

# SECURITIES AND EXCHANGE COMMISSION

## FORM 20-F

Annual and transition report of foreign private issuers pursuant to sections 13 or 15(d)

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### FILER

#### **KLM ROYAL DUTCH AIRLINES**

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 20-F

REGISTRATION STATEMENT PURSUANT TO SECTION 12 (b) OR (g) OF THE  
SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended March 31, 2003

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 1-4059

**Koninklijke Luchtvaart Maatschappij N.V.**

(Exact name of Registrant as specified in its charter)

**KLM Royal Dutch Airlines**

(Translation of Registrant's name into English)

**The Netherlands**

(Jurisdiction of incorporation or organization)

**55 Amsterdamseweg, Amstelveen, The Netherlands**

(Address of principal executive offices)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class

Name of exchange on which registered

Common shares, par value 2 euro

New York Stock Exchange



## Table of Contents

Securities registered pursuant to Section 12(g) of the Act:

None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

46,809,699	Common shares
8,812,500	Cumulative preference shares A outstanding
7,050,000	Cumulative preference shares C
1,275	Priority shares*

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days.

Yes

No

Indicate by check mark which financial statement item the registrant has elected to follow.

Item 17

Item 18

\* Priority shares: 1,312 shares issued of which 37 shares and 2 scripts are held by KLM

# TABLE OF CONTENTS

## WARNING ABOUT FORWARD-LOOKING STATEMENTS

### PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

ITEM 3. KEY INFORMATION

ITEM 4. INFORMATION ON THE COMPANY

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

ITEM 8. FINANCIAL INFORMATION

ITEM 9. THE OFFER AND LISTING

ITEM 10. ADDITIONAL INFORMATION

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

### PART II

ITEM 13. DEFAULTS, DIVIDENDS ARREARRAGES AND DELINQUENCIES

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

ITEM 15. CONTROLS AND PROCEDURES

ITEM 16.

### PART III

ITEM 17. FINANCIAL STATEMENTS

ITEM 18. FINANCIAL STATEMENTS

ITEM 19. EXHIBITS

### SIGNATURES

### INDEX TO FINANCIAL STATEMENTS

### Independent Auditors' Report

### CONSOLIDATED FINANCIAL STATEMENTS

ACCOUNTING POLICIES

CONSOLIDATED BALANCE SHEET

CONSOLIDATED STATEMENTS OF EARNINGS

CONSOLIDATED STATEMENTS OF CASH FLOWS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

COMPANY BALANCE SHEET

COMPANY STATEMENT OF EARNINGS

NOTES TO THE COMPANY FINANCIAL STATEMENTS

### SCHEDULE VIII – VALUATION AND QUALIFYING ACCOUNTS

EXHIBIT 4.1

EXHIBIT 4.2

EXHIBIT 4.3

EXHIBIT 12.1

EXHIBIT 12.2

**KLM ROYAL DUTCH AIRLINES**

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**Annual Report on Form 20-F  
to the Securities and Exchange Commission  
for the year ended March 31, 2003**

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**TABLE OF CONTENTS**

		<b>Page</b>
	Warning about Forward-Looking Statements	2
Part I	Item 1. Identity of directors, senior management and advisors	3
	Item 2. Offer statistics and expected timetable	3
	Item 3. Key information	3
	Item 4. Information on the Company	9
	Item 5. Operating and financial review and prospects	18
	Item 6. Directors, senior management and employees	28
	Item 7. Major shareholders and related party transactions	33
	Item 8. Financial information	35
	Item 9. The offer and listing	36
	Item 10. Additional information	38
	Item 11. Quantitative and qualitative disclosures about market risk	48
	Item 12. Description of securities other than equity securities	49
Part II	Item 13. Defaults, dividends arrearages and delinquencies	50
	Item 14. Material modifications to the rights of security holders and use of proceeds	50
	Item 15. Controls and procedures	50
	Item 16. Not applicable	50
Part III	Item 17. Financial Statements	51
	Item 18. Financial Statements	51
	Item 19. Exhibits	51

## **WARNING ABOUT FORWARD-LOOKING STATEMENTS**

This Form 20-F contains, and the Company and its representatives may make, forward-looking statements within the meaning of the U.S. Private Securities Litigation Act of 1995, either orally or in writing, about KLM and its business. Forward-looking statements generally can be identified by the use of terms such as “ambition”, “may”, “will”, “expect”, “intend”, “estimate”, “anticipate”, “believe”, “plan”, “seek”, “continue” or similar terms. These forward-looking statements are based on current expectations, estimates, forecasts, projections about the industries in which we operate, management’s beliefs, and assumptions made by management about future events. Any such statement is qualified by reference to the following cautionary statements. These forward-looking statements involve known and unknown risks, uncertainties and other factors, many of which are outside of our control and are difficult to predict, that may cause actual results to differ materially from any future results expressed or implied from the forward-looking statements. These statements are not guarantees of future performance and involve risks and uncertainties including

the airline pricing environment;

competitive actions taken by other airlines;

general economic conditions;

changes in foreign exchange rates and jet fuel prices;

governmental and regulatory actions and political conditions;

developments affecting labor relations or our airline partners;

the outcome of any material litigation;

the future level of air travel demand;

our future load factors and yields; and

the many effects on KLM and the airline industry from terrorist attacks, the possibility or fear of such attacks and the threat or outbreak of epidemics, hostilities or war, including the adverse impact on general economic conditions, demand for travel, the costs for security, the cost and availability of aviation insurance coverage and war risk coverage and the price and availability of jet fuel.

Developments in any of these areas, as well as other risks and uncertainties detailed from time to time in the documents we file with or furnish to the U.S. Securities and Exchange Commission, could cause actual outcomes and results to differ materially from those that have been or may be projected by or on behalf of us. We caution that the foregoing list of important factors is not exhaustive. Additional information regarding the factors and events that could cause differences between forward-looking statements and actual results in the future is contained in our Securities and Exchange Commission filings, including this annual report on Form 20-F. For further discussion of these and other factors, see “Item 3-Key Information-Risk Factors”, “Item 4-Information on the Company”, “Item 5-Operating and Financial Review and Prospects” and “Item 11-Quantitative and Qualitative Disclosures about Market Risk”. We undertake no obligation to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

## **PRESENTATION OF INFORMATION AND EXCHANGE RATES**

Unless otherwise specified or the context requires otherwise, “us”, “we”, “our” and the “Company” refer to KLM and all its group companies.



References to “dollars”, “U.S. dollars” and “\$” are to United States dollars, references to “euro” and “EUR” are to the currency introduced at the start of the second stage of the Economic and Monetary Union (EMU) pursuant to the Treaty establishing the European Economic Community as amended by the treaty on the European Union. The conversion rates between the euro and the participating member states’ national currencies were irrevocably fixed on December 30, 1998. Our consolidated financial statements are reported in euro (EUR). Previously presented statements denominated in Dutch guilders (NLG) have been translated into euro using the irrevocably fixed conversion rate applicable since January 1, 1999 for all periods presented (EUR 1 = NLG 2.20371).

U.S. dollar amounts presented are unaudited and have been translated solely for your convenience at and for the year ended March 31, 2003, from euro into U.S. dollars at an exchange rate of \$1.09 per EUR 1.00, the noon buying rate published by Bloomberg. For information regarding the rate of exchange between euro and U.S. dollars, see “Item 3-Key Information-Exchange Rates”. We do not represent that the U.S. dollar amounts presented in the U.S. dollar convenience translation or any amounts translated from euro into other currencies could have been converted from euro at the rates indicated.

**PART I:****ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS**

Not applicable.

**ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE**

Not applicable.

**ITEM 3. KEY INFORMATION****A. Selected financial data**

The selected consolidated financial data presented below for each of the years ended March 31, 2003, March 31, 2002, and March 31, 2001 has been derived from our audited consolidated financial statements and the related notes appearing elsewhere in this annual report. The selected consolidated financial data for each of the years ended March 31, 2000, and March 31, 1999 has been derived from our audited consolidated financial statements not included in this annual report.

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in The Netherlands (Netherlands GAAP), which differ in certain respects from accounting principles generally accepted in the United States (U.S. GAAP). Note 28 to our consolidated Financial Statements provides a description of the applicable principal differences between Netherlands GAAP and U.S. GAAP and a reconciliation of net income and shareholders' equity to US GAAP.

Unless otherwise indicated, all amounts in this report are expressed in millions of euro.

*Selected financial data presented in accordance with Netherlands GAAP*

	Fiscal year ended March 31,				
	2003	2002 <sup>(1)</sup>	2001	2000	1999
Net assets	5,975	6,851	6,533	6,404	6,300
Total assets	8,165	8,943	8,590	8,647	8,299
Long-term debt	3,971	4,417	3,686	3,712	3,503
Capital stock	125	125	125	125	187
Operating revenues	6,485	6,532	6,960	6,296	6,047
Operating income (loss)	(133 )	(94 )	277	95	193
After tax income (loss) before extraordinary items	(186 )	(156 )	77	3	207
Net income (loss)	(416 )	(156 )	77	337	207

Net income (loss) per common share before extraordinary items:					
Basic <sup>(2)</sup>	(4.17)	(3.37)	1.61	0.04	4.02
Diluted	(4.17)	(3.37)	1.61	0.04	4.02
Net income (loss) per common share					
Basic <sup>(2)</sup>	(9.26)	(3.37)	1.61	7.17	4.02
Diluted	(9.26)	(3.37)	1.61	7.17	4.02

- (1) Prior year figures have been adjusted for the presentation of the deferred tax position (credit balance of EUR 100 million as of March 31, 2002 presented under Provisions has been transferred to Financial fixed assets)
- (2) After taking the rights of holders of A-cumulative preference shares and C-cumulative preference shares into account (see Item 10-Memorandum and Articles of Association)

## [Table of Contents](#)

Selected financial data presented in accordance with Netherlands GAAP

	Fiscal year ended March 31,				
	2003	2002	2001	2000	1999
Dividend declared per common share	0.10	0.20	0.60	–	0.68
Dividend declared per common share (in U.S. dollars)	0.11 <sup>(1)</sup>	0.22	0.66	–	0.74
Average number of common shares outstanding (in thousands of shares) <sup>(2)</sup>	45,070	46,810	46,810	46,810	50,971

(1) Estimated, not yet known on date of filing

(2) “Outstanding” excludes shares held by the company

Selected financial data presented in accordance with U.S. GAAP

	Fiscal year ended March 31,				
	2003	2002 <sup>(1)</sup>	2001	2000	1999
Net assets	8,148	8,361	8,304	7,840	7,679
Total assets	10,331	10,453	10,934	10,641	10,087
Long-term debt	4,288	4,799	4,314	4,199	3,998
Capital stock	125	125	125	125	187
Operating revenues	6,485	6,532	6,960	6,296	6,047
Operating income (loss)	(163 )	41	397	375	422
After tax income (loss) before extraordinary items	(267 )	(2 )	154	103	354
Net income (loss)	(267 )	(2 ) <sup>(5)</sup>	154 <sup>(5)</sup>	510	354
Net income (loss) per common share:					
Basic	(5.97 )	(0.08 )	3.26	10.88	6.90
Diluted <sup>(2)</sup>	(5.97 )	(0.08 )	3.26	10.88	6.90
Dividend declared per share	0.10	0.20	0.60	–	0.68
Dividend declared per share (in U.S. dollars)	0.11 <sup>(3)</sup>	0.22	0.66	–	0.74
Average number of common shares outstanding (in thousands of shares) <sup>(4)</sup> :					
Basic	45,070	46,810	46,810	46,810	50,971
Diluted	45,070	46,810	46,810	46,810	50,971

(1) Prior year figures have been adjusted for the presentation of the deferred tax position

(2) After taking the rights of holders of A-cumulative preference shares and C-cumulative preference shares into account (see Item 10 Memorandum and Articles of Association)

(3) Estimated, not yet known on date of filing

(4) "Outstanding" excludes shares held by the company

(5) As explained in note 28 to our audited consolidated financial statements, we adopted SFAS 142 on April 1, 2002. Under FASB 142 goodwill and intangible assets with indefinite lives are no longer amortized, but instead tested for impairment at least annually. If such amortizations were excluded from results for prior periods, net income (loss) and earnings per share would be increased by EUR 3 million (EUR 0.06 per share) for each of the years ended on March 31, 2002, and March 31, 2001

## [Table of Contents](#)

### *Dividends*

For the 1998/1999 fiscal year, a dividend of EUR 0.68 per common share was paid on each common share, either wholly in cash or in wholly in common shares. The value of the dividends paid in shares was 2.7% lower than the cash dividend. For the 1999/2000 fiscal year, no dividend was paid. For the 2000/2001 fiscal year a dividend of EUR 0.60 per common share was paid in cash. For the 2001/2002 fiscal year a dividend of EUR 0.20 per common share was paid in cash.

For the 2002/2003 fiscal year, a dividend of EUR 0.10 will be charged out of our reserves and distributed in respect of each common share fully in cash.

### *Exchange rates*

The following tables set forth the noon buying rates published by Bloomberg for the Dutch guilder, restated in euro for all periods prior to January 1, 1999, and, for all subsequent periods, the noon buying rates for the euro. For the calculation of the euro amounts for all periods prior to December 31, 1998, we have restated the applicable noon buying rate for the Dutch guilder into euro at the official fixed conversion rate of NLG 2.20371 per EUR 1.00. This restatement matches the restatement into euro of our consolidated financial statements, which for all periods prior to January 1, 1999, were prepared in Dutch guilders and the Dutch guilder amounts were restated into euro amounts.

<b>Fiscal year ended March 31,</b>	<b>High</b>	<b>Low</b>	<b>Period end</b>	<b>Average rate<sup>(1)</sup></b>
<b>(U.S. dollars per euro)</b>				
1999	1.2147	1.0549	1.0808	1.1226
2000	1.0887	0.9524	0.9574	1.0238
2001	0.9650	0.8271	0.8773	0.9079
2002	0.9277	0.8364	0.8717	0.8847
2003	1.1054	0.875	1.0915	0.9939

Source: Bloomberg

(1) Average of the noon buying rates on the last day of each month during the year

<b>Month</b>	<b>Highest rate</b>	<b>Lowest rate</b>
<b>(U.S. dollars per euro)</b>		
December 2002	1.0492	0.9968
January 2003	1.0853	1.0362
February 2003	1.0884	1.0688
March 2003	1.1054	1.0524
April 2003	1.1184	1.0695
May 2003	1.1909	1.1233

Source: Bloomberg

On June 12, 2003, the noon buying rate was \$1.00 = EUR 1.1745.

**B. Capitalization and indebtedness**

Not applicable.

**C. Reasons for the offer and use of proceeds**

Not applicable.

## D. Risk factors

Key risks to our company and the airline industry as a whole are outlined below. The risks we face are not limited to the risks listed here. Some risks are not yet known to us and some of the risks that we currently do not believe to be material to our operations could prove to be material at a later date. All of these risks can materially affect our business, revenues, operating income, net income, net assets, liquidity, and capital resources.

### *Risk factors relating to the airline industry*

The effects of September 11, 2001 terrorist attacks and the threat of future terrorist attacks may increase the cost of our operations and reduce demand for our services, thereby harming the results of our operations.

The terrorist attacks of September 11, 2001 adversely affected the airline industry generally as well as our financial condition, the results of our operations and our future financial prospects specifically by increasing operational costs and reducing demand. These effects continue to persist to a degree and were further intensified by the period of military build-up and the conduct of war in Iraq. Moreover, additional terrorist attacks, even if not made directly on the airline industry, or the fear of such attacks, could further negatively impact the airline industry by escalating costs and depressing demand. After the September 11, 2001 terrorist attacks, we immediately experienced the following adverse effects: the necessary cost of significantly increased security measures, increased insurance and other costs, decreased load factors and reduced yields. Additionally, war-risk coverage or other insurance coverages responsive to the terrorist threat might cease to be made available to us on favorable terms, if at all. In the uncertain future, these coverages might be available only at significantly increased premiums or only for significantly reduced amounts. This would further inflate costs that cannot effectively be passed on to our customers during sustained periods of reduced demand and adversely impact our operations.

Deteriorating economic conditions and changes in consumer behavior may reduce demand for our services and decrease our earnings.

The demand for the leisure and business air transportation services we provide may decline in response to worsening regional, national or international economic conditions. Economic downturns, or changes in consumer preferences, perceptions or spending patterns, could negatively affect our ability to sustain our traffic volumes and yields.

Intense competition in the airline industry and future competitive price discounting may reduce our revenues.

The airline industry in which we compete is highly competitive and susceptible to price discounting, which may depress our future income. Competing carriers use discount fares to stimulate their traffic during periods of slack demand to generate cash flow and to increase their market share. Some of our competitors have substantially lower cost structures than we have. Furthermore, some of our competitors receive direct or indirect government subsidies, which we do not receive.

Changes in foreign exchange rates, interest rates, and fuel prices may increase our operational costs and reduce our revenues.

We are susceptible to market risks beyond our control, e.g. movements in interest rates, fuel prices and foreign exchange rates, which could materially affect our operating results. Fuel costs rose to historically high levels during the 2002/2003 financial year and threaten to continue climbing higher. The ongoing conflicts in the Middle East, political turmoil in Venezuela and other major uncertainties concerning the availability and price of oil amplify this risk. We also have operating revenues, operating expenses and assets and liabilities denominated in various foreign currencies. Fluctuations in those currencies can materially affect our operating revenues, the values of our assets and our costs.

Legislative or regulatory changes may impose greater costs on us and reduce our operating efficiency.

Our operations are subject to the risk of changes in legislation, taxation, charges and regulation and environmental regulation which could negatively affect our result of operations by imposing additional compliance costs. Additional laws, regulations, taxes on airport rates and charges have been proposed from time to time that could significantly increase the cost of airline operations. We are subject to a number of



different environmental laws and regulations. We incur costs with each measure we take to comply with regulations regarding the prevention, control, abatement or elimination of regulated releases into the environment, as well as for our efforts toward the disposal and handling of regulated wastes at our operating facilities.

## [Table of Contents](#)

### Fluctuations in seasonal demand may reduce our revenue.

Our operations are affected by seasonal changes in demand. Due to greater demand for air travel during the summer months, our revenue in the second and third quarters of the year is generally stronger than our revenue in the first and fourth quarters due to increased leisure travel during the spring and summer months.

### Consolidation or new alliances in the airline industry may reduce our relative competitiveness and degrade our strategic position.

The airline industry has undergone substantial consolidation over the last decade. This global trend may continue in the future. Continued consolidation may increase the competitive pressures on us, reduce revenues and threaten our strategic position. The impact of any future consolidation within the U.S. or European sectors of the airline industry cannot be predicted at this time, but could adversely affect our financial results and condition.

### Changes in the political landscape may result in KLM being subject to air transportation treaties with less favorable terms.

The European Court of Justice' s ruling of November 5, 2002 seems to have changed the Member States' position on negotiating aviation treaties with non-Member States. As of June 5, 2003 the European Transport Council decided to authorize the European Commission to open negotiations with the United States in the field of air transport. Furthermore, it was decided to authorize the European Commission to open negotiations with non-Member States on the replacement of certain provisions in existing bilateral agreements with a Community agreement. Future aviation treaties might be less favorable to us and thus weaken our competitiveness.

### The outbreak of medical epidemics may reduce passenger traffic.

The outbreak of the SARS virus in 2003 had an adverse impact on our Asian operations. While it is not clear what the long-term effects of this new disease will be on passenger traffic, the recent developments, including international travel warnings and restrictions, clearly show the vulnerability of the airline industry to the outbreak of medical epidemics.

### ***Risk factors relating to KLM***

#### High labor costs may place us at a competitive disadvantage to other airlines.

Labor costs comprised 29% of our total operating expenses in the 2002/2003 financial year. Wage rates have a significant impact on our operating results. Our profitability could suffer if we are not able to conclude future collective labor agreements on satisfactory terms with our employees. Most of our major competitors are seeking to reduce their labor costs by renegotiating their labor agreements in their favor.

#### Labor disruptions could result in reduced revenues and increased costs.

Strikes, work stoppages and slowdowns could negatively affect our results and disrupt our operations. Actions by large unions or even relatively small, but influential, groups of our employees could seriously disrupt our operations. Additionally, actions leading to labor disruptions of our operations may occur for reasons unrelated to our collective labor agreements with any particular union or group of employees. If we are not able to renew our collective labor agreement, or any other key agreements, with our employees in a satisfactory way, or if a strike, work stoppage or work slowdown occurs for whatever reason, our revenues and operating results could be adversely affected.

#### Our realization of benefits from our alliances with other airlines is uncertain and the actual results of these alliances may be lower than our expectations.

Our ability to successfully achieve the anticipated benefits of our alliances with other airlines is subject to many risks, including those risks associated with any disapproval or delay of our allied plans by regulatory authorities or any adverse regulatory developments, competitive pressures, customer reactions or modifications to any contracts relevant to our alliances (either on our part or on the part of our allied partners). We are currently a party to several important alliances with other airlines, including our joint venture with Northwest Airlines. We

are also considering entering into additional alliances. Our ability to grow our route network by entering into alliances also depends upon the availability of suitable alliance partner candidates and our abilities as well as those of our alliance partners to meet business objectives and to perform each obligation under the alliance agreements.

## [Table of Contents](#)

### Unfavorable outcomes of lawsuits may weaken our liquidity position.

We and our consolidated holdings are involved in various legal actions. Unfavorable outcomes of these actions could further weaken our results and liquidity position.

See “Item 8-Litigation”.

### Our highly leveraged status may affect our ability to satisfy financing needs or meet our obligations.

We carry a high proportion of debt compared to equity, as well as significant operating leases and facility rental costs. Though we have sufficient cash resources, this may not be the case in the future.

## ITEM 4. INFORMATION ON THE COMPANY

### A. History and development of the company

Koninklijke Luchtvaart Maatschappij N.V., commonly known by its trade name, KLM, is a public limited liability stock corporation organized in 1919 under the laws of The Netherlands. Our registered office is at Amsterdamseweg 55, 1182 GP Amstelveen, The Netherlands. We may be contacted via telephone at +31 20 649 9123. We have operated continuously as a corporate entity longer than any other scheduled airline. Since 1929 the State of The Netherlands (the State) has owned a substantial interest in our issued share capital (as of March 31, 2003 approximately 14%). However, we have been managed and operated as a private business enterprise at all times since our organization.

We are an international airline operating worldwide. Our home base is Amsterdam Airport Schiphol, one of the most modern major airports in the world. KLM forms the core of the KLM Group, other members being KLM cityhopper, and Transavia. Through its strong alliance with Northwest Airlines and close cooperation with European and intercontinental network and route partners, the KLM Group offers passengers and airfreight shippers more than 125,000 city-pair connections throughout the world via one or more air transport hubs.

### B. Business overview

We have four core activities: passenger transport, cargo transport, engineering and maintenance and the operation of charters and low-cost/low-fare scheduled flights. These activities are performed by our Passenger, Cargo, Engineering & Maintenance businesses and Transavia respectively. We and our partners serve more than 350 cities, in 73 countries on six continents.

In fiscal year 2002/2003, we carried more than 23.4 million passengers and 489,000 tons of cargo and provided engineering and maintenance services to more than 20 airlines. Measured by international revenue ton-kilometers, KLM ranks fifth among the 270-plus members of the International Air Transport Association (IATA). We operate a modern fleet of 219 aircraft, many configured for combined passenger/cargo flights. The number of our employees as of March 31, 2003 was 37,487, of whom 31,638 were employed in The Netherlands and 5,849 abroad.

We are a key player in a global alliance that commands an important position in the world's three major trading areas: America, Europe and Asia. Our goal is to be the first choice passenger and cargo airline and provider of maintenance services, while consistently enhancing our shareholder value, providing a stimulating and dynamic working environment for our staff, and participating in mutually beneficial relationships with our partners.

We are aware of our influence on the people, society and the environment and seek to balance our interests with those of the broader society. The high profile of the aviation industry, the involvement of a large number of stakeholders and the political implications of local and global issues make it essential to strike the right balance. To KLM, sustainability is a pre-condition for it to realize our business objectives. The controlled expansion of the Amsterdam Airport Schiphol is part of this objective.

## [Table of Contents](#)

### Select operating statistics

	Fiscal year ended March 31,		
	2003	2002 <sup>(1)</sup>	2001
<i>Capacity</i>			
* Available ton-kilometers (ATK)	12,952	12,859	12,978
* Available seat-kilometers (ASK)	74,825	74,051	75,222
* Available freight ton-kilometers (AFTK)	5,852	5,817	5,783
* Kilometers flown	349	370	370
Hours flown (in thousands)	454	455	471
<i>Traffic</i>			
* Revenue passengers and baggage (ton-kilometers)	5,935	5,840	6,037
* Revenue cargo (ton-kilometers)	4,197	4,050	4,146
* Total revenue ton-kilometers (RTK)	10,132	9,890	10,183
Load factor (%)	78.2	76.9	78.5
Break-even load factor (%) <sup>(2)</sup>	80.2	77.7	73.8
* Passenger kilometers	59,417	58,447	60,047
Passenger load factor (%) <sup>(3)</sup>	79.4	78.9	79.8
Cargo load factor (%)	71.7	69.6	71.7
* Weight of cargo carried (in kilograms)	489	490	502
Average distance flown per passenger (in kilometers)	3,057	3,567	3,728
<i>Yield and Expenses (in cents)</i>			
Yield per revenue passenger ton-kilometer <sup>(4)</sup>	7.1	7.3	7.1
Yield per revenue cargo ton-kilometer	24.2	25.0	26.0
Yield per RTK	51.5	53.4	52.2
Operating expenses per ATK	41.3	41.5	38.6

\* In millions

(1) As of April 1, 2002, traffic and capacity figures comprise KLM, KLM cityhopper bv and KLM cityhopper uk Ltd. Prior-year figures have been restated for comparative purposes. In the prior years the figures of KLM cityhopper uk (former KLM uk feeder operation) were not included in the statistics. As of April 1, 2002, KLM cityhopper uk solely acts as a capacity provider for the KLM operation

(2) Break-even load factor: The load factor percentage at which operating revenues equal operating expenses

(3) Passenger load factor: Revenue passenger-kilometers expressed as a percentage of available seat-kilometers

(4) Yield per revenue passenger ton-kilometer: Total passenger traffic revenue divided by total passenger ton-kilometers



## [Table of Contents](#)

### *Operating revenues by category of activity*

	<b>Fiscal year ended March 31,</b>		
	<b>2003</b>	<b>2002</b>	<b>2001</b>
	<b>(in millions of euro)</b>		
<i>Traffic revenue</i>			
Passengers	4,210	4,267	4,527
Cargo	1,017	1,016	1,109
Charter / Low-cost	553	543	490
<b>Total traffic revenue</b>	<b>5,780</b>	<b>5,826</b>	<b>6,126</b>
<i>Other revenue:</i>			
Maintenance and other technical work	280	273	273
Cargo and mail handling	40	39	131
Tax-free sales	115	107	104
Aircraft handling	105	92	93
Miscellaneous	165	195	233
<b>Total other revenue</b>	<b>705</b>	<b>706</b>	<b>834</b>
<b>Total operating revenues</b>	<b>6,485</b>	<b>6,532</b>	<b>6,960</b>

Other revenue represents revenue from our ancillary activities (see Information on the Company – Ancillary Activities). These activities generally employ many of the same facilities employed by us in our airline operations and, accordingly, any allocation of expenses between airline and ancillary activities is arbitrary. However, our ancillary activities contribute positively to our overall results.

### *Geographical data*

We conduct worldwide operations. We break down our traffic revenues and yield by geographic market in the following tables:

	<b>Fiscal year ended March 31,</b>		
	<b>2003</b>	<b>2002</b>	<b>2001</b>
	<b>(in millions of ton-kilometers)</b>		
<i>Traffic<sup>(1)</sup></i>			
Europe	1,034	939	821
North Atlantic	2,582	2,649	2,997
Asia Pacific	3,366	3,240	3,505
Central and South Atlantic	1,271	1,301	1,163
Middle East/South Asia	760	799	800
Africa	1,119	962	897



Total	10,132	9,890	10,183
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(1) As of April 1, 2002, traffic and capacity figures comprise KLM, KLM cityhopper bv and KLM cityhopper uk Ltd. Prior-year figures have been restated for comparative purposes. In the prior years the figures of KLM cityhopper uk (former KLM uk feeder operation) were not included in the statistics. As of April 1, 2002, KLM cityhopper uk solely acts as a capacity provider for the KLM operation

## [Table of Contents](#)

Fiscal year ended March 31,			
	2003	2002	2001
(in millions of euro)			
Traffic revenue			
Europe (including domestic lines)	1,505	1,176	1,260
North Atlantic	1,032	1,118	1,338
Asia Pacific	1,200	1,317	1,350
Central and South Atlantic	535	572	508
Middle East / South Asia	413	335	448
Africa	542	494	442
Total scheduled services	5,227	5,012	5,346
Subsidiaries' revenue	553	814	780
Total	5,780	5,826	6,126
(in euro cents)			
Yield per RTK			
Europe (including domestic lines)	146	125	153
North Atlantic	40	42	45
Asia Pacific	36	41	39
Central and South Atlantic	42	44	44
Middle East / South Asia	54	43	56
Africa	48	51	49
Total	52	51	52

### ***Seasonality***

Our operations are affected by the seasonality associated with the airline industry. Due to a greater demand for air travel during the summer months, revenue in the first and second quarters of our fiscal year is generally greater than the revenue in the third and fourth quarters of the fiscal year. The results of our operations generally reflect this seasonality, but these results are also affected by numerous other factors that are not necessarily seasonal, such as fare levels, fuel prices, weather, air traffic control delays, foreign currency exchange rates and general economic conditions.

### ***Marketing and sales***

On March 31, 2003 KLM maintained over 134 passenger sale offices worldwide staffed by KLM personnel. In the USA, Canada and Mexico, we are represented by our partner Northwest Airlines. In addition, we have appointed 123 general sales agents, mainly in countries where we do not offer air transport services. Through its participation in the International Air Transport Association, an association which includes most other major international air carriers, our tickets are sold by approximately 46,000 sales agents. Travel agent commissions vary depending on the country and/or market segment and range from 0% to 9% or are set by the IATA Traffic Conferences based on the type of transportation sold by the sale agents and the countries of sale destination. Certain agents have contracts with us, which provide for incentive commission. During the 2002/2003 fiscal year, sales agents accounted for approximately 93% of our total gross air transportation sales.

### ***Franchises and landing rights***

Our authorization to operate our routes and to serve destinations inside and outside The Netherlands is subject, among other things, to obtaining and retaining the requisite permits and authorizations from the appropriate Dutch and foreign governmental authorities as well as to the possession of required local operating concessions, franchises and permits relating, to operating rights, the use of airports and facilities and the utilization of radio and meteorological services.

The various necessary concessions, franchises and permits that we hold differ widely as to the rights granted, the obligations or restrictions imposed, their terms and conditions, the duration of their effect and other miscellaneous details. In the majority of cases, our rights stem from bilateral air services agreements entered into between the State of The Netherlands and another country, in which the Dutch government has designated KLM as the air carrier officially authorized to operate the routes and enjoy the rights accorded to the State of The Netherlands under these bilateral agreements. The Dutch government has traditionally followed a civil aviation policy favorable to competition. In conformity with international practice, the great majority of the bilateral air services agreements concluded by The Netherlands can be terminated after one year' s notice given by either contracting governments. Some rights are of a unilateral nature, terminable at will by the government that granted them. In practice, termination is normally preceded by consultations.

## [Table of Contents](#)

On some of our routes or route segments, governmental limitations are imposed on the number of services, the number of passengers, the amount of cargo and other matters relating to traffic. Our activities and the possibilities for our growth are limited by these restrictions. We continually strive to maintain and improve our traffic and operating rights.

### ***Cooperation with Northwest Airlines***

We operate our transatlantic routes between The Netherlands and the United States under a far-reaching alliance with Northwest Airlines (Northwest), which offers our customers seamless travel options between North America and Europe, Africa, The Middle East and India. The KLM-Northwest alliance was originally established in 1989 when we made a major equity investment in NWA Corp., the parent company of Northwest. In September 1992, the United States and The Netherlands agreed to expand their bilateral Air Transport Agreement to create an “open skies” environment. This agreement authorizes the carriers of both countries to provide air transportation between any U.S.-Netherlands city pair and to operate connecting services to any third country that has granted the reciprocal right to do so. We no longer possess an equity investment in NWA Corp.

Based primarily on the open-entry market created by this expansion, KLM and Northwest petitioned the U.S. Department of Transportation (DOT) for immunity from the United States antitrust laws for the KLM-Northwest Commercial Co-operation and Integration Agreement and were granted that immunity by the DOT in January 1993. The antitrust immunity allows KLM and Northwest to act jointly in most commercial operations, including cost and revenue sharing, pricing, yield management, scheduling, product integration, marketing, market allocation, advertising, purchasing and cost reduction activities.

KLM and Northwest expanded their alliance in September 1997 by entering into an Enhanced Alliance Implementation Agreement providing for a minimum term of 13 years. Under this enhanced alliance agreement, the two airlines expanded their areas of cooperation to include services between the United States, Canada and Mexico, on the one hand, and Europe, Africa, the Middle East and India, on the other hand. In addition, the two companies increased the level of co-operation between their respective cargo divisions. KLM and Northwest continue to explore the potential for extending their alliance to include additional partners and to further develop strategies for joint marketing and product development.

Code sharing arrangements, through which airlines sell under their own code or “prefix” seats on another carrier’s services, have been introduced on all routes between Amsterdam and Northwest’s hubs as well as to destinations in the United States, Europe, Africa and Asia served by the alliance.

In 2002, KLM and Northwest synchronized their respective frequent flyer programs to create increased opportunities to earn frequent flyer miles and to offer additional world-wide destinations as travel awards.

Through the co-ordination of route schedules and aircraft deployment, KLM and Northwest have the ability to improve their utilization of assets such as aircraft and gates. KLM and Northwest have also combined certain sales and distribution channels to improve the products offered at reduced costs to their corporate customers and travel agents and to market a common World Business Class product.

The alliance between KLM and Northwest Airlines is described in more detail in Item 5 “Operating and Financial Review and Prospects”.

### ***Cooperation with Continental Airlines***

In October 2001, KLM and Continental Airlines announced a limited and, for the time being, temporary commercial co-operation. In the first instance, code sharing was introduced on connecting flights between Newark International Airport in the United States and other domestic destinations in the United States and on connecting flights between Amsterdam Airport Schiphol and other European destinations. KLM and Continental also concluded a fully reciprocal Frequent Flyer Agreement. The agreement was reached in close consultation with Northwest Airlines. Subsequently, as of May 2002, a code share agreement between KLM and Continental was renewed for a further period of one year covering selected connecting flights between Newark and Houston and other domestic destinations in the United States and on selected connecting flights between Amsterdam Airport Schiphol and other destinations in Europe, Africa, and the Middle East. As of June 10, 2003 ,

this contract was further expanded in scope and extended so as to make it co-terminous with the KL/NWA Enhanced Alliance Implementation Agreement as referenced to above.

***Cooperation with other airlines***

“Interline Agreements” enable passengers and shippers to arrange with us to pay for transportation to any point in the world in one transaction under a single contract. More intensive cooperation exists between KLM and a select number of carriers in either the commercial field (such as code sharing arrangements and the carriage of feeder traffic for each other’ s services) or the operational field (such as pooling of spare parts or equipment, joint handling of passengers or cargo, etc.).

## [Table of Contents](#)

These agreements, which are intended to reduce the participating airlines' cost of operation and to offer better service to the public, are of course subject to applicable rules and regulations including the competition and anti-trust rules of the United States, the EU and other countries as the case may be.

The alliances between KLM and other airlines are described in more detail in Item 5 "Operating and Financial Review and prospects".

### ***Fuel supplies***

We purchase most of our fuel pursuant to local fuel supply contracts, which generally have terms varying from one to two years. The prices of fuel set forth in these contracts fluctuate with market indicators and are subject to periodic adjustment. We cannot predict the extent to which fuel prices may fluctuate or fuel shortages may occur in the future. See Item 11 "Quantitative and Qualitative Disclosures about Market Risk – Fuel Prices".

### ***Insurance***

We procure insurance to cover our operational risks. Following the events of September 11, 2001, European governments temporarily assumed responsibility for underwriting risks that could no longer be properly insured in the market. As of November 1, 2002, we replaced all of our insurance in the market at competitive rates.

### ***Competition and traffic restrictions***

In most areas we service, we are subject to intense direct and indirect competition by other air carriers operating scheduled or chartered services. Our future operations may be affected by expanded services offered by competing air carriers, some of which receive direct or indirect government subsidies, by the entry of new air carriers into the market, by restricted low fares offered by carriers that are protected by their governments' policies, by the imposition of traffic restrictions, by the limitation of our operating rights in foreign countries, by other applicable governmental or regulatory action or by changes in the international political or economic situation.

We are currently the major scheduled airline providing service between the United States and The Netherlands. Under the bilateral Air Transport Agreement between The Netherlands and the United States, American and Dutch scheduled and charter carriers may operate services between the United States and The Netherlands without restrictions as to frequency and capacity. The North Atlantic route sector, comprising routes between The Netherlands and each of Canada, the United States and Mexico, accounted for approximately 25% of our total traffic ton-kilometers in fiscal year 2002/2003.

The Dutch Government, with our support, is pursuing an air transport policy that is favorable to competition in the EU, of which The Netherlands is a member.

The EU has liberalized its internal air transport market gradually. Under the articles establishing a common transport policy and the competition rules of the Rome Treaty of 1957, the Council of Transport Ministers of the EU adopted legislation regarding intra-EU air transport, which came into force on January 1, 1988. On January 1, 1993, the third and last phase of the rules developed pursuant to this pro-competitive policy came into force. As of April 1, 1997, the free intra-EU air transport market came into effect. This market includes three non-EU countries as well: Norway, Iceland and Liechtenstein. In the past year, the European Commission finalized negotiations, pursuant to a specific mandate by the EU member states, which granted to a number of Central European countries (the three Baltic states, Poland, the Czech Republic, Slovakia, Hungary, Romania, Bulgaria and Slovenia) as well as Cyprus and Malta accession to the intra-EU market. All of these countries – with the exception of Romania and Bulgaria – will become part of the EU Aviation Area as per their date of accession to the European Union (May 1, 2004). The accession of Bulgaria and Romania is expected to occur on different, later dates. The last country to achieve full accession is expected to do so by 2008.

In general, however, air transportation rights between EU countries and other countries are presently governed by bilateral treaties. This situation will change in view of the decision by the European Court of Justice of November 5, 2002 in which the European Commission

brought claims against certain EU member states (The Netherlands not being among these). In these proceedings the European Commission specifically challenged the right of individual EU member states to enter into so-called “open skies” agreements with the United States. The decision holds that while EU member states retain exclusive competence to negotiate traffic rights with third countries, the European Commission is competent in areas where the Commission’s exclusive authority had already been established (these areas include computer reservation systems, slots and intra-EU fares). The court also held that nationality clauses as they appear in present day bilateral air services agreements violate the right of free establishment for EU member states anywhere within the EU. This finding has created the obligation for the member states to replace the typical nationality clause with a new clause that is compatible with EU law. Negotiations between EU member states and the European Commission are being held to establish a procedure that will facilitate this replacement in a total of over 1000 bilateral agreements between member states and third party countries. The consequences of the court’s decision will change forever the political landscape for airlines operating from Europe.

### ***Governmental regulations***

In The Netherlands the two main legislative acts applicable to aviation are called Wet Luchtvaart and the Luchtvaartwet. These are administered by the Ministry of Transport, Public Works and Water Management, and they define the nature and extent of the regulation of airports and of civil aircraft operating within and/or registered in The Netherlands. These acts provide the framework for safety regulation, air traffic control rules, aircraft airworthiness, pilot competency certificates, airport and air navigation standards and environmental protection measures.

In addition to the bilateral air services agreements mentioned above, our operations are also subject to treaties and international agreements, including the International Civil Aviation Convention of December 7, 1944, as amended, to which The Netherlands is a party, and to economic, safety, environmental and other regulations by the governmental authorities of many countries and organizations, including of course The Netherlands itself and the EU. The legislatures and other governmental bodies of many foreign jurisdictions have adopted or are considering various noise-reducing measures, including limitations on hours of operation applicable to jet aircraft generally or to specific types of aircraft. The extent to which these regulations will affect us is unclear, but compliance with these regulations could have an effect upon the cost of our future operations.

### ***Rates and tariffs***

Passenger tariffs on our international routes are generally established in consultation with members of the IATA Passenger Tariff Coordinating Conferences, which includes most international airlines. Where applicable, these tariffs need the expressed or implied approval of the governments concerned. Additionally, The Netherlands is a party to bilateral agreements with a number of foreign countries, most of which provide for foreign government approval of our fares, rates and charges for routes covered by those agreements. Within the EU and within the area covered by the European Civil Aviation Conference, approval by the governments concerned is automatic if fares fall within certain agreed-upon ranges.

The laws of some of the countries that we service, such as Canada and the United States of America, require us to publish and file with those countries' aeronautical authorities our general pricing policies, tariffs showing passenger fares, freight rates and other charges.

We endeavor to base our pricing policy on market requirements as much as possible. In addition to devoting considerable attention to the demands of our most important sub-market, the business travel market, we make use of promotional fares, which substantially increase total revenues. In the freight sector, we also aim to achieve a rate structure suited to the needs of the freight industry.

We also charter aircraft to third parties for their individual use, or for purposes of group travel, at prices that we determine in accordance with government regulations.

We determine our compensation for the delivery of both Dutch and foreign mail, including United States mail, transported by our international services on the basis of rates officially established by the Universal Postal Union, a body composed of representatives of the postal systems of the various countries of the world.

### ***Ancillary activities***

We also engage in other business activities, which are ancillary to our air transport operations. We service, maintain and modify airframes, engines and spare parts operated by third parties, including other air carriers, and we manufacture a limited number of aircraft accessories. We also operate tax-free shops at Schiphol Airport and engage in on-board sales of a variety of products. We provide technical, operational and commercial handling, management, advisory, training and catering services, as well as computerized hotel and flight reservation systems, to third parties. Gross revenues from ancillary activities during the 2002/2003 fiscal year were EUR 705 million, or 11% of KLM's operating revenues.





## [Table of Contents](#)

### C. Organizational structure

As of the date of this annual report, the KLM group consisted of KLM and the significant subsidiaries detailed below as consolidated holdings.

Holding	Country of Incorporation	Proportion of KLM Ownership Interest and Voting Power
KLM Cityhopper bv	The Netherlands	100
KLM UK Holdings Ltd	United Kingdom	100
KLM Catering Services Schiphol bv	The Netherlands	100
KLM Luchtvaartschool bv	The Netherlands	100
KLM Arbo Services bv	The Netherlands	100
KLM Equipment Services bv	The Netherlands	100
KLM Financial Services bv	The Netherlands	100
Cygnific bv	The Netherlands	100
KLM Ground Services Ltd	United Kingdom	100
Transavia Airlines bv	The Netherlands	80 <sup>(1)</sup>
Martinair Holland nv	The Netherlands	50
Polygon Insurance Company Ltd	Guernsey	31
Kenya Airways Ltd	Kenya	26
H.S.A. Beheer nv	The Netherlands	10
Opodo Ltd	United Kingdom	9
Travel Unie International Nederland nv	The Netherlands	9

(1) Economic ownership is 100%.

### D. Property, plants and equipment

On March 31, 2003, we owned or financially leased the following aircraft:

#### *Aircraft*

Number of aircraft	Type	Term of depreciation in years	Average age in years
5	Boeing 747-400	18	12.3
17	Boeing 747-400 Combi	18	9.1
2	Boeing 747-300	25	22.8
5	Boeing 747-300 Combi	25	22.6
2	Boeing 747-300 Freighter	25	27.3
8	Boeing MD-11	18	8.1
1	Boeing 737-900	18	1.5
25	Boeing 737-800	18	3.2

2	Boeing 737-700	18	0.1
7	Boeing 737-400	18	11.3
7	Boeing 737-300	18	10.5
3	Boeing 757-200	15	9.7
15	Fokker 100	12	13.9
17	Fokker 70	15	7.0
10	Fokker 50	15	12.2
2	BAe 146-300	15	13.3
3	ATR 72	15	4.9
23	Training aircraft		

## [Table of Contents](#)

During the 2002/2003 fiscal year we took delivery of a 747-400ERF aircraft, a 747-400 Combi aircraft, two Boeing 737-700, 4 Boeing 737-800 and six Boeing 737-300.

Two MD-11 aircraft, one Boeing 737-300 Combi aircraft, three Boeing 737-900 aircraft and seven Boeing 737-300 aircraft were sold and leased back from the owner for our operational use. Three Boeing 737-300 aircraft were retired from our operational fleet and one Boeing 757-200 was sold to the lessor.

At March 31, 2003, we had the following aircraft on order for utilization in our future passenger transport, cargo transport, charters, and scheduled flight operations:

Ten Boeing 777-200ER aircraft

Six Airbus 330-200 aircraft

Two Boeing 747-400ERF aircraft

Two Boeing 737-700 aircraft, scheduled for delivery in the period May 2003 through June 2003

Two Boeing 737-800 aircraft, scheduled for delivery in the period April 2004 through May 2004

The expenditures already paid on these assets amounted to EUR 604 million.

### ***Encumbrances***

The book value of tangible fixed assets for which, as of March 31, 2003, encumbrances were in effect, amounted to EUR 2,722 million (55% of the book value as per March 31, 2003). Of this amount EUR 2,538 million relates to encumbrances on fleet resulting from concluded financial lease agreements. The remaining part (EUR 184 million) relates to other tangible fixed assets whose availability is based on limited right of use, such as buildings on land held under long-term rental agreements.

### ***Ground facilities***

The Company owns its head office buildings in Amstelveen in which its corporate management and various staff bureaus and divisions are located. The Company maintains and operates complete and modern facilities at Amsterdam Airport Schiphol for the servicing, overhauling and repair of aircraft and engines and of a wide range of aircraft parts and accessories. These facilities include hangars, engine, communications and other workshops, engine test cells and warehousing facilities. In addition, we house our operations, engineering and purchasing personnel at Schiphol Airport. All such facilities are either leased or constructed on leased land. The land leases typically have a term varying from 75 to 99 years. The airport is operated by a corporation owned jointly by the State of The Netherlands, the City of Amsterdam and the City of Rotterdam.

## ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

### A. Operating results

You should read the following discussion in conjunction with the consolidated financial statements included in this document. The consolidated financial statements have been prepared in conformity with generally accepted accounting principles in The Netherlands, which differ in certain significant respects from U.S. GAAP. A discussion of the principal differences between Dutch accounting policies and U.S. GAAP and a reconciliation from Dutch accounting policies to U.S. GAAP of net income and shareholders' equity as of March 31, 2002 and 2003 and in respect of the three years ended March 31, 2003, is described in note 28 to our consolidated financial statements.

#### *Strategic perspective*

Momentous changes in the aviation market, worldwide economic weakness, geo-political instability, the emergence of the SARS virus and an unforeseen financial setback were the overriding elements in what was a turbulent year for KLM. The year was again closed with a net loss. Following the recovery that commenced at the beginning of the fiscal year, this was a disappointing result, one that was not alleviated by the fact that KLM still ranks among the strongest players in its industry.

Conditions in most of our markets changed rapidly in 2002/2003. Many businesses economized on their travel policies, while demand for leisure flights fell. Necessary price reductions exerted even more pressure on our tight margins.

By controlling both capacity and costs, KLM initially mitigated the negative consequences. But the decline in demand for transport, compounded by the new capacity of the low-cost carriers in Europe, again led to overcapacity in the industry. Far-reaching measures were announced at the end of the fiscal year designed to effect an improvement in results in both the short- and the long-term.

Our short-term efforts will concentrate on restoring the company' s earning capacity by increasing productivity and further reducing the cost base. Although the current downturn has cyclical elements, many of the changes occurring in our business environment are structural. The aviation industry will not find a fitting response to these changes unless it thoroughly reviews the concepts underlying the airlines themselves. KLM' s strength is that it remains an intercontinental network carrier with a sophisticated hub-and-spoke system that allows fast and comfortable connections between many, even relatively small, airports. As a network carrier, KLM must introduce new service concepts and cost structures that satisfy the differing priorities of business and leisure passengers. What is certain, however, is that airlines as we know them today are about to undergo fundamental change.

#### *Focused margin management*

One of the structural causes of the current situation is the cost structure of our network organization. Given the drop in yield per revenue ton-kilometer, our cost base is too high despite the rationalizations of recent years. With limited influence on short-term labor costs and virtually no influence on the cost of fuel, airports, air traffic control, flyover rights, booking systems and security and insurance, the pressure on results is intense. Further cost control is possible and necessary, but there is a point at which the network structure is in danger of being compromised and further economizing is counterproductive. Cooperation between airlines in the form of alliances or other partnerships is designed primarily to enlarge markets and not to address this problem.

There will have to be a fundamental redesign of our network organization' s cost structure. Within the Association of European Airlines (AEA), European carriers recently commissioned a study of the future and preferred structure of the European aviation industry. Its clear conclusions form a platform for improvement and perhaps the first step towards necessary new business concepts. In broad lines, KLM is continuing its strategy to strengthen its position in the near term. The driving forces behind the strategy are the four businesses: Passenger (KLM, KLM cityhopper/KLM cityhopper uk), Cargo, Engineering & Maintenance (E&M) and Charter/Low-Cost (Transavia/BASIQ AIR). Each business will concentrate on one or more specific markets in which it can achieve a sustainable profit. Their success will be determined

by the development of distinctive price and cost structures, the prevention of non-profitable growth, the outsourcing of non-core activities, and we will seek participation in alliances to achieve economies of scale or enhance market profile and so gain a better position in the value chain. The central organization will need to create the right conditions for success. Key building blocks in this respect are human resources, information technology, activities relating to the infrastructure in the air and on the ground, and developments in the air political environment. The extensive fleet replacement program being implemented is also essential.

***Low-cost is here to stay***

Although they initially tapped new markets, low-cost carriers have turned their attention to the established carriers' connections over the years. In reply, KLM uk set up buzz in 1999, which grew into the third largest low-cost airline in Europe with ambitious plans for expansion. But the prospect of an independent, profitable operation faded rapidly during the 2002/2003 fiscal year as a large number of new carriers entered the market and the regular airlines presented their response to them. A decision taken in the middle of the 2002/2003 fiscal year not to continue the development of buzz without a strong partner

## [Table of Contents](#)

ultimately resulted in its sale of its activities to the Irish carrier Ryanair. KLM is now represented in the low-cost market through Transavia's BASIQ AIR label.

The arrival of low-cost carriers has clearly demonstrated the difference between the network carrier and the low-cost point-to-point airline. When both are measured by the same standards, the network carrier's higher costs cannot be denied, but they are a direct consequence of the higher service level, the hub-and-spoke model to carry passengers on complicated itineraries as comfortably and as quickly as possible and the assurance of transportation within an agreed time frame. A matter of some concern is that the general public is led to believe that a network carrier can offer extremely low prices while retaining a full service package and that a low-cost airline can maintain low prices in the longer term without making concessions on its flight operations. The high cost of fleet maintenance, insurance and security and the forthcoming compulsory minimum service guarantee must raise doubts about the latter. Low-cost companies, however, have established their own, permanent position in the aviation landscape.

### ***Cooperation***

The future of aviation is unthinkable without close cooperation between airlines. Our long-standing alliance with Northwest Airlines has shown that the benefits can be high, even in a difficult year and in the face of strong competition. There are currently three major alliances in the airline industry, and we expect that KLM will eventually become a member of one of them: OneWorld in Europe, built around British Airways; SkyTeam, with Air France and others; and Star Alliance, with Lufthansa. We are in talks with OneWorld and SkyTeam. What form the cooperation will take has not yet been decided. Moreover, KLM believes the decision is too important to all concerned for it to be taken hastily. Furthermore, the situation in the U.S. aviation industry is still uncertain. The U.S. Department of Transportation's initial objections to an alliance between KLM's partners Northwest Airlines and Continental Airlines, on the one hand, and Delta Airlines, on the other, have been settled, but some of the other U.S. airlines are in great financial difficulties. A reordering on the American continent will inevitably have consequences for European carriers.

In making its choice, KLM will focus on strengthening its market position, the continuity of the company and of the Schiphol hub and, last but not least, the development of KLM's value to its customers, shareholders and employees.

### ***Schiphol and the operation***

The opening of the new "Polder Runway" at Schiphol on February 20, 2003 was a significant milestone for KLM, the airport and not least the region itself. New legislation will enable further long-term growth within the limits of a new system of safety and environmental standards. We expect that KLM will reap the benefits not only now but also in the future when it ties up with partners. The new runway at Schiphol has not yet resulted in a direct increase in capacity but it has enhanced the ability to use the airport in a variety of weather conditions. Punctuality should benefit.

KLM's hub operation, which has been thoroughly redesigned in the past six years, has proven its worth in numerous areas. In particular, closer cooperation between platform and gate and local management of the turnaround teams have considerably accelerated the process and increased punctuality. Peaks due to the coincidence of critical connections at specific times of the day still form a problem. Additional manpower has to be deployed for a brief period of time, after which it is effectively no longer needed. Methods are being devised to reduce the peaks by changing flight schedules with minimal loss of quality in the connections. A frustration during the year was the continued poor performance of the Schiphol baggage system. It is a source not only of high additional costs but also of substantial damage to KLM's image.

A long-term solution has not been found to the congestion in European airspace but the decline in flight numbers during the year did make the problem less acute. In anticipation of renewed growth, however, the debate on the integration of European air traffic control must be forcefully continued.

### ***Safe and secure flights***

We made substantial investments in aircraft and airports during the year designed to prevent terrorist or other incidents compromising passenger and building security. In accordance with new regulations, many of our aircraft were equipped with additional security features. On the whole, the operation has been extremely expensive and we have had to bear the costs. In some countries, such as the U.S., however, the government pays these costs. Together with the soaring cost of insurance, these commitments exerted further pressure on our profitability. It is therefore difficult to accept the complete lack of uniformity and standardization in airport security. Each country and each national authority has its own approach and standards. Not all of them are effective; some are even counterproductive.

### ***KLM and the environment***

KLM has made “sustainable business” an integral part of its operations, and not without good cause. However important flying is for people to explore new countries, strengthen family ties or do business, it also has negative effects. Just like road, rail or water transport, aircraft pollute the environment. And for local residents, the aviation industry is a particular source of nuisance. In brief, it has a large and very visible ecological footprint. It is in KLM’ s interest to make the footprint as small as possible and thus earn the “license to grow” that is vital for the continuity of the company.



## [Table of Contents](#)

For KLM, sustainable business means striking the right balance between people, planet and profit. In many instances, commercial and social interests run parallel to environmental interests. Engineering & Maintenance, for example, started construction of a new center to overhaul aircraft engines at Schiphol during the year. From the very first design, account was taken of environmental factors, which are extremely critical at such a location. On completion, the center will have many modern environmental requirements. It will also boast the latest facilities for optimal working conditions and provide high-quality and knowledge-intensive employment for the region.

Fleet replacement also marries the interests of the economy with those of the environment. Phasing in a large number of new aircraft to replace older ones is one of the most visible environmental improvements. Their engines are without exception quieter, cleaner and more economical than those of their predecessors. The lower energy consumption and maintenance requirements represent an important part of the savings KLM is seeking to achieve in the years ahead.

All of KLM's activities, apart from ground operations at outstations, have operated ISO 14001 certified environmental management systems since 1999. Such certification is not obtained easily, and we believe that KLM is one of the very few airlines to have integrated environmental management so deeply into its operations. The re-certification process was successfully completed during the past year thanks to the hard work of management and staff.

To provide a clear view of the scope and implementation of its sustainability policy, KLM issues an annual Sustainability Report, explaining the balance between people, planet and profit. The report is also available on the Internet.

### ***Inflation***

Approximately 75% of our cost basis is affected by inflation. The remaining part (25% of our cost basis) relates to fuel expenses (principally affected by changes in market prices) and depreciation charges. The effects of general inflation on our cost basis is only to a limited extent compensated at the revenue side, since fierce competition in the airline industry puts continuous pressure on our yields. The airline industry in general and KLM in particular is therefore adversely impacted by inflation. Nevertheless, in recent years inflation has been at historically low levels and inflation has not materially affected our results.

### ***Impact of foreign currency fluctuations***

Our results were to a limited extent affected by foreign currency movements, since our exposures in major currencies (U.S. dollar, British pound, and Japanese yen) are hedged. Operational cash flow exposures are hedged within a range of 40-80% on a 12 month-rolling basis. Long-term exposures in foreign currencies (especially U.S. dollar purchase options of aircraft) are hedged through U.S. dollar-denominated deposits. Net investments in subsidiaries are not hedged. The differences arising from the translation of assets and liabilities into euro, however, do not affect our results since these differences are accounted for through equity. See also note 28 to our consolidated financial statements and Item 11.

### ***Other factors***

Governmental, economic, fiscal, monetary or political policies or factors did not materially affect our operations in the financial year 2002/2003.

### ***2002/2003 compared with 2001/2002***

We realized an operating loss for this financial year of EUR 133 million (2001/2002: EUR 94 million operating loss). The net loss before extraordinary items amounted to EUR 271 million (2001/2002: EUR 156 million loss). After extraordinary items (see explanation below), the net loss for the year amounted to EUR 416 million.

Operating income was negatively affected by higher depreciation and phasing-out charges of EUR 87 million for the Boeing 747-300 fleet. The operating result in the previous year had included a EUR 27 million contribution from the State of the Netherlands following the closure

of U.S. airspace for three days in the wake of the September 11, 2001 attacks. Excluding this extraordinary item, the operating result improved by EUR 75 million in comparison with 2001/2002.

Operating revenues decreased by 1% to EUR 6,485 million. Total traffic, in ton-kilometers, was 2% higher than in the previous year. Since capacity was 2% higher, the load factor increased by 1.3 percentage points to 78.2%. Due to the changing market conditions, yield per revenue ton-kilometer decreased by 4%. Operating expenses decreased by EUR 8 million to EUR 6,618 million. Manageable unit costs increased by 3% excluding exchange rates and fuel price effects. Including these effects, unit costs were unchanged. Salary costs were 9% higher, principally due to general salary increases (in part from new contractual pay agreements) and due to additional costs for pre pension and retirement plans.

The EUR 42 million loss on the sale of assets (2001/2002: EUR 10 million income) was caused by the sale of KLM uk' s low-cost buzz activities (EUR 9 million) and the sale of assets from our fleet (EUR 33 million). The result on the sale of KLM uk' s low-cost activities is the net effect of sales proceeds received from Ryanair on the transfer of assets (EUR 20 million, received at April 11, 2003), costs arising from arrangements under the sales agreement (EUR 20 million) and staff redundancies costs

## [Table of Contents](#)

(EUR 9 million) which will be borne by KLM uk. The result on the sale of fleet assets arose principally from sale and leaseback transactions entered into to limit future residual value risks on these aircraft.

Financial income and expense improved by EUR 36 million (27% compared to the previous year) principally due to lower interest expense in connection with investments in the fleet.

Results on holdings were EUR 11 million better at EUR 4 million negative. The increase was attributable in part to an improvement in Martinair' s earnings.

Extraordinary items after tax amounted to EUR 230 million. Of this loss EUR 181 million related to the arbitration tribunal' s decision on the dispute between KLM and Alitalia regarding the termination of their alliance as of April 28, 2000. The tribunal ruled that our termination of the agreement was void and allowed Alitalia' s claim for EUR 250 million plus interest. The claim brought by us against Alitalia to recover EUR 100 million plus interest paid for the development of Malpensa Airport was also awarded. The remaining extraordinary loss (EUR 49 million) related to a provision for restructuring and relates to redundancy costs for approximately 1,000 full-time equivalents. In the fiscal year 2001/2002 there were no extraordinary items.

The results of the joint venture between KLM and Northwest Airlines improved significantly in comparison with the previous year, which had been negatively influenced by the September 11, 2001 attacks. On balance, the joint venture' s capacity was gradually reduced over the fiscal year. The number of seat-kilometers was 3% lower than in the previous year. Revenue rose by 6%, chiefly because of the improved yield per revenue ton-kilometer. Unit cost was 5% higher. The settlement of the joint venture contribution is recognized as revenue or expense under the heading Commercial cooperation (included in operating expenses).

Passenger load factor for the financial year as a whole was 79.4% (2001/2002: 78.7%). Measured in passenger kilometers, traffic increased by 2% from 58,447 million in 2001/2002 to 59.417 million. The passenger business realized an operating loss of EUR 25 million.

Over the year as a whole, freight capacity increased by 1%. In freight ton-kilometers, traffic increased by 4% to 4,197 million (2001/2002: 4,050 million). The load factor rose from 69.6% to 71.7%.

The decline in traffic had an indirect effect on engineering and maintenance activities. Thanks to an active sales policy, the engineering and maintenance division maintained its volumes. Third party revenue amounted to EUR 329 million. The engineering and maintenance business' operating income came to EUR 41 million.

### ***Operating results by business segment in 2002/2003***

#### *Passenger business*

At the beginning of the fiscal year, demand for flights continued the recovery that had begun relatively soon after the fall in the market following the attacks of September 11, 2001. Beginning in the third quarter, however, the number of passengers started to decline, mainly because of the disappointing economy and the unrest in the Middle East, followed by the war in Iraq. The number of business class passengers in particular was lower. Since nearly all network carriers were affected by this downturn, the response was a general reduction in prices. We also used this means to keep our load factor high, but the yield was inevitably significantly lower. The decline was most marked on North Atlantic routes and connections with South Asia. African destinations remained remarkably firm. The increase in fuel prices in the course of the year forced us to introduce a fuel surcharge on March 1, 2003. Immediately after the outbreak of war in Iraq, we revised the schedule for a number of destinations in the Middle East. Toward the end of the fiscal year, concern about the SARS virus triggered a sharp fall in passenger traffic from and to the Far East.

#### *Cargo business*

Due to the weak economy, Cargo generally reported only a slight rise in volumes, mainly in the United States. Furthermore, competition on the North Atlantic route was fierce. Connections with Asia, especially Southeast Asia and China picked up though. Exports from Europe also remained at a reasonable level. The economic slowdown exacerbated the overcapacity and exerted pressure on prices. On balance, revenue rose by approximately 3% over the previous fiscal year. Higher fuel prices were again a factor on the cost side and forced Cargo to introduce a fuel surcharge and then increase it twice in accordance with the applicable rules during the year.

#### *Engineering & Maintenance*

The decline in traffic had an indirect effect on the maintenance activities. Thanks to an active sales policy, E&M maintained its volumes. Third-party revenue amounted to EUR 329 million. The Engineering & Maintenance business' s operating income came to EUR 41 million. One of the largest maintenance contracts ever, for the maintenance of 12 Virgin Atlantic Boeing 747-400s, took full effect in the course of the fiscal year. Although demand for maintenance services was slightly lower, maintenance capacity in the market remained unchanged; the outcome was overcapacity. The resultant fierce competition, in

## [Table of Contents](#)

combination with a weaker dollar against the euro, placed prices under pressure. Further growth is essential if E&M is to meet the needs of its clients, who are also growing through alliances. The alliances with General Electric, Hamilton Sundstrand and others illustrate how broadening the basis can facilitate growth. In addition, E&M is seeking to expand by winning more military contracts, performing maintenance services for regional airlines and by further increasing its presence outside The Netherlands in order to work closer to its customers.

### *Charter/low-cost business*

The Charter/low-cost business had an operating loss of EUR 2 million, which was the balance of a positive result at Transavia and a negative result at Buzz. Despite lower economic growth, volumes on the charter market were slightly firmer and Transavia grew its market share. The scheduled services, some operated as traditional scheduled flights and some in accordance with the Basiq Air concept, reported good load factors. Passenger numbers on the three new destinations served by Basiq Air, Bordeaux, Marseille and Madrid, were mainly good. In response to the concept's success, all scheduled services were reorganized as Basiq Air flights at the beginning of 2003. Buzz's results for 2002/2003 came under pressure from fierce competition.

### ***2001/2002 compared with 2000/2001***

Operating income fell so substantially that the year closed with an operating loss of EUR 94 million (2000/2001: EUR 277 million operating income). The net loss amounted to EUR 156 million (2000/2001: EUR 77 million net income). Net loss per common share came to EUR 3.37 (2000/2001: EUR 1.61 net income).

The fall in operating income was due principally to a drop in passenger revenues, which fell by 4% to EUR 4,810 million owing to the 5% decline in passenger traffic. Yield per passenger-kilometer was the same as in the previous year. Cargo revenue was 8% lower, due in almost equal measure to the decline in traffic and the decline in yield per revenue cargo ton-kilometer. Total traffic, in ton-kilometer, was 4% lower than in the previous year. Since capacity was 2% lower, the load factor declined by 1.6 percentage points.

Due to a number of targeted actions to improve cost control, operating expenses excluding fuel costs were unchanged from the previous year. The actions were designed chiefly to reduce capacity and to control personnel expenses. This latter measure was realized through the postponement of a general salary increase and a reduction in staff numbers by about 1,200 full time employees, which was achieved without forced redundancies. The effects of these measures were seen mainly in the third and fourth quarters of the 2001/2002 financial year.

For the first time in two years, fuel costs declined and were EUR 55 million lower than in the previous year. This decline was the outcome of both lower fuel prices and less consumption due to the reduction in capacity.

Yield per available ton-kilometer was 4% lower. Currency effects had a limited negative impact on this figure. Unit costs including currency and fuel effects, increased by 4%.

Results on holdings were EUR 6 million higher than in the previous year, partly because of an increase in Martinair's results. Results on the sale of holdings benefited from the sale of the remaining interest in Equant (EUR 22 million), but were also depressed by the sale of Braathens (EUR 14 million).

In fiscal year 2001/2002 we set aside EUR 100 million (2000/2001: EUR 96 million) for the settlement with Northwest Airlines. This amount has been recognized as an operating expense under the heading Commercial Cooperation. Joint venture revenue fell by more than 14% during the year to US\$2,076 million. Joint venture expenses fell by about 7%, chiefly because of the lower capacity contribution. The number of our available seat-kilometers was 14% lower than in the previous year. The fall in Northwest Airlines' available seat-kilometers in this route area was 6%. The number of passengers was 11% lower at approximately 5.1 million.

The passenger load factor for the year was lower than in the record year 2000/2001 but due to the capacity reduction and the careful balancing of capacity and demand, the decline was limited: 78.7% versus 79.8% in 2000/2001. Measured in passenger kilometers, traffic fell by 5%, from 60,047 million in 2000/2001 to 56,891 million in the 2001/2002 financial year.

The cargo division saw a decline in demand as early as the first quarter of the fiscal year, particularly on flights to Asia. In Europe, too, growth in traffic fell sharply. The organization accordingly took measures to bring costs into line with the projected lower level of activity. Fewer changes were therefore required following the events of September 11, 2001. Freight capacity remained virtually unchanged. An increase in traffic with a narrower margin, however, led to a modest decline in traffic revenue. In cargo ton-kilometers, traffic declined by 3% from 4,146 million in 2000/2001 to 4,042 in 2001/2002. The load factor weakened from 71.7% to 69.4%.

A significant part of engineering and maintenance' s work consists of periodic, planned maintenance carried out in accordance with strict schedules based on the number of flying hours. Fluctuations in fleet utilization owing to changing traffic patterns

## [Table of Contents](#)

therefore have an immediate impact on the workplaces. The decline in traffic from virtually the beginning of the fiscal year and the sharp drop in demand for maintenance following the September attacks curbed the service package's growth considerably. We took immediate measures to bring costs into line with the drop in volume. Additional services and several new customers subsequently brought some stability to revenue and income. Although underutilization at competitor maintenance companies exerted some pressure on margins, the engineering and maintenance division responded to the developments with such innovations as e-trading, supply chain initiatives and organizational flexibility. High priority was given to reducing working capital.

### ***Critical accounting policies***

The discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with Netherlands GAAP. The preparation of these financial statements requires us to make estimates and judgements that affect the reported amount of assets and liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities at the date of our financial statements. Actual results may differ from these estimates under different assumptions or conditions.

Critical accounting policies are defined as those that are reflective of significant judgements and uncertainties, and potentially result in materially different results under different assumptions. We believe that our critical accounting policies are limited to those described below. See the "accounting policies" section beginning on page F-3 of our consolidated financial statements for additional discussion of our accounting policies.

### ***Frequent flyer accounting***

We utilize a number of estimates in accounting for our frequent flyer program, which we believe are consistent with industry practices.

We record a liability for the estimated incremental costs of providing travel awards, which include costs for catering, fuel and taxes payable by us. Costs of non-travel awards are based on contracts, which have been concluded with partners. Costs for travel and non-travel awards are calculated per frequent flyer point, based on our members' behavior, and are evaluated annually. Costs of usage of points through airline partners are based on the same incremental cost basis.

Outstanding frequent flyer points may not always be redeemed for travel. A member may not reach the threshold necessary for a free ticket or may not take any initiative to redeem his or her awarded points. Therefore, based on prior years experience, we estimate how many miles will never be used and do not record a liability for those points. Furthermore, members may use their points for upgrades, which do not lead to incremental costs for us. Points that are used for upgrades are therefore not recorded as a liability.

### ***Passenger revenue***

Passenger revenue is initially recorded as a liability for sales in advance of carriage. Revenue from ticket sales is recognized at the time when we provide the transportation. We make estimates based on historical trends regarding liability for tickets sold but not yet reported, the timing and amount of tickets used for travel on other airlines and the amount of tickets sold that will not be used. Changes to these estimation methods could have a material effect on the presentation of our financial results. Moreover, in light of the uncertainties surrounding the effects of the events of September 11, 2001, these historical trends may not be representative of future results.

### ***Impairment***

We evaluate impairment of long-lived assets in compliance with Statement of Financial Accounting Standards ("SFAS") No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. We record impairment losses on long-lived assets used in operations when events and circumstances indicate the assets might be impaired and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amounts of those assets. The impairment loss is measured by comparing the fair value of the asset to its carrying amount.

In the 2002/2003 financial year an impairment loss of EUR 78 million was recognized for the Boeing 747-300 fleet due to an accelerated phasing out process.

***New U.S. accounting standards***

In June 2001, FASB Statement 143, *Accounting for Asset Retirement Obligations*, was issued. The statement requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of the fair value can be made. The associated asset retirement costs are capitalized as part of the carrying value of the relevant long-lived asset. This statement is effective for us on April 1, 2003. We are currently evaluating the impact of adopting Statement 143 on our financial statements.



## [Table of Contents](#)

In April 2002, the FASB issued SFAS No. 145, *Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections*. This statement requires that only certain debt extinguishment transactions be classified as an extraordinary item. Additionally, under this statement, capital leases that are modified so that the resulting agreement is an operating lease, shall be accounted for under the sale-leaseback provisions of SFAS No. 98. SFAS No. 145 also includes minor modifications to existing U.S. Generally Accepted Accounting Principles literature. SFAS No. 145 is effective for us on April 1, 2003. The adoption of this statement is not expected to have a material impact on the Company's financial position, results of operations or cash flows.

In June 2002, the FASB issued SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*. This statement addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies EITF Issue No. 94-3, *Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)*. This statement requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. The statement is effective for exit or disposal activities initiated after December 31, 2002 and is not expected to have a material impact on the Company's financial position, results of operations or cash flows.

In November 2002, the FASB issued Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*. Interpretation No. 45 elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees. Disclosures under Interpretation No. 45 are effective for us in the 2002/2003 financial statements. Additionally, Interpretation No. 45 clarifies the requirements for recognizing a liability at the inception of the guarantee equal to the fair value of the obligation undertaken in issuing the guarantee and incorporates the guidance in FASB Interpretation No. 34, *Disclosure of Indirect Guarantees of Indebtedness of Others*. KLM is currently assessing the impact of the adoption of this interpretation on its financial position, results of operations and cash flows. The recognition provisions of FIN 45 are required for certain guarantees issued or modified after December 31, 2002.

In December 2002, the FASB issued SFAS No. 148 *Accounting for Stock-Based Compensation-Transition and Disclosure an amendment of FASB Statement No. 123*. This Statement amends SFAS No. 123 to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, it requires more prominent disclosures in both annual and interim financial statements. KLM does not intend to adopt either of the transition provisions allowed within SFAS 148.

In January 2003, the FASB issued Interpretation No. 46, *Consolidation of Variable Interest Entities*, which requires the consolidation of variable interest entities, as defined. Interpretation No. 46 is effective for us on April 1, 2003. KLM is currently assessing the impact of this Interpretation.

In April 2003, the FASB issued FASB Statement No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities*, which amends FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*, to address (1) decisions reached by the Derivatives Implementation Group, (2) developments in other Board projects that address financial instruments, and (3) implementation issues related to the definition of a derivative. Statement 149 has multiple effective date provisions depending on the nature of the amendment to Statement 133. The Company is currently evaluating the impact of adopting Statement 149 on its financial statements.

In May 2003, the FASB issued FASB Statement No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*. This Statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classifies a financial instrument that is within its scope as a liability (or an asset in some circumstances). Many of those instruments were previously classified as equity. This statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003, except for mandatorily redeemable financial instruments of nonpublic entities. We are currently evaluating the impact on our financial statements of adopting Statement 150.

## **B. Liquidity and capital resources**

### ***Internal and external sources of liquidity***

Currently our liquidity position exceeds the minimum required levels of liquidity to sustain our business adequately. Currently there are no unusual provisions in any of our financial guarantees, debt or lease agreements or other arrangements that could trigger a requirement for an early payment, additional collateral support, changes in terms, acceleration of maturity, or the creation of additional financial obligations to any material extent. If required, we believe that our liquidity position could be extended further by the use of internal and external resources.

## [Table of Contents](#)

Our internal source of liquidity consists of operating cash flows. The availability of these funds could be reduced by risk relating to the airline industry such as the threat or effects of terrorists attacks, deteriorating economic conditions, intense competition in the airline industry and seasonal changes in demand.

Our external sources of liquidity consist of our EUR 500 million commercial paper program, mortgages secured by aircraft and non-fleet assets, sale-and-lease back transactions of aircraft and non-fleet assets. As of March 31, 2003, no amounts were outstanding under our commercial paper program. The program is scheduled to be automatically renewed in September 2003. The book value of our unencumbered fleet and non-fleet assets (as of March 31, 2003, EUR 1,615 million) offers a possible source of liquidity through the financing and the sale (and lease back) of assets. Despite the current situation in the airline industry, we have demonstrated ourselves to be a strong and attractive party in fleet financing programs and sale/lease back transactions.

Our overall liquidity position is expected to decrease temporarily as a result of our planned fleet renewal program. Furthermore, this program will decrease our borrowing capacity. We expect, however, that our overall liquidity position will be in excess of minimum required levels to sustain our business. Furthermore we expect that our working capital is sufficient to meet our present requirements.

### ***Evaluation of the sources and amounts of our cash flows***

We invest our liquid reserves in short-term instruments at current interest rates. Nonetheless in some of our foreign establishments exchange controls, transfer formalities and currency shortages restrict a portion of our funds. The part of our liquid reserves subject to these restrictions amounts to EUR 15 million, generally does not earn interest and is subject to the risk of currency devaluation. These restrictions however do not affect our ability to meet any cash obligations. We have covered our Japanese yen and parts of our U.S. dollar long-term commitments with forward exchange contracts. The euro portion of our long-term debt, excluding perpetual loans, as of March 31, 2003 of this annual report amounted to 71% of those commitments. A 25% portion of the commitments is in U.S. dollars and 4% is in British sterling.

KLM' s cash flow from operating activities amounted to EUR 295 million. Adjusted for the settlement of the Alitalia arbitration award, cash flow from operating activities amounted to EUR 467 million. KLM' s liquidity position was reduced, however, by substantial investment expenditure, principally on fleet replacements, and loan repayments. Cash flow used by investing activities amounted to EUR 346 million, of which EUR 637 million related to the purchase of and advance payments for aircraft. Cash outflow from financing activities amounted to EUR 280 million. Financing was arranged for two aircraft and existing debt relating to aircraft financing was repaid during the financial year. In addition, we repurchased our own shares to an amount of EUR 6 million. We constantly seek opportunities to optimize our current debt position in order to further reduce our weighted average cost of capital.

Our cash position as of March 31, 2003 was EUR 919 million. The position consisted of EUR 608 million of cash and marketable securities. The remainder of EUR 311 million comprised AAA bonds and long-term deposits included under financial fixed assets.

Group equity fell from EUR 1,992 million as of March 31, 2002 to EUR 1,477 million as of March 31, 2003. Our net-debt-to equity ratio deteriorated from 1.31 as of March 31, 2002 to 1.95 as of March 31, 2003.

### ***Information on borrowings***

Borrowings principally consist of deposits. We have placed deposits in legal structures that accomplish either legal defeasance or defeasance in-substance. Defeasance is accomplished by linking deposits placed with investment grade financial institutions to lease commitments, in some cases through pledge and escrow agreements. Deposits amounting to EUR 248 million, EUR 382 million and EUR 658 million as of March 31, 2003, March 31, 2002, and March 31, 2001, respectively, were pledged, held in escrow or on deposit to satisfy all scheduled payments on the related lease commitments. In order to hedge interest rate and currency risk, the deposits are in the same currencies as the related lease commitments and have the same scheduled dates and amounts for payments. We believe that the possibility that we will be required to make future payments with respect to these obligations is relatively remote.

### ***Information on debt***

For information on the types of our financial instruments, the maturity profile of our debt, the currency and interest rate structure of our debt, please see notes 8 and 14 to our consolidated financial statements.

### ***Capital Expenditures***

#### *Capital Expenditures 2002/2003*

Capital expenditures made during the 2002/2003 financial year amounted to EUR 715 million and included the purchase of one Boeing 747-400 aircraft (valued at EUR 169 million), two Boeing 737-700 aircraft (valued at EUR 80 million) and one Fokker 70 aircraft (valued at EUR 20 million). Capital expenditures on other material tangible fixed assets totaled EUR 50 million, mainly invested in equipment and buildings. Capital expenditures on intangible fixed assets totaled 28 million.

## [Table of Contents](#)

On March 31, 2003, our total commitments, net of amounts prepaid, with respect to current orders for aircraft amounted to EUR 1,042 million and for other assets to EUR 45 million. Approximately EUR 150 million (21%) of the capital expenditures were funded externally.

Prepayments were made on three Boeing 747-400 aircraft (EUR 219 million), four Boeing 777-200 aircraft (EUR 203 million), six Airbus 330-200 aircraft (EUR 18 million) and two Boeing 737-700 aircraft (EUR 15 million).

