AIR CANADA

# News Release

## Air Canada Reports Full Year and Fourth Quarter 2011 Results

***Annual EBITDAR of $1.242 billion and operating income of $179 million***

MONTRÉAL, February 9, 2012 – Air Canada today reported full year operating income of $179 million compared to operating income (before a net reduction of $46 million to a provision for cargo investigations) of $232 million in 2010, a decrease of $53 million. Adjusted net loss per diluted share was $0.72 in 2011 compared to an adjusted net loss per diluted share of $0.58 in 2010.

In the fourth quarter of 2011, Air Canada recorded an operating loss of $98 million compared to operating income (before the net reduction to the provision for cargo investigations) of $15 million in the fourth quarter of 2010, a decrease of $113 million. Air Canada recorded earnings before interest, taxes, depreciation, amortization and impairment, and aircraft rent ("EBITDAR") of $162 million in the fourth quarter of 2011 compared to EBITDAR (before the net reduction to the provision for cargo investigations) of $328 million in the fourth quarter of 2010, a decrease of $166 million.

"Despite the challenges of 2011, I am pleased to report solid progress advancing the Corporation's stated priorities during the year," said Calin Rovinescu, President and Chief Executive Officer. "Our focus on revenue generation initiatives resulted in eight per cent growth or an increase of $826 million from the previous year and a record revenue performance for the airline, which helped mitigate a fuel expense increase of $723 million. The Cost Transformation Program surpassed its target in annualized revenue gains and cost savings of $530 million, on a run-rate basis, by the end of the third quarter. On-going disciplined capacity management resulted in the second-highest annual load factor in the company's history of 81.6 per cent. Our focus on growing international connecting traffic via our Canadian hubs is paying off, particularly at Toronto Pearson where it has increased by 110 per cent since 2009.

"Cost transformation and revenue optimization remain important priorities going forward to support ongoing unit cost reductions and a number of significant business transformation projects are currently being executed.

"As we worked to engage our customers, we grew our premium customer traffic, resulting in an increase in premium cabin revenues of 8.3 per cent compared to the previous year. Despite difficult labour negotiations in 2011, our employees remained committed to taking care of customers. We thank our customers for recognizing their skill and professionalism, and the quality of Air Canada's product offering, by ranking Air Canada as Best International Airline in North America for the second consecutive year in the annual Skytrax World Airline Awards survey of international air travellers.

"Given the current economic environment, we will continue to manage capacity conservatively and are planning for system ASM capacity growth of no more than 1.5 per cent in 2012. We view participation in the low-cost segment of the leisure market as important for the Corporation, and we are evaluating various models that would allow us to participate in this market segment."

**Income Statement Highlights**

System passenger revenues increased $118 million or 5.2 per cent in the fourth quarter of 2011 from the fourth quarter of 2010 on a 2.6 per cent growth in traffic and a 1.9 per cent improvement in yield, excluding a $40 million favourable adjustment recorded in the fourth quarter of 2010 (which related to the first three quarters of 2010). Fourth quarter 2011 system capacity increased 2.5 per cent when compared to the fourth quarter of 2010. Premium cabin revenues grew $23 million or 4.5 per cent in the fourth quarter of 2011 from the same quarter in 2010, due to an 8.2 per cent increase in traffic as premium cabin yield declined 2.2 per cent. Passenger revenue per available seat mile ("RASM") increased 2.0 per cent in the fourth quarter of 2011 from the fourth quarter of 2010, primarily due to the yield growth.

Operating expenses increased $196 million or 8 per cent in the fourth quarter of 2011 from the fourth quarter of 2010, mainly due to higher base fuel prices year-over-year, an increase in aircraft maintenance expense and the capacity growth. Partially offsetting these increases was a significant reduction in depreciation, amortization and impairment expense.

Unit cost in the fourth quarter of 2011, as measured by operating expense per available seat mile ("CASM"), increased 4.9 per cent compared to the fourth quarter of 2010. Excluding fuel expense and excluding the cost of ground packages at Air Canada Vacations, CASM decreased 1.5 per cent in the fourth quarter of 2011 from the fourth quarter of 2010. The favourable impact of the capacity growth, the impact of the cost transformation program ("CTP") initiatives, as well as an increase in average stage length compared to the fourth quarter of 2010 contributed to the year-over-year decrease in CASM, excluding fuel expense and excluding the cost of ground packages at Air Canada Vacations.

