

TRANSAT VACANCES TO
URBEC CONSULTOUR/C
LUBVOYAGESEUROCH
ARTER VACANCESAIR
TRANSATAIRTRANSATH
OLIDAYSVOYAGESNOI
TOURREGENTHOLIDAY
SWORLDOFVACATIONS
VACANCESAIRTRANSAT
(FRANCE) LOOKVOYAC
ESBROK'AIRDMCTRANS
AT/KILOMETREVOYAGE
SVACANCESAIRTRANS
ATHOLIDAYS
AIRTRANSAT
INESSERVICE



A.T. inc.

1st QUARTERLY REPORT
PERIOD ENDED JANUARY 31, 1999

SUBSIDIARIES AND AFFILIATED COMPANIES

(Interest in)

IN CANADA

TRAVEL AGENCIES

100% VACANCES TOURBEC

50% CONSULTOUR
• CLUB VOYAGES
• VOYAGES EN LIBERTÉ
• INTER VOYAGE

OUTGOING TOUR OPERATORS

100% VACANCES AIR TRANSAT-
AIR TRANSAT HOLIDAYS

100% VOYAGES NOLITOUR

100% REGENT HOLIDAYS

35% WORLD OF VACATIONS

INCOMING TOUR OPERATORS

66.66% DMC TRANSAT
• KILOMÈTRE VOYAGES100% VACANCES AIR TRANSAT HOLIDAYS
(FLORIDA)

THE AIRLINE SECTOR

100% AIR TRANSAT

50% SERVICES HAYCOT

IN FRANCE

TRAVEL AGENCIES

100% EURO CHARTER/CLUB VOYAGES ⁽¹⁾

OUTGOING TOUR OPERATORS

100% VACANCES AIR TRANSAT (FRANCE)

97.9% LOOK VOYAGES

39% BROK'AIR
• ANY WAY

THE AIRLINE SECTOR

49.6% STAR AIRLINES ⁽²⁾⁽¹⁾ 100% interest held by Consultour/Club Voyages⁽²⁾ 49.6% interest held by Look Voyages

REPORT TO THE SHAREHOLDERS

For the quarter ended January 31, 1999, the revenues of Transat A.T. Inc. (the "Corporation") stood at \$363.5 million, a 21.1% increase over the \$300.2 million recorded for the same quarter last year. The Corporation posted a net loss for the quarter of \$2,879,000, or \$0.08 per share compared with a net loss of \$4,861,000, or \$0.14 per share, for the quarter ended January 31, 1998. Results per share are calculated based on the weighted average number of shares outstanding of 34,426,291 for the first quarter of 1999 and 34,078,675 for 1998.

In the Canadian market, several of our tour operators recorded increased revenues of over 9% compared with the same period last year. The increase was partially offset by a decrease in revenues from cruise operations, due to lower product supply offered by our tour operators in the Ontario market. Revenue growth is related to both price increases as a result of rising cost and to volume increases. In France, revenues posted by Look Voyages and Vacances Air Transat (France) were up by \$41 million. These increases, supported by a stronger French franc, were also due to Club Lookéa products and cruises sold by Look Voyages, as well as to Vacances Air Transat (France)'s significant expansion of the sunshine destinations market, mainly in the Caribbean. Air Transat's revenues, including the operation within the group, rose by approximately 8.2%. At the end of the quarter, Air Transat's fleet consisted of ten Lockheed L-1011-150s (ten in 1998), four Lockheed L-1011-500s (three in 1998), one of which is leased to STAR Airlines, five Boeing 757s (five in 1998) and two Boeing 737-400s (two in 1998). It should be noted that Air Transat took delivery of its first Airbus A-330-200 on February 24, and a second will be added in April. These two aircraft are part of the Corporation's fleet renewal program which will continue over the next few years.

The first quarter includes part of the winter season which runs from November 1 to April 30 and is characterized by a slow-down in the holiday travel sector. It is also the time when major maintenance work is performed on aircraft.

During the quarter, several factors had a positive impact on profitability compared with last year. To begin with, higher selling prices in the Canadian market dictated by the weak Canadian dollar, combined with lower fuel costs, better load factors and an increase in interest income all contributed to improving profitability. Also, last year's results were lower due to the ice storm in Québec and the overcapacity in the cruise market, the latter having particularly affected our tour operators in Ontario.

In France, Look Voyages's results also improved primarily as a result of increases in selling prices and volumes. Vacances Air Transat (France), which also benefited from the value of the French franc, recorded better results as well, particularly in terms of volume.

The factors responsible for the lower quarterly results are the weak Canadian dollar versus the U.S. dollar, increased competition due to overcapacity, mainly in Ontario for Florida destinations and finally, the increase in certain operating and interest expenses.

As at January 31, 1999, the Corporation's cash position, including cash and cash equivalents, stood at \$183,275,000 compared with \$155,720,000 as at October 31, 1998. During the quarter, operating activities continued to generate a significant amount of cash, totalling \$35.1 million compared with \$30.8 million in the first quarter of 1998. The Corporation spent \$3.9 million in investing activities, including acquisition of capital assets which, including assets acquired under capital leases now excluded from the cash flow statement, amounted to nearly \$15,000,000 for the quarter. Air Transat added a Lockheed L-1011-500 to its fleet during the quarter and leased one of its Lockheed L-1011-500s to STAR Airlines in France. Finally, \$3.7 million was allocated to financing activities, including \$4.8 million to repay the long-term debts. It should be noted that the Corporation has restated its consolidated cash flow statement in accordance with the new requirements of the Canadian Institute of Chartered Accountants.

