Japan Airlines Corporation

Interim Financial Information

For the six months ended September 30, 2005

１. MANAGEMENT POLICIES

Safe Operations

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

Safety in flight operations is the very foundation and social responsibility of the JAL Group, and therefore we take this situation very seriously and have reflected deeply on it. We extend our most sincere apologies to everyone affected for any anxiety that may have been caused.

Starting immediately thereafter, members of the senior management presided over 220 emergency safety meetings at Group workplaces both within Japan and overseas, and follow-up meetings were then held for the in-depth discussion of opinions and requests put forward at those meetings. Based on the results of these, concrete measures to address issues for which specific solutions were identified were put in place by the end of July, and on the remaining issues rapid feedback was given to all employees. This included indicating the direction of progress on issues requiring further study.

Also, to reinforce the rebuilding of operational management with the highest level of safety and the Group's corporate culture it was considered necessary to have access to objective proposals and recommendations from outside experts, prompting the establishment of the Safety Advisory Group in August. The Group's final report is scheduled to be released in December this year.

Throughout the JAL Group, every effort will continue to be made to rebuild the safety structure, so as to restore your confidence and that of the traveling public.

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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, striving to ensure that all its stakeholders reap the benefits of its achievements.

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 not only of Japan, but also of the world.

The five essential elements of this are:

(1) We will prioritize safety and quality.
(2) We will think and act from the standpoint of the customer.
(3) We will strive to maximize corporate value.
(4) We will fulfill our responsibility as a corporate citizen.
(5) We will appreciate hard work and take on a positive attitude.

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 debt repayment period (based on 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 remains very difficult, owing to factors such as record-high fuel prices and natural disasters and terrorism worldwide. It was against this backdrop that the JAL Group drew up its FY2005-2007 Medium-Term Business Plan in March this year and announced fundamental reforms to its operating and cost structures. The Group is now working in unison to implement these reforms steadily, in order to create a robust organization able to generate profits in any operating environment, even in the face of sharp rises in fuel prices and sluggish demand.

The Group will also step up the concentration of resources on profitable, fast-growing routes and will continue its active development of markets with strong growth potential, such as the Chinese market and the other East Asian markets.

The principal elements of the plan are as follows.

(1) Basic undertakings

a) Safety

Safety in flight operations is the very foundation and social responsibility of the JAL Group. To restore customer confidence and enable the public to fly on the JAL Group’s planes without any worries, the Group will take measures to ensure every individual group employee is at all times 100% safety-conscious. The JAL Group will also work continuously to enhance the safety-management structure throughout the Group and to ensure that safety is at a seamlessly high level.

b) Corporate Social Responsibility

In all spheres, be they economic, environmental, or social, the Group will give importance to relations with customers, shareholders, society at large and all other stakeholders, ensuring that all Group companies and employees fulfill their responsibilities and act at all times with the interests of the public at heart. It will seek harmony with the community of which it is a member, engaging in activities that make use of the attributes of the civil aviation business, but that are distinctive of JAL.

(2) Group management strategy

a) Structural reform of international passenger operations

We will build a network in a way that places greater emphasis on efficiency and profitability, including by concentrating resources on profitable and high-growth routes and by reorganizing or eliminating unprofitable ones. We will also take steps to enhance cost-competitiveness in such ways as expanding the scale of operations of our low-cost subsidiary JALways and by reducing the range of aircraft types and their specifications.

b) Reform of the cost structure

By implementing a wide range of measures, our aim is to improve the Group's income and expenditure balance 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, eliminating unprofitable routes, 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 China and other East and Southeast Asian 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 countries in East and Southeast Asia, and enter the late-night cargo market in Japan.

d) Decision to join the **one**world airline alliance

To help translate its corporate philosophy of ongoing enhancement of its air-transportation services, we have decided to join the **one**world multilateral airline alliance in addition to its existing bilateral alliances. This will greatly enhance customer convenience by adding linked services with the other member airlines, such as mileage programs, mutual use of airport lounges, codesharing flight operation, and e-ticketing. Steps are now being taken to expedite the conclusion of the agreements for joining **one**world and completing the membership procedures. (As of October 2005, **one**world comprises eight major airlines: American Airlines, British Airways, Aer Lingus, Finnair, Iberia, Qantas, Cathay Pacific, and LAN.)

