1. Basis of presenting consolidated financial statements

All Nippon Airways Co., Ltd. (the Company) and its domestic subsidiaries maintain their books of account in accordance with the provisions set forth in the Japanese Commercial Code and in conformity with accounting principles and practices generally accepted in Japan, which may differ in some material respects from accounting principles and practices generally accepted in countries and jurisdictions other than Japan. The Company's foreign subsidiaries maintain their books of account in conformity with accounting principles and practices of the countries of their domicile.

In addition, the notes to the consolidated financial statements include information which is not required under accounting principles and practices generally accepted in Japan but is presented herein as additional information.

The accompanying consolidated financial statements have been compiled from the consolidated financial statements filed with the Minister of Finance as required by the Securities and Exchange Law of Japan. In preparing the accompanying financial statements certain reclassifications have been made in the financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan.

2. Summary of significant accounting policies

(a) Principles of consolidation and accounting for investments in non-consolidated subsidiaries and affiliates

The consolidated financial statements include the accounts of the Company and all of its significant subsidiaries (113 subsidiaries for 2001 and 115 subsidiaries for 2000). All significant intercompany accounts and transactions have been eliminated.

Investments in certain subsidiaries and significant affiliates (32 companies for 2001 and 33 companies for 2000) are accounted for by the equity method of accounting. The difference between the cost and the underlying net equity in the net assets at dates of acquisition of consolidated subsidiaries and companies accounted for by the equity method of accounting is amortized on a straight-line method over a period of five years.

Investments in non-consolidated subsidiaries and affiliates not accounted for by the equity method of accounting (56 companies for 2001 and 80 companies for 2000) are stated at cost. The companies' equity in undistributed earnings of these companies is not significant.

During the years 2001 and 2000, subsidiaries which were not consolidated in prior years were included in consolidation. Also, as a result of the changes in consolidation accounting standards from an equity to a control basis effective from fiscal 2000, the Company increased the number of subsidiaries subject to consolidation from 76 in 1999 to 115 in 2000. The effects of these changes on the consolidated financial position and results of operations have been credited or charged to retained earnings (deficit) and the consolidated financial statements for prior years have not been restated.

(b) Deferred tax accounting

From fiscal 2000, companies in Japan are required to apply deferred tax accounting, which had not been necessary in fiscal 1999, except in certain cases. The effect of adopting deferred tax accounting as of April 1, 1999 in the amount of ¥2,141 million has been credited to retained earnings (deficit) in accordance with accounting principles and practices generally accepted in Japan.

Deferred income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their tax bases and operating losses and tax credits carried forward. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which these temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. See Note 8.

(c) Foreign currency translation

The balance sheet accounts of foreign consolidated subsidiaries are translated into yen at the rates of exchange in effect at the balance sheet date, except for components of shareholders' equity which are translated at their historical exchange rates. Revenues and expenses are translated at the rates of exchange prevailing when such transactions are made. Due to a change in the regulations relating to the presentation of foreign currency translation adjustments which is effective for the year ended March 31, 2001, the Company has presented foreign currency translation adjustments as a component of shareholders' equity. Foreign currency translation adjustments for the year ended March 31, 2000 are presented as a component of assets or liabilities.

In accordance with a revised accounting standard for foreign currency translation, foreign currency payables and receivables at March 31, 2001 are principally translated at the rate of exchange in effect at the balance sheet date, except payables and receivables hedged by qualified forward exchange contracts. Until the year ended March 31, 2000, they are principally translated at the historical rates. The effect of the adoption of this revised standard for foreign currency translation was to increase income before income taxes and minority interests by ¥284 million ($2,292 thousand) for the year ended March 31, 2001. No retroactive adjustments for the adoption of the revised accounting standard have been reflected in the financial statements as of and for the year ended March 31, 2000.

(d) Marketable securities and investment securities

A new accounting standard for financial instruments, which became effective April 1, 2000, requires that securities be classified into three categories: trading, held-to-maturity or other securities. Under the new standard, trading securities are carried at fair value and held-to-maturity securities are carried at amortized cost. Marketable securities classified as other securities are carried at fair value with changes in unrealized holding gain or loss, net of the applicable income taxes, included directly in shareholders' equity. Non-marketable securities classified as other securities are carried at cost. Cost of securities sold is determined by the moving average method.

Until the year ended March 31, 2000, marketable securities and investment securities other than marketable securities had been valued principally at cost, being determined by the moving average method. No retroactive adjustments for the adoption of the new accounting standard have been reflected in the financial statements as of and for the year ended March 31, 2000.

