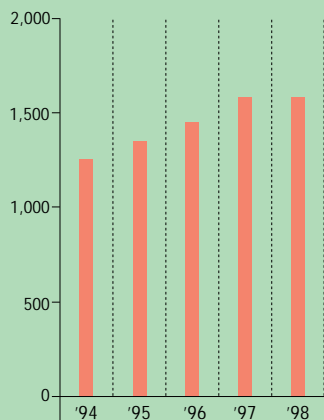


MANAGEMENT REVIEW AND ANALYSIS OF FINANCIAL POSITION

JAPAN AIRLINES COMPANY, LTD. AND CONSOLIDATED SUBSIDIARIES

Fiscal years ended March 31, 1998 and 1997

Consolidated Operating Revenues
(Billions of Yen)
Years Ended March 31



Overview

During the fiscal year ended March 31, 1998, Japan Airlines Company, Ltd. and its consolidated subsidiaries (“the Company”) faced an extremely difficult operating environment in Japan due to a persistently weak economy. In other regions, results benefited from healthy economies in North America and Europe, but were hurt by slowing growth in Asia. This situation caused declines in international passengers originating in Japan and elsewhere in Asia. However, the yen’s depreciation led to higher air cargo volumes from Japan to North America and Europe. On domestic routes, passenger volumes rose as the company took a number of actions to become more competitive. The resulting growth in operating revenues, coupled with the benefits of rigorous cost-cutting efforts, produced a substantial increase in operating income. Nevertheless, the posting of losses on the revaluation of investments and other factors resulted in a large net loss for the year.

Operating Revenues

Consolidated operating revenues increased 0.9 percent to ¥1,581.5 billion. Passenger revenues rose 0.8 percent to ¥989.6 billion due to growth on domestic routes. Cargo revenues were down 3.3 percent to ¥171.9 billion as Japan’s weak economy reduced domestic volume. Incidentals and other revenues advanced 3.0 percent to ¥419.9 billion, mainly the result of greater ground services contracting from foreign airlines and higher in-flight merchandise sales.

International passenger revenues decreased 0.4 percent to ¥667.6 billion, although international revenue passenger kilometers rose from 64,907 million to 65,290 million. Despite this increase, the number of international passengers carried declined from 13,021 thousand to 12,749 thousand, represented by a sharp drop in Tokyo-Hong Kong demand. Pleasure travel from Japan was sluggish throughout the year, while business travel from Japan slowed significantly in the last quarter of the fiscal year. JAL was able to minimize the effects of these negative trends through the inauguration of service on new routes, a number of initiatives to enhance in-flight services and high-profile marketing campaigns.

Domestic passenger revenues increased 3.6 percent to ¥321.9 billion. Revenue passenger kilometers climbed 7.9 percent to 18,382 million and the number of passengers increased from 20,914 thousand to 22,447 thousand. This growth was mostly attributable to the introduction of more flights, the strong response to the expansion of JAL’s frequent flyer program — the JAL Mileage Bank — to domestic routes, and the realignment of service to reflect fluctuations in demand.

International cargo revenues were up 1.7 percent to ¥150.2 billion. The combination of the stable economies of the U.S. and Europe and a weakening yen led to growth in shipments from Japan to these regions. Also contributing to growth was the April 1997 initiation of the New South Network, a trucking service connecting Atlanta with 14 U.S. cities, and the operation of unscheduled cargo flights on high-volume routes to supplement scheduled service.

Domestic cargo revenues were down 27.7 percent to ¥21.6 billion as Japan's lackluster economy caused air cargo volume to fall. Intensifying competition also impacted performance. Offsetting these trends somewhat was the commencement of service on new routes, actions to tap new sources of demand and cargo flights exclusively for cut flowers and other types of cargo.

Operating Expenses

Operating expenses decreased 1.0 percent to ¥1,541.3 billion despite the growth in operating revenues. This achievement is due in large part to the success of JAL's broad-based cost containment efforts in recent years. The benefits were most evident in the decreases in sales and advertising and aircraft and traffic servicing. Additionally, JAL was able to limit the growth in general and administrative expenses and flight operations even as the scale of its airline operations grew during the year. By item, the largest increase was in flight operations as JAL added flights during the year. Depreciation and amortization were down considerably because the Company revised the estimated useful lives of aircraft from 15 years for international use and 13 years for domestic use, to economical useful lives determined by aircraft type, and ranging from 13 to 22 years.

