Japan Airlines Corporation and Consolidated Subsidiaries

Consolidated Financial Information

For the years ended March 31, 2007 and 2006

1. Consolidated Financial Highlights

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

a. Consolidated operating results

(1)	Total operating revenues:	FY06	¥2,301,915	million	(4.7%)
		FY05	¥2,199,385	million	(3.3%)
(2)	Operating income (loss):	FY06	¥ 22,917	million	(–)
		FY05	¥ (26,834)	million	(–)
(3)	Ordinary income (loss):	FY06	¥ 20,576	million	(–)
		FY05	¥ (41,608)	million	(–)
(4)	Net loss:	FY06	¥ (16,267)	million	(–)
		FY05	¥ (47,243)	million	(–)
(5)	Net loss per share:	FY06	¥ (6.52)		
		FY05	¥ (23.88)		
(6)	Diluted net income per share:	FY06	¥ –		
		FY05	¥ –		
(7)	Return on equity:	FY06	-6.2%		
		FY05	-27.6%		
(8)	Ordinary income (loss) as a percentage of total assets:	FY06	1.0%		
		FY05	-1.9%		
(9)	Operating income (loss) as a percentage of total operating revenues:	FY06	1.0%		
		FY05	-1.2%		
(10)	Equity in earnings of affiliates:	FY06	¥ 2,481	million	
		FY05	¥ 1,899	million	

1 Consolidated Financial Highlights (continued)

b. Consolidated financial position

(1)	Total assets:	FY06	¥2,091,233	million
		FY05	¥2,161,240	million
(2)	Net assets:	FY06	¥ 331,873	million
		FY05	¥ 148,066	million
(3)	Net assets ratio excluding minority interests:	FY06	14.9%	
		FY05	6.9%	
(4)	Net assets per share excluding minority interests:	FY06	¥ 113.97	
		FY05	¥ 74.78	

Note 1. Net assets excluding minority interests:

March 31, 2007	¥ 311,087	million
March 31, 2006	¥ –	million

c. Consolidated cash flows

(1)	Net cash provided by operating activities:	FY06	¥ 127,748	million
		FY05	¥ 100,984	million
(2)	Net cash used in investing activities:	FY06	¥ (56,216)	million
		FY05	¥ (99,283)	million
(3)	Net cash used in financing activities:	FY06	¥ (53,007)	million
		FY05	¥ (91,384)	million
(4)	Cash and cash equivalents held at end of year:	FY06	¥ 191,381	million
		FY05	¥ 172,132	million

2. Dividends

(1)	Annual dividends per share:	FY05	¥ 0.00
		FY06	¥ 0.00
		FY07 (forecast)	¥ 0.00
(2)	Total annual dividends:	FY05	–
		FY06	–
(3)	Dividends as a percentage of net income:	FY05	–
		FY06	–
		FY07 (forecast)	–
(4)	Dividends as a percentage of net assets:	FY05	–
		FY06	–

3. Consolidated Financial Forecast for the Year Ending March 31, 2008

(1)	Total operating revenues:	¥2,197,000	million	(-4.6%)
(2)	Operating income:	¥ 35,000	million	(52.7%)
(3)	Ordinary income:	¥ 21,000	million	(2.1%)
(4)	Net income:	¥ 7,000	million	(–)
(5)	Net income per share:	¥ 2.56		

For the assumptions underlying the forecast and other concerns, refer to page 9 of the attached documents.

4. Other Information

a. Significant changes in scope of consolidation

Decrease – 1 Japan Airlines Domestic Co., Ltd.

b. Changes in accounting policy

(1) Changes due to revision or application of accounting standard

Changes in accounting policy were made for the year ended March 31, 2007

(2) Other changes

Changes in accounting policy were made for the year ended March 31, 2007

For more information, refer to page 20 of the attached documents.

c. Number of shares in issue

Note 1. Number of shares in issue including common stock in treasury at end of the year:

March 31, 2007	2,732,383,250
March 31, 2006	1,982,383,250

Note 2. Number of shares of common stock in treasury at end of the year:

March 31, 2007	2,934,602
March 31, 2006	2,863,896

Non-consolidated Financial Highlights (Reference Information)

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

1. Non-Consolidated Operating Results

(1)	Total operating revenues:	FY06	¥	21,808	million	(-6.2%)
		FY05	¥	23,260	million	(43.6%)
(2)	Operating income:	FY06	¥	8,594	million	(-1.3%)
		FY05	¥	8,705	million	(–)
(3)	Ordinary income:	FY06	¥	8,573	million	(-0.2%)
		FY05	¥	8,595	million	(–)
(4)	Net income (loss):	FY06	¥	8,742	million	(–)
		FY05	¥	(132,336)	million	(–)
(5)	Net income (loss) per share:	FY06	¥	3.50		
		FY05	¥	(66.82)		
(6)	Diluted net income per share:	FY06	¥	3.23		
		FY05	¥	–		

2. Non-Consolidated Financial Position

(1)	Total assets	FY06	¥	927,700	million
		FY05	¥	885,620	million
(2)	Net assets	FY06	¥	293,953	million
		FY05	¥	136,593	million
(3)	Net assets ratio	FY06		31.7%	
		FY05		15.4%	
(4)	Net assets per share	FY06	¥	107.67	
		FY05	¥	68.98	

Note 1. Net assets excluding share subscription rights:

March 31, 2007	¥	293,953 million
March 31, 2006	¥	136,593 million

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

Japan Airlines Corporation (the "Company") owns 247 subsidiaries and currently consolidates 142 subsidiaries, including the following principal subsidiaries:

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

The number of unconsolidated subsidiaries which are not accounted for by the equity method is currently 105.

The number of affiliates is currently 87, including 20 companies which are accounted for by the equity method.