As of April 1, 2000, the Company and its consolidated subsidiaries assessed their intent to hold their investments in securities and classified their investments as "held-to-maturity securities" or "other securities" in order to account for the securities at March 31, 2001 in accordance with the new standard referred to above. As a result marketable securities of ¥5,812 million ($46,909 thousand), which had been included in current assets, were reclassified to investment securities as of April 1, 2000.

The effect of the adoption of this new standard for financial instruments was to decrease income before income taxes and minority interests by ¥3,279 million ($26,465 thousand) for the year ended March 31, 2001. See Note 4.

(e) Derivatives

The company and its subsidiaries use derivatives, such as forward foreign exchange contracts, interest rate swaps and commodity options and swaps, to limit their exposure to fluctuations in foreign exchange rates, interests rates and commodity prices. The company and its subsidiaries do not use derivatives for trading purposes.

In accordance with a new accounting standard for financial instruments which became effective April 1, 2000, derivative financial instruments are carried at fair value with changes in unrealized gain or loss charged or credited to operations, except for those which meet the criteria for deferral hedge accounting under which an unrealized gain or loss is deferred as an asset or a liability. Receivables and payables hedged by qualified forward exchange contracts are translated at the corresponding foreign exchange contract rates. No retroactive adjustments for the adoption of the new accounting standard have been reflected in the financial statements as of and for the year ended March 31, 2000. See Note 12.

(f) Allowance for doubtful receivables

As of March 31, 2001, a general provision is made for doubtful receivables based on past experience. As of March 31, 2000, a general provision was made for doubtful receivables at a rate equivalent to the higher of that which was allowed in Japan as an expense for tax purposes and that which is demonstrated to be required by a review of receivables. Provisions are made against specific receivables as and when required. The effect of the change in the basis of general provision is not significant.

(g) Inventories

Inventories include aircraft spare parts, supplies and stock in trade of consolidated subsidiaries.

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

(h) Property and equipment and depreciation

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

Flight equipment:	
Boeing 747-400s, other Boeing 747s, Boeing 777s, Boeing 767s, Boeing 737-500s, Airbus A320s, Airbus A321s and NAMC YS-11s	Straight-line method
Other flight equipment	Declining balance method
Buildings	Straight-line method
Other ground property and equipment	Declining balance method

Depreciation of Boeing 767s, Boeing 747s other than Boeing 747-400s, Airbus A320s and Airbus A321s had been computed by the sum-of-years-digit method until March 31, 1999 but, effective April 1, 1999, the Company changed the depreciation method of these flight equipment to straight-line primarily due to the relative slowdown of technology development and extension of their economic useful lives. The effect of this change in the depreciation method was to decrease depreciation expense and loss before income taxes and minority interests for the year ended March 31, 2000 by ¥7,334 million.

The Company employs the following useful lives, principally based upon the Company's estimated durability of such aircraft.

International type equipment	20 years
Domestic type equipment	17 years

Effective April 1, 1999, the Company and a subsidiary revised the estimated useful lives of aircraft from 15 years for international type equipment and 13 years for domestic type equipment to 20 years and 17 years, respectively. The effect of this revision was to decrease depreciation expense and loss before income taxes and minority interests for the year ended March 31, 2000 by ¥14,668 million.

Major additions and improvements are capitalized at cost. Maintenance and repairs, including minor renewals and improvements, are charged to income as incurred.

(i) Retirement benefits

The retirement benefit plan of the Company and some of the subsidiaries covers substantially all employees other than directors, officers and statutory auditors. Under the terms of this plan, eligible employees are entitled, upon mandatory retirement or earlier voluntary severance, to lump-sum payments based on their compensation at the time of leaving and years of service with the Company and subsidiaries.

The Company and certain significant domestic subsidiaries have trustee employee pension funds to provide coverage for part of the lump-sum benefits or monthly pension. Several subsidiaries have tax-qualified pension plans which cover all or a part of the lump-sum benefits. In accordance with a new accounting standard for retirement benefits which became effective April 1, 2000, accrued retirement benefits for employees at March 31, 2001 have been provided mainly at an amount calculated based on the retirement benefit obligation and the fair market value of the pension plan assets as of March 31, 2001, as adjusted for unrecognized net retirement benefit obligation at transition, unrecognized actuarial gain or loss and unrecognized prior service cost. The retirement benefit obligation is attributed to each period by the straight-line method over the estimated years of service of the eligible employees. The net retirement benefit obligation at transition is being amortized principally over a period of 15 years by the straight-line method. Actuarial gains and losses are amortized in the year following the year in which the gain or loss is recognized primarily by the straight-line method over periods (principally 10 years through 19 years) which are shorter than the average remaining years of service of employees. Prior service cost is being amortized as incurred by the straight-line method over periods (principally 10 years through 19 years) which are shorter than the average remaining years of service of the employees. See Note 7.

