

INTERNATIONAL PASSENGER

Business Environment for International Passenger Operations

With the Japanese economy of recent years showing a long-term trend toward moderate recovery, the number of outbound passengers from Japan has also seen a positive development. Internationally, economic development and population growth in Asia have led to surging demand for inbound travel to Japan, and passenger numbers are expected to show further growth in the future.

The Japanese government has set a target of attracting 40 million overseas visitors to Japan in 2020, and a range of initiatives are under way in preparation for this expansion in inbound travel. Meanwhile, a large number of events with an international audience are due to be held in Japan, including the Rugby World Cup and the Olympic and Paralympic Games Tokyo 2020.

Additionally, an expansion of capacity at Tokyo's metropolitan airports is scheduled to take place by 2020, offering an opportunity for major growth in international passenger operations. On the other hand, the growth in low-cost carriers serving the Japanese market has continued, which is expected to result in intensifying competition.

Growth Strategy

(1) Leveraging our hub airports at Narita and Haneda and collaboration with worldwide partners, we will build a network contributing to global exchange.

We aim to increase customer convenience by improving our route network, including addressing an expected increase in demand for connections for flights originating in North America and Southeast Asia. By working with joint business partners, the oneworld alliance members, and other codeshare partners to expand our global network, our target is to achieve a network of 500 major city destinations worldwide within the next ten years.

(2) We will leverage JAL's strengths to attract more overseas customers

We aim to encourage more overseas customers to discover JAL's high-quality services through ongoing sales promotions in overseas regions. At the same time, by reinforcing overseas marketing activities through a range of partnerships, we aim to increase the overseas sales ratio of our international passenger operations to 50% within ten years.

(3) We offer customers worldwide a comfortable travel environment combined with personal and timely service.

Among other measures, we will step up the introduction of JAL SKY SUITE-configured aircraft, increase multilingual services, and improve menus to meet diverse dietary needs. We will additionally

roll out a service using the messaging app LINE to provide passengers with real-time flight information. This will form part of a range of measures to allow all customers to use our services with sense of security.

Review of Fiscal 2017

Updating of passenger service system

In November 2017, we updated our passenger service system to provide a platform for future growth. This update, which includes an improved website interface for overseas customers, will contribute to increased customer convenience. Additionally, by introducing a world standard system, we will position ourselves to further strengthen collaboration with partner airlines, such as expanding codesharing.

Route network

We added a new Narita = Melbourne route and a Narita = Kona route in September 2017 and increased flights on the Haneda = London route in October 2017 with an additional late-night departure. By expanding our network in this way, we increased convenience for customers worldwide by offering more options. Toward further expansion of our network, we have reached agreements with Vietjet, Vistara, Hawaiian Airlines, Aeromexico and Aeroflot Russian Airlines, which will lead to the launch of concrete alliances.

Products and services

Toward expansion of the number of routes operated with JAL SKY SUITE-configured aircraft—whose concept is to offer all passengers a “one-class quality upgrade”—we introduced the JAL SKY SUITE 787 configuration, featuring fully-flat business class seats and a New Spacious Economy seats with expansive legroom. Among other initiatives to enhance service were continuous improvements to inflight meals and lounge facilities.

As a result of these initiatives, the Japan Customer Satisfaction Index (JCSI) survey, which is conducted by an external service evaluation body, ranked JAL number one in the International Airlines category for the Repeat Intention Rate for the fifth consecutive year and the Repeat Intention Rate. In TripAdvisor's 2018 Travelers' Choice™ Awards for the world's favorite airline, overseas customers named JAL as Japan's best airline, while the 2017 World Airline Awards operated by SKYTRAX presented JAL the award for the Best Economy Class Airline Seat.

In fiscal year 2017, our initiatives allowed us to post 2.3% year-over-year increase in passengers traffic, while our load factor reached a record level of 81.0% and international passenger revenue saw a large year over year increase to 462.9 billion yen.

OPERATIONS

Activities in Fiscal 2018

Route network

In addition to flexible increases in flight schedules in response to customer trends—for instance on the Kansai = Honolulu, Narita = Guam and Narita = Bangkok routes—we are also successively rolling out codesharing with Hawaiian Airlines and other new partners.

Products and services

We will further promote the introduction of JAL SKY SUITE-configured aircraft. In addition, to ensure that we satisfy overseas customers, we are introducing multilingual options in our inflight entertainment systems and reviewing catering menus in our lounge facilities. These and other measures in pursuit of comfort and convenience are designed to offer services that will be actively chosen by customers worldwide.

TOPICS

JAL and Hawaiian Airlines Apply for Antitrust Law Immunity

In June 2018, Hawaiian Airlines and JAL filed applications with the U.S. Department of Transportation and Japan's Ministry of Land, Infrastructure, Transport and Tourism seeking immunity from the antitrust law.