Air Canada reported a net loss of $60 million in the fourth quarter of 2011, which included foreign exchange gains of $114 million, compared to net income of $89 million in the fourth quarter of 2010, which included foreign exchange gains of $136 million, an impairment charge on aircraft of $49 million, and a net favourable adjustment to the provision for cargo investigations of $46 million.

For the full year, Air Canada reported a net loss of $249 million in 2011, which included foreign exchange losses of $54 million, compared to a net loss of $24 million in 2010, which included foreign exchange gains of $184 million, an interest expense charge on the repayment of the term credit facility of $54 million, an impairment charge on aircraft of $49 million, and a net favourable adjustment to the provision for cargo investigations of $46 million.

**Liquidity Highlights**

At December 31, 2011, Air Canada's cash, cash equivalents and short-term investments amounted to $2.099 billion, which represented 18 per cent of 2011 operating revenues.

In 2011, free cash flow of $366 million decreased $380 million from 2010, largely due to a decline in net cash from operations, a reduction in cash provided by working capital and an increase in past service pension funding obligations. In 2011, Air Canada made pension funding contributions to its pension plans of $385 million. In 2012, Air Canada expects pension funding contributions to amount to $426 million.

At December 31, 2011, adjusted net debt of $4,576 million decreased $298 million from December 31, 2010. Debt repayments of $608 million in 2011 were funded from positive free cash flow of $366 million and the proceeds from new debt borrowings of $232 million. The favourable impact of foreign exchange on aircraft rent also lowered capitalized operating lease obligations by $126 million in 2011.

## Labour Update

On March 18, 2011, Air Canada's pilots rejected a tentative agreement reached between Air Canada and ACPA, the union representing Air Canada's pilots. Since that time, Air Canada recommenced negotiations with ACPA, and while the conciliation timetable is set to expire on February 14, 2012, negotiations are scheduled to continue beyond that date with the assistance of a federally-appointed mediator.

Discussions are also on-going with the IAMAW representing the airline's mechanics, baggage handlers and cargo agents assisted by a federally-appointed conciliator.

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

The airline is also in discussions with CAW Local 2002 representing the company's 120 crew schedulers.

In 2011, new collective agreements were concluded with the CAW representing Air Canada's call centre and airport customer service agents, CUPE representing the airline's flight attendants and UNITE representing its customer service, aircraft services, cargo and clerical staff in the United Kingdom.

## Current Outlook

In the first quarter of 2012, Air Canada plans to increase its system ASM capacity, as measured by available seat miles (ASMs), by 2.5 per cent to 3.5 per cent compared to the first quarter of 2011.

Air Canada expects its full year 2012 system capacity to increase in the range of 0 to 1.5 per cent when compared to the full year 2011 and its full year 2012 domestic capacity to increase in the range of 0 to 1.5 per cent from the full year 2011.

For the first quarter of 2012, Air Canada expects CASM, excluding fuel expense and the cost of ground packages at Air Canada Vacations, to increase by 4 per cent to 5 per cent from the first quarter of 2011, largely reflecting a projected increase in aircraft maintenance expense.

Air Canada expects its full year 2012 CASM, excluding fuel expense and excluding the cost of ground packages at Air Canada Vacations, to increase by 1 per cent to 2 per cent from the full year 2011 level.

Air Canada's above-mentioned outlook assumes that the Canadian economy will continue to recover and assumes Canadian GDP growth of 1.5 per cent to 2.0 per cent in 2012. In addition, Air Canada expects that the Canadian dollar will trade, on average, at C$1.01 per U.S. dollar in the first quarter of 2012 and C$1.00 per U.S. dollar for the full year 2012 and that the price of jet fuel will average 88 cents per litre for the first quarter of 2012 and 87 cents per litre for the full year 2012.

The following table summarizes Air Canada's above-mentioned outlook for the first quarter of 2012 and for the full year 2012 and related major assumptions:

| | **First Quarter 2012 versus First Quarter 2011** | **Full Year 2012 versus Full Year 2011** |
|---|---|---|
| **Current Outlook** | | |
| Available seat miles (System) | Increase 2.5% to 3.5% | Increase 0% to 1.5% |
| Available seat miles (Canada) | n/a | Increase 0% to 1.5% |
| CASM, excluding fuel expense and excluding the cost of ground packages at Air Canada Vacations | Increase 4.0% to 5.0% | Increase 1.0% to 2.0% |

| | **Major Assumptions – First Quarter 2012** | **Major Assumptions – Full Year 2012** |
|---|---|---|
| Major Assumptions | | |
| Canadian dollar per U.S. dollar | 1.01 | 1.00 |
| Jet fuel price – CAD cents per litre (net of fuel hedging) | 88 cents | 87 cents |
| Canadian economy | 2012 annualized Canadian GDP growth of 1.5% to 2.0% | Canadian GDP growth of 1.5% to 2.0% |

For the full year 2012, Air Canada also projects the following:

- Aircraft maintenance expense to increase by 10 per cent to 14 per cent from the full year 2011.