The assumptions used in accounting for the above plans as of March 31, 2001 are as follows.

Discount rate	3.5%
Expected return on plan assets	1.0% ~ 6.25%

Until the year ended March 31, 2000, accrued retirement benefits had been stated at 40% of the net obligation which would be required to be paid under existing retirement regulations if all eligible employees voluntarily severed their employment at the end of each fiscal year, having made allowance for benefits expected to be recovered from the pension plan. The current cost and amortization of prior service cost of the pension plan had been determined actuarially and charged to operations. The prior service costs had been funded over a period of approximately 20 years.

The effect of the adoption of the new accounting standard for retirement benefits was to decrease income before income taxes and minority interests by ¥5,433 million ($43, 850 thousand) for the year ended March 31, 2001. No retroactive adjustments for the adoption of the new accounting standard have been reflected in the financial statements as of and for the year ended March 31, 2000.

Directors, officers and statutory auditors are not covered by the programs described above. Benefits paid to such persons are charged to operations as paid since amounts vary with circumstances, and it is therefore not practicable to compute liability for future payments.

(j) Revenue recognition

Passenger revenues, cargo and other operating revenues are recorded when services are rendered.

(k) Appropriation of retained earnings

Under the Commercial Code of Japan, the appropriation of unappropriated retained earnings of the Company with respect to a financial period is made by resolution of the Company's shareholders at a general meeting to be held subsequent to the close of the financial period and the accounts for that period do not therefore reflect such appropriation. See Note 15.

(l) Net income (loss) per share

The computation of net income per share of common stock is based on the weighted average number of shares outstanding during each year.

As a result of the net loss in fiscal 2000, net income per share assuming full dilution is not disclosed for that year.

(m) Leases

Finance lease transactions other than those that are expected to transfer ownership of the assets are accounted for as operating leases. See Note 9.

(n) Bond issuance costs and development costs

Bond issuance costs and development costs are principally capitalized and amortized over a period of three years and five years, respectively.

(o) Cash equivalents

For the purpose of statements of cash flows, cash and short-term, highly liquid investments with a maturity of three months or less are treated as cash equivalents. See Note 14.

(p) Reclassification

Certain reclassifications have been made to the 2000 financial information in the accompanying financial statements to conform with the 2001 presentation.

3. Financial statement translation

The consolidated financial statements presented herein are expressed in yen and, solely for the convenience of the reader, have been translated into United States dollars at the rate of ¥123.9=US$1, the approximate exchange rate prevailing on the Tokyo Foreign Exchange Market on March 31, 2001. This translation should not be construed as a representation that the amounts shown could be converted into United States dollars at such rate.

4. Marketable securities

Market value information at March 31, 2001 is summarized as follows:

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

	Yen (Millions)	U.S. dollars (Thousands)
Gross unrealized gain:		
Cost	¥346	$2,793
Market value	352	2,841
	6	48
Gross unrealized loss:		
Cost	259	2,090
Market value	259	2,090
	0	0
Net unrealized gain	¥ 6	$ 48

Other securities having market value are as follows:

	Yen (Millions)	U.S. dollars (Thousands)
Gross unrealized gain:		
Cost	¥ 6,013	$ 48,531
Market value	12,861	103,801
	6,848	55,270
Gross unrealized loss:		
Cost	9,315	75,182
Market value	7,302	58,935
	2,013	16,247
Net unrealized gain	¥ 4,835	$ 39,023

Other securities sold in the year ended March 31, 2001 are as follows:

	Yen (Millions)	U.S. dollars (Thousands)
Proceeds	¥19,301	$155,779
Gain on sale	1,480	11,945
Loss on sale	2,017	16,279

Breakdown of other securities not having market value at March 31, 2001 is as follows:

	Yen (Millions)	U.S. dollars (Thousands)
Bonds held to maturity	¥15,494	$125,052
Other securities	70,898	572,220
	¥86,392	$697,272

The redemption schedule of other securities and held-to-maturity debt securities as of March 31, 2001 is summarized as follows:

	Yen (Millions)			U.S. dollars (Thousands)		
	Bonds	Others	Total	Bonds	Others	Total
Within 1 year	¥ 2,083	¥54,481	¥56,564	$ 16,812	$439,717	$456,529
Over 1 year to 5 years	197	–	197	1,590	–	1,590
Over 5 years to 10 years	15,487	–	15,487	124,996	–	124,996
Over 10 years	12	–	12	97	–	97

Market value information at March 31, 2000 is summarized as follows:

	Marketable securities	Investment securities
	Yen (Millions)	
Market value	¥5,520	¥17,155
Carrying amount	5,418	9,717
Unrealized gain	¥ 102	¥ 7,438

Funds in trust included in other current assets in the amount of ¥5,327 million at March 31, 2000, represent short-term funds deposited with and managed by trust banks. Each fund consists mainly of marketable equity securities and interest-bearing bonds and is stated at cost. The above table does not reflect information on such funds in trust.

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

Investments in and advances to non-consolidated subsidiaries and affiliates at March 31, 2001 and 2000 consisted of the following:

	Yen (Millions)		U.S. dollars (Thousands)
	2001	2000	**2001**
Investments in capital stock	**¥13,065**	¥19,670	**$105,448**
Advances	**708**	1,511	**5,714**
	¥13,773	¥21,181	**$111,162**

6. Short-term loans and long-term debt

Short-term loans at March 31, 2001 and 2000 consisted of the following:

	Yen (Millions)		U.S. dollars (Thousands)
	2001	2000	**2001**
Short-term bank loans	**¥ 82,165**	¥102,586	**$ 663,156**
Current portion of long-term loans	**63,354**	103,032	**511,331**
Current portion of bonds and notes	**30,000**	63,000	**242,131**
	¥175,519	¥268,618	**$1,416,618**

The interest rates on the above short-term loans were between 0.62% and 6.37% per annum in 2001 and between 0.55% and 6.32% per annum in 2000.

Long-term debt at March 31, 2001 and 2000 consisted of the following:

	Yen (Millions)		U.S. dollars (Thousands)
	2001	2000	**2001**
Bonds and notes:			
9.75% US$ notes due 2000	**¥ –**	¥ 13,000	**$ –**
4.4% notes due 2000	**–**	20,000	**–**
3.075% notes due 2007	**35,000**	35,000	**282,486**
2.75% notes due 2009	**20,000**	20,000	**161,421**
3.2% notes due 2017	**20,000**	20,000	**161,421**
2.9% notes due 2008	**20,000**	20,000	**161,421**
1.37% notes due 2001	**30,000**	30,000	**242,130**
2.2% notes due 2004	**20,000**	20,000	**161,421**
3% notes due 2007	**10,000**	10,000	**80,710**
2.05% notes due 2006	**15,000**	15,000	**121,065**
1% notes due 2002	**20,000**	20,000	**161,421**
3% notes due 2011	**10,000**	10,000	**80,710**
2.08% notes due 2006	**20,000**	20,000	**161,421**
3% notes due 2010	**10,000**	10,000	**80,710**
1.8% yen convertible bonds due 2003	**49,210**	49,210	**397,175**
0.4% yen convertible bonds due 2005	**92,493**	92,493	**746,513**
0% yen convertible bonds due 2000	**–**	30,000	**–**
0.75% yen convertible bonds due 2015	**12,126**	–	**97,869**
	383,829	434,703	**3,097,894**
Loans, principally from banks:			
Secured, bearing interest from 1.30% to 7.42% in 2001 and 0.35% to 7.65% in 2000, maturing in installments through 2034	**292,152**	339,756	**2,357,965**
Unsecured, bearing interest from 1.35% to 8.01% in 2001 and 1.44% to 8.16% in 2000, maturing in installments through 2022	**177,584**	235,295	**1,433,285**
	469,736	575,051	**3,791,250**
	853,565	1,009,754	**6,889,144**
Less current portion	**93,354**	166,032	**753,462**
	¥760,211	¥ 843,722	**$6,135,682**

As is customary in Japan, short-term and long-term bank loans are made under general agreements which provide that security and guarantees for future and present indebtedness will be given upon request of the bank, and that the bank shall have the right, as the obligation becomes due, or in the event of default and certain other specified events, to offset cash deposits against such obligations due to the bank.

Certain bonds and notes and foreign currency loans are guaranteed by domestic banks and foreign banks.

