

# **JAPAN AIRLINES Co., Ltd.**

## **Financial Results**

### **1<sup>st</sup> Quarter Mar/2017 (FY2016)**



**July 29, 2016**



## OVERVIEW OF FINANCIAL RESULTS FOR 1<sup>ST</sup> QUARTER MAR/17 (FY2016)

P.1



## DETAILS OF FINANCIAL RESULTS FOR 1<sup>ST</sup> QUARTER MAR/17 (FY2016)

P.2



## REFERENCES

P.13

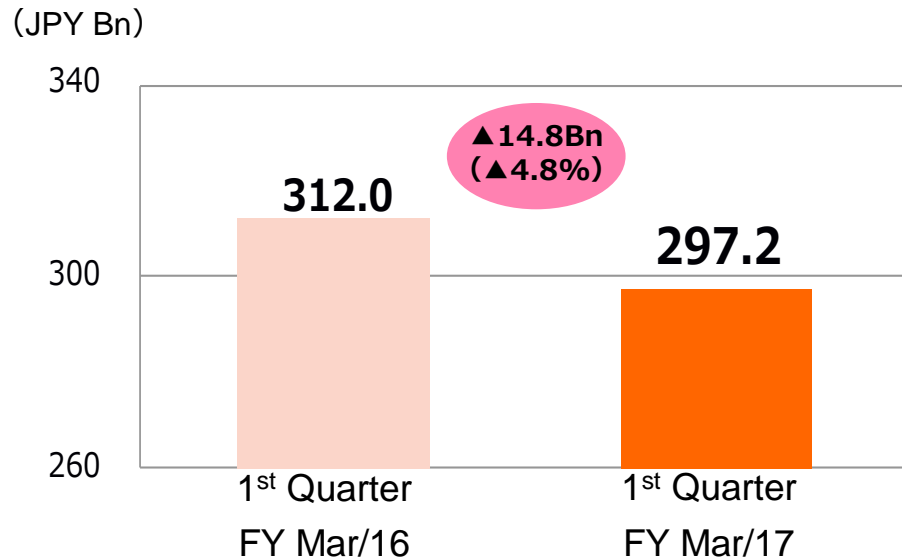
From the first quarter of this fiscal year, figures for Revenue Passengers Carried, ASK, RPK and Load Factor include “Marketing Carriers’ on code-sharing flights operated by JAL”. The year-earlier first quarter also shows the figures after reflecting this change.

# Overview of Financial Results for 1<sup>st</sup> Quarter Mar/2017

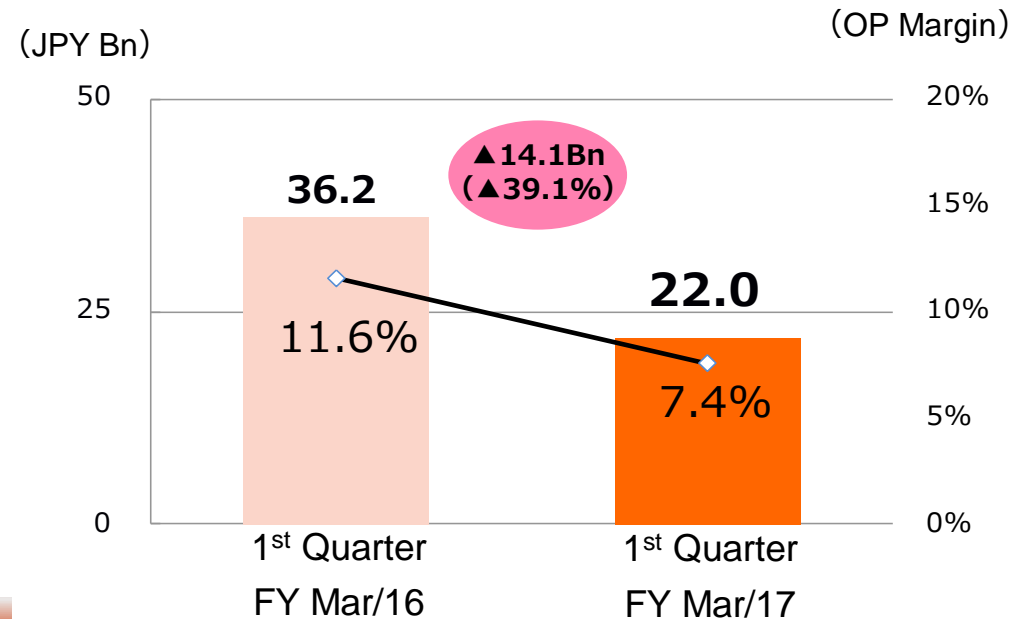


JAPAN AIRLINES

## Operating Revenue



## Operating Profit



## Fuel/FX Markets

	1 <sup>st</sup> Quarter FY Mar/16	1 <sup>st</sup> Quarter FY Mar/17	y/y
Singapore Kerosene (USD/bbl)	73.3	50.7	▲30.8%
Dubai Crude Oil (USD/bbl)	58.9	39.5	▲33.0%
FX Rate (JPY/USD)	120.3	110.3	▲8.3%

- ✓ Operating Profit was 22.0 billion yen, down from a year ago, due to a decline in demand and increases in maintenance and personnel costs.
- ✓ Operating Profit Margin stood at 7.4%.

