

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

## **Financial Results**

### **2<sup>nd</sup> Quarter Mar/2019 (FY2018)**



**October 31, 2018**



## OVERVIEW OF FINANCIAL RESULTS FOR 1<sup>ST</sup> HALF MAR/19

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## REVISED CONSOLIDATED FINANCIAL FORECAST FOR MAR/19

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## DETAILS OF FINANCIAL RESULTS FOR 1<sup>ST</sup> HALF MAR/19

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## REFERENCES

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GOOD DESIGN AWARD  
2017年度受賞

※JAL Corporate Website



※The Award for Passenger  
Service System Project



2018 Award for Excellence  
in Corporate Disclosure  
— Industries —



The Securities Analysts  
Association of Japan

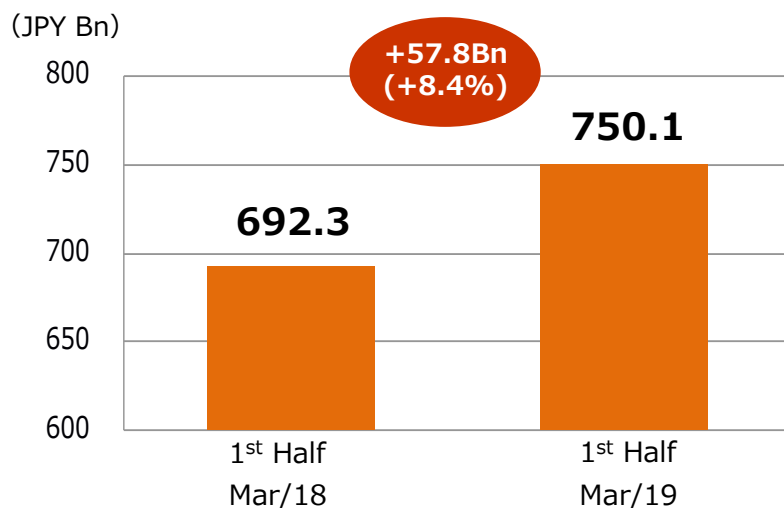
# Overview of Financial Results for 1<sup>st</sup> Half Mar/19



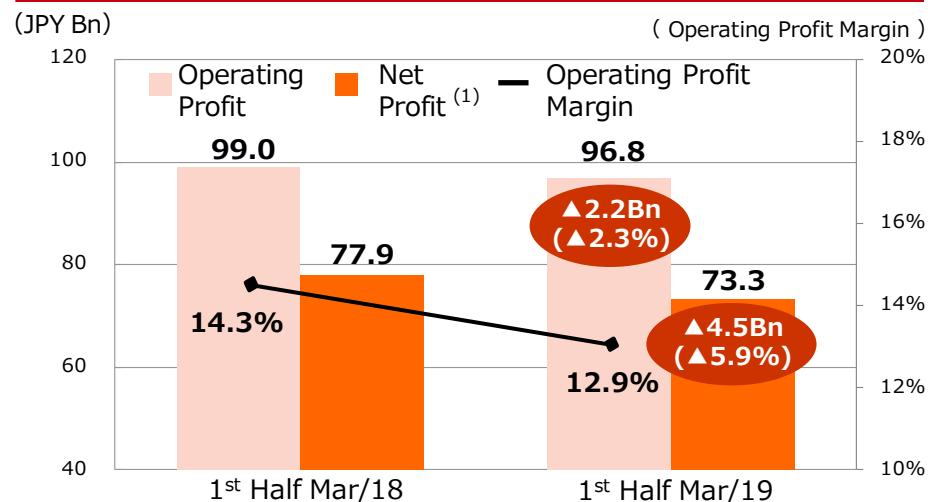
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- ✓ **An increase in operating revenue and a slight decline in operating profit were recorded** in the second-quarter of the fiscal year ending March 31, 2019, through capacity expansion and higher unit revenue attributable to the new passenger service system, in spite of temporary negative impacts of natural disasters such as typhoons and earthquakes.

## Operating Revenue



## Operating profit · Net profit



1 Profit attributable to owners of parent.

## Fuel /FX Markets

	1 <sup>st</sup> Half Mar/18	1 <sup>st</sup> Half Mar/19	y/y
Singapore Kerosene (USD/bbl)	61.1	85.9	+40.7%
Dubai Crude Oil (USD/bbl)	49.7	70.8	+42.3%
FX Rate (JPY/USD)	111.0	109.5	▲1.4%

## Operational Precondition/ASK

1 <sup>st</sup> Half Mar/19 (y/y)		
International Routes	Domestic Routes	Total
+6.9%	+0.5%	+4.3%

- Now, I will present an overview of the 1st half financial results for the fiscal year ending March 31, 2019.
- Operating revenue increased by 57.8 billion yen to 750.1 billion yen, or up 8.4% year on year, by capturing demand of both international and domestic passengers through capacity expansion and reaping the benefit of higher unit revenue attributable to the new passenger service system that was revamped last November, in spite of the impacts of the natural disasters such as typhoons and earthquakes on revenue.
- Operating profit declined by 2.2 billion yen to 96.8 billion yen, or down 2.3% year on year, due to rising fuel prices and the system depreciation costs. Net profit was 73.3 billion yen, or down 5.9% year over year, and operating profit margin was 12.9%.

- ✓ Announced network expansion to meet growing demand
- ✓ Established a preparatory company for the new international low-cost carrier (LCC) business
- ✓ Provided swift supports to natural disaster recovery
- ✓ Pursue sustainable growth in considerations of the global environment

NETWORK

## New Routes

- ✓ **Launch Haneda – Manila**  
(2019.2.1~)



- ✓ **Launch Narita – Seattle**  
(2019.3.31~)



Code share flight (operated by BA)

- ✓ **Start KIX(OSAKA) – LONDON**  
(2019.3.31~)

## Alliances

- ✓ **Hawaiian Airlines**

- Filed an application for antitrust immunity for a joint business (2018.6)



- ✓ **China Eastern Airlines**

- Filed an applications for antitrust immunity for a joint business (2018.10)



- ✓ **Garuda Indonesia**

- Agreed on comprehensive partnership including a possible joint business in the future (2018.9)
- Launch codeshare flights (2018.10)



- ✓ **Vietjet**

- Launch codeshare flights (2018.10)



- ✓ **Alaska Airlines**

- expand codeshare flights to 50 cities in North America upon JAL's Seattle route launch



## Recovery Support

- Offered inbound campaign fares on international flights to/from KIX
- Offered "Support Sakitoku" fares, etc. to recover leisure demand to Hokkaido
- Set lower fares for "JAL Japan Explorer Pass" as a limited-time offer

### Expand & Improve Service on Hawai'i Routes

- Renewed inflight meals
- Expanded and renovated airport lounges
- Launched early check-in service at partner hotels
- Introduced self-check-in kiosks, etc.

### Preparations to Establish a New LCC

- Established LCC preparatory company T.B.L. Co., Ltd. (2018.7.31)
- Started flight crew recruitment (2018.10~)

## Biojet Fuel

- ✓ **Initiatives to promote practical use of biojet fuels**

- Invested in biojet fuel production company (2018.9) (planning to use from 2021)
- Operate flights using Japan-made biojet fuel made from used clothing (target year by 2020)



## Sustainable Procurement

- ✓ **Proactively promote ESG with business partners**

- Promote ESG through "Sedex" and "Sustainable Procurement Code" of the Tokyo 2020 Olympic and Paralympic Games.





- In this page, I will explain about recent topics.
- In our air transport business, we will launch new routes such as the new service to Seattle and strengthen partnerships with other airlines such as joint businesses with Hawaiian Airlines and China Eastern Airlines in order to further expand our route network. We are offering attractive fares and products to provide swift support for recovery from the natural disasters of earthquakes and typhoons in Japan.
- Through the support of many people, we have been able to swiftly resume normal operations in both our passenger and cargo businesses.
- We also established a new company, T.B.L. Co., Ltd., which is a preparatory company for our new LCC business targeting medium- and long-haul international routes. Preparations are under way to launch flight services from the summer schedule in 2020, and flight crew recruiting has begun.
- Regarding ESG, we will promote the use of biojet fuel through investing in a US-based biojet fuel production company. Also, by complying with the Sustainable Procurement Code of the 2020 Tokyo Olympic and Paralympic Games, we will proactively tackle to solve social issues.

# FY2018 Earnings Forecast



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- ✓ **Operating revenue forecast has been revised up**, considering situations up to the second-quarter, temporary negative impacts of natural disasters and expected revenues throughout this fiscal year.
- ✓ **Profit forecast will remain unchanged and higher profit over the previous year will be aimed** despite recent rising fuel price
- ✓ **Projected dividend remains unchanged** and **interim dividend is 55 yen per share**.

