Japan Airlines Corporation and Consolidated Subsidiaries

Consolidated Interim Financial Information

For the six months ended September 30, 2006

1. MANAGEMENT POLICIES

The JAL Group is a global player bridging the world with safety, security and quality as our top priorities.

In March last year the JAL Group was the subject of a business improvement order and administrative warnings from the Minister of Land, Infrastructure and Transport as a result of a series of safety-related occurrences, and since then it has been making efforts of various kinds to ensure its renaissance as an organization with high levels of safety. These have included the holding of hundreds of emergency safety meetings at Group workplaces presided over by the President and the members of the board of directors, and the establishment of the Safety Advisory Group, a special committee of outside experts that provides objective advice on safety issues. Based on recommendations in the advisory group's last report, in April this year we established the Safety Promotion Committee, which is chaired by a Senior Managing Director who given overall responsibility for the enhancement of safety throughout the Group. Also, to ensure that the lessons learned from past incidents are never forgotten, we established a safety promotion center to serve as a forum for recognizing anew the importance of safe aviation. By the end of September, approximately 9,000 people (more than 5,000 in-house personnel and nearly 4,000 people from outside the Group) had attended sessions at the center.

In addition, at grass-roots level in workplaces throughout the Group there was a proliferation of spontaneous activities aimed at restoring public confidence in JAL. For example, staff in some workplaces went to see off departing flights displaying hand-made banners, that conveyed their feelings of gratitude towards the customer. Furthermore, In the case of flight delays caused by maintenance, maintenance staff provided explanations directly to the all customers to give them peace of mind. Other such efforts by JAL Group employees included a measure to prevent human error. Employees prepared compendiums of discussing of past incidents, and distributed them to all Group workplaces.

To build an open corporate culture with excellent internal- communication we have been undertaking extensive personnel movements laterally across business segments, encompassing both the head office and local workplaces. In parallel with this we have been actively expanding opportunities for interaction with other places of work in such forms as reciprocal inspection tours, information exchanges, and training.

On August 31, 2006 Mr. Kunio Yanagida, the chairman of the Safety Advisory Group, formally announced the group's impression of the JAL Group’s response to the advisory body’s safety recommendations. Concerning the various efforts to restore customer confidence referred to above, he said that "We have a tangible feeling that, even though only a short period of time has elapsed, the company has addressed each individual issue raised by our recommendations with unprecedented enthusiasm." In the JAL Group we have made a pledge to think deeply once more about another phrase made by the advisory group, namely that the assurance of safety is a ceaseless battle.
We will work to restore confidence by going back to the basics on which any airline company is founded, summed up by such phrases as "Safety always takes priority, " "When in doubt, take the safe option" and "Always see things from the customer's perspective. "

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.

A. 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 an air transportation company group, with comprehensive, the JAL Group strives to bring peoples, their cultures and their hearts closer together, and contributes to the peace and prosperity of Japan and the world.

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

B. Basic Dividend Policy

In March this year the JAL Group formulated and announced its FY2006-2010 Medium-Term Business Plan. The plan outlines the following targets to be achieved in phases during the period of the plan. (Please refer to no. 4 below: "Medium and Long-Term Management Strategies")

- Fiscal year 2006 Return to profitability in terms of consolidated net income
- Fiscal year 2008 Complete rebuilding of the foundation of our business
- fiscal 2010 Achieve consolidated operating profit margin of at least 5%

The plan is currently being implemented throughout the Group with the aim of achieving the targets for FY2006. However, with regard to the dividend for the current fiscal year, it is with great regret that we report that, as explained in the "Outlook for the Full Year" section, we foresee the likelihood that no dividend will be paid. To enable us to cope flexibly with changes in external factors such as sharp rises in aviation fuel, we are committing our efforts to making further progress with the rebuilding of the foundation of our business and the improvement of our financial condition, with a view to resuming dividend payments to shareholders at the earliest possible time.

