

3rd QUARTERLY REPORT
PERIOD ENDED JULY 31, 1998

TRANSAT

VACANCES TOURBEC

CONSULTOUR / CLUB VOYAGES

EURO CHARTER

VACANCES AIR TRANSAT

AIR TRANSAT HOLIDAYS

VOYAGES NOLITOUR

REGENT HOLIDAYS

WORLD OF VACATIONS

VACANCES AIR TRANSAT (FRANCE)

LOOK VOYAGES

BROK'AIR

DMC TRANSAT /
KILOMÈTRE VOYAGES

VACANCES AIR TRANSAT HOLIDAYS
(FLORIDA)

AIR TRANSAT

STAR AIRLINES

SERVICES HAYCOT



A.T. inc.

For the quarter ended July 31, 1998, Transat A.T. inc. (the "Corporation") reported net income of \$6,330,000 (\$0.18 per share) compared with \$12,803,000 (\$0.40 per share) for the quarter ended July 31, 1997. Revenues totalled \$365 million, up by 5.9% compared with \$344.8 million for the same quarter last year. This increase is mainly attributable to the Canadian outgoing tour operators whose revenues grew by approximately 8%. As in the two previous quarters, the largest increases were posted in the Ontario and Western Canada markets.

For the first nine months of the year, the Corporation recorded net income of \$7,580,000 (\$0.22 per share) compared with \$11,186,000 (\$0.35 per share) for the same period last year. Its revenues rose to \$1.03 billion, up by \$61.2 million or 6.3% over the \$972.8 million amount posted one year ago. Earnings per share were calculated based on a weighted average number of shares outstanding of 34,270,368 for the first nine months of 1998 and 32,250,164 for 1997.

During the first three quarters of this year, revenues of the group's Canadian outgoing tour operators were an average of 12% higher than those recorded in the same period last year. In France, revenues recorded by Vacances Air Transat (France) remained stable, those of Brok'Air were up by 19% while Look Voyages' revenues fell by approximately 10%. Air Transat's revenues, including its operations within the group, increased by about 15%. As at July 31, 1998, its fleet included 10 Lockheed L-1011-150s (10 in 1997), three Lockheed L-1011-500s (two in 1997) and five Boeing 757s (five in 1997). It is to be noted that Air Transat's fleet-renewal program will start shortly with the delivery of two Airbus A330-200s in February and April 1999.

In the third quarter, income before interest, amortization and income taxes (including the share of net income of companies subject to significant influence) amounted to \$20.7 million compared with \$29.5 million for the same quarter in 1997. A number of factors related both to our industry and the economy in general resulted in relatively lower profitability compared with last year. In the Canadian market, on flights from Toronto and Vancouver to European destinations, revenues for the quarter increased due to volume, the flights from Quebec to Europe experienced revenue growth as a result of increases in volume and selling prices, resulting in improved profitability. However, the drop in value of the Canadian dollar in relation to the U.S. dollar and the increase in certain operating expenses pushed quarterly results down.

In France, vacation travel slowed down due, among other things, to the World Cup soccer tournament. For the quarter, Vacances Air Transat (France) recorded significantly lower sales to Canada, which was partially offset by more travel activity to the United States and the Caribbean. As for Look Voyages, a slightly lower volume of business activity, combined with downward pressure on selling prices, led to a decline in revenues and profitability. This was the first summer that Look Voyages offered its new "Club Lookéa" packages which already have an excellent reputation. However, as is often the case when new products are introduced, profitability is not yet at an appropriate level due to discounts offered. Nevertheless, the profitability of Look Voyages' companies subject to significant influence, Star Airlines in particular, has improved substantially. Overall, Look Voyages (including the share of net

income of its companies subject to significant influence) generated consolidated income before income taxes and before amortization of goodwill of approximately \$0.3 million, compared with income of approximately \$1.6 million for the same period last year.

The Corporation's cash stood at \$168.9 million as at July 31, 1998 (including \$56 million held in trust) compared with \$134.9 million (\$45.9 million in trust) as at April 30, 1998. During the last quarter, its operating cash flow amounted to \$13.2 million compared with \$18.8 million for the same quarter in 1997. This decrease is primarily explained by the decline in profitability. The net change in non-cash working capital balances generated \$27.4 million in cash which is significantly higher than last year. The Corporation spent some \$6 million in investing activities, in particular for deposits and additions to capital assets. Approximately \$1 million was generated by financing activities, following the drawing of \$10 million on the revolving term loan and the repayment of long-term debt and obligations under capital leases, as well as bank loans.

In the final quarter of the year, we expect that the level of competition will continue, mainly in Ontario and Western Canada for European destinations. In the case of Look Voyages, the arrival at the beginning of July of a new General Manager who is well acquainted with the French market will certainly benefit both Look Voyages and Transat over the medium term. While the fourth quarter will be important for Look Voyages, management does not believe that results will differ significantly from the budget. Finally, the strength of the U.S. dollar compared with the Canadian dollar will remain a crucial issue in the coming months. In all its business segments, the Corporation continues its vigilant and rigorous approach and is undertaking appropriate measures to maintain its position in its various markets, while ensuring that its profitability is preserved.



