News Releases

Air Canada reports second quarter results

As a result of the distribution by ACE Aviation Holdings Inc. ("ACE") of units of Jazz Air Income Fund on May 24, 2007, ACE's ownership interest in Jazz Air Income Fund was reduced from 58.8 per cent to 49.0 per cent. Jazz Air Income Fund holds all the outstanding units of Jazz Air LP ("Jazz"). This change in ownership interest gave rise to a reconsideration of which entity should consolidate Jazz and, as a result, Jazz Air Income Fund (and not Air Canada) was deemed to be the primary beneficiary of Jazz under Canadian GAAP Accounting Guideline No. 15 - Consolidation of Variable Interest Entities. As of the distribution date, Air Canada no longer consolidates Jazz and has one reportable segment. Prior to the distribution date, Air Canada had two reportable segments: Air Canada Services and Jazz. As a result of the deconsolidation on May 24, 2007, Air Canada's consolidated results for Quarter 2 2007 and for the first six months of 2007 are not directly comparable to Air Canada's consolidated results for the same periods in 2006. This press release highlights the performance of the "Air Canada" segment (previously the "Air Canada Services" segment).

2007 SECOND QUARTER OVERVIEW

- Net income of $155 million in the second quarter of 2007 compared to a net income of $152 million in the 2006 quarter.
- Operating income of $88 million in the second quarter of 2007 compared to operating income of $113 million in the second quarter of 2006, a decline of $25 million.
- EBITDAR(1) of $295 million in the second quarter of 2007 compared to EBITDAR(1) of $314 million in the second quarter of 2006, a decrease of $19 million.
- Passenger revenues up $74 million or 3 per cent over the second quarter of 2006, mainly driven by a 3 per cent growth in traffic on a capacity growth of 2 per cent.
- Passenger load factor at 82.7 per cent, a record load factor for the second quarter.
- Solvency deficit of the Company's Canadian registered pension plans improved to $542 million at January 1, 2007 from $1,655 million a year earlier.MONTREAL, Aug. 10 /CNW Telbec/ - Air Canada today reported net income of $155 million for the second quarter of 2007 compared to net income of $152 million in the second quarter of 2006. Net income for the quarter included gains on the revaluation of foreign currency monetary items of $160 million, compared to $108 million for the prior year's quarter.

The airline reported operating income of $88 million, a decrease of $25 million from the operating income of $113 million recorded in the second quarter of 2006, mainly due to costs related to the introduction of new aircraft and the maintenance preparation for outgoing leased and subleased aircraft. The increase in these costs over the prior year's quarter amounted to $21 million, which was partly offset by sublease revenues of $6 million recorded in the second quarter of 2007. These transitional fleet costs will be offset by lower fuel and maintenance costs driven by more efficient aircraft being brought into the fleet, as well as increased sublease revenues in future quarters.

Passenger revenues increased $74 million or 3 per cent over the second quarter of 2006 mainly due to traffic growth of 3 per cent on a capacity increase of 2 per cent. RASM rose 1 per cent compared to the second quarter of 2006. The passenger revenue increase in the quarter was partly offset by a $19 million reduction in cargo revenues mainly due to reduced dedicated freighter capacity. EBITDAR(1) amounted to $295 million, a decrease of $19 million from the same period in 2006.

Unit cost, as measured by operating expense per ASM, increased 1 per cent from the second quarter of 2006. Excluding fuel expense, unit cost grew 2 per cent over the second quarter of 2006, largely driven by increases in wages and salaries, fleet introduction and aircraft return and subleasing costs.

The solvency deficit in Air Canada's Canadian registered pension plans improved from $1,655 million at January 1, 2006 to $542 million at January 1, 2007 as a result of a 13.6 per cent return on pension plan assets (net of expenses), significant company contributions to plans, and a stable interest rate environment in 2006. This improvement will result in a reduction to Air Canada's pension plan cash funding obligations in 2007 and is expected to do so in 2008. The required contributions to Canadian registered plans is reduced by approximately $115 million in 2007, and is projected to be reduced by $150 million for 2008, based on the January 1, 2007 actuarial valuations compared to the valuations of the previous year.

