# 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, 2008 and 2007, 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, 2008, 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, 2008 and 2007, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2008 in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2008 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.

June 18, 2008

JALUX Inc. and Consolidated Subsidiaries

# Consolidated Balance Sheets

| | March 31, 2008 | March 31, 2007 | 2008 |
|---|---|---|---|
| | *(Thousands of yen)* | | *(Thousands of U.S. dollars) (Note 3)* |
| **Assets** | | | |
| Current assets: | | | |
| Cash and time deposits *(Note 4)* | ¥ 6,280,283 | ¥ 5,688,228 | $ 62,803 |
| Notes and accounts receivable *(Notes 16 and 17)*: | | | |
| Trade | 12,080,232 | 13,408,709 | 120,802 |
| Unconsolidated subsidiaries and affiliates | 106,092 | 61,010 | 1,061 |
| Other | 1,586,041 | 1,656,721 | 15,860 |
| Allowance for doubtful accounts | (21,902) | (29,364) | (219) |
| Short-term investment in securities *(Note 5)* | – | 7,681 | – |
| Inventories | 7,309,995 | 6,117,340 | 73,100 |
| Deferred income taxes *(Note 10)* | 470,034 | 469,397 | 4,700 |
| Other *(Note 17)* | 1,399,731 | 2,178,944 | 13,997 |
| Total current assets | 29,210,510 | 29,558,670 | 292,105 |
| Investments and advances: | | | |
| Unconsolidated subsidiaries and affiliates | 2,162,640 | 2,257,327 | 21,626 |
| Other *(Note 5)* | 475,924 | 604,436 | 4,759 |
| Total investments and advances | 2,638,564 | 2,861,763 | 26,386 |
| Property and equipment *(Notes 6 and 9)*: | | | |
| Land | 282,071 | 293,077 | 2,821 |
| Buildings and structures | 4,380,280 | 4,375,069 | 43,803 |
| Machinery and vehicles | 212,378 | 239,651 | 2,124 |
| Flight equipment | 3,587,102 | 3,742,954 | 35,871 |
| Construction in process | 97,663 | 99,307 | 977 |
| Other | 781,797 | 755,219 | 7,818 |
| | 9,341,294 | 9,505,280 | 93,413 |
| Accumulated depreciation | (4,528,691) | (4,295,003) | (45,287) |
| Property and equipment, net | 4,812,603 | 5,210,276 | 48,126 |
| Intangible assets: | | | |
| Software | 1,830,029 | 422,595 | 18,300 |
| Software under development | 7,700 | 1,410,977 | 77 |
| Other | 35,983 | 28,201 | 360 |
| Total intangible assets | 1,873,712 | 1,861,775 | 18,737 |
| Long-term loans | 445,589 | 530,925 | 4,456 |
| Deposits for business space | 1,959,907 | 1,860,995 | 19,599 |
| Prepaid pension expenses *(Note 7)* | 246,936 | – | 2,469 |
| Deferred income taxes *(Note 10)* | 199,820 | 276,601 | 1,998 |
| Other assets, net | 187,298 | 184,928 | 1,873 |
| | ¥41,574,944 | ¥42,345,936 | $415,749 |

| | March 31, | | |
|---|---|---|---|
| | 2008 | 2007 | 2008 |
| | *(Thousands of yen)* | | *(Thousands of U.S. dollars) (Note 3)* |
| **Liabilities and net assets** | | | |
| Current liabilities: | | | |
| Short-term borrowings *(Notes 6 and 17)* | ¥ 2,841,587 | ¥ 2,632,869 | $ 28,416 |
| Current portion of long-term debt *(Note 6)* | 1,116,875 | 1,198,467 | 11,169 |
| Notes and accounts payable *(Notes 16 and 17)*: | | | |
| Trade | 12,736,107 | 12,890,050 | 127,361 |
| Affiliates | 523,485 | 671,493 | 5,235 |
| Accrued expenses | 2,255,387 | 2,407,705 | 22,554 |
| Accrued income taxes *(Note 10)* | 413,664 | 684,399 | 4,137 |
| Other | 1,826,552 | 2,552,839 | 18,266 |
| Total current liabilities | 21,713,660 | 23,037,825 | 217,137 |
| Long-term debt *(Note 6)* | 3,466,495 | 3,388,976 | 34,665 |
| Accrued pension and severance costs *(Note 7)* | 30,526 | 112,767 | 305 |
| Directors' and statutory auditors' retirement benefits | 176,561 | 195,006 | 1,766 |
| Deferred income taxes *(Note 10)* | 150,120 | 90,412 | 1,501 |
| Other | 4,781 | 5,370 | 48 |
| Commitments and contingent liabilities *(Notes 12 and 13)* | | | |
| Net assets *(Note 11)*: | | | |
| Common stock, without par value: | | | |
| Authorized: 20,000,000 shares | | | |
| Issued: 12,775,000 shares in 2008 and 2007 | 2,558,550 | 2,558,550 | 25,586 |
| Capital surplus | 711,499 | 711,421 | 7,115 |
| Retained earnings | 11,885,115 | 11,289,771 | 118,851 |
| Common stock in treasury: 15,050 shares in 2008 and 14,429 shares in 2007 | (10,888) | (9,677) | (109) |
| Net unrealized (loss) gain on other securities, net of taxes *(Note 5)* | (5,890) | 13,707 | (59) |
| Net unrealized (loss) gain on hedging instruments, net of taxes *(Note 16)* | (43,161) | 4,068 | (432) |
| Translation adjustments | (48,576) | 7,144 | (486) |
| Minority interests | 986,150 | 940,591 | 9,862 |
| Total net assets | 16,032,797 | 15,515,577 | 160,328 |
| | ¥41,574,944 | ¥42,345,936 | $415,749 |

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

JALUX Inc. and Consolidated Subsidiaries

# Consolidated Statements of Income

| | Year ended March 31, | | | |
|---|---|---|---|---|
| | **2008** | **2007** | **2006** | **2008** |
| | *(Thousands of yen)* | | | *(Thousands of U.S. dollars) (Note 3)* |
| Operating revenues *(Notes 15 and 17)* | ¥120,228,386 | ¥114,133,497 | ¥107,952,007 | $1,202,284 |
| Operating expenses *(Notes 15 and 17)*: | | | | |
| Cost of sales | 96,359,302 | 89,602,555 | 84,595,451 | 963,593 |
| Selling, general and administrative expenses | 21,680,655 | 21,284,783 | 20,911,898 | 216,807 |
| | 118,039,957 | 110,887,338 | 105,507,350 | 1,180,400 |
| Operating income | 2,188,428 | 3,246,158 | 2,444,656 | 21,884 |
| Non-operating income (expenses): | | | | |
| Interest income | 34,809 | 16,998 | 19,283 | 348 |
| Interest expense | (135,928) | (132,492) | (94,722) | (1,359) |
| Equity in (losses) earnings of affiliates | (91,047) | 162,429 | 108,864 | (910) |
| Other, net *(Note 8)* | 324,557 | (126,866) | 691,679 | 3,246 |
| | 132,390 | (79,930) | 725,104 | 1,324 |
| Income before income taxes and minority interests | 2,320,819 | 3,166,227 | 3,169,761 | 23,208 |
| Income taxes *(Note 10)*: | | | | |
| Current | 997,868 | 1,309,046 | 1,246,151 | 9,979 |
| Deferred | 180,196 | 93,932 | 49,784 | 1,802 |
| | 1,178,065 | 1,402,979 | 1,295,936 | 11,781 |
| Minority interests | (164,271) | (183,420) | (184,584) | (1,643) |
| Net income | ¥ 978,483 | ¥ 1,579,827 | ¥ 1,689,240 | $ 9,785 |