# Consolidated Financial Results



JAPAN AIRLINES

## Consolidated Financial Results 1<sup>st</sup> Quarter FY Mar/17

(JPY Bn)	1 <sup>st</sup> Quarter FY Mar/16	1 <sup>st</sup> Quarter FY Mar/17	y/y
<b>Operating Revenue</b>	312.0	<b>297.2</b>	▲4.8%
Air Transportation Segment	282.4	<b>268.3</b>	▲5.0%
<b>Operating Expense</b>	275.7	<b>275.1</b>	▲0.2%
Air Transportation Segment	250.1	<b>248.8</b>	▲0.5%
<b>Operating Profit</b>	36.2	<b>22.0</b>	▲39.1%
Air Transportation Segment	32.2	<b>19.5</b>	▲39.5%
<b>Operating Profit Margin(%)</b>	11.6%	<b>7.4%</b>	▲4.2pt
<b>Ordinary Income</b>	39.2	<b>19.7</b>	▲49.8%
<b>Net Income<sup>(1)</sup></b>	32.6	<b>14.7</b>	▲54.9%
<b>ASK (MN seat km)</b>	21,509	<b>21,433</b>	▲0.3%
<b>RPK (MN passenger km)</b>	15,549	<b>15,497</b>	▲0.3%
<b>EBITDA Margin (%) <sup>(2)</sup></b>	18.5%	<b>15.3%</b>	▲3.2pt
<b>EBITDAR Margin (%) <sup>(3)</sup></b>	20.5%	<b>17.0%</b>	▲3.5pt
<b>UNIT COST (Yen) <sup>(4)</sup></b>	8.8	<b>9.3</b>	+0.5
<b>Incl. Fuel</b>	11.6	<b>11.6</b>	▲0.0

- ✓ Operating revenue was 297.2 billion yen, ▲4.8% y/y.
- ✓ Operating profit was 22.0 billion yen, ▲39.1% y/y.
- ✓ The operating profit margin was 7.4%.
- ✓ Ordinary income was 19.7 billion yen, ▲49.8% y/y.
- ✓ Net income was 14.7 billion yen, ▲54.9% y/y.

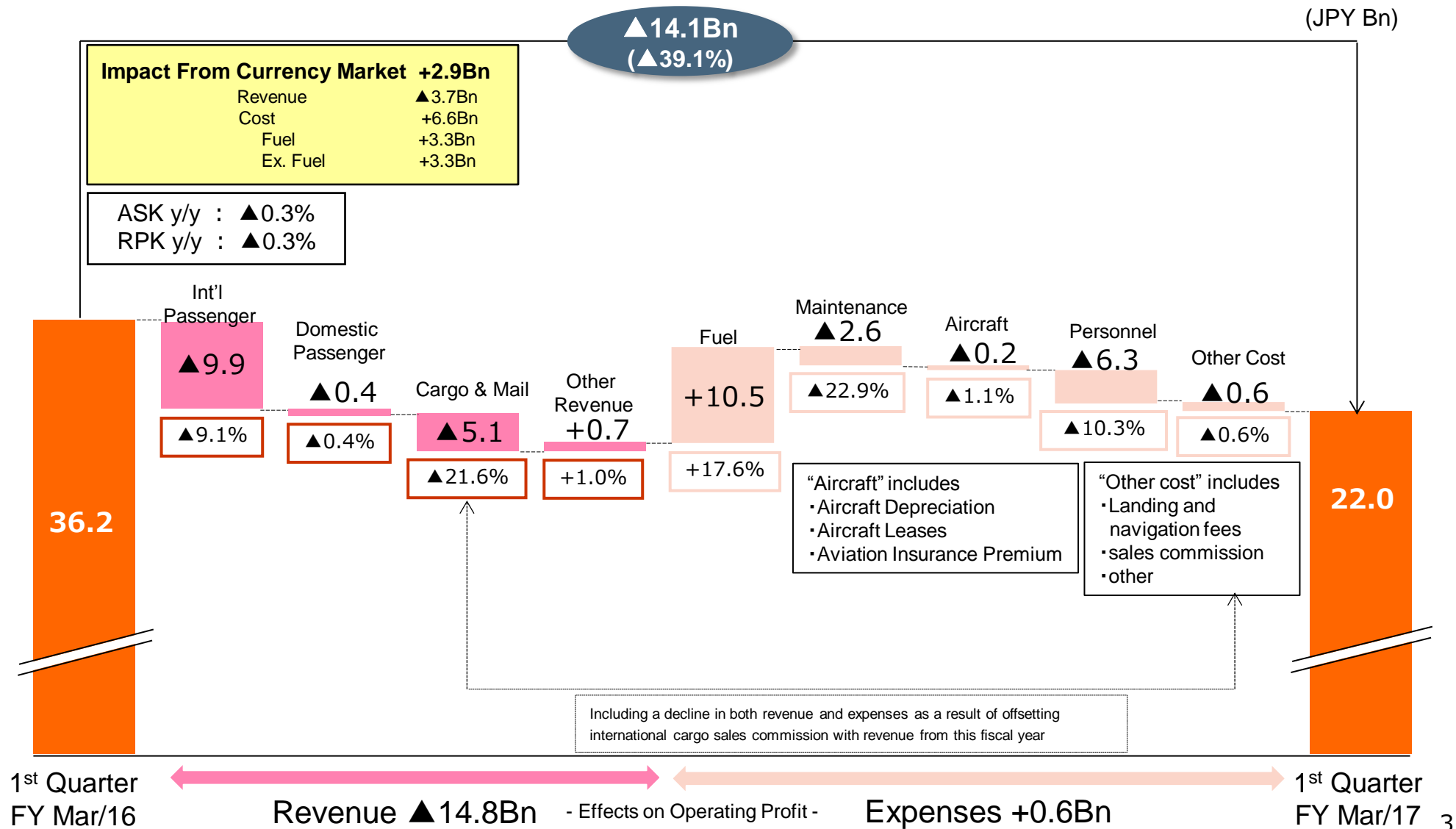
Notes: 1. Net income attributable to owners of the parent  
 2. EBITDA Margin = EBITDA / Revenue EBITDA=Operating Profit + Depreciation  
 3. EBITDAR Margin = EBITDAR / Revenue EBITDAR=Operating Profit + Depreciation+ Aircraft Leases  
 4. Unit Cost = Air Transportation Segment Operating Cost (excluding fuel cost)/ASK

