

## Report of Independent Auditors

The Board of Directors  
JALUX Inc.

We have audited the accompanying consolidated balance sheets of JALUX Inc. and consolidated subsidiaries as of March 31, 2007 and 2006, and the related consolidated statements of income, changes in net assets, and cash flows for each of three years in the period ended March 31, 2007, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of JALUX Inc. and consolidated subsidiaries at March 31, 2007 and 2006, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2007 in conformity with accounting principles generally accepted in Japan.

### *Supplemental Information*

As described in Note 2, effective the fiscal year ended March 31, 2005, JALUX Inc. and its consolidated subsidiaries adopted early a new accounting standard for impairment of fixed assets as early adoption of the standard was permitted from the fiscal year ended March 31, 2004.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2007 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3.

October 25, 2007

JALUX Inc. and Consolidated Subsidiaries

Consolidated Balance Sheets

	<b>March 31,</b>		
	<b>2007</b>	<b>2006</b>	<b>2007</b>
	<i>(Thousands of yen)</i>		<i>(Thousands of U.S. dollars)</i> <i>(Note 3)</i>
<b>Assets</b>			
Current assets:			
Cash and time deposits	¥ 5,688,228	¥ 4,954,081	\$ 48,205
Notes and accounts receivable <i>(Notes 15 and 16)</i> :			
Trade	13,408,709	11,291,926	113,633
Parent	–	3,626	–
Unconsolidated subsidiary and affiliates	61,010	88,501	517
Other	1,656,721	2,133,644	14,040
Allowance for doubtful accounts	(29,364)	(43,653)	(249)
Short-term investment in securities <i>(Note 5)</i>	7,681	–	65
Inventories	6,117,340	5,653,412	51,842
Deferred income taxes <i>(Note 9)</i>	469,397	473,671	3,978
Other <i>(Note 16)</i>	2,178,944	744,498	18,466
Total current assets	<u>29,558,670</u>	<u>25,299,710</u>	<u>250,497</u>
Investments and advances:			
Unconsolidated subsidiaries and affiliates	2,257,327	2,224,261	19,130
Other <i>(Note 5)</i>	604,436	459,512	5,122
Total investments and advances	<u>2,861,763</u>	<u>2,683,773</u>	<u>24,252</u>
Property and equipment <i>(Note 6)</i> :			
Land	293,077	412,073	2,484
Buildings and structures	4,375,069	4,582,931	37,077
Machinery and vehicles	239,651	307,458	2,031
Flight equipment	3,742,954	3,229,398	31,720
Construction in process	99,307	51,151	842
Other	755,219	760,305	6,400
	<u>9,505,280</u>	<u>9,343,319</u>	<u>80,553</u>
Accumulated depreciation	(4,295,003)	(3,958,383)	(36,398)
Property and equipment, net	<u>5,210,276</u>	<u>5,384,936</u>	<u>44,155</u>
Intangible assets:			
Software	422,595	293,953	3,581
Software under development	1,410,977	933,038	11,957
Other	28,201	30,966	239
Total intangible assets	<u>1,861,775</u>	<u>1,257,958</u>	<u>15,778</u>
Long-term loans	530,925	462,941	4,499
Deposits for business space <i>(Note 16)</i>	1,860,995	1,917,076	15,771
Deferred income taxes <i>(Note 9)</i>	276,601	342,692	2,344
Other assets, net	184,928	211,715	1,567
	<u>¥42,345,936</u>	<u>¥37,560,804</u>	<u>\$358,864</u>

	<b>March 31,</b>		
	<b>2007</b>	<b>2006</b>	<b>2007</b>
	<i>(Thousands of yen)</i>		<i>(Thousands of U.S. dollars)</i> <i>(Note 3)</i>
<b>Liabilities and net assets</b>			
Current liabilities:			
Short-term borrowings <i>(Notes 6 and 16)</i>	¥ 2,632,869	¥ 1,846,696	\$ 22,312
Current portion of long-term debt <i>(Note 6)</i>	1,198,467	1,153,966	10,157
Notes and accounts payable <i>(Note 15)</i> :			
Trade	12,890,050	11,295,702	109,238
Unconsolidated subsidiary and affiliates	671,493	558,947	5,691
Accrued expenses	2,407,705	2,267,168	20,404
Accrued income taxes <i>(Note 9)</i>	684,399	596,344	5,800
Other	2,552,839	2,238,365	21,634
Total current liabilities	<u>23,037,825</u>	<u>19,957,190</u>	<u>195,236</u>
Long-term debt <i>(Note 6)</i>	3,388,976	2,967,180	28,720
Accrued pension and severance costs <i>(Note 7)</i>	112,767	283,616	956
Directors' and statutory auditors' retirement benefits	195,006	185,728	1,653
Deferred income taxes <i>(Note 9)</i>	90,412	57,027	766
Other	5,370	6,744	46
Commitments and contingent liabilities <i>(Notes 11 and 12)</i>			
Net assets <i>(Note 10)</i> :			
Common stock, without par value:			
Authorized: 20,000,000 shares			
Issued: 12,775,000 shares in 2007 and 2006	2,558,550	2,558,550	21,683
Capital surplus	711,421	711,363	6,029
Retained earnings	11,289,771	9,992,376	95,676
Common stock in treasury: 14,429 shares in 2007 and 14,319 shares in 2006	(9,677)	(9,284)	(82)
Net unrealized gain on other securities, net of taxes <i>(Note 5)</i>	13,707	22,663	116
Net unrealized loss (gain) on hedging instruments, net of taxes	4,068	(2,609)	34
Translation adjustments	7,144	(51,101)	61
Minority interests	940,591	881,358	7,971
Total net assets	<u>15,515,577</u>	<u>14,103,315</u>	<u>131,488</u>
	<u>¥42,345,936</u>	<u>¥37,560,804</u>	<u>\$358,864</u>

*The accompanying notes are an integral part of these statements.*

JALUX Inc. and Consolidated Subsidiaries

Consolidated Statements of Income

	Year ended March 31,			
	2007	2006	2005	2007
	<i>(Thousands of yen)</i>			<i>(Thousands of U.S. dollars)</i> <i>(Note 3)</i>
Operating revenues <i>(Notes 14 and 16)</i>	¥114,133,497	¥107,952,007	¥98,622,995	\$967,233
Operating expenses <i>(Notes 14 and 16)</i> :				
Cost of sales	89,602,555	84,595,451	75,549,297	759,344
Selling, general and administrative expenses	21,284,783	20,911,898	20,332,031	180,380
	<u>110,887,338</u>	<u>105,507,350</u>	<u>95,881,328</u>	<u>939,723</u>
Operating income	<u>3,246,158</u>	<u>2,444,656</u>	<u>2,741,667</u>	<u>27,510</u>
Non-operating income (expenses):				
Interest income	16,998	19,283	42,343	144
Interest expense	(132,492)	(94,722)	(69,082)	(1,123)
Equity in earnings of affiliates	162,429	108,864	78,921	1,377
Other, net <i>(Note 8)</i>	(126,866)	691,679	57,259	(1,075)
	<u>(79,930)</u>	<u>725,104</u>	<u>109,441</u>	<u>(677)</u>
Income before income taxes and minority interests	<u>3,166,227</u>	<u>3,169,761</u>	<u>2,851,108</u>	<u>26,832</u>
Income taxes <i>(Note 9)</i> :				
Current	1,309,046	1,246,151	1,349,346	11,094
Deferred	93,932	49,784	(78,800)	796
	<u>1,402,979</u>	<u>1,295,936</u>	<u>1,270,546</u>	<u>11,890</u>
Minority interests	<u>(183,420)</u>	<u>(184,584)</u>	<u>(144,891)</u>	<u>(1,554)</u>
Net income	<u>¥ 1,579,827</u>	<u>¥ 1,689,240</u>	<u>¥ 1,435,670</u>	<u>\$ 13,388</u>