*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 (loss) gain on other securities, net of taxes *(Note 5)* | Net unrealized (loss) gain on hedging instruments, net of taxes *(Note 16)* | Translation adjustments | Minority interests | Total net assets |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | *(Thousands of yen)* | | | | | |
| 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 |
| Cash dividends (¥24 per share) | | | | (280,974) | | | | | | (280,974 |
| Net income for the year ended March 31, 2006 | | | | 1,689,240 | | | | | | 1,689,240 |
| 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 | | | 66 | | 49 | | | | | 116 |
| Other | | | | | | 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 |
| Cash dividends (¥24 per share) | | | | (306,515) | | | | | | (306,515 |
| Net income for the year ended March 31, 2007 | | | | 1,579,827 | | | | | | 1,579,827 |
| 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 | | | 58 | | 51 | | | | | 109 |
| Other | | | | | | (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 |
| Cash dividends (¥30 per share) | | | | (383,139) | | | | | | (383,139 |
| Net income for the year ended March 31, 2008 | | | | 978,483 | | | | | | 978,483 |
| Purchases of common stock in treasury | | | | | (1,293) | | | | | (1,293 |
| Sales of common stock in treasury | | | 78 | | 82 | | | | | 160 |
| Other | | | | | | (19,598) | (47,230) | (55,721) | 45,559 | (76,990) |
| Balance at March 31, 2008 | 12,775,000 | ¥2,558,550 | ¥711,499 | ¥11,885,115 | ¥(10,888) | ¥ (5,890) | ¥(43,161) | ¥ (48,576) | ¥986,150 | ¥16,032,797 |

| | Number of shares of common stock | Common stock | Capital surplus | Retained earnings | Common stock in treasury | Net unrealized (loss) gain on other securities, net of taxes *(Note 5)* | Net unrealized (loss) gain on hedging instruments, net of taxes *(Note 16)* | Translation adjustments | Minority interests | Total net assets |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | *(Thousands of U.S. dollars) (Note 3)* | | | | | |
| Balance at March 31, 2007 | 12,775,000 | $25,586 | $7,114 | $112,898 | $ (97) | $ 137 | $ 41 | $ 71 | $9,406 | $155,156 |
| Cash dividends (¥0.3 per share) | | | | (3,831) | | | | | | (3,831) |
| Net income for the year ended March 31, 2008 | | | | 9,785 | | | | | | 9,785 |
| Purchases of common stock in treasury | | | | | (13) | | | | | (13) |
| Sales of common stock in treasury | | | 1 | | 1 | | | | | 2 |
| Other | | | | | | (196) | (472) | (557) | 456 | (770) |
| Balance at March 31, 2008 | 12,775,000 | $25,586 | $7,115 | $118,851 | $(109) | $ (59) | $(432) | $(486) | $9,862 | $160,328 |

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

JALUX Inc. and Consolidated Subsidiaries

# Consolidated Statements of Cash Flows

| | Year ended March 31, 2008 | 2007 | 2006 | 2008 |
|---|---|---|---|---|
| | | *(Thousands of yen)* | | *(Thousands of U.S. dollars) (Note 3)* |
| **Operating activities** | | | | |
| Income before income taxes and minority interests | ¥ 2,320,819 | ¥ 3,166,227 | ¥ 3,169,761 | $ 23,208 |
| Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities: | | | | |
| Depreciation and amortization | 1,111,740 | 759,293 | 696,862 | 11,117 |
| Decrease in provision for allowance for doubtful accounts | (13,387) | (35,300) | (15,041) | (134) |
| Decrease in net provision for accrued pension and severance costs | (82,240) | (170,848) | (45,483) | (822) |
| Increase in prepaid pension expenses | (246,936) | – | – | (2,469) |
| Interest and dividend income | (78,133) | (57,980) | (55,840) | (781) |
| Interest expense | 135,928 | 132,492 | 94,722 | 1,359 |
| Exchange loss (gain), net | 39,686 | (52,210) | (26,545) | 397 |
| Equity in losses (earnings) of affiliates | 91,047 | (162,429) | (108,864) | 910 |
| Loss on changes in equity interest | – | 14,343 | 8,550 | – |
| Loss on sales of, and loss on disposal of property and equipment | 141,546 | 126,112 | 14,289 | 1,415 |
| Impairment losses on fixed assets | 35,592 | 9,382 | 26,507 | 356 |
| (Gain) loss on sales of investments in securities | (19,999) | 3,599 | – | (200) |
| Loss on sales of investments in affiliates | – | 1,265 | – | – |
| Loss on revaluation of investments in securities | 90,879 | – | – | 909 |
| Decrease (increase) in notes and accounts receivable | 922,958 | (1,675,530) | (673,942) | 9,230 |
| Increase in inventories | (1,238,277) | (150,434) | (343,115) | (12,383) |
| (Decrease) increase in notes and accounts payable | (200,189) | 1,628,897 | 884,319 | (2,002) |
| Decrease (increase) in advance payment | 739,175 | (1,409,312) | 626,720 | 7,392 |
| (Decrease) increase in advance received | (916,872) | 670,312 | 124,114 | (9,169) |
| Decrease in bad debts on receivables | 11,513 | 25,784 | 17,782 | 115 |
| Payments of bonuses to directors and statutory auditors | – | (22,870) | (26,100) | – |
| Other, net | 368,220 | 62,399 | (377,201) | 3,682 |
| Subtotal | 3,213,070 | 2,863,193 | 3,991,497 | 32,131 |
| Interest and dividends received | 71,392 | 72,140 | 70,272 | 714 |
| Interest paid | (145,746) | (118,387) | (89,566) | (1,457) |
| Income taxes paid | (1,266,258) | (1,223,163) | (1,449,779) | (12,663) |
| Net cash provided by operating activities | 1,872,458 | 1,593,783 | 2,522,424 | 18,725 |
| **Investing activities** | | | | |
| Purchases of property and equipment | (478,985) | (748,410) | (1,096,982) | (4,790) |
| Proceeds from sales of property and equipment | 2,927 | 10,701 | 12,022 | 29 |
| Purchases of investment in unconsolidated subsidiaries and affiliates | (27,000) | (50,000) | (30,000) | (270) |
| Proceeds from sales of investments in affiliates | – | 54,683 | – | – |
| Purchases of intangible assets | (581,539) | (727,972) | (895,550) | (5,815) |
| Purchases of investments in securities | (240) | (192,358) | (262,307) | (2) |
| Proceeds from sales of investments in securities | 20,000 | 3,900 | 100,280 | 200 |
| Purchases of investments in capital | – | – | (5,000) | – |
| Purchases of investments in unconsolidated subsidiaries | – | – | (115,561) | – |
| Long-term loans receivable made | (14,308) | (220,761) | (1,741) | (143) |
| Collection of long-term loans | 153,585 | 40,229 | 465,153 | 1,536 |
| Purchases of time deposits | (127,469) | (37,200) | (243,613) | (1,275) |
| Proceeds from maturity of time deposits | 100,000 | – | 268,628 | 1,000 |
| Increase in deposits for business space | (145,187) | (236,374) | (82,982) | (1,452) |
| Decrease in deposits for business space | 70,598 | 310,399 | 28,349 | 706 |
| Increase in deposits with restrictions | (5,449) | – | – | (54) |
| Other, net | (55,585) | (30,383) | 2,563 | (556) |
| Net cash used in investing activities | (1,088,655) | (1,823,547) | (1,856,740) | (10,887) |
| **Financing activities** | | | | |
| Increase in short-term borrowings, net | 275,480 | 766,679 | 5,906 | 2,755 |
| Proceeds from long-term loans | 1,200,000 | 1,675,120 | 639,602 | 12,000 |
| Repayment of long-term loans | (1,188,272) | (1,246,722) | (1,192,628) | (11,883) |
| Dividends paid to stockholders | (377,810) | (303,575) | (280,974) | (3,778) |
| Dividends paid to minority interests | (122,473) | (123,114) | (36,990) | (1,225) |
| Other, net | (3,706) | (3,294) | (1,381) | (37) |
| Net cash (used in) provided by financing activities | (216,782) | 765,092 | (866,466) | (2,168) |
| Effect of exchange rate changes on cash and cash equivalents | (38,364) | 48,335 | 12,859 | (384) |
| Net increase (decrease) in cash and cash equivalents | 528,654 | 583,663 | (187,922) | 5,287 |
| Cash and cash equivalents at beginning of the year | 5,646,173 | 4,946,949 | 5,134,871 | 56,462 |
| Increase in cash and cash equivalents arising from initial inclusion of subsidiaries in consolidation | – | 115,561 | – | – |
| Cash and cash equivalents at end of the year *(Note 4)* | ¥ 6,174,828 | ¥ 5,646,173 | ¥ 4,946,949 | $ 61,748 |

