Japan Airlines Corporation and Consolidated Subsidiaries
Consolidated Financial Information

For the year ended March 31, 2007

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1. Business Performance and Financial Condition

(1) Analysis of business performance

Overview of the period

During the year, the Japanese economy maintained its moderate recovery course, buoyed by improvements in corporate earnings and growth in capital investment, while the employment situation improved and consumer spending strengthened. Nevertheless, the business environment for the air transportation industry remains difficult, in particular because of the persistence of high fuel prices.

Against this backdrop, the JAL Group followed up the reorganization of its sales structure in April 2006 with the merger, in October, of its two core operating companies: Japan Airlines International (responsible for international passenger operations and cargo operations) and Japan Airlines Domestic (handling domestic passenger operations). A Group reorganization was also implemented, in particular for the purpose of melding the holding company and the operating companies into a unified corporate entity. This resulted in the elimination of duplication, the acceleration of the reform of the operating structure and cost structure, and the building of a corporate culture utterly dedicated to safety and seeing things from the customer's perspective.

In air transportation business we implemented structural reforms aimed at enhancing profitability, including the restructuring or closure of poorly performing routes, the thorough reallocation of resources to highly profitable and fast-growing routes, and the downsizing of aircraft types. Other steps taken included the review of business processes and other measures to reform the cost structure radically and measures to reduce personnel costs, including by cutting basic wages by 10%. To counter sharp rises in prices of aviation fuel, we took steps to absorb them as much as possible by such means as flexible hedging while monitoring crude-oil prices, and the addition of fuel surcharges, in this way endeavoring to improve profitability.

In addition, as part of the strategy called for in our medium-term business plan, to enable us to acquire highly economical aircraft, we increased our capital through a public offering in July, raising ¥148.5 billion.

As part of efforts to ensure safe aviation, based on the recommendations of the Safety Advisory Group, an external committee of experts, in April 2006 we established the Corporate Safety Division, strengthening our structure for ensuring safety improvement throughout the Group. Also, to ensure that the lessons drawn from past accidents are not forgotten and to reaffirm the importance of safe aviation, we established the Safety Promotion Center, which is being used to provide safety education to employees.

As a result of the above, on a consolidated basis the Group's operating revenues grew by ¥102.5 billion from the previous year, to ¥2,301.9 billion. Operating expenses were held to an increase of only ¥52.7 billion, reaching ¥2,278.9 billion, as the surge in aviation-fuel prices was countered by such factors as measures taken to cut costs, thanks partly to the gains on termination of the agency service for the government under the welfare pension program. The result was that operating income amounted to ¥22.9 billion, compared with an operating loss of ¥26.8 billion for the previous term. Non-operating revenues increased by ¥7.4 billion year-on-year, owing primarily to an increase in exchange gains, and non-operating expenses declined by ¥4.9 billion, owing to a fall in interest payments. In consequence, ordinary income came to ¥20.5 billion, compared with an ordinary loss of

¥41.6 billion for the previous term. Owing to the reduction of deferred tax assets in the amount of ¥44.7 billion and the posting of a ¥6.0 billion extraordinary loss on lump-sum retirement payments under the early retirement scheme, which more than offset the abovementioned extraordinary gain of ¥9.7 billion, the Company posted a net loss of ¥16.2 billion.

Earnings by segment

[1] Air Transportation Business

International passenger operations

In route operations, progress was made in rebuilding the route network to better meet trends in demand and place greater emphasis on profitability. Specifically, as a result of the air transportation agreement between Japan and China reached in July 2006, we increased flights on routes such as Tokyo-Shanghai and Tokyo-Guangzhou. We also expanded our codesharing alliances with other airlines on China routes, operating the maximum number of flights between Japan and China. To meet business demand we gave travelers greater convenience by increasing flights on routes such as Tokyo-Delhi and Tokyo-Moscow, while suspending flights on other routes such as Osaka-Los Angeles and Tokyo-Las Vegas; this formed part of our policy of route selection and concentration. In addition, we accelerated the renewal of aircraft, including by operating Boeing 777s on most European routes, and we also continued the downsizing of aircraft types and took steps to enhance service quality and secure greater economies. We also transferred some Asian routes, such as the Jakarta route, to JALWays, a Group airline, so as to bolster our cost-competitiveness still further.

