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NOTES FOR A PRESENTATION BY JEAN-MARC EUSTACHE
PRESIDENT AND CHIEF EXECUTIVE OFFICER

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TRANSAT A.T. Inc.

ASSEMBLÉE DES ACTIONNAIRES TRANSAT 2017

JEAN-MARC EUSTACHE

The year 2016 was filled with challenges. It was also a year in which we made significant progress on our development plans.

Looking at the year as a whole, compared to 2015 we maintained the same revenues from continuing operations, at $2.9 billion, but our adjusted operating income declined from $100 million to $26 million, while our IFRS operating loss was $30 million, compared to a $55 million operating income on the previous year.

The drop is explained in part by unusual factors, especially during the winter, when we faced an accumulation of them. In a challenging economic context, we were forced to deal with a weak Canadian dollar, threatened strike action by our pilots, the outbreak of Zika virus in the South, and terror attacks in Europe—all factors that dampened enthusiasm for many travellers.

But these cyclical factors don't explain everything. Let's face it, we also have to deal with fierce competition. Both the size of the tourism market and demand for tourism continue to grow, which is a good thing, of course, but every year capacities are increasing at an even faster pace. The result is enormous pressure on prices and load factors.

It is that competitive environment, which we know all about and we've watched evolve over many years, that drove us to undertake the major transformation of

Transat that we are continuing to implement, and that we've accelerated over the past year.

That transformation, as we've mentioned several times now, has led us to focus on the Americas, where we intend to develop the three pillars of our integrated tourism operations: distribution, air, and hotels. At the same time, we are working to improve our efficiencies and lower costs across departments.

Where our **refocus on the Americas** is concerned, this year we took a major step forward with the successful conclusion last October 31 of the sale of our business units in France and Greece, 10 days following its approval by the European Commission. That disposal of assets, worth $93 million, helps give us the means to match our ambitions on this side of the Atlantic—a subject to which I'll return in a moment.

I want to clarify once more—and this is important—exactly what it is we've sold. First, our France-based tour operator, which sold overseas travel to French tourists under the brands Look Voyages and Vacances Transat; and second, our Greece-based incoming tour operator, Tourgreece. In France, we still have a marketing and distribution operation that sells Air Transat seats and helps make us the leading summer-season tour operator between Canada and France, with a 34% market share.

I'd like to talk now about our three pillars.

Distribution, first of all—that is to say, our commercial arm, in Canada and Europe. In the year just past we've taken huge strides when it comes to our online presence.

The new website we unveiled last September delivers a much-improved travel shopping experience, thanks notably to more enriched content and extremely rapid search results. We've also rolled out new apps to ensure we're accessible on all platforms, all devices, on iOS as well as Android. Our number of unique visitors is growing every year, as are our online sales, which are up by 18% in Canada, in passenger numbers, versus last year. These strong performances will help us continue to grow the share of our direct sales in our total sales.

We also completed the centralization of all our seat inventories in a single system, which in turn enabled us to group all of our air-sales websites into one Air Transat site—where previously there were distinct sites by country. For our customers, this means anytime, anywhere, permanent access to all our seats, and for us, it hugely simplifies revenue management.

In 2016, we also continued to implement our brand strategy. We've concentrated our offering, as planned, into the Transat and Air Transat brands. This meant retiring the Nolitours and Vacances TMR / TMR Holidays brands, which we used for certain segments of our tour-operating business in Canada. In the same vein, we've renewed our graphic design platform to make our identity even stronger. Because we compete on a playing field where the majority of products have very little differentiation, we are concentrating—and successfully so—on making our brand stand out clearly. The result recently has been a very successful ad campaign, which I'm sure you've all seen. It puts the accent on the joy of a Transat vacation, but also the pleasure and excitement of looking forward to and planning that holiday. We also seized the opportunity to refresh our logo and our overall visual identity, seamlessly transitioning to the new look, in line with our strategy.

With the same aims, we have now converted almost all of our owned agencies to the Transat Holidays / Voyages Transat banner. So the Transat brand is increasingly present, whether it's on television, radio, the Web, in agencies—and even at the airport! I really must mention the new Espace Air Transat that we inaugurated in the expanded international jetty at Montréal–Trudeau airport, with its interactive multimedia installation designed by none other than Moment Factory. This partnership with Aéroports de Montréal, with all the display space that it makes available to us, gives Transat great visibility with the many passengers transiting through Montréal–Trudeau every day.

The second pillar is air services. Here again, we made significant progress in the past year. First of all, we expanded our domestic service in Canada, introducing more connecting flights linking Montreal and Toronto, Montreal and Quebec City, Toronto and Vancouver, as well as Toronto and Calgary, making more destinations accessible out of all five cities. And we'll be continuing this expansion in the year to come.

We've also increased frequency on the two European destinations to which we fly the most, year-round—Paris and London. This enhances our position as a natural solution for Canadian and European travellers, especially considering that our product more than holds its own, and represents the best value for our customers' money. The key to that greater frequency is our fleet, which this year boasted 23 wide-body jets, including 16 Airbus A-330s, and will expand by two more aircraft this year.