*The accompanying notes are an integral part of these statements.*

**JALUX Inc. and Consolidated Subsidiaries**  
**Consolidated Statements of Changes in Net Assets**

	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Common stock in treasury	Net unrealized gain on other securities, net of taxes (Note 5)	Net unrealized gain (loss) on hedging instruments, net of taxes (Note 15)	Translation adjustments	Minority interests	Total
	<i>(Thousands of yen)</i>									
Balance at March 31, 2004	12,775,000	¥2,558,550	¥711,260	¥ 7,448,232	¥(6,863)	¥ 8,053	¥ 8,501	¥(242,130)	¥626,225	¥11,111,829
Net income for the year ended March 31, 2005				1,435,670						1,435,670
Cash dividends				(255,439)						(255,439)
Bonuses to directors and statutory auditors				(19,562)						(19,562)
Purchases of common stock in treasury					(2,169)					(2,169)
Sales of common stock in treasury										
Other			36		19	2,360	13,048	(21,816)	107,704	101,296
Balance at March 31, 2005	12,775,000	2,558,550	711,296	8,608,902	(9,013)	10,413	21,549	(263,946)	733,930	12,371,682
Net income for the year ended March 31, 2006				1,689,240						1,689,240
Cash dividends				(280,974)						(280,974)
Bonuses to directors and statutory auditors				(24,792)						(24,792)
Share increase in affiliate					(7)					(7)
Purchases of common stock in treasury					(313)					(313)
Sales of common stock in treasury										
Other			66		49	12,250	(24,158)	212,844	147,427	348,363
Balance at March 31, 2006	12,775,000	2,558,550	711,363	9,992,376	(9,284)	22,663	(2,609)	(51,101)	881,358	14,103,315
Net income for the year ended March 31, 2007				1,579,827						1,579,827
Cash dividends				(306,515)						(306,515)
Adjustment due to changes in the number of affiliates				24,082						24,082
Share decrease in affiliate					8					8
Purchases of common stock in treasury					(452)					(452)
Sales of common stock in treasury										
Other			58		51	(8,956)	6,677	58,246	59,233	115,201
Balance at March 31, 2007	12,775,000	¥2,558,550	¥711,421	¥11,289,771	¥(9,677)	¥13,707	¥ 4,068	¥ 7,144	¥940,591	¥15,515,577

  

	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Common stock in treasury	Net unrealized gain on other securities, net of taxes (Note 5)	Net unrealized gain (loss) on hedging instruments, net of taxes (Note 15)	Translation adjustments	Minority interests	Total
	<i>(Thousands of U.S. dollars)</i>									
Balance at March 31, 2006	12,775,000	\$21,683	\$6,029	\$84,681	\$(79)	\$192	\$(22)	\$(433)	\$7,469	\$119,520
Net income for the year ended March 31, 2007				13,388						13,388
Cash dividends				(2,598)						(2,598)
Adjustment due to changes in the number of affiliates				204						204
Share decrease in affiliate					0					0
Purchases of common stock in treasury					(4)					(4)
Sales of common stock in treasury										
Other			0		0	(76)	57	494	502	976
Balance at March 31, 2007	12,775,000	\$21,683	\$6,029	\$95,676	\$(82)	\$116	\$ 34	\$ 61	\$7,971	\$131,488

*The accompanying notes are an integral part of these statements.*

# JALUX Inc. and Consolidated Subsidiaries

## Consolidated Statements of Cash Flows

	Year ended March 31,			
	2007	2006	2005	2007
	<i>(Thousands of yen)</i>			<i>(Thousands of U.S. dollars)</i> <i>(Note 3)</i>
<b>Operating activities</b>				
Income before income taxes and minority interests	¥ 3,166,227	¥ 3,169,761	¥ 2,851,108	\$ 26,832
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:				
Depreciation and amortization	759,293	696,862	634,346	6,435
Provision for allowance for doubtful accounts	(35,300)	(15,041)	(9,234)	(299)
Net provision for accrued pension and severance costs	(170,848)	(45,483)	116,898	(1,448)
Interest and dividend income	(57,980)	(55,840)	(80,618)	(491)
Interest expense	132,492	94,722	69,082	1,123
Exchange (gain) loss, net	(52,210)	(26,545)	(3,192)	(442)
Equity in earnings of affiliates	(162,429)	(108,864)	(78,921)	(1,377)
Loss on changes in equity interest	14,343	8,550	-	122
Loss (gain) on sales of, and loss on disposal of property and equipment	126,112	14,289	(81,246)	1,069
Impairment losses on fixed assets	9,382	26,507	123,340	80
Loss (gain) on sales of investments in securities	3,599	-	(15,995)	31
Loss on sales of investments in affiliates	1,265	-	-	11
(Increase) decrease in notes and accounts receivable	(1,675,530)	(673,942)	979,608	(14,199)
Increase in inventories	(150,434)	(343,115)	(101,030)	(1,275)
Increase (decrease) in notes and accounts payable	1,628,897	884,319	(1,445,848)	13,804
(Increase) decrease in advance payment	(1,409,312)	626,720	(175,201)	(11,943)
Increase in advance received	670,312	124,114	295,571	5,681
Decrease in bad debts on receivables	25,784	17,782	47,587	219
Payments of bonuses to directors and statutory auditors	(22,870)	(26,100)	(20,570)	(194)
Other, net	62,399	(377,201)	128,189	529
Subtotal	2,863,193	3,991,497	3,233,873	24,264
Interest and dividends received	72,140	70,272	94,819	611
Interest paid	(118,387)	(89,566)	(66,912)	(1,003)
Income taxes paid	(1,223,163)	(1,449,779)	(1,260,408)	(10,366)
Net cash provided by operating activities	1,593,783	2,522,424	2,001,372	13,507
<b>Investing activities</b>				
Purchases of property and equipment	(748,410)	(1,096,982)	(699,801)	(6,342)
Proceeds from sales of property and equipment	10,701	12,022	243,822	91
Purchases of investment in unconsolidated subsidiaries and affiliates	(50,000)	(30,000)	(50,000)	(424)
Proceeds from sales of investments in affiliates	54,683	-	-	463
Purchases of intangible assets	(727,972)	(895,550)	(119,932)	(6,169)
Purchases of investments in securities	(192,358)	(262,307)	(51,264)	(1,630)
Proceeds from sales of investments in securities	3,900	100,280	78,376	33
Purchases of investments in capital	-	(5,000)	(50,000)	-
Purchases of investments in unconsolidated subsidiaries	-	(115,561)	-	-
Long-term loans receivable made	(220,761)	(1,741)	(121,685)	(1,871)
Collection of long-term loans	40,229	465,153	612,942	341
Purchases of time deposits	(37,200)	(243,613)	-	(315)
Proceeds from maturity of time deposits	-	268,628	272	-
Increase in deposits for business space	(236,374)	(82,982)	(100,934)	(2,003)
Decrease in deposits for business space	310,399	28,349	700,135	2,631
Other, net	(30,383)	2,563	(56,009)	(257)
Net cash (used in) provided by investing activities	(1,823,547)	(1,856,740)	385,922	(15,454)
<b>Financing activities</b>				
Increase (decrease) in short-term borrowings, net	766,679	5,906	(258,160)	6,497
Proceeds from long-term loans	1,675,120	639,602	468,900	14,196
Repayment of long-term loans	(1,246,722)	(1,192,628)	(1,288,953)	(10,565)
Dividends paid to stockholders	(303,575)	(280,974)	(255,439)	(2,573)
Dividends paid to minority interests	(123,114)	(36,990)	(36,000)	(1,043)
Other, net	(3,294)	(1,381)	(1,868)	(28)
Net cash provided by (used in) financing activities	765,092	(866,466)	(1,371,520)	6,484
Effect of exchange rate changes on cash and cash equivalents	48,335	12,859	12,875	410
Net increase (decrease) in cash and cash equivalents	583,663	(187,922)	1,028,649	4,946
Cash and cash equivalents at beginning of the year	4,946,949	5,134,871	4,106,222	41,923
Increase in cash and cash equivalents arising from initial inclusion of subsidiaries in consolidation	115,561	-	-	979
Cash and cash equivalents at end of the year	¥ 5,646,173	¥ 4,946,949	¥ 5,134,871	\$ 47,849

