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Management's Review and Analysis of Financial Position

Japan Airlines Company, Ltd. and Consolidated Subsidiaries
Fiscal Years Ended March 31, 1999 and 2000

Operating revenues

Consolidated operating revenues increased 2.1 percent from the previous term to ¥1,598,516 million. Passenger revenues accounted for ¥920,459 million, cargo revenues for ¥179,989 million, and incidental and other revenues for ¥498,065 million.

International passenger revenues were virtually unchanged at ¥610,928 million. Revenue passenger kilometers climbed by 6.1 percent to 69,495.33 million, while the number of international passengers carried rose to 13.9 million. However, these increases in passengers carried were not directly reflected in increased revenue, mainly due to the strong yen and heavy concentration of growth among economy class passengers.

Domestic passenger revenues were ¥309,531 million. Revenue passenger kilometers reached 18,983.20 million, while the number of domestic passengers rose 3.0 percent to 23.33 million. These rises were the results of efforts to compete aggressively in both

marketing and price with new and existing airlines, as well as with other forms of transportation.

International cargo revenues showed little change, reaching ¥151,163 million. In spite of a 10.8 percent increase in revenue cargo-ton kilometers and favorable growth in routes from Southeast Asia to North America, among others, the strong yen cut into revenues.

Domestic cargo revenues increased 3.1 percent, to ¥28,826 million. While general cargo was stagnant, home delivery cargo and fresh cargo both increased.

Incidental and other revenues reached ¥498,065 million. This was due primarily to a 6.3 percent increase in JALPAK customers and a 3.7 percent increase in travel services segment revenues to ¥350,160 million.

PERSONNEL (JAL ONLY)

March 31, 2000

Ground Staff	9,013
Cockpit Crew	2,694
Cabin Crew	6,828
Total	18,535

Note: These figures exclude directors who have concurrent employee responsibilities, personnel dispatched to other companies (2,365) and employees on leave (676).

Operating and net income

Operating expenses were virtually the same as the previous term at ¥1,553,628 million. Although fuel prices rose due to higher prices for petroleum, expenses in the aircraft and traffic servicing and the sales and advertising categories decreased. This is a reflection of a concerted cost-containment program. As a result, operating income showed a 36.6 percent increase over the previous term, to ¥44,887 million.

Due primarily to a decrease in non-operating income, income before income taxes and minority interests showed a ¥9,367 million (25.8 percent) decrease from the previous term, to ¥26,922 million, and net income decreased by ¥7,032 million (26.3 percent) from the previous term, to ¥19,740 million.

PERSONNEL COMPOSITION BY LABOR UNION (JAL ONLY)

March 31, 2000

Union	Employees	Number of Members
Japan Airlines Workers' Union	Ground Staff, cabin crew	11,353
Japan Airlines Cabin Attendants' Union	Cabin crew	1,095
Japan Airlines Flight Crew Union	Cockpit crew	1,278
Japan Airlines Captain Association	Captains	1,034
Japan Airlines Labor Union	Ground staff	269
Japan Airlines Senior Flight Engineer Union	Senior flight engineers	85
Total		15,114

Note: These figures exclude union members who are employed by Japan Asia Airways Co., Ltd.

EMPLOYEE STATISTICS FOR JAPAN AIRLINES AND CONSOLIDATED SUBSIDIARIES

March 31, 2000

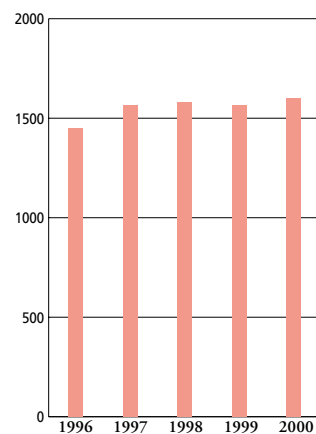
Operations by Business Segment	Number of Employees
Air-Transport	21,274
Air Transport Related Business ("other" segment)	17,729
Travel Services	3,516
Hotel and Resort Operations	3,138
Total	45,657

Note: These figures represent employees in the actual workforce.

Consolidated Operating Revenues

(Billions of Yen)

Years Ended March 31



JAL FLEET

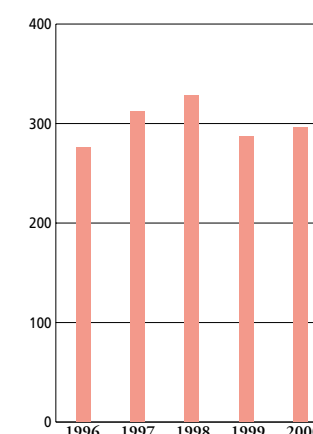
March 31, 2000

Type of Aircraft	Capacity	Owned	Leased	Total
Boeing 747-400	266-568 seats	31	8	39
Boeing 747LR	341-468 seats	11	6	17
Boeing 747SR	533-563 seats	6	0	6
Boeing 747F	115 tons	0	4	4
Boeing 767	213-270 seats	10	11	21
Boeing 737	150 seats	1	3	4
Boeing 777	389-470 seats	4	6	10
Douglas MD-11	233-300 seats	2	8	10
Douglas DC-10	266-318 seats	8	0	8
Total		73	46	119

Consolidated Costs of Flying Operations

(Billions of Yen)

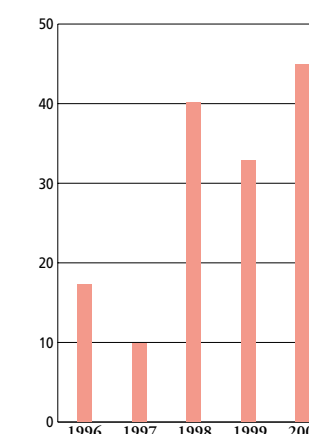
Years Ended March 31



Consolidated Operating Income

(Billions of Yen)

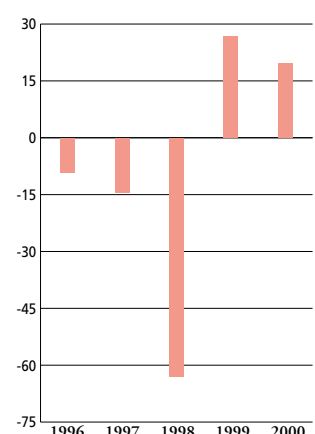
Years Ended March 31



Consolidated Net Income (Loss)

(Billions of Yen)

Years Ended March 31



Balance sheet analysis

Total assets as of 31 March, 2000 amounted to ¥1,911.1 billion, 2.3 percent less than one year earlier. Current assets were essentially unchanged from the previous term at ¥582.3 billion, and investments and advances assets decreased 19 percent to ¥146.6 billion, mainly due to the consolidation of financial assets by financial service subsidiaries. Property and equipment showed no noteworthy changes, declining 1.4 percent compared to the previous term, to ¥1,102.0 billion.

Total liabilities decreased by 4.2 percent relative to the previous term, to ¥1,649.6 billion. Long-term debt was down 3.4 percent from the previous term, demonstrating our improving financial situation as we continue working to reduce interest-bearing liabilities. Stockholders' equity increased 9.7 percent to ¥237.9 billion, and the assurance of earnings this term has resulted in elimination of cumulative deficit.

Analysis of cash flows

Due to the restoration of earning power, cash flow from business operations increased ¥5.6 billion over the previous term, resulting in a cash inflow of ¥87.3 billion. Despite capital investment in aircraft procurement, cash flow from investing activities saw a ¥7.0 billion cash inflow resulting from sales of assets that have no relationship to the airline business. A majority of this cash inflow was applied to repayment of interest-bearing liabilities, resulting in a ¥6.7 billion increase of cash and cash equivalents to ¥189.7 billion at the end of the term.

A first in the Japanese airline industry JAL presents J-Banks, a comprehensive and strategic financial system.

In April 2000, our Treasury Center, designed for centralized Group finance management, began full-fledged operation. This important launch was set forth in our midterm management plan for fiscal years 2000–2002, entitled "Vision of Regeneration for a Strong and Healthy JAL Group." The Treasury Center represents a major step toward establishing a consolidated management system and increasing the efficiency of our consolidated finance management.

Since April 1999, JAL has been operating an Accounting Center intended to speed up consolidated settlement of accounts and to improve the efficiency of all group tasks related to accounting.

The Treasury Center, on the other hand, has been established to reduce our interest-bearing debt, improve financial balance, decrease transaction costs, and improve the effectiveness of the Group's cash flow management.

