The JAL Group will strive to achieve corporate rationale and follow it as a universal business purpose and fundamental goal by practicing the JAL Philosophy.

**JAL GROUP CORPORATE POLICY**

The JAL Group will:
- Pursue the material and intellectual growth of all our employees;
- Deliver unparalleled service to our customers; and
- Increase corporate value and contribute to the betterment of society.

**JAL PHILOSOPHY**

**PART 1 In Order to Lead a Wonderful Life**

**CHAPTER 1 The Formula for Success**

*The Formula for Life and Work = Attitude x Effort x Ability*

**CHAPTER 2 Have the Right Attitude**

Base Criteria for Decision-Making on
- “Doing What Is Right as a Human Being”
- Have a Beautiful Mind
- Be Humble and Honest
- Always Be Cheerful and Positive
- A Small Good Is Like a Great Evil, While a Great Good May Appear Merciless
- Wrestle in the Center of the Ring
- Grasp Matters Simply
- Possess Opposing Extremes

**CHAPTER 3 Accumulate Tedious Efforts with Passion**

Work Earnestly
Accumulate Tedious Efforts
Work with Voluntary Attention
Fire Yourself Up
Strive for Perfection

**CHAPTER 4 Ability Will Improve**

Ability Will Improve

**PART 2 To Become a Wonderful JAL**

**CHAPTER 1 Each of Us Makes JAL What It Is**

Each of Us Makes JAL What It Is
Discuss Frankly
Lead by Example
Be the Center of the Vortex
Valuable Lives Are Entrusted to Us in Our Work
Be Thankful
Put Yourself in the Customer’s Position

**CHAPTER 2 Have a Keen Sense of Profitability**

Maximize Revenues and Minimize Expenses
Elevate Our Cost-Consciousness
Pursue Profit Fairly
Manage the Company Based on Accurate Figures

**CHAPTER 3 Unite Our Hearts**

Make the Best Baton Pass
Align Mental Vectors
“Workfloor” Management
Follow the Merit System

**CHAPTER 4 Possess a Fighting Spirit**

Maintain an Ardent Desire
Never Give Up Until We Succeed
Boast and Make It Come True
Possess True Courage

**CHAPTER 5 Be Creative in Our Work**

Today Should Be Better Than Yesterday,
Tomorrow Better Than Today
Conceive Optimistically, Plan Pessimistically, and Execute Optimistically
Think Through to Visualize the Results
Decide and Act with Speed
Face Challenges with Courage
Aim High
Message from the Chairman

Looking Back at My Time as President

I served as President for approximately six years since February 2012. During this time, I worked together with every JAL Group staff in pursuing our goal of becoming the world’s most preferred and valued airline group. By arousing a sense of profitability through the introduction and penetration of the Amoeba Management System and building a shared set of values through a better understanding and practice of the JAL Philosophy, I believe that we have succeeded in laying the foundation for a new corporate awareness within the JAL Group.

Selecting My Successor & Expectations for the New President

During my six years in office, we have seen the company deliver stable, positive financial performance. However, to realize further growth as defined in our Medium Term Management Plan, I felt that now was the right time to pass the baton to the next generation and appointed former General Manager of the Engineering & Maintenance Division Yuji Akasaka as the new President effective April 1, 2018. In the nomination process for the position of President, it was important to select the individual best able to implement the JAL Group Corporate Policy and management strategies, and it was only after exhaustive discussions with the external directors that the Nominating Committee made its decision. Mr. Akasaka has many years of experience in JAL Group’s managing divisions for maintenance and safety and has worked hard to improve the quality of maintenance and maintain flight safety. He is a man with a strong sense of responsibility for safety and a passionate commitment to frontline operations. Furthermore, he has gained top level management experience as President of JAL Engineering Co., Ltd. I am confident that he is an individual who, as JAL President, will be able to amply display the leadership qualities he has developed during his career.

How I See My Role

Going forward, I will leave business operations and execution in the hands of the President, while I, as Chairman, will ensure that meetings of the Board of Directors are run appropriately to increase board effectiveness and fully support the President as he works to fulfill his duties. By enhancing the presence of the JAL Group through external activities, I remain committed to making contributions to increasing corporate value. I would appreciate your continued warm support.

Yoshiharu Ueki
Representative Director, Chairman
Since its establishment, the JAL Group has developed its business to meet the needs of the times. Following bankruptcy in 2010, the Group was given the opportunity to restructure, and since then has been progressing steadily focused on the goals of delivering unparalleled service to customers and contributing to the betterment of society.

### 1951~2010

#### 1951
August: Establishment of Japan Airlines

[Image: Head Office Building at the time of establishment]

#### 1970
February: Lists on the first section of a number of stock exchanges

#### 1985
August: JAL flight 123 accident

#### 2010
January: Files for reorganization proceedings under the Corporate Reorganization Act

---

### Rebirth of JAL

#### 2011
- April: Begins offering inflight internet service on international flights
- October: Launches Narita = Helsinki route

#### 2012
- April: Inaugurates the Boeing 787-8 on the new Tokyo (Narita) = Boston route
- July: Launches Narita = Helsinki route
- October: Launches a joint business with British Airways
- December: Inaugurates Tokyo (Narita) = San Diego route

#### 2013
- June: JAL SKY SUITE named Best Business Class Airline Seat worldwide at Skytrax’s 2013 World Airline Awards
- July: Launches Narita = Helsinki route
- October: First Japanese airline to receive certification for operational procedures that reduce environmental impact from ASPIRE (San Francisco route)

#### 2014
- April: Launches Kumamoto and Oita Support Project
- October: Commences a joint business with Finnair

#### 2015
- October: Inaugurates Tokyo = Dallas/Fort Worth route

#### 2016
- April: Launches Kumamoto and Oita Support Project
- October: Commences a joint business with Iberia

#### 2017
- January: Awarded most punctual major Asia-Pacific airline by FlightStats, Inc., in the Mainline category and Network category (fifth consecutive year, seven wins in total)
- February: Selected as a Health & Productivity Stock for the third consecutive year
- March: Selected as a Competitive IT Strategy Company for the second consecutive year
- June: Begins offering complimentary inflight internet service on domestic flights
- June: Receives Skytrax award for the Best Economy Class Airline Seat for the second time

#### For more details, please refer to JAL’s History online
http://www.jal.com/en/outline/history/
International Passenger Operations

Fiscal 2017 revenue by category

- International passengers: 33.5%
- Cargo and mail: 6.7%
- Domestic passengers: 37.5%
- Other businesses: 22.3%

Revenue passengers carried*

- Billions of yen
- (Thousand passengers)

Load factor*

- (%)%

Revenue Passenger Kilometers / Available Seat Kilometers*

- Million passenger km / Million seat km

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Revenue passengers carried

- Billions of yen
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Load factor

- (%)%

Revenue Passenger Kilometers / Available Seat Kilometers

- Million passenger km / Million seat km

* From fiscal year 2015, revenue passengers carried, load factor, revenue passenger kilometers and available seat kilometers include code-share tickets sold by other companies for JAL-operated flights.
**Financial Data (As of March 31, 2018)**

**Operating profit margin**
- 12.6%
- 5.7%
- 5.7%
- 5.7%
- 5.7%

**Profit attributable to owners of parent**
- ¥135.4 billion
- ¥140.3 billion
- ¥134.4 billion
- ¥128.9 billion
- ¥130.2 billion

**Equity ratio**
- 57.2%
- 51.4%
- 51.4%
- 51.4%
- 51.4%

**Non-financial Data (As of March 31, 2018)**

**Number of Group companies**
- 134 companies

**Consolidated staff headcount**
- 33,038 people

**Traffic results**
- Domestic passengers: 34.03 million passengers
- International passengers: 8.58 million passengers

**Operating revenue (Billions of yen)**
- 2017: ¥579.2 billion
- 2016: ¥376.4 billion
- 2015: ¥243.0 billion
- 2014: ¥972.0 billion
- 2013: ¥1,060.3 billion

**EBITDA margin**
- 22.1%

**Free cash flow**
- ¥101.3 billion

**Flight destinations**
- 343 cities

---

* ROIC * = Return on invested capital
* ROE * = Equity ratio
* ROA * = Asset turnover
* EBITDA margin * = EBITDA / Sales
* ROC * = ROIC / ROE

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* Excludes deposits and withdrawals from fixed deposit account

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JAL REPORT 2018

08

09
### Awards and Recognition

**Services**

- Skyscanner
- 5-Star Airline - The World-Airline Star Ratings
- Best Economy Class Airline Seal 2018 (second consecutive year, three wins in total)

**FlightStats**

- Best Major Airline for On-time Performance in the Asia-Pacific Region 2019
- First in Mainline category (sixth consecutive year, eight wins in total)
- First in Network category (sixth consecutive year, eight wins in total)

**Trip Advisor**

- The 2018 Travellers’ Choice™ awards for airlines
  - Voted Best Airline to Japan 2017
  - Voted Best Trans-Pacific Airline 2017

**Global Traveler**

- First for customer satisfaction
  - International Airlines category
  - JCSI (Japanese Customer Satisfaction Index) Survey

**International Airlines category**

- First for loyalty
  - JCSI (Japanese Customer Satisfaction Index) Survey

**CO2 emissions per revenue ton kilometer**

<table>
<thead>
<tr>
<th>Type</th>
<th>International</th>
<th>Domestic</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
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**Customer injuries**

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**Irregularities due to human error**

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**Irregular operations**

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**CO2 emissions (Scope 1 and 2)**

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**Number/ratio of women in management positions**

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**Ratio of paid holiday taken**

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*1 Net Promoter Score: a popular method of measuring the customers’ intention to recommend
*2 All international and domestic routes operated by the JAL Group
*3 Data for domestic offices, airports and maintenance facilities
*4 Includes overseas offices and airports

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**Awards and Recognition**

- Ministry of Health, Labour and Welfare
  - “Endeavor” certification
- Ministry of Health, Labour and Welfare
  - “Vanguard” certification
- Work with Pride
  - Certified as a Gold Company in the Pride Rating System 2017 (second consecutive year)

**Workstyle Innovation, Health and Productivity Management**

- Ministry of Health, Labour and Welfare
  - Shiny telework prize, Minister’s Special Prize for Promoting Telework

- Tokyo Metropolitan Government
  - Award for Promoting Staggered Commuting (Shia Biz)

- Tokyo Metropolitan Government
  - Certified as a company that supports and promotes sport

**Business Reform**

- Procurement Leaders
  - World Procurement Awards 2018
  - The GEP Procurement Team Award Winner

- IT
  - Nikkei Business Publications
  - IT Japan Award 2018 Grand Prix

**Web Communications**

- Japan Institute of Design Promotion
  - Good Design Award

- German Design Council
  - German Design Award 2018
  - Excellent Communications Design Winner: Web Category

**Diversity**

- Ministry of Economy, Trade and Industry of Japan (METI)
  - New Diversity Management Selection 100 Selection

- Ministry of Economy, Trade and Industry of Japan (METI)
  - Nadeshiko Brand 2018 (fourth consecutive year)

- Ministry of Land, Infrastructure, Transport and Tourism (MLIT) of Japan
  - First in Mainline category (sixth consecutive year, eight wins in total)
  - First in Network category (sixth consecutive year, eight wins in total)

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- Socially Responsible Investment (SRI) Index
  - The MSCI Japan Empowering Women (WIN) Select Index

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**About the JAL Group**

**Business Outline**

**Financial / Data Section**

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MESSAGE FROM THE PRESIDENT

We will embrace challenge to become a truly global airline, create new values one step ahead of competitors and achieve sustainable growth through the joint efforts of every staff.

Introduction: Safety and Sense of Security

We thank you for your continued warm support of the JAL Group. I have recently been appointed President of Japan Airlines in June 2018. Since joining JAL, I have spent a major part of my career in the Maintenance and Corporate Safety divisions. Therefore, I have a deep conviction that flight safety is the basis of existence of the JAL Group and our social responsibility. Before my appointment as President, I held dual positions as General Manager of the JAL Engineering & Maintenance Division and President of JAL Engineering Co., Ltd. I was engaged in organizational operations and corporate management, and also aircraft maintenance technological development. Going forward, I will draw on my past experience to fulfill my duty of leading the Group along the right path as JAL President.

The most important role as President is to rigorously pursue safety and sense of security, and further, on developing a road map for growth, implement the Medium Term Management Plan and get positive results. JAL’s strengths lie in the competencies of the frontlines to deliver safe operations and the abilities of every staff who supports daily flight safety. On the other hand, the management team will create work environments, where each staff can achieve self-growth, demonstrate his or her ability as a professional and work with a sense of responsibility, pride and motivation. I will work together with them and do my best to create a company which “delivers unparalleled service to our customers” and “contributes to the betterment of society” as stated in our Corporate Policy.

JAL Vision: JAL in 10 Years’ Time

In April 2017, the JAL Group established the JAL Vision, which outlines the company we aspire to be 10 years from now. In the Medium Term Management Plan- Rolling Plan 2018 announced in February 2018, we incorporated the concept of the Grand Design, which describes JAL in concrete and quantitative terms when the JAL Vision turns into reality.

(1) Transform JAL into a truly global airline

At present, 60% of users of JAL Group international flights are Japanese passengers, indicating that the JAL Brand has yet to penetrate overseas markets. Meanwhile, the number of inbound visitors to Japan is growing rapidly, presenting an excellent opportunity to inspire them to use JAL flights and discover the merits of flying with JAL. To become an airline that is recognized and supported internationally, we aim to serve 500 major cities worldwide and achieve 50% of revenue from overseas sales in our international passenger business. To achieve these targets, we will launch initiatives to nurture professionals who understand diverse cultures and flexibly adapt to diversity, which has gained momentum worldwide.

JAL Vision

To customers worldwide, From region to society

Yuji Akasaka
Representative Director,
Executive President

To continue to be “the world’s most preferred and valued airline” in order to realize the JAL Group Corporate Policy, we will maintain flight safety and strive to achieve the following goals through the joint efforts of every staff who supports the “Wings of JAL”:

1. Transform JAL into a truly global airline
2. Create new values one step ahead of competitors
3. Achieve sustainable growth

Corporate Policy
JAL Vision
Medium Term Management Plan
MESSAGE FROM THE PRESIDENT

(2) Create new values one step ahead of competitors

Various industries are promoting the use and application of new technologies to their operations. Likewise, the airline industry will quickly adopt cutting-edge technologies in its services and business processes to create new values that cater to customers and social needs and to deliver fresh, new experiences. For example, I think that there are still many people who feel inconvenienced or stressed at the airport, on board or before and after their trip when using aircraft. By incorporating new technologies and systems, I feel that we can resolve these problems and provide stress-free services to every customer. To achieve this, JAL has opened a facility that tests and verifies new technologies and services called JAL Innovation Lab. Through these efforts, we aim to stimulate air travel demand and create new businesses.

(3) Achieve sustainable growth

To continue to grow in the intensely competitive airline industry, it is essential that we place emphasis on profitability and maintain a firm financial base. Therefore, we raised the notch for profitability, targeting an operating margin of 10% or above, sales turnover of two trillion yen, operating profit of 250 billion yen and market capitalization of three trillion yen.

This would place us among the world’s top five airlines and I believe this level is attainable.

Meanwhile, the most important factor to attain growth in the airline industry is to ensure flight safety. Therefore, we will expand our safety systems and safety culture, which we have cultivated through long years of experience, and on this foundation, drive development in the airline industry.

Furthermore, as the sustainable growth of a company is founded on a sustainable society, we will contribute to resolving social issues by incorporating initiatives to achieve the SDGs in our business activities. For example, as the airline industry consumes large amounts of fossil fuel, we have an obligation to responsibly deal with CO2 emissions and climate change. We will respond by switching to highly fuel-efficient, operating eco-flights (fuel-saving flight methods) and promoting the practical use of biojet fuel on a full scale.

To meet the expectations of all our stakeholders, we will realize the JAL Vision. Further, we will increase corporate value through initiatives to increase both the economic and social value of the JAL Group.

Medium Term Management Plan-Rolling Plan 2018: An Important Process to Realize the JAL Vision

The JAL Group Medium Term Management Plan for Fiscal Years 2017 to 2020 is an important step in laying the groundwork for realizing the JAL Vision. The year 2020 is the final year of the Plan and represents a milestone when flight slots at Tokyo’s two airports will be expanded, coinciding with the Olympic and Paralympic Games Tokyo 2020. To build momentum to realize the JAL Vision, which goes beyond the period of the Medium Term Management Plan, we have established management targets in three areas; safety, customer satisfaction, and finance.

Safety targets: We are pursuing a wide range of initiatives to reach the targets of zero aircraft accidents and zero serious incidents. Regrettably, however, a serious incident occurred on May 24, 2018, in which a 767 aircraft suffered engine damage after take-off from Kumamoto Airport and engine parts fell to the ground over Mashiki Town in Kumamoto Prefecture. We offer our sincere apologies for the damage or inconvenience caused and will make every effort to prevent a recurrence. We will scrutinize this and all past incidents as well as incidents occurring at other airlines, and make continuous efforts to achieve our safety targets.

Customer satisfaction targets: Amid efforts to achieve the world’s top level of customer satisfaction, JAL was awarded the highest 5-star rating for its service from the international airline rating company SKYTRAX on July 17, 2018. This certification represents global recognition of JAL’s service rooted in Japanese-style hospitality. Going forward, we will continue to listen to global customer feedback and strive to provide the world’s finest quality of service.

Financial targets: To maintain the current high level of profitability, our financial targets are an operating profit margin of 10% or above and return on Invested Capital (ROIC) of 9% or above, both of which we successively recorded in our financial statements for the fiscal year ended March 2018. On maintaining profitability and balancing a firm financial base and high capital efficiency, we will distribute management resources strategically to increase corporate value. Regarding capital investment, we compiled a 440 billion yen budget for growth investments, which represents roughly two-thirds of 660 billion yen, or total investment for a three-year period from 2018. Following the revamp of our passenger service system for the first time in 50 years in November 2017, we will steadily make improvements in other areas, including route expansion, the introduction of highly fuel-efficient aircraft, service quality upgrades and new business launches.

(1) Full Service Carrier business: Refining our network, products and services

The full service carrier business has been and will continue to be our core business. Efforts to continuously refine our FSC business are essential for growth.

As we see a major business opportunity in 2020 when flight slots at Tokyo’s two airports will be expanded, we will seize the opportunity to improve our international routes. In particular, we will improve routes linking Southeast Asia, a market with significant growth potential, and North America.

Further, in addition to JAL Group-operated flights, we will forge partnerships with overseas airlines and expand our global network. By using our partners’ resources, we aim to improve
connectivity and raise presence in overseas markets, which would otherwise take time to achieve through our own efforts.

In domestic passenger operations, the cutting-edge Airbus A350 will be put into service on major routes from 2019. As the A350 is fitted with the latest, advanced cabin facilities, we hope to deliver a totally new passenger experience. We are also making efforts in domestic network operations and routes linking outlying islands to spread inbound visitors across regions in Japan. During the period of the Medium Term Management Plan, we will renew small aircraft operating on outlying island routes, in particular, to the latest model, equipped with outstanding levels of safety and efficiency.

(2) New businesses: Expanding business domains
To offer customers and regions with new values, we will actively develop and foster new businesses and growth businesses. While ambitious goals are vital, it is essential that the businesses serve the needs of the relevant region and are profitable. To achieve this, we will expand businesses in areas where we can leverage our strengths.

One of these new challenges is the establishment of a new low-cost carrier (LCC) business to operate on medium- to long-haul international routes, which we announced in May 2018. Adopting a new business model, the new company will cater to diversified needs and price-sensitive customers. It will be a new type of airline, which balances low costs and high quality, harnessing JAL’s know-how and strengths. We will differentiate the new LCC from our FSC business by further refining our FSC services. We are in the preparatory phase to launch operations in the 2020 summer timetable with hopes of impressing customers and have them say “JAL’s LCC has high standards.”

Further, amid the increase of foreign carrier entrants into the Japanese market, we will actively invest in infrastructure to cater to their needs, such as the maintenance business, airport handling business and tourism-related business for inbound visitors.