(JPY Bn)		FY2017	FY2018		Diff. (Y/Y)	Forecast Diff.
		Results	Previous Forecast <sup>(1)</sup>	New Forecast		
Operating Revenue		1,383.2	1,455.0	<b>1,488.0</b>	+104.7	+33.0
	International Passenger <sup>(2)</sup>	462.9	515.0	<b>540.0</b>	+77.0	+25.0
	Domestic Passenger <sup>(2)</sup>	518.2	520.0	<b>523.0</b>	+4.7	+3.0
	Cargo / Mail	92.0	94.0	<b>100.0</b>	+7.9	+6.0
	Other	310.0	326.0	<b>325.0</b>	+14.9	▲1.0
Operating Expense		1,208.6	1,288.0	<b>1,321.0</b>	+112.3	+33.0
	Fuel	215.2	241.0	<b>263.0</b>	+47.7	+22.0
	Excluding Fuel	993.4	1,047.0	<b>1,058.0</b>	+64.5	+11.0
Operating Profit		174.5	167.0	<b>167.0</b>	▲7.5	-
Operating Profit Margin (%)		12.6%	11.5%	<b>11.2%</b>	▲1.4pt	▲0.3pt
Ordinary Profit		163.1	156.0	<b>156.0</b>	▲7.1	-
Net Profit <sup>(3)</sup>		135.4	110.0	<b>110.0</b>	▲25.4	-
Unit Cost (JPY) <sup>(4)</sup>		10.1	10.2	<b>10.3</b>	+0.2	+0.1
ROIC <sup>(5)</sup>		10.1%	9.2%	<b>9.1%</b>	▲1.0pt	▲0.1pt
Dividends per share(JPY)		110	110	<b>110</b>	-	-
	Interim Dividends	52.5	55.0	<b>55.0</b>	-	-
	Year-End Dividends	57.5	55.0	<b>55.0</b>	-	-

	FY2017	FY2018	
	Result	Previous Forecast <sup>(1)</sup>	New Forecast
Singapore Kerosene (USD/bbl)	67.8	73.0	<b>90.5</b> (2nd half 95.0)
Dubai Crude Oil (USD/bbl)	54.9	61.0	<b>74.9</b> (2nd half 79.0)
FX Rate (JPY/USD)	111.2	115.0	<b>112.3</b> (2nd half 115.0)

		FY2018 (y/y)	
		Previous Forecast <sup>(1)</sup>	New Forecast
ASK	International Flights	+6.8%	<b>+6.2%</b>
	Domestic Flights	+1.8%	<b>+1.2%</b>
	Total	+4.8%	<b>+4.1%</b>
RPK	International Flights	+6.4%	<b>+7.2%</b>
	Domestic Flights	+1.2%	<b>+0.8%</b>
	Total	+4.4%	<b>+4.8%</b>

1. Disclosed on April 27, 2018
2. Including a change of settlement adjustment method for domestic sectors on international itineraries (INT+6.0Bn, DOM▲6.0Bn)
3. Net profit attributable to owners of the parent
4. Unit Cost = Air Transportation Segment Operating Cost (excluding fuel cost) / ASK
5. Net Operating Profit After Tax (NOPAT) /Fixed Asset (incl. Future Rental Expenses under Operating Leases)

- I will explain about earnings forecast for 2018.
- Although we faced negative impacts such as natural disasters and rising fuel prices, international passenger and cargo traffic demand are showing strong results, while domestic passenger traffic demand is on a recovery trend on affected routes. Other than those affected routes, domestic passenger demand continues to be strong. Therefore, we believe that our initial profit forecast will be achievable and have decided to keep our operating profit forecast unchanged.
- Operating revenue is expected to increase by 33 billion yen from our forecast announced on April 27 to 1,488 billion yen. This reflects the result of the first-half revenues, which was higher-than-expected, and higher fuel surcharge revenue, and other factors.
- Also, operating expenses is expected to increase by 33 billion yen as well. As for fuel prices in the second-half of the fiscal year, we have revised our fuel price pre-assumption to 95 US dollar per barrel of Singapore kerosene, based on the recent market condition where fuel prices remain at the current high price level. As a result, in comparison with our initial full-year forecast, we expect fuel costs to rise by 22 billion yen. Also the other costs are expected to rise by 11 billion yen, including costs associated with revenue and demand increase, personnel costs, engine leases and maintenance costs.
- There will be no change in our projected annual dividend of 110 yen per share. We have decided today to pay an interim dividend of 55 yen per share.

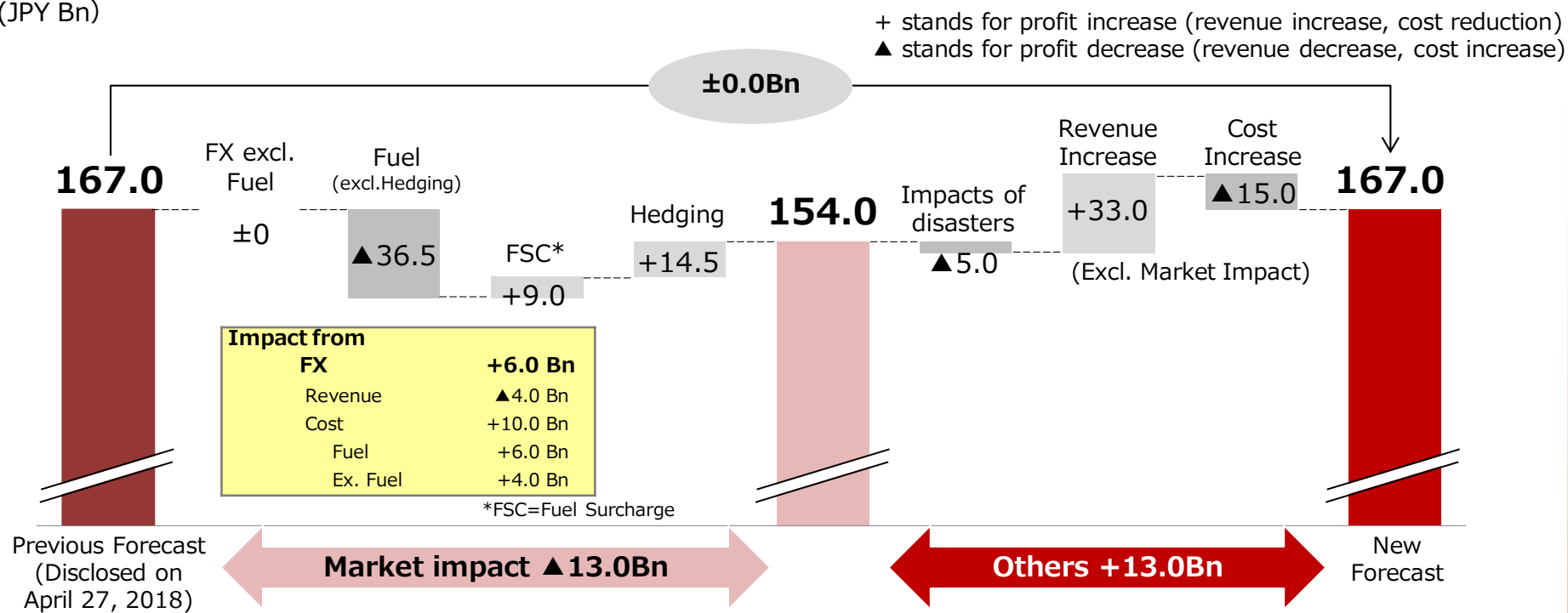


# FY2018 Earnings Forecast (Change in Operating profit)



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(JPY Bn)



## Profit Impact by Fuel and FX Markets From FY2018 3rd Quarter (Inc. Hedging, Fuel Surcharge)

Singapore Kerosene (USD/bbl)	USD 80	USD 90	USD 95	USD 100
FX(JPY/USD)				
JPY 120	+6.0Bn	+0.5Bn	▲1.5Bn Forecast	▲3.0Bn
JPY 115	+8.0Bn	+3.5Bn	0.0Bn	▲1.5Bn
JPY 110	+10.0Bn	+5.5Bn	+3.5Bn	+2.0Bn

## Preconditions/ International Passenger Fuel Surcharge

	October 1, 2018 ~ January 31, 2019	February 1, 2019 ~ March 31, 2019
Outbound	Zone JPY 9,000	Zone JPY 9,000
Inbound	Zone USD 80	Zone USD 80
Remarks	Already Determined	Depends on the market conditions of Oct. to Nov.

If fuel price and exchange rate remain at "95 US dollars per barrel of Singapore kerosene and 115 yen per US dollar," we expect fuel surcharge to be at "outbound 10,000 yen Zone and inbound 90 US dollar Zone", which is higher than our current assumption.

- As for the impact of market conditions on our full-year financial results, we expect a profit decline of approximately 13 billion yen due to higher fuel costs and other. However, revenue increase led by capacity expansion and higher unit revenue attained by the new passenger service system are surely expected to offset the negative impacts of market conditions.
- Fuel surcharges for February and March have not been determined yet. Our calculations are based on the “Zone 9,000 yen” for outbound and “Zone 80 US dollars” for inbound. However, if the market conditions in October and November remain at the level of “95 US dollars per barrel of Singapore jet fuel kerosene and an exchange rate of 115 yen per US dollar,” the fuel surcharges from next February would move up to the next zone, “Zone 10,000 yen” for outbound and “Zone 90 US dollars” for inbound. However, the revenue increase in accordance with the zone shift is not taken into account in our new forecast.
- From the start of this third-quarter, both international and domestic passenger traffic demand have been strong. As the whole JAL group, we will strive to achieve more profits than the previous year by maximizing revenues and minimizing expenses, regardless of the profit target of 167 billion yen.