C. 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.

D. Medium- and Long-Term Management Strategies (Goals)

(1) Basic policy

The environment for the airline industry remains harsh, not least because of the persistence of aviation/fuel prices at record-high levels. Amid this, in March this year the JAL Group announced its FY2006-2010 Medium-Term Business Plan, which will address network business opportunities such as those presented by the re-expansion and internationalization of Tokyo International Airport (Haneda) during fiscal year 2009, and the increase in takeoff and landing slots at Narita International Airport. To do this we have designated the three-year period from FY2006 to FY2008 as the phase for rebuilding the foundation of our business, during which we will accelerate the restructuring of routes, downsize our aircraft used for international passenger operations, and continuously expand reform of our cost structure. We will also make use of the proceeds from the increase in capital generated the new global share offering carried out in June this year to expand our fleet by adding, primarily small and medium-sized aircraft, with the aim of ensuring sustained growth.

Through the steady implementation of reforms such as these, we are currently making Group-wide efforts to build corporate resilience that is robust enough to enable us to generate a profit no matter what changes in the business environment there may be. Of particular note is that FY2006 is the first year of the JAL Group's rebirth and revival as a corporate group that priorities safety and customer satisfaction, We will be devoting maximum effort to regaining the confidence of all our stakeholders.

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

(a) 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.

(b) 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.

(c) 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"

(a) 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.

(b) Restore high safety standards

Based on recommendations of the Safety Advisory Group, JAL Group has established a Corporate Safety Division to oversee group-wide safety improvement, and carry out group-wide activities to improve safety. The Group is investing 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.

(c) 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

(a) 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.

(b) 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 our competitiveness. 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 overheads. 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.

(c) 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 FY2006-10 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.

E. 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 the JAL Group’s safety charter, a statement of our determination to ensure safety. Returning to and re-appreciating the spirit of this charter, management and employees alike are taking various steps to regain people’s trust in the JAL Group, and to make it possible for customers to feel safe and comfortable flying on JAL Group aircraft.

In accordance with the basic policy of the FY2006-2010 Medium-Term Business Plan, announced in March 2006, the JAL Group is currently enhancing its profitability by means of the restructuring of international passenger operations, aircraft downsizing, and continuous expansion of our reform of the cost structure. In addition, we will aim to ensure that the Group's sustained growth is achieved by taking up new business opportunities, in particular the re-expansion and internationalization of Tokyo International Airport (Haneda) from 2009, and the increase in takeoff and landing slots at Narita International Airport. To that end we will use the proceeds from the capital increases generated from the new global share offering, to renew our fleet and actively introduce new aircraft, particularly small and medium-sized types, and continue steps to restructure the foundation of our business.

We continue to implement measures that responded to reflect feedback from customers of our business operations, that 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.

F. Matters relating to Parent Company

None.

G. Other Important Matters Relating to Corporate Management

Issuance of new shares

(1) Overview of the issue

At the meeting of the Board of Directors held on June 30, 2006, the decision was made issue new shares as set out below, and by August 28, 2006, the capital was fully paid in. In consequence, as of August 28, 2006, our capital had increased by ¥74,250 million, and the capital surplus also increased by ¥74,250 million.

(a) Type and no. of shares: 750,000,000 shares of common stock (including 50,000,000 shares issued to third parties by exercising an overallotment option)
(b) Issue price: ¥198 per share
(c) Total value of newly issued shares: ¥148,500 million
(iv) Total amount incorporated into paid-in capital: ¥74,250 million
(d) Paying-in dates: Shares issued by public offering July 27, 2006
Shares issued by private placement August 28, 2006
(e) Use of proceeds: Entire amount planned to be allocated for purchases of aircraft (incl. parts)
(f) At the same time as the issuance of new shares, the conversion price of guaranteed euroyen convertible bonds with subscription rights maturing in 2011 has been

adjusted to ¥398.7.

