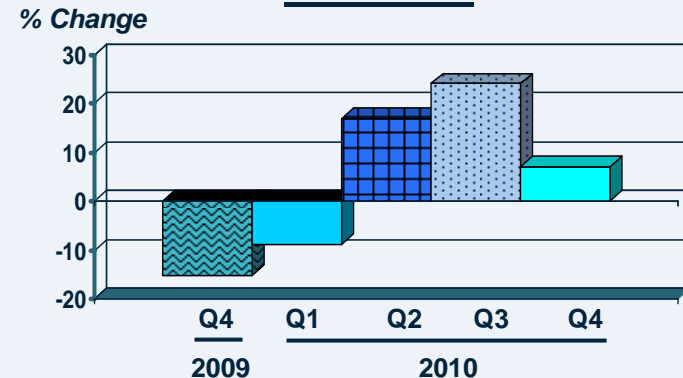
### Load Factor



### Yield



### P-RASM

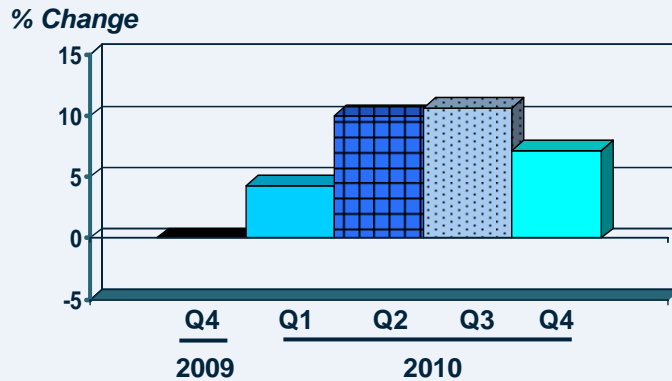


# Australia, Caribbean, Mexico & South America ("Other")

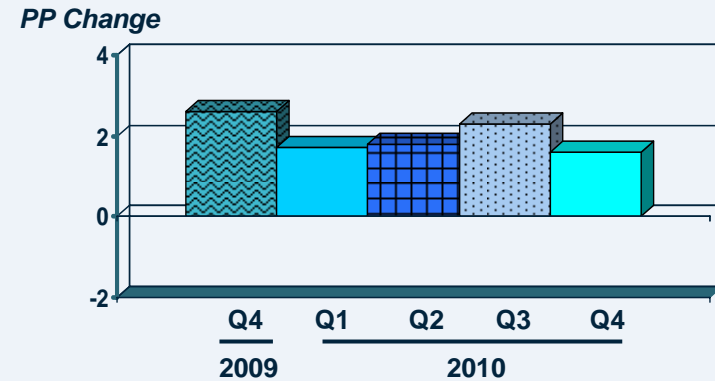
Passenger RASM Incr. 7.5% Due to 5.4% Higher Yield & 1.6 pp LF Improvement

## Y-O-Y Change

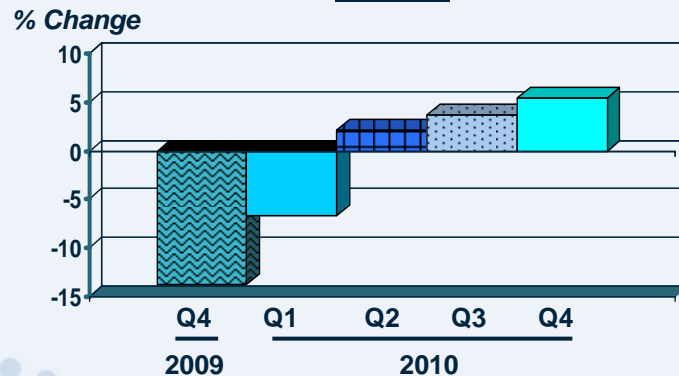
### Capacity (ASM)



