

# Consolidated Balance Sheets

Japan Airlines Company, Ltd. and Consolidated Subsidiaries

As of March 31,	Millions of yen		Thousands of U.S. dollars (Note 2)
	2002	2001	2002
<b>Assets</b>			
<b>Current assets:</b>			
Cash and time deposits (Note 3)	¥ 119,124	¥ 73,357	\$ 895,669
Short-term investments in securities (Note 4)	14,756	48,132	110,947
Accounts receivable (Note 12):			
Trade	202,701	191,173	1,524,067
Unconsolidated subsidiaries and affiliates	11,399	12,081	85,706
Allowance for doubtful accounts	(3,956)	(3,264)	(29,744)
Flight equipment spare parts, at cost	58,308	58,023	438,406
Deferred income taxes (Note 7)	16,027	14,825	120,503
Prepaid expenses and other	125,255	93,437	941,766
Total current assets	543,615	487,767	4,087,330
<b>Investments and advances:</b>			
Unconsolidated subsidiaries and affiliates	36,817	36,474	276,819
Other (Note 4)	108,021	120,181	812,187
Total investments and advances	144,838	156,655	1,089,007
<b>Property and equipment (Notes 5 and 9):</b>			
Flight equipment	1,601,753	1,585,741	12,043,255
Ground property and equipment	712,312	731,486	5,355,729
	2,314,065	2,317,228	17,398,984
Accumulated depreciation	(1,318,841)	(1,277,317)	(9,916,097)
	995,224	1,039,910	7,482,887
Advances on flight equipment purchases and other (Note 12)	35,210	28,716	264,736
Property and equipment, net	1,030,435	1,068,626	7,747,631
Long-term loans (Note 9)	51,172	29,006	384,751
Deferred income taxes (Note 7)	23,723	22,550	178,368
Other assets	42,585	37,249	320,187
	¥1,836,371	¥1,801,855	\$13,807,300

The accompanying notes are an integral part of these statements.

Thousands of  
U.S. dollars  
(Note 2)

	Millions of yen		
	2002	2001	2002
<b>Liabilities and stockholders' equity</b>			
Current liabilities:			
Short-term bank loans (Note 5)	¥ 56,627	¥ 30,443	\$ 425,766
Current portion of long-term debt (Notes 5 and 12)	150,796	142,293	1,133,804
Accounts payable (Note 12):			
Trade	157,214	160,932	1,182,060
Construction	15,216	14,205	114,406
Unconsolidated subsidiaries and affiliates	4,721	5,718	35,496
Accrued expenses	55,009	64,032	413,601
Accrued income taxes (Note 7)	2,569	6,907	19,315
Deferred income taxes (Note 7)	54	50	406
Other	115,401	105,351	867,676
Total current liabilities	557,610	529,931	4,192,556
Long-term debt (Notes 5 and 12)	886,178	839,821	6,662,992
Accrued pension and severance costs (Note 6)	102,405	102,677	769,962
Deferred income taxes (Note 7)	534	2,715	4,015
Other noncurrent liabilities	35,040	36,309	263,458
Minority interests	25,943	22,745	195,060
Commitments and contingent liabilities (Notes 8, 9 and 12)			
Stockholders' equity:			
Common stock:			
Authorized: 6,000,000,000 shares			
Issued: 1,783,473,439 shares in 2002;			
1,783,473,439 shares in 2001	188,550	188,550	1,417,669
Additional paid-in capital	32,516	32,516	244,481
Retained earnings	11,774	53,552	88,526
Net unrealized gain on other securities, net of taxes (Note 4)	852	3,098	6,406
Translation adjustments	(4,719)	(9,816)	(35,481)
Common stock in treasury, at cost:			
776,483 shares in 2002; 557,995 shares in 2001	(317)	(247)	(2,383)
Total stockholders' equity	228,657	267,654	1,719,225
	¥1,836,371	¥1,801,855	\$13,807,300

# Consolidated Statements of Operations

Japan Airlines Company, Ltd. and Consolidated Subsidiaries

Years ended March 31,	Millions of yen			Thousands of U.S. dollars (Note 2)
	2002	2001	2000	2002
<b>Operating revenues:</b>				
Passenger:				
Domestic	¥ 324,950	¥ 329,143	¥ 309,531	\$ 2,443,233
International	612,727	676,104	610,928	4,606,969
Cargo:				
Domestic	25,903	28,228	28,826	194,759
International	141,952	155,730	151,163	1,067,308
Incidental and other revenues	503,154	514,565	498,065	3,783,112
	<u>1,608,689</u>	<u>1,703,773</u>	<u>1,598,516</u>	<u>12,095,406</u>
<b>Operating expenses (Note 8):</b>				
Flight operations	312,865	315,305	295,639	2,352,368
Maintenance	105,662	94,773	83,820	794,451
Passenger services	108,097	108,247	106,569	812,759
Aircraft and traffic servicing	190,287	186,158	182,535	1,430,729
Sales and advertising	200,299	204,884	192,449	1,506,007
General and administrative	133,097	140,032	135,655	1,000,729
Depreciation and amortization	89,748	91,834	90,410	674,796
Cost of incidental and other expenses	480,554	483,896	466,549	3,613,187
	<u>1,620,614</u>	<u>1,625,133</u>	<u>1,553,628</u>	<u>12,185,067</u>
Operating (loss) income	<u>(11,925)</u>	<u>78,639</u>	<u>44,887</u>	<u>(89,661)</u>
<b>Non-operating income (expenses):</b>				
Interest and dividend income	3,673	4,184	4,732	27,616
Interest expense	(30,198)	(32,335)	(35,377)	(227,052)
Amortization of capitalized bond issuance expenses	(39)	(138)	(422)	(293)
Exchange gain (loss), net	3,354	6,629	(5,600)	25,218
Flight equipment purchase incentives	—	—	3,306	—
Gain on sales of short-term investments in securities	5	14	3,379	37
Gain on sales of flight equipment	685	603	7,701	5,150
Gain on sales of ground property and equipment	5,933	669	5,250	44,609
Gain on sales of investments in securities	13,151	64	16,236	98,879
Gain on sale of investment in a consolidated subsidiary	—	2,105	—	—
Gain on contribution of securities to employee retirement benefit trust	—	1,020	—	—
Loss on revaluation of short-term investments in securities	—	—	(324)	—
Loss on sales of flight equipment	—	(8,173)	(3,387)	—
Loss on disposal of ground property and equipment	(3,414)	(6,322)	(2,285)	(25,669)
Loss on sales of investments in securities	(503)	(501)	—	(3,781)
Loss on revaluation of other investments	(170)	(2,557)	—	(1,278)
Loss on revaluation of investments in securities	(2,643)	(9,187)	(2,337)	(19,872)
Loss on investments in unconsolidated subsidiaries and affiliates	(5,622)	(3,478)	(3,484)	(42,270)
Special termination benefits	(1,204)	(671)	(6,052)	(9,052)
Provision for accrued pension and severance costs	—	(1,035)	(2,861)	—
Equity in (losses) earnings of affiliates	(258)	258	1,980	(1,939)
Other, net	(4,214)	1,873	1,579	(31,684)
	<u>(21,467)</u>	<u>(46,978)</u>	<u>(17,966)</u>	<u>(161,406)</u>
(Loss) income before income taxes and minority interests	<u>(33,392)</u>	<u>31,660</u>	<u>26,922</u>	<u>(251,067)</u>
<b>Income taxes (Note 7):</b>				
Current	6,341	10,873	8,130	47,676
Deferred	(2,860)	(21,718)	(3,109)	(21,503)
	<u>3,481</u>	<u>(10,845)</u>	<u>5,020</u>	<u>26,172</u>
<b>Minority interests</b>	<u>148</u>	<u>(1,484)</u>	<u>(2,161)</u>	<u>1,112</u>
<b>Net (loss) income</b>	<u>¥ (36,725)</u>	<u>¥ 41,021</u>	<u>¥ 19,740</u>	<u>\$ (276,127)</u>

