Japan Airlines Corporation and Consolidated Subsidiaries
Consolidated Financial Information

For the year ended March 31, 2008

Contents

1. Business Performance and Financial Condition

(1) Analysis of business performance

Overview of the period

The outlook for the world economy is currently the focus of mounting uncertainty, and concerns of a slowdown have arisen as a result of developments such as the unrest in financial markets sparked by the subprime mortgage loan problem and soaring crude-oil prices. In spite of this, the global economy, particularly in East Asia and Europe, performed steadily overall during the year.

The Japanese economy, meanwhile, sustained a modest recovery overall, in spite of signs of weakness in some indicators such as housing starts. These were offset by factors such as robust exports buoyed by economic expansion overseas, and growth in capital investment.

Amid these circumstances the JAL Group has been implementing its FY2007-2010 Medium-Term Revival Plan (hereinafter referred to as the “Medium-Term Revival Plan”) formulated in February 2007, which is aimed at rebuilding the foundation of Group business and maintaining a stable level of profit in anticipation of the large-scale expansion of Narita International Airport and Tokyo International Airport (Haneda), scheduled for 2010. In line with the plan it is reducing costs across the board, including personnel expenses, and making painstaking efforts to enhance profitability, while always giving utmost priority to ensuring aviation safety. These efforts have been bearing fruit steadily.

With regard to cost, fuel prices (Singapore Kerosene) have remained at all-time highs and even exceeded US$130/barrel temporarily. Nevertheless, steady progress has been made with the implementation of the Medium-Term Revival Plan, including the restructuring of routes and the renewal of the fleet through the introduction of fuel-efficient small and medium-sized aircraft.

In addition, the rise in fuel costs has been curbed substantially by means of exhaustive internal efforts, including reducing the volume of fuel consumption by such means as increasing the frequency of engine cleaning, and by effective fuel-hedging programs. Steps were also taken to reduce personnel costs by continuing a 10% cut in basic wages and by implementing measures that included imposing substantial curbs on employee bonuses, applying a special early-retirement scheme for groundside managerial staff and cabin crew, and reforming retirement benefit schemes.

In April we formally joined the **one**world global alliance of the world's leading quality airlines, and as one of our measures to increase revenues we are deploying a ‘premium strategy’ under the umbrella of the theme "Business & Happiness", mainly targeting business and top-tier passengers. We also established “Corporate Sales Center” that combines domestic and international sales, enhancing convenience for business passengers and strengthening the sales support structure. In parallel with this, we took vigorous steps to cater to tourism demand, including by identifying customer needs accurately and by inaugurating charter flights in and out of Haneda Airport.

We have also been rebuilding non-air transport related business and selling assets, concentrating management resources on the air transportation business with the aim of enhancing the profitability of the Group as a whole.

In addition, to improve our financial position and enhance corporate value, we increased our capital by ¥153.5 billion through the issuance of preferred stock by means of a third party allocation.

To ensure the maintenance of safe aviation we have been conducting study and analysis through the Line Operations Safety Audit (LOSA), a program to monitor daily flight operations, and our flight data analysis program. If any incidents occur that are believed to have resulted from human error, we are making every effort to identify the causes.

We are continuing to use the Safety Promotion Center, which was established in April 2006 as a place to learn from past experience the importance of safety. More than 40,000 people, both staff and the general public, have already visited the center, indicating its ever-increasing importance.

On a consolidated basis, the Group's operating revenues declined by 3.1% from the previous year, to ¥2,230.4 billion. This was because the robust performance of the air transportation business was offset by such factors such as last year's partial sale of shares in our former consolidated subsidiary JALUX Inc., which became an affiliate accounted for by the equity method. Operating expenses declined by 6.1% to ¥2,140.4 billion, as soaring aviation-fuel prices were countered by the fact that JALUX became an equity-method affiliate and by vigorous measures to cut costs. Operating income totaled ¥90 billion, and ordinary income came to ¥69.8 billion. Net income totaled ¥16.9 billion as a result of the posting of extraordinary losses in the form of lump-sum retirement payments under the early retirement scheme, reserves set aside for antitrust law investigations conducted by the U.S. and European Union authorities, and impairment losses.

