

# Financial Results

## 1<sup>st</sup> Quarter Mar / 2015

### (FY2014)



29 July, 2014  
Norikazu Saito  
Director, Senior Managing Executive Officer



## **OVERVIEW OF FINANCIAL RESULTS FOR 1<sup>ST</sup> QUARTER MAR/2015 (FY2014)**

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## **DETAILS OF FINANCIAL RESULTS FOR 1<sup>ST</sup> QUARTER MAR/2015 (FY2014)**

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## **SUPPLEMENTAL REFERENCES**

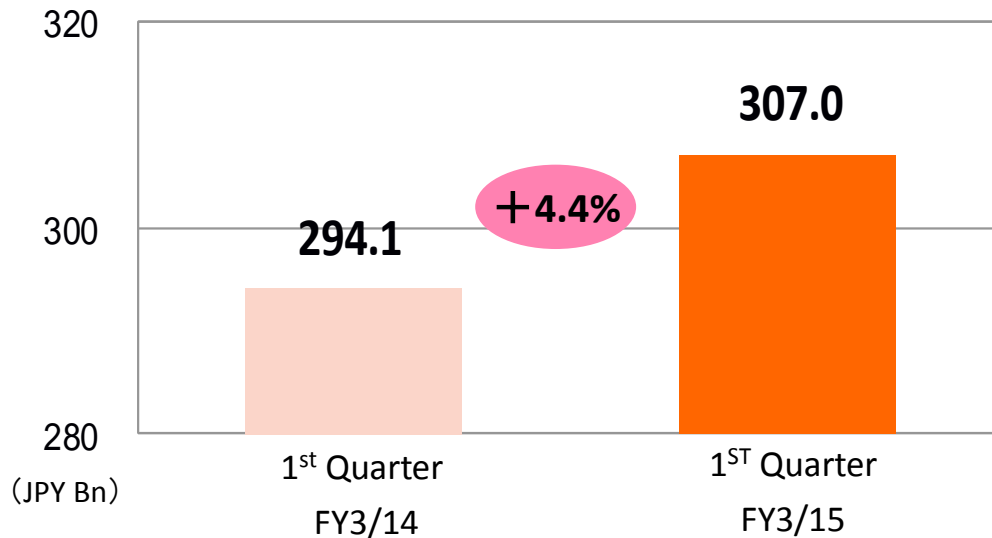
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# Overview of 1<sup>st</sup> Quarter FY3/15 Financial Results

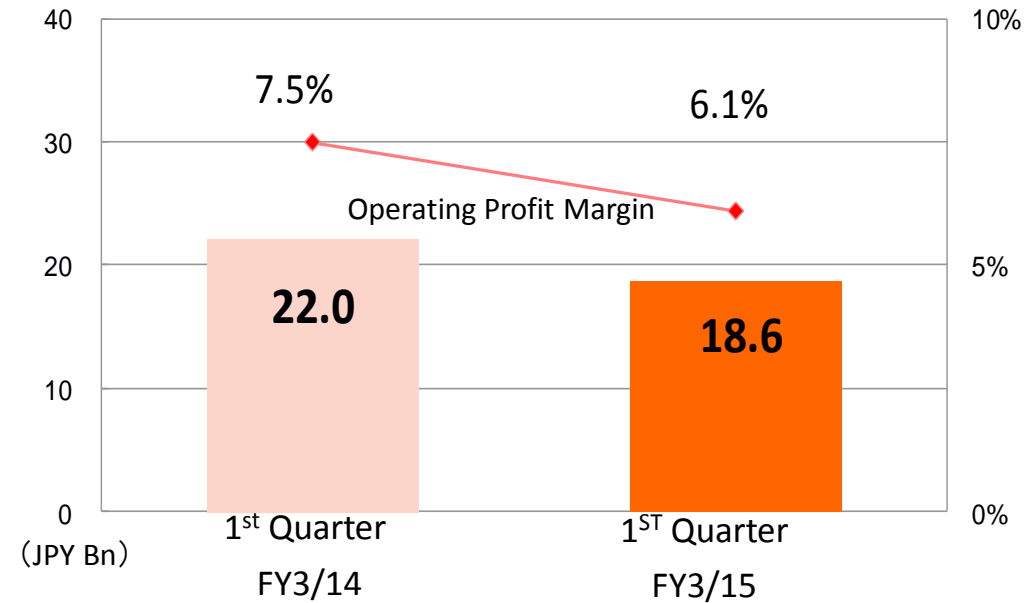


JAPAN AIRLINES

## Operating Revenue



## Operating Profit



## OIL • FX Markets

	1Q FY3/14	1Q FY3/15	% y/y
Singapore Kerosene (USD/bbl)	118.4	120.1	+1.4%
Oil in Dubai(USD/bbl)	102.5	104.9	+2.3%
FX (JPY/USD)	99.0	102.0	+3.0%

- ✓ Due to intensified competition and a rise in fuel prices, operating profit declined to 18.6 billion yen.
- ✓ However, we are steadily moving forward towards achieving our operating profit forecast of 140 billion yen for the full fiscal year.