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

Consolidation:

Increase – 6	JALPAK INTERNATIONAL U.S.A., INC. (*1)
	JAL GROUND SERVICE SAPPORO CO., LTD. (*1)
	JAL GROUND SERVICE OSAKA CO., LTD. (formerly NISHINIHON AIRPORT SERVICE CO., LTD.) (*1)
	JAL GROUND SERVICE KYUSHU CO., LTD. (formerly KYUSHU AIRPORT SERVICE CO., LTD.) (*1)
	JALTRANS, INC. (*1)
	CONTACT CUSTOMS CLEARANCE, INC. (*1)
Decrease – 16	JAPAN AIRLINES DOMESIC CO., LTD. (*2)
	JAL SALES CO., LTD. (*2)
	HOKKAIDO AIR SERVICE CO., LTD. (*3)
	TOA AIR SERVICE CO., LTD. (*4)
	GROUND AIR SERVICE CO., LTD. (*5)
	INTERNATIONAL CATERING LTD. (*6)
	CHITOSE INTERNATIONAL HOTEL CO., LTD. (*6)
	JALUX INC. (*6)
	HOTEL NIKKO ANNUPURI (*6)
	NANSEI TOURIST DEVELOPMENT CO., LTD. (*6)
	OKUMA BEACH LAND CO., LTD. (*6)
	CHITOSE AIRPORT FUELLING FACILITIES COMPANY, LTD. (*6)
	JAL MAINTENANCE SUPPORT CO., LTD. (*7)
	JALUX AMERICAS, INC. (*8)
	JALUX EUROPE LIMITED (*8)
	JAL-DFS CO., LTD. (*8)

6. Consolidated Subsidiaries and Affiliates Accounted for by the Equity Method (continued)

(*1) Became material
(*2) Merged with Japan Airlines International Co., Ltd.
(*3) Merged with JAL Ground Service Sapporo Co., Ltd.
(*4) Merged with JAL Ground Service Co., Ltd.
(*5) Merged with JAL Ground Service Osaka Co., Ltd,
(*6) The shares in the above companies were sold
(*7) Liquidated
(*8) The shares in JALUX Inc., which is primary parent company of the above companies, were sold

Equity method:

Increase – 3 AVICOM JAPAN CO., LTD. (*9)
JALUX INC. (*10)
CHITOSE AIRPORT FUELLING FACILITIES COMPANY, LTD. (*10)

Decrease – 3 TOKYO KOKU CLEANING CO., LTD. (*11)
TOKYO KINAI YOHIN CO., LTD. (*11)
TOKYO HUMANIA ENTERPRISE INC. (*12)

(*9) Became material
(*10) Transferred from consolidation due to decrease of the ratio of shareholding resulting from sales of the shares in the above companies
(*11) Decrease of the ratio of shareholding resulting from the sale of the shares in JALUX Inc, which is primary parent company of the above companies
(*12) The shares in the above company were sold

Japan Airlines Corporation and Consolidated Subsidiaries

Comparative Consolidated Balance Sheets

March 31, 2007 and 2006

	2006	2007	Change
		(Millions of yen)	
Assets			
I. Current assets:			
Cash and time deposits	¥ 173,948	¥ 198,933	¥ 24,985
Notes and accounts receivable – trade	237,479	262,564	25,085
Short-term investments in securities	5,936	13,234	7,298
Supplies	83,717	82,881	(835)
Deferred income taxes	9,539	2,549	(6,990)
Other current assets	179,695	150,156	(29,539)
Allowance for bad debts	(2,996)	(3,008)	(12)
Total current assets	687,319	707,311	19,991
II. Fixed assets:			
Tangible fixed assets:			
Buildings and structures	203,039	174,019	(29,020)
Machinery, equipment and vehicles	31,743	31,532	(210)
Flight equipment	791,098	742,545	(48,553)
Land	55,979	42,773	(13,206)
Construction in progress	49,551	105,418	55,866
Other tangible fixed assets	21,348	20,101	(1,246)
Total tangible fixed assets	1,152,762	1,116,391	(36,370)
Intangible fixed assets:			
Software	70,373	75,440	5,066
Other intangible fixed assets	1,701	1,566	(134)
Total intangible fixed assets	72,075	77,007	4,932
Investments:			
Investments in securities	88,750	66,561	(22,189)
Long-term loans receivable	14,582	13,580	(1,001)
Deferred income taxes	52,085	7,751	(44,334)
Other investments	96,043	104,344	8,301
Allowance for bad debts	(2,385)	(2,382)	2
Total investments	249,076	189,853	(59,222)
Total fixed assets	1,473,913	1,383,253	(90,660)
III. Deferred charges:			
Stock issuance expenses	–	669	669
Bond issuance expenses	6	–	(6)
Total deferred charges	6	669	662
Total assets	¥2,161,240	¥2,091,233	¥(70,006)

	2006	2007	Change
		(Millions of yen)	
Liabilities			
I. Current liabilities:			
Accounts payable – trade	¥ 237,803	¥ 263,885	¥ 26,082
Short-term borrowings	6,562	4,810	(1,751)
Current portion of bonds	30,000	70,000	40,000
Current portion of long-term loans	113,045	110,549	(2,495)
Accrued income taxes	4,700	5,172	471
Deferred income taxes	29	16,585	16,555
Other current liabilities	252,702	188,792	(63,909)
Total current liabilities	644,844	659,796	14,952
II. Non-current liabilities:			
Bonds	280,000	130,229	(149,771)
Long-term loans	800,001	705,957	(94,044)
Accrued pension and severance costs	139,753	129,061	(10,691)
Deferred income taxes	1,340	9,012	7,671
Other non-current liabilities	119,784	125,303	5,519
Total non-current liabilities	1,340,879	1,099,563	(241,316)
Total liabilities	1,985,724	1,759,360	(226,363)
Minority interests	27,449	–	–
Stockholders' equity			
I. Common stock	100,000	–	–
II. Capital surplus	136,145	–	–
III. Accumulated deficit	(90,186)	–	–
IV. Net unrealized gain on investments in securities, net of taxes	8,777	–	–
V. Translation adjustments	(5,776)	–	–
VI. Common stock in treasury, at cost	(892)	–	–
Total stockholders' equity	148,066	–	–
Total liabilities and stockholders' equity	¥2,161,240	¥ –	¥ –
Net assets			
I. Stockholders' equity:			
Common stock	¥ –	¥ 174,250	¥ –
Capital surplus	–	79,096	–
Retained earnings	–	24,776	–
Common stock in treasury, at cost	–	(887)	–
Total stockholders' equity	–	277,235	–
II. Valuation, translation and other:			
Net unrealized gain on other securities, net of taxes	–	3,557	–
Net unrealized gain on hedging instruments, net of taxes	–	35,314	–
Translation adjustments	–	(5,020)	–
Total valuation, translation and other	–	33,851	–
III. Minority interests	–	20,785	–
Total net assets	–	331,873	–
Total liabilities and net assets	¥ –	¥2,091,233	¥ –

