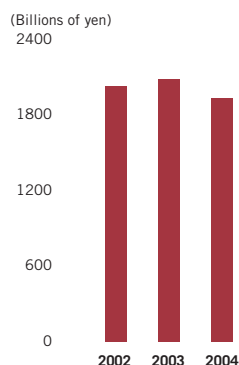


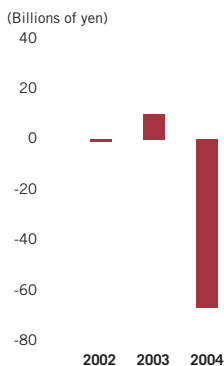
Management's Review and Analysis of Financial Position

Japan Airlines Corporation and Consolidated Subsidiaries Years Ended March 31, 2003 and 2004

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

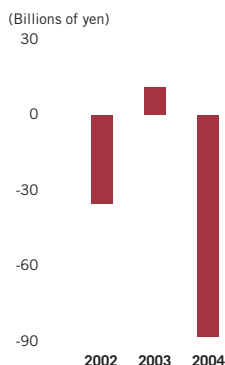
Employee Statistics for Japan Airlines and Consolidated Subsidiaries

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.

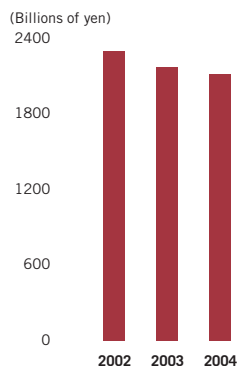
Consolidated net income



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.

Consolidated total assets



Results of Operations (consolidated basis)

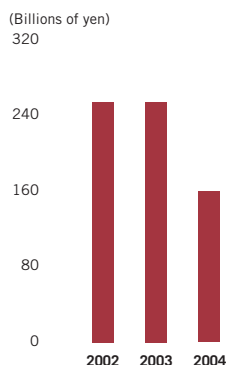
Operating Revenues

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.

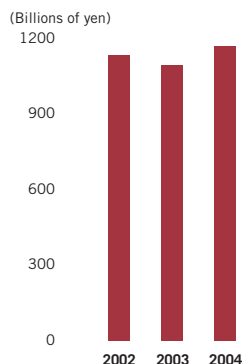
The criteria for categorizing business segments have changed as of the year under review. Previously, airline-related business, credit card and leasing business, and retailing and distribution business were combined together and presented as "Air Transport-Related Business ("Other" segment)." Beginning 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.

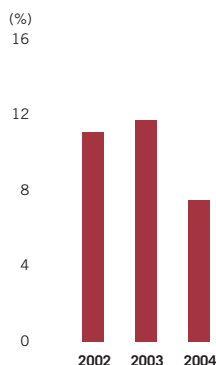
Earnings

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.

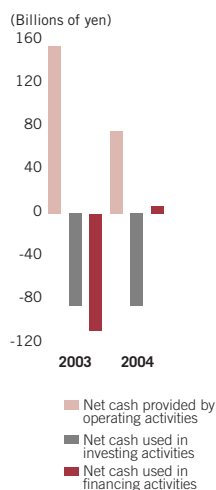
An analysis of operating profit and loss by segment reveals that in the air transportation segment, domestic routes performed relatively well, but the slump on international routes gave rise to a ¥72.1 billion (US\$687 million) operating loss. The travel services segment was adversely affected by factors 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

Consolidated Balance Sheets

Japan Airlines Corporation and Consolidated Subsidiaries

As of March 31,	Millions of yen		Thousands of U.S. dollars (Note 2)
	2004	2003	2004
Assets			
Current assets:			
Cash and time deposits (Note 3)	¥ 143,775	¥ 133,145	\$ 1,369,285
Short-term investments in securities (Notes 3 and 4)	656	14,621	6,247
Accounts receivable (Note 14):			
Trade	205,524	197,528	1,957,371
Unconsolidated subsidiaries and affiliates	5,982	6,935	56,971
Allowance for doubtful accounts	(3,231)	(3,117)	(30,771)
Flight equipment spare parts, at cost (Note 5)	75,784	78,424	721,752
Deferred income taxes (Note 7)	8,690	16,597	82,761
Prepaid expenses and other	81,892	86,186	779,923
Total current assets	519,076	530,322	4,943,580
Investments and advances (Note 5):			
Unconsolidated subsidiaries and affiliates	36,358	40,992	346,266
Other (Note 4)	95,127	99,497	905,971
Total investments and advances	131,486	140,490	1,252,247
Property and equipment (Notes 5 and 10):			
Flight equipment	2,080,078	2,143,242	19,810,266
Ground property and equipment	814,206	848,023	7,754,342
	2,894,284	2,991,266	27,564,609
Accumulated depreciation	(1,632,427)	(1,661,854)	(15,546,923)
	1,261,857	1,329,411	12,017,685
Advances on flight equipment purchases and other (Note 14)	60,424	53,203	575,466
Total property and equipment, net	1,322,281	1,382,615	12,593,152
Software	64,551	49,820	614,771
Long-term loans	15,695	14,499	149,476
Deferred income taxes (Note 7)	49,645	41,503	472,809
Bond issuance expenses	123	—	1,171
Other assets	10,559	13,033	100,561
	¥2,113,418	¥2,172,284	\$20,127,790

The accompanying notes are an integral part of these consolidated statements.

Thousands of
U.S. dollars
(Note 2)

	Millions of yen		
	2004	2003	2004
Liabilities and stockholders' equity			
Current liabilities:			
Short-term borrowings (Notes 3 and 5)	¥ 10,782	¥ 23,035	\$ 102,685
Current portion of long-term debt (Notes 5 and 14)	144,718	198,188	1,378,266
Accounts payable (Note 14):			
Trade	198,530	197,227	1,890,761
Unconsolidated subsidiaries and affiliates	7,512	7,329	71,542
Accrued expenses	50,966	56,337	485,390
Accrued income taxes (Note 7)	6,572	5,320	62,590
Deferred income taxes (Note 7)	60	73	571
Other	141,416	127,833	1,346,819
Total current liabilities	560,559	615,346	5,338,657
Long-term debt (Notes 5 and 14)	1,170,156	1,094,285	11,144,342
Accrued pension and severance costs (Note 6)	163,128	143,670	1,553,600
Deferred income taxes (Note 7)	120	413	1,142
Other noncurrent liabilities	36,041	40,788	343,247
Minority interests	24,139	23,522	229,895
Commitments and contingent liabilities (Notes 10, 11 and 14)			
Stockholders' equity (Note 8):			
Common stock:			
Authorized: 7,000,000,000 shares			
Issued: 1,980,465,250 shares in 2004 and 2003	100,000	100,000	952,380
Capital surplus	136,678	147,175	1,301,695
(Accumulated deficit) retained earnings	(65,031)	23,481	(619,342)
Net unrealized gain (loss) on other securities, net of taxes (Note 4)	2,787	(780)	26,542
Translation adjustments	(9,958)	(7,451)	(94,838)
Common stock in treasury, at cost: 18,448,160 shares in 2004 and 19,863,126 shares in 2003	(5,202)	(8,168)	(49,542)
Total stockholders' equity	159,273	254,256	1,516,885
	¥2,113,418	¥2,172,284	\$20,127,790

