

Annual Report

2004/2005



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Profile

Our company offers competitively priced air travel for a broad network of European routes under the name transavia.com, as well as travel-related products and services. Distribution takes place via tour operators, the Internet and call centers.

Transportation is offered from the home airports in Amsterdam and Rotterdam, Schiphol Airport and Rotterdam Airport, and from regional airports. In the Business-to-Business (B2B) market, this is achieved in the form of charter flights provided through tour operators, while the accent in the Business-to-Consumer (B2C) market lies on scheduled services for individual passengers. Furthermore, individual passengers can book a seat directly for a large number of charter flights, so that they have an overall choice from approximately 60 destinations.

As a supplement to its air travel services, and in co-operation with specialized partners, transavia.com focuses on retail activities that include, amongst other things, the supply of products and services via our website (hotels, auto rental, insurances, etc.) as well as the sale of catering and luxury products on board of our flights.

transavia.com also operates ad hoc flights and leases aircraft capacity to other airlines, either with or without crews and technical support.

The company's activities are incorporated in the limited partnership Transavia Airlines CV. A private company with limited liability, Transavia Airlines BV, is the managing partner. Transavia is active in the market as transavia.com. Transavia is an independent member of the Air France - KLM Group.

Supervisory Board Transavia Airlines B.V.

J.A.N. van Dijk, Chairman
 G.H. Smit, Vice Chairman
 P.F. Hartman (as of 11 February 2005)
 R.A. Ruijter, RA (until 1 December 2004)
 C. van Woudenberg

Board of Management Transavia Airlines C.V.

Onno P.M. van den Brink, President & CEO
 Gerard J.W.M. Helming, Executive Vice President Marketing and Sales (until 1 December 2004)
 Cor Vrieswijk, Executive Vice-President & COO
 Tjero R. Zomer, Executive Vice-President & CFO

Key figures ^{1,2}

	2004/2005	2003/2004	2002/2003	2001/2002	2000/2001
Result					
Operating revenues	521	489	510	477	469
Operating income	32	19	21	17	19
Pretax income	28	22	17	16	18
Net income	19	14	11	11	12
Capital					
Capital	168	153	140	129	120
Guarantee capital ³	205	190	176	168	156
Capital employed ⁴	385	377	439	399	380
Cash flow					
Cash flow from operating activities	51	39	65	41	73
Net investments	68	-5	102	40	67
Production and personnel					
Number of aircraft	26	27	26	26	25
Available seat kilometers (1,000,000)	10,388	9,923	10,832	10,061	10,426
Passengers carried (1,000)	4,469	4,212	4,016	3,661	3,755
Average number of employees	1,482	1,549	1,714	1,687	1,617
Ratio's					
Operating income as a % of operating revenues	6.1%	3.8%	4.1%	3.5%	4.0%
Operating income as a % of the capital employed	8.4%	5.0%	4.8%	4.2%	4.9%
Net income as a % of average capital	11.7%	9.8%	8.2%	9.0%	10.4%
Guarantee capital as a % of capital employed	53%	50%	40%	42%	41%
Net debt ⁵ : capital	2.8	2.8	2.4	3.1	2.7
Turnover rate of capital employed	1.4	1.3	1.2	1.2	1.2
Interest coverage ratio	5.7	2.6	3.1	2.1	2.5

EUR 1 = US\$ 1.30 at 31 March 2005

1 In millions of euros unless stated otherwise.

2 Figures for 2002/2003 have been adjusted for those changes in accounting policies that have been reflected in the financial statements.

Figures for 2000/2001 till 2001/2002 have not been adjusted for changes in presentation or accounting policies that were reflected in the financial statements afterwards.

3 Capital + Subordinated loan + Deferred income.

4 Assets - Current liabilities + Current portion of long term debt - Financial fixed assets - Liquid funds.

5 Long-term loans + Repayments next year.

Report of the Supervisory Board

We hereby submit the management report and financial statements 2004/2005 of Transavia Airlines C.V. We have adopted the financial statements compiled by the Board of Management, which have been audited by KPMG Accountants N.V. of Amstelveen, whose approval has been expressed in their auditors' report.

transavia.com has succeeded in improving its market position and results during the past year. We see this as confirmation that we have made the right strategic choices in a timely manner during the preceding year. It is therefore especially gratifying that, during the Vakantiebeurs (vacation trade fair) that was held at the beginning of 2005, transavia.com was proclaimed the best "low-cost" carrier in the Netherlands. We are extremely pleased with the commitment to achieving this goal shown by the company's management and personnel during the past year.

The board has held 8 meetings during the reporting period which, with one exception, were always held in the presence of the Management Board. These meetings focused, among other things, on the strategy, the development into a low-cost carrier, the decision to transfer all activities to the label transavia.com, the general financial status and corporate governance. We also attended meetings of the Works Council by rotation. A report on the way in which the company implements the corporate governance code of the Corporate Governance Commission (the Tabaksblad Commission) is incorporated in the management report.

Mr. G.J.W.M. Helming, who, as Executive Vice-President for Marketing and Sales, has made an important contribution to the further development of the company during recent years, has left our company effective 1 December 2004. We would like to thank Gerard for that contribution and wish him the best of luck in his new position as General Manager of a renowned tour operator. At management level, his position will be assumed for the time being by the President & CEO.

During the past year, Mr. R.A. Ruijter has resigned his position as a member of the Supervisory Board, following his departure from KLM. We are grateful to him for the expert manner in which he has contributed to the work of the Supervisory Board in recent years. Mr. P.F. Hartman, Deputy CEO of KLM, has been appointed to take his place.

