Japan Airlines Corporation and Consolidated Subsidiaries

Consolidated Financial Information

For the year ended March 31, 2005

Safe Operations

As result of a series of incidents relating to operational safety, the JAL Group was the subject of a business improvement order and administrative warnings relating to assurances on air transportation safety, issued by the Minister of Land, Infrastructure and Transport in March this year.

Operational safety lies at the very heart of the JAL Group's existence, therefore we take this action by the MLIT very seriously and have reflected deeply on these recent events. We wish to offer our sincerest apologies to everyone affected by these incidents and for any anxiety that may have been caused.

Under the strong leadership and guidance of the management, the JAL Group is now committing all its efforts to reinforcing the existing safety structure of the company. We will do everything within our power to banish customers' fears and restore people's confidence in the JAL Group.

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1. MANAGEMENT POLICIES

1. Fundamental Policies

The JAL Group strives to contribute to the peace and prosperity of Japan and the world through its activities as a comprehensive air transportation group that bridges the gap between cultures and minds. The Group also aims to rank among the world's leading air transportation groups, and strives towards maximizing its corporate value for the benefit of all stakeholders.

(Corporate philosophy)

The JAL Group's corporate philosophy is to serve as an air transportation group with comprehensive strengths, binding together peoples, cultures and hearts, and contributing to the peace and prosperity of not only Japan, but also of the world.

The five essential elements of this are

(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

With the objective of maximizing corporate value, the JAL Group seeks to increase asset efficiency, enhance profitability, and ensure the soundness of its financial condition.

We have set return on equity (ROE) and the interest-bearing repayment period (the ratio of interest-bearing debt to operating cash flow) as our key management indicators. Our goal is to raise the former to more than 10%, and to bring the latter down below 10 years.

3. Medium- and Long-Term Management Strategies

The business environment in the airline industry is likely to remain very difficult, owing to factors such as record-high fuel prices. These adverse circumstance have been addressed in the JAL Group's FY2005-2007 Medium-Term Business Plan, drawn up in March this year. By reforming its operating structure, the Group will build a structure that will enable it to generate profits in any operating environment, even in the face of sharp rises in fuel prices and sluggish demand, and it is now working in unison to create a robust quality of management that will enable the Group to be a match for any other airline in the Asia market, where growth potential is particularly strong.

The principal elements of the plan are as follows.

(1) Basic undertakings

a) Safety

Operational safety lies at the very heart of the JAL Group's existence. To enable customers to use its aircraft with complete confidence, the Group will take measures to ensure every individual employee in the Group is at all times 100% safety-conscious. JAL Group will also work continuously to enhance the safety-management structure throughout the Group, and will ensure that a high level of safety is standard.

b) Corporate Social Responsibility

The JAL Group will endeavor to use the resources at its disposable in all spheres of its activities – economic, environmental, social - for the healthy development of relations with all stakeholders: customers, shareholders, society and so on.

(2) Group management strategy

a) Structural reform of international passenger operations

We will reallocate resources and build a network in a way that places greater emphasis on profitability by, for example, concentrating resources on profitable and high-growth routes, and by reorganizing or eliminating unprofitable routes. We will also endeavor to enhance cost-competitiveness in such ways as expanding the scale of operations of our highly cost-competitive subsidiary JALways, and by reducing the types of aircraft and kinds of configurations of our fleet.

b) Reform of the cost structure
By implementing a wide range of measures, our aim is to improve the Group's financial situation by reforming the cost structure, achieving savings of ¥75 billion in fiscal 2007 and of at least ¥100 billion in future years. Measures include reducing personnel expenses through a review of staffing; reducing the number of board members and eliminating directors' retirement bonuses; reviewing our contracts with companies outside the Group; and lowering sales costs by fostering the use of e-business.

c) Active development of growth markets
We will continue to enhance the strength of our products and services. For example, in international passenger operations we will vigorously develop our activities in the China and other Asia markets, where strong growth is projected, and in domestic passenger operations we will enhance customer convenience by increasing the use of our IC check-in service. In cargo operations we will develop operations actively in growth markets such as China and other Asia countries, and enter the late-night cargo market in Japan.

