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NOTES FOR A SPEECH BY

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Obviously—the past year has not been one of marked growth. Not for Transat, and not for international tourism either. Under the circumstances, it is equally obvious that those who have nerves strong enough to invest in the travel industry must be looking at other parameters besides growth when it comes to evaluating the potential of tour operators! The truth is that our industry remains very much an attractive prospect over the medium and long terms. And if you believe the adage that history repeats itself, the tourism industry will obviously be on the rebound—and we have every intention of profiting from this trend.

Number one on the list of these "other" parameters to watch is the variety of products, options and destinations offered by the tour operator, and how well they fit with consumers' expectations. Having sufficiently rich supply is a great driver of customer loyalty: travellers see no need to check out the competition for an alternative product when you already offer that alternative.

For example, in 2009, in France, with tourism market conditions generally tepid—down 15 per cent, even, according to some observers—we experienced a considerable decline in the long-haul segment… French tourists, rattled by the economic crisis, were reluctant to opt for long trips. Vacances Transat France's numbers suffered as a result, by about 12%. However, Look Voyages' sales, including those of Amplitravel (our Tunisia specialist) jumped by more than 6%, precisely because, with their affordable, medium-haul products, their offering was seen as a reassuring alternative. The net result was that we closed out the year in France with sales of nearly 500 million euros, and remained profitable.

Another important parameter, of course, is the notion of critical mass: we are in a business where purchasing power and economies of scale matter. Generally speaking, with our three million customers, we rank among the biggest purchasers of tourism services in the world. At the same time, the bulk of these purchases is concentrated in very specific locations; that is, Mexico, the Dominican Republic and Cuba; the countries of Western Europe (which remain the world's most popular destinations); and Canada. In 2009, some source markets, for example the United States, have shown signs of running out of steam; this has resulted in lower occupancy rates at sun destinations, which in turn has driven prices lower for tour operators.

We estimate that we hold a third of the Canadian winter season market for all-inclusive sun destination packages. That segment is expected to continue on an upward swing, at least over the long term, eventually exceeding the predicted growth rate for international tourism overall. So, the challenge in this market segment is not whether we can count on volume. We will be able to, as sun packages have become a commodity and part of the lifestyle for many customers. The real challenge is in terms of margins. For departures from Canada, we have to deal with supply systematically exceeding demand. Cost reductions benefit consumers above all, and margins are both slim and fragile.

In the transatlantic market, our estimated share is 24% of travel between the United Kingdom and Canada, and 30% between France and Canada, which is excellent. We are working to push these numbers higher, but they are remarkable in themselves. There are two reasons for these healthy market shares.

First, our product offering is differentiated from those of our competitors, and is custom-tailored for the tourist. With Transat Tours Canada, we offer 34 European destinations with departures from 8 Canadian cities, with no connecting flights. No one else offers anything close to this—especially when you consider the ease with which we match flight seats to the other tourism services that the customer is obviously looking for, at the best price: vehicle rentals, accommodations, excursions and cruises. And that's in each of the 34 European cities in question.

Second, we have rolled out this business model on both sides of the Atlantic. That's true in France and the U.K., of course, where we have our own teams and distribution networks. But in fact, we boast a network of partners that stretches across a dozen European countries. Bottom line: around half of our customer base flying these 34 city-pairs is made up of Europeans. And our customers on the Continent have no reason to envy their Canadian counterparts. We offer them a broad range of Canadian destinations as well, and all the related services they are looking for.

Which leads me to talk about distribution, which is without a doubt another vital aspect to consider. To effectively serve vacationers, access to a traditional travel agency network is essential, and will remain so for a long time to come. In winter 2008–2009, in the midst of the recent economic doldrums, Transat remarkably posted a 17% increase in volume on sun destination routes departing from Canada, a record for a winter season. An aggressive pricing strategy naturally played a part in this success, but it never would have paid off without the support of our distribution network, the largest in Canada, which now comprises some 450 travel agencies, 2,300 travel advisors, sales of $1.3 billion, and 1.4 million customers. About a quarter of our sun destination sales are made through our own travel agencies. Transat Distribution Canada has a presence from coast to coast, with agencies in 248 communities, spread across eight provinces and two territories.