Amsterdam Airport Schiphol, 28 April 2005
Supervisory Board of Transavia Airlines B.V.

J.A.N. van Dijk, Chairman
G.H. Smit, Vice-Chairman
P.F. Hartman
C. van Woudenberg

Management Report

Highlights

- Transavia succeeded in increasing its turnover during the reporting period 2004/2005 by 6% and in booking a profit for the 27th year in succession. These results have been achieved in a highly competitive market. The transformation into a web-enforced company has in the meantime continued, while the company has invested in growth by adding new destinations and increasing flight frequencies.
- Pre-tax income amounted to € 28.3 million, compared to € 21.8 million in the previous year. This result is almost entirely derived from ordinary operational activities and is in absolute terms a record in the company's history. Operating revenues amounted to € 520.5 million, representing a 6% increase compared to the preceding year. Operating expenses increased by 4% to € 488.2 million.
- In the year under review, transavia.com transported 4.5 million passengers, an increase of 6% compared to the previous year. Of our flights 85% (previous year 80%) were on time. Customer satisfaction was rated at 8.5, compared to 8.3 in the preceding year.
- A number of new steps have been taken in the past year to strengthen the position of the company as a 'low-cost/low-fare' carrier. The most important of these steps is the integration of the charter and scheduled service activities under a new label, transavia.com. That meant saying farewell to the brand name Transavia Airlines and the Basiq Air label. Basiq Air has played an important role in the development of the 'low-cost/low-fare' model within the company, and in the introduction of this concept on the Dutch market.
- The number of scheduled service routes has been further expanded during the reporting period and now stands at 20. Also, the flight frequency on a number of routes has been increased. During the summer season, transavia.com now operates approximately 200 scheduled flights from the Amsterdam airport Schiphol and Rotterdam Airport. Other than that, transavia.com provides flights on approximately 70 charter routes, of which approximately 40 can also be booked directly by individual passengers.
- As of 1 April 2004, the operational organization of retail activities on board of all flights has been contracted out to ILC, a subsidiary of Compass, which is the world's largest company in the area of food service.
- In the years to come, transavia.com will focus primarily on improving returns, as well as continued profitable growth through the introduction of new routes, higher flight frequencies and an expansion of the package of travel-related services, which are being offered to consumers via our webshop.

Strategy

A more profiled strategy was developed during the year under review, which focuses on changing our 'web-enforced' company from an 'airline brand' into a 'travel brand' enterprise, where the pillars 'low-cost/low-fare' and 'individual service' must increasingly complement one another. It was decided at the same time to make further investments in the B2C market by increasing the number of scheduled-service destinations. It is of vital importance to the healthy future of transavia.com that these new routes become profitable within a reasonable period of time.

Integration of activities under the name transavia.com

At the end of 2004, the company opted for the new brand name transavia.com. This name change came into effect on 1 January 2005 and is closely linked to our profiled strategy. At the same time, the company continues to draw full benefit from the confidence that the Transavia name has earned during its decades on the market. Approximately 70 charter routes and the 20 routes of Basiq Air have been merged under this new name.

The postfix **.com**, which has been added to the name, reflects the company's future vision, in which not only communication but also distribution and internal operating processes must be 'web-enforced' as much as possible. For tour operators, distribution will be facilitated via a separate portal. The website is also the central location for the supply of extra services to the consumer. Those services include flight bookings and other travel-related services via the Internet.

The integration of the brand name Transavia Airlines and the successful low-cost label Basiq Air in transavia.com has been successfully completed. This has also been due to an intensive and cost-efficient communication campaign, and the effective integration of the booking systems. The experience that had been gained with Basiq Air was of great value to transavia.com. The market approach of Basiq Air has taught our company how to successfully operate in a market characterized by increasingly strong demand and intensive competition in the area of low-fare scheduled flights. At the same time, it was possible to maintain the extremely valuable relationship with tour operators via the brand name Transavia.

Fleet and Transport

Three new aircraft in 2004 and 2005

transavia.com flies exclusively with Boeing 737-700 and 737-800 aircraft. In 2004, one new 737-700 and one 737-800 were added to the fleet 'ex-factory'. That brought the available fleet for the summer season of 2004 to 28 aircraft (2003: 27). The available seat capacity was 9% higher than in the previous year. Another new 737-700 will be delivered before the summer of 2005. In the summer of 2005, the fleet for charter and scheduled flights will consist of 29 aircraft. The average age of the fleet is approximately 3.7 years. With this, in comparison with comparable airlines, transavia.com has the youngest fleet in Europe.

Transport

In the year under review, 4.8 million seats were sold (9% more than in the previous year) and 10.4 billion seat kilometers were provided (representing an increase of 5%). The commercial load factor rate was recorded at 87% (2003/2004): 84%). The number of transported passengers increased by 6% to 4.5 million.

Markets and activities

The market was still experiencing the effects of the difficult economic climate at the start of the summer season. In the market for holiday flights this translated, among other things, into 'last-minute bookings'. But postponement did not mean cancellation. The elimination of the Dutch soccer team from the semi-finals of the European Championship competition and the excessive rainfall at home still led many people to decide to go in search of the sun. transavia.com was able to benefit from that trend, both in the area of charter flights and scheduled services. This success is also due to the expansion of the route network, the activities of the tour operators, the huge efforts of our employees, and the many intensive special offers and advertising campaigns.

www.transavia.com

In the year under review, approximately 91% of all direct bookings were made via the Internet. That makes transavia.com one of our country's largest Internet sales organizations. The highest number of visitors to our website in a single day was almost 100,000. Besides the booking of flights, our website is also increasingly being used for reserving hotel rooms, renting cars, taking out travel insurance policies, purchasing of travel guides, and so on. In co-operation with an external partner, transavia.com is now also offering access to an increasing number of European entertainment options and activities, such as highly popular city tours, theatre and dinner shows, musicals, interesting cultural sites and sports events. This emphasizes the new approach that our company is taking, in which transavia.com is profiling itself as the portal where a trip begins.