Jean-Marc Eustache
Chairman of the Board
and President and Chief Executive Officer, Transat

Montreal, September 23 1998

CONSOLIDATED BALANCE SHEETS

(in thousands of dollars)

As at July 31
1998
(Unaudited)

As at October 31
1997
(Audited)

1998

1997

\$

\$

ASSETS

Current assets

Cash and cash equivalents	168,849	141,333
Accounts receivable	64,217	39,225
Income taxes receivable	1,103	—
Inventories	9,660	5,726
Deposits with suppliers	24,770	19,787
Prepaid expenses	28,735	20,801

Total current assets	297,334	226,872
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Deposits	18,494	26,102
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Tax benefit	22,933	18,966
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Inventory of rotatable aircraft spare parts	8,308	12,064
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Investments in companies subject to significant influence	14,599	14,057
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Capital assets	125,891	118,019
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Goodwill	36,679	38,639
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Other assets	15,469	12,757
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539,707	467,476
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LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities

Bank loans	14,827	10,318
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Accounts payable and accrued liabilities	137,762	102,571
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Customer deposits and deferred income	106,160	56,031
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Income taxes payable	—	5,908
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Current portion of long-term debt and obligations under capital leases	18,857	18,765
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Total current liabilities	277,606	193,593
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Long-term debt	30,273	47,170
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Obligations under capital leases	48,479	50,965
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Debenture	10,000	10,000
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Other long-term liabilities	549	1,328
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366,907	303,056
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Shareholders' equity

Share capital	115,795	114,995
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Retained earnings	57,005	49,425
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172,800	164,420
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539,707	467,476
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CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

(Unaudited)
(in thousands of dollars except
the earnings per share)

Three (3) months
ended July 31

Nine (9) months
ended July 31

	1998	1997	1998	1997
	\$	\$	\$	\$
Revenues	364,954	344,784	1,033,947	972,766
Expenses and other income				
Operating	345,813	316,528	991,257	932,646
Amortization	9,066	7,515	25,290	18,242
Interest on debenture, long-term debt and obligations under capital leases	2,510	2,340	7,535	6,331
Other interest and financial expenses	578	1,050	2,269	2,681
Interest income	(1,818)	(2,031)	(6,192)	(4,451)
	356,149	325,402	1,020,159	955,449
Income before share of net income of companies subject to significant influence, income taxes and non-controlling interest	8,805	19,382	13,788	17,317
Share of net income of companies subject to significant influence	1,595	1,259	519	1,219
Income taxes (recovered)				
Current	4,656	7,679	10,694	11,844
Deferred	(586)	159	(3,967)	(4,505)
	4,070	7,838	6,727	7,339
Share of non-controlling interest in subsidiaries' results	—	—	—	(11)
Net income for the period	6,330	12,803	7,580	11,186
Retained earnings, beginning of period			49,425	26,572
Common share issue costs, net of related income taxes of \$1,618			—	(2,642)
Retained earnings, end of period			57,005	35,116
Earnings per share	0.18	0.40	0.22	0.35
Diluted earnings per share	0.18	0.39	0.22	0.34

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

(Unaudited)
(in thousands of dollars)

Three (3) months
ended July 31

Nine (9) months
ended July 31

	1998	1997	1998	1997
	\$	\$	\$	\$
Operating activities				
Net income for the period	6,330	12,803	7,580	11,186
Add items not involving an outlay (receipt) of funds				
Amortization	9,066	7,515	25,290	18,242
Share of net income of companies subject to significant influence	(1,595)	(1,259)	(519)	(1,219)
Deferred income taxes	(586)	159	(3,967)	(4,505)
Non-controlling interest	—	—	—	11
Decrease of long-term deferred income	—	(462)	(779)	(1,386)
Operating cash flow	13,215	18,756	27,605	22,329
Net change in non-cash working capital balances related to operations	27,417	15,386	34,939	27,177
Deposits for engine and airframe overhauls	(1,683)	1,195	(5,937)	(10,548)
Cash provided by operating activities	38,949	35,337	56,607	38,958
Investing activities				
Deposits	(3,189)	1,255	(1,519)	2,472
Additions to capital assets	(2,780)	(3,378)	(23,178)	(43,715)
Purchase of rotatable aircraft spare parts	(21)	(2,833)	(161)	(9,286)
Other assets	—	39	(1,490)	(263)
Increase in investment	—	(304)	—	(1,478)
Non-interest bearing advances	—	—	—	(353)
Loan to a company subject to significant influence	—	—	—	(6,410)
Cash used in investing activities	(5,990)	(5,221)	(26,348)	(59,033)
Financing activities				
Long-term debt — revolving term loan	10,000	—	(16,181)	—
Repayment of long-term debt and obligations under capital leases	(4,927)	(4,261)	(22,381)	(10,728)
Bank loans	(4,074)	(3,097)	4,509	9,537
Recovery of deposits for engine and airframe overhauls	—	—	15,371	—
Increase in long-term debt and obligations under capital leases	—	5,386	15,139	42,902
Issue of common shares	—	—	908	88,887
Repurchase of preferred shares	—	—	(108)	(335)
Shares issue costs	—	—	—	(4,260)
Cash provided by (used in) financing activities	999	(1,972)	(2,743)	126,003
Net increase in cash for the period	33,958	28,144	27,516	105,928
Cash, beginning of period	134,891	124,681	141,333	46,897
Cash, end of period	168,849	152,825	168,849	152,825



Transat is an integrated company in the travel and tourism industry. It is represented by subsidiaries or affiliated companies at each of three levels: providing retail sales through travel agencies, creating and distributing packages through tour operators, and providing air transportation. The objectives of Transat are to maintain its position of leadership in vacation travel in Canada and to be one of the leaders in this industry in Europe.

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TRANSFER AGENT AND REGISTRAR

Montreal Trust
Company

STOCK EXCHANGE LISTINGS

The Montreal Exchange
The Toronto Stock
Exchange

TRANSAT'S TICKER SYMBOL

TRZ