Japan Airlines Corporation and Consolidated Subsidiaries
Consolidated Financial Information

For the six months ended September 30, 2007 and 2006 and 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

In the world economy the recovery in the United States has been weakened during the year by factors such as the decline in home construction triggered by the subprime loan problem, and the outlook is becoming increasingly unclear. Conversely, the economic recovery in the Eurozone and the United Kingdom has continued. In East Asia other than Japan, economic recoveries are continuing not only in China but also in Singapore, Korea, Taiwan and elsewhere. Overall, the world economy has remained on a steady recovery track.

In the Japanese economy, capital investment has increased as a result of improved corporate earning, and factors such as the recovery in the employment situation have enabled the modest expansion in incomes and consumer spending to continue. Overall, the recovery trend has been maintained through the spillover of the buoyant state of the corporate sector into the household sector. Nevertheless, the environment for the transportation industry has remained harsh, in particular because the unprecedentedly high fuel prices have soared even higher since August.

Against this backdrop, the JAL Group has been steadily implementing its FY2007-2010 Medium-Term Revival Plan. This was formulated in February this year with the objectives of rebuilding the foundation of Group business and maintaining a stable level of profit, its focus being on the large-scale expansion of both Haneda and Narita airports scheduled to take place in 2010.

In the sphere of costs, fuel prices (Singapore Kerosene) have remained at historical highs, breaking through US$90/barrel temporarily, but exhaustive internal efforts have been made to alleviate the situation, including by reducing the volume of fuel consumption, and we have absorbed the impact by means of effective fuel hedging. In this way we have had significant success in containing rises in fuel costs. In addition, sales commissions were reduced from the previous year by lowering the sales commission rates for international routes in Japan. Steps were also taken to reduce personnel costs by maintaining the 10% cut in basic wages and by implementing measures that included imposing substantial curbs on employee bonuses and introducing a special early-retirement scheme for groundside managerial staff. We will continue our steady efforts towards achieving the Medium-Term Plan target of cutting FY2007 consolidated personnel expenses by ¥50 billion year-on-year, including by boosting productivity by such means as introducing production methods used by Toyota, and by reducing retirement benefit costs.

Among our parallel measures to increase income we are deploying our Premium Strategy under the "Business & Happiness" theme, mainly targeting business and premium-class passengers. Under this we are enhancing our ability to provide products and services of unrivaled quality.

In April this year we formally joined the oneworld global alliance of high-quality airlines worldwide, with the result that JAL MileageBank members are able to collect air miles and enjoy privileges when they fly with all other oneworld member airlines, and can also use member airlines' airport lounges at some 500 locations worldwide and, depending on membership status, avail themselves of all the various standard oneworld services. Additionally, with regard to making transfers between flights on member airlines they can also take advantage of interline e-ticketing and special global fares.

Also in April, we strengthened and improved our sales and support structure for business customers by opening a center for corporate customers that combines domestic and international sales.

On July 19 JAL opened two revamped lounges, the most spacious in Japan, in Terminal 2 at Narita International Airport, the airline's main international hub. Progress is currently also being made in the same terminal with a large-scale expansion of check-in counters and automated Self Check-in Machines, helping to ensure a comfortable and fast airport service in the terminal.

At the end of August we announced details of the domestic first class service, which is due to begin taking reservations in October. This first class will be JAL's highest class on domestic routes, designed on the concept of "Respecting the passenger's private space and time, with the highest level of service." The service will start on December 1 on the Haneda–Itami (Osaka) route.

As a result of the developments outlined above, the revenues of JAL's air transportation business segment grew by ¥20.6 billion year-on-year, in spite of the fact that supply capacity had declined from a year earlier as a result of route-restructuring, aircraft-downsizing, and other measures under the Medium-Term Plan. Nevertheless, revenues on a consolidated basis declined by ¥7.0 billion year-on-year, to ¥1,142.9 billion, owing to factors such as the partial sale last year of shares in former consolidated subsidiary JALUX Inc., which became an affiliate accounted for by the equity method. Operating income rose by ¥48.4 billion, to ¥56.6 billion, ordinary income was up by ¥53.3 billion, to ¥58.7 billion, and net income rose by ¥5.7 billion, to ¥7.3 billion.

