

Management Discussion & Analysis, and Financial Statements, Etc.

1. Information Concerning Consolidated Financial Results

(1) Analysis of Financial Results

(Financial Results for the Period under Review)

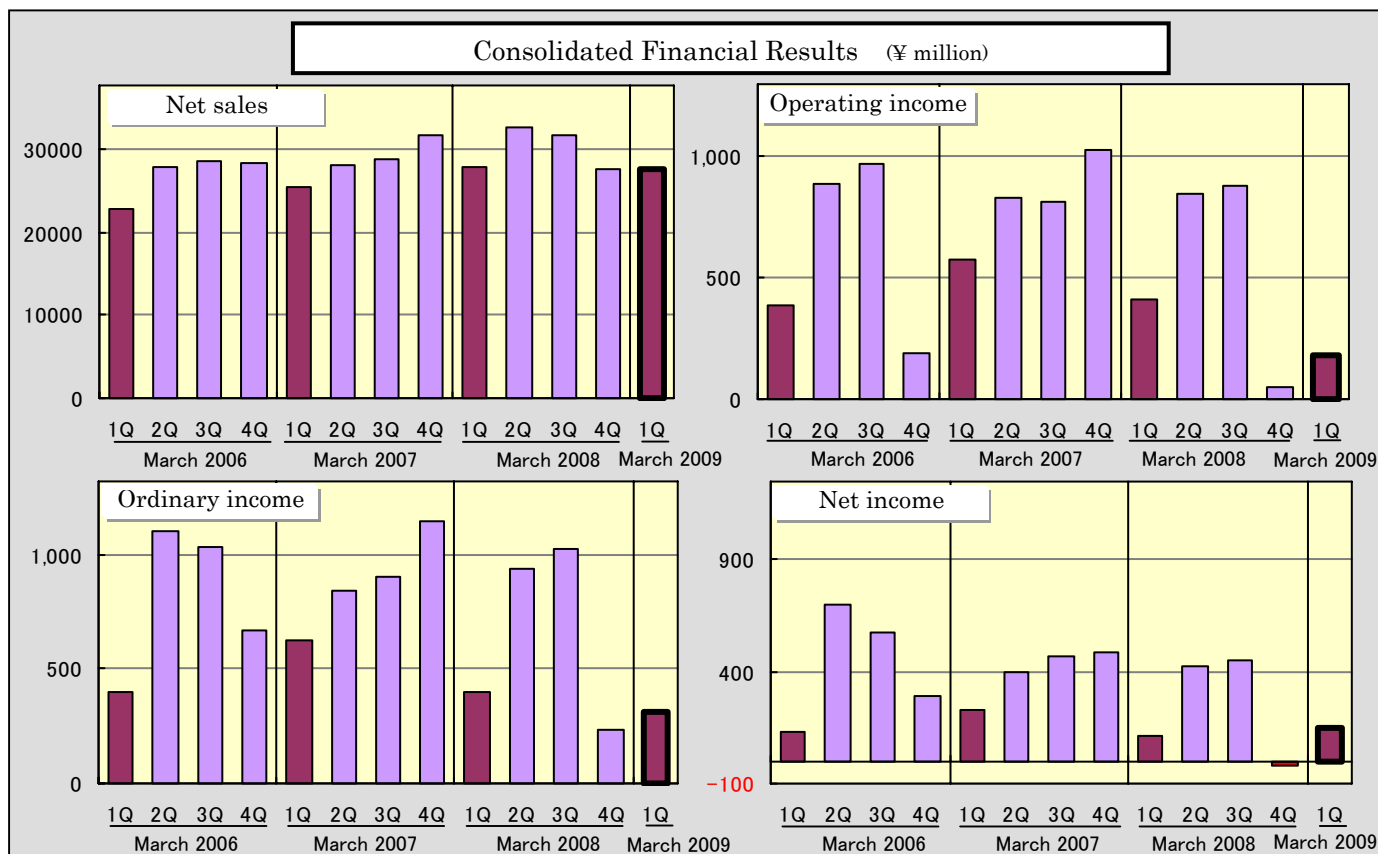
The Japanese economy in the period under review has witnessed both corporate earnings and personal consumption exposed to a growing risk of an economic setback going forward amid concerns over an economic slowdown caused by dislocations in the US economy and affected by soaring crude oil and raw materials prices with successive price hikes for daily demand goods. In this operating environment, Jalux Group has been working to expand its business base and maximize enterprise value based on its medium-term management plan (covering the fiscal years ending March 2008 through March 2010).