Consolidated Statements of Operations

Japan Airlines Corporation and Consolidated Subsidiaries

Years ended March 31,	Millions of yen			Thousands of U.S. dollars (Note 2)
	2004	2003	2002 Pro forma (Unaudited)	2004
Operating revenues:				
Passenger:				
Domestic	¥ 668,888	¥ 629,358	¥ 650,185	\$ 6,370,362
International	549,764	668,472	632,472	5,235,848
Cargo:				
Domestic	42,670	42,217	43,201	406,381
International	161,331	165,613	145,846	1,536,486
Incidental and other revenues	509,086	577,818	557,775	4,848,438
	<u>1,931,742</u>	<u>2,083,480</u>	<u>2,029,481</u>	<u>18,397,543</u>
Operating expenses (Note 10):				
Wages, salaries and benefits	510,203	499,448	487,647	4,859,076
Aircraft fuel	244,341	245,921	250,457	2,327,057
Aircraft maintenance	82,206	81,139	72,385	782,914
Aircraft rent	86,720	91,921	98,657	825,904
Landing fees and other rent	233,230	231,835	222,354	2,221,238
Purchased services	106,695	111,922	128,313	1,016,142
Depreciation and amortization	119,388	118,187	113,519	1,137,028
Commission	113,396	125,717	136,729	1,079,961
Incidental and other expenses	503,203	566,796	520,458	4,792,409
	<u>1,999,387</u>	<u>2,072,891</u>	<u>2,030,522</u>	<u>19,041,780</u>
Operating (loss) income	<u>(67,645)</u>	<u>10,589</u>	<u>(1,041)</u>	<u>(644,238)</u>
Non-operating income (expenses):				
Interest and dividend income	2,928	2,932	3,814	27,885
Interest expense	(28,503)	(34,657)	(38,829)	(271,457)
Exchange gain (loss), net	424	(1,975)	3,800	4,038
Flight equipment purchase incentives	29,260	42,075	—	278,666
Gain on sales of ground property and equipment	1,330	4,446	5,933	12,666
Gain on sales of investments in securities	1,235	4,623	14,337	11,761
Subsidy received for purchases of aircraft for isolated island routes	1,618	—	—	15,409
Gain recognized upon separation of substitutional portion of benefit obligation of welfare pension fund plan	755	—	—	7,190
Loss on sales and disposal of flight equipment	(13,946)	(10,637)	(7,147)	(132,819)
Loss on sales and disposal of ground property and equipment	(5,153)	(9,852)	(5,176)	(49,076)
Loss on investments in unconsolidated subsidiaries and affiliates	(6,518)	—	(5,622)	(62,076)
Equity in earnings (losses) of affiliates	1,221	340	(155)	11,628
Expenses arising from business combination	—	(7,304)	—	—
Other, net	846	3,500	(1,116)	8,057
	<u>(14,503)</u>	<u>(6,508)</u>	<u>(30,163)</u>	<u>(138,123)</u>
(Loss) income before income taxes and minority interests	<u>(82,148)</u>	<u>4,081</u>	<u>(31,205)</u>	<u>(782,361)</u>
Income taxes (Note 7):				
Current	8,854	8,100	8,526	84,323
Deferred	(3,092)	(16,468)	(3,793)	(29,447)
	<u>5,761</u>	<u>(8,368)</u>	<u>4,732</u>	<u>54,866</u>
Minority interests	(709)	(804)	140	(6,752)
Net (loss) income	<u>¥ (88,619)</u>	<u>¥ 11,645</u>	<u>¥ (35,797)</u>	<u>\$ (843,990)</u>

In order to enhance comparability, supplemental unaudited pro forma financial statements for the year ended 2002 are presented above.

The accompanying notes are an integral part of these consolidated statements.

Consolidated Statements of Stockholders' Equity (Note 8)

Japan Airlines Corporation and Consolidated Subsidiaries

Millions of yen

	Number of shares of common stock issued	Common stock	Capital surplus	(Accumulated deficit) retained earnings	Net unrealized gain (loss) on other securities, net of taxes (Note 4)	Translation adjustments	Common stock in treasury	Total
Balance at April 1, 2002	1,980,465,250	¥100,000	¥158,529	¥ 570	¥2,095	¥(4,717)	¥(7,467)	¥249,009
Net income for the year ended March 31, 2003				11,645				11,645
Bonuses to directors and statutory auditors				(35)				(35)
Transfer from capital surplus to retained earnings			(11,301)	11,301				—
Other			(51)		(2,875)	(2,734)	(701)	(6,363)
Balance at March 31, 2003	1,980,465,250	100,000	147,175	23,481	(780)	(7,451)	(8,168)	254,256
Net loss for the year ended March 31, 2004				(88,619)				(88,619)
Cash dividends			(7,844)					(7,844)
Bonuses to directors and statutory auditors				(38)				(38)
Increase resulting from change in scope of consolidation				144				144
Other			(2,652)		3,567	(2,506)	2,966	1,375
Balance at March 31, 2004	1,980,465,250	¥100,000	¥136,678	¥(65,031)	¥2,787	¥(9,958)	¥(5,202)	¥159,273

Thousands of U.S. dollars (Note 2)

	Common stock	Capital surplus	(Accumulated deficit) retained earnings	Net unrealized gain (loss) on other securities, net of taxes (Note 4)	Translation adjustments	Common stock in treasury	Total
Balance at March 31, 2003	\$ 952,380	\$ 1,401,666	\$ 223,628	\$ (7,428)	\$ (70,961)	\$ (77,790)	\$ 2,421,485
Net loss for the year ended March 31, 2004			(843,990)				(843,990)
Cash dividends		(74,704)					(74,704)
Bonuses to directors and statutory auditors			(361)				(361)
Increase resulting from change in scope of consolidation			1,371				1,371
Other		(25,257)		33,971	(23,866)	28,247	13,095
Balance at March 31, 2004	\$952,380	\$1,301,695	\$(619,342)	\$ 26,542	\$(94,838)	\$(49,542)	\$1,516,885

The accompanying notes are an integral part of these consolidated statements.