We also took the decision to become an official member of oneworld™, a major global airline alliance, at the same time continuing to increase one-on-one collaboration with other airlines.

In regard to service strategy, we further extended the number of routes on which aircraft are fitted with the popular JAL Shell Flat Seat, enhancing passenger comfort still further. We also enhanced airport services, including by inaugurating the "JAL Fast Security Lane" at Narita International Airport to offer smoother security checks for First Class passengers and others boarding flights frequently. This was the first-ever such facility at any of Japan's airports handling international flights.

In the sphere of in-flight catering, the Takitate Gohan (freshly-cooked rice) service, which has been well-received in First Class and Executive Class on European and North American routes, was also started on some Southeast Asian routes. Additionally, on Chinese routes we took steps to make the in-flight meals even better, including by introducing the Gozen range of Japanese dishes, including Sushi-Gozen, in Executive Class, and by starting to change the menus twice every month in Economy Class on some routes.

In our marketing we sought to cater vigorously to business demand by increasing to around 600 the number of companies enrolled in the “JAL Corporate Flight Merit" program, which provides a variety of privileges for company personnel making overseas business trips. Services for business travelers were also extended by providing the "With JAL You Can Choose! Europe/Mainland US Routes Okaeri Service" and the "JAL China Business Gateway Program" to support customers making business trips to China.

Steps were also taken to satisfy increasingly varied tourist demand. Among these there was a year-on-year increase in the number of charter flights, which offer the convenience and comfort of direct flights, to destinations for which there is high demand, such as Hawaii and Palau.

JAL has also sought to increase customer numbers by making the JAL Mileage Service more attractive. For example, we have adopted a strategy in common with that used on domestic routes by reaching agreement with Odakyu Electric Railway and Kinki Nippon Railway to issue partnership cards for earning mileage points, and we have also made it possible for people to exchange points and miles with Yahoo! JAPAN, the “Surutto Kansai” Association, and Kansai International Airport.

Passenger capacity on international routes fell by 9.5% as measured by available seat-kilometers, owing to the enhanced efficiency of route operations, but as a result of the above measures, demand fell by only 7.1% in terms of revenue passenger kilometers, and the passenger load factor was 71.1%, up by 1.7 percentage points. Revenues from international passenger operations increased by 5.0% year-on-year, to ¥724.8 billion. A key factor behind this was a 13.1% increase in passenger yield that resulted primarily from the growth in business demand, the revision of fares, and the addition of fuel surcharges.

Domestic passenger operations

In domestic passenger operations the numbers of flights and the aircraft used were adjusted to match demand according to each season and each time-band, the key aim being to operate the optimum aircraft at the optimum frequency in each demand time-band. From November onwards in particular, we pursued this objective by introducing the "Weekend Big" timetable for Saturdays and Sundays, on which for certain flights larger aircraft were used, and the flights increased on routes on which demand is high at weekends, for example from Haneda to Sapporo, Kagoshima, Kumamoto, and Okinawa. This both boosted customer convenience and maximized revenues.

Also, continuing last year's practice, the operation of MD81 aircraft was transferred to Group airline JAL Express, expanding our low-cost operating structure. Efforts were also made to improve profitability in the face of the very high level of cost for aviation fuel, including through the commissioning of highly fuel-efficient next-generation Boeing 737-800s, which were brought into service on the Haneda–Yamaguchi/Ube and Haneda–Miyazaki routes in March 2007.