"Our revenue performance for the quarter was encouraging mainly due to strong domestic Canada and Asia Pacific markets," said Montie Brewer, President and Chief Executive Officer. "We were able to effectively manage capacity in North America to mitigate softness in the U.S. However, the U.K. market under performed due to increased industry capacity while travellers continued to be impacted by additional security measures and the doubling of the U.K. departure tax. We expect these trends to continue, including a strong domestic Canada market. The arrival of our Boeing 777 aircraft will allow us to shift capacity from the U.K. to the Asia Pacific region in order to maximize asset utilization. Looking forward, bookings remain strong which we expect will result in continued unit revenue improvement.

"The significant reduction in solvency deficit for our employee pension plans in Canada, ahead of schedule, is excellent news for our employees and shareholders. Past service payments will be substantially reduced this year and we expect next year as well, while at the same time the Corporation's carrying costs will be reduced going forward.

"There is still much work to be done. However, we have made progress in creating a solid foundation for sustained profitability. We accomplished a great deal in the quarter and we are anticipating a much improved second half.

"In the quarter, we put into service the first four Boeing 777s. As of today we have received seven Boeing 777s of a committed 17. These aircraft will provide capacity in the second half of 2007 with substantial fuel and maintenance savings.

"Second, the significant increase in salaries and wages expense reported in the first half of 2007 is expected to ease in the second half of the year due to lower costs associated with overtime, wage progression, training and voluntary separation packages.

"Third, our hedging program has locked in 52 per cent of our fuel requirements for the remainder of the year at favourable prices. This, together with a stronger Canadian dollar and based on today's current fuel prices, is expected to lower our fuel bill below last year's level.

"And lastly, while our fleet renewal is initially adding considerable expense for training and additional maintenance costs for aircraft exiting the fleet, we anticipate that additional sublease revenue in the second half of the year will partially offset this cost. Due to strong demand for used aircraft, two Airbus A340s and four Airbus A319s currently subleased to date are at rates higher on average than the original lease rates, as is the case for a further two Airbus A319s and eight Airbus A340s which are planned for sub-lease over the next 12 months. Agreements have been reached for the sublease of all Airbus A340s with high quality lessees at rates above the original lease, with the exception of two Airbus A340s on operating leases which will be returned to lessors in the fourth quarter of 2007.

"The quarter ended on a very positive note as the results of the world's largest passenger survey, an independent poll of 14 million air travelers, ranked Air Canada as the Best Airline in North America. This most recent honor, coupled with sustained traffic growth and record loads is testament to the hard work of our employees who are successfully earning the loyalty of our customers to the new Air Canada."Second Quarter 2007 Accomplishments

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- Achieved a record load factor for the second quarter of 82.7 per cent.
- Took delivery of one Boeing 777-200 aircraft and an additional three 777-300 aircraft in the quarter. To date, Air Canada has taken delivery of a total of five 777-300 aircraft and two 777-200 aircraft. Air Canada's Boeing 777-300 aircraft is delivering a 15 per cent cost per seat saving as compared to the Airbus A340-300 aircraft. Air Canada's Boeing 777-200 aircraft is expected to deliver similar results compared to the Airbus A340-500.
- Increased Boeing 787 order to 37 from original 14, with options for an additional 23, the largest order of any carrier in the Americas. Fuel and maintenance costs for the 787 are expected to be significantly less than those of a 767-300.
- Introduced four Embraer E190 aircraft in the quarter. To date, Air Canada has taken delivery of a total of 30 E190 aircraft of 45 on order. Air Canada's Embraer E190 fleet is delivering a 19 per cent cost saving per trip as compared to its Airbus A319 fleet.
- Introduced new non-stop services on Calgary-Seattle, Vancouver-Sacramento, and seasonal service on Montreal-Rome and St. John's-London Heathrow.
- Reached web penetration of 63 per cent in Canada, a 13.0 percentage point increase from the second quarter of 2006 and a further 2.0 percentage point increase from the first quarter of 2007. 73 per cent of domestic Canada sales for the second quarter were made directly with Air Canada, either online or through call centres.
- In the second quarter, approximately 60 per cent of Air Canada's customers used self check-in kiosks some of which in Montreal and Vancouver also provide self-tagging of bags.
- Expanded the availability of mobile check-in for passengers with bags travelling on domestic Canada, US. transborder and international flights.
- Announced Olympic and Paralympic sponsorships: official airline of the 2010 Olympic and Paralympic Winter Games, official transportation provider for Canadian Olympic teams to Beijing 2008, Vancouver 2010 and London 2012, and donated $600,000 to the Canadian Paralympic Committee.
- Ranked "Best Airline in North America" for second time in three years in a passenger survey of 14 million air travellers conducted by Skytrax.
- Named favourite carrier by Canadian travel agents in a survey of travel agents conducted by Baxter Travel Media.