Viewed by business operation, results declined in the BtoB business (geared mainly at private sector corporations and public agencies), partly due to year-on-year effects from the real estate business, where earnings returned to normal after rising in 2007 due to the completion of projects with strong profit margins. In the BtoC business (geared mainly at consumers), airport shops posted higher revenues and earnings despite stalling growth in the number of air travelers, thanks to sales of popular products with limited regional availability, but in the food business results fell compared with a year earlier due accounting adjustments at operations for gift-use food products.

As a result, sales for the period under review totaled ¥27,750 million, almost on a par with a year earlier, but gross profit declined to ¥5,549 million. Moreover, during the period under review, retirement benefit costs rose strongly due to diminished returns from pension plan assets, lowering operating profit to ¥184 million, while ordinary income fell to ¥313 million due to non-operating items such as foreign exchange differences from consolidated foreign subsidiaries affecting consolidated accounts. Thus, both operating and ordinary income declined. Non-consolidated accounts benefited from a lighter tax burden due to lower earnings, with net income for the period rising on the year to ¥152 million.

Expressed as percentages of the consolidated earnings forecast for the second half of the fiscal year, these operating income and net income levels, respectively, reflect around 24% and 46% of first-half estimates. Taking into account that as special characteristic of the Company quarterly earnings in a normal year weigh higher in the second and third quarters (which include the summer travel season, mid-year gift season, year-end gift season, Christmas, and New Year), the Company at this point maintains its consolidated and non-consolidated earnings forecasts (interim and full year) released on April 28, 2008, for the fiscal year ending March 2009.

Operating Results (¥ million)	Previous 1 st quarter (April – June, 2007)	Current 1 st quarter (April – June, 2008)	Change (%)	Increase/ Decrease
Net sales	27,954	27,750	99.3	(203)
Operating income	412	184	44.7	(228)
Ordinary income	399	313	78.3	(86)
Net income	115	152	131.6	36



[Performance by Segment]

The outlook by segment is as follows. The figures for each category are shown before adjustment for inter-segment net sales, transfers, and unallocatable costs.

In the period under review, in order to strengthen inter-divisional cooperation and efficiency, the Company reorganized its existing (sales-aligned) seven main business divisions into a Corporate Sales Division centered mostly on the BtoB business and a Retail Business Division centered mostly on the BtoC business. At the same time, based on a review of divisions' merchandise by product affiliation and sales format, the Company changed its segment categories from the previous structure comprised of the aviation-related business, lifestyle services business, and customer services business, to the four categories of aviation-related business, corporate solutions business, travel retail business, and food & beverage business. The segment earnings information for the year-earlier term has been restated based on the new categories.

① Aviation-related business

In the aircraft and aircraft parts segment, machinery, materials, and transportation equipment performed well. In used aircraft, however, earnings declined as profitable big-ticket sales were few compared with last year. Earnings declined also at the maintenance and supply business in aircraft parts* due to weak conditions surrounding parts supply to domestic heavy industries.

*A delivery system that stores (stockpiling and quality control) imported parts needed for aircraft engine repairs and supplies them promptly to heavy industry.

As a result, sales and operating income posted ¥9,137 million and ¥358 million, respectively.

Aviation-related business (¥ million)	Previous 1 st quarter (April – June, 2007)	Current 1 st quarter (April – June, 2008)	Change (%)	Increase/Decrease
Net sales	9,858	9,137	92.7	(721)
Operating income	523	358	68.2	(167)

② Corporate solutions business

In the printing and media business, results were solid in sales promotion for corporations. Real estate operations, however, saw earnings decline due to a slower pace compared with last year's earnings growth

from projects completions with high profit margins such as dormitories and housing for employees. On balance, results fell below the year-earlier level.

As a result, sales and operating income posted ¥4,278 million and ¥387 million, respectively.

