

Japan Airlines System Corporation
(Management Policies)

Japan Airlines Company, Ltd.

Japan Air System Co., Ltd.

(Interim Financial Information)

*For the six months ended September 30, 2002 and 2001
and the year ended March 31, 2002*

(1) Basic policies

On October 2, 2002, Japan Airlines System Corporation was established as the holding company of, Japan Airlines (JAL) and Japan Air System (JAS) through a transfer of shares. This move marked the formal launch of the new JAL Group.

Under the corporate philosophy below, the Group will contribute to the peace and prosperity of Japan and the rest of the world through linking the customers' hearts and minds and cultures around the globe. At the same time, the group aims to build a solid business base that deftly balances international and domestic businesses by maximizing the integration effects and to become the world's top air transportation group. Thus, Japan Airlines System will provide a satisfactory return to every one of its stakeholders through maximizing corporate value.

Corporate Philosophy

1. To constantly pursue excellence in terms of quality and safety
2. To think and act with the customer's viewpoint in mind
3. To maximize corporate value
4. To be a good corporate citizen
5. To foster a corporate culture characterized by hard work and challenges

(2) Target indicators

In order to improve corporate value and enhance its financial position, the JAL Group has selected Return on Equity(ROE) and the number of years required to repay interest-bearing debts from operating cash flows as its target financial indicators.

While in the past, ROE above 10% and theoretical repayment within 10 years were the respective targets set for these indicators, the JAL Group aims in the years ahead to realize and accelerate the integration effects that will lead to improvements in both of these figures.

(3) Business plans and measures

Scheduled plans and measures for 2002-2003 fiscal years are as follows.

[Business Plans]

The Company will begin offering services on routes monopolized by a rival airline, move to intensify competition domestically and expand its business network. Japan Airlines System will also initiate the large-scale reorganization of domestic routes, with both JAL and JAS using the resources at their command to achieve better investment in their respective route

networks. Moreover, the two companies will simultaneously continue the process of eliminating overlaps in hub routes and enact improvements in flight scheduling.

The elimination of duplicate flight routes will continue in international routes as well, leading to more efficient route management, while smaller investment in replacement aircraft will also contribute to improving competitiveness in the domestic market and expanding the JAL Group network.

[Business Measures]

By the target date (April 2004), both JAL and JAS are set to merge all reservation and ticketing systems with the system currently in use by JAL and its affiliates. This move will unify these key systems under a single JAL corporate brand, as optimal use is made of the Group network to develop a structure better able to respond to customer needs and provide the merchandise and services that customers want.

The Company is currently developing a medium-term business plan for the newly formed JAL Group.

(4) Management restructuring measures

In recognition of the vital importance of full regulatory compliance, maintaining corporate transparency and strengthening corporate governance, the new JAL Group has formulated the following measures.

1. Corporate governance

- To encourage fair and transparent corporate activities, the Company has selected three directors from outside the Group and established a six-member Corporate Auditor system (including 3 full-time auditors)
- The Company has taken definitive steps to enhance corporate governance, including cooperative agreements between main subsidiaries Japan Airlines and Japan Air System, the clarification of group management tasks and a more streamlined decision-making structure.

2. Compliance

Not satisfied with merely fulfilling its basic corporate responsibility to provide quality services through fair competition, earn an appropriate degree of profit and ensure the safety that is fundamental to the civil aviation business, the JAL Group, from a desire to make a positive social contribution and fulfill its duties as a good corporate citizen, has drafted "JAL's Commitment to Society," a collection of rules that underscore the importance of the society at large in the execution of JAL Group activities.

(Main rules governing JAL Group activities)

- Ensuring transportation safety

Safe transportation is vital to the very survival of the new JAL Group and is the Company's primary social responsibility. All members of management and all employees, keenly aware of their individual roles and responsibilities in this respect, do everything within their knowledge and capabilities to ensure that each JAL Group flight is as safe as possible.

- **Creation of services**

The JAL Group seeks through the services it offers to create greater and newer corporate value in the eyes of its customers.

- **Legal compliance**

The JAL Group intends to fully comply with all applicable laws and social rules in both its internal and external corporate activities.

- **Sound corporate behavior**

The JAL Group, in full awareness of its duty to the expectations of its customers and business counterparties, strives to be conscientious in all corporate activities. Thus, the JAL Group stands resolutely opposed to involvement with criminal and antisocial elements of any kind.

- **Coexistence with society**

The JAL Group seeks to fulfill its role as a corporate citizen by promoting activities that contribute positively to the betterment of society.

Furthermore, the Company has established a Compliance & Risk Management Committee headed by the president, striving through the creation of a comprehensive risk management system and transparent Group management to promote socially responsible activities and achieve more stable Group management.

3. **Maintaining management transparency**

In addition to public relations activities aimed at the general public mainly through the mass media, the Company strives to enhance and bolster its IR activities for domestic and overseas investors and carry out the timely and accurate disclosure of corporate information.

Term Outlook

With the unpredictable socio-political outcome of the currently tense situation with Iraq and the outbreak of terrorist incidents worldwide looming overhead, the slowdown of recovery in the global economy and concerns over the direction of the U.S. economy are compounding the uncertainty of the economic future.

In Japan, too, the spread of deflationary conditions represented by weakened consumer confidence and falling stock prices continues to keep the operating environment as difficult as ever for companies in the civil aviation industry.

In these difficult and uncertain times, the newly formed JAL Group has its sights set on becoming the top air transportation group in the global civil aviation industry as we pour every effort into strengthening the Company's business base and maximizing its corporate value.

Based on information available at the time of writing, the Company forecasts the following performance figures on a consolidated basis for the full term.

1. Net sales: ¥2,090.0billion
2. Operating income: ¥17.0billion
3. Ordinary income: ¥24.0 billion
4. Net income: ¥24.0billion

The following have been assumed for calculation purposes in determining the above figures:

Currency exchange rate - US\$1=¥122.

Aircraft fuel price - US\$30.5 per barrel of Singapore kerosene (market price)

Crude oil price (CIF) – US\$26.5 per barrel

The above Term Outlook and other statements regarding future performance are projections based on information available to management as of the time of writing, and as such are subject to a variety of risks and other unknown factors.

Readers are thus cautioned not to place undue emphasis on such statements, as actual performance may vary materially or substantially from current forecasts.

Japan Airlines(JAL) Performance and Financial Highlights

1. Business Performance (on a consolidated basis)

Six-Month Overview (Apr. to Sept. 2002)

(1) Overall performance

A slow recovery during the period under review – mainly in passengers bound for Honolulu and the continental U.S. – led to a year-on-year decline in total passengers on international flights. In spite of this trend, newly established routes and a full complement of fare pricing measures aimed at encouraging domestic travel helped the Company to achieve and maintain a higher number of domestic passengers than in the previous year. International cargo operations, largely due to strong demand for service to and from the United States, grew in terms of both revenue and cargo volume in comparison to the previous year.

Businesses operated by our affiliates continued efforts to recover from the aftereffects of the September 11 terrorist attacks, as plans were implemented to further improve overall management efficiency, such as promoting the use by affiliates of the Shared Services Center, which collectively handles the clerical work for each affiliate company.

Based on the above conditions, net sales ended the period 1.5% lower than the previous year at ¥858.1 billion. Due in large part to successful Group-wide efforts to curb costs, we managed to reduce operating expenses by a slight 0.3% year-on-year to ¥829.6 billion in spite of rising insurance premiums and other expenses. Operating income was 26.7% lower at ¥28.5 billion, with ordinary income up 57.4% from the previous year at ¥37.5 billion and net income for the six months under review climbing 105.4% to end at ¥33.6 billion.

(2) Segment Performance

Air Transportation

Although the combined volume of passengers and cargo on domestic and international routes during the period under review rose 0.9 percent over the previous year, revenues dipped 0.4% to ¥670.8 billion, while operating income fell 28.3% year-on-year to ¥23.2 billion.

International route Passengers:

While a large-scale increase in demand was witnessed in this area for flights bound for China alongside strong growth in demand for Oceania-bound flights, the lingering effects of the terrorist attacks on the U.S. in 2001 slowed the recovery of demand for flights bound to the continental U.S. and Honolulu.

Taking every reasonable measure possible to increase revenues amidst these adverse conditions, the Company was able to maintain roughly the same seat occupancy rate as the previous year by strategically adding and reducing flights based on careful analysis of trends in passenger travel. The total number of passengers, however, still fell 4.1% compared to the previous year, with revenues 3.1% lower at ¥343.5 billion.

International cargo operations:

Supported largely by demand for cars and electronic equipment, this area witnessed strong growth particularly in cargo flights bound for the United States from Japan and Southeast Asia; a trend which resulted in an 11.8% year-on-year increase in cargo volume, with revenues climbing 13.2% to ¥73.3 billion.

Domestic Route Passengers:

In addition to entry into routes formerly monopolized by a rival carrier and the introduction of bargain fares and other fare pricing measures, the vigorous promotion of numerous marketing campaigns designed to stimulate consumer demand pushed the number of domestic passengers up 1.1% over the previous year.

However, revenues were down 0.9% at ¥167.2 billion due to declines in fares per passenger.

Airline-Related Businesses

The commencement of use of an additional runway at Narita International Airport has resulted in increased revenues from onboard foods at TFK Co., Ltd. in the Company's Airline-Related businesses.

JALUX, a company in the retailing and distribution businesses, saw earnings increase during the period through its renewed focus on airport retail stores and other highly profitable businesses, as well as its vigorous efforts to minimize selling, general and administrative expenses.

The credit card and leasing business grew steadily during the six months under review, with the number of JAL card members up 6% compared to March 2002 figures.

The above conditions resulted in revenues from the Airline-Related Business segment of ¥192.7 billion and operating income of ¥3.5 billion.

Travel Planning and Sales

Although slow recovery in travel to American and European destinations and the ongoing shift to lower priced travel packages continue to present JALPAK Co., Ltd. with a difficult operating environment, the company continues to move ahead with efforts to generate new demand and improve business efficiency.

JAL Story achieved strong growth during the six months under review, with a 13% increase in the number of travel customers handled by the company.

The result of this performance for the Travel Planning and Sales business was revenues of ¥198.7 billion and operating income of ¥1.7 billion.

Hotels and Resorts

While U.S. and European-based hotels in JAL Hotels' Overseas Division struggled under the lingering aftereffects of the 2001 terrorist attacks on the United States, hotels in southeast Asia underwent strong and steady growth during the period under review.

Meanwhile, the opening of the new JAL Bayside Osaka Hotel also led to increased revenues from the company's Domestic Division. The above performance resulted in revenues of ¥18.9 billion for Hotels and Resorts, with operating income of ¥2 million.

2. Financial Position

Total assets declined ¥69.3 billion year-on-year, the result of reductions in long-term loans, to end the six months under review at ¥1,767.0 billion. Liabilities were down ¥96.2 billion at ¥1,485.5 billion, due to repayment of long-term loans and redemption of Company bonds.

Shareholders' equity rose ¥29.0 billion over the previous year-end figure to ¥257.6 billion (US\$ XXX million), while the shareholders' equity ratio increased 2.1 percentage points to 14.6%.

Cash Flows

A reduction in trade accounts receivable as well as other factors resulted in a year-on-year increase of ¥48.4 billion in cash flows from operating activities, which ended the period under review with a net cash inflow of ¥105.3 billion. Cash flows from investing activities improved by ¥17.4 billion over the previous year due to the sale of aircraft during the period, resulting in a net cash outflow of ¥14.2 billion (US\$ XXX million).

Moreover, the repayment of long-term loans and redemption of Company bonds held cash flows from financing activities ¥54.9 billion lower than the previous year, ending with a net cash outflow of ¥105.9 billion.

After accounting for the effects of currency translation as well as consolidation adjustments, cash and cash equivalents declined ¥15.7 billion during the six months under review to end at ¥153.3 billion for the period.

Japan Airlines System Corporation
Japan Airlines Company, Ltd.
Consolidated Interim Financial Information

*For the six months ended September 30, 2002 and 2001
and the year ended March 31, 2002*

1. Consolidated Financial Highlights

(As permitted by the Securities and Exchange Law of Japan, amounts of less than one million yen have been omitted.)

