



**Notes for a presentation by  
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Check against delivery

The international tourism market continued to grow in 2005.

Following a record year in 2004, the number of tourists climbed by more than 5% in 2005, exceeding the 800-million mark for the first time ever.

We can certainly look forward to an expanding base of potential customers. If World Tourism Organization forecasts are accurate—and they are pretty much on track—the number of international tourists will double in the next 14 years or so.

It is therefore our job to accurately identify the most promising market segments and to penetrate them with a well-adapted, quality product, which is what we have been doing for years in both Canada and Europe.

At last year's meeting of shareholders, I outlined the following five objectives as being our roadmap for 2005:

1. First, to expand in Canada and in particular to gain ground in Ontario through our main Canadian tour operators.
2. Then to shift into growth mode, either by entering new markets (such as the U.S., for example) or by strengthening our presence in Europe.
3. To continue turning around Look Voyages, one of our key tour operators in France.
4. To pursue the development and implementation of new technological tools in order to make them one of the cornerstones of our future.
5. Finally, to continue improving our structures and nurturing our culture.

I am very proud to say that we made outstanding progress in all these areas in 2005.

## Canada

Let's begin by looking at our outgoing tour operators and our distribution network in Canada.

Over the past few years, we have put a new "mastermind" in charge of orchestrating how we market our products—Transat Tours Canada—and its responsibilities include the following:

- *Programming* (all key decisions regarding products and capacity);
- Inventory management (aircraft seats and hotel rooms); and
- Price setting.

Other support functions, such as information systems, finance and tour operator human resources, are also included under Transat Tours Canada.

In short, to continue with my analogy of a "mastermind," we now have a single "central nervous system," and as a result, we are much more flexible and efficient.

The teams of our two main tour operators, Transat Holidays and Nolitours, are focusing on their respective specialities, namely:

- Product development and delivery;
- Marketing and distribution.

In 2005, we revised the market positioning of Transat Holidays and Nolitours. We clarified their respective segments, particularly concerning sun destinations, in order to fine-tune our market approach and improve efficiency. As a result, Transat Holidays:

- Focuses primarily on three main destinations, i.e. Mexico, Cuba and the Dominican Republic.
- In general, Transat Holidays offers four- or five-star hotels, often on an exclusive basis.
- Transat Holidays also offers cruises in the Caribbean, Alaska and Europe, as well as bus tours.
- And of course, in the summer, Transat Holidays features a comprehensive range of products to European destinations.

You may have noticed that we have added an 's' to Nolitours...it is a small detail that nevertheless represents much larger changes we have made behind the scenes.

- We have made Nolitours a national brand that addresses both language communities with a highly targeted approach.
- In general, Nolitours does not sell the same hotels as Transat Holidays. Instead, it focuses on a reasonably priced, quality product and operates, along with our partner travel agents, in the market segments where we face the most intense competition.
- We took this context into account when we adopted a strategy for Nolitours that is designed to bring us closer to travel agencies and our affiliates with a bold "everyday low prices" approach.
- This effort is being supported by a well-orchestrated positioning and marketing program nationally.
- As for destinations, Nolitours of course offers Mexico, Cuba and the Dominican Republic, but it also targets emerging destinations that are off the beaten track. These include Costa Rica, Nicaragua, Honduras, Panama, etc.

Although it is still early to draw final conclusions regarding our new strategy, as we only have the results of a single winter season, we are very satisfied with the response we have received from our partners and consumers. Together, Nolitours and Transat Holidays served over one million travellers in 2005... And I sincerely believe that we are on the right track.

As you know, we have always insisted on the importance of consumer access... it is one of the basic principles of our vertical-integration approach. We feel it is essential for a tour operator to have some measure of control over distribution.

And we remain convinced that we must rely on:

- Travel agents, who are our leading distribution channel. In fact, even though people are becoming increasingly comfortable with the Internet, most still want to deal with a human being for the moment.
- The Internet, given that more and more people opt for on-line reservations. In fact, the tourism industry is one of the industries with the highest number of online transactions.
- And of course, mixed strategies that involve the Internet, call centres and travel advisors.