# Changes in Operating Profit



JAPAN AIRLINES

## 1<sup>st</sup> Quarter FY Mar/17



# International Passenger Operations (Operating Results)



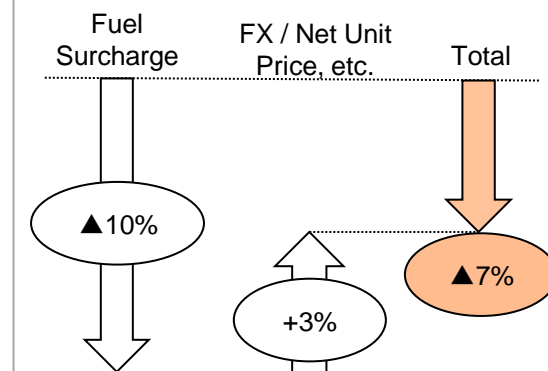
JAPAN AIRLINES

## International Passenger

	1 <sup>st</sup> Quarter FY Mar/16	1 <sup>st</sup> Quarter FY Mar/17	y/y
Passenger Revenue (JPY Bn)	109.4	<b>99.5</b>	▲9.1%
ASK (MN seat km)	12,535	<b>12,690</b>	+1.2%
RPK (MN passenger km)	9,885	<b>9,930</b>	+0.4%
Passengers ('000)	2,099	<b>2,052</b>	▲2.3%
L/F (%)	78.9%	<b>78.2%</b>	▲0.6pt
Yield (JPY) <sup>(1)</sup>	11.1	<b>10.0</b>	▲9.5%
Unit Revenue (JPY) <sup>(2)</sup>	8.7	<b>7.8</b>	▲10.2%
Revenue per Passenger (JPY) <sup>(3)</sup>	52,145	<b>48,508</b>	▲7.0%

- ✓ Passenger Revenue was 99.5 billion yen, declined 9.9 billion yen y/y basis.
- ✓ ASK was up 1.2% y/y and RPK was up 0.4% y/y, resulting in L/F 78.2%, down 0.6pt.

### Factors of changes in Revenue per Passenger (estimate)



Notes:

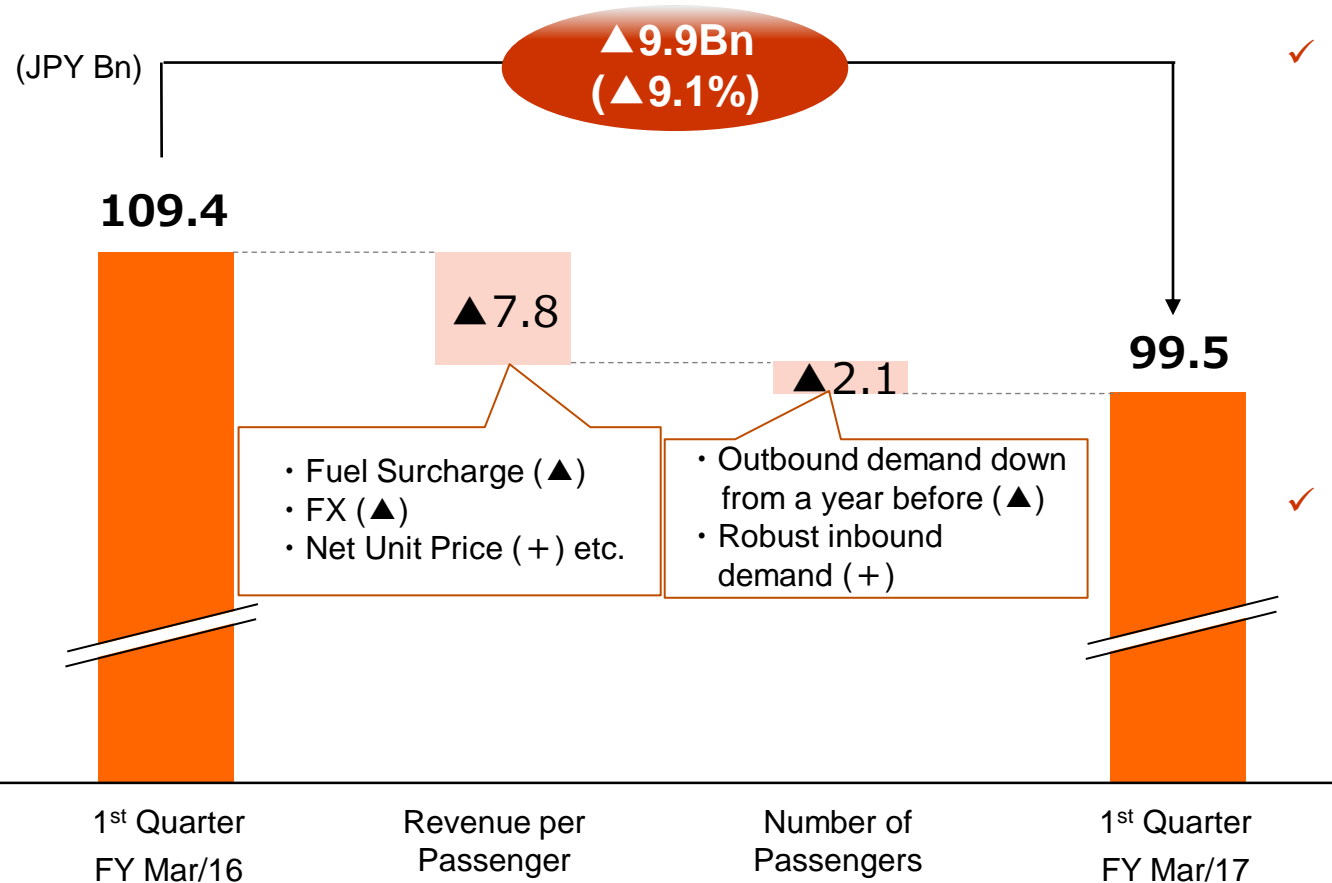
1. Yield = Passenger Revenue / RPK
2. Unit Revenue = Passenger Revenue / ASK
3. Revenue per Passenger = Passenger Revenue / Passengers