With regard to service strategy, the “Class-J” seats have enjoyed a high rate of usage since their introduction, and during the year we increased the number of these seats on widebody and medium-sized aircraft, also fitting them progressively on smaller planes such as Boeing 737s and MD90s. In addition, from October the JAL IC Check-in Service, known familiarly as "Touch & Go," has also been available for use by passengers on package tours.

Various marketing measures were employed to stimulate demand while fares were increased as a means of countering high fuel costs. These included the introduction of the new "Sakidoku (Advance) Discount??" fare in which the prices are fine-tuned in line with demand, the stepping-up of advertising and publicity, the widening of the periods of "Bargain Fares" and "Birthday Discount Fares," and the introduction of "Special Bargain Fares" to commemorate the integration of Japan Airlines International and Japan Airlines Domestic. Sales-promotion measures included not only the conduct of ongoing tourism campaigns to Okinawa, Hokkaido, Kyushu, and Shikoku, but also the "JAL Minna no Natsuzora" promotion jointly with international routes during the summer holiday period, and the "JAL Heartful Campaign" during the winter, all designed to promote usage by both individual and group travelers.

In spite of these measures, demand by individual travelers was late in recovering, and business demand was particularly lackluster. In consequence, capacity on domestic routes rose by 0.9% in terms of available seat-kilometers, and demand rose by only 0.8% in terms of revenue passenger kilometers. Revenues from international passenger operations increased by 2.4% year-on-year, to ¥675.6 billion, as passenger yield increased by 1.5%.

Cargo and mail

With regard to cargo exports on international routes, demand in Europe eased somewhat during the year, but demand for exports to North America was on a recovery trend, centered on the fields of construction machinery and production equipment, and demand for shipments to China was robust throughout the year. On the import side, demand was sluggish overall, owing to factors such as the strength of the euro with regard to flights originating in Europe, and to lower capacity resulting from a reduction in passenger flights with regard to cargoes originating in Southeast Asia.

In regard to route management we further enhanced supply capacity and profitability by adding a Boeing 747-400 all-cargo transport freighter to the fleet, and in September we strengthened the Asian route network by bringing a dedicated freighter into service in Manila. In addition, we availed ourselves of Kansai International Airport's advantage of being able to operate round the clock by operating late-night cargo flights to Shanghai from July on a temporary basis, and in October began operating them as scheduled flights.

Tie-ups with other operators continued to be pursued. In June we formed a tie-up with Florida West Airlines, a specialist airfreight company in the southern U.S., to meet demand for the shipping of cargoes into and out of Miami and Dallas. In China the convenience of services was improved by supplementing the existing truck forwarding service by the start, in July, of an airline forwarding service in partnership with China Eastern Airlines.

As a result of these developments, the total volume of international air cargo transportation declined by 0.6% year-on-year in terms of revenue cargo ton-kilometers. International cargo income rose by 5.5% from the previous year, to ¥190.5 billion, owing to an increase of 6.1% in cargo yield as a result of factors such as the addition of international fuel surcharges.

In international mail services the volume of business originating in China remained robust throughout the year, supplemented by robust volume from the Americas starting in the second half.

In the sphere of domestic cargo operations we secured a higher level of demand than in the previous year. This was because although at the outset of the year the downsizing of passenger aircraft reduced the availability of hold space, we implemented an intricate sales strategy involving the segmentation of time-bands. In regard to route management we formed a tie-up with Galaxy Airlines in November, beginning airline freight forwarding by means of late-night flights. In addition, a system of weighing domestic cargoes with the use of IC tags was brought into use and installed on a full-scale basis at 13 domestic airports. This has ensured highly reliable weight management so as to enhance safety, and has also increased productivity.

In consequence, the total volume of domestic air cargo transportation increased by 3.1% year-on-year in terms of revenue cargo ton-kilometers. However, owing to a decline in cargo yield, cargo income slipped by 1.7% from the previous year, to ¥28.9 billion.

Domestic mail is subjected to very flexible space management in conjunction with domestic cargo in a way that minimizes the impact of a decline in supply capacity. In consequence, demand remained around its year-earlier level.