(1) Consolidated Operating Results for the Six Months Ended September 30, 2002 and 2001 and the Year Ended March 31, 2002

(Millions of yen except for per share information)

(i) Total operating revenues	FH02	¥ 858,159	(-1.5%)
	FH01	¥ 871,259	(-0.3%)
	FY01	¥1,608,689	
(ii) Operating income (loss)	FH02	¥ 28,552	(-26.7%)
	FH01	¥ 38,956	(-44.8%)
	FY01	¥ (11,925)	
(iii) Ordinary income (loss)	FH02	¥ 37,583	(57.4%)
	FH01	¥ 23,874	(-57.2%)
	FY01	¥ (37,115)	
(iv) Net income (loss)	FH02	¥ 33,685	(105.4%)
	FH01	¥ 16,397	(-61.3%)
	FY01	¥ (36,725)	
(v) Net income (loss) per share	FH02	¥ 18.90	
	FH01	¥ 9.20	
	FY01	¥ (20.60)	
(vi) Diluted net income per share	FH02	¥ –	
	FH01	¥ 9.19	
	FY01	¥ –	
(vii) Equity in earnings (losses) of affiliates	FH02	¥ 564	
	FH01	¥ 851	
	FY01	¥ (258)	

Note 1. Weighted average number of shares outstanding during period:

September 30, 2002	1,782,254,392
September 30, 2001	1,782,918,587
March 31, 2002	1,782,868,530

(2) Consolidated Financial Position at September 30, 2002 and 2001 and March 31, 2002

(Millions of yen except for per share information)

(i) Total assets	FH02	¥1,767,037
	FH01	¥1,771,035
	FY01	¥1,836,371
(ii) Total stockholders' equity	FH02	¥ 257,697
	FH01	¥ 277,531
	FY01	¥ 228,657
(iii) Stockholders' equity ratio	FH02	14.6%
	FH01	15.7%
	FY01	12.5%
(iv) Stockholders' equity per share	FH02	¥ 144.62
	FH01	¥ 155.66
	FY01	¥ 128.27

Note 1. Number of shares outstanding at end of period:

September 30, 2002	1,781,924,186
September 30, 2001	1,782,922,655
March 31, 2002	1,782,696,956

(3) Consolidated Cash Flows for the Six Months Ended September 30, 2002 and 2001 and the Year Ended March 31, 2002

(Millions of yen)

(i) Net cash provided by operating activities	FH02	¥ 105,347
	FH01	¥ 56,883
	FY01	¥ 24,589
(ii) Net cash used in investing activities	FH02	¥ (14,217)
	FH01	¥ (31,659)
	FY01	¥ (51,780)
(iii) Net cash (used in) provided by financing activities	FH02	¥ (105,971)
	FH01	¥ (51,043)
	FY01	¥ 71,548
(iv) Cash and cash equivalents at end of period	FH02	¥ 151,301
	FH01	¥ 97,025
	FY01	¥ 169,027

(4) Consolidation Policy

See notes to accompanying consolidated interim financial statements.

(5) Changes in Accounting Policy

Not applicable.

2. Consolidated Subsidiaries and Affiliates Accounted for by the Equity Method

As of September 30, 2002, the number of consolidated subsidiaries was 144, including the following principal subsidiaries:

JAPAN ASIA AIRWAYS CO., LTD.
JAPAN TRANSOCEAN AIR CO., LTD.
JALWAYS CO., LTD.
JAL EXPRESS CO., LTD.
AIRPORT GROUND SERVICE COMPANY, LTD.
TFK CORPORATION
AGP CORPORATION
AIRPORT ENGINEERING & SERVICE CO., LTD.
JAL SALES NETWORK CO., LTD.
JALPAK CO., LTD.
JAL HOTELS COMPANY LTD.
JAL LEASING COMPANY, LIMITED
JAL FINANCE CORPORATION
JALUX INC.
AXESS INTERNATIONAL NETWORK, INC.
GLOBAL BUILDING CO., LTD.

As of September 30, 2002, the number of unconsolidated subsidiaries not accounted for by the equity method was 135.

As of September 30, 2002, the number of unconsolidated affiliates was 80 including 25 companies accounted for by the equity method.

Changes in the scope of consolidation and adoption of the equity method are summarized as follows:

Consolidation:

(Decrease) 4 JAL INFORMATION TECHNOLOGY CO., LTD.
 JTA INFORMATION & COMMUNICATION CO., LTD.
 COCOS LAGOON DEVELOPMENT CORPORATION
 OKINAWA CATERING SERVICE CO., LTD.

Equity method:

(Increase) 2 JAL INFORMATION TECHNOLOGY CO., LTD.
 JTA INFORMATION & COMMUNICATION CO., LTD.

(2) - I

Japan Airlines System Corporation
Japan Airlines Company, Ltd.
Consolidated Balance Sheets

At September 30 and March 31, 2002 and September 30, 2001

	September 30, 2002	March 31, 2002	September 30, 2001
	<i>(Millions of yen)</i>		
Assets			
I. Current assets:			
Cash and time deposits	¥ 142,952	¥ 119,124	¥ 76,372
Notes and accounts receivable	199,514	212,345	205,537
Short-term investments in securities	14,645	14,756	23,046
Supplies	57,748	58,308	60,845
Deferred income taxes	14,020	16,027	12,660
Other current assets	88,606	127,009	84,364
Allowance for bad debts	(3,644)	(3,956)	(3,139)
Total current assets	<u>513,844</u>	<u>543,615</u>	<u>459,686</u>
II. Fixed assets:			
Tangible fixed assets:			
Buildings and structures	190,986	200,062	217,055
Machinery and equipment	30,406	32,309	33,632
Flight equipment	656,467	650,887	657,520
Land	87,693	88,489	89,590
Construction in progress	33,156	35,210	45,463
Other tangible fixed assets	22,355	23,475	22,742
Total tangible fixed assets	<u>1,021,066</u>	<u>1,030,435</u>	<u>1,066,005</u>
Intangible fixed assets:			
Software	38,742	31,945	25,608
Goodwill	403	501	706
Other intangible fixed assets	2,399	2,741	3,782
Total intangible fixed assets	<u>41,545</u>	<u>35,188</u>	<u>30,097</u>
Investments:			
Investments in securities	77,456	79,332	84,652
Long-term loans receivable	27,441	56,790	35,444
Deferred income taxes	29,734	23,723	27,089
Other investments	60,031	71,454	71,061
Allowance for bad debts	(4,082)	(4,169)	(3,020)
Total investments	<u>190,581</u>	<u>227,132</u>	<u>215,226</u>
Total fixed assets	<u>1,253,192</u>	<u>1,292,756</u>	<u>1,311,329</u>
III. Deferred charges:			
Bond issuance expenses	-	-	19
Total deferred charges	<u>-</u>	<u>-</u>	<u>19</u>
Total assets	<u>¥1,767,037</u>	<u>¥1,836,371</u>	<u>¥1,771,035</u>

	September 30, 2002	March 31, 2002	September 30, 2001
	<i>(Millions of yen)</i>		
Liabilities			
I. Current liabilities:			
Accounts payable – trade	¥ 163,903	¥ 161,936	¥ 170,596
Short-term loans	22,255	56,627	22,381
Current portion of bonds	106,845	60,000	60,000
Current portion of long-term loans	94,683	90,405	84,588
Accrued income taxes	5,861	2,569	5,414
Deferred income taxes	30	54	57
Other current liabilities	190,452	186,018	182,280
Total current liabilities	584,030	557,610	525,319
II. Non-current liabilities:			
Bonds	232,350	297,859	357,859
Long-term loans	523,160	579,504	444,951
Accrued pension and severance costs	107,402	102,405	100,258
Deferred income taxes	423	534	2,639
Other non-current liabilities	38,177	43,856	36,057
Total non-current liabilities	901,514	1,024,159	941,765
Total liabilities	1,485,544	1,581,770	1,467,085
Minority interests	23,795	25,943	26,418
Stockholders' equity			
I. Common stock	188,550	188,550	188,550
II. Capital surplus	32,516	32,516	32,516
III. Retained earnings	45,375	11,774	64,670
. Net unrealized (loss) gain on investments in securities, net of taxes	(659)	852	169
V. Translation adjustments	(7,577)	(4,719)	(8,133)
VI. Common stock in treasury, at cost	(507)	(317)	(242)
Total stockholders' equity	257,697	228,657	277,531
Total liabilities and stockholders' equity	¥1,767,037	¥1,836,371	¥1,771,035

(2) - II

Japan Airlines System Corporation
Japan Airlines Company, Ltd.
Consolidated Statements of Operations

*For the six months ended September 30, 2002 and 2001
and the year ended March 31, 2002*

	Six months ended September 30, 2002	Six months ended September 30, 2001	Year ended March 31, 2002
	<i>(Millions of yen)</i>		
Operating revenues	¥858,159	¥871,259	¥1,608,689
Operating expenses:			
Cost of operating revenues	651,935	649,593	1,270,892
Selling, general and administrative expenses	177,671	182,709	349,722
Total operating expenses	829,607	832,302	1,620,614
Operating income (loss)	28,552	38,956	(11,925)
Non-operating income:			
Interest and dividend income	1,610	2,084	3,673
Equity in earnings of affiliates	564	851	–
Exchange gain, net	–	–	3,354
Other income	31,367	6,730	14,522
Total non-operating income	33,542	9,666	21,550
Non-operating expenses:			
Interest expense	13,663	15,551	30,198
Equity in losses of affiliates	–	–	258
Exchange loss, net	1,461	1,616	–
Other expenses	9,385	7,579	16,283
Total non-operating expenses	24,510	24,748	46,739
Ordinary income (loss)	37,583	23,874	(37,115)
Extraordinary profit:			
Gain on sales of fixed assets	23	280	5,933
Gain on sales of investments in securities	854	1,647	13,151
Other extraordinary profit	2,544	262	1,213
Total extraordinary profit	3,422	2,189	20,298
Extraordinary loss:			
Loss on disposal of fixed assets	3,572	971	3,414
Loss on operations of affiliates	–	–	5,622
Loss on revaluation of investments in securities	1,162	1,998	2,643
Other extraordinary loss	1,351	1,336	4,894
Total extraordinary loss	6,087	4,306	16,575
Income (loss) before income taxes and minority interests	34,919	21,758	(33,392)
Income taxes – current	6,001	5,211	6,341
Income taxes – deferred	(4,968)	(157)	(2,860)
Minority interests	200	306	(148)
Net income (loss)	¥ 33,685	¥ 16,397	¥ (36,725)

(2) - III

Japan Airlines System Corporation

Japan Airlines Company, Ltd.

Consolidated Statements of Capital Surplus and Retained Earnings

*For the six months ended September 30, 2002 and 2001
and the year ended March 31, 2002*

	Six months ended September 30, 2002	Six months ended September 30, 2001	Year ended March 31, 2002
		<i>(Millions of yen)</i>	
Capital surplus			
Balance at beginning of period	¥32,516	¥32,516	¥32,516
Increase	-	-	-
Decrease	-	-	-
Balance at end of period	<u>¥32,516</u>	<u>¥32,516</u>	<u>¥32,516</u>
Retained earnings			
Balance at beginning of period	¥11,774	¥53,552	¥53,552
Increase:			
Net income	33,685	16,397	-
Other	-	1,896	2,124
Decrease:			
Net loss	-	-	36,725
Other	85	7,176	7,176
Balance at end of period	<u>¥45,375</u>	<u>¥64,670</u>	<u>¥11,774</u>

(2) - IV

Japan Airlines System Corporation
Japan Airlines Company, Ltd.
Consolidated Statements of Cash Flows

*For the six months ended September 30, 2002 and 2001
and the year ended March 31, 2002*

	Six months ended September 30, 2002	Six months ended September 30, 2001	Year ended March 31, 2002
	<i>(Millions of yen)</i>		
Operating activities			
Income (loss) before income taxes and minority interests	¥ 34,919	¥ 21,758	¥(33,392)
Adjustments to reconcile income (loss) before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	46,564	43,437	89,748
Gain and loss on sales and loss on revaluation of short-term investment in securities and investments in securities, net	309	357	(10,004)
Gain and loss on sales and disposal of flight equipment spare parts, property and equipment, net	11,613	4,301	6,616
Net provision for accrued pension and severance costs	7,007	(2,495)	(358)
Interest and dividend income	(1,610)	(2,084)	(3,673)
Interest expense	13,663	15,551	30,198
Exchange (gain) loss	(96)	449	(436)
Equity in (earnings) losses of affiliates	(564)	(851)	258
Decrease (increase) in notes and accounts receivable	8,409	(157)	(6,073)
Decrease (increase) in supplies	521	(2,784)	(239)
Increase (decrease) in accounts payable	3,035	2,684	(7,130)
Other	(4,784)	(5,314)	(4,859)
Subtotal	118,987	74,853	60,654
Interest and dividends received	2,037	2,241	3,893
Interest paid	(12,977)	(13,668)	(29,437)
Income taxes paid	(2,700)	(6,542)	(10,520)
Net cash provided by operating activities	105,347	56,883	24,589
Investing activities			
Purchases of time deposits	(20)	(782)	(1,347)
Proceeds from maturity of time deposits	1,255	1,358	2,347
Purchases of short-term investments in securities	-	-	(654)
Proceeds from sales of short-term investments in securities	289	685	695
Purchases of fixed assets	(87,818)	(47,086)	(102,839)
Proceeds from sales of fixed assets	34,524	8,481	43,651
Purchases of investment securities	(90)	(802)	(1,335)
Proceeds from sales of investments in securities	185	347	16,960
Proceeds from sales of consolidated subsidiaries	-	3,280	3,940
Proceeds from sales of consolidated subsidiaries resulting in change in scope of consolidation	683	-	1,511
Addition of long-term loans receivable	(1,753)	(2,898)	(42,276)
Reduction of long-term loans receivable	31,303	3,308	22,891
Other	7,222	2,449	4,672
Net cash used in investing activities	(14,217)	(31,659)	(51,780)