Japan Airlines Corporation and Consolidated Subsidiaries

Comparative Consolidated Statements of Operations

For the years ended March 31, 2007 and 2006

	2006	2007	Change
		(Millions of yen)	
Operating revenues	¥2,199,385	¥2,301,915	¥102,529
Cost of operating revenues	1,839,190	1,885,211	46,020
Gross Profit	360,195	416,703	56,508
Selling, general and administrative expenses	387,029	393,785	6,756
Operating (loss) income	(26,834)	22,917	49,752
Non-operating income:			
Interest income	2,263	3,471	1,207
Dividend income	1,450	2,470	1,019
Equity in earnings of affiliates	1,899	2,481	581
Exchange gain, net	12,170	18,036	5,865
Other non-operating income	8,593	7,374	(1,218)
Total non-operating income	26,378	33,834	7,456
Non-operating expenses:			
Interest expense	21,811	19,068	(2,742)
Loss on sales and disposal of flight equipment	12,171	12,257	86
Other non-operating expenses	7,169	4,849	(2,320)
Total non-operating expenses	41,152	36,175	(4,976)
Ordinary (loss) income	(41,608)	20,576	62,184
Extraordinary profit:			
Gain on sales of fixed assets	19,093	8,822	(10,270)
Gain on sales of investments in securities	–	34,338	34,338
Gain on partial termination of defined benefit plan	6,810	–	(6,810)
Other extraordinary profit	4,567	9,251	4,684
Total extraordinary profit	30,471	52,413	21,941
Extraordinary losses:			
Loss on sales and disposal of fixed assets	6,052	3,546	(2,505)
Special termination benefits	4,033	8,517	4,483
Loss on partial termination of defined benefit plan	–	2,291	2,291
Loss on impairment of fixed assets	18,705	2,600	(16,105)
Other extraordinary losses	6,511	3,976	(2,534)
Total extraordinary losses	35,303	20,933	(14,369)
(Loss) income before income taxes and minority interests	(46,440)	52,055	98,495
Income taxes – current	8,419	9,953	1,534
Income taxes – deferred	(9,966)	54,424	64,391
Minority interests	(2,350)	(3,945)	(1,594)
Net loss	¥ (47,243)	¥ (16,267)	¥ 30,975

Japan Airlines Corporation and Consolidated Subsidiaries

Consolidated Statements of Capital Surplus and Accumulated Deficit

For the year ended March 31, 2006

	2006
	(Millions of yen)
Capital surplus	
Balance at beginning of year	¥136,141
Increase:	
Gain on sales of common stock in treasury	3
Balance at end of year	¥136,145
Accumulated deficit	
Balance at beginning of year	¥ (34,978)
Increase:	
Net loss	(47,243)
Cash dividends	(7,919)
Bonuses to directors and statutory auditors	(44)
Balance at end of year	¥ (90,186)

(2) - III

Japan Airlines Corporation and Consolidated Subsidiaries

Consolidated Statement of Changes in Net Assets

For the year ended March 31, 2007

	Stockholders' equity				
	Common stock	Capital surplus	Retained earnings (accumulated deficit)	Common stock in treasury	Total stockholders' equity
			(Millions of yen)		
Balance at March 31, 2006	¥100,000	¥ 136,145	¥ (90,186)	¥(892)	¥145,065
Changes during the year ended March 31, 2007					
Issuance of common stock	74,250	74,250			148,500
Transfer from capital surplus to accumulated deficit in accordance with a resolution approving elimination of deficit		(131,274)	131,274		–
Bonuses to directors and statutory auditors			(26)		(26)
Net loss for the year ended March 31, 2007			(16,267)		(16,267)
Purchases of common stock in treasury				(131)	(131)
Sales of common stock in treasury		(24)		129	105
Changes in scope of consolidation and adoption of equity method			(17)	8	(9)
Changes other than stockholders' equity, net					
Total changes	74,250	(57,048)	114,962	5	132,169
Balance at March 31, 2007	¥174,250	¥ 79,096	¥ 24,776	¥(887)	¥277,235

	Valuation, translation and other					
	Net unrealized gain on other securities, net of taxes	Net unrealized gain on hedging instruments, net of taxes	Translation adjustments	Total valuation, translation and other	Minority interests	Total net assets
				(Millions of yen)		
Balance at March 31, 2006	¥ 8,777	¥ –	¥(5,776)	¥ 3,000	¥27,449	¥175,515
Changes during the year ended March 31, 2007						
Issuance of common stock						148,500
Transfer from capital surplus to accumulated deficit in accordance with a resolution approving elimination of deficit						–
Bonuses to directors and statutory auditors						(26)
Net loss for the year ended March 31, 2007						(16,267)
Purchases of common stock in treasury						(131)
Sales of common stock in treasury						105
Changes in scope of consolidation and adoption of equity method						(9)
Changes other than stockholders' equity, net	(5,219)	35,314	756	30,851	(6,664)	24,187
Total changes	(5,219)	35,314	756	30,851	(6,664)	156,357
Balance at March 31, 2007	¥ 3,557	¥35,314	¥(5,020)	¥33,851	¥20,785	¥331,873

Japan Airlines Corporation and Consolidated Subsidiaries

Comparative Consolidated Statements of Cash Flows

For the years ended March 31, 2007 and 2006

	2006	2007
	(Millions of yen)	
Operating activities		
(Loss) income before income taxes and minority interests	¥ (46,440)	¥ 52,055
Adjustments to reconcile (loss) income before income taxes and minority interests to net cash provided by operating activities:		
Depreciation and amortization	125,126	117,561
Loss (gain) on sales of, and loss on revaluation of, short-term investments in securities and investments in securities, net	1,295	(34,028)
Loss on sales and disposal of fixed assets and loss on impairment of fixed assets, net	17,138	8,459
Net provision for accrued pension and severance costs	(9,919)	(10,308)
Interest and dividend income	(3,713)	(5,941)
Interest expense	21,811	19,068
Exchange loss, net	106	166
Equity in earnings of affiliates	(1,899)	(2,481)
Increase in notes and accounts receivable	(13,120)	(32,437)
(Increase) decrease in supplies	(7,365)	813
Increase in accounts payable	22,812	33,592
Other	23,272	486
Subtotal	129,103	147,005
Interest and dividends received	4,151	6,982
Interest paid	(22,507)	(19,154)
Income taxes paid	(9,762)	(7,085)
Net cash provided by operating activities	100,984	127,748
Investing activities		
Purchases of time deposits	(969)	(8,751)
Proceeds from maturity of time deposits	917	1,121
Purchases of fixed assets	(146,972)	(153,251)
Proceeds from sales of fixed assets	48,403	54,697
Purchases of short-term investments in securities	–	(11,759)
Proceeds from sales and maturity of short-term investments in securities	–	6,039
Purchases of investments in securities	(7,584)	(5,126)
Proceeds from sales of investments in securities	1,576	43,146
Proceeds from sales of consolidated subsidiaries resulting in change in scope of consolidation, net	–	9,552
Loans receivable made	(1,458)	(2,051)
Collection of loans receivable	4,849	4,799
Proceeds from business transfer of a subsidiary	–	4,944
Other	1,955	423
Net cash used in investing activities	(99,283)	(56,216)

