Japan Airlines Corporation and Consolidated Subsidiaries

Consolidated Financial Information

For the year ended March 31, 2006

(Working to regain trust)
Because of a series of safety-related occurrences, the JAL Group received an "administrative warning" and a "business improvement order related to ensuring air transportation safety" from the Minister of Land, Infrastructure, and Transport (MLIT) in March 2005. Soon after that, in order to restructure the Group to achieve high safety standards, the President and all directors held over 450 emergency safety meetings with frontline staff, and quickly provided the feedback obtained from the meetings to all employees. In order to seek candid advice of independent experts, a safety advisory group was established, and the Group submitted its final report to the MLIT in December 2005. Furthermore, in response to additional safety-related occurrences, in January 2006, the MLIT requested a report on additional measures related to the "thorough reimplementation of measures to prevent human errors within the JAL Group," and we submitted our report on improvement measures that were based on the recommendations of the safety advisory group. Subsequently, the Group worked to implement the measures included in the report. However, on March 22, 2006, the Group received from the Civil Aviation Bureau of the MLIT an administrative reprimand related to "missed scheduled inspections relating to durability improvement notice," which was followed by another reprimand related to "inappropriate inspections." We take seriously these safety-related occurrences that occurred amid our improvement efforts and reflect deeply upon them. We also sincerely apologize to all those affected for the problems and concerns we may have caused. The JAL Group is re-educating all of its employees to truly appreciate the principles upon which all airline companies are founded, including: "Safety always takes priority," "When in doubt, take the safe option" and "Always see things from the customer's perspective." In addition, we have also established a Safety Promotion Committee, which is a centralized body for safety improvements for the whole Group, to ensure the implementation of our improvement measures, and a Safety Promotion Center so that the lessons to be drawn from past accidents are not forgotten.
The JAL Group, led by the President and all other members of the new management team with strong will and leadership, is determined to rebuild its safety system, and intends to make a concerted and focused effort to regain the trust of not only our customers but also of society in general.

1.MANAGEMENT POLICIES

1. Fundamental Policies

Based on the following corporate philosophy, the JAL Group, as a comprehensive air transportation company group, strives to bring customers, their cultures and their hearts closer together as it contributes to the peace and prosperity of Japan and the world. The Group also aims to rank among the world's leading air transportation company groups, while striving to maximize its corporate value for the benefit of all of its stakeholders.

(Corporate philosophy)

As a comprehensive air transportation company group, the JAL Group strives to bring customers, their cultures and their hearts closer together as it contributes to the peace and prosperity of Japan and the world.

(1) We will relentlessly pursue safety and quality.
(2) We will think and act from the standpoint of the customer.
(3) We will strive to maximize our corporate value.
(4) We will endeavor to fulfill our responsibility as a corporate citizen.
(5) We will place value on diligence and the willingness to take on challenges.

2. Targeted Principal Management Indicators

Our principal medium-term management goal is to improve profitability. As the principal medium- to long-term management indicators, we use return on equity (ROE), which we aim to improve, and interest-bearing debt repayment periods, which we strive to reduce by increasing our cash flow from operations.

3. Medium- and Long-Term Management Strategies (goal)

(1) Basic policy

Since 2001, there have been a series of events negatively affecting the airline industry, including terrorist attacks, outbreaks of diseases, natural disasters, and anti-Japanese demonstrations in China. Furthermore, with fuel prices at historic highs, the airline industry has found itself in a challenging environment. Under these circumstances, in March 2006, the JAL Group announced its FY2006-2010 Medium-term Business Plan. Particularly, with the merger of the Group’s operating companies that will be completed in October, we are aiming to have the fiscal year 2006 be the first year of the JAL Group’s transformation into a company that puts the highest priority and importance on safety and customer satisfaction. The whole Group is focusing its energy on a concerted effort to regain the trust of all stakeholders through day-to-day safe operation of flights that customers can use with a sense of security and comfort.

