Japan Airlines System Corporation and Consolidated Subsidiaries

Consolidated Financial Information

For the years ended March 31, 2003 and 2002

MANAGEMENT POLICIES

1. Fundamental Policies

In a move that constituted the first step in the creation of the new JAL Group, Japan Airlines System Corporation was established on October 2, 2002 as the holding company for Japan Airlines Co., Ltd. and Japan Air System Co., Ltd.

In line with the following corporate philosophy, the JAL Group strives to contribute to prosperity in Japan and the world as a whole through its activities as a comprehensive air transportation group that bridges the gap between cultures and minds. In addition, the Group aims to maximize benefits of the integration of the two companies. One goal is ranking among the world’s leading air transportation groups by establishing a sound operating base with a good balance between international and domestic routes. The Group’s fundamental policy further includes maximizing its corporate value for the benefit of all stakeholders.

(Corporate philosophy)
(1) The relentless pursuit of safety and quality
(2) Thinking and acting from the standpoint of customers
(3) Taking actions to maximize corporate value
(4) Fulfilling obligations to society
(5) Placing value on diligence and the willingness to take on new challenges

2. Targeted Principal Management Indicators

To increase corporate value and bolster its financial position, the Group has positioned as key indicators the return on equity (ROE) and payback period of interest-bearing debt as a multiple of operating cash flows. The goal is to raise ROE to at least 10% and payback period within ten years

Unfortunately, ROE was 4.6% and the payback period was 11.9 years for fiscal 2002. Through the greater efficiencies and higher revenues made possible by the integration, the Group plans to reach these two goals in fiscal 2005, ending March 2006, the final year of the three-year JAL Group Medium-Term Business Plan that began in April 2003.

3. Medium- and Long-Term Business Management Strategies

The JAL Group faces a difficult and unstable operating environment worldwide. Outside Japan, challenges are posed by the prolonged global economic slump, Iraq situation and the spread of Severe Acute Respiratory Syndrome (SARS). Japan is struggling with deflationary forces and the inability to stage an economic rebound. The JAL Group believes that its most urgent management issue is building an operating system capable of overcoming these challenges and consistently generating a profit.

To accomplish this goal, the JAL Group will work even harder at adopting the customers’ viewpoint to steadily upgrade quality and services. The Group must also continue integrating the operations of the said two companies to maximize benefits of the Group’s formation. For this purpose, the JAL Group 2003-05 Medium-Term Business Management Plan has been formulated with the following three central objectives.

(1) Clarify the division of responsibilities
(2) Adopt a system to manage operational goals
(3) Become a completely customer-driven organization

With regard to point one, the responsibilities and scope of activities of each unit of the Group have been clarified so that each unit can function with autonomy within its delegated field of business. This will include the functions of administering the entire Group (functions of Japan Airlines System Corporation, as the holding company of the Group), functions that should be delegated to business units within the Group (functions of business operation segments and functional segments), and administrative functions that should be centralized for maximum effectiveness (functions of the Shared Service Center).

With regard to point two, operational goals will be managed in order to sustain growth over the medium and long terms. These goals will include not only financial items but also items involving customers, business processes and human resources. Strategic goals that include quantitative goals will be established. By aiming to tie these goals together, the Group plans to assemble a well-balanced management system.

With regard to point three, the value of the Group's services and products is determined by customers. Every member of the JAL Group must put the customer first, striving to maximize customer satisfaction. In concrete terms, customer satisfaction must be confirmed at every point of contact between customers and the JAL Group. This covers such elements as reservations, ticketing services, airport services, in-flight services, and cargo counter services. The JAL Group must build a system that enables the creation of products and services that truly meet customers' needs.

The major actions to be taken in line with these medium-term business plan strategies are as follows.

I) Proceed with the integration of operations

From April 2004, international passenger and all cargo operations will be conducted by Japan Airlines International Co., Ltd. and domestic passenger operations will be conducted by Japan Airlines Domestic Co., Ltd., under the auspices of the holding company. To prepare for this move, Japan Airlines Co., Ltd. and Japan Air System Co., Ltd. were reorganized in April 2003. All business operations are currently divided among an CEO of International Passenger business, CEO of Domestic Passenger business and CEO of Cargo & Mail business , thus clarifying responsibilities for these activities.

II) Human resources

To eliminate redundant functions and establish a base that is conducive to productivity and rapid decision-making, the Group plans to reduce its ground-based workforce by 3,600 during the three-year period ending in March 2006.

III) IT system integration

Integration of IT systems is being implemented in line with the fundamental policies of placing priority on reliability and on integrating customer-related systems first. Core systems for passenger handling and services are to be fully integrated by April 2004. Targets for the integration of other systems extend through fiscal 2003 and 2004.

IV) International Passenger business

To increase returns on investment, the JAL Group will establish a network that reflects the needs of customers and is structured for efficiency. Plans call for further expanding the service network in China and elsewhere in East Asia, where demand is expected to grow over the medium and long terms. At the same time, service will be bolstered to major destinations in Europe and North America. Direct marketing will be promoted through enhancing e-channels and other means. The goals are higher sales to individuals and improvement of yield per customer. In addition, more aircraft will be equipped with the new Shell Flat Seat in business class (Executive Class), and other actions will be taken to make services more competitive.

V) Domestic Passenger business

The JAL Group will pursue greater efficiencies by leveraging its position as operator of the largest service network in Japan. At the same time, the Group will offer JAL Smile Support* and other friendly, warm, high-grade services. Through new marketing initiatives, such as the use of e-channels and introduction of new fare systems, the share of sales from individuals is to be raised to increase sales per customer. Regarding the service network, large aircraft will be concentrated on trunk lines as priority is given to operating a sufficient number of flights on high-demand routes. Another goal is creating a customer-friendly schedule that makes the JAL Group the first choice of travelers . On local routes, operations are to be maintained and strengthened by making use of smaller aircraft, which may be operated by subsidiaries.

* Services extended to customers with special needs, such as persons with disabilities, senior citizens, travelers with young children , and pregnant women.

VI) Cargo & Mail business

The JAL Group will provide an appropriate level of supply to meet the forecast steady growth in demand for international air cargo services. Services will be increased on routes serving China, a region where demand is expected to grow over the medium and long terms. Services will also be upgraded on Pacific routes by using code sharing, increasing the number of airports served by direct flights and taking other measures. Along with expansion in the service network, the Group will meet increasingly sophisticated and diverse customer needs, such as by offering the value-added J-PRODUCTS service**. As its own network grows, the Group will retain an aggressive stance regarding the formation of alliances with other companies, such as the WOW*** alliance.

** International cargo that receives priority with regard to speed or special handling.

*** A global cargo alliance including JAL CARGO/LCAG (Lufthansa Cargo), SQ CARGO (Singapore Airlines Cargo) and SAS CARGO (SAS Cargo Group)

4. Fundamental Policies and Actions Regarding Corporate Governance

(1) Fundamental approach

The JAL Group fulfills its social obligations by conducting corporate activities that are socially sound and transparent and by taking actions in response to environmental issues. The aim is to help create an even better society. The Group is taking a variety of measures to strengthen corporate governance, rigorously implement compliance programs and ensure transparent management systems, positioning these three items as extremely important management issues.

(2) Corporate governance system for decision-making, conducting business activities and auditing activities

The JAL Group has the following corporate governance systems.

a. The management functions of supervision and business implementation are divided between the holding company and the two operating companies – Japan Airlines Co., Ltd. and Japan Air System Co., Ltd. Furthermore, the corporate auditor system is being reinforced. The aim is to create a more effective corporate governance system.
b. The executive officer system has been adopted and the number of directors of the holding company has been reduced to 15 to speed up decision-making. Furthermore, the term of directors is one year to clarify accountability. At this time, there are seven

executive officers.

c. To conduct corporate activities that are transparent and fair, there are three external directors, and two of the six corporate auditors are from outside the Group.

d. A Compliance and Risk Management Committee has been established that is chaired by the Group CEO and composed of all full-time directors and corporate auditors. In addition, each of the two operating companies has a committee charged with overseeing corporate activities and risk management. These committees ensure that Group management is transparent and that a comprehensive risk management system is applied to corporate activities. The goal is to maintain the stability of the Group's management and ensure that Group companies fulfill their social obligations. A Directors' Compensation Advisory Committee, which is composed of the Group CEO and all external directors and external corporate auditors, has been established to advise the board of directors on matters involving the compensation of directors.

e. Contractual agreements covering management guidance and outsourcing of certain tasks exist between Japan Airlines System Corporation, the holding company, and the operating companies, Japan Airlines Co., Ltd. and Japan Air System Co., Ltd. Furthermore, these two operating companies function under the direct supervision of the holding company, including the requirement of discussing all important matters with the holding company prior to reaching a decision. From the standpoint of Group management, important subsidiaries and affiliates of the operating companies function under the supervision of the appropriate management systems of Japan Airlines Co., Ltd. and Japan Air System Co., Ltd. This system clarifies responsibilities and better facilitates the execution of business activities, thus strengthening the Group's corporate governance. Moreover, in addition to audits conducted by the corporate auditors, business, financial and Group audits are performed internally under the supervision of the Operations Supervision Division for the purpose of reinforcing the JAL Group's auditing functions.

f. Furthermore, the Group is working on bolstering its ability to manage legal risk with regard to its operations by maintaining close ties with its consulting attorneys as well as consulting with other attorneys and specialists.

(3) Related Party Interests Concerning External Directors and External Corporate Auditors

External director Shinobu Shimizu is the president of Tokyu Corporation, a shareholder of JAL Airlines System Corporation. There are no other noteworthy personal, financial or other types of relationships with the holding company involving any other external directors or external corporate auditors.

(4) Measures Taken During the Past Year To Improve Corporate Governance

a. Prior to the integration, Japan Airlines Co., Ltd. had five corporate auditors and Japan Air System Co., Ltd. had four corporate auditors. Following the integration, six corporate auditors were named at Japan Airlines System Corporation and the number of corporate auditors at Japan Air System Co., Ltd. was increased from four to five, the same as at Japan Airlines Co., Ltd., to strengthen the corporate auditor system.

b. A Compliance and Risk Management Committee and a Directors' Compensation Advisory Committee were established.

c. The Compliance and Risk Management Committee formulated "Commitment to Society," a code of conduct for the JAL Group, to ensure that the business activities of all Group companies and employees are not only in accordance with the law, but also consistent with ethical norms, and took other actions toward these ends. The Directors' Compensation Advisory Committee provided advice to the board of directors.

d. To maintain the transparency of its management, the Group conducted public relations activities targeting society and the mass media. The Group also worked on upgrading its investor relations activities with the aim of disclosing information accurately and promptly.