*The accompanying notes are an integral part of these statements.*

JALUX Inc. and Consolidated Subsidiaries  
Notes to Consolidated Financial Statements

March 31, 2007

**1. Summary of Significant Accounting Policies**

a. Basis of preparation

JALUX Inc. (the “Company”) and its consolidated domestic subsidiaries maintain their accounting records and prepare their financial statements in accordance with accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and its consolidated foreign subsidiaries, in conformity with those of their countries of domicile. The accompanying consolidated financial statements have been compiled from the consolidated financial statements filed with the Financial Services Agency as required by the Securities and Exchange Law of Japan and include certain additional financial information for the convenience of readers outside Japan.

As permitted by the Securities and Exchange Law of Japan, amounts of less than one thousand yen have been omitted. As a result, the totals shown in the accompanying consolidated financial statements (both in yen and U.S. dollars) do not necessarily agree with the sum of the individual amounts.

Certain amounts previously reported have been reclassified to conform to the current year’s classification except for the effects with respect to the adoption of new accounting standards.

b. Principles of consolidation and accounting for investments in unconsolidated subsidiaries and affiliates

The consolidated financial statements include the accounts of the Company and significant companies controlled directly or indirectly by the Company. Companies over which the Company exercises significant influence in terms of their operating and financial policies have been included in the consolidated financial statements on an equity basis.

The balance sheet date of six of the consolidated subsidiaries is December 31. Any significant differences in intercompany accounts and transactions arising from intervening intercompany transactions during the period from January 1 through March 31 have been adjusted, if necessary, for the respective years.

All significant intercompany accounts and transactions and unrealized gain or loss on intercompany accounts and transactions have been eliminated.

## 1. Summary of Significant Accounting Policies (continued)

### c. Securities

Securities except for investments in an unconsolidated subsidiaries and affiliates are classified as trading securities, held-to-maturity securities or other securities. Trading securities are carried at fair value. Held-to-maturity securities are carried at amortized cost. Marketable securities classified as other securities are carried at fair value with any unrealized gain or loss reported as a separate component of net assets, net of taxes. Non-marketable securities classified as other securities are carried at cost. Cost of securities sold is determined principally by the average method.

### d. Derivatives

Derivatives positions are stated at fair value.

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

### e. Inventories

Inventories are stated at cost determined as follows:

Merchandise	– principally by the first-in, first-out method
Real estate for sale	– by the specific identification method
Supplies for aircraft cabins	– by the moving average method

(Notes)

The Company changes a classification. As a result ¥279,216 thousand of yen (\$2,366 thousands of U.S. dollars) of property and equipment (Building and structure, Land, Other) is transferred to Inventories on March 31, 2007.

### f. Property and equipment

Property and equipment is stated at cost and depreciation is computed as follows:

Flight equipment:

Depreciation of flight equipment is computed by the straight-line method based on the estimated useful lives of the respective assets.



## 1. Summary of Significant Accounting Policies (continued)

### f. Property and equipment (continued)

Other property and equipment:

For the Company and the consolidated domestic subsidiaries, depreciation of the shops in airports is computed principally by the straight-line method and depreciation of other property and equipment is computed principally by the declining-balance method based on the useful lives stipulated in the Corporation Tax Law of Japan. The consolidated foreign subsidiaries principally adopt the straight-line method based on the estimated useful lives of the respective assets.

### g. Software

Computer software intended for internal use is amortized by the straight-line method based on their estimated useful life.

### h. Accrued pension and severance costs

To provide for employees' severance indemnities and pension payments, net periodic pension and severance costs are computed based on the projected benefit obligation and the pension plan assets.

The unrecognized benefit obligation at transition is being amortized by the straight-line method principally over a period of 5 years.

The adjustment incurred during this fiscal year arising from revisions to the actuarial assumptions (the "actuarial assumption adjustment") is to be amortized by the straight-line method beginning the following fiscal year over a period of 5 years, which is less than the average remaining years of service of the active participants in the plans.

### i. Directors' and statutory auditors' retirement benefits

Reserve for directors' and statutory auditors' retirement benefits is provided at the amount which would have been paid had all directors and statutory auditors resigned at the year end.

### j. Reserve for bonuses to officers

Reserve for bonuses to officers is provided for at the necessary amounts based on the estimated amounts payable at the end March 31, 2007.

## 1. Summary of Significant Accounting Policies (continued)

### k. Foreign currency translation

Foreign currency receivables and payables are translated into yen at the applicable year-end exchange rates and translation adjustments are included in current earnings.

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

### l. Leases (As lessee)

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

### m. Cash equivalents

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

## 2. Accounting Change

### *Accounting Standard for Presentation of Net Assets in the Balance Sheet*

Effective April 1, 2006, the Company and its consolidated subsidiaries have adopted the "Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Accounting Standards Board of Japan Statement No. 5 issued on December 9, 2005) and the "Implementation Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Accounting Standards Board of Japan Implementation Guidance No. 8 issued on December 9, 2005). In this connection, the financial statements for the years ended March 31, 2006 and 2005 have been restated to conform to the presentation of the financial statements for the year ended March 31, 2007.

