KLM ROYAL DUTCH AIRLINES
Form 6-K
December 30, 2003

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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 6-K

Report of Foreign Issuer

**Pursuant to Rule 13a-16 or 15d-16 of
the Securities Exchange Act of 1934**

of December 30, 2003

KLM Royal Dutch Airlines

(translation of Registrant s trade name into English)

Amsterdamseweg 55, 1182 GP Amstelveen, The Netherlands
(Address of principal executive offices)

(Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.)

Form 20-F x Form 40-F o

(Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.)

Yes o No x

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INTRODUCTION

This report contains unaudited condensed consolidated interim financial statements (including the notes thereto) for the six-month period ended as of September 30, 2003, including a reconciliation of net income and shareholders equity to US GAAP and the related group financial review under Netherlands GAAP.

Unless otherwise specified or the context otherwise requires, KLM , KLM Group and the Company all refer to KLM Royal Dutch Airlines and its group companies.

FORWARD LOOKING STATEMENTS

This report 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 the Company 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, and projections about the industries in which the Company operates, 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 the Company s 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 the Company s airline partners;
- the outcome of any material litigation;
- the future level of air travel demand;
- the Company s future load factors and yields;

the many effects on the Company and the airline industry from terrorist attacks, the possibility or fear of such attacks and the threat or outbreak of epidemics, hostilities or

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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 the Company files with or furnishes 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 the Company. The Company cautions 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 the Company s Securities and Exchange Commission filings, including the Company s Annual Report on Form 20-F. The Company undertakes no obligation to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

OPERATING AND FINANCIAL REVIEW

The Company s operating environment in the six months ended September 30, 2003 remained challenging.

The aftermath of the SARS outbreak continued to have an impact on the Company s operating revenues, which were 3,036 million, a decrease of 14 percent from the corresponding period in 2002.

Operating income for the six-months ended September 30, 2003 was 65 million, a decrease of 117 million (64 percent) from 182 million for the same period in 2002, arising from a decrease of operating revenues of 496 million, which was in part compensated by lower operating expenses of 379 million.

Total operating expenses for the six months ended September 30, 2003 were 2,971 million compared to 3,350 million in the corresponding period of 2002. This 11 percent decrease primarily reflected a decrease in capacity levels over the same period, as well as the initial effects of KLM s structural cost savings program, which was initiated in May 2003. Salaries and benefits for this period in 2003 increased by only 29 million, or 3 percent, from the corresponding period in 2002, reflecting the combined effect of increases in wages and pension costs and a reduction in employee numbers. In addition, the cost of materials and consumables for this period were 184 million, a 51 million (22 percent) decrease from the corresponding period in 2002, mainly due to the effects of a lower US dollar rate compared to the euro. Commercial costs for this period were 191 million, a decrease of 78 million, or 29 percent, from the corresponding period in 2002, as a result of a decrease in passenger traffic revenues and lower sales commissions paid to travel agents. Fuel costs for this period decreased by 58 million, or 13 percent, from the corresponding period in 2002, as increases in aircraft fuel prices were offset by a decrease in volumes and a lower rate of exchange between the US dollar and the euro.

In the six months ended September 30, 2003 pre-tax income was positively influenced by the sale of holdings, due to the sale of the Company s stake of 9 percent in TUI Nederland N.V. for 6 million. Furthermore, the Company released 6 million from provisions, relating to holdings that have been sold in the past few years. These provisions were initially set up to cover any warranties subsequent to such sales.

Net income for the six months ended September 30, 2003 amounted to 36 million, or 0.80 per common share, as compared with a net income of 97 million, or 2.12 per common share for the same period in 2002.

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Cash flow from operating activities for the six months ended September 30, 2003 was 140 million positive, as compared with 454 million for the same period in 2002, reflecting the weakening trend in operating income. Net investing cash flow for this period amounted to 193 million, as compared with 404 million for the same period in 2002, especially reflecting the impact of sale and lease back transactions of the company s fleet. Financing cash flow for this period was 22 million negative, which was attributable to the repayment of long-term debt with respect to financial leases and the funding of new aircraft.

