



# JAL Group's Account Settlement for FY2005

May 10<sup>th</sup>, 2006

Japan Airlines Corporation

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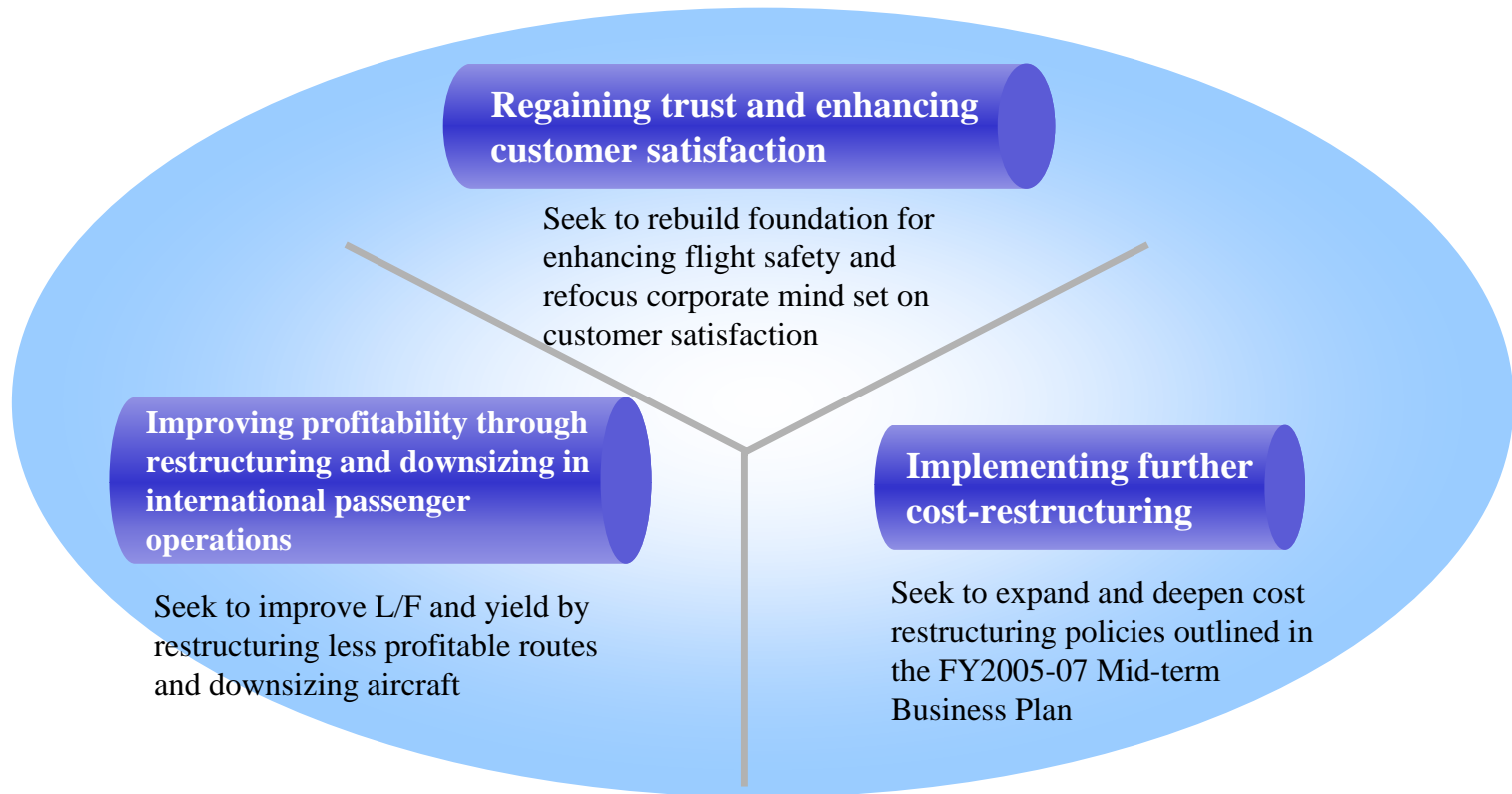
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# **.Business Performance Targets for FY2006**

## FY2006-2010 Medium-term Business Plan Summary



- Aiming to restore business competitiveness and improve profitability through various measures focused on addressing three major challenges





# Recent Trend in Demand

Recent trend in demand for international passenger, domestic passenger and international cargo operations

➤ Demand has generally recovered despite decrease in supply resulting from restructuring of routes and downsizing of aircraft

## International Passenger

**	Jan	Feb	Mar	Apr*
Demand y/y	93.3%	94.4%	97.9%	95.0%
Supply y/y	92.0%	91.4%	91.0%	90.0%

\*\* For Jan.-Mar., actual RPK and ASK. For Apr., flash report figures based on the number of passengers and seats

\* Flash report figures

➤ Class-J maintained high L/F despite 30% increase in number of seats during FY2005.

## Domestic passenger

➤ Although overall demand is weak, demand on Okinawa route and certain new routes are strong.

**	Jan	Feb	Mar	Apr*
Demand y/y	97.5%	94.6%	98.2%	98.0%
Supply y/y	97.3%	97.3%	98.5%	98.9%

\*\* For Jan.-Mar., actual RPK and ASK. For Apr., flash report figures based on the number of JAL and JEX passengers and seats only

\* Flash report figures

## International Cargo

➤ Compared with strong export traffic, import traffic has not yet fully recovered (particularly flights departing from Asia)

	Jan	Feb	Mar	Apr
Tonnage y/y	96.1%	94.5%	97.0%	94.0%

\* Flash report figures

\*\*Demand is measured by RPK and supply is measured by ASK (except for Apr.)



