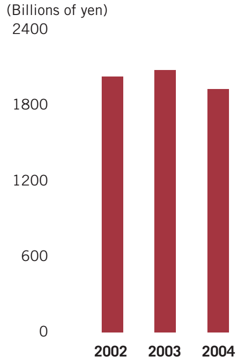
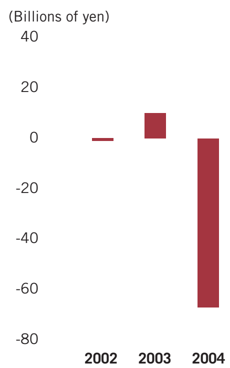
Consolidated operating revenues



Consolidated operating income



Operating Environment and Financial Strategy

Signs of improvement began to emerge gradually in the Japanese economy during the year under review, highlighted by a strong recovery in equity prices and an increase in the number of companies posting record-high profits. Nevertheless, the recovery has been a patchy one, since consumer spending and housing investment remained flat, and the employment situation continued to be difficult.

In the aviation industry, a very severe operating environment prevailed. Key adverse factors included the succession of serious events with international consequences, such as the military action in Iraq and the outbreaks of SARS and avian influenza, as well as the steep increase in the price of aviation fuel.

To counter these difficult business conditions, in domestic passenger operations JAL implemented vigorous sales promotion measures and enhanced competitiveness through the steady implementation of its integration plan, including the reorganization of its route network. As a result, unit prices improved and a substantial increase in revenues was achieved. In international passenger operations, however, the impact on passenger psychology of the external factors referred to above was

JAL Fleet (Consolidated)

March 31, 2004

Type of aircraft	Capacity	Owned	Leased	Total
Boeing 747-400	303-568 seats	38	4	42
Boeing 747LR	350-483 seats	18	4	22
Boeing 747SR	533,563 seats	3	0	3
Boeing 747F	115 tons(max)	7	3	10
Boeing 777	268-470 seats	10	16	26
Douglas MD-11	233-264 seats	3	0	3
Douglas DC-10	264-318 seats	10	0	10
Airbus A300-600R	239-292 seats	12	10	22
Airbus A300	283-298 seats	8	2	10
Boeing 767	213-270 seats	17	16	33
Douglas MD-90	166 seats	13	3	16
Douglas MD-81	163 seats	9	9	18
Douglas MD-87	134 seats	6	2	8
Boeing 737	150-167 seats	10	13	23
CRJ200	50 seats	0	6	6
YS-11	60,64 seats	9	0	9
DASH8-400	74 seats	1	2	3
SAAB340	36 seats	7	7	14
Total		181	97	278

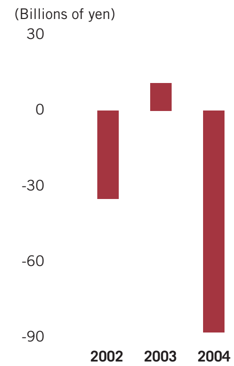
Employee Statistics for Japan Airlines and Consolidated Subsidiaries

March 31, 2004

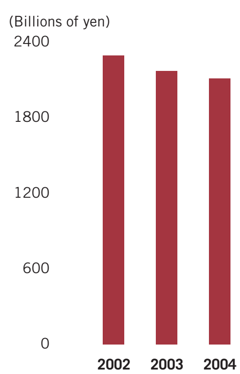
Operations by business segment	Number of employees
Air-transportation	24,510
Airline-related business	18,302
Travel services	5,398
Other	5,843
Total	54,053

Note: These figures represent employees in the actual workforce.

Consolidated net income



Consolidated total assets



greater than anticipated. This inevitably resulted in a significant slump in demand and a consequent decline in revenue.

In response to these increasingly difficult operating circumstances, the JAL Group aims to maximize the soundness of its financial condition. Its yardsticks for achieving that are to meet the targets of achieving a return on equity (ROE) of least 10% on a consolidated basis and of reducing the payback period for interest-bearing debt from operating cash flows to within 10 years. For the year under review, we recorded a ratio of net loss to shareholders' equity, and the payback period for interest-bearing debt was 22 years, but the Group plan is to attain its targets from fiscal 2004 onwards by cutting costs through business integration and measures to boost revenues.

