



# KLM Royal Dutch Airlines

(Koninklijke Luchtvaart Maatschappij N.V.)

Amstelveen, The Netherlands

At present 39,4 % held by the State of the Netherlands

10521

## SFr. 300,000,000.- 5 3/4 % Undated, Subordinated Bonds 1986 ff

- Denominations :** SFr. 5,000.- and SFr. 100,000.-
- Issue Price :** 100 % (+ 0,30 % tax on negotiation of securities)
- Life :** Until the liquidation of KLM Royal Dutch Airlines
- Interest :** 5 3/4 %, payable annually in arrears, on May 15
- Redemption :**
- Not later than two business days after KLM's General Meeting of Shareholders has resolved to liquidate the company.
  - These Bonds can only be called in accordance with the provisions of Section 5, 7 or 10 and each purchaser or holder of any Bond or Coupon, whether upon original issue or upon transfer or assignment thereof accepts and agrees to be bound by such provisions.
- Ownership :** KLM is at present 39,4 % held by the State of the Netherlands. For more information see page 10 « Share ownership by the State of the Netherlands ».
- Settlement Date :** May 15, 1986
- Delivery of Bonds :** As soon as possible

The Institutions named below have purchased these Bonds and offer them for public subscription until May 2, 1986, noon.

### KREDIETBANK (SUISSE) S.A.

#### NORDFINANZ-BANK ZÜRICH

CLARIDEN BANK  
LLOYDS BANK Pic  
AMRO BANK UND FINANZ  
BANK CIAL (SCHWEIZ)  
- Crédit Industriel d'Alsace et de Lorraine AG -

Armand von Ernst & Cie AG  
Banco di Roma per la Svizzera  
Banque Générale du Luxembourg (Suisse) S.A.  
Banque Indosuez - Succursales de Suisse -  
Banque Morgan Grenfell en Suisse S.A.  
Caisse d'Epargne du Valais  
Fuji Bank (Schweiz) AG  
Gewerbebank Baden  
Handelsfinanz Midland Bank  
Hypothekar- und Handelsbank Winterthur  
Maerki, Baumann & Co. AG  
Sparkasse Schwyz

#### CITICORP INVESTMENT BANK (SWITZERLAND)

BANCA DEL GOTTARDO  
HANDELSBANK N.W.  
BANK VON ERNST & CIE AG  
BANQUE PRIVÉE S.A.  
LA ROCHE & CO.  
SCHWEIZERISCHE HYPOTHEKEN- UND HANDELSBANK  
BANCA DELLA SVIZZERA ITALIANA  
WIRTSCHAFTS- UND PRIVATBANK

Aargauische Hypotheken- und Handelsbank  
Banque Vaudoise de Crédit  
Bank in Gossau  
Bank in Menziken  
Bank vom Linthgebiet  
Regiobank beider Basel  
EKO Hypothekar- und Handelsbank  
Luzerner Landbank AG  
Banque Romande  
B.E.G. - Bank Europäischer Genossenschaftsbanken  
Banque CIC Union Européenne en Suisse S.A.  
Bank in Liechtenstein AG

Algemene Bank Nederland (Schweiz)  
BA Finance (Suisse) S.A.  
Bank of Tokyo (Schweiz) AG  
Banque Gutzwiller, Kurz, Bungener S.A.  
Banque Paribas (Suisse) S.A.  
Chase Manhattan Bank (Switzerland)  
Crédit Commercial de France (Suisse) S.A.  
Dai-ichi Kangyo Bank (Schweiz) AG  
First Chicago S.A.  
LTCB (Schweiz) AG  
Manufacturers Hanover (Suisse) S.A.  
Mees & Hope Finanzgesellschaft AG  
Merrill Lynch Bank (Suisse) S.A.

Mitsubishi Trust Finance (Switzerland) Ltd.  
Mitsui Finanz (Schweiz) AG  
Morgan Guaranty (Switzerland) Ltd.  
Nederlandsche Middenstandsbank (Suisse) S.A.  
Nippon Kangyo Kakumaru (Suisse) S.A.  
Nomura (Switzerland) Ltd.  
Sanwa Finanz (Schweiz) AG  
Société Bancaire Julius Baer S.A.  
Soditic S.A.  
Sumitomo International Finance AG  
The Nikko (Switzerland) Finance Co. Ltd.  
The Royal Bank of Canada (Suisse)

By virtue of a resolution of the Management Board and of the Supervisory Board of the KLM Royal Dutch Airlines dated March 11, 1986, respectively March 27, 1986 and pursuant to a Public Bond Issue Agreement dated as of April 25, 1986 (« The Agreement ») with Kredietbank (Suisse) S.A. (« Kredietbank ») and a consortium of banks (hereinafter together with Kredietbank referred to as the « Banks »), KLM Royal Dutch Airlines (« the Company ») has resolved to issue on the Swiss capital market a public issue of undated Subordinated Bonds 1986 et seq. of Swiss Francs 300,000,000.— nominal (hereinafter called the « Bonds »).

Payment of interest and principal, plus premium (if any), shall be made without deduction of any taxes, imposts or duties, present or future, which are required to be withheld at source by the Company, which are levied or imposed or to be levied or imposed in the Netherlands, or any political subdivision of or taxing authority of or within the Netherlands, to the extent provided in the Bonds.

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## USE OF PROCEEDS

The net proceeds to the Company from the sale of the Bonds will be used to finance the Company's capital expenditure program.

## TERMS OF THE BONDS

The terms of the Bonds, which shall be an integral part of the Agreement and which govern the Bonds are the following (hereinafter called the « Terms of the Bonds »):

### 1. Form and Denomination

The Bonds will be issued in bearer form in the denominations of Swiss Francs 5'000.- and Swiss Francs 100'000.- nominal amount each.

### 2. Interest

The Bonds will bear interest from May 15, 1986 (the « Payment Date ») at the rate of 5  $\frac{3}{4}$  % (five and three quarters of one per cent) per annum, payable annually in arrears on May 15 of each year (the « Coupon Due Date »). The first payment shall be made on May 15, 1987.

### 3. Repayment

The Company undertakes to repay the principal amount of the Bonds without any previous notice not later than two business days after its General Meeting of Shareholders has resolved to liquidate the Company (the « Repayment Date »). Each and every holder of a Bond hereby agrees expressly that, subject to Section 10 hereof, he waives any right to terminate the indebtedness under the Bond prematurely.

### 4. Status and Subordination to Senior Indebtedness

The Company, for itself, its successors and assigns covenants and agrees, and each holder of Bonds or of any coupons appertaining thereto, by his acceptance thereof likewise covenants and agrees, that the payment on the Bonds and coupons is hereby expressly subordinated, to the extent and in the manner hereinafter set forth in right of payment to the prior payment in full of all « Senior Indebtedness » (as defined hereafter).

The term « Senior Indebtedness » shall mean the principal, premium, if any, and unpaid interest (including interest accrued after the commencement of any reorganization or bankruptcy proceeding), fees, expenses, costs of collection and costs of preserving, protecting, policing or foreclosing on any real or personal property that has been pledged, hypothecated, mortgaged or in which a security interest may have been granted, and any other present and future indebtedness which is not expressly subordinated to or ranking *pari passu* with the Bonds. « Senior Indebtedness » shall not include the 6  $\frac{1}{4}$  % SFr. Subordinated Bonds Due November 22, 1992 (the « 6  $\frac{1}{4}$  % SFr. Bonds »), the 6  $\frac{3}{4}$  % Dfl. Subordinated Debenture Loan Due 1989/1993 (the « 6  $\frac{3}{4}$  % Dfl. Bonds ») the 4  $\frac{1}{2}$  % Dfl. Subordinated Debenture Loan Due 1996/2000 (the « 4  $\frac{1}{2}$  % Dfl. Bonds ») and the 6  $\frac{1}{8}$  % SFr. undated Subordinated Bonds 1985 (the « 6  $\frac{1}{8}$  % SFr. Bonds ») of the Company with respect to which the Bonds and coupons shall rank *pari passu* or any other present or future indebtedness which is subordinated to Senior Indebtedness in substantially the same manner as the Bonds and coupons (the Bonds and coupons, the 6  $\frac{1}{4}$  % SFr. Bonds, the 6  $\frac{3}{4}$  % Dfl. Bonds, the 4  $\frac{1}{2}$  % Dfl. Bonds, the 6  $\frac{1}{8}$  % SFr. Bonds and such other indebtedness being referred to herein as « *pari passu* Indebtedness »).

Upon any distribution of assets of the Company upon any dissolution, winding up, liquidation or reorganization of the Company, whether in bankruptcy, insolvency, reorganization or receivership proceedings or upon an assignment for the benefit of creditors or any other sequestering of the assets and liabilities of the Company or otherwise,

- a) the holders of all Senior Indebtedness shall be entitled to receive payment in full (including payment of or provision for any unmatured, contingent or unliquidated Senior Indebtedness) before the holders of Bonds or coupons are entitled to receive any payment thereon; and
- b) any payment or distribution of assets of the Company of any kind or character, whether in cash, property or securities, to which the holders of Bonds or coupons would be entitled except for the provisions of this Section 4 shall be paid by the liquidating trustee or agent or other person making such payment or distribution, whether a trustee in bankruptcy, a receiver or liquidating trustee or otherwise, directly to the holders of Senior Indebtedness or their representative or representatives or to the trustee or trustees under any indenture under which any instruments evidencing any of such Senior Indebtedness may have been issued, ratably according to the aggregate amounts remaining unpaid on account of the principal of, premium, if any, and interest on the Senior Indebtedness held or represented by each, to the extent necessary to make payment in full of all Senior Indebtedness remaining unpaid, after giving effect to any concurrent payment or distribution to the holders of such Senior Indebtedness; and

c) in the event that, notwithstanding the foregoing, any payment or distribution of assets of the Company of any kind or character, whether in cash, property or securities, shall be received by the holders of Bonds or coupons before all Senior Indebtedness is paid in full, such payment or distribution shall be paid over to the holders of such Senior Indebtedness or their representative or representatives or to the trustee or trustees, under any indenture under which any instruments evidencing any of such Senior Indebtedness may have been issued, ratably as aforesaid, for application to the payment of all Senior Indebtedness remaining unpaid until all such Senior Indebtedness shall have been paid in full, after giving effect to any concurrent payment or distribution to the holders of such Senior Indebtedness.

The consolidation of the Company with, or the merger of the Company into, another corporation or the liquidation or dissolution of the Company following the sale or conveyance of its property or assets as an entirety or substantially as an entirety, to another corporation upon the terms and conditions provided in Section 9 herein shall not be deemed a dissolution, winding up, liquidation or reorganization of the Company for the purpose of this Section 4 if such other corporation shall, as a part of such consolidation, merger, sale or conveyance, comply with the conditions stated in Section 9.

Subject to the payment in full of all due Senior Indebtedness, holders of Bonds or coupons shall be subrogated pro rata (based on respective amounts paid over for the benefit of the holders of Senior Indebtedness) with the holders of other *pari passu* Indebtedness to the rights of the holders of Senior Indebtedness to receive payments or distributions of cash, property or securities of the Company applicable to Senior Indebtedness until the Bonds or coupons shall be paid in full and no such payments or distributions to the holders of Bonds or coupons of cash, property or securities otherwise distributable to the holders of Senior Indebtedness shall, as between the Company, its creditors other than the holders of Senior Indebtedness, and the holders of Bonds or coupons be deemed to be a payment by the Company to the holders of Bonds or coupons, or for their account. It is understood that the provisions of this Section 4 are and are intended solely for the purpose of defining the relative rights of the holders of Bonds or coupons and the holders of other *pari passu* Indebtedness, on the one hand, and the holders of Senior Indebtedness, on the other hand.

Nothing contained in this Section 4 is intended to or shall impair, as between the Company, its creditors other than the holders of Senior Indebtedness, and the holders of Bonds or coupons, the obligation of the Company, which is unconditional and absolute, to pay to the holders of Bonds or coupons as and when the same shall become due and payable in accordance with the terms hereof, or to affect the relative rights of the holders of Bonds or coupons and creditors of the Company other than the holders of Senior Indebtedness and of other *pari passu* Indebtedness, nor shall anything in this Section 4 prevent the holders of Bonds or coupons from exercising all remedies otherwise permitted by applicable law upon default under the Bonds, subject to the rights, if any, under this Section 4 of the holders of Senior Indebtedness in respect of cash, property or securities of the Company received upon the exercise of any such remedy. Upon any payment or distribution of assets of the Company referred to in this Section 4, the holders of Bonds or coupons shall be entitled to rely upon any order or decree of a court of competent jurisdiction in which such dissolution, winding up, liquidation or reorganization proceedings are pending or upon a certificate of the liquidating trustee or agent or other person making any distribution to the holders of Bonds or coupons for the purpose of ascertaining the persons entitled to participate in such distribution, the holders of Senior Indebtedness and other indebtedness of the Company, the amount thereof or payable thereon, the amount or amounts paid or distributed thereon and all other facts pertinent thereto or to this Section 4.

If holders of Bonds or coupons do not file a proper claim or proof of debt in the form required in any proceeding referred to above prior to 30 days before the expiration of the time to file such claim in such proceeding, then the holder of any Senior Indebtedness is hereby authorized, and has the right, but shall not be required, to file an appropriate claim or claims for or on behalf of the holders of Bonds and coupons.

No payment by the Company on the Bonds and coupons (whether at maturity, upon redemption or repurchase, or otherwise) shall be made if, at the time of such payment or immediately after giving effect thereto, (a) there shall exist a default in the payment of principal, premium if any, sinking fund or interest with respect to any Senior Indebtedness, or (b) there shall have occurred an event of default (other than a default in the payment of principal, premium, if any, sinking fund or interest) with respect to any Senior Indebtedness, as defined therein or in the instrument under which the same is outstanding, permitting the holders thereof or any trustee under any such instrument to accelerate the maturity thereof, and such event of default shall not have been cured or waived or shall not have ceased to exist (except payments made if the Bonds are redeemed or acquired prior to the happening of such default or event of default).

Nothing contained in the Bonds shall affect the obligation of the Company to make, or prevent the Company from making, at any time, except as provided in this Section 4, payments on the Bonds and coupons.

Any renewal or extension of the time of payment of any Senior Indebtedness or the exercise by the holders of Senior Indebtedness of any of their rights under any instrument creating or evidencing Senior Indebtedness, including without limitation the waiver of default thereunder, may be made or done all without notice to or assent from the holders of Bonds or coupons.

No compromise, alteration, amendment, modification, extension, renewal or other change of, or waiver, consent or other action in respect of any liability or obligation under or in respect of, or of any of the terms, covenants or conditions of any indenture or other instrument under which any Senior Indebtedness is outstanding or of such Senior Indebtedness, whether or not such release is in accordance with the provisions of any applicable document, shall in any way alter or affect any of the provisions of this Section 4 or any other part of the Terms of the Bonds relating to the subordination hereof.

No rights of any present or future holder of any Senior Indebtedness to enforce the subordination herein shall at any time or in any way be prejudiced or impaired by any act or failure to act on the part of the Company or by any non-compliance by the Company with the terms, provisions and covenants of the Terms of the Bonds, regardless of any knowledge thereof any such holder may have or be otherwise charged with.

## **5. Purchase of Bonds and early redemption of Bonds**

- 5.1. Nothing herein shall be deemed to prohibit the Company or any subsidiary from acquiring any of the Bonds in the open market, in private transactions or otherwise.
- 5.2. The Company is entitled to call at par all, but not part of, the outstanding Bonds for early redemption (a) on the 10th anniversary of the Payment Date namely May 15, 1996 at a price of 102 per cent, and (b) thereafter on each fifth anniversary of the Payment Date the first time as of May 15, 2001 at a price of 101.75 per cent and thereafter with a premium declining by ¼ per cent as of each fifth anniversary of the Payment Date and as from May 15, 2036 at par provided the Company has given to KREDIETBANK a notice of early redemption such notice to be received by KREDIETBANK during a period starting 90 days prior to and ending 60 days prior to the next Coupon Due Date. If KREDIETBANK has not received such notice of early redemption 60 days prior to the next relevant Coupon Due Date, the Bonds may not be called by the Company, irrespective of whether such notice has been sent by the Company.
- Notice of such redemption shall be published by KREDIETBANK pursuant to Section 12 hereof.

## **6. Payments and exchange of Bonds with coupon sheets**

- 6.1. The Company undertakes to pay to KREDIETBANK for the benefit of the Bondholders when due, principal and interest on the Bonds, in freely disposable legal currency of the Swiss Confederation, without cost to the Bondholders, without any limitations and under all circumstances notwithstanding any transfer restrictions, regardless of any bilateral or multilateral payment or clearing agreement in existence between the Netherlands and the Swiss Confederation, irrespective of the nationality, residence or domicile of any of the Bondholders and without requiring any affidavit or the fulfillment of any formalities.
- The funds required for the payment of principal, premium (if any), interest and any additional amounts payable pursuant to Section 7 hereof, shall be made available to KREDIETBANK in Switzerland by the Company in good time before each due date. The receipt of the funds by KREDIETBANK on behalf of the Bondholders shall release the Company from its obligations in respect of the payments due at the respective dates for principal, premium (if any), interest and additional amounts payable pursuant to Section 7 hereof.
- KREDIETBANK will arrange for payment of such funds as and when due to the holders of Bonds and coupons. Bonds and coupons may be presented and surrendered for payment and talons (including the Bonds if required) may be presented in exchange for new Bonds with coupon sheets only at the counters of the following banks and their offices throughout Switzerland and the Principality of Liechtenstein :

Kredietbank (Suisse) S.A.  
Nordfinanz-Bank Zürich  
Clariden Bank  
Lloyds Bank Plc  
Amro Bank und Finanz  
Bank CIAL (Schweiz) – Crédit Industriel d'Alsace et de Lorraine AG –  
Armand von Ernst & Cie AG  
Banco di Roma per la Svizzera  
Banque Générale du Luxembourg (Suisse) S.A.  
Banque Indosuez – Succursales de Suisse –  
Banque Morgan Grenfell en Suisse S.A.  
Caisse d'Epargne du Valais  
Fuji Bank (Schweiz) AG  
Gewerbebank Baden  
Handelsfinanz Midland Bank  
Hypothekar- und Handelsbank Winterthur  
Maerki, Baumann & Co. AG  
Sparkasse Schwyz  
Banca del Gottardo  
HandelsBank N.W.  
Bank von Ernst & Cie AG  
Banque Privée S.A.  
La Roche & Co.  
Schweizerische Hypotheken- und Handelsbank  
Banca della Svizzera Italiana  
Wirtschafts- und Privatbank  
Aargauische Hypotheken- und Handelsbank  
Banque Vaudoise de Crédit  
Bank in Gossau  
Bank in Menziken  
Bank vom Linthgebiet  
Regiobank Beider Basel

EKO Hypothekar- und Handelsbank  
 Luzerner Landbank AG  
 Banque Romande  
 B.E.G. – Bank Europäischer Genossenschaftsbanken  
 Banque CIC Union Européenne en Suisse S.A.  
 Bank in Liechtenstein AG  
 Algemene Bank Nederland (Schweiz)  
 Bank of America N.T. and S.A., Zurich Branch  
 Bank of Tokyo (Schweiz) AG  
 Banque Gutzwiller, Kurz, Bungere S.A.  
 Banque Paribas (Suisse) S.A.  
 Chase Manhattan Bank (Switzerland)  
 Citicorp Investment Bank (Switzerland)  
 Crédit Commercial de France (Suisse) S.A.  
 LTCB (Schweiz) AG  
 Manufacturers Hanover Trust Company of New York, Zurich Branch  
 Merrill Lynch Bank (Suisse) S.A.  
 Morgan Guaranty Trust Company of New York, Zurich Branch  
 Nederlandsche Middenstandsbank (Suisse) S.A.  
 Nippon Kangyo Kakumaru (Suisse) S.A.  
 Société Bancaire Julius Baer S.A.  
 Seditic S.A.  
 The Royal Bank of Canada (Suisse)

6.2. If at any time during the life of the Bonds, KREDIETBANK shall be incapable, for any reason, of accepting funds for the payment of interest or principal, and any additional amounts payable pursuant to Sections 5 and 7 hereof, or of acting as agent of the Bondholders as contemplated by the terms and conditions of the Bonds, the Bondholders expressly agree that KREDIETBANK may be replaced by a decision of the institutions other than KREDIETBANK mentioned in this Section 6 whereby the votes in such decision shall be counted based upon the principal amount of the Bonds initially subscribed by such institutions and such institutions shall, after consultation with the Company, appoint one of these institutions to replace KREDIETBANK in these functions. If the institutions shall fail to appoint another institution to replace KREDIETBANK within 30 days after demand of the Company, then the Company shall appoint the replacement. In the event of any replacement of KREDIETBANK hereunder, all reference to KREDIETBANK shall be deemed to refer to such replacement for the purpose of the Bonds. The appointment of the replacement shall be published in accordance with Section 12.

6.3. No payments on the Bonds or coupons will be made outside of Switzerland.

## 7. Tax Status

All payments of interest and principal shall be made without deduction of any taxes, imposts, duties, assessments or governmental charges at source (hereinafter individually referred to as « Taxes »), present or future, which are required to be withheld (including, without limitation, back-up withholding) by the Company, which are levied or imposed or to be levied or imposed in the Netherlands, including areas subject to its jurisdiction or any political subdivision of or taxing authority of or within one of the foregoing (hereinafter referred to as a « Taxing Jurisdiction »).