	2006	2007
	(Millions of yen)	
Financing activities		
(Decrease) increase in short-term borrowings, net	¥ (5,355)	¥ 2,556
Proceeds from long-term loans	57,285	22,122
Repayment of long-term loans	(117,563)	(112,815)
Proceeds from issuance of common stocks	–	147,607
Redemption of bonds	(15,000)	(109,771)
Dividends paid to stockholders	(7,846)	(18)
Dividends paid to minority interests	(433)	(584)
Other	(2,473)	(2,106)
Net cash used in financing activities	(91,384)	(53,007)
Effect of exchange rate changes on cash and cash equivalents	1,061	414
Net (decrease) increase in cash and cash equivalents	(88,622)	18,937
Cash and cash equivalents at beginning of year	260,933	172,132
Increase in cash and cash equivalents resulting from inclusion of subsidiaries in consolidation	–	310
Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation	(178)	–
Cash and cash equivalents at end of year	¥ 172,132	¥ 191,381

	2006	2007
Reconciliation between cash and time deposits in consolidated balance sheets and cash and cash equivalents at end of year		
Cash and time deposits in consolidated balance sheets	¥ 173,948	¥ 198,933
Time deposits with original maturities of more than three months	(1,726)	(9,329)
Short-term investments in securities with original maturities of three months or less	0	1,777
Current account overdrafts included in short-term borrowings	(90)	–
Cash and cash equivalents at end of year	¥ 172,132	¥ 191,381

Japan Airlines Corporation and Consolidated Subsidiaries

Notes to Consolidated Financial Statements

March 31, 2007 and 2006

1. Summary of Significant Accounting Policies

a. Basis of presentation

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

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

b. Principles of consolidation and accounting for investments in affiliates

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

The balance sheet date of 24 of the consolidated subsidiaries is December 31, 2006 and for 1 consolidated subsidiary, it is February 28, 2007. Any significant differences in intercompany accounts and transactions arising from intervening intercompany transactions during the period from January 1, 2007 through March 31, 2007 and the period from March 1, 2007 through March 31, 2007 have been adjusted, if necessary.

Investments in significant affiliates are accounted for by the equity method.

The assets and liabilities of newly consolidated subsidiaries are stated at fair value as of their respective acquisition dates. The differences between the cost and the underlying fair value of net assets at the dates of acquisition of the consolidated subsidiaries and companies accounted for by the equity method are amortized by the straight-line method over a period of 5 years.

1. Summary of Significant Accounting Policies (continued)

c. Cash equivalents

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

d. Inventories

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

e. Securities

Marketable securities classified as other securities are carried at fair value with any unrealized gain or loss reported as a separate component of net assets, net of taxes. Non-marketable securities classified as other securities are carried at cost. Cost of securities sold is determined principally by the moving average method.

f. Derivatives

Derivatives are stated at fair value.

g. Tangible and intangible fixed assets

Tangible fixed assets	
Aircraft	– The straight-line method or the declining-balance method based on their estimated useful lives
Other tangible fixed assets:	
Japan Airlines International Co., Ltd.	– The straight-line method based on their estimated useful lives
Other companies	– Principally the declining-balance method based on their estimated useful lives
Intangible fixed assets	– The straight-line method based on their estimated useful lives

h. Deferred charges

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

i. Accrued pension and severance costs

To provide for employees' severance indemnities, net periodic pension cost is accounted for based on the projected benefit obligation and the plan assets. The unrecognized obligation at transition is being amortized by the straight-line method principally over a period of 15 years.

1. Summary of Significant Accounting Policies (continued)

i. Accrued pension and severance costs (continued)

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

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

On April 1, 2006, the JAL Group Pension Fund established by certain consolidated subsidiaries received approval from the Minister of Health, Labor and Welfare with respect to its application for exemption from the benefit obligation related to past services. On December 25, 2006, the transfer of the plan assets attributable to the substitutional portion to government was completed. As a result, income before income taxes and minority interests increased by ¥1,524 million for the year ended March 31, 2007.

Certain consolidated subsidiaries changed a portion of their retirement benefit plans to defined contribution plans primarily on April 1, 2006, October 1, 2006 or February 1, 2007 and applied "Accounting for the Transfer between Retirement Benefit Plans" (Accounting Standards Board of Japan Implementation Guidance No. 1). As a result, income before income taxes and minority interests increased by ¥84 million for the year ended March 31, 2007.

On October 1, 2005, Japan Airlines International Co., Ltd. ("JALI," which is a consolidated subsidiary of the Company) introduced a revised pension scheme under which employees have the option to change a portion of the existing lump-sum payment of retirement benefits either to a defined contribution plan or to an early payment scheme. On October 1, 2006, Japan Airlines Domestic Co., Ltd. ("JALD," which was a consolidated subsidiary of the Company) was merged into JALI. Accordingly, a pension scheme of JALI under which employees have the option to change a portion of their existing lump-sum payment of retirement benefits to a defined contribution plan or to an early payment scheme has been adopted by the former employees of JALD. As a result, operating income and ordinary income increased by ¥3,957 million and income before income taxes and minority interests increased by ¥2,317 million for the year ended March 31, 2007. The portion of the unrecognized obligation at transition which relates to reducing the benefit obligation by the introduction of the option on October 1, 2005 and October 1, 2006 referred to above is being amortized by the straight-line method over a period of 8 years in accordance with Paragraph 15, "Transitional Arrangement," of "Accounting for the Transfer between Retirement Benefit Plans" (Accounting Standards Board of Japan Implementation Guidance No. 1). The effect of the adoption of this transitional arrangement was to decrease accrued pension and severance costs by ¥1,271 million at March 31, 2007 and to increase income before income taxes and minority interests by ¥238 million for the year ended March 31, 2007.