(3) Function-specific business planning

a) International passenger operations
In route planning, we will implement an exhaustive program of reorganization or closure of unprofitable routes and the concentration of resources on profitable and high-growth routes, restructuring our network in a way that places emphasis on profitability. In the sphere of services, we will make improvements to passenger cabin facilities, such as by increasing the Shell Flat Seat onto more U.S., European routes and long-distance Asian routes; and by introducing new in-flight services that are a departure from existing service models but which continue to be based on the customer’s wants and needs. By consistently applying customer-orientated strategies to all supply, product, and sales planning, we have targeted a return to profitability of our operations by fiscal 2006.

b) Domestic passenger operations
We will ensure cost competitiveness and network competitiveness by expanding the scale of operations of JAL Express; changing J-AIR flight numbers to the JAL prefix; and by fostering cooperation among all Group airline companies. Through enhanced and expanded product differentiation we will strengthen the Group’s marketability within Japan. In order to

achieve this we will increase our basic service quality by assuring a warm and friendly personal service; enhance customer convenience by stepping up our e-marketing activities; and expand the introduction of key domestic products, such as Class-J and IC check-in services.

c) Cargo operations

We will expand our traditional core areas of cargo operation by actively developing operations in growth markets in Asia, in particular China; and by entering the late-night cargo market in Japan. In addition to this, medium-capacity freighters will be introduced and existing B747 freighters switched to B747-400s, to ensure that sufficient capacity is supplied to meet increases in demand for international air cargo services.

4. Issues to Be Addressed

"Safety in flight operations is the very bedrock on which the JAL Group is founded. To carry out our mission of assuring safety, the management will exert its strong resolve, and our employees will bear an awareness of their individual roles and responsibilities. Together, we will combine our knowledge and capabilities to ensure the safety and reliability of each and every flight." The above statement, codified in JAL Group's "Safety Charter", outlines JAL Group's commitment to safety. Board members and staff at all levels have reminded themselves anew of the crucial importance of the spirit of this charter. Measures have been formulated to restore trust in the JAL Group and ensure that all customers can feel completely confident when they board a JAL Group aircraft.

Contained within the FY2005-2007 Medium-Term Business Plan, one of JAL Group's main aims is to achieve the SIMPLIFICATION of various aspects of its operations. A slimmer group management structure will be created with the ultimate goal of carrying out the effective integration of the group holding company JAL Corporation, JAL International Co., Ltd. and JAL Domestic Co., Ltd. into one company. The use of Information Technology (IT) will also be expanded to simplify business processes both internally and externally.

Based on the key premise of maintaining operational safety, we will increase corporate value by becoming the world's leading airline group in terms of both service quality and business volume. We will achieve this goal by providing a high-quality service that makes JAL the airline of choice, and through structural reform that leads to simplification of the company's business processes.

5. Fundamental Policies and Actions Regarding Corporate Governance

(1) Fundamental approach

The JAL Group aims to engage in sound and transparent activities that are open to society, maximizing corporate value, and returning profit to every stakeholder.

Given this, the Group is taking a variety of measures in line with its conviction that the strengthening of corporate governance, rigorous compliance, and the assurance of transparency in management are important management issues.

(2) Corporate governance system for decision-making, business execution, and oversight

(As of March 31, 2005)

The Company is undertaking the following activities in the sphere of corporate governance.

a) The management responsibilities for the Group as a whole and the responsibilities for individual business operations are divided between Japan Airlines Corporation, as the holding company, and the operating companies, while the holding company supervises the operating companies.
To speed up the decision-making process, the executive officer system has been adopted. At present the number of directors of the holding company is now 12, while the number of executive officers is 5.
To clarify management accountability on an annual basis, the term of office of directors and executive officers has been set at one year.

b) To facilitate the fair and transparent conduct of corporate activities and to enhance the corporate governance structure, the system of corporate auditing is being strengthened by including two external auditors among the total number of six auditors. In addition, there are three external directors.

c) A Compliance and Risk Management Committee has been established, chaired by the President and composed of full-time directors and corporate auditors. In addition, each of the operating companies — JAL International Co., Ltd. and JAL Domestic Co., Ltd. — 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.

d) Contractual agreements covering management guidance and outsourcing of certain tasks exist between Japan Airlines Corporation, the holding company, and the operating companies Japan Airlines International Co., Ltd. and Japan Airlines Domestic Co., Ltd. In addition, these two operating companies function under the direct supervision of the holding company, including the requirement for discussing all important matters with the holding company prior to reaching decisions. 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 International Co., Ltd. and Japan Airlines Domestic 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 for the purpose of reinforcing the JAL Group's auditing functions.