Consolidated Statements of Cash Flows

Japan Airlines Corporation and Consolidated Subsidiaries

Years ended March 31,	Millions of yen			Thousands of U.S. dollars (Note 2)
	2004	2003	2002 Pro forma (Unaudited)	2004
Operating activities:				
(Loss) income before income taxes and minority interests	¥ (82,148)	¥ 4,081	¥ (31,205)	\$ (782,361)
Adjustments to reconcile (loss) income before income taxes and minority interests to net cash provided by operating activities:				
Depreciation and amortization	119,388	118,187	113,517	1,137,028
(Gain) loss on sales of, and loss on revaluation of, short-term investments in securities and investments in securities, net	(569)	(2,551)	7,402	(5,419)
Loss (gain) on sales and disposal of property and equipment, net	17,846	17,603	(10,968)	169,961
Net provision for accrued pension and severance costs	19,459	17,223	847	185,323
Interest and dividend income	(2,928)	(2,932)	(3,814)	(27,885)
Interest expense	28,503	34,657	38,829	271,457
Exchange loss (gain)	547	141	(483)	5,209
Equity in (earnings) losses of affiliates	(1,221)	(340)	155	(11,628)
(Increase) decrease in notes and accounts receivable	(7,215)	31,761	(6,645)	(68,714)
Decrease (increase) in flight equipment spare parts	2,387	(2,812)	27	22,733
Increase (decrease) in accounts payable	2,608	7,778	(7,126)	24,838
Other	14,366	(29,111)	(11,767)	136,819
Subtotal	111,023	193,686	88,769	1,057,361
Interest and dividends received	3,386	3,427	4,026	32,247
Interest paid	(29,003)	(34,709)	(38,254)	(276,219)
Income taxes paid	(9,060)	(6,991)	(14,646)	(86,285)
Net cash provided by operating activities	76,345	155,413	39,896	727,095
Investing activities:				
Purchases of time deposits	(1,092)	(101)	(1,372)	(10,400)
Proceeds from maturity of time deposits	996	1,877	3,498	9,485
Purchases of property and equipment	(151,585)	(195,575)	(118,882)	(1,443,666)
Proceeds from sales of property and equipment	57,285	62,043	43,665	545,571
Purchases of investments in securities	(974)	(11,540)	(2,218)	(9,276)
Proceeds from sales and maturity of investments in securities	3,615	12,400	18,520	34,428
Proceeds from sales of consolidated subsidiaries resulting in change in scope of consolidation	103	683	1,511	980
Long-term loans receivable made	(2,853)	(4,937)	(42,279)	(27,171)
Collection of long-term loans receivable	8,875	42,887	22,892	84,523
Other	247	7,074	7,491	2,352
Net cash used in investing activities	(85,382)	(85,187)	(67,172)	(813,161)

Thousands of
U.S. dollars
(Note 2)

Years ended March 31,	Millions of yen			Thousands of U.S. dollars (Note 2)
	2004	2003	2002 Pro forma (Unaudited)	2004
Financing activities:				
(Decrease) increase in short-term borrowings, net	¥ (9,976)	¥ (36,196)	¥ 1,802	\$ (95,009)
Proceeds from long-term loans	200,882	214,804	266,607	1,913,161
Repayment of long-term loans	(134,638)	(199,550)	(145,433)	(1,282,266)
Proceeds from issuance of bonds	29,815	—	—	283,952
Redemption of bonds	(67,495)	(83,864)	(60,000)	(642,809)
Dividends paid to stockholders	(7,813)	(50)	(7,089)	(74,409)
Dividends paid to minority interests	(334)	(266)	(379)	(3,180)
Other	(2,825)	(2,979)	(474)	(26,904)
Net cash provided by (used in) financing activities	7,615	(108,103)	55,032	72,523
Effect of exchange rate changes on cash and cash equivalents	(1,568)	(670)	1,713	(14,933)
Net (decrease) increase in cash and cash equivalents	(2,991)	(38,548)	29,469	(28,485)
Cash and cash equivalents at beginning of year	146,318	185,399	151,150	1,393,504
Increase in cash and cash equivalents resulting from inclusion of subsidiaries in consolidation	—	176	1,030	—
Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation	—	(708)	—	—
Cash and cash equivalents at end of year (Note 3)	¥ 143,327	¥ 146,318	¥ 181,651	\$ 1,365,019

In order to enhance comparability, supplemental unaudited pro forma financial statements for the year ended 2002 are presented above. The accompanying notes are an integral part of these consolidated statements.

Notes to Consolidated Financial Statements

Japan Airlines Corporation and Consolidated Subsidiaries

Japan Airlines System Corporation, the holding company of the JAL group, was renamed Japan Airlines Corporation on June 26, 2004.

1. Summary of Significant Accounting Policies

a. Basis of presentation

Japan Airlines System Corporation (the "Company") and its consolidated domestic subsidiaries maintain their accounting records and prepare their financial statements in accordance with accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and its consolidated foreign subsidiaries, in conformity with those of their countries of domicile. The accompanying consolidated financial statements have been compiled from the consolidated financial statements filed with the Financial Services Agency as required by the Securities and Exchange Law of Japan and include certain additional financial information for the convenience of readers outside Japan.

The Company is a holding company established on October 2, 2002 by Japan Airlines Company, Ltd. ("JAL") and Japan Air System Co., Ltd. ("JAS") by means of a transfer of shares in accordance with the Commercial Code of Japan. In order to enhance comparability, supplemental pro forma financial information for the year ended March 31, 2002 has been presented. The pro forma financial information for the year then ended, which is unaudited, is presented as the aggregate of the respective consolidated financial statements of JAL and JAS and also reflects reclassifications of each companies' consolidated financial statements to conform these to the presentation in the consolidated financial statements for the years ended March 31, 2004 and 2003.

On April 1, 2004, JAL and JAS were renamed Japan Airlines International Co., Ltd. and Japan Airlines Domestic Co., Ltd., respectively. Furthermore, at a meeting of the stockholders of the Company held on June 25, 2004, it was resolved to change the Company's name to Japan Airlines Corporation effective June 26, 2004.

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's classification.

The accounting policies stated hereinafter are applicable only to the consolidated financial statements of the Company and its consolidated subsidiaries for the years ended March 31, 2004 and 2003 and are not necessarily applicable to the unaudited pro forma financial information for the year ended March 31, 2002.

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 significant companies controlled directly or indirectly by the Company. Companies over which the Company exercises significant influence in terms of their operating and financial policies have been included in the consolidated financial statements on an equity basis.

The balance sheet date of 26 of the consolidated subsidiaries is December 31, for 2004 (25 for 2003), and for 1 consolidated subsidiary, it is the end of February. Any significant differences in intercompany accounts and transactions arising from intervening intercompany transactions during the period from January 1 through March 31 and the period from March 1 through March 31 have been adjusted, if necessary.

The differences between the cost and the fair value of the net assets at the dates of acquisition of the consolidated subsidiaries and companies accounted for by the equity method are amortized by the straight-line method over a period of 5 years.

All significant intercompany accounts and transactions and unrealized gain or loss on intercompany accounts and transactions have been eliminated.

As to accounting for business combinations, the pooling-of-interest method and the purchase method are permitted under accounting practices generally accepted in Japan. The business combination of JAL and JAS has been accounted for by the pooling-of-interest method. The operating results of the consolidated subsidiaries have been included in the consolidated financial statements of operations and cash flows from April 1, 2002, regardless of the date of establishment of the Company. In addition, the beginning balances for 2003 in the consolidated statement of stockholders' equity have been presented assuming that the Company had existed as of April 1, 2002.

c. Securities

Securities, except for investments in unconsolidated subsidiaries and affiliates, are classified as trading securities, held-to-maturity securities or other securities. Trading securities are carried at fair value. Held-to-maturity securities are carried at amortized cost. Marketable securities classified as other securities are carried at fair value with any unrealized gain or loss reported as a separate component of stockholders' equity, net of taxes. Non-marketable securities classified as other securities are carried at cost. Cost of securities sold is determined principally by the moving average method.

d. Derivatives

Derivatives positions are stated at fair value.

Gain or loss on derivatives designated as hedging instruments is deferred until the loss or gain on the underlying hedged items is recognized. Foreign receivables and payables are translated at the applicable forward foreign exchange rates if certain conditions are met. In addition, the related interest differential paid or received under interest-rate swaps used as hedging instruments is recognized over the terms of the swap agreements as an adjustment to the interest expense of the underlying hedged items if certain conditions are met.

e. Property and equipment

Property and equipment is stated at cost except as indicated in the following paragraph.