- Operating revenue for the first quarter was 307 billion yen, up 4.4% over the previous year, primarily due to an increase in international passenger revenue.
- Operating profit was 18.6 billion yen, a decline of 3.4 billion yen from the year before, due to a persistently tough environment for revenues and because of the weaker yen and rising jet fuel prices in terms of expenses.
- We are steadily moving forward towards achieving our operating profit forecast of 140 billion yen, and will continue to do our best to achieve higher operating profit.

# Consolidated Financial Results



JAPAN AIRLINES

## Consolidated Financial Results 1st Quarter FY3/15

JPY Bn	1 <sup>st</sup> Quarter FY3/14	1 <sup>st</sup> Quarter FY3/15	% y/y
Revenue	294.1	<b>307.0</b>	<b>+4.4%</b>
Air transportation segment	262.9	<b>274.1</b>	<b>+4.3%</b>
Operating Expense	272.0	<b>288.4</b>	<b>+6.0%</b>
Air transportation segment	244.4	<b>258.9</b>	<b>+5.9%</b>
Operating Profit	22.0	<b>18.6</b>	<b>▲15.6%</b>
Air transportation segment	18.4	<b>15.2</b>	<b>▲17.7%</b>
Operating Profit Margin(%)	7.5%	<b>6.1%</b>	<b>▲1.4pt</b>
Ordinary Income	19.6	<b>16.9</b>	<b>▲14.0%</b>
Net Income	18.3	<b>14.7</b>	<b>▲19.4%</b>
ASK (MN seat km)	20,705	<b>20,796</b>	<b>+0.4%</b>
RPK (MN passenger km)	13,711	<b>14,251</b>	<b>+3.9%</b>
EBITDA Margin (%) <sup>(1)</sup>	14.2%	<b>13.0%</b>	<b>▲1.2pt</b>
EBITDAR Margin (%) <sup>(2)</sup>	16.8%	<b>15.2%</b>	<b>▲1.6pt</b>
Unit Cost (yen) <sup>(3)</sup>	8.5	<b>8.8</b>	<b>+0.3</b>
Incl. Fuel	11.8	<b>12.5</b>	<b>+0.6</b>

1. EBITDA Margin = EBITDA / Revenue EBITDA=Operating Profit + Depreciation

2. EBITDAR Margin = EBITDAR / Revenue EBITDAR=Operating Profit + Depreciation+ Aircraft Leases

3. Unit Cost = Air Transportation Segment Operating Expense (excluding fuel cost and resale of fuel to related company) / ASK

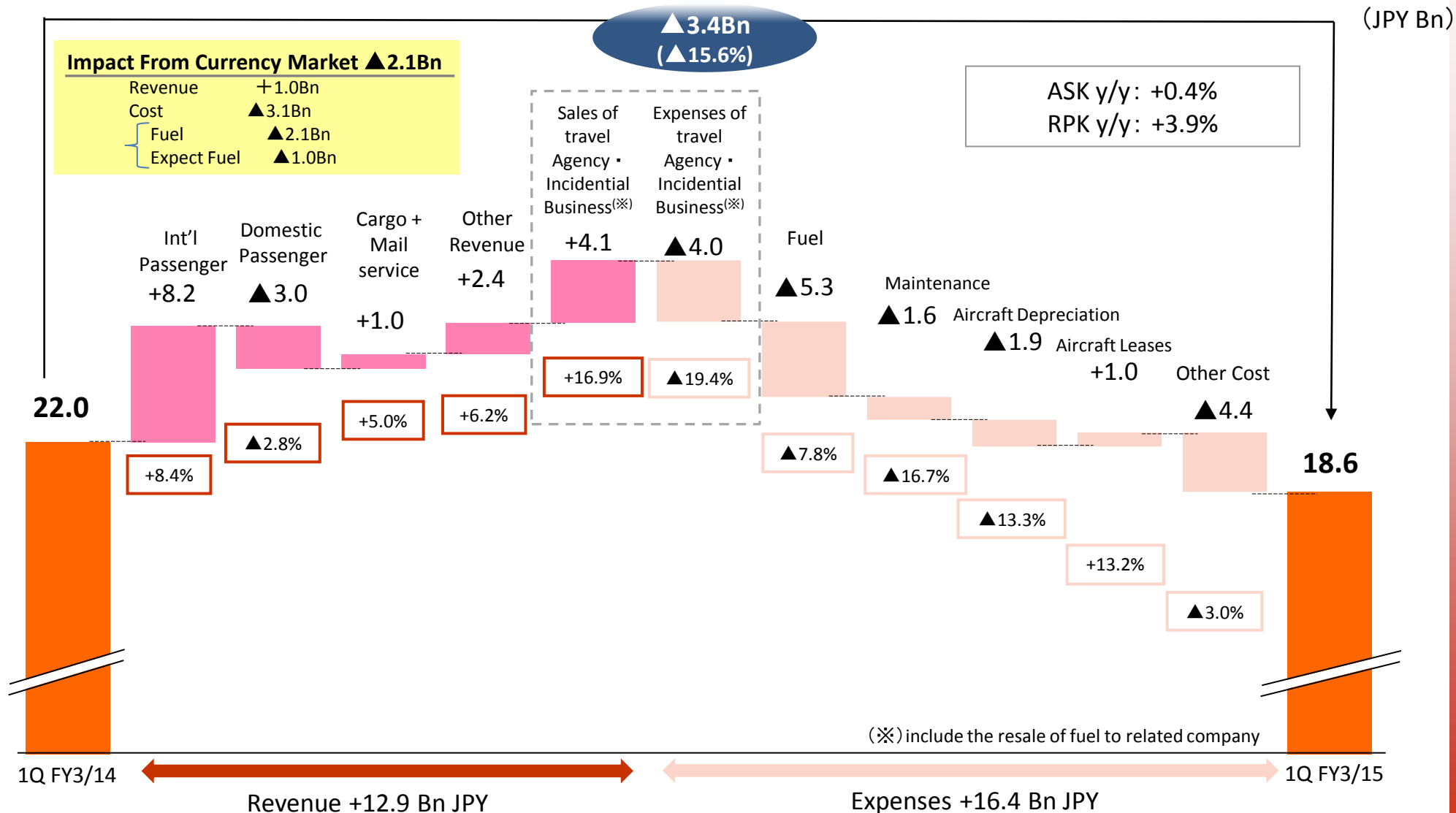
- Operating revenue for the first quarter was 307 billion yen, up 4.4% over the previous year, driven by an increase in revenue per passenger and passenger traffic on international flights.
- Operating expenses came to 288.4 billion yen, up 6.0% over the previous year, principally due to an increase in fuel costs, maintenance costs and so forth. We will strive to keep costs down by further raising cost consciousness through amoeba management.
- Unit Cost excluding fuel costs and resale of fuel to related company was 8.8 yen, up 0.3 yen on the previous year but we will continue to control costs effectively and we are moving forward towards achieving our planned unit cost 8.8 yen by the end of this fiscal year.
- As a result, operating profit for the first quarter of the fiscal year ending March 31, 2015 came to 18.6 billion yen, operating profit margin was 6.1%.