In April 2003, KLM set the first step in implementing phase one of the intercontinental fleet renewal program when two new Boeing 747-400ER freighters entered KLM s fleet replacing two 747-300 freighters. The first phase, which runs until February 2005, consists of replacing the Boeing 747-300 aircraft by 10 Boeing 777-200ER aircraft and in total 3 Boeing 747-400ER freighters. The last Boeing 747-300 was retired from KLM s fleet on December 1, 2003. On October 25, 2003, KLM welcomed its first Boeing 777-200ER, which started operating on the Amsterdam-Toronto route. By the end of the year, four Boeing 777-200ERs will have been delivered to KLM.

Due to changing market circumstances, KLM delayed phase two of its fleet renewal program, which is due to start in April 2005 and is now anticipated to run until calendar year 2012. As a consequence, KLM will delay the phasing out of its MD-11 aircraft (which is the youngest aircraft type of the three that are part of the renewal program) from 2008 to 2012 and therefore defer capital expenditure requirements of in excess of 1 billion.

Transavia has completed the sale of three Boeing 757-200 aircraft and two purchased Boeing 737-700 aircraft entered Transavia s fleet.

On May 8, 2003, the Company announced its plans to implement a structural cost savings program, aimed at an operating income improvement of 650 million and a reduction of jobs of 4,500 full time employee equivalents as from April 1, 2005. As at September 30, 2003, 62 million of cumulative cost savings, which include a reduction of almost 1,400 full time employee equivalents, have been realized, of which 36 million of cost savings were realized and approximately 600 full time employee equivalents were reduced. The company recorded a reorganization provision of 75 million in fiscal year 2002/03 of which 5 million has been used at September 30, 2003. The main part of the costs relate to employee termination benefits. This restructuring provision is expected to be used as follows: 38 million by the Passenger business, 14 million by the Cargo business, 9 million by the E&M business and 14 million by the other business segment.

On April 11, 2003, the Company sold KLM uk s low fare business, buzz, to Ryanair. Under Netherlands GAAP, the Company recorded a loss of 9 million in fiscal year 2002/03 to reflect the net effect of sales proceeds to be received from Ryanair, costs arising from arrangements under the buzz sales agreement (which can be characterized as impairment losses on certain fleet assets) and staff redundancies costs to be borne by KLM uk in connection with the transaction. Under US GAAP, buzz is considered as a discontinued operation from April 11, 2003. Buzz was part of KLM s Charter/low cost business segment. Certain costs, including impairment charges, totaling 9 million were recognized in 2002/03. The sales proceeds (20 million) less related operating costs, including termination benefits, were recognized in April 2003 and netted out to be approximately zero.

Litigation

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

Hall case

In June 2000, a purported antitrust class action was filed in federal court in North Carolina by a North Carolina travel agent, on behalf of herself and all similarly situated travel agents in the United States, challenging actions by most major U.S. airlines to reduce travel agent base commissions from 8% to 5%. On November 13, 2001, the Court granted the plaintiff s motion to amend the complaint to include allegations that other commission reductions were the result of unlawful agreements among the airline defendants, and to add several international airlines as defendants, including KLM. On September 18, 2002, the Court entered an Order granting the plaintiffs motion for class certification. On October 30, 2003, the Court granted summary judgment against the plaintiff class, dismissing all claims asserted against KLM and most other defendants. The plaintiffs have appealed to the United States Court of Appeals for the Fourth Circuit. We believe that the case is without merit, and intend to continue defending against the claim.