# International Passenger Operations (Change in Revenue)



JAPAN AIRLINES

## 1<sup>st</sup> Quarter FY Mar/17



- ✓ Net unit price improved through revenue management and the expansion of JAL SKY SUITE operated routes, but the impact of fuel surcharge revenue decrease and the stronger yen caused a decline in revenue per passenger.
- ✓ Inbound demand primarily on Southeast Asia routes remained strong, but outbound demand fell from the year before.

# Domestic Passenger Operations (Operating Results)



JAPAN AIRLINES

## Domestic Passenger

	1 <sup>st</sup> Quarter FY Mar/16	1 <sup>st</sup> Quarter FY Mar/17	y/y
<b>Passenger Revenue</b> (JPY Bn)	109.9	<b>109.4</b>	▲0.4%
<b>ASK</b> (MN seat km)	8,973	<b>8,743</b>	▲2.6%
<b>RPK</b> (MN passenger km)	5,663	<b>5,567</b>	▲1.7%
<b>Passengers</b> ('000)	7,538	<b>7,465</b>	▲1.0%
<b>L/F</b> (%)	63.1%	<b>63.7%</b>	+0.6pt
<b>Yield</b> (JPY) <sup>(1)</sup>	19.4	<b>19.7</b>	+1.3%
<b>Unit Revenue</b> (JPY) <sup>(2)</sup>	12.2	<b>12.5</b>	+2.2%
<b>Revenue per Passenger</b> (JPY) <sup>(3)</sup>	14,578	<b>14,658</b>	+0.6%

- ✓ Passenger revenue was 109.4 billion yen, down 0.4 billion yen y/y.
- ✓ ASK was ▲2.6% y/y while RPK was ▲1.7% resulting in L/F 63.7%, up 0.6pt.
- ✓ Yield increased by 1.3% y/y and revenue per passenger by 0.6% respectively.

Notes:

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

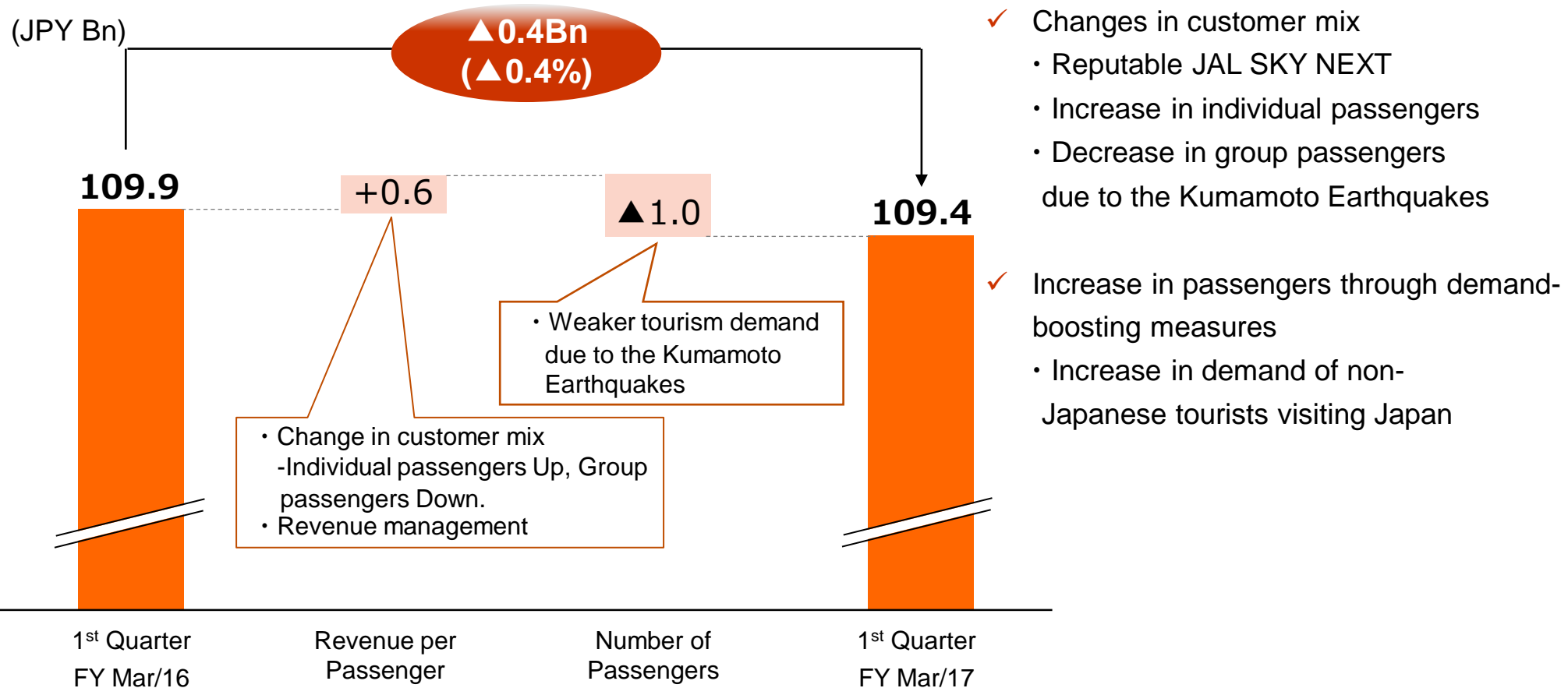


# Domestic Passenger Operations (Change in Revenue)



JAPAN AIRLINES

## 1<sup>st</sup> Quarter FY Mar/17



# Major Operating Expense Items



JAPAN AIRLINES

## Operating Expenses

(JPY Bn)	1st Quarter FY Mar/16	1st Quarter FY Mar/17	Difference	y/y
Fuel	59.9	<b>49.3</b>	▲10.5	▲17.6%
Landing and navigation fees	20.4	<b>20.0</b>	▲0.4	▲2.0%
Maintenance	11.4	<b>14.0</b>	+2.6	+22.9%
Sales commissions (Air Transport) <sup>(1)</sup>	6.0	<b>3.9</b>	▲2.1	▲35.5%
Aircraft <sup>(2)</sup>	24.4	<b>24.7</b>	+0.2	+1.1%
Services <sup>(3)</sup>	8.5	<b>8.9</b>	+0.3	+4.6%
Personnel	61.2	<b>67.5</b>	+6.3	+10.3%
Expenses of travel agency	17.9	<b>17.6</b>	▲0.3	▲1.8%
Other	65.7	<b>68.8</b>	+3.1	+4.8%
<b>Total Operating Expenses</b>	<b>275.7</b>	<b>275.1</b>	<b>▲0.6</b>	<b>▲0.2%</b>

- ✓ Despite lower fuel costs due to the stronger yen and lower fuel prices, maintenance and personnel costs increased, resulting in operating expenses of 275.1 billion yen, down 0.6 billion yen from the previous year.
- ✓ Fuel costs dropped by 10.5 billion yen due to lower fuel prices (including decrease of 3.3 billion yen caused by the stronger yen).
- ✓ Maintenance costs were up 2.6 billion yen due to increased engine maintenance.
- ✓ Personnel costs were up 6.3 billion yen due to focused expenditures to strengthen our basis of growth.

ASK y/y : ▲0.3%

1. From FY Mar/17, sales commissions for International Cargo are to be offset by its revenues.

2. Aircraft = Aircraft Depreciation+ Aircraft Leases+ Aviation Insurance Premium, etc.

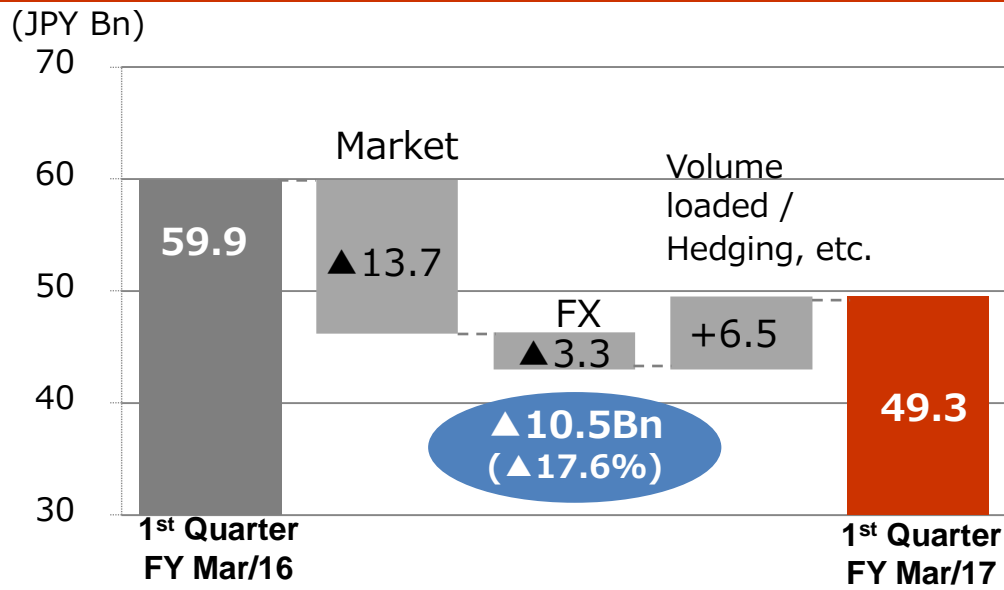
3. Services = Expenses regarding inflight services, airport lounges, cargo equipment, etc.