# Changes of Operating Profit



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## 1st Quarter FY3/15



- International passenger revenue increased by 8.2 billion yen over the previous year, while domestic passenger revenue decreased by 3 billion yen. Combined with other revenue, revenue increased by 12.9 billion yen in total.
- Expenses increased by 16.4 billion yen in total, which includes an increase in fuel costs of 5.3 billion yen due to rising jet fuel prices mainly.
- The area marked by a dotted line shows group company transactions such as travel agency or resale of fuel to related companies. Expenses are nearly offset by revenue.
- Let me explain the impact from the currency exchange market on our operating profit of the 1st quarter in the upper left corner. Including the other currencies than US Dollars, the FX had an impact of 2.1 billion yen decrease on operating profit in total, while the weaker yen made a 1.0 billion yen raise on our revenue and 3.1 billion yen increase on our expenses.
- As a result, operating profit came to 18.6 billion yen, a decline of 3.4 billion yen from the year before.



# International Passenger Operations (Operating Results)

## International Passenger

	1Q FY3/14	1Q FY3/15	% y/y
<b>Passenger Revenue (JPY Bn)</b>	98.9	<b>107.2</b>	<b>+8.4%</b>
<b>ASK (MN seat km)</b>	11,260	<b>11,728</b>	<b>+4.2%</b>
<b>RPK (MN passenger km)</b>	8,180	<b>8,596</b>	<b>+5.1%</b>
<b>Passengers ('000)</b>	1,781	<b>1,844</b>	<b>+3.5%</b>
<b>L/F (%)</b>	72.6%	<b>73.3%</b>	<b>+0.6pt</b>
<b>Yield (JPY)<sup>(1)</sup></b>	12.1	<b>12.5</b>	<b>+3.1%</b>
<b>Unit Revenue (JPY)<sup>(2)</sup></b>	8.8	<b>9.1</b>	<b>+4.0%</b>
<b>Revenue per passenger (JPY)<sup>(3)</sup></b>	55,543	<b>58,132</b>	<b>+4.7%</b>

- ✓ The RPK increase outstripped the ASK increase.
- ✓ As a result, the load factor rose by 0.6pt.
- ✓ Yield, unit revenue and Revenue per passenger were also improved.

**Notes:**

1. Yield = Passenger Revenue / RPK
2. Unit Revenue = Passenger Revenue / ASK
3. Revenue per Passenger = Passenger Revenue / Passengers