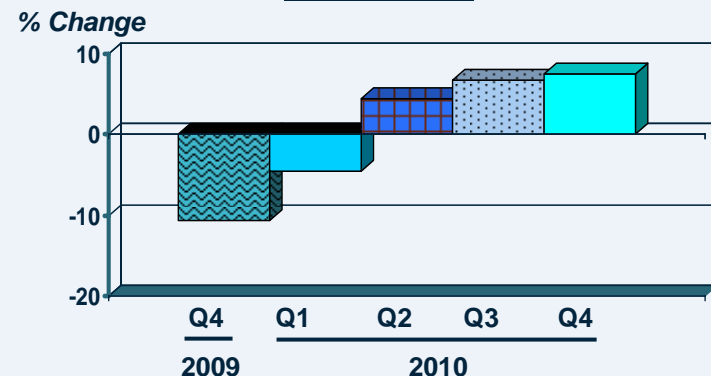
### Load Factor



### Yield



### P-RASM

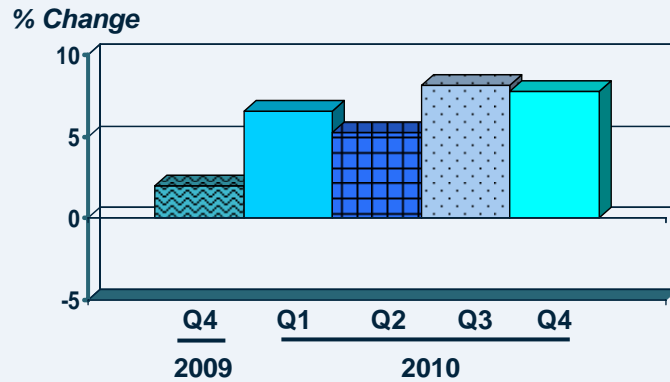


# Total / System

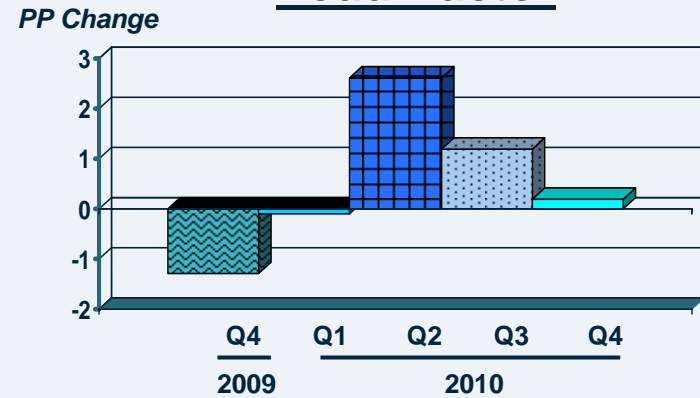
Passenger RASM Increased 3.0% Mainly Due to 2.8% Higher Yield

## Y-O-Y Change

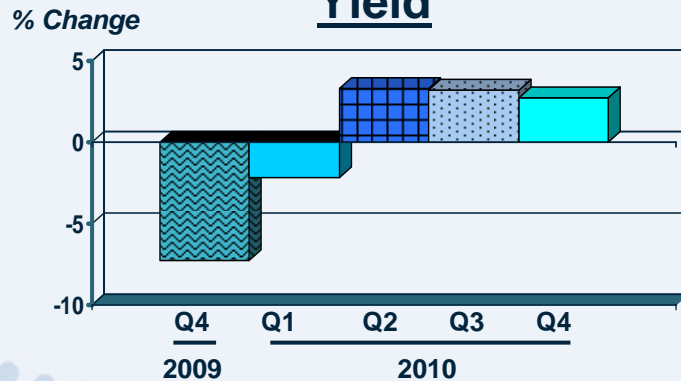
### Capacity (ASM)



