Japan Airlines Company, Ltd. and Consolidated Subsidiaries

Consolidated Financial Information

For the years ended March 31, 2002 and 2001

1. Consolidated Financial Highlights

(As permitted under the Securities and Exchange Law of Japan, amounts of less than one million yen have been omitted.)

a. Consolidated operating results

(1)	Total operating revenues	FY01	¥1,608,689	million	(–5.6%)
		FY00	¥1,703,773	million	(+6.6%)
(2)	Operating (loss) income	FY01	¥ (11,925)	million	(–)
		FY00	¥ 78,639	million	(+75.2%)
(3)	Ordinary (loss) income	FY01	¥ (37,115)	million	(–)
		FY00	¥ 53,311	million	(+137.6%)
(4)	Net (loss) income	FY01	¥ (36,725)	million	(–)
		FY00	¥ 41,021	million	(+107.8%)
(5)	Net (loss) income per share	FY01	¥ (20.60)		
		FY00	¥ 23.06		
(6)	Diluted net income per share	FY01	¥ –		
		FY00	¥ 23.02		
(7)	Return on equity	FY01	(14.8%)		
		FY00	16.2%		
(8)	Ratio of ordinary (loss) income to total assets	FY01	(2.0%)		
		FY00	2.9%		
(9)	Ratio of ordinary (loss) income to total operating revenues	FY01	(2.3%)		
		FY00	3.1%		
(10)	Equity in (losses) earnings of affiliates	FY01	¥ (258)	million	
		FY00	¥ 258	million	

Note 1. Number of shares outstanding during the year:

FY01	1,782,868,530
FY00	1,779,192,855

1. Consolidated Financial Highlights (continued)

b. Consolidated financial position

(1)	Total assets	FY01	¥1,836,371 million
		FY00	¥1,801,855 million
(2)	Total stockholders' equity	FY01	¥ 228,657 million
		FY00	¥ 267,654 million
(3)	Stockholders' equity ratio	FY01	12.5%
		FY00	14.9%
(4)	Equity per share	FY01	¥ 128.27
		FY00	¥ 150.12

Note 1. Number of shares outstanding at end of the year:

March 31, 2002	1,782,696,956
March 31, 2001	1,782,915,444

c. Consolidated cash flows

(1)	Net cash provided by operating activities	FY01	¥ 24,589 million
		FY00	¥ 129,098 million
(2)	Net cash used in investing activities	FY01	¥ (51,780) million
		FY00	¥ (19,409) million
(3)	Net cash provided by (used in) financing activities	FY01	¥ 71,548 million
		FY00	¥ (179,012) million
(4)	Cash and cash equivalents held at end of year	FY01	¥ 169,027 million
		FY00	¥ 121,972 million

d. Consolidation policy

See accompanying notes to consolidated financial statements.

e. Changes in accounting policy

Not applicable

2. Consolidated Financial Forecast for the Year Ending March 31, 2003

(1)	Total operating revenues	¥1,706,000 million
(2)	Ordinary income	¥ 30,000 million
(3)	Net income	¥ 23,000 million
(4)	Net income per share	¥ 12.90

3. Consolidated Subsidiaries and Affiliates Accounted for by the Equity Method

Japan Airlines Company, Ltd. owns 284 subsidiaries and currently consolidates 148 subsidiaries, including the following principal subsidiaries:

JAPAN ASIA AIRWAYS CO., LTD.
JAPAN TRANS OCEAN AIR CO., LTD.
JALWAYS CO., LTD.
JAL EXPRESS CO., LTD.
AIRPORT GROUND SERVICE CO., LTD.
TFK CORPORATION
AIRPORT ENGINEERING & SERVICE CO., LTD.
JAL SALES NETWORK CO., LTD.
JALPAK CO., LTD.
JAL HOTELS COMPANY LTD.
JAL LEASING COMPANY, LIMITED
JAL FINANCE CORPORATION
JALUX, INC.
JAL INFORMATION TECHNOLOGY CO., LTD.
AXESS INTERNATIONAL NETWORK, INC.
GLOBAL BUILDING CO., LTD.

The number of unconsolidated subsidiaries which are not accounted for by the equity method is currently 136.

The number of affiliates is currently 78, including 23 companies which are accounted for by the equity method.

Changes in the scope of consolidation and adoption of the equity method are summarized as follows:

Consolidation:

(Increase)	10	AGS Air Cargo Service Company, Limited
		Narita Dry Ice Co., Ltd.
		Nihon Food Service Co., Ltd.
		New Tokyo Service Co., Ltd.
		Yamato Shokuzai Co., Ltd.
		Nishinihon Air Cargo Service Co., Ltd.
		JALPAK de Mexico S.A. de C.V.
		P.T. Jalpak International Bali
		Orient Network Thailand Co., Ltd.
		AGS Skysupport Company, Ltd.
(Decrease)	5	Creative Tours (Holland) B.V.
		Hotel Nikko Shanghai Investment Corporation
		Hotel Nikko of Beverly Park, Inc.
		Hotel Nikko Longbai Shanghai
		Orient Network (Hong Kong) Ltd.

Equity method:

(Increase)	1	TFK Development Co., Ltd.
(Decrease)	1	Japan Submarine Tourism Co., Ltd.

Management Policies

Management Policy

Our basic policy is to establish a system for generating stable profits, based on safety in operations and high service standards, and a structure for providing returns to our stakeholders – shareholders, customers and society, employees, and our corporate base.

In line with this policy, under our medium-term plan for FY2001-2003 for consolidated management of a strong and healthy JAL Group, we have carried out various changes aimed at furthering management on a group basis in order to maximize corporate value. However, the terrorist attacks in the United States and the instability resulting from these incidents led to a drastic decline in demand on international routes, mainly between Japan and the United States, and had a major impact on business results. Immediately after the attacks we established an emergency counter measures team headed by the president which implemented measures in the areas of security, capacity, sales, business results, personnel and government relations. The measures we implemented were effective and demand is reviving at a healthy pace.

Last November, we reached agreement with Japan Air Systems to establish a joint holding company, to be called Japan Airlines Systems. In February 2002, JAL was chosen as Airline of the Year for 2002 by the leading industry publication Air Transport World, who judged us worthy of the award "for having, since 1992, made a company-wide reengineering effort to improve competitiveness and strengthen the management base," and for our "vision for the future of establishing a globally competitive airline by pursuing integration with Japan Air Systems." We are proud of this honor, which will spur us to make deeper changes in the corporate structure, boost competitiveness, and strive to be the airline of choice, based on an unwavering commitment to safety in operations.

Where route operations are concerned, on international routes we have added more flights and inaugurated new routes on high-yield routes, mainly to China and Southeast Asia, in conjunction with the opening of a second runway at Narita. On domestic routes, seven additional slots at Haneda will allow us to begin operating on routes currently served by only one airline, and we will use this and other opportunities to improve the efficiency of JAL Group network operations.