- Depreciation, amortization and impairment expense to decrease by $70 million from the full year 2011.

- Employee benefits expense to increase by $35 million from the full year 2011.

The following table summarizes the above-mentioned projections for the full year 2012:

| | **Full Year 2012 versus Full Year 2011** |
|---|---|
| Aircraft maintenance expense | Increase 10% to 14% |
| Depreciation, amortization and impairment expense | Decrease $70 million |
| Employee benefits expense | Increase $35 million |

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**

Below is a description of certain non-GAAP measures used by Air Canada to provide additional information on its financial and operating performance. Such measures are not recognized measures for financial statement presentation under Canadian GAAP and do not have standardized meanings and therefore may not be comparable to similar measures presented by other public companies. Readers should refer to Air Canada’s 2011 MD&A for a reconciliation of non-GAAP financial measures.

- Adjusted net income (loss) per diluted share is used by Air Canada to assess share performance without the effects of foreign exchange gains (losses) and other exceptional items.

- EBITDAR is commonly used in the airline industry and is used by Air Canada to assess earnings before interest, taxes, depreciation, amortization and impairment, and aircraft rent, as these costs can vary significantly among airlines due to differences in the way airlines finance their aircraft and other assets.

- Operating expense, excluding fuel expense and excluding the cost of ground packages at Air Canada Vacations, is used by Air Canada to assess the operating performance of its ongoing airline business as such expenses may distort the analysis of certain business trends and render comparative analyses to other airlines less meaningful.

- Free cash flow is used by Air Canada as an indicator of the financial strength and performance of its business because it shows how much cash is available for such purposes as repaying debt, meeting ongoing financial obligations and reinvesting in Air Canada.

- Adjusted net debt is a key component of the capital managed by Air Canada and provides a measure of its net indebtedness.

Air Canada's 2011 Consolidated Financial Statements and Notes and its Management's Discussion and Analysis (MD&A) for 2011 are available on Air Canada's website at **aircanada.com,** and will be filed on SEDAR at **www.sedar.com**.

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, employee and labour relations, currency exchange and interest rates, 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 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.*

**- 30 -**

**INFORMATION**


| | | |
|---|---|---|
| **Investor Relations** | : | (514) 422-7353 |
| **Internet** | : | aircanada.com |


