



Report 2003/2004

Transavia airlines



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- 3** From the home bases Amsterdam Airport Schiphol and Rotterdam Airport and from regional airports, Transavia provides competitively-priced air travel on a broad network of European routes on the basis of a standardized service approach. This is done in the form of charter flights for tour operators (under the name Transavia) and scheduled services for individual passengers (under the name Basiq Air). Besides this, individual passengers can make direct bookings (Seat Only) on a larger number of charter flights.
- 4**
- 5**
- 13** Distribution takes place via tour operators, the Internet and call centers. Transavia is thus moving steadily closer to becoming a web-based airline.
- 27**

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

The company's activities are incorporated in the limited partnership Transavia Airlines C.V. The private company with limited liability Transavia Airlines B.V. is the managing partner.

Transavia Airlines is an independent member of the KLM Group.

Supervisory Board of Transavia Airlines B.V.

J.A.N. van Dijk, Chairman

G.H. Smit, Vice Chairman

R.J. van der Burg (until May 14, 2003)

R.A. Ruijter

C. van Woudenberg (from May 14, 2003)

Board of Management of Transavia Airlines C.V.

Onno P.M. van den Brink, President & CEO

Gerard J.W.M. Helming,

Executive Vice President Marketing and Sales

Cor Vrieswijk, Executive Vice President and COO

Tjero R. Zomer, Executive Vice President and CFO



Key Figures^{1,2}

	2003/2004	2002/2003	2001/2002	2000/2001	1999/2000
Result					
Operating revenues	489	510	477	469	400
Operating income	19	21	17	19	22
Pretax income	22	17	16	18	28
Net income	14	11	11	12	19
Capital					
Capital	153	140	129	120	111
Guarantee capital ³	190	176	168	156	135
Capital employed ⁴	377	439	399	380	361
Cash flow					
Cash flow from operating activities	39	65	41	73	33
Net investments	-5	102	40	67	117
Production and staff					
Number of aircraft	27	26	26	25	24
Available seat kilometers (1,000,000)	9,923	10,832	10,061	10,426	9,203
Passengers carried (1,000)	4,212	4,016	3,661	3,755	3,445
Average number of employees	1,549	1,714	1,687	1,617	1,502
Ratios					
Operating income as a % of operating revenues	3.8%	4.1%	3.5%	4.0%	5.5%
Operating income as a % of capital employed	5.0%	4.8%	4.2%	4.9%	6.1%
Net income as a % of average capital	9.8%	8.2%	9.0%	10.4%	18.5%
Guarantee capital as a % of capital employed	50%	40%	42%	41%	38%
Net debt ⁵ : capital	2.8	2.4	3.1	2.7	2.0
Turnover rate of capital employed	1.3	1.2	1.2	1.2	1.1
Interest coverage ratio	2.6	3.1	2.1	2.5	4.0

EUR 1 = US\$ 1.22 as at March 31, 2004

1 In million 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 1999/2000 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



Foreword of the Supervisory Board

We hereby present the management report and financial statements 2003/2004 of Transavia Airlines C.V. We have adopted the financial statements compiled by the board of management, which have been audited by KPMG Accountants, Amstelveen, whose approval has been expressed in their auditor's report.

In the year under review, Transavia was once again profitable. We regard that as an outstanding achievement, not least because last year showed a downturn in the holiday charter market and the company was forced to radically alter its business model during that period. Transavia is thus setting out to respond effectively to developments in the market. In view of the uncertainty in the market and the keen competition, the company will have to do its utmost to ensure that this change proves to be enduringly successful.

In the year under review we met nine times, in the presence of the board of management on each occasion. During our meetings we addressed subjects such as the company's strategic positioning, the growth of the scheduled flight operations, the general and financial course of events, the changes to the business model and its implications for the organization and its personnel. A radical consequence is that jobs were cut and that the company saw the departure of a relatively large number of employees. We also attended meetings of the works council by rotation.

We have taken note of the Netherlands corporate governance code as formulated by the Corporate Governance Commission (the Tabaksblat Commission). The board of management is currently taking notice of the implications of this code, after which the extent to which complying with the code is desirable will be discussed in the supervisory board. The results will be given in the report on the financial year ending on March 31 2005.

We are extremely grateful for the commitment shown by the company's management and personnel in putting through the necessary changes. In the time to come it will be important to the company's future that we remain open to possible changes that could strengthen Transavia's market position.

During the year under review, Mr. R.J. Van der Burg stepped down as a member of the supervisory board. We are grateful to him for the constructive contribution he has made to the supervisory board's activities for many years. Mr. C. van Woudenberg has been appointed as his successor.

Amsterdam Airport Schiphol, April 28, 2004,
Supervisory Board of Transavia Airlines B.V.