### *Capital Expenditures 2001/2002*

Capital expenditures made during the 2001/2002 financial amounted to EUR 430 million and included the purchase of four Boeing 737-900 aircraft (valued, in aggregate, at EUR 180 million, of which EUR 115 million was paid during the 2001/2002 financial year), two Boeing 737-800 aircraft (valued, in aggregate, at EUR 75 million, of which EUR 31 million was paid during the 2001/2002 financial year). Capital expenditures on spare engines and spare parts totaled EUR 61 million. Capital expenditures on other tangible fixed assets totaled EUR 66 million, mainly invested in equipment and buildings. Capital expenditures on intangible fixed assets totaled EUR 7 million. Approximately EUR 130 million (30%) of the capital expenditures were funded externally.

Prepayments were made on three Boeing 747-400 aircraft (EUR 86 million), four Boeing 737-700 aircraft (EUR 37 million) and two Boeing 737-800 aircraft (EUR 1 million).

### **C. Research and development, patents and licenses etc.**

None.

### **D. Trend information**

The first two months of financial year 2003/2004 showed a year-on-year decline in revenue passenger kilometers of 8%. This was mainly due to the outbreak of the SARS-virus, which affected traffic to Asian destinations, and the impact of the war in Iraq. Cargo traffic showed a year-on-year increase of 5% which was mainly due to the deployment of two new full-freighters and the full deployment of our combi fleet on Asia Pacific routes.

On the basis of current economic conditions and uncertainties surrounding the SARS-virus, we do not anticipate a short-term improvement in the operating environment. We are firmly set on implementing necessary measures aimed at a structural reduction of our cost levels as well as short-term measures that contribute immediately to an improvement in results.

### **E. Off-Balance sheet arrangements**

We have entered into several transactions with special purpose entities (SPEs) in connection with fleet financing structures for aircraft. These structures do not qualify as off balance sheet structures. Except for 3 structures which we established in the 2002/2003 financial year (the nature and extent of which is described below), we generally transfer aircraft to SPEs and obtain the right to use these assets for our operations based on financial lease agreements. Since we retain the majority of the residual and ownership risks related to these assets in substance, these SPEs are fully consolidated within our financial statements and form an integral part of the disclosures on assets and liabilities that are included in this annual report.

During 2002/2003 we entered into 3 off balance sheet structures with SPEs, concerning a total of 10 aircraft. Furthermore we entered into one sale and leaseback transaction (concerning 2 aircraft) which did not involve SPEs. In general, these transactions were conducted to reduce any further residual value risk for certain fleet types. Since we transferred the risks related to these assets in substance to third parties, these transactions result in a reduction of our fleet assets.

The first structure with SPEs was concluded in the first quarter of the 2002/03 fiscal year. We entered into a sale and leaseback transaction of 4 aircraft, which resulted in sales proceeds of US\$65 million. In substance, we transferred the risks related to the aircraft to a SPE in which we

have no equity interest or voting interest. The amount of equity provided by third parties is approximately 10% of the SPE' s total assets. We lent the SPE an amount of US\$31 million, which is secured by a first mortgage on the aircraft.

The remaining 2 structures with SPE' s were concluded in the second and third quarter of the 2002/03 fiscal year and concerned 3 aircraft each. We entered into sale and leaseback transactions, which resulted in sales proceeds of EUR 165 million. In substance, we transferred the risks related to the aircraft to SPEs in which we have no equity interest or voting interest. We did not provide funding to these SPE' s.

There are no events, trends or uncertainties that will result or are reasonably likely to result in the termination or material reduction in availability of off-balance sheet arrangements to KLM.

**F. Tabular disclosure of contractual obligations**

Overview of contractual obligations and commitments as of March 31, 2003:

Contractual Obligations	Payments due by period				
	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Financial Lease Obligations	317	34	140	82	61
Long-Term Debt Obligations	3,743	316	1,049	680	1,698
Operating Lease Obligations	1,174	190	385	244	355
Total Contractual Obligations	5,234	540	1,574	1,006	2,114

Other Commitments	Expiration per period			
	Total amounts committed	Less than 1 year	1-5 years	After 5 years
Fleet Purchase Commitments	1,042	516	526	0
Guarantees	174	62	21	91
Total Other Commitments	1,216	578	547	91

More information is presented in note 8 to our consolidated financial statements

As of the end of May 2003, our contractual obligations and other commitments had not changed materially compared to the information included in the tables above.

The majority of our future fleet purchases are expected to be financed by external borrowings.

**G. Safe Harbor**

Please see "Warning about Forward-Looking Statements" at the beginning of this annual report.

**ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES****A. Directors and senior management**

We are managed by a Board of Managing Directors (Management), of which the members are appointed by and act under the direction of our Supervisory Board. Members of Management serve at the discretion of the Supervisory Board and may be removed, subject to consultation with our shareholders at a general meeting of shareholders. The Supervisory Board informs the Works Council, a body of our employees, elected by our employees in The Netherlands pursuant to our articles of association and Dutch law, regarding the intended removal.

The members of the Supervisory Board are appointed by the Supervisory Board, subject to the rights of our shareholders at a general meeting and the Works Council to render advice and to object. Management also has the right to render advice regarding the appointment of a Supervisory Board member. The term of office of each Supervisory Board member ends upon the convening of the first general meeting of shareholders after the expiration of four years from the time of his or her appointment. The following is a list of all Supervisory Board members and members of Management as of the date of this annual report:

<b>Supervisory Board</b>	<b>Year of birth</b>	<b>Nationality</b>	<b>First appointment/ Current term</b>	<b>Function/Supervisory board memberships and other functions<sup>(1)</sup></b>
Floris A. Maljers <i>Chairman<sup>(2)</sup></i>	1933	Dutch	1991/1999 – 2003	Former Chairman & CEO Unilever nv/SHV Holdings nv, Koninklijke VendexKBB nv, BP plc, Concertgebouw nv
Arie Maas <i>Vice-Chairman</i>	1934	Dutch	1991/1999 – 2003	Former Chairman Board of Managing Directors Koninklijke Bijenkorf Beheer nv/TPG nv
Max Albrecht	1932	Dutch	1976/2001 – 2004	Former member Board of Managing Directors Koninklijke Nederlandse Hoogovens en Staalfabrieken nv
Lutgart A.A. van den Berghe	1951	Belgian	2001/2001 – 2005	Professor University of Ghent, Executive Director Vlerick Leuven Ghent Management School & Belgian Directors' Institute / Capco nv, CSM nv, ING Groep nv, SHV Holdings nv
Dudley G. Eustace	1936	British and Canadian	1999/1999 – 2003	CFO Koninklijke Ahold nv/ AEGON nv, Hagemeijer nv, Koninklijke KPN nv, Smith and Nephew plc, Sendo Holdings plc, Sonae.com.SGPS, W&S Nederland bv



Bauke Geersing	1944	Dutch	1985/2002 – 2006	Managing Director Consultancy/ Holland Weather Services bv, TIE Holding nv, Dudok Arena bv, RTV Utrecht, NIGZ
Johan Stekelenburg	1941	Dutch	1997/2001 – 2005	Mayor of Tilburg /DSM nv, ING Groep nv, TenneT bv, De Sluis Groep nv, WPG Uitgevers bv
Kees J. Storm	1942	Dutch	2002/2002 – 2006	Former Chairman Board of Managing Directors AEGON nv / Koninklijke Wessanen nv, Interbrew SA, Laurus nv, Pon Holdings nv
Gary L. Wilson	1940	American	2001/2001 – 2005	Chairman Board of Directors Northwest Airlines Inc. / The Walt Disney Company, Yahoo! Inc.

(1) Only memberships of supervisory boards and functions with large companies as of March 31, 2003 are shown here

(2) Chairman since 2000

## [Table of Contents](#)

The Supervisory Board intends to appoint Wim Kok and Cees J.A. van Lede as members of the Supervisory Board of the Company. Messrs. Kok and Van Lede will take the seats vacated by Arie Maas, who will resign at the end of his current term, and Max Albrecht, who will resign after 27 years on the KLM Supervisory Board.

Wim Kok was Prime Minister of The Netherlands until the summer of 2002. Mr. Kok' s knowledge of the national and international sociopolitical arena and his experience in public office will be a great asset to the KLM Supervisory Board. Mr. Kok previously served as Chairman of the Federation of Dutch Trade Unions (FNV), leader of the parliamentary delegation of the Dutch Labor Party (Partij van de Arbeid) in the Dutch Lower House, and Minister for Finance. Earlier this year, Mr. Kok was appointed to the Supervisory Boards of the ING Group, Shell (Royal Dutch Petroleum Company) and TPG. The intended appointment of Mr. Kok is based, among other things, on a recommendation of the KLM Works Council.

Cees J.A. van Lede was Chairman of the Board of Managing Directors of Akzo Nobel nv until May 1 of this year. Mr. van Lede' s experience in leading internationally oriented corporations and in the field of national and international sociopolitical relations will be of great value to the KLM Supervisory Board. Mr. van Lede was previously a member of the Board of Managing Directors of HBG and Chairman of the Confederation of Netherlands Industry and Employers (VNO). He is currently Chairman of the Supervisory Board of the Dutch Central Bank and holds seats on the Supervisory Boards of Heineken, Sara Lee Corporation, Scania, Philips, Reed Elsevier, L' Air Liquide, and Akzo Nobel.

The Supervisory Board will present the intended appointment of Messrs. Kok and Van Lede to the KLM Annual General Meeting of Shareholders in Amstelveen on June 25, 2003.

[Table of Contents](#)

<b>Board of Managing Directors</b>	<b>Year of birth</b>	<b>Nationality</b>	<b>First Appointment</b>	<b>Function/Supervisory Board membership and other functions<sup>(1)</sup></b>	<b>Past area of experience within KLM</b>
Leo M. van Wijk	1946	Dutch	1991	President & Chief Executive Officer/member of Board of Directors of Northwest Airlines, Inc., member of Advisory Council of ABN AMRO Holding nv, member of Supervisory Board of AEGON Nederland nv, Randstad Holding nv, Martinair Holland nv and TUI Nederland nv	Automation Services, Cargo, Commercial Services, Corporate Development
Peter F. Hartman	1949	Dutch	1997	Managing Director & Chief Operations Officer/member of Supervisory Board of RAI Amsterdam bv, member of Supervisory Board Martinair Holland bv	Finance & Control, Ground Services, Customer Services, Personnel & Organization, Engineering & Maintenance
Cees van Woudenberg	1948	Dutch	1997	Managing Director & Chief Human Resources Officer/member of Supervisory Board of DSM nv, Aalsmeer Flower Auction, De Bussy Ellerman Harms bv and Mercurius Groep Wormerveer bv, member of Advisory Board of Deloitte & Touche Human Capital Group	Personnel & Organization, Flight Operations, Cabin Crew
Robert A. Ruijter	1951	Dutch	2001	Managing Director & Chief Financial Officer	–

<sup>(1)</sup> Only membership of Supervisory Boards and functions with large non-group companies as of March 31, 2003 are shown here

There is no family relationship between any of the above persons. There are no arrangements with major shareholders, customers, suppliers or any other parties pursuant to which members of the Supervisory Board or members of Management were selected or appointed. As of the date of this annual report the members of the Management and the Supervisory Board had no commitments in respect of loans, advances or guarantees granted to them by KLM.

## **B. Compensation**

For the compensation paid to members of the Supervisory Board and Management and the amounts we accrued to provide pension, retirement or similar benefits for those persons, please refer to note 36 to our consolidated financial statements.

## **C. Board practices**

The Supervisory Board held six scheduled meetings during the 2002/2003 fiscal year, one of which was a strategy meeting, and met on one further occasion to discuss the outcome of the arbitration with Alitalia. In the scheduled meetings, the Supervisory Board considered a wide range of matters including the approval of investment proposals and the budget for 2003/2004, the current situation in the aviation industry, alliance developments, KLM's positioning in the low-cost and leisure segments, the replacement of the intercontinental fleet, developments in the joint venture with Northwest Airlines and the relationship with Schiphol Airport.

## [Table of Contents](#)

The Supervisory Board's strategy meeting paid specific attention to the strategies of KLM and its Passenger, Cargo, Engineering & Maintenance and Charter/Low-Cost businesses as well as to the performance of the Supervisory Board, the qualities and experience present on the Supervisory Board, and the filling of vacancies on the Supervisory Board. It also reviewed the performance of the Supervisory Board's Committees, the relationship with the Board of Managing Directors, the composition, quality and remuneration of the Board of Managing Directors, the contacts with the Works Council and the company's organizational structure.

During the 2002/2003 fiscal year ample consideration was given to our financial position, risk profile, liquidity and continuity as well as to our operational performance. In keeping with previous years, members of the Supervisory Board attended meetings of the Works Council.

The Supervisory Board has four committees: an Audit Committee, a Nomination Committee, a Strategy Committee and a Remuneration Committee. All these Committees have a preparatory function and report on their activities to the full Supervisory Board.

The Audit Committee met on four occasions during the year to discuss the quarterly, half-year and annual figures and the related audit reports, and matters such as risk management, the internal control system, the relationship with and the quality of the internal and external auditors, the implementation of the U.S. Sarbanes-Oxley legislation, the dividend policy, fleet financing and our audit plan. Mr. Kees Storm succeeded Mr. Johan Stekelenburg on the Audit Committee. In accordance with the US Sarbanes-Oxley Act, the Audit Committee must approve in advance all audit and non-audit services, including tax services, provided by KLM's auditors.

Our Audit Committee decides whether financial information provided by Management meets in a general sense the requirements of material reliability and completeness. It evaluates the quality of the internal audit, the independence of our independent auditors, the integrity of management, and the adequacy of disclosure to shareholders.

The Supervisory Board has determined that at least one of the members of the Audit Committee qualifies as an "audit committee financial expert", as that term is defined in the SEC's rules and regulations.

The Nomination Committee met on two occasions to discuss the composition of the Supervisory Board and the preparations for appointments and reappointments to the Supervisory Board. The Nomination Committee held consultations on two occasions with a representation from the Works Council.

The Strategy Committee met three times during the year to review KLM's discussions with possible alliance partners. Mrs. Lutgart van den Berghe succeeded Mr. Max Albrecht on the Strategy Committee

The responsibilities and authorities of the Remuneration Committee are laid down in a charter. Its primary function is to prepare decision making by the Supervisory Board with respect to all issues related to the remuneration of members of the Management, the Supervisory Board and senior officers, more in particular:

(elements of) the remuneration package for the individual members of the Management;

the targets set yearly for the individual members of the Management;

the performance in relation to targets set and the related yearly granting of (fixed and variable) salary and option rights to the individual members of the Management;

the granting to members of the Management of pension benefits and severance payments; and

proposals to the Meeting of Holders of Priority Shares with respect to the remuneration of members of the Supervisory Board and its Committees.

The Remuneration Committee met on one occasion during the 2002/2003 fiscal year.

The composition of the Supervisory Board' s Committees as of the date of this annual report was as follows:

<b>Audit Committee:</b>	<b>Nomination Committee:</b>	<b>Strategy Committee:</b>	<b>Remuneration Committee:</b>
Dudley G. Eustace <i>Chairman</i>	Arie Maas <i>Chairman</i>	Floris A. Maljers <i>Chairman</i>	Floris A. Maljers <i>Chairman</i>
Lutgart A.A. van den Berghe	Bauke Geersing	Bauke Geersing	Arie Maas
Kees J. Storm	Johan Stekelenburg	Dudley G. Eustace Lutgart A. A. van den Berghe	

In response to the U.S. Sarbanes-Oxley Act KLM decided to establish a Disclosure Committee. The initial aim of this committee is to achieve compliance with the Act and the new U.S. SEC regulations resulting from the Act and to facilitate improvement of the disclosure control framework. The committee assists KLM' s Management by seeking to ensure its disclosures in all filed reports are accurate, complete, timely, understandable and that they fairly present the condition of the group.

## D. Employees

During the 2002/2003 fiscal year our workforce consisted of 33,038 full-time equivalents, including 1,479 temporary staff.

The following table sets forth the average number of employees divided by main category of activity and geographic location for the past three financial years.

	Fiscal year ended March 31,		
	2003	2002	2001
Ground staff in the Netherlands	18,255	17,951	19,600
Ground staff outside the Netherlands	4,848	5,421	6,439
Flight staff	9,935	9,893	9,724
Total	33,038	33,265	33,763

On November 26, 2002 new collective labor agreements were concluded for ground staff and flight crews for the period to the end of March 2004. The main points are a salary increase and an increase in a large number of other payments, both by 3% as of February 1, 2003 and by 2.5% as of October 1, 2003 and a non-recurring payment of 2.75% of annual salary, of which 2% will replace the salary increase postponed by the September 11, 2001 attacks. Agreement was also reached with the ground engineers on their remuneration for studying and gaining necessary aircraft authorizations in their own time. An agreement was also concluded with KLM's pilots. Following four months' negotiation, the parties signed an accord in August containing a wide range of agreements on, for example, codesharing, integration or regional airlines and the phasing in of the new fleet. For KLM's European strategy, it is important that there are no more objections to the use of Fokker 100s in continental Europe. The pilots who fly this aircraft will also be considered for transfer to the KLM fleet if they wish.

A great deal of attention was paid to KLM's pension policy during the year. On the advice of the Pension and Insurance Supervisory Authority, the pension plans for the ground staff and the cabin crews were amended. In both cases, the applicable age limits were raised. By far the majority of KLM's staff are members of one of the three large KLM pension funds. KLM's net contributions to these funds have increased by approximately 60%.

## E. Share ownership

As of the date of this annual report, none of the Supervisory Board members held securities in KLM and none of the members of Management held securities in KLM, except for options rights under our option scheme. For information about options held by members of Management, please refer to note 36 to our consolidated financial statements

**ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS****A. Major shareholders**

The table below sets forth, as of the date of this annual report, the number of shares of each class of our voting securities held by the only persons known by us to own beneficially more than 5% of any class of our voting securities.

<b>Title of Class</b>	<b>Identity of Person or Group</b>	<b>Number of Shares Owned</b>	<b>Percentage of Outstanding Shares in Class</b>
Cumulative Preference Shares A	State of The Netherlands	8,812,500	100.0%
Cumulative Preference Shares C	Stichting Luchtvaartbelangen Nederland	7,050,000	100.0%
Priority Shares	State of The Netherlands	1,012.5 <sup>(1)</sup>	79.4 %
Priority Shares	ABN AMRO Bank nv	150	11.8 %
Common Shares	Alliance Capital Management L.P.	5,741,600 <sup>(2)</sup>	12.3 %

(1) Includes 37.5 priority shares held of record by N.S. Groep N.V., the government-owned railway corporation

Based on a Schedule 13G dated June 10, 2003 (as amended February 12, 2003), filed with the SEC by AXA Financial Inc. on behalf of Alliance Capital Management L.P. and the following parent companies: AXA Financial, Inc., AXA, AXA Assurances I.A.R.D.

(2) Mutuelle, AXA Assurances Vie Mutuelle, AXA Conseil Vie Assurance Mutuelle and AXA Courtage Assurance Mutuelle. According to the amended Schedule 13G, Alliance Capital Management L.P. owns 5,741,600 common shares acquired solely for investment purposes on behalf of client discretionary investment advisory accounts. Since the date of our last annual report, Alliance Capital Management L.P. has reduced its percentage ownership of common shares from 21% to 12.3%

Stichting Rechtop is a foundation controlled by KLM that as of the date of this annual report holds 1,725,730 common shares for purposes of the KLM employee share option plan. Stichting Rechtop does not vote its shares and has declined to receive dividends in respect of its shares.

As the date of this annual report, none of our priority or preference shares and 18,008,289 of our common shares (approximately 40.5% of the outstanding common shares) were held of record by a total of 338 record holders resident in the United States. Our knowledge of the ownership of common shares in the United States is based solely on the records of our New York transfer agent regarding registered common shares.

**B. Related party transactions**

KLM has entered into at arm's-length transactions in the ordinary course of business with unconsolidated entities in which KLM has significant influence. Those transactions result in current account balances with some minority holdings. The current account balances with unconsolidated entities reached a highest level of EUR 5.7 million at June 30, 2002. As of March 31, 2003 current account balances with unconsolidated entities amounted to EUR 3.8 million.



Except for the employment arrangements referred to in “Item 6- Directors, Senior Management and Employees”, KLM is not a party in any material transaction, or proposed transaction, in which Management, a member of the Supervisory Board or any senior officer, or any spouse or relative of any of the foregoing, or any relative of such spouse has or was to have a direct or indirect material interest

***Relation with the State of The Netherlands***

From 1929 to March 1986, the State of The Netherlands owned a majority of our outstanding capital stock. In August 1998, the role of the State of The Netherlands as holder of our common shares came to an end with the conversion of its remaining 8,470,723 common shares into cumulative preference shares C, which were subsequently transferred to Stichting Luchtvaartbelangen Nederland, an independent foundation whose purpose is to promote Dutch aviation in general as well as to promote KLM as designated carrier in international aviation.

## [Table of Contents](#)

The State of The Netherlands continues to own a majority of our outstanding priority shares, which gives it rights of governance including the right to approve, among other things, the issuance of shares, the limitation or exclusion of preemptive rights, the payment of dividends in shares, the sale or transfer of priority shares, any changes to our articles of association and our dissolution.

The State of The Netherlands also has an option to acquire a number of preference shares B, each with a par value of two euro, necessary to provide the State of The Netherlands with an interest of 50.1%, (of our capital stock and voting power) following exercise of the option, irrespective of the total issued capital at any given moment. When deemed necessary and reasonable, the State of The Netherlands, following consultations with us, will exercise its option in case a country imposes or contemplates imposing restrictions or onerous conditions on KLM in the operation of scheduled air services as a consequence of that country' s view that a substantial or majority part of the share capital of KLM would not demonstrably be owned by the State of The Netherlands.

Although the State of The Netherlands maintains an interest in the Company in its role as holder of priority shares, cumulative preference shares A and its option, it does not participate in our day-to-day business decision making. The State of The Netherlands has no rights with respect to us other than those that derive from its holding of our capital stock or from its options. Since August 27, 2001, our articles of association do not permit the State of The Netherlands to appoint any members of our Supervisory Board.

### **C. Interests of experts and counsel**

Not applicable.

## ITEM 8. FINANCIAL INFORMATION

### A. Consolidated statements and other financial information

For our consolidated financial statements, see “Item 18-Financial Statements”.

#### *Litigation*

##### *Alitalia claim*

As stated in KLM’s Form 20-F of 2001/2002 Alitalia disputed the validity of KLM’s termination of its alliance with Alitalia through the termination on April 28, 2000 of the Master Cooperation Agreement concluded in November 1998. In August 2000 Alitalia took the dispute to an arbitration tribunal. The arbitration tribunal’s decision on the dispute in December, 2002 resulted in a net loss to KLM of EUR 181 million. The tribunal ruled that KLM’s termination of the agreement was void and allowed Alitalia’s claim for EUR 250 million plus interest. The claim brought by KLM against Alitalia to recover EUR 100 million plus interest paid for the development of Malpensa Airport was also allowed.

We and our consolidated holdings are involved in various other legal actions. Although we cannot predict the outcome of these actions, on the basis of information currently available and views expressed by counsel, KLM does not expect their outcome to adversely affect the financial position of the company to any material degree.

##### *Hall case*

In October 1999, a purported class action was filed in State Court in North Carolina by a North Carolina travel agent, on behalf of herself and similarly situated North Carolina travel agents, challenging actions by most major airlines, including KLM, to reduce travel agent base commissions from 8% to 5% and alleging several state law theories of liability, including conspiracy. In June 2000, the plaintiff filed a voluntary dismissal and then filed a new case in federal court. The new case is a class action, now on behalf of a nation-wide class of travel agents, alleging an unlawful agreement among airlines to reduce commissions in violation of the Sherman Act, and is based on the same factual allegations. On November 13, 2001, the court granted the plaintiff’s motion to amend the complaint to include allegations that other commission reductions in 1997 and 1998 were the result of unlawful agreements among the airline defendants in violation of the Sherman Act. The complaint was subsequently amended again to allege that we believe the case to be without merit and intend to defend against the claim. On September 18, 2002, the Court entered an Order granting plaintiff’s motion for class certification. Defendants’ motion for summary judgement is pending. Discovery is completed and trial is scheduled to commence on September 2, 2003.

##### *Tam Travel case*

On April 9, 2003, a similar antitrust complaint was filed against us, together with eleven U.S. airlines and eight other international airlines, in the federal district court located in Oakland, California. This case, referred to as the *Tam Travel Case*, was filed on behalf of 50 travel agents who elected to withdraw from the class of plaintiffs in the above mentioned *Hall Case*. The allegations in the Tam Case are fundamentally similar to the Hall Case; the plaintiffs allege that the defendant airlines conspired to reduce and ultimately eliminate base commissions paid to travel agents. We believe this case is also without merit, and we intend to defend ourselves against the claim.

#### *Dividend Policy*

KLM’s dividend policy is to seek to pay a sustainable dividend, linked to cash earnings.

#### *Dividend 2002/2003*

Despite the current international economic downturn coupled with political volatility, the Board of Managing Directors has, in keeping with its policy, decided to make a distribution in cash to shareholders of EUR 0.10 per common share in respect of fiscal year 2002/03. The distribution will be paid out of reserves. In respect of the 2001/02 fiscal year, we made a distribution of EUR 0.20 per common share.

**B. Significant changes**

Except as otherwise disclosed in this annual report, there has been no material adverse change in our financial position since March 31, 2003.

**ITEM 9. THE OFFER AND LISTING****A. Offer and listing details**

The table below sets forth the high and low closing sales prices for our common shares on the New York Stock Exchange and the Euronext Stock Exchange in Amsterdam during the periods indicated (source: Bloomberg). U.S. -\$ equivalents are based on the applicable historical exchange rates at the date of the quoted closing sales prices.

	New York		Amsterdam			
	U.S.-\$		EUR		U.S.-\$-equivalent	
	High	Low	High	Low	High	Low
<i>Last five financial years</i>						
2002/2003	15.71	5.87	17.85	5.35	15.85	5.90
2001/2002	20.46	7.55	23.00	8.50	20.35	7.71
2000/2001	30.06	15.13	32.65	18.15	30.40	15.18
1999/2000	33.63	17.50	30.92	18.25	33.24	17.51
1998/1999	48.14	23.31	43.51	19.28	47.20	22.96
<i>Last six months</i>						
December 2002	11.05	8.69	11.24	8.75	11.18	8.97
January 2003	9.70	7.48	9.79	7.40	10.19	7.94
February 2003	7.63	6.28	7.48	6.15	8.01	6.61
March 2003	7.51	5.87	6.58	5.35	6.92	5.90
April 2003	8.14	5.99	7.45	5.40	8.04	5.89
May 2003	8.35	7.00	7.44	6.00	8.44	7.02
<i>Last two financial years on a quarterly basis</i>						
April – June 2001	20.46	17.15	23.00	19.35	20.35	17.22
July – September 2001	17.88	8.00	21.20	8.50	17.94	7.85
October – December 2001	12.75	7.55	14.30	8.65	12.81	7.71
January – March 2002	16.45	11.30	18.60	12.57	16.29	11.36
April – June 2002	15.71	11.75	17.85	11.90	15.86	11.75
July – September 2002	12.23	8.30	12.62	8.15	12.44	8.05
October – December 2002	12.40	7.76	12.90	8.10	12.84	7.95
January – March 2003	10.10	5.87	9.79	5.35	10.19	5.90

**B. Plan of distribution**

Not applicable.

**C. Markets**

In the United States, our common shares are traded on the New York Stock Exchange. Our common shares are also traded on the Euronext Stock Exchange in Amsterdam. The Euronext Stock Exchange in Amsterdam is the principal non-United States trading market for our common shares.

Common shares are issuable in registered form, which may be represented by certificates printed in the English language and registered in New York (New York registry shares), or in bearer form, which are represented by certificates printed in the Dutch language (bearer shares). New York registry shares and bearer shares may be held by residents as well as non-residents of The Netherlands. Only bearer shares may be traded on the Euronext Stock Exchange in Amsterdam. Only New York registry shares may be traded on the New York Stock Exchange. Upon presentation to our transfer agent in the Netherlands, ABN AMRO Bank N.V., Amsterdam of a certificate representing bearer shares, accompanied by a request that the common shares represented by such certificate be exchanged for a certificate representing New York registry shares, The Netherlands transfer agent will instruct our New York transfer agent, J.P. Morgan, to issue New York registry shares in respect of those common shares. Similarly, upon presentation to the New York transfer agent of a certificate representing New York registry shares accompanied by an appropriate request, the New York transfer agent will instruct The Netherlands transfer agent to issue a certificate representing bearer shares in respect of those common shares. Transfers of bearer shares, which are negotiable instruments, are accomplished by surrender of the share certificates. New York registry shares may be transferred on the books maintained for us by the New York transfer agent.

#### **D. Selling shareholders**

Not applicable.

[Table of Contents](#)

**E. Dilution**

Not applicable.

**F. Expenses of the issue**

Not applicable.

## ITEM 10. ADDITIONAL INFORMATION

### A. Share capital

Not applicable.

### B. Memorandum and articles of association

Our corporate seat is in Amstelveen, The Netherlands. We are registered in the Commercial Register at Amsterdam under number 33014286. Following is a description of certain provisions of our articles of association and Dutch law. This description is only a summary and does not purport to be complete. Our articles of association are available on our website and are incorporated by reference as an exhibit to this annual report.

#### *General*

Dutch statutory rules for large companies apply to us. Under these rules, we are required to adopt a two-tier system of corporate governance, comprising a board of managing directors and a supervisory board. Under these rules, subject to statutory exceptions, the supervisory board, rather than shareholders,

appoints members of the Supervisory Board,

appoints and dismisses members of the Board of Managing Directors, and

must approve certain resolutions by the Board of Managing Directors.

#### *Corporate purpose*

Pursuant to article 3 of our articles of association, our purpose is to carry on the business of air transport and to engage in any other activities of a commercial, industrial or financial nature, including participation in other enterprises, both for our own account and for the account of, or in participation or co-operation with, third parties.

#### *Directors*

A member of Management or the Supervisory Board may not vote in respect of a proposal, arrangement or contract in which he or she is materially interested, including his or her own compensation.

A member of Management or the Supervisory Board is not required to hold our shares in order to be qualified.

#### *Supervisory Board*

The meeting of holders of our priority shares determine the number of Supervisory Board members, but in all cases our Supervisory Board consists of at least seven natural persons. Supervisory Board members are appointed by the Supervisory Board, subject to a right of a general meeting of shareholders or the Works Council to object. An appointment may be made over this objection if the Enterprise Division of the Court of Appeals in Amsterdam declares the objection unfounded. The general meeting of shareholders, the Works Council and Management may recommend persons to the Supervisory Board for appointment as Supervisory Directors.



The Supervisory Board advises Management and generally monitors its affairs. The Supervisory Board approves Management' s annual budget, adopts our annual financial statements and submits them for approval to the general meeting of shareholders. In performing these duties, the members of the Supervisory Board are required to be guided by our interests and the enterprise we carry on.

The Board of Management has the power to approve borrowings by KLM. The meeting of the holders of our priority shares determines the compensation of the Supervisory Board.

### ***Management***

Management manages our affairs under the supervision of the Supervisory Board. The holders of our priority shares determine the number of members of Management, but in all cases Management consists of at least three natural persons. The Supervisory Board appoints members of management and, following consultation with the general meeting of shareholders, may remove members of Management. Our Supervisory Board also appoints our President from within Management.

Remuneration and other conditions of employment for the members of Management are determined by the Supervisory Board.

We are represented by the members of the Supervisory Board in any case in which we have a conflicting interest with one or more members of Management.

## [Table of Contents](#)

### ***Share capital***

Our authorized share capital consists of:

1,875 priority shares,

37,500,000 cumulative preference shares A,

75,000,000 preference shares B,

18,750,000 cumulative preference shares C,

18,750,000 common shares C, and

149,998,125 common shares.

Each share in the classes listed has a par value of two euro. As of the date of this annual report there were no preference shares B or common shares C outstanding.

Common shares are, at the election of the holder, issued either as bearer shares or registered in the holder's name. In the United States, registered common shares are evidenced either by certificates or by entries in the book-entry system maintained by The Depository Trust Company (New York registry shares). Priority shares, common shares C and each series of preference shares are registered in the name of the holder. Our common shares in bearer form are listed on Euronext Amsterdam. Our New York registry shares are listed on the New York Stock Exchange.

### ***Dividend rights***

We pay profits as dividends after setting aside amounts to establish or increase reserves. A general meeting of shareholders determines the amounts set aside as reserves, if any, on the proposal of Management after approval of the proposal by the Supervisory Board. We may not pay dividends if the payment would reduce stockholders' equity below the sum of nominal share capital and any reserves required by Dutch law or our articles of association.

We are required to distribute our profits, after setting aside any reserves, as follows:

#### *Priority shares*

First, the holders of priority shares receive the statutory interest percentage prevailing on the last day of the fiscal year concerned to a maximum of 5% of the paid-in capital per priority share. To the extent that our profits are not sufficient to make this distribution, we must make subsequent distributions to the holders of priority shares until the shortfall is fully paid before we can distribute profits to holders of other classes of shares.

#### *Cumulative preference shares A*

Next, the holders of cumulative preference shares A receive 6% of the par value of their cumulative preference shares A.

To the extent that our profits are not sufficient to make full payment of this dividend on the cumulative preference shares A, the shortfall is paid and charged to our reserves, to the extent that such action is not contrary to the provisions of Article 105, paragraph 2 of Book 2 of the Dutch Civil Code. To the extent that the payment cannot be charged to the reserves, then we must make subsequent distributions to the holders

of cumulative preference shares A until the shortfall is fully paid before we can make distributions to the holders of classes of shares listed below.

#### *Preference shares B*

Next, the holders of preference shares B receive 5% of the par value of their preference shares B. The holders of preference shares B then receive 0.5% of the par value of their preference shares B for each percent of the ratio (expressed as a percentage) of our profits to our operating revenues. This dividend percentage cannot exceed the dividend percentage received on the common shares and common shares C described in the first paragraph under “Common Shares and Common Shares C” below.

#### *Cumulative preference shares C*

Next, the holders of cumulative preference shares C receive the average of the effective yield on a basket of loans by the State of the Netherlands. This dividend is currently equal to 4.98% of the paid-in capital per share. This rate is recalculated every eight years and will be next recalculated on August 14, 2006. Depending on the prevailing market circumstances at the time and subject to the approval of the Supervisory Board, Management may augment the recalculated rate of the cumulative preference shares C dividend by a supplement of no more than 135 basis points.

To the extent that our profits are not sufficient to make full payment of this dividend on the cumulative preference shares C, the shortfall is paid and charged to our reserves, to the extent that such action is not contrary to the provisions of Article 105, paragraph 2 of Book 2 of the Dutch Civil Code. To the extent that the payment cannot be charged to the reserves, then we must make subsequent distributions to the holders of cumulative preference shares C before we can distribute profits to holders of our common shares or common shares C.

## [Table of Contents](#)

### *Common shares and common shares C*

Next, the holders of common shares and the holders of common shares C receive 5% of the par value of their shares.

Finally, the holders of common shares and the holders of common shares C receive payments in proportion to the par value of their shares to the extent the shareholders in a general meeting have not made further appropriations for reserves in addition to any reserves established as described above.

### *Other matters relating to dividends and distributions.*

On the recommendation of Management and after approval of that recommendation by the Supervisory Board and the holders of priority shares, the general meeting of shareholders may decide that payments to shareholders will be wholly or partly effected by issuing shares of the same type of our capital stock as the type of shares to which those payments relate.

Subject to the approval of the Supervisory Board, Management may to the extent permitted by law:

pay one or more interim dividends against the required dividend, or

make a distribution to the holders of common shares and the holders of common shares C out of our freely distributable reserves other than our paid-in surplus reserves.

Except in the case of our dissolution, we may not make distributions on the priority shares and preference shares other than the distributions described above.

The person entitled to a dividend, interim dividend or other distribution on a registered share is the person in whose name the share appears in our register of shareholders on the date fixed for that purpose by Management.

The person entitled to a dividend, interim dividend or other distribution on a bearer share is the person holding the share on a date fixed for that purpose by Management. In order to be entitled to exercise his or her rights the holder of a bearer share must cause his or her dividend sheet to be in the custody of a designated depository on that date.

The right to claim payment of a dividend, interim dividend or other distribution is barred beginning five years after the date on which it was made payable.

### ***Voting rights***

Each share entitles the holder to cast one vote, unless that right has been vested in a usufructuary or pledgee at the granting of the usufruct or the pledge, in which case the usufructuary or the pledgee may exercise the voting right as long as his right of usufruct or his pledge has not expired. At a general meeting of shareholders, all classes of shares vote together as a single class.

### ***Dissolution***

In the event of our dissolution, our debts and the costs of dissolution will be paid from our assets first. The remaining balance will be distributed in the order stated below so far as the available balance permits:

first, to the holders of priority shares, in an amount equal to the paid-in capital for every priority share held,

next, to the holders of the other shares in an amount equal to the par value of those shares,

next, to the holders of priority shares in an amount equal to any dividends accrued and unpaid on their priority shares,

next, to the holders of cumulative preference shares A in an amount equal to any dividends accrued and unpaid on their cumulative preference shares A, and

finally, to the holders of common shares and common shares C in proportion to the par value of their shares.

### ***Redemption and sinking fund provisions***

Subject to applicable Dutch law, we may acquire our fully paid shares for consideration for our own account. Our acquisition of shares requires the authorization of the general meeting of shareholders based upon a proposal by our Supervisory Board. There are no provisions of our articles of association that provide for or prohibit a sinking fund.

### ***Liability to further capital calls***

All of our outstanding common shares are fully paid and non-assessable.

### ***Discriminating provisions***

There are no provisions of our articles of association that discriminate against a shareholder because of his or her ownership of a particular number of shares.

### ***Pre-emptive rights***

When we issue common shares or common shares C against payment in cash, the holders of common shares and the holders of common shares C obtain pre-emptive rights in proportion to their holdings of common shares and common shares C.

The person entitled to pre-emptive rights on a registered share is the person in whose name the share appears in our register of shareholders on the date fixed for that purpose by Management.

## [Table of Contents](#)

The person entitled to preemptive rights on a bearer share is the person holding the share on a date fixed for that purpose by Management. In order to be entitled to exercise his or her rights the holder of a bearer share must cause his or her dividend sheet to be in the custody of a designated depository on that date.

Shareholders have no pre-emptive rights with respect to shares issued to our employees.

Holders of cumulative preference shares A, preference shares B and cumulative preference shares C have no pre-emptive rights with respect to shares to be issued.

The general meeting of shareholders or Management may limit or exclude pre-emptive rights with the approval of the Supervisory Board and the approval of the meeting of the holders of priority shares. Management may only limit or exclude pre-emptive rights to the extent that the general meeting of shareholders has designated Management to do so, up to a maximum period of five years. At our June, 2002 annual general meeting of shareholders, our shareholders approved a resolution granting Management the right to limit or exclude pre-emptive rights through December 25, 2003. A similar resolution will be presented to our shareholders at our June, 2003 annual general meeting of shareholders.

### ***Changing the rights of holders of shares***

The rights of holders of stock can only be changed by an amendment to our articles of association. Resolutions amending our articles of association may be adopted only by a general meeting of shareholders, after a proposal giving notice to the effect is approved by a general meeting of holders of priority shares by a majority of at least two-thirds of the number of votes cast.

A copy of any resolution including the exact text of the proposed amendment to our articles of association is made available to shareholders free of charge for inspection at our principal office from the date of the notice of the general meeting of shareholders to the conclusion of that meeting.

Resolutions amending our articles of association that would change the rights of the holders of priority shares must also be approved by a meeting of the holders of priority shares at which at least three-quarters of the issued priority share capital is represented and at which the approval is given by at least two-thirds of the votes cast. If the required number of priority shares is not represented at the meeting of priority shareholders, a new meeting is called within one month of the previous meeting, at which, irrespective of the number of priority shares represented, the resolution to amend the articles of association may be adopted by an absolute majority of the votes cast.

### ***General meetings of shareholders***

Management or the Supervisory board calls the annual general meeting of shareholders, which is held no later than during the month of September. We normally hold our annual general meeting of shareholders in June.

Other general meetings of shareholders are held as often as Management or the Supervisory Board considers them necessary. These meetings may also be held if one or more shareholders representing in the aggregate at least one-tenth of the issued shares makes a demand in writing to Management and the Supervisory Board, specifying the subjects to be dealt with, and has deposited the share certificates, if any, representing their shares. If neither Management nor the Supervisory Board, who in this case have concurrent authority, complies with the request in time to permit the meeting to be held within six weeks after the request, the person or persons making the request may be authorized by the presiding judge of the District Court (*Arrondissementsrechtbank*) in Amsterdam, in accordance with the applicable provisions of law, to call the meeting.

At least three weeks in advance of a meeting, we must give notice of the meeting to shareholders by publication in The Netherlands and by mail to holders of registered shares.

All shareholders may attend any general meeting of shareholders, either in person or by proxy duly authorized in writing. Holders of bearer shares must have deposited their share certificates before the meeting at such time and place as is designated in the notice calling the meeting,

and holders of registered shares must have notified Management before the meeting, by means of a registered letter, of their intention to attend the meeting. The ultimate date for deposit of shares and for notification is not earlier than seven days before the meeting.

General meetings must be held in Amstelveen, Amsterdam, The Hague, Haarlemmermeer, Rotterdam or Utrecht.

***Limitations on rights to own shares***

There are no limitations on the rights to own securities, including the rights of non-resident or foreign shareholders to hold or exercise voting rights on the securities, under our articles of association or the laws of The Netherlands.

## [Table of Contents](#)

### ***Change in control provisions***

The option agreement with the State of The Netherlands with respect to preference shares B may have the effect of delaying, deferring or preventing a change of control.

### ***Obligations of shareholders to disclose holdings***

No provision of our articles of association requires disclosure of ownership of shares.

The Dutch Act on Disclosure of Holdings in Listed Companies 1996 applies to any person who, directly or indirectly, acquires or disposes of an interest of a specified size in the voting rights and/or the capital of a public limited company incorporated under Dutch law with an official listing on a stock exchange within the European Economic Area. This person is required to notify us and the Financial Markets Authority of The Netherlands (*Autoriteit Financiële Markten*) in writing immediately after the acquisition or disposal of shares if, as a result of the acquisition or disposal, the change in the percentage of voting rights or capital interest held by the shareholder is sufficient to bring the shareholder within a different specified category of share ownership. The categories referred to in the Disclosure Act are based on the percentage of voting rights or capital interests held by a person: 0-5%, 5-10%, 10-25%, 25-50%, 50-66.6% and greater than 66.6%.

The Disclosure Act also requires members of Management and the Supervisory Board to disclose their holdings of our shares.

Failure to comply with the Disclosure Act constitutes an economic offense. In addition, a civil court can issue sanctions against any person who fails to notify, or incorrectly notifies us and the Financial Markets Authority in accordance with the Disclosure Act. Possible court sanctions include the suspension of voting rights with respect to the shares held by the offending person.

### ***Discharge of liabilities (decharge)***

After the annual accounts have been approved at an annual general meeting of shareholders, our shareholders are requested to adopt a separate resolution releasing the members of Management and the members of the Supervisory Board from actual or potential liabilities in connection with the execution of their duties during the financial year. The release obtained by Management is limited to the facts in the financial statements and facts otherwise disclosed to the annual general meeting of shareholders prior to the approval of the financial statements. In any event, the scope of a discharge from liabilities is subject to limitations imposed by law.

### ***Changes in capital***

The conditions imposed by our articles of association for changes in capital are not more stringent than required under Dutch law.

### ***Transfer of shares***

In The Netherlands, bearer common shares listed on Amsterdam Euronext, together with the related dividend sheet are transferable through the book-entry transfer system maintained by Nederlandse Centraal Instituut voor Giraal Effectenverkeer. The transfer of record of a registered share requires a deed of transfer and, unless we are a party to the transaction concerned, our written acknowledgement of the transfer.

In the United States, registered common shares are evidenced either by certificates or by entries in the book-entry system maintained by The Depository Trust Company (DTC). Transfer of registered certificates is effected by presenting and surrendering the certificates to JP Morgan Chase & Co., our transfer agent in New York. A valid transfer requires the registered certificates to be properly endorsed for transfer as provided in the certificates and accompanied by proper instruments of transfer and stock transfer tax stamps for, or funds to pay, any applicable stock transfer taxes. The transfer of uncertificated shares is effected by the transfer agent's causing the appropriate electronic transfer to be made in DTC's book-entry system.

## **C. Material contracts**



We have entered into employment agreements with members of Management. See Exhibit 4.1 to this annual report and note 35 to our consolidated financial statements.

During the previous two years, we have negotiated and secured purchase commitments with each of The Boeing Company and Airbus S.A.S. to acquire aircraft for our fleet. Copies of these contracts are attached to this annual report as Exhibit 4.2.

#### **D. Exchange controls**

There are no laws, decrees, regulations or other legislation currently in force in The Netherlands restricting the import or export of capital, including the availability of cash and cash equivalents for our use or that affect remittances of dividends, interest or other payments to non-resident holders of our securities. Cash dividends payable in euro may be officially transferred from The Netherlands and converted into any other convertible currency.

There are no limitations, under the laws of The Netherlands or our articles of association on the rights of non-resident or foreign shareholders to hold or exercise voting rights with respect to our common shares.

## **E. Taxation**

Each prospective investor should consult its own tax advisor with respect to the U.S. Federal, state, local and foreign tax consequences of acquiring, owning and disposing of our common shares.

### **Dutch tax**

#### *Withholding tax.*

We are generally required to withhold tax at a rate of 25% on dividends. This tax does not apply to stock dividends that are payable out of our paid-in surplus capital account. Pursuant to the provisions of the Tax Convention of December 18, 1992, between the United States and The Netherlands (the Treaty), the rate of withholding tax on dividends paid by us to a shareholder that is a resident of the United States for purposes of the Treaty and that qualifies for benefits under the Treaty (a U.S. treaty shareholder) is reduced to 15%. For purposes of this discussion, a “U.S. shareholder” is a holder of common shares that is:

a resident of the United States,

a corporation organized under the laws of the United States or of any state or territory of the United States, or

any other person subject to United States Federal income tax on a net income basis, provided that the holder is not also a resident of The Netherlands or any other country.

The reduced rate of withholding discussed above will not apply if:

the U.S. treaty shareholder carries on business in The Netherlands through a permanent establishment or performs independent personal services from a fixed base situated in The Netherlands, and

the common shares with respect to which the dividends are paid form part of the business property of that permanent establishment or pertain to that fixed base.

Moreover, the rate of withholding tax is generally reduced to 0% under the Treaty in the case of dividends paid to a United States resident trust, corporation or other organization that is generally exempt from United States Federal income tax and that is either:

constituted and operated exclusively to administer or provide benefits under a fund or plan established to provide pension, retirement or other employee benefits, or

operated exclusively for religious, charitable, scientific, educational or public purposes, if the trust, corporation or other organization would be exempt in The Netherlands if it were organized, and carried on all its activities, in the Netherlands.

In order to qualify for the reduction of or exemption from the withholding tax described above, a U.S. shareholder may be required to satisfy certain certification requirements or otherwise provide documentation of its status as a U.S. treaty shareholder.

Where shares are beneficially or legally owned by a resident or corporation of any country other than the United States or The Netherlands, the determination of whether the resident or corporation will be eligible for a full or partial exemption or refund of Dutch withholding tax will be governed by Dutch internal law or the terms of any income tax convention which may be in effect between The Netherlands and the holder's country of residence or incorporation.

#### *Gift or estate tax*

No gift, estate or inheritance tax is payable in The Netherlands on a gift of common shares by, or on the death of, a holder that is neither resident nor deemed resident in The Netherlands, unless the gift is construed as made by or on behalf of a person who is resident or deemed resident of The Netherlands or unless the common shares are attributable to a permanent establishment or permanent representative in The Netherlands of the holder' s trade or business.

*Capital gains tax*

Capital gains upon sale or exchange of common shares by an individual or corporation that is neither resident nor deemed resident in The Netherlands are generally exempt from Dutch income tax or withholding tax, unless the common shares are attributable to a permanent establishment or permanent representative in The Netherlands of the holder' s trade or business.

## [Table of Contents](#)

### *United States Federal income tax*

The following discussion is a summary of material U.S. Federal income tax consequences of the ownership of common shares by holders that will hold the common shares as capital assets. It does not purport to be a comprehensive description of all the tax consequences to holders of common shares. In particular, this summary does not address tax considerations applicable to holders that may be subject to special tax rules including, without limitation, the following:

financial institutions,

insurance companies,

dealers or traders in securities or currencies,

tax-exempt entities,

regulated investment companies,

persons that will hold the common shares as part of a hedging or conversion transaction or as a position in a straddle or as part of a synthetic security or other integrated financial transaction for U.S. Federal income tax purposes,

holders that are subject to mark-to-market rules,

persons that have a functional currency other than the U.S. dollar,

persons that own or are deemed to own 10% or more, by voting power, of our voting stock, and

persons who hold common shares through partnerships or other pass-through entities.

Further, this summary does not address alternative minimum tax consequences or the indirect effects on holders of equity interests in a holder of common shares. This summary does not describe any tax consequences arising under any laws other than the U.S. Federal income tax laws.

This summary is based on the Internal Revenue Code of 1986 (the Code), U.S. Treasury Regulations and judicial and administrative interpretations, in each case as in effect and available on the date of this annual report. These laws, regulations and interpretations are subject to change, and any change could apply retroactively and affect the tax consequences described below.

For purposes of this summary a “U.S. holder” is a beneficial owner of common shares that is, for U.S. Federal income tax purposes:

a citizen or resident of the United States,

a corporation (or other entity treated as a corporation) created or organized in or under the laws of the United States or any state of the United States (including the District of Columbia),

an estate, the income of which is subject to U.S. Federal income taxation regardless of its source,

or a trust, if:

- (1) a court within the United States is able to exercise primary supervision over its administration, and
- (2) one or more U.S. persons have the authority to control all of the substantial decisions of the trust.

If a partnership holds common shares, the tax treatment of a partner will generally depend upon the status of the partner and upon the activities of the partnership. A partner of a partnership holding common shares should consult its own tax advisor. A “non-U.S. holder” is a beneficial owner of common shares that is not a U.S. holder.

*Dividends and other distributions*

Subject to the passive foreign investment company (PFIC) rules discussed below, the gross amount of any distribution (including any amounts withheld in respect of Dutch withholding tax) actually or constructively received by a U.S. holder in respect of common shares will be taxable to the U.S. holder as a dividend to the extent of our current and accumulated earnings and profits as determined under U.S. Federal income tax principles. The U.S. holder will not be eligible for any dividends received deduction in respect of the dividend otherwise allowable to corporations. Distributions in excess of earnings and profits will be non-taxable to the U.S. holder to the extent of, and will be applied against and reduce, the U.S. holder’s adjusted tax basis in the common shares. Distributions in excess of earnings and profits and the adjusted tax basis will generally be taxable to the U.S. holder as capital gain from the sale or exchange of property. We do not maintain calculations of our earnings and profits under U.S. Federal income tax principles. If we do not report to a U.S. holder the portion of a distribution that exceeds earnings and profits for U.S. Federal income tax purposes, the distribution will generally be taxable as a dividend even if that distribution would otherwise have been treated as a non-taxable return of capital or as capital gain.

## [Table of Contents](#)

Dividends received by a U.S. holder with respect to common shares will be treated as foreign source income for the purposes of calculating that U.S. holder's foreign tax credit limitation. Subject to some conditions and limitations, and subject to the discussion in the next paragraph, Dutch income tax withheld on dividends may be deducted from taxable income or credited against a U.S. holder's U.S. Federal income tax liability. The limitation on foreign taxes eligible for the U.S. foreign tax credit is calculated separately with respect to specific classes of income. For this purpose, dividends distributed by us generally will constitute "passive income," or, in the case of some U.S. holders, "financial services income." In some circumstances, a U.S. holder may be unable to claim foreign tax credits for foreign taxes imposed on a dividend if the U.S. holder:

has not held the common shares for at least 16 days in the 30-day period beginning 15 days before the record date for the dividend, during which it is not protected from risk of loss,

is obligated to make payments related to the dividends, or

holds the common shares in arrangements in which the U.S. holder's expected profit, after non-U.S. taxes, is insubstantial.

In general, upon making a distribution to shareholders, we are required to remit all amounts withheld as Dutch dividend withholding tax to the Dutch tax authorities and, in such circumstances, the full amount of the taxes so withheld will generally (subject to limitations and conditions) be eligible for the U.S. holder's foreign tax deduction or credit as described above. However, under some circumstances we may be allowed to reduce the amount of Dutch dividend withholding tax that is required to be remitted to the Dutch tax authorities by the lesser of:

3% of the portion of the gross amount of the dividend paid by us that is subject to Dutch dividend withholding tax, and

3% of the gross amount of the dividends and profit distributions received by us from qualifying non-Netherlands subsidiaries in the current calendar year (up to the date of the distribution) and the two preceding calendar years, to the extent that the dividends and profits distributions have not yet been taken into account for purposes of establishing this reduction.

Although this credit reduces the amount of dividend withholding tax that we are required to pay to the Dutch tax authorities, it does not reduce the amount of tax we are required to withhold from dividends. In these circumstances, to the extent that we are not required to remit the funds to the Dutch tax authorities, the withholding tax likely will not qualify as a creditable tax for U.S. foreign tax credit purposes.

Investors are urged to consult their tax advisers regarding the general creditability or deductibility of Dutch withholding taxes and, in particular, the effect of our potential ability to receive a credit with respect to dividends received from any of our qualifying non-Netherlands subsidiaries.

The amount of any distribution paid in euro, including the amount of any withholding tax on that distribution, will be included in the gross income of a U.S. holder in an amount equal to the U.S. dollar value of the euro calculated by reference to the exchange rate in effect on the date the dividend is actually or constructively received, regardless of whether the euro received are converted into U.S. dollars. If the euro are converted into U.S. dollars on the date of receipt, a U.S. holder generally should not be required to recognize foreign currency gain or loss in respect of the dividend. If the euro received in the distribution are not converted into U.S. dollars on the date of receipt, a U.S. holder will have a basis in the euro equal to its U.S. dollar value on the date of receipt. Any gain or loss on a subsequent conversion or other disposition of the euro received will be treated as ordinary income or loss and generally will be treated as U.S. source income or loss for foreign tax credit limitation purposes.

Subject to the backup withholding rules discussed below, a non-U.S. holder generally will not be subject to U.S. Federal income or withholding tax on dividends received on common shares unless that income is effectively connected with the conduct by that Non-U.S. holder of a trade or business in the United States.

*Sale or other disposition of common shares*

A U.S. holder will generally recognize gain or loss for U.S. Federal income tax purposes upon the sale or exchange of common shares in an amount equal to the difference between the amount realized (or its U.S. dollar equivalent, determined at the spot rate on the date of sale (or in the case of cash basis and electing accrual basis taxpayers, the settlement date), if the amount is determined in a foreign currency) from the sale or exchange and the U.S. holder's tax basis for the common shares. This gain or loss will be a capital gain or loss and will generally be treated as from sources within the United States, except that losses will be treated as foreign source to the extent the U.S. holder received dividends that were includable in the financial services income category for purposes of calculating the foreign tax credit limitation during the 24-month period prior to the sale.

Investors should consult their own tax advisors with respect to the treatment of capital gains (which may be taxed at lower rates than ordinary income for taxpayers who are individuals, trusts or estates that hold the common shares for more than one year) and capital losses (the deductibility of which is subject to limitations).

If a U.S. holder receives foreign currency upon a sale or exchange of common shares, gain or loss, if any, recognized on the subsequent sale, conversion or disposition of that foreign currency will be ordinary income or loss, and will generally be income or loss from sources within the United States for foreign tax credit limitation purposes. However, if the foreign currency

## [Table of Contents](#)

is converted into U.S. dollars on the date received by the U.S. holder, the U.S. holder generally will not be required to recognize any gain or loss on that conversion.

Subject to the backup withholding rules discussed below, a non-U.S. holder generally will not be subject to U.S. Federal income or withholding tax on any gain realized on the sale or exchange of common shares unless:

that gain is effectively connected with the conduct by that non-U.S. holder of a trade or business in the United States,

in the case of any gain realized by an individual non-U.S. holder, that holder is present in the United States for 183 days or more in the taxable year of the sale or exchange and certain other conditions are met, or

the non-U.S. holder is subject to tax pursuant to provisions of the Code applicable to some expatriates.

### *PFIC considerations*

A corporation organized outside the United States generally will be classified as a PFIC for U.S. Federal income tax purposes in any taxable year in which, after applying certain look-through rules, either:

at least 75% of its gross income is passive income, or

on average at least 50% of the gross value of its assets is attributable to assets that produce passive income or are held for the production of passive income.

Passive income for this purpose generally includes dividends, interest, royalties, rents, annuities and gains from commodities and securities transactions. Based on our estimated gross income, the average value of our gross assets and the nature of our business, we do not believe that we will be classified as a PFIC in the current taxable year. However, because this is a factual determination made annually at the end of each taxable year, it is possible that we will be considered a PFIC in the current or any future years. Our status in any taxable year will depend on our assets and activities in each year and is subject to change.

If we were a PFIC in any year during which a U.S. holder owns common shares, the U.S. holder would be subject to additional taxes on any excess distributions received from us and any gain realized from the sale or other disposition of the common shares (whether or not we continued to be a PFIC). A U.S. holder has an excess distribution to the extent that distributions on the common shares during a taxable year exceed 125% of the average amount received during the three preceding taxable years (or if shorter, the U.S. holder's holding period). To compute the tax on excess distributions or any gain:

the excess distribution or gain is allocated rateably over the U.S. holder's holding period,

the amount allocated to the current taxable year and any year before we became a PFIC is taxed as ordinary income in the current year, and

the amount allocated to other taxable years is taxed at the highest applicable marginal rate in effect for each year and an interest charge is imposed to recover the deemed benefit from the deferred payment of the tax attributable to each year.

Some of the rules with respect to distributions and dispositions described above may be avoided if a U.S. holder makes a valid "mark-to-market" election (in which case, subject to limitations, the U.S. holder would be required to take into account the difference, if any, between the fair market value and the adjusted tax basis of its common shares at the end of a taxable year as ordinary income (or, subject to limitations, ordinary loss) in calculating its income for such year). In addition, gains from an actual sale or other disposition of the common shares will be treated as ordinary income, and any losses will be treated as ordinary losses to the extent of any mark to market gains for prior years. A U.S.



holder will be eligible to make the “mark-to-market” election with respect to common shares provided that the common shares are “marketable” within the meaning of U.S. Treasury Regulations.

Prospective investors should consult their own tax advisors regarding whether the common shares are marketable for purposes of a mark-to-market election. Mark-to-market elections cannot be revoked without the consent of the U.S. Internal Revenue Services (IRS) unless the shares cease to be marketable.

If we were to provide necessary information to U.S. holders, some of the above rules could also be avoided if a U.S. holder is eligible for and timely makes a valid qualified electing fund election, in which case the U.S. holder generally would be required to include in income on a current basis its pro rata share of our ordinary income and net capital gains. We do not, however, intend to provide to U.S. holders the information regarding this income that would be necessary in order for a U.S. holder to make a qualified electing fund election with respect to the common shares.

If we were a PFIC, each U.S. holder would be required to make an annual return on IRS Form 8621, reporting distributions received and gains realized with respect to each PFIC in which it holds a direct or indirect interest.

## [Table of Contents](#)

### *Backup withholding tax and information reporting requirements*

Backup withholding and information reporting requirements may apply to payments to U.S. holders of dividends on the common shares and to the proceeds of a sale or redemption of a common share. We, our agent, a broker or any paying agent, as the case may be, may be required to withhold tax from any payment that is subject to backup withholding (currently at a rate of 30%), if the U.S. holder fails to:

furnish the U.S. holder's taxpayer identification number,

certify that the U.S. holder is not subject to backup withholding, or

otherwise comply with the applicable requirements of the backup withholding rules.

Some U.S. holders (including, among others, corporations) are not subject to the backup withholding and information reporting requirements. Non-U.S. holders who hold their common shares through a U.S. broker or agent or through the U.S. office of a non-U.S. broker or agent may be required to comply with applicable certification procedures to establish that they are not U.S. holders in order to avoid the application of such information reporting requirements and backup withholding. Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules from a payment to a holder of common shares generally may be claimed as a credit against that holder's U.S. Federal income tax liability provided that the required information is furnished to the IRS.

Holders of common shares should consult their own tax advisers as to their qualification for exemption from backup withholding and the procedures for obtaining an exemption.

#### **F. Dividends and paying agents**

Not applicable.

#### **G. Statements by experts**

Not applicable.

#### **H. Documents on display**

We are subject to the informational reporting requirements of the U.S. Securities Exchange Act of 1934 and file annual reports and other information with the Securities and Exchange Commission. You may read and copy any document filed with or furnished to the SEC by us without charge at the SEC's public reference room at 450 Fifth Street, N.W., Washington D.C. 20549. You may also receive copies of these materials by mail from the SEC's Public Reference Branch at 450 Fifth Street, N.W., Washington D.C. 20549. Our SEC filings are also available to the public through commercial document retrieval services and the website maintained by the SEC at [www.sec.gov](http://www.sec.gov). Please call the SEC at 1-800-SEC-0330 for further information on the public reference room in Washington D.C. or those in other locations.

As permitted by the SEC, this annual report does not contain all the information comprising this annual report on Form 20-F. The SEC permits us to incorporate by reference information into this annual report, which means that:

incorporated documents are considered part of this annual report, and

we can disclose important information by referring to those documents.

#### **I. Subsidiary information**

Not applicable.



## ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

### Qualitative disclosures about market risk

As of the date of this annual report, we are exposed to market risks caused by movements in foreign exchange rates, interest rates and fuel prices. We constantly work toward reducing these risks. In addition, we have engaged in various hedging transactions, making use of derivatives in part, that are subject to internal guidelines. We do not hold derivatives for trading purposes. To minimize the credit risk of financial instruments, KLM enforces specific procedures and codes of conduct relating in part to the creditworthiness of contract parties. In long-term derivatives only counter-parties with a minimum AA<sup>-</sup>-rating (based on assessments of credit agencies with a good standing) are selected. For derivatives with a maturity of less than 12 months, counter-parties with an A-rating are selected.

For each category of risk, the effect of exchange rate, interest rate and fuel price movements on the fair value of financial instruments is explained in detail below. No account is taken of the consequences that these movements would have on the general economic situation, nor is any taken for management decisions to reduce the risks brought about by these movements. Our market risk exposure in the 2002/2003 fiscal year compared to the previous fiscal year did not change materially.

### Quantitative disclosures about market risk

#### *Foreign currency*

In our operating cash flows, we have a surplus in all major foreign currencies with the exception of the U.S. dollar, in which we have a limited deficit. We use forward contracts, options and other financial instruments to hedge expected cash flows in foreign currency. With regard to translation risk, our policy is to match assets and liabilities in foreign currency. In principle, we do not hedge our share in the results and equity of our holdings. The sensitivity analysis is based on a sudden 10% fall in exchange rates compared to the level observed on March 31, 2003, if all other variables (including interest rates) remain constant. As of March 31, 2003, a 10% decline in the euro against all major foreign currencies (U.S. dollar, Japanese yen, British pound) would have reduced the fair value of financial instruments by approximately EUR 32 million.

#### *Interest rate*

Our interest rate policy is to minimize long-term net funding costs within an agreed framework of interest rate sensitivity. This is achieved mainly through the use of interest rate swaps. As of March 31, 2003, 63% of our outstanding debt carried a fixed rate of interest and 37% a variable rate. The average rate of interest on borrowings (excluding subordinated perpetuals) was 4.8%. The sensitivity analysis is based on a sudden 100-basis-point movement in interest rates compared to the level observed on March 31, 2003, if all other variables (including foreign exchange rates) remain constant. Based on our net interest-bearing debt position as of March 31, 2003, a 100-basis-point movement in interest rates would have affected the fair value of our net interest-bearing debt by approximately EUR 121 million. The potential effect on financial income and expense would have been approximately EUR 8 million.

#### *Commodity risks (fuel prices)*

Utilizing forwards and combinations of written put options and purchased call options, we generally hedge the purchase price in U.S. dollars of a portion of our fuel requirements in order to reduce the risk of fuel price movements. During the past financial year, we hedged 63% of our dollar-priced fuel requirements. The positive effect of these hedging transactions amounted to EUR 53 million. In comparison with the 2001/2002 financial year, average fuel prices including these derivative commodity instruments decreased by 1%. The sensitivity analysis is based on a sudden 10% movement in fuel prices compared to the level observed on March 31, 2003, with the U.S. dollar exchange rate remaining constant. Such a movement would have affected fuel costs by approximately EUR 63 million (at the March 31, 2003 U.S. dollar exchange rate of \$1.09 per EUR 1.00), taking into account hedging contracts concluded as of the 2002/2003 fiscal year-end.



**ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES**

Not applicable.

**PART II:**

**ITEM 13. DEFAULTS, DIVIDENDS ARREARRAGES AND DELINQUENCIES**

Not applicable.

**ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS**

Not applicable.

**ITEM 15. CONTROLS AND PROCEDURES**

Within 90 days prior to the filing of this annual report, we conducted an evaluation under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures. Based on that evaluation, our CEO and CFO concluded that our disclosure controls and procedures are effective in timely alerting them to material information about us and our consolidated subsidiaries that is required to be disclosed by us in the reports that we file or submits under the Securities Exchange Act of 1934. They further concluded that our disclosure controls and procedures will ensure the recording, processing, summarizing and reporting of that information within the time periods specified in the Securities and Exchange Commission rules and forms.

Subsequent to the date of this evaluation, there have been no significant changes in our internal controls or in other factors that could significantly affect these controls.

**ITEM 16.**

Not applicable.

**PART III:**

**ITEM 17. FINANCIAL STATEMENTS**

We are furnishing our Financial Statements pursuant to Item 18 of Form 20-F.

**ITEM 18. FINANCIAL STATEMENTS**

See pages F-1 through F-46 and page S-1, which are incorporated by reference in this annual report.

**ITEM 19. EXHIBITS**

- 1.1 Articles of Association of KLM (incorporated by reference to Exhibit 1 to our annual report on Form 20-F filed with the SEC as of June 21, 2002)
- 4.1 Form of Employment Agreement with Members of Board of Management
- 4.2 A330 Purchase Agreement between Airbus and KLM dated as of November 13, 2002 (KLM has requested that the Commission grant confidential treatment for certain portions of this document)
- 4.3 Purchase Agreement No. 2399, including exhibits and side letters thereto, between the Company and Boeing, dated August 19, 2002, relating to the purchase of Boeing 777 aircraft, (KLM has requested that the Commission grant confidential treatment for certain portions of this document).
- 12.1 Certification by Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 12.2 Certification by Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.



**SIGNATURES**

The registrant certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

KONINKLIJKE LUCHTVAART MAATSCHAPPIJ  
N.V. (KLM Royal Dutch Airlines)

By: LEO M. VAN WIJK

L. M. van Wijk  
President and Chief Executive Officer

By: ROBERT A. RUIJTER

R. A. Ruijter  
Managing Director and Chief Financial Officer

Date: June 12, 2003

**Section 302 Certification**

by the

**President & Chief Executive Officer**

I, Leo M. van Wijk, certify that:

1. I have reviewed this annual report on Form 20-F of KLM Royal Dutch Airlines;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant' s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
  - (a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
  - (b) evaluated the effectiveness of the registrant' s disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
  - (c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation of the Evaluation Date;
5. The registrant' s other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant' s auditors and the audit committee of the registrant' s board of directors (or persons performing the equivalent function):
  - (a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant' s ability to record, process, summarize and report financial data and have identified for the registrant' s auditors any material weaknesses in internal controls; and
  - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant' s internal controls; and
6. The registrant' s other certifying officer and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: June 12, 2003

LEO M. VAN WIJK



**Section 302 Certification**

by the

**Chief Financial Officer**

I, Robert A. Ruijter, certify that:

1. I have reviewed this annual report on Form 20-F of KLM Royal Dutch Airlines;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant' s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
  - (a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
  - (b) evaluated the effectiveness of the registrant' s disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
  - (c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation of the Evaluation Date;
5. The registrant' s other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant' s auditors and the audit committee of the registrant' s board of directors (or persons performing the equivalent function):
  - (a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant' s ability to record, process, summarize and report financial data and have identified for the registrant' s auditors any material weaknesses in internal controls; and
  - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant' s internal controls; and
6. The registrant' s other certifying officer and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: June 12, 2003

ROBERT A. RUIJTER



**INDEX TO FINANCIAL STATEMENTS**

Independent Auditors' Report	F-2
Consolidated Financial Statements Accounting Policies	F-3
Consolidated Balance Sheet as of March 31, 2003 and 2002	F-7
Consolidated Statements of Earnings for the years ended March 31, 2003, 2002 and 2001	F-8
Consolidated Statements of Cash Flows for the years ended March 31, 2003, 2002 and 2001	F-9
Notes to the Consolidated Financial Statements	F-10
Company Financial Statements Company Balance Sheet as of March 31, 2003 and 2002	F-39
Company Statements of Earnings for the years ended March 31, 2003, 2002 and 2001	F-39
Notes to the Company Financial Statements	F-40
Financial Statement Schedules	S-1

## Independent Auditors' Report

To the Management Board and Supervisory Board of KLM Royal Dutch Airlines and Subsidiaries:

We have audited the financial statements of KLM Royal Dutch Airlines and its Subsidiaries (the "Company") as listed in the index on page F-1 and included on the pages F-3 through F-46. In connection with our audits of the consolidated financial statements, we also have audited the financial statement schedules as listed in the index on page S-1. These consolidated financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedules based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial statement schedules 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 financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of KLM Royal Dutch Airlines and its Subsidiaries at March 31, 2003 and 2002 and the results of their operations and their cash flows for each of the years in the three-year period ended March 31, 2003, in conformity with generally accepted accounting principles in The Netherlands. Also in our opinion, the related financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

Accounting principles generally accepted in The Netherlands vary in certain respects from those, generally accepted in the United States. Application of accounting principles generally accepted in the United States would have required the adjustments described under Note 28 to the consolidated financial statements of KLM Royal Dutch Airlines and in our opinion are fairly reflected in all material respects.

Amstelveen, The Netherlands  
June 12, 2003

KPMG Accountants N.V.

## CONSOLIDATED FINANCIAL STATEMENTS

### ACCOUNTING POLICIES

#### General

The company financial data of KLM are incorporated in the consolidated balance sheet and the consolidated statement of earnings. The company statement of earnings is presented in simplified form in accordance with article 402, Title 9, Book 2, of The Netherlands Civil Code. All amounts are in millions of euros unless stated otherwise.

#### Changes in accounting policies

There were no changes in accounting policies during fiscal year 2002/2003.

#### Basis of consolidation

The consolidation includes the financial data of KLM and its Group companies. Group companies are those holdings with which KLM forms a financial and organizational entity and over which KLM exercises direct or indirect control. Group companies are consolidated in full. The share of third parties in the Group result and Group equity is stated separately.

A list of capital interests within the meaning of articles 379 and 414, Title 9, Book 2, of The Netherlands Civil Code has been filed with the Trade Register of the Chamber of Commerce in Amsterdam.

#### Accounting Policies

##### General

The balance sheet and the statement of earnings are prepared under the historical cost convention unless stated otherwise. For information regarding U.S. GAAP please refer to note 28 to the consolidated accounts.

##### Foreign currency

Assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at balance sheet date.

Unearned revenues relating to future transportation commitments included under current liabilities are carried at the euro value at the date on which the transportation commitment was made.

Exchange rate differences arising on the translation of assets and liabilities are taken to the statement of earnings as other operating expenses. Exchange rate differences arising on the translation of purchased goodwill, the share in the permanent financing of foreign holdings and the share in the equity and results of those holdings are taken directly to stockholders' equity.

Amounts in the statement of earnings denominated in foreign currencies are translated at weighted average monthly exchange rates.

The most important exchange rates at balance sheet date were:



	March 31, 2003	March 31, 2002
1 U.S. dollar (USD)	EUR 0.94	EUR 1.13
1 pound sterling (GBP)	EUR 1.47	EUR 1.61
1 Swiss franc (CHF)	EUR 0.68	EUR 0.68
100 Japanese yen (JPY)	EUR 0.79	EUR 0.87

## Derivatives

KLM uses derivatives to hedge its exposure to fuel prices, foreign currencies and interest rates. In accordance with SFAS 133/138, derivatives are carried in the balance sheet at fair value as financial fixed assets and long-term debt.

Revenues or expenses arising from movements in the fair value of derivatives are in principle recognized in the statement of earnings.

Movements in the fair value of derivatives that are held as effective hedges to exposures that influence the fair value of assets, liabilities and unrecognized firm commitments ( 'fair value hedges' ) are recognized together with the movements in the fair value of the underlying positions in the statement of earnings. Where hedges are no longer effective, the derivatives are carried at fair value without the underlying positions being adjusted for movements in fair value. In such circumstances, only movements in the value of derivatives are recognized in the statement of earnings.

## [Table of Contents](#)

Movements in the fair value of derivatives that are held as effective hedges of future cash flows ( 'cash flow hedges' ) are included under Other reserves up to the date on which the effects of the results on the underlying positions materialize. As of that date, value movements included in Other reserves are taken to the statement of earnings together with those effects on the underlying positions.

Where hedges are no longer effective, the derivatives are carried at fair value and value movements are released to the statement of earnings as from that date. The accumulated results included in Other reserves are released to the statement of earnings together with the effects of the results on the remaining underlying exposure. If there is no longer an exposure, the results included in Other reserves are released directly to the statement of earnings.

### **Intangible fixed assets**

Purchased goodwill is capitalized and amortized on a straight-line basis. The amortization period is determined for each individual holding up to a maximum of twenty years based on the period in which the interest acquired is expected to contribute to results. Due account is taken of lower realizable value, defined as the higher of net selling price and value in use. Value in use is defined as discounted estimated future operating cash flow.

Substantial investments in software are capitalized insofar as the software is essential to bring about changes in core business processes that lead directly to future revenue increases or cost savings. Software is carried at cost less amortization, or lower realizable value. Cost includes both expenses incurred internally and expenditure paid to third parties. The amortization period for software is determined on the basis of the useful life of each investment up to a maximum period of ten years. As from the date on which it is taken into service, software is fully amortized on a straight-line basis over the amortization period. Until it is taken into service, software is capitalized as a prepayment under Intangible fixed assets.

### **Tangible fixed assets**

Aircraft, spare engines and spare parts are carried at cost (including purchase expenses, such as financing expenses up to the date aircraft are taken into service) less depreciation, or lower realizable value, defined as the higher of net selling price and value in use. Value in use is defined as discounted estimated future operating cash flow.

Aircraft held under financial lease agreements are also included under this heading following the same valuation policy.

KLM has a foreign Group company that uses the U.S. dollar to value and depreciate aircraft that are purchased in U.S. dollars and related financing. For their inclusion in the consolidated financial statements of KLM, these aircraft are translated into euros at the U.S. dollar exchange rate ruling at balance sheet date. The net book value of these aircraft is included under Tangible fixed assets.

Aircraft are depreciated on a straight-line basis over their useful lives to estimated residual values of 0% to 25%. Depending on the type of aircraft, the useful life varies from 10 to 25 years.

Spare engines are depreciated to their estimated residual value on a straight-line basis over the remaining estimated useful life of the engine type. Spare parts are depreciated to their estimated residual value on a straight-line basis over the remaining estimated useful life of the associated aircraft or engine type.

Heavy maintenance costs are capitalized and depreciated on a straight-line basis over the period to the next heavy maintenance. These costs include both internal costs and external expenditures. Significant modernization and improvement costs are capitalized and depreciated over, at maximum, the remaining life of the aircraft concerned.

Other tangible fixed assets are carried at cost less straight-line depreciation, or lower realizable value. Financing costs for major projects are included in cost until the date of first usage. Straight-line depreciation to residual value is based on the following estimated useful lives:

Buildings (land is not depreciated)	10 - 40 years
Inventories, machines and installations	3 - 15 years
Vehicles and other tangible fixed assets	5 - 20 years

Tangible fixed assets are translated at the exchange rates ruling at the date of payment or at the date deposits in foreign currencies are applied or at the exchange rates of forward exchange contracts.

Tangible fixed assets on order are carried in the balance sheet at the amount of advance payments made. Remaining balances due are included in the Notes to the consolidated balance sheet under commitments and contingent liabilities.

## [Table of Contents](#)

### **Financial fixed assets**

Holdings in which KLM exercises a significant influence on the business and financial policies are carried at net-equity value, where possible in accordance with KLM's accounting policies, less any exceptional diminutions in value. Holdings in which KLM does not exercise a significant influence on the business and financial policies are carried at cost less any exceptional diminutions in value.

KLM's share in the holdings carried at net asset value is included under Results of holdings in accordance with KLM's accounting policies. Dividends declared by holdings carried at cost are included in Results of holdings.

Accounts receivable from holdings and other financial fixed assets are carried at face value less necessary provisions. Amounts falling due within one year are included under Current assets.

KLM holds a portfolio of zero-coupon triple A bonds to hedge the foreign exchange exposure on part of the financial lease commitments. These securities are at the free disposal of KLM and are included under Financial fixed assets at cost plus realized interest.

For the valuation of derivatives, reference is made to the notes above.

Other Financial fixed assets are valued at the lower of face value or realizable value.

### **Operating supplies**

Supplies are carried at average cost net of a provision for economic obsolescence where applicable. Supplies are translated at the exchange rates ruling at the date of receipt of the materials.

### **Accounts receivable**

Accounts receivable are carried at face value less necessary provisions for bad debts.

### **Marketable securities and cash**

Marketable securities other than the Triple A bonds recognized under Financial fixed assets are carried at market value. Realized and unrealized results are recognized in the statement of earnings under Financial income and expense.

Cash on hand, demand deposits and time deposits are carried at face value less necessary provisions for transfer risk.

### **Deferred credits**

Deferred credits are carried at face value and are credited to the statement of earnings generally in accordance with movements in the related items. A maximum of twenty years is maintained for investment grants received under the Investment Account Act.

### **Provisions**

Provisions are carried at face value with the exception of the provision for postretirement health insurance costs and the provision for the Frequent Flyer program. These provisions are carried at the present value of future commitments discounted at 5.5% and 9% respectively.

All pension commitments have been placed with independent pension funds. Expenses relating to pension benefits accrued by employees are allocated to the years in which the employees performed the work on which the benefits are based. Postretirement health insurance costs are determined in accordance with SFAS 106, Postretirement Benefits other than Pensions.

### **Long-term debt**

Long-term debt is carried at face value. Debt hedged by means of fair value hedges, however, is adjusted for movements in the fair value of the positions hedged.