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# Consolidated Financial Results



JAPAN AIRLINES

## Consolidated Financial Results 1<sup>st</sup> Half Mar/19

(JPY Bn)	1 <sup>st</sup> Half Mar/18	1 <sup>st</sup> Half Mar/19	Diff.	y/y	2 <sup>nd</sup> Quarter (Jul-Sep) <sup>(5)</sup>	Diff.	y/y
Operating Revenue	692.3	<b>750.1</b>	+57.8	+8.4%	408.0	+30.5	+8.1%
Air Transportation Segment	627.3	<b>682.8</b>	+55.5	+8.9%	369.8	+28.3	+8.3%
Operating Expense	593.2	<b>653.3</b>	+60.1	+10.1%	336.1	+33.0	+10.9%
Air Transportation Segment	536.1	<b>594.3</b>	+58.1	+10.8%	302.9	+30.6	+11.3%
Operating Profit	99.0	<b>96.8</b>	▲2.2	▲2.3%	71.9	▲2.4	▲3.3%
Air Transportation Segment	91.1	<b>88.5</b>	▲2.5	▲2.8%	66.9	▲2.2	▲3.3%
Operating Profit Margin (%)	14.3%	<b>12.9%</b>	▲1.4pt	-	17.6%	▲2.1pt	-
Ordinary Profit	97.6	<b>94.2</b>	▲3.4	▲3.5%	71.1	▲1.9	▲2.7%
Net Profit <sup>(1)</sup>	77.9	<b>73.3</b>	▲4.5	▲5.9%	55.8	▲2.5	▲4.4%
ASK (MN seat km)	43,600	<b>45,476</b>	+1,875	+4.3%	23,007	+815	+3.7%
RPK (MN passenger km)	33,710	<b>35,609</b>	+1,899	+5.6%	18,475	+881	+5.0%
EBITDA Margin (%) <sup>(2)</sup>	21.8%	<b>21.2%</b>	▲0.6pt	-	25.3%	▲1.3pt	-
EBITDAR Margin (%) <sup>(3)</sup>	23.2%	<b>22.5%</b>	▲0.7pt	-	26.5%	▲1.4pt	-
Unit Cost (JPY) <sup>(4)</sup>	10.0	<b>10.3</b>	+0.4	+3.6%	10.3	+0.4	+4.0%
Incl. Fuel	12.3	<b>13.1</b>	+0.8	+6.3%	13.2	+0.9	+7.3%

1 Net Income Attributable to owners of parent

2 EBITDA Margin = EBITDA / Operating Revenue EBITDA=Operating Profit + Depreciation and Amortization

3 EBITDAR Margin = EBITDAR / Operating Revenue EBITDAR=Operating Profit + Depreciation+ Aircraft Leases

4 Unit Cost = Air Transportation Segment Operating Cost (excluding fuel cost) / ASK

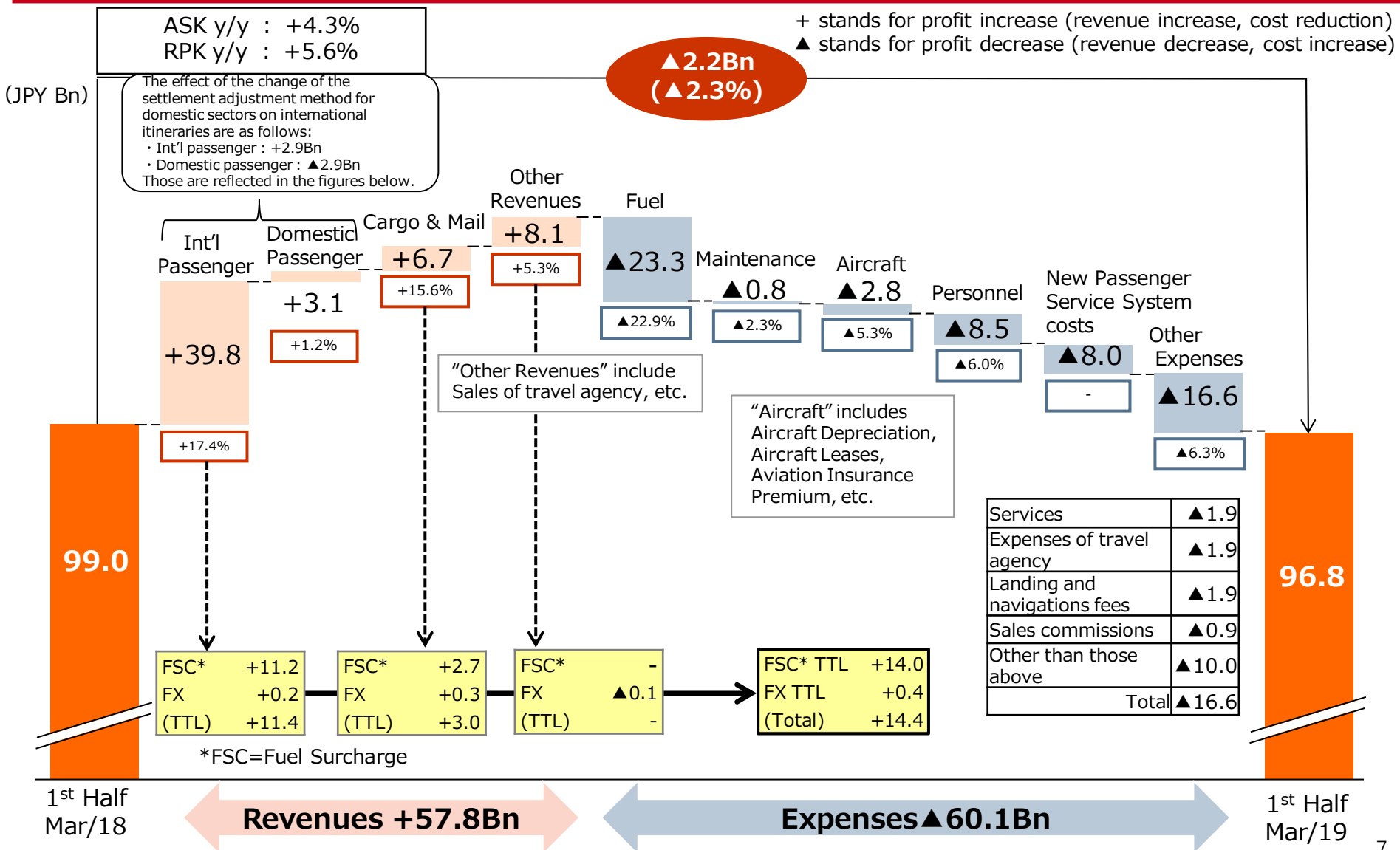
5 The results for 2Q (July to September) are calculated by deducting the results of 1Q (April to June) from 1H (April to September)

# Changes in Operating Profit ( Revenues / Expenses )



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## 1<sup>st</sup> Half Mar/19



- I will explain about the changes in operating profit.
- International passenger revenue increased by 39.8 billion yen year on year, due to robust inbound demand, strong outbound demand, and an increase in fuel surcharge revenue. Domestic passenger revenue increased by 3.1 billion yen year on year due to an increase in individual passengers, despite the impact of typhoons and earthquakes.
- International cargo operations also maintained strong performance and revenue increased by 6.7 billion yen year on year.
- Expenses increased by 60.1 billion yen year on year, which include an increase in fuel cost of 23.3 billion yen year on year, an increase in personnel costs of 8.5 billion yen year on year due to additional staff and wage increase, an increase in costs related to the passenger service system of 8 billion yen year on year, and an increase in costs associated with revenue and demand increase.
- As a result, operating income decreased by 2.3% compared with the previous year and decreased by 2.2 billion yen.



# Changes in Operating Profit ( Market / Others )



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## 1<sup>st</sup> Half Mar/19

