ANA Consolidated Financial Results for FY2003

All Nippon Airways Co., Ltd. (9202)

1. Consolidated financial highlights for the period ended March 31, 2004 (FY2003)

(1) Summary of consolidated operating results — Yen (Millions)

	FY2003 Apr.1 - Mar.31	Year on year (%)	FY2002 Apr.1 - Mar.31	Year on year (%)
Operating revenues	1,217,596	0.1%	1,215,909	0.9%
Operating income (loss)	34,354	—	(2,597)	—
Recurring profit (loss)	33,443	—	(17,236)	—
Net income (loss)	24,756	—	(28,256)	—
Net income (loss) per share	16.14yen		(18.42 yen)	
Diluted net income (loss) per share	14.10yen		—	
Net income (loss) / Shareholders' equity	18.2%		(21.7%)	
Recurring profit (loss) / Total assets	2.2%		(1,2%)	
Recurring profit (loss) / Operating revenues	2.7%		(1.4%)	
Gain (loss) on equity method	242	Yen (millions)	364	Yen(millions)
Average number of shares of outstanding during the period (consolidated)	1,533,368,357	shares	1,533,940,445	shares

Note:

Changes in the accounting policy during the period: none

(2) Summary of consolidated financial positions — Yen (Millions)

	FY2003 As of Mar.31	FY2002 As of Mar.31
Total assets	1,565,106	1,442,573
Shareholders' equity	150,086	121,954
Shareholders' equity ratio	9.6%	8.5%
Shareholders' equity per share	97.66yen	79.57yen
Number of shares of outstanding at balance sheet date (consolidated)	1,536,856,312 shares	1,532,694,609 shares

(3) Summary of consolidated cash flows — Yen (Millions)

	FY2003 Apr.1 - Mar.31	FY2002 Apr.1 - Mar.31
Cash flows from operating activities	89,793	85,952
Cash flows from investing activities	(95,882)	(52,478)
Cash flows from financing activities	82,867	(63,364)
Cash and cash equivalents at the end of the period	234,524	158,121

(4) Scope of consolidation and application of the equity method
Number of consolidated subsidiaries: 102
Number of non-consolidated subsidiaries accounted for by the equity method: 6
Number of affiliates accounted for by the equity method: 17

(5) Change of scope of consolidation and application of the equity method

	Consolidation	Equity method
Newly added	—	1
Excluded	7	2

2. Forecast of consolidated operating results for the period ending March 31, 2005

	Yen (Millions)
Operating revenues	1,266,000
Recurring profit (loss)	29,000
Net income (loss)	14,000

Note: Forecast of net income per share: 9.11yen

This forecast is made based on (1) the information available to ANA as of the date of publication of this material and (2) assumptions as of the same date with respect to the various factors which might have impact on the future financial result of ANA. The reader should be aware that actual results could differ materially due to various factors with reference to page 10.

1. The ANA Group

The ANA Group comprises All Nippon Airways Co., Ltd (ANA) and its 134 subsidiaries and 39 affiliates. Of those companies, 102 are consolidated subsidiaries and 23 are accounted for by the equity method. The Group's operations are classified into four business segments: air transportation, travel services, hotel operations, and other businesses. For each segment, the fields of business and the operational positions of the parent company, subsidiaries, and affiliates are described below:

As of March 31, 2004 Operational segment	No. of subsidiaries	of which, consolidated	of which, equity method	No. of affiliates	of which, equity method
Air Transportation	32	31	–	6	4
Travel Services	11	9	–	2	2
Hotel Operations	22	21	–	1	1
Other Businesses	69	41	6	30	10
Group Total	134	102	6	39	17

Air Transportation

The ANA Group's air transportation operations and other aircraft operations are centered on All Nippon Airways Co., Ltd.; subsidiaries Air Nippon Co., Ltd. (ANK), and Air Japan Co., Ltd. (AJX); and affiliate Nippon Cargo Airlines Co., Ltd. (NCA). Air transportation principally comprises passenger services, cargo and airmail transportation. Incidental operations include airport customer services, telephone reservation and information services and the maintenance of ANA's aircraft, and are provided by International Airport Utility Co., Ltd., ANA TELEMART Co., Ltd., ANA Aircraft Maintenance Co., Ltd., and other companies. Airport passenger handling, and maintenance services are also provided to domestic and overseas airlines that are not members of the ANA Group.

Travel Services

Travel packages are structured and sold under the brand names ANA Hallo Tour and ANA Sky Holiday, mainly by ANA Sales & Tours Co., Ltd. These operations mainly comprise the development and sale of products that use the air transportation services of ANA or ANK and accommodation at ANA hotels. Overseas, ANA World Tours (Europe) Ltd. and other companies provide a range of services to customers traveling on ANA Hallo Tour brand packages and sell airline tickets and travel products.

Hotel Operations

Subsidiaries and affiliates, centered on ANA Hotels & Resorts Co, Ltd., develop and operate hotels by providing a wide range of services including lodging, meals, banquets, and wedding receptions.

Other Businesses

Group companies provide communications, trading and sales, real estate, building management, ground transportation and distribution, aircraft equipment maintenance, and other services. ANA Information Systems Planning Co., Ltd., Infini Travel Information, Inc., and others principally develop terminals and software for airline-related information. ANA Logistics Services Co., Ltd., operates warehouse for imported air cargo. All Nippon Airways Trading Co., Ltd., and others conduct operations centered primarily on the import of airline-related materials and on sales through stores and catalogs. ANA Real Estate Co., Ltd., and other companies carry out the sale, rental, and management of real estate, and affiliate Jamco Corporation and others provide the maintenance of aircraft equipment. All Nippon Airways Co., Ltd., and ANA Group subsidiaries and affiliates are customers for these products and services.

2. Management Policy

1. Keynote

While giving top priority to the safe operation of airlines within the Group, we aim to win the confidence of customers and shareholders by raising the quality of our air transportation services and drastically increasing the profits of the ANA Group as a whole.

2. Medium- and Long-Term Management Strategies

Circumstances surrounding the Group underwent dramatic change with the terrorist attacks in the United States, the merger of Japan Airlines and Japan Air System, and other factors. In response, the Group formulated, and has implemented, the ANA Group Corporate Strategy Plan as a management guideline for the two-year period ending March 2004. Although affected by Japan’s prolonged recession and fierce competition throughout this fiscal year, as well as by the Iraq War and SARS at the beginning of the year, we endeavored to achieve our goal of restoring dividend payments. We aggressively implemented measures related to our domestic passenger fares and strengthened our competitiveness to attract international business travelers. We also drew up a Cost Reduction Plan to cut ¥30 billion in costs, and the Group as a whole promoted the early implementation of structural cost reforms centering on personnel costs.

Furthermore, faced with the prospect of even fiercer competition following the expansion of Haneda Airport, we newly stipulated the ANA Group Md-Term Corporate Plan (FY2004 - FY2006) so as to achieve our goal of becoming one of the leading corporate groups in Asia with airline business as its core, as mentioned in the ANA Group Corporate Vision. We are determined to improve our financial condition and realize the ANA Group Corporate Vision by putting into practice the following action plans.

(1) Establishment of Cost Competitiveness Surpassing Other Companies

Upon securing a stable earnings base by implementing the various measures in the Cost Reduction Plan earlier than originally scheduled, we will realize a cost competitiveness surpassing that of rival companies utilizing such strategies as the Fleet Strategy, Human Resource Strategy and Alliance Strategy to cope with the expansion of Haneda Airport, and aim to establish and maintain a superior sustainable position vis-à-vis our competitors.

• Fleet Strategy

The fleet will be converted in such a way as to minimize risk and the impact of fluctuations in the economy and demand by utilizing medium and small-sized aircraft according to need, in addition to present large aircraft, and by improving the convenience of passengers with increased flights. In addition, we will reduce fixed costs by rationalising aircraft types and by introducing new, cost-efficient aircraft in accordance with the aircraft retirement plan.

• Human Resource Strategy

We will formulate appropriate personnel costs across the entire Group with the key phrase “Achieving Standards Surpassing Rival Companies” and aim for a synergetic effect in conjunction with the Fleet Strategy.

• Alliance Strategy

Cost competitiveness surpassing that of rival companies will be achieved by strengthening our power to negotiate purchases. One way in which this will be done is by joint procurement with other Star Alliance members, such as jet fuel through a newly established company. Another will be to promote convenience and efficiency through the joint development of various products for Star Alliance members, including Star Alliance-wide e-tickets.