Financial lease obligations are initially stated at net present value, discounted at the contracted interest rate. Loans to finance companies in this respect are set off against lease obligations, provided offsetting of receivables and debts is legally permitted or agreed upon. Long-term debt falling due within one year is included under Current liabilities.

### **Current liabilities**

Current liabilities are carried at face value.

## [Table of Contents](#)

### **Operating revenues**

Traffic revenue includes revenues from transportation performed, translated at exchange rates ruling at the date on which the transportation commitment was made. Other revenue comprises proceeds on deliveries and services to third parties at the date that goods are delivered or services performed.

### **Financial income and expense**

Interest payments on long-term debt are included at their effective rates after deduction of finance benefits amortized. Costs relating to financing transactions are also included under Financial income and expense. Financing costs are capitalized under Tangible fixed assets on the basis of the average interest rate on borrowed capital. The ineffective part of the unrealized result on derivatives that do not qualify as effective hedges within the meaning of SFAS 133/138 or that are considered partially ineffective is included under Financial income and expense.

### **Extraordinary items**

Extraordinary items include non-recurring income and expense not resulting from normal business operations.

### **Taxes**

Taxes on result are calculated at current income tax rates on the current result. Deferred investment grants, tax-exempt profit components, loss carryforwards and permanent differences between fiscal accounting policies and KLM' s accounting policies are taken into account.

Deferred tax assets and liabilities are formed in respect of timing differences between the valuation of assets and liabilities for accounting purposes and for fiscal purposes. Deferred tax assets are recognized insofar as future realization is probable.

### **Cash flow statement**

Cash flow from operating activities is calculated by means of the indirect method. Reported net income is therefore adjusted for non-cash items from both the statement of earnings and movements in the balance sheet.

## KLM ROYAL DUTCH AIRLINES

## CONSOLIDATED BALANCE SHEET

In millions of euros

*Before appropriation of results*

	Note <sup>1</sup>	March 31, 2003	March 31, 2002 <sup>2</sup>
<b>Fixed assets</b>			
Intangible fixed assets	1	66	56
Tangible fixed assets	2	4,982	5,104
Financial fixed assets	3	1,289	1,264
		6,337	6,424
<b>Current assets</b>			
Accounts receivable	4	222	257
Accounts receivable	5	998	1,233
Marketable securities		–	2
Cash	6	608	1,027
		1,828	2,519
<b>Current liabilities</b>	7	2,190	2,092
<b>Current assets less current liabilities</b>		(362 )	427
<b>Assets less current liabilities</b>		5,975	6,851
<b>Long-term debt</b>	8		
Subordinated perpetual debt		544	591
Other long-term debt		3,427	3,826
		3,971	4,417
<b>Provisions</b>	9	271	177
<b>Deferred credits</b>	10	256	265
<b>Group equity</b>			
Stockholders' equity	11	1,476	1,992
Share of third parties		1	–
		1,477	1,992
		5,975	6,851

<sup>1</sup> The accompanying Notes are an integral part of these Consolidated Financial Statements<sup>2</sup> Prior-year figures have been restated with regard to deferred taxes





## KLM ROYAL DUTCH AIRLINES

## CONSOLIDATED STATEMENTS OF EARNINGS

In millions of euros with the exception of the stock data

	Note <sup>1</sup>	For the Years Ended March 31,		
		2003	2002	2001
<b>Operating revenues</b>				
Traffic revenue	15	5,780	5,826	6,126
Other revenue	16	705	706	834
		6,485	6,532	6,960
<b>Operating expenses</b>	17	6,618	6,626	6,683
		(133 )	(94 )	277
<b>Operating income (loss)</b>		(133 )	(94 )	277
Financial income and expense	20	(98 )	(134 )	(138 )
Results on sale of assets	21	(42 )	10	27
Results of holdings	22	(4 )	(15 )	(21 )
Results on sale of holdings	23	6	9	4
		(271 )	(224 )	149
<b>Pretax income (loss)</b>		(271 )	(224 )	149
Taxes	24	85	68	(73 )
		(186 )	(156 )	76
Share of third parties		-	0	1
		(186 )	(156 )	77
<b>After tax income (loss) before extraordinary items</b>		(186 )	(156 )	77
Extraordinary losses		(351 )	-	-
Taxes extraordinary losses		121	-	-
		(230 )	-	-
<b>Extraordinary items after tax</b>	25	(230 )	-	-
		(416 )	(156 )	77
<b>Net income (loss)</b>		(416 )	(156 )	77
Net income (loss) attributable to common shares		(418 )	(158 )	75
Average number of common shares outstanding <sup>2</sup>		45,070,544	46,809,699	46,809,699
Average number of common shares outstanding (fully diluted) <sup>2</sup>		45,070,544	46,809,699	46,809,699
Net income (loss) per common share		(9.26 )	(3.37 )	1.61

<sup>1</sup> The accompanying Notes are an integral part of these Consolidated Financial Statements<sup>2</sup> Taking repurchased shares into account

## KLM ROYAL DUTCH AIRLINES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

In millions of euros

	For the Years Ended March 31,		
	2003	2002	2001
Cash flow from operating activities:			
Net income (loss)	(416 )	(156 )	77
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	535	487	429
Provision for losses and accounts receivable	(9 )	9	12
Results on sale of assets	42	(10 )	(27 )
Undistributed earnings of affiliates	4	15	19
Gain on sale of affiliates	(6 )	(9 )	(4 )
Deferred taxes	(201 )	(65 )	73
Change in assets and liabilities:			
Accounts receivable	190	122	72
Supplies	35	40	(1 )
Prepaid expenses	104	(43 )	(25 )
Change in provisions	87	(21 )	(63 )
Current liabilities	(40 )	152	(32 )
Taxes and social insurance premiums	(9 )	21	(21 )
Deferred credits	(22 )	(16 )	20
Marketable securities	2	4	57
Share of third parties	1	-	(5 )
<b>Net cash provided by operating activities</b>	<b>297</b>	<b>530</b>	<b>581</b>
Cash flow from investing activities:			
Proceeds from sale of tangible fixed assets	305	64	167
Capital expenditures	(725 )	(430 )	(614)
Net expansion of other holdings	(26 )	149	(49 )
Investment in inventory	10	(17 )	(15 )
Changes in the group of consolidated holdings	-	-	(9 )
<b>Net cash (used in) provided by investing activities</b>	<b>(436 )</b>	<b>(234 )</b>	<b>(520)</b>
Cash flow from financing activities:			
Dividend paid	(11 )	(30 )	(2 )
Increase in long-term debt	121	365	626
Decrease in long-term debts	(259 )	(401 )	(523)
Increase in long-term receivables	(78 )	(161 )	(225)
Decrease in long-term receivables	62	70	401
Other	(115 )	49	(166)

<b>Net cash provided by financing activities</b>	(280 )	(108 )	111
<b>Changes in cash</b>	(419 )	188	172
<b>Cash, opening balance</b>	1,027	839	667
	—	—	—
<b>Cash, closing balance<sup>1</sup></b>	608	1,027	839
	—	—	—

In fiscal 2002 interest paid amounted to EUR 178 million, as compared to fiscal 2001 EUR 211 million and fiscal 2000 EUR 181 million. In fiscal 2002 no income taxes were paid on a preliminary basis. In fiscal 2001 EUR 4 million and in fiscal 2000 EUR 1 million income taxes were paid on a preliminary basis.

<sup>1</sup> Including Triple A bonds and deposits the overall cash position amounts to EUR 919 million as of March 31, 2003 (as of March 31, 2002: EUR 1,383 million, as of March 31, 2001: EUR 1,148 million)

## KLM ROYAL DUTCH AIRLINES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

In millions of euros

## Fixed assets

## 1. Intangible fixed assets

	Goodwill	Software	Advance payments on software on order or under construction	Total
Purchase value as of March 31, 2002	42	56	1	99
Accumulated amortization through 2001/2002	23	20	–	43
Book value as of March 31, 2002	19	36	1	56
<b>Changes in book value</b>				
Additions	–	18	11	29
Disposals	–	–	–	–
Amortization	(4 )	(13 )	–	(17 )
Exchange rate differences	(1 )	–	–	(1 )
Other	–	5	(6 )	(1 )
Total changes	(5 )	10	5	10
Purchase value as of March 31, 2003	40	78	6	124
Accumulated amortization through 2002/2003	26	32	–	58
Book value as of March 31, 2003	14	46	6	66

## 2. Tangible fixed assets

	March 31, 2003	March 31, 2002
Aircraft, spare engines and spare parts	3,793	4,329
Other tangible fixed assets	544	583
	4,337	4,912
Advance payments on tangible fixed assets on order or under construction	645	192
	4,982	5,104



**KLM ROYAL DUTCH AIRLINES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (Continued)****2. Tangible fixed assets – (Continued)**

	Aircraft, spare engines and spare parts	Buildings and land	Inventories, machines and installations	Vehicles and other tangible fixed assets	Total
Purchase value as of March 31, 2002	7,309	734	608	132	8,783
Accumulated depreciation and diminution in value through 2001/ 2002	2,980	379	440	72	3,871
Book value as of March 31, 2002	4,329	355	168	60	4,912
<b>Changes in book value</b>					
Additions	409	2	35	15	461
Disposals	(342 )	(2 )	–	(5 )	(349 )
Depreciation	(382 )	(26 )	(46 )	(12 )	(466 )
Write down/impairment	(78 )	–	–	–	(78 )
Exchange rate differences	(143 )	–	(1 )	–	(144 )
Other	–	2	(1 )	–	1
Total changes	(536 )	(24 )	(13 )	(2 )	(575 )
Purchase value as of March 31, 2003	6,925	728	605	132	8,390
Accumulated depreciation and diminution in value through 2002/ 2003	3,132	397	450	74	4,053
Book value as of March 31, 2003	3,793	331	155	58	4,337

This overview includes aircraft for which financial lease agreements have been concluded. Their book value amounts to EUR 2,538 million (last fiscal year EUR 2,839 million).

Other tangible fixed assets include assets whose availability is based on limited right of use, such as buildings on land held under long-term rental agreements or on leasehold, and assets acquired through financial lease agreements. The book value of these assets amounts to EUR 184 million (last fiscal year EUR 226 million).

In fiscal year 2002/2003 a write down of EUR 78 million was recognized for the Boeing 747-300 fleet in connection with an accelerated phasing out. The remaining book value of the Boeing 747-300 fleet amounted to EUR 60 million as of March 31, 2003.

**Advance payments on tangible fixed assets on order or under construction**

Balance as of March 31, 2002 192

Advance payments	685
Tangible fixed assets taken into operation	(232)
	—
Balance as of March 31, 2003	645
	—

Aircraft on order as of March 31, 2003:

- 2 Boeing 737-700
- 3 Boeing 747-400ERF
- 4 Boeing 777-200ER
- 6 Airbus 330-220

F-11

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**KLM ROYAL DUTCH AIRLINES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (Continued)****3. Financial fixed assets**

	<u>March 31, 2003</u>	<u>March 31, 2002</u>
Holdings	198	201
Receivables from holdings	18	22
Triple A bonds/deposits	311	354
Derivatives	482	589
Other financial fixed assets	152	198
Deferred taxes	128	(100 )
	<u>1,289</u>	<u>1,264</u>

	<u>Holdings</u>	<u>Receivables from holdings</u>	<u>Triple A bonds/ deposits</u>	<u>Derivatives</u>	<u>Other financial fixed assets</u>	<u>Deferred taxes</u>	<u>Total</u>
Balance as of March 31, 2002	201	22	354	589	198	(100)	1,264
New/expansion	10	1	19	17	62	237	346
Sale/redemption	(2 )	(2 )	–	(33 )	(48 )	(9 )	(94 )
Share in results	5	–	–	–	–	–	5
Revaluation	(6 )	(4 )	(53 )	(91 )	(42 )	–	(196 )
Dividends received	(2 )	–	–	–	–	–	(2 )
Exchange rate differences and other	(8 )	1	(9 )	–	(18 )	–	(34 )
	<u>198</u>	<u>18</u>	<u>311</u>	<u>482</u>	<u>152</u>	<u>128</u>	<u>1,289</u>

Triple A bonds and deposits are available on call to the Company.

Movements relating to revaluations had virtually no effect on the result on account of the hedging policy.

The fair value of Financial fixed assets does not differ materially from the disclosed book value.

KLM has carryforward losses to an amount of EUR 570 million relating to losses incurred in The Netherlands and abroad. These losses may be carried forward and offset against future income indefinitely. A deferred tax asset is recognized to an amount of EUR 188 million under Deferred taxes.

The deferred tax assets and liabilities can be explained as follows:

**March 31, 2003**      **March 31, 2002**



	Assets	Liabilities	Assets	Liabilities
Fixed assets	8	69	5	58
Current assets	3	20	–	53
Deferred liabilities	30	–	20	–
Provisions	26	66	–	50
Current liabilities	–	–	30	–
Carryforward loss compensation	188	–	–	–
Other items	86	58	49	43
	341	213	104	204
Net tax position	128			100

#### Current assets

#### 4. Operating supplies

	March 31, 2003	March 31, 2002
Maintenance materials	160	207
Various supplies	62	50
	222	257

**KLM ROYAL DUTCH AIRLINES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (Continued)****5. Accounts receivable**

	<u>March 31, 2003</u>	<u>March 31, 2002</u>
Debtors	745	944
Receivables from holdings	3	2
Value added tax	37	20
Prepaid expenses	213	267
	<u>998</u>	<u>1,233</u>

Accounts receivable are stated net of a provision for bad debts of EUR 25 million (last fiscal year EUR 34 million).

The item Debtors as of March 31, 2002 included an amount of EUR 100 million receivable from Alitalia in respect of KLM's contribution to the cost of developing Malpensa Airport, Italy. This item was settled in fiscal year 2002/2003 as part of the award in the arbitration between KLM and Alitalia concerning the termination of their alliance as of April 28, 2000.

**6. Cash**

	<u>March 31, 2003</u>	<u>March 31, 2002</u>
Time deposits	506	974
Cash on hand and demand deposits	102	53
	<u>608</u>	<u>1,027</u>

As a result of transfer formalities and scarcity of foreign currency, EUR 15 million in cash (last fiscal year EUR 6 million) is not freely transferable from foreign establishments.

**7. Current liabilities**

	<u>March 31, 2003</u>	<u>March 31, 2002</u>
Current maturities of long-term debt:		
- concerning financial lease commitments	251	139
- concerning other long-term debt	65	24
Unearned revenues	548	672
Creditors	532	518
Taxes and benefit premiums	29	38
Accruals and other current liabilities	765	701

2,190

2,092

F-13

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**KLM ROYAL DUTCH AIRLINES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (Continued)****8. Long-term debt**

	<u>March 31, 2003</u>	<u>March 31, 2002</u>
<b>Perpetual debt</b>		
Subordinated perpetual loans	544	591
<b>Other long-term debt</b>		
Bank loans	21	16
Financial lease commitments	3,295	3,645
Other loans	427	328
	<u>3,743</u>	<u>3,989</u>
of which maturing in 2003/2004 and 2002/ 2003 respectively	316	163
	<u>3,427</u>	<u>3,826</u>
	<u>3,971</u>	<u>4,417</u>

**Subordinated loans**

In certain circumstances, KLM has the right to redeem the subordinated perpetual loans, with or without payment of a premium.

These loans are subordinated to all other existing and future KLM debts. The subordinations are equal in rank.

**Financial lease commitments**

As of March 31, 2003, loans to financing institutions, which are deducted from the financial lease commitments, amounted to EUR 317 million (last fiscal year EUR 382 million).

**Covenants**

Several loans, including subordinated perpetual loans, can be called if KLM can no longer be regarded as the most important Dutch international airline. Pari-passu clauses have been agreed for a number of loans. With regard to a number of other loans included under Long-term debt, KLM has undertaken not to encumber the aircraft and real estate legally owned now or in the future without prior consent of the lenders.

**Term**

<b>Redemption through</b>	<b>Redemption after</b>
-------------------------------	-----------------------------

	5 years	5 years	Perpetual	Total
Subordinated perpetual loans	–	–	544	544
Financial lease commitments	1,557	1,487	–	3,044
Other loans	172	211	–	383
	—	—	—	—
March 31, 2003	1,729	1,698	544	3,971
	—	—	—	—
March 31, 2002	1,482	2,344	591	4,417
	—	—	—	—

F-14

**KLM ROYAL DUTCH AIRLINES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (Continued)****8. Long-term debt – (Continued)****Interest rates**

The financing benefits including the effects of derivatives amortized are included in the average interest rates.

	Variable interest loans	Fixed interest loans	Average variable rate	Range of fixed rates	Average rate
Subordinated perpetual loans	68	476	2.6	4.5 - 5.8	4.7
Financial lease commitments	1,326	1,718	3.8	4.5 - 11.3	4.9
Other loans	58	325	1.4	1.2 - 6.6	4.4
March 31, 2003	1,452	2,519			
March 31, 2002	1,660	2,757			

Variable interest rates are based on London and Euro Interbank Offered Rates.

**Currencies**

The amounts stated in the table below including the effects of derivatives are presented in millions of euros for each currency.

	EUR	USD	JPY	CHF	GBP	Total
Subordinated perpetual loans	259	–	–	285	–	544
Financial lease commitments	2,156	766	–	–	122	3,044
Other loans	290	92	–	–	1	383
March 31, 2003	2,705	858	–	285	123	3,971
March 31, 2002	2,660	1,199	73	331	154	4,417

**Fair value of long-term debt**

	March 31, 2003	March 31, 2002
Subordinated perpetual loans	499	471
Financial lease commitments	3,222	3,373

of which maturing within one year	251	139
Other long-term debt	177	267
of which maturing within one year	65	24

The fair value estimates referred to above are based on the present value of the debt (including the effects of derivatives) based on a current interest rate.

**KLM ROYAL DUTCH AIRLINES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (Continued)****9. Provisions**

	March 31, 2002	Charges	Additions	March 31, 2003
Postretirement health costs	67	5	7	69
Early retirement provision	17	8	22	31
Other staff commitments	73	16	15	72
Frequent flyer program	20	–	4	24
Reorganization and restructuring	–	–	75	75
	<u>177</u>	<u>29</u>	<u>123</u>	<u>271</u>

The Postretirement health costs provision relates to health insurance contributions payable in respect of retired employees.

In accordance with the collective labor agreement, an Early retirement provision has been formed in respect of existing early retirement entitlements. Other staff commitments include commitments in respect of redundancy and supplementary schemes.

The provision for the Frequent flyer program represents the estimated commitments in respect of the KLM loyalty program.

The Reorganization and restructuring provision relates to the estimated staff redundancy costs for the plans announced on March 31, 2003, and which had been communicated to those concerned before the preparation of these financial statements.

With the exception of the Reorganization and restructuring provision, provisions are mainly long-term in nature.

**10. Deferred credits**

	March 31, 2003	March 31, 2002
Investment incentive grants received under the Investment Account Act	20	30
Items related to aircraft financing	236	235
	<u>256</u>	<u>265</u>

The investment incentive grants received under the Investment Account Act included under this heading relate to the grants claimed before the amendment of the Act as of May 1, 1986.

Items related to aircraft financing relate to the upfront financing benefits to be amortized.





**KLM ROYAL DUTCH AIRLINES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (Continued)****11. Stockholders' equity**

For a break-down of Stockholders' equity, please refer to page F-42.

**12. Commitments and contingent liabilities*****Commitments for tangible fixed assets on order or under construction***

As of March 31, 2003, KLM had commitments for previously placed orders of EUR 1,087 million (last fiscal year EUR 677 million). Of this amount EUR 1,042 million related to aircraft (last fiscal year EUR 639 million), of which EUR 516 million is due in fiscal year 2003/2004. The remainder of the commitments as of March 31, 2003 amounted to EUR 45 million (last fiscal year EUR 38 million) and related to other tangible fixed assets.

***Contingent liabilities regarding fleet retirement***

For a number of aircraft held under operational leases, there is a contractual obligation to the lessor to redeliver the aircraft in accordance with an agreed maintenance state. Any costs incurred for the fulfillment of this obligation will depend in part on the flight hours of the aircraft to the end of fiscal year 2008/2009 and cannot be reasonably estimated at present.

***Rental agreements***

KLM has long-term rental commitments amounting to EUR 1,517 million (last fiscal year EUR 752 million). Commitments for the next five fiscal years and thereafter:

	<b>Operational leases of aircraft</b>	<b>Rental of buildings</b>
2003/2004	190	37
2004/2005	203	26
2005/2006	182	24
2006/2007	149	20
2007/2008	95	17
after 2007/2008	355	219

**13. Lawsuits**

KLM and its consolidated holdings are involved in various legal actions. Although the outcome of these actions cannot be predicted, on the basis of information currently available and views expressed by counsel KLM does not expect their outcome to adversely affect the financial position of the company to any material degree.

**KLM ROYAL DUTCH AIRLINES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (Continued)****14. Derivatives and risk management**

The table below indicates the notional amounts of forward exchange contracts, interest rate and currency swap contracts and fuel collar and swap contracts. In principle, the terms of the contracts are equal to the terms of the positions hedged. These derivatives are used to ensure that financings are concluded in the currency required and to reduce interest risks resulting from financings and investments to levels acceptable to KLM. Derivatives are also used to hedge the currency risks on all or part of the operating and investment cash flow and to limit the price risk on fuel purchases.

	Notional amount March 31		Fair value March 31	
	2003	2002	2003	2002
Forward exchange contracts	2,519	1,014	(55)	47
Interest-currency swap contracts	1,403	1,383	274	454
Interest rate swap contracts	1,907	1,975	(11)	19
Fuel collar and swap contracts	368	545	(11)	(16)
			197	504

The fair value of the above derivatives is recognized in KLM' s balance sheet under Financial fixed assets (EUR 482 million) and Long-term debt (EUR 285 million). In view of the purpose for which they are held, derivatives may be qualified as follows:

	March 31, 2003	March 31, 2002
Cash flow hedges	4	57
Fair value hedges	188	441
No hedge accounting	5	6
Fair value	197	504

**KLM ROYAL DUTCH AIRLINES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (Continued)****Operating revenues****15. Traffic revenue**

	For the Years Ended March 31,		
	2003	2002	2001
Passengers	4,210	4,267	4,527
Cargo	1,017	1,016	1,109
Charter/Low Cost	553	543	490
	5,780	5,826	6,126

**16. Other revenue**

	For the Years Ended March 31,		
	2003	2002	2001
Maintenance and other technical work	280	273	273
Cargo and mail handling	40	39	131
Tax-free sales	115	107	104
Aircraft handling	105	92	93
Miscellaneous	165	195	233
	705	706	834

These services have been rendered mainly in The Netherlands.

**17. Operating expenses**

	For the Years Ended March 31,		
	2003	2002	2001
Salaries and benefits	1,907	1,747	1,675
Aircraft fuel	886	983	1,038
Materials and consumables	448	470	465
Commercial costs	499	506	593

Landing fees and navigation charges	541	524	515
Third-party handling costs	208	231	222
Work by third parties	489	455	535
Depreciation	535	487	429
Operational aircraft lease expenses	171	226	187
Cost of housing, vehicles and inventories	186	180	211
Commercial cooperation	117	176	214
Ad hoc and short-term aircraft/truck rentals	99	153	153
Hired personnel	108	116	137
Other operating expenses	424	372	309
	—	—	—
	6,618	6,626	6,683
	—	—	—

F-19

**KLM ROYAL DUTCH AIRLINES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (Continued)****18. Salaries**

	<b>For the Years Ended March 31,</b>		
	<b>2003</b>	<b>2002</b>	<b>2001</b>
Salaries	1,510	1,449	1,329
Benefits	167	154	199
Pension fund contributions	230	144	147
	<b>1,907</b>	<b>1,747</b>	<b>1,675</b>

The increase in Pension fund contributions was due largely to higher basic contributions and higher pre-pension and retirement charges. Pension fund contributions also include the positive effects of the restitution of ground staff pension fund surpluses to an amount of EUR 46 million (last fiscal year EUR 53 million).

During the fiscal year KLM and its Group companies employed combined average workforce of 33,038 full-time equivalents (last fiscal year 33,265 full-time equivalents), as follows:

	<b>For the Years Ended March 31,</b>		
	<b>2003</b>	<b>2002</b>	<b>2001</b>
Ground staff in The Netherlands	18,255	17,951	17,600
Ground staff outside The Netherlands	4,848	5,421	6,439
Flight staff	9,935	9,893	9,724
	<b>33,038</b>	<b>33,265</b>	<b>33,763</b>

**19. Depreciation and amortization**

	<b>For the Years Ended March 31,</b>		
	<b>2003</b>	<b>2002</b>	<b>2001</b>
Amortization of intangible fixed assets	17	12	10
Depreciation of aircraft and spare components	382	383	330
Write down/impairment	78	17	–
Depreciation of other tangible fixed assets	84	90	99

	561	502	439
Amortization of deferred credits	(26)	(15)	(10)
	—	—	—
	535	487	429
	—	—	—

## 20. Financial income and expense

	For the Years Ended March 31,		
	2003	2002	2001
	—	—	—
Interest income from financial fixed assets	20	39	59
Other interest income	11	21	12
Changes in the value of marketable securities	15	(2 )	(1 )
Interest expense	(155)	(193)	(212)
Capitalized interest incurred through advance payments on tangible fixed assets	11	2	4
Unrealized results on derivatives	—	(1 )	—
	—	—	—
	(98 )	(134)	(138)
	—	—	—

**KLM ROYAL DUTCH AIRLINES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (Continued)****21. Results on sale of assets**

The 2002/2003 loss on sale of assets of EUR 42 million relates to principally to the sale of aircraft (EUR 33 million) and the sale of KLM uk' s low cost buzz activities (EUR 9 million), which were sold on April 11, 2003.

**22. Results of holdings**

	<b>For the Years Ended March 31,</b>		
	<b>2003</b>	<b>2002</b>	<b>2001</b>
Aviation	1	(14)	(17)
Aviation-related	(8 )	(1 )	–
Other holdings	3	–	(4 )
	—	—	—
	(4 )	(15)	(21)
	—	—	—

**23. Results on sale of holdings**

Results on sale of holdings relates to the sale of aviation-related holdings and other holdings.

**24. Taxes**

The effective tax burden differs from the current tax rate (34.5%). For 2002/2003 the effective tax rate was 32%. The difference between the effective and standard rate can be explained as follows:

	<b>For the Years Ended March 31,</b>		
	<b>2003</b>	<b>2002</b>	<b>2001</b>
Standard rate taxation	93	79	(52)
Participation exemption	1	(1 )	(6 )
Foreign tax issues	(13)	(13)	(12)
Other permanent differences	4	3	(3 )
	—	—	—
Effective rate taxation	85	68	(73)
	—	—	—

**25. Extraordinary items after tax**

**For the Years Ended March 31,**



	2003	2002	2001
Extraordinary losses	(351)	-	-
Taxes	121	-	-
	(230)	-	-

Extraordinary loss includes a loss of EUR 276 million arising from the arbitration tribunal's award in the legal dispute between KLM and Alitalia concerning the termination of their alliance as of April 28, 2000. The extraordinary loss also includes the Reorganization and restructuring provision to an amount of EUR 75 million.

## KLM ROYAL DUTCH AIRLINES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

## 26. Segmentation

The segmental breakdown is based on the classification of KLM' s four core activities and accountability areas as agreed upon in fiscal year 2002/2003. The classification differs slightly from the segmentation presented in previous fiscal years. Figures for 2001/2002 have been restated for comparative purposes.

The segment Other includes the cost of shared-services, such as overheads and certain expense and revenue items that are not attributable to the core activities. The decline in operating income in this segment was due chiefly to higher prepension and retirement costs, higher insurance premiums and the compensation received from the Dutch government in 2001/2002 in connection with the closure of U.S. airspace in the period September 11 – 14, 2001.

## 2002/2003

	Passenger	Cargo	Engineering & Maintenance	Charter/ Low Cost	All other	Elimination of inter-segments	Total consolidated
<b>Operating revenues</b>							
Operating revenues from external customers	4,425	1,068	329	590	73		6,485
Intersegment revenues	553	31	639		151	(1,374 )	–
	4,978	1,099	968	590	224	(1,374 )	<b>6,485</b>
<b>Operating expenses<sup>1</sup></b>							
	5,003	1,027	927	592	443	(1,374 )	<b>6,618</b>
<b>Operating income (loss)</b>	(25 )	72	41	(2 )	(219 )	–	<b>(133 )</b>
Interest revenue							46
Results of holdings							2
Other							(186 )
<b>Pretax income (loss)</b>							<b>(271 )</b>
Taxes							85
<b>After tax income (loss) before extraordinary items</b>							<b>(186 )</b>
Extraordinary items after tax							(230 )
Share of third parties							–
<b>Net income (loss)</b>							<b>(416 )</b>
Total assets	4,474	254	666	751	2,020		8,165
Total liabilities	4,308	168	632	614	710		6,432

Commitments for tangible fixed assets on order or under construction	705	225	11	120	26	1,087
Capital expenditure	554	222	19	116	28	939
Depreciation and amortization	426	14	33	28	34	535

<sup>1</sup> Operating expenses includes a write down of EUR 78 million for the Boeing 747-300 fleet: Passenger EUR 58 million, Cargo EUR 20 million

**KLM ROYAL DUTCH AIRLINES**
**2001/2002**

	Passenger	Cargo	Engineering & Maintenance	Charter/ Low Cost	All other	Elimination of intersegments	Total consolidated
<b>Operating revenues</b>							
Operating revenues from external customers	4485	1067	288	565	127		6532
Intersegment revenues	567		675		146	(1388 )	-
	5052	1067	963	565	273	(1388 )	<b>6532</b>
<b>Operating expenses</b>							
	5193	1020	912	574	315	(1388 )	<b>6626</b>
<b>Operating income (loss)</b>	<b>(141 )</b>	<b>47</b>	<b>51</b>	<b>(9 )</b>	<b>(42 )</b>	<b>-</b>	<b>(94 )</b>
Interest revenue							58
Results of holdings							(6 )
Other							(182 )
<b>Pretax income (loss)</b>							<b>(224 )</b>
Taxes							68
<b>After tax income (loss) before extraordinary items</b>							<b>(156 )</b>
Extraordinary items after tax							-
<b>Net income (loss)</b>							<b>(156 )</b>
Total assets	4908	298	641	576	2520		8943
Total liabilities	4866	206	590	413	611		6686
Commitments for tangible fixed assets on order or under construction	11	423	1	217	25		677
Capital expenditure	192	3	3	2	35		235
Depreciation and amortization	369	27	31	29	31		487

**2000/2001**

	Passenger incl. KLM cityhopper	Cargo	Engineering & Maintenance	Consolidated holdings	All other <sup>1</sup>	Cash and marketable securities <sup>2</sup>	Eliminations of intersegment	Total consolidated
<b>Operating revenues</b>								
Operating revenues from external customers	4545	1178	273	964				6960
Intersegment revenues	540		536	350			(1426 )	-

	5085	1178	809	1314			(1426 )	<b>6960</b>
<b>Operating expenses</b>	5117	1047	755	1271	(81 )		(1426 )	<b>6683</b>
<b>Operating income</b>	(32 )	131	54	43	81			<b>277</b>
Interest revenue								70
Results of holdings								(17 )
Other								(181 )
<b>Pretax income</b>								<b>149</b>
Taxes								(73 )
<b>After tax income</b>								<b>76</b>
Share of third parties								1
<b>Net income</b>								<b>77</b>
Total assets	3644	278	680	2212	931	845		8590
Commitments for tangible								
fixed assets on order or	118	0	1	521	8			648
under construction								
Capital expenditure	337	8	15	237	13			610
Depreciation and								
amortization	240	15	28	115	31			429

<sup>1</sup> All other includes other KLM Company departments and unallocated gains and losses

<sup>2</sup> Cash and marketable securities are stated separately because they form a significant part of total assets

## KLM ROYAL DUTCH AIRLINES

## 26. Segmentation – (Continued)

## Consolidated information by geographic area (route areas)

In millions of euros

	March 31, 2003			March 31, 2002			March 31, 2001		
	Operating revenue	Tangible/ Intangible fixed assets <sup>1</sup>	Capital expenditure <sup>1</sup>	Operating revenue	Tangible/ Intangible fixed assets <sup>1</sup>	Capital expenditure <sup>1</sup>	Operating revenue	Tangible/ Intangible fixed assets <sup>1</sup>	Capital expenditure <sup>1</sup>
Europe	2,496	1,450	138	2,427	1,980	124	2,602	2,414	332
North Atlantic	1,032			1,118			1,338		
Asia Pacific	1,200			1,318			1,350		
Central and South Atlantic	535			572			508		
Middle East/South Asia	413			335			460		
Africa	542			494			442		
All Other	267	3,598	801	268	3,180	111	260	2,887	278
Total consolidated	6,485	5,048	939	6,532	5,160	235	6,960	5,301	610

## 27. Related-party transactions

As part of its normal activities, KLM enters into arm's length transactions with related parties in respect of the temporary chartering of aircraft and the financing of certain minority holdings.

<sup>1</sup> KLM's tangible fixed assets consist principally of aircraft. The narrow body fleet is flown in the European route area only and can therefore be disclosed separately. The wide body fleet is mobile across geographical markets and is therefore included at book value under Other

**KLM ROYAL DUTCH AIRLINES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

**28. Differences between Netherlands GAAP and US GAAP**

The Netherlands accounting principles (Netherlands GAAP) applied in the preparation of the Consolidated Financial Statements of the Company differ in some respects from those generally accepted in the United States (US GAAP). It is noted that KLM's accounting policy for post-retirement benefits other than pensions and the policy for derivatives and hedge accounting as applied in the consolidated Financial Statements follow SFAS 106 and SFAS 133/138 respectively.

**Differences which have a material effect on the financial statements**

(1) Under Netherlands GAAP, goodwill acquired prior to March 31, 1994 was charged directly to equity. KLM now amortises goodwill over 5 to 10 years in response to the rapidly evolving environment in the airline industry. Under US GAAP goodwill and intangible assets with indefinite useful lives are no longer amortized but annually tested for impairment.

(2) Pension costs included in the Consolidated Statements of Earnings is computed in accordance with Netherlands GAAP. For the Company's defined benefit plans, those amounts are based on the actuarially determined premiums which the Company is required to pay, adjusted for restitutions of structural surpluses and discounts received by KLM from its pensionfunds. Pension expense for US GAAP purposes is determined in accordance with FASB Statement No. 87, "Employer's Accounting for Pensions". The US GAAP adjustment is the difference between amounts recorded under Netherlands GAAP and pension expense as determined under SFAS No. 87.

SFAS 106 "Postretirement benefits" is already implemented in the Netherlands GAAP financial statements.

(3) Under Netherlands GAAP, KLM recognises an in-substance defeasance of certain financial lease commitments when the Company places deposits with financial institutions and matches the cash flows from the deposits with scheduled payments on the lease commitments through pledge and escrow agreements. Under US GAAP, debt can not be extinguished by providing arrangements designed to set aside assets dedicated to eventually settling a liability. The US GAAP adjustment increases financial fixed assets and lease commitments classified as other long-term debt. These financial fixed assets are restricted solely for the payment of the related lease commitments.

(4) Under Netherlands GAAP, KLM formed a provision for reorganization and restructuring related to the estimated staff redundancy costs for the plans announced on March 31, 2003. Under US GAAP costs of this nature generally are recorded when they are incurred. The reorganization costs recognized under Netherlands GAAP do not meet the criteria of recognition under US GAAP. Consequently charges against this provision in later years are reconciled in net income for US GAAP purposes.

(5) Under Netherlands GAAP the cumulative effects of changes in accounting policies were included as direct movements in Other reserves in fiscal year 2001/2002. Under US GAAP the effects of changes in accounting policies are included in income. Furthermore, Netherlands GAAP allows direct equity movements in a limited number of circumstances. US GAAP however has severe restrictions with respect to the application of direct equity movements. Consequently some direct equity movements under Netherlands GAAP need to be included in earnings under US GAAP. Retroactive application of the accounting change would have had a limited impact on (pro forma) net income for the year 2000/2001.

## KLM ROYAL DUTCH AIRLINES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

## 28. Differences between Netherlands GAAP and US GAAP – (Continued)

The following tables summarise the effects of U.S. GAAP differences on the Company's net income, stockholders' equity, intangible fixed assets, prepaid expenses, deferred tax liabilities, long-term debt, financial fixed assets and provisions (in millions, except per share data): The following tables summarise the effects of US GAAP differences on the net income, stockholders' equity, intangible fixed assets, financial fixed assets, deferred taxes, prepaid expenses, current liabilities, long-term debt and provisions (in millions, except per share data):

Net income	For the years ended March 31,		
	2003	2002	2001
Net income in conformity with Netherlands GAAP	(416 )	(156 )	77
(1) Goodwill	(1 )	(3 )	(3 )
(2) Pensions	172	168	211
(4) Reorganization provision	75	(25 )	(88 )
(5) Adjustment in respect of direct equity movements	(12 )	(9 )	–
(5) Changes in accounting policies	–	109	–
(6) Income tax effect	(85 )	(86 )	(43 )
Total adjustments	149	154	77
Net income in conformity with US GAAP	(267 )	(2 )	154
Net income per common share <sup>1</sup>			
Basic	(5.97 )	(0.08 )	3.26
Diluted	(5.97 )	(0.08 )	3.26
Average number of common shares outstanding <sup>2</sup> (in thousands of shares)			
Basic	45,071	46,810	46,810
Diluted	45,071	46,810	46,810
Stockholders' equity	March 31, 2003	March 31, 2002	
Stockholders' equity in conformity with Netherlands GAAP	1,476	1,992	
(1) Goodwill	4	5	
(2) Pensions	2,010	1,876	
(4) Reorganization provision	75	0	
(6) Income tax effect	(738 )	(653 )	
Total adjustments	1,351	1,228	
Stockholders' equity in conformity with US GAAP	2,827	3,220	



The extraordinary losses recorded under Netherlands GAAP would not qualify as such under U.S. GAAP. These losses would be classified as ordinary under U.S. GAAP.

<sup>1</sup> taking account of other beneficiaries in results and equity

<sup>2</sup> taking repurchased shares into account

## KLM ROYAL DUTCH AIRLINES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

## 28. Differences between Netherlands GAAP and US GAAP – (Continued)

<b>Intangible fixed assets</b>	<b>March 31, 2003</b>	<b>March 31, 2002</b>
Intangible fixed assets in conformity with Netherlands GAAP	66	56
(1) Goodwill	4	5
Intangible fixed assets in conformity with US GAAP	<u>70</u>	<u>61</u>
<b>Financial fixed assets</b>	<b>March 31, 2003</b>	<b>March 31, 2002</b>
Financial fixed assets in conformity with Netherlands GAAP	1,289	1,264
Reclassification of deferred tax position	(128 )	100
(3) In-substance defeasance of lease obligations	317	382
Financial fixed assets in conformity with US GAAP	<u>1,478</u>	<u>1,746</u>
<b>Deferred taxes</b>	<b>March 31, 2003</b>	<b>March 31, 2002</b>
Net deferred tax position in conformity with Netherlands GAAP	128	(100 )
(2) Income tax effect on OCI movement with regard to minimum pension liability	13	–
(6) Income tax effect	(738 )	(653 )
Net deferred tax liability in conformity with US GAAP	<u>(597)</u>	<u>(753)</u>
<b>Prepaid expenses</b>	<b>March 31, 2003</b>	<b>March 31, 2002</b>
Prepaid expenses in conformity with Netherlands GAAP	213	267
(2) Pension costs	1,973	1,876
Prepaid expenses in conformity with US GAAP	<u>2,186</u>	<u>2,143</u>
<b>Current liabilities</b>	<b>March 31, 2003</b>	<b>March 31, 2002</b>
Current liabilities in conformity with Netherlands GAAP	2,190	2,092
(2) Pension costs	(7 )	–
Current liabilities in conformity with US GAAP	<u>2,183</u>	<u>2,092</u>
<b>Long-term debt</b>	<b>March 31, 2003</b>	<b>March 31, 2002</b>

Other long-term debt in conformity with Netherlands GAAP	3,427	3,826
(3) In-substance defeasance of lease obligations	317	382
	<hr/>	<hr/>
Other long-term debt in conformity with US GAAP	3,744	4,208
	<hr/>	<hr/>

F-27

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**KLM ROYAL DUTCH AIRLINES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (Continued)****28. Differences between Netherlands GAAP and US GAAP – (Continued)**

<b>Provisions</b>	<b>March 31, 2003</b>	<b>March 31, 2002</b>
Provisions in conformity with Netherlands GAAP	271	177
(2) Early retirement provision	(17 )	–
(5) Reorganization provision	(75 )	–
Provisions in conformity with US GAAP	179	177

The following are additional disclosures to comply with generally accepted accounting principles in the United States of America:

**Accounting for leases (SFAS 13/SFAS 125)**

KLM has entered into several cross-border financial lease transactions. In general these transactions involve the purchase of an aircraft by a tax paying investor (the lessor) and the simultaneous contracting by KLM (lessee) for the use of the aircraft in return for specified rental payments over a specific term of 12 to 15 years. Notwithstanding the ownership of the aircraft by the lessor, KLM wants to be able to control and operate the aircraft in the same manner as it would if it was the owner.

The leveraged cross-border lease is a variation that introduces a third party lender into the transaction. The lessor, in conjunction with the lessee, will seek to finance 50-90 per cent of the asset's cost by borrowing the funds on a non-recourse basis from banks. While the lessor actually invests only 10-50 percent of the cost of the aircraft, it will be entitled to 100 per cent of the tax benefits of ownership and thus can be said to have "leveraged" its equity investment by utilizing the non-recourse borrowing. The advantage of the lessor in such circumstances is in part transferred to KLM resulting in lower rental payments.

KLM concluded (leveraged) cross-border capital leases for a total of 72 aircraft, where the risk and return of ownership remains with KLM as lessee.

As per March 31, 2003 and 2002 the Company had financial lease commitments for EUR 3,612 million and EUR 4,027 million, respectively.

The redemption of financial leases for each of the following fiscal years are (in millions):

2003/2004	285
2004/2005	152
2005/2006	399
2006/2007	493
2007/2008	700
after 2007/2008	1,583

As of March 31, 2003 and 2002 the book value of assets (aircraft) for which financial lease commitments have been concluded amounted to EUR 2,538 million and EUR 2,839 million, respectively.

The majority of the financial lease commitments had fixed interest rates which ranged from 4.5% to 11.3%. Variable rate commitments averaged, after taking interest rate contracts into account, 3.8% for fiscal 2002/2003. The overall average interest percentage on financial lease commitments was 4.9%.

**KLM ROYAL DUTCH AIRLINES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (Continued)****28. Differences between Netherlands GAAP and US GAAP – (Continued)****Disclosure on the fair value of financial instruments (SFAS 107)**

Fair value is defined as the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by a quoted market price, if one exists. Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instruments. Although management uses its best judgement in estimating the fair value of these financial instruments, there are inherent weaknesses in any estimation technique. Therefore the estimates presented are not necessarily indicative of the amounts that the Company could realise in a current market exchange or the value that ultimately will be realised by the Company upon maturity or disposition.

The following table summarises the carrying amounts and estimated fair values of the Group' s financial instruments:

	March 31, 2003		March 31, 2002	
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
<b>Assets</b>				
Financial fixed assets				
- Receivables from holdings	18	18	22	22
- Triple A bonds/deposits	311	371	354	395
- Derivatives	482	482	589	589
- Other financial fixed assets	152	152	198	217
Marketable securities	–	–	2	2
Cash	608	608	1,027	1,027
<b>Liabilities</b>				
Perpetual debt	544	499	591	471
Financial lease commitments	3,295	3,222	3,645	3,373
- maturing within one year	(251 )	(251 )	(139 )	(139 )
Other long-term debt	448	177	344	267
- maturing within one year	(65 )	(65 )	(24 )	(24 )
Current liabilities	2,190	2,190	2,092	2,092

**Concentration of credit risk (SFAS 105)**

Most of the holdings are air transport related holdings. As of March 31, 2003 and 2002 total holdings and receivables from holdings in air transport or related industries amounted to EUR 164 million and EUR 171 million respectively.

Of the commitments for tangible fixed assets on order or under construction, EUR 1,042 million and EUR 639 million as of March 31, 2003 and 2002 respectively, relates to aircraft. The advance payments on aircraft amounted to EUR 604 million and EUR 23 million as of March 31, 2003 and 2002, respectively.

Other disclosures concerning these statements are included in Item 11-Quantitative and qualitative disclosures about market risk.

### Interest rates

Interest rates excluding the effects of derivatives are as follows:

	Average variable rate	Range of fixed rates	Average rate
	_____	_____	_____
<i>2002/2003</i>			
Subordinated perpetual loans	–	5.25 - 5.75	5.44
Financial lease commitments	3.66	4.4 - 11.3	7.04
Other loans	1.40	1.2 - 6.6	4.40
<i>2001/2002</i>			
Subordinated perpetual loans	–	5.25 - 5.75	5.43
Financial lease commitments	4.13	4.5 - 11.4	6.94
Other loans	2.55	1.15 - 9.25	5.55

### Income Taxes

Income before taxes based on Netherlands GAAP, but discussed in accordance with SFAS 109, is analysed over its component parts as follows:

	For the years ended March 31,		
	2003	2002	2001
	_____	_____	_____
The Netherlands	(204)	(195)	182
Foreign	(67 )	(29 )	(32 )
	_____	_____	_____
	(271)	(224)	150
	_____	_____	_____

**KLM ROYAL DUTCH AIRLINES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (Continued)****28. Differences between Netherlands GAAP and U.S. GAAP – (Continued)**

The components of income tax are as follows:

	For the years ended March 31,		
	2003	2002	2001
The Netherlands			
Current taxes	(12)	(17)	–
Deferred taxes	(63)	(54)	74
Foreign			
Current taxes	(10)	–	–
Deferred taxes	–	3	–
	(85)	(68)	74

In addition a EUR 123 million income tax benefit was recorded in 2002/2003 as extraordinary under Netherlands GAAP. It is noted that the extraordinary losses would not qualify as extraordinary under US GAAP. Furthermore, a EUR 20 million deferred tax benefit was recorded through other comprehensive income in 2002/2003.

The weighted average statutory tax rates reflected in the following table are computed by applying the applicable current rates to the Company' s earnings in each country.

A reconciliation of the provision for income taxes based on the weighted average rates with the effective tax rate is summarised below:

	For the years ended March 31,		
	2003	2002	2001
	%	%	%
Weighted average percentage, based on current tax rates (benefit)	34.5	35.0	35.0
Tax effect of exempt income and non-deductible expenses	(2.5)	(5.0)	14.0
Effective tax (benefit) rates	32.0	30.0	49.0

Deferred tax assets are recognized for net operating losses as it is more likely than not that the results of future operations will generate sufficient taxable income to realize the deferred tax assets.

The net deferred tax assets or liabilities are determined per fiscal entity. Offsetting of deferred tax assets and deferred tax liabilities within the same fiscal entity is restricted to deferred tax assets and liabilities that reverse in the same period.



Current and non-current deferred taxes, are included in the balance sheet under receivables in the event, and to the extent, that per fiscal entity total deferred tax assets exceed total deferred tax liabilities. Conversely, current and non-current deferred tax liabilities are included under provisions in the event, and to the extent, that per fiscal entity total deferred tax liabilities exceed total deferred tax assets.

More detailed information concerning tax effects is disclosed in Note 3 “Financial fixed assets” of the “Notes to the Consolidated Financial Statements”.

**KLM ROYAL DUTCH AIRLINES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (Continued)****28. Differences between Netherlands GAAP and US GAAP – (Continued)****Pension Costs (SFAS 87/SFAS 132)**

Pension benefits of the Company's staff in The Netherlands as well as those of expatriate Dutch employees are covered by one of three separate contributory pension plans depending on the category of personnel. Separate plans for ground staff, cockpit staff and cabin staff are carried out by an independent foundation. Each plan is administered by a separate independent Board. The Company has no influence on investments and no direct influence on funding. Plan assets consist primarily of government and corporate debt securities, marketable equity securities, real estate (funds) and money market fund shares. No investment exist in KLM shares or in KLM real estate. For UK based staff two separate contributory pension plans exist with different sections for different groups of employees. Each plan is administered by an independent trustee. Other plans, which principally relate to defined contribution schemes, provide pension benefits for personnel in various countries outside The Netherlands and the UK.

For Netherlands GAAP for fiscal 2003 a net pension expense of EUR 230 million is included, for fiscal 2002 EUR 144 million and for fiscal 2001 EUR 147 million was included. Participation in the respective plans is mandatory. Pension costs, which are actuarially determined, are funded and with minor exceptions fully vested.

The Company's benefit plans cost and funded status for 2002, 2001 and 2000 were also computed in accordance with Statement of Financial Accounting Standards No. 87 (SFAS 87) "Employers' Accounting for Pensions" and disclosed in accordance with SFAS 132 "Employers disclosures about pensions and other postretirement benefits" as follows:

	For the years ended March 31,		
	2003	2002	2001
<b>Net Periodic Pension Cost</b>			
Net service cost	245	236	201
Interest cost	353	330	297
Expected return	(545)	(518)	(526)
Amortization of			
Transition (asset/ obligation)	(49 )	(48 )	(48 )
Prior service cost	22	22	15
Net actuarial gains	25	(18 )	(60 )
Net periodic pension cost	51	4	(121)

	March, 2003	March, 2002
<b>Change in benefit obligation</b>		
Benefit obligation at beginning year	6,252	5,888
Service cost	245	236
Interest cost	353	330
Plan amendments	–	–
Benefits paid	(207 )	(200 )

Effect of change of assumptions	81	-
Actuarial result	29	(2 )
	<u>        </u>	<u>        </u>
Benefit obligation at end of year	6,753	6,252
	<u>        </u>	<u>        </u>

F-31

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## KLM ROYAL DUTCH AIRLINES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

## 28. Differences between Netherlands GAAP and US GAAP – (Continued)

	March, 2003	March, 2002
	_____	_____
<b>Change in plan assets</b>		
Fair value at beginning of year	7,786	7,915
Plan amendments	–	–
Actual return	(288 )	(97 )
Contributions	146	168
Benefits paid	(207 )	(200 )
	_____	_____
Fair value at end of year	7,437	7,786
	_____	_____

	March, 2003	March, 2002
	_____	_____
<b>Funded status</b>	684	1,534
Unrecognised net losses	1,328	357
Unrecognised prior service cost	137	159
Unrecognised net assets at transition	(125 )	(174 )
	_____	_____
Net amount recognized	2,024	1,876
	_____	_____

Amounts recognized in the balance sheet consists of:

Prepaid pension costs	1,973	1,876
Accumulated other comprehensive income	51	–
	_____	_____
	2,024	1,876
	_____	_____

The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for pension plans of KLM uk' s staff with accumulated benefit obligations in excess of plan assets, included in the prepaid pension costs disclosed above, were EUR 209 million, EUR 143 million and EUR 106 million, respectively, as of March 31, 2003. A minimum pension liability of EUR 51 million is recognized through Other Comprehensive Income in the current year.

	March, 2003	March, 2002
	_____	_____
<b>Assumptions</b>		
Discount rate	5.5%	5.5%
Total salary increase	4.0%	4.0%
Rate of return	7.0%	7.0%

**Postretirement Benefits (SFAS 106/SFAS 132)**

SFAS 106 "Postretirement Benefits" is already implemented in The Netherlands GAAP financial statements.

For Netherlands GAAP for fiscal 2003 a net provision of EUR 69 million is included, for fiscal 2002 EUR 67 million and for fiscal 2001 EUR 61 million was included.

The Company's benefit plans cost and funded status for 2003, 2002 and 2001 were computed in accordance with Statement of Financial Accounting Standards No. 106 (SFAS 106) "Postretirement Benefits" and disclosed in accordance with SFAS 132 "Employers disclosures about pensions and other postretirement benefits" as follows:

	For the years ended March 31,		
	2003	2002	2001
<b>Net Periodic Benefit Cost</b>			
Net service cost	3	2	2
Interest cost	6	7	6
Expected return	—	—	—
Amortization of			
Transition amount	1	2	2
Actuarial gains/losses	2	1	—
Net periodic benefit cost	12	12	10

## KLM ROYAL DUTCH AIRLINES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

## 28. Differences between Netherlands GAAP and U.S. GAAP – (Continued)

	March, 2003	March, 2002
	—————	—————
<b>Change in benefit obligation</b>		
Benefit obligation at beginning year	102	95
Service cost	3	2
Interest cost	6	7
Plan amendments	–	–
Benefits paid	(4 )	(4 )
Effect of change of assumptions	(3 )	(6 )
Actuarial result	8	8
Foreign currency effect	(5 )	–
	—	—
Benefit obligation at end of year	107	102
	—	—

	March, 2003	March, 2002
	—————	—————
<b>Change in plan assets</b>		
Fair value at beginning of year	–	–
Actual return	–	–
Contributions	4	3
Benefits paid	(4)	(3)
	—	—
Fair value at end of year	–	–
	—	—

	March, 2003	March, 2002
	—————	—————
<b>Funded status</b>	(107)	(102)
Unrecognised net losses	36	23
Unrecognised prior service cost	(9 )	–
Unrecognised obligation at transition	11	12
	—	—
Net amount recognized	(69 )	(67 )
	—	—

	March, 2003	March, 2002
	—————	—————
<b>Assumptions</b>		
Discount rate	5.5%	5.5%
Increase rate benefit	3.0%	2.5%

For measurement purposes, a 3.0% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2003/2004 and the years thereafter.

**Disclosure of Certain Risks and Uncertainties (SOP 94-6)**

Preparation of KLM' s financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**KLM ROYAL DUTCH AIRLINES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (Continued)****28. Differences between Netherlands GAAP and U.S. GAAP – (Continued)****Guarantees**

Guarantees have been provided up to an amount of EUR 174 million (last fiscal year EUR 120 million). EUR 114 million relates to various guarantees provided by KLM on behalf of consolidated holdings (last fiscal year EUR 95 million). No obligation has been recorded in relation to these guarantees.

Guarantees were further provided for a number of consolidated holdings in accordance with Article 403, Book 2, of The Netherlands Civil Code. This information is part of the information on capital interests which has been filed with the Trade Register of the Chamber of Commerce in Amsterdam. The debts of the companies, which are included in the consolidated balance sheet as of March 31, 2003 amounted to EUR 74 million (last fiscal year EUR 48 million). The maximum undiscounted amount of guarantees by expiry date are:

2003/2004	62
2004/2005	2
2005/2006	17
2006/2007	0
2007/2008	2
after 2007/2008	91

**Goodwill and Other Intangible Assets**

In connection with the annual goodwill impairment evaluation required by SFAS 142, we determined an impairment loss of EUR 1 million in the 2002/2003 US GAAP income statement.

The following table shows US GAAP net income in prior years on a pro forma basis to show the effects of non-amortisation of goodwill:

	For the years ended March 31,		
	2003	2002	2001
Net income in conformity with US GAAP	(267 )	(2 )	154
Add back: Amortization of goodwill	0	3	3
Pro forma net income	(267 )	1	157
Basic and diluted earnings per share	(5.97)	(0.08)	3.26
Add back: Amortization of goodwill	0.00	0.06	0.06
Pro forma earnings per share	(5.97)	(0.02)	3.32



The aggregate amortization expense for the year ended March 31, 2003 was EUR 13 million. The following table summarises the estimated amortization expense for the coming five years:

	<b>Software</b>	<b>Advance payments on software</b>	<b>Total</b>
	—	—	—
2003/2004	12	2	14
2004/2005	11	2	13
2005/2006	6	2	8
2006/2007	5	—	5
2007/2008	5	—	5
	—	—	—
	39	6	45
	—	—	—

F-34

**KLM ROYAL DUTCH AIRLINES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

**28. Differences between Netherlands GAAP and US GAAP – (Continued)**

**Reporting Comprehensive Income (SFAS 130)**

The figures stated in the table below are net of tax amounts.

(in millions of euros)

	Foreign currency translation adjustments	Unrealized gains/losses derivatives	Minimum pension liability	Total accumulated other com- prehensive income (loss)
Balance sheet at March 31, 2000	(21)	–	–	(21 )
Current-period change	5	–	–	5
Balance sheet at March 31, 2001	(16)	–	–	(16 )
Impact of first time application SFAS 133/138		(23)		(23 )
Current-period change	30	23	–	53
Balance sheet at March 31, 2002	14	–	–	14
Current-period change	(27)	(39)	(38)	(104)
Balance sheet at March 31, 2003	(13)	(39)	(38)	(90 )

**Summary of changes in stockholders' equity in conformity with US-GAAP:**

Years ended March 31, 2001, 2002 and 2003

In thousands of euros	Capital paid-in and called					Accumulated other com- prehensive income	Other reserves	Total stock- holders' equity
	Priority shares	A-cumulative preference shares	C-cumulative preference shares	Common shares	Paid-in surplus			
Balance sheet at March 31, 2000	3	17,625	14,100	93,619	473,736	(21,377 )	2,504,542	3,082,248
Own shares							(10,973 )	(10,973 )
Allocation from net income 2000/2001							154,394	154,394

Distributed on priority/pref. shares							(1,760 )	(1,760 )
Other comprehensive income						4,938		4,938
Balance sheet at March 31, 2001	3	17,625	14,100	93,619	473,736	(16,439 )	2,646,203	3,228,847
Distribution from net income 2000/2001							(29,846 )	(29,846 )
Own shares							(6,752 )	(6,752 )
Other comprehensive income						30,539		30,539
Balance sheet at March 31, 2002	3	17,625	14,100	93,619	473,736	14,100	2,609,605	3,222,788
Distribution from net income 2001/2002							(11,122 )	(11,122 )
Own shares							(10,678 )	(10,678 )
Allocation from net income 2001/2002							(2,495 )	(2,495 )
Other comprehensive income						(104,067)		(104,067 )
	3	17,625	14,100	93,619	473,736	(89,967 )	2,585,310	3,094,426
Net loss 2002/ 2003								(267,145 )
Equity as of March 31, 2003								2,827,281

For fiscal year 2002/2003 a distribution will be made to holders of common shares of EUR 0.10 per share, charged to Other reserves, involving an amount of EUR 4,418,816. The following distributions will be made to holders of cumulative preference shares and charged to Other reserves:

- A-cumulative preference shares: EUR 0.12 per share, involving an amount of EUR 1,057,500
- C-cumulative preference shares: EUR 0.10 per share, involving an amount of EUR 702,180

## KLM ROYAL DUTCH AIRLINES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

## 28. Differences between Netherlands GAAP and US GAAP – (Continued)

## Earnings per common share

The computational components of basic and diluted earnings (loss) per share are as follows (based on US GAAP figures):

	Numerator (income)	Denominator (shares)	Per share amount
Shares outstanding as of March 31, 2003		46,809,699	
Effect of purchased own shares (weighted average during the year 2002/2003)		(1,739,155)	
Net income	(267)		
Attributable to holders of preference shares	(2 )		
	(269)	45,070,544	(5.97)

## KLM ROYAL DUTCH AIRLINES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

## 28. Differences between Netherlands GAAP and US GAAP – (Continued)

**Disclosure about Accounting for Stock-Based Compensation (SFAS 123)**

The Company' s remuneration and share option plans are disclosed in the Notes to the Company Financial Statements (See Note 35 "Remuneration and share options"). Awards in the context of the share option plan are accounted for under APB 25.

The pro forma net income, calculated as if the fair value of the options granted to option holders would have been considered as compensation costs, is as follows:

	For the years ended March 31,		
	2003	2002	2001
Net income (loss) in accordance with US GAAP (as reported)	(267 )	(2 )	154
Add back: Stock-based employee compensation included in reported net income	–	–	–
Stock-based employee compensation that would have been included in the determination of net income	(1 )	(2 )	(2 )
Pro forma net income (loss)	(268 )	(4 )	152
Basic and diluted earnings per share in accordance with US GAAP:			
as reported	(5.97)	(0.08)	3.26
Add back: Stock-based employee compensation included in reported net income	–	–	–
Stock-based employee compensation that would have been included in the determination of net income	(0.02)	(0.05)	(0.04)
Pro forma earnings per share	(5.99)	(0.13)	3.22

The fair value of the Company' s 2003, 2002 and 2001 option grants was estimated using a Black-Scholes option pricing model and the following assumptions:

	For the years ended March 31,		
	2003	2002	2001
Risk-free interest rate	3.3	4.8	5.6
Expected dividend yield	1.5	1.4	3.2
Expected option life	5.0	5.0	5.0
Expected stock price volatility	53.4	38.4	57.7

Weighted average fair value of options granted during the year in EUR <sup>1</sup>	2.17A	2.66A	5.24
	2.57B	3.59B	

<sup>1</sup> As of fiscal year 2001/2002 Option A and Option B differs in weighted average fair value (see notes to share option plan, note 35 F-42)

**KLM ROYAL DUTCH AIRLINES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (Continued)****28. Differences between Netherlands GAAP and US GAAP – (Continued)****Disclosure about Derivative and hedge accounting (SFAS 133/138)***Currency risks*

In its operating cash flow, the Company has a substantial surplus in all major foreign currencies, with the exception of the US dollar, in which it has a virtually neutral position. KLM hedges a part of its non-US Dollar cash flows by cash flow hedges. Changes in the fair value of these contracts are included in Other Comprehensive Income up to the date on which the effects of the results on the underlying positions materialize, in general when traffic occurs. Some currencies that have a strong correlation with the US dollar are not being hedged to euros but to US dollars instead. For this category of derivatives hedge accounting is not applied.

In its cash flow from investing activities, the Company has a short position. KLM uses fair value hedges to hedge these cash flows.

It is KLM's intention to match assets and liabilities accurately. KLM uses cross currency swaps either as cash flow hedge or fair value hedge in order to achieve this matching.

*Interest rate risks*

It is KLM's policy to minimize long-term net funding costs within the agreed framework of interest rate sensitivity. KLM uses cross currency interest rate swaps, in combination with its hedging policies on foreign currencies, to create a favorable mix of fixed and floating interest-bearing positions. In this respect the Company uses both cash flow hedges and fair value hedges.

*Fuel price risks*

KLM is significantly exposed to price risk on its fuel requirements. The Company uses cash flow hedges to reduce this price risk. Changes in the fair value of these derivatives are included in Other Comprehensive Income and are released in the profit and loss account (as a part of fuel expenses) when the hedged fuel consumption materializes.

*Impact on equity and earnings*

The result on derivatives, which did not qualify for hedge accounting under SFAS 133/138 during fiscal 2002/2003, amounted to EUR 11 million positive. The positive impact on earnings of the ineffective part of cash flow hedges and fair value hedges is EUR 5 million. None of the derivatives, which initially qualified as hedges, exceeded its effectiveness criteria before expiration.

The debit balance of Other Comprehensive Income as of March 31, 2003 with respect to effective cash flow hedges amounted EUR 39 million. During the fiscal year 2003/04 it is expected that an amount of EUR 16 million will be credited in earnings. The remainder (debit amount of EUR 23 million) will be released in earnings over a period of 16 years.

**Movements in Other Comprehensive Income during fiscal 2002/2003**

In million of euros, net of tax

Balance as of March 31, 2002	0
Released to profit and loss account	2
Changes in fair value during the year	(41)
	—
Balance as of March 31, 2003	(39)





## KLM ROYAL DUTCH AIRLINES

## COMPANY BALANCE SHEET

In millions of euros

*Before appropriation of results*

	Note <sup>1</sup>	March 31, 2003	March 31, 2002 <sup>2</sup>
<b>Fixed assets</b>			
Intangible fixed assets		60	54
Tangible fixed assets	29	3,589	3,398
Financial fixed assets	30	2,141	2,379
		<u>5,790</u>	<u>5,831</u>
<b>Current assets</b>			
Operating supplies		196	230
Accounts receivable	31	1,039	1,208
Marketable securities		–	2
Cash		559	969
		<u>1,794</u>	<u>2,409</u>
<b>Current liabilities</b>		<u>2,191</u>	<u>2,216</u>
<b>Current assets less current liabilities</b>		<u>(397 )</u>	<u>193</u>
<b>Assets less current liabilities</b>		<u>5,393</u>	<u>6,024</u>
<b>Long-term debt</b>			
Subordinated perpetual debt		544	591
Other long-term debt	32	2,900	3,074
		<u>3,444</u>	<u>3,665</u>
<b>Provisions</b>	33	261	166
<b>Deferred credits</b>		212	201
<b>Stockholders' equity</b>	34		
Paid-in and called capital		125	125
Paid-in surplus		474	474
Other reserves		1,293	1,549
Net loss		<u>(416 )</u>	<u>(156 )</u>
		<u>1,476</u>	<u>1,992</u>
		<u>5,393</u>	<u>6,024</u>

## COMPANY STATEMENT OF EARNINGS

In millions of euros

	For the Years Ended March 31,		
	2003	2002	2001
<b>Results of holdings</b>	(22 )	(7 )	(17)
<b>KLM company income after tax</b>	(394)	(149)	94
<b>Net income (loss)</b>	(416)	(156)	77

<sup>1</sup> The accompanying Notes are an integral part of these Consolidated Financial Statements

<sup>2</sup> Prior-year figures have been restated with regard to deferred taxes

**NOTES TO THE COMPANY FINANCIAL STATEMENTS**

In millions of euros

**General**

Reference is made to the Notes to the consolidated financial statements unless stated otherwise.

**Fixed assets**

**29. Tangible fixed assets**

	March 31, 2003				March 31, 2002	
	_____				_____	
Aircraft, spare engines and spare parts	2,518				2,816	
Other tangible fixed assets	483				517	
	_____				_____	
	3,001				3,333	
Advance payments on tangible fixed assets on order or under construction	588				65	
	_____				_____	
	3,589				3,398	
	_____				_____	
		Aircraft, spare engines and spare parts	Buildings and land	Inventories, machines and installations	Vehicles and other tangible fixed assets	Total
		_____	_____	_____	_____	_____
Purchase value as of March 31, 2002	5,095	710	502	96	6,403	
Accumulated depreciation and diminution in value through 2001/2002	2,279	370	369	52	3,070	
	_____	_____	_____	_____	_____	
Book value as of March 31, 2002	2,816	340	133	44	3,333	
<b>Changes in book value</b>						
Additions	275	2	27	9	313	
Disposals	(260 )	(2 )	1	(3 )	(264 )	
Depreciation	(260 )	(25)	(36)	(9 )	(330 )	
Write down/impairment	(59 )	-	-	-	(59 )	
Other	6	1	1	-	8	
	_____	_____	_____	_____	_____	
Total changes	(298 )	(24)	(7 )	(3 )	(332 )	
Purchase value as of March 31, 2003	4,885	704	508	94	6,191	
Accumulated depreciation and diminution in value through 2002/2003	2,367	388	382	53	3,190	
	_____	_____	_____	_____	_____	
Book value as of March 31, 2003	2,518	316	126	41	3,001	
	_____	_____	_____	_____	_____	

This overview includes aircraft for which financial lease agreements have been concluded. Their book value amounts to EUR 1,838 million (last fiscal year EUR 1,880 million).

Other tangible fixed assets include assets whose availability is based on limited right of use, such as buildings on land held under long-term rental agreements or on leasehold, and assets acquired through financial lease agreements. The book value of these assets amounts to EUR 180 million (last fiscal year EUR 220 million).

In fiscal year 2002/2003 a write down of EUR 59 million was recognized for the Boeing 747-300 fleet in connection with an accelerated phasing out. The remaining book value of the Boeing 747-300 fleet amounted to EUR 25 million as of March 31, 2003.

NOTES TO THE COMPANY FINANCIAL STATEMENTS – (Continued)

30. Financial fixed assets

	March 31, 2003	March 31, 2002
Consolidated holdings	574	639
Other holdings	197	202
Receivables from consolidated holdings	487	673
Receivables from other holdings	18	22
	1,276	1,536
Other financial fixed assets	865	843
	2,141	2,379

	Consolidated holdings	Other holdings	Receivables from con- solidated holdings	Receivables from other holdings	Other financial fixed assets	Total
Balance as of March 31, 2002	639	202	673	22	843	2,379
New/expansion	–	9	56	1	254	320
Sale/redemption	–	(2 )	(168)	(2 )	(93 )	(265 )
Share in results	(29 )	3	–	–	–	(26 )
Revaluation	(24 )	(6 )	–	–	(134)	(164 )
Dividends received	(3 )	(1 )	–	–	–	(4 )
Exchange rate differences and other	(9 )	(8 )	(74 )	(3 )	(5 )	(99 )
	—	—	—	—	—	—
Balance as of March 31, 2003	574	197	487	18	865	2,141

Current assets

31. Accounts receivable

	March 31, 2003	March 31, 2002
Debtors	690	878
Receivables from consolidated holdings	154	80
Receivables from other holdings	3	2
Value added tax	33	16
Prepaid expenses	159	232
	1,039	1,208



**NOTES TO THE COMPANY FINANCIAL STATEMENTS – (Continued)****Long-term debt****32. Other long-term debt**

	March 31, 2003	March 31, 2002
Reference is made to page F-14 (Note 8)	3,427	3,826
Loans obtained or repaid by consolidated holdings	(527 )	(752 )
	2,900	3,074

**33. Provisions**

	March 31, 2003	March 31, 2002
Postretirement health costs	69	67
Early retirement provision	21	6
Other staff commitments	72	73
Frequent flyer program	24	20
Reorganization and restructuring	75	–
	261	166

**34. Stockholders' equity**

The authorized capital of the Company is EUR 600 million. Of this amount, EUR 125.3 million is issued and fully paid-in.

In connection with the minority interest of the State of The Netherlands in KLM's share capital, KLM and the State of The Netherlands are parties to an option agreement. Pursuant to the terms of this agreement, KLM grants the State of the Netherlands the right to acquire such a number of B-preference shares, with a par value of EUR 2.00, as is necessary to provide the State with a majority interest of 50.1%, when exercising the option, irrespective of the total issued capital at any given moment.

If deemed reasonable by the State, after consultation with KLM, the State will exercise its option insofar as necessary if a country imposes or contemplates imposing restrictions or onerous conditions on KLM in the operation of scheduled air services as a consequence of that country's view that a substantial or majority part of the share capital of KLM cannot demonstrably be Netherlands owned.

The State of The Netherlands currently holds 8,812,500 A-cumulative preference shares and 975 priority shares, to which a voting right attaches of nearly 14.1%.

As of March 31, 2003, the Company held 2,621,542 purchased common shares with a total value of EUR 38 million. This amount has been deducted from Other reserves. The repurchase of own shares is related to cover future commitments arising from option rights granted to members of the Board of Managing Directors and senior managers as well as to the own share repurchase program announced on February 11, 2003.

In 2002/2003 1,307,358 common shares were purchased to this end at an average purchase price of EUR 8.16. The nominal value of the purchased common shares amounts to EUR 3 million.

In line Exchange rate differences and other in Other reserves includes a decrease of EUR 37 million in respect of the fair value of cash flow hedges arising from the application of SFAS 133/138. The accumulated movement in value as of March 31, 2003 amounted to EUR 39 million. Of this amount, EUR 16 million is expected to be charged to the statement of earnings in 2003/2004. The remainder (EUR 23 million) will be charged to the statement of earnings over a period of 16 years.



## NOTES TO THE COMPANY FINANCIAL STATEMENTS – (Continued)

## 34. Stockholders' equity – (Continued)

In thousands of euros	Years ended March 31, 2001, 2002, 2003						Total stockholders' equity
	Capital paid-in and called						
	Priority shares	A-cumulative preference shares	C-cumulative preference shares	Common shares	Paid-in surplus	Other reserves	
Balance as of March 31, 2000	3	17,625	14,100	93,619	473,736	1,420,413	2,019,496
Own shares						(10,973 )	(10,973 )
Net income 2000/2001						77,106	77,106
Dividend 2000/2001						(29,846 )	(29,846 )
Exchange rate differences and other						4,938	4,938
Balance as of March 31, 2001	3	17,625	14,100	93,619	473,736	1,461,638	2,060,721
Own shares						(6,752 )	(6,752 )
Change in accounting policies for heavy maintenance costs						77,396	77,396
Change in accounting policies for derivatives						(6,258 )	(6,258 )
Exchange rate differences and other						23,211	23,211
Balance as of March 31, 2002	3	17,625	14,100	93,619	473,736	1,549,235	2,148,318
Net result 2001/2002						(156,293 )	(156,293 )
Dividend paid 2001/2002						(11,122 )	(11,122 )
Own shares						(10,678 )	(10,678 )
Exchange rate differences and other						(78,214 )	(78,214 )
Balance as of March 31, 2003	3	17,625	14,100	93,619	473,736	1,292,928	1,892,011
Net result 2002/2003							(415,641 )
Equity as of March 31, 2003							1,476,370

The paid-in surplus is fiscally exempt.

**NOTES TO THE COMPANY FINANCIAL STATEMENTS – (Continued)****35. Remuneration and share option plan*****Supervisory Board***

The remuneration of the members of the Supervisory Board consists of a fixed fee per annum (EUR 36,302 for the Chairman, EUR 29,495 for the Vice-Chairman and EUR 22,689 for the other Board members) and a fee for each meeting of the Board' s Committees attended (EUR 1,361 for the Chairman of the Committee concerned, unless also the Vice-Chairman or Chairman of the Board, and EUR 453 for the other members of the Board' s Committees). In connection with KLM' s situation following the events of September 11, 2001, it was decided in October 2001 to voluntarily reduce the Supervisory Board members' remuneration by 15% for a period of five months. The total remuneration of current and former Supervisory Board members for the fiscal year was EUR 205,557 (last fiscal year EUR 187,007). Individually, the remuneration of the current and former Supervisory Board members was as follows:

	2002/2003			2001/2002		
	As member of the Supervisory Board	As member of Committees	Total	As member of the Supervisory Board	As member of Committees	Total
F.A. Maljers	36,302	907	37,209	35,394	–	35,394
A. Maas	29,495	1,361	30,856	28,758	1,361	30,119
M. Albrecht	22,689	–	22,689	22,121	–	22,121
L.A.A. van den Berghe	22,689	2,268	24,957	8,886	–	8,886
D.G. Eustace	22,689	6,352	29,041	22,121	5,445	27,566
B. Geersing	22,689	1,815	24,504	22,121	1,361	23,482
J. Stekelenburg	22,689	1,815	24,504	22,121	2,722	24,843
K.J. Storm	11,344	453	11,797	–	–	–
G.L. Wilson	–	–	–	–	–	–
former						
J.W. Oosterwijk	–	–	–	13,235	1,361	14,596
	190,586	14,971	205,557	174,757	12,250	187,007

None of the Supervisory Board members held securities in KLM as of March 31, 2003. Supervisory Board members may not participate in the share option plan described below. As of March 31, 2003, the Supervisory Board members had no commitments in respect of loans, advances or guarantees granted to them by KLM.

***Board of Managing Directors***

The Supervisory Board determines the remuneration package, targets and performance of the members of the Board of Managing Directors each year. In addition to a fixed annual salary, the members of the Board of Managing Directors receive an annual variable remuneration up to a maximum of 50% of the fixed salary (30% relating to targets with respect to company results, 20% relating to targets with respect to personal performance). The variable remuneration paid and recognized in a year relates to the targets realized in the previous year. Members of the Board of Managing Directors are also granted options on KLM shares each year. The receipt of options is based on the achievement of

targets with respect to company results and personal performance. Options also serve to increase longer-term commitment to the company. The maximum number of options that a member of the Board of Managing Directors may receive each year is 25,000.

In connection with KLM's situation following the events of September 11, 2001, it was decided in October 2001 to voluntarily reduce the remuneration of the members of the Board of Managing Directors by 15% for a period of five months.

The total remuneration, including employer pension contributions, of members of the Board of Managing Directors for the fiscal year, amounted to EUR 4,614,561 (last fiscal year EUR 5,293,767).

Individually, the remuneration of the Board of Managing Directors was as follows:

	<b>2002/2003</b>		<b>Targets realized</b>	<b>Pension<sup>1</sup></b>	<b>Upon standing down</b>	<b>Total</b>
	<b>Fixed salary</b>	<b>Variable</b>				
L.M. van Wijk	628,193	317,802	partially	388,078	–	1,334,073
P.F. Hartman	514,321	271,289	partially	568,118	–	1,353,728
C. van Woudenberg	447,733	227,335	partially	365,367	–	1,040,435
R.A. Ruijter	447,733	151,398	partially	287,194	–	886,325
	<u>2,037,980</u>	<u>967,824</u>		<u>1,608,757</u>		<u>4,614,561</u>
	<b>2001/2002</b>		<b>Targets realized</b>	<b>Pension<sup>1</sup></b>	<b>Upon standing down</b>	<b>Total</b>
	<b>Fixed salary</b>	<b>Variable</b>				
L.M. van Wijk	560,725	294,960	yes	1,477,702	–	2,333,387
P.F. Hartman	452,898	238,230	yes	942,669	–	1,633,797
C. van Woudenberg	401,134	189,910	partially	309,320	–	900,364
R.A. Ruijter	267,273	10,550	partially	148,396	–	426,219
	<u>1,682,030</u>	<u>733,650</u>		<u>2,878,087</u>		<u>5,293,767</u>

<sup>1</sup> including past service commitments

**NOTES TO THE COMPANY FINANCIAL STATEMENTS – (Continued)****35. Remuneration and share option plan – (Continued)**

As of March 31, 2003, the members of the Board of Managing Directors together held no securities in KLM other than the options below. As of March 31, 2003, the members of the Board of Managing Directors had no commitments in respect of loans, advances or guarantees granted to them by KLM.

