

# Japan Airlines System Corporation and Consolidated Subsidiaries

## Consolidated Financial Information

For the years ended March 31, 2004 and 2003

### 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	FY03	¥1,931,742 million	(-7.3%)
	FY02	¥2,083,480 million	(-)
(2) Operating (loss) income	FY03	¥ (67,645) million	(-)
	FY02	¥ 10,589 million	(-)
(3) Ordinary (loss) income	FY03	¥ (71,938) million	(-)
	FY02	¥ 15,840 million	(-)
(4) Net (loss) income	FY03	¥ (88,619) million	(-)
	FY02	¥ 11,645 million	(-)
(5) Net (loss) income per share	FY03	¥ (45.19)	
	FY02	¥ 5.92	
(6) Diluted net income per share	FY03	¥ -	
	FY02	¥ -	
(7) Return on equity	FY03	-42.9%	
	FY02	4.6%	
(8) Ordinary income as a percentage of total assets	FY03	-3.4%	
	FY02	0.7%	
(9) Ordinary income as a percentage of total operating revenues	FY03	-3.7%	
	FY02	0.8%	
(10) Equity in earnings of affiliates	FY03	¥ 1,221 million	
	FY02	¥ 340 million	

Note 1. Weighted-average number of shares outstanding during the year:

FY03	1,961,792,998
FY02	1,962,051,790

## 1. Consolidated Financial Highlights (continued)

### b. Consolidated financial position

(1) Total assets	FY03	¥2,113,418 million
	FY02	¥2,172,284 million
(2) Total stockholders' equity	FY03	¥ 159,273 million
	FY02	¥ 254,256 million
(3) Stockholders' equity as a percentage of total assets	FY03	7.5%
	FY02	11.7%
(4) Equity per share	FY03	¥ 81.16
	FY02	¥ 129.66

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

March 31, 2004	1,962,017,090
March 31, 2003	1,960,602,124

### c. Consolidated cash flows

(1) Net cash provided by operating activities	FY03	¥ 76,345 million
	FY02	¥ 155,413 million
(2) Net cash used in investing activities	FY03	¥ (85,382) million
	FY02	¥ (85,187) million
(3) Net cash provided by (used in) financing activities	FY03	¥ 7,615 million
	FY02	¥ (108,103) million
(4) Cash and cash equivalents held at end of year	FY03	¥ 143,327 million
	FY02	¥ 146,318 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, 2005

(1) Total operating revenues	¥2,190,000 million
(2) Operating income	¥ 81,000 million
(3) Ordinary income	¥ 69,000 million
(4) Net income	¥ 36,000 million
(5) Net income per share	¥ 18.35

(For the assumptions underlying the forecast and other concerns are given on page 11.)

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

Japan Airlines System Corporation (the “Company”) owns 295 subsidiaries and currently consolidates 160 subsidiaries, including the following principal subsidiaries:

JAPAN AIRLINES COMPANY, LTD. (currently Japan Airlines International Co., Ltd.)  
JAPAN AIR SYSTEM CO., LTD. (currently Japan Airlines Domestic 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 Story Co., Ltd. merged with JAL Tours Co., Ltd., JAS Skycourt Sapporo Co., Ltd. merged with JALSKY Sapporo Co., Ltd. and JAS Skycourt Osaka Co., Ltd. merged with JALSKY Osaka, JAS Trading Co., Ltd. merged with JALUX Inc., Aero Communication Service Co., Ltd. merged with JAL Navia Tokyo Co., Ltd. (formerly JLCOS Company, Ltd.), Osaka ACS Co., Ltd. merged with JAL Navia Osaka Co., Ltd. (formerly JAL Plus Co., Ltd.), Sendai Air Service Co., Ltd. merged with JALSKY Sendai Co., Ltd. (formerly JAL Tohoku International Service Co., Ltd.), JAS Skycourt Fukuoka Co., Ltd. merged with JALSKY Kyushu Co., Ltd. (formerly JAL Kyushu Service Co., Ltd.) and Japan Air Motor Service Co., Ltd. merged with JAL Airtech Co., Ltd. (formerly Airport Engineering & Service Co., Ltd.).

