



**TRANSAT A.T. INC.**

**ANNUAL INFORMATION FORM**

**FOR THE YEAR ENDED OCTOBER 31, 2003**

**March 19, 2004**

ANNUAL INFORMATION FORM  
TRANSAT A.T. INC.

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## **Explanatory Notes**

### **Currency**

*All dollar amounts referred to in this document are references to Canadian dollars, unless otherwise indicated.*

### **Forward-Looking Statements**

*This Annual Information Form contains certain forward-looking statements which, by their nature, necessarily involve risks and uncertainties that could cause actual results to differ materially from those contemplated by these forward-looking statements. Management considers the assumptions on which these forward-looking statements are based to be reasonable, but cautions the reader that these assumptions regarding future events, many of which are beyond the Corporation's control, may ultimately prove to be incorrect since they are subject to risks and uncertainties that affect the Corporation. These risk factors include among others competition, government regulations, fuel prices, the economic environment in general including foreign exchange and interest rates, pricing environment, industry capacity decisions, new entrants, labour negotiations as well as external events such as acts or potential acts of terrorism and war (see "Risk Factors").*

### **Effective Time**

*Unless otherwise indicated, the information contained in this Annual Information Form is given as at October 31, 2003, being the year end of the Corporation.*

## 1. CORPORATE STRUCTURE

### 1.1. NAME AND INCORPORATION

Transat A.T. Inc. (the “**Corporation**” or “**Transat**”, which terms refer to Transat A.T. Inc. and all of its subsidiaries, or Transat A.T. Inc. itself, as the context may require) was incorporated under the *Canada Business Corporations Act* by Certificate of Incorporation dated February 13, 1987, under the name of 154117 Canada Inc.

Since its incorporation, the Corporation amended its Articles by way of Certificate of Amendment to make certain changes, out of which the most important aimed: (i) to change its name to Transat A.T. Inc.; (ii) to establish the minimum number of directors at nine and the maximum at fifteen and to enable the Board of Directors to appoint directors during a given year; (iii) to provide for the creation of an unlimited number of Preferred Shares issuable in series, which led to the creation of 2,400,000 Series 1 Preferred Shares, 250,000 Series 2 Preferred Shares and an unlimited number of Series 3 Preferred Shares; (iv) to subdivide each common share on the basis of three common shares for each issued and outstanding common share; and (v) to introduce constraints on issues and transfers of voting shares of the Corporation’s share capital in order for Transat to remain a “Canadian” corporation within the meaning of the *Canada Transportation Act*.

The registered and principal office of the Corporation is located at Place du Parc, 300 Léo-Pariseau Street, Suite 600, Montreal, Quebec, H2X 4C2.

### 1.2 INTERCORPORATE RELATIONSHIPS AS AT OCTOBER 31, 2003

Transat has seven wholly-owned subsidiaries, Air Transat A.T. Inc. (“**Air Transat**”), Handlex Groundhandling Services Inc. (“**Handlex**”), Transat Tours Canada Inc. (formerly Air Transat Holidays A.T. Inc., World of Vacations Limited, Regent Holidays Limited and Les Voyages Nolitur Inc.) (“**Transat Tours Canada**”), Rêvateurs Inc. (“**Rêvateurs**”), Transat A.T. (Barbados) Limited, Consultour Inc. (“**Consultour**”), and Cameleon Hotel Management Corporation (“**Cameleon**”).

Transat holds a 70% interest in Mextour G.T. Inc. (“**Mextour**”) and a 40% interest in Gestour G.T. Inc. (“**Gestour**”). Each of Mextour and Gestour in turn owns 100% of Trafictours de Cancun, S.A. de C.V. (“**Traffic Tours Cancun**”) and 100% of Trafictours de Mexico S.A. de C.V. (“**Traffic Tours Mexico**”), respectively.

Transat also holds a 99.99% interest in Brok’Air S.A. (“**Brok’Air**”).

Brok’Air holds a 100% interest in Eurocharter S.A.S. (“**Eurocharter**”) and a 99.55% interest in Look Voyages S.A. (“**Look Voyages**”). Brok’Air further holds a 5% in STAR Investissements S.A.S. (“**STAR Investissements**”) and STAR Formation S.A.R.L. (“**STAR Formation**”).

Look Voyages owns 100% of the share capital of Vacances Air Transat (France) S.A.S. (“**Vacances Air Transat (France)**”). Look Voyages also holds a 44.27% interest in Société de Transport Aérien Régional S.A. which operates under the name STAR (“**STAR Airlines**”), a 40% interest in Tourgreece S.A. (“**Tourgreece**”), a 50.93% interest in Caméléon Palmeraie S.A., a 27.06% interest in La Française des circuits S.A., a 98% interest in Look Viagens L.D.A. and a 10% interest in Sénégalaise d’Hôtellerie et de Loisirs du Royal Saly S.A. operating as S.H.L - Royal Saly. STAR Airlines owns 95% of the share capital of STAR Investissements, which in turn holds a 100% interest in STAR International S.A.S., a 95% interest in STAR Formation and SARL Formair, a 44% interest in Culin Air Paris – CAP S.A. and a 34% interest in Crystal TO S.A.

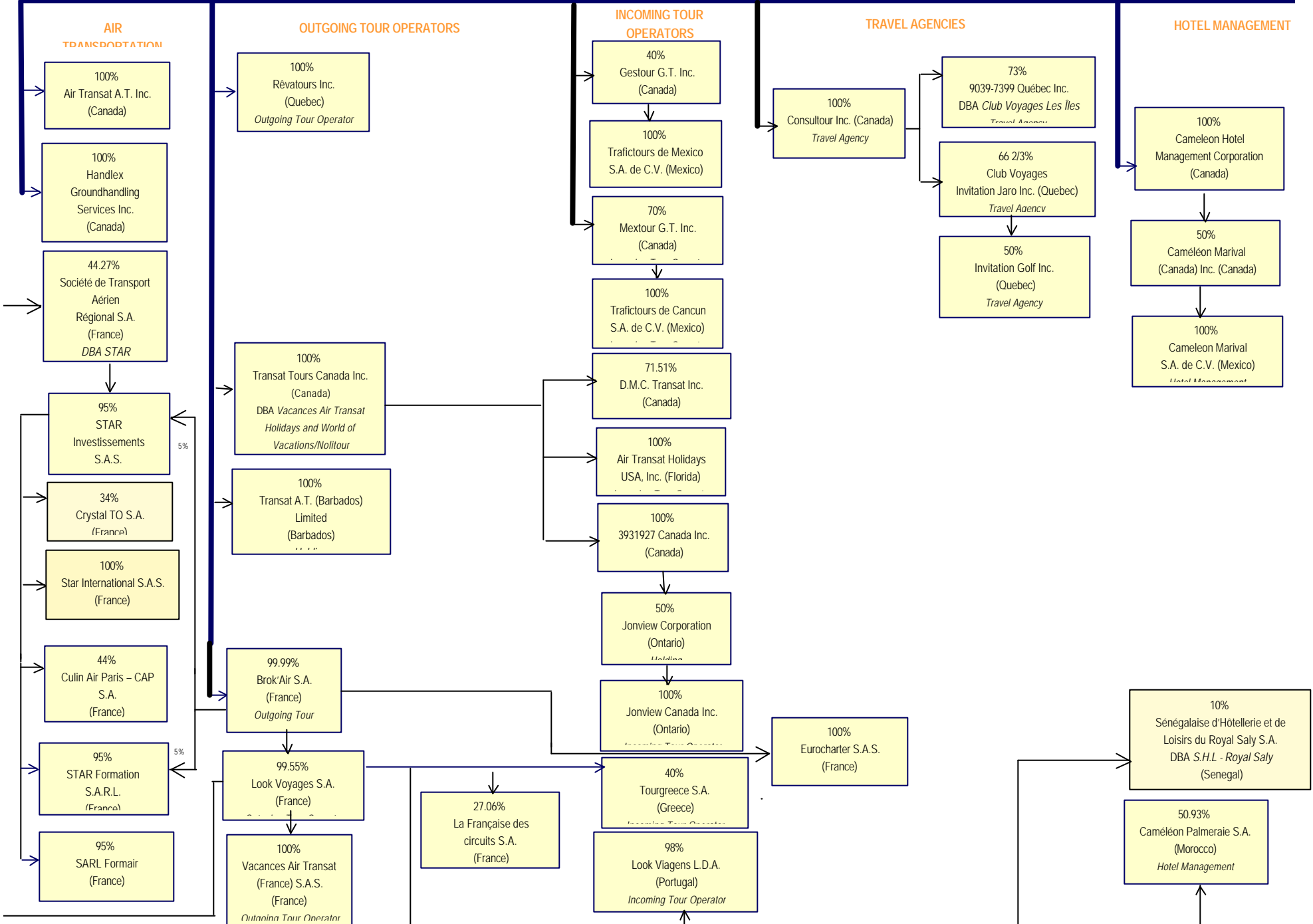
Transat Tours Canada has two principal divisions: Vacances Air Transat Holidays and World of Vacations/Nolitur. Transat Tours Canada also owns 100% of the share capital of Air Transat Holidays USA, Inc. (“**Air Transat Holidays USA**”) and 3931927 Canada Inc., and a 71.51% interest in D.M.C. Transat Inc. (“**DMC Transat**”). 3931927 Canada Inc. holds a 50% interest in Jonview Corporation, which in turn owns 100% of Jonview Canada Inc. (“**Jonview Canada**”).

Consultour holds a 73% interest in 9039-7399 Québec Inc. operating under the name Club Voyages Les Îles and a 66 2/3% interest in Club Voyages Invitation Jaro Inc., which in turns holds a 50% interest in Invitation Golf Inc.

Cameleon holds a 50% interest in Caméléon Marival (Canada) Inc., which in turn owns 100% of Cameleon Marival S.A. de C.V.

The following organization chart sets out the corporate structure of the Corporation as at October 31, 2003, the jurisdiction of incorporation of the principal subsidiaries and associated companies of Transat and the percentage of voting and participating shares held in each of the companies included therein. Certain subsidiaries, each of which represents not more than 10% of the consolidated assets and not more than 10% of the consolidated sales and operating revenues of Transat, and all of which, in the aggregate, represent not more than 20% of the total consolidated assets and the total consolidated sales and operating revenues of Transat as at October 31, 2003, have been omitted from the above description and the following organization chart.

# TRANSAT A.T. INC. (Canada)



## **2. GENERAL DEVELOPMENT OF THE BUSINESS**

### **2.1. OVERVIEW**

Transat is an integrated company specializing in the organization, marketing and distribution of holiday travel. The core of its business consists of tour operators in Canada and France. Transat is also involved in air transportation and value-added services at travel destinations. Finally, Transat has secured a solid presence in distribution through travel agency networks.

### **2.2. BUSINESS STRATEGY**

Transat's objectives are to maintain its leadership in Canada and to maintain its position as a major player in the holiday travel industry in North America and Europe by continuing to deliver quality vacation travel services at affordable prices to a broad clientele. Transat has based its development strategy on the vertical integration of the major components of holiday travel. The Corporation's tour operators and travel agencies benefit from the availability of seats on the Corporation's own air carriers and, increasingly, other air carriers. This strategy encourages synergies, ensures reciprocal loyalty between the levels of operations and permits better quality control of the Corporation's products and services. This also gives Transat more flexibility to adjust prices, products and services offered by the different levels of operations, enhancing its ability to operate profitably.

This strategy has led the Corporation to acquire, or to invest in, outgoing tour operators and travel agencies in Canada and in France while continuing its air carrier services. This strategy has also led the Corporation to acquire, invest in or create incoming tour operators and travel services at destination and to create a hotel management subsidiary with the mission of managing hotels based on the needs of the Corporation's tour operators.

Transat's long-term growth strategy involves focusing on its core business: holiday travel and its related products. Transat also plans to expand geographically into new and existing markets with high profitability potential and to continue to leverage vertical integration.

### **2.3. THREE YEAR HISTORY**

Since its initial public offering launched in 1987 to create Transat and Air Transat, the Corporation has evolved into one of the largest fully integrated holiday package and travel service providers of international scope in North America. Today, Transat ranks comfortably among the ten leading tours operators in the world, conducting its activities in a single industry segment, namely holiday travel, and operating in two geographic areas, specifically Canada and France. Set out below are highlights in the development of Transat on both sides of the Atlantic in the three most recent financial years.

#### **2.3.1. Canadian Operations**

In fiscal 2003, the Corporation continued the review of its tour operator and distribution activities in Canada and engaged in other initiatives, with a view to increase operational efficiency and reduce costs.

As regards the Corporation's outgoing tour operators' activities, this review had begun in May 2001 with the creation of Transat Tours Canada. The latter was born out of the amalgamation of Transat's tour operators Air Transat Holidays A.T. Inc., Regent Holidays Limited and World of Vacations Limited, into which Les Voyages Nolitour Inc. was liquidated shortly thereafter. Subsequently, the operations of Regent Holidays Limited in Toronto were integrated with those of Nolitour in Quebec and with World of Vacations in Ontario.

Transat Tours Canada now operates through two tour-operating divisions, namely Vacances Air Transat Holidays and World of Vacations/Nolitour, which are the backbone of the Corporation's business in Canada. These divisions began pooling their resources in 2002, under the umbrella of Transat Tours Canada, by merging their management information systems, combining and integrating their finance and human resources and



harmonizing their respective customer service operations. Transat Tours Canada's strategic role reached its full potential in 2003: it now includes a single management team responsible for positioning Transat's various brands and carrying out a large part of the marketing activities of the Corporation's main tour operators as well as those of Air Transat, while preserving the distinct commercial identities of the Vacances Air Transat Holidays and World of Vacations/Nolitour brands. This new structure allows for much more effective inventory management both in terms of hotel rooms and airline seats, as well as lower fixed costs, the latter having dropped by an estimated \$3 million annually.

Beginning on April 7, 2003, the Corporation also reorganized the operations of Tours Americanada International Inc. ("**Americanada**"). Over the years, Americanada had expanded its activities and products offering, becoming a consolidator for negotiated fares with various airlines and offering customized Florida and island vacations to Barbados, Bermuda, the Bahamas and Aruba, customized motor coach tours and the rental of motor homes in Canada and the United States, and cruises in Alaska, Europe and the Caribbean. The purpose of the reorganization was twofold: first, to transfer certain assets of Americanada to its affiliated companies, namely Transat Tours Canada, Rêvateurs (a tour operator acquired in March 2001) Air Transat and DMC Transat; second, to liquidate Americanada into Transat Tours Canada as at October 31, 2003. The reorganization of Americanada, which resulted in the termination of approximately 150 employees, allowed the placing of its product lines in a business setting that provides them with an opportunity for profitable development.