The accompanying notes are an integral part of these statements.

# Consolidated Statements of Stockholders' Equity

Japan Airlines Company, Ltd. and Consolidated Subsidiaries

Millions of yen

	Number of shares of common stock	Common stock	Additional paid-in capital	Retained earnings (deficit)	Net unrealized gain on other securities, net of taxes (Note 4)	Translation adjustments	Common stock in treasury	Total
Balance at March 31, 1999	1,778,943,439	¥188,323	¥31,808	¥ (3,167)	¥ —	¥ —	¥ (6)	¥216,957
Cumulative effect of adoption of tax-effect accounting				6,893				6,893
Net income for the year ended March 31, 2000				19,740				19,740
Cash dividends				(5,336)				(5,336)
Bonuses to directors and statutory auditors				(43)				(43)
Increase resulting from change in scope of consolidation				7,395				7,395
Decrease resulting from change in scope of consolidation				(7,667)				(7,667)
Other							(37)	(37)
Balance at March 31, 2000	1,778,943,439	188,323	31,808	17,814	—	—	(43)	237,903
Net income for the year ended March 31, 2001				41,021				41,021
Cash dividends				(5,336)				(5,336)
Bonuses to directors and statutory auditors				(33)				(33)
Increase resulting from change in scope of consolidation				167				167
Decrease resulting from change in scope of consolidation				(80)				(80)
Issuance of common stock to stockholders of a subsidiary	4,530,000	226	708					934
Other					3,098	(9,816)	(204)	(6,922)
Balance at March 31, 2001	1,783,473,439	188,550	32,516	53,552	3,098	(9,816)	(247)	267,654
Net loss for the year ended March 31, 2002				(36,725)				(36,725)
Cash dividends				(7,131)				(7,131)
Bonuses to directors and statutory auditors				(44)				(44)
Increase resulting from change in scope of consolidation				2,124				2,124
Other					(2,245)	5,097	(70)	2,781
Balance at March 31, 2002	1,783,473,439	¥188,550	¥32,516	¥11,774	¥ 852	¥(4,719)	¥(317)	¥228,657

Thousands of U.S. dollars (Note 2)

	Common stock	Additional paid-in capital	Retained earnings	Net unrealized gain on other securities, net of taxes (Note 4)	Translation adjustments	Common stock in treasury	Total
Balance at March 31, 2001	\$1,417,669	\$244,481	\$ 402,646	\$ 23,293	\$(73,804)	\$(1,857)	\$2,012,436
Net loss for the year ended March 31, 2002			(276,127)				(276,127)
Cash dividends			(53,616)				(53,616)
Bonuses to directors and statutory auditors			(330)				(330)
Increase resulting from change in scope of consolidation			15,969				15,969
Other				(16,879)	38,323	(526)	20,909
Balance at March 31, 2002	\$1,417,669	\$244,481	\$ 88,526	\$ 6,406	\$(35,481)	\$(2,383)	\$1,719,225

The accompanying notes are an integral part of these statements.

# Consolidated Statements of Cash Flows

Japan Airlines Company, Ltd. and Consolidated Subsidiaries

Years ended March 31,	Millions of yen			Thousands of U.S. dollars (Note 2)
	2002	2001	2000	2002
<b>Operating activities:</b>				
(Loss) income before income taxes and minority interests	¥ (33,392)	¥ 31,660	¥ 26,922	\$ (251,067)
Adjustments to reconcile (loss) income before income taxes and minority interests to net cash provided by operating activities:				
Depreciation and amortization	89,748	91,834	90,410	674,796
(Gain) loss on sales of, and loss on revaluation of, short-term investments in securities and investments in securities, net	(10,004)	7,507	(16,884)	(75,218)
Loss (gain) on sales and disposal of ground property and equipment, net	6,616	13,223	(7,311)	49,744
Net provision for accrued pension and severance costs	(358)	1,183	2,927	(2,691)
Interest and dividend income	(3,673)	(4,184)	(4,732)	(27,616)
Interest expense	30,198	32,335	35,377	227,052
Exchange (gain) loss	(436)	(568)	2,017	(3,278)
Equity in losses (earnings) of affiliates	258	(258)	(1,980)	(1,939)
(Increase) decrease in notes and accounts receivable	(6,073)	(29,560)	7,252	(45,661)
Increase in flight equipment spare parts	(239)	(284)	(458)	(1,796)
Decrease in accounts payable	(7,130)	(620)	(11,432)	53,609
Other	(4,859)	23,805	922	(36,533)
Subtotal	60,654	166,073	123,030	456,045
Interest and dividends received	3,893	4,494	5,341	29,270
Interest paid	(29,437)	(31,680)	(35,150)	(221,330)
Income taxes paid	(10,520)	(9,787)	(5,894)	(79,097)
Net cash provided by operating activities	24,589	129,098	87,326	184,879
<b>Investing activities:</b>				
Purchases of time deposits	(1,347)	(24,682)	(1,092)	(10,127)
Proceeds from maturity of time deposits	2,347	26,823	2,379	17,646
Purchases of short-term investment in securities	(654)	(2,821)	(14,494)	(4,917)
Proceeds from sales of short-term investments in securities	695	6,788	23,654	5,225
Purchases of ground property and equipment	(102,839)	(80,271)	(81,151)	(773,225)
Proceeds from sales of ground property and equipment	43,651	8,256	20,734	328,203
Purchases of investments in securities	(1,335)	(7,360)	(6,842)	(10,037)
Proceeds from sales and maturity of investments in securities	16,960	18,471	42,192	127,518
Proceeds from sales of consolidated subsidiaries	3,940	—	—	29,624
Proceeds from sale of a consolidated subsidiary resulting in change in scope of consolidation	1,511	8,393	—	11,360
Addition to long-term loans receivable	(42,276)	(18,819)	(11,883)	(317,864)
Reduction of long-term loans receivable	22,891	15,463	22,939	172,112
Other	4,672	30,348	10,578	35,127
Net cash (used in) provided by investing activities	(51,780)	(19,409)	7,012	(389,323)