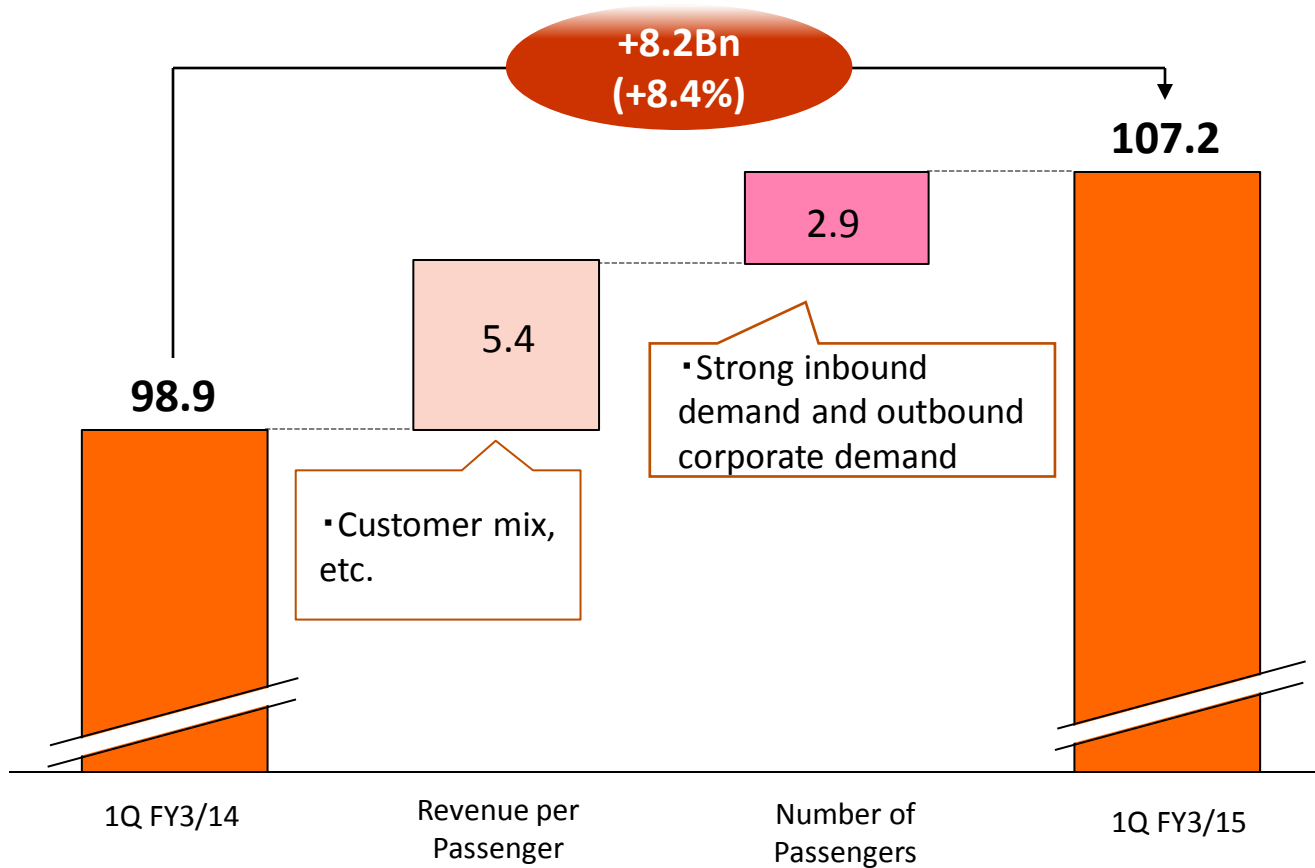
- First, I will explain the situation of international passenger operations.
- ASK on international flights increased by 4.2% on the previous year, while RPK increased by 5.1%, meaning load factors, increased by 0.6 points, came to 73.3%.
- Given buoyant inbound demand and outbound business demand, and a rise in revenue per passenger of inbound passengers driven by the weaker yen, yield was up 3.1%, revenue per passenger increased by 4.7%, and passenger revenue increased by 8.4% to 107.2 billion yen.

# International Passenger Operations (Changes of Revenue)



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## 1st Quarter FY3/15



- ✓ From March 30, 2014, we increased flights from Haneda.
- ✓ Increased flights between NRT and New York/Jakarta and launched route between HND and Ho Chi Minh City
- ✓ The deployment of JAL SKY SUITE 777/767 routes contributed to improving Revenue per passenger and load factors.

- The revenue per passenger and passenger numbers increased in good shape due to buoyant outbound business demand and inbound demand.
- Given enhanced functions of the 2 major hubs, Haneda and Narita, resulting from additional flights, we strengthened the foundation for revenue growth. At Haneda, we stepped up measures to capture demand for travel from regional Japan to overseas destinations and vice versa, using connecting domestic flights at Haneda. At Narita, we strived to capture transit passengers traveling between North America and Asia via Japan.
- The deployment of JAL SKY SUITE 777 and 767 services contributed to increasing revenue per passenger and load factors.
- As a result, international passenger revenue for the first quarter was 107.2 billion yen, up 8.4% on the previous year.

# Domestic Passenger Operations (Operating Results)



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## Domestic Passenger

	1Q FY3/14	1Q FY3/15	% y/y
<b>Passenger Revenue (JPY Bn)</b>	108.8	<b>105.7</b>	<b>▲2.8%</b>
<b>ASK (MN seat km)</b>	9,444	<b>9,067</b>	<b>▲4.0%</b>
<b>RPK (MN passenger km)</b>	5,531	<b>5,654</b>	<b>+2.2%</b>
<b>Passengers ('000)</b>	7,360	<b>7,515</b>	<b>+2.1%</b>
<b>L/F (%)</b>	58.6%	<b>62.4%</b>	<b>+3.8pt</b>
<b>Yield (JPY) <sup>(1)</sup></b>	19.7	<b>18.7</b>	<b>▲4.9%</b>
<b>Unit Revenue (JPY) <sup>(2)</sup></b>	11.5	<b>11.7</b>	<b>+1.3%</b>
<b>Revenue per passenger (JPY) <sup>(3)</sup></b>	14,783	<b>14,075</b>	<b>▲4.8%</b>

- ✓ Though ASK declined by 4.0%, RPK was up 2.2%, and Load Factor also improved.
- ✓ Yield declined by 4.9% on the previous year due to an increase in group passengers and passengers purchasing advance purchase tickets, etc.
- ✓ Passenger revenue was 105.7 billion yen, a decline of 2.8% from the year before.

