

Japan Airlines Corporation and Consolidated Subsidiaries

Consolidated Financial Information

For the years ended March 31, 2006 and 2005

1. Consolidated Financial Highlights

(Amounts of less than one million yen have been omitted.)

a. Consolidated operating results

| | | | |
|---|------|--------------------|---------|
| (1) Total operating revenues | FY05 | ¥2,199,385 million | (3.3%) |
| | FY04 | ¥2,129,876 million | (10.3%) |
| (2) Operating (loss) income | FY05 | ¥ (26,834) million | (-) |
| | FY04 | ¥ 56,149 million | (-) |
| (3) Ordinary (loss) income | FY05 | ¥ (41,608) million | (-) |
| | FY04 | ¥ 69,805 million | (-) |
| (4) Net (loss) income | FY05 | ¥ (47,243) million | (-) |
| | FY04 | ¥ 30,096 million | (-) |
| (5) Net (loss) income per share | FY05 | ¥ (23.88) | |
| | FY04 | ¥ 15.24 | |
| (6) Diluted net income per share | FY05 | ¥ - | |
| | FY04 | ¥ 13.66 | |
| (7) Return on equity | FY05 | -27.6% | |
| | FY04 | 17.0% | |
| (8) Ordinary income as a percentage of total assets | FY05 | -1.9% | |
| | FY04 | 3.3% | |
| (9) Ordinary income as a percentage of total operating revenues | FY05 | -1.9% | |
| | FY04 | 3.3% | |
| (10) Equity in earnings of affiliates | FY05 | ¥ 1,899 million | |
| | FY04 | ¥ 1,514 million | |

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

| | |
|------|---------------|
| FY05 | 1,979,708,032 |
| FY04 | 1,972,336,072 |

1. Consolidated Financial Highlights (continued)

b. Consolidated financial position

| | | |
|--|------|--------------------|
| (1) Total assets | FY05 | ¥2,161,240 million |
| | FY04 | ¥2,162,654 million |
| (2) Total stockholders' equity | FY05 | ¥ 148,066 million |
| | FY04 | ¥ 194,746 million |
| (3) Stockholders' equity as a percentage of total assets | FY05 | 6.9% |
| | FY04 | 9.0% |
| (4) Equity per share | FY05 | ¥ 74.78 |
| | FY04 | ¥ 98.34 |

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

| | |
|----------------|---------------|
| March 31, 2006 | 1,979,519,354 |
| March 31, 2005 | 1,979,888,788 |

c. Consolidated cash flows

| | | |
|---|------|--------------------|
| (1) Net cash provided by operating activities | FY05 | ¥ 100,984 million |
| | FY04 | ¥ 145,275 million |
| (2) Net cash used in investing activities | FY05 | ¥ (99,283) million |
| | FY04 | ¥ (21,456) million |
| (3) Net cash used in financing activities | FY05 | ¥ (91,384) million |
| | FY04 | ¥ (6,290) million |
| (4) Cash and cash equivalents held at end of year | FY05 | ¥ 172,132 million |
| | FY04 | ¥ 260,933 million |

d. Consolidation policy

See accompanying notes to consolidated financial statements.

e. Changes in accounting policy

None

2. Consolidated Financial Forecast for the Year Ending March 31, 2007

| | |
|------------------------------|--------------------|
| (1) Total operating revenues | ¥2,301,000 million |
| (2) Operating income | ¥ 17,000 million |
| (3) Ordinary income | ¥ 500 million |
| (4) Net income | ¥ 3,000 million |
| (5) Net income per share | ¥ 1.52 |

For the assumptions underlying the forecast and other concerns, refer to page 18 of the attached documents.

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

Japan Airlines Corporation (the “Company”) owns 275 subsidiaries and currently consolidates 152 subsidiaries, including the following principal subsidiaries:

JAPAN AIRLINES INTERNATIONAL CO., LTD.
JAPAN AIRLINES DOMESTIC CO., LTD.
JAPAN ASIA AIRWAYS CO., LTD.
JAPAN TRANS OCEAN AIR CO., LTD.
JALWAYS CO., LTD.
JAL EXPRESS CO., LTD.
JAPAN AIR COMMUTER CO., LTD.
AGP CORPORATION
JAL SALES CO., LTD.
JALPAK CO., LTD.
JAL TOURS CO., LTD.
JAL HOTELS COMPANY LTD.
JALUX INC.

The number of unconsolidated subsidiaries which are not accounted for by the equity method is currently 123.

The number of affiliates is currently 97, including 20 companies which are accounted for by the equity method.

Changes in the scope of consolidation and adoption of the equity method are summarized as follows:

Consolidation:

| | | |
|----------|---|--|
| Increase | 1 | JAL GROUP SENIOR CENTER CO., LTD. (*1) |
| Decrease | 5 | NIKKO INFLIGHT CATERING CO., LTD. (*2) JAPAN FUEL TRADING CO., LTD. (*3) HOTEL NIKKO DE NEW PARIS S.A.S. (*3) JALTOUR GMBH (*4) JAL TRAVEL NAGASAKI CO., LTD. (*5) |

*1: Incorporated

*2: The shares in Nikko Inflight Catering Co., Ltd. were sold.

*3: Liquidated

*4: Merged with JALPAK INTERNATIONAL (GERMANY) GMBH

*5: Became immaterial

Equity method:

| | | |
|----------|---|--------------------|
| Decrease | 1 | TNN GUAM INC. (*6) |
|----------|---|--------------------|

*6: The shares in TNN Guam, Inc. were sold.

Japan Airlines Corporation and Consolidated Subsidiaries

Comparative Consolidated Balance Sheets

March 31, 2006 and 2005

| | 2006 | 2005 | Change |
|---------------------------------------|--------------------------|-------------------|------------------|
| | <i>(Millions of yen)</i> | | |
| Assets | | | |
| I. Current assets | | | |
| Cash and time deposits | ¥ 173,948 | ¥ 252,573 | ¥(78,625) |
| Notes and accounts receivable – trade | 237,479 | 222,934 | 14,545 |
| Short-term investments in securities | 5,936 | 666 | 5,270 |
| Supplies | 83,717 | 76,335 | 7,381 |
| Deferred income taxes | 9,539 | 9,618 | (78) |
| Other current assets | 179,695 | 123,951 | 55,743 |
| Allowance for bad debts | (2,996) | (2,905) | (91) |
| Total current assets | 687,319 | 683,174 | 4,144 |
| II. Fixed assets | | | |
| Tangible fixed assets: | | | |
| Buildings and structures | 203,039 | 224,690 | (21,650) |
| Machinery, equipment and vehicles | 31,743 | 34,770 | (3,026) |
| Flight equipment | 791,098 | 814,760 | (23,662) |
| Land | 55,979 | 66,809 | (10,829) |
| Construction in progress | 49,551 | 27,217 | 22,334 |
| Other tangible fixed assets | 21,348 | 23,496 | (2,148) |
| Total tangible fixed assets | 1,152,762 | 1,191,744 | (38,982) |
| Intangible fixed assets: | | | |
| Software | 70,373 | 67,871 | 2,502 |
| Other intangible fixed assets | 1,701 | 1,983 | (281) |
| Total intangible fixed assets | 72,075 | 69,854 | 2,221 |
| Investments: | | | |
| Investments in securities | 88,750 | 80,640 | 8,110 |
| Long-term loans receivable | 14,582 | 16,602 | (2,020) |
| Deferred income taxes | 52,085 | 44,595 | 7,489 |
| Other investments | 96,043 | 78,933 | 17,109 |
| Allowance for bad debts | (2,385) | (2,967) | 582 |
| Total investments | 249,076 | 217,804 | 31,272 |
| Total fixed assets | 1,473,913 | 1,479,403 | (5,489) |
| III. Deferred charges | | | |
| Bond issuance expenses | 6 | 76 | (69) |
| Total deferred charges | 6 | 76 | (69) |
| Total assets | ¥2,161,240 | ¥2,162,654 | ¥ (1,414) |