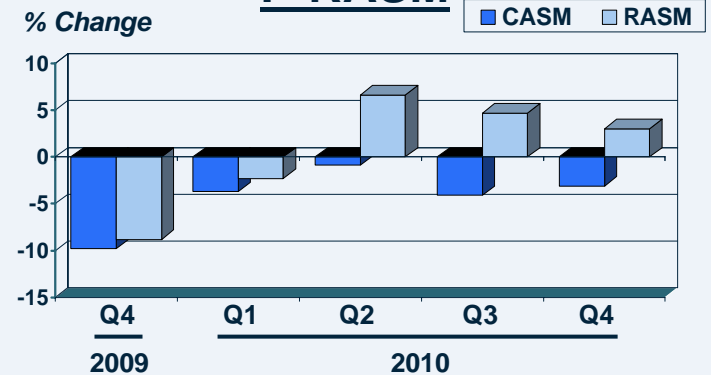
### Load Factor



### Yield



### P-RASM

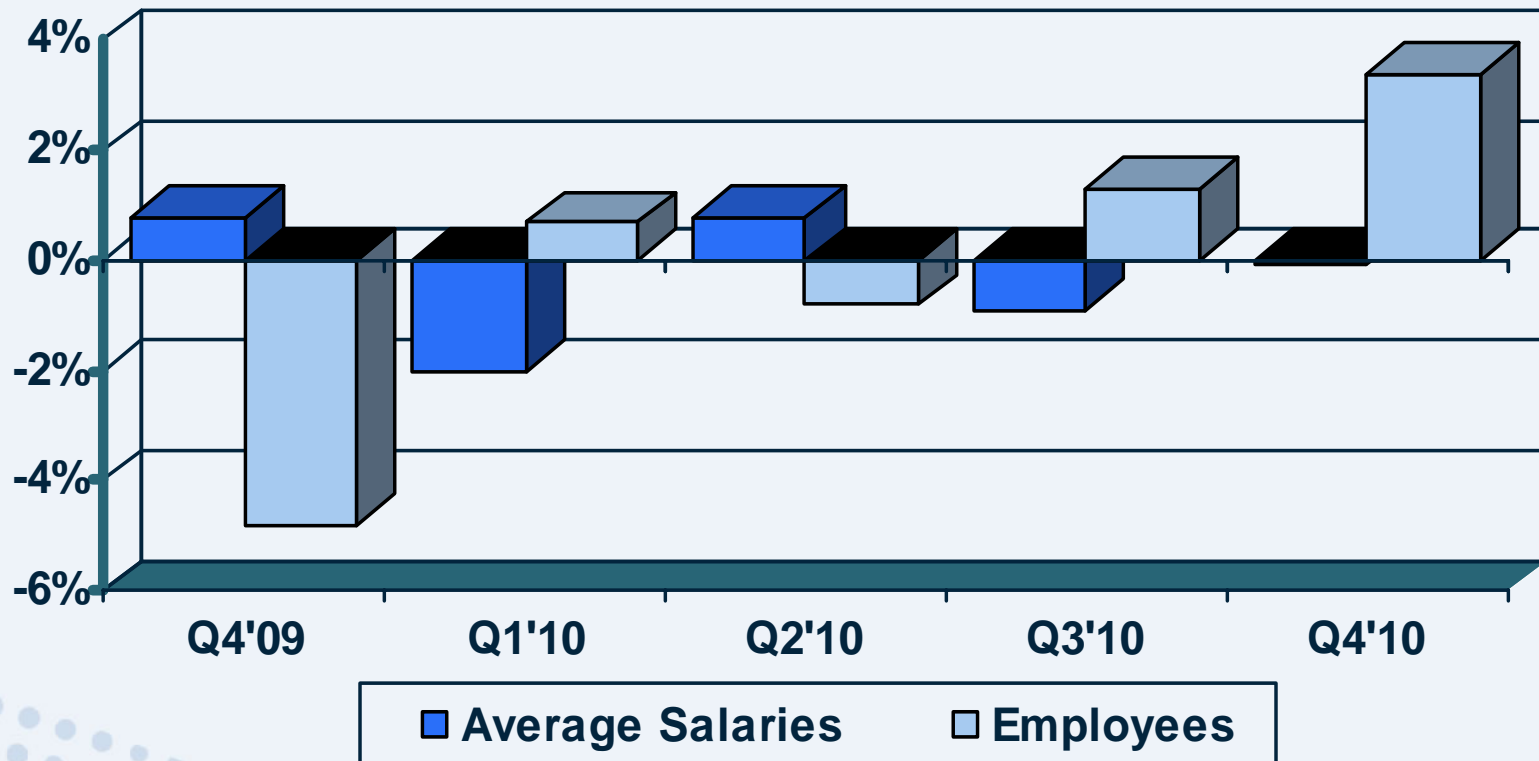


# WS&B Expenses Up 12% Mainly Due to Higher Expenses Related to Incentive Compensation Programs and to an Increase in Pension Expense

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(Y-O-Y Change – Average Salaries & Employees)

