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NOTES FOR A PRESENTATION BY JEAN-MARC EUSTACHE

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Check against delivery

Rebounding from two difficult years in 2011 and 2012, Transat returned to profitability in 2013, thanks to actions taken these past few years. We have lowered our operating costs, and we have considerably improved our efficiency and ability to adapt to demand.

In 2013, our margin before amortization and depreciation and before restructuring charges improved by some $100 million over 2012, rising from $17 million to $117 million.

This turnaround proves that we made the right moves and that our management teams worked well together. But it also says a lot about the volatility of our business. Our gross margins are very slim indeed, in the order of 2 to 4 percent, and the slightest variations in demand, or the price of oil, or exchange rates, can have quite drastic effects on our results.

We are currently engaged in a cost-reduction and margin-improvement program that is being conducted over four fiscal years. We are aiming at a cumulative improvement of $75 million by 2015.

Up to now, the program has emphasized reductions to payroll and to general operating expenses, higher-performance IT systems, and operational changes. These actions have delivered the expected results; that is, an improvement of $35 million over two years.

In 2014 we will save a further $20 million, owing mainly to our decision to move to an internal narrow-body fleet and to increase overall fleet flexibility. The full effect of those changes, however, will be felt in 2015.

We are currently at work on a similar plan for the 2015–2017 period.

We have streamline reporting lines in our Canadian operations, becoming more agile as a result.

We’ve also brought Transat Discoveries, which develops and markets tours worldwide, under the wing of Transat Tours Canada. And we’ve taken advantage of this restructuring to integrate management of our Europe ground products. A similar strategy has seen Vacances Tours Mont-Royal integrated into Transat Tours Canada as well. This is a logical consequence of the 2012 acquisition of TMR.

In France, we have completed the administrative merger of all our business units. This changes nothing in terms of our product offering: we operate with the same brands and commercialize the same products. But the merger opens the door to a more efficient organization.

In Mexico and the Dominican Republic, we've transferred administration of destination services to our local business unit, Trafic Tours.

In France, Look Voyages now also operates as an online travel agency, and commercializes selected products from third parties in addition to our own.

I am particularly proud that our senior executive team has been renewed and gained more depth. Last year and earlier this year, we announced several important appointments.

This year, we begin the implementation of our internal narrow-body fleet, which will vary in size depending on the season.

This is the dawn of a new era for us and for Air Transat personnel. We will have better control over our product, we will keep costs down, and of course, we are consolidating a number of jobs, in all of our base cities.

We also innovate, as a significant number of our pilots will be qualified on two aircraft types.

Last year we also negotiated improved lease conditions for part of our Airbus fleet, which means our wide-body fleet will gain flexibility as well.

In other words, we will have a more competitive cost structure.

Our fleet will be better adapted to our market reality. We have three main markets, and two very different seasons in terms of how our sales break down.

In summer, some 65 percent of our revenues are on the transatlantic market, for which we need wide-body jets. The Sun market and France together account for 35 percent.

In the winter season, the transatlantic market is more modest, and Sun destinations are the star products. On that market, flying Boeing 737s makes us more agile: more able to align supply with demand, including in regional markets.

For the winter 2013 season, we marketed about one million seats right across Canada, and we still have room to grow in Ontario.

Our product supply is distinguished by its depth and the fact that it reflects customers' growing interest in new travel experiences.

The three biggest destinations are still Mexico, which attracts 30 percent of travellers, the Dominican Republic, with 29 percent, and Cuba, with 24 percent.
As you know, the Sun destinations market is a very competitive one, with major players all jostling for space. The customers are king, and for all practical purposes they travel at our cost price.

For winter 2013, our estimates were that there were about 3.5 million seats on the market. This winter, in 2014, we estimate that capacity has increased by 5 percent, topping 3.6 million seats. But that won't necessarily be the final figure. There is already some consolidation going on.

Looking at the market-share picture, we estimate ours to be 29 percent.

We have effectively segmented marketing of our two main brands, with Transat Holidays occupying the 4- and 5-star segment, and Nolitours in the 3- and 4-star segment. Each one has its own style.

In Winter 2013, we had 62 exclusive hotels out of a total of more than 450, but they accounted for nearly 40 percent of our nights sold.

Distinction and Luxury, two important collections, accounted for 19 percent of volume, but for 46 percent of our margin, which clearly shows the attractiveness of having a distinctive, properly adapted and well-marketed product.