JAL and Hawaiian Airlines will begin the joint business on Japan = Hawaii routes once the relevant antitrust immunity has been granted. Currently, the two sides are preparing for the start of the joint business by holding discussions on a wide range of issues, including sales, airport operations, IT and customer service.

In September 2017, JAL and Hawaiian Airlines reached agreement on a comprehensive business partnership and began operation of codeshare flight in March 2018. Once antitrust immunity has been granted, the two sides will enter a closer collaboration which will allow rapid enhancement of their route networks, product and service quality, and other areas. Going forward, we will continue to offer customers services of high convenience and quality.

Hawaiian Airlines

Now in its 89th year of continuous service, Hawaiian Airlines is Hawaii's biggest and longest-serving airline. Hawaiian Airlines offers non-stop service to Hawaii from 11 U.S. gateway cities, along with direct services to and from Japan, South Korea, China, Australia, New Zealand, American Samoa and Tahiti.

Hawaiian Airlines has led all U.S. carriers in on-time performance for each of the past 14 years (2004-2017) as reported by the U.S. Department of Transportation. Meanwhile, consumer surveys by *Condé Nast Traveler and Travel + Leisure* have placed it among the top domestic airlines serving Hawaii.



DOMESTIC PASSENGER OPERA

Business Environment for Domestic Passenger Operations

With Japan's working-age population on the decline, major changes are taking place in the macro environment. At the same time, there are also expectations for new growth as the economy is expected to steadily expand ahead of the Olympic and Paralympic Games 2020 Tokyo with a continued increase in inbound tourists. The market climate will also likely intensify due to price competition and competitors launching new routes.

Growth Strategies

(1) Serving Customers with New Aircraft

JAL intends to progressively introduce new aircraft with higher levels of comfort as a part of our efforts to refine our full-service carrier business. J-AIR, which primarily operates routes out of Osaka International Airport (Itami), has been adding new Embraer 170 and 190 aircraft to its fleet with complimentary inflight video programming and leather seats and plans to complete the process during fiscal year 2018. Japan Transocean Air is also upgrading its fleet to Boeing 737-800 aircraft and will finish introducing JAL SKY NEXT-configured aircraft during fiscal year 2018. From fiscal year 2019, we plan to introduce Airbus A350-900 and Boeing 787-8 aircraft with advanced inflight amenities and exceptional quietness and comfort to bolster our aircraft competitiveness and further differentiate ourselves from other carriers.

(2) Providing More Convenient, Comfortable Services

We intend to expand our fleet of JAL SKY NEXT-configured aircraft and further increase routes and flights with inflight Wi-Fi. From fiscal year 2018, inflight satellite television will be available and in fiscal year 2019, a portion of our fleet will be equipped with seatback screens and personal power outlets to further enhance the inflight experience. The new enhancements include not only technologies but also services to provide a more advanced customer experience from reservations to boarding with products and services that are constantly a step ahead.

(3) Contributing to Regional Revitalization by Promoting Tourism to Regional Japan

With Japan's population declining, substantial growth in domestic route demand is unlikely, so new demand must be actively created. The JAL Group will expand its market overseas and create opportunities for even more inbound tourists, already increasing in number, to visit regional Japan. We have established systems for buying tickets for domestic flights from overseas locations such as JAL Japan Explorer Pass and offer inbound travel promotions to communicate the appeal of regional Japan through JAL's overseas

websites. In addition, we plan to partner with other sectors of the tourism industry to give the travelers the motivation and intention to visit Japan's various regions. High-value tourism experiences and accommodations will be provided in each region to increase nonresident populations.

Review of Fiscal 2017

Route network

Along with increasing routes operated with Embraer 190 aircraft, primary through Itami Airport, we introduced the advanced ATR42-600 turboprop on routes to outlying islands in Kagoshima Prefecture, operated by Japan Air Commuter, in an effort to further increase convenience and comfort on regional routes.

Products and services

We now offer complimentary inflight Wi-Fi on JAL SKY NEXT-configured aircraft, which has been very popular with customers. For JAL First Class service on domestic flights, which was introduced a decade ago in 2007, we ran special commemorative programs that included a special inflight menu and worked to further improve service quality to create an even higher value air travel experience.

Marketing and promotions

For JAL Japan Explorer Pass, which has been marketed since 2015, we revised prices for various destinations and set fares to make air travel highly attractive and convenient for inbound travelers. In collaboration with TripAdvisor, we established a new promotional site, "Untold Stories of Japan," to further stimulate inbound travel demand. The site provides information focused on lesser known cities and tourist attractions in regional Japan, and not just the Tokyo and Osaka metro areas.

