

CONSOLIDATED BALANCE SHEETS

JAPAN AIRLINES COMPANY, LTD. AND CONSOLIDATED SUBSIDIARIES
March 31, 1998 and 1997

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 2)
	1998	1997	1998
Current assets:			
Cash and cash equivalents	¥ 78,226	¥ 87,043	\$ 592,621
Time deposits	12,660	2,794	95,909
Marketable securities, at cost	103,571	60,839	784,628
Accounts receivable:			
Trade (Note 8)	159,537	157,329	1,208,613
Unconsolidated subsidiaries and affiliates	27,346	30,038	207,166
Allowance for doubtful accounts	(2,409)	(2,119)	(18,250)
Flight equipment spare parts, at cost	54,436	53,705	412,393
Prepaid expenses and other	121,626	101,726	921,409
Total current assets	554,995	491,356	4,204,507
Investments and advances:			
Unconsolidated subsidiaries and affiliates	70,731	71,025	535,840
Others, at cost	173,456	226,159	1,314,060
Total investments and advances	244,187	297,185	1,849,901
Property and equipment (Notes 1, 3 and 7):			
Flight equipment	1,506,036	1,456,388	11,409,363
Ground property and equipment	822,534	831,185	6,231,318
	2,328,571	2,287,573	17,640,689
Accumulated depreciation	(1,232,928)	(1,182,035)	(9,340,363)
	1,095,643	1,105,537	8,300,325
Advances on aircraft purchases and other	77,938	65,338	590,439
Property and equipment, net	1,173,581	1,170,876	8,890,765
Housing loans to employees (Note 8)	6,251	6,278	47,356
Deferred income taxes (Note 4)	7,485	7,518	56,704
Other assets	42,126	45,515	319,136
Translation adjustments	14,133	31,891	107,068
	¥ 2,042,761	¥ 2,050,623	\$15,475,462

	Millions of yen		Thousands of U.S. dollars (Note 2)
LIABILITIES AND STOCKHOLDERS' EQUITY	1998	1997	1998
Current liabilities:			
Short-term bank loans	¥ 76,284	¥ 75,261	\$ 577,909
Current portion of long-term debt (Note 3)	172,443	180,406	1,306,386
Accounts payable:			
Trade	189,462	186,447	1,435,318
Construction	11,159	14,076	84,537
Unconsolidated subsidiaries and affiliates	7,466	4,962	56,560
Accrued expenses	72,130	70,857	546,439
Accrued income taxes (Note 4)	3,276	2,719	24,818
Other	149,620	139,532	1,133,484
Total current liabilities	681,843	674,261	5,165,477
Long-term debt (Note 3)	1,064,235	1,022,383	8,062,386
Accrued severance indemnities (Note 5)	97,393	102,018	737,825
Minority interests	14,326	5,365	108,530
 Commitments and contingent liabilities (Notes 7 and 8)			
 Stockholders' equity:			
Common stock, ¥50 par value:			
Authorized: 6,000,000,000 shares			
Issued: 1,778,943,439 shares	188,323	188,323	1,426,689
Additional paid-in capital	161,776	161,776	1,225,575
Legal reserve (Note 6)	7,330	7,330	55,530
Deficit (Note 9)	(172,458)	(110,828)	(1,306,500)
	184,971	246,601	1,401,295
Common stock in treasury, at cost;			
20,675 shares in 1998 and 16,130 shares in 1997	(9)	(8)	(68)
Total stockholders' equity	184,961	246,593	1,401,219
	¥2,042,761	¥2,050,623	\$15,475,462