In keeping with its growth strategy to expand its presence in all major regions of Canada with a more extensive product offering, Transat announced on August 20, 2003, a two-year agreement with WestJet. This agreement allows Vacances Air Transat Holidays and World of Vacations/Nolitour to charter WestJet's Boeing 737 aircraft from medium-size Canadian cities to southern vacation destinations. The addition of Westjet's narrow-bodied aircraft complements Air Transat's wide-bodied fleet, allowing Transat to increase its service offering in certain markets and broaden its offering in areas which could not otherwise be served by Air Transat.

On September 11, 2003, the Corporation announced the implementation of a plan to phase out the use of Air Transat's six Lockheed L1011-500s by April 30, 2004, paving the way for a smaller homogeneous fleet, and thereby reducing operating expenses. This plan is part of the Corporation's commitment to review Air Transat's fleet, more on which is discussed in Section 3.3 of this Annual Information Form.

Consistent with its long-term growth strategy based on vertical integration, Transat also continues to develop incoming tour operators, hotel management and services at travel destinations, all of which complement the activities of the Corporation's outgoing tour operators, ensure greater quality control and improve profit margins.

At the beginning of fiscal 2001, Transat acquired a 50% interest in Jonview Corporation, a holding that owns the leading Canadian incoming tour operator Jonview Canada, for a cash consideration of \$10,564,000. In September 2001, through a series of transactions with the Fonds de solidarité des travailleurs du Québec (F.T.Q.) (the "**Fonds**"), one of Transat's major shareholders and a minority shareholder of DMC Transat, Transat reduced its participating interest (other than voting shares) in Jonview Corporation to 35.76% and increased its investment in DMC Transat to 71.51%. Transat has the obligation to redeem the Fonds' participation in DMC Transat in 2009, for a cash consideration or by issuing shares, provided Transat remains a public corporation at such time.

Transat has a call option and other Jonview Corporation shareholders have a put option to acquire the remaining 50% interest in Jonview Corporation in 2004 at a price to be determined based on the average earnings realized during two of the three best years prior to the acquisition. Transat expects to exercise its call option in the coming weeks.

Cameleon, a subsidiary incorporated in 1999 with the mission of managing a network of hotels at major destinations served by the Transat companies and divisions, began its hotel management operations in 2000 with one superior-class resort in Puerto Aventuras, near Cancun (Mexico). A second hotel, in the palm grove of Marrakech (Morocco), was added in spring 2001, targeting mainly Look Voyages' customers. In 2003,

Cameleon introduced a concept known as Cameleon Le Club in three hotels in the Caribbean. The purpose of this concept is to provide enhanced services to Vacances Air Transat Holidays and World of Vacations/Nolitour customers, mostly through a concierge service, thereby ensuring customer satisfaction. Where lodging is concerned, the Corporation thus has greater control over product quality and the supply of quality hotel rooms available at the most attractive and popular destinations.

Trafic Tours Mexico, a company incorporated in 1999, and Trafic Tours Cancun, a company incorporated in 2002, now offer value-added destination services in Mexico, specifically in Puerto Vallarta and Cancun, respectively.

As regards the Corporation's distribution activities, fiscal 2003 saw the creation of Transat Distribution Canada, a business unit forming part of Consultour. Much like Transat Tours Canada for the Corporation's tour operators, this unit is the cornerstone of the Corporation in terms of the integration of distribution operations, which integration will draw on both travel agents and the Internet, not in parallel, but in a highly integrated manner.

Thus, on October 15, 2003, the Corporation proceeded with the reorganization of Exit Travel Inc. ("**Exit Travel**"), its subsidiary whose mission since its incorporation in 1999 was to develop the Corporation's business in retail e-commerce. The reorganization of Exit Travel consisted of the following two steps: first, Exit Travel transferred the assets pertaining to its Web call center and related travel agent activities to Consultour; second, Exit Travel was liquidated into Transat Tours Canada. Following this reorganization, Exit Travel's online travel agency became a provider of last minute discounted travel services operating as a division of Consultour under the name exitnow.ca, as well as a "fulfiller" of other Transat companies and divisions as regards their e-commerce business to consumer needs. Exit Travel will be dissolved during fiscal 2004.

The reorganization of Exit Travel followed a major reorganization which Consultour had begun in fiscal 2002. Its purpose was to simplify the structure of the Corporation by combining into Consultour all travel agencies previously owned by or affiliated to it and operating as distinct entities. Thus, 2868-1468 Québec Inc., Voyages Agena Inc., 9022-8016 Québec Inc., Inter-Voyage Inc., Voyages Solaris Inc., Tourbec (1979) Inc. and D & R Travel Inc. were liquidated into Consultour during a period ranging from April to October 2002. Furthermore, Corruna Travel Ltd., Jenkins Leaside Travel Ltd., 129133 Ontario Inc., C. & R. Travel Limited, 3748502 Canada Inc. doing business as TravelPlus, Voyages Mer et Monde M.C. Ltd. and Voyages Claire Champoux Inc. were amalgamated with Consultour on October 31, 2002. All entities liquidated into Consultour during fiscal 2002 were dissolved during fiscal 2003, except D & R Travel Inc., which will be dissolved during fiscal 2004.

Having completed the reorganization of its own corporate travel agencies and integrated the TravelPlus network, which it had acquired in 2001, Consultour continues to grow by increasing the number of travel agencies under its control, particularly in major cities, while franchising is preferred elsewhere, and pursuing online solutions. Consultour's retail network now counts 209 travel agencies, out of which 27 are wholly-owned and 182 are franchised. Travel agency networks in Quebec operate under the Club Voyages and Voyages en Liberté banners, elsewhere in Canada under the TravelPlus banner and online under the exitnow.ca banner. The entire network is supported by Consultour's human resources, finance and administration, information systems and marketing services, all of which are provided by the Transat Distribution Canada business unit.

### **2.3.2. French and other Operations**

The Corporation's review of its tour operator activities also had an impact on its French operations. On February 10, 2003, Transat announced the reorganization of the management team of Look Voyages and Vacances Air Transat (France). This reorganization was prompted by the losses of Look Voyages, which losses had continued rising in fiscal 2003 and affected the Corporation's French operations. It led to the announcement, on May 5, 2003, of a redundancy plan (required under French law) involving the laying off of some 90 employees of Look Voyages. As a result, the Corporation accrued an amount of \$5.1 million as part of its restructuring charge related to this reorganization, mainly for employee termination benefits. Although the Corporation still expects to incur losses at Look Voyages in fiscal 2004, said losses should be reduced as a result of the significant changes implemented in fiscal 2003, including not only a change in the management team but also a

shift in the French subsidiary's product offering, more on which is included in Section 3.1.4 of this Annual Information Form. Transat firmly believes that in spite of a difficult year, Look Voyages continues to be a dependable tour operator and brand in the French market. As part of its commitment to the reorganization of its French operations, Transat invested an additional \$15.0 million in its French operations.

Seeking to simplify its corporate structure in Europe, the Corporation also proceeded with the reorganization of Eurocharter, which comprised the following two steps: Consultour transferred all the shares it held in Eurocharter to Transat, which in turn transferred said shares to Brok'Air as at October 29, 2003. On the same date, Vacances A.T. Europe S.A., a holding corporation 99.99%-owned by Transat, was amalgamated into Brok'Air with retroactive effect as at November 1, 2002.

Another major move by the Corporation was the disposal of CAïD S.A., operating under the trade name Anyway. Anyway was the third largest online travel site in France, 99.99%-owned by Brok'Air. It had been created in 1988 as a discount travel agency and expanded into online Minitel services in 1995 and into Internet services in 1999. The sale of Anyway was completed on October 31, 2003 for a cash consideration of approximately €53,824,000 (\$83,163,000) to IAC/Inter Active Corp., a world leader in online commerce that encompasses among others leading online travel brands such as Expedia. The net gain on disposal amounted to €34,356,000 (\$53,101,000).

During fiscal 2004, Transat expects to exercise its call option related to the acquisition of the incoming tour operator Tourgreece. The latter is a long standing partner located in Athens, Greece, 40% of which the Corporation had acquired in March 2001 through its subsidiary Look Voyages for a cash consideration of \$1,629,000. The exercise of this call option will result in a majority ownership position, the final percentage of which remains to be determined.

### **2.3.3. Other Events**

Fiscal 2003 turned out to be yet another challenging year for the international tourism industry, including Transat. Although the winter of 2002-2003 generated growth and better results than 2001-2002, spring 2003 brought the war in Iraq and, in particular, the outbreak of Severe Acute Respiratory Syndrome ("**SARS**"), specifically in Canada. This effectively ruined the 2003 summer season, frightened tourists and disrupted operations, which were already sensitive to the continued terrorist threats in the aftermath of the September 11, 2001 attacks as well as the over-capacity subsisting in the marketplace. Needless to say, load factors and performance were seriously affected.

Transat reacted by announcing on May 5, 2003 staff reductions of approximately 500 employees at Air Transat and Canadian tour operators. Transat also reduced its airline capacity by 25%: two of its aircraft leases in Air Transat's fleet were not renewed in April 2003, accounting for a 10% reduction in capacity, with another 15% reduction being a direct result of the SARS crisis.

In France, Vacances Air Transat (France), Transat's long-haul specialist, was directly hit by the SARS crisis. While a record year had appeared to be taking shape, the organization had to move into crisis management mode in just a few weeks. Nonetheless, Vacances Air Transat (France)'s successful expansion of its product offering, more on which is included in Section 3.1.3 of this Annual Information Form, cushioned the effect of the SARS crisis.

As was the case in fiscal 2002 and 2001, the Corporation's effective response to the challenges faced in fiscal 2003 demonstrates Transat's ability to swiftly adapt to a difficult environment and changing circumstances.

In fiscal 2001, which is the most difficult year to date in Transat's history, the Corporation had successfully overcome the challenges and pressure that arose from having to cope with the September 11, 2001 terrorist attacks. The latter occurred immediately after Air Transat had experienced its most serious incident to date, when one of its Portugal-bound flights was forced to make an emergency landing on August 24, 2001 in Terceira, in the Azores.

In response to the drop in demand following September 11, 2001, the Corporation had implemented an emergency plan, primarily in Canada, which consisted in a 25% reduction in staff and Air Transat's capacity for autumn-winter; salary reductions and freezes for management and non-unionized employees which were lifted at the beginning of fiscal 2003; and a tightening of all other expenditures.

The Corporation also sought additional cash injections totalling \$182,970,000 to increase cash available for working capital purposes, which cash injections came from : (i) the renewal, on January 10, 2002, of the Corporation's revolving credit facility amounting to \$90,000,000 under a banking syndicate agreement; (ii) the investment, also on January 10, 2002, by each of Caisse de dépôt et placement du Québec and the Fonds, of \$10 million in non-convertible debentures in the Corporation, as well as the investment, by management members of the Corporation and its affiliates, of \$21,865,000 in a similar form; and (iii) the \$51,105,000 issue, on February 19, 2002, of 9% convertible unsecured subordinated debentures maturing in March 2007 to a syndicate of underwriters led by CIBC World Markets Inc. For more details on these agreements, please refer to notes 9, 11 and 13 to the Corporation's audited consolidated financial statements as at October 31, 2003, which are included in the Corporation's 2003 Annual Report and herein incorporated by reference.

On February 28, 2003, the Corporation renewed the above-mentioned \$90,000,000 revolving credit facility until August 2004, with its banking syndicate. This agreement, to which Air Transat and Transat Tours Canada are also parties as borrowers, stipulates that the maturity date of the revolving term loan may be extended for an additional year upon certain conditions being satisfied. Under the terms of this agreement, drawings can be made by way of bankers' acceptances and bank loans, as well as through the issuance of letters of credit denominated in Canadian or US dollars. The interest rate is determined via a grid of ratios that vary based on the level of certain financial ratios calculated on a consolidated basis. Under this bank agreement, the Corporation, its significant Canadian subsidiaries and Brok'Air maintain in favour of the bankers movable hypothecs on the universality of all their movable property. In addition, the Corporation, Brok'Air and the significant Canadian subsidiaries maintain in favour of the bankers a movable hypothec on the shares of subsidiaries they hold, and Air Transat continues to grant an immovable hypothec on its hangar and administrative building. Finally, the other active companies within Transat that have not granted charges to the lenders maintain their undertaking not to collateralize their property.

The Corporation's swift responses to the challenges faced in fiscal 2001 through 2003, as well as the implementation of structural changes, transformed Transat's organization and built a solid foundation to support its growth. The Corporation was thus able to register a profit in fiscal 2002 and record satisfactory results in 2003 despite SARS, having achieved most of the objectives it had set itself, namely to reduce costs, to consolidate the Corporation's tour operator and distribution activities in Canada and to improve the profitability of its French operations. Of these objectives only the latter proved more difficult to achieve due to prevailing adverse economic conditions, but the Corporation expects to reduce the losses in 2004 and achieve a turnaround in 2005.

The Corporation's ability to deliver on its objectives is dependant on the Corporation's financial and non-financial resources. The former include cash balances that are not held in trust or otherwise reserved totalling \$243.0 million as at October 31, 2003 and existing lines of credit allowing to access up to \$73.5 million in fiscal 2004. The latter include committed employees working as a team to ensure overall customer satisfaction, a vertically integrated structure ensuring a better quality control of the Corporation's products and services, exclusive access to certain hotels in the Caribbean as well as over 15 years of privileged relationships with many hotels in Europe and in the Caribbean and, last but not least, a strong corporate identity.

In this respect, Transat announced in December 2003 the total redesign of its corporate identity and the implementation of a brand strategy for Transat, its subsidiaries and divisions. Transat, Air Transat, Vacances Air Transat Holidays, TravelPlus and Club Voyages, while keeping each their own name, are now bearing the same colours, the same logo – the pale blue star featured on the cover of this Annual Information Form – and the same type face against the same dark blue background. The aim is to create a strong, visible and easily recognizable link between the various companies and divisions forming Transat, consistent with its strategy of vertical integration. This will strengthen the Corporation's offerings on the market by pooling its marketing resources in order to make its integrated approach – and the benefits resulting therefrom - more visible to the buying public. Other companies and divisions not part of this identity stream, such as World of Vacations/Nolitour and

Cameleon, will pursue their current marketing strategy with a view to diversify Transat's marketing approach, emphasize their own identity and their own product lines. As for the remaining companies in Canada, France and elsewhere, the Corporation will be working with each of their management teams to thoroughly evaluate which approach is best suited.