(3) Function-specific business planning

a) International passenger operations

In route planning we will implement an exhaustive program for the reorganization or closure of unprofitable routes, and step up 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 promote e-Style by expanding e-ticketing, and will also continue improving passenger cabin facilities, such as by increasing the fitting of the Shell Flat Seat on more U.S., European, and long-distance late-night Asian routes. In in-flight catering we will plan and introduce new services that are a departure from existing service models but based on the customer’s wants and needs, for example by introducing Free Style Dining on European routes, a service that enables passengers to eat their second meal at the time of their own choosing. These strategies are tailored for each customer category, and by applying them consistently to all supply, product, and sales planning we are targeting a return of these operations to profitability 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 strengthening cooperation among all Group airline companies. To enhance marketing we will step up the provision of services that burst with originality, including by expanding Class-J and IC services still further and making the mileage program more attractive by means of tie-ups with companies in other industries. In tandem with this we will enhance customer convenience by increasing basic service quality, in particular our friendly personal service, and stepping up e-marketing.

c) Cargo operations

In addition to switching existing B747 freighters to B747-400s, during fiscal 2007 the fleet will be augmented by the addition of three B767-300F medium-capacity freighters, developing operations primarily on routes to China and the rest of East and Southeast Asia, on which continuing growth is expected. We will also move vigorously into the domestic late-night cargo market by taking a capital stake in Galaxy Airlines. Moves such as these will position JAL to cater flexibly to customer needs, by structuring an excellent network and providing freight-transportation space that is readily adaptable to growth in demand for cargo services.

4. Issues to Be Addressed

"Safety in flight operations is the very foundation and social responsibility of the JAL Group. To carry out our mission of assuring safety, the management will exert its strong resolve and the employees will bear an awareness of their individual roles and responsibilities, and together we will combine our utmost knowledge and capabilities to ensure the safety and reliable operation of each and every flight."

The above statement, codified as the 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.

In accordance with one of the basic policies in the JAL Group's FY2005-2007 Medium-Term Business Plan, in October 2006 the two operating companies -- JAL International Co., Ltd., responsible for international passenger and all cargo operations, and JAL Domestic Co., Ltd., responsible for domestic passenger operations -- will be integrated into a single company. To maintain the flexibility of the Group's capitalization policy, Japan Airlines Corporation, the Group holding company, will remain in being concurrently with the operating company, which will be downsized to the maximum extent necessary, as the directors and other staff members, in principle, will concurrently serve as directors or staff members of the operating company. This will be accompanied by ongoing simplification and standardization in a variety of spheres, including the simplification of business processes through the use of information technology (IT). In order to ensure that marketing is strengthened rapidly prior to the integration of the operating companies, in April 2006 the sales structure will be reorganized, and JAL Sales Co. Ltd. will be absorbed by JAL International.