(2) Strengthening Competitiveness in Marketing and Sales

Always in tune with an ever-changing market, we will establish a unique system that no other company can imitate and aim to establish and maintain a sustainable superior competitive position by maximizing our membership of Star Alliance, with "Simple and Convenient" and "Focus on the Individual" as our keywords. In this way we will improve the value of our brand and enhance our competitive power in marketing and sales.

• Domestic Air Transport Operations

Starting April 1 this year all domestic flights including those of subsidiaries Air Nippon Co., Ltd. and Air Nippon Network Co., Ltd. have been unified under the ANA name, which is the most well known and easiest to understand of our brands. In addition to a new Nagoya - Wakkanai route, we plan to adjust the number of flights according to demand and aim at a further improvement in profitability. We will increase flights on high-demand routes including the Tokyo - Osaka, Osaka - Okinawa, Nagoya - Fukuoka and Nagoya - Kagoshima routes. In addition we will expand our regional business using small turboprop aircraft (Bombardier Q400) operated by Air Nippon Network and increase flights on the Osaka (Itami) - Kochi route. We regard the move to Haneda Airport's New Terminal in December 2004, and the opening of Central Japan International Airport (hereafter Centrair) in February 2005, as new business opportunities, and will endeavor to enhance our services with "Simple and Convenient" as our keywords.

• International Air Transport Operations

Since the end of this fiscal year we have launched flights on the Narita - Hangzhou, Kansai - Hangzhou and Narita - Shenyang routes where high demand is expected for both passengers and cargo, further enhancing our Chinese network. In addition, upon the opening of Centrair in February 2005, we will launch services on the Centrair - Shanghai and Centrair - Seoul routes, thus developing our Asian network. By utilizing our domestic fleet also on international services based in Centrair, we aim to decrease fixed costs.

• Cargo & Mail Services

Domestically, we will expand regular late-night cargo flights, while internationally, we will strengthen our freighter operations utilizing Boeing 767-300 freighters, thus solidifying our creation of a Third Core Business.

(3) Related Business Strategy

Profitability of investment is one of our main priorities. We will aim to improve earnings in our other businesses including hotel operations, trading and real estate business. Interest-bearing loans will be reduced by reallocating existing financial resources, and capital increased through the sale of assets. In our hotel operations, we will work to further increase GOP (Gross Operating Profit) and create new value through a comprehensive hotel management system formulated by ANA Hotels & Resorts Co., Ltd. which provides management support to our hotel chain.

3. Corporate Governance: Fundamental Approach and Activities

ANA believes that corporate governance is important to ensure transparency and accountability toward stakeholders and for its enhancement of corporate value.

(1) Implementation of Measures Related to Corporate Governance

ANA's management system comprises 15 board directors, 4 auditors, and 28 corporate executive officers (including those who are both directors and corporate executive officers). For important administrative issues, discussions are held and decisions are made by the Management Committee, with the President and representative director serving as chairman and 11 board members, who are senior vice presidents of the Company, serving as committee members. As a matter of law, certain issues must be considered by the board of directors, which makes the final decision on such matters. During this period, we held 17 Board of Director meetings (including extraordinary meetings) headed by the chairman in which all directors participated, including two outside directors and four auditors, two of whom are outside auditors.

(2) Recent Activities To Enhance Corporate Governance

(i) Advisory Board

Besides those institutions required by law, in order to hear frank and open comments about the Company's management, ANA has established an Advisory Board consisting of seven members with a range of backgrounds. The board met four times during the fiscal year under review.

(ii) Internal Control System

ANA has positioned its internal control system as a key part of its corporate governance infrastructure and taken the following steps to strengthen and promote it:

1) Risk Management Functions

To increase the stability of operational administration by tracking, managing, and responding appropriately to risks that could have a significant effect on Group management, in July 2002 we began establishing a companywide risk management system extending from operational risks to disaster risks. In this fiscal year we appointed risk management leaders from main divisions and departments, held trainings and introduced risk management at our Head Office and Marketing Department, which have a significant effect on management risk. In addition, we integrated the Risk Management Committee and Air Security - Risk Management Committee, and moved Information Security Meetings to the Risk Management Committee (from the previous IT Strategy Promotion Committee) in order to complete the risk management system.

We are now working to create various risk management manuals and stipulate a plan to continue business in the event of a large-scale disaster.

In the future, we will work on companywide use of risk management and establish the risk management system Groupwide.

2) Compliance Functions

To ensure compliance with ethics, laws, and internal regulations and to promote sound, stable management Group wide, in April 2003 we formed the Compliance Committee and appointed officers and leaders. In addition, we drew up and announced the Group-wide action standards, thus establishing the Group compliance system.

We then launched a website and mail magazine to make the action standards known throughout the Group. Finally, we took steps toward implementing the ANA Group Purchase Transaction Action Guidelines.

3) Internal Audit Functions

An internal audit system was in the works since the previous fiscal year, and in April 2003, the Internal Audit Division was established. The division examined and evaluated all management activities to verify the legality, rationality, and ethics of management and operational systems and administrative execution. The division made suggestions and proposals targeting improvement and rationalization. The division started works toward preserving corporate assets and improving management efficiency, and held regular and extraordinary audits of the Group companies and overseas offices.

3. Corporate Performance & Financial Conditions

1. Overview

The Japanese economy remained sluggish in the first half of the current fiscal year, characterized by high unemployment and stagnant wages due to prolonged deflation. Furthermore, due to instability in world markets caused by the Iraq War and SARS, prospects of a speedy recovery remained highly uncertain and the environment remained precarious both in Japan and elsewhere. After the summer, however, private capital investment increased with the recovery of corporate earnings centering around the manufacturing industry, and in the latter half Japanese exports continued to expand steadily thanks to, among other factors, the world economic growth driven by the U.S. and China. Signs of recovery were also seen in Japan's rising stock market, which had been lagging.

Against this background, ANA posted on a consolidated basis total operating revenues of ¥1,217.5 billion (up 0.1% from the previous year), an operating income of ¥34.3 billion, and a recurring profit of ¥33.4 billion. The net income for the year stood at ¥24.7 billion after the transfer of extraordinary profits—¥6.6 billion from the return of the substituted portion of the employee pension fund pension fund payments to the government (daiko henjo) —and extraordinary losses, including those resulting from sales of unused assets, corporate taxes and adjustments through tax-effect accounting.

On a non-consolidated basis, ANA reported operating revenues of ¥96.9 billion (up 3.1%), an operating income of ¥24.0 billion and a recurring profit of ¥25.0 billion. Net income for the year was ¥10.2 billion.

The following is a summary of operating results by business segment.

Air Transportation

During the first half of this fiscal year, Japan's international airlines were forced to decrease flights and take other measures in response to lower demand caused by the Iraq War and SARS. These influences finally lessened in the latter part of this fiscal yer, and demand started to grow.

As for the domestic airline business, while demand failed to grow due to the sluggish economy, Japan's airlines faced severe competition—from each other—as they fought for a larger share of a diminishing pie. In addition, to cope with the launch of JR Shinkansen (Nozomi) service from Shinagawa Station in October, airlines lowered their fares on routes served by JR Shinkansen and held major promotional campaigns.

Faced with these circumstances, our Group drew up a Cost Reduction Plan in February 2003 to establish a revenue-expenditure structure that would steadily secure profit independent of revenue increases, even under an environment of prolonged deflation. Under the Plan, we will carry out a drastic reform of our cost structure from FY2003 through FY2005 to cut approximately ¥30 billion in costs as a whole by the final fiscal year. We have worked on the following items during this fiscal year based on the Plan:

- Reexamine retirement allowance and pension plan
- Return the burden of the substituted portion of the employee pension fund to the government
- Reexamine wages for management employees
- Conduct a comprehensive reexamination of wage systems for non-management employees
- Reduce personnel by 1,200 employees over three years
- Reduce operational costs by restructuring routes utilizing turboprop aircraft and improving operational efficiency of smaller aircraft
- Rationalize employee numbers and facilities at airports by restructuring routes and aircraft allocation

As a result of Group-wide endeavors, we reduced costs by approximately ¥17.0 billion during this fiscal year, while revenues in both international and domestic operations did not increase due to the aforementioned international events and the sluggish economy. As a result, air transportation operating revenues at our Group totaled ¥997.9 billion (up 0.6% from the previous fiscal year), while operating income came to ¥27.2 billion

Domestic Passengers Services

Although demand from the business sector continued to languish due to the stagnant economy and heated competition against Japan Airlines System, demand from leisure travelers for domestic flights significantly increased, as more people vacationed in Japan rather than overseas due to their fear of SARS during the first half of this fiscal year. In the latter half, demand from the business sector was slow to recover, and the number of passengers was drastically lower than that of the previous fiscal year. Our revenue, however, was slightly higher than that of the previous year as we finally halted the decline of unit price through our review of normal fares and sales discount fares.