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

JALUX Inc. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements

March 31, 2008

## 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 Financial Instruments and Exchange Law of Japan and include certain additional financial information for the convenience of readers outside Japan.

As permitted by the Financial Instruments 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: | | |
| The Company | – | by the moving average method |
| Subsidiaries | – | principally by the first-in, first-out method |
| Real estate for sale | – | by the specific identification method<br>Leasing real estates for sale are depreciated by applying the method of tangible fixed assets. |
| Supplies | – | by the last purchase price method |

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.

Effective April 1, 2007, the Company and domestic consolidated subsidiaries have changed the method of depreciation based on an amendment to the Corporation Tax Law of Japan for tangible fixed assets acquired on or prior to March 31, 2007. Such tangible fixed assets are to be depreciated based on the difference between the equivalent of 5% of acquisition cost and memorandum value over a period of 5 years once they have been fully depreciated to the limits of their respective depreciable amounts effect April 1, 2007. The impact on net income was immaterial for the year ended March 31, 2008.

g. Software

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

h. Allowance for doubtful accounts

The allowance for doubtful accounts on specific receivables is provided at the estimate of the unrecoverable amounts. The allowance for doubtful accounts on other receivables is provided based on the historical rate of losses on receivables.

i. 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.

Past service cost is being amortized by the straight-line method 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.

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

i. Accrued pension and severance costs (continued)

Effective October 1, 2007, the Company has changed its retirement pension plan to the combination of defined contribution plans and defined benefit pension plans which the Company manages from tax qualified non-contributory defined pension plans. Effective March 1, 2008, a domestic consolidated subsidiary has changed its retirement pension plan to the lump-sum retirement plans and the defined benefit pension plan from tax qualified non-contributory defined pension plans. The Company and a domestic consolidated subsidiary have applied "Accounting for the Transfer between Retirement Benefit Plans" (Accounting Standards Board of Japan Implementation Guidance No. 1). As a result, income before income taxes and minority interests decreased ¥29,917 thousands ($299 thousands) for the year ended March 31, 2008.

j. 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.

k. 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 date of the balance sheet.

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

*Change in Method of Accounting for Inventories*

Effective April 1, 2007, the Company has changed its accounting method to calculate cost for merchandise to the moving average method from the first-in, first-out method. The purpose of this change was to improve operational efficiency and to average the price volatility and ensure accuracy in the periodic accounting for profit and loss. The impact on net income was immaterial for the year ended March 31, 2008.

## 2. Accounting Change (continued)

*Change in Method of Accounting for Depreciation Related to Tangible Fixed Assets*

Effective April 1, 2007, the Company and domestic consolidated subsidiaries have changed the method of depreciation based on an amendment to the Corporation Tax Law of Japan for tangible fixed assets acquired on or after April 1, 2007. The impact on net income was immaterial for the year ended March 31, 2008.

*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 year ended March 31, 2006 was restated to conform to the presentation of the financial statements for the years ended March 31, 2008 and 2007.

## 3. U.S. Dollar Amounts

Amounts in U.S. dollars are included solely for the convenience of the reader. The rate of ¥100.00 = U.S.$1.00, the approximate exchange rate prevailing on March 31, 2008, 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:

| | March 31, | | |
|---|---|---|---|
| | **2008** | **2007** | **2008** |
| | *(Thousands of yen)* | | *(Thousands of U.S. dollars)* |
| Cash and time deposits | ¥6,280,283 | ¥5,688,228 | $62,803 |
| Time deposits with maturities of more than three months | (105,027) | (65,474) | (1,050) |
| Credit balances of current accounts included in short-term bank loans | (427) | (758) | (4) |
| Current assets – other (Deposits Paid) | – | 24,178 | – |
| | ¥6,174,828 | ¥5,646,173 | $61,748 |

## 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, 2008 and 2007. Securities classified as other securities have been included in "investments and advances – other" in the accompanying consolidated balance sheets at March 31, 2008 and 2007.

