

## MANAGEMENT'S REVIEW AND ANALYSIS OF FINANCIAL POSITION

Japan Airlines Company, Ltd. and Consolidated Subsidiaries  
Fiscal Years Ended March 31, 1999 and 1998

### OPERATING REVENUES

Consolidated operating revenues decreased 1.0 percent to ¥1,566.0 billion. This was the result of a 8.8 percent decline in passenger revenues to ¥902.6 billion, a 7.1 percent decline in cargo revenues to ¥173.6 billion and a 20.9 percent increase in incidental and other revenues to ¥489.8 billion.

International passenger revenues were down 10.9 percent to ¥595.2 billion as international revenue passenger kilometers climbed 0.3 percent to 65,472 million. The number of international passengers was up 0.6 percent to 12,831 thousand. Revenues fell despite this growth because of competitive pressures on ticket prices and lower levels of first class and executive class passengers.

Domestic passenger revenues declined 4.5 percent to ¥307.4 billion as revenue passenger kilometers increased

1.3 percent to 18,620 million. The number of domestic passengers rose 1.0 percent to 22,660 thousand. Offsetting this growth was a decrease in ticket prices due to intense competition, mostly on high-volume routes.

International cargo revenues decreased 8.3 percent to ¥145.6 billion because of soft demand on many important routes, excluding those from Southeast Asia to North America. Domestic cargo revenues decreased 0.3 percent to ¥27.9 billion as the impact of Japan's sluggish economy offset an effective marketing program.

Incidental and other revenues increased 20.9 percent to ¥489.8 billion. There was a 9.8 percent decline in hotel and resort operations to ¥57.4 billion, partially due to the yen's strength. Revenues in travel agency operations were up 72.3 percent to ¥337.6 billion because of growth in the number of consolidated subsidiaries.

### PERSONNEL (JAL ONLY)

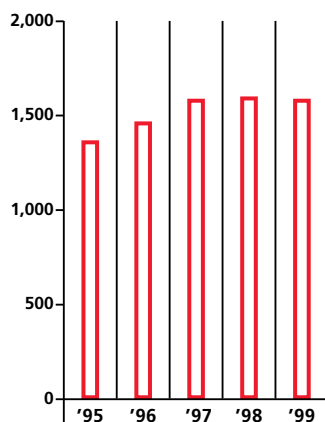
March 31, 1999

Ground Staff	7,547
Cockpit Crew	2,568
Cabin Crew	6,210
<b>Total</b>	<b>16,325</b>
(Non-Japanese)	3,130

*Note: These figures exclude directors who have concurrent employee responsibilities, personnel dispatched to other companies (2,240) and employees on leave (600).*

### CONSOLIDATED OPERATING REVENUES

(Billions of Yen)  
Years Ended March 31



### JAL FLEET

March 31, 1999

Type of Aircraft	Capacity	Owned	Leased	Total
Boeing 747-400	266-568 seats	28	8	36
Boeing 747LR	341-468 seats	14	14	28
Boeing 747SR	533, 563 seats	7	0	7
Boeing 747F	115 tons	0	9	9
Boeing 767	213-270 seats	9	12	21
Boeing 737	150 seats	1	4	5
Boeing 777	389, 470 seats	4	4	8
Douglas MD-11	233-300 seats	2	8	10
Douglas DC-10	266-318 seats	9	4	13
<b>Total</b>		<b>74</b>	<b>63</b>	<b>137</b>

## OPERATING AND NET INCOME

Operating expenses decreased 0.5 percent to ¥1,533.2 billion. Low fuel prices brought down fuel expenses, thus reducing flight operations expenses. Expenses in the aircraft and traffic servicing and the sales and advertising categories decreased as well, both reflections of a concerted cost containment program. Despite these improvements, operating income fell 21.1 percent to ¥32.8 billion because of the decline in revenues.