% Change Y-O-Y

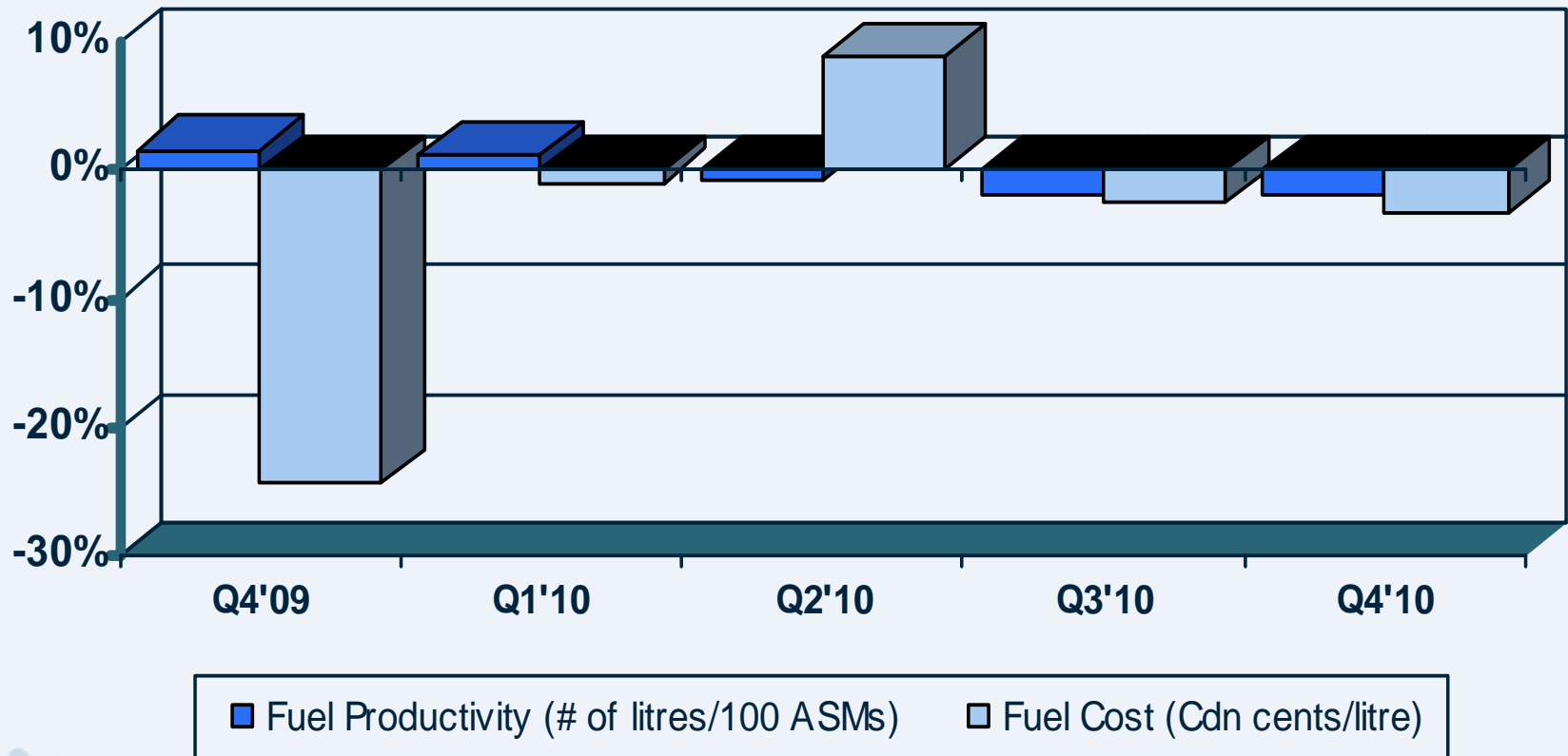


Fuel Cost Per Litre Down 3.3% – Fuel Productivity Down 1.9% –  
Economic Cost of Fuel Per Litre Up 6%