# Impact of Fuel and FX Markets

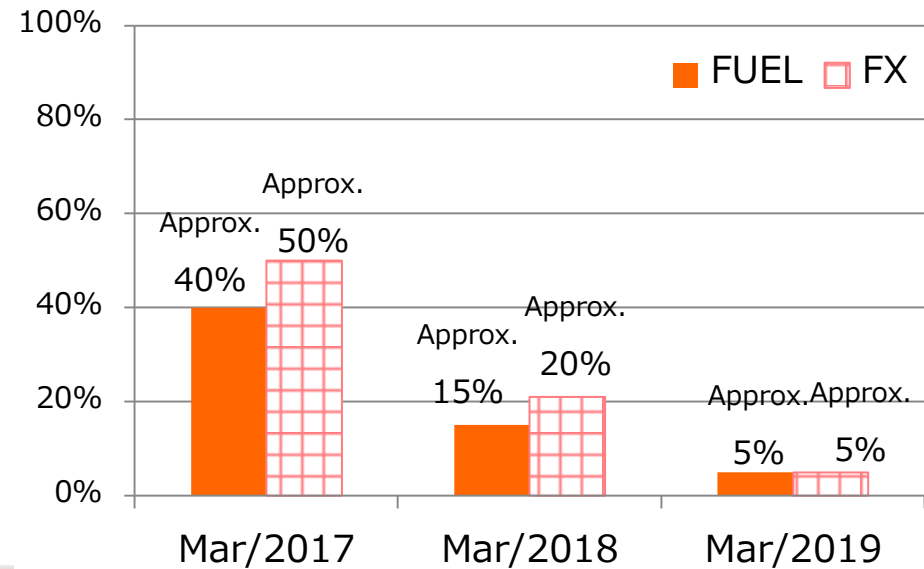


JAPAN AIRLINES

## Transition of Fuel Cost by Factors



## Hedging Ratio for Fuel Costs (as of end of June 2016)



## Fuel / FX Markets

	FY Mar/17 Plan	1st Quarter FY Mar/16	1st Quarter FY Mar/17	y/y
Singapore Kerosene (USD/bbl)	50.0	73.3	50.7	▲30.8%
Dubai Crude Oil (USD/bbl)	36.0	58.9	39.5	▲33.0%
FX Rate (JPY/USD)	123.0	120.3	110.3	▲8.3%

## Sensitivity for Fuel Costs

(Without Hedging) Mar/2017

**Crude Oil**  
(Change in 1 USD/bbl) 2.7 JPY Bn Per Year

**FX**  
(Change in 1 JPY/USD) 1.0 JPY Bn Per Year

# Major Balance Sheet Items



JAPAN AIRLINES

## Consolidated Balance Sheet Summary as of end of 1st Quarter FY Mar/17

(JPY Bn)	End of FY Mar/16 2016/3/31	End of 1st Quarter FY Mar/17 2016/6/30	Difference
Total Assets	1,578.9	<b>1,554.2</b>	▲24.6
Cash and Deposits <sup>(1)</sup>	420.3	<b>357.2</b>	▲63.0
Balance of Interest-bearing Debt <sup>(2)</sup>	92.6	<b>79.8</b>	▲12.8
Future Rental Expenses under Operating Leases	96.9	<b>89.1</b>	▲7.7
Shareholders' Equity	843.0	<b>822.9</b>	▲20.1
Shareholders' Equity Ratio (%)	53.4%	<b>53.0%</b>	▲0.4pt
D/E Ratio (x) <sup>(3)</sup>	0.1x	<b>0.1x</b>	▲0.0x

✓ The balance of interest-bearing debt decreased by 12.8 billion yen to 79.8 billion yen as a result of repayment.

✓ Shareholders' Equity Ratio was 53.0%.

### Notes:

1. Certificate of deposits included
2. Accounts Payable-installment Purchase included
3. D/E ratio = On-balance sheet Interest-bearing Debt / Shareholders' Equity

(Reference) End of 1st Quarter FY Mar/17

D/E ratio including Future Rental Expenses under Operating Leases: 0.2x

# Major Cash Flow Items



JAPAN AIRLINES

(JPY Bn)	1 <sup>st</sup> Quarter FY Mar/16	1 <sup>st</sup> Quarter FY Mar/17	Difference
Net Income Before Income Taxes and Non-controlling Interests	39.1	20.2	▲18.8
Depreciation and Amortization	21.5	23.4	+1.9
Other	29.6	17.2	▲12.4
<b>Cash Flow from Operating Activities</b>	<b>90.3</b>	<b>60.9</b>	<b>▲29.4</b>
Capital Expenditure <sup>(1)</sup>	▲57.9	▲73.9	▲15.9
Other	2.4	8.1	+5.7
<b>Cash Flow from Investing Activities <sup>(2)</sup></b>	<b>▲55.5</b>	<b>▲65.7</b>	<b>▲10.2</b>
<b>Free Cash Flow <sup>(3)</sup></b>	<b>34.8</b>	<b>▲4.8</b>	<b>▲39.7</b>
Repayment of Interest-bearing Debt <sup>(4)</sup>	▲9.1	▲12.4	▲3.2
Cash Dividend, Other	▲39.7	▲44.2	▲4.5
<b>Cash Flow from Financing Activities</b>	<b>▲48.8</b>	<b>▲56.6</b>	<b>▲7.8</b>
<b>Total Cash Flow <sup>(5)</sup></b>	<b>▲14.0</b>	<b>▲61.5</b>	<b>▲47.5</b>
<b>EBITDA</b>	<b>57.7</b>	<b>45.5</b>	<b>▲12.2</b>
<b>EBITDAR</b>	<b>63.9</b>	<b>50.5</b>	<b>▲13.3</b>

