



NOTES FOR PRESENTATION  
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TRANSAT A.T. INC.

**Annual and Special Meeting of Shareholders**  
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## Introduction

In 2005, after four years spent reviewing our organizational structure from top to bottom, Transat mapped out a three-year (2006-2008) plan geared toward growth and increased profitability. Our objectives can be summarized in six points:

- Be even more competitive in Canada.
- Step up our profitable growth in Europe.
- Tap into new outgoing markets.
- Further capitalize on vertical integration at destination.
- Work to ensure the continuity of our organization, most especially through the development of talent.
- And speed up development of our IT platforms.

With more or less six months left to go, I am particularly satisfied with the progress we have made.

First of all, growth has indeed been achieved. In 2007 we carried more than 2 million people. Revenues topped the \$3-billion mark for the first time, representing a 30%, or nearly \$700 million, increase over 2005.

In terms of profitability, the picture is slightly more nuanced, in part because 2004 was such a great year in tourism. \$80.5 million, in 2007, was record net income for Transat, but this represents only 2.6% of revenues. Having said that, our margin is markedly superior to that of many of our competitors. Moreover, with the price of crude at \$100 a barrel, and our retail prices at rock bottom because of extremely fierce competition, to my eyes our performance is in fact quite satisfactory.

Obviously, the main engine of our growth has not been increased sales prices. Far from it. Our growth is entirely due to the fact that we have worked tirelessly to win new customers on both sides of the Atlantic.

Tourism is in great shape all over the world. It is an industry that continues to assert itself as a major social and economic phenomenon. Growth in international tourism is averaging between 4 and 6% a year. In 2007, according to recently released statistics, the number of international tourists was just shy of 900 million. And tourism has historically shown itself to be quite resistant to recession.

## **Achievements regarding the strategic plan Canadian Affair and the United Kingdom**

As you know, in 2006 we acquired Canadian Affair, a British tour operator specializing in Canadian destinations. Around 850,000 UK citizens visit Canada each year, and another 850,000 Canadians make the trip "across the pond", for a total, major market of approximately 1.7 million passengers

(return)<sup>1</sup>. The integration of Canadian Affair has allowed us to go from 200,000 to 400,000 seats per year – representing more than 20% of the total market (including business travellers).

2007 was a tough year on the UK market. We had to fight to hold on to our market share, and our margins suffered as a result. In 2008, we believe the situation will improve, because we expect some key players will be reducing capacity.

### **Achievements regarding the strategic plan France, Look Voyages, Amplitude Internationale**

In 2007 we acquired French tour operator Amplitude Internationale, which specializes in Tunisia. Transat was already present in Tunisia via Look Voyages, which has approximately 50,000 customers. Amplitude Internationale sells around 80,000 travel packages each year, generating sales of about 35 million euros. The deal makes us a player to be reckoned with on this market, with its total of some 650,000 travellers.

In France, we had an excellent year. Look Voyages, which returned to profitability in 2006, posted a 28% increase in revenues. We recorded more than 200,000 travellers, up 24% over the previous year. We are obviously delighted with these results, which prove we have the right plan.

With 155,000 travellers, and revenues in excess of 210 million euros, Vacances Transat (France) also grew in 2007, and continued to enjoy a sterling reputation in the tour market, particularly for long-haul destinations. Vietnam was successfully launched as a destination in 2007.

Taking into account our combined operations, we believe that Transat now ranks as the fifth largest tour operator in France.

### **Achievements regarding the strategic plan Transat Tours Canada**

In Canada, Transat Tours Canada (TTC) is our main outgoing tour operator.

At home, it sold more than a million sun packages last year, along with some 350,000 trips to Europe, for a total of nearly 1.4 million Canadian travellers. In addition, TTC brought 366,000 European travellers to Canadian destinations. This is remarkable growth on all fronts. Especially, once again, when one considers the particularly demanding competitive environment in which we find ourselves.

Our evaluation shows that we have become the leader in the winter sun packages market in all Canadian regions, which was one of our key objectives for 2007.

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<sup>1</sup> 842,000 UK citizens in Canada and 845,000 Canadians in UK in 2006, according to Canadian Tourism Commission.

## **Achievements regarding the strategic plan Incoming market**

Our incoming tour operators, in Canada and in Greece, are in fine health. Jonview Canada logged a record number of nearly a quarter of a million customers, while Tourgreece attracted some 72,000 visitors.