The B2B market (charter flights for tour operators)

transavia.com is operating charter flights for primarily Dutch tour operators. Most of these flights are offered from Amsterdam Schiphol and Rotterdam Airport. Charter flights are also operated from the regional airports Maastricht Aachen Airport, Enschede Airport Twente, Groningen Airport Eelde and Eindhoven Airport. The concept for all these flights is that travelers pay for onboard catering.

The contacts with our business partners (the tour operators) will also be 'web-enforced' as much as possible, both to optimize efficiency and to minimize costs. With this background in mind, considerable efforts are currently being made to make it possible for tour operators to make flight transactions directly via the business portal of

transavia.com and with the help of a seat management system, which is also used by those consumers that book directly. Additionally, together with our partners, we are considering whether we can sell additional travel products of our business partners via our own website, such as hotel beds and excursions. In that case, the website of transavia.com will also provide access to the databases of our business partners.

In order to also limit the administrative costs, both for the tour operator and for transavia.com, pilot projects on the replacement of traditional tickets for charter flights were started in the preceding year. As for scheduled services, we expect that tickets will no longer be used in 2006.

During the year under review the flight vacation market recovered somewhat from the dip of the preceding year. The market as a whole showed growth of 3%. On the flight vacation market for package trips, Turkey proved to be the largest destination country for the first time in history. This was at the expense of Spain, which was ousted from its first place. Greece and Portugal also showed a decline.

In this growing market, our market share has declined from 47% in 2003 to 45%, while charter sales developed favorably. This was in part due to additional turnover, which we were able to gain through the bankruptcy of a competitor. The number of charter destinations amounted to approximately 70 in the summer and 30 in the winter.

The B2C market (scheduled services and seat-only services on charter flights)

During the year under review, until the end of 2004, Transavia operated 20 scheduled service routes to 18 destinations under the Basiq Air label, departing from Amsterdam and Rotterdam Airport. These scheduled service flights transported a total of 2.1 million passengers in 2004/2005. 32% of bookings were made from outside of the Netherlands. A decision has in the meantime made to add two new destinations to the network, namely Genoa (Italy) and Reus (northern Spain), starting with the summer flight schedule of 2005. Furthermore, the frequency of scheduled flights to the destinations Alicante, Malaga, Naples, Nice and Venice has been increased. Each week, transavia.com now operates approximately 200 scheduled flights from Amsterdam Airport Schiphol and Rotterdam Airport.

Transavia offers individual passengers the possibility of directly booking 'seat-only' flights for a number of charter destinations via the Internet or by telephone. During the year under review, this service was offered on almost 40 of the 70 charter routes. These are what are known as scheduled charters, giving clients certainty about the time of departure. For some destinations, such as Alghero in Sardinia and the Moroccan Marrakech, the demand was unexpectedly high.

Retail activities

As of 1 April 2004, the logistic organization of retail activities on board all flights has been contracted out to ILC, a subsidiary of Compass, which is the world's largest company in the area of food service. A service concept in which travelers pay for catering on board is now operated for all charter and scheduled services. Luxury articles are also offered for sale on board. Total sales increased by 7% during the reporting period and in comparison to the preceding year.

The sale of travel-oriented products via our own website, such as hotel beds, car rentals, tickets for museums and events, insurance policies, excursions and photo services, is also being carried out in co-operation with specialized partners and has shown very promising development during the first year. These activities will still be expanded further in the near future.

This retail area calls for a special organization with specific skills and competencies. The structure and the details of this organization are currently being developed.

Ad hoc flights

In addition to the primary activities, Transavia also offers ad hoc flights for companies and organizations. Additionally, sub-charters are operated for other airline companies. These activities, too, have made a good contribution to sales this year. In the year under review, turnover for this activity amounted to € 22.8 million, representing an increase of 3% in comparison to the previous year.

Leasing

During the last winter season, Transavia was successful in leasing out temporarily available aircraft capacity. During the winter season of 2004/2005, a total of nine aircraft were leased to airlines in various countries. In one case, the aircraft was leased with a crew. To align capacities very precisely with demand, aircraft were leased out and leased in at various moments in time. In the summer this even led to situations where capacity was being let and rented simultaneously. Two aircraft had been hired out for a longer period, one to Sun Country and another to Air Berlin. To nevertheless be able to meet peak demand, aircraft were rented from KLM and South African Airways for shorter periods of time. This construction was attractive to Transavia, because it led to higher fleet productivity. This is a good example of how synergy advantages can be obtained through the use of the available aircraft capacity within the Air France - KLM Group.

Denied Boarding Compensation

We agree with the opinion of the industry that the European Commission has gone too far in protecting consumers in case of delayed departures with its recent Denied Boarding Compensation regulation. In comparison to other forms of transport, an unreasonable relation has been created here between the amount of the compensation, which is in fact a fine, and the price of a ticket. In the case of a low-cost / low-fare company such as transavia.com, the amount of the compensation quickly exceeds a multiple of the amount that the passenger has paid. Furthermore, we find it unjust and incomprehensible that compensation must be offered in cases of 'force majeure', such as when an airport is closed because of exceptional weather conditions, for instance. After all, it is safe to assume that intense competition and market forces will lead to a situation where airline companies will be especially careful with regard to the interests of their passengers. We will continue to press for this regulation to be changed so that these complaints are met.