J.A.N. van Dijk, Chairman
G.H. Smit, Vice Chairman
R.A. Ruijter, RA
C. van Woudenberg



Management Report

Highlights

- ➔ In the year 2003/2004 Transavia Airlines succeeded in achieving a positive result for the 26th year in succession. This was achieved in a year in which there was a downturn in the holiday charter market, prices were placed under downward pressure and the company made radical changes to its business model.
- ➔ The pretax income amounted to € 21.8 million, compared to € 16.9 million in the previous year. Of this amount, € 10.1 million was realized as a book profit on the sale of assets. Turnover amounted to € 489.2 million, representing a 4% decrease compared to the previous year. Costs decreased by 3.8% to € 470.4 million.
- ➔ In the year under review Transavia transported 4.2 million passengers, an increase of 4.9% compared to the previous year. A good 80% (previous year 75%) of the flights were on time. With a score of 8.3, customer satisfaction was once again high.
- ➔ In 2003 Transavia made for the future of the company radical and necessary changes to its business model, the most important of which are:
 - division of the marketing and sales functions into two parallel product-market combinations, Charter (B2B) and Basiq Air (B2C), in which the marketing mix of the classic scheduled services was completely transformed into a low cost-low fare approach; responsibility for the 'proposition' to the customer was concentrated in a separate function;
 - introduction of the sale of direct bookings (Seat Only) for charter flights;
 - it is now only possible to book Basiq Air flights and Seat Only on charter flights via the Internet or by telephone; if the consumer engages a travel agent for this purpose, the consumer will pay the fee for this service directly to the travel agent.
- ➔ To optimize the quality of the service and to structurally reduce the cost level, a wide range of business services will be streamlined, digitized or outsourced, for which the Internet will play a pivotal role. Examples include:
 - the standardization of the fleet that was completed in 2003 (the Boeing 757 was phased out from the fleet last year);
 - the abolition of tickets for Basiq Air scheduled services (passengers are now only given a confirmation number);
 - the introduction of 'check in at home via the Internet', initially for Basiq Air flights from Schiphol Amsterdam;
 - the digitization of internal administrative processes, mainly in the area of human resources, and making these processes interactive via the intranet and Internet;
 - further introduction of the concept of a paid catering service on board on all flights (also on all charter flights in 2004) and the decision to outsource all catering handling activities and the sale of articles on board to an internationally operating, specialized service provider.The changes described above have led to the organization being downsized with 70 jobs, or 15% of the overhead.
- ➔ At the beginning of 2004, the number of Basiq Air destinations was increased from fourteen to twenty two. The activities at Rotterdam Airport have been substantially extended, both for charter flights and for Basiq Air scheduled services.



Transavia's new business model

Change in perspective

As far back as in the nineteen-eighties, Transavia identified various trends and developments that would result in radical changes being made to the air travel market. An important trend was the process of individualization, in which the consumers themselves want to arrange parts of their holidays (such as the flight and accommodation) and look for flexibility in departure and return dates and times. Another important factor was the sharp increase in the number of Dutch homeowners in the South European countries. This was also the time that the liberalization of the European air travel market was heralded, a development that resulted in the creation of an air travel market within the European Union in which the forces of free competition are a decisive factor. The combination of these two developments prompted Transavia, which up to then was purely a charter company, to start as early as in 1986 with daily flights to London in order to gain knowledge and experience of scheduled services. Following the liberalization of the market in 1992, this made it possible to start up a large number of scheduled services to holiday destinations in order to respond to the individualization of consumers.

In recent years, there have been another two developments that have had a major impact on Transavia's business model. The first of these was the arrival of new companies with a range of products that were firmly based on low costs and low prices. The essence of this low cost-low fare concept is the application of price elasticity in the market, so that extra traffic can be generated. These new players thus expanded the market and substantially increased competition. And then there was the rise of the Internet, which facilitated the development of a completely new distribution channel. This not only offers advantages to the 'surfing' consumer, but has also created new opportunities for the airline companies to build up a direct relationship with the consumer and to enhance efficiency.

New versus existing companies

New companies have the advantage that they can set up an organization on day one that responds optimally to the new alternatives offered by the market and by technology. An existing company such as Transavia was faced with the challenge of transforming its product-market combinations and organization, which involves partly phasing out an existing model - with all the difficulty and costs involved - in order to create space for the new approach. The fact that Transavia has so far succeeded in this can be attributed to the combination of the organization's continuous flexibility and manoeuvrability - expressed in the marketing strategy, the deployment of the fleet, the organizational form and the attitude of individual employees - and reliable business operations.

Transformation of the business model

In the long-term development outlined above, the year 2003 could prove to be of great significance to Transavia because the business model was radically transformed. In the marketing and sales area, for example, Transavia created a division between Charter and Basiq Air, the sale of seats to individual passengers on charter flights was introduced and the number of routes and the frequencies of the Basiq Air scheduled services were substantially increased. Another very important move was the decision to run a large number of these routes from Rotterdam Airport and also to substantially increase the charter activities from that airport. And finally, changes inspired by the low cost-low fare model were introduced or prepared for all parts and aspects of the business operations. Examples include the standardization of the fleet, the introduction of paid catering on board and a wide range of web technology-based systems and procedures for activities such as checking in the passengers, the distribution of rosters, the crews' pre-flight checks, the maintenance work of the Technical Department and the personnel details of the employees.