The convertible bonds at March 31, 2001 were convertible into the following numbers of shares of common stock at the following current conversion prices:

	Conversion price per share		Number of shares
1.8% yen convertible bonds due 2003	¥2,052.60	($16.57)	23,974,471
0.4% yen convertible bonds due 2005	¥1,148.00	($ 9.27)	80,568,815
0.75% yen convertible bonds due 2015	¥ 302.00	($ 2.44)	40,152,318

The following assets were pledged as collateral for short-term and long-term debt at March 31, 2001:

	Yen (Millions)	U.S. dollars (Thousands)
Property and equipment, at net book value:		
Flight equipment	¥301,477	$2,433,228
Ground property and equipment	159,719	1,289,096
	¥461,196	$3,722,324

The aggregate annual maturities of long-term debt after March 31, 2001 are as follows:

	Yen (Millions)	U.S. dollars (Thousands)
2002	¥ 93,354	$ 753,462
2003	148,024	1,194,705
2004	50,618	408,539
2005 and thereafter	561,569	4,532,438
	¥853,565	$6,889,144

The amounts in the above table have been calculated on the assumption that all outstanding convertible bonds at March 31, 2001 would not be converted prior to maturity.

7. Retirement benefits plans

The Company and its domestic consolidated subsidiaries have defined benefit plans, i.e., welfare pension fund plans, tax qualified pension plans and lump-sum payment plans, covering substantially all employees who are entitled to lump-sum or annuity payments, the amount of which are determined by reference to their basic rates of pay, length of service, and the conditions under which termination occurs.

The following table sets forth the funded and accrued status of the plans, and the amounts recognized in the consolidated balance sheet as of March 31, 2001 for the Company and the consolidated subsidiaries' defined benefit plans:

	Yen (Millions)	U.S. dollars (Thousands)
Retirement benefit obligation	¥(324,396)	$(2,618,208)
Plan assets at fair value	123,228	994,576
Unfunded retirement benefit obligation	(201,168)	(1,623,632)
Unrecognized net retirement benefit obligation at transition	103,132	832,381
Unrecognized actuarial loss	20,814	167,990
Unrecognized prior service cost	(45)	(363)
Gross amount recognized	(77,267)	(623,624)
Prepaid pension cost	401	3,236
Accrued employee's retirement benefits	¥ (77,668)	$ (626,860)

The government sponsored portion of the benefits under the welfare pension fund plans has been included in the amounts shown in the above table.

The components of retirement benefit expenses for the year ended March 31, 2001 are as follows:

	Yen (Millions)	U.S. dollars (Thousands)
Service cost	¥15,570	$125,666
Interest cost	10,586	85,440
Expected return on plan assets	(6,835)	(55,166)
Amortization of net retirement benefit obligation at transition	7,366	59,451
Amortization of actuarial (gain) or loss	–	–
Amortization of prior service cost	0	0
Net periodic pension and severance cost	¥26,687	$215,391

8. Income taxes

The Company is subject to a number of taxes on income (corporation tax, inhabitants tax and enterprise tax) which in aggregate resulted in a normal corporate tax rate of 42.05% in 2001 and 2000.

The tax effect of temporary differences that give rise to a significant portion of the deferred tax assets and liabilities at March 31, 2001 are as follows:

	Yen (Millions)		U.S. dollars (Thousands)
	2001	2000	**2001**
Deferred tax assets:			
Tax loss carry-forward	**¥ 21,308**	¥ 11,430	**$ 171,977**
Accrued employees' retirement benefits	**12,307**	6,425	**99,330**
Unrealized gain on inventories and property and equipment	**9,912**	14,486	**80,000**
Valuation loss on investments in securities	**–**	6,135	**–**
Accrued expenses	**3,018**	1,848	**24,359**
Allowance for doubtful accounts	**1,467**	–	**11,840**
Other	**9,787**	9,070	**78,991**
Total gross deferred tax assets	**57,799**	49,394	**466,497**
Less valuation allowance	**(25,624)**	(18,025)	**(206,812)**
Net deferred tax assets	**32,175**	31,369	**259,685**
Deferred tax liabilities:			
Special depreciation reserve and special account reserve for reduction in land	**(4,350)**	(2,178)	**(35,109)**
Other	**(2,650)**	(256)	**(21,388)**
Total gross deferred tax liabilities	**(7,000)**	(2,434)	**(56,497)**
Net deferred tax assets	**¥ 25,175**	¥ 28,935	**$ 203,188**

Reconciliation of the difference between the statutory tax rate and the effective income tax rate for the year ended March 31, 2001 is as follows:

Statutory tax rate	42.05%
Reconciliation:	
Change in valuation allowance and related adjustments	(12.87)
Entertainment expenses not qualifying for deduction	1.94
Inhabitants tax per capita levy	0.38
Amortization of goodwill	0.30
Equity in income of affiliates	(0.26)
Other	(1.28)
Effective income tax rate	30.26%

The reconciliation for the year ended March 31, 2000 is not disclosed because income before income taxes and minority interests was in a loss.