	Six months ended September 30, 2002	Six months ended September 30, 2001	Year ended March 31, 2002
	<i>(Millions of yen)</i>		
Financing activities			
(Decrease) increase in short-term loans	¥ (34,916)	¥ (8,097)	¥ 33,473
Proceeds from long-term loans	11,349	5,983	192,750
Repayment of long-term loans	(63,134)	(41,371)	(87,216)
Redemption of bonds	(18,664)	–	(60,000)
Proceeds from sales of common stock in treasury	182	101	101
Purchases of common stock in treasury	(258)	(95)	(171)
Dividends paid to stockholders of the Company	(46)	(7,074)	(7,089)
Dividends paid to minority interests	(279)	(307)	(379)
Other	(203)	(181)	80
Net cash (used in) provided by financing activities	(105,971)	(51,043)	71,548
Effect of exchange rate changes on cash and cash equivalents	(671)	(216)	1,666
Net (decrease) increase in cash and cash equivalents	(15,512)	(26,035)	46,023
Cash and cash equivalents at beginning of period	169,027	121,972	121,972
Increase in cash and cash equivalents arising from inclusion in consolidation	–	1,089	1,030
Decrease in cash and cash equivalents arising from exclusion from consolidation	(212)	–	–
Cash and cash equivalents at end of period	¥153,301	¥ 97,025	¥169,027
Reconciliation between cash and time deposits and cash and cash equivalents			
Cash and time deposits in balance sheet	¥142,952	¥ 76,372	¥119,124
Time deposits with original maturity of more than three months	(773)	(2,579)	(2,197)
Marketable securities with original maturity of three months or less	13,841	22,796	13,855
Other current assets with original maturity of three months or less	–	9,999	40,393
Current account overdraft including short-term loans	(2,718)	(9,562)	(2,149)
Cash and cash equivalents at end of period	¥153,301	¥ 97,025	¥169,027

Japan Airlines System Corporation
Japan Airlines Company, Ltd.
Notes to Consolidated Interim Financial Statements

September 30, 2002 and 2001 and March 31, 2002

1. Summary of Significant Accounting Policies

a. Basis of presentation

On October 2, 2002, Japan Airlines Company, Ltd. (the “Company”) established Japan Airlines System Corporation “JALS”, a holding company, with Japan Air System Co., Ltd. “JAS” by means of a transfer of shares in accordance with the Commercial Code of Japan. As a result, the Company became a wholly-owned subsidiary of JALS.

The Company and consolidated domestic subsidiaries maintain their accounting records and prepare their financial statements in accordance with accounting principles and practices generally accepted and applied in Japan, and the consolidated foreign subsidiaries in conformity with those of their countries of domicile. The accompanying consolidated interim financial statements have been compiled from the consolidated financial statements to be 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. Accordingly, the accompanying consolidated interim financial statements are not intended to present the consolidated financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

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 interim financial statements 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.

b. Principles of consolidation and accounting for investments in affiliates

The consolidated interim financial statements include the accounts of the Company and all significant subsidiaries. All significant intercompany accounts and transactions and unrealized gain or loss on intercompany accounts and transactions have been eliminated.

The balance sheet dates of 27 and 2 of the consolidated subsidiaries are June 30, 2002 and July 31, 2002, respectively. Any significant differences in intercompany accounts and transactions arising from intervening intercompany transactions during the respective periods from July 1, 2002 through September 30, 2002 and from August 1, 2002 though September 30, 2002, have been adjusted if necessary.

Investments in certain unconsolidated subsidiaries and significant affiliates are accounted for by the equity method.

1. Summary of Significant Accounting Policies (continued)

b. Principles of consolidation and accounting for investments in affiliates (continued)

The assets and liabilities of newly consolidated subsidiaries are stated at fair value as of their respective acquisition dates. The differences between the cost and the underlying net equity in 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 five years.

c. Cash equivalents

The Company and its consolidated subsidiaries define cash equivalents as highly liquid, short-term investments with an original maturity of three months or less.

d. Investments in securities

Investments in marketable securities are stated at fair value and net unrealized gain or loss on such securities is accounted for as a separate component of stockholders' equity. Investments in non-marketable securities are stated at cost. Cost of securities sold is determined principally by the moving average method.

e. Derivatives

Derivatives are stated at fair value.

f. Supplies

Supplies are principally stated at cost based on the moving average method.

g. Property and equipment

Tangible fixed assets:

Flight equipment:

Aircraft and spare engines	The straight-line method or declining-balance method based on their estimated useful lives
----------------------------	--

Spare parts contained in flight equipment	Principally the declining-balance method based on each type of aircraft's or engine's estimated useful life
---	---

Ground property and equipment	Principally the straight-line method based on their estimated useful lives
-------------------------------	--

Intangible fixed assets:

Software	Computer software intended for internal use is amortized by the straight-line method based on the estimated useful life of the software.
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h. Bond issuance expenses

Bond issuance expenses are principally capitalized and amortized over a period of three years.

1. Summary of Significant Accounting Policies (continued)

i. Accrued pension and severance costs

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

The unrecognized benefit obligation at transition is being amortized by the straight-line method principally over a period of fifteen years. The actuarial assumption adjustment is being amortized by straight-line method principally over a period of fifteen years. Amortization is computed commencing the fiscal year subsequent to the year in which the adjustment was recorded. Past service cost is principally charged to income in the period when 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.

j. Allowance for bad debts

The allowance for bad debts on certain receivables is provided at the estimated unrecoverable amount. The allowance for bad debts on other receivables is provided based on the historical rate of losses on receivables.

k. Foreign currency accounts

Foreign currency receivables and payables are translated into yen at the applicable exchange rates at the end of period. Unrealized exchange gain or loss is charged to income.

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 exchange rates at the end of period are included in minority interests and stockholders' equity as a separate component.

l. Leases

As lessee

The Company and its consolidated subsidiaries lease certain equipment under noncancelable lease agreements referred to as capital leases. At the Company and the domestic subsidiaries, 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.

1. Summary of Significant Accounting Policies (continued)

m. Hedge accounting

Gain or loss on derivatives designated as hedges is deferred until the loss or gain on the underlying hedged item is recognized.

Foreign receivables and payables are translated at the forward foreign exchange rate if certain conditions are met.

The related interest differential paid or received under interest rate swaps is recognized over the term of the swap agreement as interest expense if certain conditions are met.

n. Appropriation of retained earnings

Under the Commercial Code of Japan, the appropriation of retained earnings 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.

2. Other Information

- a. Accumulated depreciation at September 30, 2002 and March 31, 2002 and September 30, 2001 amounted to ¥1,339,451 million, ¥1,318,841 million and ¥1,312,492 million, respectively.
- b. At September 30, 2002 and March 31, 2002 and September 30, 2001, contingent liabilities for guarantees amounted to ¥11,839 million, ¥13,647 million and ¥17,819 million, respectively. In addition, at September 30, 2002 and March 31, 2002 and September 30, 2001, contingent liabilities for commitments such as guarantees, keep-well agreements and others amounted to ¥2,724 million, ¥2,835 million and ¥3,101 million, respectively.
- c. At September 30, 2002 and March 31, 2002 and September 30, 2001, the Company was liable under debt assumption agreements for the in-substance defeasance of certain bonds in aggregate amounts of ¥50,000 million, ¥50,000 million and ¥50,000 million, respectively.
- d. At September 30, 2002 and March 31, 2002 and September 30, 2001, common stock in treasury stated at cost amounted to ¥507 million (1,549,253 shares), ¥317 million (776,483 shares) and ¥242 million (550,784 shares), respectively.

3. Fair Value of Marketable Securities

The components of net unrealized gain or loss on investments in marketable securities, accounted for as a separate component of stockholders' equity, net of taxes, at September 30, 2002 and 2001 and March 31, 2002 are summarized as follows:

September 30, 2002			
	Acquisition costs	Carrying value	Net unrealized loss
<i>(Millions of yen)</i>			
Stocks	¥19,601	¥18,812	¥(788)
Bonds	7,236	7,176	(60)
Other	1,347	1,345	(1)
	<u>¥28,185</u>	<u>¥27,333</u>	<u>¥(851)</u>
September 30, 2001			
	Acquisition costs	Carrying value	Net unrealized gain (loss)
<i>(Millions of yen)</i>			
Stocks	¥21,994	¥22,621	¥ 627
Bonds	8,435	8,506	70
Other	2,223	2,099	(123)
	<u>¥32,653</u>	<u>¥33,228</u>	<u>¥ 574</u>
March 31, 2002			
	Acquisition costs	Carrying value	Net unrealized gain (loss)
<i>(Millions of yen)</i>			
Stocks	¥20,740	¥22,313	¥1,573
Bonds	7,187	7,044	(142)
Other	1,745	1,728	(17)
	<u>¥29,673</u>	<u>¥31,086</u>	<u>¥1,413</u>

Investments in non-marketable securities at September 30, 2002 and 2001 and March 31, 2002 amounted to ¥32,414 million, ¥43,216 million and ¥32,666 million, respectively.

4. Leases

As lessee

The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of the leased property as of September 30, 2002 and 2001 and March 31, 2002, and the related depreciation and interest expense for the six months ended September 30, 2002 and 2001 and the year ended March 31, 2002, which would have been reflected in the balance sheets and the related statements of operations if capital lease accounting had been applied to the capital leases currently accounted for as operating leases:

	September 30, 2002		
	Flight equipment	Ground property and equipment	Total
	<i>(Millions of yen)</i>		
Acquisition costs	¥398,834	¥8,310	¥407,144
Less accumulated depreciation	183,462	5,817	189,279
Net book value	<u>¥215,372</u>	<u>¥2,493</u>	<u>¥217,865</u>
	September 30, 2001		
	Flight equipment	Ground property and equipment	Total
	<i>(Millions of yen)</i>		
Acquisition costs	¥406,858	¥16,524	¥423,383
Less accumulated depreciation	224,651	12,219	236,871
Net book value	<u>¥182,206</u>	<u>¥4,305</u>	<u>¥186,511</u>
	March 31, 2002		
	Flight equipment	Ground property and equipment	Total
	<i>(Millions of yen)</i>		
Acquisition costs	¥390,140	¥15,086	¥405,226
Less accumulated depreciation	219,564	11,649	231,214
Net book value	<u>¥170,575</u>	<u>¥ 3,436</u>	<u>¥174,012</u>
	Six months ended September 30, 2002	Six months ended September 30, 2001	Year ended March 31, 2002
	<i>(Millions of yen)</i>		
Depreciation expense	<u>¥18,835</u>	<u>¥19,799</u>	<u>¥39,607</u>
Interest expense	<u>¥ 2,521</u>	<u>¥ 3,535</u>	<u>¥ 5,995</u>

4. Leases (continued)

As lessee (continued)

Lease expenses relating to capital leases accounted for as operating leases amounted to ¥22,781 million for the six months ended September 30, 2002, ¥23,945 million for the six months ended September 30, 2001, and ¥48,816 million for the year ended March 31, 2002.

