

15. Segment Information

The Company and its consolidated subsidiaries conduct worldwide operations related to aviation as well as to lifestyle and customer services. They have segmented their business into three categories: “Aviation business,” “Life service business” and “Customer service business.”

Aviation business:

Operations within the Aviation business segment are as follows:

- Purchases of aircraft, spare engines and full flight simulators
- Sales of used aircraft
- Aircraft parts – supply and logistics
- Handling airline surpluses
- Support for the steady supply of fuel as a fuel purchasing agent
- Sales and operating agreement of equipment for airport facilities and of materials for construction
- Sales and operating agreement of airport vehicles and security equipment
- Planning and sales of international inflight duty-free goods and domestic inflight goods
- Planning and sales of uniforms mainly for airlines and airport shops
- Aircraft leasing for training purposes

Life service business:

Operations within the Life service business segment are as follows:

- Import and sales of agricultural and marine products and flowers
- Planning and sales of processed foodstuffs, gifts of food, high quality wines
- Providing wines for JAL inflight beverage service
- Planning and sales of original jewelry
- Mail order business through inflight magazines (“JALSHOP”)
- Online shopping on a web site

Customer service business:

Operations within the Customer service business segment are as follows:

- Planning and creation of printed matter and other media
- Wholesale sales of office appliances
- Insurance and life assurance agent
- Sales of real estate and relocation consulting services
- Management of BLUE SKY (souvenir shops, restaurants and coffee shops)
- Management of JAL–DFS (duty free stores)

15. Segment Information (continued)

The business segment information of the Company and its consolidated subsidiaries for the years ended March 31, 2006, 2005 and 2004 are summarized as follows:

	Year ended March 31, 2006					
	Aviation business	Life service business	Customer service business	Total	General corporate assets and intercompany eliminations	Consolidated
	<i>(Thousands of yen)</i>					
Sales to outside parties	¥35,516,160	¥27,617,163	¥44,818,683	¥107,952,007	¥ –	¥107,952,007
Inter-segment sales and transfers	865,338	74,018	2,985	942,342	(942,342)	–
Total	36,381,498	27,691,182	44,821,669	108,894,350	(942,342)	107,952,007
Operating expenses	35,031,574	26,997,249	41,681,771	103,710,594	1,796,756	105,507,350
Operating income	<u>¥ 1,349,924</u>	<u>¥ 693,932</u>	<u>¥ 3,139,898</u>	<u>¥ 5,183,756</u>	<u>¥(2,739,099)</u>	<u>¥ 2,444,656</u>
Depreciation and amortization	<u>¥ 336,093</u>	<u>¥ 53,208</u>	<u>¥ 252,748</u>	<u>¥ 642,050</u>	<u>¥ 54,812</u>	<u>¥ 696,862</u>
Impairment losses on fixed assets	<u>¥ –</u>	<u>¥ –</u>	<u>¥ 26,507</u>	<u>¥ 26,507</u>	<u>¥ –</u>	<u>¥ 26,507</u>
Capital expenditures	<u>¥ 1,048,891</u>	<u>¥ 24,893</u>	<u>¥ 162,342</u>	<u>¥ 1,236,127</u>	<u>¥ 893,709</u>	<u>¥ 2,129,837</u>
Identifiable assets	<u>¥13,619,181</u>	<u>¥ 6,400,482</u>	<u>¥11,768,524</u>	<u>¥ 31,788,188</u>	<u>¥ 5,775,225</u>	<u>¥ 37,563,414</u>

