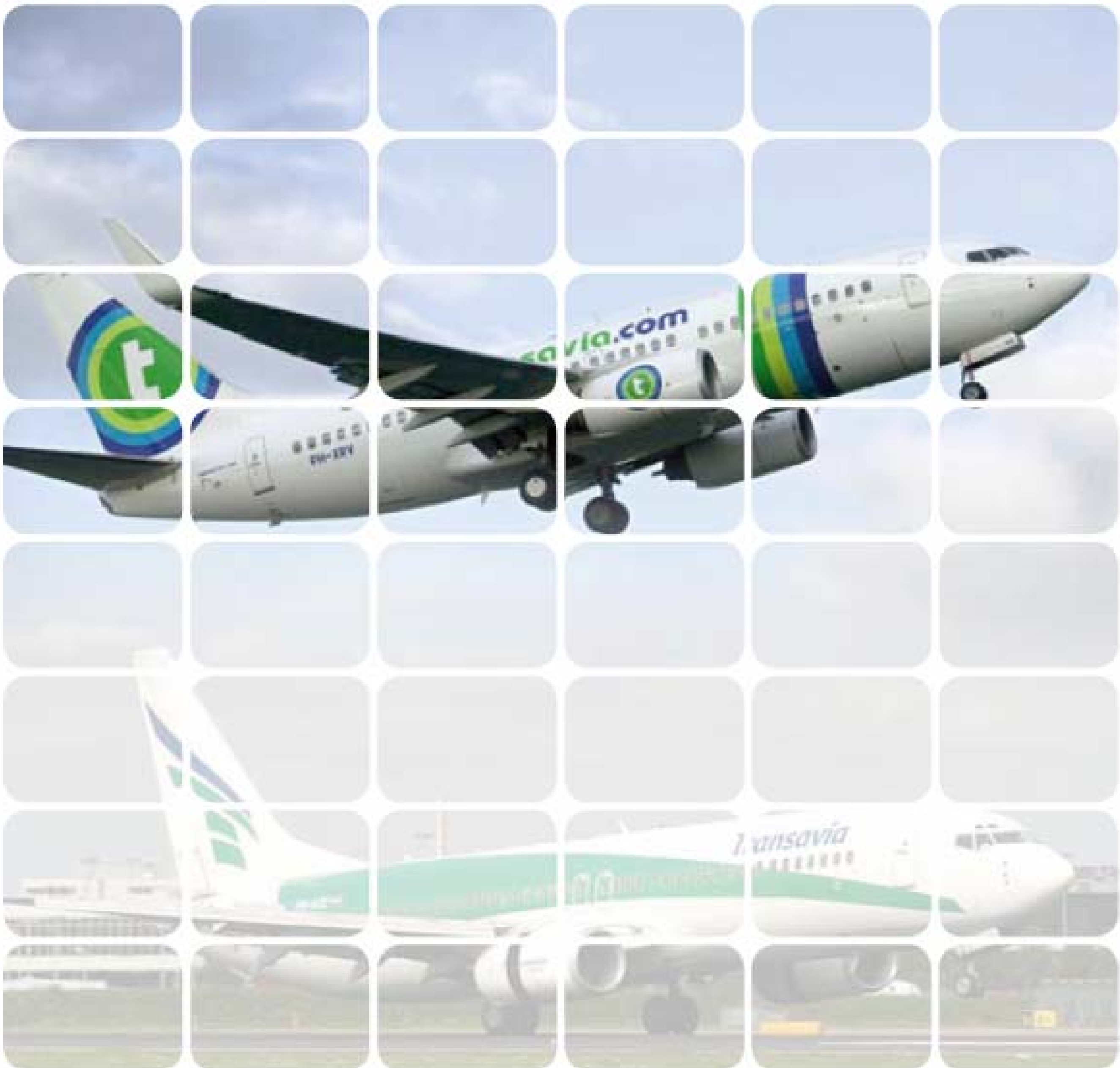
Annual Report
2005/2006



Transavia Airlines C.V. is registered in the register of business names at the Chamber of Commerce & Industry in Amsterdam, The Netherlands, under number 34069081.

Content (clickable)

Profile

Under the name transavia.com, our company offers competitively priced air travel and a relevant package of travel-related products and services. transavia.com is leading in the application of advanced and easily accessible media, especially the Internet and related technology.

Transportation is offered from the home airports in Amsterdam 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 65 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 travel-related 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. Furthermore, and in close cooperation with reputed tour operators, transavia.com offers via its website package deals comprising flight, accommodation and local transport.

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.com is an independent member of the Air France - KLM Group.

This Annual Report is published only in electronic format and is a translation of the original Dutch version. In matters of interpretation the Dutch text will prevail.

Supervisory Board Transavia Airlines B.V.

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

Board of Management Transavia Airlines C.V.

Onno P.M. van den Brink, President & CEO
Cor Vrieswijk, Executive Vice-President & COO
Tjero R. Zomer, Executive Vice-President & CFO

Key figures[1,2]

	2005/2006	2004/2005	2003/2004	2002/2003	2001/2002
Result					
Operating revenues	597	521	489	510	477
Operating income	24	28	19	21	17
Result on ordinary activities before contribution to corporate tax	18	24	22	17	16
Net result	11	14	14	11	11
Capital					
Capital	126	133	153	140	129
Guarantee capital [3]	161	170	190	176	168
Capital employed[4]	391	403	377	439	399
Cash flow					
Cash flow from operating activities	53	53	39	65	41
Net investments	50	68	-5	102	40
Production and personnel					
Number of aircraft	27	26	27	26	26
Available seat kilometers (x 1,000,000)	11,432	10,388	9,923	10,832	10,061
Passengers carried (x 1,000)	4,767	4,469	4,212	4,016	3,661
Average number of employees	1,548	1,482	1,549	1,714	1,687
Ratio's					
Operating income as a % of operating revenues	3.9%	5.4%	3.8%	4.1%	3.5%
Operating income as a % of the capital employed	6.0%	7.0%	5.0%	4.8%	4.2%
Net income as a % of average capital	8.6%	11.3%	9.8%	8.2%	9.0%
Guarantee capital as a % of capital employed	41%	42%	50%	40%	42%
Net debt [5] : capital	4.1	3.7	2.8	2.4	3.1
Turnover rate of capital employed	1.5	1.3	1.3	1.2	1.2
Interest coverage ratio	3.7	4.2	2.6	3.1	2.1

EUR 1 = US$ 1.21 per 31 March 2006

1 In millions of euros unless stated otherwise.

2 Figures for 2004/2005 have been adjusted for those changes in accounting policies according to EU-IFRS principles that have been reflected in the financial statements. Consequential the key figures of 2004/2005 are less comparable with preceding years. Figures of preceding financial statements are presented in accordance with NL-GAAP.

3 Capital + Subordinated loan+ Deferred income.

4 Assets – Current Liabilities + Current portion of long term debt - Financial fixed assets – Cash and short term deposits.

5 Long-term loans + Repayments next year.

Report of the Supervisory Board

We hereby submit the management report and financial statements 2005/2006 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.

Considering the market conditions, we are of the opinion that the company realized a satisfactory result. Moreover, in the past year sweeping changes were implemented in the organization, in positioning the company as a travel brand and in the house style, among other things. transavia.com's strategy and activities were always focused on optimizing the potential synergy benefits within the Air France - KLM Group.

