

KLM ROYAL DUTCH AIRLINES

Form 6-K

December 30, 2003

**Table of Contents**

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  Form 40-F

(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  No

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**TABLE OF CONTENTS**

INTRODUCTION

FORWARD LOOKING STATEMENTS

OPERATING AND FINANCIAL REVIEW

UNAUDITED CONSOLIDATED BALANCE SHEET AS OF SEPTEMBER 30, 2003

UNAUDITED RESULTS FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2003

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

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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**Table of Contents**

**TABLE OF CONTENTS**

**INTRODUCTION**

**FORWARD LOOKING STATEMENTS**

**OPERATING AND FINANCIAL REVIEW**

**UNAUDITED CONSOLIDATED BALANCE SHEET AS OF SEPTEMBER 30, 2003**

**UNAUDITED RESULTS FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2003**

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

**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

**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;

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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

1

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**Table of Contents**

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.

## **Table of Contents**

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

**Table of Contents**

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<br>September 30,<br>2003 | Six months ended<br>September 30,<br>2002 |
|---|---|---|
| <b>KLM</b>                                    |   |   |
| Traffic (in millions of RTKs <sup>a</sup> )   | 5,025                                     | 5,102                                     |
| Capacity (in millions of ASKs <sup>b</sup> )  | 6,406                                     | 6,438                                     |
| Load factor (%)                               | 78.4                                      | 79.2                                      |
| <b>PASSENGER BUSINESS</b>                     |   |   |
| Traffic (in millions of RPKs <sup>c</sup> )   | 28,951                                    | 30,657                                    |
| Capacity (in millions of ASKs <sup>d</sup> )  | 36,167                                    | 37,489                                    |
| Passenger load factor (%)                     | 80.0                                      | 81.8                                      |
| <b>CARGO BUSINESS</b>                         |   |   |
| Traffic (in millions of RTFKs <sup>e</sup> )  | 2,144                                     | 2,051                                     |
| Capacity (in millions of ATFKs <sup>f</sup> ) | 2,997                                     | 2,865                                     |
| Cargo load factor (%)                         | 71.5                                      | 71.6                                      |
| <b>TRANSAVIA</b>                              |   |   |
| 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                                      |

<sup>a</sup> RTK = Revenue ton-kilometer

<sup>b</sup> ATK = Available ton-kilometer

<sup>c</sup> RPK = Revenue passenger kilometer

<sup>d</sup> ASK = Available seat kilometer

<sup>e</sup> RTFK = Revenue freight ton-kilometer

<sup>f</sup> ATFK = Available freight ton-kilometer





**Table of Contents****UNAUDITED CONSOLIDATED BALANCE SHEET AS OF SEPTEMBER 30, 2003**

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

<sup>g</sup> The accompanying notes are an integral part of these unaudited consolidated condensed interim financial statements.

**Table of Contents****UNAUDITED RESULTS FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2003**

| (in millions of euro; except per share data)                                   | Note <sup>h</sup> | Six months ended<br>September 30 |        |
|--|-------------------|----------------------------------|--------|
|  |                   | 2003                             | 2002   |
| <b>Operating revenues</b>  | 8                 | 3,036                            | 3,532  |
| <b>Operating expenses</b>  | 9                 | 2,971                            | 3,350  |
| <b>Operating income</b>  | 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      |
| <b>Pretax income</b>   |                   | 47                               | 141    |
| Taxes  |                   | (11)                             | (44)   |
| <b>Net income</b>  |                   | 36                               | 97     |
| <b>Net income per common share (in euro)<sup>i,j</sup>:</b>                    |                   |                                  |        |
| - Basic  |                   | 0.80                             | 2.12   |
| - Diluted  |                   | 0.80                             | 2.12   |
| <b>Dividend declared per share</b>   |                   |                                  |        |
| <b>Average number of common shares outstanding (in thousands)<sup>k</sup>:</b> |                   |                                  |        |
| - Basic  |                   | 44,188                           | 45,290 |
| - Diluted  |                   | 44,188                           | 45,290 |

<sup>h</sup> The accompanying notes are an integral part of these unaudited consolidated condensed interim financial statements;

<sup>i</sup> After taking into account the rights of holders of priority shares, cumulative preference shares A and cumulative preference shares C;

<sup>j</sup> 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.