The current and former members of the Board of Managing Directors had the following positions with respect to options on KLM shares as of March 31, 2003:

Year granted	Options granted (number of shares that can be obtained)	Exercise price per share	Expiry date	Number of options exercised	Total number As of March 31, 2003
L.M. van Wijk					
1998	25,500	36.52	August 18, 2003	–	25,500
1999	25,500	30.26	October 15, 2004	–	25,500
2000	25,000	37.70	October 21, 2005	–	25,000
2001	25,000 A	23.45A	October 20, 2006	–	25,000 A
2002	25,000 A	14.69A	October 19, 2007	–	25,000 A
	<hr/>			<hr/>	<hr/>
	126,000			–	126,000
P.F. Hartman					
1998	25,500	36.52	August 18, 2003	–	25,500
1999	25,500	30.26	October 15, 2004	–	25,500
2000	25,000	37.70	October 21, 2005	–	25,000
2001	25,000 A	23.45A	October 20, 2006	–	25,000 A
2002	25,000 A	14.69A	October 19, 2007	–	25,000 A
	<hr/>			<hr/>	<hr/>
	126,000			–	126,000
C. van Woudenberg					
1998	25,500	36.52	August 18, 2003	–	25,500
1999	25,500	30.26	October 15, 2004	–	25,500

2000	25,000	37.70	October 21, 2005	–	25,000
2001	25,000 A	23.45A	October 20, 2006	–	25,000 A
2002	25,000 A	14.69A	October 19, 2007	–	25,000 A
	_____			_____	_____
	126,000			–	126,000

R.A. Ruijter

2001	25,000 A	23.45A	October 20, 2006	–	25,000 A
2002	25,000 A	14.69A	October 19, 2007	–	25,000 A
	_____			_____	_____
	50,000			–	50,000

*former*

R.J.N. Abrahamsen

1998	25,500	36.52	August 18, 2003	–	25,500
1999	25,500	30.26	October 15, 2004	–	25,500
2000	25,000	37.70	October 21, 2005	–	25,000
	_____			_____	_____
	76,000			–	76,000

*Senior officers*

Options on KLM shares had also been granted to approximately 120 senior officers as of March 31, 2003:

Year granted	Options granted (number of shares that can be obtained)	Exercise price per share	Expiry date	Number of options exercised	Number of options withdrawn	Total number as of March 31, 2003
1998	326,400	36.52	August 18, 2003	–	3,570	322,830
1999	358,530	30.26	October 15, 2004	–	3,570	354,960
2000	332,700	37.70	October 21, 2005	–	3,500	329,200
2001	203,500 A	23.45A	October 20, 2006	–	1,000	202,500 A
2001	104,500 B	18.61B	October 20, 2006	–	5,000	99,500 B
2002	200,500 A	14.69A	October 19, 2007	–	–	200,500 A
2002	124,000 B	11.56B	October 19, 2007	–	2,500	121,500 B
	_____			_____	_____	_____

The receipt of options is based on achievement of targets with respect to Company results, business unit results and personal performance; options also serve to increase longer-term commitment to the Company. The maximum number of options that may be received is related to the recipient's job grade.

F-45

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## NOTES TO THE COMPANY FINANCIAL STATEMENTS – (Continued)

### 35. Remuneration and share option plan – (Continued)

#### Notes to the share option plan

The main features of the share option plan under which option rights are granted to members of the Board of Managing Directors and senior officers each year are as follows. The exercise price of the options is based on a vesting price equal to the weighted average quote as calculated by Bloomberg for KLM shares on the tenth working day after the day of KLM's Annual General Meeting of Shareholders.

Until 1998, the exercise price of the option rights was equal to the vesting price. As a result of amended tax rates, the exercise price of the option rights in 1999 and 2000 consisted of an amount equal to such a percentage of the vesting price that the fiscal value of the option was 4% of the value of the KLM share.

Following the introduction of fiscal legislation enabling option recipients to elect for taxation upon the vesting of an option or upon the exercise of an option, the share option plan allows option recipients to elect with effect from 2001 for (i) an exercise price that is equal to a percentage of the vesting price such that the fiscal value of the option is 4% of the value of the KLM share (Option A, as indicated in the above tables), or (ii) an exercise price that is equal to the vesting price (Option B, as indicated in the above table). Options may be exercised at any moment during the exercise period, subject to applicable regulations on the prevention of insider trading and a waiting period of two years in the case of options granted in 1998 and three years in the case of options granted onwards from 1999.

To settle the tax liability on options received in 1998, option recipients were offered a five-year loan carrying interest at the rate referred to in article 59 of the Salary Tax Act 1969 Implementation Regulations with a repayment commitment on the exercise of the option rights. To settle any possible tax liability on options received from 1999 onwards, option recipients have been offered a six-month interest-free loan with a commitment to repay one sixth of the loan per month.

As of March 31, 2003 obligations in connection with options granted had been covered through the repurchase of own shares and the purchase of share options. Such hedging transactions take place at the moment options are granted. The purchase price of the KLM shares is charged to Other reserves (see note to Stockholders' equity). The premium paid for the share options (EUR 1.3 million) is amortized through salaries and benefits on a straight-line basis over five years.

### 36. Commitments and contingent liabilities

#### *Tangible fixed assets on order*

Commitments relating to orders of tangible fixed assets amount to EUR 965 million (last fiscal year EUR 37 million), of which EUR 441 million is due in fiscal year 2003/2004.

#### *Rental agreements*

KLM has long-term rental commitments amounting to EUR 1,521 million (last fiscal year EUR 1,030 million). Commitments for the next five fiscal years and thereafter:

	<b>Operational leases of aircraft</b>	<b>Rental of buildings</b>
2003/2004	191	31
2004/2005	195	22

2005/2006	180	20
2006/2007	148	16
2007/2008	111	13
after 2007/2008	397	197

### ***Guarantees***

Guarantees have been provided up to an amount of EUR 174 million (last fiscal year EUR 120 million). EUR 114 million relates to consolidated holdings (last fiscal year EUR 95 million).

Guarantees were further provided for a number of consolidated holdings in accordance with Article 403, Book 2, of The Netherlands Civil Code. This information is part of the information on capital interests which has been filed with the Trade Register of the Chamber of Commerce in Amsterdam. The debts of the companies, which are included in the consolidated balance sheet as of March 31, 2003 amounted to EUR 74 million (last fiscal year EUR 48 million).

The Company is a member of a fiscal unity and is accordingly jointly and separately liable for taxes payable by the fiscal unity as a whole.



**SCHEDULE VIII – VALUATION AND QUALIFYING ACCOUNTS**

In millions of euros

Years ended March 31, 2001, 2002 and 2003

	<u>Balance at beginning of year</u>	<u>Additions Charged to cost and expenses</u>	<u>Additions Charged to other accounts</u>	<u>Deductions *</u>	<u>Balance at End of year</u>
<b>Year ended March, 2001</b>					
Allowance for doubtful accounts (deducted from accounts receivable)	37	4		16	25
<b>Year ended March, 2002</b>					
Allowance for doubtful accounts (deducted from accounts receivable)	25	12		3	34
<b>Year ended March, 2003</b>					
Allowance for doubtful accounts (deducted from accounts receivable)	34	6		15	25

\* Accounts deemed to be uncollectable



FORM OF EMPLOYMENT AGREEMENT  
MEMBERS OF BOARD OF MANAGEMENT

Chairman of the Supervisory Board

[            ]

Amstelveen, [            ]

Dear [            ],

Further to the talks held with you, I am pleased to confirm the following on behalf of the Supervisory Board:

It has been agreed that you will join N.V. Directie der Koninklijke Luchtvaartmaatschappij as of [    ].

N.V. Directie is made up of a Chief Executive Officer, a Chief Operations Officer, a Chief Human Resources Officer and a Chief Financial Officer. You will be appointed [    ], with offices in Amstelveen.

Upon your appointment as Managing Director of KLM, the 'Regulations on the Remuneration of the Company's Managing Directors' will be applicable to you as of [    ] (see enclosure).

Your formal appointment as a member of the Managing Board will take place after the next Annual General Meeting of Shareholders.

In so far as permitted by the Regulations, the Supervisory Board has resolved, with effect from [    ] as follows:

1. Your Total Fixed Income (TFI) will be equal to 12 times your monthly salary including your vacation allowance. Your TFI will amount to [    ].
2. With regard to the Pension Plan, your entitlements will be insured with Algemeen Pensioenfonds der KLM in accordance with the fund's Pension Regulations. A number of departures from the standard provisions are applicable to members of N.V. Directie, as laid down in the enclosed 'Pension Plan Regulations for the Company's Managing Directors' (see enclosure). Further agreements will be made with you regarding supplementary pension entitlements.
3. You are entitled to a company car with driver. Please consult the CEO with respect to the choice of car.
4. KLM will take out group accident insurance in your name with a maximum cover of [    ]. This amount will be paid in the event both of your accidental death and of your accidental permanent incapacity. In the event of your accidental death, the beneficiary will be your spouse or other partner recognized by KLM. The insurance premium will be paid in full by KLM. The group accident insurance cover will be applicable at all times, both during and after working hours. Further information is included in the KLM Accident Insurance Regulations.

On behalf of the Supervisory Board, I would like to express my confidence that your appointment will meet the expectations that you and the KLM community have raised.

Yours sincerely,

Floris A. Maljers  
Chairman of the Supervisory Board

Enclosures: Regulations on the Remuneration of the Company's Managing Directors, September 1, 1999 Pension Plan Regulations for the Company's Managing Directors, February 21, 2003

REGULATIONS ON THE REMUNERATION OF THE COMPANY'S MANAGING DIRECTORS  
EFFECTIVE DATE SEPTEMBER 1, 1999

-----

1. SCOPE OF APPLICATION

These regulations shall be applicable to the Company's Managing Directors.

2. REMUNERATION POLICY

The remuneration policy is also based on following the general trend applicable to the KLM Executive level and the specific circumstances associated with the position of Managing Director.

3. AMOUNT OF THE REMUNERATION

The amount of the Managing Directors' remuneration shall be set by the Supervisory Board on an annual basis and shall consist of a Total Fixed Income and a Variable Income.

A. TOTAL FIXED INCOME

The Total Fixed Income (TFI) consists of the total guaranteed annual income, being 12 monthly salary payments plus the vacation allowance payable in accordance with clause 4 below.

For each individual Managing Director - subject to his position - the Supervisory Board shall set the initial remuneration upon appointment, the maximum remuneration and the way in which the maximum remuneration can be realized. Each Managing Director shall receive written confirmation of the remuneration plan applicable to him.

In September of each year, the Supervisory Board shall determine whether and, if so, to what extent a general revision of the Managing Directors' remuneration shall be made on the grounds of the provisions of clause 2 above. The Managing Directors shall be informed in writing of any increase.

General salary changes applicable to the KLM Executive level shall not automatically be applied to the remuneration of the Managing Directors.

B. VARIABLE INCOME

Managing Directors shall qualify for a Variable Income equal to a percentage of the Total Fixed Income set for them. The percentage shall range from 0% to 50% depending on the degree to which set targets are achieved, whereby the following performance levels shall be applicable:

<TABLE>  
<CAPTION>

PERFORMANCE LEVEL	COLLECTIVE TARGET	INDIVIDUAL TARGET (s)	TOTAL
<S>	<C>	<C>	<C>
5 = comfortably above target	30.0%	20.0%	50.0%
4 = above target	25.0%	15.0%	40.0%
3 = at target	20.0%	10.0%	30.0%
2 = nearly at target	10.0%	5.0%	15.0%
1 = target not achieved	0.0%	0.0%	0.0%

</TABLE>

The collective target for Managing Directors is Group operating income.

In around March each year, the Supervisory Board and the Managing Directors shall agree the collective and individual targets for the coming business planning year and also define the performance levels from 1 through 5.

REGULATIONS ON THE REMUNERATION OF THE COMPANY'S MANAGING DIRECTORS

At the end of each business planning year, the Supervisory Board shall determine the net pretax Group result, after which the percentage of the Variable Income shall be set. If the net pretax Group result is not positive, the performance shall always be deemed to be 'target not achieved' (performance level 1). Variable Income shall be paid out, where applicable, in the month following the Annual General Meeting of Shareholders.

Variable Income does not qualify as pensionable earnings.

4. VACATION ALLOWANCE

Managing Directors shall be granted a vacation allowance as applicable to the KLM Executive level.

5. PENSION PLAN

The Managing Directors shall be members of a pension plan that guarantees appropriate old age, surviving dependant's and incapacity pensions, whereby a Managing Director's pension shall, wherever possible, follow movements in his remuneration during active service and be adjusted by means of a price and salary index (see appendix) after active service. Pensionable earnings shall be the Total Fixed Income.

6. PARTICIPATION PLAN

The Managing Directors shall be members of a participation plan pursuant to the KLM Participation Regulations with Appendices, as approved by the Supervisory Board on March 16, 1999 and since amended and supplemented by the Supervisory Board. In accordance with the criteria and conditions laid down in the Participation Regulations, the Supervisory Board shall determine once a year, namely on a date shortly after publication of the annual figures, whether participations will be granted to the Managing Directors. The maximum number of participations that may be granted each year is 25,000.

7. BUSINESS ENTERTAINMENT ALLOWANCE

The Managing Directors shall receive a business entertainment allowance of EUR 5,280 per annum.

8. SUPERVISORY DIRECTORSHIPS

Acceptance of the position of supervisory director at an enterprise outside KLM Group shall require the approval of the Chairman of the Supervisory Board. The Managing Directors shall cede to KLM any right to income arising from a supervisory directorship.

9. OTHER BENEFITS

Other benefits shall be set by the Supervisory Board with due regard for the demands associated with the position of Managing Director and/or that which is customary for such a position.

10. SPECIAL CIRCUMSTANCES

In special circumstances, the Supervisory Board may depart from the above.

REGULATIONS ON THE REMUNERATION OF THE COMPANY'S MANAGING DIRECTORS  
FEBRUARY 21, 2003

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PENSION PLAN REGULATIONS FOR THE COMPANY'S MANAGING DIRECTORS

The pension entitlements of the Company's Managing Directors are insured with Algemeen Pensioenfonds der KLM.

The pensions are insured in accordance with the terms and conditions laid down in the pension fund's Pension Regulations 2002 and associated Pre-pension Regulations, on the understanding that:

- a. the old age pension per year of pensionable service shall be equal to  $2 \frac{1}{6}\%$  of net pensionable earnings, with a maximum old age pension of 65% of the last earned net pensionable earnings;
- b. the old age pension shall become payable on the pension date, being the first day of January following the 62nd birthday, such subject to the Supervisory Board's power to agree an earlier or later pension date with each Managing Director separately;
- c. in the event of the old age pension having a later pension date, the pension build-up shall be continued only if and in so far as the maximum old age pension is not exceeded;
- d. the full pension premium and pre-pension premium shall be for the account of KLM, such that the pension is non-contributory for the Managing Directors;
- e. each Managing Director may opt for an earlier retirement date lying between the first day of January following his 60th birthday and the aforementioned pension date. The Managing Director is to inform KLM hereof no later than

12 months before his chosen early retirement date;

- f. where a Managing Director opts for early retirement, he shall receive a prepension as from the early retirement date up to the first day of January following his 62nd birthday;
- g. the prepension per year of pensionable service as from the age of 50 shall be equal to 7% of the last earned gross pensionable earnings, up to a maximum prepension of 65% of last earned gross pensionable earnings. Where applicable, the prepension accrued in the prepension plan shall be supplemented up to the aforementioned maximum from the KLM guarantee plan of the Pension Protocol of June 2002;
- h. where any decision in the pension regulations or prepension regulations is placed in the hands of the Board of Algemeen Pensioenfonds der KLM, the Supervisory Board of KLM shall be read in its stead for the application of the Managing Directors' pension plan.

\*) With the entry into force of the Pensions (Taxation) Act as of June 1, 1999, the pension fraction shall be reduced as of June 1, 2004 from 2 1/6% to 2% per year of pensionable service. The maximum old age pension shall remain 65% of the last earned net pensionable earnings.

A330  
PURCHASE AGREEMENT  
BETWEEN  
AIRBUS  
AS SELLER  
AND  
KLM ROYAL DUTCH AIRLINES  
AS BUYER

REFERENCE: AI/CC-C 337.0014/02

CONTENTS

CLAUSES -----	TITLES -----
0	DEFINITIONS AND INTERPRETATION
1	SALE AND PURCHASE
2	SPECIFICATION
3	PRICES
4	PRICE REVISION
5	PAYMENTS
6	MANUFACTURE PROCEDURE - INSPECTION
7	CERTIFICATION
8	BUYER'S TECHNICAL ACCEPTANCE
9	DELIVERY
10	EXCUSABLE DELAY
11	NON-EXCUSABLE DELAY
12	WARRANTIES AND SERVICE LIFE POLICY
13	PATENT AND COPYRIGHT INDEMNITY
14	TECHNICAL DATA AND DOCUMENTATION
15	SELLER'S REPRESENTATIVES

CLAUSES -----	TITLES -----
16	TRAINING AND TRAINING AIDS
17	EQUIPMENT SUPPLIER PRODUCT SUPPORT
18	BUYER FURNISHED EQUIPMENT
19	INDEMNIFICATION AND INSURANCE
20	TERMINATION
21	ASSIGNMENTS AND TRANSFERS
22	MISCELLANEOUS PROVISIONS

CONTENTS

EXHIBITS	TITLES
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Exhibit A	SPECIFICATION
Exhibit B	FORM OF SPECIFICATION CHANGE NOTICE
Exhibit C	PART 1 AIRFRAME PRICE REVISION FORMULA PART 2 PROPULSION SYSTEMS PRICE REVISION FORMULA
Exhibit D	FORM OF CERTIFICATE OF ACCEPTANCE
Exhibit E	FORM OF BILL OF SALE
Exhibit F	SERVICE LIFE POLICY - ITEMS OF PRIMARY STRUCTURE
Exhibit G	TECHNICAL DATA AND DOCUMENTATION
Exhibit H	SPARE PARTS PROCUREMENT
Exhibit I	CUSTOMISATION MILESTONES CHART
Exhibit J	LIST OF DOCUMENTS AT DELIVERY

A330 PURCHASE AGREEMENT

This A330 Purchase Agreement (the "AGREEMENT") is made on November 2002

BETWEEN:

AIRBUS, a groupement d'interet economique created and existing under French law having its registered office at 1 Rond-Point Maurice Bellonte, 31707 Blagnac-Cedex, France and registered with the Toulouse Registre du Commerce under number RCS Toulouse C 302 609 607 (the "SELLER"),

and

KLM ROYAL DUTCH AIRLINES a company organised under the laws of the Netherlands having its principal place of business at Amsterdamseweg 55, 1182 GP Amstelveen, the Netherlands (the "BUYER").

WHEREAS subject to the terms and conditions of this Agreement, the Seller desires to sell the Aircraft to the Buyer and the Buyer desires to purchase the Aircraft from the Seller.

NOW THEREFORE IT IS AGREED AS FOLLOWS:

0 DEFINITIONS AND INTERPRETATION

0.1 In addition to words and terms elsewhere defined in this Agreement, the initially capitalised words and terms used in this Agreement shall have the meaning set out below.

AIRCRAFT	means an Airbus A330 aircraft including the Airframe, the Propulsion Systems, and any part, component, furnishing or equipment installed on the Aircraft on Delivery under the terms and conditions of this Agreement.
AIRCRAFT TRAINING SERVICES	means all training, including but not limited to, flight training, line training, flight assistance, line assistance, maintenance support, maintenance training (including On the Job Training and Engine Run Up) or training support performed on aircraft and provided to Buyer pursuant to this Agreement.
AIRFRAME	means the Aircraft excluding the Propulsion Systems.
AIRFRAME BASIC PRICE	has the meaning set out in Clause 3.1
AIRFRAME PRICE REVISION FORMULA	is set out in Part 1 of Exhibit C.
AVIATION AUTHORITY	means when used in respect of any



jurisdiction the government entity which under the laws of such jurisdiction have control over civil aviation or the registration, airworthiness or operation of aircraft in such jurisdiction.

BALANCE OF FINAL PRICE	has the meaning set out in Clause 5.4.1.
BASIC PRICE	means the sum of the Airframe Basic Price and the Propulsion Systems Basic Price.
BILL OF SALE	has the meaning set out in Clause 9.2.2.
BUYER FURNISHED EQUIPMENT	has the meaning set out in Clause 18.1.1.
CERTIFICATE OF ACCEPTANCE	has the meaning set out in Clause 8.3.
DEFAULT RATE	means the rate of Default Interest as defined in Clause 5.7.
DELIVERY	means the transfer of title to the Aircraft from the Seller to the Buyer in accordance with Clause 9.
DELIVERY DATE	means the date on which Delivery shall occur.
DELIVERY LOCATION	means the facilities of the Seller at the location of final assembly of the Aircraft.
EXCUSABLE DELAY	has the meaning set out in Clause 10.1.
EXPORT AIRWORTHINESS CERTIFICATE	means an export certificate of airworthiness issued by the Aviation Authority of the Delivery Location.
FINAL PRICE	has the meaning set out in Clause 3.3
GROSS NEGLIGENCE	means any act or omission done with intent to cause damage or recklessly and with knowledge that damage would probably result.
GROUND TRAINING SERVICES	means all training, other than Aircraft Training Services, including but not limited to, courses performed in classrooms (classical or CBT courses), full flight simulator sessions, fixed base simulator sessions, field trips and any other services provided to Buyer on the ground pursuant to this Agreement,
MANUFACTURE FACILITIES	means the various manufacture facilities of the Seller, the Members or any sub-contractor where the Airframe or its parts are manufactured or assembled.
MANUFACTURER SPECIFICATION CHANGE NOTICE, OR MSCN	means an agreement in writing between the parties to amend the Specification pursuant to Clause 2.1.3.
MATERIEL	has the meaning set out in Clause 1.1 of Exhibit H.
MEMBERS	means each of Airbus France S.A.S, Airbus Deutschland GmbH, Airbus Espana S.L. and Airbus UK Ltd.

NON-EXCUSABLE DELAY	has the meaning set out in Clause 11.1.
PREDELIVERY PAYMENT	means the payment(s) determined in accordance with Clause 5.3.
PROPULSION SYSTEMS	has the meaning set out in Clause 2.2.
PROPULSION SYSTEMS BASIC PRICE	means the price of a set of Propulsion Systems as set out in Clause 3.2.
PROPULSION SYSTEMS REFERENCE PRICE	means the reference price of a set of Propulsion Systems as set out in Part 2 of Exhibit C.
PROPULSION SYSTEMS MANUFACTURER	means the manufacturer of the Propulsion Systems as set out in Clause 2.2.
PROPULSION SYSTEMS PRICE REVISION FORMULA	is set out in Part 2 of Exhibit C.
READY FOR DELIVERY	means the time when (i) the Technical Acceptance Process has been successfully completed and (ii) the Export Airworthiness Certificate has been issued.
SCHEDULED DELIVERY MONTH	has the meaning set out in Clause 9.1.
SELLER'S REPRESENTATIVES	means the representatives of the Seller referred to in Clause 15.1.
SELLER REPRESENTATIVES SERVICES	means the services provided by the Seller to the Buyer and from the Buyer to the Seller pursuant to Clause 15.
SELLER SERVICE LIFE POLICY	has the meaning set out in Clause 12.2.
SPARE PARTS	means the items of equipment and materiel which may be provided pursuant to Exhibit H.
SPECIFICATION CHANGE NOTICE OR SCN	means an agreement in writing between the parties to amend the Specification pursuant to Clause 2.
SPECIFICATION	means either (a) the Standard Specification if no SCNs are applicable or (b) if SCNs are issued, the Standard Specification as amended by all applicable SCNs.
STANDARD SPECIFICATION	means the A330-200 standard specification document number G.000.02000, Issue 4, dated 18th May 2001, a copy of which has been annexed hereto as Exhibit A.
SUPPLIER	has the meaning set out in Clause 12.3.1.1.
SUPPLIER PART	has the meaning set out in Clause 12.3.1.2.
SUPPLIER PRODUCT SUPPORT AGREEMENT	has the meaning set out in Clause 12.3.1.3.
TECHNICAL DATA AND DOCUMENTATION	has the meaning set out in Clause 14.1.
TOTAL LOSS	has the meaning set out in Clause 10.4.

TYPE CERTIFICATE has the meaning set out in Clause 7.1.

WARRANTED PART has the meaning set out in Clause 12.1.1.

0.2 Clause headings and the Index are inserted for convenience of reference only and shall be ignored in the interpretation of this Agreement.

0.3 In this Agreement unless the context otherwise requires:

- (a) references to Clauses, Appendices, and Exhibits are to be construed as references to the Clauses of, and Appendices, and Exhibits to this Agreement and references to this Agreement include its Schedules, Exhibits and Appendices;
- (b) words importing the plural shall include the singular and vice versa; and
- (c) references to a person shall be construed as including, without limitation, references to an individual, firm, company, corporation, unincorporated body of persons and any state or agency of a state.

## 1 SALE AND PURCHASE

The Seller shall sell and deliver and the Buyer shall buy and take delivery of six (6) A330-200 Aircraft on the Delivery Date at the Delivery Location upon the terms and conditions contained in this Agreement.

## 2 SPECIFICATION

### 2.1 AIRFRAME SPECIFICATION

#### 2.1.1 SPECIFICATION

The Airframe shall be manufactured in accordance with the Standard Specification, as modified or varied from time to time by the Specification Change Notices listed in Appendix 1 to Exhibit A. The parties have attached in Appendix 1 to Exhibit A a preliminary list of Specification Change Notices which shall be subject to revision within the limits defined in Clause 2.3.

#### 2.1.2 SPECIFICATION CHANGE NOTICE (SCN)

The Specification may be amended from time to time by written agreement between the parties in a Specification Change Notice. Each Specification Change Notice shall be substantially in the form set out in Exhibit B and shall set out in detail the particular change to be made to the Specification and the effect, if any, of such change on design, performance, weight, time of Delivery of the Aircraft, and on the text of the Specification. Such SCN may result in an adjustment of the Basic Price. The discussions leading to the selection by the Buyer of a given SCN shall include a review of the impact on maintenance or operation, if any.

#### 2.1.3 DEVELOPMENT CHANGES

The Specification may also be revised by the Seller without the Buyer's consent in order to incorporate development changes provided that such changes do not adversely affect price, time of delivery, weight or performance of the Aircraft, maintainability, operations, interchangeability or replaceability requirements under the Specification. In any other case the Seller shall issue to the Buyer a Manufacturer Specification Change Notice. Development changes are changes deemed necessary by the Seller to improve the Aircraft or the manufacturing process thereof, prevent delay or ensure compliance with this Agreement.

#### 2.1.4 SPECIFICATION CHANGE NOTICES FOR CERTIFICATION

The provisions relating to Specification Change Notices for certification are set out in Clauses 7.2. and 7.3.

2.1.5 BUYER IMPORT REQUIREMENTS

The provisions relating to Specification Change Notices for Buyer import requirements are set out in Clause 7.4.

2.1.6 INCONSISTENCY

In the event of any inconsistency between the Specification and any other part of this Agreement, this Agreement shall prevail to the extent of such inconsistency.

2.2 PROPULSION SYSTEMS

2.2.1 The Airframe shall be equipped with a set of either two (2) General Electric CF6-80E1A3, or Pratt and Whitney PW4168A, or Rolls Royce RB211 Trent 772B engines, including associated standard equipment, nacelles and thrust reversers (the "PROPULSION SYSTEMS").

2.2.2 The Buyer shall [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT].

2.3 CUSTOMISATION MILESTONES CHART.

Prior to the signature of this Agreement, the Seller has provided the Buyer with an indicative Customisation Milestones Chart (attached as Exhibit I) setting out the minimum lead times prior to the Scheduled Delivery Month of the Aircraft, when a mutual agreement shall be reached (execution of a SCN) in order to integrate into the Specification, any items requested by the Buyer from the Specification Changes Catalogues made available by the Seller. The Buyer and the Seller shall review this indicative Customisation Milestones Chart by the end of April 2003.

3 PRICES

3.1 AIRFRAME BASIC PRICE

3.1.1 The Airframe Basic Price is the sum of:

- (i) the basic price of the Airframe as defined in the Standard Specification (excluding Buyer Furnished Equipment), which is:

US Dollars

[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

- (ii) the sum of the basic prices of all SCNs set forth in Appendix 1 to Exhibit "A", which is :

US Dollars

[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

3.1.2 The Airframe Basic Price has been established in accordance with the average economic conditions prevailing in December 1999, January 2000 and February 2000 and corresponding to a theoretical delivery in January 2001 - (the "Base Period").

3.2 PROPULSION SYSTEMS BASIC PRICE

3.2.1 GENERAL ELECTRIC PROPULSION SYSTEMS

The basic price of a set of two (2) CF6-80E1A3 Propulsion Systems including standard equipment, nacelles and thrust reversers (the "PROPULSION SYSTEMS BASIC PRICE") is:

US Dollars

[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

The Propulsion Systems Basic Price has been established in accordance with the delivery conditions prevailing in January 2001 and has been calculated from the Propulsion Systems Reference Price.

3.2.2 PRATT AND WHITNEY PROPULSION SYSTEMS

The basic price of a set of two (2) Pratt and Whitney 4168A Propulsion Systems including standard equipment, nacelles and thrust reversers (the "PROPULSION SYSTEMS BASIC PRICE") is:

US Dollars

[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

The Propulsion Systems Basic Price has been established in accordance with the delivery conditions prevailing in January 2001 and has been calculated from the Propulsion Systems Reference Price.

3.2.3 ROLLS ROYCE PROPULSION SYSTEMS

The basic price of a set of two (2) Rolls Royce RB211-Trent 772B Propulsion Systems including standard equipment, nacelles and thrust reversers (the "PROPULSION SYSTEMS BASIC PRICE") is:

US Dollars

[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

The Propulsion Systems Basic Price has been established in accordance with the delivery conditions prevailing in January 2001 and has been calculated from the Propulsion Systems Reference Price.

3.2.4 It is understood that the above-mentioned quotations as well as Propulsion System Manufacturer's Price Revision Formulae are based upon information received from the respective Propulsion Systems Manufacturer and remain subject to any modification that might be imposed by the Propulsion System Manufacturer on the Seller and/or the Buyer

3.3 FINAL PRICE

The Final Price of each Aircraft shall be the sum of:

- (i) the Airframe Basic Price as revised as of the Delivery Date in accordance with Clause 4.1; plus
- (ii) the aggregate of all increases or decreases to the Airframe Basic Price as agreed and signed for in any Specification Change Notice or part thereof applicable to the Airframe subsequent to the date of this Agreement, as revised as of the Delivery Date in accordance with Clause 4.1; plus
- (iii) the Propulsion Systems Reference Price as revised as of the Delivery Date in accordance with Clause 4.2; plus
- (iv) the aggregate of all increases or decreases to the Propulsion Systems Reference Price as agreed in any Specification Change Notice or part thereof applicable to the Propulsion Systems subsequent to the date of this Agreement as revised as of the Delivery Date in accordance with Clause 4.2; plus
- (v) any other amount due and owing by the Buyer to the Seller pursuant to this Agreement and/or any other written agreement between the Buyer and the Seller with respect to the Aircraft.

4 PRICE REVISION

4.1 REVISION OF AIRFRAME BASIC PRICE

The Airframe Basic Price is subject to revision in accordance with the Airframe Price Revision Formula up to and including the Delivery Date as set forth in Part 1 of Exhibit C.

4.2 REVISION OF PROPULSION SYSTEMS REFERENCE PRICE

4.2.1. The Propulsion Systems Reference Price is subject to revision

in accordance with the Propulsion Systems Price Revision Formula up to and including the Delivery Date, as set forth in Part 2 of Exhibit C

4.2.2 MODIFICATION OF PROPULSION SYSTEMS REFERENCE PRICE AND PROPULSION SYSTEMS PRICE REVISION FORMULA

The Propulsion Systems Reference Price, the prices of the related equipment and the Propulsion Systems Price Revision Formula are based on information received from the Propulsions Systems Manufacturer and are subject to amendment by the Propulsion Systems Manufacturer at any time prior to the Delivery Date. If the Propulsion Systems Manufacturer makes any such amendment the amendment shall be incorporated into this Agreement and the Propulsion Systems Reference Price, the prices of the related equipment and the Propulsion Systems Price Revision Formula shall be adjusted accordingly. The Seller agrees to notify the Buyer as soon as it receives notice of any such amendment from the Propulsion Systems Manufacturer. Upon the Buyer's request, the Seller shall provide the Buyer with documented evidence of such a change being imposed by the Propulsion Systems Manufacturer.

5 PAYMENTS

5.1 SELLER'S ACCOUNT

The Buyer shall pay the Predelivery Payments, the Balance of Final Price and/or any other amount due by the Buyer to the Seller, to the Seller's account [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]with :  
NATEXIS BANQUE  
BP 293  
48 Alleees Francois Verdier  
31005 TOULOUSE Cedex  
FRANCE

or to such other account which may be established by mutual agreement.

5.2 DEPOSIT

An amount equal to the initial deposit of US Dollars [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] per Aircraft already paid by the Buyer to the Seller [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION

PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] shall be deducted from the first Predelivery Payment due under this Agreement.

5.3 PREDELIVERY PAYMENTS

5.3.1 The Buyer shall pay Predelivery Payments to the Seller calculated on the predelivery payment reference price of each Aircraft. The predelivery payment reference price is determined by the following formula:

$A = Pb (1 + [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT])$

Where

A : The predelivery payment reference price for Aircraft to be delivered in year T;  
T : the year of delivery of the relevant Aircraft  
Pb : the Basic Price;  
N : (T-2001)

5.3.2 Such Predelivery Payments shall be made in accordance with the following schedule:

DUE DATE OF PAYMENTS	PERCENTAGE OF PREDELIVERY PAYMENT REFERENCE PRICE
----------------------	---

Upon signature of this Agreement	[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]
On the first day of each of the following months prior to the Scheduled Delivery Month	[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]
Total Payment prior to Delivery	[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

5.3.3 Any Predelivery Payment received by the Seller shall constitute an instalment in respect of the Final Price of the Aircraft. The Seller shall be entitled to hold and use any Predelivery Payment as absolute owner thereof, subject only to (i) the obligation to deduct any such Predelivery Payment from the Final Price when calculating the Balance of Final Price or (ii) the obligation to repay to the Buyer the Predelivery Payments pursuant to any other Clause of this Agreement.

5.3.4 If any Predelivery Payment is not received within [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] of the relevant due date specified in Clause 5.3.2 [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] then, and in addition to any other rights and remedies available to Seller, the Seller shall have the right to set back the Scheduled Delivery Month by a period of [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] for each [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] such payment is delayed.

Furthermore, if such delay is greater than [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT], the Seller shall have

no obligation to deliver the Aircraft within the Scheduled Delivery Month as modified pursuant to the preceding paragraph. Upon receipt of the full amount of all delayed Predelivery Payments, together with Default Interest pursuant to Clause 5.7, the Seller shall inform the Buyer of a new Scheduled Delivery Month consistent with Seller's other commitments and production capabilities.

#### 5.4 BALANCE OF FINAL PRICE

5.4.1 The Balance of Final Price payable by the Buyer to the Seller on the Delivery Date shall be the Final Price less the amount of Predelivery Payments received by the Seller on or before the Delivery Date.

5.4.2 On receipt of the Seller's invoice, once the Aircraft is Ready for Delivery, the Buyer shall pay to the Seller the Balance of Final Price.

#### 5.5 OTHER CHARGES

If not expressly stipulated otherwise any other charges due under this Agreement other than those set out in Clauses 5.2, 5.3 and 5.4 shall be paid by the Buyer at the same time as payment of the Balance of Final Price or, if invoiced after the Delivery Date, within [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] after the invoice date.

#### 5.6 METHOD OF PAYMENT

5.6.1 All payments provided for in this Agreement shall be made in the United States Dollars (USD) in immediately available funds.

5.6.2 All payments due to the Seller hereunder shall be made in full, without set-off, counterclaim, deduction or withholding of any kind. Consequently, the Buyer shall procure that the sums received by the Seller under this Agreement shall be equal to the full amounts expressed to be due to the Seller hereunder, without deduction or withholding on account of and free from any and all taxes, levies, imposts, dues or charges of whatever nature. If the Buyer is compelled by law to make

any such deduction or withholding the Buyer shall pay such additional amounts as may be necessary in order that the net amount received by the Seller after such deduction or withholding shall be equal to the amounts which would have been received in the absence of such deduction or withholding and pay to the relevant taxation or other authorities within the period for payment permitted by applicable law, the full amount of the deduction or withholding.

5.6.3 [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

5.7 DEFAULT INTEREST

If any payment due to the Seller under this Agreement including but not limited to any Predelivery Payment, deposit, option fees for the Aircraft as well as any payment for any spare parts, data, documents, training and services due to the Seller, is not received on the due date, without prejudice to the Seller's other rights under this Agreement and at law, the Seller shall be entitled to interest for late payment calculated on the amount due from and including the due date of payment up to and including the date when the payment is received by the Seller at a rate equal to the London Interbank Offered Rate (LIBOR) for [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] deposits in US Dollars (as published in the Financial Times on the due date) plus [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] per year (part year to be prorated). All such interest shall be compounded monthly and calculated on the basis of the actual number of days elapsed in the month assuming a thirty (30) day month and a three hundred and sixty (360) day year.

5.8 TAXES

5.8.1 The amounts stated in this Agreement to be payable by the Buyer are exclusive of value added tax ("VAT") chargeable under the laws of the Delivery Location and accordingly the Buyer shall pay any VAT chargeable in respect of supplies to the Buyer as contemplated by this Agreement. Currently no VAT is chargeable to the Buyer pursuant to this Agreement, but should VAT become so chargeable and the applicable legislation enable the Buyer to claim an exemption or reimbursement in respect thereof, the Seller shall assist the Buyer upon request with the application by the Buyer to the relevant authorities.

5.8.2 The Seller shall pay all other taxes, duties or similar charges of any nature whatsoever levied, assessed, charged or collected for or in connection with the fabrication, manufacture, assembly, sale and delivery under this Agreement of any of the Aircraft, services, instructions and data delivered or furnished hereunder provided such charges have been promulgated and are enforceable under the laws of the Delivery Location.

5.8.3 The Buyer shall bear the costs of and pay any and all taxes, duties or similar charges of any nature whatsoever not assumed by the Seller under Clause 5.8.2 including but not limited to any duties or taxes due upon or in relation to the importation or registration of the Aircraft in the Buyer's country and/or any withholdings or deductions levied or required in the Buyer's country in respect of the payment to the Seller of any amount due by the Buyer hereunder. In no event shall KLM be responsible for Seller's corporation, income or capital gains taxes imposed by the jurisdiction of the Seller's incorporation and (where different) the jurisdiction where the Seller is principally resident for tax purposes.

5.9 SET-OFF

The Buyer and the Seller hereby agree that should any amount (whether under this Agreement or under any other agreement between the Buyer and the Seller or any of its asset management or financing affiliates) not be paid in full in immediately available funds on the date due, then the Seller, [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR



CONFIDENTIAL TREATMENT], will have the right to debit and apply, in whole or in part, the unused amount of any credit made available by the Seller to the Buyer against such unpaid amount. The Seller will promptly notify the Buyer in writing after such debiting and application.

6 MANUFACTURE PROCEDURE -- INSPECTION

6.1. MANUFACTURE PROCEDURE

The Airframe shall be manufactured in accordance with the relevant requirements of the laws of the jurisdiction of incorporation of the relevant Member as enforced by the Aviation Authority of such jurisdiction.

6.2 INSPECTION

6.2.1 Subject to providing the Seller with certificates evidencing compliance with the insurance requirements set forth in Clause 19, the Buyer or its duly authorised representatives (the "Buyer's INSPECTOR(S)") shall be entitled to inspect the manufacture of the Airframe, documentation and all materials and parts obtained by the Seller for the manufacture of the Airframe on the following terms and conditions;

(i) any inspection shall be made according to a procedure to be agreed upon between the Buyer and the Seller but shall be conducted pursuant to the Seller's own system of inspection as developed under the supervision of and approved by the relevant Aviation Authority.  
[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

(ii) the Buyer's Inspector(s) shall have access to such relevant technical data as is reasonably necessary for the purpose of the inspection;

(iii) any inspection and any related discussions with the Seller and other relevant personnel by the Buyer's Inspector(s) shall be at reasonable times during business

hours (or outside of business hours if appropriate and mutually agreed) and shall take place in the presence of relevant inspection department personnel of Seller;

(iv) the inspections shall be performed in a manner not to unduly delay or hinder the manufacture or assembly of the Aircraft or the performance of this Agreement by the Seller or any other work in progress at the Manufacture Facilities.

6.2.2 LOCATION OF INSPECTIONS

The Buyer's Inspector(s) shall be entitled to conduct any such inspection at the relevant Manufacture Facility of the Seller or the Members and where possible at the Manufacture Facilities of the sub-contractors provided that if access to any part of the Manufacture Facilities where the Airframe manufacture is in progress or materials or parts are stored are restricted for security or confidentiality reasons, the Seller shall be allowed reasonable time to make the relevant items available elsewhere.

6.3 SELLER'S SERVICE FOR BUYER'S INSPECTOR(S)

For the purpose of the inspections, and commencing with the date of this Agreement until the Delivery Date of the last Aircraft, the Seller shall furnish without additional charge suitable space and office equipment in or conveniently located with respect to the Delivery Location for the use of a reasonable number of Buyer's Inspector(s).

7 CERTIFICATION

7.1 TYPE CERTIFICATION

The Aircraft has been type certificated under Joint Aviation Authorities (JAA) procedures for joint certification in the transport category. The Seller has obtained the relevant type certificate (the "TYPE CERTIFICATE") to allow the issuance of

the Export Airworthiness Certificate.

## 7.2 EXPORT AIRWORTHINESS CERTIFICATE

7.2.1 The Aircraft shall be delivered to the Buyer with an Export Airworthiness Certificate.

7.2.2 If, any time before the date on which the Aircraft is Ready for Delivery, any law or regulation is enacted, promulgated, becomes effective and/or an interpretation of any law or regulation is issued which requires any change to the Specification for the purposes of obtaining the Export Airworthiness Certificate (a "CHANGE IN LAW"), the Seller shall make the required variation or modification and the parties hereto shall sign a Specification Change Notice which specifies the effects, if any, upon the guaranteed performances, weights, interchangeability, time of Delivery, price of the Aircraft and text of the Specification.

7.2.3 The Seller shall as far as practicable (but in its sole discretion and without prejudice to Clause 7.3.1 (ii)) take into account the information available to it concerning any proposed law, regulation or interpretation which could become a Change in Law in order to minimise the costs of changes to the Specification as a result of such proposed law regulation or interpretation becoming effective prior to the Aircraft being Ready for Delivery. The Seller shall consult with the Buyer before taking the appropriate steps relating thereto.

## 7.3 COSTS OF SCNS FOR CERTIFICATION

7.3.1 The costs of implementing the variation or modification referred to at Clause 7.2.2 above shall be

(i) [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

(ii) [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

7.3.2. Notwithstanding the provisions of sub-Clauses 7.3.1 (i) and (ii), if the Change in Law relates to the Propulsion Systems and in particular to engine accessories, quick engine change units or thrust reversers, the costs shall be dealt with in accordance with such arrangements as may be made separately between the Buyer and the Propulsion Systems Manufacturer. The Seller shall however keep the Buyer informed of any contemplated change relating to the Propulsion Systems, that the Seller becomes aware of.

## 7.4 VALIDATION OF THE EXPORT AIRWORTHINESS CERTIFICATE

7.4.1 The Seller shall assist the Buyer in obtaining the validation of the Export Airworthiness Certificate by the Buyer's Aviation Authority.

7.4.2 Where the Buyer's Aviation Authority requires a modification to comply with additional import aviation requirements and/or supply of additional data prior to the issuance of the Export Airworthiness Certificate, the Seller shall incorporate such modification and/or provide such data at costs to be borne by the Buyer. The parties shall sign a Specification Change Notice which specifies the effects, if any, upon the guaranteed performances, weights, interchangeability, maintenance and/or operation, time of Delivery and price of the Aircraft.

## 8 BUYER'S TECHNICAL ACCEPTANCE

### 8.1 TECHNICAL ACCEPTANCE PROCESS

8.1.1 Prior to Delivery the Aircraft shall undergo a technical acceptance process, proposed by the Seller and agreed with the Buyer (the "Technical Acceptance Process"). The Technical Acceptance Process may also include mutually agreed additions, suggestions or amendments which have been reasonably requested by the Buyer. Completion of the Technical Acceptance Process shall demonstrate the satisfactory functioning of the Aircraft and shall be deemed to demonstrate compliance with the Specification in line with good industry practice. Upon

Delivery of the Aircraft, the Seller shall provide the Buyer with the agreed documents set out in Exhibit J. Should it be established that the Aircraft does not comply with the Technical Acceptance Process requirements, the Seller shall without hindrance from the Buyer be entitled to carry out any necessary changes and, as soon as practicable thereafter, resubmit the Aircraft to such further Technical Acceptance Process. In the event that Delivery of an Aircraft is delayed due to such changes being carried out, the provisions of Clause 10 or Clause 11 shall apply, as the case may be.

In the event that the non compliance with the Technical Acceptance Process is such that it does not prevent the Certificate of Airworthiness to be issued, the Buyer may elect to have the Aircraft delivered, and such non compliance rectified at a mutually agreed later date.

8.1.2 The Technical Acceptance Process shall:

- (i) commence on a date notified by the Seller to the Buyer pursuant to Clause 9.1.3. In the event that there is a change in the Technical Acceptance Process programme thus notified to the Buyer, the Seller shall always ensure that it has given the Buyer a minimum of [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] notice prior to the start of the Technical Acceptance Process;
- (ii) take place at the Delivery Location;
- (iii) be carried out by the personnel of the Seller and, if the Buyer elects to attend the Technical Acceptance Process in accordance with the provisions of Clause 8.2.2, in the presence of the Buyer;
- (iv) include a technical acceptance flight which shall enable the Buyer to check the Aircraft, and which shall not normally exceed a period of [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT], unless otherwise mutually agreed.

8.2 BUYER'S ATTENDANCE

8.2.1 The Buyer shall be entitled to attend the Technical Acceptance Process.

8.2.2 If the Buyer attends the Technical Acceptance Process, the Buyer;

- (i) shall co-operate in complying with the reasonable requirements of the Seller with the intention of completing the Technical Acceptance Process within seven (7) business days after its commencement;
- (ii) may have a maximum of [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] of the Buyer's representatives, unless otherwise mutually agreed (with no more than three (3) such representatives, having access to the cockpit at any one time) accompany the Seller's representatives on a technical acceptance flight and during such flight the Buyer's representatives shall comply with the instructions of the Seller's representatives.

8.2.3 If the Buyer does not attend and/or fails to co-operate in the Technical Acceptance Process, the Seller shall be entitled to complete the Technical Acceptance Process and the Buyer shall be deemed to have accepted the Technical Acceptance Process as satisfactory in all respects.

8.2.4.1 [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

8.2.4.2 [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

8.3 CERTIFICATE OF ACCEPTANCE  
Upon successful completion of the Technical Acceptance Process, the Buyer shall, on or before the Delivery Date, sign and deliver to the Seller a certificate of acceptance in respect of the Aircraft in the form of Exhibit D (the "CERTIFICATE OF ACCEPTANCE").

8.4 AIRCRAFT UTILISATION

The Seller shall, without payment or other liability, be entitled to use the Aircraft prior to Delivery as may be necessary to obtain the certificates required under Clause 7, and such use shall not prejudice the Buyer's obligation to accept Delivery of the Aircraft hereunder.

[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

9 DELIVERY

9.1 DELIVERY SCHEDULE

9.1.1 Subject to Clauses 2, 7, 8, 10 and 18, the Seller shall have the Aircraft Ready for Delivery at the Delivery Location within the following months:

Aircraft N(degree) 1 [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

Aircraft N(degree) 2 [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

Aircraft N(degree) 3 [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

Aircraft N(degree) 4 [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

Aircraft N(degree) 5 [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

Aircraft N(degree) 6 [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

Each of such months shall be, with respect to the corresponding Aircraft, the "SCHEDULED DELIVERY MONTH".

The Buyer has indicated that it wishes to have Aircraft N(degree) 2, 3, 5 and 6 delivered [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]. The Seller is not currently in a position to provide such delivery dates, but the Buyer and the Seller have agreed to review the situation in [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT].

9.1.2 [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

9.1.3 Approximately [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] prior to the Scheduled Delivery Month, the Seller shall provide the Buyer with a tentative delivery schedule including the technical Acceptance Process schedule, and the anticipated date on which the Aircraft is expected to be Ready for Delivery, which, unless amended by a notification not more than [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] later, shall be deemed to be confirmed as the delivery schedule of the relevant Aircraft.

9.2 DELIVERY

9.2.1 The Buyer shall send its representatives to the Delivery Location to take Delivery of, and collect, the Aircraft within

seven (7) business days after the date on which the Aircraft is Ready for Delivery and shall pay the Balance of the Final Price on or before the Delivery Date.

9.2.2 The Seller shall deliver and transfer title to the Aircraft free and clear of all encumbrances to the Buyer provided that the Balance of the Final Price has been paid by the Buyer pursuant to Clause 5.4 and that the Certificate of Acceptance has been signed and delivered to the Seller pursuant to Clause 8.3. The Seller shall provide the Buyer with a bill of sale in the form of Exhibit E (the "BILL OF SALE") and/or such other documentation confirming transfer of title and receipt of the Final Price as may reasonably be requested by the Buyer. Title to, property in and risk of loss or damage to the Aircraft shall be transferred to the Buyer on Delivery.

9.2.3 Should the Buyer fail to

- (i) deliver the signed Certificate of Acceptance to the Seller within the delivery period as defined in Clause 9.2.1, despite the Aircraft being Ready for Delivery; or
- (ii) pay the Balance of the Final Price for the Aircraft to the Seller within the above defined period

then the Buyer shall be deemed to have rejected delivery of the Aircraft without warrant when duly tendered to it hereunder. In addition to Clause 5.7 and the Seller's other rights under this Agreement, the Seller shall retain title to the Aircraft but the Buyer shall indemnify

and hold the Seller harmless against any and all costs relating directly to such rejected delivery (including but not limited to any parking, storage, and insurance costs).

9.3 FLY AWAY

9.3.1 The Buyer and the Seller shall co-operate to obtain any licenses which may be required by the Aviation Authority of the Delivery Location for the purpose of exporting the Aircraft.

9.3.2 All expenses of, or connected with, flying the Aircraft from the Delivery Location after Delivery shall be borne by the Buyer, [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]. The Seller shall cooperate with the Buyer in making arrangements with the supplying companies for the fuel and oil as well as other arrangements such as customs clearance, catering etc. as may be necessary for all post-Delivery flights.

10 EXCUSABLE DELAY

10.1 The Buyer acknowledges that the Aircraft (is) (are) to be manufactured by Seller in performance of this Agreement and that the Scheduled Delivery Month (s) (is) (are) based on the assumption that there shall be no delay due to causes beyond the control of the Seller. Accordingly, Seller shall not be responsible for any delay in the Delivery of the Aircraft or delay or interruption in the performance of the other obligations of the Seller hereunder due to causes beyond its control, and not occasioned by its fault or negligence (including but without limitation - provided they satisfy the foregoing test - acts of God or the public enemy, war, civil war, warlike operations, terrorism, insurrections or riots, fires, explosions, natural disasters, compliance with any applicable foreign or domestic governmental regulation or order, labour disputes causing cessation, slowdown or interruption of work, inability after due and timely diligence to procure materials, equipment or parts, general hindrance in transportation or failure of a sub-contractor or supplier to furnish materials, equipment or parts). Any delay or interruption resulting from any of the foregoing causes is referred to as an "EXCUSABLE DELAY".

10.2 If an Excusable Delay occurs:

- (i) the Seller shall notify the Buyer of such Excusable Delay as soon as practicable after becoming aware of the same and shall inform the Buyer of the measures and remedies taken to cure the cause and mitigate the

duration and effect of any delay;

- (ii) the Seller shall not be responsible for any damages arising from or in connection with such Excusable Delay suffered or incurred by the Buyer;
- (iii) the Seller shall not be deemed to be in default in the performance of its obligations hereunder as a result of such Excusable Delay; and
- (iv) the Seller shall as soon as practicable after the removal of the cause of the delay resume performance of its obligations under this Agreement and in particular shall notify to the Buyer the revised Scheduled Delivery Month;
- (v) [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]
- (vi) [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

### 10.3 TERMINATION ON EXCUSABLE DELAY

10.3.1 If the Delivery of any Aircraft is delayed as a result of an Excusable Delay for a period of more than [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] months after the last day of the Scheduled Delivery Month then either party may terminate this Agreement with respect to the Aircraft so affected by

giving written notice to the other party within [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] days after the expiry of such [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] month period.

10.3.2 If the Seller concludes that the Delivery of any Aircraft shall be delayed for more than [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] months after the last day of the Scheduled Delivery Month due to an Excusable Delay and as a result thereof reschedules Delivery of such Aircraft to a date or month reflecting such delay then the Seller shall promptly notify the Buyer in writing to this effect and shall include in such notification the new Scheduled Delivery Month. Either party may thereupon terminate this Agreement with respect to such Aircraft by giving written notice to the other party within [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] days after receipt by the Buyer of the notice of anticipated delay.

10.3.3 If this Agreement shall not have been terminated with respect to the delayed Aircraft during the [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] day period referred to in either Clause 10.3.1 or 10.3.2 above, then the Seller shall be entitled to reschedule Delivery and the new Scheduled Delivery Month shall be notified to the Buyer and shall be binding on the parties.

### 10.4 TOTAL LOSS, DESTRUCTION OR DAMAGE

If prior to Delivery, any Aircraft is lost, destroyed or in the reasonable opinion of the Seller is damaged beyond repair ("TOTAL LOSS"), the Seller shall notify the Buyer promptly to this effect and in any event not later than [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] after such occurrence. The Seller shall include in said notification (or as soon after the issue of the notice as such information becomes available to the Seller) the earliest date consistent with the Seller's other commitments and production capabilities that an aircraft to replace the Aircraft may be delivered to the Buyer and the Scheduled Delivery Month shall be extended as specified in the Seller's

notice to accommodate the delivery of the replacement aircraft : provided, however, that in the event the specified extension of the Scheduled Delivery Month to a month is exceeding [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] then this Agreement shall terminate with respect to said Aircraft unless:

- (i) the Buyer notifies the Seller within one (1) month of the date of receipt of the Seller's notice that it desires the Seller to provide a replacement aircraft during the month quoted in the Seller's notice; and
- (ii) the parties execute an amendment to this Agreement recording the variation in the Scheduled Delivery Month;

provided, however, that nothing herein shall require the Seller to manufacture and deliver a replacement aircraft if such manufacture would require the reactivation of its production line for the model or series of aircraft which includes the Aircraft purchased hereunder.

#### 10.5 TERMINATION RIGHTS EXCLUSIVE

In the event that this Agreement shall be terminated as provided for under the terms of Clauses 10.3 or 10.4, such termination shall discharge all obligations and liabilities of the parties hereunder with respect to such affected Aircraft and undelivered material, services, data or other items applicable thereto and to be furnished hereunder and neither party shall have any claim against the other for any loss resulting from such non-delivery. The Seller shall in no circumstances have any liability whatsoever for Excusable Delay other than as set

forth in this Clause 10, [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

#### 11 NON-EXCUSABLE DELAY

##### 11.1 LIQUIDATED DAMAGES

11.1.1 Should any of the Aircraft not be Ready for Delivery to the Buyer within [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] after the last day of the Scheduled Delivery Month (as varied by virtue of Clauses 2, 7 and 10) (the "DELIVERY PERIOD") and such delay is not as a result of an Excusable Delay or Total Loss (a "NON-EXCUSABLE DELAY"), then the Buyer shall have the right to claim, and the Seller shall pay by way of liquidated damages to the Buyer US Dollars [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

11.1.2 The amount of such liquidated damages shall in no event exceed the total of US Dollars [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] in respect of any one Aircraft.

11.1.3 The Buyer shall submit a claim for liquidated damages not later than one (1) month after the last day of the month following the Scheduled Delivery Month, and thereafter at the end of each month during which the delay continues. The Seller shall pay promptly such liquidated damages upon receiving such demand from the Buyer.

11.1.4 [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

##### 11.2 RE-NEGOTIATION

If as a result of Non-Excusable Delay, Delivery does not occur in the period falling [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] months after the Delivery Period, the Buyer shall have the right exercisable by written notice to the Seller given not less than [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH

THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] nor more than [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] after the expiration of the [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] months falling after the Delivery Period to require from the Seller a re-negotiation of the Scheduled Delivery Month for the affected Aircraft. Unless otherwise agreed between the Seller and the Buyer during such re-negotiation, the said re-negotiation shall not prejudice the Buyer's right to receive liquidated damages in accordance with Clause 11.1 during the period of Non-Excusable Delay.

11.3 TERMINATION

If as a result of Non-Excusable Delay, Delivery does not occur in the period falling [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] months after the Delivery Period and the parties have not renegotiated the Delivery Date pursuant to Clause 11.2, either party shall have the right exercisable by written notice to the other party, given not less than one (1) month nor more than [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] months after expiration of such [CONFIDENTIAL

MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] months to terminate this Agreement in respect of the affected Aircraft and neither party shall have any claim against the other in respect of such nondelivery [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

11.4 LIMITATION OF DAMAGES

The Buyer and the Seller agree that payment by the Seller of the amounts due pursuant to Clause 11.1 shall be considered to be liquidated damages and has been calculated to compensate the Buyer for its entire damages for all losses of any kind due to Non-Excusable Delay, without prejudice to the Buyer's right of termination as per Clause 11.3 above. The Seller shall not in any circumstances have any liability whatsoever for Non Excusable Delay other than as set forth in this Clause 11.

12 WARRANTIES AND SERVICE LIFE POLICY

This Clause covers the terms and conditions of the warranty and service life policy.

12.1 STANDARD WARRANTY

12.1.1 NATURE OF WARRANTY

Subject to the conditions and limitations as hereinafter provided for and except as provided for in Clause 12.1.2, the Seller warrants to the Buyer that each Aircraft and all Warranted Parts as defined hereinafter shall at Delivery to the Buyer:

- (i) be free from defects in material ;
- (ii) be free from defects in workmanship, including without limitation processes of manufacture ;
- (iii) be free from defects in design (including without limitation the selection of materials) having regard to the state of the art [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] at the date of such design; and
- (iv) be free from defects arising from failure to conform to the Specification, except to those portions of the Specification relating to performance or where it is expressly stated that they are estimates, approximations or design aims.

For the purpose of this Agreement the term "WARRANTED PART"



shall mean any Seller proprietary component, equipment, accessory or part as installed on an Aircraft at Delivery of such Aircraft and

- (a) which is manufactured to the detailed design of the Seller or a subcontractor of the Seller and
- (b) which bears a part number of the Seller at the time of such delivery.

#### 12.1.2 EXCLUSIONS

The warranties set forth in Clause 12.1.1 shall not apply to Buyer Furnished Equipment, nor to the Propulsion Systems, nor to any component, equipment, accessory or part purchased by the Seller that is not a Warranted Part except that:

- (i) any defect in the Seller's workmanship incorporated in the installation of such items in the Aircraft, including any failure by the Seller to conform to the installation instructions of the manufacturer of such item that invalidates any applicable warranty from such manufacturer, shall constitute a defect in workmanship for the purpose of this Clause and be covered by the warranty set forth in sub-Clause 12.1.1 (ii) ; and
- (ii) any defect inherent in the Seller's design of the installation, in view of the state of the art at the date of such design, which impair the use of such item shall constitute a defect in design for the purpose of this Clause and be covered by the warranty set forth in sub-Clause 12.1.1 (iii).

#### 12.1.3 WARRANTY PERIOD

The warranties contained in Clauses 12.1.1 and 12.1.2 shall be limited to those defects which become apparent within [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] months after Delivery of the affected Aircraft ("WARRANTY PERIOD").

#### 12.1.4 BUYER'S REMEDY AND SELLER'S OBLIGATION

12.1.4.1 The Buyer's remedy and the Seller's obligation and liability under Clauses 12.1.1 and 12.1.2 are limited to the repair, replacement or correction of any Warranted Part which is defective or to the supply of modification kits rectifying the defect, at the Seller's expense and option. Whenever applicable, the Seller option shall take into consideration the Buyer's constraints. The labour required to install such kit will be reimbursed by the Seller at the Inhouse Warranty Labour Rate defined in Clause 12.1.7 (v).

The Seller may equally at its option furnish a credit to the Buyer equal to the price at which the Buyer is entitled to purchase a replacement for the defective Warranted Part, if such Warranted Part is readily available for purchase.

12.1.4.2 In the event of a defect covered by sub-Clauses 12.1.1 (iii), 12.1.1 (iv) and 12.1.2 (ii) becoming apparent within the Warranty Period and the Seller being obliged to correct such defect, the Seller shall also, if so requested by the Buyer, make such correction in any Aircraft which has not yet been delivered to the Buyer; provided, however,

- (i) that the Seller, [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT], shall not be responsible nor deemed to be in default on account of any delay in delivery of any Aircraft or otherwise, in respect of the performance of this Agreement due to the Seller's undertaking to make such correction and provided further
- (ii) that, rather than accept a delay in the delivery of any such Aircraft, the Buyer and the Seller may agree to deliver such Aircraft with subsequent correction of the defect by the Buyer at the Seller's expense, or the Buyer may elect to accept delivery and thereafter file a warranty claim as though the defect

had become apparent immediately after Delivery of such Aircraft.

- (iii) [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT].

#### 12.1.4.3

In addition to the remedies set forth in Clauses 12.1.4.1 and 12.1.4.2, the Seller shall reimburse the [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] spent by the Buyer in performing inspections of the Aircraft to determine whether or not a defect exists in any Warranted Part within the Warranty Period or until the corrective technical solution removing the need for the inspection is available and could reasonably be introduced by the Buyer. The above commitment is subject to the following conditions:

- (i) such inspections are recommended by a Seller Service Bulletin to be performed within the Warranty Period;
- (ii) the inspection is [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] performed

outside of a scheduled maintenance check as recommended by the Seller's Maintenance Planning Document, [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT];

- (iii) the reimbursement shall not apply for any inspections performed as an alternative to accomplishing corrective action when such corrective action has been made available to the Buyer and such corrective action could have reasonably been accepted by the Buyer or, (provided that the solution presented by the Seller is satisfactory for the Buyer) accomplished by the Buyer at the time such inspections are performed or earlier,
- (iv) the labor rate to be used for the reimbursement shall be labor rate defined in Clause 12.1.7, and
- (v) the manhours used to determine such reimbursement shall not exceed the Seller's reasonable estimate of the manhours required by the Buyer for such inspections or if so the Seller will perform the inspections upon conditions to be mutually agreed.

#### 12.1.5

##### WARRANTY CLAIM REQUIREMENTS

Each Buyer's warranty claim ("WARRANTY CLAIM") shall be considered by the Seller only if the following conditions are first fulfilled:

- (i) the defect having become apparent within the Warranty Period ;
- (ii) the Buyer having submitted to the Seller proof reasonably satisfactory to the Seller that the claimed defect is due to a matter embraced within this Clause 12.1, and that such defect has not resulted from any act or omission of the Buyer, including but not limited to, any failure to operate and maintain the affected Aircraft or part thereof in accordance with the standards set forth or any matter covered in Clause 12.1.10 ;
- (iii) the Buyer having either reviewed the Warranted Part with the Seller's Representative, or returned as soon as practicable the Warranted Part claimed to be defective to the repair facilities as may be designated by the Seller, except when the Buyer elects to repair a defective Warranted Part in accordance with the provisions of Clause 12.1.7. [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

- (iv) the Seller having received a Warranty Claim as set forth in Clause 12.1.6.

12.1.6

WARRANTY ADMINISTRATION

The warranties set forth in Clause 12.1 shall be administered as hereinafter provided for:

(i) CLAIM DETERMINATION

Warranty Claim determination by the Seller shall be reasonably based upon the claim details, reports from the Seller's local representative, historical data logs, inspection, tests, findings during repair, defect analysis and other suitable documents.

(ii) TRANSPORTATION COSTS

[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

(iii) RETURN OF AN AIRCRAFT

In the event of the Buyer desiring to return an Aircraft to the Seller for consideration of a Warranty Claim, the Buyer shall notify the Seller of its intention to do so and the Seller shall, prior to such return, have the right to inspect such Aircraft and thereafter, without prejudice to its rights hereunder, to repair such

Aircraft, at its sole option, either at the Buyer's facilities or at another place acceptable to the Seller. Return of any Aircraft by the Buyer to the Seller [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

(iv) ON-AIRCRAFT WORK BY THE SELLER

In the event that a defect subject to this Clause 12.1 may justify the dispatch by the Seller of a working team to repair or correct such defect through the embodiment of one or several Seller's Service Bulletins at the Buyer's facilities, or in the event of the Seller accepting the return of an Aircraft to perform or have performed such repair or correction, then the labor costs for such on-Aircraft work are to be borne by the Seller.

The conditions which have to be fulfilled for on-Aircraft work by the Seller is that (i) in the opinion of the Seller, the work necessitates the technical expertise of the Seller as manufacturer of the Aircraft, or that (ii) the work, for reasons beyond the Buyer's control, cannot be accomplished by the Buyer.

If said condition is fulfilled and if the Seller is requested to perform the work, the Seller and the Buyer shall agree on a schedule and place for the work to be performed.

(v) WARRANTY CLAIM SUBSTANTIATION

In connection with each claim by the Buyer made under this Clause 12.1, the Buyer shall file a Warranty Claim on a form selected by the Buyer [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] after a defect became apparent. Such form must contain at least the following data :

- a) description of defect and action taken, if any,
- b) date of incident and/or removal date,
- c) description of the defective part,

- d) part number,
- e) serial number (if applicable),
- f) position on Aircraft,
- g) total flying hours or calendar time, as applicable at the date of defect appearance,
- h) time since last shop visit at the date of defect appearance,
- i) manufacturer serial number ("Manufacturer's Serial Number") of the Aircraft and/or its registration,
- j) Aircraft total flying hours and/or number of landings at the date of defect appearance,
- k) Warranty Claim number,
- l) date of Warranty Claim,
- m) delivery date of Aircraft or part to the Buyer,

Warranty Claims are to be addressed as follows:

AIRBUS  
 CUSTOMER SERVICES DIRECTORATE  
 WARRANTY ADMINISTRATION  
 Rond-Point Maurice Bellonte  
 B.P. 33  
 F-31707 BLAGNAC CEDEX  
 FRANCE

(vi) REPLACEMENTS

Components, equipment, accessories or parts, which the Seller has replaced pursuant to this Clause, shall become the Seller's property. The replacement components, equipment, accessories or parts provided by the Seller to the Buyer pursuant to this Clause shall become the Buyer's property.

(vii) SELLER'S REJECTION

The Seller shall provide reasonable written substantiation in case of rejection of a Warranty Claim. In such event the Buyer shall [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

(viii) SELLER'S INSPECTION

The Seller shall have the right to inspect the affected Aircraft and documents and other records directly relating to the Warranty Claim in the event of any Warranty Claim under this Clause 12.1, provided such inspection does not cause disruption in the Aircraft operation.

12.1.7 INHOUSE WARRANTY

(i) SELLER'S AUTHORIZATION

The Seller hereby authorizes the Buyer to perform the repair of Warranted Parts ("INHOUSE WARRANTY") subject to the terms of this Clause 12.1.7.

(ii) CONDITIONS FOR SELLER'S AUTHORIZATION

The Buyer shall be entitled to repair such Warranted Parts only:

- if where practicable the Buyer notifies the Seller's Representative of its intention to perform Inhouse Warranty repairs before any such repairs are started where the estimated cost of such repair is in excess of US Dollars [CONFIDENTIAL MATERIAL OMITTED AND

FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] The Buyer's notification shall include sufficient detail regarding the defect, estimated labor hours and material to allow the Seller to ascertain the reasonableness of the estimate. The Seller agrees to use all reasonable efforts to ensure a prompt response and shall not unreasonably withhold authorization;

- if adequate facilities and qualified personnel are available to the Buyer;
- in accordance with the Seller's written instructions set forth in the applicable Seller's technical documentation;
- to the extent specified by the Seller, or, in the absence of such specification, to the extent reasonably necessary to correct the defect, in accordance with the standards set forth in Clause 12.1.10.

(iii) SELLER'S RIGHTS

The Seller shall have the right to have any Warranted Part, or any part removed therefrom, claimed to be defective, returned to the Seller, as set forth in sub-Clause 12.1.6 (ii) if, in the judgement of the Seller, the nature of the defect requires technical investigation. The Seller shall further have the right to have a representative present during the disassembly, inspection and testing of any Warranted Part claimed to be defective, subject to its presence being practical and not unduly delaying the repair.

(iv) INHOUSE WARRANTY CLAIM SUBSTANTIATION

Claims for Inhouse Warranty credit shall contain the same information as that required for Warranty Claims under sub-Clause 12.1.6 (v) and in addition shall include:

- a) a report of technical findings with respect to the defect,
- b) for parts required to remedy the defect:
  - part numbers,
  - serial numbers (if applicable),
  - parts description,
  - quantity of parts,
  - unit price of parts,
  - total price of parts,
- c) number of spent labor hours,
- d) Inhouse Warranty Labor Rate,
- e) total claim value.

(v) CREDIT

The Buyer's account shall be credited with an amount equal to the mutually agreed direct labor costs expended in performing the off-Aircraft repair of a Warranted Part and to the direct costs of materials incorporated in said repair.

- For the determination of direct labor costs only manhours spent on disassembly, inspection, repair, reassembly, and final inspection and test of the Warranted Part are permissible. Any manhours required for maintenance work concurrently being carried out on the Aircraft or Warranted Part are not included.
- The manhours permissible above shall be multiplied by an agreed labor rate of US Dollars [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT], e.c. January

- Direct material costs are determined by the prices at which the Buyer acquired such material, excluding any parts and materials used for overhaul and as may be furnished by the Seller at no charge.

(vi) LIMITATION

The Buyer shall in no event be credited for repair costs (including labor and material) in excess of [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] of the current catalogue price for a replacement of the defective Warranted Part, unless the scheduled operation of the Aircraft dictates to commence the repair,

or

where the repair cost (including labor and material) is in excess of US Dollars [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] unless previously approved by the Seller in accordance with sub-Clause 12.1.7 (ii).

(vii) SCRAPPED MATERIAL

The Buyer shall retain any defective Warranted Part beyond economic repair and any defective part removed from a Warranted Part during repair for a period of either [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] after the date of completion of repair or [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] after submission of a claim for

Inhouse Warranty credit relating thereto, whichever is longer. Such parts shall be returned to the Seller within [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] of receipt of the Seller's request to that effect. [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

Notwithstanding the foregoing, the Buyer may scrap any such defective parts [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] which are beyond economic repair and not required for technical evaluation locally without the agreement of the Seller's local representative unless the Seller has requested the return of such part within [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] after submission of the Warranty Claim, and the Buyer may scrap any such defective part [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] which are beyond economic repair and not required for technical evaluation locally with the agreement of the Seller's local representative. Scrapped Warranted Parts shall be evidenced by a record of scrapped material certified by an authorized representative of the Buyer.

12.1.8 STANDARD WARRANTY TRANSFERABILITY

The warranties provided for in this Clause 12.1 for any Warranted Part shall accrue to the benefit of any airline in revenue service, other than the Buyer, if the Warranted Part

enters into the possession of any such airline as a result of a pooling or leasing agreement between such airlines and the Buyer, in accordance with the terms and subject to the limitations and exclusions of the foregoing warranties, and to the extent permitted by any applicable law or regulations.

12.1.9 WARRANTY FOR CORRECTED, REPLACED OR REPAIRED WARRANTED PARTS

Whenever any Warranted Part which contains a defect for which the Seller is liable under Clause 12.1 has been corrected, replaced or repaired pursuant to the terms of this Clause 12.1, the period of the Seller's warranty with respect to such corrected, replaced or repaired Warranted Part whichever may be the case, shall be the remaining portion of the original warranty [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

12.1.10 ACCEPTED INDUSTRY STANDARD PRACTICES - NORMAL WEAR AND TEAR

The Buyer's rights under this Clause 12.1 are subject to the Aircraft and each component, equipment, accessory and part thereof being maintained, overhauled, repaired, and operated in accordance with accepted industry standard practices, all technical documentation and any other instructions issued by the Seller and the Suppliers and the Propulsion Systems Manufacturer and all applicable rules, regulations and directives of relevant Aviation Authorities.

12.1.10.1 The Seller's liability under this Clause 12.1 shall not extend to normal wear and tear nor to:

- (i) any Aircraft or component, equipment, accessory or part thereof which has been repaired, altered or modified after Delivery except by the Seller or in a manner approved by the Seller;
- (ii) any Aircraft or component, equipment, accessory or part thereof which has been operated in a damaged state of which the Buyer acting reasonably should have been aware; this requirement will not be applicable if the condition becomes known during a flight and the operation continued for reasons of airworthiness or flight safety;
- (iii) any component, equipment, accessory and part from which the trademark, name, part or serial number or other identification marks have been removed;

12.2 SELLER SERVICE LIFE POLICY

12.2.1 In addition to the warranties set forth in Clause 12.1, the Seller further agrees that should any item listed in Exhibit "F" ("ITEM") sustain any breakage or defect which materially impairs the utility of the Item ("FAILURE"), and subject to the general conditions and limitations set forth in Clause 12.2.4, then the provisions of this Clause 12.2 ("SELLER SERVICE LIFE POLICY") shall apply.

12.2.2 PERIODS AND SELLER'S UNDERTAKINGS

The Seller agrees that if a Failure occurs in an Item before the Aircraft in which such Item has been originally installed has completed [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] flight cycles, or within [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] after the Delivery of said Aircraft to the Buyer, whichever shall first occur, the Seller shall at its own discretion and as promptly as practicable and with the Seller's financial participation as hereinafter provided either:

12.2.2.1 design and furnish to the Buyer a correction for such Item with a Failure and provide any parts required for such correction (including Seller designed standard parts but excluding industry standard parts), or,

12.2.2.2 replace such Item.

12.2.3 SELLER'S PARTICIPATION IN THE COSTS

Any part or Item which the Seller is required to furnish to the Buyer under this Service Life Policy in connection with the correction or replacement of an Item shall be furnished to the Buyer with the Seller's financial participation determined in accordance with the following formula:

$$P = C (N - T) / N$$

where :

P : financial participation of the Seller,

C : Seller's then current sales prices for the required Item or Seller designed parts,

(i) T : total number of flight cycles which have been accumulated by the Aircraft in which the Item subject to a Failure has been originally installed, and,

N : [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT], or,

(ii) T : total time in months since Delivery of the Aircraft in which the Item subject to a Failure has been originally installed, and,

N : [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT],

which ever of the foregoing sub-clauses (i), or (ii) yields the lowest ratio of :

$$(N - T) / N$$

#### 12.2.4 GENERAL CONDITIONS AND LIMITATIONS

12.2.4.1 The undertakings given in this Clause 12.2 shall be valid after the period of the Seller's warranty applicable to an Item under Clause 12.1.

12.2.4.2 The Buyer's remedy and the Seller's obligation and liability under this Service Life Policy are subject to the prior compliance by the Buyer with the following conditions:

(i) the Buyer shall maintain log books and other historical records as required by the Aviation Authorities with respect to each Item adequate to enable determination of whether the alleged Failure is covered by this Service Life Policy and if so to define the costs to be borne by the Seller in accordance with Clause 12.2.3;

(ii) the Buyer shall keep the Seller informed of any significant incidents relating to an Aircraft howsoever occurring or recorded;

(iii) the Buyer shall comply with the conditions of Clause 12.1.10;

(iv) the Buyer shall carry out specific structural inspection programs for monitoring purposes as may be established from time to time by the Seller. Such programs shall be as compatible as possible with the Buyer's operational requirements.

(v) in the case of any breakage or defect, the Buyer must have reported the same in writing to the Seller within [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] days after any breakage or defect in an Item becomes apparent whether or not said breakage or defect can reasonably be expected to occur in any other aircraft, and the Buyer shall have informed the Seller of the breakage or defect in sufficient detail to enable the Seller to determine whether said breakage or defect is subject to this Service Life Policy.



12.2.4.3 Except as otherwise provided for in this Clause 12.2, any claim under this Service Life Policy shall be administered as provided for in and shall be subject to the terms and conditions of Clause 12.1.6.

12.2.4.4 In the event that the Seller shall have issued a modification applicable to an Aircraft, the purpose of which is to avoid a Failure, the Seller may elect to supply the necessary modification kit free of charge or under the pro rata formula set out in Clause 12.2.3. If such a kit is so offered to the Buyer, then, to the extent of such Failure and any Failures that could ensue therefrom, the validity of the Seller's commitment under this Clause 12.2 shall be subject to the Buyer's incorporating such modification in the relevant Aircraft, as promulgated by the Seller and in accordance with the Seller's instructions, within a reasonable time, and preferably in line with the Buyer's maintenance schedule.

12.2.4.5 This Service Life Policy is neither a warranty, performance guarantee, nor an agreement to modify any Aircraft or airframe components to conform to new developments occurring in the state of airframe design and manufacturing art.

The Seller's obligation herein is to furnish only those corrections to the Items or provide replacement therefor as provided for in Clause 12.2.3.

The Buyer's sole remedy and relief for the non-performance of any obligation or liability of the Seller arising under or by virtue of this Service Life Policy shall be in monetary damages, limited to the amount the Buyer reasonably expends in procuring a correction or replacement for any Item which is the subject of a Failure covered by this Service Life Policy and to which such non-performance is related.

The Buyer hereby waives, releases and renounces all claims to any further damages, direct, incidental or consequential, including loss of profits and all other rights, claims and remedies, arising under or by virtue of this Service Life Policy.

#### 12.2.5 TRANSFERABILITY

The Buyer's rights under this Clause 12.2 shall not be assigned, sold, leased, transferred or otherwise alienated by operation of law or otherwise, without the Seller's prior consent thereto, which shall not be unreasonably withheld and given in writing.

Any unauthorized assignment, sale, lease, transfer or other alienation of the Buyer's rights under this Service Life Policy shall, as to the particular Aircraft involved, immediately void this Service Life Policy in its entirety.

#### 12.3 SUPPLIER PRODUCT SUPPORT AGREEMENTS

Prior to the Delivery of the first Aircraft, the Seller shall provide the Buyer with such warranties and service life policies that the Seller has obtained pursuant to the Supplier Product Support Agreement.

##### 12.3.1 DEFINITIONS

12.3.1.1 "SUPPLIER" means any supplier of Supplier Parts.

12.3.1.2 "SUPPLIER PART" means any component, equipment, accessory or part installed in an Aircraft at the time of Delivery thereof as to which there exists a Supplier Product Support Agreement. However, the Propulsion Systems and Buyer Furnished Equipment and other equipment selected by the Buyer to be supplied by Suppliers with whom the Seller has no existing enforceable warranty agreements are not Supplier Parts.

12.3.1.3 "SUPPLIER PRODUCT SUPPORT AGREEMENT" means an agreement between the Seller and a Supplier containing enforceable and transferable warranties and in the case of landing gear suppliers, service life policies for selected structural landing gear elements.

##### 12.3.2 SUPPLIER'S DEFAULT

12.3.2.1 In the event of any Supplier, under any standard warranty obtained by the Seller pursuant to Clause 12.3.1, defaulting in

the performance of any material obligation with respect thereto and the Buyer submitting in reasonable time to the Seller reasonable proof that such default has occurred, then Clause 12.1 shall apply to the extent the same would have been applicable had such Supplier Part been a Warranted Part, except that the Supplier's warranty period as indicated in the Supplier Product Support Agreement shall apply.

