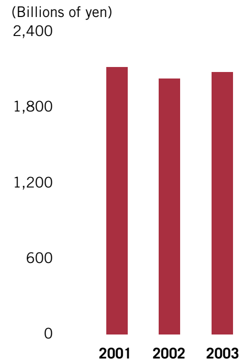
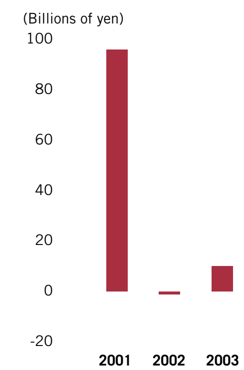
Consolidated operating revenues



Consolidated operating income



Operating Environment and Financial Strategy

Operating conditions for the Japanese airline industry remained difficult in the term under review as a result of the prolonged sluggishness of economies worldwide, exacerbated by fears regarding the repercussions of the threatened military action against Iraq and the impact on the tourism industry of SARS. On top of these overseas factors, the failure of the Japanese economy to stage a recovery, and the slack state of consumer spending stemming from the severe employment situation, caused the domestic business environment to remain difficult.

Against this background, Japan Airlines System was established on October 2, 2002 through a share transfer as a holding company for Japan Airlines and Japan Air System. This marked the birth of the new JAL Group. The Group aims to realize a broad corporate mission of contributing to the maintenance of peace and prosperity in Japan and the world as a whole by optimally leveraging its strengths as a comprehensive air transportation conglomerate. By so doing, it is our hope that we will not only satisfy our customers, but also help foster mutual cultural understanding and thus link hearts and minds across the globe.

JAL Fleet (Consolidated)

March 31, 2003

Type of aircraft	Capacity	Owned	Leased	Total
Boeing 747-400	299-568 seats	35	7	42
Boeing 747LR	350-483 seats	21	5	26
Boeing 747SR	533,563 seats	3	0	3
Boeing 747F	115 tons	7	3	10
Boeing 777	380-470 seats	10	10	20
Douglas MD-11	233-264 seats	4	2	6
Douglas DC-10	266-318 seats	15	0	15
Airbus A300-600R	239-292 seats	12	10	22
Airbus A300	283-298 seats	11	3	14
Boeing 767	213-270 seats	17	11	28
Douglas MD-90	166 seats	13	3	16
Douglas MD-81	163 seats	8	10	18
Douglas MD-87	134 seats	6	2	8
Boeing 737	150-167 seats	9	14	23
CRJ200	50 seats	0	5	5
YS-11	64 seats	11	0	11
DASH8-400	74 seats	0	2	2
SAAB340	36 seats	7	7	14
JS31	19 seats	2	1	3
Total		191	95	286

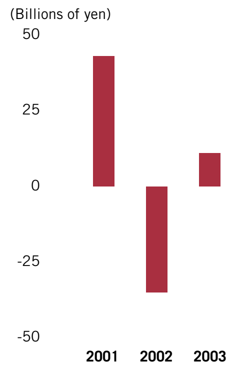
Employee Statistics for Japan Airlines and Consolidated Subsidiaries

March 31, 2003

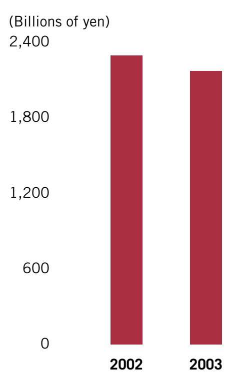
Operations by business segment	Number of employees
Air-transport	25,190
Air-transport related business ("other" segment)	21,714
Travel services	5,664
Hotel and resort operations	2,317
Total	54,885

Note: These figures represent employees in the actual workforce.

Consolidated net income



Consolidated total assets



To raise the Group's enterprise value and strengthen its financial position in order to cope with this increasingly difficult business environment, we have chosen to target improvements in ROE and in the ratio of the interest-bearing debt balance to operating cash flows. We have set our targets at a minimum of 10% for ROE and a maximum of 10 years for debt repayment, both on a consolidated basis. For the reporting period, ROE came to 4.6% and the interest-bearing debt balance ratio stood at 11.9, but we expect the greater management efficiencies generated by the business integration between JAL and JAS to lead to increased revenue, enabling us to reach our goals for these two key business indicators by fiscal 2005, the final year of the current medium-term management plan.