In the event that any such Taxes should at any future time be imposed or levied by any such Taxing Jurisdiction, the Company shall remit to KREDIETBANK for the account of the holders of any Bond or coupon such additional amounts as may be necessary to ensure that after deduction of any such Taxes of a Taxing Jurisdiction, but before any deduction made pursuant to Swiss law, every net payment of the principal (or amounts in respect thereof) and interest on such Bond will be not less than the face amount of any coupon and the principal amount of any Bond or amounts in respect thereof that may be due and owing at the time of payment thereof, plus premium (if any). The Company's obligation to remit such additional amounts shall not be subject to the fulfillment of any disclosure or certification requirement with respect to the nationality, status or identity of the recipient of the payment or the beneficial owner of the Bond in question.

The foregoing provisions, however, do not exempt a holder of a Bond or coupon from any Taxes imposed or levied in a Taxing Jurisdiction, and the Company shall not be obligated to remit funds and pay additional amounts on account of such Taxes, if the holder of the Bond or coupon is subject to taxation in a Taxing Jurisdiction for reasons other than his ownership of the Bond or coupon, nor shall the Company be obligated to remit funds and pay additional amounts, in the event any such Taxes are imposed by reason of one or more of the following :

- i) any tax, assessment or governmental charge that is payable otherwise than by withholding or deduction from payments of principal (or amounts in respect thereof), premium (if any) and/or interest on the Bonds ;

- ii) any gift, estate, inheritance, sales, transfer or personal property tax or any tax, assessment or governmental charge similar to any of the foregoing.

If, at any time, the Company furnishes evidence to KREDIETBANK that the Company has paid or will have to pay or if the Company has determined that there has been a substantial increase in the likelihood that the Company will become obligated to pay on the next Coupon Due Date any additional amount in respect of the Bonds or the coupons or the Company has withheld or has been requested by the relevant Taxing Jurisdiction to withhold amounts from any payment due, the Company shall have the right to redeem all (but not a part only) of the then outstanding Bonds at par at any time from May 15, 1987 and such Bonds will become due 30 days after receipt by KREDIETBANK of notice to this effect.

Bonds called or deposited for redemption shall cease to bear interest from the date fixed for such redemption, unless the Company shall default in providing for the payment of such Bonds. The Bonds must be presented for repayment with all unmatured coupons and the coupon sheet talon attached. An amount equal to any missing unmatured coupon shall be deducted from the amount due for repayment. Such coupons will, however, be paid upon subsequent presentation provided they shall not have become barred pursuant to Section 11 hereof.

The Company understands that under Swiss law, as currently in force, the interest on the Bonds is not subject to Swiss withholding tax.

## **8. Authorizations**

The Company has confirmed to the Banks that any authorizations or approvals which are required under the laws of the Netherlands for performance of its obligations hereunder have been obtained.

## **9. Merger, Sale or Transfer of Assets**

All outstanding Bonds shall become due and payable at their principal amount plus accrued interest, upon 30 days' notice to the Company by KREDIETBANK, if the Company shall merge or consolidate with, or sell or convey all or substantially all of its assets to any other corporation, unless either (A) the Company shall be the surviving corporation in the case of a merger or (B) the surviving, resulting or transferee corporation shall expressly assume the due and punctual payment (including any additional amounts payable pursuant to Section 7 hereof) of all the Bonds, according to their tenor, and the due and punctual performance of all of the covenants and obligations of the Company under the Bonds, the coupons and the Terms of the Bonds by supplemental agreement satisfactory to KREDIETBANK, provided that such surviving, resulting or transferee corporation will provide all necessary information to KREDIETBANK to enable KREDIETBANK to reapply on behalf of the surviving, resulting or transferee corporation for the admission and quotation of the Bonds so assumed on the stock exchanges of Zurich, Basle, Berne and Geneva under the then existing rules and regulations of such stock exchanges, including but not limited to the publication of a prospectus and other necessary publications, at the cost of the surviving, resulting or transferee corporation. Upon any such merger, consolidation, sale conveyance or assumption the successor or assuming corporation shall succeed to all the obligations of the Company and may exercise every right and power of the Company under the Bonds with the same effect as if such successor or assuming corporation had been named as the Company herein, and the Company shall be released from its liability as obligor under the Bonds.

## **10. Events of Default**

KREDIETBANK shall have the right but not the obligation, on behalf of the Bondholders, to declare the then outstanding Bonds, plus accrued interest, to be due and payable if any of the following events shall have occurred, or to take any other measures, including the amendment of the Terms of the Bonds by agreement with the Company, to protect the interests of the Bondholders :

- a) if the Company is in default in the payment of principal, premium (if any) or, for a continuous period of 30 days, in the payment of interest on the Bonds or additional amounts payable pursuant to Section 7 above ; or
- b) if the Company is in default in the performance, or is in breach, of any covenant or agreement of the Company in the Bonds and such default or breach continues unremedied for a period of 60 days after notice thereof has been given by KREDIETBANK, by cable or telex, to the Company ; or
- c) if an event of default, as defined in any indenture or instrument evidencing or under which the Company has at the date hereof or shall hereafter have outstanding at least Hfl. 20,000,000.- aggregate principal amount of indebtedness for borrowed money, shall happen and be continuing and shall not be contested in good faith and such default shall

involve the failure to pay the principal of such indebtedness (or any part thereof), when due and payable after the expiration of any applicable grace period with respect thereto, or such indebtedness shall have been accelerated so that the same shall be or become due and payable prior to the date on which the same would otherwise have become due and payable, and such acceleration shall neither be contested in good faith nor be rescinded or annulled within 10 days after notice thereof shall have been given to the Company by KREDIETBANK ; provided that if such event of default under such indenture or instrument shall be remedied or cured by the Company or waived by the holders of such indebtedness, then the event of default hereunder by reason thereof shall be deemed likewise to have been thereupon remedied, cured or waived without further action upon the part of KREDIETBANK or any of the holders of Bonds ; or

- d) in the case of the commencement by the Company of any bankruptcy or other action or proceeding for any relief under any law affecting creditors' rights generally or seeking the appointment of a trustee, receiver, liquidator or similar official for it or any substantial part of its properties, or the commencement against the Company of any bankruptcy or other such action or proceeding, if such action or proceeding shall not be dismissed or stayed within 60 days following the commencement thereof ; or
- e) if the Company is involuntarily wound up or dissolved ; or
- f) if the Company shall cease to be a major airline possessing sufficient franchises, concessions, permits, rights and privileges for the conduct of its business and operations as such.

In any one of the above events KREDIETBANK shall have the right but not the obligation to call for a meeting of the Bondholders to decide on the immediate repayment or on an amendment with the consent of the Company of the Terms of the Bonds. Notice of such a meeting shall be given at least 10 days prior to the date of the meeting by way of one announcement in the newspapers mentioned in Section 12 hereof. The meeting shall pass its resolutions by the absolute majority in principal amount of the Bonds which are represented at the meeting. The Bondholders will exercise their voting rights in proportion to the principal amount of Bonds held. The exclusive contractual remedies of the Bondholders under the Bonds against the Company for any default shall be as set forth in this paragraph, and no Bondholder shall have the right under the Bonds otherwise to declare a default and demand payment of the Bonds or to bring suit for enforcement of any Bond or coupon.

In the event the Bonds are declared due and payable pursuant to this Section 10, the then outstanding principal amount of the Bonds plus interest accrued thereon shall become due and payable at the date communicated in writing to the Company by KREDIETBANK.

#### **11. Statute of Limitations**

In accordance with the Swiss Statute of Limitations, the coupons will become barred five years and the Bonds ten years after their respective due dates.

#### **12. Notices and Publications**

All notices to the Bondholders regarding the Bonds shall be published by KREDIETBANK and shall be deemed to have been validly given if published in the Feuille Officielle Suisse du Commerce and in a daily newspaper in Geneva, Basle, Berne, Lugano and Zurich.

#### **13. Listing of the Bonds**

Application will be made for the admission and quotation of the Bonds on the Stock Exchanges of Zurich, Basle, Berne and Geneva for the entire duration of the Bonds.

#### **14. Replacement of the Bonds, Coupons and Talons**

If any Bond, Talon or coupon is defaced, mutilated, destroyed, stolen or lost, it may be renewed or replaced at the offices of KREDIETBANK on payment of such costs as may be incurred in connection therewith and on such evidence and indemnity as the Company may require. Defaced or mutilated Bonds, Talons or coupons must be surrendered before new ones may be issued.

#### **15. Currency Indemnity**

If any sum due from the Company under the Bonds has to be converted from Swiss Francs (the « first currency ») into another currency (the « second currency ») for the purpose of (i) making or filing a claim or proof against the Company, (ii) obtaining an order or judgment in any court or other tribunal or (iii) enforcing any order or judgment given or made in



relation hereto the Company shall indemnify and hold harmless the Bondholders from and against any loss suffered as a result of any discrepancy between (a) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency and (b) the rate or rates of exchange at which KREDIETBANK on behalf of the Bondholders may in the ordinary course of business purchase the first currency with the second currency on the date of receipt of a sum paid to them in satisfaction in whole or in part of any such order, judgment, claim or proof.

#### **16. Applicable Law and Jurisdiction**

The terms, conditions and form of the Bonds and coupons of these Bonds (the English language version of which shall prevail in all instances) shall be subject to and governed by Swiss law.

Any dispute which might arise between the Bondholders, on the one hand, and the Company on the other hand, in respect of the Bonds and the coupons of this issue shall fall within the jurisdiction of the ordinary courts of the Canton of Geneva, venue being in the City of Geneva, with the right to appeal, as provided by law, to the Swiss Federal Court in Lausanne, whose judgment shall be final. Solely in connection with matters relating to the Bonds and the coupons and for the process of execution in Switzerland, the Company elects legal and special domicile at the principal office of Kredietbank (Suisse) S.A., 7, boulevard Georges-Favon, 1204 Geneva, Switzerland or in the event of its incapacity at the principal office in Geneva of any other appointed principal paying agent. The aforementioned jurisdiction shall also be valid for the cancellation and replacement of lost, stolen, defaced, mutilated or destroyed Bonds, Talons and coupons.

Payment effected to a Bondholder who has been identified as a creditor of the Company by a judgment of a Swiss court shall release the Company from its payment obligation under the respective Bond or Bonds.

Subject to the provisions of Section 10 hereof, a Bondholder shall have the right to bring any legal action against the Company with respect to the Bonds and the coupons and all covenants contained therein in any competent court in the Netherlands which has jurisdiction, in which case Swiss law shall also be applicable.

The Terms of the Bonds set forth in Sections 1 to 16 hereof shall be printed in the English language on the reverse side of the Bonds.

In connection with the Issue of the Bonds in the aggregate amount of SFr. 300,000,000.- the Company has provided the following information concerning itself :

**KLM ROYAL DUTCH AIRLINES**  
**(« The Company »)**

**INTRODUCTION**

Koninklijke Luchtvaart Maatschappij N.V. (KLM), more commonly known by its English trade name, KLM Royal Dutch Airlines, is a limited liability company incorporated in 1919 under the laws of The Netherlands. KLM's common shares are listed on the Amsterdam, Brussels, Dusseldorf, Frankfurt, Hamburg and New York stock exchanges. KLM has been in continuous corporate existence and operation longer than any other scheduled airline. Although since 1929 the State of the Netherlands (the State) has owned a majority of KLM's voting shares, KLM has been managed and operated as a private business enterprise at all times since its incorporation. Recently the State reduced its ownership to a minority position.

KLM's principal business is the transportation of passengers, freight and mail on routes in and between The Netherlands, Europe, Africa, North, Central and South America, Asia and Australia. KLM's route network, including that of NLM CityHopper, is one of the largest of all international carriers, covering more than 360,000 kilometers and serving six continents through 126 cities in 76 countries. The location of the Company's home base, in Amsterdam International Airport (Schiphol), serves as a convenient transfer point for intercontinental routes and has direct connections with all major European cities.

During the financial year ended March 31, 1985 KLM generated consolidated operating revenues of DFL 5,657 million of which 85 percent was attributable to the transportation of passengers, cargo and mail and the remaining 15 % to ancillary activities, principally the maintenance and handling of aircraft operated by other airlines.

**INCORPORATION, DURATION AND HEAD OFFICE**

KLM was established by notarial deed of October 7, 1919.

The registered office and Head Office of the Company is at Amsterdamseweg 55, Amstelveen. The duration shall be for an indefinite time.

**PURPOSE**

In accordance with its Articles of Association, the purpose of the Company shall be 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 the Company's own account and for the account of or in participation or cooperation with third parties.

**ARTICLES OF ASSOCIATION**

The Articles of Association of KLM were last amended by notarial deed of March 20, 1986.

**FINANCIAL YEAR**

The financial year of KLM runs from April 1 to March 31.

**SHARE OWNERSHIP BY THE STATE OF THE NETHERLANDS**

Since 1929 the State owned a majority of KLM's voting shares. Recently the State has been pursuing a policy of reducing its ownership interest in private companies. In furtherance of this policy, the State decided to reduce its ownership of KLM to a minority position provided that adequate provisions were made to enable the State to increase its ownership to a majority.

As a result of the purchase in 1986 by KLM of 3,000,000 common shares from the State, which were resold, together with 12,000,000 newly issued common shares, in a public offering in March 1986, the ownership of KLM shares by the State was reduced to 39,4 % of the issued share capital of KLM, which could be further reduced to 36,6 % as a result of the exercise of warrants.

However, option agreements between the State and KLM have been concluded in 1985 and 1986 to ensure the State's ability to regain majority ownership of KLM by purchasing A-preference shares or B-preference shares. Since most of the bilateral agreements with foreign countries permitting KLM to operate in such countries require that substantial ownership and effective control of KLM be in Dutch hands, the 1986 option agreement provides that the State will, provided that such exercise is necessary and reasonable, exercise such option if limitations or aggravating conditions are to be imposed on the operation of KLM's scheduled air services because substantial ownership of KLM would not be demonstrably Dutch, or if it is necessary to prevent any person or group of persons from acquiring such an ownership position in KLM that it would have an undesirable position of power.

**CAPITAL AND SHARES**

	in guilders
The authorized capital is 3,000,000,000 guilders, divided into :	
2,500 priority shares, each with a par value of 20 guilders .....	50,000
89,997,500 common shares, each with a par value of 20 guilders .....	1,799,950,000
30,000,000 A-preference shares, each with a par value of 20 guilders .....	600,000,000
30,000,000 B-preference shares, each with a par value of 20 guilders .....	600,000,000
Total :	3,000,000,000

As of April 8, 1986 there have been issued from such authorized capital :		
1,750 priority shares, each with a par value of 20 guilders .....		35,000
51,964,182 common shares, each with a par value of 20 guilders .....		1,039,283,640
10,000,000 A-preference shares, each with a par value of 20 guilders .....		200,000,000
Total :		1,239,318,640

The ownership of the State of the Netherlands amounts to :

1,300 priority shares	= approx. 74,3 % of issued priority shares
14,394,450 common shares x)	= approx. 27,7 % of issued common shares
10,000,000 A-preference shares =	100 % of issued preference shares

x) On 2,230,000 common shares 50 % has been paid in.

As of April 8, 1986 there were reserved 1,969,260 common shares for issuance upon the exercise of the Company's B Warrants and 2,749,318 common shares for issuance upon the exercise of the Company's Warrants 1985/1992.

## DIVIDENDS

With respect to the financial year 1984/85 a dividend of 8 % was declared on the common shares.

## VOTING RIGHTS

There are four classes of shares. Each share has a par value of 20 guilders and entitles the holder to cast one vote at the general meeting of shareholders.

## SUPERVISORY BOARD AND MANAGEMENT OF THE COMPANY

As of April 8, 1986 the composition of the Supervisory Board and the Management is as follows :

Supervisory Board : G.A. Wagner, Chairman

W. Albeda  
M. Albrecht  
R. den Besten  
B.W. Biesheuvel  
J.H. Franssen  
B. Geersing  
A.M. Goudsmit  
C.J. Oort  
P.A.J.M. Steenkamp

Management : S. Orlandini, President  
J.F.A. de Soet, Deputy President  
L.J. van Ameyden, Managing Director

## SUBSIDIARIES

Subsidiaries of which KLM owns a majority of the shares are included in its financial statements, the most important being :

KLM International Finance Company N.V.  
Weblok B.V.  
NLM CityHopper B.V.  
KLM Helikopters B.V.  
KLM Aerocarto B.V.  
Service Q Algemeen Dienstverleningsbedrijf B.V.  
Highmark International B.V.  
Golden Tulip International B.V.  
Golden Tulip Hotel Participatie B.V.

All the above subsidiaries are 100 % owned by KLM.

No subsidiary has any outstanding public issue.

## RECENT DEVELOPMENTS

The Report on the quarter ended December 31, 1985, giving the consolidated statements of earnings for the three and nine months ended December 31, 1984 and 1985, are shown in the Interim Report dated February 6, 1986, together with the comments of the Management, attached hereafter.  
The unaudited consolidated Balance sheet dated December 31, 1985 is also included.

## BUSINESS OUTLOOK

In spite of the weak traffic development the management anticipates that net earnings for the financial year ended March 31, 1986 will be of the same order of magnitude as earnings in the previous year. No corporate income tax will be due.

Yours truly  
Koninklijke Luchtvaart Maatschappij N.V.

# INTERIM REPORT

## REPORT ON THE QUARTER ENDED DECEMBER 31, 1985

The consolidated statements of earnings for the three and nine months ended December 31, 1984 and 1985, are as follows:

(in millions of Dutch guilders, except per share amounts)

	3 months ended December 31			9 months ended December 31		
	1985	1984	growth (%)	1985	1984	growth (%)
<u>Operating revenues</u>						
Traffic revenue	1,139.8	1,166.2	- 2	3,896.6	3,672.6	+ 6
Other revenue	218.1	201.8	+ 8	722.1	640.7	+ 13
	<u>1,357.9</u>	<u>1,368.0</u>	- 1	<u>4,618.7</u>	<u>4,313.3</u>	+ 7
<u>Operating expenses</u>						
Wages and social expenses	407.2	398.6	+ 2	1,241.6	1,176.3	+ 6
Aircraft fuel	260.5	286.8	- 9	852.0	866.4	- 2
Cost of materials and consumables	133.7	101.8	+ 31	374.0	290.3	+ 29
Other operating expenses	470.1	500.6	- 6	1,587.3	1,454.0	+ 9
Depreciation	93.3	72.3	+ 29	264.4	206.6	+ 28
	<u>1,364.8</u>	<u>1,360.1</u>	-	<u>4,319.3</u>	<u>3,993.6</u>	+ 8
<u>Balance of operating revenues and expenses</u>	( 6.9)	7.9		299.4	319.7	
Financial gains and losses	( 9.2)	( 2.6)		( 40.0)	( 27.0)	
Profit on sale of tangible fixed assets	53.4	4.5		62.4	29.6	
Share in result of holdings	1.7	( 0.2)		20.7	6.5	
<u>Operating result</u>	<u>39.0</u>	<u>9.6</u>		<u>342.5</u>	<u>328.8</u>	
<u>Balance of other income and (deductions)</u>	<u>-</u>	<u>9.2</u>		<u>-</u>	<u>9.2</u>	
	<u>39.0</u>	<u>18.8</u>		<u>342.5</u>	<u>338.0</u>	
Share of third parties	-	0.3		0.2	0.5	
<u>Net income</u>	<u>39.0</u>	<u>19.1</u>		<u>342.7</u>	<u>338.5</u>	

Net income in guilders per common share of f 20, based on 38,849,094 (1985) and on 38,318,100 (1984) shares outstanding

1.00      0.50      8.82      8.83

The presentation of figures has been changed according to new legal provisions for financial statements. The most important change is the consolidation of holdings in partnership firms. These holdings have been consolidated proportionally. Comparative figures for 1984 have been adjusted in the same way.

Traffic and capacity available in millions of ton-miles (including NLM CityHopper) were as follows:

	3 months ended December 31			9 months ended December 31		
	1985	1984	growth (%)	1985	1984	growth (%)
<u>Scheduled flights</u>						
Passengers	257.3	249.7	+ 3	895.4	858.9	+ 4
Cargo	256.8	265.0	- 3	731.5	751.1	- 3
Mail	15.1	13.1	+ 15	43.4	34.9	+ 24
<u>Charter flights</u>	<u>1.4</u>	<u>4.0</u>	- 66	<u>11.5</u>	<u>23.1</u>	- 50
<u>Total traffic</u>	<u>530.6</u>	<u>531.8</u>	- 0	<u>1,681.8</u>	<u>1,668.0</u>	+ 1
<u>Capacity available</u>	<u>789.1</u>	<u>758.4</u>	+ 4	<u>2,486.7</u>	<u>2,375.1</u>	+ 5
<u>Load factor (%)</u>	<u>67.2</u>	<u>70.1</u>		<u>67.6</u>	<u>70.2</u>	

In the third quarter of the current fiscal year, the months October through December 1985, net earnings amounted to f 39.0 million against f 19.1 million in the comparable quarter of the previous year. In the nine months ended December 31, 1985, net earnings were f 342.7 million against f 338.5 million in the comparable period of 1984.