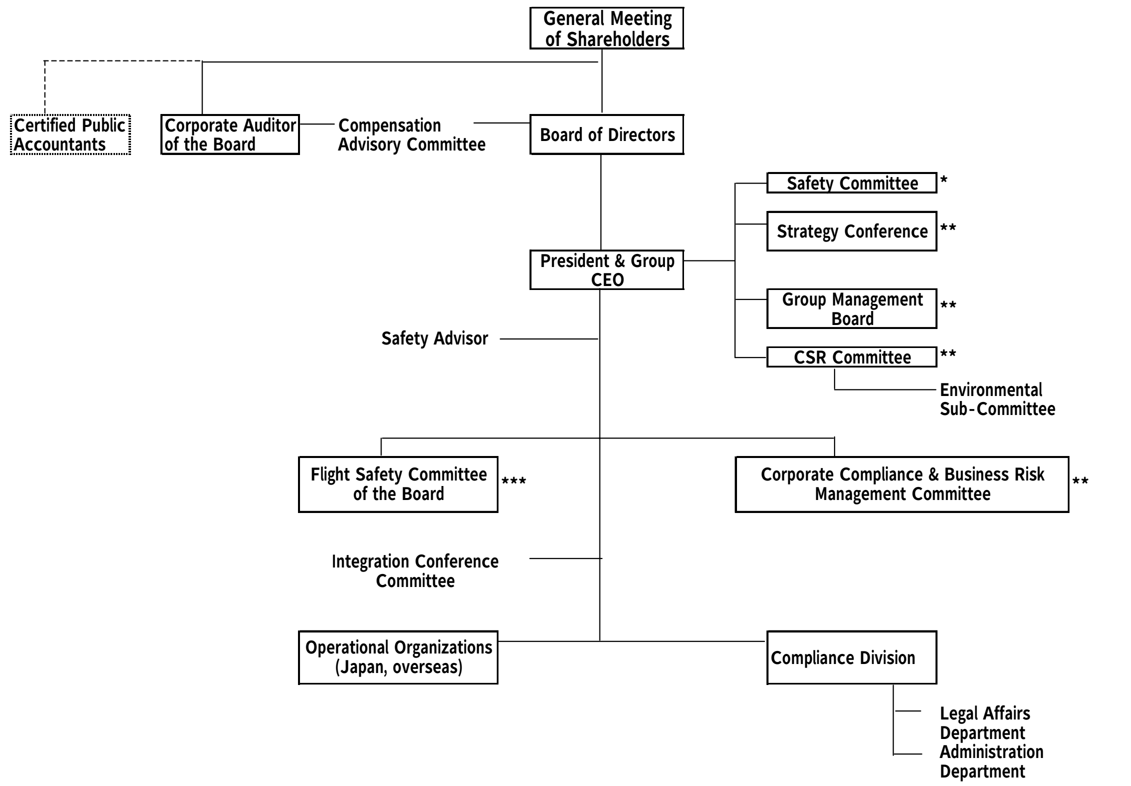
Based on the key premise of maintaining safety in flight operations we will increase corporate value by becoming the world's leading airline group in terms of both service quality and business volume. We will achieve this goal by providing a high-quality service that makes JAL the airline of choice,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

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 September 30, 2005)



* The Committee, whose members are drawn from the holding company, JAL International and JAL Domestic, is chaired by the Group CEO with the aim of sharing all kinds of information related to safe aircraft operations.
** Each committee, whose members are drawn from the holding company, JAL International, JAL Domestic and JAL Sales, is chaired by the Group CEO and charged with responsibility for effectively performing group-wide activities.
*** The Committee, whose members are drawn from the holding company, JAL International and JAL Domestic, is chaired by the Group CEO and charged with responsibility for firmly establishing group-wide safe operation systems.

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 10, while the number of executive officers is 4.
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 who meet the criteria stipulated in the Commercial Code of Japan among the total number of six statutory auditors. In addition, there are three external directors.

c) A Compliance and Risk Management Committee has been established, chaired by the President (Group CEO) 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 virtually integrate the holding company and the operating company. (On October 1, 2006, the two operating companies are scheduled to be merged, as described above.) In addition, during fiscal 2005 the number of full-time officers was cut by 30%, a reform that was completed on April 1, 2005.

(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, the two main 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 (Group CEO), 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 150 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 environment-related laws and of efforts directed at environmental preservation, 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 identifying and assessing problems unilaterally. 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, meeting the criteria stipulated in 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 independent auditors, and they hold meetings with the standing statutory auditors of subsidiaries 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 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 audited the Company's accounts for the current first half, and also the assistant accountants.