Notes:

- Expenditures to purchase fixed assets
- Exclude deposits and withdrawals from deposit accounts
- Cash Flow from Operating Activities + Cash Flow from Investing Activities
- Repayment of Debt + Repayment of Lease Debt
- Cash flow from Operating Activities + Cash Flow from Investing Activities + Cash Flow from Financing Activities

# Further actions to take to accomplish financial target



JAPAN AIRLINES

## Aim to reach our target of Operating Profit through pursuing Divisional Profitability Management System

### Outline

Operating Profit

1st Quarter  
FY Mar/17  
(Result)

July  
(Estimate)

Further actions to take

\*Japanese Governmental subsidy program to facilitate the restoration from the earthquakes in Kyushu region

- a. Increase entrusted ground handling services to JAL by other airlines
- b. Increase revenue of travel services through "Fukko (restoration) Discount" program\*

- a. Review expenses for outsourced services
- b. Increase efficiency of sales promotion costs (mileage programs, etc.)

Mar/2017  
Forecast:  
201.0JPY Bn

Fuel surcharges  
Fuel costs  
FX

Int'l  
Passenger

Domestic  
Passenger

Others

- a. Obtain tourism demand through Dynamic Package
- b. Allocate larger aircraft on higher demand routes (737⇒767, etc.)

- a. Increase non-scheduled additional flights to Honolulu, etc.
- b. Implement demand-boosting measures

Markets

Demand  
decrease

Revenue increase

Cost reduction

# Fly into tomorrow.



***JAPAN AIRLINES***

# 《References》 Operating Results for International Passenger by Major Routes



JAPAN AIRLINES

## Passenger Revenue

(%)	y/y	Proportion of whole Int'l	
	1Q FY Mar/17	1Q FY Mar/16	1Q FY Mar/17
America	▲0.9%	24%	27%
Europe	▲11.9%	16%	15%
Asia/Oceania	▲11.3%	36%	35%
China	▲23.6%	12%	10%
Hawaii/Guam	▲0.7%	12%	13%
Total	▲9.1%	100%	100%

## Passengers

('000)	1Q FY Mar/16	1Q FY Mar/17	y/y
America	271	291	+7.5%
Europe	158	159	+0.5%
Asia/Oceania	1,040	997	▲4.1%
China	346	329	▲5.0%
Hawaii/Guam	282	273	▲3.1%
Total	2,099	2,052	▲2.3%

## ASK

(MN seat km)	1Q FY Mar/16	1Q FY Mar/17	y/y
America	3,234	3,544	+9.6%
Europe	2,001	1,901	▲5.0%
Asia/Oceania	4,506	4,467	▲0.9%
China	819	864	+5.4%
Hawaii/Guam	1,973	1,913	▲3.1%
Total	12,535	12,690	+1.2%

## Load Factor

(%)	1Q FY Mar/16	1Q FY Mar/17	difference
America	79.3%	78.3%	▲1.0pt
Europe	72.1%	76.2%	+4.1pt
Asia/Oceania	79.5%	78.5%	▲1.0pt
China	79.4%	71.1%	▲8.3pt
Hawaii/Guam	83.3%	82.8%	▲0.5pt
Total	78.9%	78.2%	▲0.6pt

## RPK

(MN passenger km)	1Q FY Mar/16	1Q FY Mar/17	y/y
America	2,566	2,776	+8.2%
Europe	1,442	1,448	+0.4%
Asia/Oceania	3,583	3,506	▲2.1%
China	650	614	▲5.5%
Hawaii/Guam	1,643	1,583	▲3.6%
Total	9,885	9,930	+0.4%

- From the first quarter of this fiscal year, figures for Revenue Passengers Carried, ASK, RPK and Load Factor include "Marketing Carriers" on code-sharing flights operated by JAL". The year-earlier first quarter also shows the figures after reflecting this change.

- Route categories have been changed as below.
  - "Trans Pacific" routes of the previous year have been changed to "America" routes after removing Hawaii routes.
  - "Asia/Oceania" routes have removed Guam routes.
  - Hawaii and Guam routes above have been combined as "Hawaii/Guam" routes.