9. Leases

(a) Finance leases

Finance lease transactions other than those that are expected to transfer ownership of the assets are accounted for as operating leases. Information on finance leases which are not recorded as assets and liabilities is summarized as follows.

Estimated acquisition costs, estimated amount of accumulated depreciation and estimated net book value of the lease properties at March 31, 2001 and 2000 are as follows:

	Yen (Millions)		U.S. dollars (Thousands)
	2001	2000	**2001**
Aircraft:			
Estimated acquisition costs	**¥236,121**	¥236,121	**$1,905,738**
Estimated amount of accumulated depreciation	**98,711**	76,765	**796,699**
Estimated net book value	**137,410**	159,356	**1,109,039**
Others:			
Estimated acquisition costs	**18,879**	19,228	**152,373**
Estimated amount of accumulated depreciation	**8,833**	8,431	**71,291**
Estimated net book value	**10,046**	10,796	**81,082**
Total:			
Estimated acquisition costs	**255,000**	255,349	**2,058,111**
Estimated amount of accumulated depreciation	**107,544**	85,196	**867,990**
Estimated net book value	**¥147,456**	¥170,152	**$1,190,121**

Outstanding finance lease obligations at March 31, 2001 and 2000 are as follows:

	Yen (Millions)		U.S. dollars (Thousands)
	2001	2000	**2001**
Current portion of finance lease obligations	**¥ 24,322**	¥ 23,665	**$ 196,303**
Long-term finance lease obligations	**133,840**	156,405	**1,080,226**
	¥158,162	¥180,071	**$11,276,529**

Estimated amount of depreciation, estimated finance charges and lease expenses for the years ended March 31, 2001 and 2000 are as follows:

	Yen (Millions)		U.S. dollars (Thousands)
	2001	2000	**2001**
Estimated amount of depreciation by the straight-line method over the lease period	**¥24,836**	¥24,769	**$200,452**
Estimated interest costs	**5,384**	6,094	**43,454**

Annual lease expenses charged to income were ¥29,339 million ($236,796 thousand) and ¥29,331 million in 2001 and 2000, respectively.

(b) Operating leases

The rental payments required under the operating leases that have initial or remaining non-cancelable lease terms in excess of one year at March 31, 2001 and 2000 are as follows:

	Yen (Millions)		U.S. dollars (Thousands)
	2001	2000	**2001**
Current portion of operating lease obligations	**¥ 46,648**	¥ 44,604	**$ 376,497**
Long-term operating lease obligations	**167,369**	193,001	**1,350,839**
	¥214,017	¥237,606	**$1,727,336**

10. Shareholders' equity

(a) Common stock and capital surplus

Under the Japanese Commercial Code, at least 50% of the issue price of new shares, with a minimum of the par value thereof, is required to be credited to the common stock account. Any remaining excess of proceeds over amounts credited to the common stock account is required to be credited to the capital surplus account.

(b) Deficit

Deficit at March 31, 2001 and 2000 consisted of the following:

	Yen (Millions)		U.S. dollars (Thousands)
	2001	2000	**2001**
Legal reserve	**¥ 10,301**	¥ 10,301	**$ 83,140**
Special depreciation reserve	**2,206**	2,583	**17,805**
General reserve	**1,600**	1,600	**12,914**
Special account reserve for reduction in land	**785**	785	**6,336**
Unappropriated retained earnings (deficit)	**(38,896)**	(79,648)	**(313,932)**
	¥(24,004)	¥(64,379)	**$(193,737)**

The special depreciation reserve and the special account reserve for reduction in land have been provided for purposes of tax deferral. These reserves must be recorded on the books of account in retained earnings (deficit) and are required to be reversed to taxable income in the future. Under the Special Taxation Measures Law, the Company is permitted to provide special depreciation on new aircraft, for two fiscal years, at the maximum rate of 9% of aggregate acquisition costs. The special depreciation reserve thus provided is reversed evenly to taxable income over the subsequent seven years as appropriations of retained earnings (deficit). See Note 15.

Because of the implementation of deferred tax accounting during the year ended March 31, 2001, the special depreciation reserve and the special account reserve for reduction in land at March 31, 2001 are stated net of related deferred taxes. See Note 2 (b).