e) In addition, the Group endeavors to bolster its ability to manage legal risk with regard to its operations, by maintaining a constant and close liaison with its consulting attorneys, as well as consulting with other attorneys and specialists.

f) In the FY2005-2007 Medium-Term Business Plan announced on March 10, 2005, it was stated that in order to implement the reform of the corporate structure and the cost structure swiftly, the holding company and operating companies are to be integrated. Specifically, in fiscal 2005 the corporate planning and marketing functions will be integrated and further steps to eliminate overlapping jobs and streamline the organization will be taken with a view to achieving substantial integration, the aim being to rapidly integrate the holding company and operating companies perhaps by as early as fiscal 2006. In addition, during fiscal 2005 the number of full-time officers will be cut by 30%. (By April 1, 2005, the number had been reduced by more than 30%.)

(3) Situation regarding internal auditing and auditing by statutory auditors and independent auditors

Internal auditing entails the conduct of process audits, financial audits, group audits and environmental audits of the holding company, both operating companies and all Group companies by the Administration Department. Audits are conducted in accordance with plans for each fiscal year approved by the President, and if urgent matters arise during the course of a term they are addressed flexibly by prioritizing the audits again at those times. The selection of which units are to be audited involves the creation of a structure that ensures periodicity and inclusiveness, based on the audit record.
There are two categories of process audit: the themed audit and the unit-based audit. Themed audits address Group-wide themes that are consistent over the medium to long term and are in line with medium-term plans (e.g. themes that focus on the increase of efficiency and productivity, compliance-related themes), and involve auditing that cuts across the Group organization. Unit-based audits and financial audits involve visiting some 20 locations each year, targeting head office administrative units, overseas and domestic branches and offices, and airport branches and offices, and are timed to match the terms of office of the accounting personnel. Group audits cover approximately 140 Group companies, principally consolidated subsidiaries, involving management audits of some 15 companies every year, combined

with the giving of guidance to enable companies to enhance their internal control capabilities independently.
With the cooperation of the Environmental Affairs, environmental audits inspect matters such as the state of in-Group observance of environmental-related laws and of efforts directed at environmental conservation, and provide education and instruction in this field.
The results of each audit are reported to the President, and reports are also submitted subsequently to statutory auditors.
Audit visits are not purely for the purpose of unilaterally identifying and assessing problems. They also have the aim of providing advice and suggestions to stimulate improvements, and to work with the audited units to find solutions to problems. In addition, follow-up audits are conducted after a certain period to confirm what progress has been made with improvements.
Auditing performed by our six statutory corporate auditors (of whom two are outside auditors in accordance with the stipulations of the Commercial Code) involves their attendance at meetings of the Board of Directors and other key meetings, as well as audits carried out annually with the seven staff of the Statutory Auditing Section, targeting approximately 100 company locations, subsidiaries, and affiliates. The results are reported to the Representative Directors. The statutory auditors also exchange information with internal audit units and the external auditors, and they hold meetings with the standing auditors of affiliates several times every year, with the aim of enhancing auditing throughout the Group.
Financial auditing is assigned to Ernst & Young Shin Nihon, which conducts its audits based on the Commercial Code of Japan and the Securities and Exchange Law. In addition to regular audits, whenever necessary the firm also conducts assessments with respect to accounting-related issues such as those arising from the enactment, revision, or annulment of laws and regulations, and rationalizes our accounting practices accordingly.
The following are the certified public accountants who auditing the Company's accounts, and the assistant accountants.