By developing our FSC, LCC and incidental businesses, we will contribute to achieving the targets of the Japanese government; make Japan a tourism-oriented nation and attract 40 million inbound visitors a year, and realize growth of the JAL Group from fiscal year 2021 onward.

(3) Innovation: Human resources × Technology
The JAL Vision expresses the base for innovation generation as “Human resources × Technology.” A wide range of technological advancements have been made in recent times, but it is the role of humans to determine and decide how to combine human resources and technology and what projects best suit the JAL Group. Likewise, to apply new technologies to new systems, the willpower and creativity of humans will be required. I see the key to success as human engagement in system operation. To create sustainable innovations consecutively, it is essential that we demarcate human domains and technological domains in a balanced manner and nurture human resources capable of adapting to new systems and creating innovations for the future.

The most important qualities of human resources in the future will be willpower and creativity. And to stimulate these qualities it will evidently be increasingly important to develop individual abilities and diversity.

The JAL Group is a team of professionals working in a variety of job types, and by its nature, is composed of team members with diverse willpower. I feel that we can develop their willpower and creativity by utilizing them in society as well as in each job type, and by collaborating with other airlines, while applying their knowledge and know-how.

In addition to introducing new technologies, we will nurture human resources who can harness new technologies and reform corporate awareness with speed.

In Closing: In Pursuit of New Challenges

We have been able to move to a new phase of embracing new challenges for growth through the support of many parties since our bankruptcy. I would like to make our challenges come true and create new values that will genuinely benefit society. This is also part of my responsibility as an engineer.

The JAL Group has a management philosophy known as the JAL Philosophy. I repeatedly remind JAL Group staff that in addition to practicing it, they must never forget the background that led to its formation. The JAL Philosophy was created based on reflections and lessons learned from our bankruptcy. With this in mind, each staff will remain committed to thinking about what he or she can do for the customer and for society.

In any era, JAL’s greatest asset is its human resources. Our workplaces are wide-ranging and staffed by extremely outstanding professionals. By introducing the JAL Philosophy, the mental vectors of all staff have been aligned and team skills and teamwork have improved significantly. I strongly feel that we have reached the stage to fully demonstrate our strengths for the benefit of society and become a company, where every staff feels fulfilled, valued and happy working for JAL and seek long-term employment with sense of security.

We aspire to become “the world's most preferred and valued airline,” never forgetting the support we received from many people in society. We will do our utmost to live up to the expectations of our stakeholders. I would appreciate your continued support.
To realize the JAL Group Corporate Policy and continue to be “the world’s most preferred and valued airline,” we use the JAL Group’s capital for business development, bringing together the individual strengths of the JAL team to offer new value to customers and society. With flight safety as our very foundation, we support value creation through the JAL Philosophy and the amoeba management system.

**Input**

- **Human capital** (Diverse human resources)
- **Intellectual capital** (Operational and fleet management)
- **Natural capital** (Natural resources)
- **Social capital** (Route network)
- **Production capital** (Aircraft, ground facilities)
- **Financial capital** (Firm financial foundation)

**Value delivered to customers**

- **Safety**
- **On-time operations**
- **Comfort**
- **Convenience**

**Value delivered to society**

- **Coexist with the Earth**
- **Contribute to Communities**
- **Nurture Future Generation**
SAFETY CHARTER

Flight safety is the foundation and social responsibility of the JAL Group. To fulfill this responsibility, JAL established the Safety Charter.

Safety Charter

Safety in flight operations is the very foundation and social responsibility of the JAL Group. To carry out our mission of assuring safety, the management will exert its strong resolve and staff will bear an awareness of their individual roles and responsibilities, and together we will combine our utmost knowledge and capabilities to ensure the safety and reliable operation of each and every flight.

In order to carry out our mission, we will:

- Perform our duties in compliance with regulations, faithfully following the basics.
- Be sure to make checks, without relying on assumptions.
- Relay information thoroughly, promptly and accurately, and ensure transparency.
- Respond to problems and issues quickly and precisely.
- Maintain a constant awareness of issues, and make necessary reforms without hesitation.

All JAL Group staff carry a safety card imprinted with the Safety Charter, on which they base their conduct at work each day.

Safety Awareness Education

To maintain flight safety, the JAL Group provides education to impart the knowledge and skills required in everyday duties. We carry out safety awareness education to nurture staff equipped with a constant high level of safety awareness.

Safety seminars

Based on the so-called “Three Actuals” (the actual site, item and people), we organize a commemorative ascent of Mount Osutaka, the scene of the JAL flight 123 accident. This forms part of a safety seminar in which participants directly confront the aircraft accident and learn for themselves what they can do and what they need to do to maintain flight safety. In fiscal year 2017, a safety seminar for new recruits was completed by 1,902 participants, a safety awareness seminar by 459 and a safety seminar for newly appointed managerial staff by 289.

JAL Group emergency evacuation training

Since November 2016, all JAL Group staff have undergone emergency evacuation training to acquire knowledge of emergency situations and ensure the ability to respond appropriately. Up to the end of fiscal year 2017, the training had been completed by 5,339 participants. The cumulative figure is due to reach 10,000 by the end of fiscal year 2018.

Safety Advisory Group

The JAL Group established the Safety Advisory Group in August 2005 to receive advice from an objective perspective following an operational improvement order issued by the Ministry of Land, Infrastructure, Transport and Tourism. The Safety Advisory Group is a panel of five experts from outside the JAL Group who have extensive knowledge and experience in areas such as human factors, analysis of failures and imperfections, organizational management and culture, and safety. The panel is chaired by Mr. Kuros Yanagida, a non-fiction writer.

Follow-up meetings with management

The members of the Safety Advisory Group hold annual follow-up meetings with management. The progress of JAL Group’s safety measures is examined and the members offer advice where appropriate.

Members also carry out observations and staff dialogs at a wide range of workplaces, where they pick up on points for discussion and other issues that need to be addressed.

Safety Promotion Center

On August 12, 1985, JAL flight 123 crashed on the ridges of Mount Osutaka and 520 precious lives were lost. To reaffirm the importance of flight safety and to instill the lessons learned from this accident in our minds, we established the Safety Promotion Center in April 2006. For all JAL Group staff, this facility serves as the “safety foundation” from which they work to deliver safe and reliable operations in response to society’s needs, constantly mind that precious lives are entrusted to us in our work.

The Safety Promotion Center is open to the general public. In fiscal year 2017, the Center received 20,091 visitors from inside and outside the Group, bringing the cumulative total since fiscal year 2006 to 216,780.

About the JAL Philosophy

We adhere to the JAL Philosophy as the shared mindset, values and attitude of every person engaged in JAL products and services. As JAL Group staff deepen their personal understanding of the JAL Philosophy and employ it as a common basis for decision-making in everyday work, it becomes a unifying force enabling them to advance together toward the ambitious goal of “becoming the world’s most preferred and valued airline.”

To deepen understanding of the JAL Philosophy, we conduct JAL Philosophy Education seminars three times a year for all operatives in Japan and overseas who handle JAL products and services. The JAL Group spans a wide range of job categories, but all participants in these seminars sit at the same table, regardless of seniority, position or department, which helps generate an atmosphere of mutual understanding.

JAL Philosophy Education seminars are selected from various divisions, from Cockpit Crew and Cabin Attendants to Engineering & Maintenance, Airports and Sales. They hold seminars in the Tokyo region and also travel to other regions of Japan, adapting the teaching materials to the specific needs of the participants.

Education seminars in the United States, Europe, Asia-Oceania and China are given using Japanese or English teaching materials.

In addition to JAL Philosophy Education study meetings, study sessions are held once a month for directors and divisional general managers and three times a year for other managerial staff.

Overview of the approach to instilling the JAL Philosophy

Independent workshops to promote practical application of the JAL Philosophy

JAL Philosophy Presentation Meeting: Technical Installations / Innovator Employee Awareness Seminar

Independent voluntary workshops by staff

JAL Philosophy Education: Overviews

Executives / General managers

Managers

General posts

Leader Workshops

JAL Philosophy Education

Penetration activities

Intranet / Employee Awareness Surveys

JAL Philosophy Education seminars
THE AMOEBA MANAGEMENT SYSTEM

About the Amoeba Management System

Under the amoeba management system, corporate management is not the responsibility of top management alone; all staff are involved. Organizations are divided into the smallest possible units and the results of activities conducted by each unit are presented in an easily understandable manner. The system thus encourages participation in management by every staff, that is, “management by all.”

We aim to achieve sound and flexible corporate management by bringing together individual strengths in a style of management that encourages full staff participation.

Outline of the Amoeba Management System and How the Management Cycle Works

The introduction of the amoeba management system has clarified the roles and responsibilities of each organization and made it possible to identify the revenue and costs of each unit. As staff in each department can see the results of their efforts clearly reflected in the revenue and costs, they develop a sense of responsibility for the results and feel more motivated and creative in their work attitude.

Under the amoeba management system, every unit prepares an annual plan for revenues and costs (Master Plan) and implements a monthly management cycle (PDCA) to accomplish the annual plan. The monthly management cycle requires each unit to set action targets at the start of each month for the coming month based on the current environment. After business results for the month are released, the difference between the target and result is calculated and reasons for the difference are clarified. The findings are utilized to prepare targets for the following month. Thus, in addition to the annual plan prepared at the start of each fiscal year, monthly targets are also set, which facilitates prompt response to changes in the environment. Operating a stage-by-stage monthly management cycle of this kind enables all staff to participate in management.

After passing through a stage where the results and targets are checked by the relevant department, they are presented to senior management by the relevant divisional managers or affiliated company presidents at the Group Earnings Announcement Session. The session is attended by around 160 participants, including the President, all directors, presidents of major affiliated companies and observers, who (in an earnest discussion) on JAL Group management with the common aim of realizing the Corporate Policy.

Future Initiatives

Up till now, we have focused on operating and embedding the amoeba management system, but to ensure future growth and promote human resources development, we will work on consolidating divisional profitability based on full staff participation, which is one of the five key initiatives selected for specific action under the “JAL Action” in the new Medium Term Management Plan.

Rigorous profitability management

We will pursue initiatives to continue and intensify the improvement of hourly profitability, unit revenue and productivity within each Group department and company. We will also reinforce cost control in response to changes in the market environment and fluctuations in revenues to optimize the balance sheet and improve risk resilience.

Management by all

We will work to bring together individual strengths, increase practical effectiveness in reaching our targets, visualize management data more accessibly and encourage all staff to display creativity and initiative in reaching targets. We will also devote increased energy to nurturing leaders with the managerial flair to motivate staff.

Increase effective use of management resources

We will work as a team to implement “muscular management” by improving profitability within each Group department and company, undertaking effective investments, improving asset utilization, optimizing inventories and implementing other measures to increase return on invested capital (ROIC).

SAFETY

The JAL Group Corporate Policy commits us to providing customers with unparalleled service. Unparalleled service means delivering the world’s highest levels of safety, on-time operations, comfort and convenience. Of these, absolute priority must be given to guaranteeing safety, which is the foundation of the JAL Group. Flight safety relies on each staff sharing clear values and possessing an awareness of his or her responsibility as a member of the JAL Group. By ensuring that all departments cultivate a safety culture and continuously accumulating safety layers, we will maintain flight safety and inspire customers to place their confidence in the JAL Group. On this foundation, we seek to deliver improved on-time performance, comfort and convenience, and thus offer customers a safe and comfortable flight.

Safety targets

In the awareness that flight safety is its foundation and social responsibility, the JAL Group maintains flight safety by accumulating safety layers as the leading company for safety in the transport sector.

Maintaining Flight Safety

To maintain flight safety, which is the foundation of the JAL Group, we will continue working to realize zero aircraft accidents and zero serious incidents. In addition to our focus on efforts to prevent recurrence of similar accidents, we will work to proactively prevent aircraft accidents by detecting precursors to accidents and serious incidents.

Accumulating Safety Layers

Evolve the security management system to the world’s highest standard

1. Ensure reliable operation of the security management system
   We will maintain a high level of security across the Group through systematic analysis, evaluation and management of security risks.
2. Cultivate security awareness among all staff
   We will improve security awareness and knowledge among all staff to ensure appropriate action and reporting.

Pass on lessons learned from accidents

1. Implement safety awareness education based on the Three Actuals Philosophy
   We will ensure that lessons learned from past accidents are passed on and will provide education on safety awareness based on the Three Actuals Philosophy (the actual site, item and people that captures the essence of the issues).
2. Conduct emergency evacuation training
   We will provide training in how to respond to an emergency situation so that all Group staff know how to assist cabin attendants and customers in the event of an emergency.

* “Conduct risk management of Flight crew fatigue” was one of the safety targets addressed in fiscal year 2017. We have now completed the creation of corresponding systems within the JAL Group and have therefore completed the response to this issue as a safety target. It will now be implemented as a policy measure by the Flight Operations Division and Group companies.
Mr. Kunio Yanagida × Yuji Akasaka  
Dialog

The Safety Advisory Group, an external panel of safety specialists established in 2005, provides JAL with advice based on the members’ vast experience and extensive knowledge. We invited Mr. Kunio Yanagida, who observed JAL’s safety initiatives for many years as Chairperson of the Safety Advisory Group, to talk about the safety philosophies he advises the JAL Group to adopt and the issues to be addressed toward their realization.

Management Fulfills Its Responsibility for Safety

Yanagida: Over the course of ten years, Safety Management System (SMS) has become a keyword in safety issues and it has become widely recognized that organizations as well as frontline workers have a responsibility for safety. The JAL Group has also introduced SMS. What are your thoughts on SMS?

Akasaka: We introduced SMS to reflect on the series of safety issues that arose in 2005. As you mentioned, I feel the emphasis is currently placed on so-called “organizational factors” when dealing with accidents and problems such as malfunctions. Against this background, the essence of SMS is to properly clarify management’s direct involvement and responsibility for safety. As President, I, too, will fulfill my direct responsibility for safety. This is how I interpret SMS.

Yanagida: It’s reassuring to hear your firm commitment directly from you. In the management crisis of 2005, I had the strong impression that JAL’s safety had fallen into a crisis, whereas in the bankruptcy of 2010, JAL’s financial base triggered the crisis. They were both crises but quite different in nature. In the sense that the company’s plans had both nearly collapsed, it was a period when you delved into the heart of the problem and asked yourselves what JAL aspired to be. Under the leadership of the then President, Mr. Ueki, the entire staff worked together to rebuild the company and we are starting to see the results of your efforts. Now the emphasis to fulfill management responsibilities has been placed on to you. I feel that it is extremely important that you decide what you intend to do in the next five and ten years, and not merely carry on from your predecessor.

Akasaka: Up till now, we worked hard to recover what we lost in the aftermath of our safety issues and bankruptcy. Our initiatives are moving in the right direction and we have gradually regained customer trust. I honestly think that this was the result of the competencies of our frontline workers. It was an accomplishment that came from hard work, while management backed them up. The frontlines are JAL’s life lines that must never be changed. Going forward, we will move to the next phase of creating unprecedented innovations in management and safety. My responsibility is to deliver innovations and values, centered on safety and an ease of mind, in particular.

Deal with Events in Society with a Sense of Ownership

Yanagida: When the former President, Mr. Ueki, took office, he asked the then Honorary Chairman Mr. Inamori, “On implementing reforms, will you give me the authority to ground all flights if I think there is a dangerous situation?” I think this was the first step in rebuilding the company. As Mr. Ueki has had countless experiences, as a pilot, of making speedy decisions under pressure, he is a man of decisive character. This served as the driving force of reforms and motivated staff to join hands to revitalize the company. This attitude inspired customers to put their confidence in JAL. To me, it seems significant that in this era you, Mr. Akasaka, with your engineering background, will be standing at the helm and manage the company as top management. Safety is a precondition, but in order to increase trust, you need to add the element of an ease of mind. I feel that JAL’s next goal will be to provide a sense of security from the first and second person perspectives.

Akasaka: I agree. In the current social environment, the second to third person perspective which you advocated has gained greater attention. For instance, people today have access to real-time information. But we live in an insecure world, where the impact and fear arising from this accessibility is not happening to others but could even happen to us. In other words, events seen through the eyes of the third party not long ago can be seen through our own eyes. From here on, we must consider how to deliver sense of security from the first and second person perspectives.

Yanagida: Access to real-time information will even change the quality of information. No matter how technically safe operations may be, it is the passengers who feel uneasy and wonder what the consequences would be if something went wrong. I feel that management requires a new factor of quality; the ability to instill an organizational culture where minor events are thoroughly dealt with from the users’ first and second person perspectives.

Sharing Lessons Learned from Accidents Widely with Society

Akasaka: I would like to share our past experiences and knowledge with other companies, instead of keeping them to ourselves, and have them applied in society.

Yanagida: JAL opened the Safety Promotion Center in 2006, and since then has welcomed approximately 220,000 visitors. Half of the visitors were from other companies. This is meaningful in that...
the Center not only symbolizes our resolve to prevent the recurrence of aircraft accidents, but also signifies the public nature of our business, that is, widely sharing lessons drawn from accidents with society. As JAL stands at the forefront of safety, this is an important corporate activity and social contribution activity.

The Center is exactly the base for conducting CIB activities.

**Akasaka:** JAL has reached the phase of sharing vast experiences and knowledge from the past with external parties. Therefore, we must continue to make optimal use of the Safety Promotion Center for the benefit of society. When I used the words, “a nation oriented toward safety and an ease of mind” I meant delivering safety and an ease of mind to Japanese society. It is significant that we are engaged in creating, improving and delivering safety and an ease of mind.

**Yanagida:** In this sense, I see the opening and development of the Safety Promotion Center as symbolic and an indication of a change in corporate value. In order to be entrusted with precious human lives and transport them with an ease of mind, you should cultivate a future-oriented attitude of learning from past failures in a positive manner and issuing forward-looking messages. In the past, many companies wasted a great deal of energy on concealing or ignoring their mistakes to protect their organization or cover up for individuals. In the coming age, management will play the role of flag bearer, who takes the initiative to cultivate a safety culture in the company and in society.

**Akasaka:** Management especially should see and feel the severity of the aircraft wreckage and victims’ belongings and stretch their creativity are declining. With advances in AI such as self-driving cars, it will become very difficult to nurture humans who think independently. All the more, we should seriously come to grips with this problem.

**Yanagida:** One of the important lessons we learned from the Great East Japan Earthquake is how to “expect the unexpected.” We must include factors that were previously excluded based on the probability theory in all probable situations, instead of making excuses for failures because it was beyond expectations. Likewise, when it comes to safety, we should not maintain safety by simply following the manual. We should factor in the possibility of pitfalls in the manual or consider procedures for situations that cannot be dealt with the manual alone. I think this feeds into the question of creating employee education programs and work environments, where individuals learn to think of the essence of problems for themselves, instead of merely obeying orders. When this approach has penetrated organizations, genuine safety will permeate organizations and an ease of mind will improve. We live in an Internet society, where information can be searched and obtained online. This can mislead people into thinking that all work can be done through the Internet. JAL is implementing initiatives to raise self-awareness.

**Akasaka:** We see it as a problem when people become over-dependent on the Internet and data. It has also become a major issue in human resources development. I would like to build a framework for the young generation to learn ways of thinking through training so that they can recognize the fun and value of thinking at an early stage.

**Yanagida:** Yes, this is very important. As automation proceeds, we have been hearing for some time now that reading skills and creativity are declining. With advances in AI such as self-driving cars, it will become very difficult to nurture humans who think independently. All the more, we should seriously come to grips with this problem.

**Akasaka:** If we only believed in what instruments and figures indicated without looking at the actual situation on the frontline, we would not be able to detect what is actually happening. The greatest risk at present is over-dependence on machines when making decisions. If we can clarify tasks required by humans, we will be able to create a society where human resources and technology can coexist. We are in a transition period, but we need to take scientific approaches and rectify the current situation.

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**Learning from Case Studies at Other Companies**

**Yanagida:** The specialized in-house magazines, published by JAL’s Flight Operations and Maintenance divisions have undergone a major change. The heart of problems at other airlines is presented carefully in detail, as if the incident occurred at JAL. Further, lessons learned are expanded horizontally across divisions. I think that is a very important change.