The components of unrealized gain or loss on marketable securities classified as other securities at March 31, 2008 and 2007 are summarized as follows:

| | March 31, 2008 | | |
|---|---|---|---|
| | Acquisition costs | Carrying value | Unrealized gain (loss) |
| | *(Thousands of yen)* | | |
| Unrealized gain: | | | |
| Stocks | ¥ 17,180 | ¥ 42,972 | ¥ 25,791 |
| Other | 1,657 | 1,801 | 143 |
| | 18,837 | 44,773 | 25,935 |
| Unrealized loss: | | | |
| Stocks | 33,216 | 30,336 | (2,879) |
| Bonds: | | | |
| Other | 100,000 | 86,560 | (13,440) |
| Other | 2,153 | 1,666 | (486) |
| | 135,369 | 118,563 | (16,806) |
| Total | ¥154,207 | ¥163,336 | ¥ 9,129 |

| | March 31, 2008 | | |
|---|---|---|---|
| | Acquisition costs | Carrying value | Unrealized gain (loss) |
| | *(Thousands of U.S. dollars)* | | |
| Unrealized gain: | | | |
| Stocks | $ 172 | $ 430 | $ 258 |
| Other | 17 | 18 | 1 |
| | 188 | 448 | 259 |
| Unrealized loss: | | | |
| Stocks | 332 | 303 | (29) |
| Bonds: | | | |
| Other | 1,000 | 866 | (134) |
| Other | 22 | 17 | (5) |
| | 1,354 | 1,186 | (168) |
| Total | $1,542 | $1,633 | $ 91 |

## 5. Fair Value of Securities (continued)

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

Non-marketable securities classified as other securities at March 31, 2008 and 2007 amounted to ¥263,925 thousand ($2,639 thousand) and ¥328,228 thousand, respectively.

Proceeds from sales of securities classified as other securities amounted to ¥20,000 thousand ($200 thousand) and ¥3,900 thousand with an aggregate gain of ¥19,999 thousand ($200 thousand) and ¥3,899 thousand and an aggregate loss of nil and ¥7,499 thousand for the years ended March 31, 2008 and 2007, respectively.

The redemption schedule for securities with maturity dates which were classified as other securities as of March 31, 2008 and 2007 are summarized as follows:

| | March 31, 2008 | |
|---|---|---|
| | Due after one year through five years | Due after ten years |
| | *(Thousands of yen)* | |
| Bonds: | | |
| Other | ¥ – | ¥100,000 |
| Other: | | |
| Investment trusts | 3,467 | – |
| Total | ¥3,467 | ¥100,000 |

## 5. Fair Value of Securities (continued)

| | March 31, 2008 | |
|---|---|---|
| | Due after one year through five years | Due after ten years |
| | *(Thousands of U.S. dollars)* | |
| Bonds: | | |
| Other | $ – | $1,000 |
| Other: | | |
| Investment trusts | 35 | – |
| Total | $35 | $1,000 |

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

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

The weighted average interest rates on short-term borrowings outstanding at March 31, 2008 and 2007 were 3.55% and 4.10%, respectively.

Long-term debt at March 31, 2008 and 2007 consisted of the following:

| | March 31, | | |
|---|---|---|---|
| | 2008 | 2007 | 2008 |
| | *(Thousands of yen)* | | *(Thousands of U.S. dollars)* |
| Loans with collateral, due 2007 to 2013, at rates ranging from 4.25% to 7.03% | ¥ 1,857,611 | ¥ 2,450,179 | $ 18,576 |
| Loans without collateral, due 2007 to 2013, at rates ranging from 1.28% to 2.68% | 2,225,000 | 1,707,000 | 22,250 |
| Other | 500,758 | 430,265 | 5,008 |
| | 4,583,370 | 4,587,444 | 45,834 |
| Less current portion of long-term debt | (1,116,875) | (1,198,467) | (11,169) |
| | ¥ 3,466,495 | ¥ 3,388,976 | $ 34,665 |

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

The aggregate annual maturities of long-term debt subsequent to March 31, 2008 are summarized as follows:

| Year ending March 31, | *(Thousands of yen)* | *(Thousands of U.S. dollars)* |
|---|---|---|
| 2009 | ¥1,116,875 | $11,169 |
| 2010 | 930,365 | 9,304 |
| 2011 | 816,500 | 8,165 |
| 2012 | 613,929 | 6,139 |
| 2013 and thereafter | 1,105,700 | 11,057 |
| | ¥4,583,370 | $45,834 |

Assets pledged as collateral for long-term debt at March 31, 2008 and 2007 are summarized as follows:

| | March 31, | | |
|---|---|---|---|
| | **2008** | **2007** | **2008** |
| | *(Thousands of yen)* | | *(Thousands of U.S. dollars)* |
| Land | ¥ 191,788 | ¥ 200,121 | $ 1,918 |
| Buildings and structures, net of accumulated depreciation | 1,219,165 | 1,294,479 | 12,192 |
| Flight equipment, net of accumulated depreciation | 1,328,206 | 1,776,177 | 13,282 |
| Construction in process | – | 86,167 | – |
| | ¥2,739,160 | ¥3,356,946 | $27,392 |

## 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 two domestic consolidated subsidiaries have changed their retirement pension plan to defined benefit pension plans from non-contributory defined pension plans. And a domestic consolidated subsidiary has changed its retirement pension plan to the lump-sum retirement plans and the defined benefit corporate pension plan from non-contributory defined 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:

| | March 31, | | |
|---|---|---|---|
| | 2008 | 2007 | 2008 |
| | *(Thousands of yen)* | | *(Thousands of U.S. dollars)* |
| Projected benefit obligation | ¥(3,221,910) | ¥(2,954,334) | $(32,219) |
| Plan assets | 2,677,930 | 2,769,975 | 26,779 |
| Accrued pension and severance costs | 30,526 | 112,767 | 305 |
| Prepaid pension expenses | (246,936) | – | (2,469) |
| Net unrecognized amount | ¥ (760,389) | ¥ (71,591) | $ (7,604) |

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

The net unrecognized amount was as follows:

| | March 31, | | |
|---|---|---|---|
| | 2008 | 2007 | 2008 |
| | *(Thousands of yen)* | | *(Thousands of U.S. dollars)* |
| Actuarial assumption adjustment | ¥(458,672) | ¥(71,591) | $(4,587) |
| Post service cost | (301,716) | – | (3,017) |
| Net unrecognized amount | ¥(760,389) | ¥(71,591) | $(7,604) |

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

| | Year ended March 31, | | | |
|---|---|---|---|---|
| | 2008 | 2007 | 2006 | 2008 |
| | *(Thousands of yen)* | | | *(Thousands of U.S. dollars)* |
| Service cost | ¥147,993 | ¥146,730 | ¥151,136 | $1,480 |
| Interest cost on projected benefit obligation | 63,368 | 67,778 | 65,202 | 634 |
| Expected return on plan assets | (68,820) | (61,370) | (53,116) | (688) |
| Amortization of actuarial assumption adjustment | 41,327 | 32,759 | 57,071 | 413 |
| Loss on transfer of retirement benefit plan | 29,917 | – | – | 299 |
| Net periodic pension and severance costs | ¥213,786 | ¥185,897 | ¥220,293 | $2,138 |

