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# JAL Group's First Half Account Settlement for FY2006

Nov 8<sup>th</sup>, 2006

Japan Airlines Corporation

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- Outline of First Half Account Settlement for FY2006**



# Outline of the Consolidated Financial Statements

	Six Months Ended Sep 30.		Billions of Yen	
	FY05	FY06	yr-yr	yr/yr
Operating Revenues	1,112.3	1,150.0	+37.6	+3.4%
(Operating Expenses)	1,096.5	1,141.8	+45.2	+4.1%
Operating Income	15.7	8.1	-7.6	-48.3%
Ordinary Income	9.7	5.3	-4.4	-45.5%
Net Income	-12.0	1.5	+13.5	-112.5%



## Revenue and Operating Income by Results

Six Months Ended Sep 30.	Operating Revenues			Operating Income	
	FY06	yr-yr	yr/yr	FY06	yr-yr
Air Transportation	910.9	+26.4	+3.0%	-3.4	-10.1
Airline-related	179.4	+20.4	+12.8%	4.8	+2.3
Travel Service	194.6	-23.8	-10.9%	0.8	-0.8
Card · Lease	31.6	+1.5	+5.3%	3.0	+0.7
Other	102.8	+0.8	+0.8%	2.9	-0.0
<b>Total</b>	<b>1,419.6</b>	<b>+25.4</b>	<b>+1.8%</b>	<b>8.2</b>	<b>-8.0</b>
General corporate assets and intercompany eliminations	-269.6	+12.2	-4.3%	0.0	+0.4
<b>Consolidated</b>	<b>1,150.0</b>	<b>+37.6</b>	<b>+3.4%</b>	<b>8.1</b>	<b>-7.6</b>

Billions of Yen



## Breakdown of Revenue for Air Transportation Segment

Billions of Yen

		Six Months Ended Sep 30.		yr-yr	yr/yr
		FY05	FY06		
Inter national	Passenger	360.4	370.7	+10.2	+2.9%
	Cargo	85.4	92.4	+6.9	+8.1%
Domestic	Passenger	340.4	345.8	+5.3	+1.6%
	Cargo	14.5	14.2	-0.2	-2.0%
Other*		37.3	40.4	+3.1	+8.5%
Incidental Business		46.1	47.2	+1.0	+2.2%

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

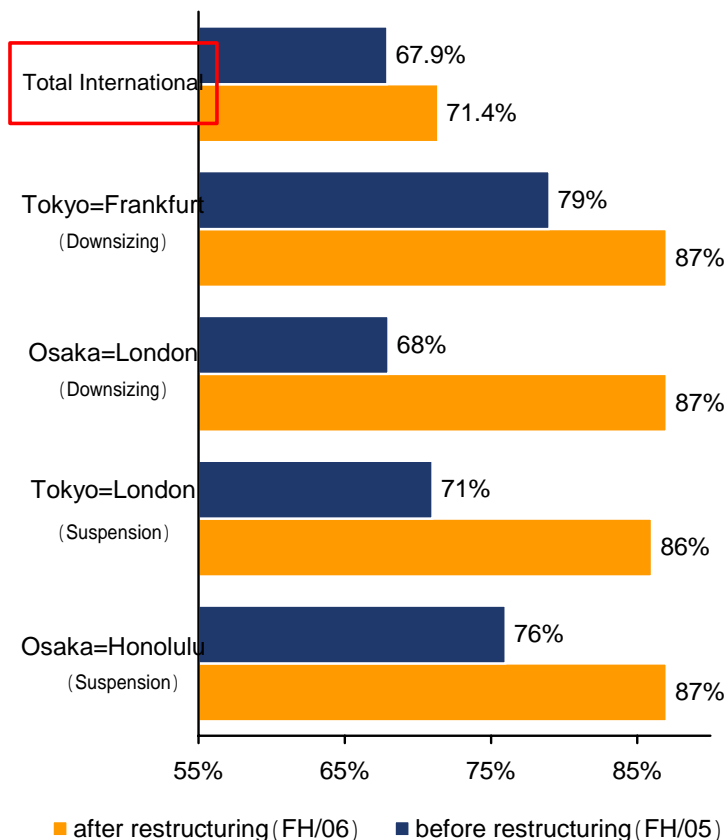
➤The above figures are before accounting for general corporate assets/activities and inter company eliminations.

# Initial Accomplishment of Mid-term Business Plan

## - International Passenger -



### L/F Improvement by Route Restructuring & Fleet Downsizing



### Targeted Routes of Restructuring

#### Suspended Operation

Oct. 2005	6 routes
Mar. 2006	Komatsu = Seoul Hiroshima = Seoul
Oct. 2006	Osaka = Los Angeles Tokyo = Las Vegas = Los Angeles Nagoya = Manila
Mar. 2007	Osaka - Brisbane - Sydney - Osaka

#### Reduced Operation

Oct. 2005	Osaka = Honolulu (14 7flights per week)
Mar. 2006	Tokyo = London (14 7 per week) Tokyo = Bangkok (21 14 per week) Osaka = Denpasar (7 3 per week) *
Oct. 2006	Tokyo=Chicago (14 7 per week)