Corporate solutions business (¥ million)	Previous 1 st quarter (April – June, 2007)	Current 1 st quarter (April – June, 2008)	Change (%)	Increase/ Decrease
Net sales	4,047	4,278	105.7	230
Operating income	432	387	89.4	(45)

③ Travel retail business

In the brand and duty-free merchandise business, wholesaling of duty-free merchandise for airport duty-free stores performed favorably, with contributions to higher sales also from the mail-order sales business including “JAL Shopping” internet-based sales.

At store operations, Blue Sky domestic airport stores were affected by stalling air traveler numbers nationwide and deteriorating consumer sentiment in the face of rising product prices, but results gained on the year thanks to sales of popular products in Hokkaido.

As a result, sales and operating income posted ¥10,666 million and ¥322 million, respectively.

Travel retail business (¥ million)	Previous 1 st quarter (April – June, 2007)	Current 1 st quarter (April – June, 2008)	Change (%)	Increase/ Decrease
Net sales	10,389	10,666	102.7	277
Operating income	320	322	100.8	2

④ Food & Beverage business

In the agricultural and marine products business, import sales of frozen marine products and fruit and vegetables experienced favorable conditions continuing from last year for high-added value products, but results for gift-use food products fell significantly below the year-earlier level mainly due to accounting adjustments.

As a result, sales and operating income posted ¥3,709 million and ¥29 million, respectively.

Food & Beverage business (¥ million)	Previous 1 st quarter (April – June, 2007)	Current 1 st quarter (April – June, 2008)	Change (%)	Increase/ Decrease
Net sales	3,706	3,709	100.1	2
Operating income	96	29	30.2	(67)

2. Consolidated financial position

(1) Assets, liabilities, and shareholders' equity

Consolidated current assets as of the end of the period under review totaled ¥27,335 million, reflecting a decline of ¥1,875 million compared with the end of the previous fiscal year. This was due to lower accounts receivable and cash holdings, offsetting an increase in inventories. Fixed assets totaled ¥13,401 million, reflecting a ¥1,037 million increase from purchases of rental real estate and investment securities.

Current liabilities totaled ¥21,743 million, increasing ¥29 million. This was due to higher short-term borrowings offsetting a drop in accounts payable and a decline in accrued income tax. Noncurrent liabilities fell by ¥348 million to ¥3,479 million, which was partly due to a reduction in long-term loans. Net assets totaled ¥15,513 million, reflecting a decline of ¥518 million due to dividend payments and a higher foreign currency translation adjustment (reducing net assets).

As a result, total assets declined by ¥838 million to ¥40,736 million, with a 0.6 percentage-point drop in the equity ratio to 35.6%.

(2) Cash flows

Net cash and cash equivalents (“Cash”) at the end of the period under review totaled ¥5,225 million. This was ¥949 million lower than, or 84.6% the level of, the year earlier.

Cash flows developed as follows.

Operating cash flows

Net cash used in operating activities totaled 1,405 million. Main factors were ¥311 million in income for the period before tax, lower accounts payable, increased inventories, settlement of deposits received, and payment of income taxes.

Investing cash flows

Net cash used in investing activities totaled ¥1,914 million. Main factors were purchases of rental real estate and investment securities, and provision of guarantee deposits.

Financing cash flows

Net cash provided by financing activities totaled ¥2,434 million. Main factors were payment of dividends and funds acquired through financing activities.

3. Consolidated earnings forecasts

Consolidated net earnings for the period under review rose on the year despite lower sales. As described above in the "Information on Consolidated Financial Results," operating income and net income for the period under review represented 24% and 46%, respectively, of operating income and net income projected for interim results. As a special characteristic of the Company, quarterly earnings in a normal year weigh higher in the second and third quarters (which include the summer travel season, mid-year gift season, year-end gift season, Christmas, and New Year). Given the significant impact on interim and full-year earnings from sales at airport stores during the peak season, the Company at this point maintains its consolidated and non-consolidated earnings forecasts (semi-annual and full year) released on April 28, 2008, for the fiscal year ending March 2009. In the aviation related business, sales of used aircraft are expected to develop favorably, while in sales of aircraft parts the Company will work to increase the business scale and expand earnings through steps such as strengthening sales to public agencies.