AIR CANADA

A STAR ALLIANCE MEMBER

## 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.

| | Fourth Quarter | | | Full Year | | |
|---|---|---|---|---|---|---|
| **(Canadian dollars in millions, except where indicated)** | **2011** | **2010** | **Change $** | **2011** | **2010** | **Change $** |
| **Financial Performance Metrics** | | | | | | |
| Operating revenues | 2,699 | 2,616 | 83 | 11,612 | 10,786 | 826 |
| Operating income (loss) before the provision adjustment for cargo investigations, net [1] | (98) | 15 | (113) | 179 | 232 | (53) |
| Operating income (loss) | (98) | 61 | (159) | 179 | 278 | (99) |
| Non-operating income (loss) | 38 | 28 | 10 | (429) | (303) | (126) |
| Income (loss) before income taxes | (60) | 89 | (149) | (250) | (25) | (225) |
| Net income (loss) for the period | (60) | 89 | (149) | (249) | (24) | (225) |
| Operating margin before the provision adjustment for cargo investigations, net % [1] | (3.6)% | 0.6% | (4.2) pp | 1.5% | 2.2% | (0.6) pp |
| Operating margin % | (3.6)% | 2.3% | (5.9) pp | 1.5% | 2.6% | (1.0) pp |
| EBITDAR before the provision adjustment for cargo investigations, net [1] [2] | 162 | 328 | (166) | 1,242 | 1,386 | (144) |
| EBITDAR [2] | 162 | 374 | (212) | 1,242 | 1,432 | (190) |
| EBITDAR margin before the provision adjustment for cargo investigations, net % [1] [2] | 6.0% | 12.6% | (6.6) pp | 10.7% | 12.9% | (2.2) pp |
| EBITDAR margin % [2] | 6.0% | 14.3% | (8.3) pp | 10.7% | 13.3% | (2.6) pp |
| Cash, cash equivalents and short-term investments | 2,099 | 2,192 | (93) | 2,099 | 2,192 | (93) |
| Free cash flow [3] | (69) | 122 | (191) | 366 | 746 | (380) |
| Adjusted net debt [4] | 4,576 | 4,874 | (298) | 4,576 | 4,874 | (298) |
| Net income (loss) per share - Diluted | $ (0.22) | $ 0.27 | $ (0.49) | $ (0.92) | $ (0.12) | $ (0.80) |
| Adjusted net loss per share - Diluted [5] | $ (0.64) | $ (0.17) | $ (0.47) | $ (0.72) | $ (0.58) | $ (0.14) |
| | | | | | | |
| **Operating Statistics** | | | **Change %** | | | **Change %** |
| Revenue passenger miles (millions) (RPM) | 12,065 | 11,756 | 2.6 | 54,223 | 51,875 | 4.5 |
| Available seat miles (millions) (ASM) | 15,290 | 14,918 | 2.5 | 66,460 | 63,496 | 4.7 |
| Passenger load factor % | 78.9% | 78.8% | 0.1 pp | 81.6% | 81.7% | (0.1) pp |
| Passenger revenue per RPM ("Yield") (cents)[6] | 19.5 | 19.1 | 1.9 | 18.7 | 18.1 | 3.3 |
| Passenger revenue per ASM ("RASM") (cents) [6] | 15.4 | 15.1 | 2.0 | 15.3 | 14.8 | 3.2 |
| Operating revenue per ASM (cents) [6] | 17.7 | 17.3 | 2.2 | 17.5 | 17.0 | 2.9 |
| Operating expense per ASM ("CASM") (cents) | 18.3 | 17.4 | 4.9 | 17.2 | 16.6 | 3.5 |
| CASM, excluding fuel expense and excluding the cost of ground packages at Air Canada Vacations (cents) [7] | 12.6 | 12.8 | (1.5) | 11.7 | 12.0 | (2.9) |
| Average number of full-time equivalent (FTE) employees (thousands) [8] | 23.6 | 23.3 | 1.5 | 23.7 | 23.2 | 2.1 |
| Aircraft in operating fleet at period end [9] | 331 | 328 | 0.9 | 331 | 328 | 0.9 |
| Average fleet utilization (hours per day) [10] | 9.4 | 9.4 | (0.3) | 10.1 | 9.8 | 2.7 |
| Revenue frequencies (thousands) | 133 | 131 | 1.3 | 551 | 537 | 2.5 |
| Average aircraft flight length (miles) [10] | 857 | 850 | 0.8 | 892 | 868 | 2.7 |
| Economic fuel price per litre (cents) [11] | 88.6 | 67.5 | 31.3 | 85.2 | 66.4 | 28.3 |
| Fuel litres (millions) | 912 | 906 | 0.7 | 3,937 | 3,791 | 3.9 |

(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, amortization and impairment, and aircraft rent) is a non-GAAP financial measure. Refer to section 20 "Non-GAAP Financial Measures" of Air Canada's 2011 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 operating activities less additions to property, equipment and intangible assets) is a non-GAAP financial measure. Refer to section 9.5 of Air Canada's 2011 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. Refer to section 9.3 of Air Canada's 2011 MD&A for additional information.*

(5) *Adjusted net income (loss) per share (diluted) is a non-GAAP financial measure. Refer to section 20 of Air Canada's 2011 MD&A for additional information.*

(6) *A favourable revenue adjustment of $40 million related to Air Canada's transatlantic joint venture with United Airlines and Deutsche Lufthansa AG, which was finalized in December 2010 but with effect as of January 1, 2010, 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, which related to activities attributable to the first three quarters of 2010.*

(7) *Operating expense, excluding fuel expense and excluding the cost of ground packages at Air Canada Vacations, is a non-GAAP financial measure. Refer to section 20 of Air Canada's 2011 MD&A for additional information.*

(8) *Reflects FTE employees at Air Canada. Excludes FTE employees at third party carriers (such as at Jazz Aviation LP ("Jazz")) operating under capacity purchase agreements with Air Canada.*

(9) *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 8 of Air Canada's 2011 MD&A for additional information.*

(10) *Excludes charter operations. Also excludes third party carriers operating under capacity purchase arrangements, other than Jazz aircraft covered under the capacity purchase agreement with Jazz.*

(11) *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 6 and 7 of Air Canada's 2011 MD&A for additional information.*