<sup>k</sup> Excluding shares held by KLM.

**Table of Contents****UNAUDITED CASH FLOW FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2003**

| (in millions of euro)                               | Note <sup>1</sup> | Six months ended<br>September 30 |              |
|---|-------------------|----------------------------------|--------------|
|   |                   | 2003                             | 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)         |
| <b>Cash flow from operating activities</b>          |                   | <b>140</b>                       | <b>454</b>   |
| 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                                |              |
| <b>Cash flow from investing activities</b>          |                   | <b>(193)</b>                     | <b>(404)</b> |
| <b>Cash flow from financing activities</b>          |                   | <b>(22)</b>                      | <b>(121)</b> |
| <b>Changes in cash and marketable securities</b>    |                   | <b>(75)</b>                      | <b>(71)</b>  |

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

**Table of Contents****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,<br>2003 | March 31,<br>2003 |
|--|-----------------------|-------------------|
| Current maturities of long term debt   | 167                   | 316               |
| Unearned revenues                      | 577                   | 547               |
| Creditors                              | 550                   | 532               |
| Accruals and other current liabilities | 527                   | 765               |
| Taxes                                  | 48                    | 30                |
|  | <u>1,869</u>          | <u>2,190</u>      |

**Table of Contents****2. Long term debt**

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

**3. Provisions**

| (in millions of euro)            | September 30,<br>2003 | March 31,<br>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                 |
|                                  | <u>268</u>            | <u>271</u>        |

**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,<br>2003 | March 31,<br>2003 |
|---|-----------------------|-------------------|
| Investment incentive grants received under the Investment Account Act | 18                    | 20                |
| Items related to aircraft financing                                   | 194                   | 236               |
|   | <u>212</u>            | <u>256</u>        |

**5. Group equity**

September 30,      March 31,

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

**Table of Contents****Changes in stockholders' equity**

| (in millions of euro)                | Priority<br>shares | A-cum.<br>shares | C-cum.<br>Shares | Common<br>shares | Paid-in<br>surplus | Other<br>reserves | Stockholders'<br>Equity |
|--------------------------------------|--------------------|------------------|------------------|------------------|--------------------|-------------------|-------------------------|
| <b>Balance at March 31, 2003</b>     |                    | 18               | 14               | 94               | 474                | 876               | 1,476                   |
| Distribution to shareholders         |                    |                  |                  |                  |                    | (6)               | (6)                     |
| Allocation from net income           |                    |                  |                  |                  |                    | 36                | 36                      |
| Exchange rate differences/other      |                    |                  |                  |                  |                    | (10)              | (10)                    |
|                                      | —                  | —                | —                | —                | —                  | —                 | —                       |
| <b>Balance at September 30, 2003</b> |                    | 18               | 14               | 94               | 474                | 896               | 1,496                   |

Movements with respect to exchange rate differences/other relate to exchange rate differences arising on the translation of KLM's share in equity and results of foreign holdings and movements in other reserves with respect to the valuation of financial instruments that qualify as cash flow hedges under SFAS 133/138.

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

As of September 30, 2003, KLM had commitments for previously placed orders of 810 million, of which 765 million related to aircraft. The remainder of the commitments as of September 30, 2003 amounted to 45 million and related to other tangible fixed assets.

***Contingent liabilities regarding fleet retirement***

For a number of aircraft held under operational leases, there is a contractual obligation to the lessor to return the aircraft in accordance with an agreed maintenance state. Any costs incurred for the fulfillment of this obligation will depend in part on the flight hours of the aircraft to the end of fiscal year 2006/07 and are currently estimated at approximately 50 million. As of September 30, 2003 an amount of 12 million was provided for.