The Treasury Center operates using J-Banks, a new in-house banking system that manages Group company payments as well as financial accommodations among Group companies on a consolidated basis. The system was jointly developed over one year by our information systems subsidiary JAL Information Technology Co., Ltd., and the Sanwa Bank Group. This is the first comprehensive and strategic financial system in the Japanese airline industry to enable reduced interest-bearing debt, improved Group profit, and decreased transaction costs.

Participating subsidiaries are connected to the system by either the Intranet or Internet. The system performs the following four functions.

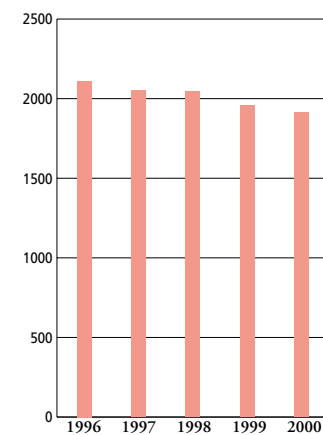
1. Financial accommodation among Group companies
2. Provision of a payment agent
3. Offset accounting among Group companies
4. Financing and management of Group funds

In addition to Sanwa Bank, which developed the multibank compatible system, ten other banks, including the Industrial Bank of Japan, Dai-ichi Kangyo Bank, Bank of Tokyo-Mitsubishi, and Sumitomo Bank, cooperated in the system's development.

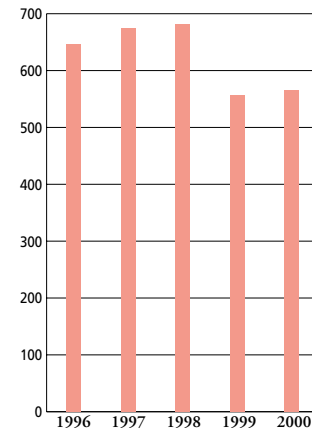
According to the goals of the midterm management plan, implementation of the system will enable reduction of about ¥50 billion of ¥350 billion in interest-bearing debt and improve the annual financial income and expenditure by ¥600 million.

JAL will use its midterm management plan to move towards implementation of its e-business and information technology strategies in order to achieve the highest possible account balance and cash flow. Linking the Group companies to J-Banks is a powerful move toward achieving those goals.

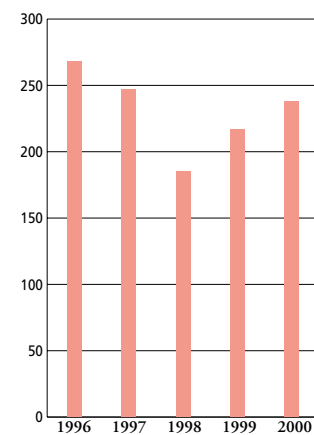
Consolidated Total Assets
(Billions of Yen)
Years Ended March 31



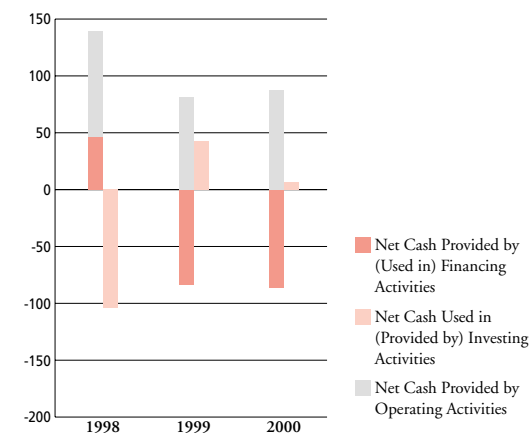
Consolidated Current Liabilities
(Billions of Yen)
Years Ended March 31



Consolidated Total Stockholders' Equity
(Billions of Yen)
Years Ended March 31



Consolidated Cash Flows
(Billions of Yen)
Years Ended March 31



Report on Year 2000 computer issues

JAL began studying the possible impact of the Year 2000 (Y2K) computer bug and taking steps to respond in August 1995. Since then, we have followed our original schedule to prepare key systems vital to safety, on-time departure, and customer service.

This has included the preparation of contingency plans for passengers, airports, flight control, and maintenance, as well as for other internal systems.

A full 24 hours before the deadline of January 1, 2000, our Y2K Headquarters at the head office established minute-by-minute intercommunication with Y2K teams in each sector of the company and at each airport branch and office. At the same time, to demonstrate his confidence in the measures we had taken, the chair of the Y2K Compliance Committee, President Isao Kaneko, was onboard a New Year's flight from Hawaii. Although a few flights were delayed due to air traffic control requirements and airport contingency plans in some countries, the vast majority of flights were on time and there was no direct impact on passenger service due to problems with aircraft or operations.

Our Year 2000 precautions continued through March 2000. This enabled us to ensure complete preparedness for any leap-year bugs appearing on February 29, as well as to preempt any problems during the April 1 shift to fiscal year 2000. Our Year 2000 precautions were finally shut down with no problems having occurred in any system.

Consolidated Balance Sheets

Japan Airlines Company, Ltd. and Consolidated Subsidiaries
March 31, 2000 and 1999

Assets	Millions of yen		Thousands of U.S. dollars (Note 2)
	2000	1999	2000
Current assets:			
Cash and time deposits	¥ 139,242	¥ 104,249	\$ 1,313,603
Marketable securities, at cost (Note 3)	98,409	139,773	928,386
Accounts receivable (Note 11):			
Trade (Note 7)	161,393	153,213	1,522,575
Unconsolidated subsidiaries and affiliates	10,752	20,692	101,433
Allowance for doubtful accounts	(1,901)	(2,464)	(17,933)
Flight equipment spare parts, at cost	57,691	57,413	544,254
Deferred income taxes (Notes 1 and 5)	8,461	303	79,820
Prepaid expenses and other	108,285	110,464	1,021,556
Total current assets	582,334	583,645	5,493,716
Investments and advances (Note 3):			
Unconsolidated subsidiaries and affiliates	37,760	65,332	356,226
Other, at cost	108,931	115,308	1,027,650
Total investments and advances	146,692	180,640	1,383,886
Property and equipment (Notes 1, 4 and 7):			
Flight equipment	1,547,873	1,557,114	14,602,575
Ground property and equipment	778,324	740,704	7,342,679
	2,326,198	2,297,818	21,945,264
Accumulated depreciation	(1,231,155)	(1,228,975)	(11,614,669)
	1,095,042	1,068,843	10,330,584
Advances on aircraft purchases and other (Note 11)	7,052	48,188	66,528
Property and equipment, net	1,102,094	1,117,032	10,397,113
Long-term loans (Note 7)	15,817	20,136	149,216
Deferred income taxes (Notes 1 and 5)	8,890	3,923	83,867
Other assets	37,083	35,896	349,839
Translation adjustments	18,264	14,346	172,301
	¥ 1,911,177	¥ 1,955,622	\$ 18,029,971

Liabilities and Stockholders' Equity	Millions of yen		Thousands of U.S. dollars (Note 2)
	2000	1999	2000
Current liabilities:			
Short-term bank loans	¥ 46,479	¥ 79,593	\$ 438,481
Current portion of long-term debt (Notes 4 and 11)	181,667	136,530	1,713,839
Accounts payable (Note 11):			
Trade	161,721	167,938	1,525,669
Construction	16,254	14,533	153,339
Unconsolidated subsidiaries and affiliates	4,156	5,477	39,207
Accrued expenses	55,156	55,395	520,339
Accrued income taxes (Note 5)	5,753	2,810	54,273
Deferred income taxes (Notes 1 and 5)	26	18	245
Other	93,723	94,896	884,179
Total current liabilities	564,939	557,194	5,329,613
Long-term debt (Notes 4 and 11)	980,818	1,066,660	9,253,000
Accrued severance indemnities	101,922	97,837	961,528
Deferred income taxes (Notes 1 and 5)	2,006	201	18,924
Minority interests	23,588	16,768	222,528
Commitments and contingent liabilities (Notes 6, 7 and 11)			
Stockholders' equity:			
Common stock, ¥50 par value:			
Authorized: 6,000,000,000 shares			
Issued: 1,778,943,439 shares	188,323	188,323	1,776,632
Additional paid-in capital	31,808	31,808	300,075
Retained earnings (deficit)	17,814	(3,167)	168,056
	237,946	216,964	2,244,773
Common stock in treasury, at cost:			
89,579 shares in 2000 and 21,068 shares in 1999	(43)	(6)	(405)
Total stockholders' equity	237,903	216,957	2,244,367
	¥1,911,177	¥1,955,622	\$ 18,029,971

The accompanying notes are an integral part of these statements.