In fiscal year 2018, a Aviation Safety Research Department was created in the Corporate Safety and Security Division. This strikes me as being an important unit. By creating an independent department within an organization and not outside it like a research center, communication with frontlines can be maintained and risk information can be analyzed, accumulated and fed back without being rushed by day-to-day events.

**Akasaka:** Information from the past and outside the organization is a true gold mine. The biggest goals of the Aviation Safety Research Department are to comprehensively handle and disseminate internal and external information, and nurture human resources capable of carrying out this task.

**Yanagida:** I look forward to seeing this Department become an important pillar of JAL’s safety initiatives. From the outset, the Safety Advisory Group has recommended the importance of drawing on past lessons within and outside the company. How this task is being performed by an independent department. As JAL has information-gathering capability, I urge you to nurture staff with intuitive ability to say, “This is a case that JAL needs to look into.”

Furthermore, what is naturally very important for JAL is that all staff members approach their work enthusiastically and with motivation. I think this is where the root of safety issues will lie. Scientific studies show that human error decreases when people feel motivated and are given the freedom to act independently at work. It might be difficult, but, for example, if you were to ask staff to conduct self-analysis and indicate the cause when reporting their mistakes, it would become a shared asset of the organization. I think that creating an environment of praise and vitalizing the workplace would lead to motivating staff to work with a sense of fulfillment.

**Akasaka:** We need to utilize the individuality of every staff. While showing an understanding for individual situations, we will work together in an atmosphere of mutual respect. We need each and every staff. As President, I would like to create workplaces where each staff feels motivated at work.
Flight safety and on-time operations are our most important customer commitments and must be stringently observed so that customers can use our services with trust and confidence. Through collaboration across job categories and proposed improvements, we work continuously to achieve the world’s highest levels of safety and on-time operations.

Achieving further improvement on our record of on-time performance is the subject of day-to-day cross-departmental activities. In January 2018, the US-based company FlightStats, part of FlightGlobal named JAL the most punctual Asia Pacific airline in both the Mainline and Network categories based on the on-time arrival rate. It was JAL’s sixth successive year in the top position and its eighth year overall.
**COMFORT**

**For a More Comfortable Travel Experience**

Flight safety and on-time operations are absolute fundamentals for the JAL Group. To ensure customers’ experience more comfortable and pleasant, our staffs are strongly encouraged to have the customers’ perspective to improve our products and services.

**Specific Initiatives**

**International routes**

We have expanded the number of international routes operating with JAL’s SKY SUITE-configured aircraft—whose concept is to offer all customers a “one-class quality upgrade”—thus realizing an unprecedented level of inflight comfort.

Among our lounge facilities, the Sakura Lounge in the Narita Airport satellite zone has benefited improved food menus, and refurbishment, while the First Class lounge at Haneda Airport now offers a new exciting teppan grill dining experience featuring fresh fish caught in the morning at Tokyo Haneda Market. At overseas airports, Sakura Lounge at airports in Honolulu, Bangkok, Frankfurt, and San Francisco has been given an upgraded menu and improved furnishings and layout.

For inflight meals on European, North American, Australian and Southeast Asian routes, we are collaborating with professional chefs to deliver top-quality inflight meals based on the concept of an “exclusive restaurant in the sky.” Specifically, there has been a very positive customer response to the Shiseido Parlour for the “exclusive restaurant in the sky.” Specifically, there has been a very positive customer response to the Shiseido Parlour for the sky.” Specifically, there has been a very positive customer response to the Shiseido Parlour for the sky.” Specifically, there has been a very positive customer response to the Shiseido Parlour for the sky.” Specifically, there has been a very positive customer response to the Shiseido Parlour. At overseas airports, Sakura Lounge at airports in Honolulu, Bangkok, Frankfurt, and San Francisco has been given an upgraded menu and improved furnishings and layout.

In our lounge service we have opened a new Diamond Premier Lounge—the top-class lounge for domestic passengers—at Naha Airport. The lounges at Kagoshima, Kumamoto, Miyazaki, and other airports have been upgraded to elegant spaces of high quality based on a Japanese-style design concept, with the catering service also enhanced. In the Spring of 2019, the refurbishment is scheduled for the lounge at Itami Airport (Osaka).

As a result of these initiatives, the JAL Group was able to improve its level of customer satisfaction in fiscal year 2017 as measured by Net Promoter Score (NPS).

Additionally, in the TripAdvisor 2018 Travelers’ Choice Awards for the world’s favorite airlines, JAL was chosen as Japan’s best airline, while in the 2017 World Airline Awards operated by SKYTRAX, JAL won the award for the world’s Best Economy Class Airline Seat.

**Domestic routes**

In the pursuit of “convenience and simplicity,” all 77 aircraft serving JAL’s domestic routes are now JAL SKY NEXT-configured aircraft with leather-covered seats and complimentary inflight Wi-Fi.

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**Convenience**

**Becoming the Network of Choice for Customers**

We believe that the JAL Group route network is one of its strengths and an important factor when customers choose the JAL Group. As well as offering a route network and timetable that meet the needs of customers and society, we also deliver highly convenient products and services that accurately meet customer needs at every stage up to arrival at the destination. As well as offering customers “time value” through high-speed transportation—one of the great advantages of air transport—we believe that delivering quality service for an appropriate fare is also an important factor in improving customer convenience.

**Specific Initiatives**

**International routes**

On international routes, we increased seasonal flight frequency to meet robust demand on the Naha = Guam, Naha = Bangkok and Kansai = Honolulu routes. On the Haneda = Honolulu route, First Class service was offered during the summer peak demand period, with promotional measures stepped up to deliver a high-quality travel experience for customers flying to Hawaii. To meet high demand during the July to October summer period, frequency on the Narita = Moscow route was increased to daily operation.

**Domestic routes**

On domestic routes, flight frequency was increased on the Haneda = New Chitose and Haneda = Naha routes during some busy periods such as the summer, the year-end period and other periods of expected high demand. We began adding the new JAL SKY NEXT-configuration to our fleet from fiscal year 2014 and are now successively introducing it on the 737-800 aircraft operated by Japan Transocean Air Co., Ltd. We are also switching to complimentary inflight Wi-Fi service available on JAL SKY NEXT-configured aircraft as part of initiatives to offer new value on domestic routes.

Elsewhere, in addition to further expanding the number of routes operated with Embraer 190 aircraft, chiefly on flights to and from Itami Airport, we have introduced the most advanced turboprop ATR42-600 aircraft on routes to outlying islands in Kagoshima Prefecture operated by Japan Air Commuter Co., Ltd. These measures make a significant contribution to improved comfort and convenience on regional network routes.

Going forward, the JAL Group will continue to respect the customer perspective as we work to improve customer convenience and comfort by embracing the challenge of further expanding our route network and improving products and services. In this way, we remain firmly committed to delivering unparalleled service so that all customers may enjoy a refreshing and inspiring travel experience.

**TOPICS**

**JAL Awarded 5-Stars in SKYTRAX World Airline Star Rating**

At the SKYTRAX 2018 World Airline Awards ceremony, JAL won the top ranking of 5-Stars in the World Airline Star Rating, acknowledging that JAL equals the highest standards of quality among world airlines. Additionally, JAL received the Best Economy Class Airline Seat for the second consecutive year and the third time overall. Not content with our 5-Star rating, we will continue refining our efforts to offer the world’s highest level of service.
MESSAGE FROM THE CFO

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.

My Role as the CFO of the JAL Group

The JAL Group is aiming to be an airline equipped with both stability and growth in the highly competitive and fast-changing airline industry. As the Chief Financial Officer of the JAL Group, my mission is to ensure that the company thrives with our customers, shareholders, society, staff and all other stakeholders through strategically allocating capital to enhance corporate value, while maintaining the high level of profitability and solid financial structure that we have been working hard to bring to the current outstanding levels.

Review of Fiscal Year 2017 Ended March 31, 2018

In the fiscal year 2017, overall air demand continued to be robust through increasing domestic passenger demand and inbound passenger demand, backed up by moderate economic recovery. The JAL Group recorded higher revenues and operating profits than the previous year. In November 2017, we revamped our passenger service system for reservations, ticketing and boarding procedures for both domestic and international passengers—the first major upgrade in about 50 years. We invested 80 billion yen and spent six years to complete the system transformation project, bringing us in line with global standards. The new passenger service system allows for greater precision and sophistication in revenue management, also bringing with it the renewal of the JAL e-commerce website, and it is expected to increase revenue further while reducing IT system maintenance costs. Through the improved usability of overseas websites, we are already seeing benefits, such as a sharp increase in sales through those websites.

Financial Strategy in the Medium Term Management Plan - Rolling Plan 2018

In April 2017, we presented the JAL Group Medium Term Management Plan for Fiscal Years 2017 to 2020 and the JAL Vision, which describes the conceptual image of the company we aspire to be. Furthermore, in February 2018, we presented the Rolling Plan 2018 as a roadmap covering the period of the JAL Group Medium Term Management Plan from the second year onwards. The Rolling Plan 2018 includes a new concept called the Grand Design, which provides quantitative and specific details of the company itself when we achieve the JAL Vision. Based on a stable profitability and a sound financial structure, we will aim for a sales turnover of 2 trillion yen, an operating profit of 250 billion yen, and total market capitalization of 3 trillion yen through making growth investments actively, while emphasizing profitability with a target of operating profit margin of at least 10%. In the Medium Term Management Plan, we have set a financial target of at least 9% ROIC (return on invested capital), as a measurement of investment efficiency to check its contribution in the enhancement of corporate value, together with an operating profit margin target of 10% or higher for every year in order to achieve high profitability.

The Grand Design aims for a market capitalization of 3 trillion yen 10 years from now. In finalizing the Grand Design, we took into account dialogues held with our investors and other stakeholders, concluding that it was important to express JAL Group’s corporate value by adopting a quantitative target such as market capitalization. Currently, JAL’s valuation is at a disappointing EV/EBITDA multiple of roughly 4 times, which is lower than the industry average of around 6 times for global airlines.

To close this gap, we have set quantitative targets for corporate value that should reflect our strong will to transform JAL into a truly global airline. Guided by the above indicators, we will steadily implement management initiatives to increase profit and achieve our targets through their realization. We have undertaken to more clearly explain our capital investment plan in detail in the Rolling Plan 2018. In the three years of the plan (fiscal years 2018 to 2020), we intend to invest a total of 660 billion yen, of which 440 billion yen, or two-thirds of the total, should be spent for growth investments to generate new cash flows and increase corporate value. For example, we will invest in the following: state-of-the-art aircraft to increase efficiency and expand capacity to cater to robust demand, enhancements in safety, quality and service, ground facilities and IT to drive greater efficiency and expansion into new business domains. In addition to our capital investment plan, we have budgeted 50 billion yen for strategic growth investment to support the JAL Group in embracing new challenges. It will be allocated to investment projects which would dramatically improve competitiveness, generate strong returns, and thereby increase corporate value. To ensure effectiveness of our investments, we are targeting ROIC of 9% each fiscal year.

In principle, capital investment will be conducted within operating cash flow and we will ensure there is always sufficient free cash flow to fund dividends for our shareholders. We are also well aware of the need to improve capital efficiency. We intend to use debt financing flexibly, taking advantage of the current favorable financial environment that allows us to secure funds at low interest rates over long periods. We will use debt financing in a disciplined way, taking into account the Group’s ability to repay debts by operating cash flow and maintaining our shareholders’ equity ratio at the current level in order to maintain financial stability. Also, we are targeting a Single A flat credit rating or higher (issued by a Japanese credit agency) to support the Group’s strong funding capabilities.

Strategic Capital Allocation to Increase Corporate Value

In the previous JAL Group Medium Term Management Plan for Fiscal Years 2012 to 2016, we had placed a priority on increasing equity capital amounts and building a solid financial base that would establish a sound financial structure and high resilience to risk. We targeted operating profit margin of 10% or above and a shareholders’ equity ratio of at least 50%. We have achieved a shareholders’ equity ratio of around 60%, showing the progress we have made in creating a solid financial base. We have stepped forward to the next stage, considering the improvement of capital efficiency that includes the management of an appropriate level of cash and deposit amounts on hand. Therefore, our basic policy is to strategically allocate capital to increase corporate value, while maintaining a sound financial structure and high capital efficiency. In the Rolling Plan 2018, we made it clear to our investors the level of liquidity we need to maintain. From the perspective of stable operation, we aim to maintain cash and deposit on hand at an equivalent level of roughly 2.6 months of annual sales turnover and to treat any exceeding amounts as additional capital that can be allocated at our discretion. To reach this amount, we considered the amount of liquidity required for normal operations, including seasonality and possible declines in cash flow, in the event of an economic crisis as severe as the global financial crisis in 2008.

As explained earlier, we plan to use interest-bearing debts to...
**MESSAGE FROM THE CFO**

**Building Trust with Our Investors Through Close Communication**

To provide investors a clearer picture of our business and make it easier to evaluate, we have improved the quality of information content provided at briefings of our management plan and financial results, and increased opportunities for communication. We also proactively disclose data which had not been previously disclosed, e.g., simulations of impacts of fuel prices and exchange rates on profit and expected benefits of our new passenger service system, including costs and revenue forecasts and projected timing of those benefits.

Additionally, capital policy disclosure has been made more detailed than it had previously been, including the amount of capital available for allocation, and the basis for our calculations. Based on this clearer disclosure policy, we intend to build a more trustworthy relationship with our investors through more opportunities for direct feedback and interactive communication.

At the same time, the Board of Directors has said they require more feedback from our investors. Therefore, we collect information from meetings with investors such as the topics discussed and questions raised, and report back to the Board.

**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

<table>
<thead>
<tr>
<th>Capital investments for fiscal years 2018-2020</th>
<th>Aircraft</th>
<th>Ground, IT, etc.</th>
<th>Replacement investments</th>
<th>Growth investments</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Growth investments</td>
<td>220 billion yen</td>
<td>210 billion yen (2) + (4)</td>
<td>210 billion yen (3) + (4)</td>
<td>440 billion yen</td>
<td>660 billion yen</td>
</tr>
<tr>
<td>Generate new cash flow</td>
<td>Investment to achieve extraordinary growth</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(2) Replacement investments</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Replacement of existing old aircraft, equipment, etc.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Physical quality service on efficiency</td>
<td>50 billion yen</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(2) Growth investments</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(3) Strategic growth investment line</td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

**Close Communication**

To our Shareholders and Investors

Flight safety is the top priority of the JAL Group and we will steadily work to maintain safe operations. Meanwhile, the airline industry, particularly in Japan, is now an industry experiencing great growth. As demand for air travel is strong domestically and internationally, the expansion of airport slots at Tokyo's two airports represents a major business opportunity for the airline industry. The JAL Group will challenge this opportunity with courage. To ensure success, we will develop a clear financial policy: strategically allocate our capital to increase corporate value, flexibly respond to changes in the market and stay ahead of our rivals, and maintain stable management and a sound financial base.

I hope this message gives our shareholders and investors a better understanding of the financial strategies of the JAL Group and raises your expectation toward the increase of the JAL Group’s corporate value and shareholder returns, as we grow into the future.

<table>
<thead>
<tr>
<th>FY2018-2020 Additional Capital Available for Allocation</th>
<th>Capital Investments to achieve extraordinary growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>(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.</td>
<td></td>
</tr>
<tr>
<td>(2) Actively promote further growth investments and create maximum free cash flows.</td>
<td></td>
</tr>
<tr>
<td>(3) Utilize interest-bearing debt for growth investments and improve capital efficiency.</td>
<td></td>
</tr>
<tr>
<td>(4) Strategically allocate additional capital.</td>
<td></td>
</tr>
</tbody>
</table>

**Further increase shareholder returns**

- Pay stable and highly predictable amounts of dividends, taking into account ROE (Dividend on Equity Ratio) *2 in addition to the payout ratio.
- Consider and exercise share repurchase in a timely manner

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*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)
MEDIUM TERM MANAGEMENT PLAN ROLLING PLAN 2018

JAL Vision
The company we aspire to be

Announced in April 2017, the JAL Group Medium Term Management Plan for Fiscal Years 2017-2020 presented the JAL Vision of the company we aspire to be. In Rolling Plan 2018, we presented a new concept called the Grand Design, which outlines the concrete, quantitative profile that will result from realization of the JAL Vision.

JAL Vision
To realize the JAL Group Corporate Policy and become “The world’s most valued and preferred airline,” we will focus on the following while continuing our unwavering efforts and determination in maintaining flight safety

Positioning of Rolling Plan 2018
The pursuit of our vision continues

In fiscal year 2017, the first year of our Medium Term Management Plan, we accelerated initiatives to “transform JAL into a truly global airline” and launched initiatives to “create new values one step ahead of competitors.” We have identified fiscal year 2018 as a year to accelerate growth through innovation. The JAL Group’s initiatives will contribute to the success of the Tokyo 2020 Olympic and Paralympic Games and to reaching the target of attracting 40 million overseas visitors to Japan annually. In parallel, we will make steady progress with our sights set on the next stage of growth from fiscal year 2021.

Within this 10-Year Grand Design period, we will

1. Transform JAL into a truly global airline
As a Japanese carrier, we will leverage Japan’s uniqueness and strengths, many of which are acclaimed around the world, and further expand our business in global markets. We aim to become an airline that is recognized and supported by customers in both Japan and around the world. To accomplish this, we will promote diversification of values and human resources, and adapt flexibly and speedily to global changes.

2. Create new values one step ahead of competitors
We will continue to embrace new challenges and be one step ahead of competitors in the industry. We will continuously work to create relevant and inspiring value offerings. To accomplish this, we will treat each and every customer encounter as unique, and provide unparalleled travel experience through interlinking highest service quality and latest digital technology.

3. Achieve sustainable growth
Being in a competitive and volatile industry, we will continue our focus on balancing growth and stability. To accomplish this, we have set dual goals of both high profitability and financial stability. We will actively invest in future growth, pass on benefits to customers, shareholders, and staff, and contribute to regions and the society at large.

 Within this 10-Year Grand Design period, we will

- Service over 500** major cities in the world
- Have 50%*1 of revenue from overseas sales for international passenger operations
- As a group of professionals that are able to dynamically accommodate with multi-cultural and diversified markets and environments
- Provide a stress-free travel experience for all our customers
- Create new businesses and services that stimulate air travel demand
- Adapt new technology and source capabilities to improve quality and productivity, and to innovate customer experience
- Aiming to maintain the target of profit margin 10% or above, achieve Operating Revenue 2 trn yen, Operating profit 250 bn yen, EBITDA 3 trn yen
- Maintain safe operations and lead development of the airline industry
- Actively contribute to tackling social issues such as SDGs**

*1 As of March 2018, 343 cities, including alliances and codeshares
*2 FY2018 40%

*1 Global Sustainable Development Goals

FY 2017

FY 2018 ~ 2019

<table>
<thead>
<tr>
<th>Challenge to transform JAL into a truly global airline</th>
<th>Challenge to create new values one step ahead of competitors</th>
<th>Challenge to achieve sustainable growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>[So far]</td>
<td>[Growth initiatives]</td>
<td>[So far]</td>
</tr>
<tr>
<td>JAL Focus</td>
<td>JAL Focus</td>
<td>JAL Focus</td>
</tr>
</tbody>
</table>

**2020 Targets

<table>
<thead>
<tr>
<th>Revenue</th>
<th>Operating profit</th>
<th>EBITDA</th>
</tr>
</thead>
<tbody>
<tr>
<td>1,600 bn yen</td>
<td>180 bn yen</td>
<td>350 bn yen</td>
</tr>
</tbody>
</table>

- Inbound demand 2017 mean 28.69 million
- 2020 target 40 million
- 2030 target 60 million

* Additional slots at metropolitan
JAL Focus

2 key drivers for growth

Refine Our Full Service Carrier (FSC) Business [Top Out]

Networks
We see the expansion in functions scheduled for 2020 at metropolitan airports as a business opportunity and will be rolling out new routes with potential to expand economic contacts with Japan and increase the number of overseas visits to provincial areas. In addition to our own flight operations, we will also actively expand tie-ups with new business partners beyond the scope of existing alliances to enhance our global network.