In addition, our tripcentral.ca business unit, a Web portal granting access to 22 travel agencies across Canada, has taken over responsibility for our online travel agency exitnow.ca.

The crucial element of access to a network of brick-and-mortar agencies is becoming increasingly apparent in France as well. Over there, the world's two largest tour operators, TUI and Thomas Cook, are currently polarizing the market, securing the loyalty and near-exclusivity of their respective distribution networks. This situation led us to make a major strategic move.

Last January we became the preferred partner of the AFAT Voyages Sélectour network, comprising approximately 1,200 travel agencies in France, or about a quarter of all the agencies in the country.

As part of this move, we announced that we would be divesting some of our existing agencies, specifically those whose sales have been unduly dependent on business-travel customers, which is not our core business. The other agencies, 41 of them in all, will now operate under the Look Voyages brand, and have already been brought under the direct management of that business unit. In addition, as the agreement is progressively implemented over the next few months, a number of existing AFAT Voyages Sélectour agencies will also switch to the Look Voyages banner, driving an increase in recognition of our brand in France.

I should note that almost all of the agencies we earmarked for sale are now sold, and at prices generally higher than what we anticipated.

The outcome of this strategy is that in Canada, as well as in France, we are firmly committed to a multi-channel distribution approach, and it is delivering the expected results. On the Web, we are a major player in both countries' tourism markets. On the street, we are strongly positioned in Canada with our traditional agencies, and in France we have been innovative.

Every tour operator must also brave another test: that of access to airplane seats. It's a complicated game. Among other things, one has to consider at what price these seats can be had, and the extent to which capacity can then be contracted or expanded depending on demand.

Among the significant events of 2009, we entered into a five-year air agreement with CanJet Airlines to charter narrow-body Boeing 737-800s for our sun destination routes, replacing a similar deal with WestJet. The new agreement strengthens TTC's positioning in the sun destinations market, as these extremely efficient 189-seat aircraft allow us to serve smaller markets and better adapt our supply to fluctuations in demand. It offers many advantages over the former agreement, and the aircraft it brings into the mix suit our needs perfectly.

Among other highlights over the past year, we officially adopted and began implementing the Air Transat fleet renewal plan. Made up of 18 wide-body jets in 2009, the fleet will consist exclusively of Airbus A330s in approximately four years from now. The shift to a single aircraft type should also lead to lower operating costs. A fifth Airbus A330 has already been added to the fleet, and an initial A310 withdrawn.

The arrangement with CanJet and the launch of the Air Transat fleet renewal are in keeping with a reconsideration of how Transat manages its air capacity needs across the board, for departures from Canada as well as from Europe. In that vein, we signed an agreement with XL Airways, which is chartering an Air Transat aircraft this winter to serve our tour operators in France, leading to lower costs. These innovations, combined with the single-aircraft-type fleet philosophy for Air Transat and the long-term agreement for narrow-body aircraft, herald a new era of enhanced flexibility, lower cost and superior performance for our company.

Air Transat, for its part, made improvements in several areas throughout 2009, including the creation of Option Plus, an assortment of upgrade services available to Economy-class travellers looking for an enriched travel experience, as well as enhanced in-flight meals.

In 2009, we formally created the Transat France division to oversee Vacances Transat France and Look Voyages. Transat France now has centralized senior management, and shared services have replaced the two business units' formerly distinct Finance, Human Resources, IT and Legal departments. That strategy has already paid off in the form of significant efficiency gains. Within the coming year, we also plan to physically move the two organizations to a single site.