Earnings by segment

1. Air Transportation Business

International passenger operations

In route operations, active steps were taken to revise the numbers of routes and flights with the aim of concentrating resources on high profit and fast-growing routes. Specifically, we increased flights on the New York and Paris routes (summer season), on which there is strong business demand, and also on the Narita-Delhi route, which is showing remarkable growth. We inaugurated a Haneda-Shanghai (Hongqiao) route, and also increased flights on other China routes as well as Vietnam and Russia (summer season) routes. In addition, the Narita arrival and departure timetables were revised to strengthen connection services between East Asia and Europe/North America, thereby enhancing customer convenience. In December we switched the airport we use in Moscow to Domodedovo International Airport, which has modern facilities and an excellent domestic and international hub in Russia.

With regard to the fleet, to counter record-high aviation fuel prices we progressed with downsizing to small and medium-sized aircraft. Of particular note was the boosting of operating efficiency by the introduction in May 2007 of Boeing 737-800s on international routes out of Osaka and Fukuoka. We also bolstered our cost-competitiveness still further by increasing the number of routes operated by JALways, a lower overheads Group airline subsidiary, to the Narita-Ho Chi Minh City route.

In April we formally joined the **one**world global alliance, and through cooperation with other member airlines have been offering an enhanced network and high-quality services.

With regard to service strategy, as part of our Premium strategies we refurbished and reopened our First Class Lounge and Sakura Lounge at Narita Airport in July, and remodeled the First Class and Executive Class check-in counters in December. Customer convenience was further improved by the inauguration of Support Counters, check-in counters dedicated to servicing the needs of priority guests, based on the principle of Universal Design.

On board our flights the JAL Premium Economy service, which provides extra space and comfort compared to our existing economy class, was first introduced on the Tokyo-London route in December 2007 and since then has been extended onto the Frankfurt and Paris routes. This new comfortable private space fitted with the innovatively-design JAL Sky Shell Seat, has received a warm reception from customers.

In the sphere of marketing, we have been vigorously catering to the needs of our corporate clients based in Japan by further enhancing the “JAL Corporate Flight Merit" program, which provides privileges to companies for their overseas business trips. The number of companies enrolled in the program has now doubled to around 1,200.

As a means of stimulating tourist demand, we conducted an autumn Europe promotional campaign, and also expanded the number of routes on which discounted JAL Goku fares can be purchased. Also, in addition to the destinations we normally operate charter flights, such as Hawaii and Palau, we inaugurated charter flights to new destinations such as China, Cambodia, and Croatia, operating a larger number of flights than in the previous year.

Passenger capacity on international routes during the year declined by 4.4% as measured by available seat-kilometers, owing to route restructuring and aircraft downsizing. With regard to demand, it was down year-on-year on routes to Europe, as tourist demand faltered under the strength of the Euro, and also on routes to the mainland U.S., Hawaii, and Oceania, in which supply capacity was reduced. However, it showed year-on-year growth on routes such as those to Southeast Asia, Korea, and China. As a result, overall demand fell by only 3.5% in terms of revenue passenger kilometers, and the passenger load factor rose by 0.7 of a point, to 71.8%.

Revenues from international passenger operations increased by 4.1% year-on-year, to ¥754.3 billion, which is attributable to the brisk growth in business demand and the shift of resources to high profit routes, and to the revision of fares and fuel surcharges, which boosted passenger yield by 7.8%.

Domestic passenger operations

In domestic passenger operations, we carried out our biggest review of our domestic network since 2002, which included the suspension of 9 under-performing routes. Other steps were taken to enhance profitability in the face of soaring fuel costs included expanding the role of our lower-overheads Group airlines, JAL Express and J-AIR.

Measures such as the introduction of the Boeing 737-800 and decommissioning of MD87s formed part of our renewal of the fleet by shifting to primarily small and medium-size, more fuel-efficient aircraft. These efforts were designed both to enhance passenger comfort and improve profitability.

With regard to product strategy, in December we introduced a first class service on domestic routes for the first time ever. JAL First Class, designed on the concept of "Respecting the passenger's private space and time, with the highest level of service," was inaugurated on the Haneda-Itami (Osaka) route in December 2007. It offers both spacious, comfortable seating and delicious in-flight meals in which only the finest ingredients are used, prepared by high-end restaurants. The service will be extended to the Haneda-Fukuoka in April 2008 and to Haneda-Sapporo routes in June 2008.

In addition, to ensure that customers find service on domestic routes simple, agreeable, and convenient to use, as part of our “time wastage avoidance strategy” we enhanced our JAL Touch & Go service making it possible for passengers to quickly and smoothly board their flight by using two-dimensional barcode technology. This service has been expanded to make it also available to customers other than JAL Mileage Bank (JMB) members.