In the corporate solutions business, the real estate business is seen to post lower earnings after last year's strong earnings growth in real estate for sale (land and buildings), but business mainstay sub-leasing is expected to continue strong. In the travel retail business, store operations are concerned over the number of air travelers during the summer travel season. However, in the mail order sales business, the Company will link paper-based media such as the JAL SHOP in-flight catalog with internet-based sales, implement efficient and effective sales promotion, and launch integrated and systematic parallel sales campaigns linking mail order sales, in-flight sales, and BLUE SKY airport stores.

In the food business, wine sales are seen somewhat struggling, but solid performance is expected for agricultural and marine products as well as processed foods. Also gift-use food products are currently performing well, with expectation for earnings growth to continue from last year.

Based on these considerations, the Company will work to realize its interim and full-year earnings targets as initially projected at the start of the fiscal year.

Operating Results (¥ million)	Current period (year ended March 2008)	Next period (E) (year ending March 2009)	Change (%)	Increase/ Decrease
Net sales	120,228	127,000	105.6	6,771
Operating income	2,188	3,000	137.1	811
Ordinary income	2,596	3,100	119.4	503
Net income	978	1,550	158.4	571

4. Other matters

(1) Change in important subsidiaries during the period under review (change in specified subsidiaries due to changes in the scope of consolidation)

None.

(2) Application of simplified accounting procedures and special accounting procedures for the preparation of quarterly consolidated financial statements.

(Calculation method for tax expenses)

The Company calculates tax expenses by rendering a reasonable estimate of the effective tax rate

applicable to consolidated pre-tax income, after accounting for tax effects, for the fiscal year including this first quarter and applying this estimated effective tax rate to income before tax. Deferred income taxes are presented included in current income corporation income tax, residents tax, and enterprise tax.

(3) Change in accounting principles, procedures, and presentation, etc. concerning the preparation of quarterly consolidated financial statement

(i) Application of the Financial Accounting Standard for Quarterly Financial Statements

Beginning with the period under review, the Company applies the Financial Accounting Standard for Quarterly Financial Statements (Financial Accounting Standard No. 12) and the Application Guidelines for the Financial Accounting Standard for Quarterly Financial Statements (Financial Accounting Standard Application Guideline No. 14). The Company prepares consolidated quarterly financial statements in accordance with the Rules Concerning the Preparation of Quarterly Consolidated Financial Statements.

(ii) Application of the Financial Accounting Standard for Inventory Valuation

For the valuation of inventories, the Company has historically used the moving average method and specific identification method as valuation methods. Beginning with the period under review, the Company applies the Financial Accounting Standard for Inventory Valuation (Financial Accounting Standard No. 9; July 5, 2006). Consequently, the Company uses mostly the cost method based on the moving average method and specific identification method to calculate the value of inventories (balance sheet carrying values are written down consistent with declining profitability).

The effects on operating income, ordinary income, and pretax income for the period are negligible.

(iii) Application of the Financial Accounting Standard for Lease Transactions

With regard to finance leases without ownership transfer, the Company has historically applied accounting treatment consistent with that for rental transactions. However, with the Financial Accounting Standard for Lease transactions (Accounting Standards Board of Japan; Financial Accounting Standard No. 13, Revision of March 30, 2007) and the Application Guidelines for the Financial Accounting Standard for Lease transactions (Accounting Standards Board of Japan; Financial Accounting Standard Application Guideline No. 16; Revision of March 30, 2007) becoming available for application to consolidated quarterly financial statements for fiscal years beginning on or after April 1, 2008, the Company applies these accounting standards to lease contracts that begin on or after April 1, 2008, using accounting treatment consistent with regular purchase transactions.

With regard to depreciation charges applicable to lease assets under finance leases without ownership transfer, the Company uses the straight-line method with the contract term as the useful life of the lease asset and with a residual value of zero.

For finance leases without ownership transfer whose start-date predates the first applicable fiscal year, the Company continues to use accounting treatment consistent with normal rental transactions.

