JAL Group Q1 Account Settlement for FY2005

July 29, 2005

Japan Airlines Corporation
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Q1 Account Settlement for FY2005
I. Q1 Account Settlement for FY2005

Environment surrounding JAL

- **Stable Measure for Security**
  - Expansion of China Network as high-growth market
  - Anti-Japan Demonstration in China
  - Security Enhancement

- **Cost Increase**
  - Safety-related troubles
  - Skyrocketing Fuel Prices
  - Risk of Terrorism
  - Weak Demand of Tourism

- **Sluggish Demand**

- **Increase in Revenue**
  - Cost Reduction

- **Promotion**
  - Service upgrade Campaign
### Outline of the Consolidated Financial Statements

#### I. Q1 Account Settlement for FY2005

<table>
<thead>
<tr>
<th>Billions of yen</th>
<th>FY04/ Q1</th>
<th>FY05/ Q1</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td>479.3</td>
<td>503.3</td>
<td>+24</td>
</tr>
<tr>
<td><strong>Operating Income</strong></td>
<td>(30.2)</td>
<td>(32.0)</td>
<td>(1.7)</td>
</tr>
<tr>
<td><strong>Ordinary Income</strong></td>
<td>(35.7)</td>
<td>(37.4)</td>
<td>(1.6)</td>
</tr>
<tr>
<td><strong>Net Income</strong></td>
<td>(40.7)</td>
<td>(38.3)</td>
<td>+2.3</td>
</tr>
</tbody>
</table>
### Operating Revenue & Income by Segment

<table>
<thead>
<tr>
<th>Segment</th>
<th>FY05/Q1 Operating Revenue</th>
<th>y/y difference</th>
<th>FY05/Q1 Operating Income</th>
<th>y/y difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Air Transportation</td>
<td>397.3</td>
<td>+13.9</td>
<td>(34.5)</td>
<td>(2.5)</td>
</tr>
<tr>
<td>Airline-related Business</td>
<td>76.1</td>
<td>+6.9</td>
<td>1.5</td>
<td>+0.1</td>
</tr>
<tr>
<td>Travel Services</td>
<td>97.2</td>
<td>(1.1)</td>
<td>(0.6)</td>
<td>(0.1)</td>
</tr>
<tr>
<td>Other</td>
<td>62.8</td>
<td>+5.6</td>
<td>1.9</td>
<td>+0.7</td>
</tr>
</tbody>
</table>

*All figures are before consolidation adjustments*
### Outline of the Result of Air Transportation Segment

<table>
<thead>
<tr>
<th></th>
<th>FY04/Q1</th>
<th>FY05/Q1</th>
<th>Difference</th>
<th>Rate of Change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operating Revenue</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>International Passenger</td>
<td>150.0</td>
<td>159.6</td>
<td>9.5</td>
<td>106.4%</td>
</tr>
<tr>
<td>Domestic Passenger</td>
<td>150.0</td>
<td>150.3</td>
<td>0.3</td>
<td>100.2%</td>
</tr>
<tr>
<td>International Cargo</td>
<td>40.4</td>
<td>41.1</td>
<td>0.6</td>
<td>101.6%</td>
</tr>
<tr>
<td>Domestic Cargo</td>
<td>7.4</td>
<td>7.1</td>
<td>-0.3</td>
<td>95.1%</td>
</tr>
<tr>
<td>Others</td>
<td>35.2</td>
<td>39.1</td>
<td>3.8</td>
<td>110.0%</td>
</tr>
<tr>
<td><strong>Operating Expenses</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>415.3</td>
<td>431.9</td>
<td>16.5</td>
<td>104.0%</td>
</tr>
<tr>
<td><strong>Operating Income</strong></td>
<td>-32.0</td>
<td>-34.5</td>
<td>-2.5</td>
<td></td>
</tr>
</tbody>
</table>
I. Q1 Account Settlement for FY2005

Revenue Analysis - International Passenger

< Revenue >

FY05 Q1 159.6 billion yen (y/y + 6.4%)

< Load Factor >

FY05 Q1 65.3% (y/y - 0.7%)
I. Q1 Account Settlement for FY2005

Demand and Supply of International Passenger
Revenue Analysis - Domestic Passenger