BUSINESS PERFORMANCE AND FINANCIAL CONDITION

<u>a. Business Performance</u>

1. Overview of the term

(1) Overall consolidated results

The period under review was characterized by a very difficult operating environment. Consumer spending was sluggish due to high unemployment and a tight income situation in Japan; there was global unease about the outlook for the world economy resulting from the situation in Iraq; and Japan continued to suffer ongoing deflation, with no recovery in sight.

Amid these circumstances, the newly created JAL Group sought to realize the benefits of its integration amalgamation quickly and to capitalize on it to the maximum extent possible. To do that it took steps to ensure more efficient use of management assets, including by increasing the number of flights on routes dominated by competitors, and by segregating routes and improving its timetables. In addition, it implemented measures such as consolidating sales subsidiaries handling passenger or freight business, merging travel-service subsidiaries, consolidating offices in the city and airport facilities, integrating its mileage programs, and building the necessary structure to underpin its Group brand.

As a result of these efforts, operating revenues totaled ¥2,083.4 billion, operating income totaled ¥10.5billion, and net income was ¥11.6billion.

(2) Results of Operations by Segment

(Including intra-segment revenues and profits)

<u>Air Transport Segment</u>

For passengers on international routes, in April the new, short runway (to be extended to accommodate Boeing 747s later) came into use at Narita Airport; flights to London, Paris, Beijing, Shanghai, and Seoul were increased; and flights were inaugurated on the routes to Hanoi and Xiamen. Of particular note is China, where JAL has built one of the world's largest networks, serving 10 cities, and carried out marketing campaigns to stimulate demand. On the downside, however, tourist demand for flights originating in Japan sagged as a result of Japan’s hosting of the World Cup, Bali suffered a terrorist bombing, and international tension increased with regard to the impending invasion of Iraq. In consequence, passenger demand did not recover to the level prior to September 11th. The net result of these developments was that the number of passengers totaled 14.64 million, and revenue totaled ¥668.4 billion.

On domestic routes, as a result of the increase in slots at Haneda, JAL inaugurated services to Toyama, Okayama, and Yamaguchi Ube, routes previously monopolized by its competitor, and increased the number of flights on routes on which demand is high, such as to Aomori. At the same time, the Company took steps to eliminate the duplication of flights that had occurred as a result of the JAL/JAS integration , and also to revise routes and adjust aircraft and numbers of flights, with the objective of increasing passenger convenience and improving profitability. Marketing was directed at stimulating demand in such ways as increasing the special fares offered to mark the integration , and carrying out a variety of sales campaigns. Nevertheless, revenues leveled off as unit prices declined under the pressure of increasingly fierce competition. As a result, the number of passengers totaled 46.52 million, and revenue totaled ¥629.3 billion.

International cargo operations were buoyant throughout the year, fueled by economic globalization. To boost revenue, the number of dedicated cargo aircraft was increased to 10, and a new industry- and category-specific product structure was created. These moves generated total transportation volume of 4,407,510,000 ton-km, and revenue of ¥157.2 billion.

Domestic cargo operations were sluggish, impacted by the economic recession and by the tightening of security for air cargo transportation, which caused some cargo traffic such as mail and parcel deliveries to switch to surface transport. As a result, total transportation volume was 384,440,000 ton-km, and revenue was ¥30.2 billion. The net result was that the air transport segment generated operating revenues of ¥1650.4 billion and operating income of ¥2.7 billion.

Air Transport-Related Business Segment

In the field of air transport-related business, as a result of an increase in the number of flights made possible by the opening of Runway B at Narita, sales of in-flight meals by TFK Co., Ltd. increased. In the retailing and distribution business segment, JALUX Inc. and other companies were able to achieve a year-on-year increase in profit in spite of the difficult consumption environment. Factors behind this included an increase in duty-free sales at Narita, and a good performance in the field of printed media. The credit card and leasing business was buoyant, seeing the number of JAL Card members increase by 24% from March 2002, boosted by a variety of promotional campaigns and by the integration with the JAS Card. The net result of these developments was that revenues from this business segment totaled ¥468.2 billion, and operating income was ¥8.6 billion.

Travel Planning and Sales Segment

JAL Tours Co., Ltd. and JAL Story Co., Ltd. performed well, handling a larger number of passengers in spite of the tightening of customers’ purse strings. JALPAK Co., Ltd. experienced an accumulation of factors that tended to depress demand, such as the rising tension over the Iraq situation and the aftereffects of the Bali bombing. Amid this harsh operating environment, the company made progress in enhancing the efficiency of its operations. Overall, the travel planning and sales business segment generated revenues of ¥435.7 billion, and operating loss of ¥269 million.

Hotels and Resorts Segment

Among the overseas hotels of JAL Hotels Company Ltd., those in the United States and Europe had to struggle against the aftereffects of the terrorist attacks, but hotels in Asia performed relatively well. Domestically, conditions in the Osaka area were difficult, as the area was hit by factors such as a fall in the number of visitors to Universal Studios Japan. Revenues in this business segment totaled ¥39.8 billion, and operating income totaled ¥215 million.

2. Matters Relating to the Distribution of Profits

The difficult operating environment during the term was characterized globally by economic sluggishness and political instability, and by ongoing deflation and weak consumer spending within Japan. Against this backdrop, the entire Group worked hard to improve earnings, with the result that on a consolidated basis it was able to achieve operating revenues of ¥2,083.4 billion, operating income of ¥10.5 billion, recurring profit of ¥15.8 billion, and net income of ¥11.6 billion.

The operating environment has grown still more severe as a result of the war on Iraq, the spread of Severe Acute Respiratory Syndrome (SARS), and the increasing sluggishness of economic conditions both in Japan and overseas. In consequence, the Group foresees a

downturn in its performance next term, with substantial falls in both revenues and profits.
In the JAL Group's Medium-Term Business Plan for FY2003-5, the targets for fiscal 2005 -- the final year of the plan and of the integration -- are operating revenues of ¥2,246.0 billion, operating income of ¥122.0 billion, recurring profit of ¥84.0 billion, and net income of ¥35.0 billion. The Company believes that these targets are fully achievable in fiscal 2005, by which time the effects of the SARS outbreak and other transient factors should have come to an end.
In view of the matters outlined above, the Company will pay a dividend of ¥4 per share this term.

b. Financial Condition

Cash flow generated by operating activities was ¥155.4 billion derived from net income before income taxes and minority interests of ¥4.0 billion, and included Depreciation and amortization of ¥118.1 billion.

In cash flow from investing activities, the purchase and advance payment of new aircraft resulted in a net cash outflow of ¥85.1 billion.

Meanwhile, cash flow from financing activities resulted in a net cash outflow of ¥108.1 billion mainly due to repayment of long-term debt and redemption of bonds.

Accordingly, the balance of cash and cash equivalents was ¥146.3 billion.

Total assets were ¥2,172.2 billion, while liabilities were ¥1,894.5 billion and stockholders' equity was ¥254.2 billion. Equity ratio resulted in 11.7%.

c. Outlook for Next Term

As described above, the short-term outlook for the business environment surrounding the JAL Group is rather gloomy.
Given these circumstances, in air transport operations, further progress will be made in the integration, and steps will be taken to counter the substantial decline in demand through the flexible implementation of adjustments in operations, including by cutting flights, suspending services, and reducing the average size of aircraft employed. These will be directed at limiting the extent of the profit decline, and will be coupled with the stepping-up of the cost-cutting program that has already been in place for some time, with the aim of improving earnings.
In fields of activity other than air transport, in spite of considerable effects felt from the Iraq situation and SARS, maximum effort will be made to minimize the impact on our earnings. This will be done by implementing measures to improve the earnings situation in parallel with those being implemented in air transport operations.

The current forecasts of results for the next fiscal year are as follows.
(1) Consolidated operating revenues: ¥2,032.0 billion
(2) Consolidated operating loss: ¥22 billion
(3) Consolidated recurring loss: ¥22 billion
(4) Consolidated net loss: ¥43 billion

Regrettably, the Company is forecasting a net loss in the fiscal year ending March 2004, and a dividend is unlikely in the period.

Assumptions on which the forecast is based
For conversion purposes, an exchange rate of ¥120 against the U.S. dollar; with respect to aviation fuel costs, Singapore Kerosene at a market price of US$28/barrel, and the CIF price of crude oil at US$25/barrel

Any statements in this document, other than those of historical facts, are forward-looking statements regarding future performance. These are based on management's assumptions and beliefs in light of information currently available, and involve risks and uncertainties. Actual results may differ materially from these forecasts.

1. Consolidated Financial Highlights

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

a. Consolidated operating results

(1)	Total operating revenues	FY02	¥2,083,480 million	(–)
		FY01	¥ – million	(–)
(2)	Operating income	FY02	¥ 10,589 million	(–)
		FY01	¥ – million	(–)
(3)	Ordinary income	FY02	¥ 15,840 million	(–)
		FY01	¥ – million	(–)
(4)	Net income	FY02	¥ 11,645 million	(–)
		FY01	¥ – million	(–)
(5)	Net income per share	FY02	¥ 5.94	
		FY01	¥ –	
(6)	Diluted net income per share	FY02	¥ –	
		FY01	¥ –	
(7)	Return on equity	FY02	4.6%	
		FY01	–	
(8)	Ratio of ordinary income to total assets	FY02	0.7%	
		FY01	–	
(9)	Ratio of ordinary income to total operating revenues	FY02	0.8%	
		FY01	–	
(10)	Equity in earnings of affiliates	FY02	¥ 340 million	
		FY01	¥ – million	

Note 1. Number of shares outstanding during the year:

FY02	1,962,051,790
FY01	–

1. Consolidated Financial Highlights (continued)

b. Consolidated financial position

(1)	Total assets	FY02	¥2,172,284	million
		FY01	¥ –	million
(2)	Total stockholders' equity	FY02	¥ 254,256	million
		FY01	¥ –	million
(3)	Stockholders' equity ratio	FY02	11.7%	
		FY01	–	
(4)	Equity per share	FY02	¥ 129.68	
		FY01	¥ –	

Note 1. Number of shares outstanding at end of the year:

March 31, 2003	1,960,602,124
March 31, 2002	–

c. Consolidated cash flows

(1)	Net cash provided by operating activities	FY02	¥ 155,413	million
		FY01	¥ –	million
(2)	Net cash used in investing activities	FY02	¥ (85,187)	million
		FY01	¥ –	million
(3)	Net cash used in financing activities	FY02	¥ (108,103)	million
		FY01	¥ –	million
(4)	Cash and cash equivalents held at end of year	FY02	¥ 146,318	million
		FY01	¥ 185,399	million

d. Consolidation policy

See accompanying notes to consolidated financial statements.

e. Changes in accounting policy

Not applicable

2. Consolidated Financial Forecast for the Year Ending March 31, 2004

(1)	Total operating revenues	¥2,032,000	million
(2)	Ordinary loss	¥ (22,000)	million
(3)	Net loss	¥ (43,000)	million
(4)	Net loss per share	¥ (21.93)	

For assumptions underlying the forecast and other concerns, refer to page xx of the attached documents.