Despite difficult circumstances resulting from exceptional events, all actions described above, some of which were fully implemented in fiscal 2003, have set the stage for the Corporation to deliver further cost reductions, operational efficiencies and profitable products and services. To continue to build on this momentum, the Corporation's focus in fiscal 2004 is on the following objectives: the return of Look Voyages to profitability, which is expected to yield results in 2005; the pursuit of Internet technology integration into the Corporation's business model, such as B2B platforms, which are expected to boost revenues and generate savings for the Corporation's tour operators and distribution channels, thereby increasing Transat's operating margins; the leverage of flexibility gains and continued focus on reducing airline-related costs; the repositioning of the Corporation's brand in the market place to support its vertical integration strategy; and the identification of growth opportunities in North America and in France.

#### **2.4. FACTORS AFFECTING DEMAND**

Demand for holiday travel in 2003 was affected by geopolitical uncertainty, the continued terrorist threats, the war in Iraq and the negative impact of SARS. The prevailing weak economic conditions further undermined a strong recovery in the holiday travel market. The number of travellers in Canada dropped by over 19% during the summer season as a direct result of the SARS crisis. In France, the number of travellers fell by almost 18% in the summer season, SARS being responsible for worsening an already difficult situation.

Despite these negative circumstances, the holiday travel market experienced a slight growth, showing its resilience especially following the 5% drop in demand in 2002 – the largest decline since 1950 – in the aftermath of the September 11, 2001 terrorists attacks. Thus, although the total number of travellers in 2003 declined by 4.4% compared with 2002 (this decline being the result of a 2.6% decrease in Canada, and an 11.3% decrease in France) the Corporation increased its overall revenues, due to a 2.1% growth of its revenues in Canada, partially offset by a 1.3% decrease in revenues in the Corporation's French operations. This overall revenue growth is mostly due to price increases and the effect of foreign exchange on the Corporation's French operations.

Beyond the difficulties of the prevailing conditions, the main trends remain nonetheless favourable. According to the World Tourism Organization (WTO), there will be over one billion tourists in the world in 2010, compared with 700 million at present, and these figures exclude domestic tourism. This forecast is largely explained by the following fundamentals: improved general standard of living; an aging population with better health, more leisure time and financial resources; and former totalitarian regimes being now more free.

As for the holiday package travel industry specifically, its growth in recent years is the result of several additional factors, including: improved aircraft efficiency reducing the costs of airline travel; the addition of new destinations; the increasing popularity of all-inclusive packages; and recognition that travel requirements for vacationers are distinct from those of business travellers.

After two years marred by exceptional events, Transat expects the overall number of travellers to climb in fiscal 2004, resulting in an increase in revenues compared with fiscal 2003. The 2004 winter season is expected to be better than 2003. In Canada, bookings are up and there appears to be a desire to travel despite the continued terrorist threats. Even though the Ontario market continues to be competitive, Transat's decision to cautiously manage capacity in this market combined with the consolidation initiatives undertaken in 2003 are delivering results. In France, the Corporation continues to see encouraging results with travel packages. Air-only travel bookings at Look Voyages, which are no longer core to its activities (please refer to Section 3.1.4 of this Annual Information Form), are decreasing at a faster rate than originally expected. As a result, the Corporation does not expect to see any significant improvements for the next quarter in France. Although it is still early to tell how the 2004 summer season will fare, booking trends both in Canada and France are ahead of last year. However, the Corporation is seeing pricing pressures in the United Kingdom market to Canada due to increased

capacity and in certain other European destinations.

## **2.5. TRENDS**

In recent years, the activities of the Canadian holiday travel sector have been consolidated, hence promoting vertical integration. The sector has also experienced the effect of the globalization of markets. Although a significant number of smaller tour operators remain, the Canadian industry is now dominated by four major tour operators, two of which are foreign-owned.

Although the United Kingdom has experienced similar trends, France is still a largely fragmented market with several large tour operators and a large number of smaller ones. The Corporation believes that France will also be affected by globalization and concentration. For more details on trends, please refer to Section 3.6 of this Annual Information Form on Positioning with Regards to Competition.

## **3. NARRATIVE DESCRIPTION OF THE BUSINESS**

Some of the data on competitive positioning and market share of the Transat companies contained in this section has been estimated by management, based on its knowledge of the relevant industry segments. Being a vertically-integrated business, the Corporation has determined that it conducts its activities in a single industry segment, namely holiday travel, and operates in two geographic areas, specifically Canada and France. The revenues for Transat's two most recently completed financial years were \$2,096,649,000 and \$2,073,508,000 for fiscal 2003 and 2002, respectively. Canadian operations accounted for \$1,525,846,000 and \$1,494,976,000 of the Corporation's revenues for fiscal 2003 and 2002, respectively, while French and other operations amounted to \$570,803,000 and \$578,532,000 in revenues for the same financial years. These numbers exclude entities, such as STAR Airlines and Tourgreece, that are not subsidiaries as per the definition of that term in the *Canada Business Corporations Act*, such entities being accounted for separately in the Corporation's consolidated audited financial statements.

### **3.1. TOUR OPERATORS**

The Corporation acts as an outgoing tour operator through Vacances Air Transat Holidays and World of Vacations/Nolitour (both divisions of Transat Tours Canada), R vateurs (acquired in March 2001) as well as through its French subsidiaries Vacances Air Transat (France), Look Voyages and Brok'Air. DMC Transat, Air Transat Holidays USA, Jonview Canada (affiliate since January 2001), Tourgreece (affiliate since March 2001), Trafic Tours Mexico (created in 1999) and Trafic Tours Cancun (created in 2002) operate as incoming tour operators in Quebec, Florida, Canada, Greece and Mexico, respectively. Each of them operates independently in its own market by developing and marketing its individual product lines, while benefiting from the considerable purchasing power and other advantages generated by Transat's vertical integration strategy. Set out below are descriptions of the products offered by some of these tour operators.

#### **3.1.1. Products of Transat Tours Canada**

Transat Tours Canada, through its divisions Vacances Air Transat Holidays and World of Vacations/Nolitour, offers its clientele quality travel at attractive prices and is the leading Canadian-owned tour operator. It has developed two principal types of products to balance its revenues from one season to the next: travel packages for sunshine destinations, mainly during the winter season, and charter flights with complementary products and services for travel to Europe, mainly during the summer season.

With respect to sunshine destinations, Vacances Air Transat Holidays offers packages to the Dominican Republic, the West Indies, Cuba, Venezuela, Mexico, Costa Rica and the United States, among others. Most of the sunshine destinations are available with departures from ten Canadian cities and are sold out of offices located in Montreal, Toronto, and Vancouver.

For travel to Europe, Vacances Air Transat Holidays also offers short stays (in hotels, studios, apartments, and bed and breakfast), car rentals (based either on the straight car rental formula or with a buy-back option) or train tickets. For destinations in France, Vacances Air Transat Holidays sells flights mainly to Paris, Lyon, Marseille, Nantes, Nice and Toulouse. As for destinations in the United Kingdom and Ireland, it sells flights mainly to London (Gatwick), Birmingham, Cardiff, Exeter, Manchester, Newcastle, Edinburgh, Glasgow, Belfast, Dublin and Shannon. Vacances Air Transat Holidays also sells flights to Berlin, Brussels, Düsseldorf, Frankfurt, Amsterdam, Prague, and Warsaw. Flights to London and Paris are offered year-round, but fewer flights are available from November to March.

In addition to sunshine and European destinations, Vacances Air Transat Holidays offers domestic flights, cruises to the Caribbean, Alaska and to Europe, as well as coach tours mainly in Europe.

World of Vacations/Nolitour operates in the markets of Ontario, the Atlantic Provinces, the Prairies, Western Canada and Quebec and offers a broad range of products for destinations in the United States (including Las Vegas and Disney Cruise Lines), as well as quality packages at competitive prices to its sunshine destinations such as the Bahamas, the Caribbean, Mexico, Cuba and South America. In Canada, World of Vacations/Nolitour specializes in short getaways to all the major cities and also offers ski packages to all the major resorts. In the summer, World of Vacations/Nolitour adds major European destinations to its product line, including Greece and Italy, the latter destination being sold under the Auratours banner. World of Vacations/Nolitour serves, among others, many of the country's independent travel agencies.

For the 12-month period ended October 31, 2003, Transat Tours Canada, through its Vacances Air Transat Holidays and World of Vacations/Nolitour divisions, served approximately 905,000 travellers, compared to 931,000 in fiscal 2002.

### **3.1.2. *Products of Rêvatours***

A well established outgoing tour operator operating out of Montreal, Rêvatours specializes in premier-quality guided tours in Asia (China, Vietnam, India, and others), Eastern Europe, North Africa (Tunisia, Morocco), Greece and Turkey, with specialized offerings for smaller market segments. During 2003, staff and operations of Rêvatours were relocated to Transat's headquarters in Montreal, paving the way for integration with other Transat tour operators. Rêvatours served some 5,000 customers out of Quebec in fiscal 2003, compared to 4,000 in fiscal 2002.

### **3.1.3. *Products of Vacances Air Transat (France)***

The primary objective of Vacances Air Transat (France) is the distribution, through French travel agencies, of holiday packages to Canada (for which it remains the leader in France) and the United States. Although Canada and North America generally remain long-haul destinations for the French, they have less and less impact on the sales of Vacances Air Transat (France) as it launches new products. Vacances Air Transat (France) also offers to its French clientele various destinations in the Caribbean, such as the Dominican Republic, Cuba (for which destinations it is the leading tour operator in France), Mexico and the French West Indies, as well as packages and guided tours in many countries in Latin America, namely in Costa Rica, Ecuador, Brazil, Argentina, Chile, Peru, and Bolivia. Its priorities for 2004 include further development of product offerings, particularly to Asia and the Indian Ocean. With this large array of destinations, Vacances Air Transat (France) is successfully becoming a long-haul specialist in the French market.

For the 12-month period ended October 31, 2003, Vacances Air Transat (France) served approximately 77,000 travellers, compared to 82,000 in fiscal 2002.

### **3.1.4. *Products of Look Voyages***

Look Voyages continues to be a dependable tour operator and brand in the French market. It holds a strong position in the market due to its exclusive value-added products in the form of holiday packages in "Club" hotels. "Lookéa" is the trademark used for these all-inclusive hotels situated in choice locations which include

group animations and target a youthful family-oriented clientele. Lookéa Clubs are managed according to a hybrid formula calling upon partners to manage the resorts while Look Voyages handles activities and site supervision.

In 2002, Look Voyages took over its affiliate Brok'Air's consolidation activities with a view to benefit from economies of scale.

2003 was marked by a restructuring in the offering of Look Voyages, which restructuring was prompted by a difficult year due to intense competition and less than optimal economic conditions. First, Look Voyages repositioned its flagship product, the Lookéa Clubs, which had lost ground as a result of prices being too high. Second, a new hotel product called Lookéko was launched. Lookéko is based on individual agreements with various hotels, and calls for a very aggressive pricing strategy, as price remains the most important criterion for tourists in France as well as elsewhere.

Look Voyages' products are sold year-round, but the summer season, which in France runs from April to October, is by far its busiest. Its most popular destinations are located in the Mediterranean region. Look Voyages' medium-term strategy is to develop value-added products aimed at increasing its holiday package activities. As part of the changes it seeks to implement in terms of its offering, Look Voyages will now focus on destinations where it holds substantial volumes, concentrating on packages and air-only on charter flights, while significantly reducing its exposure to air-only on regular flights, which had represented roughly half of its business recently.

For the 12-month period ended October 31, 2003, Look Voyages served approximately 140,000 travellers, compared to 160,000 in fiscal 2002.

### **3.1.5. Products of Brok'Air**

Brok'Air is a French company active in the marketing of group guided tours for North America (Canada and the United States), South America, Asia (mostly Thailand) and South Africa.

### **3.1.6. Products of DMC Transat**

DMC Transat provides foreign tour operators with a complete range of competitively priced Canadian tourism products, for both groups and individual travellers. DMC Transat offers two major types of products, namely the organization of holiday trips (traditional, discovery and adventure tourism) and business trips (incentive trips, meetings, conferences), which it markets mostly in Europe and in the United States. It successfully developed Morocco as a new French speaking market, with a weekly flight to Montreal. It is also developing new products, such as snow-mobile tours, as well as pre- and post-convention tours. DMC Transat primarily targets the French market, but continues to promote its products in new markets.

DMC Transat served 31,000 travellers during the 12-month period ended October 31, 2003, compared to 36,000 travellers in fiscal 2002.

### **3.1.7. Products of Jonview Canada**

Jonview Canada is the leading incoming tour operator in Canada with offices in Montreal and Toronto. It also has sale representation offices in France and the United Kingdom. Jonview Canada sells a wide range of products mainly to tour operators in Europe, particularly in France, the United Kingdom, Germany, Italy, Switzerland, the Netherlands and Belgium. It also caters to clientele in South America, Latin America, Australia, New Zealand and Asia (mainly Japan).

Jonview Canada offers a full range of Canadian holiday products, including guided bus tours, group travel arrangements, fly and drive holidays, city and activity packages, ski vacations and a wide range of hotel accommodations. Jonview Canada also offers, through its Canadian and International Student Services division, a comprehensive range of ESL (English as a second language) and FSL (French as a second language) products



combining language studies with activities in schools and camps.

During the 12-month period ended October 31, 2003, Jonview Canada brought 265,000 travellers to Canada, compared to 161,000 in fiscal 2002.

### **3.1.8. *Products of Tourgreece***

Tourgreece is a well established incoming tour operator located in Athens, Greece, having 25 years of existence. It offers a wide range of holiday packages, such as stays, excursions and cruises in Greece and the Greek Islands, as well as transportation from the airport to the hotel.

Tourgreece served approximately 55,600 travellers in fiscal 2003, of which half were clients of Transat companies and divisions, and more particularly of Look Voyages, which owns four Lookéa Clubs in Greece, and of World of Vacations/Nolitour, compared to 120,000 travellers in fiscal 2002.

## **3.2. TRAVEL AGENCIES AND DISTRIBUTION**

### **3.2.1. *Travel Agencies***

The travel agencies sell a wide variety of products, including those offered by the Transat companies and divisions. Travel agents make the reservation of the products either through a computerized booking system or by telephone.

In the Canadian market, Transat distributes its products in part through its own retail network, corporate or franchised, which has 209 sales outlets managed by Consultour under the banners Club Voyages and Voyages en Liberté in Quebec and, outside Quebec, under the TravelPlus banner. Consultour, through Eurocharter, also owns and operates 63 travel agencies throughout France under the Club Voyages banner. However, some of these travel agencies have been re-branded under the Look Voyages colours for marketing purposes, in order to benefit from the renown of Look Voyages - the latter being a well-known brand on the French market - and build on the latter's marketing initiative.