As a result of the aforementioned integration of the two airline operating companies under a holding company established last October, a truly accurate year-on-year comparison of performance figures is impossible in some cases. Out of necessity, therefore, we have employed in the statements of profit and loss and cash flow statements a comparison with a simple addition of the figures for JAL and JAS for the previous business term.

Results of Operations (on a consolidated basis)

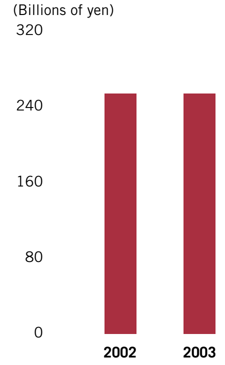
Operating revenues

Operating revenues for the business term ended March 31, 2003 came to ¥2,083,480 million (US$17,362 million), an increase of 2.7% over the previous year.

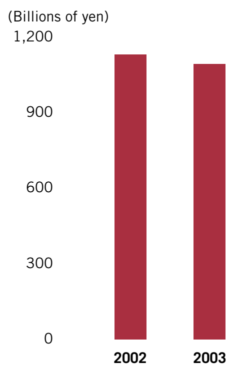
On a segment basis, revenue from air transportation came to ¥1,650,471 million (US$13,754 million), revenue from businesses peripheral to air transportation was ¥468,230 million (US$3,902 million), revenue from travel services amounted to ¥435,788 million (US$3,632 million), and revenue from hotel and resort operations stood at ¥39,818 million (US$332 million).

The split between revenue from overseas and domestic operations was approximately 50:50. The breakdown of overseas revenue by region shows that the Americas accounted for 15.6% of total revenue, at ¥325,409 million (US$2,712 million), Europe for 10.2% at ¥211,648 million (US$1,764 million), and Asia & Oceania for 20.8% at ¥433,314 million (US$3,611 million). As can be seen from this breakdown, the integration of the two airline operators has resulted in a more balanced distribution of revenue sources, which serves as a valuable form of risk dispersion amid the present severe operating environment.

Consolidated total stockholders' equity



Consolidated long-term debt



Earnings

Operating expenses rose 2.1% over the previous term, to ¥2,072,891 million (US$17,274 million). However, operating income performed a dramatic turnaround to ¥10,589 million (US$88 million), compared with the operating loss of ¥1,041 million registered for the previous term. The ratio of operating income to net sales came to 0.5%.

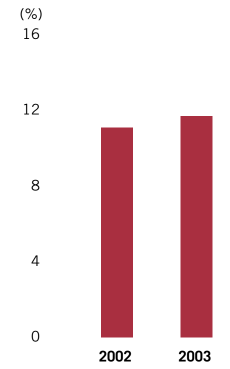
By segment, operating income in air transportation showed a steady trend toward recovery on overseas routes in the first half of the year from the slump suffered in the wake of the September 11 attacks, but international passenger air travel demand failed to recover to the pre-9/11 level owing to various developments in the latter half of the year, including the Bali bombing, the strong typhoon which hit Guam, and the deteriorating security situation in the run-up to the war on Iraq.

In domestic operations, we began flights on routes hitherto monopolized by ANA, our main competitor, and increased the number of flights on routes enjoying strong demand. We succeeded in eliminating flight duplication stemming from the business integration, reviewed our route network, and adjusted the fleet composition and flight numbers. These actions were all taken with a view to both improving customer convenience and raising profitability. Unfortunately, fierce competition led to a decline in ticket prices, and revenue failed to grow in spite of an increase in the number of passengers over the previous year.

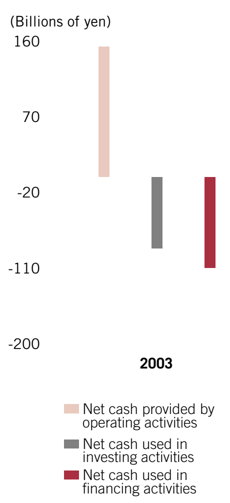
In international cargo operations, we expanded our fleet of dedicated cargo planes and redesigned the system of charges for the goods we carry to take advantage of the growing globalization of trade. As a result, business volume grew steadily as projected throughout the term. The total operating income of our air transportation business came to ¥2,799 million (US$23 million), for a ratio of operating income to sales of 0.2%.

In businesses peripheral to air transportation, steady progress was recorded by all operations. Sales of in-flight meals increased in parallel with the growth in the number of flights, while sales growth was also recorded by our duty-free shops at Narita Airport and by print media operations. The card business did particularly well thanks to the amalgamation of the JAL and JAS cards. As a result, operating income from this segment amounted to ¥8,636 million (US$72 million), and the ratio of operating income to sales stood at 1.8%.

