Notes to Consolidated Financial Statements

All Nippon Airways Co., Ltd. and its consolidated subsidiaries

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 to 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 (109 subsidiaries for 2003, 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 (24 companies for 2003, 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 (51 companies for 2003, 52 companies for 2002 and 56 companies for 2001) are stated at cost. The equity in undistributed earnings of these companies is not significant.

During 2003, 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.

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.

(d) Marketable securities and investment securities

The accounting standard for financial instruments requires that securities be classified into three categories: trading, held-to-maturity or other securities. Under the 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 gains or losses, 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. 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.

Derivative financial instruments are carried at fair value with changes in unrealized gains or losses 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, 2003 and 2002, a general provision is made for doubtful receivables based on past experience. Provisions are also made against specific receivables as and when required.

(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 and Airbus A320s,	Straight-line method
Other flight equipment	Declining balance method
Buildings	Straight-line method
Other ground property and equipment	Declining balance method

The Company and certain 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 five years, the estimated useful life of purchased software.

(j) Retirement benefits

The retirement benefit plan of the Company and certain subsidiaries covers substantially all employees other than directors, officers and corporate auditors. Under the terms of this plan, eligible employees are entitled, upon mandatory retirement or earlier voluntary severance, to lump-sum payments or annuity 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 annuity payments.

Several subsidiaries have tax-qualified pension plans which cover all or part of the lump-sum benefits.

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 gains or losses 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) 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) 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, 2003, 2002 and 2001 are as follows:

	2003	2002	2001
Discount rate	2.5%	2.5%	3.5%
Expected return on plan assets	0.85%~6.0%	0.85%~6.0%	1.0%~6.25%

Directors, officers and corporate 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 (loss) 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 2003 and 2002, net income per share assuming full dilution is not disclosed for those years.

(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 2002 and 2001 financial information in the accompanying financial statements to conform with the 2003 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 ¥120.20=US$1, the approximate exchange rate prevailing on the Tokyo Foreign Exchange Market on March 31, 2003. 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, 2003 and 2002 is summarized as follows:

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

	Yen (Millions)		U.S. dollars (Thousands)
	2003	2002	2003
Gross unrealized gain:			
Cost	¥5	¥ 77	$42
Market value	5	84	42
	0	7	0
Gross unrealized loss:			
Cost	0	168	0
Market value	0	168	0
	0	0	0
Net unrealized gain	¥0	¥ 7	$ 0

Other securities having market value are as follows:

	Yen (Millions)		U.S. dollars (Thousands)
	2003	2002	2003
Gross unrealized gain:			
Cost	¥2,952	¥4,628	$24,559
Market value	6,677	9,699	55,549
	3,725	5,071	30,990
Gross unrealized loss:			
Cost	9,462	9,046	78,718
Market value	6,969	6,827	57,978
	2,493	2,219	20,740
Net unrealized gain	¥1,232	¥2,852	$10,250

Other securities sold in the years ended March 31, 2003, 2002 and 2001 are as follows:

	Yen (Millions)			U.S. dollars (Thousands)
	2003	2002	2001	2003
Proceeds	¥88	¥796	¥19,301	$732
Gain on sale	–	107	1,480	–
Loss on sale	0	89	2,017	0

Breakdown of securities not having market value at March 31, 2003 and 2002 is as follows:

	Yen (Millions)		U.S. dollars (Thousands)
	2003	2002	2003
Bonds held to maturity	¥15,654	¥17,229	$130,233
Other securities	28,757	43,100	239,243
	¥44,411	¥60,329	$369,476

The redemption schedule of other securities and held-to-maturity debt securities as of March 31, 2003 and 2002 is summarized as follows:

	Yen (Millions)		U.S. dollars (Thousands)
	2003	2002	2003
Bonds:			
Within 1 year	¥ –	¥ 5,929	$ –
Over 1 year to 5 years	15,654	200	130,233
Over 5 years to 10 years	5	17,251	42
Over 10 years	–	2	–
Others:			
Within 1 year	2,420	21,441	20,133
Over 1 year to 5 years	–	–	–
Over 5 years to 10 years	–	–	–
Over 10 years	–	–	–
Total:			
Within 1 year	¥ 2,420	¥27,370	$ 20,133
Over 1 year to 5 years	15,654	200	130,233
Over 5 years to 10 years	5	17,251	42
Over 10 years	–	2	–