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:

| | 2008 | 2007 |
|---|---|---|
| Discount rate | 1.8% | 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 Match 31, 2008, 2007 and 2006 were as follows:

| | Year ended March 31, | | | |
|---|---|---|---|---|
| | 2008 | 2007 | 2006 | 2008 |
| | *(Thousands of yen)* | | | *(Thousands of U.S. dollars)* |
| Dividends received | ¥ 43,323 | ¥ 40,982 | ¥ 36,556 | $ 433 |
| Exchange gain, net | 446,493 | 6,846 | 583,288 | 4,465 |
| Brokerage commission received | 53,292 | 62,146 | – | 533 |
| Gain on sales of property and equipment | – | 204 | 12,022 | – |
| Gain on sales of investments in securities | 19,999 | 3,899 | – | 200 |
| Gain on reversal of allowance for doubtful accounts | 4,654 | 24,378 | 6,730 | 47 |
| Gain on reversal of reserve for bonuses to officers | 15,010 | – | – | 150 |
| Gains on exemptions from consumption taxes | – | – | 130,131 | – |
| Commission paid | (24,796) | (20,000) | – | (248) |
| Loss on sales and disposal of property and equipment | (141,546) | (126,317) | (26,312) | (1,415) |
| Impairment losses on fixed assets | (35,592) | (9,382) | (26,507) | (356) |
| Loss on sales of investments in securities | – | (7,499) | – | – |
| Loss on revaluation of investments in securities | (90,879) | – | – | (909) |
| Loss on sales of investments in affiliate | – | (1,265) | – | – |
| Loss on revaluation of inventories | – | (87,358) | (95,181) | – |
| Loss on closing stores | (20,265) | (58,655) | – | (203) |
| Loss on transfer of retirement benefit plan | (29,917) | – | – | (299) |
| Revision of the loss of prior year of receivables | – | – | (35,522) | – |
| Other, net | 84,781 | 45,153 | 106,472 | 848 |
| | ¥ 324,557 | ¥(126,866) | ¥691,679 | $ 3,246 |

## 9. Impairment of Fixed Assets

For the years ended March 31, 2008, 2007 and 2006, the Company recognized impairment losses on fixed assets of ¥35,592 thousand ($356 thousand) and ¥9,382 thousand and ¥26,507 thousand which consisted of the following:

| Location | Use | Classification | Year ended March 31, 2008 | 2007 | 2006 | 2008 |
|---|---|---|---|---|---|---|
| | | | *(Thousands of yen)* | | | *(Thousands of U.S. dollars)* |
| Kobe-shi, Hyogo and other 4 shops | Airport shop | Buildings, furniture and other | ¥35,592 | – | – | $356 |
| Aomori-shi, Aomori and other 4 shops | Airport shop | Buildings, furniture and other | – | – | ¥26,507 | – |

The Company and its consolidated subsidiaries did not recognize material impairment losses for the year ended March 31, 2007. As a result, the details of such impairment losses are not required to be disclosed in accordance with accounting principles generally accepted in Japan.

Assets are classified into groups based on their business segment as cash-generation units which are defined as the smallest identifiable groups of assets which generate cash inflows and which are largely independent of the cash inflows from other assets or groups of assets.

Impairment losses on airport shops were recognized due to significant decrease in expected future cash flows on the medium-range strategy plan.

The recoverable amount of airport shops was measured by their usage value and future cash flows at discount rates of 5.0% and 5.2% for the years ended March 31, 2008 and 2006, respectively.

## 10. Income Taxes

The significant components of deferred tax assets and liabilities at March 31, 2008 and 2007 were as follows:

| | March 31, | | |
|---|---|---|---|
| | 2008 | 2007 | 2008 |
| | *(Thousands of yen)* | | *(Thousands of U.S. dollars)* |
| Deferred tax assets: | | | |
| Accrued bonuses | ¥ 259,817 | ¥ 273,362 | $ 2,598 |
| Allowance for doubtful accounts | 45,809 | 46,261 | 458 |
| Elimination of unrecognized gain on intercompany accounts and transactions | 75,625 | 69,782 | 756 |
| Directors' and statutory auditors' retirement benefits | 71,721 | 79,258 | 717 |
| Accrued enterprise tax | 45,327 | 67,486 | 453 |
| Accrued pension and severance costs | 12,592 | 46,026 | 126 |
| Impairment losses on fixed assets | 62,724 | 61,433 | 627 |
| Loss on revaluation of inventories | 45,403 | 40,222 | 454 |
| Loss on revaluation of investments in securities | 38,659 | 518 | 387 |
| Loss on revaluation of other investments | 35,435 | 35,435 | 354 |
| Deferred loss on hedging instruments | 29,611 | – | 296 |
| Tax loss carryforwards | 34,903 | – | 349 |
| Other | 113,043 | 98,720 | 1,130 |
| | 870,673 | 818,508 | 8,707 |
| Valuation allowance | (41,025) | – | (410) |
| Total deferred tax assets | 829,647 | 818,508 | 8,296 |
| Deferred tax liabilities: | | | |
| Accumulated earnings of consolidated subsidiaries | (46,380) | (46,572) | (464) |
| Depreciation | (149,663) | (89,935) | (1,497) |
| Prepaid pension expenses | (100,478) | – | (1,005) |
| Other | (13,389) | (26,413) | (134) |
| Total deferred tax liabilities | (309,912) | (162,921) | (3,099) |
| Net deferred tax assets | ¥ 519,734 | ¥ 655,586 | $ 5,197 |

## 10. Income Taxes (continued)

Reconciliations between the statutory tax rate and the effective tax rates for the years ended March 31, 2008 and 2007 were presented as follows:

| | Year ended March 31, | |
|---|---|---|
| | **2008** | **2007** |
| Statutory tax rate | 40.69% | 40.69% |
| Disallowed expenses, including entertainment expenses | 5.48 | 3.81 |
| Inhabitants' per capita taxes | 0.68 | 0.48 |
| Changes in valuation allowance | 1.76 | – |
| Equity in losses of affiliates | 1.60 | – |
| Other | 0.55 | (0.67) |
| Effective tax rate | 50.76% | 44.31% |

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.

