

NON-CONSOLIDATED BALANCE SHEETS

JAPAN AIRLINES COMPANY, LTD.
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	¥ 28,662	¥ 35,000	\$ 217,136
Time deposits	19,930	33,550	150,984
Marketable securities, at cost (Note 3)	86,243	39,859	653,356
Accounts receivable (Note 11):			
Trade (Note 8)	85,176	96,814	645,272
Subsidiaries and affiliates	42,906	33,933	325,045
Allowance for doubtful accounts	(589)	(587)	(4,462)
Flight equipment spare parts, at cost	51,233	50,872	388,128
Prepaid expenses and other	71,818	70,764	544,075
Total current assets	385,382	360,207	2,919,560
Investments and advances:			
Subsidiaries and affiliates	122,253	171,797	926,159
Others, at cost	38,232	45,206	289,636
Total investments and advances	160,486	217,004	1,215,803
Property and equipment (Notes 1, 4 and 8):			
Flight equipment	1,319,460	1,295,297	9,995,909
Ground property and equipment	455,304	453,235	3,449,272
	1,774,765	1,748,532	13,445,189
Accumulated depreciation	(954,428)	(928,909)	(7,230,515)
	820,336	819,623	6,214,666
Advances on aircraft purchases and other (Note 11)	72,076	58,773	546,030
Property and equipment, net	892,413	878,396	6,760,704
Housing loans to employees (Note 8)	6,184	5,926	46,848
Other assets	27,867	31,731	211,113
	¥1,472,333	¥1,493,265	\$11,154,037

	Millions of yen		Thousands of U.S. dollars (Note 2)
LIABILITIES AND STOCKHOLDERS' EQUITY	1998	1997	1998
Current liabilities:			
Current portion of long-term debt (Notes 4 and 11)	¥ 75,711	¥ 110,953	\$ 573,568
Accounts payable (Note 11):			
Trade	131,820	128,786	998,636
Construction	9,150	8,855	69,318
Subsidiaries and affiliates	45,303	44,993	343,204
Accrued expenses	53,529	48,764	405,522
Other	79,251	84,687	600,386
Total current liabilities	394,767	427,041	2,990,659
Long-term debt (Notes 4 and 11)	749,160	663,573	5,675,454
Accrued severance indemnities (Note 5)	83,279	88,328	630,901
Reserve for loss on investments in subsidiaries and affiliates	24,994	–	189,348
Commitments and contingent liabilities (Notes 7, 8 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	1,426,689
Additional paid-in capital	161,776	161,776	1,225,575
Legal reserve (Note 6)	7,330	7,330	55,530
Deficit (Note 9)	(137,298)	(43,108)	(1,040,136)
Total stockholders' equity	220,132	314,321	1,667,666
	¥1,472,333	¥1,493,265	\$11,154,037