Transat intends to operate its travel agencies network in Canada as one business unit by taking advantage of a common administrative system for all its wholly-owned agencies across the country, and by putting together its purchasing power. The Corporation has developed a new branding initiative whereby both Club Voyages and TravelPlus share a common logo and identity while keeping their distinct names. This initiative is part of Transat's new branding strategy, as described in Section 2.3.3 of this Annual Information Form. The know-how acquired by exitnow.ca in distribution on the Internet is being passed along to the "brick and mortar" agencies in order to have all the distribution acting in a coordinated fashion.

### **3.2.2. *E-Commerce***

Launched in 1999, the first e-commerce initiative of Transat and the first Website specializing in holiday packages and charter flights, exitnow.ca (formerly Exit Travel operating as exit.ca) has evolved into a division of Consultour, whose mission is twofold: firstly, it operates a Web call center dedicated to the last minute discounted segment of the travel market in Canada; secondly, it serves as a "fulfiller" of other Transat companies and divisions as regards their e-commerce business to consumer needs. More specifically, it operates the websites of Air Transat, Vacances Air Transat Holidays, Club Voyages and TravelPlus, offering them their Internet know-how and helping them in creating a "brick and click" strategy.

Thus, Transat intends to pursue a hybrid distribution strategy combining traditional travel agencies and the Internet. Although online transactions are gaining in popularity around the world and the travel industry is on the cutting edge in this regard, many customers prefer dealing directly with a travel agent and using the Internet for information only. That being said, the Internet can play an extremely useful role in initiating and maintaining relations between travel agents and customers. It can also offer a wide range of business-related applications

and management tools that can add value for travel agents. This is where exitnow.ca's technological platform comes in, being the cornerstone of the Corporation's online operations. It plays a key role in meeting the expectations of both customers and travel agents, and reducing transaction costs significantly. This in turn can be profitable and efficient for everyone, including the customer.

### **3.3. AIR TRANSPORTATION**

Air Transat was incorporated pursuant to the *Canada Business Corporations Act* by Certificate of Incorporation dated October 31, 1986, under the name of Les Services Aériens de Transport International S.A.T.I. Ltée. This name was changed to Air Transat A.T. Inc. by way of a Certificate of Amendment dated April 29, 1987.

Air Transat offers flights out of its principal bases in Montreal, Toronto, Vancouver, Quebec City, Calgary, Edmonton, Halifax, and St-John's, as well as some flights out of Moncton, Winnipeg and Saskatoon. Through certain policy changes that came into force in 2002, Air Transat was designated to operate scheduled flights between Canada and the following European countries: the Netherlands, Belgium, Ireland, Italy, Portugal and Poland. These scheduled service routes were added to those already held by Air Transat for the United States, Cuba, France, the United Kingdom and Germany. In 2003, Air Transat was designated as a scheduled carrier in Mexico and the Dominican Republic, bringing to thirteen the number of countries in which it holds this status.

In 2003, Air Transat flew to some 90 destinations in 25 countries, remaining the leading air carrier in Canada specializing in charter services. During the winter season, Air Transat served over 50 destinations in 25 countries, flying primarily to southern or other sunshine destinations. In the summer, Air Transat shifts most of its capacity to Europe, while maintaining flights to southern destinations. In 2003, Air Transat offered direct flights to some 30 cities in over 20 countries in Europe.

Air Transat has now completed the review of its aircraft fleet, a project initiated during fiscal 2002, with a view to avail itself from opportunities pertaining to aircraft leasing or purchase conditions having emerged in the aftermath of the September 11, 2001 events. Air Transat's fleet renewal plan, the execution of which will be completed by June 2004, will harmonize the carrier's fleet and reduce operating costs. It involves the phasing-out of its six Lockheed L-1011-500s by April 30, 2004. Three of those ceased operations by October 31, 2003, with the remaining three ceasing operations by April 30, 2004. They will be replaced by four Airbus A310, which will be added in each of the months of February, May and June of 2004, along with an additional Airbus during fiscal 2004 as backup.

Thus, beginning in the 2004 summer season, Air Transat's fleet will consist of 13 wide-bodied long-haul Airbus aircraft, namely: 3 Airbus A330-200 with 363 seats each, 1 Airbus A330-300 with 362 seats and 9 Airbus A310-308 with 259 seats each. Air Transat's fleet renewal plan resulted in a charge of \$33.7 million before taxes related to the aircraft being phased out as part of the Corporation's restructuring charge. There will also be accelerated depreciation on the remaining Lockheed L-1011-500 aircraft that will be used until April 30, 2004, in the amount of approximately \$6.0 million before taxes. As at October 31, 2003, obligations under capital leases related to aircraft, aircraft engines and other obligations maturing at various dates from 2004 to 2009 totalled \$17,844,000 in fiscal 2003. Air Transat's commitments under operating leases relating to aircraft, land, maintenance contracts and office premises amounted to \$367,190,000 in fiscal 2003, broken down as follows: \$7,008,000 and US\$272,928,000. In addition, as part of certain aircraft financings, maturing through 2008, Air Transat guaranteed a portion of the residual value amounting to US\$56,518,000 (\$74,586,000).

In the spring of 2002, Aéroports de Montréal ("**ADM**"), the airport authority managing the Montreal-Pierre Elliott Trudeau International Airport ("**Montreal-Trudeau**") and the Montreal International Airport in Mirabel ("**Montreal-Mirabel**"), announced plans to concentrate all passenger flights at Montreal-Trudeau and to transform Montreal-Mirabel into a platform specialized in cargo and industrial development. Following this announcement, Air Transat began negotiations with ADM. Those led to an agreement, reached in January 2004, which paves the way for Air Transat's move to Montreal-Trudeau at the end of November 2004. All Air Transat's flights that were operating out of Montreal-Mirabel are slated to be leaving from Montreal-Trudeau starting in

November 2004. Air Transat's administrative employees are expected to move into the new offices no later than May 2005. As part of the agreement between ADM and Air Transat, ADM will construct the building that will house Air Transat's new head office and hangar, and lease it to Air Transat for a maximum period of 40 years. The agreement also stipulates that ADM will purchase Air Transat's facilities at Montreal-Mirabel. Air Transat is satisfied with the terms of the agreement. The move is not expected to negatively impact Air Transat's cost structure, and will create a satisfying new environment for the carrier's customers and employees.

The Corporation, through Look Voyages, holds a 44.27% interest in STAR Airlines, a French air carrier specialized in charter services. STAR Airlines operates six Airbus A320 aircraft with 180 seats each and one Airbus A330-200 aircraft with 364 seats. STAR Airlines serves the travel market in continental Europe and the Mediterranean, including countries in North Africa and the Caribbean and increasingly in the West Indies, for the benefit of Look Voyages as well as other tour operators.

During the 2003-2004 winter season, STAR Airlines and Air Transat exchanged aircraft under a mutually beneficial agreement. Thus, until the end of the winter season, STAR Airlines is leasing and operating an Airbus A330 aircraft from Air Transat, while the latter is leasing from STAR Airlines and operating two of its Airbus A320, which are smaller aircraft with a range suited to Air Transat's winter destinations. Star Airlines is also chartering an Airbus A330-200 for the 2003-2004 winter season and is committed to lease another Airbus A330-200 which is deliverable in November 2004. By the end of 2004, STAR Airlines expects to operate two Airbus A330-200 and to reduce its fleet of Airbus A320, the leases of which are expiring, by two or three aircraft.

In fiscal 2003, approximately 2,5 million passengers travelled with Air Transat. During the same period, STAR Airlines carried some 740,000 passengers to 38 destinations, the main ones being Spain, Italy, Greece, Senegal, Tunisia and Morocco.

### **3.3.1. *Distribution and Marketing***

The marketing of charter air services for passenger transportation is effected on a seasonal basis, in large part by the Corporation's tour operators who organize package tours or sell air-only seats. In the winter season, most of the seats sold are to southern destinations whereas in the summer season seats are primarily sold to Europe. The selection of Air Transat's destinations is determined in close collaboration with tour operators, which enter into charter agreements with the air carrier six to eight months prior to the beginning of each season and undertake to effect payment pursuant to such charter agreements.

Also, Air Transat's seats are available on its Web site, which uses the exitnow.ca booking engine, offering content to travellers in terms of vacation spots, package browsing and flight options and enabling online reservations.

Even though the marketing of the flights is primarily in the hands of tour operators, Air Transat's status as a scheduled carrier for certain countries, as well as for domestic and transborder flights, allows it to market seats directly to travel agencies through Global Distribution Systems, to sell seats on the Internet, to enter into agreements with other carriers to offer connecting flights and to transport freight.

### **3.3.2. *Maintenance and Other Measures***

On February 3, 1994, Air Transat acquired a warehouse with two bays of approximately 5,100 square meters each as well as administrative offices at Montreal-Mirabel. The Corporation itself performs regular maintenance work on all aircraft of its fleet.

Air Transat carries a large inventory of spare parts for its Airbus A330 and A310 and Lockheed L-1011 aircraft. Air Transat's aircraft maintenance procedures and standards exceed Transport Canada's requirements and equal those set by well-known network or full-service air carriers having a reputation for high maintenance standards.

For nearly four years, Air Transat has been committed to a sweeping re-engineering and improvement of processes involving all aspects of its operations. The purpose of this large scale project, which is progressing in stages, is to improve the quality of service while optimizing resources. It includes a complete review of processes linked to aircraft maintenance, the integration of functions connected with passenger service and crew and aircraft scheduling, as well as the implementation of a new management information system. There have already been tangible results in all of these areas of operation, translating into improved on-time performance.

Following the emergency landing of one of its Airbus A330-200s in the Azores on August 24, 2001, Air Transat is fully collaborating with the Portuguese authorities and the Transportation Safety Board of Canada conducting the ongoing investigation into the causes of the fuel leak that caused the emergency landing, which investigation also involves the aircraft and engine manufacturers. The report of the Portuguese authorities and the Transportation Safety Board of Canada on the incident remains to be made public.

Following this incident, Air Transat implemented further measures, some of which were imposed by Transport Canada while others were voluntary, that added to the extensive effort already undertaken by Air Transat to improve its methods. These measures, based on principles of safety and prevention to which Air Transat subscribes without reserve, focus particularly on certain aspects of crew training and the inspection of maintenance work.

As a result of the SARS crisis, Air Transat had to implement in April 2003 special security measures to prevent the virus from spreading. These preventive measures included the daily sanitization of all Air Transat's aircraft interiors, special training for flight crews and the provision of special kits on board; an information letter was also given to all customers at check-in, including a health check list questionnaire.

Even prior to the SARS crisis, Air Transat had a long-standing in-flight medical assistance contract providing services 24 hours a day 365 days a year with MedAire, a medical advisory firm specialized with in-flight and on the ground health emergencies. Air Transat has also followed, and continues to follow, all the guidelines announced by Transport Canada and Health Canada.

Through its Audit Committee and its Corporate Governance and Nominating Committee, the Board of Directors of Transat identifies and evaluates the principal risk factors related to the business of the Corporation and approves strategies and systems proposed to manage such risks, including those specifically related to the aviation industry. The Corporate Governance Committee in particular oversees the policies and procedures with respect to flight safety. As part of its responsibilities, the Corporate Governance Committee regularly reviews the emergency plan implemented by Air Transat, which emergency plan aims to inform the airline's personnel and Transat's management on procedures to be followed with respect to an accident or an incident involving an aircraft and the ensuing investigation.

### **3.3.3. Insurance**

Air Transat carries insurance in amounts in accordance with industry standards and in compliance with applicable statutory requirements and the covenants in its aircraft lease agreements. The Corporation's liability insurance for airline operations covers liability related to damages resulting from injury or death of passengers, as well as to damage suffered by third parties. With the exception of War Risk Third Party liability, the coverage limit for any single event is US\$1 billion.

The cost of the September 11, 2001 terrorist attacks continues to be reflected in the war risk and terrorist insurance premiums paid by all air carriers. In an attempt to mitigate the excessive financial burden of these costs to air carriers, the International Civil Aviation Organization ("ICAO"), through its council, is actively promoting a mutual insurance program for excess Third Party War Risk Liability which would be supported by member states' guarantees. This program has yet to obtain the requisite majority support from the member states.

In the interim, Air Transat, together with all Canadian air carriers, continues to be indemnified by the Canadian government for Third Party War Risk losses in excess of US\$50,000,000, which is the maximum amount available pursuant to the airline's civil liability insurance policy.

Following the emergency landing of an Air Transat aircraft in the Azores on August 24, 2001, four class actions have been instituted against Air Transat. The Corporation believes that Air Transat has adequate liability insurance to cover such actions, should Air Transat be found liable thereunder.

#### **3.3.4. Fuel Supply**

Fuel costs represent a major component of Air Transat's operating expenses. The Corporation negotiates with national and international oil companies to ensure that aircraft are supplied with fuel at all airports where it operates. Fuel prices are agreed to for each season on the basis of fixed margins over fluctuating world prices. When deemed necessary, the Corporation hedges a portion of its fuel requirements. As at October 31, 2003, fuel purchasing contracts covered approximately 45% of the requirements for fiscal 2004, compared to 42% as at October 31, 2002 for fiscal 2003. The tariff filed by Air Transat with the Canadian Transportation Agency states that charter agreements signed with tour operators may be amended in the event of significant variations in the price paid for fuel.

#### **3.3.5. Groundhandling and Airport Services**

Groundhandling and airport services (passenger service, baggage handling and aircraft cleaning) required for the operation of aircraft are provided by Handlex at the international airports in Montreal (Montreal-Trudeau and Montreal-Mirabel) and Toronto. These services are provided by subcontractors at other airports.

Handlex is Air Transat's partner on the ground providing handling services and serving other airlines such as Air France, Egypt Air, Aeroflot, Cubana, Royal Air Maroc, Air St-Pierre, DHL, Bax, Emery and Exp-Air Cargo. Handlex also provides ground equipment maintenance to Northwest, US Airways, Cara and Delta.

### 3.4. EMPLOYEES

As at October 31, 2003, Transat, its subsidiaries and its affiliates had a total of 5,137 employees, as follows:

Holding Corporation	Transat	41
Air Carriers and Other	Air Transat	2,000
Airline Services	STAR Airlines	402
	Handlex	861
Outgoing Tour Operators	Transat Tours Canada (including Vacances Air Transat Holidays and World of Vacations/Nolitour)	608
	Rêvatours	25
	Look Voyages	409
	Vacances Air Transat (France)	160
	Brok'Air	14
Incoming Tour Operators and Services at Travel Destinations	Jonview Canada	121
	DMC Transat	38
	Tourgreece	35
	Air Transat Holidays USA	19
Travel Agencies and Distribution	Consultour (including TravelPlus, Club Voyages, Voyages en Liberté and exitnow.ca)	225
	Eurocharter (Club Voyages-France)	178
Hotel Management	Cameleon	1

The Corporation favours employee ownership of its share capital, and for this purpose has established a common share purchase plan for employees and executives and a stock option plan for directors, officers and employees.