## 11. Net Assets

The 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 common stock in treasury for the years ended March 31, 2008 and 2007 were as follows:

| | Year ended March 31, 2008 | | | |
|---|---|---|---|---|
| | At March 31, 2007 | Increase | Decrease | At March 31, 2008 |
| | | *(Thousands of shares)* | | |
| Number of shares of common stock in treasury: | | | | |
| Common stock | 14 | 0 | 0 | 15 |

## 11. Net Assets (continued)

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

| | Year ended March 31, 2007 | | | |
|---|---|---|---|---|
| | At March 31, 2006 | Increase | Decrease | At March 31, 2007 |
| | (Thousands of shares) | | | |
| 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 the current 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 the current 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*

Dividends whose cut off date fall within the reporting period are as follows:

| Resolution | Type of shares | Resources of dividends | Total dividends | | Dividends per share | Cut off date | Effective date |
|---|---|---|---|---|---|---|---|
| | | | *(Thousands of yen)* | *(Thousands of U.S. dollars)* | *(Yen)* | | |
| General meeting of shareholders held on June 18, 2008 | Common stock | Retained earnings | ¥446,994 | $4,470 | ¥35.0 | March 31, 2008 | June 19, 2008 |

## 12. 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, 2008 and 2007, and the related depreciation and interest expense for the years ended March 31, 2008, 2007 and 2006, respectively, which would have been reflected in the consolidated balance sheets and the related consolidated statements of income:

| | **March 31, 2008** | | |
|---|---|---|---|
| | Property and equipment – other | Software | Total |
| | *(Thousands of yen)* | | |
| Acquisition costs | ¥181,970 | ¥18,698 | ¥200,668 |
| Less accumulated depreciation | 101,171 | 9,771 | 110,942 |
| Net book value | ¥ 80,799 | ¥ 8,926 | ¥ 89,725 |

| | **March 31, 2008** | | |
|---|---|---|---|
| | Property and equipment – other | Software | Total |
| | *(Thousands of U.S. dollars)* | | |
| Acquisition costs | $1,820 | $187 | $2,007 |
| Less accumulated depreciation | 1,012 | 98 | 1,109 |
| Net book value | $ 808 | $ 89 | $ 897 |

| | **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 |

| | **Year ended March 31,** | | | |
|---|---|---|---|---|
| | **2008** | **2007** | **2006** | **2008** |
| | *(Thousands of yen)* | | | *(Thousands of U.S. dollars)* |
| Depreciation expense | ¥46,687 | ¥50,183 | ¥54,227 | $467 |
| Interest expense | ¥ 2,936 | ¥ 3,832 | ¥ 3,872 | $ 29 |

## 12. Leases (continued)

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

No impairment loss had been recognized on leased property for the years ended March 31, 2008, 2007 and 2006.

Lease expenses relating to the financing leases accounted for as operating leases amounted to ¥49,644 thousand ($496 thousand), ¥53,427 thousand and ¥57,941 thousand for the years ended March 31, 2008, 2007 and 2006, respectively.

Future rental expenses under financing leases accounted for as operating leases outstanding at March 31, 2008 and 2007 are summarized as follows:

| | March 31, | | |
|---|---|---|---|
| | 2008 | 2007 | 2008 |
| | (Thousands of yen) | | (Thousands of U.S. dollars) |
| Within 1 year | ¥40,502 | ¥ 46,707 | $405 |
| Over 1 year | 51,952 | 92,454 | 520 |
| | ¥92,454 | ¥139,161 | $925 |

Future rental expenses under operating leases outstanding at March 31, 2008 and 2007 are summarized as follows:

| | March 31, | | |
|---|---|---|---|
| | 2008 | 2007 | 2008 |
| | (Thousands of yen) | | (Thousands of U.S. dollars) |
| Within 1 year | ¥116,465 | ¥137,660 | $1,165 |
| Over 1 year | 408,458 | 324,448 | 4,085 |
| | ¥524,924 | ¥462,108 | $5,249 |

*As lessor under operating leases*

Certain consolidated subsidiaries lease equipment under operating leases. Future rental income under operating leases outstanding at March 31, 2008 and 2007 are summarized as follows:

| | March 31, | | |
|---|---|---|---|
| | 2008 | 2007 | 2008 |
| | (Thousands of yen) | | (Thousands of U.S. dollars) |
| Within 1 year | ¥ 688,127 | ¥ 805,284 | $ 6,881 |
| Over 1 year | 2,727,554 | 3,833,650 | 27,276 |
| | ¥3,415,681 | ¥4,638,934 | $34,157 |

## 12. Leases (continued)

*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, 2008 and 2007 are summarized as follows:

| | March 31, | | |
|---|---|---|---|
| | 2008 | 2007 | 2008 |
| | *(Thousands of yen)* | | *(Thousands of U.S. dollars)* |
| Within 1 year | ¥ 1,756,471 | ¥ 982,253 | $ 17,565 |
| Over 1 year | 8,944,112 | 3,463,111 | 89,441 |
| | ¥10,700,584 | ¥4,445,364 | $107,006 |

Future rental expenses as lessee under the original lease agreements outstanding at March 31, 2008 and 2007 are summarized as follows:

| | March 31, | | |
|---|---|---|---|
| | 2008 | 2007 | 2008 |
| | *(Thousands of yen)* | | *(Thousands of U.S. dollars)* |
| Within 1 year | ¥ 1,769,791 | ¥ 935,739 | $ 17,698 |
| Over 1 year | 8,258,716 | 5,144,310 | 82,587 |
| | ¥10,028,508 | ¥6,080,050 | $100,285 |

## 13. Loan Commitment Agreements

The Company has entered into loan commitment agreements with banks in order to source funds for its operations smoothly.

The outstanding balance of loan commitment as of March 31, 2008 and 2007 were as follows:

| | March 31, | | |
|---|---|---|---|
| | 2008 | 2007 | 2008 |
| | *(Thousands of yen)* | | *(Thousands of U.S. dollars)* |
| Total commitment available | ¥4,000,000 | ¥4,000,000 | $40,000 |
| Less amount utilized | 800,000 | – | 8,000 |
| Balance available | ¥3,200,000 | ¥4,000,000 | $32,000 |

## 14. 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, 2008, 2007 and 2006 were the same.

| | Year ended March 31, | | | |
|---|---|---|---|---|
| | 2008 | 2007 | 2006 | 2008 |
| | | (Yen) | | (U.S. dollars) |
| Net income per share | ¥76.68 | ¥124.01 | ¥132.57 | $0.767 |

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

| | March 31, | | |
|---|---|---|---|
| | 2008 | 2007 | 2008 |
| | (Yen) | | (U.S. dollars) |
| Net assets per share | ¥1,179.21 | ¥1,142.19 | $11.792 |

The following table sets forth the basis of the computation of net income per share for the years ended March 31, 2008, 2007 and 2006:

| | Year ended March 31, | | | |
|---|---|---|---|---|
| | 2008 | 2007 | 2006 | 2008 |
| | (Thousands of yen, except share) | | | (Thousands of U.S. dollars, except share) |
| Net income | ¥978,483 | ¥1,579,827 | ¥1,689,240 | $9,785 |
| Less: appropriation of bonuses to directors and statutory auditors | – | 2,673 | 2,491 | – |
| Net income available to stockholders of shares of common stock | ¥978,483 | ¥1,582,501 | ¥1,691,732 | $9,785 |
| Weighted average number of shares of common stock outstanding | 12,760,491 | 12,760,644 | 12,760,783 | 12,760,491 |