	Year ended March 31, 2006					
	Aviation business	Life service business	Customer service business	Total	General corporate assets and intercompany eliminations	Consolidated
	<i>(Thousands of U.S. dollars)</i>					
Sales to outside parties	\$303,557	\$236,044	\$383,066	\$922,667	\$ –	\$922,667
Inter-segment sales and transfers	7,396	633	26	8,054	(8,054)	–
Total	310,953	236,677	383,091	930,721	(8,054)	922,667
Operating expenses	299,415	230,746	356,254	886,415	15,357	901,772
Operating income	<u>\$ 11,538</u>	<u>\$ 5,931</u>	<u>\$ 26,837</u>	<u>\$ 44,306</u>	<u>\$(23,411)</u>	<u>\$ 20,894</u>
Depreciation and amortization	<u>\$ 2,873</u>	<u>\$ 455</u>	<u>\$ 2,160</u>	<u>\$ 5,488</u>	<u>\$ 468</u>	<u>\$ 5,956</u>
Impairment losses on fixed assets	<u>\$ –</u>	<u>\$ –</u>	<u>\$ 227</u>	<u>\$ 227</u>	<u>\$ –</u>	<u>\$ 227</u>
Capital expenditures	<u>\$ 8,965</u>	<u>\$ 213</u>	<u>\$ 1,388</u>	<u>\$ 10,565</u>	<u>\$ 7,639</u>	<u>\$ 18,204</u>
Identifiable assets	<u>\$116,403</u>	<u>\$ 54,705</u>	<u>\$100,586</u>	<u>\$271,694</u>	<u>\$ 49,361</u>	<u>\$321,055</u>

15. Segment Information (continued)

	Year ended March 31, 2005					
	Aviation business	Life service business	Customer service business	Total	General corporate assets and intercompany eliminations	Consolidated
	<i>(Thousands of yen)</i>					
Sales to outside parties	¥28,141,383	¥27,331,712	¥43,149,899	¥98,622,995	¥ –	¥98,622,995
Inter-segment sales and transfers	835,799	72,456	3,170	911,427	(911,427)	–
Total	28,977,183	27,404,169	43,153,070	99,534,423	(911,427)	98,622,995
Operating expenses	27,270,612	26,720,410	40,233,701	94,224,725	1,656,603	95,881,328
Operating income	<u>¥ 1,706,570</u>	<u>¥ 683,758</u>	<u>¥ 2,919,369</u>	<u>¥ 5,309,698</u>	<u>¥(2,568,030)</u>	<u>¥ 2,741,667</u>
Depreciation and amortization	<u>¥ 269,370</u>	<u>¥ 66,955</u>	<u>¥ 224,511</u>	<u>¥ 560,837</u>	<u>¥ 73,509</u>	<u>¥ 634,346</u>
Impairment losses on fixed assets	<u>¥ –</u>	<u>¥ –</u>	<u>¥ 72,017</u>	<u>¥ 72,017</u>	<u>¥ 51,322</u>	<u>¥ 123,340</u>
Capital expenditures	<u>¥ 308,047</u>	<u>¥ 36,484</u>	<u>¥ 589,536</u>	<u>¥ 934,068</u>	<u>¥ 43,357</u>	<u>¥ 977,425</u>
Identifiable assets	<u>¥11,223,935</u>	<u>¥ 7,161,095</u>	<u>¥11,962,018</u>	<u>¥30,347,049</u>	<u>¥ 4,817,646</u>	<u>¥35,164,696</u>
	Year ended March 31, 2004					
	Aviation business	Life service business	Customer service business	Total	General corporate assets and intercompany eliminations	Consolidated
	<i>(Thousands of yen)</i>					
Sales to outside parties	¥22,219,979	¥27,174,191	¥36,695,820	¥86,089,991	¥ –	¥86,089,991
Inter-segment sales and transfers	716,613	83,201	5,177	804,992	(804,992)	–
Total	22,936,593	27,257,392	36,700,997	86,894,984	(804,992)	86,089,991
Operating expenses	21,331,771	26,586,777	34,343,179	82,261,728	1,746,900	84,008,629
Operating income	<u>¥ 1,604,822</u>	<u>¥ 670,614</u>	<u>¥ 2,357,817</u>	<u>¥ 4,633,255</u>	<u>¥(2,551,892)</u>	<u>¥ 2,081,362</u>
Depreciation and amortization	<u>¥ 308,162</u>	<u>¥ 75,005</u>	<u>¥ 181,590</u>	<u>¥ 564,759</u>	<u>¥ 72,764</u>	<u>¥ 637,524</u>
Capital expenditures	<u>¥ 722,343</u>	<u>¥ 35,992</u>	<u>¥ 465,147</u>	<u>¥ 1,223,483</u>	<u>¥ 88,664</u>	<u>¥ 1,312,148</u>
Identifiable assets	<u>¥10,772,286</u>	<u>¥ 7,208,940</u>	<u>¥12,847,919</u>	<u>¥30,829,146</u>	<u>¥ 4,877,607</u>	<u>¥35,706,754</u>

Unallocated operating expenses included in “General corporate assets and intercompany eliminations” for the years ended March 31, 2006, 2005 and 2004 amounted to ¥2,738,471 thousand (\$23,406 thousand), ¥2,568,816 thousand and ¥2,553,981 thousand, respectively, and consisted primarily of administrative expenses incurred at the Company’s headquarters.