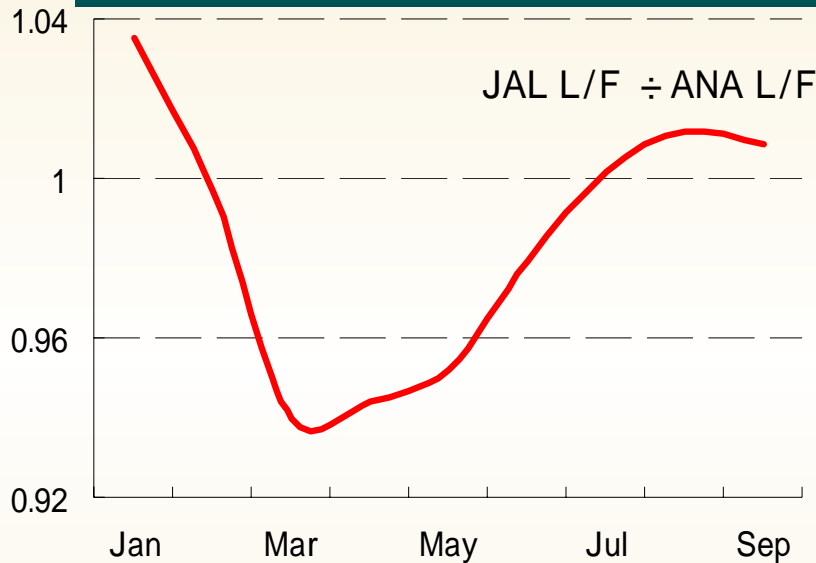
\*Return to 7 flights per week during 13 July and 26 October.

# Initial Accomplishment of Mid-term Business Plan



## - Domestic Passenger -

Passenger demand has picked up gradually due to demand boosting measures.



	Jan	Feb	Mar	Apr
JAL L/F	58.5%	63.5%	66.8%	58.8%
ANA L/F	56.5%	63.7%	71.1%	62.3%
JAL-ANA(pnt)	2.0	-0.2	-4.3	-3.5

	May	Jun	Jul	Aug	Sep
JAL L/F	61.4%	61.1%	62.4%	70.5%	69.5%
ANA L/F	64.5%	62.4%	62.3%	69.7%	68.9%
JAL-ANA(pnt)	-3.1	-1.3	0.1	0.8	0.6

Yield is still stagnant.