A number of marketing measures were implemented to counteract the persistent steep rise in fuel costs, including fare increases and increases in the availability periods of “Tokubin (specific flights) discount” fares on some flights. Also, as part of a campaign to increase the number of JAL Mileage Bank members to 20 million, during the summer vacation period we established a new fare system with a provision of additional mileage points in order to stimulate demand.

In addition, as a common mileage partnership strategy with that used for international routes, to increase customer numbers we began issuing partnership cards under a business tie-up with ÆON Co., Ltd.

Capacity on domestic routes fell by 3.4% year-on-year during the year in terms of available seat-kilometers, reflecting route restructuring and aircraft downsizing. Demand, meanwhile, was down by 4.3% in terms of revenue passenger kilometers, impacted by the reduction in supply capacity. In consequence, the passenger load factor fell by 0.6 of a point, to 63.4%. Passenger yield increased by 4.8% year-on-year, owing to an improvement in passenger composition and fare increases, and revenues were up by 0.3%, to ¥677.4 billion.

Cargo and mail

On international routes there was a year-on-year decline in cargo exports to North America, to which the provision of cargo flights had been reduced, but to China we were successful in obtaining business for exports of semiconductor-manufacturing equipment and other merchandise requiring special handling. To Europe, factors such as the effective use of cargo capacity on passenger flights and improvements in load factors enabled us to achieve a robust performance all year, for example for exports of manufacturing parts to Eastern Europe.

On the import side, cargo originating in China was up year-on-year, but the reverse was true of cargo from the Americas, Europe, and Southeast Asia, the reasons for which included a reduction of supply capacity and the strength of the Euro. Given this slowing of demand for the shipments of cargoes to Japan, we took steps to enhance profitability. These included improving our transportation service by such means as introducing cargo flights with early-morning arrival times, so as to ensure a stable volume of cargo, and through a sales policy of actively meeting demand for cargo shipments to and from other parts of Asia, thereby moving a step forward from our traditional focus on cargoes to and from Japan.

In the sphere of the fleet and route management we used newly introduced Boeing 767 freighters to start on Tianjin and Qingdao routes in July and from the second half of the financial year, we have been giving priority to inaugurating flights to promising growth markets such as Jakarta and Ho Chi Minh City.

The total capacity for international air cargo transportation declined by 4.8% year-on-year in terms of available cargo ton-kilometers, in part because record-high aviation fuel prices prompted us to decommission five conventional Boeing 747 freighters.

On the demand side the total volume of air cargo transportation declined by 3.1% year-on-year in terms of revenue cargo ton-kilometers, in part because of the reduction of capacity. International cargo revenue fell by 1.2% from the previous year, to ¥188.2 billion as a rise in average yield was limited to only 1.9%. This was because factors such as phased revisions of the fuel surcharge were counterbalanced by factors such as the stiffening of competition and the yen's sharp appreciation from the end of 2007.

In international mail services, the volume of business originating in Japan, and also primarily in the U.S., remained robust throughout the year.

In domestic cargo operations, demand was below its level in the previous year. The major factors behind this were that capacity was reduced by the reduction of passenger flights and by aircraft downsizing, particularly on trunk routes, and in spite of vigorous use of daytime flights there was a fall in demand for perishable cargo.

The total volume of domestic air cargo transportation during the year fell by 1.1% year-on-year in terms of revenue cargo ton-kilometers, and cargo revenue fell by 3.7%, to ¥27.8 billion.

As in the case of domestic cargo, domestic mail was subject to a decline in capacity as a result of the reduction in the number of passenger flights, and demand for home delivery also fell from the second half, causing business to register a year-on-year decline.

Fuel prices (Singapore Kerosene) during the year remained at high levels, increasing to unprecedented levels. Given these circumstances, JAL conducted flexible hedging and took other active steps to reduce costs, including route restructuring and fleet renewal oriented towards fuel-efficient aircraft. It also implemented a variety of measures to increase revenues, doing everything possible to absorb the negative impact of increases in the price of fuel.

As a result of the developments outlined above, total operating revenues in the segment increased by ¥25.1 billion to ¥1,826.7 billion, and operating income rose by ¥76 billion to ¥78.6 billion (both after intra-segment eliminations and before intersegment eliminations).