| | <u>2006</u> | <u>2005</u> | <u>Change</u> |
|--|--------------------------|-------------------|------------------|
| | <i>(Millions of yen)</i> | | |
| Liabilities | | | |
| I. Current liabilities | | | |
| Accounts payable – trade | ¥ 237,803 | ¥ 213,783 | ¥ 24,019 |
| Short-term borrowings | 6,562 | 11,611 | (5,049) |
| Current portion of bonds | 30,000 | 15,000 | 15,000 |
| Current portion of long-term loans | 113,045 | 110,636 | 2,409 |
| Accrued income taxes | 4,700 | 6,464 | (1,764) |
| Deferred income taxes | 29 | 154 | (125) |
| Other current liabilities | 252,702 | 211,488 | 41,213 |
| Total current liabilities | <u>644,844</u> | <u>569,140</u> | <u>75,704</u> |
| II. Non-current liabilities | | | |
| Bonds | 280,000 | 310,000 | (30,000) |
| Long-term loans | 800,001 | 862,223 | (62,221) |
| Accrued pension and severance costs | 139,753 | 149,665 | (9,912) |
| Deferred income taxes | 1,340 | 645 | 694 |
| Other non-current liabilities | 119,784 | 50,458 | 69,325 |
| Total non-current liabilities | <u>1,340,879</u> | <u>1,372,993</u> | <u>(32,113)</u> |
| Total liabilities | <u>1,985,724</u> | <u>1,942,133</u> | <u>43,590</u> |
| Minority interests | 27,449 | 25,774 | 1,675 |
| Stockholders' equity | | | |
| I. Common stock | 100,000 | 100,000 | – |
| II. Capital surplus | 136,145 | 136,141 | 3 |
| III. Accumulated deficit | (90,186) | (34,978) | (55,207) |
| IV. Net unrealized gain on investments in securities, net of taxes | 8,777 | 3,765 | 5,011 |
| V. Translation adjustments | (5,776) | (9,406) | 3,629 |
| VI. Common stock in treasury | (892) | (775) | (117) |
| Total stockholders' equity | <u>148,066</u> | <u>194,746</u> | <u>(46,680)</u> |
| Total liabilities and stockholders' equity | <u>¥2,161,240</u> | <u>¥2,162,654</u> | <u>¥ (1,414)</u> |

Japan Airlines Corporation and Consolidated Subsidiaries

Comparative Consolidated Statements of Operations

For the years ended March 31, 2006 and 2005

| | 2006 | 2005 | Change |
|--|--------------------------|-------------|---------------|
| | <i>(Millions of yen)</i> | | |
| Operating revenues | ¥2,199,385 | ¥2,129,876 | ¥ 69,509 |
| Operating expenses: | | | |
| Cost of operating revenues | 1,839,190 | 1,685,675 | 153,514 |
| Selling, general and administrative expenses | 387,029 | 388,051 | (1,022) |
| Total operating expenses | 2,226,220 | 2,073,727 | 152,492 |
| Operating (loss) income | (26,834) | 56,149 | (82,983) |
| Non-operating income: | | | |
| Interest and dividend income | 3,713 | 3,170 | 543 |
| Equity in earnings of affiliates | 1,899 | 1,514 | 385 |
| Exchange gain, net | 12,170 | 2,075 | 10,095 |
| Other non-operating income | 8,593 | 57,686 | (49,093) |
| Total non-operating income | 26,378 | 64,446 | (38,068) |
| Non-operating expenses: | | | |
| Interest expense | 21,811 | 24,875 | (3,064) |
| Other non-operating expenses | 19,340 | 25,914 | (6,573) |
| Total non-operating expenses | 41,152 | 50,790 | (9,638) |
| Ordinary (loss) income | (41,608) | 69,805 | (111,413) |
| Extraordinary profit: | | | |
| Gain on sales of fixed assets | 19,093 | 1,905 | 17,188 |
| Subsidy received to purchase aircraft for isolated island routes | – | 1,716 | (1,716) |
| Gain on sales of investments in securities | – | 1,334 | (1,334) |
| Gain on partial termination of defined benefit plan | 6,810 | – | 6,810 |
| Other extraordinary profit | 4,567 | 1,615 | 2,951 |
| Total extraordinary profit | 30,471 | 6,571 | 23,900 |
| Extraordinary losses: | | | |
| Loss on sales and disposal of fixed assets | 6,052 | 13,840 | (7,787) |
| Loss on cancellation of lease contracts | – | 9,682 | (9,682) |
| Loss on impairment of fixed assets | 18,705 | – | 18,705 |
| Special termination benefits | 4,033 | – | 4,033 |
| Other extraordinary losses | 6,511 | 8,188 | (1,676) |
| Total extraordinary losses | 35,303 | 31,710 | 3,592 |
| (Loss) income before income taxes and minority interests | (46,440) | 44,666 | (91,106) |
| Income taxes – current | 8,419 | 7,897 | 521 |
| Income taxes – deferred | (9,966) | 4,251 | (14,218) |
| Minority interests | (2,350) | (2,420) | 70 |
| Net (loss) income | ¥ (47,243) | ¥ 30,096 | ¥ (77,340) |

Japan Airlines Corporation and Consolidated Subsidiaries

Comparative Consolidated Statements of Capital Surplus and Accumulated Deficit

For the years ended March 31, 2006 and 2005

| | 2006 | 2005 |
|---|--------------------------|-------------|
| | <i>(Millions of yen)</i> | |
| Capital surplus | | |
| Balance at beginning of year | ¥136,141 | ¥136,678 |
| Increase: | | |
| Stock issued under share | | |
| exchange (<i>kabushiki-kohkan</i>) | — | 5,069 |
| Gain on sales of common stock in treasury | 3 | 1,821 |
| Decrease: | | |
| Cancellation of common stock in treasury | — | 7,428 |
| Balance at end of year | ¥136,145 | ¥136,141 |
| Accumulated deficit | | |
| Balance at beginning of year | ¥ (34,978) | ¥ (65,031) |
| Decrease: | | |
| Net income | — | 30,096 |
| Increase: | | |
| Net loss | 47,243 | — |
| Cash dividend | 7,919 | — |
| Bonuses to directors and statutory auditors | 44 | 43 |
| Balance at end of year | ¥ (90,186) | ¥ (34,978) |