In the past year, transavia.com again made important investments to strengthen its market position. These investments partly related to the development of the Internet portal for the business partners, the introduction of the new house style and the expansion of the product offer to broaden transavia.com as a genuine travel brand. In addition, four new regular service routes were introduced. Three regular service routes were terminated, because the realized and forecasted revenues from these routes did not meet the requirements. Furthermore, much attention was given to the implementation of IFRS and SOx.

We highly appreciate the dedication, creativity and commitment of management and staff in realizing these developments in the past year.

The board has held 5 meetings during the reporting period which, with one exception, were always held in the presence of the Management Board. Besides, there was frequent contact between individual Supervisory Board Members and members of the Management Board and we attended meetings of the Works Council by rotation. In this respect we found that the Works Council always adopted an attitude that was both positive and scrupulous. These meetings focused, among other things, on the strategy details, the investments, the general and financial status and the division of tasks within the Management Board. With respect to the latter, it was decided that after the departure of the former Executive Vice-President for Marketing and Sales, the final responsibility for commercial affairs will rest with the CEO.

After the General Shareholders' Meeting of 8 May 2006, our colleague G.H. Smit is retiring from the board for personal reasons. We hereby want to thank Gert for his commitment, expertise and good fellowship, which have benefited the board and the company for many years. We are still to take a decision about his succession.

Amsterdam Schiphol Airport, 8 May 2006
Supervisory Board 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 2005/2006 and in booking a profit for the 28th year in succession. This was the first complete year that the company was once again active under one brand - transavia.com - and also presented itself as a broad travel brand with flying as core activity. With the presentation of a new uniform for cabin crews and technical staff and new aircraft colours at the end of 2005, transavia.com made a start with the introduction of a new housestyle that corresponds closer with the new strategy.
- The positive results were realised in a market with fierce price competition, while the company also made important investments to strengthen its market positions in the longer term. The investments partly related to the development of new regular service destinations, ICT (continuing to make operational processes web-based), the new housestyle and the development of the brand transavia.com as a broad travel brand.
- The strong increase in fuel prices has great consequences for the results and this was an extra reason for transavia.com to take measures to save on fuel consumption and hedge price increase risks. One of the measures was the decision to fit winglets, special fuel-saving wing tips, on all aircraft.
- In the past year, the company adopted IFRS accounting standards. Result on ordinary activities before contribution to corporate income taxt amounted to € 18.1 million. According to the old accounting standards (Dutch Gaap) this result would have been € 23.6 million, compared to
€ 28.3 million in the previous year. This result is almost entirely derived from ordinary operational activities. Operating revenues amounted to € 597.1 million, representing a 15% increase compared to the preceding year. Operating expenses increased by 16% to € 573.5 million.
- In the year under review, transavia.com transported 4.8 million passengers, an increase of 7% compared to the previous year. Of our flights 82% (previous year 85%) were on time. Customer satisfaction was rated at 8.5, compared to 8.5 in the preceding year.
- As a result of the introduction of four new destinations and the termination of three scheduled service routes, the number of scheduled service routes from Amsterdam Airport Schiphol was 21 in the reporting period. In 2006, transavia.com flew on 22 scheduled service routes and 77 charter routes, of which 32 destinations can be booked directly by individual passengers.
- Company growth resulted in an increase in the number of staff, especially cockpit and cabin crew. This involved extra efforts in the area of recruitment, selection and training of flight personnel.
- With regard to the development of transavia.com as a broad travel brand, an important step was taken in early 2006 as a result of offering *transavia package deals* on the website. This concerns all-in bookings developed by reputed Dutch tour operators, which combine the flight, accommodation and local transport at a low price.
- In 2006, transavia.com is celebrating its 40th anniversary. This will involve special offers for clients and a number of celebratory events for relations and staff.

Strategy

The strategy of transavia.com is focused on positioning the company, within the Air France - KLM Group, as a 'web-based travel brand with flights as core activity', and a close collaboration with business partners to broaden the product offer. In the market, transavia.com wants to distinguish itself by basing its activities on 'low cost low fare with individual service'. For a healthy future of transavia.com it is also of vital importance that the company is successful with a selective growth focused on good returns, based on a well-considered route network and revenue management.

New house style

With the presentation of a new uniform for cabin crews and technical staff and a new aircraft livery at the end of 2005, transavia.com made a start with the introduction of a new house style. This house style is in line with the new profiled strategy and indicates that transavia.com wants to emphasize that it 'dares to be different'. In the house style, the characteristic green color, which has long been the distinctive mark of transavia.com, has been preserved. The first newly painted aircraft were ready at the end of 2005, and the new uniforms are being used since January 2006. At the end of 2006, the pilots will also wear a new uniform and the aircraft's interior will be adjusted.

Fleet and Transport

Expansion of fleet

transavia.com only flies with Boeings 737-700 and 737-800. In 2005, one new 737-700 'ex factory' was added to the fleet. This brought the available fleet at 29 aircraft in the summer of 2005 (2004: 28). The available seat capacity was 10% higher than in the previous year.

Two additional temporary leases have been contracted for the 2006 peak season, bringing the fleet to 31 aircraft. Of these, 19 aircraft are owned by the company, eight aircraft are under long-term lease, and four under short-term lease. The average age of the fleet is 4.6 year. This makes transavia.com one of the youngest fleets among European airlines comparable with the company.

transavia.com exercised an existing purchase option on a new 737-800 from Boeing, which is to be delivered in the spring of 2007. In March 2006 this acquisition was converted to an operational lease by means of a sale-lease-back construction with a Japanese financial institute.

Transport

In the year under review, 5.2 million seats were sold (7% more than in the previous year) and 11.4 billion seat kilometers were provided (representing an increase of 10%). The commercial load factor rate was recorded at 83% (2004/2005: 85%). The number of transported passengers increased by 7% to 4.8 million.

Market Conditions

Developments in the market

In the past year, the flight holiday market for package deals again struggled with last-minute booking. In the end, the summer bookings still achieved a good level and the market grew by 10% compared to the previous summer season. However, the winter season was disappointing: bookings were significantly below expectations and below last year's bookings. It is probably due to uncertainty about the consumer's own financial situation that the consumer has become extra careful in spending. A similar trend was visible in the scheduled flight bookings: a satisfactory summer season was followed by a disappointing winter season: bookings in the market dropped 14% against last year. Bookings to date for the summer of 2006 also indicate consumers to be conservative.

Unequal competitive conditions at Amsterdam Airport Schiphol

With activities in Amsterdam and further growth of a large number of low cost carriers (at the moment there are 15) from various European countries, the competition in the Dutch low cost / low fare market has increased strongly and as a result has put more pressure on the prices. This makes it even more advisable that all parties work under equal external conditions. Therefore it is good news that airlines using European airspace are now subjected to uniform regulations within the EU. In connection with the envisaged equality of external cost conditions, transavia.com was forced to express serious objections to the Schiphol Group against the fact that its competitors can use the airport's H-pier at a rate that is 20% lower than the rate charged to transavia.com. We find this all the more distressing considering the fact that transavia.com has been the airport's second largest client, after KLM /KLC, for many years.