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

Japan Airlines System Corporation (the "Company") owns 307 subsidiaries and currently consolidates 171 subsidiaries, including the following principal subsidiaries:

JAPAN AIRLINES COMPANY, LTD.
JAPAN AIR SYSTEM CO., LTD.
JAPAN ASIA AIRWAYS CO., LTD.
JAPAN TRANS OCEAN AIR CO., LTD.
JALWAYS CO., LTD.
JAL EXPRESS CO., LTD.
JAPAN AIR COMMUTER CO., LTD.
AGP CORPORATION
JAL SALES CO., LTD.
JALPAK CO., LTD.
JAL TOURS CO., LTD.
JAL HOTELS COMPANY LTD.
JALUX, INC.

JAL LEASING COMPANY, LIMITED was merged with JAL FINANCE CORPORATION and JAL GROUP FINANCE CORPORATION which were consolidated subsidiaries of the Company at the beginning of the year, and its name was changed to JAL CAPITAL CO., LTD.

The number of unconsolidated subsidiaries which are not accounted for by the equity method is currently 136.

The number of affiliates is currently 99, including 27 companies which are accounted for by the equity method.

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

Consolidation:

(Increase)	3	CHITOSE INTERNATIONAL HOTEL CO., LTD. JAL LIVRE CO., LTD. JLC INSURANCE COMPANY LIMITED
(Decrease)	7	JAL INFORMATION TECHNOLOGY CO., LTD. JTA INFORMATION & COMMUNICATION CO., LTD. COCOS LAGOON DEVELOPMENT CORPORATION ALIVE INSURANCE PTE., LTD. JAS CUSTOMER SERVICE CO., LTD. OKINAWA CATERING SERVICE CO., LTD. AGS COMMERCE CO., LTD.

3. Consolidated Subsidiaries and Affiliates Accounted for by the Equity Method (continued)

Equity method:

(Increase)	2	JAL INFORMATION TECHNOLOGY CO., LTD. JTA INFORMATION & COMMUNICATION CO., LTD.
(Decrease)	1	CHITOSE INTERNATIONAL HOTEL CO., LTD.

Japan Airlines System Corporation and Consolidated Subsidiaries

Consolidated Balance Sheet

March 31, 2003

	2003
	(Millions of yen)
Assets	
I. Current assets	
Cash and time deposits	¥ 133,145
Notes and accounts receivable – trade	202,519
Short-term investments in securities	14,621
Supplies	78,424
Deferred income taxes	16,597
Other current assets	88,131
Allowance for bad debts	(3,117)
Total current assets	530,322
II. Fixed assets	
Tangible fixed assets:	
Buildings and structures	256,529
Machinery, equipment and vehicles	41,273
Flight equipment	915,938
Land	88,979
Construction in progress	53,203
Other fixed assets	26,690
Total tangible fixed assets	1,382,615
Intangible fixed assets:	
Computer Software	49,820
Goodwill	306
Other intangible fixed assets	3,000
Total intangible fixed assets	53,127
Investments:	
Investments in securities	77,043
Long-term loans receivable	18,498
Deferred income taxes	41,503
Other investments	73,701
Allowance for bad debts	(4,528)
Total investments	206,219
Total fixed assets	1,641,962
Total assets	¥2,172,284

	2003
	(Millions of yen)
Liabilities	
I. Current liabilities	
Accounts payable – trade	¥ 204,557
Short-term borrowings	23,035
Current portion of bonds	67,495
Current portion of long-term borrowings	127,537
Accrued income taxes	5,320
Deferred income taxes	73
Other current liabilities	187,327
Total current liabilities	615,346
II. Non-current liabilities	
Bonds	218,700
Long-term borrowings	864,385
Accrued pension and severance costs	143,670
Deferred income taxes	413
Other non-current liabilities	51,988
Total non-current liabilities	1,279,158
Total liabilities	1,894,505
Minority interests	23,522
Stockholders' equity	
I. Common stock	100,000
II. Capital surplus	147,175
III. Retained earnings	23,481
IV. Net unrealized loss on investments in securities, net of taxes	(780)
V. Translation adjustments	(7,451)
VI. Common stock in treasury	(8,168)
Total stockholders' equity	254,256
Total liabilities and stockholders' equity	¥2,172,284

Japan Airlines System Corporation and Consolidated Subsidiaries

Consolidated Statement of Income

For the year ended March 31, 2003

	2003
	(Millions of yen)
Operating revenues	¥2,083,480
Operating expenses:	
Cost of operating revenues	1,661,421
Selling, general and administrative expenses	411,469
Total operating expenses	2,072,891
Operating income	10,589
Non-operating income:	
Interest and dividend income	2,932
Equity in earnings of affiliates	340
Other income	55,976
Total non-operating income	59,249
Non-operating expenses:	
Interest expense	34,657
Exchange loss, net	1,975
Other expenses	17,365
Total non-operating expenses	53,998
Ordinary income	15,840
Extraordinary profit:	
Gain on sales of fixed assets	4,446
Gain on sales of investments in securities	4,623
Other extraordinary profit	2,928
Total extraordinary profit	11,999
Extraordinary loss:	
Loss on disposal of fixed assets	9,852
Expenses arising from business combination	7,304
Other extraordinary loss	6,600
Total extraordinary loss	23,758
Income before income taxes and minority interests	4,081
Income taxes – current	8,100
Income taxes – deferred	(16,468)
Minority interests	(804)
Net income	¥ 11,645

Japan Airlines System Corporation and Consolidated Subsidiaries

Consolidated Statement of Capital Surplus and Retained Earnings

For the year ended March 31, 2003

	2003
	(Millions of yen)
Capital surplus	
Balance at beginning of year	¥158,529
Increase	–
Decrease:	
Transfer to retained earnings	11,301
Loss on sales of common stock in treasury	51
Balance at end of year	¥147,175
Retained earnings	
Balance at beginning of year	¥ 570
Increase:	
Net income	11,645
Transfer from capital surplus	11,301
Decrease:	
Bonuses to directors and statutory auditors	35
Balance at end of year	¥ 23,481

Japan Airlines System Corporation and Consolidated Subsidiaries

Consolidated Statement of Cash Flows

For the year ended March 31, 2003

	2003
	(Millions of yen)
Operating activities	
Income before income taxes and minority interests	¥ 4,081
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:	
Depreciation and amortization	118,187
Gain on sales and loss on revaluation of marketable securities and investments in securities, net	(2,551)
Loss on sales and disposal of fixed assets, net	17,603
Net provision for accrued pension and severance costs	17,223
Interest and dividend income	(2,932)
Interest expense	34,657
Exchange gain	141
Equity in earnings of affiliates	(340)
Decrease in notes and accounts receivable	31,761
Increase in supplies	(2,812)
Increase in accounts payable	7,778
Other	(29,111)
Subtotal	193,686
Interest and dividends received	3,427
Interest paid	(34,709)
Income taxes paid	(6,991)
Net cash provided by operating activities	155,413
Investing activities	
Purchases of time deposits	(101)
Proceeds from maturity of time deposits	1,877
Purchases of fixed assets	(195,575)
Proceeds from sales of fixed assets	62,043
Purchases of investments in securities	(11,540)
Proceeds from sales and maturity of investments in securities	12,400
Proceeds from sales of consolidated subsidiaries with change in scope of consolidation	683
Additions to long-term loans receivable	(4,937)
Repayment of long-term loans receivable	42,887
Other	7,074
Net cash used in investing activities	(85,187)

	2003
	(Millions of yen)
Financing activities	
Decrease in short-term borrowings, net	¥ (36,196)
Proceeds from long-term borrowings	214,804
Repayment of long-term borrowings	(199,550)
Redemption of bonds	(83,864)
Dividends paid to stockholders	(50)
Dividends paid to minority interests	(266)
Other	(2,979)
Net cash used in financing activities	(108,103)
Effect of exchange rate changes on cash and cash equivalents	(670)
Net decrease in cash and cash equivalents	(38,548)
Cash and cash equivalents at beginning of year	185,399
Increase in cash and cash equivalents arising from inclusion of a subsidiary in consolidation	176
Decrease in cash and cash equivalents arising from exclusion of subsidiaries from consolidation	(708)
Cash and cash equivalents at end of year	¥ 146,318
Adjustments to reconcile cash and time deposits in balance sheet to cash and cash equivalents in statement of cash flows at end of year	
Cash and time deposits in balance sheet	¥ 133,145
Time deposits with original maturity of more than three months	(392)
Marketable securities with original maturity of three months or less	13,840
Current account overdrafts included in short-term borrowings	(274)
Cash and cash equivalents in statement of cash flows	¥ 146,318

Japan Airlines System Corporation

Notes to Consolidated Financial Statements

March 31, 2003

1. Summary of Significant Accounting Policies

a. Basis of presentation

Japan Airlines System Corporation (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. Accordingly, the accompanying consolidated 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.

Amounts of less than one million yen have been omitted. As a result, the totals shown in the accompanying consolidated financial statements do not necessarily agree with the sum of the individual amounts.

b. Principles of consolidation and accounting for investments in affiliates

The consolidated 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 date of 25 of the consolidated subsidiaries is December 31, and for 1 of the consolidated subsidiaries it is February 28. Any significant differences in intercompany accounts and transactions arising from intervening intercompany transactions during the period from January 1 through March 31 and the period from March 1 through March 31 have been adjusted, if necessary.

