Notes to Consolidated Financial Statements

1. Basis of presenting consolidated financial statements

All Nippon Airways Co., Ltd. (the Company) and its domestic subsidiaries maintain their books of account in accordance with the provisions set forth in the Japanese Commercial Code and in conformity with accounting principles and practices generally accepted in Japan, which may differ in some material respects from accounting principles and practices generally accepted in countries and jurisdictions other than Japan. The Company's foreign subsidiaries maintain their books of account in conformity with accounting principles and practices of the countries of their domicile.

In addition, the notes to the consolidated financial statements include information which is not required under accounting principles and practices generally accepted in Japan but is presented herein as additional information.

The accompanying consolidated financial statements have been compiled from the consolidated financial statements filed with the Minister of Finance as required by the Securities and Exchange Law of Japan. In preparing the accompanying financial statements certain reclassifications have been made in the financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan.

2. Summary of significant accounting policies

(a) Principles of consolidation and accounting for investments in non-consolidated subsidiaries and affiliates

The consolidated financial statements include the accounts of the Company and all of its significant subsidiaries (118 subsidiaries for 2002 and 113 subsidiaries for 2001). All significant intercompany accounts and transactions have been eliminated.

Investments in certain subsidiaries and significant affiliates (27 companies for 2002 and 32 companies for 2001) are accounted for by the equity method of accounting. The difference between the cost and the underlying net equity in the net assets at dates of acquisition of consolidated subsidiaries and companies accounted for by the equity method of accounting is amortized using the straight-line method over a period of five years.

Investments in non-consolidated subsidiaries and affiliates not accounted for by the equity method of accounting (52 companies for 2002 and 56 companies for 2001) are stated at cost. The companies' equity in undistributed earnings of these companies is not significant.

During 2002 and 2001, subsidiaries which were not consolidated in prior years were included in consolidation. The effect of changes in scope of consolidation have been credited or charged to retained earnings (deficit) and the consolidated financial statements for prior years have not been restated.

Certain foreign subsidiaries have fiscal years ending on December 31 and necessary adjustments for significant transactions, if any, are made on consolidation.

(b) Deferred tax accounting

Deferred income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their tax bases and operating losses and tax credits carried forward. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which the temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. See Note 8.

(c) Foreign currency translation

The balance sheet accounts of foreign consolidated subsidiaries are translated into yen at the rates of exchange in effect at the balance sheet date, except for components of shareholders' equity which are translated at historic exchange rates. Revenues and expenses are translated at the rates of exchange prevailing when such transactions are made. Due to a change in the regulations relating to the presentation of foreign currency translation adjustments which was effective for the year ended March 31, 2001, the Company presents foreign currency translation adjustments as a component of shareholders' equity.

In accordance with the revised accounting standard for foreign currency translation which became effective April 1, 2000, foreign currency payables and receivables are principally translated at the rate of exchange in effect at the balance sheet date, except payables and receivables hedged by qualified forward exchange contracts. Until the year ended March 31, 2000, they were principally translated at historic rates. The effect of the adoption of this revised standard for foreign currency translation was to increase income before income taxes and minority interests by ¥284 million for the year ended March 31, 2001.

(d) Marketable securities and investment securities

A new accounting standard for financial instruments, which became effective April 1, 2000, requires that securities be classified into three categories: trading, held-to-maturity or other securities. Under the new standard, trading securities are carried at fair value and held-to-maturity securities are carried at amortized cost. Marketable securities classified as other securities are carried at fair value with changes in unrealized holding gain or loss, net of the applicable income taxes, included directly in shareholders' equity. Non-marketable securities classified as other securities are carried at cost. Cost of securities sold is determined by the moving average method.

Until the year ended March 31, 2000, marketable securities and investment securities other than marketable securities had been valued principally at cost, being determined by the moving average method.

As of April 1, 2000, the Company and its consolidated subsidiaries assessed their intent to hold investments in securities and classified investments as "held-to-maturity securities" or "other securities" in order to account for the securities at March 31, 2001 in accordance with the new standard referred to above. As a result, marketable securities of ¥5,812 million, which had been included in current assets, were reclassified to investment securities as of April 1, 2000.

The effect of the adoption of this new standard for financial instruments was to decrease income before income taxes and minority interests by ¥3,279 million for the year ended March 31, 2001. See Note 4.