Non-operating income (expenses) improved from a net expense of ¥102.1 billion to a net contribution of ¥3.4 billion. This was mainly attributable to a decline in loss on investments in subsidiaries and affiliates and increases in gain on sales of aircraft and aircraft purchase incentives. These factors resulted in income before income taxes and minority interests of ¥36.2 billion compared with the prior year's loss of ¥60.4 billion. After income taxes and minority interests, the result was net income of ¥26.7 billion compared with a net loss of ¥62.9 billion in the prior year.

## PERSONNEL COMPOSITION BY LABOR UNION (JAL ONLY)

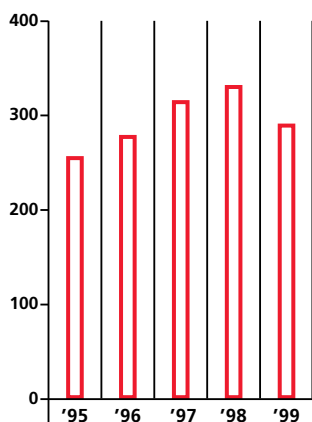
March 31, 1999

<i>Union</i>	<i>Employees</i>	<i>Number of Members</i>
Japan Airlines Workers' Union	Ground staff, cabin crew	11,639
Japan Airlines Cabin Attendants' Union	Cabin crew	1,179
Japan Airlines Flight Crew Union	Cockpit crew	1,307
Japan Airlines Captain Association	Captains	1,029
Japan Airlines Labor Union	Ground staff	286
Japan Airlines Senior Flight Engineer Union	Senior flight engineers	107
Total		15,547

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

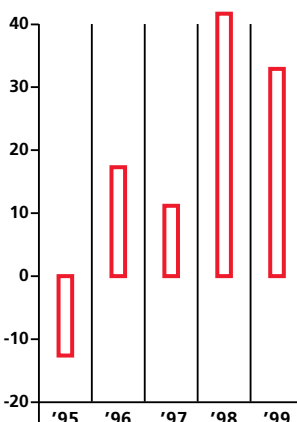
### CONSOLIDATED COSTS OF FLYING OPERATIONS

(Billions of Yen)  
Years Ended March 31



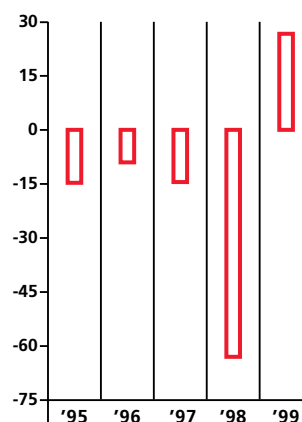
### CONSOLIDATED OPERATING INCOME (LOSS)

(Billions of Yen)  
Years Ended March 31



### CONSOLIDATED NET INCOME (LOSS)

(Billions of Yen)  
Years Ended March 31



## BALANCE SHEET ANALYSIS

Total assets as of March 31, 1999 amounted to ¥1,955.6 billion, 4.3 percent less than one year earlier. Current assets increased 5.2 percent to ¥583.6 billion, mainly owing to growth in marketable securities because of temporary investments of funds for the purchase of aircraft. Investments and advances decreased 21.7 percent to ¥180.6 billion because of the sale of non-core assets by a financial services subsidiary. Property and equipment was down 4.8 percent to ¥1,117.0 billion due to the sale of Essex House and addition of leased rather than owned aircraft.

Total liabilities decreased 6.4 percent to ¥1,738.6 billion. Current liabilities were down 18.3 percent to ¥557.1 billion as the proceeds from sales of non-core assets were used to reduce short-term borrowings and commercial paper.

Stockholders' equity was up 17.3 percent to ¥216.9 billion, but the year's earnings were not sufficient to eliminate the cumulative deficit.