# Signs of Change

■ Structural reform of international passenger operations

**Effects of route restructuring and aircraft downsizing**

**International Passenger TTL  
Apr L/F up 4 points \***

**Japan Hawaii  
Apr L/F up 9 points \***

After Oct.2005 FUK=HNL 7/W 0/W  
 After Oct.2005 OSA=HNL 14/W 7/W  
 After Dec.2005 NRT-KOA-HNL-NRT B747 B777\*\*

**Japan Europe  
Apr L/F up 11points \***

After Mar.2006 TYO=LON 14/W 7/W  
 After Oct.2005 TYO=LON B744 B777\*\*  
 After Mar.2006 KIX=LON B744 B777\*\*  
 After Oct.2005 TYO=FRA B747 B777\*\*

[Plan after 2H/2006]  
 < Flight suspension >  
 • TYO-LAS  
 -LAX-TYO 3/W 0/W  
 • KIX-LAX 7/W 0/W  
 < Downsizing (B744 B777) >  
 • TYO-AMS 7/W  
 • TYO-PAR 10/W\*

\*Based on flash report figures of April 2006 (compared with April 2005)

\*\*Aircraft Downsizing

\*Currently 3/W with B777



# Signs of Change

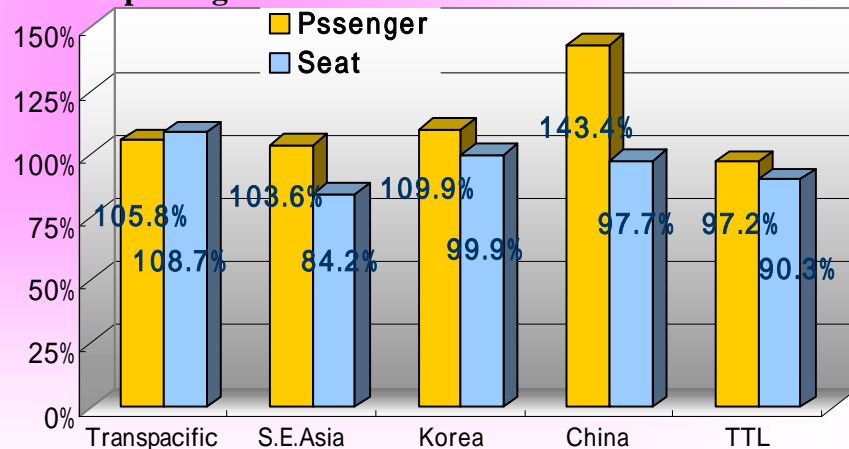
■ International passenger demand showing signs of recovery in recent weeks despite decrease in supply due to restructuring of routes and downsizing of aircraft

**Sign of recovering demand**

➤ On the routes such as those shown in the right chart, the number of passengers increased compared with the previous year.

In addition, high L/F were recorded on the Honolulu route (80.2%) and European routes (76.0%)

<The number of passengers and seats during the golden week holidays, y/y based on flash report figures >



Golden Week holiday traffic is measured from April 29,2006 to May 07,2006 and from April 29,2005 to May 07,2005.





# Measures for Recovery

## ■ Various measures for recovering competitiveness

### Measures to enhance safety and reestablish corporate brand image

- Establish new JAL Corporate Safety Division
- Open “Safety Promotion Center”
- Establish Corporate Communication Dept

### Providing products and services that meet customer demand

【Increase “Class-J” seats】

- FY05 : 5.5million seats /year (about 9% of total number of seats on domestic flights )

FY06 : 8 million seats/ year (about 13%)

【Increase in routes equipped with “Shell Flat Seat” after Mar.2006】

- Routes on which Shell Flat Seats will be newly introduced :  
Tokyo = Amsterdam · Chicago · Singapore, Osaka = London

### Participation in oneworld

Phase-in approach will be taken by first starting programs which are ready to launch earlier. Some of the benefits of **oneworld** will be available for customers as early as in FY2006 (Full participation in all of **oneworld** programs is scheduled for sometime in FY2007).



# Financial Targets and Assumptions for FY2006 (Consolidated)

## < Financial Targets (Consolidated) >

	Billions of Yen	
	FY05	FY06
Operating Revenue	2,199.3	2,301.0
(IP)	690.2	725.0
(DP)	659.9	703.0
(IC)	180.5	198.0
(Other)	668.5	675.0
Operating Income	-26.8	17.0
Ordinary Income	-41.6	0.5
Net Income	-47.2	3.0

IP=International Passenger \*FY2006 figures are target figures.  
 DP=Domestic Passenger  
 IC=International Cargo

The above figures are subject to certain risks (e.g. further increase in fuel prices, foreign exchange fluctuation). If any of these risks materialize, we will make every efforts to implement measures to mitigate the impact, including, if necessary, certain emergency measures.