(e) Derivatives

The Company and its subsidiaries use derivatives, such as forward foreign exchange contracts, interest rate swaps and commodity options and swaps, to limit their exposure to fluctuations in foreign exchange rates, interests rates and commodity prices. The Company and its subsidiaries do not use derivatives for trading purposes.

In accordance with a new accounting standard for financial instruments which became effective April 1, 2000, derivative financial instruments are carried at fair value with changes in unrealized gain or loss charged or credited to operations, except for those which meet the criteria for deferral hedge accounting under which an unrealized gain or loss is deferred as an asset or a liability. Receivables and payables hedged by qualified forward exchange contracts are translated at the corresponding foreign exchange contract rates.

(f) Allowance for doubtful receivables

As of March 31, 2002 and 2001, a general provision is made for doubtful receivables based on past experience. Until March 31, 2000, a general provision had been made for doubtful receivables at a rate equivalent to the higher of that which was allowed in Japan as an expense for tax purposes and that which is demonstrated to be required by a review of receivables. Provisions are made against specific receivables as and when required. The effect of the change in the basis of general provision was not significant.

(g) Inventories

Inventories include aircraft spare parts, supplies and stock in trade of consolidated subsidiaries.

These are stated at cost. Cost is determined by the moving average method for aircraft spare parts and the first-in, first-out method for miscellaneous supplies.

(h) Property and equipment and depreciation

Property and equipment are stated at cost less accumulated depreciation. Depreciation of property and equipment is computed based on estimated useful lives by the following methods:

Flight equipment: Boeing 747-400s, other Boeing 747s, Boeing 777s, Boeing 767s, Boeing 737-500s, Airbus A320s, Airbus A321s and NAMC YS-11s	Straight-line method
Other flight equipment	Declining balance method
Buildings	Straight-line method
Other ground property and equipment	Declining balance method

The Company and some of the subsidiaries employ principally the following useful lives, based upon the Company's estimated durability of such aircraft:

International type equipment	20 years
Domestic type equipment	17 years

Major additions and improvements are capitalized at cost. Maintenance and repairs, including minor renewals and improvements, are charged to income as incurred.

(i) Intangible assets and amortization

Intangible assets included in other assets are amortized by the straight-line method. Cost of software purchased for internal use is amortized by the straight-line method over 5 years, the estimated useful life of purchased software.

(j) Retirement benefits

The retirement benefit plan of the Company and some of the subsidiaries covers substantially all employees other than directors, officers and statutory auditors. Under the terms of this plan, eligible employees are entitled, upon mandatory retirement or earlier voluntary severance, to lump-sum payments based on their compensation at the time of leaving and years of service with the Company and subsidiaries.

The Company and certain significant domestic subsidiaries have trustee employee pension funds to provide coverage for part of the lump-sum benefits or monthly pension. Several subsidiaries have tax-qualified pension plans which cover all or part of the lump-sum benefits. In accordance with a new accounting standard for retirement benefits which became effective April 1, 2000, accrued retirement benefits for employees at the balance sheet date are provided mainly at an amount calculated based on the retirement benefit obligation and the fair market value of the pension plan assets as of the balance sheet date, as adjusted for unrecognized net retirement benefit obligation at transition, unrecognized actuarial gain or loss and unrecognized prior service cost. The retirement benefit obligation is attributed to each period by the straight-line method over the estimated service years of eligible employees. The net retirement benefit obligation at transition is being amortized principally over a period of 15 years by the straight-line method. Actuarial gains and losses are amortized in the year following the year in which the gain or loss is recognized primarily by the straight-line method over periods (principally 10 years through 19 years in 2002 and 2001) which are shorter than the average remaining service years of employees. Prior service cost is being amortized as incurred by the straight-line method over periods (principally 10 years through 19 years in 2002 and 2001) which are shorter than the average remaining service years of employees. See Note 7.

The assumptions used in accounting for the above plans as of March 31, 2002 and 2001 are as follows:

	March 31, 2002	March 31, 2001
Discount rate	2.5%	3.5%
Expected return on plan assets	0.85%~6.0%	1.0%~6.25%

Until the year ended March 31, 2000, accrued retirement benefits had been stated at 40% of the net obligation which would be required to be paid under existing retirement regulations if all eligible employees voluntarily severed their employment at the end of each fiscal year, having made allowance for benefits expected to be recovered from the pension plan. The current cost and amortization of prior service cost of the pension plan had been determined actuarially and charged to operations. The prior service costs had been funded over a period of approximately 20 years.

The effect of the adoption of the new accounting standard for retirement benefits was to decrease income before income taxes and minority interests by ¥5,433 million for the year ended March 31, 2001.