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, 1998, 1997 and 1996

	Millions of yen			Thousands of U.S. dollars (Note 2)
	1998	1997	1996	1998
Operating revenues:				
Passenger:				
Domestic	¥ 321,945	¥ 310,878	¥ 303,160	\$ 2,438,977
International	667,693	670,530	620,481	5,058,280
Cargo:				
Domestic	21,678	29,988	29,401	164,227
International	150,299	147,834	132,603	1,138,628
Incidentals and other	419,943	407,901	363,394	3,181,386
	1,581,559	1,567,133	1,449,041	11,981,507
Operating expenses:				
Flight operations	328,047	311,673	275,577	2,485,204
Maintenance	83,001	86,018	79,090	628,795
Passenger services	128,177	127,949	124,071	971,037
Aircraft and traffic servicing	200,788	209,401	196,572	1,521,121
Sales and advertising	212,123	222,783	197,779	1,606,992
General and administrative (Note 4)	108,112	107,166	102,265	819,030
Depreciation and amortization	80,889	100,165	94,779	612,795
Cost of incidentals and other	400,235	392,143	361,589	3,032,083
	1,541,376	1,557,301	1,431,726	11,677,090
Operating income	40,182	9,832	17,315	304,409
Non-operating income (expenses):				
Interest and dividend income	4,025	6,415	5,726	30,492
Interest expense	(43,021)	(45,842)	(50,759)	(325,916)
Exchange gains (losses), net	(478)	3,217	4,463	(3,621)
Aircraft purchase incentives	6,642	5,725	3,323	50,318
Gain on sales of marketable securities	203	4,617	52	1,537
Gain on sales of aircraft	1,463	221	18,980	11,083
Gain on sales of ground property	12,422	25,744	1,932	94,106
Special termination benefits (Note 5)	(15,462)	(4,810)	(1,010)	(117,136)
Loss on disposal of fixed assets	(1,179)	(3,890)	(1,797)	(8,931)
Loss on investments in subsidiaries and affiliates	(63,246)	(1,528)	(1,311)	(479,136)
Other, net	(5,698)	(8,990)	(5,456)	(43,166)
	(104,329)	(19,121)	(25,856)	(790,371)
Loss before income taxes, minority interests, and equity in earnings of unconsolidated subsidiaries and affiliates	(64,146)	(9,289)	(8,540)	(485,954)
Income taxes (Note 4):				
Current	4,152	3,816	3,675	31,454
Deferred	33	1,840	1,167	250
	4,186	5,657	4,842	31,712
Loss before minority interests and equity in earnings of unconsolidated subsidiaries and affiliates	(68,332)	(14,946)	(13,383)	(517,666)
Minority interests	3,192	(1,031)	2,252	24,181
Equity in earnings of unconsolidated subsidiaries and affiliates	2,221	1,499	2,032	16,825
Net loss	¥ (62,918)	¥ (14,478)	¥ (9,098)	\$ (476,651)

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, 1998, 1997 and 1996

	Millions of yen				
	Number of shares of common stock	Common stock	Additional paid-in capital	Legal reserve (Note 6)	Deficit (Note 9)
Balance at March 31, 1995	1,778,943,439	¥188,323	¥161,776	¥7,330	¥ (77,577)
Net loss for the year ended March 31, 1996					(9,098)
Bonuses to directors and statutory auditors					(22)
Decrease resulting from changes in equity interest in subsidiaries and affiliates					(674)
Translation adjustments					(1,722)
Balance at March 31, 1996	1,778,943,439	188,323	161,776	7,330	(89,095)
Net loss for the year ended March 31, 1997					(14,478)
Bonuses to directors and statutory auditors					(26)
Decrease resulting from changes in equity interest in subsidiaries and affiliates					(7,227)
Balance at March 31, 1997	1,778,943,439	188,323	161,776	7,330	(110,828)
Net loss for the year ended March 31, 1998					(62,918)
Bonuses to directors and statutory auditors					(25)
Increase resulting from changes in scope of consolidation					1,313
Balance at March 31, 1998	1,778,943,439	¥188,323	¥161,776	¥7,330	¥(172,458)

	Thousands of U.S. dollars (Note 2)			
	Common stock	Additional paid-in capital	Legal reserve (Note 6)	Deficit (Note 9)
Balance at March 31, 1997	\$1,426,689	\$1,225,575	\$55,530	\$ (839,606)
Net loss for the year ended March 31, 1998				(476,651)
Bonuses to directors and statutory auditors				(189)
Increase resulting from changes in scope of consolidation				9,946
Balance at March 31, 1998	\$1,426,689	\$1,225,575	\$55,530	\$(1,306,500)