Given this background we increased flights on our main routes (Tokyo - Sapporo, Osaka, Fukuoka and Okinawa) in April, on the Tokyo - Tottori, Yonago and Shonai routes following our acquisition of new slots at Haneda Airport in July, and on the Tokyo - Kochi route in October. Our revised flight schedules not only improved profitability, but enhanced customer convenience as well. Furthermore we endeavored to improve our competitiveness by strengthening our network through launching a Tokyo - Asahikawa code-share operation with Hokkaido International Airlines (hereafter Air Do) and Narita - Hiroshima route in addition to the existing ANA Connection routes.

On the subject of fares, to boost demand we introduced a new discount fare, Totsuzen Waribiki (lit. “sudden discount”), based on the number of seats remaining approximately two weeks before departure. As a measure to cope with the launch of JR Shinkansen (Nozomi) service from Shinagawa Station, we lowered the Shuttle Roundtrip Fare for the competing Tokyo - Osaka (Itami & Kansai) route, and Repeat 4 fares on Tokyo - Okayama and Hiroshima routes. We also held a Double Mileage Campaign for customers on these routes.

In February we renewed our website. We enhanced our service not only by making the contents easier to view and understand, but also improving its functions to offer additional information such as local transportation, souvenirs, etc at the destination, as well as 24-hour credit-card payment for reservations.

We introduced the AMC Edy Card, the world’s first electronic money-mileage conversion service, one example of our endeavor to create and enhance added value in our ANA Mileage Club.

Despite these measures, the number of domestic passengers suffered a 5.0% year-on-year decline to 44.78 million. Operating revenue decreased 0.3% to ¥644.8 billion.

Domestic Cargo and Mail Services

Domestic distribution of goods achieved steady results in the first half of this year. A reduction in and integration of flight operations, especially of high-demand first and last flights, following the Japan Airlines/Japan Air System merger resulted in increased ANA’s market share. In July, we launched cargo code-share operations with Air Do on Tokyo - Sapporo and Tokyo - Asahikawa routes, aiming to increase cargo revenue by tapping demand between Tokyo and Hokkaido. The latter period saw a steady increase in cargo volume, due not only to the recovering economy but to a shift from land transport to air transport on some main routes as a result of speed limitation regulations imposed on trucks in September. Furthermore, we commenced regular late-night cargo flights using Boeing 777-300 aircraft in November, the first in Japan, and endeavored to develop new demand in home-delivery and perishables.

As a result, compared with the previous fiscal year, the volume of cargo carried during this fiscal year rose by 8.3% to 415,000 tons, while revenue increased by 9.6% to ¥26.6 billion.

Meanwhile, mail services suffered a large decrease from the previous fiscal year. The main causes were the transition from airborne to land transport by Japan Post, lost business due to changes in our flight schedule, a greater number of bidders, and a decline in unit price after the previous agency became a public institution. The volume of mail carried during this fiscal year was 73,000 tons, down 6.5%, and operating revenue was ¥9.2 billion, down 12.5%.

International Passenger Services

As mentioned, demand for international flights dropped drastically in Asian regions at the beginning of this fiscal year due to the Iraq War and SARS. In response we adjusted supply and tried to reduce operational costs: we suspended service to Singapore and Beijing from Kansai, and to Taipei from Narita, and decreased flights to Hong Kong, Beijing and Dalian from Narita. Meanwhile, we operated additional flights on Narita - Seoul routes starting May. In August we made our Narita - Honolulu route twice daily in an effort to increase revenues during this high-demand period. From July, when the WHO declared that SARS had ended, we saw a recovery in demand, and began reinstating suspended or decreased flights. In particular, our European and U.S. routes recovered earlier than originally expected from the affects of the Iraq War and SARS, and since the latter half, achieved much better results than in the previous fiscal year. Furthermore, we enhanced services to economically booming China: Narita - Shanghai was made thrice daily and Narita - Dalian daily in October, and service was increased on the Narita - Qingdao, and Kansai - Dalian, Qingdao and Xiamen routes. In the latter part of the fiscal year, we rolled out a host of new routes: Narita - Hangzhou, Kansai - Hangzhou and Narita - Shenyang. We also endeavored to increase revenue by starting a daily, daytime charter on the Haneda - Kimpo (Seoul) route from November—both airports having convenient access from metropolitan centers .

In terms of sales promotions, we held a Rakuraku China Campaign for our China routes offering Business- and normal-fare Economy passengers a complimentary ANA Ainori Taxi, and introduced services to facilitate connections to domestic China flights. In addition, to respond to the needs of a growing number of Chinese passengers, we have begun employing cabin attendants based in China since October.

Despite these measures, the number of international passengers during this fiscal year was down 12.8% to 3,300,000, while operating revenue fell 4.6% to ¥176.9 billion, due to the effects of the Iraq War and SARS during the first quarter of this fiscal year.

<u>International Cargo and Mail Services</u>

Demand was particularly strong for outbound shipments of the so-called Three New Treasures—DVD players, digital cameras and LCD TVs—to Europe and America, and electronic parts, precision equipment and other cargo to China. Performance improved greatly compared with the previous year. Although inbound cargo from Europe and America suffered, affected by severe competition brought on by surplus supply, cargo originating from China, on the other hand, grew significantly thanks to the freighter we introduced in September 2002. The affect of SARS was a concern at the beginning of the fiscal year, but cargo demand was hardly affected. On the contrary, the suspension of other companies' regular passenger flights reduced their cargo capacity, a factor raising the cargo volume for our freighter.

As a result, the amount of cargo carried during this fiscal year increased 12.7% to 220,000 tons, while operating revenue increased 7.0% to ¥43.2 billion, compared with the previous fiscal year.

Mail services achieved good results due to strong demand both in Japan and overseas, including for a new economy airmail service, as well as our aggressive efforts to harness demand in China, centering around our Shanghai service. Meanwhile, the US Postal Service's consolidation of their international mail to New York decreased the volume of our mail, and our unit price decreased due to the Postal Agency's postage price cut. As a result, although the volume of mail handled greatly increased from the previous year, revenue increased only slightly. The total volume of mail during this fiscal year increased 20.0% to 13,000 tons, while operating revenue increased 2.8% to ¥3.1 billion.

<u>Other Businesses</u>

Revenue from aircraft maintenance for other airlines, and from airport handling services such as passenger check-in, baggage handling, cargo loading and other ground support services under contract with other airlines, as well as increased in-flight sales, enabled us to post an operating revenue of ¥93.8 billion for these affiliated services, representing a 14.8% increase.

Travel Services

During this fiscal year, our three travel-service subsidiaries (All Nippon Airways World Tours Co., Ltd., All Nippon Airways Travel Co., Ltd. and ANA Sky Holiday Tours Co., Ltd.) merged and relaunched as ANA Sales & Tours Co., Ltd. with a new sales system.

Domestic travel services achieved better results than in the previous year, in particular due to solid sales of our tours to Okinawa and Hokkaido and a large increase in the number of airline tickets issued thanks to a shorter purchasing period for our Tokuwari fare.

Overseas travel services were severely affected by the Iraq War and SARS, with travel to China and Asia especially hard hit. After Q2, demand showed some signs of recovery, and sales of tours, particularly for Europe, achieved good results, but the result of this fiscal year was much lower than that of the previous year, suffering from reduced demand toward the end of the year due to the spread of avian flu in Asia.

Under these circumstances, we aggressively promoted efficiency through the merger of the three aforementioned travel-service subsidiaries and attempted to reduce costs and secure profits. As a result, the travel services posted operating revenues of ¥168.6 billion during this fiscal year, up 3.5% from the previous fiscal year, and an operating income of ¥2.0 billion, an increase of 253.0% over the previous fiscal year's results.

Hotel Operations

In May of this fiscal year under review, we opened the Strings Hotel Tokyo in front of Shinagawa Station, Tokyo's southern gateway, and ANA Hotel Yonago (management) in June. We also dissolved our subsidiary, ANA Enterprise, Ltd., after transferring its functions to ANA Hotels & Resorts Co., Ltd., ANA Hotels Management Co., Ltd. and ANA Property Management Co., Ltd—part of the restructuring of our Group's hotel business.