Under Japanese tax legislation, it is permitted to defer certain capital gains, principally those arising from insurance claims, by crediting them to the cost of certain properties. Deferred capital gains at March 31, 2004 and 2003 amounted to ¥15,236 million (\$145,105 thousand) and ¥13,227 million, respectively.

Depreciation of property and equipment is computed as follows:

Flight equipment:

Aircraft and spare engines:

Boeing 747 (with the exception of Boeing 747-400)	—principally the declining-balance method based on their estimated useful lives
Boeing 747-400	—the straight-line method based on their estimated useful lives
Boeing 767	—principally 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
Douglas MD 90	—the straight-line method based on their estimated useful lives
Douglas MD 87	—the straight-line method based on their estimated useful lives
Douglas MD 81	—the straight-line method based on their estimated useful lives
Airbus A300	—the straight-line method based on their estimated useful lives
Airbus A300-600	—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
based on the estimated useful lives of
the respective assets

The estimated useful lives are as follows:

Flight equipment from 8 to 27 years

Ground property and
equipment

from 2 to 65 years

f. Software

Computer software intended for internal use is amortized by the straight-line method based on its estimated useful life which range from 5 to 7 years.

g. Bond issuance expenses

Bond issuance expenses are capitalized and are being amortized over a period of 3 years.

h. Accrued pension and severance costs

To provide for employees' severance indemnities, net period pension cost, which represents the amount recognized as the cost of a pension plan for the year, is accounted for based on the projected benefit obligation and the plan assets.

The unrecognized obligation at transition is being amortized by the straight-line method over a period of principally fifteen years.

The adjustment for actuarial assumptions is being amortized by the straight-line method over a period ranging from 5 to 15 years, which is less than the average remaining years of service of the active participants in the plans. Amortization is computed from the fiscal year subsequent to the year in which the adjustment was recorded.

Past service cost is principally charged to income as incurred. However, at certain subsidiaries, past service cost is being amortized by the straight-line method over a period which is less than the average remaining years of service of the active participants in the plans.

i. Foreign currency accounts

Foreign currency receivables and payables are translated into yen at the applicable year-end exchange rates and any gain or loss on translation is included in current earnings.

Translation adjustments arising from the translation of assets, liabilities, revenues and expenses of the consolidated subsidiaries and affiliates accounted for by the equity method into yen at the applicable year-end exchange rates are presented as minority interests and as a separate component of stockholders' equity.

j. Revenue recognition

Passenger and cargo revenues are recognized when the transportation services are rendered.

k. Leases

As lessee

Certain consolidated subsidiaries lease 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 lessee, are principally accounted for as operating leases.

As lessor

Certain 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 lessee, are principally accounted for as operating leases.

I. Appropriation of retained earnings and disposition of accumulated deficit

Under the Commercial Code of Japan, the appropriation of retained earnings and disposition of accumulated 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 appropriations and disposition.

m. Cash equivalents

Cash equivalents are defined as highly liquid, short-term investments with an original maturity of 3 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 ¥105 = U.S.\$1.00, the approximate exchange rate prevailing on March 31, 2004, has been used in translation. 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. Cash and Cash Equivalents

The components of cash and cash equivalents at March 31, 2004 and 2003 were as follows:

March 31,	Millions of yen		Thousands of
	2004	2003	U.S. dollars
Cash and time deposits	¥143,775	¥133,145	\$1,369,285
Time deposits with a maturity of more than three months	(448)	(392)	(4,266)
Short-term investments in securities with a maturity of three months or less	0	13,840	0
Credit balances of current accounts included in short-term borrowings	—	(274)	—
	¥143,327	¥146,318	\$1,365,019

4. Fair Value of Securities

No trading securities or held-to-maturity securities were held at March 31, 2004 and 2003. Securities classified as other securities are included in "short-term investments in securities" and "investments and advances — other" in the accompanying consolidated balance sheets.

The components of unrealized gain or loss on marketable securities classified as other securities at March 31, 2004 and 2003 are summarized as follows:

March 31, 2004	Millions of yen		
	Acquisition costs	Carrying value	Unrealized gain (loss)
Unrealized gain:			
Stocks	¥ 9,937	¥15,346	¥5,409
Bonds:			
Government bonds	17	19	2
Corporate bonds	99	100	0
Other	861	876	14
	10,916	16,343	5,426
Unrealized loss:			
Stocks	3,574	3,159	(415)
Bonds:			
Corporate bonds	52	51	(0)
Other	77	73	(4)
	3,704	3,284	(420)
Total	¥14,621	¥19,627	¥5,005

March 31, 2004	Thousands of U.S. dollars		
	Unrealized gain:		
Stocks	\$ 94,638	\$146,152	\$51,514
Bonds:			
Government bonds	161	180	19
Corporate bonds	942	952	0
Other	8,200	8,342	133
	103,961	155,647	51,676
Unrealized loss:			
Stocks	34,038	30,085	(3,952)
Bonds:			
Corporate bonds	495	485	(0)
Other	733	695	(38)
	35,276	31,276	(4,000)
Total	\$139,247	\$186,923	\$47,666

March 31, 2003	Millions of yen		
	Unrealized gain:		
Stocks	¥ 2,596	¥ 4,524	¥ 1,927
Bonds:			
Government bonds	17	20	2
Corporate bonds	214	215	0
Other	970	1,003	32
	3,800	5,763	1,962
Unrealized loss:			
Stocks	10,931	7,985	(2,946)
Bonds:			
Corporate bonds	109	107	(2)
Other	129	87	(42)
	11,171	8,180	(2,991)
Total	¥14,971	¥13,943	¥(1,028)

Non-marketable securities classified as other securities at March 31, 2004 and 2003 amounted to ¥26,809 million (\$255,323 thousand) and ¥43,419 million, respectively.

Proceeds from sales of securities classified as other securities amounted to ¥16,541 million (\$157,533 thousand) and ¥5,255 million for the years ended March 31, 2004 and 2003, respectively, and ¥17,964 million (unaudited) on a pro forma basis for the year ended March 31, 2002. The aggregate gain realized on those sales totaled ¥500 million (\$4,761 thousand) and ¥3,853 million for the years ended March 31, 2004 and 2003, respectively, and ¥12,614 million (unaudited) on a pro forma basis for the year ended March 31, 2002, and the aggregate loss realized on those sales totaled ¥19 million (\$180 thousand) and ¥53 million for the years ended March 31, 2004 and 2003, respectively, and ¥254 million (unaudited) on a pro forma basis for the year ended March 31, 2002.

The redemption schedule at March 31, 2004 for bonds with maturity dates is summarized as follows:

March 31, 2004	Millions of yen	
	Due in one year or less	Due after one year through five years
Government bonds	¥ —	¥ 7
Corporate bonds	100	20
Total	¥100	¥27

March 31, 2004	Thousands of U.S. dollars	
	Government bonds	\$ —
Corporate bonds	952	190
Total	\$952	\$257

5. Short-Term Borrowings and Long-Term Debt

The weighted-average interest rates for short-term borrowings outstanding at March 31, 2004 and 2003 were 1.2% and 1.8%, respectively.