As a result of these developments, total transportation volume in this segment (in terms of revenue ton-kilometers), including both international and domestic passenger and cargo transportation, declined by 0.3% from the previous year. Operating revenues increased by ¥68.5 billion, to ¥1,801.5 billion, and operating income rose by ¥46.0 billion, to ¥2.6 billion (both after intra-segment eliminations and before inter-segment eliminations).

(A breakdown of operating revenues and transportation performance in this segment can be found on page ....)

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 March 31, 2007	
						Owned	Leased
Boeing 747-400					-3	38	1
Boeing 747-400F					+3	3	2
Boeing 747LR			-4	-1		13	1
Boeing 747SR			-1			0	0
Boeing 747F	+1			-1		8	1
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 737-400						9	14
Boeing 737-800		+2				0	2
Bombardier CRJ200		+1				0	9
NAMC YS-11			-4			0	0
Bombardier DHC-8-400		+2				3	6
SAAB 340B						10	4
Bombardier DHC-8-100						4	0
Bombardier DHC-8-300	+1					1	0
B-N Group BN-2B						3	0
Total	+2	+8	-12	-2	±0	177	97

Airline-Related Business

At TFK Corporation, an in-flight catering company, in-flight catering operations performed well, but restaurant operations were lackluster and suffered a revenue decline. However, factors such as increased productivity enabled costs to be cut and a profit to be achieved. 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 the winning of 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 ¥368.7 billion, up by ¥25.8 billion year-on-year, with operating income of ¥8.3 billion, up by ¥2.4 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

At JALPAK, in tours to China there was an increase in business volume amid signs of a recovery after the anti-Japanese campaign in that country, and also an increase in volume to Europe, but reductions in flights on tourist routes caused volume to decline, particularly to Hawaii and Micronesia, and revenues fell as a result. The number of passengers handled by JAL Tours stayed around their year-earlier level, as business recovered from the reaction to the increase in numbers that occurred during the Expo 2005 Aichi international exposition. An increase in unit tour prices enabled the company to boost revenues, but profit declined as a result of factors such as steps taken to enhance product content and increased procurement costs.

As a result, revenues in this travel services business segment were down by ¥35.6 billion year-on-year, to ¥379.7 billion, and operating income fell by ¥1.4 billion, to a loss of ¥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. A principal factor behind this was the vigorous effort made to recruit new cardholders, which led to a 11% year-on-year increase in the number of cardholders, to approximately 1.76 million.

As a result, total revenues in this segment grew by ¥5.6 billion year-on-year, to ¥65.8 billion, while operating income increased by ¥1.5 billion, to ¥5.8 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 2005 it has received seven new management commissions, including for the Hotel JAL City Naha, which opened for business in June last year, but because of the active progress made in handling 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 ¥3.2 billion year-on-year, to ¥215.9 billion, and operating income totaled ¥7.2 billion, up by ¥1.1 billion from its year-earlier level.

Outlook for FY2007

On April 1, 2007, the JAL Group became an official member of oneworld™, one of the world's three major global airline alliances. This will expand our network and enable us to give our customers added value, convenience, and comfort through an array of services, including by means of collaboration in e-ticketing and mileage member services, the mutual provision of airport lounges, and the operation of codesharing flights.

The JAL Group expects to continue facing severe operating conditions, against the background of the return to historically high levels of jet fuel prices as a result of the dangerous political situation in the Gulf region. In spite of these difficult circumstances, we forecast that our continued efforts to regain public trust will lead to a firm trend for our international passenger services in both demand and passenger yield in fiscal 2007. Specific factors supporting this optimistic projection include: the sharp recovery in passenger demand on Japan-China routes, where we have already increased the number of flights, as well as the application to the whole of fiscal 2007 of the fuel surcharge introduced in the latter half of fiscal 2006. In domestic passenger services, our predictions of a year-on-year increase in the number of passengers and the passenger yield (notwithstanding the failure of individual business passenger demand to recover its previous level) as a result of our aggressive marketing to corporations and the expansion of our menu of premium services.