We also streamlined several processes in Canada, while completing integration of certain shared services and paying close attention to cost control, right from the beginning of the year.

So, summing up our year 2009, our revenues increased marginally, by about 1%. The increase in volumes was higher than this percentage, but sale prices were driven lower by the combined effects of the competition, the economy, and fuel costs. The latter generally tracked lower than in 2008, so Air Transat's fuel bill stood at $319 million, versus $365 million in 2008.

In 2009, Transat posted *record* first-half results in terms of volumes, and throughout the year we maintained excellent load factors. The slip in the margin is due in very large measure to the competitive context.

The year was also affected by the A(H1N1) flu outbreak, of course, although its impact is difficult to pin down. The first wave, in the spring, exerted significant downward pressure on demand for Mexican destinations, but travellers simply chose other countries, our volumes remained stable, and the financial impact on us was limited. As for the fallout from the second wave… it's hard to say. At Transat, two market segments suffered in 2009: long-haul travel departing from France; and Canadian destinations, including pretty much all departure markets. Did H1N1 play a role? Probably. But the market in France was depressed long before the flu hit, and the economic crisis certainly was indeed the dominant factor.

Jonview Canada saw a sharp decline in volume over the previous year. The decrease was widespread and particularly acute for departures from the U.K. and France, despite our concerted efforts with Canadian Affair, Vacances Transat France and the Netherlands ACE team. Be that as it may, a cost-reduction plan implemented very early in the year, along with renegotiation of supplier agreements, enabled Jonview Canada to remain profitable in 2009… in a context that was challenging, to say the least. At the moment, 2010 is looking very promising for Jonview Canada—which incidentally adopted a new logo during the year.

Corporate social responsibility, which in our case encompasses the concept of sustainable tourism, *is a business issue.* Everyone acknowledges this fact today, and I believe we can be proud of the distance we have travelled in this direction over the past three years.

On January 12, a powerful earthquake struck Haiti, which has been a destination of ours for the past 15 years. Port-au-Prince was devastated. The tragedy in Haiti was profoundly moving to us, as individuals and as an organization.

I'm not here to score public relations points. Too many people have died, and I am well aware that a degree of silence is the more appropriate response in such circumstances. But I do want to share with you, our owners, what I felt when I saw the spontaneous outpouring of solidarity on the part of our employees. We made three humanitarian flights to Port-au-Prince, on January 20 and 27, and on February 3. Two of them took off from Montreal; the other from Toronto. In each case we used an Airbus A330 loaded to the gunnels with relief supplies, clothing and food items, in part donated by our employees. At the request of the Government of Canada, we sent a fourth flight on February 16.

At Air Transat and Handlex, preparations for these flights have been demanding. Our teams orchestrated everything, contacting various humanitarian organizations to help fill the planes, negotiating with the appropriate authorities to obtain authorizations, and working with our suppliers to acquire materials and free services. All responded immediately. I am thinking of the people at Cargo Air Services, and also the Montreal and Toronto airport authorities, CARA, Eska, Pepsi, PUMA and Unisource, among others.

In 2009 we established a partnership with SOS Children's Villages, an international aid organization that cares for orphans in 132 countries. The village it runs in Port-au-Prince suffered damage, but thankfully there were no victims. SOS Children's Villages took advantage of its presence in the field in Haiti and immediately took several hundred families under its wing. Our humanitarian flights delivered generators, tents and water purification systems, among other supplies, to the organization. As we speak, SOS Children's Villages has extended its support to thousands of families.

We used each of the return flights to repatriate Canadian citizens as well as transport many orphans. Specialized support personnel were on board to accompany the children, but so were dozens of our own employees, who all volunteered. All of the flight crews also donated their time.

Employees were also invited to make donations to the Red Cross Haiti relief fund. We amassed a total of $50,000, a record. And we more than doubled this amount with a corporate donation.

