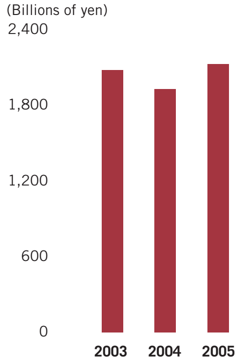
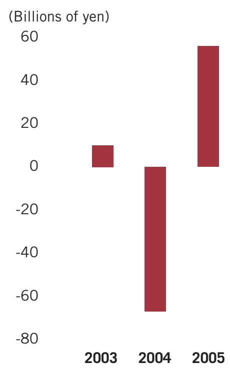
Consolidated operating revenues



Consolidated operating income



Operating Environment and Financial Strategy

During the year under review, the global economy showed recovery momentum, with growth picking up in the U.S. and China and signs of economic recovery emerging in Europe. The Japanese economy too saw significantly improved corporate earnings and increased capital investment, but personal spending was anemic. Overall, the national economy showed moderate recovery momentum.

Economic growth in the U.S. and China caused international freight demand to soar above last year's levels, and international travel demand depressed by the outbreak of SARS and other events in fiscal 2004 recovered steadily. However, growth in domestic passenger operations demand was blunted by the impact of typhoons. We were also hit by further historic hikes in fuel prices. For these reasons, the operating environment surrounding the JAL Group remained severe.

To deal with these increasingly difficult conditions, the Group worked to maximize enterprise value, by improving asset efficiency and strengthening the bottom line through enhanced profitability.

Our yardsticks for achieving this goal are return on equity (ROE) of at least 10% on a consolidated basis, and reducing the repayment period for interest-bearing debt from operating cash flows within 10 years.

In the year under review, we achieved ROE of 17.0% compared with negative ROE of 42.9% in the previous year. In addition, we reduced the repayment period for interest-bearing debt from operating cash flows from 22 to 11 years. Although we did not reach our target here, we aim to continue to bolster our financial position.

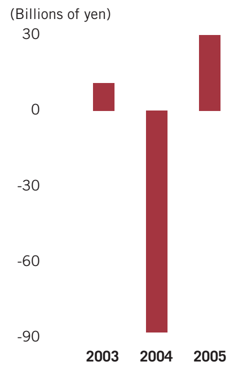
Results of Operations (consolidated basis)

Operating Revenues

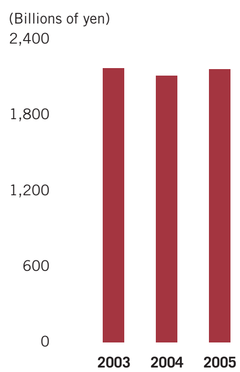
Consolidated operating revenues in the fiscal year ended March 31, 2005 rose ¥198.1 billion (US$), or 10.3%, from the previous year to ¥2,129.8 billion. The increase was mainly due to recovery following the big drop in international passenger numbers in the previous year caused by the Iraq War and the SARS outbreak, as well as a rise in international freight traffic due chiefly to the growth of the U.S. and Chinese economies.

Looking at sales by segment (including intrasegment transactions), sales in the air transportation business rose 9.8% year on year to ¥1,701.3 billion. This recovery was reflected in the performance of other segments: revenue rises were posted by the airline-related business, up 20.5% to ¥293.7 billion, travel services, up 11.2%, to ¥424.5 billion, and "other business," up 3.9%, to ¥268.0 billion.

Consolidated net income



Consolidated total assets



We enhanced the competitiveness of domestic passenger operations through a variety of marketing measures such as introduction of "Class J" premium seats and promotion of "e-business" online corporate ticketing, as well as the JAL IC check-in service. However, demand growth fell back, due to the recrudescence of overseas travel demand after a shift toward domestic travel in fiscal 2004, and the impact of typhoons and other factors. As a result, we suffered a 3.7% decline year on year in terms of revenue passenger numbers, and a 3.6% fall on a revenue passenger-km basis. However, the yield per passenger rose 4.7% due to fare adjustments, causing operating revenues to rise ¥5.8 billion to ¥674.7 billion.

Looking at international passenger operations, as a result of steady recovery in demand—badly affected by the SARS outbreak and a number of other events in fiscal 2004—the number of revenue passengers rose 25.5% and the revenue passenger-km basis also rose by 16.6%. Sales in Asia and Oceania rose substantially due to the popularity of destinations in China and South Korea (in the latter case popularized by the "Korean Wave"), underpinning growth in operating revenues. Under these conditions, operating revenues rose ¥121.5 billion year on year to ¥671.2 billion, due to fare adjustments from various demand stimulation measures such as the JJ integrated commemoration campaign.