Results of Operations (consolidated basis)

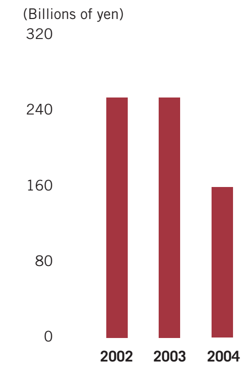
Operating Revenues

Operating revenues in the fiscal 2004, fell by 7.3% year-on-year, to ¥1,931.7 billion (US$18,397 million). A major factor in this revenue decline was the substantial fall in the number of passengers on international routes because of the Iraq situation and the SARS epidemic.

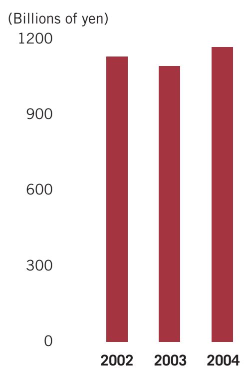
The criteria for categorizing business segments have changed as of the year under review. Previously, airline-related business, credit card and leasing business, and retailing and distribution business were combined together and presented as "Air Transport-Related Business ("Other" segment)." Beginning with the term under review, however, airline-related business is presented independently as "Airline-Related Business" in line with our new segmentation strategy, under which these operations are clearly labeled as fulfilling functions auxiliary to our mainstay air transportation business. This change enables segment information to be presented more clearly. In addition, hotel and resort operations, previously presented separately, have been scaled down as the Company has switched to development based on operations on a commissioned basis. As a result, from the standpoint of importance they are from now on to be presented as part of "Other Business," together with the credit-card and leasing business, the retailing and distribution business, and other businesses.

On a segment basis, the revenues of the air transportation business totaled ¥1,548.8 billion (US$14,750 million), down 6.2% from the previous year; those of airline-related business were ¥243.7 billion (US$2,321 million), down 0.9%; those of travel services fell by 12.4% to ¥381.9 billion (US$3,637 million); and those of other business slipped by 1.5% to ¥258.1 billion (US$2,458 million). Revenues in all segments were down, and the decline in air transportation business revenues, which account for the majority of total revenues, was instrumental in accelerating the fall in revenues in the travel services segment, given the close direct linkage between the two segments.

Consolidated total stockholders' equity



Consolidated long-term debt



However, within the air transportation business segment, operating revenues from international passenger operations declined by 17.8% from the previous year, to ¥549.7 billion, while those from domestic passenger operations rose 6.3% to ¥668.8 billion. This is a graphic illustration of how the integration is impacting the domestic market. In addition, whereas domestic revenues were ¥1,093.0 billion, down just 1.8% year-on-year, the fall was greater on international routes. Revenues on American were down 7.1% at ¥302.2 billion; on European they fell 11.2% to ¥187.9 billion; and on Asia and Oceania they were down 19.6% at ¥348.4 billion. The fall was particularly marked on Asia and Oceania, which were severely impacted by the outbreaks of SARS and avian influenza.

Operating expenses fell by ¥73.5 billion from the previous year, to ¥1,999.3 billion (US$19,041 million). In spite of the rise in the unit price of Singapore Kerosene, fuel costs declined by ¥1.5 billion overall, as the number of flights was reduced substantially. The yen's appreciation also contributed to the decline in expenses.

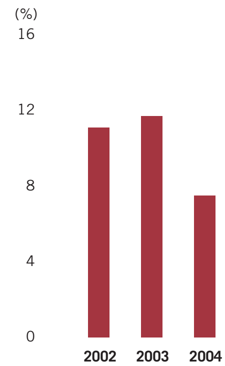
Earnings

The implementation of the integration plan was accelerated, and ¥45.5 billion in emergency remedial measures for income were also implemented Group-wide. Nevertheless, the decline in revenues was substantial, and an operating loss was posted in the amount of ¥67.6 billion (US$644 million), compared with an operating income of ¥10.6 billion for the previous term.

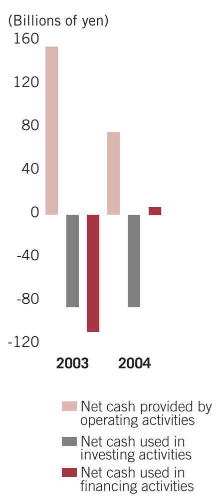
An analysis of operating profit and loss by segment reveals that in the air transportation segment, domestic routes performed relatively well, but the slump on international routes gave rise to a ¥72.1 billion (US$687 million) operating loss. The travel services segment was adversely affected by factors that tended to depress demand, such as anxiety about the international situation, and these resulted in an operating loss of ¥3.9 billion (US$37 million).