With respect to the hotel business at home, we improved the revenue management at ANA Hotels & Resorts Co., Ltd., which provides management support to our chain hotels under our hotel business restructuring plan. We are also continuously carrying out renovation work to improve the property value of our hotels. We carried out extensive renovation work of banquet rooms and restaurants in our flagship hotel ANA Hotel Tokyo, ANA Hotel Narita and Okinawa Harbour-view Hotel. Despite good results at resort hotels in the Okinawa region, however, sales from guest rooms and banquet rooms in the urban hotels dropped sharply, affected by the Iraq War and SARS during the first half. Signs of steady recovery was seen in the latter half, but our results for this fiscal year posted an operating loss due, among others, to a period when we had to halt sales during the renovation work.

With respect to the overseas hotel business, we completed the disposition of all assets and collection of investment during the previous fiscal year.

As a result, operating revenues were ¥68.8 billion (down 5.3% compared to the previous year) and the operating loss was ¥600 million.

Other Businesses

Revenue at Infini Travel Information, Inc., which provides international booking and ticketing systems to airlines, was drastically affected by SARS and avian flu, and resulted in a drastic decrease in revenue.

Revenue at ANA Trading Co., Ltd. decreased in retail and duty-free sales, affected by SARS and the drop in domestic passengers. The same was true of the aircraft parts business, where volume decreased greatly. Although their machinery business saw higher revenue, total sales were lower than in the previous year. As a result both sales and revenue decreased.

ANA Information Systems Planning Co., Ltd., under contract for information system development, security and maintenance by ANA as well as other Group companies, also incurred lower revenue due to a major reduction in system investment within the Group.

ANA Real Estate Co., Ltd., in charge of real estate sales, rentals and building maintenance, achieved good results in its rental business during this fiscal year: a high occupancy rate for rentals, including office buildings, was achieved through efficient property management, thus reducing costs, and the operation of three sublease condominiums—a core non-asset business—was launched. Furthermore, an increase in ANA mileage-related products in the real estate and insurance agency businesses, sales of real estate and other positive factors resulted in a revenue increase.

As a result, total operating revenues at Other Businesses during this fiscal year came to ¥177.0 billion, up 2.2% from the previous fiscal year, while the operating profit was ¥4.6 billion, down 11.9%.

2. Cash Flow

Income of ¥35.2 billion before income taxes and minority interest was recorded during this fiscal year. After adjustments—including depreciation, amortization, disposal of property and equipment, increased accounts receivable and decreased accounts payable—cash flow from operating activities registered an inflow of ¥89.7 billion

With respect to cash flow from investments, outflow consisted principally of purchases and advance payments for aircraft and purchase of spare parts. The free cash flow resulted in an outflow of ¥6.0 billion, a decrease of ¥39.5 billion.

As for cash flow from financing activities, capital procurement centering on the repayment of loans, the issuance of bonds and the taking out of fresh loans resulted in an inflow of ¥82.8 billion.

As a result, cash and cash equivalents increased by ¥76.4 billion, with the balance standing at ¥234.5 billion at the end of the current fiscal year.

3. Dividend Policy

ANA places a high priority on providing a return to shareholders and is endeavoring to maintain stable dividend payments upon full consideration of our management environment and financial results. We will try to enhance our financial constitution by retaining earnings and strengthening our management base in preparation for future business development.

4. Forecast for Next Fiscal Year

With respect to the forecast for next year's results, we think the Japanese economy will continue to recover for the time being, supported by the increase in exports following the recovery of the world economy. However, independent recovery may require some time, since unemployment is still severe and consumer spending remains moribund. Furthermore, terrorist attacks are an ongoing concern around the world, and for these reasons the future of Japan's economy remains uncertain.

In our international airline business, demand for air travel in Asia, centering on China, is expected to increase steadily against the backdrop of steady economic growth in that country. Meanwhile, concerns remain about how events in Iraq and the Middle East will impact demand. In our domestic airline business as well, demand is expected to recover, albeit slowly, in tandem with economic recovery, but competition among airlines and against JR is expected to intensify.

Under these conditions, we will endeavor to establish a stable earnings base by carrying out each measure in the Cost Reduction Plan earlier than originally planned. Furthermore, by carrying out each item in the newly stipulated ANA Group Medium-Term Management Strategies (FY2004 - FY2006) we will tackle our goal of becoming one of the leading corporate groups in Asia with airline business as its core, as mentioned in the ANA Group Corporate Vision. Additionally, we will aim at further raising profits by increasing revenues through sales and by continuing to reduce costs at travel services, hotels and other businesses.

For the fiscal year ending in March 2005, our Group calculates sales of ¥1,266.0 billion (up ¥48.5 billion compared with the previous year), operating income of ¥56.0 billion (up ¥21.7 billion), recurring profit of ¥29.0 billion (down ¥4.4 billion) and net income of ¥14.0 billion (down ¥10.7 billion), on a consolidated basis.

Assumptions used in arriving at these figures are an exchange rate of 110 yen to the dollar, and a market price of Dubai crude oil (an indicator of jet fuel prices) of USD28 per barrel.

4.Consolidated Financial Results

(1) Consolidated Balance Sheets

Yen(Millions)

Assets	FY2003 As of Mar.31	FY2002 As of Mar.31	Difference
Current assets	463,392	355,996	107.396
Cash and deposits	216,284	154,876	61,408
Trade accounts receivable	101,799	94,435	7,364
Marketable securities	19,029	2,458	16,571
Inventories	52,765	55,803	(3,038)
Deferred income taxes －current	17,322	12,405	4,917
Other	56,524	36,393	20,131
Allowance for doubtful accounts	(331)	(374)	43
Fixed assets	1,100,848	1,085,905	14,943
[Tangible fixed assets]	[871,460]	[851,044]	[20,416]
Buildings and structures	179,967	180,959	(992)
Flight equipment	461,870	437,231	24,639
Machinery, Equipment and vehicles	15,191	17,423	(2,232)
Tools and fixtures	14,026	16,118	(2,092)
Land	111,893	115,537	(3,644)
Construction in progress	88,513	83,776	4,737
[Intangible fixed assets]	[40,342]	[42,679]	[(2,337)]
[Investments and others]	[189,046]	[192,182]	[(3,136)]
Investment securities	68,813	67,572	1,241
Long-term loans receivables	25,081	27,941	(2,860)
Deferred income taxes －non-current	38,404	49,713	(11,309)
Other	63,627	54,002	9,625
Allowance for doubtful accounts	(6,879)	(7,046)	167
Deferred assets	866	672	194
Total assets	1,565,106	1,442,573	122,533
Liabilities			
Current liabilities	441,657	317,938	123,719
Trade accounts payable	123,922	126,911	(2,989)
Short-term loans	25,083	22,132	2,951
Current portion of long-term debt	71,725	61,784	9,941
Current portion of bonds payable	109,749	—	109,749
Accrued income taxes	2,341	2,695	(354)
Accrued bonuses to employees	13,535	14,350	(815)
Other	95,302	90,066	5,236
Long-term liabilities	964,453	992,375	(27,922)
Bonds payable	319,694	351,732	(32,038)
Long-term debt payable	505,462	509,747	(4,285)
Accrued employees' retirement benefits	105,389	106,780	(1,391)
Consolidation adjustment account	399	666	(267)
Other	33,509	23,450	10,059
Total liabilities	1,406,110	1,310,313	95,797
Minority interests	8,910	10,306	(1,396)
Shareholders' equity			
Common stock	86,767	86,239	527
Capital surplus	53,114	104,228	(51,114)
Earned surplus (deficit)	8,882	(67,388)	76,270
Unrealized gains on securities	4,040	223	3,817
Foreign currency translation adjustment	(1,927)	(404)	(1,523)
Treasury stock	(790)	(944)	154
Total shareholders' equity	150,086	121,954	28,132
Total liabilities, minority interests and shareholders' equity	1,565,106	1,442,573	122,533

Note:

Yen (Millions)

	FY2003 As of Mar.31	FY2002 As of Mar.31
Accumulated depreciation	869,821	880,443
Contingent liabilities	2,101	2,487

(2) Consolidated Statements of Income (Loss)

Yen(Millions)