In company operations, through the adoption of enterprise resource planning (ERP) at headquarters in April, we will strengthen management systems and organization, including functions for managing the Group as a whole. JAL Group functions will be divided into those for managing the Group overall; operational segments for passenger and cargo operations; functional segments for sales, maintenance, airport services, etc.; and shared processing functions. As of March 2002, the Shared Service Center, which handles shared operational functions, had 85 companies participating in the Finance Center and 76 in the Accounting Center. This has helped improve Group finance and operational efficiency, but we want to make further progress in this direction.

As for IT and sales strategies, we plan to boost Internet usage and attract more JAL Mileage Bank members through the “JAL e-Style Campaign” and other promotional measures. We will expand our range of official discounted fares and promote market penetration to further boost demand. We will take further measures to establish “e-JAL,” not just to provide convenient and value-rich services to passengers to boost revenue but also to strengthen the links among Group companies.

For better corporate governance, we have introduced a performance evaluation system for Group companies, in order to ensure that the goals of Group companies contribute to the achievement of the JAL Group’s overall goals. We will also use the just-adopted ERP to clarify individual companies’ responsibility and improve monitoring. At the same time, we are pursuing equity policies, for example, the listing of associated businesses AGP and JALUX on the stock exchange in FY2001, so that independent associated businesses will contribute to the bottom line, and where aviation business-related businesses are concerned we will adopt asset policies consistent with each company’s mission, to unify Group strategy.

In terms of management indicators, our medium-term targets have been a return on equity (ROE) of over 10% on a consolidated basis and using cash flow to pay down interest-bearing debt within the next 10 years. This has been made more difficult by the slowdown in the airline business after September 11, but we will work toward reaching these targets at an early date.

Plans for integration with JAS, with the establishment of a joint holding company in October 2002 as the first step, are moving on schedule. We aim to reorganize the merged airlines’ operations by April 2004 at the latest, setting up separate companies Japan Airlines International, Japan Airlines Domestic and Japan Airlines Cargo companies, for international passenger, domestic passenger, and cargo operations respectively. These companies will be managed efficiently in accordance with the characteristics of each business. Each operating company will concentrate on its area of business, maintain safety, adopt and execute its operations plan, and propose and carry out marketing strategies, in order to maximize operations revenue. The holding company will manage the Group as a whole and handle Group strategy, apportioning of financial resources, and government relations, to boost the overall value of the Japan Airlines Group.

Business Performance and Financial Results

1. FY2001

(1) Consolidated results
In FY2001, international cargo demand was weak due to the technology slump, and international passenger demand also suffered a major downturn in the wake of the September 11 terrorist attacks. Domestic passenger volume increased somewhat, as travelers availed themselves of a wide range of discount fares, but earnings were slightly below last year.
Associated businesses revenue dropped substantially due to the terrorist attacks, but measures to streamline and reorganize this sector of the JAL Group are continuing. We have been working to strengthen Group management by making more extensive use of systems such as consolidated supervised accounting and performance evaluation of Group companies.
As a result, revenue was down to ¥1,608,689 million, 5.6% lower than last year. However, we have continued to cut operating expenses, mainly by reducing flights on international routes because of lower demand, and also through thorough cost-cutting by all Group companies, so expenses totaled ¥1,620,614 million, a decrease of 0.3% year on year. Operating loss was ¥11,925 million, current loss was ¥37,115 million and net loss for the year was ¥36,725 million.

(2) Results by business segment

Air transport

Revenue totaled ¥1,236,009 million and operating loss was ¥13,673 million.
International passenger traffic demand held steady on the Europe, Korea and China routes, but plunged on the U.S. and Honolulu routes after September 11. We took measures to improve efficiency and maximize revenue by adding or reducing flights in accordance with passenger demand, and by offering additional discounted fares. Nevertheless, the number of passengers dropped by11.7% compared to last year, and earnings stood at ¥ 612,727 million.
International cargo volume fell by 11.2% year on year, due to slack demand caused by the IT slump and the terrorist attacks, and revenues were ¥133,725 million.
Although affected by the terrorist attacks and despite the ongoing recession, domestic passenger traffic increased1.5% over last year, thanks to improved efficiency in route operations, a variety of special fares including discounts for flights booked via Internet and 'sale' fares, and sales measures which were introduced, and revenue was ¥ 324,950 million.
Aviation-related business

Inflight catering sales by catering subsidiary TFK were badly hit following the decline in international passengers after the September terror attacks. In the trading and distribution segment, subsidiary JALUX sales related to handling of aircraft parts grew compared to last year, but total sales grew only 2% year on year, held back by a downturn in inflight sales and sales at airport shops after the terrorist attacks. JALCard business was steady, and the number of JALCard members grew by 12% compared to March 2001. Aviation-related business earnings were ¥425,937 million, and operating profit was ¥ 7,118 million.

Travel planning and sales

Following initiation of operations in Hokkaido and Chubu last year, JAL Sales Network established a nationwide framework by taking over operations of the Tokyo, Osaka and Fukuoka sales offices and headquarters' sales planning department. JALPAK sales of travel and tour products were hit badly by the terrorist attacks particularly to the USA and Europe and as a result the total number of customers handled fell by 28% compared to last year. Travel planning and sales segment revenue was ¥359,996 million while operating loss was ¥ 5,068 million.

Hotels and resorts

JAL Hotels business performance overseas, and notably properties in Europe and the United States, fared poorly in the aftermath of the terrorist attacks, although business was steady within Japan. Revenue in the hotels and resorts segment was ¥38,331 million and operating profit was ¥183 million.

(3) Cash flow (please check this – MEANING NOT AT ALL CLEAR)

Cash flow generated by business activities was ¥ 24,589 million, ¥ 104,509 million lower than the previous year. Negative cash flow as a result of investment activities totaled ¥51,780million through the sale of non-business assets, and acquisition of aircraft parts, equipment and so on. The resulting free cash flow was ¥27,191million. The other side, we raised funds to take measures to meet the opaque financial circumstances. As a result, cash and cash equivalent on hand at the end of the fiscal year totaling ¥169,027 million, ¥47,055 million more than the previous end of term.

(4) Dividend payment

Due to the large drop in revenue and with the severe business environment continuing for the foreseeable future, we have been forced to forgo the dividend payment at the end of FY2001. We will continue our efforts to boost performance so that dividend payments can be resumed in the near future.

2. Forecast for the Coming Fiscal Year

The events of September 11 last year dealt a grave blow to worldwide aviation demand and greatly weakened the management of many airlines. JAL's business results also suffered greatly and we expect that the business environment will remain severe for some time. But through the active efforts of the JAL Group to address the issues mentioned above and a revival of demand, we will strive to make the JAL Group strong and healthy and respond to shareholders' expectations. Our forecast for FY2002 is ¥1,706,000 million in sales revenue, a current profit of ¥ 30,000 million, and a net profit of ¥23,000 million, all on a consolidated basis. These estimates are based on an exchange rate of ¥130 to the U.S. dollar and a market price of US$25 for benchmark Singapore kerosene for aviation fuel expenses.