In the airline-related business segment there was a substantial fall in the number of passengers on international routes, which led to a decline in the revenues of subsidiaries engaging in the sale of in-flight meals, but there were strong increases in revenues from the supply of electric power to aircraft and the sale of auxiliary power units and food-service carts. As a result, this segment was able to post operating income of ¥1.8 billion (US$18 million). In the "other business" segment, hotel and resort operations generated robust revenues from guest accommodation, particularly within Japan, while in credit-card business, the initiatives to attract new card members were successful, resulting in a considerable increase in the number of cardholders. These and other factors enabled the generation of operating income of ¥6.3 billion (US$60 million) in this segment, which was around the previous year's level.

Consolidated stockholders' equity ratio



Consolidated cash flows



With regard to non-operating income and expenses, interest expense – the largest expense item — was cut by ¥6.1 billion as a result of refinancing at lower interest rates, facilitated by the integration. However, a ¥12.8 billion decline in flight equipment purchase incentives and the liquidation of affiliates were key factors that caused net non-operating expenses to increase by ¥7.9 billion from the previous year, to ¥14.5 billion.

As a result of all of these factors, there was a net loss for the term of ¥88.6 billion (US$843 million), representing a deterioration of ¥100.2 billion.

Liquidity and Capital Resources

Financial Position

Total assets at the end of March 31, 2004 stood at ¥2,113.4 billion (US$20,127 million), representing a decline of ¥58.8 billion from the previous year-end. A significant factor in this decrease was a fall of ¥11.2 billion in current assets as a result of changes such as a decline in deferred income taxes. Total property and equipment, net, declined by ¥60.3 billion, key factors in which included the depreciation of flight equipment and the sale of flight equipment.

On the liabilities side, there was a large decline in current liabilities of ¥54.7 billion, and long-term interest-bearing debt increased by ¥75.8 billion. The fall in current liabilities was attributable to repayments of short-term borrowings and redemption of bonds on maturity. In contrast, the increase in long-term interest-bearing debt resulted from an increase in long-term borrowings from the Development Bank of Japan under the government-sponsored emergency airline support program. This shift from current liabilities to long-term interest-bearing debt was aimed at addressing the opaque financial environment by increasing the relative weight of long-term borrowings, thereby stabilizing the Group's fund-raising. As a result of these developments, the current ratio rose to 92.6% from 86.2% in the previous year, reflecting greater liquidity.

Total stockholders' equity recorded a decline of ¥94.9 billion, principally because of the substantial decrease in retained earnings resulting from the large net loss. Capital surplus also declined because of dividend payments and a loss on disposal of shares in treasury. In consequence, the stockholders' equity ratio declined to 7.5% from its year-earlier level of 11.7%.

Cash Flows

Net cash provided by operating activities in the fiscal year under review totaled ¥76.3 billion (US$727 million), down ¥79.0 billion from the previous year. The principal cause of this was the posting of a loss before income taxes and minority interests.

Net cash used in investing activities totaled ¥85.3 billion (US$813 million), approximately the same level as in the previous year. In spite of a decline in the cash outflow for the acquisition of aircraft and for advance payments, there was also a fall in the inflow of cash from the collection of long-term loans receivable.

Net cash provided by financing activities was ¥7.6 billion (US$72 million), compared with a ¥108 billion net cash outflow in the previous year. The principal components of this were outflows for repayments of loans and redemption of bonds, and an inflow from fund-raising by means of long-term loans.

As a result, cash and cash equivalents at the end of the year declined by ¥2.9 billion from the previous year, to ¥143.3 billion (US$1,365 million). The payback period for interest-bearing debt from operating cash flows was 22 years.

Outlook for Current Term

The operating environment for the JAL Group will remain harsh, but in air transportation operations, the benefits of the complete business integration will be felt to the maximum. Also, in international and domestic passenger as well as cargo operations, the Group will provide high-value-added products tailored to meet customer needs in each segment, and ongoing efforts will be made to enhance competitiveness. In addition, greater emphasis will be placed on the measures to achieve cost reductions that are already being implemented, with the aim of improving the Group's balance of revenue and expenditure. Steps will also be taken to improve profitability in fields other than air transportation.

The latest forecasts of results for the current fiscal year are as follows, premised on an exchange rate of ¥110 against the U.S. dollar, Singapore Kerosene at a market price of US$34/barrel, and the CIF price of crude oil at US$29/barrel.

(1) Operating revenues: ¥2,190 billion

(2) Operating income: ¥81 billion

(3) Net income: ¥36 billion