The JAL Group plans to work in a fully integrated fashion to execute this new five-year Medium-Term Business Plan from FY 2006 through FY 2010, which sets forth concrete steps to achieve the goals announced last November in our "JAL Group Corporate Reform Policy." We are targeting the first three years (FY 2006-2008) to be the rebuilding stage for our Group's business base, during which time we plan to further streamline costs as well as restructure our international passenger operations. At the same time, we plan to strategically purchase new aircraft in order to position ourselves to capitalize on the business opportunities expected to arise from the expansion of Tokyo International Airport (Haneda), which is expected to increase international flights from that airport, and the increase in slots at Narita International Airport in FY 2009. We also aim to realize sustained growth by rebuilding our business base by focusing our resources on "safety" and "customer satisfaction."

The three main pillars of the new Medium-term Business Plan are as follows:

1. Toward a New JAL Group – Regaining Trust and Enhancing Customer Satisfaction

We plan to implement the recommendations of the Safety Advisory Group, an external committee of experts established last year to advise the JAL Group on safety issues, in order to rebuild the foundation for flight safety and refocus our corporate mind set to concentrate on customer satisfaction.

2. Improving profitability through restructuring of international passenger operations and downsizing of our equipment

We plan to continue to focus on higher profit and higher growth routes and will suspend lower profit routes to build a more profit-focused network; achieve downsizing of our fleet by replacing older aircraft with new, mostly small- and medium-sized aircraft to strengthen our competitive edge; and enhance our cost effectiveness as we reassess our business operations. We plan to increase both seat load factor and yield through these measures.

3. Implementing further cost-restructuring

We plan to continue to focus on and continually reassess our cost structure on a group-wide basis.

(2)Toward a New JAL Group "Regaining Trust and Enhancing Customer Satisfaction"

(i) Promote Corporate Culture and Reformed Mind Set

The Group will promote unity and create an open corporate climate, which encourages interaction and communication between its various businesses.

(ii) Restore high safety standards

Based on recommendations of the Safety Advisory Group, JAL Group will establish a Corporate Safety Division to oversee group-wide safety improvement, and carry out group-wide activities to improve safety. The Group will invest approximately 60 billion yen, mainly to strengthen the maintenance infrastructure and improve operational quality. The investment will also contribute to the re-strengthening of operational and aircraft quality, to increase customer trust.

(iii) Improve product and service quality from the customers' standpoint

In order to become an airline that is consistently chosen by our customer, we will further improve the quality of products and services to meet the customers' expectations and needs. We plan to invest approximately 65 billion yen to enhance the quality of products and services and maintain our system infrastructure, as well as to bolster our capability to handle unexpected operational events (e.g., delays, etc.).

(3) Building a solid corporate structure capable of responding flexibly to external factors

Business restructuring

(i) International passenger operations

During the period from FY 2006 to 2008, which we have labeled the Rebuilding Stage of the Business Foundation, we will seek to improve operational profits by concentrating on higher profit and higher growth routes and suspending lower-yielding routes, and downsizing our fleet by introducing more small- and medium-sized aircraft. We plan to advance the renewal of our fleet by replacing older aircraft with new equipment such as 737-800s (from FY 2007) and 787s (from FY 2008), in an effort to enhance the competitiveness of our fleet. We will also expand our lower-cost operations through various measures, including increasing the scope of flights provided by JALways and developing international routes operated by JAL Express. During the period after FY 2009, which we have labeled the Stage of Sustained Growth, we plan to focus on routes with growth potential, utilizing small- and medium-sized aircraft, as well as actively taking advantage of the expected increase in scheduled international flights out of Tokyo International Airport (Haneda) and the anticipated additional slots at Narita International Airport.