Consolidated Statements of Operations

Japan Airlines Company, Ltd. and Consolidated Subsidiaries
For the Years Ended March 31, 2000, 1999 and 1998

	Millions of yen			Thousands of U.S. dollars (Note 2)
	2000	1999	1998	2000
Operating revenues:				
Passenger:				
Domestic	¥ 309,531	¥ 307,447	¥ 321,945	\$ 2,920,103
International	610,928	619,506	667,693	5,763,471
Cargo:				
Domestic	28,826	27,964	28,046	271,943
International	151,163	150,611	158,776	1,426,066
Incidental and other revenues	498,065	460,563	405,098	4,698,726
	1,598,516	1,566,094	1,581,559	15,080,339
Operating expenses (Note 6):				
Flight operations	295,639	287,076	328,047	2,789,047
Maintenance	83,820	83,228	83,001	790,754
Passenger services	106,569	123,888	128,177	1,005,367
Aircraft and traffic servicing	182,535	194,747	200,788	1,722,028
Sales and advertising	192,449	183,586	212,123	1,815,556
General and administrative	135,655	118,721	106,668	1,279,764
Depreciation and amortization	90,410	95,942	91,245	852,924
Cost of incidental and other expenses	466,549	446,047	389,879	4,401,405
	1,553,628	1,533,237	1,539,932	14,656,867
Operating income	44,887	32,856	41,626	423,462
Non-operating income (expenses):				
Interest and dividend income	4,732	4,584	4,025	44,641
Interest expense	(35,377)	(39,160)	(43,021)	(333,745)
Exchange loss, net	(5,600)	(3,298)	(478)	(52,830)
Aircraft purchase incentives	3,306	19,101	6,642	31,188
Gain on sales of marketable securities	3,379	22	203	31,877
Gain on sales of aircraft	7,701	15,908	1,463	72,650
Gain on sales of ground property and equipment	5,250	6,689	12,422	49,528
Gain on sales of investments in securities	16,236	3,642	118	153,169
Loss on disposal of fixed assets	(2,285)	(1,269)	(1,179)	(21,556)
Loss on revaluation of marketable securities	(324)	(2,819)	-	(3,056)
Loss on investments in unconsolidated subsidiaries and affiliates	(3,484)	(1,032)	(63,246)	(32,867)
Loss on revaluation of investments in securities	(2,337)	(1,174)	-	(22,047)
Special termination benefits	(6,052)	(5,844)	(15,462)	(57,094)
Provision for accrued severance indemnities	(2,861)	-	-	(26,990)
Equity in earnings of unconsolidated subsidiaries and affiliates	1,980	6,539	2,221	18,679
Other, net	(2,230)	1,545	(5,816)	(21,037)
	(17,966)	3,433	(102,108)	(169,490)
Income (loss) before income taxes and minority interests	26,922	36,290	(60,481)	253,981
Income taxes (Notes 1 and 5):				
Current	8,130	4,836	5,596	76,698
Deferred	(3,109)	3,731	33	(29,330)
	5,020	8,568	5,630	47,358
Income (loss) before minority interests	21,902	27,722	(66,111)	206,622
Minority interests	(2,161)	(948)	3,192	(20,386)
Net income (loss)	¥ 19,740	¥ 26,773	¥ (62,918)	\$ 186,226

The accompanying notes are an integral part of these statements.

Consolidated Statements of Stockholders' Equity

Japan Airlines Company, Ltd. and Consolidated Subsidiaries
For the Years Ended March 31, 2000, 1999 and 1998

	Number of shares of common stock	Millions of yen				Total
		Common stock	Additional paid-in capital	Retained earnings (deficit)	Common stock in treasury	
Balance at March 31, 1997	1,778,943,439	¥ 188,323	¥ 161,776	¥ (103,498)	¥ (8)	¥ 246,593
Net loss for the year ended March 31, 1998				(62,918)		(62,918)
Bonuses to directors and statutory auditors				(25)		(25)
Increase resulting from changes in scope of consolidation				1,313		1,313
Net increase in common stock in treasury					(1)	(1)
Balance at March 31, 1998	1,778,943,439	188,323	161,776	(165,128)	(9)	184,961
Net income for the year ended March 31, 1999				26,773		26,773
Elimination of accumulated deficit (Note 8)			(129,968)	129,968		-
Bonuses to directors and statutory auditors				(24)		(24)
Increase resulting from changes in scope of consolidation				5,906		5,906
Decrease resulting from changes in scope of consolidation				(662)		(662)
Net increase in common stock in treasury					3	3
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 (Note 1)				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 changes in scope of consolidation				7,395		7,395
Decrease resulting from changes in scope of consolidation				(7,667)		(7,667)
Net increase in common stock in treasury					(37)	(37)
Balance at March 31, 2000	1,778,943,439	¥ 188,323	¥ 31,808	¥ 17,814	¥ (43)	¥ 237,903

	Thousands of U.S. dollars (Note 2)				
	Common stock	Additional paid-in capital	Retained earnings (deficit)	Common stock in treasury	Total
Balance at March 31, 1999	\$ 1,776,632	\$ 300,075	\$ (29,877)	\$ (56)	\$ 2,046,764
Cumulative effect of adoption of tax-effect accounting (Note 1)			65,028		65,028
Net income for the year ended March 31, 2000			186,226		186,226
Cash dividends			(50,339)		(50,339)
Bonuses to directors and statutory auditors			(405)		(405)
Increase resulting from changes in scope of consolidation			69,764		69,764
Decrease resulting from changes in scope of consolidation			(72,330)		(72,330)
Net increase in common stock in treasury				(349)	(349)
Balance at March 31, 2000	\$ 1,776,632	\$ 300,075	\$ 168,056	\$ (405)	\$ 2,244,367

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

Japan Airlines Company, Ltd. and Consolidated Subsidiaries
For the Years Ended March 31, 2000, 1999 and 1998

	Millions of yen			Thousands of U.S. dollars (Note 2)
	2000	1999	1998	2000
Operating activities				
Income (loss) before income taxes and minority interests	¥ 26,922	¥ 36,290	¥ (60,481)	\$ 253,981
Adjustments to reconcile income (loss) before income taxes and minority interests to net cash provided by operating activities:				
Depreciation and amortization	90,410	97,130	94,416	852,924
(Gain) loss on sales of, and loss on revaluation of, marketable securities and investments in securities	(16,884)	4,245	63,072	(159,283)
(Gain) loss on sales of, and loss on disposal of, fixed assets	(7,311)	(2,752)	(7,889)	(68,971)
Net provision for accrued severance indemnities	2,927	(275)	(4,625)	27,613
Interest and dividend income	(4,732)	(4,584)	(4,025)	(44,641)
Interest expense	35,377	39,160	43,021	333,745
Exchange loss (gain)	2,017	(2,337)	248	19,028
Equity in earnings of unconsolidated subsidiaries and affiliates	(1,980)	(6,539)	(2,221)	(18,679)
Decrease in accounts receivable	7,252	21,637	134	68,415
Increase in flight equipment spare parts	(458)	(2,977)	(731)	(4,320)
(Decrease) increase in accounts payable	(11,432)	(28,074)	5,583	(107,849)
Other	922	(31,162)	7,246	8,698
Subtotal	123,030	119,763	133,748	1,160,660
Interest and dividends received	5,341	4,061	3,566	50,386
Interest paid	(35,150)	(36,796)	(39,348)	(331,603)
Income taxes paid	(5,894)	(5,301)	(5,509)	(55,603)
Net cash provided by operating activities	87,326	81,727	92,457	823,830
Investing activities				
Decrease (increase) in time deposits	1,287	(1,260)	(9,866)	12,141
Decrease in marketable securities	9,160	4,279	2,816	86,415
Purchases of fixed assets	(81,151)	(129,739)	(142,292)	(765,575)
Proceeds from sales of fixed assets	20,734	123,903	13,635	195,603
Decrease in investments in securities	35,350	16,078	5,066	333,490
Decrease in long-term loans	11,056	483	31	104,301
Other	10,578	29,289	26,838	99,792
Net cash provided by (used in) investing activities	7,012	43,034	(103,772)	66,150
Financing activities				
Proceeds from long-term debt	111,564	181,101	279,181	1,052,490
Repayment of long-term debt	(157,093)	(215,336)	(238,501)	(1,482,009)
(Decrease) increase in short-term bank loans	(35,293)	111	5,879	(332,952)
Dividends paid to stockholders of the Company	(5,293)	—	—	(49,933)
Other	(283)	(49,201)	(25)	(2,669)
Net cash (used in) provided by financing activities	(86,397)	(83,324)	46,534	(815,066)
Effect of exchange rate changes on cash and cash equivalents	(568)	2,124	1,429	(5,358)
Net increase in cash and cash equivalents	7,372	43,561	36,648	69,547
Cash and cash equivalents at beginning of the year	182,938	127,539	90,936	1,725,830
Increase in cash and cash equivalents arising from inclusion in consolidation	462	11,862	4	4,358
Decrease in cash and cash equivalents arising from exclusion from consolidation	(1,058)	(24)	(49)	(9,981)
Cash and cash equivalents at end of the year (Notes 1 and 12)	¥ 189,715	¥ 182,938	¥ 127,539	\$ 1,789,764

The accompanying notes are an integral part of these statements.