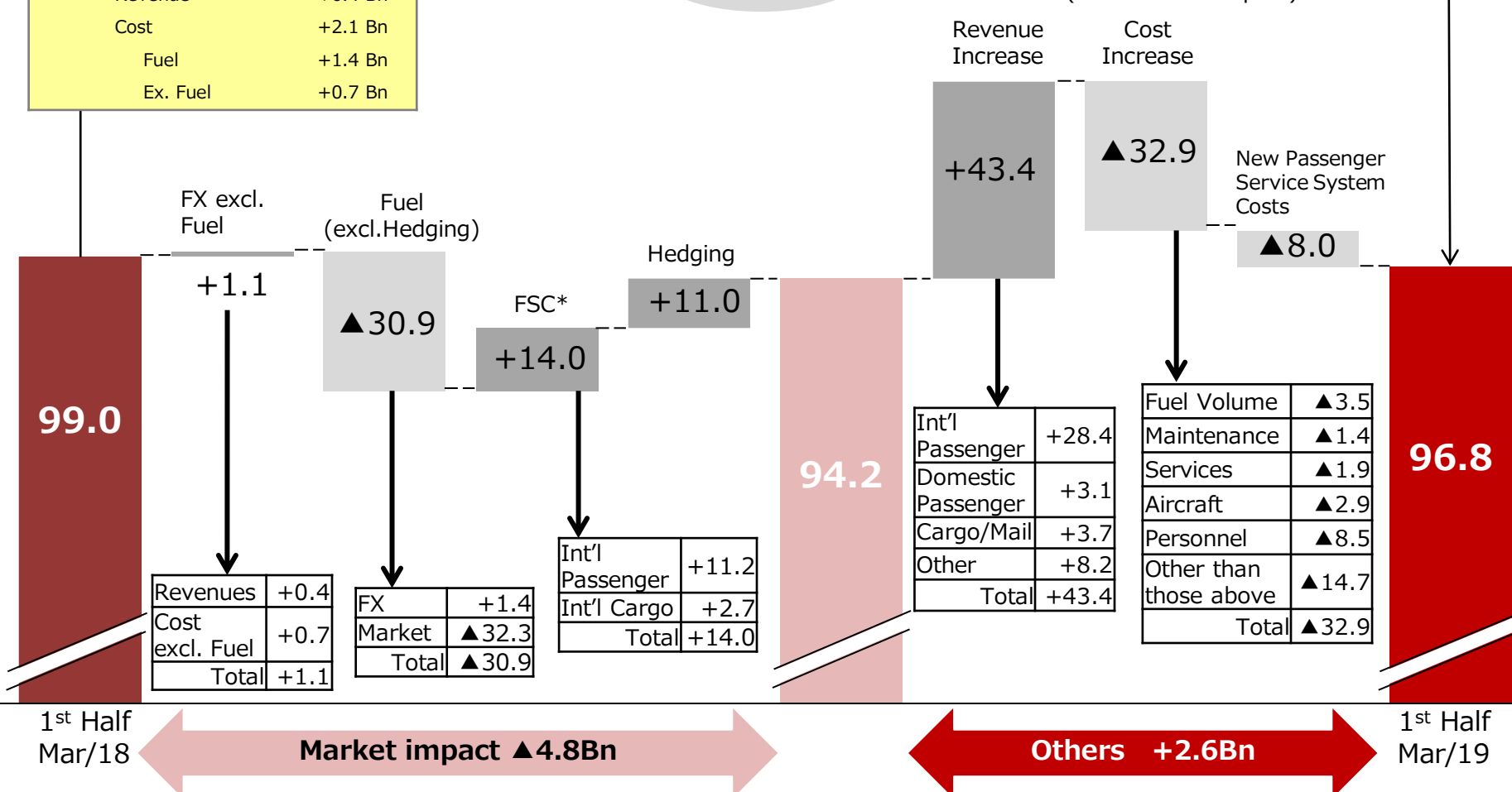
(JPY Bn)

Impact from	
Currency Market	+2.6 Bn
Revenue	+0.4 Bn
Cost	+2.1 Bn
Fuel	+1.4 Bn
Ex. Fuel	+0.7 Bn

+ stands for profit increase (revenue increase, cost reduction)  
 ▲ stands for profit decrease (revenue decrease, cost increase)

▲2.2Bn  
 (▲2.3%)

(Excl. Market Impact)



\*FSC=Fuel Surcharge

- This page explains changes in operating profit from the viewpoints of market impact and others.
- Market conditions had a negative effect of 4.8 billion yen year over year, as fuel prices trended upward, causing a time lag between fuel cost increase and fuel surcharge increase.
- Apart from Market impact, operating profit rose by 2.6 billion yen year on year because the revenue increase outpaced the cost increase such as the new passenger service system or other costs.

# International Passenger Operations



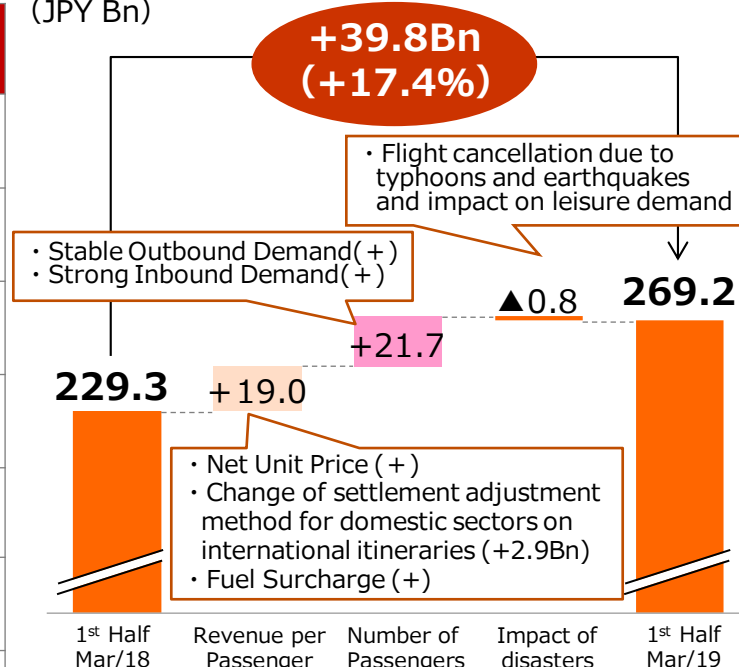
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## International Passenger

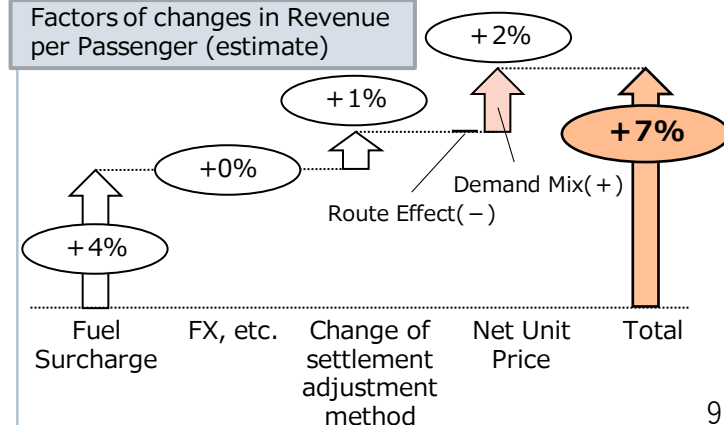
	1st Half Mar/18	1st Half Mar/19	y/y	2nd Quarter (Jul-Sep) <sup>(5)</sup>	y/y
Passenger Revenue <sup>(1)</sup> (JPY Bn)	229.3	<b>269.2</b> <b>(266.3)</b>	+17.4% (+16.1%)	144.3 (142.8)	+16.7% (+15.4%)
Passengers ('000)	4,210	<b>4,605</b>	+9.4%	2,353	+8.4%
ASK (MN seat km)	25,619	<b>27,399</b>	+6.9%	13,892	+6.6%
RPK (MN passenger km)	20,766	<b>22,572</b>	+8.7%	11,591	+8.6%
L/F (%)	81.1%	<b>82.4%</b>	+1.3pt	83.4%	+1.5pt
Revenue per Passenger <sup>(1)(2)</sup> (JPY)	54,471	<b>58,459</b> <b>(57,825)</b>	+7.3% (+6.2%)	61,346 (60,699)	+7.7% (+6.5%)
Yield <sup>(1)(3)</sup> (JPY)	11.0	<b>11.9</b> <b>(11.8)</b>	+8.0% (+6.8%)	12.5 (12.3)	+7.4% (+6.3%)
Unit Revenue <sup>(1)(4)</sup> (JPY)	9.0	<b>9.8</b> <b>(9.7)</b>	+9.8% (+8.6%)	10.4 (10.3)	+9.4% (+8.3%)

## Change in Revenue

(JPY Bn)



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



- 1 The effect of the change of the settlement adjustment method for domestic sectors on international itineraries is excluded in the figures in parentheses
- 2 Revenue per Passenger = Passenger Revenue / Passengers
- 3 Yield = Passenger Revenue / RPK
- 4 Unit Revenue= Passenger Revenue / ASK
- 5 The results for 2Q (July to September) is calculated by deducting the results of 1Q(April to June) from 1H (April to September)

- For international routes, by proactively expanding capacity to meet and capture robust demand, passenger traffic increased by 9.4% year on year.
- Revenue per passenger increased by 7.3% year on year. Net unit price increased by approximately 2% largely because of the effects of the new passenger service system. Please note that net unit price excludes fuel surcharge and the effect of changing the settlement adjustment method. Variation factors are shown in the table at the bottom right.
- As a result, international passenger revenue stood 269.2 billion yen, up 17.4% year on year.