Long-term debt at March 31, 2004 and 2003 consisted of the following:

March 31,	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Bonds:			
Bond in U.S. dollars, due 2003, at 6.625%	¥ —	¥ 26,845	\$ —
Japanese yen bonds, due 2003 to 2018, at rates ranging from 1.5% to 3.4%	248,700	259,350	2,368,571
Loans with collateral, due 2003 to 2020, at rates ranging from 0.24% to 7.91%	599,398	531,486	5,708,552
Loans without collateral, due 2003 to 2030, at rates ranging from 0.06% to 6.6%	455,537	460,436	4,338,447
Other	11,238	14,355	107,028
	1,314,874	1,292,473	12,522,609
Less current portion of long-term debt	(144,718)	(198,188)	(1,378,266)
	¥1,170,156	¥1,094,285	\$11,144,342

The aggregate annual maturities of long-term debt subsequent to March 31, 2004 are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
	2005	¥ 144,718
2006	128,427	1,223,114
2007	144,913	1,380,123
2008	185,709	1,768,657
2009 and thereafter	711,105	6,772,428
	¥1,314,874	\$12,522,609

A summary of assets pledged as collateral at March 31, 2004 and 2003 is as follows:

March 31,	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Flight equipment, net of accumulated depreciation	¥557,141	¥509,643	\$5,306,104
Flight equipment spare parts	53,286	—	507,485
Investments in affiliates and other securities	34,793	19,344	331,361
Ground property and equipment, net of accumulated depreciation, and other	237,028	250,754	2,257,409
	¥882,249	¥779,741	\$8,402,371

The effective interest rate on the bond in U.S. dollars, due 2003, at 6.625%, which resulted from hedging the bond with a currency swap, was lower than the long-term prime rate in Japan at the issuance date.

6. Accrued Pension and Severance Costs

An employee whose employment is terminated is entitled, in most cases, to pension annuity payments or to a lump-sum severance payment determined by reference to the basic rate of pay, length of service and the conditions under which the termination occurs.

Certain significant domestic consolidated subsidiaries have established contributory defined benefit pension plans pursuant to the Welfare Pension Insurance Law of Japan, i.e., welfare pension fund plans (WPFs). Each WFP consists of the governmental welfare pension program (the substitutional portion) and an additional non-contributory pension plan portion. In addition, certain consolidated subsidiaries have maintained non-contributory defined pension plans and lump-sum severance indemnity plans.

The projected benefit obligation and the funded status of the plans are summarized as follows:

March 31,	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Projected benefit obligation	¥(936,352)	¥(829,170)	\$(8,917,638)
Plan assets	396,371	337,495	3,774,961
Accrued pension and severance costs	163,128	143,670	1,553,600
Prepaid pension and severance costs	(647)	(448)	(6,161)
Net unrecognized amount	¥(377,499)	¥(348,453)	\$(3,595,228)

In computing the projected benefit obligation, small companies are permitted to adopt several simplified methods and certain subsidiaries have done so.

The net unrecognized amounts were as follows:

March 31,	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Unrecognized benefit obligation at transition	¥(162,239)	¥(177,551)	\$(1,545,133)
Adjustment for actuarial assumptions	(216,246)	(172,417)	(2,059,485)
Past service cost	986	1,515	9,390
Net unrecognized amounts	¥(377,499)	¥(348,453)	\$(3,595,228)

The substitutional portions of the WFPF benefits have been included in the amounts shown in the above tables.

On August 13, 2003, a certain domestic subsidiary received approval from the Minister of Health, Labor and Welfare with respect to its application for exemption from the benefit obligation related to future employee services under the substitutional portion of the WFPF. In accordance with paragraph 47-2 of the "Practical Guidelines on Retirement Benefits Accounting (Interim Report)," Report No. 13 of the Accounting System Committee of the Japanese Institute of Certified Public Accountants, this subsidiary accounted for the separation of the substitutional portion of the benefit obligation from the corporate portion of the benefit obligation under its WFPF as of the date of approval of the exemption, assuming that the transfer to the Japanese Government of the substitutional portion of the benefit obligation and related portion of the pension plan assets had been completed as of that date. As a result, the subsidiary recognized a gain of ¥755 million (\$7,190 thousand) for the year ended March 31, 2004. At March 31, 2004, the pension plan assets to be transferred were calculated at ¥2,343 million (\$22,314 thousand).

The components of net periodic pension and severance costs excluding the employees' contributory portion were as follows:

Years ended March 31,	Millions of yen			Thousands of U.S. dollars
	2004	2003	2002 Pro forma (Unaudited)	2004
Service cost	¥31,421	¥31,169	¥29,352	\$299,247
Interest cost on projected benefit obligation	27,386	26,939	25,237	260,819
Expected return on plan assets	(15,987)	(17,168)	(18,240)	(152,257)
Amortization of unrecognized severance benefit obligation at transition	14,844	15,143	15,004	141,371
Amortization of adjustment for actuarial assumptions	12,554	8,765	4,719	119,561
Amortization of past service cost	(126)	(140)	(5,185)	(1,200)
Net periodic pension and severance costs	¥70,093	¥64,709	¥50,888	\$667,552

Special additional termination benefits paid but not included in determining the projected benefit obligation, are charged to income when paid. The amounts charged to income amounted to ¥1,485 million (\$14,142 thousand) and ¥1,176 million for the years ended March 31, 2004 and 2003, respectively, and ¥1,730 million (unaudited) on a pro forma basis for the year ended March 31, 2002.

The assumptions used were as follows:

	2004	2003	2002 Pro forma (Unaudited)
Discount rates	2.5% - 2.8%	2.5% - 3.5%	2.5% - 3.5%
Expected rates of return on plan assets	0.0% - 5.5%	0.7% - 5.5%	1.2% - 6.3%

7. Income Taxes

During the year ended March 31, 2003, the Japanese consolidated corporate tax return system went into effect, and applications to file tax returns under the Japanese consolidated corporate tax return system of the Company and certain domestic subsidiaries were approved by the Japanese tax authorities. This new tax return system allows companies to base their tax payments on the combined profit or loss of a parent company and its wholly owned domestic subsidiaries. Accordingly, effective the year ended March 31, 2004, the Company and certain domestic subsidiaries have adopted the Japanese consolidated corporate tax return system.

The significant components of deferred tax assets and liabilities and the related valuation allowance at March 31, 2004 and 2003 were as follows:

March 31,	Millions of yen		Thousands of
	2004	2003	U.S. dollars
			2004
Deferred tax assets:			
Accrued pension and severance costs	¥ 53,683	¥ 38,709	\$ 511,266
Revaluation loss on investments in unconsolidated subsidiaries and affiliates	14,483	14,536	137,933
Accounts payable — trade	3,203	3,137	30,504
Accrued bonuses	2,526	2,609	24,057
Revaluation loss on flight equipment spare parts	2,287	2,041	21,780
Allowance for doubtful accounts	1,814	2,391	17,276
Tax loss carryforwards	44,994	38,197	428,514
Other	20,530	18,736	195,523
	143,524	120,360	1,366,895
Deferred tax liabilities:			
Reserve for special depreciation	—	(2,805)	—
Accumulated earnings of consolidated subsidiaries and affiliates	(5,424)	(4,058)	(51,657)
Net unrealized gain on other securities	(2,042)	—	(19,447)
Other	(3,910)	(1,382)	(37,238)
	(11,377)	(8,246)	(108,352)
Valuation allowance	(73,992)	(54,499)	(704,685)
Net deferred tax assets	¥ 58,155	¥ 57,614	\$ 553,857

For the year ended March 31, 2004, a reconciliation between the Japanese statutory tax rate and the Company's and the consolidated subsidiaries' effective tax rate is not required to be disclosed since the Company and the consolidated subsidiaries recorded a loss before income taxes. The statutory tax rate for the year ended March 31, 2004 was 43.9%.