	FY2003 Apr.1 - Mar.31	FY2002 Apr.1 - Mar.31	Difference
Operating revenues and expenses			
Operating revenues	1,217,596	1,215,909	1,687
Operating expenses	939,538	957,167	(17,629)
Sales, general and administrative expenses	243,704	261,339	(17,635)
Operating income (loss)	34,354	(2,597)	36,951
Non-operating income and expenses			
Non-operating income	52,402	47,504	4,898
Interest income	4,076	5,116	(1,040)
Equity in income of affiliates	242	364	(122)
Foreign exchange gain	—	939	(939)
Gains on sale of assets	1,142	1,798	(656)
Rebate on purchasing aircraft	23,220	5,976	17,244
Other	23,722	33,311	(9,589)
Non-operating expenses	53,313	62,143	(8,830)
Interest expenses	22,247	25,283	(3,036)
Foreign exchange loss	1,900	—	1,900
Loss on sale of assets	2,052	7,943	(5,891)
Loss on retirement of assets	8,751	6,251	2,500
Amortization of net transitional retirement benefit obligation	6,943	7,321	(378)
Other	11,420	15,345	(3,925)
Total Recurring Profit (loss)	33,443	(17,236)	50,679
Extraordinary gains	10,389	1,578	8,811
Gains on sale of fixed assets	1,055	204	851
Gain on sale of investment securities	1,081	527	554
Gain on return of the substituted portion of the employee pension fund	6,662	—	6,662
Other	1,591	847	744
Extraordinary losses	8,611	39,163	(30,552)
Loss on sale of fixed assets	4,430	1,038	3,392
Loss on retirement of fixed assets	504	1,416	(912)
Loss on sale of affiliates	—	22,890	(22,890)
Loss on liquidation of affiliates	—	4,024	(4,024)
Provision for allowance for doubtful accounts	317	481	(164)
Special retirement benefit	1,957	3,191	(1,234)
Loss on sale of investment securities	265	741	(476)
Valuation loss on investment securities	369	3,373	(3,004)
Valuation loss on other investments	108	91	17
Other	661	1,918	(1,257)
Net income (loss) before taxes	35,221	(54,821)	90,042
Corporate, inhabitant and enterprise tax	4,167	3,888	279
Deferred taxes	6,262	(31,717)	37,979
Minority interests in income of consolidated subsidiaries	36	1,264	(1,228)
Net income (loss)	24,756	(28,256)	53,012

(3)Consolidated Statements of Surplus

Yen(Millions)

	FY2003 Apr.1 - Mar.31	FY2002 Apr.1 - Mar.31
Capital surplus		
Capital surplus at the beginning of period	104,228	104,232
Increase in surplus	527	—
Increase resulting from conversion of convertible bonds	527	—
Decrease in surplus	51,641	4
Decrease resulting from disposal of treasury stock	1	4
Decrease resulting from reversal by disposition of loss	51,640	—
Capital surplus at the end of period	53,114	104,228
Earned surplus		
Earned surplus at the beginning of period	(67,388)	(39,198)
Increase in surplus	76,401	103
Net income	24,756	—
Increase resulting from reversal of capital surplus	51,640	—
Increase resulting from excluded consolidated subsidiaries	—	103
Increase resulting from excluded affiliates	5	—
Decrease in surplus	131	28,293
Net loss	—	28,256
Decrease resulting from subsidiaries merger	131	—
Decrease resulting from newly consolidated subsidiaries	—	37
Earned surplus at the end of period	8,882	(67,388)

(4) Consolidated Statement of Cash Flows

Yen(Millions)

	FY2003 Apr.1 - Mar.31	FY2002 Apr.1 - Mar.31
I. Cash flows from operating activities		
Net income (loss) before taxes	35,221	(54,821)
Depreciation and amortization	64,236	61,852
Gain and loss on sale of fixed assets, loss on retirement of fixed assets (Net)	13,545	14,302
Gain and loss on sales, valuation of securities (Net)	(368)	3,628
Loss on sale of affiliates	—	22,890
Loss on liquidation of affiliates	—	2,503
Increase (Decrease) in allowance for doubtful accounts	(183)	(142)
Increase (Decrease) in employees' retirement benefits	(1,391)	17,802
Interest expenses	22,247	25,283
Interest and dividends income	(5,791)	(6,843)
Foreign exchange loss (gain)	5,606	48
Rebate on purchasing aircraft	(23,220)	(5,976)
Special retirement benefit	1,957	3,191
Decrease (Increase) in trade accounts receivable	(7,364)	(2,239)
Decrease (Increase) in other receivable	(9,701)	27,741
Increase (Decrease) in trade accounts payable	(2,989)	3,269
Other, net	(5,697)	(10,978)
Sub-total	86,108	101,510
Interest and dividends received	5,931	6,875
Interest paid	(22,127)	(22,392)
Corporate, inhabitant and enterprise taxes paid	(3,278)	(6,155)
Receipt of rebate on purchasing aircraft	23,220	5,976
Special retirement benefit paid	(1,957)	(3,191)
Other, net	1,896	3,329
Net cash provided by (used in) operating activities	89,793	85,952
II. Cash flows from investing activities		
Payment for acquisition of tangible fixed assets	(137,229)	(112,570)
Proceeds from sale of tangible fixed assets	50,152	72,805
Payment for acquisition of intangible fixed assets	(10,415)	(17,293)
Payment for acquisition of investments in securities	(2,259)	(13,143)
Proceeds from sale of investments in securities	5,244	2,153
Proceeds from sale of subsidiaries' stock with changes in scope of consolidation	—	16,998
Payment for lending	(890)	(2,240)
Proceeds from collection of loans	1,524	6,412
Other, net	(2,009)	(5,600)
Net cash provided by (used in) investing activities	(95,882)	(52,478)

	Yen(Millions) FY2003 Apr.1 - Mar.31	FY2002 Apr.1 - Mar.31
III. Cash flows from financing activities		
Increase (Decrease) in short-term loans (Net)	3,165	(49,366)
Proceeds from long-term debt	83,850	110,710
Repayment of long-term debt	(75,106)	(103,446)
Proceeds from issuance of bonds	79,790	49,748
Redemption of bonds	(1,234)	(70,267)
Payment for capital reduction to minority shareholders	(800)	—
Payment for acquisition of treasury stock	149	(391)
Other, net	(6,947)	(352)
Net cash provided by (used in) financing activities	82,867	(63,364)
IV. Effect of exchange rate changes on cash and cash equivalents	(375)	(795)
V. Net increase (decrease) in cash and cash equivalents	76,403	(30,685)
VI. Cash and cash equivalents at the beginning of the period	158,121	188,648
VII. Net increase (decrease) resulting from changes in scope of consolidation	—	158
VIII. Cash and cash equivalents at the end of the period	234,524	158,121

Supplementary cash flow information

Reconciliation of the difference between cash stated in the consolidated balance sheets is as follows:

	Yen(millions) FY2003	FY2002
Cash	216,284	154,876
Time deposits with maturities of more than three months	(787)	(504)
Marketable securities	19,029	2,458
Marketable securities with maturities of more than three months	(2)	(62)
Short-term investments with maturities of three months or less, Included in prepaid expenses and other current assets	—	1,353
Cash and cash equivalents at the end of period	234,524	158,121

Significant non-cash transactions are as follows:

	Yen(millions) FY2003	FY2002
Conversion of convertible bonds:		
Credited to common stock	527	-
Credited to capital surplus	527	-
	1,055	-

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.

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. All significant intercompany accounts and transactions have been eliminated.

Investments in certain subsidiaries and significant affiliates 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 are stated at cost. The companies' equity in undistributed earnings of these companies is not significant.

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

(b) Marketable securities and investment securities

Trading securities are carried at fair value. 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.

(c) 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 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.

(d) Allowance for doubtful receivables

A general provision is made for doubtful receivables based on past experience. Provisions are made against specific receivables as and when required.

(e) Inventories

Inventories are stated at cost determined by the moving average method.

(f) Property and equipment and depreciation

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

Flight equipment .... Straight-line 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

(g) Intangible fixed assets and amortization

Intangible fixed 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.

(h) Accrued bonuses to employees

Provisions are made for bonus payment for employees of the company and subsidiaries. The accrued amounts of estimated bonus payments at balance sheet date are stated as Accrued bonuses to employees.

(i) Retirement benefits

The retirement benefit plan of the Company and certain subsidiaries covers substantially all employees. 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 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 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 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 which are shorter than the average remaining service years of the employees.

<u>Additional information</u>

(Return of the substituted portion of the employee pension fund)

On August 29, 2003, the Minister of Health, Labor and Welfare exempted the Company from future payments of the substituted portion of the pension fund, in accordance with the enactment of the Defined Benefit Corporation Pension Law, and on March 26, 2004, similarly exempted certain subsidiaries therefrom. In response, the Company and certain subsidiaries are calculating their accounts under the interpretation that the retirement benefit debt and pension assets relating to the substituted portion were extinguished on the dates of the Minister's authorizations, applying the interim measure specified in Section 47-2 of the "Guidelines Concerning Retirement Benefit Accounting (Interim Report)" (Report No. 13 of the Accounting System Committee of the Japanese Institute of Certified Public Accountants).

The Company and certain subsidiaries accounted for the 6,662 million yen earned from the return of the substituted portion of the employee pension fund as extraordinary gains. As of the end of the intermediate term under review, the Company and certain subsidiaries calculated the total amount to be returned (minimum reserve for liability) to be 49,938 million yen.