(ii) Domestic passenger operations

We plan to enhance customer convenience by creating comfortable, reliable and convenient products and services through such measures as increasing the number of Class J seats, which is our domestic business class product (e.g., increasing the number of Class J seats on aircraft and adding Class J seats in smaller aircraft), and strengthening our e-marketing initiatives. We plan to renew fleet by replacing older aircraft with new aircraft such as 737-800s (from FY 2006) and 787s (from FY 2008), in an effort to enhance the competitiveness of our fleet. We aim to improve cost competitiveness by focusing on a lower-cost operational structure and expanding the operations of JAL Express, our subsidiary that operates with lower overhead. We aim to aggressively pursue one of the biggest business opportunities during this Medium- term Business Plan period, which is the expected increase in slots at Tokyo International Airport (Haneda) in 2009.

(iii) Cargo Business

We plan to expand our cargo operations while securing stable profitability by building an efficient operational base that utilizes a combination of large- and medium-sized aircraft. We plan to aggressively develop potential growth markets, such as China, while servicing the demands of our most important market, the Japan outbound international cargo market, through such measures as strategic alliances with freight forwarders. We are seeking to develop growth opportunities that include the logistics business, express delivery business and domestic night cargo flight market.

Cost restructuring

While continuing to steadily implement the cost restructuring policies outlined in the FY2005-07 Medium-Term Business Plan, the JAL Group plans to further streamline its fixed costs in addition to reducing the scale of its international business operations. The Group also plans to further simplify its business processes on a group-wide basis. Through these measures, the JAL Group aims to achieve an improved cost structure.

4. Issues

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

This is JAL Group's safety charter, which articulates our determination to ensure safety. Returning to and re-appreciating the spirit of this charter, management and employees alike, we are taking various steps to regain people's trust in the JAL Group, and to make it possible for customers to fly on JAL Group feeling safe and comfortable.

The JAL Group is working to integrate its operating companies by merging Japan Airline International, which is responsible for international passenger and cargo service operations, with Japan Airline Domestic, which is responsible for domestic passenger operations, in October 2006. While the holding company, Japan Airlines, will continue to operate as a corporation in order to maintain flexibility with regards to the Group’s capital policy, the holding company’s management will be combined and integrated with the operating company’s management through a system under which all members of management of the holding company and the operating company hold dual positions in both companies.

We continue to implement measures to reflect feedback from customers in our operations, and improve the quality of our products and services from the customer’s point of view in order to transform the Group into one that is always the first choice of customers.

5. Matters relating to Parent Company

None.

2. Business Performance and Financial Condition

【Business performance】

1. Overview of the period

(1) Overall results (consolidated)

The overall global economy recovered steadily due to the expansion of the U.S. and East Asian (Chinese, Korean, Taiwanese, and Singaporean) economies. Moderate economic recoveries were also seen in the U.K. and other European countries. The Japanese economy also experienced a moderate recovery. Capital expenditures increased against the backdrop of strong corporate earnings, and consumer spending recovered due to improvements in the employment environment. In general, this strength in the corporate sector had a favorable effect on the household sector.

During the period under review, international passenger demand fell below the previous year's level. This is mainly attributable to weak demand on China routes following anti-Japanese demonstrations, and to continued stagnation in demand for flights to Southeast Asian destinations. Passenger demand on our domestic routes, in particular demand from individuals, was also stagnant, mainly due to the adverse impact of a series of safety-related occurrences. The overall performance of our international cargo services fell short of that of the previous year, as demand for services from Japan to the United States and other East Asian countries was weak during the first half of the fiscal year. Throughout the reporting period, aircraft fuel prices stayed at extremely high levels, and the business environment for the JAL Group remained challenging. As a result, despite our group-wide efforts to increase revenues and cut costs, sales increased only ¥69.5 billion year-on-year to ¥2,199.3 billion, operating income decreased ¥82.9 billion to ¥26.8 billion, ordinary income fell ¥111.4 billion to a loss of ¥41.6 billion, and net income was down ¥77.3 billion to a net loss of ¥47.2 billion, on a consolidated basis.