## < Assumptions >

		yr/yr
IP	Supply	-10.5%
	Demand	-3.7%
	Yield	+8.8%
DP	Supply	+1.2%
	Demand	+1.6%
	Yield	+4.8%
IC	Supply	+9.2%
	Demand	+5.8%
	Yield	+3.9%

- Supply = ASK, ATK
- Demand = No. of Passenger, Tonnage
- Yield = per Passenger, per weight

Fuel(SIN Kerosene) : \$75/bbl  
 FOREX(1USD) : ¥120

## < Fuel / FOREX Hedging for FY2006 >

- Fuel Hedge Ratio : App.75%
- Fuel Hedge Average Rate : \$68/bbl
- FOREX Hedge Ratio: App.80%



## Financial Targets for FY2006 (by Segment)

	Operating Revenues			Operating Income	
	FY06	yr-yr	yr/yr	FY06	yr-yr
Air Transportation	1,833.0	100.0	+5.8%	2.5	45.9
Airline-related	360.0	17.0	+5.0%	3.0	-2.8
Travel Service	375.0	-40.3	-9.7%	-0.5	-1.1
Card · Lease	64.0	3.8	+6.4%	4.5	0.1
Other	210.0	-2.6	-1.2%	6.5	0.3
<b>Total</b>	<b>2,842.0</b>	<b>77.9</b>	<b>+2.8%</b>	<b>16.0</b>	<b>42.5</b>
General corporate assets and intercompany eliminations	-541.0	23.6	-4.2%	1.0	1.3
<b>Consolidated</b>	<b>2,301.0</b>	<b>101.6</b>	<b>+4.6%</b>	<b>17.0</b>	<b>43.8</b>

---

- Outline of Account  
Settlement for FY2005**



## Outline of the Consolidated Financial Results

	Billions of Yen			
	FY04	FY05	yr-yr	yr/yr
Operating Revenues	2,129.8	2,199.3	69.5	+3.3%
(Operating Expenses)	2,073.7	2,226.2	152.4	+7.4%
Operating Income	56.1	-26.8	-82.9	-
Ordinary Income	69.8	-41.6	-111.4	-
Net Income	30.0	-47.2	-77.3	-
ROE	17%	-		
Interesting-bearing debt Repayment Period*	11years	14years		

\*Interest-bearing debt/operating cash flow(Operating Income+Net Interest Income-Tax · dividend+Repayment Lease Principal+Depreciation etc.)



## Revenue and Operating Income by Segment

	Operating Revenues			Operating Income	
	FY05	yr-yr	yr/yr	FY05	yr-yr
Air Transportation	1,732.9	31.6	+1.9%	-43.4	-85.0
Airline-related	342.9	49.1	+16.7%	5.8	0.5
Travel Service	415.3	-9.1	-2.2%	0.6	0.9
Card·Lease	60.1	1.7	+2.9%	4.3	0.7
Other	212.6	2.9	+1.4%	6.1	-0.4
<b>Total</b>	<b>2,764.0</b>	<b>76.3</b>	<b>+2.8%</b>	<b>-26.5</b>	<b>-83.3</b>
General corporate assets and intercompany eliminations	-564.6	-6.7	+1.2%	-0.3	0.3
<b>Consolidated</b>	<b>2,199.3</b>	<b>69.5</b>	<b>+3.3%</b>	<b>-26.8</b>	<b>-82.9</b>

Billions of Yen



## Breakdown of Revenue for Air Transportation Segment

		Billions of Yen			
		FY04	FY05	yr-yr	yr/yr
Inter national	Passenger	671.2	690.2	18.9	+2.8%
	Cargo	171.3	180.5	9.1	+5.4%
Domestic	Passenger	674.7	659.9	-14.7	-2.2%
	Cargo	30.5	29.4	-1.0	-3.6%
Other*		66.8	76.7	9.9	+14.9%
Incidental Business		86.6	96.0	9.3	+10.8%

\*Revenue from international and Domestic mail, luggage and revenue for air transportation segment that is not included in the above.

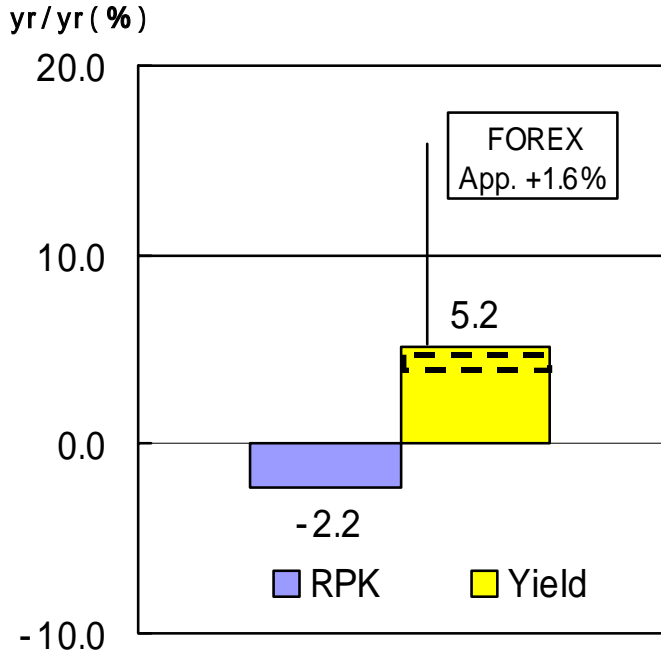
➤The above figures are before accounting for general corporate assets/activities and inter company eliminations.