(2) Business environment up to the time of the share issuance

Since 2001 there have been incidents of terrorism, natural disasters, contagious diseases and other problems in many parts of the world, for example the 9/11 terrorist attacks in the U.S., the outbreak of SARS, and in FY2005 also saw large-scale anti-Japanese demonstrations in China. All of these had a negative impact on passenger demand, particularly for tourism, and hit the JAL Group very hard, leading to a sharp fall income. This is because the JAL Group has the largest network of international routes originating in Japan, and relies on the Japanese tourist market as a major part of its revenue base. To minimize this impact, an array of income-improvement measures were implemented within the Group, designed both to increase earnings and reduce costs. However, in recent years there has been a succession of sharp increases in aviation/fuel prices, leading to a significant deterioration in the Group's income and expenditure balance.

Amid this operating environment it has become difficult to sustain stable profitability with a conventional business model based on large-volume transportation by large, widebody aircraft. In consequence, we decided that in addition to our existing measures to increase income and lower costs, a prerequisite for increasing profitability was to accelerate a "nothing-sacred" approach of restructuring underperforming routes and downsizing to small and medium-sized aircraft types. Accordingly, in March this year we formulated the FY2006-2010 Medium-Term Business Plan, which included a major change from our previous business model.

(3) Necessity for aircraft downsizing and its impact

As of the end of March 2006, large widebody jets (B747s, B747-400s, B777-300s) accounted for 62% of the JAL Group's fleet for international routes, which was a remarkably high ratio relative to other world-class airline companies. One of the major reasons for this weighting in the composition of the fleet is that historically it has been difficult to obtain slots at Narita and Haneda airports, and therefore growth in passenger demand could only be addressed by using large aircraft. Another major reason is that on long-distance routes, for example to the North American east coast and to Europe, hitherto the only aircraft able to serve those destinations with non-stop direct flights have been confined to certain types such as the B747. Since the fuel consumption of large planes is very high relative to that of small and medium-sized planes, the large proportion of large aircraft in the fleet has been a major cause of steep cost increases and income deterioration as a result of the recent very high levels of fuel prices.

In contrast, technical innovation has recently made it possible to develop medium-sized aircraft types, such as the B787 due to be introduced in FY2008, that offer both high fuel efficiency and the ability to operate nonstop on long-distance routes. In addition, as stated above, in FY2009 both Haneda and Narita airports will be expanded (the completion of the fourth runway at Haneda, and the extension of the second runway at Narita) and the number of takeoff and landing slots at airports in the Tokyo area will increase substantially, making it possible to operate at high frequency with small and medium-sized aircraft.

The JAL Group will take advantage of this change in the operating environment to ensure that the business opportunities arising in FY2009 are translated into sustained corporate growth. To do that, we will step up the downsizing of aircraft types in our fleet, shifting the core away from large aircraft and towards small and medium-sized types so that by FY2010, the final year of the current medium-term plan, small and medium-sized planes will account for 62% of all planes used on international routes. The goals of this downsizing include a reduction in operating costs and in the overall number of available seats, thereby increasing and seat occupancy rate, The average unit prices per seat will rise, because the reduction in the number of available seats will mainly affect economy class, while seats in first and business class basically remain unchanged.

Following the completion of the fourth runway at Haneda, scheduled for 2009, the operation of short-haul international scheduled routes, for example to some parts in China, will commence. In view of this, we believe that in terms both of enhanced profitability and customer convenience the frequent operation of small and medium-sized planes will prove to be the most effective solution.

(4) New global share offering and use of proceeds

As outlined above, we consider it to be of the utmost importance to accelerate downsizing through the active introduction of state-of-the-art small and medium-sized aircraft, so as to revive the JAL Group as a group able to generate a stable income flow. From that perspective, during the period of the current medium-term plan we are scheduling the introduction of 86 aircraft, primarily small and medium-sized types, and the retirement of 69 planes, mainly outmoded types.

This fleet investment is projected to cost a total of ¥754 billion, a sum that we consider essential for the future recovery of Group performance and growth. In view of this, we believe that the raising of funds through the share offering was the most appropriate option.

With respect to the timing of the capital increase, it is essential to prepare several years in advance for the introduction of new aircraft. Since it is necessary to prepare our supply structure to position the Group for the increase in slots resulting from the completion of the fourth runway at Tokyo International Airport (Haneda) and the extension of the second runway at Narita International Airport in FY2009, we considered it necessary to raise these funds during the current fiscal year.