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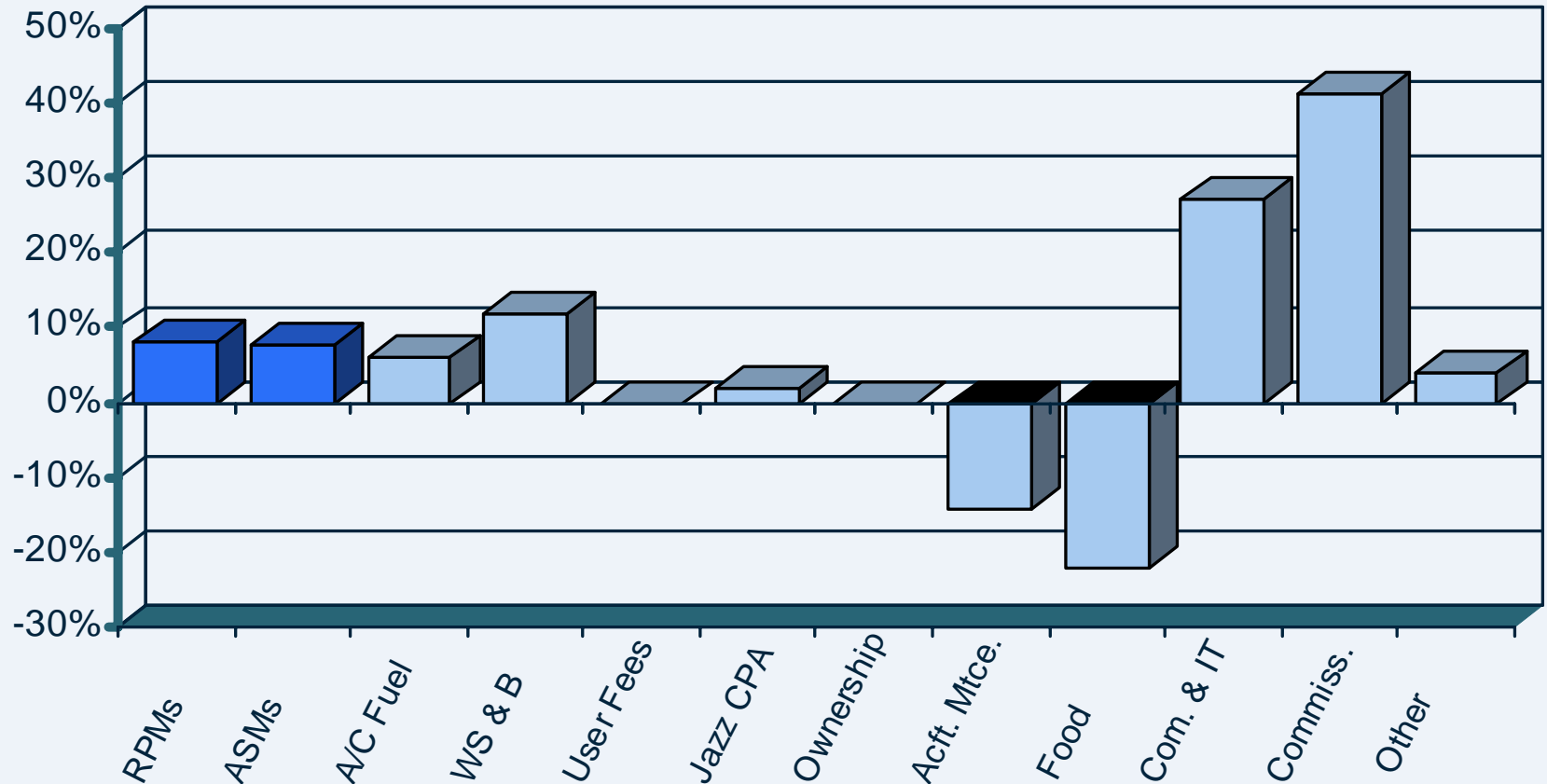
## (Fuel Productivity & Cost per Litre)