Tam Travel case

On April 9, 2003, a similar antitrust complaint was filed against us, together with eleven U.S. airlines and eight other international airlines, in the federal district court located in Oakland, California. This case, referred to as the *Tam Travel* Case, was filed on behalf of approximately 50 travel agents who elected to withdraw from the class of plaintiffs in the above mentioned *Hall Case.* The allegations in the *Tam Travel* Case are fundamentally similar to the *Hall* Case; the plaintiffs allege that the defendant airlines conspired to reduce and ultimately eliminate base commissions paid to travel agents. We believe this case is also without merit, and we intend to defend ourselves against the claim. On November 10, 2003, the Judicial Panel on Multidistrict Litigation transferred the *Tam Travel* case, together with two other similar cases in which KLM is not a defendant, to the federal district court located in Youngstown, Ohio.

Airline operating data	**Six months ended September 30, 2003**	**Six months ended September 30, 2002**
KLM		
Traffic (in millions of RTKs[a])	5,025	5,102
Capacity (in millions of ASKs[b])	6,406	6,438
Load factor (%)	78.4	79.2
PASSENGER BUSINESS		
Traffic (in millions of RPKs[c])	28,951	30,657
Capacity (in millions of ASKs[d])	36,167	37,489
Passenger load factor (%)	80.0	81.8
CARGO BUSINESS		
Traffic (in millions of RTFKs[e])	2,144	2,051
Capacity (in millions of ATFKs[f])	2,997	2,865
Cargo load factor (%)	71.5	71.6
TRANSAVIA		
Traffic (in millions of RPKs)	5,044	5,401
Capacity (in millions of ASKs)	6,571	6,801
Passenger load factor (%)	76.8	79.4

[a] RTK = Revenue ton-kilometer

[b] ATK = Available ton-kilometer

[c] RPK = Revenue passenger kilometer

[d] ASK = Available seat kilometer

[e] RTFK = Revenue freight ton-kilometer

[f] ATFK = Available freight ton-kilometer

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UNAUDITED CONSOLIDATED BALANCE SHEET AS OF SEPTEMBER 30, 2003

(in millions of euro)	Note[g]	September 30, 2003	March 31, 2003
Fixed assets			
Intangible fixed assets		60	66
Tangible fixed assets	*6*	4,985	4,982
Financial fixed assets		1,227	1,289
		6,272	6,337
Current assets			
Operating supplies		211	222
Accounts receivable	*7*	878	998
Cash and marketable securities		533	608
		1,622	1,828
Current liabilities	*1*	1,869	2,190
Current assets less current liabilities		(247)	(362)
Assets less current liabilities		6,025	5,975
Long-term debt			
Subordinated perpetual debt		509	544
Other long-term debt		3,539	3,427
	2	4,048	3,971
Provisions	*3*	268	271
Deferred credits	*4*	212	256
Group equity	*5*	1,497	1,477
		6,025	5,975

[g] The accompanying notes are an integral part of these unaudited consolidated condensed interim financial statements.

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UNAUDITED RESULTS FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2003

		Six months ended September 30	
(in millions of euro; except per share data)	**Note[h]**	**2003**	**2002**
Operating revenues	*8*	3,036	3,532
Operating expenses	*9*	2,971	3,350
Operating income	*10*	65	182
Financial expense		(44)	(47)
Results on sale of assets		7	(2)
Results of holdings	*11*	7	6
Results on sale of holdings		12	2
Pretax income		47	141
Taxes		(11)	(44)
Net income		36	97
Net income per common share (in euro)[i j]:			
- Basic		0.80	2.12
- Diluted		0.80	2.12
Dividend declared per share			
Average number of common shares outstanding (in thousands)[k]:			
- Basic		44,188	45,290
- Diluted		44,188	45,290

[h] The accompanying notes are an integral part of these unaudited consolidated condensed interim financial statements;

[i] After taking into account the rights of holders of priority shares, cumulative preference shares A and cumulative preference shares C;

[j] As of March 31, 2003 earnings per share calculations are exclusive of any shares held by KLM. Outstanding shares used for the earnings per share calculations are based on the weighted average outstanding shares during the interim periods. The earnings per share figures for the six months ended September 30, 2002 have been adjusted for comparative purposes.