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, 1998, 1997 and 1996

	Millions of yen			Thousands of U.S. dollars (Note 2)
	1998	1997	1996	1998
Operating activities				
Net loss	¥ (62,918)	¥ (14,478)	¥ (9,098)	\$ (476,651)
Adjustments to reconcile net loss to net cash provided by operating activities:				
Depreciation and amortization	94,416	104,941	94,779	715,272
Net provision for severance indemnities	(4,625)	2,031	3,148	(35,037)
Provision for deferred income taxes	33	1,840	1,157	250
Equity in earnings of unconsolidated subsidiaries and affiliates	(2,221)	(1,499)	(2,032)	(16,825)
Loss on investments in subsidiaries and affiliates	63,072	146	1,311	477,818
Gain on sales, disposal and revaluation of flight equipment spare parts, property and equipment	(9,352)	(17,899)	(17,103)	(70,848)
Minority interests	(3,192)	1,031	(2,252)	(24,181)
Foreign currency translation loss (gain)	1,677	(362)	1,455	12,704
Changes in operating assets and liabilities:				
Accounts receivable	774	16,359	(39,674)	5,863
Flight equipment spare parts, prepaid expenses and other	14,455	(15,204)	(2,386)	109,507
Accounts payable and accrued expenses	13,356	14,448	40,473	101,181
Net cash provided by operating activities	105,475	91,354	69,778	799,053
Investing activities				
(Increase) decrease in time deposits and marketable securities	(52,599)	27,862	104,923	(398,477)
Additions to property and equipment	(142,292)	(91,364)	(95,821)	(1,077,969)
Proceeds from sales of property and equipment	23,618	36,798	28,028	178,924
Decrease (increase) in investments and advances	11,388	(19,893)	(18,752)	86,272
Decrease (increase) in housing loans to employees	27	(1,340)	16,424	204
(Increase) decrease in other assets	(5,698)	(6,109)	(19,724)	(43,166)
Other	16,812	(8,684)	(712)	127,363
Net cash (used in) provided by investing activities	(148,744)	(62,730)	14,366	(1,126,848)
Financing activities				
Proceeds from long-term debt	279,181	119,401	293,799	2,115,007
Payments of long-term debt	(245,727)	(177,686)	(338,614)	(1,861,568)
Increase (decrease) in short-term bank loans	1,023	4,185	(31,403)	7,750
Dividends paid and bonuses to directors and statutory auditors	(25)	(26)	(53)	(189)
Net cash provided by (used in) financing activities	34,452	(54,126)	(76,271)	261,000
Net (decrease) increase in cash and cash equivalents	(8,817)	(25,502)	7,873	(66,795)
Cash and cash equivalents at beginning of the year	87,043	112,545	104,672	659,416
Cash and cash equivalents at end of the year	¥ 78,226	¥ 87,043	¥ 112,545	\$ 592,621
Supplemental disclosures of cash flow information				
Cash paid during the year for:				
Interest	¥ 39,348	¥ 47,670	¥ 69,850	\$ 298,090
Income taxes	5,509	4,873	6,076	41,734

The accompanying notes are an integral part of these statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JAPAN AIRLINES COMPANY, LTD. AND CONSOLIDATED SUBSIDIARIES
March 31, 1998

1. Summary of Significant Accounting Policies

a. Basis of presentation

Japan Airlines Company, Ltd. (the "Company") and its consolidated domestic subsidiaries maintain their accounting records and prepare their financial statements in accordance with accounting principles and practices generally accepted in Japan, and its 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.

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 classifications.

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

Investments in certain unconsolidated subsidiaries and in significant affiliates (companies owned 20% to 50%) are accounted for by the equity method.

The difference 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 is amortized by the straight-line method over a period of five years.

c. Foreign currency accounts

Foreign currency receivables and payables are translated into yen as follows:

- (1) Current receivables and payables are translated at the applicable year-end rates;
- (2) Non-current receivables and payables not hedged by forward exchange contracts are translated at the historical rates, which approximate the prevailing rates at the time of the transactions; and
- (3) Long-term debt hedged by forward exchange contracts is translated at the forward rates, and the resulting translation differences are allocated to income or expenses on the basis of the number of months in the contract period.

The accounts of the consolidated foreign subsidiaries are translated into yen as follows:

- (1) Capital stock is translated at historical rates;
- (2) Retained earnings (deficit) at the beginning of the year is translated at the preceding year-end rate;
- (3) All other accounts are translated at the applicable year-end rate; and
- (4) The translation adjustments between the historical rates and the year-end rate of capital stock, and between the beginning and ending rates of retained earnings (deficit) at the beginning of the year are charged to the consolidated balance sheet.