The above estimates for business results and future forecasts are judged based on currently available information and include allowance for risk and uncertainty. These estimates are made on a consolidated basis for JAL and are not predicated on the integration of JAL and Japan Air Systems planned for October 2002. Risk and uncertainty are involved, and for various reasons actual performance may differ from the expected outcome.

Japan Airlines Company, Ltd. and Consolidated Subsidiaries

Comparative Consolidated Balance Sheets

March 31, 2002 and 2001

	2002	2001	Change
		(Millions of yen)	
Assets			
I. Current assets			
Cash and time deposits	¥ 119,124	¥ 73,357	¥ 45,767
Notes and accounts receivable	212,345	203,255	9,090
Short-term investments in securities	14,756	48,132	(33,376)
Supplies	58,308	58,023	284
Deferred income taxes	16,027	14,825	1,202
Other current assets	127,009	93,437	33,572
Allowance for bad debts	(3,956)	(3,264)	(691)
Total current assets	543,615	487,767	55,848
II. Fixed assets			
Tangible fixed assets:			
Buildings and structures	200,062	219,078	(19,016)
Machinery, equipment and vehicles	32,309	33,399	(1,089)
Flight equipment	650,887	677,206	(26,318)
Land	88,489	88,501	(11)
Construction in progress	35,210	28,716	6,494
Other fixed assets	23,475	21,725	1,751
Total tangible fixed assets	1,030,435	1,068,626	(38,191)
Intangible fixed assets:			
Software	31,945	23,400	8,544
Goodwill	501	793	(292)
Other intangible fixed assets	2,741	3,759	(1,018)
Total intangible fixed assets	35,188	27,954	7,233
Investments:			
Investments in securities	79,332	88,750	(9,417)
Long-term loans receivable	56,790	35,351	21,438
Deferred income taxes	23,723	22,550	1,173
Other investments	71,454	73,787	(2,333)
Allowance for bad debts	(4,169)	(2,972)	(1,197)
Total investments	227,132	217,467	9,664
Total fixed assets	1,292,756	1,314,048	(21,292)
III. Deferred charges			
Bond issuance expenses	–	39	(39)
Total deferred charges	–	39	(39)
Total assets	¥1,836,371	¥1,801,855	¥ 34,515

	2002	2001	Change
		(Millions of yen)	
Liabilities			
I. Current liabilities			
Accounts payable – trade	¥ 161,936	¥ 166,650	¥ (4,714)
Short-term borrowings	56,627	30,443	26,183
Current portion of bonds	60,000	60,000	–
Current portion of long-term borrowings	90,405	81,925	8,480
Accrued income taxes	2,569	6,907	(4,338)
Deferred income taxes	54	50	4
Other current liabilities	186,018	183,954	2,064
Total current liabilities	557,610	529,931	27,679
II. Non-current liabilities			
Bonds	297,859	357,859	(60,000)
Long-term borrowings	579,504	480,378	99,125
Accrued pension and severance costs	102,405	102,677	(272)
Deferred income taxes	534	2,715	(2,180)
Other non-current liabilities	43,856	37,893	5,963
Total non-current liabilities	1,024,159	981,524	42,635
Total liabilities	1,581,770	1,511,455	70,315
Minority interests	25,943	22,745	3,197
Stockholders' equity			
I. Common stock	188,550	188,550	–
II. Additional paid-in capital	32,516	32,516	–
III. Retained earnings	11,774	53,552	(41,778)
IV. Common stock in treasury	(317)	(247)	(70)
VI. Net unrealized gain on investments in securities, net of taxes	852	3,098	(2,246)
VII. Translation adjustments	(4,719)	(9,816)	5,097
Total stockholders' equity	228,657	267,654	(38,996)
Total liabilities and stockholders' equity	¥1,836,371	¥1,801,855	¥ 34,515

Japan Airlines Company, Ltd. and Consolidated Subsidiaries

Comparative Consolidated Statements of Income and Retained Earnings

For the years ended March 31, 2002 and 2001

	2002	2001	Change
		(Millions of yen)	
Operating revenues	¥1,608,689	¥1,703,773	¥ (95,083)
Operating expenses:			
Cost of operating revenues	1,270,892	1,269,371	1,520
Selling, general and administrative expenses	349,722	355,762	(6,039)
Total operating expenses	1,620,614	1,625,133	(4,519)
Operating (loss) income	(11,925)	78,639	(90,564)
Non-operating income:			
Interest and dividend income	3,673	4,184	(511)
Gain on sales of flight equipment	685	603	82
Equity in earnings of affiliates	–	258	(258)
Exchange gain, net	3,354	6,629	(3,275)
Other income	13,836	12,234	1,602
Total non-operating income	21,550	23,910	(2,360)
Non-operating expenses:			
Interest expense	30,198	32,335	(2,137)
Equity in losses of affiliates	258	–	258
Other expenses	16,283	16,903	(620)
Total non-operating expenses	46,739	49,239	(2,499)
Ordinary (loss) income	(37,115)	53,311	(90,426)
Extraordinary profit:			
Gain on sales of fixed assets	5,933	669	5,264
Gain on sales of investments in securities	13,151	2,169	10,981
Other extraordinary profit	1,213	2,304	(1,090)
Total extraordinary profit	20,298	5,143	15,155
Extraordinary loss:			
Loss on disposal of fixed assets	3,414	6,322	(2,908)
Loss on operation of affiliates	5,622	3,478	2,144
Loss on revaluation of investments in securities	2,643	9,187	(6,544)
Loss on revaluation of other investments	–	2,557	(2,557)
Other extraordinary loss	4,894	5,248	(354)
Total extraordinary loss	16,575	26,793	(10,218)
(Loss) income before income taxes and minority interests	(33,392)	31,660	(65,053)
Income taxes - current	6,341	10,873	(4,532)
Income taxes - deferred	(2,860)	(21,718)	18,858
Minority interests	148	(1,484)	1,632
(Loss) net income	(36,725)	41,021	(77,747)
Retained earnings at beginning of year	53,552	17,814	35,738
Increase in retained earnings	2,124	167	1,957
Decrease in retained earnings	(7,176)	(5,450)	(1,726)
Retained earnings at end of year	¥ 11,774	¥ 53,552	¥ (41,778)