Transparent pricing

In the past period, there has been quite a lot of criticism against the AVAILABLE FROM-prices, which feature in advertisements by budget airlines. The criticism focused on the fact that these prices do not include the so-called surcharges, so that the final TOTAL price may be significantly higher. transavia.com understands this criticism and is willing to participate in an arrangement that warrants more transparency in the market communications regarding prices. For this reason, transavia.com has supported the initiative by KLM to reach consensus in this regard through BARIN (Board of Airline Representatives in the Netherlands) in consultation with ANVR (Dutch Association of Travel Agencies). A condition for this is that these agreements will apply to all airlines active in the Netherlands, so including airlines established in other countries with destinations in the Netherlands.

Activities transavia.com

Broadening of service and product offer

With the introduction of transavia package deals and the online holiday shop in the period under review, transavia realized important strategic steps on the road from airline to travel brand. At transavia.com the traveler can now make the following arrangements on a single website: the flight, the taxi from and to the airport, the accommodation, the travel insurance, the rental car, the tickets for excursions and events (theatre, concerts, cultural sights and sports events), the holiday necessities and even the prints of digital photos after the holiday.

transavia package deals

The package deals were introduced in February 2006 and comprise flight, accommodation and local transport for practically all European destinations of transavia.com. The complete holiday packages are selected from the offer of well-known Dutch tour operators. The technology used allows clients to specify their individual wishes while searching in the offer of these tour operators and book online. The offer is updated continuously. In principle, all flights are with transavia.com and the conditions of ANVR and SGR and the Calamity Fund apply to all holidays.

Holiday Shop

Earlier, in the summer of 2005, transavia.com introduced the holiday shop, a web shop with a variety of original holiday products. The holiday shop offers an extensive range of travel items. All products are original, have a high fun factor, are of moderate weight and volume and in the low budget category. The shop also has an online photo service for printing digital photos. The holiday shop regularly introduces new products.

Use of the transavia.com website

In the past year, 93% of the direct bookings were realized via the Internet. The website www. transavia.com already attracts around 16 million unique visits per year, or 2000 visits per hour, 24 hours per day. This makes transavia.com one of the largest Internet sellers in the country.

Activities on the B2B market (charters 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 number of charter destinations amounted to approximately 70 in the summer and 30 in the winter. Transavia's market share grew slightly in the year under review.

B2B Portal

In the past year, there were significant efforts and investments aimed at giving the tour operators access the seat management system and enabling them to book seats online via a special business portal of transavia.com. This development is in line with the objective of chain integration, as a result of which the processes of different links in the operating column are interlinked and information, reservations and payments take place in a web enforced environment. In March 2006 the business portal went live, over the coming period it will be expanded with extra booking facilities and various settlement and information tools.

Checking in via the Internet

After an earlier test, transavia.com and one of the tour operators started offering package deal passengers the opportunity to check in via the Internet. Like travelers booking directly via transavia.com, passengers booking a package holiday via this tour operator can choose their own seat and print their own boarding card from 24 hours up to 3 hours before departure for all flights from Amsterdam Schiphol and Rotterdam Airport. Passengers no longer need to queue for the check-in counters. Luggage can be dropped off at the aptly named drop-off counters. transavia.com strives to make this service available via all tour operators in 2007 and then operate as a ticket-free company. transavia.com is the first airline in Europe to introduce such a system.

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

During the year under review, transavia.com operated scheduled service routes to 21 destinations departing from Amsterdam and Rotterdam Airport. These scheduled service flights transported a total of 2.1 million passengers in 2005/2006, an increase of 0,6% against last year. 30% Of bookings were made from outside of the Netherlands, our policy is aimed to increase this share in coming years. In the past year, 93% of the passengers booked via the Internet, while 40% of the passengers checked in via the Internet in advance. Also remarkable was the fact that an increasing number of business travelers use the scheduled services offered by low cost / low fare airlines, including transavia.com.

During the year under review the scheduled services to Dublin, Oslo and Stockholm were terminated because of insufficient prospect of the required profitability, and four new destinations were introduced: Palma de Mallorca, Genoa, Rome and Reus. As of the start of the 2006 summer flight schedule, four new destinations are added to the network, namely from Amsterdam to Toulon (France), Pau (France) and Valencia (Spain), and from Rotterdam to Glasgow-Prestwick (Scotland).

Furthermore, transavia.com 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 40 of the 70 charter routes. These are what are known as scheduled charters, giving clients certainty about the time of departure.

Ad hoc flights

In addition to its principal activities, transavia.com operates ad hoc flights for businesses and institutions. Also, sub-charter flights are made for other airlines. This activity again made a good contribution to this year's operating revenues. In the past year, the operating revenues amounted to € 17.2 million.

Leasing

Once again transavia.com had success leasing out temporarily available aircraft capacity. In the winter season of 2005/2006, a total of 9 aircraft were leased to airlines in various countries. By combining chartering and leasing, the capacity is accurately matched with the need. Optimised use of aircraft capacity again resulted in synergy advantages for the Air France – KLM Group, as KLM uses two aircraft for its service schedule outside the holiday peak season.

Fuel cost saving measures

The strong increase in the fuel prices, the price per tonne more than doubled over the last two years , was an extra reason for transavia.com to take measures aimed at realising cost savings and at creating more certainties to hedge the risk of price increases.

Investment in winglets

In the year under review, transavia.com decided to fit winglets, upright tips on the wingtips, on its entire fleet. This reduces fuel consumption by approximately 3%. An additional advantage is that the winglets enable better flight results. It concerns substantial investments that at the current fuel cost levels can be recovered in a couple of years and also add to the aircraft's value.

Optimising operations

In daily operations, considerations from various perspectives are made to realise optimal cost advantages. Examples of these are:

- fuel is purchased together with KLM. As a result, both airlines benefit from each other's strong presence in certain countries;
- optimal aircraft deployment: through careful planning, the aircraft with the economical engines are flying the longest distances and relatively the most time;
- a special arithmetical model calculates the optimal amount of fuel that is taken on each flight; the model also determines whether it is more economical to fill the fuel tank in Amsterdam with a portion of the fuel for the return flight.

Hedging price increase risks

By hedging future fuel price increasing, there is less uncertainty with regard to the fuel price paid in the course of the season. Of course, a premium must be paid for this security. transavia.com hedges both the oil price and the dollar exchange rate to a great extent. In this way, transavia.com hedged approximately 80% of its fuel need in the year under review. In addition, transavia.com applies a fuel surcharge system for both the B2B and the B2C market.

Organization and staff

Organization follows changes in operational processes

In the past year, changes were implemented in various operational processes, with the aim to keep up to speed with the new positioning and to increase the quality and efficiency of processes. In line with this, the staff organization was also modified in a number of places, in particular commercial and financial/administrative departments.

Increased demand for flight personnel

As a result of the enlargement of activities and fleet, the demand for flight personnel has increased. Partly in view of the natural turnover, the decrease in flight staff capacity due to more part-time employment, and the forecasted growth in 2006, the company faced a big challenge in the area of recruitment, selection and training. In the year under review 36 first officers were trained. The growth of the total cockpit crew also allowed for promotions from first officer to captain for the first time in four years. In the past months, a total of 28 new captains were trained.

