News release TRZ.B; TRZ.A (TSX)
For immediate release

Transat A.T. Inc. – Results for fiscal 2008

Revenues up 15% and margin down 8% for the year
Revenues and margin higher in fourth quarter

- $3.5 billion in revenues for 2008, up 15% from 2007.
- For fiscal 2008, margin[1] of $127.3 million, down from $138.1 million in 2007 primarily due to higher fuel costs.
- In the fourth quarter, revenues and margin grew 16% and 38%, respectively.
- Before non-cash and non-operating items, Transat is reporting adjusted income of $57.5 million for fiscal 2008 ($1.74 per share on a diluted basis), compared with $70.5 million ($2.06 per share on a diluted basis) in 2007.
- The net loss for fiscal 2008 is $50.0 million or $1.51 per share on a diluted basis, including $152.8 million in non-cash and non-operating items ($107.6 million after income taxes) resulting mainly from hedge accounting standards for fuel.
- $196.1 million gain ($132.3 million after income taxes) on foreign currency hedging instruments, not recorded on the statement of income.

Montréal, December 17, 2008 — Transat A.T. Inc., one of the largest integrated tourism companies in the world and Canada's holiday travel leader, posted $3.5 billion in revenues for the year ended October 31, 2008, up 15% from $3.0 billion in 2007. The Corporation recorded a margin of $127.3 million, down 7.8% from $138.1 million in 2007 due primarily to the rapid increase in aircraft fuel costs in 2008.

For fiscal 2008, Transat posted a net loss of $50.0 million ($1.51 per share on a diluted basis) compared with net income of $78.5 million ($2.30 per share on a diluted basis) in 2007. The loss was mainly due to $152.8 million in non-cash and non-operating items ($107.6 million after income taxes), including a $106.4 million loss ($71.5 million after income taxes) arising from hedge accounting standards for the financial instruments used by the Corporation to hedge against fluctuations in fuel prices; a $45.7 million writedown ($36.1 million after income taxes) related to asset-backed commercial paper (ABCP); a $2.3 million foreign exchange loss ($1.5 million after income taxes) on the debt related to the fleet of aircraft; and a $1.6 million gain on the repurchase of preferred shares of a subsidiary. Excluding these non-cash and non-operating items, Transat posted $57.5 million in adjusted income for fiscal 2008 ($1.74 per share on a diluted basis), compared with $70.5 million ($2.06 per share on a diluted basis) in 2007.

“We posted over 45% in growth, generating $1 billion in additional revenues over the period covered by our 2006-2008 three-year plan. All of our companies are profitable, and our European subsidiaries enjoyed a very strong year in 2008. Fiscal 2008 saw a sharp rise in fuel prices, then a decline, as well as unrelentingly stiff competition, which squeezed our margins,” said Jean-Marc Eustache, President and Chief Executive Officer of Transat A.T. Inc.

2008 Financial Highlights

In 2008, revenues in North America and Europe were up 11.4% and 27.1%, respectively, for an aggregate increase of 15.3%. This increase was mainly driven by an 18.0% increase in the volume of travellers (14.7% and 29.3% in North America and Europe, respectively).

In North America, revenues grew 13.5% and the volume of travellers was up 24.8% compared with 2007 during winter; in summer, revenues increased by 8.2% due to higher average prices and a 3.7% rise in the volume of travellers. At our European subsidiaries, our winter revenues rose 21.6%, mainly due to a 64.5% spike in the volume of travellers owing primarily to the acquisition of Amplitude Internationale in summer 2007 and organic growth at Canadian Affair, Vacances Transat (France) and Look Voyages. During the summer, revenues increased 29.8%, driven mainly by organic growth, a rise in travel to North America and the strength of the euro. The volume of travellers increased 18.1% compared with the previous year.

For Southern destinations from Canada in winter, Transat estimates that its market share in Ontario held steady, slipped slightly in Québec and declined in Western Canada, while the Corporation kept the top spot in all three markets, despite a highly competitive environment. Growth in volumes stemmed in part from the group’s multi-channel distribution platform and its 437 travel agencies. The Corporation marketed 64 routes between Canada and Europe in summer 2008, an offering unmatched by any other carrier.

To offset pressure on its margins, the Corporation made a concerted effort to control costs and increase revenues. Initiatives included adoption of an airline strategy incorporating several carriers and various aircraft types.

Air Transat continued to excel in on-time performance and fleet reliability. The space between seats was increased, and the Corporation was officially listed on the IATA Operational Safety Audit (IOSA) registry.

In Europe, our outgoing tour operators posted very strong results. Vacances Transat continued adding new destinations, such as Vietnam. Look Voyages operated 28 Clubs Lookéa in summer 2008. Fiscal 2008 ushered in the successful integration of Européenne de tourisme (Amplitude Internationale). In the U.K., Canadian Affair increased its volume of travellers, while improving its margin.

Canada's largest incoming tour operator, Jonview Canada, welcomed 263,000 foreign travellers in 2008 versus 249,000 in 2007—a substantial 6% increase, logging a record-setting year for sales and volume of travellers.