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

The business combination between Japan Airlines Company, Ltd. and Japan Air System Co., Ltd. has been accounted for by the pooling-of-interests method.

1. Summary of Significant Accounting Policies (continued)

c. Cash equivalents

The Company defines 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 principally stated at cost. Cost of securities sold is determined 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. Tangible and intangible fixed assets

Tangible fixed assets

Aircraft, spare engines and spare parts contained in flight equipment	– The straight-line method or the declining-balance method based on their estimated useful lives.
Ground property and equipment:	
Japan Airlines Company, Ltd. and Japan Air System Co., Ltd.	– The straight-line method
Other companies	– Principally the declining-balance method

Intangible fixed assets

Computer software	– Computer software intended for internal use is amortized by the straight-line method based on the estimated useful life of the software.

h. Accrued pension and severance costs

To provide for employees' severance indemnities, net period pension cost, which represents the amount recognized as the cost of the pension plans for the year, is accounted for based on the projected benefit obligation and the plan assets. The unrecognized obligation at transition is being amortized by the straight-line method over a period of fifteen years.

1. Summary of Significant Accounting Policies (continued)

h. Accrued pension and severance costs (continued)

An adjustment for actuarial assumptions is being amortized by straight-line method over a period which is less than the average remaining years (principally fifteen years) of service of the active participants in the plans. This amortization has been computed commencing the fiscal year subsequent to the year in which the adjustment was initially 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.

i. Allowance for bad debts

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

j. Foreign currency accounts

Foreign currency receivables and payables are translated into yen at the applicable year-end exchange rates and translation adjustments are included in current earnings. Translation adjustments arising from the translation of assets, liabilities, revenues and expenses of the consolidated subsidiaries and affiliates accounted for by the equity method are included in minority interests and in stockholders' equity.

k. 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 its 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 of the Company's 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)

l. Hedge accounting

Gain or loss on derivatives designated as hedging instruments is deferred until the loss or gain on the underlying hedged item is recognized. Foreign receivables and payables are translated at the applicable forward foreign exchange rates if certain conditions are met. In addition, if an interest-rate swap meets certain conditions, interest expense is computed and recognized using a blended rate.

2. Other Footnote Information

a. Accumulated depreciation at March 31, 2003 amounted to ¥1,661,854 million.

b. At March 31, 2003, contingent liabilities for guarantees amounted to ¥15,207 million. In addition, at March 31, 2003, contingent liabilities for guarantees, keep-well agreements and other commitments amounted to ¥2,133 million.

c. At March 31, 2003, a subsidiary was liable under debt assumption agreements for the in-substance defeasance of certain bonds in the aggregate amount of ¥30,000 million.

d. At March 31, 2003, common stock in treasury, which is stated at cost, amounted to ¥8,168 million (19,863,126 shares).

3. Subsequent Event

The Group has decided to decrease the number of flights scheduled in the first half of 2003 from those in the original flight schedule for the financial year, reflecting the recent decline in passenger demand brought about by several concurrent factors: the ongoing recession in Japan, the war in Iraq, and the incidence of Severe Acute Respiratory Syndrome (SARS).

4. Segment Information

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

4. Segment Information (continued)

a. Business segment information

Business segment information of the Company and its consolidated subsidiaries for the year ended March 31, 2003 is summarized as follows:

	Year ended March 31, 2003						
	Air transportation	Travel services	Hotel and resort operations	Other	Total	General corporate assets and intercompany eliminations	Consolidated
	(Millions of yen)						
Operating revenues	¥1,458,276	¥391,041	¥34,516	¥199,646	¥2,083,480	¥ –	¥2,083,480
Intra-group sales and transfers	192,195	44,747	5,301	268,584	510,828	(510,828)	–
Total	1,650,471	435,788	39,818	468,230	2,594,309	(510,828)	2,083,480
Operating expenses	1,647,671	436,058	39,602	459,593	2,582,926	(510,035)	2,072,891
Operating income (loss)	¥ 2,799	¥ (269)	¥ 215	¥ 8,636	¥ 11,382	¥ (792)	¥ 10,589
Identifiable assets	¥1,817,563	¥ 77,394	¥79,031	¥414,384	¥2,388,373	¥(216,089)	¥2,172,284
Depreciation	¥ 98,900	¥ 1,348	¥ 2,579	¥ 15,721	¥ 118,548	¥ (361)	¥ 118,187
Capital expenditures	¥ 185,982	¥ 2,073	¥ 1,818	¥ 10,019	¥ 199,894	¥ (704)	¥ 199,189

b. Operating revenues from foreign operations

Operating revenues from foreign operations, which include international passenger and cargo services of Japan Airlines Company, Ltd., Japan Air System Co., Ltd. and Japan Asia Airways Co., Ltd., export sales of domestic subsidiaries, and sales of subsidiaries outside Japan for the year ended March 31, 2003 are summarized as follows:

	Year ended March 31, 2003			
	Asia and Oceania	North and South America	Europe	Total
	(Millions of yen)			
Operating revenues from foreign operations	¥433,314	¥325,409	¥211,648	¥970,372
Consolidated operating revenues	–	–	–	¥2,083,480
Consolidated operating revenues as a percentage of operating revenues from foreign operations	20.8%	15.6%	10.2%	46.6%

c. Geographic information

For the year ended March 31, 2003, operating revenues sourced 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.

5. Leases

As lessee

The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of the leased property as of March 31, 2003 and the related depreciation and interest expense for the years ended March 31, 2003, which would have been reflected in the consolidated balance sheet and the related statement of income if capital lease accounting had been applied to the capital leases currently accounted for as operating leases:

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

	Year ended March 31, 2003
	(Millions of yen)
Depreciation expense	¥47,376
Interest expense	¥ 5,871

Lease expenses relating to capital leases accounted for as operating leases amounted to ¥55,541 million for the year ended March 31, 2003.

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

	March 31, 2003
	(Millions of yen)
Within 1 year	¥ 47,194
Over 1 year	217,939
	¥265,133

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

	March 31, 2003
	(Millions of yen)
Within 1 year	¥ 20,083
Over 1 year	120,376
	¥140,459

5. Leases (continued)

As lessor

The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of the leased property as of March 31, 2003, and the related depreciation and interest revenue for the year ended March 31, 2003, which would have been reflected in the consolidated balance sheet and the related statement of income if direct financing lease accounting had been applied to the capital leases currently accounted for as operating leases:

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

	Year ended March 31, 2003
	(Millions of yen)
Depreciation expense	¥624
Interest revenues	¥ 69

Lease revenues relating to direct financing leases accounted for as operating leases amounted to ¥739 million for the year ended March 31, 2003.

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

	March 31, 2003
	(Millions of yen)
Within 1 year	¥ 492
Over 1 year	676
	¥1,169

6. Tax-Effect Accounting

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

	(Millions of yen)
Deferred tax assets:	
Accrued pension and severance costs	¥ 38,709
Revaluation loss on investments in subsidiaries and affiliates	14,536
Accrued bonuses	2,609
Allowance for bad debts	2,391
Accounts payable – trade	3,137
Revaluation loss on flight equipment spare parts	2,041
Tax loss carryforward	38,197
Other	18,736
	120,360
Deferred tax liabilities:	
Reserve for special depreciation	(2,805)
Accumulated earnings of consolidated subsidiaries	(4,058)
Other	(1,382)
	(8,246)
Valuation allowance	(54,499)
Deferred tax assets, net	¥ 57,614

A reconciliation between the Japanese statutory tax rate and the effective tax rate for the year ended March 31, 2003 is as follows:

Japanese statutory tax rate	42.1%
Disallowed expenses, including entertainment expenses	39.9
Dividends received	(7.3)
Equity in earnings of affiliates	(3.5)
Inhabitants' per capita taxes	7.4
Change in valuation allowance	(347.5)
Others	63.9
Effective tax rate	(205.0)%

Reflecting a change in the local tax rates, the statutory tax rate used in estimating deferred tax assets and liabilities has been applied as follows. The current rate has been applied to temporary differences expected to be deducted for tax purposes by the end of March 2004 and the new rate has been applied to those to be utilized after April 2004. As a result of this change, deferred tax assets net of deferred tax liabilities at the end of the year decreased by ¥643 million and income taxes – deferred charged to income for the year rose by ¥639 million.

7. Fair Value of Investments in Securities

The components of net unrealized gain (loss) on investments in marketable securities at March 31, 2003 are summarized as follows:

	Acquisition costs	Carrying value	Unrealized gain (loss)
		(Millions of yen)	
Unrealized gain:			
Stocks	¥ 2,596	¥ 4,524	¥ 1,927
Bonds	232	235	3
Other	970	1,003	32
	3,800	5,763	1,962
Unrealized loss:			
Stocks	10,931	7,985	(2,946)
Bonds	109	107	(2)
Other	129	87	(42)
	11,171	8,180	(2,991)
Total	¥14,971	¥13,943	¥(1,028)

Investments in non-marketable securities at March 31, 2003 are summarized as follows.

	(Millions of yen)
Money Management Fund	¥ 13,824
Unlisted stocks other than over-the-counter stocks	29,472
Other	122
	¥ 43,419

8. Derivative and Hedging Activities

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

Derivatives positions are stated at fair value except that gain or loss on the derivatives designated as hedging instruments is deferred until the loss or gain on the underlying hedged items is recognized.

9. Accrued Pension and Severance Costs

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

Certain significant domestic subsidiaries have established defined benefit pension plans pursuant to the Welfare Pension Insurance Law of Japan.

	March 31, 2003
	(Millions of yen)
Projected benefit obligation	¥(829,170)
Plan assets	337,495
Accrued pension and severance costs	143,670
Prepaid pension cost	(448)
Net unrecognized amount	¥(348,453)

The net unrecognized amount presented above consisted of the following:

	March 31, 2003
	(Millions of yen)
Unrecognized obligation at transition	¥(177,551)
Adjustment to actuarial assumptions	(172,417)
Unrecognized past service cost	1,515
Total	¥(348,453)

The components of net periodic pension cost were as follows:

	For the year ended March 31, 2003
	(Millions of yen)
Service cost	¥ 31,169
Interest cost on projected benefit obligation	26,939
Expected return on plan assets	(17,168)
Amortization of unrecognized obligation at transition	15,143
Amortization of adjustment to actuarial assumptions	8,765
Amortization of past service cost	(140)
Net periodic pension cost	¥ 64,709

9. Accrued Pension and Severance Costs (continued)

The actuarial assumptions used were as follows:

	2003
Method of amortization	Straight-line method
Discount rate for obligation at end of year	2.5% ~ 3.5%
Expected rate of return on plan assets for the year ended March 31	0.7% ~ 5.5%

The adjustment to the actuarial assumptions is being amortized over a period ranging from 5 to 15 years from the fiscal year following the adjustment, a period which is within the average remaining years of service of the active participants in the plans.