# Domestic Passenger Operations



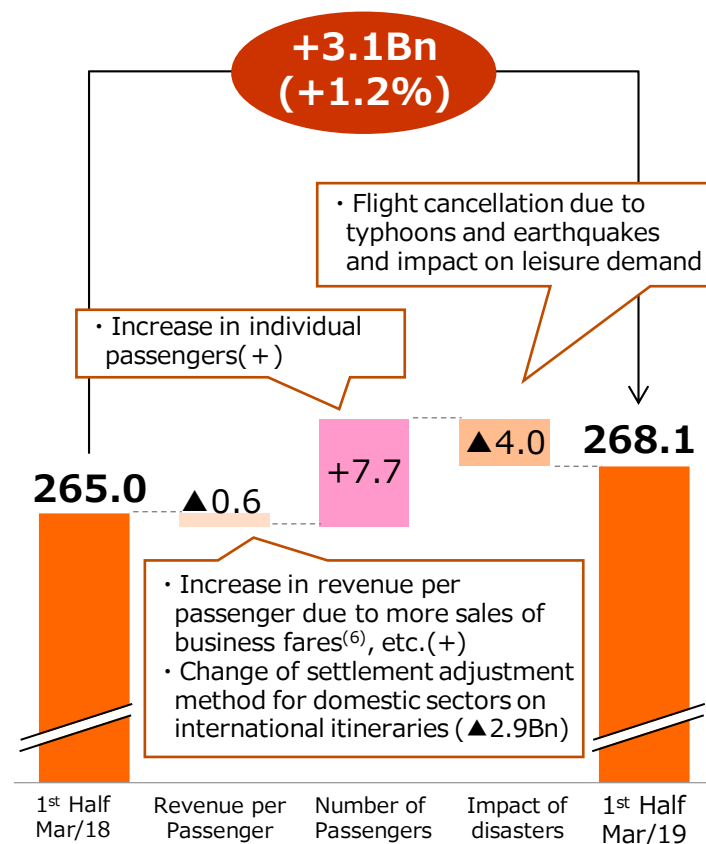
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## Domestic Passenger

	1st Half Mar/18	1st Half Mar/19	y/y	2nd Quarter (Jul-Sep) <sup>(5)</sup>	y/y
Passenger Revenue <sup>(1)</sup> (JPY Bn)	265.0	<b>268.1</b> <b>(271.0)</b>	+1.2% (+2.3%)	150.8 (152.3)	+1.3% (+2.3%)
Passengers ('000)	17,170	<b>17,408</b>	+1.4%	9,110	+0.1%
ASK (MN seat km)	17,980	<b>18,076</b>	+0.5%	9,114	▲0.5%
RPK (MN passenger km)	12,943	<b>13,037</b>	+0.7%	6,883	▲0.5%
L/F (%)	72.0%	<b>72.1%</b>	+0.1pt	75.5%	+0.0pt
Revenue per Passenger <sup>(1)(2)</sup> (JPY)	15,435	<b>15,403</b> <b>(15,570)</b>	▲0.2% (+0.9%)	16,555 (16,723)	+1.2% (+2.2%)
Yield <sup>(1)(3)</sup> (JPY)	20.5	<b>20.6</b> <b>(20.8)</b>	+0.5% (+1.5%)	21.9 (22.1)	+1.8% (+2.8%)
Unit Revenue <sup>(1)(4)</sup> (JPY)	14.7	<b>14.8</b> <b>(15.0)</b>	+0.6% (+1.7%)	16.5 (16.7)	+1.8% (+2.9%)

## Change in Revenue

( JPY Bn )



- The effect of the change of the settlement adjustment method for domestic sectors on international itineraries is excluded in the figures in parentheses
- Revenue per Passenger = Passenger Revenue / Passengers
- Yield = Passenger Revenue / RPK
- Unit Revenue= Passenger Revenue / ASK
- The results for 2Q (July to September) is calculated by deducting the results of 1Q(April to June) from 1H (April to September)
- Business Fares: Normal Fares, Round-trip Discount, Coupon Tickets Business Kippu and Tokubin Waribiki

- Next, for domestic routes.
- Passenger traffic remained steady, centered on an increase in the number of individual passengers, and increased by 1.4% year on year.
- Revenue per passenger, excluding the effect of changing the settlement adjustment method, increased by 0.9% in the cumulative second-quarter financial results, and increased by 2.2% for the second-quarter alone. Please refer to the figures in brackets. Revenue per passenger rose through increased sales of business fares, which are high yield air fares.
- As a result, domestic passenger revenue ended at 268.1 billion yen, up 1.2% year on year.



# The New Passenger Service System



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**The Effect during FY18 1<sup>st</sup> Half**  
**13 billion yen (estimated as maximum)**

International flights : 9.0 Bn yen

Domestic flights : 4.0 Bn yen

## Improvement of Load Factor

Y/Y

**International:**  
**+1.3pt**  
**Domestic:**  
**+0.1pt**

## Improvement of Yield<sup>(1)</sup>

Y/Y

**International:**  
**+2%**  
**Domestic:**  
**+2%**

## Improvement of Unit Revenue <sup>(1)</sup>

Y/Y

**International:**  
**+4%**  
**Domestic:**  
**+2%**

## The new passenger service system

### Main functional enhancements

### Major Improvements

(Six months ended  
 September 30, 2017=100)

#### Improved Functions of Overseas Websites

- Fare/Class Display
- Multilingual services

#### Revenue Increase from Inbound Business Class and Premium Economy Class Sales

Ref. Total revenue of above classes purchased at overseas websites  
 (Excluding fuel surcharge)

**FY17:100**  
**FY18:152**

INT

#### Reservation Control by Itinerary, instead of by a Single Flight

#### Captured more transit passengers

Ref. Revenue through overall transit passengers  
 (Excluding fuel surcharge)

**FY17:100**  
**FY18:138**

DOM

#### More Precise and Advanced Revenue Management

#### Reservation Forecasts with Greater Precision

Ref. Revenue from high-yield business fares<sup>(2)</sup> in domestic passenger

**FY17:100**  
**FY18:103**

1 Fuel surcharge, FX, the effect of the change of settlement adjustment method for domestic sectors on international itineraries and etc. are excluded.

2 Business Fares: Normal Fares, Round-trip Discount, Coupon Tickets Business Kippu and Tokubin Waribiki

- On this page, I will explain the positive effects of our new passenger service system.
- As already explained, JAL revamped its passenger service system for the first time for the last 50 years, and a year has nearly passed since its release in last November. The system has been running smoothly, and we are starting to see positive effects.
- Regarding the revenue increase effects, although it is hard to pinpoint each factor since the result is a composition of various complex factors, in cumulative second-quarter financial results, while capacity increased, unit revenue excluding fuel surcharge on international routes increased by approximately 4% year on year, and unit revenue on domestic routes increased by approximately 2%.
- The effect of increased revenue through higher unit revenue is estimated to be up to 13 billion yen as maximum in cumulative second-quarter financial results. The breakdown is 9 billion yen in international passenger and 4 billion yen in domestic passenger. We believe that this is substantially attributable to functional improvements of the new passenger service system. Its effects are evaluated as more than we had expected.
- Now, I would like to introduce the three cases of increased revenue through functional improvements of the new system.
- First, sales turnover of Business Class and Premium Economy Class on these sales channels increased substantially through significant functional improvements of overseas websites.
- Second, by making a transition of reservation control on international routes from a single flight basis to an itinerary or network basis, we were able to capture more transit passenger demand through Japan.
- Third, through greater accuracy in revenue management on both international and domestic routes, we were able to capture high-yield passenger demand in the last-minutes instead of selling early with lower yield.
- Through further improving accuracy in revenue management or adding new functions, we are confident of steadily having more effects of the new system.

# Major Operating Expense Items



JAPAN AIRLINES

## Operating Expenses

(JPY Bn)	1 <sup>st</sup> Half Mar/18	1 <sup>st</sup> Half Mar/19	Diff.	y/y	2 <sup>nd</sup> Quarter (Jul-Sep) <sup>(3)</sup>	Diff.	y/y
Fuel	101.9	<b>125.3</b>	+23.3	+22.9%	64.9	+13.3	+25.8%
Landing and navigation fees	41.2	<b>43.2</b>	+1.9	+4.7%	21.9	+0.8	+3.9%
Maintenance	35.8	<b>36.7</b>	+0.8	+2.3%	18.1	+0.0	+0.5%
Sales commissions (Air Transport)	8.5	<b>9.4</b>	+0.9	+10.8%	4.7	+0.2	+5.2%
Aircraft <sup>(1)</sup>	52.8	<b>55.6</b>	+2.8	+5.3%	28.1	+1.5	+5.8%
Services <sup>(2)</sup>	20.7	<b>22.6</b>	+1.9	+9.4%	11.7	+0.9	+9.0%
Personnel	141.7	<b>150.3</b>	+8.5	+6.0%	76.5	+5.3	+7.5%
Expenses of travel agency	43.8	<b>45.7</b>	+1.9	+4.4%	26.5	+1.6	+6.5%
Other	146.3	<b>164.1</b>	+17.7 <sup>(4)</sup>	+12.2%	83.3	+9.0	+12.2%
Total Operating Expenses	593.2	<b>653.3</b>	+60.1	+10.1%	336.1	+33.0	+10.9%

ASK y/y : +4.3%

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

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

3 The results for 2Q (July to September) is calculated by deducting the results of 1Q(April to June) from 1H (April to September)