Name of Auditors

Names of the Certified Public Accountants Engaged Period

Mr. Tsunetoshi Harada 4 years
Mr. Shinichiro Suzuki 2 years
Mr. Yoshikuro Fukuda 1 year

Number of assistants engaged in the audit

Certified Public Accountants 4
Assistant Certified Public Accountants 5

(4) Related party interests concerning external directors and external corporate auditors
External director Shinobu Shimizu is a board member concurrently serving as an advisor to the board 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 statutory auditors.

(5) Measures taken recently 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 2004 by all airline operations in the JAL Group was reduced by 11.2% from fiscal 1990 (the base-year level), and the target for fiscal 2010 has been raised to a reduction of 20% from the base-year level (previously 10%). In addition, the targeted ratio for ATK provided by new aircraft models by fiscal 2010 has been set at least 75%, reflecting continuing efforts to cut emissions.

b) Energy-saving

In fiscal 2005 the Company has participated in the government-sponsored Team Minus 6% campaign. This has included setting the temperature for switching on air conditioners at 28°C in the summer months, and having staff keep cool in the workplace by not wearing neckties or jackets.

c) Atmospheric observation

From 1993 to the end of September 2005, scheduled flights between Japan and Australia of JAL International Co., Ltd. carried out a total of 274 samplings of the atmosphere, thereby helping to shed light on the mechanisms that are causing global warming. From fiscal 2006 we are planning a new type of automated continuous observation to study the density of carbon dioxide, for which measuring instruments are currently being developed. Also, within Japan we have been assisting since 1979 with the gathering of samples for medium to high-altitude atmospheric observations between the cities of Sendai and Fukuoka that are being conducted by Tohoku University.

d) 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. The certification has also been obtained by the affiliated company AGP Corporation and by the Hotel Nikko Tokyo. Additionally, Group companies that do not impose a particularly large environmental load are introducing the EcoStage environmental management audit support system, and JAL Simulator Engineering Co., Ltd. has obtained EcoStage I certification.

e) Recycling initiatives

The adoption of a new uniform for aircraft crew and ground staff in April 2004 left us with a large quantity of unwanted 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 thermal insulation material, enabling us to recycle around 180 tons of uniforms in fiscal 2004. Additionally, we are finding ways of recycling the polyethylene sheets used to protect cargo from dust, dirt and moisture, and also onboard waste such as empty aluminum cans, newspapers, magazines and paper cups.

f) 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. From fiscal 2005, audits are being conducted on all environmental aspects of our business.

3. BUSINESS PERFORMANCE AND FINANCIAL CONDITION

Business Performance

1. Overview of the first-half period (April to September)

(1) Overall results (consolidated)

The world economy followed a steady recovery path during the six-month reporting period. In spite of sharp rises in crude-oil prices there was economic expansion in the United States and East Asia, particularly China, and also a modest recovery in Europe. In the same period, the Japanese economy sustained its moderately paced recovery. This has been characterized by high levels of corporate earnings and increased capital investment coupled with a mild recovery in consumer spending, as the strong performance of the corporate sector spilled over into the household sector.

For the JAL Group there was a year-on-year decline in passenger demand on international routes, primarily because of a delay in the recovery of demand on routes to China and Southeast Asia. Domestic passenger demand also faltered and fell below its year-earlier level, particularly among individual passengers, as a result of factors such as the series of safety problems that occurred. Demand for international cargo services also registered a year-on-year decline overall, owing to the weakness of demand on routes from Japan to East Asian countries and the U.S. The persistence of aviation fuel prices at record-high levels compounded the situation and meant that the environment in which the JAL Group operated remained exceptionally harsh.

To counter this, all Group companies worked in unison on a steady program of measures to improve the cost structure. Nevertheless, on a consolidated basis the Group's operating revenues in the first half grew by ¥30.5 billion year-on-year, to ¥1,112.3 billion; operating income was down ¥71.1 billion, to ¥15.7 billion; ordinary income fell by ¥98.0 billion, to ¥9.7 billion; and net loss was also down, declining by ¥95.0 billion, to ¥12.0 billion.