The present value of future rental expenses under capital leases accounted for as operating leases outstanding at September 30, 2002 and 2001 and March 31, 2002 is summarized as follows:

	September 30, 2002	September 30, 2001	March 31, 2002
	<i>(Millions of yen)</i>		
Within 1 year	¥ 38,047	¥ 39,398	¥ 38,417
Over 1 year	189,526	162,821	148,777
	<u>¥227,573</u>	<u>¥202,219</u>	<u>¥187,194</u>

Future rental expenses under operating leases outstanding at September 30, 2002 and 2001 and March 31, 2002 are summarized as follows:

	September 30, 2002	September 30, 2001	March 31, 2002
	<i>(Millions of yen)</i>		
Within 1 year	¥11,463	¥ 16,069	¥ 13,899
Over 1 year	76,818	85,132	86,653
	<u>¥88,282</u>	<u>¥101,202</u>	<u>¥100,552</u>

As lessor

The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of the leased property as of September 30, 2002 and 2001 and March 31, 2002 and the related depreciation and interest revenue for the six months ended September 30, 2002 and 2001 and the year ended March 31, 2002, which would have been reflected in the balance sheets and the related statements of operations if direct financing lease accounting had been applied to the capital leases currently accounted for as operating leases:

	September 30, 2002		
	Flight equipment	Ground property and equipment	Total
	<i>(Millions of yen)</i>		
Acquisition costs	¥348	¥2,725	¥3,073
Less accumulated depreciation	272	2,027	2,299
Net book value	<u>¥ 75</u>	<u>¥ 698</u>	<u>¥ 773</u>

4. Leases (continued)

As lessor (continued)

	September 30, 2001		
	Flight equipment	Ground property and equipment	Total
	<i>(Millions of yen)</i>		
Acquisition costs	¥348	¥4,272	¥4,620
Less accumulated depreciation	237	3,083	3,320
Net book value	¥110	¥1,188	¥1,299
	March 31, 2002		
	Flight equipment	Ground property and equipment	Total
	<i>(Millions of yen)</i>		
Acquisition costs	¥348	¥3,925	¥4,273
Less accumulated depreciation	255	2,999	3,254
Net book value	¥ 92	¥ 926	¥1,018
	Six months ended September 30, 2002	Six months ended September 30, 2001	Year ended March 31, 2002
	<i>(Millions of yen)</i>		
Depreciation expense	¥251	¥364	¥711
Interest expense	¥ 24	¥ 43	¥ 80

Lease revenues relating to direct financing leases accounted for as operating leases amounted to ¥337 million for the six months ended September 30, 2002, ¥437 million for the six months ended September 30, 2001, and ¥852 million 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 September 30, 2002 and 2001 and at March 31, 2002 is summarized as follows:

	September 30, 2002	September 30, 2001	March 31, 2002
	<i>(Millions of yen)</i>		
Within 1 year	¥361	¥ 637	¥ 492
Over 1 year	477	776	610
	¥838	¥1,414	¥1,103

4. Leases (continued)

As lessor (continued)

Future rental revenues under operating leases outstanding at September 30, 2002 and 2001 and March 31, 2002 are summarized as follows:

	September 30, 2002	September 30, 2001	March 31, 2002
	<i>(Millions of yen)</i>		
Within 1 year	¥48	¥ 396	¥96
Over 1 year	–	1,572	–
	<u>¥48</u>	<u>¥1,968</u>	<u>¥96</u>

5. Segment Information

The Company and its consolidated subsidiaries conduct worldwide operations in air transportation, travel services, hotel and resort operations, card and lease operations, trading and other airline-related business. This segmentation has been made for internal management purposes. Businesses other than the air transportation business, travel services, and hotel and resort operations are insignificant to the consolidated results of operations of the Company and its consolidated subsidiaries and, accordingly, have been included in “Other.”

a. Business segment information

Business segment information of the Company and its consolidated subsidiaries for the six months ended September 30, 2002 and 2001 and the year ended March 31, 2002 is summarized as follows:

	Six months ended September 30, 2002						
	Air trans- portation	Travel services	Hotel and resort operations	Other	Total	Eliminations	Consolidated
	<i>(Millions of yen)</i>						
Sales to outside parties	¥578,955	¥179,924	¥16,545	¥ 82,734	¥ 858,159	¥ –	¥858,159
Intra-group sales and transfers	91,937	18,842	2,452	109,987	223,219	(223,219)	–
Total	670,892	198,766	18,997	192,722	1,081,378	(223,219)	858,159
Operating expenses	647,670	197,035	18,994	189,178	1,052,879	(223,272)	829,607
Operating income	<u>¥ 23,222</u>	<u>¥ 1,730</u>	<u>¥ 2</u>	<u>¥ 3,543</u>	<u>¥ 28,499</u>	<u>¥ 52</u>	<u>¥ 28,552</u>

5. Segment Information (continued)

a. Business segment information (continued)

	Six months ended September 30, 2001						
	Air trans- portation	Travel services	Hotel and resort operations	Other	Total	Eliminations	Consolidated
	<i>(Millions of yen)</i>						
Sales to outside parties	¥576,497	¥188,205	¥17,629	¥ 88,926	¥ 871,259	¥ –	¥871,259
Intra-group sales and transfers	97,018	17,962	2,551	125,065	242,596	(242,596)	–
Total	673,515	206,167	20,180	213,991	1,113,855	(242,596)	871,259
Operating expenses	641,122	205,197	19,256	207,876	1,073,452	(241,150)	832,302
Operating income	¥ 32,393	¥ 970	¥ 923	¥ 6,115	¥ 40,403	¥ (1,446)	¥ 38,956

	Year ended March 31, 2002						
	Air trans- portation	Travel services	Hotel and resort operations	Other	Total	Eliminations	Consolidated
	<i>(Millions of yen)</i>						
Sales to outside parties	¥1,061,954	¥326,991	¥33,355	¥186,387	¥1,608,689	¥ –	¥1,608,689
Intra-group sales and transfers	174,054	33,004	4,975	239,550	451,585	(451,585)	–
Total	1,236,009	359,996	38,331	425,937	2,060,275	(451,585)	1,608,689
Operating expenses	1,249,682	365,065	38,147	418,818	2,071,714	(451,100)	1,620,614
Operating (loss) income	¥ (13,673)	¥ (5,068)	¥ 183	¥ 7,118	¥ (11,439)	¥ (485)	¥ (11,925)

b. Operating revenues from foreign operations

Operating revenues from foreign operations, which include international passenger and cargo services of the Company and two domestic subsidiaries, export sales of domestic subsidiaries, and sales of subsidiaries outside Japan, for the six months ended September 30, 2002 and 2001 and the year ended March 31, 2002 were as follows:

	Six months ended September 30, 2002			
	Asia and Oceania	North and South America	Europe	Total
	<i>(Millions of yen)</i>			
Operating revenues from foreign operations	¥203,147	¥154,874	¥106,472	¥464,495
Consolidated operating revenues				¥858,159
Operating revenues from foreign operations as a percentage of consolidated operating revenues	23.7%	18.0%	12.4%	54.1%

5. Segment Information (continued)

b. Operating revenues from foreign operations (continued)

	Six months ended September 30, 2001			
	Asia and Oceania	North and South America	Europe	Total
	<i>(Millions of yen)</i>			
Operating revenues from foreign operations	¥200,740	¥171,194	¥113,717	¥485,652
Consolidated operating revenues				¥871,259
Operating revenues from foreign operations as a percentage of consolidated operating revenues	23.0%	19.6%	13.1%	55.7%

	Year ended March 31, 2002			
	Asia and Oceania	North and South America	Europe	Total
	<i>(Millions of yen)</i>			
Operating revenues from foreign operations	¥385,755	¥302,981	¥188,233	¥ 876,970
Consolidated operating revenues				¥1,608,689
Operating revenues from foreign operations as a percentage of consolidated operating revenues	24.0%	18.8%	11.7%	54.5%

c. Geographic information

For the six months ended September 30, 2002 and 2001 and the year ended March 31, 2002, operating revenues from operations in Japan represented more than 90% of consolidated operating revenues. As a result, geographic information is not required to be disclosed in accordance with accounting principles generally accepted in Japan.

6. Subsequent Event

On October 2, 2002, the Company established JALS, a holding company, with JAS by means of a transfer of shares in accordance with the Commercial Code of Japan. As a result, the Company and JAS became wholly-owned subsidiaries of JALS.

Components of Revenues in the Air Transportation Segment

	Six months ended September 30, 2002		Six months ended September 30, 2001		Year ended March 31, 2002	
	<u>Amount</u>	<u>Percentage</u>	<u>Amount</u>	<u>Percentage</u>	<u>Amount</u>	<u>Percentage</u>
International:						
Passenger operations	¥343,548	51.2	¥354,526	52.6	¥ 612,727	49.6
Cargo operations	73,399	10.9	64,864	9.6	133,725	10.8
Mail service operations	3,871	0.6	3,858	0.6	8,227	0.7
Luggage operations	1,283	0.2	1,257	0.2	2,560	0.2
Subtotal	<u>422,103</u>	<u>62.9</u>	<u>424,507</u>	<u>63.0</u>	<u>757,240</u>	<u>61.3</u>
Domestic:						
Passenger operations	167,222	24.9	168,738	25.1	324,950	26.3
Cargo operations	9,499	1.4	10,098	1.5	19,618	1.6
Mail-service operations	3,083	0.5	3,042	0.4	6,284	0.5
Luggage operations	71	0.0	67	0.0	132	0.0
Subtotal	<u>179,876</u>	<u>26.8</u>	<u>181,946</u>	<u>27.0</u>	<u>350,986</u>	<u>28.4</u>
Other revenues	20,474	3.1	17,976	2.7	36,769	3.0
Incidental business revenues	48,438	7.2	49,085	7.3	91,013	7.4
Total revenues	<u>¥670,892</u>	<u>100.0</u>	<u>¥673,515</u>	<u>100.0</u>	<u>¥1,236,009</u>	<u>100.0</u>

Japan Airlines System Corporation
Japan Airlines Company, Ltd.
Non-Consolidated Interim Financial Information

*For the six months ended September 30, 2002 and 2001
and the year ended March 31, 2002*

Non-Consolidated Financial Highlights

(As permitted by the Securities and Exchange Law of Japan, amounts of less than one million yen have been omitted.)

1. Non-Consolidated Operating Results

(Millions of yen except for per share information)

(i) Total operating revenues:	FH02	¥ 635,899	(-0.3%)
	FH01	¥ 637,699	(-1.2%)
	FY01	¥1,169,499	
(ii) Operating income (loss):	FH02	¥ 19,111	(-31.8%)
	FH01	¥ 28,032	(-50.5%)
	FY01	¥ (16,360)	
(iii) Ordinary income (loss):	FH02	¥ 28,425	(117.3%)
	FH01	¥ 13,078	(-68.5%)
	FY01	¥ (41,534)	
(iv) Net income (loss):	FH02	¥ 31,204	(156.7%)
	FH01	¥ 12,154	(-68.4%)
	FY01	¥ (34,874)	
(v) Net income (loss) per share:	FH02	¥ 17.50	
	FH01	¥ 6.82	
	FY01	¥ (19.56)	

Note 1. Weighted average number of shares outstanding during period:

September 30, 2002	1,782,970,748
September 30, 2001	1,783,473,439
March 31, 2002	1,783,412,130

2. Dividends

(i) Annual dividend per share:	FH02	—
	FH01	—
	FY01	0.00
(ii) Semiannual dividend per share:	FH02	—
	FH01	—
	FY01	—

3. Non-Consolidated Financial Position

(i) Total assets:	FH02	¥1,469,343 million
	FH01	¥1,435,902 million
	FY01	¥1,480,101 million
(ii) Total stockholders' equity:	FH02	¥ 260,194 million
	FH01	¥ 277,189 million
	FY01	¥ 230,685 million
(iii) Stockholders' equity ratio:	FH02	17.7%
	FH01	19.3%
	FY01	15.6%
(iv) Stockholders' equity per share:	FH02	¥ 145.98
	FH01	¥ 155.42
	FY01	¥ 129.36

Note 1. Number of shares outstanding at end of period:

September 30, 2002	1,782,417,216
September 30, 2001	1,783,473,439
March 31, 2002	1,783,240,556

Note 2. Number of shares of common stock in treasury outstanding at end of period:

September 30, 2002	1,056,223
September 30, 2001	7,184
March 31, 2002	232,883

Japan Airlines System Corporation
Japan Airlines Company, Ltd.
Comparative Non-Consolidated Balance Sheets