Breakthrough with 'book, check in and fly'

At the beginning of 2004 Transavia was among the first airline companies in the world to introduce the check in at home option for Basiq Air passengers flying from Schiphol. Passengers are now able to use the Internet to check in, select a seat on board and print out the boarding card from any PC, wherever they are, from 24 hours before the time of departure. Passengers with hand baggage only can proceed directly to the gate with that boarding card. Passengers with hold baggage can hand it in at the special points for that purpose and no longer have to queue at the check-in desk. This development can be regarded as a breakthrough in air transport logistics, following on from the successful introduction of Internet bookings and the abolition of the ticket for Basiq Air and its replacement with a confirmation number. Taken as a whole, this means that flying with less paperwork and loss of time is accompanied by passengers being able to book a flight with the greatest of ease and get on their way. In the meantime, pilot trials are being conducted with the aim of ensuring that Transavia becomes the first airline in the Netherlands to replace the traditional tickets for charter flights with e-tickets.

Rotterdam Airport as second home base

It was decided at the end of 2003, upon commencement of the summer flight schedules for 2004, to add seven new Basiq Air routes to the route network from Rotterdam Airport. This increases the total number of Basiq Air routes from Rotterdam Airport to nine. The charter activities from Rotterdam are also being substantially extended.

This quadruples our activities at Rotterdam Airport. Translated into passenger numbers, this amounts to about a million passengers. Transavia is thus responding to the increasing demand of both business and holiday travelers for flights from and to Rotterdam. Rotterdam Airport can therefore now be regarded as Transavia's second home base, at which a number of aircraft are permanently stationed and to which the cockpit and cabin staff can report directly and prepare their flight via the Internet. This expansion of activities has resulted in approximately 500 new, direct jobs at the airport alone. A substantial number of indirect jobs that are related to the new operations can be added to that number, including jobs at catering, maintenance and cleaning companies.

Fleet and Transport

Standardization definitively completed

Transavia decided at the end of the nineteen-nineties to standardize its fleet. The chosen aircraft were Boeings of the Next Generation type: the Boeing 737-700 and the Boeing 737-800. The remaining three Boeings 757 were sold at the beginning of 2003, and the last 757 was delivered at the end of last year. This means that Transavia's fleet now exclusively comprises Boeings 737-700 and 737-800. This standardization has increased cost-effectiveness and efficiency, not least by streamlining the maintenance work and the work on board, introducing more flexibility for scheduling flight crews and lower investments in parts.

Fleet capacity in the summer season

During the year under review, five new Boeings 737-700 were added to the fleet. In the 2003 summer season Transavia operated with 27 aircraft (2002: 26). The available seat capacity was 1.2% lower than in the previous year.

In the summer of 2004 the fleet for charter flights and Basiq Air will comprise 26 aircraft. It is anticipated that more flights will be operated with this fleet because the decrease in the number of charters is amply compensated by the increase in the number of Basiq Air flights, the average flight length of which is considerably shorter. Another two new aircraft are being delivered before the summer of 2004. That means that a total of fourteen new aircraft have been taken into use since the spring of 2002. The average age of the fleet is approximately 2.8 years. Transavia therefore has the youngest fleet of comparable airlines in Europe.

Production and Transport

In the year under review, 4.4 million seats were sold (1.6% more than in the previous year) and 9.9 billion seat kilometers were produced (representing a fall of 8.4%). The passenger load factor level was 84% (2002/2003: 83%). The number of transported passengers increased by 4.9% to 4.2 million.



Markets and activities

Direct bookings: 90% via Internet

Bookings for both Basiq Air flights and for Seat Only on charters can now only be made directly via the Internet (www.basiqair.com and www.transavia.nl) or by telephone. If a consumer decides to use a travel agent for this purpose, the airline company no longer pays the travel agent for the service: the agent charges the fee directly to the consumer. In the year under review, approximately 90% of the Basiq Air bookings were made via the Internet. That makes Transavia one of our country's biggest Internet sellers.

Consumers are also able to reserve hotel rooms, rent cars and take out travel insurance via the Basiq Air website. In the year under review, these facilities were used by several tens of thousands of passengers.

Charters

Transavia operates charter flights for Dutch tour operators. Most of these flights are offered from Schiphol Amsterdam and Rotterdam Airport. Charter flights are also operated from the regional airports Maastricht Aachen Airport, Enschede Airport Twente, Groningen Airport Eelde and Eindhoven Airport. From the summer of 2004 onwards, all flights are being operated with the concept of paid catering on board. The resulting lower prices allow tour operators to offer their customers extra attractive package prices. To limit the administrative cost both for the tour operator and for Transavia, pilot trials are currently being run for the replacement of the traditional tickets for charter flights with an electronic ticket (e-ticket). We anticipate that the tickets will in due course be completely replaced with a confirmation number, as is the case for Basiq Air.

In the year under review the holiday charter market was adversely affected by the economic recession, the fine summer in our own country and the situation in Iraq. This resulted in a market decline. Added to this is the fact that consumers are booking increasingly later: these days, approximately half of the bookings are made within a period of six weeks before departure. This is causing additional uncertainty and risks among all of the parties involved and necessitates being very alert to market developments and the ability to adapt the capacity accordingly.

This reduced market also caused a fall in Transavia's charter turnover, although the effect was limited by our market share increasing from 46% in 2002 to approximately 47% in 2003. The number of destinations remained virtually the same: 75 in the summer and approximately twenty in the winter.