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, 1998, 1997 and 1996

	Millions of yen			Thousands of U.S. dollars (Note 2)
	1998	1997	1996	1998
Operating revenues:				
Passenger:				
Domestic	¥ 293,364	¥ 287,948	¥ 279,991	\$2,222,454
International	624,469	625,961	579,138	4,730,825
Cargo:				
Domestic	28,046	28,808	27,837	212,469
International	150,214	139,602	124,132	1,137,984
Incidentals and other	123,611	113,012	104,831	936,446
	1,219,706	1,195,334	1,115,931	9,240,196
Operating expenses (Note 7):				
Flight operations	349,068	331,663	289,173	2,644,454
Maintenance	94,486	96,664	92,454	715,803
Passenger services	143,456	145,157	139,974	1,086,787
Aircraft and traffic servicing	238,547	243,684	234,929	1,807,174
Sales and advertising	191,953	192,293	170,886	1,454,189
General and administrative	38,402	39,294	37,830	290,924
Depreciation and amortization	62,672	75,172	72,971	474,787
Cost of incidentals and other	70,115	66,846	62,308	531,174
	1,188,702	1,190,777	1,100,527	9,005,318
Operating income	31,003	4,556	15,403	234,871
Non-operating income (expenses):				
Interest and dividend income	4,739	6,962	5,591	35,901
Interest expense	(35,115)	(36,302)	(41,419)	(266,022)
Exchange gains (losses), net	(232)	2,632	3,812	(1,757)
Aircraft purchase incentives	6,642	5,725	3,323	50,318
Gain on sales of marketable securities	188	4,538	106	1,424
Gain on sales of aircraft	3,259	34	18,782	24,689
Gain on sales of ground property	11,696	17,063	205	88,606
Special termination benefits (Note 5)	(15,203)	(4,810)	(1,010)	(115,174)
Loss on disposal of fixed assets	(858)	(6,695)	(1,730)	(6,500)
Loss on liquidation of operations of subsidiaries and affiliates	(366)	(1,108)	(1,311)	(2,772)
Loss on revaluation of investments in subsidiaries and affiliates	(72,053)	-	-	(545,856)
Provision for reserve for loss on investments in subsidiaries and affiliates	(24,994)	-	-	(189,348)
Other, net	(2,793)	(1,536)	(1,164)	(21,159)
	(125,091)	(13,496)	(14,815)	(947,659)
(Loss) income before income taxes	(94,087)	(8,939)	588	(712,780)
Income taxes	102	299	96	772
Net (loss) income	¥ (94,189)	¥ (9,238)	¥ 492	\$ (713,553)

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, 1998, 1997 and 1996

	Number of shares of common stock	Millions of yen			
		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	¥ (34,362)
Net income for the year ended March 31, 1996					492
Balance at March 31, 1996	1,778,943,439	188,323	161,776	7,330	(33,869)
Net loss for the year ended March 31, 1997					(9,238)
Balance at March 31, 1997	1,778,943,439	188,323	161,776	7,330	(43,108)
Net loss for the year ended March 31, 1998					(94,189)
Balance at March 31, 1998	1,778,943,439	¥188,323	¥161,776	¥7,330	¥(137,298)

	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	\$ (326,575)
Net loss for the year ended March 31, 1998				(713,553)
Balance at March 31, 1998	\$1,426,689	\$1,225,575	\$55,530	\$(1,040,136)

The accompanying notes are an integral part of these statements.

NON-CONSOLIDATED STATEMENTS OF CASH FLOWS

JAPAN AIRLINES COMPANY, LTD.

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) income	¥ (94,189)	¥ (9,238)	¥ 492	\$ (713,553)
Adjustments to reconcile net (loss) income to net cash provided by operating activities:				
Depreciation and amortization	66,171	78,707	72,971	501,295
Net provision for severance indemnities	(5,049)	1,688	2,673	(38,250)
Loss on liquidation of operations of subsidiaries and affiliates	191	146	1,311	1,446
Loss on revaluation of investments in subsidiaries and affiliates	72,053	-	-	545,856
Provision for reserve for loss on investments in subsidiaries and affiliates	24,994	-	-	189,348
Gain on sales, disposal and revaluation of flight equipment spare parts, property and equipment	(10,700)	(10,092)	(15,322)	(81,060)
Changes in operating assets and liabilities:				
Accounts receivable	2,667	6,664	(3,878)	20,204
Flight equipment spare parts, prepaid expenses and other	(1,890)	(13,380)	(27,884)	(14,318)
Accounts payable and accrued expenses	4,812	20,220	24,666	36,454
Net cash provided by operating activities	59,060	74,715	55,029	447,424
Investing activities				
(Increase) decrease in time deposits and marketable securities	(48,688)	(7,486)	103,729	(368,848)
Additions to property and equipment	(83,661)	(56,056)	(68,080)	(633,795)
Proceeds from sales of property and equipment	29,912	22,883	31,868	226,606
(Increase) decrease in investments and advances	(2,606)	(4,165)	6,205	(19,742)
(Increase) decrease in housing loans to employees	(258)	(1,418)	16,289	(1,954)
(Increase) decrease in other assets	(6,838)	(8,850)	(18,676)	(51,803)
Other	(3,624)	(926)	(1,061)	(27,454)
Net cash (used in) provided by investing activities	(115,763)	(56,018)	70,274	(876,992)
Financing activities				
Proceeds from long-term debt	194,331	67,834	108,188	1,472,204
Payments of long-term debt	(143,966)	(123,957)	(200,356)	(1,090,651)
Decrease in short-term bank loans	-	-	(25,590)	-
Dividends paid	-	-	(31)	-
Net cash provided by (used in) financing activities	50,365	(56,123)	(117,789)	381,553
Net (decrease) increase in cash and cash equivalents	(6,338)	(37,426)	7,514	(48,015)
Cash and cash equivalents at beginning of the year	35,000	72,426	64,912	265,151
Cash and cash equivalents at end of the year	¥ 28,662	¥ 35,000	¥ 72,426	\$ 217,136
Supplemental disclosures of cash flow information				
Cash paid during the year for:				
Interest	¥ 31,381	¥ 34,731	¥ 46,041	\$ 237,734
Income taxes	626	494	889	4,742