4 Includes Passenger Service System related expenses (+8.0Bn)

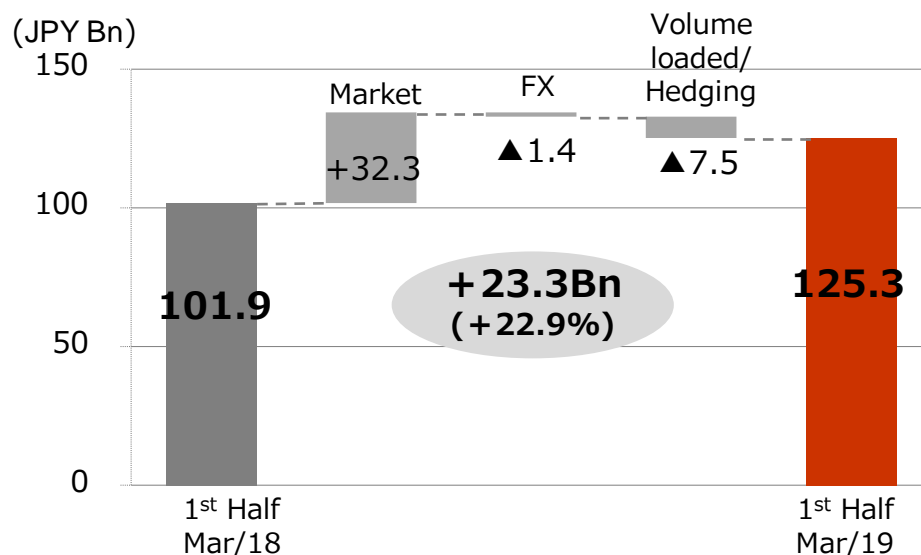
- In major operating expenses items, fuel costs increased by 23.3 billion yen to 125.3 billion yen year on year.
- The increase of 17.7 billion yen in “Other” includes 8 billion yen in costs related to the passenger service system. Other than those costs also increased, but they were generally within the range of revenue and demand increases.
- Operating expenses as a whole ended at 653.3 billion yen, up 10.1% from the previous year. Maintenance costs slightly exceeded our plan due to an increase in engine maintenance, but other costs were generally within the range of the Plan. We will continue to minimize expenses as much as possible.

# Impact of Fuel and FX Markets

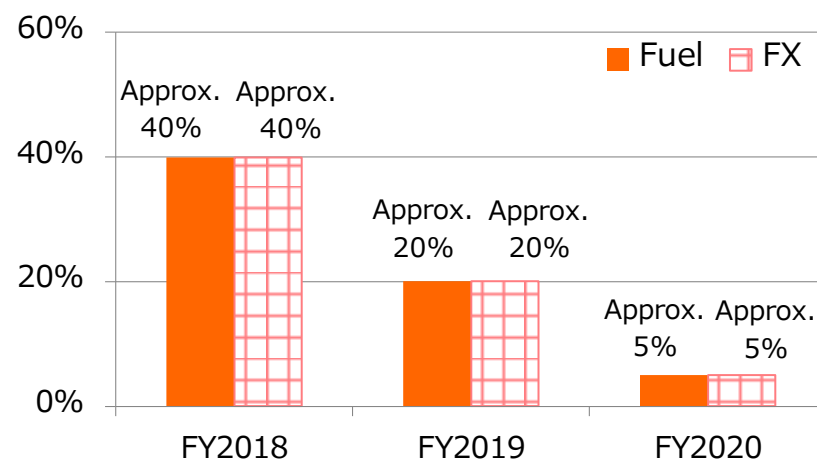


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## Transition of Fuel Cost by Factors



## Hedging Ratio for Fuel Costs (as of end of September 2018)



## Fuel / FX Markets

	1st Half Mar/18	1st Half Mar/19	y/y
Singapore Kerosene (USD/bbl)	61.1	<b>85.9</b>	+40.7%
Dubai Crude Oil (USD/bbl)	49.7	<b>70.8</b>	+42.3%
FX Rate (JPY/USD)	111.0	<b>109.5</b>	▲1.4%

## Sensitivity for Fuel Costs

### Increase in fuel costs at times of higher fuel prices and weaker yen (Mar/19)

Crude Oil (Change in 1 USD/bbl)	JPY 2.7 Bn Per Year
FX (Change in 1 JPY/USD)	JPY2.1 Bn Per Year

※Without hedging

- Now, I will explain about fuel costs.
- The top left graph shows the transition of factors in fuel cost. The rise in fuel prices is over 40% year on year, but through fuel hedging, we contained the increase at 23.3 billion yen, or 22.9% year on year.
- The top right graph shows the ratio of hedged fuel costs as the end of the end of September. Regarding this fiscal year's fuel use, we have already hedged approximately 40% of our fuel use, which is equivalent to fuel for domestic flights where there is no fuel surcharge system. We will maintain this hedging policy for next year or later as well.
- The effect of market fluctuations on profit in the second-half of the fiscal year was explained on page 4.



# Major Balance Sheet Items and Cash Flow Items



JAPAN AIRLINES

Balance Sheet (JPY Bn)	End of Mar/18	End of 1 <sup>st</sup> Half Mar/19	Diff.
Total Assets <sup>(1)</sup>	1,853.9	1,943.1	+89.1
Cash and Deposits <sup>(2)</sup>	448.8	451.1	+2.3
Balance of Interest-bearing Debt <sup>(3)</sup>	125.7	129.6	+3.8
Future Rental Expenses under Operating Leases	67.4	68.8	+1.3
Shareholders' Equity	1,060.3	1,124.5	+64.2
Shareholders' Equity Ratio (%)	57.2%	57.9%	+0.7pt
D/E Ratio (x) <sup>(4)</sup>	0.1x	0.1x	▲0.0x

Cash Flow (JPY Bn)	1 <sup>st</sup> Half Mar/18	1 <sup>st</sup> Half Mar/19	Diff.
Cash Flow from Operating Activities	159.1	150.2	▲8.8
Depreciation and Amortization	51.6	61.8	+10.2
Cash Flow from Investing Activities <sup>(5)</sup>	▲95.8	▲118.0	▲22.1
Capital Investment	▲108.4	▲128.4	▲20.0
Free Cash Flow <sup>(6)</sup>	63.2	32.2	▲30.9
Cash Flow from Financing Activities	▲49.4	▲30.5	+18.9
Total Cash Flow <sup>(7)</sup>	13.7	1.7	▲11.9
EBITDA	150.6	158.6	+7.9
EBITDAR	160.6	168.4	+7.8

## ◆ Issued straight bonds as part of debt utilization

September 21, 2018			
Serial No.	Term	Issued amount	Coupon rate
3rd	10 year bond	10.0 JPY Bn	0.399%
4th	20 year bond	10.0 JPY Bn	0.960%

- 1 Total Assets amount as of the end of March, 2018 has been changed due to the revision of the accounting standards and other regulations regarding indication of deferred tax assets and liabilities from FY2018 (It was 1,854.2Bn when disclosed on April 27, 2018)
- 2 Certificate of Deposits etc. included
- 3 Accounts Payable-installment Purchase included
- 4 On-balance sheet Interest-bearing Debt / Shareholders' Equity

- 5 Excluding deposits and withdrawals from deposit accounts
- 6 Cash Flow from Operating Activities + Cash Flow from Investing Activities
- 7 Cash flow from Operating Activities + Cash Flow from Investing Activities + Cash Flow from Financing Activities

- In the second-quarter, as part of disciplinary debt utilization policy, JAL issued straight bonds totaling 20 billion yen, with 10 billion yen each of 10-year and 20-year term straight bonds. It is very encouraging for us that we were able to issue 20-year bonds with attractive conditions, as it proves JAL's credibility awarded from market participants. At the same time, we feel a great responsibility to efficiently use raised funds for growth investments and to maintain a firm financial structure. Outstanding interest-bearing debt as of the end of September is 129.6 billion yen, or up 3.8 billion yen from the end of the previous fiscal year.
- Capital investment increased by 20 billion yen year on year to 128.4 billion yen, mainly attributable to an increase in aircraft investments. As a result, free cash flow decreased by 30.9 billion yen to 32.2 billion yen.
- At the end of this material, we have provided some references on Revenue of International Routes by Geographic, Number of Aircraft and our consolidated earnings forecast for the fiscal year ending March 31, 2019.

(End)

# Revenue of International Routes by Geographic Segment

## Passenger Revenue

(%)	1st Half y/y	2nd Quarter y/y	Proportion of whole Int'l		2nd Quarter
			Mar/18 1st Half	Mar/19 1st Half	
America	+9.4%	+9.0%	28%	26%	25%
Europe	+19.6%	+18.7%	17%	18%	18%
Asia/Oceania	+16.3%	+16.0%	31%	30%	29%
China	+36.2%	+34.4%	10%	12%	12%
Hawaii/Guam	+19.3%	+17.4%	14%	14%	16%
Total	+17.4%	+16.7%	100%	100%	100%

## ASK

(MN seat km)	1st Half			2nd Quarter	
	Mar/18	Mar/19	y/y	Mar/19	y/y
America	7,512	7,779	+3.6%	3,920	+3.6%
Europe	4,067	4,004	▲1.6%	2,074	▲1.5%
Asia/Oceania	8,613	9,558	+11.0%	4,821	+10.9%
China	1,645	1,711	+4.0%	858	+4.2%
Hawaii/Guam	3,780	4,345	+14.9%	2,219	+12.7%
Total	25,619	27,399	+6.9%	13,892	+6.6%