The unrecognized obligation at transition is being amortized principally over 15 years; however, one subsidiary contributed its securities to an employee retirement trust and has charged the obligation at transition to income for this fiscal year.

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.

Components of Revenues from the Air Transportation Segment

	Year ended March 31,			
	2003		**2002 (pro forma)**	
	Amount	Rate (%)	Amount	Rate (%)
	(Millions of yen)			
International:				
Passenger operations	¥ 668,472	40.5	¥ 632,471	39.2
Cargo operations	157,288	9.5	137,603	8.5
Mail-service operations	8,324	0.5	8,242	0.5
Luggage operations	2,790	0.2	2,702	0.2
Subtotal	836,876	50.7	781,020	48.4
Domestic:				
Passenger operations	629,358	38.2	650,184	40.3
Cargo operations	30,238	1.8	30,564	1.9
Mail-service operations	11,979	0.7	12,635	0.8
Luggage operations	300	0.0	277	0.0
Subtotal	671,876	40.7	693,663	43.0
Other revenues	42,086	2.6	40,974	2.6
Incidental business revenues	99,632	6.0	96,929	6.0
Total revenues	¥1,650,471	100.0	¥1,612,589	100.0

Japan Airlines System Corporation
Combined Balance Sheet of
Japan Airlines Company, Ltd. and Consolidated Subsidiaries
and
Japan Air System Co., Ltd. and Consolidated Subsidiaries

March 31, 2002

	2002
	(Millions of yen)
Assets	
I. Current assets	
Cash and time deposits	¥ 131,755
Notes and accounts receivable – trade	242,659
Short-term investments in securities	14,756
Supplies	77,819
Deferred income taxes	18,261
Other current assets	141,476
Allowance for bad debts	(4,263)
Total current assets	622,467
II. Fixed assets	
Tangible fixed assets:	
Buildings and structures	267,742
Machinery, equipment and vehicles	41,015
Flight equipment	915,166
Land	88,662
Construction in progress	45,746
Other fixed assets	26,623
Total tangible fixed assets	1,384,959
Intangible fixed assets:	
Computer software	33,513
Goodwill	501
Other intangible fixed assets	3,115
Total intangible fixed assets	37,130
Investments:	
Investments in securities	87,387
Long-term loans receivable	57,366
Deferred income taxes	23,826
Other investments	85,686
Allowance for bad debts	(4,233)
Total investments	250,035
Total fixed assets	1,672,126
III. Deferred charges	
Development costs	242
Total deferred charges	242
Total assets	¥2,294,835

	2002
	(Millions of yen)
Liabilities	
I. Current liabilities	
Accounts payable – trade	¥ 199,932
Short-term borrowings	61,176
Current portion of bonds	65,200
Current portion of long-term borrowings	159,145
Accrued income taxes	3,712
Deferred income taxes	88
Other current liabilities	218,345
Total current liabilities	707,601
II. Non-current liabilities	
Bonds	304,859
Long-term borrowings	813,388
Accrued pension and severance costs	126,814
Deferred income taxes	863
Other non-current liabilities	60,173
Total non-current liabilities	1,306,099
Total liabilities	2,013,702
Minority interests	26,329
Stockholders' equity	
I. Common stock	212,036
II. Additional paid-in capital	46,491
III. Deficit	(2)
IV. Net unrealized gain on investments in securities, net of taxes	1,306
V. Translation adjustments	(4,711)
VI. Common stock in treasury	(319)
Total stockholders' equity	254,802
Total liabilities and stockholders' equity	¥2,294,835

Japan Airlines System Corporation
Combined Statement of Operations of
Japan Airlines Company, Ltd. and Consolidated Subsidiaries
and
Japan Air System Co., Ltd. and Consolidated Subsidiaries

For the year ended March 31, 2002

	2002
	(Millions of yen)
Operating revenues	¥2,029,480
Operating expenses:	
Cost of operating revenues	1,617,263
Selling, general and administrative expenses	413,259
Total operating expenses	2,030,522
Operating loss	(1,042)
Non-operating income:	
Interest and dividend income	3,813
Gain on sales of flight equipment	685
Equity in earnings of unconsolidated subsidiaries and affiliates	102
Exchange gain, net	3,800
Other income	16,476
Total non-operating income	24,880
Non-operating expenses:	
Interest expense	38,829
Equity in losses of affiliates	258
Other expenses	18,365
Total non-operating expenses	57,452
Ordinary loss	(33,615)
Extraordinary profit:	
Gain on sales of fixed assets	5,933
Gain on sales of investments in securities	14,336
Other extraordinary profit	1,213
Total extraordinary profit	21,483
Extraordinary loss:	
Loss on disposal of fixed assets	5,176
Loss on operation of affiliates	5,622
Loss on revaluation of investments in securities	2,853
Other extraordinary loss	5,420
Total extraordinary loss	19,073
Loss before income taxes and minority interests	(31,205)
Income taxes – current	8,525
Income taxes – deferred	(3,793)
Minority interests	141
Net loss	(35,798)
Retained earnings at beginning of year	40,852
Increase in retained earnings	2,124
Decrease in retained earnings	7,180
Deficit at end of year	¥ (2)

Japan Airlines System Corporation

Non-Consolidated Financial Information

For the years ended March 31, 2003 and 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)

(1)	Total operating revenues	FY02	¥3,176	(–)
		FY01	¥ –	(–)
(2)	Operating income	FY02	¥ 188	(–)
		FY01	¥ –	(–)
(3)	Ordinary income	FY02	¥ 40	(–)
		FY01	¥ –	(–)
(4)	Net income	FY02	¥ 11	(–)
		FY01	¥ –	(–)
(5)	Net income per share	FY02	¥ 0.01	
		FY01	¥ –	
(6)	Diluted net income per share	FY02	¥ –	
		FY01	¥ –	
(7)	Return on equity	FY02	0.0%	
		FY01	–	
(8)	Ratio of ordinary income to total assets	FY02	0.0%	
		FY01	–	
(9)	Ratio of ordinary income to total operating revenues	FY02	1.3%	
		FY01	–	

Note 1. Number of shares outstanding during the year:

FY02	1,979,260,152
FY01	–

2. Dividends

(1)	Annual dividends per share	FY02	¥ 4.00
		FY01	–
(2)	Total annual dividends	FY02	¥7,914 million
		FY01	–
(3)	Payout ratio	FY02	66,495.6%
		FY01	–
(4)	Ratio of dividends to equity	FY02	2.7%
		FY01	–

3. Non-Consolidated Financial Position

(1)	Total assets	FY02	¥619,604 million
		FY01	–
(2)	Total stockholders' equity	FY02	¥289,351 million
		FY01	–
(3)	Stockholders' equity ratio	FY02	46.7%
		FY01	–
(4)	Equity per share	FY02	¥146.24
		FY01	–

Note 1. Number of shares outstanding at end of the year:

March 31, 2003	1,978,646,153
March 31, 2002	–

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

March 31, 2003	1,819,097
March 31, 2002	–

4. Non-Consolidated Financial Forecast for the Year Ending March 31, 2004

(1)	Total operating revenues	¥	18,800million
(2)	Ordinary income	¥	8,900million
(3)	Net income	¥	8,200million
(4)	Annual dividends per share	¥	0.00
(5)	Net income per share	¥	4.14

For assumptions underlying the forecast and other concerns, refer to page xx of the attached documents.

5-(1)

Japan Airlines System Corporation

Non-Consolidated Balance Sheet

March 31, 2003

	2003 (Millions of yen)	%
Assets		
I. Current assets		
Cash and time deposits	¥ 67	
Accounts receivable – trade	392	
Current portion of long-term loans receivable from subsidiaries	31,886	
Prepaid expenses	76	
Deferred income taxes	6	
Other current assets	1	
Total current assets	32,429	5.2
II. Fixed assets		
Tangible fixed assets:		
Buildings	681	
Tools and spare parts	63	
Total tangible fixed assets	744	0.1
Intangible fixed assets:		
Computer software	10	
Total intangible fixed assets	10	0.0
Investments:		
Investments in subsidiaries	289,851	
Long-term loans receivable from subsidiaries	295,672	
Deferred income taxes	13	
Other investments	360	
Total investments	585,898	94.6
Total fixed assets	586,653	94.7
III. Deferred charges		
Start up costs	522	
Total deferred charges	522	0.1
Total assets	¥619,604	100.0

	2003	%
	(Millions of yen)	
Liabilities		
I. Current liabilities		
Accounts payable – trade	¥ 451	
Short-term borrowings from a subsidiary	1,257	
Current portion of long-term borrowings	31,886	
Accounts payable – other	37	
Accrued income taxes	48	
Accrued expenses	860	
Other current liabilities	38	
Total current liabilities	34,581	5.6
II. Non-current liabilities		
Long-term borrowings	295,672	
Total non-current liabilities	295,672	47.7
Total liabilities	330,253	53.3
Stockholders' equity		
I. Common stock	100,000	16.1
II. Capital surplus:		
Additional paid-in capital	100,000	16.1
Other capital surplus	89,801	14.5
III. Retained earnings:		
Unappropriated retained earnings	11	0.0
IV. Common stock in treasury	(462)	(0.0)
Total stockholders' equity	289,351	46.7
Total liabilities and stockholders' equity	¥619,604	100.0

5-(2)

Japan Airlines System Corporation

Non-Consolidated Statement of Income

For the year ended March 31, 2003

	2003	**%**
	(Millions of yen)	
Operating revenues	¥3,176	100.0
Operating expenses:		
Cost of operating revenues	388	
Selling, general and administrative expenses	2,599	
Total operating expenses	2,987	94.1
Operating income	188	5.9
Non-operating income:		
Interest income	0	
Other income	0	
Total non-operating income	0	0.0
Non-operating expenses:		
Interest expense	3	
Amortization of promotional expenses	130	
Other expenses	15	
Total non-operating expenses	149	4.6
Ordinary income	40	1.3
Income before income taxes	40	1.3
Income taxes:		
Current	48	
Deferred	(19)	
Net income	11	0.4
Unappropriated retained earnings at end of the year	¥ 11	

Japan Airlines System Corporation

Proposal for Appropriation of Retained Earnings and Other Capital Surplus

	2003
	(Millions of yen)
Unappropriated retained earnings	
Unappropriated retained earnings	¥ 11
Unappropriated retained earnings to be carried forward	¥ 11
Other capital surplus	
Other capital surplus	¥89,801
Appropriation of other capital surplus:	
Cash dividends	
(¥4 per share in 2003)	7,914
Unappropriated other capital surplus to be carried forward	¥81,887

Japan Airlines System Corporation

Notes to Non-Consolidated Financial Statements

March 31, 2003

1. Summary of Significant Accounting Policies

a. Investments in securities

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

b. Tangible and intangible fixed assets

Tangible fixed assets – The declining-balance method based on their estimated useful lives.

c. Deferred charges

Starts up costs have been capitalized and are being amortized over a period of 5 years.

d. Hedge accounting

If an interest-rate swap meets certain criteria which qualify it as a hedging instrument, interest expense is computed and recognized using a blended rate.