# Results of International Passenger

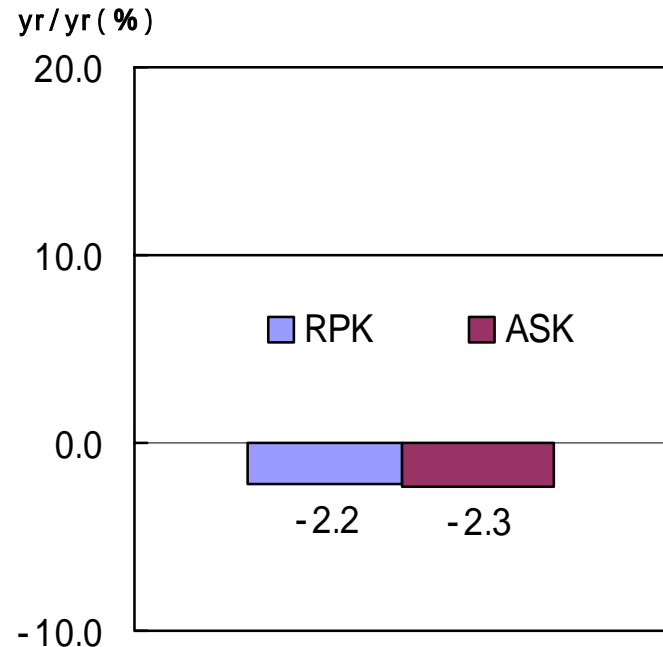
## < Revenue >

FY05 ¥690.2bln (+ 2.8% y/y)



## < Load Factor\* >

FY05 69.4% (+ 0.1% y/y)



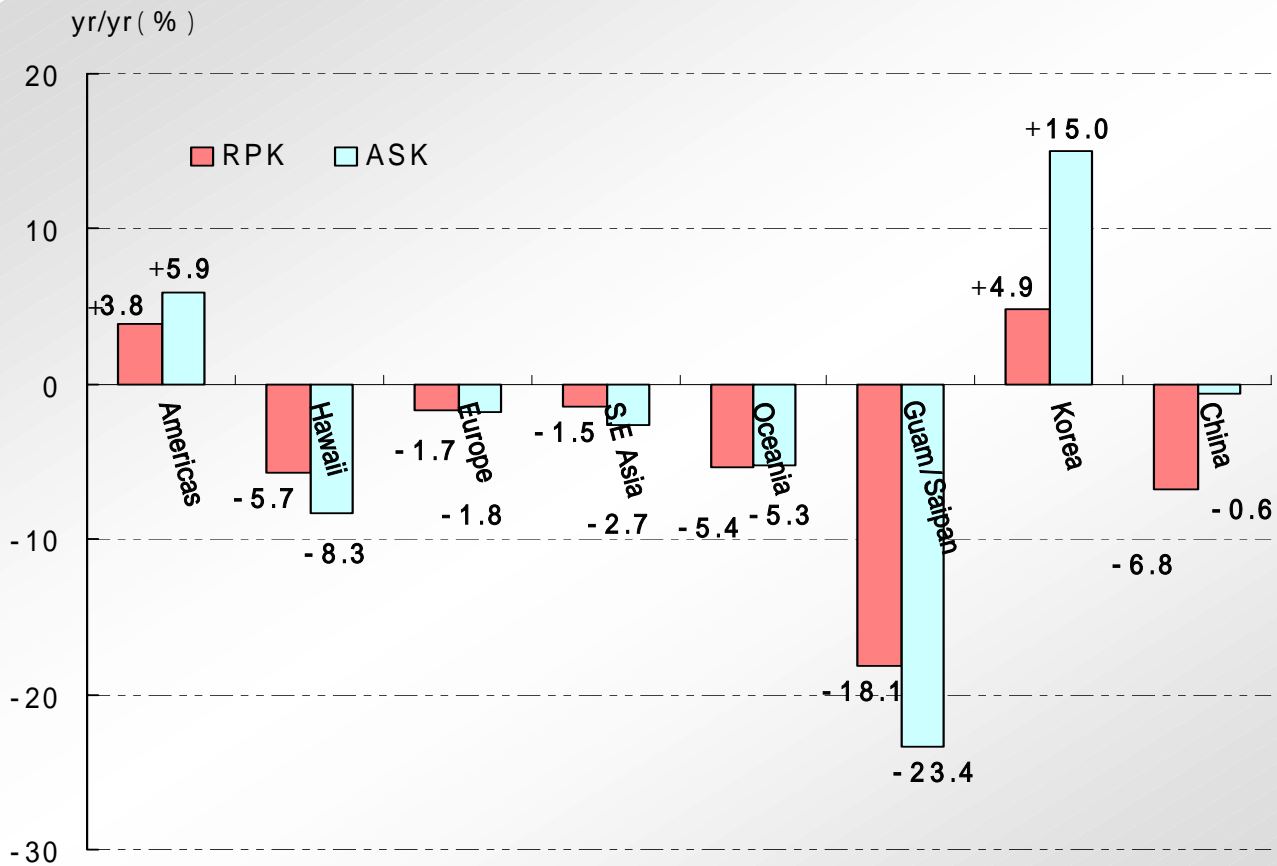
RPK : Revenue Passenger-Km  
 ASK : Available Passenger-km