Thousands of  
U.S. dollars  
(Note 2)

Years ended March 31,	Millions of yen			Thousands of U.S. dollars (Note 2)
	2002	2001	2000	2002
<b>Financing activities:</b>				
Increase (decrease) in short-term bank loans, net	¥ 33,473	¥ (23,466)	¥ (35,293)	\$ 251,676
Proceeds from long-term borrowings	192,750	60,916	91,684	1,449,248
Repayment of long-term borrowings	(87,216)	(143,083)	(127,093)	(655,759)
Proceeds from issuance of bonds	—	—	19,880	—
Redemption of bonds	(60,000)	(67,283)	(30,000)	(451,127)
Proceeds from sales of common stock in treasury	101	481	363	759
Purchases of common stock in treasury	(171)	(447)	(327)	(1,285)
Dividends paid to stockholders of the Company	(7,089)	(5,306)	(5,293)	(53,300)
Dividends paid to minority interests	(379)	(392)	(319)	(2,849)
Other	80	(431)	—	(601)
Net cash provided by (used in) financing activities	71,548	(179,012)	(86,397)	537,954
Effect of exchange rate changes on cash and cash equivalents	1,666	1,583	(568)	12,526
Net increase (decrease) in cash and cash equivalents	46,023	(67,740)	7,372	346,037
Cash and cash equivalents at beginning of year	121,972	189,715	182,938	917,082
Increase in cash and cash equivalents resulting from inclusion of subsidiaries in consolidation	1,030	81	462	7,744
Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation	—	(84)	(1,058)	—
Cash and cash equivalents at end of year	¥169,027	¥121,972	¥189,715	\$1,270,879

The accompanying notes are an integral part of these statements.

## 1. Summary of Significant Accounting Policies

### a. Basis of presentation

Japan Airlines Company, Ltd. (the "Company") and its consolidated domestic subsidiaries maintain their accounting records and prepare their financial statements in accordance with accounting principles and practices generally accepted and applied in Japan, and its consolidated foreign subsidiaries, in conformity with those of their countries of domicile. The accompanying consolidated financial statements have been compiled from the consolidated financial statements filed with the financial services agency as required by the Securities and Exchange Law of Japan and include certain additional financial information for the convenience of readers outside Japan. Accordingly, the accompanying consolidated financial statements are not intended to present the consolidated financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

As permitted by the Securities and Exchange Law of Japan, amounts of less than one million yen have been omitted. As a result, the totals shown in the accompanying consolidated financial statements (both in yen and U.S. dollars) do not necessarily agree with the sum of the individual amounts.

Certain amounts previously reported have been reclassified to conform to the current year's classification except for those effected by the adoption of new accounting standards.

### b. Principles of consolidation and accounting for investments in unconsolidated subsidiaries and affiliates

The consolidated financial statements include the accounts of the Company and all significant companies controlled directly or indirectly by the Company. Companies over which the Company exercises significant influence in terms of their operating and financial policies have been included in the consolidated financial statements on an equity basis.

The balance sheet date of 28 of the consolidated subsidiaries is December 31, and for 2 of the consolidated subsidiaries, it is January 31. Any significant differences in intercompany accounts and transactions arising from intervening intercompany transactions during the period from January 1 through March 31 and the period from February 1 through March 31 have been adjusted, if necessary.

The differences between the cost and the fair value of the net assets at the dates of acquisition of the consolidated subsidiaries and companies accounted for by the equity method are amortized by the straight-line method over a period of 5 years.

All significant intercompany accounts and transactions and unrealized gain or loss on intercompany accounts and transactions have been eliminated.

### c. Securities

Securities, except for investments in unconsolidated subsidiaries and affiliates, are classified as trading securities, held-to-maturity securities or other 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 any unrealized gain or loss reported as a separate component of stockholders' equity, net of taxes. Non-marketable securities classified as other securities are carried at cost. Cost of securities sold is principally determined by the moving average method.

### d. Derivatives

Derivative positions are stated at fair value.

Gain or loss on derivatives designated as hedging instruments is deferred until the loss or gain on the underlying hedged item is recognized. Foreign receivables and payables are translated at the applicable forward foreign exchange rates if certain conditions are met. In addition, the related interest differential paid or received under interest-rate swaps is recognized over the terms of the swap agreements as interest expense if certain conditions are met.

### e. Property and equipment

Property and equipment is stated at cost except as indicated in the following paragraph.

In Japan, companies are permitted under the current tax legislation to defer certain capital gains principally arising from insurance claims, by crediting them to the cost of certain properties. Deferred capital gains at March 31, 2002 and 2001 amounted to ¥10,409 million and ¥10,705 million, respectively.

Depreciation of property and equipment is computed as follows:

Flight equipment:

Aircraft and spare engines:

Boeing 747 (with the exception of Boeing 747-400)	—principally the declining-balance method based on their estimated useful lives
Boeing 747-400	—the straight-line method based on their estimated useful lives
Boeing 767	—principally the straight-line method based on their estimated useful lives
Boeing 777	—the straight-line method based on their estimated useful lives
Boeing 737	—the straight-line method based on their estimated useful lives
Douglas DC-10	—principally the declining-balance method based on their estimated useful lives
Douglas MD-11	—the straight-line method based on their estimated useful lives

Spare parts contained in flight equipment:

—principally the declining-balance method based on each aircraft's or engine's estimated useful life

Ground property and equipment:

—principally the straight-line method

The estimated useful lives are as follows:

Flight equipment over 10 to 22 years

Ground property and equipment over 2 to 65 years

#### **f. Bond issuance expenses**

Bond issuance expenses are principally capitalized and amortized over a period of 3 years.

#### **g. Accrued pension and severance costs**

To provide for employees' severance indemnities, net period pension cost, which represents the amount recognized as the cost of a pension plan for the year, is accounted for based on the projected benefit obligation and the plan assets. The unrecognized obligation at transition is being amortized by the straight-line method over a period of fifteen years.

The adjustment for actuarial assumptions is being amortized by the straight-line method over a period which is less than the average remaining years (principally fifteen years) of service of the active participants in the plans. Amortization is computed from the fiscal year subsequent to the year in which the adjustment was recorded.

Past service cost is principally charged to income as incurred.

#### **h. Foreign currency accounts**

Foreign currency receivables and payables are translated into yen at the applicable year-end exchange rates and translation adjustments are included in current earnings.