Directors, officers and statutory auditors are not covered by the programs described above. Benefits paid to such persons are charged to operations as paid since amounts vary with circumstances, and it is therefore not practicable to compute liability for future payments.

(k) Revenue recognition

Passenger revenues, cargo and other operating revenues are recorded when services are rendered.

(l) Appropriation of retained earnings

Under the Commercial Code of Japan, the appropriation of unappropriated retained earnings of the Company with respect to a financial period is made by resolution of the Company's shareholders at a general meeting to be held subsequent to the close of the financial period and the accounts for that period do not therefore reflect such appropriation. See Note 15.

(m) Net income (loss) per share

The computation of net income per share of common stock is based on the weighted average number of shares outstanding during each year.

As a result of the net loss in fiscal 2002, net income per share assuming full dilution is not disclosed for that year.

(n) Leases

Finance lease transactions other than those that are expected to transfer ownership of the assets to the lessee are accounted for as operating leases. See Note 9.

(o) Bond issuance costs

Bond issuance costs are principally capitalized and amortized over a period of three years.

(p) Cash equivalents

For the purpose of the statements of cash flows, cash and short-term, highly liquid investments with a maturity of three months or less are treated as cash equivalents. See Note 14.

(q) Reclassification

Certain reclassifications have been made to the 2001 financial information in the accompanying financial statements to conform with the 2002 presentation.

3. Financial statement translation

The consolidated financial statements presented herein are expressed in yen and, solely for the convenience of the reader, have been translated into United States dollars at the rate of ¥133.25=US$1, the approximate exchange rate prevailing on the Tokyo Foreign Exchange Market on March 31, 2002. This translation should not be construed as a representation that the amounts shown could be converted into United States dollars at such rate.

4. Marketable securities and investments in securities

Market value information at March 31, 2002 and 2001 is summarized as follows:

Held-to-maturity securities having market value are as follows:

	Yen (Millions)		U.S. dollars (Thousands)
	2002	2001	2002
Gross unrealized gain:			
Cost	¥ 77	¥346	$ 578
Market value	84	352	630
	7	6	52
Gross unrealized loss:			
Cost	168	259	1,261
Market value	168	259	1,261
	0	0	0
Net unrealized gain	¥ 7	¥ 6	$ 52

Other securities having market value are as follows:

	Yen (Millions)		U.S. dollars (Thousands)
	2002	2001	2002
Gross unrealized gain:			
Cost	¥4,628	¥ 6,013	$34,732
Market value	9,699	12,861	72,788
	5,071	6,848	38,056
Gross unrealized loss:			
Cost	9,046	9,315	67,888
Market value	6,827	7,302	51,235
	2,219	2,013	16,653
Net unrealized gain	¥2,852	¥ 4,835	$21,403

Other securities sold in the years ended March 31, 2002 and 2001 are as follows:

	Yen (Millions)		U.S. dollars (Thousands)
	2002	2001	2002
Proceeds	¥796	¥19,301	$5,974
Gain on sale	107	1,480	803
Loss on sale	89	2,017	668

Breakdown of other securities not having market value at March 31, 2002 and 2001 is as follows:

	Yen (Millions)		U.S. dollars (Thousands)
	2002	2001	2002
Bonds held to maturity	¥17,229	¥15,494	$129,298
Other securities	43,100	70,898	323,452
	¥60,329	¥86,392	$452,750

The redemption schedule of other securities and held-to-maturity debt securities as of March 31, 2002 and 2001 is summarized as follows:

	Yen (Millions)		U.S. dollars (Thousands)
	2002	2001	2002
Bonds:			
Within 1 year	¥ 5,929	¥ 2,083	$ 44,495
Over 1 year to 5 years	200	197	1,501
Over 5 years to 10 years	17,251	15,487	129,463
Over 10 years	2	12	15
Others:			
Within 1 year	21,441	54,481	160,908
Over 1 year to 5 years	–	–	–
Over 5 years to 10 years	–	–	–
Over 10 years	–	–	–
Total:			
Within 1 year	¥27,370	¥56,564	¥205,403
Over 1 year to 5 years	200	197	1,501
Over 5 years to 10 years	17,251	15,487	129,463
Over 10 years	2	12	15

5. Investments in and advances to non-consolidated subsidiaries and affiliates

Investments in and advances to non-consolidated subsidiaries and affiliates at March 31, 2002 and 2001 consisted of the following:

	Yen (Millions)		U.S. dollars (Thousands)
	2002	2001	2002
Investments in capital stock	¥13,909	¥13,065	$104,383
Advances	715	708	5,366
	¥14,624	¥13,773	$109,749

6. Short-term loans and long-term debt

Short-term loans at March 31, 2002 and 2001 consisted of the following:

	Yen (Millions)		U.S. dollars (Thousands)
	2002	2001	2002
Short-term bank loans	¥ 77,586	¥ 82,165	$ 582,259
Current portion of long-term loans	74,685	63,354	560,487
Current portion of bonds and notes	69,210	30,000	519,400
	¥221,481	¥175,519	$1,662,146

The interest rates on the above short-term loans were between 0.50% and 6.37% per annum in 2002 and between 0.62% and 6.37% per annum in 2001.

Long-term debt at March 31, 2002 and 2001 consisted of the following:

	Yen (Millions)		U.S. dollars (Thousands)
	2002	2001	2002
Bonds and notes:			
3.075% notes due 2007	¥ 35,000	¥ 35,000	$ 262,664
2.75% notes due 2009	20,000	20,000	150,094
3.2% notes due 2017	20,000	20,000	150,094
2.9% notes due 2008	20,000	20,000	150,094
1.37% notes due 2001	–	30,000	–
2.2% notes due 2004	20,000	20,000	150,094
3% notes due 2007	10,000	10,000	75,047
2.05% notes due 2006	15,000	15,000	112,570
1% notes due 2002	20,000	20,000	150,094
3% notes due 2011	10,000	10,000	75,047
2.08% notes due 2006	20,000	20,000	150,094
3% notes due 2010	10,000	10,000	75,047
1.33% notes due 2008	20,000	–	150,094
1.8% yen convertible bonds due 2003	49,210	49,210	369,306
0.4% yen convertible bonds due 2005	90,983	92,493	682,799
0.75% yen convertible bonds due 2015	11,806	12,126	88,600
	371,999	383,829	2,791,738
Loans, principally from banks:			
Secured, bearing interest from 1.10% to 7.30% in 2002 and 1.30% to 7.42% in 2001, maturing in installments through 2034	374,962	292,152	2,813,974
Unsecured, bearing interest from 1.29% to 7.80% in 2002 and from 1.35% to 8.01% in 2001, maturing in installments through 2022	193,276	177,584	1,450,476
	568,238	469,736	4,264,450
	940,237	853,565	7,056,188
Less current portion	143,895	93,354	1,079,888
	¥796,342	¥760,211	$5,976,300

As is customary in Japan, short-term and long-term bank loans are made under general agreements which provide that security and guarantees for future and present indebtedness will be given upon request of the bank, and that the bank shall have the right, as the obligation becomes due, or in the event of default and certain other specified events, to offset cash deposits against such obligations due to the bank.

Certain bonds and notes and foreign currency loans are guaranteed by domestic banks and foreign banks.

The convertible bonds at March 31, 2002 were convertible into the following number of shares of common stock at the following current conversion prices:

	Conversion price per share		Number of shares
1.8% yen convertible bonds due 2003	¥2,052.60	($15.40)	23,974,471
0.4% yen convertible bonds due 2005	¥1,148.00	($ 8.62)	80,568,815
0.75% yen convertible bonds due 2015	¥ 302.00	($ 2.27)	39,162,429

The following assets were pledged as collateral for short-term and long-term debt at March 31, 2002:

	Yen (Millions)	U.S. dollars (Thousands)
Property and equipment, at net book value:		
Flight equipment	¥344,559	$2,585,809
Ground property and equipment	159,675	1,198,311
	¥504,234	$3,784,120

The aggregate annual maturities of long-term debt after March 31, 2002 are as follows:

	Yen (Millions)	U.S. dollars (Thousands)
2003	¥143,895	$1,079,887
2004	59,450	446,154
2005	176,026	1,321,021
2006 and thereafter	560,866	4,209,126
	¥940,237	$7,056,188

The amounts in the above table have been calculated on the assumption that all outstanding convertible bonds at March 31, 2002 would not be converted prior to maturity.

7. Retirement benefit plans

The Company and its domestic consolidated subsidiaries have defined benefit plans, i.e., welfare pension fund plans, tax qualified pension plans and lump-sum payment plans, covering substantially all employees who are entitled to lump-sum or annuity payments, the amount of which are determined by reference to their basic rates of pay, length of service, and the conditions under which termination occurs.