Japan Airlines Company, Ltd. and Consolidated Subsidiaries

Consolidated Statements of Cash Flows

For the years ended March 31, 2002 and 2001

	2002	2001
	(Millions of yen)	
Operating activities		
(Loss) income before income taxes and minority interests	¥ (33,392)	¥ 31,660
Adjustments to reconcile income (loss) before income taxes and minority interests to net cash provided by operating activities:		
Depreciation and amortization	89,748	91,834
(Gain) loss on sales and disposal and loss on revaluation of marketable securities and investments in securities, net	(10,004)	7,507
Loss on sales and disposal of fixed assets, net	6,616	13,223
Net provision for accrued pension and severance costs	(358)	1,183
Interest and dividend income	(3,673)	(4,184)
Interest expense	30,198	32,335
Exchange gain	(436)	(568)
Equity in losses (earnings) of affiliates	258	(258)
Increase in notes and accounts receivable	(6,073)	(29,560)
Increase in supplies	(239)	(284)
Decrease in accounts payable	(7,130)	(620)
Other	(4,859)	23,805
Subtotal	60,654	166,073
Interest and dividends received	3,893	4,494
Interest paid	(29,437)	(31,680)
Income taxes paid	(10,520)	(9,787)
Net cash provided by operating activities	24,589	129,098
Investing activities		
Purchases of time deposits	(1,347)	(24,682)
Proceeds from maturity of time deposits	2,347	26,823
Purchases of short-term investments in securities	(654)	(2,821)
Proceeds from sales and maturity of short-term investments in securities	695	6,788
Purchases of fixed assets	(102,839)	(80,271)
Proceeds from sales of fixed assets	43,651	8,256
Purchases of investments in securities	(1,335)	(7,360)
Proceeds from sales and maturity of investments in securities	16,960	18,471
Proceeds from sales of consolidated subsidiaries	3,940	–
Proceeds from sale of a consolidated subsidiary with change in the scope of consolidation	1,511	8,393
Additions to long-term loans receivable	(42,276)	(18,819)
Reductions of long-term loans receivable	22,891	15,463
Other	4,672	30,348
Net cash used in investing activities	(51,780)	(19,409)

	2002	2001
	(Millions of yen)	
Financing activities		
Increase (decrease) in short-term borrowings, net	¥ 33,473	¥ (23,466)
Proceeds from long-term borrowings	192,750	60,916
Repayment of long-term borrowings	(87,216)	(143,083)
Redemption of bonds	(60,000)	(67,283)
Proceeds from sales of common stock in treasury	101	481
Purchases of common stock in treasury	(171)	(447)
Dividends paid to stockholders	(7,089)	(5,306)
Dividends paid to minority interests	(379)	(392)
Other	80	(431)
Net cash provided by (used in) financing activities	71,548	(179,012)
Effect of exchange rate changes on cash and cash equivalents	1,666	1,583
Net increase (decrease) in cash and cash equivalents	46,023	(67,740)
Cash and cash equivalents at beginning of year	121,972	189,715
Increase in cash and cash equivalents arising from inclusion of subsidiaries in consolidation	1,030	81
Decrease in cash and cash equivalents arising from exclusion of subsidiaries from consolidation	–	(84)
Cash and cash equivalents at end of year	¥ 169,027	¥ 121,972
Adjustments to reconcile cash and time deposits in balance sheets to cash and cash equivalents in statements of cash flows at end of year		
Cash and time deposits in balance sheets	¥ 119,124	¥ 73,357
Time deposits with original maturity of more than three months	(2,197)	(2,877)
Marketable securities with original maturity of three months or less	13,855	47,447
Short-term investments with maturity of three months or less	40,393	13,996
Current account overdrafts including short-term borrowings	(2,149)	(9,951)
Cash and cash equivalents in statements of cash flows	¥ 169,027	¥ 121,972

Japan Airlines Company, Ltd.

Notes to Consolidated Financial Statements

March 31, 2002 and 2001

1. Summary of Significant Accounting Policies

a. Basis of presentation

Japan Airlines Company, Ltd. (the "Company") and 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 the consolidated foreign subsidiaries in conformity with those of their countries of domicile. 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.

Amounts of less than one million yen have been omitted. As a result, the totals shown in the accompanying consolidated financial statements do not necessarily agree with the sum of the individual amounts.

b. Principles of consolidation and accounting for investments in affiliates

The consolidated financial statements include the accounts of the Company and all significant subsidiaries. All significant intercompany accounts and transactions and unrealized gain or loss on intercompany accounts and transactions have been eliminated.

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.

Investments in certain unconsolidated subsidiaries and significant affiliates are accounted for by the equity method. The assets and liabilities of newly consolidated subsidiaries are stated at fair value as of their respective acquisition dates. The differences between the cost and the underlying net equity in 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 five years.

1. Summary of Significant Accounting Policies (continued)

c. Cash equivalents

The Company defines cash equivalents as highly liquid, short-term investments with an original maturity of three months or less.

d. Investments in securities

Investments in marketable securities are stated at fair value, and net unrealized gain or loss on such securities is accounted for as a separate component of stockholders' equity. Investments in non-marketable securities are principally stated at cost. Cost of securities sold is determined by the moving average method.

e. Derivatives

Derivatives are stated at fair value.

f. Supplies

Supplies are principally stated at cost based on the moving average method.

g. Tangible and intangible fixed assets

Tangible fixed assets	
Flight equipment:	
Aircraft and spare engines	– The straight-line method or the declining-balance method based on their estimated useful lives.
Spare parts contained in flight equipment	– Principally the declining-balance method based on each type of aircraft's or engine's estimated useful life.
Ground property and equipment	– Principally the straight-line method
Intangible fixed assets	
Software	– Computer software intended for internal use is amortized by the straight-line method based on the estimated useful life of the software.

h. Bond issuance expenses

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

1. Summary of Significant Accounting Policies (continued)

i. Accrued pension and severance cost

To provide for employees' severance indemnities, net period pension cost, which represents the amount recognized as the cost of pension plans 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 actuarial assumption adjustment is being amortized by 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. The amortization is computed commencing the fiscal year subsequent to the year in which the adjustment was recorded.

Past service cost is principally charged to income as incurred.

j. Allowance for bad debts

The allowance for bad debts on receivables is provided at the estimated unrecoverable amounts. The allowance for other receivables is provided based on the historical rate of losses on receivables.

k. 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 consolidated subsidiaries and affiliates accounted for by the equity method are included in minority interests and in a stockholders' equity.

l. 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 of the Company's 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.

1. Summary of Significant Accounting Policies (continued)

m. Hedge accounting

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, if an interest-rate swap meets certain conditions, interest expense is computed and recognized using a combined rate.

2. Other Footnote Information

a. Accumulated depreciation at March 31, 2002 and 2001 amounted to ¥1,318,841 million and ¥1,277,317 million, respectively.

b. At March 31, 2002 and 2001, contingent liabilities for guarantees amounted to ¥13,647 million and ¥19,271 million, respectively. In addition, at March 31, 2002 and 2001, contingent liabilities for guarantees, keep-well agreements and others, amounted to ¥2,835 million and ¥3,437 million, respectively.

c. At March 31, 2002 and 2001, the Company and a subsidiary were liable under debt assumption agreements for the in-substance defeasance of certain bonds in the aggregate amount of ¥50,000 million and ¥55,000 million, respectively.

d. At March 31, 2002 and 2001, common stock in treasury, which is stated at cost, amounted to ¥317 million (776,483 shares) and ¥247 million (557,995 shares), respectively.

e. On April 26, 2002, a resolution to enter into business combination agreement with Japan Air System Co., Ltd. was adopted by the Company's Board of Directors subject to approval at the annual stockholders' meeting and, on the same day, the both companies signed the agreement.