\* Load factor = RPK/ASK





# Demand and Supply of International Passenger by Route (y/y)

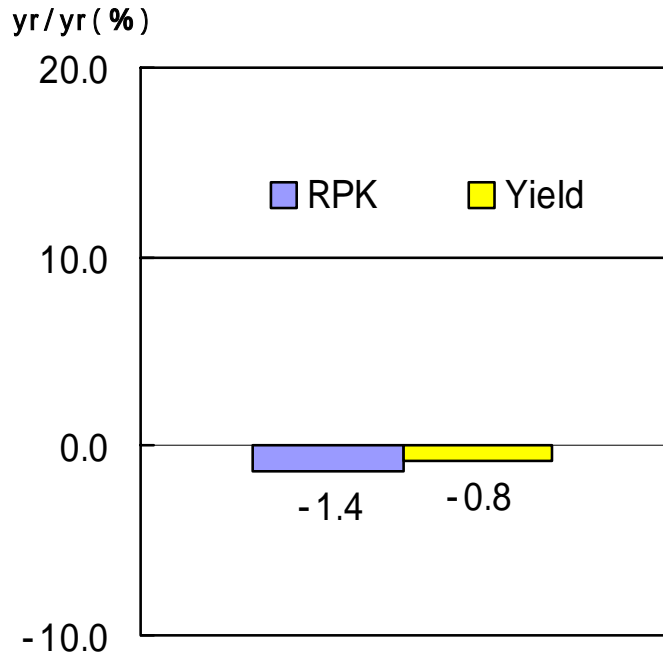




# Results of Domestic Passenger

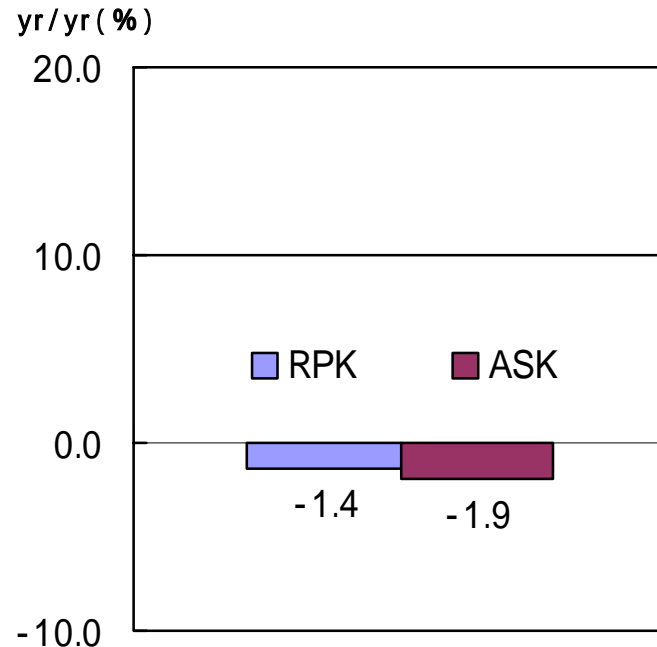
## < Revenues >

FY05 ¥659.9bln (-2.2% y/y)



## < Load Factor\* >

FY05 64.0% (+0.3% y/y)



RPK: Revenue Passenger-Km  
ASK: Available Passenger-km

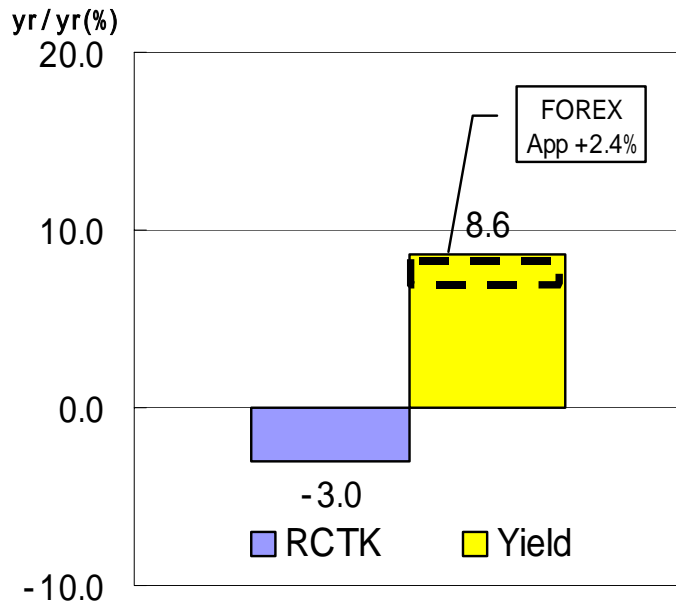
\* Load factor = RPK/ASK



# Results of International Cargo

## < Revenues >

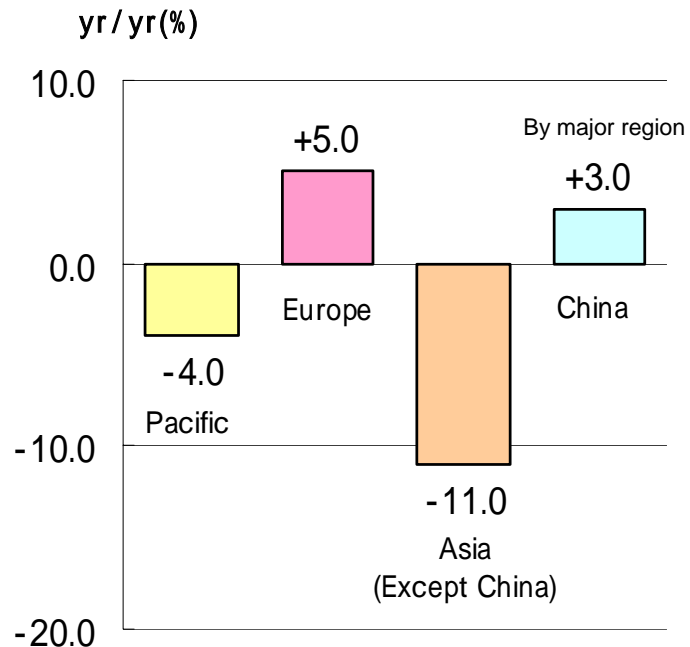
FY05 ¥180.5bln (yr/yr + 5.4%)