Comparison of FH results between JAL and ANA

	JAL	JPY ANA	JAL ÷ ANA
06/1Q	14,563	15,070	96.6%
06/2Q	16,483	16,735	98.5%
06/FH	15,586	15,944	97.8%



# Initial Accomplishment of Mid-term Business Plan



## - Cost Structure Reform -

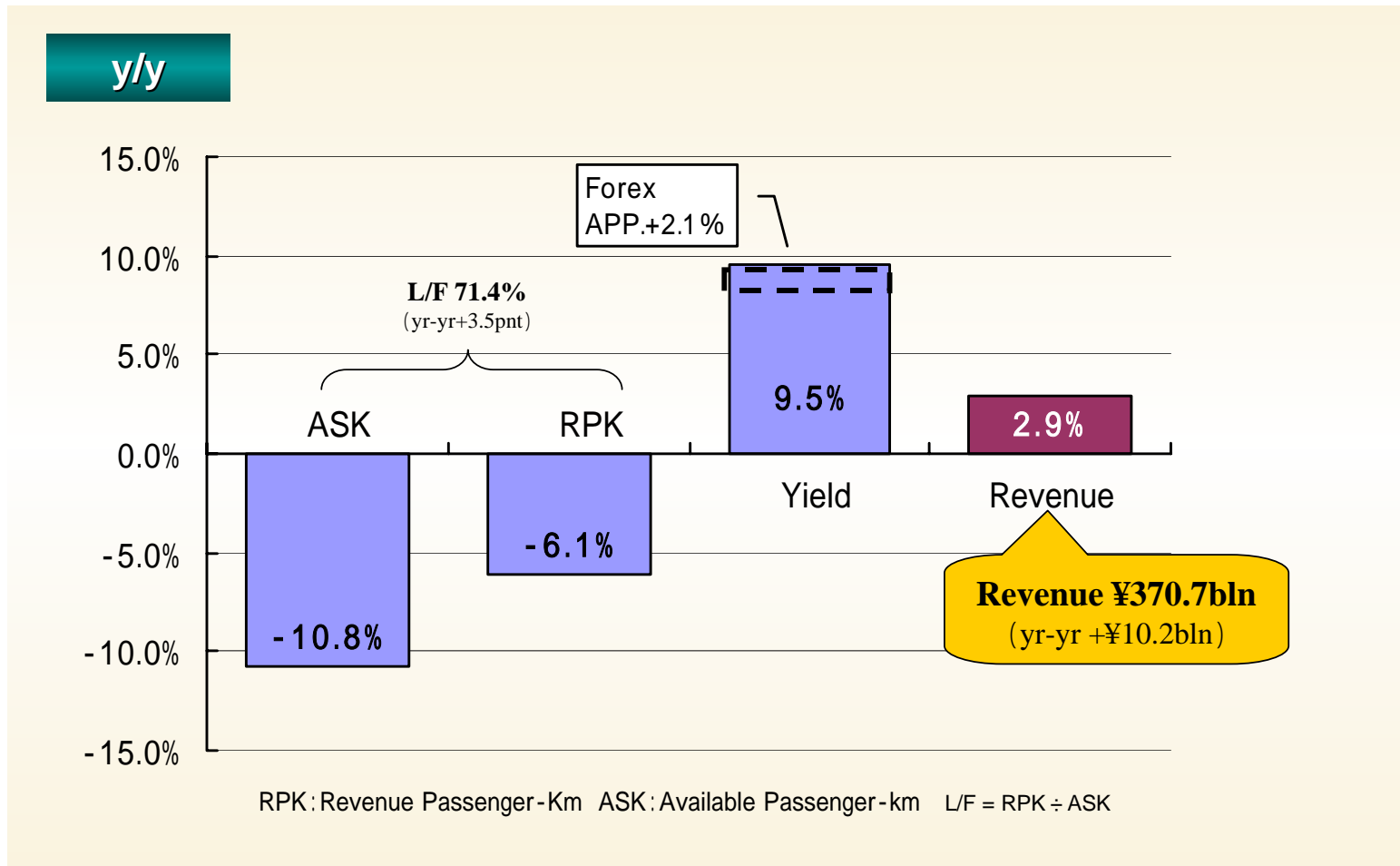
### Progress in Cost Structure Reform

(Billions of Yen)

		FH(Result)		Q3(Forecast)		Q4(Forecast)		Year(Forecast)	
		yr-yr	accumulated total	yr-yr	accumulated total	yr-yr	accumulated total	yr-yr	accumulated total
Cost Structural Reform	Increase in Personnel Cost Efficiency	<b>+2.5</b>	9.5	<b>+1.5</b>	11.0	<b>+2</b>	13.0	<b>+6.0</b>	13.0
	Improvement/Elimination of Low-profit routes	<b>+2.5</b>	5.5	<b>+4</b>	9.5	<b>+4.0</b>	13.5	<b>+10.5</b>	13.5
	Review of Group Outsourcing and Operational Process	<b>+5.0</b>	21.0	<b>+3.5</b>	24.5	<b>+3.5</b>	28.0	<b>+12.0</b>	28.0
	Reduction in sales cost through developing E-business	<b>+1</b>	2.0	<b>+0.5</b>	2.5	<b>+1</b>	3.5	<b>+2.5</b>	3.5
	Reduce Interest expenses by reducing assets	<b>0.0</b>	0.0	<b>0.0</b>	0.0	<b>+2.0</b>	2.0	<b>+2.0</b>	2.0
	<b>Total</b>	<b>+11</b>	38.0	<b>+9.5</b>	47.5	<b>+12.5</b>	60.0	<b>+33.0</b>	60.0
Emergency Measures		<b>+15.5</b>		<b>+3.0</b>		<b>+3.0</b>		<b>+21.5</b>	