We forecast that consolidated operating revenues for fiscal 2007 will decline by ¥104.9 billion year-on-year, but this will be primarily attributable to the removal of JALUX from the scope of consolidation. However, we forecast that consolidated operating income will rise by ¥12.1 billion to ¥35.0 billion, thanks to expected further progress in the reform of the Group’s cost structure under our Medium-Term Revival Plan (centering on thorough measures to cut personnel expenses), despite the expected continuing high level of jet fuel costs,

We forecast that consolidated ordinary income will increase by ¥500 million to ¥21.0 billion, and that consolidated net income will amount to ¥7.0 billion, compared with a net loss of ¥16.2 billion for the reporting term.

Current financial targets on a consolidated basis for the fiscal year ending March 2008

(Unit: billions of yen)

	Year ended Mar. 31, 2007	Year ending Mar. 31, 2008 (Forecast)	Difference
Operating Revenue	23,019	21,970	-1,049
Operating Income	229	350	121
Ordinary Income	205	210	5
Net Income	- 162	70	232

[1] Assumptions underlying the financial targets

The computation of the forecast is based on the assumption of an exchange rate of ¥120 against the U.S. dollar and an aviation fuel price (Singapore Kerosene) at a market price of US$75 per barrel. For the fiscal year ending March 31, 2008, we have entered into hedging transactions covering approximately 65% 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 materialize (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.

[2] Status of implementation of medium-term business plan

Please refer to "(3) Medium- and Long-Term Management Strategies" in the "3. Management Policies" section.

[3] Achievement of targeted management indicators

The management indicators we have designated are a return on equity (ROE) of more than 10% and a figure of below 5 for the number of years to repay interest-bearing debt from operating cash flow. In the reporting period these targets were not met, but progress was made in the repayment of interest-bearing debt and there was an increase in cash flow from operating activities, with the result that the number of years to repay interest-bearing debt declining from 13.8 for the previous term to 11.1.

(2) Analysis of Financial Position

[1] Assets, liabilities, and net assets

With regard to assets, current assets rose by ¥19.9 billion, owing primarily to increases in cash and time deposits and trade receivables, while noncurrent assets fell by ¥70.0 billion year-on-year, to ¥2,091.2 billion. This fall was due to a decline of ¥36.3 billion in tangible fixed assets as a result of the sale of aircraft and other tangible fixed assets and a decline of ¥59.2 billion in investments and other assets owing to the reduction of deferred tax assets. On the liabilities side, current liabilities were up by ¥14.9 billion year-on-year, but factors such as the redemption of corporate bonds, the repayment of long-term borrowings, and the reduction of accrued pension and severance costs caused long-term liabilities to decline by ¥241.3 billion, with the result that total liabilities were down by ¥226.3 billion, to ¥1,759.3 billion.

Owners' equity rose to ¥132.1 billion, mainly due to the issuance of shares. Valuation and translation adjustments increased by ¥30.8 billion as a result of the posting of a deferred hedge gain generated by changes in accounting standards.

[2] Cash flows

Cash flow from operating activities

Net cash provided by operating activities totaled ¥127.7 billion, up by ¥26.7 billion from the previous year. The principal factors behind this were a cash outflow of ¥34.0 billion due to net gains on the sale and valuation of securities and investment securities, which were more than offset by income before income taxes and minority interests totaling ¥52.2 billion, an improvement of ¥98.4 billion year-on-year.

Cash flow from investing activities

Net cash used in investing activities was ¥56.2 billion, down by ¥43.0 billion year-on-year. Cash outflows for the acquisition of noncurrent assets were up by ¥6.2 billion at ¥153.2 billion, arising mainly from purchases of aircraft and parts and from payments of advances for the scheduled introduction of aircraft in the future. Principal inflows were proceeds from the sale of noncurrent assets, up by ¥6.2 billion at ¥54.6 billion; proceeds of ¥6.0 billion from the sale and redemption of securities; proceeds from the sale of investment securities, up by ¥41.5 billion at ¥43.1 billion; proceeds of ¥9.5 billion from the sale of investments in subsidiaries which are no longer included in the scope of consolidation; and proceeds of ¥4.9 billion from the transfer of businesses.