Some of Air Transat's employees, mainly flight crew members (pilots), flight attendants, crew scheduling personnel and passenger service employees, as well as members of maintenance, stores and technical operations support group belong to employee associations with which Air Transat has negotiated working conditions. Flight crew members are affiliated with the Airline Pilots Association (ALPA) and flight attendants with the Canadian Union of Public Employees (CUPE). Crew scheduling personnel and passenger service employees, as well as members of maintenance, stores and technical operations support group are affiliated with the International Association of Machinists and Aerospace Workers (IAMAW). Collective bargaining agreements in force with flight crew members and flight attendants expire on October 31, 2005. The collective bargaining agreement in force with members of maintenance, stores and technical operations support group expires on April 30, 2006. As for crew scheduling personnel and passenger service employees, their collective bargaining agreement expired on July 31, 2003 and an agreement in principle was reached at the beginning of February 2004. The Corporation is confident that this collective bargaining agreement will be renewed.

Air Transat has received an application for certification from the Canadian Air Line Dispatchers Association (CALDA) as bargaining agent for Air Transat's dispatchers and one from the Teamsters as bargaining agent for Air Transat's Information and Seat Selection Center personnel.

Some of Handlex's employees, mainly the mechanics and station attendants, the cabin service attendants and the passenger service agents belong to employee associations with which Handlex has negotiated working conditions. Mechanics and station attendants, while affiliated with the International Association of Machinists and Aerospace Workers (IAMAW), are the subject of an application for certification from an independent union. A representation vote will most likely be ordered to determine which union will represent this group, whose collective bargaining agreement is expired since July 16, 2003. Passenger service agents are with the National Automobile, Aerospace, Transportation and General Workers Union of Canada ("CAW-Canada") and their collective bargaining agreement is in force until September 5, 2006. Cabin service attendants affected to Montreal are represented by the Union of Local Transport and Various Industries Workers and their collective bargaining agreement expired on March 8, 2004. Those affected in Toronto are represented by CAW-Canada and their collective bargaining agreements in force until May 23, 2004.

It is the Corporation's policy to promote good relations with its employees.

### 3.5. PREMISES

The Corporation owns the building situated at 11600 Cargo A-1 Street, Montreal International Airport in Mirabel, Quebec, which is the head office and the principal maintenance base of Air Transat. This property, which occupies an area of 15,302 m<sup>2</sup>, is mortgaged in favour of the Corporation's bankers.

The addresses of the main premises leased by the Corporation and its principal subsidiaries are listed below.

<u>Name and Description</u>	<u>Location</u>	<u>Size (m<sup>2</sup>)</u>
TRANSAT - Head office	300 Léo-Pariseau Street Suite 600 Montreal, Quebec	1,357
AIR TRANSAT - Place of business	12655 Commerce A-4 Montreal International Airport Mirabel, Quebec	955
Place of business and warehouse	19555 Henri-Giffard D Building Montreal International Airport Mirabel, Quebec	6,250
Warehouse	11855 Service A-3 Montreal International Airport Mirabel, Quebec	5,574
Place of business and warehouse	2450 Derry Road East, Hangar 4 Mississauga, Ontario	4,738
Warehouse	6380 Northwest Drive Mississauga, Ontario	2,341
Offices	Vancouver International Airport Domestic Terminal Building Suite 4205 Richmond, British Columbia	313

<u>Name and Description</u>	<u>Location</u>	<u>Size (m<sup>2</sup>)</u>
Offices and warehouse	B103-4851 Miller Road Vancouver International Airport Richmond, British Columbia	575
<b>HANDLEX</b> - Head office	12655 Commerce A-4 Suite 544 Montreal International Airport Mirabel, Quebec	1,665
Counter	975 Roméo-Vachon Nord Montreal-Pierre Elliott Trudeau International Airport Dorval, Quebec	164
Place of business	6300 Silver Dart Drive Terminal 3 Room G210B Mississauga, Ontario	535
<b>TRANSAT TOURS CANADA</b> - Head office	300 Léo-Pariseau Street Suite 200 Montreal, Quebec	8,476
Place of business	300 Léo-Pariseau Street Suite 500 Montreal, Quebec	1,359
Place of business	191 The West Mall Suite 800 Etobicoke, Ontario	1,468
Place of business	191 The West Mall Suite 600 Etobicoke, Ontario	1,354
Place of business	505 Burrard Street Suite 620 Vancouver, British Columbia	1,239
Place of business	3751 Shell Road Suite 100 Richmond, British Columbia	298
<b>RÉVATOURS</b> - Head office	300 Léo-Pariseau Street Suite 1102 Montreal (Quebec)	400
<b>LOOK VOYAGES</b> - Head office	12 Truillot Street 94204 Ivry-sur-Seine, France	4,262



<u>Name and Description</u>	<u>Location</u>	<u>Size (m<sup>2</sup>)</u>
Place of business	44 Bayard Street 34000 Toulouse, France	99
Place of Business	8 Baco Alley 44000 Nantes, France	125
Place of Business	47 Maurice Flandin Street 69000 Lyon, France	195
Place of Business	19 Juliette Dodu Street 97400 Saint-Denis, France	80
<b>VACANCES AIR TRANSAT (FRANCE) - Head office</b>	43 Diderot Blvd. 75012 Paris, France	1,350
Place of business	15 Place de la Nation 75011 Paris, France	367
<b>BROK' AIR – Head office</b>	15 Place de la Nation 75011 Paris, France	210
<b>JONVIEW CANADA - Head office</b>	1300 Yonge Street 8 <sup>th</sup> Floor Toronto, Ontario	4,170
Place of business	1134 Ste-Catherine Street West 12 <sup>th</sup> Floor Montreal, Quebec	928
<b>DMC TRANSAT - Head office</b>	300 Léo-Pariseau Street Suite 2410 Montreal, Quebec	487
Place of business	2700 Jean Perrin Suite 217 Quebec City, Quebec	266
Place of business	1255 Peel Street Suite 100 Montreal (Quebec)	9
<b>AIR TRANSAT HOLIDAYS USA - Head office</b>	140 South Federal Highway 2nd Floor Dania Beach, Florida	465
<b>CONSULTOUR - Head office</b>	300 Léo-Pariseau Street Suite 1601 Montreal, Quebec	1,149

<u>Name and Description</u>	<u>Location</u>	<u>Size (m<sup>2</sup>)</u>
Place of business	300 Léo-Pariseau Street Suite 1500 Montreal, Quebec	1,363
Place of business	191 The West Mall Suite 700 Etobicoke, Ontario	298
<b>EUROCHARTER – Head office</b>	6 Marbeuf Street 75008 Paris, France	180
Place of business	Parc d'activités de la Maison Neuve 6 Marcel Dassault Street 44980 Ste-Luce sur Loire, France	337

In addition, Air Transat leases several ticket counters and maintenance, catering and warehousing facilities in Montreal and Quebec City. Vacances Air Transat Holidays and World of Vacations/Nolitour lease several ticket counters in Montreal, Quebec City, Toronto and Vancouver as well as warehousing facilities in Montreal and Toronto.

Furthermore, Consultour's corporate-owned travel agencies lease premises in Montreal and Quebec City as well as in the Toronto area, while Eurocharter leases premises for its travel agencies in various locations in France.

### **3.6. POSITIONING WITH REGARDS TO COMPETITION**

Owing to its vertical integration strategy, the Corporation faces many competitors doing business worldwide as either tour operators, travel agencies (traditional and online) or air carriers.

#### **3.6.1. Tours Operators**

The market for tour operators is well established in Europe, Asia and Canada. Tour operators specialized in outgoing services purchase the various components of a trip and sell them to the consumer through the services of travel agencies, either as a travel package or separately. The large outgoing tour operators purchase blocks of seats or complete flights mainly from air carriers specializing in charter services and undertake to pay for all the seats so purchased whether they sell them or not, thereby obtaining a better price. Such tour operators also negotiate with hoteliers for blocks of rooms and make arrangements in order to offer travel packages at lower prices than if consumers were to make their own reservations.

The market for sunshine destinations is mainly a package market, whereas Europe is a market of aircraft seats, car rentals and hotel rooms booked on a nightly basis. On the Canadian market, outgoing tour operators finalize agreements with suppliers six to eight months prior to the beginning of each season. The summer season runs essentially from May 1 to October 31 and packages are prepared in the preceding fall. The winter season runs mainly from November 1 to April 30 and packages are prepared in the preceding spring. As part of these preparations, tour operators undertake negotiations with air carriers, hotel and cruise ship operators, and car rental agencies. When such negotiations are completed, brochures illustrating the various destinations and describing the various packages and services offered are prepared and distributed to travel agencies before the beginning of each season and sales presentations are made to travel agents in the main cities of the markets covered.

Certain tour operators specialize as incoming tour operators, making arrangements for foreign tourists at their destinations. They negotiate rates with local suppliers of tourist services (hotels, tour buses, local attractions, etc.), assemble packages and sell them to outgoing tour operators in the countries of origin. Incoming tour operators essentially export a country's attractions to foreigners, while also providing services with respect to the organization of Holiday travel, conventions and incentive trips.

Certain tour operators round out the range of services offered to travel agencies with the FIT formula (Foreign Independent Tour), namely the sale of seats along with lodging and car rentals. Online travel agencies, such as Expedia and Travelocity, are particularly active in the FIT business segment, thus becoming both an additional distribution channel and a competitor for tour operators.

Factors required to be a successful tour operator include: a good understanding of the tastes and requirements of the vacationer; a solid reputation with hotel suppliers; sufficient travel volume to achieve competitive air and accommodation costs; and a solid relationship with travel agents based upon the tour operator's reputation for value and customer satisfaction.

### **On the Canadian Market**

Transat is the largest tour operator in the Quebec market, where it is in competition with smaller tour operators, such as Tours Mont-Royal/Nouvelles Frontières, Signature Vacations and several others.

The Ontario market is the largest in Canada. In addition to Transat, a few large tour operators play leading roles in the Ontario market, including North American Leisure Group (with Sunquest and Alba Tours), Signature Vacations and Conquest. Transat Tours Canada, through its divisions Vacances Air Transat Holidays and World of Vacations/Nolitour, has succeeded in establishing a significant market share in the European travel segment (mainly to the United Kingdom) during the summer season, as well as for the sunshine destinations segment during the winter season. With its leadership position, its skills in the strategic management of its products and its market experience, Transat reinforced its presence in the Canadian market in 2003, particularly in Western Canada, where Vacances Air Transat Holidays and World of Vacations/Nolitour have strengthened their presence.

In terms of its tour operator activities, Transat is the best positioned throughout Canada on a regional basis with good market positions in the Quebec, Ontario and Western Canada markets. Geographical diversification involves both departure points and destinations, the purpose being to offer products that best meet customers' expectations in each new market, preferably exclusively. In addition, the Corporation continues to invest in the expansion of its range of products, in keeping with market trends. Among its initiatives are short package trips to Paris and other major European cities, and the upscale "Special Collection" products.

### **On the French Market**

The French market consists of approximately 350 tour operators, the largest of which are Club Med–Jet Tours, Voyages FRAM and Look Voyages.

There is a rising demand for long-haul flights during the winter (primarily to sunshine destinations). Aside from the French West Indies (Guadeloupe and Martinique), the demand for countries such as Cuba, the Dominican Republic and Mexico is growing, supported by the affluence of French tourists. This situation enables several players in the industry to increase that proportion of their revenues derived from winter operations.

In terms of organizational structure, France experienced an accelerated consolidation of the tourism industry in 2001 with the arrival of foreign companies and the pooling of interests among French players. In particular, Preussag (TUI), a German tour operator and a major player in the industry, acquired a minority participation in Nouvelles Frontières. In contrast to 2001, 2002 saw very limited consolidation activity due to difficult economic conditions in Europe, with the exception of Preussag (TUI), which completed its transaction by acquiring all remaining shares of Nouvelles Frontières. The arrival of a tour operator, TUI France, in the 2003-2004

market will result in an even more competitive market, with at least six generalist tour operators and a plethora of specialized players.

As for the Corporation, it is firmly established in France, where its tour operator activities rely on Vacances Air Transat (France), Look Voyages and Brok'Air.

Vacances Air Transat (France) remains the leader for packages to Canada. Over the years, Vacances Air Transat (France) has been able to build on this solid base by expanding its product offerings for the entire long-haul market. Taking advantage of synergies with Vacances Air Transat Holidays in Canada, the tour operator is the leader in France for travel to the Dominican Republic and Cuba.

Look Voyages offers its customers some 800 destinations throughout the world, with departures from Paris and several provincial cities. Look Voyages is now the fourth most important tour operator in France. As in Canada, the characteristics of the holiday travel market vary depending on the season: during the winter, the French prefer domestic and long-haul flights, while in the summer they readily opt for the Mediterranean Basin and North Africa. Look Voyages has succeeded in building a solid brand image and ranks first in top of mind surveys with the under-30 age group.

Although quality is an important factor, competition between tour operators on the Canadian and French markets is mainly based on price, with consumers looking for the most affordable way to travel to their destinations. Reduced profit margins in recent years have caused tour operators to seek higher volumes and larger market shares. Another important factor relative to competition is exclusive access to certain hotels in sunshine destinations, which may enable the major tour operators to improve their position on the market. Thus, the Corporation increased exclusivity arrangements with hoteliers over the last few years.

### **3.6.2. *Travel Agencies and Distribution***

Travel agencies are the intermediary between the tour operator and the consumer. Travel agents meet with, advise and sell the product to the consumer. In general, travel agencies are remunerated by commission paid by tour operators and other suppliers. Travel agencies also sell travel packages and plane tickets offered by tour operators, plane tickets sold directly by airline carriers and other travel products and services. Travel agencies mainly operate independently as part of large corporate groups, as franchisees or within associations.

As a result of technological advances, online travel agencies now offer a large range of travel products by way of transactional Web sites on the Internet. In both North America and Europe, online travel sales are mostly made up of air tickets, with only a small proportion of packages (including air and hotel).

According to industry sources, there are about 5,000 travel agencies in Canada and 5,000 in France.

Competition between travel agencies is principally based on price and service level. As is the case with tour operators, low profit margins cause travel agencies to seek higher volumes and larger market shares. One of the Corporation's priorities with regards to integration is to extend its distribution network in its two principal geographic markets.

Retail chains constitute one third of all travel agents in Canada. The major chains are Club Voyages/TravelPlus, Thomas Cook/Marlin, CAA, Carlson Wagonlit and Sears Travel. Retail chains, operating under a common brand, provide a range of services to their members, in the form of centralized negotiated commission levels with major tour operators, as well as training, marketing and information services support.