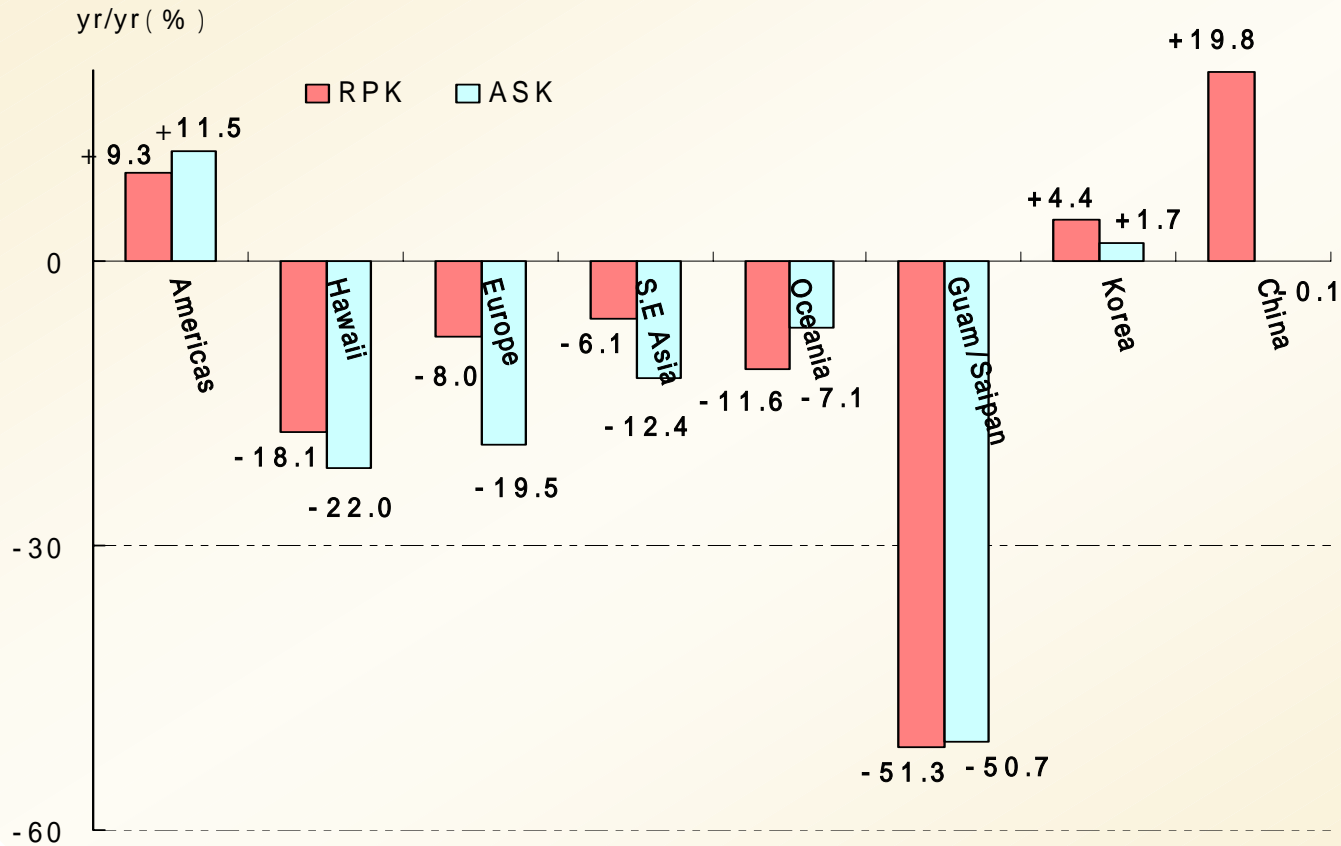


# Revenue Analysis - International Passenger



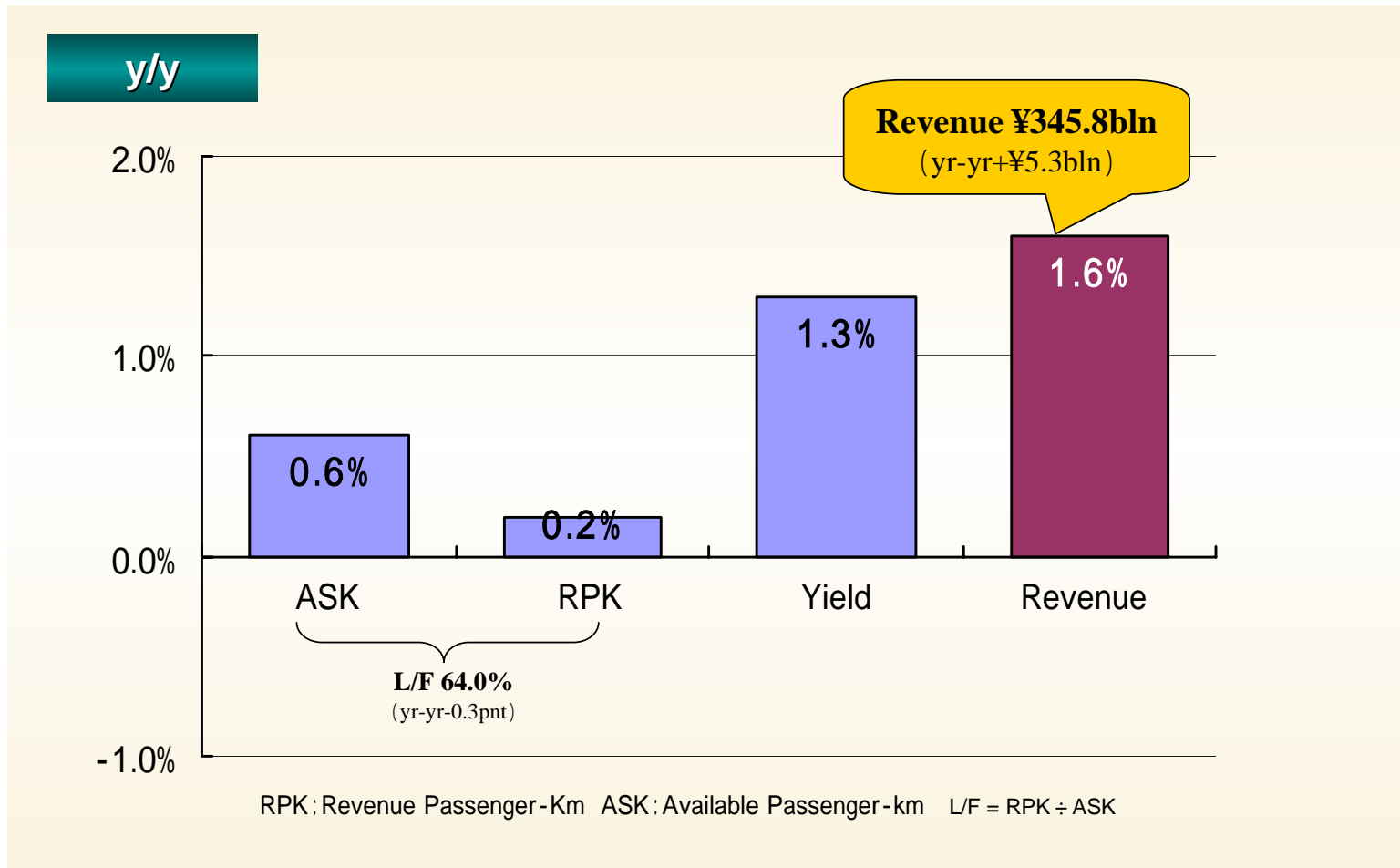


## Demand and Supply of