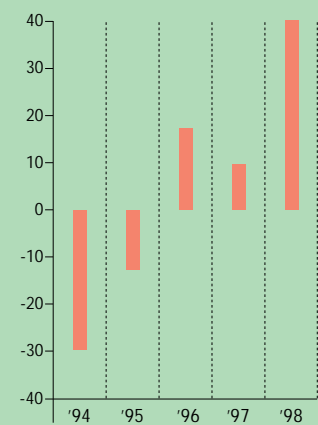
Operating and Net Income

The reduction in operating expenses lifted operating income to ¥40.1 billion compared with ¥9.8 billion in the prior fiscal year. This increase was more than offset by non-operating expenses of ¥104.3 billion. Interest expense, net of interest and dividend income, was ¥38.9 billion, down slightly from the prior year's ¥39.4 billion. Low interest rates in Japan offset a small increase in total debt. Growth in special termination benefits and loss on investments in subsidiaries and affiliates were the result of actions taken in line with the ongoing restructuring program. Termination benefits were due to the early retirement system for managers over 55 years old who elected to leave the Company. The loss on investments was caused by the hotel and resort sector. With the restructuring program largely complete as of the end of the past fiscal year, JAL believes that there will be no more significant expenses related to restructuring. The growth in non-operating expenses produced a loss before income taxes and other items of ¥64.1 billion and a net loss of ¥62.9 billion.

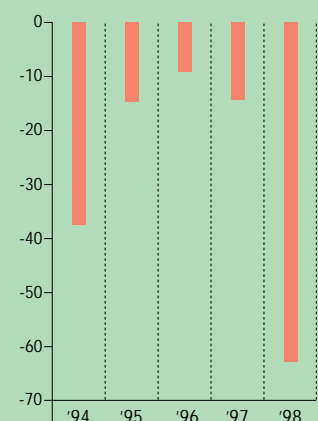
Consolidated Costs of Flying Operations
(Billions of Yen)
Years Ended March 31



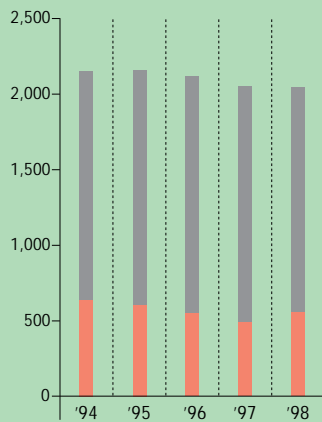
Consolidated Operating Income (Loss)
(Billions of Yen)
Years Ended March 31



Consolidated Net Income (Loss)
(Billions of Yen)
Years Ended March 31

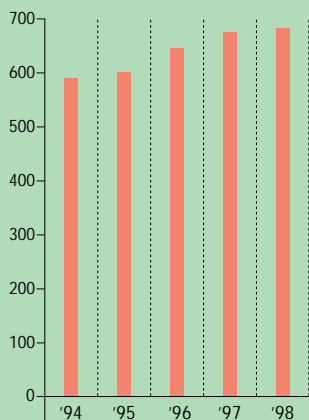


Consolidated Total Assets
(Billions of Yen)
Years Ended March 31



■ Current Assets
■ Total Assets

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



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



JAL Fleet

As of March 31, 1998

Type of Aircraft	Capacity	Owned	Leased	Total
Boeing 747-400	266-568 seats	25	7	32
Boeing 747LR	344-468 seats	14	16	30
Boeing 747SR	533, 563 seats	7	2	9
Boeing 747F	115 tons	0	8	8
Boeing 767	230-270 seats	15	6	21
Boeing 737	150 seats	5	2	7
Boeing 777	389 seats	4	1	5
Douglas MD-11	233, 300 seats	2	8	10
Douglas DC-10	266-318 seats	11	4	15
Total		83	54	137