## **Achievements regarding the strategic plan Distribution**

In terms of distribution, 2007 was a year of integration in Canada, where we became the leading travel agent in the wake of our acquisition of the Thomas Cook network in 2006. Integration of the nearly 200 travel agencies went very smoothly, and all of them now operate under a Transat brand.

If we have succeeded in maintaining and increasing market shares in 2007, it is in large part due to the unwavering support of our agency network, which contributed to increased sales by the Transat family (now a quarter of our sales). Our multi-channel distribution system, which encompasses sales through travel agencies, call centres and websites, is shaping up to be the way of the future.

## **Achievements regarding the strategic plan Hotel joint venture**

A tour operator is basically an integrator. Transat works with approximately 4,000 suppliers and partners in more than 60 countries, including over 1,000 hotels. Our most critical skills are thus in product development, purchasing, inventory management and marketing.

But we are not an ordinary integrator. From the very beginning, in fact, we decided that we wanted to be our own supplier, at least partially. That's why we have a large distribution network. Why we own an airline that allows us to meet nearly two-thirds of our needs. Why we have destination-services companies. And why we are an incoming tour operator in Canada and in Greece.

And we are continuing in the same vein by moving into hotel ownership and operations.

Last November we announced the creation of a joint venture consisting of five hotels in Mexico and the Dominican Republic. The majority partner in this joint venture is H10 Hotels, based in Barcelona. The H10 chain is one of our longstanding partners, and over the years we have come to appreciate their professionalism and the quality of their products. Our investment of \$55 million represents a 35% interest. We also have an option to increase our stake to 45%.

Our stated intention, jointly with H10, is to grow the partnership and, in time, add new properties. This foothold in the hotel industry means we have guaranteed access to a number of top-quality rooms, while gaining a financial interest in operations that generate higher margins.

## **Achievements regarding the strategic plan Human Resources and IT**

Employee development and IT systems are also high among our priorities.

In 2007, we developed a formal process for reviewing organizational design. We will look into structure, culture, talent management, training, etc. This review will help us adapt to new realities and trends in the realm of hiring and employee retention.

We have also developed new guidelines for succession planning, in order to favour lateral movements and internal promotion. In brief, we are striving to make Transat a rich talent pool and an employer of choice.

In 2007, we have invested \$18 million in capital expenditures for information technology. As all our long-time shareholders know, we are engaged in a vast, comprehensive program for modernizing our systems.

We have considerably improved the strength of our systems and their capacity to handle increasing volumes. We have also improved our telephone and recovery infrastructure, and made our call centers more efficient.

Also of note, we have developed a 3-year strategic plan aimed at renewing our portfolio of applications.

## **Sustainable tourism**

Transat has always placed great emphasis on corporate social responsibility. In 2007, however, we decided to give greater impetus to our social engagement by formally pledging to make sustainable tourism a fundamental component of our development.

Sustainable tourism entails respect for nature, as well as for host communities and their values; it combines positive socio-economic benefits for local populations with an enriching experience for travellers.

This direction we are taking implies a *change in the way we do things* and not, obviously, a change of mission. Transat remains a mass-tourism company. Our products will continue to change to meet this market's expectations. But we are convinced that we can do more to maximize the positive impacts of tourism and reduce its negative impacts.

To pilot this initiative in the right direction, we created a network of task forces and working groups led by Lina De Cesare, a co-founder of the company along with Philippe Sureau and myself.

One of the key battlegrounds in building sustainable tourism is conservation of natural and cultural heritage. This can be achieved only through close cooperation with like-minded groups in our destination countries, and other people who are committed to the same cause.

Since 2007, we are partnering in a project in Cuba with the World Wildlife Fund, helping the Cubans develop an environmental management system on the island. And three other projects are receiving our support. First, we are the main backer of the Frontenac Arch Biosphere Reserve, part of the UNESCO Biosphere Reserve network, which is undertaking an important green-accreditation project. In addition, in Quebec, we support the Seigneurie des Aulnaies, an interpretation centre devoted to the seignorial system, as well as a group actively engaged in protecting and improving access to a stretch of St. Lawrence River shoreline.

## Greenhouse gases

We view the issue of global warming and the need to better manage greenhouse gas emissions as matters of great importance. And we are taking action. Since 2003, all things being equal, Air Transat has succeeded in lowering emissions due to fuel consumption by 5.5%, thanks to an extremely stringent, ongoing fuel-management program.