(j) Appropriation of retained earnings

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.

(k) 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.

(l) Bond issuance costs

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

(m) Cash equivalents

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

(n) Consolidated tax return system

The Company and certain subsidiaries applied a consolidated tax return system from FY2002.

3.Marketable securities and investments in securities

Market value information is summarized as follows:

Held-to-maturity securities having market value

	Yen (Millions)	
	FY2003	FY2002
Gross unrealized gain:		
Cost	5	5
Market value	5	5
	0	0
Gross unrealized loss:		
Cost	-	-
Market value	-	-
	-	-
Net unrealized gain	0	0

Other securities having market value

	Yen (Millions)	
	FY2003	FY2002
Gross unrealized gain:		
Cost	8,392	2,952
Market value	16,971	6,677
	8,579	3,725
Gross unrealized loss:		
Cost	3,751	9,462
Market value	3,387	6,969
	(364)	(2,493)
Net unrealized gain	8,215	1,232

Sell-off of other securities

	Yen (Millions)	
	FY2003	FY2002
Proceeds	5,691	88
Gain on sale	1,065	-
Loss on sale	0	0

Breakdown of other securities not having market value

	Yen (Millions)	
	FY2003	FY2002
Bonds held to maturity	13,987	15,654
Other securities	40,207	28,757
	54,194	44,411

The redemption schedule of other securities and held-to-maturity debt securities is summarized as follows:

	Yen (Millions)	
	FY2003	FY2002
Bonds:		
Within 1 year	-	-
Over 1 year to 5 years	13,992	15,654
Over 5 years to 10 years	-	5
Over 10 years	-	-
Others:		
Within 1 year	19,029	2,420
Over 1 year to 5 years	-	-
Over 5 years to 10 years	-	-
Over 10 years	-	-
Total:		
Within 1 year	19,029	2,420
Over 1 year to 5 years	13,992	15,654
Over 5 years to 10 years	-	5
Over 10 years	-	-

4.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.

On August 29, 2003, the Minister of Health, Labor and Welfare exempted the Company from future payments of the substituted portion of the pension fund, and on March 26, 2004, exempted one of consolidated subsidiaries.

The following table sets out the funded and accrued status of the plans, and the amounts recognized in the consolidated balance sheets on the ending date of FY2003 and FY2002 for the Company and consolidated subsidiaries' defined benefit plans:

	Yen (Millions)	
	FY2003	FY2002
Retirement benefit obligation	(258,225)	(398,377)
Plan assets at fair value	84,292	112,482
Unfunded retirement benefit obligation	(173,933)	(285,895)
Unrecognized net transitional retirement benefit obligation	73,831	87,852
Unrecognized actuarial loss	34,307	94,115
Unrecognized prior service cost	(38,903)	(2,216)
Gross amount recognized	(104,698)	(106,144)
Prepaid pension cost	691	636
Accrued employees' retirement benefits	(105,389)	(106,780)

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 are as follows:

	Yen (Millions)	
	FY2003	FY2002
Service cost	14,092	18,673
Interest cost	7,163	9,664
Expected return on plan assets	(4,436)	(6,065)
Amortization of net retirement benefit obligation at transition	6,943	7,321
Amortization of actuarial loss	5,435	7,032
Amortization of prior service cost	(3,077)	(251)
Net periodic pension and severance cost	26,120	36,374
Extraordinary gains and losses from the return of the substituted portion of the employee pension fund	(6,662)	
Total	19,458	

5.Income taxes

The tax effect of temporary differences that give rise to a significant portion of the deferred tax assets and liabilities is as follows:

	Yen (Millions)	
	FY2003	FY2002
Deferred tax assets:		
Accrued employees' retirement benefits	34,780	30,876
Tax loss carried forward	7,056	35,509
Unrealized gain on inventories and property and equipment	6,563	7,595
Accrued bonuses to employees	5,745	4,994
Allowance for doubtful accounts	1,807	2,644
Others	10,583	11,932
Total gross deferred tax assets	66,534	93,550
Less valuation allowance	(7,023)	(29,648)
Total net deferred tax assets	59,511	63,902
Deferred tax liabilities:		
Unrealized gains (losses) on securities	(3,499)	(1,516)
Others	(2,240)	(426)
Total gross deferred tax liabilities	(5,739)	(1,942)
Net deferred tax assets	53,772	61,960

Deferred tax assets are described on the consolidated balance sheets as follows:

	Yen (millions)	
	FY2003	FY2002
Current assets －Deferred tax assets	17,322	12,405
Investments －Deferred tax assets	38,404	49,713
Other long-term liabilities	(1,954)	(158)

6.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 are as follows:

	Yen (Millions)	
	FY2003	FY2002
Aircraft:		
Estimated acquisition cost	314,854	268,654
Estimated amount of accumulated depreciation	180,505	144,017
Estimated net book value	134,349	124,637
Others:		
Estimated acquisition cost	16,773	28,315
Estimated amount of accumulated depreciation	9,085	15,000
Estimated net book value	7,688	13,315
Total:		
Estimated acquisition cost	331,627	296,969
Estimated amount of accumulated depreciation	189,590	159,017
Estimated net book value	142,037	137,952

Outstanding finance lease obligations are as follows:

	Yen (Millions)	
	FY2003	FY2002
Current portion of finance lease obligations	33,584	30,847
Long-term finance lease obligations	116,168	115,877
	149,752	146,724

Estimated amount of depreciation, estimated finance charges and lease expenses are as follows:

	Yen (Millions)	
	FY2003	FY2002
Estimated amount of depreciation		
Annual lease expenses charged to income	37,573	34,111
by the straight-line method over the lease period	32,335	29,179
Estimated interest cost	4,012	4,295

(b) Operating leases

The rental payments required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year are as follows:

	Yen (Millions)	
	FY2003	FY2002
Current portion of operating lease obligations	41,590	43,187
Long-term operating lease obligations	70,308	104,767
	111,898	147,954

7.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.

Segment information is as follows:

<FY2003 Apr.1 - Mar.31> Yen (Millions)

	Air transportation	Travel services	Hotel operations	Other businesses	Total	Intercompany eliminations	Consolidated
Operating revenues	908,273	150,728	55,391	103,204	1,217,596	—	1,217,596
Intra-group sales and transfers	89,704	17,882	13,450	73,826	194,862	(194,862)	—
Total	997,977	168,610	68,841	177,030	1,412,458	(194,862)	1,217,596
Operating expenses	970,703	166,543	69,483	172,339	1,379,068	(195,826)	1,183,242
Operating income (loss)	27,274	2,067	(642)	4,691	33,390	964	34,354
Identifiable assets	1,286,829	39,769	113,238	175,762	1,615,598	(50,492)	1,565,106
Depreciation And amortization	56,077	1,016	3,476	3,667	64,236	—	64,236
Capital expenditure	135,190	859	9,805	2,191	148,045	(401)	147,644

<FY2002 Apr.1 - Mar.31> Yen (Millions)

	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)
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

8.Breakdown of Operating Revenues（Consolidated）

Yen(Millions)

	FY2003 Apr.1 - Mar.31	% of total	FY2002 Apr.1 - Mar.31	% of total	Difference
Domestic routes					
Passenger	644,861	45.7	646,854	46.2	(1,993)
Cargo	26,670	1.9	24,330	1.7	2,340
Mail	9,241	0.6	10,561	0.8	(1,320)
Baggage handling	319	0.0	314	0.0	5
Subtotal	681,091	48.2	682,059	48.7	(968)
International routes					
Passenger	176,956	12.6	185,481	13.3	(8,525)
Cargo	43,205	3.1	40,393	2.9	2,812
Mail	3,147	0.2	3,061	0.2	86
Baggage handling	567	0.0	559	0.0	8
Subtotal	223,875	15.9	229,494	16.4	(5,619)
Revenues from scheduled flights	904,966	64.1	911,553	65.1	(6,587)
Other operating revenues	93,011	6.6	80,934	5.7	12,077
Subtotal	997,977	70.7	992,487	70.8	5,490
Travel services					
Package tours(Domestic)	116,706	8.2	105,430	7.5	11,276
Package tours(International)	29,042	2.1	38,489	2.7	(9,447)
Other revenues	22,862	1.6	18,951	1.4	3,911
Subtotal	168,610	11.9	162,870	11.6	5,740
Hotel operations					
Guestrooms	23,031	1.6	24,676	1.8	(1,645)
Banquets	18,014	1.3	18,788	1.3	(774)
Foods and drinks	15,821	1.1	16,702	1.2	(881)
Other revenues	11,975	0.9	12,547	0.9	(572)
Subtotal	68,841	4.9	72,713	5.2	(3,872)
Other businesses					
Trading and retailing	120,585	8.5	118,653	8.5	1,932
Information and telecommunication	19,675	1.4	19,641	1.4	34
Real estate & building maintenance	18,212	1.3	16,820	1.2	1,392
Other revenues	18,558	1.3	18,075	1.3	483
Subtotal	177,030	12.5	173,189	12.4	3,841
Total operating revenues	1,412,458	100.0	1,401,259	100.0	11,199
Intercompany eliminations	(194,862)	－	(185,350)	－	(9,512)
Operating revenue(Consolidated)	1,217,596	－	1,215,909	－	1,687

Notes:

1.Segment breakdown is based on classifications employed for internal management.