[k] Excluding shares held by KLM.

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UNAUDITED CASH FLOW FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2003

(in millions of euro)	Note[1]	Six months ended September 30 2003	Six months ended September 30 2002
Net income		36	97
Depreciation		220	242
Changes in provisions		8	42
Changes in operating working capital		(65)	93
Results of holdings		(7)	(6)
Results on sale of holdings		(12)	(2)
Other changes		(40)	(12)
Cash flow from operating activities		140	454
Net capital expenditures on intangible fixed assets		(4)	(16)
Net capital expenditures on tangible fixed assets	*12*	(202)	(375)
Net capital changes in holdings		11	(13)
Changes in the group of consolidated holdings		2	
Cash flow from investing activities		(193)	(404)
Cash flow from financing activities		(22)	(121)
Changes in cash and marketable securities		(75)	(71)

1 The accompanying notes are an integral part of these unaudited consolidated condensed interim financial statements.

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NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

These unaudited condensed consolidated interim financial statements for the six months ended September 30, 2003 should be read in conjunction with KLM s audited consolidated financial statements included in its Annual Report on Form 20-F for the year ended March 31, 2003. These unaudited condensed consolidated interim financial statements for the six months ended September 30, 2003 have been prepared on a basis consistent with accounting policies and procedures applied in KLM s audited consolidated financial statements included in its annual report on Form 20-F for the year ended March 31, 2003. They reflect all normal and recurring adjustments, which are, in the opinion of management, necessary to present fairly the financial condition, results of operations and cash flows of KLM and its subsidiaries for the period presented. Figures for the year ended March 31, 2003 are derived from the audited consolidated financial statements included in its Annual Report on Form 20-F for that year.

The results of the six months ended September 30, 2003 are not necessarily indicative of the results of the operations for the full year ending March 31, 2004.

These unaudited interim financial statements do not include all of the information and notes required by Netherlands Generally Accepted Accounting Principles for complete financial statements.

The preparation of financial statements in conformity with Generally Accepted Accounting Principles requires management to make estimates and assumptions that affect reported amounts and related disclosures. Actual results could differ from those estimates.

1. Current liabilities

(in millions of euro)	**September 30, 2003**	**March 31, 2003**
Current maturity s of long term debt	167	316
Unearned revenues	577	547
Creditors	550	532
Accruals and other current liabilities	527	765
Taxes	48	30
	1,869	2,190

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2. Long term debt

(in millions of euro)	September 30, 2003	March 31, 2003
Perpetual debts		
Subordinated perpetual debts	509	544
Other long-term debt		
Bank loans	22	21
Financial lease commitments	3,318	3,295
Other loans	367	427
	3,707	3,743
Of which maturing within one year	(168)	(316)
	4,048	3,971

3. Provisions

(in millions of euro)	September 30, 2003	March 31, 2003
Post retirement health costs	70	69
Early retirement costs	28	31
Other staff commitments	69	72
Frequent flyer program	26	24
Reorganization and restructuring	70	75
Other provisions	5	0
	268	271

4. Deferred credits

Deferred credits mainly relate to unamortized gains on sale and lease back transactions of aircraft and benefits arising from aircraft finance lease constructions.

(in millions of euro)	September 30, 2003	March 31, 2003
Investment incentive grants received under the Investment Account Act	18	20
Items related to aircraft financing	194	236
	212	256

5. Group equity

	September 30,	March 31,

(in millions of euro)	2003	2003
Stockholders equity	1,496	1,476
Share of third parties	1	1
Group equity	1,497	1,477

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Changes in stockholders equity

(in millions of euro)	Priority shares	A-cum. shares	C-cum. Shares	Common shares	Paid-in surplus	Other reserves	Stockholders' Equity
Balance at March 31, 2003		18	14	94	474	876	1,476
Distribution to shareholders						(6)	