Japan Airlines Corporation and Consolidated Subsidiaries

Comparative Consolidated Statements of Cash Flows

For the years ended March 31, 2006 and 2005

| | 2006 | 2005 |
|---|--------------------------|-------------|
| | <i>(Millions of yen)</i> | |
| Operating activities | | |
| (Loss) income before income taxes and minority interests | ¥ (46,440) | ¥ 44,666 |
| Adjustments to reconcile (loss) income before income taxes and minority interests to net cash provided by operating activities: | | |
| Depreciation and amortization | 125,126 | 124,713 |
| Gain and loss on sales of, and loss on revaluation of, short-term investments in securities and investments in securities, net | 1,295 | (171) |
| Loss on sales and disposal of fixed assets and loss on impairment of fixed assets | 17,138 | 25,702 |
| Net provision for accrued pension and severance costs | (9,919) | (13,645) |
| Interest and dividend income | (3,713) | (3,170) |
| Interest expense | 21,811 | 24,875 |
| Exchange loss (gain), net | 106 | (200) |
| Equity in earnings of affiliates | (1,899) | (1,514) |
| Increase in notes and accounts receivable | (13,120) | (16,000) |
| Increase in supplies | (7,365) | (209) |
| Increase in accounts payable | 22,812 | 7,545 |
| Other | 23,272 | (15,743) |
| Subtotal | 129,103 | 176,848 |
| Interest and dividends received | 4,151 | 3,648 |
| Interest paid | (22,507) | (25,686) |
| Income taxes paid | (9,762) | (9,535) |
| Net cash provided by operating activities | 100,984 | 145,275 |
| Investing activities | | |
| Purchases of time deposits | (969) | (1,367) |
| Proceeds from maturity of time deposits | 917 | 281 |
| Purchases of fixed assets | (146,972) | (121,960) |
| Proceeds from sales of fixed assets | 48,403 | 94,927 |
| Purchases of investments in securities | (7,584) | (4,531) |
| Proceeds from sales and maturity of investments in securities | 1,576 | 2,363 |
| Long-term loans receivable made | (1,458) | (2,787) |
| Collection of long-term loans receivable | 4,849 | 6,273 |
| Other | 1,955 | 5,344 |
| Net cash used in investing activities | (99,283) | (21,456) |

| | 2006 | 2005 |
|--|--------------------------|-------------|
| | <i>(Millions of yen)</i> | |
| Financing activities | | |
| (Decrease) increase in short-term borrowings, net | ¥ (5,355) | ¥ 39 |
| Proceeds from long-term loans | 57,285 | 48,182 |
| Repayment of long-term loans | (117,563) | (130,978) |
| Proceeds from issuance of bonds | – | 99,975 |
| Redemption of bonds | (15,000) | (23,700) |
| Dividends paid to stockholders | (7,846) | (12) |
| Dividends paid to minority interests | (433) | (315) |
| Other | (2,473) | 519 |
| Net cash used in financing activities | (91,384) | (6,290) |
| Effect of exchange rate changes on cash and cash equivalents | 1,061 | 272 |
| Net (decrease) increase in cash and cash equivalents | (88,622) | 117,801 |
| Cash and cash equivalents at beginning of year | 260,933 | 143,327 |
| Decrease in cash and cash equivalents resulting from exclusion from consolidation | (178) | (195) |
| Cash and cash equivalents at end of year | ¥ 172,132 | ¥ 260,933 |
| Reconciliation between cash and time deposits in consolidated balance sheets and cash and cash equivalents at end of year | | |
| Cash and time deposits in consolidated balance sheets | ¥ 173,948 | ¥ 252,573 |
| Time deposits with original maturities of more than three months | (1,726) | (1,513) |
| Short-term investments in securities with original maturities of three months or less | 0 | 0 |
| Short-term investments included in other current assets, with maturities of three months or less | – | 9,998 |
| Current account overdrafts included in short-term borrowings | (90) | (126) |
| Cash and cash equivalents at end of year | ¥ 172,132 | ¥ 260,933 |

Japan Airlines Corporation and Consolidated Subsidiaries

Notes to Consolidated Financial Statements

March 31, 2006 and 2005

1. Summary of Significant Accounting Policies

a. Basis of presentation

Japan Airlines Corporation (the “Company”) and consolidated domestic subsidiaries maintain their accounting records and prepare their financial statements in accordance with accounting principles and practices generally accepted and applied in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and its consolidated foreign subsidiaries in conformity with those of their countries of domicile. The accompanying consolidated financial statements are not intended to present the consolidated financial position, results of operations and cash flows in accordance with accounting principles generally accepted in countries and jurisdictions other than Japan.

Amounts of less than one million yen have been omitted. As a result, the totals shown in the accompanying consolidated financial statements do not necessarily agree with the sum of the individual amounts.

b. Principles of consolidation and accounting for investments in affiliates

The consolidated financial statements include the accounts of the Company and all significant subsidiaries. All significant intercompany accounts and transactions and unrealized gain or loss on intercompany accounts and transactions have been eliminated.

The balance sheet date of 25 of the consolidated subsidiaries is December 31, 2005 and for 1 consolidated subsidiary, it is February 28, 2006. Any significant differences in intercompany accounts and transactions arising from intervening intercompany transactions during the period from January 1, 2006 through March 31, 2006 and the period from March 1, 2006 through March 31, 2006 have been adjusted, if necessary.

Investments in significant affiliates are accounted for by the equity method. The assets and liabilities of newly consolidated subsidiaries are stated at fair value as of their respective acquisition dates. The differences between the cost and the underlying fair value of net assets at the dates of acquisition of the consolidated subsidiaries and companies accounted for by the equity method are amortized by the straight-line method over a period of five years.

1. Summary of Significant Accounting Policies (continued)

c. Cash equivalents

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

d. Securities

Investments in marketable securities are stated at fair value, and net unrealized gain or loss on such securities is accounted for as a separate component of stockholders' equity. Investments in non-marketable securities are stated at cost. Cost of securities sold is determined principally by the moving average method.

e. Derivatives

Derivatives are stated at fair value.

f. Supplies

Supplies are principally stated at cost based on the moving average method.

g. Tangible and intangible fixed assets

Tangible fixed assets

| | |
|---|--|
| Aircraft, spare engines and spare parts contained in flight equipment | – The straight-line method or the declining-balance method based on their estimated useful lives |
|---|--|

Ground property and equipment:

| | |
|--|--|
| Japan Airlines International Co., Ltd. and Japan Airlines Domestic Co., Ltd. | – The straight-line method based on their estimated useful lives |
|--|--|

| | |
|-----------------|--|
| Other companies | – Principally the declining-balance method based on their useful lives |
|-----------------|--|

| | |
|-------------------------|--|
| Intangible fixed assets | – The straight-line method based on their useful lives |
|-------------------------|--|

h. Deferred charges

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

i. Accrued pension and severance costs

To provide for employees' severance indemnities, net periodic pension cost is accounted for based on the projected benefit obligation and the plan assets. The unrecognized obligation at transition is being amortized by the straight-line method principally over a period of fifteen years.