Expanding Our Base

A new tour was organized with allergy-friendly meals to allow customers with food allergies to confidently enjoy their travel experience. Collaborating with Club Tourism International Inc. and ata Alliance, we also jointly conducted tour programs for people using wheelchairs or crutches to allow them to enjoy accessible winter sports in Hokkaido. In addition, partnering with Aeonpet Co., Ltd., we developed the JAL "Wan-Wan" Jet Tour, which uses charter flights to allow participants to bring their pet dogs on board. Through such initiatives, we worked to further vitalize domestic air travel by providing new forms of travel value.

Through these initiatives, in fiscal year 2017, the number of passengers carried increased 4.5% year over year, the load factor was a record-high 71.8% and domestic passenger revenue increased substantially over the previous year to 518.2 billion yen.

TIONS

Activities in Fiscal 2018

Route Network

We plan to increase flight frequency on the Haneda = New Chitose route and other routes during the summer season and on certain weekends when a high demand is anticipated. In addition, we established a new Tokunoshima = Okinoerabu = Naha route in July 2018 operated by Japan Air Commuter. We will also expand our network in the Amami Islands to help increase the nonresident population in the area.



Dualski experience

Products and services

For the inflight Wi-Fi service on JAL SKY NEXT-configured aircraft, we plan to enhance free video programs and will also work to further raise comfort and convenience levels by launching inflight satellite television and other services. In addition, for “Dokokani Mile,” our innovative mileage award service that has been highly popular with customers and was honored recently at the 2017 Nikkei Superior Products and Services Awards, we are adding outlying island routes from Okinawa (Naha) and Kagoshima to the scope of the service, which already covers Tokyo (Haneda Airport) and Osaka (Itami and Kansai Airports) routes, in order to generate new tourist activity through an increase in the nonresident population.

TOPICS

Strengthening Overseas Market Initiatives to Capture New Demand

JAL entered a capital and business alliance with Hyakusenrenma, Inc., which operates on airbnb service, in order to increase inbound travel demand and nonresident



A private lodging experience in Nara Prefecture

populations. With the partnership, we are enhancing products offered through Dynamic Package, which combines airline tickets with private lodging experiences that draw on the unique tourism resources of individual regions. Coordinating in this way with other sectors of the travel industry and also regional governments, we are providing new travel value in an effort to promote regional revitalization and further interchange among regions. In fiscal year 2018, along with creating the motivation and intention to visit regional Japan, we plan to provide high-value travel and lodging experiences in Japan’s regions in partnership with other travel sectors and work to create further opportunities for even more inbound tourists to visit regional Japan.

DOMESTIC PASSENGER OPERATIONS

JAL GROUP AIRLINES

Maintaining Vital Air Links to Revitalize Regional Economies

Our regional network provides vital transport links to residents in regional cities and outlying islands. JAL Group airlines are progressively switching to new-generation aircraft, and we will continue to contribute to regional communities and revitalization projects through our highly convenient network and high-quality services.

Japan Transocean Air Co., Ltd. (JTA)

Established as Southwest Air Lines in 1967 before the return of Okinawa to Japan, JTA has been providing vital air links to Okinawa residents for 51 years. In addition to connecting Okinawa's main island and outlying islands, JTA operates 70 scheduled flights each day on 12 routes between Okinawa and Haneda, Chubu, Kansai, Komatsu, Okayama and Fukuoka airports with a fleet of 12 Boeing 737 aircraft. JTA offers high-quality service with a hint of Okinawa culture in the JAL Group. The airline is also doing its part to support the regional economy by widely promoting Okinawa as an appealing destination for tourists.



Japan Air Commuter Co., Ltd. (JAC)

JAC was established to initially operate flights on four routes linking the Amami Islands. The airline, which marks its 35th anniversary in 2018, operates flights on 18 routes, mainly serving outlying islands in Kagoshima Prefecture. The advanced ATR42-600 turboprop was introduced to routes in 2017, and the new "Amami Islands Hopping Route" was established in July 2018 to further support the regional network as the "wings" of the region. In addition, JAC is expanding a cooperative project to share aviation technologies with other companies. Going beyond the JAL Group, since June the airline has lent ATR aircraft to Amakusa Airlines for joint operations. With the aim of being a trusted presence in the region, JAC will continue to grow and develop alongside it.



J-AIR Co., Ltd. (J-AIR)

The JAL Group's principal member airline covering regional routes, J-AIR is based at Osaka International Airport (Itami) and operates 226 daily flights on 36 routes in a network connecting various regions. Over the past few years the company has introduced the new Embraer 190 with a Class J cabin and has been expanding its regional network. In addition, the airline plans to add Japan-made MRJ jets to its fleet starting in 2021 and achieve further growth as a competitive regional airline. Communicating both the appeal of regional Japan and the Japan brand, the airline will continue moving forward together with the people of the regions it serves.