### *Impairment of Fixed Assets*

A new Japanese accounting standard "Impairment of Fixed Assets" was issued in August 2002 that is effective for fiscal years beginning on or after April 1, 2005. Early adoption is allowed from fiscal years beginning on or after April 1, 2004 and an application from fiscal years ending March 31, 2004 to March 30, 2005 is also permitted. The new standard requires that tangible and intangible fixed assets be carried at cost less depreciation, and be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Companies would be required to recognize an impairment loss in their income statement if certain indicators of asset impairment exist and the book value of an asset exceeds the undiscounted sum of future cash flows of the asset.

## 2. Accounting Change (continued)

### *Impairment of Fixed Assets (continued)*

Effective the fiscal year ended March 31, 2005, the Company and its consolidated subsidiaries opted for an early adoption of the new accounting standard for the impairment of fixed assets. The effect of adoption of this standard was to recognize an impairment loss of ¥123,340 thousand. As a result, income before income taxes and minority interests decreased by ¥123,340 thousand.

After the recognition of the impairment loss, “fixed assets” represents the total recoverable amount which is stated at the carrying amount less the accumulated impairment loss. See Note 15 for the effective of the loss on impairment of fixed assets on the segment information.

## 3. U.S. Dollar Amounts

Amounts in U.S. dollars are included solely for the convenience of the reader. The rate of ¥118.00 = U.S.\$1.00, the approximate exchange rate prevailing on March 31, 2007, has been used. The inclusion of such amounts is not intended to imply that yen have been or could be readily converted, realized or settled in U.S. dollars at that or any other rate.

## 4. Cash Flow Information

The components of cash and cash equivalents are summarized as follows:

	<b>March 31,</b>		
	<u>2007</u>	<u>2006</u>	<u>2007</u>
	<i>(Thousands of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Cash and time deposits	¥5,688,228	¥4,954,081	\$48,205
Time deposits with maturities of more than three months	(65,474)	(9,186)	(555)
Credit balances of current accounts included in short-term bank loans	(758)	(1,774)	(6)
Current assets – other (Deposits Paid)	24,178	3,828	205
	<u>¥5,646,173</u>	<u>¥4,946,949</u>	<u>\$47,849</u>

## 5. Fair Value of Securities

The Company and its consolidated subsidiaries did not possess any trading securities or held-to-maturity securities at March 31, 2007 and 2006. Securities classified as other securities have been included in “investments and advances – other” in the accompanying consolidated balance sheets at March 31, 2007 and 2006.

The components of unrealized gain or loss on marketable securities classified as other securities at March 31, 2007 and 2006 are summarized as follows:

	<b>March 31, 2007</b>		
	Acquisition costs	Carrying value	Unrealized gain (loss)
	<i>(Thousands of yen)</i>		
Unrealized gain:			
Stocks	¥ 27,566	¥ 69,374	¥ 41,808
Bonds:			
Government bonds	7,162	7,681	519
Other	3,802	5,723	1,920
	<u>38,531</u>	<u>82,779</u>	<u>44,248</u>
Unrealized loss:			
Stocks	52,689	38,916	(13,773)
Bonds:			
Other	100,000	94,780	(5,220)
	<u>152,689</u>	<u>133,696</u>	<u>(18,993)</u>
Total	<u>¥191,220</u>	<u>¥216,475</u>	<u>¥ 25,255</u>

	<b>March 31, 2007</b>		
	Acquisition costs	Carrying value	Unrealized gain (loss)
	<i>(Thousands of U.S. dollars)</i>		
Unrealized gain:			
Stocks	\$ 234	\$ 588	\$ 354
Bonds:			
Government bonds	61	65	4
Other	32	49	16
	<u>327</u>	<u>702</u>	<u>375</u>
Unrealized loss:			
Stocks	447	330	(117)
Bonds:			
Other	847	803	(44)
	<u>1,294</u>	<u>1,133</u>	<u>161</u>
Total	<u>\$1,621</u>	<u>\$1,835</u>	<u>\$ 214</u>

## 5. Fair Value of Securities (continued)

	<b>March 31, 2006</b>		
	Acquisition costs	Carrying value	Unrealized gain (loss)
	<i>(Thousands of yen)</i>		
Unrealized gain:			
Stocks	¥23,279	¥60,230	¥36,951
Bonds:			
Government bonds	7,162	8,060	898
Other	3,798	6,307	2,509
	<u>34,239</u>	<u>74,599</u>	<u>40,359</u>
Unrealized loss:			
Stocks	6,617	5,475	(1,142)
	<u>6,617</u>	<u>5,475</u>	<u>(1,142)</u>
Total	<u>¥40,857</u>	<u>¥80,074</u>	<u>¥39,216</u>

Non-marketable securities classified as other securities at March 31, 2007 and 2006 amounted to ¥328,228 thousand (\$2,782 thousand) and ¥292,883 thousand, respectively.

Proceeds from sales of securities classified as other securities amounted to ¥3,900 thousand (\$33 thousand) and ¥28,112 thousand with an aggregate gain of ¥3,899 thousand (\$33 thousand) and ¥15,995 thousand and an aggregate loss of ¥7,499 thousand (\$64 thousand) and nil for the years ended March 31, 2007 and 2005, respectively.

The redemption schedule for securities with maturity dates which were classified as other securities as of March 31, 2007 and 2006 are summarized as follows:

	<b>March 31, 2007</b>		
	Due in one year or less	Due after one year through five years	Due after ten years
	<i>(Thousands of yen)</i>		
Bonds:			
Government bonds	¥7,500	¥ –	¥ –
Other	–	–	100,000
Other:			
Investment trusts	–	5,723	–
Total	<u>¥7,500</u>	<u>¥5,723</u>	<u>¥100,000</u>

## 5. Fair Value of Securities (continued)

	<b>March 31, 2007</b>		
	Due in one	Due after one	Due after
	year or less	year through	ten years
		five years	
	<i>(Thousands of U.S. dollars)</i>		
Bonds:			
Government bonds	\$64	\$ –	\$ –
Other	–	–	847
Other:			
Investment trusts	–	49	–
Total	<u>\$64</u>	<u>\$49</u>	<u>\$847</u>

	<b>March 31,</b>
	<b>2006</b>
	Due after one
	year through
	five years
	<i>(Thousands of yen)</i>
Bonds:	
Government bonds	¥ 7,500
Other:	
Investment trusts	6,307
Total	<u>¥13,807</u>

## 6. Short-Term Borrowings and Long-Term Debt

The weighted average interest rates on short-term borrowings outstanding at March 31, 2007 and 2006 were 4.10% and 3.95%, respectively.