The number of unconsolidated subsidiaries which are not accounted for by the equity method is currently 135.

The number of affiliates is currently 98, including 24 companies which are accounted for by the equity method.

Until the end of the previous financial year, JAL Story Co., Ltd., JAS Skycourt Sapporo Co., Ltd., JAS Skycourt Osaka Co., Ltd., JAS Trading Co., Ltd., Aero Communication Service Co., Ltd., Osaka ACS Co., Ltd., Sendai Air Service Co., Ltd., JAS Skycourt Fukuoka Co., Ltd., and Japan Air Motor Service Co., Ltd. were consolidated subsidiaries of the Company. However, during the year ended March 31, 2004, these companies were merged into other consolidated subsidiaries as follows:

Changes in the scope of consolidation and adoption of the equity method (other than as outlined above) are summarized as follows:

Consolidation:

(Increase)	5	JAL Navia Sapporo Co., Ltd. JAL Simulator Engineering Co., Ltd. Narita Logistic Terminal Co., Ltd. JAL Brand Communications Co., Ltd. JAL Travel Nagasaki Co., Ltd. (formerly Nagasaki Air System Co., Ltd.)
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**3. Consolidated Subsidiaries and Affiliates Accounted for by the Equity Method  
(continued)**

(Decrease) 7      AAS Catering Co., Ltd.  
Hiroshima Catering Co., Ltd.  
J-Travel Kyushu Co., Ltd.  
J-Travel Nagoya Co., Ltd.  
Hokkaido Tours System Co., Ltd.  
Japan Tours System Co., Ltd.  
Pacific Air Service Co., Ltd.

Equity method:

(Decrease) 3      Tokyo Air Cargo City Terminal Co., Ltd.  
Ryukyu Air System Co., Ltd.  
JAL Travel Nagasaki Co., Ltd.  
(formerly Nagasaki Air System Co., Ltd.)

# Japan Airlines System Corporation and Consolidated Subsidiaries

## Comparative Consolidated Balance Sheets

March 31, 2004 and 2003

	<b>2004</b>	<b>2003</b>	<b>Change</b>
	<i>(Millions of yen)</i>		
<b>Assets</b>			
<b>I. Current assets</b>			
Cash and time deposits	¥ 143,775	¥ 133,145	¥ 10,630
Notes and accounts receivable – trade	208,606	202,519	6,087
Short-term investments in securities	656	14,621	(13,964)
Supplies	75,784	78,424	(2,640)
Deferred income taxes	8,690	16,597	(7,906)
Other current assets	84,793	88,131	(3,337)
Allowance for bad debts	(3,231)	(3,117)	(113)
<b>Total current assets</b>	<b>519,076</b>	<b>530,322</b>	<b>(11,246)</b>
<b>II. Fixed assets</b>			
<b>Tangible fixed assets:</b>			
Buildings and structures	240,189	256,529	(16,340)
Machinery, equipment and vehicles	37,773	41,273	(3,499)
Flight equipment	872,256	915,938	(43,681)
Land	86,362	88,979	(2,616)
Construction in progress	60,424	53,203	7,220
Other fixed assets	25,275	26,690	(1,415)
<b>Total tangible fixed assets</b>	<b>1,322,281</b>	<b>1,382,615</b>	<b>(60,333)</b>
<b>Intangible fixed assets:</b>			
Software	64,551	49,820	14,730
Goodwill	61	306	(245)
Other intangible fixed assets	2,050	3,000	(950)
<b>Total intangible fixed assets</b>	<b>66,663</b>	<b>53,127</b>	<b>13,535</b>
<b>Investments:</b>			
Investments in securities	76,806	77,043	(237)
Long-term loans receivable	18,902	18,498	403
Deferred income taxes	49,645	41,503	8,141
Other investments	63,155	73,701	(10,545)
Allowance for bad debts	(3,235)	(4,528)	1,293
<b>Total investments</b>	<b>205,274</b>	<b>206,219</b>	<b>(944)</b>
<b>Total fixed assets</b>	<b>1,594,219</b>	<b>1,641,962</b>	<b>(47,742)</b>
<b>III. Deferred charges</b>			
Bond issuance expenses	123	–	123
<b>Total deferred charges</b>	<b>123</b>	<b>–</b>	<b>123</b>
<b>Total assets</b>	<b>¥2,113,418</b>	<b>¥2,172,284</b>	<b>¥(58,865)</b>