International Cargo

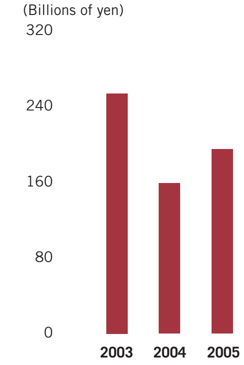
International cargo rose 107.1% on a revenue cargo ton-km basis, reflecting a steep year-on-year rise in demand triggered by growth in the U.S., China and elsewhere against a backdrop of recovery momentum in the global economy. All product categories generally saw strong shipments, including industrial products, textiles and perishables, all of which benefited from the strength in the global economy. Three categories fared particularly well: DVDs and related equipment, digital cameras, and flat-screen TV products and components, which saw increased imports and exports.

As a result, operating revenues rose ¥18.3 billion from the previous year to ¥171.3 billion.

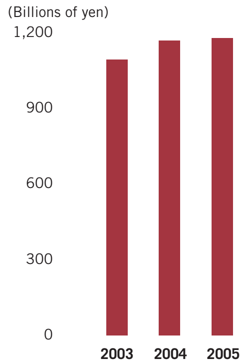
Operating Expenses

Operating expenses rose ¥74.3 billion, or 3.7%, to ¥2,073.7 billion. The main reason for this increase was higher fuel costs. To offset the rise in fuel costs, we increased revenues through fare adjustments and other measures, and pared ¥47.0 billion in total costs through various reduction measures and reorganization of routes. In addition to this enhancement of the revenue position, we curbed increases in operating expenses by reducing personnel costs through reforms of our retirement benefit system. As a result, operating expenses totaled 97.4% of operating revenues, a big improvement from 103.5% in the previous year.

Consolidated total stockholders' equity



Consolidated long-term debt



Earnings

Buoyed by the reduction in expenses and the recovery in the international air transportation business, operating income came in at ¥56.1 billion, compared with the loss of ¥67.6 billion in the previous year. As a result, operating income was equal to 2.6% of operating revenues.

By segment, operating income in the air transportation business totaled ¥41.6 billion, compared with a ¥72.2 billion loss in the previous year due to recovery in international routes. The airline-related business segment benefited from increased sales at affiliates and subsidiaries involved in in-flight catering, due to rising numbers of passengers on international routes. Another factor was an increase in revenues in our business of marketing electricity for airplanes, thanks also to a sales increase to foreign companies. As a result, operating income totaled ¥5.3 billion, higher than the ¥3.4 billion posted in the previous year.

In the "other business" segment, operating income rose ¥3.7 billion to ¥10.0 billion, propelled by strong duty-free and in-flight sales, and a good performance by the hotel resort business and card business.

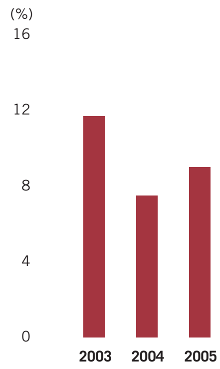
Operating income in the air transportation business was 2.4% of operating revenues. The figure was 1.8% for the airline-related business and 3.7% for "other business."

In travel services, revenues from in JALPAK and JALTOURS rose due to increased numbers of overseas travelers, but the segment could not avoid an operating loss of ¥0.3 billion as tourism demand originating in Japan has not yet fully recovered.

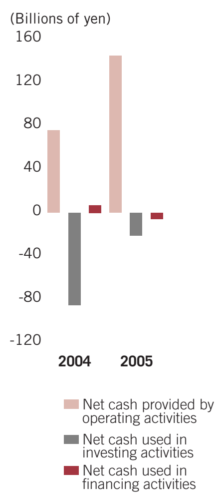
Non-operating expenses and extraordinary income/loss totaled ¥82.5 billion, ¥18.0 billion worse than the previous year. The main factors were lease termination and disposal losses on fixed assets. However, non-operating revenues and extraordinary income/loss totaled ¥71.0 billion, a ¥21.0 billion increase compared with the previous year, due to an increase in repayment for aircraft parts and foreign exchange transaction gains, as well as proceeds from sale of fixed assets. As a result, we posted a loss of ¥11.4 billion. The ¥3.0 billion improvement from the previous year was due to a reduction in interest expenses, our largest expense item.