12.3.2.2 In the event of any Supplier, under any Supplier Service Life Policy obtained by the Seller pursuant to Clause 12.3.1, defaulting in the performance of any material obligation with respect thereto and the Buyer submitting in reasonable time to the Seller reasonable proof that such default has occurred, then Clause 12.2 shall apply to the extent the same would have been applicable had such Supplier Item been listed in Exhibit F, Seller Service Life Policy, except that the Supplier's Service Life Policy period as indicated in the Supplier Product Support Agreement shall apply.

12.3.2.3 At the Seller's request, the Buyer shall assign to the Seller, and the Seller shall be subrogated to, all of the Buyer's rights against the relevant Supplier with respect to and arising by reason of such default and shall provide reasonable assistance to enable the Seller to enforce the rights so assigned.

#### 12.4 INTERFACE COMMITMENT

##### 12.4.1 INTERFACE PROBLEM

If the Buyer experiences any technical problem in the operation of an Aircraft or its systems due to a malfunction, the cause of which, after due and reasonable investigation, is not readily identifiable by the Buyer, but which the Buyer reasonably believes to be attributable to the design characteristics of one or more components of the Aircraft ("INTERFACE PROBLEM"), the Seller shall, if so requested by the Buyer, and without additional charge to the Buyer, promptly conduct or have conducted an investigation and analysis of such problem to determine, if possible, the cause or causes of the problem and to recommend such corrective action as may be feasible. The Buyer shall furnish to the Seller all data and information in the Buyer's possession relevant to the Interface Problem, and shall cooperate with the Seller in the conduct of the Seller's investigations and such tests as may be required.

At the conclusion of such investigation the Seller shall promptly advise the Buyer in writing of the Seller's opinion as to the cause or causes of the Interface Problem and the Seller's recommendations as to corrective action.

##### 12.4.2 SELLER'S RESPONSIBILITY

If the Seller determines that the Interface Problem is primarily attributable to the design of a Warranted Part, the Seller shall, if so requested by the Buyer and pursuant to the terms and conditions of Clause 12.1, correct the design of such Warranted Part to the extent of the Seller's obligation as defined in Clause 12.1.

##### 12.4.3 SUPPLIER'S RESPONSIBILITY

If the Seller determines that the Interface Problem is primarily attributable to the design of any Supplier Part, the Seller shall, if so requested by the Buyer, reasonably assist the Buyer in processing any warranty claim the Buyer may have against the Supplier.

##### 12.4.4 JOINT RESPONSIBILITY

If the Seller determines that the Interface Problem is attributable partially to the design of a Warranted Part and partially to the design of any Supplier Part, the Seller shall, if so requested by the Buyer, seek a solution to the Interface Problem through cooperative efforts of the Seller and any Supplier involved.

The Seller shall promptly advise the Buyer of such corrective action as may be proposed by the Seller and any such Supplier. Such proposal shall be consistent with any then existing obligations of the Seller hereunder and of any such Supplier to the Buyer. Such corrective action when accepted by the Buyer shall constitute full satisfaction of any claim the Buyer may

have against either the Seller or any such Supplier with respect to such Interface Problem.

12.4.5 GENERAL

12.4.5.1 All requests under this Clause 12.4 shall be directed to both the Seller and the Supplier.

12.4.5.2 Except as specifically set forth in this Clause 12.4, this Clause shall not be deemed to impose on the Seller any obligations not expressly set forth elsewhere in this Clause 12.

12.4.5.3 All reports, recommendations, data and other documents furnished by the Seller to the Buyer pursuant to this Clause 12.4 shall be deemed to be delivered under this Agreement and shall be subject to the terms, covenants and conditions set forth in this Clause 12.

12.5 WAIVER, RELEASE AND RENUNCIATION

THE WARRANTIES, OBLIGATIONS AND LIABILITIES OF THE SELLER AND REMEDIES OF THE BUYER SET FORTH IN THIS CLAUSE 12 ARE EXCLUSIVE AND IN SUBSTITUTION FOR, AND THE BUYER HEREBY WAIVES, RELEASES AND RENOUNCES, ALL OTHER WARRANTIES, OBLIGATIONS AND LIABILITIES OF THE SELLER AND RIGHTS, CLAIMS AND REMEDIES OF THE BUYER AGAINST THE SELLER, EXPRESS OR IMPLIED, ARISING BY LAW OR OTHERWISE WITH RESPECT TO ANY NON-CONFORMITY OR DEFECT IN ANY AIRCRAFT, COMPONENT, EQUIPMENT, ACCESSORY OR PART DELIVERED UNDER THIS AGREEMENT INCLUDING BUT NOT LIMITED TO:

- (A) ANY IMPLIED WARRANTY OF MERCHANTABILITY OR FITNESS;
- (B) ANY IMPLIED WARRANTY ARISING FROM COURSE OF PERFORMANCE, COURSE OF DEALING OR USAGE OF TRADE;
- (C) ANY OBLIGATION, LIABILITY, RIGHT, CLAIM OR REMEDY, WHETHER CONTRACTUAL OR DELICTUAL AND WHETHER OR NOT ARISING FROM THE SELLER'S NEGLIGENCE, ACTUAL OR IMPUTED; AND
- (D) ANY OBLIGATION, LIABILITY, RIGHT, CLAIM OR REMEDY FOR LOSS OR DAMAGE TO ANY AIRCRAFT, COMPONENT, EQUIPMENT, ACCESSORY OR PART THEREOF.

SELLER SHALL HAVE NO OBLIGATION OR LIABILITY, HOWSOEVER ARISING, FOR LOSS OF USE, REVENUE OR PROFIT OR FOR ANY OTHER DIRECT, INCIDENTAL, OR CONSEQUENTIAL DAMAGES WITH RESPECT TO ANY NON-CONFORMITY OR DEFECT IN ANY AIRCRAFT, COMPONENT, EQUIPMENT, ACCESSORY OR PART DELIVERED UNDER THIS AGREEMENT.

12.6 DUPLICATE REMEDIES

The Seller shall not be obliged to provide any remedy which duplicates any other remedy already provided to the Buyer in respect of the same defect under any part of this Clause 12 as such Clause may be amended, complemented or supplemented by other contractual agreements or by other Clauses of this Agreement.

12.7 NEGOTIATED AGREEMENT

The Buyer specifically recognises that:

- (i) the Specification has been agreed upon after careful consideration by the Buyer using its judgment as a professional operator of aircraft used in public transportation.
- (ii) this Agreement, and in particular this Clause 12, has been the subject of discussion and negotiation and is fully understood by the Buyer;
- (iii) the price of the Aircraft and the other mutual agreements of the Buyer set forth in this Agreement were arrived at in consideration of, inter alia, the provisions of this Clause 12, specifically including the waiver, release and renunciation by the Buyer set forth in Clause 12.5.

13 PATENT AND COPYRIGHT INDEMNITY

13.1 INDEMNITY

13.1.1 Subject to the provisions of Clause 13.2.3, the Seller shall indemnify the Buyer and undertakes to keep the Buyer fully

indemnified from and against any damages, costs or expenses including legal costs (including any costs incurred by the Buyer in obtaining the release of the Aircraft pursuant to Clause 13.2.1 (iii) but excluding damages, costs, expenses, loss of profits and other liabilities in respect of or resulting from loss of use of the Aircraft) resulting from any infringement or claim of infringement by the Aircraft (or any part or software installed therein at Delivery) of:

- (i) any British, French, Dutch, German, Spanish or U.S. patent;

and :

- (ii) any patent issued under the laws of any other country in which the Buyer may lawfully operate the Aircraft, provided that :

- (1) at the time of such infringement or claim, such country and the flag country of the Aircraft are each a party to the Chicago Convention on International Civil Aviation of December 7, 1944 and are each fully entitled to all benefits of Article 27 thereof,

or in the alternative,

- (2) at the time of such infringement or claim, such country and the flag country of the Aircraft are each a party to the International Convention for the Protection of Industrial Property of March 20, 1883 ("Paris Convention");

and:

- (iii) in respect of computer software installed on the Aircraft, any copyright, provided that the Seller's obligation to indemnify shall be limited to infringements in countries which,

at the time of infringement, are members of The Berne Union and recognise computer software as a "work" under the Berne Convention.

13.1.2 Clause 13.1.1 shall not apply to

- (i) Buyer Furnished Equipment or Propulsion Systems; or
- (ii) parts not supplied pursuant to a Supplier Product Support Agreement ; or
- (iii) software not installed on the Aircraft at the date of Delivery.

13.1.3 Furthermore, in the event that the Buyer is prevented from using the Aircraft (whether by a valid judgement of a court of competent jurisdiction or by a settlement arrived at between claimant, Seller and Buyer or otherwise), the Seller shall at its expense either :

- (i) procure for the Buyer the right to use the same free of charge to the Buyer; or
- (ii) replace the infringing part of the Aircraft promptly with a non-infringing substitute complying in all other respects with the requirements of this Agreement, including interchangeability with the original part.

13.2 ADMINISTRATION OF PATENT AND COPYRIGHT INDEMNITY CLAIMS

13.2.1 If the Buyer receives a written claim or a suit is threatened or commenced against the Buyer for infringement of a patent or copyright referred to in Clause 13.1, the Buyer shall :

- (i) promptly notify the Seller giving particulars thereof;
- (ii) in so far as is permitted by law and by the regulatory authorities furnish to the Seller all data, papers and records within the Buyer's control or possession relating to such patent or claim;
- (iii) refrain from admitting any liability or making any

payment or assuming any expenses, damages, costs or royalties or otherwise acting in a manner prejudicial to the defence or denial of such suit or claim provided always that nothing in this sub-Clause (iii) shall prevent the Buyer from paying such sums as may be required in order to obtain the release of the Aircraft, provided such payment is accompanied by a denial of liability and is made without prejudice;

- (iv) fully co-operate with, and render all such reasonable assistance to the Seller as may be reasonably requested by the Seller and as may be pertinent to the defence or denial of the suit or claim ;
- (v) reasonably act in such a way as to mitigate damages and/or to reduce the amount of royalties which may be payable as well as to minimise costs and expenses as far as may be reasonably expected from the Buyer.

13.2.2 The Seller shall be entitled either in its own name or on behalf of the Buyer at the Seller's sole cost and expense to conduct negotiations with the party or parties alleging infringement and may assume and conduct the defence or settlement of any suit or claim in the manner which, in the Seller's opinion, it deems proper. The Buyer may engage its own legal advisers at its own cost to monitor such proceedings on the Buyer's behalf, provided however that such advisers shall not intervene or interfere in any way with the Seller's conduct of the defence or settlement.

13.2.3 The Seller's liability hereunder shall be conditional upon the strict and timely compliance by the Buyer with the terms of this Clause and is in lieu of any other liability to the Buyer express or implied which the Seller might incur at law as a result of any infringement or claim of infringement of any patent or copyright.

#### 14 TECHNICAL DATA AND DOCUMENTATION

##### 14.1 GENERAL

This Clause covers the terms and conditions for the supply of technical data and documentation (hereinafter "TECHNICAL DATA AND DOCUMENTATION") to support the Aircraft operation.

The Technical Data and Documentation shall be supplied in the English language using the aeronautical terminology in common use.

##### 14.2 SCOPE

Range, form, type, format, Air Transport Association ("ATA")/Non ATA compliance, quantity and delivery schedule of the Technical Data and Documentation to be provided under this Agreement are covered in Exhibit G.

##### 14.3 AIRCRAFT IDENTIFICATION FOR TECHNICAL DATA AND DOCUMENTATION

14.3.1 For the customized Technical Data and Documentation the Buyer agrees to the allocation of fleet serial numbers ("FLEET SERIAL NUMBERS") in the form of block of numbers selected in the range from 001 to 999.

14.3.2 The sequence shall not be interrupted except if two (2) different Propulsion Systems or two (2) different Aircraft models are selected.

14.3.3 The Buyer shall indicate to the Seller the Fleet Serial Number allocated to the Aircraft Manufacturer's Serial Number at the latest one year prior to the delivery of the first Aircraft. The allocation of Fleet Serial Numbers to Manufacturer's Serial Numbers shall not constitute any property, insurable or other interest of the Buyer whatsoever in any Aircraft prior to the Delivery of such Aircraft as provided for in this Agreement.

The affected customized Technical Data and Documentation are :

- Aircraft Maintenance Manual (and associated products),
- Illustrated Parts Catalog,

- Trouble Shooting Manual,
- Aircraft Wiring Manual,
- Aircraft Schematics Manual,
- Aircraft Wiring Lists.

#### 14.4 SUPPLIER EQUIPMENT

14.4.1 Information relating to Supplier equipment which is installed on the Aircraft by the Seller shall be introduced into the customized Technical Data and Documentation to the extent necessary for the comprehension of the systems concerned, at no additional charge to the Buyer for the Technical Data and Documentation basic issue.

14.4.2 The Buyer shall supply the data related to Buyer Furnished Equipment to the Seller at least six (6) months before the scheduled delivery of the customized Technical Data and Documentation. The Buyer Furnished Equipment data supplied by the Buyer to the Seller shall be in English language.

14.4.3 The Seller shall introduce Buyer Furnished Equipment data, for equipment which is installed on the Aircraft by the Seller, into the customized Technical Data and Documentation at no additional charge to the Buyer for the Technical Data and Documentation basic issue. The transportation costs related to Buyer Furnished Equipment data shipment to the Seller shall be the Buyer's responsibility.

14.4.4 In the event that the Buyer has not supplied the data in due time as per Clause 14.3.2 to allow the Seller to incorporate it in the basic issue of the Technical Data and Documentation, such data shall be incorporated as practicable during a revision of the Technical Data and Documentation.

#### 14.5 DELIVERY

14.5.1 The Technical Data and Documentation and corresponding revisions to be supplied by the Seller shall be sent to one address only as advised by the Buyer.

14.5.2 Packing and shipment of the Technical Data and Documentation and their revisions shall be carried out in consideration of the quickest transportation methods. The shipment shall be Free Carrier (FCA) TOULOUSE, FRANCE and/or Free Carrier (FCA) HAMBURG, FEDERAL REPUBLIC OF GERMANY, as the term Free Carrier (FCA) is defined by publication n(Degree) 560 of the International Chamber of Commerce, published in January 2000.

14.5.3 The above is not applicable to Technical Data and Documentation delivered on-line.

14.5.4 The delivery schedule of the Technical Data and Documentation shall be phased as mutually agreed to correspond with Aircraft deliveries. The Buyer agrees to provide [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] notice when requesting a change to the delivery schedule.

14.5.5 It shall be the responsibility of the Buyer to coordinate and satisfy local Aviation Authorities' needs for Seller's Technical Data and Documentation. Reasonable quantities of such Technical Data and Documentation shall be supplied by the Seller at no charge to the Buyer Free Carrier (FCA) TOULOUSE, FRANCE and/or Free Carrier (FCA) HAMBURG, FEDERAL REPUBLIC OF GERMANY.

#### 14.6 REVISION SERVICE

Unless otherwise specifically stated, revision service shall be provided on a free of charge basis for a period of [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] after delivery of the last firmly ordered Aircraft covered under this Agreement.

#### 14.7 SERVICE BULLETINS (SB) INCORPORATION

During the period of revision service and upon the Buyer's request for incorporation, which shall be made within four years after issuance of a Service Bulletin, Seller's Service Bulletin information shall be incorporated into the Technical Data and Documentation for the Buyer's Aircraft after formal

notification by the Buyer of its intention to accomplish a Service Bulletin. The split effectivity for the corresponding Service Bulletin shall remain in the Technical Data and Documentation until notification from the Buyer that embodiment has been completed on all the Buyer's Aircraft. The above is applicable for Technical Data and Documentation relating to maintenance. For the operational Data and Documentation only the pre or post Service Bulletin status will be shown.

14.8 PERFORMANCE ENGINEER'S PROGRAMS

In addition to the standard operational manuals, the Seller shall provide to the Buyer Performance Engineer's Programs (PEP) under licence conditions as defined in Appendix A to this Clause.

14.9 CD-ROM - CAATS / ADRES

Certain Technical Data and Documentation are provided on CD-ROM under licence conditions as defined in Appendix B to this Clause.

The affected Technical Data and Documentation are the following :

- Trouble Shooting Manual,
- Aircraft Maintenance Manual,
- Illustrated Parts Catalog.

This list may be extended from time to time and the related licence shall reflect such extension.

14.10 AIRBUS ON-LINE SERVICES

14.10.1 Certain Technical Data and Documentation are provided on-line under licence conditions as defined in Appendix C to this Clause, at no cost as long as revision service is provided in accordance with Clause 14.6.

14.10.2 Access to the Technical Data and Documentation available on-line as defined in Exhibit "G" shall be granted free of charge for a maximum of [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] of the Buyer's users (including one Buyer Administrator) for the Technical Data and Documentation related to the Aircraft which shall be operated by the Buyer.

14.10.3 For any Technical Data and Documentation which is available on-line, the Seller reserves the right, subject to prior notification to the Buyer, to suppress other formats for the concerned Technical Data and Documentation.

14.11 FUTURE DEVELOPMENTS

The Seller shall continuously monitor technological developments and apply them to data and document production and methods of transmission where beneficial and economical for both parties. The Buyer accepts to consider any new development proposed by the Seller for possible implementation, but may reasonably select to continue to be supported in the present version.

14.12 TECHNICAL DATA AND DOCUMENTATION FAMILIARIZATION

Upon request by the Buyer, the Seller is ready to provide a one (1) week Technical Data and Documentation familiarization training at the Seller's or at the Buyer's facilities. If such familiarization is conducted at the Buyer's facilities, the Buyer shall reimburse the Seller for all air travel (business class) and living expenses of the Seller's personnel conducting such familiarization.

14.13 CUSTOMER ORIGINATED CHANGES (COC)

14.13.1 At Buyer's request, Buyer originated data may be introduced as COC into the following customized Technical Data and Documentation :

- Aircraft Maintenance Manual (and associated products),

- Illustrated Parts Catalog,
- Trouble Shooting Manual,
- Aircraft Wiring Manual,
- Aircraft Schematics Manual,
- Aircraft Wiring Lists,
- Flight Crew Operating Manual,
- Quick Reference Handbook.

14.13.2 COC data shall be established by the Buyer according to the Customer Guide for Customer Originated Changes, as issued by the Seller. The Buyer shall ensure that any such data is in compliance with the requirements of its local Aviation Authorities.

COC data shall be incorporated by the Seller into all affected customized Technical Data and Documentation unless the Buyer specifies in writing the documents of its choice into which the COC data shall be incorporated. The customized Technical Data and Documentation into which the COC data are incorporated shall only show the Aircraft configuration reflecting the COC data and not the configuration before such COC data's incorporation.

14.13.3 The Buyer hereby acknowledges and accepts that the incorporation of any COC into the Technical Data and Documentation issued by the Seller shall be entirely at the Buyer's risk.

Further, the Buyer acknowledges full liability for the effects, including all related costs, which any COC may have on the implementation of any subsequent Service Bulletins and/or modifications.

14.13.3.1 The Seller shall not be required to check any COC data submitted for incorporation. Accordingly, the Seller shall be under no liability whatsoever in respect of either the contents

of any COC, including any omissions or inaccuracies therein, or the effect, which the incorporation of such COC may have on the Technical Data and Documentation issued by the Seller.

14.13.3.2 In the event of the Seller being required under any court order or settlement to indemnify any third party for injury, loss or damage incurred directly or indirectly as a result of incorporation of any COC into the Technical Data and Documentation issued by the Seller, and except if the COC data is incorporated incorrectly by the Seller through no fault of the Buyer, the Buyer agrees to reimburse the Seller for all payments or settlements made in respect of such injury, loss or damage including any expenses incurred by the Seller in defending such claims.

14.13.4 The incorporation of any COC as aforesaid shall be performed under the conditions specified in the Seller's then current Customer Services Catalog.

#### 14.14 WARRANTIES

14.14.1 The Seller warrants that the Technical Data and Documentation are prepared in accordance with the state of art at the date of their conception. Should any Technical Data and Documentation prepared by the Seller contain non-conformity or defect, the sole and exclusive liability of the Seller shall be to take all reasonable and proper steps to, at its option, correct or replace such Technical Data and Documentation. Notwithstanding the above, no warranties of any kind are given for the Customer Originated Changes, as set forth in Clause 14.13.

14.14.2 THE WARRANTIES, OBLIGATIONS AND LIABILITIES OF THE SELLER AND REMEDIES OF THE BUYER SET FORTH IN THIS CLAUSE 14 ARE EXCLUSIVE AND IN SUBSTITUTION FOR, AND THE BUYER HEREBY WAIVES, RELEASES AND RENOUNCES ALL OTHER WARRANTIES, OBLIGATIONS AND LIABILITIES OF THE SELLER AND RIGHTS, CLAIMS AND REMEDIES OF THE BUYER AGAINST THE SELLER, EXPRESS OR IMPLIED, ARISING BY LAW OR OTHERWISE, WITH RESPECT TO ANY NON-CONFORMITY OR DEFECT IN ANY TECHNICAL DATA AND DOCUMENTATION DELIVERED UNDER THIS AGREEMENT, INCLUDING BUT NOT LIMITED TO :

- (A) ANY IMPLIED WARRANTY OF MERCHANTABILITY OR FITNESS;
- (B) ANY IMPLIED WARRANTY ARISING FROM COURSE OF



- (C) PERFORMANCE, COURSE OF DEALING OR USAGE OF TRADE; ANY OBLIGATION, LIABILITY, RIGHT, CLAIM OR REMEDY, WHETHER CONTRACTUAL OR DELICTUAL AND WHETHER OR NOT ARISING FROM THE SELLER'S NEGLIGENCE, ACTUAL OR IMPUTED; AND
- (D) ANY OBLIGATION, LIABILITY, RIGHT, CLAIM OR REMEDY FOR LOSS OR DAMAGE TO ANY AIRCRAFT, COMPONENT, EQUIPMENT, ACCESSORY OR PART THEREOF.

SELLER SHALL HAVE NO OBLIGATION OR LIABILITY, HOWSOEVER ARISING, FOR LOSS OF USE, REVENUE OR PROFIT OR FOR ANY OTHER DIRECT, INCIDENTAL OR CONSEQUENTIAL DAMAGES WITH RESPECT TO ANY NON-CONFORMITY OR DEFECT IN ANY TECHNICAL DATA AND DOCUMENTATION DELIVERED UNDER THIS AGREEMENT.

14.15 PROPRIETARY RIGHTS

14.15.1 All proprietary rights, including but not limited to patent, design and copyrights, relating to Technical Data and Documentation shall remain with the Seller.

These proprietary rights shall also apply to any translation into a language or languages or media that may have been performed or caused to be performed by the Buyer.

14.15.2 Whenever this Agreement provides for manufacturing by the Buyer, the consent given by the Seller shall not be construed as express or implicit approval howsoever neither of the Buyer nor of the manufactured products. The supply of the Technical Data and Documentation

shall not be construed as any further right for the Buyer to design or manufacture any Aircraft or part thereof or spare part.

14.16 CONFIDENTIALITY

14.16.1 The Technical Data and Documentation and their content are designated as confidential. All such Technical Data and Documentation are supplied to the Buyer for the sole use of the Buyer who undertakes not to disclose the contents thereof to any third party without the prior written consent of the Seller, such consent not to be unreasonably withheld, save as permitted therein or otherwise pursuant to any government or legal requirement imposed upon the Buyer.

14.16.2 In the case of the Seller having authorized the disclosure to third parties either under this Agreement or by an express prior written authorization, the Buyer shall undertake that such third party agree to be bound by the same conditions and restrictions as the Buyer with respect to the disclosed Technical Data and Documentation.

APPENDIX A TO CLAUSE 14

LICENCE FOR USE  
OF THE  
PERFORMANCE ENGINEER'S PROGRAMS (PEP)

LICENCE FOR USE OF THE PERFORMANCE ENGINEER'S PROGRAMS (PEP)

1 GRANT

1.1 The Seller grants the Buyer the right to use the PEP during the term of this licence ("PEP LICENCE") on a single computer.

1.2 The above grant shall be free of charge for as long as the revisions of the PEP are free of charge in accordance with Clause 14. At the end of such period, the yearly subscription fee (revision service) for the PEP shall be charged to the Buyer at the price stated in the then current Seller's Customer Services Catalog.

2 COPIES

2.1 Use of the PEP shall be limited to one (1) copy other than the copies contained in the single computer and copies produced for checkpoint and restart purposes or additional copies made with the consent of the Seller for a specific need.

2.2 The Buyer agrees to reproduce the copyright and other notices as they appear on or within the original media on any copies

that the Buyer makes of the PEP.

3 TERM

3.1 The rights under the PEP Licence shall be granted to the Buyer as long as the Buyer operates a Seller's Aircraft model to which the PEP is applicable. When the Buyer stops operating said Aircraft model, the Buyer shall return the PEP and any copies thereof to the Seller, accompanied by a notice certifying that the Buyer has returned all existing copies.

3.2 For clarification purposes it is hereby expressly stated that PEP shall be offered for a limited time period, not exceeding the term of this PEP Licence. In the event that the Seller should offer a replacement product, the conditions for using such product shall be subject to a separate agreement, which shall not be less favourable for the Buyer than those applicable to the PEP.

4 MERGING

The PEP may be used and adapted in machine readable form for the purpose of merging it into other program material of the Buyer but on termination of this PEP Licence, the PEP shall be removed from the other program material with which it has been merged.

The Buyer agrees to reproduce the copyright and other notices as they appear on or within the original media in any program that the PEP is merged into.

5 PERSONAL LICENCE

The above described PEP Licence is personal to the Buyer, non-transferable and non-exclusive.

6 INSTALLATION

It is the Buyer's responsibility to install the PEP and to perform any mergings and checks.

7 TRAINING

In addition to the performance programs user guide supplied with the PEP, training and other assistance may be provided upon the Buyer's request at no charge within the limits defined in Paragraph 1.4 of Appendix A to Clause 16.

8 PROPRIETARY RIGHTS

The PEP and the copyright and other proprietary rights of whatever nature in the PEP are and shall remain with the Seller. The PEP and its contents are designated as confidential.

9 COPYRIGHT INDEMNITY

The Seller shall defend and indemnify the Buyer against any claim that the normal use of PEP infringes the intellectual property rights of any third party, provided that the Buyer:

9.1 immediately notifies the Seller of any such claim;

9.2 makes no admission or settlement of any claim;

9.3 allows the Seller to have sole control of all negotiations for its settlement;

9.4 gives the Seller all reasonable assistance in connection therewith.

10 CONFIDENTIALITY

The Buyer undertakes not to disclose the PEP or parts thereof and its contents to any third party without the prior written consent of the Seller. In so far as it is necessary to disclose aspects of the PEP to any third party, such disclosure is permitted only for the purpose for which the PEP is supplied and only to the third party who needs to know the same.

11 CONDITIONS OF USE

The Buyer shall ensure that the PEP is correctly used in appropriate machines as described in the PEP delivery documentation and that staff are properly trained to use the same in accordance with the user guide.

12 WARRANTY

12.1 The Seller warrants that the PEP is prepared in accordance with the state of art at the date of conception. Should the PEP be found to contain any non-conformity or defect, the Buyer shall notify the Seller promptly thereof and the sole and exclusive liability of the Seller under this PEP Licence shall be to correct the same at its own expense.

12.2 THE WARRANTIES, OBLIGATIONS AND LIABILITIES OF THE SELLER AND REMEDIES OF THE BUYER SET FORTH IN THIS PEP LICENCE ARE WAIVES, EXCLUSIVE AND IN SUBSTITUTION FOR, AND THE BUYER HEREBY RELEASES AND RENOUNCES ALL OTHER WARRANTIES, OBLIGATIONS AND LIABILITIES OF THE SELLER AND RIGHTS, CLAIMS AND REMEDIES OF THE BUYER AGAINST THE SELLER, EXPRESS OR IMPLIED, ARISING BY LAW OR OTHERWISE, WITH RESPECT TO ANY NON-CONFORMITY OR DEFECT IN THE PEP DELIVERED UNDER THIS AGREEMENT INCLUDING BUT NOT LIMITED TO:

- (A) ANY IMPLIED WARRANTY OF MERCHANTABILITY OR FITNESS;
  
- (B) ANY IMPLIED WARRANTY ARISING FROM COURSE OF PERFORMANCE, COURSE OF DEALING OR USAGE OF TRADE;
- (C) ANY OBLIGATION, LIABILITY, RIGHT, CLAIM OR REMEDY, WHETHER CONTRACTUAL OR DELICTUAL AND WHETHER OR NOT ARISING FROM THE SELLER'S NEGLIGENCE, ACTUAL OR IMPUTED; AND
- (D) ANY OBLIGATION, LIABILITY, RIGHT, CLAIM OR REMEDY FOR LOSS OR DAMAGE TO ANY AIRCRAFT, COMPONENT, EQUIPMENT, ACCESSORY OR PART THEREOF.

SELLER SHALL HAVE NO OBLIGATION OR LIABILITY, HOWSOEVER ARISING, FOR LOSS OF USE, REVENUE OR PROFIT OR FOR ANY OTHER DIRECT, INCIDENTAL, OR CONSEQUENTIAL DAMAGES WITH RESPECT TO ANY NON-CONFORMITY OR DEFECT IN THE PEP DELIVERED UNDER THIS AGREEMENT.

APPENDIX B TO CLAUSE 14

LICENCE FOR USE OF CD-ROM -- CAATS / ADRES

LICENCE FOR USE OF CD-ROM -- CAATS / ADRES \*\*

1 GRANT

1.1 The Seller grants the Buyer the right to use the Aircraft Documentation Retrieval System (ADRES) and/or the Computer Assisted Aircraft Trouble Shooting (CAATS) on CD-ROM for the term of this licence ("CAATS/ADRES LICENCE").

1.2 The above grant shall be free of charge for as long as the revisions of CAATS and ADRES are free of charge in accordance with Clause 14. At the end of such period(s) yearly subscription fees (revision service) shall be charged to the Buyer at the price stated in the then current Seller's Customer Services Catalog.

2 COPIES

Use of ADRES and/or CAATS shall be limited to the number of copies defined between the parties.

3 TERM

3.1 The rights under the CAATS/ADRES Licence shall be granted from the date of first delivery of ADRES and/or CAATS as long as the Buyer operates the Aircraft or until a replacement product shall be provided by the Seller, whichever occurs first. Within thirty (30) days of termination of the CAATS/ADRES Licence, the Buyer shall return ADRES and/or CAATS and all copies thereof to the Seller.

3.2 For clarification purposes it is hereby expressly stated that ADRES and/or CAATS shall be offered for a limited time period, not exceeding the term of this CAATS/ADRES Licence. In the event that the Seller should offer a replacement product, the conditions for using such product shall be subject to a

4 REVISION SERVICE

The Seller shall provide revision service for ADRES and/or CAATS during the term. The revision service shall be based on the revision service which the Seller provides for the applicable documentation in paper or film format. Temporary revisions shall be provided in digital format under the form of 3.5-inch floppy disk. The retrieval software for such temporary revisions shall be embodied on the CAATS and ADRES CD-ROM.

5 PERSONAL LICENCE

The CAATS/ADRES Licence is personal to the Buyer, non-transferable and non-exclusive. The Buyer shall not permit any third party to use ADRES and/or CAATS without prior written consent from the Seller.

6 INSTALLATION

The Seller shall provide the hardware recommendation on which CAATS and ADRES have been tested by the Seller. The Buyer shall be responsible for procuring such hardware or equivalent for installing ADRES and/or CAATS.

7 SUPPORT

In addition to the user guide supplied with ADRES and/or CAATS, familiarization and other assistance may be provided upon the Buyer's request at conditions to be mutually agreed.

8 PROPRIETARY RIGHTS

ADRES and/or CAATS are proprietary to the Seller and the copyright and all other proprietary rights in ADRES and/or CAATS are and shall remain the property of the Seller.

9 COPYRIGHT INDEMNITY

The Seller shall defend and indemnify the Buyer against any claim that the normal use of ADRES and/or CAATS infringes the intellectual property rights of any third party, provided that the Buyer:

9.1 immediately notifies the Seller of any such claim;

9.2 makes no admission or settlement of any claim;

9.3 allows the Seller to have sole control of all negotiations for its settlement;

9.4 gives the Seller all reasonable assistance in connection therewith. The Seller shall reimburse the Buyer reasonable expenses incurred, if any, in connection with such assistance.

10 CONFIDENTIALITY

ADRES and/or CAATS and their contents are designated as confidential. The Buyer undertakes not to disclose ADRES and/or CAATS or parts thereof to any third party without the prior written consent of the Seller. In so far as it is necessary to disclose aspects of ADRES and/or CAATS to the employees, such disclosure is permitted solely for the purpose for which ADRES and/or CAATS are supplied and only to those employees who need to know the same.

11 WARRANTY

11.1 The Seller warrants that the ADRES and CAATS are prepared in accordance with the state of art at the date of conception. Should the ADRES and/or CAATS be found to contain any non-conformity or defect, the Buyer shall notify the Seller promptly thereof and the sole and exclusive liability of the Seller under this CAATS/ADRES Licence shall be to correct the same in the next revision if practicable, at the Seller's expense.

11.2 WAIVER, RELEASE AND RENUNCIATION

THE WARRANTIES, OBLIGATIONS AND LIABILITIES OF THE SELLER AND REMEDIES OF THE BUYER SET FORTH IN THIS CAATS/ADRES LICENCE ARE EXCLUSIVE AND IN SUBSTITUTION FOR, AND THE BUYER HEREBY WAIVES, RELEASES AND RENOUNCES ALL OTHER WARRANTIES, OBLIGATIONS AND LIABILITIES OF THE SELLER AND RIGHTS, CLAIMS AND REMEDIES OF THE BUYER AGAINST THE SELLER, EXPRESS OR IMPLIED, ARISING BY LAW OR OTHERWISE, WITH RESPECT TO ANY NON-CONFORMITY OR DEFECT IN ADRES AND/OR CAATS DELIVERED UNDER THIS AGREEMENT, INCLUDING BUT NOT LIMITED TO:

- (A) ANY IMPLIED WARRANTY OF MERCHANTABILITY OR FITNESS;
- (B) ANY IMPLIED WARRANTY ARISING FROM COURSE OF PERFORMANCE, COURSE OF DEALING OR USAGE OF TRADE;
  
- (C) ANY OBLIGATION, LIABILITY, RIGHT, CLAIM OR REMEDY, WHETHER CONTRACTUAL OR DELICTUAL AND WHETHER OR NOT ARISING FROM THE SELLER'S NEGLIGENCE, ACTUAL OR IMPUTED; AND
  
- (D) ANY OBLIGATION, LIABILITY, RIGHT, CLAIM OR REMEDY FOR LOSS OR DAMAGE TO ANY AIRCRAFT, COMPONENT, EQUIPMENT, ACCESSORY OR PART THEREOF.

SELLER SHALL HAVE NO OBLIGATION OR LIABILITY, HOWSOEVER ARISING, FOR LOSS OF USE, REVENUE OR PROFIT OR FOR ANY OTHER DIRECT, INCIDENTAL, OR CONSEQUENTIAL DAMAGES WITH RESPECT TO ANY NON-CONFORMITY OR DEFECT IN ADRES AND/OR CAATS DELIVERED UNDER THIS AGREEMENT.

APPENDIX C TO CLAUSE 14

LICENCE FOR USE OF AIRBUS ON-LINE SERVICES  
(AOLS)

AOLS GENERAL CONDITIONS OF LICENSING

These Airbus On-Line Services (AOLS) General Conditions of Licensing ("the Conditions") shall apply to services provided by the Seller in relation with AOLS.

1. DEFINITIONS

In these Conditions:

<TABLE> <CAPTION> <S>	<C>
The " Access Procedure Kit"	means the information necessary for accessing the Database.
The "Administrator"	means the person appointed by the User Entity to be responsible for qualifying, suspending or canceling the qualification of an Authorized User, gathering identification information relative to such Authorized User, applying to the Certification-Service-Provider for the appropriate Certificate, providing the necessary access equipment as specified by the Seller, registering the Authorized User and the Authorized User related Certificate with the Seller and managing the Authorized Users.
The "Authorized User"	means a natural person who has been authorized by the Administrator of the User Entity to access the Database under these Conditions.
The "Certificate"	means an electronic record (file) that binds a Public Key to the identity of the owner of a Public -- Private Key pair and is signed by the Certification-Service-Provider.
The "Certification-Service-Provider"	means an entity or a legal or natural person retained by the Seller, who issues Certificates and/or provides other services related to Electronic Signature.
The "Data"	means usual representation of a piece of information - whether collected or produced on any medium - so as to facilitate its processing on the Database.
The "Database"	means Data of the Seller organized in such a manner as to be used by computer programs forming distinct applications to facilitate electronic or telecommunication Data exchange and computer programs comprising the necessary electronic elements for the operation of the Database such as a Database index, viewing systems, and database services known as AOLS.

</TABLE>

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The "Electronic Signature"	means data in electronic form which are attached to or logically associated with other electronic data and which serve as a method of authentication.
The "Extracting"	means temporary or permanent transfer of Data from a Database by any means or media.
The "Multibase"	means a set of databases, which compose the Database.
The "On-Line Help"	means on-line operating assistance and guidance information.
The "Public key"	means the public cryptographic key used for the purpose of verifying an Electronic Signature.
The "Public Key Infrastructure"	means the system organizing the generation and distribution of keys and Certificates.
The "Private Key"	means the private cryptographic key used for the purpose of creating an Electronic Signature.
The "Reader"	means equipment to be acquired by the User Entity to be used with the Smartcard for authentication of the User Entity's Authorized Users.
The "Smartcard"	means a card supplied by the Seller, memorizing the User Entity's Authorized User's identity, personal password and Private Key for use with the Reader for authentication and security purposes.
The "Substantial Extraction"	means permanent or temporary transfer of a substantial part of the Data from the Database by any means or media.
The "Use"	means viewing, Extracting, reviewing, printing, reproducing, on any media, of Data from the Database, under the conditions set forth in these Conditions.
The "User Entity"	means the Buyer.
The "User Guide"	means documentation, which may be in electronic format, designed to assist the Authorized User to use the Database.

</TABLE>

## 2. SCOPE

- 2.1 The Seller owns an original Database built from Data realized and collected by the Seller related to Airbus aircraft technical and commercial documentation and information, which is available via a set of services known as Airbus On-Line Services ("AOLS"). The different AOLS services may be accessed via Airbus On-Line Services website.
- 2.2 The Conditions define the terms and conditions under which the Seller grants the User Entity, who accepts, a personal, non-exclusive, non-assignable and non-transferable right to use Data from the AOLS Database for its own professional needs.
- 2.3 The User Entity represents to be competent to use and evaluate the AOLS services and represents further that the Database matches its professional needs. The User Entity also represents to have the adequate resources to administer its Authorized Users and to implement Electronic Signature technology.

## 3. LICENCED RIGHTS

The User Entity shall be granted, for Authorized Users only, a non-exclusive, personal, non-transferable, non-assignable right to access, use, extract, reproduce, print Data from the Database

from the site(s) designated by the Seller for its own strictly professional needs for the duration of these Conditions.

Such right shall extend to all Authorized Users of the User Entity on the basis of the level of service selected by the User Entity. The User Entity shall not, under any circumstances, carry out a Substantial Extraction of Data from the Database.

## 4. CONFIGURATION

The User Entity acknowledges that the Seller may not be held responsible for any consequences attached to the Seller's modification from time to time of its information system's configuration, including its operating system, and of any software used in connection with the Database.

## 5. DATABASE CONDITIONS OF USE

- 5.1 The User Entity shall appoint one or several Administrators who shall be responsible for qualifying, suspending or canceling the qualification of Authorized Users, gathering identification information relative to such Authorized Users, applying to the Certification-Service-Provider for the

appropriate Certificate, providing the necessary access equipment as specified by the Seller, registering the Authorized Users and the Authorized User related Certificates with the Seller and managing the Authorized Users.

An Authorized User may access AOLS services by logging onto the Airbus On-Line Services website as specified by the Seller. Log on procedures set forth by the Seller and in the Access Procedure Kit made available to the User Entity require a Certificate issued by a Certification-Service-Provider, used with the Authorized User's Smartcard and a Reader for the Administrator.

- 5.2 The User Entity is only granted the right to use the AOLS Database services under the terms and conditions set forth herein. The Database shall only be used for the User Entity's own professional needs. The User Entity shall be solely responsible for the choice of the services it wishes to access.

The User Entity is solely responsible for defining its own search strategy on the Database, for evaluating the appropriateness of the search results and for defining how to use the Data obtained from the Database.

The User Entity shall take all reasonable steps necessary to prevent unauthorized access to the Database, the Data and to the documentation including the User Guide. Positive authentication of an Authorized User in the conditions set forth herein and as specified by the Seller shall bind the User Entity for each and every transaction performed by such Authorized User and the User Entity expressly waives any right to repudiate any transaction resulting from such Use.

The User Entity shall comply with the security procedure as defined by the Seller.

#### 6. DATABASE AVAILABILITY

The Database shall be available to the User Entity on a 24 hours a day/7 days a week basis. Notwithstanding the above, the Seller reserves the right to suspend temporarily the access to AOLS where such suspension is necessary for fixing security problems, performing maintenance services, updating and/or upgrading the Database. the Seller will inform the User Entity in due time before any scheduled suspension, except in case of security problems. In the case of such suspensions, the Seller shall use reasonable endeavours to limit the service down-time.

#### 7. EVIDENTIARY AGREEMENT

The electronic logs produced by the Seller's information system shall be held as valid evidence of the communications, transactions and payments made between the Seller and the User Entity via reiterated, electronically communicated consent. the Seller will store such logs in a reasonably secure manner on its information system or any third party's system or medium.

The Seller shall also ensure that such data contained on such logs are not altered or modified after their initial recording.

#### 8. ELECTRONIC SIGNATURE

The use by the User Entity of the Certificates together with the Readers remains within the User Entity's sole control and shall attest:

- authentication of the User Entity and the Authorized User;
- authentication of the Data communicated by and/or to the User Entity and the Authorized User;
- Electronic Signature of the User Entity and the Authorized User.

#### 9. CERTIFICATION

The Seller will specify a Certification-Service-Provider, who will provide for certification of the Authorized Users.

Such Certification-Service-Provider shall, upon the User Entity's application, issue one or several Certificates containing the identification of the Certification-Service-Provider and the country in which such Certificate was established, the identification of the User Entity and the Authorized User, the User Entity's and the Authorized User's Public Key corresponding to the User Entity's and the Authorized User's Private Key, the identity code of the Certificate, the Electronic Signature of the Certification-Service-Provider issuing the Certificate and possible limitations on the scope of use of the Certificate.

10. INTELLECTUAL PROPERTY RIGHTS

- 10.1 The User Entity is hereby informed that the Database is owned by the Seller pursuant to French intellectual property laws. The User Entity shall not infringe directly or indirectly the Seller's ownership rights on the Database. The User Entity shall not deactivate the Database-integrated security system.
- 10.2 The User Entity is not authorized to make representations in any form whatsoever, to market or to promote the Database or any Data from the Database, whether gratuitously or for a consideration. The User Entity is not authorized to adapt, modify, alter, arrange or translate the Database for any reason. The User Entity is not authorized to create a new Database competing with the Seller's Database. The User Entity is not authorized to alter in any way the Database's architecture.
- 10.3 The User Entity shall inform members of its personnel, agents and representatives of the terms of the foregoing disposition as well as of the terms limiting the Database Use provided under these Conditions. The User Entity shall take all necessary steps to prevent unauthorized access to the Database. The User Entity shall maintain all copyright mentions appearing on the Database, Data and documentation including User Guide, on any media.
- 10.4 The foregoing does not operate any assignment of intellectual property rights to the User Entity but, rather, grants the User Entity rights to use the Database as provided under these Conditions.
- 10.5 User documentation, including User Guide and On-Line Help, is and shall remain the Seller's property. The User Entity is granted a right to use such documentation solely in connection with its Use of the Database.

11. INTELLECTUAL PROPERTY RIGHTS INDEMNITY

The Seller shall defend and indemnify the User Entity against any claim that the normal Use of the Database infringes the intellectual property rights of any third party, provided that the User Entity:

- immediately notifies the Seller of any such claim;
- makes no admission or settlement of any claim;
- allows the Seller to have sole control over such claim;
- gives the Seller all reasonable assistance in connection therewith.

12. PRICE AND PAYMENT

Licensing fees and payment terms are as specified by the Seller. In any event, the licensing fees will [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

13. WARRANTY

- 13.1 The Seller warrants that the Database is prepared in accordance with the state of art at the date of conception. Should the Database be found to contain any non-conformity or defect, the User Entity shall notify the Seller promptly thereof and the sole and exclusive liability of the Seller under this Database License shall be to correct the same at its own expense.
- 13.2 The above warranty is subject to the following conditions:
- 13.2.1 By reason of (i) the diversity of the information sources, (ii) the information processing complexity, (iii) the difficulty to control sources by cross-checking, the User Entity shall use the Data with care.
- 13.2.2 The User Entity shall inform the Seller of any error or lack of Data it may become aware of during the performance of these Conditions. Data transmission occurs at the User Entity's own risks.
- 13.2.3 The User Entity shall be solely responsible for selecting and maintaining telecommunication lines, information system equipment and configuration, software, including browser, and software products enabling the User Entity to access the Airbus AOLS website.
- 13.2.4 The User Entity is aware of the limitations of the AOLS website, including in terms of the network's availability, speed or malfunction and that it shall in no event hold the Seller responsible for such shortcomings inherent to the network. Further, the User Entity shall ensure that any software, including proprietary software, which may interface with the relevant Database does not affect the Database access conditions.



13.2.5 The User Entity shall comply with its obligations related to the access and Use of the Database defined in these Conditions.

### 13.3 WAIVER, RELEASE AND RENUNCIATION

THE WARRANTIES, OBLIGATIONS AND LIABILITIES OF THE SELLER AND REMEDIES OF THE USER ENTITY SET FORTH IN THESE CONDITIONS ARE EXCLUSIVE AND IN SUBSTITUTION FOR, AND THE USER ENTITY HEREBY WAIVES, RELEASES AND RENOUNCES ALL OTHER WARRANTIES, OBLIGATIONS AND LIABILITIES OF THE SELLER AND RIGHTS, CLAIMS AND REMEDIES OF THE USER ENTITY AGAINST THE SELLER, EXPRESS OR IMPLIED, ARISING BY LAW OR OTHERWISE, WITH RESPECT TO ANY NON-CONFORMITY OR DEFECT IN THE DATABASE MADE AVAILABLE UNDER THESE CONDITIONS INCLUDING BUT NOT LIMITED TO:

- (A) ANY IMPLIED WARRANTY OF MERCHANTABILITY OR FITNESS;
- (B) ANY IMPLIED WARRANTY ARISING FROM COURSE OF PERFORMANCE, COURSE OF DEALING OR USAGE OF TRADE;
- (C) ANY OBLIGATION, LIABILITY, RIGHT, CLAIM OR REMEDY, WHETHER CONTRACTUAL OR DELICTUAL AND WHETHER OR NOT ARISING FROM THE SELLER'S NEGLIGENCE, ACTUAL OR IMPUTED; AND
- (D) ANY OBLIGATION, LIABILITY, RIGHT, CLAIM OR REMEDY FOR LOSS OR DAMAGE TO ANY AIRCRAFT, COMPONENT, EQUIPMENT, ACCESSORY OR PART THEREOF.

THE SELLER SHALL HAVE NO OBLIGATION OR LIABILITY, HOWSOEVER ARISING, FOR LOSS OF USE, REVENUE OR PROFIT OR FOR ANY OTHER DIRECT, INCIDENTAL OR CONSEQUENTIAL DAMAGES WITH RESPECT TO ANY NON-CONFORMITY OR DEFECT IN THE DATABASE MADE AVAILABLE UNDER THESE CONDITIONS.

### 14. NON DISCLOSURE

The User Entity shall not disclose the Database or parts thereof and its contents to any third party without the prior written consent of the Seller.

### 15. ADMINISTRATIVE AUTHORIZATIONS

The Seller and the User Entity shall assist one another and co-operate in order to obtain and hold all necessary administrative authorizations for the performance of these Conditions.

### 16. PERSONAL DATA PROTECTION

The Seller and the User Entity shall register with the relevant authority or authorities any personal data files or personal data automated processing systems as provided under applicable local laws and shall inform each other of any information system evolution, which could affect such registration(s).

The User Entity is hereby notified in accordance with article 27 of French law n(degree)78-17 of January 6, 1978, that the Seller will request personal data from the User Entity for accessing the Database. Failure to provide such data shall prevent access to the Database. Personal data will be used by the Seller, its members, affiliated companies and subcontractors for the sole purpose of connecting and accessing the Database by the User Entity and shall be kept strictly confidential. Such personal data are protected by the above mentioned law.

Personal data may be accessed by the User Entity and, as the case may be, rectified in writing addressed to the Seller. The User Entity shall notify Authorized Users of their aforementioned rights and shall personally abide by applicable rules on personal data protection.

### 17. EXCUSABLE DELAYS

17.1 The Seller shall not be responsible nor be deemed to be in default on account of delays in delivery or otherwise in the performance of these Conditions or any part thereof due to causes reasonably beyond the Seller 's or its subcontractors' control including but not limited to: natural disasters, fires, floods, explosions or earthquakes, epidemics or quarantine restrictions, serious accidents, total or constructive total loss, any act of the government of the country of the User Entity or the governments of the countries of the Seller or its subcontractors, war, insurrections or riots, failure of transportation, communications or services, strikes or labor troubles causing cessation, slow down or interruption of services, inability after due and timely diligence to procure materials, accessories, equipment or parts, failure of a subcontractor or vendor to furnish materials, accessories, equipment or parts due to causes reasonably beyond such subcontractor's or vendor's control or failure of the User Entity to comply with its obligations arising out of the present Conditions.

17.2 The Seller shall, as soon as practicable after becoming aware of any delay falling within the provisions of this Clause, notify the User Entity of such delay and of the probable extent thereof and shall, subject to the conditions as hereinafter provided and as soon as practicable after the removal of the cause or causes for delay, resume performance under these Conditions.

17.3 Should an event of force majeure last for a period extending beyond [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT], these Conditions shall be automatically terminated, as a matter of right, unless otherwise agreed in writing, without compensation for either the Seller or the User Entity. Fees already paid for the current year shall be reimbursed by the Seller to the Buyer.

18. TERMINATION

18.1 In the event of breach of an obligation set forth in these Conditions by either the Seller or the User Entity, which is not cured within 30 days from the date of receipt of a written notice notifying the breach, the non-breaching party shall be entitled to terminate these Conditions.

18.2 In the event of termination for any cause, the User Entity shall no longer have any right to use the Database. In addition, in case the Buyer is the breaching party, the Seller shall be entitled to retain any amount paid for the ongoing year.

19. GENERAL PROVISIONS

19.1 ASSIGNMENT

These Conditions or part thereof may not be assigned to a third party without the prior consent of the other party except that the Seller may assign all or part of these Conditions to any the Seller member or affiliate company.

19.2 LAW

These Conditions will be governed by the laws of France. All disputes arising in connection with these Conditions shall be submitted to the competent courts in Toulouse, France.

19.3 INVALIDITY

In the event that any provision of these Conditions should for any reason be held ineffective, the remainder of these Conditions shall remain in full force and effect.

19.4 NOTICES

All notices and requests required or authorized hereunder shall be given in writing either by registered mail (return receipt requested) or by fax at the addresses set forth below. In the case of any such notice or request being given by registered mail, the date upon which it is received by the addressee or, in the case of a fax, the date upon which the answerback is recorded by the sender's fax machine, shall be deemed to be the effective date of such notice or request.

15. SELLER REPRESENTATIVES

15.1 CUSTOMER SUPPORT MANAGER

The Seller shall assign one (1) customer support manager based at the Seller's main office to coordinate customer support matters between the Seller's main office and the Buyer after signature of this Agreement for as long as one (1) Aircraft is operated by the Buyer.

15.2 CUSTOMER SERVICES REPRESENTATIVES

15.2.1 The Seller shall provide free of charge the services of Seller customer services representatives ("SELLER'S REPRESENTATIVES") acting in an advisory capacity as defined in Appendix A of this Clause 15.

15.2.2 In the event of a need for non-routine technical assistance, the Buyer shall have non-exclusive access to the Seller's Representatives closest to the Buyer's main base after the end of the assignment of the Seller's Representatives referred to in Appendix A of this Clause 15. A list of the contacts for

the Seller's Representatives closest to the Buyer's main base shall be provided to the Buyer.

15.2.3 The Seller shall cause similar services to be provided by competent representatives of the Propulsion System Manufacturer and by Supplier representatives when necessary and applicable.

15.2.4 The Seller shall provide to the Buyer an annual written accounting of the consumed man-months and any remaining man-month balance. Such accounting shall be deemed as final and acceptable to the Buyer unless the Seller receives written objection from the Buyer within thirty (30) days of receipt of such accounting.

15.2.5 If requested by the Buyer, Seller Representative services exceeding the allocation specified in Appendix A of this Clause 15 may be provided by the Seller subject to terms and conditions to be mutually agreed.

#### 15.3 BUYER'S SERVICE

15.3.1 From the date of arrival of the first of the Seller's Representatives and for the duration of the assignment, the Buyer shall provide free of charge a suitable lockable office, conveniently

located with respect to the Buyer's maintenance facilities, with complete office furniture including telephone and facsimile connections for the sole use of the Seller's Representatives, and with access to relevant office equipment.

15.3.2 Should the Buyer request any of the Seller's Representatives referred to in Clause 15.2 above, to travel on business to a city other than his usual place of assignment, the Buyer shall be responsible for reasonable related transportation costs and expenses.

15.3.3 The Buyer shall assist the Seller to obtain from the civil authorities of the Buyer's country those documents which are necessary to permit the Seller's Representatives to live and work in the Buyer's country.

15.3.4 The Buyer shall reimburse to the Seller charges, taxes, duties, imposts or levies of any kind whatsoever, imposed by authorities of the Buyer's country upon :

- the entry into or exit from the Buyer's country of the Seller's Representatives and their families,
- the entry into or the exit from the Buyer's country of the Seller's Representatives and their families' personal property,

#### 15.4 WITHDRAWAL OF THE SELLER'S REPRESENTATIVES

The Seller shall have the right to withdraw at its cost its assigned Seller Representatives as it sees fit if conditions arise which are in the Seller's opinion dangerous to their safety or health or prevent them from fulfilling their contractual tasks.

#### 15.5 SELLER'S REPRESENTATIVES' STATUS

In providing the above technical services, the Seller's Representatives and other employees are deemed to be acting in an advisory capacity only and at no time shall they be deemed to act as Buyer's employees or agents, either directly or indirectly.

#### 15.6 INDEMNITIES

INDEMNIFICATION PROVISIONS APPLICABLE TO THIS CLAUSE 15 ARE SET FORTH IN CLAUSE 19.

#### SELLER REPRESENTATIVE ALLOCATION

The Seller Representative allocation that is provided to the Buyer pursuant to Clause 15.2 is defined hereunder.

1 The Buyer shall be provided a total of [CONFIDENTIAL MATERIAL

OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] man-months of Seller Representative services at the Buyer's main base or at other locations to be mutually agreed.

2 In addition, and to assist the Buyer with the entry into service of the Aircraft, the Seller shall provide an additional [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] of Seller Representatives services.

3 The number of the Seller's Representatives assigned to the Buyer at any one time shall be mutually agreed, but at no time shall it exceed [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] men.

4 Absence of an assigned Seller's Representative during normal statutory vacation periods not to exceed [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] per year are covered by the Seller's Representatives as defined in Clause 15.2.2 and as such are accounted against the total allocation provided in item 1 above.

## 16 TRAINING AND TRAINING AIDS

### 16.1 GENERAL

This Clause covers the terms and conditions for the supply of training and training aids for the Buyer's personnel to support the Aircraft operation.

### 16.2 SCOPE

16.2.1 The range and quantities of training and training aids to be provided free of charge under this Agreement are covered in Appendix A to this Clause 16. 16.2.2 The contractual training courses shall be provided up to one (1) year after delivery of the last Aircraft ordered under this Agreement.

16.2.3 In the event that the Buyer should use none or only part of the training or training aids to be provided pursuant to this Clause, no compensation or credit of any sort shall be provided.

### 16.3 TRAINING ORGANIZATION / LOCATION

16.3.1 The Seller shall provide the training at its training center in BLAGNAC, FRANCE, or one of its affiliated training centers, acceptable to the Buyer.

16.3.2 In the event of the non-availability of facilities or scheduling imperatives making training by the Seller impractical, the Seller shall make arrangements for the provision to the Buyer of such training support elsewhere.

16.3.3 Upon the Buyer's request the Seller may also provide certain training at one of the Buyer's bases, if and when practicable for the Seller, under terms and conditions to be mutually agreed upon. In this event, all additional reasonable charges listed in sub-Clause 16.6.2 shall be borne by the Buyer.

### 16.4 TRAINING COURSES

16.4.1 Training courses, as well as the minimum and maximum numbers of trainees per course provided for the Buyer's personnel are defined in the applicable brochure describing the various Seller's training courses ("the Seller's Training Course Catalog") and will be scheduled as mutually agreed upon during a training conference ("the Training Conference") to be held at least twelve (12) months prior to delivery of the first Aircraft.

16.4.2 When training is performed by the Seller:

- (i) Training courses shall be the Seller's standard courses as described in the Seller's applicable Training Course Catalog valid at the time of the execution of the course. The Seller shall be responsible for all training course syllabi,

training aids and training equipment necessary for the organization of the training courses;

- (ii) The training curricula and the training equipment may not be fully customized. However, academic curricula may be modified to include the most significant of the Buyer's Aircraft Specification (to the exclusion of Buyer Furnished Equipment) as known at the latest six (6) months prior to the date of the first training course planned for the Buyer. The equipment used for training of flight and maintenance personnel shall not be fully customized; however, this equipment shall be configured in order to obtain the relevant Aviation Authority's approval and to support the Seller's teaching programs. Training data and documentation shall not be revised ;
- (iii) Training data and documentation for trainees receiving the contractual training at the Seller's training centers shall be free-of-charge. Training data and documentation shall be marked "FOR TRAINING ONLY" and as such are supplied for the sole and express purpose of training ;
- (iv) Upon the request of the Buyer, the Seller will collect and pack for consolidated shipment to the Buyer's facility, all training data and documentation of the

Buyer's trainees attending training at the Seller's training center in BLAGNAC, FRANCE at no charge to the Buyer ;

The above shipment shall be delivered Free Carrier ("FCA") Toulouse, Blagnac Airport, as the term Free Carrier ("FCA") is defined by publication N(degree)560 of the International Chamber of Commerce published in January 2000. Title to and risk of loss of said shipment shall pass to the Buyer upon delivery.

16.4.3 In the event of the Buyer deciding to cancel or re-schedule a training course, a minimum advance notice of [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] calendar days shall be required. Any later cancellation or change, when courses cannot be allocated to other customers, shall be deducted from the training allowances defined herein or be charged to the Buyer, as applicable. The number of crews or trainee days which shall be deducted shall correspond to the actual number of crews or trainee days which had been originally planned.

16.4.4 In fulfillment of its obligation to provide training courses, when the Seller performs the training courses, the Seller shall deliver to the trainees a certificate of completion at the end of any such training course. The Seller's certificate does not represent authority or qualification by any official Aviation Authorities but may be presented to such officials in order to obtain relevant formal qualification.

In the event of the training being provided by a training provider selected by the Seller, the Seller shall cause such training provider to deliver a certificate of completion at the end of any such training course. Such certificate shall not represent authority or qualification by any official Aviation Authorities but may be presented to such officials in order to obtain relevant formal qualification

16.5 PREREQUISITES

16.5.1 Training will be conducted in English and all training aids are written in English using common aeronautical terminology. Trainees must have the prerequisite experience as defined in Appendix "B" to this Clause 16.

It is clearly understood that the Seller's training courses are "Transition Training Courses" and not "Ab Initio Training Courses".

Furthermore, the Buyer shall be responsible for the selection of the trainees and for any liability with respect to the entry knowledge level of the trainees.

- 16.5.2 The Buyer shall provide the Seller with an attendance list of the trainees for each course with the validated qualification of each trainee. The Seller reserves the right to check the trainees' proficiency and previous professional experience. The Seller shall in no case warrant or otherwise be held liable for any trainee's performance as a result of any training services thus provided.
- 16.5.3 Upon the Buyer's request, the Seller may be consulted to direct the above mentioned trainee(s) through a relevant entry level training program, which shall be at the Buyer's charge, and, if necessary, to coordinate with competent outside organizations for this purpose. Such consultation shall be held during the Training Conference.
- In the event the Seller should determine that a trainee lacks the required entry level, such trainee shall, following consultation with the Buyer, be withdrawn from the program and shall then be considered to be at the Buyer's disposal.
- 16.6 LOGISTICS
- 16.6.1 TRAINEES
- 16.6.1.1 The Seller shall provide free local transportation by bus for the Buyer's trainees to and from designated pick up points and the Seller's or the Seller's affiliated training center.
- 16.6.1.2 Living expenses for the Buyer's trainees are to be borne by the Buyer.
- 16.6.2 SELLER'S INSTRUCTORS -- TRAINING AT EXTERNAL LOCATION
- In the event that training is provided by the Seller's instructors at any location other than the Seller's training centers, the Buyer shall reimburse the Seller for the expenses as agreed during the Training Conference, related to the assignment of such instructors and their performance of the duties as aforesaid.
- 16.6.2.1 LIVING EXPENSES
- Such expenses, covering the entire period from day of secondment to day of return to the Seller's base, shall include but shall not be limited to lodging, food and local transportation to and from the place of lodging and the training course location. The Buyer shall reimburse the Seller for such expenses as agreed during the Training Conference, on the basis of a per diem rate corresponding to the current per diem rate used by the Seller for its personnel.
- 16.6.2.2 AIR TRAVEL
- The Buyer will provide the Seller tickets for the Seller's instructors in confirmed business class (if available) to and from the Buyer's designated training site and the Seller's training center.
- 16.6.2.3 TRAINING MATERIAL
- The Buyer shall reimburse the Seller the cost of shipment for the training material needed to conduct such courses.
- 16.6.2.4 TRANSPORTATION SERVICES
- The Buyer shall be solely liable for any and all delay in the performance of the training outside of the Seller's training centers associated with the transportation services described above.
- 16.6.3 TRAINING EQUIPMENT AVAILABILITY - TRAINING AT EXTERNAL LOCATION
- Training equipment necessary for course performance at any course location other than the Seller's training centers or the facilities of the training provider selected by the Seller shall be provided by the Buyer in accordance with the Seller's specifications.
- 16.7 FLIGHT OPERATIONS TRAINING
- 16.7.1 FLIGHT CREW TRAINING COURSE

16.7.1.1 The Seller shall perform a flight crew training course program (regular transition program or a cross crew qualification program as applicable) for the Buyer's flight crews, each of which shall consist of one captain (1) and one (1) first officer, as defined in Appendix A to this Clause 16. The training manual used shall be the Seller's Flight Crew Operating Manual. Upon Buyer's request, the Buyer documentation may be used, provided the content of such documentation is not in conflict with the Seller's Flight Crew Operating Manual.

The Buyer shall provide the Seller with an attendance list of trainees and return to the Seller the Airbus Trainee Questionnaire detailing the associated pilot background at the latest one (1) month before the start of the training course.

16.7.1.2 Whenever base flight training is required, the Buyer shall use its delivered Aircraft for said base flight training, which shall not exceed one (1) session of one and a half (1.5) hours per pilot. When such base flight crew training is performed at a designated site of the Seller, the Seller shall provide free-of-charge line maintenance, including servicing, preflight checks and changing of minor components, subject to conditions agreed in the present Agreement.

16.7.1.3 The Buyer shall provide mutually agreed spare parts as required to support said Aircraft in-flight training and shall provide insurance in line with Clause 16.12.

16.7.1.4 In all cases, the Buyer shall bear all expenses such as fuel, oil and landing fees.

#### 16.7.2 FLIGHT CREW LINE INITIAL OPERATING EXPERIENCE

16.7.2.1 In order to assist the Buyer with initial operating experience after delivery of the first Aircraft, the Seller shall provide to the Buyer pilot instructor(s) as defined in Appendix A to this Clause 16.

16.7.2.2 The Buyer shall reimburse the expenses for each such instructor in accordance with Clause 16.6.2. Additional pilot instructors can be provided at the Buyer's expense and upon conditions to be mutually agreed upon.

#### 16.7.3 CABIN ATTENDANTS' FAMILIARIZATION COURSE

The Seller shall provide cabin attendants' course(s) to the Buyer's cabin attendants, as defined in Appendix A to this Clause 16.

The cabin attendants' course, when incorporating the features of the Buyer's Aircraft, can be given at the earliest two (2) weeks before the delivery date of the Buyer's first Aircraft.

#### 16.7.4 PERFORMANCE / OPERATIONS COURSE

The Seller shall provide performance/operations training for the Buyer's personnel as defined in Appendix A to this Clause 16.

The available courses are listed in the Seller's applicable Training Courses Catalog.

#### 16.8 MAINTENANCE TRAINING

The Seller shall provide maintenance training for the Buyer's ground personnel as defined in Appendix A to this Clause 16.

The available courses are listed in the Seller's applicable Training Courses Catalog.

The Buyer shall provide the Seller with an attendance list of trainees at the latest one (1) month before the start of the training course.

#### 16.8.1 ON-THE-JOB TRAINING

Upon the Buyer's request, the Seller may be consulted to identify competent outside organizations to provide on-the-job training, which shall be at the Buyer's charge.

16.8.2 LINE MAINTENANCE INITIAL OPERATING EXPERIENCE TRAINING

In order to assist the Buyer during the entry into service of the Aircraft, the Seller shall provide to the Buyer maintenance instructor(s) at the Buyer's base as defined in Appendix A to this Clause 16.

16.8.2.1 This line maintenance training shall cover training in handling and servicing of Aircraft, flight crew / maintenance coordination, use of Technical Data and Documentation, CAATS, ADRES, and any other activities which may be deemed necessary after delivery of the first Aircraft.

16.8.2.2 The Buyer shall reimburse the expenses for said instructor(s) in accordance with Clause 16.6.2. Additional maintenance instructors can be provided at the Buyer's expense.

16.9 SUPPLIER AND ENGINE MANUFACTURER TRAINING

The Seller shall ensure that major Suppliers and the applicable Propulsion System Manufacturer provide maintenance training and overhaul training on their products at appropriate times.

A list of the Suppliers concerned may be supplied to the Buyer upon request.

16.10 TRAINING AIDS FOR THE BUYER'S TRAINING ORGANIZATION

16.10.1 The Seller shall provide to the Buyer the AIRBUS COMPUTER BASED TRAINING (AIRBUS CBT) and training aids, as used in the Seller's training centers, free of charge as defined in Appendix A to this Clause 16.

The Airbus CBT and training aids supplied to the Buyer shall be similar to those used in the Seller's training centers for the training provided for the Buyer. The Airbus CBT shall be revised during the period when training courses covered by this Agreement are performed for the Buyer in the Seller's training center and within the limit defined in Clause 16.2.2.

16.10.2 DELIVERY

16.10.2.1 The Seller shall deliver to the Buyer the Airbus CBT and training aids as defined in Appendix A to this Clause 16, at a date to be mutually agreed during the Training Conference.

16.10.2.2 Those items supplied to the Buyer pursuant to Clause 16.10.1 above shall be delivered FCA Toulouse, Blagnac Airport. Title to and risk of loss of said items shall pass to the Buyer upon delivery.

16.10.2.3 All costs related to transportation and insurance of said items from the FCA point to the Buyer's facilities shall be at the Buyer's expense.

16.10.3 INSTALLATION

16.10.3.1 Upon the Buyer's request, the Seller may assist the Buyer with the initial installation of the Airbus CBT at the Buyer's facility following notification in writing that the various components, which are in accordance with specifications defined in the Airbus CBT Technical Catalog, are ready for installation and available at the Buyer's facility.

16.10.3.2 The Buyer shall provide any and all the necessary hardware on which the Airbus CBT shall be installed and Seller shall not be responsible for any incompatibility of such hardware with the Airbus CBT.

16.10.3.3 The Airbus CBT will be installed by the Buyer's personnel, who shall have followed the Seller's Airbus CBT Familiarization, and the Seller shall be held harmless from any damage to person and/or to property caused by or in any way connected with the handling and/or installation of the Airbus CBT by the Buyer's personnel.

16.10.3.4 The Buyer shall reimburse the expenses in accordance with Clause 16.6.2, for the Seller's personnel required at the Buyer's facility to conduct Airbus CBT Familiarization and/or provide installation assistance.



- 16.10.4 LICENSE
- 16.10.4.1 The Seller shall grant the Buyer a Licence to use the Airbus CBT, as defined in Appendix C to this Clause 16.
- 16.10.4.2 Supply of additional sets of courseware supports, as well as any extension to the Licence of such courseware, shall be subject to terms and conditions to be mutually agreed.
- 16.10.5 The Seller shall not be responsible and hereby disclaims any and all liabilities resulting from or in connection with the use by the Buyer of the Airbus CBT and training aids at the Buyer's facilities.
- 16.11 PROPRIETARY RIGHTS
- The Seller's training data and documentation, Airbus CBT and training aids are proprietary to the Seller and its suppliers and the Buyer agrees not to disclose the content of the courseware or any information or documentation provided by the Seller in relation to training in whole or in part, to any third party without the prior written consent of the Seller.
- 16.12 INDEMNITIES AND INSURANCE
- Indemnification provisions and insurance requirements applicable to this clause 16 are as set forth in Clause 19.

APPENDIX "A" TO CLAUSE 16

TRAINING ALLOWANCE

1. FLIGHT OPERATIONS TRAINING
- 1.1 FLIGHT CREW TRAINING (REGULAR TRANSITION OR CROSS CREW QUALIFICATION (CCQ) AS APPLICABLE)
- The Seller shall provide flight crew training (regular transition or CCQ as applicable) free of charge for [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] of the Buyer's flight crews per firmly ordered Aircraft.
- 1.2 FLIGHT CREW LINE INITIAL OPERATING EXPERIENCE
- The Seller shall provide to the Buyer pilot instructor(s) free of charge for a period of [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] pilot instructor months.
- 1.2.1 The maximum number of pilot instructors present at any one time shall be limited to two (2) pilot instructors.
- 1.3 CABIN ATTENDANTS' FAMILIARIZATION COURSE
- The Seller shall provide to the Buyer cabin attendants' training free of charge for [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] of the Buyer's cabin attendants.
- 1.4 PERFORMANCE / OPERATIONS COURSE(S)
- 1.4.1 The Seller shall provide to the Buyer [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] trainee days of performance / operations training free of charge for the Buyer's personnel.
- 1.4.2 The above trainee days shall be used solely for the performance/operations training courses as defined in the Seller's applicable Training Course Catalog.
- 2 MAINTENANCE TRAINING
- 2.1 MAINTENANCE TRAINING COURSES
- 2.1.1 The Seller shall provide to the Buyer [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] trainee days of maintenance training free of charge for the

Buyer's personnel.

- 2.1.2 The above trainee days shall be used solely for the Maintenance training courses as defined in the Seller's applicable Training Courses Catalog.
- 2.1.3 Notwithstanding the trainee days allowance in Clause 2.1.1 above, the number of Engine Run-up courses shall be limited to [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] per firmly ordered Aircraft.

## 2.2 LINE MAINTENANCE INITIAL OPERATING EXPERIENCE TRAINING

The Seller shall provide to the Buyer maintenance instructor(s) at the Buyer's base free of charge for periods weeks [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] each, up to the "A" check.

## 3 TRAINEE DAYS ACCOUNTING

Trainee days are counted as follows:

- for instruction at the Seller's training centers :one (1) day of instruction for one (1) trainee equals one (1) trainee day. The number of trainees at the beginning of the course shall be counted as the number of trainees considered to have taken the course.
- for instruction outside of the Seller's training centers : one (1) day of secondment of one (1) Seller instructor equals the actual number of trainees attending the course or a minimum of twelve (12) trainee days.

## 4 TRAINING AIDS FOR BUYER'S TRAINING ORGANIZATION

The Seller shall provide to the Buyer [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] Airbus CBT for workstation(s) as related to the Aircraft type(s) as covered by this Agreement. The detailed description of the Airbus CBT will be provided to the Buyer at the Training Conference.

### APPENDIX "B" TO CLAUSE 16

#### MINIMUM RECOMMENDED QUALIFICATION

#### IN RELATION TO TRAINING REQUIREMENTS

(Regular Transition Courses)

The prerequisites listed below are the minimum recommended requirements specified for Airbus training. If the appropriate regulatory agency or the specific airline policy of the trainee demand greater or additional requirements, they shall apply as prerequisites.

- CAPTAIN prerequisites
  - . Fluency in English
  - . 1500 hours minimum flying experience as pilot
  - . 1000 hours experience on FAR/JAR 25 aircraft
  - . 200 hours experience as airline, corporate pilot or military pilot
  - . Must have flown transport type aircraft, as flying pilot, within the last 12 months.
- FIRST OFFICER prerequisites
  - . Fluency in English
  - . 500 hours minimum flying experience as pilot of fixed wing aircraft
  - . 300 hours experience on FAR/JAR 25 aircraft
  - . 200 hours flying experience as airline pilot or a corporate pilot or military pilot
  - . Must have flown transport type aircraft, as flying pilot, within the last 12 months.

For both CAPTAIN and FIRST OFFICER, if one or several of the

above criteria are not met, the trainee must follow:

- (i) an adapted course (example : if not fluent in English, an adapted course with a translator) or,
- (ii) an ELT (Entry Level Training) program before coming to the training center to follow the regular or the adapted course.

Such course(s), if required, shall be at the Buyer's expense.

- Maintenance Personnel prerequisites

- . Fluency in English
- . Experience on first or second jet transport category aircraft
  
- . Qualification as line or line and base mechanic on one type of Airbus aircraft family (for Aircraft Rigging Course).
- . Qualification as line or line and base mechanic on the concerned Airbus aircraft type (for Maintenance Initial Operating Experience Course).

APPENDIX C TO CLAUSE 16

LICENCE FOR USE OF AIRBUS COMPUTER BASED TRAINING  
LICENCE FOR USE OF AIRBUS COMPUTER BASED TRAINING (AIRBUS CBT)

1 DEFINITIONS

1.1 For the purpose of this Appendix C to Clause 16, the following definitions shall apply :

- 1.1.1 " AIRBUS CBT" means the combination of the Airbus CBT Software and the Airbus CBT Courseware.
- 1.1.2 " AIRBUS CBT COURSEWARE" means the programmed instructions that provide flight crew and maintenance training.
- 1.1.3 " AIRBUS CBT SOFTWARE" means the system software that permits the use of the Airbus CBT Courseware.
- 1.1.4 "STUDENT / INSTRUCTOR MODE" means the mode that allows the user to run the Airbus CBT Courseware.
- 1.1.5 " AIRBUS CBT FAMILIARIZATION " means the training enabling the Buyer to load and use the Airbus CBT.
- 1.1.6 "USER GUIDE" means the documentation, which may be in electronic format, designed to assist the Buyer to use the Airbus CBT.

1.2 For the purpose of clarification, it is hereby stated that all related hardware required for the operation of the Airbus CBT is not part of the Airbus CBT and shall be procured under the sole responsibility of the Buyer.

2 GRANT

The Seller grants the Buyer the right, pursuant to the terms and conditions herein, to use the Airbus CBT for the Term of this licence ("AIRBUS CBT LICENCE").

3 COPIES

- 3.1 The Buyer shall be permitted to copy the Airbus CBT Software for back-up and archiving purposes and for loading of the Airbus CBT Software exclusively on the Buyer's workstations. In such cases, the Buyer shall advise the Seller in writing stating the number and purpose of any copies made. Any other copy is strictly prohibited.
- 3.2 The Buyer agrees to reproduce the copyright and other notices as they appear on or within the original media on any copies that the Buyer makes of the Airbus CBT Software.

4 TERM

The rights under this Airbus CBT Licence shall be granted to the Buyer for as long as the Buyer operates the Seller's Aircraft model to which the Airbus CBT Software and the Airbus CBT Courseware apply. When the Buyer stops operating said Aircraft model, the Buyer shall return the Airbus CBT and any copies thereof to the Seller, accompanied by a note certifying that the Buyer has returned all existing copies.

5 PERSONAL ON-SITE LICENCE

5.1 The above described Licence is personal to the Buyer for use of the Airbus CBT for the training of the Buyer's personnel within the Buyer's premises only, and is non-transferable and non-exclusive.

5.2 The Buyer shall not (i) distribute or sub-licence any portion of the Airbus CBT, (ii) modify or prepare derivative works from the Airbus CBT Software, (iii) publicly display visual output of the Airbus CBT Software, (iv) transmit the Airbus CBT Software electronically by any means.

5.3 The Buyer shall use the Airbus CBT exclusively in the technical environment defined in the User Guide.

Notwithstanding the above, the right to use the Airbus CBT on the Buyer's internal network installation is granted to the Buyer subject to the Buyer strictly complying with the conditions of use and the confidentiality commitments set forth in this Airbus CBT Licence.

6 CONDITIONS OF USE

6.1 USE OF THE AIRBUS CBT SOFTWARE

The Buyer shall use the Airbus CBT Software for the exclusive purpose of, for the student delivery mode:

- (i) rostering students for one or several courses syllabi in order to follow students' progression,
- (ii) rearranging courses syllabi or creating new ones using available courseware modules.

However, the Seller disclaims any responsibility regarding any course(s) that may be modified or rearranged by the Buyer.

6.2 USE OF THE AIRBUS CBT COURSEWARE

The Buyer shall use the Airbus CBT Courseware for the exclusive purpose of performing training instructions for its personnel, or for third party personnel contracted to perform work on the Buyer's Aircraft on behalf of the Buyer. Such training will be performed at the Buyer's facility or at a subcontractor's facility provided it is conducted by the Buyer's personnel.

7 PROPRIETARY RIGHTS AND NON DISCLOSURE

The Airbus CBT Software and Airbus CBT Courseware, the copyrights and any and all other author rights, intellectual, commercial or industrial proprietary rights of whatever nature in the Airbus CBT Software and Airbus CBT Courseware are and shall remain with the Seller or its suppliers, as the case may be. The Airbus CBT Software and Airbus CBT Courseware and their contents are designated as confidential. The Buyer shall not take any commercial advantage by copy or presentation to third parties of the Airbus CBT Software, the documentation, the Airbus CBT Courseware, and/or any rearrangement, modification or copy thereof.

The Buyer acknowledges the Seller's proprietary rights in the Airbus CBT and undertakes not to disclose the Airbus CBT Software or Airbus CBT Courseware or parts thereof or their contents to any third party without the prior written consent of Seller. Insofar as it is necessary to disclose aspects of the Airbus CBT Software and Airbus CBT Courseware to the Buyer's personnel, such disclosure is permitted only for the purpose for which the Airbus CBT Software and Airbus CBT Courseware are supplied to the Buyer under the present Airbus CBT Licence.