Consortiums of travel agents, such as Giants and Advantage T-Com, constitute the second third of Canadian travel agents. They mainly offer centralized negotiated commissions with tour operators.

Finally, the other third is made up of independent travel agents. Vertical integration between travel agent networks and tour operators has been taking place in Canada, as is the case in Europe. All major Canadian tour operators have acquired more travel agencies in recent years.

French consumers have a number of ways in which they can purchase either a vacation package or airline tickets: through travel agencies or the Internet, company committees, community organizations or group specialists. With regards to agencies, the market is all the more fragmented in that large travel agency networks work alongside numerous small, independent, generalized or specialized travel agencies. In keeping with its growth strategy and considering the climate of consolidation that characterizes the market, Transat intends to further expand its distribution network in France.

There is no doubt that a number of approaches to distribution will continue to coexist. While online travel agencies keep growing, many customers continue to prefer to deal directly with travel advisors, who must demonstrate their added value. Other customers shop on the Internet but insist on finalizing the transaction in person. Even though its short-term plans with regard to distribution focus on the harmonization and deployment of technology platforms, Transat is currently looking at hybrid formulas that would enable it to cater to customers' preferences.

### **3.6.3. Air Carriers**

The air transportation industry is composed of four major segments: (i) network or full-service carriers, such as Air Canada, which primarily operate scheduled flights at major hub airports and rely mostly on the business travel segment and, to a lesser extent, holiday travel markets; (ii) low-cost carriers, such as Westjet, operating short to medium-haul segments at secondary airports on a high-frequency, no frills basis and serving the price-sensitive business and holiday markets; (iii) holiday or charter carriers, such as the Corporation's own carrier Air Transat, serving almost exclusively the holiday travel market through a combination of scheduled and charter air services; and (iv) regional airlines serving local short-haul markets and providing feed traffic to network carriers at major hubs.

Network operators market and distribute their services to the public through in-house reservations departments, global distribution systems and the Internet. Low-cost carriers sell the vast majority of their seats on the Internet. Holiday carriers charter most of their capacity to tour operators and wholesalers who, in turn, consolidate flight services into packages and sell to the public primarily via the travel agency distribution network. The tour operators negotiate bulk hotel room rates and make other arrangements to render the price of a vacation package sold to the consumer more attractive than if the same consumer had attempted to make his own reservations.

Network carriers expand their destination offerings through marketing tools such as code-sharing and may be part of several large global carrier-alliances which have been formed over the last decade in this regard. Holiday and low-cost carriers generally do not interline or connect and offer principally direct point-to-point services for the origin-destination traffic segment.

Airline companies either own their aircraft or lease aircraft on a short- or long-term basis. Aircraft are configured differently depending on their use by carriers specializing in charter or scheduled flights in order to meet their respective needs in terms of service and capacity.

Network carriers, low-cost carriers and holiday or charter carriers increasingly compete in the holiday and the so-called "visiting friends and relatives" travel markets. This is particularly true following certain policy changes enabling air carriers specializing in charter services to operate scheduled flights between certain destinations, as is the case with Air Transat, which has scheduled services for thirteen countries listed in Section 3.3 of this Annual Information Form.

The competition between air carriers is essentially based on price, which is mainly a function of the level of seat capacity, although there are ways to better manage price and increase yield. Prices therefore vary significantly in accordance with seasonal variations in demand and price wars are often triggered whenever carrier capacity exceeds demand or a competitor seeks to increase its market share. Recent developments in Canada concerning competitors of the Corporation have brought on capacity which exceeds demand. Furthermore, the large number of air carriers specializing in charter services and scheduled airlines flying to U.S. destinations

combined with the weakness of the Canadian dollar versus the U.S. dollar has resulted in heavy competition and lower profit margins on flights to these destinations. In addition to price, the image of air carriers and the perception of customers also have an impact on competition.

### **3.7. REGULATORY ENVIRONMENT**

Being a vertically-integrated company, which implies involvement on all levels of operation specific to holiday travel, the Corporation evolves in a highly regulated environment as far as its tour operators, travel agencies and air carriers are concerned.

#### **3.7.1. Tour Operators and Travel Agencies**

In Quebec, Ontario and British Columbia where the Corporation's operations are centered, tour operators and travel agencies (collectively referred to in this section as "travel agents") are governed by legislation providing protection to the travel customer. Pursuant to such legislation, travel agents are required to hold licenses, and to deposit monies received from customers upon purchase of travel services in a trust account. Monies may be withdrawn from the trust account by the travel agent, prior to departure, solely to make payments to the supplier of the travel services for which the monies were received. Such legislation also provides that a bond or letter of credit is required as a condition to receiving a travel agent license. In addition, travel agents must contribute to compensation funds established for the protection against fraud and bankruptcies. To ensure compliance with applicable legislation, control and inspection mechanisms have been put in place.

Following the bankruptcy of Canada 3000 in the fall of 2001, registered travel agents in Ontario are now able to draw directly on the compensation fund to obtain the reimbursement of the money they disburse to compensate customers in the event of airline or cruise ship end supplier failures. Prior to this change, travel agents could draw on the compensation fund only in the event that they became bankrupt or insolvent themselves.

Further legislative changes followed in December 2002 when Bill 180 amending among others the *Travel Industry Act* (the "**Act**") of Ontario, received royal assent. This new legislation replaces the current *Travel Industry Act*. It continues the compensation fund and increases fines that may be levied from persons guilty of an offence under the Act. It also gives the Minister of Consumer and Business Services the power to make regulations establishing a code of ethics for the travel industry. Finally, the new legislation provides that the Lieutenant Governor in Council may make regulations dealing with a broad range of matters to regulate the industry, including the administration and management of the compensation fund, the maintenance of trust accounts and the money that shall be held in trust. So far, this legislation has not yet come into force and no regulations have been adopted.

Quebec also enacted its new *Travel Agents Act* (the "**Act**"), which came into force on December 17, 2002, with the exception of several provisions, which are to come into force by order-in-council. The Act introduces additional powers to the President of the Office de la protection du consommateur, the authority responsible for the application of the Act, to name a provisional administrator to protect customers in certain circumstances. The Act also increases fines and gives to the government a regulatory power to adopt new regulations pertaining to the constitution of the compensation fund. Quebec has also amended its current regulations to provide that no license will be granted to a person that caused monies to be paid out of the compensation fund and has not reimbursed said monies and that no travel agent may sell or offer to sell air transportation or package services if the carrier does not hold the required licenses or approvals. New regulations are expected to come into force in the course of 2004.

Following consultations with industry and consumer representatives, the proposed regulations would seek to strike a better balance between the interests of these groups. The proposed regulations purportedly contemplate more flexibility in terms of advertising all-inclusive packages by allowing tour operators to post prices excluding certain items, such as taxes and the contribution to the compensation fund. It is also considered by the legislator that the compensation fund be financed by consumers, by way of an added

percentage of the cost of the travel services.

Both in Ontario and Quebec, these legislative changes are intended to increase consumer protection following the demise of air carriers and travel agents in the aftermath of the September 11, 2001 events and the depletion of compensation funds that ensued, by making the conditions for registering as a travel agent and keeping a travel agent's license more severe.

The Corporation believes it holds all licenses necessary for its operations and is in compliance with the requirements of applicable legislation.

### **3.7.2. Air Carriers**

#### **International Regulation**

Numerous commercial aspects of international air transport are regulated by international conventions, principally the *Convention on International Civil Aviation* (the "**Chicago Convention**"), by the domestic legislation of countries in which air transport is conducted, and by numerous bilateral and multilateral air transport agreements and treaties.

The Chicago Convention provides the basis for regulation of air carrier operations. Certain principles pertaining to the operation of international charter flights were established between each of the signatory states, which include Canada, namely that the intended transportation comply with, and be duly approved pursuant to, the national regulations of the countries between which it is being conducted.

The Chicago Convention also established ICAO, a specialized agency of the United Nations whose purpose is to foster the planning and development of international air transport. Under the auspices of ICAO, rules establishing minimum operational standards are normally agreed upon on a multilateral basis. No other agreement is ordinarily required in order to operate charter flights between most countries, subject to certain exceptions regarding capacity quotas.

On November 5, 2003, the *Montreal Convention of 1999 on Compensation for Accident Victims* (the "**Montreal Convention**") came into effect. This multilateral agreement updates the rules on passenger, baggage and cargo liability applicable to international air transport and originally established by the *Warsaw Convention* in 1929 and amended over the years (together the "**Warsaw System**"). In general, the Montreal Convention establishes a two-tier liability regime for carriers for damages to passengers resulting from personal injury or death. The first tier includes strict liability up to 100,000 Special Drawing Rights (SDR) (approximately US\$135,000) regardless of the carrier's fault. The second tier is based on presumption of fault of a carrier and has no limit of liability. The Montreal Convention provides for the review of limits of liability, thus ensuring that the amounts remain relevant with the passage of time. The first such review will take place at the end of the fifth year following the date of entry into force of the Montreal Convention. In addition to establishing new principles of liability, the Montreal Convention modernizes many of the ticketing and air waybill requirements. The Montreal Convention has been ratified by Canada and will apply to all flights between Canada and other ratifying states. For flights from Canada to non-ratifying or non-signatory states, the Warsaw System will continue to govern.

#### **Canadian Legislation**

The operation of a commercial airline in Canada is regulated by the *Aeronautics Act* and the *Canada Transportation Act*. Such operation is subject to the issuance of the required licenses and operating certificate attesting that the air carrier complies with Canadian standards, as well as to the maintenance of the required liability insurance. In the case of charter flights, permits are required for each proposed flight or series of flights. Licenses and charter permits are issued by the Canadian Transportation Agency (the "**Agency**"), and the operating certificate is issued by Transport Canada. This certificate attests that the air carrier is properly organized and equipped to conduct its business in compliance with the *Canadian Aviation Regulations*. Such a certificate was issued to Air Transat on November 13, 1987, and was subsequently modified to reflect the Corporation's changing operating conditions.

Air Transat is required to obtain a permit from the Agency in respect of each international charter flight or series of charter flights. This authorization is conditional upon various details being provided to the Agency with respect to the flight, the eligibility and financial responsibility of the charterer, and the terms and conditions of the charter contract. Moreover, the issuance of any authorization relating to an international charter flight or a series of international charter flights is subject to the provision by Air Transat of satisfactory evidence that any advance payments by the charterer to Air Transat, for an international charter flight or a series of international charter flights, are protected by way of a guarantee or an irrevocable letter of credit. This guarantee or irrevocable letter of credit provides security in an amount equal to the payments received by Air Transat from charterers in advance of all segments of unperformed flights pursuant to a charter contract. The Agency also determines the conditions regulating the relationship between air carriers and the charterer.

Under current Canadian regulations, an air carrier does not have the right to sell seats on international charter air services directly to the public, but must charter its capacity to one or more competent charterers.

The conditions mentioned previously do not apply to Canadian domestic operations in that the legislation no longer makes any distinction between scheduled and charter flight services. Furthermore, Air Transat's scheduled services to the United States, Cuba, France, Germany, the United Kingdom, the Netherlands, Belgium, Ireland, Italy, Portugal and Poland are subject to the rules established under the bilateral agreements concluded by Canada with these respective countries.

Air Transat believes it holds all necessary licenses, certificates and permits and is in compliance with the requirements of applicable Canadian legislation. Furthermore, all of Air Transat's aircraft meet the ICAO chapter 3 noise requirements implemented by Transport Canada.

Pursuant to the *Canada Transportation Act* (the "Act"), Air Transat must establish, at all times, that it is a "Canadian" within the meaning of such act in order to hold the appropriate license to operate an air service. As Air Transat is wholly-owned by Transat, the Corporation must, in order for Air Transat to qualify as a "Canadian", itself qualify as a "Canadian", which means it must ensure that no more than 25% of its outstanding voting shares are held, directly or indirectly, by "non-Canadians" within the meaning of the Act. To the best of the Corporation's knowledge, approximately 9,84% of the voting shares of the Corporation's share capital was owned by "non-Canadians" within the meaning of the Act as at December 31, 2003.

### **Foreign Legislation**

In respect of each jurisdiction other than Canada in which Air Transat operates, the latter must comply with applicable laws and, when necessary, obtain the required licenses, permits and authorizations. Such permits and authorizations are generally issued to Air Transat provided it meets the applicable criteria, which may vary from country to country. STAR Airlines must also comply with applicable French and European laws and obtain various licenses, permits and authorizations, when necessary. Air Transat and STAR Airlines believe they hold all licenses, permits and authorizations necessary for their operations and are in compliance with the requirements of applicable foreign legislation.

### **3.7.3. Environment**

The Corporation is subject to various environmental laws and monitors its operations to ensure that it complies with the applicable environmental requirements and standards and, if necessary, adopts preventive and corrective measures. In this respect, Air Transat has, in particular, implemented a series of programs and procedures to optimize the recovery, recycling and management of fossil fuels. Air Transat formed in 1999 an environmental committee which ensures that applicable environmental requirements and standards are complied with, in all material respects. The Corporation's Corporate Governance and Nominating Committee annually reviews risk measurement and company policies and procedures respecting the environment.

The Corporation believes it complies in all material respects with the provisions of applicable environmental laws and regulations.



### **3.8. RISK FACTORS**

The Corporation is subject to a number of risks, some of which are related or inherent to the travel industry in general, including the ones described below.

#### ***Economic and General Factors***

Economic factors such as a significant downturn in the economy, a recession or a decline in the employment rate in Canada, France and key international markets may have a negative impact on the Corporation's business and operating results by affecting demand for its products and services. The Corporation's operating results could also be affected by general factors such as extreme weather conditions, war, political instability or terrorism, or any threat thereof, epidemics or disease outbreaks, consumer preferences and spending patterns, consumer perception of airline safety, demographic trends, disruptions to the air traffic control system, and costs of safety, security and environmental measures. Furthermore, the Corporation's revenues are sensitive to events affecting domestic and international air travel as well as the level of car rentals and hotel and cruise reservations.

#### ***Competition***

The Corporation faces many competitors in the holiday travel industry, some of which are larger in size, have strong brand name recognition and presence in specific geographic areas, substantial financial resources and preferred relationships with travel suppliers. It also faces competition from travel suppliers selling directly to individual travellers at preferential prices. These pressures may adversely impact the Corporation's revenues and margins since it would likely have to match competitors' prices.

#### ***Fluctuation of Currency Exchange Rates and Interest Rates***

Transat is exposed, by reason of its many arrangements with foreign-based suppliers, to fluctuations in exchange rates as regards the U.S. dollar against the Canadian dollar and the Euro. These fluctuations could increase the Corporation's costs of operations. Changes in interest rates could also impact its interest income from its cash and cash equivalents and interest expense from variable rate debt instruments, in turn affecting its earnings. The Corporation currently purchases derivative financial instruments to hedge against exchange-rate fluctuations as well as interest rates on a portion of its long-term debt, obligations under capital leases and off-balance sheet financing for aircraft.