JAL Group Fleet

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

	Purchase	Lease	Sale/ Disposal	Lease termination	Other (Repair)	At March 31, 2008	
						Owned	Leased
Boeing 747-400					-2	36	1
Boeing 747-400F					+2	5	2
Boeing 747LR			-4	-1		9	0
Boeing 747F			-5			3	1
Boeing 777	+3			-1		15	25
Airbus A300-600R						18	4
Boeing 767		+3				19	24
Boeing 767F		+3				0	3
Douglas MD-90						16	0
Douglas MD-81						12	6
Douglas MD-87			-6			2	0
Boeing 737-400						9	14
Boeing 737-800	+2	+6				2	8
Bombardier CRJ200						0	9
Bombardier DHC-8-400		+2				3	8
SAAB 340B						10	4
Bombardier DHC-8-100						4	0
Bombardier DHC-8-300						1	0
B-N Group BN-2B			-1			2	0
Total	+5	+14	-16	-2		166	109

2. Airline-Related Business

TFK Corporation, an in-flight catering company, was impacted by the recent steep rises in prices of foodstuffs, but nevertheless achieved growth in both revenue and profit, owing in particular to obtaining new contracts with an overseas airline company and also for new JAL lounges. The sales of PACIFIC FUEL TRADING CORPORATION (hereinafter referred to as “PFTC”), a JAL affiliate engaging in the procurement and sales of aviation fuel overseas, fell as a result of a decline in sales volume and of the adverse impact of the strong yen on the translation of its revenues. Nevertheless, factors such as the sharp rises in fuel prices enabled it to register profit growth.

The revenues of the airline-related business segment declined by ¥19.9 billion year-on-year, to ¥348.8 billion, and operating income was down by ¥4.1 billion, at ¥4.2 billion.

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

3. Travel Services Business

At JALPAK, tour business to Asian countries and Europe was strong, but destinations such as Micronesia and China saw a year-on-year decline in passenger traffic, resulting in an overall drop in the number of customers. In spite of this, an improved yield per customer enabled revenue growth to be achieved, and since operating expenses were thoroughly overhauled, operating income also improved. The number of passengers carried by JAL Tours fell below the year-earlier level, as although the sale of packages for Okinawa, central Japan, and the Kanto region for passengers traveling from Tokyo was brisk, passenger numbers on tours to areas such as Hokkaido and Kyushu were down year-on-year. An increase in unit tour prices enabled the company to boost revenues, but profit declined as a result of substantially increased procurement costs.

Revenues in this travel services business segment were down by ¥6 billion year-on-year, at ¥373.7 billion, and operating income came to ¥900 million (compared with a ¥800 million loss for the previous period).

4. Credit Card and Leasing Services Business

The Group's credit card company, JALCard, succeeded in increasing the number of cardholders, which reached approximately 2.02 million (up 15% year-on-year). Transaction volume also rose substantially. This resulted from a tie-up with Odakyu Electric Railway, the introduction of a family program, and vigorous measures to recruit new cardholders. In non-card divisions, however, a review of contracts had a negative impact on revenues, leading to an overall decline in revenues.

As a result, revenues in this segment totaled ¥65.8 million, showing little change from the previous year, and operating income fell by ¥2 billion to ¥3.8 billion.

5. Other Businesses

Hotel operator JAL Hotels embarked upon a number of new management commissions it had won, including for Hotel Nikko Northland Obihiro, Hotel JAL Fujairah Resort & Spa, and Hotel Nikko Tianjin. However, factors such as the termination of business by Hotel Nikko Winds Narita and the expiry of the contract for the Sun Marina Hotel caused revenues to decline overall, and profit also declined.

Revenues in this segment declined by ¥114.5 billion year-on-year, to ¥101.4 billion, and operating income was down by ¥4.6 billion, at ¥2.6 billion.

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

Outlook for FY2008

Looking ahead to business performance in FY2008 ending March 2009, with regard to international passenger operations we will continue to reduce supply capacity, for example by downsizing aircraft on U.S. routes, but demand is forecast to remain robust. Reasons for this include increases in flight frequency on routes with heavy business demand, such as to New York, Paris, and Moscow, and the full-scale positive effect of our Premium strategies. In addition, we predict a stable rise in passenger yield, in particular because of the improvement in route structure and the implementation of the Premium strategies. With regard to domestic passenger operations, aggregate demand is expected to be sluggish and we will face increasingly fierce competition from new airline companies, and the Shinkansen bullet train. Also in the case of international routes, supply capacity will also be reduced by progressive aircraft downsizing. Nevertheless, the benefits generated from the new “Corporate Sales Center” and the expansion of premium products are among the factors that we believe will lead to steady demand and yields.