Ton-mile traffic in the third quarter was nearly equal to the traffic in the previous third quarter and capacity available increased by 4%. The load factor declined from 70.1% to 67.2%. Passenger traffic on scheduled services was up 3% and mail traffic 15%. Cargo traffic was down 3% and the less significant charter traffic 66% lower than in the comparable quarter of 1984.

Traffic revenue in the third quarter was down 1%. Operating expenses were at the same level as in last year. Currency exchange rates did play a significant role.

In the quarter ended December 31, 1985, exchange rate differences on balance sheet items had an unfavorable effect of f 2 million on net earnings; in the previous third quarter this influence was unfavorable to the amount of f 7.8 million. In the nine months ended December 31, 1985, the total unfavorable influence of exchange rate differences on balance sheet items was f 70.5 million against a favorable effect of f 15.1 million in the comparable period of 1984. These exchange rate differences are noted under "Other operating expenses".

The ownership of three of the 16 DC-9 aircraft, which will be replaced by new aircraft in 1987 and 1988, was already transferred to a new owner; these aircraft were leased back for a limited period of time. The book profit (f 53 million) was added to the earnings of this quarter.

One Airbus A310 aircraft, which was added to the fleet in February of this year, is now financed in a lease arrangement, resulting in f 164 million becoming available.

In the third quarter two Boeing 747-206M aircraft were converted into the 306M configuration with an extended upperdeck. Nine of the ten aircraft for which this conversion was planned are now ready.

In spite of the weak traffic development we anticipate that net earnings for the fiscal year 1985/86 will be of the same order of magnitude as earnings in the previous year. No corporate income tax will be due.

The figures in this report are provisional and unaudited.

Amstelveen, February 6, 1986

The Management.

**Note:**

The bank exchange rate at December 31, 1984 was f 3.55 = US \$ 1.00.

At December 31, 1985 this exchange rate was f 2.77 = US \$ 1.00.

Share issue

KLM is considering an international offering of common shares.

It is the intention that the State of the Netherlands will offer a portion of its common KLM shares in this issue.

Any such offering, which will be made only by means of a prospectus, will be registered with the Amsterdam Stock-Exchange and the United States Securities Exchange Commission amongst other authorities.

**CONSOLIDATED BALANCE SHEET AT DECEMBER 31, 1985 (UNAUDITED) AND MARCH 31, 1985**  
(in thousands of guilders)

<b>ASSETS</b>	December 31, 1985	March 31, 1985
<b>Fixed assets</b>		
Tangible fixed assets	4,999,916	4,547,689
Financial fixed assets	<u>230,779</u>	<u>217,199</u>
	5,230,695	4,764,888
<b>Current assets</b>		
Supplies	257,401	262,561
Accounts receivable	1,148,812	1,117,521
Securities	447,018	447,452
Liquid funds	<u>1,148,645</u>	<u>1,118,344</u>
	3,001,876	2,945,878
	<u>8,232,571</u>	<u>7,710,766</u>

**LIABILITIES**

December 31, 1985

March 31, 1985

**Capital and reserves**

Stockholders' equity	2,126,915		1,783,613	
Share of third parties in consolidated holdings	<u>769</u>		<u>772</u>	
	2,127,684		1,784,385	

**Deferred credits**

919,425	702,457
---------	---------

**Provisions**

120,667	141,709
---------	---------

**Subordinated long-term debt**

Subordinated perpetual debt	266,170		266,170	
Other subordinated debt	<u>359,460</u>		<u>354,244</u>	
	625,630		620,414	

**Other long-term debt**

2,456,569	2,312,464
-----------	-----------

**Current liabilities**

1,982,596	2,149,337
<u>8,232,571</u>	<u>7,710,766</u>

**Proforma equity**

2,127,684	1,784,385
-----------	-----------

**Capital and reserves**

Account receivable from the State of the Netherlands resulting from stock subscription	22,300		22,300	
Deferred credits	919,425		702,457	
Subordinated debt	625,630		620,414	
	<u>3,695,039</u>		<u>3,129,556</u>	

# KLM Royal Dutch Airlines

## Annual Report 1984/85

### 65th Financial Year

Head Office: Amsterdamseweg 55, Amstelveen, the Netherlands,  
 Telephone: (020) 49 91 23. Postal Address: P.O. Box 7700,  
 1117 ZL Schiphol Airport, the Netherlands. Telex 11252  
 Registered under number 14286 with the Chamber of Commerce  
 and Manufacturers, Amsterdam, the Netherlands

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# Survey of Management

(as of June 20, 1985)

## Supervisory Board

J.W. de Pous, Chairman  
G.A. Wagner, Deputy Chairman  
W. Albeda  
M. Albrecht  
R. den Besten  
A.M. Goudsmit  
C.J. Oort  
G. van Setten  
P.A.J.M. Steenkamp

## Management

S. Orlandini, President  
J.F.A. de Soet, Deputy President  
L.J. van Ameyden, Managing Director

## General Manager

B. van de Breevaart  
G.J. de Wit, Deputy General Manager

## General Secretary

E. Heyning

## Structure

KLM is managed by a Board of Managing Directors, who are appointed by a Supervisory Board and act under their supervision.

Under Article 20 paragraph 13 of the Articles of Association, the State of the Netherlands appoints a simple majority of the Supervisory Directors by virtue of the State owning a majority of KLM-issued shares. The remainder are appointed by the Supervisory Board. All appointments of Supervisory Directors are subject to consultation with Management, the General Meeting of Shareholders (or a Shareholders' Committee appointed by the General Meeting of Shareholders) and the Joint Staff Council (a body of KLM employees elected by the employees in the Netherlands, having primarily consultative powers). Each Supervisory Director has a term of office ending at the first General Meeting of Shareholders after the expiration of four years from the time of his or her appointment and is reappointable, but subject to the age limit of 72.

## Currencies

The financial statements in this Annual Report are stated in the currency of the Netherlands, the Dutch Guilder. Present regulations of the Securities and Exchange Commission do not permit the conversion of figures as presented in the original Dutch KLM Annual Report from guilders to U.S. dollars.

To provide perspective, however, the bank exchange rates prevailing in Amsterdam between the Dutch Guilder and the U.S. Dollar at the end of the quarter periods during the last and the previous financial years are presented here:

	US Cents per Dutch Guilder
June 30, 1984	31.9
September 30, 1984	29.3
December 31, 1984	28.2
March 31, 1985	28.7
June 30, 1983	35.1
September 30, 1983	33.9
December 31, 1983	32.6
March 31, 1984	34.2

## Translation

This is the English version of the Dutch original Annual Report for the financial year ended March 31, 1985.

# To the Shareholders

Net earnings in fiscal 1984/85 were f290 million, compared to f103 million in the previous year. We concur with management's proposal to add f215 million of this amount to the reserve and to earmark f72 million for a 5% dividend to holders of priority and preference stock and a 8 % dividend to the holders of common stock. The proposal for the distribution of earnings appears on page 42.

In accordance with the general meeting of shareholders on August 2, 1973, our auditors Klynveld Kraayenhof & Co. have examined the annual report and financial statements for the fiscal year ended March 31, 1985. Their statement and opinion appear on page 41 of this Annual Report\*.

The Supervisory Board reviewed the financial statements at the meeting on June 20, 1985, and recommended their adoption along with the dividend proposals. Professor H. ter Heide passed away on April 14, 1985. He joined the Supervisory Board on August 2, 1973. We are grateful to him for his significant contribution to the board's work during this period of almost 12 years.

Membership changes in the Supervisory Board during the report period were as follows:

- The State named R. den Besten on December 19, 1984, to fill the seat vacated on August 11, 1983, by P. C. de Man's resignation.
- Dr. M. Albrecht completed a four-year statutory term on August 16, 1984, and was reappointed by the State on December 19, 1984.
- Upon reaching the statutory retirement age, Professor P. Sanders left the board. As of this date, the State has not filled this vacancy.

On August 15, 1985, the Supervisory Directors A. M. Goudsmit and G. A. Wagner will have completed their statutory terms and have been reappointed by the Board for subsequent terms. The State has, as of this date, not filled the vacancy left by Mr. ter Heide.

These appointments were discussed by management, the shareholders' committee and the Joint Staff Council.

Mr. de Pous who, for health reasons, has not been able to participate actively in the work of the Supervisory Board for some time, has announced that he will be resigning on August 15, 1985. He has been on the Board for more than twenty years, and since 1973 as its Chairman. We are grateful to him for his exceptional contributions to the work of the Board, his excellent leadership and his very personal efforts for the welfare of KLM. The Supervisory Board, Management and staff are very indebted to him for this.

The Supervisory Board expresses its thanks and appreciation to KLM's management and staff for their contribution to the results of the company in the report period.

Amstelveen, June 20, 1985

For the Supervisory Board,



G. A. Wagner  
Deputy Chairman

\* This Annual Report is a translation from the Dutch-language original.

# Highlights\*

		1984/85	1983/84	Difference
<b>Revenue and Expenses</b>	Traffic revenue	f 4,799	f 4,243	+ 13%
	Other revenue	f 858	f 787	+ 9%
	Total operating revenues	f 5,657	f 5,030	+ 12%
	Total operating expenses	f 5,377	f 4,920	+ 9%
<b>Net Income</b>	Net profit (after deduction of interest and other items)	f 290	f 103	
	As percentage of the turnover	5.1	2.1	
	Net income as percentage of average shareholders' equity	17.7	8.1	
	Net income per common share**	f 7.47	f 2.69	
<b>Selected Financial Data</b>				
	Investments in fixed assets	f 1,170	f 1,495	
	Total assets	f 7,711	f 6,177	
	Shareholders' equity	f 1,784	f 1,492	
	Long term debt	f 2,933	f 2,247	
	Ratio of current assets to current liabilities	1.4:1	1.4:1	
	Average number of common shares outstanding**	38,318,010	25,666,135	
<b>Capacity and Traffic***</b>	Capacity in ton-miles	3,114	3,020	+ 3%
	Traffic in ton-miles	2,180	1,976	+ 10%
	Revenue weight load factor (%)	70.0	65.4	
	Break-even load factor (%)	66.3	64.4	
	Revenue passengers carried	5.3	5.0	+ 6%
	Passenger load factor (%)	69.9	64.4	
<b>Staff****</b>	(at the end of the financial year)			
	Ground staff in the Netherlands	11,428	11,076	+ 3%
	Ground staff outside the Netherlands	4,720	4,672	+ 1%
	Flight staff	3,045	2,877	+ 6%
	Total staff	19,193	18,625	+ 3%
	Total salaries and social expenses	f 1,587	f 1,507	+ 5%

\* Financial figures are consolidated and in millions, except data concerning income per share. The figures of the previous financial year have been adjusted to the altered presentation based on new legal provisions.

\*\* In October 1984, as a result of a five-for-one stock split, the shares of nominally f 100 were divided into five shares of f 20. To afford comparison, the number of shares of 1983/84 have been increased fivefold and the net income per share divided by five.

\*\*\* In millions, including NLM CityHopper.

\*\*\*\* Staff, excluding subsidiaries.



# Survey of the Year 1984/85

## General

In connection with the improvement in the world economy situation, the growth in world air traffic in 1984 was considerably greater than in previous years.

KLM participated fully in these traffic gains during its fiscal year ended March 31, 1985. In specific terms, for KLM, passenger traffic increased 9%, cargo traffic 14%, mail 27% and which, in the aggregate, contributed a gain of 10% in ton-mile traffic over the previous year. Since ton-mile capacity increased only 3%, the load factor was boosted from 65.4% to 70.0%. With a 3% increase in average yield, traffic revenues were 13% higher than last year.

Net profits for the fiscal year ended March 31, 1985, were f290 million, compared to f103 million in the previous year. No provision for corporate income taxes was necessary in view of net operating loss carry-forward credits. KLM has operated profitably for nine consecutive years. Maintaining and improving this profit level is of utmost importance to assure financing the necessary updating of our equipment and facilities and to obtain a reasonable return on the share capital.

Along with the improvement in our load factor, as reported, our break-even load factor also rose, increasing from 64.4% to 66.3%. A high break-even load factor places the company in a vulnerable position in the event of reversals. We are striving to improve our operating margins.

## Operations Results

The total operating revenue in the report period was f5,657 million, a gain of 12% over 1983/84. Operating expenses were f5,377 million (+ 9%).

The total cashflow (profit plus depreciation) was f576 million or 10.2% of the operating revenue, compared to f334 million or 6.6% in the previous fiscal year.

## Traffic development

KLM's traffic, including that of NLM, was comprised as follows:

In millions of ton-miles	1984/85	1983/84	change (%)
Passengers and baggage	1,106	1,018	+ 9
Cargo	997	874	+14
Mail	49	38	+27
Charters	28	46	-40
Total	2,180	1,976	+10

Passengers and baggage accounted for 51% of traffic, cargo 46%, mail 2% and charters 1%. Further information on traffic per line group is provided in the section on capacity and traffic.

## Traffic revenue

KLM's traffic revenues, including that of NLM, were as follows:

In millions of guilders	1984/85	1983/84	change (%)
Passengers and baggage	3,474	3,106	+12
Cargo	1,127	925	+22
Mail	81	60	+35
Charters	58	95	-39
Total	4,740	4,186	+13

Under charter revenue, the consolidated statement of earnings also includes that of KLM Helicopters, amounting to f59 million (last year f57 million).

The 13% increase in KLM and NLM's traffic revenue resulted from the 10% growth in traffic and 3% higher average yield per ton-mile.

The average yield on passenger traffic went up 3%, cargo 7% and mail 6%. The average charter yield increased 2%. The increase in yield was partly the result of exchange rate fluctuations (this financial year the US dollar averaged 14% greater than the guilder than in the previous financial year), partly due to fare increases and of gains in the relatively high-yield traffic categories, such as Business Class.

#### Other revenue

Other revenues were as follows:

in millions of guilders	1984/85	1983/84	change (%)
Maintenance and other technical work	256	223	+ 15
Aircraft handling at stations	102	106	- 3
Lease of aircraft	27	35	- 22
Training and assistance	24	24	- 4
Catering	46	51	- 11
Sales in shops and on board	140	120	+ 16
Tour operating, travel arrangement and hotels	74	63	+ 18
Cargo handling	68	57	+ 19
Miscellaneous	121	108	+ 13
<b>Total other revenue</b>	<b>858</b>	<b>787</b>	<b>+ 9</b>

Other revenues comprise 15.2% of the total revenue, compared to 15.7% in the previous year.

#### Operating expenses

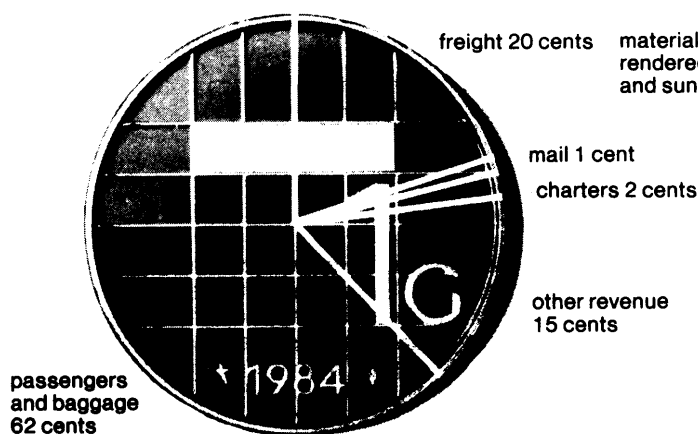
Operating expenses consisted of the following:

in millions of guilders	1984/85	1983/84	change (%)
Wages and social expenses	1,587	1,507	+ 5
Aircraft fuel	1,159	1,058	+ 10
Cost of materials and consumables	399	376	+ 6
Depreciation	286	231	+ 24
Other operating expenses	1,946	1,748	+ 11
<b>Total</b>	<b>5,377</b>	<b>4,920</b>	<b>+ 9</b>

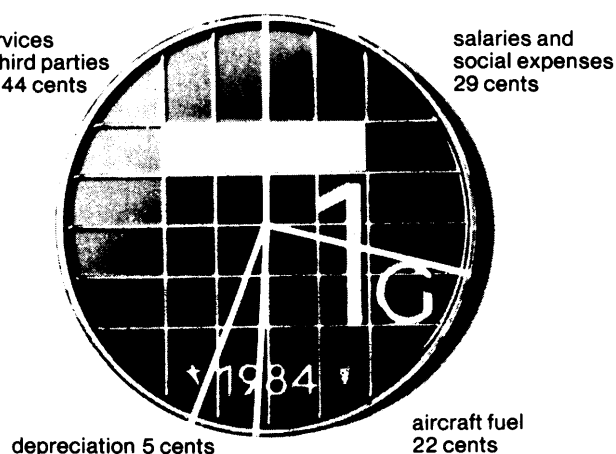
The total number of staff in 1984/85 averaged 1½% more than the year before. On April 1, 1985, there were 19,193 employees and on April 1, 1984, there were 18,625 – an increase of 3%. The wage cost increase per employee outside the Netherlands is higher than in the Netherlands, primarily because of exchange rate disparities and inflation.

With a 3% capacity increase, fuel consumption in the report period was up 2% more than in the previous year. Fuel prices per US gallon dropped from \$ 0.94 in March 1984 to \$ 0.87 in March 1985. During the entire fiscal year this price averaged \$ 0.90, \$ 0.05 lower than in 1983/84. Lower fuel prices were partially offset in that the fuel account in guilders was 10% greater than in the previous financial year as a result of higher dollar exchange rates.

### Revenue guilder 1984/85



### Expense guilder 1984/85



Depreciation was 24% higher than last year, primarily as a result of acquiring additional, new aircraft: the Airbus 310 and the 17th and 18th Boeing 747s.

The increase in other operating expenses is due to greater traffic volume, price increases and higher exchange rates. The most important items are flight costs (landing fees, navigation costs and handling by third parties) and commercial costs (agents commissions, advertising, etc.).

#### *Currency influences*

On March 31, 1985, the exchange rate for the US dollar was f3.48, compared to f2.92 a year ago – an increase of 19%. Over the entire fiscal year, the dollar averaged 14% more in value than in 1983/84.

A somewhat greater portion of costs is dollar related compared to revenues, so that the higher dollar exchange rate eventually exercised an unfavorable direct impact on operations.

The effect of currency influences on balance sheet items expressed in the result was f37 million favorable in the report period. Last year this effect was f40 million unfavorable. This amount is accounted for in other operating expenses.

### **Staff**

#### *Labor conditions and consultation*

At the end of 1983, labor agreements were concluded for 1983 and 1984 with the staff organizations in the Netherlands. In December 1984, deliberations were initiated for a labor agreement for 1985. In these discussions, the same issues are emerging as elsewhere in the Netherlands: shorter working hours, maintaining purchase power and dealing with the health insurance act measures. We are taking a cautious stand on reducing working periods because of its possible risks to the company's position in international competition and thereby to employment.

The company's employment and financial situations are periodically discussed with the staff organizations. In addition, the various staff organizations were frequently consulted in the report period about a variety of subjects, such as elements of labor conditions and new developments, such as future cockpit and cockpit crew compositions.

On the basis of the favorable financial position of the pension funds for the ground and cabin staff for 1985, the premium was lowered both for the participants and for KLM. Discussion about a similar decrease in the premium

for the pension fund for flight staff has not yet been resolved.

#### *Joint Staff Council*

In ten consultation meetings of management with the Joint Staff Council, many topics were discussed this year. The long-range plan, the budget and the annual report were explained and discussed extensively. Counsel was requested and received about investments in aircraft, computers and buildings, as well as incurring some subordinated loans. The Joint Staff Council also offered counsel on a few organizational changes. Information was made available to the Joint Staff Council on a number of topics, such as the plan for a new staff registration system, the long-range plan for housing the company and KLM's hotel policy through Golden Tulip International. The employment situation at the company was regularly discussed. Among the many other topics reviewed in the consultation meetings, we mention here the supervisory director appointments, establishing a Security Service and the role of civil aviation in transport in a time of crisis.

In addition to the consultation with the Joint Staff Council for the company as a whole in the Netherlands, there is also consultation in the corporate divisions between the management of those divisions and group committees and sector councils.

In general, consultation with the Joint Staff Council was constructive.

Three meetings were held in the report period, in which the Supervisory Board, Management and the Joint Staff Council informally exchanged viewpoints on a number of topics.

#### *Recruitment and selection*

Because of the expansion in capacity and traffic, an average of 1 1/2% more staff was required this year, resulting in many more external applicants and a greater number of transfers of internal applicants.

In addition, as in the previous year, approximately 800 employees were hired as temporary staff, vacation replacements or trainees. For flight staff, 48 pilots and 24 flight engineers were hired. For cabin staff, more than 450 stewards and stewardesses were hired on a five year contract (after 5 years these contracts can be converted to a contract for an unlimited period) and approximately 250 on a seasonal contract. Finally, more than 150 stand-by contracts were concluded.

Ground staff	1984/85	1983/84
External applications received	25,600	12,500
Processed for consideration	6,300	3,500
Hired	781	192
Hired as seasonal staff	291	357
Internal applications received	1,890	1,730
Ensuing transfers	390	290

### Training

The number of staff participating in one or more training courses increased from a good 12,000 to more than 14,000, partly because more staff had been hired. A further increase is expected for the current financial year. The training work for third parties in the report period remained at the previous year's level.

In 1984/85 we started a two-day service training program for all of the cabin staff. This training will be continued in the current year.

The number of workshops for sales personnel in the Netherlands and from the field has increased materially.