➤ RCTK: Revenue Cargo Ton Kilometer

## < Tonnage >

FY05 Total Revenue Cargo ton-km (yr/yr) -3.0%





## Breakdown of Operating Costs (Air Transportation Segment)

	FY 0 4	FY 0 5	Billions of Yen	
			yr-yr	yr/yr
<b>Fuel</b>	289.0	377.2	88.2	+30.5%
<b>Airport facilities</b>	135.1	134.7	-0.4	-0.3%
<b>Maintenance</b>	108.6	110.5	1.9	+1.8%
<b>Passenger services</b>	52.7	52.4	-0.3	-0.6%
<b>Commissions</b>	133.6	128.7	-4.9	-3.7%
<b>Aircraft Depreciation</b>	75.0	76.7	1.7	+2.3%
<b>Aircraft leases</b>	105.5	103.0	-2.5	-2.3%
<b>Personnel</b>	282.9	316.2	33.3	+11.8%
<b>Other</b>	477.5	476.6	-0.9	-0.2%
<b>Total</b>	1,659.7	1,776.4	116.7	+7.0%



# Impact of Fuel Prices & Foreign Exchange Rates

## < Fuel >

### [Average Fuel Price]

	FY04	FY05
USD*	\$49.8	\$72.1

\*SIN Kerosene average \$/bbl

## [Impact]

	Billions of Yen
FY04	289.0
FY04	377.2
Difference	88.2
Unit Cost Difference	94.6
FOREX	12.6
Price	93.1
Hedge and Others	-11.1
Loadage Difference	-6.4

**Hedge Ratio  
of FY2005:  
App. 75%**

## < FOREX >

### [Average Rate]

	FY04	FY05
USD*	¥107.7	¥112.1

\*Based on the average company exchange rate for Apr.2005-Mar.2006

## [Impact]

	Billions of Yen
Operating Revenue	+152.0
Operating Expenses	+212.0
Operating Income	-60.0

- Efforts towards  
Strengthening Safety**

# Issues of Former Safety-related Organization

## Recommendation by the Safety Advisory Group

### Underlying Issues

#### 1 . Safety-related organization

\* Organization located within each section : Safety promotion division and safety committee

Functions tended to be limited to reporting and coordination only.

\* Head Office : Safety Promotion Office, Safety Deputy, Safety Enhancement Task Force

Tended to be occupied with emergency responses after accidents and troubles and safety-related administrative work for top management.

#### 2 . Staff members in safety-related organization

Staff members were not cultivated as professionals in the safety field.

= resulting in the insufficient basic knowledge and experience regarding safety and human factors