Operating revenues in air transportation business will be buoyed by an ongoing strong performance. However, we forecast that operating revenues on a consolidated basis will decline by ¥46.4 billion from the previous year, to ¥2,184 billion. This is principally because PFTC, a company engaging in the procurement and sale of aviation fuel, has ceased to be a consolidated subsidiary. Additionally, operating expenses will remain at around their year-earlier level, at ¥2,134 billion. This is in spite of record-high fuel prices and the resultant substantial rise in fuel expenses, due partly to the cessation of PFTC as a consolidated subsidiary, as well as the reduction in personnel expenses and reform of the cost structure. In consequence, operating income on a consolidated basis is forecast to fall by ¥40 billion year-on-year, to ¥50 billion.

Ordinary income is projected to show a year-on-year decline of ¥39.8 billion to ¥30 billion, and net income to fall by ¥3.9 billion to ¥13 billion.

Current financial targets on a consolidated basis for the fiscal year ending March 2009

(Unit: billions of yen)

	Year ended Mar. 31, 2008	Year ending Mar. 31, 2009 (Forecast)	Difference
Operating Revenue	2,230.4	2,184.0	-46.4
Operating Income	90.0	50.0	-40.0
Ordinary Income	69.8	30.0	-39.8
Net Income	16.9	13.0	-3.9

1. Assumptions underlying the financial targets

The computation of the forecast is based on the assumption of an exchange rate of ¥110 against the U.S. dollar and an aviation fuel price (Singapore Kerosene) at a market price of US$110 per barrel. For the fiscal year ending March 31, 2009, we have entered into hedging transactions covering approximately 64% of our expected fuel requirements.

The above target figures are subject to certain uncertainties and risks, including those mentioned below. In the event of the materialization of any of these risks (e.g. further increase in fuel prices), we will make every effort to achieve the forecast results.

2. Status of implementation of medium-term business plan

Please refer to "(3) Medium- and Long-Term Management Strategies" in the "2. Management Policies" section.

3. Achievement of targeted management indicators

The management indicators we have designated are a return on equity (ROE) at around the 10% level and a figure of below 5 for the number of years to repay interest-bearing debt from business cash flow*, as prescribed by the Medium-Term Revival Plan. The final targets were not met in the reporting period, but progress was made in the repayment of interest-bearing debt and there was an increase in cash flow from operating activities as a result of profit growth. In consequence, steady progress was made towards achieving the targets for both ROE and the number of years to repay interest-bearing debt.

*business cash flow= Interest-bearing debt/ (Operating Income + Net Interest Expense-(Tax + Dividend) Repayment Lease Principle + Depreciation, etc.)

(2) Analysis of Financial Position

1. Assets, liabilities, and net assets

With regard to assets at the year-end on a consolidated basis, current assets rose by ¥103 billion, primarily as a result of a ¥156 billion increase in cash and time deposits stemming from factors such as a capital increase through the issuance of preferred stock by means of a third party allocation. Noncurrent assets declined by ¥72.7 billion year-on-year, primarily owing to a decline of ¥79.2 billion in property and equipment as a result of the sale of aircraft, buildings, and structures. As a result, total assets increased by ¥31.5 billion, to ¥2,122.7 billion.

On the liabilities side, among current liabilities the redemption of corporate bonds caused the total of corporate bonds redeemable with one year to fall by ¥42 billion year-on-year, but transfers from noncurrent liabilities caused the current portion of long-term debt to increase by ¥19.7 billion. Owing to these and other factors, current liabilities remaining showed little change from the previous year. Noncurrent liabilities fell by ¥109 billion as a result of transfers of corporate bonds and long-term borrowings to current liabilities, and of a reduction in accrued pension and severance costs. The net result was that total liabilities fell by ¥107.6 billion, to ¥1,651.7 billion.

Owners’ equity rose by ¥139.1 billion to ¥471 billion due mainly to the fact that shareholders’ equity rose by ¥170 billion through the issuance of preferred stock by means of a third party allocation and that net unrealized gain on hedging instruments, net taxes, decreased because of appreciation of the yen towards the end of the reporting term.

2. Cash flows

Cash flow from operating activities

Net cash provided by operating activities totaled ¥157.3 billion, up by ¥29.5 billion from the previous year. The principal factors behind this were income before income taxes and minority interests totaling ¥29.8 billion, and non-cash items such as depreciation, and adjustments of claims and obligations relating to operating activities.