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

Investments in and advances to non-consolidated subsidiaries and affiliates at March 31, 2003 and 2002 consisted of the following:

	Yen (Millions)		U.S. dollars (Thousands)
	2003	2002	2003
Investments in capital stock	¥11,968	¥13,909	$ 99,567
Advances	5,590	715	46,506
	¥17,558	¥14,624	$146,073

6. Short-term loans and long-term debt

Short-term loans at March 31, 2003 and 2002 consisted of the following:

	Yen (Millions)		U.S. dollars (Thousands)
	2003	2002	2003
Short-term bank loans	¥22,132	¥ 77,586	$184,126
Current portion of long-term loans	61,784	74,685	514,010
Current portion of bonds and notes	–	69,210	–
	¥83,916	¥221,481	$698,136

The interest rates on the above short-term loans were between 0.15% and 3.62% per annum in 2003 and between 0.50% and 6.37% per annum in 2002.

Long-term debt at March 31, 2003 and 2002 consisted of the following:

	Yen (Millions)		U.S. dollars (Thousands)
	2003	2002	2003
Bonds and notes:			
3.075% notes due 2007	¥ 35,000	¥ 35,000	$ 291,182
2.75% notes due 2009	20,000	20,000	166,389
3.2% notes due 2017	20,000	20,000	166,389
2.9% notes due 2008	20,000	20,000	166,389
2.2% notes due 2004	20,000	20,000	166,389
3% notes due 2007	10,000	10,000	83,195
2.05% notes due 2006	15,000	15,000	124,792
1% notes due 2002	–	20,000	–
3% notes due 2011	10,000	10,000	83,195
2.08% notes due 2006	20,000	20,000	166,389
3% notes due 2010	10,000	10,000	83,195
1.33% notes due 2008	20,000	20,000	166,389
0.95% notes due 2005	20,000	–	166,389
1.5% notes due 2008	10,000	–	83,195
1.27% notes due 2009	10,000	–	83,195
1.7% notes due 2011	10,000	–	83,195
1.8% yen convertible bonds due 2003	–	49,210	–
0.4% yen convertible bonds due 2005	90,983	90,983	756,930
0.75% yen convertible bonds due 2015	10,749	11,806	89,426
	351,732	371,999	2,926,223
Loans, principally from banks:			
Secured, bearing interest from 0.85% to 9.78% in 2003 and 1.10% to 7.30% in 2002, maturing in installments through 2034	362,686	374,962	3,017,355
Unsecured, bearing interest from 0.28% to 9.94% in 2003 and from 1.29% to 7.80% in 2002, maturing in installments through 2022	208,845	193,276	1,737,479
	571,531	568,238	4,754,834
	923,263	940,237	7,681,057
Less current portion	61,784	143,895	514,010
	¥861,479	¥796,342	$7,167,047

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 and foreign banks.

The convertible bonds at March 31, 2003 were convertible into the following number of shares of common stock at the following current conversion prices:

	Conversion price per share		Number of shares
0.4% yen convertible bonds due 2005	¥1,148.00	($ 9.55)	79,253,484
0.75% yen convertible bonds due 2015	¥ 302.00	($ 2.51)	35,592,715

The following assets were pledged as collateral for short-term and long-term debt at March 31, 2003:

	Yen (Millions)	U.S. dollars (Thousands)
Property and equipment, at net book value:		
Flight equipment	¥357,500	$2,974,210
Ground property and equipment	154,209	1,282,937
	¥511,709	$4,257,147

The aggregate annual maturities of long-term debt after March 31, 2003 are as follows:

	Yen (Millions)	U.S. dollars (Thousands)
2004	¥ 61,784	$ 514,010
2005	180,634	1,502,779
2006	140,318	1,167,371
2007 and thereafter	540,527	4,496,897
	¥923,263	$7,681,057

The amounts in the above table have been calculated on the assumption that all outstanding convertible bonds at March 31, 2003 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, 2003 and 2002 for the Company and consolidated subsidiaries' defined benefit plans:

	Yen (Millions)		U.S. dollars (Thousands)
	2003	2002	2003
Retirement benefit obligation	¥(398,377)	¥(395,755)	$(3,314,285)
Plan assets at fair value	112,482	123,006	935,790
Unfunded retirement benefit obligation	(285,895)	(272,749)	(2,378,495)
Unrecognized net transitional retirement benefit obligation	87,852	95,190	730,882
Unrecognized actuarial loss	94,115	91,599	782,987
Unrecognized prior service cost	(2,216)	(2,467)	(18,436)
	¥(106,144)	¥ (88,427)	$ (883,062)
Prepaid pension cost	636	553	5,291
Accrued employees' retirement benefits	(106,780)	(88,980)	(888,353)
	¥(106,144)	¥ (88,427)	$ (883,062)

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, 2003, 2002 and 2001 are as follows:

	Yen (Millions)			U.S. dollars (Thousands)
	2003	2002	2001	2003
Service cost	¥18,673	¥15,561	¥15,570	$155,349
Interest cost	9,664	10,865	10,586	80,399
Expected return on plan assets	(6,065)	(6,276)	(6,835)	(50,458)
Amortization of net transitional retirement benefit obligation	7,321	7,835	7,366	60,907
Amortization of actuarial loss	7,032	1,493	–	58,502
Amortization of prior service cost	(251)	(68)	0	(2,088)
Net periodic pension and severance cost	¥36,374	¥29,410	¥26,687	$302,611

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 tax rate of 42.05% in 2003 (excluding surtax for adopting the consolidated taxation system), 2002 and 2001.

On March 31, 2003, a reduction of the enterprise tax rate was enacted in Japan, and is effective from April 1, 2004. As a result, the aggregate statutory income tax rate for domestic companies will be 40.69% for the year ending March 31, 2005.

The effect of the adoption of this revised statutory income tax rate is to decrease net deferred tax assets by ¥1,245 million ($10,358 thousand), to increase deferred income taxes by ¥1,295 million ($10,774 thousand) and to increase unrealized holding gain on securities by ¥50 million ($416 thousand) at March 31, 2003.

The Company adopted the consolidated taxation system effective from the year ended March 31, 2003. Under the consolidated taxation system, the Company has consolidated, for Japanese tax purpose, all qualified, wholly-owned domestic subsidiaries. A temporary 2% surtax for the period between April 1, 2002 through March 31, 2004 is assessed for adopting the consolidated taxation system.

The tax effect of temporary differences that give rise to a significant portion of the deferred tax assets and liabilities at March 31, 2003 and 2002 is as follows:

	Yen (Millions)		U.S. dollars (Thousands)
	2003	2002	2003
Deferred tax assets:			
Tax loss carry-forward	¥ 35,509	¥ 21,493	$ 295,416
Accrued employees' retirement benefits	30,876	18,904	256,872
Intercompany profits on inventories and property and equipment	7,595	9,302	63,187
Accrued expenses	4,994	3,865	41,547
Allowance for doubtful accounts	2,644	3,618	21,997
Other	11,932	10,295	99,268
Total gross deferred tax assets	93,550	67,477	778,287
Less valuation allowance	(29,648)	(31,023)	(246,656)
Total net deferred tax assets	63,902	36,454	531,631
Deferred tax liabilities:			
Special depreciation reserve and reserve for deferred gain on sale of land	–	(3,663)	–
Unrealized holding gain on securities	(1,516)	(2,159)	(12,612)
Other	(426)	(941)	(3,544)
Total gross deferred tax liabilities	(1,942)	(6,763)	(16,156)
Net deferred tax assets	¥ 61,960	¥ 29,691	$ 515,475

Reconciliation of the difference between the statutory tax rate and the effective income tax rate for the years ended March 31, 2003 and 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 in the balance sheets is summarized below.