2.Segment operating revenue includes inter-segment transactions.

9.Overview of Airline Operating Results (Consolidated)

	FY2003 Apr.1 - Mar.31	FY2002 Apr.1 - Mar.31	Year on year (%)
Domestic routes			
Number of passengers	44,784,274	47,133,040	95.0
Available seat-km (thousand km)	63,146,960	62,565,065	100.9
Revenue passenger-km (thousand km)	38,857,252	40,388,420	96.2
Passenger loadfactor	61.5	64.6	(3.0)
Cargo(tons)	415,463	383,583	108.3
Cargo traffic volume (thousand kg)	402,011	371,224	108.3
Mail(tons)	73,226	78,354	93.5
Mail traffic volume (thousand kg)	78,549	82,431	95.3
International routes			
Number of passengers	3,301,057	3,783,848	87.2
Available seat-km (thousand km)	24,626,298	25,974,398	94.8
Revenue passenger-km (thousand km)	16,950,174	18,719,453	90.5
Passenger load factor	68.8	72.1	(3.2)
Cargo(tons)	220,502	195,669	112.7
Cargo traffic volume (thousand kg)	1,040,318	957,721	108.6
Mail(tons)	13,480	11,237	120.0
Mail traffic volume (thousand kg)	62,757	56,735	110.6
Total			
Number of passengers	48,085,331	50,916,888	94.4
Available seat-km (thousand km)	87,773,258	88,539,463	99.1
Revenue passenger-km (thousand km)	55,807,426	59,107,873	94.4
Passenger load factor	63.6	66.8	(3.2)
Cargo(tons)	635,965	579,252	109.8
Cargo traffic volume (thousand kg)	1,442,329	1,328,945	108.5
Mail(tons)	86,706	89,591	96.8
Mail traffic volume (thousand kg)	141,306	139,166	101.5

Notes:

Domestic routes: ANA + ANK + Air Hokkaido Co. Ltd. (ADK) + Air Nippon Network Co. Ltd. (AKX)

International routes: ANA + ANK + AJX

Each result does not include results of charter flights .

5. Nonconsolidated financial results

1. Nonconsolidated financial highlights for the period ended March 31, 2004 (FY2003)

(1) Summary of nonconsolidated operating results — Yen (Millions rounded down)

	FY2003 Apr.1 - Mar.31	Year on year (%)	FY2002 Apr.1 - Mar.31	Year on year (%)
Operating revenues	969,971	3.1%	940,503	2.8%
Operating income (loss)	24,033	—	(8,259)	—
Recurring profit (loss)	25,065	—	(20,051)	—
Net income (loss)	10,268	—	(17,042)	—
Net income (loss) per share	6.69yen		(11.10yen)	
Diluted net income (loss) per share	5.94yen			
Net income (loss) / Shareholders' equity	7.0%		(11.6%)	
Recurring profit (loss) / Total assets	2.0%		(1.7%)	
Recurring profit (loss) / Operating revenues	2.6%		(2.1%)	
Average number of shares of outstanding during the period	1,535,022,169 shares		1,535,558,747 shares	

Note:
Changes in the accounting policy during the period: none

(2) Dividends — Yen

	FY2003	FY2002
Annual dividend per share	3.00	0.00
Interim	—	—
Year – end	3.00	0.00
Total amount of dividends (Yen million)	4,615	—
Pay-out ratio	44.8%	—
Dividend ratio for shareholders' equity	3.0%	—

(3) Summary of Nonconsolidated financial positions — Yen (Millions rounded down)

	FY2003	FY2002
Total assets	1,315,082	1,191,543
Shareholders' equity	153,751	138,761
Shareholders' equity ratio	11.7%	11.6%
Shareholders' equity per share	99.94yen	90.44yen
Number of shares of outstanding at balance sheet date	1,538,502,949 shares	1,534,351,122 shares
Number of treasury stocks at balance sheet date	1,073,112	1,731,564

2. Forecast of non-consolidated operating results for the period ending March 31, 2005

	Yen (Millions rounded down)
Operating revenues	1,069,000
Recurring profit (loss)	20,500
Net income (loss)	7,000
Annual dividend per share	3.00

Note:Forecast of net income per share: 4.55yen

This forecast involve risks, uncertainties and other factors since it reflects management's views in light of the information currently available as of the date hereof. The reader should be aware that actual results could differ materially due to various factors.

(1) Nonconsolidated Balance Sheets

Yen(Millions rounded down)

	FY2003 As of Mar.31	FY2002 As of Mar.31	Difference
Assets			
Current assets	387,810	270,325	117,485
Cash and deposits	174,955	109,257	65,698
Trade accounts receivable	85,203	74,497	10,705
Marketable securities	14,999	1,650	13,349
Inventories	45,907	46,536	(629)
Prepaid expenses	8,732	3,467	5,264
Short-term loans receivable	7,797	7,938	(140)
Other accounts receivable	7,354	7,857	(502)
Deferred income taxes —current	12,457	6,687	5,770
Other	30,420	12,447	17,973
Allowance for doubtful accounts	(19)	(16)	(2)
Fixed assets	927,002	921,020	5,981
[Tangible fixed assets]	[716,000]	[696,606]	[19,393]
Buildings	91,906	96,552	(4,646)
Structures	1,721	1,903	(181)
Flight equipment	458,700	434,392	24,307
Machinery and equipment	8,501	10,143	(1,642)
Transportation equipment other than aircraft	1,838	2,326	(487)
Tools and fixtures	9,506	12,086	(2,580)
Land	55,677	58,852	(3,174)
Construction in progress	88,148	80,350	7,797
[Intangible fixed assets]	[32,677]	[35,274]	[(2,596)]
Telephone deposits	290	355	(64)
Software	28,929	31,047	(2,118)
Other	3,457	3,871	(413)
[Investments and others]	[178,324]	[189,139]	[(10,814)]
Investment securities	35,481	34,064	1,417
Investments in subsidiaries and affiliates	54,877	53,481	1,395
Advances to subsidiaries and affiliates	60	60	—
Long-term loans receivables	26,986	51,708	(24,722)
Housing loans to employees	1,164	812	351
Long-term prepaid expenses	5,780	2,724	3,055
Deferred income taxes —non-current	24,247	45,682	(21,434)
Other	37,510	29,288	8,221
Allowance for doubtful accounts	(7,783)	(28,683)	20,900
Deferred assets	268	197	71
Bond issuance expenses	268	197	71
Total assets	1,315,082	1,191,543	123,539

Yen(Millions rounded down)

	FY2003 As of Mar.31	FY2002 As of Mar.31	Difference
Liabilities			
Current liabilities	352,501	227,684	124,816
Trade accounts payable	94,643	93,959	684
Current portion of long-term debt	54,836	50,185	4,650
Current portion of bonds payable	109,749	—	109,749
Non-operating accounts payable	5,265	9,512	(4,247)
Accrued expenses	22,825	21,313	1,512
Accrued income taxes	192	—	192
Deposits	4,721	6,301	(1,580)
Advance ticket sales	34,379	32,397	1,982
Accrued bonuses to employees	6,569	7,163	(593)
Other	19,317	6,850	12,467
Long-term liabilities	808,829	825,097	(16,267)
Bonds payable	319,694	351,732	(32,038)
Long-term loans payable	385,002	375,662	9,340
Accrued employees' retirement benefits	82,210	85,064	(2,854)
Reserve for losses on related businesses	448	448	—
Other	21,474	12,190	9,284
Total liabilities	1,161,330	1,052,781	108,548
Shareholders' equity			
Common stock	86,767	86,239	527
Capital surplus	53,118	104,232	(51,114)
Capital reserve	22,160	21,632	527
Other surplus	30,958	82,600	(51,641)
Earned Surplus	10,268	(51,640)	61,908
Earned surplus reserve	—	10,301	(10,301)
Reserve	—	6,641	(6,641)
Special depreciation reserve	—	4,255	(4,255)
Other reserve	—	1,600	(1,600)
Land devaluation reserve	—	785	(785)
Unappropriated net gain (loss)	10,268	(68,583)	78,851
Unrealized gains on securities	3,878	368	3,509
Treasury Stock	(280)	(439)	158
Total shareholders' equity	153,751	138,761	14,990
Total liabilities and shareholders' equity	1,315,082	1,191,543	123,539