(2) Results of operations by segment

The following figures include inter-segment sales and profit/loss figures. The credit card and leasing businesses, which have hitherto been included in the Other Business segment, are now reported on separately with effect from the present interim report, in view of their increased importance in relation to the Company’s business results as a whole.

Air Transportation Business

On international routes, on a route basis, passenger traffic the U.S. mainland, Korea and Taiwan was strong, posting a year-on-year increase. However, traffic slackened on routes to Southeast Asia, Europe and Oceania. Traffic on routes to China had slumped because of the upsurge of anti-Japanese sentiment there, and a recovery was slow in coming, particularly in tourism demand. As a result, overall demand leveled off, falling by 1.0% from its year-earlier level in terms of revenue passengers carried, and by 0.3% in terms of revenue passenger-kilometers.

Given this, various promotional measures to boost demand were conducted, including the strengthening of the POWER CHINA and other sales-promotion campaigns, the enhancement of the structure of JMB Tours, and the active addition of charter flights. In addition, in-flight services were improved still further, including by the introduction of Free Style Dining, which offers passengers on long-haul flights the freedom to enjoy their second meal at times of their own choosing, and the expansion of in-flight Internet services.

Steps were also taken to meet the diverse array of customer preferences in the sphere of fares. These included the new offering of the "Party Goku 56" fares to Kona (Hawaii) and the "Working Holiday Goku 14" fares to Australia, and the addition of the "SUPER MAE-URI (Advance Purchase) GOKU 49" fares and the "SUPER WEB GOKU 49" fares. On the other hand unit prices have had to be increased, principally because of the fare revisions necessitated by the sharp increases in aviation-fuel prices and the addition of fuel surcharges. As a result, revenues grew by ¥14.4 billion year-on-year, to ¥360.4 billion.

On domestic routes, vigorous sales-promotion measures continued to be implemented, including the stepped-up promotion of the highly regarded Class-J service and of e-business. In the “JAL IC Service,” steps were taken to enhance still further the “JAL IC Check-in Service” using the “Touch & Go” system, the first of its kind to be introduced by a Japanese airline. In addition, the “JAL IC Coupon” is giving even greater benefits to users, as it can now be used to purchase tickets and tour products.

Marketing measures for domestic services included a family summer holiday campaign using the King of Beetles Mushiking card game and tamagochi as promotional aids. In the area of fares the JAL monthly special flight discount was introduced, and the "MAE-URI 21" fares were extended to include the summer holiday period by the establishment of the "Natsu Toku Maeuri 21" fares.

Measures such as these were aimed at boosting competitiveness, but factors such as the lingering impact of the problems relating to the safety of flight operations caused individual passenger demand to falter. In consequence, the number of revenue passengers carried fell by 1.0% year-on-year, and revenue passenger-kilometers by 1.0%. Unit prices were increased by 0.3% year-on-year, primarily as a result of the need to add fuel surcharges because of the sharp increases in aviation-fuel prices, causing revenues to fall by ¥4.4 billion year-on-year, to ¥340.4 billion.

International cargo operations were impacted by the global upswing in economic activity. With regard to overseas demand for cargo services, it was brisk for flights from China and other parts of East Asia to the U.S., but demand for shipments from Japan to East Asian and U.S. destinations remained weak, owing to delays in completing inventory adjustments in the fields of semiconductors and digital consumer electronics products. Overall, revenue ton-kilometers slipped by 3.5% from the previous term. Unit prices were increased by 6.0% year-on-year, primarily as a result of fuel surcharges made necessary by the sharp increases in aviation-fuel prices. As a result, revenue grew by ¥1.9 billion year-on-year, to ¥85.4 billion.