Estimated acquisition costs, accumulated depreciation and net book value of leased assets at March 31, 2003 and 2002 are as follows:

	Yen (Millions)		U.S. dollars (Thousands)
	2003	2002	2003
Aircraft:			
Estimated acquisition cost	¥268,654	¥237,621	$2,235,058
Estimated amount of accumulated depreciation	144,017	120,046	1,198,145
Estimated net book value	124,637	117,575	1,036,913
Others:			
Estimated acquisition cost	28,315	27,390	235,566
Estimated amount of accumulated depreciation	15,000	10,573	124,792
Estimated net book value	13,315	16,817	110,774
Total:			
Estimated acquisition cost	296,969	265,011	2,470,624
Estimated amount of accumulated depreciation	159,017	130,619	1,322,937
Estimated net book value	¥137,952	¥134,392	$1,147,687

Outstanding finance lease obligations at March 31, 2003 and 2002 are as follows:

	Yen (Millions)		U.S. dollars (Thousands)
	2003	2002	2003
Current portion of finance lease obligations	¥ 30,847	¥ 28,300	$ 256,631
Long-term finance lease obligations	115,877	118,840	964,035
	¥146,724	¥147,140	$1,220,666

Estimated amount of depreciation and finance charges for the years ended March 31, 2003, 2002 and 2001 are as follows:

	Yen (Millions)			U.S. dollars (Thousands)
	2003	2002	2001	2003
Estimated amount of depreciation by the straight-line method over the lease period	¥29,179	¥25,587	¥24,836	$242,754
Estimated interest cost	4,295	4,695	5,384	35,732

Annual lease expenses charged to income were ¥34,111 million ($283,785 thousand), ¥29,999 million and ¥29,339 million for the years ended March 31, 2003, 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, 2003 and 2002 are as follows:

	Yen (Millions)		U.S. dollars (Thousands)
	2003	2002	2003
Current portion of operating lease obligations	¥ 43,187	¥ 43,377	$ 359,293
Long-term operating lease obligations	104,767	134,475	871,606
	¥147,954	¥177,852	$1,230,899

10. Shareholders' equity

In accordance with the revised Japanese Commercial Code, which became effective March 29, 2002, shareholders' equity in the balance sheet is classified into common stock, capital surplus, earned surplus (deficit) and others.

(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.

Capital surplus at March 31, 2003 and 2002 consisted of the following:

	Yen (Millions)		U.S. dollars (Thousands)
	2003	2002	2003
Additional paid-in capital	¥ 21,632	¥104,232	$179,967
Other capital surplus	82,596	–	687,154
	¥104,228	¥104,232	$867,121

(b) Earned surplus (deficit)

Earned surplus (deficit) at March 31, 2003 and 2002 consisted of the following:

	Yen (Millions)		U.S. dollars (Thousands)
	2003	2002	2003
Legal reserve	¥ 10,301	¥ 10,301	$ 85,699
Retained earnings (deficit):			
Appropriated:			
Special depreciation reserve	4,255	5,202	35,399
General reserve	1,600	1,600	13,311
Reserve for deferred gain on sale of land	785	785	6,531
Unappropriated	(84,329)	(57,086)	(701,572)
	¥(67,388)	¥(39,198)	$(560,632)

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 Notes 2 (b) and 8.

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 equaled 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 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 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 refunded 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, 2003, commitments outstanding for the acquisition or construction of property and equipment amounted to approximately ¥497,678 million ($4,140,416 thousand).

The Company and consolidated subsidiaries were contingently liable as guarantor of loans, principally to affiliates, amounting to ¥4,487 million ($37,329 thousand) at March 31, 2003.

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 operational 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, 2003, 2002 and 2001 is as follows:

	Yen (Millions)						
As of and for the year ended March 31, 2003	Air transportation	Travel services	Hotel operations	Other businesses	Total	Intercompany eliminations	Consolidated
Operating revenues	¥911,484	¥144,940	¥ 59,547	¥ 99,938	¥1,215,909	¥ –	¥1,215,909
Intra-group sales and transfers	81,003	17,930	13,166	73,251	185,350	(185,350)	–
Total	992,487	162,870	72,713	173,189	1,401,259	(185,350)	1,215,909
Operating expenses	999,400	162,286	73,987	167,865	1,403,538	(185,032)	1,218,506
Operating income (loss)	¥ (6,913)	¥ 584	¥ (1,274)	¥ 5,324	¥ (2,279)	¥ (318)	¥ (2,597)