8 WARRANTY

8.1 The Seller warrants that the Airbus CBT is prepared in accordance with the state of art at the date of its conception. Should the Airbus CBT found to contain any non-conformity or defect, the Buyer shall notify the Seller promptly thereof and the sole and exclusive liability of the Seller under this Clause 8.1 of the Airbus CBT Licence shall be to correct the same at its own expense.

8.2 THE WARRANTIES, OBLIGATIONS AND LIABILITIES OF THE SELLER AND REMEDIES OF THE BUYER SET FORTH IN THE AIRBUS CBT LICENCE ARE EXCLUSIVE AND IN SUBSTITUTION FOR, AND THE BUYER HEREBY WAIVES, RELEASES AND RENOUNCES, ALL OTHER WARRANTIES, OBLIGATIONS AND LIABILITIES OF THE SELLER AND RIGHTS, CLAIMS AND REMEDIES OF THE BUYER AGAINST THE SELLER, EXPRESS OR

IMPLIED, ARISING BY LAW OR OTHERWISE WITH RESPECT TO ANY NON-CONFORMITY OR

DEFECT IN AIRBUS CBT DELIVERED UNDER THIS AGREEMENT INCLUDING BUT NOT LIMITED TO:

- (A) ANY IMPLIED WARRANTY OF MERCHANTABILITY OR FITNESS;
- (B) ANY IMPLIED WARRANTY ARISING FROM COURSE OF PERFORMANCE, COURSE OF DEALING OR USAGE OF TRADE;
- (C) ANY OBLIGATION, LIABILITY, RIGHT, CLAIM OR REMEDY, WHETHER CONTRACTUAL OR DELICTUAL AND WHETHER OR NOT ARISING FROM THE SELLER'S NEGLIGENCE, ACTUAL OR IMPUTED; AND
- (D) ANY OBLIGATION, LIABILITY, RIGHT, CLAIM OR REMEDY FOR LOSS OR DAMAGE TO ANY AIRCRAFT, COMPONENT, EQUIPMENT, ACCESSORY OR PART THEREOF.

THE SELLER SHALL HAVE NO OBLIGATION OR LIABILITY, HOWSOEVER ARISING, FOR LOSS OF USE, REVENUE OR PROFIT OR FOR ANY OTHER DIRECT, INCIDENTAL, OR CONSEQUENTIAL DAMAGES WITH RESPECT TO ANY NON-CONFORMITY OR DEFECT IN THE AIRBUS CBT DELIVERED UNDER THIS AGREEMENT.

17 EQUIPMENT SUPPLIER PRODUCT SUPPORT

17.1 EQUIPMENT SUPPLIER PRODUCT SUPPORT AGREEMENTS

17.1.1 The Seller has obtained enforceable and transferable product support agreements from Suppliers of Seller Furnished Equipment listed in the Specification.

17.1.2 These agreements are based on the "World Airlines Suppliers Guide" and include Supplier commitments as contained in the "Supplier Product Support Agreements" which include the following provisions :

17.1.2.1 Technical data and manuals required to operate, maintain, service and overhaul the Supplier Parts. Such technical data and manuals shall be prepared in accordance with the applicable provisions of ATA Specification 100 and 101 including revision service and be published in the English language. The Seller shall recommend that software data, where applicable, is supplied in the form of an appendix to the Component Maintenance Manual, such data will be provided in compliance with ATA Specification 102 up to level 3.

17.1.2.2 Warranties and guarantees including standard warranties. In addition, landing gear Suppliers shall provide service life policies for selected structural landing gear elements.

17.1.2.3 Training to ensure efficient operation, maintenance and overhaul of the Supplier Parts for the Buyer's instructors, shop and line service personnel.

17.1.2.4 Spares data in compliance with ATA 200/2000 Specification, initial provisioning recommendations, spare parts and logistic service including routine and expedited deliveries.

17.1.2.5 Technical service to assist the Buyer with maintenance, overhaul, repair, operation and inspection of Supplier Parts as well as required tooling and spares provisioning.

17.2 SUPPLIER COMPLIANCE

The Seller shall monitor Supplier compliance with support commitments defined in the "Supplier Product Support Agreements" and shall take all remedial action together with the Buyer if necessary.

18 BUYER FURNISHED EQUIPMENT

18.1 ADMINISTRATION

18.1.1 Without additional charge, the Seller shall provide for the installation of those items of equipment which are identified in the Specification as being furnished by the Buyer ("BUYER FURNISHED EQUIPMENT" or "BFE"), provided that they are referred to in the Airbus

BFE Catalog of Approved Suppliers by Products valid at time of selecting the concerned BFE. [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE

The Seller shall advise the Buyer of the dates by which, in the planned release of engineering for the Aircraft, the Seller requires a written detailed engineering definition including the description of the dimensions and weight of BFE, the information related to its certification and information necessary for the installation and operation thereof. The Buyer shall furnish such detailed description and information by the dates so specified. Such information, dimensions and weights shall not thereafter be revised unless authorised by a Specification Change Notice.

The Seller shall also furnish in due time but in any event prior to [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] to the Buyer a schedule of dates and indication of shipping addresses for delivery of BFE and, where requested by the Seller, additional spare BFE to permit installation in the Aircraft and delivery of the Aircraft in accordance with the delivery schedule. The Buyer shall provide such equipment by such dates in a serviceable condition, in order to allow performance of any assembly, test, or acceptance process in accordance with the industrial schedule.

The Buyer shall also provide, when requested by the Seller, at AIRBUS FRANCE S.A.S. works in TOULOUSE (FRANCE) and/or at AIRBUS DEUTSCHLAND GmbH, Division Hamburger Flugzeugbau Works in HAMBURG (FEDERAL REPUBLIC OF GERMANY) adequate field service including support from BFE suppliers to act in a technical advisory capacity to the Seller in the installation, calibration and possible repair of any BFE.

18.1.2 The Seller shall be entitled to refuse any item of BFE which it considers incompatible with the Specification, the above mentioned engineering definition or the certification requirements.

18.1.3 The BFE shall be imported into FRANCE or into the FEDERAL REPUBLIC OF GERMANY by the Buyer under a suspensive customs system ("Regime de l'entrepot industriel pour fabrication coordonnee" or "Zollverschluss") without application of any French or German tax or customs duty, and shall be Delivered Duty Unpaid (DDU) according to the Incoterms definition.

Shipping Addresses:

AIRBUS FRANCE S.A.S.  
316 Route de Bayonne  
31300 TOULOUSE  
FRANCE

or  
AIRBUS DEUTSCHLAND GmbH  
Division Hamburger Flugzeugbau  
Kreetslag 10  
21129 HAMBURG  
FEDERAL REPUBLIC OF GERMANY

as provided in Clause 18.1.

18.1.4 If the Buyer requests the Seller to supply directly certain items which are considered as BFE according to the Specification and if such request is notified to the Seller in due time in order not to affect the Scheduled Delivery Month of the Aircraft, the Seller may agree to order such items subject to the execution of a Specification Change Notice reflecting the effect on price, escalation adjustment, and any other conditions of the Agreement, provided however that such BFE is selected from the Airbus BFE Catalog of Approved Suppliers. In such a case the Seller shall be entitled to the payment of a reasonable handling charge and shall bear no liability in respect of delay and product support

commitments for such items which shall be the subject of separate arrangements between the Buyer and the relevant supplier.

18.2 AVIATION AUTHORITIES' REQUIREMENTS

The Buyer is responsible for, at its expense, and warrants that BFE shall be manufactured by a qualified supplier, shall

meet the requirements of the applicable Specification, shall comply with applicable requirements incorporated by reference to the Type Certificate and listed in the Type Certificate Data Sheet, shall be approved by the Aviation Authorities delivering the Export Certificate of Airworthiness and by the Buyer's Aviation Authority for installation and use on the Aircraft at the time of Delivery of such Aircraft.

18.3 BUYER'S OBLIGATION AND SELLER'S REMEDIES

18.3.1 Any delay or failure in complying with the foregoing warranty or in providing the descriptive information or service representatives mentioned in Clause 18.1 or in furnishing the BFE in serviceable condition at the requested delivery date or in obtaining any required approval for such equipment under the above mentioned Aviation Authorities regulations may reasonably delay the performance of any act to be performed by the Seller, and cause the Final Price of the Aircraft to be adjusted in accordance with the updated delivery schedule and to include in particular the amount of the Seller's reasonable additional costs, attributable to such delay or failure such as storage, taxes, insurance and costs of out-of sequence installation.

18.3.2 Further, in any such event, the Seller may:

- (i) select, purchase and install an equipment similar to the involved one and reasonably acceptable to the Buyer, in which event the Final Price of the affected Aircraft shall also be increased by the purchase price of such equipment plus reasonable costs and expenses incurred by the Seller for handling charges, transportation, insurance, packaging and if so required and not already provided for in the price of the Aircraft for adjustment and calibration; or
- (ii) if the BFE shall be so delayed by more than [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT], or unapproved within [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] deliver the Aircraft without the installation of such equipment, notwithstanding the terms of Clause 7 insofar as it may otherwise have applied, and the Seller shall thereupon be relieved of all obligations to install such equipment. The Buyer may also elect to have the Aircraft so delivered.

18.4 TITLE AND RISK OF LOSS

Title to and risk of loss of any BFE shall at all times remain with the Buyer except that risk of loss (limited to cost of replacement of said BFE and excluding in particular loss of use) shall be with the Seller for as long as such BFE shall be under the care, custody and control of the Seller, including for the avoidance of doubt, periods during which the Seller either stores, transports inside the Manufacture Facilities, installs or tests the BFE.

In the event of a delay resulting from the loss or replacement of the BFE whilst in the care of the Seller, Clause 10 or 11 shall apply as the case may be.

19 INDEMNIFICATION AND INSURANCE

19.1 INDEMNITIES RELATING TO INSPECTION, TECHNICAL ACCEPTANCE PROCESS AND GROUND TRAINING

19.1.1 The Seller shall, except in case of Gross Negligence of the Buyer, its directors, officers, agents or employees, be solely liable for and shall indemnify and hold harmless the Buyer, its directors, officers, agents and employees from and against all liabilities, claims, damages, costs and expenses (including legal expenses and attorney fees) in respect of

loss of or damage to the Seller's property and/or injury to or death of the directors, officers, agents or employees of the Seller and/or from and against all liabilities, claims, damages, costs and expenses (including legal expenses and attorney fees) for any damages caused by the Seller to third parties, caused by or in any way connected with any ground

check, technical acceptance flight, check or controls under Clause 6 or Clause 8 of this Agreement and/or Ground Training Services.

19.1.2 The Buyer shall, except in case of Gross Negligence of the Seller, its directors, officers, agents or employees, be solely liable for and shall indemnify and hold harmless the Seller, its subsidiaries and their respective insurers from and against all liabilities, claims, damages, costs and expenses (including legal expenses and attorney fees) in respect of loss of or damage to the Buyer's property and/or injury to or death of the directors, officers, agents or employees of the Buyer and/or from and against all liabilities, claims, damages, costs and expenses (including legal expenses and attorney fees) for any damages caused by the Buyer to third parties, caused by or in any way connected with any ground check, technical acceptance flight, check or controls under Clause 6 or Clause 8 of this Agreement and/or Ground Training Services.

#### 19.2 INDEMNITIES RELATING TO TRAINING ON AIRCRAFT

19.2.1 The Buyer shall, except in the case of Gross Negligence of the Seller, its directors, officers, agents and employees, be solely liable for and shall indemnify and hold harmless the Seller, its subsidiaries and their respective insurers from and against all liabilities, claims, damages, costs and expenses (including legal expenses and attorney fees) incident thereto or incident to successfully establishing the right to indemnification, for injury to or death of any person (including any of the Buyer's directors, officers, agents and employees utilising such training services, but not directors, officers, agents and employees of the Seller) and/or for loss of or damage to any property and/or for loss of use thereof arising (including the aircraft on which the training services are performed), caused by or in any way connected to the performance of any Aircraft Training Services.

19.2.2 The foregoing indemnity shall not apply to legal liability to any person other than the Buyer, its directors, officers, agents or employees arising out of an accident caused primarily by a product defect in the Aircraft delivered to and accepted by the Buyer hereunder.

#### 19.3 INDEMNITIES RELATING TO SELLER REPRESENTATIVES SERVICES

19.3.1 The Buyer shall, except in case of Gross Negligence of the Seller, and/or its subsidiaries, be solely liable for and shall indemnify and hold harmless the Seller, its subsidiaries and their respective insurers, from and against all liabilities, claims, damages, costs and expenses (including legal expenses and attorney fees) for all injuries to or death of persons (excepting injuries to or death of the Seller's Representatives) and for loss or damage to property and/or loss of use thereof howsoever arising out of or in connection with the Seller Representatives Services.

19.3.2 The Seller shall, except in case of Gross Negligence of the Buyer, and/or its subsidiaries, its directors, officers, agents or employees, be solely liable for and shall indemnify and hold harmless the Buyer, and/or its subsidiaries, its directors, officers, agents and employees from and against all liabilities, claims, damages, costs and expenses (including legal expenses and attorney fees) for all injuries to or death of the Seller's Representatives in connection with the Sellers Representatives Services.

#### 19.4 INSURANCES

19.4.1 The Buyer and the Seller shall maintain adequate insurance with respect to their respective undertakings pursuant to Clauses 19. and shall provide upon the request of the other party certificates of insurance in English attesting to such insurance coverage, in a form acceptable to the other parties insurance brokers.

19.4.2 For all training periods on aircraft, the Buyer shall cause the Seller, its subsidiaries, the associated contractors and sub-contractors and the assignees of each of the foregoing and their respective directors, officers, agents and employees and their respective insurers to be named as additional insureds under all liability policies of the Buyer to the extent of the Buyer's undertaking set forth in Clause 19.2.1. With respect to the Buyer's hull all risks



and hull war risks insurances, the Buyer shall cause the insurers of the Buyer's hull insurance policies to waive all rights of subrogation against the Seller, its subsidiaries, the associated contractors and sub-contractors and the assignees of each of the foregoing and their respective directors, officers, agents and employees and their respective insurers, to the extent of the Buyer's undertaking set forth in Clause 19.2.1.

Any applicable deductible shall be borne by the Buyer. With respect to the above policies, the Buyer shall furnish to the Seller, not less than seven (7) working days prior to the start of any such training period, certificates of insurance, in English, evidencing the limit of liability cover and period of insurance in a form acceptable to the Seller from the Buyer's insurance brokers certifying that such policies have been endorsed as follows:

- (i) The Buyer's policies shall be primary and non-contributory to any insurance maintained by the Seller.
- (ii) Such insurance shall not become ineffective, cancelled, or coverage decreased or materially changed except on seven (7) days' prior written notice thereof to the Seller; and
- (iii) Under any such cover, all rights of subrogation against the Seller, its subsidiaries, each of the associated contractors and subcontractors, the assignees of each of the foregoing and their respective directors, officers, agents and employees and their respective insurers, have been waived to the extent of the Buyer's undertaking and specifically referring to Clause 19.2.1. and to this Clause 19.4.2.

#### 19.5 SELLER'S SUBSIDIARIES

For the purposes of this Clause 19, "the Seller and its subsidiaries" includes the Seller, its subsidiaries, Airbus S.A.S., Airbus Service Company, Hua-Ou Airbus - CASC Aviation Training Center, each of the associated contractors, and sub-contractors, the assignees of each of the foregoing, and their respective directors, officers, agents and employees.

#### 19.6 NOTICE OF CLAIMS

If any claim is made or suit is brought against either party (or its respective directors, officers, agents or employees) for damages for which liability has been assumed by the other party in accordance with the provisions of this Agreement, the party against which a claim is so made or suit is so brought shall promptly give notice to the other party, and the latter shall (unless otherwise requested by the former party against which a claim is so made or suit is so brought, in which case the other party nevertheless shall have the right to) assume and conduct the defence thereof, or effect any settlement which it, in its opinion, deems proper.

#### 20 TERMINATION

##### 20.1 TERMINATION FOR INSOLVENCY

In the event that either the Seller or the Buyer:

- (a) makes a general assignment for the benefit of creditors or becomes insolvent;
- (b) files a voluntary petition in bankruptcy;
- (c) petitions for or acquiesces in the appointment of any receiver, trustee or similar officer to liquidate or conserve its business or any substantial part of its assets;
- (d) commences under the laws of any competent jurisdiction any proceeding involving its insolvency, bankruptcy, readjustment of debt, liquidation or any other similar proceeding for the relief of financially distressed debtors;
- (e) becomes the object of any proceeding or action of the type described in (c) or (d) above and such proceeding or action remains undismitted or unstayed for a period

of at least [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY

WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]; or

then the other party may, to the full extent permitted by law, by written notice, terminate all or part of this Agreement. [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

20.2 TERMINATION FOR NON-PAYMENT OF PREDELIVERY PAYMENTS

If for any Aircraft the Buyer fails to make any Predelivery Payments within [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] of the due date therefor, in the manner and in the amount specified in Clause 5.3 the Seller may [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] terminate all or part of this Agreement with respect to undelivered Aircraft [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

20.3 TERMINATION FOR FAILURE TO TAKE DELIVERY

If the Buyer fails to comply with its obligations as set forth under Clause 8 and/or Clause 9, or fails to pay the Final Price of the Aircraft, the Seller shall have the right to put the Buyer on notice to do so [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] If the Buyer has not cured such default [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT], the Seller may, by written notice, terminate all or part of this Agreement with respect to undelivered Aircraft.

All costs referred to in Clause 9.2.3 and relating to the period between the notified date of delivery (as referred to in Clause 9.2.3) and the date of termination of all or part of this Agreement shall be borne by the Buyer.

20.4 TERMINATION FOR DEFAULT UNDER OTHER AGREEMENTS

If the Buyer fails to perform or comply with any material obligation expressed to be assumed by it in any other agreement between Buyer and Seller or any of its asset management or financing affiliates and such failure is not remedied within [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] after the Seller has given notice thereof to the Buyer, then the Seller may, by written notice, terminate all or part of this Agreement.

20.5 GENERAL

20.5.1 To the full extent permitted by law, the termination of all or part of this Agreement pursuant to Clauses 20.1, 20.2, 20.3 and 20.4 shall become effective immediately upon receipt by the relevant party of the notice of termination sent by the other party without it being necessary for either party to take any further action or to seek any consent from the other party or any court having jurisdiction.

20.5.2 The right for either party under Clause 20.1 and for the Seller under Clauses 20.2, 20.3, and 20.4 to terminate all or part of this Agreement shall be without prejudice to any other rights and remedies available to such party to seek termination of all or part of this Agreement before any court having jurisdiction pursuant to any failure by the other party to perform its obligations under this Agreement.

20.5.3 If the party taking the initiative of terminating this Agreement decides to terminate part of it only, the notice sent to the other party shall specify those provisions of this Agreement which shall be terminated.

20.5.4 In the event of termination of this Agreement following a default from the Buyer, including but not limited to a default under Clauses 20.1, 20.2, 20.3 and 20.4, the Seller without prejudice to any other rights and remedies available under this Agreement or by law, shall retain an amount equal to all predelivery payments, deposits, option fees and any other monies paid by the Buyer to the Seller under this Agreement and corresponding to the Aircraft, services, data and other items covered by such termination.

21 ASSIGNMENTS AND TRANSFERS

21.1 ASSIGNMENTS BY BUYER AND SELLER

Except as hereinafter provided, neither party may sell, assign, novate or transfer its rights and obligations under this Agreement to any person without the prior written consent of the other party, which shall not unreasonably be withheld.

21.1.1 ASSIGNMENTS FOR PREDELIVERY FINANCING  
[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

21.1.2 ASSIGNMENTS FOR DELIVERY FINANCING  
[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

21.2 TRANSFER OF RIGHTS AND OBLIGATIONS UPON REORGANISATION

If at any time until the date upon which all the obligations and liabilities of the Seller or the Buyer under this Agreement have been discharged, the legal structure, the membership or the business of either party is reorganised or the legal form of either party is changed ("the Affected Party") and as a consequence thereof the Affected Party wishes the other party to accept the substitution of the Affected Party by another entity within the Affected Party's restructured group (or the Affected Party in its new legal form) ("NEWCO") as contemplated below, such Affected Party shall promptly notify the other party of its wish.

In such event, the Affected Party may request the other party to enter into a novation agreement and/or other agreement having the same effect whereby the Affected Party's rights and obligations under this Agreement are novated or transferred in favour of Newco. Upon receipt of such request, the other party shall enter into a novation agreement and/or other appropriate documentation provided that the other party's rights and obligations under this Agreement are not materially adversely affected by such novation/transfer.

Until any such novation agreement/other appropriate documentation has come into effect, this Agreement shall remain in full force and effect, and each party shall act diligently and in good faith to implement the novation agreement/appropriate existence.

21.3 NO INCREASE OF LIABILITY

The consent of either party to the assignment of the other party's rights and/or obligations under this Agreement will be subject to such party not incurring any liability beyond that in this Agreement and that such assignment shall not adversely affect such party's obligation under this Agreement.

22 MISCELLANEOUS PROVISIONS

22.1 DATA RETRIEVAL

The Buyer shall provide the Seller with mutually agreed data (including format and frequency of that data) pertaining to the operation of the Aircraft to assist the Seller in making efficient and coordinated survey of all reliability, maintainability, operational and cost data with a view to improving the safety, availability and operational costs of the Aircraft. This data shall be treated as confidential by the Seller. [CONFIDENTIAL MATERIAL OMITTED AND FILED

SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

All notices and requests required or authorised hereunder shall be given in writing either by personal delivery to an authorised representative of the party to whom the same is given or by registered mail (return receipt requested) or by fax and the date upon which any such notice or request is so personally delivered or if such notice or request is served facsimile, the date of despatch with confirmed transmission report stating the correct facsimile number and number of pages and that such transmission is "OK" or equivalent, shall be deemed to be the effective date of such notice or request (provided always that in the case of a notice or request served by facsimile that if the time of despatch is not within normal business hours on a business day in the country of the addressee the effective date of such notice or request shall be deemed to be the next such business day.

Seller's address for notices is:

AIRBUS GIE  
Attn. To V. P. Contracts  
1 Rond-Point Maurice Bellonte  
31707 Blagnac Cedex  
France  
Fax (33) 561 93 49 81

Buyer's address for notices is:

Corporate Fleet Development  
KLM Royal Dutch Airlines  
Amsterdamseweg 55,  
1182 GP Amstelveen  
the Netherlands  
Fax (31) 20 6488322

or such other address or such other person as the party receiving the notice or request may reasonably designate from time to time.

## 22.3

## WAIVER

The failure of either party to enforce at any time any of the provisions of this Agreement, or to exercise any right herein provided, or to require at any time performance by the other party of any of the provisions hereof, shall in no way be construed to be a present or future waiver of such provisions nor in any way to affect the validity of this Agreement or any part thereof or the right of the other party thereafter to enforce each and every such provision. The express waiver (whether made one (1) or several times) by either party of any provision, condition or requirement of this Agreement shall not constitute a waiver of any future obligation to comply with such provision, condition or requirement.

## 22.4

## LAW AND JURISDICTION

## 22.4.1

This Agreement shall be governed by and construed in accordance with the laws of England.

## 22.4.2

Any dispute arising out of or in connection with this Agreement shall be within the exclusive jurisdiction of the Courts of England.

## 22.5

## CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

The parties do not intend that any term of this Agreement shall be enforceable solely by virtue of the Contracts (Rights of Third Parties) Act 1999 by any person who is not a party to this Agreement. Subject only to the terms of Clause 21 (Assignments and transfers) of this Agreement, the parties may rescind, vary, waive, release, assign, novate or otherwise dispose of all or any of their respective rights or obligations under this Agreement without the consent of any person who is not a party to this Agreement.

## 22.6

## INTERNATIONAL SUPPLY CONTRACT

The Buyer and the Seller recognise that this Agreement is an international supply contract which has been the subject of discussion and negotiation, that all its terms and conditions

are fully understood by the parties, and that the Specification and price of the Aircraft and the other mutual agreements of the parties set forth herein were arrived at in consideration of, inter alia, all the provisions hereof specifically including all waivers, releases and renunciations by the Buyer set out herein.

The Buyer and the Seller hereby also agree that the United Nations Convention on Contracts for the International Sale of Goods will not apply to this transaction.

22.7 SEVERABILITY

In the event that any provision of this Agreement should for any reason be held ineffective, the remainder of this Agreement shall remain in full force and effect. To the extent permitted by applicable law, each party hereto hereby waives any provision of law which renders any provision of this Agreement prohibited or unenforceable in any respect.

22.8 ALTERATIONS TO CONTRACT

This Agreement contains the entire agreement between the parties with respect to the subject matter hereof and supersedes any previous understandings, commitments or representations whatsoever oral or written in respect thereto. This Agreement shall not be varied except by an instrument in writing of date even herewith or subsequent hereto executed by both parties or by their duly authorised representatives.

22.9 LANGUAGE

All correspondence, documents and any other written matters in connection with this Agreement shall be in English.

This Agreement has been executed in two (2) original copies which are in English, and may be executed in counterparts.

22.10 CONFIDENTIALITY

This Agreement including any Exhibits or other documents related hereto shall be treated by both parties as confidential and shall not be released in whole or in part to any third party except as may be required by law, or to professional advisors for the purpose of implementation hereof. In particular, each party agrees not to make any press release concerning the whole or any part of the contents and/or subject matter hereof or of any future addendum hereto without the prior consent of the other party hereto.

IN WITNESS WHEREOF this Agreement was entered into the day and year first above written.

For and on behalf of	For and on behalf of
KLM ROYAL DUTCH AIRLINES	AIRBUS GIE

Name: _____	Name: _____
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Title: _____	Title: _____
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EXHIBIT A  
SPECIFICATION

The A330-200 Standard Specification is contained in a separate folder.

EXHIBIT B  
FORM OF  
SPECIFICATION CHANGE NOTICE

Exhibit C1  
Airframe price formula

1.1 Basic Price

The Airframe Basic Price quoted in Clause 3.1 is subject to adjustment for changes in economic conditions as measured by data obtained from the US Department of Labor, Bureau of Labor Statistics, and in accordance with the provisions hereof.

1.2 Base Period

The Airframe Basic Price has been established in accordance with the average economic conditions prevailing in December 1999, January 2000, February 2000 and corresponding to a theoretical delivery in January 2001 as defined by "ECIb" and "ICb" index values indicated hereafter.

"ECIb" and "ICb" index values indicated hereof shall not be subject to any revision.

1.3 Indexes

Labor Index : "Employment Cost Index for Workers in Aerospace manufacturing" (Aircraft manufacturing, standard industrial classification code SIC 3721, wages and salaries, base month and year June 1989 = 100), as released by the US Department of Labor, Bureau of Labor Statistics, on a quarterly basis, hereinafter referred to as "ECI SIC 3721W".  
The quarterly value released for a certain month (March, June, September and December) shall be the one deemed to apply for the two preceding months.

Material Index : "Industrial commodities" (hereinafter referred to as "IC") as published in "Producer Price Indexes" (Table 6. Producer price indexes and percent changes for commodity groupings and individual items). (Base Year 1982 = 100).

1.4 Revision Formula

$$P_n = (P_b + F) (0.75 \text{ ECI}_n/\text{ECI}_b + 0.25 \text{ IC}_n/\text{IC}_b)$$

Where :

- P<sub>n</sub> : Airframe Basic Price as revised as of the Delivery Date of the Aircraft
- P<sub>b</sub> : Airframe Basic Price at economic conditions December 1999, January 2000, February 2000 averaged (January 2001 delivery conditions)
- F : (0.005 x N x P<sub>b</sub>)  
where N = the calendar year of delivery of the Aircraft minus 2001
- ECI<sub>n</sub> : the arithmetic average of the latest published values of the ECI SIC 3721W-Index available at the Delivery Date of the Aircraft for the 11th, 12th and 13th month prior to the month of Aircraft Delivery
- ECI<sub>b</sub> : ECI SIC 3721W-Index for December 1999, January 2000, February 2000 averaged (= 145.4)
- IC<sub>n</sub> : the arithmetic average of the latest published values of the IC-Index available at the Delivery Date of the Aircraft for the 11th, 12th and 13th month prior to the month of Aircraft Delivery
- IC<sub>b</sub> : IC-Index for December 1999, January 2000, February 2000 averaged (= 130.3)

1.5 General Provisions

1.5.1 Roundings

The Labor Index average and the Material Index average shall be computed to the first decimal. If the next succeeding place is five (5) or more, the preceding decimal place shall be raised to the next higher figure.

Each quotient shall be rounded to the nearest ten-thousandth (4 decimals). If the next succeeding place is five (5) or more, the preceding decimal place shall be raised to the next higher figure.

The final factor shall be rounded to the nearest ten-thousandth (4 decimals).

The final price shall be rounded to the nearest whole number (0.5 or more rounded to 1).

#### 1.5.2 Substitution of Indexes for Airframe Price Revision Formula

If;

- (i) the United States Department of Labor substantially revises the methodology of calculation of the Labor Index or the Material Index as used in the Airframe Price Revision Formula, or
- (ii) the United States Department of Labor discontinues, either temporarily or permanently, such Labor Index or such Material Index, or
- (iii) the data samples used to calculate such Labor Index or such Material Index are substantially changed;

the Seller shall select a substitute index for inclusion in the Airframe Price Revision Formula (the "Substitute Index").

The Substitute Index shall reflect as closely as possible the actual variance of the Labor Costs or of the material costs used in the calculation of the original Labor Index or Material Index as the case may be.

As a result of the selection of the Substitute Index, the Seller shall make an appropriate adjustment to the Airframe Price Revision Formula to combine the successive utilisation of the original Labor Index or Material Index (as the case may be) and of the Substitute Index.

#### 1.5.3 Final Index Values

The Index values as defined in Clause 1.4 above shall be considered final and no further adjustment to the basic prices as revised at delivery of the Aircraft shall be made after Aircraft delivery for any subsequent changes in the published Index values.

Exhibit C part 2  
PW formula

#### 1 REFERENCE PRICE OF THE PROPULSION SYSTEMS

The Reference Price of a set of two (2) PRATT AND WHITNEY PW 4168A Propulsion Systems is:

US Dollars [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

This Reference Price is subject to adjustment for changes in economic conditions as measured by data obtained from the US Department of Labor, Bureau of Labor Statistics, and in accordance with the provisions hereof.

#### 2 REFERENCE PERIOD

The above Reference Price has been established in accordance with the economic conditions prevailing in December 2000 as defined, according to PRATT AND WHITNEY by the HEb, ICb index values indicated in Clause 4 of this Exhibit C.

#### 3 INDEXES

Labor Index : "Aircraft engines and engine parts" Standard Industrial Classification 3724 - Average hourly earnings (hereinafter referred to as "HE" SIC 3724) as published in "Employment and Earnings" (Establishment Data-Hours and Earnings not seasonally adjusted Table B-15. Average hours and earnings of production or nonsupervisory workers on private nonfarm payrolls by detailed industry).

Material Index : "Industrial Commodities" (hereinafter referred to as "IC") as published in "PPI Dretailed report" (found in Table 6. "Producer price indexes and percent changes for commodity groupings and individual items not seasonally adjusted" or such other names that may be from time to time used for the publication title and/or table). (Base Year 1982 =

100).

4

#### REVISION FORMULA

$$P_n = (P_b + F) \times [(0.75 \times (H_{En}/H_{Eb})) + (0.25 \times (I_{Cn}/I_{Cb}))]$$

Where :

$P_n$  : revised Reference Price at Aircraft Delivery  
 $P_b$  : Reference Price at economic conditions  
December 2000  
 $F$  :  $(0.005 \times N \times P_b)$   
where  $N$  = the calendar year of Delivery of  
the Aircraft minus 2001  
 $H_{En}$  : AHEsic3724-Index for the sixth (6th) month  
prior to the month of Aircraft Delivery  
 $H_{Eb}$  : AHEsic3724-Index for December 2000 (=20.33)  
 $I_{Cn}$  : IC-Index for the sixth (6th) month prior to  
the month of Aircraft Delivery  
 $I_{Cb}$  : IC-Index for December 2000 (=138.5)

5.

#### GENERAL PROVISIONS

5.1

##### Roundings

- (i) Each quotient,  $(H_{En}/H_{Eb})$  and  $(I_{Cn}/I_{Cb})$ , shall be calculated to the nearest ten-thousandth (4 decimals).
- (ii) The final factor shall be rounded to the nearest ten-thousandth (4 decimals).

If the next succeeding place is five (5) or more the preceding decimal place shall be raised to the nearest higher figure.

After final computation  $P_n$  shall be rounded to the nearest whole number (0.5 rounds to 1).

5.2

##### Final Index Values

The revised Reference Price at the date of Aircraft Delivery shall be the final price and shall not be subject to any further adjustments in the indexes.

If no final index values are available for any of the applicable months, the then published preliminary figures shall be the basis on which the Revised Reference Price shall be computed.

5.3

##### Interruption of Index Publication

If the US Department of Labor substantially revises the methodology of calculation or discontinues any of the indexes referred to hereabove, the Seller shall reflect the substitute for the revised or discontinued index selected by the PRATT AND WHITNEY, such substitute index to lead in application to the same adjustment result, insofar as possible, as

would have been achieved by continuing the use of the original index as it may have fluctuated had it not been revised or discontinued.

Appropriate revision of the formula shall be made to accomplish this result.

5.4

##### Annulment of Formula

Should the above escalation provisions become null and void by action of the US Government, the price shall be adjusted due to increases in the costs of labor and material which have occurred from the period represented by the applicable Reference Price Indexes to the sixth (6th) month prior to the scheduled Aircraft Delivery.

5.5

##### Limitation

Should the revised Reference Price be lower than the Reference Price, the final price shall be computed with the Reference Price.

Exhibit C part 2  
PART 2

ROLLS ROYCE REVISION FORMULA

1

REFERENCE PRICE OF THE PROPULSION SYSTEMS



The Reference Price of a set of two (2) ROLLS ROYCE RB 211 TRENT 772B Propulsion Systems is :

US Dollars [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

This Reference Price is subject to adjustment for changes in economic conditions as measured by data obtained from the US Department of Labor, Bureau of Labor Statistics, and in accordance with the provisions hereof.

2 REFERENCE PERIOD

The above Reference Price has been established in accordance with the average economic conditions prevailing in December 1999, January 2000 , February 2000 , as defined, according to ROLLS ROYCE, by the ECIB, MMPb, EPb index values indicated in Paragraph 4 of this Exhibit C.

3 INDEXES

Labor Index : "Employment Cost Index for Workers in Aerospace manufacturing" hereinafter referred to as "ECI SIC 3721W", quarterly published by the US Department of Labor, Bureau of Labor Statistics, in "NEWS", and found in :Table 6 , "WAGES and SALARIES (not seasonally adjusted): Employment Cost Indexes for Wages and Salaries for private industry workers by industry and occupational group" ,or such other name that may be from time to time used for the publication title and/or table, (Aircraft manufacturing, standard industrial classification code SIC 3721, base month and year June 1989 = 100.)

The quarterly value released for a certain month (March, June, September and December) shall be the one deemed to apply for the two preceding months.

Material Index : "Metals and metal products" Code 10 (hereinafter referred to as "MMP") as published in "PPI Detailed report" (found in Table 6. "Producer price indexes and percent changes for commodity groupings and individual items not seasonally adjusted " or such other names that may be from time to time used for the publication title and/or table) . (Base Year 1982 = 100).

Energy Index : "Fuels and related products and power" Code 5, (hereinafter referred to as "EP") as published in "PPI Detailed report" (found in Table 6. "Producer price indexes and percent changes for commodity groupings and individual items not seasonally adjusted " or such other names that may be from time to time used for the publication title and/or table) . (Base Year 1982 = 100).

4 REVISION FORMULA

$$P_n = (P_b + F) \times (0.60 \times \frac{ECI_n}{ECI_b} + 0.30 \times \frac{MMP_n}{MMP_b} + 0.10 \times \frac{EP_n}{EP_b})$$

where :

- F : (0.005 x N x P<sub>b</sub>) where N is the calendar year of Aircraft delivery minus 2001
- P<sub>n</sub> : Revised Reference Price of a set of two Propulsion Systems at Aircraft delivery
- P<sub>b</sub> : Reference Price at averaged economic conditions December 1999, January 2000, February 2000.
- ECI<sub>n</sub> : ECI3721W Index for 13th, 12th, 11th months averaged prior to the month of Aircraft delivery
- ECI<sub>b</sub> : ECI3721W Index for December 1999, January 2000, February 2000(=145.40)
- MMP<sub>n</sub> : MMP-Index for the 13th, 12th, 11th months averaged prior to the month of Aircraft delivery
- MMP<sub>b</sub> : MMP-Index for December 1999, January 2000, February 2000(=128.13)
- EP<sub>n</sub> : EP-Index for the 13th, 12th, 11th months averaged prior to the month of Aircraft

delivery  
EPb : EP-Index for December 1999, January 2000,  
February 2000(=89.50)

5 GENERAL PROVISIONS

5.1 Roundings

The Labor and Material Index averages shall be computed to the second decimal place.

Each factor (0.60x ECIn/ECIb, 0.30XMMPn/MMPb, 0.10XEPn/EPb) shall be calculated to the nearest ten-thousandth (4 decimals).

If the next succeeding place is five (5) or more the preceding decimal shall be raised to the next higher figure.

After final computation Pn shall be rounded to the nearest whole number (0.5 or more rounded to 1).

5.2 Final Index Values

The revised Reference Price at the date of Aircraft delivery shall not be subject to any further adjustments in the indexes.

5.3 Interruption of Index Publication

If the US Department of Labor substantially revises the methodology of calculation or discontinues any of these indexes referred to hereabove, the Seller shall reflect the substitute for the revised or discontinued index selected by ROLLS ROYCE, such substitute index to lead in application to the same adjustment result, insofar as possible, as would have been achieved by continuing the use of the original index as it may have fluctuated had it not been revised or discontinued.

Appropriate revision of the formula shall be made to accomplish this result.

5.4 Annulment of Formula

Should the above escalation provisions become null and void by action of the British Government, the Price shall be adjusted due to increases in the costs of labor, material and fuel which have occurred from the period represented by the applicable Reference Price Indexes to the twelfth (12th) month prior to the scheduled month of Aircraft delivery.

Exhibit C part 2  
PART 2

GENERAL ELECTRIC REVISION FORMULA

1 REFERENCE PRICE OF THE ENGINES

The Reference Price of GENERAL ELECTRIC CF6-80E1A3 Propulsion Systems is:

US Dollars [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

This Reference Price is subject to adjustment for changes in economic conditions as measured by data obtained from the US Department of Labor, Bureau of Labor Statistics and in accordance with the provisions of Paragraphs 4 and 5 of this Exhibit C.

2 REFERENCE PERIOD

The above Reference Price has been established in accordance with the economical conditions prevailing for a theoretical delivery in January 2002 as defined by GENERAL ELECTRIC by the Reference Composite Price Index (CPIb) of 148.84

3 INDEXES

Labor Index : "Employment Cost Index for Workers in Aerospace manufacturing" hereinafter referred to as "ECI SIC 3721W", quarterly published by the US Department of Labor, Bureau of Labor Statistics, in "NEWS", and found in Table 6 , "WAGES and

SALARIES (not seasonally adjusted) : Employment Cost Indexes for Wages and Salaries for private industry workers by industry and occupational group" ,or such other name that may be from time to time used for the publication title and/or table, (Aircraft manufacturing, standard industrial classification code SIC 3721, base month and year June 1989 = 100.) The quarterly value released for a certain month (March, June, September and December) shall be the one deemed to apply for the two preceding months.

Material Index : "Industrial Commodities" (hereinafter referred to as "IC") as published in "PPI Detailed report" (found in Table 6. "Producer price indexes and percent changes for commodity groupings and individual items not seasonally adjusted " or such other names that may be from time to time used for the publication title and/or table) . (Base Year 1982 = 100) .

4

#### REVISION FORMULA

$P_n = (P_b + F) \times CPI_n / 148.84$

where :

$P_n$  : revised Reference Price at Aircraft delivery.

$P_b$  : Reference Price at delivery conditions January 2002

$F$  :  $(0.005 \times N \times P_b)$   
where  $N$  = the calendar year of delivery of the Aircraft minus 2002

$CPI_n$  : the Composite Price Index (CPI) applicable for the month of aircraft delivery. This Composite Price Index is composed as follows :  
 $CPI_n = 0.65 \times ECIn + 0.35 \times ICn$

where :

$ECIn$  : The arithmetic average of the ECIsic3721W-Index available at the delivery date of the Aircraft for the 11th, 12th and 13th month prior to the month of Aircraft delivery.

$ICn$  : The arithmetic average of the IC-Index available at the delivery date of the Aircraft for the 11th, 12th and 13th month prior to the month of Aircraft delivery

5

#### GENERAL PROVISIONS

5.1

##### Roundings

(i) The Material index average ( $IC_n$ ) shall be rounded to the nearest second decimal place and the labor index average ( $ECIn$ ) shall be rounded to the nearest first decimal place.

(ii)  $CPI_n$  shall be rounded to the nearest second decimal place.

(iii) The final factor ( $CPI_n / 148.84$ ) shall be rounded to the nearest third decimal place.

If the next succeeding place is five (5) or more, the preceding decimal place shall be raised to the next higher figure.

After final computation  $P_n$  shall be rounded to the nearest whole number (0.5 rounds to 1).

5.2

##### Final Index Values

The revised Reference Price at the date of Aircraft delivery shall not be subject to any further adjustments in the indexes.

5.3

##### Interruption of Index Publication

If the US Department of Labor substantially revises the methodology of calculation or discontinues any of these indexes referred to hereabove, the Seller shall reflect the substitute for the revised or discontinued index selected by GENERAL ELECTRIC, such substitute index to lead in application to the same adjustment result, insofar as possible, as would have been achieved by continuing the use of

the original index as it may have fluctuated had it not been revised or discontinued.

Appropriate revision of the formula shall be made to accomplish this result.

5.4 Annulment of Formula

Should the above escalation provisions become null and void by action of the US Government, the Reference Price shall be adjusted due to increases in the costs of labor, and material which have occurred from the period represented by the applicable Reference Composite Price Index to the twelfth (12th) month prior to the scheduled month of Aircraft delivery.

5.5 Limitations

SHOULD THE RATIO CPIN/148.84 BE LOWER THAN 1.000 , PN WILL BE EQUAL TO PB+F

Exhibit D

CERTIFICATE OF ACCEPTANCE

In accordance with the terms of the A[ ] purchase agreement dated [ ] and made between [Airline] and AIRBUS G.I.E., as amended (the "PURCHASE AGREEMENT"), the acceptance tests relating to the A[ ] aircraft, Manufacturer's Serial Number: [ ], Registration Number: [ ] (the "AIRCRAFT"), have taken place at [Airbus France S.A.S] or [Airbus Deutschland GmbH] Works on the [ ] day of [ ].

In view of said tests having been carried out with satisfactory results, [Airline] hereby approves the Aircraft as being in conformity with the provisions of the Purchase Agreement.

Said acceptance does not impair the rights that may be derived from the warranties relating to the Aircraft set forth in the Purchase Agreement.

Any right at law or otherwise to revoke this acceptance of the Aircraft is hereby waived.

The [ ] day of [ ]

[Airline]

By:

Its:

Exhibit E

BILL OF SALE

Know all men by these presents that Airbus G.I.E. ("AIRBUS"), a "Groupement d'Interet Economique" created pursuant to the Ordonnance N(degree) 67-821 of the 23rd September 1967 of the French Republic and whose address is 1 rond-point Maurice Bellonte, 31707 Blagnac Cedex, FRANCE, is the owner of the title to the following airframe (the "AIRFRAME"), the attached engines as specified (the "ENGINES") and all appliances, components, parts, instruments, accessories, furnishings, modules and other equipment of any nature, excluding buyer furnished equipment, incorporated therein, installed thereon or attached thereto on the date hereof (the "PARTS"):

MANUFACTURER OF AIRFRAME:

AIRBUS G.I.E.

MODEL: [ ]

MANUFACTURER'S

SERIAL NUMBER: [ ]

REGISTRATION LETTERS: [ ]

MANUFACTURER OF ENGINES:

[ ]

MODEL: [ ]

SERIAL NUMBERS: LH : [ ]

RH : [ ]

The Airframe, Engines and Parts are hereafter together referred to as the aircraft (the "AIRCRAFT").

AIRBUS does this [ ] day of [ ] sell, transfer and deliver all of its above described rights, title and interest to the Aircraft to the following company and to its successors and assigns forever, said Aircraft to be the property thereof:

[Name of Buyer]

AIRBUS hereby warrants to the Buyer, its successors and assigns that it has on the date hereof good and lawful right to sell, deliver and transfer title to the Aircraft to the Buyer and that there is hereby conveyed to the Buyer on the date hereof good, legal and valid title to the Aircraft, free and clear of all liens, claims, charges, encumbrances and rights of others.

IN WITNESS WHEREOF, the undersigned has caused this instrument to be executed by its duly authorized representative this \_\_\_\_\_ day of [ ]

AIRBUS "Groupement d'Interet Economique"

By:

Title:

Signature

EXHIBIT F

SERVICE LIFE POLICY

ITEMS OF PRIMARY STRUCTURE

SELLER SERVICE LIFE POLICY

- 1 The Items covered by the Service Life Policy pursuant to Clause 12.2 are those Seller Items of primary and auxiliary structure described hereunder.
- 2 WINGS - CENTER AND OUTER WING BOX (LEFT AND RIGHT)
  - 2.1 WING STRUCTURE
    - 2.1.1 Spars
      - 2.1.2 Ribs and stringers inside the wing box
      - 2.1.3 Upper and lower wing skin panels of the wing box
    - 2.2 FITTINGS
      - 2.2.1 Support structure and attachment fittings for the flap structure
      - 2.2.2 Support structure and attachment fitting for the engine pylons
      - 2.2.3 Support structure and attachment fitting for the main landing gear
      - 2.2.4 Support structure and attachment fitting for the center wing box
    - 2.3 AUXILIARY SUPPORT STRUCTURE
      - 2.3.1 For the slats:
        - 2.3.1.1 Ribs supporting the track rollers on wing box structure
        - 2.3.1.2 Ribs supporting the actuators on wing box structure
      - 2.3.2 For the ailerons:
        - 2.3.2.1 Hinge brackets and ribs on wing box rear spar or shroud box
        - 2.3.2.2 Actuator fittings on wing box rear spar or shroud box
      - 2.3.3 For airbrakes, spoilers, lift dumpers:
        - 2.3.3.1 Hinge brackets and ribs on wing box rear spar or shroud box
        - 2.3.3.2 Actuator fittings on wing box rear spar or shroud box
    - 2.4 PYLON
      - 2.4.1 For the Pylon Main Structural Box
        - 2.4.1.1 Spars
        - 2.4.1.2 Ribs

- 2.4.1.3 Skin, doublers and stiffeners
- 2.4.1.4 Support structure and attachment fitting for engine supports
- 3 FUSELAGE
- 3.1 FUSELAGE STRUCTURE
- 3.1.1 Fore and aft bulkheads
- 3.1.2 Pressurized floors and bulkheads surrounding the main and nose gear wheel well and center wing box
- 3.1.3 Skins with doublers, stringers and frames from the forward pressure bulkheads to the frame supporting the rear attachment of horizontal stabilizer
- 3.1.4 Window and windscreen attachment structure but excluding transparencies
- 3.1.5 Passenger and cargo doors internal structure
- 3.1.6 Sills, excluding scuff plates, and upper beams surrounding passenger and cargo door apertures
- 3.1.7 Cockpit floor structure and passenger cabin floor beams excluding floor panels and seat rails
- 3.1.8 Keel beam structure
- 3.2 FITTINGS
- 3.2.1 Landing gear support structure and attachment fitting
- 3.2.2 Support structure and attachment fittings for the vertical and horizontal stabilizers
- 3.2.3 Support structure and attachment fitting for the APU
- 4 STABILIZERS
- 4.1 HORIZONTAL STABILIZER MAIN STRUCTURAL BOX
- 4.1.1 Spars
- 4.1.2 Ribs
- 4.1.3 Upper and lower skins and stringers
- 4.1.4 Support structure and attachment fitting to fuselage and trim screw actuator
- 4.1.5 Elevator support structure
- 4.1.5.1 Hinge bracket
- 4.1.5.2 Servocontrol attachment brackets
- 4.2 VERTICAL STABILIZER MAIN STRUCTURAL BOX
- 4.2.1 Spars
- 4.2.2 Ribs
- 4.2.3 Skins and stringers
- 4.2.4 Support structure and attachment fitting to fuselage
- 4.2.5 Rudder support structure
- 4.2.5.1 Hinge brackets
- 4.2.5.2 Servocontrol attachment brackets
- 5 EXCLUSIONS

Bearing and roller assemblies, bearing surfaces, bushings, fittings other than those listed above, access and inspection doors, including manhole doors, latching mechanisms, all system components, commercial interior parts, insulation and related installation and connecting devices are excluded from

EXHIBIT G

TECHNICAL DATA INDEX

TECHNICAL DATA INDEX

The following index identifies the Technical Data provided in support of the Aircraft. The explanation of the table is as follows:

NOMENCLATURE	Self-explanatory.
ABBREVIATED DESIGNATION (Abbr)	Self-explanatory.
FORM	
OL-A	ON-LINE through Airbus On-Line Services: Advanced Consultation and Navigation System
OL-P	ON-LINE through Airbus On-Line Services: in PDF -- Portable Document Format
CD-A	CD-ROM: Advanced Consultation and Navigation System
CD-P	CD-ROM: in PDF -- Portable Document Format
D	DISKETTE (Floppy Disk)
DD	DIGITAL DATA. Stands generally for SGML format on CD-ROM.
F	MICROFILM. Refers to 16mm roll film in 3M type cartridges.
FC	MICROFILM. Refers to 70 mm film on microfiches.
P1	PRINTED ONE SIDE. Refers to manuals in paper with print on one (1) side of the sheets only.
P2	PRINTED BOTH SIDES. Refers to manuals with print on both sides of the sheets.
TYPE	
C	CUSTOMIZED. Refers to manuals that are applicable to an individual Airbus customer/operator fleet or aircraft.
G	GENERIC. Refers to manuals that are for all aircraft types/models/series.
E	ENVELOPE. Refers to manuals that are applicable to a whole group of Airbus customers for a specific aircraft type/model/series.
P	PRELIMINARY. Refers to preliminary data or manuals which may consist of either: <ul style="list-style-type: none"><li>- one-time issue not maintained by revision service, or</li><li>- preliminary issues maintained by revision service until final manual or data delivery, or</li><li>- supply of best available data under final format with progressive completion through revision service.</li></ul>
ATA	Manuals established essentially in accordance with ATA specification 2200 (iSpec 2200). Information Standards for Aviation Maintenance.
QUANTITY (Qty)	Self-explanatory.
DELIVERY	(Deliv) Delivery refers to scheduled delivery dates and is expressed in either the number of corresponding days prior to first Aircraft delivery, or nil (0) corresponding to the first delivery day.  The number of days indicated shall be rounded up to the next regular revision release date.

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NOMENCLATURE OPERATIONAL MANUALS AND DATA -----								COMMENTS
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<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	
Flight Crew Operating Manual								
Flight Manual								
Master Minimum Equipment List								
Quick Reference Handbook								
Trim Sheet								
Weight and Balance Manual								
Performance Engineer's Programs								
Performance Programs Manual								
[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]								
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Aircraft Maintenance Manual								
Aircraft Schematics Manual								
Aircraft Wiring Lists								
Aircraft Wiring Manual								
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NOMENCLATURE OPERATIONAL MANUALS AND DATA -----								COMMENTS
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Component Location Manual								
Consumable Material List								
Duct Repair Manual								
Electrical Load Analysis								
Electrical Standard Practices Manual								
Electrical Standard Practices booklet								
Fuel Pipe Repair Manual								
Illustrated Parts Catalog (Airframe)/Additional								
Cross Reference Table								
[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]								
Note: All above mentioned manuals except ESP will be in addition available on line (OL-P)								
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NOMENCLATURE MAINTENANCE AND ASSOCIATED MANUALS -----								COMMENTS
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Illustrated Parts Catalog (Power Plant)								
Maintenance Facility Planning								
Maintenance Planning Document								
Maintenance Review Board								
Support Equipment Summary								
Tool and Equipment Bulletins								
Tool and Equipment Drawings								
Tool and Equipment Index								
Illustrated Tool and Equipment Manual								
Technical Publications Combined Index								



[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]  
 Note: All above mentioned manuals except MRB will be in addition available on line (OL-P)

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Nondestructive Testing Manual								
Nacelle Structural Repair Manual								
Structural Repair Manual								

[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]  
 Note: All above mentioned manuals will be in addition available on line (OL-P)  
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<S>		<C>	<C>	<C>	<C>	<C>	<C>	<C>
Component Documentation Status								
Component Evolution List								
Component Maintenance Manual -- Manufacturer								
Component Maintenance Manual -- Vendor								
Cable Fabrication Manual								

[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]  
 Note: All above mentioned manuals except CDS and CMMV will be in addition available on line (OL-P)  
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NOMENCLATURE ENGINEERING DOCUMENTS								
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<S>		<C>	<C>	<C>	<C>	<C>	<C>	<C>
Installation and Assembly Drawings								
Process and Material Specification								

Parts Usage (Effectively)  
 Schedule (Drawing Nomenclature)  
 Standards Manual

[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]  
 Note: PMS and SM will be in addition available on line (OL-P)

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NOMENCLATURE MISCELLANEOUS PUBLICATIONS								
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<S>		<C>	<C>	<C>	<C>	<C>	<C>	<C>
Airplane Characteristics for Airport Planning ATA Breakdown Index								
CADETS (Technical Publications Training)								
Aircraft Recovery Manual								
Crash Crew Chart								
Cargo Loading System Manual								
List of Applicable Publications								
List of Radioactive and Hazardous Elements								
Livestock Transportation Manual								
Service Bulletins								
Service Information Letters								

Note: all above mentioned manuals except CCC and LAP will be in addition available online (OL-P)

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<CAPTION>	NOMENCLATURE	ABBR	FORM	TYPE	ATA	QTY	DELIV	COMMENTS
	MISCELLANEOUS PUBLICATIONS							
<S>	Supplier Product Support Agreements 2000 Transportability Manual Vendor Information Manual	<C>	<C>	<C>	<C>	<C>	<C>	<C>
	Vendor Information Manual GSE							

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Note: all above mentioned manuals will be in addition available on line (OL-P)

Exhibit H

EXHIBIT "H"

MATERIEL

SUPPLY AND SERVICES

1 GENERAL

1.1 This Exhibit defines the terms and conditions for the materiel support services offered by the Seller to the Buyer in the following areas:

- Initial provisioning of data and materiel
- Replenishment of materiel
- Lease of certain Seller Parts

1.1.1 Capitalized terms used herein and not otherwise defined in this Exhibit "H" shall have the same meanings assigned thereto in the Agreement.

1.1.2 References made to Clauses or sub-Clauses shall refer to Clauses or sub-Clauses of this Exhibit "H" unless otherwise specified.

1.2 SCOPE OF MATERIEL SUPPORT

Materiel is classified into the following categories (hereinafter referred to as "MATERIEL"):

- (i) Seller Parts (Seller's proprietary Materiel bearing an official part number of the Seller or Materiel for which the Seller has the exclusive sales rights);
- (ii) Supplier Parts classified as Repairable Line Maintenance Parts in accordance with SPEC 2000;
- (iii) Supplier Parts classified as Expendable Line Maintenance Parts in accordance with SPEC 2000;
- (iv) Ground Support Equipment and Specific (To Type) Tools.

1.2.1 Certain Seller Parts listed in Appendix A of Clause 6 are available for lease by the Seller to the Buyer.

1.2.2 The Materiel support to be provided hereunder by the Seller covers items classified as Materiel in sub-Clauses 1.2 (i) thru (iv) both for initial provisioning as described in Clause 2 ("INITIAL PROVISIONING") and for replenishment as described in Clause 3.

Repairable Line Maintenance Parts as specified in sub-Clauses 1.2

(i) and 1.2 (ii) above having less than [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] flight-hours are considered as new for invoicing purposes. In such a case, the conditions and flight hours of these parts will be indicated and the acceptance of such parts shall be mutually agreed upon. Such acceptance may require the Seller to provide the Buyer on request with additional data related to the condition of the parts.

1.2.3 Propulsion Systems, nacelles, quick engine change kit and thrust reverser accessories and parts, including associated parts, are not covered under this Exhibit "H" and shall be subject to direct agreements between the Buyer and the relevant Propulsion System Manufacturer. The Seller shall use its reasonable efforts to assist the Buyer in case of any difficulties with availability of Propulsion Systems and associated spare parts.

1.2.4 During a period commencing on the date hereof and continuing for as long as at least five (5) aircraft of (each of) the model(s) covered under this Agreement are operated in commercial air transport service ("TERM"), the Seller shall maintain or have maintained such stock of Seller Parts as is deemed reasonable by the Seller and shall furnish at reasonable prices Seller Parts adequate to meet the Buyer's needs for maintenance of the Aircraft.

The Seller shall ensure that a similar service is available from all Suppliers of parts which are originally installed on the Aircraft and not manufactured by the Seller.

### 1.3 MATERIEL SUPPORT CENTRE AND CENTRAL STORE

1.3.1 The Seller has established its materiel support centre in HAMBURG, FEDERAL REPUBLIC OF GERMANY ("MATERIEL SUPPORT Centre") and shall maintain or cause to be maintained during the Term a central store of Seller Parts.

1.3.2 The Materiel Support Centre is operated twenty-four (24) hours/day and seven (7) days/week.

1.3.3 On a case by case basis, the Seller reserves the right to effect deliveries from distribution centres other than Materiel Support Centre or from any designated production or Suppliers' facilities.

For efficient and convenient deliveries, the Seller and its affiliate companies operate regional satellite stores.

### 1.4 AGREEMENTS OF THE BUYER

1.4.1 The Buyer agrees to purchase from the Seller the Seller Parts required for the Buyer's own needs during the Term, provided that the provisions of this Clause 1.4 shall not in any way prevent the Buyer from resorting to the Seller Parts stocks of other operators using the same Aircraft or from purchasing Seller Parts from said operators or from distributors, provided said Seller Parts have been designed and manufactured by the Seller.

1.4.2 The Buyer may manufacture or have manufactured for its own use without paying any license fee to the Seller, or may purchase from other sources, parts equivalent to Seller Parts :

1.4.2.1 after expiration of the Term if at such time the Seller Parts are out of stock,

1.4.2.2 at any time, to the extent Seller Parts are needed to effect aircraft on ground ("AOG") repairs upon any Aircraft delivered under the Agreement and are not available from the Seller within a lead time shorter than or equal to the time in which the Buyer can procure such Seller Parts, and provided the Buyer shall not sell such Seller Parts,

1.4.2.3 in the event that the Seller fails to fulfil its obligations with respect to any Seller Parts pursuant to Clause 1.2 within a reasonable time after written notice thereof from the Buyer,

1.4.2.4 in those instances where a Seller Part is identified as "Local Manufacture" in the Illustrated Parts Catalog (IPC).

1.4.3 The rights granted to the Buyer in Clause 1.4.2 shall not in any way be construed as a license, nor shall they in any way obligate

the Buyer to the payment of any license fee or royalty, nor shall they in any way be construed to affect the rights of third parties.

2 INITIAL PROVISIONING

2.1 INITIAL PROVISIONING PERIOD

The INITIAL PROVISIONING PERIOD is defined as the period up to and expiring on the ninetieth (90th) day after delivery of the last Aircraft subject to firm order under the Agreement.

2.2 PRE-PROVISIONING MEETING

2.2.1 The Seller shall organize a pre-provisioning meeting ("PRE-PROVISIONING MEETING") at its Materiel Support Centre for the purpose of formulating an acceptable schedule and working procedure to accomplish the initial provisioning of Materiel.

2.2.2 The date of the meeting shall be mutually agreed upon, allowing a minimum preparation time of eight (8) weeks for the Initial Provisioning Conference referred to in Clause 2.4 below.

2.3 INITIAL PROVISIONING TRAINING

Upon the request of the Buyer, the Seller shall provide free of charge Initial Provisioning training for a reasonable number of the Buyer's provisioning and purchasing personnel. The following areas shall be covered:

- (i) The Seller during the Pre-Provisioning Meeting shall familiarize the Buyer with the provisioning documents.
- (ii) The technical function as well as the necessary technical and commercial Initial Provisioning Data shall be explained during the Initial Provisioning Conference.
- (iii) A familiarization with the Seller's purchase order administration system shall be conducted during the Initial Provisioning Conference.

2.4 INITIAL PROVISIONING CONFERENCE

The Seller shall organize an Initial Provisioning conference ("INITIAL PROVISIONING CONFERENCE") at the Materiel Support Centre, including participation of major Suppliers as agreed upon during the Pre-Provisioning Meeting.

Such conference shall not take place earlier than eight (8) weeks after Manufacturer Serial Number allocation, Buyer Furnished Equipment selection or Customer Definition Freeze, whichever is the latest.

2.5 SELLER-SUPPLIED DATA

The Seller shall prepare and supply to the Buyer the following data.

2.5.1 INITIAL PROVISIONING DATA

Initial Provisioning data elements generally in accordance with SPEC 2000, Chapter 1, ("INITIAL PROVISIONING DATA") shall be supplied by the Seller to the Buyer in a form, format and a time-scale to be mutually agreed upon during the Pre-Provisioning Meeting.

2.5.1.1 Revision service shall be provided every ninety (90) days, up to the end of the Initial Provisioning Period.

2.5.1.2 In any event, the Seller shall ensure that Initial Provisioning Data is released to the Buyer in due time to give the Buyer sufficient time to perform any necessary evaluation and allow the on-time delivery of any ordered Materiel.

2.5.2 SUPPLEMENTARY DATA

The Seller shall provide the Buyer with supplementary data to the Initial Provisioning Data, including Local Manufacture Tables (X-File) and Ground Support Equipment and Specific (To-Type) Tools (W-File) in accordance with SPEC 2000, Chapter 1.

2.5.3 DATA FOR STANDARD HARDWARE

The Initial Provisioning Data provided to the Buyer shall include data for hardware and standard materiel.

2.6 SUPPLIER-SUPPLIED DATA

2.6.1 GENERAL

The Seller shall obtain from Suppliers agreements to prepare and issue for their own products as per Clause 1.2 (ii) repair/overhaul Initial Provisioning Data in the English language, for those components for which the Buyer has elected to receive data.

Said data (initial issue and revisions) shall be transmitted to the Buyer through the Suppliers and/or the Seller.

In any event, the Seller shall exert its reasonable efforts to supply such Data to the Buyer in due time to give the Buyer sufficient time to perform any necessary evaluation and allow on-time deliveries.

2.6.2 INITIAL PROVISIONING DATA

Initial Provisioning Data elements for Supplier Parts as per sub-Clause 1.2 (ii) generally in accordance with SPEC 2000, Chapter 1, shall be furnished as mutually agreed upon during a Pre-Provisioning Meeting with revision service assured up to the end of the Initial Provisioning period.

2.7 INITIAL PROVISIONING DATA COMPLIANCE

2.7.1 Initial Provisioning Data generated by the Seller and supplied to the Buyer shall comply with the latest configuration of the Aircraft to which such data relate as known three (3) months before the date of issue. Said data shall enable the Buyer to order Materiel conforming to its Aircraft as required for maintenance and overhaul.

This provision shall not cover:

- Buyer modifications not known to the Seller,
- modifications not agreed to by the Seller.

2.8 COMMERCIAL OFFER

2.8.1 At the end of the Initial Provisioning Conference, the Seller shall, at the Buyer's request, submit a commercial offer for all Materiel as defined in Clauses 1.2 (i) thru 1.2 (iv) mutually agreed as being Initial Provisioning based on the Seller's sales prices valid at the time of finalization of the Initial Provisioning Conference. This commercial offer shall be valid for a period to be mutually agreed upon, irrespective of any price changes for Seller Parts during this period, except for significant error and/or price alterations due to part number changes and/or Supplier price changes.

2.8.2 During the Initial Provisioning Period the Seller shall supply Materiel, as defined in Clause 1.2 and ordered from the Seller, which shall be in conformity with the configuration standard of the concerned Aircraft and with the Initial Provisioning Data transmitted by the Seller.

2.8.3 The Seller shall in addition use its reasonable efforts to cause Suppliers to provide a similar service for their items.

2.9 DELIVERY OF INITIAL PROVISIONING MATERIEL

2.9.1 In order to support the operation of the Aircraft, the Seller shall deliver Materiel ordered during the Initial Provisioning Period against the Buyer's orders and according to a mutually agreed schedule. Provided the Buyer's orders have been placed within [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] after receipt of the Seller's provisioning data and not later than [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] before delivery of the corresponding Aircraft, one hundred percent (100 %) of the ordered quantity of each item, including

line station items, shall be delivered [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] after delivery of the last Aircraft. If said one hundred percent (100 %) cannot be accomplished, the Seller shall have such items available at its facilities for Seller Parts as per sub-Clause 1.2 (i) or at its Suppliers' facilities for parts as per sub-Clauses 1.2 (ii) thru 1.2 (iv) for immediate supply in case of an AOG.

2.9.2 The above agreed delivery schedule applies only to that portion of the quantity ordered that is recommended for the number of Aircraft operated during the twelve (12) months that follow first Aircraft delivery.

2.9.3 The Buyer may, subject to the Seller's agreement, cancel or modify Initial Provisioning orders placed with the Seller, with no cancellation charge, not later than the quoted lead-time before scheduled delivery of said Materiel.

2.9.4 In the event of the Buyer canceling or modifying (without any liability of the Seller for the cancellation or modification) any orders for Materiel outside the time limits defined in Clause 2.9.3, the Buyer shall reimburse the Seller for any costs incurred in connection therewith.

2.9.5 All transportation costs for the return of Materiel under this Clause 2, including any insurance, customs and duties applicable or other related expenditures, shall be borne by the Buyer.

## 2.10 INITIAL PROVISIONING DATA FOR EXERCISED OPTIONS

2.10.1 All Aircraft for which the Buyer exercises its option shall be included into the revision of the provisioning data that is issued after execution of the relevant amendment to the Agreement if such revision is not scheduled to be issued within four (4) weeks from the date of execution. If the execution date does not allow four (4) weeks preparation time for the Seller, the concerned Aircraft shall be included in the subsequent revision as may be mutually agreed upon.

2.10.2 The Seller shall, from the date of execution of the relevant amendment to the Agreement until three (3) months after delivery of each Aircraft, submit to the Buyer details of particular Supplier components being installed on each Aircraft, with recommendations regarding order quantity. A list of such components shall be supplied at the time of the provisioning data revision as specified above.

2.10.3 The data concerning Materiel shall at the time of each Aircraft delivery at least cover such Aircraft's technical configuration as it existed six (6) months prior to Aircraft delivery and shall be updated to reflect the final status of the concerned Aircraft once manufactured. Such update shall be included in the data revisions issued three (3) months after delivery of such Aircraft.

## 3 REPLENISHMENT AND DELIVERY

### 3.1 GENERAL

Buyer's purchase orders are administered in accordance with SPEC 2000, Chapter 3.

For the purpose of clarification it is expressly stated that the provisions of Clause 3.2 do not apply to Initial Provisioning Data and Materiel as described in Clause 2.

### 3.2 LEAD TIMES

In general, lead times are in accordance with the provisions of the "World Airlines and Suppliers' Guide" (Latest Edition).

3.2.1 Seller Parts as per sub-Clause 1.2 (i) listed in the Seller's Spare Parts Price List can be dispatched within the lead times defined in the Spare Parts Price List.

Lead times for Seller Parts, which are not published in the Seller's Spare Parts Price List, are quoted upon request.

3.2.2 Materiel of sub-Clauses 1.2 (ii) thru 1.2 (iv) can be dispatched within the Supplier's lead-time augmented by the Seller's own

order and delivery processing time.

### 3.2.3 EXPEDITE SERVICE

The Seller shall provide a twenty-four (24) hours-a-day, seven (7) days-a-week expedite service to provide for the supply of the relevant Seller Parts available in the Seller's stock, workshops and assembly line including long lead time spare parts, to the international airport nearest to the location of such part ("EXPEDITE SERVICE").

3.2.3.1 The Expedite Service is operated in accordance with the "World Airlines and Suppliers' Guide", and the Seller shall notify the Buyer of the action taken to satisfy the expedite within:

- four (4) hours after receipt of an AOG Order,
- twenty-four (24) hours after receipt of a Critical Order (imminent AOG or work stoppage),
- seven (7) days after receipt of an Expedite Order from the Buyer.

3.2.3.2 The Seller shall deliver Seller Parts requested on an Expedite basis against normal orders placed by the Buyer, or upon telephone or telex requests by the Buyer's representatives. Such telephone or telex requests shall be confirmed by subsequent Buyer's orders for such Seller Parts within a reasonable time.

### 3.3 DELIVERY STATUS

The Seller shall report to the Buyer the status of supplies against orders on a monthly basis.

### 3.4 EXCUSABLE DELAY

Clause 10.1 of the Agreement shall apply to the Materiel support.

### 3.5 SHORTAGES, OVERSHIPMENTS, NON-CONFORMITY IN ORDERS

3.5.1 The Buyer shall immediately and not later than [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] after receipt of Materiel delivered pursuant to a purchase order advise the Seller:

- a) of any alleged shortages or overshipments with respect to such order,
- b) of all non-conformities to specification of parts in such order subjected to inspections by the Buyer.

In the event of the Buyer not having advised the Seller of any such alleged shortages, overshipments or non-conformity within the above defined period, the Buyer shall be deemed to have accepted the deliveries.

3.5.2 In the event of the Buyer reporting overshipments or non-conformity to the specifications within the period defined in Clause 3.5.1 the Seller shall, if the Seller accepts such overshipment or non-conformity, either replace the concerned Materiel or credit the Buyer for the returned Materiel. In such case, transportation costs shall be borne by the Seller.

The Buyer shall endeavor to minimize such costs.

### 3.6 PACKAGING

All Materiel shall be packaged in accordance with ATA 300 Specification, Category III for consumable/ expendable materiel and Category II for rotables. Category I containers shall be used if requested by the Buyer and the difference between Category I and Category II packaging costs shall be paid by the Buyer together with payment for the respective Materiel.

### 3.7 CESSATION OF DELIVERIES

The Seller reserves the right to stop or otherwise suspend deliveries if the Buyer fails to meet its obligations defined in Clauses 4.2 thru 4.4 after reasonable notification to the Buyer.

4.1. PRICE

4.1.1 The Materiel prices shall be :

- Free Carrier (FCA) the Materiel Support Centre for deliveries from the Materiel Support Centre.
  
- Free Carrier (FCA) place specified by the Seller for deliveries from other Seller or Supplier facilities as the term Free Carrier (FCA) is defined by the publication N(Degree) 560 of the International Chamber of Commerce published in January 2000.

4.1.2 Prices shall be the Seller's sales prices in effect on the date of receipt of the order (subject to reasonable quantities and delivery time) and shall be expressed in US-Dollars.

4.1.3 Prices of Seller Parts shall be in accordance with the current Seller's Spare Parts Price List. Prices shall be firm for each calendar year. The Seller, however, reserves the right to revise the prices of said parts during the course of the calendar year in the following cases:

- significant revision in manufacturing costs,
- significant revision in manufacturer's purchase price of parts or materiels (including significant variation of exchange rates),
- significant error in estimation or expression of any price.

The Seller shall issue a revised Spare Parts Price List at least [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] before implementation to the Buyer.

4.1.4 Prices of Materiel as defined in sub-Clauses 1.2 (ii) thru 1.2 (iv) shall be the valid list prices of the Supplier augmented by the Seller's handling charge. The percentage of the handling charge shall vary with the Materiel's value and shall be determined item by item in accordance with Attachment A to this Exhibit "H" (handling fee curve).

4.1.5 The Seller warrants that, should the Buyer purchase one hundred percent (100 %) of the recommended Initial Provisioning package of the Materiel as defined in sub-Clauses 1.2 (ii) thru 1.2 (iv) through the Seller, the handling charge applicable to the relevant Materiel, which shall not exceed [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

This average handling charge shall apply when all orders are received by the Seller no later than [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] before first Aircraft delivery.

4.2 PAYMENT PROCEDURES AND CONDITIONS

4.2.1 Payment shall be made in immediately available funds in the quoted currency. In case of payment in any other free convertible currency, the exchange rate valid on the day of actual money transfer shall be applied for conversion.

4.2.2 Payment shall be made by the Buyer to the Seller within [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] from date of the invoice to the effect that the value date of the credit to the Seller's account of the payment falls within this [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] period.

4.2.3 The Buyer shall make all payments hereunder to the Seller's account with:

[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

or as otherwise directed by the Seller.



4.2.4.1 All payments due to the Seller hereunder shall be made in full without set-off, counterclaim, deduction or withholding of any kind. Consequently, the Buyer shall procure that the sums

received by the Seller under this Exhibit "H" shall be equal to the full amounts expressed to be due to the Seller hereunder, without deduction or withholding on account of and free from any and all taxes, levies, imposts, dues or charges of whatever nature except that if the Buyer is compelled by law to make any such deduction or withholding the Buyer shall pay such additional amounts as may be necessary in order that the net amount received by the Seller after such deduction or withholding shall equal the amounts which would have been received in the absence of such deduction or withholding.

4.2.4.2 [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

4.2.5 If any payment due to the Seller is not received in accordance with the timescale provided in Clause 4.2.2, without prejudice to the Seller's other rights under this Exhibit "H", the Seller shall be entitled to interest for late payment calculated on the amount due from and including the due date of payment up to and including the date when the payment is received by the Seller at a rate equal to the London Interbank Offered Rate (LIBOR) for twelve (12) months deposits in US Dollars (as published in the Financial Times on the due date) plus [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] per year (part year to be prorated).

#### 4.3 CREDIT ASSURANCE

The Seller and the Buyer agree that the Seller has the right to request and the Buyer shall upon such request provide the Seller with sufficient financial means in due time in order to assure the Seller of full payment of the Buyers' current and/or expected payment obligations.

4.3.1 The Seller's right to request credit assurance from the Buyer shall be limited to cases [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

4.3.2 The Seller shall accept the following financial means as credit assurance:

4.3.2.1 Irrevocable and confirmed letter of credit, raised by banks of international standing and reputation. The conditions of such letter of credit shall be pertinent to Aircraft support activities and shall be set forth by the Seller.

4.3.2.2 Bank guarantee raised by banks of international standing and reputation. The conditions of such bank guarantee shall be mutually agreed upon prior to acceptance by the Seller.

4.3.2.3 Stand-by letter of credit raised by banks of international standing and reputation. The conditions of such letter of credit shall be mutually agreed upon prior to acceptance by the Seller.

#### 4.4 TITLE

Title to any Materiel purchased under this Exhibit "H" remains with the Seller until full payment of the invoices and any interest thereon has been received by the Seller.

The Buyer shall undertake that Materiel, title to which has not passed to the Buyer, shall be kept free from any debenture or mortgage or any similar charge or claim in favor of any third party.

#### 4.5 BUY-BACK

##### 4.5.1 BUY-BACK OF OBSOLETE MATERIEL

The Seller agrees to buy back unused Seller Parts which may become obsolete before delivery of the first Aircraft to the Buyer as a result of mandatory modifications required by the Buyer's or the Seller's Aviation Authorities, or as a result of a Supplier or the Seller development changes subject to the following:

4.5.1.1 The Seller Parts involved shall be those, which the Buyer is directed by the Seller to scrap or dispose of and which cannot be reworked or repaired to satisfy the revised standard.

4.5.1.2 The Seller shall credit to the Buyer the purchase price paid by the Buyer for any such obsolete parts, provided that the Seller's liability in this respect does not extend to quantities in excess of the Seller's Initial Provisioning recommendation.

4.5.1.3 The Seller shall use its reasonable efforts to obtain for the Buyer the same protection from Suppliers.

#### 4.5.2 BUY-BACK OF SURPLUS MATERIEL

4.5.2.1 The Seller agrees that at any time after one (1) year and within three (3) years after delivery to the Buyer of the last of the six (6) Aircraft purchased under this Agreement, the Buyer shall have the right to return to the Seller, at a credit of one hundred percent (100 %) of the original purchase price paid by the Buyer, unused and undamaged Materiel as per sub-Clause 1.2 (i) and at a credit of one hundred percent (100 %) of the original Supplier list price, unused and undamaged Materiel as per sub-Clause 1.2 (ii) originally purchased from the Seller under the terms hereof, provided that the selected protection level does not exceed ninety-six percent (96 %) with a transit time of twenty (20) days and said Materiel was recommended for the Buyer's purchase in the Seller's Initial Provisioning recommendations to the Buyer and does not exceed the provisioning quantities recommended by the Seller, and is not shelflife limited, or does not contain any shelflife limited components with less than ninety percent (90 %) shelflife remaining when returned to the Seller and provided that the Materiel is returned with the Seller's original documentation (tag, certificates).

4.5.2.2 In the event of the Buyer electing to procure Materiel in excess of the Seller's recommendation, the Buyer shall notify the Seller thereof in writing, with due reference to the present Clause. The Seller's agreement in writing is necessary before any Materiel in excess of the Seller's recommendation shall be considered for buy-back.

4.5.2.3 It is expressly understood and agreed that the rights granted to the Buyer under this Clause 4.5.2 shall not apply to Materiel which may become surplus to requirements due to obsolescence at any time or for any reason other than those set forth in Clause 4.5.1 above.

4.5.2.4 Further, it is expressly understood and agreed that all credits described in this Clause 4.5.2 shall be provided by the Seller to the Buyer exclusively by means of credit notes to be entered into the Buyer's spares account with the Seller.

4.5.3 All transportation costs for the return of obsolete or surplus Materiel under this Clause 4, including any insurance and customs duties applicable or other related expenditures, shall be borne by the Buyer.

4.5.4 The Seller's obligation to buy back surplus Materiel is conditioned upon the Buyer reasonably demonstrating that items proposed for buy-back were in excess of the Buyer's requirements after the initial purchase of such items.

#### 4.6 INVENTORY USAGE DATA

The Buyer shall provide to the Seller at dates to be mutually agreed a quantitative list of the parts used for maintenance and overhaul of the Aircraft. The range and contents of this list shall be established according to SPEC 2000, Chapter 5, or as mutually agreed between the Seller and the Buyer. The Seller shall treat this information as confidential and shall not divulge it a third party without the consent of the Buyer, such consent not to be unreasonably withheld.

