

**2<sup>nd</sup> QUARTERLY REPORT**  
**PERIOD ENDED APRIL 30, 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



During the quarter ended April 30, 1998, Transat A.T. inc. (the "Corporation") reported quarterly net income of \$6,111,000, or \$0.18 per share, compared with \$3,335,000, or \$0.12 per share for the same quarter in 1997, a 50% growth in earnings per share. The Corporation's revenues rose to \$368.8 million, compared with \$348.2 million for the same period last year, an increase of 5.9%. This growth is mainly due to the \$25.3 million increase in revenues generated by the Corporation's Canadian subsidiaries. As in the first quarter, the largest increases occurred in the Ontario and Western Canada markets. In France, Look Voyages' revenues fell by approximately \$10 million, which is consistent with its repositioning objective in this market and is partially attributable to the decline in value of the French franc compared with the Canadian dollar. Finally, Vacances Air Transat (France) achieved its winter revenue growth objective through the development of the sunshine destinations market ; revenues were up 27%.

For the six months ended April 30, 1998, the Corporation posted net income of \$1,250,000, or \$0.04 per share, compared with a net loss of \$1,617,000, or \$0.05 per share, for the same period last year. Earnings per share are calculated based on a weighted average number of shares outstanding of 34,189,882 for the first six months of 1998 and 31,337,296 for 1997. For this semester, revenues totalled \$669 million, compared with \$628 million for the same period last year.

During the winter season, from the beginning of November to the end of April, the Corporation's revenues were up \$41 million, or 6.5%, compared with last year. Revenues for several of the group's tour operators in Canada increased more than 20%, and growth exceeded 40% in Western Canada. In France, revenues recorded by Vacances Air Transat (France) and Brok'Air rose by more than 27%, while Look Voyages' revenues dropped by approximately 17%. Air Transat's revenues, including its operations within the group, jumped by about 20%, mainly due to greater demand from the group's tour operators. To sustain this growth, Air Transat has increased the size of its fleet by one aircraft, as compared to the same period in 1997. Consequently, the fleet now consists of 10 Lockheed L-1011-150s (10 in 1997), three Lockheed L-1011-500s (two in 1997) and five Boeing 757s (five in 1997). Also, to meet tour operators' peak needs, two additional aircraft were used during the 1997 and 1998 winter seasons.

A number of factors contributed to the Corporation's profitability during the quarter ended April 30, 1998. Better prices in both the Canadian and French markets, lower fuel costs, the increase in interest income and higher sales volume in the Canadian market as well as at Vacances Air Transat (France) had a positive impact on results. Look Voyages' performance was similar to that of the first quarter. In fact, its loss before income taxes (excluding the share of net income of companies subject to significant influence and the amortization of goodwill) amounted to approximately \$1.7 million, compared with \$5.8 million during the same period in 1997.

In contrast to these positive factors, the overcapacity in the cruise market, the drop in value of the Canadian dollar against the U.S. dollar, the increase in certain operating expenses, the lower share of net income of companies subject to significant influence and the subsequent effects of the Ice Storm had a negative impact on the results for the quarter.

For the 12-month period ended April 30, 1998, the Corporation's net income stood at \$28,232,000, or \$0.83 per share, compared with \$17,931,000, or \$0.65 per share, for the same period in 1997. The weighted average number of shares outstanding was 34,119,582 for the 12 months ended April 30, 1998 and was 27,580,803 for the same period in 1997. As at April 30, 1998, the number of shares outstanding was 34,428,716.

The Corporation's cash position stood at \$134.9 million as at April 30, 1998, compared with \$174.9 million as at January 31, 1998. During the quarter, the Corporation's operating cash flow amounted to \$13.2 million, compared with \$6.6 million for the same quarter last year. The net change in non-cash working capital balances used up approximately \$25.6 million in cash during the second quarter, an obvious reflection of the seasonal nature of the operations. The Corporation spent \$3.4 million on additions to capital assets and \$27.7 million to repay loans, including \$14.5 million for the revolving term loan.

The Corporation is now entering a busy period the summer season which is particularly the case in the French market. In Canada, competition is expected to be high, especially in the Ontario and Western markets for European destinations. In addition, the strength of the U.S. dollar compared with the Canadian dollar will remain an important factor. The summer season is also important for Look Voyages' financial results, and management is standing by its financial forecasts for Look for the current fiscal year.



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

Montreal, June 22 1998

# CONSOLIDATED BALANCE SHEETS

(in thousands of dollars)

As at April 30  
1998  
(Unaudited)

As at October 31  
1997  
(Audited)

**1998**

**1997**

\$

\$

## ASSETS

### Current assets

Cash and cash equivalents	<b>134,891</b>	141,333
Accounts receivable	<b>34,369</b>	39,225
Inventories	<b>6,221</b>	5,726
Deposits with suppliers	<b>21,268</b>	19,787
Prepaid expenses	<b>21,438</b>	20,801

Total current assets	<b>218,187</b>	226,872
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Deposits	<b>13,389</b>	26,102
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Tax benefit	<b>22,347</b>	18,966
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Inventory of rotatable aircraft spare parts	<b>9,741</b>	12,064
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Investments in companies subject to significant influence	<b>13,028</b>	14,057
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Capital assets	<b>129,545</b>	118,019
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Goodwill	<b>37,332</b>	38,639
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Other assets	<b>11,576</b>	12,757
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<b>455,145</b>	<b>467,476</b>
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## LIABILITIES AND SHAREHOLDERS' EQUITY