Seat Only bookings on charter flights

Transavia offers individual passengers the ability to make direct Seat Only bookings for charter flights via the Internet (www.transavia.nl) or by telephone. This service is offered on almost 40 of the approximately 75 charter destinations. These are what are known as the scheduled charters, which gives clients certainty about the time of departure.

Basiq Air Scheduled Services

In the year under review Transavia operated on average 16 scheduled service routes to 14 destinations from Amsterdam and Rotterdam Airport under the Basiq Air label. These scheduled services transported a total of 1.7 million passengers in 2003/2004. The success of Basiq Air can be attributed in part to the increase in the number of bookings made from abroad: specific promotion campaigns have contributed to this share increasing to a good 30%. The business market share in the total transport has also increased.

It was decided at the end of 2003, upon commencement of the summer flight schedules for 2004, to add seven new Basiq Air routes to the route network from Rotterdam Airport. The daily flights to Alicante, Malaga, Berlin, Stockholm, London Stansted, Copenhagen, Oslo, Dublin and Girona take the total number of Basiq Air destinations from Rotterdam Airport to nine. With this important step, Transavia is responding to the increasing demand of both business and holiday travelers for flights from and to Rotterdam Airport. With effect from the 2004 summer flight schedules, Venice and Verona will be added to the network as new destinations from Schiphol Airport.

The Basiq Air routes between Amsterdam and Palma de Mallorca and Seville have been discontinued owing to the lack of sufficient extra demand. It has also been decided to discontinue the routes between Amsterdam - Bordeaux and Amsterdam - Marseilles on June 1, 2004 because the passenger demand for both of these destinations is not in line with the product profile of Basiq Air (point-to-point flights) but have turned out to have more of a transfer character. Following the discontinuation of these routes, Basiq Air will retain a total of twenty routes, eleven of which from Amsterdam and nine from Rotterdam.



On board sales

The service concept of paid catering on board operated by Basiq Air was also introduced to the majority of the charter flights in 2003. Together with the sale of luxury articles, this led last year to a further increase in on board sales.

In the new business model, the service on board forms an important part of the commercial operations. This calls for a professional approach, for which external experts in the retail area have been engaged. To achieve a good result, it is of vital importance that the cabin staff is able to effectively fulfill the sales function in addition to their primary responsibility for safety and service. To this end, a lot of attention was made to training and coaching in this area.

With the aim of improving the overall process of on board sales, it has been decided to completely outsource the related activities in the areas of procurement, administration and logistics to ILC / Eurest, a division of Compass, a major player on the international catering market.

Ad hoc flights

In addition to the primary activities, Transavia also offers ad hoc flights for companies and institutes. Sub charters are also operated for other airline companies. In the year under review, turnover for this activity amounted to € 22.2 million, representing an increase of 64% compared to the previous year.

Leasing

During the last winter season, Transavia successfully leased temporarily available aircraft capacity. During the 2003/04 winter season, a total of nine aircraft were leased to airlines in various countries. In one case, the aircraft was leased with a crew.

Regulations

For a healthy and balanced market development, it is important to consumers and the sector as a whole that airlines can operate on a level playing field that is based on transparency and uniformity regarding matters such as safety requirements and permits. That means identical conditions that are applicable to European and non-European airlines. Only then can there be fair competition, from which the consumer benefits the most. We trust that the public authorities, both in The Hague and in Brussels, will shape their policy in this regard in such a way that improvements are made.

We also believe that it is desirable for European legislation in the area of consumer protection to take into account the nature of the low cost-low fare business model. This relates in particular to the airline company being able to create a link between the price that the consumer has paid and the compensation that is given in the case of 'Denied Boarding Compensation', for example.



Organization and staff

Higher productivity and downsizing

The new business model, standardization and the introduction of web-based business processes and the uniform fleet position Transavia to produce more with fewer employees. This increase in productivity is expressed in both Cockpit, Cabin and in the ground organization. As a result of this, the ground organization has been downsized by 70 of the 450 jobs. A substantial part of this reduction in manning levels is being achieved by natural wastage, relocating employees to different positions and voluntary redundancies. We regret that we were unable to avoid compulsory redundancies among a number of employees. These developments have resulted in substantial structural cost savings. The costs of the ground organization, for example, have been reduced by around 20%.

Staff

At the end of the year under review the company was employing 1,674 employees; one year ago the figure was 1,802. This downward trend is expected to continue in 2004.

Over the entire year under review, the average number of employees fell by 10% to 1,549 (full-time equivalents). This annual average is compiled as follows (the comparative figures for 2002/2003 are given in parentheses):

- flight personnel 941 (1,067)
- technical and operational personnel 346 (361)
- office staff 262 (286).

Collective Labor Agreements

In the year under review Collective Labor Agreements that will remain in force until 1 June 2004 were made with the relevant unions for both cabin, cockpit and ground personnel. The unions also placed the subject of pensions on the agenda more emphatically than previously. Partly in view of the new regulations of the Pensions and Insurance Board and international requirements in the area of reporting (IFRS), this is a subject that calls for special attention. In this respect it is important for the company and the employees' organizations to find a balance between the interests of the employees and the company.