The accounts of the unconsolidated foreign subsidiaries and affiliates accounted for by the equity method are translated into yen as follows:

- (1) Capital stock is translated at historical rates;
- (2) Retained earnings (deficit) at the beginning of the year is translated at the preceding year-end rate;
- (3) Retained earnings (deficit) at the end of the year and net income (loss) for the year are translated at the applicable year-end rate; and
- (4) The translation adjustments between the historical rates and the year-end rate of capital stock, and between the beginning and year-end rates of retained earnings (deficit) at the beginning of the year are charged to the consolidated balance sheet.

d. 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, 1998 and 1997 amounted to ¥10,698 million (\$81,045 thousand) and ¥10,992 million, respectively.

Depreciation of property and equipment is summarized as follows:

Flight equipment:

Aircraft and spare engines:

Boeing 747	— principally the declining-balance method based on their estimated useful lives
(with the exception of Boeing 747-400)	
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

Costs for maintenance, repairs and minor renewals, and improvements are charged to income in the year incurred; major renewals and improvements are capitalized.

Effective April 1, 1997, the Company revised the estimated useful lives of flight equipment from 15 years for international use and 13 years for domestic use, to economical useful lives determined by aircraft and ranging from 13 years through 22 years. The effect of this revision was to decrease operating expenses and increase operating income by ¥17,381 million (\$131,674 thousand), and to

decrease loss before minority interests, income taxes and equity in earnings of unconsolidated subsidiaries and affiliates by ¥17,343 million (\$131,386 thousand) for the year ended March 31, 1998.

In general, when assets are sold or otherwise disposed of, the profit or loss, computed on the basis of the difference between the net book value of the assets and the sales proceeds, is credited or charged to income in the year of the sale or disposal, and the related cost and accumulated depreciation are removed from the accounts.

e. Bond issuance expenses

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

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 to the extent to which they are deductible for income tax purposes. The rate of deduction permitted for income tax purposes is 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 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. In the Company and its domestic subsidiaries, capital leases, defined as leases which do not transfer the ownership of the leased property to the lessees, 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 lessees, 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 appropriation.

j. Cash equivalents

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

2. U.S. Dollar Amounts

Amounts in U.S. dollars are included solely for the convenience of the reader. The rate of ¥132=U.S.\$1, the approximate exchange rate prevailing on March 31, 1998, has been used. The inclusion of

such amounts is not intended to imply that yen have been or could be readily converted, realized or settled in U.S. dollars at that or any other rate.

3. Long-Term Debt

Long-term debt at March 31, 1998 and 1997 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	1998	1997	1998
Bonds:			
Bonds in U.S. dollars, guaranteed by the Japanese government, due 1998, with interest at 10.875%	¥ 1,411	¥ 8,528	\$ 10,689
Bonds in U.S. dollars, due 2003, with interest at 6.625%	26,845	26,845	203,371
Bonds in foreign currencies, due 1998, at a rate which varies according to LIBOR	3,903	5,635	29,568
Euro-yen bonds, due 1998 to 2003, with interest from 4.0% to 6.9% and at a rate which varies according to LIBOR	138,695	191,899	1,050,719
Japanese yen bonds, due 2001 to 2018, with interest from 1.9% to 3.1%	266,100	120,000	2,015,909
Convertible bonds, due 1999 to 2005, with interest from 1.5% to 1.6%	35,678	37,968	270,287
Loans with collateral, due 1998 to 2024, with interest from 1.125% to 6.6%	337,349	347,849	2,555,674
Loans without collateral	393,554	427,624	2,981,469
Other	33,142	36,439	251,075
	1,236,679	1,202,789	9,368,780
Less current portion	(172,443)	(180,406)	(1,306,386)
	¥1,064,235	¥1,022,383	\$ 8,062,386

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

	Conversion price per share	Conversion period
1.6% convertible bonds in yen due 2005	¥1,751.10	February 1, 1990 – March 30, 2005
1.5% convertible bonds in yen due 1999	¥1,751.10	February 1, 1990 – March 30, 1999

Under the provisions of these issues, the conversion prices are subject to adjustment in certain cases which include stock splits.