Name of the Auditors

Names of the Certified Public Accountants	Engaged Period
Mr. Tsunetoshi Harada	3 years
Mr. Shinichiro Suzuki	1 year

Number of assistants engaged in the audit

Certified Public Accountants	5
Assistant Certified Public Accountants	10

(4) Related party interests concerning external directors and external corporate auditors

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

(5) Measures taken during the past year to improve corporate governance

a) Meetings of the Compliance and Risk Management Committee were convened, and various actions were taken to ensure that our employees are fully familiar with the concepts contained in "Our Pledge to the Public" — the JAL Group's code of conduct —which sets out the ways in which the Group should interact with other companies and the public in general.

b) Japan Airlines Corporation, Japan Airlines International Co., Ltd., Japan Airlines Domestic Co., Ltd. and JAL Sales Co., Ltd. developed a lateral structure for the assumption of responsibilities by officers in times of emergency, and a structure for enhancing preventive measures for various corporate risk and adapting to them.

c) To ensure transparency of management, steps were taken to develop and enhance publicity activities directed at the general public and the media, as well as IR activities, so as to conduct accurate and information disclosure without undue delay.

d) A structure was put in place to bring about integration and reorganization in the same types of business Japan Airlines Corporation, Japan Airlines International Co. Ltd., and Japan Airlines Domestic Co., Ltd. each conduct. This was instigated to accelerate decision-making, enhance business efficiency, and also to conduct unified business management.

6. Addressing Environmental Problems

(1) Basic philosophy

The JAL Group regards environmental preservation as being a key management issue, and has drawn up a basic environmental policy and environmental action guidelines for the entire Group.

Basic Environmental Policy (instituted October 2002)

While fulfilling its mission as a public-service transportation organization, the JAL Group imposes a burden on the environment through, for example, its consumption of fossil fuels and emission of noise.

We consider environmental preservation to be a key management issue, and therefore we aim to achieve harmony between our business and the needs of the global environment by containing as far as possible the environmental impact generated by our business activities.

Environmental Action Guidelines (Instituted October 2002)

a) To comply with environmental laws and regulations, and take voluntary measures to preserve the environment
b) To efficiently use various types of energy and resources
c) To reduce waste and ensure proper disposal and recycling of waste
d) To use environmentally friendly materials and equipment, including aircraft
e) To raise environmental awareness and contribute to the community both domestically and internationally

(2) Organization

Japan Airlines International Co., Ltd. and Japan Airlines Domestic Co., Ltd. tackled environmental problems through environmental committees established in 1990 and 1999, respectively.
Accompanying the business integration in October 2002, Japan Airlines Corporation established the JAL Group Environmental Committee, which formulated Group environmental policies and has guided the conduct and thorough implementation of environmental activities. Since fiscal 2004 its status has been that of the environmental subcommittee of the Corporate Social Responsibility Committee, chaired by the Group CEO, and in that capacity it engages in environmental activities.

(3) Principal activities

Medium and long-term targets are laid down in each of the categories below, and environmental activities are implemented accordingly.

a) Reduction of carbon dioxide emissions by aircraft
The overall quantity of fuel consumed per available ton-kilometer (ATK) in fiscal 2003 by all airline operations in the JAL Group has been reduced by 10.4% from fiscal 1990 (the base-year level). With this, the target for fiscal 2010 has been expanded to a reduction of 20% from the base-year level (previously 10%), reflecting continuing efforts to cut emissions.

b) From green purchasing to CSR procurement
Following the formulation of the JAL Group green purchasing regulations in fiscal 2003, in fiscal 2004 the existing JAL Group procurement guidelines were supplemented with a requirement to conduct procurement with a corporate social responsibility (CSR) orientation. Since then, CSR procurement has been conduced throughout the Group.

c) Environmental accounting

In fiscal 2003, environmental accounting was applied on an aggregate basis encompassing Japan Airlines Corporation and all Group airline companies. Its application is to be broadened to cover all other Group companies.

d) Atmospheric observation

From 1993 to the end of fiscal 2004, scheduled flights between Japan and Australia of JAL International Co., Ltd. carried out a total of 262 samplings of the atmosphere, thereby helping to shed light on the mechanisms that are causing global warming. From fiscal 2006 the Company is planning a new type of automated continuous observation to study the density of carbon dioxide, for which measuring instruments are currently being developed.

e) Establishing an ISO 14001 environmental management system

ISO 14001 Certification, which relates to environmental management systems, has been obtained by the following units: Japan Airlines International Co., Ltd. (JALI) Components Services Business Division; JALI Regional Office, Cargo & Mail, Narita; JALI Maintenance Business Division, Narita; JALI Repair and Overhaul Business Division; JALI Aircraft Maintenance Business Division, Haneda; and Japan Airlines Domestic Co., Ltd. (JALJ) Dock Maintenance Division, Haneda. In addition, the certification has been obtained by the affiliated company AGP Corporation and by the Hotel Nikko Tokyo. Currently, ongoing environmental management initiatives are being pursued throughout the Group.