***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.

***Rental agreements***

As of September 30, 2003 KLM had long-term rental commitments amounting to 1,455 million, which are due within the following periods:

| (in millions of euro) | Operating leases<br>of aircraft | Rental of buildings |
|-----------------------|---------------------------------|---------------------|
| 1 - 12 months         | 179                             | 37                  |
| > 12 - 24 months      | 192                             | 26                  |
| > 24 - 36 months      | 172                             | 24                  |
| > 36 - 48 months      | 142                             | 20                  |
| > 48 - 60 months      | 92                              | 17                  |
| > 60 months           | 335                             | 219                 |
|                       | —                               | —                   |
|                       | 1,112                           | 343                 |

Guarantees have been provided up to an amount of 125 million, 98 million relates to various guarantees provided by KLM to third parties on behalf of consolidated holdings. These





**Table of Contents**

guarantees mainly relates to financial lease commitments ( 53 million), passenger handling ( 44 million), bank guarantees ( 17 million), guarantees for personnel mortgages ( 6 million) and some other small guarantees ( 5 million). Except for the financial lease commitments no obligation has been recorded in relation to these guarantees. Guarantees were further provided for a number of consolidated holdings in accordance with Article 403, Book 2, of The Netherlands Civil Code. This information is part of the information on capital interests, which has been filed with the Trade Register of the Chamber of Commerce in Amsterdam. The debts of the companies, which are included in the consolidated balance sheet as of September 30, 2003 amounted to 70 million.

**7. Accounts Receivable**

The accounts receivable balance has decreased when compared to March 31, 2003 due to the seasonality associated with the airline industry, as described in our annual report on Form 20-F.

**8. Operating revenues**

| (in millions of euro) | Six months ended<br>September 30 |              |
|-----------------------|----------------------------------|--------------|
|                       | 2003                             | 2002         |
| Traffic revenues      | 2,701                            | 3,161        |
| Other revenues        | 335                              | 371          |
|                       | <u>3,036</u>                     | <u>3,532</u> |

**9. Operating Expenses**

| (in millions of euro)                     | Six months ended<br>September 30 |              |
|---|----------------------------------|--------------|
|   | 2003                             | 2002         |
| Salaries and benefits                     | 967                              | 938          |
| Aircraft fuel                             | 396                              | 454          |
| Materials and consumables                 | 184                              | 235          |
| Commercial costs                          | 191                              | 269          |
| Landing fees and navigation charges       | 268                              | 282          |
| Third-party handling costs                | 115                              | 119          |
| Work by third parties                     | 217                              | 256          |
| Depreciation                              | 220                              | 242          |
| Operational aircraft lease expenses       | 87                               | 87           |
| Cost of housing, vehicles and inventories | 68                               | 77           |
| Commercial cooperation                    | 16                               | 55           |
| Ad hoc aircraft and truck rentals         | 46                               | 54           |
| Long term property rentals                | 17                               | 16           |
| Hired personnel                           | 33                               | 52           |
| Other operating expenses                  | 146                              | 214          |
| Total operating expenses                  | <u>2,971</u>                     | <u>3,350</u> |

**Table of Contents****10. Operating income**

Business segmentation for the six months ended September 30, 2003:

| (in millions of euro) | Passenger | Cargo | E&M | Charter/<br>Low Cost | Other | Eliminations | Total |
|-----------------------|-----------|-------|-----|----------------------|-------|--------------|-------|
| Operating revenues    | 2,104     | 512   | 418 | 282                  | 156   | (436)        | 3,036 |
| Operating expenses    | 2,024     | 485   | 412 | 249                  | 237   | (436)        | 2,971 |
| Operating income      | 80        | 27    | 6   | 33                   | (81)  |              | 65    |

Business segmentation for the six months ended September 30, 2002:

| (in millions of euro) | Passenger | Cargo | E&M | Charter/<br>Low Cost | Other | Eliminations | Total |
|-----------------------|-----------|-------|-----|----------------------|-------|--------------|-------|
| Operating revenues    | 2,413     | 535   | 490 | 312                  | 190   | (408)        | 3,532 |
| Operating expenses    | 2,240     | 497   | 464 | 265                  | 292   | (408)        | 3,350 |
| Operating income      | 173       | 38    | 26  | 47                   | (102) |              | 182   |

**11. Result of Holdings**

Holdings refer to equity interests in which KLM has a significant influence.