A reconciliation between the Japanese statutory tax rate and the Company's and the consolidated subsidiaries' effective tax rate for the year ended March 31, 2003 is summarized as follows:

Year ended March 31, 2003	
Statutory tax rate	42.1%
Disallowed expenses, including entertainment expenses	39.9
Non-taxable income, including dividends received	(7.3)
Equity in earnings of unconsolidated subsidiaries and affiliates	(3.5)
Inhabitants' per capita taxes	7.4
Change in valuation allowance	(347.5)
Tax effect on undistributed earnings of consolidated subsidiaries	53.7
Difference in tax rates of consolidated subsidiaries	10.2
Other	(0.0)
Effective tax rate	(205.0)%

At March 31, 2003, reflecting a change in the local tax rates, the statutory tax rate utilized in estimating deferred tax assets and

liabilities has been applied as follows. The statutory tax rate effective for the year ended March 31, 2004, excluding a surcharge for the consolidation tax return system, has been applied to the temporary differences expected to be deducted for tax purposes by the end of March 2004, and the new rate has been applied to those to be utilized after April 2004.

8. Stockholders' Equity

The Commercial Code of Japan (the "Code") provides that an amount equal to at least 10% of the amount to be disbursed as distributions of earnings be appropriated to the legal reserve until the sum of the reserve and the additional paid-in capital account, which is included in capital surplus in the consolidated balance sheets, equals 25% of the common stock account. The Code provides that neither additional paid-in capital nor the legal reserve is available for dividends, but both may be used to reduce or eliminate a deficit by resolution of the shareholders or may be transferred to common stock upon approval by the Board of Directors. The Code further provides that if the total amount of additional paid-in capital and the legal reserve exceeds 25% of the amount of common stock, the excess may be distributed to the shareholders either as a return of capital or as dividends subject to the approval of the shareholders. The Company's shares of common stock have no par value in accordance with the Code.

9. Supplementary Cash Flow Information

The assets and liabilities of companies excluded from consolidation following the sale of their stock were as follows:

Year ended March 31,	Millions of yen		Thousands of
	2004		U.S. dollars
			2004
Current assets	¥1,187		\$11,304
Fixed assets	7,140		68,000
Current liabilities	(8,218)		(78,266)
Noncurrent liabilities	(1,346)		(12,819)
Minority interests	704		6,704
Gain on investments in securities	473		4,504
Increase in retained earnings resulting from exclusion of consolidated subsidiaries	170		1,619
Proceeds from sales of stock	111		1,057
Cash and cash equivalents held by subsidiaries	(7)		(66)
Net proceeds	¥ 103		\$ 980

10. Leases

As lessee

The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of the leased property at March 31, 2004 and 2003, and the related depreciation and interest expense for the years ended March 31, 2004 and 2003 and on a pro forma basis for the year ended March 31, 2002, which would have been reflected in the consolidated balance sheets and the related consolidated statements of operations or in

the pro forma information if capital lease accounting had been applied to the capital leases currently accounted for as operating leases:

Millions of yen			
March 31, 2004	Flight equipment	Ground property and equipment	Total
Acquisition costs	¥499,349	¥25,604	¥524,953
Less accumulated depreciation	(205,948)	(10,940)	(216,888)
Net book value	¥293,400	¥14,664	¥308,064

Thousands of U.S. dollars			
March 31, 2004			
Acquisition costs	\$4,755,704	\$243,847	\$4,999,552
Less accumulated depreciation	(1,961,409)	(104,190)	(2,065,600)
Net book value	\$2,794,285	\$139,657	\$2,933,942

Millions of yen			
March 31, 2003			
Acquisition costs	¥460,044	¥29,930	¥489,974
Less accumulated depreciation	(223,865)	(11,429)	(235,294)
Net book value	¥236,179	¥18,501	¥254,680

Years ended March 31,	Millions of yen			Thousands of U.S. dollars
	2004	2003	2002 Pro forma (Unaudited)	2004
Depreciation expense	¥48,654	¥47,376	¥48,076	\$463,371
Interest expense	¥ 5,090	¥ 5,871	¥ 7,106	\$ 48,476

Lease expenses relating to capital leases accounted for as operating leases amounted to ¥55,537 million (\$528,923 thousand) and ¥55,541 million for the years ended March 31, 2004 and 2003, respectively, and ¥58,911 million (unaudited) on a pro forma basis for the year ended March 31, 2002.

The present value of future rental expenses under capital leases accounted for as operating leases outstanding at March 31, 2004 and 2003 were as follows:

March 31,	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Within 1 year	¥ 47,332	¥ 47,194	\$ 450,780
Over 1 year	268,508	217,939	2,557,219
	¥315,840	¥265,133	\$3,008,000

Future rental expenses under operating leases outstanding at March 31, 2004 and 2003 were as follows:

March 31,	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Within 1 year	¥ 24,175	¥ 20,083	\$ 230,238
Over 1 year	167,368	120,376	1,593,980
	¥191,544	¥140,459	\$1,824,228

As lessor

The following amounts represent the acquisition costs, accumulated depreciation and net book value of the financing leases accounted for as operating leases at March 31, 2004 and 2003, and the related depreciation expense and interest revenue for the years ended March 31, 2004 and 2003 and on a pro forma basis for the year ended March 31, 2002, which are reflected in the consolidated balance sheets and the related consolidated statements of operations or in the unaudited pro forma information:

Millions of yen			
March 31, 2004	Flight equipment	Ground property and equipment	Total
Acquisition costs	¥347	¥2,559	¥2,907
Less accumulated depreciation	(324)	(1,702)	(2,027)
Net book value	¥ 23	¥ 857	¥ 880

Thousands of U.S. dollars			
March 31, 2004			
Acquisition costs	\$3,304	\$24,371	\$27,685
Less accumulated depreciation	(3,085)	(16,209)	(19,304)
Net book value	\$ 219	\$ 8,161	\$ 8,380

Millions of yen			
March 31, 2003			
Acquisition costs	¥347	¥3,033	¥3,381
Less accumulated depreciation	(289)	(1,973)	(2,263)
Net book value	¥ 58	¥1,060	¥1,118

Years ended March 31,	Millions of yen			Thousands of U.S. dollars
	2004	2003	2002 Pro forma (Unaudited)	2004
Depreciation expense	¥513	¥624	¥711	\$4,885
Interest revenue	¥ 51	¥ 69	¥ 80	\$ 485

Lease revenues relating to direct financing leases accounted for as operating leases amounted to ¥602 million (\$5,733 thousand) and ¥739 million for the years ended March 31, 2004 and 2003, and ¥852 million (unaudited) on a pro forma basis for the year ended March 31, 2002.