Translation adjustments arising from the translation of assets, liabilities, revenues and expenses of the consolidated subsidiaries and affiliates accounted for by the equity method into yen at the applicable year-end exchange rates are included in minority interests and stockholders' equity as a separate component.

#### **i. Passenger revenue**

Passenger revenue is principally recognized when the transportation services are rendered.

#### **j. Leases**

*As lessee*

The Company and its consolidated subsidiaries lease certain equipment under noncancelable lease agreements referred to as capital leases. At the Company and its domestic subsidiaries, capital

leases, defined as leases which do not transfer the ownership of the leased property to the lessee, are principally accounted for as operating leases.

*As lessor*

Certain consolidated subsidiaries lease certain equipment under noncancelable lease agreements referred to as direct financing leases. Direct financing leases, defined as leases which do not transfer the ownership of the leased property to the lessee, are principally accounted for as operating leases.

#### **k. Appropriation of retained earnings (deficit)**

Under the Commercial Code of Japan, the appropriation of retained earnings (deficit) with respect to a financial period is made by resolution of the stockholders at a general meeting held subsequent to the close of the financial period and the accounts for that period do not, therefore, reflect such appropriations.

#### **l. Cash equivalents**

The Company and its consolidated subsidiaries define cash equivalents as highly liquid, short-term investments with an original maturity of 3 months or less.

#### **m. New accounting standards**

*Accounting for financial instruments effective the year ended March 31, 2001*

Effective April 1, 2000, the Company and its consolidated subsidiaries adopted a new accounting standard for financial instruments. Under this standard, the financial-component approach has been applied to the transfer and servicing of financial assets and to the extinguishment of liabilities incurred as of or subsequent to April 1, 2000. In addition, securities, except for investments in unconsolidated subsidiaries and affiliates, are classified as trading securities, held-to-maturity securities or other securities and stated based on these three categories. Derivative positions are stated at fair value, and gain or loss on derivatives designated as hedging instruments is permitted to be deferred until the loss or gain on the underlying hedged item is recognized.

The effect of the adoption of this standard was to decrease income before income taxes and minority interests by ¥13,599 million for the year ended March 31, 2001.

*Accounting for pension and severance costs effective the year ended March 31, 2001*

Effective April 1, 2000, the Company and its consolidated subsidiaries adopted a new accounting standard for pension and severance costs, under which net periodic pension and severance costs are computed, in principle, based on the projected benefit obligation and the pension plan assets.

The effect of the adoption of this standard was to decrease operating income by ¥3,568 million and income before income taxes and minority interests by ¥3,792 million for the year ended March 31, 2001.

*Accounting for the translation of foreign currency accounts effective the year ended March 31, 2001*

Effective April 1, 2000, the Company and its consolidated subsidiaries adopted a new accounting standard for the translation of foreign currency accounts, under which all foreign currency receivables and payables are translated into yen at the applicable year-end exchange rate and translation adjustments are included in current earnings. The translation adjustments arising from the translation of the assets, liabilities, revenues and expenses of the consolidated subsidiaries and affiliates into yen at the applicable year-end exchange rates are included in minority interests and stockholders' equity as a separate component.

The effect of the adoption of this standard was to increase income before income taxes and minority interests by ¥151 million for the year ended March 31, 2001.

## 2. U.S. Dollar Amounts

Amounts in U.S. dollars are included solely for the convenience of the reader. The rate of ¥133 = U.S.\$1.00, the approximate exchange rate prevailing on March 31, 2002, has been used. The inclusion of such amounts is not intended to imply that yen have been or could be readily converted, realized or settled in U.S. dollars at that or any other rate.

## 3. Cash and Cash Equivalents

The components of cash and cash equivalents at March 31, 2002 and 2001 were as follows:

	Millions of yen		Thousands of
	2002	2001	U.S. dollars
March 31,	2002	2001	2002
Cash and time deposits	¥119,124	¥ 73,357	\$ 895,669
Time deposits with a maturity of more than three months	(2,197)	(2,877)	(16,518)
Short-term investments in securities with a maturity of three months or less	13,855	47,447	104,172
Short-term investments with a maturity of three months or less	40,393	13,996	303,706
Credit balances of current accounts included in short-term bank loans	(2,149)	(9,951)	(16,157)
	¥169,027	¥121,972	\$1,270,879

## 4. Fair Value of Securities

At March 31, 2002 and 2001, the Company and its consolidated subsidiaries did not possess any securities classified as trading securities or held-to-maturity securities. Securities classified as other securities are included in "short-term investments in securities" and "investments and advances — other" in the accompanying consolidated balance sheets.

The components of unrealized gain or loss on marketable securities classified as other securities at March 31, 2002 and 2001 are summarized as follows:

	Millions of yen		
March 31, 2002	Acquisition costs	Carrying value	Unrealized gain (loss)
Unrealized gain:			
Stocks	¥ 7,883	¥12,720	¥4,837
Bonds:			
Government bonds	17	20	2
Corporate bonds	69	71	1
Other	1,467	1,479	12
	9,438	14,292	4,853
Unrealized loss:			
Stocks	12,856	9,592	(3,263)
Bonds:			
Corporate bonds	7,099	6,952	(147)
Other	278	248	(29)
	20,234	16,794	(3,440)
Total	¥29,673	¥31,086	¥1,413

	Thousands of U.S. dollars		
March 31, 2002			
Unrealized gain:			
Stocks	\$ 59,270	\$ 95,639	\$36,368
Bonds:			
Government bonds	127	150	15
Corporate bonds	518	533	7
Other	11,030	11,120	90
	70,962	107,458	36,488
Unrealized loss:			
Stocks	96,661	72,120	(24,533)
Bonds:			
Corporate bonds	53,375	52,270	(1,105)
Other	2,090	1,864	(218)
	152,135	126,270	(25,864)
Total	\$223,105	\$233,729	\$10,624

Non-marketable securities classified as other securities at March 31, 2002 amounted to ¥32,666 million (\$245,609 thousand).

Proceeds from sales of securities classified as other securities amounted to ¥16,404 million (\$123,338 thousand), with an aggregate gain on sales of ¥11,428 million (\$85,924 thousand) and an aggregate loss on sales of ¥254 million (\$1,909 thousand) for the year ended March 31, 2002.

Millions of yen			
March 31, 2001	Acquisition costs	Carrying value	Unrealized gain (loss)
Unrealized gain:			
Stocks	¥14,767	¥22,316	¥7,548
Bonds:			
Government bonds	183	189	5
Corporate bonds	1,406	1,407	1
Other	874	894	20
	17,231	24,806	7,575
Unrealized loss:			
Stocks	8,074	5,708	(2,365)
Bonds:			
Corporate bonds	7,101	7,031	(69)
Other	1,316	1,271	(45)
	16,493	14,011	(2,481)
Total	¥33,724	¥38,818	¥5,094

Non-marketable securities classified as other securities at March 31, 2001 amounted to ¥68,777 million.