Consolidated stockholders' equity ratio



Consolidated cash flows



Owing to a further tightening of customers' purse-strings, in addition to declining demand for travel due to the impact of the Bali bombing and the buildup to the war on Iraq, the Group's travel service operations posted an operating loss of ¥269 million (US$2 million).

The hotels and resort operations segment suffered poor business in North America and Europe in the wake of the terrorist attacks of September 2001, but business was comparatively firm in Asia. As a result, operating income for the whole segment came to ¥215 million (US$2 million), and the ratio of operating income to sales was 0.6%.

In non-operating income/loss items, flight equipment purchase incentives amounted to ¥42,075 million (US$351 million), while expenses arising from business combination, including extra advertising and the integration of branch offices, came to ¥7,304 million (US$61 million).

As a result of the above, and also partially due to the application of tax-effect accounting, net income came to ¥11,645 million (US$97 million), a notable turnaround from the net loss of ¥35,797 million registered for the previous year. The ratio of net income to net sales was 0.6%.

Liquidity and Capital Resources

Financial Position

Total assets as of the end of March 2003 stood at ¥2,172,284 million (US$18,102 million), a decline of ¥122,552 million (US$1,021 million) from the previous term-end. This decrease is attributable to a decline in long-term loans under a securitization scheme and the one-off factor of the balance sheet date falling on a Sunday last year, which caused trade accounts receivable with maturity on the balance sheet date to remain unsettled.

On the liabilities side, the repayment of short-term borrowings under current liabilities, and the redemption of corporate bonds under long-term liabilities, led to a decline of ¥119,197 million in total liabilities.

As a result of the foregoing, the key management indicator of ROE remained at 4.6%, although the equity ratio climbed from 11.1% to 11.7%. However, we are confident of achieving our target of 10% or more by fiscal 2005, the final year of the current medium-term plan, because of an improvement in component elements of ROE, that is, the ratio of net income to net sales, and total asset turnover.

Cash Flows

With income before income taxes of ¥4,081 million (US$34 million) and depreciation and amortization of ¥118,187 million (US$985 million), net cash provided by operating activities came to ¥155,413 million

(US$1,295 million). Net cash used in investing activities accounted to ¥85,187 million (US$710 million) as a result of the purchase of new aircraft, while net cash used in financing activities came to ¥108,103 million (US$901 million) owing to the repayment of long-term debt and the redemption of bonds. As a result, the balance of cash and cash equivalents at term-end stood at ¥146,318 million (US$1,219 million), a decline of ¥39,081 million (US$294 million) compared with the previous term-end.

Outlook

Despite signs of a gradual earnings recovery by certain industrial sectors, no significant overall improvement is expected in the state of the Japanese economy during the current fiscal year and the business environment is expected to remain as difficult as ever.

For the airline industry, against the backdrop of the conflict in Iraq, which lasted from the end of fiscal 2002 into the early part of the present term, as well as the severe impact on the travel business of the SARS outbreak in East Asia, it is clear that fiscal 2003 has got off to an unpromising start. As of the time of writing, it would appear that the combined negative impact of the Iraq situation and SARS will be on the order of a ¥162 billion (US$1,350 million) decline in operating revenues compared with the initial target, and decline of ¥115.5 billion (US$962.5 million) is expected in the operating income/loss account. On the other hand, this should be balanced by positive factors such as a reduction in the number of international flights, increased revenue from domestic air travel, and the effect of emergency earnings improvement measures focused on cost cutting. These factors should produce an improvement of ¥37 billion (US$308 million) in the operating income/loss account. We anticipated an additional ¥5.5 billion (US$46 million) from changes in our cost estimates due to downward revision of factors on which the calculation is based. As a result, the operating loss should be held down to ¥7.3 billion (US$61 million).

Separate from these efforts, we will take steps to reduce inventories of aircraft spare parts and maintenance vehicles to more suitable levels, thereby effecting a saving of ¥5 billion (US$42 million). Consequently, business performance for fiscal 2003 on a consolidated basis is projected as follows: net sales of ¥2,032 billion (US$16,933 million), an operating loss of ¥22 billion (US$183 million), and a net loss of ¥43 billion (US$358 million).

In view of the fact that the Iraq conflict is already over and the SARS epidemic appears to have been contained, business performance in fiscal 2004 and after should recover in line with our projections under the current medium-term business plan.