The present value of future rental revenues under direct financing leases accounted for as operating leases outstanding at March 31, 2004 and 2003 were as follows:

March 31,	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Within 1 year	¥433	¥ 492	\$4,123
Over 1 year	474	676	4,514
	¥907	¥1,169	\$8,638

Future rental revenues under operating leases outstanding at March 31, 2004 and 2003 are summarized as follows:

March 31,	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Within 1 year	¥15	¥ —	\$142
Over 1 year	15	—	142
	¥31	¥ —	\$295

11. Commitments and Contingent Liabilities

Commitments outstanding at March 31, 2004 for the purchases of significant property and equipment amounted to ¥433,235 million (\$4,126,047 thousand).

Consolidated subsidiaries lease aircraft, office space, hotel facilities, warehouses and office equipment. These leases are customarily renewed upon expiration.

At March 31, 2004, contingent liabilities for guarantees, principally for unconsolidated subsidiaries, affiliates and employees, amounted to ¥17,208 million (\$163,885 thousand), and contingent liabilities for commitments such as guarantees, keep-well agreements and others, principally for unconsolidated subsidiaries, affiliates and employees, amounted to ¥1,994 million (\$18,990 thousand).

A consolidated subsidiary provides a line-of-credit facility as a part of its financing activities. The amounts provided, used and unused, at March 31, 2004 were ¥910 million (\$8,666 thousand), ¥110 million (\$1,047 thousand) and ¥799 million (\$7,609 thousand), respectively.

12. Amounts Per Share

Basic net (loss) income per share has been computed based on the net (loss) income allocable to or available for distribution to stockholders of common stock and the weighted-average number of shares of common stock outstanding during each year. Diluted net income per share has not been presented for the years ended March 31, 2004 and 2003 since neither the Company nor any of the consolidated subsidiaries had potentially dilutive shares of common stock to be issued March 31, 2004 and 2003.

Years ended March 31,	Yen		U.S. dollars
	2004	2003	2004
Net (loss) income per share of common stock	¥(45.19)	¥5.92	\$(0.430)

The following table sets forth the computation of net (loss) income per share of common stock for the years ended March 31, 2004 and 2003:

Years ended March 31,	Millions of yen, except for shares		Thousands of U.S. dollars, except for shares
	2004	2003	2004
Net (loss) income (allocable) available to shareholders of common stock (numerator):			
Net (loss) income	¥(88,619)	¥11,645	\$(843,990)
Less: appropriation of bonuses to directors and statutory auditors	(42)	(37)	(400)
	¥(88,661)	¥11,608	\$(844,390)
Weighted-average number of shares of common stock outstanding (denominator)	1,961,792,997	1,962,051,790	1,961,792,997

Net assets per share have been computed based on the net assets available for distribution to stockholders of common stock and the number of shares of common stock outstanding at each balance sheet date.

March 31,	Yen		U.S. dollars
	2004	2003	2004
Net assets per share	¥81.16	¥129.66	\$0.772

13. Segment Information

a. Business segment information

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

Until the year ended March 31, 2003, the business segment information was presented in four major categories: the air transportation segment, the travel segment, the hotel and resort operations segment and a segment entitled 'other' which included card and lease operations, trading and other airline-related business.

Effective the year ended March 31, 2004, the Company has revised its method of segmentation. The airline-related business, which had been included in "Other" until the year ended March 31, 2003, has been presented as a new segment since, under the Company's current business strategies, it is a separate function of the air transportation business. In addition, the hotel and resort operations business, which had been presented as a separate segment until the year ended March 31, 2003, has been included in "Other" for the year ended March 31, 2004 since its size has decreased following a change in basic business strategy under which it now operates its businesses under a system of administrative contracts.

Based on the new segmentation, the Company has restated the previously reported business segments for the year ended March 31, 2003.

The business segment information of the Company and its consolidated subsidiaries for the years ended March 31, 2004 and 2003 is summarized as follows:

							Millions of yen
Year ended March 31, 2004	Air transportation	Airline-related business	Travel services	Other	Total	General corporate assets and intercompany eliminations	Consolidated
Operating revenues	¥1,370,548	¥ 75,775	¥337,356	¥148,061	¥1,931,742	¥ —	¥1,931,742
Inter-group sales and transfers	178,274	167,991	44,591	110,060	500,917	(500,917)	—
Total	1,548,823	243,766	381,948	258,122	2,432,659	(500,917)	1,931,742
Operating expenses	1,621,002	241,875	385,894	251,735	2,500,507	(501,119)	1,999,387
Operating income (loss)	¥ (72,179)	¥ 1,891	¥ (3,946)	¥ 6,386	¥ (67,847)	¥ 201	¥ (67,645)
Identifiable assets	¥1,791,150	¥113,582	¥ 79,979	¥356,812	¥2,341,525	¥(228,106)	¥2,113,418
Depreciation and amortization	¥ 103,303	¥ 3,029	¥ 1,335	¥ 12,006	¥ 119,675	¥ (286)	¥ 119,388
Capital expenditures	¥ 144,312	¥ 2,574	¥ 1,800	¥ 6,572	¥ 155,259	¥ (997)	¥ 154,262

							Thousands of U.S. dollars
Year ended March 31, 2004							
Operating revenues	\$13,052,838	\$ 721,666	\$3,212,914	\$1,410,104	\$18,397,542	\$ —	\$18,397,542
Inter-group sales and transfers	1,697,847	1,599,914	424,676	1,048,190	4,770,638	(4,770,638)	—
Total	14,750,695	2,321,580	3,637,600	2,458,304	23,168,180	(4,770,638)	18,397,542
Operating expenses	15,438,114	2,303,571	3,675,180	2,397,476	23,814,352	(4,772,561)	19,041,780
Operating income (loss)	\$ (687,419)	\$ 18,009	\$ (37,580)	\$ 60,819	\$ (646,161)	\$ 1,914	\$ (644,238)
Identifiable assets	\$17,058,571	\$1,081,733	\$ 761,704	\$3,398,209	\$22,300,238	\$(2,172,438)	\$20,127,790
Depreciation and amortization	\$ 983,838	\$ 28,847	\$ 12,714	\$ 114,342	\$ 1,139,761	\$ (2,723)	\$ 1,137,028
Capital expenditures	\$ 1,374,400	\$ 24,514	\$ 17,142	\$ 62,590	\$ 1,478,657	\$ (9,495)	\$ 1,469,161

							Millions of yen
Year ended March 31, 2003							
Operating revenues	¥1,458,276	¥ 75,437	¥391,041	¥158,724	¥2,083,480	¥ —	¥2,083,480
Inter-group sales and transfers	192,195	170,660	44,747	103,225	510,828	(510,828)	—
Total	1,650,471	246,098	435,788	261,950	2,594,309	(510,828)	2,083,480
Operating expenses	1,647,671	243,634	436,058	255,562	2,582,926	(510,035)	2,072,891
Operating income (loss)	¥ 2,799	¥ 2,464	¥ (269)	¥ 6,387	¥ 11,382	¥ (792)	¥ 10,589
Identifiable assets	¥1,817,563	¥124,946	¥ 77,394	¥368,469	¥2,388,373	¥(216,089)	¥2,172,284
Depreciation and amortization	¥ 98,900	¥ 3,971	¥ 1,348	¥ 14,328	¥ 118,548	¥ (361)	¥ 118,187
Capital expenditures	¥ 185,982	¥ 1,893	¥ 2,073	¥ 9,944	¥ 199,894	¥ (704)	¥ 199,189

b. Operating revenues from overseas operations

Operating revenues from overseas operations, which include international passenger and cargo services of four domestic subsidiaries, export sales of domestic subsidiaries, and sales of subsidiaries outside Japan, for the years ended March 31, 2004 and 2003 and on a pro forma basis for the year ended March 31, 2002 were as follows:

					Millions of yen
Year ended March 31, 2004	Asia and Oceania	North and South America	Europe	Total	
Operating revenues from overseas operations	¥348,492	¥302,232	¥187,973	¥ 838,698	
Consolidated operating revenues					¥1,931,742
Operating revenues from overseas operations as a percentage of consolidated operating revenues	18.0%	15.7%	9.7%	43.4%	

Thousands of U.S. dollars

Year ended March 31, 2004				
Operating revenues from overseas operations	\$3,318,971	\$2,878,400	\$1,790,219	\$ 7,987,600
Consolidated operating revenues	\$18,397,542			
Operating revenues from overseas operations as a percentage of consolidated operating revenues	18.0%	15.7%	9.7%	43.4%

Millions of yen

Year ended March 31, 2003				
Operating revenues from overseas operations	¥433,314	¥325,409	¥211,648	¥ 970,372
Consolidated operating revenues	¥2,083,480			
Operating revenues from overseas operations as a percentage of consolidated operating revenues	20.8%	15.6%	10.2%	46.6%

Millions of yen

Year ended March 31, 2002 Pro forma (Unaudited)				
Operating revenues from overseas operations	¥409,679	¥303,197	¥188,233	¥ 901,110
Consolidated operating revenues	¥2,029,481			
Operating revenues from overseas operations as a percentage of consolidated operating revenues	20.2%	14.9%	9.3%	44.4%

c. Geographic information

Total assets in Japan at March 31, 2004 and 2003 and operating revenue from operations in Japan for the years then ended represented more than 90% of consolidated total assets and consolidated operating revenues. As a result, geographic information is not required to be disclosed in accordance with accounting principles generally accepted in Japan.

14. Derivatives and Hedging Activities

Certain consolidated subsidiaries utilize forward foreign exchange contracts, currency options, and currency swaps on a consistent basis to hedge certain foreign currency transactions related to foreign purchase commitments, principally of flight equipment, and foreign accounts receivable and payable. The Company and its consolidated subsidiaries also utilize currency swaps, interest-rate swaps and interest-rate options to minimize the impact of foreign exchange and interest-rate movements related to their outstanding debt on their operating results. Certain consolidated subsidiaries also enter into a variety of swaps and options in their management of risk exposure related to the commodity prices of fuel.

The Company and certain significant consolidated subsidiaries

enter into hedging transactions in accordance with the internal guidelines and strategies established by management. The routine operations of the department which is responsible for hedging transactions are examined by other departments. Gain and loss on hedging instruments and the assessment of hedge effectiveness, which is performed both at the inception and on an ongoing basis, are reported at meetings of the related department managers on a timely basis. Certain other consolidated subsidiaries have adopted procedures for hedging transactions which are more simplified than those adopted by the Company.

15. Subsequent Events

a. Pursuant to a resolution of the Board of Directors at a meeting held on January 21, 2004, Japan Asia Airways Co., Ltd. ("JAA"), which was previously owned 90.5% by Japan Airlines International Co., Ltd. (formerly Japan Airlines Company, Ltd.), a wholly-owned subsidiary of the Company, became a wholly-owned subsidiary of the Company effective April 1, 2004 by way of a share exchange (*kabushiki-kohkan*). The Company delivered 65,000,000 shares newly issued by the Company and 16,018,600 shares held as treasury stock (for a total of 81,018,600 shares) to the shareholders of JAA in exchange for JAA's shares. Consequently, the Company's shares of common stock in issue numbered 2,045,465,250.

As a result of this share exchange, the amount of common stock remained unchanged, capital surplus increased by ¥5,069 million, and common stock in treasury decreased by ¥4,474 million.

b. Pursuant to a resolution of the Board of Directors at a meeting held on March 17, 2004, the Company issued zero coupon guaranteed convertible bonds due 2011 on April 5, 2004.

(1) Total amount of the bond issue: ¥100,000 million

(2) Coupon: zero

(3) Maturity date: March 25, 2011

(4) Shares to be issued upon conversion:

1) Type of shares: common stock

2) Number of shares to be issued: The number of shares to be issued upon exercise of the stock acquisition rights is equal to the face value of the bonds divided by the conversion price.

(5) Initial conversion price: ¥440 per share which is subject, under certain circumstances, to adjustment.

(6) Exercise period of stock acquisition rights: The stock acquisition rights granted under the terms of these bonds may be exercised at any time during the period from, and inclusive of, April 19, 2004 up to the close of business on March 11, 2011 at the location where the stock acquisition rights are exercised.

c. Effective April 1, 2004, JAL Group has changed its business structure. Under the new business structure, Japan Airlines International Co., Ltd. is responsible for the international passenger service and cargo service businesses, and Japan Airlines Domestic Co., Ltd. (formerly Japan Air System Co., Ltd.) is responsible for the domestic passenger service business.

Report of Independent Auditors

Japan Airlines Corporation and Consolidated Subsidiaries

Japan Airlines System Corporation, the holding company of the JAL group, was renamed Japan Airlines Corporation on June 26, 2004.

The Board of Directors
Japan Airlines System Corporation

We have audited the accompanying consolidated balance sheets of Japan Airlines System Corporation and consolidated subsidiaries as of March 31, 2004 and 2003, and the related consolidated statements of operations, stockholders' equity, and cash flows for the two years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Japan Airlines System Corporation and consolidated subsidiaries at March 31, 2004 and 2003, and the consolidated results of their operations and their cash flows for the two years then ended in conformity with accounting principles generally accepted in Japan.

Supplemental Information

1. As described in Note 13, effective the year ended March 31, 2004, the Company has revised its method of segmentation.
2. As described in Note 15 a., Japan Asia Airways Co., Ltd., which was previously owned 90.5% by Japan Airlines International Co., Ltd. (formerly Japan Airlines Company, Ltd.), a wholly-owned subsidiary of the Company, became a wholly-owned subsidiary of the Company effective April 1, 2004 by way of a share exchange (*kabushiki-kohkan*).
3. As described in Note 15 b., the Company issued zero coupon guaranteed convertible bonds due 2011 on April 5, 2004.
4. As described in Note 15 c., effective April 1, 2004, the JAL Group has changed its business structure. Under the new business structure, Japan Airlines International Co., Ltd. is responsible for the international passenger service and cargo service businesses, and Japan Airlines Domestic Co., Ltd. (formerly Japan Air System Co., Ltd.) is responsible for the domestic passenger service business.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2004 are presented solely for convenience. Our audit 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.



June 25, 2004

As described in Note 1, the unaudited pro forma financial information for the year ended March 31, 2002 has been presented solely for convenience and is outside the scope of our audit.