## 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
- 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)

## 15. Segment Information (continued)

The business segment information of the Company and its consolidated subsidiaries for the years ended March 31, 2008, 2007 and 2006 are summarized as follows:

| | Year ended March 31, 2008 | | | | | |
|---|---|---|---|---|---|---|
| | Aviation business | Life service business | Customer service business | Total | General corporate assets and intercompany eliminations | Consolidated |
| | | | (Thousands of yen) | | | |
| Sales to outside parties | ¥41,851,962 | ¥35,208,682 | ¥43,167,741 | ¥120,228,386 | ¥ – | ¥120,228,386 |
| Inter-segment sales and transfers | 1,227,407 | 104,338 | – | 1,331,745 | (1,331,745) | – |
| Total | 43,079,369 | 35,313,021 | 43,167,741 | 121,560,132 | (1,331,745) | 120,228,386 |
| Operating expenses | 41,605,579 | 33,931,526 | 40,248,870 | 115,785,976 | 2,253,981 | 118,039,957 |
| Operating income | ¥ 1,473,790 | ¥ 1,381,494 | ¥ 2,918,870 | ¥ 5,774,155 | ¥(3,585,726) | ¥ 2,188,428 |
| Depreciation and amortization | ¥ 422,979 | ¥ 101,224 | ¥ 233,812 | ¥ 758,016 | ¥ 353,723 | ¥ 1,111,740 |
| Impairment losses on fixed assets | ¥ – | ¥ – | ¥ 35,592 | ¥ 35,592 | ¥ – | ¥ 35,592 |
| Capital expenditures | ¥ 182,601 | ¥ 260,790 | ¥ 389,529 | ¥ 832,921 | ¥ 290,228 | ¥ 1,123,149 |
| Identifiable assets | ¥13,453,927 | ¥ 9,547,905 | ¥11,790,548 | ¥ 34,792,381 | ¥ 6,782,563 | ¥ 41,574,944 |

| | Year ended March 31, 2008 | | | | | |
|---|---|---|---|---|---|---|
| | Aviation business | Life service business | Customer service business | Total | General corporate assets and intercompany eliminations | Consolidated |
| | | | (Thousands of U.S. dollars) | | | |
| Sales to outside parties | $418,520 | $352,087 | $431,677 | $1,202,284 | $ – | $1,202,284 |
| Inter-segment sales and transfers | 12,274 | 1,043 | – | 13,317 | (13,317) | – |
| Total | 430,794 | 353,130 | 431,677 | 1,215,601 | (13,317) | 1,202,284 |
| Operating expenses | 416,056 | 339,315 | 402,489 | 1,157,860 | 22,540 | 1,180,400 |
| Operating income | $ 14,738 | $ 13,815 | $ 29,189 | $ 57,742 | $(35,857) | $ 21,884 |
| Depreciation and amortization | $ 4,230 | $ 1,012 | $ 2,338 | $ 7,580 | $ 3,537 | $ 11,117 |
| Impairment losses on fixed assets | $ – | $ – | $ 356 | $ 356 | $ – | $ 356 |
| Capital expenditures | $ 1,826 | $ 2,608 | $ 3,895 | $ 8,329 | $ 2,902 | $ 11,231 |
| Identifiable assets | $134,539 | $ 95,479 | $117,905 | $ 347,924 | $ 67,826 | $ 415,749 |

## 15. Segment Information (continued)

| | Year ended March 31, 2007 | | | | | |
|---|---|---|---|---|---|---|
| | Aviation business | Life service business | Customer service business | Total | General corporate assets and intercompany eliminations | Consolidated |
| | | | (Thousands of yen) | | | |
| 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 | ¥ 2,145,397 | ¥ 1,332,699 | ¥ 2,872,906 | ¥ 6,351,002 | ¥(3,104,844) | ¥ 3,246,158 |
| 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 | ¥15,846,030 | ¥ 8,555,737 | ¥11,154,239 | ¥ 35,556,006 | ¥ 6,789,929 | ¥ 42,345,936 |

With reorganization, the Company transferred creative design and printing business classified as "Customer service business" to "Life service business" in the year ended March 31, 2007.

In this connection, the financial statements in the year ended March 31, 2006 has been restated to conform to the presentation of the financial statements for the years ended March 31, 2008 and 2007.

| | Year ended March 31, 2006 | | | | | |
|---|---|---|---|---|---|---|
| | Aviation business | Life service business | Customer service business | Total | General corporate assets and intercompany eliminations | Consolidated |
| | | | (Thousands of yen) | | | |
| 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 | ¥ 1,349,924 | ¥ 1,170,315 | ¥ 2,663,515 | ¥ 5,183,756 | ¥(2,739,099) | ¥ 2,444,656 |
| Depreciation and amortization | ¥ 336,093 | ¥ 53,515 | ¥ 252,441 | ¥ 642,050 | ¥ 54,812 | ¥ 696,862 |
| Impairment losses on fixed assets | ¥ – | ¥ – | ¥ 26,507 | ¥ 26,507 | ¥ – | ¥ 26,507 |
| Capital expenditures | ¥ 1,048,891 | ¥ 24,893 | ¥ 162,342 | ¥ 1,236,127 | ¥ 893,709 | ¥ 2,129,837 |
| Identifiable assets | ¥13,619,181 | ¥ 7,905,524 | ¥10,269,973 | ¥ 31,794,680 | ¥ 5,768,734 | ¥ 37,563,414 |

Unallocated operating expenses included in "General corporate assets and intercompnay eliminations" for the years ended March 31, 2008, 2007 and 2006 amounted to ¥3,585,467 thousand ($35,855 thousand), ¥3,109,431 thousand and ¥2,738,471 thousand, respectively, and consisted primarily of administrative expenses incurred at the Company's headquarters.

## 15. Segment Information (continued)

In addition, unallocated assets included in "General corporate assets and intercompany eliminations" at March 31, 2008, 2007 and 2006 amounted to ¥6,910,902 thousand ($69,109 thousand), ¥6,658,940 thousand and ¥5,541,806 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, 2008, 2007 and 2006 are summarized as follows:

| | Year ended March 31, 2008 | | | | | |
|---|---|---|---|---|---|---|
| | Japan | North America | Other overseas counties | Total | General corporate assets and intercompany eliminations | Consolidated |
| | (Thousands of yen) | | | | | |
| Sales to outside parties | ¥115,362,639 | ¥ 2,750,801 | ¥ 2,114,946 | ¥120,228,386 | ¥ – | ¥120,228,386 |
| Inter-segment sales and transfers | 341,294 | 12,094,410 | 1,955,007 | 14,390,712 | (14,390,712) | – |
| Total | 115,703,933 | 14,845,211 | 4,069,953 | 134,619,098 | (14,390,712) | 120,228,386 |
| Operating expenses | 113,284,789 | 14,633,769 | 4,084,920 | 132,003,479 | (13,963,521) | 118,039,957 |
| Operating income (loss) | ¥ 2,419,144 | ¥ 211,442 | ¥ (14,967) | ¥ 2,615,619 | ¥ (427,190) | ¥ 2,188,428 |
| Identifiable assets | ¥ 34,149,783 | ¥ 7,763,279 | ¥1,045,836 | ¥ 42,958,899 | ¥ (1,383,955) | ¥ 41,574,944 |