In winter 2013, 60 percent of our nights were sold in hotels that are exclusive to us, or through one of our collections.

We are very well positioned on the transatlantic market, where our product range is unmatched for diversity, and aligned with tourists' expectations.

This summer, we'll be serving 29 destinations non-stop from Canada.

Also setting us apart from the competition are our structures and our sales networks in Europe. In the United Kingdom and in France, our two largest markets, we sell nearly half of our seats to European travellers.

And overall last summer, we made 38 percent of our transatlantic sales in Europe.

Our product stands out from those of the airlines: we offer guided tours, cruises, vehicle rentals and accommodation.

In the case of transatlantic travel, the market we attack every summer represents a total of 3.8 million seats.

For the summer of 2014, we are expecting to significantly increase our capacity, by some 9 percent. The competition is going to be fierce. We're confident, because we have a solid market position and a cost structure that's more competitive than those of the scheduled airlines.

This summer we're flying to Prague, a great destination that's already generating quite a bit of interest from Canadian travellers, and we're also marketing tours to Croatia, another fast-rising destination.

Our portfolio of destinations evolves according to changing tourist flows, and we will continue to manage it dynamically.

Here are three examples—Istanbul, and especially Barcelona and Venice, two port cities with many cruise departures—which show how this is an effective strategy.

A few words now about France.

Our sales there stood at 491 million euros in 2013, which was down slightly from 2012. This drop was mostly due to a managed reduction in capacity. The average price of a package increased from one year to the next—and that was obviously one of the intended effects.

The market in France is relatively sluggish. The economic recovery is slow to take hold.

In that context, our results in France stand out in a big way from those of our competitors, who have been posting loss after loss—not to mention announcing severance programs.

We have been very disciplined, and it has paid off. We got out of the red and into the black in 2013, a phenomenal result in France, with an operating profit before variable compensation of 4.5 million euros.

Vacances Transat specializes in tours to long-haul destinations, with Canada as the flagship destination, attracting around 90,000 customers in 2013, and another 15,000 travellers to the United States, which makes us a truly major player where all of North America is concerned.

Look Voyages, meanwhile, is more active in medium-haul vacations, most notably its famous Club Lookéa resorts, including in the Mediterranean Basin.

We are continuing our work to urge our hotelier partners to adopt best practices when it comes to sustainable development.

Our websites and brochures mention hotels' achievements in sustainability certification, and we promote traveller awareness of this issue.

Some 150 hotels are participants in our *Working Together* program, under which they are encouraged to implement the best practices.

Just about all of the participating hotels have introduced measures aimed at resource conservation, recovery and recycling. In addition, 90 percent of these establishments have formally implemented fair employment policies.

During 2013 we launched a new brand in our retail distribution operations: Transat Travel. This involved refitting and modernization of three agencies in Quebec and another in Ontario. A few more will be getting facelifts by the end of 2014, as part of a pilot project. The preliminary results are promising.

These efforts will eventually be integrated into a wide-ranging strategic plan aimed at improving our distribution machine. Whether it's on the Web, in call centres, or in agencies, our goal is to cultivate one-on-one relationships with customers and deliver a first-class experience.

We of course pursue our efforts at reaching out directly to travellers, online or through call centers. As we have said for a long time now, we have a multi-channel distribution network. Direct sales are growing and could reach one customer out of five in 2014.

Almost all of our wide-body jets now feature a redesigned cabin, starting with the A330s. The reaction from customers has been emphatically positive.

The in-flight experience we offer with Air Transat delivers exceptional value for money, and with these investments we've consolidated our ranking as one of the top vacation airlines on the planet. In fact, we were formally recognized as the World's Best Leisure Airline in 2012.

The quality of our in-flight experience, by the way, owes a lot to our crews. Yes, we have a best-in-class cabin, but above all we have welcoming staff who provide service that goes beyond expectations.

So, to sum up… In terms of our strategy for returning to profitability, we achieved our targets for the first two years of the plan, and became profitable again in 2013.

Cost-control projects for 2014 and 2015 are on track.

Narrow-body internalization is a major project that has been well planned and is now under way. It is a multi-faceted project requiring an enormous amount of work.

We have refined our structures and are continuing to make process improvements, so as to realize efficiency gains. Likewise, we’re moving ahead with all of our key information-technology projects.

At the same time, we are looking to tomorrow, and looking at growth, with a new strategic plan for 2015–2017 on the drawing board.

Thank you.