Long-term debt at March 31, 2007 and 2006 consisted of the following:

	<b>March 31,</b>		
	<b>2007</b>	<b>2006</b>	<b>2007</b>
	<i>(Thousands of yen)</i>	<i>(Thousands of yen)</i>	<i>(Thousands of U.S. dollars)</i>
Loans with collateral, due 2006 to 2013, at rates ranging from 3.84% to 7.03%	¥ 2,450,179	¥ 2,154,305	\$ 20,764
Loans without collateral, due 2006 to 2013, at rates ranging from 1.28% to 2.68%	1,707,000	1,547,729	14,466
Other	430,265	419,112	3,646
	<u>4,587,444</u>	<u>4,121,147</u>	<u>38,877</u>
Less current portion of long-term debt	<u>(1,198,467)</u>	<u>(1,153,966)</u>	<u>(10,157)</u>
	<u>¥ 3,388,976</u>	<u>¥ 2,967,180</u>	<u>\$ 28,720</u>

## 6. Short-Term Borrowings and Long-Term Debt (continued)

The aggregate annual maturities of long-term debt subsequent to March 31, 2007 are summarized as follows:

<u>Year ending March 31,</u>	<u>(Thousands of yen)</u>	<u>(Thousands of U.S. dollars)</u>
2008	¥1,198,467	\$10,157
2009	895,897	7,592
2010	709,043	6,009
2011	590,789	5,007
2012 and thereafter	1,193,247	10,112
	<u>¥4,587,444</u>	<u>\$38,877</u>

Assets pledged as collateral for long-term debt at March 31, 2007 and 2006 are summarized as follows:

	<b>March 31,</b>		
	<u>2007</u>	<u>2006</u>	<u>2007</u>
	<i>(Thousands of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Land	¥ 200,121	¥ 198,357	\$ 1,696
Buildings and structures, net of accumulated depreciation	1,294,479	1,351,567	10,970
Flight equipment, net of accumulated depreciation	1,776,177	2,008,356	15,052
Construction in process	86,167	-	730
	<u>¥3,356,946</u>	<u>¥3,558,282</u>	<u>\$28,449</u>

## 7. Accrued Pension and Severance Costs

An employee whose employment is terminated is entitled, in most cases, to pension payments or lump-sum severance indemnities, the amounts of which are determined by reference to the basic rate of pay, length of service and the conditions under which the termination occurs.

The Company and the consolidated domestic subsidiaries have principally non-contributory defined pension plans. Certain consolidated foreign subsidiaries have defined contribution pension plans.

## 7. Accrued Pension and Severance Costs (continued)

The projected benefit obligation and the funded status of the plans including a portion of the governmental welfare pension program were as follows:

	<b>March 31,</b>		
	<b>2007</b>	<b>2006</b>	<b>2007</b>
	<i>(Thousands of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Projected benefit obligation	¥(2,954,334)	¥(2,786,977)	\$(25,037)
Plan assets	2,769,975	2,486,934	23,474
Accrued pension and severance costs	112,767	283,616	956
Net unrecognized amount	<u>¥ (71,591)</u>	<u>¥ (16,426)</u>	<u>\$ (607)</u>

In computing the projected benefit obligation, several simplified methods are permitted for small companies, and certain of the Company's consolidated subsidiaries have adopted such methods.

The net unrecognized amount was as follows:

	<b>March 31,</b>		
	<b>2007</b>	<b>2006</b>	<b>2007</b>
	<i>(Thousands of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Actuarial assumption adjustment	¥(71,591)	¥(16,426)	\$(607)
Net unrecognized amount	<u>¥(71,591)</u>	<u>¥(16,426)</u>	<u>\$(607)</u>

The components of net periodic pension and severance costs excluding the employees' contributory portion were as follows:

	<b>Year ended March 31,</b>			
	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2007</b>
	<i>(Thousands of yen)</i>			<i>(Thousands of U.S. dollars)</i>
Service cost	¥146,730	¥151,136	¥137,585	\$1,243
Interest cost on projected benefit obligation	67,778	65,202	62,666	574
Expected return on plan assets	(61,370)	(53,116)	(50,858)	(520)
Amortization of unrecognized benefit obligation at transition	—	—	70,477	—
Amortization of actuarial assumption adjustment	32,759	57,071	57,372	278
Net periodic pension and severance costs	<u>¥185,897</u>	<u>¥220,293</u>	<u>¥277,242</u>	<u>\$1,575</u>

The contributions based on the defined contribution pension plans have been charged to income as paid.



## 7. Accrued Pension and Severance Costs (continued)

The assumptions used were as follows:

	<u>2007</u>	<u>2006</u>
Discount rate	2.5%	2.5%
Expected rate of return on plan assets	2.5%	2.5%

## 8. Other Income (Expenses)

The components of “Other, net” in “Non-operating income (expenses)” for each of the three years in the period ended March 31, 2007, 2006 and 2005 were as follows:

	<u>Year ended March 31,</u>			
	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2007</u>
	<i>(Thousands of yen)</i>			<i>(Thousands of U.S. dollars)</i>
Dividends received	¥ 40,982	¥ 36,556	¥ 38,274	\$ 347
Exchange (loss) gain, net	6,846	583,288	(110,201)	58
Brokerage commission received	62,146	–	–	527
Gain on sales of property and equipment	204	12,022	237,385	2
Gain on sales of investments in securities	3,899	–	15,995	33
Gains on exemptions from consumption taxes	–	130,131	–	–
Gain on reversal of allowance for doubtful accounts	24,378	6,730	–	207
Commission paid	(20,000)	–	–	(169)
Loss on sales and disposal of property and equipment	(126,317)	(26,312)	(156,139)	(1,070)
Loss on sales of investments in affiliate	(1,265)	–	–	(11)
Loss on sales of investments in securities	(7,499)	–	–	(64)
Loss on revaluation of inventories	(87,358)	(95,181)	–	(740)
Revision of the loss of prior year of receivables	–	(35,522)	–	–
Impairment losses on fixed assets	(9,382)	(26,507)	(123,340)	(80)
Loss on closing stores	(58,655)	–	–	(497)
Other, net	45,153	106,472	155,283	383
	<u>¥(126,866)</u>	<u>¥691,679</u>	<u>¥ 57,259</u>	<u>\$(1,075)</u>

## 9. Income Taxes

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

	<b>March 31,</b>		
	<b>2007</b>	<b>2006</b>	<b>2007</b>
	<i>(Thousands of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Deferred tax assets:			
Accrued bonuses	¥ 273,362	¥ 274,498	\$ 2,317
Elimination of unrecognized gain on intercompany accounts and transactions	69,782	69,078	591
Directors' and statutory auditors' retirement benefits	79,258	75,435	672
Accrued enterprise tax	67,486	59,073	572
Allowance for doubtful accounts	46,261	66,612	392
Accrued pension and severance costs	46,026	115,489	390
Impairment losses on fixed assets	61,433	63,548	521
Loss on revaluation of inventories	40,222	47,230	341
Other	134,674	112,706	1,141
Total deferred tax assets	<u>818,508</u>	<u>883,674</u>	<u>6,937</u>
Deferred tax liabilities:			
Depreciation	(89,935)	(54,784)	(762)
Accumulated earnings of consolidated subsidiaries	(46,572)	(52,610)	(395)
Other	(26,413)	(16,943)	(224)
Total deferred tax liabilities	<u>(162,921)</u>	<u>(124,338)</u>	<u>(1,381)</u>
Net deferred tax assets	<u>¥ 655,586</u>	<u>¥ 759,335</u>	<u>\$ 5,556</u>

The difference between the statutory tax rate and the effective tax rate for the year ended March 31, 2006 represented less than 5% of the statutory tax rate. As a result, a reconciliation is not required to be disclosed.