#### ***Fuel Costs and Supply***

Transat is exposed in particular to fluctuations in the cost of fuel. Due to the competitive pressures in the industry, there can be no assurance that the Corporation would be able to pass on any increase in fuel prices to its customers by increasing fares and that any fare increase would offset increased fuel costs, which could in turn adversely impact the business, financial condition or results of the Corporation's operations. Transat currently purchases futures contracts to hedge against the risk of fluctuations in the cost of fuel. Furthermore, to the extent that there would be a reduction in the supply of fuel, the Corporation's operations could be adversely impacted.

#### ***Changing Industry Dynamics: New Methods of Distribution***

The widespread adoption of the Internet has resulted in travellers being able to access information about travel products and services and to purchase such products and services directly from suppliers, thereby bypassing both vacation providers such as Transat and retail travel agents through whom Transat receives a substantial portion of its revenues. In order to remain competitive, the Corporation has launched and developed an online booking service in Canada, [www.exitnow.ca](http://www.exitnow.ca), allowing consumers to purchase their travel products on line.

Additionally, the recent erosion of commissions paid to travel distributors by travel suppliers, particularly airlines, has weakened the financial condition of many travel agents. Because Transat currently relies to some extent on retail travel agencies for access to travellers and revenues, a shift in consumer purchasing away from travel agencies and toward direct purchasing from travel suppliers could have an impact on the Corporation.

#### ***Reliance on Contracting Travel Suppliers***

Despite being well positioned by reason of its vertical integration, the Corporation is nonetheless dependent on travel suppliers for the sale of its products and services. Furthermore, the Corporation increasingly relies on airlines that are not part of Transat to transport its passengers to their vacation destination. The Corporation's travel suppliers may generally terminate or modify existing agreements with the Corporation upon relatively short notice. The inability to replace these agreements with similar suppliers or to renegotiate agreements at reduced rates could have an adverse effect on the results of the Corporation.

Furthermore, any decline in the quality of travel products and services provided by these suppliers, or a perception by travellers of such a decline, could adversely affect the Corporation's reputation. The loss of contracts, changes in the Corporation's pricing agreements, more restricted access to travel suppliers' products and services or less favourable public opinion of certain travel suppliers resulting in low demand for their products and services could have a significant impact on the results of the Corporation.

#### ***Dependence on Technology***

The business of the Corporation is dependent on its ability to access information, manage reservation systems, including handling a high volume of telephone calls on a daily basis, and distribute its vacation products to retail travel agents and other travel intermediaries. To this end, the Corporation relies on different information and telecommunications technologies. Rapid changes in these technologies may require greater-than-anticipated capital expenditures to improve or upgrade the level of customer service, which could impact on the operating results of the Corporation. Additionally, any failure or outage of these systems could adversely affect the business of the Corporation, its customer relationships and its operating results.

#### ***Dependence on Customer Deposits and Advance Payments***

Transat derives significant interest income from consumer deposits and advance payments. Its investment policy restricts it to investing these deposits and advance payments only in investment-grade securities. A failure of these investment securities to perform at their historical levels could reduce the interest income realized by the Corporation.

#### ***Negative Working Capital***

The Corporation's activities generate customer deposits and advance payments. If the flow of money from these advance payments were to diminish and Transat were required to find an alternative source of capital, there is no assurance that such source would be available at terms and conditions acceptable to the Corporation and this could have a significant effect on its business.

#### ***Fluctuation of Financial Results***

The travel industry in general and the Corporation's operations in particular are seasonal. As a result, its quarterly operating results are subject to fluctuation. Transat therefore believes that quarter-to-quarter comparisons of its operating results are not necessarily meaningful and should not be relied upon as an indication of future performance. Furthermore, due to all of the economic and general factors described above, Transat's operating results in future periods may fall below the expectations of securities analysts and investors, thus affecting the market price of the Corporation's shares.

### ***Government Regulation and Taxation***

Future results of Transat may vary based upon any actions which governmental authorities with jurisdiction over the Corporation's operations may take, including the granting and timing of certain governmental approvals or licenses, the adoption of regulations that impact customer service standards, such as new passenger security standards, the adoption of more restrictive noise restrictions or curfews and the adoption of provincial regulations that impact operations of retail and wholesale travel agencies. Additionally, new or different regulatory schemes or changes with respect to tax policy could have an effect on the Corporation's operations as regards hotel taxes, car rental taxes, airline excise taxes and airport taxes and fees.

### ***Future Capital Requirements***

Transat may need to raise additional funds in the future in order to take advantage of growth opportunities or to respond to competitive pressures. There can be no assurance that additional financing will be available on terms and conditions acceptable to the Corporation, and this could adversely affect its business.

### ***Interruption in Operations***

Should operations be interrupted for any reason, including unavailability of aircraft due to mechanical reasons, loss of revenues associated with the utilization of aircraft could have an impact on the business, financial condition and results of the Corporation's operations.

### ***Insurance Coverage***

Following the terrorist attacks of September 11, 2001, the airline insurance market gave notice to cancel all aircraft hull and liability coverage with respect to risks resulting from war and terrorist acts. This notice was subsequently rescinded, but the limit of liability applicable to civil liability to third parties for bodily injury and property damage was reduced to US\$50,000,000.

There being no commercial market immediately available to insure airlines worldwide for their civil liability to third parties resulting from war and terrorist acts in excess of US\$50,000,000, it was necessary for individual governments to cover their national airlines against this risk until commercial insurance became available at commercially reasonable terms. Both France and Canada covered their air carriers accordingly.

Over the last eighteen months, a commercial market has become available to insure this risk, but it is a subject of some discussion as to whether the terms are reasonable. Moreover, some market players are not licensed to transact business in Canada. Nevertheless, the French government has withdrawn its protection, forcing the Corporation's French airline affiliate, STAR Airlines, to revert to the commercial insurance market. The Canadian government continues to afford protection to its air carriers, prompted by the licensing situation and the fact that the US government continues to provide protection to its own carriers for such risk. However, there can be no assurance that the Canadian government will not withdraw its protection, particularly if the US government should change its position.

In the meantime, ICAO continues to lobby for support from all governments to achieve an industry solution financially aided by each government that would provide the requisite protection at reasonable cost. Thus far, ICAO has failed to obtain majority support for such a plan from its member governments. There is no assurance that such a solution will be found or if found, how long it will take to be implemented.

### ***Casualty Losses***

The Corporation believes that its suppliers and itself have adequate liability insurance to cover risks arising in the normal course of business, such as claims for serious injury or death arising from accidents involving aircraft or other vehicles carrying Transat's customers. Although Transat has never experienced a liability claim for which it did not have adequate insurance coverage, there is no assurance that its insurance coverage will be sufficient to cover larger claims or that the insurer concerned will be solvent at the time of any

covered loss. Additionally, there is no assurance that the Corporation will be able to obtain insurance coverage at acceptable levels and costs in the future. These uncertainties could adversely affect its business and operations.

### ***Slot and Gate Availability***

Access to landing and departure runway slots, airport gates and facilities are critical to the Corporation's operations and its strategy for future growth. The availability or cost of these facilities in the future could have a negative effect on Transat's operations.

### ***Aircraft Lease Obligations***

Transat has significant lease obligations relating to its fleet of aircraft, which obligations may not be cancelled. To the extent that the revenues derived from the operation of aircraft decrease in the future, payments to be made on the Corporation's lease agreements could have a substantial impact on its operations.

### ***Key Personnel***

Transat's future success will depend on its ability to attract and retain qualified personnel. The loss of key individuals could adversely affect the Corporation's business and operating results.

### ***Uncertainty of Future Collective Bargaining Agreements***

Transat operations could be adversely affected by its inability to reach an agreement with any labour union representing employees, such as pilots.

## **4. SELECTED CONSOLIDATED FINANCIAL INFORMATION**

### **4.1. ANNUAL**

The Corporation's selected consolidated financial information over the last three fiscal years ended October 31 has been taken from the Corporation's consolidated audited financial statements.

	<b>2003</b>	<b>2002</b>	<b>2001</b>
	<b>(in thousands of dollars, except per share data)</b>		
<b>Revenues</b>	2,096,649	2,073,508	2,121,886
Revenues less operating expenses	74,962	74,148	58,023
<b>Income (loss) before goodwill charges</b>	(9,147)	11,678	(95,209)
Goodwill charges	----	----	4,442
Income (loss) from continuing operations	(9,147)	11,678	(99,651)
Income (loss) from discontinued operations	54,083	(1,853)	----
<b>Net income (loss)</b>	44,936	9,825	(99,651)
<b>Cash flow from operating activities (continuing operations)</b>	71,697	183,234	(12,001)

	2003	2002	2001
	(in thousands of dollars, except per share data)		
Property, plant and equipment	101,741	169,316	185,403
Total assets	714,757	773,468	626,442
Long-term debt and obligations under capital leases (including current portion)	35,350	82,702	147,496
Debentures	29,981	29,226	10,894
Shareholders' equity	241,346	193,743	132,223
<b>Basic earnings (loss) per share</b>			
Before goodwill charges	(0.38)	(0.30)	(2.95)
Continuing operations	(0.38)	0.30	(3.09)
Discontinued operations	1.65	(0.06)	----
	1.27	0.24	(3.09)
<b>Diluted earnings (loss) per share</b>			
Before goodwill charges	(0.38)	0.30	(2.95)
Continuing operations	(0.38)	0.30	(3.09)
Discontinued operations	1.65	(0.06)	----
	1.27	0.24	(3.09)

#### 4.2. SEGMENTED INFORMATION

The Corporation operates in two geographic areas, namely in Canada and in Europe, specifically France.

	<u>Canada</u>		<u>France and other</u>		<u>Total</u>	
	2003	2002	2003	2002	2003	2002
	\$	\$	\$	\$	\$	\$
<b>Revenues from third parties</b>	1,525,846	1,494,976	570,803	578,532	2,096,649	2,073,508
<b>Operating expenses</b>	1,435,190	1,416,686	586,497	582,674	2,021,687	1,999,360
	90,656	78,290	(15,694)	(4,142)	74,962	74,148
<b>Amortization</b>	36,514	38,804	5,624	4,385	42,138	43,189
<b>Restructuring charge</b>	42,214	----	5,758	----	47,972	----
<b>Additions to property, plant and equipment</b>	7,807	18,965	4,706	3,461	12,513	22,426
<b>Property, plant and equipment and goodwill</b>	128,816	189,930	42,607	49,321	171,423	239,251

#### 4.3. STATISTICS OF THE LAST EIGHT QUARTERS

##### Selected Quarterly Unaudited Financial Data

	In thousands of dollars, except per share data							
	Q1		Q2		Q3		Q4	
	2003	2002	2003	2002	2003	2002	2003	2002
Revenues	<b>529,076</b>	442,208	<b>718,822</b>	623,265	<b>444,121</b>	495,377	<b>404,630</b>	512,658
Net income (loss) from continuing operations	<b>(6,974)</b>	(16,950)	<b>15,376</b>	15,493	<b>(10,088)</b>	5,742	<b>(7,461)</b>	7,393
Earnings (loss) per share from continuing operations	<b>(0.24)</b>	(0.52)	<b>0.45</b>	0.46	<b>(0.33)</b>	0.15	<b>(0.25)</b>	0.20
Diluted earnings (loss) per share from continuing operations	<b>(0.24)</b>	(0.52)	<b>0.39</b>	0.41	<b>(0.33)</b>	0.15	<b>(0.25)</b>	0.19
Net income (loss)	<b>(6,974)</b>	(16,950)	<b>15,376</b>	15,493	<b>(10,088)</b>	5,742	<b>46,622</b>	5,540
Basic earnings (loss) per share	<b>(0.24)</b>	(0.52)	<b>0.45</b>	0.46	<b>(0.33)</b>	0.15	<b>1.40</b>	0.14
Diluted earnings (loss) per share	<b>(0.24)</b>	(0.52)	<b>0.39</b>	0.41	<b>(0.33)</b>	0.15	<b>1.40</b>	0.14

#### 4.4. DIVIDENDS

Since its incorporation, the Corporation has never declared or paid any dividends. For the time being, the Corporation does not expect to declare any dividends on its common shares and intends to use its future profits to finance its operations and expansion.

#### 4.5. AUDITORS

Ernst & Young LLP have been the Corporation's auditors since its incorporation. They have confirmed their independence with Transat's Audit Committee.

For the year ended October 31, 2003, professional fees charged for auditing and other auditing-related services provided by Ernst & Young LLP to the Corporation and to the Canadian and foreign subsidiaries of its

group reached \$1,046,000, compared to \$1,042,000 for fiscal 2002. Professionals fees amounting to \$748,000 were charged in fiscal 2003 for other services provided by Ernst & Young LLP, including taxation services and consulting, compared to \$315,000 for fiscal 2002. The Audit Committee has verified the scope and nature of these services and confirms that they are compatible with maintaining the independence of the external auditors.

## **5. MANAGEMENT'S DISCUSSION AND ANALYSIS**

Reference is made to Management's Discussion and Analysis included on pages 22 to 44 in Transat's 2003 Annual Report, which Management's Discussion and Analysis is herein incorporated by reference.

## **6. SHARE CAPITAL, MARKET FOR SECURITIES AND PRIOR DISTRIBUTIONS**

### **6.1. CAPITAL STRUCTURE**

The share capital of the Corporation consists of an unlimited number of common shares and an unlimited number of Preferred Shares issuable in one or more series. As at January 30, 2004, the Corporation had a total of 33,079,587 issued and outstanding common shares. Only the common shares of the Corporation are voting shares, each common share carrying one vote.

As at January 30, 2004 the only person or entity holding 10% or more of the voting shares of Transat's share capital is the Fonds, which held 3,470,373 common shares, namely 10.49% of the issued and outstanding common shares, and 650,000 warrants entitling the holder to subscribe to the same number of common shares at an exercise price of \$6.75 each.

The Preferred Shares, if issued, will rank prior to the common shares with respect to the payment of dividends and the distribution of assets. In the event of the dissolution or liquidation of the Corporation or the distribution of its capital, no amount shall be paid and no asset shall be distributed to the holders of shares of any other class of the Corporation until the holders of the Preferred Shares receive an amount equal to the value of the consideration received by the Corporation upon the issuance of such shares and, in the case of Preferred Shares of a series entitled to cumulative dividends, of all dividends then accrued and unpaid, and, for Preferred Shares of a series entitled to non-cumulative dividends, of all dividends declared thereon and unpaid, if any, plus any other amount, if any, determined by the directors in respect of each series prior to the issue of any Preferred Shares of such series. The holders of the Preferred Shares of a particular series shall be entitled to the payment of all this amount from the assets of the Corporation in preference and prior to the holders of any other class of shares of the capital of the Corporation.