In addition, unallocated assets included in “General corporate assets and intercompany eliminations” at March 31, 2006, 2005 and 2004 amounted to ¥5,541,806 thousand (\$47,366 thousand), ¥5,028,922 thousand and ¥5,295,421 thousand, respectively, and consisted primarily of cash and cash equivalents, investments in securities and assets belonging to the headquarters of the Company.

15. Segment Information (continued)

The geographical segment information of the Company and the consolidated subsidiaries for the years ended March 31, 2006, 2005 and 2004 is summarized as follows:

Year ended March 31, 2006						
	Japan	North America	Other overseas counties	Total	General corporate assets and intercompany eliminations	Consolidated
	<i>(Thousands of yen)</i>					
Sales to outside parties	¥104,140,596	¥ 1,864,875	¥1,946,535	¥107,952,007	¥ –	¥107,952,007
Inter-segment sales and transfers	602,653	13,383,598	1,226,047	15,212,299	(15,212,299)	–
Total	104,743,250	15,248,474	3,172,583	123,164,307	(15,212,299)	107,952,007
Operating expenses	101,816,053	15,013,094	3,350,851	120,179,999	(14,672,648)	105,507,350
Operating income (loss)	¥ 2,927,196	¥ 235,379	¥ (178,267)	¥ 2,984,308	¥ (539,651)	¥ 2,444,656
Identifiable assets	¥ 33,338,735	¥ 7,536,463	¥ 743,936	¥ 41,619,135	¥ (4,055,721)	¥ 37,563,414

Year ended March 31, 2006						
	Japan	North America	Other overseas counties	Total	General corporate assets and intercompany eliminations	Consolidated
	<i>(Thousands of U.S. dollars)</i>					
Sales to outside parties	\$890,091	\$ 15,939	\$16,637	\$ 922,667	\$ –	\$922,667
Inter-segment sales and transfers	5,151	114,390	10,479	130,020	(130,020)	–
Total	895,241	130,329	27,116	1,052,686	(130,020)	922,667
Operating expenses	870,223	128,317	28,640	1,027,179	(125,407)	901,772
Operating income (loss)	\$ 25,019	\$ 2,012	\$ (1,524)	\$ 25,507	\$ (4,612)	\$ 20,894
Identifiable assets	\$284,946	\$ 64,414	\$ 6,358	\$ 355,719	\$ (34,664)	\$321,055

Year ended March 31, 2005						
	Japan	North America	Other overseas counties	Total	General corporate assets and intercompany eliminations	Consolidated
	<i>(Thousands of yen)</i>					
Sales to outside parties	¥95,131,871	¥1,824,609	¥1,666,515	¥ 98,622,995	¥ –	¥98,622,995
Inter-segment sales and transfers	283,610	7,617,345	1,558,682	9,459,638	(9,459,638)	–
Total	95,415,481	9,441,954	3,225,197	108,082,634	(9,459,638)	98,622,995
Operating expenses	92,768,755	9,308,966	3,404,436	105,482,158	(9,600,830)	95,881,328
Operating income (loss)	¥ 2,646,726	¥ 132,988	¥ (179,239)	¥ 2,600,475	¥ 141,191	¥ 2,741,667
Identifiable assets	¥31,988,156	¥5,129,848	¥ 631,673	¥ 37,749,678	¥(2,584,982)	¥35,164,696