Notes to Consolidated Financial Statements

Japan Airlines Company, Ltd. and Consolidated Subsidiaries
March 31, 2000

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 the countries of their domicile. The accompanying consolidated financial statements have been compiled from the consolidated financial statements filed with the Minister of Finance as required by the Securities and Exchange Law of Japan 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 classifications.

Effective the year ended March 31, 2000, the Company was required for the first time to prepare a consolidated statement of cash flows as part of its consolidated financial statements under the Securities and Exchange Law of Japan. Accordingly, the Company has prepared its 2000 consolidated statement of cash flows in accordance with "Accounting Standards for Consolidated Statements of Cash Flows" and has reclassified the previously reported consolidated statements of cash flows for 1999 and 1998.

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

The balance sheet date of 29 of the consolidated subsidiaries is December 31, 1999. Any significant differences in intercompany accounts and transactions arising from intervening intercompany transactions during the period from January 1, 2000 through March 31, 2000 are adjusted, if necessary.

Investments in certain unconsolidated subsidiaries and significant affiliates are accounted for by the equity method.

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.

c. Property and equipment

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

In Japan, companies are permitted by tax legislation to defer certain capital gains principally arising from insurance claims by crediting them to the cost of certain properties. Such deferred gains at March 31, 2000 and 1999 amounted to ¥10,656 million (\$100,528 thousand) and ¥10,696 million, respectively.

Depreciation of property and equipment is computed as follows:

Flight equipment:

Aircraft and spare engines:

Boeing 747	— 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	— 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

d. Bond issuance expenses

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

e. Accrued bonuses

At March 31, 1999, no accrual for employees' bonuses of the Company was provided because of a revision of the term for the payment of bonuses to employees. The effect of this revision was to decrease operating expenses, and to increase operating income and income before income taxes and minority interests by ¥15,351 million for the year ended March 31, 1999.

f. Accrued severance indemnities

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 has followed the

accounting policy of providing for the liability for employees' severance indemnities at 40% of such liability.

In addition to the lump-sum payment plan, the Company and certain significant domestic subsidiaries have established contributory funded defined benefit pension plans pursuant to the Welfare Pension Insurance Law of Japan to substitute for their non-contributory funded pension plans, whereas most other domestic subsidiaries have maintained non-contributory funded pension plans. The costs of the pension plans are determined actuarially and the amortization of prior service cost is charged to income. Prior service cost is principally being amortized over a period of between 10 and 20 years.

g. Passenger revenue

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

h. 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 the 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.

i. 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.

2. U.S. Dollar Amounts

Amounts in U.S. dollars are included solely for the convenience of the reader. The rate of ¥106 = U.S.\$1.00, the approximate exchange rate prevailing on March 31, 2000, has been used. The inclusion of such amounts is not

j. Cash equivalents

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

k. New accounting standards

Consolidation

In accordance with recently revised accounting standards for consolidation, the accompanying consolidated financial statements for the year ended March 31, 2000 include the accounts of the Company and the significant companies controlled directly or indirectly by the Company and its consolidated subsidiaries (the "Group"). Companies over which the Group exercises significant influence in terms of their operating and financial policies have been included in the consolidated financial statements on an equity basis. In addition, the assets and liabilities of newly consolidated subsidiaries are stated at fair value as of their respective acquisition dates.

Until the year ended March 31, 1999, the consolidated financial statements included the accounts of the Company and the significant subsidiaries, and investments in certain unconsolidated subsidiaries and significant affiliates (owned 20% to 50%) were accounted for by the equity method.

Tax-effect accounting

In accordance with a new accounting standard for income taxes, deferred tax assets and liabilities were recognized in the consolidated financial statements for the year ended March 31, 2000 with respect to the differences between financial reporting and the tax bases of the assets and liabilities, and were measured using the enacted tax rates and laws which will be in effect when the differences are expected to reverse.

Until the year ended March 31, 1999, deferred income taxes had been recognized only insofar they related to the elimination of intercompany items on consolidation. The effect of this change in method of accounting was to increase total assets by ¥13,860 million (\$130,754 thousand), total liabilities by ¥1,487 million (\$14,028 thousand) and retained earnings by ¥12,373 million (\$116,726 thousand) at March 31, 2000, and to increase net income by ¥3,629 million (\$34,235 thousand) for the year ended March 31, 2000.

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. Fair Value of Marketable Securities

The carrying and related fair values of current and noncurrent marketable securities at March 31, 2000 were as follows:

	Millions of yen			Thousands of U.S. dollars (Note 2)		
	Carrying value	Estimated fair value	Unrealized gain(loss)	Carrying value	Estimated fair value	Unrealized gain(loss)
Current:						
Stocks	¥29,443	¥32,366	¥2,923	\$277,764	\$305,339	\$27,575
Bonds	7,922	7,869	(53)	74,735	74,235	(500)
Other	151	169	18	1,424	1,594	169
Subtotal	37,517	40,406	2,888	353,933	381,188	27,245
Noncurrent:						
Stocks	7,937	9,060	1,123	74,877	85,471	10,594
Bonds	18,355	19,306	951	173,160	182,132	8,971
Other	100	99	(0)	943	933	(0)
Subtotal	26,392	28,466	2,074	248,981	268,547	19,566
Total	¥63,909	¥68,872	¥4,962	\$602,915	\$649,735	\$46,811

4. Long-Term Debt

Long-term debt at March 31, 2000 and 1999 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2000	1999	2000
Bonds:			
Bonds in U.S. dollars, due 2003, with interest at 6.625%	¥ 26,845	¥ 26,845	\$ 253,254
Euro-yen bonds, due 1999, with interest at 6.0% and at rate varying according to LIBOR	—	30,000	—
Euro-yen bonds, due 2000 to 2003, with interest from at 1.25% to 6.9% and at rates varying according to LIBOR	96,037	96,122	906,009
Japanese yen bonds, due 2001 to 2018, with interest at from 1.25% to 3.4%	347,350	327,350	3,276,886
Convertible bonds, due 2005, with interest at 1.6%	18,664	18,664	176,075
Loans with collateral, due 1999 to 2024, with interest at from 0.48% to 6.6%	340,710	322,080	3,214,245
Loans without collateral	304,898	356,193	2,876,396
Other	27,981	25,935	263,971
	1,162,485	1,203,190	10,966,839
Less current portion	(181,667)	(136,530)	(1,713,839)
	¥ 980,818	¥ 1,066,660	\$ 9,253,000

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

Under the provisions of this issue, the conversion price is subject to adjustment in certain cases which include stock splits.

The aggregate annual maturities of long-term debt subsequent to March 31, 2000 are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2001	¥ 181,667	\$ 1,713,839
2002	187,164	1,765,698
2003	147,420	1,390,754
2004	128,652	1,213,698
2005 and thereafter	517,581	4,882,839
	<u>¥1,162,485</u>	<u>\$10,966,839</u>

5. Income Taxes

The Company is subject to a number of taxes based on taxable income, i.e. corporation, inhabitants' and enterprise taxes, which, in the aggregate, resulted in statutory rates of approximately 40% in 2000, 47% in 1999 and 52% in 1998.