	September 30, 2002	March 31, 2002	September 30, 2001
	<i>(Millions of yen)</i>		
Assets			
I. Current assets:			
Cash and time deposits	¥ 82,020	¥ 64,565	¥ 24,341
Accounts receivable	166,351	177,214	169,028
Short-term investments in securities	13,822	13,818	19,774
Supplies	56,822	55,792	58,013
Prepaid expenses	8,203	8,232	6,875
Deferred income taxes	8,763	10,372	7,579
Other current assets	58,198	55,832	50,476
Allowance for bad debts	(632)	(664)	(589)
Total current assets	393,548	385,164	335,499
II. Fixed assets:			
Tangible fixed assets:			
Buildings	95,479	98,319	113,602
Structures	3,903	4,070	4,361
Machinery and equipment	21,434	23,101	23,836
Flight equipment	596,277	585,056	594,437
Vehicles	1,468	1,242	1,194
Tools and parts	11,353	11,333	11,549
Land	46,599	46,737	47,267
Construction in progress	33,087	34,755	37,529
Total tangible fixed assets	809,604	804,616	833,777
Intangible fixed assets:			
Software	32,165	27,006	21,650
Other intangible fixed assets	455	614	906
Total intangible fixed assets	32,620	27,620	22,556
Investments:			
Investments in securities	64,154	65,129	67,650
Investments in subsidiaries	97,592	100,937	101,191
Long-term loans receivable	20,789	48,778	25,992
Long-term prepaid expenses	4,098	4,000	4,535
Deferred income taxes	19,931	12,470	15,630
Other investments	28,564	32,857	30,449
Allowance for bad debts	(1,560)	(1,473)	(1,401)
Total investments	233,569	262,699	244,048
Total fixed assets	1,075,795	1,094,937	1,100,383
III. Deferred charges:			
Bond issuance expenses	-	-	19
Total deferred charges	-	-	19
Total assets	¥1,469,343	¥1,480,101	¥1,435,902

	September 30, 2002	March 31, 2002	September 30, 2001
	<i>(Millions of yen)</i>		
Liabilities			
I. Current liabilities:			
Accounts payable – trade	¥ 153,385	¥ 152,693	¥ 163,597
Current portion of long-term loans	48,285	37,202	39,975
Current portion of bonds	106,845	60,000	60,000
Accounts payable – other	18,906	18,764	15,801
Accrued income taxes	15	40	17
Accrued expenses	38,966	37,329	37,875
Advances received	32,883	30,141	32,569
Deposits received	19,391	20,239	17,083
Air transport deposits	24,394	22,646	24,748
Other current liabilities	20,287	15,605	7,993
Total current liabilities	463,362	394,664	399,662
II. Non-current liabilities:			
Bonds	232,000	297,509	357,509
Long-term loans	361,254	401,599	252,963
Accrued pension and severance costs	85,467	79,942	78,828
Reserve for loss on investments in subsidiaries and affiliates	10,016	10,595	4,286
Other non-current liabilities	57,048	65,105	65,462
Total non-current liabilities	745,786	854,751	759,050
Total liabilities	1,209,149	1,249,416	1,158,713
Stockholders' equity			
I. Common stock	188,550	188,550	188,550
II. Capital surplus:			
Additional paid-in capital	32,516	32,516	32,516
III. Retained earnings:			
Legal reserve	1,782	1,782	1,782
Reserve for special depreciation	4,911	6,026	6,026
Retained earnings brought forward	33,345	1,025	48,055
Total retained earnings	40,038	8,834	55,864
IV. Net unrealized (loss) gain on investments in securities, net of taxes	(575)	861	258
V. Common stock in treasury, at cost	(336)	(77)	–
Total stockholders' equity	260,194	230,685	277,189
Total liabilities and stockholders' equity	¥1,469,343	¥1,480,101	¥1,435,902

Japan Airlines System Corporation
Japan Airlines Company, Ltd.
Comparative Non-Consolidated Statements of Operations

	Six months ended September 30, 2002	Six months ended September 30, 2001	Year ended March 31, 2002
	<i>(Millions of yen)</i>		
Operating revenues	¥635,899	¥637,699	¥1,169,499
Operating expenses:			
Cost of operating revenues	496,439	491,572	962,052
Selling, general and administrative expenses	120,348	118,094	223,807
Total operating expenses	616,788	609,666	1,185,859
Operating income (loss)	19,111	28,032	(16,360)
Non-operating income:			
Interest and dividend income	2,120	2,481	3,453
Gain on sales of flight equipment	–	–	1,138
Exchange gain, net	–	–	2,111
Other income	29,483	5,129	10,491
Total non-operating income	31,604	7,610	17,194
Non-operating expenses:			
Interest expense	12,571	13,827	27,109
Exchange loss, net	955	1,533	–
Other expenses	8,763	7,203	15,258
Total non-operating expenses	22,290	22,564	42,368
Ordinary income (loss)	28,425	13,078	(41,534)
Extraordinary profit:			
Gain on sales of fixed assets	2	267	5,904
Gain on sales of investments in securities	98	–	11,412
Gain on sales of investments in subsidiaries	559	1,004	1,302
Total extraordinary profit	660	1,272	18,619
Extraordinary loss:			
Loss on disposal of fixed assets	994	401	2,277
Special termination benefits	549	356	920
Loss on revaluation of investments in securities	1,112	1,311	2,211
Provision for loss on investments in subsidiaries and affiliates	–	–	6,267
Total extraordinary loss	2,656	2,069	11,676
Income (loss) before income taxes	26,429	12,281	(34,592)
Income taxes – current	138	135	282
Income taxes – deferred	(4,914)	(9)	–
Net income (loss)	31,204	12,154	(34,874)
Retained earnings brought forward	2,141	35,900	35,900
Retained earnings at end of period	¥ 33,345	¥ 48,055	¥ 1,025

Japan Airlines System Corporation
Japan Airlines Company, Ltd.
Notes to Non-Consolidated Interim Financial Statements

September 30 and March 31, 2002 and September 30, 2001

1. Basis of Presentation

On October 2, 2002, Japan Airlines Company, Ltd. (the “Company”) established Japan Airlines System Corporation “JALS”, a holding company, with Japan Air System Co., Ltd. “JAS” by means of a transfer of shares in accordance with the Commercial Code of Japan. As a result, the Company became a wholly-owned subsidiary of JALS.

The purpose of the accompanying non-consolidated interim financial statements as of and for the six months ended September 30, 2002 and 2001 is to provide useful accounting information on the Company for the semiannual financial period.

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 non-consolidated interim financial statements 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.

2. Other Information

- (1) At September 30 and March 31, 2002 and September 30, 2001, accumulated depreciation amounted to ¥1,015,799 million, ¥995,288 million and ¥986,441 million, respectively.
- (2) At September 30 and March 31, 2002 and September 30, 2001, contingent liabilities for guarantees, amounted to ¥17,838 million, ¥14,355 million and ¥16,108 million, respectively. In addition, at September 30 and March 31, 2002 and September 30, 2001, contingent liabilities for commitments such as guarantees, keep-well agreements and others, amounted to ¥41,024 million, ¥37,077 million and ¥38,318 million, respectively.
- (3) At September 30 and March 31, 2002 and September 30, 2001, the Company was liable under debt assumption agreements for in-substance defeasance of certain bonds in aggregate amounts of ¥50,000 million, ¥50,000 million and ¥50,000 million, respectively.
- (4) At September 30 and March 31, 2002 and September 30, 2001, common stock in treasury stated at cost amounted to ¥336 million, ¥77 million and ¥2 million, respectively.

2. Other Information (continued)

- (5) At September 30, 2002, investments in marketable securities of subsidiaries and affiliates were as follows:

<u>Carrying value</u>	<u>Market value</u>
<i>(Millions of yen)</i>	
<u>¥11,313</u>	<u>¥12,599</u>

3. Subsequent Event

On October 2, 2002, the Company established JALS, a holding company, with JAS by means of a transfer of shares in accordance with the Commercial Code of Japan. As a result, the Company and JAS became wholly-owned subsidiaries of JALS.

Japan Air System (JAS) Performance and Financial Highlights

1.6-Month Overview

While the six-month period under review (April to September 2002) witnessed an increase in the number of flights departing from and arriving at Tokyo's Haneda Airport, we moved to cut the number of flights to and from Kansai International, Sendai, and other airports. In conjunction with improved management of our business segments, we actively initiated measures to stimulate demand in the clearly worsening domestic passenger market, measures which included discounting a variety of individual passenger fares. Despite these proactive efforts, our total number of passengers was down slightly year-on-year.

In international routes, we moved to boost efficiency by cutting flights to and from Kansai International Airport and shifting all such routes to Narita Airport. Passenger numbers, however, fell sharply compared with the same period of the previous year.

The current economic downturn also affected the cargo transport business (including air mail), with the total amount of freight shipped down slightly for the six months under review. Businesses operated by affiliated companies were also hurt by deteriorating economic conditions, suffering lower revenues year-on-year.

The aforementioned conditions pulled operating revenues for the Group 6.6% lower than the previous year to end at ¥207.4 billion.

On the other hand, the Group's successful efforts to trim costs despite rising insurance premiums, airport security costs and other expenses stemming from the September 11 terrorist attacks, resulted in operating expenses of ¥201.0 billion, or 3.5% lower than the previous year. Operating income, though, fell 53.2% to ¥6.4 billion, ordinary income was down 32.1% at ¥6.3 billion and net income for the period under review declined 30.1% to ¥3.4 billion).

Detailed performance figures for each business segment are found below.

Air Transportation Operations

As previously mentioned, while new flights were added on six domestic routes, including flights between Tokyo (Haneda) and Aomori, during the six months under review, the Company reduced overall flights primarily to and from Kansai International and Sendai airports. Moreover, the Company assumed operation of a portion of Japan Air Commuter's routes to and from Osaka's Itami Airport, in addition to the transfer of a number of routes between the cities of Sapporo and Kushiro to Hokkaido Air Systems, in a concerted effort by the Group to boost efficiency in this business segment.

Attempts were also made to stimulate consumer demand through various marketing campaigns, as well as expanded discounting on select flights, ultra-discount fare offers, the continuation of birthday discounts and other low-fare incentives for individual passengers. Despite these efforts, the Company's total number of passengers declined 2.5% to end at 11,425,000. Combined with a sharp

fall in fares per passenger, revenues from domestic customers declined 4.7% year-on-year to ¥163 billion.

In international routes, although the start of use of an additional runway at Narita Airport during the period allowed the establishment of a new route between Narita and Shanghai as well as the shifting of all Kansai International-bound JAS flights to Narita Airport, lower than expected demand – primarily during the 2002 FIFA World Cup – caused total passenger numbers to drop 14.9% from the previous year to 309,000. Declines in per passenger fares similar to those for domestic customers pulled revenues from international passengers down 21.8% to ¥8.5 billion.

Revenues in the cargo and mail transport business, hit by declines in the total volume of freight shipped, also ended the six months under review lower than the corresponding period of the previous term.

The result of these prevailing conditions in the Air Transportation segment was revenues of ¥185.9 billion and operating income of ¥6 billion.

Other Businesses

In the travel services business, efforts by JAS Nice Wing Co., Ltd. to increase sales of its *Nice Wing* brand travel packages led to favorable growth in package tours which included visits to theme parks and theatre performances in Japan.

However, the total number of travelers, including Japanese nationals traveling domestically and internationally as well as travelers of foreign nationality, rose a mere 2.8% over the previous year, partly due to the unfavorable result of cutting flights to and from Kansai International Airport.

As for retailing businesses, while the effects of the ongoing economic recession led to a decline in net sales at JAS Trading Co., Ltd.'s airport retail store division, the company's sale of food and other new merchandise online led to improved sales at its mail order division. Progress was also made in reducing merchandise inventories and upkeep costs.

As a result of the above performance, the Other Businesses segment ended the six months under review with total revenues of ¥ 21.4 billion and operating income of ¥ 0.3 billion.

2. Cash Flows

While a decline in revenues was experienced in cash flows from operating activities due to Japan's continuing recession, the early collection of trade accounts receivable resulted in a net cash inflow of ¥24.8 billion. In cash flows from investing activities, the purchase of new aircraft alongside the sell-off of unused assets resulted in a net cash outflow of ¥1.1 billion.

Meanwhile, cash flows from financing activities, due to efforts to strengthen and improve the Group's financial position through the repayment of loans and other debts, resulted in a net cash outflow of ¥19.3 billion.

The final result of the above was a ¥ 4.2billion increase during the six-month period in cash and cash equivalents, which stood at ¥16.9 billion.

Japan Airlines System Corporation
Japan Air System Co., Ltd.
Consolidated Interim Financial Information

*For the six months ended September 30, 2002 and 2001
and the year ended March 31, 2002*

1. Consolidated Financial Highlights

(As permitted by the Securities and Exchange Law of Japan, amounts of less than one million yen have been omitted.)