International Passenger by Route (y/y)





# Revenue Analysis - Domestic Passenger

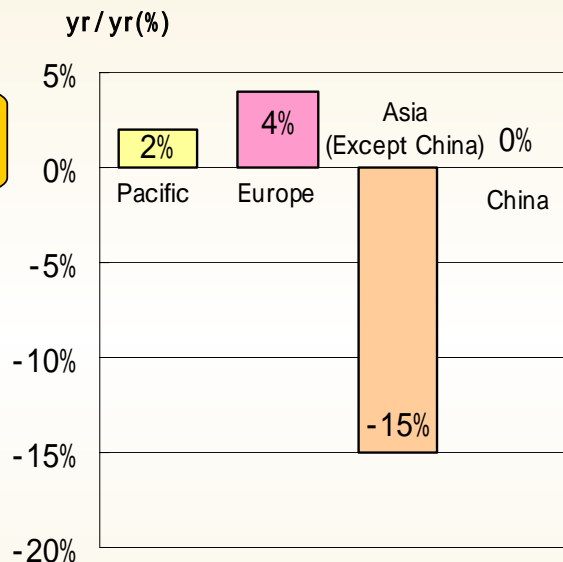
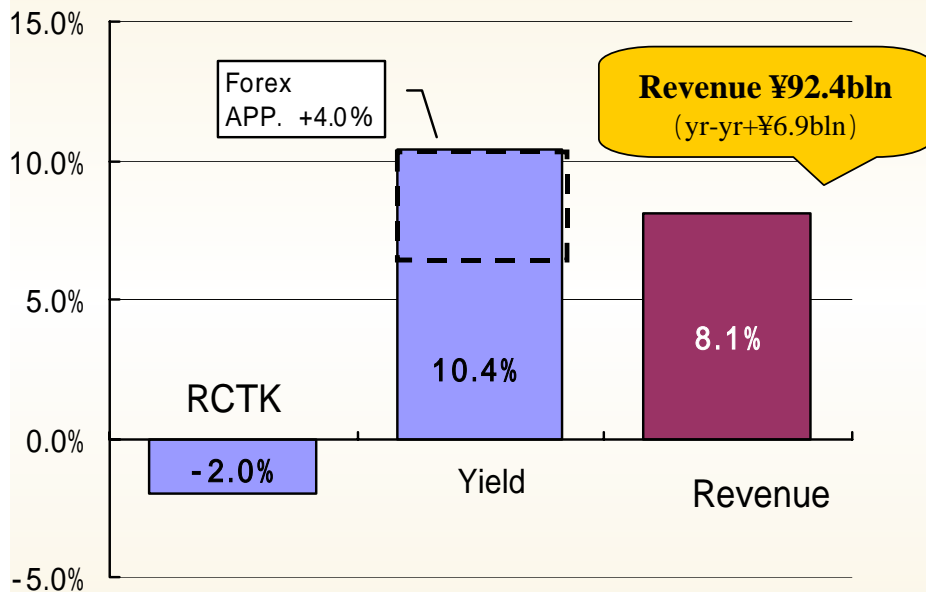