In order to counter the steep increases in the price of aviation fuel, the Company endeavored to absorb its impact through the drawing-up and steady implementation of measures to improve the balance between revenue and expenditure. These comprised mainly measures to boost revenues, such as revisions to fares and the addition of fuel surcharges, 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 decreased by 1.3% year-on-year, operating revenues fell by ¥20.2 billion, to ¥884.4 billion, and the Group posted operating income of ¥6.7 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, achieved revenue growth buoyed principally by the increase in the number of passengers on international routes at major customer airlines. AGP Corporation, which supplies electric power to aircraft on the ground, also achieved a favorable performance. This benefited in particular from an increase in revenues from supplying electric power following the opening of Terminal 2 at Haneda Airport, and additional sales following the opening of the Central Japan International Airport.

As a result, revenues in the airline-related business segment totaled ¥159.3 billion, with operating income of ¥2.5 billion.

Travel Services Business

JALPAK Co., Ltd. suffered a fall in revenue as the number of customers handled declined in almost all sectors, particularly to China. On the other hand JAL Tours Co., Ltd. achieved an increase in revenue as the tour business to Okinawa continued to perform well, and passenger numbers in most other sectors were up, buoyed by a substantial increase in demand for tours to the central Japan region as a result of the holding of the Expo 2005 Aichi international exposition there.

The revenues of the travel services business segment totaled ¥218.5 billion, and operating income was ¥1.6 billion.

The Credit Card and Leasing Segment

In the credit-card business, JALCard Inc. posted a robust increase in business volume and consequent growth in revenue. The prime factor in this was the use of a variety of measures to attract new cardholders, which boosted their number at the end of the first-half period by 15% year-on-year, to around 1.49 million. As a result, the total operating revenues of the credit card & leasing segment came to ¥30 billion, and operating income amounted to ¥2.3 billion.

Other Business

JALUX Inc., a retailing company, was impacted by the dispersal of its customer base resulting from the opening of Terminal 2 at Haneda Airport in December 2004, causing revenue to fall at its BLUE-SKY shopping mall operation at Haneda. However, the company achieved brisk sales in the fields of real estate, food, and aircraft parts, enabling it to post overall revenue growth. Meanwhile Hotel operator JAL Hotels Company Ltd. benefited from being newly awarded the commissioned management of nine hotels since October 2004. However, its overall revenue declined owing to factors such as the sale of the Kawasaki Nikko Hotel and its consequent transfer to commissioned management, and the fall in revenue at Hotel Nikko Bayside Osaka resulting from the opening of rival hotels in the neighborhood.

As a result of the above, the operating revenues of the Other Business segment amounted to ¥102 billion, with operating income at ¥2.9 billion.

2. Operational and Other Risks

(1) The JAL Group business integration

a) Basic policy

On April 1, 2004, the JAL Group achieved complete integration – under the unified "JAL-Japan Airlines" brand – through the reorganization of Japan Airlines Co., Ltd. and Japan Air System Co., Ltd. into Japan Airlines International Co., Ltd., which handles international passenger and cargo operations, and Japan Airlines Domestic Co., Ltd., which handles domestic passenger operations.

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 not only of Japan, but also of the world.

b) 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 debt repayment period (based on 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 reduce the latter to below 10 years.

It should be noted that changes such as a future deterioration in the operating environment may prevent these goals from being achieved.

c) Medium- and Long-Term Management Strategies

Record-high fuel prices are having a major impact on the finances of the JAL Group. Given this and other factors such as changes in customer needs and in the operating environment for the Group, in March this year the Group drew up its FY2005-2007 Medium-Term Business Plan with the aim of addressing the pressing issues of enhancing profitability and the soundness of its financial condition. It is hoped that the steady implementation of the plan will enhance the JAL Group's corporate value and strengthen its financial condition, but its outcome may be impacted by factors such as changes in the external environment.

(2) 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.

(3) 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.

(4) Impact of changes in 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.