Works Council

In the past year, subjects that are of vital importance to the future of the company were once again discussed with the works council, and requests for advice related to those subjects were submitted to the council. The most important subjects were the introduction of the new business model and the necessary reorganizations: complex subjects for which the works council, too, was faced with the need to weigh off important interests. The council made its contribution on the basis of firm commitment and we appreciate the fact that agreement was reached on most of the points at issue.

An extra word of thanks to our staff

We regret that the downsizing of the organization is necessarily leading to a number of employees having to leave the company and realize that this is a painful process, also for colleagues of those who are leaving us. We would therefore like to take this opportunity to offer a special word of thanks to all employees for their commitment and their contribution to the transformation that Transavia has undergone during the past year. That contribution was not always made under easy circumstances because the organization is going through a tumultuous period and there are on occasions many uncertainties.

Financial performance

Results

In the year under review Transavia's turnover fell by 4.0% to € 489.2 million.

Operating revenues also fell, by around 3.8% to € 470.4 million. The costs per seat decreased by 2%.

The negative balance of financial income and expenses (including interest) increased by 5.8% to € 7.1 million.

This culminated in a pretax income of € 21.8 million (2002/2003: € 16.9 million). The pretax income was favorably affected by the flexible arrangement and deployment of the available fleet capacity, which enabled the company to generate additional turnover outside of the core business of Charter and Basiq Air in the area of ad hoc flights and lease-out activities. Moreover, a large proportion of the income, € 10.1 million, was realized as a book profit from the sale of the three remaining Boeings 757.

A provision of € 3.3 million was created to cover the implications of the reorganizations.

The net income after corporation tax amounted to € 14.3 million (2002/2003: € 11.0 million).

The operating income on average capital employed (ROCE) was 4.6% in 2003/2004 (2002/2003: 5.0%). The net income on average capital amounted to 9.8% in the year under review, as compared with 8.2% in the previous year. Although this return is acceptable for the international aviation industry in relation to other companies, in absolute terms we regard it as not being sufficient and will have to continue to do the utmost to achieve a profit level that bears comparison with other sectors.

The company's solvency position, defined as the ratio between the guarantee capital and the capital employed, is 50%.

Investments, financing, and liquidity position

The total investments in tangible fixed assets in the year under review amounted to € 67.5 million. During the past year, five Boeings of the type 737-700 were added to the fleet. Three of them were leased, and the other two were purchased and largely financed from external sources. Although not strictly necessary for the liquidity position, this was done because these financing facilities were available under relatively attractive conditions: Transavia's good reputation in the international finance markets played an important role in this regard. As a result of this Transavia has an ample liquidity position, which means that the financing of the two aircraft that have been ordered (due for delivery in the spring of 2004 and 2005) has now been secured.

The income from operational activities, the sale of the Boeings 757 and the financing of a number of aircraft have provided Transavia with a strong liquidity position. The cash flow was given an extra boost by payments for bookings for Basiq Air flights being received directly.

Profit distribution

It is proposed that a sum of € 3.1 million from the operating result of the year under review will be paid out to the partners.



Transavia's position following the merger between KLM and Air France

Now that all of the relevant authorities, the European Commission and the shareholders in particular, have given their approval, the merger between KLM and Air France will be effected. With this merger, the two parties have created a firm basis from which they can develop into a strong European player that is a match for other, globally operating market players. KLM and Air France will continue operating within the new holding company Air France-KLM with their own identity, name and logo. That also applies to Transavia. As a financially healthy and commercially alert company, our aim is to further strengthen our position on the market, making as much use as possible of possible synergy effects within the new Group.

Corporate governance

Transavia Airlines C.V. is a limited partnership managed by its managing partner Transavia Airlines B.V. and supervised by the Supervisory Board of Transavia Airlines B.V. Supervision is based in part on the limited partnership's Act, Articles of Association and the agreement between partners and shareholders.

New insights and regulations in the field of corporate governance are arising in the Netherlands. These provisions are not directly applicable to Transavia Airlines C.V. As a business that issues its own independent report on its activities, though, Transavia Airlines C.V. will provide information on its corporate governance structure. The new regulations can serve as a guideline. The extent to which the recommendations of the Tabaksblat Committee shall be adopted will be investigated and after discussion with the supervisory board be determined in 2004/2005 and reported upon in the report for the 2004/2005 fiscal year.

Prospects

Because of issues such as continuing individualization and the economic conditions, the prospects for the market for organized holiday charters are not particularly favorable. Under pressure from the competition, the seat prices that have been agreed for 2004 are lower than last year, which means that we will need to make allowance for the fact that the results of the charter activities will be placed under further downward pressure. It is therefore of vital importance to Transavia that the activities of Basiq Air and the direct (Seat Only) bookings for charter flights prove to be successful.

During this financial year we will remain extremely alert to opportunities for lowering costs and increasing productivity. We will also be setting out to introduce new products and services that can distinguish us from the competition and generate extra income, whilst retaining the concept of low prices.

To make optimum use of the alternatives offered by information technology in the service we provide to our partners, substantial investments will be made in this area in the coming year.