15. Segment Information (continued)

Year ended March 31, 2004						
	Japan	North America	Other overseas counties	Total	General corporate assets and intercompany eliminations	Consolidated
	<i>(Thousands of yen)</i>					
Sales to outside parties	¥83,378,350	¥1,418,062	¥1,293,579	¥86,089,991	¥ –	¥86,089,991
Inter-segment sales and transfers	72,880	4,682,517	1,463,318	6,218,716	(6,218,716)	–
Total	83,451,230	6,100,580	2,756,897	92,308,708	(6,218,716)	86,089,991
Operating expenses	81,604,343	6,069,908	2,921,622	90,595,874	(6,587,245)	84,008,629
Operating income (loss)	¥ 1,846,887	¥ 30,671	¥ (164,725)	¥ 1,712,833	¥ 368,528	¥ 2,081,362
Identifiable assets	¥33,225,637	¥4,116,983	¥ 711,591	¥38,054,212	¥(2,347,458)	¥35,706,754

For the years ended March 31, 2006, 2005 and 2004, operating revenues from overseas operations represented less than 10% of consolidated operating revenues. As a result, operating revenues from overseas operations are not required to be disclosed.

16. Derivative and Hedging Activities

The Company has utilized forward foreign exchange contracts and foreign currency coupon swaps to hedge certain foreign currency transactions related to foreign accounts receivable and payable on a consistent basis. The Company has also utilized interest-rate and currency swaps to minimize the risk of fluctuation in cash flows arising from changes in interest and foreign exchange rates related to its outstanding debt.

The Company enters into hedging transactions in accordance with its internal guidelines. The routine operations relating to hedging activities are formalized and controlled by the Accounting Department. Gain or loss on hedging instruments and the assessment of hedge effectiveness, which is performed both at the inception and on an ongoing basis, is reported to the related directors and department managers on a timely basis.

Since all derivative instruments held by the Company at March 31, 2006 and 2005, met the criteria for hedge accounting, fair value information has not been presented.

17. Related Party Transactions

The Company had significant related party transactions with the parent company, the companies controlled by the parent company and the companies over which the Company exercises significant influence in the terms of their operating and financial policies.

The transactions between the Company and the parent company for the year ended March 31, 2006 are summarized as follows:

With Japan Airlines Corporation:

	Year ended March 31,		
	2006	2005	2006
	<i>(Thousands of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Proceeds from sales of investments in securities	¥–	¥22,111	\$–
Gain on sales of investments in securities	–	15,995	–

The transactions between the Company and the companies controlled by the parent company, for the years ended March 31, 2006, 2005 and 2004 are summarized as follows:

With Japan Airlines International Co., Ltd.:

	Year ended March 31,			
	2006	2005	2004	2006
	<i>(Thousands of yen)</i>			<i>(Thousands of U.S. dollars)</i>
Operating revenues:				
Sales of flight equipment	¥14,445,701	¥16,110,755	¥14,576,148	\$123,468
Purchases of merchandise	–	–	1,250,619	–

	March 31,		
	2006	2005	2006
	<i>(Thousands of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Accounts receivable	¥2,397,699	¥3,281,641	\$20,493

17. Related Party Transactions (continued)

With Japan Airlines Domestic Co., Ltd.:

	Year ended March 31,		
	2006	2005	2006
	<i>(Thousands of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Operating revenues:			
Sales of flight equipment	¥—	¥2,210,936	\$—

	March 31,		
	2006	2005	2006
	<i>(Thousands of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Accounts receivable	¥—	¥366,507	\$—

With JAL Capital Co., Ltd.:

	Year ended March 31,		
	2006	2005	2006
	<i>(Thousands of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Proceeds from short-term borrowings	¥2,400,000	¥28,500,000	\$20,513
Repayment of short-term borrowings	2,800,000	29,300,000	23,932
Interest expenses	430	5,116	4

	March 31,		
	2006	2005	2006
	<i>(Thousands of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Short-term borrowings	¥400,000	¥800,000	\$3,419

With Fukuoka Airport Building Co., Ltd.:

	Year ended March 31,		
	2006	2005	2006
	<i>(Thousands of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Operating expenses:			
Rent for office space	¥—	¥56	\$—

	March 31,		
	2006	2005	2006
	<i>(Thousands of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Other current assets	¥—	¥475,714	\$—
Deposits for business space	¥—	118,200	\$—