	Air transportation	Travel services	Hotel operations	Other businesses	Total	Intercompany eliminations	Consolidated
Identifiable assets	¥1,179,728	¥37,153	¥111,191	¥180,789	¥1,508,861	¥(66,288)	¥1,442,573
Depreciation and amortization	53,602	733	4,026	3,491	61,852	–	61,852
Capital expenditure	121,734	1,345	4,435	3,042	130,556	(693)	129,863

	U.S. dollars (Thousands)						
As of and for the year ended March 31, 2003	Air transportation	Travel services	Hotel operations	Other businesses	Total	Intercompany eliminations	Consolidated
Operating revenues	$7,583,061	$1,205,824	$495,399	$ 831,431	$10,115,715	$ –	$10,115,715
Intra-group sales and transfers	673,902	149,168	109,534	609,409	1,542,013	(1,542,013)	–
Total	8,256,963	1,354,992	604,933	1,440,840	11,657,728	(1,542,013)	10,115,715
Operating expenses	8,314,476	1,350,133	615,532	1,396,547	11,676,688	(1,539,367)	10,137,321
Operating income (loss)	$ (57,513)	$ 4,859	$ (10,599)	$ 44,293	$ (18,960)	$ (2,646)	$ (21,606)

	Air transportation	Travel services	Hotel operations	Other businesses	Total	Intercompany eliminations	Consolidated
Identifiable assets	$9,814,709	$309,093	$925,050	$1,504,068	$12,552,920	$(551,481)	$12,001,439
Depreciation and amortization	445,940	6,098	33,494	29,044	514,576	–	514,576
Capital expenditure	1,012,762	11,190	36,897	25,308	1,086,157	(5,766)	1,080,391

As of and for the year ended March 31, 2002	Air transportation	Travel services	Hotel operations	Other businesses	Total	Intercompany eliminations	Consolidated
	Yen (Millions)						
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

As of and for the year ended March 31, 2001	Air transportation	Travel services	Hotel operations	Other businesses	Total	Intercompany eliminations	Consolidated
	Yen (Millions)						
Operating expenses	¥ 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, 2003, 2002 and 2001 and cash and cash equivalents for the purpose of the statements of cash flows is as follows:

	Yen (Millions)			U.S. dollars (Thousands)
	2003	2002	2001	2003
Cash	¥154,876	¥159,340	¥152,755	$1,288,486
Time deposits with maturities of more than three months	(504)	(728)	(1,107)	(4,193)
Marketable securities	2,458	27,370	48,508	20,449
Marketable securities with maturities of more than three months	(62)	(68)	(495)	(516)
Short-term investments with maturities of three months or less, included in prepaid expenses and other current assets	1,353	2,734	8,056	11,257
Cash and cash equivalents at end of year	¥158,121	¥188,648	¥207,717	$1,315,483

15. Subsequent events

(a) Appropriations

At the shareholders' meeting held on June 26, 2003, the following transfers from appropriated retained earnings and capital surplus to 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	¥4,255	$35,399
Transfer from general reserve	¥1,600	$13,311
Transfer from reserve for deferred gain on sale of land, net of deferred taxes	¥785	$6,531
Transfer from other capital surplus	¥51,640	$429,617

(b) Issuance of notes

On April 21, 2003, the Company issued notes due 2006 in the amount of ¥30,000 million with 0.80% interest. The redemption date is April 21, 2006.

(c) Defined contribution plan

Effective April 1, 2003, the Company changed part of its pension program and adopted a defined contribution plan. At the same time, the Company reduced the level of retirement benefits paid from trustee employee pension funds and revised the benefits calculation so that lump-sum benefits are based on employees' personal results.

These changes resulted in a reduction of approximately ¥39,509 million in the retirement benefit obligation at April 1, 2003, and will result in an approximately ¥2,822 million reduction in the pension and severance cost in the fiscal year ending March 2004.

(d) Responses to Severe Acute Respiratory Syndrome (SARS)

Due to the drop in demand for international flight services due to the SARS outbreak in China and other Asian countries, the Company and its subsidiaries suspended and reduced international flights in April 2003, and expanded suspensions and reductions of international flights in May 2003.

16. Differences between Japanese accounting principles and International Financial Reporting 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 Financial Reporting (IFRS) in the following material respects:

(a) Finance leases

IFRS 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 IFRS 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

IFRS 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.