# 《Reference》 Number of Aircraft



JAPAN AIRLINES

	End of Mar/2016			End of Jun/2016			Difference
	Owned	Leased	Total	Owned	Leased	Total	
Boeing 777-200	12	0	12	12	0	12	-
Boeing 777-200ER	11	0	11	11	0	11	-
Boeing 777-300	4	0	4	4	0	4	-
Boeing 777-300ER	13	0	13	13	0	13	-
Large-sized Total	40	0	40	40	0	40	-
Boeing 787-8	23	0	23	25	0	25	+2
Boeing 787-9	3	0	3	4	0	4	+1
Boeing 767-300	9	0	9	8	0	8	▲1
Boeing 767-300ER	28	4	32	28	4	32	-
Middle-sized Total	63	4	67	65	4	69	+2
Boeing 737-400	12	0	12	11	0	11	▲1
Boeing 737-800	22	29	51	22	29	51	-
Small-sized Total	34	29	63	33	29	62	▲1
Embraer 170	17	0	17	17	0	17	-
Embraer 190	0	0	0	2	0	2	+2
Bombardier CRJ200	9	0	9	8	0	8	▲1
Bombardier D8-400	8	2	10	8	2	10	-
Bombardier D8-400CC	2	0	2	2	0	2	-
SAAB340B	13	0	13	12	0	12	▲1
Bombardier D8-300	1	0	1	1	0	1	-
Bombardier D8-100	4	0	4	4	0	4	-
Regional Total	54	2	56	54	2	56	-
<b>TOTAL</b>	<b>191</b>	<b>35</b>	<b>226</b>	<b>192</b>	<b>35</b>	<b>227</b>	<b>+1</b>

# Mar/2017 Earnings Forecast (Consolidated)

- No change from that published  
on April 28, 2016



JAPAN AIRLINES

## Consolidated Financial Results

(JPY Bn)	Mar/2016 Results	Mar/2017 Forecast	difference	y/y
<b>Revenue</b>	1,336.6	<b>1,343.0</b>	+6.3	+0.5%
Int'l Passenger	448.7	<b>450.0</b>	+1.2	+0.3%
Dom. Passenger	501.2	<b>503.0</b>	+1.7	+0.3%
Cargo and Mail	91.5	<b>85.0</b>	▲6.5 <sup>(3)</sup>	▲7.2%
Other	295.0	<b>305.0</b>	+9.9	+3.4%
<b>Expenses</b>	1,127.4	<b>1,142.0</b>	+14.5	+1.3%
FUEL	228.1	<b>202.0</b>	▲26.1	▲11.5%
Other Costs	899.3	<b>940.0</b>	+40.6	+4.5%
<b>Operating Profit</b>	209.1	<b>201.0</b>	▲8.1	▲3.9%
<b>Operating Profit Margin(%)</b>	15.7%	<b>15.0%</b>	▲0.7pt	-
<b>Ordinary Income</b>	209.2	<b>193.0</b>	▲16.2	▲7.8%
<b>Net Income <sup>(1)</sup></b>	174.4	<b>192.0</b>	+17.5 <sup>(4)</sup>	+10.0%
<b>Unit Cost (JPY) <sup>(2)</sup></b>	9.3	<b>9.8</b>	+0.5	-

## Operational Preconditions

	Mar/2016 Results	Mar/2017 Forecast
<b>ASK* Int'l</b>	+1.3%	▲0.6%
<b>Doms</b>	▲1.2%	▲0.0%
<b>TOTAL</b>	+0.2%	▲0.3%
<b>RPK* Int'l</b>	+5.4%	+1.2%
<b>Doms</b>	+1.5%	▲0.6%
<b>TOTAL</b>	+3.8%	+0.5%

\* y/y

	Mar/2016 Results	Mar/2017 Forecast
<b>Singapore Kerosene (USD/bbl)</b>	60.0	50.0
<b>Dubai Crude Oil (USD/bbl)</b>	47.2	36.0
<b>FX (JPY/USD)</b>	120.5	123.0

Note: 1. Net income attributable to owners of the parent

2. Unit Cost = Air Transportation Segment Operating Cost (excluding fuel costs etc.) / ASK

3. Includes the 8.0 billion yen decrease by offsetting international cargo sales commissions

4. Due to application of new tax effect accounting guideline, we expect to report about 30.0 billion yen of income tax deferred at the end of Mar/2017. However, income tax deferred to be deducted from the calculation of dividend.

This contents contains descriptions of the future expectations, outlooks, objectives and plans etc. of Japan Airlines Co., Ltd. (hereafter "the company") and related Group companies (hereafter "the Group"). These are based on information available at the time when these materials were created by the company (or as otherwise specified), and are created based on the forecasts at such time. These statements were created based on certain assumptions. These statements and assumptions include the subjective projections and judgments of our management, and due to various risks and uncertainties, these may be found to be inaccurate or unrealized in the future. Therefore, the actual results, earnings and financial conditions, etc. of the Group may differ from the projections of the company. These risks and uncertainties include, but are not limited to, the economic and social conditions of Japan and other countries and regions, soaring fuel costs, changes in the exchange rates between the yen and the dollar or other currencies, terrorist attacks or wars, infectious disease outbreaks, and various other risks related to the aviation business.

Statements on this contents regarding future information are, as mentioned above, valid at the time of creation (or as otherwise specified), and our company has no obligation to ensure that this information is updated with the latest available information.

The information contained in this contents is for informational purposes only, and is not intended as a recommendation, solicitation or request for the purchase of or trade in any securities or financial products.

Although every effort has been made to ensure that the information posted on this contents regarding the Group is correct, it includes unaudited financial information for which we provide no guarantee of its accuracy, completeness, fairness or reliability. The Company does not have any responsibility for any damages resulting from the use of this contents.

It should be noted that all rights with this contents and other copyright of this material belongs to Japan Airlines Co., Ltd.