Earnings by segment

Air Transportation Business

International passenger operations

In route operations we took thorough steps to reappraise the commercial viability of each route in accordance with the Medium-Term Plan, continuing the steps take in the previous period to eliminate or reduce flights on poorly performing routes, and to increase flights on routes generating strong revenues. We reduced flights on the Tokyo–Hong Kong route from the start of the term, and ceased operations on the Tokyo–Zurich route, but vigorously expanded operations on routes with heavy demand, particularly from business customers. Flights were increased on the Tokyo–New York and Tokyo–Hanoi routes from the outset of the term, on the Osaka–Hanoi route in May, and on the Tokyo–Paris, Tokyo–Moscow, Tokyo–Beijing, Nagoya–Tianjin, and Tokyo–Ho Chi Minh City routes in June. In addition, with the introduction of the strategic narrowbody Boeing 737-800s, aircraft downsizing was implemented on routes such as those between Osaka and Hanoi, Dalian, Guangzhou, and Qingdao, enhancing profitability by achieving efficient operations.

In addition, to mark the 35th anniversary of the normalization of diplomatic relations between Japan and China on September 29, a new Haneda–Shanghai (Hongqiao) route was inaugurated. This route links airports that lie adjacent to each of those city's urban areas, and in combination with the Tokyo-Shanghai (Pudong) route with its six daily flights, it is possible to make a round-trip within a single day. The opening of this Haneda–Shanghai (Hongqiao) route expands the JAL Group's network to China to the largest in Japan, serving 12 cities with 294 flights a week on 30 routes, providing customers with even greater convenience.

To cater to increasingly diverse passenger demand, particularly among baby boomers, during the half we also strengthened international charter flights on which priority is given to the convenience and comfort of direct flights. A total of 474 charter flights were operated, including on routes to East European destinations such as Croatia, and routes from regional airports to such cities as Zurich and Ulan Bator. Also, our joining of the oneworld global airline alliance in April this year enabled us to strengthen our network still further by such means as expanding code-sharing, and at the same time we increased bilateral cooperation with airlines that are not oneworld members.

With regard to product strategy, beginning in July 2007 on the Tokyo–Chicago route, we inaugurated a new in-flight catering service in international Executive Class. In addition to upgraded meal menus a higher standard of cabin service is offered, with specialized flight attendants providing more meticulous service by carrying all food and beverages from the galleys in restaurant style. The fitting of the acclaimed JAL Shell Flat Seat was also extended to cover flights on the Tokyo–Delhi and Nagoya–Bangkok routes, cosseting passengers in even greater comfort. Another advance was the announcement, in October 2007, of the JAL Premium Economy service in economy class on international routes. Based on the concepts of providing space with an extra measure of comfort and being a class in which passengers can be at their ease, the JAL Sky Shell Seat has been developed for it, and service is scheduled to commence on December 1 on the Tokyo–London route.

In our marketing we sought to cater vigorously to business demand among small and medium-sized companies by increasing to around 1,000 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. In addition, we instituted a JAL Goku regular discount fare with a dynamic pricing function that mean that fares can fluctuate according to the forecast final passenger load on a flight; it has had a good reception among the traveling public.

JAL has also been evolving its strategy of having a mileage service in common with that of domestic routes, beginning with the issuance of partnership cards with Odakyu Electric Railway and Kinki Nippon Railway, and the establishment of a mileage partnership with Ogaki Kyoritsu Bank. In October it also announced a business tie-up with ÆON. Further, as a result of JAL's membership of oneworld and start of the JALCARD Family Program, which enables family members to combine their air miles for awards, the convenience and benefits of the program have been increased, for example by providing more opportunities to collect miles and use awards. In consequence, the number of JAL MileageBank (JMB) members had risen to 20.43 million by the end of September 2007.