Organization and staff

Transformation into a web-enforced enterprise

In the eyes of customers, the leadership of transavia.com in the area of electronic sales processes is a decisive factor. Because of this, and to be able to operate as efficiently as possible as a low-cost company, it was decided that the organization must be 'web-enforced' as much as possible. This means that the operating processes are carried out better and more efficiently through make as much use as possible of Internet and intranet technologies. This is the case for our contacts with our business partners (especially the tour operators), consumers that book flights and check in by themselves and our suppliers.

Internally and wherever possible, we have opted for a 'web-enforced' organization of our operating processes, with the goal of improving our business transactions and making them more efficient. Important progress has been made in this area during the last year. Examples of this include:

- Making operating information available in digital form to flight personnel (manuals, work instructions, aviation legislation and safety requirements);
- Making online flight instructions available to flight personnel (weather, loading, passengers, team and destination information), so that an important part of the flight preparation can be carried out from any location, also from home;
- Ground personnel work with mobile workstations, with which task assignments can be carried out and checked off, component parts can be ordered and manuals can be consulted;
- Employees can use the intranet - Transnet to handle all HRM matters, including changes in personal information and viewing working conditions, including work schedules and vacation day management.

This 'web-enforced' approach to operating processes requires new competencies and skills; the company has made it a priority to develop and integrate these in the functioning of its employees.

Productivity

The introduction of the 'web-enforced' business model has made a significant contribution to the productivity of each employee. As a consequence of this, the number of permanent positions in the ground organisation will decrease by 70 during 2004 and 2005. This reduction will be achieved mainly by natural staff turnover, by relocating employees to different positions and through voluntary redundancy. Careful agreements have been made with those employees who have had to (involuntarily) depart, agreements that take the interests of both the employee and the company into consideration.

Despite the strong expansion of our scheduled service activities, the number of employees decreased during the reporting year. This decline was noted in all employee categories.

Staffing levels

The average number of employees fell by 4% to 1,482 (full-time equivalents) during the year under review. This annual average is compiled as follows (the comparative figures for 2003/2004 are given in parentheses):

- Flight personnel 912 (941);
- Technical and operational personnel 316 (346);
- Office staff 254 (262).

Collective Labor Agreements (CLA)

CLA agreements have been concluded during the reporting year with cabin, cockpit and ground personnel, and with the corresponding labor organizations, which are valid until 1 April 2006.

A new compensation structure has come into force for senior management during the reporting year, in which a larger part of the compensation is result-based. A number of CLA agreements will be up for renegotiation in the future. In this regard, governmental regulations on early retirement and pensions assume a dominant position. We foresee that major efforts will be needed to find a balance between the wishes of the employees, the fiscal possibilities and the cost structure of a company such as Transavia.

Works Council

The sweeping changes that have been made to the company during the reporting period have had repercussions regarding the work of the Works Council, and they have led to a number of different requests to seek advice. The consultations had a constructive and pleasant character, which has contributed to agreement being reached on most points. A total of 17 Works Council meetings were held. A part of the Works Council was newly elected during the course of the year under review. We would like to express our thanks to the members who have stepped down for their contribution in the preceding period.

Flexibility of employees

Both management and staff have proven during recent years that they can implement major changes and bring them to a good conclusion. This was true, among other things, for the introduction of the 'web-enforced' low-cost business model, the transition to a single aircraft type, retail activities on board and, more recently, the integration of charter and scheduled services under the new name transavia.com. We therefore have the greatest respect for the efforts, enthusiasm and flexibility of our staff. This makes us confident that we, as transavia.com, will continue to be successful in the years to come.

Financial performance

Results

In the year under review (2004/2005), Transavia's operating revenues increased by 6% to € 520.5 million. Operating cost rose by 4% to € 488.2 million. The cost per seat decreased by 5%. The negative balance of financial income and expenses (including interest) declined by 20% to € 5.7 million. Overall this resulted in a pre-tax income of € 28.3 million (2003/2004: € 21.8 million). This result was achieved almost entirely from operational activities. The net income after corporation tax amounted to € 18.7 million (2003/2004: € 14.3 million).

The yield on average working capital (ROCE) was 8.4% in 2004/2005 (2003/2004: 5%). The net yield on average capital amounted to 11.7% in the year under review, as compared with 9.8% in the previous year.

The company's solvency position, defined as the ratio between the guarantee capital and the working capital, is 53%.

Investments and financing

Total investments in fixed assets amounted to € 39.4 million in the year under review and largely concerned the acquisition of aircraft. Besides this, large investments were made in systems aimed at enabling transavia.com to implement its internal operations and the communication with customers and suppliers through 'web-enforced' technologies and procedures.

A single aircraft was acquired in ownership for the fleet in 2004. At the request of the KLM Group and to improve the group's strategic cash position, this aircraft, and also two other aircraft that were purchased previously, were financed in the amount of approximately € 100 million. As a consequence of this, the company has a higher cash position than is strictly necessary.

Profit distribution

It is proposed that the sum of € 7.1 million, derived from the net income of the year under review, be paid out to the partners.

Corporate Governance

Good corporate management, and its effective supervision, is an essential precondition for the company's optimum performance, so that all the parties involved with the company can be confident that their interests will be properly protected.

Transavia airlines C.V. is a limited partnership with one managing partner, namely Transavia airlines B.V. Transavia is a 100% subsidiary of KLM and its results are consolidated with those of KLM. Transavia has a Supervisory Board. The Board of Management of Transavia is responsible for the (day-to-day) management of the company. The Supervisory Board supervises the management of the company and is jointly responsible for the general policy of the company. Members of the Board of Management are appointed and dismissed by the General Meeting of Shareholders. Appointments are proposed by the Supervisory Board, whose proposals are not binding. The Supervisory Board is given the opportunity to present an advisory opinion on a proposed resolution for the appointment or dismissal of a Member of the Board of Management. The General Meeting of Shareholders also appoints the members of the Supervisory Board.