	<b>2004</b>	<b>2003</b>	<b>Change</b>
	<i>(Millions of yen)</i>		
<b>Liabilities</b>			
I. Current liabilities			
Accounts payable – trade	¥ 206,043	¥ 204,557	¥ 1,485
Short-term borrowings	10,782	23,035	(12,253)
Current portion of bonds	23,700	67,495	(43,795)
Current portion of long-term loans	118,545	127,537	(8,992)
Accrued income taxes	6,572	5,320	1,252
Deferred income taxes	60	73	(12)
Other current liabilities	194,855	187,327	7,528
Total current liabilities	<u>560,559</u>	<u>615,346</u>	<u>(54,787)</u>
II. Non-current liabilities			
Bonds	225,000	218,700	6,300
Long-term loans	936,390	864,385	72,005
Accrued pension and severance costs	163,128	143,670	19,457
Deferred income taxes	120	413	(293)
Other non-current liabilities	44,806	51,988	(7,181)
Total non-current liabilities	<u>1,369,446</u>	<u>1,279,158</u>	<u>90,287</u>
Total liabilities	<u>1,930,005</u>	<u>1,894,505</u>	<u>35,500</u>
 <b>Minority interests</b>	 24,139	 23,522	 616
 <b>Stockholders' equity</b>			
I. Common stock	100,000	100,000	–
II. Capital surplus	136,678	147,175	(10,497)
III. (Accumulated deficit) retained earnings	(65,031)	23,481	(88,513)
. Net unrealized gain (loss) on investments in securities, net of deferred income taxes	2,787	(780)	3,567
. Translation adjustments	(9,958)	(7,451)	(2,506)
. Common stock in treasury	(5,202)	(8,168)	2,966
Total stockholders' equity	<u>159,273</u>	<u>254,256</u>	<u>(94,983)</u>
Total liabilities and stockholders' equity	<u>¥2,113,418</u>	<u>¥2,172,284</u>	<u>¥(58,865)</u>

# Japan Airlines System Corporation and Consolidated Subsidiaries

## Comparative Consolidated Statements of Operations

For the years ended March 31, 2004 and 2003

	2004	2003	Change
	<i>(Millions of yen)</i>		
<b>Operating revenues</b>	¥1,931,742	¥2,083,480	¥(151,738)
Operating expenses:			
Cost of operating revenues	1,605,917	1,661,421	(55,504)
Selling, general and administrative expenses	393,470	411,469	(17,999)
Total operating expenses	1,999,387	2,072,891	(73,503)
Operating (loss) income	(67,645)	10,589	(78,235)
Non-operating income:			
Interest and dividend income	2,928	2,932	(3)
Equity in earnings of affiliates	1,221	340	880
Exchange gain, net	424	—	424
Other income	38,450	55,976	(17,525)
Total non-operating income	43,024	59,249	(16,224)
Non-operating expenses:			
Interest expense	28,503	34,657	(6,153)
Exchange loss, net	—	1,975	(1,975)
Other expenses	18,813	17,365	1,448
Total non-operating expenses	47,317	53,998	(6,680)
Ordinary (loss) income	(71,938)	15,840	(87,778)
Extraordinary profit:			
Gain on sales of fixed assets	1,330	4,446	(3,116)
Subsidy received in relation to purchases of aircraft to be used for isolated island routes	1,618	—	1,618
Gain recognized upon separation of substitutional portion of benefit obligation of welfare pension fund plans	755	—	755
Gain on sales of investments in securities	1,235	4,623	(3,388)
Other extraordinary profit	1,985	2,928	(943)
Total extraordinary profit	6,923	11,999	(5,075)
Extraordinary losses:			
Loss on sales and disposal of fixed assets	5,153	9,852	(4,698)
Expenses arising from business combination	—	7,304	(7,304)
Loss on investments in unconsolidated subsidiaries and affiliates	6,518	—	6,518
Other extraordinary losses	5,462	6,600	(1,138)
Total extraordinary losses	17,134	23,758	(6,623)
(Loss) income before income taxes and minority interests	(82,148)	4,081	(86,230)
Income taxes – current	8,854	8,100	753
Income taxes – deferred	(3,092)	(16,468)	13,375
Minority interests	(709)	(804)	95
Net (loss) income	¥ (88,619)	¥ 11,645	¥(100,264)