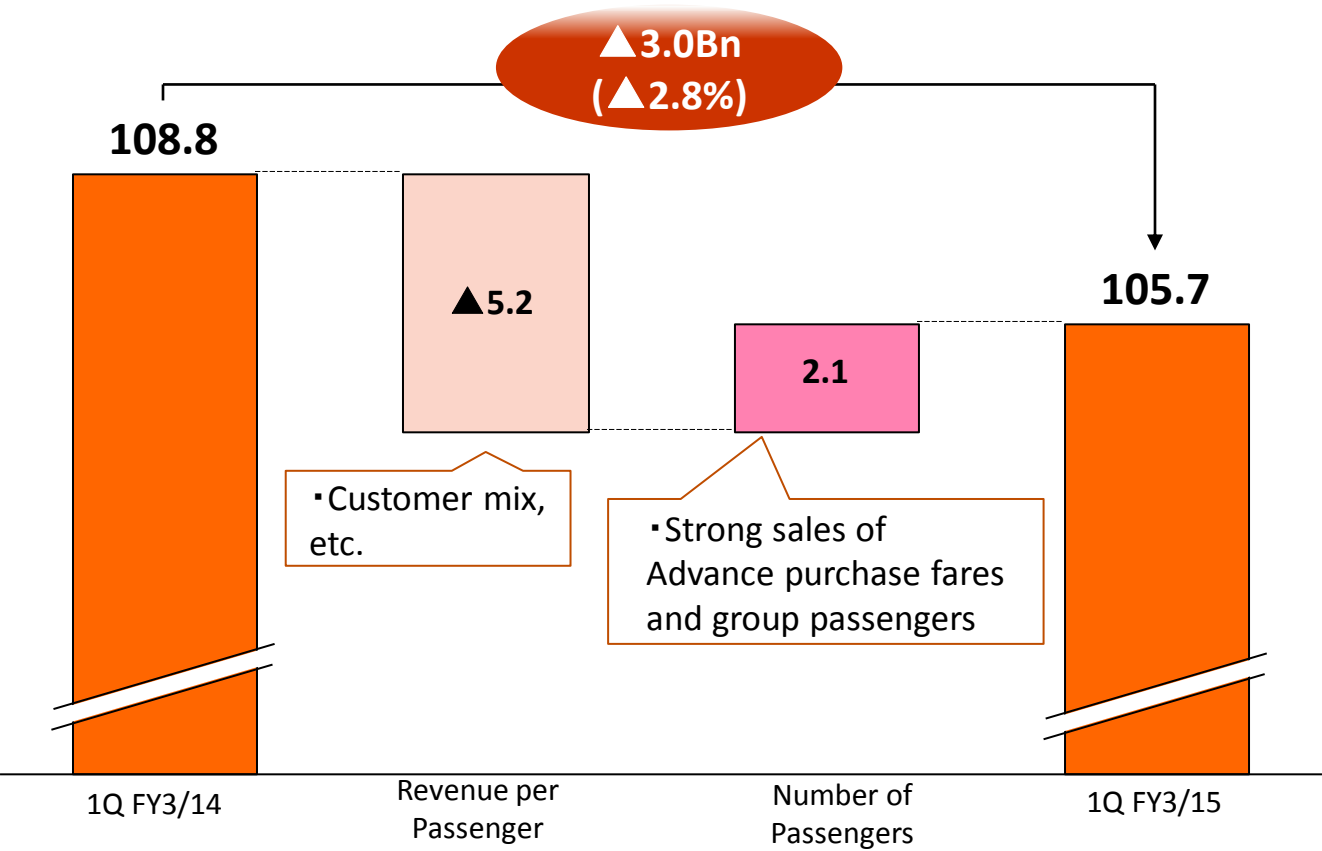
### Notes:

1. Yield = Passenger Revenue / RPK
2. Unit Revenue=Passenger Revenue / ASK
3. Revenue per Passenger = Passenger Revenue / Passengers

- Although ASK on domestic flights decreased by 4.0% from the year before, RPK increased by 2.2%. As a result, the load factor improved by 3.8 points to 62.4%.
- Yield was minus 4.9% on the previous year due to an increase in group passengers, passengers using advance purchase fares such as Sakitoku promotional fares, and so forth.
- As a result, domestic passenger revenue came to 105.7 billion yen, a decline of 2.8% on the previous year.

# Domestic Passenger Operations (Changes of Revenue)

## 1st Quarter FY3/15



- ✓ Sales of new Tokubin Discount 21 fares were strong.
- ✓ Passengers using Dynamic Packages increased.
- ✓ Extended the booking time limit of travel products for group passengers
- ✓ Launched JAL SKY NEXT services with new seats (from May 28~)

- Though revenue per passenger declined due to changes in customer mix, demand for domestic air travel has been favorable.
- In the first quarter, we had strong sales of Tokubin Discount 21, an advance purchase fare which can be booked up to 21 days prior to the day of departure.
- We also improved Dynamic Packages and extended the booking time limit of products for group passengers from 10 days to 7 days prior to the day of departure.
- In addition, from May 28, we started JAL SKY NEXT services between Haneda and Fukuoka. Demand for this aircraft, offering more legroom than the previous seats, has been strong.