Under the Japanese Commercial Code, the Company is required to appropriate as a legal reserve an amount equal to at least 10% of appropriations paid by cash until the reserve equals 25% of the stated capital. This reserve is not available for dividends but may be used to reduce a deficit or may be capitalized by resolution of the Board of Directors. The legal reserve in the accompanying consolidated financial statements includes only that of the Company. The Company's equity in the legal reserves of its consolidated subsidiaries is included in consolidated retained earnings.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company and in accordance with the Japanese Commercial Code.

11. Commitments and contingent liabilities

At March 31, 2001, commitments outstanding for the acquisition or construction of property and equipment amounted to approximately ¥424,136 million ($3,423,212 thousand).

The Company and consolidated subsidiaries were contingently liable as guarantor of loans, principally to affiliates, amounting to ¥11,488 million ($92,720 thousand) at March 31, 2001.

The Company executed contracts with certain financial institutions that require the Company to deposit amounts equivalent to the face value of bonds to be matured and related interest to be paid until maturity and the financial institutions to subsequently pay the financial obligations on behalf of the Company. This type of financial arrangement allows the Company to remove such financial obligations from the balance sheet and to report them as contingent liabilities, although the Company is still legally liable to bondholders for such obligations. At March 31, 2001, the Company was contingently liable under such arrangements in the amount of ¥50,000 million ($403,551 thousand).

12. Derivatives

Summarized below are contract amount, notional amount and unrealized gain or loss of the derivative transactions outstanding at March 31, 2000:

	Yen (Millions)
	2000
Forward foreign exchange contracts, principally U.S. dollars:	
Contract amount:	
To buy foreign currencies	¥54,578
To sell foreign currencies	152
	54,426
Market value, net	51,393
Unrealized gain (loss)	(3,033)
Interest rate swaps:	
Notional amount:	
Receive-fixed interest rate swaps	20,000
Pay-fixed interest rate swaps	18,326
	38,326
Market value, net	18
Unrealized gain, net	18
Commodity options and swaps, principally fuel swaps:	
Notional amount	5,785
Market value including option premium, net	237
Unrealized gain, net	197

The above information on forward exchange contracts excludes those applied to payables and receivables denominated in foreign currencies in the balance sheets.

13. Segment information

The Company and consolidated subsidiaries conduct operations in air transportation, travel services, hotel operations and other businesses. Businesses other than air transportation, travel services and hotel operations are insignificant to the consolidated results of operations of the Company and its consolidated subsidiaries and, accordingly, are included in “Other businesses” in the following industry segment information.

Other segment information of the Company and its subsidiaries such as geographical breakdown of sales and assets is not disclosed because of its insignificance.

The segment information for the years ended March 31, 2001 and 2000 is as follows:

Year ended March 31, 2001	Yen (Millions) Air transportation	Travel services	Hotel operations	Other businesses	Total	Intercompany eliminations	Consolidated
Operating revenues	¥ 964,888	¥139,155	¥71,586	¥104,006	¥1,279,635	¥ –	¥1,279,635
Intra-group sales and transfers	73,396	13,702	12,113	87,109	186,320	(186,320)	–
Total	1,038,284	152,857	83,699	191,115	1,465,955	(186,320)	1,279,635
Operating expenses	965,948	151,379	79,868	184,717	1,381,912	(184,520)	1,197,392
Operating income (loss)	¥ 72,336	¥ 1,478	¥ 3,831	¥ 6,398	¥ 84,043	¥ (1,800)	¥ 82,243

	Air transportation	Travel services	Hotel operations	Other businesses	Total	Intercompany eliminations	Consolidated
Identifiable assets	¥1,112,105	¥38,808	¥140,129	¥216,431	¥1,507,473	¥(56,053)	¥1,451,420
Depreciation and amortization	50,199	371	4,874	3,889	59,333	–	59,333
Capital expenditure	90,787	1,474	2,709	8,407	103,377	(8,986)	94,391

Year ended March 31, 2001	U.S. dollars (Thousands) Air transportation	Travel services	Hotel operations	Other businesses	Total	Intercompany eliminations	Consolidated
Operating revenues	$7,787,635	$1,123,123	$577,772	$ 839,436	$10,327,966	$ –	$10,327,966
Intra-group sales and transfers	592,380	110,589	97,764	703,060	1,503,793	(1,503,793)	–
Total	8,380,015	1,233,712	675,536	1,542,496	11,831,759	(1,503,793)	10,327,966
Operating expenses	7,796,190	1,221,783	644,616	1,490,857	11,153,446	(1,489,265)	9,664,181
Operating income (loss)	$ 583,825	$ 11,929	$ 30,920	$ 51,639	$ 678,313	$ (14,528)	$ 663,785