In 2008, Transat made a bold entry into the hotel industry through a new hotel venture with Spanish-chain H10 Hotels, investing US$55 million for a 35% interest in three hotels in Mexico and two in the Dominican Republic.

Net result in 2008 was impacted by the following non-cash and non-operating items:

Hedge accounting standards – At the beginning of fiscal 2007, the Corporation adopted new hedge accounting standards. As a result, any gains or losses resulting from mark-to-market adjustments of the derivative financial instruments used to manage aircraft fuel price risk must be recorded in the statement of income. In 2008, this change translated into a $106.4 million non-cash loss ($71.5 million after income taxes) compared with a $26.6 million gain ($17.8 million after income taxes) in 2007.

The Corporation also uses hedging instruments to mitigate foreign exchange exposure stemming from its U.S. dollar expenses. Accordingly, under applicable accounting standards, any fluctuations resulting from mark-to-market adjustments of these instruments are recorded in the balance sheet and statement of comprehensive income rather than in the statement of income. In 2008, Transat recorded a $196.1 million gain ($132.3 million after income taxes) on these foreign currency hedging instruments compared with a $87.6 million loss ($59.0 million after income taxes) in 2007.

Commercial paper – Results for the year include a $45.7 million writedown ($36.1 million after income taxes) of the Corporation's investments in ABCP. This writedown is subsequent to the $11.2 million writedown ($8.0 million after income taxes) recorded in 2007, reflecting the estimated decline in fair value of these investments. As at October 31, 2008, the total accumulated provision represented 39.7% of the notional amount of the Corporation's $143.5 million in ABCP investments.

Foreign exchange gains or losses on debt – The Corporation's balance sheet includes U.S. dollar assets and liabilities, including the debt related to its fleet of aircraft. These amounts must be translated into Canadian dollars, which generates foreign exchange gains or losses reflected in the statement of income. Due to the Canadian dollar's weakening against its U.S. counterpart in 2008, Transat posted a $2.3 million foreign exchange loss ($1.5 million after income taxes) compared with a $3.0 million gain ($2.0 million after income taxes) in 2007, taking into consideration the forward contracts used to hedge long-term debt against foreign currency exposure.

Repurchase of preferred shares – In the second quarter of 2008, the Corporation redeemed the outstanding preferred shares held by a minority shareholder of one of its subsidiaries at a lower value than the book value, resulting in a $1.6 million gain.

Write-off of goodwill – During the fourth quarter of 2007, the Corporation recorded a $3.9 million goodwill write-off charge related to its investment in one of its subsidiaries.

Before these non-cash and non-operating items, Transat posted $57.5 million in adjusted income for fiscal 2008 ($1.74 per share on a diluted basis) as shown in the following table.

Impact of non-cash and non-operating items on results

Year	2008				2007	
(In thousands of dollars, except per share data)	As stated	Impact of hedge accounting	Impact of other items(1)	Adjusted amount	Adjusted amount(2)	Variance (adjusted 2008 vs. 2007)
Income (loss) before income taxes and non-controlling interest in subsidiaries' results	(75,925)	106,435	46,395	76,905	99,365	(22.6%)
Net income (loss)	(50,011)	71,476	36,077	57,542	70,523	(18.4%)
Diluted earnings (loss) per share	(1.51)	2.16	1.09	1.74	2.06	(15.5%)

(1) The other items include the impact of the $45.7 million write-down in ABCP securities ($36.1 million after income taxes), the $2.3 million foreign exchange loss ($1.5 million after income taxes) and the $1.6 million gain on repurchase of preferred shares.
(2) The 2007 figures have been restated.

As at October 31, 2008, the Corporation's total debt[2] was $450.3 million, up $79.2 million from October 31, 2007. Net of cash and cash equivalents, cash and cash equivalents not held in trust and the investments in ABCP, the Corporation's net debt[3] was $218.0 million as at October 31, 2008, up $156.0 million from $62.0 million as at October 31, 2007.

Fourth-quarter highlights

The Corporation's revenues were up $110.0 million or 16.2% in the fourth quarter of 2008 to $790.4 million from $680.4 million for the corresponding period of 2007. This increase was mainly due to organic growth in the Corporation's primary markets. Transat posted a fourth-quarter margin of $29.3 million or 3.7% compared with $21.2 million or 3.1% for the corresponding period of 2007. This strong performance was mainly driven by our European operations, particularly outbound travel from the United Kingdom and France.

Results for the quarter were impacted by the aforementioned non-cash and non-operating items, including a $120.7 million loss ($81.4 million after income taxes) arising from hedge accounting standards for fuel purchases; a $13.8 million writedown ($11.0 million after income taxes) on ABCP investments; and a $2.3 million foreign exchange loss ($1.5 million after income taxes) on debt related to certain aircraft. Net loss being reported for the fourth quarter amounted to $78.1 million ($2.41 per share on a diluted basis), compared with net income of $6.6 million or $0.20 per share for the corresponding period of 2007. Excluding the non-cash and non-operating items, Transat posted adjusted income of $15.9 million for the fourth quarter of 2008 ($0.49 per share on a diluted basis) compared with $8.8 million ($0.26 per share on a diluted basis) for the corresponding period of 2007, as shown in the following table.