1. Summary of Significant Accounting Policies (continued)

i. Accrued pension and severance costs (continued)

On March 15, 2007, JALI received approval from the Minister of Health, Labor and Welfare with respect to their application for exemption from the benefit obligation related to future employee services under the substitutional portion of the WPFP. As a result, operating income, ordinary income and income before income taxes and minority interests increased by ¥36,639 million for the year ended March 31, 2007. At March 31, 2007, the estimated amount of pension assets to be transferred was ¥68,329 million. The potential effect for the year ended March 31, 2007, estimated as if the transfer of pension assets had been made as of the same date, in accordance with paragraph 44-2 of the "Practical Guidelines on Retirement Benefit Accounting (Interim Report)," Report No. 13 of the Accounting System Committee of the Japanese Institute of Certified Public Accountants, would have been to increase extraordinary loss by ¥2,276 million.

Certain consolidated subsidiaries revised their methods of accounting for the projected benefit obligation from simplified methods to the standard method. Consequently, extraordinary loss of ¥429 million was recorded as the resulting difference in computation for the year ended March 31, 2007.

j. Allowance for bad debts

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

k. Foreign currency accounts

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

Translation adjustments arising from the translation of assets, liabilities, revenues and expenses of the consolidated subsidiaries and affiliates accounted for by the equity method into yen at the applicable exchange rates at end of year are presented in minority interests and as a separate component of net assets.

l. Leases

As lessee

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

1. Summary of Significant Accounting Policies (continued)

l. Leases (continued)

As lessor

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

m. Hedge accounting

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

n. Consumption taxes

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

o. Income taxes

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

2. Changes in Accounting Policy

Accounting Standard for Presentation of Net Assets in the Balance Sheet

Effective April 1, 2006, the Company and its consolidated subsidiaries adopted the "Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Accounting Standards Board of Japan Statement No. 5 issued on December 9, 2005) and the "Implementation Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Accounting Standards Board of Japan Implementation Guidance No. 8 issued on December 9, 2005). Total stockholders' equity which was presented until the prior fiscal year amounted to ¥275,772 million as of March 31, 2007.

Net assets in the balance sheet at March 31, 2007 have been prepared in accordance with the revised Regulations for Consolidated Financial Statements.

2. Changes in Accounting Policy (continued)

Accounting Standard for Business Combinations

Effective April 1, 2006, the Company and its consolidated subsidiaries have adopted the "Accounting Standard for Business Combinations" (issued by the Business Accounting Council on October 31, 2003), "Accounting Standard for Business Divestitures" (Accounting Standards Board of Japan Statement No. 7 issued on December 27, 2005) and the "Implementation Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (Accounting Standards Board of Japan Implementation Guidance No. 10 issued on December 27, 2005).

Change in Method of Accounting for Depreciation Related to Tangible Fixed Assets

Effective April 1, 2006, JALI, a consolidated subsidiary of the Company, has changed its method of accounting for depreciation related to aircraft spare parts to the straight-line method, from the declining-balance method. This change represents a necessary step in the preparation for the planned merger on October 1, 2006 between JALI and JALD, which was also a consolidated subsidiary of the Company, by conforming JALI's method of accounting for depreciation to that of JALD. The change also reflects the fact that, following the retirement of the Douglas DC-10 (which was depreciated by the declining-balance method) at the end of the prior fiscal year and based on the Company's decision to accelerate the retirement of older aircraft in its medium-term business plan, the only method of accounting for depreciation to be applied in the future will be the straight-line method. The effect of this change was to decrease the cost of operating revenues for the year ended March 31, 2007 by ¥1,408 million, and to increase operating income for the year ended March 31, 2007 by ¥1,408 million, and to increase ordinary income and income before income taxes and minority interests for the year ended March 31, 2007 by ¥1,335 million, compared with the amounts which would have been recorded under the previous method.

3. Other Information

a. Accumulated depreciation at March 31, 2006 and March 31, 2007 amounted to ¥1,582,627 million and ¥1,497,366 million, respectively.

3. Other Information (continued)

b. At March 31, 2006 and March 31, 2007, contingent liabilities for guarantees amounted to ¥16,887 million and ¥5,187 million, respectively. In addition, at March 31, 2006 and March 31, 2007, contingent liabilities for commitments to guarantees, keep-well agreements and other amounted to ¥686 million and ¥507 million, respectively.

JALI is alleged to have been involved in anti-competitive practices such as price-fixing and collusion with several international cargo operators and its cargo operation office in Frankfurt was investigated by the European Union antitrust authorities on February 14, 2006. On the same date, the U.S. Department of Justice inspected JALI's cargo operation office in New York. In relation to the investigation of alleged anti-competitive practices, certain air cargo customers have filed several class action lawsuits in the U.S. against international cargo operators including JALI claiming that alleged price-fixing practices have damaged their interests and such practices should be injuncted. The plaintiffs are seeking unspecified treble damages, unspecified injuctive relief, and costs and attorneys' fees, however, no specific amounts of damages or compensation have been claimed in these class action proceedings. In Canada and Australia, several class action lawsuits have been filed seeking similar relief, but only compensatory damages are allowable under Canadian law and Australian law. Management of the Company holds the view that investigations and class action lawsuits on alleged anti-competitive practices could have a material impact on the results of operations of the Company and the group. However management is unable to estimate the possible outcome of the ongoing investigation and class action lawsuits reasonably at this stage since investigations by the authorities of a number of jurisdictions, which include, but may not be limited to, the European Union, the United States, Canada, Switzerland and Australia, are still ongoing.

c. At March 31, 2006 and March 31, 2007, assets pledged as collateral amounted to ¥832,344 million and ¥847,378 million, respectively. Furthermore, shares of certain consolidated subsidiaries were pledged as collateral at March 31, 2006 and March 31, 2007.

At March 31, 2006 and March 31, 2007, collateralized indebtedness amounted to ¥500,108 million and ¥428,493 million, respectively. In addition, future rental expenses under operating lease with collateral amounted to ¥7,592 million at March 31, 2007.