Cash flow from investing activities

Net cash used in investing activities was ¥26.2 billion, up by ¥29.9 billion year-on-year. Principal inflows were proceeds from the sale of aircraft and other equipment in the amount of ¥115.7 billion (up ¥61 billion year-on-year), which more than offset a ¥27 billion decline in proceeds from the sale and redemption of investment securities.

Cash flow from financing activities

Net cash provided by financing activities came to ¥36.8 billion, compared with an outflow of ¥53 billion for the previous period. The principal components of this included inflows of ¥151.8 billion from the capital increase through the issuance of preferred stock by means of a third party allocation in March 2008, and inflows of long-term borrowings of ¥82.7 billion, up by ¥60.6 billion, and outflows for the redemption of bonds totaling ¥70.0 billion, down by ¥39.7 billion.

Reference: Cash flow indicators

	FY2003	FY2004	FY2005	FY2006	FY2007
Equity ratio (%)	7.5	9.0	6.9	14.9	21.4
Equity ratio at market value (%)	33.2	28.7	28.2	32.0	33.3
Interest-bearing debt repayment period (years)	17.2	9.0	12.2	8.0	5.8
Interest coverage ratio	2.7	5.7	4.5	6.7	8.2

Notes

- Equity ratio at market value: Gross equity market capitalization/Total assets
- Interest-bearing debt repayment period: Interest-bearing debt/cash flow from operating activities
- Interest coverage ratio: Cash flow from operating activities/Interest payments

(1) All indicators are calculated on the basis of consolidated financial data.

(2) Gross equity market capitalization is calculated by multiplying the closing price of our shares at the end of the period by the number of ordinary shares issued and outstanding at the end of the period.

(3) Cash flow from operating activities refers to cash flow from operating activities for the period as stated in the consolidated statement of cash flows.

(4) Interest-bearing debt refers to that portion of our liabilities stated in the consolidated balance sheets, which includes borrowings, bonds and other liabilities upon which we pay interest (including installment payments).

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 reporting and current terms

The Medium-Term Revival Plan got off to a good start in the reporting term, its first year. Nevertheless, JAL has only taken its first step towards reforming its corporate fabric into one that will generate stable profits, and numerous external factors to be addressed are expected to arise, for example further increases in current fuel prices to more all-time highs. Accordingly, in February 2008 we formulated a new plan, the FY2008-2010 Medium-Term Revival Plan (hereinafter referred to as the “New Medium-Term Revival Plan”), to position the Group for the anticipated increasingly harsh changes in the business environment. In view of this, we regret very deeply that we do not expect to be able to pay a dividend on common stock for the reporting and current terms.

To enable us to resume dividend payments as soon as possible, we will endeavor to further improve profitability and to build a company with the inherent capacity to pay dividends continuously, irrespective of the business environment.

(4) Business risks

1. Medium-Term business plan

On February 29, 2008 the JAL Group announced its New Medium-Term Revival Plan to cover the three years to FY2010. The Group attaches the greatest importance to this plan, and to ensure that its goals are attained it is important to make assured progress in accomplishing the factors on which it is premised, which include the strict maintenance of aviation safety, raising personnel productivity, the reduction of personnel and other expenses, the renewal of the fleet and downsizing of aircraft, the implementation of Premium strategies, and the effective use of Group airlines. Factors such as changes in the Group's business environment within Japan and overseas may affect the attainment of those goals.

2. Indebtedness and financing

The JAL Group is currently carrying large amounts of debt, lease obligations, and retirement benefit obligations. It is also essential for it to be able to procure funds without difficulty for the purposes of capital investment, including for aircraft, and the redemption of obligations. In case of fund-raising and the arrangement of leases we have conducted in the past becoming difficult as a result of factors such as reforms to the tax or accounting systems, changes in financial markets or elsewhere in the external environment, the lowering of the Group's credit ratings, or the deterioration of its creditworthiness as a result of poor business performance, this may affect the Group's business and operational results.

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, but our business and results of operations may be affected by such factors as increased competition, changes in the economic situation in Japan or the rest of the world, a decline in demand for air transportation in the Japanese customer base, seasonality, natural disasters, outbreaks of contagious diseases such as SARS and avian influenza, terrorist attacks, conflicts, wars or other similar events. In addition, in the event of terrorist attacks or acts of war, insurance premiums may be increased and insurance coverage restricted.