I. Q1 Account Settlement for FY2005

**< Revenue >**

FY05 Q1   150.3 billion yen (y/y + 0.2%)

**< Load Factor >**

FY05 Q1   61.2% (y/y +1.7%)
Revenue Analysis - International Cargo

I. Q1 Account Settlement for FY2005

< Revenue >

FY05 Q1 41.1 billion yen (y/y + 1.6%)

< Tonnage >

FY05 Q1 187,807 ton (y/y - 5.4%)
To Achieve the Goal of FY2005

I. Q1 Account Settlement for FY2005

Target: Net income of at least ¥10 billion

Measures to increase revenue for achieving the goal

Stable progress of Cost Structural Reform
- Structural reform ¥37 billion
- Emergency measures ¥43 billion

Measure for dealing with Soaring fuel price ¥45 billion

Measures to ensure safety
- Restoration of Customer and Public Trust
**Progress of Cost Structural Reform**

### I. Q1 Account Settlement for FY2005

#### Q1 Result and Prospect

**Stable Progress**

<table>
<thead>
<tr>
<th>Q1</th>
<th>Q2</th>
<th>Q3+Q4 FY05</th>
</tr>
</thead>
<tbody>
<tr>
<td>31</td>
<td>9</td>
<td>2</td>
</tr>
</tbody>
</table>

#### Emergency Measures

- **Total (billion yen)**

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The table above outlines the progress of cost structural reform for Q1 of FY2005, noting improvements in personal cost efficiency, structural improvement/elimination of low-profit routes, review of group outsourcing and operational process, and reduction in sales cost through developing E-business. The total cost is represented in billion yen.
Measures for Coping with Escalating Fuel Price

I. Q1 Account Settlement for FY2005

Increase in Fuel Cost

Countermeasures against the fuel price hike around $70 level

Fiscal Budget

Difference from budget $ 45 billion

Increase in Revenue

Cost Reduction
- Deepening cost structural reform
- Financial technique such as hedging and Options
- Sales of Assets
- Reduction in general operating cost, etc
- International passenger: Fuel Surcharge
- Revision of IATA fares
- International Cargo: Fuel Surcharge
- Further measures under study

Planned Measures

<table>
<thead>
<tr>
<th>Q1</th>
<th>Q2</th>
<th>Q3+Q4</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>3</td>
<td>9</td>
<td>33</td>
<td>45</td>
</tr>
</tbody>
</table>
Measures to Increase Revenue

I. Q1 Account Settlement for FY2005

Q1 revenue is below target
Weak demand during Summer Vacation
Further measures under study

Top-Sales
Sales accompanied by cockpit & cabin crew
Sales by all the employees

Introduction of B777 into European Routes to raise competitiveness
Expansion of IC-enabled unattended check-in

Promotion Service Upgrading
Campaign
Enhancement of China routes
Upgrading of cabin service
Improving connection service

Increase in Revenue
I. Q1 Account Settlement for FY2005

APPENDIX
# Outline of the Breakdown of Operating Costs

(Air Transportation Segment)

<table>
<thead>
<tr>
<th>Item</th>
<th>FY04</th>
<th>FY05</th>
<th>Difference</th>
<th>% Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fuel</td>
<td>65.3</td>
<td>87.3</td>
<td>21.9</td>
<td>134%</td>
</tr>
<tr>
<td>Airport Facilities</td>
<td>33.4</td>
<td>33.5</td>
<td>0.0</td>
<td>100%</td>
</tr>
<tr>
<td>Maintenance</td>
<td>29.0</td>
<td>28.9</td>
<td>0.0</td>
<td>100%</td>
</tr>
<tr>
<td>Passenger Services etc</td>
<td>12.3</td>
<td>12.1</td>
<td>(0.1)</td>
<td>98%</td>
</tr>
<tr>
<td>Commissions</td>
<td>31.6</td>
<td>31.2</td>
<td>(0.3)</td>
<td>99%</td>
</tr>
<tr>
<td>Aircraft Depreciation</td>
<td>19.6</td>
<td>19.2</td>
<td>(0.4)</td>
<td>98%</td>
</tr>
<tr>
<td>Aircraft Leases</td>
<td>24.7</td>
<td>25.5</td>
<td>0.8</td>
<td>103%</td>
</tr>
<tr>
<td>Personnel</td>
<td>83.5</td>
<td>79.9</td>
<td>(3.6)</td>
<td>96%</td>
</tr>
<tr>
<td>Others</td>
<td>115.9</td>
<td>114.3</td>
<td>(1.6)</td>
<td>99%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>415.3</td>
<td>431.9</td>
<td>16.5</td>
<td>104%</td>
</tr>
</tbody>
</table>
Fuel and Forex (Air Transportation Segment)