## Revenue Passengers Carried

('000)	1st Half			2nd Quarter	
	Mar/18	Mar/19	y/y	Mar/19	y/y
America	635	678	+6.7%	347	+7.4%
Europe	379	386	+1.8%	204	+3.5%
Asia/Oceania	1,980	2,102	+6.2%	1,057	+6.1%
China	686	810	+18.1%	417	+10.3%
Hawaii/Guam	527	626	+18.7%	327	+18.4%
Total	4,210	4,605	+9.4%	2,353	+8.4%

## RPK

(MN passenger km)	1st Half			2nd Quarter	
	Mar/18	Mar/19	y/y	Mar/19	y/y
America	6,076	6,471	+6.5%	3,313	+7.3%
Europe	3,398	3,456	+1.7%	1,817	+3.4%
Asia/Oceania	6,984	7,691	+10.1%	3,886	+10.0%
China	1,274	1,497	+17.5%	771	+10.3%
Hawaii/Guam	3,033	3,455	+13.9%	1,802	+12.8%
Total	20,766	22,572	+8.7%	11,591	+8.6%

## Load Factor for Revenue Passengers

(%)	1st Half			2nd Quarter	
	Mar/18	Mar/19	y/y	Mar/19	y/y
America	80.9%	83.2%	+2.3pt	84.5%	+2.9pt
Europe	83.5%	86.3%	+2.8pt	87.6%	+4.1pt
Asia/Oceania	81.1%	80.5%	▲0.6pt	80.6%	▲0.6pt
China	77.4%	87.5%	+10.0pt	89.9%	+5.0pt
Hawaii/Guam	80.2%	79.5%	▲0.7pt	81.2%	+0.1pt
Total	81.1%	82.4%	+1.3pt	83.4%	+1.5pt

# 《 References 》

## Number of Aircraft



JAPAN AIRLINES

	End of Mar/18 (March 31, 2018)			End of 1st Half Mar/19 (September 30, 2018)			Diff.
	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	25	0	25	25	0	25	-
Boeing 787-9	10	1	11	13	1	14	+3
Boeing 767-300	6	0	6	6	0	6	-
Boeing 767-300ER	28	1	29	29	0	29	-
Middle-sized Total	69	2	71	73	1	74	+3
Boeing 737-400	8	0	8	6	0	6	▲2
Boeing 737-800	34	23	57	38	21	59	+2
Small-sized Total	42	23	65	44	21	65	-
Embraer 170	17	0	17	18	0	18	+1
Embraer 190	12	0	12	14	0	14	+2
Bombardier D8-400	5	1	6	3	0	3	▲3
Bombardier D8-400CC	5	0	5	5	0	5	-
SAAB340B	10	0	10	9	0	9	▲1
Bombardier D8-300	1	0	1	1	0	1	-
ATR42-600	4	0	4	4	1	5	+1
Regional Total	54	1	55	54	1	55	-
<b>Total</b>	<b>205</b>	<b>26</b>	<b>231</b>	<b>211</b>	<b>23</b>	<b>234</b>	<b>+3</b>

# 《 References 》 FY2018 (Mar/19) Revised Forecast



JAPAN AIRLINES

## Balance Sheet

(JPY Bn)	End of FY2017	End of FY2018		Diff.
	Results	Previous Forecast <sup>(1)</sup>	New Forecast	
Total Assets <sup>(2)</sup>	1,853.9	1,933.0	<b>1,959.0</b>	+26.0
Balance of Interest-bearing debts <sup>(3)</sup>	125.7	164.0	<b>146.0</b>	▲18.0
Future Rental Expenses under Operating Leases	67.4	64.0	<b>84.0</b>	+20.0
Shareholders' Equity	1,060.3	1,122.0	<b>1,140.0</b>	+18.0
Shareholders' Equity Ratio (%)	57.2%	58.0%	<b>58.2%</b>	+0.1pt
ROIC (%) <sup>(4)</sup>	10.1%	9.2%	<b>9.1%</b>	▲0.1pt
ROE (%) <sup>(5)</sup>	13.3%	10.1%	<b>10.0%</b>	▲0.1pt
ROA (%) <sup>(6)</sup>	9.7%	8.8%	<b>8.8%</b>	▲0.1pt

## Cash Flow

(JPY Bn)	FY2017	FY2018		Diff.
	Results	Previous Forecast <sup>(1)</sup>	New Forecast	
Cash Flow from Operating Activities	281.5	271.0	<b>271.0</b>	-
Cash Flow from Investing Activities <sup>(7)</sup>	▲180.1	▲220.0	<b>▲204.0</b>	+16.0
Free Cash Flow <sup>(8)</sup>	101.3	51.0	<b>67.0</b>	+16.0
Cash Flow from Financing Activities	▲55.8	▲15.0	<b>▲35.0</b>	▲20.0
EBITDA	285.4	291.0	<b>291.0</b>	-
EBITDAR	305.4	307.0	<b>309.0</b>	+2.0

- 1 Disclosed on April 27, 2018
- 2 Total Assets amount as of the end of FY2017 has been changed due to the revision of the accounting standards and other regulations regarding indication of deferred tax assets and liabilities from FY2018 (It was 1,854.2Bn when disclosed on April 27, 2018)
- 3 Accounts Payable-installment Purchase included
- 4 Net Operating Profit After Tax (NOPAT) /Fixed Asset (incl. Future Rental Expenses under Operating Leases)
- 5 (Net Income Attributable to owners of the parent) / (Average of shareholder's equity at beginning and end of fiscal year)
- 6 (Operating profit) / (Average of total assets at beginning and end of fiscal year)

## Investment

(JPY Bn)	FY2017	FY2018		Diff.
	Results	Previous Forecast <sup>(1)</sup>	New Forecast	
Fleet	168.2	172.0	<b>183.0</b>	+11.0
Ground · IT, etc.	43.7	65.0	<b>61.0</b>	▲4.0
Total	211.9	237.0	<b>244.0</b>	+7.0

Growth Investment <sup>(9)</sup>	164.0
Replacement investment <sup>(10)</sup>	80.0

- 7 Exclude deposits and withdrawals from deposit accounts
- 8 Cash Flow from Operating Activities + Cash Flow from Investing Activities
- 9 Growth investments = i.e., Introduction of aircraft that will contribute route expansion, flight frequency increase, or operational efficiency improvement, Improvement of quality, service or efficiency, or Development of new business domains.
- 10 Replacement investments = i.e., Replacement of existing old facilities or for compliance to laws and regulations.

## International Passenger Operations

	FY2017	FY2018	y/y (%)		
	Results	Forecast	Full-year (Forecast)	1 <sup>st</sup> Half (Result)	2 <sup>nd</sup> Half (Forecast)
Passenger Revenue <sup>(1)</sup> (JPY Bn)	462.9	540.0 (534.0)	+16.8% (+15.5%)	+17.4% (+16.1%)	+16.2% (+14.8%)
Passengers ('000)	8,585	9,239	+7.6%	+9.4%	+5.9%
ASK (MN seat km)	51,836	55,030	+6.2%	+6.9%	+5.4%
RPK (MN passenger km)	42,013	45,042	+7.2%	+8.7%	+5.8%
L/F (%)	81.0%	81.8%	81.8%	82.4%	81.3%
Revenue per Passenger <sup>(1)(2)</sup> (JPY)	53,919	58,522 (57,847)	+8.5% (+7.3%)	+7.3% (+6.2%)	+9.7% (+8.4%)
Yield <sup>(1)(3)</sup> (JPY)	11.0	12.0 (11.9)	+8.9% (+7.7%)	+8.0% (+6.8%)	+9.9% (+8.6%)
Unit Revenue <sup>(1)(4)</sup> (JPY)	8.9	9.8 (9.7)	+10.0% (+8.8%)	+9.8% (+8.6%)	+10.3% (+8.9%)

1 The effect of the change of the settlement adjustment method for domestic sectors on international itineraries is excluded in the figures in parentheses (INT + 6.0Bn, DOM ▲ 6.0Bn)

2 Revenue per Passenger = Passenger Revenue / Passengers

3 Yield = Passenger Revenue / RPK

4 Unit Revenue=Passenger Revenue / ASK



## Domestic Passenger Operations

	FY2017	FY2018	y/y (%)		
	Results	Forecast	Full-year (Forecast)	1 <sup>st</sup> Half (Result)	2 <sup>nd</sup> Half (Forecast)
Passenger Revenue <sup>(1)</sup> (JPY Bn)	518.2	523.0 (529.0)	+0.9% (+2.1%)	+1.2% (+2.3%)	+0.6% (+1.9%)
Passengers ('000)	34,033	34,521	+1.4%	+1.4%	+1.5%
ASK (MN seat km)	35,714	36,132	+1.2%	+0.5%	+1.8%
RPK (MN passenger km)	25,643	25,858	+0.8%	+0.7%	+1.0%
L/F (%)	71.8%	71.6%	71.6%	72.1%	71.0%
Revenue per Passenger <sup>(1)(2)</sup> (JPY)	15,227	15,147 (15,327)	▲0.5% (+0.7%)	▲0.2% (+0.9%)	▲0.9% (+0.4%)
Yield <sup>(1)(3)</sup> (JPY)	20.2	20.2 (20.5)	+0.1% (+1.3%)	+0.5% (+1.5%)	▲0.3% (+0.9%)
Unit Revenue <sup>(1)(4)</sup> (JPY)	14.5	14.5 (14.6)	▲0.3% (+0.9%)	+0.6% (+1.7%)	▲1.2% (+0.1%)

