KLM ROYAL DUTCH AIRLINES
Form 20-F
June 19, 2003

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

FORM 20-F

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

OR

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

For the fiscal year ended March 31, 2003

OR

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

For the transition period from _______ to _______

Commission File Number 1-4059

Koninklijke Luchtvaart Maatschappij N.V.
(Exact name of Registrant as specified in its charter)

KLM Royal Dutch Airlines
(Translation of Registrant s name into English)

The Netherlands
(Jurisdiction of incorporation or organization)

55 Amsterdamseweg, Amstelveen, The Netherlands
(Address of principal executive offices)

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

Title of each class	Name of exchange on which registered
Common shares, par value 2 euro	New York Stock Exchange

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

None

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

None

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

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

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

x Yes o No

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

o Item 17 x Item 18

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

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KLM ROYAL DUTCH AIRLINES

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

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WARNING ABOUT FORWARD-LOOKING STATEMENTS

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

- the airline pricing environment;
- competitive actions taken by other airlines;
- general economic conditions;
- changes in foreign exchange rates and jet fuel prices;
- governmental and regulatory actions and political conditions;
- developments affecting labor relations or our airline partners;
- the outcome of any material litigation;
- the future level of air travel demand;
- our future load factors and yields; and
- the many effects on KLM and the airline industry from terrorist attacks, the possibility or fear of such attacks and the threat or outbreak of epidemics, hostilities or war, including the adverse impact on general economic conditions, demand for travel, the costs for security, the cost and availability of aviation insurance coverage and war risk coverage and the price and availability of jet fuel.

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

PRESENTATION OF INFORMATION AND EXCHANGE RATES

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

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

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

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PART I:

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

A. Selected financial data

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

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

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

Selected financial data presented in accordance with Netherlands GAAP

	Fiscal year ended March 31,				
	2003	**2002**[1]	**2001**	**2000**	**1999**
Net assets	5,975	6,851	6,533	6,404	6,300
Total assets	8,165	8,943	8,590	8,647	8,299
Long-term debt	3,971	4,417	3,686	3,712	3,503
Capital stock	125	125	125	125	187
Operating revenues	6,485	6,532	6,960	6,296	6,047
Operating income (loss)	(133)	(94)	277	95	193
After tax income (loss) before extraordinary items	(186)	(156)	77	3	207
Net income (loss)	(416)	(156)	77	337	207
Net income (loss) per common share before extraordinary items:					
Basic[2]	(4.17)	(3.37)	1.61	0.04	4.02
Diluted	(4.17)	(3.37)	1.61	0.04	4.02
Net income (loss) per common share					
Basic[2]	(9.26)	(3.37)	1.61	7.17	4.02
Diluted	(9.26)	(3.37)	1.61	7.17	4.02

(1) Prior year figures have been adjusted for the presentation of the deferred tax position (credit balance of EUR 100 million as of March 31, 2002 presented under Provisions has been transferred to Financial fixed assets)

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

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Selected financial data presented in accordance with Netherlands GAAP

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

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

(2) Outstanding excludes shares held by the company

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

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

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

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

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

(4) Outstanding excludes shares held by the company

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

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Dividends

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

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

Exchange rates

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

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

Source: Bloomberg

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

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

Source: Bloomberg

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

B. Capitalization and indebtedness

Not applicable.

C. Reasons for the offer and use of proceeds

Not applicable.

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D. Risk factors

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

Risk factors relating to the airline industry

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

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

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

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

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

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

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

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

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

Our operations are subject to the risk of changes in legislation, taxation, charges and regulation and environmental regulation which could negatively affect our result of operations by imposing additional compliance costs. Additional laws, regulations, taxes on airport rates and charges have been proposed from time to time that could significantly increase the cost of airline operations. We are subject to a number of different environmental laws and regulations. We incur costs with each measure we take to comply with regulations regarding the prevention, control, abatement or elimination of regulated releases into the environment, as well as for our efforts toward the disposal and handling of regulated wastes at our operating facilities.

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Fluctuations in seasonal demand may reduce our revenue.

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

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

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

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

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

The outbreak of medical epidemics may reduce passenger traffic.

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

Risk factors relating to KLM

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

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

Labor disruptions could result in reduced revenues and increased costs.

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

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

Our ability to successfully achieve the anticipated benefits of our alliances with other airlines is subject to many risks, including those risks associated with any disapproval or delay of our allied plans by regulatory authorities or any adverse regulatory developments, competitive pressures, customer reactions or modifications to any contracts relevant to our alliances (either on our part or on the part of our allied partners). We are currently a party to several important alliances with other airlines, including our joint venture with Northwest Airlines. We are also considering entering into additional alliances. Our ability to grow our route network by entering into alliances also depends upon the availability of suitable alliance partner candidates and our abilities as well as those of our alliance partners to meet business objectives and to perform each obligation under the alliance agreements.

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Unfavorable outcomes of lawsuits may weaken our liquidity position.

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

See Item 8-Litigation .

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

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

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ITEM 4. INFORMATION ON THE COMPANY

A. History and development of the company

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

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

B. Business overview

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

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

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

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

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Select operating statistics

	Fiscal year ended March 31,		
	2003	**2002[1]**	**2001**
Capacity			
* Available ton-kilometers (ATK)	12,952	12,859	12,978
* Available seat-kilometers (ASK)	74,825	74,051	75,222
* Available freight ton-kilometers (AFTK)	5,852	5,817	5,783
* Kilometers flown	349	370	370
Hours flown (in thousands)	454	455	471
Traffic			
* Revenue passengers and baggage (ton-kilometers)	5,935	5,840	6,037
* Revenue cargo (ton-kilometers)	4,197	4,050	4,146
* Total revenue ton-kilometers (RTK)	10,132	9,890	10,183
Load factor (%)	78.2	76.9	78.5
Break-even load factor (%)[2]	80.2	77.7	73.8
* Passenger kilometers	59,417	58,447	60,047
Passenger load factor (%)[3]	79.4	78.9	79.8
Cargo load factor (%)	71.7		