Japan Airlines System Corporation and Consolidated Subsidiaries

Consolidated Statements of Capital Surplus and  
Accumulated Deficit/Retained Earnings

For the years ended March 31, 2004 and 2003

	<b>2004</b>	<b>2003</b>
	<i>(Millions of yen)</i>	
<b>Capital surplus</b>		
Balance at beginning of year	¥147,175	¥158,529
Increase	—	—
Decrease:		
Cash dividends	7,844	—
Transfer to retained earnings	—	11,301
Loss on disposal of common stock in treasury	2,652	51
Balance at end of year	<u>¥136,678</u>	<u>¥147,175</u>
 <b>(Accumulated deficit) retained earnings</b>		
Balance at beginning of year	¥ 23,481	¥ 570
Increase:		
Net income	—	11,645
Change in scope of consolidation	144	—
Transfer from capital surplus	—	11,301
Decrease:		
Net loss	88,619	—
Bonuses to directors and statutory auditors	38	35
Balance at end of year	<u>¥ (65,031)</u>	<u>¥ 23,481</u>



# Japan Airlines System Corporation and Consolidated Subsidiaries

## Consolidated Statements of Cash Flows

For the years ended March 31, 2004 and 2003

	<b>2004</b>	<b>2003</b>
	<i>(Millions of yen)</i>	
<b>Operating activities</b>		
(Loss) income before income taxes and minority interests	¥ (82,148)	¥ 4,081
Adjustments to reconcile (loss) income before income taxes and minority interests to net cash provided by operating activities:		
Depreciation and amortization	119,388	118,187
Gain and loss on sales of, and loss on revaluation of, short-term investments in securities and investments in securities, net	(569)	(2,551)
Gain and loss on sales of, and loss on disposal of, fixed assets, net	17,846	17,603
Net provision for accrued pension and severance costs	19,459	17,223
Interest and dividend income	(2,928)	(2,932)
Interest expense	28,503	34,657
Exchange loss, net	547	141
Equity in earnings of affiliates	(1,221)	(340)
(Increase) decrease in notes and accounts receivable	(7,215)	31,761
Decrease (increase) in supplies	2,387	(2,812)
Increase in accounts payable	2,608	7,778
Other	14,366	(29,111)
Subtotal	111,023	193,686
Interest and dividends received	3,386	3,427
Interest paid	(29,003)	(34,709)
Income taxes paid	(9,060)	(6,991)
Net cash provided by operating activities	76,345	155,413
<b>Investing activities</b>		
Purchases of time deposits	(1,092)	(101)
Proceeds from maturity of time deposits	996	1,877
Purchases of fixed assets	(151,585)	(195,575)
Proceeds from sales of fixed assets	57,285	62,043
Purchases of investments in securities	(974)	(11,540)
Proceeds from sales and maturity of investments in securities	3,615	12,400
Proceeds from sales of consolidated subsidiaries resulting in change in scope of consolidation	103	683
Long-term loans receivable made	(2,853)	(4,937)
Collection of long-term loans receivable	8,875	42,887
Other	247	7,074
Net cash used in investing activities	(85,382)	(85,187)