3. Other Information (continued)

d. Note to consolidated statement of changes in net assets

The number of shares of stock in issue and common stock in treasury were as follows:

	Year ended March 31, 2007			
	At March 31, 2006	**Increase**	**Decrease**	**At March 31, 2007**
		(Thousands of shares)		
Number of shares of stock in issue:				
Common stock	1,982,383	750,000	–	2,732,383
Number of shares of common stock in treasury:				
Common stock	2,863	534	464	2,934

The number of shares of common stock in issue increased by 700,000 thousand shares because of a public offering and by 50,000 thousand shares because of an allocation of shares of common stock to a third party.

The increase in common stock in treasury of 534 thousand shares during this year resulted from the Company's purchase of 531 thousand odd-lot shares of less than one unit at the request of the stockholders, purchases of 3 thousand shares by related companies accounted for by the equity method and increase of 0 thousand shares resulted from increase in the shareholding ratio of related companies accounted for by the equity method. The decrease in common stock in treasury of 464 thousand shares during this year resulted from the Company's sales of 438 thousand odd-lot shares of less than one unit at the request of the stockholders and decrease of 25 thousand shares resulted from the changes in the scope of adoption of the equity method.

e. As a result of a revision of "Implementation Guidance on Accounting Standard for Net Income per Share" (Accounting Standards Board of Japan Implementation Guidance No. 4) on January 31, 2006, the balance of "Net unrealized gain on hedging instruments, net of taxes" has been reflected in "Net assets" in the consolidated balance sheet at March 31, 2007. Net assets per share would have amounted ¥101.04 if the same method as that of the corresponding period of the prior year had been followed at March 31, 2007.

4. Segment Information

a. Business segment information

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

The business segment information of the Company and its consolidated subsidiaries for the years ended March 31, 2006 and 2007 is summarized as follows:

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

	Year ended March 31, 2007							
	Air transportation	Airline-related business	Travel services	Card and lease operations	Other	Total	General corporate assets and intercompany eliminations	Consolidated
	(Millions of yen)							
Operating revenues:								
Sales to third parties	¥1,601,152	¥172,252	¥370,979	¥ 15,500	¥142,029	¥2,301,915	¥ –	¥2,301,915
Inter-group sales and transfers	200,367	196,488	8,745	50,320	73,872	529,794	(529,794)	–
Total	1,801,520	368,741	379,725	65,820	215,901	2,831,709	(529,794)	2,301,915
Operating expenses	1,798,901	360,391	380,546	59,923	208,610	2,808,373	(529,376)	2,278,997
Operating income (loss)	¥ 2,618	¥ 8,350	¥ (821)	¥ 5,897	¥ 7,291	¥ 23,336	¥ (418)	¥ 22,917
Identifiable assets	¥2,005,484	¥124,809	¥ 68,221	¥248,968	¥ 72,687	¥2,520,170	¥(428,937)	¥2,091,233
Depreciation and amortization	¥ 104,872	¥ 2,814	¥ 1,070	¥ 5,861	¥ 3,171	¥ 117,789	¥ (228)	¥ 117,561
Loss on impairment of fixed assets	¥ 2,591	¥ –	¥ –	¥ –	¥ 9	¥ 2,600	¥ –	¥ 2,600
Capital expenditures	¥ 152,357	¥ 2,810	¥ 843	¥ 1,551	¥ 3,319	¥ 160,882	¥ (699)	¥ 160,183

4. Segment Information (continued)

b. Geographic information

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

The geographic information of the Company and its consolidated subsidiaries for the years ended March 31, 2006 and 2007 is summarized as follows:

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

	Year ended March 31, 2007				
	Japan	Other	Total	General corporate assets and intercompany eliminations	Consolidated
			(Millions of yen)		
Operating revenues:					
Sales to third parties	¥2,088,370	¥213,544	¥2,301,915	¥ –	¥2,301,915
Inter-group sales and transfers	24,276	70,347	94,624	(94,624)	–
Total	2,112,647	283,892	2,396,539	(94,624)	2,301,915
Operating expenses	2,090,211	283,111	2,373,322	(94,325)	2,278,997
Operating income	¥ 22,435	¥ 780	¥ 23,216	¥ (298)	¥ 22,917
Identifiable assets	¥2,041,942	¥ 57,210	¥2,099,152	¥ (7,919)	¥2,091,233

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

Asia and Oceania:	China, Singapore, Australia, Guam
North and South America:	U.S.A. (excluding Guam), Mexico
Europe:	U.K., France, Germany, Italy

4. Segment Information (continued)

c. Operating revenues from overseas operations

Operating revenues from overseas operations, which include international passenger and cargo services of Japan Airlines International Co., Ltd., Japan Asia Airways Co., Ltd. and JALways Co., Ltd., export sales of domestic subsidiaries, and sales of subsidiaries outside Japan for the year ended March 31, 2006 and 2007, are summarized as follows:

	Year ended March 31, 2006			
	Asia and Oceania	North and South America	Europe	Total
	(Millions of yen)			
Operating revenues from overseas operations	¥442,156	¥388,791	¥206,853	¥1,037,801
Consolidated operating revenues	–	–	–	¥2,199,385
Consolidated operating revenues as a percentage of operating revenues from overseas operations	20.1%	17.7%	9.4%	47.2%

	Year ended March 31, 2007			
	Asia and Oceania	North and South America	Europe	Total
	(Millions of yen)			
Operating revenues from overseas operations	¥471,065	¥421,152	¥217,529	¥1,109,747
Consolidated operating revenues	–	–	–	¥2,301,915
Consolidated operating revenues as a percentage of operating revenues from overseas operations	20.5%	18.3%	9.4%	48.2%

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

Asia and Oceania:	China, South Korea, Singapore, India, Australia, Guam
North and South America:	U.S.A. (excluding Guam), Canada, Mexico, Brazil
Europe:	U.K., France, Germany, Italy

5. Leases

As lessee

The following *pro forma* amounts represent the acquisition costs, accumulated depreciation and net book value of the leased property as of March 31, 2006 and 2007 and the related depreciation and interest expense for the years ended March 31, 2006 and 2007, which would have been reflected in the consolidated balance sheets and the related consolidated statements of operations if capital lease accounting had been applied to the capital leases currently accounted for as operating leases:

	March 31, 2006		
	Flight equipment	Other	Total
		(Millions of yen)	
Acquisition costs	¥ 564,783	¥17,452	¥ 582,235
Less accumulated depreciation	(181,053)	(8,995)	(190,049)
Net book value	¥ 383,730	¥ 8,456	¥ 392,186

	March 31, 2007		
	Flight equipment	Other	Total
		(Millions of yen)	
Acquisition costs	¥ 605,522	¥ 18,174	¥ 623,696
Less accumulated depreciation	(232,148)	(10,869)	(243,017)
Net book value	¥ 373,374	¥ 7,305	¥ 380,679

	Year ended March 31,	
	2006	2007
	(Millions of yen)	
Depreciation expense	¥53,715	¥54,821
Interest expense	¥ 5,369	¥ 5,090

No impairment loss has been recognized on the leased property for the year ended March 31, 2006 and 2007.