Proceeds from sales of securities classified as other securities amounted to ¥10,424 million, with an aggregate gain on sales of ¥428 million and an aggregate loss on sales of ¥817 million for the year ended March 31, 2001.

The redemption schedule at March 31, 2002 and 2001 for bonds with maturity dates is summarized as follows:

Millions of yen			
March 31, 2002	Due in one year or less	Due after one year through five years	Due after five years through ten years
Government bonds	¥ —	¥ 11	¥ 7
Corporate bonds	2,013	155	5,000
Other	250	—	—
Total	¥2,263	¥166	¥5,007

Thousands of U.S. dollars			
March 31, 2002	Due in one year or less	Due after one year through five years	Due after five years through ten years
Government bonds	\$ —	\$ 82	\$ 52
Corporate bonds	15,135	1,165	37,593
Other	1,879	—	—
Total	\$17,015	\$1,248	\$37,646

Millions of yen			
March 31, 2001	Due in one year or less	Due after one year through five years	Due after five years through ten years
Government bonds	¥ —	¥ 181	¥ 7
Corporate bonds	104	2,665	5,000
Other	372	—	—
Total	¥476	¥2,846	¥5,007

## 5. Short-Term Bank Loans and Long-Term Debt

The weighted average interest rates for short-term bank loans outstanding at March 31, 2002 and 2001 were 0.8% and 1.0%, respectively.

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

March 31,	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Bonds:			
Bonds in U.S. dollars, due 2003, at 6.625%	¥ 26,845	¥ 26,845	\$ 201,842
Euro-yen bonds, due 2001 to 2003, at rates ranging from at 5.6% to 6.9% and at rates varying according to LIBOR	60,000	80,000	451,127
Japanese yen bonds, due 2001 to 2018, at rates ranging from 1.7% to 3.4%	252,350	292,350	1,897,368
Convertible bonds in yen, due 2005, at 1.6%	18,664	18,664	140,330
Loans with collateral, due 2001 to 2020, at rates ranging from 0.95% to 7.91%	346,722	300,740	2,606,932
Loans without collateral	330,810	261,563	2,487,293
Other	1,582	1,950	11,894
	1,036,974	982,114	7,796,796
Less current portion of long-term debt	(150,796)	(142,293)	(1,133,804)
	¥ 886,178	¥839,821	\$6,662,992

Convertible bonds, unless previously redeemed, are convertible into shares of common stock of the Company at the following current conversion price:

	Conversion price per share	Conversion period
1.6% convertible bonds in yen due 2005	¥1,751.10	February 1, 1990 — March 30, 2005

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

Year ending March 31,	Thousands of	
	Millions of yen	U.S. dollars
2003	¥ 150,796	\$1,133,804
2004	143,124	1,076,120
2005	112,107	842,909
2006	71,331	536,323
2007 and thereafter	559,616	4,207,639
	¥1,036,974	\$7,796,796

A summary of assets pledged as collateral for long-term debt at March 31, 2002 and 2001 is as follows:

March 31,	Thousands of		
	Millions of yen	U.S. dollars	
	2002	2001	2002
Flight equipment, net of accumulated depreciation	¥369,141	¥385,041	\$2,775,496
Investments in unconsolidated subsidiaries and affiliates	20,355	—	153,045
Ground property and equipment, net of accumulated depreciation, and other	195,337	100,882	1,468,699
	¥584,835	¥485,924	\$4,397,255

The effective interest rate on bonds in U.S. dollars, due 2003, at 6.625%, which resulted from hedging the bonds with cross-currency interest-rate swaps, was lower than the long-term prime rate in Japan at the issuance date.

## 6. Accrued Pension and Severance Costs

An employee whose employment is terminated is entitled, in most cases, to pension payments or lump-sum severance indemnities, the amounts of which are determined by reference to the basic rate of pay, length of service and the conditions under which the termination occurs.

The Company and certain significant domestic subsidiaries have established contributory defined benefit pension plans pursuant to the Welfare Pension Insurance Law of Japan, which cover a portion of the governmental welfare pension program, under which the contributions are made jointly by the companies and their employees, and which include an additional portion representing the substituted non-contributory pension plans. In addition, the Company and certain subsidiaries have maintained non-contributory defined pension plans, defined contribution pension plans and lump-sum severance indemnity plans.

As described in Note 1(m), effective April 1, 2000, the Company and its consolidated subsidiaries adopted a new accounting standard for pensions. Under this standard, in order to provide for employees' severance indemnities and pension payments, net periodic pension and severance costs are computed based on the projected benefit obligation and the pension plan assets.

The projected benefit obligation and the funded status including a portion of the governmental welfare pension program are summarized as follows:

March 31,	Thousands of		
	Millions of yen	U.S. dollars	
	2002	2001	2002
Projected benefit obligation	¥(755,037)	¥(708,586)	\$(5,676,969)
Plan assets	358,782	350,922	2,697,609
Accrued pension and severance costs	102,405	102,677	769,962
Prepaid pension and severance costs	(224)	(110)	(1,684)
Net unrecognized amount	¥(294,074)	¥(255,096)	\$(2,211,082)

In computing the projected benefit obligation, small companies are permitted to adopt several simplified methods and certain subsidiaries have adopted such methods.

The net unrecognized amounts were as follows:

March 31,	Millions of yen		Thousands of
	2002	2001	U.S. dollars
Unrecognized benefit obligation at transition	¥(172,462)	¥(185,800)	\$(1,296,706)
Adjustment for actuarial assumptions	(123,585)	(69,295)	(929,210)
Past service cost	1,973	—	14,834
Net unrecognized amount	¥(294,074)	¥(255,096)	\$(2,211,082)

The components of net periodic pension and severance costs excluding the employees' contributory portion were as follows:

March 31,	Millions of yen		Thousands of
	2002	2001	U.S. dollars
Service cost	¥26,668	¥27,096	\$200,511
Interest cost on projected benefit obligation	23,901	22,526	179,706
Expected return on plan assets	(18,186)	(23,176)	(136,736)
Amortization of unrecognized severance benefit obligation at transition	13,425	14,367	100,939
Amortization of adjustment for actuarial assumptions	4,662	—	35,052
Amortization of past service cost	(5,185)	—	(38,984)
Net periodic pension and severance costs	¥45,286	¥40,814	\$340,496

Special additional termination benefits, payments for meritorious service and contributions based on the defined contribution pension plans are charged to income as paid.