Note:

Yen(Millions rounded down)

	FY2003 As of Mar.31	FY2002 As of Mar.31
Accumulated depreciation	788,764	800,969
Contingent liabilities	51,368	70,059

(2)Nonconsolidated Statements of Income (Loss)

Yen(Millions rounded down)

	FY2003 Apr.1 - Mar.31	FY2002 Apr.1 - Mar.31	Difference
Operating revenues and expenses			
Operating revenues	969,971	940,503	29,467
Operating expenses	781,010	776,321	4,688
Sales, general and administrative expenses	164,927	172,440	(7,513)
Operating income (Loss)	24,033	(8,259)	32,292
Non-operating income and expenses			
Non-operating income	46,848	38,763	8,084
Interest income	551	1,118	(566)
Other	46,296	37,644	8,651
Non-operating expenses	45,815	50,555	(4,739)
Interest expense	15,986	17,262	(1,275)
Other	29,828	33,292	(3,464)
Total Recurring income (loss)	25,065	(20,051)	45,117
Extraordinary gains	8,028	1,256	6,772
Gains on sale of affiliate stock	147	753	(606)
Gains on sale of investment securities	1,054	499	554
Gain on return of the substituted portion of the employee pension fund	6,094	—	6,094
Other	732	2	729
Extraordinary losses	7,461	31,764	(24,302)
Loss on sale of affiliate stock	200	8,844	(8,643)
Valuation loss on shares of affiliates	100	5,825	(5,725)
Valuation loss on investment securities	372	3,113	(2,741)
Provision for allowance for doubtful accounts	1,897	8,377	(6,480)
Special retirement benefits	963	2,922	(1,958)
Loss on sale of fixed assets	3,694	946	2,747
Other	232	1,734	(1,501)
Net income (loss) before taxes	25,632	(50,559)	76,192
Corporate, inhabitant and enterprise tax	1,512	(354)	1,867
Deferred taxes	13,851	(33,162)	47,014
Net income (loss)	10,268	(17,042)	27,310
Loss carried over from last year	10,301	51,541	(41,240)
Reversal of earned surplus reserve	10,301	—	10,301
Unappropriated net gain (loss)	10,268	(68,583)	78,851

(3) Statement of appropriation of gain and loss

Yen(Millions rounded down)

FY2003	
(1) Appropriation of Unappropriated gain	
Unappropriated gain at end of the year	10,268
Appropriation of gain	
Dividends (3 yen per share)	4,615
Unappropriated gain carried forward	5,652
(2) Appropriation of other capital surplus	
Other capital surplus	30,958
Other capital surplus carried forward	30,958

FY2002	
(1) Appropriation of other capital surplus	
Other capital surplus	82,600
Appropriation of other capital surplus	
Transfer to earned surplus reserve	51,640
Other capital surplus carried forward	30,959
(2)Appropriation of Unappropriated loss at end of the year	
Unappropriated loss at end of the year	68,583
Appropriation of loss	
Reversal from Voluntary Reserve	
Reversal of reserve for special depreciation	4,255
Reversal of reserve for other reserve	1,600
Reversal of reserve for land devaluation reserve	785
Transfers from other capital surplus	51,640
Total	58,282
Unappropriated loss carried forward	10,301

Summary of significant accounting policies

(a) Marketable securities and investment securities

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.

Investments in subsidiaries and affiliates are stated at cost determined by the moving average method.

(b) Derivatives

Derivatives, such as forward foreign exchange contracts, interest rate swaps and commodity options and swaps, are used, to limit their exposure to fluctuations in foreign exchange rates, interest rates, and commodity prices. These are not used for trading purposes.

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.

(c) Inventories

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

(d) 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 .... Straight-line method
Buildings .... Straight-line method
Other ground property and equipment .... Declining balance method

The Company employs 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

(e) Intangible fixed assets and amortization

Intangible fixed 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.

(f) Bond issuance costs

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

(g) Allowance for doubtful receivables

A general provision is made for doubtful receivables based on past experience. Provisions are made against specific receivables as and when required.

(h) Accrued bonuses to employees

Provisions are made for bonus payment for employees of the company. The accrued amounts of estimated bonus payments at balance sheet date are stated as accrued bonuses to employees.

(i) Retirement 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 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 the 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 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 which are shorter than the average remaining service years of the employees.

Additional Information

(Return of the substituted portion of the employee pension fund)

On August 29, 2003, the Minister of Health, Labor and Welfare exempted the Company from future payments of the substituted portion of the pension fund, in accordance with the enactment of the Defined Benefit Corporation Pension Law. In response, the Company were approved the extinguishment of retirement benefit debt and pension assets relating to the substituted portion on the date of the Minister's authorization, applying the interim measure specified in Section 47-2 of the “Guidelines Concerning Retirement Benefit Accounting (Interim Report)” (Report No. 13 of the Accounting System Committee of the Japanese Institute of Certified Public Accountants). The Company accounted for the 6,094 million yen earned from the return of the substituted portion of the employee pension fund as extraordinary gains. As of the end of the current half, the Company calculated the total amount to be returned (minimum reserve for liability) to be 47,977 million yen.

(j) Reserve for losses on related businesses

Provisions are made for estimated losses from investments in subsidiaries and affiliates.

(k) 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.

(l) Revenue recognition

Passenger revenues are recorded when services are rendered.

(m) Consumption taxes

Consumption taxes are excluded from the amounts of profit and loss statements.

(n) Consolidated tax return system

The Company applied a consolidated tax return system from Fiscal 2002.

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 are as follows:

	Yen (Millions)	
	FY2003	FY2002
Aircraft:		
Estimated acquisition cost	314,854	253,235
Estimated amount of accumulated depreciation	180,504	137,660
Estimated net book value	134,349	115,574
Others:		
Estimated acquisition cost	9,452	9,475
Estimated amount of accumulated depreciation	5,736	3,980
Estimated net book value	3,716	5,494
Total:		
Estimated acquisition cost	324,306	262,711
Estimated amount of accumulated depreciation	186,241	141,641
Estimated net book value	138,065	121,069

Outstanding finance lease obligations are as follows:

	Yen (Millions)	
	FY2003	FY2002
Current portion of finance lease obligations	32,354	26,638
Long-term finance lease obligations	113,328	103,424
	145,682	130,063

Estimated amount of depreciation, estimated finance charges and lease expenses are as follows:

	Yen (Millions)	
	FY2003	FY2002
Estimated amount of depreciation		
Annual lease expenses charged to income	32,761	29,215
by the straight-line method over the lease period	30,997	24,985
Estimated interest cost	3,903	3,874

(b) Operating leases

The rental payments required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year are as follows:

	Yen (Millions)	
	FY2003	FY2002
Current portion of operating lease obligations	38,326	39,836
Long-term operating lease obligations	65,165	96,260
	103,492	136,097

Marketable securities and investments in securities

Stocks investment in subsidiaries and affiliates having market value are as follows:

						Yen (Millions)
	FY2003			FY2002		
	Cost	**Market value**	**Difference**	**Cost**	**Market value**	**Difference**
Subsidiaries	4,424	5,822	1,397	4,418	3,126	(1,292)
Affiliates	675	2,583	1,907	675	2,479	1,804
	5,100	8,405	3,305	5,094	5,606	512

Income taxes

The tax effect of temporary differences that give rise to a significant portion of the deferred tax assets and liabilities is as follows:

	Yen (Millions)	
	FY2003	FY2002
Deferred tax assets:		
Accrued employees' retirement benefits	27,118	24,311
Approximation of accrued sales charge payable	5,380	4,095
Allowance for doubtful accounts	3,119	11,975
Tax loss carried forward	3,052	13,228
Accrued bonuses to employees	2,904	2,487
Valuation loss on stocks investment in subsidiaries	2,289	-
Other	2,077	1,596
Total gross deferred tax assets	45,943	57,694
Less valuation allowance	(5,931)	(3,701)
Total net deferred tax assets	40,011	53,992
Deferred tax liabilities:		
Unrealized gains (losses) on securities	(3,305)	(1,493)
Accrued enterprise tax refund	-	(129)
Total gross deferred tax liabilities	(3,305)	(1,622)
Net deferred tax assets	36,705	52,370