The following table sets out the funded and accrued status of the plans, and the amounts recognized in the consolidated balance sheets as of March 31, 2002 and 2001 for the Company and consolidated subsidiaries' defined benefit plans:

	Yen (Millions)		U.S. dollars (Thousands)
	2002	2001	**2002**
Retirement benefit obligation	**¥(395,755)**	¥(324,396)	**$(2,970,019)**
Plan assets at fair value	**123,006**	123,228	**923,122**
Unfunded retirement benefit obligation	**(272,749)**	(201,168)	**(2,046,897)**
Unrecognized net transitional retirement benefit obligation	**95,190**	103,132	**714,372**
Unrecognized actuarial loss	**91,599**	20,814	**687,422**
Unrecognized prior service cost	**(2,467)**	(45)	**(18,514)**
Gross amount recognized	**(88,427)**	(77,267)	**(663,617)**
Prepaid pension cost	**553**	401	**4,150**
Accrued employees' retirement benefits	**¥ (88,980)**	¥ (77,668)	**$ (667,767)**

The government sponsored portion of the benefits under the welfare pension fund plans has been included in the amounts shown in the above table.

The components of retirement benefit expenses for the years ended March 31, 2002 and 2001 are as follows:

	Yen (Millions)		U.S. dollars (Thousands)
	2002	2001	**2002**
Service cost	**¥15,561**	¥15,570	**$116,780**
Interest cost	**10,865**	10,586	**81,538**
Expected return on plan assets	**(6,276)**	(6,835)	**(47,099)**
Amortization of net transitional retirement benefit obligation	**7,835**	7,366	**58,799**
Amortization of actuarial loss	**1,493**	–	**11,205**
Amortization of prior service cost	**(68)**	0	**(510)**
Net periodic pension and severance cost	**¥29,410**	¥26,687	**$220,713**

8. Income taxes

The Company is subject to a number of taxes on income (corporation tax, inhabitants tax and enterprise tax) which in aggregate resulted in a normal corporate tax rate of 42.05% in 2002 and 2001.

The tax effect of temporary differences that give rise to a significant portion of the deferred tax assets and liabilities at March 31, 2002 and 2001 are as follows:

	Yen (Millions)		U.S. dollars (Thousands)
	2002	2001	**2002**
Deferred tax assets:			
Tax loss carry-forward	**¥ 21,493**	¥ 21,308	**$ 161,298**
Accrued employees' retirement benefits	**18,904**	12,307	**141,869**
Intercompany profits on inventories and property and equipment	**9,302**	9,912	**69,809**
Accrued expenses	**3,865**	3,018	**29,005**
Allowance for doubtful accounts	**3,618**	1,467	**27,152**
Other	**10,295**	9,787	**77,261**
Total gross deferred tax assets	**67,477**	57,799	**506,394**
Less valuation allowance	**(31,023)**	(25,624)	**(232,818)**
Total net deferred tax assets	**36,454**	32,175	**273,576**
Deferred tax liabilities:			
Special depreciation reserve and reserve for deferred gain on sale of land	**(3,663)**	(4,350)	**(27,490)**
Other	**(3,100)**	(2,650)	**(23,264)**
Total gross deferred tax liabilities	**(6,763)**	(7,000)	**(50,754)**
Net deferred tax assets	**¥ 29,691**	¥ 25,175	**$ 222,822**

Reconciliation of the difference between the statutory tax rate and the effective income tax rate for the year ended March 31, 2002 is not disclosed because of the loss before income taxes and minority interests.

The reconciliation for the year ended March 31, 2001 was as follows:

Statutory tax rate	42.05%
Reconciliation:	
Change in valuation allowance and related adjustments	(12.87)
Entertainment expenses not qualifying for deduction	1.94
Inhabitants tax per capita levy	0.38
Amortization of goodwill	0.30
Equity in income of affiliates	(0.26)
Other	(1.28)
Effective income tax rate	30.26%

9. Leases

(a) Finance leases

Finance lease transactions other than those that are expected to transfer ownership of the assets to the lessee are accounted for as operating leases. Information on finance leases which are not recorded as assets and liabilities is summarized as follows.