(2) Earnings by segment (before intersegment eliminations and adjustments)

<u>Air Transportation Business</u>

On international routes, passenger demand was steady for flights to the United States, Korea and Taiwan. However, passenger demand on routes to Europe and Southeast Asia and Oceania was weak, and the effects of anti-Japanese demonstrations in China continued to linger on routes to China, mainly among tourists. As a result, the number of revenue passengers carried was 96.2% of the previous term's level, and revenue passenger-kilometers were 97.8% of those for the previous year. With respect to our route management, we increased the number of flights on routes to China (Tokyo-Tsingtao) and routes to other East Asian destinations (such as Osaka-Seoul), where growth is expected in the medium-to-long term, and on the Tokyo-Chicago and Tokyo-Moscow routes, where business demand has been strong. In particular, for routes to China, we have increased code-sharing with certain Chinese airlines in order to further expand our China-Japan network, which already exceeds those of our rivals. On the other hand, we have halted those scheduled flights we have operated with our own aircraft on routes that we believe are unlikely to generate a sufficient level of profits over a long term. These routes include those from Tokyo and Osaka to Saipan, from Fukuoka to Honolulu, Hong Kong and Seoul, and from Nagoya to Guam. We streamlined these flights by replacing some of them with code-share flights and charter flights (Available Seat- Kilometers was 97.7% of the previous term's level). In addition, as part of our operational streamlining, we proceeded with transferring the operation of additional routes to JALways in order to further increase our cost competitiveness. On the marketing front, in an effort to increase tourist demand, we launched a "FLY JAL! 10,000 Mile Gift Campaign" in April 2005 and, commencing in December 2005, a "Winter Bonus Campaign" on both international and domestic routes. Furthermore, we started a "JAL Corporate Flight Merit Program" for small- and medium-sized businesses in April 2005 in order to aggressively pursue business demand. On some routes, including those to London, we introduced a "Free Style Dining" service that allows passengers in the executive class to freely choose when to have their second meal. Starting in January 2005, we added fuel surcharges to our tickets to accommodate our high fuel costs.

As a result of the above, revenues from the international passenger operations on a consolidated basis increased 2.8% to ¥690.2 billion, as passenger yield increased 5.2% year-on-year mainly because of increases in fares and fuel surcharges.

For domestic passengers, the number of individual passengers failed to grow, mainly due to the safety-related occurrences, and the growth in the number of tour passengers proved insufficient to offset this decline. As a result, the number of revenue passengers carried was 98.1% of the previous term's level, while revenue passenger-kilometers were 98.6%. We expanded our operations to/from new airports that opened in the early part of this reporting period in an effort to increase the number of passengers. We introduced a total of 10 new flights on six routes from Kobe Airport, which opened in February 2006, including routes to Tokyo International Airport (Haneda), as well as Sapporo and Naha. In addition, at New Kitakyushu Airport, which opened in March, we introduced larger-sized aircraft on the Haneda route, and also began servicing routes to Nagoya (Komaki) and Naha. On the product strategy front, we began to increase the number of "Class-J" premium seats, which have been popular since they were introduced, and further expanded our advanced "JAL IC Check-in Service" by increasing to 44 the number of airports where "JAL IC Check-in Service" is available. All of these efforts are aimed at increasing customer convenience. Our marketing efforts aimed at creating demand by expanding the number of days for which "bargain fares" were offered and continuing to offer birthday discounts and "Otomo de Mairu" discounts. We also launched promotional campaigns that feature popular characters, such as the "Mushi-King" and "Tamagotchi." In order to accommodate our higher fuel expenses, we had added a fuel surcharge of ¥200 or ¥300 per one-way sector starting in January 2005, but discontinued such fuel surcharge starting April 2006 when we increased our domestic passenger airfares.

Although we implemented the above measures, a series of safety-related occurrences took place and negatively affected demand, mainly among individual passengers. As a result, although passenger yield remained stable at 99.2%, revenues from domestic passengers on a consolidated basis fell 2.2% year-on-year to ¥659.9 billion.