1 The effect of the change of the settlement adjustment method for domestic sectors on international itineraries is excluded in the figures in parentheses (INT + 6.0Bn, DOM ▲ 6.0Bn)

2 Revenue per Passenger = Passenger Revenue / Passengers

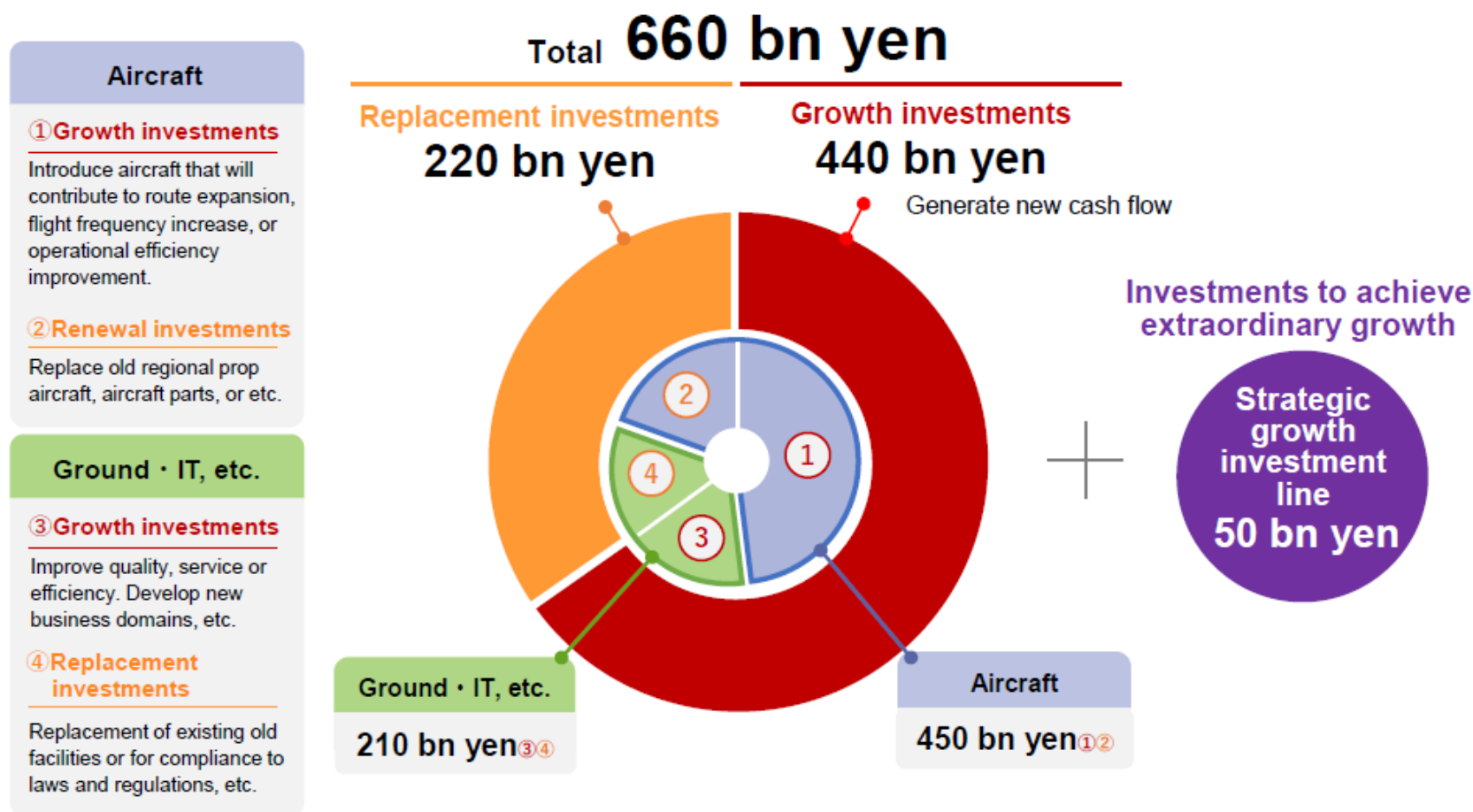
3 Yield = Passenger Revenue / RPK

4 Unit Revenue = Passenger Revenue / ASK

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**Holding capital investments within the amount of operating cash flow,  
we will actively invest approximately 2/3 of the total investments for growth  
to increase corporate value**

## FY2018~2020 Capital Investments

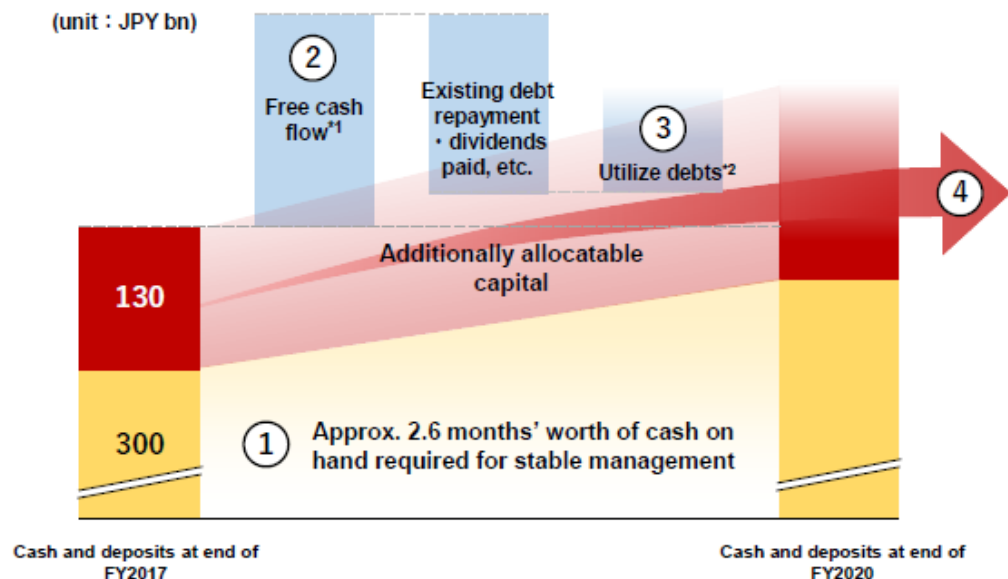


**We will strategically allocate capital to increase corporate value, while maintaining a firm financial structure as well as high capital efficiency at the same time**

## Capital Allocation

- ① Maintain approx. 2.6 months' worth of revenue as standard cash on hand required for stable management and recognize the excess amount as additionally allocatable capital.
- ② Actively promote further growth investments and create maximum free cash flows.
- ③ Utilize interest-bearing debt for growth investments and improve capital efficiency.
- ④ Strategically allocate additional capital.

(unit : JPY bn)



### FY2018~2020 Additionally Allocatable Capital

#### Improve the corporate pension fund financially

Consider approx. 80 bn yen injection ahead of schedule

#### Investments to achieve extraordinary growth

Set a 50 bn yen strategic growth investment line

Strategic growth investment line

#### Further increase shareholder returns

- Pay stable and highly predictable amounts of dividends, taking into account DOE (Dividend on Equity Ratio)\*3 in addition to the payout ratio
- Consider and execute share repurchase in a timely manner

\*1 Free cash flow (3-year aggregate)=Cash flow from operating activities-Cash flow from investing activities

\*2 3-year aggregate new debts used (new procurements-repayment of new procurements)

\*3 Indicates dividend yield of shareholders' equity  
DOE (Dividend on Equity Ratio)=Total Dividend÷Equity

## Maintain both strong financial structure and high capital efficiency, and aim for corporate value increase

Financial structure		Capital efficiency	
Shareholders' equity ratio	Credit rating	Decrease cost of capital • Utilize debt	Liquidity
<ul style="list-style-type: none"> <li>Equity ratio reached approx. 60%. Having built strong financial structure, we will work to maintain the current level</li> </ul>	<ul style="list-style-type: none"> <li>Aim to achieve and maintain "A flat" or above credit rating by improving cash flows and securing fruits from our growth strategies</li> </ul>	<ul style="list-style-type: none"> <li>Decrease cost of equity through comprehensive information disclosure, IR, etc.</li> <li>Utilize debt with discipline based on adequate debt repaying capacity with sufficient cash flow from operating activities</li> </ul>	<ul style="list-style-type: none"> <li>Based on our current scale of business operations, standard liquidity on hand is set at approximately 2.6 month's worth of revenue (currently approx. 300 bn yen) for sufficient event risk tolerance as well as return on assets (ROA)</li> </ul>

Further increase our corporate value by decreasing cost of capital,  
and implement our shareholders return initiatives

### Shareholders return

#### Policy of shareholders return

##### Dividend

- Stable and more predictable dividends are aimed
- Dividend on equity (DOE) in addition to the payout ratio has been adopted as a reference
- Increasing the payout ratio to maintain dividend levels, after the effective tax rate increase, will be considered

##### Share repurchase

- Share repurchase in a timely manner, based on 1) an appropriate level of cash and deposits, 2) the future growth investment, 3) free cash flow outlook or 4) stock price, will be considered

**Fly into tomorrow.**



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