3. Segment Information

The Company and its consolidated subsidiaries conduct their worldwide operations in air transportation, hotel and resort operations, travel services, card and lease operations, trading and other airline-related business. This segmentation has been determined for internal management purposes. The respective businesses other than the air transportation business, hotel and resort operations, and travel services are insignificant to the consolidated results of operations of the Company and 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 and 2001 is summarized as follows:

	Year ended March 31, 2002						
	Air transportation	Travel services	Hotel and resort operations	Other	Total	General corporate assets and intercompany eliminations	Consolidated
				(Millions of yen)			
Operating revenues	¥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)
Identifiable assets	¥1,418,869	¥ 72,106	¥81,847	¥442,450	¥2,015,274	¥(178,902)	¥1,836,371
Depreciation	¥ 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

	Year ended March 31, 2001						
	Air transportation	Travel services	Hotel and resort operations	Other	Total	General corporate assets and intercompany eliminations	Consolidated
				(Millions of yen)			
Operating revenues	¥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
Identifiable assets	¥1,396,110	¥ 76,287	¥91,409	¥423,037	¥1,986,844	¥(184,988)	¥1,801,855
Depreciation	¥ 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

3. Segment Information

a. Business segment information (continued)

Operating revenues from foreign operations, which include international passenger and cargo services of the Company, Japan Asia Airways Co., Ltd. and JALWAYS Co., LTD., export sales of domestic subsidiaries, and sales of subsidiaries outside Japan for the years ended March 31, 2002 and 2001 are summarized as follows:

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

	Year ended March 31, 2001			
	Asia and Oceania	North and South America	Europe	Total
	(Millions of yen)			
Operating revenues from foreign operations	¥405,303	¥364,994	¥211,779	¥982,076
Consolidated operating revenues	–	–	–	¥1,703,773
Consolidated operating revenues as a percentage of operating revenues from foreign operations	23.8%	21.4%	12.4%	57.6%

b. Geographic information

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

4. Leases

As lessee

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 expense for the years ended March 31, 2002 and 2001, which would have been reflected in the consolidated balance sheets and the related statements of income if capital lease accounting had been applied to the capital leases currently accounted for as operating leases:

	March 31, 2002		
	Flight equipment	Ground property and equipment	Total
	(Millions of yen)		
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, 2001		
	Flight equipment	Ground property and equipment	Total
	(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

	Year ended March 31,	
	2002	**2001**
	(Millions of yen)	
Depreciation expense	¥39,607	¥42,152
Interest expense	¥ 5,995	¥9,023

Lease expenses relating to capital leases accounted for as operating leases amounted to ¥48,816 million and ¥49,772 million for the years ended March 31, 2002 and 2001, respectively.

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

4. Leases (continued)

As lessee (continued)

	March 31, 2002	March 31, 2001
	(Millions of yen)	
Within 1 year	¥ 38,417	¥ 43,077
Over 1 year	148,777	212,871
	¥187,194	¥255,949

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

	March 31, 2002	March 31, 2001
	(Millions of yen)	
Within 1 year	¥ 13,899	¥ 16,820
Over 1 year	86,653	91,512
	¥100,552	¥108,332

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 statements of income if direct financing lease accounting had been applied to the capital leases currently accounted for as operating leases:

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

	March 31, 2001		
	Flight equipment	Ground property and equipment	Total
		(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

4. Leases (continued)

As lessor (continued)

	Year ended March 31,	
	2002	**2001**
	(Millions of yen)	
Depreciation expense	¥711	¥880
Interest expense	¥ 80	¥121

Lease revenues relating to direct financing leases accounted for as operating leases amounted to ¥852 million and ¥1,046 million for the years ended March 31, 2002 and 2001, respectively.

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

	March 31,	
	2002	**2001**
	(Millions of yen)	
Within 1 year	¥ 492	¥ 766
Over 1 year	610	1,027
	¥1,103	¥1,794

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

	March 31,	
	2002	**2001**
	(Millions of yen)	
Within 1 year	¥ 96	¥ 376
Over 1 year	0	1,624
	¥ 96	¥2,001

5. Tax-Effect Accounting

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

	(Millions of yen)
Deferred tax assets:	
Accrued pension and severance costs	¥ 21,446
Revaluation loss on investments in subsidiaries and affiliates	15,868
Provision for loss on investments in subsidiaries and affiliates	4,472
Accrued bonuses	3,103
Allowance for bad debts	2,771
Accounts payable – trade	2,628
Revaluation loss on flight equipment spare parts	2,040
Tax loss carryforward	51,124
Other	12,164
	115,619
Deferred tax liabilities:	
Reserve for special depreciation	(3,650)
Accumulated earnings of consolidated subsidiaries	(2,522)
Net unrealized gain on investments in securities	(622)
Other	(2,928)
	(9,723)
Valuation allowance	(66,734)
Net deferred tax assets, net	¥ 39,161

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.

5. Tax-Effect Accounting (continued)

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

	(Millions of yen)
Deferred tax assets:	
Revaluation loss on investments in subsidiaries and affiliates	¥ 21,085
Accrued pension and severance costs	17,124
Allowance for bad debts	5,795
Accounts payable – trade	3,740
Revaluation loss on flight equipment spare parts	1,941
Accrued bonuses	2,383
Tax loss carryforward	37,019
Other	15,263
	104,350
Deferred tax liabilities:	
Reserve for special depreciation	(4,486)
Accumulated earnings of consolidated subsidiaries	(2,534)
Net unrealized gain on investments in securities	(2,124)
Other	(2,218)
	(11,362)
Valuation allowance	(58,378)
Net deferred tax assets, net	¥ 34,610

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

Japanese statutory tax rate	40.2%
Disallowed expenses, including entertainment expenses	8.1
Dividends received	(2.6)
Equity in earnings of affiliates	(0.3)
Inhabitants' per capita taxes	0.6
Change in valuation allowance	(80.5)
Other	0.9
Effective tax rate	(33.6)%

6. Fair Value of Investments in Securities

The components of net unrealized gain or loss on investments in marketable securities at March 31, 2002 are summarized as follows:

	Acquisition costs	Carrying value	Unrealized gain (loss)
		(Millions of yen)	
Unrealized gain:			
Stocks	¥ 7,883	¥12,720	¥ 4,837
Bonds	87	91	4
Other	1,467	1,479	12
	9,438	14,292	4,853
Unrealized loss:			
Stocks	12,856	9,592	(3,263)
Bonds	7,099	6,952	(147)
Other	278	248	(29)
	20,234	16,794	(3,440)
Total	¥29,673	¥31,086	¥ 1,413

Investments in non-marketable securities at March 31, 2002 amounted to ¥32,666 million.