For international cargo services, amidst the growth of the global economy, demand for cargo services was generally steady, but revenue ton-kilometers stopped at 97.0% of last year's exceptionally good results. Demand for cargo services was stagnant overall during the first half of the reporting period, but recovered from autumn onward with increased shipments of flat-screen televisions, semiconductor products, and auto parts by Japanese manufacturers. Furthermore, overall import demand was strong since imports of auto parts and materials were steady, even though imports of fresh food were somewhat weak. With regard to our route management, we increased the number of flights on trans-Pacific routes and routes to Hong Kong during the second half of the fiscal year. In addition, starting in November 2005, we utilized new B747-400 Freighter and converted some of the return flights from Europe, which had previously stopped over at Anchorage, into direct flights, thereby improving our services with shorter flight time and reducing costs, including fuel costs.

Due to the above measures we took, cargo yield increased 8.6% compared to the previous year, mainly due to increases in fuel surcharges, and revenue increased 5.4% to ¥180.5 billion.

While fuel costs dramatically increased, we made efforts to absorb the impact of the increase by continuing to implement measures to increase revenues through fare revisions and fuel surcharges, various measures to reduce cost, and measures to improve profitability, including streamlining of routes.

As a result, total transportation volume, including both international and domestic passengers and cargo, was 97.7% of the volume of the previous fiscal year. Sales increased ¥31.6 billion to ¥1,732.9 billion, while operating loss was ¥43.4 billion (after intra-segment eliminations and before inter-segment eliminations).

Airline-Related Business

Revenues for the in-flight catering company, TFK, increased due to improved sales volume at Tokyo International Airport (Haneda) resulting from new contracts and an increase in the number of international charter flights. AGP Corporation, which sells auxiliary power for aircraft, experienced a significant increase in revenues due to the increase in electric power sales volume following the opening of Terminal 2 at Tokyo International Airport (Haneda) and of the Central Japan International Airport.

As a result, sales for the airline-related business segment were ¥342.9 billion and operating income totaled ¥5.8 billion.

Travel Services Business

JALPAK's customer volume and revenue both decreased following reductions in the number of flights on the JAL Group's international passenger routes. JAL Tours recorded increased revenues due to a rise in customer volume on most destinations, in particular to Okinawa.

As a result, for the travel services business, sales were ¥415.3 billion, and operating income totaled ¥0.6 billion.

Credit Card and Leasing Services Business

The Group's credit card company, JALCard, experienced substantially increased transaction volumes with the number of members increasing 13% to around 1.58 million as of March 31, 2006 as a result of measures to gain new members, which led to an increase in revenue.

As a result, segment sales were ¥60.1 billion, and operating income totaled ¥4.3 billion.

Other Businesses

JALUX, a trading company, posted increased revenues due to healthy sales of real estate, food-related products and airplane parts to non-group companies, although customers were more dispersed following the opening of Terminal 2 at Tokyo International Airport (Haneda) and sales at the airport's BLUE SKY consequently decreased. JAL Hotels, a hotel operator, newly won contracts to manage seven additional hotels since April 2005, but overall revenues fell for various reasons, including changes in the operation of the Kawasaki Nikko Hotel to a management contract basis following the sale of the hotel, and a drop in revenue from the Hotel Nikko Bayside Osaka, which we own, due to the opening of a competing hotel in the neighboring area.

As a result, other business segment sales were ¥212.6 billion, and operating income totaled ¥6.1 billion.

2. Business risks

(1) Business strategy

(i) Medium-term business plan

On March 2, 2006, we announced our medium-term business plan for the five-year period ending March 31, 2011. While achieving the goals set forth in the medium-term business plan is of critical importance to the Group, the plan was prepared based on a number of assumptions, and if these assumptions turn out to be incorrect, including the stakeholders' support of the new management structure, the targeted cost savings and revenue growth set forth in the plan may not be successfully achieved.

(ii) Integration of Japan Airlines International and Japan Airlines Domestic

We plan to merge Japan Airlines Domestic into Japan Airlines International in October 2006, but due to various factors, the merger of these operating companies may not result in the benefits that we currently expect.