#### 5. WARRANTIES

##### 5.1 SELLER PARTS

Subject to the limitations and conditions as hereinafter provided, the Seller warrants to the Buyer that all Seller Parts in sub-Clause 1.2 (i) shall at delivery to the Buyer:

- (i) be free from defects in design and material,
- (ii) be free from defects in workmanship, including without limitation processes of manufacture,
- (iii) be free from defects arising from failure to conform to the applicable specification for such part.

## 5.2 WARRANTY PERIOD

- 5.2.1 The standard warranty period for new Seller Parts is [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] after delivery of such parts to the Buyer.
- 5.2.2 The standard warranty period for used Seller Parts delivered by and/or repaired, modified, overhauled or exchanged by the Seller is [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] after delivery of such parts to the Buyer.

## 5.3 BUYER'S REMEDY AND SELLER'S OBLIGATION

The Buyer's remedy and Seller's obligation and liability under this Clause 5 are limited to the repair, replacement or correction, at the Seller's expense and option, of any Seller Part which is defective. Transportation costs shall be [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT].

The Seller may equally at its option furnish a credit to the Buyer for the future purchase of Seller Parts equal to the price at which the Buyer is then entitled to acquire a replacement for the defective Seller Parts.

The provisions of Clauses 12.1.5 thru 12.1.10 of the Agreement shall apply to this Clause 5 of this Exhibit "H".

## 5.4 WAIVER, RELEASE AND RENUNCIATION

THE WARRANTIES, OBLIGATIONS AND LIABILITIES OF THE SELLER AND REMEDIES OF THE BUYER SET FORTH IN THIS CLAUSE 5 ARE EXCLUSIVE AND IN SUBSTITUTION FOR, AND THE BUYER HEREBY WAIVES, RELEASES AND RENOUNCES, ALL OTHER WARRANTIES, OBLIGATIONS AND LIABILITIES OF THE SELLER AND RIGHTS, CLAIMS AND REMEDIES OF THE BUYER AGAINST THE SELLER, EXPRESS OR IMPLIED, ARISING BY LAW OR OTHERWISE WITH RESPECT TO ANY NON-CONFORMITY OR DEFECT IN ANY SELLER PART DELIVERED UNDER THIS AGREEMENT INCLUDING BUT NOT LIMITED TO:

- (A) ANY IMPLIED WARRANTY OF MERCHANTABILITY OR FITNESS;
- (B) ANY IMPLIED WARRANTY ARISING FROM COURSE OF PERFORMANCE, COURSE OF DEALING OR USAGE OF TRADE;
- (C) ANY OBLIGATION, LIABILITY, RIGHT, CLAIM OR REMEDY, WHETHER CONTRACTUAL OR DELICTUAL AND WHETHER OR NOT ARISING FROM THE SELLER'S NEGLIGENCE, ACTUAL OR IMPUTED; AND
- (D) ANY OBLIGATION, LIABILITY, RIGHT, CLAIM OR REMEDY FOR LOSS OR DAMAGE TO ANY AIRCRAFT, COMPONENT, EQUIPMENT, ACCESSORY OR PART THEREOF.

THE SELLER SHALL HAVE NO OBLIGATION OR LIABILITY, HOWSOEVER ARISING, FOR LOSS OF USE, REVENUE OR PROFIT OR FOR ANY OTHER DIRECT, INCIDENTAL, OR CONSEQUENTIAL DAMAGES WITH RESPECT TO ANY NON-CONFORMITY OR DEFECT IN ANY SELLER PART DELIVERED UNDER THIS AGREEMENT.

## 6 SELLER PARTS LEASING

### 6.1 GENERAL

The terms and conditions of this Clause 6 shall apply for the leasing of Seller Parts listed in Appendix A to this Clause 6, hereinafter "LEASED PARTS" or a "LEASED PART", and shall form a

part of each lease of Seller Parts by the Buyer from the Seller.

- 6.1.1 The terms and conditions of this Clause 6 shall prevail over all other terms and conditions appearing on any order form or other document pertaining to Leased Parts. The Seller's current proprietary parts Repair Guide shall be provided to the Buyer and shall be used, along with this Agreement, as the basis for Seller Parts lease transactions between the Buyer and the Seller. In case of discrepancy, this Agreement shall prevail.
- 6.1.2 For the purposes of this Clause 6, the term "LESSOR" refers to the Seller and the term "LESSEE" refers to the Buyer.
- 6.1.3 Parts not included in Appendix A to this Clause 6 shall be the subject of a separate lease agreement supplied by the Seller at the Buyer's request.

## 6.2 LEASING PROCEDURE

Upon the Lessee's request by telephone (to be confirmed promptly in writing), telefax, cable, SITA, letter or other written instrument, the Lessor shall lease such Leased Parts, which shall be made available in accordance with Clause 3.2.3 for the purpose of being substituted for a part removed from an Aircraft for repair or overhaul. Each lease of Leased Parts shall be evidenced by a lease document (hereinafter "LEASE") issued by the Lessor to the Lessee not later than [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] after delivery of the Leased Part.

## 6.3 LEASE PERIOD

- 6.3.1 The total term of the Lease (hereinafter "LEASE PERIOD") shall be counted from inclusively the day the Leased Part is delivered Free Carrier (FCA) up to inclusively the day of receipt of the Leased Part back at the Lessor or at any other address indicated by the Lessor.
- 6.3.2 If a Leased Part is not returned by the Lessee within [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT], the Lease will be converted into a sale. Should the Lessee not return the Leased Part to the Lessor within [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] and if the Lessor so elects, by giving prompt written notice to the Lessee, such non return shall be deemed to be an election by the Lessee to purchase the Leased Part and, upon the happening of such event, the Lessee shall pay the Lessor all amounts due under Clauses 6.4 and 6.8 for the Leased Part for the Lease Period of [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]
- 6.3.3 Notwithstanding the foregoing, the Lease Period shall end in the event of, and upon the date that, the Lessee acquiring title to a Leased Part as a result of exercise of the Lessee's option to purchase the Leased Part, as provided for herein.
- 6.3.4 The chargeable period to lease a part is a minimum of [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]. If the shipment of the Leased Part has been arranged but not yet despatched and the Lessee cancels the lease order, the minimum chargeable period of [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] shall apply.

## 6.4 LEASE CHARGES AND TAXES

The Lessee shall pay the Lessor:

- (i) a Lease fee per day of the Lease Period amounting to [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] of the part's sales price as set forth in the Seller's Spare Parts Price List in effect on the date of the commencement of the Lease Period;

- (ii) any reasonable additional costs which may be incurred by the Lessor as a direct result of such Lease, such as recertification, inspection, test, repair, overhaul, removal of paint and/or repackaging costs as required to place the Leased Part in a satisfactory condition for lease to a subsequent customer;
- (iii) all transportation and insurance charges; and
- (iv) any taxes, charges or custom duties imposed upon the Lessor or its property as a result of the Lease, sale, delivery, storage or transfer of any Leased Part. All payments due hereunder shall be made in accordance with Clause 4.

6.5 RISK OF LOSS, MAINTENANCE, STORING AND REPAIR OF THE LEASED PART

- (i) The Lessee shall be liable for maintaining and storing the Leased Part in accordance with all applicable rules of the relevant aviation authorities and the technical documentation and other instructions issued by the Lessor.
- (ii) Except for normal wear and tear, each Leased Part shall be returned to the Lessor in the same condition as when delivered to the Lessee.
- (iii) The Leased Part shall be repaired solely at repair stations approved by the Lessor. If during the Lease Period any inspection, maintenance, rework and/or repair is carried out to maintain the Leased Part serviceable, in accordance with the standards of the Lessor, the Lessee shall provide details and documentation about the scope of the work performed, including respective inspection, work and test reports.
- (iv) All documentation shall include, but not be limited to, evidence of incidents such as hard landings, abnormalities of operation and corrective action taken by the Lessee as a result of such incidents.
- (v) The Leased Part must not be lent to a third party.
- (vi) Risk of loss or damage to each Leased Part shall remain with the Lessee until such Leased Part is redelivered to the Lessor at the return location specified in the applicable Lease. If a Leased Part is lost, damaged beyond economical repair or damaged unrepairable, the Lessee shall be deemed to have exercised its option to purchase said Leased Part in accordance with Clause 6.8 as of the date of such loss or damage.

6.6 TITLE

Title to each Leased Part shall remain with the Lessor at all times unless the Lessee exercises its option to purchase in accordance with Clause 6.8, in which case title shall pass to the Lessee upon receipt by the Lessor of the payment for the purchased Leased Part.

6.7 RETURN OF LEASED PART

6.7.1 The Lessee shall return the Leased Part at the end of the Lease Period to the address indicated herebelow:

AIRBUS INDUSTRIE  
Materiel Support Centre  
Weg beim Jaeger 150  
22335 Hamburg  
Germany

or any other address indicated by the Lessor.

6.7.2 The return shipping document shall indicate the reference of the Lease document and the removal data, such as:

- (i) aircraft manufacturer serial number
- (ii) removal date
- (iii) total flight hours and flight cycles for the period the Leased Part was installed on the aircraft
- (iv) documentation in accordance with Clause 6.5.

If the Lessee cannot provide the above mentioned data and

documentation for the Leased Part to be returned from Lease, lease charges of [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] of the Lessor's current sales price for a new part plus [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] of the accumulated Lease fees will be invoiced. According to the Lessor's quality standards, parts are not serviceable without the maintenance history data outlined above and have to be scrapped on site.

6.7.3 The unserviceable or serviceable tag issued by the Lessee and the original Lessor certification documents must be attached to the Leased Part.

6.7.4 Except for normal wear and tear, each Leased Part shall be returned to the Lessor in the same condition as when delivered to the Lessee. The Leased Part shall be returned with the same painting as when delivered (Airbus grey or primary paint). If the Lessee is not in a position to return the Leased Part in the same serviceable condition, the Lessee has to contact the Lessor for instructions.

6.7.5 The Leased Part is to be returned in the same shipping container as that delivered by the Lessor. The container must be in a serviceable condition, normal wear and tear excepted.

6.7.6 The return of an equivalent part different from the Leased Part delivered by the Lessor is not allowed without previous written agreement of the Lessor, such agreement not to be unreasonably withheld.

#### 6.8 OPTION TO PURCHASE

6.8.1 The Lessee may at its option, exercisable by written notice given to the Lessor during the Lease Period, elect to purchase the Leased Part, in which case the then current sales price for such Leased Part as set forth in the Seller's Spare Parts Price List shall be paid by the Lessee to the Lessor. Should the Lessee exercise such option, [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] of the Lease rental charges due pursuant to sub-Clause 6.4 (i) shall be credited to the Lessee against said purchase price of the Leased Part.

6.8.2 In the event of purchase, the Leased Part shall be warranted in accordance with Clause 5 as though such Leased Part were a Seller Part, but the warranty period shall be deemed to have commenced on the date such part was first installed on any Aircraft; [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] A warranty granted under this Clause 6.8.2 shall be in substitution for the warranty granted under Clause 6.9 at the commencement of the Lease Period.

#### 6.9 WARRANTIES

6.9.1 The Lessor warrants that each Leased Part shall at the time of delivery be free from defects in material and workmanship which could materially impair the utility of the Leased Part.

#### 6.9.2 WARRANTY AND NOTICE PERIODS

The Lessee's remedy and the Lessor's obligation and liability under this Clause 6.9, with respect to each defect, are conditioned upon:

- (i) the defect having become apparent to the Lessee within the Lease Period and
- (ii) the return by the Lessee as soon as practicable to the return location specified in the applicable Lease, or such other place as may be mutually agreed upon, of the Leased Part claimed to be defective and
- (iii) the Lessor's warranty administrator having received written notice of the defect from the Lessee within [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] after the defect becomes apparent to the Lessee, with reasonable

proof that the claimed defect is due to a matter embraced within the Lessor's warranty under this Clause 6.9 and that such defect did not result from any act or omission of the Lessee, including but not limited to any failure to operate or maintain the Leased Part claimed to be defective or the Aircraft in which it was installed in accordance with applicable governmental regulations and the Lessor's applicable written instructions.

#### 6.9.3 REMEDIES

The Lessee's remedy and the Lessor's obligation and liability under this Clause 6.9 with respect to each defect are limited to the repair of such defect in the Leased Part in which the defect appears, or, as mutually agreed, to the replacement of such Leased Part with a similar part free from defect.

Any replacement part furnished under this Clause 6.9.3 shall be deemed to be the Leased Part so replaced.

#### 6.9.4 SUSPENSION AND TRANSPORTATION COSTS

##### 6.9.4.1

If a Leased Part is found to be defective and covered by this warranty, the Lease Period and the Lessee's obligation to pay rental charges as provided for in sub-Clause 6.4 (i) shall be suspended from the date on which the Lessee notifies the Lessor of such defect until the date upon which the Lessor has repaired, corrected or replaced the defective Leased Part, provided, however, that the Lessee has, promptly after giving such notice to the Lessor, withdrawn such defective Leased Part from use. If the defective Leased Part is replaced, such replaced part shall be deemed to no longer be a Leased Part under the Lease as of the date upon which such part was received by the Lessor at the return location specified in the applicable Lease.

If a Leased Part is found to be defective upon first use by the Lessee and is covered by this warranty, no rental charges as provided in sub-Clause 6.4 (i) shall accrue and be payable by the Lessee until the date on which the Lessor has repaired, corrected or replaced the defective Leased Part.

##### 6.9.4.2

All transportation and insurance costs of returning the defective Leased Part and returning the repaired, corrected or replacement part to the Lessee shall be borne by the Lessor.

#### 6.9.5 WEAR AND TEAR

Normal wear and tear and the need for regular maintenance and overhaul shall not constitute a defect or non-conformance under this Clause 6.9.

#### 6.9.6

##### WAIVER, RELEASE AND RENUNCIATION

THE WARRANTIES, OBLIGATIONS AND LIABILITIES OF THE LESSOR AND REMEDIES OF THE LESSEE SET FORTH IN THIS CLAUSE 6 ARE EXCLUSIVE AND IN SUBSTITUTION FOR, AND THE LESSEE HEREBY WAIVES, RELEASES AND RENOUNCES, ALL OTHER WARRANTIES, OBLIGATIONS AND LIABILITIES OF THE LESSOR AND RIGHTS, CLAIMS AND REMEDIES OF THE LESSEE AGAINST THE LESSOR, EXPRESS OR IMPLIED, ARISING BY LAW OR OTHERWISE WITH RESPECT

TO ANY NON-CONFORMITY OR DEFECT IN ANY LEASED PART DELIVERED UNDER THESE LEASING CONDITIONS INCLUDING BUT NOT LIMITED TO:

- (A) ANY IMPLIED WARRANTY OF MERCHANTABILITY OR FITNESS;
- (B) ANY IMPLIED WARRANTY ARISING FROM COURSE OF PERFORMANCE, COURSE OF DEALING OR USAGE OF TRADE;
- (C) ANY OBLIGATION, LIABILITY, RIGHT, CLAIM OR REMEDY, WHETHER CONTRACTUAL OR DELICTUAL AND WHETHER OR NOT ARISING FROM THE LESSOR'S NEGLIGENCE, ACTUAL OR IMPUTED; AND
- (D) ANY OBLIGATION, LIABILITY, RIGHT, CLAIM OR REMEDY FOR LOSS OR DAMAGE TO ANY AIRCRAFT, COMPONENT, EQUIPMENT, ACCESSORY OR PART THEREOF.

LESSOR SHALL HAVE NO OBLIGATION OR LIABILITY, HOWSOEVER ARISING, FOR LOSS OF USE, REVENUE OR PROFIT OR FOR ANY OTHER DIRECT, INCIDENTAL, OR CONSEQUENTIAL DAMAGES WITH RESPECT TO ANY NON-CONFORMITY OR DEFECT IN ANY LEASED PART DELIVERED UNDER THESE LEASING CONDITIONS.

APPENDIX "A" TO CLAUSE 6 OF EXHIBIT "H"

SELLER PARTS AVAILABLE FOR LEASING

AILERONS  
APU DOORS  
CARGO DOORS  
PASSENGER DOORS  
ELEVATORS  
FLAPS  
LANDING GEAR DOORS  
RUDDER  
TAIL CONE  
SLATS  
SPOILERS  
AIRBRAKES  
WING TIPS  
WINGLETS

7 TERMINATION OF SPARES PROCUREMENT COMMITMENTS

7.1 In the event of the Agreement being terminated with respect to any Aircraft due to causes provided for in Clauses 10, 11 or 20 of the Agreement, such termination may also affect the terms of this Exhibit "H" to the extent set forth in Clause 7.2 below.

7.2 Any termination under Clauses 10, 11 or 20 of the Agreement shall discharge all obligations and liabilities of the parties hereunder with respect to such undelivered spare parts, services, data or other items to be purchased hereunder which are applicable to those Aircraft for which the Agreement has been terminated. Unused spare parts in excess of the Buyer's requirements due to such Aircraft cancellation shall be repurchased by the Seller as provided for in Clause 4.5.2.

Exhibit J

DELIVERY OF AIRCRAFT A (TBD- TYPE)

MANUFACTURER'S SERIAL NUMBER : (TBD)  
BUYER: (TBD)  
OPERATOR : (TBD)  
REGISTRATION LETTERS : (TBD)

LIST OF DOCUMENTS

I. TECHNICAL DOCUMENTS

[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] SETS

1.1 Aircraft Certificates

- Type Certificates (first aircraft only) (copies)  
- Certificate of Airworthiness for Export (original)  
- Export Noise Certificate (original)  
- Non Registration Certificate (original)  
- Production Aircraft Test Completion Certificate (original)  
(including Test History/Compass Swing/  
Anemometric Records : if RVSM Option)

1.2 Airworthiness Directives Compliance List

1.3 Modification List

- Type Design Definition (first aircraft only)  
- List of Aircraft Modification (In addition to Type Design Definition)

1.4 Aircraft Inspection Report

- Acceptance sheet



- Table of Contents
- List of Constituent Assemblies
- List of Equipment
- Conformity to the Design Standard Requirement
- Recordable Concessions
- Concessions for Customer Information

1.5 Weighing Report

1.6 Log Book (One of Each)

-----

- Engine Log LH (TBD)
- Engine Log RH (TBD)
- APU log Book
- Aircraft Log Book
- Batteries Log Book

1.7 DFDR System Description (first aircraft only) [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

1.8 (TBD) Compliance Documents Depends on Purchase Agreement.

1.9 Manuals (one of each) Depends on P.A.

- Flight Manual
- Weight and Balance Manual
- Master Minimum Equipment list
- Quick Reference Handbook
- Flight Crew Operating Manual

1.10 Set of Keys

1.11 Additional Documents

- Identification list for Chemical Oxygen Generator
- Landing Gear Identified Parts Listing
- Disk : Aircraft Inspection Report  
(Provided within a week after Delivery)

LETTER AGREEMENT 1

KLM Royal Dutch Airlines  
Amsterdamseweg 55,  
1182 GP Amstelveen  
The Netherlands

PURCHASE INCENTIVES

KLM ROYAL DUTCH AIRLINES ("the Buyer") and AIRBUS ("the Seller") have entered into a Purchase Agreement ("the Agreement") dated as of even date herewith which covers the manufacture and the sale by the Seller and the purchase by the Buyer of the A330 Aircraft as described in the Agreement.

Capitalized terms used herein and not otherwise defined in this Letter Agreement shall have the meanings assigned thereto in the Agreement.

Both parties agree that this Letter Agreement, upon execution thereof, shall constitute an integral, nonseverable part of said Agreement and shall be governed by all its provisions, as such provisions have been specifically amended pursuant to this Letter Agreement.

1. CREDIT MEMORANDA

The credits detailed below apply exclusively to Aircraft purchased directly from the Seller by the Buyer, and are offered on the basis of a firm order for six (6) Aircraft. Should the Buyer fail to acquire or elect to acquire some of the initial twelve Aircraft from leasing companies, the Seller reserves its right to adjust, including by way of claiming reimbursement, certain credits on a pro-rata basis.

1.1 AIRFRAME CREDIT MEMORANDUM

Upon delivery of each Aircraft to the Buyer, the Seller shall be pleased to offer the Buyer a Credit Memorandum of : US Dollars [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE

1.2 [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

1.3 [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

1.4 [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

1.5 [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

1.6 The Credit Memoranda referred in in paragraphs 1.1, 1.2, 1.3, 1.4 and 1.5 above are expressed at economic conditions prevailing for a theoretical delivery in January 2001 and will be subject

to escalation up to the delivery of the respective Aircraft in accordance with the Airframe Price Revision Formula set out in Exhibit C of the Agreement.

These Credit Memoranda shall be applied against the Final Price of the respective Aircraft or may be used after delivery of the relevant Aircraft for the purchase of goods and services from the Seller or its affiliates.

1.7 [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

1.8 [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

1.9 SPARES CREDIT

Upon delivery of the first Aircraft, the Seller shall provide the Buyer with a Credit memorandum in an amount of :

US Dollars [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

This Credit Memorandum shall be used by the Buyer for the purchase of spare parts from the Seller.

1.10 The Credit Memoranda set out in paragraphs 1.8 and 1.9 are expressed as [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

2 ASSIGNMENT

The special conditions set out in this Letter Agreement N(degree) 1 are personal to the Buyer and are not assignable.

If the foregoing sets forth our understanding please execute the original and one copy thereof in the space provided and return the copy to the Seller.

Agreed and accepted Agreed and accepted

For and on behalf of For and on behalf of

KLM ROYAL DUTCH AIRLINES AIRBUS GIE

By: By:

Its : Its :

Date: Date :

LETTER AGREEMENT 2

KLM Royal Dutch Airlines  
Amsterdamseweg 55,

PURCHASE RIGHTS

KLM ROYAL DUTCH AIRLINES ("the Buyer") and AIRBUS ("the Seller") have entered into a Purchase Agreement ("the Agreement") dated as of even date herewith which covers the

manufacture and the sale by the Seller and the purchase by the Buyer of the A330 Aircraft as described in the Agreement.

Capitalized terms used herein and not otherwise defined in this Letter Agreement shall have the meanings assigned thereto in the Agreement.

Both parties agree that this Letter Agreement, upon execution thereof, shall constitute an integral, nonseverable part of said Agreement and shall be governed by all its provisions, as such provisions have been specifically amended pursuant to this Letter Agreement.

1. Scope

1.1 In addition to the six (6) Aircraft referred to in the Agreement, the Seller grants the Buyer the right to purchase up to [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] additional Aircraft referred to as the "PURCHASE RIGHT AIRCRAFT" [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

1.2 Upon the Buyer's written request, the Seller will quote the Buyer available delivery slots for the Purchase Right Aircraft, as close as possible to those requested by the Buyer, and consistent with the Seller's then prevailing industrial and commercial constraints.

Upon payment by the Buyer of the Predelivery Payments due in accordance with the schedule set out in Clause 5.3.2 of the Agreement, the Seller shall reserve such slots for the Buyer, this Purchase Right Aircraft becoming as a result a firm Aircraft, and being referred to as a "FIRM PURCHASE RIGHT AIRCRAFT".

2. SPECIFICATION

The Purchase Right Aircraft shall conform to the same Specification as applicable to the Aircraft that are subject to firm order, and shall include any development changes as defined in Clause 2.1.3 of the Agreement, and any SCN's mutually agreed between the Buyer and the Seller after the signature of the Agreement.

3. PRICE AND PRICE REVISION

The Airframe price and the Revision Formulae applicable to the six (6) firm Aircraft shall apply to such Firm Purchase Right Aircraft, provided they are delivered prior to [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT].

4. PURCHASE INCENTIVES

The Credit Memoranda set out in paragraphs 1.1, 1.2, 1.3, 1.4, and 1.5 of Letter Agreement N(degree) 1 shall apply to the Purchase Right Aircraft. [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT].

5. ADDITIONAL PURCHASE RIGHT INCENTIVE

The Seller shall provide the Buyer with an additional Purchase Right incentive in an amount of US Dollars [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

This additional incentive shall be made available at the delivery of each of the first two Firm Purchase Right Aircraft. It is expressed as [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

6. The delivery flexibility set out in Letter Agreement N(degree) 4 shall apply to the Purchase Right Aircraft, provided that there is a minimum

period of [CONFIDENTIAL MATERIAL OMITTED AND FILED

SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] between the date of firming-up the Firm Purchase Right Aircraft, and the initial delivery date of the Firm Purchase Right Aircraft.

7 [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

8. [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

8.1 [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

8.2 [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

8.3 [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

8.4 [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

8.5 Account

All amounts paid [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] by the Buyer will be paid to the Seller's bank account Natexis Banque Toulouse [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] with:  
SWIFT BFCE FRPP-931  
BP293  
31005 Toulouse Cedex France

or to such other account as the Seller may specify.

9. ASSIGNMENT

The Purchase Right Aircraft are personal to the Buyer and cannot be assigned to third parties without the Seller's prior consent in writing. Such consent shall not be unreasonably withheld.

If the foregoing sets forth our understanding please execute the original and one copy thereof in the space provided and return the copy to the Seller.

Agreed and accepted	Agreed and accepted
For and on behalf of	For and on behalf of
KLM ROYAL DUTCH AIRLINES	AIRBUS GIE
By:	By:
Its :	Its :
Date:	Date:

LETTER AGREEMENT 3

KLM Royal Dutch Airlines  
Amsterdamseweg 55,  
1182 GP Amstelveen

The Netherlands

TYPE FLEXIBILITY

KLM ROYAL DUTCH AIRLINES ("the Buyer") and AIRBUS ("the Seller")

have entered into a Purchase Agreement ("the Agreement") dated as of even date herewith which covers the manufacture and the sale by the Seller and the purchase by the Buyer of the A330 Aircraft as described in the Agreement.

Capitalized terms used herein and not otherwise defined in this Letter Agreement shall have the meanings assigned thereto in the Agreement.

Both parties agree that this Letter Agreement, upon execution thereof, shall constitute an integral, nonseverable part of said Agreement and shall be governed by all its provisions, as such provisions have been specifically amended pursuant to this Letter Agreement.

1. The Buyer may convert each of the six (6) firmly ordered A330-200 Aircraft into A330-300 aircraft and each Firm Purchase Right Aircraft into an A330-300 Aircraft, A340-300 Enhanced, A340-500 or A340-600 Aircraft, in accordance with the conditions set out in paragraph 3 below.

2. Each A330-300 Aircraft, A340-300 Enhanced Aircraft, A340-500 Aircraft or A340-600 Aircraft resulting from the conversion rights set out in this Letter Agreement N(degree) 3 (the "TYPE CONVERSION RIGHT") shall be referred to as the "CONVERTED A330-300", the "CONVERTED A330-300 PURCHASE RIGHT", the "CONVERTED A340-300 ENHANCED PURCHASE RIGHT", the "CONVERTED A340-500 PURCHASE RIGHT", or the "CONVERTED A340-600 PURCHASE RIGHT" as the case may be.

3. The Type Conversion Right shall be exercised by the Buyer in the following manner:

3.1 In respect of the six (6) firmly ordered A330-200 Aircraft being converted into a Converted A330-300, by giving the Seller written notice no later than [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] prior to the first day of the Scheduled Delivery Month of the Aircraft to be converted.

3.2 In respect of the Purchase Right Aircraft being converted into a Converted A330-300 Purchase Right, a Converted A340-300 Enhanced Purchase Right, a Converted A340-500 Purchase Right or a Converted A340-600 Purchase Right, by giving notice to the Seller no later than

(i) [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

or

(ii) [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] in respect of a Converted A330-300 Purchase Right or a Converted A340-300 Enhanced Purchase Right, and [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] in respect of a Converted A340-500 Purchase Right or Converted A340-600 Purchase Right prior to the first day of the month in which the Aircraft to be converted is scheduled for delivery.

4. DELIVERY DATE OF THE CONVERTED AIRCRAFT

4.1 The Scheduled Delivery Month of the Converted A330-300, Converted A330-300 Purchase Right or Converted A340-300 Enhanced Purchase Right will be no more than [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] before or [CONFIDENTIAL MATERIAL OMITTED AND

FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

4.2 The Scheduled Delivery Month of the Converted A340-500 Purchase Right or Converted A340-600 Purchase Right will be :

(i) [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

or

(ii) [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

5. CONDITIONS APPLICABLE TO THE CONVERTED AIRCRAFT

5.1 The table below provides the prices and special conditions applicable to the Converted Aircraft. All prices and conditions are expressed at January 2001 delivery conditions.

<TABLE>

<CAPTION>

STANDARD SPEC	A330-300 G.000.03000 Issue 7	A340-300ENHANCED F.000.03000 Issue 7	A340-500 F.000.05000 Issue 1 Rev 3	A340-600 F.000.06000 Issue 1 Rev 3
<S>	<C>	<C>	<C>	<C>
MTOW	[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]			
AIRFRAME AIRCRAFT SCNS BFE	[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]			
CF6-80E1A3	[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]			
PW 4168A	[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]			
TRENT 772B	[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]			
AIRFRAME CREDIT MEMORANDUM	[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]			
AIRCRAFT CREDIT MEMORANDUM	[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]			

</TABLE>

Such basic prices and special conditions are valid for Converted Aircraft delivered prior to [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]. The Propulsion Systems prices and associated price revision formulae are based upon information received from the respective Propulsion System Manufacturers and remain subject to any modification that might be imposed by the Propulsion System Manufacturer on the Seller and/or the Buyer.

5.2 The Airframe Credit Memorandum or Aircraft Credit Memorandum set out in the above table replace the Airframe Credit Memorandum applicable to the A330-200 Aircraft, set out paragraph 1.1 of Letter Agreement N(degree) 1.

5.3 [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

5.4 [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

5.5 [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

5.6 [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

6. Any Type Conversion Right can only be exercised once per Aircraft.

If the foregoing sets forth our understanding please execute the original and one copy thereof in the space provided and return the copy to the Seller.

Agreed and accepted

Agreed and accepted

For and on behalf of  
KLM ROYAL DUTCH AIRLINES

For and on behalf of  
AIRBUS GIE

By:

By:

Its :

Its :

Date:

Date:

KLM Royal Dutch Airlines  
Amsterdamseweg 55,  
1182 GP Amstelveen  
The Netherlands

DELIVERY FLEXIBILITY

KLM ROYAL DUTCH AIRLINES ("the Buyer") and AIRBUS ("the Seller") have entered into a Purchase Agreement ("the Agreement") dated as of even date herewith which covers the manufacture and the sale by the Seller and the purchase by the Buyer of the A330 Aircraft as described in the Agreement.

Capitalized terms used herein and not otherwise defined in this Letter Agreement shall have the meanings assigned thereto in the Agreement.

Both parties agree that this Letter Agreement, upon execution thereof, shall constitute an integral, nonseverable part of said Agreement and shall be governed by all its provisions, as such provisions have been specifically amended pursuant to this Letter Agreement.

1. The Seller grants the Buyer the right to reschedule some of the six (6) Aircraft according to the conditions outlined below. Once an Aircraft has been rescheduled according to the following provisions, it shall be referred to as a "RESCHEDULED AIRCRAFT".
2. Starting with [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT], the Buyer shall have the right to reschedule the delivery date of [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]. The rescheduling right shall be exercised by the Buyer at the latest on the first day of [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] prior to the Scheduled Delivery Month of the relevant Aircraft. In any event, the rescheduled delivery month shall not be later than [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] after the initial Scheduled Delivery Month.
3. The rescheduled delivery month offered by the Seller pursuant to this Letter Agreement shall be in accordance with the Seller's then prevailing industrial and commercial constraints.
4. The rescheduled delivery month as notified in writing by the Seller shall be deemed to be the new Scheduled Delivery Month, and the Predelivery Payment schedule of the Rescheduled Aircraft

shall be adjusted to reflect the new Scheduled Delivery Month, in respect of that portion of the Predelivery Payments which were not yet due at the time of rescheduling under the previous delivery schedule. [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT].

5. [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]
6. On a case by case basis, and subject to its then prevailing industrial and commercial constraints, the Seller shall also consider any request for acceleration of the delivery schedule.
7. [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

If the foregoing sets forth our understanding please execute the original and one copy thereof in the space provided and return the copy to the Seller.

Agreed and accepted

Agreed and accepted

For and on behalf of

For and on behalf of

KLM ROYAL DUTCH AIRLINES

AIRBUS GIE

By: By:  
Its : Its :  
Date: Date :

LETTER AGREEMENT 5

KLM Royal Dutch Airlines  
Amsterdamseweg 55,  
1182 GP Amstelveen  
The Netherlands

PRODUCT SUPPORT MATTERS

KLM ROYAL DUTCH AIRLINES ("the Buyer") and AIRBUS ("the Seller") have entered into a Purchase Agreement ("the Agreement") dated as of even date herewith which covers the manufacture and the sale by the Seller and the purchase by the Buyer of the A330 Aircraft as described in the Agreement.

Capitalized terms used herein and not otherwise defined in this Letter Agreement shall have the meanings assigned thereto in the Agreement.

Both parties agree that this Letter Agreement, upon execution thereof, shall constitute an integral, nonseverable part of said Agreement and shall be governed by all its provisions, as such provisions have been specifically amended pursuant to this Letter Agreement.

1. STANDARD WARRANTY

1.1 [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

1.2 [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

2. [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

2.1 [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

2.2 [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

2.3 [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

3. TECHNICAL DOCUMENTATION

Upon the Buyer's request and whenever practicable, the Seller shall provide the Buyer with a preliminary copy of certain Technical Documentation, according to a schedule to be agreed with the Buyer.

4. MAINTENANCE PROVIDER

Upon the Buyer's request, the Seller shall consider entering into a Data Release Agreement with a Maintenance Provider approved by the relevant Airworthiness Authority for maintenance of Airbus A330 aircraft, whereby the Buyer may assign to the maintenance provider some of the training or Technical Documentation procured to the Buyer under the Agreement.

5. SPARES REPRESENTATIVE SUPPORT

In order to ensure a smooth operational entry into service, the Seller will second a spares representative to the Buyer premises, if so required. The services of this spares representative will be provided free of charge to the Buyer for a period of up to [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT].



6. WARRANTIES APPLICABLE TO SELLER PARTS

[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

7. [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

8. LEASED AIRCRAFT

The Buyer has informed the Seller that it intends to lease A330 aircraft from leasing companies, these leased aircraft being manufactured to the same definition as the Aircraft purchased under this Agreement.

8.1 The Seller agrees to incorporate the leased aircraft into the customised Technical Data and Documentation at no cost to the Buyer. The Buyer shall provide the Seller with a notice at least [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] for such incorporation. Removal of the leased aircraft from the Technical Documentation and Data at the term of the lease shall be invoiced to the Buyer at the then current catalogue price.

8.2 The Seller agrees to include such leased aircraft into initial provisioning data, or a revision thereof as the case may be. The Seller and the Buyer shall mutually agree the notice period which is required for such incorporation.

8.3 The Seller shall ensure that the leased aircraft, whereby the Buyer is the initial Lessee/ Operator, [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT].

9. DOOR TRAINER DATA PACKAGE

The Seller will provide the Buyer a standard data package for an A330 door trainer. Such data package will include mechanical drawings for the door and surrounding for use in the Buyer's facilities.

10. [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

If the foregoing sets forth our understanding please execute the original and one copy thereof in the space provided and return the copy to the Seller.

Agreed and accepted

Agreed and accepted

For and on behalf of

For and on behalf of

KLM ROYAL DUTCH AIRLINES

AIRBUS GIE

By:

By:

Its :

Its :

Date :

Date :

LETTER AGREEMENT 7A

KLM Royal Dutch Airlines  
Amsterdamseweg 55,  
1182 GP Amstelveen  
The Netherlands

A330-200 PERFORMANCE GUARANTEES (GE ENGINES)

KLM ROYAL DUTCH AIRLINES ("the Buyer") and AIRBUS ("the Seller") have entered into a Purchase Agreement ("the Agreement") dated as of even date herewith which covers the manufacture and the sale by the Seller and the purchase by the Buyer of the A330 Aircraft as described in the Agreement.

Capitalized terms used herein and not otherwise defined in this Letter Agreement shall have the meanings assigned thereto in the Agreement.

Both parties agree that this Letter Agreement, upon execution

thereof, shall constitute an integral, nonseverable part of said Agreement and shall be governed by all its provisions, as such provisions have been specifically amended pursuant to this Letter Agreement.

1. AIRCRAFT CONFIGURATION

The guarantees defined below ("the Guarantees") are applicable to the A330-200 Aircraft as described in the Technical Specification Ref. G.000.02000 Issue 4 dated 18th May 2001 and powered by General Electric CF6-80E1A3 engines at a nominal thrust rating of 72,000 lbf as amended by the Specification Change Notices ("SCN") for the increase of Design Weights:

Maximum Taxi Weight	233,900 kg
Maximum Take-off Weight (MTOW)	233,000 kg
Maximum Landing Weight (MLW)	182,000 kg
Maximum Zero Fuel Weight (MZFW)	170,000 kg

("the Specification") without taking into account any further changes thereto as provided in the Agreement.

[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

Agreed and accepted	Agreed and accepted
For and on behalf of	For and on behalf of
KLM ROYAL DUTCH AIRLINES	AIRBUS GIE
By:	By:
Its :	Its :
Date :	Date :

LETTER AGREEMENT 7 B

KLM Royal Dutch Airlines  
Amsterdamseweg 55,  
1182 GP Amstelveen  
The Netherlands

A330-200 PERFORMANCE GUARANTEES (PW ENGINES)

KLM ROYAL DUTCH AIRLINES ("the Buyer") and AIRBUS ("the Seller") have entered into a Purchase Agreement ("the Agreement") dated as of even date herewith which covers the manufacture and the sale by the Seller and the purchase by the Buyer of the A330 Aircraft as described in the Agreement.

Capitalized terms used herein and not otherwise defined in this Letter Agreement shall have the meanings assigned thereto in the Agreement. Both parties agree that this Letter Agreement, upon execution thereof, shall constitute an integral, nonseverable part of said Agreement and shall be governed by all its provisions, as such provisions have been specifically amended pursuant to this Letter Agreement.

1. AIRCRAFT CONFIGURATION

The guarantees defined below ("the Guarantees") are applicable to the A330-200 Aircraft as described in the Technical Specification Ref. G.000.02000 Issue 4 dated 18th May 2001 and powered by Pratt and Whitney PW 4168A engines at a nominal thrust rating of 68,000 lbf as amended by the Specification Change Notices ("SCN") for the increase of Design Weights:

Maximum Taxi Weight	233,900 kg
Maximum Take-off Weight (MTOW)	233,000 kg
Maximum Landing Weight (MLW)	182,000 kg
Maximum Zero Fuel Weight (MZFW)	170,000 kg

("the Specification") without taking into account any further changes thereto as provided in the Agreement.

[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

If the foregoing sets forth our understanding please execute the original and one copy thereof in the space provided and return the copy to the Seller.

Agreed and accepted

Agreed and accepted

For and on behalf of

For and on behalf of

KLM ROYAL DUTCH AIRLINES

AIRBUS GIE

By:

By:

Its :

Its :

Date :

Date :

LETTER AGREEMENT 7 C

KLM Royal Dutch Airlines  
Amsterdamseweg 55,  
1182 GP Amstelveen  
The Netherlands

A330-200 PERFORMANCE GUARANTEES (RR ENGINES)

KLM ROYAL DUTCH AIRLINES ("the Buyer") and AIRBUS ("the Seller") have entered into a Purchase Agreement ("the Agreement") dated as of even date herewith which covers the manufacture and the sale by the Seller and the purchase by the Buyer of the A330 Aircraft as described in the Agreement.

Capitalized terms used herein and not otherwise defined in this Letter Agreement shall have the meanings assigned thereto in the Agreement.

Both parties agree that this Letter Agreement, upon execution thereof, shall constitute an integral, nonseverable part of said Agreement and shall be governed by all its provisions, as such provisions have been specifically amended pursuant to this Letter Agreement.

1. AIRCRAFT CONFIGURATION

The guarantees defined below ("the Guarantees") are applicable to the A330-200 Aircraft as described in the Technical Specification Ref. G.000.02000 Issue 4 dated 18th May 2001 and powered by Rolls Royce TRENT 772B engines at a nominal thrust rating of 71,100 lbf as amended by the Specification Change Notices ("SCN") for the increase of Design Weights:

Maximum Taxi Weight	233,900 kg
Maximum Take-off Weight (MTOW)	233,000 kg
Maximum Landing Weight (MLW)	182,000 kg
Maximum Zero Fuel Weight (MZFW)	170,000 kg

("the Specification") without taking into account any further changes thereto as provided in the Agreement.

[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

If the foregoing sets forth our understanding please execute the original and one copy thereof in the space provided and return the copy to the Seller.

Agreed and accepted

Agreed and accepted

For and on behalf of

For and on behalf of

KLM ROYAL DUTCH AIRLINES

AIRBUS GIE

By:

By:

Its :

Its :

Date :

Date :

LETTER AGREEMENT 8

KLM Royal Dutch Airlines  
Amsterdamseweg 55,  
1182 GP Amstelveen

The Netherlands

MISCELLANEOUS

KLM ROYAL DUTCH AIRLINES ("the Buyer") and AIRBUS ("the Seller") have entered into a Purchase Agreement ("the Agreement") dated as of even date herewith which covers the manufacture and the sale by the Seller and the purchase by the Buyer of the A330 Aircraft as described in the Agreement.

Capitalized terms used herein and not otherwise defined in this Letter Agreement shall have the meanings assigned thereto in the Agreement.

Both parties agree that this Letter Agreement, upon execution thereof, shall constitute an integral, nonseverable part of said Agreement and shall be governed by all its provisions, as such provisions have been specifically amended pursuant to this Letter Agreement.

1. SFE CHARGE

The Seller confirms that in the event that the Buyer chooses to convert the Buyer Furnished Equipment (BFE) into Seller Furnished Equipment (SFE), the handling charge invoiced by the Seller shall [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT].

2. [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

3. SOFTWARE FUNCTIONS

Aircraft configuration changes involving equipment software updating are in general covered by Airbus Service Bulletins. [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

4. [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

If the foregoing sets forth our understanding please execute the original and one copy thereof in the space provided and return the copy to the Seller.

Agreed and accepted

Agreed and accepted

For and on behalf of

For and on behalf of

KLM ROYAL DUTCH AIRLINES

AIRBUS GIE

By:

By:

Its :

Its :

Date :

Date :

## PURCHASE AGREEMENT NUMBER 2399

between

THE BOEING COMPANY

and

KLM Royal Dutch Airlines

Relating to Boeing Model 777-206ER Aircraft

## TABLE OF CONTENTS

ARTICLES	SA
-----	NUMBER
-----	-----
1. Quantity, Model and Description	
2. Delivery Schedule	
3. Price	
4. Payment	
5. Miscellaneous	
TABLE	
-----	
1. Aircraft Information Table	
EXHIBIT	
-----	
A. Aircraft Configuration	
B. Aircraft Delivery Requirements and Responsibilities	
SUPPLEMENTAL EXHIBITS	
-----	
AE1. Escalation Adjustment/Airframe and Optional Features	
BFE1. BFE Variables	

- CS1. Customer Support Variables
- EE1. Engine Escalation/Engine Warranty and Patent Indemnity
- SLP1. Service Life Policy Components

LETTER AGREEMENTS

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- 2399-04 Aircraft Schedule Reliability  
Held Open until Dec. 1, 2002
- 2399-06 Spares Flight Crew Training  
Held Open until Dec. 1, 2002
- 2399-07 Spares Initial Provisioning
- 6-1163-KSW-5123 Performance Guarantees
- 6-1163-KSW-5125 Performance Retention Commitment  
Held Open until Dec. 1, 2002
- 6-1163-KSW-5147R10 Special Matters
- 6-1163-KSW-5191 Customer Services Matters
- 6-1163-KSW-5192 Purchase Right Aircraft
- 6-1163-KSW-5194 Promotional Support
- 6-1163-KSW-5195 [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY  
WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT  
TO A REQUEST FOR CONFIDENTIAL TREATMENT]
- 6-1163-KSW-5202 [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY  
WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO  
A REQUEST FOR CONFIDENTIAL TREATMENT]
- 6-1163-KSW-5203 Configuration Matters
- 6-1163-KSW-5204 [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY  
WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO  
A REQUEST FOR CONFIDENTIAL TREATMENT]

## Purchase Agreement No. 2399

between

The Boeing Company

and

KLM Royal Dutch Airlines

This Purchase Agreement No. 2399 dated as of August 19, 2002 between The Boeing Company (BOEING) and KLM Royal Dutch Airlines (CUSTOMER) relating to the purchase and sale of Model 777-206ER aircraft incorporates the terms and conditions of the General Terms Agreement dated as of August 19, 2002 between the parties, identified as AGTA-KLM (AGTA or GTA).

## Article 1. Quantity, Model and Description.

The aircraft to be delivered to Customer will be designated as Model 777-206ER aircraft (the AIRCRAFT). Boeing will manufacture and sell to Customer Aircraft conforming to the configuration described in Exhibit A, which is part of this Purchase Agreement, in the quantities listed in Table 1 to the Purchase Agreement.

## Article 2. Delivery Schedule.

The scheduled months of delivery of the Aircraft are listed in the attached Table 1, which is part of this Purchase Agreement. Exhibit B, which is part of this Purchase Agreement, describes certain responsibilities for both Customer and Boeing in order to accomplish the delivery of the Aircraft.

## Article 3. Price.

3.1 Aircraft Basic Price. The Aircraft Basic Price is listed in Table 1 and is subject to escalation dollars.

3.2 Advance Payment Base Prices. The Advance Payment Base Prices listed in Table 1 were calculated utilizing the escalation factors as specified in Table 1 available to Boeing on the date of this Purchase Agreement projected to the month of scheduled delivery. Table 1 includes the escalation base and edition used eg. 4Q2001.

## Article 4. Payment.

4.1 Boeing acknowledges receipt of a deposit in the amount shown in Table 1 for each Aircraft (DEPOSIT).

4.2 The standard advance payment schedule for the Model 777-206ER aircraft requires Customer to make certain advance payments, [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT], on the effective date of the Purchase Agreement for the Aircraft. Additional advance payments for each Aircraft are due [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

4.3 For any Aircraft whose scheduled month of delivery is [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] from the date of this Purchase Agreement, the total amount of advance payments due for payment upon signing of this Purchase Agreement will include all advance payments which are past due in accordance with the standard advance payment schedule set forth in paragraph 4.2 above.

4.4 Customer will pay the balance of the Aircraft Price of each Aircraft at delivery.

Article 5. Miscellaneous.

5.1 Aircraft Information Table. Table 1 consolidates information contained in Articles 1, 2, 3 and 4 with respect to (i) quantity of Aircraft, (ii) applicable Detail Specification, (iii) month and year of scheduled deliveries, (iv) Aircraft Basic Price, (v) applicable escalation factors, escalation base and edition eg 4Q2001 and (vi) Advance Payment Base Prices and advance payments and their schedules.

5.2 Escalation Adjustment/Airframe and Optional Features. Supplemental Exhibit AE1 contains the applicable airframe and optional features escalation formula.

5.3 Buyer Furnished Equipment Variables. Supplemental Exhibit BFE1 contains vendor selection dates, on dock dates and other variables applicable to the Aircraft.

5.4 Customer Support Variables. Supplemental Exhibit CS1 contains the variable information applicable to information, training services and other things furnished by Boeing in support of the Aircraft.

5.5 Engine Escalation Variables. Supplemental Exhibit EE1 contains the applicable engine escalation formula, the engine warranty and the engine patent indemnity for the Aircraft

5.6 Service Life Policy Component Variables. Supplemental Exhibit SLP1 lists the airframe and landing gear components covered by the Service Life Policy for the Aircraft. For avoidance of doubt, load bearing primary structure hardware is included in the Service Life Policy.



5.7 Public Announcement. Public announcements regarding Customer's purchase of the Aircraft may only be made by mutual agreement of the parties. Approval of Boeing's press release by

Customer's public relations department or other authorized representative is consent by Customer authorizing the release by Boeing.

5.8 Open Letter Agreements. The following letter agreements have been signed by Boeing and are left open until December 1, 2002 for Customer's acceptance: 2399-04, Aircraft Schedule Reliability; 2399-06, Spares Flight Crew Training and 6-1163-KSW-5125, Performance Retention Commitment. If these letter agreements are not signed by December 1, 2002 they are null and void.

5.9 Amount Due at Signing. Within three days of signing this Purchase Agreement, Customer will pay Boeing [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

6.0 Negotiated Agreement; Entire Agreement. This Purchase Agreement, including the provisions of Article 8.2 of the GTA relating to insurance, and Article 11 of Part 2 of Exhibit C of the GTA relating to DISCLAIMER AND RELEASE, EXCLUSION OF CONSEQUENTIAL AND OTHER DAMAGES, Letter Agreement 6-1163-KSW-5123 relating to Performance Guarantees and Exhibit C of the GTA relating to Warranties, has been the subject of discussion and negotiation and is understood by the parties; the Aircraft Price and other agreements of the parties stated in this Purchase Agreement were arrived at in consideration of such provisions. This Purchase Agreement and the specified Letter Agreements, including the GTA, contains the entire agreement between the parties and supersedes all previous proposals, understandings, commitments or representations whatsoever, oral or written with respect to the purchase and sale of Model 777-206ER aircraft, and may be changed only in writing signed by authorized representatives of the parties.

DATED AS OF \_\_\_\_\_

KLM Royal Dutch Airlines

THE BOEING COMPANY

By \_\_\_\_\_

Its \_\_\_\_\_

By \_\_\_\_\_

Its \_\_\_\_\_

(REPLACE THIS SHEET WITH THE RELEVANT PAGE(S) FROM  
THE PA-2399\_DATA.XLS WORKBOOK.)

AIRFRAME MODEL/MTGW: 777-200ER      DETAIL SPECIFICATION: D019-W005KLM72P-1  
ENGINE MODEL: GE90-94B  
AIRFRAME PRICE: [CONFIDENTIAL MATERIAL OMITTED AND FILED  
OPTIONAL FEATURES: SEPARATELY WITH THE SECURITIES AND EXCHANGE  
COMMISSION PURSUANT TO A REQUEST FOR  
SUB-TOTAL OF AIRFRAME AND FEATURES: CONFIDENTIAL TREATMENT]

ENGINE PRICE (PER AIRCRAFT):  
AIRCRAFT BASIC PRICE (EXCLUDING  
BFE/SPE):

AIRCRAFT CONFIGURATION

between

THE BOEING COMPANY

and

KLM Royal Dutch Airlines

Exhibit A to Purchase Agreement Number 2399

AIRCRAFT CONFIGURATION

Dated July 24, 2002

relating to

BOEING MODEL 777-206ER AIRCRAFT

The Detail Specification is Boeing Detail Specification D019-W005KLM72P-1 that will be provided to Customer on or before March 31, 2003 and checked and agreed upon by Customer within 30 days of receipt. Such Detail Specification will be comprised of Boeing Configuration Specification D019-W005, Rev. A, dated June 2, 2000 as amended to incorporate the Options listed below, including the effects on Manufacturer's Empty Weight (MEW) and Operating Empty Weight (OEW). Such Options are set forth in Boeing Document D019-WCR1KLM72P-1. Boeing will furnish to Customer copies of the mutually agreed to Detail Specification, in no event later than June 30, 2003, which copies will reflect such Options. The Aircraft Basic Price reflects and includes all effects of such Options, except such Aircraft Basic Price does not include the price effects of any Buyer Furnished Equipment. Boeing will provide the recurring/non-recurring cost split at the end of Exhibit A. The non-recurring will be spread

[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] Customer will reimburse Boeing the non-recurring for [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]. The non-recurring will be escalated [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] The reimbursement will be made by [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]. When [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] commits to Boeing to purchase [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] for lease to Customer, then the previous two sentences become null and void. ILF has currently committed to purchase [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] aircraft for lease to Customer. Because Customer has not completed its selection of the Optional Features for Exhibit A an estimate of [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] was used for the Optional Features price in Table 1.

AIRCRAFT DELIVERY REQUIREMENTS AND RESPONSIBILITIES

between

THE BOEING COMPANY

and

KLM Royal Dutch Airlines

Exhibit B to Purchase Agreement Number 2399

AIRCRAFT DELIVERY REQUIREMENTS AND RESPONSIBILITIES

relating to

BOEING MODEL 777-206ER AIRCRAFT

Both Boeing and Customer have certain documentation and approval responsibilities at various times during the construction cycle of Customer's Aircraft that are critical to making the delivery of each Aircraft a

positive experience for both parties. This Exhibit B documents those responsibilities and indicates recommended completion deadlines for the actions

to be accomplished.

1. GOVERNMENT DOCUMENTATION REQUIREMENTS.

Certain actions are required to be taken by Customer in advance of the scheduled delivery month of each Aircraft with respect to obtaining certain government issued documentation.

1.1 Airworthiness and Registration Documents.

Not later than 6 MONTHS PRIOR TO DELIVERY of each Aircraft, Customer will notify Boeing of the registration number to be painted on the side of the Aircraft. In addition, and not later than 3 MONTHS PRIOR TO DELIVERY of each Aircraft, Customer will, by letter to the regulatory authority having jurisdiction, authorize the temporary use of such registration numbers by Boeing during the pre-delivery testing of the Aircraft.

Customer is responsible for furnishing any Temporary or Permanent Registration Certificates required by any governmental authority having jurisdiction to be displayed aboard the Aircraft after delivery.

1.2 Certificate of Sanitary Construction.

1.2.1 U.S. Registered Aircraft. Boeing will obtain from the United States Public Health Service, a United States Certificate of Sanitary Construction to be displayed aboard each Aircraft after delivery to Customer.

1.2.2 Non-U.S. Registered Aircraft. If Customer requires a United States Certificate of Sanitary Construction at the time of delivery of the Aircraft, Customer will give written notice thereof to Boeing at least 3 MONTHS PRIOR TO DELIVERY. Boeing will then use its reasonable best efforts to obtain the Certificate from the United States Public Health Service and present it to Customer at the time of Aircraft delivery.

1.3 Customs Documentation.

1.3.1 Import Documentation. If the Aircraft is intended to be exported from the United States, Customer must notify Boeing not later than 3 MONTHS PRIOR TO DELIVERY of each Aircraft of any documentation required by the customs authorities or by any other agency of the country of import.

1.3.2 General Declaration - U.S. If the Aircraft is intended to be exported from the United States, Boeing will prepare Customs Form 7507, General Declaration, for execution by U.S. Customs immediately prior to the ferry flight of the Aircraft. For this purpose, Customer will furnish to Boeing not later than 20 DAYS PRIOR TO DELIVERY a complete crew and passenger list and a complete ferry flight itinerary, including point of exit from the United States for the Aircraft.

If Customer intends, during the ferry flight of an Aircraft, to land at a U.S. airport after clearing Customs at delivery, Customer must notify Boeing not later than 20 DAYS PRIOR TO DELIVERY of such intention. If Boeing receives such notification, Boeing will provide to Customer the documents constituting a Customs permit to proceed, allowing such Aircraft to depart after any such landing. Sufficient copies of completed Form 7507, along with passenger manifest, will be furnished to Customer to cover U.S. stops scheduled for the ferry flight.

1.3.3 Export Declaration - U.S. If the Aircraft is intended to be exported from the United States, Boeing will prepare Form 7525V and, IMMEDIATELY PRIOR TO THE FERRY FLIGHT, will submit such Form to U.S. Customs in Seattle in order to obtain clearance for the departure of the Aircraft, including any cargo, from the United States. U.S. Customs will deliver the Export Declaration to the U.S. Department of Commerce after export.

2. INSURANCE CERTIFICATES.

Unless provided earlier, Customer will provide to Boeing not later than 30 DAYS PRIOR TO DELIVERY of the first Aircraft, a copy of the requisite annual insurance certificate in accordance with the requirements of Article 8 of the AGTA.

3. NOTICE OF FLYAWAY CONFIGURATION.

Not later than 20 DAYS PRIOR TO DELIVERY of the Aircraft, Customer will provide to Boeing a configuration letter stating the requested "flyaway configuration" of the Aircraft for its ferry flight. This configuration letter should include:

(i) the name of the company which is to furnish fuel for the ferry flight and any scheduled post-delivery flight training, the method of payment for such fuel, and fuel load for the ferry flight;

(ii) the cargo to be loaded and where it is to be stowed on board the Aircraft, the address where cargo is to be shipped after flyaway and notification of any hazardous materials requiring special handling;

(iii) any BFE equipment to be removed prior to flyaway and returned to Boeing BFE stores for installation on Customer's subsequent Aircraft;

(iv) a complete list of names and citizenship of each crew member and non-revenue passenger who will be aboard the ferry flight; and

(v) a complete ferry flight itinerary.

4. DELIVERY ACTIONS BY BOEING.

4.1 Schedule of Inspections. All FAA, Boeing, Customer and, if required, U.S. Customs Bureau inspections will be scheduled by Boeing for completion prior to delivery or departure of the Aircraft. Customer will be informed of such schedules.

4.2 Schedule of Demonstration Flights. All FAA and Customer demonstration flights will be scheduled by Boeing for completion prior to delivery of the Aircraft.

4.3 Schedule for Customer's Flight Crew. Boeing will inform Customer of the date that a flight crew is required for acceptance routines associated with delivery of the Aircraft.

4.4 Fuel and oil Provided by Boeing. Boeing will provide to Customer, without charge, the amount of fuel shown in U.S. gallons in the table below for the model of Aircraft being delivered and full capacity of engine oil at the time of delivery or prior to the ferry flight of the Aircraft.

AIRCRAFT MODEL	FUEL PROVIDED
-----	-----
777	3000

4.5 Flight Crew and Passenger Consumables. Boeing will provide reasonable quantities of food, coat hangers, towels, toilet tissue, drinking cups and soap for the first segment of the ferry flight for the Aircraft.

4.6 Delivery Papers, Documents and Data. Boeing will have available at the time of delivery of the Aircraft certain delivery papers, documents and data for execution and delivery. If title for the Aircraft will be transferred to Customer through a Boeing sales subsidiary and if the Aircraft will be registered with the FAA, Boeing will pre-position in Oklahoma City, Oklahoma, for filing with the FAA at the time of delivery of the Aircraft an executed original Form 8050-2, Aircraft Bill of Sale, indicating transfer of title to the Aircraft from Boeing's sales subsidiary to Customer.

4.7 Delegation of Authority. Customer requests that Boeing present a certified copy of a Resolution of Boeing's Board of Directors, designating and authorizing certain persons to act on its behalf in connection with delivery of the Aircraft.

5. DELIVERY ACTIONS BY CUSTOMER.

5.1 Aircraft Radio Station License. At delivery Customer will provide its Aircraft Radio Station License to be placed on board the Aircraft following delivery.

5.2. Aircraft Flight Log. At delivery Customer will provide

the Aircraft Flight Log for the Aircraft.

5.3 Delegation of Authority. Customer will present to Boeing at delivery of the Aircraft an original or certified copy of Customer's Delegation of Authority designating and authorizing certain persons to act on its behalf in connection with delivery of the specified Aircraft.

ESCALATION ADJUSTMENT

AIRFRAME AND OPTIONAL FEATURES

between

THE BOEING COMPANY

and

KLM Royal Dutch Airlines

Supplemental Exhibit AE1 to Purchase Agreement Number 2399

1. Formula.

Airframe and Optional Features price adjustments (Airframe Price Adjustment) are used to allow prices to be stated in current year dollars at the signing of this Purchase Agreement and to adjust the amount to be paid by Customer at delivery for the effects of economic fluctuation. The Airframe Price Adjustment will be determined at the time of Aircraft delivery in accordance with the following formula:

$$P(a) = (P+B) (L + M) - P$$

Where:

$$P(a) = \text{Airframe Price Adjustment.}$$

$$L = .65 \times \left( \frac{\text{ECI}}{\text{ECI}(b)} \right) \text{ where ECI}(b) \text{ is the base year index (as set forth in Table 1 of this Purchase Agreement)}$$

$$M = .35 \times \left( \frac{\text{ICI}}{\text{ICI}(b)} \right) \text{ where ICI}(b) \text{ is the base year index (as set forth in Table 1 of this Purchase Agreement)}$$

P = Airframe Price plus Optional Features Price (as set forth in Table 1 of this Purchase Agreement).

$B = 0.005 \times (N/12) \times (P)$  where N is the number of calendar months which have elapsed from the Airframe Price Base Year and Month up to and including the month of delivery, both as shown in Table 1 of the Purchase Agreement. The entire calculation of  $0.005 \times (N/12)$  will be rounded to 4 places, and the final value of B will be rounded to the nearest dollar.

ECI is a value determined using the U.S. Department of Labor, Bureau of Labor Statistics "Employment Cost Index for workers in aircraft manufacturing - Wages and Salaries" (ECI code 3721W), calculated by establishing a three-month arithmetic average value (expressed as a decimal and rounded to the nearest tenth) using the values for the fifth, sixth and seventh months prior to the month of scheduled delivery of the applicable Aircraft. As the Employment Cost Index values are only released on a quarterly basis, the value released for the month of March will be used for the months of January and February; the value for June used for April and May; the value for September used for July and August; and the value for December used for October and November.

ICI is a value determined using the U.S. Department of Labor, Bureau of Labor Statistics "Producer Prices and Price Index - Industrial Commodities Index ", calculated as a 3-month arithmetic average of the released monthly values (expressed as a decimal and rounded to the nearest tenth) using the values for the 5th, 6th and 7th months prior to the month of scheduled delivery of the applicable Aircraft.

As an example, for an Aircraft scheduled to be delivered in the month of January, the months June, July and August of the preceding year will be utilized in determining the value of ECI and ICI.

Note: i. In determining the values of L and M, all calculations and resulting values will be expressed as a decimal rounded to the nearest ten-thousandth.



ii. .65 is the numeric ratio attributed to labor in the Airframe Price Adjustment formula.

iii. .35 is the numeric ratio attributed to materials in the Airframe Price Adjustment formula.

iv. The denominators (base year indices) are the actual average values reported by the U.S. Department of Labor, Bureau of Labor Statistics (base year June 1989 = 100). The applicable base year and corresponding denominator is provided by Boeing in Table 1 of this Purchase Agreement.

v. The final value of P(a) will be rounded to the nearest dollar.

vi. The Airframe Price Adjustment will not be made if it will result in a decrease in the Aircraft Basic Price.

## 2. Values to be Utilized in the Event of Unavailability.

2.1 If the Bureau of Labor Statistics substantially revises the methodology used for the determination of the values to be used to determine the ECI and ICI values (in contrast to benchmark adjustments or other corrections of previously released values), or for any reason has not released values needed to determine the applicable Airframe Price Adjustment, the parties will, prior to the delivery of any such Aircraft, select a substitute from other Bureau of Labor Statistics data or similar data reported by non-governmental organizations. Such substitute will result in the same adjustment, insofar as possible, as would have been calculated utilizing the original values adjusted for fluctuation during the applicable time period. However, if within 24 months after delivery of the Aircraft, the Bureau of Labor Statistics should resume releasing values for the months needed to determine the Airframe Price Adjustment, such values will be used to determine any increase or decrease in the Airframe Price Adjustment for the Aircraft from that determined at the time of delivery of the Aircraft.

2.2 Notwithstanding Article 2.1 above, if prior to the scheduled delivery month of an Aircraft the Bureau of Labor Statistics changes the base year for determination of the ECI and ICI values as defined above, such re-based values will be incorporated in the Airframe Price Adjustment calculation.

2.3 In the event escalation provisions are made non-enforceable or otherwise rendered void by any agency of the United States Government, the parties agree, to the extent they may lawfully do so, to equitably adjust the Aircraft Price of any affected Aircraft to reflect an allowance for increases or decreases in labor compensation and material costs occurring since February of the price base year shown in the Purchase Agreement which is consistent with the applicable provisions of paragraph 1 of this Supplemental Exhibit AE1.

2.4 If within 12 months of Aircraft delivery, the published index values are revised due to an acknowledged error by the Bureau of Labor

Statistics, the Airframe Price Adjustment will be re-calculated using the revised index values (this does not include those values noted as preliminary by the Bureau of Labor Statistics). A credit memorandum or supplemental invoice will be issued for the Airframe Price Adjustment difference. Interest charges will not apply for the period of original invoice to issuance of credit memorandum or supplemental invoice.

Note: i. The values released by the Bureau of Labor Statistics and available to Boeing 30 days prior to the first day of the scheduled delivery month of an Aircraft will be used to determine the ECI and ICI values for the applicable months (including those noted as preliminary by the Bureau of Labor Statistics) to calculate the Airframe Price Adjustment for the Aircraft invoice at the time of delivery. The values will be considered final and no Airframe Price Adjustments will

be made after Aircraft delivery for any subsequent changes in published Index values, subject always to paragraph 2.4 above.

ii. The maximum number of digits to the right of the decimal after rounding utilized in any part of the Airframe Price Adjustment equation will be 4, where rounding of the fourth digit will be increased to the next highest digit when the 5th digit is equal to 5 or greater.

BUYER FURNISHED EQUIPMENT VARIABLES

between

THE BOEING COMPANY

and

KLM Royal Dutch Airlines  
July 05, 2002

Supplemental Exhibit BFE1 to Purchase Agreement Number 2399

BUYER FURNISHED EQUIPMENT VARIABLES

relating to

BOEING MODEL 777-200ER AIRCRAFT

This Supplemental Exhibit BFE1 contains vendor selection dates, on-dock dates and other variables applicable to the Aircraft.

1. Supplier Selection.

Customer will:

1.1 Select and notify Boeing of the suppliers and part numbers of the following BFE items by the following dates:

Galley System	Complete
Galley Inserts	Complete
Seats (passenger)	Complete
In Seat Video System	Complete
Overhead & Audio System	Complete
Miscellaneous Emergency Equipment	Complete
Textiles/Raw Materials	Complete

## 2. On-dock Dates

On or before January 2003, Boeing will provide to Customer a BFE Requirements On-Dock/Inventory Document (BFE Document) or an electronically transmitted BFE Report which may be periodically revised, setting forth the items, quantities, on-dock dates and shipping instructions relating to the in-sequence installation of BFE. For planning purposes, a preliminary BFE on-dock schedule is set forth below:

Item	Preliminary On-Dock Dates
Seats	[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]
Galleys/Furnishings	
Antennas and Mounting Equipment	
Avionics Equipment	
Cabin Systems Equipment	
Miscellaneous/ Emergency Equipment	
Textiles/Raw Material	

IFE Trays

IFE Equipment

Item Preliminary On-Dock Dates

Seats [CONFIDENTIAL MATERIAL OMITTED  
AND FILED SEPARATELY WITH THE  
SECURITIES AND EXCHANGE  
COMMISSION PURSUANT TO A  
REQUEST FOR CONFIDENTIAL  
TREATMENT]

Galleys/Furnishings

Antennas and Mounting Equipment

Avionics Equipment

Cabin Systems Equipment

Miscellaneous/ Emergency Equipment

Textiles/Raw Material

\*For remaining Aircraft will be part of Cabin Systems Equipment.

CUSTOMER SUPPORT VARIABLES

between

THE BOEING COMPANY

And

KLM Royal Dutch Airlines

Supplemental Exhibit CS1 to Purchase Agreement Number 2399

CUSTOMER SUPPORT VARIABLES

relating to

BOEING MODEL 777-206ER AIRCRAFT

Customer and Boeing will conduct planning conferences approximately 12 months prior to delivery of the first Aircraft, or as mutually agreed, in order to develop and schedule a customized Customer Support Program to be furnished by Boeing in support of the Aircraft.

The customized Customer Services Program will be based upon and equivalent to the entitlements summarized below.

1. Maintenance Training.
  - 1.1 Airplane General Familiarization Course; 2 classes of 24 students;
  - 1.2 Mechanical/Electrical Systems Course (Instructor); 1 class of 15 students;
  - 1.3 Avionics Systems Course (Instructor); 1 class of 15 students;
  - 1.4 Mechanical/Electrical Systems Course (Line and Base); 2 classes of 15 students;
  - 1.5 Avionics Systems Course (Line and Base); 1 class of 15 students;
  - 1.6 Engine Run-Up Course; 2 classes of 3 students;
  - 1.7 Corrosion Prevention & Control Course; 1 class of 10 students;
  - 1.8 Aircraft Rigging Course; 1 class of 6 students;
  - 1.9 Composite Repair for Technicians, 1 class of 8 students;
  - 1.10 Digital Data Familiarization Course; 1 class of 15 students;
  - 1.11 Cabin Management System (CMS) Configuration Database Generator (CDG) Familiarization Course; 1 class of 6 students;
  - 1.12 Training materials will be provided to each student. In addition, one set of training materials as used in Boeing's training program, including visual aids, Computer Based Training Courseware, instrument panel wall charts, text/graphics, video programs, etc. will be provided for use in Customer's own training program.

2. Flight Training.

- 2.1 Transition training for 8 flight crews (16 pilots) in 2 classes; The training will consist of ground school (utilizing computer based training), fixed base simulator, full flight simulator and actual aircraft training on Customer's Aircraft.
- 2.2 Flight Dispatcher training; 2 classes of 6 students;
- 2.3 Flight Attendant training; 2 classes of 12 students;
- 2.4 Performance Engineer training in Boeing's regularly scheduled courses; schedules are published twice yearly.

2.5 Training materials will be provided to each student. In addition, one set of training materials as used in Boeing's training program, including visual aids, Computer Based Training Courseware, instrument panel wall charts, text/graphics, video programs, Flight Attendant Manuals, etc. will be provided for use in Customer's own training program.

2.6 Additional Flight Operations Services:

- a. Boeing flight crew personnel to assist in ferrying the first aircraft to Customer's main base;
- b. Instructor pilots for 90 calendar days for revenue service training assistance
- c. An instructor pilot to visit Customer 6 months after revenue service training to review Customer's flight crew operations for a 2 week period.

3. Planning Assistance.

3.1 Maintenance and Ground Operations.

Upon request, Boeing will visit Customer's main base to evaluate aircraft maintenance facilities, develop recommendations and assist in maintenance planning.

3.2 Spares.

- a) Recommended Spares Parts List (RSPL)  
A customized RSPL, data and documents will be provided to identify spare parts required for Customer's support program.
- b) Illustrated Parts Catalog (IPC)  
A customized IPC in accordance with ATA 100 will be provided.
- c) Provisioning Training  
Provisioning training will be provided for Customer's personnel at Boeing's facilities, where documentation and technical expertise are available. Training is

focused on the initial provisioning process and calculations reflected in the Boeing RSPL.

- d) Spares Provisioning Conference  
A provisioning conference will be conducted, normally

at Boeing's facilities where technical data and personnel are available.

4. Technical Data and Documents.

4.1 Flight Operations.

Airplane Flight Manual  
Operations Manual and Checklist  
Planning and Performance Manual  
Weight and Balance Manual  
Dispatch Deviation Procedures Guide  
Flight Crew Training Manual  
Flight Attendants Manual  
Fault Reporting Manual  
Performance Engineer's Manual  
Jet Transport Performance Methods  
FMC Supplemental Data Document  
Operational Performance Software  
Baggage/Cargo Loading Manual  
ETOPS Guide Vol. III  
Flight Planning and Performance Manual

4.2 Maintenance.

Maintenance Manual  
Wiring Diagram Manual  
Systems Schematics Manual  
Structural Repair Manual  
Component Maintenance Manual  
Standard Overhaul Practices Manual  
Standard Wiring Practices Manual  
Non-Destructive Test Manual  
Service Bulletins and Index  
Corrosion Prevention Manual  
Fault Isolation Manual  
Interior Reconfiguration Document  
Power Plant Buildup Manual (except Rolls Royce)  
In Service Activity Report  
Significant Service Item Summary  
All Operators Letters  
Service Letters  
Structural Item Interim Advisory Combined Index  
Maintenance Tips  
Configuration Data Base Generator User Guide  
Production Management Data Base  
Baggage/Cargo Loading Manual

4.3 Maintenance Planning.

Maintenance Planning Data Document  
Maintenance Task Cards and Index  
Maintenance Inspection Intervals Report  
ETOPS Guide Vol. II

Configuration Maintenance and Procedures for Extended Range Operations

- 4.4 Spares.  
Illustrated Parts Catalog  
Standards Books
- 4.5 Facilities and Equipment Planning.  
Facilities and Equipment Planning Document

Special Tool & Ground Handling Equipment Drawings & Index  
Supplementary Tooling Documentation  
Illustrated Tool and Equipment List/Manual  
Aircraft Recovery Document  
Airplane Characteristics for Airport Planning Document  
Airplane Rescue and Fire Fighting Document  
Engine Handling Document  
ETOPS Guide Vol. I

- 4.6 Supplier Technical Data.  
Service Bulletins  
Component Maintenance Manuals and Index  
Publications Index

- 4.7 Product Support Supplier Directory

Customer may request a reasonable quantity of data and documents in the formats offered and within the format and quantity guidelines Boeing has at the time the data is ordered. Customer may request advance copies which will be provided, if available. Customer understands that from time to time, Boeing may replace a format or media type with a more advanced offering and discontinue offering older formats or media types. Boeing will notify Customer in a timely manner of such replacement.

ENGINE ESCALATION,  
ENGINE WARRANTY AND PATENT INDEMNITY

between

THE BOEING COMPANY

and

KLM ROYAL DUTCH AIRLINES

Supplemental Exhibit EE1 to Purchase Agreement Number 2399



ENGINE ESCALATION,  
ENGINE WARRANTY AND PATENT INDEMNITY

relating to

BOEING MODEL 777-206ER AIRCRAFT

1. ENGINE ESCALATION.

(a) The Aircraft Basic Price of each Aircraft set forth in Table 1 of the Purchase Agreement includes an aggregate price for engines and all accessories, equipment and parts provided by General Electric Aircraft Engines (GE). The adjustment in Engine Price applicable to each Aircraft (Engine Price Adjustment) will be determined at the time of Aircraft delivery in accordance with the following formula:

$$P(e) = [(P(b) + F) \times (CPI / CPI(b)_)] - P(b)$$

where CPI(b) is the Engine Escalation Base Year Index as set forth in Table 1 of the Purchase Agreement.

(b) The following definitions will apply herein:

P(e) = Engine Price Adjustment

P(b) = Engine Price (per Aircraft), as set forth in Table 1 of the Purchase Agreement.

F =  $0.005 \times (N/12) \times P(b)$  where N is the number of calendar months which have elapsed from the Engine Price Base Year and Month up to and including the month of delivery, both as shown in Table 1 of the Purchase Agreement.

CPI = L + ICI (rounded to the nearest hundredth)

L = A value determined using the U.S. Department of Labor, Bureau of Labor Statistics "Employment Cost Index Wages and Salaries for Aircraft Manufacturing (SIC 3721)", calculated as a 3-month arithmetic average of the released values (expressed as a decimal and rounded to the nearest tenth) using the values for the 12th, 13th and 14th months prior to the month of scheduled Aircraft delivery then multiplied by 65% and rounded to the nearest thousandth.

ICI = A value determined using the U.S. Department of Labor, Bureau of Labor Statistics "Producer Prices and Price Index - Industrial Commodities Index", calculated as a 3-month arithmetic average of the released monthly values (expressed

as a decimal and rounded to the nearest hundredth) using the values for the 12th, 13th and 14th months prior to the month of scheduled delivery of the Aircraft, then multiplied by 35% and rounded to the nearest thousandth.

The Engine Price Adjustment will not be made if it would result in a decrease in the Engine Price.

(c) The values of the Employment Cost Index Wages & Salaries (SIC 3721) and Producer Prices and Price Index - Industrial Commodities Index used will be those published as of a date 30 days prior to the first day of the scheduled Aircraft delivery month to Customer. As the Employment Cost Index Wages and Salaries for Aircraft Manufacturing (SIC 3721) values are only released on a quarterly basis, the value released for the month of March will be used for the months of January and February; the value for June used for April and May; the value for September used for July and August; and the value for December used for October and November. Such values will be considered final and no Engine Price Adjustment will be made after Aircraft delivery for any subsequent changes in published index values. If no values have been released for an applicable month, the provisions set forth in Paragraph e, below, will apply. If prior to delivery of an Aircraft, the U.S. Department of Labor, Bureau of Labor Statistics changes the base year for determination of the L or ICI values as defined above, such rebase values will be incorporated in the Engine Price Adjustment calculation.

(d) If at the time of delivery of an Aircraft, Boeing is unable to determine the Engine Price Adjustment because the applicable values to be used to determine L and ICI have not been released by the U.S. Department of Labor, Bureau of Labor Statistics, then: In the event the Engine Price escalation provisions are made non-enforceable or otherwise rendered null and void by any agency of the United States Government, GE agrees to meet jointly with Boeing and Customer (to the extent such parties may lawfully do so) to adjust equitably the Aircraft Basic Price of any affected Aircraft to reflect an allowance for increase or decrease in labor compensation and material costs occurring since February of the base price year which is consistent with the application provisions of this Supplemental Exhibit EE1.

(e) If prior to delivery of an Aircraft, the U.S. Department of Labor, Bureau of Labor Statistics substantially revises the methodology used for the determination of the values to be used to determine the L and ICI values (in contrast to benchmark adjustments or other corrections of previously released values), Customer, Boeing and GE will, prior to delivery of such Aircraft, select a substitute for such values from data published by the U.S. Department of Labor, Bureau of Labor Statistics or other similar data reported by non-governmental United States organizations, such substitute to lead in application to the same adjustment result insofar as possible, as would have been achieved by continuing the use of the original values as they may have fluctuated during the applicable time period. Appropriate revisions of the formula will be made as required to reflect any substitute values. However, if within 24 months from delivery of the Aircraft, the U.S. Department of Labor, Bureau of Labor Statistics should resume releasing values for the months needed

to determine the Engine Price Adjustment, such values will be used to determine the increase or decrease in the Engine Price Adjustment determined at the time of delivery of such Aircraft.

NOTE: The factor (CPI divided by the base year index) by which the Engine Price is to be multiplied will be expressed as a decimal and rounded to the nearest thousandth. Any rounding of a number, as required under this Supplemental Exhibit EE1 with respect to escalation of the Engine Price, will be accomplished as follows: if the first digit of the portion to be dropped from the number to be rounded is five or greater, the preceding digit will be raised to the next higher number.

## 2. ENGINE WARRANTY AND PRODUCT SUPPORT PLAN.

Boeing has obtained from GE the right to extend to Customer the provisions of GE's warranty and product support plan (Warranty and Product Support Plan); subject, however, to Customer's acceptance of the

conditions set forth herein and in such Warranty and Product Support Plan. Accordingly, Boeing hereby extends to Customer and Customer hereby accepts the provisions of GE's Warranty and Product Support Plan, and such Warranty and Product Support Plan shall apply to all CF6 turbofan engines including all Modules and Parts thereof, as these terms are defined in the Warranty and Product Support Plan, (Engines) installed in the Aircraft at the time of delivery or purchased from Boeing by Customer for support of the Aircraft except that, if Customer and GE have executed a general terms agreement (Engine GTA), then the terms of the Engine GTA shall be substituted for and supersede the below-stated provisions and such provisions shall be of no force or effect and neither Boeing nor GE shall have any obligation arising therefrom. In consideration for Boeing's extension of the GE Warranty and Product Support Plan to Customer, Customer hereby releases and discharges Boeing from any and all claims, obligations and liabilities whatsoever arising out of the purchase or use of the Engines and Customer hereby waives, releases and renounces all its rights in all such claims, obligations and liabilities. The Warranty and Product Support Plan is set forth in Exhibit C to the applicable purchase contract between GE and Boeing. Copies of the Warranty and Product Support Plan shall be provided to Customer by Boeing upon request.