# Revenue Analysis - -International Cargo

y/y

Cargo demand by Destination



➤RCTK:Revenue Cargo Ton Kilometer

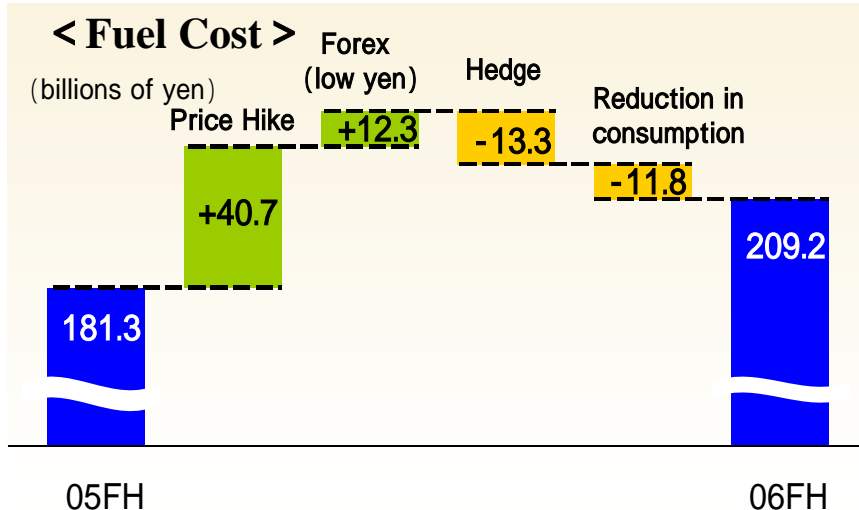


## Breakdown of Operating Costs (Air Transportation Segment)

	Six Months Ended Sep 30.		Billions of Yen	
	FY05	FY06	yr-yr	yr/yr
<b>Fuel</b>	181.3	209.2	27.9	15.4%
<b>Airport facilities</b>	68.5	66.2	-2.3	-3.4%
<b>Maintenance</b>	52.2	64.6	12.4	23.8%
<b>Passenger services</b>	26.0	25.6	-0.4	-1.5%
<b>Commissions</b>	66.8	63.3	-3.4	-5.2%
<b>Aircraft Depreciation</b>	38.5	36.7	-1.8	-4.7%
<b>Aircraft leases</b>	51.2	53.7	2.4	4.7%
<b>Personnel</b>	155.3	153.0	-2.3	-1.5%
<b>Other</b>	237.5	241.7	4.1	1.8%
<b>Total</b>	<b>877.7</b>	<b>914.4</b>	<b>36.6</b>	<b>4.2%</b>

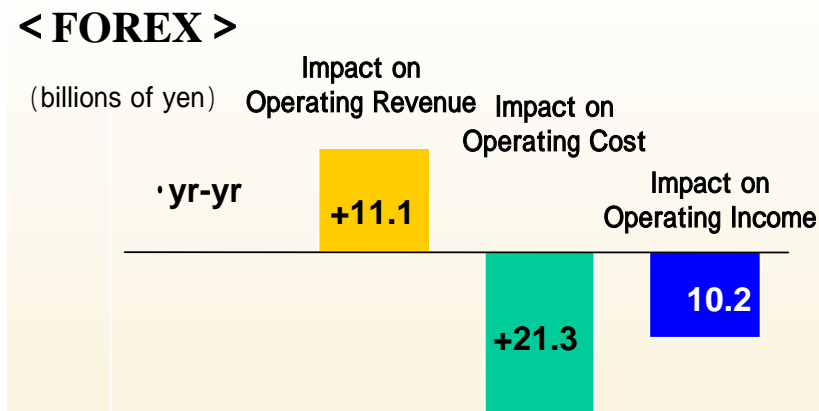


# Fuel Cost & Foreign Exchange Rate (Air-transportation Segment)



## Hedging Trading of Fuel (as of Oct. 2006)

	FY05	FY06	FY07
Hedging Ratio	-	89%	41%
Assumption of Mid-term Business Plan	-	\$75	\$75
Average Market Oil Prices (Apr.-Sep.)	\$69.6	\$84.9	-



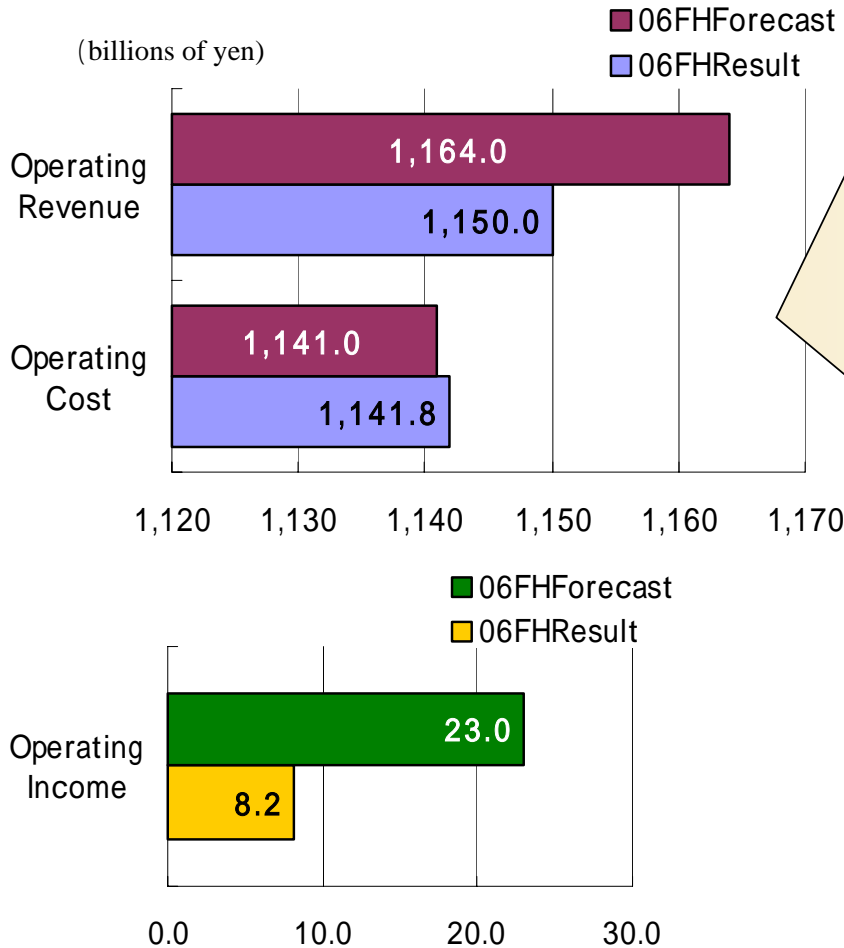
## Average Foreign Exchange Rate

	FY05 FH	FY06 FH	Assumption of Mid-term Business Plan
USD*	¥108.5	¥115.5	¥120.0

\*Average of JAL's corporate monthly settlement rates



# Revenue Analysis - comparison with Initial Forecast



## Gap between forecast and result

(billion yen)