The aggregate annual maturities of long-term debt subsequent to March 31, 1998 are as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
1999	¥ 172,443	\$1,306,386
2000	111,235	842,689
2001	130,582	989,257
2002	151,624	1,148,666
2003 and thereafter	670,793	5,081,765
	<u>¥1,236,679</u>	<u>\$9,368,780</u>

A summary of assets pledged as collateral for long-term debt at March 31, 1998 is as follows:

	Millions of yen	Thousands of U.S. dollars
Flight equipment, net of accumulated depreciation	¥311,484	\$2,359,727
Ground property and equipment, net of accumulated depreciation, and other	131,053	992,825
	<u>¥442,537</u>	<u>\$3,352,553</u>

In November 1987, the Japan Airlines Company, Ltd. Law was abrogated. However, the section pertaining to the bondholders' entitlement to payments from the Company's assets in priority to that of other unsecured creditors was reinstated under a new law. Holders of bonds which amounted to ¥1,411 million (\$10,689 thousand) at March 31, 1998 are covered by the new law.

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

4. 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 a statutory rate of approximately 52% in 1998, 1997 and 1996.

Corporation tax and inhabitants' taxes are based on taxable income and are included under the caption "Income taxes – Current," whereas enterprise tax, which is deductible for corporation and inhabitants' tax purposes when paid, is included under

the caption "Operating expenses – General and administrative" in the accompanying consolidated statements of operations. Enterprise tax for the years ended March 31, 1998, 1997 and 1996 amounted to ¥1,444 million (\$10,939 thousand), ¥1,386 million and ¥1,306 million, respectively.

Deferred income taxes are recognized only insofar as they relate to the elimination of intercompany items on consolidation.

5. Accrued Severance Indemnities

Charges to income for severance indemnities including special termination benefits for the years ended March 31, 1998, 1997 and 1996 were as follows:

	Millions of yen		Thousands of U.S. dollars
	1998	1997	1998
	¥33,942	¥20,628	¥17,723
			\$257,136

The unamortized balance of prior service cost of the pension plans at March 31, 1997, the most recent valuation date, was ¥47,643 million (\$360,931 thousand).

6. 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.

7. Leases

As lessee

Lease expenses relating to capital lease transactions accounted for as operating leases amounted to ¥40,380 million (\$305,909 thousand) and ¥32,523 million for the years ended March 31, 1998 and 1997, respectively.

The present value of future rental expenses under capital leases accounted for as operating leases outstanding at March 31, 1998 were as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
1999	¥ 28,939	\$ 219,234
2000 and thereafter	193,085	1,462,765
Total future expenses	¥222,024	\$1,682,000

Future rental expenses under operating leases outstanding at March 31, 1998 were as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
1999	¥ 8,649	\$ 65,522
2000 and thereafter	42,904	325,030
Total future expenses	¥51,553	\$390,553

As lessor

Rental revenues relating to direct financing lease transactions accounted for as operating leases amounted to ¥1,649 million (\$12,492 thousand) and ¥1,648 million for the years ended March 31, 1998 and 1997, respectively.

The present value of future rental revenues under direct financing leases accounted for as operating leases outstanding at March 31, 1998 were as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
1999	¥1,303	\$ 9,871
2000 and thereafter	3,452	26,151
Total future expenses	¥4,756	\$36,030

Future rental revenues under operating leases outstanding at March 31, 1998 were as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
1999	¥327	\$2,477
2000 and thereafter	382	2,893
Total future expenses	¥709	\$5,371

8. Commitments and Contingent Liabilities

Commitments outstanding at March 31, 1998 for purchases of property and equipment amounted to ¥580,955 million (\$4,401,174 thousand).

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

At March 31, 1998, contingent liabilities for guarantees, principally for unconsolidated subsidiaries, affiliates and employees, amounted to ¥46,191 million (\$349,931 thousand).

In addition, at March 31, 1998, the Company was liable under debt assumption agreements for in-substance defeasance of certain bonds in the aggregate amount of ¥120,000 million (\$909,090 thousand).

The Company has sold certain receivables and loans to banks. The outstanding balance of these receivables and loans sold at March 31, 1998 was ¥67,658 million (\$512,560 thousand).