2. Business Performance and Financial Condition

Business performance

A. Overview of the first-half period (April to September 2006)

(1) Overall results (consolidated)

The global economy was impacted by crude-oil prices remaining at record-high levels up to the second half of August, but nevertheless the U.S. economy and a number of European economies, in particular the United Kingdom, achieved favorable expansion. In East Asia, meanwhile, there was strong economic expansion in countries such as China, Taiwan, Singapore, and Malaysia, with modest expansions in others such as Korea and Thailand. Overall, the world economy remained on a steady expansionary course.

In the Japanese economy, capital investment increased as a result of improvements in corporate earnings, and growth in personal incomes resulting from the improvement in the employment situation led to a modest but sustained expansion in consumer spending. Overall, the economy followed a recovery trend as the good performance of the corporate sector spilled over into the household sector.

It was amid these conditions that in April the JAL Group began the steady implementation of measures laid down in its FY2006-2010 Medium-Term Business Plan. In international passenger operations the restructuring (suspension of operations, reduction of numbers of flights) of unprofitable routes was conducted on an unprecedented scale, and aircraft downsizing was also initiated. In domestic passenger operations we increased the number of “Class-J” premium seats, which have enjoyed high usage since their introduction, as well as the increase of aircraft equipped with them. We expanded the scale of JAL Express, our low-overhaed subsidiary. In addition, we reviewed contracts with parties outside the Group and business process, and implemented measures to improve the income and expenditure balance, including contingency measures to curb personnel expenses by cutting basic wages by 10%.

High fuel prices were addressed not only by in-house remedies but also by absorbing their impact as much as possible by means of flexible hedging based on the monitoring of oil prices, and the addition of fuel surcharges.

The outflow of passenger demand to rival airlines, resulting mainly from the series of safety-related incidents, has bottomed out and there has been a steady improvement, but its impact regrettably remains, especially among domestic passengers. Additionally, fuel prices have persisted at unprecedentedly high levels, with the result that spending on fuel rose by ¥27.9 billion year-on-year.

As a result of the above, on a consolidated basis the Group's operating revenues in the first half grew by ¥37.6 billion year-on-year, to ¥1,150.0 billion; operating expenses were up ¥45.2 billion, to ¥1,141.8 billion; and operating income fell by ¥7.6 billion, to ¥8.1 billion. Non-operating revenues rose by ¥2.0 billion year-on-year, owing primarily to an income in exchange gains, but non-operating expenses declined by ¥1.1 billion, with the result that ordinary income was down by ¥4.4 billion, to ¥5.3 billion. Extraordinary income rose by ¥10.0 billion year-on-year, to ¥12.7 billion, principally because of a ¥9.0 billion gain on sales of investment securities, while the extraordinary loss decreased by ¥12.5 billion, to ¥5.7 billion, owing to impairment losses of ¥13.2 billion in the previous fiscal year. The net result of the above was that the net income/loss account improved by ¥13.5 billion, for a net income of ¥1.5 billion.

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

Air Transportation Business

On international routes, performance was affected by the restructuring of unprofitable routes and the downsizing of aircraft types in line with the medium-term business plan, with the result that available seat-kilometers were down 10.8% year-on-year. Demand was slack on the Honolulu route and routes to Oceania, but firm on routes to the U.S. mainland, Europe, Southeast Asia, Korea and elsewhere, while on routes to China it recovered after the anti-Japanese demonstration there and grew strongly. In consequence, the number of revenue passengers carried was down 6.5% and revenue passenger-kilometers were down 6.1% year-on-year, and the revenue passenger load factor showed a 3.5 point improvement from the previous year, to 71.4%.