The components of net unrealized gain or loss on investments in marketable securities at March 31, 2001 are summarized as follows:

	Acquisition costs	Carrying value	Unrealized gain (loss)
		(Millions of yen)	
Unrealized gain:			
Stocks	¥14,767	¥22,316	¥ 7,548
Bonds	1,589	1,596	6
Other	874	894	20
	17,231	24,806	7,575
Unrealized loss:			
Stocks	8,074	5,708	(2,365)
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

Investments in non-marketable securities at March 31, 2001 amounted to ¥68,777 million.

7. Derivative and Hedging Activities

The Company and consolidated subsidiaries have utilized forward foreign exchange and options 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 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.

Derivatives positions are stated at fair value except that gain or loss on the derivatives designated as hedging instruments is deferred until the loss or gain on the underlying hedged item is recognized.

8. Accrued Pension and Severance Costs

An employee whose employment is terminated is entitled, in most cases, to a lump-sum severance payment, the amount of which is 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 defined benefit pension plans pursuant to the Welfare Pension Insurance Law of Japan, and certain subsidiaries have maintained non-contributory funded pension plans.

	March 31,	
	2002	**2001**
	(Millions of yen)	
Projected benefit obligation	¥(755,037)	¥(708,586)
Plan assets	358,782	350,922
Accrued pension and severance costs	102,405	102,677
Prepaid pension cost	(224)	(110)
Net unrecognized amount	¥(294,074)	¥(255,096)

Net unrecognized amounts were as follows:

	March 31,	
	2002	**2001**
	(Millions of yen)	
Unrecognized obligation at transition	¥(172,462)	¥(185,800)
Actuarial assumption adjustments	(123,585)	(69,295)
Unrecognized past service cost	1,973	–
Total	¥(294,074)	¥(255,096)

8. Accrued Pension and Severance Costs (continued)

The components of net periodic pension cost were as follows:

	For the year ended March 31,	
	2002	2001
	(Millions of yen)	
Service cost	¥ 26,668	¥ 27,096
Interest cost on projected benefit obligation	23,901	22,526
Expected return on plan assets	(18,186)	(23,176)
Amortization of unrecognized obligation at transition	13,425	14,367
Amortization of actuarial assumption adjustments	4,662	–
Amortization of past service cost	(5,185)	–
Net periodic pension cost	¥ 45,286	¥ 40,814

The assumptions used were as follows:

	2002	2001
Method of amortization	Straight-line method	Straight-line method
Discount rate for obligation at end of year	2.5% ~ 3.5%	3.0% ~ 3.5%
Expected rate of return on plan assets for the year ended March 31	1.2% ~ 6.3%	1.2% ~ 6.9%

The actuarial assumption adjustments are being amortized over periods ranging from 5 to 15 years, which is less than the average remaining period of service of the active participants in the plans. The amortization is computed commencing the fiscal year subsequent to the year in which the adjustment was recorded.

The unrecognized obligation at transition is being amortized principally over 15 years; however, one subsidiary contributed its securities to an employee retirement trust and charged the obligation at transition during this fiscal year.

Past service cost is principally charged to income as incurred.

Components of Revenues from the Air Transportation Segment

	Year ended March 31,			
	2002		2001	
	Amount	Rate (%)	Amount	Rate (%)
	(Millions of yen)			
International:				
Passenger operations	¥ 612,727	49.6	¥ 676,104	51.1
Cargo operations	133,725	10.8	148,327	11.2
Mail-service operations	8,227	0.7	7,402	0.6
Luggage operations	2,560	0.2	2,547	0.2
Subtotal	757,240	61.3	834,381	63.1
Domestic:				
Passenger operations	324,950	26.3	329,143	24.9
Cargo operations	19,618	1.6	21,693	1.6
Mail-service operations	6,284	0.5	6,535	0.5
Luggage operations	132	0.0	138	0.0
Subtotal	350,986	28.4	357,510	27.0
Other revenues	36,769	3.0	32,469	2.5
Incidental business revenues	91,013	7.4	97,535	7.4
Total revenues	¥1,236,009	100.0	¥1,321,896	100.0

Japan Airlines Company, Ltd.

Non-Consolidated Financial Information

For the years ended March 31, 2002 and 2001

Non-Consolidated Financial Highlights

(As permitted by the Securities and Exchange Law of Japan, amounts of less than one million yen have been omitted.)

1. Non-Consolidated Operating Results

(Millions of yen except for per share information)

(1)	Total operating revenues	FY01	¥1,169,499	(–7.0%)
		FY00	¥1,257,239	(+7.7%)
(2)	Operating (loss) income	FY01	¥ (16,360)	(–)
		FY00	¥ 55,938	(+94.5%)
(3)	Ordinary (loss) income	FY01	¥ (41,534)	(–)
		FY00	¥ 28,902	(+205.7%)
(4)	Net (loss) income	FY01	¥ (34,874)	(–)
		FY00	¥ 28,780	(–)
(5)	Net (loss) income per share	FY01	¥ (19.56)	
		FY00	¥ 16.18	
(6)	Diluted net income per share	FY01	¥ –	
		FY00	¥ 16.18	
(7)	Return on equity	FY01	(13.8%)	
		FY00	11.0%	
(8)	Ratio of ordinary (loss) income to total assets	FY01	(2.8%)	
		FY00	2.0%	
(9)	Ratio of ordinary (loss) income to total operating revenues	FY01	(3.6%)	
		FY00	2.3%	

Note 1. Number of shares outstanding during the year:

FY01	1,783,473,439
FY00	1,779,320,939

2. Dividends

(1)	Annual dividends per share	FY01	¥	0.00
		FY00	¥	4.00
(2)	Total annual dividends	FY01		–
		FY00	¥	7,133 million
(3)	Payout ratio	FY01		–
		FY00		24.8%
(4)	Ratio of dividends to equity	FY01		–
		FY00		2.6%

3. Non-Consolidated Financial Position

(1)	Total assets	FY01	¥1,480,101 million	
		FY00	¥1,454,868 million	
(2)	Total stockholders' equity	FY01	¥	230,685 million
		FY00	¥	274,852 million
(3)	Stockholders' equity ratio	FY01		15.6%
		FY00		18.9%
(4)	Equity per share	FY01	¥	129.36
		FY00	¥	154.11

Note 1. Number of shares outstanding at end of the year:

March 31, 2002	1,783,473,439
March 31, 2001	1,783,473,439

Note 2. Number of common stocks of treasury outstanding at end of the year:

March 31, 2002	232,883
March 31, 2001	14,395

4. Non-Consolidated Financial Forecast for the Year Ending March 31, 2003

(1)	Total operating revenues	¥1,249,000 million	
(2)	Ordinary income	¥	17,000 million
(3)	Net income	¥	17,000 million
(4)	Annual dividends per share	¥	4.00
(5)	Net income per share	¥	9.53

5-(1)

Japan Airlines Company, Ltd.