f) Recycling initiatives

The adoption of a new uniform for aircraft crew and ground staff in April 2004, resulting from integration of Japan Airlines (JAL) and Japan Air System (JAS), left us with 230 tons of old uniforms to dispose of. Previously, security considerations dictated that such uniforms be incinerated, but this time we took advantage of newly developed technology to start having the material recycled into soundproofing and and as a result 180 tons of uniforms were eventually recycled. Additionally, we are finding ways of recycling the polyethylene sheets used to protect cargo from dust, dirt and moisture; and onboard waste such as empty aluminum cans and used newspapers.

g) Environmental auditing

The JAL Group conducts throughout the organization environmental audits to constantly monitor compliance with legal statutes and the Group's own environment-related regulations.In fiscal 2004, special audits were conducted on the methods of disposal of waste matter at 20 locations, primarily in six districts around airports on principal domestic air routes, and follow-up audits were conducted on three Group companies to which waste management is consigned.

2. BUSINESS PERFORMANCE AND FINANCIAL CONDITION

【Business Performance】

1. Overview of the term

(1) Overall results (consolidated)

During the year (FY2004), the world economy showed signs of recovery, with economic expansion in the United States and China, and economic recovery in Europe. In the same period there was a modest recovery in Japan's economy, as even though it experienced a substantial improvement in corporate earnings and an increase in capital investment, consumer spending faltered. For the JAL Group there was an improvement in passenger demand on international routes, which had fallen in the previous term as a result of such factors as SARS. Affected by such factors as a succession of typhoons hitting Japan, domestic passenger demand eased off. Rises in operating expenses resulting from the surge in aviation fuel prices to all-time highs compounded the situation and meant that the environment in which the JAL Group operated remained exceptionally harsh.

To counter this, all Group companies joined together to implement measures to improve the balance of revenue and expenditure. On a consolidated basis the Group posted operating revenues of ¥2,129.8 billion, with operating income of ¥56.1 billion, ordinary income of ¥69.8 billion, and net income of ¥30.0 billion.

(2) Results of operations by segment

Air Transportation Business

On international routes, demand grew by25.5.% from its year-earlier level in terms of revenue passengers carried, and by 16.6.% in terms of revenue passenger-kilometers. Passenger demand is recovering steadily from the adverse effects of the SARS outbreaks and other factors in fiscal 2003, but the recovery in other areas of demand, such as group travel to SouthAsia, has been slower than forecast. Given this, various promotional campaigns to boost demand were conducted, including one to commemorate the anniversary of JAL's business integration and the "Business China" campaign; there was a major increase in special fares to meet the diverse array of customer needs, such as the "SUPER MAE-URI (Advance Purchase) GOKU" fares and "WEB GOKU" fares, available only on the JAL Web site; and new fares such as the "Economy Saver Plus," a new fare discounting system, and "BIRTHDAY GOKU," a fare discounting system for passengers whose birthdays are within the week prior to or the week subsequent to the boarding date. As a result, revenues rose by ¥121.5 billion year-on-year, to ¥671.2 billion.

On domestic routes a number of measures to boost competitiveness were implemented. These included sales-promotion measures such as the unification of flight numbers and the introduction of the new Class-J service, and also the increased use of e-business sales methods. Other steps taken included the inauguration of the epoch-making "JAL IC Check-in Service" — the first of its kind by a domestic airline operator — enabling passengers with an IC card to use JAL's 'Touch & Go' system to board their flights quickly and easily. The "JAL IC Coupon", a new benefit for JAL Mileage Bank members, was also introduced. Nevertheless , due to such factors as the numerous typhoons that hit Japan during the year, there was a shift in demand back to international routes during the first half of the fiscal year. As a result, overall demand faltered, and the number of revenue passengers carried fell by 3.7.% year-on-year and revenue passenger-kilometers by 3.6.%, while yield rose by 4.7*, with the result that revenues rose by ¥5.8 billion from the previous year, to ¥674.7 billion.