In our route management we undertook a drastic restructuring of routes with underperforming earnings, applying selection and concentration to our productive resources. We suspended flight on the Komatsu-Seoul and Hiroshima-Seoul routes, owing to small passenger numbers and very poor financial performance, and cut the number of flights on the Tokyo-London route, in order to increase profitability as a result of the improvement of supply-demand conditions on European routes. The number of flights was increased on the Tokyo-Los Angeles, Tokyo-Chicago, and Tokyo-Moscow routes, on which business demand is strong, and the Tokyo-Vancouver and Tokyo-Taipei routes. We also revised route management on certain other routes, including through the use of code-sharing flights and charter flights. In addition, ongoing operational streamlining included a further increase in the number of routes assigned to JALways, our low-overhead subsidiary, so as to bolster cost competitiveness still further.

With respect to product strategy, the JAL Shell Flat Seat has become a popular feature on business class. As one of the steps taken to enhance customer comfort still further, the fitting of the seat was extended to the Tokyo-Amsterdam, Osaka-London, Tokyo-Chicago (all flights), Tokyo-Singapore (flights JL719/710), and Tokyo-Sao Paulo (flights JL048/047) routes.

In our marketing activities the number of companies enrolled in the “JAL Corporate Flight Merit" program, which was inaugurated in the previous fiscal year for small and mid-sized businesses, rose to around 500. On routes to China we inaugurated the "Business Gateway" program for the meticulous handling of arrangements for procedures such as transportation to and from airports and the location of hotels and conference rooms, and on routes to Europe and the U.S. our "With JAL You Can Choose!" service offers customers traveling business class or first class complimentary JAL Okaeri Limo Service to take them home from the airport, or a present in the form of JAL IC Coupon worth ¥20,000. These marketing campaigns have helped JAL to attract more business demand.

As a result of these efforts, revenues from Group-wide international passenger operations increased by ¥10.2 billion year-on-year, to ¥370.7 billion. A key factors behind this result was a 9.5% increase in passenger yield that resulted principally from the revision of fares and the addition of fuel surcharges.

In domestic passenger operations the series of safety-related occurrences was a key factor behind the faltering of growth in business customers, but among discount fares we introduced the "Super Tokubin Discount 28" fare in place of the previous "Mae Uri 21" fare, and offered our "Bargain Fare" for a longer number of days than the previous year. These and other measures to stimulate demand enabled us to maintain the number of individual passengers at the same level as the previous year. On the other hand the number of tour passengers declined as a reaction to the previous year's swelling of demand caused by the holding of Expo 2005 Aichi, and also as a result of fare increases, both of which deflated demand. In consequence, the number of revenue passengers carried was down 0.4% year-on-year, and revenue passenger-kilometers were 100.2%.

Marketing measures included the conduct of the "JAL Minna no Natsuzora" promotion during the summer holiday period. In addition to a scheme enabling passengers to win various merchandise with their boarding-pass stubs, we operated a jetliner decorated like a *tamagotchi*, called the "Tamagotchi Jet," and provided service designed to help passengers spend a happy time both within airports and in our aircraft cabins, for example by providing items using *tamagotchi* characters to children for in-cabin use. In addition, in our product strategy the “Class-J” seats have enjoyed a high rate of usage since their introduction, and during the first half period we increased the number of these seats on aircraft already equipped with them, and also fitted them on smaller planes serving regional routes, such as MD90s and B737s. In ways such these, we enhanced our range of products to match customer needs.

Measures taken with regard to airfares were shaped by the fact that fuel prices have remained at levels well above industry estimates. In view of this, as of April 1, 2006, we abolished the passenger fare fuel surcharges instituted in January 2005, and instead incorporated equivalent amounts into fares, and also introduced fare increases according to route distances. An increase in the proportion of passengers using discount fares was a factor that had lowered average passenger yield, but this fare increase caused passenger yield to increase by 1.3% from the corresponding period of the previous year.

As a result of these developments, revenues from Group-wide domestic passenger operations increased by ¥5.3 billion year-on-year, to ¥345.8 billion.

International cargo services were affected by sluggish aggregate demand globally for air cargo shipments into Japan, with the result that revenue ton-kilometers were only 98.0% of their year-earlier level. Among export cargoes there was a slowing of shipments to North America and Europe from the summer, but overall demand was robust, particularly in the fields of automobile parts, digital cameras, and flat-screen televisions. There was an especially large increase in cargo to China.