### Absenteeism

KLM's absenteeism figures have again increased somewhat, although they remain beneath the national level.

In some departments research is being done about the causes of this absenteeism.

In percentages	1984	1983	1982	1981
<i>Women</i>				
National average	9.2	9.4	10.3	10.9
KLM Ground Staff	7.6	7.3	6.9	7.5
KLM Flight Staff	7.2	6.8	6.5	7.1
<i>Men</i>				
National average	6.9	7.2	7.8	8.2
KLM Ground Staff	6.4	6.0	5.8	6.5
KLM Flight Staff	4.4	4.2	3.5	3.8

### Financial Position

The ratio between proforma equity and long-term debt continued to be favorable in the report year, while capital expenditures of f1,170 million were financed. The survey of the capital structure on page 9 shows that the stockholders' equity together with the deferred credits and the subordinated long-term debt account for 58% of the total capital.

According to the proposal for the distribution of earnings, f215 million will be applied to strengthen reserves while f72 million will be paid out to the shareholders. No provision for corporate income taxes is necessary in view of net operating loss carry-forward credits, making a tax reserve unnecessary. However, having to start forming a provision for taxes for fiscal 1985/86 should not be excluded.

The issued share capital increased because of the further exercise of B warrants created as a result of the March 1983 issue of f125 million in 6¾% subordinated bonds. In the report period 25,330 warrants were exercised, resulting in f10.1 million nominal in shares and f6.8 million in paid-in surplus. On March 31, 1985, there were 99,658 of the 125,000 warrants remaining outstanding which, on conversion, will provide f39.9 million nominal in share capital and f26.9 million in paid-in surplus.

Additional stockholders' equity will become available at such time as 125,000 1985/1992 warrants are exercised, which were created in March 1985 with the issuance of f125 million in 4½% 1996/2000 subordinated bonds. Each 1985/1992 warrant entitles the holder during the period of July 1, 1985 through February 29, 1992, to obtain 22 common shares of nominally f20 at a price of f53 per share. If all 1985/1992 warrants are exercised, an additional f145 million in stockholders' equity will become available through the issuance of 2,750,000 common shares of f20 (nominally f55 million).

In February 1985 a subordinated loan was issued in Switzerland for an amount of 200 million Swiss francs. This loan can be considered as permanent proforma equity, since KLM does not have an obligation to redeem the loan. The interest for the first period of ten years is at 6½% per year; afterwards the rate will be determined every ten years on the basis of the market interest then current. Every ten years KLM has the right to redeem the loan.

The second Boeing 747-306M aircraft delivered in September 1984 and two Airbus A310 aircraft which have been part of the fleet since 1983, were financed in lease

In millions of guilders					Survey of the capitalization (consolidated)	In percentages of the year's total				
1985	1984	1983	1982	1981	on March 31	1985	1984	1983	1982	1981
					<b>Stockholders' Equity</b>					
999**	988 **	805 *	799 *	799 *	Issued share capital	18	22	26	28	29
294	228	160	159	159	Paid-in surplus	5	5	5	6	6
514	298	195	154	122	Retained earnings	10	7	6	5	5
1,807	1,514	1,160	1,112	1,080		33	34	37	39	40
703	720	464	415	340	<b>Deferred credits</b>	13	16	15	15	12
620	284	280	-	-	<b>Subordinated long-term debt</b>	12	6	9	-	-
3,130	2,518	1,904	1,527	1,420	<b>PROFORMA EQUITY</b>	58	56	61	54	52
					<b>Other long-term debt***</b>					
2	27	48	75	104	US/Can. export financing and suppliers credit in US dollars	-	1	2	3	4
398	561	197	252	298	Other loans	7	12	6	9	11
1,889	1,298	903	912	838	Lease commitments	34	29	29	32	31
23	77	71	47	60	Other debt	1	2	2	2	2
2,312	1,963	1,219	1,286	1,300	<b>TOTAL OTHER LONG-TERM DEBT</b>	42	44	39	46	48
5,442	4,481	3,123	2,813	2,720	<b>Total long-term capital</b>	100	100	100	100	100

\* Including f 100 million stock subscription receivable.  
 \*\* Including f 22 million stock subscription receivable.  
 \*\*\* Less portion maturing within one year.

transactions. This has provided amounts of f340 million and f285 million respectively. Costs of converting 2 Boeing 747-206s (f84 million) are to be amortized in the existing pertinent leases.

In May 1984 Holland Airlines Finance issued 12¼% Eurobonds with warrants in the amount of \$ 100 million. KLM guaranteed this debenture issue and received a guarantee provision in return. This transaction has created a stand-by credit facility of \$ 100 million for KLM. In 1988 the warrants related to these debentures permit conversion in the same amount for 11¾% Eurobonds. Both loans mature in 1991. As of 1988, the 12¼% loan can be prematurely paid off.

In May 1985 Holland Airlines Finance placed a private loan

of 12.6 billion Yen. KLM guaranteed this loan, as well as a swap transaction concluded in connection with this. These transactions created a further expansion of \$ 50 million in stand-by credit facilities, for which a guarantee provision has also been obtained.

Long-term debt, including the subordinated credit, amounted to f2,933 million at March 31, 1985, after deduction of the portion which matures within one year. 73% of this amount is owed in guilders, partly as a result of US dollar and French franc loans covered in guilders by forward exchange contracts. The remaining commitments consist of 13% in Swiss francs, 10% in US dollars and 4% in German marks.

The average financing cost of the long-term debts in the report period amounted to 5.9% (Other debt excluded).



## Fleet

At March 31, 1985, KLM's fleet, including that of NLM CityHopper, KLM Helicopters and KLM Aerocarto, comprised the following aircraft:

Aircraft type	Included in the balance sheet		Leased from third parties	Operated by:	
	Owned	Leased		Subsidiaries	KLM
Boeing 747-306B	–	3	–	–	3
Boeing 747-306M	–	2	–	–	2
Boeing 747-206B	4	2	–	–	6
Boeing 747-206M	–	7	–	–	7
Douglas DC-10-30	5	–	–	–	5
Airbus A310-203	7	2	–	–	9
Douglas DC-9-33	6	–	–	–	6
Douglas DC-9-32	11	–	1	–	12
Douglas DC-9-15	1	–	–	–	1
Fokker F28-4000	3	1	–	4	–
Fokker F27-500	3	–	–	3	–
Fokker F27-200	4	–	–	4	–
S-61N helicopter	7	–	–	7	–
S-76 helicopter	3	–	–	3	–
Photo aircraft	3	–	–	3	–
<b>Total</b>	<b>57</b>	<b>17</b>	<b>1</b>	<b>24</b>	<b>51</b>

NLM CityHopper operates the Fokker aircraft, KLM Helicopters the helicopters and KLM Aerocarto the photo aircraft.

The fleet\* underwent the following changes in fiscal 1984/85:

- Addition of the second Boeing 747-306M in September 1984 and of three Airbus A310-203s in January, February and March 1985.
- Conversion of three Boeing 747-206Bs to Boeing 747-306Bs with an extended upperdeck and remodeled interior to increase capacity by approximately 50 seats.
- Two Airbus A310-203s were sold in June 1984 and re-leased from the financing company on a long-term basis.

\* In last year's Annual Report, three DC-10s were not included in the balance sheet. These were:

- 2 DC-10-30s which KLM had long-term leased from financing companies and had re-leased to another airline. The lease and re-lease of these aircraft terminated on July 31, 1984 and April 1, 1985, respectively.
- A DC-10-30, KLM's property, was leased on a long-term contract to another airline which would be buying it from KLM. On June 22, 1984, KLM transferred ownership of this aircraft to the new owner.

– Four DC-8-63 aircraft were sold, three in June and one in November 1984.

– The last three DC-8-63 aircraft which were included in a financial lease, were withdrawn from operations in March 1985. The lease of these aircraft was prematurely terminated.

This ended KLM's operation of DC-8 aircraft. The basic DC-8s had been part of the fleet in many versions since 1960, the DC-8-63s since 1967. KLM operated DC-8s for 25 years; for 11 years it was the flagship of the fleet.

On March 31, 1985, KLM had one Airbus A310 on order for delivery in September 1985. This represents an investment of approximately f198 million.

In the course of fiscal 1985/86, the seven Boeing 747M aircraft will be converted to Boeing 747-306Ms with extended upperdeck and increased take-off weight. This will entail an investment of f295 million. After completion of this program in March 1986, KLM will have 12 Boeing 747-300s, nine of which will be Boeing 747-306Ms or the combi version, which offers the flexibility of using the rear cabin for cargo transport.

In February 1985 KLM decided to replace the 19 DC-9 aircraft by two main types, with a capacity of about 100 and 130 to 150 seats respectively. After the report period, an order was placed for 10 Fokker 100 aircraft, to be delivered starting in April 1988. Including spare parts, this represents an investment of about f700 million. Options have been taken on another 5 Fokker 100 aircraft. KLM will be using the Fokker 100 in a version with 2 classes and 102 seats.

Further studies are being conducted about the choice of aircraft with 130 to 150 seats. A decision will be made on completion of these evaluations.

After the end of the report period, KLM decided to expand the fleet of long-distance aircraft by a 19th Boeing 747 in the 306M version (combi) for delivery in September 1986, an investment of f410 million, including spare parts.

In the report year the contribution of the various aircraft types to total capacity was as follows:

Boeing 747	72%	DC-8-63	3%
DC-10-30	13%	DC-9	5%
Airbus A310	5%	Other types	2%

Of the total capacity, 1% were flights for other airlines. Because of the capacity increase of the larger wide-body aircraft, the 3% greater ton-mile capacity was attained

with only 2% more flying hours than in the previous financial year.

#### *Other investments*

In addition to the new aircraft mentioned above, there were numerous other investments in the report year, for a total amount of f 191 million. These investments include:

- Replacement of film equipment by video equipment on board the Boeing 747 and DC-10 aircraft.
- Buildings, equipment and supplies for aircraft maintenance and handling at Schiphol and at many airports outside the Netherlands.
- Remodeled or refurbished office interiors, including in Chicago, Colombo, New York, Mexico and Panama.
- Equipment and software to expand existing automation applications and to develop new ones, such as for the information and reservations systems for passengers and cargo.

#### **Air Policy**

During the report period, major aviation agreements to improve KLM's network included the following:

The Netherlands and the United Kingdom concluded a liberalized agreement facilitating greater freedom in fares and destinations. One result is a KLM service to Newcastle. The trial low fares between the two countries attracted considerable attention.

The second Memorandum of the Committee of the European Community on the development of a joint aviation policy was issued in February 1984. Governments and airlines have considered the positions they will take on these proposals. The proposals relate to an effort by the Committee to make the present bilateral system more flexible and to broaden the entry into the market. Resolution of this complicated process will take considerable time.

The United States and European governments reached agreement in December 1984 on continuing a memorandum of understanding about the air fares between the USA and Europe. This also makes it possible to continue IATA activities in this area for a period of 2½ years without encountering American anti-trust restrictions.

The authorities in Zimbabwe did not grant permission to replace our DC-8-63s temporarily by Airbus A310s for the service to Harare, pending agreement on using Boeing 747s on this route. As a result, the service which had

opened to this destination in November 1983 was withdrawn in January 1985. Instead of Harare, the final destination of this Africa service is now Lilongwe in Malawi.

An agreement was reached with the Soviet Union on using the route via Tashkent. This permits faster schedules to the Far East.

In mid July 1984, the services between Paramaribo and Amsterdam were resumed in cooperation between KLM and Surinam Airways. At the end of March 1985, however, Surinam Airways cancelled the existing cooperation agreement as of November 1, 1985. Negotiations for a new cooperative arrangement are now underway for the flights on this route.

On the basis of an agreement between KLM and Korean Airlines, KLM inaugurated a service to Seoul in late October 1984.

Agreement was reached with Portugal about including Oporto in our route network, in addition to Lisbon. In Cyprus our services to Larnaca were approved.

Newly formed airlines have appeared to participate in scheduled civil aviation in the Netherlands.

The efforts of the Dutch authorities in the interests of Dutch civil aviation in general and of KLM in particular continue to be of great significance and are highly appreciated.

#### **Cooperation and Assistance**

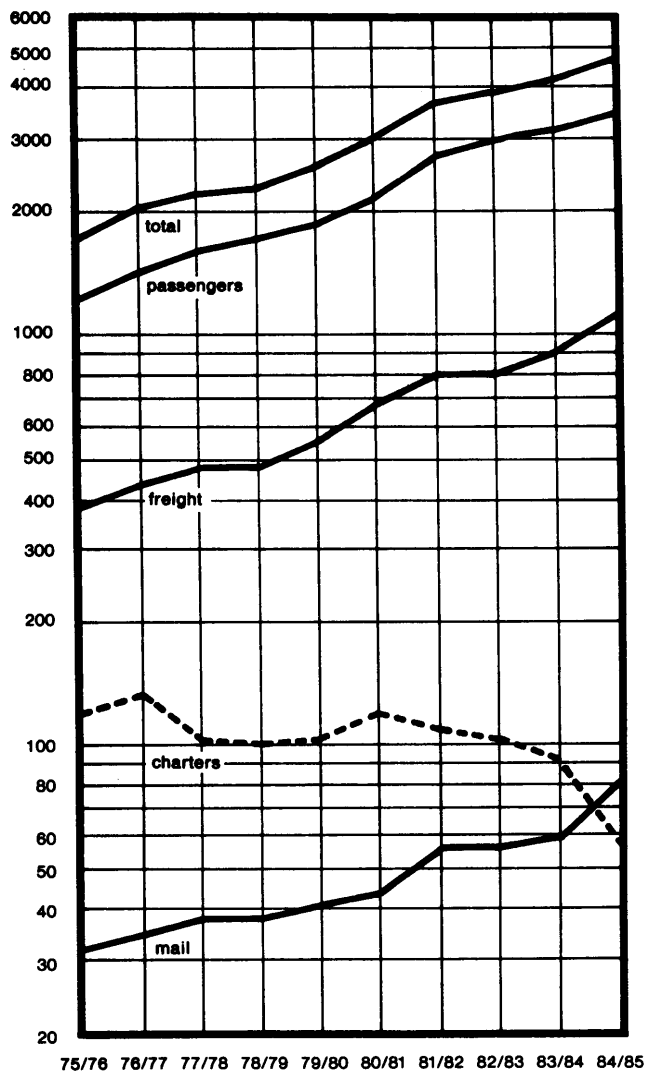
The company's expertise and equipment in many areas is also applied to serve a large number of other airlines. This relates to maintenance and other technical activities, handling work at Schiphol and many other stations, training, automation services and catering. This utilizes our available manpower, expertise and investments more efficiently, while it provides significant additional employment, in the order of 2000 man-years.

Technical work comprises maintenance, overhaul and modifications to aircraft and their parts. A significant activity is the maintenance and overhaul of General Electric jet engines, comprising about 40% of all engines of this type in civil aviation.

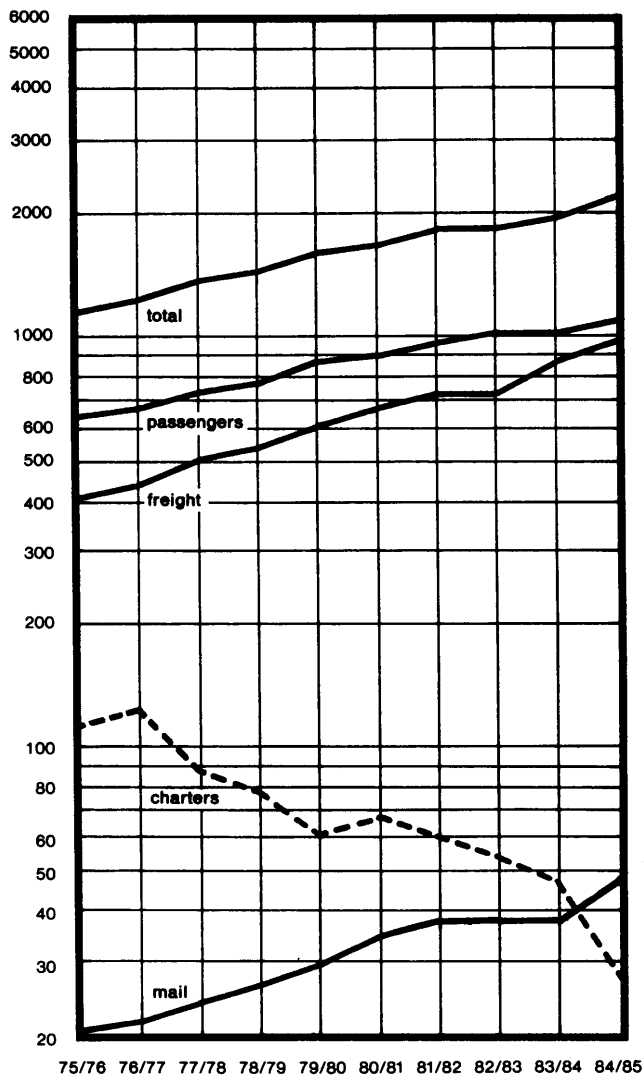
In the report period we concluded a contract with an airline in Bangladesh for the maintenance of 3 DC-10 aircraft, for which technicians have been stationed locally.

In many instances, the cooperation between airlines in

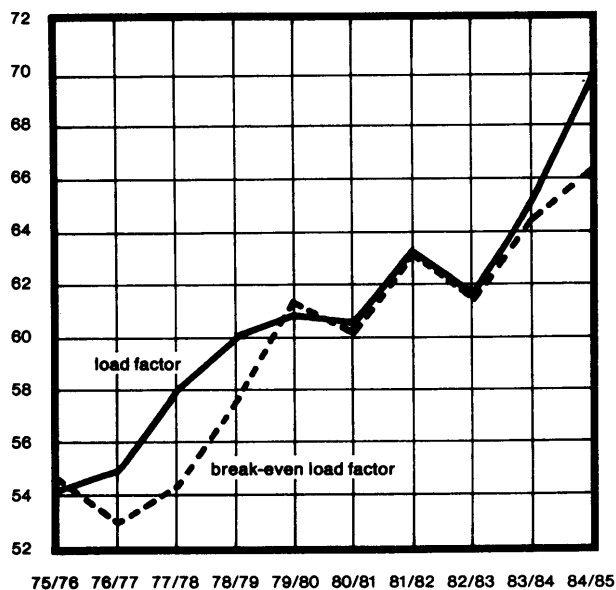
**Traffic revenue**  
(in millions of guilders)



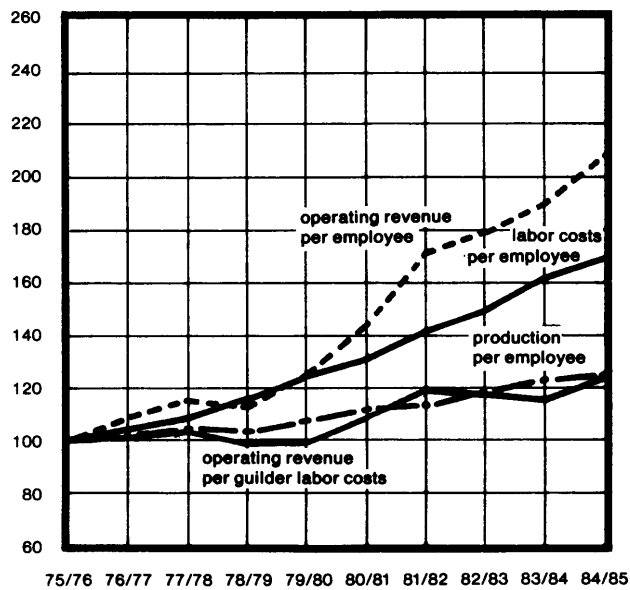
**Traffic**  
(in millions of ton-miles)



**Load factor and break-even load factor**  
(percentages)



**Productivity and labor costs**  
(index 1975/76 = 100)



Figures used in these graphs include NLM.

handling affords more efficient use of costly equipment, which would not be fully utilized if used solely for KLM.

The rapid development of computers in aviation has facilitated many forms of cooperation. In addition to KLM's offices, other airlines and travel agencies are also linked to our reservations systems. In a number of instances, the reservations for other airlines are made on KLM computers.

Activities from this work is included in 'other revenue'.

#### **Route Network**

KLM's route network, including that of its subsidiary NLM CityHopper, is approximately 213,600 miles long and connects 124 cities in 77 countries. Intercontinental and European scheduling offers good connections between cities in Europe and in other parts of the world via KLM's home base in Amsterdam.

The summer schedule, which was flown from March 25 through October 27, 1984, offered primarily the following new patterns.

- A weekly service to Doha, the capital of Qatar in the Middle East.
- Twice the frequency to Taipei, from one to two flights a week.
- Increase in the number of services to Los Angeles, from five to six a week.
- In July and August 1984 a seventh weekly flight to Los Angeles in connection with the Summer Olympics.
- Introduction of the Airbus A310 to Bahrain, Baghdad, Barcelona and Paris.
- Inclusion of Larnaca in Cyprus in the route network on July 17, 1984.
- Resumption of the flights to Paramaribo in July 1984, after an interruption since October 15, 1983.