International cargo operations were affected positively by the economic expansion in China and the United States and overall recovery in the world economy. This led to a very substantial increase in demand from the previous year, with revenue ton-kilometers rising by 7.1.% from the previous term, resulting in year-on-year revenue growth of ¥18.3 billion, to ¥171.3 billion. A brisk pace in merchandise shipments of numerous goods such as manufactured goods, textiles, and fresh produce, reflected the buoyancy of economic activity. There were particularly large increase in exports and imports of DVD-related equipment, digital cameras, and products and components relating to flat-screen televisions —the three current "must-have" consumer goods categories among the Japanese public.

Meanwhile, in order to counter the steep increases in the price of aviation fuel, the Company drew up and implemented measures to improve the balance between revenue and expenditure. These comprised mainly measures to boost revenues, such as revisions to fares, together with a range of cost-cutting measures and reductions in the numbers of routes and flights.

The net result of these developments was that the aggregate volume of transportation of passengers and cargo on domestic and international routes increased by 8.7.% year-on-year, operating revenues rose by ¥152.5 billion, to ¥1,701.3 billion, and the Group posted operating income of ¥41.6 billion.

(A breakdown of air transportation segment revenues is given on page 44.)

Airline-Related Business

TFK Corporation, which engages in the sale of in-flight meals, and other companies of a similar nature, achieved year-on-year increases in revenues, buoyed by a recovery in the passenger demand that had fallen as a result of SARS and other factors in the previous year. AGP Corporation, which supplies electric power to aircraft on the ground, increased sales to foreign airlines in its power-supply operations at Narita, and was also involved in large-scale maintenance works on facilities at both Narita and Kansai airports, although maintenance income fell because of the closure of the Tokyo Air Cargo City Terminal. Accordingly, AGP Corporation was able to achieve year-on-year revenue growth.

As a result, revenues in the airline-related business segment totaled ¥293.7 billion, with operating income of ¥5.3 billion.

Travel Services Business

JALPAK Co., Ltd., was affected by the fact that tourism demand originating in Japan remained weak relative to initial expectations, particularly on tours to Europe and the U.S. mainland. Nevertheless, there was robust demand for such destinations as Hawaii and Micronesia, and a recovery from the previous year's slide in travel demand arising from factors such as SARS, enabling the company to achieve a year-on-year increase in revenue. Meanwhile JAL Tours Co., Ltd. suffered year-on-year declines in passenger numbers to Hokkaido and the Kanto region (centered on Tokyo), but the numbers bound for Okinawa remained high, enabling this company to generate revenues at around the previous year's level.

The revenues of the travel services business segment totaled ¥424.5 billion, and operating loss was ¥0.2 billion.

Other Business

JALUX Inc., a retailing company, achieved substantial revenue growth. This came mainly from duty-free goods at the JAL-DFS duty-free shop at Narita Airport and in-flight sales on international routes, and from its BLUE-SKY outlets at Japanese airports, which grew both in number and efficiency as a result of the merger. Hotel operator JAL Hotels Company Ltd. benefited from a recovery from the previous year's slide in demand from travelers caused by factors such as SARS. The company posted year-on-year revenue growth, primarily from directly managed hotels and the commissioned management of hotels overseas. In the credit-card business, JALCard Inc. posted a robust increase in revenues, fueled in particular by another substantial rise in the number of cardholders, up by 15% from the end of the previous year, to around 1.4 million, as a result of factors such as the launch of the JAL Card Suica and the introduction of the JAL IC Service.

The operating revenues of this business segment totaled ¥268.0 billion, and operating income was ¥10.0 billion.

2. Business and Other Risk

(1) Impact of changes in the international situation

The JAL Group has striven to make the best of its complete business integration to create a structure that generates stable profits. However, the Group's financial position and operating performance may be affected by unforeseen international occurrences, such as new terrorist incidents, conflicts or wars, and outbreaks of contagious diseases.

(2) Impact of changes in exchange rates, fuel prices, etc.

Changes in exchange rates and fuel prices may affect the Group's operating performance. To minimize any such impact, with respect to exchange rates the Group uses foreign exchange contracts, currency swaps, and currency options to hedge the risk of fluctuations, and with respect to fuel, commodity derivatives (swaps, options) are used for the purpose of curbing price-fluctuation risk and of stabilizing costs.

(3) Impact of laws and regulations

Given that the JAL Group's core business is air transportation, the conduct of its business is subject to international agreements such as aviation treaties and laws, and other laws and regulations. In the event of material changes to existing regulations, the Group's operating performance may be affected.