Cash flow from financing activities

Net cash used in financing activities totaled ¥53.0 billion, representing a decline of ¥38.3 billion from the previous year. The principal components of this included an outflow of ¥109.7 billion, up by ¥94.7 billion year-on-year, for the redemption of bonds, particularly the advance redemption in March 2007 of guaranteed euroyen convertible bonds due in 2011; a ¥35.1 billion decline, to ¥22.1 billion, in inflows from long-term borrowings, offset by ¥147.6 billion in proceeds from capital increase through the public offering of new shares in June 2006; and a year-on-year decline of ¥7.8 billion in dividend payments made by the parent company.

Reference: Cash flow indicators

	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Equity ratio (%)	11.7	7.5	9.0	6.9	14.9
Equity ratio at market value (%)	20.9	33.2	28.7	28.2	32.0
Interest-bearing debt repayment period (years)	8.4	17.2	9.0	12.2	8.0
Interest coverage ratio	4.5	2.7	5.7	4.5	6.7

Notes

- Equity ratio at market value: Gross equity market capitalization/Total assets
- Interest-bearing debt repayment period: Interest-bearing debt/operating cash flow
- 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 as stated in the consolidated statement of cash flows.

(3) Basic policy on distribution of profits, and dividends for this and next term

JAL regards the return of profits to its shareholders as being one of its most important management policies, and its basic policy is to maintain continuous and stable dividend payments to the greatest extent possible, distributing profits appropriately after giving comprehensive consideration to the operating environment and business performance.

In February this year the JAL Group formulated and announced its FY2007-2010 Medium-Term Revival Plan. The entire Group is now working in unison to implement and achieve the goals of this plan, but since the rebuilding of the foundation of the Group's business is due to be implemented this term and the next, we regret that we will be unable to pay a dividend for the reporting and current terms.

We are committed to making vigorous efforts to rebuild the foundation of our business so as to cope flexibly with changes in external factors such as the very sharp increases in prices of aviation fuel and to improve our financial position, and to doing our utmost to resume payments of dividends to our shareholders.

(4) Business risks

[1] Medium-term business plan

On February 6 this year the JAL Group formulated and announced its FY2007-2010 Medium-Term Revival Plan. The Group recognizes the fundamental importance of realizing the goals of this plan, but to do so it will be essential to ensure the success of the factors on which it is premised, namely, the reduction in personnel and other expenses, the replacement of aging aircraft and reduction in the number of aircraft models, the reorganization of underperforming routes, and the China strategy, and among other things to receive the support of its stakeholders, i.e. its customers, shareholders, and financial institutions, among others. Factors such as these, and changes in the Group's external environment, may affect the attainment of those goals.

[2] Indebtedness and financing

The JAL Group is currently carrying large-amount debts and lease obligations, as well as pension obligations. Moreover, in order to purchase or lease new aircraft, while a system of guaranteed loans from the Japan Bank for International Cooperation is available, the JAL Group must maintain a reputation for trustworthiness among financial institutions in order to secure the funds needed for the redemption of bonds and to finance future capital investment.

Looking at the near future, scheduled fund-raising and the arrangement of leases may become difficult as a result of probable or possible factors such as the reorganization of governmental financial institutions, reforms to the tax or accounting systems, interest rate raises, the lowering of the Group's credit ratings, or the failure to reach the Group's business performance targets under its Medium-Term Revival Plan. The materialization of all or any of these factors would lead to a deterioration of the creditworthiness of the Group in the eyes of financial institutions, and such an eventuality would have a significantly negative impact on the Group's business results, possibly even on its continued existence as independent enterprise.