*% Change Y-O-Y*



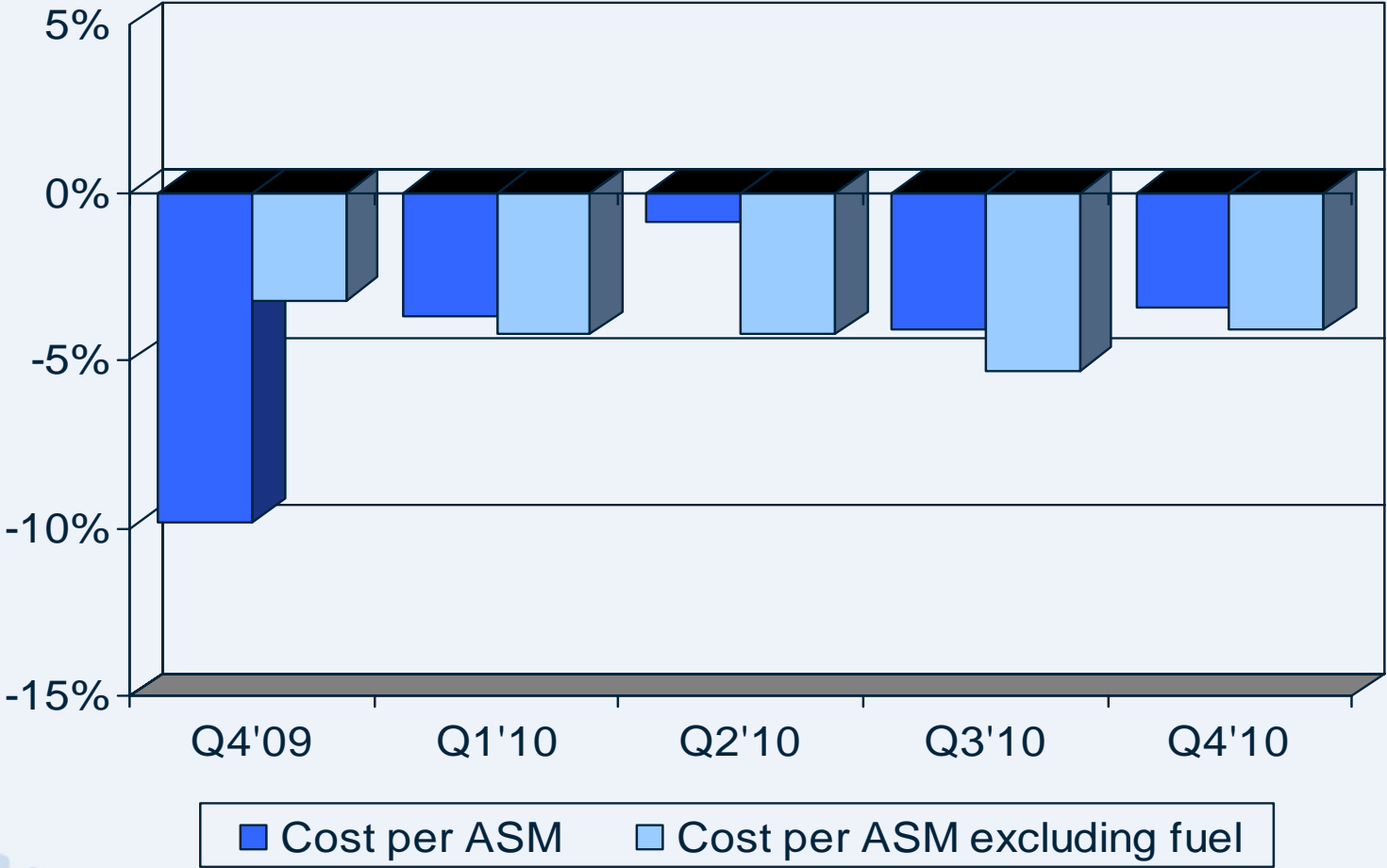
# Oper. Exp. Up \$100M Largely on 7.8% ASM Growth, Higher Fuel Prices, Commiss. and WS&B – Partly offset by Fav. FX & Lower Acft. Mtce. Exp.

## % Change Y-O-Y



# Unit Cost Down 3.4% – Down 4.1% Excl. Fuel – Fav FX, Capacity Growth & CTP Initiatives Contributing Factors

% Change Y-O-Y



## Further Information

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For further information on Air Canada's public disclosure file, including *Air Canada's Fourth Quarter 2010 MD&A* dated February 10, 2011 and *Air Canada's Annual Information Form*, dated March 26, 2010 consult Air Canada's website at **[aircanada.com](http://aircanada.com)** or SEDAR at **[www.sedar.com](http://www.sedar.com)**



