

Japan Airlines System Corporation

Non-Consolidated Financial Information

*For the years ended March 31, 2004 and 2003*

***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	FY03	¥21,329	(571.5%)
	FY02	¥ 3,176	(-)
(2) Operating income	FY03	¥10,374	(-)
	FY02	¥ 188	(-)
(3) Ordinary income	FY03	¥10,167	(-)
	FY02	¥ 40	(-)
(4) Net income	FY03	¥ 8,701	(-)
	FY02	¥ 11	(-)
(5) Net income per share	FY03	¥ 4.41	
	FY02	¥ 0.01	
(6) Diluted net income per share	FY03	¥ -	
	FY02	¥ -	
(7) Return on equity	FY03	3.0%	
	FY02	0.0%	
(8) Ordinary income as a percentage of total assets	FY03	1.3%	
	FY02	0.0%	
(9) Ordinary income as a percentage of total operating revenues	FY03	47.7%	
	FY02	1.3%	

Note 1. Number of shares outstanding during the year:

FY03	1,972,757,752
FY02	1,979,260,152

## 2. Dividends

(1) Annual dividends per share	FY03	¥ 0.00
	FY02	¥ 4.00
(2) Total annual dividends	FY03	—
	FY02	¥ 7,914 million
(3) Dividends as a percentage of net income	FY03	—
	FY02	66,495.6%
(4) Dividends as a percentage of equity	FY03	—
	FY02	2.7%

## 3. Non-Consolidated Financial Position

(1) Total assets	FY03	¥931,961 million
	FY02	¥619,604 million
(2) Total stockholders' equity	FY03	¥285,648 million
	FY02	¥289,351 million
(3) Stockholders' equity as a percentage of total assets	FY03	30.7%
	FY02	46.7%
(4) Equity per share	FY03	¥ 145.54
	FY02	¥ 146.24

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

March 31, 2004	1,962,659,184
March 31, 2003	1,978,646,153

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

March 31, 2004	17,806,066
March 31, 2003	1,819,097

## 4. Non-Consolidated Financial Forecast for the Year Ending March 31, 2005

(1) Total operating revenues	¥ 17,500 million
(2) Operating income	¥ 400 million
(3) Ordinary income	¥ 200 million
(4) Net income	¥ 0 million
(5) Annual dividends per share	¥ 4.00
(6) Net income per share	¥ 0.00

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

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## Japan Airlines System Corporation

## Comparative Non-Consolidated Balance Sheets

March 31, 2004 and 2003

(Millions of yen)

	<u>2004</u>	%	<u>2003</u>	%	<u>Change</u>
<b>Assets</b>					
I. Current assets					
Cash and time deposits	¥ 30		¥ 67		¥ (36)
Accounts receivable – trade	3,741		392		3,349
Current portion of long-term loans receivable from subsidiaries	36,751		31,886		4,865
Prepaid expenses	38		76		(37)
Accounts receivable – other	5,837		–		5,837
Deferred income taxes	40		6		33
Other current assets	4		1		3
Total current assets	<u>46,445</u>	5.0	<u>32,429</u>	5.2	<u>14,015</u>
II. Fixed assets					
Tangible fixed assets:					
Buildings	–		681		(681)
Tools and spare parts	56		63		(6)
Total tangible fixed assets	<u>56</u>	0.0	<u>744</u>	0.1	<u>(688)</u>
Intangible fixed assets:					
Software	13		10		3
Other intangible fixed assets	0		–		0
Total intangible fixed assets	<u>13</u>	0.0	<u>10</u>	0.0	<u>3</u>
Investments:					
Investments in subsidiaries	300,822		289,851		10,970
Long-term loans receivable from subsidiaries	584,090		295,672		288,418
Deferred income taxes	18		13		4
Other investments	0		360		(360)
Total investments	<u>884,931</u>	95.0	<u>585,898</u>	94.6	<u>299,032</u>
Total fixed assets	<u>885,001</u>	95.0	<u>586,653</u>	94.7	<u>298,348</u>
III. Deferred charges					
Start-up costs	391		522		(130)
Bond issuance expenses	123		–		123
Total deferred charges	<u>514</u>	0.0	<u>522</u>	0.1	<u>(7)</u>
Total assets	<u>¥931,961</u>	100.0	<u>¥619,604</u>	100.0	<u>¥312,356</u>

(Millions of yen)