The assumptions used were as follows:

	2002	2001
Discount rate for obligation at end of each year:	2.5% – 3.5%	3.0% – 3.5%
Expected rate of return on plan assets for each year ended March 31:	1.2% – 6.3%	1.2% – 6.9%

## 7. Income Taxes

The significant components of deferred tax assets and liabilities and the related valuation allowance at March 31, 2002 and 2001 were as follows:

March 31,	Millions of yen		Thousands of
	2002	2001	U.S. dollars
Deferred tax assets:			
Revaluation loss on investments in unconsolidated subsidiaries and affiliates	¥ 15,868	¥ 21,085	\$ 119,308
Accrued pension and severance costs	21,446	17,124	161,248
Allowance for bad debts	2,771	5,795	20,834
Accounts payable — trade	2,628	3,740	19,759
Revaluation loss on flight equipment spare parts	2,040	1,941	15,338
Accrued bonuses	3,103	2,383	23,330
Tax loss carryforwards	51,124	37,019	384,390
Other	16,636	15,263	125,082
	115,619	104,350	869,315
Deferred tax liabilities:			
Reserve for special depreciation	(3,650)	(4,486)	(27,443)
Accumulated earnings of consolidated subsidiaries	(2,522)	(2,534)	(18,962)
Net unrealized gain on investments in securities	(622)	(2,124)	(4,676)
Other	(2,928)	(2,218)	(22,015)
	(9,723)	(11,362)	(73,105)
Valuation allowance	(66,734)	(58,378)	(501,759)
Net deferred tax assets	¥ 39,161	¥ 34,610	\$ 294,443

A reconciliation between the Japanese statutory tax rate and the Company's effective tax rate for the year ended March 31, 2001 is summarized as follows:

Year ended March 31, 2001	
Japanese statutory tax rate	40.2%
Disallowed expenses, including entertainment expenses	8.1
Non-taxable income, including dividends received	(2.6)
Equity in earnings of unconsolidated subsidiaries and affiliates	(0.3)
Inhabitants' per capita taxes	0.6
Changes in valuation allowance	(80.5)
Other	0.9
The Company's effective tax rate	(33.6)%

The Company is not required to present a reconciliation between the Japanese statutory tax rate and the Company's effective tax rate since the Company posted a loss before income taxes for the year ended March 31, 2002.

## 8. Leases

### As lessee

The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of the leased property at March 31, 2002 and 2001, and the related depreciation and interest expense for the years ended March 31, 2002 and 2001, which would have been reflected in the consolidated balance sheets and the related consolidated statements of operations if capital lease accounting had been applied to the capital leases currently accounted for as operating leases:

March 31, 2002	Millions of yen		
	Flight equipment	Ground property and equipment	Total
Acquisition costs	¥ 390,140	¥ 15,086	¥ 405,226
Less accumulated depreciation	(219,564)	(11,649)	(231,214)
Net book value	¥ 170,575	¥ 3,436	¥ 174,012

March 31, 2002	Thousands of U.S. dollars		
Acquisition costs	\$2,933,383	\$113,428	\$3,046,812
Less accumulated depreciation	(1,650,857)	(87,586)	(1,738,451)
Net book value	\$1,282,518	\$ 25,834	\$1,308,360

March 31, 2001	Millions of yen		
Acquisition costs	¥444,142	¥17,255	¥461,398
Less accumulated depreciation	(232,116)	(12,262)	(244,379)
Net book value	¥212,025	¥ 4,992	¥217,018

March 31,	Millions of yen			Thousands of U.S. dollars
	2002	2001	2000	2002
Depreciation expense	¥39,607	¥42,152	¥40,245	\$297,796
Interest expense	¥ 5,995	¥ 9,023	¥10,203	\$ 45,075

Lease expenses relating to capital leases accounted for as operating leases amounted to ¥48,816 million (\$367,037 thousand), ¥49,772 million and ¥46,620 million for the years ended March 31, 2002, 2001 and 2000, respectively.

The present value of future rental expenses under capital leases accounted for as operating leases outstanding at March 31, 2002 and 2001 was as follows:

March 31,	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Within 1 year	¥ 38,417	¥ 43,077	\$ 288,849
Over 1 year	148,777	212,871	1,118,624
	¥187,194	¥255,949	\$1,407,473

Future rental expenses under operating leases outstanding at March 31, 2002 and 2001 were as follows:

March 31,	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Within 1 year	¥ 13,899	¥ 16,820	\$104,503
Over 1 year	86,653	91,512	651,526
	¥100,552	¥108,332	\$756,030

### As lessor

The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of the leased property as of March 31, 2002 and 2001, and the related depreciation and interest revenue for the years ended March 31, 2002 and 2001, which would have been reflected in the consolidated balance sheets and the related consolidated statements of operations if direct financing lease accounting had been applied to the capital leases currently accounted for as operating leases:

March 31, 2002	Millions of yen		
	Flight equipment	Ground property and equipment	Total
Acquisition costs	¥ 348	¥ 3,925	¥4,273
Less accumulated depreciation	(255)	(2,999)	(3,254)
Net book value	¥ 92	¥ 926	¥1,018

March 31, 2002	Thousands of U.S. dollars		
Acquisition costs	\$ 2,616	\$ 29,511	\$ 32,127
Less accumulated depreciation	(1,917)	(22,548)	(24,466)
Net book value	\$ 691	\$ 6,962	\$ 7,654

March 31, 2001	Millions of yen		
Acquisition costs	¥ 348	¥ 4,827	¥ 5,175
Less accumulated depreciation	(220)	(3,308)	(3,528)
Net book value	¥ 127	¥ 1,519	¥ 1,647

March 31,	Millions of yen			Thousands of U.S. dollars
	2002	2001	2000	2002
Depreciation expense	¥711	¥880	¥1,118	\$5,345
Interest revenue	¥ 80	¥121	¥ 117	\$ 601

Lease revenues relating to direct financing leases accounted for as operating leases amounted to ¥852 million (\$6,406 thousand), ¥1,046 million and ¥1,321 million for the years ended March 31, 2002, 2001 and 2000, respectively.

The present value of future rental revenues under direct financing leases accounted for as operating leases outstanding at March 31, 2002 and 2001 were as follows:

March 31,	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Within 1 year	¥ 492	¥ 766	\$3,699
Over 1 year	610	1,027	4,586
	¥1,103	¥1,794	\$8,293

Future rental revenues under operating leases outstanding at March 31, 2002 and 2001 were as follows:

March 31,	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Within 1 year	¥96	¥ 376	\$721
Over 1 year	—	1,624	—
	¥96	¥2,001	\$721

## 9. Commitments and Contingent Liabilities

Commitments outstanding at March 31, 2002 for the purchases of significant property and equipment amounted to ¥722,743 million (\$5,434,157 thousand).

The Company leases aircraft, office space, hotel facilities, warehouses and office equipment. These leases are customarily renewed upon expiration.

At March 31, 2002, contingent liabilities for guarantees, principally for unconsolidated subsidiaries, affiliates and employees, amounted to ¥13,647 million (\$102,609 thousand). At March 31, 2002, contingent liabilities for commitments such as guarantees, keep-well agreements and others, principally for unconsolidated subsidiaries, affiliates and employees, amounted to ¥2,835 million (\$21,315 thousand).