Products and services
To ensure that all customers enjoy a stress-free experience, we aim to provide customers worldwide with a comfortable travel environment combined with personal and timely service. In fiscal year 2018, we will introduce inflight satellite television, and from fiscal year 2019, when we introduce Japan’s first Airbus A350-900 aircraft, each seat on domestic routes will have an individual monitor and power supply. We will also enhance multilingual service provision and expand the range of inflight menus catering to diverse dietary needs as part of measures to support an optimal travel experience for all customers.
Expand Business Domains [Stretch]

Aspiring to be a company that offers new value to customers, local communities, and society, the JAL Group will seek to launch growth businesses that build on its store of expertise and its customer base. We will therefore work to promote joint projects with partners in other industry sectors that stimulate demand for inbound travel to Japan and support regional revitalization.

We will also seek to expand the provision of commissioned services in airline-related business domains, and to create new businesses and services that stimulate air travel demand.

Airline-related New Business Domain Revenue Target: ¥100 billion (1.3 fold increase from FY2016)

Foundation for Innovation

Human Resources × Technology

By combining advanced technology with the human resources which are JAL Group’s strength, we aim to realize innovation and thereby accelerate growth. By nurturing human resources who can link individual ideas and customer needs with the creation of new concepts, we will work to create a constant flow of new products, services, and businesses, in this way achieving sustainable growth.

To build a foundation that cultivates innovation by joining Technology and Human Resources together

Highly aspiring organizations

• Build a highly specialized professional team utilizing technology and the individuality and talents of each employee
• Improve the quality and speed of decision-making through autonomous breakthrough leaders incorporating OODA** principles.

The power of individuality

• Improve services to achieve the inbound visitors target by improving intercultural communication skills
• Create environments where diverse human resources can take active part, as a leading company of diversity management
• Achieve JAL Group female manager ratio of 20% by FY2023 and 30% thereafter.

Job satisfaction and high productivity

• Practice new workstyles ahead of other entities such as the “workshop” model through coordination with local governments.
• Realize operation process innovation utilizing AI and robotics.
• Create a health management model through industry-academia collaboration.

Embody the JAL Philosophy

*1 Proof of Concept
*2 OODA: Observe/Orient/Decide/Act A decision-making process to enhance speed and creativity through the OODA Loop.
Progress of Medium Term Targets

The JAL Group will work to achieve management targets in three areas, safety, customer satisfaction and finance, while upholding our policy to maintain flight safety, the basis of the Group’s existence, and to realize our overarching management goal, the Corporate Policy.

Medium Term Revenue and Profit Targets

Looking ahead toward fiscal year 2020, we expect to gradually increase capacity such as upgauging on domestic flights, given the increase of international flight slots at Narita and Haneda airports. We also aim to increase revenue in operations outside the full service carrier business. As a result, our targets for fiscal year 2020 are sales turnover of 1.6 trillion yen and operating profit of 180 billion yen.

| Indicator                        | FY2017 result | Actions                                                                                                                                
<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>Safety</td>
<td>0</td>
<td>• Implement a risk management system which grasps signs of serious trouble based on data, utilizing a most advanced integrated safety database.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Reinforce recurrence prevention and proactive prevention utilizing new human factor analysis methods.</td>
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<tr>
<td></td>
<td></td>
<td>• Continue to hold safety awareness education seminars based on the “Three Actuals” (the actual place, items, people).</td>
</tr>
<tr>
<td>Serious incidents</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Customer Satisfaction</td>
<td></td>
<td></td>
</tr>
<tr>
<td>NPS (Net Promoter Score)</td>
<td>+1.7 Points</td>
<td>• Further refine JAL’s strengths and utilize ICT/IoT capabilities to deliver exceptional customer service and meet needs of diversified customer groups around the world.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Improve NPS by +5.3pt on domestic flights and +4.5pt on international flights by FY2020.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>* Compared with FY2017/1Q scores</td>
</tr>
<tr>
<td>Operating profit margin</td>
<td>12.6%</td>
<td>• Continue profitability-focused management, maximize revenues and minimize expenses, and achieve “10% or above operating profit margin.”</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Undertake “Lean management” with emphasis on asset efficiency while investing for growth, and achieve “9% or above Return On Invested Capital (ROIC)”</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Consider optional application of International Financial Reporting Standards (IFRS).</td>
</tr>
<tr>
<td>Return on Invested Capital (ROIC)</td>
<td>10.1%</td>
<td></td>
</tr>
</tbody>
</table>

Revenue (JPY billion)

- Other
- Cargo and mail revenue
- Domestic passenger revenue
- International passenger revenue

Operating profit margin

- Operating profit margin

ASK (%)

- International
- Domestic
- Total

AS 2016 result 2017 result 2018 plan 2020 target

Revenue

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY2016 result</td>
<td>1,288.9</td>
<td>1,383.2</td>
<td>1,455.0</td>
<td>1,600.0</td>
</tr>
<tr>
<td>FY2017 result</td>
<td>170.3</td>
<td>174.5</td>
<td>167.0</td>
<td>180.0</td>
</tr>
<tr>
<td>FY2018 plan</td>
<td>109</td>
<td>107</td>
<td>105</td>
<td>105</td>
</tr>
<tr>
<td>FY2020 target</td>
<td>125</td>
<td>117</td>
<td>117</td>
<td>117</td>
</tr>
</tbody>
</table>
HUMAN RESOURCES STRATEGY

We support all staff in their efforts to pursue the JAL Vision by creating work environments and systems that allow each individual to work independently and be highly motivated.

Creating Systems to Practice the JAL Philosophy and Embrace Challenges for Personal Growth

The most important goal of the JAL Group is to realize the Corporate Policy, which first states that we will “Pursue the material and intellectual growth of all employees.” First of all, my greatest mission as General Manager of Human Resource Management is to create an environment where every staff is actively involved in and enthusiastic about work.

On creating a positive work environment, we will work to nurture human resources who challenge themselves with courage. This will be approached from two aspects: cultivate staff awareness to think and act independently and provide them with opportunities to take on challenges.

To develop human resources capable of adapting speedily and appropriately to the rapidly changing external environment, we have introduced JAL OODA as a tool to improve the quality and speed of decision-making. We took the elements of OODA, Observe, Orient, Decide and Act, and arranged them to create JAL OODA. To promote this decision-making process, we have launched three initiatives: promote employee autonomy through education seminars, demonstrate autonomy and independence without waiting for orders, and support autonomous self-governing organizations by reviewing business practices.

Under the slogan of our human resources strategy, “Link the contribution of individual strengths to value creation,” we will further refine and vigorously promote the following four measures as set out in Rolling Plan 2018.

- Build mentally and physically healthy, highly motivating and productive work environments
  We will develop highly productive work environments through workstyle innovation, wellness activities and other measures to provide opportunities for the active participation of diverse human resources and create an environment essential to the attainment of sustainable growth.

- Encourage expression of individuality in an atmosphere of mutual respect
  We will continue working to cultivate global human resources and promote diversity in order to make JAL a truly global airline where diverse human resources express their individuality.

- Build challenging organizations that realize value creation
  To “create value one step ahead of competitors,” we will build organizations that possess a challenging spirit. Given the dramatically changing environment, we will nurture leaders who meet challenges and spontaneously propel reforms. We will also encourage professional development among staff. In these ways, we aim to become a company that has gathered momentum for value creation and where staff work enthusiastically to turn their ideas into reality.

- Practice the JAL Philosophy more intensively to achieve targets
  The basis of these measures is to practice the JAL Philosophy more intensively. For the philosophies to permeate the company, we will encourage each staff to practice them on improving his or her understanding and link their efforts to the achievement of individual and organizational targets.

Human Resources × Technology = Innovation

An important issue in our human resources strategy is building systems which promote independent thinking to create new businesses and services. The basis of generating new ideas and innovations is termed as “Human Resources x Technology.” In other words, we will combine the ambitions of “what I want to be or do” of each staff who practice the JAL Philosophy and the rapid evolution of technologies to design, create and deliver new value.

Our greatest emphasis is on developing human resources who use their own discretion and judgment and providing them with opportunities to voluntarily meet challenges. Therefore, we have established evaluation criteria to accurately evaluate their challenges and entirely reviewed our employee education programs. We will build a framework to nurture diverse human resources to welcome a diverse range of guests under the management policy, “Transform JAL into a truly global airline.”

Supporting JAL Professionals and Realizing the Corporate Policy

Workstyle innovation is the very essence of our Corporate Policy and an issue we have tackled based on a roadmap planned out in 2015. Our target total work hours* is 1,850 hours and we are very close to hitting it. Regarding health management, a Health Management Officer was newly appointed last year and began releasing messages from the management concerning employee health. We also expanded our support system for mental health from cockpit crew and cabin attendants to ground staff and Group company staff.

In the sense that we operate aircraft safely, JAL Group’s human resources are already a professional team. On top of this, it can be said that human resources who can meet challenges to realize the Corporate Policy are true professionals. By supporting true professionals, we will support the company in realizing the Corporate Policy.

- Build mentally and physically healthy, highly motivating and productive work environments
- Encourage expression of individuality in an atmosphere of mutual respect
- Build challenging organizations that realize value creation
- Practice the JAL Philosophy more intensively to achieve targets
- Promote health management

* Total work hours (annual) = standard number of work days per year x standard number of work hours per day (8 hrs) + overtime and rest day work hours –[(number of days of annual paid leave + number of days of special leave + number of days of work absence) x standard number of work hours per day (8 hrs)]
HUMAN RESOURCES STRATEGY

Diversity and Inclusion

In 2014, JAL Group top management declared their commitment to diversity. Since then, we have aspired to be a company where everyone can work in a positive atmosphere regardless of gender, age, nationality, race, ethnicity, religion, social class, disability, sexual orientation, gender identity, career or other personal attributes.

In initiatives to date, we have established an organization for the promotion of diversity in the Human Resources Division to create a foundation for welcoming diverse human resources.

Regarding individual measures, we decide on key performance indicators and then check their progress in meetings attended by the relevant directors.

Building on this foundation, we will extend measures to promote human resources diversity going forward with the aim of becoming a leading company in diversity management.

Career opportunities for female employees

We announced numerical targets of a 20% ratio of female managers within the JAL Group and a 15% or higher ratio of female managers at section head level or higher in JAL by fiscal year 2023. We are continuing with related initiatives centered on improving work environments, strengthening human resources cultivation and developing the corporate culture. The current number of female executives is 10.

Cultivating global human resources

With the aim of developing human resources who respect and can adapt to diverse cultures, we are working to nurture a mental approach that is understanding of other cultures and to improve intercultural communication abilities.

For staff in our Japan region, in addition to overseas postings, we offer other opportunities to experience working in or interacting with other cultures. These include external training schemes, chiefly through the JAL Global Challenge Program, a program launched in fiscal year 2017 which through young mid-level staff can access internships at overseas enterprises. In fiscal year 2018, we will also promote e-learning programs in understanding other cultures and introduce initiatives to raise the overall level of English-language skills and stimulate foreign language study.

For staff in overseas regions, we provide training courses to get to know the whole of JAL and long- and short-term postings to the Japan region. Additionally, we promote interaction with staff in the Japan region and create opportunities to cultivate mutual understanding. By progressing with this global approach, we aim to "stay one step ahead in value creation."

Participation in JAL Global Challenge Program

This training program has as its objective to develop human resources who will help JAL "stay one step ahead in value creation" as it transforms into a truly global airline. It offers staff the opportunity to experience working at an overseas venture business in a different industry sector.

I went to work at a venture business in India that employs around 200 people in IT development. Before then, I had only a vague idea of India, but after I started actually working with them, I was impressed by the keenness to study and the friendliness of Indian people.

From my experience of working at the venture business and living in India, I learned to take the unexpected in my stride and to cultivate a wide variety of interests. I also understood that building relationships of trust with people regardless of language and culture is important when operating in an international context. I feel that my mission now is to share my experience with as many colleagues as possible to ensure that JAL can build trust with people around the world.

LGBT* initiatives

The JAL Group works to promote understanding of LGBT and also to ensure that its in-house systems are LGBT-friendly. As part of this, in fiscal 2017, JAL established a system under which staff can register their same-sex partner, who then, along with their family members, enjoys the same benefits as afforded to the legally married opposite-sex partners of staff and their families. The JAL Group believes in offering professional opportunities to diverse human resources and continues to roll out initiatives to create a work environment where all staff can feel secure and confident.

* A general term for the sexual minority groups Lesbian, Gay, Bisexual and Transgender.

Opportunities for people with disabilities

The JAL Group actively promotes the employment of people with disabilities and aims to create an environment in which having a disability is not seen as a career barrier. For the JAL Group, promoting opportunities for people with disabilities is important as a means of ensuring diversity in human resources. Initiatives are implemented on a Group-wide basis, with training given to reinforce coordination with the human resources managers of Group companies. In this way, we ensure that each Group company actively promotes the employment of people with disabilities.

Opportunities for senior staff

The JAL Group has put in place systems that offer active opportunities for staff who wish to continue working after retirement age. Around 75% of those reaching retirement age take advantage of these systems (as of July 2018).

To demonstrate that JAL is an organization with high aspirations, we will expand opportunities for senior staff in the future. We believe that it is important not only to benefit from the experience and knowledge which they have built up over their many years of service, but also to transmit to junior staff the special approach and attitudes to work that are the mark of veterans.

The JAL Nadeshiko Lab entered its third year of operation in fiscal year 2017, during which it extended the range of activity of its researchers beyond the Tokyo region to bring its activities closer to a greater number of staff.

* The JAL Nadeshiko Lab is a cross-departmental project, including Group companies in its remit, which was founded in September 2015 to promote professional opportunities for women and other diverse human resources.
HUMAN RESOURCES STRATEGY

Workstyle Innovation

We continue to move forward with a range of initiatives to innovate workstyles and create a basis that enables everybody to work with positive efficiency. Innovations include the utilization of IT tools, changes in the office layout and enhancement of teleworking systems, which of all allow staff to determine when and where they work.

In fiscal year 2017, we introduced the “workation” system, in which teleworking is used to enable staff to spend some time on work tasks during vacations. It is hoped that this will encourage staff to take longer vacations.

In fiscal year 2018, we will launch initiatives using artificial intelligence and robotics to speed up the review of work processes and the integration of common tasks.

Total work hours*

By encouraging varied workstyles and creating a corporate ethos that is fair to staff whose time is limited by duties such as childcare or nursing care, JAL seeks to become a company where all can participate.

We advocate a healthy work-life balance that allows all staff to perform their duties efficiently in order to improve productivity and use the time saved for physical and mental recreation and self-development. We believe that when these experiences are fed back into the workplace, new value will be created, which will in turn lead to corporate growth. Consequently, we are taking measures to encourage to plan taking paid leave and to limit work hours to an appropriate level.

In fiscal year 2017, the average annual paid leave taken was 17.9 days, or 89.5% of the total entitlement, while the average monthly overtime total was 7.9 hours (including general JAL staff on shift work). The actual average for total work hours in fiscal year 2017 was 1,888 hours, against a target figure of 1,850 hours, representing an 81.5% fulfilment of target.

As we approached the new fiscal year, we decided to hold an overnight camp where we could remove ourselves from the day-to-day work routine and take time to discuss the issues we need to tackle.

When we were discussing the camp venue, we found out that a satellite office had been set up at Kamiyama in Tokushima Prefecture. We decided to use it for our camp in the hope that the location would allow us to take a broader view and would stimulate insights from new perspectives.

As part of workstyle innovation, we have a system of teleworking in place, so we were able to use the in-house infrastructure and materials in the usual way, but the relaxed mood in the rich natural setting of the camp led to lively discussions.

It became clear to me that workstyle innovation not only leads to flexible work patterns, but is also a way of stimulating new ideas.

Promotion of Health Management

The good mental and physical health of all staff is an essential precondition for driving forward efforts to become the world’s most preferred and valued airline and also for promoting the material and intellectual growth of all staff as advocated in the JAL Group Corporate Policy.

Accordingly, the JAL Group has formulated the JAL Wellness 2020 health promotion plan in coordination with the Medium Term Management Plan. Focusing on the key themes of lifestyle-related illness, cancer, mental health, smoking and women’s health, we cooperate through the plan with staff, companies and health insurance associations to enhance the health of the precious asset represented by our staff and their families.

In recent years, we have coordinated with initiatives in diversity and inclusion and in workstyle innovation to support staff to continue working when they face a range of issues, including the challenge of combining work commitments with cancer treatment.

Going forward, the JAL Group will redouble its efforts to promote health management through two main approaches: strong leadership from management headed by the Health Management Officer, and initiatives introduced at individual locations by Wellness Leaders, who are appointed to workplaces throughout Japan to promote health.

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* Total work hours (annual) = standard number of work days per year x standard number of work hours per day (8 hrs) + overtime and rest day work hours – [(number of days of annual leave + number of days of special leave + number of days of work absence) x standard number of work hours per day (8 hrs)]

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Ratio of annual paid leave taken (%)</th>
<th>Monthly average overtime and rest day work hours</th>
<th>Number of telework cases (Total number of staff)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>84</td>
<td>11.4</td>
<td>1,729</td>
</tr>
<tr>
<td>2016</td>
<td>85.5</td>
<td>12</td>
<td>2,922</td>
</tr>
<tr>
<td>2017 (FY)</td>
<td>89.5</td>
<td>7.9</td>
<td>3,701</td>
</tr>
</tbody>
</table>
ESG MANAGEMENT

Business operations in harmony with the environment and society

We are striving to create a sustainable society through the rigorous pursuit of safety and sense of security, and business operations in harmony with the environment and society.

With the aggravation and intensification of social issues in recent years, it has become a vital mission of companies to adopt a more committed stance to realize business operations in harmony with the environment and society. We feel that we need to be a company which gains the trust of society through efforts to rigorously pursue safety and sense of security and proactively tackle social issues. Therefore, we have included “Contribute to resolving social issues” such as the SDGs in our 10 Year Grand Design, which encompasses the three years covering the new Medium Term Management Plan for Fiscal Years 2017 to 2020 as well as our goals after the year 2020.

The global pledge to “leave no one behind,” which is embedded at the heart of the SDGs must be achieved by 2030. It is inevitable that we implement measures to combat climate change such as CO₂ emission reduction, which is closely linked to aviation. I also feel that the JAL Group can play a major role in contributing to employee motivation, economic growth and community development.

The JAL Group will take action to raise staff awareness of their role in society, conduct operations taking into consideration social impacts and responsibly disclose financial and non-financial information. Furthermore, we will fulfill our corporate mission by implementing measures to raise SDGs awareness internally and externally, deepen the understanding of the SDGs by a greater number of people and contribute to the development of a sustainable society towards a sustainable earth and sustainable human-environment systems.

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Initiatives to Achieve the SDGs

Basic stance

As JAL Group businesses are an integral part of air transport infrastructure, I feel that tackling issues related to our operations first and foremost will contribute to social and economic development.

Based on this thinking, we will pursue initiatives to achieve the SDGs in these areas, on the premise of maintaining flight safety – Coexistence in Harmony with the Earth, Regional Contributions and Nurturing the Next Generation. In addition, we will actively tackle social issues defined in the SDGs such as diversity and inclusion, respect for human rights and corporate governance, which support our business base, while fulfilling our role as an air transport operator.

Importance of internal penetration of the SDGs

In our initiatives to achieve the SDGs, it is important that awareness of SDGs have been shared throughout the JAL Group. We are working to share and penetrate the SDGs by disseminating information through in-house newsletters and the Intranet, and in-house training programs such as initial training for new employees and new managers and seminars by outside lecturers.