(1) Non-GAAP Measures

EBITDAR is a non-GAAP financial measure commonly used in the airline industry to assess earnings before interest, taxes, depreciation and aircraft rent. EBITDAR is used to view operating results before aircraft rent, depreciation, amortization and obsolescence 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.

Readers should refer to Air Canada's Quarter 2 2007 Management's Discussion and Analysis (MD&A), which will be filed on SEDAR, for a reconciliation of EBITDAR to operating income (loss).

For further information on Air Canada's public disclosure file, including

Air Canada's Initial Annual Information Form dated March 27, 2007, consult SEDAR at www.sedar.com.

CAUTION REGARDING FORWARD-LOOKING INFORMATION

Certain statements in this news release may contain forward-looking statements. These forward-looking statements are identified by the use of terms and phrases such as "anticipate", "believe", "could", "estimate", "expect", "intend", "may", "plan", "predict", "project", "will", "would", and similar terms and phrases, including references to assumptions. Such statements may involve but are not limited to comments with respect to strategies, expectations, planned operations or future actions. Forward-looking statements, by their nature, are based on assumptions and are subject to important risks and uncertainties. Any forecasts or forward-looking predictions or statements cannot be relied upon due to, amongst other things, changing external events and general uncertainties of the business. Such statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements to differ materially from those expressed in the forward-looking statements. Results indicated in forward-looking statements may differ materially from actual results for a number of reasons, including without limitation, energy prices, general industry, market and economic conditions, war, terrorist attacks, changes in demand due to the seasonal nature of the business, the ability to reduce operating costs and employee counts, employee relations, labour negotiations or disputes, pension issues, currency exchange and interest rates, changes in laws, adverse regulatory developments or proceedings, pending and future litigation and actions by third parties as well as the factors identified throughout Air Canada's filings with securities regulators in Canada and, in particular, those identified in the Risk Factors section to Air Canada's 2006 Annual Management's Discussion & Analysis dated February 14, 2007 and in section 14 of Air Canada's Quarter 2 2007 Management's Discussion & Analysis dated August 9, 2007. The forward-looking statements contained herein represent Air Canada's expectations as of the date they are 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	Quarter 2 2007	Quarter 2 2006	
Air Canada(1) (Previously the "Air Canada Services" segment)			
Financial (Canadian dollars in millions unless stated otherwise)			$ Change
Operating revenues	2,635	2,576	59
Operating income (loss)	88	113	(25)
Operating income (loss), excluding special charges(2)	88	113	(25)
Non-operating income (expense)	(33)	(46)	13
Income (loss) before non-controlling interest, foreign exchange and income taxes	55	67	(12)
Income for the period	155	152	3
Operating margin %	3.3%	4.4%	(1.1)pp
Operating margin %, excluding special charges(2)	3.3%	4.4%	(1.1)pp
EBITDAR(3)	295	314	(19)
EBITDAR, excluding special charges(2)(3)	295	314	(19)
EBITDAR margin %	11.2%	12.2%	(1.0)pp
Cash, cash equivalents and short-term investments	1,751	1,557	194
Cash flows from operating activities	86	78	8
Operating Statistics			% Change
Revenue passenger miles (millions) (RPM)	12,580	12,248	3
Available seat miles (millions) (ASM)	15,220	14,925	2
Passenger load factor	82.7%	82.1%	0.6 pp
Passenger revenue yield per RPM (cents)	18.5	18.4	1
Passenger revenue per ASM (cents)	15.3	15.1	1
Operating revenue per ASM (cents)	17.3	17.3	0
Operating expense per ASM (cents)	16.7	16.5	1
Operating expense per ASM, excluding fuel expense (cents)	12.6	12.3	2
Operating expense per ASM, excluding fuel expense and the special charge for labour restructuring (cents)(2)(4)	12.6	12.3	2
Average number of full-time equivalent (FTE) employees (thousands)	24.3	23.8	2
Aircraft in operating fleet			

at period end(5)	329	327	1
Average aircraft utilization (hours per day)(6)(7)	10.7	10.2	5
Average aircraft flight length (miles)(7)	855	862	(1)
Fuel price per litre (cents)(8)	67.2	67.3	0
Fuel litres (millions)	941	932	1