(iii) Joining the oneworld alliance

In February 2006, we entered into a memorandum of understanding to join oneworld, one of the major airline alliances. However, due to various factors, we may not be able to realize the benefits that we expect to achieve through the alliance.

(iv) Indebtedness and financing

We currently have and will continue to have a significant amount of indebtedness and lease obligations relating to our aircraft as well as pension benefit obligations. Moreover, in March 2007, we may need to redeem certain zero-coupon convertible bonds in euro-yen that are due 2011. If, as a result of the restructuring of the governmental financial institutions currently contemplated by the Japanese government, changes in the tax or accounting system, further downgrading of our credit ratings or interest rate increases, etc., we are unable to obtain external financing or loans on such terms as are currently available to us, then our business and results of operations may be adversely affected.

(2) Possible impact of changes in our market and geopolitical events abroad

Both our international and domestic operations depend to a large extent on the portion of our customer base made up of Japanese nationals. Our business and results of operations may be negatively affected by such factors as increased competition, adverse changes in the economic conditions in Japan or in the demand for air transportation among Japanese nationals, seasonality, natural disasters, outbreaks of contagious diseases such as SARS, terrorist attacks, conflicts, wars or other similar events. Moreover, in the event of further terrorist attacks or acts of war, insurance premiums may be increased or insurance may be made available only with additional limitations on coverage.

(3) Possible Effects of fuel price and foreign exchange rate fluctuations

We have hedged risks of higher fuel prices through a number of derivative transactions. However, continuing high fuel costs or significant disruptions in the supply of aircraft fuel will adversely affect our business and results of operations. In addition, due to the international nature of our business, we receive a large a large part of our revenues and incur an even larger part of our expenses in certain foreign currencies. Thus, fluctuations in foreign exchange rates may adversely affect our business and results of operations.

(4) Safety concerns

A series of safety-related occurrences involving our aircraft have caused some of our customers to leave us for other airlines and negatively affected the revenues from our operations. Although we have been taking various measures to regain the confidence of customers in our services and rebuild our reputation, it may take a substantial amount of time before such confidence and reputation are fully regained. Any further safety-related occurrences involving our Group or our suppliers or service providers may result in deterioration of the pubic perception concerning the safety and reliability of our operations and may negatively impact our financial results.

(5) Possible impact of laws and regulations

Our operations are subject to a high degree of international, national and local legislation and regulations, covering most aspects of our operations. In the cargo area, in February 2006, government authorities in a number of jurisdictions (which include, but may not be limited to, the European Union, United States, Switzerland and New Zealand) began what appear to be similar inquiries into possible price coordination among international air cargo operators, including us. A number of class action lawsuits have also been filed against such air cargo operators claiming injury due to alleged violation of the U.S. anti-trust laws. These developments may necessitate significant expenditures on the part of airline companies and could have a material impact on our results of operations.

(6) Reliance on technology systems and handling of customer information

Our operations rely to some extent on certain technology systems that entail operational risks, including our information system. Any interruption in our technology systems due to factors such as computer viruses could cause a substantial disruption in our operations. In addition, any incident where personal information in our possession about our customers is leaked or improperly accessed could decrease customer and market confidence and materially and adversely affect our business, financial conditions and results of operations.

3. Matters relating to distribution of profit

Regrettably, we expect to pay no dividend for the reporting period due to a large loss recorded on a consolidated basis and based on our analysis of the Group’s financial position.

【Financial Position】

1. Earnings Analysis

Operating income

As described above, passenger demand during the reporting period was sluggish on both international and domestic routes due primarily to the effects of anti-Japanese demonstrations in China and safety related occurences, and international cargo demand also fell below the level of the previous year. Meanwhile, fuel expenses increased ¥88.2 billion, due to steep rises of historic proportions in fuel prices. As a result, despite our group-wide efforts to increase revenues and cut costs, operating revenue increased ¥69.5 billion year-on-year to ¥2,199.3 billion, and operating expenses increased by ¥152.4 billion to ¥2,226.2 billion. As a result, we posted a ¥26.8 billion operating loss, or a ¥82.9 billion decrease in operating income from the previous year.