**< Fuel Price >**

**Singapore Kerosene average price $/bbl**

<table>
<thead>
<tr>
<th>Year</th>
<th>FY05</th>
<th>FY06</th>
<th>FY07</th>
</tr>
</thead>
<tbody>
<tr>
<td>Impact</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

**< Foreign Exchange Rate >**

**Average rate during the period**

<table>
<thead>
<tr>
<th>Year</th>
<th>FY04/Q1</th>
<th>FY05/Q1</th>
</tr>
</thead>
<tbody>
<tr>
<td>USD</td>
<td>$41.0</td>
<td>$66.7</td>
</tr>
</tbody>
</table>

**Impact**

- Market rate: 22.0
- Hedging: 0.8
- Factor analysis: 25.0

**I. Q1 Account Settlement for FY2005**

- Operating revenue: +0.2 billion yen
- Operating cost: -6.0 billion yen
- Operating income: +3.2 billion yen
Efforts to Improve safety
Operation Improvement Order and JAL’s Response

1. Efforts to Improve safety

- Improving safety awareness
- Revision and thorough compliance with the procedures and manuals for preventing human error
- Enforcement of safety-related organization
- Others

Background leading up to the business operation improvement order and administrative warning:
- 2005 Jan. Misuse of landing gear parts of B747 cargo aircraft
- 2005 Jan. Failure to follow ATC takeoff procedure at Shin-Chitose Airport
- 2005 Mar. Failure to confirm ATC instruction at Incheon Airport
- 2005 Mar. Failure by cabin crew to change exit door mode
Counter-measures (No.1)

1. Efforts to Improve safety

- **Improving safety awareness**
  - **Emergency Safety Meeting** (April – May)
    - Held 220 times at domestic and overseas offices attended by the Company President and executives
    - Setting up "Follow-up committee for Emergency safety meeting" and the result of its study being disseminated to all employees in late July

- **Continuation of Emergency Safety Meeting** (to be held 210 times this year)
  - Holding of management-level meeting for safety awareness development
    - Targeted at around 3,300 management level employees including group affiliated companies
    - Held 618 times between April and May
    - Deepening of safety awareness and re-education on safety laws, ordinances and regulations
    - Also held for all the front-line staff employees of operation, cabin, maintenance, and airport

- **Concerted full re-examination of safety** (March – April)
  - Conducted to confirm whether the manuals and regulations are strictly observed in the areas of operation, cabin, maintenance and airport
Counter-measures (No.2)

- 3. Enforcement of safety-related organization

- Establishment of Safety Committee (March～)
  - Sharing of safety information and quick decision-making for safety measures (so far held 2.2 times)

- Creation of “Safety Advisory Position” under the direct supervision of the President (April～)
  - Composed of 3 officers and aimed at giving safety information and appropriate advise to top management

- Holding concerted Safety Enhancement Task Force (April～)
  - Advancing uniform and high-level safety as a whole group
Please refer to the Financial Information (“Gyoseki no Gaikyo”) for the precise figures on the account settlement. Any statements in this document, other than those of historical facts, are forward-looking statements about future performance, which are based on management’s assumptions and beliefs in light of information currently available, and involve risks and uncertainties. Actual results may differ materially from these forecasts. This document is published as supplemental materials for the briefing on JAL Group’s Financial Statements for Q1 in FY2005. The copyright of this document belongs to Japan Airlines corporation.

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