This change has no effects on operating income, ordinary income, and pretax income for the period

(iv) Application of the Provisional Guidelines for the Accounting Treatment of Foreign Subsidiaries in the Preparation of Consolidated Financial Statements

Beginning with the period under review, the Company applies the Provisional Guidelines for the Accounting Treatment of Foreign Subsidiaries in the Preparation of Consolidated Financial Statements (Practical Solutions Statement No. 18; May 17, 2006) and has made the adjustments necessary for consolidated financial reporting.

There are no effects on operating income, ordinary income, and pretax income for the period

(v) Changed segment information categories

Segment information categories were changed beginning with the period under review.

5. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheets

(thousand yen)

	End of current 1 st quarter (June 30, 2008)	End of previous consolidated financial year (March 31, 2008)
Assets		
Current assets		
Cash and deposits	5,321,189	6,280,283
Notes and accounts receivable	11,035,271	12,158,395
Merchandise	6,471,122	6,085,069
Real estate for sale	1,230,738	1,224,925
Other	3,295,877	3,483,738
Allowance for doubtful accounts	(19,032)	(21,902)
Total current assets	27,335,166	29,210,510
Fixed assets		
Property, plant and equipment	5,530,492	4,812,603
Intangible fixed assets	1,766,065	1,873,712
Investments and other assets	6,105,210	5,678,117
Total fixed assets	13,401,767	12,364,433
Total assets	40,736,933	41,574,944
Liabilities		
Current liabilities		
Notes and accounts payable	11,409,354	13,259,593
Short-term debt	6,720,199	3,953,469
Accrued corporate tax, etc.	136,140	413,664
Accrued expenses	2,035,060	2,255,387
Other	1,442,598	1,831,545
Total current liabilities	21,743,352	21,713,660
Fixed liabilities		
Long-term debt	2,690,295	2,970,730
Directors' retirement allowances	29,544	30,526
Addition to reserve for compensation to retired directors	64,844	176,561
Other	695,006	650,667
Total fixed liabilities	3,479,691	3,828,486
Total liabilities	25,223,044	25,542,146

(thousand yen)

	End of current 1 st quarter (June 30, 2008)	End of previous consolidated financial year (March 31, 2008)
Net assets		
Shareholder's equity		
Common stock	2,558,550	2,558,550
Paid-in capita	711,499	711,499
Retained earnings	11,590,400	11,885,115
Treasury stock	(10,963)	(10,888)
Total shareholder's equity	14,849,487	15,144,276
Evaluation and conversion figures		
Unrealized gains on securities	(5,045)	(5,890)
Deferred gains or losses on hedges	9,513	(43,161)
Conversion adjustment	(356,456)	(48,576)
Total evaluation and conversion figures	(351,988)	(97,629)
Minority interests	1,016,391	986,150
Total net assets	15,513,889	16,032,797
Total liabilities and net assets	40,736,933	41,574,944

(2) Quarterly Consolidated Income Statement

	(thousand yen)
	Current 1 st quarter (April 1 – to June 30, 2008)
Net sales	27,750,596
Cost of sales	22,200,726
Gross profit	5,549,869
Selling, general and administrative expenses	
Packing and transportation expenses	242,043
Payroll allowance	2,058,082
Employee retirement expenses	116,812
Depreciation	181,331
Rent expenses	1,137,927
Addition to reserve for compensation to retired directors	17,551
Other	1,611,747
Total selling, general and administrative expenses	5,365,497
Operating income	184,372
Non-operating income	
Interest income	1,782
Dividends	6,272
Equity in earnings of affiliates	14,942
Exchange gain	105,898
Agency commissions	12,748
Other	23,143
Total non-operating income	164,788
Non-operating expenses	
Interest paid	30,046
Other	5,858
Total non-operating expenses	35,904
Ordinary income	313,256
Extraordinary profit	
Reversal of allowance for doubtful receivables	2,222
Other	327
Total extraordinary profit	2,550
Extraordinary loss	
Fixed asset disposal losses	4,256
Other	327
Total extraordinary loss	4,584
Net income before adjustment of taxes, etc.	311,221
Corporate income taxes, resident taxes, etc.	125,631
Minority interest in income of consolidated subsidiaries	33,310
Net income	152,280

(3) Quarterly Consolidated Cash Flow Statement

(thousand yen)