**12. Cash Flow Statement**

Net capital expenditures on tangible fixed assets for the six months ended September 30, 2003 included the purchase of two Boeing 747-400ER freighters and two Boeing 737-700 aircraft. Three Boeing 757-200 aircraft were sold. Prepayments were made on one Boeing 747-400 freighter, four Boeing 777-200 and six A330-220 aircraft.

**13. Post balance sheet events**

At September 30, 2003 Air France and KLM announced that they expect to conclude an agreement that would lead to the creation of Europe's leading airline group through a share exchange offer by Air France for KLM common shares. The terms of the offer, the combination and related transactions are contained in a framework agreement between Air France and KLM signed on October 16, 2003.

**14. U.S. GAAP reconciliation**

The Netherlands accounting principles (Netherlands GAAP) applied in the preparation of the Consolidated Financial information of KLM vary in certain significant aspects from generally accepted accounting principles in the United States (US GAAP). The following table summarizes the effects of US GAAP differences on the net income and stockholders' equity.

With respect to the nature of the differences between Netherlands GAAP and US GAAP see note 28 to our annual consolidated financial statements in our annual report on Form 20-F for the fiscal year ended March 31, 2003.

Besides the differences described in the Form 20-F for the fiscal year ended March 31, 2003, the disposal of KLM UK's low cost operation buzz resulted in an additional difference between Netherlands GAAP and US GAAP. KLM sold buzz in April 2003 to Ryanair. Under Netherlands accounting principles the sale of the buzz operation is not considered as a discontinued operation since KLM has not disposed of a significant separate activity as defined under NL GAAP. KLM is still operating a low cost business segment consisting of Transavia's Basiqair. Under SFAS

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144 the disposal of KLM uk s low cost activity buzz is considered a discontinued operation as it qualifies as a component of an entity as per SFAS 144.

**Table of Contents**

| (in millions of euro; except per share data)                                   | Six months ended<br>September 30,<br>2003 | Six months ended<br>September 30,<br>2002 |
|--|---|---|
| <b>Net income under Netherlands GAAP</b>                                       | <b>36</b>                                 | <b>97</b>                                 |
| <i>Adjustments in accordance with US GAAP:</i>                                 |   |   |
| Goodwill   | 2   | (1)                                       |
| Pensions   | 41  | 86  |
| Reorganization provision   | (75)                                      |   |
| Direct equity movements  | (1)                                       | (12)                                      |
| Equity investments Pension related   | (7)                                       |   |
|  | <u>(40)</u>                               | <u>73</u>                                 |
| Income tax effect on changes   | 12  | (30)                                      |
|  | <u>(28)</u>                               | <u>43</u>                                 |
| <b>Net income in conformity with US GAAP</b>                                   | <b>8</b>                                  | <b>140</b>                                |
|  | <u>8</u>                                  | <u>145</u>                                |
| Net result of discontinued operations  |   | (5)                                       |
| Net result of continued operations   | 8   | 145                                       |
|  | <u>8</u>                                  | <u>140</u>                                |
| <b>Net income under US GAAP</b>  | <b>8</b>                                  | <b>140</b>                                |
|  | <u>8</u>                                  | <u>140</u>                                |
| <b>Net income per common share<sup>m</sup>:</b>                                |   |   |
| - Basic  | 0.16                                      | 3.07                                      |
| - Diluted  | 0.16                                      | 3.07                                      |
| <b>Net income from continuing operations per common share<sup>n</sup>:</b>     |   |   |
| - Basic  | 0.16                                      | 3.18                                      |
| - Diluted  | 0.16                                      | 3.18                                      |
| <b>Average number of common shares outstanding (in thousands)<sup>o</sup>:</b> |   |   |
| - Basic  | 44,188                                    | 45,290                                    |
| - Diluted  | 44,188                                    | 45,290                                    |
|  | <u>44,188</u>                             | <u>45,290</u>                             |
|  | <u>44,188</u>                             | <u>45,290</u>                             |
| (in millions of euro)  | September 30,<br>2003                     | March 31,<br>2003                         |
| <b>Stockholders equity in conformity with Netherlands GAAP</b>                 | <b>1,496</b>                              | <b>1,476</b>                              |
| <i>Adjustments in accordance with US GAAP:</i>                                 |   |   |
| Goodwill   | 6   | 4   |
| Pensions   | 2,026                                     | 2,010                                     |
| Reorganization provision   | 0   | 75  |
| Equity investments Pension related   | (7)                                       | 0   |
| Income tax effect on changes   | (709)                                     | (738)                                     |
|  | <u>1,316</u>                              | <u>1,351</u>                              |
| <b>Stockholders equity in conformity with US GAAP</b>                          | <b>2,812</b>                              | <b>2,827</b>                              |
|  | <u>2,812</u>                              | <u>2,827</u>                              |