Recruitment and selection of cabin staff mostly outsourced

For the first time, the recruitment and selection of a total of 384 new cabin staff for 2006 for the greatest part has been outsourced to an external recruitment agency. transavia.com has supplied detailed qualifications for this process, which takes place almost entirely out of the offices of transavia.com. The agency assesses the candidates in a group interview, an invidual Criteria Based Interview (focusing on skills specifically required by transavia.com) and an English competence test. After this, there is only one more interview with a unit coach of transavia.com, before actually taking on the candidates. transavia.com regards this as a good example of partnering, making good use of other companies' core competences.

Staffing levels

The average number of employees rose by 4.5% to 1,548 (full-time equivalents) during the year under review. This annual average is compiled as follows (the comparative figures for 2004/2005 are given in parentheses):

- Flight personnel 947 (912);
- Technical and operational personnel 317 (316);
- Office staff 284 (254).

Collective Labour Agreements

Collective Labor Agreements have been concluded during the reporting year for ground staff with the corresponding labor organizations, which are valid until 31 March 2008. In this regard, governmental regulations on early retirement, pensions and pre-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 Works Council of transavia.com consists of 13 members and an official secretary. The Works Council's attitude is always both positive and scrupulous and the consultations are characterised by a harmonious relationship and a focus on the common interest of employer and employees in the longer term. Within the limits of confidentiality, the Works Council has done its best to inform employees as well as possible on company issues. To this end, the work council regularly published news on the 'transnet' intranet in the past year.
In the previous year, the Works Council advised on five requests for advice:

- the organization of the commercial administration department
- the organization of the e-commerce department
- the reorganization of the administration, control and treasury departments
- the reorganization of the B2B department
- the reorganization of the B2C department.

In all cases the Works Council issued a positive advice, either with or without amendments.
We would like to express our thanks to the council members for their efforts and commitment.

Financial performace

Adoption of new regulations

As a limited partnership, the company itself is not subjected to the new regulations under IFRS (International Financial Reporting Standards) and SOx (American Sarbanes Oxly legislation). But as the company is part of the Air France - KLM Group, these regulations must be adopted. IFRS reporting takes place according to EU-IFRS principles, under the option given in Title 9 of Book 2 of the Netherlands Civil Code. This option allows for the application of the accounting principles of Air France-KLM Group, being EU-IFRS, which is statutorily allowed to subsidiaries of companies quoted at the stock exchange. In this respect, we find that as a result of fluctuating external factors, especially pension-related arrangements could influence the valuations included in the statement of income. This may obstruct the insight into the financial development. Another consequence of the new accounting policies is that the performance-related profit participation arrangement for employees must be reassessed. The application of SOx regulations, which process transavia.com has almost completed, also covers to a great extent the company's efforts connected with good Corporate Governance.

Results

In the year under review (2005/2006), transavia.com's operating revenues increased by 15% to € 597.1 million. Operating cost rose by 16% to € 573.5 million. The cost per seat increased by 6%. The negative balance of financial income and expenses (including interest) declined by 6% to € 6.3 million. Overall this resulted in a pre-tax income of € 18.1 million. The recalculated result for 2004/2005 according to IFRS amounts to € 23.6 million. According to NL-Gaap the result is € 23.6 million (2004/2005: € 28.3 million). This result was achieved almost entirely from operational activities. The net income after corporation tax amounted to € 11.1 million (2004/2005 € 13.6 million).

The yield on *average* working capital (ROCE) was 6.0% in 2005/2006 (2004/2005: 7.0%). The net yield on *average* capital amounted to 8.6% in the year under review, as compared with 11.3% in the previous year. The capital underwent considerable movements as a result of the first-time adoption of the IFRS policies as of April 1, 2004. Especially the recognition in the balance sheet of future staff benefits and different valuation principles for the fleet resulted in a once-only reduction of the capital, namely by € 43.8 million to an amount of € 109.0 million. The company's solvency position, defined as the ratio between the guarantee capital and the working capital, is 41%.

Investments and financing

Total investments in fixed assets amounted to € 37.2 million in the year under review and largely concerned the acquisition of aircraft and parts, such as the winglets that were fitted on the entire fleet of transavia.com during the year under review. Besides this, large investments were made in ICT, particularly in systems that enhance the communication with business partners, clients and suppliers.

Profit Distribution

It is proposed that the sum of € 4.7 million, derived from the net income of the year under review, be paid out to the partners**.**

Forecast

In the B2B market, transavia.com has a significant market share in the peak season of 2006. Currently this market is characterised by a strong shift from Turkey to other holiday countries such as Greece and Spain. In the B2C market, transavia.com remains to be very attentive to optimise its route network.

To this end, we are continuously looking for profitable growth opportunities to destinations in existing and new markets. We will keep a close watch on the profitability development of the activities in this market. For the activities in both markets, transavia.com has a fleet of 31 aircraft at its disposal in the summer, the highest number in the company's history.

For the future of transavia.com, it is of structural importance that we succeed in minimising the costs per seat. Further scaling-up is a major contribution to this. This is one of the reasons why we are investigating the opportunities to undertake activities based in other European markets. In addition, the formation of alliances - as is taking place among large carriers - could contribute to the optimisation of the low cost / low fare model.

At the moment, transavia.com and KLM are running a pilot to investigate the possibilities for offering passengers transfer bookings, while retaining our model of low cost low fare point-to-point flights. In this way, the company could benefit from the fact that transavia.com is the only airline in its market that is part of a larger aviation group and consequently may pass on the synergy advantages in this area to the passengers.

The development in kerosene prices remains a great concern. We will continue to do our utmost to limit the effects for passengers and the company. However, insofar as the fuel prices result from global demand and supply developments that cannot be influenced, the excessive cost increase at the airports is a matter of conscious decision-making. In particular Amsterdam Airport Schiphol seems to be insensitive to criticism from the market in this respect. In view of the airport's monopolistic position, we agree with others that especially the regulatory authorities should use their influence in this matter to arrive at a long-term price policy that is acceptable for all parties.

This year, we again will make signifincant investments in web technology with the aim of further improving the communication and service to business partners and passengers and further enhance the efficiency and quality of internal operational processes.