Balance Sheet Analysis

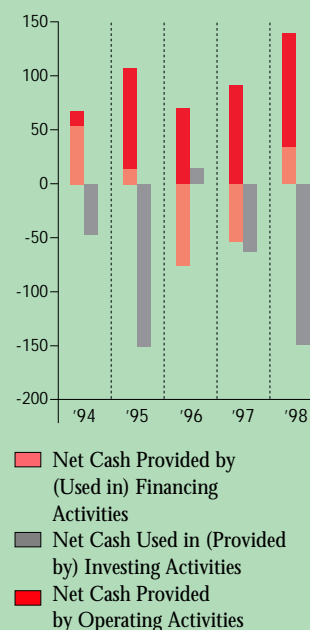
As of March 31, 1998, total assets amounted to ¥2,042.7 billion, ¥7.8 billion less than one year earlier. Current assets rose to ¥554.9 billion. Marketable securities and time deposits were up substantially as the Company increased assets on hand because of a slowdown in lending by banks in the wake of domestic financial instability that appeared in and after the autumn of 1997. Total investments and advances were down as JAL sold and devaluated a substantial volume of investments in the hotel and resort sector. Growth in property and equipment is almost entirely the result of additions to the aircraft fleet. The decrease in ground property and equipment was principally caused by real estate sales.

Total liabilities were ¥1,857.7 billion, ¥53.7 billion more than one year earlier. Current liabilities rose by ¥7.5 billion to ¥681.8 billion, while the current portion of long-term debt was down by 7.9 billion. Long-term debt increased by ¥41.8 billion to ¥1,064.2 billion, mostly to fund additions to the fleet. Total stockholders' equity decreased by ¥61.6 billion to ¥184.9 billion as JAL promoted concentration of management resources on the airline business, and accordingly shifted its stance from investment to revenue generation; this meant reserves for valuation losses and withdrawal costs for hotel and resort sector affiliates in order to achieve the goals of the Company's restructuring program.

Analysis of Cash Flows

Net cash provided by operating activities rose from ¥91.3 billion to ¥105.4 billion. JAL was able to achieve a higher operating cash flow as the year's net loss was due mainly to non-cash charges resulting in a loss on investments. A consistently high level of depreciation and amortization further contributed to the increase. Investing activities used net cash of ¥148.7 billion, mostly for additions to property and equipment, which increased to ¥142.2 billion. The large rise in this figure is largely the result of delivery and advance payments for new aircraft in the fiscal year ended March 31, 1998 and the following years. Major components of additions to property and equipment were six aircraft. There was also a large increase in time deposits and marketable securities, mainly short-term investments of funds that will be used for aircraft purchases in the following year. The decrease in proceeds from sales of property and equipment is due to a lower volume of asset sales than in the previous fiscal year. Net cash provided by financing activities was ¥34.4 billion as JAL increased long-term debt to fund additions to property and equipment. The primary source of these funds were Japanese yen bonds issued in Japan. See Note 3 for more information. The net result of these activities was a ¥8.8 billion decrease in cash and cash equivalents to ¥78.2 billion. Nevertheless, the large increase in time deposits and marketable securities significantly enhanced JAL's liquidity.

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



Personnel (JAL Only)

As of March 31, 1998

Ground Staff	10,022
Cockpit Crew	2,614
Cabin Crew	5,227
Total	17,863
(Non-Japanese)	3,127

Note: These figures exclude directors who have concurrent employee responsibilities, personnel dispatched to other companies (2,168), cabin attendant of contract base (1,714), foreign cockpit crew (168) and employees on leave (510). Including these categories, JAL personnel totaled 22,350.

Personnel Composition by Labor Union (JAL Only)

As of March 31, 1998

Union	Employees	Number of Members
Japan Airlines Workers' Union	Ground staff, cabin crew	11,767
Japan Airlines Cabin Attendants' Union	Cabin crew	1,263
Japan Airlines Flight Crew Union	Cockpit crew	1,325
Japan Airlines Captain Association	Captains	1,043
Japan Airlines Labor Union	Ground staff	300
Japan Airlines Senior Flight Engineer Union	Senior flight engineers	111
Total		15,809

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