1. Summary of Significant Accounting Policies (continued)

i. Accrued pension and severance costs (continued)

The adjustment for actuarial assumptions is being amortized by the straight-line method over a period ranging from 5 to 15 years, which is less than the average remaining years of service of the active participants in the plans. Amortization is computed from the fiscal year subsequent to the year in which the adjustment was recorded.

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

The JAL Group Pension Fund established by certain consolidated subsidiaries, received approval from the Minister of Health, Labor and Welfare with respect to its application for exemption from the benefit obligation related to future employee services under the substitutional portion of the welfare pension fund plan (WPFP) on April 1, 2005 and the portion related to past services on April 1, 2006. The operation of this fund was reorganized on April 1, 2006. At March 31, 2006, the estimated amount of pension assets to be transferred was ¥7,894 million. The potential effect on consolidated profit and loss, estimated in accordance with Paragraph 44-2 of the "Practical Guidelines on Retirement Benefits Accounting (Interim Report)," Report No. 13 of the Accounting System Committee of the Japanese Institute of Certified Public Accountants as if the transfer of pension assets had been made as of March 31, 2006, was a gain of ¥1,526 million and a loss of ¥842 million. An accrual for the estimated loss of ¥842 million was recorded for the year ended March 31, 2006 as accrued pension and severance costs.

On October 1, 2005, Japan Airlines International Co., Ltd ("JALIF") introduced a revised pension scheme under which employees have the option to change a portion of the existing lump-sum payment of retirement benefits to a defined contribution plan or to an early payment scheme. As a result, loss before income taxes and minority interests decreased by ¥6,810 million for the year ended March 31, 2006. A portion of the unrecognized obligation at transition which relates to reducing the benefit obligation by the introduction of the option referred to above has been amortized by the straight-line method over a period of 8 years in accordance with Paragraph 15, "Transitional Arrangement," of "Accounting for the Transfer between Retirement Benefit Plans" (Accounting Standard Implementation Guidance No. 1).

Certain consolidated subsidiaries transferred a portion of their retirement benefit plan to defined contribution plans primarily on July 1, 2005 or April 1, 2006 and applied "Accounting for the Transfer between Retirement Benefit Plans" (Accounting Standard Implementation Guidance No. 1). As a result, loss before income taxes and minority interests increased by ¥643 million for the year ended March 31, 2006.

1. Summary of Significant Accounting Policies (continued)

j. Allowance for bad debts

The allowance for bad debts on receivables is provided at the estimated unrecoverable amounts. The allowance for other receivables is provided based on the historical rate of losses on receivables.

k. Foreign currency accounts

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

Translation adjustments arising from the translation of assets, liabilities, revenues and expenses of the consolidated subsidiaries and affiliates accounted for by the equity method are included in minority interests and in stockholders' equity.

l. Leases

As lessee

The Company and its consolidated subsidiaries lease certain equipment under noncancelable lease agreements referred to as capital leases. Capital leases, defined as leases which do not transfer the ownership of the leased property to the lessee, are accounted for principally as operating leases.

As lessor

Certain consolidated subsidiaries lease certain equipment under noncancelable lease agreements referred to as direct financing leases. Direct financing leases, defined as leases which do not transfer the ownership of the leased property to the lessee, are accounted for principally as operating leases.

m. Hedge accounting

Gain or loss on derivatives designated as hedging instruments is deferred until the loss or gain on the underlying hedged items is recognized. Foreign receivables and payables are translated at the applicable forward foreign exchange rates if certain conditions are met. The related interest differential paid or received on interest-rate swaps utilized as hedging instruments is recognized over the term of each swap agreement as an adjustment to the interest expense of the underlying hedged items if certain conditions are met.

n. Consumption taxes

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

1. Summary of Significant Accounting Policies (continued)

o. Income taxes

The Company and certain domestic subsidiaries have adopted the Japanese consolidated tax return system.

p. Appropriation of capital surplus and/or retained earnings and disposition of accumulated deficit

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

2. Change in Accounting Policy

Accounting standard for impairment of fixed assets

Effective April 1, 2005, the Company and its domestic consolidated subsidiaries adopted a new accounting standard for impairment of fixed assets (“Opinion Concerning the Establishment of Accounting Standard for impairment of Fixed Assets” issued by the Business Accounting Council on August 9, 2002) and the “Implementation Guidance on the Accounting Standard for impairment of Fixed Assets” (Accounting Standard Implementation Guidance No. 6 issued on October 31, 2003). The effect of the adoption of this standard was to decrease operating loss by ¥158 million and ordinary loss by ¥156 million, and to increase net loss before income taxes and minority interests by ¥18,549 million for the year ended March 31, 2006.

Accumulated impairment losses have been deducted directly from the carrying amount of the respective assets in accordance with revised Regulations for Consolidated Financial Statements.

3. Other Footnote Information

- a. Accumulated depreciation at March 31, 2006 and 2005 amounted to ¥1,582,627 million and ¥1,612,847 million, respectively.
- b. At March 31, 2006 and 2005, contingent liabilities for guarantees amounted to ¥16,887 million and ¥20,096 million, respectively. In addition, at March 31, 2006 and 2005, contingent liabilities for commitment such as guarantees, keep-well agreements and other amounted to ¥686 million and ¥921 million, respectively.

JALI, a wholly owned subsidiary of the Company, is alleged to have been involved in anti-competitive practices such as price-fixing and collusion with several international cargo operators and its cargo operation office in Frankfurt was investigated by the European Union antitrust authorities on February 14, 2006. On the same date, the U.S. Department of Justice inspected JALI's cargo operation office in New York. In relation to the investigation of alleged anti-competitive practices, certain air cargo customers have filed several class action lawsuits in the U.S since February 17, 2006 against international cargo operators including JALI claiming that alleged price-fixing practices have damaged their interests and such practices should be enjoined. No specific amounts of damages or compensation have been claimed in these class action proceedings. Management of the Company has a view that investigations and class action lawsuits on alleged anti-competitive practices could have a material impact on the results of operations of the Company and the group. However management is unable to reasonably estimate the possible outcome of the ongoing investigation and class action lawsuits at this stage since investigations by the authorities of a number of jurisdictions which include, but may not be limited to, the European Union, United States, Switzerland and New Zealand are still ongoing.

- c. At March 31, 2006 and 2005, assets pledged as collateral amounted to ¥832,344 million and ¥844,174 million, respectively. Further, shares of certain consolidated subsidiaries were pledged as collateral at March 31, 2006 and 2005. In addition, at March 31, 2006 and 2005, collateralized indebtedness amounted to ¥500,108 million and ¥544,779 million, respectively.
- d. At March 31, 2006 and 2005, shares of common stock in treasury numbered 2,863,896 and 2,494,462, respectively.