Schiphol, 8 May 2006
The Board of Management

Onno P.M. van den Brink
Cor Vrieswijk
Tjero R. Zomer

Content

(Clickable)

Balance sheet as at March 31, 2006

(x € 1,000)
(before profit appropriation)

		2005/2006		2004/2005
Fixed assets				
Intangible fixed assets		3,916		2,131
Tangible fixed assets				
Aircraft	458,232		458,511	
Buildings	8,077		8,536	
Other	1,034		1,411	
		467,343		468,458
Financial fixed assets		124,924		103,275
		596,183		573,864
Current assets				
Inventories	4,884		4,139	
Trade and other receivables	54,232		54,364	
Cash and short-term deposits	189,188		182,585	
	248,304		241,088	
Current liabilities	-/-179,826		-/-162,058	
Current assets less current liabilities		68,478		79,030
Assets less current liabilities		**664,661**		**652,894**
Long-term loans				
Subordinated loan	22,689		22,689	
Aircraft loans	387,177		377,796	
Other long-term loans	64,595		54,779	
		474,461		455,264
Provisions				
Employee benefits	64,010		63,779	
Other provisions	575		1,135	
		64,585		64,914
Capital		125,615		132,716
		664,661		**652,894**

Statement of income for the year 2005/2006

(x € 1,000)

		2005/2006		2004/2005
Operating revenues		597,065		520,520
Operating expenses				
Staff costs	103,207		97,749	
Depreciation	36,258		31,387	
Other operating expenses	434,057		363,028	
		573,522		492,164
Operating income		**23,543**		**28,356**
Net financing expenses				
Financial income	10,833		8,422	
Financial expenses	-/-17,178		-/-15,154	
		-/-6,345		-/-6,732
Result on sale of assets		922		1,960
Result on ordinary activities before contribution to corporate income tax		**18,120**		**23,584**
Contribution to corporate income tax		-/-6,986		-/-9,975
Net result		**11,134**		**13,609**

Statement of cash flows for the year 2005/2006

(x € 1,000)

		2005/2006		2004/2005
Cash flow from operating activities				
Net result	11,134		13,609	
Depreciation	36,258		31,703	
Movement in trade and other receivables	132		-/-13,243	
Movement in inventories	-/-745		596	
Movement in current liabilities	17,768		4,585	
Movement in provisions	-/-329		1,938	
Movement in derivative financial instruments	-/-11,024		13,314	
		53,194		52,502
Cash flow from investing activities				
Additions to intangible fixed assets	-/-2,475		-/-1,186	
Additions to tangible fixed assets	-/-34,696		-/-39,401	
Additions to financial fixed assets	-/-13,364		-/-31,528	
Disposals	243		3,694	
		-/-50,292		-/-68,421
Cash flow from financing activities				
Increase in aircraft loans	34,906		35,579	
Decrease in aircraft loans	-/-25,525		-/-34,465	
Revaluation of financial fixed assets	-/-8,285		6,556	
Movement in other long-term loans	9,816		11,247	
Distribution of profits	-/-7,211		-/-3,220	
		3,701		15,697
Net cash flow		**6,603**		**-/-222**
Movement in cash and short-term deposits				
Opening balance		182,585		182,807
Closing balance		189,188		182,585
		6,603		**-/-222**

Accounting policies

General

The balance sheet as at March 31, 2006 and the statement of income for the year 2005/2006 represent the financial statements of Transavia Airlines C.V. ('Transavia'), with its principal place of business at Schiphol.

Change in accounting principles according to EU-IFRS

For the determination of the principles of valuation of assets and liabilities and of determination of result in its financial statements, Transavia uses the option provided in Section 2:362(8) of the Netherlands Civil Code. This means that the principles of valuation of assets and liabilities and of determination of result (hereinafter 'accounting principles') in the financial statements of Transavia correspond to those applied by KLM N.V., the parent company ('the Group'), in its consolidated EU-IFRS financial statements.

As a result of applying the Group's accounting principles, Transavia has implemented a change in accounting policies. Previously, the financial statements were prepared in compliance of the principles of valuation of assets and liabilities and of determination of result stated in Part 9 of Book 2 of the Netherlands Civil Code. The change of the accounting principles, which is treated retrospectively, has had an effect on the capital and result.

The accounting principles in the financial statements are in accordance with the International Financial Reporting Standards (IFRS) and the interpretations thereof, as laid down by the International Accounting Standards Board (IASB), as well as the standards accepted by the European Union (EU-IFRS).
As of the financial year 2005/2006, Transavia applies the EU-IFRS accounting principles. The balance sheet as at March 31, 2005, and the statement of income for the year 2004/2005 have been adjusted for comparative purposes, except for IAS 32/39 (financial instruments), in respect of which the exemption included in IFRS 1 (first-time adoption of IFRS) has been applied.

The impact of the transitions was as follows:

- as of April 1, 2005 derivative financial instruments are recognized at fair value on the balance sheet in accordance with IAS 39;
- claims regarding employee schemes, based on defined benefit plans, have been charged directly to the Capital as at April 1, 2004. This means that as of April 1, 2004, an amount is included in the balance sheet as employee benefits that is equal to the difference between the present value of the claims attributable to the past employment and the fair value of investments separated for these schemes;
- the adjustment of book values of aircraft has been charged directly to the Capital as at April 1, 2004, applying the option under IFRS 1;
- change in the contribution to corporate income tax as a result of the adjustments above.

The impact of the adoption for the capital and income was as follows:

(x € 1,000)	Capital April 1, 2004	Income 2004/2005	Capital March 31, 2005	Capital April 1, 2005
Under Dutch GAAP	**152,771**	**18,730**	**168,283**	**168,283**
IAS 19 Employee benefits	-/-50,095	-/-4,688	-/-54,783	-/-54,783
IAS 32/39 Financial instruments				13,314
Adjustment book value aircraft	-/-16,714		-/-16,714	-/-16,714
Contribution to corporate income tax	23,049	-/-433	22,616	22,616
Total impact	-/-43,760	-/-5,121	-/-48,881	-/-35,567
Under EU-IFRS	**109,011**	**13,609**	**119,402**	**132,716**

Reclassifications

With the adoption of the EU-IFRS accounting principles, Transavia introduced some reclassifications in the opening balance sheet as at April 1, 2004:

- software (€ 1.4 million) from Other tangible fixed assets to Intangible fixed assets;
- guarantees (€ 3.9 million) from Trade and other receivables to Financial fixed assets;
- split-up of formerly balanced VAT amounts (€ 0.9 million) from Current liabilities to Trade and other receivables.
- deferred income (€ 14.8 million) to Current liabilities (€ 2.2 million) and to Long-term loans (€ 12.6 million)
- current account balances with pension funds (€ 2.3 million) from Current liabilities to Employee benefits.

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

Transavia's results as included in 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 the Group.

Principles of valuation of assets and liabilities and of determination of result

General

The assets and liabilities and the determination of result are measured at historical cost. The financial statements are presented in euros, rounded to the nearest thousand.

Presenting the financial statements in accordance with the EU-IFRS accounting principles requires management to make judgments and estimates that have consequences for the application of accounting principles and the reported value of assets and liabilities and of revenue and expenses. The estimates and assumptions related to these are based on past experiences and various other factors that are considered reasonable under the given circumstances. The outcomes thereof are the basis for the judgment about the book value of assets and liabilities that is not readily evident from other sources. The actual outcomes may differ from these estimates. The estimates and underlying assumptions are assessed from time to time.

The principles for financial reporting stated below have been applied consistently to all periods presented in the financial statements. These principles have also been applied in the preparation of the opening balance sheet on April 1, 2004 in connection with the first-time adoption of EU-IFRS accounting principles.

Foreign currencies

Transactions denominated in foreign currencies are translated to euros at exchange rates ruling at the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated to euros at the exchange rate ruling as at balance sheet date. The exchange rate differences resulting from translation are recognized in the statement of income as Other operating expenses. Non-monetary assets and liabilities denominated in foreign currencies and measured in terms of historical cost are translated at the exchange rate at the transaction date.

Derivative financial instruments

Transavia applies derivative financial instruments (derivatives) to hedge price and foreign exchange exposures, which result from operating, financing and investing activities. In accordance with its treasury policy, the company does not maintain or issue derivatives for trading purposes.