In the sphere of imports, cargo originating in China showed a shift towards seaborne transportation. Additionally, under the impact of factors such as the strength of the euro and poor yields of various fresh foods, from the summer onwards there was a trend towards a recovery in cargo shipments from various parts of the world.

With regard to route management, in June we introduced one B747-400BCF converted from a passenger jet, and we strengthened Asian and North American routes. In China we accommodated new demand by such means as working in collaboration with Chinese domestic airlines to inaugurate forwarding service to inland regions for freight originating in Japan. We also formed a tie-up with a specialist airfreight company in the southern U.S. to enhance the convenience of shipping cargoes into and out of Miami and Dallas.

As a result of these factors, in spite of the fact that in volume terms international air cargo movements were down year-on-year, we were able to increase cargo yield by 10.4%, boosting revenue by ¥6.9 billion, to ¥92.4 billion. A major factor behind this was the addition of fuel surcharges.

International mail business was favorable, particularly shipments from China. In domestic operations, we enjoyed firm trends in cargo and mail. In volume terms, we acquired larger cargo/mail orders, thanks to efficient use of cargo space, even though total cargo space declined due to aircraft downsizing.

In the sphere of cargo handling at airports, in October 2004 we commenced an undertaking that we called "Project M3," and is based on production methods used at Toyota Motor Corporation. After its introduction at Narita and Haneda we introduced it at the Kansai International Airport and at Inchon Airport in Korea, with the aim of enhancing productivity still further and raising the quality of cargo handling.

As a result of the above, total revenues from international and domestic cargo and international and domestic mail rose by ¥7.0 billion year-on-year,, to ¥116.2 billion.

In consequence, total transportation volume in this segment (in terms of revenue ton-kilometers), including both international and domestic passenger and cargo transportation, was down 3.0% from the previous first half. Operating revenues increased by ¥26.4 billion, to ¥910.9 billion, and the operating loss totaled ¥3.4 billion (after intra-segment eliminations and before inter-segment eliminations).

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.

	Purchase	Lease	Sale/ Disposal	Lease termination	Other (Repair)	At Sept. 30, 2006	
						Owned	Leased
Boeing 747-400					-1	40	1
Boeing 747-400F					1	1	2
Boeing 747LR			-1			16	2
Boeing 747SR						1	0
Boeing 747F						7	2
Boeing 777		2				12	26
Airbus A300-600R						18	4
Airbus A300			-3			0	0
Boeing 767		1				19	21
Douglas MD-90						16	0
Douglas MD-81						12	6
Douglas MD-87						8	0
Boeing 737						9	14
Bombardier CRJ200		1				0	9
NAMC YS-11						4	0
Bombardier DHC-8-400		1				3	5
SAAB 340B						10	4
Bombardier DHC-8-100						4	0
B-N Group BN-2B						3	0
Total		5	-4		±0	183	96

Airline-Related Business

TFK Corporation, an in-flight catering company, suffered a decline in revenue, primarily as a result of a fall in demand caused by the downsizing of planes on international routes and the restructuring of routes. However, cost-cutting enabled it to achieve profit growth. AGP Corporation, which supplies auxiliary power to aircraft while parked, achieved growth in revenues from those operations because of the excellence, both in terms of cost and of environmental factors, of its method of supplying power. In addition, its other revenues increased as a result of factors such as winning more commissions for management and maintenance operations for plant and equipment at Narita International Airport and Kansai International Airport.

As a result, the revenues of the airline-related business segment totaled ¥179.4 billion, up by ¥20.4 billion year-on-year, with operating income of ¥4.8 billion, up by ¥2.3 billion.

Note: The principal factor behind the revenue growth was that a JAL subsidiary engaging in the procurement of fuel overseas (Pacific Fuel Trading Corporation) reflected the increases in its fuel procurement prices in its sales prices, with the result that both revenues and expenses rose substantially.