You are our shareholders. In principle, convention dictates that our discussions centre on the company's financial performance and the outlook for its future. And yet our future, and our bottom line going forward, are about more than just numbers. They are inextricably linked to the values that inspire us. And these values are projected by and embodied in every person, at every level of our organization. So I gladly take this opportunity to publicly thank our personnel, and our partners, for their efforts, and to tell them how proud both our executive team and our shareholders are of them.

For the past three years, we have been firmly committed to a series of initiatives aimed at ensuring the "sustainability" of our operations and those of our industry, in a context of economic development and growth. Our actions in favour of the environment and local communities are many and ongoing. To give just one example, in 2009 we supported four new sustainable tourism projects: in Mexico, Turkey, Morocco and Peru. Once again, these actions speak to a special vision of our development, and to the values that, together with our employees, we wish to espouse. We are also convinced that these initiatives will help strengthen our strategic positioning and are in the interests of all.

Transat is therefore beginning fiscal 2010 with a newly strengthened management team.

- Patrice Caradec now heads Transat France;
- On November 1, 2010, Nelson Gentiletti became Chief Operating Officer, number two in the organization;
- Denis Pétrin was appointed Vice-President, Finance and Administration and Chief Financial Officer;
- Michel Bellefeuille became Vice-President and Chief Information Officer;
- Michael DiLollo was named President of Transat Tours Canada;
- and Yves Lalumière was appointed Vice-President and General Manager, Transat Distribution Canada.

Each of these appointments had been in the works for some time, as part of a well-mapped-out succession plan.

We are now halfway into our 2009–2011 strategic plan. Our vision for 2014 is to be a vertically integrated tour operator, with a leadership position in the Americas and a strong competitive position in several European countries. To get there, we are pursuing five broad strategies:

First, we want to increase our competitiveness in our core markets, through cost optimization. We have already completed a portion of the work on that front, with reduced hotel and air-seat costs, and integration of shared services. We will also work on brand differentiation, which is a challenge in this industry.

We must also adapt our offering to participate further in high-growth market segments. This means adding new destinations, but also diversifying the product portfolio to meet emerging customer expectations. As part of this effort, we need to continue invest in our IT systems.

We will continue to actively pursue vertical integration. We want to increase the control we have on our inputs, including destination services and hotels, and we are also striving to expand our multi-channel distribution system.

Entering new source markets is a priority, dependant on circumstances and opportunities. We would target high-volume or high-growth markets presenting strong synergy with our current operations.

Finally, we will continue to invest in our human resources, as we are in a people business.

In 2010, our objectives are to:

1. Consolidate our leadership position in our markets on both sides of the Atlantic by offering a broader product range, both in terms of types of product and array of destinations.

2. Complete the integration of our new management teams, nurture employee engagement, and improve internal processes.

3. Continue development and implementation of new information systems designed to contribute to increased operational efficiency and greater product flexibility.

4. Continue efforts aimed at positioning Transat among the industry leaders in terms of corporate social responsibility and sustainable tourism, and build a competitive advantage for Transat.

We are witnessing an evolution in the competitive playing field. In Canada, once again, a tour operator has dropped out of the picture, two others are about to merge, and the two largest air carriers in the country have strengthened their presence in the leisure travel segment. In France as well, consolidation forces are at work, and the entire industry has had to cope with the consequences of the world's two biggest tour operators—both of which benefit from extensive distribution networks—having made the country their battlefield.

As we enter 2010, the recession would appear to be well and truly behind us—but we believe we must be realistic in our expectations. It will be a year of transition and, at best, the seeds of a true recovery will be sown. But here again, it's important to reiterate that tourism has always proven resistant to economic ups and downs. The impact has been less severe than in other industries, and we believe it is reasonable to expect a recovery in the winter of 2011. The UN World Tourism Organization, for its part, is forecasting a 4% increase in international tourist arrivals in 2010.

In conclusion, I would like to thank our directors, employees and shareholders for their continued support.

Thank you.

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