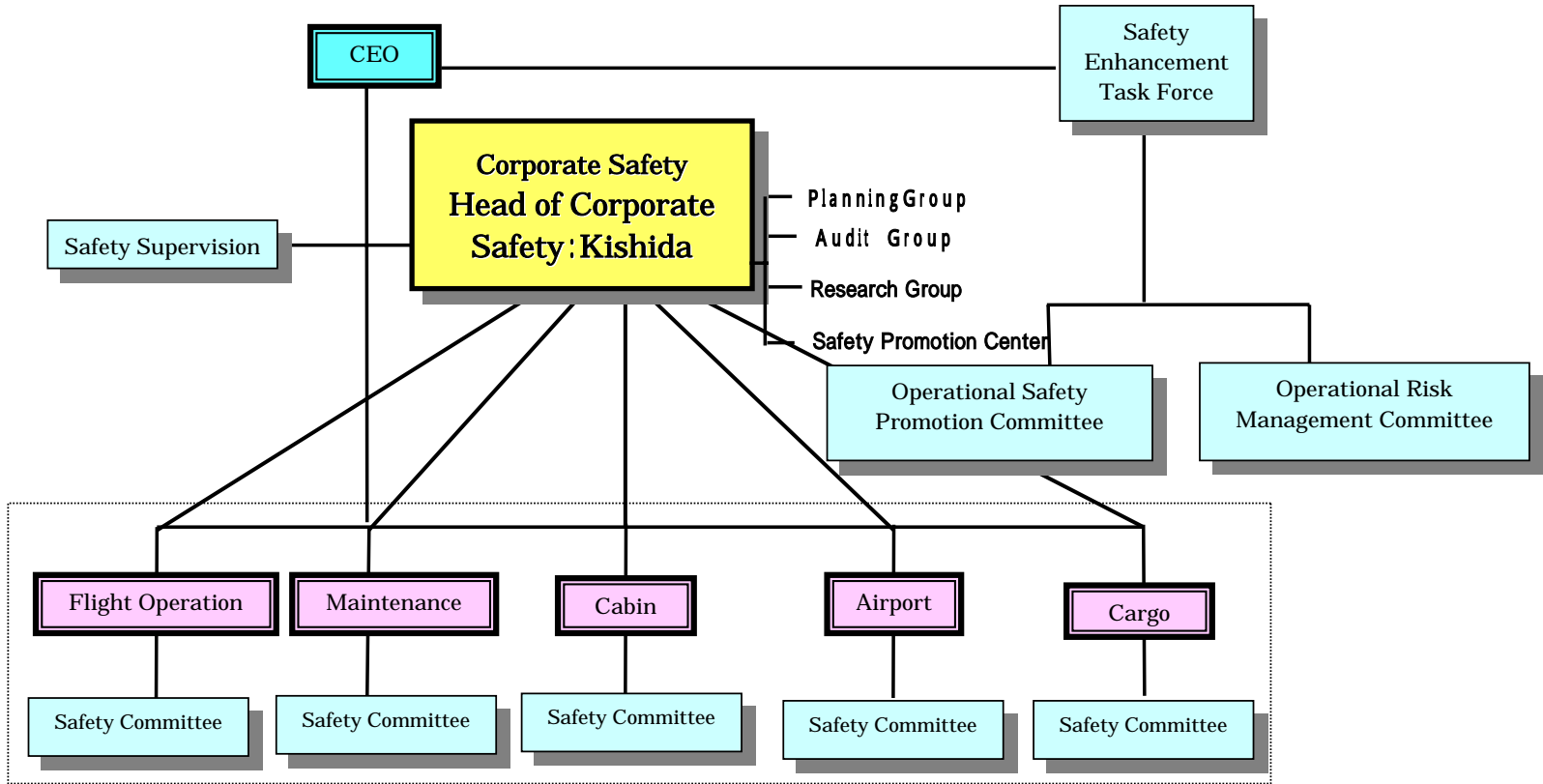


The Safety Advisory Group recommended to reform the current safety-related organization to a more powerful entity centered at headquarters' safety division to review accidents and troubles from a company-wide standpoint and to make self-inspections from a safety point of view.



# New Corporate Safety Division

April 2006 : Establishment of new JAL Corporate Safety Division





# Operation of New Corporate Safety Division



## Operation Policy relating to Corporate Safety Division

### 1. Coordination with each division

- As for challenges within each division, the division's safety organization will develop appropriate counter-measures and implement them
- When the Corporate Safety Division determines that the counter-measures made by the division is not sufficient, the Corporate Safety Division will make adequate instruction.

### 2. Counter-measures to tackle latent factors

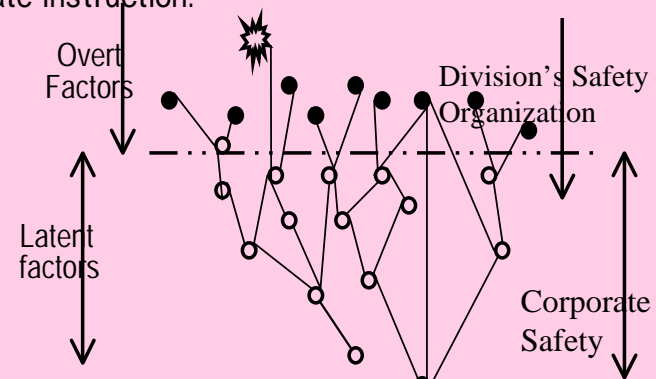
- Analysis of latent factors (organization, systems, human resources, environment, education & training etc.), and providing solutions proactively.

### 3. Information sharing within the JAL group

- Collection of overall JAL group's safety-related information and effective communication to necessary parties

### 4. Effective utilization of Safety Promotion Center

- The Center's display and documents will be used mainly for employee education to maintain high level of awareness.



# Safety Enhancement

## Objective of JAL Corporate Safety Division

Aim to enhance Group-wide safety by cultivating a culture of safety, information sharing and common safety level.



- ◆ Our Corporate Safety Division and Business Planning Division will be the twin engines supporting both wings.
- ◆ Corporate Safety Division controls safety-related organizations of each division from company-wide viewpoint.  
  
Entitled to gather company-wide information from each division and to investigate, recommend and instruct each division.
- ◆ Corporate Safety Division is composed of experts with extensive knowledge and experience.
- Corporate Safety Division is established immediately under the CEO to enhance the function of the former safety-related organization.
- Each group within Corporate Safety Division consists of highly qualified representatives from internal divisions such as flight operation, cabin, maintenance, airport and cargo.

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# (Appendix)



## Results of Main Subsidiaries

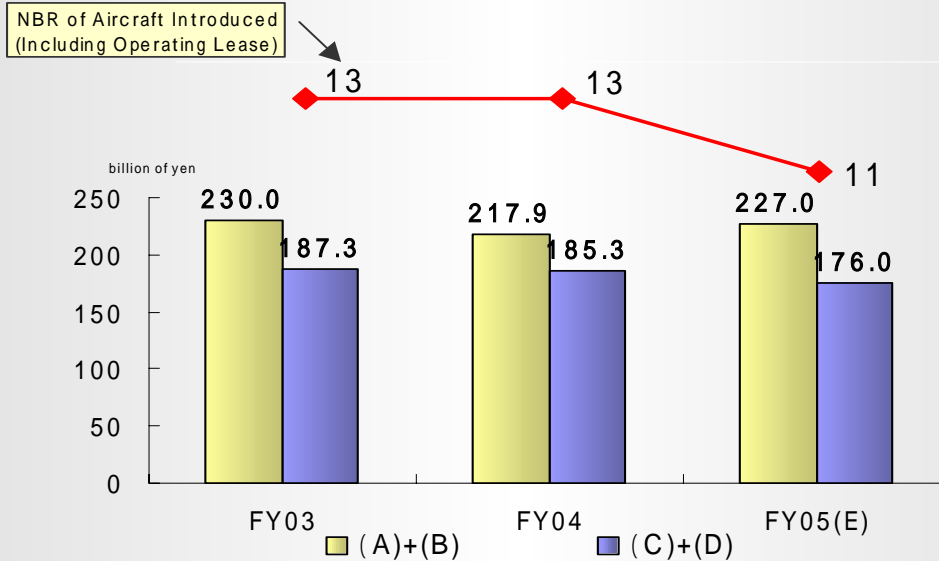
(Billions of Yen)