In addition, at March 31, 2002, the Company was liable under debt assumption agreements for the in-substance defeasance of certain bonds in the aggregate amount of ¥50,000 million (\$375,939 thousand).

A consolidated subsidiary provides commitment line facility as a part of its financing activity. The amount of the facility provided, used and unused at March 31, 2002 are ¥640 million, nil and ¥640 million, respectively.

## 10. Amounts Per Share

Net (loss) income per share and diluted net income per share have been computed based on the weighted average number of shares of common stock outstanding during each year.

Year ended March 31,	Yen			U.S. dollars
	2002	2001	2000	2002
Net (loss) income	¥(20.60)	¥23.06	¥11.10	\$(0.154)
Diluted net income	¥ —	¥23.02	¥11.10	\$ —

Diluted net income has not been presented for the year ended March 31, 2002 since the Company posted a net loss.

Net assets per share have been computed based on the number of shares of common stock outstanding at each balance sheet date.

March 31,	Yen		U.S. dollars
	2002	2001	2002
Net assets	¥128.27	¥150.12	\$0.964

## 11. Segment Information

The Company and its consolidated subsidiaries conduct worldwide operations in air transportation, travel services, hotel and resort operations, card and lease operations, trading and other airline-related business. This segmentation has been made for internal management purposes. Businesses other than the air transportation business, travel services, and hotel and resort operations are insignificant to the consolidated results of operations of the Company and its consolidated subsidiaries and, accordingly, have been included in "Other."

## a. Business segment information

Business segment information of the Company and its consolidated subsidiaries for the years ended March 31, 2002, 2001 and 2000 is summarized as follows:

							Millions of yen
Year ended March 31, 2002	Air transportation	Travel services	Hotel and resort operations	Other	Total	General corporate assets and intercompany eliminations	Consolidated
Sales to outside parties	¥1,061,954	¥326,991	¥33,355	¥186,387	¥1,608,689	¥ —	¥1,608,689
Intra-group sales and transfers	174,054	33,004	4,975	239,550	451,585	(451,585)	—
Total	1,236,009	359,996	38,331	425,937	2,060,275	(451,585)	1,608,689
Operating expenses	1,249,682	365,065	38,147	418,818	2,071,714	(451,100)	1,620,614
Operating (loss) income	¥ (13,673)	¥ (5,068)	¥ 183	¥ 7,118	¥ (11,439)	¥ (485)	¥ (11,925)
Depreciation and amortization	¥ 72,254	¥ 1,219	¥ 2,707	¥ 14,758	¥ 90,939	¥ (1,190)	¥ 89,748
Capital expenditures	¥ 89,983	¥ 1,883	¥ 1,858	¥ 12,331	¥ 106,056	¥ (1,972)	¥ 104,084
Identifiable assets	¥1,418,869	¥ 72,106	¥81,847	¥442,450	¥2,015,274	¥(178,902)	¥1,836,371

							Thousands of U.S. dollars
Year ended March 31, 2002							
Sales to outside parties	\$ 7,984,616	\$2,458,578	\$250,789	\$1,401,406	\$12,095,406	\$ —	\$12,095,406
Intra-group sales and transfers	1,308,676	248,150	37,406	1,801,127	3,395,375	(3,395,375)	—
Total	9,293,300	2,706,736	288,203	3,202,533	15,490,789	(3,395,375)	12,095,406
Operating expenses	9,396,105	2,744,849	286,819	3,149,007	15,576,796	(3,391,729)	12,185,067
Operating (loss) income	\$ (102,804)	\$ (38,105)	\$ 1,375	\$ 53,518	\$ (86,007)	\$ (3,646)	\$ (89,661)
Depreciation and amortization	\$ 543,263	\$ 9,165	\$ 20,353	\$ 110,962	\$ 683,751	\$ (8,947)	\$ 674,796
Capital expenditures	\$ 676,563	\$ 14,157	\$ 13,969	\$ 92,714	\$ 797,413	\$ (14,827)	\$ 782,586
Identifiable assets	\$10,668,187	\$ 542,150	\$615,390	\$3,326,691	\$15,152,436	\$(1,345,127)	\$13,807,300

							Millions of yen
Year ended March 31, 2001							
Sales to outside parties	¥1,130,213	¥360,042	¥37,497	¥176,019	¥1,703,773	¥ —	¥1,703,773
Intra-group sales and transfers	191,683	7,116	5,350	245,316	449,466	(449,466)	—
Total	1,321,896	367,158	42,847	421,336	2,153,239	(449,466)	1,703,773
Operating expenses	1,257,873	365,641	40,433	407,270	2,071,219	(446,085)	1,625,133
Operating income	¥ 64,023	¥ 1,517	¥ 2,413	¥ 14,065	¥ 82,020	¥ (3,380)	¥ 78,639
Depreciation and amortization	¥ 72,902	¥ 924	¥ 3,046	¥ 16,562	¥ 93,436	¥ (1,601)	¥ 91,834
Capital expenditures	¥ 69,803	¥ 2,380	¥ 1,726	¥ 6,261	¥ 80,171	¥ (1,502)	¥ 78,669
Identifiable assets	¥1,396,110	¥ 76,287	¥91,409	¥423,037	¥1,986,844	¥(184,988)	¥1,801,855

							Millions of yen
Year ended March 31, 2000							
Sales to outside parties	¥1,058,191	¥345,330	¥35,578	¥159,415	¥1,598,516	¥ —	¥1,598,516
Intra-group sales and transfers	165,290	4,830	5,382	228,624	404,127	(404,127)	—
Total	1,223,481	350,160	40,961	388,040	2,002,644	(404,127)	1,598,516
Operating expenses	1,190,686	347,699	39,227	377,618	1,955,232	(401,603)	1,553,628
Operating income	¥ 32,795	¥ 2,460	¥ 1,733	¥ 10,422	¥ 47,411	¥ (2,524)	¥ 44,887
Depreciation and amortization	¥ 69,427	¥ 1,059	¥ 3,514	¥ 17,933	¥ 91,935	¥ (1,525)	¥ 90,410
Capital expenditures	¥ 72,661	¥ 2,020	¥ 2,006	¥ 5,396	¥ 82,085	¥ (933)	¥ 81,151
Identifiable assets	¥1,396,578	¥ 71,308	¥91,703	¥493,543	¥2,053,134	¥(141,956)	¥1,911,177

## b. Operating revenues from foreign operations

Operating revenues from foreign operations, which include international passenger and cargo services of the Company and two domestic subsidiaries, export sales of domestic subsidiaries, and sales of subsidiaries outside Japan, for the years ended March 31, 2002, 2001 and 2000 were as follows:

Millions of yen				
Year ended March 31, 2002	Asia and Oceania	North and South America	Europe	Total
Operating revenues from foreign operations	¥385,755	¥302,981	¥188,233	¥ 876,970
Consolidated operating revenues				¥1,608,689
Operating revenues from foreign operations as a percentage of consolidated operating revenues	24.0%	18.8%	11.7%	54.5%

Thousands of U.S. dollars				
Year ended March 31, 2002				
Operating revenues from foreign operations	\$2,900,413	\$2,278,052	\$1,415,285	\$ 6,593,759
Consolidated operating revenues				\$12,095,406
Operating revenues from foreign operations as a percentage of consolidated operating revenues	24.0%	18.8%	11.7%	54.5%

Millions of yen				
Year ended March 31, 2001				
Operating revenues from foreign operations	¥405,303	¥364,994	¥211,779	¥ 982,076
Consolidated operating revenues				¥1,703,773
Operating revenues from foreign operations as a percentage of consolidated operating revenues	23.8%	21.4%	12.4%	57.6%

Millions of yen				
Year ended March 31, 2000				
Operating revenues from foreign operations	¥366,822	¥310,186	¥190,915	¥ 867,925
Consolidated operating revenues				¥1,598,516
Operating revenues from foreign operations as a percentage of consolidated operating revenues	22.9%	19.4%	11.9%	54.3%

## c. Geographic information

For the years ended March 31, 2002, 2001 and 2000, operating revenues from operations in Japan represented more than 90% of consolidated operating revenues. As a result, geographic information is not required to be disclosed in accordance with accounting principles generally accepted in Japan.

## 12. Derivatives and Hedging Activities

The Company and its consolidated subsidiaries have utilized forward foreign exchange, currency options, currency swap, interest rate swap and interest rate option contracts to hedge certain foreign currency transactions related to foreign purchase commitments, principally of flight equipment and foreign accounts receivable and payable, on a consistent basis. The Company and its consolidated subsidiaries have also utilized interest-rate and currency swaps and forward foreign exchange contracts to minimize the impact of foreign exchange and interest-rate movements related to their outstanding debt on their operating results. The Company has also entered into a variety of swaps and options in its management of risk exposure related to the commodity prices of fuel.

The Company enters into hedging transactions in accordance with the internal guidelines and strategies established by the Company's management. The routine operations of the department which is responsible for hedging transactions have been examined by other departments. Gain and loss on hedging instruments and the assessment of hedge effectiveness, which is performed both at the inception and on an ongoing basis, are reported at meetings of the related department managers on a timely basis. The consolidated subsidiaries have adopted the same procedures for hedging transactions as the Company has.

As described in Note 1(m), effective April 1, 2000, the Company and its consolidated subsidiaries adopted a new accounting standard for financial instruments. Under this standard, derivatives positions are stated at fair value except that gain or loss on derivatives designated as hedging instruments is deferred until the loss or gain on the underlying hedged item is recognized.

## 13. Subsequent Event

On April 26, 2002, a resolution was approved at a meeting of the Company's Board of Directors to establish a holding company (hereinafter, the "New Corporation") with Japan Air System Co., Ltd. (JAS) by means of the share transfer facility provided in the Commercial Code of Japan and for the Company and JAS to be 100%-owned subsidiaries of the New Corporation. On the same date, the Company and JAS signed a business combination agreement. Further, at the 52nd annual stockholders' meeting held on June 27, 2002, the stockholders approved a resolution to enter into this agreement.

#### a. Purpose of the share transfer

The Company and JAS need to secure a stable business base in order to play an important role in the Japanese air transportation industry as one of the largest air transportation companies in the world. The business combination between the Company whose core business is international flight, and JAS whose core business is domestic flight, will achieve a good balance between the international flight business and the domestic flight business, which will result in stable business operations for both.

Further, through this business combination, the Company and JAS aim to render better services to the customers than ever before and to improve both the corporate value and the stockholders' value.

#### b. Outline of the share transfer

(1) The scheduled date for the shares to be transferred is October 1, 2002.

(2) The number and type of shares to be issued in the share transfer.

1,980,465,250 shares of common stock plus shares of common stock which are to be issued from conversion of the Company's convertible bonds during the period from April 1, 2002 to the day before the scheduled date of the share transfer.

(3) The number of the New Company's shares of common stock to be issued for the Company's and JAS's stockholders':

The Company's stockholders:

1 share of the Company is to be exchanged for 1 share of the New Company.

JAS's stockholders:

1 share of JAS is to be exchanged for 9 shares of the New Company.

(4) No cash will be distributed as part of the share transfer.

#### c. Outline of New Company

(1) Corporate name: Japan Airlines System Corporation

(2) Business description:

The New Company acts as a holding company for the companies involved in the air transport business and the air transport-related business and also controls and manages the operations of the companies which it owns.

(3) Head office

15-1, Kohnan 2-chome, Minato-ku, Tokyo

(4) Capital and additional paid-in capital

Capital: ¥100 billion

Additional paid-in capital: The sum of stockholders' equity of the Company and JAS, net of the capital above.

#### d. Outline of JAS

(1) Description of core business: Air transportation business

(2) Head office: 5-1, Hanedakou 3-chome, Ohta-ku, Tokyo

(3) President: Hiromi Funabiki

(4) Capital: ¥23,486 million

(5) Assets, liability, stockholders' equity and minority interests on a non-consolidated basis at March 31, 2002:

Assets ¥443,017 million

Liabilities ¥416,404 million

Stockholders' equity ¥ 26,612 million

(6) Revenue and net income on a non-consolidated basis for the year ended March 31, 2002:

Revenue ¥360,635 million

Net income ¥ 525 million

# Report of Certified Public Accountants

Japan Airlines Company, Ltd. and Consolidated Subsidiaries

The Board of Directors  
Japan Airlines Company, Ltd.

We have examined the consolidated balance sheets of Japan Airlines Company, Ltd. and its consolidated subsidiaries as of March 31, 2002 and 2001, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended March 31, 2002, all expressed in yen. Our examinations were made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated financial statements, expressed in yen, present fairly the consolidated financial position of Japan Airlines Company, Ltd. and its consolidated subsidiaries at March 31, 2002 and 2001, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2002 in conformity with accounting principles and practices generally accepted in Japan applied on a consistent basis.

As described in Note 1 to the consolidated financial statements, Japan Airlines Company, Ltd. and its consolidated subsidiaries have adopted new accounting standards for financial instruments, pension and severance costs and the translation of foreign currency accounts effective the year ended March 31, 2001 in the preparation of their consolidated financial statements.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2002 are presented solely for convenience. Our examination also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 2 to the consolidated financial statements.



June 27, 2002

*See Note 1 to the consolidated financial statements which explains the basis of preparation of the consolidated financial statements of Japan Airlines Company, Ltd. and its consolidated subsidiaries under Japanese accounting principles and practices.*