Comparative Non-Consolidated Balance Sheets

March 31, 2002 and 2001

(Millions of yen)

	2002	%	2001	%	Change
Assets					
I. Current assets					
Cash and time deposits	¥ 64,565		¥ 19,082		¥45,483
Accounts receivable	177,214		164,013		13,200
Short-term investments in securities	13,818		39,627		(25,809)
Supplies	55,792		55,308		483
Prepaid expenses	8,232		5,741		2,491
Deferred income taxes	10,372		10,448		(76)
Other current assets	55,832		57,729		(1,896)
Allowance for bad debts	(664)		(695)		31
Total current assets	385,164	26.0	351,255	24.1	33,909
II. Fixed assets					
Tangible fixed assets:					
Buildings	98,319		117,084		(18,764)
Structures	4,070		4,523		(453)
Machinery and equipment	23,101		24,369		(1,268)
Flight equipment	585,056		607,523		(22,467)
Vehicles	1,242		1,358		(115)
Tools and spare parts	11,333		11,454		(121)
Land	46,737		47,271		(534)
Construction in progress	34,755		20,663		14,092
Total tangible fixed assets	804,616	54.4	834,249	57.4	(29,632)
Intangible fixed assets:					
Computer software	27,006		19,701		7,305
Other intangible fixed assets	614		958		(344)
Total intangible fixed assets	27,620	1.9	20,659	1.4	6,960
Investments:					
Investments in securities	65,129		72,659		(7,529)
Investments in subsidiaries	100,937		103,377		(2,440)
Long-term loans receivable	48,778		25,286		23,492
Long-term prepaid expenses	4,000		5,338		(1,338)
Deferred income taxes	12,470		10,972		1,498
Other investments	32,857		32,459		397
Allowance for bad debts	(1,473)		(1,429)		(43)
Total investments	262,699	17.7	248,663	17.1	14,035
Total fixed assets	1,094,937	74.0	1,103,573	75.9	(8,636)
III. Deferred charges					
Bond issuance expenses	–		39		(39)
Total deferred charges	–	–	39	0.0	(39)
Total assets	¥1,480,101	100.0	¥1,454,868	100.0	¥25,232

(Millions of yen)

	2002	%	2001	%	Change
Liabilities					
I. Current liabilities					
Accounts payable – trade	¥ 152,693		¥ 156,975		¥ (4,281)
Current portion of long-term borrowings	37,202		41,601		(4,398)
Current portion of bonds	60,000		60,000		–
Accounts payable – other	18,764		17,254		1,510
Accrued income taxes	40		120		(79)
Accrued expenses	37,329		37,860		(530)
Advances received	30,141		31,671		(1,529)
Deposits received	20,239		19,779		459
Air transport deposits	22,646		25,359		(2,712)
Other current liabilities	15,605		9,708		5,897
Total current liabilities	394,664	26.7	400,330	27.5	(5,666)
II. Non-current liabilities					
Bonds	297,509		357,509		(60,000)
Long-term borrowings	401,599		265,082		136,516
Accrued pension and severance cost	79,942		82,380		(2,437)
Reserve for loss on investments in subsidiaries and affiliates	10,595		4,384		6,211
Other non-current liabilities	65,105		70,329		(5,224)
Total non-current liabilities	854,751	57.7	779,685	53.6	75,066
Total liabilities	1,249,416	84.4	1,180,016	81.1	69,400
Stockholders' equity					
I. Common stock	188,550	12.7	188,550	13.0	–
II. Additional paid-in capital	32,516	2.2	32,516	2.2	–
III. Legal reserve	1,782	0.1	1,068	0.1	714
IV. Retained earnings:					
Reserve for special depreciation	6,026	0.4	7,141	0.5	(1,115)
Unappropriated retained earnings brought forward	1,025	0.1	42,633	2.9	(41,607)
V. Net unrealized gain on other securities, net of taxes	861	0.1	2,942	0.2	(2,080)
VI. Common stock in treasury	(77)	(0.0)	–	–	(77)
Total stockholders' equity	230,685	15.6	274,852	18.9	(44,167)
Total liabilities and stockholders' equity	¥1,480,101	100.0	¥1,454,868	100.0	¥ 25,232

5-(2)

Japan Airlines Company, Ltd.

Comparative Non-Consolidated Statements of Income

For the years ended March 31, 2002 and 2001

(Millions of yen)

	2002	%	2001	%	Change
Operating revenues	¥1,169,499	100.0	¥1,257,239	100.0	¥ (87,739)
Operating expenses:					
Cost of operating revenues	962,052		954,465		7,587
Selling, general and administrative expenses	223,807		246,835		(23,028)
Total operating expenses	1,185,859	101.4	1,201,301	95.6	(15,441)
Operating (loss) income	(16,360)	(1.4)	55,938	4.4	(72,298)
Non-operating income:					
Interest and dividend income	3,453		4,124		(671)
Gain on sales of flight equipment	1,138		403		734
Exchange gain	2,111		2,978		(866)
Other income	10,491		8,874		1,616
Total non-operating income	17,194	1.5	16,380	1.3	813
Non-operating expenses:					
Interest expense	27,109		27,997		(887)
Other expenses	15,258		15,419		(160)
Total non-operating expenses	42,368	3.6	43,416	3.4	(1,048)
Ordinary (loss) income	(41,534)	(3.6)	28,902	2.3	(70,436)
Extraordinary profit:					
Gain on sales of fixed assets	5,904		538		5,365
Gain on sales of investments in securities	11,412		–		11,412
Gain on sales of investments in subsidiaries	1,302		–		1,302
Total extraordinary profit	18,619	1.6	538	0.0	18,080
Extraordinary loss:					
Loss on disposal of fixed assets	2,277		1,897		379
Special termination benefits	920		669		250
Loss on operations of a subsidiary	–		2,300		(2,300)
Loss on revaluation of investments in securities	2,211		8,028		(5,817)
Loss on revaluation of investments in subsidiaries and affiliates	–		1,765		(1,765)
Loss on revaluation of other investments	–		1,465		(1,465)
Provision for loss on investments in subsidiaries and affiliates	6,267		1,900		4,366
Total extraordinary loss	11,676	1.0	18,028	1.4	(6,351)
(Loss) income before income taxes	(34,592)	(3.0)	11,412	0.9	(46,005)
Income taxes:					
Current	282		305		(22)
Deferred	–		(17,673)		17,673
Net (loss) income	(34,874)	(3.0)	28,780	2.3	(63,655)
Retained earnings brought forward	35,900		13,852		22,048
Unappropriated retained earnings at end of the year	¥ 1,025		¥ 42,633		¥(41,607)

Japan Airlines Company, Ltd.

Proposal for Appropriation of Retained Earnings

	2002	2001
	(Millions of yen)	
Unappropriated retained earnings	¥1,025	¥42,633
Reversal of reserve for special depreciation	1,115	1,115
Appropriation of retained earnings:		
Legal reserve	–	(714)
Cash dividends	–	(7,133)
(¥4 per share in 2001)		
Unappropriated retained earnings to be carried forward	¥2,141	¥35,900

Japan Airlines Company, Ltd.