The winter schedule for the period from October 28, 1984 through March 30, 1985, introduced the following changes:

- One weekly flight to Seoul, South Korea, via the Polar route.
- Five flights a week to Newcastle, operated by NLM CityHopper with Fokker F28 aircraft.
- Introduction of the flight route over Tashkent on the Amsterdam-Delhi segment, which shortens traveling time to and from the Far East.
- The Boeing 747-300, with the extended upperdeck, gradually appeared to more destinations in the winter schedule.
- The Airbus A310 was also introduced on a greater number of schedules, replacing the Douglas DC-8-63 to

Casablanca, Freetown, Monrovia, Khartoum and Dar-es-Salaam.

- Since January 26, 1985, Lilongwe (Malawi) has been included in the line network.

The summer schedule for 1985 took effect on March 31 and introduced the following major changes:

- Higher frequencies to most North American destinations; between June 15 and September 15, KLM operates 53 flights a week over the North Atlantic routes in both directions.
- Increase in the number of flights to Curaçao and Aruba, from three to six and from two to three per week respectively. Faster schedules of the Central American services, since no intermediate landings are made in Zurich and Lisbon.
- New destinations in the route network: Dubrovnik and Oporto.
- Increase in frequency to a large number of destinations: Geneva, London, Munich, Malaga, Nice, Palma de Mallorca, Rome and a few points in Scandinavia.
- Introduction of the Airbus A310 to Frankfurt, Manchester and Vienna. DC-10s replace the DC-8-63s on the route to Paramaribo. The Boeing 747-300 with the extended upperdeck is being successively introduced to more destinations.
- NLM CityHopper terminated services between Amsterdam, Enschede and Groningen. Since January of this year, another carrier, Netherlines has been providing services in this pattern.

The 1985 summer schedule introduced the following new on-board service aspects:

- The four Airbus A310 aircraft, which operate on longer stretches (East and West Africa, Middle East), were outfitted with Business Class accommodations with the same spacious seats as the Boeing 747 and DC-10-30 aircraft.
- Meal service in Royal Class and Tourist Class were enhanced through more varied composition.

#### ***Amsterdam Airport Schiphol***

A modern home base with sufficient capacity for further growth in air traffic is of vital importance to KLM. Schiphol's attractive qualities were once again rated high in a 1984 survey among air travelers.

Present renovation and expansion of B and C piers of the terminal will create additional space for more aircraft movements and to accommodate larger numbers of passengers. Rapid realization of a new baggage handling system which offers more capacity and faster

processing, is imperative for maintaining Schiphol's excellent position.

Schiphol also enjoys a prominent position in air cargo movements. This is apparent in the strong growth in cargo traffic (19% in 1984) and the continued interest of foreign companies in establishing a distribution center at or near Schiphol.

It is essential that the plans for Schiphol facilities offer sufficient accommodations to permit continued aviation growth.

#### Capacity and Traffic

The following table shows 1984/85 capacity and traffic in millions of ton-miles. World aviation figures for calendar 1984 (international traffic including the USSR) have been included for comparison.

Total traffic and the load factor of the scheduled services rose in all sectors during the financial year. The growth in total traffic and in passenger traffic was strongest in the Europe, Far East and Africa line groups.

The increase in cargo traffic was over 9% in all line

groups, except to Central and South America, where development stagnated.

Capacity increased most to the Far East because of the introduction of the Boeing 747-300M to Tokyo and Taipei.

The breakdown of passengers, freight, mail and charters in the ton-mile traffic and in the traffic revenue is as follows (KLM and NLM):

Percentages	Traffic in ton-miles		Traffic revenue	
	1984/85	1983/84	1984/85	1983/84
Passengers and baggage	51	52	73	74
Cargo	46	44	24	22
Mail	2	2	2	2
Charters	1	2	1	2
	100	100	100	100

Strong growth in cargo traffic further increased its share in the total ton-mile traffic carried.

KLM LINE GROUPS and NLM	CAPACITY				TRAFFIC				LOAD FACTOR	
	passengers		freight & mail		total					
	84/85	growth in %	84/85	growth in %	84/85	growth in %	84/85	growth in %	84/85 in %	83/84 in %
Europe	228	+ 5	84	+11	47	+16	131	+13	57.7	53.6
North America	1,264	+ 5	456	+ 7	518	+13	974	+10	77.1	73.7
Central & South America	247	- 5	104	+ 7	55	- 0	159	+ 4	64.6	58.5
Far East	877	+ 9	282	+11	332	+20	614	+16	69.9	65.7
Near East	218	- 6	78	+ 4	46	+25	124	+11	57.1	48.5
Africa	219	+ 2	92	+13	47	+10	139	+12	63.6	57.6
Total scheduled services KLM	3,053	+ 4	1,096	+ 9	1,045	+15	2,141	+12	70.2	65.5
Scheduled services NLM	20	+ 0	10	+ 9	1	+17	11	+ 9	51.6	47.4
Scheduled services KLM and NLM	3,073	+ 4	1,106	+ 9	1,046	+15	2,152	+12	70.1	65.4
Charters	41	-39					28	-40	65.8	67.1
KLM & NLM TOTAL	3,114	+ 3					2,180	+10	70.0	65.4
WORLD AVIATION										
Scheduled services	89,000	+ 6	34,900	+ 9	20,900	+14	55,800	+11	62.7	59.7

# Wholly Owned Subsidiaries\*

## NLM CityHopper

In the report period, this subsidiary attained a profit of f4.1 million, compared to a loss of f2.3 million in the previous year\*\*.

The improvement in earnings resulted from the almost 10% passenger increase on European and regional services with a somewhat higher average yield per passenger and through cost savings. Turnover increased 7.6% to f146.9 million, which includes stable charter turnover of f5.6 million (last year f5.5 million).

The passenger load factor on European and regional services rose from 49.1% to 53.5%; on the domestic route to Eindhoven and Maastricht from 35.1% to 41.4%.

The composition of the fleet remained unchanged:

4 F28-4000 Fellowships with 80 seats each;

3 F27-500 Friendships with 52 seats each;

4 F27-200 Friendships with 40 seats each.

The F27-200s were remodeled inside, reducing the number of seats from 44 to 40 in order to increase seating comfort.

NLM CityHopper's destinations in the 1985 summer schedule included:

From Amsterdam: Bremen, Dusseldorf, Stuttgart, Prague, Brussels, Antwerp, Birmingham, Belfast, the Channel Islands Jersey and Guernsey, Maastricht and Eindhoven.

From Rotterdam: Paris and London (Heathrow)

From Maastricht and Eindhoven: London (Gatwick)

From Eindhoven: Hamburg.

The total number of staff at NLM CityHopper averaged 230 this financial year, compared to 244 in the previous year.

## KLM Helicopters

In the report period this subsidiary attained a turnover of f60.6 million (+3.8%). Net earnings were f5.8 million, compared to f4.8 million in the previous fiscal year\*\*.

Helicopter transport for the exploration and operating

\* The most important wholly owned subsidiaries are discussed in this section. The financial statements also mention another two companies whose net earnings are of secondary significance. These are KLM International Finance Company, active in financing aircraft, and Weblok, in which the buildings are included and in which KLM's head office and computer center are seated.

\*\* These results, as reported in the financial statements of these subsidiaries, are not equal to those included in the consolidated financial statements of KLM because of a point of difference in the bases of valuation.

activities on the Dutch portion of the Continental Shelf showed a healthy development this year; the number of commercial flying hours increased approximately 7% to 10,166 hours. The transport of pilots to and from seagoing vessels consisted of 150 flights, a decline of approximately 17% in respect to 1983/84.

The number of staff at March 31, 1985, was 189, which is 7 greater than the previous year.

The fleet remained unchanged:

7 Sikorsky S-61N helicopters, accommodating 24 passengers each.

3 Sikorsky S-76A helicopters, accommodating 11 passengers each.

Along with the overhaul and modernization of navigation equipment for the S-61N helicopters, and maintenance of the S-76A helicopters, a fourth S-76A was acquired through a one year lease.

KLM Helicopters will continue to concentrate on customer-oriented quality improvement of its product in the coming period, partly through adding both to the flexibility in available capacity and flight and passenger servicing.

In early January 1985 KLM Helicopters received a technical maintenance contract for Jetstream 31 aircraft of the new regional airline Netherlines. This is a form of activity which has expanded the company's base.

## Golden Tulip International

This subsidiary's objective is to offer KLM passengers hotel reservations in a worldwide organization of hotels through a hotel reservations system. In addition, the activities comprise hotel management and the development of new hotels.

Participation in the capital of hotels is only on a limited scale.

In the report year, more than 320 hotels in 260 cities in 60 countries were linked to the reservations system. Golden Tulip had contracts regarding the management of 11 hotels.

The company is still in a phase of initial losses.

## KLM Aerocarto

The turnover value of the production of this subsidiary was f7.6 million in the report period, 1.3% less than in the previous year. A loss of f3.5 million was incurred, compared to f3.2 million in 1983/84.\*\*

The number of job positions remained unchanged at 74.

Aerocarto completed aerial survey assignments in the Netherlands, Lebanon, Nigeria, Oman and in the United Arab Emirates.

Just as in the previous financial year, Aerocarto operated three aircraft: a Piper Chieftain, a Cessna 207 and a Cessna 172. Further the company has 11 surveying instruments connected to modern electronic peripheral equipment for making land maps from aerial photos.

#### **Service Q, General Service Company**

This subsidiary primarily performs cleaning work for KLM. In the report period turnover was f26.2 million, which is 4% more than in the previous year. Net earnings amounted to f63,000, compared to f23,000 in 1983/84. This profit was realized totally from work performed for third parties.

The number of staff at March 31, 1985, was 554, which is 4% more than one year before. Since October 1984 Service Q has a joint staff council consisting of eleven members.

## Holdings

#### **Holland International Travel Group**

In this company, which is dedicated to travel and tourist activities, KLM has a 50% share, the Royal Nedlloyd Group 37½% and NV Nederlandse Spoorwegen 12½%.

Holland International's turnover increased 7% in the financial year which ended on October 31, 1984, to f853 million. Also because of moderation of costs, the financial year was concluded with a positive result.

The turnover development per sector in 1983/84 was:

travel agencies in the Netherlands	+ 6%
tour operating	+ 9%
foreign travel agencies	+ 5%
incoming tourism	+ 11%

The airline turnover at the travel agencies in the Netherlands increased 6% in respect to the previous year.

At the end of 1984, the number of full-time employees was 956, 4% less than in the previous year.

#### **KLM Bus Company**

This company, in which KLM and NV Nederlandse Spoorwegen each participate 50%, had a turnover of f9.6 million in 1984, which is 2.4% greater than in 1983.

The number of passengers on the two lines from Schiphol Airport to the Central Stations in Amsterdam and Utrecht increased 3% to 890,000 (a growth of 3.6% and 0.8% respectively).

Net earnings totaled f1.2 million compared to f292,000 in 1983.

The improvement in the result derives from the greater number of passengers, fare increases and further cost reductions.

In 1984, the number of employees was further reduced from 65 to 57, primarily because of transfers to KLM. The number of buses declined from 32 to 31.

In 1986 when, according to plans, the Schiphol rail line will be extended to Amsterdam's Central Station, the bus services to Amsterdam and Utrecht will be terminated. Replacement activities are being sought, such as a regular bus service from Schiphol to hotels in the vicinity of Amsterdam's Leidseplein.

#### **XP Express Parcel Systems**

This company, in which Vendex International and KLM each participate 50 %, concentrates on the rapid transport of small packages to 2000 destinations in 16 countries in



## Prospects for the Future

Europe. In the report year, the company once again experienced strong growth because of the favorable development in the total market for express transport of small shipments and because of the company's greater share in this market. In the course of 1984, its network of organizations expanded to 45 offices.

The market's growth has resulted in a considerably better operating result than the year before. For the current year, the turnover is expected to expand further through a moderate development in capacity.

### Hotels

KLM holds a considerable interest in the share capital of the following hotels:

City	Name	KLM share	number of rooms
Geldrop	Golden Tulip Geldrop*	100%	138
Hoofddorp	Golden Tulip Hoofddorp*	100%	168
Karachi, Pakistan	Midway House	33.3%	300
Schiphol	Schiphol Hilton	43.5%	204
Amsterdam	Pulitzer	25%	194
Bussum	Golden Tulip Jan Tabak	8.8%	101
Leiden	Holiday Inn	12.6%	189

\* These hotels are property of Highmark International, a wholly-owned subsidiary which is included in the consolidated accounts.

Moreover KLM also holds a very small percentage in the share capital of a few other hotels.

In the report year, the interest in Hotel Sanur Beach in Bali was sold to the majority shareholder Garuda Indonesian Airways.

In March 1985, work was begun for the expansion of Hotel Schiphol Hilton by 78 rooms. These will be ready for occupancy in 1986.

At March 31, 1985, the investment in hotels amounted nominally to f3.7 million, compared to f6.8 million the previous year. KLM's share in the operations of the hotels contributed f1.5 million to KLM's results for 1984/85.

### Martinair Holland

This company, in which KLM has a minority holding, had a turnover of f464 million in 1984, compared to f359 million in the previous year (+29%).

Ton-mile capacity climbed 20% to 684 million, passenger traffic by 27% to 243 million and cargo traffic by 16% to 441 million.

Net earnings amounted to f15.4 million, compared to f7.1 million in 1983.

International aviation profited from the economic recovery in many countries in 1984 and from the strong growth in world trade. The growth in air cargo traffic was particularly significant. If the improved economic climate continues, it will have a positive influence on traffic development and the industry results.

For the current year 1985/86, we are planning a 5% capacity increase, which will be effected primarily on the routes to the Far East and North and Central America.

In light of the increase forecasted in capacity and traffic this year, the expected number of staff will increase approximately 2%.

Our investments relate chiefly to the fleet, specifically to the conversion of seven Boeing 747s and the delivery of our tenth Airbus A310. The order of 10 Fokker 100 aircraft will place a demand on our financing program in the coming period.

The investments in equipment other than aircraft will be higher in the current and coming years than in the report period, partly for replacement and partly for expanding activities, including new buildings and construction for the Engineering and Maintenance Division, Catering Services and Cargo at Schiphol.

These investments will be financed from available assets, cashflow, and additional assets to be obtained.

We are striving to expand the number of European destinations in our route network and to increase the frequency in our service in Europe. In addition we are conducting an active fare policy, also geared to expanding the market.

For our company, providing qualitatively high-value transportation services to a great number of markets is fundamental, as well as for passengers in all classes, for shippers of cargo of all sorts and for mail.

With the continued effort and dedication of the staff at all levels, we are confident that in the current financial year we will once again make a reasonable profit.

Amstelveen, June 20, 1985

Management:

S. Orlandini

J. F. A. de Soet

L. J. van Ameyden



# Financial Statements

## Change in the presentation

The presentation of the financial statements has been changed in accordance with the new regulations of Title 8 Book 2 of the Civil Code. The changes relate chiefly to the headings in conformity with the legal regulations, as well as the consolidation of the holdings in the partnership firms. The comparative figures from last year have been restated to conform to the new presentation.

## SUMMARY OF ACCOUNTING POLICIES

### Change in the bases for valuation

Effective this fiscal year, the debenture loans with warrants are stated net of discount. Discount is considered as the market value of the warrants at the moment of issue of the loans. This value is added to the stockholders' equity under paid-in surplus. The discount is debited to the statement of earnings during the term of the loan.

Because of this change, stockholders' equity at March 31, 1985 increased by £59.1 million and the results for fiscal 1984/85 were unfavorably affected by £7.0 million.

### Bases for the consolidation

The financial data of the subsidiaries are included in the consolidated balance sheet and statement of earnings.

The majority holdings in companies are included in their entirety in the consolidation. The share of third parties in stockholders' equity and in the result is mentioned separately. The holdings in partnership firms are consolidated proportionately. A survey of the most important subsidiaries is published on page 43.

### Method of valuation

The financial statements are based on historical costs. Information on current value is published on page 35.

### Foreign currency

The exchange rate differences of a financial year involving long-term debts, long-term receivables and other financial fixed assets, as well as the currency exchange rate differences realized on forward contracts originally

intended for payment of ordered aircraft, but which contracts were set off instead, are debited/credited to deferred credits. An exchange rate difference, favorable on balance at balance sheet date, will be amortized at the same time as the discharge of the items concerned. A debit balance will be charged to the result.

The exchange rate differences on the other assets and liabilities and the exchange rate differences arising from normal operations are debited/credited to the statement of earnings under the other operating expenses heading.

The tangible fixed assets are converted at currency exchange rates at the moment of payment, or at exchange rates at the moment of designation of deposits stated in dollars, or at the exchange rates of forward exchange contracts.

Financial fixed assets and long-term debts are converted at the exchange rates at March 31, 1985, or at the exchange rates for which forward exchange contracts have been signed, with exception of the long-term perpetual debt, which is converted at the exchange rate at the moment of incurring the loan.

Receivables, securities, liquid funds and current liabilities are converted at the official exchange rates at March 31, 1985, or at the transfer rates.

The most important exchange rates used at March 31, 1985, are:

	1985	1984
US\$ 1.00 =	£ 3.48	£ 2.92
UK£ 1.00 =	£ 4.30	£ 4.21
DM 1.00 =	£ 1.13	£ 1.13
Sw. Fr. 1.00 =	£ 1.33	£ 1.36

## BASES FOR THE VALUATION OF ASSETS AND LIABILITIES

### Tangible fixed assets

Aircraft are valued at purchase price (including the purchase expenses, such as the financing expenses up to the moment the aircraft are put into service), less depreciation.

Aircraft held under capital lease obligations are also included under this heading.

Aircraft are written off on a straight line basis to a residual value of 10% on the basis of their estimated useful lives, with exception of those aircraft which the company has the right to buy at the end of the lease period at the then current market value. These aircraft are depreciated in their entirety.

When the life is changed, the book value at that moment is depreciated as described above, but over the aircraft's remaining life.

A survey of the depreciation terms per aircraft type is published on page 25.

Spare engines and spare parts are written off in the same way as the aircraft to which they belong, except for the aircraft seats included under spare parts, which are written off in 5 years.

Significant modernizations and improvements are capitalized and written off over the remaining life of the aircraft type concerned.

Other fixed assets are valued at cost, less straight line depreciation, calculated on the basis of their estimated

useful lives which vary from 20 to 40 years for buildings, from 3 to 15 years for inventories, machines and installations and from 5 to 20 years for vehicles and other fixed assets.

Residual values have been taken into account. For large projects, the financing expenses are included in the purchase price.

Tangible fixed assets on order are included in the balance sheet for the paid terms. The payment terms still remaining are included in the Notes under the heading 'commitments not recorded in the balance sheet'.

#### **Financial fixed assets**

Holdings are valued on an equity basis. The long-term receivables and the other financial fixed assets are valued at their nominal value, less provisions deemed necessary. The portion maturing within one year is included under fixed assets.

#### **Supplies**

Supplies are valued at average cost. To cover the risk of obsolescence, a provision based on the useful life of the aircraft to which the supplies relate, is deducted from the maintenance supplies.

#### **Accounts receivable**

Accounts receivable are valued at their nominal value, less provisions deemed necessary.

#### **Securities and liquid funds**

Securities and other investments are valued at purchase price or lower market price. Cash on hand, demand deposits and time deposits are stated at their nominal value.

#### **Deferred credits**

The credits are valued at their nominal value and are generally credited to the statement of earnings of future financial years at the same time as the payments or depreciation of the items they relate to, for which a maximum of 20 years is maintained for premiums based on the Investment Account Act.

#### **Provisions**

Provisions are included at the nominal value of the expected commitments.

#### **Subordinated and other long-term debt**

These debts are stated at their nominal value; with the debenture loans, the discount, based on the market value of the warrants at the moment of issue, has been deducted. Obligations under capital leases are stated at current value.

Portion maturing within one year is included in current liabilities.

#### **Current liabilities**

Current liabilities are stated at their nominal value. Unearned revenue, insofar as it relates to transportation

yet unperformed, is stated at the guilder value at the time the transportation commitment was made.

### **BASES FOR THE DETERMINATION OF NET INCOME**

#### **Operating revenues**

Proceeds from transportation performed are included as traffic revenue, stated at the guilder value at the time which the transportation commitment was made.

Deliveries and services to third parties are included as other revenue at the moment the goods are delivered or the services performed.

#### **Operating expenses**

Costs of material used for aircraft maintenance, as well as less important modernizations and improvements, are charged directly to the statement of earnings.

Pension expenses are also accounted for under social expenses.

KLM's pension arrangement for the staff in the Netherlands is administered by three independent pension funds (for cockpit staff, cabin staff and ground staff). Suitable arrangements have been made for the staff outside the Netherlands.

The method of depreciation is published in the bases for valuation of assets and liabilities.

#### **Share in result of holdings**

KLM's share in the results of non-consolidated holdings is included here. The results of holdings are determined to the extent possible using the same accounting principles as KLM for valuation and determination of net income.

#### **Balance of other income and (deductions)**

This includes the incidental income and deductions not belonging to normal operations.

#### **Share of third parties**

This relates to the share of third parties in the result after taxes of consolidated holdings.



# Consolidated Balance Sheet at March 31, 1985 and March 31, 1984

(after distribution of profits)

<b>Assets</b>		in thousands of guilders	
		<i>Note*</i>	
		<b>March 31, 1985</b>	<b>March 31, 1984</b>
<b>Fixed assets</b>			
	Tangible fixed assets	<b>1 4,547,689</b>	3,793,490
	Financial fixed assets	<b>2 217,199</b>	149,457
		<b>4,764,888</b>	3,942,947
<b>Current assets</b>			
	Supplies	<b>3 262,561</b>	250,684
	Accounts receivable	<b>4 1,117,521</b>	1,058,236
	Securities	<b>5 447,452</b>	123,864
	Liquid funds	<b>6 1,118,344</b>	801,699
		<b>2,945,878</b>	2,234,483
		<b>7,710,766</b>	<b>6,177,430</b>

The numbers in this column refer to the sections in the notes.