Travel Services Business

JALPAK’s overall revenues suffered a year-on-year decline. In tours to China there was an increase in business volume amid signs of a recovery after the anti-Japanese demonsrations in that country, but reductions in flights on tourist routes caused volume to decline, particularly to Micronesia. Nevertheless, operating income was maintained at its year-earlier level owing to cuts in selling, general and administrative expenses and other factors. The number of passengers handled by JAL Tours decreased in a reaction to the increase in numbers during the holding of the Expo 2005 Aichi international exposition, but an increase in unit tour prices enabled the company to maintain revenues at the previous year's level.

As a result, revenues in this travel services business segment fell by ¥23.8 billion year-on-year, to ¥194.6 billion, while operating income was down by ¥800 million, to ¥800 million.

Note: The principal factor behind the declines in revenue and operating income was that as a result of the reorganization of the sales structure, on April 1 this year JAL Sales was merged into Japan Airlines International, and in consequence its revenues were no longer included in this segment.

Credit Card and Leasing Services Business

The Group's credit card company, JALCard, recorded substantial growth in revenues, as vigorous efforts to recruit new cardholders led to a 12% year-on-year increase in the number of cardholders, to approximately 1.66 million

As a result, total revenues in this segment grew by ¥1.5 billion year-on-year, to ¥31.6 billion, and operating income increased by ¥700 million, to ¥3.0 billion.

Other Businesses

JALUX, a trading company, registered revenue growth primarily from ongoing brisk sales of aircraft parts to companies outside the JAL Group, and from its BLUE SKY domestic airport sales outlets, where its outlet at the New Chitose Airport terminal was expanded. Hotel operator JAL Hotels has been shifting to a new business model in which commissioned hotel management forms the core, while asset holdings are reduced. Since July last year it has received six new management commissions, including for the Hotel JAL City Naha, which opened for business in June this year, but because of its active progress in dealing with the sale of Hotel Nikko Narita and Kawasaki Nikko Hotel and the assumption of their management, it suffered an overall fall in income.

Revenues in this segment rose by ¥800 million year-on-year, to ¥102.8 billion, and operating income totaled ¥2.9 billion, which was unchanged from its year-earlier level.

Financial Position

Cash flows

Cash and cash equivalents at the end of the first half rose by ¥118.3 billion from the end of the previous fiscal year, to a total of ¥290.4 billion. The principal factors in this increase were the return to profitability and consequent posting of income before income taxes and minority interests, the sale of investment securities, and a capital increase by means of the public offering of 750 million shares.

The cash flows during the first-half period and their principal components are set out below.

Cash flow from operating activities

Net cash provided by operating activities totaled ¥72.5 billion, arising mainly from income before income taxes and minority interests totaling ¥12.3 billion, and the statement of ¥58.9 billion of depreciation and amortization charges.

Cash flow from investing activities

Cash outflows arose in the form of payments primarily for purchases of aircraft and aircraft parts, and advance payments for aircraft that are scheduled for introduction, but income was derived from the sale of aircraft, and there was also a gain of ¥10.2 billion from the sale of securities. As a result of these and other factors, net cash used in investing activities totaled ¥42.0 billion.

Cash flow from financing activities

Net cash provided by financing activities was ¥87.3 billion. The principal components of this were outflows totaling ¥58.6 billion for the repayment of long-term borrowings, and ¥147.9 billion of proceeds from a capital increase by the public offering of 750 million new shares.

	FY 2004		FY 2005		FY 2006
	30 Sept. 04	31 Mar. 05	30 Sept. 05	31 Mar. 06	30 Sept. 06
Equity ratio (%)	11.0	9.0	8.1	6.9	14.8
Equity ratio at market value (%)	27.8	28.7	27.1	28.2	27.9
Interest-bearing debt repayment period (years)	12.3	9.0	16.0	12.2	16.1
Interest coverage ratio	8.3	5.7	6.7	4.5	7.7

(Note)
・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

Summary of First-Half Earnings

Operating revenue for the first half of the current business term (fiscal year 2006) fell short of the Company's start-of-term projections in all operational segments. These included international passenger flights -- where demand was roughly as predicted but passenger yield fell below the forecast levels – and domestic passenger flights, where the Company lost customers to rival airlines owing to the negative image impact of an unfortunate series of safety-related occurrences, although this appears to have bottomed out and passenger numbers is on a steady recovery trend, business passenger demand has not yet fully recovered, in terms either of passenger numbers or passenger yield. Moreover, there was a falloff in demand in international cargo operations, particularly flights to Japan in early spring.