### SERVICE LIFE POLICY COMPONENTS

between

THE BOEING COMPANY

and

KLM ROYAL DUTCH AIRLINES

COVERED SERVICE LIFE COMPONENTS

relating to

BOEING MODEL 777 AIRCRAFT

This is the listing of Covered Components for the Aircraft which relate to Part 3, Boeing Service Life Policy of Exhibit C, Product Assurance Document to the AGTA and is a part of Purchase Agreement No. 2399.

1. Wing.
  - (a) Upper and lower wing skins and stiffeners between the forward and rear wing spars.
  - (b) Wing spar webs, chords and stiffeners.
  - (c) Inspar wing ribs.
  - (d) Inspar splice plates and fittings.
  - (e) Upper wing fold hinge, end ribs and lower latch lugs.
  - (f) Main landing gear support structure.
  - (g) Wing center section lower beams, spanwise beams and floor beams, but not the seat tracks attached to the beams.
  - (h) Wing-to-body structural attachments.
  - (i) Engine strut support fittings attached directly to wing primary structure.
  - (j) Support structure in the wing for spoilers and spoiler actuators; for aileron hinges and reaction links; and for leading edge devices and trailing edge flaps.
  - (k) Leading edge device and trailing edge flap support system.
  - (l) Aileron leading edge device and trailing edge flap internal, fixed attachment and actuator support structure.
2. Body.

- (a) External surface skins and doublers, longitudinal stiffeners, longerons and circumferential rings and frames between the forward pressure bulkhead and the vertical stabilizer rear spar bulkhead, and structural support and enclosure for the APU but excluding all system components and related installation and connecting devices, insulation, lining, and decorative panels and related installation and connecting devices.
- (b) Window and windshield structure but excluding the windows and windshields.
- (c) Fixed attachment structure of the passenger doors, cargo doors and emergency exits, excluding door mechanisms and movable hinge components. Sills and frames around the body openings for the passenger doors, cargo doors and emergency exits, excluding scuff plates and pressure seals.
- (d) Nose wheel well structure, including the wheel well walls, pressure deck, forward and aft bulkheads, and the gear support structure.
- (e) Main gear wheel well structure including pressure deck, bulkheads and landing gear beam support structure.
- (f) Floor beams and support posts in the control cab and passenger cabin area, but excluding seat tracks.
- (g) Forward and aft pressure bulkheads.
- (h) Keel structure between the wing front spar bulkhead and the main gear wheel well aft bulkhead, including splices.
- (i) Wing front and rear spar support bulkheads, and vertical and horizontal stabilizer front and rear spar support bulkheads including terminal fittings but excluding all system components and related installation and connecting devices, insulation, lining, and decorative panels and related installation and connecting devices.
- (j) Support structure in the body for the stabilizer pivot and stabilizer screw.

### 3. Vertical Stabilizer.

- (a) External skins between front and rear spars.
- (b) Front and rear spars including stiffeners.

- (c) Attachment fittings between vertical stabilizer and body.
- (d) Inspar ribs.
- (e) Support structure in the vertical stabilizer for rudder hinges, reaction links and actuators.
- (f) Rudder internal, fixed attachment and actuator support structure.
- (g) Rudder hinges and supporting ribs, excluding bearings.

4. Horizontal Stabilizer.

- (a) External skins between front and rear spars.
- (b) Front and rear spars including splices and stiffeners.
- (c) Inspar ribs.
- (d) Stabilizer splice fittings and pivot and screw support structure.
- (e) Support structure in the horizontal stabilizer for the elevator hinges, reaction links and actuators.
- (f) Elevator internal, fixed attachment and actuator support structure.
- (g) Elevator hinges and supporting ribs, excluding bearings.

5. Engine Strut.

- (a) Strut external surface skin and doublers and stiffeners.
- (b) Internal strut chords, frames and bulkheads.
- (c) Strut to wing fittings and diagonal brace.
- (d) Engine mount support fittings attached directly to strut structure.
- (e) For Aircraft equipped with General Electric or Pratt & Whitney engines only, the engine mounted support fittings.

6. Main Landing Gear.
- (a) Outer cylinder.
  - (b) Inner cylinder.
  - (c) Upper and lower side strut, including spindles and universals.
  - (d) Upper and lower drag strut, including spindles and universals.
  - (e) Orifice support tube.
  - (f) Downlock links including spindles and universals.
  - (g) Torsion links.
  - (h) Bogie beam.
  - (i) Axles.
  - (j) Steering crank arm.
  - (k) Steering rod.

7. Nose Landing Gear.
- (a) Outer cylinder.
  - (b) Inner cylinder, including axles.
  - (c) Orifice support tube.
  - (d) Upper and lower drag strut, including lock links.
  - (e) Steering plates and steering collar.
  - (f) Torsion links.
  - (g) Actuator support beam and hanger.

NOTE: The Service Life Policy does not cover any bearings, bolts, bushings, clamps, brackets, actuating mechanisms or latching mechanisms used in or on the Covered Components.

KLM Royal Dutch Airlines  
Amsterdamseweg 55  
1182 GP Amstelveen  
The Netherlands

Subject: Aircraft Schedule Reliability Program

Reference: Purchase Agreement No. (the Purchase Agreement) between The Boeing Company (Boeing) and KLM Royal Dutch Airlines (Customer) relating to Model 777-206ER aircraft Serial Numbers [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] (the Aircraft)

This letter agreement (Letter Agreement) amends and supplements the Purchase Agreement. All terms used but not defined in this Letter Agreement have the same meaning as in the Purchase Agreement. The price for this Program is [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] per Aircraft and Leased Aircraft expressed in 2001 dollars. This Letter Agreement will remain open for Customer Acceptance until December 1, 2002.

#### 1.0 Definition of Terms:

1.1 "ACHIEVED MECHANICAL SCHEDULE RELIABILITY" shall mean a number calculated pursuant to the following formula:

$$100 \times (1 - \text{INT}/\text{RevFlights})$$

where: INT equals the number of Chargeable Schedule Interruptions occurring during an Analysis Period, and RevFlights equals the number of Scheduled Revenue Departures occurring during the same Analysis Period.

1.2 "Aircraft" shall mean the direct buy 777-200ER aircraft with serial numbers, [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] "Leased Aircraft" shall mean the six 777-200ER aircraft purchased from Boeing by [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] for lease to Customer with serial numbers [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] and [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] to be determined at a later date.

1.3 "ANALYSIS PERIOD" shall mean any four consecutive calendar months of Scheduled Revenue Departures.

1.4 "AVERAGE FLIGHT LENGTH" shall mean the flight hours during an Analysis Period divided by the number of Scheduled Revenue Departures during the same



Analysis Period.

1.5 "CHARGEABLE SCHEDULE INTERRUPTION" or "INTERRUPTION" shall mean a cancellation, turn-back, diverted landing or delayed departure of any scheduled revenue flight of a Covered Aircraft which is [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT], other than as provided in Section 4, below, and results directly from a mechanical malfunction of such Covered Aircraft, or any system, accessory, equipment or part (including engines) installed thereon.

1.6 "COVERED AIRCRAFT" shall mean those Aircraft and the Leased Aircraft operated by Customer on Customer's routes during the Program Term and including any Aircraft originally scheduled to be delivered during the Program Term but not delivered within such period due to an Excusable or Non Excusable Delay.

1.7 "PROGRAM" shall mean the rights and obligations defined in this Letter Agreement.

1.8 "PROGRAM TERM" shall mean the five consecutive years commencing on the delivery date of the first Covered Aircraft.

1.9 "SCHEDULED REVENUE DEPARTURE" shall mean any departure of a Covered Aircraft for a scheduled revenue flight segment; including, but not limited to, (i) any departure of a Covered Aircraft for a charter flight or extra section flight; or (ii) any canceled departure of a flight segment.

2. Program Description.

Mechanical schedule reliability targets for the Covered Aircraft (Mechanical Schedule Reliability Target(s)) during the Program Term are as follows:

Program Term	Mechanical Schedule Reliability Target
----- First year,	----- [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]
----- Second year	----- [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]
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These Mechanical Schedule Reliability Targets are based on an average flight length of [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] per Scheduled Revenue Departure for Covered Aircraft in revenue service operations. The Mechanical Schedule Reliability Targets are subject to change based on changes in the Customer's actual Average Flight Length and other factors under Customer's control.

3. Remedial Action.

3.1 Following the first four months of Scheduled Revenue Departures, for any Analysis Period during which Customer has greater than six (6) Covered Aircraft in revenue service, if Customer notifies Boeing that the Achieved Mechanical Schedule Reliability for the Analysis Period is more than [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] below the Mechanical Schedule Reliability Target (Agreed Threshold Value) for such Analysis Period, Boeing will for the Aircraft:

3.1.1 Investigate the circumstances and possible causes for an Achieved Mechanical Schedule Reliability lower than the Agreed Threshold Value;

3.1.2 Provide technical assistance to Customer in the form of analysis and recommendations of a kind and nature which Boeing determines to be best suited for improving the Achieved Mechanical Schedule Reliability;

3.1.3 Initiate a design review of the system, accessory, equipment or part (other than engines and engine parts) which are determined by Boeing to be the primary cause of an Achieved Mechanical Schedule Reliability lower than the Agreed Threshold Value;

3.1.4 When in Boeing's judgment a redesign or modification is indicated as a technically and economically practical means of improving the Achieved Mechanical Schedule Reliability, redesign or cause the redesign of such system, accessory, equipment or part; or offer such modification,

3.1.5 If such redesign or modification results in retrofit kits being offered by Boeing or Boeing's suppliers, provide such kits or cause such kits to be provided, at Customer's request, at no charge to Customer and reimburse Customer's reasonable direct labor costs for incorporation of any such kit manufactured to Boeing's detailed design. This offer will be valid for any

redesign or modification addressing improved reliability of the system, accessory, equipment or part being identified as the main cause of Mechanical Schedule Reliability below the Agreed Threshold Value that becomes available within 5 years after Customer having made its notification in accordance with above terms. The Covered Aircraft must still be experiencing Mechanical Schedule Reliability below the Agreed Threshold Value at the time the retrofit kits become available in order to qualify for the free retrofit kits.

Such reimbursement will be provided pursuant to Boeing Warranty (Article 11 of Part 2 of Exhibit C, Product Assurance Document, of the AGTA); and

3.1.6 If Boeing determines that the design of engines or engine parts is the primary cause of an Achieved Mechanical Schedule Reliability lower than the Agreed Threshold Value, Boeing will, if requested by Customer, take whatever reasonable action is permitted under Boeing's contracts with the engine manufacturer in an effort to obtain correction of such design. This offer will be valid for any redesign or modification addressing improved reliability of the system, accessory, equipment or part being identified as the main cause of the low Mechanical Schedule Reliability, and that comes available within five years after Customer having made its notification in accordance with the above terms.

#### 4. Interruption Exclusions.

An Interruption does not include any cancellation, turn-back, diverted landing or delayed departure of any scheduled revenue flight of any Covered Aircraft which is caused by any of the following events:

(i) Late arrival of an inbound flight;

(ii) Late return from out-of-service status;

(iii) Operation, service, maintenance or overhaul of such Covered Aircraft or any system, accessory, equipment or part (including engines) installed thereon, in a manner other than in accordance with Customer's approved instructions and requirements;

(iv) Logistics problems such as lack of spare parts at stations where spares could reasonably be expected to be available, as determined in accordance with industry standard provisioning practices, or inordinate delays in the availability of spares, unless such delays are caused by Boeing or other appropriately trained personnel at any location where any maintenance of the Covered Aircraft is performed;

(v) A malfunction caused by any extrinsic force such as foreign object damage;

(vi) Failure to utilize the FAA approved minimum equipment list (MEL) to defer corrective maintenance, or failure to correct any deferred item within the time period specified in such MEL;

(vii) Buyer Furnished Equipment;

(viii) Tires;

(ix) Normal brake wear;

(x) Acts or omissions of Customer or any strikes or labor troubles causing cessation, slowdown or interruption of work related to the operation or maintenance of the Covered Aircraft; or

(xi) Any other cancellation, turn-back, diverted landing or delayed departure which cannot fairly be attributed to mechanical malfunction of the Covered Aircraft, or any system, accessory, equipment or part (including engines) installed on the Covered Aircraft.

If a Covered Aircraft is used as a substitute for some other aircraft or some other aircraft is used as a substitute for a Covered Aircraft and the revenue flight affected by such substitution departs without a cancellation, turn-back, diverted landing or delay greater than [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT], then no Chargeable Schedule Interruption will be deemed to have occurred. If an Interruption occurs as a result of a malfunction of the substitute aircraft/Covered Aircraft, such Interruption will be charged against the aircraft/Covered Aircraft initially scheduled for the flight rather than its substitute. An Interruption, which affects a subsequent segment or flight for a Covered Aircraft, will count as only one Interruption unless such Interruption is separate from and unrelated to the initial Interruption.

## 5. Administrative Requirements.

5.1 Customer will provide status reports every month (Reporting Period).

5.2 The Customer's status reports shall include the data required to calculate the Achieved Mechanical Schedule Reliability for each month of the Reporting Period using the formulas described in Section 1.0, above, and a list of the Chargeable Schedule Interruptions for the Reporting Period. Customer shall submit such data to Boeing electronically in accordance with the provisions of Boeing Document D6-81692.

All data submitted pursuant to Subsection 5.2 will be addressed to the attention of:

MANAGER - IN-SERVICE DATA GROUP  
Boeing Commercial Airplanes  
P.O. Box 3707  
Seattle, Washington 98124-2207

5.3 Customer claim reports will include the data described in Subsection 5.2 above and sufficient data to substantiate any claimed Chargeable Schedule Interruption. Customer will submit to Boeing reasonable proof that any claimed Chargeable Schedule Interruption does in fact constitute a Chargeable Schedule Interruption. In addition, Customer will maintain and submit to Boeing such data as may reasonably be required to:

- (i) determine Achieved Mechanical Schedule Reliability,
- (ii) analyze the problems causing any claimed Chargeable Schedule Interruption, and
- (iii) when required, develop appropriate remedial action.

5.4 Failure to file the status reports or provide the information as specified in Subsections 5.1 through 5.3, above, will constitute an acknowledgment by Customer that the Achieved Mechanical Schedule Reliability is equal to or greater than the Agreed Threshold Value for such Analysis Period, and Boeing will not be obligated to provide any of the remedies arising under this Program for such Analysis Period.

5.5 All reports submitted to Boeing will be addressed to the attention of:

Director - Warranty & Supplier Product Support  
Boeing Commercial Airplanes  
P.O. Box 3707  
Seattle, Washington 98124-2207

## 6. Conditions and Limitations.

6.1 If, to improve schedule reliability, Boeing or any Boeing supplier issues service bulletins, service letters or other written instructions (Instructions) or offers no-charge retrofit kits, Customer will accomplish such Instructions or install such kits within a period of [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] after availability of such Instructions or kits at Customer's

facility or such longer period as may be established by mutual agreement of the parties. If Customer does not accomplish the Instructions or install the kits within such time period, Chargeable Schedule Interruptions relating to the systems, accessories, equipment or parts affected by such Instructions or kits will be excluded from this Program from the date the Instructions or kits were available at Customer's facility until such time as Customer notifies Boeing that Customer has incorporated such Instructions or kits on all affected Covered Aircraft.

6.2 Boeing may inspect at all reasonable times Customer's maintenance

facilities and review its relevant maintenance programs and procedures. If Boeing recommends in writing reasonable changes in Customer's maintenance programs and procedures which would improve the Achieved Mechanical Schedule Reliability and Customer does not effect such changes within [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] after receiving such written recommendations or such longer period as may be established by mutual agreement of the parties, Boeing will have the right to redefine the Chargeable Schedule Interruptions after the date Customer received such written recommendations so as to eliminate interruptions which Boeing estimates result from Customer's failure to effect the recommended changes within such time period.

6.3 If, for any Analysis Period, the actual Average Flight Length or other factors affecting schedule reliability of the Covered Aircraft change significantly, the Mechanical Schedule Reliability Target for such Analysis Period will be appropriately adjusted by the parties.

6.4 At Boeing's request, Customer will assign to Boeing any of Customer's rights against any manufacturer of any system, equipment, accessory or part installed in the Covered Aircraft as Boeing may reasonably require to fulfill its obligations with respect to any remedy provided by Boeing hereunder.

6.5 THE DISCLAIMER AND RELEASE and EXCLUSION OF CONSEQUENTIAL AND OTHER DAMAGES provisions stated in Article 11 of Exhibit C of the AGTA apply to this Program.

7. Confidential Treatment.

Customer understands that certain commercial and financial information contained in this Letter Agreement are considered by Boeing as confidential. Customer agrees that it will treat this Letter Agreement and the information contained herein as confidential and will not, without the prior written consent of Boeing, disclose this Letter Agreement or any information contained herein to any other person or entity.

If the foregoing correctly sets forth your understanding of our agreement with respect to the matters treated above, please indicate your acceptance and approval below.

Very truly yours,

THE BOEING COMPANY

By \_\_\_\_\_

Its Attorney-In-Fact \_\_\_\_\_

ACCEPTED AND AGREED TO this

Date: \_\_\_\_\_, 2002

KLM ROYAL DUTCH AIRLINES

By \_\_\_\_\_

Its \_\_\_\_\_

2399-06

KLM ROYAL DUTCH AIRLINES  
Amsterdamseweg 55  
1182 GP Amstelveen

The Netherlands

Subject: Flight Crew Training Spare Parts Support

Reference: Purchase Agreement No. 2399 (the Agreement) between The Boeing Company (Boeing) and KLM Royal Dutch Airlines (Customer) relating to Model 777-206ER aircraft (the Aircraft)

This Letter Agreement is entered into on the date below, and amends and supplements the Agreement. All terms used but not defined in this Letter Agreement have the same meaning as in the Agreement. THIS LETTER AGREEMENT WILL REMAIN OPEN UNTIL DECEMBER 1, 2002 FOR CUSTOMER'S ACCEPTANCE.

Definition of Terms:

FLIGHT CREW TRAINING: Flight training conducted by Boeing and occurring immediately following delivery of the Aircraft .

REMOVED PARTS: Parts removed from an Aircraft during Flight Crew Training.

REPLACEMENT PARTS: Parts taken from Boeing inventory and installed in an Aircraft because no Standby Parts are available.

STANDBY PARTS: Parts which are owned by Customer and located at Customer's designated storage area at Boeing to support Flight Crew Training.

TRAINING AIRCRAFT: The Aircraft delivered to Customer and used for Flight Crew Training.

## 1. Provisioning of Spare Parts

To support Flight Crew Training, Boeing agrees to provide normal line maintenance and expendable spare parts at no charge on the Training Aircraft; and, Customer agrees to provide Standby Parts for the Training Aircraft. The Standby Parts list, including part numbers, exact quantities and on-dock dates, will be established during the provisioning meeting.

If parts other than those discussed above fail on the Training Aircraft during Flight Crew Training, Boeing will attempt to provide Replacement Parts for those failed parts. If Boeing is unable to provide Replacement Parts, Customer will be responsible for providing those parts.

## 2. Disposition of Removed Parts

With respect to Removed Parts, Boeing may:

(i) repair such Removed Parts, at no charge to Customer, and either retain such parts as Standby Spare Parts or return the Removed Parts to Customer, at Customer expense;

(ii) return the Removed Parts to Customer at Customer's expense; or

(iii) return the Removed Parts to the manufacturer for repair or replacement under such manufacturer's warranty. Upon Boeing's receipt of the repaired Removed Parts or their replacements, Boeing may retain such Removed Parts or their replacements as Standby Parts or return such Removed Parts or their replacements to Customer, at Customer's expense.

Any Removed Parts returned to Customer, or replacements, will be accomplished in accordance with any written instructions from Customer received by Boeing prior to such return.

## 3. Redelivery of Standby Parts

Standby Parts not installed in the Training Aircraft will be redelivered to Customer on board the last aircraft used for Flight Crew Training.

## 4. Non-performance by Customer

If Customer's non-performance of obligations in this Letter Agreement causes a delay in the Flight Crew Training, Customer will be deemed to have agreed to any such delay in Flight Crew Training. In addition, Boeing will have the right to:

(i) purchase Standby Spare Parts and invoice Customer for the price of such Parts and for any necessary adjustment and calibration of such Parts;



(ii) cancel or reschedule the Flight Crew Training.

(iii) invoice Customer for any expenses, including but not limited to ground handling expenses, maintenance costs and storage costs, that are directly attributable to the delay in the Flight Crew Training.

5. Customer Warranty

Customer warrants that the Standby Parts will meet the requirements of the Detail Specification and be in a condition to pass Boeing's receiving inspection and functional test, and if not in a new condition, will have an attached FAA Serviceable Parts Tag.

6. Title and Risk of Loss

Title to and risk of loss of any Standby Parts or Removed Parts will remain with Customer. Boeing will have only such liability for Standby Parts and Removed Parts as a bailee for mutual benefit would have, but will not be liable for loss of use. For Replacement Parts, title will transfer to Customer at the time such part is installed on the Training Aircraft.

Very truly yours,

THE BOEING COMPANY

By \_\_\_\_\_

Its Attorney-In-Fact  
\_\_\_\_\_

ACCEPTED AND AGREED TO this

Date: \_\_\_\_\_, 2002

KLM Royal Dutch Airlines

By \_\_\_\_\_

Its  
\_\_\_\_\_

2399-07

KLM Royal Dutch Airlines  
Amsterdamseweg 55  
1182 GP Amstelveen

The Netherlands

Subject: Spares Initial Provisioning

Reference: Purchase Agreement No. 2399 (the Purchase Agreement) between The Boeing Company (Boeing) and KLM Royal Dutch Airlines (Customer) relating to Model 777-206ER aircraft (the Aircraft)

This Letter Agreement (Letter Agreement) amends and supplements the Purchase Agreement. All terms used but not defined in this Letter Agreement have the same meaning as in the Purchase Agreement.

1. Applicability.

This letter will apply to initial provisioning for the Model 777-206ER Aircraft purchased by Customer under the Purchase Agreement.

2. Initial Provisioning Meeting.

Boeing will conduct an initial provisioning meeting (Initial Provisioning Meeting) with Customer to establish mutually agreeable procedures to accomplish Customer's initial provisioning of spare parts for the Aircraft. The parties will agree, during the Initial Provisioning Meeting on the operational data to be provided by Customer for Boeing's use in preparing its quantity recommendations for initial provisioning of spare parts for the Aircraft, exclusive of special tools, ground support equipment, engines and engine parts (Provisioning Items). Such operational data to be provided by Customer will be the data described in Chapter 6 of Boeing Manual D6-81834, entitled "Spares Provisioning Products Guide" (Boeing Spares Provisioning Products Guide) which will be furnished to Customer prior to the Initial Provisioning Meeting. The parties will also agree on the provisioning documentation to be provided by Boeing as described in Boeing Spares Provisioning Products Guide (such data will be hereinafter referred to collectively as the "Provisioning Data"). Boeing will provide instruction in the use of the initial provisioning documentation. The date of the Initial Provisioning Meeting will be agreed upon between the parties. However, Boeing and Customer will use their best efforts to convene such meeting within 30 days after execution of the Purchase Agreement.

3. Initial Provisioning Documentation.

3.1 Provisioning Data. Boeing will furnish Provisioning Data to Customer on or about ninety (90) days after Aircraft implementation which is approximately 12 months before delivery (Aircraft implementation is the date engineering begins the detailed engineering designs and major suppliers start locking in body requirements.) The Provisioning Data will be as complete as possible and will cover Provisioning Items selected by Boeing for review by Customer for initial provisioning for the Aircraft. The Provisioning Data will set forth the prices for Provisioning Items which are Boeing Spare Parts and

such prices will be firm and remain in effect until the date or dates set forth below in Paragraph 4.1, Boeing Spare Parts, by which orders must be placed with Boeing. Boeing will, from time to time, until a date approximately 90 days following delivery of the last Aircraft or until the delivery configuration of each of the Aircraft is reflected in the Provisioning Data, whichever is later, furnish to Customer revisions to the Provisioning Data.

3.2 Provisioning IPC. Boeing will, on or about ninety (90) days after Aircraft implementation which is approximately 12 months before delivery, furnish to Customer a Boeing Illustrated Parts Catalog (IPC), hereinafter referred to as the "Provisioning IPC". The Provisioning IPC will be as complete as possible and will cover Provisioning Items selected by Boeing for review by Customer for initial provisioning for the Aircraft. Boeing will, from time to time, until a date approximately 90 days following delivery of the last Aircraft, or until the delivery configuration of each of the Aircraft is reflected in the Provisioning IPC, whichever is later, furnish to Customer revisions to the Provisioning IPC.

### 3.3 Buyer Furnished Equipment (BFE) Provisioning Data.

3.3.1 Boeing's Responsibility. Boeing will include BFE end items in the Provisioning Data and Provisioning IPC for BFE installed on Customer's Aircraft provided such equipment has been installed on other Aircraft by Boeing and Boeing has data on the BFE.

3.3.2 Customer's Responsibility. Customer will be responsible for ensuring BFE data is provided to Boeing by the BFE supplier in a format acceptable to Boeing for BFE not covered by 3.3.1 above. If the data is not provided to Boeing in a timely manner and in a format acceptable to Boeing, such BFE equipment will not be included in Boeing's Provisioning Data or IPC.

3.4 Other Data. Boeing will submit to Customer listings of Raw Materials, Standard Parts and Bulk Materials to be used by Customer in the maintenance and repair of the Aircraft.

4. Purchase from Boeing of Spare Parts as Initial Provisioning for the Aircraft.

4.1 Boeing Spare Parts. Customer will place orders for Provisioning Items within sixty (60) days of receipt of the initial submittal of provisioning data; provided, however, that in those instances where Boeing submits any revision to the Provisioning Data, Customer will place orders for Boeing Spare Parts covered by such revision within 60 days following the date of such submittal. At Customer's request, Boeing will process "controlled shipments" by shipping full or partial quantities of an order on a schedule specified by Customer, provided the final shipment is made no later than 24 months after receipt of the order.

4.2 Supplier Provisioning Items. Customer may place orders with Boeing for Provisioning Items which are manufactured by suppliers or to their detailed

design and are covered by the Provisioning

Data as initial provisioning for the Aircraft. The price to Customer for any such supplier Provisioning Item will [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] If Customer elects to purchase such supplier Provisioning Items from Boeing, Customer will place its orders therefor in accordance with the provisions of Paragraph 4.1, Boeing Spare Parts.

4.3 Ground Support Equipment and Special Tools. Customer may place orders with Boeing for ground support equipment (GSE) and special tools manufactured by suppliers which Customer determines it will initially require for maintenance, overhaul and servicing of the Aircraft and/or engines. The price to Customer for such GSE or special tools will be [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] If Customer elects to purchase such GSE and special tools from Boeing, Customer will place its orders therefor by the date set forth in Paragraph 4.1, Boeing Spare Parts or such later date as the parties may mutually agree.

4.4 Spare Engines and Engine Spare Parts. Customer may place orders with Boeing for spare engines and/or engine spare parts which Customer determines it will initially require for support of the Aircraft or for maintenance and overhaul of the engines. The price to Customer for such spare engines or such engine spare parts, will be [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]. If Customer elects to purchase such spare engines or engine spare parts through Boeing, Customer will place its orders on a date to be mutually agreed upon during the Initial Provisioning Meeting.

4.5 QEC Kits. Boeing will, on or about thirty (30) days after Aircraft implementation, furnish to Customer a listing of all components which could be included in the Quick Engine Change (QEC) kits which may be purchased by Customer from Boeing. Customer agrees to review such listing and indicate by marking on one copy of such listing those components that Customer desires included in its QEC kits. Customer will return such marked copy to Boeing within 30 days after Customer's receipt of such listing. Within 30 days after Boeing's receipt of such marked copy, Boeing will republish such listing to reflect only those components selected by Customer and will provide copies of such republished listing to Customer. Boeing will from time to time furnish revisions to such republished listing until a date approximately 90 days after delivery of the last QEC kit ordered by Customer for the Aircraft. Boeing will furnish to Customer as soon as practicable a statement setting forth a firm price for the QEC kit configuration selected by Customer. Customer agrees to place orders with Boeing for the QEC kits for the Aircraft within (30) days after receipt of firm price for the QEC kit configuration selected by the Customer.

4.6 Payment for Provisioning Items. The payment provisions of the Customer Services General Terms Agreement (CSGTA) between Boeing and Customer

will be applicable to Provisioning Items ordered by Customer from Boeing for the Aircraft.

5. Delivery.

Boeing will, insofar as reasonably possible, deliver to Customer the Spare Parts ordered by Customer in accordance with the provisions of this Letter Agreement on dates reasonably calculated to conform to Customer's anticipated needs in view of the scheduled deliveries of the Aircraft. Customer and Boeing will agree upon the date to begin delivery of the Provisioning Spare Parts ordered in accordance with this Letter Agreement. Where appropriate, Boeing will arrange for shipment of such Spare Parts, which are manufactured by suppliers, directly to Customer from the applicable supplier's facility. The routing and method of shipment for initial deliveries and all subsequent deliveries of such Spare Parts will be as mutually agreed between Boeing and Customer.

6. Substitution for Obsolete Spare Parts.

6.1 Obligation to Substitute. In the event that, prior to delivery of the first Aircraft pursuant to the Purchase Agreement, any Spare Part purchased by Customer from Boeing in accordance with this Letter Agreement is rendered obsolete or unusable due to the redesign of the Aircraft or of any accessory, equipment or part therefor, Boeing will at Customer's request deliver to Customer new and usable Spare Parts in substitution for such obsolete or unusable Spare Parts and Customer will return the obsolete or unusable Spare Parts to Boeing. Boeing will credit Customer's account with Boeing with the price paid by Customer for any such obsolete or unusable Spare Part and will invoice Customer for the purchase price of any such substitute Spare Part delivered to Customer.

6.2 Delivery of Obsolete Spare Parts and Substitutes. Obsolete or unusable Spare Parts returned by Customer pursuant to this Item will be delivered to Boeing at its Seattle Distribution Center, or such other destination as Boeing may reasonably designate. Spare Parts substituted for such returned obsolete or unusable Spare Parts will be delivered to Customer at Boeing's Seattle Distribution Center, or such other Boeing shipping point as Boeing may reasonably designate. Boeing will pay the freight charges for the shipment from Customer to Boeing of any such obsolete or unusable Spare Part and for the shipment from Boeing to Customer of any such substitute Spare Part.

7. Repurchase of Provisioning Items.

7.1 Obligation to Repurchase. During a period commencing 1 year after delivery of the first Aircraft under the Purchase Agreement, and ending 5 years after such delivery, Boeing will, upon receipt of Customer's written request and subject to the exceptions in Paragraph 7.2, Exceptions, repurchase unused and undamaged Provisioning Items which (i) were recommended by Boeing in the Provisioning Data as initial provisioning for the Aircraft, (ii) were purchased by Customer from Boeing, and (iii) are surplus to Customer's needs. If Customer

follows a phased provisioning program as was done on Customer's 737NGs  
[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND  
EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

7.2 Exceptions. Boeing will not be obligated under Paragraph 7.1, Obligation to Repurchase, to repurchase any of the following: (i) quantities of Provisioning Items in excess of those quantities recommended by Boeing in the Provisioning Data for the Aircraft, (ii) QEC Kits, Bulk Material Kits, Raw Material Kits, Service Bulletin Kits, Standards Kits and components thereof (except those components listed separately in the Provisioning Data), (iii) Provisioning Items for which an order was received by Boeing more than 5 months after delivery of the last Aircraft, (iv) Provisioning Items which have become obsolete or have been replaced by other Provisioning Items as a result of (a) Customer's modification of the Aircraft or (b) design improvements by Boeing or the supplier (other than Provisioning Items which have become obsolete because of a defect in design if such defect has not been remedied by an offer by Boeing or the supplier to provide no charge retrofit kits or replacement parts which correct such defect), and (v) Provisioning Items which become excess as a result of a change in Customer's operating parameters, provided to Boeing pursuant to the Initial Provisioning meeting in Paragraph 2, which were the basis of Boeing's initial provisioning recommendations for the Aircraft.

7.2.1 [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

7.3 Notification and Format. Customer will notify Boeing, in writing, when Customer desires to return Provisioning Items which Customer's review indicates are eligible for repurchase by Boeing under the provisions of this Repurchase of Provisioning Items paragraph. Customer's notification will include a detailed summary, in part number sequence, of the Provisioning Items Customer desires to return. Such summary will be in the form of listings, tapes, diskettes or other media as may be mutually agreed between Boeing and Customer, and will include part number, nomenclature, purchase order number, purchase order date and quantity to be returned. Within 5 business days after receipt of Customer's notification, Boeing will advise Customer, in writing, when Boeing's review of such summary will be completed.

7.4 Review and Acceptance by Boeing. Upon completion of Boeing's review of any detailed summary submitted by Customer pursuant to Paragraph 7.3, Boeing will issue to Customer a Material Return Authorization (MRA) for those Provisioning Items Boeing agrees are eligible for repurchase in accordance with this Repurchase of Provisioning Items paragraph. Boeing will advise Customer of the reason that any spare part included in Customer's detailed summary is not eligible for return. Boeing's MRA will state the date by which Provisioning Items listed in the MRA must be redelivered to Boeing and Customer will arrange for shipment of such Provisioning Items accordingly.

7.5 Price and Payment. [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

7.6 Delivery of Provisioning Items. Provisioning Items repurchased by Boeing pursuant to this Repurchase of Provisioning Items paragraph will be delivered to Boeing F.O.B. at its Seattle Distribution Center, or such other destination as Boeing may reasonably designate. Customer will pay the freight charges for the shipment from Customer to Boeing of any such Provisioning Items.

8. Obsolete Spare Parts and Surplus Provisioning Items - Title and Risk of Loss.

Title to and risk of loss of any obsolete or unusable Spare Parts returned to Boeing pursuant to Paragraph 6, Substitution for Obsolete Spare Parts, will pass to Boeing upon delivery thereof to Boeing. Title to and risk of loss of any Spare Part substituted for an obsolete or unusable Spare Part pursuant to Paragraph 6, Substitution for Obsolete Spare Parts, will pass to Customer upon delivery thereof to Customer. Title to and risk of loss of any Provisioning Item repurchased by Boeing pursuant to Paragraph 7, Repurchase of Provisioning Items, will pass to Boeing upon delivery thereof to Boeing. With respect to the obsolete or unusable Spare Parts which may be returned to Boeing and the Spare Parts substituted therefor, pursuant to Paragraph 6, and the Provisioning Items which may be repurchased by Boeing, pursuant to Paragraph 7, the party which has risk of loss of any such Spare Part or Provisioning Item will have the responsibility of providing any insurance coverage for it desired by such party.

9. Supplier Support.

Boeing has entered, or anticipates entering, into product support agreements with suppliers (Boeing Suppliers) of major system components manufactured by such Suppliers to be installed on the Aircraft (Supplier Components). Such product support agreements commit, or are expected to commit, the Boeing Suppliers to provide to Boeing's customers and/or such customer's designees support services with respect to the Supplier Components which can be reasonably expected to be required during the course of normal operation. This support includes but is not limited to shelf-stock of certain spare parts, emergency spare parts, timely delivery of spare parts, and technical data related to the Supplier Components. Copies of such product support agreements will be provided to Customer on or about sixty (60) days after Aircraft implementation which is approximately 12 months before delivery in Boeing Document D6-56115, Volumes 1 and 2. In the event Customer has used due diligence in attempting to resolve any difficulty arising in normal business transactions between Customer and a Boeing Supplier with respect to product support for a Supplier Component manufactured by such Supplier and if such difficulty remains unresolved, Boeing will, if requested by Customer, assist Customer in resolving such difficulty. Assistance will be provided by the Customer Supplier Services organization.

10. Termination for Excusable Delay.

In the event of termination of the Purchase Agreement with respect to any Aircraft pursuant to Article 7 of the AGTA, such termination will, if Customer so requests by written notice received by Boeing within [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] after such termination, also discharge and terminate all obligations and liabilities of the parties as to any Spare Parts which Customer had ordered pursuant to the provisions of this Letter Agreement as initial provisioning for such Aircraft and which are undelivered on the date Boeing receives such written notice.

11. Adjustment for SEP and Gain.

In the event Customer enters into a Spares Exchange Program (SEP) for the 777 or the GAIN Program Boeing and Customer will by mutual agreement adjust the spares provisioning purchase orders.

Very truly yours,

THE BOEING COMPANY

By \_\_\_\_\_

Its Attorney-In-Fact  
\_\_\_\_\_

ACCEPTED AND AGREED TO this

Date: \_\_\_\_\_, 2002

KLM Royal Dutch Airlines

By \_\_\_\_\_

Its  
\_\_\_\_\_

6-1163-KSW-5123 GE

KLM Royal Dutch Airlines  
Amsterdamseweg 55  
1182 GP Amstelveen  
The Netherlands

Subject: Aircraft Performance Guarantees GE90-94B



Reference: Purchase Agreement No. 2399 (the Purchase Agreement) between The Boeing Company (Boeing) and KLM Royal Dutch Airlines (Customer) relating to Model 777-206ER aircraft (the Aircraft)

This letter agreement (Letter Agreement) amends and supplements the Purchase Agreement. All terms used but not defined in this Letter Agreement have the same meaning as in the Purchase Agreement.

Boeing agrees to provide Customer with the performance guarantees in the Attachment. These guarantees are exclusive and expire upon delivery of the Aircraft to Customer.

The performance guarantees included as an attachment are based on LOPA 777-206, B775146. These guarantees will be revised to include the affect of changes included in Exhibit A and incorporated into a mutually to be agreed to Customer detail specification D019-W005KLM72P.

Customer agrees not to disclose this Letter Agreement, attachments, or any other information related to this Letter Agreement without prior written consent by Boeing.

Very truly yours,

THE BOEING COMPANY

By \_\_\_\_\_

Its Attorney-In-Fact \_\_\_\_\_

ACCEPTED AND AGREED TO this

Date: \_\_\_\_\_, 2002

KLM ROYAL DUTCH AIRLINES

By \_\_\_\_\_

Its \_\_\_\_\_

6-1163-KSW-5125

KLM Royal Dutch Airlines  
P.O. Box 7700  
1117 Schiphol Airport  
The Netherlands

Subject: Performance Retention Commitment

Reference: Purchase Agreement No. 2399 (the Purchase Agreement) between The Boeing Company (Boeing) and KLM Royal Dutch Airlines (Customer) relating to Model 777-206ER Aircraft (Aircraft).

This Letter Agreement (Letter Agreement) amends and supplements the Purchase Agreement. All terms used but not defined in this Letter Agreement have the same meaning as in the Purchase Agreement. THIS LETTER AGREEMENT WILL REMAIN OPEN FOR CUSTOMER'S ACCEPTANCE UNTIL DECEMBER 1, 2002.

Boeing recognizes that performance retention within reasonable limits is essential to maintain the economy of operation of the Aircraft. Therefore the parties hereto agree as follows with respect to performance retention.

1. Aircraft Commitment.

For the purposes of this Letter Agreement, the Performance Retention Covered Aircraft shall be defined as a fleet not less than [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

Boeing commits to Customer that, for the Performance Retention Covered Aircraft, the Fleet Average Fuel Mileage Deterioration, as defined in Attachment A, during the Performance Retention Term (as defined in paragraph 2 below), will not exceed [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] within the Performance Retention Term (Aircraft Commitment).

If the Fleet Average Fuel Mileage Deterioration of the Performance Retention Covered Aircraft is determined to have increased to an extent greater than the Aircraft Commitment set forth above, Customer's remedies and Boeing's obligations and liabilities shall be as set forth in this Letter Agreement.

2. Applicability and Performance Retention Term.

This Letter Agreement shall be applicable to the Performance Retention Covered Aircraft, including the engines installed on the Performance Retention Covered Aircraft, whether purchased from Boeing as installed engines or purchased directly from the engine manufacturer (Engine Manufacturer) as new spare engines for support of the Performance Retention Covered Aircraft during the Performance Retention Term of this Letter Agreement.

Boeing shall deliver Performance Retention Covered Aircraft to Customer at the rate of [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]. If the actual rate of delivery is significantly different, the Aircraft Commitment

may be appropriately adjusted to reflect such changes.

The performance retention term of Boeing's and Customer's rights and obligations pursuant to this Letter Agreement for the Performance Retention Covered Aircraft shall commence on the date the first such Performance Retention Covered Aircraft is delivered to Customer and shall expire forty eight (48) months later (Performance Retention Term).

### 3. Conditions.

#### 3.1 Operation and Maintenance.

Customer shall operate and maintain the Performance Retention Covered Aircraft in accordance with Customer's JAA-approved operations and maintenance programs. Customer shall operate and maintain the engines in accordance with the Operation and Maintenance Manuals and Customer's Maintenance Program as mutually agreed to by Boeing, Customer and Engine Manufacturer.

#### 3.2 Powerback.

It is specifically agreed that reverse thrust will not be used for normal ground maneuvering (Powerback) of the Performance Retention Covered Aircraft, unless required for exceptional operational situations. Customer will promptly notify Boeing of any use of Powerback under such situations. Boeing and Customer mutually agree to determine, through good faith technical negotiation, the impact of such uses of Powerback on a Performance Retention Covered Aircraft's cruise fuel mileage and to apply the appropriate adjustments in the calculations of performance levels and/or remedies under this Letter Agreement.

#### 3.3 Flight Cycle Utilization and Derate.

The parties agree that the Aircraft Commitment, as set forth in Paragraph 1 above, is predicated upon Customer's utilization of [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] per Performance Retention Covered Aircraft during the Performance Retention Term, and where the engines are operated with an average minimum derate of [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]. In the event Customer employs a Performance Retention Covered Aircraft during the Performance Retention Term of this Letter Agreement within the Customer's system such that the utilization is greater than [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT], and/or the average engine derate is less than [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT], the parties agree to make adjustments to the Basic Data, defined in Paragraph 4 below, solely with respect to such Performance Retention Covered Aircraft, as a consequence of such greater

utilization and/or reduced derate, if appropriate.

4. Determination of Fuel Mileage Deterioration.

For the purposes of this Letter Agreement, fuel mileage deterioration shall be determined on the basis of the cruise fuel mileage performance of each Performance Retention Covered Aircraft in accordance with Attachment A.

Following the delivery of each Performance Retention Covered Aircraft to Customer by Boeing, and continuing until expiration of the Performance Retention Term, Customer shall record, analyze, and forward to Boeing cruise fuel mileage data obtained on such Performance Retention Covered Aircraft as specified in Attachment B (Basic Data).

5. Notice of Performance Deterioration.

Following evaluation of the Basic Data by Customer, if Customer believes the Fleet Average Fuel Mileage Deterioration is [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] of the Aircraft Commitment, Customer shall give Boeing prompt written notice thereof.

6. Election of Actions.

Upon Boeing's receipt of any notice that the Fleet Average Fuel Mileage Deterioration is within [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] of the Aircraft Commitment and evaluation of the Basic Data indicates that the Aircraft Commitment shall not be met, Boeing and Customer, as appropriate, will take the following actions:

6.1 Data.

Boeing will evaluate the Basic Data. At its option, Boeing may accomplish such evaluation by analysis of Customer's raw ACMS data or by obtaining additional performance data on such Performance Retention Covered Aircraft in accordance with Attachment B. Such additional data may include data acquired during revenue service with Boeing personnel aboard as observers. The Basic Data and any additional data obtained by Boeing in its evaluation shall be appropriately adjusted to reflect any material changes elected by Customer to the Performance Retention Covered Aircraft or engines which have occurred subsequent to delivery of the Performance Retention Covered Aircraft. Additionally, adjustments will be applied for any relevant factors as agreed by Customer and Boeing (e.g., inaccuracies in flight deck instrumentation, a sudden increase in deterioration that is attributed to a foreign object damage event such as severe hail and the additional rate of deterioration for Aircraft used for pilot training.) If Boeing and Customer are in disagreement as to such

evaluation of the Basic Data, such disagreement shall be resolved by good faith technical negotiation between the parties.

## 6.2 Surveys.

If Customer's cruise fuel mileage data is confirmed as correctly indicating the Fleet Average Fuel Mileage Deterioration is within [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] of the Aircraft Commitment, Boeing shall, at its option, perform or cause the Engine Manufacturer to perform (1) a survey of Customer's operating procedures for such Performance Retention Covered Aircraft and engines, and (2) a conformity survey of the airframe and engines of such Performance Retention Covered Aircraft. Boeing agrees that it will only perform such inspections at reasonable times and upon reasonable notice and shall not interfere with Customer's normal day-to-day operations.

## 6.3 Weight.

Boeing may request that Customer weigh such Performance Retention Covered Aircraft, in which event Customer agrees to weigh such Performance Retention Covered Aircraft in conjunction with its normally scheduled maintenance and will report its findings to Boeing.

## 6.4 Corrective Actions.

[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

## 6.5 Improvement Parts and Engine Refurbishment.

[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

## 7. Assignment.

Neither party may assign this Letter Agreement without the express written approval of the other party.

## 8. Exclusive Remedy.

Performance of the commitments made in this Letter Agreement by Boeing in accordance with the terms and conditions of this Letter Agreement is in substitution for all other damages and remedies recoverable by Customer from Boeing and shall constitute complete, full and final settlement and satisfaction of all Boeing's obligations and liabilities to Customer arising out of failure of a Performance Retention Covered Aircraft to comply with the Performance Retention Commitment. Customer hereby waives and releases all other rights, remedies, claims and causes of action against Boeing relating to the failure of

any Performance Retention Covered Aircraft to comply with the Performance Retention Commitment.

9. Confidential Treatment.

Boeing and Customer understand that certain commercial and financial information contained in this Letter Agreement are considered by Boeing and Customer as confidential. Customer and Boeing agree that they will treat this Letter Agreement and the information contained herein as confidential and will not, without the prior written consent of Boeing and Customer, disclose this Letter Agreement or any information contained herein to any other person or entity.

Very truly yours,

THE BOEING COMPANY

By \_\_\_\_\_

Its Attorney-In-Fact \_\_\_\_\_

ACCEPTED AND AGREED TO:

Date: \_\_\_\_\_, 2002

KLM ROYAL DUTCH AIRLINES

By \_\_\_\_\_

Its \_\_\_\_\_

Attachment A

Determination of Fleet Average Fuel Mileage Deterioration

For purposes of this Letter Agreement, the "Fleet Average Fuel Mileage Deterioration" is the average cruise fuel mileage deterioration of the Performance Retention Covered Aircraft. The determination of the Fleet Average Fuel Burn Deterioration will be based on fuel mileage deterioration of individual Performance Retention Covered Aircraft relative to their Baseline Performance Level cruise fuel mileage performance as defined below.

1. Boeing will provide Customer with the Boeing Airplane Performance Monitoring

Program (APM) for data analysis. For purposes of this Letter Agreement, the Model Reference Level cruise fuel mileage performance for the Performance Retention Covered Aircraft shall be as set forth in the APM.

2. During the first thirty (30) days after each Performance Retention Covered Aircraft begins revenue service (Initial Monitoring Period), Customer shall acquire cruise fuel mileage data using the methodology described in Attachment B. Customer will establish the average cruise fuel mileage level relative to the Model Reference Level (Baseline Performance Level) for each Performance Retention Covered Aircraft. The data sample for the Initial Monitoring Period shall be comprised of [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] to assure that a representative level of fuel mileage is established.

3. During each of the [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] following completion of the Initial Monitoring Period (Subsequent Monitoring Periods), Customer will continue to monitor the cruise fuel mileage of the Aircraft using the methodology described in Attachment B. During the Subsequent Monitoring Periods, one (1) Data Event should be recorded on each flight when it is practicable to do so. The monthly sample for each Performance Retention Covered Aircraft must include valid data for at least [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] For the purposes of this Letter Agreement, the "Current Performance Level" is defined as the average of the cruise fuel mileage data relative to the Model Reference Level acquired during the Subsequent Monitoring Period for each Performance Retention Covered Aircraft. In the event insufficient data is available for a given month, the Current Performance Level for such month shall be assumed the same as the previous month.

4. The "Current Deterioration" (expressed as a percentage) for each Performance Retention Covered Aircraft is the difference between the Current Performance Level and the Baseline Performance Level.

5. The "Fleet Average Fuel Mileage Deterioration" (expressed as a percentage) will be determined for each Subsequent Monitoring Period by summing the Current Deterioration values as determined in Paragraph 4 above for each Performance Retention Covered Aircraft in that calendar month and dividing by the number of Performance Retention Covered Aircraft that comprised the sample.

6. Customer will report the results of this analysis for the immediately preceding calendar quarter to Boeing within 20 days of the end of each calendar quarter following the date each Performance Retention Covered Aircraft is delivered.

#### Cruise Fuel Mileage Performance Determination

Cruise performance data shall be obtained by using the Airplane Condition

This data will be recorded during level flight cruise in steady state conditions. The following data will be obtained during each such data recording:

Initial C.G.  
Initial Takeoff Gross Weight  
Zero Fuel Weight  
Initial Fuel Quantity for each tank  
dVG/dt  
Time  
Ground Speed  
SAT  
TAT  
Mach  
CAS  
Altitude  
Gross Weight  
Primary Power Setting Parameter for each engine  
Fuel Flow for each engine  
EGT for each engine  
Latitude  
True Track  
Air-conditioning mass flow - left and right  
Electrical load for each engine  
Fuel used for each engine  
Fuel Quantity for each tank  
Fuel Density  
Fuel Temperature  
Fuel Totals; calculated and totalizer  
Control Surface Positions

Customer shall reduce and analyze data obtained from the revenue service recordings. Such analysis shall be in accordance with the methods set forth in the then current revision of Boeing Document D041A404, "The Determination of Cruise Fuel Mileage by Flight Testing Boeing Commercial Production Airplanes". Customer's analysis shall include the determination of the fuel mileage, thrust required, and fuel flow required relative to the Model Reference Level.

In addition, Customer will maintain records of factors relating to fuel mileage deterioration. These factors will include (a) engine history, cockpit instrumentation history and airframe history and condition of such Performance Retention Covered Aircraft, (b) pertinent Performance Retention Covered Aircraft maintenance and operational procedures used by Customer, (c) drag effects of any post delivery airframe and/or engine changes incorporated in such Performance Retention Covered Aircraft, (d) sudden shifts in engine EGT condition monitoring data, and (e) any other relevant factors.



6-1163-KSW-5147R10

KLM Royal Dutch Airlines  
Amsterdembeweg 55  
1182 GP Amstelveen  
The Netherlands

Subject: Special Matters.

Reference: Purchase Agreement No. 2399 (the Purchase Agreement) between  
The Boeing Company (Boeing) and KLM Royal Dutch Airlines  
(Customer) relating to Model 777-206ER aircraft (the Aircraft)

This letter agreement (Letter Agreement) amends and supplements the Purchase Agreement. All terms used but not defined in this Letter Agreement have the same meaning as in the Purchase Agreement.

[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

Credit Memoranda:

1. Special Credit Memorandum.

At the delivery of [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT], Boeing will issue to Customer a Special Credit Memorandum in the amount of [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] expressed in 2000 dollars and subject to escalation in accordance with the applicable airframe escalation provisions set forth in this Purchase Agreement. For the 777-300ER aircraft the Special Credit Memorandum will be in the amount of [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] expressed in 2000 dollars and subject to escalation in accordance with the applicable airplane escalation provisions set forth in the purchase agreement for such aircraft.

2. [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

3. Overhead Space Utilization and Large Cargo Door Credit Memorandum.

At the delivery [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT], Boeing will issue to Customer an Overhead Space Utilization and Large Cargo Door Credit Memorandum equivalent to [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A

REQUEST FOR CONFIDENTIAL TREATMENT] and subject to escalation in accordance with the applicable airframe escalation provisions set forth in this Purchase Agreement. [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

#### 4. Other Features Credit Memorandum

At the delivery [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT], Boeing will issue to Customer an Other Features Credit Memorandum in the amount [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] expressed in 2000 dollars and subject to escalation in accordance with the applicable airframe escalation provisions set forth in this Purchase Agreement. [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

5. [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

#### 6. Electronic Flight Bag (EFB) Side Displays Credit Memorandum.

To offset part of the features price of the Electronic Flight Bag option, at the delivery of each Aircraft and Purchase Right Aircraft, Boeing will issue to Customer an Electronic Flight Bag Side Displays Credit Memorandum in the amount of [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] expressed in 2000 dollars and subject to escalation in accordance with the applicable airframe escalation provisions set forth in this Purchase Agreement. [CONFIDENTIAL MATERIAL

OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT].

#### 7. Use of Credit Memoranda.

The credit memoranda described in paragraphs one through five, thirteen and fourteen and the Electronic Flight Bag Side Displays Credit Memorandum described in paragraph six, may be used for the purchase of Boeing goods and services or applied to the price of the Aircraft at the time of delivery but may not be used for advance payments. If Customer selects the 777-300ER, the credit memoranda described in paragraphs one through five and the Electronic Flight Bag Side Displays Credit Memorandum described in paragraph six may also be used for the purchase of General Electric goods and services. If Customer's account balances with Boeing are current, then at the request of Customer, the cash amount of the credit will be transferred directly to Customer's account in its designated bank.

8. [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

9. Deferral of Advance Payments.

[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT], Customer may elect at the time the Purchase Agreement for the Aircraft and for each Purchase Right Aircraft is signed to make advance payments for the Aircraft against the [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]:

Months Prior to Delivery -----	Standard Schedule -----	Deferred Schedule -----
-----------------------------------	----------------------------	----------------------------

[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

Customer has selected the standard advance payment schedule for this Purchase Agreement.

10. [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

11. Purchase Right Aircraft.

Customer has requested a [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]. To accommodate this request, Boeing will sell and deliver to Customer [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT].

Delivery positions will be subject to available positions.

12. [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

13. Taxi Weight - [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] Pounds Credit Memorandum.

At the delivery of each Aircraft, Boeing will issue to Customer a Maximum Taxi Weight Credit Memorandum in the amount of [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] expressed in 2000 dollars and subject to escalation in accordance with the applicable airframe escalation provisions set forth in this Purchase Agreement. [CONFIDENTIAL MATERIAL OMITTED AND FILED

SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

14. [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

15. Use of 777 Door Trainer and Slide for Evacuation Training.

Boeing will make available to Customer for [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] a 777 door trainer and a slide for evacuation training. These will be provided to Customer three months prior to the first delivery.

16. [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

17. PRRs Generating Retrofit.

Each PRR, which generates a retrofit action, by, for example a Service Letter or Service Bulletin (certification documents, labor and material) and is also a "Defect" as defined in Exhibit C, Product Assurance Document, of the AGTA is covered under the warranty provisions of the Product Assurance Document. Execution will be at Customer's discretion.

18. Overhead Flight Crew Rest (OFCR).

Boeing agrees to make option 2529B703A83 for the OFCR no charge to Customer for the Aircraft.

19. Pricing of Unique Changes.

[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

Non-Monetary Concessions:

In addition to the monetary concessions described above, Boeing will provide the following non-monetary concessions.

20. Flexibility.

[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

22. [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

23. Assignment of Concessions.

The concessions described above are provided as a financial accommodation to Customer in consideration of its becoming the operator of the Aircraft, and are not assignable, in whole or in part, without the prior written consent of Boeing.

24. Confidential Treatment. Customer and Boeing understand that certain commercial and financial information contained in this Letter Agreement is considered by Boeing and Customer as confidential. Customer and Boeing agree that they will treat this Letter Agreement and the information contained herein as confidential and will not, without the prior written consent of Boeing and Customer, disclose this Letter Agreement or any information contained herein to any other person or entity.

Very truly yours,

THE BOEING COMPANY

By \_\_\_\_\_

Its Attorney-In-Fact  
\_\_\_\_\_

ACCEPTED AND AGREED TO this

Date: \_\_\_\_\_, 2002

KLM ROYAL DUTCH AIRLINES

By \_\_\_\_\_

Its  
\_\_\_\_\_

6-1163-KSW-5191

KLM Royal Dutch Airlines  
Amsterdamseweg 55  
1182 GP Amstelveen  
The Netherlands

Subject: Customer Services Matters

Reference: Purchase Agreement No. 2399 (the Purchase Agreement) between  
The Boeing Company (Boeing) and KLM Royal Dutch Airlines

This letter agreement (Letter Agreement) amends and supplements the Purchase Agreement. All terms used but not defined in this Letter Agreement have the same meaning as in the Purchase Agreement.

1. Documentation and revision service and related pricing.

1.1 Maintenance documentation will be prepared in general accordance with ATA 100 specification rev. 33 and ATA 2100 specification rev. 01, or later. The Boeing digital data group intends to comply with the latest standards for ATA specification 2200, however they depend on the data produced by METS systems.

1.2 All documents listed in Exhibit CS1 paragraph 4 are provided at no charge including revision service, as applicable, for as long as Customer operates the Aircraft, with the following exceptions:

1.2.1 Illustrated Parts Catalog (IPC) - Revision service stops ninety days after delivery of the last Aircraft. Revision service is available for purchase and is currently priced at [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] (2001 STE) per revision. If Customer incorporates the leased aircraft into its manuals the price of [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] will only be charged once per revision.

1.2.2 Wiring Diagram Manual (WDM) - The WDM is provided free of charge under the Purchase Agreement until the last firm Aircraft delivers. After the last firm Aircraft delivers Boeing will incorporate wiring changes resulting from the incorporation of Boeing service bulletins at no charge to Customer upon receipt of notice from Customer of the incorporation of the service bulletin. Upon request, Boeing will incorporate wiring changes for other Customer modifications for a mutually agreeable fee.

2. Training Support. Customer may, at its option, substitute a person from its maintenance provider for one of Customer's student for the scheduled maintenance training courses. Other substitutes will be permitted on a case by case basis.

3. Swapping of Unused Support . Customer may trade any unused introductory support entitlements for up to twelve (12) months after delivery of the first Aircraft for goods and services produced by Customer Services including but not limited to:

- o [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

4. Digital Access. Customer will have the option to select digital access to

all available 777 on-line data. If Customer chooses digital data, they will not receive paper and microfilm media for the same 777 data.

5. Boeing Digital On-Line Access. Distribution of current formats will continue for nine (9) months from the date that Boeing Digital On-Line Access is first provided. To assist Customer's transition to on-line access, for documents available in CD format Boeing will include up to five (5) Boeing Digital Technical Document Compact Disk (CD) back up copies. The CD's will be delivered at the next revision cycle. The policy for CD back up copies will be re-evaluated on an annual basis to assess the continued business need.

6. Model 777-206ER Weights and Balance Manual. Boeing will provide a preliminary copy of the Customer's Weights and Balance Manual approximately six weeks prior to the first Aircraft delivery. A representative copy will be provided six (6) months before the first Aircraft delivery to Customer and, if possible, will include the overhead crew rest.

7. Schedule of Inspections. All FAA, Boeing, Customer and, if required, U.S. Customs Bureau inspections will be scheduled by Boeing for completion prior to delivery or departure of the Aircraft. Customer will be informed of such schedules.

8. STAR Footprint Training. Boeing will train [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] Customer crews using the STAR footprint. Boeing will be responsible for obtaining the JAA approval for the STAR Program. Boeing and Customer will work together to get the STAR footprint approved by the Dutch authorities and to incorporate any Customer unique requirements. For avoidance of doubt this is above the pro forma [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] crews of flight crew training Customer receives.

Scheduling will be by mutual agreement taking into consideration the first delivery date.

9. Manuals for Leased Aircraft. With permission from [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT], Customer may have the manuals for their leased aircraft incorporated into Customer's suite of manuals for the Aircraft and then, at the conclusion of the lease, have them removed from Customer's manuals and incorporated into the [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] manuals. Customer will be responsible for any costs associated with this addition and removal. Customer must notify Boeing of its intent to incorporate the [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] manuals into Customer's suite by [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT].

10. [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

11. Assignment. This Letter Agreement is provided as an accommodation to Customer in consideration of Customer's becoming the operator of the Aircraft, and cannot be assigned, in whole or in part, without the prior written consent of Boeing.

12. Confidential Treatment. Customer and Boeing understand that certain commercial and financial information contained in this Letter Agreement is considered by Customer and Boeing as confidential. Customer and Boeing agree that it will treat this Letter Agreement and the information contained herein as confidential and will not, without the prior written consent of Boeing and Customer, disclose this Letter Agreement or any information contained herein to any other person or entity.

Very truly yours,

THE BOEING COMPANY

By \_\_\_\_\_

Its Attorney-In-Fact \_\_\_\_\_

ACCEPTED AND AGREED TO this

Date: \_\_\_\_\_, 2002

KLM ROYAL DUTCH AIRLINES

By \_\_\_\_\_

Its \_\_\_\_\_

6-1163-KSW-5192

KLM Royal Dutch Airlines  
Amsterdamseweg 55  
1182 GP Amstelveen  
The Netherlands

Subject: Purchase Rights



Reference: Purchase Agreement No. 2399 (the Purchase Agreement) between The Boeing Company (Boeing) and KLM Royal Dutch Airlines (Customer) relating to Model 777-206ER aircraft (the Aircraft)

This letter agreement (Letter Agreement) amends and supplements the Purchase Agreement. All terms used but not defined in this Letter Agreement have the same meaning as in the Purchase Agreement.

1. Purchase Right Aircraft.

Boeing will sell to Customer [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

2. Price.

2.1. 777-200ER Prices.

2.1.1. Airframe Base Price and Optional Features Prices. The Airframe Base Price and Optional Features will [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

2.1.1. Engine Price. The engine price for aircraft purchased pursuant to purchase rights will be adjusted to the engine manufacturer's then-current price as of the date of execution of the definitive purchase agreement, unless General Electric agrees to base price protection for the engines.

2.2. 777-300ER Prices. Airframe Base Price (including engine) and Optional Features Prices. The established Aircraft Base Price (airframe and engines) for the 777-300ER is [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] expressed in 2000

dollars. The Optional Features Prices will be established at the time Customer's initial configuration becomes final.

Currently all options for all 777 minor models are contained in the same 777 Standard Selections Catalog. The Catalog identifies which options are available for which minor model (777-200, 777-200ER, 777-300ER, etc.). The 777 Configuration Specification has all the 777 minor models included. Any differences are noted by separate appendices for the various 777 minor models.

2.3. Other 777 Models Prices. For 777 models not discussed in paragraph 2.1 and 2.2, the Airframe Base Price and Optional Features Prices will be established at the time of Customer's initial configuration. The engine price purchased pursuant to purchase rights will be adjusted to the engine manufacturer's then-current price as of the date of execution of the definitive

purchase agreement, unless the engine manufacturer agrees to base price protection for the engines.

2.4 Development Changes and Regulatory Requirements. Customer will remain responsible for the price of Development Changes and Regulatory Requirements (Manufacturer Changes and Operator Changes) that occur up to the time a Purchase Right Aircraft becomes firm.

#### 2.5. Escalation Adjustments.

2.5.1 General. The Airframe Price and price of Optional Features for the Purchase Right Aircraft will be the escalation provisions in Supplemental Exhibit AE1. The Engine Price for Purchase Right Aircraft will be adjusted to the engine manufacturer's then-current escalation provisions as of the date of execution of the definitive agreement for the Purchase Right Aircraft.

2.5.2. Purchase in Block of Four. Should Customer purchase a block of four Purchase Rights Aircraft that deliver within a [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] period (the Block Aircraft), the Block Aircraft will be covered by a [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT].

### 3. Concessions.

3.1. Credit Memoranda. All 777-200ER Purchase Right Aircraft will have the following credit memoranda as more fully described in Letter Agreement [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

3.2. [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]. The [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] as provided in Letter Agreement 6-1163-KSW-5147R10 paragraph 16 will apply to [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT].

3.3. [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

### 4. Delivery Positions.

4.1. If Customer requests a specific delivery position (year/month) (Requested Delivery Position) [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] or more months prior to that Requested Delivery Position, Boeing will contract for delivery in the requested year/month.

4.2. If Customer requests a Requested Delivery Position [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] prior to the Requested Delivery Position, Boeing will contract for delivery within the same calendar quarter as the requested month.

4.3. Customer may request a Requested Delivery Position at [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]. In that case Boeing will contract for delivery in the requested month subject to availability of the requested position considering sales commitments and production constraints at that time.

5. Exercise of Purchase Right. Customer will notify Boeing in writing of its desire to exercise a purchase right and the preferred delivery position. Once the delivery position is established the parties will enter into a purchase agreement for the Purchase Right Aircraft within [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT].

6. Option Aircraft. [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] Option exercise will be with mutual agreement in writing twenty-four months prior to the scheduled delivery month of the option aircraft. At the time an option is exercised Customer may elect to replace the Option Aircraft by converting a Purchase Right Aircraft to an Option Aircraft on the same terms and conditions described above.

7. Assignment. The Credit Memoranda described in this Letter Agreement are provided as a financial accommodation to Customer in consideration of Customer's becoming the operator of the Aircraft, and cannot be assigned, in whole or in part, without the prior written consent of Boeing.

8. Confidential Treatment. Customer and Boeing understand that certain commercial and financial information contained in this Letter Agreement is considered by Boeing and Customer as confidential. Customer and Boeing agree that they will treat this Letter Agreement and the information contained herein as confidential and will not, without the prior written consent of Boeing and Customer, disclose this Letter Agreement or any information contained herein to any other person or entity.

Very truly yours,

THE BOEING COMPANY

By \_\_\_\_\_

Its Attorney-In-Fact \_\_\_\_\_

ACCEPTED AND AGREED TO this

Date: \_\_\_\_\_, 2002

KLM ROYAL DUTCH AIRLINES

By \_\_\_\_\_

Its \_\_\_\_\_

6-1163-KSW-5194

KLM Royal Dutch Airlines  
Amsterdamseweg 55  
1182 GP Amstelveen  
The Netherlands

Subject: Promotional Support

Reference: Purchase Agreement No. 2399 (the Purchase Agreement) between  
The Boeing Company (Boeing) and KLM Royal Dutch Airlines  
(Customer) relating to Model 777-206ER aircraft (the  
Aircraft)

This letter agreement (Letter Agreement) amends and supplements the Purchase Agreement. All terms used but not defined in this Letter Agreement have the same meaning as in the Purchase Agreement.

[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

Boeing's obligation to provide the support will commence at the time the purchase of the Aircraft becomes firm (not subject to cancellation by either party) and will terminate [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] from the date the first Aircraft is delivered to Customer or as extended by mutual agreement. There will be no cash payments or other support in lieu thereof. Following the execution of this Letter Agreement, a Boeing Airline Promotion representative will meet with Customer's designated representative to discuss the extent, selection, scheduling, and funds disbursement process for the program.

Very truly yours,

THE BOEING COMPANY

By \_\_\_\_\_

Its Attorney-In-Fact  
\_\_\_\_\_

ACCEPTED AND AGREED TO this

Date: \_\_\_\_\_, 2002

KLM ROYAL DUTCH AIRLINES

By \_\_\_\_\_

Its \_\_\_\_\_

6-1163-KSW-5195

KLM Royal Dutch Airlines  
Amsterdamseweg 55  
1182 GP Amstelveen  
The Netherlands

Subject: [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

Reference: Purchase Agreement No. 2399 (the Purchase Agreement) between The Boeing Company (Boeing) and KLM Royal Dutch Airlines (Customer) relating to Model 777-206ER aircraft (the Aircraft)

This Letter Agreement amends and supplements the Purchase Agreement. All terms used but not defined in this Letter Agreement have the same meaning as in the Purchase Agreement.

1. [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]
2. [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]
3. [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]
4. [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND

5. Assignment. This Letter Agreement is provided as an accommodation to Customer in consideration of Customer's becoming the operator of the Aircraft, and cannot be assigned, in whole or in part, without the prior written consent of The Boeing Company.

6. Confidential Treatment. Customer understands that certain commercial and financial information contained in this Letter Agreement are considered by Boeing as confidential. Customer agrees that it will treat this Letter Agreement and the information contained herein as confidential and will not, without the prior written consent of Boeing, disclose this Letter Agreement or any information contained herein to any other person or entity.

Very truly yours,

THE BOEING COMPANY

By \_\_\_\_\_

Its Attorney-In-Fact  
\_\_\_\_\_

ACCEPTED AND AGREED TO this

Date: \_\_\_\_\_

KLM ROYAL DUTCH AIRLINES

By \_\_\_\_\_

Its  
\_\_\_\_\_

ATTACHMENT 1

[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

6-1163-KSW-5202

KLM Royal Dutch Airlines  
Amsterdamseweg 55  
1182 GP Amstelveen  
The Netherlands

Subject: [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

Reference: Purchase Agreement No. 2399 (the Purchase Agreement) between The Boeing Company (Boeing) and KLM Royal Dutch Airlines (Customer) relating to Model 777-206ER aircraft (the Aircraft)

This letter agreement (Letter Agreement) amends and supplements the Purchase Agreement. All terms used but not defined in this Letter Agreement have the same meaning as in the Purchase Agreement.

1. [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

2. [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

3. Assignment. This Letter Agreement is provided as a financial accommodation to Customer in consideration of Customer's becoming the operator of the Aircraft, and cannot be assigned.

4. Confidential Treatment. Customer and Boeing understands that certain commercial and financial information contained in this Letter Agreement and attachment(s) hereto are considered by Customer and Boeing as confidential. Customer and Boeing agree that they will treat this Letter Agreement and the information contained herein as confidential and will not, without the prior written consent of Customer and Boeing, disclose this Letter Agreement or any information contained herein to any other person or entity.

Very truly yours,

THE BOEING COMPANY

By \_\_\_\_\_

Its \_\_\_\_\_ Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: \_\_\_\_\_, 2002

KLM ROYAL DUTCH AIRLINES

By  
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Its  
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6-1163-KSW-5203

KLM Royal Dutch Airlines  
Amsterdamseweg 55  
1182 GP Amstelveen  
The Netherlands

Subject: Configuration Matters

Reference: Purchase Agreement No. 2399 (the Purchase Agreement) between  
The Boeing Company (Boeing) and KLM Royal Dutch Airlines  
(Customer) relating to Model 777-206ER aircraft (the  
Aircraft)

This letter agreement (Letter Agreement) amends and supplements the Purchase Agreement. All terms used but not defined in this Letter Agreement have the same meaning as in the Purchase Agreement.

1. Development Changes. Boeing recognizes Customer's wish to receive early notification of Development Changes (PRRs) applicable to its Aircraft to evaluate the effect on maintenance and operation in a timely manner. In addition to the notices required by Sections 4.1 and 4.3 of the AGTA, Boeing will furnish Customer written notice of PRRs within [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] after Boeing's commitment to incorporate them into production. Notice will include: description of change, list of applicable aircraft effectivities and, if appropriate, graphics. If Customer provides Boeing written notification within [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] of receipt of a PRR notice that Customer does not want the PRR, Boeing will investigate reversal of the PRR either by proposing a priced master change for Customer's consideration or by deleting Customer's Aircraft effectivity from the PRR at no charge. There can be no reversal for PRRs that: (1) are reasonably required for Boeing to maintain efficient production of all aircraft of that model type, (ii) would result in the loss of any common type rating, (iii) are required to replace obsolete parts or (iv) are imposed by either the Manufacturer's or Customer's respective regulatory agency to be incorporated prior to delivery of the Aircraft.

2. [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]



3. 180 Minutes ETOPS. The 777 will be delivered with type design approval for 180 minute ETOPS.

4. JAA Changes.

4.1 JAA Type Certification. The Boeing model 777 has already obtained its JAA Type Certification.

4.2 JAA Manufacturing Changes. A JAA Manufacturing Change is defined as any change to an aircraft, data relating to an aircraft, or testing of an aircraft required by the JAA to obtain an Export Certificate of Airworthiness. Boeing agrees to incorporate into Customer's Aircraft all JAA Manufacturer Changes required to be incorporated into the Aircraft by the JAA at the time of Aircraft delivery. Customer will pay Boeing's charge for incorporating all JAA Manufacturer Changes When a manufacturing change is both a JAA Manufacturer Change and a FAA Manufacturer Change the provisions of Article 3.2.2 and 3.2.3 of the AGTA will take precedence. At the present time there are no known JAA Manufacturer Changes that will impact the price of the Aircraft; nor based, on our experience to date, does Boeing foresee any future divergency.

4.3 JAR OPS 1 (JAR OPS Operator Changes). Boeing will deliver each Aircraft with JAR OPS Operator Changes incorporated or, at Boeing's option, with suitable provisions for the incorporation of such JAR OPS Operator Changes, and Customer will pay Boeing's applicable charges.

5. Assignment. The concessions described above are provided as a financial accommodation to Customer in consideration of Customer's becoming the operator of the Boeing aircraft, and cannot be assigned, in whole or in part, without the prior written consent of The Boeing Company.

6. Confidential Treatment. Customer and Boeing understand that certain commercial and financial information contained in this Letter Agreement is considered by Boeing and Customer as confidential. Customer and Boeing agree that they will treat this Letter Agreement and the information contained herein as confidential and will not, without the prior written consent of Boeing and Customer, disclose this Letter Agreement or any information contained herein to any other person or entity.

Very truly yours,

THE BOEING COMPANY

By

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Its Attorney-In-Fact

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ACCEPTED AND AGREED TO this

Date: \_\_\_\_\_, 2002

KLM ROYAL DUTCH AIRLINES

By \_\_\_\_\_

Its \_\_\_\_\_

6-1163-KSW-5204

KLM Royal Dutch Airlines  
Amsterdamseweg 55  
1182 GP Amstelveen  
The Netherlands

Subject: [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

Reference: Purchase Agreement No. 2399 (the Purchase Agreement) between The Boeing Company (Boeing) and KLM Royal Dutch Airlines (Customer) relating to Model 777-206ER aircraft (the Aircraft)

This letter agreement (Letter Agreement) amends and supplements the Purchase Agreement. All terms used but not defined in this Letter Agreement have the same meaning as in the Purchase Agreement.

1. [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

2. [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

3. [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

4. [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

5. [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

6. [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

7. [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

8. Confidential Treatment.

Customer and Boeing understand that certain commercial and financial information contained in this Letter Agreement is considered by Boeing and Customer as confidential. Customer and Boeing agree that they will treat this Letter Agreement and the information contained herein as confidential and will not, without the prior written consent of Boeing and Customer, disclose this Letter Agreement or any information contained herein to any other person or entity.  
Very truly yours,

THE BOEING COMPANY

By \_\_\_\_\_

Its Attorney-In-Fact  
\_\_\_\_\_

ACCEPTED AND AGREED TO this

Date: \_\_\_\_\_, 2002

KLM ROYAL DUTCH AIRLINES

By \_\_\_\_\_

Its  
\_\_\_\_\_

6-1163-KSW-5207

KLM Royal Dutch Airlines  
Amsterdamseweg 55  
1182 GP Amstelveen  
The Netherlands

Subject: Contract Matters

Reference: Purchase Agreement No. 2399 (the Purchase Agreement) between The Boeing Company (Boeing) and KLM Royal Dutch Airlines (Customer) relating to Model 777-206ER aircraft (the

This letter agreement (Letter Agreement) amends and supplements the Purchase Agreement. All terms used but not defined in this Letter Agreement have the same meaning as in the Purchase Agreement.

1. Information Sharing. Once a proprietary information agreement is signed by all parties, Boeing agrees that Customer [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] Upon request, other sharing may be approved on a case by case basis with written consent from Boeing.
2. Delivery Discussions. Delivery discussions will address conditions with the delivering of the Aircraft including but not limited to the reduction in price to address options not completed during production.
3. CAA-NL Validation. To export the Aircraft into The Netherlands Boeing must satisfy CAA-NL Type Certificate Number T-085-95 dated 20 May 1998. This is the only requirement to validate the Aircraft under JAA rules.
4. In addition to the the delivery notice provided under the AGTA , Boeing will provide KLM with a preliminary delivery date [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] months prior to the contractual delivery month. This notice is being provided for informational purposes only and does not affect the contractual requirement that the Aircraft be delivered within the delivery month.
5. [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]
6. New Aircraft Invoices. All invoices related to a new aircraft purchase will be sent only to KLM Corporate Fleet Development.
7. [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]
8. Supply chain solutions. Boeing will offer to Customer a proposal for a 777 Spares Exchange Program and will begin discussions with Customer on adding 777 consumables to the current GAIN Program
9. Special Aircraft Test Requirements. Notwithstanding the language in Article 5.5 of the AGTA, Boeing agrees to provide notice to Customer of any flight and ground test on Customer's Aircraft required to obtain or maintain the Type Certification or Certificate of Airworthiness for aircraft. In addition Boeing will also obtain consent from Customer prior to such testing, if the testing is not for a Customer's Aircraft.
10. Assignment. This Letter Agreement is provided as an accommodation to

Customer in consideration of Customer's becoming the operator of the Aircraft, and cannot be assigned, in whole or in part, without the prior written consent of The Boeing Company.

11. Confidential Treatment. Customer understands that certain commercial and financial information contained in this Letter Agreement are considered by Boeing as confidential. Customer agrees that it will treat this Letter Agreement and the information contained herein as confidential and will not, without the prior written consent of Boeing, disclose this Letter Agreement or any information contained herein to any other person or entity.

Very truly yours,

THE BOEING COMPANY

By \_\_\_\_\_

Its Attorney-In-Fact  
\_\_\_\_\_

ACCEPTED AND AGREED TO this

Date: \_\_\_\_\_, 2002

KLM ROYAL DUTCH AIRLINES

By \_\_\_\_\_

Its  
\_\_\_\_\_

CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Koninklijke Luchtvaart Maatschappij N.V. (KLM Royal Dutch Airlines) (the "COMPANY") on Form 20-F for the period ended March 31, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "REPORT"), I, Leo M. van Wijk, President & Chief Executive Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) the Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

June 12, 2003

LEO M. VAN WIJK

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Leo M. van Wijk  
President & Chief Executive Officer

CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Koninklijke Luchtvaart Maatschappij N.V. (KLM Royal Dutch Airlines) (the "COMPANY") on Form 20-F for the period ended March 31, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "REPORT"), I, Robert A. Ruijter, Managing Director & Chief Financial Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) the Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

June 12, 2003

ROBERT A. RUIJTER

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Robert A. Ruijter  
Managing Director & Chief Financial Officer