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

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JEAN-MARC EUSTACHE

These are exciting times for Transat.

In recent months, the transformation on which we have focused all our efforts has gathered speed—so much so that we will without hesitation look back on 2017 as a milestone year in the company's history.

In 2017, Transat turned 30, and festivities were held all year long, culminating on November 13, the anniversary of our inaugural flight, from Montreal to Acapulco in 1987. We will have further cause to celebrate this coming April 23, the anniversary of our first flight out of Toronto. So the year was important in and of itself.

There is even more reason to celebrate, however, when you look at all our accomplishments in 2017, and realize that they are not only the payoff for all the hard work we've put in lately: they also signal the start of our new five-year strategic plan, which we've called *Building Sustainable Profitability.* The name is well chosen, because each of those three words perfectly encapsulates our goals for the Transat of tomorrow.

Our results for winter 2016–2017 were disappointing once again, but in contrast, we had one of the best summers in our history. That allowed us to close out the year with slightly higher revenues of $3 billion, operating income of $35 million (versus an operating loss of $30 million the previous year), and net income as per the financial statements of $134 million, compared with a net loss of $42 million in 2016 (this takes into account, of course, gains on the disposal of assets). They were therefore encouraging results, although nothing like those we can expect to see once the work we've been doing has completely paid off, at the end of our five-year plan.

Because if the year just ended has been a remarkable one, as I said, it is mainly in view of all that we have achieved, and the clear path that is now set before us.

First of all, we completed the work to refocus on our core business. The year began with the finalizing of the sale of our France- and Greece-based business units for $93 million. It continued with the sale on October 4 of our 35% minority interest in Ocean Hotels, for US$149 million US, or Cdn$186 million. Then, on November 30, we closed the sale of our Jonview business unit, Canada’s leading incoming tour operator, for $48 million. In the space of 13 months, therefore, we completed our plan to refocus on our core leisure-travel business, while gathering a total of $327 million in proceeds.

Our goal here, of course, has been to concentrate on those core operations, putting all of our energies into them, but also to free up the necessary cash to launch our own hotel operation, because we believe it has now become indispensable for us to also have a presence in that segment of the tourism supply chain. We made progress on this front—and I will return to this later—with Jordi Solé coming on board last month as President of our hotel division, something I am very pleased about. With his past experience at Barceló, Iberostar, and Blue Diamond, among others, Jordi is the perfect fit to help us build out our hotel network in the timely manner we have planned.

The year just passed has also been highly successful when it comes to our fleet renewal: we announced several major advances, and clarified our plans to move toward an all-Airbus fleet by 2022. For some years now, we have considerably enhanced our business model by varying the profile of our fleet, using more narrow-body aircraft in winter on our Sun destinations routes, and more wide-body aircraft in summer for our transatlantic routes. We initially achieved this through lease partnerships, enhancing the model a first time when we insourced our narrow-body fleet. We currently rely on a mix of Airbus A310s and A330s, plus Boeing 737s.

The next phase in the fleet evolution will be to progressively replace those B737s with planes in the A320 family. Going all-Airbus will bring multiple benefits: harmonized maintenance, less complex pilot training, and simplified operations, since all of our pilots will be qualified to fly all of our planes. All this, naturally, means cost savings.

Further to that, last year we announced the signing of leases for 10 Airbus A321neo LRs to replace our A310s. These fleet additions will be brand-new aircraft, considerably more fuel-efficient, which will be a major advantage—even more so if the price of fuel continues to rise. The A321neo LR is also a versatile aircraft, a single-aisle plane that we will outfit with 199 seats, and ideally suited for flying to Western Europe, the Caribbean and Mexico. When Air Transat takes delivery of its first A321neo LR early next year, we will proudly become the first carrier in North America to fly this aircraft.

In the past year we also signed a major agreement with Thomas Cook Group, allowing us to continue the lease exchanges that are key to our double flexible fleet strategy. Each winter season, the airlines of the Thomas Cook Group will make at least seven Airbus A321 aircraft available to us, and in return we will supply them with at least one Airbus A330. The agreement is for a seven-year term. We are delighted with this fruitful collaboration with another of the major global tourism companies.

Another significant step forward taken last year was the appointment of Annick Guérard as Chief Operating Officer. It is an open secret that Annick is preparing to succeed me as Chief Executive Officer of Transat. Her latest appointment is the culmination of a selection and development process that we have carefully shepherded over the past several years. Annick is the face of the new generation that is gradually taking over the reins. She has been in her new role for more than four months now, overseeing the full spectrum of our existing leisure travel business, from flight operations to packaging to marketing. This has left me free to devote all my energy to orchestrating our hotel development plan.

I cannot conclude this quick overview of the achievements of the past year without mentioning the unqualified success of our cost-reduction and margin-improvement initiative, which saw us achieve and even slightly exceed our goal of $100 million in savings.

That's a lot of actions that were either taken or completed in 2017. But the year also provided the opportunity to clearly chart our future course, in the form of our 2017–2022 strategic plan. We decided to map it out over five years, rather than the usual three, because we believe that is the right time frame for our initiatives, which are particularly ambitious, to fully bear fruit.