<sup>m</sup> After taking the rights of holders of priority shares, cumulative preference shares A and cumulative preference shares C into account.

<sup>n</sup> After taking the rights of holders of priority shares, cumulative preference shares A and cumulative preference shares C into account.

<sup>o</sup> Excluding shares held by KLM.

**Table of Contents**

**New U.S. accounting standards**

KLM has entered into various financing structures related to the sale and operational lease back of aircraft. Under US GAAP, upon adoption of FIN 46, KLM will be required to determine whether these structures are variable interest entities, and if so, to assess whether KLM is the primary beneficiary of these entities. If KLM is the primary beneficiary, it will be required to consolidate the variable interest entities. KLM is in the process of performing its initial assessment of these structures. KLM has identified aircraft operating leases where the lessor is a trust established specifically to purchase, finance and lease the aircraft and KLM, besides being the lessee, also acts as third party lender, together with other commercial lenders, to fund the lessor (seller financing). These loans amount to approximately 25 million (secured by a mortgage on the aircraft) and are classified on KLM's consolidated balance sheet under financial fixed assets. If these operating lease structures would be required to be consolidated, the maximum potential impact on KLM's financial position would be the recognition of a tangible fixed asset and a lease obligation of approximately 33 million as per September 30, 2003. No material impact is expected to arise on the company's financial results or the cash position related to these lease structures.

In June 2001, FASB Statement 143, *Accounting for Asset Retirement Obligations*, was issued. The statement requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of the fair value can be made. The associated asset retirement costs are capitalized as part of the carrying value of the relevant long-lived asset. This statement is effective for us on April 1, 2003. The adoption of SFAS No. 143 did not have a significant impact on the company's financial statements.

In June 2002, the FASB issued SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*. This statement addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies EITF Issue No. 94-3, *Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)*. This statement requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. The statement is effective for exit or disposal activities initiated after December 31, 2002 and had no material impact on the Company's financial position, results of operations or cash flows.

In November 2002, the FASB issued Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*. Interpretation No. 45 elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees. Disclosures under Interpretation No. 45 are effective for us in the 2002/03 financial statements. Additionally, Interpretation No. 45 clarifies the requirements for recognizing a liability at the inception of the guarantee equal to the fair value of the obligation undertaken in issuing the guarantee and incorporates the guidance in FASB Interpretation No. 34, *Disclosure of Indirect Guarantees of Indebtedness of Others*. No guarantees were issued or modified after December 31, 2002. The disclosure requirements of FIN 45 are set out in Note 6 to these unaudited condensed consolidated interim financial statements.

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

In May 2003, the FASB issued FASB Statement No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*. This Statement establishes

**Table of Contents**

standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classifies a financial instrument that is within its scope as a liability (or an asset in some circumstances). Many of those instruments were previously classified as equity. KLM s currently has no financial instruments that would need to be reclassified under SFAS 150.