4. Possible effects of fluctuations in fuel prices and foreign exchange rates

The JAL Group uses hedging and other means to mitigate the risk of fluctuations in aviation fuel prices. However, the continuation of high fuel prices or significant disruptions in the supply of fuel may adversely affect our business and operational results. In addition, we add a fuel surcharge to fares on international routes that varies according to fluctuations in fuel prices, but if a major rise in fuel prices causes fares subject to the surcharge to increase substantially, that may depress demand for airline services and affect our business and results of operations.

In addition, owing to the international nature of our business, a large part of our revenues and expenses are denominated in certain foreign currencies. In view of this, fluctuations in exchange rates may 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, and the resultant decline in demand and other factors may have an impact on its business performance. In addition, in the event that a technical circular directive in regard to airworthiness is issued in relation to problems relating to aircraft safety, or production delays by an aircraft manufacturer or aircraft-parts manufacturer necessitates the modification of plans for an aircraft's introduction, the business performance of the JAL Group may be affected.

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. In February 2006 and thereafter, competition agencies in the United States, European Union, Switzerland, Canada, Australia and other jurisdictions began investigations into possible infringements of their respective competition laws by international cargo airlines, including Japan Airlines International Co., Ltd (“JALI”). With regard to an investigation by U.S. Department of Justice, JALI agreed in April 2008 to pay a fine of US$ 110 million. In addition, numerous and varied class action lawsuits have been initiated in the United States against many international airlines including JALI, claiming that certain price-fixing practices alleged in said lawsuits have damaged their interests. No specific amounts of damages or compensation have been claimed in these ongoing proceedings. Class action lawsuits have also been filed in Canada and Australia. The Group’s business performance may be affected significantly depending upon the outcomes of the aforementioned lawsuits and investigations. In addition there is a risk that the Group will be involved in other litigation of various kinds relating to its business activities, and it is possible that this 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 may 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 enterprise 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 corporate 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 business cash flow, for which the targets during the period of the New Medium-Term Revival Plan are to raise the former to about 10% level and to bring the latter down below 5 years.

(3) Medium- and Long-Term Management Strategies

In February 2007 the JAL Group announced its FY2007-2010 Medium-Term Revival Plan. Its objective was that of rebuilding the foundation of the Group's business so as to seize the business opportunities presented by the expansion of Narita International Airport and Tokyo International Airport (Haneda) and the increase in their takeoff and landing slots, scheduled for 2010, and ensure that they were used to fuel sustained corporate growth.

The plan got off to a good start in FY2007, its first year, which saw steady progress made in implementing measures that included the introduction of more fuel-efficient aircraft and aircraft downsizing, the Premium strategies, the raising of personnel productivity, and the reduction of personnel expenses by over ¥50 billion on a consolidated basis. Net income totaled ¥16.9 billion, exceeding the initial plan, and the financial position was strengthened by a capital increase through the issuance of preferred stock by means of a third party allocation.

However, the business environment surrounding the JAL Group continues to give little cause for optimism, characterized by persistent steep rises in the cost of fuel which have continued into the current fiscal year, and mounting fears of a global economic slowdown sparked by developments such as the subprime mortgage loan crisis. In order to build a corporate fabric that enables the Group to generate stable profit even in such a harsh environment, in February 2008 we announced our New Medium-Term Revival Plan, which deepens and broadens the previous Medium-Term Revival Plan, and also incorporates new strategies. With this plan we will endeavor to strengthen our resistance to risk and the practical ability to achieve our goals, thereby establishing a path towards stable growth from 2010 onward.

The following is an outline of the core measures in the New Medium-Term Revival Plan that relate to business operations.

1. Premium strategies
- To enhance the competitive of products and services by continuing and expanding Premium strategies

2. Raising of business profitability
- To renew the fleet by switching to more fuel-efficient aircraft and downsizing aircraft, and to concentrate management resources on high profit routes
- To ensure efficient operations by using lower overheads Group subsidiary airlines

3. Personnel productivity improvement
- To achieve productivity improvement targets one year ahead of schedule

4. Revision of air transportation related business
- To enhance the management of business related to air transportation business

5. Human resource strategy
- To enhance the human resource capability of each individual Group employee, and enhance organizational capability by unified, organic Group collaboration

6. Reform of cost structure
- To implement a fundamental reform of the cost structure in a way that penetrates deeply into business design and business processes

7. IT strategy
- To rebuild key systems and implement reforms to build a structure for rapid and high-quality system development and commissioning

8. Environment-related activity
- To reaffirm our corporate responsibility for the Earth's environment, and to step up activities to protect and conserve it.