4. Segment Information

- a. Business segment information

The Company and its consolidated subsidiaries conduct worldwide operations in air transportation, airline-related business, travel services, card and lease operations, trading business and hotel and resort operations. This segmentation has been determined for internal management purposes. Businesses other than air transportation, airline-related business, travel services and card and lease operations are insignificant to the consolidated results of operations of the Company and its consolidated subsidiaries and, accordingly, have been included in "Other."

4. Segment Information (continued)

a. Business segment information (continued)

The business segment information of the Company and its consolidated subsidiaries for the years ended March 31, 2006 and 2005 is summarized as follows:

| | Year ended March 31, 2006 | | | | | | General corporate assets and intercompany eliminations | Consolidated |
|------------------------------------|---------------------------|--------------------------|-----------------|---------------------------|----------|------------|--|--------------|
| | Air transportation | Airline-related business | Travel services | Card and lease operations | Other | Total | | |
| | <i>(Millions of yen)</i> | | | | | | | |
| Operating revenues | ¥1,515,602 | ¥149,814 | ¥379,435 | ¥14,264 | ¥140,268 | ¥2,199,385 | ¥— | ¥2,199,385 |
| Inter-group sales and transfers | 217,380 | 193,102 | 35,950 | 45,881 | 72,374 | 564,690 | (564,690) | — |
| Total | 1,732,983 | 342,917 | 415,385 | 60,146 | 212,643 | 2,764,075 | (564,690) | 2,199,385 |
| Operating expenses | 1,776,412 | 337,065 | 414,723 | 55,837 | 206,539 | 2,790,577 | (564,357) | 2,226,220 |
| Operating (loss) income | ¥ (43,429) | ¥ 5,852 | ¥ 662 | ¥ 4,309 | ¥ 6,104 | ¥ (26,501) | ¥ (332) | ¥ (26,834) |
| Identifiable assets | ¥1,942,227 | ¥127,386 | ¥75,398 | ¥170,713 | ¥119,946 | ¥2,435,673 | ¥(274,433) | ¥2,161,240 |
| Depreciation and amortization | ¥108,369 | ¥3,120 | ¥1,171 | ¥8,788 | ¥3,943 | ¥125,392 | ¥(266) | ¥125,126 |
| Loss on impairment of fixed assets | ¥3,739 | ¥1,394 | ¥49 | ¥— | ¥13,597 | ¥18,780 | ¥(74) | ¥18,705 |
| Capital expenditures | ¥137,748 | ¥1,693 | ¥932 | ¥927 | ¥4,272 | ¥145,575 | ¥(108) | ¥145,466 |

Until the year ended March 31, 2005, businesses other than air transportation business, airline-related business and travel services are insignificant to the consolidated results of operations of the Company and its consolidated subsidiaries and, accordingly, have been included in “Other.” Effective April 1, 2005, the card and lease operations has been presented as a new segment since its materiality has increased. Total operating revenues (total of sales to third parties and inter-group sales and transfers), operating expenses and operating income of the card and lease operations included in “Other” of the business segment information for the year ended March 31, 2004 were ¥58,445 million (total of ¥17,811 million and ¥40,634 million), ¥54,887 million and ¥3,558 million, respectively.

| | Year ended March 31, 2005 | | | | | General corporate assets and intercompany eliminations | Consolidated |
|---------------------------------|---------------------------|--------------------------|-----------------|----------|------------|--|--------------|
| | Air transportation | Airline-related business | Travel services | Other | Total | | |
| | <i>(Millions of yen)</i> | | | | | | |
| Operating revenues | ¥1,493,701 | ¥103,157 | ¥381,784 | ¥151,232 | ¥2,129,876 | ¥— | ¥2,129,876 |
| Inter-group sales and transfers | 207,666 | 190,618 | 42,755 | 116,857 | 557,897 | (557,897) | — |
| Total | 1,701,367 | 293,776 | 424,539 | 268,090 | 2,687,774 | (557,897) | 2,129,876 |
| Operating expenses | 1,659,709 | 288,443 | 424,813 | 257,994 | 2,630,961 | (557,234) | 2,073,727 |
| Operating income (loss) | ¥41,658 | ¥5,332 | ¥(273) | ¥10,095 | ¥56,812 | ¥(663) | ¥56,149 |
| Identifiable assets | ¥1,854,034 | ¥125,912 | ¥83,126 | ¥343,023 | ¥2,406,097 | ¥(243,442) | ¥2,162,654 |
| Depreciation and amortization | ¥106,404 | ¥3,058 | ¥1,381 | ¥14,165 | ¥125,009 | ¥(296) | ¥124,713 |
| Capital expenditures | ¥107,876 | ¥4,545 | ¥1,518 | ¥5,098 | ¥119,039 | ¥(1,501) | ¥117,538 |

4. Segment Information (continued)

b. Geographic information

The worldwide operations of the Company and its consolidated subsidiaries are geographically segmented into Japan and other areas. Areas other than Japan include Asia/Oceania, America and Europe. Geographical segmentation is based on geographical proximity of the countries and areas. In addition, revenue from international operation of the airlines is treated as revenue in Japan.

| | Year ended March 31, 2006 | | | | |
|---------------------------------|---------------------------|----------|------------|--|--------------|
| | Japan | Other | Total | General corporate assets and intercompany eliminations | Consolidated |
| | <i>(Millions of yen)</i> | | | | |
| Operating revenues | ¥2,009,231 | ¥190,154 | ¥2,199,385 | ¥ – | ¥2,199,385 |
| Inter-group sales and transfers | 27,298 | 73,266 | 100,564 | (100,564) | – |
| Total | 2,036,529 | 263,420 | 2,299,949 | (100,564) | 2,199,385 |
| Operating expenses | 2,064,547 | 262,020 | 2,326,568 | (100,348) | 2,226,220 |
| Operating (loss) income | ¥ (28,018) | ¥ 1,400 | ¥ (26,618) | ¥ (215) | ¥ (26,834) |
| Identifiable assets | ¥2,110,754 | ¥ 62,241 | ¥2,172,995 | ¥ (11,754) | ¥2,161,240 |

The major countries and areas included in each region are as follows:

| | |
|---------------|-----------------------------------|
| Asia/Oceania: | China, Singapore, Australia, Guam |
| America: | U.S.A (excluding Guam), Mexico |
| Europe: | U.K. France, Germany, Italy |

Total assets in Japan at March 31, 2005 and operating revenues from operations in Japan for the year then ended represented more than 90% of consolidated total assets and consolidated operating revenues. As a result, geographic information for the year ended March 31, 2005 is not required to be disclosed in accordance with accounting principles generally accepted in Japan.