Non-operating income/expenses

Non-operating income fell by ¥38.0 billion from the previous year to ¥26.3 billion since we no longer record aircraft purchase incentives, which totaled ¥48.3 billion for the previous fiscal year, while gains on foreign exchange rose by ¥10.0 billion to ¥12.1 billion. Extraordinary income rose by ¥23.9 billion to ¥30.4 billion, mainly due to an increase of ¥17.1 billion to ¥19.0 billion in gains on the sale of real estate. In addition, we posted a ¥6.8 billion gain on partial termination of our retirement benefit plan. Extraordinary losses amounted to ¥35.3 billion, which included a ¥18.7 billion impairment loss on disposal of golf course facilities and an additional provision for retirement benefits.

Current assets

Cash and time deposits declined by ¥78.6 billion year-on-year to ¥173.9 billion, mainly due to the posting of a net loss, while accounts and notes receivable—trade increased by ¥14.5 billion to ¥237.4 billion in line with increased operating revenues. Combined with a valuation gain on fuel derivatives, amounts equal to incentives received for aircraft purchases in large quantities, etc., current assets totaled ¥687.3 billion, a year-on-year increase of ¥4.1 billion.

Fixed assets

Tangible fixed assets decreased by ¥5.4 billion from the previous year to ¥1,473.9 billion, since, in addition to recording a ¥125.1 billion depreciation charge, we sold14 aircraft, while purchasing 14 aircraft (of which two were direct purchases and 12 were acquisitions in the middle of, or following the expiration of, the relevant lease terms).

Liabilities

Long-term loans, including the current portion consisting of amounts repayable within one year declined by ¥59.8 billion year-on-year to ¥913.0 billion. The year-end balance of bonds, including the current portion, decreased by ¥15.0 billion from the previous year-end level to stand at ¥310.0 billion.

Stockholders' equity

Accumulated deficit deteriorated from ¥34.9 billion at the end of the previous year to ¥90.1 billion, mainly due to the posting of a ¥47.2 billion net loss.

Balance sheet

As a result of the factors listed above, total assets at the end of the reporting period were ¥2,161.2 billion, and total liabilities ¥1,985.7 billion. Total stockholders' equity came to ¥148.0 billion, yielding an equity ratio of 6.9%.

Cash flow

Cash flow from operating activities resulted in a net cash inflow of ¥100.9 billion, mainly reflecting the ¥46.4 billion loss before income taxes and minority interests, offset by ¥125.1 billion of depreciation and amortization charges. Cash flow from investing activities resulted in a net cash outflow of ¥99.2 billion, primarily relating to the acquisition of aircraft. Cash flow from financing activities resulted in a net cash outflow of ¥91.3 billion, resulting from financing through long-term loans, which were partially offset by repayments of loans and redemptions of bonds. As a result, cash and cash equivalents at term-end stood at ¥172.1 billion.

2. Aircraft Fleet

Changes in the total number of aircraft operated by our consolidated subsidiaries during the year and the total 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	＋1			▲1		41	1
B747-400F						0	2
B747LR			▲1	▲2		17	2
B747SR			▲2			1	0
B747F				▲1		7	2
B777	＋2	＋4		▲1		12	24
DC-10			▲6			0	0
A300-600R	＋4			▲4		18	4
A300			▲3			3	0
B767	＋1	＋2		▲1		19	20
MD-90	＋2			▲2		16	0
MD-81						12	6
MD-87	＋2			▲2		8	0
B737						9	14
CRJ200		＋2				0	8
YS-11			▲2			4	0
DHC-8-Q400	＋1	＋1				3	4
SAAB340B	＋1			▲1		10	4
DHC-8-100						4	0
BN-2B						3	0
Total	＋14	＋9	▲14	▲15		187	91

Notes:

(1) ▲ indicates minus.