Besides its supervisory tasks, the Supervisory Board also has an advisory task. In fulfilling their tasks, the board members focus their attention on the interests of the company and of associated companies. The management ensures that the Supervisory Board is provided with all data and information in a timely manner, which is required for the fulfillment of their tasks. An audit committee is appointed within the Supervisory Board. The working method and the responsibilities of this committee are defined in the 'Terms of Reference'.

Transavia is not listed on the stock exchange and, as a subsidiary, is a part of KLM. That means that the corporate governance code ('the Code') of the Netherlands is not applicable. Nevertheless, Transavia has opted to use the Code as a reference framework. As a result of this, different principles and responsibilities, which may or may not be a direct consequence of the Code, will be defined in detail and in writing in a management regulation, or a regulation for the Supervisory Board, and a 'whistleblower regulation' will be formalized.

Forecast

Very substantial efforts and investments will be made in 2005/2006 to be online with business partners in the B2B market during the course of the year.

A lot of attention will also be paid to the new regulations with regard to IFRS (International Financial Reporting Standards) and SOx ('accountability standards' for corporate management). At the same time, we will consider the implications of IFRS for our reporting.

Partially through the moderately positive development of the economy, we expect to see further recovery in the markets that are relevant to transavia.com. In this regard, our share of the B2B charter market is expected to increase.

With the arrival and further growth of a number of other carriers from various European countries, the competition in the Dutch low-cost / low-fare market is increasing sharply. A finely-tuned route network and revenue management must assure that the yield per seat does not decline any further. Cost management and growth in productivity remain key factors for achieving an acceptable return. In particular, returns on the scheduled service routes, which were introduced in 2004 and at the start of 2005 and that operate primarily from Rotterdam, will be a critical factor for increased profit in the financial year 2005/2006.

Regulatory guidelines from 'The Hague and Brussels' exert a major influence on our industry; it is therefore highly desirable that we, as an industry, can provide input in advance and can participate in the decision-making process.

The cost development of airports in general and Amsterdam Schiphol Airport in particular continues to cause us concern. We are of the opinion that it is of vital importance to the economy of the Netherlands to have an international airport that offers facilities at a competitive cost level and to a variety of user categories, irrespective of whether the airport is privatized or not. We are also extremely concerned about the development of kerosene prices, and about the implications of government regulations covering early retirement and (pre-) pensions.

Schiphol, 28 April 2005

The Board of Management

Onno P.M. van den Brink

Cor Vrieswijk

Tjero R. Zomer

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Balance sheet as at March 31, 2005

(x € 1,000)

(before profit appropriation)

	2004/2005	2003/2004
Fixed assets		
Tangible fixed assets		
Aircraft	475,225	469,900
Buildings	8,670	9,120
Other	3,542	2,909
	487,437	481,929
Financial fixed assets	98,975	74,416
	586,412	556,345
Current assets		
Inventories	4,139	4,735
Receivables	20,614	21,289
Liquid funds	182,585	182,807
	207,338	208,831
Current liabilities	-/-160,036	-/-156,736
Current assets less current liabilities	47,302	52,095
Assets less current liabilities	633,714	608,440
Long-term loans		
Subordinated loan	22,689	22,689
Aircraft loans	377,796	376,682
Other long-term loans	42,838	30,940
	443,323	430,311
Provisions	7,715	10,591
Deferred income	14,395	14,767
Capital	168,281	152,771
	633,714	608,440

Statement of income for the year 2004/2005

(x € 1,000)

	<i>2004/2005</i>	<i>2003/2004</i>
Operating revenues	520,520	489,159
Operating expenses		
Staff costs	93,061	92,145
Depreciation	31,086	28,705
Other operating expenses	364,085	349,537
	<u>488,232</u>	<u>470,387</u>
Operating income	32,288	18,772
Financial income and expenses	-/-5,676	-/-7,094
Result on sale of assets	<u>1,659</u>	<u>10,139</u>
Pretax income	28,271	21,817
Contribution to corporate income tax	<u>-/-9,541</u>	<u>-/-7,527</u>
Net income	<u>18,730</u>	<u>14,290</u>

Statement of cash flows for the year 2004/2005

(x € 1,000)

	2004/2005	2003/2004
Cash flow from operating activities		
Net result	18,730	14,290
Depreciation	31,086	28,705
Movement in receivables	675	-/-977
Movement in inventories	596	945
Movement in current liabilities	3,300	6,439
Movement in provisions	-/-2,876	-/-17,634
Movement in deferred income	-/-372	1,012
	51,139	32,780
Cash flow from investing activities		
Additions to tangible fixed assets	-/-39,401	-/-67,507
Additions to financial fixed assets	-/-30,912	-/-17,052
Disposals	2,807	83,160
Effect of change in accounting policy for heavy maintenance on aircraft	-	6,696
	-/-67,506	5,297
Cash flow from financing activities		
Increase in aircraft loans	35,579	126,748
Decrease in aircraft loans	-/-34,465	-/-36,363
Revaluation of financial fixed assets	6,353	5,844
Movement in other long-term loans	11,898	18,978
Dividend distribution	-/-3,220	-/-3,875
Effect of change in accounting policy for heavy maintenance on aircraft	-	2,840
	16,145	114,172
Movement in liquid funds		
	-/-222	152,249
Opening balance	182,807	30,558
Closing balance	182,585	182,807
	-/-222	152,249

Accounting Policies

General

The balance sheet as at March 31, 2005 and the statement of income for the year 2004/2005 represent the financial statements of Transavia Airlines C.V. By virtue of its being a limited partnership, the company is not liable to taxation on its profit. The company contributes to the corporate income tax payable by the partners. This contribution is calculated at the standard rate. The 2004/2005 financial statements, including the comparative figures for 2003/2004, have been prepared in conformity with Part 9 of Book 2 of the Netherlands Civil Code.