Estimated acquisition costs, accumulated depreciation and net book value of leased assets at March 31, 2002 and 2001 are as follows:

	Yen (Millions)		U.S. dollars (Thousands)
	2002	2001	**2002**
Aircraft:			
Estimated acquisition cost	**¥237,621**	¥236,121	**$1,783,272**
Estimated amount of accumulated depreciation	**120,046**	98,711	**900,908**
Estimated net book value	**117,575**	137,410	**882,364**
Others:			
Estimated acquisition cost	**27,390**	18,879	**205,553**
Estimated amount of accumulated depreciation	**10,573**	8,833	**79,347**
Estimated net book value	**16,817**	10,046	**126,206**
Total:			
Estimated acquisition cost	**265,011**	255,000	**1,988,825**
Estimated amount of accumulated depreciation	**130,619**	107,544	**980,255**
Estimated net book value	**¥134,392**	¥147,456	**$1,008,570**

Outstanding finance lease obligations at March 31, 2002 and 2001 are as follows:

	Yen (Millions)		U.S. dollars (Thousands)
	2002	2001	**2002**
Current portion of finance lease obligations	**¥ 28,300**	¥ 24,322	**$ 212,383**
Long-term finance lease obligations	**118,840**	133,840	**891,857**
	¥147,140	¥158,162	**$1,104,240**

Estimated amount of depreciation, estimated finance charges and lease expenses for the years ended March 31, 2002 and 2001 are as follows:

	Yen (Millions)		U.S. dollars (Thousands)
	2002	2001	**2002**
Estimated amount of depreciation by the straight-line method over the lease period	**¥25,587**	¥24,836	**$192,023**
Estimated interest cost	**4,695**	5,384	**35,235**

Annual lease expenses charged to income were ¥29,999 million ($225,133 thousand) and ¥29,339 million for the years ended March 31, 2002 and 2001, respectively.

(b) Operating leases

The rental payments required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year at March 31, 2002 and 2001 are as follows:

	Yen (Millions)		U.S. dollars (Thousands)
	2002	2001	**2002**
Current portion of operating lease obligations	**¥ 43,377**	¥ 46,648	**$ 325,531**
Long-term operating lease obligations	**134,475**	167,369	**1,009,193**
	¥177,852	¥214,017	**$1,334,724**

10. Shareholders' equity

(a) Common stock and capital surplus

Under the Japanese Commercial Code, previously at least 50% of the issue price of new shares, with a minimum of the par value thereof, was required to be credited to the common stock account.

Effective October 1, 2001, the Japanese Commercial Code was amended to eliminate the provisions for common stock par value resulting in all common stock being recorded with no par value.

Any excess of proceeds over amounts credited to the common stock account is required to be credited to the capital surplus account.

(b) Deficit

Deficit at March 31, 2002 and 2001 consisted of the following:

	Yen (Millions)		U.S. dollars (Thousands)
	2002	2001	**2002**
Legal reserve	**¥ 10,301**	¥ 10,301	**$ 77,306**
Special depreciation reserve	**5,202**	2,206	**39,039**
General reserve	**1,600**	1,600	**12,008**
Reserve for deferred gain on sale of land	**785**	785	**5,891**
Unappropriated retained earnings (deficit)	**(57,086)**	(38,896)	**(428,413)**
	¥(39,198)	¥(24,004)	**$(294,169)**

The special depreciation reserve and the reserve for deferred gain on sale of land have been provided for purposes of tax deferral. These reserves must be recorded in the books of account in retained earnings (deficit) and are required to be reversed to taxable income in the future. Under the Special Taxation Measures Law, the Company is permitted to provide special depreciation on new aircraft, for two fiscal years, at the maximum rate of 8% of aggregate acquisition cost. The special depreciation reserve provided is reversed evenly to taxable income over the subsequent seven years as appropriations of retained earnings (deficit). See Note 15.

The special depreciation reserve and the reserve for deferred gain on sale of land are stated net of related deferred taxes. See Note 2 (b).

Under the Japanese Commercial Code, the Company was previously required to appropriate as a legal reserve an amount equal to at least 10% of appropriations paid by cash until the reserve equals 25% of the stated capital. This reserve was not available for dividends but could be used to reduce a deficit or could be capitalized by resolution of the Board of Directors.

Under the Japanese Commercial Code, as amended effective on October 1, 2001, the Company is required to appropriate as a legal reserve an amount equal to at least 10% of appropriations paid by cash until the aggregate amount of additional paid in capital surplus and legal reserve equals 25% of the stated capital. This reserve is not available for dividends but may be used to reduce a deficit or may be capitalized by resolution of the Board of Directors. The aggregate amount of additional paid in capital and legal reserve in excess of 25% of stated capital may be transferred to other capital surplus by resolution of the annual shareholders' meeting and may be used to refund to shareholders by resolution of the annual shareholders' meeting.