	<b>2004</b>	<b>2003</b>
	<i>(Millions of yen)</i>	
<b>Financing activities</b>		
Decrease in short-term borrowings, net	¥ (9,976)	¥ (36,196)
Proceeds from long-term loans	200,882	214,804
Repayment of long-term loans	(134,638)	(199,550)
Proceeds from issuance of bonds	29,815	–
Redemption of bonds	(67,495)	(83,864)
Dividends paid to stockholders	(7,813)	(50)
Dividends paid to minority interests	(334)	(266)
Other	(2,825)	(2,979)
Net cash provided by (used in) financing activities	7,615	(108,103)
Effect of exchange rate changes on cash and cash equivalents	(1,568)	(670)
Net decrease in cash and cash equivalents	(2,991)	(38,548)
Cash and cash equivalents at beginning of year	146,318	185,399
Increase in cash and cash equivalents arising from inclusion in consolidation	–	176
Decrease in cash and cash equivalents arising from exclusion from consolidation	–	(708)
Cash and cash equivalents at end of year	<u>¥ 143,327</u>	<u>¥ 146,318</u>
<b>Reconciliation between cash and time deposits in balance sheets to cash and cash equivalents at end of year</b>		
Cash and time deposits in balance sheets	¥ 143,775	¥ 133,145
Time deposits with original maturities of more than three months	(448)	(392)
Marketable securities with original maturities of three months or less	0	13,840
Current account overdrafts included in short-term borrowings	–	(274)
Cash and cash equivalents at end of year	<u>¥ 143,327</u>	<u>¥ 146,318</u>

# Japan Airlines System Corporation

## Notes to Consolidated Financial Statements

March 31, 2004 and 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 26 of the consolidated subsidiaries is December 31. Any significant differences in intercompany accounts and transactions arising from intervening intercompany transactions during the period from January 1 through March 31 have been adjusted, if necessary. JLC Insurance Company Limited has changed its balance sheet date from February 28 to December 31 and, thus, its current fiscal year was ten months.

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.

## 1. Summary of Significant Accounting Policies (continued)

### c. Cash equivalents

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

### d. 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 principally 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.
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#### Ground property and equipment:

Japan Airlines Company, Ltd. and Japan Air System Co., Ltd.	– The straight-line method
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Other companies	– Principally the declining-balance method
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Intangible fixed assets	– The straight-line method
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### h. Deferred charges

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

### i. 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 principally over a period of fifteen years.

## 1. Summary of Significant Accounting Policies (continued)

### j. Accrued pension and severance costs (continued)

The adjustment for actuarial assumptions is being amortized by straight-line method 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. Amortization is computed from the fiscal year subsequent to the year in which the adjustment was recorded.

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

### k. 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.

### l. Foreign currency accounts

Foreign currency receivables and payables are translated into yen at the applicable year-end exchange rates and translation gain or loss 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.

### m. 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 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)**

### **n. 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. The related interest differential paid or received on interest-rate swaps used as hedging instruments is recognized over the term of each swap agreement as an adjustment to the interest expense of the underlying hedged items if certain conditions are met.

### **o. Consumption taxes**

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

### **p. Income taxes**

Effective the year ended March 31, 2004, the Company and certain of its domestic subsidiaries have adopted the Japanese consolidated tax return system.

### **q. Appropriation of capital surplus and/or retained earnings and disposition of accumulated deficit**

Under the Commercial Code of Japan, the appropriation of capital surplus and/or retained earnings and disposition of accumulated deficit with respect to a financial period is made by resolution of the stockholders at a general meeting held subsequent to the close of the financial period and the accounts for that period do not, therefore, reflect such appropriations and disposition.

## **2. Other Footnote Information**

a. Accumulated depreciation at March 31, 2004 and 2003 amounted to ¥1,632,427 million and ¥1,661,854 million, respectively.

b. At March 31, 2004 and 2003, contingent liabilities for guarantees amounted to ¥17,208 million and ¥15,207 million, respectively. In addition, at March 31, 2004 and 2003, contingent liabilities for commitment to guarantees, keep-well agreements and other commitments amounted to ¥1,994 million and ¥2,133 million, respectively.

c. At March 31, 2003, a consolidated 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, 2004 and 2003, shares of common stock in treasury numbered 18,448,160 and 19,863,126, respectively.