4. Segment Information (continued)

c. Operating revenues from overseas operations

Operating revenues from overseas operations, which include international passenger and cargo services of Japan Airlines International Co., Ltd., Japan Asia Airways Co., Ltd. and JALways Co., Ltd., export sales of domestic subsidiaries, and sales of subsidiaries outside Japan for the year ended March 31, 2006 and 2005 are summarized as follows:

| | Year ended March 31, 2006 | | | |
|--|---------------------------|----------------------------|----------|------------|
| | Asia and Oceania | North and South America | Europe | Total |
| | <i>(Millions of yen)</i> | | | |
| Operating revenues from overseas operations | ¥442,156 | ¥388,791 | ¥206,853 | ¥1,037,801 |
| Consolidated operating revenues | — | — | — | ¥2,199,385 |
| Consolidated operating revenues as a percentage of operating revenues from overseas operations | 20.1% | 17.7% | 9.4% | 47.2% |
| | Year ended March 31, 2005 | | | |
| | Asia and Oceania | North and South America | Europe | Total |
| | <i>(Millions of yen)</i> | | | |
| Operating revenues from overseas operations | ¥449,282 | ¥351,864 | ¥211,176 | ¥1,012,322 |
| Consolidated operating revenues | — | — | — | ¥2,129,876 |
| Consolidated operating revenues as a percentage of operating revenues from overseas operations | 21.1% | 16.5% | 9.9% | 47.5% |

5. Leases

As lessee

The following *pro forma* amounts represent the acquisition costs, accumulated depreciation and net book value of the leased property as of March 31, 2006 and 2005 and the related depreciation and interest expense for the years ended March 31, 2006 and 2005, which would have been reflected in the consolidated balance sheets and the related consolidated statements of operations if capital lease accounting had been applied to the capital leases currently accounted for as operating leases:

| March 31, 2006 | | | |
|-------------------------------|--------------------------|----------------|------------------|
| | Flight equipment | Other | Total |
| | <i>(Millions of yen)</i> | | |
| Acquisition costs | ¥ 564,783 | ¥17,452 | ¥ 582,235 |
| Less accumulated depreciation | (181,053) | (8,995) | (190,049) |
| Net book value | <u>¥ 383,730</u> | <u>¥ 8,456</u> | <u>¥ 392,186</u> |
| March 31, 2005 | | | |
| | Flight equipment | Other | Total |
| | <i>(Millions of yen)</i> | | |
| Acquisition costs | ¥ 571,954 | ¥16,516 | ¥ 588,471 |
| Less accumulated depreciation | (192,296) | (7,277) | (199,574) |
| Net book value | <u>¥ 379,657</u> | <u>¥ 9,239</u> | <u>¥ 388,896</u> |
| Year ended March 31, | | | |
| | 2006 | 2005 | |
| | <i>(Millions of yen)</i> | | |
| Depreciation expense | <u>¥53,715</u> | <u>¥53,438</u> | |
| Interest expense | <u>¥ 5,369</u> | <u>¥ 5,550</u> | |

No impairment loss has been recognized on the leased property for the year ended March 31, 2006.

Lease expenses relating to capital leases accounted for as operating leases amounted to ¥58,155 million and ¥59,541 million for the years ended March 31, 2006 and 2005, respectively.

5. Leases (continued)

As lessee (continued)

The present value of future rental expenses under capital leases outstanding at March 31, 2006 and 2005 which have been accounted for as operating leases is summarized as follows:

| | March 31, | |
|---------------|--------------------------|-----------------|
| | 2006 | 2005 |
| | <i>(Millions of yen)</i> | |
| Within 1 year | ¥ 51,839 | ¥ 51,004 |
| Over 1 year | 347,488 | 345,002 |
| | <u>¥399,327</u> | <u>¥396,007</u> |

Future rental expenses under operating leases outstanding at March 31, 2006 and 2005 were as follows:

| | March 31, | |
|---------------|--------------------------|-----------------|
| | 2006 | 2005 |
| | <i>(Millions of yen)</i> | |
| Within 1 year | ¥ 27,668 | ¥ 27,274 |
| Over 1 year | 192,877 | 164,947 |
| | <u>¥220,546</u> | <u>¥192,222</u> |

As lessor

The following amounts represent the acquisition costs, accumulated depreciation and net book value of the leased property as of March 31, 2006 and 2005, and the related depreciation and interest revenue for the years ended March 31, 2006 and 2005, which are reflected in the consolidated balance sheets and the related consolidated statements of operations:

| | March 31, 2006 | | |
|-------------------------------|-----------------------------|--------------|--------------|
| | Flight equipment | Other | Total |
| | <i>(Millions of yen)</i> | | |
| Acquisition costs | ¥ – | ¥ 815 | ¥ 815 |
| Less accumulated depreciation | (–) | (450) | (450) |
| Net book value | <u>¥ –</u> | <u>¥ 364</u> | <u>¥ 364</u> |

5. Leases (continued)

As lessor (continued)

| | March 31, 2005 | | |
|-------------------------------|--------------------------|---------|---------|
| | Flight equipment | Other | Total |
| | <i>(Millions of yen)</i> | | |
| Acquisition costs | ¥ – | ¥ 1,940 | ¥ 1,940 |
| Less accumulated depreciation | (–) | (1,421) | (1,421) |
| Net book value | ¥ – | ¥ 519 | ¥ 519 |

| | Year ended March 31, | |
|----------------------|-----------------------------|-------------|
| | 2006 | 2005 |
| | <i>(Millions of yen)</i> | |
| Depreciation expense | ¥281 | ¥409 |
| Interest revenues | ¥ 17 | ¥ 27 |

No impairment loss has been recognized on the leased property for the year ended March 31, 2006.

Lease revenues relating to direct financing leases accounted for as operating leases amounted to ¥317 million and ¥467 million for the years ended March 31, 2006 and 2005, respectively.

The present value of future rental revenues under direct financing leases outstanding at March 31, 2006 and 2005 which have been accounted for as operating leases is summarized as follows:

| | March 31, | |
|---------------|--------------------------|-------------|
| | 2006 | 2005 |
| | <i>(Millions of yen)</i> | |
| Within 1 year | ¥146 | ¥289 |
| Over 1 year | 226 | 251 |
| | ¥372 | ¥540 |

Future rental revenues under operating leases outstanding at March 31, 2006 and 2005 are summarized as follows:

| | March 31, | |
|---------------|--------------------------|-------------|
| | 2006 | 2005 |
| | <i>(Millions of yen)</i> | |
| Within 1 year | ¥ – | ¥15 |
| Over 1 year | – | – |
| | ¥ – | ¥15 |

6. Loss on Impairment of Fixed Assets

Certain consolidated subsidiaries have recognized impairment losses on the following group of assets in the consolidated statement of operations for the year ended March 31, 2006:

| Assets utilized in the Company's and consolidated subsidiaries' operations | Groups of assets | Locations |
|---|---|---------------------------------------|
| Golf courses | Land, buildings and structures and other | Tomakomai-shi, Hokkaido and other |
| Other operational assets | Land and other | Osaka-shi and other |
| Assets to be sold | Land, buildings and flight equipment | Chitose-shi, Hokkaido and other |
| Idle assets | Land and other | Ito-shi, Shizuoka Pref., and other |

Assets are attributed or allocated to the cash generating units which generate largely independent cash flows for calculating impairment losses. Facilities which are expected to be unprofitable, assets to be sold and idle assets are written down to their recoverable amounts. Consequently, an impairment loss of ¥18,705 million has been recognized as an extraordinary loss in the accompanying consolidated statement of operations for the year ended March 31, 2006. A breakdown of the total loss on impairment of fixed assets is as follows: ¥10,361 million on buildings and structures, ¥6,274 million on land, ¥1,853 million on flight equipment and ¥216 million on other assets.