It is for these reasons that we acquired Trip Central of Hamilton, Ontario, in 2005.

Trip Central has developed a new and dynamic approach by benefiting from the synergy between the Internet and a team of experienced travel advisors, who are available through both a call centre and sales outlets. Trip Central had 10 travel agencies at the time of acquisition... and we have already increased that number to 22 in only a few months, including five sales outlets in Nova Scotia.

A few days ago, we announced another acquisition that significantly enhances our distribution network. We acquired the Canadian travel agency network of Thomas Cook Travel Limited. We are talking about 190 travel agencies and 22 foreign exchange offices. The travel agencies are operated under the Thomas Cook and Marlin Travel banners.

With this acquisition, we are consolidating our presence in Ontario and Western Canada, which is very much in line with our growth strategy and our business model. Our clients will be the first to benefit, with increased efficiency and an enriched offering.

This acquisition also makes us the largest travel agency network in the country, with 430 outlets.

Another important development in 2005: renewing our agreement with WestJet.

We began working with WestJet in 2003.

It is a mutually beneficial partnership that we have now extended to 2007. This partnership enables us to:

- Serve mid-sized Canadian cities, which was not possible with Air Transat's wide-body aircraft; and
- Widen our footprint, including in Ontario, which is a strategic market for us.

With the combination of Air Transat's operations and our partnership with WestJet, we now offer sun destination flights at 19 Canadian airports.

I would now like to make a few comments about our airline, Air Transat.

In 2005, Air Transat continued its ongoing efforts in three main areas:

- Product quality and meeting customer expectations;
- Cost control;
- And naturally, safety and security.

We will never lessen our efforts in these three areas. I believe it is a very healthy attitude to never rest on one's laurels and to always strive to do better.

Having said that, I would like to tell you that Air Transat is already clearly positioning itself as a leader.

With respect to product quality, it is worth highlighting:

- Outstanding customer service. Currently, our customer surveys indicate that 97% of travellers would fly with us again. We also post high satisfaction rates on all the parameters we measure.
- On-time performance that is well above the average. In North America, airlines have on-time rates of approximately 80% or even lower, whereas we stand steadily north of 90%.
- In 2005, we continued to innovate by launching, for example, the Air Transat Kids Club. Children between the ages of 2 and 11 can benefit from exclusive privileges, such as priority check-in and meal service. This is clearly designed to better serve the young families that travel with us.

As for safety, the authorities consider Air Transat a leader in the field. Over the past years, we have worked closely with Transport Canada to implement a new safety management system, which will soon be compulsory for all players. As a result, we are now ahead of the game in this respect and our safety record is excellent.

Finally, whereas many North American airlines are struggling, Air Transat's financial performance is remarkably sound. This can be attributed largely to changes made to our fleet, now exclusively Airbus, to improved processes and to increased efficiency. A 15<sup>th</sup> aircraft will be added to our fleet next month.

Air Transat is a team of some 2,000 people and I believe that our organization has every reason to be proud of its accomplishments.

## Europe

Let's look now at our operations in France.

At last year's meeting of shareholders, we mentioned that the restructuring of Look Voyages was taking place more slowly than expected and we stated that we anticipated reaching profitability in the second half of 2006.

I am therefore pleased to announce that we are currently ahead of our objectives and, assuming we have a normal summer season, we will reach our goal.

With regard to Look Voyages, you may recall that we decided to withdraw from the air-only segment in order to focus on what we do best—travel packages. We are also focusing more on Internet technologies, both between tour operators and travel agents (B2B) and for direct sales (B2C).

In France, as you know, we are also counting on Vacances Transat France, our specialized tour wholesaler for travel to Canada and long-haul travel.