### 3. Subsequent Events

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

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

- b. Pursuant to a resolution of the Board of Directors at a meeting held on March 17, 2004, the Company issued zero coupon guaranteed convertible bonds due 2011 on April 5, 2004.
- (1) Total amount of the bond issue: ¥100,000 million
  - (2) Coupon: zero
  - (3) Maturity date: March 25, 2011
  - (4) Shares to be issued upon conversion:
    - Type of shares: common stock
    - Number of shares to be issued: The number of shares to be issued upon exercise of the stock acquisition rights is equal to the face value of the bonds divided by the conversion price.
  - (5) Initial conversion price: ¥440 per share which is subject, under certain circumstances, to adjustment.
  - (6) Exercise period of stock acquisition rights: The stock acquisition rights granted under the terms of these bonds may be exercised at any time during the period from, and inclusive of, April 19, 2004 up to the close of business on March 11, 2011 at the location where the stock acquisition rights are exercised.
- c. Effective April 1, 2004, JAL Group has changed its business structure. Under the new business structure, Japan Airlines International Co., Ltd. (formerly Japan Airlines Company, Ltd.) is responsible for the international passenger service and cargo service businesses, and Japan Airlines Domestic Co., Ltd. (formerly Japan Air System Co., Ltd.) is responsible for the domestic passenger service business.

#### 4. Segment Information

##### a. Business segment information

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

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

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

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

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



#### 4. Segment Information (continued)

##### a. Business segment information (continued)

	Year ended March 31, 2003					General corporate assets and intercompany eliminations	Consolidated
	Air transportation	Travel services	Hotel and resort operations	Other	Total		
	<i>(Millions of yen)</i>						
Operating revenues	¥1,458,276	¥391,041	¥34,516	¥199,646	¥2,083,480	¥ –	¥2,083,480
Inter-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 and amortization	¥ 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

The business segment information for the year ended March 31, 2003, reclassified in order to confirm to the current year presentation, is as follows:

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

#### 4. Segment Information (continued)

##### b. Operating revenues from overseas operations

Operating revenues from overseas operations, which include international passenger and cargo services of Japan Airlines Company, Ltd., Japan Air System Co., Ltd., Japan Asia Airways Co., Ltd. and Jalways Co., Ltd., export sales of domestic subsidiaries, and sales of subsidiaries outside Japan for the years ended March 31, 2004 and 2003 are summarized as follows:

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

  

	<b>Year ended March 31, 2003</b>			
	Asia and Oceania	North and South America	Europe	Total
	<i>(Millions of yen)</i>			
Operating revenues from overseas 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 overseas operations	20.8%	15.6%	10.2%	46.6%

##### c. Geographic information

Total assets in Japan at March 31, 2004 and 2003 and operating revenues from the operations in Japan for the years then ended represented more than 90% of consolidated total assets and consolidated operating revenues, respectively. 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, 2004 and 2003 and the related depreciation and interest expense for the years ended March 31, 2004 and 2003, which would have been reflected in the 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:

<b>March 31, 2004</b>			
	Flight equipment	Other	Total
	<i>(Millions of yen)</i>		
Acquisition costs	¥499,349	¥25,604	¥524,953
Less accumulated depreciation	205,948	10,940	216,888
Net book value	<u>¥293,400</u>	<u>¥14,664</u>	<u>¥308,064</u>
<b>March 31, 2003</b>			
	Flight equipment	Other	Total
	<i>(Millions of yen)</i>		
Acquisition costs	¥460,044	¥29,930	¥489,974
Less accumulated depreciation	223,865	11,429	235,294
Net book value	<u>¥236,179</u>	<u>¥18,501</u>	<u>¥254,680</u>
<b>Year ended March 31,</b>			
	<b>2004</b>	<b>2003</b>	
	<i>(Millions of yen)</i>		
Depreciation expense	<u>¥48,654</u>	<u>¥47,376</u>	
Interest expense	<u>¥ 5,090</u>	<u>¥ 5,871</u>	

Lease expenses relating to capital leases accounted for as operating leases amounted to ¥55,537 million and ¥55,541 million for the years ended March 31, 2004 and 2003, respectively.