For the second half of the winter season, we believe that all the group's Canadian tour operators are well positioned in their respective markets despite sustained competition, mainly in Ontario and Western Canada. The range of products offered by our tour operators in France should enable them to remain on track with the first quarter.

As previously mentioned, we are remaining cautious with respect to the upcoming summer season in Canada due to the overcapacity situation, particularly for European destinations departing from Toronto and Vancouver, which could reduce margins and load factors if it persists. We are monitoring market developments closely and will take the measures necessary to limit financial risk while maintaining our market leadership and positioning. We are optimistic about the situation in France, given the results achieved by Look Voyages and Vacances Air Transat (France).



Jean-Marc Eustache

Chairman of the Board
President and Chief Executive Officer
Montreal, March 23, 1999

CONSOLIDATED BALANCE SHEETS

(in thousands of dollars)

As at January 31
(Unaudited)

As at October 31
(Audited)

	1999 \$	1998 \$
ASSETS		
Current assets		
Cash and cash equivalents	183,275	155,720
Accounts receivable	55,060	47,323
Income taxes receivable	5,299	—
Inventories	10,262	13,380
Deposits with suppliers	25,121	20,807
Prepaid expenses	37,568	23,543
Total current assets	316,585	260,773
Deposits	19,503	20,061
Tax benefit	22,213	18,980
Inventory of rotatable aircraft spare parts	8,791	8,474
Investments in companies subject to significant influence	14,340	15,718
Capital assets	128,863	120,837
Goodwill	35,378	36,026
Other assets	13,928	15,698
	559,601	496,567
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Bank loans	15,894	16,637
Accounts payable and accrued liabilities	117,544	113,134
Customer deposits and deferred income	117,628	64,005
Income taxes payable	—	208
Current portion of long-term debt and obligations under capital leases	20,019	18,832
Total current liabilities	271,085	212,816
Long-term debt	45,234	44,975
Obligations under capital leases	52,165	45,569
Debenture	10,000	10,000
Others long-term liabilities	539	539
	379,023	313,899
Shareholders' equity		
Share capital	115,766	115,795
Retained earnings	66,277	69,156
Deferred translation adjustments	(1,465)	(2,283)
	180,578	182,668
	559,601	496,567

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

(in thousands of dollars except the loss per share)

(Unaudited)

Three (3) months
ended January 31

	1999 \$	1998 \$
	363,469	300,246
Revenues	363,469	300,246
Operating expenses	356,651	297,298
Income before the following accounts	6,818	2,948
Amortization	8,564	8,008
Interest on long-term debt, obligations under capital leases and debenture	2,688	2,596
Other interest and financial expenses	960	707
Interest income	(2,575)	(2,031)
	9,637	9,280
Loss before share of net loss of companies subject to significant influence and income taxes	(2,819)	(6,332)
Share of net loss of companies subject to significant influence	(696)	(1,167)
Income taxes		
Current	(2,597)	(37)
Deferred	3,233	2,675
	636	2,638
Net loss for the period	(2,879)	(4,861)
Retained earnings at beginning of period	69,156	49,425
Retained earnings at end of period	66,277	44,564
Loss per share	(0.08)	(0.14)

CONSOLIDATED CASH FLOW STATEMENTS

(in thousands of dollars)

(Unaudited)

Three (3) months
ended January 31

	1999 \$	1998 \$
OPERATING ACTIVITIES		
Net loss for the period	(2,879)	(4,861)
Add items not involving an outlay (receipt) of funds		
Amortization	8,564	8,008
Share of net loss of companies subject to significant influence	696	1,167
Deferred income taxes	(3,233)	(2,675)
Decrease in long-term deferred income	—	(462)
Operating cash flow	3,148	1,177
Net change in non-cash working capital balances related to operations	31,884	33,160
Deposits for engine and airframe overhauls	60	(3,514)
Cash flows from operating activities	35,092	30,823
INVESTING ACTIVITIES		
Additions to capital assets	(2,155)	(3,506)
Deposits	(897)	(8)
Other assets	(481)	(728)
Purchase of rotatable aircraft spare parts	(318)	(114)
Cash flows used in investing activities	(3,851)	(4,356)
FINANCING ACTIVITIES		
Long-term debt—revolving term loan	461	(11,181)
Increase in other long-term debt	1,455	1,650
Repayment of other long-term debt and obligations under capital leases	(4,830)	(10,474)
Bank loans and other	(772)	14,336
Recovery of deposits for engine and airframe overhauls	—	12,745
Issue of common shares	—	33
Cash flows (used in) from financing activities	(3,686)	7,109
Net increase in cash and cash equivalents for the period	27,555	33,576
Cash and cash equivalents, beginning of period	155,720	141,333
Cash and cash equivalents, end of period	183,275	174,909

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

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**TRANSFER AGENT
AND REGISTRAR**

Montreal Trust Company

STOCK EXCHANGE

The common shares of the Corporation are listed on The Montreal Exchange and The Toronto Stock Exchange under the ticker symbol TRZ