| | Year ended March 31, 2008 | | | | | |
|---|---|---|---|---|---|---|
| | Japan | North America | Other overseas counties | Total | General corporate assets and intercompany eliminations | Consolidated |
| | (Thousands of U.S. dollars) | | | | | |
| Sales to outside parties | $1,153,626 | $ 27,508 | $21,149 | $1,202,284 | $ – | $1,202,284 |
| Inter-segment sales and transfers | 3,413 | 120,944 | 19,550 | 143,907 | (143,907) | – |
| Total | 1,157,039 | 148,452 | 40,700 | 1,346,191 | (143,907) | 1,202,284 |
| Operating expenses | 1,132,848 | 146,338 | 40,849 | 1,320,035 | (139,635) | 1,180,400 |
| Operating income (loss) | $ 24,191 | $ 2,114 | $ (150) | $ 26,156 | $ (4,272) | $ 21,884 |
| Identifiable assets | $ 341,498 | $ 77,633 | $10,458 | $ 429,589 | $ (13,840) | $ 415,749 |

| | Year ended March 31, 2007 | | | | | |
|---|---|---|---|---|---|---|
| | Japan | North America | Other overseas counties | Total | General corporate assets and intercompany eliminations | Consolidated |
| | (Thousands of yen) | | | | | |
| 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 |

## 15. Segment Information (continued)

| | Year ended March 31, 2006 | | | | | |
|---|---|---|---|---|---|---|
| | Japan | North America | Other overseas counties | Total | General corporate assets and intercompany eliminations | Consolidated |
| | (Thousands of yen) | | | | | |
| 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 |

Operating revenues from overseas operations of the Company and the consolidated subsidiaries for the year ended March 31, 2008 are summarized as follows:

| | Year ended March 31, 2008 | | | |
|---|---|---|---|---|
| | North America | Europe | Other | Total |
| | (Thousands of yen) | | | |
| Operating revenues from overseas operations | ¥3,564,914 | ¥7,053,106 | ¥1,539,429 | ¥ 12,157,450 |
| Consolidated operating revenues | | | | ¥120,228,386 |
| Operating revenues from overseas operations as a percentage of consolidated operating revenues | 3.0% | 5.9% | 1.2% | 10.1% |

| | Year ended March 31, 2008 | | | |
|---|---|---|---|---|
| | North America | Europe | Other | Total |
| | (Thousands of U.S. dollars) | | | |
| Operating revenues from overseas operations | $35,649 | $70,531 | $15,394 | $ 121,575 |
| Consolidated operating revenues | | | | $1,202,284 |
| Operating revenues from overseas operations as a percentage of consolidated operating revenues | 3.0% | 5.9% | 1.2% | 10.1% |

For the years ended March 31, 2007 and 2006, 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 to hedge certain foreign currency transactions related to foreign accounts receivable and payable on a consistent basis. The Company has also utilized interest-rate swaps to minimize the risk of fluctuation in cash flows arising from changes in interest rate related to its outstanding debt.

And a certain subsidiary 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.

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.

## 17. Related Party Transactions

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

The significant transactions between the Company and the companies controlled by the company for which the Company is an affiliate, for the years ended March 31, 2008, 2007 and 2006 are summarized as follows:

With Japan Airlines International Co., Ltd.:

| | **Year ended March 31,** | | | |
|---|---|---|---|---|
| | **2008** | **2007** | **2006** | **2008** |
| | *(Thousands of yen)* | | | *(Thousands of U.S. dollars)* |
| Sales of flight equipment | ¥15,863,137 | ¥14,899,629 | ¥14,445,701 | $158,631 |
| Purchases of merchandise | 8,288,247 | 5,118,236 | – | 82,882 |

| | **March 31,** | | |
|---|---|---|---|
| | **2008** | **2007** | **2008** |
| | *(Thousands of yen)* | | *(Thousands of U.S. dollars)* |
| Accounts receivable | ¥2,511,575 | ¥2,473,366 | $25,116 |
| Advance payment | 113,391 | 462,482 | 1,134 |
| Accounts payable | 289,415 | 1,106,628 | 2,894 |

## 17. Related Party Transactions (continued)

With JAL Capital Co., Ltd.:

| | Year ended March 31, | | | |
|---|---|---|---|---|
| | 2008 | 2007 | 2006 | 2008 |
| | | *(Thousands of yen)* | | *(Thousands of U.S. dollars)* |
| Proceeds from short-term borrowings | ¥– | ¥17,000,000 | ¥2,400,000 | $– |
| Repayment of short-term borrowings | – | 16,400,000 | 2,800,000 | – |
| Interest expenses | – | 3,828 | 430 | – |

| | March 31, | | |
|---|---|---|---|
| | 2008 | 2007 | 2008 |
| | *(Thousands of yen)* | | *(Thousands of U.S. dollars)* |
| Short-term borrowings | – | ¥1,000,000 | $– |

With Japan Trans Ocean Air Co., Ltd.:

| | Year ended March 31, | | | |
|---|---|---|---|---|
| | 2008 | 2007 | 2006 | 2008 |
| | | *(Thousands of yen)* | | *(Thousands of U.S. dollars)* |
| Sales of flight equipment spare parts | ¥– | ¥2,284,092 | ¥2,389,425 | $– |

| | Year ended March 31, | | |
|---|---|---|---|
| | 2008 | 2007 | 2008 |
| | *(Thousands of yen)* | | *(Thousands of U.S. dollars)* |
| Accounts receivable | ¥– | ¥598,439 | $– |

## 18. Subsequent Event

Effective June 18, 2008, the Company reorganized its business headquarters into two new divisions: the "Corporate Sales" division, which will be focused on its "B-to-B" business, and the "Retail Business" division, which will be focused on its "B-to-C" business. This change resulted from the Company's conclusion that business strategy and business operations are judged from the standpoint of the market. As a result of the changes in the structure of the internal organization, the Company's reportable segments were also changed from "Aviation business," "Lifestyle services business," and "Customer services business" to "Aviation-related business," "Corporate solutions business," "Travel retail business," and "Food & beverage business." In subsequent periods, the Company will disclose segment information that has been restated to reflect the new reportable segments.

The primary products and services for each of the new reportable segments are as follows:

| Business segment | Main product and sales |
|---|---|
| Aviation-related business | Aircraft, Aircraft components, Machinery & Facilities, Materials, Cabin service supply, Textiles supply, Clothing & Uniform |
| Corporate solutions business | Printing, Insurance, Real estate, Property management |
| Travel retail business | Cabin service supply, Brand & Fashion, Mail-order sales, Overseas real estate, Souvenir & Specialty goods, Restaurant, Duty-free items |
| Food & beverage business | Agriculture & marine products, Processed foods, Wine, Food gift items |