As you will have guessed, the plan will go forward in two mutually profitable directions: on the one hand, a major development initiative with the creation of our hotel division, and on the other, continued improvements to our existing operations to ensure they deliver greater profitability, more often.

First, **hotels**. On our Sun destinations market, the balance has tipped in favour of hoteliers, most notably because the number of airline seats available has grown much faster than the number of hotel rooms. This has driven strong increases in the average sale price of hotel stays, notably on such markets as Cancún or Punta Cana. Sales of room stays to tour operators are still important to hoteliers, but are no longer a major source of profits. Added value and profit margin, therefore, are now concentrated in the hotel component of the tourism chain.

Another of our goals is to better control the experience we deliver to our Canadian customers from one end of the chain to the other. We already control the purchase process, in-agency or online, the flight, and the transfer at destination. We've been missing one major component: the stay.

Our minority interest in Ocean Hotels allowed us to gain a degree of experience in the running of a hotel chain, and has prepared us to go it alone.

We are therefore now ready to set our plan in motion, with a target of 5,000 rooms over the next seven years—in other words, by year-end 2024—part of them fully owned, and part under management. Not surprisingly, we will be concentrating, at least for our first hotels, on our main destinations, including Mexico (Cancún), the Dominican Republic (Punta Cana), and probably Jamaica. The forecast, seven years from now, is for an additional Cdn$80 million in earnings before interest and taxes. And that is just the beginning.

A few words now about our **leisure travel business**; in other words, our existing business. We have faith in the soundness of the model, and our objective here is to ensure recurring profitability, year after year. To succeed, we have to engage on two fronts: first, delivering friendly, welcoming service to guarantee customer satisfaction, and second, doing so at a price that ensures the customer will choose us.

We are going to achieve those objectives through actions on eight major projects, overseen by Annick Guérard.

- Aligning **teams** more closely. Now that the group's structure has been simplified and we are refocused on complementary operations, we will knock down the walls that still remain to ensure that all of our teams work in synergy.
- Concentrating on **costs**. At the end of the day, price plays a vital role in the customer's choice. So we must keep this concern top-of-mind every step of the way.

- Focusing on the **customer**. The friendly touch that people feel on our aircraft is one of our strong points: we need to develop that and duplicate it at every level of the organization.

There is a significant cultural dimension to these first three projects, and we are going to work on them horizontally, across departments. The other five projects are more technical in nature.

- **Fleet** and **network**. I went into detail earlier about the planned changes to our fleet for the coming years. By better aligning our commercial planning and our air planning, we will also take our network to the next level, with a longer-term vision, while optimizing aircraft usage.
- **Yield management** and **pricing**: we are busy rethinking both of these functions in depth. This should contribute significantly to improving margins.
- **Ancillary revenues**, which we will continue to develop and grow.
- Our **distribution strategies**, which we intend to refine and improve wherever possible.
- And last, but far from least, **digital**, an area where we've made huge progress these past few years, but on which we will continue to focus intensely—considering, for example, that 25% of vacation packages in Canada are now sold online, and in many countries it's more than double that.

Throughout all this, we will of course continue with our commitment to sustainable tourism. This year we are on track to obtain full Travelife certification, which we've been working toward for two years now, and which will provide tangible proof that our work focuses constantly on concern for our environment, both natural and human. You'll recall that Transat was the first tour operator in North America to be awarded Travelife Partner status, the final step on the way to full certification under this system created in 2007 for hoteliers and available to tour operators since 2012.

Travelife tracks the social and environmental impacts of the travel and tourism industry in areas including environment, biodiversity, community relations, and fair business practices, as well as working conditions, human rights, and consumer protection.

We will therefore be very busy for the next five years, and especially in 2018. But we have every reason in the world to be optimistic, when we see how clearly our path is laid out for us; how all these initiatives are going to help us build a more solid, more profitable Transat; and how much distance we’ve already covered in the year just passed.

This is especially true given that the economic outlook appears to be playing in our favour.

Tourism is an industry that continues to grow at a sustained pace around the world: in 2017, the number of tourists increased by 7%, reaching 1.3 billion. When we founded Transat 30 years ago, it was barely more than a quarter of that. For 2018, the UN World Tourism Organization is forecasting yet more growth, of the order of 4 to 5%, and by 2030, an estimated 1.8 billion tourists will be exploring the world.

Closer to home, in Canada, the economy is doing well. Despite uncertainty around the NAFTA negotiations, ScotiaBank is still predicting 2.3% growth in 2018, and unemployment at near-historic lows. And a healthy economy with plenty of jobs means more Canadians eager to travel.

In conclusion, I’d like to say that we are exceedingly proud of the road we’ve travelled over the past year, and even more confident in the results that our efforts will yield in the years to come. For their unwavering support, I want to thank our employees, our customers, our Board of Directors, and our shareholders, who are all travelling that road with us.