Reconciliations between the statutory tax rate and the effective tax rates for the years ended March 31, 2007 and 2005 were presented as follows:

	<b>Year ended March 31,</b>	
	<b>2007</b>	<b>2005</b>
Statutory tax rate	40.69%	40.69%
Disallowed expenses, including entertainment expenses	3.81	3.08
Inhabitants' per capita taxes	0.48	—
Other	(0.67)	0.79
Effective tax rate	<u>44.31%</u>	<u>44.56%</u>

## 10. Net Assets

The new Corporation Law of Japan (the “Law”), which superseded most of the provisions of the Commercial Code of Japan, went into effect on May 1, 2006. The Law provides that an amount equal to at least 10% of the amount to be disbursed as distributions of capital surplus (except for distributions from additional paid-in capital) and retained earnings (except for distributions from the legal reserve) be appropriated to additional paid-in capital and the legal reserve, respectively, until the sum of additional paid-in capital and the legal reserve equals 25% of the capital stock account. Such distributions can be made at any time by resolution of the stockholders, or by the Board of Directors if certain conditions are met, but neither additional paid-in capital nor the legal reserve is available for distribution by resolution of the Board of Directors.

The total number and periodic changes in the number of shares of stock in issue and the total number and periodic changes in the number of shares of common stock in treasury were as follows:

	Year ended March 31, 2007			At March 31, 2007
	At March 31, 2006	Increase	Decrease	
		<i>(Thousands of shares)</i>		
Number of shares of stock in issue:				
Common stock	12,775	–	–	12,775
Number of shares of common stock in treasury:				
Common stock	14	0	0	14

The increase in common stock in treasury of 0 thousand shares during this period resulted from the Company’s purchase of 0 thousand odd-lot shares of less than one unit at the request of the stockholders. The decrease in common stock in treasury of 0 thousand shares during this period resulted from the Company’s sales of such odd-lot shares at the request of the stockholders and reversion of 0 thousand similar shares by related company accounted for by the equity method.

### *Dividends*

Resolution	Type of shares	Cash dividends paid		Dividends per share <i>(Yen)</i>	Cut off date	Effective date
		<i>(Thousands of yen)</i>	<i>(Thousands of U.S. dollars)</i>			
General meeting of shareholders held on June 23, 2006	Common stock	¥306,515	\$2,598	¥24.0	March 31, 2006	June 26, 2006

## 10. Net Assets (continued)

Dividends whose cut off date fall within the reporting period and effective date falling on the day immediately after the end of the period.

Resolution	Type of shares	Resources of dividends	Total dividends		Dividends per share (Yen)	Cut off date	Effective date
			(Thousands of yen)	(Thousands of U.S. dollars)			
General meeting of shareholders held on June 22, 2007	Common stock	Retained earnings	¥383,139	\$3,247	¥30.0	March 31, 2007	June 25, 2007

## 11. Leases

*As lessee under financing and operating leases*

The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of the leased property held under financing accounted for as operating leases at March 31, 2007 and 2006, and the related depreciation and interest expense for the years ended March 31, 2007, 2006 and 2005, respectively, which would have been reflected in the consolidated balance sheets and the related consolidated statements of income:

	March 31, 2007		
	Property and equipment – other	Software	Total
	(Thousands of yen)		
Acquisition costs	¥218,113	¥18,698	¥236,811
Less accumulated depreciation	94,266	6,132	100,398
Net book value	¥123,846	¥12,566	¥136,412

  

	March 31, 2007		
	Property and equipment – other	Software	Total
	(Thousands of U.S. dollars)		
Acquisition costs	\$1,848	\$158	\$2,007
Less accumulated depreciation	799	52	851
Net book value	\$1,050	\$106	\$1,156

## 11. Leases (continued)

*As lessee under financing and operating leases (continued)*

	<b>March 31, 2006</b>		
	Property and equipment – other	Software	Total
	<i>(Thousands of yen)</i>		
Acquisition costs	¥221,534	¥18,698	¥240,232
Less accumulated depreciation	86,711	2,492	89,204
Net book value	<u>¥134,822</u>	<u>¥16,205</u>	<u>¥151,028</u>

	<b>Year ended March 31,</b>			
	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2007</b>
	<i>(Thousands of yen)</i>			<i>(Thousands of U.S. dollars)</i>
Depreciation expense	<u>¥50,183</u>	<u>¥54,227</u>	<u>¥56,424</u>	<u>\$425</u>
Interest expense	<u>¥ 3,832</u>	<u>¥ 3,872</u>	<u>¥ 2,686</u>	<u>\$ 32</u>

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

Lease expenses relating to the financing leases accounted for as operating leases amounted to ¥53,427 thousand (\$453 thousand), ¥57,941 thousand and ¥60,619 thousand for the years ended March 31, 2007, 2006 and 2005, respectively.

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

	<b>March 31,</b>		
	<b>2007</b>	<b>2006</b>	<b>2007</b>
	<i>(Thousands of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Within 1 year	¥ 46,707	¥ 46,073	\$ 396
Over 1 year	92,454	107,176	784
	<u>¥139,161</u>	<u>¥153,250</u>	<u>\$1,179</u>

## 11. Leases (continued)

*As lessee under financing and operating leases (continued)*

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

	<b>March 31,</b>		
	<b>2007</b>	<b>2006</b>	<b>2007</b>
	<i>(Thousands of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Within 1 year	¥137,660	¥ 89,646	\$1,167
Over 1 year	324,448	298,632	2,750
	<u>¥462,108</u>	<u>¥388,278</u>	<u>\$3,916</u>

*As lessor under operating leases*

Certain consolidated subsidiaries lease equipment under operating leases. Future rental income under operating leases outstanding at March 31, 2007 and 2006 are summarized as follows:

	<b>March 31,</b>		
	<b>2007</b>	<b>2006</b>	<b>2007</b>
	<i>(Thousands of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Within 1 year	¥ 805,284	¥ 668,384	\$ 6,824
Over 1 year	3,833,650	3,043,895	32,489
	<u>¥4,638,934</u>	<u>¥3,712,279</u>	<u>\$39,313</u>

*As lessee and lessor under subleases*

The Company subleases equipment to a third party, and the lease agreements between the two original parties remain in effect. The original and the new lease agreements are operating leases.