### Current liabilities

Bank loans	<b>18,901</b>	10,318
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Accounts payable and accrued liabilities	<b>99,548</b>	102,571
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Customer deposits and deferred income	<b>69,912</b>	56,031
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Income taxes payable	<b>376</b>	5,908
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Current portion of long-term debt and obligations under capital leases	<b>18,650</b>	18,765
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Total current liabilities	<b>207,387</b>	193,593
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Long-term debt	<b>20,477</b>	47,170
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Obligations under capital leases	<b>50,262</b>	50,965
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Debenture	<b>10,000</b>	10,000
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Other long-term liabilities	<b>549</b>	1,328
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<b>288,675</b>	<b>303,056</b>
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## Shareholders' equity

Share capital	<b>115,795</b>	114,995
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Retained earnings	<b>50,675</b>	49,425
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<b>166,470</b>	<b>164,420</b>
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<b>455,145</b>	<b>467,476</b>
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# CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

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

Three (3) months  
ended April 30

Six (6) months  
ended April 30

	<b>1998</b>	1997	<b>1998</b>	1997
	\$	\$	\$	\$
<b>Revenues</b>	<b>368,747</b>	348,192	<b>668,993</b>	627,982
<b>Expenses and other income</b>				
Operating	<b>348,146</b>	335,516	<b>645,444</b>	616,538
Amortization	<b>8,216</b>	5,764	<b>16,224</b>	10,727
Interest on debenture, long-term debt and obligations under capital leases	<b>2,429</b>	2,327	<b>5,025</b>	3,991
Other interest and financial expenses	<b>984</b>	815	<b>1,691</b>	1,631
Interest income	<b>(2,343)</b>	(1,601)	<b>(4,374)</b>	(2,840)
	<b>357,432</b>	342,821	<b>664,010</b>	630,047
<b>Income (loss) before share of net income (net loss) of companies subject to significant influence, income taxes and non-controlling interest</b>	<b>11,315</b>	5,371	<b>4,983</b>	(2,065)
Share of net income (net loss) of companies subject to significant influence	<b>91</b>	753	<b>(1,076)</b>	(40)
Income taxes (recovered)				
Current	<b>6,001</b>	4,108	<b>6,038</b>	4,165
Deferred	<b>(706)</b>	(1,373)	<b>(3,381)</b>	(4,664)
	<b>5,295</b>	2,735	<b>2,657</b>	(499)
Share of non-controlling interest in subsidiaries' results	—	(54)	—	(11)
<b>Net income (net loss) for the period</b>	<b>6,111</b>	3,335	<b>1,250</b>	(1,617)
<b>Retained earnings, beginning of period</b>			<b>49,425</b>	26,572
<b>Common share issue costs, net of related income taxes of \$1,618</b>			—	(2,642)
<b>Retained earnings, end of period</b>			<b>50,675</b>	22,313
<b>Earnings (loss) per share</b>	<b>0.18</b>	0.12	<b>0.04</b>	(0.05)
<b>Diluted earnings (loss) per share</b>	<b>0.18</b>	0.12	<b>0.04</b>	(0.05)

# CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

(Unaudited)  
(in thousands of dollars)

Three (3) months  
ended April 30

Six (6) months  
ended April 30

	1998	1997	1998	1997
	\$	\$	\$	\$
<b>Operating activities</b>				
Net income (net loss) for the period	6,111	3,335	1,250	(1,617)
Add items not involving an outlay (receipt) of funds				
Amortization	8,216	5,764	16,224	10,727
Share of (net income) net loss of companies subject to significant influence	(91)	(753)	1,076	40
Deferred income taxes	(706)	(1,373)	(3,381)	(4,664)
Non-controlling interest	—	54	—	11
Decrease of long-term deferred income	(317)	(462)	(779)	(924)
Operating cash flow	13,213	6,565	14,390	3,573
Net change in non-cash working capital balances related to operations	(25,638)	(22,111)	7,522	11,791
Deposits for engine and airframe overhauls	(740)	(7,087)	(4,254)	(11,743)
Cash provided by (used in) operating activities	(13,165)	(22,633)	17,658	3,621
<b>Investing activities</b>				
Deposits	1,678	1,394	1,670	1,217
Additions to capital assets	(3,426)	(9,493)	(20,398)	(40,337)
Other assets	(762)	896	(1,490)	(302)
Purchase of rotatable aircraft spare parts	(26)	(3,118)	(140)	(6,453)
Increase in investment	—	(1,174)	—	(1,174)
Non-interest bearing advances	—	(353)	—	(353)
Loan to a company subject to significant influence	—	—	—	(6,410)
Cash used in investing activities	(2,536)	(11,848)	(20,358)	(53,812)
<b>Financing activities</b>				
Recovery of deposits for engine and airframe overhauls	2,626	—	15,371	—
Issue of common shares	875	988	908	88,887
Increase in long-term debt and obligations under capital leases	23	8,190	15,139	37,516
Long-term debt — revolving term loan	(14,500)	—	(26,181)	—
Repayment of long-term debt and obligations under capital leases	(7,480)	(3,847)	(17,454)	(6,467)
Bank loans	(5,753)	816	8,583	12,634
Repurchase of preferred shares	(108)	(335)	(108)	(335)
Shares issue costs	—	—	—	(4,260)
Cash provided by (used in) financing activities	(24,317)	5,812	(3,742)	127,975
<b>Net increase (decrease) in cash for the period</b>	<b>(40,018)</b>	<b>(28,669)</b>	<b>(6,442)</b>	<b>77,784</b>
<b>Cash, beginning of period</b>	<b>174,909</b>	<b>153,350</b>	<b>141,333</b>	<b>46,897</b>
<b>Cash, end of period</b>	<b>134,891</b>	<b>124,681</b>	<b>134,891</b>	<b>124,681</b>



Transat is an integrated company in the travel and tourism industries. 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