

KLM ROYAL DUTCH AIRLINES

Form 20-F/A

January 12, 2004

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

FORM 20-F/A

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

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended March 31, 2003

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission File Number 1-4059

Koninklijke Luchtvaart Maatschappij N.V.

(Exact name of Registrant as specified in its charter)

KLM Royal Dutch Airlines

(Translation of Registrant's name into English)

The Netherlands

(Jurisdiction of incorporation or organization)

55 Amsterdamseweg, Amstelveen, The Netherlands

(Address of principal executive offices)

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

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

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

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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
7,050,000	Cumulative preference shares C
1,275	Priority shares*

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

Yes

No

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

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

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EXPLANATORY NOTE

This Form 20-F/A amends Items 3, 4, 5 and 18 of KLM's Annual Report on Form 20-F for the fiscal year ended March 31, 2003, which was filed with the U.S. Securities and Exchange Commission (the SEC) on June 12, 2003. In connection with our proposed combination with Air France, our Annual Report on Form 20-F will be incorporated by reference by Air France into a registration statement under the U.S. Securities Act of 1933 on Form F-4. In that connection, and to increase the comparability of information in the Form F-4 to that contained in our Annual Report on Form 20-F we have retroactively:

Restated the selected financial data and note 28 to our consolidated financial statements to reflect the reclassification of KLM's low-cost buzz business as a discontinued operation in light of its disposal to Ryanair in April 2003.

Reclassified our operating income under Netherlands GAAP to reflect changed accounting rules with respect to the presentation of extraordinary items that became effective as of April 1, 2003.

We have also:

Restated our earnings per share figures under Netherlands GAAP and U.S. GAAP for each of the fiscal years ended in the period from April 1, 1998 through March 31, 2002 to reflect the exclusion from the calculation of earnings per share of shares held by KLM.

Removed certain non-GAAP information relating to operating costs per available ton-kilometer (unit costs) and break even load factors.

In the selected financial data:

Reclassified our operating income (loss) under U.S. GAAP to reflect the inclusion in operating income (loss) of results on sale of holdings and results on sale of assets, which had been recognized in separate line items called results on sale of holdings and results on sale of assets.

Recaptioned net assets as assets less current liabilities to conform to the presentation in our balance sheets and included stockholder's equity as a new line item.

Revised assets less current liabilities and total assets as of March 31, 2002 under U.S. GAAP to exclude net non-current deferred tax liabilities, which were previously included in assets less current liabilities and total assets.

Added new footnote 29 to our consolidated financial statements to describe the above changes to the extent they affect the consolidated financial statements.

This Form 20-F/A does not reflect events occurring after the filing of the original Form 20-F and does not modify or update the disclosure therein in any other way than as required to reflect the amendments discussed above.

The complete text of Items 3, 4, 5 and 18, as amended, have been set forth in their entirety, in accordance with Rule 12b-15 under the U.S. Securities Exchange Act of 1934. These items should be read together with the other items included in the original Form 20-F. Unless otherwise indicated, the exhibits previously filed with the original Form 20-F are not re-filed herewith.

The filing of this Form 20-F/A shall not be deemed an admission that the original Form 20-F, when made, included any untrue statement of a material fact or omitted to state a material fact necessary to make a statement not misleading.

WARNING ABOUT FORWARD-LOOKING STATEMENTS

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This Form 20-F/A 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 proposed combination with Air France, including such factors as the risk that Air France and KLM will not be integrated successfully, the ability of Air France to develop an integrated strategy for the combined group and changing relationships with customers, suppliers and strategic partners;

the airline pricing environment;

competitive actions taken by other airlines;

general economic conditions;

changes in foreign exchange 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;

industrial actions or strikes by our employees, employees of the combined group following the proposed combination of Air France and KLM or employees of our suppliers or airports; 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 cost of security, the cost and availability of aviation insurance coverage and war risk coverage and the price and availability of jet fuel.

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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 SEC, 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 SEC filings, including our Annual Report on Form 20-F. 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, KLM and the Company refer to KLM Royal Dutch Airlines and 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 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. Previously presented statements denominated in Dutch guilders (NLG) have been translated for all periods presented into euro using the irrevocably fixed conversion rate applicable since January 1, 1999 (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 that date. 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 translations or any amounts translated from euro into other currencies could have been converted from euro at the rates indicated.

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 information included in 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 information included in our audited consolidated financial statements which are 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.

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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	2001	2000	1999
Total assets	8,165	8,943 ⁽¹⁾	8,590	8,647	8,299
Assets less current liabilities ⁽²⁾	5,975	6,851 ⁽¹⁾	6,533	6,404	6,300
Long-term debt	3,971	4,417	3,686	3,712	3,503
Stockholders' equity	1,476	1,992	2,061	2,019	2,157
Capital stock	125	125	125	125	187
Operating revenues	6,485	6,532	6,960	6,296	6,047
Operating income (loss) ⁽³⁾	(484)	(94)	277	(18)	193
Net income (loss)	(416)	(156)	77	337	207
Net income (loss) per common share ^{(4)/(5)} :					
Basic	(9.26)	(3.46)	1.63	7.21	4.01
Diluted	(9.26)	(3.46)	1.63	7.21	4.01
Dividend declared per common share	0.10	0.20	0.60		0.68
Dividend declared per common share (in U.S. dollars)	0.11	0.22	0.66		0.74
Average number of common shares outstanding (in thousands):					
Basic	45,071	45,682	46,133	46,569	50,965
Diluted	45,071	45,682	46,133	46,569	50,965

- (1) The March 31, 2002 balance sheet included a EUR 100 million deferred tax liability presented under provisions. Consistent with Netherlands GAAP, we have reclassified this liability as a negative deferred tax asset under financial fixed assets for comparative purposes, since KLM's overall tax position turned into a deferred tax asset during the fiscal year ended March 31, 2003.
- (2) Net assets has been recaptioned as assets less current liabilities to conform to the presentation in our balance sheets.
- (3) Operating income under Netherlands GAAP has been adjusted retroactively to reflect the changed accounting rules effective for KLM as of April 1, 2003 with respect to the presentation of extraordinary items.
- (4) After taking into account the rights of holders of priority shares, cumulative preference shares A and cumulative preference shares C and based on the weighted average outstanding shares during the year.
- (5) The figures for each of the fiscal years ended during the period from April 1, 1998 through March 31, 2002 have been restated to exclude shares held by KLM.