	Current 1 st quarter (April 1 – to June 30, 2008)
Net cash from operating activities	
Net income before adjustment of taxes, etc.	311,221
Depreciation	270,342
Decrease in doubtful debt reserve (decline)	(4,422)
Decrease in employee retirement expenses (decline)	(982)
Interest and dividends received	(8,054)
Interest paid	30,046
Exchange gain or loss (gain)	(9,226)
Equity in earnings of affiliates (gain)	(14,942)
Loss on retirement of fixed assets (gain)	3,928
Increase (decrease) in accounts receivable (increase)	698,942
Increase (decrease) in inventories (increase)	(554,333)
Increase (decrease) in accounts payable (decline)	(1,521,900)
Increase (decrease) in advance payments (increase)	131,375
Increase in advance payments received (decline)	17,451
Change in claims in bankruptcy rehabilitation (increase)	100
Increase (decrease) in prepaid pension cost (increase)	40,319
Other	(479,100)
Subtotal	(1,089,233)
Interest and dividends received	49,502
Interest paid	(28,059)
Corporate taxes paid	(337,432)
Net cash provided by operating activities	(1,405,223)
Cash flows from investing activities	
Payments for acquisition of property, plant and equipment	(1,313,224)
Proceeds from sales of property, plant and equipment	487
Payments for acquisition of intangible fixed assets	(112,842)
Payments for acquisition of investment securities	(249,622)
Expense for loans	(140)
Proceeds from loan collection	2,353
Payments for term deposits	(272)
Expense for increase in long-term rental deposits	(265,777)
Income from decrease in long-term rental deposits	15,229
Increase in restrictive deposits (increase)	15,130
Other	(6,083)
Net cash provided by (used for) investing activities	(1,914,761)

	(thousand yen)
	Current 1 st quarter
	(April 1 – to June 30, 2008)
Net cash from financing activities	
Net increase (decrease) in short-term debt	2,995,724
Payments for long-term debt	(109,376)
Dividends paid	(450,166)
Other	(1,390)
Net cash from financing activities	2,434,790
Conversion effect on cash and cash equivalents	(64,468)
Net increase in cash and cash equivalents	(949,663)
Cash and cash equivalents at beginning of period	6,174,828
Cash and cash equivalents at the end of period	5,225,165

(4) Notes concerning going-concern assumption: None.

(5) Segment data by business type

Current 1 st quarter (April 1 to June 30, 2008)							
	Aviation-related	Corporate solutions	Travel retail	Food & Beverage	Total	Elimination or unallocated amount	Consolidated
Net sales							
1. External customers	9,134,885	4,255,318	10,663,690	3,696,702	27,750,596	—	27,750,596
2. Inter-segment internal sales / transfers	2,487	22,715	3,158	12,302	40,663	(40,663)	—
Total	9,137,372	4,278,034	10,666,848	3,709,004	27,791,259	(40,663)	27,750,596
Operating expenses	8,778,558	3,890,975	10,344,249	3,679,715	26,693,498	872,724	27,566,223
Operating income	358,813	387,058	322,598	29,289	1,097,760	(913,387)	184,372

Notes: 1. Method of business classification

Businesses are classified with consideration for sales targets and methods, products supplied, and profit/loss aggregates.

2. Main products and sales for each business

- | | | |
|-------------------------|-------|--|
| (1) Aviation-related | ----- | Aircraft, Aircraft components, Machinery/Facilities, Materials, Cabin service supply, Textiles supply, Clothing/Uniform |
| (2) Corporate solutions | ----- | Printing, Insurance, Real estate, Property management |
| (3) Travel retail | ----- | Cabin service supply, Brand/Fashion, Mail-order sales, Overseas real estate, Souvenir/Specialty goods, Restaurant, Duty-free items |
| (4) Food & Beverage | ----- | Agricultural & marine products, Processed foods, Wine, Food gift items |

3. For operating expenses in the current first quarter, non-allocatable operating expense included in the elimination or unallocated amount totalled 907 million yen. The main reason was costs relating to the Management Department including General Affairs Division at the parent company's headquarters.