The Company and its consolidated subsidiaries estimate recoverable amounts as the higher of fair value less costs to sell and value in use. Fair value is based on reasonable estimates made by the Company and its consolidated subsidiaries in accordance with data sources from the Official Road Ratings or other appropriate indexes and value in use is calculated by discounting estimated future cash flows at the rate of 5.2%.

In addition, certain affiliates, which are accounted for by the equity method, have recognized loss on impairment of fixed assets by a method similar to that adopted by the Company and its consolidated subsidiaries. Consequently, a loss on impairment of fixed assets of ¥18 million was recognized as equity in earnings of affiliates for the year ended March 31, 2006.

7. Income Taxes

The significant components of deferred tax assets and liabilities and the related valuation allowance at March 31, 2006 and 2005 were as follows:

| | March 31, | |
|--|--------------------------|-----------------|
| | 2006 | 2005 |
| | <i>(Millions of yen)</i> | |
| Deferred tax assets: | | |
| Accrued pension and severance costs | ¥ 50,704 | ¥ 45,687 |
| Revaluation loss on investments in subsidiaries and affiliates | 24,814 | 21,494 |
| Flight equipment purchase incentives | 17,624 | — |
| Deferred gain on hedging instruments | 12,053 | 9,783 |
| Loss on impairment of fixed assets | 6,664 | — |
| Accounts payable – trade | 5,610 | 4,198 |
| Accrued bonuses | — | 2,358 |
| Allowance for bad debts | 2,191 | 2,427 |
| Revaluation loss on flight equipment spare parts | 2,686 | 3,630 |
| Tax loss carryforward | 20,281 | 24,724 |
| Other | 22,604 | 20,239 |
| | <u>165,236</u> | <u>134,545</u> |
| Deferred tax liabilities: | | |
| Accumulated earnings of consolidated subsidiaries and affiliates | (5,234) | (6,006) |
| Net unrealized gain on investments in securities | (5,593) | (2,487) |
| Other | (3,855) | (3,309) |
| | <u>(14,684)</u> | <u>(11,803)</u> |
| Valuation allowance | (90,297) | (69,328) |
| Deferred tax assets, net | <u>¥ 60,254</u> | <u>¥ 53,412</u> |

For the year ended March 31, 2006, a reconciliation between the Japanese statutory tax rate and the Company's effective tax rate is not required to be disclosed since the Company recorded a loss before income taxes and minority interests. The statutory tax rate for the year ended March 31, 2006 was 40.7%.

7. Income Taxes (continued)

A reconciliation between the Japanese statutory tax rate and the effective tax rate for the year ended March 31, 2005 is as follows:

| | For the year ended March 31, 2005 |
|---|--|
| Japanese statutory tax rate | 40.7% |
| Disallowed expenses, including entertainment expenses | 4.3 |
| Dividends received | (9.6) |
| Equity in earnings of affiliates | (1.4) |
| Inhabitants' per capita taxes | 0.7 |
| Change in valuation allowance | (10.4) |
| Tax effect on undistributed earnings of consolidated subsidiaries | 2.2 |
| Difference in tax rates of consolidated subsidiaries | (2.1) |
| Other | 2.8 |
| Effective tax rate | <u>27.2%</u> |

8. Fair Value of Investments in Securities

The components of net unrealized gain (loss) on investments in marketable securities at March 31, 2006 and 2005 are summarized as follows:

| | March 31, 2006 | | |
|------------------|--------------------------|-------------------|---------------------------|
| | Acquisition costs | Carrying value | Unrealized gain (loss) |
| | <i>(Millions of yen)</i> | | |
| Unrealized gain: | | | |
| Stocks | ¥14,498 | ¥29,003 | ¥14,504 |
| Bonds | 7 | 8 | 0 |
| Other | 663 | 670 | 7 |
| | <u>15,169</u> | <u>29,682</u> | <u>14,512</u> |
| Unrealized loss: | | | |
| Stocks | 2,322 | 2,094 | (228) |
| Bonds | 10 | 9 | (0) |
| Other | 5,050 | 5,047 | (3) |
| | <u>7,383</u> | <u>7,151</u> | <u>(232)</u> |
| Total | <u>¥22,552</u> | <u>¥36,833</u> | <u>¥14,280</u> |

8. Fair Value of Investments in Securities (continued)

| | March 31, 2005 | | |
|------------------|--------------------------|----------------|------------------------|
| | Acquisition costs | Carrying value | Unrealized gain (loss) |
| | <i>(Millions of yen)</i> | | |
| Unrealized gain: | | | |
| Stocks | ¥14,067 | ¥21,052 | ¥6,985 |
| Bonds | 59 | 62 | 2 |
| Other | 738 | 748 | 9 |
| | 14,866 | 21,863 | 6,997 |
| Unrealized loss: | | | |
| Stocks | 2,529 | 1,968 | (560) |
| Bonds | 10 | 9 | (0) |
| Other | 316 | 311 | (5) |
| | 2,855 | 2,289 | (565) |
| Total | ¥17,721 | ¥24,153 | ¥6,431 |

Proceeds from sales of securities classified as other securities for the years ended March 31, 2006 and 2005 amounted to ¥837 million and ¥156 million, respectively. The aggregate gain realized on those sales for the years ended March 31, 2006 and 2005 totaled ¥100 million and ¥75 million, respectively, and the aggregate loss realized on those sales for the years ended March 31, 2006 and 2005 totaled ¥0 million and ¥3 million, respectively.

Investments in non-marketable securities at March 31, 2006 and 2005 are summarized as follows:

| | March 31, | |
|-----------------------|--------------------------|-------------|
| | 2006 | 2005 |
| | <i>(Millions of yen)</i> | |
| Money Management Fund | ¥ 0 | ¥ 0 |
| Unlisted stocks | 27,521 | 26,742 |
| Other | 649 | 108 |
| | ¥28,171 | ¥26,851 |

8. Fair Value of Investments in Securities (continued)

The redemption schedule at March 31, 2006 and 2005 for bonds with maturity dates is summarized as follows:

| | 2006 | | |
|------------------|----------------------------|---|---|
| | Due in one year or less | Due after one year through five years | Due after five year through ten years |
| | <i>(Millions of yen)</i> | | |
| Government bonds | ¥ – | ¥ – | ¥7 |
| Corporate bonds | 10 | – | – |
| Other | 468 | – | – |
| Total | ¥478 | ¥ – | ¥7 |

| | 2005 | |
|------------------|----------------------------|---|
| | Due in one year or less | Due after one year through five years |
| | <i>(Millions of yen)</i> | |
| Government bonds | ¥ – | ¥ 7 |
| Corporate bonds | 10 | 10 |
| Total | ¥10 | ¥17 |

9. Derivatives

The contract amounts and the estimated fair value of open derivatives positions at March 31, 2006 which did not meet the criteria to qualify as hedges are summarized as follows:

| | March 31, 2006 | | |
|--------------|---------------------------------|---------------|-------------------------------|
| | Contract amount (Premium) | Fair value | Net unrealized (loss) gain |
| | <i>(Millions of yen)</i> | | |
| Commodities: | | | |
| Options: | | | |
| Buy | ¥13,284 | ¥ 561 | ¥ 561 |
| | (–) | | |
| Sell | 14,973 | (1,685) | (628) |
| | (1,057) | | |
| | | | ¥ (67) |

All derivative transactions were over-the-counter transactions.