Passenger capacity on international routes during the half declined by 5.6% as measured by available seat-kilometers, owing to route restructuring and aircraft downsizing. On the demand side, however, demand was sluggish on routes to Europe and Hawaii owing to factors such as the weakness of the yen, and on routes to Taiwan as a result of fiercer competition, but it was brisk on Korean routes and also on routes to the U.S., Southeast Asia, and China, which were buoyed by heavy business demand, and on routes to Oceania, on which supply capacity was substantially below its year-earlier level. As a result, demand fell by only 5.7% in terms of revenue passenger kilometers, and the passenger load factor was maintained at the same level as the previous first half. Revenues from international passenger operations increased by 3.6% year-on-year, to ¥384.1 billion. A key factor behind this was a 9.9% increase in passenger yield, resulting primarily from the growth in business demand and shift of resources to more profitable routes, and to the revision of fares and addition of fuel surcharges.

Domestic passenger operations

In domestic passenger operations the restructuring of routes was implemented in accordance with the Medium-Term Plan. Service were halted on the Nagoya (Komaki)–Kitakyushu, Nagoya (Chubu)–Nagasaki, Osaka (Itami)–Ishigaki, and Kagoshima–Naha routes in April this year; on the Kobe–Sendai route in June; and on the Kobe–Kumamoto route in July; and flights were increased on routes with strong demand, such as those linking Osaka (Kansai) with Sapporo and Naha. These steps were aimed both at providing greater convenience for customers and maximizing revenues.

With regard to the fleet, the introduction of the Boeing 737-800, JAL's strategic aircraft for domestic routes, proceeded vigorously on routes originating at Haneda. Our eight MD87s are all due to be decommissioned by the end of the current year, and that was completed in the case of four of them during the first half. Steps such as these were aimed at improving profitability amid the current very high level of fuel costs.

With regard to product strategy, in May this year the JAL Dynamic Package was launched on the JAL website, a travel package in which customers are given the added convenience of being able to easily book desirable journeys by creating combinations of tickets for JAL domestic flights and accommodations. In addition, on August 1 we inaugurated the Anytime Web Check-In Service as a means of further enhancing the JAL IC Check-In Service for domestic routes, which has been a hit among customers since its introduction. This has made it possible for Web Check-In, for which it was previously necessary to wait until the day before flying, to be carried out immediately after purchasing tickets.

A range of marketing measures were implemented to stimulate demand, and fare increases were made in April this year to counteract soaring fuel costs. These measures included the extension of the period for advance reservation of "Sakidoku (Advance) Discount" fares, the expansion of eligibility for the advance reservation service for "Bargain Fares," and the implementation of the "Summer Vacation Air Miles for Everyone" campaign offering special cheap tickets for traveling during the summer holiday period, including by JMB members.

With regard to sales-promotion campaigns, to project the appeal of JAL's network with its approximately 185 flights a day linking Haneda with 33 airports nationwide, in July 2007 JAL started its "TOKYO JAL 2007" Tokyo campaign, the first round of which was the undertaking of the "Visit Tokyo TYO Program," which involved proposing new sightseeing perspectives in Tokyo by such means as the joint publication of brochures and joint tour planning with JR East. Also, during the summer vacation period we conducted our "Summer Vacation Family Smile Campaign" to promote the use of JAL flights for family travel.

Capacity on domestic routes fell by 2.3% year-on-year in the half in terms of available seat-kilometers. Demand, meanwhile, declined by 3.5% in terms of revenue passenger kilometers, despite the fact that the provision of greater convenience through forward booking and the "Air Miles for Everyone" and other promotions made an impact during the half. This was because of a slackening of demand, particularly for group travel, on routes on which other airlines compete, as competitive fares set last fiscal year were revised this year, and because of the impact of the suspension of flights necessitated by Typhoon No. 4 in July. Passenger yield increased by 5.7% year-on-year, owing to factors such as a change in passenger composition and fare increases, and revenues from domestic passenger operations increased by 2.0%, to ¥352.7 billion.

Cargo and mail

With regard to the physical volume of exports of cargo on international routes there was a year-on-year decline to North America, as capacity fell as a result of the reduction in passenger flights, but a double-digit increase to China, to which capacity was increased. Exports to both Europe and Southeast Asia were more robust than in the previous year. On the import (physical volume) side, cargo originating in China was up year-on-year, buoyed by higher capacity on those routes, but demand for cargoes originating in Europe flagged from the summer onwards owing to factors such as the strength of the euro, and there was a drop in demand in Japan for imports from Southeast Asia. In addition, owing to a decline in capacity for shipping beyond Japan there was a slowing in the growth of cargoes to the Americas via Japan.