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

	Fiscal year ended March 31,				
	2003	2002	2001	2000	1999
Total assets	10,331	11,306 ⁽¹⁾	10,934	10,641	10,087
Assets less current liabilities ⁽²⁾	8,148	9,214 ⁽¹⁾	8,304	7,840	7,679
Long-term debt	4,288	4,799	4,314	4,199	3,998
Stockholders' equity	2,827	3,220	3,229	3,081	3,088
Capital stock	125	125	125	125	187
Operating revenues	6,367	6,412	6,869	6,286	6,047
Operating income (loss) ⁽³⁾	(244)	86	458	731	572
Net income (loss)	(267)	(2) ⁽⁴⁾	154 ⁽⁴⁾	510 ⁽⁴⁾	354 ⁽⁴⁾
Income (loss) from continuing operations ⁽⁵⁾	(234)	28	209	530	354
Income (loss) from discontinued operations ⁽⁵⁾	(33)	(30)	(55)	(20)	
Net income (loss) per common share ^{(6)/(7)} :					
Basic	(5.97)	(0.08)	3.30	10.91	6.90
Diluted	(5.97)	(0.08)	3.30	10.91	6.90
Income (loss) from continuing operations per common share ^{(5)/(6)/(7)} :					
Basic	(5.23)	0.57	4.49	11.34	6.90
Diluted	(5.23)	0.57	4.49	11.34	6.90
Income (loss) from discontinued operations per common share ^{(5)/(7)} :					
Basic	(0.74)	(0.65)	(1.19)	(0.43)	
Diluted	(0.74)	(0.65)	(1.19)	(0.43)	
Dividend declared per common share	0.10	0.20	0.60		0.68
Dividend declared per common share (in U.S. dollars)	0.11 ⁽⁶⁾	0.22	0.66		0.74
Average number of common shares outstanding (in thousands):					
Basic	45,071	45,682	46,133	46,569	50,965
Diluted	45,071	45,682	46,133	46,569	50,965

- (1) Total assets and assets less current liabilities as of March 31, 2003 were reduced by 853 to mainly exclude net non-current deferred tax liabilities.
- (2) Net assets has be recaptioned as assets less current liabilities to conform to the presentation in our balance sheets.
- (3) Operating income under US GAAP has been reclassified to reflect the inclusion of results on sale of holdings and results on sale of assets, which had been previously recognized in separate line items called results on sale of holdings and results on sale of assets. The reclassification resulted in a decrease in operating income for the year ended March 31, 2003 of EUR 36 million, an increase of EUR 19 million for the year ended March 31, 2002, an increase of EUR 31 million for the year ended March 31, 2001, an increase of EUR 456 million for the year ended March 31, 2000 and an increase of EUR 150 million for the year ended March 31, 1999.
- (4) As explained in note 28 to KLM's annual consolidated financial statements, KLM adopted SFAS 142 on April 1, 2002. Under SFAS 142 goodwill and intangible assets with indefinite lives are no longer amortized, but instead tested for impairment at least annually. If this amortization had been excluded from KLM's results for prior periods, net income (loss) and net income (loss) per share would have been increased by EUR 7 million (EUR 0.15 per share) for the year ended March 31, 2002, EUR 11 million (EUR 0.24 per share) for the year ended March 31, 2001, EUR 13 million (EUR 0.28 per share) for the year ended March 31, 2000 and EUR 18 million (EUR 0.35 per share) for the year ended March 31, 1999.
- (5) For comparative purposes, restated to reflect buzz as a discontinued operation effective April 1, 1998. On April 11, 2003, KLM sold KLM's low fare business, buzz, to Ryanair. Under U.S. GAAP, buzz is considered a discontinued operation as from April 11, 2003.
- (6) After taking into account the rights of holders of priority shares, cumulative preference shares A and cumulative preference shares C and based on the weighted average outstanding shares during the year.
- (7) Exclusive of any shares held by KLM; the figures for each of the fiscal years ended during the period from April 1, 1998 through March 31, 2002 have been restated.

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For the 1998/99 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 1999/00 fiscal year, no dividend was paid. For the 2000/01 fiscal year a dividend of EUR 0.60 per common share was paid in cash. For the 2001/02 fiscal year a dividend of EUR 0.20 per common share was paid in cash.

For the 2002/03 fiscal year, a dividend of EUR 0.10 was 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 2002/03 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 2002/03 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.

Unfavorable outcomes of lawsuits may weaken our liquidity position.

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

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

B. Business overview

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

In fiscal year 2002/03, 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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	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
	<hr/>	<hr/>	<hr/>
* Total revenue ton-kilometers (RTK)	10,132	9,890	10,183
	<hr/>	<hr/>	<hr/>
Load factor (%)			
* Passenger kilometers	78.2	76.9	78.5
Passenger load factor (%) ⁽²⁾	59,417	58,447	60,047
Cargo load factor (%)	79.4	78.9	79.8
	71.7	69.6	71.7