## 5. Leases (continued)

### *As lessee (continued)*

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

	<b>March 31,</b>	
	<b>2004</b>	<b>2003</b>
	<i>(Millions of yen)</i>	
Within 1 year	¥ 47,332	¥ 47,194
Over 1 year	268,508	217,939
	<u>¥315,840</u>	<u>¥265,133</u>

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

	<b>March 31,</b>	
	<b>2004</b>	<b>2003</b>
	<i>(Millions of yen)</i>	
Within 1 year	¥ 24,175	¥ 20,083
Over 1 year	167,368	120,376
	<u>¥191,544</u>	<u>¥140,459</u>

### *As lessor*

The following amounts represent the acquisition costs, accumulated depreciation and net book value of the leased property as of March 31, 2004 and 2003, and the related depreciation and interest revenue for the years ended March 31, 2004 and 2003, which are reflected in the consolidated balance sheets and the related statements of operations:

	<b>March 31, 2004</b>		
	Flight equipment	Other	Total
	<i>(Millions of yen)</i>		
Acquisition costs	¥347	¥2,559	¥2,907
Less accumulated depreciation	324	1,702	2,027
Net book value	<u>¥ 23</u>	<u>¥ 857</u>	<u>¥ 880</u>

  

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

## 5. Leases (continued)

*As lessor (continued)*

	<b>Year ended March 31,</b>	
	<b>2004</b>	<b>2003</b>
	<i>(Millions of yen)</i>	
Depreciation expense	¥513	¥624
Interest revenues	¥ 51	¥ 69

Lease revenues relating to direct financing leases accounted for as operating leases amounted to ¥602 million and ¥739 million for the years ended March 31, 2004 and 2003, respectively.

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

	<b>March 31,</b>	
	<b>2004</b>	<b>2003</b>
	<i>(Millions of yen)</i>	
Within 1 year	¥ 433	¥ 492
Over 1 year	474	676
	¥ 907	¥1,169

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

	<b>March 31,</b>	
	<b>2004</b>	<b>2003</b>
	<i>(Millions of yen)</i>	
Within 1 year	¥ 15	¥ –
Over 1 year	15	–
	¥ 31	¥ –

## 6. Tax-Effect Accounting

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

	<b>March 31,</b>	
	<b>2004</b>	<b>2003</b>
	<i>(Millions of yen)</i>	
Deferred tax assets:		
Accrued pension and severance costs	¥ 53,683	¥ 38,709
Revaluation loss on investments in subsidiaries and affiliates	14,483	14,536
Accrued bonuses	2,526	2,609
Allowance for bad debts	1,814	2,391
Accounts payable – trade	3,203	3,137
Revaluation loss on flight equipment spare parts	2,287	2,041
Tax loss carryforward	44,994	38,197
Other	20,530	18,736
	<u>143,524</u>	<u>120,360</u>
Deferred tax liabilities:		
Reserve for special depreciation	–	(2,805)
Accumulated earnings of consolidated subsidiaries and affiliates	(5,424)	(4,058)
Net unrealized gain on investments in securities	(2,042)	–
Other	(3,910)	(1,382)
	<u>(11,377)</u>	<u>(8,246)</u>
Valuation allowance	<u>(73,992)</u>	<u>(54,499)</u>
Deferred tax assets, net	<u>¥ 58,155</u>	<u>¥ 57,614</u>

For the year ended March 31, 2004, a reconciliation between the Japanese statutory tax rate and the Company's effective tax rate is not required to be disclosed since the Company recorded a loss before income taxes. The statutory tax rate for the year ended March 31, 2004 was 44.2%.

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

	<b>Year ended March 31, 2003</b>
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)
Tax effect on undistributed earnings of consolidated subsidiaries	53.7
Difference in tax rates of consolidated subsidiaries	10.2
Other	(0.0)
Effective tax rate	<u>(205.0)%</u>

## 6. Tax-Effect Accounting (continued)

At March 31, 2003, reflecting a change in the local tax rates, the statutory tax rate utilized in estimating deferred tax assets and liabilities has been applied as follows. The statutory tax rate effective for the year ended March 31, 2004, excluding a surtax for the consolidation tax return system, has been applied to the temporary differences expected to be deducted for tax purposes by the end of March 2004, and the new rate has been applied to those to be utilized after April 2004.