		Operating revenue		Operating Income		Net Income	
		FY05	yr/yr Difference	FY05	yr/yr Difference	FY05	yr/yr Difference
<b>Airline-related</b>	AGP	10.1	0.4	0.7	0.2	0.7	0.5
	TFK	26.1	0.0	1.0	0.6	1.4	1.2
<b>Travel Service</b>	JALT	119.6	11.0	0.4	0.4	0.6	0.5
	JLPK	189.4	-4.7	-1.2	0.0	-0.6	-0.4
	JSA	33.1	-7.7	1.4	0.9	0.0	-2.3
<b>Other</b>	JCI	20.3	2.3	3.1	0.7	1.8	0.4
	JAL Hotels	22.4	-2.7	1.2	-0.6	-3.3	-4.1
	JALUX	97.8	8.6	2.1	0.1	1.0	-0.1

JALT:JAL TOURS CO.,LTD. JLPK:JAL PACK CO.,LTD. JSA:JAL SALES CO., LTD. JCI:JALCARD INC.

➤The above figures are before accounting for general corporate assets/activities and inter company elimination.

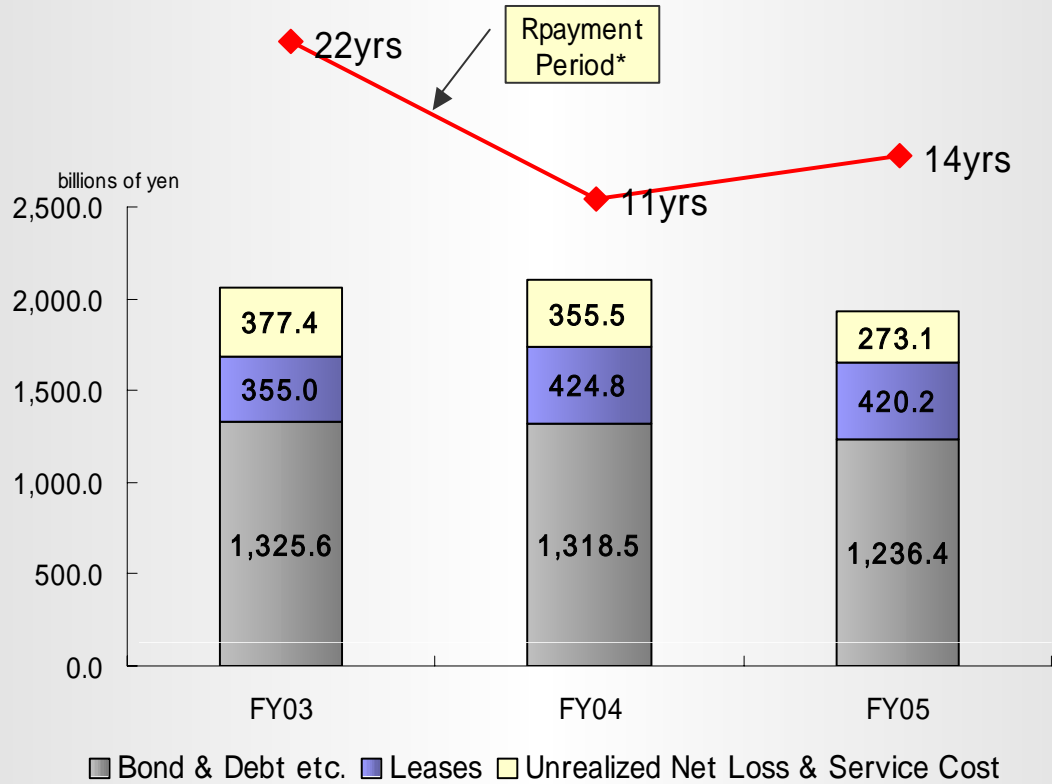
# Capital Expenditure and Depreciation



	FY03	FY04	FY05
Investment (Purchase) (A)	151.5	121.9	146.0
(Aircraft)	105.4	63.6	108.0
(Ground Asset etc.)	19.1	37.1	19.3
(Intangible Fixed Assets)	27.0	21.1	18.5
Capital Investment (Finance Lease) (B)	78.5	96.0	59.7
(A)+(B)	230.0	217.9	205.7
Depreciation (C)	119.3	124.7	125.1
Principal Payment of Finance Lease (D)	68.0	60.6	55.4
(C)+(D)	187.3	185.3	180.5



# Interest-bearing Debt



\*Interest-bearing debt/operating cash flow(Operating Income+Net Interest Income-Tax dividend+Repayment Lease Principal+Depreciation etc.)



# **Japan Airlines Corporation**