In 2007, emissions from Air Transat flights resulted in slightly more than a million tonnes of CO<sub>2</sub>. We estimate that the fuel-management program I just mentioned has allowed us to prevent the atmospheric release of some 129,000 tonnes of CO<sub>2</sub> since 2003.

Our estimates place our fuel consumption at 3.17 litres per passenger per 100 kilometres. By all accounts and going by the available statistics, this performance is excellent. Many of the major airline companies report average consumption rates that are 20 to 30% higher. Our result is due mainly to three factors: our fuel-management program; our average load factor, which is much higher than those of scheduled carriers; and finally the fact that our core business is long-haul.

In other words, flying with a holiday travel carrier means flying "greener."

It is likely that, in time, we will face additional costs related to greenhouse gas emissions. Will they come in the form of taxes or the purchase of carbon credits? At this juncture, no one really knows how it will work.

Although we are aware that actual economic costs attached to CO<sub>2</sub> emissions will eventually be seen as being part of the solution, I feel I need to make the following point: in Canada, the federal government treats the aviation industry in general — and therefore travellers — as a cash cow. We contribute astronomic amounts of money to the public purse through a variety of contrivances. Amounts that far exceed reasonable levels, and this over and above *the taxes that everyone pays*.

I am thinking of arbitrary airport rents and security fees, for example, which pose a huge challenge to our industry and deprive it of a level playing field for competing internationally.

Given these circumstances, a significant remodelling of the system is an essential pre-condition to the introduction of any new fee related to GHGs.

## **Air Transat**

Air Transat, made nearly 13,000 flights and transported more than 2.9 million passengers in 2007. It currently operates a fleet of 17 wide-body aircraft.

Despite the sharp rise in fuel prices, Air Transat had a remarkable year as far as controlling and reducing operating costs. And it continued to excel in customer service, on-time performance and safety management. That is clearly the result of sustained hard work on the ground, and consequently Air Transat now ranks among the best companies in its category.

I am pleased to report that a few weeks ago, Air Transat was confirmed by the International Air Transport Association (IATA) as an IOSA-registered operator. The IOSA (IATA Operational Safety Audit) program was launched in 2003. It comprises more than 900 stringent standards that contribute to airline operational safety. It makes Air Transat a member of the select group of IOSA-registered airlines.

Beginning in the summer of 2008, we will be improving legroom in all our aircraft, increasing the seat pitch to 32 inches. The change will mean the removal of 10 or 20 seats from each aircraft, depending on type. In our industry, the challenge is to build customer loyalty. If we can do that by enhancing our travellers' experience, we believe that the net result of such initiatives will be positive.

## **Strategic outlook and fiscal 2008**

Naturally, our intent in 2008 is to continue sticking to our strategic plan. Among other things, we will continue our work in the U.S., where we want to break through as a tour operator. We have been actively prospecting that market over the last 24 months. We have identified potential targets for an acquisition, and held discussions with some key players. No transaction has materialized thus far, in the absence of the right conditions. In other words, none of the targets fulfilled all of our criteria. We are looking for a partner of the right size, that has products, activities and markets complementary to ours, that is reasonably profitable, and that can be acquired for an acceptable price.

In 2008 we therefore plan to launch new efforts on the U.S. market, with a slightly different approach; that is, prospecting for more modestly scaled players, who have also built up a solid Web presence, including for direct sales.

Transat Tours Canada, our main Canadian business unit in the outgoing market as well as on Transatlantic routes, has mapped out a new development plan for Europe. It will have several components: new destinations and new city-pair links, of course, but also, and especially, closer ties and enhanced synergy among all our subsidiaries and partners in the Transatlantic market.

In the coming year, we will continue our non-stop talent-development efforts, which are essential from a continuity perspective.

On the information technology front, several projects are underway. We are investing in our future, because the quality of our IT infrastructures is key factor in our competitiveness. In 2008 we will be focusing on two main aspects: the centralized seat and capacity management system, on the one hand, and development of our e-commerce platform, on the other.

## **Conclusion**

As we have just seen, we are operating in a changing environment, full of challenges, that demands our sustained attention. I would therefore like to acknowledge the ardent commitment of our entire team, in particular the management team, who selflessly devote themselves every day so that Transat can develop, grow profitably, and remain a company that instills passion – in our staff, our customers and, I trust, in our shareholders. Thank you also to all our Board members.

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