The accompanying notes are an integral part of these statements.

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

JAPAN AIRLINES COMPANY, LTD.
March 31, 1998

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 for the following policies:

a. Basis of presentation

The Company maintains its accounting records and prepares its financial statements in accordance with accounting principles and practices generally accepted 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.

b. Investments in subsidiaries and affiliates

Investments in subsidiaries and affiliates (companies owned 20% to 50%) are stated at cost.

c. Reserve for loss on investments in subsidiaries and affiliates

The reserve for loss on investments in subsidiaries and affiliates is provided for the contingent losses which may be incurred in the termination of business at certain subsidiaries and affiliates.

d. Leases

The Company leases certain equipment under noncancelable lease agreements referred to as capital leases. Capital leases, defined as leases which do not transfer the ownership of the leased property to the Company, are accounted for as operating leases.

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. Marketable Securities

Marketable securities, which are stated at cost based on the moving average method at March 31, 1998 and 1997 consisted of the following:

	1998			1997			1998		
	Book value	Market value	Unrealized gain (loss)	Book value	Market value	Unrealized gain	Book value	Market value	Unrealized gain (loss)
Marketable securities:									
Stocks	¥31,929	¥33,435	¥1,506	¥32,066	¥40,675	¥8,609	\$241,886	\$253,295	\$11,409
Bonds	5,000	4,987	(12)	—	—	—	37,878	37,780	(90)
	36,929	¥38,423	¥1,494	32,066	¥40,675	¥8,609	279,765	\$291,083	\$11,318
Other securities	49,313			7,793			373,583		
	¥86,243			¥39,859			\$653,356		

Other securities represent those whose market value is not required to be disclosed.

4. Long-Term Debt

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

	Millions of yen		Thousands of U.S. dollars
	1998	1997	1998
Bonds:			
Bonds in foreign currencies, 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
Euro-yen bonds, due 1998 to 2003, with interest from 4.0% to 6.9% and at a rate which varies according to LIBOR	130,000	180,000	984,848
Japanese yen bonds, due 2001 to 2010, with interest from 1.9% to 3.1%	267,000	120,000	2,022,727
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 2013, with interest from 2.70% to 6.6%	248,143	272,447	1,879,871
Loans without collateral	86,657	118,100	656,492
Other	29,136	10,638	220,727
	824,871	774,526	6,249,022
Less current portion	(75,711)	(110,953)	(573,568)
	¥749,160	¥663,573	\$5,675,454

See Note 3 to the consolidated financial statements with respect to convertible bonds.