Derivatives are measured at fair value from the moment they are initially recognized. The result of a revaluation is directly recognized in the statement of income. However, if derivatives qualify for hedge accounting, inclusion of the result depends on the nature of the item that is being hedged. The fair value of forward exchange contracts is the next market quotation as at financial year's end, being the present value of the quoted forward rate.

Hedge accounting

Changes in the fair value of derivatives that are held to effectively hedge future cash flows ('cash flow hedges') are included in the Capital until the moment that the effects on the results of the underlying positions manifest themselves. At that moment the changes in values included in the Capital, together with the effects on the results of the underlying positions, are recognized in the statement of income. If the cash flows are no longer effectively hedged, then the derivatives continue to be carried at fair value and from that moment on, the derivatives' changes in fair value are recognized in the statement of income. The cumulative results included in the Capital are recognized in the statement of income together with the effects on the results of the underlying positions. If the position no longer exists, the results included in the Capital will be accounted for directly in the statement of income.

Intangible fixed assets

Extensive software investments are capitalized under Intangible fixed assets insofar as this software is applied for internal use. The software that is purchased or produced in-house relates to innovations in Transavia's processes. These are only capitalized if the software is technically and commercially feasible and if there are sufficient resources to complete the development. Expenses connected with research stage activities are charged directly to the statement of income. Expenses connected with development stage activities are capitalized. The capitalized expenses consist of the fee paid to external ICT consultants and the time that employees spend on in-house development. Expenses connected with activities in the post-implementation phase or the operational phase, such as training and operating expenses, are charged directly to the statement of income. Expenses incurred after the first recognition under Intangible fixed assets are only capitalized if this results in a rise of future economic advantages constituted in the asset to which they relate. All other expenses are recognized in the statement of income as an expense as incurred.

The depreciation period for software is determined per investment, based on the estimated useful life. From the moment the software is available for use, the software is depreciated completely on a straight-line basis over the set depreciation period. Until the moment of becoming operational the expenses are capitalized as future intangible fixed assets.

Tangible fixed assets

Tangible fixed assets consist of aircraft and accessories, buildings, and other tangible fixed assets.
Aircraft are carried at cost less straight-line depreciation based on estimated useful lives and taking into account estimated residual values and impairment losses. Cost includes the cost of purchase and interest payable on advance financing. Where economic ownership is obtained under lease agreements, tangible fixed assets are also included in this heading and valued in accordance with the same principle. Aircraft are depreciated on a straight-line basis over their estimated useful life, taking the residual value into account. In accordance with the Group policy, the estimated useful life of the aircraft has been extended from 18 to 20 years, while the residual value has been reduced from 20% to nil.

Heavy maintenance costs are capitalized and depreciated on a straight-line basis over the period to the next similar heavy maintenance. Costs incurred for major replacements and improvements are capitalized and depreciated over the assets' economic lives to a maximum of the remaining useful live 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. If tangible fixed assets consist of components with a different period of use, these are included as separate items under Tangible fixed assets.

Expenses incurred after the first recognition under tangible fixed assets are only capitalized if this results in a rise of future economic advantages constituted in the asset to which they relate. All other expenses are recognized in the statement of income as an expense as incurred.

Financial fixed assets

The financial fixed assets that are held-to-maturity are carried at amortized cost less impairment losses considered necessary.

Inventories

Inventories are carried at cost less provision for obsolescence.

The cost is based on the average purchase price and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

Trade and other receivables

Trade and other receivables are carried at amortized cost, less any provision for impairment losses.

Cash and short-term deposits

Cash and bank balances and deposits that can be paid out at short notice are carried at face value.
Current account credits that can be paid out at short notice and that are fully part of the Group's funds under management are included under cash and cash equivalents for the purpose of the statement of cash flows.

Impairment

The book values of the assets are reviewed at balance sheet date to determine whether there are indications of impairment. If such indications exist, the asset's realizable value is estimated. An impairment is included if an asset's book value or the cash flow generating unit to which the asset belongs exceeds the realizable value. Impairment losses are recognized in the statement of income.

Calculation

The realizable value of receivables carried at amortized cost are calculated as the present value of the expected future cash flows, discounted at the original effective interest rate. Receivables with a short duration are not discounted. For the other assets the realizable value is equal to the recoverable amount or the economic value if this is higher. The economic value is determined by calculating the discounted cash flow using a pretax discount factor that reflects both the current market assessment of the time value of money and the specific risks regarding the asset. For an asset that does not generate largely independent cash inflows, the realizable value is determined for the cash-generating unit to which the asset belongs.

Reversal of impairments

An impairment loss is reversed if there is a change in the estimates on which basis the realizable value was assessed. An impairment loss is reversed only to the extend that the asset's book value does not exceed the book value that would have been determined - net of depreciation or amortization - if no impairment loss had been recognized.

Current liabilities

Current liabilities are carried at amortized cost.

Long-term loans

Long-term loans are carried at cost. The redemptions of the long-term loans payable within one year are included under Current liabilities.

The deferred income from aircraft financing is recognized in the statement of income in accordance with the depreciation term or lease term of the related asset.

Provisions

Employee benefits

The Employee benefits relate to the obligations associated with various pension plans and plans for early retirement that the company offers its employees. The pension plans partly concern a defined contribution plan and partly concern defined benefit plans. The early retirement plan regard defined benefit plans. The pension plans are implemented by pension funds not affiliated with Transavia. The early retirement plans are held under Transavia's management.

Defined contribution plan

For cabin staff, Transavia has a defined contribution plan. Obligations for contributions to defined contribution plans are recognized as an expense in the statement of income as incurred.

Defined benefit plans

For ground- and cockpit staff, Transavia has various defined benefit plans. The net obligation from these plans is calculated separately for each plan, being the difference between the present value of the pension rights that are attributable to the employees past service and the value of the investments reserved for these plans. The value of pension rights is determined on the basis of a discount factor that is equal to the yield at year's end of bonds with an AAA credit rating with a remaining maturation close to the term of the obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

When the benefits of a plan are improved the portion of the increased benefit attributable to the past service of the employees is recognized as an expense in the statement of income on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognized immediately in the statement of income.

Actuarial gains and losses that arise during the year are not recognized, unless the cumulative unrecognized actuarial gain or loss exceeds 10% of the present value of the defined benefit obligation, or 10% of the fair value of the plan assets, in case this is higher (the so-called corridor). The unrecognized actuarial gains and losses exceeding the corridor are attributed to the expected average remaining years of service of the active employees. Employees' contributions to pension plans are deducted from the increase in the present value of the pension costs in the statement of income.

The defined benefit plans consist of plans for (partial) early retirement.

Other provisions

The Other provisions regards a provision for restructuring. This is included once Transavia has approved a detailed and formalized restructuring plan and has made a start with restructuring or if this has been announced publicly. No provision is made for future operating expenses.

Operating revenues

Operating revenues relate to the transport results rendered in the financial year. The operating revenues are included in the statement of income at the moment that the service has been rendered. No operating revenues are included if there are significant uncertainties with respect to the collection of the payment owed, costs related to this, or possible repayments.