3. Matters Relating to Payment of Dividends

In the year under review the operating environment proved to be a difficult one, with principal features being the leveling-off of demand in domestic passenger operations, and sharp increases in the cost of aviation fuel. However, positive signs also emerged in the form of a steady improvement in passenger demand on international routes. In these circumstances, measures to improve the Group's financial situation were implemented, focusing on such steps as cost-cutting throughout the Group, and the revision of the numbers of routes and flights. As a result, the Group was able to post consolidated operating revenues of ¥2,129.8 billion, operating income of ¥56.1 billion, ordinary income of ¥69.8 billion, and net income of ¥30.0 billion.

The harsh operating environment in the airline industry is expected to continue, characterized by the persistence of aviation-fuel prices at record-high levels and of the unstable international situation. Nevertheless, we aim to create a business structure that will enable us to generate stable profits through the implementation of the medium-term business plan from fiscal 2005 to fiscal 2007.

In light of the above, it is intended to pay a dividend of ¥4 per share.

【Financial Position】

1. Earnings Analysis

Operating profit/loss

As described above, while international passenger demand was steadily on the slow road to recovery from the effects of the war in Iraq, the SARS outbreak, and other events of the previous year, and international cargo demand was strong, domestic passenger demand declined due to the effects of the string of typhoons that hit Japan. On the expense side, fuel prices reached historic highs, resulting in large increases in fuel expenses. Against this background, the profitability measures taken by the group resulted in consolidated operating revenues of 2,129.8 billion, an increase of 198.1 billion over the previous year, while operating income amounted to 56.1 billion, compared with a 67.6 billion operating loss for the previous term. Pension and severance expenses decreased by 52.9 billion as a result of the revision of the pension and severance system.

Non-operating profit/loss and net income

Overall, non-operating income increased 21.4 billion over the previous period to reach 64.4 billion, with incentives for the purchase of aircraft up 19.1 billion to 48.3 billion and gains on foreign exchange up 1.6 billion to 2.0 billion. We recorded 6.5 billion in extraordinary gains on sales of investment securities, and facilities and equipment, which was more than offset by 31.7 billion in extraordinary losses such as losses on disposal of fixed assets related to the reorganization, lease cancellations, and special retirement allowances.

Current assets

Proceeds from the issue of bonds with non-detachable warrants in April pushed cash and time deposits up 108.7 billion to 252.5 billion, while the recovery in demand led to an increase of 14.3 billion in notes and accounts receivable, to 222.9 billion. Combined with a valuation gain on fuel derivatives, total current assets increased 164.0 billion to 683.1 billion.

Noncurrent assets

Noncurrent assets declined 114.8 billion to 1,479.4 billion, due to a 124.7 depreciation charge. During the term, the Company purchased 13 new aircraft (12 of which were buy-outs upon lease expiration), and sold 14 aircraft and its headquarters building.

Liabilities

Long term debt, including the current portion (amounts repayable within one year), declined 82.0 billion to 972.8 billion.

Corporate bonds outstanding at term-end, including the current portion (amounts repayable within one year), increased 76.3 billion to 325.0 billion due to the issue of 100.0 billion in bonds with non-detachable warrants.

Stockholders' Equity

The issue of new shares under a share exchange agreement resulted in a 6.8 billion increase in capital surplus, offset by a 7.4 billion reduction stemming from the cancellation of shares in treasury: this resulted in a 0.5 billion decline in capital surplus to 136.1 billion. The accumulated deficit decreased from 65.0 billion to 34.9 billion, due to net income of 30.0 billion for the period.

Consolidated balance sheet

Total assets thus came to 2,162.6 billion, and total liabilities amounted to 1,942.1 billion. Stockholders' equity stood at 194.7 billion, yielding an equity ratio of 9.0%.

Cash flow

Cash flow from operating activities resulted in a net cash inflow of 145.2 billion, 44.6 billion thereof deriving from income before income taxes and minority interests, and 124.7 billion from depreciation and amortization. Cash flow from investing activities resulted in a net cash outflow of 21.4 billion, primarily related to the acquisition of aircraft. Cash flow from financing activities resulted in a net cash outflow of 6.2 billion, as repayment of borrowings and redemption of bonds outweighed the proceeds from bond issues and new long-term borrowings. As a result, cash and cash equivalents at term-end stood at 260.9 billion

2. State of Aircraft

Changes in the total number of aircraft operated by our consolidated subsidiaries duering the year and the toal number of owned and leased aircraft at the end of the year are shown below.