2. Other Footnote Information

a. 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 financial statements do not necessarily agree with the sum of the individual amounts.

b. Accumulated depreciation at March 31, 2003 amounted to ¥21 million.

c. At March 31, 2003, contingent liabilities for guarantees amounted to ¥39,410 million.

d. At March 31, 2003, investments in subsidiaries which have no determinable market prices and the related fair value information have been omitted.

3. Subsequent Events

a. On April 1, 2003, the Company took over JAL Sales Co., Ltd. and JAL Capital Co., Ltd. from Japan Airlines Company, Ltd. The carve out was performed based on a simplified corporate division scheme stipulated in the Commercial Code of Japan and these two companies became directly owned subsidiaries of the Company. As a result of the carve out, the Company took over ¥6,750 million of assets and liabilities from Japan Airlines Company, Ltd. No related charge was posted to either the Company's capital or additional paid-in capital since no new shares were issued as a result of this corporate split.

b. The Group has decided to decrease the number of flights scheduled in the first half of 2003 from those in the original flight schedule for the financial year, reflecting the recent decline in passenger demand brought about by several concurrent factors: the ongoing recession in Japan, the war in Iraq, and the incidence of Severe Acute Respiratory Syndrome (SARS).

c. In order to enhance the competitiveness of sales activities and the efficiency of operations, the Company's sales structure is in the process of being streamlined and both wholesale and retail sales companies are being reorganized. Accordingly, on April 1, 2003, JAL Tours Co., Ltd. and JAL Story Co., Ltd. were merged, and by the end of June, 2003, JAL Sales Co., Ltd. was purchasing shares of the following companies in order to make them directly owned subsidiaries: J Travel Hokkaido Co., Ltd., J Travel Tokyo Co., Ltd., J Travel Osaka Co., Ltd. which were subsidiaries of Japan Air System Co., Ltd. and Japan Tours System Kyushu Co., Ltd. which was a subsidiary of Japan Airlines Company, Ltd. Following the purchase of these shares, the retail business is being reorganized into four regional companies: JAL Travel Hokkaido, JAL Travel, JAL Travel Nishinihon and JAL Travel Kyushu, and the business of each of these regional companies as well as that of Japan Tours System Co., Ltd. and Hokkaido Tours System Co., Ltd. is to be transferred to the new directly owned subsidiaries referred to above.

4. Leases

The Company has not entered into lease agreements as lessee or as lessor.

5. Tax-Effect Accounting

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

	(Millions of yen)
Deferred tax assets:	
Accrued rent expenses	¥ 9
Depreciation	4
Accrued enterprise tax	4
Other	1
	¥19

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

Japanese statutory tax rate	42.1%
Disallowed expenses, including entertainment expenses	24.4
Inhabitants' per capita taxes	3.9
Change in valuation allowance	0.3
Effective tax rate	70.7%

Reflecting a change in the local tax rates, the statutory tax rate used in estimating deferred tax assets and liabilities has been applied as follows. The current rate has been applied to temporary differences expected to be deducted for tax purposes by the end of March 2004 and the new rate has been applied to those to be utilized after April 2004.

2003/5/16

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

For the years ended March 31, 2003 and 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)

(1)	Total operating revenues	FY02	¥1,233,898	(+5.5%)
		FY01	¥1,169,499	(–7.0%)
(2)	Operating income (loss)	FY02	¥ 798	(–)
		FY01	¥ (16,360)	(–)
(3)	Ordinary income (loss)	FY02	¥ 8,370	(–)
		FY01	¥ (41,534)	(–)
(4)	Net income (loss)	FY02	¥ 18,717	(–)
		FY01	¥ (34,874)	(–)
(5)	Net income (loss) per share	FY02	¥ 10.50	
		FY01	¥ (19.56)	
(6)	Diluted net income per share	FY02	¥ –	
		FY01	¥ –	
(7)	Return on equity	FY02	7.9%	
		FY01	(13.8%)	
(8)	Ratio of ordinary income (loss)	FY02	0.6%	
	to total assets	FY01	(2.8%)	
(9)	Ratio of ordinary income (loss)	FY02	0.7%	
	to total operating revenues	FY01	(3.6%)	

Note 1. Number of shares outstanding during the year:

FY02	1,783,202,759
FY01	1,783,412,130

2. Dividends

(1)	Annual dividends per share	FY02	¥ 5.00
		FY01	¥ 0.00
(2)	Total annual dividends	FY02	¥8,917
		FY01	–
(3)	Payout ratio	FY02	47.6%
		FY01	–
(4)	Ratio of dividends to equity	FY02	3.6%
		FY01	–

3. Non-Consolidated Financial Position

(1)	Total assets	FY02	¥1,486,059 million
		FY01	¥1,480,101 million
(2)	Total stockholders' equity	FY02	¥ 246,020 million
		FY01	¥ 230,685 million
(3)	Stockholders' equity ratio	FY02	16.6%
		FY01	15.6%
(4)	Equity per share	FY02	¥ 137.94
		FY01	¥ 129.36

Note 1. Number of shares outstanding at end of the year:

March 31, 2003	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 the year:

March 31, 2003	0
March 31, 2002	232,883

5-(1)

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

March 31, 2003 and 2002

(Millions of yen)

	2003	%	2002	%	Change
Assets					
I. Current assets					
Cash and time deposits	¥ 69,606		¥ 64,565		¥ 5,040
Accounts receivable – trade	151,310		177,214		(25,903)
Short-term investments in securities	17,788		13,818		3,969
Supplies	58,031		55,792		2,239
Prepaid expenses	6,178		8,232		(2,053)
Deferred income taxes	10,926		10,372		554
Other current assets	75,841		55,832		20,008
Allowance for bad debts	(148)		(664)		515
Total current assets	389,534	26.2	385,164	26.0	4,369
II. Fixed assets					
Tangible fixed assets:					
Buildings	92,598		98,319		(5,720)
Structures	3,702		4,070		(367)
Machinery and equipment	24,184		23,101		1,082
Flight equipment	604,030		585,056		18,974
Vehicles	1,644		1,242		402
Tools and spare parts	12,774		11,333		1,440
Land	46,535		46,737		(202)
Construction in progress	51,348		34,755		16,592
Total tangible fixed assets	836,818	56.3	804,616	54.4	32,201
Intangible fixed assets:					
Computer software	38,469		27,006		11,463
Other intangible fixed assets	597		614		(17)
Total intangible fixed assets	39,066	2.6	27,620	1.9	11,445
Investments:					
Investments in securities	55,502		65,129		(9,626)
Investments in subsidiaries	97,620		100,937		(3,317)
Long-term loans receivable	12,375		48,778		(36,403)
Long-term prepaid expenses	3,265		4,000		(734)
Deferred income taxes	26,746		12,470		14,276
Other investments	26,848		32,857		(6,008)
Allowance for bad debts	(1,718)		(1,473)		(245)
Total investments	220,640	14.9	262,699	17.7	(42,059)
Total fixed assets	1,096,525	73.8	1,094,937	74.0	1,588

Total assets	¥1,486,059	100.0	¥1,480,101	100.0	¥ 5,958

(Millions of yen)

	2003	%	2002	%	Change
Liabilities					
I. Current liabilities					
Accounts payable – trade	¥ 156,813		¥ 152,693		¥ 4,119
Short-term borrowings from a subsidiary	6,750		–		6,750
Current portion of long-term borrowings	27,606		37,202		(9,595)
Current portion of long-term borrowings from parent company	1,815		–		1,815
Current portion of bonds	61,845		60,000		1,845
Accounts payable – other	24,987		18,764		6,222
Accrued income taxes	29		40		(11)
Accrued expenses	33,650		37,329		(3,679)
Advances received	25,208		30,141		(4,932)
Deposits received	17,083		20,239		(3,155)
Air transport deposits	14,735		22,646		(7,911)
Other current liabilities	14,192		15,605		(1,413)
Total current liabilities	384,717	25.9	394,664	26.7	(9,946)
II. Non-current liabilities					
Bonds	217,000		297,509		(80,509)
Long-term borrowings	286,983		401,599		(114,615)
Long-term borrowings from parent company	198,336		–		198,336
Accrued pension and severance costs	91,533		79,942		11,590
Reserve for loss on investments in subsidiaries and affiliates	10,194		10,595		(401)
Other non-current liabilities	51,273		65,105		(13,831)
Total non-current liabilities	855,321	57.5	854,751	57.7	569
Total liabilities	1,240,039	83.4	1,249,416	84.4	(9,376)
Stockholders' equity					
I. Common stock	188,550	12.7	188,550	12.7	–
II. Capital surplus:					
Additional paid-in capital	32,516	2.2	32,516	2.2	–
III. Retained earnings:					
Legal reserve	1,782	0.1	1,782	0.1	–
Reserve for special depreciation	4,911	0.4	6,026	0.4	(1,115)
Unappropriated retained earnings brought forward	20,858	1.4	1,025	0.1	19,832
IV. Net unrealized (loss) gain on other securities, net of taxes	(2,598)	(0.2)	861	0.1	(3,460)
V. Common stock in treasury	–	–	(77)	(0.0)	77
Total stockholders' equity	246,020	16.6	230,685	15.6	15,335
Total liabilities and stockholders' equity	¥1,486,059	100.0	¥1,480,101	100.0	¥ 5,958