Operating expenses

The operating expenses are recognized in the period to which they relate. Costs resulting from operational lease agreements are included in the statement of income on a straight-line basis over the relevant period.

Net financing expenses

Net financing expenses comprise the interest costs on long-term loans minus the amortized financing benefits, interest revenues on invested resources and profits and losses on hedge instruments that are included in the statement of income. Expenses associated with financing transactions are also recognized under Net financing expenses. The interest components of financial lease expenses are recognized in the statement of income using the effective interest method.

Contribution to corporate income tax

By virtue of its being a limited partnership, the company is not liable to corporate income tax, the company contributes to the corporate income tax payable by the partners. This contribution is calculated at the standard rate applying at balance sheet date.

Statement of cash flows

The cash flow from operating activities is calculated by means of the indirect method. This means that the reported net income is adjusted for items in the statement of income and movements in the balance sheet that did not result in a cash flow.

Notes to the balance sheet as at March 31, 2006

(x € 1,000)

Fixed assets

Intangible fixed assets

	2005/2006	2004/2005
Balance as at April 1		
Cost	2,783	1,597
Cumulative depreciations and impairment losses	-/-652	-/-203
Book value as at April 1	**2,131**	**1,394**
Movements in book value		
Additions	2,475	1,186
Depreciations	-/-690	-/-449
Total movements	**1,785**	**737**
Balance as at March 31		
Cost	5,258	2,783
Cumulative depreciations and impairment losses	-/-1,342	-/-652
Book value as at March 31	**3,916**	**2,131**

The book value as at March 31, 2006 includes € 3.2 million (March 31, 2005: € 1.0 million) as software in development.

Tangible fixed assets

	Aircraft	Buildings	Other	Total
Balance as at April 1, 2005				
Cost	581,296	15,046	22,099	618,441
Cumulative depreciations and impairment losses	-/-122,785	-/-6,510	-/-20,688	-/-149,983
Book value as at April 1, 2005	**458,511**	**8,536**	**1,411**	**468,458**
Movements in book value				
Additions	34,367	-	329	34,696
Disposals cost	-/-4,159	-	-	-/-4,159
Disposals cumulative depreciations	3,916	-	-	3,916
Depreciations	-/-34,403	-/-459	-/-706	-/-35,568
Total movements	**-/-279**	**-/-459**	**-/-377**	**-/-1,115**
Balance as at March 31, 2006				
Cost	611,504	15,046	22,428	648,978
Cumulative depreciations and impairment losses	-/-153,272	-/-6,969	-/-21,394	-/-181,635
Book value as at March 31, 2006	**458,232**	**8,077**	**1,034**	**467,343**

Investments in aircraft in 2005/2006 include final payments for one new Boeing 737-700 that was added to the fleet during the financial year. The item Aircraft includes thirteen Boeing 737-800s and five 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, 2006 consisted of aircraft held under financial lease agreements to an amount of € 295.6 million (2005: € 295.9 million). No impairment losses occurred in the financial year 2005/2006.

Financial fixed assets

	2005/2006	2004/2005
Balance as at April 1	103,275	78,303
Movements		
Investments	7,484	26,538
Accrued interest	5,880	4,990
Exchange differences	8,285	-/-6,556
Balance as at March 31	124,924	103,275

Financial fixed assets consist of bonds held to cover future financial lease commitments in foreign currencies at a value of € 120.2 million (March 31, 2005: € 99.1 million). These future financial lease commitments are presented in the item Aircraft loans. The exchange differences are fully recognized in the statement of income.
This item also includes guarantees with a term of more than one year to an amount of € 4.7 million (March 31, 2005: € 4.2 million).

Current assets

Inventories

	2005/2006	2004/2005
Maintenance materials	3,134	3,410
Other inventories	1,750	729
	4,884	4,139

Trade and other receivables

	2005/2006	2004/2005
Trade receivables	10,498	6,063
Group companies receivables	25,066	25,995
Prepaid expenses	11,601	1,483
Other receivables	2,868	4,885
Derivative financial instruments	4,017	14,429
Prepayments and accrued income	182	1,509
	54,232	54,364

Cash and short-term deposits

	2005/2006	2004/2005
Directly claimable deposits with Group companies	185,785	177,394
Cash and bank balances	3,403	5,191
	189,188	182,585

Current liabilities

	2005/2006	2004/2005
Current portion of long-term loans		
- Aircraft loans	32,348	29,020
- Other long-term loans	8,267	6,583
Accounts payable	15,352	13,981
Liabilities with Group companies	11,946	16,180
Deferred income	53,533	46,633
Derivative financial instruments	1,727	1,115
Taxes and social security contributions	2,548	256
Others liabilities	13,003	17,628
Accrued expenses	41,102	30,662
	179,826	162,058

Financial instruments

General

In its normal business operations, Transavia is exposed to market risks and credit risks. Derivative financial instruments (derivatives) are used to hedge the exposure to fluctuations in foreign exchange rates, fuel prices and interest rates. Transavia does not trade these derivatives and applies procedures and codes of conduct to limit the credit risk with each counter party and market. If the counter party fails to meet its obligations the resulting losses are limited to the fair value of the instruments in question. In view of the creditworthiness of the counter parties with which derivative instruments are concluded, this credit risk is limited.

Credit risk

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 or a bank guarantee is used.

Fuel price risk management

The company policy with respect to fuel price risk is aimed at limiting the exposure of Transavia's result to fluctuations in fuel prices. The policy hedges the price risk regarding a substantial part of the expected fuel consumption up to approximately 12 months in advance. For this purpose, forward swaps are used. The contract value of the hedge instruments was USD 85.9 million on March 31, 2006 (March 31, 2005: USD 74.0 million).

Interest risk management

The company's interest risk policy is aimed at managing the interest risk in financing. In view of the substantial liquidity position and the decreasing net debt the risk is limited and no hedges by means of interest instruments have been carried out in the past financial year.

Foreign exchange rate risk management

The company's exchange rate risk policy is aimed at limiting the exposure of Transavia's result to fluctuations in the exchange rate between the US Dollar and the Euro. The policy hedges the exchange rate risk regarding a substantial part of the forecasted cash flow of dollars up to approximately 12 months in advance. For this purpose, forward currency contracts have been entered into with the Group. The contract value of the hedges amounted to USD 99.8 million on March 31, 2006 (March 31, 2005: USD 137.3 million). The difference between the contract value and the market value is accounted for in the balance sheet under the item Trade and other receivables and Current liabilities.

Fair value

The fair value of the Financial fixed assets and the Long-term loans related to these differs from the book value in connection with the development of the market interest. As a result of the direct relationship between the Financial fixed assets and the Long-term loans, the difference is zero on balance. The fair value of most of the financial instruments included in the balance sheet, including Trade and other receivables, cash and short-term deposits and current liabilities, approximate their book value.

Long-term loans

	2005/2006	2004/2005
Subordinated loan	22,689	22,689
Aircraft loans	387,177	377,796
Other long-term loans	64,595	54,779
	474,461	455,264

The 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 2006 is 4.84%, that for 2005 was 4.36%.