The legal reserve in the accompanying consolidated financial statements includes only that of the Company. The Company's equity in the legal reserves of its consolidated subsidiaries is included in consolidated retained earnings.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company and in accordance with the Japanese Commercial Code.

11. Commitments and contingent liabilities

At March 31, 2002, commitments outstanding for the acquisition or construction of property and equipment amounted to approximately ¥388,177 million ($2,913,148 thousand).

The Company and consolidated subsidiaries were contingently liable as guarantor of loans, principally to affiliates, amounting to ¥11,097 million ($83,280 thousand) at March 31, 2002.

12. Derivatives and hedging activities

The Company and certain of its subsidiaries operate internationally and are exposed to the risk of changes in foreign exchange rates, interest rates and commodity prices of fuel. In order to manage these risks, the Company and its subsidiaries utilize forward exchange contracts to hedge certain foreign currency transactions related to purchase commitments, principally of flight equipment, and foreign currency receivables and payables. Also, the Company and its subsidiaries utilize interest rate swaps to minimize the impact of interest rate fluctuations related to their outstanding debt. In addition, the Company also enters into a variety of swaps and options in its management of risk exposure related to the commodity prices of fuel. The Company and its subsidiaries do not use derivatives for trading purposes.

The Company has developed internal hedging guidelines to control various aspects of derivative transactions including authorization levels and transaction volumes. The Company enters into derivative transactions in accordance with these internal guidelines. Derivative and hedging transactions initiated by respective operation departments have been examined by the accounting department and these transactions, including their measures and ratios, have been monitored by management generally on a monthly basis. Assessment of hedge effectiveness is examined at inception and, on an ongoing basis, periodically. The consolidated subsidiaries have adopted the same procedures for hedging activities as the Company.

The Company and its subsidiaries are also exposed to credit-related losses in the event of non-performance by counterparties to derivative financial instruments, but it is not expected that any counterparties will fail to meet their obligations, because most of the counterparties are internationally recognized financial institutions.

13. Segment information

The Company and consolidated subsidiaries conduct operations in air transportation, travel services, hotel operations and other businesses. Businesses other than air transportation, travel services and hotel operations are insignificant to the consolidated results of operations of the Company and its consolidated subsidiaries and, accordingly, are included in “Other businesses” in the following industry segment information.

Other segment information of the Company and its subsidiaries such as geographical breakdown of sales and assets is not disclosed because of its insignificance.

Segment information for the years ended March 31, 2002 and 2001 is as follows:

	Yen (Millions)						
Year ended March 31, 2002	Air transportation	Travel services	Hotel operations	Other businesses	Total	Intercompany eliminations	Consolidated
Operating revenues	¥900,847	¥143,367	¥63,366	¥ 96,934	¥1,204,514	¥ –	¥1,204,514
Intra-group sales and transfers	77,564	15,166	12,305	91,235	196,270	(196,270)	–
Total	978,411	158,533	75,671	188,169	1,400,784	(196,270)	1,204,514
Operating expenses	959,662	158,615	76,335	183,181	1,377,793	(196,247)	1,181,546
Operating income (loss)	¥ 18,749	¥ (82)	¥ (664)	¥ 4,988	¥ 22,991	¥ (23)	¥ 22,968

	Air transportation	Travel services	Hotel operations	Other businesses	Total	Intercompany eliminations	Consolidated
Identifiable assets	¥1,195,497	¥37,437	¥146,311	¥215,917	¥1,595,162	¥(84,180)	¥1,510,982
Depreciation and amortization	52,527	527	4,571	3,712	61,337	–	61,337
Capital expenditure	121,451	1,601	6,749	2,748	132,549	(141)	132,408

Year ended March 31, 2002	Air transportation	Travel services	Hotel operations	Other businesses	Total	Intercompany eliminations	Consolidated
	U.S. dollars (Thousands)						
Operating revenues	$ 6,760,578	$ 1,075,925	$475,542	$ 727,460	$ 9,039,505	$ –	$9,039,505
Intra-group sales and transfers	582,094	113,816	92,345	684,690	1,472,945	(1,472,945)	–
Total	7,342,672	1,189,741	567,887	1,412,150	10,512,450	(1,472,945)	9,039,505
Operating expenses	7,201,966	1,190,356	572,871	1,374,717	10,339,910	(1,472,773)	8,867,137
Operating income (loss)	$ 140,706	$ (615)	$ (4,984)	$ 37,433	$ 172,540	$ (172)	$ 172,368