The significant components of deferred tax assets and liabilities and the related valuation allowance at March 31, 2000 were as follows:

	Millions of yen	Thousands of U.S. dollars
Deferred tax assets:		
Revaluation loss on investments in unconsolidated subsidiaries and affiliates	¥ 35,592	\$ 335,773
Accrued severance indemnities	9,137	86,198
Accounts payable-trade	2,757	26,009
Revaluation loss on flight equipment spare parts	1,901	17,933
Accrued bonuses	1,519	14,330
Tax loss carryforwards	48,083	453,613
Other	15,223	143,613
	<u>114,212</u>	<u>1,077,471</u>
Deferred tax liabilities:		
Reserve for special depreciation	(5,320)	(50,188)
Accumulated earnings of consolidated subsidiaries	(1,626)	(15,339)
Other	(2,654)	(25,037)
	<u>(9,600)</u>	<u>(90,566)</u>
Valuation allowance	(89,294)	(842,396)
Net deferred tax assets	<u>¥ 15,318</u>	<u>\$ 144,509</u>

A summary of assets pledged as collateral for long-term debt at March 31, 2000 is as follows:

	Millions of yen	Thousands of U.S. dollars
Flight equipment, net of accumulated depreciation	¥402,914	\$3,801,075
Ground property and equipment, net of accumulated depreciation, and other	110,992	1,047,094
	<u>¥513,907</u>	<u>\$4,848,179</u>

The effective interest rates on certain foreign currency bonds, which resulted from hedging the bonds with cross-currency interest rate swaps, were lower than the long-term prime rate in Japan at each issuance date.

A reconciliation between the Japanese statutory tax rate and the Company's effective tax rate for the year ended March 31, 2000 is as follows:

Japanese statutory tax rate	40.2%
Disallowed expenses, including entertainment expenses	8.2
Dividends received	(2.1)
Equity in earnings of unconsolidated subsidiaries and affiliates	(3.0)
Inhabitants' per capita taxes	0.8
Change in valuation allowance	(25.4)
Other	(0.1)
Company's effective tax rate	<u>18.7%</u>

6. 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, 2000 and 1999, and the related depreciation and interest expense for the years ended March 31, 2000 and 1999, which would have been reflected in the 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:

	Millions of yen			Thousands of U.S. dollars		
	Flight equipment	Ground property and equipment	Total	Flight equipment	Ground property and equipment	Total
March 31, 2000						
Acquisition costs	¥430,160	¥21,955	¥452,116	\$4,058,113	\$207,122	\$4,265,245
Less accumulated depreciation	194,776	14,422	209,198	1,837,509	136,056	1,973,566
Net book value	<u>¥235,384</u>	<u>¥7,533</u>	<u>¥242,917</u>	<u>\$2,220,603</u>	<u>\$ 71,066</u>	<u>\$2,291,669</u>

	Millions of yen		
	Flight equipment	Ground property and equipment	Total
March 31, 1999			
Acquisition costs	¥384,122	¥26,117	¥410,240
Less accumulated depreciation	158,009	15,971	173,980
Net book value	<u>¥226,113</u>	<u>¥10,146</u>	<u>¥236,260</u>

Year ended March 31,	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
Depreciation expense	<u>¥40,245</u>	¥32,476	<u>\$379,669</u>
Interest expense	<u>¥10,203</u>	¥ 9,762	<u>\$ 96,254</u>

Lease expenses relating to capital leases accounted for as operating leases amounted to ¥46,620 million (\$439,811 thousand), ¥39,499 million and ¥40,380 million for the years ended March 31, 2000, 1999 and 1998, respectively.

The present value of future rental expenses under capital leases accounted for as operating leases outstanding at March 31, 2000 and 1999 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
Within 1 year	<u>¥ 38,304</u>	¥ 34,280	<u>\$ 361,358</u>
Over 1 year	<u>240,767</u>	234,792	<u>2,271,386</u>
	<u>¥279,072</u>	<u>¥269,073</u>	<u>\$2,632,754</u>

Future rental expenses under operating leases outstanding at March 31, 2000 and 1999 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
Within 1 year	<u>¥12,445</u>	¥13,915	<u>\$117,405</u>
Over 1 year	<u>68,422</u>	68,276	<u>645,490</u>
	<u>¥80,868</u>	<u>¥82,191</u>	<u>\$762,905</u>

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, 2000 and 1999, and the related depreciation and interest revenue for the years ended March 31, 2000 and 1999, which would have been reflected in the balance sheets and the related statements of operations if direct financing lease accounting had been applied to the capital leases currently accounted for as operating leases:

	Millions of yen			Thousands of U.S. dollars		
	Flight equipment	Ground property and equipment	Total	Flight equipment	Ground property and equipment	Total
March 31, 2000						
Acquisition costs	¥348	¥6,736	¥7,084	\$3,283	\$63,547	\$66,830
Less accumulated depreciation	185	4,233	4,418	1,745	39,933	41,679
Net book value	¥162	¥2,502	¥2,665	\$1,528	\$23,603	\$25,141

	Millions of yen		
	Flight equipment	Ground property and equipment	Total
March 31, 1999			
Acquisition costs	¥348	¥7,475	¥7,823
Less accumulated depreciation	150	4,023	4,173
Net book value	¥197	¥3,452	¥3,649

Year ended March 31,	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
Depreciation expense	¥1,118	¥1,299	\$10,547
Interest expense	¥ 177	¥ 207	\$ 1,669

Lease revenues relating to direct financing leases accounted for as operating leases amounted to ¥1,321 million (\$12,462 thousand), ¥1,494 million and ¥1,649 million for the years ended March 31, 2000, 1999 and 1998, respectively.

The present value of future rental revenues under direct financing leases accounted for as operating leases outstanding at March 31, 2000 and 1999 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
Within 1 year	¥ 967	¥1,153	\$ 9,122
Over 1 year	1,893	2,689	17,858
	¥2,860	¥3,843	\$26,981

Future rental revenues under operating leases outstanding at March 31, 2000 and 1999 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
Within 1 year	¥128	¥211	\$1,207
Over 1 year	46	128	433
	¥174	¥339	\$1,641

7. Commitments and Contingent Liabilities

Commitments outstanding at March 31, 2000 for purchases of significant property and equipment amounted to ¥430,050 million (\$4,057,075 thousand).

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

At March 31, 2000, contingent liabilities for guarantees, principally for unconsolidated subsidiaries, affiliates and employees, amounted to ¥19,727 million (\$186,103 thousand). In addition, at March 31, 2000, contingent liabilities for commitments such as guarantees, keep well

agreements and others, principally for unconsolidated subsidiaries, affiliates and employees, amounted to ¥4,118 million (\$38,849 thousand).

In addition, at March 31, 2000, the Company was liable under debt assumption agreements for in-substance defeasance of certain bonds in the aggregate amount of ¥60,000 million (\$566,037 thousand).

The Company has sold certain receivables and loans to banks. At March 31, 2000, the aggregate balance of the receivables and loans sold was ¥66,673 million (\$628,990 thousand).

8. Elimination of Accumulated Deficit

The Company's non-consolidated accumulated deficit at March 31, 1998 consisted of the following:

	Millions of yen
Reserve for special depreciation	¥ 8,665
Special reserve	5,808
Accumulated deficit brought forward	(151,772)
	¥(137,298)

A proposal for disposition of the Company's non-consolidated accumulated deficit to be carried forward of ¥151,772 million at March 31, 1998 was approved at a stockholders' meeting held on June 26, 1998. A portion of the deficit in the amount of ¥165,128 million at March 31, 1998 was offset against a reversal of additional paid-in capital of ¥129,968 million. As a result, at June 26, 1998, the balance of consolidated accumulated deficit carried forward amounted to ¥35,160 million.

9. Amounts Per Share

Net income (loss) 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.