As a result of these factors, the JAL Group's operating revenue for the reporting six-month period came to ¥1,150 billion, down by ¥14 billion from the initial forecast.

Turning to operating expenses, in spite of our efforts to flexibly hedge against such risks, the unprecedented high price of jet fuel caused total fuel costs to exceed our expectations. On the other hand, savings in miscellaneous expenses, such as the area of personnel through a reduction in the scale of our operations and other cost-cutting efforts proved greater than projected. Consequently, operating expenses as a whole were approximately in line with our start-of-term projections.

As a result of the foregoing, operating income came to ¥8.1 billion, falling short of the initially forecast figure by ¥14.9 billion.

Outlook for the Second Half of Fiscal year 2006

Regarding the prospects for the Company's operating revenue in the second half of the current term, we intend to increase the number of flights on Japan-China routes, where demand is staging a sharp recovery. In addition, there will be an increase in the jet fuel surcharge that will take effect on flights whose tickets were issued in October or after. Such factors mean that we can expect a firm trend on international flights in terms both of passenger numbers and ticket prices.

As for flights on domestic routes, the number of passengers has been in excess of the previous year's figure since August, and we are steadily overhauling our main competitor. Even so, it will be a while longer before passenger yield can be raised back up to our former levels, and we must thus be prepared for operating revenues to fall short of the initial target figures.

For the rest of fiscal year 2006, operating income will continue to be negatively affected by fuel costs in excess of the initially projected levels. Consequently, in spite of active measures to cut costs by renegotiating contract terms with outsourced service suppliers, and various steps to reduce general operating costs in the second half of the term (encompassing a radical rethinking of our whole cost structure), operating income as a whole is predicted to fall short by ¥29 billion year-on-year for the full term (including the abovementioned ¥14.9 billion shortfall for the first half). In view of these circumstances, we have decided to reduce the amount of periodical expenses payable for the second half of fiscal year 2006 under the Company's pension plan.

In conclusion, operating income on a consolidated basis for the fiscal year 2006 full term is now projected at ¥13 billion, representing a shortfall of ¥4 billion compared with the initial forecast. Ordinary income on a consolidated basis should be approximately as per the initial forecast, thanks to gains on foreign exchange translation. Our forecast for net income on a consolidated basis similarly remains unchanged.

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

(units: billions of yen)

	Forecast on 10/May	Reviced Forecast	Difference
Operating Revenue	2,301.0	2,281.0	-20.0
Operating Income	17.0	13.0	-4.0
Ordinary Income	0.5	0.5	0.0
Net Income	3.0	3.0	0.0

Assumptions underlying the financial targets:
The computation of the forecast is based on the following assumptions: An exchange rate of ¥116 = one U.S. dollar, and with respect to the price of aircraft fuel price, Singapore Kerosene at a market price of US$81 per barrel. For the fiscal year ending March 31, 2007, we have entered into hedging transactions covering approximately 85% of our expected U.S. dollar requirements and 89% of our expected fuel requirements.

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 (Yukashoken Hokokusho) 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.

Business risks

(1) Business strategy

(a) 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, the targeted cost savings and revenue growth set forth in the plan may not be successfully achieved.

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

Japan Airlines International Co., Ltd. and Japan Airlines Domestic Co., Ltd. were merged in October, but due to various factors, the merger of these operating companies may not result in the benefits that we currently expect.

(c) Joining the **one**world™ alliance

In June 2006 the JAL Group received an invitation to become an official member of **one**world™, a major airline alliance, in 2007. However, due to various factors, we may not be able to realize the benefits that we expect to achieve through the alliance.

(d) 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, Canada, 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.