<table>
<thead>
<tr>
<th>ESG Categories</th>
<th>Issue to be Addressed</th>
<th>Goal</th>
<th>Relationship with SDGs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environment</td>
<td>Contribute to the Earth (P14-37)</td>
<td>CO₂ emissions that are 23% lower than fiscal year 2015 by fiscal year 2020</td>
<td>*1, *2</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Contribute to Communities (P62, P78-81)</td>
<td>Contributions to regional revitalization through the JAL NEW-JAPAN PROJECT and other projects</td>
<td>*1, *2</td>
</tr>
<tr>
<td></td>
<td>Nurture Future Generations (P62-83)</td>
<td>Swift support for disaster relief efforts and compassionate support for recovery efforts as air transport infrastructure</td>
<td>*1, *2</td>
</tr>
<tr>
<td></td>
<td>Promoting Diversity and Inclusion (P46-47, P58-59)</td>
<td>Reach the goal of 1 million SORAIKU® participants by fiscal year 2020</td>
<td>*1, *2</td>
</tr>
<tr>
<td></td>
<td>Respect for Human Rights (P59)</td>
<td>Achieve 20% of JAL Group members in managerial positions by fiscal year 2023</td>
<td>*1, *2</td>
</tr>
<tr>
<td></td>
<td>Building Sustainable Supply Chains (P60-61)</td>
<td>Appropriately respond to the Sustainable Sourcing Code*1 for the Tokyo 2020 Games</td>
<td>*1, *2</td>
</tr>
<tr>
<td>Governance</td>
<td>Maintain flight safety (P20, P23-27, P126)</td>
<td>Zero aircraft accidents</td>
<td>*1, *2</td>
</tr>
<tr>
<td></td>
<td>Increase customer value (P28-31, P78-81)</td>
<td>Zero serious incidents</td>
<td>*1, *2</td>
</tr>
<tr>
<td></td>
<td>Maximize corporate value through appropriate corporate governance (P62-76)</td>
<td>Achieve the world’s top customer satisfaction by fiscal year 2020 (NPS) - Domestic routes +5pt - International routes +8pt</td>
<td>*1, *2</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Increase corporate value and achieve accountability through highly transparent management and strong management monitoring</td>
<td>*1, *2</td>
</tr>
</tbody>
</table>

*1 A code formulated by the Tokyo Organizing Committee of the Olympic and Paralympic Games aimed at ensuring fairness and integrity as well as economic rationality in the sourcing of products and services essential to the delivery of the Games. The code also encourages procurement practices that give due consideration to sustainability.

*2 Long-term, sustainable benefits for society.

Junko Okawa
Vice Chairman
Oversees JAL SDGs

* SDGs: Sustainable Development Goals. A framework of realistic and concrete initiatives aimed at solving poverty, hunger, energy, climate change, social justice and other social issues. The SDGs were adopted at the United Nations Sustainable Development Summit held in New York in September 2015. They comprise 17 goals and 169 targets to be achieved by 2030. Companies are seen as key players in reaching these goals.
JAL Group Basic CSR Policy

We will contribute to realizing a sustainable society through efforts to resolve social issues, anchored in our firm commitment to flight safety which is the basis and value of existence of the JAL Group.

JAL Group Corporate CSR Policy

The JAL Group will: Pursue the material and intellectual growth of all our employees; Deliver unparalleled service to customers; and Increase corporate value and contribute to the betterment of society.

1. Leverage the advantages of our core air transport business:
   Work to solve social issues through the air transport business, with top priority on ensuring flight safety.

2. Promote initiatives across the JAL Group:
   Implement Group-wide initiatives targeting three CSR issues, cooperating with Group businesses as necessary.

3. Make a broad contribution to society as a member of society:
   As a member of society, we will communicate the JAL Group’s firm commitment to safety and its safety initiatives, while working to resolve a broad range of issues facing society.

4. Focus on JAL’s unique strengths:
   Develop initiatives and create value that only JAL can deliver through efforts that embody the JAL Philosophy, the basis of shared awareness, values, and thinking of all Group employees.

JAL Group’s Key CSR Issues (Materiality)

We will maintain flight safety, which is JAL Group’s universal priority issue, define our priority issues (materiality), Coexistence in Harmony with the Earth, Regional Contributions and Nurturing the Next Generation, and resolve social issues while referring to ISO 26000 and the Sustainable Development Goals (SDGs).

CSR Management

To contribute to the realization of a sustainable society, the CSR Management Framework shown on the left. The Committee implements the PDCA cycle effectively by clarifying JAL Group’s present situation of fulfilling society’s expectations, clarifying issues, and considering the direction of responses, and enhances and promotes JAL CSR activities.

Through dialogues with external experts, we strive to gain our stakeholders’ understanding of JAL Group initiatives, and identify and adapt to changes in the business environment to resolve social issues.

A broad perspective contained in environmental problems

We held a discussion with the World WildLife Fund for Nature Japan (WWF Japan) on April 6, 2018. WWF Japan explained global movements to realize a low-carbon society after the Paris Agreement and presented issues and expectations towards the JAL Group. We agreed with WWF Japan that JAL should press forward based on long-term goals.

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ESS Management based on the JAL Philosophy

We discussed ESS management with Professor Inamori on April 18, 2018. Professor Inamori pointed out that there are important perspectives and issues that must not be overlooked when implementing measures expected of us in promoting ESS management. We also renewed awareness of the importance of disseminating information on our activities.

< Views from the members >

JAL should position environmental initiatives and information disclosure as its priority initiatives, and further, recognize the direct impact of aircraft renewal, route changes and other measures on environmental activities.

I am aware that the JAL Philosophy has penetrated into JAL Group staff, but the main doctrine is to think and do what is right as a human being. Given this objective, every staff has a responsibility for environmental considerations and ESG. When briefing staff on ESG, you should go back to Dr. Inamori’s philosophy of “Do what is right as a human being,” and as a result, staff will get a clearer picture of the significance of ESG.

Bribery and anti-competition practices are the greatest risks when companies expand their business internationally. Bribery, in particular, undermines discipline and order and causes administrative corruption of the counterpart country. This theme leads to the environment and human rights; therefore, you should be particularly aware of these issues when promoting ESG.

I hope that the Olympic and Paralympic Games Tokyo 2020 will leave proud legacies for children across Japan. As JAL has considerable influence in society, please involve your suppliers and promote the creation of a sustainable society.
Initiatives to Coexist with the Earth

Reducing Environmental Impact and Promoting Environmental Protection through Business Activities

Basic Approaches

JAL Group’s Environmental Guidelines and Concrete Initiatives

The JAL Group recognizes the impact of its air transport business on the environment and understands it must work to reduce that impact and protect the environment through measures in all aspects of its business.

To this end we have developed environmental guidelines highlighting areas that the Group needs to tackle and a concrete action plan.

Environmental Guidelines and Action Plan


Tackling Climate Change

CO2 Emissions Reduction Target and Progress

To reduce its environmental impact, the JAL Group has established a target of reducing CO2 emissions from aircraft to 23% per revenue ton kilometer below the fiscal year 2005 level by fiscal year 2020.

Through measures taken in daily flight operations and scheduled fleet upgrades for improved fuel economy, we reduced CO2 emissions in FY2017 by 2.4% year over year, and at the end of FY2017 a cumulative reduction of 17.8% from 2005.

CO2 Reductions

Global Efforts to Reduce CO2 Emissions

At the general assembly of the International Civil Aviation Organization (ICAO) convened in 2010, two aspirational goals were agreed on for the international aviation sector: 2% annual fuel efficiency improvement and carbon neutral growth from 2020 onwards. Airlines throughout the world are working to achieve these goals.

Achieving the goals will require initiatives in the following four areas: 1) New aircraft related technology, 2) Operational improvements, 3) CO2 emissions trading, and 4) Utilization of biofuel.

The JAL Group is launching new initiatives to further utilize biofuel while continuing to enhance its existing measures.

1) New aircraft related technology

Upgrading to fuel-efficient aircraft such as the Boeing 787 can reduce CO2 emissions by approximately 15-20% compared to conventional planes. While further stabilizing its financial base, the JAL Group will continue to upgrade its fleet based on a plan to more fuel-efficient aircraft to further reduce its CO2 emissions.

2) CO2 emission reductions from operational improvements

In addition to eco-flights by cockpit crew through optimal timing and selection of operational methods with top priority on flight safety, we are also conducting various activities in workplaces to reduce CO2 emissions, such as reducing aircraft weight to improve fuel economy and regular engine cleaning.

CO2 reduction initiatives are also being promoted through the Fuel-saving Project consisting of activities across organizations. Progress is monitored and results are shared throughout the company in order to implement the FSCA cycle for reducing CO2 emissions.

Engine water washing

We regularly wash aircraft engines to remove dust and other small airborne particles stuck inside the engines in order to maintain and improve fuel economy.

Reduced use of auxiliary power unit (APU) (closed cabin shades exercises)

Closing window shades blocks out sunlight, lowers cabin temperatures, and reduces use of air-conditioning. This shortens the operating time of the APU at the rear of the aircraft, thereby reducing CO2 emissions.

Lightened aircraft loads

The amount of water loaded for use onboard our aircraft is being optimized based on past usage records in order to lighten aircraft weights. This initiative received the Awards Committee Chairman’s Special Prize from the Japan Aeronautical Engineers’ Association in fiscal year 2017.

Ascent with early acceleration

Reducing air resistance

Setting flaps at shallow angles and delaying the timing for lowering the wheels and flaps, while maintaining safety, is being conducted to minimize inflight air resistance and reduce CO2 emissions.

Reverse thrust measures

When certain conditions are met to allow the aircraft to stop safely, the engines’ reverse thrusters, which are used to decelerate when landing, are deployed at minimum output (idling) in order to reduce CO2 emissions.

Engine out taxi – use of only one engine on the ground

When taking to parking spots, our cockpit crews shut down one of the aircraft’s two engines to reduce CO2 emissions, only when specified conditions are met.
3) CO₂ emissions trading

The ICAO General Assembly convened in October 2016 agreed to institute the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA), which mandates that international air transport operators reduce CO₂ emissions that exceed a standard level through emissions credits or use of biofuel.

The JAL Group is redoubling its efforts to reduce CO₂ emissions and has started to implement measures to reduce impact on profitability, including use of biofuel at prices equivalent to conventional fuels.

4) Utilization of biofuel (Sustainable Aviation Fuel: SAF)

As the all-important key to major CO₂ reductions, biofuel is being developed in countries worldwide. The full-scale use of biofuel on a global scale is expected from 2030, but the JAL Group is already working to increase its use in order to make major reductions to CO₂ emissions by its aircraft and help realize a recycling-based society.

Initiatives in Japan

The JAL Group conducted a test flight in January 2009 using Asia’s first biofuel produced from non-edible plant oils. Later, under a government-industry-academia framework for realizing biofuel production in Japan, we served as the Secretariat for the working group which studied the feasibility of biofuel production from city waste products. As result, we believe that the most promising approach is manufacturing biofuel from waste such as city garbage, which has a major advantage in terms of procurement of raw materials and transport costs.

We intend to continue contributing to this effort as a member of the All Japan Team consisting of government, industry, and academia with a view to establishing a roadmap to commercial flights using domestically produced biofuel by 2020 and full-scale commercial production from 2030.

Process of converting waste to aviation biofuel

<table>
<thead>
<tr>
<th>Raw materials</th>
<th>Elimination of impurities</th>
<th>Separation</th>
<th>Gasification</th>
<th>Production of ethanol using fermentation</th>
<th>Conversion to jet fuel (alcohol-to-jet fuel process)</th>
</tr>
</thead>
<tbody>
<tr>
<td>City waste products</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Industrial by-products</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agriculture by-products</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Raw materials</td>
<td>Elimination of impurities</td>
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<td>Production of ethanol using fermentation</td>
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</tr>
</tbody>
</table>

Initiatives in the U.S.

As commercial production of biofuel has already started in the U.S., the JAL Group is actively working to develop business relationships with strategic partners to promote biofuel, including participation in an event* where commercial flights are operated with biofuels which meet criteria and are of the same quality as conventional fossil fuels.

Initiatives as an Eco-First Company

In 2010, we fulfilled our Eco-First Commitment, leading to official certification as an Eco-First Company. We will continue to implement our Sky Eco program, which aims to ensure the Earth and its abundant resources are passed on to the next generation so that they can continue to view and enjoy our beautiful planet from the skies.

Initiatives at Ground Facilities

Waste reduction and recycling

We promote the 3 R’s (Reduce, Reuse, Recycle) to help achieve a recycling-based society and continue to conduct activities such as discontinuation of printed manuals for cabin attendants, recycling of beverage cans, newspapers and plastic bottles from aircraft cabins, and reuse of air cargo packing materials in recycled plastic products.

Biodiversity Initiatives

Inflight meals and other initiatives

Inflight meals use food ingredients sourced for sustainability, including coffee beans certified by the Rainforest Alliance on international and domestic flights.

Buckingham Palace Declaration

The JAL Group has signed the Buckingham Palace Declaration prohibiting the transport of illegal wildlife and wildlife products.

The JAL Group works to protect the red-crowned crane, one of Japan’s designated natural monuments. In October 2017, volunteer JAL Group staff helped maintain the crane’s winter feeding grounds in Tsurui Village, Hokkaido.

New initiatives

The JAL Group, Tokushima Prefecture and Tokushima Airport Building concluded an agreement on conducting joint environmental initiatives at Tokushima Awadon Airport. We first plan to establish a hydrogen station at the airport in fiscal year 2018 and then begin using hydrogen forklifts that run on fuel cells.
Health Management

Ensuring flight safety, the basis of existence as a company, and providing top-level services are ultimately dependent on the physical and mental health of our staff. The JAL Group promotes health management under the strong leadership of top management, led by the Health Management Officer.

In addition, starting this year, we have actively participated in joint projects between industry, government and academia in order to proactively incorporate knowledge from external sources and further deepen JAL's health management practices. One such project is the Research Program for Health Behavior Modification by Utilizing IoT, which is aimed at preventing severe diabetes.

Through participation and support for the program, JAL intends to further promote health management within the company while also broadly contributing to the promotion of health in society.

The JAL Group will continue taking measures to maintain and promote the physical and mental health of staff and contribute to society by providing safe and comfortable flights.

Opportunities for Senior Staff

The JAL Group established a framework for continuing employment within the Group after the retirement age for those interested in fiscal year 2012, even before the amended Act on Stabilization of Employment of Elderly Persons went into effect in April 2013. In fiscal year 2017, we revisited our existing program to improve working terms and thereby provide greater opportunities. The improvements included allowing staff to continue working at the same company they worked prior to reaching retirement age. Enabling staff to continue to utilize the knowledge and experience they acquired over many years while transferring their skills to younger staff as a highly specialized professional team is helping to further raise the quality of services we provide to customers.

Opportunities for People with Disabilities

The JAL Group actively promotes the employment of people with disabilities. Kilatto, a coffee shop run by staff with low-level intellectual disabilities, operates at the Group’s Hanaeda and Naha offices and has recently expanded its activities to include temporary operations at JAL Head Office in the Tennozu Building during the summer period when early morning work is encouraged.

In addition, in fiscal year 2017, JAL was contracted by the Ministry of Health, Labour and Welfare to conduct a program for comprehensive support of teleworking by people with disabilities, which is one of the Ministry’s model programs for developing expertise on teleworking. For the program, JAL increased employment and teleworking opportunities for people with disabilities on a trial basis. Further, as a part of the model program, “inclusive design training” was held for staff members at group companies involved in employment of people with disabilities, employees responsible for training staff who frequently interact with customers and other related employees.

Going forward, we intend to increase work opportunities for people with disabilities and further establish a workplace environment defined by mutual respect and cooperation regardless of ability or disability.

Human Right Initiatives

To realize the JAL Group Corporate Policy, we are working to reinforce respect for human rights across the Group by putting our action policy – the JAL Philosophy – into practice. Educating our workforce about human rights is a vital step in eliminating discrimination based on gender, age, nationality, race, ethnicity, religion, social class, disability, sexual orientation, gender identity, career and other personal attributes. To address this issue, we are working to raise staff awareness of human rights through various internal educational programs, such as training courses for new hires and managers.

In compliance with the U.K.’s Modern Slavery Act, we publicly disclose initiatives being conducted by the JAL Group and its suppliers to prevent slave labor and human trafficking.

Within the Group, a hotline has been established accessible to all JAL Group staff to report and discuss harassment-related matters. A promise is also that staff will not be subjected to unfair treatment if they use the hotline.

JAL will continue to respect human rights, appropriately manage risks to prevent actions that infringe upon human rights and work to maintain processes by which reforms are implemented should risks materialize.

LGBT Initiatives

Based on the statement from top management issued in 2016, JAL is continuing activities to deepen understanding of LGBT-related issues.

These have included conducting an e-learning course for all staff and a discussion session with LGBT students who will be starting the job search process. We also conducted training that involved direct discussions with LGBT individuals for staff who interact with customers onboard aircraft and at airport counters and participated in external events promoting understanding of LGBT issues.

Our initiatives have been highly regarded, and in fiscal year 2017, as in 2016, JAL received a Gold ranking in the Pride rating system, established by work with Pride, an LGBT volunteer group that promotes and supports the establishment of LGBT-related diversity management at corporations and other organizations.

We will continue working to deepen understanding of LGBT issues in the JAL Group through such activities as training courses to raise staff awareness and participating in external events.
Supply Chain Initiatives

Building Strong Partnerships with Suppliers and Promoting Sustainable Procurement Activities

With our suppliers

The JAL Group needs the cooperation and support of many suppliers to operate its flights and provide products and services to customers on a daily basis. As explained below, we are working to build strong partnerships with suppliers based on mutual trust by ensuring fair and transparent procurement activities. Showing our appreciation for the work carried out by suppliers is also a key part of our business relationships.

1. Fair and transparent procurement

When selecting suppliers, we assess a broad range of factors, such as the company’s reputation and its corporate social responsibility (CSR) initiatives, in addition to the quality and cost of its products and services and delivery performance. We also work to ensure fair and transparent procurement activities by offering numerous opportunities for many suppliers in Japan and overseas to do business with the JAL Group.

2. To provide safe and reliable services to customers

To ensure security to customers when they board our flights, we are cultivating a culture with our suppliers to put top priority on safety and conduct rigorous quality management to offer the finest hospitality.

3. Promoting procurement based on CSR

We are working with suppliers to promote procurement activities in line with the JAL Group CSR Policy. Specific initiatives are aimed at legal compliance, protecting the global environment, respecting human rights, appropriate labor practices, fair business practices and responding to consumer issues.

JAL Group Supplier Code of Conduct

We established the JAL Group Supplier Code of Conduct in April 2016. The code, which is available in Japanese, English, and Chinese, is based on the principles of the United Nations Global Compact and covers four key areas: (1) human rights, (2) health and safety, (3) business management, and (4) the environment. We ask all our suppliers to understand and comply with the Supplier Code of Conduct.

JAL Group Supplier Code of Conduct

[www.jal.com/envoutilines/secretary/]

Building a sustainable supply chain

To verify compliance with the JAL Group Supplier Code of Conduct, we utilize Sedex Information Exchange Limited (Sedex®), which we joined in 2015.

JAL actively utilizes the CSR information platform provided by Sedex. Initially, we requested suppliers that provide products used directly by our customers, such as inflight meals and merchandise, to become Sedex members, and now in 2018 we are further expanding activities and asking a total of 603 suppliers—selected based on transaction volume regardless of product type or domestic/overseas location—to become a member of Sedex and respond to a self-assessment questionnaire.

Going forward, we intend to conduct supply chain risk assessments based on the results of the self-assessment questionnaire using Sedex and request improvements as needed of suppliers for which it is determined there is a high likelihood of risks materializing.

By coordinating with suppliers through Sedex, we hope to contribute to the attainment of the SDGs and help resolve other issues facing society. In addition, as an Official Airline Partner of the Olympic and Paralympic Games Tokyo 2020, we also intend to actively promote initiatives based on the Sustainable Sourcing Code*

- International standards: ISO 14001, SA 8000, OHSAS 18001, Ethical Trading Initiative (ETI) Base Code, etc.

- 1 Sedex, the Supplier Ethical Data Exchange, is a non-profit organization established in the U.K. in 2004 that provides a platform for managing and sharing corporate ethical information with the aim of ensuring responsible business practices on supply chains.

- 2 A set of guidelines established by the The Tokyo Organising Committee of the Olympic and Paralympic Games to ensure that services truly necessary for the Olympics Games are procured while considering not only economic rationality but fairness, transparency and other ethical principles as well and also to ensure procurement takes adequate account of sustainability issues.

Ceremony for the Procurement Team Award 18

Procurement Division’s Personnel Training and Development

The JAL Group annually conducts training on the basics of procurement for new members of the Procurement Division with a focus on transaction ethics and supply chain sustainability, recurrent training for all members of the Procurement Division and training on international procurement standards with outside instructors in order to further educate and develop our procurement professionals.