We've also continued to unveil new international destinations for our customers, for example our Zagreb route last summer, and service to Tel Aviv, set to begin this June 18.

In the year just past, our air carrier also successfully renewed several collective agreements, including those with pilots and cabin attendants, which is a guarantee of stability and visibility going forward.

Last but not least among our three pillars, we have hotel management and services at destination. Over the past 10 years, we have seen benefits from the development of Ocean Hotels, in which we hold a 35% interest, with the rest belonging to our partner, H10 Hotels. Ocean, just to remind you, owns three hotels with a total of 1,600 rooms in Mexico and the Dominican Republic. It also manages another five, which account for another 3,000 rooms together. Four of them are in Cuba and the fifth, the Ocean Paradise, opened a few weeks ago along Mexico's Riviera Maya. The company's objective is to reach 5,600 rooms in total by 2019.

The operating results from this business unit have contributed to our bottom line, year after year. But above all, this joint venture has gained us the experience in hotel management that we needed to go it alone. During 2016, we studied the investment opportunities open to us, and in December we announced that we would be reassessing our position on the Ocean Hotels investment, and either purchasing Ocean outright to make it the base of our new hotel business line, or selling our stake and using the proceeds to invest elsewhere. This reassessment is still under way and we expect to be announcing in the near future which route we will be taking to acquire a hotel unit that we would entirely manage and that would give us end-to-end control of the travel experience for our Canadian customers, from holiday purchase to flight to destination, but also access to the full profit margin generated by their stay with us.

The tourism value chain, of course, also includes services at destination, transfers and excursions, which we already provide at our Sun destinations through our Trafic Tours business unit, and which complement our hotel supply. We provide these services in Mexico and the Dominican Republic, and last summer we began offering them in Jamaica as well.

The company will build on these three solid pillars to continue its development, through augmented hotel operations, optimized use of our air routes, and expansion of our distribution network, including in the United States.

At the same time, we've worked to strengthen the company's foundations by continuing to implement our **cost-reduction and margin-improvement** program, which over the past year has delivered the expected results. The initiatives undertaken in 2016 generated $30 million, for a total of $75 million since 2014.

Among other things, we negotiated with our suppliers, implemented our innovative flexible-fleet model, made smart use of both wide-body and narrow-body aircraft, scaled back our call centre operations, closing the centres in Toronto and Amsterdam, and realized significant growth in our ancillary revenues, which this year stood at $79 million, including $69 million purely in air revenues. That amounts to year-over-year growth of 14%. And we are on track to reach our objective of $85 million in ancillary revenues for 2017. Looking at the entire cost-reduction and margin-improvement program, we're aiming at a $25 million improvement in 2017, to ensure we achieve our overall objective of $100 million over the three years of our strategic plan.

This year, 2017, is a milestone in the history of Transat. We were incorporated 30 years ago, on February 13, 1987, to be precise, with our business unit Air Transat beginning commercial operations on November 14 of the same year with a flight from Montreal to Acapulco. This year is therefore an opportunity for us to celebrate three decades of achievements and success stories, but also to remember more trying times, through which we have always persevered, and emerged stronger.

When we look ahead, what's most striking is the extraordinary growth potential of our industry. Despite the problems around the world—and there are many of them—last year there were 1 billion, 235 million international tourists, which is 300 million *more* than the record set in 2008, before the global financial crisis. The year-over-year growth rate was nearly 4%, according to the UN World Tourism Organization—which confirms a robust trend that we have noted for several years.

The Americas region did well as a destination, with growth of 4% in international arrivals—and we certainly benefited. Our Jonview Canada business unit, which brings international tourists to Canada, had a record year, with the reward being outstanding financial performance. With Canada being hailed as the best travel destination in 2017 by both Lonely Planet and the *New York Times*, one can expect this to go on.

In short, tourism remains a powerful economic engine that is showing no signs of slowing down, and many countries and companies understand this. There's a very good reason why the United Nations proclaimed 2017 to be the International Year of

Sustainable Tourism for Development. In the expression “sustainable development,” both words are important: tourism must be sustainable, and it must be a vector of development. Each attribute nurtures the other.

We at Transat are keen ambassadors of this type of this approach, which combines economic, social and environmental benefits. We are moving right along with our plan to achieve full Travelife certification, with progress made as scheduled during the past year. You’ll recall that Transat recently became the first tour operator in North America to be awarded Travelife Partner status, the last step before full certification under this system, which was created in 2007 for hoteliers and has been available to tour operators since 2012. It measures the social and environmental impacts of the travel and tourism industry against benchmark criteria covering environmental protection, biodiversity, community relations, fair-trade practices, working conditions, respect for human rights, and consumer protection.

To sum up, in spite of a challenging start to the year once again, we remain very well positioned to make 2017 a key year in our transformation, and to continue writing exciting new chapters in the history of Transat, with the steadfast support of our employees, our customers, our Board of Directors and, of course, our shareholders.

I want to thank each and every one of them for their contributions.