Type of Aircraft	Purchase	Lease	Sale/ Retirement	Termination of Lease	Other/ remodeling	Mar.31st,2005	
						Owned	Leased
B747-400	(2)	-	-	(▲2)	-	40	2
B747-400F	-	2	-	-	-	0	2
B747LR	-	-	-	-	-	18	4
B747SR	-	-	-	-	-	3	0
B747F	-	-	-	-	-	7	3
B777	-	5	-	-	-	10	21
MD-11	-	-	▲3	-	-	0	0
DC-10	-	-	▲4	-	-	6	0
A300-600R	(2)	-		(▲2)	-	14	8
A300	(1)	-	▲3	(▲1) ▲1	-	6	0
B767	(1)	4	-	(▲1)	-	18	19
MD-90	(1)	-	-	(▲1)	-	14	2
MD-81	(3)	-	-	(▲3)	-	12	6
MD-87	-	-	-	-	-	6	2
B737	-	(1)	(▲1)	-	-	9	14
CRJ200	-	-	-	-	-	0	6
YS-11	-	-	▲3	-	-	6	0
DHC-8-400	1	1	-	-	-	2	3
SAAB340B	(2)	-	-	(▲2)	-	9	5
DHC-8-100	-	-	-	-	-	4	0
BN-2B	-	-	-	-	-	3	0
Total	13	13	▲14	▲13	0	187	97

Notes:

(1) The 12 aircraft out of 13 purchased aircraft listed above were bought after the termination of lease contracts.

(2) One aircraft out of 13 leased aircraft was sold by JAL Capital Co.,Ltd. to the external entity, from which JAL Trans Ocean Air Co., Ltd. is now leasing it.

(3) Aircraft used for training purposes are not included.

(4) Due to the inclusion of Ryukyu Air Commuter Co., Ltd. in the scope of consolidation, four DHC-8-Q400 models and three BN-2B models were newly added.

3. Cash Flow Indicators on a Consolidated Basis

The following are the consolidated cash flow indicators.

	(at Mar.31, 2004)	(at Mar.31, 2005)
Equity ratio (%)	7.5%	9.0%
Market Cap. equity ratio (%)	33.2%	28.7%
Interest-bearing debt repayment period	17.2 years	9.0 years
Interest coverage ratio	2.7	5.7

Notes
・Equity ratio: Stockholders' equity/Total assets
・Fair value equity ratio: Gross market capitalization/Total assets
・Years for debt redemption: Interest-bearing Debt /Cash flow from operating activities
・Interest coverage ratio: Cash flow from operating activities/Interest payments

Assumptions
(1) All indicators are calculated on the basis of consolidated financial values.
(2) Gross market capitalization is calculated by multiplying the closing price of the Company's shares at the term-end by the number of ordinary shares issued and outstanding at the term-end.
(3) Cash flow from operating activities refers to cash flow from operating activities posted under the consolidated statement of cash flows.
(4) Interest-bearing debt refers to those of the liabilities stated in the consolidated balance sheets on which interest is paid.
(5) Interest payments equate with interest paid in the consolidated statement of cash flows.

【Outlook for Fiscal 2005】

Faced with factors such as the persistence of aviation-fuel prices at record-high levels and the continuing instability in the international situation, the harsh operating environment for the JAL Group is forecast to continue. Amid these conditions, radical efforts will be made to improve the Group's income and expenditure situation in line with the JAL Group FY2005-2007 Medium-Term Business Plan, which focuses on exhaustive cost reductions by such means as the reform of the cost structure and emergency measures, and the implementation of a variety of marketing measures in international passenger, domestic passenger, and cargo operations.

The current forecast of results on a consolidated basis for the 2005 fiscal year are as follows.

(1) Operating Revenue ¥2,209 billion
(2) Operating Income ¥60 billion
(3) Ordinary Income ¥29 billion
(4) Net income ¥17 billion

Assumptions on which the forecast is based:

The computation of these forecasts was based on the following assumptions: An exchange rate of ¥110 against the U.S. dollar, and with respect to the price of aviation fuel, Singapore Kerosene at a market price of US$54/barrel.