In April 2003, the FASB issued SFAS No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities ( SFAS 149 ). The statement amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under Statement 133. SFAS 149 is effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003. The guidance is to be applied prospectively. KLM has not entered into such contracts or modified existing contracts after June 30, 2003 or designate hedging relationships after June 30, 2003.

**Table of Contents**

Reconciliation of operating income under Netherlands GAAP to US GAAP:

| (in millions of euro)                                       | Six months ended<br>September 30,<br>2003 | Six months ended<br>September 30,<br>2002 |
|---|---|---|
| <b>Operating income in conformity with Netherlands GAAP</b> | 65  | 182                                       |
| Pensions  | 41  | 86  |
| Reorganization provision                                    | (75)                                      |   |
| Goodwill  | 2   | (1)                                       |
| Result on sale of holdings                                  | 12  | 2   |
| Result on sale of assets                                    | 7   | (2)                                       |
|   | <u>          </u>                         | <u>          </u>                         |
| <b>Operating income in conformity with US GAAP</b>          | <b>52</b>                                 | <b>267</b>                                |
|   | <b>_____</b>                              | <b>_____</b>                              |

**Statement of comprehensive income**

For the period six months ended September 30, 2003, the figures stated in the table below are net of tax amounts.

| (in millions of euro)                        | Six months ended<br>September 30,<br>2003 | Six months ended<br>September 30,<br>2002 |
|--|---|---|
| <b>Net income in conformity with US GAAP</b> | 8   | 140                                       |
| Other comprehensive income, net of tax:      |   |   |
| - foreign currency translation adjustments   | (7)                                       | (18)                                      |
| - Unrealized gain/losses derivatives         | (2)                                       | (12)                                      |
| - minimum pension liability                  | (8)                                       |   |
|  | <u>          </u>                         | <u>          </u>                         |
| Other comprehensive income                   | (17)                                      | (30)                                      |
| <b>Comprehensive income</b>                  | <b>(9)</b>                                | <b>110</b>                                |
|  | <b>_____</b>                              | <b>_____</b>                              |

**Accumulated Other Comprehensive Income**

For the six months ended September 30, 2003, the figures stated in the table below are net of tax amounts.

| (in millions of euro)                      | Foreign<br>currency<br>translation<br>adjustments | Unrealized<br>gains/losses<br>derivatives | Minimum<br>pension<br>liability | Total<br>accumulated<br>other<br>comprehensive<br>income (loss) |
|--|---|---|---------------------------------|---|
| <b>Balance sheet at March 31, 2003</b>     | (13)  | (39)                                      | (38)                            | (90)  |
| Current period change                      | (7)   | (2)                                       | (8)                             | (17)  |
| <b>Balance sheet at September 30, 2003</b> | <b>(20)</b>                                       | <b>(41)</b>                               | <b>(46)</b>                     | <b>(107)</b>  |



**Table of Contents**

The table below reconciles the balance sheet captions under Netherlands GAAP to the captions under US GAAP considering the accounting differences described in this note.