The absence of any clear signs of economic recovery and the prolonged unfavorable safety climate make it difficult to predict developments in the market. It is against this background that we are refraining from giving an operating result forecast for the year to come.

The entire organization will this year again be called upon to show its creativity, its powers of innovation and the ability to successfully carry through the necessary changes. In this context, we are looking into the desirability of positioning Charter and Basiq Air under the same brand name.

It is more important than ever that all of the organization's stakeholders - shareholders, management, works council, unions and all personnel - devote their energy to achieving a healthy future for the company. The ability to think and act flexibly remains of great importance. Our performance in the past gives us a lot of confidence in this regard, but by no means forms a guarantee for the future!

Schiphol, April 28, 2004

The Board of Management
Onno P.M. van den Brink
Gerard J.W.M. Helming
Cor Vrieswijk
Tjero R. Zomer



Financial Statements 2003/2004

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Balance sheet as at March 31, 2004

(x € 1,000)

(before profit appropriation)

	2003/2004	2002/2003 ¹
Fixed assets		
Tangible fixed assets		
Aircraft	469,900	520,596
Buildings	9,120	9,575
Other	2,909	2,812
	<u>481,929</u>	<u>532,983</u>
Financial fixed assets	<u>74,416</u>	<u>63,208</u>
	556,345	596,191
Current assets		
Inventories	4,735	5,680
Receivables	15,335	20,312
Liquid funds	188,761	30,558
	<u>208,831</u>	<u>56,550</u>
Current liabilities	<u>(156,736)</u>	<u>(150,297)</u>
Current assets less current liabilities	<u>52,095</u>	<u>(93,747)</u>
Assets less current liabilities	<u>608,440</u>	<u>502,444</u>
Long-term loans		
Subordinated loan	22,689	22,689
Aircraft loans	376,682	286,297
Other long-term loans	30,940	11,962
	<u>430,311</u>	<u>320,948</u>
Provisions	10,591	28,225
Deferred income	14,767	13,755
Capital	<u>152,771</u>	<u>139,516</u>
	<u>608,440</u>	<u>502,444</u>

¹ restated for comparative purposes

Statement of income for the year 2003/2004

(x € 1,000)

	2003/2004	2002/2003
Operating revenues	489,159	509,734
Operating expenses		
Staff costs	92,145	94,442
Depreciation	28,705	25,152
Other operating expenses	<u>349,537</u>	<u>369,248</u>
	<u>470,387</u>	<u>488,842</u>
Operating income	18,772	20,892
Financial income and expenses	(7,094)	(6,706)
Result on sale of assets	<u>10,139</u>	<u>2,667</u>
Pretax income	21,817	16,853
Contribution to corporate income tax	<u>(7,527)</u>	<u>(5,814)</u>
Net income	<u>14,290</u>	<u>11,039</u>



Statement of cash flows for the year 2003/2004

(x € 1,000)

	2003/2004	2002/2003 ¹
Cash flow from operating activities		
Net result	14,290	11,039
Depreciation	28,705	25,152
Movement in receivables	4,977	(1,867)
Movement in inventories	945	497
Movement in current liabilities	6,439	31,748
Movement in provisions	(17,634)	764
Movement in deferred income	1,012	(2,584)
	38,734	64,749
Cash flow from investing activities		
Additions to tangible fixed assets	(67,507)	(107,656)
Additions to financial fixed assets	(17,052)	-
Disposals	83,160	5,930
Effect of change in accounting policy for heavy maintenance on aircraft	6,696	-
	5,297	(101,726)
Cash flow from financing activities		
Increase in aircraft loans	126,748	4,229
Decrease in aircraft loans	(36,363)	(58,732)
Revaluation of financial fixed assets	5,844	10,717
Movement in other long-term loans	18,978	6,296
Dividend distribution	(3,875)	(2,388)
Effect of change in accounting policy for heavy maintenance on aircraft	2,840	-
	114,172	(39,878)
Movement in liquid funds	158,203	(76,855)
Opening balance	30,558	107,413
Closing balance	188,761	30,558
Changes in liquid funds	158,203	(76,855)

¹ restated for comparative purposes owing to the change in accounting policy for profit appropriation



Accounting policies

General

The balance sheet as at March 31, 2004 and the statement of income for the year 2003/2004 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 2003/2004 financial statements, including the comparative figures for 2002/2003, 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.

Change in accounting policies

In line with developments in national and international reporting standards, two accounting policies have been changed with effect from April 1, 2003.

The cost of heavy maintenance on aircraft in economic ownership by the company are capitalized and written off on a straight-line basis with effect from April 1, 2003. Previously provisions had been formed for heavy maintenance. This change in policy had a one-off upward effect on Capital of € 2.8 million. The effect of this change in policy on Net income in 2003/2004 was limited. Future amounts payable in respect of heavy maintenance on aircraft held under operational leases are included in Other long-term loans or Current liabilities. Because of the limited effect on the statement of income, comparative figures for 2002/2003 have not been restated.

In addition, the balance sheet is no longer presented after profit appropriation. The proposed profit distribution is therefore no longer disclosed as a liability. Comparative figures have been restated for this change in policy.