Future rental revenues as lessor under the new lease agreements outstanding at March 31, 2007 and 2006 are summarized as follows:

	<b>March 31,</b>		
	<b>2007</b>	<b>2006</b>	<b>2007</b>
	<i>(Thousands of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Within 1 year	¥ 982,253	¥ 821,679	\$ 8,324
Over 1 year	3,486,111	3,683,504	29,543
	<u>¥4,445,364</u>	<u>¥4,505,183</u>	<u>\$37,673</u>

## 11. Leases (continued)

*As lessee and lessor under subleases (continued)*

Future rental expenses as lessee under the original lease agreements outstanding at March 31, 2007 and 2006 are summarized as follows:

	March 31,		
	2007	2006	2007
	(Thousands of yen)		(Thousands of U.S. dollars)
Within 1 year	¥ 935,739	¥ 811,504	\$ 7,930
Over 1 year	5,144,310	5,169,459	43,596
	<u>¥6,080,050</u>	<u>¥5,980,964</u>	<u>\$51,526</u>

## 12. Loan Commitment Agreements

The Company has entered into loan commitment agreements amounting to ¥4,000,000 thousand (\$33,898 thousand), in the aggregate, with banks in order to source funds for its operations smoothly.

However, no loans payable were outstanding at March 31, 2007, under that loan commitment agreements.

## 13. Amounts Per Share

Net income per share is computed based on the weighted average number of shares of common stock outstanding during each year. The Company and its consolidated subsidiaries have not issued any potentially dilutive stocks during either year. Accordingly, fully diluted net income per share and basic net income per share for the years ended March 31, 2007, 2006 and 2005 were the same.

	Year ended March 31,			
	2007	2006	2005	2007
	(Yen)			(U.S. dollars)
Net income per share	¥124.01	¥132.57	¥110.62	\$1.051

Net assets per share are computed based on the number of shares of common stock outstanding at each balance sheet date.

	March 31,		
	2007	2006	2007
	(Yen)		(U.S. dollars)
Net assets per share	¥1,142.19	¥1,036.14	\$9.680

### 13. Amounts Per Share (continued)

The following table sets forth the basis of the computation of net income per share for the years ended March 31, 2007, 2006 and 2005:

	Year ended March 31,			
	2007	2006	2005	2007
	<i>(Thousands of yen, except share)</i>			<i>(Thousands of U.S. dollars, except share)</i>
Net income	¥1,579,827	¥1,689,240	¥1,435,670	\$13,388
Less: appropriation of bonuses to directors and statutory auditors	2,673	2,491	(24,006)	23
Net income available to stockholders of shares of common stock	<u>¥1,582,501</u>	<u>¥1,691,732</u>	<u>¥1,411,664</u>	<u>\$13,411</u>
Weighted average number of shares of common stock outstanding	12,760,644	12,760,783	12,761,085	12,760,644

### 14. 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



#### 14. Segment Information (continued)

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
- Planning and creation of printed matter and other media

Customer service business:

Operations within the Customer service business segment are as follows:

- 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)

With reorganization, the Company transferred creative design and printing business classified as “Customer service business” to “Life service business” in this period.

In this connection, the financial statements for the year ended March 31, 2006 and 2005 have been restated to conform to the presentation of the financial statements for the year ended March 31, 2007.

The business segment information of the Company and its consolidated subsidiaries for the years ended March 31, 2007, 2006 and 2005 are summarized as follows:

	Year ended March 31, 2007					Consolidated
	Aviation business	Life service business	Customer service business	Total	General corporate assets and intercompany eliminations	
	<i>(Thousands of yen)</i>					
Sales to outside parties	¥37,892,090	¥33,467,399	¥42,774,006	¥114,133,497	¥ –	¥114,133,497
Inter-segment sales and transfers	1,177,738	118,205	–	1,295,943	(1,295,943)	–
Total	39,069,829	33,585,604	42,774,006	115,429,440	(1,295,943)	114,133,497
Operating expenses	36,924,431	32,252,905	39,901,100	109,078,437	1,808,901	110,887,338
Operating income	<u>¥ 2,145,397</u>	<u>¥ 1,332,699</u>	<u>¥ 2,872,906</u>	<u>¥ 6,351,002</u>	<u>¥(3,104,844)</u>	<u>¥ 3,246,158</u>
Depreciation and amortization	¥ 380,946	¥ 44,526	¥ 245,868	¥ 671,341	¥ 87,951	¥ 759,293
Capital expenditures	¥ 595,550	¥ 54,383	¥ 202,905	¥ 852,838	¥ 718,957	¥ 1,571,796
Identifiable assets	<u>¥15,846,030</u>	<u>¥ 8,555,737</u>	<u>¥11,154,239</u>	<u>¥ 35,556,006</u>	<u>¥ 6,789,929</u>	<u>¥ 42,345,936</u>

## 14. Segment Information (continued)

	Year ended March 31, 2007					
	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	\$321,119	\$283,622	\$362,492	\$967,233	\$ –	\$967,233
Inter-segment sales and transfers	9,981	1,002	–	10,983	(10,983)	–
Total	331,100	284,624	362,492	978,216	(10,983)	967,233
Operating expenses	312,919	273,330	338,145	924,394	15,330	939,723
Operating income	<u>\$ 18,181</u>	<u>\$ 11,294</u>	<u>\$ 24,347</u>	<u>\$ 53,822</u>	<u>\$(26,312)</u>	<u>\$ 27,510</u>
Depreciation and amortization	<u>\$ 3,228</u>	<u>\$ 377</u>	<u>\$ 2,084</u>	<u>\$ 5,689</u>	<u>\$ 745</u>	<u>\$ 6,435</u>
Capital expenditures	<u>\$ 5,047</u>	<u>\$ 461</u>	<u>\$ 1,720</u>	<u>\$ 7,227</u>	<u>\$ 6,093</u>	<u>\$ 13,320</u>
Identifiable assets	<u>\$134,288</u>	<u>\$ 72,506</u>	<u>\$ 94,527</u>	<u>\$301,322</u>	<u>\$ 57,542</u>	<u>\$358,864</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 yen)</i>					
Sales to outside parties	¥35,516,160	¥32,863,906	¥39,571,940	¥107,952,007	¥ –	¥107,952,007
Inter-segment sales and transfers	865,338	119,291	2,985	987,615	(987,615)	–
Total	36,381,498	32,983,198	39,574,925	108,939,622	(987,615)	107,952,007
Operating expenses	35,031,574	31,812,882	36,911,410	103,755,866	1,751,483	105,507,350
Operating income	<u>¥ 1,349,924</u>	<u>¥ 1,170,315</u>	<u>¥ 2,663,515</u>	<u>¥ 5,183,756</u>	<u>¥(2,739,099)</u>	<u>¥ 2,444,656</u>
Depreciation and amortization	<u>¥ 336,093</u>	<u>¥ 53,515</u>	<u>¥ 252,441</u>	<u>¥ 642,050</u>	<u>¥ 54,812</u>	<u>¥ 696,862</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>¥ 7,905,524</u>	<u>¥10,269,973</u>	<u>¥ 31,794,680</u>	<u>¥ 5,768,734</u>	<u>¥ 37,563,414</u>
	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	¥32,804,414	¥37,677,185	¥98,622,983	¥ –	¥98,622,983
Inter-segment sales and transfers	835,799	107,567	–	943,366	(943,366)	–
Total	28,977,183	32,911,981	37,677,185	99,566,350	(943,366)	98,622,983
Operating expenses	27,270,612	31,713,965	35,272,073	94,250,652	1,624,663	95,881,315
Operating income	<u>¥ 1,706,570</u>	<u>¥ 1,198,015</u>	<u>¥ 2,405,111</u>	<u>¥ 5,309,698</u>	<u>¥(2,568,030)</u>	<u>¥ 2,741,667</u>
Depreciation and amortization	<u>¥ 269,370</u>	<u>¥ 67,266</u>	<u>¥ 224,200</u>	<u>¥ 560,837</u>	<u>¥ 73,509</u>	<u>¥ 634,346</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>¥ 8,794,692</u>	<u>¥10,331,172</u>	<u>¥30,349,801</u>	<u>¥ 4,814,895</u>	<u>¥35,164,696</u>