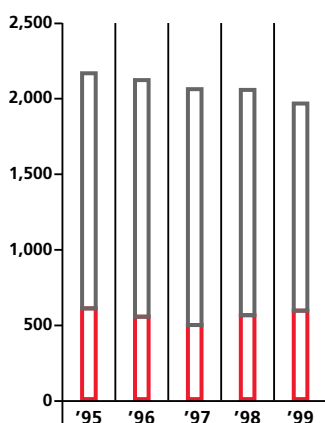
## ANALYSIS OF CASH FLOWS

Net cash provided by operating activities decreased from ¥94.4 billion to ¥35.5 billion. The main reason was a decrease in accounts payable and accrued expenses. Investing activities provided cash of ¥6.5 billion compared with net cash used of ¥137.7 billion in the prior year. This was chiefly attributable to the substantial volume of sales of property and equipment. Financing activities used cash amounting to ¥30.0 billion after providing cash of ¥34.4 billion in the prior year as payments of long-term debt exceeded proceeds. The net result of these activities was an increase of ¥12.1 billion in cash and cash equivalents to ¥90.3 billion.

### CONSOLIDATED TOTAL ASSETS

(Billions of Yen)

March 31

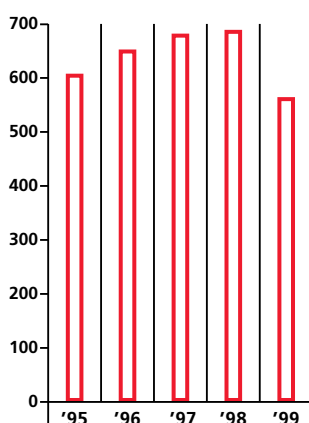


■ Current Assets  
■ Total Assets

### CONSOLIDATED CURRENT LIABILITIES

(Billions of Yen)

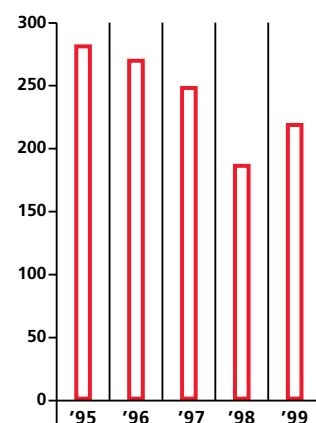
March 31



### CONSOLIDATED TOTAL STOCKHOLDERS' EQUITY

(Billions of Yen)

March 31



## YEAR 2000 READINESS DISCLOSURE

JAL places top priority on ensuring that its computer systems are Year 2000 compliant. Work on Year 2000 computer system issues began in 1995. A project team was established in June 1998 to implement all necessary measures, including the examination of all applicable equipment and services. In February 1999, a Year 2000 Committee was established to supplement the systems and programs already in place.

Year 2000 programs encompass three areas: computers and software managed and held by the Information Systems Office; aircraft, equipment throughout the company that incorporates microchips and PCs; and JAL Group members and business partners that are essential to the company's operations. Regarding the first area, work on flight and other core systems was completed in March 1999 and comprehensive tests covering all systems were conducted during the following three months. In the second area, manufacturers completed their examinations of aircraft at the end of June 1999 and the necessary revisions have been made to items requiring attention. With regard to other systems in the first and second areas, work is under way and scheduled to be completed by October 1999. In the

third area, JAL Group members are working on Year 2000 compliance in accordance with a uniform set of procedures. JAL is monitoring compliance status at other business partners and service vendors.

Through March 31, 1999, Year 2000 expenditures for major computer systems totaled approximately ¥1.0 billion. During the fiscal year ending March 31, 2000, JAL estimates that additional payments to external vendors will amount to between ¥1.7 and ¥2.0 billion. These expenditures represent only the cost of revising software and replacing hardware for major computer systems. Furthermore, these expenditures incorporate measures to be taken during the fiscal year ending March 31, 2000. Consequently, Year 2000 expenses are not expected to have a material impact on future operating results.

JAL will continue to monitor closely the Year 2000 compliance status of companies, organizations and others that have a bearing on its business activities, although no airline can independently verify the assertions of such third parties regarding their own Year 2000 readiness. Nonetheless, JAL fully expects the Year 2000 transition to be smooth and successful for its services.

### CONSOLIDATED CASH FLOWS

(Billions of Yen)

Years Ended March 31