| (in millions of euro)                                       | At September 30,<br>2003 | At March 31,<br>2003 |
|---|--------------------------|----------------------|
| <b>Intangible fixed assets</b>                              |                          |                      |
| Intangible fixed assets in conformity with Netherlands GAAP | 60                       | 66                   |
| Goodwill  | 6                        | 4                    |
| Intangible fixed assets in conformity with US GAAP          | <u>66</u>                | <u>70</u>            |
| <b>Financial fixed assets</b>                               |                          |                      |
| Financial fixed assets in conformity with Netherlands GAAP  | 1,227                    | 1,289                |
| Reclassification of net deferred tax position               | (117)                    | (128)                |
| In-substance defeasance of lease obligations                | 249                      | 317                  |
| Equity investments  | (7)                      |                      |
| Financial fixed assets in conformity with US GAAP           | <u>1,352</u>             | <u>1,478</u>         |
| <b>Deferred taxes</b>                                       |                          |                      |
| Net deferred tax position in conformity with NL GAAP        | 117                      | 128                  |
| Income tax effect on OCI movement                           |                          | 13                   |
| Income tax on changes                                       | (709)                    | (738)                |
| Net deferred tax position in conformity with US GAAP        | <u>(592)</u>             | <u>(597)</u>         |
| <b>Prepaid expenses</b>                                     |                          |                      |
| Prepaid expenses in conformity with Netherlands GAAP        | 165                      | 213                  |
| Pension costs   | 2,000                    | 1,973                |
| Prepaid expenses in conformity with US GAAP                 | <u>2,165</u>             | <u>2,186</u>         |
| <b>Current liabilities</b>                                  |                          |                      |
| Current liabilities in conformity with Netherlands GAAP     | 1,869                    | 2,190                |
| Pension costs   | (7)                      | (7)                  |
| Current liabilities in conformity with US GAAP              | <u>1,862</u>             | <u>2,183</u>         |
| <b>Long-term debt</b>                                       |                          |                      |
| Other long-term debt in conformity with Netherlands GAAP    | 3,539                    | 3,427                |
| In-substance defeasance of lease obligations                | 249                      | 317                  |
| Other long-term debt in conformity with US GAAP             | <u>3,788</u>             | <u>3,744</u>         |
| <b>Provisions</b>   |                          |                      |
| Provisions in conformity with Netherlands GAAP              | 268                      | 271                  |
| Early retirement provision                                  | (17)                     | (17)                 |
| Reorganization provision                                    | 0                        | (75)                 |
| Pension costs   | (2)                      |                      |
| Provisions in conformity with US GAAP                       | <u>249</u>               | <u>179</u>           |



**Table of Contents****Stock-based Compensation**

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

| (in millions of euro; earnings per share in euro)  | Six months ended<br>September 30,<br>2003 | Six months ended<br>September 30,<br>2002 |
|--|---|---|
| <b>Net income (loss) in accordance with US GAAP</b>  | 8   | 140                                       |
| Add back: Stock-based employee compensation included in reported net income                        |   |   |
| Stock based employee compensation that would have been included in the determination of net income |   |   |
| <b>Pro forma net income (loss)</b>   | <b>8</b>                                  | <b>140</b>                                |
| <b>Basic and diluted earnings per share in accordance with US GAAP: as reported</b>                | 0.16                                      | 3.07                                      |
| Add back: Stock-based employee compensation included in reported net income                        |   |   |
| Stock based employee compensation that would have been included in the determination of net income | (0.01)                                    | (0.01)                                    |
| <b>Pro forma earnings per share</b>  | <b>0.15</b>                               | <b>3.06</b>                               |

The nature of the options, which were granted in the six-month period ended September 30, 2003, is similar as those granted in previous years as described in our annual report on Form 20-F. All options granted in the six-month ended September 30, 2003 were of option type A.

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

|   | Six months ended<br>September 30,<br>2003 | Six months ended<br>September 30,<br>2002 |
|---|---|---|
| Risk-free interest rate   | 2.8                                       | 3.3                                       |
| Expected dividend yield   | 1.4                                       | 1.5                                       |
| Expected option life  | 5.0                                       | 5.0                                       |
| Expected stock price volatility   | 43.9                                      | 53.4                                      |
| <b>Weighted average fair value of options granted during the period (in euro)</b> | <b>2.71A</b>                              | <b>2.17A<br/>2.57B</b>                    |

This report is unaudited.

Amstelveen, December 29, 2003

The Board of Managing Directors

**Table of Contents**

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**KLM Royal Dutch Airlines**

**Date: December 30, 2003**

**By /s/ R.A. Ruijter**

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**Name : R.A. Ruijter**  
**Title : Managing Director & CFO**

**By /s/ C. van Woudenberg**

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**Name : C. van Woudenberg**  
**Title : Managing Director & CHO**