# Major Operating Expense Items

## Breakdown of Operating Expenses

(JPY Bn)	1Q FY3/14	1Q FY3/15	Difference	% y/y
Fuel	68.3	73.6	+5.3	+7.8%
Landing fees	20.0	19.9	▲0.0	▲0.1%
Maintenance	9.6	11.2	+1.6	+16.7%
Sales Commissions (Air Transport)	5.4	5.7	+0.3	+6.6%
Aircraft Depreciation	14.6	16.6	+1.9	+13.3%
Aircraft Leases	7.7	6.7	▲1.0	▲13.2%
Personnel	58.4	58.5	+0.1	+0.2%
Expenses of travel agency / Incidental business etc(*)	21.0	25.1	+4.0	+19.4%
Other	66.7	70.7	+4.0	+6.0%
<b>Total Operating Expenses</b>	<b>272.0</b>	<b>288.4</b>	<b>+16.4</b>	<b>+6.0%</b>

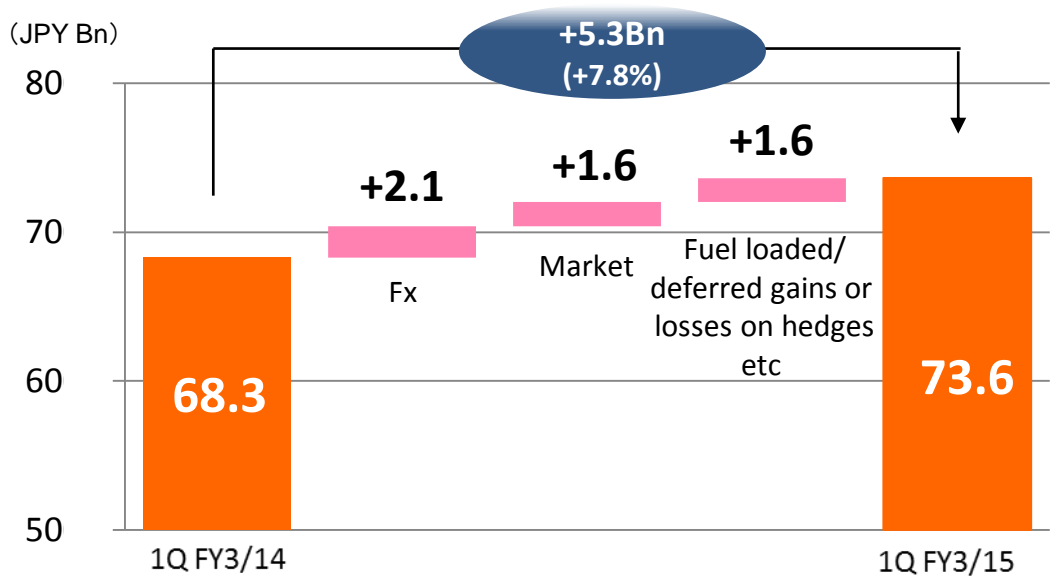
✓ Fuel costs increased by 5.3 billion yen due to FX and rising jet fuel prices.

✓ Maintenance costs increased by 1.6 billion yen due to an increase in contracted engine maintenance costs.

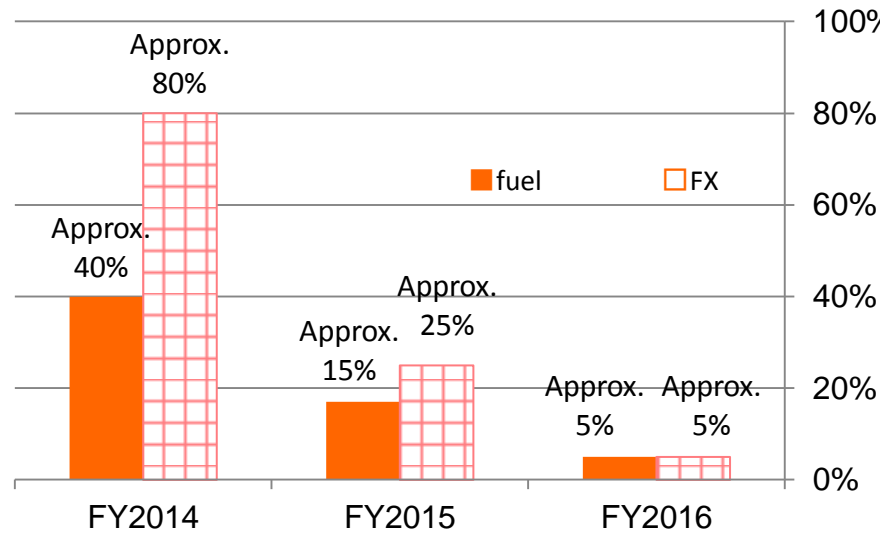
ASK +0.4% y/y

- Fuel costs, which account for a large portion of operating expenses, increased by 5.3 billion yen, or plus 7.8% on the previous year, due to rising jet fuel prices and FX.
- Maintenance costs increased by 1.6 billion yen from the year before, due to an increase in contracted engine maintenance costs.
- Aircraft leases declined by 1 billion yen on the previous year after the purchase of operating lease aircraft, while aircraft depreciation costs increased by 1.9 billion yen year on year, because those of grounded 787 aircraft had been appropriated for non-operating expenses last year and we introduced new aircraft.
- Operating expenses totaled 288.4 billion yen, or plus 16.4 billion yen from the year before.