Financial Position (on a consolidated basis)

1. Earnings Analysis

Operating profit/loss

As described above, during the reporting six-month first-half period, passenger demand was sluggish on both international and domestic routes, while international cargo demand also fell below the level of the corresponding period of the previous year. Meanwhile, fuel expenses posted a major increase owing to steep rises of historic proportions in fuel prices. The managements of all JAL Group companies made concerted efforts to overcome these negative circumstances by taking steps to improve their balance of income and expenses, centering on the reform of their cost structures. As a result, on a consolidated basis, operating revenue registered a year-on-year growth of ¥36.5 billion to reach ¥1,112.3 billion, while operating income posted a decline of ¥71.1 billion to 15.7 billion.

Non-operating profit/loss

Non-operating income fell by ¥31.4 billion from the corresponding period of the previous year, to ¥12.2 billion. Of this, incentives for the purchase of aircraft decreased by ¥34.4 billion year-on-year, while gains on foreign exchange rose by ¥1.6 billion to ¥3.0 billion. Extraordinary losses, principally impairment losses on disposal of fixed assets, amounted to ¥18.2 billion.

Current assets

Cash and time deposits declined by ¥54.7 billion year-on-year, to ¥197.8 billion, while notes and accounts receivable increased by ¥18.4 billion to ¥241.3 billion. Combined with a valuation gain on fuel derivatives, total current assets came to ¥701.8 billion, for a year-on-year increase of ¥18.6 billion.

Noncurrent assets

Noncurrent assets increased by ¥15.3 billion over the year-earlier level, to ¥1,494.7 billion, as a mixed result of, on the one hand, a depreciation charge amounting to ¥62.0 billion, in addition to the sale of hotels and company housing, and, on the other hand, the purchase of eleven aircraft (of which 10 were buy-outs upon lease expiration, or used aircraft).

Liabilities

Long-term debt, including the current portion (amounts repayable within one year) declined by ¥57.5 billion year-on-year, to ¥915.3 billion. The current portion of corporate bonds declined by ¥15.0 billion from the year-earlier level.

Stockholders’ equity

Regarding the accumulated deficit at the end of the reporting period, a net loss of ¥12.0 billion was recorded for the reporting period, and as a result of the payment of dividends in the amount of ¥7.9 billion, the accumulated deficit deteriorated from ¥34.9 billion at the end of the previous first-half period to ¥54.9 billion.

Balance sheet

As a result of the factors described above, total assets at the end of the reporting six-month period stood at ¥2,196.6 billion, and total liabilities amounted to ¥1,990.9 billion. Stockholders’ equity came to ¥178.6 billion, yielding an equity ratio of 8.1%.

Cash flows

Cash flows from operating activities for the reporting first-half period resulted in a net inflow of ¥76.8 billion, mainly as a result of the posting of depreciation and amortization charges in the amount of ¥62 billion, which more than offset a loss before income taxes and minority interests of ¥5.8 billion. Cash flows from investing activities resulted in a net outflow of ¥61.2 billion, attributable principally to the acquisition of aircraft. Cash flows from financing activities resulted in a net outflow of ¥81.8 billion, resulting from the repayment of a large amount of loans, and redemptions of bonds. As a result, cash and cash equivalents at the end of the first-half period amounted to ¥195.5 billion.

2. State of Aircraft Fleet

Changes in the number of aircraft operated by our consolidated subsidiaries during the half, and the total number of owned and leased aircraft at the end of the half are shown below.