Lease expenses relating to capital leases accounted for as operating leases amounted to ¥58,155 million and ¥59,180 million for the years ended March 31, 2006 and 2007, respectively.

5. Leases (continued)

As lessee (continued)

The present value of future rental expenses under capital leases outstanding at March 31, 2006 and 2007 which have been accounted for as operating leases is summarized as follows:

	March 31,	
	2006	2007
	(Millions of yen)	
Within 1 year	¥ 51,839	¥ 55,427
Over 1 year	347,488	333,176
	¥399,327	¥388,603

Future rental expenses under operating leases outstanding at March 31, 2006 and 2007 are summarized as follows:

	March 31,	
	2006	2007
	(Millions of yen)	
Within 1 year	¥ 27,668	¥ 30,218
Over 1 year	192,877	186,673
	¥220,546	¥216,892

As lessor

The following amounts represent the acquisition costs, accumulated depreciation and net book value of the leased property as of March 31, 2006 and 2007, and the related depreciation and interest revenue for the years ended March 31, 2006 and 2007, which are reflected in the consolidated balance sheets and the related consolidated statements of operations:

	March 31, 2006		
	Machinery and vehicles	Other	Total
		(Millions of yen)	
Acquisition costs	¥ 196	¥ 619	¥ 815
Less accumulated depreciation	(98)	(352)	(450)
Net book value	¥ 97	¥ 267	¥ 364

5. Leases (continued)

As lessor (continued)

	March 31, 2007		
	Machinery and vehicles	Other	Total
	(Millions of yen)		
Acquisition costs	¥ 136	¥ 643	¥ 779
Less accumulated depreciation	(86)	(325)	(411)
Net book value	¥ 49	¥ 318	¥ 368

	Year ended March 31,	
	2006	2007
	(Millions of yen)	
Depreciation expense	¥281	¥166
Interest revenues	¥ 17	¥ 17

No impairment loss has been recognized on the leased property for the year ended March 31, 2006 and 2007.

Lease revenues relating to direct financing leases accounted for as operating leases amounted to ¥317 million and ¥184 million for the years ended March 31, 2006 and 2007, respectively.

The present value of future rental revenues under direct financing leases outstanding at March 31, 2006 and 2007 which have been accounted for as operating leases is summarized as follows:

	March 31,	
	2006	2007
	(Millions of yen)	
Within 1 year	¥146	¥120
Over 1 year	226	254
	¥372	¥374

6. Loss on Impairment of Fixed Assets

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

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

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

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

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

6. Loss on Impairment of Fixed Assets (continued)

Certain consolidated subsidiaries have recognized impairment losses on the following groups of assets in the consolidated statement of operations for the year ended March 31, 2007:

Assets utilized in the Company's and consolidated subsidiaries' operations	Groups of assets	Locations
Assets to be sold	Flight equipment	–
Idle assets	Intangible fixed assets	Naha-shi, Okinawa Pref.
Other operational assets	Buildings and other	Obihiro-shi, Hokkaido and other

Assets are attributed or allocated to the cash generating units which generate largely independent cash flows for calculating impairment losses. Facilities which are expected to be unprofitable, assets to be sold and idle assets are written down to their recoverable amounts. Consequently, an impairment loss of ¥2,600 million has been recognized as an extraordinary loss in the accompanying consolidated statement of operations for the year ended March 31, 2007. A breakdown of the total loss on impairment of fixed assets is as follows: ¥2,581 million on flight equipment, ¥10 million on intangible fixed assets and ¥9 million on buildings and other.

The Company and its consolidated subsidiaries estimate recoverable amounts as the higher of fair value less costs to sell and value in use. Fair value is based on reasonable estimates made by the Company and its consolidated subsidiaries in accordance with the contract amount of sales and value in use is calculated by discounting estimated future cash flows at the rate of 4.6%.

In addition, certain affiliates accounted for by the equity method have recognized loss on impairment of fixed assets by a method similar to that adopted by the Company and its consolidated subsidiaries. Consequently, a loss on impairment of fixed assets of ¥188 million was recognized as equity in earnings of affiliates for the year ended March 31, 2007.

7. Income Taxes

The significant components of deferred tax assets and liabilities and the related valuation allowance at March 31, 2006 and 2007 were as follows:

	March 31, 2006	March 31, 2007
	(Millions of yen)	
Deferred tax assets:		
Flight equipment purchase incentives	¥ 17,624	¥ 30,435
Accrued pension and severance costs	50,704	28,644
Revaluation loss on investments in subsidiaries and affiliates	24,814	25,577
Accounts payable – trade	5,610	10,605
Loss on impairment of fixed assets	8,055	6,753
Revaluation loss on flight equipment spare parts	4,044	4,542
Account payable related to transitional payments to defined contribution plans	–	4,244
Allowance for bad debts	2,191	2,146
Deferred gain on hedging instruments	12,053	–
Tax loss carryforward	20,281	22,123
Other	19,855	20,284
	165,236	155,357
Deferred tax liabilities:		
Deferred gain on hedging instruments	–	(23,061)
Accumulated earnings of consolidated subsidiaries and affiliates	(5,234)	(5,273)
Net unrealized gain on other securities	(5,593)	(2,281)
Other	(3,855)	(4,590)
	(14,684)	(35,206)
Valuation allowance	(90,297)	(135,448)
Deferred tax assets (liabilities), net	¥ 60,254	¥ (15,297)

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

7. Income Taxes (continued)

A reconciliation between the Japanese statutory tax rate and the effective tax rate for the year ended March 31, 2007 is as follows:

	For the year ended March 31, 2007
Japanese statutory tax rate	40.7%
Disallowed expenses, including entertainment expenses	2.6
Dividends received	(1.4)
Equity in earnings of affiliates	(1.9)
Inhabitants' per capita taxes	0.4
Change in valuation allowance	86.7
Tax effect on undistributed earnings of consolidated subsidiaries	0.1
Difference in tax rates of consolidated subsidiaries	(0.7)
Other	(2.8)
Effective tax rate	123.7%

8. Fair Value of Investments in Securities

The components of net unrealized gain (loss) on investments in marketable securities at March 31, 2006 and 2007 are summarized as follows:

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

8. Fair Value of Investments in Securities (continued)

	March 31, 2007		
	Acquisition costs	Carrying value	Unrealized gain (loss)
		(Millions of yen)	
Unrealized gain:			
Stocks	¥ 6,036	¥11,867	¥5,830
Bonds	–	–	–
Other	254	259	5
	6,290	12,126	5,835
Unrealized loss:			
Stocks	4,307	4,294	(13)
Bonds	1,492	1,491	(0)
Other	9,629	9,480	(149)
	15,429	15,265	(163)
Total	¥21,720	¥27,392	¥5,672

Proceeds from sales of securities classified as other securities for the years ended March 31, 2006 and 2007 amounted to ¥837 million and ¥38,972 million, respectively. The aggregate gain realized on those sales for the years ended March 31, 2006 and 2007 totaled ¥100 million and ¥12,834 million, respectively, and the aggregate loss realized on those sales for the years ended March 31, 2006 and 2007 totaled ¥0 million and ¥7 million, respectively.

Investments in non-marketable securities at March 31, 2006 and 2007 are summarized as follows:

	March 31,	
	2006	2007
	(Millions of yen)	
Money Management Fund	¥ 0	¥ 1,631
Unlisted stocks	27,521	17,125
Other	649	779
	¥28,171	¥19,536

8. Fair Value of Investments in Securities (continued)

The redemption schedule at March 31, 2006 and 2007 for bonds with maturity dates is summarized as follows:

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

	2007
	Due in one year or less
	(Millions of yen)
Government bonds	¥1,500
Total	¥1,500

9. Derivatives

The contract amounts and the estimated fair value of the open derivatives positions to which hedge accounting are applied are not required to be disclosed in accordance with accounting principles generally accepted in Japan.

The contract amounts and the estimated fair value of open derivatives positions at March 31, 2006 which did not meet the criteria required for the application of hedge accounting are summarized as follows:

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

9. Derivatives (continued)

All derivative transactions presented above were conducted as over-the-counter transactions.

All derivative transactions presented above would be settled within one year.

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

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

All open derivatives positions at March 31, 2007 met the criteria required for the application of hedge accounting.

10. Accrued Pension and Severance Costs

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

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

JAL Pension Fund, in which JALI is a participant, introduced an option similar to a cash-balance plan with certain other options in addition to the existing options. On March 15, 2007, JALI received approval from the Minister of Health, Labor and Welfare with respect to their application for exemption from the benefit obligation related to future employee services under the substitutional portion of the WPFP.

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

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

Certain consolidated subsidiaries transferred a portion of their retirement benefit plan to defined contribution plans primarily on April 1, 2006, October 1, 2006 or February 1, 2007.

10. Accrued Pension and Severance Costs (continued)

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

	March 31, 2006	March 31, 2007
	(Millions of yen)	
Projected benefit obligation	¥(906,240)	¥(862,586)
Plan assets	512,000	525,354
Accrued pension and severance costs	139,753	129,061
Prepaid pension and severance costs	(18,674)	(57,378)
Net unrecognized amount	¥(273,161)	¥(265,548)

The net unrecognized amount presented above consisted of the following:

	March 31, 2006	March 31, 2007
	(Millions of yen)	
Unrecognized obligation at transition	¥(131,338)	¥(116,090)
Adjustment for actuarial assumptions	(144,530)	(150,252)
Unrecognized past service cost	2,707	794
Total	¥(273,161)	¥(265,548)

The components of net periodic pension cost were as follows:

	For the year ended March 31, 2006	For the year ended March 31, 2007
	(Millions of yen)	
Service cost	¥ 30,681	¥ 28,552
Interest cost on projected benefit obligation	23,527	23,490
Expected return on plan assets	(20,019)	(24,374)
Amortization of unrecognized obligation at transition	14,675	14,656
Amortization of adjustment for actuarial assumptions	17,373	13,897
Amortization of past service cost	(5,558)	(43,495)
Subtotal	60,681	12,727
Other	722	1,786
Net periodic pension cost	61,403	14,513
Loss (gain) accrued for separation of substitutional portion of benefit obligation of the Welfare Pension Fund Plans	842	(1,524)
(Gain) loss on partial termination of defined benefit plans, net	(6,167)	1,555
Effect of changes to standard method for calculating projected benefit obligation	–	429
Total	¥ 56,077	¥ 14,974

10. Accrued Pension and Severance Costs (continued)

The actuarial assumptions were as follows:

	For the year ended March 31,	
	2006	**2007**
	(Millions of yen)	
Discount rates for obligation at end of year	1.7% ~ 2.8%	1.7% ~ 2.8%
Expected rates of return on plan assets	0.8% ~ 5.1%	0.8% ~ 5.1%

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

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

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

Components of Revenues from the Air Transportation Segment

	2006		2007		Change
	Amount	Percentage	Amount	Percentage	Percentage
		(Millions of yen)			
International:					
Passenger operations	¥ 690,226	39.9	¥ 724,889	40.3	105.0
Cargo operations	180,573	10.4	190,500	10.6	105.5
Mail-service operations	8,441	0.5	9,200	0.5	109.0
Luggage operations	2,270	0.1	1,975	0.1	87.0
Subtotal	881,513	50.9	926,565	51.5	105.1
Domestic:					
Passenger operations	659,998	38.1	675,680	37.5	102.4
Cargo operations	29,440	1.7	28,938	1.6	98.3
Mail-service operations	10,819	0.6	10,858	0.6	100.4
Luggage operations	265	0.0	298	0.0	112.3
Subtotal	700,523	40.4	715,774	39.7	102.2
Other revenues	54,935	3.2	60,917	3.4	110.9
Incidental business revenues	96,010	5.5	98,262	5.4	102.3
Total revenues	¥1,732,983	100.0	¥1,801,520	100.0	104.0