Fourth quarter	2008				2007	
(In thousands of dollars, except per share data)	As stated	Impact of hedge accounting	Impact of other items(1)	Adjusted amount	Adjusted amount(2)	Variance (adjusted 2008 vs. 2007)
Income (loss) before income taxes and non-controlling interest in subsidiaries' results	(121,438)	120,749	16,087	15,398	10,469	47.1%
Net income (loss)	(78,146)	81,438	12,575	15,867	8,817	80.0%
Diluted earnings (loss) per share	(2.41)	2.51	0.39	0.49	0.26	88.5%

(1) The other items include the impact of the $13.8 million write-down in ABCP securities ($11.0 million after income taxes) and the $2.3 million foreign exchange loss related to certain aircraft ($1.5 million after income taxes).
(2) The 2007 figures have been restated.

New credit facility

On October 31, 2008, Transat and National Bank of Canada completed documentation to increase Transat's credit facilities to $194.0 million, up until the coming into force of the ABCP market restructuring plan. At that point, Transat's credit facilities will increase to $264 million.

Debt refinancing for certain aircraft

In August 2008, the Corporation extended a US$40 million loan facility which is secured by aircraft.

Dividend

On December 16, 2008, Transat's Board of Directors approved a quarterly dividend of $0.09 per Class B Voting Share and Class A Variable Voting Share. The dividend will be payable on January 15, 2009 to shareholders registered on December 31, 2008.

Outlook

Winter bookings in North America are currently tracking higher than last year at the same date. A weakening Canadian economy and the additional capacity being deployed by the industry to Mexico and the Caribbean have prompted Transat to anticipate significantly lower dollar margins (EBITDA) than last winter. In Europe, winter bookings are tracking lower for long-haul travel than last year at the same date, but higher for medium-haul travel; the Corporation expects to be challenged to meet the dollar margins (EBITDA) recorded in 2008.

Transat A.T. Inc. is an integrated international tour operator with more than 60 destination countries and that distributes products in over 50 countries. A holiday travel specialist, Transat operates mainly in Canada and Europe, as well as in the Caribbean, Mexico and the Mediterranean Basin. Montreal-based Transat is also active in air transportation, accommodation, destination services and distribution. (TSX: TRZ.B, TRZ.A)

Conference Call

Fiscal 2008 conference call: Wednesday, December 17, 2008 at 10:00 a.m. Dial 1-866-299-6657 or 514-861-1681. Conference call name: Transat. Webcast on www.transat.com. The archived call will be available until January 16, 2009 at 1-800-408-3053 or 514-861-2272, access code: 3277853#.

Non-GAAP financial measures

The financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The Corporation occasionally refers to non-GAAP financial measures in this news release. These non-GAAP financial measures have no meaning prescribed by GAAP and are therefore unlikely to be comparable to similar measures reported by other issuers. They provide additional information and should not be considered a substitute for measures of performance prepared in accordance with GAAP.

[1]Revenues less operating expenses (non-GAAP financial measure used by management as an indicator to assess ongoing and recurring operational performance).
[2]Debt plus off-balance sheet arrangements (non-GAAP financial measure used by management to assess the Corporation's future cash requirements).

[3]Total debt less cash and cash equivalents (not held in trust or otherwise reserved), temporary investments and investments in ABCP (non-GAAP financial measure used by management to asses the Corporation's cash position).

Caution regarding forward-looking statements

This news release contains certain forward-looking statements regarding the Corporation's expectation that the assumptions used in the valuation of the ABCP securities will materialize and that revenues will be higher and its margin lower compared with the previous year. In making these statements, the Corporation has assumed that the trends in reservations will continue throughout the remainder of the season and that margins (EBITDA) in dollar terms will be impacted by the competitive environment and the economic slowdown. If these assumptions prove incorrect, actual results and developments may differ materially from those contemplated by the forward-looking statements contained in this press release. Factors that could cause actual results to differ materially from those contemplated also include, but are not limited to, general economic conditions, energy prices, competition, extreme weather conditions, disease outbreaks, armed conflicts, terrorist attacks, and other risks detailed from time to time in the Corporation's continuous disclosure documents.

These forward-looking statements, by their nature, necessarily involve risks and uncertainties that could cause actual results to differ materially from those contemplated by these forward-looking statements. The Corporation considers the assumptions on which these forward-looking statements are based to be reasonable, but cautions the reader that these assumptions regarding future events, many of which are beyond its control, may ultimately prove to be incorrect since they are subject to risks and uncertainties that affect the Corporation. For additional information with respect to these and other factors, see the Annual Information Form and Annual Report for the year ended October 31, 2007, filed with Canadian securities commissions. The Corporation disclaims any intention or obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, other than as required by law.

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