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	¥ 75,711	\$ 573,568
2000	72,815	551,628
2001	97,647	739,750
2002	102,644	777,606
2003 and thereafter	476,054	3,606,469
	<u>¥824,871</u>	<u>\$6,249,022</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	¥304,345	\$2,305,643
Ground property and equipment, net of accumulated depreciation	25,298	191,651
	<u>¥329,643</u>	<u>\$2,497,295</u>

See Note 3 to the consolidated financial statements with respect to the effective interest rates on certain foreign currency bonds, which resulted from hedging the bonds with cross-currency interest rate swaps.

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
	¥28,556	¥17,005	\$216,333

The unamortized balance of prior service cost of the pension plan at March 31, 1997, the most recent valuation date, was ¥46,071 million (\$349,022 thousand).

6. Legal Reserve

See Note 6 to the consolidated financial statements.

7. Leases

The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of leased property as of March 31, 1998 and 1997, and the related depreciation expense and interest expense for the years ended March 31, 1998 and 1997, 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 lease transactions currently accounted for as operating leases:

	Millions of yen		
March 31, 1998	Flight equipment	Ground property and equipment	Total
Acquisition costs	¥422,462	¥38,724	¥461,186
Less accumulated depreciation	205,504	19,801	225,305
Net book value	<u>¥216,957</u>	<u>¥18,923</u>	<u>¥235,880</u>

	Thousands of U.S. dollars		
March 31, 1998	Flight equipment	Ground property and equipment	Total
Acquisition costs	\$3,200,469	\$293,363	\$3,493,833
Less accumulated depreciation	1,556,848	150,007	1,706,856
Net book value	<u>\$1,643,613</u>	<u>\$143,356</u>	<u>\$1,786,969</u>

	Millions of yen		
March 31, 1997	Flight equipment	Ground property and equipment	Total
Acquisition costs	¥403,898	¥39,959	¥443,858
Less accumulated depreciation	172,581	16,698	189,280
Net book value	<u>¥231,317</u>	<u>¥23,260</u>	<u>¥254,578</u>

	Millions of yen		Thousands of U.S. dollars
Year ended March 31,	1998	1997	1998
Depreciation expense	¥38,754	¥36,358	\$293,590
Interest expense	¥13,102	¥13,582	\$ 99,257

Lease expenses relating to capital lease transactions accounted for as operating leases amounted to ¥46,357 million (\$351,189 thousand) and ¥43,838 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 and 1997 was as follows:

	Millions of yen		Thousands of U.S. dollars
	1998	1997	1998
Within 1 year	¥ 33,423	¥ 32,474	\$ 253,204
Over 1 year	236,846	250,976	1,794,287
	¥270,269	¥283,451	\$2,047,492

Future rental expenses under operating leases outstanding at March 31, 1998 and 1997 were as follows:

	Millions of yen		Thousands of U.S. dollars
	1998	1997	1998
Within 1 year	¥ 9,855	¥12,138	\$ 74,659
Over 1 year	38,431	31,070	291,143
	¥48,287	¥43,208	\$365,810

8. Commitments and Contingent Liabilities

Commitments outstanding at March 31, 1998 for purchases of property and equipment amounted to ¥578,836 million (\$4,385,121 thousand).

See Note 8 to the consolidated financial statements with respect to contingent liabilities under debt assumption agreements.

At March 31, 1998, contingent liabilities for guarantees, principally for subsidiaries, affiliates and employees, amounted to ¥22,974 million (\$174,045 thousand).

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

9. Elimination of Accumulated Deficit

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

	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 accumulated deficit was approved at shareholders' meeting held on June 26, 1998. The deficit of ¥151,772 million (\$1,149,787 thousand) at March 31, 1998 was offset against a reversal of the reserve for special depreciation of ¥8,665 million (\$65,643 thousand), the special reserve

of ¥5,808 million (\$44,000 thousand), 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 accumulated deficit to be carried forward was zero.