Transactions between Transavia Airlines C.V. and Group companies are based on arm's length conditions.

Transavia's results as included in KLM Group financial statements differ slightly from the results published in this report on account of its accounting policies differing in certain details from those of KLM Group.

The figures for 2003/2004 have been adjusted for comparative purposes.

This report is a translation of the original Dutch version. In matters of interpretation the Dutch text will prevail.

Principles of valuation of assets and liabilities and of determination of income

General

The financial statements are prepared in accordance with the historical cost convention. Assets and liabilities are carried at face value unless otherwise stated. Assets are stated after deduction of any necessary provisions. Operating revenues and expenses relate to the airline activities during the year.

Foreign currencies

Assets and liabilities denominated in foreign currencies are translated at exchange rates ruling as at year-end. Exchange rate differences as at year-end are taken to the statement of income as Other operating expenses. Tangible fixed assets are translated either at exchange rates ruling as at the time of payment or at the rates stated in the forward exchange contracts.

Financial instruments

Financial instruments carried in the balance sheet are stated at face value.

Off-balance sheet financial instruments which are concluded to hedge the price, interest rate and foreign exchange exposure on assets, liabilities, certain future purchase and sales transactions and cash flows from operating activities are stated at the hedged position.

Income and expenses resulting from transactions in foreign exchange instruments which serve to hedge operational cash flows are included in the statement of income when exchange rate differences occur in the operational cash flow. Income and expenses arising from transactions which serve to hedge the risk of fluctuations in fuel prices are included in the statement of income when the fuel consumption is included in costs.

Tangible fixed assets

Aircraft are carried at net cost less straight-line depreciation based on estimated useful lives and taking into account estimated residual values, or at lower realizable value.

Cost includes the cost of purchase and interest payable on advance financing. Where economic ownership is obtained under lease agreements, aircraft are also included in this heading and valued in accordance with the same principle.

Aircraft are depreciated on a straight-line basis over a period of 18 years to a residual value of 20% of net cost.

Heavy maintenance costs are capitalized and written-off on a straight-line basis over the period to the next heavy maintenance. Costs incurred for major replacements and improvements are capitalized and written off over the assets' economic lives to a maximum of the remaining lives of the aircraft concerned.

Other tangible fixed assets are carried at cost less straight-line depreciation based on estimated useful lives and taking into account estimated residual values. Tangible fixed assets on order and installments paid on tangible fixed assets are included in the balance sheet to the amount of the installments paid plus additional expenses.

Tangible fixed assets are assessed for extraordinary reductions in value if events or special circumstances could mean that the book value might no longer be achievable. In assessing extraordinary value reductions, the achievable amount is estimated taking account of the present value of the anticipated future cash flows from the relevant result-generating unit or the immediate sale value if this is higher. If an extraordinary value reduction occurs, a provision is made in order to reduce the book value to the estimated achievable value.

Financial fixed assets

Financial fixed assets are carried at face value less any diminutions in value deemed necessary.

Securities held to hedge currency and interest rate risks on part of the financial lease commitments are included in Financial assets at cost plus realized interest.

Pension schemes

Pension obligations resulting from pension schemes are fully placed with pension funds separate from the company. Cost related to pension benefits accrued by employees, are allocated to the actual working years on which the benefit claims are based. Pension cost of cockpit- and ground staff are calculated on the basis of the so-called statistical method, which takes actuarial accounting principles into consideration. Pension cost of cabin staff are equal to the Employers' Premiums, which are laid down in the pension plan. Together with the Employees' Contributions, these premiums make up the total contributions available. Pension funds apply an actuarial interest rate of 4% for cockpit as well as ground staff. Obligations are determined on the basis of the mortality table 'Collectief 1993' (cockpit & ground staff). Capital presently available is at disposal to cover pension obligations of the cabin staff.

(Early) Retirement plan

Plans for - partial - early retirement were drawn up for ground staff, cabin staff as well as for cockpit staff. (Early) retirement provisions were formed to cover self-administered pension obligations of employees who may participate or are already participating in these plans. Moreover, a provision for reorganization cost is incorporated.

The obligations are valued at face value, among other things taking into account probability of participation, age, salary and additional expenses.

Deferred income

Deferred income is released to the statement of income in accordance with the depreciation term or lease term of the related asset.

Statement of cash flows

Cash flow from operating activities is calculated by means of the indirect method.

Notes to the balance sheet as at March 31, 2005

(x € 1,000)

Fixed assets

Tangible fixed assets

	<i>Aircraft</i>	<i>Buildings</i>	<i>Other</i>	<i>Total</i>
Balance as at April 1, 2004				
Cost	562,612	15,169	23,044	600,825
Depreciation	-/-92,712	-/-6,049	-/-20,135	-/-118,896
Book value as at April 1, 2004	469,900	9,120	2,909	481,929
Movements in book value				
Additions	37,271	11	2,119	39,401
Depreciation	-/-29,351	-/-461	-/-1,274	-/-31,086
Sales, write-offs	-/-2,595	-	-/-212	-/-2,807
Total movements	5,325	-/-450	633	5,508
Balance as at March 31, 2005				
Cost	594,694	15,180	24,882	634,756
Depreciation	-/-119,469	-/-6,510	-/-21,340	-/-147,319
Book value	475,225	8,670	3,542	487,437

Investments in aircraft in 2004/2005 include final payments for one new Boeing 737-800 that was added to the fleet during the year, installments paid on one aircraft under construction and financing costs payable up to the delivery of this aircraft. Advance payments on aircraft, including financing costs, amounted to € 11.6 million as at March 31, 2005 (2004: € 23.0 million).

