TRANSAT A.T. INC.
Annual and Special Meeting of Shareholders
March 10, 2011

NOTES FOR A SPEECH BY

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When you look at the international tourism market overall, 2010 was a good year, with strong growth of 7% and a total of 935 million travellers. The previous year, 2009, saw slight negative growth. Once again, we have clear evidence of how tourism not only resists crises well, but rebounds vigorously in their wake.

As for Transat, volumes were solid in 2010. Once again, however, that firm demand was in part driven by particularly attractive selling prices, which exerted downward pressure on margins, especially during the winter season and on the French market.

It is a well-known fact—this will not be news to anyone here—that our industry is extremely competitive. This demands that we remain vigilant, to say the least. In this regard, when we look at our margins, which hover around 3.5%, we see that our performance compares very well with that of our peers. Our true goal, however, is to drive them up to around 6%, which would set us well apart from the other major tour operators.

Our results for 2010, considering the market conditions, are relatively satisfactory. But the past fiscal year was not a typical one.

During the winter season, as you know, our performance is heavily dependent on travel from Canada to sun destinations. For the past several years, capacities offered at the start of the season among all industry players have tended to largely exceed demand, even though that demand is particularly strong. Knowing that, we took the exceptional step of reducing our inventory at the start of winter. The benefits we hoped for—higher prices and margins—failed to materialize. Our competitors moved in quickly to fill the void that we had left. At the end of the day, this attempt at “being rational” translated into a disappointing first six-month period.

Then, during the second half of the year, when some observers predicted a difficult period on the transatlantic market, we had the best summer in our history. Especially between the United Kingdom and Canada, a very large market, where we achieved outstanding performance both inbound and outbound, at all levels. We are the leading tour operator on that market, where scheduled carriers make up the majority of the competition.

In terms of outbound travel from France, we noted a recovery compared with 2009, although the market remains depressed. Demand on long-haul routes, which had declined sharply and affected our results in 2009, rebounded. The medium-haul market, however, suffered from tentative demand, whereas it had fared remarkably well the year before. In addition, the Clubs

Lookéa format was copied by competitors, such that the combination of these various factors drove prices and margins downward.

As I do every year at this time, I would now like to look back at some of the highlights of the year gone by.

During the fiscal year, Transat began operations in a new source market, setting up shop in Monterrey, Mexico, under the Eleva Travel banner. We offer Mexican travellers a variety of package products to Cancún, Puerto Vallarta and Acapulco, as well as to Las Vegas in the United States. Other destinations will gradually be added, including Canada, which is a popular choice for Mexicans.

Obviously, we're talking about a company starting up from scratch; the early numbers are small, and it will take a while before we see any direct impact on our growth or our margins.

But this leads me to two important points that bear mentioning here, in terms of strategy.

First, globally and over the long term, Transat must diversify its source markets. This is not a new concern, and in this particular case, the Mexican market was intrinsically attractive to us. The potential is there, and Canada was a high-growth destination for Mexicans—before the federal government cavalierly imposed visa requirements on them, that is.

The second point is synergy with our existing operations to and from the destinations involved. We already have a very strong presence in the Riviera Maya and in Puerto Vallarta, we have agreements with several hoteliers, we have an incoming tour operator, we have hotels, and so on. And, although we are there year-round, we obviously do most of our traditional business in winter—whereas domestic tourism demand in Mexico is concentrated during the summer season, from April to September.

The creation of Eleva Travel therefore enhances our overall competitive edge on these destinations, and means an increased presence in summer.

In 2010 we continued implementing the Air Transat fleet renewal plan. As you know, we are in the midst of transition toward the Airbus A330, an excellent aircraft that delivers good operating cost performance. The challenge for us is to find the right planes at the right prices, and in this regard things are going very well indeed.

A fifth Airbus A330 entered service in the fall of 2009, three more followed in 2010, and we have made arrangements to add three more by this fall.

Dynamic management of our air capacity is a pillar of our business model and key to our profitability.

We use a variable-geometry approach, which gives us superior cost control as well as the flexibility needed to closely follow the slightest fluctuations in demand.

First of all, we have a fleet over which we maintain 100% control: Air Transat carries approximately 1.5 million customers.

Second, we purchase seats from scheduled carriers as needed.

And third, we have special charter agreements with certain carriers that are true partners, for example Thomas Cook Airlines for the United Kingdom; XL Airways for long-haul routes outbound from France; and CanJet Airlines for sun destinations.

In this third partnership category, Transat in 2010 concluded a three-year agreement with Transavia France, a carrier founded by the Air France / KLM group, to charter narrow-body Boeing 737-800s, mainly for destinations in the Mediterranean Basin. With this agreement, Transavia France became the carrier-partner of choice for medium-haul routes operated by Transat France, which served more than 560,000 customers in 2010.

Although there are differences, this agreement can be seen as the counterpart to the one in place with XL Airways to meet our long-haul needs in France, under which we lease an Air Transat aircraft during the winter months. All this goes to show that we are managing to be creative.

A word now about our incoming tour operator activities in Canada.

Canada faces major challenges as a destination country, in spite of the 7% growth in the international travel and tourism market that I mentioned in my introduction.

I'm starting to tire of repeating myself, but Canada stands out because of its steady decline as an international tourism destination. Not only have we been bumped from the Top Ten list, but Canada has the unfortunate distinction having seen its absolute numbers of visitors drop year after year—a phenomenon that is virtually unique in the world. It seems the free fall has stopped in 2010, I hope this is the early sign of a recovery.