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

Year ended March 31,	Yen		U.S. dollars	
	2000	1999	1998	2000
Net income (loss)	¥11.10	¥15.05	¥(35.37)	\$0.104
Diluted net income	¥11.10	¥15.05	–	\$0.104

March 31,	Yen		U.S. dollars
	2000	1999	2000
Net assets	¥133.74	¥121.96	\$1.261

10. 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, 2000, 1999 and 1998 is summarized as follows:

Year ended March 31, 2000	Millions of yen						
	Air transportation	Travel services	Hotel and resort operations	Other	Total	General corporate assets and intercompany eliminations	Consolidated
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

Thousands of U.S. dollars

Year ended March 31, 2000	Air transportation	Travel services	Hotel and resort operations	Other	Total	General corporate assets and intercompany eliminations	Consolidated
Sales to outside parties	\$ 9,982,933	\$ 3,257,830	\$ 335,641	\$ 1,503,915	\$ 15,080,339	\$ -	\$ 15,080,339
Intra-group sales and transfers	1,559,339	45,566	50,773	2,156,830	3,812,518	(3,812,518)	-
Total	11,542,273	3,303,396	386,424	3,660,754	18,892,867	(3,812,518)	15,080,339
Operating expenses	11,232,886	3,280,179	370,066	3,562,433	18,445,584	(3,788,707)	14,656,867
Operating income	\$ 390,386	\$ 23,207	\$ 16,349	\$ 98,320	\$ 447,273	\$ (23,811)	\$ 423,462
Depreciation and amortization	\$ 654,971	\$ 9,990	\$ 33,150	\$ 169,179	\$ 867,311	\$ (14,386)	\$ 852,924
Capital expenditures	\$ 685,481	\$ 19,056	\$ 18,924	\$ 50,905	\$ 774,386	\$ (8,801)	\$ 765,575
Identifiable assets	\$ 13,175,264	\$ 672,716	\$ 865,122	\$ 4,656,066	\$ 19,369,188	\$ (1,339,207)	\$ 18,029,971

Millions of yen

Year ended March 31, 1999	Air transportation	Travel services	Hotel and resort operations	Other	Total	General corporate assets and intercompany eliminations	Consolidated
Sales to outside parties	¥1,038,482	¥331,500	¥ 52,178	¥143,932	¥1,566,094	¥ -	¥1,566,094
Intra-group sales and transfers	169,202	6,171	5,249	214,322	394,946	(394,946)	-
Total	1,207,685	337,672	57,427	358,254	1,961,040	(394,946)	1,566,094
Operating expenses	1,181,635	337,942	55,791	349,137	1,924,507	(391,270)	1,533,237
Operating income (loss)	¥ 26,049	¥ (270)	¥ 1,635	¥ 9,117	¥ 36,532	¥ (3,675)	¥ 32,856
Depreciation	¥ 62,789	¥ 893	¥ 5,843	¥ 17,479	¥ 87,005	¥ (929)	¥ 86,075
Capital expenditures	¥ 70,699	¥ 64	¥ 1,719	¥ 26,741	¥ 99,224	¥ (4,556)	¥ 94,668
Identifiable assets	¥1,401,607	¥ 63,750	¥122,133	¥542,974	¥2,130,467	¥(174,844)	¥1,955,622

As described in Note 1-e, during the year ended March 31, 1999, the Company revised the term for the payment of bonuses to its employees. The effect of this revision was to decrease operating expenses and increase operating income in the air transport segment by ¥15,351 million for the year ended March 31, 1999.

Thousands of U.S. dollars

Year ended March 31, 1998	Air transportation	Travel services	Hotel and resort operations	Other	Total	General corporate assets and intercompany eliminations	Consolidated
Sales to outside parties	¥1,174,343	¥194,605	¥ 58,683	¥153,926	¥1,581,559	¥ -	¥1,581,559
Intra-group sales and transfers	98,614	1,363	4,948	204,203	309,130	(309,130)	-
Total	1,272,957	195,969	63,632	358,130	1,890,690	(309,130)	1,581,559
Operating expenses	1,239,157	197,131	61,663	348,639	1,846,591	(305,214)	1,541,376
Operating income (loss)	¥ 33,800	¥ (1,161)	¥ 1,969	¥ 9,491	¥ 44,099	¥ (3,916)	¥ 40,182
Depreciation	¥ 60,763	¥ 319	¥ 7,701	¥ 14,875	¥ 83,660	¥ (933)	¥ 82,726
Capital expenditures	¥ 118,135	¥ 209	¥ 2,950	¥ 21,719	¥ 143,015	¥ (154)	¥ 142,861
Identifiable assets	¥1,443,535	¥ 38,066	¥167,374	¥617,522	¥2,266,498	¥(223,737)	¥2,042,761

Operating expenses for fiscal year 1998 include enterprise tax of ¥1,444 million, which was reclassified to income taxes in the accompanying statement of operations for the year ended March 31, 1998.

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, 2000 and 1999 were as follows:

Year ended March 31, 2000	Asia and Oceania	North and South America	Europe	Total
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%

Thousands of U.S. dollars

Year ended March 31, 2000	Asia and Oceania	North and South America	Europe	Total
Operating revenues from foreign operations	\$3,460,584	\$2,926,283	\$1,801,084	\$ 8,187,971
Consolidated operating revenues				\$15,080,339
Operating revenues from foreign operations as a percentage of consolidated operating revenues	22.9%	19.4%	11.9%	54.3%

Millions of yen

Year ended March 31, 1999	Asia and Oceania	North and South America	Europe	Total
Operating revenues from foreign operations	¥340,878	¥326,148	¥186,758	¥ 853,785
Consolidated operating revenues				¥1,566,094
Operating revenues from foreign operations as a percentage of consolidated operating revenues	21.8%	20.8%	11.9%	54.5%

c. Geographic information

For the years ended March 31, 2000, 1999 and 1998, 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.

11. Derivatives and Hedging Activities

The Company and consolidated subsidiaries have utilized forward 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 swap agreements and forward foreign exchange contracts to minimize the impact of foreign exchange and interest-rate movements related to its outstanding debt on the Company's and consolidated subsidiaries' 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 purpose of the Company's and consolidated subsidiaries' hedging activities in the form of forward foreign exchange contracts, currency options and commodity

derivatives is to protect the Company and consolidated subsidiaries from the related market risks. In addition, the purpose of interest-rate and currency swap agreements is effectively to modify the characteristics of the interest and underlying principal of its outstanding debt.

The Company and consolidated subsidiaries are exposed to certain market risks arising from the forward foreign exchange contracts, swap agreements and written currency options referred to above. The Company and consolidated subsidiaries are also exposed to the risk of credit loss in the event of non-performance by the counterparties to the currency, interest and commodity derivatives; however, the Company and consolidated subsidiaries do not anticipate non-performance by any of these counterparties all of whom are financial institutions with high bond ratings.

At March 31, 2000, the forward foreign exchange contracts outstanding were as follows:

March 31, 2000	Millions of yen			March 31, 2000	Thousands of U.S. dollars		
	Notional amounts	Market value	Unrealized gain (loss)		Notional amounts	Market value	Unrealized gain (loss)
Purchased:				Purchased:			
U.S. dollars	¥15,904	¥15,950	¥46	U.S. dollars	\$150,037	\$150,471	\$433
Others	5,465	5,412	(52)	Others	51,556	51,056	(490)
	<u>¥21,369</u>	<u>¥21,363</u>	<u>¥(6)</u>		<u>\$201,594</u>	<u>\$201,537</u>	<u>\$(56)</u>
(Over one year)	(¥-)			(Over one year)	(\$-)		

The above amounts exclude contracts entered into in order to hedge receivables and payables denominated in foreign currencies which have been translated and reflected at the corresponding contracted rates in the accompanying balance sheet at March 31, 2000.

At March 31, 2000, interest-rate option and interest-rate swap agreements were as follows:

March 31, 2000	Millions of yen		March 31, 2000	Thousands of U.S. dollars	
	Notional amounts	Unrealized gain (loss)		Notional amounts	Unrealized gain (loss)
Interest-rate option agreements:			Interest-rate option agreements:		
Collars	¥ 1,000	¥ (17)	Collars	\$ 9,433	\$ (160)
(Over one year)	(¥400)		(Over one year)	(\$ 3,773)	
Interest-rate swap agreements:			Interest-rate swap agreements:		
Fixed-rate into variable-rate obligations	¥ 45,370	¥ 1,834	Fixed-rate into variable-rate obligations	\$ 428,018	\$ 17,301
(Over one year)	(¥ 15,170)		(Over one year)	(\$ 143,113)	
Variable-rate into fixed-rate obligations	¥ 148,031	¥(7,987)	Variable-rate into fixed-rate obligations	\$1,396,518	\$(75,349)
(Over one year)	(¥ 118,264)	(¥6,170)	(Over one year)	(\$1,115,698)	

The above amounts exclude swap agreements entered into in order to hedge the principal amounts of outstanding debt and the related interest denominated in foreign currencies, which have been translated and reflected at the corresponding swap rates in the accompanying balance sheet at March 31, 2000.