The item Aircraft includes thirteen Boeing 737-800s and four Boeing 737-700s. Financing agreements concluded for a number of aircraft are presented in the item Aircraft loans.

Tangible fixed assets as at March 31, 2005 consisted of aircraft held under financial lease agreements to an amount of € 343.7 million (2004: € 316.4 million).

Write-offs relate to fully depreciated assets.

Financial fixed assets

	2004/2005	2003/2004
Balance as at April 1	74,416	63,208
Movements		
Investments	25,922	17,052
Accrued interest	4,990	4,121
Currency revaluation	-/-6,353	-/-9,965
Balance as at March 31	98,975	74,416

Financial fixed assets consist of bonds held to cover future financial lease commitments in foreign currencies. These foreign currency commitments are presented in the item

Aircraft loans. The currency revaluation is fully included in the result.

Current assets
Inventories

	2004/2005	2003/2004
Maintenance materials	3,410	3,717
Other inventories	729	1,018
	4,139	4,735

Receivables

	2004/2005	2003/2004
Trade receivables	6,907	9,042
Guarantees	4,166	3,752
Advance payments on aircraft insurance	2,042	2,226
Advance payments on operational leases	1,483	1,223
Other receivables	4,507	3,136
Prepayments and accrued income	1,509	1,910
	20,614	21,289

Guarantees include amounts for the operational leases of aircraft with a term of more than one year to an amount of € 3.3 million (2003/2004 € 3.6 million).

Liquid funds

Of the item Liquid funds, an amount of € 177.4 million (2003/2004: € 152.7 million) relates to short-term deposits which can be paid out at short notice. The movement in Liquid funds relates to aircraft loans contracted during the fiscal year.

Group companies

Liquid funds, receivables and current liabilities include a net amount receivable from Group companies of € 174.3 million (2003/2004: net amount payable of € 150.8 million) excluding the corporate income tax contribution.

Current liabilities

	2004/2005	2003/2004
Current portion of long-term debt	33,149	31,776
Accounts payable	16,264	15,204
Deferred income	46,633	49,931
Amounts payable to staff	14,377	13,031
Pension funds current accounts	3,078	2,998
Flight-related costs payable	10,687	9,145
Corporate income tax contribution	9,541	9,024
Managing partner's profit share	159	159
Taxes and social security contributions	256	815
Other liabilities	3,400	2,804
Accrued expenses	22,492	21,849
	160,036	156,736

Long-term loans**Subordinated loan**

The item Subordinated loan represents a loan granted by the limited partners. This loan is subordinated to all claims of both existing and future creditors and banks. This loan is not

subject to any repayment obligation. The interest rate carried by this subordinated loan is fixed annually; the rate for 2005 is 4.36%, that for 2004 was 4.31%.

Aircraft loans

	2004/2005	2003/2004
Balance as at April 1	402,859	307,191
Loans drawn	35,579	126,748
Currency revaluation	-/-5,732	-/-8,114
	<hr/>	<hr/>
Repayments	432,706 -/-25,890	425,825 -/-22,966
	<hr/>	<hr/>
Due within one year	406,816 -/-29,020	402,859 -/-26,177
	<hr/>	<hr/>
Balance as at March 31	377,796	376,682

The item Aircraft loans consists of commitments arising from financing agreements concluded in respect of aircraft that have been mortgaged for that purpose. The loans are repayable in installments, the last installment falling due in 2015. Installments payable in 2005/2006 are included under Current liabilities.

Of the loans, an amount of € 125.2 million (2003/2004: € 148.2 million) has a remaining life of more than five years. The interest payable on long-term loans is mainly variable and averages 3.47% (2003/2004: 3.38%). The currency revaluation is fully included in the result.

Other long-term loans

The item Other long-term loans relates to commitments arising from aircraft maintenance contracts with an expected maximum remaining life of 5 years. Installments payable in 2005/2006 are included in Current liabilities.

Provisions

Balance as at April 1, 2004	10,591
Additions	2,248
Withdrawals	-/-4,623
Releases	-/-501
	<hr/>
Balance as at March 31, 2005	7,715

Provisions

The item Provisions relates to obligations associated with stand-down arrangements and reorganisation costs. The stand-down arrangements are intended for obligations arising from various arrangements relating to the early retirement of both cockpit and ground staff.

The provision for reorganisation costs relates to the estimated severance payments for employees and was € 1.1 million at 31 March 2005 (31 March 2004: € 3.9 million). The reorganisation provision is primarily short-term.

The provision for stand-down arrangements is primarily long-term.

Deferred income

	2004/2005	2003/2004
Balance as at April 1	14,767	13,755
Additions	1,802	3,005
Withdrawals	-/-2,174	-/-1,993
	<hr/>	<hr/>
Balance as at March 31	14,395	14,767

This item relates to benefits from aircraft financing to be released to future statements of income up to the year 2015.

Capital

	2004/2005	2003/2004
Balance as at April 1	152,771	139,516
Effect of change in accounting policy for heavy aircraft maintenance	-	2,840
Result for the year	18,730	14,290
Managing partner's profit share	-/-159	-/-159
Profit distribution to limited partners	-/-3,061	-/-3,716
	<hr/>	<hr/>
Balance as at March 31	168,281	152,771

The balance sheet as at March 31, 2005 includes the contractual profit share of Transavia Airlines B.V., the managing partner of Transavia Airlines C.V. The profit distribution to

limited partners will be released from Capital after approval by the General Meeting of Partners.