Type of Aircraft	Purchase	Lease	Sale/ Retirement	Termination of Lease	Other/ remodeling	Sep.30.2005	
						Owned	Leased
B747-400	1	-	-	(1)	-	41	1
B747-400F	-	-	-	-	-	0	2
B747LR	-	-	-	(1)	-	18	3
B747SR	-	-	-	-	-	3	0
B747F	-	-	-	-	-	7	3
B777	2	4	-	(1)	-	12	24
DC-10	-	-	(3)	-	-	3	0
A300-600R	3	-	-	(3)	-	17	5
A300	-	-	(2)	-	-	4	0
B767	-	1	-	-	-	18	20
MD-90	2	-	-	(2)	-	16	0
MD-81	-	-	-	-	-	12	6
MD-87	2	-	-	-	-	8	0
B737	-	-	-	-	-	9	14
CRJ200	-	-	-	-	-	0	6
YS-11	-	-	(1)	-	-	5	0
DHC-8-400	-	1	-	-	-	2	4
SAAB340B	1	-	-	(1)	-	10	4
DHC-8-100	-	-	-	-	-	4	0
BN-2B	-	-	-	-	-	3	0
Total	11	6	(6)	(11)	0	192	92

Notes:
(1) The 10 aircraft out of 11 purchased aircraft listed above were bought after the termination of lease contracts.

3. Cash Flow Indicators on a Consolidated Basis

The following are the consolidated cash flow indicators.

	(at Mar.31,2005)	(at Sep.30,2005)
Equity ratio (%)	9.0%	8.1%
Market Cap. equity ratio (%)	28.7%	27.1%
Interest-bearing debt repayment period	9.0 years	16.1 years
Interest coverage ratio	5.7	6.6

Notes

- Equity ratio: Stockholders' equity/Total assets   Fair value equity ratio: Gross market capitalization/Total assets   Years for debt redemption: Interest-bearing liabilities/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 the Full Year (fiscal 2005)】

The business environment within which the JAL Group operates remains extremely challenging. The Group faces stagnant demand against the backdrop of continuing sporadic anti-Japanese demonstrations in China, recurrent terrorist activities throughout the world, the negative impact of a number of large-scale natural disasters, and the aftereffects of the series of safety-related incidents involving JAL aircraft. At the same time, we are also having to cope with an ongoing steep rise in aviation fuel costs, which have already reached unprecedented high levels.

In the Group's mainline airline operations, we are enjoying continued firm passenger traffic on trans-Pacific routes, but traffic to destinations in China and Southeast Asia is expected to remain slow throughout the current fiscal year, while passenger demand on Japanese domestic routes is also likely to be sluggish, particularly for non-group tickets. In international cargo transport, demand for cargo flights originating in Japan is seen to have already begun staging a comeback, and is projected to return to the overall recovery path within fiscal 2005.

Aviation fuel prices (Singapore Kerosene) have been fluctuating at levels well over $70 a barrel in recent months, and are forecast to remain at record high levels through winter, particularly in view of the loss of a huge amount of refinery production capacity on the Gulf Coast of the United States as a result of the damage caused by hurricanes Katrina and Wilma.

Amid these circumstances, the JAL Group will be exerting the maximum effort in the marketing of its services in the fields of international and domestic passenger services, as well as cargo transport services. At the same time, in accordance with the strategies laid down in the Group's FY2005-2007 medium-term business plan, we will be pushing steadily forward with restructuring programs relating to the organization of the Group's operations, including costs. Additional measures to improve the Group's balance of income and expenditures will also be deployed in response to the rising price of fuel, and we fully expect to see an improvement in earnings by the end of the present medium-term plan. For fiscal 2005, however, the JAL Group's business performance figures are projected to fall short of the start-of-term forecasts.

On the basis of the foregoing factors, we forecast business results for fiscal 2005, on a consolidated basis, as follows.

(Consolidated basis; billions of yen)

	Revised forecast	Previous forecast (May 9, 2005)	Change
(1) Operating Revenue	2,195	2,209	-14
(2) Operating Income	-34	60	-94
(3) Ordinary Income	-57	29	-86
(4) Net income	-47	17	-64

<u>Assumptions on which the above forecasts are based:</u>

The above forecasts were based on the following assumptions: An average exchange rate for fiscal 2005 of ¥109 to the U.S. dollar, and an average price for Singapore Kerosene of $77 per barrel.

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