In the sphere of the fleet and route management, in July we added two new mid-sized Boeing 767 freighters to serve the Shanghai, Dalian, Qingdao, Tianjin, and Hong Kong routes, aiming to enhance profitability by increasing capacity and cutting costs on Chinese routes. At the beginning of October the routes served by freighters in the same class were expanded to encompass those to Singapore, Kuala Lumpur, Bangkok, and Manila, and when the third 767 freighter was introduced at the end of October it was placed on the Kansai–Ho Chi Minh City route on the first cargo flights between Japan and Vietnam. In ways such as these we are expanding our East Asian network still further. Meanwhile, on U.S. West Coast routes we introduced the Boeing 747-400 freighter, switching to direct flights from the former return flights via Anchorage, shortening flying time considerably, and cutting costs. At the same we have been accelerating the retirement of conventional 747 freighters, planning to retire a total of six during FY2007.

The total volume of international air cargo transportation declined by 0.9% year-on-year in terms of revenue cargo ton-kilometers, in part because the expansion of capacity on medium-haul routes was offset by the reduction of capacity on long-haul routes. International cargo income declined by 1.0% from the previous year, to ¥91.4 billion, as cargo yield slipped by 0.2%.

In international mail services the volume of business originating in Japan remained robust throughout the half, while overseas the volume originating in the Americas was also brisk.

In domestic cargo operations, demand was higher than in the previous first half. This was because although capacity was reduced by the reduction of passenger flights and by aircraft downsizing, particularly on trunk routes with high demand, daytime flights were operated vigorously, and the code-share operations with Galaxy Airlines that began in the previous year were operated effectively.

With regard to route management we expanded the code-sharing flights with Galaxy Airlines, which started in April, to include the Haneda–Sapporo and Kansai–Sapporo routes. By means of steps such as these we ensured the provision of service that catered to increasingly diverse customer needs.

The total volume of domestic air cargo transportation increased by 1.7% year-on-year in terms of revenue cargo ton-kilometers. However, owing to a decline in cargo yield, cargo income fell by 2.6% from the previous year, to ¥13.9 billion.

Domestic mail is subjected to very flexible space management in conjunction with domestic cargo in a way that minimizes the impact of declines in supply capacity, and thus strenuous efforts were made to maintain and increase demand.

As a result of the developments outlined above, total transportation volume in this segment (in terms of revenue ton-kilometers), including both international and domestic passenger and cargo transportation, declined by 3.6% year-on-year. Operating revenues in the segment increased by ¥20.6 billion to ¥931.6 billion, and operating income rose by ¥53.2 billion, to ¥49.7 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 53.)

Aircraft Fleet

Changes in the total number of aircraft operated by our consolidated subsidiaries during the half, and the total number of owned and leased aircraft at the end of the half, are shown below.

	Purchase	Lease	Sale/ Disposal	Lease termination	At March 31, 2007		
					Owned	Leased	Total
Boeing 747-400					38	1	39
Boeing 747-400F					3	2	5
Boeing 747LR			-3	-1	10	0	10
Boeing 747F			-3		5	1	6
Boeing 777	1				13	26	39
Airbus A300-600R					18	4	22
Boeing 767		2			19	23	42
Boeing 767F		2			0	2	2
Douglas MD-90					16	0	16
Douglas MD-81					12	6	18
Douglas MD-87			-1		7	0	7
Boeing 737-400					9	14	23
Boeing 737-800		3			0	5	5
Bombardier CRJ200					0	9	9
Bombardier DHC-8-400		1			3	7	10
SAAB 340B					10	4	14
Bombardier DHC-8-100					4	0	4
Bombardier DHC-8-300					1	0	1
B-N Group BN-2B					3	0	3
Total	1	8	-7	-1	171	104	275

Airline-Related Business

TFK Corporation, an in-flight catering company, increased its business as a result of factors such as obtaining commissions from an overseas company and for new JAL lounges, but owing to the adverse impact of recent sharp rises in foodstuff prices, profits declined. AGP Corporation, which supplies auxiliary power to aircraft while parked, achieved growth in revenues as a result of brisk activity in this field, buoyed by the soaring prices of crude oil and growing environmental consciousness.