The Aircraft loans consists of commitments arising from financing agreements concluded in respect of aircraft which have been mortgaged for that purpose. The loans are repayable in redemptions, the last redemption falling due in 2015. Installments payable in 2006/2007 in the amount of € 32.3 million (March 31, 2005: € 29.0 million) are included under Current liabilities.
Of the loans, an amount of € 62.3 million (March 31, 2005: € 125.2 million) has a duration of more than five years.
The interest payable on long-term loans is mainly variable and averages 3.62% (March 31, 2005: 3.47%). The exchange differences are fully recognized in the statement of income.

The Other long-term loans relates to commitments arising from aircraft maintenance contracts with an expected maximum remaining life of 5 years, in the amount of € 53.9 million (March 31, 2005: € 42.9 million). This item also includes deferred income from aircraft financing to be recognized to future statements of income up to the year 2015 at a value of € 10.7 million (March 31, 2005: € 11.9 million). Redemptions payable or benefits to be amortized in 2006/2007 with a value of € 8.3 million (March 31, 2005: € 6.6 million) are included in Current liabilities.

Provisions

Employee benefits

	2005/2006	2004/2005
Present value of (un)funded obligations	223,461	228,651
Fair value of plan assets	-/-178,758	-/-156,316
Present value of net obligations	44,703	72,335
Unrecognized actuarial gains/losses	19,307	-/-8,556
Recognized liability for defined benefit obligations	64,010	63,779

Movements in the net liability for defined benefit obligations recognized in the balance sheet

	2005/2006	2004/2005
Net liability at April 1	63,779	59,107
Contributions paid by the company	-/-11,993	-/-9,084
Expenses recognized in the statement of income	12,224	13,756
Net liability at March 31	64,010	63,779

Expenses of defined benefit obligations recognized in the statement of income

	2005/2006	2004/2005
Current service costs	10,665	8,707
Interest on obligation	10,833	10,717
Expected return on plan assets	-/-6,623	-/-5,668
Recognized actuarial gains and losses	-/-128	-
Effects of curtailment	-/-2,523	-
	12,224	13,756
Actual return on assets	10,728	5,171

Principal actuarial assumption at the balance sheet date

	March 31, 2006	March 31, 2005
Discount rate	4.45%	4.50%
Expected rate of return on assets	4.75%	3.40%
Expected future pay increases (excluding inflation adjustment)	2.8%	2.9%
Expected inflation	2.0%	2.0%
Expected future pension increases	0.45%	0.50%

The assumptions are weighted averages of the benefit and early retirement plans for cabin staff, cockpit staff and ground staff.

Other provisions

	2005/2006	2004/2005
Balance as at April 1	1,135	3,856
Additions	575	510
Withdrawals	-/-603	-2,898
Releases	-/-532	-/-333
Balance as at March 31	575	1,135

The other provisions have been made for restructuring and are payable within one year.

Capital

	2005/2006	2004/2005
Balance as at April 1	132,716	109,011
Movements in derivative financial instruments	-/-11,024	-
Profit distribution to limited partners	-/-7,052	-/-3,059
Managing partner's profit share	-/-159	-/-159
Result for the year	11,134	13,609
Balance as at March 31	125,615	119,402
Adoption of IAS 32 and IAS 39	-	13,314
	125,615	132,716

The balance sheet as at March 31, 2006 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, 2006, guarantees had been given to third parties to an amount of € 2.8 million (March 31, 2005: € 2.7 million). Long-term rental and lease commitments totaled € 66.3 million (March 31, 2005: € 78.4 million). Commitments in respect of aircraft on order, to be delivered in the spring of 2007, which has been sold at the financial year's end and leased back under a long-term operational lease, amount to a total of € 24.3 million (March 31, 2005: € 18.2 million).

Of the total commitments, an amount of € 54.5 million has a remaining term of less than one year (March 31,2005: € 45.0 million), an amount of € 34.8 million a remaining term of between one and five years (March 31, 2005: € 47.0 million) and an amount of € 4.1 million a remaining term of more than five years (March 31, 2005: € 7.3 million).

Notes to the statement of income for the year 2005-2006

(x € 1,000)

Operating revenues

	2005/2006	2004/2005
Business to Business	323,830	264,317
Business to Consumer	229,913	214,191
Other activities	43,322	42,012
	597,065	**520,520**

Operating expenses

Staff cost

	2005/2006	2004/2005
Salaries	78,638	76,165
Social security charges	6,089	5,552
Contribution to defined contribution plans	427	329
Expenses from defined benefit plans	12,224	13,756
Other labor costs	5,829	1,947
	103,207	**97,749**

During the year Transavia employed an average workforce of 1,548 FTE's (2004/2005: 1,482).

Depreciations

	2005/2006	2004/2005
Intangible fixed assets	690	449
Aircraft	34,403	29,652
Buildings	459	461
Other tangible fixed assets	706	825
	36,258	**31,387**

Other operating expenses

	2005/2006	2004/2005
Fuel	111,652	70,924
Landing and navigation	80,743	74,527
Passenger taxes	77,597	70,812
Aircraft handling and catering	51,720	49,482
Operational aircraft leases	30,902	27,785
Aircraft maintenance	24,846	21,432
Miscellaneous operational expenses	56,597	48,066
	434,057	**363,028**

Net financing expenses

	2005/2006	2004/2005
Interest revenues from financial fixed assets	2,203	1,957
Other interest income	8,630	6,465
Financial income	10,833	8,422
Interest expenses	-/-17,149	-/-15,110
Other interest expenses	-/-29	-/-44
Financial expenses	-/-17,178	-/-15,154
Net financing expenses	**-/-6,345**	**-/-6,732**

Group company transactions

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

Result on sale of assets

This item relates to the profit on the sale of spare parts no longer required.

Managing directors' remuneration

The Managing Directors' remuneration charged to the company in 2005/2006 amounted to € 1.2 million (2004/2005: € 1.4 million). No loans, advances or guarantees have been granted to the Directors.

Schiphol, 8 May 2006
Board of Management Transavia Airlines C.V.

Onno P.M. van den Brink, President and CEO
Cor Vrieswijk
Tjero R. Zomer

Other information

Subsequent events

No events occurred after the balance sheet date which affect the financial position materially as at March 31, 2006 and the result over the financial year 2005/2006.

Contractual provisions regarding profit distribution

The profit share of managing partner Transavia Airlines B.V. is set by contract. The remaining profit disclosed in the statement of income is at the disposal of the General Meeting of Partners in accordance with the company's articles.

Profit appropriation for 2005/2006

It will be proposed to the General Meeting of Partners that € 4.7 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.

Auditor's report

Introduction

We have audited the financial statements of Transavia Airlines C.V., Schiphol, for the year 2005/2006, included on page 13 to page 30 inclusive of this report. 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, 2006 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.

In addition, we have ascertained to the extent that we can assess this, that the annual report is consistent with the financial statements.

Amstelveen, 8 May - 2006
KPMG ACCOUNTANTS N.V.

A.J.S.M. Oudejans RA

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For reservations and information: Transavia call center

The Netherlands:	**0900 0737**
	(€ct 25 /min.)
Belgium:	027 106 421
France:	0 821 231 214
Spain:	902 114 478
England:	020 7365 4997
Italy:	02 69682615
Portugal:	**21 4154406**
Ireland:	012421047
Denmark:	**38487538**
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Saturday: 09:00-18:00

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