	Int Passage	Dom Passage	Int Cargo	Others
Estimate	378.5	358.5	95.0	332.0
Result	370.7	345.8	92.4	341.0

### [International Passenger]

- Although the total number of passengers achieved the forecast, the passenger figures by route were different from the forecast.
- Yield was below the forecast despite the recovery in the ratio of F/C class.

### [Domestic Passenger]

- The number of passengers fell a little short of the forecast.
- Yield was also below the forecast due to delay in recovery of individual passenger demand and fare policy.

## Discrepancies from budget

( Air-transportation Segment )

- Fuel Cost : +5 billion yen
- Personnel Cost : -4 billion yen
- Other Cost : -5 billion yen



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**.Drastic Financial Improvement Measures  
and  
Next Mid-term Business Plan  
(Revision of FY2006 Forecast)**

# Drastic Financial Improvement Measures



## < Reduction in periodic pension cost and interest-bearing debt >

Effect : about JPY 25 bln

### • Daiko Henjo (\*)

✧ We will implement additional measures that will bring financial improvement by JPY27 bln during the second half of the FY2006.

## < Further expansion of cost structural reform >

Effect : about JPY 2 bln

- Reduction in rent of real estates
- Review of contracts with parties outside the Group and business process
- Thorough cut-down in general expenses

(\*) To stop handling benefits paid to retired employees on behalf of the government

# Four Pillars of Next Mid-term Business Plan

[Target]

**Establishment of solid business base that can provide stable profits  
without being affected by fluctuation of revenues**

[Measures]

1

## Improvement of Productivity

- Company-wide introduction of TPS\*
  - Proper arrangement and more effective use of personnel
- \*TPS:Toyota Production System

2

## Review of Business Plan

- Acceleration of aircraft retirement and replacement on the international / domestic passenger and cargo business.
- Further review of unprofitable routes

3

## Strengthening of Product Competitiveness

- Enhancement of competitiveness such as creation of new products through the review of “Value Chain”

4

## Streamlining of Related Business

- Evaluation of synergy effect, concentration of operating resources, further increase in business efficiency

# Revision of Revenue Forecast for FY2006



## Breakdown of revision of revenue forecast

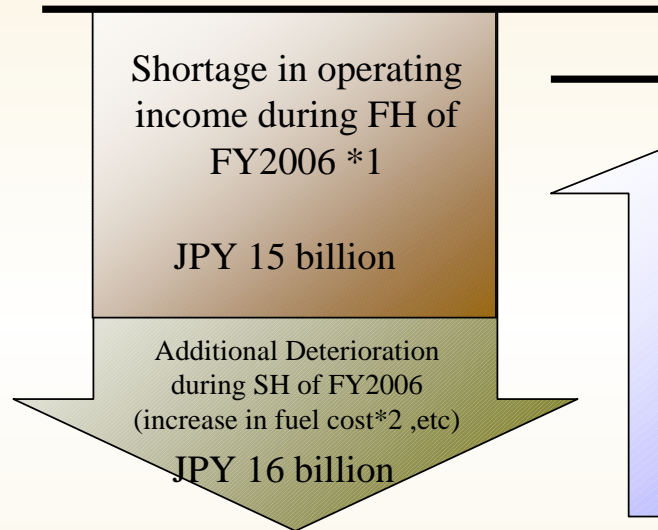
		Forecast on 10/May	Revised Forecast	Difference
Operating Revenue		2,301.0	2,281.0	-20.0
Air Transportation	International Passenger	725.0	732.0	7.0
	Domestic Passenger	703.0	678.0	-25.0
	International Cargo	198.0	195.0	-3.0
	Others	207.0	205.0	-2.0
	Sub TTL	1,833.0	1,810.0	-23.0
Other Segments		468.0	471.0	3.0