#### 14. Segment Information (continued)

Unallocated operating expenses included in “General corporate assets and intercompany eliminations” for the years ended March 31, 2007, 2006 and 2005 amounted to ¥3,109,431 thousand (\$26,351 thousand), ¥2,738,471 thousand and ¥2,568,816 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, 2007, 2006 and 2005 amounted to ¥6,658,940 thousand (\$6,432 thousand), ¥5,541,806 thousand and ¥5,028,922 thousand, respectively, and consisted primarily of cash and cash equivalents, investments in securities and assets belonging to the headquarters of the Company.

The geographical segment information of the Company and the consolidated subsidiaries for the years ended March 31, 2007, 2006 and 2005 is summarized as follows:

	Year ended March 31, 2007					Consolidated
	Japan	North America	Other overseas countries	Total	General corporate assets and intercompany eliminations	
	<i>(Thousands of yen)</i>					
Sales to outside parties	¥108,287,779	¥ 3,460,012	¥2,385,704	¥114,133,497	¥ –	¥114,133,497
Inter-segment sales and transfers	855,014	12,354,050	1,656,467	14,865,533	(14,865,533)	–
Total	109,142,794	15,814,063	4,042,172	128,999,030	(14,865,533)	114,133,497
Operating expenses	106,046,654	15,567,204	4,153,248	125,767,107	(14,879,768)	110,887,338
Operating income (loss)	¥ 3,096,139	¥ 246,858	¥ (111,075)	¥ 3,231,922	¥ 14,235	¥ 3,246,158
Identifiable assets	¥ 36,784,448	¥ 8,610,790	¥ 912,129	¥ 46,307,367	¥ (3,961,431)	¥ 42,345,936

  

	Year ended March 31, 2007					Consolidated
	Japan	North America	Other overseas countries	Total	General corporate assets and intercompany eliminations	
	<i>(Thousands of U.S. dollars)</i>					
Sales to outside parties	\$917,693	\$ 29,322	\$20,218	\$ 967,233	\$ –	\$967,233
Inter-segment sales and transfers	7,246	104,695	14,038	125,979	(125,979)	–
Total	924,939	134,017	34,256	1,093,212	(125,979)	967,233
Operating expenses	898,700	131,925	35,197	1,065,823	(126,100)	939,723
Operating income (loss)	\$ 26,238	\$ 2,092	\$ (941)	\$ 27,389	\$ 121	\$ 27,510
Identifiable assets	\$311,733	\$ 72,973	\$ 7,730	\$ 392,435	\$ (33,571)	\$358,864

## 14. Segment Information (continued)

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, 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

For the years ended March 31, 2007, 2006 and 2005, 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.

## 15. Derivative and Hedging Activities

The Company has utilized forward foreign exchange contracts 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.

And one of subsidiaries has the hybrid financial instrument with embedded derivative (bond), whose redemption schedule is substantially affected by the foreign exchange rate fluctuation.

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.

## 15. Derivative and Hedging Activities (continued)

The Company has utilized interest-rate and currency swaps at March 31, 2007, 2006 and 2005. And one of subsidiaries has the hybrid financial instrument with embedded derivative (bond) at March 31, 2007.

The fair value information of embedded derivative of the hybrid financial instrument (bond) is included in Note 5.

Since all other derivative instruments held by the Company, met the criteria for hedge accounting, fair value information has not been presented here.

## 16. 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, 2007, 2006 and 2005 are summarized as follows:

With Japan Airlines Corporation:

	Year ended March 31,			2007 (Thousands of U.S. dollars)
	2007	2006	2005	
	<i>(Thousands of yen)</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, 2007, 2006 and 2005 are summarized as follows:

With Japan Airlines International Co., Ltd.:

	Year ended March 31,			2007 (Thousands of U.S. dollars)
	2007	2006	2005	
	<i>(Thousands of yen)</i>			
Operating revenues:				
Sales of flight equipment	¥14,899,629	¥14,445,701	¥16,110,755	\$126,268
Purchases of merchandise	5,118,236	-	-	43,375

  

	March 31,		
	2007	2006	2007
	<i>(Thousands of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Accounts receivable	¥2,473,366	¥2,397,699	\$20,961
Advanced money	462,482	-	3,919
Accounts payable	1,106,628	-	9,378

## 16. Related Party Transactions (continued)

With Japan Airlines Domestic Co., Ltd.:

	Year ended March 31,			
	2007	2006	2005	2007
	<i>(Thousands of yen)</i>			<i>(Thousands of U.S. dollars)</i>
Operating revenues:				
Sales of flight equipment				
spare parts	¥-	¥-	¥2,210,936	\$-

With JAL Capital Co., Ltd.:

	Year ended March 31,		
	2007	2006	2007
	<i>(Thousands of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Proceeds from short-term borrowings	¥17,000,000	¥2,400,000	\$144,068
Repayment of short-term borrowings	16,400,000	2,800,000	138,983
Interest expenses	3,828	430	32

	March 31,		
	2007	2006	2007
	<i>(Thousands of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Short-term borrowings	¥1,000,000	¥400,000	\$8,475

With Japan Trans Ocean Air Co., Ltd.:

	Year ended March 31,		
	2007	2006	2007
	<i>(Thousands of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Operating revenue:			
Sales of flight equipment			
spare parts	¥2,284,092	¥2,389,425	\$19,357

	Year ended March 31,		
	2007	2006	2007
	<i>(Thousands of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Accounts receivable	¥598,439	¥379,356	\$5,072

The transactions between the Company and the company over which the Company exercises significant influence in the terms of their operating and financial policies.

## 16. Related Party Transactions (continued)

With Fukuoka Airport Building Co., Ltd.:

	<b>Year ended March 31,</b>			
	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2007</b>
	<i>(Thousands of yen)</i>			<i>(Thousands of U.S. dollars)</i>
Operating expenses:				
Rent for office space	¥-	¥-	¥56	\$-