10. Amounts Per Share

Amounts per share have been computed by the same method as that described in Note 10 to the consolidated financial statements and are summarized as follows:

Year ended March 31,	Yen		U.S. dollars
	1998	1997	1998
Net (loss) income	¥(52.95)	¥(5.19)	¥0.28
			\$ (0.401)
March 31,	Yen		U.S. dollars
	1998	1997	1998
Net assets	¥123.74	¥176.69	\$0.937

11. Derivatives and Hedging Activities

The Company has 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 has also utilized interest-rate and currency swap agreements and foreign exchange contracts to minimize the impact of foreign exchange and interest-rate movements related to its outstanding debt on the Company's 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 hedging activities in the form of forward exchange contracts, currency options and commodity derivatives is to protect the Company 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 is exposed to certain market risks arising from its forward exchange contracts, swap agreements and written currency options. The Company is 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 does not anticipate nonperformance by any of these counterparties, all of which are financial institutions with high bond credit.

At March 31, 1998 and 1997, the forward exchange contracts outstanding were as follows:

	Millions of yen					
	1998			1997		
	Notional amount	Market value	Unrealized gain	Notional amount	Market value	Unrealized gain
U.S. dollar forward exchange contracts	¥6,907	¥7,520	¥612	¥13,583	¥14,426	¥843

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 sheets at March 31, 1998 and 1997.

At March 31, 1998 and 1997, the currency option agreements outstanding were as follows:

	Millions of yen				Thousands of U.S. dollars				
	1998				1997				
	Notional amounts	Carrying amounts	Market value	Unrealized gain (loss)	Notional amounts	Carrying amounts	Market value	Unrealized gain (loss)	
Written currency options:									
Calls	¥ -	¥ -	¥ -	¥ -	¥ 6,200	¥ 43	\$ -	\$ -	\$ -
Puts	14,988	517	77	439	26,040	592	113,545	3,916	583
	¥14,988	¥517	¥ 77	¥439	¥32,240	¥635	\$113,545	\$3,916	\$ 583
Purchased currency options:									
Calls	¥15,572	¥371	¥917	¥545	¥27,280	¥477	\$117,969	\$2,810	\$6,946
Puts	4,428	145	10	(134)	8,680	158	33,545	1,098	75
	¥20,000	¥517	¥927	¥411	¥35,960	¥635	\$151,515	\$3,916	\$7,022

At March 31, 1998 and 1997, interest rates were effectively converted on the following notional principal amounts:

	Millions of yen			Thousands of U.S. dollars	
	1998		1997	1998	
	Notional amounts	Unrealized gain (loss)	Notional amounts	Notional amounts	Unrealized gain (loss)
Interest-rate swap agreements:					
Fixed-rate into variable-rate obligations	¥20,000	¥ 1,880	¥20,000	\$151,515	\$ 14,242
Variable-rate into fixed-rate obligations	¥60,000	¥(5,443)	¥60,000	\$454,545	\$(41,234)
Variable-rate into different variable-rate indexed obligations	¥ -	¥ -	¥30,000	\$ -	\$ -

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 sheets at March 31, 1998 and 1997.

At March 31, 1998 and 1997, the carrying amounts and notional amounts of fuel price commodity derivatives were as follows:

	Millions of yen					Thousands of U.S. dollars		
	1998			1997		1998		
	Notional amounts	Carrying amounts	Unrealized loss	Notional amounts	Carrying amounts	Notional amounts	Carrying amounts	Unrealized loss
Fuel price swaps	¥13,408	¥ -	¥(3,113)	¥17,236	¥ -	\$101,575	\$ -	\$(23,583)
Fuel price protection arrangements	¥ 3,424	¥ -	¥ (224)	¥ 390	¥ 6	\$ 25,939	\$ -	\$ (1,696)

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS
JAPAN AIRLINES COMPANY, LTD.

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

We have examined the non-consolidated balance sheets of Japan Airlines Company, Ltd. as of March 31, 1998 and 1997, and the related non-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 non-consolidated financial statements, expressed in yen, present fairly the financial position of Japan Airlines Company, Ltd. at March 31, 1998 and 1997, and the results of its operations and its 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 non-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 non-consolidated financial statements.

June 26, 1998

Showa Ota & Co.