(2) 12 aircraft out of the 14 purchased aircraft listed above were purchased in the middle of, or at the end of, the relevant lease terms, while the remaining two were directly purchased.

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

3. Cash Flow Indicators on a Consolidated Basis

The following are the consolidated cash flow indicators:

	FY 2004 at year-end	FY 2005 at year-end
Equity ratio (%)	9.0	6.9
Equity ratio at market value (%)	28.7	28.2
Interest-bearing debt repayment period (years)	9.0	12.2
Interest coverage ratio	5.7	4.5

(Note)
・Equity ratio: Stockholders' equity/Total assets
・Equity ratio at market value: Gross equity market capitalization/Total assets
・Interest-bearing debt repayment period: Interest-bearing debt/operating cash flow(Operating Income+Net Interest Income–Tax・Divident+Repayment Lease Principal+Depreciation etc.)
・Interest coverage ratio: Cash flow from operating activities/Interest payments

(1) All indicators are calculated on the basis of consolidated financial data.
(2) Gross equity market capitalization is calculated by multiplying the closing price of our shares at the end of the period by the number of ordinary shares issued and outstanding at the end of the period.
(3) Cash flow from operating activities refers to cash flow from operating activities for the period as stated in the consolidated statement of cash flows.
(4) Interest-bearing debt refers to that portion of our liabilities stated in the consolidated balance sheets which includes borrowings, bonds and other liabilities upon which we pay interest (including installment payments).
(5) Interest payments mean interest paid in the consolidated statement of cash flows.

【Outlook for FY 2006】

Although demand for passenger air transportation is expected to increase in line with the ongoing recovery of the Japanese economy, aircraft fuel prices remain at record-high levels due to the persistent instability of the international community, and we anticipate that the business environment surrounding the JAL Group will remain severe. Under these circumstances, we will endeavor to improve our profitability by maximizing the benefit derived from the integration of our operating companies while implementing a variety of marketing and other measures to increase revenue in each of the international passenger, domestic passenger and cargo businesses. We will also strive to achieve further cost reduction by more vigorous and thorough implementation of the cost structure reform that we have already been undertaking.

Assumptions underlying the financial targets:
The computation of the forecast is based on the following assumptions: An exchange rate of ¥120 = one U.S. dollar, and with respect to the price of aircraft fuel price, Singapore Kerosene at a market price of US$75 per barrel. For the fiscal year ending March 31, 2007, we have entered into hedging transactions covering approximately 80% of our expected U.S. dollar requirements and 75% of our expected fuel requirements.

The current financial targets on a consolidated basis for the fiscal year ending March 2007 is as follows:

(1) Operating Revenue: ¥2,301.0 billion

(2) Operating Income: ¥17.0 billion

(3) Ordinary Income: ¥0.5 billion

(4) Net Income: ¥3.0 billion

The above target figures are subject to certain uncertainties and risks, including those mentioned below. In the event that any of these risks materializes (e.g., further increase in fuel prices), we will make every effort to successfully implement additional measures to mitigate the negative impact of such risks, including, if necessary, certain emergency measures.

This document is for background information purposes only. Certain statements made in this document, including some management strategies and targets, may contain forward-looking statements which reflect management's views and assumptions. We may not be successful in implementing our business strategies, and management may fail to achieve its targets. The management targets and other forward-looking statements involve current assumptions of future events as well as risks and uncertainties that could significantly affect expected results, including, without limitations, adverse economic or political conditions in Japan or other countries; increased jet fuel prices; negative changes in foreign exchange rates; terrorist attacks and military conflicts, and health epidemics. Please see our latest Annual Report for additional information regarding the risks in our businesses. To the extent this document contains such forward-looking statements, we have no obligation or intent to update them unless required by law. In addition, information on companies and other entities outside the JAL group that is included in this document has been obtained from publicly available information and other sources. The accuracy and appropriateness of that information has not been verified by us and cannot be guaranteed.