	YTD Quarter 2 2007	YTD Quarter 2 2006	
Financial (Canadian dollars in millions unless stated otherwise)			**$ Change**
Operating revenues	5,169	4,970	199
Operating income (loss)	10	(11)	21
Operating income (loss), excluding special charges(2)	10	17	(7)
Non-operating income (expense)	(25)	(86)	61
Income (loss) before non-controlling interest, foreign exchange and income taxes	(15)	(97)	82
Income for the period	121	26	95
Operating margin %	0.2%	(0.2)%	0.4 pp
Operating margin %, excluding special charges(2)	0.2%	0.3%	(0.1)pp
EBITDAR(3)	418	388	30
EBITDAR, excluding special charges(2)(3)	418	416	2
EBITDAR margin %	8.1%	7.8%	0.3 pp
Cash, cash equivalents and short-term investments	1,751	1,557	194
Cash flows from operating activities	293	369	(76)
Operating Statistics			**% Change**
Revenue passenger miles (millions) (RPM)	24,394	23,488	4
Available seat miles (millions) (ASM)	29,955	29,212	3
Passenger load factor	81.4%	80.4%	1.0 pp
Passenger revenue yield per RPM (cents)	18.3	18.1	1
Passenger revenue per ASM (cents)	14.9	14.6	2
Operating revenue per ASM (cents)	17.3	17.0	1
Operating expense per ASM (cents)	17.2	17.1	1
Operating expense per ASM, excluding fuel expense (cents)	13.1	12.9	2
Operating expense per ASM, excluding fuel expense and the special charge for labour restructuring (cents)(2)(4)	13.1	12.9	2
Average number of full-time equivalent (FTE) employees (thousands)	23.8	23.9	0
Aircraft in operating fleet at period end(5)	329	327	1
Average aircraft utilization (hours per day)(6)(7)	10.8	10.2	6
Average aircraft flight length (miles)(7)	865	861	0
Fuel price per litre (cents)(8)	65.1	65.5	(1)
Fuel litres (millions)	1,866	1,822	2

(1) As a result of ACE's special distribution of Jazz Air Income Fund units on May 24, 2007, ACE's ownership interest in the Jazz Air Income Fund was reduced from 58.8% to 49.0%.
Jazz Air Income Fund holds all the outstanding units of Jazz Air LP.
As of the distribution date, Air Canada no longer consolidates Jazz LP into its financial statements based on a reassessment that Air Canada is no longer the primary beneficiary of Jazz Air LP under Canadian GAAP Accounting Guideline No.15 "Consolidation of Variable Interest Entities" ("AcG-15").
Refer to section 1 of Air Canada's Quarter 2 2007 Management Discussion and Analysis of Results and Financial Condition ("MD&A") for additional information.
Effective May 24, 2007, Air Canada has only one business segment: Air Canada. Prior to that date, Air Canada had two business segments: Air Canada Services and Jazz.

(2) A special charge for labour restructuring of $28 million was recorded in Quarter 1 2006. In Quarter 4 2006, the charge was reduced by $8 million to $20 million due to the favourable impact of attrition and other factors.

(3) EBITDAR (earnings before interest, taxes, depreciation, amortization, obsolescence and aircraft rent) is a non-GAAP financial measure commonly used in the airline industry to view operating results before aircraft rent and depreciation, amortization and obsolescence 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 likely to be comparable to similar measures presented by other public companies.

EBITDAR is reconciled to operating income as follows:
($millions)

	Quarter 2 2007	Quarter 2 2006	YTD Quarter 2 2007	YTD Quarter 2 2006
Operating income	88	113	10	(11)
Add back:				
Aircraft rent	71	83	144	166
Depreciation, amortization & obsolescence	136	118	264	233
EBITDAR	295	314	418	388
Add back:				
Special charge for labour restructuring(3)	-	-	-	28
EBITDAR, excluding special charges	295	314	418	416

(4) Operating expense per available seat mile, before fuel expense and the special charge for labour restructuring, is calculated by removing fuel expense and the special charge for labour restructuring from total operating expense and dividing the no. by ASMs. Refer to section 15 "Non-GAAP Financial Measures" of Air Canada's Quarter 2 2007 MD&A for additional information.

(5) Operating fleet excludes chartered freighters in 2007 and 2006.

(6) Excludes maintenance down-time.

(7) Excludes third party carriers (other than Jazz) operating under capacity purchase arrangements.

(8) Includes fuel handling and fuel hedging expenses.%SEDAR: 00024384EF

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