**Liabilities**

in thousands of guilders

	Note*	March 31, 1985	March 31, 1984
<b>Capital and reserves</b>			
Stockholders' equity	7	1,783,613	1,492,350
Share of third parties in consolidated holdings		772	(268)
		<u>1,784,385</u>	<u>1,492,082</u>
<b>Deferred credits</b>	8	702,457	719,638
<b>Provisions</b>	9	141,709	118,427
<b>Subordinated long-term debt</b>	10		
Subordinated perpetual debt		266,170	—
Other subordinated debt		354,244	283,800
		<u>620,414</u>	<u>283,800</u>
<b>Other long-term debt</b>	11	2,312,464	1,963,133
<b>Current liabilities</b>	12	2,149,337	1,600,350
		<u>7,710,766</u>	<u>6,177,430</u>
 <b>Proforma equity</b>			
Capital and reserves		1,784,385	1,492,082
Account receivable from the State of the Netherlands resulting from stock subscription		22,300	22,300
Deferred credits		702,457	719,638
Subordinated debt		620,414	283,800
		<u>3,129,556</u>	<u>2,517,820</u>

# Consolidated Statement of Earnings for 1984/85 and 1983/84

in thousands of guilders			
	Note*	1984/85	1983/84
<b>Operating revenues</b>			
Traffic revenue	16	4,799,414	4,242,750
Other revenue	17	857,690	787,182
		<b>5,657,104</b>	<b>5,029,932</b>
<b>Operating expenses</b>			
Wages and social expenses	18	1,587,373	1,506,724
Aircraft fuel		1,159,420	1,058,013
Cost of materials and consumables		398,818	375,761
Other operating expenses	19	1,946,080	1,748,518
Depreciation	20	285,627	231,010
		<b>5,377,318</b>	<b>4,920,026</b>
<b>Balance of operating revenues and operating expenses</b>		<b>279,786</b>	<b>109,906</b>
Financial gains and losses	21	(31,635)	(48,781)
Profit on sale of tangible fixed assets		25,113	10,144
Share in result of holdings		5,473	8,070
		<b>278,737</b>	<b>79,339</b>
<b>Operating result</b>			
Balance of other income and (deductions)	22	10,623	23,460
		<b>289,360</b>	<b>102,799</b>
Share of third parties		589	420
		<b>289,949</b>	<b>103,219</b>
<b>Net income</b>			
Net income in guilders per common share of f 20, based on 38,824,600 (1984/85) and on 38,318,000 (1983/84) shares		<b>7.47 **</b>	<b>2.69 **</b>

\* The figures in this column refer to the sections in the Notes.

\*\* If all preference shares and all outstanding warrants were converted into common shares, the net income per share would have to be calculated on 51,843,622 shares and after full payment of the common shares on 52,958,622 shares (last year 49,093,622 shares and after full payment 50,208,622 shares). The net income per share would then be f 5.59 and after full payment f 5.48 (last year f 2.10 and after full payment f 2.06).

# Statement of Changes in Consolidated Financial Position

		in millions of guilders	
		1984/85	1983/84
<b>Funds provided by:</b>			
Net income	290	103	
Depreciation	286	231	
Book value of disposed fixed assets	47	88	
Non-cash items	53	78	
Funds derived from operations	676	500	
Decrease in financial fixed assets	32	62	
Net proceeds of:			
Converted warrants	17	—	
Private issue of shares	—	252	
Payment on preference shares	—	78	
Lease financing	713	475	
Other loans	399	520	
Premiums based on Investment Account Act	63	142	
Gain on sale and lease-back of 2 Airbus A310 (1984/85) and 2 Boeing 747 aircraft (1983/84)	26	133	
Change in current liabilities	549	185	
Other	42	13	
	1,841	1,860	
	2,517	2,360	
<b>Funds used for:</b>			
Capital expenditures for aircraft (advance payments included)	979	1,369	
Capital expenditures for other tangible fixed assets (advance payments included)	191	126	
Increase in financial fixed assets	89	42	
Decrease in long-term debt	425	228	
Distribution of earnings	75	—	
Change in supplies and receivables	71	259	
Other	47	35	
	1,877	2,059	
Changes in securities and liquid funds	640	301	

# Notes to the Consolidated Balance Sheet

## 1 Tangible fixed assets

in thousands of guilders

	March 31, 1985	March 31, 1984
Aircraft	3,233,452	2,496,800
Spare engines	92,519	111,891
Spare parts	196,089	167,638
	<u>3,522,060</u>	<u>2,776,329</u>
Other tangible fixed assets	874,031	778,248
Fixed assets in course of construction and prepayments on tangible fixed assets	151,598	238,913
	<u>4,547,689</u>	<u>3,793,490</u>

## Aircraft, spare engines and spare parts

in thousands of guilders

Purchase value at March 31, 1984	4,393,592
Additions	1,071,671
Retirements and disposals	(214,239)
Other	(40,902)
Purchase value at March 31, 1985	<u>5,210,122</u>
Depreciation through 1983/84	1,617,263
Depreciation in 1984/85	267,919
Retirements and disposals	(183,849)
Other	(13,271)
Depreciation through 1984/85	<u>1,688,062</u>
Book value at March 31, 1985	3,522,060
Book value at March 31, 1984	<u>2,776,329</u>

The aircraft under capital leases are included in this item as follows:

In thousands of guilders

	March 31, 1985	March 31, 1985
Purchase value	2,411,460	1,735,293
Depreciation	448,571	358,225
Book value	<u>1,962,889</u>	<u>1,377,068</u>

The survey of the depreciation terms is as follows:

	Number	Average depreciation term
Boeing 747	18	17½ years
Douglas DC-10-30	5	14½ years
Douglas DC-9-32	3	6½ years
Airbus A310	9	15 years
Fokker F-27 and F-28	7	12 years
Sikorsky S-76 helicopters	3	12 years

The following aircraft have reached their residual value:

	Number	Residual value
Douglas DC-9-32/33	14	10%
Douglas DC-9-15	1	nil
Fokker F-27-200	4	10%
Sikorsky S-61 helicopters	7	10%

The supplies of spare engines and spare parts do not include the share of the KSSU partners (SAS, Swissair and UTA, with which KLM has an agreement for the maintenance of aircraft) in the financing of supplies held by KLM, but do include KLM's share in the financing of supplies held by the KSSU partners.

#### Other tangible fixed assets

	in thousands of guilders			
	Land and buildings	Inventories, machines and installations	Vehicles and other fixed assets	Total
Purchase value at March 31, 1984	594,391	448,511	113,880	1,156,782
Additions	56,662	84,996	44,031	185,689
Retirements and disposals	(1,754)	(22,036)	(17,029)	(40,819)
Other	610	982	707	2,299
Purchase value at March 31, 1985	649,909	512,453	141,589	1,303,951
Depreciation through 1983/84	116,631	204,078	57,825	378,534
Depreciation in 1984/85	22,027	39,877	12,753	74,657
Retirements and disposals	(1,135)	(12,913)	(10,150)	(24,198)
Other	1,737	(908)	98	927
Depreciation through 1984/85	139,260	230,134	60,526	429,920
Book value at March 31, 1985	510,649	282,319	81,063	874,031
Book value at March 31, 1984	477,760	244,433	56,055	778,248

The other tangible fixed assets include f16.9 million in land (last year f13.4 million).

The other tangible fixed assets include assets whose availability is based on limited right of use, such as buildings on land which has been obtained by long-term lease contracts, and assets which have been obtained by lease agreements.

The book values of these assets at March 31, 1985, are:

	in thousands of guilders	
	Lease	Other limited right of use
Buildings	—	354,530
Inventories, machines and installations	11,743	—
Vehicles and other fixed assets	—	39,416
	11,743	393,946

#### Fixed assets in course of construction and prepayments on tangible fixed assets

	in thousands of guilders
Book value at March 31, 1984	238,913
Additions	91,470
Completed	(178,785)
Book value at March 31, 1985	151,598



**2 Financial fixed assets**

in thousands of guilders

	March 31, 1985	March 31, 1984
Holdings	104,518	103,820
Receivables from holdings	22,597	22,236
	<u>127,115</u>	<u>126,056</u>
Long-term receivables	17,863	23,401
Other financial fixed assets	72,221	—
	<u>217,199</u>	<u>149,457</u>

The changes are as follows:

in thousands of guilders

	Holdings and receivables from holdings	Long-term receivables and other
Balance at March 31, 1984	126,056	23,401
New/expansion/issue	6,140	82,747
Sale/redemption	(7,626)	(24,078)
Share in earnings	5,473	—
Dividends received	(2,518)	—
Exchange rate differences and other	(410)	8,014
Balance at March 31, 1985	<u>127,115</u>	<u>90,084</u>

An allowance for collection of f0.5 million (last year f0.5 million) has been deducted from the long-term receivables.  
The installment schedule of the long-term receivables is as follows:

in thousands of guilders

1986/87	12,128
1987/88	2,483
1988/89	1,543
1989/90	1,024
1990/91 - 1994/95	592
1994/95 and later	93
	<u>17,863</u>

The other financial fixed assets include securities which yield proceeds for covering installments and interest on certain debts.

**3 Supplies**

in thousands of guilders

	March 31, 1985	March 31, 1984
Maintenance material	217,308	207,469
Various supplies	45,253	43,215
	<u>262,561</u>	<u>250,684</u>

The supplies of maintenance material do not include the share of the KSSU partners in the financing of supplies held by KLM, but do include KLM's share in the financing of supplies held by the KSSU partners.  
A provision for estimated obsolescence of f146.3 million (last year f126.8 million) has been deducted from the maintenance supplies, based on the useful life of the aircraft.

**4 Accounts receivable**

in thousands of guilders

	March 31, 1985	March 31, 1984
Accounts receivable	961,113	887,900
Financial fixed assets maturing within one year	23,236	59,920
Prepaid expenses	133,172	110,416
	<u>1,117,521</u>	<u>1,058,236</u>

An allowance for collection of f43.4 million (last year f38.5 million) has been deducted from the receivables.

Of the receivables f76.8 million (last year f159.6 million) represents premiums to be received on the basis of the Investment Account Act, f3.1 million (last year f6.5 million) represents receivables from purchases on installment bases, f9.2 million (last year f9.3 million) on holdings and f19.3 million (last year f9.7 million) on reclaimable value added tax.

Prepaid expenses include f25.6 million (last year f11.0 million) because of costs incurred for loans obtained. f21.1 million (last year f8.9 million) has a remaining term of more than a year.

## 5 Securities

in thousands of guilders

	March 31, 1985	March 31, 1984
Debtenture loans State of the Netherlands	422,452	92,749
Treasury bonds	25,000	25,000
Other	—	6,115
	<u>447,452</u>	<u>123,864</u>

## 6 Liquid funds

in thousands of guilders

	March 31, 1985	March 31, 1984
Time deposits	1,004,752	692,105
Cash on hand and demand deposits	113,592	109,594
	<u>1,118,344</u>	<u>801,699</u>

As a result of transfer formalities and foreign exchange restrictions, f82 million (last year f83 million) in liquid funds was not freely transferable from foreign establishments.

## 7 Stockholders' equity

For an explanation of the stockholders' equity, please refer to the notes to the statutory balance sheet on page 39 and 40.

## 8 Deferred credits

in thousands of guilders

	March 31, 1985	March 31, 1984
Premiums based on the Investment Account Act	446,712	417,717
Items regarding leased aircraft	178,919	175,854
Deferred financing gains	25,191	32,225
Deferred exchange rate differences favorable on balance	9,619	43,337
Other	42,016	50,505
	<u>702,457</u>	<u>719,638</u>

The items regarding leased aircraft relate to the book profits on sale and lease-back transactions and the tax payments received from financing companies.

## 9 Provisions

These relate to commitments on account of labor agreements on terminating employment, which were included in previous years in Other long-term debt. Approximately f20 million of these provisions relate to 1985/86.

## 10 Subordinated long-term debt

in thousands of guilders

	March 31, 1985	March 31, 1984
Subordinated long-term debt	266,170	—
Other subordinated debt	354,244	283,800
	<u>620,414</u>	<u>283,800</u>

**Subordinated perpetual debt**

in thousands of guilders

6½% subordinated debenture loan Sw.fr. 200 million at f1.33085	266,170
---	---------

Once every ten years, the interest rate on this loan will be redetermined for the ensuing ten years on the basis of the market interest rate in effect for foreign industrial companies in Switzerland. At that moment, the company has the unilateral right to redeem the loan.

Since it is not probable that circumstances will arise whereby the company will exercise its right to redeem, the loan has been valued at the exchange rate prevailing at the moment of the inception of the loan.

**Other subordinated debt**

in thousands of guilders

Balance at March 31, 1984	283,800
Discount related to value allocated to warrants	(59,125)
Additional borrowings	125,000
Exchange rate differences	(2,400)
Depreciation discount	6,969
Balance at March 31, 1985	<u>354,244</u>

**The specification is as follows:**

in thousands of guilders

6¾% subordinated debenture loan, with warrants nominally f125 million maturing 1989 through 1993, effective interest 8%	104,094
4½% subordinated debenture loan, with warrants nominally f125 million maturing 1996 through 2000, effective interest 6%	93,750
A warrant accompanies every f1000 debenture of this loan entitling the holder to obtain 22 common shares of KLM Royal Dutch Airlines at the price of f53 per common share of f20 during the period from July 1, 1985, through February 29, 1992	
6¼% subordinated debenture loan, maturing 1992 Sw.fr. 80 million	106,400
Subordinated capital credit Nationale Investeringsbank, maturing 1987 through 1997 The interest consists of a fixed and a variable portion. In 1984/85 the interest was 11.44%	50,000
	<u>354,244</u>
Of which maturing in 1985/86	—
	<u>354,244</u>

As of this financial year the debenture loans with warrants are stated less discount. Discount is considered as the market value of the warrants at the moment of issue. During the term of the loan, this discount is debited to the statement of earnings. On March 31, 1985, the discount for the 6¾% debenture loan was f20.9 million and for the 4½% debenture loan issued this year f31.2 million.

**The installment schedule is as follows:**

in thousands of guilders

1986/87	—
1987/88	5,000
1988/89	30,000
1989/90	30,000
1990/91 - 1994/95	206,400
1995/96 - 1999/2000	135,000
	<u>406,400</u>
Less: Discount on March 31, 1985	52,156
	<u>354,244</u>

The debts on account of these loans are subordinated to all other existing and future debts. The subordinations are equal in rank.

# 11 Other long-term debt

in thousands of guilders

	March 31, 1985	March 31, 1984
Long-term loans	399,918	588,112
Long-term obligations under capital leases	1,888,974	1,298,460
Other debt	23,572	76,561
	<u>2,312,464</u>	<u>1,963,133</u>

in thousands of guilders

Balance at March 31, 1984	1,963,133
Additional borrowings	720,895
Repayments	(424,529)
Exchange rate differences	52,965
Balance at March 31, 1985	<u>2,312,464</u>

## Long-term loans

in thousands of guilders

### Debenture loans

7% maturing 1985 through 1988	30,000
5% maturing 1985 (DM 10 million)	11,300

### Mortgage loans

8½% maturing 1985 through 1993	14,376
12¼% maturing 1985 through 1994	1,334

### Other loans

In guilders maturing 1985 through 1994, average interest 8%	171,957 <sup>2)</sup>
In Sw.fr., maturing 1986, interest 3½% (Sw.fr. 85 million)	113,050
In Fr.fr., maturing 1985 through 1994, interest 8½% by a swap converted into guilders at an average exchange rate of f0.301 (Fr.fr. 450.8 million)	135,606
In Canadian dollars, maturing 1985 through 1989, interest 9½% covered by forward exchange contracts at an average exchange rate of f1.7495 (Can.\$ 5.1 million)	8,886
In US dollars, maturing 1985 through 1994, average interest 8% (US\$ 35.6 million)	
Of which covered by forward exchange contracts at average exchange rate of f2.41 (US\$ 7.8 million)	18,711
(US\$ 27.8 million)	97,003

545,213

Of which maturing 1985/86

602,223

202,305

Total long-term loans

399,918

1) Relates to loans of a subsidiary company.

2) Includes a debt of f 1.6 million to the General Pension fund of KLM for past service arising from additional pension rights.

The installment schedule is as follows:

in thousands of guilders

1986/87	61,725
1987/88	60,761
1988/89	49,858
1989/90	48,599
1990/91 - 1994/95	178,975
	<u>399,918</u>

As regards most of these loans, KLM has undertaken not to encumber the aircraft and the real estate owned now or in the future by KLM, without the prior consent of such lenders. In regard to the debenture loan in German marks and the loan in Swiss francs, the company has agreed with such lenders not to change the order of priority of such lenders to their disadvantage.

There are restrictive covenants included in a number of the loan indentures requiring the maintenance of certain balance sheet ratios.

The outstanding debt subject to these conditions is f 19 million (last year f 40 million). At March 31, 1985, these conditions had been amply met.

#### Long-term Obligations under Capital leases

in thousands of guilders

Current value of long-term obligations under capital leases	2,037,617
average interest 6½%	25,613
Less: Guilder loans to lease companies on this account	
	<u>2,012,004</u>
Of which maturing 1985/86	<u>123,030</u>
	<u>1,888,974</u>

Of this amount, f 405.8 million relates to lease commitments in US dollars, of which f 135.9 million is covered by forward exchange contracts at an average exchange rate of f 2.13 and f 120.9 million to lease commitments in German marks.

The installment schedule is as follows:

in thousands of guilders

1986/87	110,907
1987/88	107,865
1988/89	112,548
1989/90	94,287
1990/91 - 1994/95	565,948
1995/96 - 1999/2000	716,736
2000/2001 and later	180,683
	<u>1,888,974</u>

#### Other debt

in thousands of guilders

	March 31, 1985	March 31, 1984
Deferred payment commitments for supplies already received	86,079	78,120
Other commitments to third parties	33,705	35,214
	<u>119,784</u>	<u>113,334</u>
Of which maturing in 1985/86	96,212	36,773
	<u>23,572</u>	<u>76,561</u>

#### 12 Current liabilities

in thousands of guilders

	March 31, 1985	March 31, 1984
Portion of long-term liabilities maturing within 1 year	421,547	216,281
Unearned revenue	772,478	635,884
Creditors	426,402	358,988
Taxes and social insurance premiums	80,529	77,718
Accounts payable and accrued expenses	448,381	311,479
	<u>2,149,337</u>	<u>1,600,350</u>

The unearned revenue consists mainly of amounts relating to transportation sold, but not yet utilized.

#### 13 Corporate tax

No corporate tax is due at March 31, 1985 and no provision is required for deferred taxation.

## 14 Commitments not recorded in the balance sheet

### Commitments for current orders of tangible fixed assets

in millions of guilders

	March 31, 1985	March 31, 1984
1 resp. 4 Airbus A310 aircraft	198	617
1 Boeing 747 aircraft	—	281
Conversion of 7 (1984/85), and 10 (1983/84)		
Boeing 747 aircraft	295	390
Other fixed assets	94	81
	<hr/>	<hr/>
Advance payments	587	1,369
	152	239
	<hr/>	<hr/>
Premiums receivable on basis of the Investment	435	1,130
Account Act not included in the balance sheet	17	24
	<hr/>	<hr/>
	418	1,106
	<hr/>	<hr/>

### Commitments due to lease agreements

KLM is committed for f507 million (last year f346 million) because of operational lease agreements.

The following summary shows the annual lease commitments

in thousands of guilders

1985/86	32,167
1986/87	29,843
1987/88	28,324
1988/89	24,909
1989/90	20,374
1990/91 - 1994/95	95,730
1995/96 - 1999/2000	56,950
2000/01 - 2004/05	37,503
2005 and later	180,878
	<hr/>
	506,678
	<hr/>

### Guarantees

Guarantees are provided up to an amount of f390 million (last year f31 million).

This includes the guarantee by KLM of a US\$ 100 million 12¼% Eurobond loan with warrants, issued in May 1984 by Holland Airlines Finance. The proceeds of this loan have been invested by Holland Airlines Finance with first class bankers. This has given KLM a standby credit facility of US\$ 100 million. A commission is being received for the guarantee.

The portion of the debt of the partnership firms not included in the consolidation of the holdings in these firms, amounts to f70 million.

## 15 Lawsuits

Several legal proceedings are pending against the company. Among these is an action brought by Laker Airways Limited against the company, certain other North Atlantic carriers, and the McDonnell Douglas Corporation and its financing affiliate in a U.S. Federal Court alleging violations of the U.S. antitrust laws by the defendants. On the basis of the information currently available and views expressed by counsel, KLM does not expect that the outcome of this action or the other pending proceedings will materially adversely affect the consolidated financial position of the company. A class action brought by an individual purportedly on behalf of a class of ticket purchasers also alleging U.S. antitrust violations similar to those alleged in the Laker action was voluntarily dismissed by the plaintiff in July 1984 as against KLM without prejudice.