	Air transportation	Travel services	Hotel operations	Other businesses	Total	Intercompany eliminations	Consolidated
Identifiable assets	$8,975,827	$313,220	$1,130,985	$1,746,820	$12,166,852	$(452,405)	$11,714,447
Depreciation and amortization	405,157	2,994	39,338	31,389	478,878	–	478,878
Capital expenditure	732,744	11,897	21,864	67,853	834,358	(72,526)	761,832

Year ended March 31, 2000	Yen (Millions) Air transportation	Travel services	Hotel operations	Other businesses	Total	Intercompany eliminations	Consolidated
Operating revenues	¥920,447	¥124,408	¥65,688	¥ 99,104	¥1,209,647	¥ –	¥1,209,647
Intra-group sales and transfers	60,056	11,469	11,685	77,117	160,327	(160,327)	–
Total	980,503	135,877	77,373	176,221	1,369,974	(160,327)	1,209,647
Operating expenses	954,811	132,551	73,535	176,439	1,337,336	(159,248)	1,178,088
Operating income (loss)	¥ 25,692	¥ 3,326	¥ 3,838	¥ (218)	¥ 32,638	¥ (1,079)	¥ 31,559

	Air transportation	Travel services	Hotel operations	Other businesses	Total	Intercompany eliminations	Consolidated
Identifiable assets	¥1,141,468	¥21,729	¥214,557	¥210,685	¥1,588,439	¥(53,822)	¥1,534,617
Depreciation and amortization	50,077	183	4,622	3,559	58,441	–	58,441
Capital expenditure	96,413	423	18,186	5,295	120,317	(9,501)	110,816

14. Supplementary cash flow information

Reconciliation of the difference between cash and cash equivalents at end of year and cash and marketable securities stated in the consolidated balance sheets as of March 31, 2001 and 2000 is as follows:

	Yen (Millions)		U.S. dollars (Thousands)
	2001	2000	**2001**
Cash	**¥152,755**	¥160,300	**$1,232,889**
Marketable securities	**56,564**	83,934	**456,529**
	209,319	244,234	**1,689,418**
Time deposits with maturities of more than three months	**(1,107)**	(1,073)	**(8,934)**
Marketable securities with maturities of more than three months	**(495)**	(5,721)	**(3,995)**
Cash and cash equivalents at end of year	**¥207,717**	¥237,440	**$1,676,489**

Significant non-cash transactions for the year ended March 31, 2001 are as follows:

	Yen (Millions)	U.S. dollars (Thousands)
Conversion of convertible bonds:		
Credited to common stock	¥13,936	$112,478
Credited to capital surplus	¥13,936	$112,478
	¥27,872	$224,956

15. Subsequent event

At the shareholders' meeting held on June 28, 2001, the following appropriations from unappropriated retained earnings (deficit) of the Company were approved by the shareholders:

	Yen (Millions)	U.S. dollars (Thousands)
Transfer from special depreciation reserve, net of deferred taxes	¥ 564	$ 4,552
Transfer to special account reserve for reduction in fixed assets, net of deferred taxes	3,560	28,733

16. Differences between Japanese accounting principles and International Accounting Standards

As stated in Note 1, the consolidated financial statements of the Company are principally prepared in conformity with accounting principles and practices generally accepted in Japan, which differ in some material respects from accounting principles and practices generally accepted in countries and jurisdictions other than Japan. Accounting principles and practices generally accepted in Japan differ from International Accounting Standards (IAS) in the following material respects:

(a) Finance leases

IAS require to recognize finance leases as assets and liabilities in the balance sheet at an amount equal to the fair value of the leased property at the inception of the lease or, if lower, at the present value of the minimum lease payments.

Accounting principles and practices generally accepted in Japan allow a company either to recognize finance leases as assets and liabilities in the balance sheet as required by IAS or to account for them as operating leases, unless ownership of the leased property is transferred to the lessee at the end of the lease term. In the latter case, certain information, as presented in Note 9, is required to be disclosed.

(b) Impairment of property and equipment

IAS require a company to carry property and equipment at its cost less any accumulated depreciation, subject to the requirement to write an asset down to its recoverable amount. The carrying amount of property and equipment should be reviewed periodically in order to assess whether the recoverable amount has declined below the carrying amount.

Accounting principles and practices generally accepted in Japan do not require a company to assess the recoverability and recognize impairment of property and equipment, if any.