In addition, JAL’s Procurement Division is taking the lead in workplace innovation and creating a workplace that allows diverse personnel to excel. JAL was selected from among a number of companies for The GEP Procurement Team Award at the World Procurement Awards 18 held by Procurement Leaders,* a global procurement network.

- 3 One of the world’s largest procurement networks with over 700 global corporations participating.

Ceremony for the Procurement Team Award 18

Business Partner Day*

The JAL Group holds annual communication meeting “Business Partner Day”* with suppliers, primarily companies that indirectly provide materials to the Group. The meeting is used as a forum to ensure suppliers understand the Group’s basic stance on procurement and to share information and ideas. In January 2018, a total of 48 companies participated in this meeting.

During Business Partner Day, we explain the JAL Group’s basic approach to procurement, the JAL Group Supplier Code of Conduct and criteria that have to be met to secure orders. We also encourage suppliers to become members of Sedex and talk about ways of working with them to optimize the management and increase the competitiveness of the entire supply chain. Suppliers are also invited to join JAL maintenance factory tours to give them a deeper understanding of the JAL Group.

* Business Partner Day* are held every year and are organized by the Procurement Division. Similar meetings are also run by the Airport Operations Division, IT Planning Division and other departments based on their areas of specialization.

Supplier Satisfaction Survey

The JAL Group administered a supplier satisfaction survey to 48 companies in February 2018 in order to confirm that procurement activities are being conducted fairly and transparently. The survey found that suppliers both understand and support the JAL Group’s fair and transparent practices. Some suppliers also indicated a desire for improved communication with Procurement Division members. Based on these findings, we will continue to carry out training and other programs for Procurement Division staff.
Regional Contribution Activities

JAL NEW-JAPAN PROJECT

JAL is assisting regions across Japan to discover, commercialize and market hidden tourist spots and distinctive regional products. Specifically, we not only promote popular local delicacies through our inflight magazine, website and inflight meals, but also promote flows of people and goods to the relevant regions through tourism promotion and the Sixth-Sector Industrialization of agricultural, forest and fishery products. Our ultimate aim is to realize sustainable regional development and create new demand for air travel.

Support for Disaster Relief and Recovery Efforts

JAL will continue to fulfill its role as a company responsible for Japan’s air transport infrastructure by providing support to affected areas in the relief and recovery phases after a large-scale disaster.

Post-disaster phase – Relief phase

JAL cooperates in the transport of relief supplies and volunteers to affected areas in the event of a large-scale disaster as a member of the Joint Committee for Coordinating and Supporting Voluntary Disaster Relief. We aim to support flows of people and goods such as emergency relief supplies and contribute to a swift recovery of the affected areas.

Recovery phase

In addition to providing economic support to affected areas such as promoting industrial development and tourism demand, we feel that providing emotional support to the residents in affected areas is also an important duty. Based on this idea, we assist with publicity of regional products in collaboration with prefectural governments and conduct staff study tours in affected areas to support recovery.

Nurturing the Next Generation

JAL SORAIKU®

JAL SORAIKU® is a program which features hands-on programs unique to JAL. It aims at nurturing the next generation by giving children insight into the wonders of the sky and encouraging them to think about their future. We target a total of one million participants by the end of fiscal year 2020.

Content of JAL SORAIKU®

- JAL Factory Tour – SKY MUSEUM
- JAL Paper Plane Classes
- JAL Sky Eco Classes
- JAL Career Talk for Students
- JAL Safety Demonstrations by Cabin Attendants
- JAL Job Interview Simulation for Students
- JAL STEAM SCHOOL

JAL Factory Tour – SKY MUSEUM

JAL Factory Tour – SKY MUSEUM is run at the JAL Maintenance Center adjacent to Haneda Airport. The tours are free and give visitors the opportunity to learn about various types of jobs in an airline and observe aircraft maintenance services at close distance.

JAL Paper Plane Classes

JAL Paper Plane Classes are held by approximately 1,300 JAL Group staff volunteers, who are certified instructors by the Japan Origami Airplane Association. In fiscal year 2017, a total of 33,121 people attended these classes. The JAL Origami Plane World Competition will be held in 2020.

TOPICS

Developing the Next Generation through Sports

JAL is conducting various projects under the theme “Developing the Next Generation through Sports.” The projects are conducted nationwide to support children, who will be the leaders of the future, in making their dreams come true and promoting discovery and learning.

*Asuchalle* School

JAL has been providing all-round support to the Challenge For Tomorrow School visiting program “Asuchalle” sponsored by the Nippon Foundation Paralympic Support Center since April 2017. This program was launched by the Center in April 2016 and provides elementary, junior and high school students with hands-on para-sport experiences with Paralympic athletes and opportunities to listen to their experiences. It is a forum where children learn the value of having dreams and goals, and the importance of removing barriers in society and respecting diversity. With JAL’s sponsorship, the wheelchair and staff involved in the forums are transported by air. In fiscal year 2017, forums were held for 42,741 children at 263 schools and tour goal is 200,000 children at 1,000 schools by the year 2020.

JAL Next Athlete Project

Launched in April 2017, the JAL Next Athlete Project is built on two pillars; Sports Ability Evaluation Workshops and Discovering the Next Generation of Paralympic Athletes.

Sports Ability Evaluation Workshops

By measuring six different sports abilities with the latest special measurement devices, each participant is told which of the 64 sports best suits his or her strength and in which sport that strength can be applied effectively. JAL plans to hold workshops at all 47 prefectures by 2020 to enable children from across Japan to discover their potential and have goals or dreams to work towards.

Discovering the Next Generation of Paralympic Athletes

By contacting our special e-mail address, we send staff to hold a Sports Ability Evaluation Workshop using the special measurement devices mentioned above. We have made steady progress in this activity, as we have been contacted by 73 people, evaluated some of them and referred to the relevant paralympic sports association. JAL will continue to work for Japan’s growth into a caring society.
Directors

Yuji Akasaka
Representative Director, President
Chairman of the Management Committee,
Chairman of the Council for Group Safety
Enhancement,
Chairman of the Corporate Brand Promotion Council,
Chairman of the JAL Philosophy Committee

Yoshiharu Ueki
Representative Director,
Chairman

Eizo Kobayashi
External Director

Sonoko Hachijo
External Director

Masatoshi Ito
External Director

Hideki Kikuyama
Director, Senior Managing Executive Officer
General Manager of the Managing Division Route Marketing

Shinichiro Shimizu
Director, Managing Executive Officer,
General Manager, Secretary's Office

Norikazu Saito
Director, Senior Managing Executive Officer
General Manager of the Finance & Accounting Division

Tadashi Fujita
Representative Director, Executive Vice-President
Chief Wellness Officer
Chairman of the JAL Wellness Promotion Committee

Toshinori Shin
Director, Senior Managing Executive Officer
General Manager of the Flight Operations Division,
Safety General Manager

A Business Base that Supports Value Creation
About the JAL Group
Business Outline
Financial / Data Section
Management Strategies Designed to Create Value
As of July 1, 2018

Yoshinari Ueki
Representative Director, Chairman
From his start as a pilot, Chairman Ueki has accumulated extremely high levels of frontline experience and knowledge on flight safety. As Representative Director and President since 2012, he oversees the preparation of the Medium Term Management Plan and accomplished the Plan through his strong leadership and decision-making capabilities. He brings his experience and expertise to the Board in strengthening its supervisory function as a member of the Nominating Committee, Compensation Committee and other committees.

Junko Okawa
Vice Chairman
Oversees JAL SDGs
Ms. Okawa acquired first-hand experience and insight as a cabin attendant, and from 2008, as General Manager, Cabin Attendants Division, she accomplished various divisional tasks and goals drawing on her strong managerial perspective and high-performance ability. Currently, as Vice Chairman overseeing JAL SDGs, she contributes significantly to promoting business in harmony with the environment and society in order to help bring about a sustainable society.

Yuji Akasaka
Representative Director, President
Chairman of the Management Committees, Chairman of the Audit & Supervisory Board
President Akasaka served mainly in Engineering & Maintenance Division and acquired very high levels of frontline experience and insight into flight safety. He also gained extensive knowledge and a network of connections in the airline maintenance industry. He brought his strong leadership and decision-making capabilities to JAL ENGINEERING CO., LTD. as President since 2014 and strengthened the basis for flight safety.

Tadashi Fujita
Representative Director, Executive Vice President
Aide to the President, Chief Wellness Officer, Chairman of the JAL Wellness Promotion Committee
Executive Vice President Fujita worked in sales departments at Head Office and branch offices in Osaka, Okinawa, Paris and other regions. As Executive Officer of the Managing Division Passenger Sales, he had overall responsibility for all Profit Centers and achieved strong results. Currently, while performing the duties of Representative Director and Executive Vice President, he also serves as Aide to the President. He brings his experience and expertise to the Board in further reinforcing and enhancing management.

Norikazu Saito
Director, Senior Managing Executive Officer
General Manager of the Finance & Accounting Division
Director Saito has specialized for many years primarily in finance and accounting, constantly deepening his knowledge of finance, accounting, IT, and other fields. In his current position as Director, Senior Managing Executive Officer and General Manager of the Finance and Accounting Division, he brings his prowess and competencies to the Board to assure highly transparent information disclosure that is comprehensible to shareholders and investors and precise management decisions that support shareholders’ interests.

Hideki Kikuyama
Director, Senior Managing Executive Officer
General Manager of the Managing Division Route Marketing
Director Kikuyama engaged in work ranging from IT systems, passenger reservations, and human resources and industrial affairs to corporate planning at Head Office and branch offices in Osaka, the U.S. and other regions. Currently as Director, Senior Managing Executive Officer and General Manager of the Managing Division Route Marketing, he brings his experience and expertise to the Board in improving and stabilizing route profitability in a precise and effective manner.

Toshinori Shin
Director, Senior Managing Executive Officer
General Manager of the Flight Operations Division, Safety General Manager
Director Shin acquired high levels of frontline experience and expertise on sale operations, etc. as a pilot. Today, as Director, Senior Managing Executive Officer, General Manager of the Flight Operations Division and Safety General Manager, he brings his know-how and capabilities to the Board to strengthen management of the Group’s safety initiatives and reach appropriate decisions on important safety measures and investments at Board meetings and other meetings.

Shinichiro Shimizu
Director, Managing Executive Officer
General Manager, Secretary’s Office
Director Shimizu successfully engaged in personnel and industrial affairs related to cockpit crew, cabin attendants and other divisions and exercised strong leadership and planning and coordination capabilities. As General Manager of Human Resources since 2013 and the Secretary’s Office since 2016, he is making considerable contributions to improving and stabilizing JAL’s presence through precise evaluation of HR’s position from a high perspective.

Eizo Kobayashi
Independent External Director
External Director Kobayashi provides the Board with sound direction and advice based on his experience and expertise as top management of a general trading company. He also serves as Senior Representative for Business Community Relations of TOMOHI Corporation, External Director of TOMOHI Corporation and External Director of Japan Exchange Group, Inc., among other capacities.

Masato Ito
Independent External Director
External Director Ito has rich experience and deep insight acquired as top management of global enterprises engaged in marketing from the customers’ perspectives, offering the Board appropriate supervision and advice from practical and multilateral perspectives. He also serves as Representative Director and Chairman of Aizumisato Co., Inc., President of the Japan Advertisers Association Inc. and External Director of Yamaha Corporation, among other capacities.

Sonoko Hachioji
Independent External Director
External Director Hachioji draws on extensive experience in financial product development, loans and risk management at banks, customer-centric marketing and management strategy in hotel management and education reforms at universities to overview and provide advice to the Board from diverse perspectives. She also serves as External Director of Noefin Steel Co., Ltd. and Special Advisor to the President and Chief Strategy Officer of Toyo University.
EXTERNAL DIRECTORS

I hope to use my experience at a trading company to support JAL in implementing its growth strategies.

JAL has a corporate culture which allows open discussion, facilitates information-sharing and encourages frank opinions. I think this comes from its history of overcoming difficulties and a forward-looking attitude to create a new company. During discussions on the Medium Term Management Plan, I have a culture of meticulousness. The members first exchanged views and then held repeated discussions, while going back to any concerns for verification. Furthermore, at Board meetings, the directors do not merely listen to explanations but also hold dialogues with the External Directors. In addition to the directors, External Auditors actively present their views, resulting in highly effective Board discussions.

One of JAL’s management issues is the importance of possessing a long-term perspective. The Medium Term Management Plan is a rolling three-year plan, but given the large amount of investment required in the airline industry, three years is too short a time to verify the results. We need to have a 10-year perspective. Another issue is stakeholder engagement with your shareholders, customers, partner airlines and other stakeholders. Up till now, JAL has been focused on revitalizing the company. Going forward, I feel that the Group needs to deepen stakeholder engagement to adapt to the rapidly changing operating environment. The consumer goods company where I previously worked for faced similar issues. Therefore, I feel my experience will be useful in this area.

JAL’s new President was appointed through the execution of the succession plan by the Nominating Committee, which I chaired, including other External Directors and directors. The Committee organized the requirements of the succession plan, interviewed the candidates and checked their views as President and other points. This process took some time, but functioned effectively.
CORPORATE GOVERNANCE

Basic Stance on Corporate Governance

The JAL Group aims to contribute to society through its business operations. As the leading company for safety in Japan’s transport sector, we work to ensure safe operations – the cornerstone of our business – while offering the highest level of service to customers. We also endeavor to fulfill our economic responsibility to all stakeholders by generating an adequate level of profits through the provision of high-quality products and services based on fair competition, while also meeting our wider responsibilities to society.

In line with this thinking, we have established the JAL Philosophy and pursue the material and intellectual growth of all our employees, deliver unparalleled service to our customers, and increase corporate value and achieve accountability by establishing a corporate governance system that results in a high level of management transparency and strong management oversight, while at the same time engaging in speedy and appropriate management decision-making.

The Board of Directors has established corporate governance that adheres to the Fundamental Policies of Corporate Governance as a key set of rules subsequent to the Companies Act, relevant laws and regulations, and the Articles of Incorporation, and reviews it at least once a year.

Corporate Governance System

Board of Directors

The Board of Directors ensures a high level of management transparency and strong management oversight through the election of candidates for the positions of Director, Corporate Auditors, and Executive Officer, decides their remuneration, and makes important decisions.

In order to separate the management oversight function and business executive functions, the Board appoints a Director who does not serve concurrently as an Executive Officer as Chairperson, and an appropriate number of three or more External Directors who qualify as highly independent to provide appropriate advice.

In order to carry out efficient decision-making, the board may delegate decision-making concerning matters set forth in the Administrative Authority Criteria Table to the President pursuant to Regulations for Kessai (written approval) and Administrative Authority approved by the board. The Management Committee has been established for the purpose of contributing to appropriate and flexible decision-making concerning management issues by the Board of Directors and the President.

The Board of Directors has established the Corporate Governance Committee, which comprises the Chairperson of the Board and the External Directors, to evaluate the effectiveness of the Board of Directors with reference to self-evaluations by each Director once a year, review the operation, and so forth, of the board appropriately, and disclose a summary of its findings.

Directors

Legal considerations are explained to the Directors to ensure that they are aware of their responsibilities, including the “fiduciary duty of loyalty” and the “duty of ensuring prudent management.” The term of office is set at one year to ensure their accountability each fiscal year. The Company has also introduced a remuneration system for Directors (excluding External Directors) based on sound financial incentives designed to promote sustained growth.

External Directors are appointed from among persons with vast knowledge and experience in various fields in order to ensure diversity. Those who do not qualify as highly independent as defined by the “Standards for Independence of External Directors” (described below) established by the Company are not appointed. Furthermore, one External Director among the External Directors is appointed Lead Independent External Director to improve coordination with the Corporate Auditors and internal divisions.

Board of Corporate Auditors

The Board of Corporate Auditors makes appropriate judgments from an independent, objective perspective, based on their fiduciary responsibilities to the shareholders, when fulfilling their roles and responsibilities, such as auditing the execution of Directors’ duties, appointing or dismissing accounting auditors and executing rights concerning auditors’ remuneration.

Corporate Auditors

The Corporate Auditors monitor important matters concerning corporate management, business operations and the execution of duties by reviewing important Kessai (written approval) documents, as well as participating in board meetings and other important meetings. Furthermore, the Corporate Auditors, together with staff members of the Corporate Auditors Office, conduct an annual audit of each business site, subsidiary and affiliated company and report the results to the Representative Directors. They also share information with the internal audit departments and accounting auditors and hold regular meetings with Corporate Auditors of subsidiaries to improve and strengthen auditing of the JAL Group.

The Corporate Auditors are provided with the means to acquire a sufficient understanding of their required roles and responsibilities through the provision of corporate information and opportunities for regular participation in external training and external associations, and so forth, for which the Company bears the necessary expenses.

Eternal Corporate Auditors are appointed from among persons with vast knowledge and experience in various fields, and those who do not qualify as highly independent as defined by the “Standards for Independence of External Directors” (described below) established by the Company are not appointed. Eternal Corporate Auditors ensure sound management by conducting audits from a neutral and objective standpoint, with the cooperation of internal audit departments and accounting auditors.

Establishment of Various Committees

Corporate Governance Committee (Chairperson: Eizo Kobayashi, Lead Independent External Director)

The Corporate Governance Committee inspects initiatives under the JAL Group Fundamental Policies at least once a year, conducts analyses and evaluations to verify whether they contribute to sustainable growth and enhancement of corporate value in the medium to long term, and provides necessary recommendations and reports to the Board of Directors. The committee comprises three External Directors (Eizo Kobayashi, Masatoshi Ito and Sonoko Hachijo) in addition to Chairperson Yoshiharu Ueki.

Nominating Committee (Chairperson: Masatoshi Ito, External Director)

When submitting a proposal to the General Meeting of Shareholders concerning the appointment of candidates to the positions of Director and Corporate Auditor, the Nominating Committee makes a comprehensive judgment of the personality, knowledge, ability, experience and performance of the candidate in response to inquiries from the Board of Directors and reports back to the board. The Nominating Committee also continually discusses potential successors to the president and other company leaders responsible for reforming the Group and driving growth in order to ensure the Corporate Policy and management strategies are maintained, and reports on these discussions to Directors. The committee comprises three External Directors (Eizo Kobayashi, Masatoshi Ito and Sonoko Hachijo), Chairperson Yoshiharu Ueki and President Yuji Akasaka.

Compensation Committee (Chairperson: Eizo Kobayashi, External Director)

The Compensation Committee discusses matters concerning the amounts of compensation paid to Directors, Executive Officers and Corporate Auditors based on reports from the Board of Directors and reports back to the board. The Compensation Committee members are the same as the Nominating Committee members.

Personnel Committee (Chairperson: Yuji Akasaka, President)

When appointing or dismissing an Executive Officer, the Board of Directors
Consults the Personnel Committee and takes the Personnel Committee’s response into account before making a decision. The Personnel Committee members are the same as the Nominating Committee members.

Officers Disciplinary Committee

(Chairperson: Eizo Kobayashi, External Director)

Any disciplinary action imposed on Directors or Executive Officers is determined by the Officers Disciplinary Committee. The Officers Disciplinary Committee members are the same as the Nominating Committee members.

Evaluating the Effectiveness of the Board of Directors

Under its Fundamental Policies of Corporate Governance, every year the JAL Group assesses the effectiveness of the Board of Directors and appropriately reviews and improves the board while making reference to evaluations of Individual Directors and other resources. The effectiveness of the Board of Directors was assessed this year for the third time; details are as follows.

Assessment Process

The prior two assessments consisted only of questionnaires, but for the most recent assessment, the third conducted thus far, a questionnaire was combined with an interview in order to review initiatives to enhance governance that came out of the previous effectiveness assessments and to make further improvements to governance. In addition, the interviews were performed by an independent organization in order to maintain anonymity.

The primary items for assessment on the questionnaire were the composition, operation, culture, supervision and discussion about management strategies by the board. Additionally, the interview focused on questionnaire responses and awareness of problems with the board.

The independent organization reported to the Board of Directors on the results of the assessment, and the board then discussed response measures and its future format. Based on these discussions, the Corporate Governance Committee formulated recommendations that were then further discussed by the board. As a result of this process, the board decided on the following initiatives for the future.