The sales of Pacific Fuel Trading Corporation, a JAL affiliate engaging in the procurement of fuel overseas, rose as a result of sharp rises in fuel prices. As a result of these and other factors, the revenues of the airline-related business segment rose by ¥1.9 billion year-on-year, to ¥181.3 billion, and operating income declined by ¥2.4 billion, to ¥2.4 billion.

Travel Services Business

JALPAK posted revenue growth, buoyed by an increase in customer numbers, principally for East Asian destinations such as Bali and also for China. Also, operating expenses were overhauled radically, enabling the company to achieve an improvement at the operating income level. The number of passengers handled by JAL Tours was below its year-earlier level, as in spite of brisk activity in Okinawa, numbers on tours to destinations such as Hokkaido were down on the previous year. Increases in unit tour prices enabled the company to boost revenues, but profit fell as a result of factors such as substantial rises in procurement costs.

As a result, revenues in the travel services business segment rose by ¥5.0 billion year-on-year, to ¥199.7 billion, and operating income increased by ¥200 million, to ¥1 billion.

Credit Card and Leasing Services Business

The Group’s credit card company, JALCard, achieved a 13% increase in the number of cardholders, which reached approximately 1.89 million, as a result of a tie-up with Odakyu Electric Railway and the introduction of a family program, and of vigorous measures to recruit new cardholders. This was accompanied by a substantial rise in transaction volume. In non-card divisions, however, there was an overall decline in revenues owing to the negative impact on revenues of the review of contracts.

As a result, total revenues in this segment grew by ¥800 million year-on-year, to ¥32.5 billion, and operating income fell by ¥900 million, to ¥2.1 billion.

Other Businesses

Hotel operator JAL Hotels suffered a decline in revenue as a result of factors such as the sale of Hotel Nikko Narita and its switch to commissioned management. However, since June last year it has gained new management commissions for five hotels, namely Hotel

JAL City Naha, Hotel JAL City Kannai Yokohama, Hotel Nikko Northland Obihiro, Hotel JAL Fujairah Resort & Spa, and Hotel Nikko Tianjin, and income has risen as a result.

As a result of these developments, revenues in this segment fell by ¥52.9 billion year-on-year, to ¥49.9 billion, and operating income was down by ¥1.8 billion, to ¥1.0 billion, up by ¥1.1 billion from its year-earlier level.

Note: The principal reason for the decline revenues and profit was the change of JALUX Inc. from being a consolidated subsidiary to the status of an affiliate accounted for by the equity method.

Outlook for the Full Year

On February 6, 2007, JAL completed formulation of its FY2007-2010 Medium-Term Revival Plan focused on the large-scale expansion of its Haneda and Narita hub airports scheduled to take place in 2010. Premised above all on "safety," the plan's objective is to rebuild the foundations of our business, paying maximum attention to the customer's perspective and ensuring a stable management environment that from 2010 onwards will be resistant to fluctuations in operating conditions.

The four main pillars of the plan are (1) to achieve total product competitiveness, (2) to reorganize the fleet and network, (3) to raise employee productivity, and (4) to concentrate management resources on the air transportation business. The first year of the plan, FY2007, is a particularly important year for the corporate revival of the JAL Group.

Against this backdrop, in international passenger services we are ahead of expectations in terms of passenger numbers and yield, bolstered by heavy business demand, and performance in the areas of domestic passenger and international cargo services is generally robust in accordance with expectations. The recovery in air transportation business is making a major contribution to the earnings recovery. We expect that this trend will continue and be given further impetus by the emergence of the impact of our Premium Strategy. With regard to expenses, personnel expenses are showing a favorable decline though at a slower pace than envisaged, but aviation-fuel prices remain very high, reflected in kerosene prices of over US$100/barrel, and since fuel hedging for the second half is only around 73%, aviation-fuel prices are expected to be higher than projected. Nevertheless, we are forecasting that operating revenues and ordinary income will be above our initial forecasts, in part because the impact of our continuous implementation of no-holds-barred cost-cutting is making itself felt steadily. Among extraordinary gains and losses there will be increases in losses on impairment of aircraft as components of the fleet are retired, and in losses arising from transfers to reserves relating to the possible violation of the U.S. Antimonopoly Act and similar laws in other countries. In addition, the forecast for consolidated operating income for the current fiscal year reflects a ¥20.0 billion reduction in retirement benefits expenses as a result of the amortization of past-service obligations.