Our approach in the European market is similar to the approach we have adopted in Canada, i.e. vertical integration. In 2005, we made two major acquisitions that are perfectly in line with that approach.

- In June 2005, we completed the acquisition of Bennett Voyages, a French outgoing tour operator, for €1.8 million. Bennett Voyages specializes in the Scandinavian countries, the UK and Ireland, as well as East European countries.
- We also invested in distribution, with the acquisition of 20 Carlson Wagonlit travel agencies, thus broadening our presence in France. The transaction represented approximately \$4 million.
- Finally, you will have noticed that we sold our minority ownership in Star Airlines.

### The incoming tour operators sector

I would now like to talk about our incoming tour operators.

The incoming tour operators develop products such as bus tours, guided tours and excursions, often matched with air travel. The products are then sold in other countries as packages.

Destination services are somewhat similar products but they are offered at the location as an optional "add-on".

Given our vertically integrated approach, the incoming business and destination services are a strategic part of our business. This is primarily because they give us additional tools to enter foreign markets, to boost sales and margins and to help us maintain a critical mass of passengers on our aircraft.

- In Canada, our subsidiary Jonview Canada, which now also includes DMC Transat, is maintaining its position as the country's largest incoming tour operator. In 2005, it welcomed 223,000 tourists travelling to Canada from abroad.

- We also provide incoming tour operator services in Greece through Tourgreece; in Florida through Transat Holidays USA; and in Mexico through Traffic Tours.
- On October 31, 2005, we acquired Turissimo, an incoming tour operator in the Dominican Republic, which had been one of our long-time partners.

In the future, we will pursue our efforts in this area as part of our new strategic plan for 2006, 2007 and 2008. I would now like to say a few words about this plan, which is focused on growth and profitability.

## Strategic plan

Between 2001 and 2004, international tourism was shaken by several crises and by a period of stagnation. We used that time to thoroughly reinvent Transat. Today, the market has bounced back and our organization has the tools it needs to once again aim for growth.

The main thrusts of our strategy are as follows:

- **Strengthening our presence in Ontario in order to become a leader in every region of the country.** As I mentioned before, our brand strategy (Nolitours), our agreement with WestJet, new exclusive destinations and an increased presence in the area of travel agencies represent our main tools and they are all in place.
- **Pursuing more market share in Europe as an outgoing tour operator.** Our priorities are France and the UK, where we are already very active and knowledgeable and where there is already considerable tourism to and from Canada. We also intend to strengthen our presence in other European countries, something we have already begun doing, and to continue targeting vertical integration.
- **Entering new markets.** We are currently assessing the U.S. market, which would be a strategic market for us.
- **Stepping up the development of destination services.**
- **Taking over a portion of our accommodation needs.** The goal here would be to have closer control over our capacity and product quality while boosting our margins. This could be accomplished through acquisitions or joint ventures in the hotel industry.
- The plan also calls for us to **continue our efforts and investments in technology, but also on the human resources front, where** we want to foster training and the sharing of skills.

Transat expects this strategic plan to require up to \$300 million over three years. The investment will be financed with existing cash, future cash flows and external sources if and when necessary.

It is an ambitious and challenging plan, but I am confident that our organization and teams are ready and enthusiastic.

## Conclusion

Before we proceed with the meeting, I would like to publicly thank each and every one of our 4,952 employees. Most are either here in Canada or in France. But let's not forget that we also have teams in several countries, including our people on the ground at resorts or working as our destination representatives. They all perform a remarkable job under conditions that can at times be demanding.

In an industry such as ours, a satisfied customer is one that returns again and again. And to have satisfied customers, a significant number of people have to willingly contribute their time and energy, often from behind the scenes, while demonstrating solid team spirit and an ongoing sense of responsibility.

Therefore, a portion of our success is due to each of our employees. And of course, a part of our future also rests on their shoulders.

I would also like to take this opportunity to thank all our Board members for their commitment and their contribution to the Company's growth and development. Their support is invaluable.

Thank you for your attention.