4. Change in business categories

In a reorganization effort dated June 18, 2008, the Company reorganized part of its existing business divisions. Based on a concept that judges sales strategies and sales activities from the perspective of the receiving markets, the so-called "market-in concept," the Company formed a Corporate Sales Division and a Retail Business Division, respectively centered on the BtoB business and BtoC business. At the same time, based on a review of divisions' merchandise by product affiliation and sales format, the Company changed its segment categories from the previous aviation-related business, lifestyle services business, and customer services business, to the four categories of aviation-related business, corporate solutions business, travel retail business, and the food & beverage business.

Segment information by business category for the first quarter of the previous fiscal year are shown below based on the new categories used in the period under review.

Previous 1 st quarter (April 1 to June 30, 2007)								
							(thousand yen)	
	Aviation-related	Corporate solutions	Travel retail	Food & Beverage	Total	Elimination or unallocated amount	Consolidated	
Net sales								
1. External customers	9,857,947	4,023,293	10,388,910	3,683,910	27,954,061	—	27,954,061	
2. Inter-segment internal sales / transfers	734	24,184	238	22,456	47,614	(47,614)	—	
Total	9,858,681	4,047,477	10,389,149	3,706,366	28,001,675	(47,614)	27,954,061	
Operating expenses	9,332,307	3,614,648	10,069,094	3,609,481	26,625,531	916,069	27,541,601	
Operating income	526,374	432,828	320,055	96,884	1,376,143	(963,683)	412,460	

(6) Notes in case of a material change in shareholders' equity. : None.

[Notes]

Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Income Statement

(thousand yen)

Account	Previous 1 st quarter (April 1 – to June 30, 2007)
	Amount
Net sales	27,954,061
Cost of sales	22,290,418
Gross profit	5,663,642
Selling, general and administrative expenses	
Payroll allowance	2,035,992
Employee retirement expenses	50,142
Rent expenses	1,152,576
Depreciation	162,465
Addition to reserve for compensation to retired directors	15,148
Other	1,834,856
Total selling, general and administrative expenses	5,251,182
Operating income	412,460
Non-operating income	
Dividends	7,733
Other	36,874
Total non-operating income	44,607
Non-operating expenses	
Interest paid	24,326
Equity in losses of affiliates	23,663
Exchange loss	89
Other	9,115
Total non-operating expenses	57,194
Ordinary income	399,873
Extraordinary profit	23,005
Extraordinary loss	36,065
Net income before adjustment of taxes, etc.	386,812
Tax expenses	233,511
Minority interest in income of consolidated subsidiaries	37,622
Net income	115,678

(2) Segment data by business type

Previous 1 st quarter (April 1 to June 30, 2007) (thousand yen)						
	Aviation-related	Lifestyle services	Customer services	Total	Elimination or unallocated amount	Consolidated
Net sales, operating income and loss						
Net sales						
1. External customers	11,584,075	6,581,353	9,788,631	27,954,061	—	27,954,061
2. Inter-segment internal sales / transfers	299,231	27,512	—	326,744	(326,744)	—
Total	11,883,307	6,608,866	9,788,631	28,280,805	(326,744)	27,954,061
Operating expenses	11,272,350	6,432,972	9,213,358	26,918,681	622,919	27,541,601
Operating income	610,957	175,894	575,273	1,362,124	(949,664)	412,460

Notes: 1. Method of business classification

Businesses are classified with consideration for sales targets and methods, products supplied, and profit/loss aggregates.

2. Main products and sales for each business

- (1) Aviation-related ----- Aircraft, aircraft components, machinery, equipment & materials, cabin service supplies, in-flight sales, and textile supplies (consulting service and supporting work, wholesale business, etc.)
- (2) Lifestyle services ----- General merchandise, agricultural & marine products, processed foods, food gift items, wine & liquor, and creative design & printing (catalog sales, Web sites, wholesale business, etc.)
- (3) Customer services ----- Life design services (insurance/FP, real estate), Blue Sky airport shops, and JAL-DFS duty-free shops

3. For operating expenses in the current first quarter, non-allocatable operating expense included in the elimination or unallocated amount totalled 949 million yen. The main reason was costs relating to the Management Department including General Affairs Division at the parent company's headquarters.