## 7. Fair Value of Investments in Securities

The components of net unrealized gain (loss) on investments in marketable securities at March 31, 2004 and 2003 are summarized as follows:

<b>March 31, 2004</b>			
	Acquisition costs	Carrying value	Unrealized gain (loss)
	<i>(Millions of yen)</i>		
Unrealized gain:			
Stocks	¥ 9,937	¥15,346	¥5,409
Bonds	117	119	2
Other	861	876	14
	10,916	16,343	5,426
Unrealized loss:			
Stocks	3,574	3,159	(415)
Bonds	52	51	(0)
Other	77	73	(4)
	3,704	3,284	(420)
Total	¥14,621	¥19,627	¥5,005

  

<b>March 31, 2003</b>			
	Acquisition costs	Carrying value	Unrealized gain (loss)
	<i>(Millions of yen)</i>		
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)

## 7. Fair Value of Investments in Securities (continued)

Investments in non-marketable securities at March 31, 2004 and 2003 are summarized as follows.

	<b>March 31,</b>	
	<b>2004</b>	<b>2003</b>
	<i>(Millions of yen)</i>	
Money Management Fund	¥ 0	¥13,824
Unlisted stocks other than over-the-counter stocks	26,702	29,472
Other	106	122
	<u>¥26,809</u>	<u>¥43,419</u>

## 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/or currency swaps to minimize the impact of foreign exchange and/or 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 and welfare pension fund plans (WFPF).

	<b>March 31,</b>	
	<b>2004</b>	<b>2003</b>
	<i>(Millions of yen)</i>	
Projected benefit obligation	¥(936,352)	¥(829,170)
Plan assets	396,371	337,495
Accrued pension and severance costs	163,128	143,670
Prepaid pension cost	(647)	(448)
Net unrecognized amount	<u>¥(377,499)</u>	<u>¥(348,453)</u>



## 9. Accrued Pension and Severance Costs (continued)

The net unrecognized amount presented above consisted of the following:

	<b>March 31,</b>	
	<b>2004</b>	<b>2003</b>
	<i>(Millions of yen)</i>	
Unrecognized obligation at transition	¥(162,239)	¥(177,551)
Adjustment to actuarial assumptions	(216,246)	(172,417)
Unrecognized past service cost	986	1,515
Total	<u>¥(377,499)</u>	<u>¥(348,453)</u>

The substitutional portion of the benefits under the WFPF has been included in the amounts shown in the above table.

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

The components of net periodic pension cost were as follows:

	<b>For the year ended March 31,</b>	
	<b>2004</b>	<b>2003</b>
	<i>(Millions of yen)</i>	
Service cost	¥ 31,421	¥ 31,169
Interest cost on projected benefit obligation	27,386	26,939
Expected return on plan assets	(15,987)	(17,168)
Amortization of unrecognized obligation at transition	14,844	15,143
Amortization of adjustment to actuarial assumptions	12,554	8,765
Amortization of past service cost	(126)	(140)
Net periodic pension cost	<u>¥ 70,093</u>	<u>¥ 64,709</u>

## 9. Accrued Pension and Severance Costs (continued)

The actuarial assumptions used were as follows:

	For the year ended March 31,	
	2004	2003
	<i>(Millions of yen)</i>	
Method of amortization	Straight-line method	Straight-line method
Discount rates for obligation at end of year	2.5% ~ 2.8%	2.5% ~ 3.5%
Expected rates of return on plan assets	0.0% ~ 5.5%	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.

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,			
	2004		2003	
	Amount	Ratio (%)	Amount	Ratio (%)
	<i>(Millions of yen)</i>			
International:				
Passenger operations	¥ 549,764	35.5	¥ 668,472	40.5
Cargo operations	153,015	9.9	157,288	9.5
Mail service operations	8,315	0.5	8,324	0.5
Luggage operations	2,149	0.1	2,790	0.2
Subtotal	713,246	46.0	836,876	50.7
Domestic:				
Passenger operations	668,888	43.2	629,358	38.2
Cargo operations	30,814	2.0	30,238	1.8
Mail service operations	11,856	0.8	11,979	0.7
Luggage operations	306	0.0	300	0.0
Subtotal	711,866	46.0	671,876	40.7
Other revenues	41,925	2.7	42,086	2.6
Incidental business revenues	81,785	5.3	99,632	6.0
Total revenues	<u>¥1,548,823</u>	<u>100.0</u>	<u>¥1,650,471</u>	<u>100.0</u>