# Notes to the Consolidated Statement of Earnings

## 16 Traffic revenue

in thousands of guilders

	1984/85	1983/84
Passengers and baggage	3,473,963	3,105,997
Freight	1,127,271	925,196
Mail	80,749	59,912
Charters	117,431	151,645
	<u>4,799,414</u>	<u>4,242,750</u>
The distribution per line group is as follows:		
Europe, including domestic lines	866,907	778,996
North America	1,625,482	1,381,939
Central and South America	360,568	320,524
Far East	1,098,784	932,093
Near East	382,431	364,372
Africa	347,811	313,181
Total scheduled services	4,681,983	4,091,105
Charters	117,431	151,645
	<u>4,799,414</u>	<u>4,242,750</u>

## 17 Other revenue

in thousands of guilders

	1984/85	1983/84
Maintenance and other technical work	256,063	223,260
Aircraft handling	102,185	105,764
Lease of aircraft	27,135	34,863
Training and assistance	23,593	24,449
Passenger catering	45,730	51,367
Revenue from shops and sales on board	139,395	119,698
Tour operating, travel arrangements and hotels	74,140	62,842
Freight handling	68,130	57,165
Miscellaneous	121,319	107,774
	<u>857,690</u>	<u>787,182</u>

These services were provided in the following geographical areas:

in thousands of guilders

	1984/85	1983/84
The Netherlands	739,787	670,719
Europe and Africa	53,060	47,509
North, Central and South America	34,837	39,963
Near and Far East	30,006	28,991
	<u>857,690</u>	<u>787,182</u>

## 18 Wages and social expenses

in thousands of guilders

	1984/85	1983/84
Wages	1,277,494	1,204,654
Social expenses	309,879	302,070
	<u>1,587,373</u>	<u>1,506,724</u>

KLM's 1984/85 pension premium expenses were f135 million (last year f140 million).

During the fiscal year, an average of 21,250 people were employed by KLM and its subsidiaries, as follows:

Ground staff in the Netherlands	12,948
Ground staff abroad	5,133
Flight staff	3,169
	<u>21,250</u>

The emoluments, including the employer's portion of the pension premium of management members and former management members amounted to f2.3 million, the emoluments of supervisory directors and former supervisory directors to f110,000.

## 19 Other operating expenses

in thousands of guilders

	1984/85	1983/84
Landing fees, navigation fees and costs of handling by third parties	485,082	449,838
Work by third parties	350,257	292,789
Cost of housing vehicles and inventories	199,189	178,258
Sales costs and other operating expenses	948,877	788,113
Exchange rate differences	(37,325)	39,520
	<u>1,946,080</u>	<u>1,748,518</u>

## 20 Depreciation

in thousands of guilders

	1984/85	1983/84
Depreciation on flight equipment	267,919	205,074
Depreciation on other tangible fixed assets	74,657	61,870
	<u>342,576</u>	<u>266,944</u>
Less: Amortization on deferred credits	56,949	35,934
	<u>285,627</u>	<u>231,010</u>

## 21 Financial gains and losses

in thousands of guilders

	1984/85	1983/84
Interest gains from financial fixed assets	12,428	8,192
Other interest gains and similar proceeds	112,731	51,589
Interest expenses and similar expenses	(156,794)	(108,562)
	<u>(31,635)</u>	<u>(48,781)</u>

## Interest expenses and similar expenses

in thousands of guilders

	1984/85	1983/84
Interest on loans	86,684	63,654
Interest accruing from leases	91,399	65,383
Less: interest received on loans to lease companies	<u>2,990</u>	<u>5,506</u>
	88,409	59,877
Conversion costs and amortization of financing gains and expenses on balance	(3,191)	2,806
Capitalized interest on advance payments on flight equipment and other fixed assets	<u>(15,108)</u>	<u>(17,775)</u>
	<u>156,794</u>	<u>108,562</u>

## 22 Balance of other income and (deductions)

This item is comprised as follows:

in thousands of guilders

	1984/85	1983/84
Proceeds from the sale of holdings	10,623	—
Difference between the insured value and the book value of a seriously damaged DC-10-30 aircraft	—	24,237
Capital tax	—	(777)
	<u>10,623</u>	<u>23,460</u>



# Consolidated Statement of Earnings per Quarter

(unaudited)

in millions of guilders

	Quarter ending:			
	June 30, 1984	Sept. 30, 1984	Dec. 31, 1984	March 31, 1985
Operating revenue	1,359.8	1,585.5	1,368.0	1,343.8
Operating expenses	1,281.7	1,351.8	1,360.1	1,383.8
Operating result	78.1	233.7	7.9	(40.0)
Financial gains and losses	(16.1)	(8.3)	(2.6)	(4.6)
Profit on sale of tangible fixed assets	25.1	—	4.5	(4.5)
Share in result of holdings	2.1	4.6	(0.2)	(1.0)
Operating result	89.2	230.0	9.6	(50.1)
Balance of other income and (deductions)	—	—	9.2	1.4
Share of third parties	0.1	0.1	0.3	0.1
Net income 1984/85	89.3	230.1	19.1	(48.6)
Net income 1983/84	40.5	155.9	(23.6)	(69.6)

The presentation of the first three quarters has been changed in accordance with the new legal regulations.

## Information on Current Value

The continuing inflation results in the present price level of fixed assets and supplies being higher than the amount for which these assets were purchased. In previous years these effects were expressed in a brief consolidated statement of earnings on the basis of current value alongside that on the basis of historical cost, as well as in a brief overview of the assets on both bases.

Both nationally and internationally there is no unit of approach or, if so, how tax effects and financing ratios should be considered in financial statements on the basis of current value. The following considerations play a significant role specifically for KLM in the current value matter:

- KLM makes extended use of leased aircraft. It is very much the question whether one can speak of current value with leased assets. Moreover, in light of the rapid development in the aircraft industry, determining current value for aircraft owned is arbitrary.
- The transportation fares which are determined internationally, are based on gradual replacement of the fleet. In such a situation, the current value should be determined on the indirect proceeds value which is equal to the value on the basis of historical cost. If the current value were determined on the replacement value, the difference between expenses and revenue would elicit an incorrectly negative picture, since no correction is applied to the traffic revenue. On the other hand, a reflection of the capital on the basis of replacement value would elicit a too favorable picture.

On the basis of the above considerations, a financial statement on the basis of current value is not given, sufficing with some information about current value (based on replacement value) of the aircraft, including those acquired on a lease basis.

If the aircraft were purchased at the present price level, based on recent price indications of the suppliers and official currency exchange rates as at March 31, 1985, the book value at March 31, 1985, would be f5,250 million. This is f2,050 million more (last year f1,360 million) than the valuation on the basis of historical cost, taking into account the premium of the Investment Account Act. The depreciation on the basis of current value would be f462 million, which is f218 million (last year f188 million) more than the depreciation on the basis of historical cost. The increase of these amounts as compared to the preceding year is caused mainly by the higher exchange rate of the U.S. dollar.

If the financing structure is taken into account, the higher depreciation on the basis of current value can be compensated by f131 million (last year f107 million), being the portion realized in the financial year of the revaluation of the aircraft considered to be financed with credit capital.



# Statutory Balance Sheet at March 31, 1985 and March 31, 1984

(after distribution of profits)

<b>Assets</b>		in thousands of guilders	
	<i>Note *</i>	<b>March 31, 1985</b>	<b>March 31, 1984</b>
<b>Fixed assets</b>			
Tangible fixed assets	23	<b>4,407,900</b>	3,678,301
Financial fixed assets	24	<b>344,496</b>	287,234
		<b>4,752,396</b>	3,965,535
<b>Current assets</b>			
Supplies		<b>259,170</b>	246,967
Accounts receivable	25	<b>1,042,938</b>	987,244
Securities		<b>447,452</b>	123,864
Liquid funds		<b>1,112,516</b>	793,271
		<b>2,862,076</b>	2,151,346
		<b>7,614,472</b>	<b>6,116,881</b>

Amstelveen, June 20, 1985  
For the financial statements

The Supervisory Board: J.W. de Pous      A. M. Goudsmit  
G.A. Wagner      C.J. Oort  
W. Albeda      G. van Setten  
M. Albrecht      P.A.J.M. Steenkamp  
R. den Besten

\* The figures refer to the sections in the Notes

**Liabilities**

in thousands of guilders

	Note*	March 31, 1985	March 31, 1984
<b>Stockholders' equity</b>	26		
Priority shares		35	35
Less: Company-owned shares		1	1
		<u>34</u>	<u>34</u>
5% preference shares		200,000	200,000
Common shares	798,792	788,660	
Less: Common shares receivable	22,300	22,300	
		<u>776,492</u>	<u>766,360</u>
Paid-up and called capital		976,526	966,394
Paid-in surplus		293,503	227,603
Other reserves		<u>513,584</u>	<u>298,353</u>
		1,783,613	1,492,350
<b>Deferred credits</b>		694,141	716,444
<b>Provisions</b>		140,127	117,879
<b>Subordinated long-term debt</b>			
Subordinated perpetual debt		266,170	—
Other subordinated debt		<u>354,244</u>	<u>283,800</u>
		620,414	283,800
<b>Other long-term debt</b>	27	2,292,737	1,963,968
<b>Current liabilities</b>		<u>2,083,440</u>	<u>1,542,440</u>
		<u><u>7,614,472</u></u>	<u><u>6,116,881</u></u>

The Management: S. Orlandini

J.F.A. de Soet

L.J. van Ameyden

# Statutory Statement of Earnings 1984/85 and 1983/84

in thousands of guilders

	1984/85	1983/84
Operating revenues	5,408,434	4,808,642
Operating expenses	5,136,297	4,695,352
Balance of operating revenues and expenses	272,137	113,290
Financial gains and losses	(24,659)	(45,079)
Profit on sale of tangible fixed assets	25,067	10,098
Share in result of subsidiaries and affiliates	8,204	1,450
Operating result	280,749	79,759
Balance of other income and (deductions)	9,200	23,460
Net income	289,949	103,219

## Notes to the Statutory Balance Sheet and Statement of Earnings

### General

For the notes to the assets, liabilities and the earnings, please refer to the notes to the consolidated financial statements, unless otherwise stated below.

### 23 Tangible fixed assets

in thousands of guilders

	March 31, 1985	March 31, 1984
Aircraft, spare engines and spare parts	3,513,020	2,767,677
Other tangible fixed assets	750,529	674,251
Fixed assets in course of construction and prepayments on tangible fixed assets	144,351	236,373
	4,407,900	3,678,301

### Tangible fixed assets

in thousands of guilders

	Aircraft, spare engines and parts	Land and buildings	Inventories, machines and installations	Vehicles and other fixed assets	Total
Purchase value at March 31, 1984	4,365,398	482,672	409,304	106,782	5,364,156
Additions	1,069,080	37,876	75,979	41,956	1,224,891
Retirements and disposals	(212,982)	(1,240)	(19,181)	(15,750)	(249,153)
Other	(41,326)	5	504	567	(40,250)
Purchase value at March 31, 1985	5,180,170	519,313	466,606	133,555	6,299,644
Depreciation through 1983/84	1,597,721	89,451	181,996	53,060	1,922,228
Depreciation in 1984/85	266,548	19,048	34,248	11,315	331,159
Retirements and disposals	(183,848)	(930)	(10,667)	(9,028)	(204,473)
Other	(13,271)	14	438	—	(12,819)
Depreciation through 1984/85	1,667,150	107,583	206,015	55,347	2,036,095
Book value at March 31, 1985	3,513,020	411,730	260,591	78,208	4,263,549
Book value at March 31, 1984	2,767,677	393,221	227,308	53,722	3,441,928

The land and buildings include f4.0 million in land (last year f4.0 million).

**24 Financial fixed assets**

in thousands of guilders

	March 31, 1985	March 31, 1984
Subsidiaries and affiliates	80,791	93,524
Receivables from subsidiaries and affiliates	<u>175,409</u>	<u>172,123</u>
	256,200	265,647
Long-term receivables	16,075	21,587
Other financial fixed assets	<u>72,221</u>	<u>—</u>
	<u><u>344,496</u></u>	<u><u>287,234</u></u>

in thousands of guilders

	Subsidiaries and affiliates, receivables included	Long-term receivables and other
Balance at March 31, 1984	265,647	21,587
New/expansion/issue	4,828	80,290
Sales/redemption	(6,956)	(21,996)
Share in results	8,204	—
Dividends received	(20,832)	—
Exchange rate differences and other	2,023	8,415
Change in receivables	<u>3,286</u>	<u>—</u>
Balance at March 31, 1985	<u><u>256,200</u></u>	<u><u>88,296</u></u>

In the receivables from subsidiaries and affiliates, f25.6 million is included (last year f49.2 million) because of loans issued by KLM International Finance Company to lease companies in connection with lease agreements for airplanes. In the consolidated balance sheet these loans have been deducted from the lease commitments.

**25 Accounts receivable**

in thousands of guilders

	March 31, 1985	March 31, 1984
Accounts receivable	898,881	827,891
Long-term receivables maturing within 1 year	21,704	57,237
Prepaid expenses	<u>122,353</u>	<u>102,116</u>
	<u><u>1,042,938</u></u>	<u><u>987,244</u></u>

f9.2 million (last year f9.3 million) of the accounts receivable relates to subsidiaries and affiliates.

**26 Stockholders' equity**

At March 31, 1985, f998,826,000 of the registered capital at f2.4 billion was issued.

The f200 million preference shares issued in 1972 have been convertible into common shares since November 1, 1976.

The conversion rate at March 31, 1985, is 120%% (f24.17 per share).

On March 31, 1985, there were still 99,658 B warrants outstanding, issued in connection with the 6%% subordinated debenture loan issued in March 1983.

When these warrants are converted, f39.9 million in share capital and f26.9 million in paid-in surplus will be available. With the issuance in March 1985 of the 4½% subordinated debenture loan, 125,000 warrants were issued, entitling the holder in the period from July 1, 1985 through February 29, 1992, to obtain 22 common shares of nominally f20 at a price of f53 per share.

The exercise of these warrants will provide f55 million in share capital and f90.8 million in paid-in surplus.

At March 31, 1985, the State of the Netherlands holds 54.9% of KLM's share capital. The use of warrants to acquire shares and the possible conversion of the preference shares obtained by the State in 1972 into common shares could result in the loss of the State majority in KLM's capital. In this connection, the State and KLM, at the request of the State, have concluded an agreement according to which KLM has obligated itself to the State in that situation to supply, should it so desire, as many preference shares at par as are necessary to maintain a majority interest of 50.2% in KLM's issued capital.

The changes in stockholders' equity are summarized below:

in thousands of guilders

	Priority shares	5% pref. shares	Common shares after deduction of shares receivable	Paid-in surplus	Other reserves	Total stock- holders' equity
Balance sheet at March 31, 1984	34	200,000	766,360	227,603	298,353	1,492,350
Converted B warrants	—	—	10,132	6,775	—	16,907
Option rights embodied in warrants	—	—	—	59,125	—	59,125
Net income 1984/85	—	—	—	—	289,949	289,949
Distribution of earnings	—	—	—	—	(74,718)	(74,718)
Balance sheet at March 31, 1985	34	200,000	776,492	293,503	513,584	1,783,613

It has been determined that no statutory reserves need to be formed as at March 31, 1985.

In connection with the debenture loans issued in 1982/83 and in 1984/85, option rights embodied in warrants were issued for the purchase of common shares of KLM Royal Dutch Airlines. The market value of these warrants at the moment of issue has been added to the paid-in surplus.

## 27 Other long-term debt

in thousands of guilders

	March 31, 1985	March 31, 1984
See specification on pages 29 and 30	2,312,464	1,963,133
Less: Loans obtained by affiliated and subsidiary companies	19,727	24,713
Plus: Loans granted by affiliated and subsidiary companies	—	25,548
	<u>2,292,737</u>	<u>1,963,968</u>

The changes in 1984/85 are as follows:

Balance at March 31, 1984	1,963,968
Additional borrowings	722,571
Repayments	(446,766)
Exchange rate differences and other	52,964
Balance at March 31, 1985	<u>2,292,737</u>

## 28 Commitments not recorded in the balance sheet

### Tangible fixed assets on order

The commitments because of orders of tangible fixed assets amount to f418 million (last year f1,106 million).

### Lease agreements

Commitments arise from long-term lease agreements in the amount of f451 million (last year f346 million), maturing in the years 1985 through 2047. The commitments relating to 1985/86 amount to f26 million.

### Guarantees

Guarantees are provided for an amount of f398 million (last year f48 million), for which there are counter-guarantees of f8 million (last year f15 million). Of the guarantees given, f19 million relates to subsidiaries.

Guarantees were provided for a number of subsidiaries in the sense of Article 403 Book 2 of the Civil Code. The debts of these companies at March 31, 1985, amounted to f48 million.



# Auditors' Report

We have examined the financial statements of KLM ROYAL DUTCH AIRLINES, Amstelveen, for the year ended March 31, 1985.  
In our opinion, these statements present fairly the financial position of the Company at March 31, 1985 and the result of its operations for the year then ended.

Amsterdam, June 20, 1985

Klynveld Kraayenhof & Co.



# Statutory Provision on Profit Distribution

In Article 31 of the Articles of Association, the distribution of profit is determined as follows:

1. On the recommendation of Management and after approval by the Supervisory Board, the General Meeting of Shareholders may first set aside an amount from the profit in order to establish reserves or to increase them.
2. The remainder of the profit will be distributed as follows:
  - a. Priority shareholders receive the statutory interest percentage first with a maximum of 5% of the par value of their shares cumulatively, i.e. together with the amount they may have received less in previous years.
  - b. Preference shareholders receive 5% of the par value of their shares next or, in case of shares not fully paid, 5% of the amount obligatorily paid.
  - c. Common shareholders receive 5% of the par value of their shares next or, in case of shares not fully paid, 5% of the amount obligatorily paid.
  - d. Management will apply 10% of the amount still remaining for the benefit of the employees of the company other than the Managing Directors. This will be done in consultation with the Joint Staff Council.
  - e. The General Meeting of Shareholders may allocate the remainder wholly or in part for the reserves. Insofar as this is not done, the balance of the profit will go to the common shareholders in proportion to the par value of their shares, or, in case of shares not fully paid, in proportion to the amount obligatorily paid.
3. On the recommendation of Management and after approval by the Supervisory Board and the meeting of priority shareholders, the General Meeting of Shareholders may decide that payments to shareholders be effected wholly or in part by issuing shares of the company.
4. Management may, with the approval of the Supervisory Board, pay one or more interim dividends against the expected dividend, to the extent that the company has profits.

## Survey of dividend payments from 1965 to 1985

Over the fiscal year	the dividend on common shares was:
1967/68	7% in cash
1968/69	8% in cash
1969/70	8% in cash
1970/71	7% in cash
1977/78	8% of which 3% was in cash and 5% in shares from the paid-in surplus
1978/79	7% of which 3% was in cash and 4% in a choice of cash or in shares debited to the paid-in surplus

## Proposal for the Destination of the Earnings

(in accordance with Article 31 of the Articles of Association)

The net earnings of 1983/84 at f103,219,474 have been added to the other reserves, in conformity with the decision of the general meeting of shareholders of August 16, 1984.

In regard to the earnings for fiscal 1984/85 at f289,948,881, it is proposed:

- to add to the other reserves	f 215,231,014
- to pay to priority shareholders	f 10,200
- to pay to preference shareholders	
5% over the amount paid in	f 10,000,000
- to pay to common shareholders 5% over the amount paid in	f 38,824,600
	f 264,065,814
- to allocate for the staff	f 2,588,307
	f 266,654,121
- to pay to common shareholders 3% over the amount paid in	f 23,294,760
	f 289,948,881

## Rights of Priority Shareholders

Of the 1750 priority shares, each of twenty guilders, 50 shares are held by KLM.

The remaining shares are owned by: the State of the Netherlands (1300), Algemene Bank Nederland N.V. (100), Amsterdam-Rotterdam Bank N.V. (100), Hollandse Koopmansbank N.V. (50), Pierson, Heldring & Pierson N.V. (50), Internatio Müller (50) and N.V. Nederlandse Spoorwegen (50).

Approval from the meeting of priority shareholders is needed for:

- issuing shares and bonus shares
- alienation of purchased priority shares
- transfer of priority shares
- a proposal to the general meeting of shareholders about changes in the Articles of Association or dissolution of the company.

Independent authorities of this meeting are:

- determination of the number of members of management
- determination of the number of supervisory directors
- determination of the annual emolument of supervisory directors.

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## Survey of the most important subsidiaries and affiliates

KLM International Finance Company (KIFCO)

Weblok

NLM CityHopper

KLM Helicopters

KLM Aerocarto

Service Q, General Service Company

Highmark International

Golden Tulip International

Holland International Travel Group

KLM Bus Company

XP Express Parcel Systems

*Haarlemmermeer*

*Amsterdam*

*Haarlemmermeer*

*Haarlemmermeer*

*The Hague*

*Haarlemmermeer*

*Haarlemmermeer*

*Hilversum*

*Rijswijk*

*The Hague*

*Amsterdam*

The above mentioned companies are all wholly-owned, except for the last three companies, in which KLM holds 50%.

A list of subsidiaries and affiliates, compiled with due observance of legal regulations, has been deposited for public inspection at the offices of the Trade Register in Amsterdam.

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## Important information after March 31, 1985

KLM has guaranteed a 12.6 billion Yen loan secured by Holland Airlines Finance, as well as a swap transaction concluded in connection with this. The proceeds of this loan have been invested by Holland Airlines Finance with first class bankers. This has given KLM a standby credit facility of US\$ 50 million. A commission is being received for the guarantee.