As a result of the above, for the full 2007 fiscal year we forecast consolidated operating revenues of ¥2,238 billion, which is ¥41 billion above our initial projection, consolidated operating income and ordinary income of ¥48 billion and ¥44 billion respectively, which are ¥13 billion and ¥23 billion respectively above initial forecasts. Consolidated net income is projected to remain in line with the initial forecast, at ¥7 billion.

Forecast on a consolidated basis for the fiscal year ending March 2008 (Revised)

(Unit: billions of yen)

	Initial forecast	Revised forecast	Increase
Operating Revenue	21,970	22,380	410
Operating Income	350	480	130
Ordinary Income	210	440	230
Net Income	70	70	0

[1] Assumptions underlying the financial targets

The computation of the forecast is based on the assumption of an exchange rate of ¥117 against the U.S. dollar and an aviation fuel price (Singapore Kerosene) at a market price of US$91 per barrel. As of September 30, 2007, we have entered into hedging transactions covering approximately 73% of our expected requirements for aviation fuel.

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] 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.

(2) Analysis of Financial Position

[1] Assets, liabilities, and net assets

With regard to assets, current assets rose by ¥19.3 billion, owing primarily to increases in cash and time deposits and accounts receivable. Tangible fixed assets fell by ¥8.3 billion year-on-year, as in spite of an increase of ¥10.6 billion in construction in progress as a result of factors such as the payment of advances for new aircraft, that was offset by factors that included sales of aircraft and the impairment of buildings and structures, while there was also a fall in investment and other assets. In consequence, fixed assets declined by ¥13.9 billion. Total assets thus increased by ¥5.2 billion from the previous fiscal year-end, to ¥2,096.4 billion. On the liabilities side, current liabilities rose by ¥29.2 billion year-on-year, as in spite of redemptions of corporate bonds that caused bonds due within one year to decline by ¥32.0 billion, high prices of aviation fuel and other factors caused accounts payable to rise, and growth in sales brought about an increase in advances. Meanwhile noncurrent liabilities declined by ¥26.7 billion from the previous year, owing to factors such as transfers of bonds to the category of bonds due within one year. In consequence, total liabilities increased by ¥2.5 billion from the previous year-end, to ¥1,761.8 billion.

Owners' equity increased by ¥7.2 billion from the previous year-end and there was a decline of ¥4.3 billion in valuation and translation adjustments, with the result that total net assets increased by ¥2.7 billion, to ¥334.5 billion.

[2] Cash flows

Cash flow from operating activities

Net cash provided by operating activities totaled ¥109.1 billion, up by ¥36.5 billion from the previous first half. The principal factors behind this were income before income taxes totaling ¥26.3 billion, up by ¥13.9 billion from the previous year, and a cash outflow of ¥19.9 billion for notes and accounts receivable, down by ¥25.6 billion from the previous year.

Cash flow from investing activities

Net cash used in investing activities was ¥27.3 billion, down by ¥14.6 billion year-on-year. Cash outflows for the acquisition of tangible fixed assets were up by ¥20.1 billion, to ¥86.1 billion, arising mainly for purchases of aircraft and parts and for payments of advances for the scheduled introduction of aircraft in the future. Principal inflows were repayments of term deposits, up by ¥7.5 billion to ¥7.6 billion, and proceeds from the sale of tangible fixed assets, up by ¥14.5 billion to ¥39.3 billion.