9. Elimination of Accumulated Deficit

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

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
Reserve for special depreciation	¥ 8,665	\$ 65,643
Special reserve	5,808	44,000
Accumulated deficit brought forward	(151,772)	(1,149,787)
	¥(137,298)	\$ (1,040,136)

A proposal for disposition of the Company's non-consolidated accumulated deficit to be carried forward of ¥151,772 million

(\$1,149,787 thousand) at March 31, 1998 was approved at a shareholders' meeting held on June 26, 1998. A portion of the deficit in the amount of ¥172,458 million (\$1,306,500 thousand) at March 31, 1998 was offset against the reserve for special depreciation of ¥8,665 million (\$65,643 thousand), the special reserve of ¥5,808 million (\$44,000 thousand), a reversal of the legal reserve of ¥7,330 million (\$55,530 thousand) and a reversal of additional paid-in capital of ¥129,968 million (\$984,606 thousand). As a result, at June 26, 1998, the balance of consolidated accumulated deficit to be carried forward amounted to ¥35,160 million (\$266,363 thousand).

10. Amounts Per Share

Net loss per share has been computed based on the weighted average number of shares of common stock outstanding during each year.

Year ended March 31,	Yen			U.S. dollars
	1998	1997	1996	1998
Net loss	¥(35.37)	¥(8.14)	¥(5.11)	\$ (0.267)

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

March 31,	Yen		U.S. dollars
	1998	1997	1998
Net assets	¥103.97	¥138.62	\$0.787

11. Segment Information

The Company and its consolidated subsidiaries conduct worldwide operations in air transportation, hotel and resort operations, card and lease operations, travel services, trading and other airline-related business. This segmentation has been made for internal management purposes. Businesses other than the air

transportation business, hotel and resort operations, and card and lease 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, 1998, 1997 and 1996 is summarized as follows:

Millions of yen

Year ended March 31, 1998	Air transportation	Hotel and resort operations	Card and lease operations	Other	Total	General corporate assets and intercompany eliminations	Consolidated
Operating revenues	¥1,174,343	¥ 58,683	¥ 15,132	¥333,399	¥1,581,559	¥ –	¥ 1,581,559
Intra-group sales and transfers	98,614	4,948	30,653	174,914	309,130	(309,130)	–
Total	1,272,957	63,632	45,786	508,313	1,890,690	(309,130)	1,581,559
Operating expenses	1,239,157	61,663	43,932	501,837	1,846,591	(305,214)	1,541,376
Operating income	¥ 33,800	¥ 1,969	¥ 1,853	¥ 6,476	¥ 44,099	¥ (3,916)	¥ 40,182
Depreciation	¥ 60,763	¥ 7,701	¥ 10,407	¥ 4,787	¥ 83,660	¥ (933)	¥ 82,726
Capital expenditures	¥ 118,135	¥ 2,950	¥ 19,289	¥ 2,639	¥ 143,015	¥ (154)	¥ 142,861
Identifiable assets	¥1,443,535	¥167,374	¥396,599	¥258,989	¥2,266,498	¥ (223,737)	¥2,042,761

Thousands of U.S. dollars

Year ended March 31, 1998	Air transportation	Hotel and resort operations	Card and lease operations	Other	Total	General corporate assets and intercompany eliminations	Consolidated
Operating revenues	\$ 8,896,537	\$ 444,568	\$ 114,636	\$2,525,750	\$11,981,507	\$ –	\$11,981,507
Intra-group sales and transfers	747,075	37,484	232,219	1,325,106	2,341,893	(2,341,893)	–
Total	9,643,613	482,060	346,863	3,850,856	14,323,409	(2,341,893)	11,981,507
Operating expenses	9,387,553	467,143	332,818	3,801,795	13,989,325	(2,312,227)	11,677,090
Operating income	\$ 256,060	\$ 14,916	\$ 14,037	\$ 49,060	\$ 334,083	\$ (29,666)	\$ 304,409
Depreciation	\$ 460,325	\$ 58,340	\$ 78,840	\$ 36,265	\$ 633,787	\$ (7,068)	\$ 626,712
Capital expenditures	\$ 894,962	\$ 22,348	\$ 146,128	\$ 19,992	\$ 1,083,446	\$ (1,166)	\$ 1,082,280
Identifiable assets	\$10,935,871	\$1,267,984	\$3,004,537	\$1,962,037	\$17,170,439	\$(1,694,977)	\$15,475,462