Commitments and contingent liabilities

As at March 31, 2005, guarantees had been given to third parties to an amount of € 2.7 million (March 31, 2004: € 2.3 million). Long-term rental and lease commitments totaled € 78.4 million (2003/2004: € 99.1 million). Commitments in respect of aircraft on order but not yet delivered amounted to € 18.2 million (2003/2004: € 51.1 million).

Of the total commitments, an amount of € 45.0 million has a remaining term of less than one year (2003/2004: € 62.4 million), an amount of € 47.0 million a remaining term of between one and five years (2003/2004: € 81.6 million) and an amount of € 7.3 million a remaining term of more than five years (2003/2004: € 8.5 million).

Financial instruments

Financial instruments are used to hedge price and currency risks on assets, liabilities and operational cash flows.

The financial instruments carried in the balance sheet consist almost entirely of Financial fixed assets, Trade receivables, Other receivables, Liquid funds, Long-term loans and Current liabilities. The estimated market value of these Financial fixed assets and the related Long-term loans individually differ from book value on account of movements in

market rates of interest. As a result of the direct relationship between the Financial fixed assets and the Long-term loans, the difference is on balance virtually nil. The estimated market value of the other financial instruments is on balance almost equal to their book value.

The credit risk is concentrated mainly in the tour operator sales channel. To limit this credit risk, most of the amounts receivable from tour operators are collected before the date of the flight. There is also a credit risk in the event of a counter party in derivative financial instruments not fulfilling its obligations. In view of the creditworthiness of the counter parties with which derivative instruments are concluded, this credit risk is limited.

The underlying value of off-balance sheet forward exchange contracts and forward fuel contracts is shown in the table below. The difference between the contract amount and market value is due to prior-year forward exchange contracts for the purchase of new aircraft.

Forward fuel contracts are based on expected fuel requirements. The market value is the estimated fair value based on market quotations for the same or similar assets or on the discounted present value using a current discount rate. All forward exchange contracts are concluded with KLM N.V.

	<i>Contract amount March 31, 2005</i>	<i>Market value March 31, 2005</i>
Forward exchange contracts	105,736	105,626
Forward fuel contracts	57,081	70,231

Notes to the statement of income for the year 2004/2005

(x € 1,000)

Operating expenses

Staff cost

	<i>2004/2005</i>	<i>2003/2004</i>
Salaries	76,165	73,827
Pension charges	7,669	6,833
Social security charges	5,552	5,719
Other labour costs	3,675	5,766
	93,061	92,145

During the year Transavia employed an average workforce of 1,482 FTEs (2003/2004: 1,549).

Within the company a number of different pension funds for separate groups of employees are present. These plans can for instance be divided in Defined Contribution and Defined Benefit plans. In the company both types are current. The pension plans' administration is put out to pension funds.

These pension funds are required to have sufficient funds as their disposal to cover pension obligations according to the principles applied to determine pension provisions stipulated by the supervising authority - the Nederlandsche Bank.

Other labor costs include an addition to the Provision for (early) retirement commitments of € 2.2 million.

Other operating expenses

	<i>2004/2005</i>	<i>2003/2004</i>
Handling cost, catering cost and passenger taxes	115,740	111,402
Aircraft maintenance and fuel costs	93,413	80,665
Landing and navigation costs	74,527	71,602
Operational aircraft lease expenses	27,785	28,624
Miscellaneous operating expenses	52,620	57,244
	364,085	349,537

Group company transactions

Group company transactions relate mainly to the supply of fuel, aircraft handling, aircraft maintenance, temporary aircraft rentals and cash management.

Financial income and expenses

This item consists of interest income of € 3.8 million (2003/2004: € 2.6 million), interest expenses of € 11.5 million (2003/2004: € 11.5 million) and income from aircraft financing attributable to the year. Interest to an amount of € 0.2 million was capitalized during the year in respect of financing costs for aircraft on order. Financial income and expense include net interest income from Group companies to an amount of € 2.5 million (2003/2004: € 1.3 million).

Result on sale of assets

This item relates to the profit realized on the sale of a Boeing 757 spare engine.

Managing directors' remuneration

The Managing Directors' remuneration charged to the company in 2004/2005 amounted to € 1.4 million (2003/2004: € 1.3 million). No loans, advances or guarantees have been granted to the Directors.

Schiphol, 28 April 2005

Board of Management of Transavia Airlines C.V.
Onno P.M. van den Brink, President and CEO
Cor Vrieswijk
Tjero R. Zomer

Other information

Auditors' report

Introduction

We have audited the financial statements of Transavia Airlines C.V., Schiphol, for the year 2004/2005. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Scope

We conducted our audit in accordance with auditing standards generally accepted in the Netherlands. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the company as at March 31, 2005 and of the result for the year then ended in accordance with accounting principles generally accepted in the Netherlands and comply with the financial reporting requirements included in Part 9 of Book 2 of the Netherlands Civil Code.

Amstelveen, 28 April 2005
KPMG Accountants N.V.

Contractual conditions regarding profit appropriation

The managing partner's profit is set by contract. The remaining profit disclosed in the statement of income is freely available to the General Meeting of Partners in conformity with the company's articles.

Profit appropriation 2004/2005

It will be proposed to the General Meeting of Partners that € 7.1 million of the profit shall be distributed to the limited partners. Subject to approval, this amount will be charged to the limited partners' capital account.

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