Cash flow from financing activities

Net cash used in financing activities totaled ¥49.2 billion, compared with net cash provided in the amount of ¥87.3 billion for the previous year. The principal components of this included a ¥59.9 billion increase, to ¥61.0 billion, in inflows from long-term borrowings, and redemptions of bonds totaling ¥50.0 billion in outflows. In the previous term, there were ¥147.9 billion in proceeds from the issuance of shares.

Reference: Cash flow indicators

Fiscal years	03	04	05	06	07 1st half
Equity ratio (%)	7.5	9.0	6.9	14.9	15.0
Equity ratio at market value (%)	33.2	28.7	28.2	32.0	32.5
Interest-bearing debt/operating cash flow	17.2	9.0	12.2	8.0	4.5*
Interest coverage ratio	2.7	5.7	4.5	6.7	11.8*

Notes

- Equity ratio at market value: Gross equity market capitalization/Total assets
- Interest coverage ratio: Cash flow from operating activities/Interest payments
* Operating cash flow and interest coverage ratio are annualized figures.

(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 the current and following terms

JAL regards the return of profits to its shareholders as being one of its most important management policies, and its basic dividend policy is to maintain continuous and stable 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 in the current term and the next, we regret that we will be unable to pay a dividend for the current and following 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 amounts of interest-bearing debt and lease obligations, and also retirement benefit obligations. With regard to funding for introduction of aircraft the Japan Bank for International Cooperation has a system of guaranteed loans, but it is important for the JAL Group to maintain good relations with financial institutions in order to secure funds needed for the acquisition of aircraft and other capital investment, and for the redemption of debt. If relations with financial institutions were to change significantly as a result of reforms to the tax or accounting systems, increases in interest rates, or other changes in the external environment, or of the lowering of the Group's credit ratings or poor business performance that prevented the goals of the Medium-Term Plan from being achieved, fund-raising and the arrangement of leases may become more difficult, and this may have a significant impact on the Group's business or results of operations.

[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 Australia) began a study in regard to suspicions of the existence of a cartel formed by international cargo airlines, including the JAL consolidated subsidiary Japan Airlines International Co., Ltd. In addition, a number of class-action lawsuits have been initiated in the United States, Canada, and Australia against these international cargo carriers, the plaintiffs claiming that the carriers have violated 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 and other countries, 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 enterprise 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 enterprise value, the JAL Group will endeavor to increase asset efficiency and enhance profitability so as to ensure the soundness of its financial position. 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 July this year the lounge in the main building of the second terminal at Narita Airport was opened after complete refurbishment, providing the largest airport lounge area -- 4,000 m^2 -- in Japan. In addition, we will seek to gain a competitive edge by providing the finest quality products and services, including by introducing a first class on domestic routes and a premium economy class on international routes in December this year. Following that, new seats are to be introduced in first class and executive class cabins on international routes in FY2008.

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 into the JAL Group's core air transportation business, ongoing efforts will be made to restructure related business.

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, and together we will combine our utmost 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.

In February 2007 the JAL Group completed the formulation of its FY2007-2010 Medium-Term Revival Plan, the aim of which 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 it 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. Core pillars of the plan include measures 1) to achieve total product competitiveness, 2) to reorganize the fleet and network, 3) to raise employee productivity, and 4) to concentrate management resources on the 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 itself treated as sacrosanct. With this concept at base, we will proceed to reform our cost structure across all our fields of operation.

With regard to personnel expenses, in addition to the 10% cut in basic wages that has been implemented since FY2006, for FY2007 we have set the target of cutting consolidated personnel expenses by ¥50 billion on a consolidated basis, and are now striving to achieve that. In the current fiscal year we have already imposed substantial curbs on employee bonuses and introduced a special early-retirement scheme for groundside managerial staff, and we will endeavor to raise productivity by such means as introducing Toyota production methods, and to reduce retirement benefit costs substantially by revising our retirement benefit programs.

The reduction of personnel is a core issue for raising productivity. Therefore, we plan to reduce the workforce by 4,300 on a consolidated basis by the end of FY2009, doing so by raising labor productivity by such means as special early-retirement schemes and by restructuring related business activities. During the current fiscal year these measures are being implemented, and results are exceeding the plan levels.

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, including by means of environmental activities and other activities that contribute to the community.