Summary of Assessment Results and Initiatives Going Forward

It was confirmed that the Board of Directors conducts discussions with the opinions of External Directors respected by Internal Directors, who have been appointed in a good balance from front-line divisions given the importance of flight safety. In addition, External Directors have been highly engaged (21) in the decision-making process, and the roles of External Directors are being appropriately fulfilled through efforts centering on the Lead Independent External Director.

At the same time, in order to further increase corporate value during the Company’s next stage under a new president and new management team, it was found that the board needs to increase its discussions on the Company’s long-term vision, growth strategies and risk management, further instill a shareholder’s perspective within the Group as a whole, including the Board of Directors, enhance training for Directors, and create a training and development program for the next generation of Directors. The Company intends to steadily carry out these and other related initiatives going forward.

Standards for Independence of External Directors

We have set out the following standards to determine whether External Directors qualify as independent. (In principle, a person to whom none of the following apply shall be judged to be independent).

1. A person who executes or has executed business in the Company or a consolidated subsidiary during the past 10 years.
2. A person who could be described by any of items 1-4 during the past three years.
   - A business counterpart or a person executing business for a business counterpart whose transactions with the Company for one business year exceeded 1% of the consolidated revenue of the Company or the business counterpart.
   - A major shareholder of the Company or a person executing business for a shareholder holding an equity ratio of 5% or more in the Company.
   - A major lender to the Company or a person executing business for such a lender.
   - A person who receives over 10 million yen in donations annually from the Company, or a person belonging to an entity receiving such donations.
   - A person receiving remuneration of over 10 million yen, excluding Director’s remuneration, from the Company or a person belonging to an organization receiving remuneration exceeding 1% of the consolidated revenue of the Company.
   - A person executing business for the Company who also executes business for another company as External Director.
3. The spouse or a relative within the second degree of kinship of an officer.
4. A current or former director of the Officers Disciplinary Committee.
5. A person who is an officer of a company in which the Company owns more than 30% of the voting rights.
6. A person who is a director of a nonsubsidiary company or a consolidated subsidiary during the past 10 years.
7. A business counterpart or a person executing business for a business counterpart whose transactions with the Company for one business year exceeded 1% of the consolidated revenue of the Company or the business counterpart.

Training Policy for Directors and Corporate Auditors

Legal considerations are explained to the Directors that they are aware of their responsibilities, including the “fiduciary duty of loyalty” and the “duty of ensuring prudent management.” The Company provides opportunities for Corporate Auditors to sufficiently understand their roles and responsibilities by providing corporate information and opportunities for participation in external training programs and associations, the cost of which is covered by the Company.

To give External Directors and Corporate Auditors a deeper understanding of the Company’s operations, they are encouraged to participate in internal meetings and opportunities are created for workplace inspection tours and discussions on key issues.

Remuneration Policy for Directors (excluding External Directors) and Executive Officers

Basic Policy

1. To support the sustainable and steady growth of the Company and the JAL Group and to increase corporate value over the medium and long term, the Company will encourage the performance of directors consistent with its Corporate Policy and management strategies and provide strong incentives for the achievement of specific management targets.
2. To encourage a healthy entrepreneurial spirit, the Company will establish appropriate proportions for annual incentives (performance-linked bonuses) linked to fiscal year performance and for long-term incentives (performance-linked share-based remuneration) linked to corporate value in accordance with medium- to long-term performance, designed to promote alignment of interests with its shareholders.
3. The Company will reward the management team appropriately based on the Company’s business performance.

Remuneration Levels and Composition

1. The Company will set appropriate remuneration levels based on the Company’s operating environment and with reference to objective data on remuneration in the marketplace.
2. Taking into account factors including the position of the Company’s business and the effectiveness of incentive remuneration, the Company sets proportions for (1) the amount of fixed basic remuneration*, (2) the amount of annual incentives (performance-linked bonuses) to be paid according to the degree of achievement against targets, and (3) the amount of long-term incentives (performance-linked share-based remuneration) to be issued according to the degree of achievement against targets, as follows:

   Guideline in the case of 100% achievement against targets: (1) (2) (3) are all 20%.
   Guideline in the case of 90% achievement and lower: (1) (2) (3) are all 10%.
   Guideline in the case of 80% achievement and lower: (1) (2) (3) are all 0%.

   The above ratio is for guidance only and adjustments can be made to reflect changes in the prices of the Company’s shares or other factors.

* This amount includes allowances in cases where an Executive Officer serves concurrently as a Director or where an Executive Officer has representative authority.

Framework for Incentive Remuneration

1. Annual incentives (performance-linked bonuses)

   The amount to be paid every fiscal year as an annual incentive will vary from approximately 0 to 200 depending on the degree of achievement, with 100 representing the amount to be paid when achievement is in line with performance targets. The indices for evaluating performance will include net profit attributable to owners of parent, indicators related to safe flight operations and individual evaluation indices for each director. These indicators will be reviewed as necessary in accordance with changes in business conditions, the roles of directors and other factors.

2. Long-term incentives (performance-linked share-based remuneration)

   The number of shares to be granted every fiscal year as a long-term incentive will vary from approximately 0 to 220 depending on the degree of achievement, with 100 representing the number to be granted when achievement is in line with performance targets. The performance evaluation period will be three years, with performance for three consecutive fiscal years evaluated every year. The indices for evaluating performance will be items prioritized in the Medium Term Management Plan, including consolidated operating profit margin, consolidated ROIC and customer satisfaction. These items will be considered for review in every medium-term management plan period.

   In respect to common stock granted to eligible Directors and Executive Officers through the share-based remuneration plan, the Company will establish a target number of held shares for each position and impose limits on share sales in order to further promote the aligning of interests with shareholders.

Procedures for Determining Remuneration

Matters related to remuneration for Directors and Executive Officers will be decided by the Board of Directors following a deliberation and recommendation process by the Company’s voluntarily established Compensation Committee. A majority of the members of the Compensation Committee will be External Directors and the Chairperson will be appointed from among the External Directors.

Succession Planning for CEO and Other Senior Management Positions

The Nominating Committee holds continuing discussions on potential successors to the president and other company leaders responsible for reforming the Group and driving growth in order to ensure the Corporate Policy and management strategies are maintained, and reports on these discussions to Directors.
COMPLIANCE/RISK MANAGEMENT

Promoting Compliance

To promote compliance with all applicable laws, regulations and rules governing our corporate activities, we have designated the General Affairs Department of Japan Airlines Co., Ltd. to oversee all compliance matters and are focusing on elevating staff awareness through various measures.

Every JAL Group staff is encouraged to practice the JAL Philosophy in their day-to-day work and can view regulations and handbooks related to compliance on the Group’s Intranet such as JAL Group Regulations on Preventing Insider Trading, the JAL Group Handbook on Protecting Personal Information, Information Security Action Handbook, Guide to the Antimonopoly Act and Group Hotline Regulations.

We have also set up a Group Hotline with contact points in the Company and a law firm, which can be used by any person working for the JAL Group. This enables us to promptly identify and remedy cases of misconduct, power harassment and other issues and reinforce compliance management.

Furthermore, we are implementing a wide range of initiatives to support this framework. For example, we hold classroom training sessions for every JAL Group staff at every business office, publish quarterly compliance newsletters, arrange seminars about laws and regulations organized by the Legal Affairs Department, conduct practical exercises on how to deal with targeted email attacks and other threats and provide e-learning on information security biannually. Through these initiatives, we aim to foster a culture of compliance across the entire JAL Group, ensure business activities are in tune with accepted social standards and reduce legal risk.

In addition, an executive from each JAL Group company is given overall responsibility for compliance at their respective company. These executives comprise the JAL Group Compliance Network, which is responsible for swiftly sharing relevant information and strengthening the compliance framework at each Group company. This includes sending quarterly email newsletters containing useful information, such as news about compliance developments inside and outside the Group and compliance case studies.

Risk Management

The JAL Group manages risks by dividing them into three categories: (1) corporate risks associated with management in general, excluding risks related to air transportation; (2) operational risks associated with aviation safety, aviation security and other issues related to air transportation; and (3) strategic risks associated with business management that may have a material impact on corporate revenues and expenditures.

We have established the following five committees in order to identify, analyze and assess existing risks and implement appropriate measures to mitigate those risks:

1. Risk Management Committee
   The Risk Management Committee is headed by the Executive Officer of General Affairs, and primarily comprises general managers of divisions responsible for managing frontline departments. The Committee takes responsibility for overall risk management encompassing corporate risks, operational risks, and strategic risks to stabilize Group-wide management activities. It has also established the JAL Group Basic Policies on Risk Management. When existing risks are identified, it reports on the progress of responses and shares information with Group management via the Management Liaison Committee.

2. Information Security Committee
   The Information Security Committee is headed by the Executive Officer of General Affairs and the Executive Officer of IT Planning, and comprises the leaders of relevant departments. The Committee conducts activities specific to information management, upgrades information security measures, and strives to reduce corporate risk.

3. Group Council for Safety Enhancement General Meeting
   The Corporate Safety and Security Department promotes safety rigorously under the direct control of the President. The Group Council for Safety Enhancement General Meeting, with the Corporate Safety and Security Department serving as Secretariat, shares information on safety in daily operations, decides countermeasures, considers important measures related to safety and checks policies.

4. Group Operational Safety Promotion Committee
   Organized as a committee under the Group Council for Safety Enhancement General Meeting, the Group Operational Safety Promotion Committee maintains and strengthens collaborative, safety-related measures among departments, divisions and Group airlines with the aim of enhancing the safety of Group air transport operations as a whole. The Committee comprises the Executive Officer (who serves as Chairperson) of the JAL Operational Safety Promotion Committee, leaders of departments responsible for JAL safety management appointed by the Chairperson and Executive Officers responsible for safety at Group airlines.

5. Financial Risk Committee
   The Financial Risk Committee is chaired by the Executive Officer of Finance and Accounting and includes the President, Executive Vice President and leaders of relevant departments and divisions. The Committee identifies financial risks as appropriate and strives to facilitate improvements in corporate management. More specifically, it conducts regular simulations of financial conditions and reviews the results. In the event of a major financial crisis, large-scale disaster or other major risk-generating event that the Committee expects to exert a large, quantifiable impact on the Group, it calculates the estimated financial impact and, if necessary, pursues collaborative responses with the Risk Management Committee.

Information Security Measures

The JAL Group fell victim to a data security breach in September 2014. Hackers attacked the JAL Mileage Bank’s systems and gained illegal access to the customer information management system. We deeply regret the inconvenience and concern caused to customers and all those affected by this incident. In response, we are strengthening information security as a top priority issue and taking steps to prevent recurrence.

Specifically, information security measures were moved up ahead of schedule to build a robust system to detect and monitor increasingly sophisticated and complex cyber-attacks, while preventive measures are being continuously upgraded to the highest level.

Risk Management System

Business Continuity Plan (BCP)

To respond to specific risks that threaten our ability to fulfill our responsibilities as a public transport operator such as pandemic influenza, unidentified infectious diseases or earthquakes, we have established a business continuity plan (BCP) that enables us to continue business effectively in emergency situations based on guidelines established in collaboration with regulatory bodies and other relevant institutions. The BCP covers basic matters such as policies and procedures necessary to ensure the safety of JAL Group staff and their families and maintain air transport operations essential to the JAL Group, including reservations, information provision, payments and settlements. It is reviewed regularly and revised as required to improve its application.

During the outbreak of Ebola hemorrhagic fever in West Africa in 2014, we activated our BCP regarding responses to pandemic influenza or unidentified infectious diseases. We coordinated our actions with relevant government bodies, developed necessary systems and added the Policy for Handling the Ebola Virus Disease (International Flights) to our BCP.

To facilitate speedy confirmation of the safety of all JAL Group staff and their families in the event of a large-scale disaster, we introduced a safety confirmation system in 2007. The Group-wide system was upgraded in 2014 to make safety-related information more readily available. Communication exercises and other drills are conducted regularly throughout the JAL Group to foster staff awareness of risk management and reinforce preparedness for unexpected situations.
INTERNATIONAL PASSENGER OPERATIONS

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 work to 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

Upgrading 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 in-flight 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 Reuse Intention Rate for the fifth consecutive year and the Repeat Intention Rate. In TripAdvisor’s 2018 Travellers’ 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.

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 successfully 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 OPERATIONS

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 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. JAL and its partners are constantly a step ahead.

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 = Okinawaj = 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.

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 JAL Allianze, 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 Aeropet Co., Ltd., we developed the JAL “War-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 ¥18.2 billion yen.

TOPICS

Strengthening Overseas Market Initiatives to Capture New Demand

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

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 “Dokonaki 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.
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 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 five 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 Okdama Airport in Sapporo and Oshikiri 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-Combii 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

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: Nikusaken Corporation, Global Ichiba Corporation and Agriculture Corporation Mizuhiko 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.

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 171.1 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.
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**Key Performance Indices**

- **Operating margin (%):** 17.0, 18.9, 17.9
- **RDE (%):** 63.6, 36.0, 20.3
- **RDA (%):** 17.9, 16.9, 12.8
- **Equity ratio (%):** 35.7, 46.4, 35.7
- **D/E ratio (Times):** 0.5, 0.3, 0.5
- **EBITDA margin (%):** 26.4, 22.3, 23.8
- **Unit cost (yen)*:** 8.3, 8.4, 8.3
- **Unit cost (excluding fuel cost):** 11.3, 11.5, 11.3
- **Dividend payout ratio (%):** 25.3, 24.9, 25.3
- **Number of employees:** 30,978, 30,563, 30,800

**Business data**

- **International passenger operations**
  - **Passenger revenues:** 385.2, 406.6, 437.5
  - **Revenue passenger kms (million):** 43.4, 46.7, 50.9
  - **Revenue passenger kms per available seat km:** 0.099, 0.098, 0.097
  - **Revenue passenger load factor (%):** 80.8, 80.9, 81.0
  - **Yield (yen)/PAX:** 12.7, 11.9, 12.7
  - **Unit revenue (yen)/PAX:** 9.5, 9.1, 9.5

- **Domestic passenger operations**
  - **Passenger revenues:** 480.1, 482.2, 487.3
  - **Revenue passenger kms (million):** 35.5, 36.4, 37.7
  - **Revenue passenger kms per available seat km:** 0.099, 0.100, 0.101
  - **Revenue passenger load factor (%):** 71.2, 71.5, 71.8
  - **Fare revenue:** 12.5, 12.6, 12.5
  - **Unit revenue (yen)/PAX:** 13.3, 13.3, 13.3

- **International cargo operations**
  - **Revenue cargo ton-km (million):** 53.7, 50.4, 54.2
  - **Domestic cargo operations**
  - **Revenue cargo ton-km (million):** 35.7, 36.0, 36.6
  - **Revenue cargo ton-km (million):** 25.0, 25.0, 25.4

**Notes:**

- *1** US dollar amounts are provided for conversion only, based on the exchange rate of ¥106.24/USD on March 31, 2018.
- *2** Excluding deposits and withdrawals from deposit accounts.
- *3** Free cash flow = Cash flow from operating activities + Cash flow from investing activities.
- *4** EBITDA = Operating income + Depreciation expense
- *5** Japan Airlines Co., Ltd. conducted a 2-to-1 stock split on October 1, 2014. Figures for profit per share, net assets per share and dividend per share have been calculated assuming the stock split was conducted at the cost of fiscal 2011.
- *6** EBITDA margin = EBITDA / Operating revenue
- *7** EBITDA margin = EBITDA / Operating revenue
- *8** EBITDA = Operating income + Depreciation expense + Aircraft lease
- *9** Profit attributable to owners of parent
- *10** Number of employees employed to retire at the end of March of the fiscal year were excluded and the number of temporary employees (employees dispatched from temporary employment agencies) as of the end of the reporting period were included. With the new payroll system, employed workers employed to retire at the end of March of the fiscal year are included and the number of temporary employees (employees dispatched from employment agencies) are excluded.
- *11** ASK (available seat kilometers): A unit of passenger transport capacity. Total number of seats x Distance flown (kms).
- *12** RPM (revenue passenger kilometers): Flight distance covered by revenue passenger. Number of revenue passengers x Distance flown (kms).

**Financial / Data Section**

- **Management Strategies Designed to Create Value**
- **Business Outline**
  - **Revenue passenger load factor (%):** 62.3, 63.1, 64.0
  - **Yield (yen)/PAX:** 66.1, 67.9, 69.3
  - **Profits:** 20.3, 20.6, 20.3
  - **Unit revenue (yen):** 13.3, 14.0, 14.1

**About the JAL Group**

- **Net assets:** 31,644, 31,786, 31,928
- **Total assets:** 4,357,294, 4,759,690, 5,014,051
**EVALUATION AND ANALYSIS OF FINANCIAL CONDITIONS**

**Economic Conditions**

In the fiscal year ended March 31, 2018, total air travel demand remained strong, mainly for domestic travel and inbound travel to Japan, due to continuing moderate economic recovery trends in both Japan and overseas. Crude oil prices, which affect the JAL Group’s fuel purchasing costs, international passenger revenues and international cargo revenues, increased as OPEC and other oil leaders called for production cuts and geopolitical emerged. The exchange rate of the Japanese yen against the US dollar has been in the range of 105 to 115 yen.

**JAL Group**

The JAL Group comprises Japan Airlines Co., Ltd. (JAL), 77 subsidiaries and 57 affiliated companies. On April 28, 2017, the JAL Group released the JAL Group Medium Term Management Plan for Fiscal Years 2017-2020. To achieve the goals in the plan, the Group focused on instilling greater focus on profits among its staff through the JAL Philosophy and amoeba management system and worked to improve management efficiency to provide the highest level of service to customers.

As a result, consolidated operating revenue increased by 7.3% year on year to 1,383.2 billion yen. International passenger revenues rose by 47.7 billion yen, reflecting the revenue management measures that led to firm high yield demand for both outbound and inbound, together with an increase in fuel surcharge revenues and forex factors. Domestic passenger revenues also increased by 19.6 billion yen because of a rebound in demand from the slump after the Kumamoto earthquakes in 2016, a steep rise in personal travel demand, and the launch of complimentary inflight Wi-Fi services ahead of competitors, which helped to attract more customers.

Operating expenses increased by 8.1% year on year to 1,208.6 billion yen. Fuel costs increased by 16.4 billion yen due to higher fuel prices, maintenance costs rose by 13.1 billion yen mainly due to a rise in engine maintenance costs, and personnel costs rose by 17.0 billion yen due to an increase in headcount amid business expansion and growth in earnings-linked bonus payments. The Group also increased amortization costs related to the new passenger service system, which was revamped in November 2017, and various other expenses associated with passenger number growth. However, the Group continued its cost reduction efforts using its amoeba management system and other approaches.

As a result, consolidated operating profit rose by 2.5% year on year to 174.5 billion yen.

Ordinary income declined by 1.1% year on year to 163.1 billion yen, reflecting a rise in non-operating expenses, mainly due to an increase in loss on sales and disposal of flight equipment. Profit attributable to owners of parent fell by 17.5% to 135.4 billion yen, partly reflecting a decline in income taxes — deferred from 31.6 billion yen booked in the previous fiscal year.