5-(2)

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

For the years ended March 31, 2003 and 2002

(Millions of yen)

	2003	**%**	**2002**	**%**	**Change**
Operating revenues	¥1,233,898	100.0	¥1,169,499	100.0	¥ 64,399
Operating expenses:					
Cost of operating revenues	996,268		962,052		34,215
Selling, general and administrative expenses	236,831		223,807		13,024
Total operating expenses	1,233,100	99.9	1,185,859	101.4	47,240
Operating income (loss)	798	0.1	(16,360)	(1.4)	17,158
Non-operating income:					
Interest and dividend income	3,738		3,453		285
Exchange gain, net	–		2,111		(2,111)
Other income	42,756		11,629		31,126
Total non-operating income	46,494	3.8	17,194	1.5	29,300
Non-operating expenses:					
Interest expense	24,274		27,109		(2,834)
Exchange loss, net	1,053		–		1,053
Other expenses	13,594		15,258		(1,664)
Total non-operating expenses	38,922	3.2	42,368	3.6	(3,445)
Ordinary income (loss)	8,370	0.7	(41,534)	(3.6)	49,905
Extraordinary profit:					
Gain on sales of fixed assets	3,994		5,904		(1,910)
Gain on sales of investments in securities	3,677		11,412		(7,735)
Gain on sales of investments in subsidiaries	562		1,302		(739)
Total extraordinary profit	8,234	0.6	18,619	1.6	(10,385)
Extraordinary loss:					
Loss on disposal of fixed assets	2,061		2,277		(215)
Special termination benefits	1,001		920		81
Loss on revaluation of investments in securities	1,761		2,211		(450)
Provision for loss on investments in subsidiaries and affiliates	226		6,267		(6,040)
Expenses arising from business combination	5,028		–		5,028
Total extraordinary loss	10,080	0.8	11,676	1.0	(1,596)
Income (loss) before income taxes	6,524	0.5	(34,592)	(3.0)	41,116
Income taxes:					
Current	333		282		51
Deferred	(12,527)		–		(12,527)
Net income (loss)	18,717	1.5	(34,874)	(3.0)	53,592
Retained earnings brought forward	2,141		35,900		(33,759)
Unappropriated retained earnings at end of the year	¥ 20,858		¥ 1,025		¥ 19,832

Japan Airlines System Corporation
Japan Airlines Company, Ltd.
Proposal for Appropriation of Retained Earnings

	2003	**2002**
	(Millions of yen)	
Unappropriated retained earnings	¥20,858	¥1,025
Reversal of reserve for special depreciation	1,115	1,115
Appropriation of retained earnings:		
Legal reserve	(892)	–
Cash dividends		
(¥5 per share in 2003)	(8,917)	–
Unappropriated retained earnings to be carried forward	¥12,164	¥2,141

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

March 31, 2003 and 2002

1. Footnote Information

a. 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 financial statements do not necessarily agree with the sum of the individual amounts.

b. Accumulated depreciation at March 31, 2003 and 2002 amounted to ¥1,035,443 million and ¥995,288 million, respectively.

c. At March 31, 2003 and 2002, contingent liabilities for guarantees amounted to ¥358,575 million and ¥14,355 million, respectively. In addition, at March 31, 2003 and 2002, contingent liabilities for guarantees, keep-well agreements and other commitments amounted to ¥59,874 million and ¥37,077 million, respectively.

d. At March 31, 2003 and 2002, the Company was liable under debt assumption agreements for the in-substance defeasance of certain bonds in aggregate amounts of ¥30,000 million and ¥50,000 million, respectively.

2. Leases

As lessee

The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of the leased property as of March 31, 2003 and 2002, and the related depreciation and interest expense for the years then ended, which would have been reflected in the non-consolidated 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:

	March 31, 2003		
	Flight equipment	Other	Total
		(Millions of yen)	
Acquisition costs	¥383,608	¥10,864	¥394,472
Less accumulated depreciation	194,859	5,368	200,227
Net book value	¥188,749	¥ 5,495	¥194,244

2. Leases (continued)

As lessee (continued)

	March 31, 2002		
	Flight equipment	Other	Total
	(Millions of yen)		
Acquisition costs	¥428,563	¥18,627	¥447,190
Less accumulated depreciation	251,140	15,851	266,991
Net book value	¥177,423	¥ 2,775	¥180,198

	Year ended March 31,	
	2003	**2002**
	(Millions of yen)	
Depreciation expense	¥39,871	¥43,472
Interest expense	¥ 5,193	¥ 6,743

Lease expenses relating to capital leases accounted for as operating leases amounted to ¥47,157 million and ¥53,760 million for the years ended March 31, 2003 and 2002, respectively.

The present value of future rental expenses under capital leases outstanding at March 31, 2003 and 2002 and accounted for as operating leases is summarized as follows:

	March 31,	
	2003	**2002**
	(Millions of yen)	
Within 1 year	¥ 36,305	¥ 41,617
Over 1 year	167,679	154,486
	¥203,984	¥196,103

Future rental expenses under operating leases outstanding at March 31, 2003 and 2002 were as follows:

	March 31,	
	2003	**2002**
	(Millions of yen)	
Within 1 year	¥ 4,314	¥ 7,924
Over 1 year	31,477	38,051
	¥35,791	¥45,975

3. Tax-Effect Accounting

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

	(Millions of yen)
Deferred tax assets:	
Accrued pension and severance costs	¥ 24,588
Revaluation loss on investments in subsidiaries and affiliates	11,998
Provision for loss on investments in subsidiaries and affiliates	4,249
Accounts payable – trade	3,098
Revaluation loss on flight equipment spare parts	1,794
Net unrealized loss on investments in securities	1,725
Tax loss carryforward	5,735
Other	2,965
	56,156
Deferred tax liabilities:	
Reserve for special depreciation	(2,525)
	(2,525)
Valuation allowance	(15,958)
Deferred tax assets, net	¥ 37,672

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

Japanese statutory tax rate	40.2%
Disallowed expenses, including entertainment expenses	5.7
Inhabitants' per capita taxes	0.7
Change in valuation allowance	(233.3)
Others	(0.2)
Effective tax rate	(186.9)%

Reflecting a change in the local tax rates, the statutory tax rate used in estimating deferred tax assets and liabilities has been applied as follows. The current rate has been applied to temporary differences expected to be deducted for tax purposes by the end of March 2004 and the new rate has been applied to those to be utilized after April 2004. As a result of this change, deferred tax assets net of deferred tax liabilities at the end of the year decreased by ¥336 million and income taxes – deferred charged to income for the year rose by ¥332 million.

3. Tax-Effect Accounting (continued)

The significant components of deferred tax assets and liabilities and the related valuation allowance at March 31, 2002 were as follows:

	(Millions of yen)
Deferred tax assets:	
Accrued pension and severance costs	¥ 15,042
Revaluation loss on investments in subsidiaries and affiliates	13,626
Provision for loss on investments in subsidiaries and affiliates	4,472
Accounts payable – trade	2,628
Revaluation loss on flight equipment spare parts	1,791
Tax loss carryforward	18,415
Other	2,778
	58,752
Deferred tax liabilities:	
Reserve for special depreciation	(3,301)
Net unrealized gain on investments in securities	(578)
	(3,879)
Valuation allowance	(32,030)
Deferred tax assets, net	¥ 22,842

The Company is not required to present a reconciliation between the Japanese statutory tax rate and the Company's effective tax rate since the Company posted a loss before income taxes for the year ended March 31, 2002.

4. Fair Value of Investments in Subsidiaries and Affiliates

Investments in subsidiaries and affiliates are stated at cost. Net unrealized gain or loss on investments in marketable securities of subsidiaries and affiliates at March 31, 2003 is summarized as follows:

	March 31, 2003		
	Carrying value	Estimated fair value	Unrealized gain (loss)
	(Millions of yen)		
Investments in subsidiaries	¥2,901	¥6,502	¥ 3,600
Investments in affiliates	¥8,411	¥5,642	¥(2,769)

4. Fair Value of Investments in Subsidiaries and Affiliates (continued)

Investments in subsidiaries and affiliates are stated at cost. Net unrealized gain or loss on investments in marketable securities of subsidiaries and affiliates at March 31, 2002 is summarized as follows:

	March 31, 2002		
	Carrying value	Estimated fair value	Unrealized gain (loss)
		(Millions of yen)	
Investment in subsidiaries	¥2,901	¥6,142	¥ 3,240
Investments in affiliates	¥8,411	¥6,363	¥(2,047)

2003/5/16

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

For the years ended March 31, 2003 and 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)

(1)	Total operating revenues	FY02	¥338,132	(–6.2%)
		FY01	¥360,635	(+0.1%)
(2)	Operating (loss) income	FY02	¥ (2,353)	(–)
		FY01	¥ 10,299	(–36.9%)
(3)	Ordinary (loss) income	FY02	¥ (4,603)	(–)
		FY01	¥ 2,935	(–53.7%)
(4)	Net (loss) income	FY02	¥ (4,692)	(–)
		FY01	¥ 525	(–65.1%)
(5)	Net (loss) income per share	FY02	¥ (214.39)	
		FY01	¥ 24.03	
(6)	Diluted net income per share	FY02	¥ –	
		FY01	¥ –	
(7)	Return on equity	FY02	(19.5%)	
		FY01	2.0%	
(8)	Ratio of ordinary (loss) income	FY02	(1.1%)	
	to total assets	FY01	0.6%	
(9)	Ratio of ordinary (loss) income	FY02	(1.4%)	
	to total operating revenues	FY01	0.8%	

Note 1. Number of shares outstanding during the year:

FY02	21,887,427
FY01	21,887,767

2. Dividends

(1)	Annual dividends per share	FY02	–
		FY01	–
(2)	Total annual dividends	FY02	–
		FY01	–
(3)	Payout ratio	FY02	–
		FY01	–
(4)	Ratio of dividends to equity	FY02	–
		FY01	–

3. Non-Consolidated Financial Position

(1)	Total assets	FY02	¥ 416,237 million
		FY01	¥ 443,017 million
(2)	Total stockholders' equity	FY02	¥ 21,502 million
		FY01	¥ 26,612 million
(3)	Stockholders' equity ratio	FY02	5.2%
		FY01	6.0%
(4)	Equity per share	FY02	¥982.39
		FY01	¥1,215.89