At March 31, 2000, fuel price commodity derivatives were as follows:

March 31, 2000	Millions of yen				March 31, 2000	Thousands of U.S. dollars			
	Notional amounts	Carrying amounts	Market value	Unrealized gain (loss)		Notional amounts	Carrying amounts	Market value	Unrealized gain (loss)
Fuel price protection arrangements:					Fuel price protection arrangements:				
Caps	¥8,969	¥589	¥596	¥ 7	Caps	\$84,613	\$5,556	\$5,622	\$ 66
(Over one year)	(¥-)				(Over one year)	(\$-)			
Collars	¥5,901	¥ -	¥574	¥574	Collars	\$55,669	\$ -	\$5,415	\$5,415
(Over one year)	(¥ 334)				(Over one year)	(\$ 3,150)			
Floors	¥3,104	¥ 82	¥ 59	¥(22)	Floors	\$29,283	\$ 773	\$ 556	\$(207)
(Over one year)	(¥-)				(Over one year)	(\$-)			
Fuel price swaps	¥1,031	¥ -	¥151	¥151	Fuel price swaps	\$ 9,726	\$ -	\$1,424	\$1,424
(Over one year)	(¥-)				(Over one year)	(\$-)			

12. Cash and Cash Equivalents

The components of cash and cash equivalents were as follows:

March 31,	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
Cash and time deposits	¥139,942	¥104,249	\$1,320,207
Time deposits with maturities of more than three months	(4,611)	(12,772)	(43,500)
Marketable securities with maturities of three months or less	58,021	92,068	547,367
Credit balance of current accounts included in short-term loans	(2,937)	(607)	(27,707)
	<u>¥189,715</u>	<u>¥182,938</u>	<u>\$1,789,764</u>

The Board of Directors

Japan Airlines Company, Ltd.

We have examined the consolidated balance sheets of Japan Airlines Company, Ltd. and consolidated subsidiaries as of March 31, 2000 and 1999, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended March 31, 2000, 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 consolidated subsidiaries at March 31, 2000 and 1999, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2000 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. has adopted new accounting standards for consolidation and tax-effect accounting in the preparation of its consolidated financial statements for the year ended March 31, 2000.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2000 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 29, 2000

Non-Consolidated Balance Sheets

Japan Airlines Company, Ltd.
March 31, 2000 and 1999

Assets	Millions of yen		Thousands of U.S. dollars (Note 2)
	2000	1999	2000
Current assets:			
Cash and time deposits	¥ 72,361	¥ 31,364	\$ 682,650
Marketable securities, at cost	83,220	123,182	785,094
Accounts receivable:			
Trade (Note 6)	80,132	76,963	755,962
Subsidiaries and affiliates	43,741	41,022	412,650
Allowance for doubtful accounts	(376)	(595)	(3,547)
Flight equipment spare parts, at cost	54,627	54,259	515,349
Deferred income taxes (Note 3)	5,314	—	50,132
Prepaid expenses and other	53,362	59,869	503,415
Total current assets	392,383	386,066	3,701,726
Investments and advances:			
Subsidiaries and affiliates	133,669	154,063	1,261,028
Other, at cost	38,889	37,940	366,877
Total investments and advances	172,559	192,004	1,627,915
Property and equipment (Notes 1 and 6):			
Flight equipment	1,323,664	1,302,095	12,487,396
Ground property and equipment	453,008	458,501	4,273,660
	1,776,672	1,760,596	16,761,056
Accumulated depreciation	(933,013)	(943,315)	(8,802,009)
	843,659	817,281	7,959,047
Advances on aircraft purchases and other	6,374	44,732	60,132
Property and equipment, net	850,033	862,014	8,019,179
Long-term loans (Note 6)	11,848	13,060	111,773
Deferred income taxes (Note 3)	433	—	4,084
Other assets	24,907	22,439	234,971
	¥1,452,166	¥1,475,584	\$13,699,679

Liabilities and Stockholders' Equity	Millions of yen		Thousands of U.S. dollars (Note 2)
	2000	1999	2000
Current liabilities:			
Current portion of long-term debt	¥ 102,591	¥ 74,884	\$ 967,839
Accounts payable:			
Trade	99,647	109,613	940,066
Construction	7,831	8,486	73,877
Subsidiaries and affiliates	45,851	44,276	432,556
Accrued expenses	30,301	33,065	285,858
Accrued income taxes (Note 3)	55	250	518
Other	77,133	76,906	727,669
Total current liabilities	363,413	347,484	3,428,424
Long-term debt	751,523	779,299	7,089,839
Accrued severance indemnities	81,931	82,676	772,933
Reserve for loss on investments in subsidiaries and affiliates	7,766	19,709	73,264
Commitments and contingent liabilities (Notes 5 and 6)			
Stockholders' equity:			
Common stock, ¥50 par value:			
Authorized: 6,000,000,000 shares			
Issued: 1,778,943,439 shares	188,323	188,323	1,776,632
Additional paid-in capital	31,808	31,808	300,075
Legal reserve (Note 4)	534	—	5,037
Retained earnings	26,865	26,282	253,443
Total stockholders' equity	247,531	246,415	2,335,198
	¥1,452,166	¥1,475,584	\$13,699,679

The accompanying notes are an integral part of these statements.

Non-Consolidated Statements of Operations

Japan Airlines Company, Ltd.
For the Years Ended March 31, 2000, 1999 and 1998

	Millions of yen			Thousands of U.S. dollars (Note 2)
	2000	1999	1998	2000
Operating revenues:				
Passenger:				
Domestic	¥ 275,826	¥ 279,059	¥ 293,364	\$ 2,602,132
International	580,057	581,623	624,469	5,472,235
Cargo:				
Domestic	27,068	26,768	28,046	255,358
International	143,171	142,395	150,214	1,350,669
Incidental and other revenues	141,557	127,807	123,611	1,335,443
	1,167,681	1,157,653	1,219,706	11,015,858
Operating expenses (Note 5):				
Flight operations	322,591	317,436	349,068	3,043,311
Maintenance	95,989	96,330	94,486	905,556
Passenger services	137,859	137,867	143,456	1,300,556
Aircraft and traffic servicing	222,143	234,132	238,547	2,095,688
Sales and advertising	184,036	177,540	191,953	1,736,188
General and administrative	38,511	34,425	38,151	363,311
Depreciation and amortization	63,721	66,664	62,672	601,141
Cost of incidental and other expenses	74,072	68,436	70,115	698,792
	1,138,926	1,132,833	1,188,451	10,744,584
Operating income	28,754	24,820	31,254	271,264
Non-operating income (expenses):				
Interest and dividend income	4,481	8,145	4,739	42,273
Interest expense	(30,352)	(32,687)	(35,115)	(286,339)
Exchange loss, net	(4,701)	(2,596)	(232)	(44,349)
Aircraft purchase incentives	3,306	19,101	6,642	31,188
Gain on sales of marketable securities	4,903	0	146	46,254
Gain on sales of aircraft	6,370	15,366	3,259	60,094
Gain on sales of ground property and equipment	1,938	2,650	11,696	18,283
Gain on sales of investments in securities	23,400	3,765	42	220,754
Loss on disposal of fixed assets	(1,604)	(834)	(858)	(15,132)
Loss on revaluation of marketable securities	(324)	(2,819)	–	(3,056)
Loss on revaluation of investments in securities	(1,590)	–	–	(15,000)
Loss on investments in subsidiaries and affiliates	(16,830)	–	(72,053)	(158,773)
Provision for reserve for loss on investments in subsidiaries and affiliates	(7,511)	(2,529)	(24,994)	(70,858)
Special termination benefits	(6,052)	(5,414)	(15,203)	(57,094)
Loss on liquidation of operations of subsidiaries and affiliates	–	(167)	(366)	–
Other, net	(3,305)	373	(2,793)	(31,179)
	(27,873)	2,353	(125,091)	(262,952)
Income (loss) before income taxes	881	27,173	(93,836)	8,311
Income taxes (Note 3):				
Current	175	891	353	1,650
Deferred	6,362	–	–	60,018
Net (loss) income	¥ (5,655)	¥ 26,282	¥ (94,189)	\$ (53,349)

The accompanying notes are an integral part of these statements.