Millions of yen

Year ended March 31, 1997	Air transportation	Hotel and resort operations	Card and lease operations	Other	Total	General corporate assets and intercompany eliminations	Consolidated
Operating revenues	¥1,146,382	¥ 59,972	¥ 15,179	¥345,598	¥1,567,133	¥ –	¥1,567,133
Intra-group sales and transfers	102,372	4,630	27,636	175,428	310,068	(310,068)	–
Total	1,248,755	64,602	42,816	521,027	1,877,201	(310,068)	1,567,133
Operating expenses	1,242,406	62,303	41,162	518,241	1,864,114	(306,812)	1,557,301
Operating income	¥ 6,349	¥ 2,299	¥ 1,653	¥ 2,786	¥ 13,087	¥ (3,255)	¥ 9,832
Depreciation	¥ 71,563	¥ 7,254	¥ 8,694	¥ 5,791	¥ 93,304	¥ (840)	¥ 92,464
Capital expenditures	¥ 63,710	¥ 4,375	¥ 17,523	¥ 8,263	¥ 93,873	¥ (1,024)	¥ 92,849
Identifiable assets	¥1,398,006	¥190,686	¥330,402	¥276,638	¥2,195,734	¥(145,110)	¥2,050,623

Millions of yen

Year ended March 31, 1996	Air transportation	Hotel and resort operations	Card and lease operations	Other	Total	General corporate assets and intercompany eliminations	Consolidated
Operating revenues	¥1,067,351	¥ 52,503	¥ 11,586	¥317,599	¥1,449,041	¥ –	¥1,449,041
Intra-group sales and transfers	97,502	4,529	29,094	158,666	289,793	(289,793)	–
Total	1,164,854	57,033	40,681	476,266	1,738,835	(289,793)	1,449,041
Operating expenses	1,148,191	57,667	39,586	472,373	1,717,819	(286,092)	1,431,726
Operating income (loss)	¥ 16,663	¥ (634)	¥ 1,094	¥ 3,892	¥ 21,015	¥ (3,700)	¥ 17,315
Depreciation	¥ 68,354	¥ 7,292	¥ 7,549	¥ 4,270	¥ 87,467	¥ (810)	¥ 86,656
Capital expenditures	¥ 74,925	¥ 1,480	¥ 8,591	¥ 10,824	¥ 95,821	¥ –	¥ 95,821
Identifiable assets	¥1,428,721	¥183,488	¥329,383	¥287,484	¥2,229,078	¥(118,024)	¥2,111,053

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 year ended March 31, 1998 were as follows:

Millions of yen

Year ended March 31, 1998	Asia and Oceania	North and South America	Europe	Total
Operating revenues from foreign operations	¥365,189	¥331,061	¥186,070	¥ 882,321
Consolidated operating revenues				¥1,581,559
Percentage of consolidated operating revenues	23.1%	20.9%	11.8%	55.8%

Thousands of U.S. dollars

Year ended March 31, 1998	Asia and Oceania	North and South America	Europe	Total
Operating revenues from foreign operations	\$2,766,583	\$2,508,037	\$1,409,621	\$ 6,684,250
Consolidated operating revenues				\$11,981,507
Percentage of consolidated operating revenues	23.1%	20.9%	11.8%	55.8%

Operating revenues from foreign operations accounted for 56.4% and 55.6% of the total operating revenues for the years ended March 31, 1997 and 1996, respectively.

c. Geographic information

For the years ended March 31, 1998, 1997 and 1996, 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.

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS
JAPAN AIRLINES COMPANY, LTD. AND CONSOLIDATED SUBSIDIARIES

To the Board of Directors of
JAPAN AIRLINES COMPANY, LTD.

We have examined the consolidated balance sheets of Japan Airlines Company, Ltd. and its consolidated subsidiaries as of March 31, 1998 and 1997, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended March 31, 1998, all expressed in yen. Our examinations were made in accordance with auditing standards generally accepted 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 financial position of Japan Airlines Company, Ltd. and its consolidated subsidiaries at March 31, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 1998 in conformity with accounting principles generally accepted in Japan applied on a consistent basis.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 1998 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.

Showa Ota & Co

June 26, 1998