	<b>2004</b>	<b>%</b>	<b>2003</b>	<b>%</b>	<b>Change</b>
<b>Liabilities</b>					
I. Current liabilities					
Accounts payable – trade	¥ 768		¥ 451		¥ 317
Short-term borrowings from a subsidiary	17,018		1,257		15,760
Current portion of long-term loans	36,751		31,886		4,865
Accounts payable – other	4,235		37		4,197
Accrued income taxes	148		48		99
Accrued expenses	3,287		860		2,426
Other current liabilities	12		38		(25)
Total current liabilities	<u>62,222</u>	6.7	<u>34,581</u>	5.6	<u>27,641</u>
II. Non-current liabilities					
Bonds	30,000		–		30,000
Long-term loans	<u>554,090</u>		<u>295,672</u>		<u>258,418</u>
Total non-current liabilities	<u>584,090</u>	62.6	<u>295,672</u>	47.7	<u>288,418</u>
Total liabilities	<u>646,313</u>	69.3	<u>330,253</u>	53.3	<u>316,060</u>
<b>Stockholders' equity</b>					
I. Common stock	100,000	10.7	100,000	16.1	–
II. Capital surplus:					
Additional paid-in capital	100,000	10.7	100,000	16.1	–
Other capital surplus	81,908	8.8	89,801	14.5	(7,893)
Transfer from additional paid-in capital	81,887		89,801		(7,914)
Gain on sales of common stock in treasury	20		–		20
III. Retained earnings:					
Unappropriated retained earnings	8,713	1.0	11	0.0	8,701
IV. Common stock in treasury	<u>(4,973)</u>	(0.5)	<u>(462)</u>	(0.0)	<u>(4,511)</u>
Total stockholders' equity	<u>285,648</u>	30.7	<u>289,351</u>	46.7	<u>(3,703)</u>
Total liabilities and stockholders' equity	<u>¥931,961</u>	100.0	<u>¥619,604</u>	100.0	<u>¥312,356</u>

## Japan Airlines System Corporation

## Comparative Non-Consolidated Statements of Income

*For the years ended March 31, 2004 and 2003*

	<i>(Millions of yen)</i>			
	<u>2004</u>	<u>%</u>	<u>2003</u>	<u>%</u>
<b>Operating revenues</b>	¥21,329	100.0	¥3,176	100.0
Operating expenses:				
Cost of operating revenues	5,566		388	
Selling, general and administrative expenses	5,388		2,599	
Total operating expenses	<u>10,954</u>	51.4	<u>2,987</u>	94.0
Operating income	10,374	48.6	188	6.0
Non-operating income:				
Interest income	0		0	
Other income	9		0	
Total non-operating income	<u>9</u>	0.1	<u>0</u>	0.0
Non-operating expenses:				
Interest expense	70		3	
Amortization of start-up costs	130		130	
Other expenses	14		15	
Total non-operating expenses	<u>215</u>	1.0	<u>149</u>	4.7
Ordinary income	10,167	47.7	40	1.3
Extraordinary loss:				
Loss on sales and disposal of fixed assets	1,009		—	
Total extraordinary loss	<u>1,009</u>	4.8	<u>—</u>	—
Income before income taxes	<u>9,158</u>	42.9	<u>40</u>	1.3
Income taxes:				
Current	495		48	
Deferred	(38)		(19)	
Net income	<u>8,701</u>	40.8	<u>11</u>	0.4
Unappropriated retained earnings at beginning of the year	<u>11</u>		<u>—</u>	
Unappropriated retained earnings at end of the year	<u>¥ 8,713</u>		<u>¥ 11</u>	

# Japan Airlines System Corporation

## Comparative Proposal for Appropriation of Retained Earnings and Other Capital Surplus

	<i>(Millions of yen)</i>	
	<b>2004</b>	<b>2003</b>
<b>Unappropriated retained earnings</b>		
Unappropriated retained earnings	¥ 8,713	¥ 11
Unappropriated retained earnings to be carried forward	¥ 8,713	¥ 11
<b>Other capital surplus</b>		
Other capital surplus	¥81,908	¥89,801
Appropriation of other capital surplus:		
Cash dividends	—	7,914
(¥4 per share in 2003)		
Unappropriated other capital surplus to be carried forward	¥81,908	¥81,887

# Japan Airlines System Corporation

## Notes to Non-Consolidated Financial Statements

*March 31, 2004 and 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 fixed assets**

The straight-line method based on their estimated useful lives.

#### **c. Deferred charges**

Start-up costs are capitalized and are being amortized over a period of 5 years. Bond issuance expenses are capitalized and are being amortized over a period of 3 years.

#### **d. Hedge accounting**

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.

#### **e. Consumption taxes**

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

#### **f. Income taxes**

Effective the year ended March 31, 2004, the Company has adopted the Japanese consolidated tax return system.

### **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, 2004 and 2003 amounted to ¥10 million and ¥21 million, respectively.**

## 2. Other Footnote Information (continued)

- c. At March 31, 2004 and 2003, contingent liabilities for guarantees amounted to ¥581,459 million and ¥39,410 million, respectively.
- d. At March 31, 2004 and 2003, investments in subsidiaries which have no determinable market prices and the related fair value information have been omitted.

## 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. 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 rent expenses	¥36	¥ 9
Depreciation	—	4
Amortization of deferred charge	20	—
Accrued enterprise tax	—	4
Other	6	1
	<u>63</u>	<u>19</u>
Valuation allowance	(5)	—
Deferred tax assets, net	<u>¥58</u>	<u>¥19</u>

A reconciliation between the Japanese statutory tax rate and the Company's effective tax rate for the years ended March 31, 2004 and 2003 is as follows:

	<b>Year ended March 31,</b>	
	<b>2004</b>	<b>2003</b>
Japanese statutory tax rates	44.2%	42.1%
Disallowed expenses, including entertainment expenses	0.5	24.4
Non-taxable income, including dividends received	(39.8)	—
Inhabitants' per capita taxes	—	3.9
Other	0.1	0.3
Effective tax rates	<u>5.0%</u>	<u>70.7%</u>

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.