## Assumption for forecast

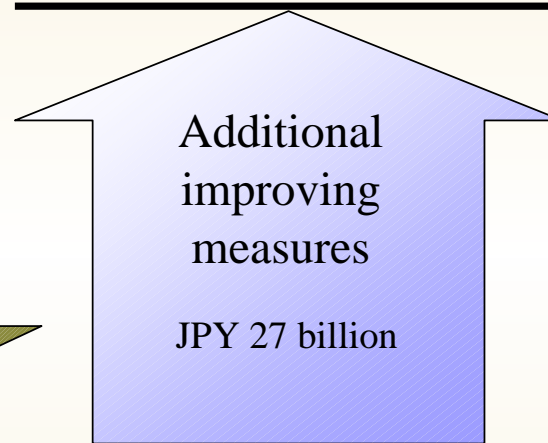
	Forecast on 10/May	Revised Forecast
Int Passenger		
Supply(ASK)	89.5%	91.2%
Demand (No.)	94.8%	96.5%
Yield per Head	110.7%	109.8%
Dom Passenger		
Supply(ASK)	101.2%	99.4%
Demand (No.)	101.6%	100.9%
Yield per Head	104.8%	101.8%
Int Cargo		
Supply(ASK)	109.2%	109.6%
Demand (No.)	105.8%	101.4%
Yield per Weight	103.9%	106.6%
Forex¥/US\$	¥120.0	¥116.0
Fuel (SIN-K)	\$75	\$81

# Forecast of Operating Income for FY2006

Initial forecast of operating income  
**JPY 17 bln**



Revised forecast of operating income  
**JPY 13 bln**



\*1: Please refer to the page 15.

\*2: After incorporating increase in fuel surcharge to be conducted in SH of FY2006 .



# Targets of FY2006

	Forecast on 10/May	Revised Forecast	Billions of Yen Difference
Operating Revenues	2,301.0	2,281.0	-20.0
(Operating Expenses)	2,284.0	2,268.0	-16.0
Operating Income	17.0	13.0	-4.0
Ordinary Income	0.5	0.5	0.0
Net Income	3.0	3.0	0.0

- Decline in operating income by JPY 4 bln is forecasted.
- However, ordinary income and net income remain unchanged.
- We implement these measures steadily in order to achieve the targets of this fiscal year.



# Forecast of Cash Flows

## Forecast of Cash Flows for FY2006

(billions of Yen)

Cash and cash equivalents at beginning of period	172.1
Net cash provided by operating activities	117.0
Net cash used in investing activities	-116.0
Net cash provided by (used in) financing activities	63.0
Cash and cash equivalents at end of period	236.1

### Cash flows from operating activities

Operating income	JPY13bln
Depreciation & amortization	JPY115bln
Others	JPY11bln

### Cash flows from investing activities

Capital Expenditure	JPY174bln
Aircraft/parts	JPY84bln
Other Tangible fixed assets	JPY53bln
Intangible fixed assets	JPY37bln
Sales of fixed assets	JPY58ln

### Cash flows from financing activities

Repayment of loan	JPY115bln
Redemption of bonds	JPY30bln
New share offering	JPY148bln
Increase in borrowing	JPY60bln*

\*In preparation for advanced redemption of CB, new borrowing of about JPY 60bln is planned.

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# (Appendix)





## Results of Main Subsidiaries

(Billions of Yen)

		Operating revenue		Operating Income		Net Income	
		06FH	yr/yr Difference	06FH	yr/yr Difference	06FH	yr/yr Difference
<b>Airline-related</b>	AGP	4.8	+0.2	0.3	+0.0	0.1	-0.2
	TFK	13.1	-0.2	0.7	+0.2	0.5	+0.0
<b>Travel Service</b>	JALT	64.8	+1.6	0.4	-0.1	0.2	-0.4
	JLPK	91.7	-7.0	0.0	+0.0	0.8	+0.6
	JSA	0.0	-16.7	0.0	-1.0	0.0	+0.0
<b>Other</b>	JCI	10.9	+1.0	2.2	+0.4	1.2	+0.2
	JAL Hotels	9.2	-1.8	0.2	-0.3	1.1	+1.5
	JALUX	48.1	+2.3	0.9	+0.0	0.7	+0.2

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



## Result & Forecast

	05FH	06FH	FY06Forecast	
			Forecast on 10/May	Revised Forecast
Invesment (Purchase) (A)	82.5	66.0	174.0	174.0
(Aircraft)	64.6	46.3	84.0	84.0
(Ground Asset etc.)	11.3	9.4	53.0	53.0
(Intangible Fixed Assets)	6.6	10.1	37.0	37.0
Capital Investment (Finance Lease) (B)	52.7	27.2	47.0	47.0
(A)+(B)	135.2	93.2	221.0	221.0
Depreciation (C)	62.0	58.9	115.0	115.0
Pricipal Payment of Finance Lease (D)	27.8	27.6	52.0	52.0
(C)+(D)	89.8	86.6	167.0	167.0

## Interest-bearing Debt

### Result & Forecast

		FY06Forecast			
		05FH	06FH	Forecast on 10/May	Revised Forecast
On Balance	Long-term loans	913.0	854.0		
	Bonds	310.0	310.0		
	Short-term loans	6.5	5.0		
	Installment	6.7	5.7		
	<b>Total</b>	<b>1,236.4</b>	<b>1,174.8</b>	<b>1,113.5</b>	<b>1,152.0</b>
Off Balance	Lease Obligation	420.2	425.2	403.0	403.0
	Unrecognized Net Loss & Pention Liabilities	273.1	275.4	243.3	245.0
<b>Total of interest-bearing Debt</b>		<b>1,929.8</b>	<b>1,875.5</b>	<b>1,759.8</b>	<b>1,800.0</b>

# Disclaimer



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