	Air transportation	Travel services	Hotel operations	Other businesses	Total	Intercompany eliminations	Consolidated
Identifiable assets	$8,971,835	$280,953	$1,098,019	$1,620,390	$11,971,197	$(631,745)	$11,339,452
Depreciation and amortization	394,199	3,955	34,304	27,857	460,315	–	460,315
Capital expenditure	911,452	12,015	50,649	20,623	994,739	(1,058)	993,681

Year ended March 31, 2001	Air transportation	Travel services	Hotel operations	Other businesses	Total	Intercompany eliminations	Consolidated
	Yen (Millions)						
Operating revenues	¥ 964,888	¥139,155	¥71,586	¥104,006	¥1,279,635	¥ –	¥1,279,635
Intra-group sales and transfers	73,396	13,702	12,113	87,109	186,320	(186,320)	–
Total	1,038,284	152,857	83,699	191,115	1,465,955	(186,320)	1,279,635
Operating expenses	965,948	151,379	79,868	184,717	1,381,912	(184,520)	1,197,392
Operating income	¥ 72,336	¥ 1,478	¥ 3,831	¥ 6,398	¥ 84,043	¥ (1,800)	¥ 82,243

	Air transportation	Travel services	Hotel operations	Other businesses	Total	Intercompany eliminations	Consolidated
Identifiable assets	¥1,112,105	¥38,808	¥140,129	¥216,431	¥1,507,473	¥(56,053)	¥1,451,420
Depreciation and amortization	50,199	371	4,874	3,889	59,333	–	59,333
Capital expenditure	90,787	1,474	2,709	8,407	103,377	(8,986)	94,391

14. Supplementary cash flow information

Reconciliation of the difference between cash stated in the consolidated balance sheets as of March 31, 2002 and 2001 and cash and cash equivalent for the purpose of the statements of cash flows is as follows:

	Yen (Millions)		U.S. dollars (Thousands)
	2002	2001	**2002**
Cash	**¥159,340**	¥152,755	**$1,195,797**
Time deposits with maturities of more than three months	**(728)**	(1,107)	**(5,463)**
Marketable securities	**27,370**	48,508	**205,403**
Marketable securities with maturities of more than three months	**(68)**	(495)	**(510)**
Short-term investments with maturities of three months or less, included in prepaid expenses and other current assets	**2,734**	8,056	**20,518**
Cash and cash equivalents at end of year	**¥188,648**	¥207,717	**$1,415,745**

Significant non-cash transactions for the year ended March 31, 2002 are as follows:

	Yen (Millions)	U.S. dollars (Thousands)
Conversion of convertible bonds:		
Credited to common stock	¥159	$ 1,193
Credited to capital surplus	159	1,193
	¥320	$ 2,402

15. Subsequent event

At the shareholders' meeting held on June 27, 2002, the following appropriations from unappropriated retained earnings (deficit) of the Company were approved by the shareholders:

	Yen (Millions)	U.S. dollars (Thousands)
Transfer from special depreciation reserve, net of deferred taxes	¥946	$7,099

16. Differences between Japanese accounting principles and International Accounting Standards

As stated in Note 1, the consolidated financial statements of the Company are principally prepared in conformity with accounting principles and practices generally accepted in Japan, which differ in some material respects from accounting principles and practices generally accepted in countries and jurisdictions other than Japan. Accounting principles and practices generally accepted in Japan differ from International Accounting Standards (IAS) in the following material respects:

(a) Finance leases

IAS require finance leases to be recognized as assets and liabilities in the balance sheet at an amount equal to the fair value of the leased property at the inception of the lease or, if lower, at the present value of the minimum lease payments.

Accounting principles and practices generally accepted in Japan allow a company either to recognize finance leases as assets and liabilities in the balance sheet as required by IAS or to account for them as operating leases, unless ownership of the leased property is transferred to the lessee at the end of the lease term. In the latter case, certain information, as presented in Note 9, is required to be disclosed.

(b) Impairment of property and equipment

IAS require a company to carry property and equipment at its cost less any accumulated depreciation, subject to the requirement to write an asset down to its recoverable amount. The carrying amount of property and equipment should be reviewed periodically in order to assess whether the recoverable amount has declined below the carrying amount.

Accounting principles and practices generally accepted in Japan do not require a company to assess the recoverability and recognize impairment of property and equipment, if any.