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.

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.

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, 2004

(x € 1,000)

Fixed assets

Tangible fixed assets

	Aircraft	Buildings	Other	Total
Balance as at April 1, 2003				
Cost	640,916	15,169	21,484	677,569
Depreciation	(120,320)	(5,594)	(18,672)	(144,586)
Book value before change in accounting policy	520,596	9,575	2,812	532,983
Effect of change in accounting policy	(6,696)	-	-	(6,696)
Book value as at April 1, 2003 after change in accounting policy	513,900	9,575	2,812	526,287
Movements in book value				
Additions	65,819	-	1,688	67,507
Depreciation	(26,716)	(455)	(1,534)	(28,705)
Sales, write-offs	(83,103)	-	(57)	(83,160)
Total movements	(44,000)	(455)	97	(44,358)
Balance as at March 31, 2004				
Cost	562,612	15,169	23,044	600,825
Depreciation	(92,712)	(6,049)	(20,135)	(118,896)
Book value	469,900	9,120	2,909	481,929

Investments in aircraft in 2003/2004 include final payments for two new Boeing 737-700s that were added to the fleet during the year, installments paid on aircraft under construction and financing costs payable up to the delivery of the aircraft. Advance payments on aircraft, including financing costs, amounted to € 23.0 million as at March 31, 2004 (2003: € 52.2 million).

The item Aircraft includes twelve Boeing 737-800s and four Boeing 737-700s. Three Boeing 757-200s were sold in February 2003 and delivered both economically and legally in 2003/2004. Financing agreements concluded for a number of aircraft are presented in the item Aircraft loans.

Tangible fixed assets as at March 31, 2004 consisted of aircraft held under financial lease agreements to an amount of € 316.4 million (2003: € 169.1 million).

Write-offs relate to fully depreciated assets.



Financial fixed assets

	2003/2004	2002/2003
Balance as at April 1	63,208	73,925
Movements		
Investments	17,052	-
Accrued interest	4,121	4,229
Currency revaluation	(9,965)	(14,946)
Balance as at March 31	74,416	63,208

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

	2003/2004	2002/2003
Maintenance materials	3,717	3,601
Other inventories	1,018	2,079
	4,735	5,680

Receivables

	2003/2004	2002/2003
Trade receivables	3,088	2,295
Guarantees	3,752	4,179
Advance payments on aircraft insurance	2,226	1,931
Advance payments on operational leases	1,223	1,138
Other receivables	3,136	6,820
Prepayments and accrued income	1,910	3,949
	15,335	20,312

Guarantees include amounts for the operational leases of aircraft with a term of more than one year to an amount of € 3.6 million (2002/2003 € 3.6 million).

Liquid funds

Of the item Liquid funds, an amount of € 152.7 million (2002/2003: € 21.3 million) relates to short-term deposits. The movement in Liquid funds relates to aircraft loans contracted during the fiscal year.



Current liabilities

	2003/2004	2002/2003
Current portion of long-term debt	31,776	30,014
Accounts payable	15,204	11,960
Deferred income	49,931	46,012
Amounts payable to staff	13,031	13,837
Pension funds current accounts	2,998	2,619
Flight-related costs payable	9,145	10,314
Corporate income tax contribution	9,024	6,066
Managing partner's profit share	159	159
Taxes and social security contributions	815	147
Other liabilities	2,804	1,883
Accrued expenses	21,849	27,286
	<u>156,736</u>	<u>150,297</u>

Group companies

Liquid funds, receivables and current liabilities include a net amount receivable from Group companies of € 150.8 million (2002/2003: net amount payable of € 4.6 million) excluding the corporate income tax contribution.

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 2004 is 4.31%, that for 2003 was 4.75%.

Aircraft loans

	2003/2004	2002/2003
Balance as at April 1	307,191	370,805
Loans drawn	126,748	4,229
Currency revaluation	(8,114)	(14,946)
	<u>425,825</u>	<u>360,088</u>
Repayments	(22,966)	(52,897)
	<u>402,859</u>	<u>307,191</u>
Due within one year	(26,177)	(20,894)
	<u>376,682</u>	<u>286,297</u>

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 2013. Installments payable in 2004/2005 are included under

Current liabilities. Of the loans, an amount of € 148.2 million (2002/2003: € 132.2 million) has a remaining life of more than five years. The interest payable on long-term loans is mainly variable and averages 3.38% (2002/2003: 4.04%). 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 2004/2005 are included in Current liabilities.

Provisions

	Aircraft maintenance	(Early) retirement commitments	Total
Balance as at April 1, 2003 before change in accounting policy	18,852	9,373	28,225
Effect of change in accounting policy	(18,852)	-	(18,852)
Balance as at April 1, 2003 after change in accounting policy	-	9,373	9,373
Additions	-	5,220	5,220
Withdrawals	-	(2,959)	(2,959)
Releases	-	(1,043)	(1,043)
Balance as at March 31, 2004	-	10,591	10,591

(Early) retirement commitments

This provision has been formed to meet commitments in respect of various schemes for retirement before the pension date for both aircrew and ground staff. It also includes a provision for reorganization costs relating to the estimated staff redundancy costs to an amount of € 3.9 million as at March

31, 2004. This reorganization provision is largely short-term in nature.