The Preferred Shares of each series will rank equally with the Preferred Shares of other series in terms of payment of dividends and distribution of assets upon liquidation or dissolution of the Corporation.

The Series 3 Preferred Shares do not carry any voting rights and entitle the holders thereof to a dividend equal to any dividend declared on the common shares. Each Series 3 Preferred Shares is convertible by the holder into three common shares and redeemable by the holders at their issue price. The conversion rate is subject to adjustments upon certain circumstances affecting the share capital of the Corporation.

Upon liquidation or dissolution of the Corporation, or any distribution of assets of the Corporation among its shareholders for the purpose of terminating its activities (collectively a "**Distribution upon liquidation**"), the holders of Series 3 Preferred Shares shall have the right to receive, as payment of capital, an amount per share equal to that amount to which the holders of common shares shall be entitled to, and shall not have the right to participate in any other distribution of assets of the Corporation. No Distribution upon liquidation can be made to holders of common shares before such amount is paid to the holders of Series 3 Preferred Shares.

Subject to the provisions of the governing law and the Articles of the Corporation, the Corporation may repurchase at any time all, or, from time to time, part of the Series 3 Preferred Shares, at the price equal to the issue price and all declared and unpaid dividends. In addition, the holders of the series 3 Preferred Shares have the right to require that the Corporation purchase at all times all or part of their Series 3 Preferred Shares at a

price equal to the issue price plus dividends declared and unpaid on such shares.

Transat Tours Canada, which held all of the Corporation's Series 3 Preferred Shares outstanding, exercised its right to convert these shares into common shares on November 4, 2002, in accordance with the Articles of the Corporation. For each Series 3 Preferred Share converted, Transat Tours Canada received three common shares of the Corporation corresponding to a total of 155,013 common shares. Subsequent to the conversion, the number of common shares held by Transat Tours Canada and excluded from the share capital of the Corporation totalled 258,207. On the same date, all of the common shares held by Transat Tours Canada were sold on the market and immediately reintegrated into the share capital of the Corporation at their original issue price, namely, \$303,000. The transaction had no impact on the results of the Corporation.

At the annual meeting held on March 27, 2002, the shareholders of the Corporation ratified the renewal of a shareholders' subscription rights plan (the "**Rights Plan**"). The Rights Plan entitles holders of common shares to acquire, under certain conditions, additional common shares at a price equal to 50% of their market value at the time the rights are exercised. The Rights Plan is designed to give the Board of Directors time to consider offers, thus allowing shareholders to receive full and fair value for their shares. The Rights Plan will terminate at the annual meeting of shareholders in 2005, unless it is earlier terminated by the Corporation's Board of Directors.

## 6.2. MARKET FOR SECURITIES

The common shares of Transat are listed on The Toronto Stock Exchange ("**TSE**"), under the symbol TRZ. The following table sets out the reported high and low prices and trading volume of the common shares on the TSE, for the periods indicated.

<u>Period</u>	<b>The Toronto Stock Exchange</b>		
	<u>High</u>	<u>Low</u>	<u>Trading Volume</u>
<u>2004</u>			
January	\$15.25	\$9.47	11,450,753
February	\$16.40	\$14.15	6,765,101
<u>2003</u>			
1 <sup>st</sup> quarter	\$6.95	\$5.25	3,149,096
2 <sup>nd</sup> quarter	\$6.25	\$3.46	3,810,226
3 <sup>rd</sup> quarter	\$4.85	\$3.40	6,041,294
4 <sup>th</sup> quarter	\$8.60	\$4.56	5,657,735
<u>2002</u>			
1 <sup>st</sup> quarter	\$8.00	\$5.80	2,905,883
2 <sup>nd</sup> quarter	\$7.96	\$6.55	5,218,638
3 <sup>rd</sup> quarter	\$7.70	\$5.41	3,293,826
4 <sup>th</sup> quarter	\$7.05	\$5.25	2,085,001

On February 27, 2003, the closing price of the common shares on the TSE was \$15.95 per share.

## 6.3. PRIOR DISTRIBUTIONS

During the fiscal year ended October 31, 2003, the Corporation issued 144,993 common shares for a total of \$744,000 under the share purchase plan for the benefit of employees and executives of the Corporation.



In the course of its January 10, 2002 financing, the Corporation issued 1,421,225 warrants entitling the holders to subscribe to the same number of common shares of the Corporation at an exercise price of \$6.75 each. These warrants expire on January 10, 2007.

The Corporation has not made any other distribution of its common shares.

## 7. DIRECTORS AND OFFICERS

### 7.1. DIRECTORS

The following table states, as of March 17, 2004, the names, municipalities of residence, years of election as director and present principal occupations of the directors of the Corporation, as well as the number of common shares of Transat over which he or she exercises control or direction. Each of these directors shall hold office until the next annual meeting of Transat or until his or her replacement is elected. Pursuant to a resolution of the Board of Directors of Transat, the number of directors of the Corporation has been established at 11 directors.

<b>Name of Director and Municipality of Residence</b>	<b>Principal Occupation</b>	<b>Director Since</b>	<b>Common Shares Owned or Controlled or Directed<sup>(1)</sup></b>
<b>Jean-Marc Eustache</b> <i>Montreal, Quebec</i>	Chairman of the Board, President and Chief Executive Officer, Transat, President, Look Voyages and Chairman of the Board, Transat Tours Canada	February 1987	884,775
<b>André Bisson, O.C.</b> <i>Montreal, Quebec</i>	Chairman of the Board, CIRANO <i>(Centre for Interuniversity Research and Analysis on Organizations)</i>	April 1995	14,033
<b>Lina De Cesare</b> <i>Montreal, Quebec</i>	Executive Vice-President, Tour Operators, Transat, President, Cameleon and President, Transat Tours Canada	May 1989	216,872
<b>Benoît Deschamps</b> <i>Montreal, Quebec</i>	Corporate Director and Corporate Finance Advisor	April 1997	9,833
<b>Jean Guertin</b> <i>Montreal, Quebec</i>	Corporate Advisor and Director and Honorary Professor, HEC Montréal	April 1995	7,277
<b>H. Clifford Hatch Jr.</b> <i>Toronto, Ontario</i>	President and Chief Executive Officer, Aurdisyl Management Corporation and Cliffco Investments Limited	March 2001	1,520
<b>Jacques Simoneau</b> <i>Saint-Bruno-de-Montarville, Quebec</i>	Senior Vice-President – Industries and Services, Fonds de solidarité F.T.Q.	November 2000	---

<b>Name of Director and Municipality of Residence</b>	<b>Principal Occupation</b>	<b>Director Since</b>	<b>Common Shares Owned or Controlled or Directed<sup>(1)</sup></b>
<b>Helen K. Sinclair</b> <i>Toronto, Ontario</i>	President and Chief Executive Officer, BankWorks Trading Inc.	March 2003	5,461
<b>Philippe Sureau</b> <i>Montreal, Quebec</i>	Executive Vice-President, Transat and President, Consultour	February 1987	658,851
<b>John D. Thompson</b> <i>Montreal, Quebec</i>	Deputy Chairman, Montreal Trust Company of Canada	April 1995	19,033
<b>Denis Wood, O.C.</b> <i>Magog, Quebec</i>	Chairman of the Board, President and Chief Executive Officer, Dennis Wood Holdings Inc. and Chairman of the Board, Evolved Digital Systems Inc.	March 2004	---

(1) The number of shares indicated are as at January 30, 2004.

Each of the directors of the Corporation has had the principal occupation indicated opposite his or her name during the past five years, except:

- Mr. André Bisson, who was Chancellor and Chairman of the Board of Université de Montréal from 1990 until 2003;
- Mr. Benoît Deschamps, who was Vice-President, Financial Planning and Treasurer of Groupe Vidéotron from August 1997 until November 2000. Mr. Deschamps is a Corporate Director and Corporate Finance Advisor since November 2000;
- Mr. Jean Guertin, who also held, from 1998 to 2001, the consecutive positions of Chairman of the Board and Senior Executive Advisor at Société Télémedia;
- Mr. Jacques Simoneau, who was Group Vice-President, Investments, Fonds de solidarité F.T.Q. from 1999 to May 2002, just prior to occupying his current position therein, and, from 1995 to 1999, President and Chief Executive Officer of Société Inovatech du Sud du Québec; and
- Mr. Dennis Wood, O.C., who was, until 2003, Chairman of the Board of Electromed Inc. and, from 1989 to 2001, Chairman of the Board, President and Chief Executive Officer of C-MAC Industries Inc.

The Board of Directors of Transat has created four committees, to which it has given specific mandates and the necessary powers to assist it in effectively fulfilling its duties. They are: the Executive Committee, the Audit Committee, the Human Resources and Compensation Committee and the Corporate Governance and Nominating Committee.

Mr. Jean-Marc Eustache is Chairman of the Executive Committee, whose members include Messrs. André Bisson, O.C., Jean Guertin, H. Clifford Hatch Jr. and Philippe Sureau.

Messrs. André Bisson, O.C., Jean Guertin and H. Clifford Hatch Jr. are the lead directors of Transat. Each assumes responsibility for chairing and coordinating the meetings of the Audit Committee, the Human Resources and Compensation Committee and the Corporate Governance and Nominating Committee, respectively.

Members of the Audit Committee chaired by Mr. André Bisson, O.C. include Messrs. Benoît Deschamps, Jean Guertin and John D. Thompson.

Messrs. H. Clifford Hatch Jr. and John D. Thompson are members of the Human Resources and Compensation Committee chaired by Mr. Jean Guertin.

Messrs. André Bisson, O.C. and Benoît Deschamps, as well as Mrs. Helen K. Sinclair, are members of the Corporate Governance and Nominating Committee chaired by Mr. H. Clifford Hatch Jr.

For more details on the meetings of the committees of the Board of Directors of Transat, please refer to page 9 of the Corporation's Management Proxy Circular in respect of the 2004 annual meeting of shareholders.

On January 16, 2004, several Canadian Securities Administrators adopted *Multilateral Instrument 52-110 Audit Committees* ("**CSA Audit Committee Rules**"). These new rules set forth requirements regarding the composition and responsibilities of audit committees, as well as information disclosure obligations with respect to matters related to audits. These rules will only apply to the Corporation as of the next financial year. However, since the Corporation has already published a charter for this Committee in its Management Proxy Circular in respect of the 2003 annual meeting of shareholders and adopted leading edge rules and responsibilities for this committee, the Corporation currently complies with virtually all of the CSA Audit Committee Rules, and has committed itself to taking all necessary measures to comply with the CSA Audit Committee Rules as of the next financial year.

## 7.2. OFFICERS

The following table sets forth the names and municipalities of residence of the officers of the Corporation, as well as their first year of service and position held with the Corporation.

Name and Municipality of Residence	First Year of Service with Transat	Position Held with Transat
<b>Jean-Marc Eustache</b> <i>Montreal, Quebec</i>	1987	Chairman of the Board, President and Chief Executive Officer
<b>Philippe Sureau</b> <i>Montreal, Quebec</i>	1987	Executive Vice-President
<b>Lina De Cesare</b> <i>Montreal, Quebec</i>	1989	Executive Vice-President, Tour Operators
<b>Jean-Marc Bélisle</b> <i>Montreal, Quebec</i>	1997	Vice-President and Chief Information Officer
<b>Bernard Bussièrès</b> <i>Saint-Bruno de Montarville, Quebec</i>	2001	Vice-President, General Counsel and Corporate Secretary
<b>André De Montigny</b> <i>Montreal, Quebec</i>	2000	Vice-President, Corporate Development

Name and Municipality of Residence	First Year of Service with Transat	Position Held with Transat
<b>Nelson Gentiletti</b> <i>Montreal, Quebec</i>	2002	Vice-President, Finance and Administration and Chief Financial Officer
<b>Louise Piché</b> <i>Montreal, Quebec</i>	2002	Corporate Vice-President, Human Resources

With the exception of Messrs. Jean-Marc Eustache and Jean-Marc Bélisle, who over the past five years, have had the principal occupation indicated opposite their name, the other officers of Transat held the following positions:

- Mr. Philippe Sureau was President and Chief Executive Officer of Air Transat from March 1997 to November 2000. He is also President of Consultour;
- Mrs. Lina De Cesare was President of Air Transat Holidays A.T. Inc. (now Transat Tours Canada) from February 1994 to December 2000. She is also President of Cameleon and Transat Tours Canada;
- Mr. Bernard Bussi eres was, from January 1995 to February 2001, a senior partner of Fasken Martineau DuMoulin LLP;
- Mr. Andr e de Montigny was, from February 1998 to June 2000, Vice-President, Telecommunications of Capital Communication, a subsidiary of Caisse de d ep ot et placement du Qu ebec;
- Mr. Nelson Gentiletti was, from September 1997 to March 2001, Vice-President and Chief Financial Officer at Uican Security Systems Ltd. From April 2001 to July 2002, he was Chief Financial Officer at BCE Emergis Inc., a subsidiary of BCE Inc.; and
- Mrs. Louise Pich e was Vice-President, Human Resources at the Business Development Bank of Canada from 1998 to August 2002.

## 8. ADDITIONAL INFORMATION

- (1) Additional financial data may be found in the Corporation's comparative financial statements for the year ended October 31, 2003. Additional information including directors' and officers' remuneration, principal holders of Transat securities and options to purchase securities, is contained in the Corporation's Management Proxy Circular in respect of the 2004 annual meeting of shareholders.
- (2) Transat shall provide to any person or company, upon request to the Corporate Secretary at Place du Parc, 300 L eo-Pariseau Street, Suite 600, Montreal, Quebec, H2X 4C2:
  - (a) when the securities of Transat are in the course of a distribution pursuant to a short form prospectus or a preliminary short form prospectus has been filed in respect of a distribution of its securities,
    - (i) this Annual Information Form together with any document, or the pertinent pages thereof, incorporated herein by reference;
    - (ii) the comparative financial statements of Transat for its most recently completed fiscal year together with the auditors' report thereon included in the 2003 Annual Report and any quarterly financial statements of Transat subsequent to the financial statements for its most recently completed fiscal year;

- (iii) the Management Proxy Circular of Transat and the Notice of Annual Meeting of Shareholders for 2004; and
  - (iv) any other documents that are incorporated by reference in the preliminary short form prospectus or the short form prospectus and that are not required to be provided under (i) to (iii) above;
- (b) at any other time, a copy of any other documents referred to in (2)(a) (i), (ii), and (iii) above, provided Transat may require the payment of a reasonable charge if the request is made by a person who is not a shareholder of Transat.