Non-Consolidated Statements of Stockholders' Equity

Japan Airlines Company, Ltd.
For the Years Ended March 31, 2000, 1999 and 1998

	Number of shares of common stock	Millions of yen				Total
		Common stock	Additional paid-in capital	Legal reserve (Note 4)	Retained earnings (deficit)	
Balance at March 31, 1997	1,778,943,439	¥188,323	¥161,776	¥ 7,330	¥ (43,108)	¥314,321
Net loss for the year ended March 31, 1998					(94,189)	(94,189)
Balance at March 31, 1998	1,778,943,439	188,323	161,776	7,330	(137,298)	220,132
Net income for the year ended March 31, 1999					26,282	26,282
Elimination of accumulated deficit (Note 7)			(129,968)	(7,330)	137,298	–
Balance at March 31, 1999	1,778,943,439	188,323	31,808	–	26,282	246,415
Cumulative effect of adoption of tax-effect accounting (Note 3)					12,109	12,109
Net loss for the year ended March 31, 2000					(5,655)	(5,655)
Legal reserve					534	(534)
Cash dividends(¥3 per share)					–	–
Balance at March 31, 2000					(5,336)	(5,336)
	1,778,943,439	¥188,323	¥ 31,808	¥ 534	¥ 26,865	¥247,531

	Thousands of U.S. dollars (Note 2)				Total
	Common stock	Additional paid-in capital	Legal reserve (Note 4)	Retained earnings (deficit)	
Balance at March 31, 1999	\$ 1,776,632	\$ 300,075	\$ –	\$247,943	\$ 2,324,169
Cumulative effect of adoption of tax-effect accounting (Note 3)				114,235	114,235
Net loss for the year ended March 31, 2000				(53,349)	(53,349)
Legal reserve			5,037	(5,037)	–
Cash dividends(\$0.028 per share)				(50,339)	(50,339)
Balance at March 31, 2000	\$1,776,632	\$300,075	\$5,037	\$253,443	\$2,335,198

The accompanying notes are an integral part of these statements.

Notes to Non-Consolidated Financial Statements

Japan Airlines Company, Ltd.
March 31, 2000

1. Summary of Significant Accounting Policies

The accompanying non-consolidated financial statements are prepared on the basis of the same accounting policies as those discussed in Note 1 to the consolidated financial statements except that investments in subsidiaries and affiliates are stated at cost.

The Company maintains its accounting records and prepares its financial statements in accordance with accounting principles and practices generally accepted and applied in Japan. The accompanying non-consolidated financial statements have been compiled from the non-consolidated financial statements filed with the Minister of Finance 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 non-consolidated financial statements are not intended to present the non-consolidated financial position and results of operations in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

Certain amounts previously reported have been reclassified to conform to the current year's classifications.

2. U.S. Dollar Amounts

The same method of translating yen amounts into U.S. dollar amounts as that described in Note 2 to the consolidated financial statements has been followed.

3. Income Taxes

The Company initially adopted tax-effect accounting for the year ended March 31, 2000, and the effect of adoption of this method of accounting was to increase total assets and retained earnings by ¥5,747 million (\$54,216 thousand) at March 31, 2000, and to increase net loss by ¥6,362 million (\$60,018 thousand) for the year ended March 31, 2000.

The Company is subject to a number of taxes based on taxable income, i.e. corporation, inhabitants' and enterprise taxes, which, in the aggregate, resulted in statutory rates of approximately 40% in 2000, 47% in 1999 and 52% in 1998.

The significant components of deferred tax assets and liabilities and the related valuation allowance at March 31, 2000 were as follows:

	Millions of yen	Thousands of U.S. dollars
Deferred tax assets:		
Revaluation loss on investments in subsidiaries and affiliates	¥ 33,160	\$ 312,830
Accrued severance indemnities	5,763	54,367
Accounts payable - trade	2,757	26,009
Revaluation loss on flight equipment spare parts	1,742	16,433
Tax loss carryforwards	3,605	34,009
Other	4,890	46,132
Deferred tax liabilities:		
Reserve for special depreciation	(4,800)	(45,283)
	47,120	444,528
Valuation allowance	(41,372)	(390,301)
Net deferred tax assets	¥ 5,747	\$ 54,216

4. Legal Reserve

In accordance with the provisions of the Commercial Code of Japan, the Company has provided a legal reserve by appropriating retained earnings. The legal reserve may be used to reduce or eliminate a deficit or may be transferred to stated capital through suitable stockholders' or directors' action but is not available for the payment of dividends.

5. Leases

The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of the leased property as of March 31, 2000 and 1999, and the related depreciation expense and interest expense for the years ended March 31, 2000 and 1999, respectively, which would have been reflected in the 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, 2000	Millions of yen		
	Flight equipment	Ground property and equipment	Total
Acquisition costs	¥493,906	¥27,787	¥521,693
Less accumulated depreciation	218,809	18,666	237,475
Net book value	¥275,097	¥ 9,121	¥284,218

March 31, 2000	Thousands of U.S. dollars		
	Flight equipment	Ground property and equipment	Total
Acquisition costs	\$4,659,490	\$262,141	\$4,921,632
Less accumulated depreciation	2,064,235	176,094	2,240,330
Net book value	\$2,595,254	\$ 86,047	\$2,681,301

March 31, 1999	Millions of yen		
	Flight equipment	Ground property and equipment	Total
Acquisition costs	¥450,726	¥33,722	¥484,448
Less accumulated depreciation	176,743	20,685	197,428
Net book value	¥273,982	¥13,037	¥287,019

Year ended March 31,	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
Depreciation expense	¥45,987	¥38,204	\$433,839
Interest expense	¥12,206	¥11,992	\$115,150

Lease expenses relating to capital leases accounted for as operating leases amounted to ¥53,612 million (\$505,773 thousand), ¥46,557 million and ¥46,357 million for the years ended March 31, 2000, 1999 and 1998, respectively.

The present value of future rental expenses under capital leases accounted for as operating leases outstanding at March 31, 2000 and 1999 was as follows:

March 31,	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
Within 1 year	¥44,314	¥39,795	\$418,056
Over 1 year	282,174	285,265	2,662,018
	¥326,488	¥325,061	\$3,080,075

Future rental expenses under operating leases outstanding at March 31, 2000 and 1999 were as follows:

March 31,	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
Within 1 year	¥10,537	¥13,178	\$99,405
Over 1 year	43,880	54,735	413,962
	¥54,417	¥67,913	\$513,367

6. Commitments and Contingent Liabilities

Commitments outstanding at March 31, 2000 for purchases of significant property and equipment amounted to ¥427,318 million (\$4,031,301 thousand).

See Note 7 to the consolidated financial statements with respect to the Company's contingent liabilities under debt assumption agreements.

At March 31, 2000, contingent liabilities for guarantees, principally for subsidiaries, affiliates and employees, amounted to ¥18,236 million (\$172,037 thousand). In addition, at March 31, 2000, contingent liabilities for commitments such as guarantees, keep well agreements and others, principally for subsidiaries, affiliates and employees, amounted to ¥52,774 million (\$497,867 thousand).

The Company has sold certain receivables and loans to banks. At March 31, 2000, the aggregate balance of the receivables and loans sold amounted to ¥66,673 million (\$628,990 thousand).

7. Elimination of Accumulated Deficit

The Company's accumulated deficit at March 31, 1998 consisted of the following:

	Millions of yen
Reserve for special depreciation	¥ 8,665
Special reserve	5,808
Accumulated deficit brought forward	(151,772)
	<u>¥(137,298)</u>

A proposal for disposition of accumulated deficit was approved at a stockholders' meeting held on June 26, 1998. The deficit of ¥151,772 million at March 31, 1998 was offset against a reversal of the reserve for special depreciation of ¥8,665 million, the special reserve of ¥5,808 million, the legal reserve of ¥7,330 million and a reversal of additional paid-in capital of ¥129,968 million. As a result, at June 26, 1998, the balance of accumulated deficit carried forward was nil.

8. Amounts Per Share

Amounts per share have been computed by the same method as that described in Note 9 to the consolidated financial statements and are summarized as follows:

Year ended March 31,	Yen U.S. dollars			
	2000	1999	1998	2000
Net loss (income)	¥(3.18)	¥14.77	¥(52.95)	\$0.030
Diluted net income	—	¥14.77	—	—

March 31,	Yen U.S. dollars		
	2000	1999	2000
Net assets	¥139.15	¥138.52	\$1.312

The Board of Directors
Japan Airlines Company, Ltd.

We have examined the non-consolidated balance sheets of Japan Airlines Company, Ltd. as of March 31, 2000 and 1999, and the related non-consolidated statements of operations and stockholders' equity for each of the three years in the period ended March 31, 2000, 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 non-consolidated financial statements, expressed in yen, present fairly the financial position of Japan Airlines Company, Ltd. at March 31, 2000 and 1999, and the results of its operations for each of the three years in the period ended March 31, 2000 in conformity with accounting principles and practices generally accepted in Japan applied on a consistent basis.

As described in Note 3 to the non-consolidated financial statements, Japan Airlines Company, Ltd. has adopted a new accounting standard for tax-effect accounting in the preparation of its non-consolidated financial statements for the year ended March 31, 2000.

The U.S. dollar amounts in the accompanying non-consolidated financial statements with respect to the year ended March 31, 2000 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 non-consolidated financial statements.

June 29, 2000