The remainder of the provision for (Early) retirement commitments is largely long-term in nature.

Deferred income

	2003/2004	2002/2003
Balance as at April 1	13,755	16,339
Additions	3,005	-
Withdrawals	(1,993)	(2,584)
Balance as at March 31	14,767	13,755

This item relates to benefits from aircraft financing to be released to future statements of income up to the year 2013.



Capital

	2003/2004	2002/2003
Balance as at April 1	139,516	128.636
Effect of change in accounting policy for profit appropriation	-	2,229
Effect of change in accounting policy for heavy aircraft maintenance	2,840	-
Result for the year	14,290	11,039
Managing partner's profit share	(159)	(159)
Profit distribution to limited partners	(3,716)	(2,229)
Balance as at March 31	152,771	139,516

The balance sheet as at March 31, 2004 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, 2004, guarantees had been given to third parties to an amount of € 2.3 million (March 31, 2003: € 2.9 million). Long-term rental and lease commitments totalled € 99.1 million (2002/2003: € 109.5 million). Commitments in respect of aircraft on order but not yet delivered amounted to € 51.1 million (2002/2003: € 120.5 million).

Of the total commitments, an amount of € 62.4 million has a remaining term of less than one year (2002/2003: € 77.1 million), an amount of € 81.6 million a remaining term of between one and five years (2002/2003: € 147.5 million) and an amount of € 8.5 million a remaining term of more than five years (2002/2003: € 8.3 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 counterparty in derivative financial instruments not fulfilling its obligations. In view of the creditworthiness of the counterparties 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.

	Contract amount March 31, 2004	Market value March 31, 2004
Forward exchange contracts	94,276	85,113
Forward fuel contracts	19,337	22,371



Notes to the statement of income for the year 2003/2004

(x € 1,000)

Operating expenses

	2003/2004	2002/2003
Staff costs		
Salaries	73,827	77,618
Pension charges	6,833	5,974
Social security charges	5,719	6,852
Other labor costs	5,766	3,998
	<u>92,145</u>	<u>94,442</u>

During the year Transavia employed an average workforce of 1,549 FTEs (2002/2003: 1,714).

Other labor costs include an addition to the Provision for (early) retirement commitments of € 5.2 million.

Other operating expenses

Handling costs, catering costs and passenger taxes	111,402	109,768
Aircraft maintenance and fuel costs	80,665	100,847
Landing and navigation costs	71,602	69,891
Operational aircraft lease expenses	28,624	25,022
Miscellaneous operating expenses	57,244	63,720
	<u>349,537</u>	<u>369,248</u>

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 € 2.6 million (2002/2003: € 4.9 million), interest expenses of € 11.5 million (2002/2003: € 13.5 million) and income from aircraft financing attributable to the year. Interest to an amount of € 0.4 million was capitalized during the year in respect of financing costs for aircraft on order. Financial income and expenses include net interest income from Group companies to an amount of € 1.3 million (2002/2003: € 1.5 million).

Result on sale of assets

This item relates to the profit realized on the sale of three Boeing 757-200s and the sale of components.

Managing directors' remuneration

The Managing Directors' remuneration charged to the company in 2003/2004 amounted to € 1.3 million (2002/2003: € 1.4 million). No loans, advances or guarantees have been granted to the Directors.



Pension schemes

The pension scheme commitments are fully incorporated in pension funds that are kept separately from the company. The costs related to the pension rights being accumulated by the employees are allocated to the years in which the work on which the rights are based was performed. The pension costs for the cockpit and ground staff are calculated on the basis of the statistical method, taking account of actuarial principles. The pension costs for the cabin personnel are equal to the premium payable by the employer, which is laid down in the pension scheme. Together with the employees contribution, this forms the available premium.

An actuarial interest rate of 4% is operated both for cockpit and for ground personnel. The commitments are calculated on the basis of the 'Collectief 1993' mortality table (cockpit and ground personnel). For cabin personnel, the capital is available for the commitments.

The resources present in the pension funds (which are supervised by the Netherlands Pensions and Insurance Board) are deemed to be sufficient to cover the pension commitments provided that they are determined on the basis of the principles prescribed for the calculation of the pension provisions by that supervisory authority.

(Early) retirement plan

Full and partial (early) retirement plans have been arranged for ground, cabin and cockpit staff. An (early) retirement provision has been formed to cover early retirement expenses and to settle self-administered commitments in respect of those employees who may opt or have already opted to make use of these plans. A provision for reorganization costs is also included.

The commitments provided for are valued at face value with due account for probability of participation, age, salaries and incidental expenses.



Other information

Auditors' report

Introduction

We have audited the financial statements of Transavia Airlines C.V., Schiphol, for the year 2003/2004. 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, 2004 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, April 28, 2004
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 2003/2004

It will be proposed to the General Meeting of Partners that € 3.1 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.

Schiphol, April 28, 2004

Board of Management of Transavia Airlines C.V.

Onno P.M. van den Brink, President and CEO

Gerard J.W.M. Helming

Cor Vrieswijk

Tjero R. Zomer





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Transavia airlines