(1) Consolidated Operating Results for the Six Months Ended September 30, 2002 and 2001 and the Year Ended March 31, 2002

(Millions of yen except for per share information)

(i) Total operating revenues	FH02	¥207,455	(-6.6%)
	FH01	¥222,053	(5.3%)
	FY01	¥420,791	
(ii) Operating income	FH02	¥ 6,431	(-53.2%)
	FH01	¥ 13,751	(1.9%)
	FY01	¥ 10,833	
(iii) Ordinary income	FH02	¥ 6,396	(-32.1%)
	FH01	¥ 9,413	(11.9%)
	FY01	¥ 3,500	
(iv) Net income	FH02	¥ 3,421	(-30.1%)
	FH01	¥ 4,895	(73.8%)
	FY01	¥ 927	
(v) Net income per share	FH02	¥ 156.32	
	FH01	¥ 223.68	
	FY01	¥ 42.40	
(vi) Equity in earnings of unconsolidated subsidiaries and affiliates	FH02	¥ 432	
	FH01	¥ 198	
	FY01	¥ 102	

Note 1. Weighted average number of shares outstanding during period:

September 30, 2002	21,886,954
September 30, 2001	21,887,800
March 31, 2002	21,887,767

(2) Consolidated Financial Position at September 30, 2002 and 2001 and March 31, 2002

(Millions of yen except for per share information)

(i) Total assets	FH02	¥ 443,044
	FH01	¥ 465,084
	FY01	¥ 458,464
(ii) Total stockholders' equity	FH02	¥ 29,579
	FH01	¥ 30,843
	FY01	¥ 26,145
(iii) Stockholders' equity ratio	FH02	6.7%
	FH01	6.6%
	FY01	5.7%
(iv) Stockholders' equity per share	FH02	¥ 1,351.55
	FH01	¥ 1,409.15
	FY01	¥ 1,194.57

Note 1. Number of shares outstanding at end of period:

September 30, 2002	21,885,818
September 30, 2001	21,887,808
March 31, 2002	21,887,358

(3) Consolidated Cash Flows for the Six Months Ended September 30, 2002 and 2001 and the Year Ended March 31, 2002

(Millions of yen)

(i) Net cash provided by operating activities	FH02	¥ 24,862
	FH01	¥ 19,247
	FY01	¥ 15,342
(ii) Net cash used in investing activities	FH02	¥ (1,101)
	FH01	¥ (8,556)
	FY01	¥ (15,428)
(iii) Net cash used in financing activities	FH02	¥ (19,373)
	FH01	¥ (20,862)
	FY01	¥ (16,515)
(iv) Cash and cash equivalents at end of period	FH02	¥ 16,911
	FH01	¥ 18,977
	FY01	¥ 12,624

(4) Consolidation Policy

See notes to accompanying consolidated interim financial statements.

(5) Changes in Accounting Policy

Not applicable.

2. Consolidated Subsidiaries and Unconsolidated Subsidiaries and Affiliates Accounted for by the Equity Method

As of September 30, 2002, the number of consolidated subsidiaries was 6. The names of the consolidated subsidiaries were as follows:

Japan Air Commuter Co., Ltd.
JAS Nice Wing Co., Ltd.
JAS Trading Co., Ltd.
Harlequin Air Co., Ltd.
Hokkaido Air System Co., Ltd.
JAS Aircraft Co., Ltd.

The names of the principal unconsolidated subsidiaries were as follows:

Hokkaido Air Service Co., Ltd.
Toa Air Service Co., Ltd.
Ground Air Service Co., Ltd.

These unconsolidated subsidiaries, whose combined total assets, operating income, net income and retained earnings were not material in relation to the consolidated financial statements, have been excluded from consolidation.

As of September 30, 2002, the number of unconsolidated subsidiaries accounted for by the equity method was 22.

The names of the principal unconsolidated subsidiaries which were accounted for by the equity method were as follows:

Hokkaido Air Service Co., Ltd.
Toa Air Service Co., Ltd.
Ground Air Service Co., Ltd.

As of September 30, 2002, the number of affiliates accounted for by the equity method was 3.

The name of the principal affiliate accounted for by the equity method was as follows:

Nitto Aircraft Maintenance Co., Ltd.

The name of the principal unconsolidated subsidiary not accounted for by the equity method was as follows:

JAS Aircraft (USA) Corp.

Investments in unconsolidated subsidiaries and affiliates not accounted for the equity method have been stated at cost because their total net income and total equity in earnings in the aggregate were not material in relation to the consolidated financial statements.

(2) - I

Japan Airlines System Corporation
Japan Air System Co., Ltd.
Consolidated Balance Sheets

At September 30 and March 31, 2002 and September 30, 2001

	September 30, 2002	March 31, 2002	September 30, 2001
	<i>(Millions of yen)</i>		
Assets			
I. Current assets:			
Cash and time deposits	¥ 16,929	¥ 12,631	¥ 19,810
Accounts receivable	22,205	30,314	30,136
Inventories	19,215	19,511	19,348
Prepaid expenses	3,711	3,058	3,036
Deferred income taxes	642	2,234	1,600
Other current assets	11,070	11,408	6,405
Allowance for bad debts	(234)	(307)	(245)
Total current assets	<u>73,541</u>	<u>78,852</u>	<u>80,092</u>
II. Fixed assets:			
Tangible fixed assets:			
Buildings and structures	65,775	67,680	68,715
Machinery and equipment	8,283	8,706	9,046
Flight equipment	260,459	264,279	270,624
Tools, furniture and fixtures	2,939	3,148	3,856
Land	276	173	173
Construction in progress	5,355	10,536	6,633
Total tangible fixed assets	<u>343,089</u>	<u>354,524</u>	<u>359,049</u>
Intangible fixed assets	1,829	1,942	2,104
Investments:			
Investments in securities	8,651	8,055	9,124
Long-term prepaid expenses	2,351	2,486	2,461
Guarantee deposits	9,899	10,650	10,302
Deferred income taxes	1,356	103	-
Other investments	2,033	1,672	1,700
Allowance for bad debts	(61)	(64)	(62)
Total investments	<u>24,232</u>	<u>22,902</u>	<u>23,526</u>
Total fixed assets	<u>369,151</u>	<u>379,369</u>	<u>384,680</u>
III. Deferred charges:			
Preoperating costs	-	-	18
Development expenses	350	242	292
Total deferred charges	<u>350</u>	<u>242</u>	<u>311</u>
Total assets	<u>¥443,044</u>	<u>¥458,464</u>	<u>¥465,084</u>

	September 30, 2002	March 31, 2002	September 30, 2001
	<i>(Millions of yen)</i>		
Liabilities			
I. Current liabilities:			
Accounts payable – trade	¥ 37,273	¥ 37,996	¥ 41,060
Short-term loans	18,000	4,549	19,340
Current portion of long-term loans	82,573	68,740	57,873
Current portion of bonds	7,700	5,200	1,700
Accounts payable – other	9,448	7,354	7,249
Accrued income taxes	1,875	1,143	4,759
Accrued expenses	5,681	10,548	9,616
Deferred income taxes	–	34	–
Advances received	12,260	8,271	10,942
Deposits received	2,275	4,314	3,739
Other current liabilities	1,577	1,838	526
Total current liabilities	178,667	149,991	156,808
II. Non-current liabilities:			
Bonds	2,800	7,000	8,800
Long-term loans	189,970	233,884	226,074
Accounts payable – non-current	11,935	12,798	13,625
Deferred income taxes	–	329	832
Accrued pension and severance costs	26,251	24,409	24,145
Guarantee deposits received	3,034	3,110	3,138
Other non-current liabilities	376	407	407
Total non-current liabilities	234,368	281,940	277,023
Total liabilities	413,035	431,932	433,832
Minority interests	429	386	408
Stockholders' equity			
I. Common stock	23,486	23,486	23,486
II. Capital surplus	2,674	13,975	13,975
III. Retained earnings (deficit)	2,945	(11,776)	(7,805)
. Net unrealized gain on investments in securities, net of taxes	480	454	1,189
V. Translation adjustments	(0)	8	(2)
VI. Common stock in treasury, at cost	(6)	(2)	(0)
Total stockholders' equity	29,579	26,145	30,843
Total liabilities and stockholders' equity	¥443,044	¥458,464	¥465,084

(2) - II

Japan Airlines System Corporation
Japan Air System Co., Ltd.
Consolidated Statements of Income

*For the six months ended September 30, 2002 and 2001
and the year ended March 31, 2002*

	Six months ended September 30, 2002	Six months ended September 30, 2001	Year ended March 31, 2002
	<i>(Millions of yen)</i>		
Operating revenues	¥207,455	¥222,053	¥420,791
Operating expenses:			
Cost of operating revenues	171,730	176,448	346,371
Selling, general and administrative expenses	29,293	31,853	63,537
Total operating expenses	201,024	208,302	409,908
Operating income	6,431	13,751	10,883
Non-operating income:			
Interest and dividend income	90	95	140
Other income	5,497	738	3,189
Total non-operating income	5,587	834	3,330
Non-operating expenses:			
Interest expense	4,137	4,415	8,631
Other expenses	1,485	756	2,082
Total non-operating expenses	5,622	5,172	10,713
Ordinary income	6,396	9,413	3,500
Extraordinary profit:			
Gain on sales of investments in securities	-	-	1,185
Total extraordinary profit	-	-	1,185
Extraordinary loss:			
Special termination benefits	40	170	526
Loss on disposal of fixed assets	1,310	-	1,762
Loss on revaluation of investments in securities	-	-	210
Total extraordinary loss	1,351	170	2,498
Income before income taxes and minority interests	5,045	9,243	2,187
Income taxes – current	1,624	4,577	2,184
Income taxes – deferred	(43)	(259)	(933)
Minority interests	(42)	(30)	(7)
Net income	¥ 3,421	¥ 4,895	¥ 927

(2) - III

Japan Airlines System Corporation

Japan Air System Co., Ltd.

Consolidated Statements of Capital Surplus and Retained Earnings

*For the six months ended September 30, 2002 and 2001
and the year ended March 31, 2002*

	Six months ended September 30, 2002	Six months ended September 30, 2001	Year ended March 31, 2002
	<i>(Millions of yen)</i>		
Capital surplus			
Balance at beginning of period	¥ 13,975	¥ 13,975	¥ 13,975
Decrease resulting from a reversal of additional paid-in capital	(11,301)	-	-
Balance at end of period	<u>¥ 2,674</u>	<u>¥ 13,975</u>	<u>¥ 13,975</u>
Retained earnings (deficit)			
Balance at beginning of period	¥(11,776)	¥(12,700)	¥(12,700)
Decrease in deficit:			
Net income	3,421	4,895	927
Increase resulting from a reversal of additional paid-in capital	11,301	-	-
Increase in deficit:			
Increase due to addition of affiliated companies accounted for by the equity method	-	(0)	(4)
Balance at end of period	<u>¥ 2,945</u>	<u>¥ (7,805)</u>	<u>¥(11,776)</u>

(2) - IV

Japan Airlines System Corporation
Japan Air System Co., Ltd.
Consolidated Statements of Cash Flows

*For the six months ended September 30, 2002 and 2001
and the year ended March 31, 2002*

	Six months ended September 30, 2002	Six months ended September 30, 2001	Year ended March 31, 2002
	<i>(Millions of yen)</i>		
Operating activities			
Income before income taxes and minority interests	¥ 5,045	¥ 9,243	¥ 2,187
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	11,694	11,876	23,770
Amortization of deferred charges	85	140	340
Gain and loss on sales and loss on disposal of tangible fixed assets	1,251	102	786
Gain and loss on sales and loss on revaluation of investments in securities	-	0	(964)
Net provision for allowance for bad debts	(76)	121	187
Net provision for accrued pension and severance costs	1,841	942	1,206
Interest and dividend income	(90)	(95)	(140)
Interest expense	4,137	4,415	8,631
Equity in earnings of unconsolidated subsidiaries and affiliates	(432)	(198)	(102)
Decrease (increase) in accounts receivable	8,108	(393)	(571)
Decrease in inventories	111	429	267
(Decrease) increase in accounts payable	(723)	3,067	4
Decrease in accrued expenses	(4,824)	(1,283)	(38)
Other	3,670	(2,004)	(7,411)
Subtotal	29,798	26,364	28,151
Interest and dividends received	98	94	133
Interest paid	(4,186)	(4,310)	(8,817)
Income taxes paid	(847)	(2,901)	(4,125)
Net cash provided by operating activities	24,862	19,247	15,342
Investing activities			
Purchases of time deposits	(10)	-	-
Proceeds from maturity of time deposits	-	300	1,125
Purchases of tangible fixed assets	(7,318)	(7,890)	(15,601)
Proceeds from sales of tangible fixed assets	6,478	-	13
Purchases of intangible fixed assets	(242)	(293)	(443)
Purchases of investments in securities	(85)	(34)	(883)
Proceeds from sales of investments in securities	9	9	1,559
Other	67	(648)	(1,200)
Net cash used in investing activities	(1,101)	(8,556)	(15,428)

	Six months ended September 30, 2002	Six months ended September 30, 2001	Year ended March 31, 2002
	<i>(Millions of yen)</i>		
Financing activities			
Increase (decrease) in short-term loans	¥ 13,451	¥(16,880)	¥(31,671)
Proceeds from long-term loans	–	22,175	73,857
Repayment of long-term loans	(30,080)	(25,211)	(58,216)
Redemption of bonds	(1,700)	–	–
Proceed from issue of bonds	–	–	1,700
Payments of installment payables	(1,039)	(946)	(2,185)
Other	(4)	–	–
Net cash used in financing activities	(19,373)	(20,862)	(16,515)
Effect of exchange rate changes on cash and cash equivalents	(100)	(30)	47
Net increase (decrease) in cash and cash equivalents	4,287	(10,201)	(16,554)
Cash and cash equivalents at beginning of period	12,624	29,178	29,178
Cash and cash equivalents at end of period	¥ 16,911	¥ 18,977	¥ 12,624
Reconciliation between cash and time deposits and cash and cash equivalents			
Cash and time deposits in balance sheet	¥ 16,929	¥ 19,810	¥ 12,631
Time deposits with original maturity of more than three months	(17)	(832)	(7)
Cash and cash equivalents at end of period	¥ 16,911	¥ 18,977	¥ 12,624

Japan Airlines System Corporation
Japan Air System Co., Ltd.
Notes to Consolidated Interim Financial Statements

September 30, 2002 and 2001

1. Summary of Significant Accounting Policies

a. Basis of presentation

On October 2, 2002, Japan Air System Co., Ltd. (the “Company”) established Japan Airlines System Corporation “JALS,” a holding company, with Japan Airlines Company, Ltd. “JAL” by means of a transfer of shares in accordance with the Commercial Code of Japan. As a result, the Company became a wholly-owned subsidiary of JALS.