Hokkaido Air System Co., Ltd. (HAC)

Established in September 1997 to provide convenient air links to destinations across Hokkaido Prefecture, HAC celebrated its 20th anniversary in 2017. The airline currently has a fleet of three SAAB 340B aircraft, which operate 26 daily flights linking Hakodate, Kushiro, Rishiri Island and Misawa with Okadama Airport in Sapporo and Okushiri with Hakodate Airport. The airline will continue to focus on flight safety to maintain support from Hokkaido residents while working to attract more individual and group customers, in addition to business travelers. HAC will also do its part to support the development of the regional economy and communities in Hokkaido.



Ryukyu Air Commuter Co., Ltd. (RAC)

A regional airline celebrating its 33rd anniversary in 2018, RAC provides convenient connections to outlying islands in the Okinawa region. Based at Naha Airport on the main island of Okinawa, the airline operates between 41 and 43 daily flights on 12 routes, with connections to nine islands. RAC began introducing the DHC8-Q400 Cargo-Combi aircraft (Q400CC) in April 2016 and completed the process in February 2018, adding a total of five to its fleet. Along with a jet-equivalent cruising speed, the aircraft offers a high level of passenger comfort along with approximately twice the cargo space of a standard model. Making maximum use of the Q400CC, RAC is improving convenience for outlying island residents and tourists and using the expanded cargo capacity to transport fresh seafood and agricultural products from the islands at higher speeds and in larger volumes to thereby promote local industries and contribute further to the region.



CARGO AND MAIL BUSINESS/OTHER BUSINESSES

Cargo and Mail Business

Fiscal 2017 Results



Freight service using chartered cargo aircraft

In fiscal year 2017, air cargo demand reached high levels worldwide. Among the main reasons for this was the demand for semiconductors originating from the automotive sector and the spread of the Internet of Things. During peak busy periods, when capacity was insufficient, active use was made of the JAL CARGO Charter Service. This is a service which transports cargo by chartering freighters from other airlines, offering the combined network capacity of this and JAL's own fleet.

With the aim of supporting regional revitalization and increased exports of agricultural products, we entered into partnership with three companies that have sales and distribution networks in Japan and overseas: Nousouken Corporation, Global Ichiba Corporation and Agriculture Corporation Mizuho Co., Ltd.

We also renewed the JAL CARGO homepage, adding a wealth of new functions and accessible content to create a more user-friendly website.



New homepage design

Growth Strategy

By reinforcing collaboration with other companies to combine capacity with our own fleet, we aim to provide a network service with a higher level of convenience.

On the domestic cargo front, we established a dedicated portal site for reservations as a way of increasing customer convenience. This offers a one-stop site where customers can complete all procedures relating to reservation, such as looking up space availability and tracking cargo movements.

Other Businesses

JALPAK Co., Ltd.

In fiscal year 2017, JALPAK Co., Ltd. worked to boost sales by offering an enhanced range of exclusive products to JAL Mileage Bank members and by expanding its offer of high value-added products. Despite the success of package products, which rested largely on an increase in hotel rooms available, tourist demand to destinations in the U.S. mainland and Guam remained stagnant due to the situation in North Korea and concerns over terrorism. This resulted in a 4.2% year-over-year decline to 231,000 in the number of overseas travelers handled. The number of domestic travelers handled remained buoyant on the other hand, increasing by 1.4% to 2,545,000 year over year. The rise was due to the expansion of sightseeing plan offerings, the promotion of early booking plans and other successful package product initiatives. In the inbound tourism market, JALPAK launched a Visit Japan Package in January 2017 and rolled out related marketing campaigns in Thailand. Operating revenue for fiscal year 2017 (prior to intercompany transactions elimination) increased by 1.5% from the previous fiscal year to 175.1 billion yen.

In fiscal year 2018, as well as enhancing the range of value-added products to contribute to improving JAL brand value and promoting sales of package products, JALPAK will also seek to respond to diverse customer values in a determined effort to create value that exceeds customer expectations.

JALCARD, Inc.

In fiscal year 2017, to attract new members, JALCARD, Inc. ran active membership campaigns, placed effective online advertising, upgraded infrastructure to allow enrollment via smartphone and other improvements, and launched new services such as additional family card enrollment and online bank transfer. As a result, the number of members increased by 4.7% year over year to 3,426,000. JALCARD also focused on one-to-one communication via the MyJALCARD members-only online service available after enrollment and the JALCARD app, and worked to improve customer service, for instance, through the launch of a new option allowing the annual membership fee to be paid in air miles. Operating revenue for fiscal year 2017 (prior to intercompany transactions elimination) decreased by 10.4% from the previous fiscal year to 18.3 billion yen.

In fiscal year 2018, JALCARD will continue working to improve customer satisfaction and realize a stress-free customer experience by actively offering new services and enhancing the appeal of our mileage award program.