Notes to Non-Consolidated Financial Statements

March 31, 2002 and 2001

1. Summary of Significant Accounting Policies

a. Investments in securities

Investments in marketable securities are stated at fair value, and net unrealized gain or loss on such securities is accounted for as a separate component of stockholders' equity. Investments in non-marketable securities are stated at cost. Cost of securities sold is determined by the moving average method.

Investments in subsidiaries and affiliates are stated at cost based on the moving average method.

b. Supplies

Supplies are stated at cost based on the moving average method.

c. Derivatives

Derivatives are stated at fair value.

d. Tangible and intangible fixed assets

Tangible fixed assets

Flight equipment:

Aircraft and spare engines	–	The straight-line or the declining-balance method based on their estimated useful lives.
Spare parts contained in flight equipment	–	The declining-balance method based on each type of aircraft's or engine's estimated useful life.
Ground property and equipment	–	The straight-line method
Intangible fixed assets	–	The straight-line method

e. Bond issuance expenses

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

1. Summary of Significant Accounting Policies (continued)

f. Accrued pension and severance cost

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 actuarial assumption adjustment is being amortized by straight-line method over a period of fifteen years. Amortization is computed commencing the fiscal year subsequent to the year in which the adjustment was recorded.

Past service cost is charged to income as incurred.

g. Allowance for bad debts

The allowance for bad debts on receivables is provided at the estimated unrecoverable amounts. The allowance for other receivables is provided based on the historical rate of losses on receivables.

h. Provision for loss on investments in subsidiaries and affiliates

The provision for loss on investments in subsidiaries and affiliates is provided for contingent losses which is estimated to incur on the termination of business at certain subsidiaries and affiliates.

i. Leases

The Company leases certain equipment under non-cancelable lease agreements referred to as capital leases. Capital leases other than those which transfer the ownership of the leased property to the Company are accounted for as operating leases.

j. Hedge accounting

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 forward foreign exchange rates if certain conditions are met. In addition, if an interest-rate swap meets certain conditions, interest expense is computed and recognized using a combined rate.

2. Other Footnote Information

a. 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 non-consolidated financial statements do not necessarily agree with the sum of the individual amounts.

2. Other Footnote Information (continued)

b. Accumulated depreciation at March 31, 2002 and 2001 amounted to ¥995,288 million and ¥963,333 million, respectively.

c. At March 31, 2002 and 2001, contingent liabilities for guarantees amounted to ¥14,355 million and ¥17,013 million, respectively. In addition, at March 31, 2002 and 2001, contingent liabilities for guarantees, keep-well agreements and others, amounted to ¥37,077 million and ¥43,689 million, respectively.

d. At March 31, 2002 and 2001, the Company was liable under debt assumption agreements for the in-substance defeasance of certain bonds in aggregate amounts of ¥50,000 million and ¥50,000 million, respectively.

e. On April 26, 2002, a resolution to enter into business combination agreement with Japan Air System Co., Ltd. was adopted by the Company's Board of Directors subject to approval at the annual stockholders' meeting and, on the same day, the both companies signed the agreement.

3. Leases

As lessee

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 expense for the years then ended, which would have been reflected in the non-consolidated balance sheets and the related statements of operations if capital lease accounting had been applied to the capital leases currently accounted for as operating leases:

	March 31, 2002		
	Flight equipment	Ground property and equipment	Total
		(Millions of yen)	
Acquisition costs	¥428,563	¥18,627	¥447,190
Less accumulated depreciation	251,140	15,851	266,991
Net book value	¥177,423	¥ 2,775	¥180,198

3. Leases (continued)

As lessee (continued)

	March 31, 2001		
	Flight equipment	Ground property and equipment	Total
	(Millions of yen)		
Acquisition costs	¥493,906	¥22,723	¥516,629
Less accumulated depreciation	262,944	17,144	280,089
Net book value	¥230,962	¥ 5,578	¥236,540

	Year ended March 31,	
	2002	2001
	(Millions of yen)	
Depreciation expense	¥43,472	¥47,608
Interest expense	¥ 6,743	¥10,676

Lease expenses relating to capital leases accounted for as operating leases amounted to ¥53,760 million and ¥56,134 million for the years ended March 31, 2002 and 2001, respectively.

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

	March 31,	
	2002	2001
	(Millions of yen)	
Within 1 year	¥ 41,617	¥ 48,084
Over 1 year	154,486	234,153
	¥196,103	¥282,237

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

	March 31,	
	2002	2001
	(Millions of yen)	
Within 1 year	¥ 7,924	¥10,505
Over 1 year	38,051	42,353
	¥45,975	¥52,858

4. Tax-Effect Accounting

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

	(Millions of yen)
Deferred tax assets:	
Accrued pension and severance costs	¥ 15,042
Revaluation loss on investments in subsidiaries and affiliates	13,626
Provision for loss on investments in subsidiaries and affiliates	4,472
Accounts payable – trade	2,628
Revaluation loss on flight equipment spare parts	1,791
Tax loss carryforward	18,415
Other	2,778
	58,752
Deferred tax liabilities:	
Reserve for special depreciation	(3,301)
Net unrealized gain on investments in securities	(578)
	(3,879)
Valuation allowance	(32,030)
Net deferred tax assets	¥ 22,842

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.

4. Tax-Effect Accounting (continued)

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

	(Millions of yen)
Deferred tax assets:	
Revaluation loss on investments in subsidiaries and affiliates	¥ 17,809
Accrued pension and severance costs	12,217
Accounts payable - trade	3,740
Revaluation loss on flight equipment spare parts	1,836
Tax loss carryforward	4,958
Other	4,997
	45,560
Deferred tax liabilities:	
Reserve for special depreciation	(4,051)
Net unrealized gain of investments in securities	(2,046)
	(6,097)
Valuation allowance	(18,043)
Net deferred tax assets	¥ 21,420

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

Japanese statutory tax rate	40.2%
Disallowed expenses, including entertainment expenses	13.8
Dividends received	(4.6)
Inhabitants' per capita taxes	2.8
Change in valuation allowance	(204.4)
Effective tax rate	(152.2)%

5. Fair Value of Investments in Subsidiaries and Affiliates

Investments in subsidiaries and affiliates are stated at cost. Net unrealized gain or loss on investments in marketable securities of subsidiaries and affiliates at March 31, 2002 is summarized as follows:

	March 31, 2002		
	Carrying value	Estimated fair value	Unrealized gain (loss)
	(Millions of yen)		
Investments in subsidiaries	¥2,901	¥6,142	¥ 3,240
Investments in affiliates	¥8,411	¥6,363	¥(2,047)

Investments in subsidiaries and affiliates are stated at cost. Net unrealized loss on investments in marketable securities of affiliates at March 31, 2001 is summarized as follows:

	March 31, 2001		
	Carrying value	Estimated fair value	Unrealized gain (loss)
	(Millions of yen)		
Investments in affiliates	¥8,411	¥6,380	¥(2,031)