The Company and consolidated subsidiaries maintain their accounting records and prepare their financial statements in accordance with accounting principles and practices generally accepted and applied in Japan. The accompanying consolidated interim financial statements have been compiled from the consolidated financial statements to be 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. Accordingly, the accompanying consolidated interim financial statements are not intended to present the consolidated financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

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 interim financial statements 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.

b. Principles of consolidation and accounting for investments in affiliates

The consolidated interim financial statements include the accounts of the Company and all significant subsidiaries. All significant intercompany accounts and transactions and unrealized gain or loss on intercompany accounts and transactions have been eliminated.

Investments in significant unconsolidated subsidiaries and affiliates are accounted for by the equity method.

1. Summary of Significant Accounting Policies (continued)

c. Fiscal years of consolidated subsidiaries

The fiscal years of all consolidated subsidiaries are in accord with the fiscal year of the Company.

d. Cash equivalents

The Company and its consolidated subsidiaries define cash equivalents as highly liquid, short-term investments with an original maturity of three months or less.

e. Inventories

Inventories are principally stated at cost based on the moving average method.

f. Securities

Investments in subsidiaries and affiliates

Investments in subsidiaries and affiliates are stated at cost based on the moving average method.

Investments in marketable securities

Investments in marketable securities are stated at fair value and net unrealized gain or loss on such securities is accounted for as a separate component of stockholders' equity. Cost of securities sold is determined by the moving average method.

Investments in non-marketable securities

Investments in non-marketable securities are stated at cost based on the moving average method.

g. Derivatives

Derivatives are stated at fair value.

h. Property and equipment

Tangible fixed assets:

Flight equipment

The straight-line method

Ground property and equipment

Principally the straight-line method

Intangible fixed assets

The straight-line method

1. Summary of Significant Accounting Policies (continued)

i. Allowance for bad debts

The allowance for bad debts on certain receivables is provided at the estimated unrecoverable amounts. The allowance for bad debts on other receivables is provided based on the historical rate of losses on receivables.

j. Accrued pension and severance costs

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

The unrecognized benefit obligation at transition amounted to ¥23,691 million is being amortized by the straight-line method over a period of fifteen years. The actuarial assumption adjustment is being amortized by straight-line method over a period of fifteen years. Amortization is computed commencing the fiscal year subsequent to the year in which the adjustment was recorded.

k. Development expenses

Development expenses are capitalized and amortized over a period of five years in accordance with the Commercial Code of Japan.

l. Leases

The Company and its consolidated subsidiaries lease certain equipment under noncancelable lease agreements referred to as capital leases. At the Company and subsidiaries, capital leases, defined as leases which do not transfer the ownership of the leased property to the lessee, are accounted for as operating leases.

m. Hedge accounting

Gain or loss on derivatives designated as hedges is deferred until the loss or gain on the underlying hedged item is recognized.

Foreign receivables and payables are translated at the forward foreign exchange rate if certain conditions are met.

The related interest differential paid or received under interest rate swaps is recognized over the term of each swap agreement in interest expense if certain conditions are met.

n. Consumption tax

Transactions subject to consumption tax are recorded at amounts exclusive of consumption tax.

2. Other Information

- a. Accumulated depreciation at September 30, 2002 and 2001 amounted to ¥279,336 million and ¥265,395 million, respectively.
- b. At September 30, 2002 and 2001, contingent liabilities for guarantees and commitments such as guarantees, keep-well agreements and others amounted to ¥6,330 million and ¥7,023 million, respectively.

3. Fair Value of Marketable Securities

The components of net unrealized gain on investments in marketable securities, accounted for as a separate component of stockholders' equity, net of taxes, at September 30, 2002 and 2001 are summarized as follows:

	September 30, 2002		
	Acquisition costs	Carrying value	Net unrealized gain
	<i>(Millions of yen)</i>		
Stocks	¥2,510	¥3,339	¥828
	¥2,510	¥3,339	¥828

	September 30, 2001		
	Acquisition costs	Carrying value	Net unrealized gain
	<i>(Millions of yen)</i>		
Stocks	¥1,885	¥3,938	¥2,053
	¥1,885	¥3,938	¥2,053

Investments in non-marketable securities at September 30, 2002 and 2001 amounted to ¥2,779 million and ¥2,768 million, respectively.

4. Fair Value of Derivatives

Since the derivative instruments of the Company and consolidated subsidiaries were entered into solely for hedging purposes, information relating to fair value and quantitative disclosures are not applicable.

5. Leases

The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of the leased property as of September 30, 2002 and 2001, and the related depreciation and interest expense for the six months ended September 30, 2002 and 2001, which would have been reflected in the balance sheets and the related statements of income if capital lease accounting had been applied to the capital leases currently accounted for as operating leases:

	September 30, 2002		
	Flight equipment	Ground property and equipment	Total
	<i>(Millions of yen)</i>		
Acquisition costs	¥65,876	¥15,160	¥81,036
Less accumulated depreciation	46,061	6,210	52,272
Net book value	<u>¥19,815</u>	<u>¥ 8,949</u>	<u>¥28,764</u>
	September 30, 2001		
	Flight equipment	Ground property and equipment	Total
	<i>(Millions of yen)</i>		
Acquisition costs	¥65,876	¥8,749	¥74,625
Less accumulated depreciation	40,769	4,213	44,982
Net book value	<u>¥25,107</u>	<u>¥4,536</u>	<u>¥29,644</u>
	Six months ended September 30, 2002	Six months ended September 30, 2001	
	<i>(Millions of yen)</i>		
Depreciation expense	<u>¥4,701</u>	<u>¥3,771</u>	
Interest expense	<u>¥ 471</u>	<u>¥ 602</u>	

Lease expenses relating to capital leases accounted for as operating leases amounted to ¥5,111 million for the six months ended September 30, 2002, and ¥4,514 million for the six months ended September 30, 2001.

5. Leases (continued)

The present value of future rental expenses under capital leases accounted for as operating leases outstanding at September 30, 2002 and 2001 is summarized as follows:

	<u>September 30, 2002</u>	<u>September 30, 2001</u>
	<i>(Millions of yen)</i>	
Within 1 year	¥ 9,236	¥ 7,989
Over 1 year	21,653	24,922
	<u>¥30,890</u>	<u>¥32,912</u>

Future rental expenses under operating leases outstanding at September 30, 2002 and 2001 are summarized as follows:

	<u>September 30, 2002</u>	<u>September 30, 2001</u>
	<i>(Millions of yen)</i>	
Within 1 year	¥ 9,818	¥ 9,671
Over 1 year	46,812	32,180
	<u>¥56,631</u>	<u>¥41,852</u>

6. Segment Information

The Company and its consolidated subsidiaries conduct operations in air transportation, travel services, trading and other airline-related business. This segmentation has been made for internal management purposes. Businesses other than the air transportation business, are insignificant to the consolidated results of operations of the Company and its consolidated subsidiaries and, accordingly, have been included in "Other."

a. Business segment information

Business segment information of the Company and its consolidated subsidiaries for the six months ended September 30, 2002 and 2001 is summarized as follows:

	<u>Six months ended September 30, 2002</u>				
	<u>Air trans- portation</u>	<u>Other</u>	<u>Total</u>	<u>Elimination</u>	<u>Consolidated</u>
	<i>(Millions of yen)</i>				
Sales to outside parties	¥185,984	¥21,471	¥207,455	¥ –	¥207,455
Intra-group sales and transfers	42	12,669	12,712	(12,712)	–
Total	186,027	34,140	220,167	(12,712)	207,455
Operating expenses	179,943	33,755	213,699	(12,675)	201,024
Operating income	<u>¥ 6,083</u>	<u>¥ 384</u>	<u>¥ 6,468</u>	<u>¥ (36)</u>	<u>¥ 6,431</u>

6. Segment Information

a. Business segment information (continued)

	Six months ended September 30, 2001				
	Air trans- portation	Other	Total	Elimination	Consolidated
	<i>(Millions of yen)</i>				
Sales to outside parties	¥197,595	¥24,457	¥222,053	¥ –	¥222,053
Intra-group sales and transfers	19	13,041	13,060	(13,060)	–
Total	197,615	37,498	235,113	(13,060)	222,053
Operating expenses	184,414	37,034	221,449	(13,147)	208,302
Operating income	¥ 13,201	¥ 463	¥ 13,664	¥ 86	¥ 13,751

b. Geographic information

The Company has no overseas consolidated subsidiaries or significant branch offices. Accordingly, geographic information is not disclosed.

c. Operating revenues from foreign operations

For the six months ended September 30, 2002 and 2001, operating revenues from operations in Japan represented more than 90% of consolidated operating revenues. As a result, operating revenues from foreign operations are not required to be disclosed.

7. Subsequent Event

On October 2, 2002, the Company established JALS, a holding company, with JAL by means of a transfer of shares in accordance with the Commercial Code of Japan. As a result, the Company and JAL became wholly-owned subsidiaries of JALS.

Components of Revenues in the Air Transportation Segment

	Six months ended September 30, 2002		Six months ended September 30, 2001	
	<u>Amount</u>	<u>Percentage</u>	<u>Amount</u>	<u>Percentage</u>
Air transportation business revenues:				
Passenger operations:				
Domestic	¥163,002	87.6	¥171,121	86.6
International	8,570	4.6	10,963	5.5
	<u>171,572</u>	<u>92.3</u>	<u>182,084</u>	<u>92.1</u>
Cargo operations:				
Domestic	5,383	2.9	5,675	2.9
International	1,690	0.9	1,907	1.0
	<u>7,074</u>	<u>3.8</u>	<u>7,582</u>	<u>3.8</u>
Mail service operations:				
Domestic	2,881	1.5	2,968	1.5
International	9	0.0	7	0.0
	<u>2,890</u>	<u>1.6</u>	<u>2,976</u>	<u>1.5</u>
Other revenues	1,985	1.1	2,324	1.2
Total	<u>183,523</u>	<u>98.7</u>	<u>194,967</u>	<u>98.7</u>
Incidental business revenues	2,461	1.3	2,648	1.3
Total revenues	<u>¥185,984</u>	<u>100.0</u>	<u>¥197,615</u>	<u>100.0</u>

Japan Airlines System Corporation
Japan Air System Co., Ltd.
Non-Consolidated Interim Financial Information

*For the six months ended September 30, 2002 and 2001
and the year ended March 31, 2002*

Non-Consolidated Financial Highlights

(As permitted by the Securities and Exchange Law of Japan, amounts of less than one million yen have been omitted.)