[3] 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 citizens. 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, 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. In addition, terrorism and warfare have caused insurance premiums to rise sharply, and the scope of insurance compensation may be limited.

[4] 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.

[5] Operations and aircraft

In the event of an accident involving an aircraft operated by the JAL Group or an aircraft on a codeshare flight operated by another company, customer confidence in the Group and its standing in society would decline, as would demand, and factors such as these may have an adverse impact on its business performance. In addition, in the event that a technical circular directive in regard to airworthiness had been issued in relation to problems relating to aircraft safety, that may have a significant impact on the Group's results of operations.

[6] Possible impact of laws and regulations

The JAL Group's operations are in a variety of respects subject to international, national and local laws and regulations. It is possible that the Group's business will be restrained by these regulations, necessitating substantial increases in expenditure. With regard to cargo operations, in February 2006 the relevant agencies in a number of countries and regions (including the European Union, the United States, Canada, Switzerland, and New Zealand) began a study in regard to suspicions of the existence of a cartel formed by international cargo airlines, including the JAL Group. In addition, a number of class-action lawsuits have been initiated in the United States against these international cargo carriers, the plaintiffs claiming that the carriers have violated U.S. antitrust laws and that they have suffered losses as a result. Depending upon the outcome of the above, the Group's business performance may be affected significantly. In addition there is a risk that the Group will be involved in litigation of various kinds relating to its business activities, and it is possible that this, including the aforementioned lawsuits in the United States, will adversely affect the Group's business and results of operations.

[7] Reliance on technology systems and handling of customer information

The JAL Group's operations rely to some extent on certain technology systems that entail operational risks, including its information systems. Any difficulties in those technology systems resulting from factors such as computer viruses could disrupt Group business operations. In addition, any incident in which personal information concerning Group customers that is in its possession is leaked or improperly accessed could decrease public confidence in the Group and adversely affect its business.

2. Management Policies

(1) Fundamental Policy

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

Corporate philosophy

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

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

(2) Targeted Principal Management Indicators

With the objective of maximizing corporate value, the JAL Group will endeavor to increase asset efficiency and enhance profitability so as to ensure the soundness of its financial condition. Our key management indicators are return on equity (ROE) and the number of years to repay interest-bearing debt from operating cash flow, for which are targets are to raise the former to more than 10% and to bring the latter down below 5 years.

(3) Medium- and Long-Term Management Strategies

In February this year the JAL Group announced its FY2007-2010 Medium-Term Revival Plan, formulated with the objectives of rebuilding of the foundation of its business and maintaining a stable level of profit.

With regard to safety in flight operations, which constitutes the very foundation of the JAL

Group, in order to raise the level of safety still higher we will continue to put into action the recommendations of the Safety Advisory Group, enhancing the safety-management structure, and nurturing a safety culture. In addition, we will firmly establish a Plan, Do, Check, Act (PDCA) inspection cycle entailing the gathering and analysis of information, the formulation and implementation of countermeasures, and then verification, and we will advance further with safety measures now in place to prevent the recurrence of problems, aiming to establish totally comprehensive preventative measures.

A priority measure for business operations is to enhance profitability through the active introduction of highly economical medium and small aircraft and the retirement of older aircraft. To that end we will address the opportunities presented by the planned increase in takeoff and landing slots at Narita International Airport from FY2009 and the re-expansion and internationalization of Tokyo International Airport (Haneda), and concentrate resources on fast-growing and highly profitable routes. In addition, we will seek to gain a competitive edge by providing the finest quality products and services by such means as introducing a first class on domestic routes and a premium economy class on international routes.

We will also build an efficient Group operating structure by such means as expanding the scale of operations of low-cost operators, and will take steps to raise labor productivity and implement extensive cost-cutting measures.

In addition, to concentrate management resources on the JAL Group's core air transportation business, ongoing efforts will be made to restructure related businesses.