## Impact from Fuel



## Hedging Ratio for Fuel Costs (As of End of 1Q FY3/15)



OIL・FX Markets				
	FY14 Plan	1Q FY3/14	1Q FY3/15	% y/y
Singapore Kerosene (USD/bbl)	125	118.4	120.1	+1.4%
Oil in Dubai(USD/bbl)	107	102.5	104.9	+2.3%
FX Rate (JPY/USD)	107	99.0	102.0	+3.0%

Sensitivity for Fuel Costs (Without Hedging)	
Effect on Fuels (year)	
Crude Oil (Change for 1 USD/bbl)	2.3 Bn JPY Per Year
FX (Change in 1 JPY/USD)	2.6 Bn JPY Per Year

- Please look at the graph in the upper left corner. Fuel costs were plus 5.3 billion yen on the previous year. This comprises 2.1 billion yen owing to the weaker yen, plus 1.6 billion yen resulting from rising jet fuel prices, and plus 1.6 billion yen due to an increase in the amount of fuel loaded, gains and losses on hedging, and so forth.
- The graph in the upper right corner shows initial hedging by fiscal year. As of the end of June 2014, we have hedged 40% of our fuel consumption and 80% of our foreign exchange requirements.

# Major Balance Sheet Items



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## Consolidated Balance Sheet Summary End of 1st Quarter FY3/15

(JPY Bn)	End of FY2013 2014/3/31	End of 1Q FY3/15 2014/6/30	Difference
<b>Total Assets</b>	1,340.1	<b>1,342.3</b>	<b>+2.2</b>
<b>Cash and Deposits</b>	368.7	<b>348.4</b>	<b>▲20.2</b>
<b>Balance of Interest-bearing Debt <sup>(1)</sup></b>	134.2	<b>123.1</b>	<b>▲11.1</b>
<b>Off-balance Sheet Lease Payments</b>	145.5	<b>138.4</b>	<b>▲7.0</b>
<b>Shareholder's Equity</b>	690.2	<b>646.5</b>	<b>▲43.7</b>
<b>Shareholder's Equity Ratio(%)</b>	51.5%	<b>48.2%</b>	<b>▲3.3pt</b>
<b>D/E Ratio (x) <sup>(2)</sup></b>	0.2x	0.2x	<b>▲0.0</b>

✓ The balance of interest-bearing debt decreased by 11.1 billion yen to 123.1 billion yen as a result of repaying lease obligations.

✓ The shareholder's equity ratio decreased by 3.3pt to 48.2% due to payment of dividends and revision of accounting standards for retirement benefit, etc.

### Notes:

1. Accounts Payable-installment Purchase included
2. D/E Ratio = On-balance sheet Interest-bearing Debt / Shareholders' Equity

(Reference) ※End of 1Q FY3/15 2014/6/30

D/E ratio including Off-Balance Sheet Lease Payment: 0.4x

- The balance of interest-bearing debt came to 123.1 billion yen, a decrease of 11.1 billion yen from the end of the fiscal year, as a result of repayment of lease obligations.
- The equity ratio declined by 3.3 points from the end of the previous fiscal year to 48.2%, due to a decline in retained earnings after payment of dividends and the revision of the accounting standard for retirement benefits. Nevertheless, we reported a net profit for the first quarter. We will continue to accumulate capital, and expect to achieve an equity ratio of 53.1% at the end of the fiscal year as we planned.

# Major Cash Flow Items



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(JPY Bn)	1Q FY3/14	1Q FY3/15	Difference
Net income before income taxes and minority interests	20.9	17.5	▲3.4
Depreciation	19.6	21.3	+1.6
Other	17.8	23.0	+5.2
<b>Cash Flow from Operating Activities</b>	<b>58.4</b>	<b>61.9</b>	<b>+3.5</b>
Capital Expenditure <sup>(1)</sup>	▲25.8	▲43.0	▲17.2
Other	1.8	1.6	▲0.1
<b>Cash Flow from Investing Activities <sup>(2)</sup></b>	<b>▲23.9</b>	<b>▲41.3</b>	<b>▲17.4</b>
<b>Free Cash Flow <sup>(3)</sup></b>	<b>34.4</b>	<b>20.5</b>	<b>▲13.8</b>
Repayment of Interest-bearing Debt <sup>(4)</sup>	▲10.8	▲10.9	▲0.1
Other	▲30.8	▲29.7	+1.0
<b>Cash Flow from Financing Activities</b>	<b>▲41.6</b>	<b>▲40.7</b>	<b>+0.9</b>
<b>Total Cash Flow <sup>(5)</sup></b>	<b>▲7.2</b>	<b>▲20.1</b>	<b>▲12.9</b>
<b>EBITDA</b>	<b>41.7</b>	<b>39.9</b>	<b>▲1.7</b>
<b>EBITDAR</b>	<b>49.5</b>	<b>46.7</b>	<b>▲2.8</b>

**Notes:**

- Expense due to purchases of fixed assets
- Exclude deposits and withdrawals from deposit accounts
- Cash Flow from Operating Activities + Cash Flow from Investing Activities
- Repayment of Long Term Debt + Repayment of Lease Debt
- Cash flow from Operating Activities + Cash Flow from Investing Activities + Cash Flow from Financing Activities

- This page shows cash flows for the first quarter. Capital expenditure increased by 17.2 billion yen on the previous year, primarily for aircraft, and is proceeding as initially planned.