Fair value is estimated based on the prices quoted by financial institutions and others.

The company has applied for an exemption from disclosure of information on the derivatives qualifying hedge accounting criteria.

10. Accrued Pension and Severance Costs

An employee whose employment is terminated is entitled, in most cases, to a lump-sum severance payment, the amount of which is determined by reference to the basic rate of pay, length of service and the conditions under which the termination occurs.

Certain significant domestic subsidiaries have established defined benefit pension plans pursuant to the Welfare Pension Insurance Law of Japan, i.e. welfare pension fund plans.

JAL Pension Fund, in which JALI is a participant, introduced an option similar to a cash-balance plan with certain other options in addition to the existing options.

JAL Group Pension Fund established by certain consolidated subsidiaries received approval from the Minister of Health, Labor and Welfare with respect to its application for exemption from the benefit obligation related to future employee services under the substitutional portion of the WFPF on April 1, 2005 and the portion related to past services on April 1, 2006. Following this approval, JAL Group Pension Fund was reorganized on April 1, 2006 and introduced a cash-balance plan.

On October 1, 2005, JALI introduced a revised pension scheme under which employees have the option to change a portion of their existing lump-sum payment of retirement benefits to a defined contribution plan or to an early payment scheme.

Certain consolidated subsidiaries transferred a portion of their retirement benefit plan to defined contribution plans primarily on July 1, 2005 or April 1, 2006.

The projected benefit obligation and funded status of the plan assets are summarized as follows:

| | March 31, | |
|-------------------------------------|--------------------------|-------------|
| | 2006 | 2005 |
| | <i>(Millions of yen)</i> | |
| Projected benefit obligation | ¥(906,240) | ¥(906,702) |
| Plan assets | 512,000 | 423,435 |
| Accrued pension and severance costs | 139,753 | 149,665 |
| Prepaid pension cost | (18,674) | (21,975) |
| Net unrecognized amount | ¥(273,161) | ¥(355,577) |

10. Accrued Pension and Severance Costs (continued)

The net unrecognized amount presented above consisted of the following:

| | March 31, | |
|---------------------------------------|--------------------------|-------------------|
| | 2006 | 2005 |
| | <i>(Millions of yen)</i> | |
| Unrecognized obligation at transition | ¥(131,338) | ¥(147,215) |
| Adjustment to actuarial assumptions | (144,530) | (209,225) |
| Unrecognized past service cost | 2,707 | 863 |
| Total | <u>¥(273,161)</u> | <u>¥(355,577)</u> |

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

The components of net periodic pension cost were as follows:

| | For the year ended March 31, | |
|---|-------------------------------------|-----------------|
| | 2006 | 2005 |
| | <i>(Millions of yen)</i> | |
| Service cost | ¥ 30,681 | ¥ 32,738 |
| Interest cost on projected benefit obligation | 23,527 | 23,848 |
| Expected return on plan assets | (20,019) | (18,895) |
| Amortization of unrecognized obligation at transition | 14,675 | 14,819 |
| Amortization of adjustment to actuarial assumptions | 17,373 | 16,706 |
| Amortization of past service cost | (5,558) | (51,362) |
| Subtotal | <u>60,681</u> | <u>17,855</u> |
| Other | 722 | 126 |
| Net periodic pension cost | <u>61,403</u> | <u>17,982</u> |
| Loss accrued for separation of substitutional portion of benefit obligation of the Welfare Pension Fund Plans | 842 | — |
| Gain on partial termination of defined benefit plans, net | (6,167) | — |
| Total | <u>¥ 56,077</u> | <u>¥ 17,982</u> |

The actuarial assumptions were as follows:

| | For the year ended March 31, | |
|--|-------------------------------------|-------------|
| | 2006 | 2005 |
| | <i>(Millions of yen)</i> | |
| Discount rates for obligation at end of year | 1.7% ~ 2.8% | 2.5% ~ 2.8% |
| Expected rates of return on plan assets | 0.8% ~ 5.5% | 0.0% ~ 5.5% |

10. Accrued Pension and Severance Costs (continued)

The adjustment for actuarial assumptions is being amortized over a period ranging from 5 to 15 years, which is less than the average remaining years of service of the active participants in the plans. Amortization is computed from the fiscal year subsequent to the year in which the adjustment was recorded.

The unrecognized obligation at transition is being amortized principally over 15 years.

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

11. Subsequent Event

On April 1, 2006, JAL Sales Co., Ltd., a wholly owned subsidiary of the Company merged into JALI, a wholly owned subsidiary of the Company.

Components of Revenues from the Air Transportation Segment

| | 2006 | | 2005 | | Change |
|------------------------------|--------------------------|-------------------|-------------------|-------------------|-------------------|
| | <u>Amount</u> | <u>Percentage</u> | <u>Amount</u> | <u>Percentage</u> | <u>Percentage</u> |
| | <i>(Millions of yen)</i> | | | | |
| International: | | | | | |
| Passenger operations | ¥ 690,226 | 39.9 | ¥ 671,291 | 39.5 | 102.8 |
| Cargo operations | 180,573 | 10.4 | 171,399 | 10.1 | 105.4 |
| Mail service operations | 8,441 | 0.5 | 7,632 | 0.4 | 110.6 |
| Luggage operations | 2,270 | 0.1 | 2,487 | 0.1 | 91.3 |
| Subtotal | 881,513 | 50.9 | 852,810 | 50.1 | 103.4 |
| Domestic: | | | | | |
| Passenger operations | 659,998 | 38.1 | 674,732 | 39.7 | 97.8 |
| Cargo operations | 29,440 | 1.7 | 30,534 | 1.8 | 96.4 |
| Mail service operations | 10,819 | 0.6 | 9,963 | 0.6 | 108.6 |
| Luggage operations | 265 | 0.0 | 234 | 0.0 | 113.4 |
| Subtotal | 700,523 | 40.4 | 715,464 | 42.1 | 97.9 |
| Other revenues | 54,935 | 3.2 | 46,473 | 2.7 | 118.2 |
| Incidental business revenues | 96,010 | 5.5 | 86,619 | 5.1 | 110.8 |
| Total revenues | <u>¥1,732,983</u> | <u>100.0</u> | <u>¥1,701,367</u> | <u>100.0</u> | <u>101.9</u> |