As a result, net income rose ¥118.7 billion from the previous yaer to ¥30.0 billion, and accounted for 1.4% of operating revenues. Net income per share was ¥15.24, and we have restored the dividend to ¥4.00 per share.

Consolidated stockholders' equity ratio



Consolidated cash flows



Liquidity and Capital Resources

Financial Position

Total consolidated assets for year ended March 31, 2005 rose ¥49.2 billion, or 2.3%, to ¥2,162.6 billion, due mainly to a ¥164.0 billion increase in current assets to ¥683.1 billion. The main factors were a ¥14.3 billion increase in accounts receivable from the increase in operating revenues and a steep increase in cash on hand and in bank to ¥108.7 billion from fund-raising via convertible bonds issued in the euromarkets.

Property and equipment plunged to ¥1,191.7 billion, a decline of ¥130.5 billion year on year, due to ongoing aircraft depreciation and aircraft sales. We also sold our headquarters building to reduce interest-bearing debt.

At the same time, current liabilities increased ¥8.5 billion from the previous term to ¥569.1 billion. A decline in short-term borrowings, the current portion of bonds, and long-term borrowings was offset by an increase in accrued expenses accompanying the increase in operating revenues.

However, working capital (current assets minus current liabilities) came to ¥114.0 billion, emerging from the negative territory of the previous year. A rise in the current ratio to 120.0% from 92.6% in the previous year showed that liquidity has strengthened significantly over the year.

Long-term liabilities rose ¥10.8 billion from the previous year to ¥1,172.2 billion. Although long-term borrowings fell by ¥74.1 billion, we posted a ¥85.0 billion rise in corporate bonds (above-mentioned convertible bond issue). However, these bonds were zero-coupon, so there was no interest burden.

Stockholders' equity rose ¥35.4 billion, or 22.3%, to ¥194.7 billion. This was mainly due to a reduction in the deficit in the retained earnings, because of an increase in net income. Furthermore, capital surplus increased due to the issue of new shares through a stock swap, but declined ¥0.5 billion due to cancellation of shares in treasury.

As a result of the above, the stockholders' equity ratio rose from 7.5% in the previous year to 9.0%. ROE improved from minus 42.9% in previous year to 17.0%, beyond our target of 10%.

Cash Flows

In the year under review, net cash provided by operating activities totaled ¥145.2 billion, ¥68.9 billion more than previous year. This was mainly due to the increase in income before income taxes and minority interests.

Net cash used in investing activities stood at ¥21.4 billion, a drop of ¥63.9 billion from the previous year. In spite of a decline in the cash outflow for the acquisition of fixed assets such as aircraft, there was an increase in the inflow of cash from the sale of our headquarters building.

Net cash used in financing activities totaled ¥6.2 billion, compared with a cash inflow of ¥7.6 billion in the previous year. This was due mainly to a substantial decline in the balance of short-term borrowings and repayment of long-term borrowings to reduce interest-bearing debt, which were more than offset by bond issues.

As a result of the above, cash and cash equivalents rose ¥117.6 billion to ¥260.9 billion at the end of the term. In addition, free cash flow (cash flows from operating activities plus cash flows from investing activities) totaled ¥123.8 billion reversing a deficit in the previous year.

Outlook

The operating environment faced by the JAL Group is expected to remain harsh as fuel prices continue to post historic highs, and the international situation remains unsettled. In such circumstances, the Group will pare costs to the maximum through cost restructuring measures and emergency measures in line with the Fiscal 2005-2007 Medium-Term Business Plan, and work to raise revenue through a variety of measures in international, domestic and cargo operations, aiming at fundamental improvement of the revenue/expense position. Fuel prices have risen even higher than the level expected at the time of drafting of the Fiscal 2005-2007 Medium-Term Business Plan. However, we are making no change to our earnings forecast for fiscal 2005 because we expect to take further measures to boost revenues.

In our forecast for the full year we have assumed an exchange rate of ¥110 to the dollar, and a per-barrel oil price of $54 on the Singapore Kerosene market. Based on these assumptions, we forecast

(1) Consolidated operating revenue of ¥2,209.0 billion

(2) Consolidated operating income of ¥60.0 billion

(3) Consolidated net income of ¥17.0 billion