In view of the fact that the improvement of the JAL Group’s financial position is an urgent issue for the management, we are working to raise profitability so as to realize, at as early a date as possible, an earnings structure that will generate a steady and reliable cash flow. We are also tackling the tasks of rapidly achieving an improvement in our return on investment and making further progress in reducing the Group’s debt burden. In these various ways, we are laying the groundwork for a more reliable fund procurement environment.

(4) Issues to be addressed

"Safety in flight operations is the very foundation and social responsibility of the JAL Group.

To carry out our mission of assuring safety, the management will exert its strong resolve and the employees will bear an awareness of their individual roles and responsibilities. Together, we will combine our knowledge and capabilities to ensure the safety 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 new Group vision that "The JAL Group is a global player bridging the world with safety, security and quality as our top priorities," all Group employees are engaged in implementing reform. Premised on the firm maintenance of the safety of flight operations, which constitutes the very foundation of the Group, we are committed to gaining an accurate understanding of what customers want and of providing services by adopting the customer's perspective, providing an ever-greater standard of comfort, convenience, and on-schedule service.

Within the JAL Group we are now devoting ourselves assiduously to implementing the measures laid down in the FY2007-2010 Medium-Term Revival Plan, which was announced in February 2007 and whose aim is to build a solid corporate fabric able to generate stable profits without excessive dependence on the expansion of revenues. As part of this, the years FY2007 to FY2009 have been designated the period for rebuilding the Group's business foundation in a way that enables us to ensure that new business opportunities lead to sustained corporate growth, prime examples being the scheduled re-expansion and internationalization of Tokyo International Airport (Haneda) and the increase in takeoff and landing slots at Narita International Airport. For that purpose the measures to be implemented steadily include [1] enhancing competitiveness by means of personnel and other cost reductions, [2] promoting downsizing, [3] shifting to highly profitable routes and strengthening total product competitiveness, and [4] concentrating resources on air transportation business.

The JAL Group recognizes that fiscal 2007 will be of crucial importance in achieving its goal of corporate revival, and the management and employees of the Group are working together to implement the various measures devised as part of our Medium-Term Revival Plan. Of the tasks being tackled, cost reduction – premised on the condition that it does not in any way hinder the achievement of our overriding objective of ensuring the safety of flight operations – will be applied to all areas of the group’s operations, with nothing except safety iteself treated as sacrosanct. With this concept at base, we will proceed to reform our cost structure across all our fields of operation.

Regarding personnel expenses, in addition to maintaining the 10% reduction in the base wage which we have been applying since fiscal 2006, in fiscal 2007 we will be making an additional reduction of ¥50 billion through such measures as cutting back on bonuses and encouraging staff to take advantage of our early retirement scheme. We have already begun preparations (discussions with our unions, and so on) for taking these measures, and we also plan to greatly reduce pension expenses by revising our existing retirement benefit plan.

We plan to reduce our workforce on a consolidated basis by 4,300 by the end of fiscal 2009 through the application of an early retirement scheme, among other measures. This workforce reduction will be made possible by raising staff productivity and restructuring our affiliated companies. Of the aforementioned 4,300-employee reduction, 2,300 will be off the payroll by the end of this current business term (fiscal 2007).

The successful achievement of the goals of the JAL Group’s ongoing Medium-Term Revival Plan is essential to the pursuit of our long-term objective of securing stable and sufficient earnings on a continuous basis. In addition, the success of the plan will also be crucial to our ability to borrow money from financial institutions or raise funds on the capital markets so as to ensure the smooth procurement of the necessary operating funds.

To enable the JAL Group to maintain its position as the most popular airline operator in Japan, as well as a popular airline group among customers overseas, we will be enhancing both our domestic and international service networks, and will be devoting our utmost efforts to the development and further improvement of services created with the customer’s perspective in mind.

In addition, we will repay the confidence held in us by our stakeholders by means of vigorous dedication to fulfilling our corporate social responsibilities.