# Earnings Forecast for Mar/2015 (FY2014, Consolidated)



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(JPY Bn)	Mar/2014 Result	Mar/2015 Forecast	Difference
Operating Revenue	1,309.3	<b>1,350.0</b>	+40.6
Operating Expense	1,142.5	<b>1,210.0</b>	+67.4
Operating Profit	166.7	<b>140.0</b>	▲26.7
Operating Profit Margin	12.7%	<b>10.4%</b>	▲2.4pt
Ordinary Income	157.6	<b>135.0</b>	▲22.6
Net Income	166.2	<b>115.0</b>	▲51.2

	Mar/2014 Result	Mar/2015 Forecast
ASK* Int'l	+3.3%	+4.9%
Doms	+1.8%	▲2.1%
RPK* Int'l	+4.0%	+2.7%
Doms	+3.2%	▲0.8%

(\*) y/y Published value 30April/2014

- ✓ No change in the earnings forecast from the announcement of financial results for the fiscal year ended March 31, 2014.
- ✓ Will disclose our estimated dividend when our financial forecast becomes clearer.

- This page shows our financial forecast for the fiscal year ending March 31, 2015. As mentioned at the beginning of my presentation, we reported an 8 billion yen increase in the first quarter results compared to our forecast. However, our forecast for the full year remains the same as the one in our announcement of financial results for the fiscal year ended March 31, 2014, that is, operating revenue of 1,350 billion yen and operating profit of 140 billion yen. I will let you know of our projected dividend when our forecast has become clearer.
- For your reference, at the end of the handout, we have provided results of international passenger revenue on major routes and a list of aircraft in our fleet.

Fly into tomorrow.



***JAPAN AIRLINES***

**Contact:**

**Finance, Japan Airlines**

**+81-3-5460-3068**

# 《Supplemental Reference》

## Revenue of International Routes by Geographic segment



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### Passenger Revenue (% of the whole int'l revenue)

(%)	1Q/ FY2013	1Q/ FY2014	Difference
Trans Pacific	33.0%	35.0%	+2.0pt
Europe	19.0%	18.0%	▲1.0pt
Asia/Oceania	37.5%	35.0%	▲2.5pt
China	10.5%	12.0%	+1.5pt

### ASK

(MN seat km)	1Q/ FY2013	1Q/ FY2014	y/y
Trans Pacific	4,007	4,444	+10.9%
Europe	1,963	1,967	+0.2%
Asia/Oceania	4,424	4,412	▲0.3%
China	864	903	+4.5%

### RPK

(MN passenger km)	1Q/ FY2013	1Q/ FY2014	y/y
Trans Pacific	3,113	3,530	+13.4%
Europe	1,477	1,453	▲1.6%
Asia/Oceania	3,124	3,071	▲1.7%
China	465	540	+16.2%

### Passengers

('000)	1Q/ FY2013	1Q/ FY2014	y/y
Trans Pacific	400	449	+12.2%
Europe	157	158	+0.5%
Asia/Oceania	976	947	▲2.9%
China	247	289	+17.0%

### Load Factor

(%)	1Q/ FY2013	1Q/ FY2014	Difference
Trans Pacific	77.7%	79.4%	+1.8pt
Europe	75.3%	73.9%	▲1.4pt
Asia/Oceania	70.6%	69.6%	▲1.0pt
China	53.8%	59.9%	+6.0pt

# 《Supplemental Reference》

## Number of Aircraft in Service JUN/2014

	End of Mar/2014			End of Jun/2014			Difference
	Owned	Leased	Total	Owned	Leased	Total	
Boeing 777-200	15	0	15	14	0	14	▲1
Boeing 777-200ER	11	0	11	11	0	11	--
Boeing 777-300	7	0	7	7	0	7	--
Boeing 777-300ER	13	0	13	13	0	13	--
Large-sized Total	46	0	46	45	0	45	▲1
Boeing 787-8	15	0	15	15	0	15	--
Boeing 767-300	15	0	15	15	0	15	--
Boeing 767-300ER	18	14	32	20	12	32	--
Middle-sized Total	48	14	62	50	12	62	--
MD90	0	0	0	0	0	0	--
Boeing 737-400	11	2	13	10	2	12	▲1
Boeing 737-800	21	29	50	21	29	50	--
Small-sized Total	32	31	63	31	31	62	▲1
Embraer 170	15	0	15	15	0	15	--
Bombardier CRJ200	9	0	9	9	0	9	--
Bombardier D8-400	9	2	11	9	2	11	--
SAAB340B	10	1	11	10	1	11	--
Bombardier D8-300	1	0	1	1	0	1	--
Bombardier D8-100	4	0	4	4	0	4	--
Regional Total	48	3	51	48	3	51	--
<b>TOTAL</b>	<b>174</b>	<b>48</b>	<b>222</b>	<b>174</b>	<b>46</b>	<b>220</b>	<b>▲2</b>

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