KLM has placed an order for 10 Fokker 100 aircraft, to be delivered in the period starting in April 1988. Including spare parts, this represents an investment of approximately f700 million. Options have also been taken for another 5 Fokker 100 aircraft.

KLM has also placed an order for a Boeing 747-306M for delivery in September 1986, an investment of f410 million, including spare parts.



# Comparative Statistics of the Past Ten Years

	1984/85	1983/84	1982/83	1981/82	1980/81	1979/80	1978/79	1977/78	1976/77	1975/76
<b>Production (including NLM)</b>										
*Available tonmiles	3,114	3,020	2,974	2,843	2,792	2,632	2,422	2,349	2,258	2,199
*Available seatmiles	15,945	16,213	16,673	15,834	15,890	15,184	13,837	13,371	12,842	12,751
*Miles flown	80	69	70	68	68	68	65	64	63	63
Hours flown (in thousands)	175	172	176	172	174	175	167	163	158	161
Average distance per aircraft hour (in miles)	412	405	400	393	391	386	390	393	401	395
Average available load capacity per aircraft (in 1000 pounds)	86	86	84	84	82	77	75	73	71	68
Average daily utilization of aircraft (hrs.mins.)										
Intercontinental routes	10.38	9.52	9.50	9.10	9.00	9.00	9.40	10.00	9.40	9.50
Regional routes	5.35	5.34	5.30	5.30	5.40	6.00	6.00	6.10	6.00	5.50
<b>Traffic (including NLM)</b>										
*Passenger/baggage tonmiles	1,106	1,018	1,017	974	909	898	795	736	661	642
*Freight tonmiles	997	874	727	730	680	621	556	514	439	416
*Mail tonmiles	49	38	38	38	36	30	27	25	22	21
*Charter tonmiles	28	46	53	61	67	60	78	91	123	114
*Total traffic tonmiles	2,180	1,976	1,835	1,803	1,692	1,609	1,456	1,366	1,245	1,193
Load factor (%)	70.0	65.4	61.7	63.4	60.6	61.1	60.1	58.2	55.2	54.3
Break-even load factor (%)	66.3	64.4	61.6	63.3	60.3	61.5	57.7	54.6	53.1	54.6
*Passenger miles	11,148	10,448	10,512	10,135	9,486	9,348	8,517	7,955	7,364	7,017
Passenger load factor (%)	69.9	64.4	63.0	64.0	59.7	61.6	61.6	59.5	57.3	55.0
Number of passengers carried (in thousands)	5,334	5,016	5,021	4,926	4,769	4,830	4,523	4,373	4,097	3,807
*Weight of freight carried (in pounds)	756	659	529	540	507	481	437	414	370	366
*Weight of mail carried (in pounds)	33	26	26	26	26	23	21	19	16	15
Average distance flown (in miles)										
Passengers	2,090	2,080	2,090	2,060	1,990	1,930	1,880	1,820	1,800	1,840
Freight (per package)	2,640	2,650	2,750	2,710	2,720	2,620	2,570	2,570	2,560	2,510
Mail (per bag)	2,850	2,810	2,940	2,770	2,720	2,600	2,540	2,540	2,720	2,790
<b>Operating revenue per tonmile performed and cost per available tonmile (including NLM, in Dutch cents)</b>										
<b>Yield per tonmile performed</b>										
passengers	314	305	292	284	243	213	202	216	213	194
freight	113	106	112	112	101	90	90	96	101	96
mail	166	158	145	150	128	137	147	158	158	156
charters	209	205	202	183	180	172	131	115	112	106
Total	217	212	216	207	180	161	156	161	161	150
Cost per tonmile available**	144	136	133	131	109	99	90	88	85	82
<b>Staff as at the end of the period, KLM (excluding subsidiaries):</b>										
Ground Personnel	16,148	15,748	15,984	16,216	16,147	16,128	15,353	14,897	14,284	14,265
Flight Personnel	3,045	2,877	2,852	2,852	2,655	2,815	2,604	2,410	2,211	2,306
Total	19,193	18,625	18,836	19,068	18,802	18,943	17,957	17,307	16,495	16,571
<b>Statement of earnings (consolidated figures, in millions of Dutch Guilders)***</b>										
<b>Traffic revenue</b>										
Passengers and baggage	3,474	3,106	2,990	2,754	2,205	1,910	1,614	1,578	1,413	1,249
Freight	1,127	925	807	813	686	561	492	488	440	396
Mail	81	60	56	56	45	41	39	39	34	32
Charters	117	152	162	149	160	135	136	136	160	140
Total traffic revenue	4,799	4,243	4,015	3,772	3,096	2,647	2,281	2,241	2,047	1,817
Other revenue	858	787	761	789	668	593	551	508	470	506
Total operating revenue	5,657	5,030	4,776	4,561	3,764	3,240	2,832	2,749	2,517	2,323
Total operating expenses	5,377	4,920	4,735	4,530	3,706	3,223	2,742	2,584	2,391	2,271
Balance of operating revenue and operating expenses	P 280	P 110	P 41	P 31	P 58	P 17	P 90	P 165	P 126	P 52
Financial Gains and Losses	L 31	L 49	L 27	L 25	L 37	L 23	L 9	L 33	L 55	L 63
Profit on sale of tangible fixed assets	P 25	P 10	P 17	P 16	P 2	P 4	P 1	P 6	P 5	P 0
Share in results of holdings	P 5	P 8	P 12	P 7	L 1	P 8	P 3	L 1	L 3	L 11
Operating result	P 279	P 79	P 43	P 29	P 22	P 6	P 85	P 137	P 73	L 22
Balance of other income and deductions	P 11	P 24	L 2	P 3	L 11	P 9	L 3	P 0	P 4	P 3
Net income	P 290	P 103	P 41	P 32	P 11	P 15	P 82	P 137	P 77	L 19

\* In millions.

In 1975/76, because of revaluation of the subsidiaries to intrinsic value, f 5.5 million was credited to the annual result.

Beginning in 1976/77, the lease aircraft operated by KLM were included in the balance sheet and the useful lifespan of the Boeing 747's and Douglas DC-10-30's were extended by an average of 2½ years.

Beginning in 1979/80, the useful lifespan of the Boeing 747M aircraft was extended by 3 years, and beginning in 1981/82 again by an average of 3 years.

In 1983/84 personnel assigned to other companies abroad is included in the count. The figures of previous years have been adjusted accordingly.

\*\*\* Operating expenses including net interest less other revenue.

The consolidated figures as from 1983/84 have been adjusted to the altered presentation based on new legal provisions.

# Reports of Trustees of Debenture Loans

Report over fiscal 1984/85 on the 6¾% subordinated debenture loan with accompanying warrants per 1989/1993, amounting nominally to f125,000,000 for the account of KLM Royal Dutch Airlines, established at Amstelveen.

In compliance with Article 9 paragraph 1 of the Trust Act of February 23, 1983, on the subject of the debenture loan, Article 7 paragraph 1 of the Trust Act of February 23, 1983, on the subject of the warrant and Article 10 of the General Trust Conditions of May 19, 1972, of De Twentsche Trust-Maatschappij, we herewith report on our activities.

1. On March 31, 1985, 121,494 CF and 3,506 K debentures were outstanding, nominally f125,000,000.
2. The interest on the debenture loan was received by us in accordance with Article 4 paragraph 1 of the General Trust Conditions. Redemption has not taken place, since premature redemption is not allowed and obligatory redemption starts in 1989.
3. The B warrants entitle the holder from June 1, 1983 through March 15, 1988, to obtain 20 KLM shares at the price of f33.50 per share of nominally f20. During the report period, 25,330 B warrants were converted into shares. The outstanding number of B warrants was 99,658 on March 31, 1985.
4. In compliance with Article 2 paragraph 2 of the Trust Act regarding the warrants, the Company/borrower deposited at our office 498,200 shares of nominally f20 in the capital of the company.

Amsterdam, April 25, 1985.

De Twentsche Trust-Maatschappij N.V.  
D. Lijnzaad D. Kaan

Report over fiscal 1984/85 on the 4½% subordinated debenture loan 1985 per 1996/2000, with accompanying warrants per 1985/1992, amounting nominally to f125,000,000 for the account of KLM Royal Dutch Airlines, established at Amstelveen.

In compliance with Article 10 paragraph 1 of the Trust Act of January 25, 1985, on the subject of the debenture loan, Article 7 paragraph 1 of the Trust Act of January 25, 1985, on the subject of the warrants and Article 11 of the General Trust Conditions of August 3, 1985, of De Twentsche Trust-Maatschappij, we herewith report on our activities.

1. Under our supervision, 20,000 K debentures at f1,000, numbered from A 00001 through A 20,000, 20,000 CF debentures at f1,000, numbered from FA 00001 through FA 20,000, 2500 CF debentures at f50,000, numbered from FL 00001 through FL 02500 and 125,000 warrants numbered from W 000001 through W 125,000 were stamped with our control stamp, in accordance with Article 2 of the General Trust Conditions. At March 31, 1985, 120,085 CF and 4,915 K debentures were outstanding, in total nominally f125,000,000.
2. The interest payment on the debentures will begin on March 1, 1986. Payments were not made, since premature redemption is not allowed and obligatory redemption begins in 1996.
3. The warrants entitle the holder from July 1, 1985, through February 29, 1992 to 22 KLM shares of nominally f20 at a price of f53 per share of nominally f20. The outstanding number of warrants on March 31, 1985, was 125,000.
4. In compliance with Article 2 paragraph 2 of the Trust Act on the warrants, the Company/borrower has deposited 2,750,000 shares of nominally f20 in the capital of the company.
5. The Company/borrower has issued a notarial bond for the amount of the loan, with the interests and costs to be compensated, in agreement with Article 20 of the General Trust Conditions.

Amsterdam, April 26, 1985

De Twentsche Trust-Maatschappij  
D. Lijnzaad D. Kaan

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## STATEMENT

7% debenture loan 1968 per 1979/1988, originally amounting to f100,000,000 for the account of  
**KLM Royal Dutch Airlines** established at Amstelveen.

In compliance with Article 9 of the Trust Act of March 1, 1968, we declare:

that as appears from a statement signed as correct by the auditors Klynveld Kraayenhof & Co. on March 31, 1985, and issued by the Company/borrower, the aircraft and the real estate in the Netherlands which are the property of the Company, were not encumbered with any real right of third parties, with exception of a mortgage for the amount of f4,000,000 on the property Leidseplein 1-3 in Amsterdam for the Kingdom of the Netherlands;

that on January 17, 1985, a drawing took place of 10,000 f1000 debentures belonging to Series J, redeemable on April 1, 1985;

that of the debentures belonging to Series F, B, G, A, K and C, redeemable on April 1, 1979, April 1, 1980, April 1, 1981, April 1, 1982, April 1, 1983 and April 1, 1984, respectively, not all debentures had been cashed;

that at March 31, 1985, the amount of undrawn debentures was f30,000,000;

that there are otherwise no special remarks or actions to be made.

Rotterdam, May 7, 1985

ALGEMEEN ADMINISTRATIE- EN TRUSTKANTOOR  
A.M. Knulst P. den Tex

# The Shareholders' Committee

At the shareholders' meeting on August 16, 1984, the Shareholders' Committee which had been appointed in August 1982, resigned. The shareholders' meeting appointed a new Shareholders' Committee for two years. The members are:

## Members

G. Fonteijn  
P. Velde  
J. F. Smits  
K. Staab  
J. W. Witsen Elias

## Deputies

R. D. van Dam  
R. G. de Stoppelaar  
E. L. V. Chevalier  
D. C. G. van Dijk  
R. E. Rischke

The first two members mentioned were nominated by the State, along with their deputies. The other three and their deputies were nominated by other shareholders.

The following is an account of the committee's work in the past fiscal year:

In a meeting on April 11, 1984, the former committee stated its agreement with the appointment proposal which

the Minister of Transport and Public Works had announced for three vacancies:

- a reappointment of M. Albrecht, who would complete his statutory term in August 1984,
- a candidate for appointment in the vacancy which P. Sanders' retirement would occasion in August 1984,
- the appointment of R. den Besten in the vacancy because of P. C. de Man's resignation on August 11, 1983.

In August 1984 the new Shareholders' Committee was informed of the completion of the statutory terms of Supervisory Directors A. M. Goudsmit, H. ter Heide and G. A. Wagner on August 15, 1985.

On March 6, 1985, the committee met to give advice once again on the Sanders vacancy. The committee concurred with the proposal of names of a few candidates to the Minister of Transport and Public Works.

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## Joint Staff Council

On June 1, 1983, the present Joint Staff Council began its three-year term.  
On June 20, 1985, the council comprised the following members:

* E. Dirkzwager	Chairman Joint Staff Council
* R. Guichelaar	Purser, Flight Operations
* J.D. Deijs	Deputy Chairman Joint Staff Council
	Project Leader, Aircraft Maintenance
	Secretary Joint Staff Council
	Instrument Technician IERA
* J.N. van Aalderen	Deputy Secretary Joint Staff Council
	Project Leader, Aircraft Maintenance
B.A. Backer	General Secretariat
J. Bouman	Cabin Attendant, Flight Operations
* P. Bouwman	Ground Engineer, Aircraft Maintenance
G. do Casal	Head Mailroom Head Office, Internal Services
J. Douwes	Head Central Publishing, Internal Services
* P.J. de Dreu	Flight Engineer Boeing 747, Flight Operations
* W.P. Fortgens	Cabin Attendant, Flight Operations
W.D. Groman	Deputy Head Central Typing Pool and Training, Personnel
J.S.F. Hendriks	Social Contact Officer, Aircraft Maintenance
R.J. Holswilder	Pilot, Flight Operations
W. Koomen	Aircraft Technician, Aircraft Maintenance
A. Korringa	Head Airmail and Company Mail Handling
P. Kuin	Foreman Cabin Service, Aircraft Maintenance
M. Melissen	Passenger Sales, Schiphol Station
G.H. Middendorp	Passenger Sales, Schiphol Station
* N.J. Nelis	Sergeant, Company Security
L.B. van Nierop	EDP Specialist, Internal Audit Bureau
* W.J. ter Reehorst	Captain Boeing 747, Flight Operations
J. Spoelstra	Constructor, Central Engineering
A. Tas	Teacher Technical Training
P.E. Valkhof	Section Head Passage, Traffic Revenue
* J. Verbeek	Head Schedule Publications
* H.H. Vervat	Station Coordinator, Ground Handling Affairs
H.M. van der Weide	Manager Staff Restaurant
G. Wekx	Assistant Station Controller, Schiphol Station
J.J.J. van der Zalm	Catering Services
D.J. Zwart	First Ground Engineer, Aircraft Maintenance

\* Member of the Executive Committee of the Joint Staff Council

# Corporate Information

Koninklijke Luchtvaart Maatschappij N.V., also known as KLM Royal Dutch Airlines, is a Netherlands private limited stock corporation ('naamloze vennootschap'), founded on October 7, 1919.

The company is registered under number 14286 with the Chamber of Commerce and Manufacturers in Amsterdam, the Netherlands.

KLM's principal offices are at 55 Amsterdamseweg, Amstelveen, the Netherlands, telephone 020-499123. Postal Address: P.O.Box 7700, 1117 ZL Schiphol Airport. Its main operating and maintenance base is at Amsterdam Airport Schiphol, Amsterdam.

Stockholders are invited to attend the general meeting of shareholders on August 15, 1985. On July 24, 1985, every stockholder on record will receive a formal notice. The meeting will be held at the Company's offices in Amstelveen. Subject to the notice requirements indicated

in the formal notice of the meeting, any shareholder may attend the meeting and is entitled to cast one vote for each share of KLM stock held.

KLM is exempt from the rules of the United States Securities Exchange Act of 1934 prescribing the furnishing and contents of proxy statements.

The common shares of KLM are listed for trading on the Stock Exchanges in Amsterdam, New York, Brussels, Dusseldorf, Frankfurt and Hamburg.

Presented below are the highest, lowest and year-end sales prices of KLM's common stock on the Amsterdam and New York Stock Exchanges respectively, during the financial years ended March 31, 1984 and 1985. In October 1984, the shares of nominally f100 were divided into five shares of f20. For comparison, the prices prior to October 1984 are divided by five.

	1984/85	1983/84
<b>Price per share of f 20 at the Amsterdam Stock Exchange</b>		
High	f 62.40	f 46.50
Low	f 29.96	f 27.50
At the end of the fiscal year	f 58.80	f 37.40
<b>Price per share of f 20 at the New York Stock Exchange</b>		
High	\$ 17.00	\$ 14.75
Low	\$ 9.70	\$ 9.525
At the end of the fiscal year	\$ 17.00	\$ 12.85

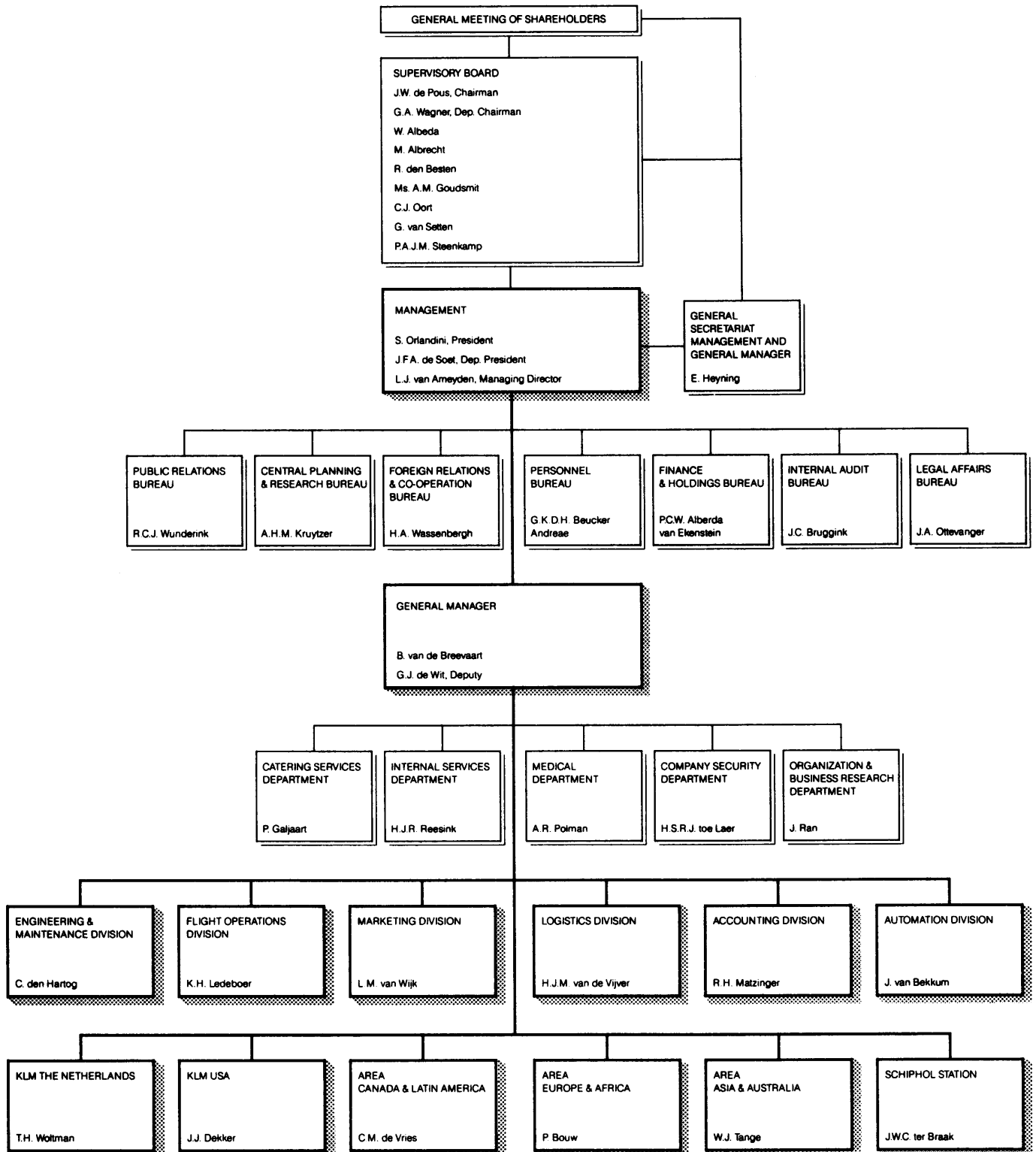
United States Office of the Company:  
437 Madison Avenue,  
New York, New York 10022

New York Transfer Agent of the Company:  
Citibank, N.A., A.D.R. Department  
111 Wall Street,  
New York, New York 10015

Auditors:  
Klynveld Kraayenhof & Co.  
Prinses Irenestraat 59,  
1077 WV Amsterdam



# KLM Organization Chart (As of June 20, 1985)



## SUBSIDIARY COMPANIES:

NLM CITYHOPPER  
KLM HELIKOPTERS  
KLM AEROCARTO

GOLDEN TULIP INTERNATIONAL  
SERVICE Q

: A.J. Leyer  
: F. Bokma  
: W. Sonnenberg  
: P.F.A. van der Linden  
: G. Spitz  
: R.J. van Dijk

KLM PENSION FUNDS

: M.W.J. Hilbrand  
: G. Hoogerwerf