To ensure the effectiveness of the “New Medium-Term Revival Plan”, the JAL Group will implement a Plan, Do, Check, Act (PDCA) cycle.

(4) Issues to be addressed

Since FY2001 the JAL Group has been unable to secure profits consistently as a result of a succession of external factors, including the 9/11 terrorist attacks, the SARS (severe acute respiratory syndrome) outbreaks, and steep increases in fuel prices, and also internal factors such as safety-related problems.

Given these difficult circumstances, in February 2008 the JAL Group unveiled its New Medium-Term Revival Plan, which is designed to improve the Group's financial position and put it on a stable growth track, positioning it to grasp the massive business opportunities for the airline industry presented by the expansion of Haneda and Narita Airports and the increase in numbers of available slots from 2010.

The New Medium-Term Revival Plan assumes the same scenario as laid out in the previous Medium-Term Revival Plan. To address the steep rises in fuel prices and other changes in the operating environment, such as the increasing intensity of competition in all business fields, from FY2008 the plan deepens and broadens the fleet strategy, the strategy of using Group airlines, and the measures to reduce personnel costs by such means as raising productivity and reforming the wage system relating to official wages and sundry allowances.

To ensure the maintenance of safety in flight operations, which constitutes the very foundation of the JAL Group, we will continue to put into action the recommendations of the Safety Advisory Group. To that end there will be two constant core safety measures, namely the building and maintenance of a safety management system, and activities to prevent accidents arising as a result of human error. Based on these we will continue to listen to the views of staff in the workplace in every division and further enhance our ability to gather and analyze information, devise countermeasures, and monitor measures already implemented, and make every effort to address cross-sectional issues vigorously and establish a safety culture.

The priorities under the New Medium-Term Revival Plan are to raise profitability by continuing actively to introduce more fuel-efficient small and medium-sized aircraft, reducing fuel costs, and boosting passenger-load factors through aircraft downsizing, at the same time concentrating our resources on high-profit, high-growth routes. In addition, we will build a more efficient Group operating structure by increasing the proportion of flights on both international and domestic routes operated by Group airlines such as JALways and JAL Express.

In addition, we will spotlight high-quality services by such means as the introduction of new First Class seats and new Executive Class seats on international routes, and the expansion of First Class services on domestic routes, so as to enhance the competitiveness of our products and service targeting business and top-tier passengers.

We will also take steps to raise personnel productivity by means of a radical overhaul of business content, processes, business formats, and staff placement. By implementing productivity improvement measures one year ahead of schedule under the previous Medium-

Term Revival Plan, we aim by the end of FY2008 to have reduced staff numbers on a consolidated basis by 4,300 compared with March 2007, to a total of 48,800, thereby reducing personnel costs.

We will also continue to concentrate management resources on air transportation business, the JAL Group's core business, and ensure more efficient management of related business within the air transportation business.

In March 2008 JAL issued preferred stock by means of a third party allocation to financial institutions and other companies with which it has long business relationships, and with their cooperation increased its capital by ¥153.5 billion. The proceeds of this placement will strengthen our financial position and be used for capital expenditure and IT investment that will provide customers with greater comfort, convenience, and safety, including investment for enhancing our fleet renewal and domestic IT systems and for introducing next-generation maintenance systems. The New Medium-Term Revival Plan will be put into effect more assuredly and quickly.

To remain the airline of choice for customers, we will further improve our domestic and international networks in line with the vision that "The JAL Group is a global player bridging the world with safety, security and quality as our top priorities," and we will do our utmost to enhance and raise the quality of our products and services from the customer's perspective.

With regard to the international cargo cartel case, Japan Airlines International entered into a plea agreement concerning certain alleged violations of the antitrust laws with the U.S. Department of Justice in April 2008, and agreed on matters such as the payment of a fine. The JAL Group considers this matter with the greatest of seriousness, and will determinedly continue to expand and reinforce its compliance program to ensure that no violations occur in the future.

As a corporate citizen, we endeavor to fulfill our social responsibilities by engaging in economic, environmental, philanthropic, and other activities, in which we attach great importance to our relationships with all stakeholders and hope to repay the community's confidence in us and to meet its expectations of us.

The JAL Group will continue to act in a flexible manner in supplementing and modifying its strategies in light of changes in the domestic and international environment, for example possible further increases in fuel costs, the slowing of the global economy, or the growing severity of the competitive environment. Steps taken could include the revision of business plans or the reform of the cost structure. In this way, we will build a strong corporate fabric that will enable us to generate stable profits in any business environment.