Note 1. Number of shares outstanding at end of the year:

March 31, 2003	21,887,979
March 31, 2002	21,887,358

Note 2. Number of shares of common stocks in treasury outstanding at end of the year:

March 31, 2003	–
March 31, 2002	621

4-(1)

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

March 31, 2003 and 2002

(Millions of yen)

	2003	2002	Change
Assets			
I. Current assets			
Cash and time deposits	¥ 4,989	¥ 10,405	¥ (5,416)
Accounts receivable – trade	23,486	27,394	(3,907)
Short-term investments in securities	18	–	18
Supplies	17,057	16,860	197
Prepaid expenses	2,579	2,663	(84)
Deferred income taxes	237	1,992	(1,755)
Other current assets	10,979	11,015	(36)
Allowance for bad debts	(423)	(356)	(66)
Total current assets	58,924	69,976	(11,051)
II. Fixed assets			
Tangible fixed assets:			
Buildings	61,639	65,018	(3,379)
Structures	1,111	1,166	(54)
Machinery and equipment	6,204	6,893	(689)
Flight equipment	251,081	262,398	(11,317)
Vehicles	823	828	(5)
Tools and spare parts	2,998	2,960	37
Land	345	173	172
Construction in progress	729	9,455	(8,725)
Total tangible fixed assets	324,933	348,894	(23,961)
Intangible fixed assets:			
Computer software	2,697	1,326	1,370
Telephone rights	129	151	(22)
Other intangible fixed assets	176	183	(7)
Total intangible fixed assets	3,002	1,661	1,341
Investments:			
Investments in securities	10,059	7,087	2,972
Investments in subsidiaries	2,094	1,919	175
Guaranty deposits	7,976	9,473	(1,496)
Long-term prepaid expenses	2,592	2,444	147
Deferred income taxes	4,950	–	4,950
Other investments	1,763	1,492	271
Allowance for bad debts	(94)	(64)	(29)
Total investments	29,343	22,352	6,990
Total fixed assets	357,279	372,908	(15,629)
III. Deferred charges			
Development costs	33	132	(98)
Total deferred charges	33	132	(98)
Total assets	¥416,237	¥443,017	¥(26,779)

(Millions of yen)

	2003	2002	Change
Liabilities			
I. Current liabilities			
Accounts payable – trade	¥ 33,023	¥ 31,350	¥ 1,672
Short-term borrowings	5,003	1,000	4,003
Current portion of long-term borrowings	26,247	68,333	(42,085)
Current portion of long-term borrowings from parent company	30,071	–	30,071
Current portion of bonds	5,300	5,200	100
Accounts payable – other	7,866	5,583	2,283
Accrued income taxes	–	1,127	(1,127)
Accrued consumption taxes	2,244	1,674	570
Accrued expenses	5,103	9,741	(4,638)
Advances received	8,693	8,083	610
Deposits received	1,594	3,706	(2,112)
Advanced profit received	111	83	27
Other current liabilities	590	1,531	(940)
Total current liabilities	125,850	137,416	(11,566)
II. Non-current liabilities			
Bonds	1,700	7,000	(5,300)
Long-term borrowings	129,168	232,016	(102,847)
Long-term borrowings from parent company	97,336	–	97,336
Accounts payable – non-current	10,484	12,594	(2,110)
Guarantee deposits received	3,008	3,108	(100)
Deferred income taxes	–	329	(329)
Accrued pension and severance costs	26,835	23,530	3,305
Directors' and statutory auditors' retirement benefits	351	316	35
Other non-current liabilities	–	91	(91)
Total non-current liabilities	268,884	278,988	(10,103)
Total liabilities	394,735	416,404	(21,669)
Stockholders' equity			
I. Common stock	23,486	23,486	–
II. Capital surplus:			
Additional paid-in capital	2,674	13,975	(11,301)
III. Accumulated deficit:			
Legal reserve	–	485	(485)
Other reserve	–	3,400	(3,400)
Accumulated deficit brought forward	(4,692)	(15,186)	10,494
Total accumulated deficit	(4,692)	(11,301)	6,608
IV. Net unrealized gain on investments in securities, net of taxes	34	454	(419)
V. Common stock in treasury	–	(2)	2
Total stockholders' equity	21,502	26,612	(5,110)
Total liabilities and stockholders' equity	¥416,237	¥443,017	¥ (26,779)

4-(2)

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

For the years ended March 31, 2003 and 2002

(Millions of yen)

	2003	2002	Change
Operating revenues	¥338,132	¥360,635	¥(22,502)
Operating expenses:			
Cost of operating revenues	292,168	295,503	(3,335)
Selling, general and administrative expenses	48,318	54,831	(6,513)
Total operating expenses	340,486	350,335	(9,849)
Operating (loss) income	(2,353)	10,299	(12,653)
Non-operating income:			
Interest and dividend income	114	132	(17)
Other income	7,568	2,645	4,922
Total non-operating income	7,682	2,777	4,905
Non-operating expenses:			
Interest expense	7,715	8,475	(759)
Other expenses	2,216	1,666	549
Total non-operating expenses	9,931	10,142	(210)
Ordinary (loss) income	(4,603)	2,935	(7,538)
Extraordinary profit:			
Gain on sales of investments in securities	155	1,185	(1,029)
Total extraordinary profit	155	1,185	(1,029)
Extraordinary loss:			
Extraordinary expenses arising from business combination	1,622	–	1,622
Loss on disposal of fixed assets	1,539	1,762	(222)
Special termination benefits	54	526	(472)
Loss on revaluation of investments in securities	184	210	(25)
Total extraordinary loss	3,401	2,498	902
(Loss) income before income taxes	(7,848)	1,622	(9,471)
Income taxes:			
Current	63	1,914	(1,850)
Deferred	(3,219)	(817)	(2,402)
Net (loss) income	(4,692)	525	(5,218)
Accumulated deficit brought forward	–	15,712	(15,712)
Accumulated deficit at end of the year	¥ 4,692	¥ 15,186	¥(10,494)

4-(3)

Japan Airlines System Corporation

Japan Air System Co., Ltd.

Proposal for Disposition of Accumulated Deficit

	2003	2002
	(Millions of yen)	
Accumulated deficit at end of the year	¥4,692	¥15,186
Elimination of accumulated deficit:		
Reversal of other reserve	–	3,400
Reversal of legal reserve	–	485
Reversal of additional paid-in capital	–	11,301
Accumulated deficit to be carried forward	¥4,692	¥ –

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

March 31, 2003 and 2002

1. Footnote Information

a. 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 financial statements do not necessarily agree with the sum of the individual amounts.

b. Accumulated depreciation at March 31, 2003 and 2002 amounted to ¥277,187 million and ¥270,136 million, respectively.

c. At March 31, 2003 and 2002, contingent liabilities for guarantees, keep-well agreements and other commitments amounted to ¥344,390 million and ¥13,358 million, respectively.

d. At March 31, 2003 and 2002, investments in subsidiaries and affiliates which have no determinable market prices and the related fair value information have been omitted.

2. Leases

As lessee

The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of the leased property as of March 31, 2003 and 2002, and the related depreciation and interest expense for the years then ended, which would have been reflected in the non-consolidated 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:

	March 31, 2003		
	Flight equipment	Other	Total
		(Millions of yen)	
Acquisition costs	¥57,294	¥17,861	¥75,155
Less accumulated depreciation	44,041	6,885	50,926
Net book value	¥13,252	¥10,976	¥24,229

2. Leases (continued)

As lessee (continued)

	March 31, 2002		
	Flight equipment	Other	Total
	(Millions of yen)		
Acquisition costs	¥57,294	¥13,187	¥70,481
Less accumulated depreciation	38,873	4,464	43,338
Net book value	¥18,420	¥ 8,722	¥27,142

	Year ended March 31,	
	2003	2002
	(Millions of yen)	
Depreciation expense	¥8,084	¥7,535
Interest expense	¥ 950	¥ 985

Lease expenses relating to capital leases accounted for as operating leases amounted to ¥9,591 million and ¥8,885 million for the years ended March 31, 2003 and 2002, respectively.

The present value of future rental expenses under capital leases outstanding at March 31, 2003 and 2002 and accounted for as operating leases is summarized as follows:

	March 31,	
	2003	2002
	(Millions of yen)	
Within 1 year	¥ 8,913	¥ 8,078
Over 1 year	17,675	21,863
	¥26,589	¥29,942

Future rental expenses under operating leases outstanding at March 31, 2003 and 2002 were as follows:

	March 31,	
	2003	2002
	(Millions of yen)	
Within 1 year	¥10,502	¥ 8,463
Over 1 year	56,094	27,811
	¥66,597	¥36,275

3. Tax-Effect Accounting

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

	(Millions of yen)
Deferred tax assets:	
Accrued pension and severance costs	¥ 6,962
Revaluation loss on investments in securities	282
Depreciation	45
Bad debts written-off	252
Tax loss carryforwards	1,392
Other	531
Subtotal	9,467
Valuation allowance	(4,255)
Total	5,212
Deferred tax liabilities:	
Net unrealized gain on investments in securities	(24)
Total	(24)
Deferred tax assets, net	¥ 5,187

The Company is not required to present a reconciliation between the Japanese statutory tax rate and the Company's effective tax rate since the Company posted a loss before income taxes for the year ended March 31, 2003.

3. Tax-Effect Accounting (continued)

The significant components of deferred tax assets and liabilities and the related valuation allowance at March 31, 2002 were as follows:

	(Millions of yen)
Deferred tax assets:	
Accrued pension and severance costs	¥ 3,972
Accrued bonuses	1,046
Loss on revaluation of investments in securities	211
Depreciation	600
Accrued enterprise tax	183
Other	668
Subtotal	6,682
Valuation allowance	(4,689)
Total	1,992
Deferred tax liabilities:	
Net unrealized gain of investments in securities	(329)
Total	(329)
Deferred tax assets, net	¥ 1,663

A reconciliation between the Japanese statutory tax rate and the Company's effective tax rate for the year ended March 31, 2002 is as follows:

Japanese statutory tax rate	42.1%
Disallowed expenses, including entertainment expenses	8.7
Dividends received	(1.5)
Inhabitants' per capita taxes	5.4
Change in valuation allowance	12.9
Effective tax rate	67.6%