In our industry, no one is indifferent to this situation, which demands a vigorous response. Jobs are at stake, and so are entire regional economies—not to mention our ability to bounce back, which is eroding as time goes by.

We are going to have to attack the problem on all fronts. There is no single solution; the key is to study what is being done elsewhere, learn lessons from that, and fire at anything that moves, if you will. In short, we have to get busy.

There is one obvious aspect that should be easy to address. I am speaking of the competitiveness of access infrastructures, where we have an abysmal track record. According to the World Economic Forum, Canada ranks 98th out of 133 countries in taxes and airport charges, which plays a part in our standing 106th on the travel and tourism competitiveness ranking. That's not impressive. We could live with such a ranking if we were in the Top Ten. If we were France or Italy. But given that we are on a slippery slope, it truly is far from impressive.

Therefore, the first step must be for the federal government to abolish the rents that it charges airports. This is an archaic model, and because of it Canada is ridiculed around the world.

Be that as it may, our Jonview Canada business unit, the leading incoming tour operator in the country, posted very good results last year after a challenging 2009. We welcomed more than 236,000 passengers, an increase of nearly 15%, and we improved profitability. The upturn was due mainly to the British and French markets.

In France, although business could be better, we are in a fairly enviable situation, and according to our estimates we are the fourth-largest tour operator in the country on a consolidated basis. In the wake of the creation of Transat France in 2009, over the past year we have made enormous strides in terms of increased efficiency. We are in the process of integrating certain business functions. We have grouped all our teams together in Ivry-sur-Seine. And we are extremely satisfied with the *esprit de corps* that is emerging there.

We are continuing our efforts to make Transat one of the most responsible players in the mass tourism industry. This involves building more dynamic relationships with stakeholders and adopting forward-looking practices while urging our partners to do the same.

One of the objectives is to ensure the permanence of assets essential to tourism development. This is in the common interest of all: shareholders, employees, customers, partners and communities.

We have developed a dashboard tool, consisting of 10 objectives, with 52 related priorities and targets. Most important, we are taking action, with 125 initiatives, ranging from modest to large-scale.

Just a few weeks ago, we issued our second Corporate Responsibility Report, covering the years 2009 and 2010. It's been available online since February 15, and includes an exhaustive summary of the initiatives and efforts that we are deploying in this area.

I would like to draw your attention to, among other things, the agreement we signed in 2010 with Beyond Borders, a Canadian NGO, to help combat child sex tourism. Sex tourism involving minors is a crime. It is something that we unequivocally condemn. And we have implemented awareness-raising efforts both in-house and externally, to do our part. Among other things, we provided awareness training on the issue to some 250 of our employees last fall.

Also deserving of mention is the fact that in November 2010 Transat received a World Travel Market Global Award for its efforts in pursuit of sustainable development. Such international acclaim reflects positively on all of our employees as well as our shareholders. Awards like this are also a wonderful incentive for us all to keep up the good work.

In the area of human resources, in 2010 we kept up our efforts at skills upgrading and ensuring the implementation of a dynamic succession. That of course means paying particular attention to training in the area of change management. We also renewed a training program that emphasizes regular interactions between executives and participants. And lastly, we recently revisited our incentive compensation and group insurance programs.

The outlook for long-term growth in the travel industry is quite promising, and we are very well positioned to capitalize on the opportunities that will become available to us. At the same time, we are well aware that ours is a market that regularly faces new challenges. The scheduled carriers are sending signals that they could be in the tourism market for the long run, for example, and the skimming tactics being employed by certain multinationals merit special attention.

In addition, the barrier that used to exist between the producers—that is, the tour operators—and distributors has almost completely vanished. As a result the competition has become even fiercer, and we need to devise new ways of approaching the market.

And, of course, the tenacity of the traditional competition shows no signs of abating.

We are working actively in three particular areas to prepare Transat for the future.

- First, with regard to commercialization in the broadest sense, we will continue to move the organization forward with an eye to presenting a more flexible product offering. Steering this transformation will involve aggressive upgrading of our information-management systems and a more focused product strategy—in the area of sun destination packaging, for instance. This market segment poses a singular challenge: volumes and growth perspectives are impressive, but making it profitable is another story. The agenda therefore includes refining our marketing strategies, growing our distribution network and implementing increasingly more effective business processes.

  These initiatives are part of a major change project to which significant investments are being pledged over the next three to four years.

- In addition, we have begun a strategic rethinking of our brand and customer experience. The goal is to improve our potential for differentiation, enhance the customer experience, and channel the energies of our teams in a clearly defined direction so as to propel Transat into a class by itself on the worldwide leisure travel market.

- Finally, growth remains a priority, of course. This includes going the acquisition route, as long as interesting targets become available and conditions are propitious. Our main intentions are to diversify our source markets by penetrating other national markets; to increase our market share in Ontario; and to continue our integration.

As we embark on fiscal 2011, Transat is well positioned both strategically and financially. Our organization has made significant efficiency and flexibility gains, we are doing a good job of controlling our costs, and our financial structure is sound.

This concludes my presentation for this year. I would now like to offer my thanks to the members of the Board of Directors for their engagement and their contributions, to the entire management team, and to each and every one of Transat's employees.