1. Non-Consolidated Operating Results

(Millions of yen except for per share information)

(i) Total operating revenues:	FH02	¥178,119	(-5.9%)
	FH01	¥189,316	(+2.7%)
	FY01	¥360,635	
(ii) Operating income:	FH02	¥ 5,604	(-56.2%)
	FH01	¥ 12,803	(+3.6%)
	FY01	¥ 10,299	
(iii) Ordinary income:	FH02	¥ 5,324	(-36.2%)
	FH01	¥ 8,350	(+14.4%)
	FY01	¥ 2,935	
(iv) Net income:	FH02	¥ 2,787	(-33.5%)
	FH01	¥ 4,194	(+86.2%)
	FY01	¥ 525	
(v) Net income per share:	FH02	¥ 127.35	
	FH01	¥ 191.61	
	FY01	¥ 24.03	

Note 1. Weighted average number of shares outstanding during period:

September 30, 2002	21,886,954
September 30, 2001	21,887,979
March 31, 2002	21,887,767

2. Dividends

(i) Annual dividend per share:	FH02	—
	FH01	—
	FY01	0.00
(ii) Semiannual dividend per share:	FH02	—
	FH01	—
	FY01	—

3. Non-Consolidated Financial Position

(Millions of yen except for per share information)

(i) Total assets:	FH02	¥427,571 million
	FH01	¥451,121 million
	FY01	¥443,017 million
(ii) Total stockholders' equity:	FH02	¥ 29,421 million
	FH01	¥ 31,018 million
	FY01	¥ 26,612 million
(iii) Stockholders' equity ratio:	FH02	6.9%
	FH01	6.9%
	FY01	6.0%
(iv) Stockholders' equity per share:	FH02	¥1,344.33
	FH01	¥1,417.13
	FY01	¥1,215.89

Note 1. Number of shares outstanding at end of period:

September 30, 2002	21,885,818
September 30, 2001	21,887,979
March 31, 2002	21,887,358

Note 2. Number of shares of common stock in treasury outstanding at end of period:

September 30, 2002	2,161
September 30, 2001	171
March 31, 2002	621

Japan Airlines System Corporation
Japan Air System Co., Ltd.
Comparative Non-Consolidated Balance Sheets

	September 30, 2002	March 31, 2002	September 30, 2001
	<i>(Millions of yen)</i>		
Assets			
I. Current assets:			
Cash and time deposits	¥ 10,792	¥ 10,405	¥ 15,945
Accounts receivable	23,326	27,394	26,759
Supplies	16,780	16,860	17,036
Other current assets	15,457	15,672	12,676
Allowance for bad debts	(278)	(356)	(255)
Total current assets	<u>66,078</u>	<u>69,976</u>	<u>72,162</u>
II. Fixed assets:			
Tangible fixed assets:			
Buildings	63,100	65,018	65,980
Flight equipment	258,134	262,398	268,949
Construction in progress	3,760	9,455	5,930
Other tangible fixed assets	11,558	12,021	13,061
Total tangible fixed assets	<u>336,553</u>	<u>348,894</u>	<u>353,922</u>
Intangible fixed assets	1,580	1,661	1,826
Investments:			
Investments	23,337	22,417	23,032
Allowance for bad debts	(61)	(64)	(62)
Total investments	<u>23,275</u>	<u>22,352</u>	<u>22,970</u>
Total fixed assets	<u>361,410</u>	<u>372,908</u>	<u>378,719</u>
III. Deferred charges:			
Development expenses	82	132	239
Total deferred charges	<u>82</u>	<u>132</u>	<u>239</u>
Total assets	<u>¥427,571</u>	<u>¥443,017</u>	<u>¥451,121</u>

	September 30, 2002	March 31, 2002	September 30, 2001
	<i>(Millions of yen)</i>		
Liabilities			
I. Current liabilities			
Accounts payable – trade	¥ 30,366	¥ 31,350	¥ 34,747
Short-term loans	97,739	69,333	74,535
Current portion of bonds	7,700	5,200	1,700
Accrued income taxes	1,622	1,127	4,428
Other current liabilities	29,478	30,404	30,499
Total current liabilities	166,907	137,416	145,909
II. Non-current liabilities			
Bonds	2,800	7,000	8,800
Long-term loans	188,228	232,016	223,997
Accounts payable – non-current	11,545	12,594	13,625
Accrued pension and severance costs	25,259	23,530	23,363
Other non-current liabilities	3,409	3,846	4,407
Total non-current liabilities	231,242	278,988	274,193
Total liabilities	398,149	416,404	420,103
Stockholders' equity			
I. Common stock			
	23,486	23,486	23,486
II. Capital surplus:			
Additional paid-in capital	2,674	13,975	13,975
III. Retained earnings (deficit):			
Legal reserve	–	485	485
Other reserve	–	3,400	3,400
Retained earnings (deficit) brought forward	2,787	(15,186)	(11,518)
Total retained earnings (deficit)	2,787	(11,301)	(7,633)
IV. Net unrealized gain on investments in securities, net of taxes			
	480	454	1,189
V. Common stock in treasury, at cost			
	(6)	(2)	–
Total stockholders' equity	29,421	26,612	31,018
Total liabilities and stockholders' equity	¥427,571	¥443,017	¥451,121

Japan Airlines System Corporation
Japan Air System Co., Ltd.
Comparative Non-Consolidated Statements of Income

	Six months ended September 30, 2002	Six months ended September 30, 2001	Year ended March 31, 2002
	<i>(Millions of yen)</i>		
Operating revenues	¥178,119	¥189,316	¥360,635
Operating expenses:			
Cost of operating revenues	147,435	148,813	295,503
Selling, general and administrative expenses	25,078	27,699	54,831
Total operating expenses	172,514	176,512	350,335
Operating income	5,604	12,803	10,299
Non-operating income:			
Interest and dividend income	87	90	132
Other income	4,795	453	2,645
Total non-operating income	4,883	544	2,777
Non-operating expenses:			
Interest expense	4,059	4,338	8,475
Other expenses	1,104	658	1,666
Total non-operating expenses	5,163	4,997	10,142
Ordinary income	5,324	8,350	2,935
Extraordinary profit:			
Gain on sales of investments in securities	–	–	1,185
Total extraordinary profit	–	–	1,185
Extraordinary loss:			
Loss on disposal of fixed assets	1,307	–	1,762
Special termination benefits	40	170	526
Loss on revaluation of investments in securities	–	–	210
Total extraordinary loss	1,348	170	2,498
Income before income taxes	3,976	8,180	1,622
Income taxes – current	1,387	4,254	1,914
Income taxes – deferred	(199)	(268)	(817)
Net income	2,787	4,194	525
Deficit brought forward	–	(15,712)	(15,712)
Retained earnings (deficit) at end of period	¥ 2,787	¥ (11,518)	¥ (15,186)

Japan Airlines System Corporation
Japan Air System Co., Ltd.
Notes to Non-Consolidated Interim Financial Statements

September 30, 2002 and 2001

1. Basis of Presentation

a. Basis of presentation

On October 2, 2002, Japan Air System Co., Ltd. (the “Company”) established Japan Airlines System Corporation “JALS,” a holding company, with Japan Airlines Company, Ltd. “JAL” by means of a transfer of shares in accordance with the Commercial Code of Japan. As a result, the Company became a wholly-owned subsidiary of JALS.

The purpose of the accompanying non-consolidated interim financial statements as of and for the six months ended September 30, 2002 and 2001 is to provide useful accounting information on the Company for the semiannual financial period.

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 non-consolidated interim financial statements 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.

b. Supplies

Supplies are stated at cost based on the moving average method.

c. Securities

Investments in subsidiaries and affiliates

Investments in subsidiaries and affiliates are stated at cost based on the moving average method.

Investments in marketable securities

Investments in marketable securities are stated at fair value and net unrealized gain or loss on such securities is accounted for as a separate component of stockholders’ equity. Cost of securities sold is determined by the moving average method.

Investments in non-marketable securities

Investments in non-marketable securities are stated at cost based on the moving average method.

1. Basis of Presentation (continued)

d. Derivatives

Derivatives are stated at fair value.

e. Property and equipment

Tangible fixed assets The straight-line method

Intangible fixed assets:

 Software Computer software intended for internal use is amortized by the straight-line method based on the estimated useful life (five years) of the software.

 Other The straight-line method

f. Development expenses

Development expenses are capitalized and amortized over a period of five years in accordance with the Commercial Code of Japan.

g. Allowance for bad debts

The allowance for bad debts on certain receivables is provided at the estimate unrecoverable amounts. The allowance for bad debts on other receivables is provided based on the historical rate of losses on receivables.

h. Accrued pension and severance costs

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

The unrecognized benefit obligation at transition amounted to ¥23,192 million is being amortized by the straight-line method over a period of fifteen years. The actuarial assumption adjustment is being amortized by straight-line method over a period of fifteen years. Amortization is computed commencing the fiscal year subsequent to the year in which the adjustment was recorded.

i. Accrued retirement allowances for directors and statutory auditors

Accrued retirement allowances for directors and statutory auditors are provided for the payment of retirement benefits to directors and statutory auditors and, based on the internal rules of the Company, are stated at the amount which would be required to be paid if all directors and statutory auditors resigned their positions as of the balance sheet date.

The accrual for directors' and statutory auditors' retirement allowances is a reserve prescribed under Article 287-2 of the Commercial Code of Japan.

1. Basis of Presentation (continued)

j. Leases

The Company leases certain equipment under noncancelable lease agreements referred to as capital leases. At the Company, capital leases, defined as leases which do not transfer the ownership of the leased property to the lessee, are accounted for as operating leases.

k. Hedge accounting

Gain or loss on derivatives designated as hedges is deferred until the loss or gain on the underlying hedged item is recognized.

Foreign receivables and payables are translated at the forward foreign exchange rate if certain conditions are met.

The related interest differential paid or received under interest rate swaps is recognized over the term of each swap agreement in interest expense if certain conditions are met.

l. Consumption tax

Transactions subject to consumption tax are recorded at amounts exclusive of consumption tax.

2. Other Information

(1) At September 30, 2002 and 2001, accumulated depreciation amounted to ¥275,774 million and ¥262,295 million, respectively.

(2) At September 30, 2002 and 2001, contingent liabilities for guarantees, and commitments such as guarantees, keep-well agreements and others amounted to ¥12,344 million and ¥14,521 million, respectively.

(3) Leases

The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of the leased property as of September 30, 2002 and 2001, and the related depreciation and interest expense for the six months ended September 30, 2002 and 2001, which would have been reflected in the balance sheets and the related statements of income if capital lease accounting had been applied to the capital leases currently accounted for as operating leases:

	September 30, 2002		
	<u>Flight equipment</u>	<u>Ground property and equipment</u>	<u>Total</u>
	<i>(Millions of yen)</i>		
Acquisition costs	¥57,294	¥13,957	¥71,252
Less accumulated depreciation	41,464	5,657	47,122
Net book value	<u>¥15,829</u>	<u>¥ 8,300</u>	<u>¥24,129</u>

2. Other Information (continued)

(3) Leases (continued)

	September 30, 2001		
	Flight equipment	Ground property and equipment	Total
	<i>(Millions of yen)</i>		
Acquisition costs	¥57,294	¥7,824	¥65,118
Less accumulated depreciation	36,297	3,765	40,062
Net book value	<u>¥20,996</u>	<u>¥4,059</u>	<u>¥25,056</u>
	Six months ended September 30, 2002	Six months ended September 30, 2001	
	<i>(Millions of yen)</i>		
Depreciation expense	<u>¥3,828</u>	<u>¥3,307</u>	
Interest expense	<u>¥ 418</u>	<u>¥ 536</u>	

Lease expenses relating to capital leases accounted for as operating leases amounted to ¥4,496 million for the six months ended September 30, 2002, ¥3,976 million for the six months ended September 30, 2001.

The present value of future rental expenses under capital leases accounted for as operating leases outstanding at September 30, 2002 and 2001 is summarized as follows:

	September 30, 2002	September 30, 2001
	<i>(Millions of yen)</i>	
Within 1 year	¥ 8,329	¥ 7,023
Over 1 year	18,349	21,036
	<u>¥26,678</u>	<u>¥28,060</u>

Future rental expenses under operating leases outstanding at September 30, 2002 and 2001 are summarized as follows:

	September 30, 2002	September 30, 2001
	<i>(Millions of yen)</i>	
Within 1 year	¥ 9,520	¥ 9,372
Over 1 year	46,628	31,692
	<u>¥56,148</u>	<u>¥41,064</u>

(4) Since all investments in securities at subsidiaries and affiliates were not marketable securities, the information relating to their fair value has been omitted.

3. Subsequent Event

On October 2, 2002, the Company established JALS, a holding company, with JAL by means of a transfer of shares in accordance with the Commercial Code of Japan. As a result, the Company and JAL became wholly-owned subsidiaries of JALS.