**Air Passenger Traffic Forecast**

<table>
<thead>
<tr>
<th>Year</th>
<th>Domestic passenger (Millions of Passengers)</th>
<th>International passenger (Millions of Passengers)</th>
<th>Total Passenger (Millions of Passengers)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995</td>
<td>1,782</td>
<td>3,325</td>
<td>5,107</td>
</tr>
<tr>
<td>2000</td>
<td>1,500</td>
<td>2,000</td>
<td>3,500</td>
</tr>
<tr>
<td>2005</td>
<td>1,711</td>
<td>2,371</td>
<td>4,082</td>
</tr>
<tr>
<td>2010</td>
<td>1,811</td>
<td>2,621</td>
<td>4,432</td>
</tr>
<tr>
<td>2015</td>
<td>1,911</td>
<td>2,871</td>
<td>4,782</td>
</tr>
<tr>
<td>2020</td>
<td>2,011</td>
<td>3,121</td>
<td>5,132</td>
</tr>
</tbody>
</table>

**Number of visitors to Japan (Billions of Visitors)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of Visitors</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995</td>
<td>45</td>
</tr>
<tr>
<td>2000</td>
<td>50</td>
</tr>
<tr>
<td>2005</td>
<td>55</td>
</tr>
<tr>
<td>2010</td>
<td>60</td>
</tr>
<tr>
<td>2015</td>
<td>65</td>
</tr>
<tr>
<td>2020</td>
<td>70</td>
</tr>
</tbody>
</table>

**Analysis of Consolidated Operating Results**

1. **Earnings Summary**

   - Operating revenue: ¥1,383.2 billion
   - Operating profit: ¥174.5 billion

   **Fiscal 2017 Changes in operating profit (Billions of yen)**

   - Domestic passenger: +3.9%
   - International passenger: +11.5%
   - Cargo and mail: +2.4%
   - Other revenues: +4.4%
   - Fuel: +6.7%
   - Maintenance: +26.0%
   - Cargo and mail: +17.8%
   - Other expenses: +6.2%
   - Personnel: +5.0%
   - Operation System and Depreciation costs: +22.6%
   - Total: +174.5
   - Total forex: -8.3%
   - Total FSC*: +4.2 billion (+2.5%)

   *FSC = Fuel Surcharge
2. Segment Earnings

(1) Air transportation segment

Operating revenue ¥1,257.2 billion  Operating profit ¥161.2 billion

In the air transportation segment, operating revenue increased by 8.4% year on year to ¥1,257.2 billion yen and operating profit increased by 3.3% to ¥161.2 billion yen.

* Figures for operating revenue and operating profit are before elimination of intra-segment transactions.

International passenger operations

In international passenger operations, passenger traffic increased 2.3% year on year and the revenue passenger load factor reached to a record high of 81.0%, attributed to strong outbound demand and robust inbound demand.

With regard to the route operations, JAL launched new services between Tokyo(Narita) and Melbourne and between Tokyo(Narita) and Kona in September 2017, and increased flight frequency on the late-night service to Europe, the Tokyo-Haneda = London route, in October 2017 in order to capture corporate and leisure outbound demand and a wide range of inbound demand. JAL also made partnership agreements with Vietjet, Vistara, Hawaiian Airlines, Aeromexico and Aeroflot, and will work jointly with these partner airlines to further improve its network.

Regarding its products, JAL newly introduced JAL SKY SUITE 787.

On the service front, JAL won top honors for “Loyalty (Repeat Intention Rate)” for the fifth consecutive year and “Customer Satisfaction” in the International Airlines Group (ICGC) Survey. This survey is conducted annually by an external service evaluation organization in Japan. For in-flight meals, JAL introduced menus created by young chefs, who were finalists from RED U-35 including the FY2016 Grand Prix winner, for Premium Economy and Economy Class on medium- and long-haul routes from Japan. RED U-35 is the Japan’s largest culinary competition for a new generation of chefs.

Domestic passenger operations

In domestic passenger operations, although the revenue per passenger declined from the previous year primarily due to competition with other airlines, passenger traffic increased 4.5% year over year. This was attributed to the recovery in demand, which dropped in the aftermath of the Kumamoto Earthquakes in April 2016, and the success of various demand-boosting measures. As a result, the passenger revenue increased year over year.

In route operations, in order to improve the convenience and comfort of the on regional network routes service, Embraer 190 was introduced to more routes to/from (Osaka Itami) Airport, and the state-of-the-art ATR42-600 turboprop was introduced to the island routes in Kagoshima Prefecture operated by Japan Air Commuter.

Revenues of international routes by geographic segment

<table>
<thead>
<tr>
<th>Geographic Segment</th>
<th>Fiscal 2016</th>
<th>Fiscal 2017</th>
<th>YoY change (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>America</td>
<td>+13.7</td>
<td>+14.7</td>
<td>+5.0</td>
</tr>
<tr>
<td>Europe</td>
<td>+22.2</td>
<td>15</td>
<td>16</td>
</tr>
<tr>
<td>Asia / Oceania</td>
<td>+9.1</td>
<td>34</td>
<td>33</td>
</tr>
<tr>
<td>China</td>
<td>+12.3</td>
<td>10</td>
<td>11</td>
</tr>
<tr>
<td>Hawaii / Guam</td>
<td>+2.1</td>
<td>15</td>
<td>14</td>
</tr>
<tr>
<td>Total</td>
<td>+11.5</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

International passenger revenues (Billions of yen)

<table>
<thead>
<tr>
<th>Fiscal 2016</th>
<th>Fiscal 2017</th>
<th>(%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>International passenger revenues (Billions of yen)</td>
<td>415.2</td>
<td>468.0</td>
</tr>
<tr>
<td>Revenues per passenger (yen)</td>
<td>8,994</td>
<td>8,894</td>
</tr>
<tr>
<td>ASK (million seat kilometers)</td>
<td>50,637</td>
<td>51,835</td>
</tr>
<tr>
<td>Revenue passengers carried (1,000)</td>
<td>525,150</td>
<td>542,708</td>
</tr>
<tr>
<td>Mail service revenues (yen)</td>
<td>8,899</td>
<td>9,585</td>
</tr>
<tr>
<td>Domestic passenger operations</td>
<td>301</td>
<td>301</td>
</tr>
<tr>
<td>Domestic passenger revenues (yen)</td>
<td>764</td>
<td>749</td>
</tr>
<tr>
<td>Total</td>
<td>1,159,392</td>
<td>1,257,265</td>
</tr>
</tbody>
</table>

Domestic passenger operations

In domestic passenger operations, although the revenue per passenger declined from the previous year primarily due to competition with other airlines, passenger traffic increased 4.5% year over year. This was attributed to the recovery in demand, which dropped in the aftermath of the Kumamoto Earthquakes in April 2016, and the success of various demand-boosting measures. As a result, the passenger revenue increased year over year.

In route operations, in order to improve the convenience and comfort of the on regional network routes service, Embraer 190 was introduced to more routes to/from (Osaka Itami) Airport, and the state-of-the-art ATR42-600 turboprop was introduced to the island routes in Kagoshima Prefecture operated by Japan Air Commuter.
Regarding products, JAL began to offer a complimentary inflight Wi-Fi service on flights operated with JAL SKY NEXT aircraft and received favorable feedback from many customers. In addition, 737-800 aircraft operated by Japan Transocean Air were retrofitted with JAL SKY NEXT cabin interiors for greater convenience and comfort in air travel.

On the sales and marketing front, JAL and Trip Advisor, Inc. collaborated to open a travel information website to provide travel content on less-traveled local sights and events to incoming travelers to Japan. “Untold Stories of Japan”, the immersive portal on Trip Advisor’s website provides information about tourist facilities and activities and a special fare for overseas visitors “JAL Japan Explorer Pass” to boost and spread inbound tourism across Japan. Further, JAL made a capital and business partnership with Hyakusen Remma, an intermediary for AirBnb-style Japanese home-share accommodations. Not only Hyakusen Remma, we also collaborated with other leisure business-related industries to create new travel products combining air travel and the “minpaku,” AirBnb-style experience of staying at a local home and enjoying local tourism resources to promote inter-regional travel by both domestic and overseas visitors.

### (2) Other Businesses

In other businesses, we worked to maximize the corporate value of the JAL Group by improving convenience for customers. Financial results for the two main companies in other businesses were as follows.

JALPAK Co., Ltd. worked to increase sales by strengthening its lineup of exclusive products for members of JAL Mileage Bank program, and by offering more high value-added products and rolling out marketing campaigns in a timely manner. The company also upgraded office environments and implemented other workstyle reforms to increase productivity. Despite strong demand for Dynamic Packages, which now offer a wider choice of special tourism plans and early booking options. In inbound demand, JALPAK conducted a marketing campaign in Thailand using the JAL Visit Japan Dynamic Package, which was launched in January 2017.

JAL CARD, Inc. stepped up efforts to attract new members, such as using effective online advertising and running signup campaigns, which was supported by upgrades of infrastructure to enable customers to apply for credit cards via their smartphones and the launch of new services, including services that allow users to apply for a family credit card and make transfers to bank accounts online. As a result, the number of cardholders increased by 4.7% year on year to 3.42 million. In addition, JAL CARD, Inc. focused on providing personalized information for members via MyJALCARD, a dedicated online service that customers can access after signup, and the JAL Card app. Measures were also taken to improve services for cardholders, such as giving them the option to pay annual card fees with miles.

### 3. Analysis of Factors Affecting Operating Expenses

<table>
<thead>
<tr>
<th>Major Operating Expense Items</th>
<th>Fiscal 2016 (¥ billion)</th>
<th>Fiscal 2017 (¥ billion)</th>
<th>% Y/Y change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fuel</td>
<td>198.7</td>
<td>215.2</td>
<td>+8.3%</td>
</tr>
<tr>
<td>Landing and navigation fees</td>
<td>81.7</td>
<td>83.5</td>
<td>+2.4%</td>
</tr>
<tr>
<td>Maintenance</td>
<td>48.9</td>
<td>62.0</td>
<td>+28.8%</td>
</tr>
<tr>
<td>Sales commissions (ex. airport)</td>
<td>15.9</td>
<td>17.9</td>
<td>+12.4%</td>
</tr>
<tr>
<td>Aircraft (*)</td>
<td>100.4</td>
<td>107.1</td>
<td>+6.7%</td>
</tr>
<tr>
<td>Service (*)</td>
<td>37.9</td>
<td>42.2</td>
<td>+12.1%</td>
</tr>
<tr>
<td>Personnel</td>
<td>273.3</td>
<td>290.3</td>
<td>+6.2%</td>
</tr>
<tr>
<td>Expenses of travel agency</td>
<td>81.5</td>
<td>83.8</td>
<td>+2.8%</td>
</tr>
<tr>
<td>Other</td>
<td>280.4</td>
<td>306.1</td>
<td>+9.2%</td>
</tr>
<tr>
<td>Total operating expenses</td>
<td>1,118.6</td>
<td>1,208.6</td>
<td>+8.1%</td>
</tr>
</tbody>
</table>

*1 Aircraft = Depreciation + Leasing fees + Aircraft insurance premiums, etc.
*2 Service = Expenses regarding Inflight services, Airport Lounges, Cargo Equipment, etc.

Fuel costs increased by 16.4 billion yen due to higher fuel prices in the market. Maintenance costs rose by 13.1 billion yen due to higher engine maintenance costs. Personnel costs increased by 17.0 billion yen due to an increase in headcount in accordance with the capacity growth and earnings-linked bonus payments. The depreciation costs for the new passenger service system released in November 2017 and other costs related to business expansion also increased. However, the Group continued its cost reduction efforts using its amoeba management system and the total operating expenses increased by 8.1% year on year to 1,208.6 billion yen.

### (1) Fuel Costs

Fuel costs increased by 16.4 billion yen year on year due to higher prices, foreign exchange rates and other factors. The Group’s fuel consumption is rising due to capacity expansion, but it continues to take steps to limit the rise of fuel usage through actively introducing fuel-efficient aircraft and efficient operational practices.

### (2) Unit Cost

The Group’s unit costs have been rising since fiscal 2012 due to enhanced services to customers. However, air transportation revenue per ASK (unit revenue) is also increasing. The Group will continue to focus on maximizing profits per ASK (unit profit).

### 4. Profit Attributable to Owners of Parent

Ordinary income declined by 1.1% year on year to 163.1 billion yen because of an increase in non-operating expenses, mainly due to an increase in loss on sales and disposal of flight equipment. Profit attributable to owners of parent fell by 17.5% to 135.4 billion yen, mainly due to a decline in income taxes – deferred from 31.6 billion yen booked in the previous fiscal year.

### 5. Cash Flows

The JAL Group primarily uses cash flow for investments that increase corporate value, shareholders return and maintenance of a firm financial structure. The Group conducts capital investment in accordance with strict investment criteria and aims to maximizing free cash flow through securing an appropriate level of investment return.
1. Shareholders’ equity

- 1,060.3 billion
- Equity ratio 57.2%

2. Capital Investment and Aircraft Procurement

- Fiscal 2017 Fleet
- Capital investment: 210.8 billion

3. Cash Flow from Operating Activities

- After adjusting profit before income taxes of 162.4 billion yen with non-cash items such as depreciation and amortization, and reconciling operating accounts receivable and payable and other items, operating activities provided net cash (inflow) of 281.5 billion yen, an increase of 28.3 billion yen year on year.

4. Cash Flow from Investing Activities

- Excluding deposits and withdrawal from fixed deposit accounts, investing activities used net cash (outflow) of 180.1 billion yen, with a decline of 35.4 billion yen year on year. The main use of cash was for the purchase of non-current assets.

5. Cash Flow from Financing Activities

- Financing activities used net cash (outflow) of 55.8 billion yen, with an increase of 2.3 billion yen year on year, mainly reflecting cash used for cash dividends paid and for share repurchase.

6. Capital investment during fiscal 2017 totaled 210.8 billion yen (including expenditure for intangible fixed assets).

7. Financial Position

- Shareholders’ equity: 1,060.3 billion
- Equity ratio: 57.2%

8. Credit Ratings

- JAL’s current credit ratings are shown in the table on the right.

9. Retirement Benefit Obligations

- The Company and its major consolidated subsidiaries have established defined-benefit retirement plans such as corporate pension plans and lump-sum retirement plans, as well as defined-contribution pension plans.

10. JAL’s current credit ratings are shown in the table on the right.

The Japan Airlines Welfare Pension Fund also introduces an option similar to a cash-balance plan as well as other alternatives. The JAL Group Pension Fund, which is used by some domestic consolidated subsidiaries, uses a cash balance pension plan.

Simplified accounting methods are used to calculate retirement benefit liabilities, assets and expenses for defined-benefit corporate pension plans and lump-sum retirement plans at some consolidated subsidiaries.

The Group also had three corporate pension funds, including the Japan Airlines Welfare Pension Fund. Certain overseas subsidiaries have defined-benefit retirement plans.

As of March 31, 2018, the Company and its consolidated subsidiaries had lump-sum retirement plans. The Group also had 39 consolidated subsidiaries.
10. Fuel and Exchange Rate Hedging

(1) Hedging Policy
On international routes, fuel surcharges allow the Company to offset some of its fuel costs. As a result, the Company uses fuel hedging for fuel used on domestic routes, which is equivalent to approximately 40% of all fuel consumed by the Group's air transport operations. In addition, the Company's foreign currency revenues are roughly the same as its foreign currency expenses, excluding fuel costs. Consequently, the Company uses fuel and exchange rate hedging only for fuel costs.

Hedging policy
Fuel/Exchange Rate
Fuel use

<table>
<thead>
<tr>
<th>International routes 60%</th>
<th>Domestic routes 40%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hedging</td>
<td></td>
</tr>
<tr>
<td>FSC* revenue received</td>
<td></td>
</tr>
</tbody>
</table>

Profit Impact by Fuel and FX Markets in fiscal 2018 (including hedging and fuel surcharge) (Billions of yen)

<table>
<thead>
<tr>
<th>Revenue (yen US$)</th>
<th>US$60</th>
<th>US$70</th>
<th>US$80</th>
<th>US$90</th>
</tr>
</thead>
<tbody>
<tr>
<td>¥115</td>
<td>3.5</td>
<td>2.0</td>
<td>1.5</td>
<td>-3.0</td>
</tr>
<tr>
<td>¥110</td>
<td>1.0</td>
<td>0.5</td>
<td>0.5</td>
<td>-3.0</td>
</tr>
<tr>
<td>¥105</td>
<td>1.65</td>
<td>1.0</td>
<td>0.5</td>
<td>-5.5</td>
</tr>
</tbody>
</table>

(2) Overcome Market Risks
The impact of volatility in fuel prices is mitigated by hedging and fuel surcharges, however there is some time lag of their effects in each year. However, over a medium-term timeframe, the Company has been largely successful in mitigating the risk of fluctuations in fuel prices. Based on cumulative changes in prices for the last three fiscal years, the Company has offset the impact of those changes through hedging and fuel surcharges.

Cumulative impact of price fluctuations in fiscal 2015 – 2017

Fuel prices / Forex
FSC* / hedging
Impact

11. Distribution of Profits to Shareholders
The Company regards shareholder return as one of its most important management matters. The Company’s fundamental policy is to actively return profits to shareholders through continuous and stable dividends, while ensuring sufficient internal reserves to invest in corporate growth, to adapt to changes in the operating environment and to build a strong financial structure. The Company has adopted the dividend on equity (DOE) as a reference for dividend payments, in addition to the payout ratio.

The Company is using as a reference a payout ratio of approximately 30% of profit attributable to owners of parent, excluding income taxes – deferred. Also, the Company will work to achieve DOE of 3% or higher, given the Groups aim of maintaining ROE at 10% or higher and the above payout ratio reference. Going forward, the Company will improve capital efficiency further and realize stable returns for shareholders.

Based on this policy, the Company pays a year-end dividend of 57.50 yen per share and an interim dividend of 12.50 yen per share, resulting in an annual dividend of 110 yen per share for fiscal 2017. For fiscal 2018, the Company forecasts an annual dividend of 110 yen per share, including an interim dividend of 55 yen per share.

12. Business Outlook and Issues to Be Addressed
The Company expects the airline market – the Group’s main business field – to expand over the long term, supported by economic globalization. Asia is a particularly promising growth market for the airline sector. The pace of change in the Group’s market and business climate and advances in technology are likely to accelerate. To generate sustained and stable growth in that environment, the Company will implement initiatives during the four years of the JAL Group Medium Term Management Plan (fiscal 2017 – 2020). Based on the theme, “Challenge, Leading to Growth,” the Company will continue to refine its full-service carrier business and steadily expand its business domains by creating and developing new sources of earnings.

In international passenger operations, the Company anticipates further growth in demand from overseas customers due to the upcoming 2020 Summer Olympics and Paralympics in Tokyo and an expected increase in the number of take-off and landing slots at Tokyo metropolitan airports. However, the competitive environment is likely to become more challenging as domestic and international airlines, including low-cost carriers (LCC), increase the supply of available seats. Against that backdrop, the Company will reinforce its network, including through joint businesses on Pacific and European routes and alliances with other airlines, and introduce new aircraft with highly competitive cabin configurations, aiming to raise the Group’s presence in overseas markets, as well as in Japan, to become a highly regarded global airline. In domestic passenger operations, the competitive environment is likely to become tougher, including increased competition with railway companies, amid sluggish growth in total transport demand due to Japan’s falling population and aging society. Against that backdrop, the Company will introduce new aircraft such as the Airbus 350-900, expand the number of routes with complimentary inflight Wi-Fi services, provide multilingual services for the growing number of overseas visitors to Japan and take other steps to boost competitiveness by making its services more convenient and comfortable.

The Group faces the risk of significant short-term fluctuations in demand in the airline market due to various factors, including natural disasters, wars, terrorist incidents and outbreaks of disease. To mitigate the impact of those risks, the Company will leverage its strengths in areas outside its full-service carrier business to create and develop new sources of earnings that can support stable growth in the future.

Under the JAL Group Corporate Policy, “The JAL Group aims to pursue the material and intellectual growth of all our employees, delivering unparalleled service to our customers and increase corporate value and contribute to the betterment of society.” To achieve those goals, all Group employees will work as one to increase corporate value by reinforcing the Group’s businesses and financial position and addressing society’s needs and issues.
The JAL Group has identified a number of risks that could have a significant impact on its operating performance. As the benefits of the decline would not be reflected in business results immediately due to hedge contract positions and other factors.

2 Exchange rate volatility risk

The JAL Group operates in countries other than Japan. As a result, the exchange rates are exposed to the risk of exchange rate fluctuations. Fluctuations in the US dollar exchange rates therefore have a greater impact on the Group's expenses than on its revenues. To mitigate the impact of exchange rate volatility on profits, the Group uses foreign currency derivatives to offset foreign currency expenses and foreign currency hedging transactions. The price of new aircraft is also closely related to the US dollar, which means the Group is exposed to the risk of exchange rate fluctuations when recording the value of assets and depreciation costs related to aircraft. To mitigate this risk, the Group uses hedging transactions to diversify opportunities for foreign currency exchange.

3 Capital and financial market risk

The JAL Group needs to invest in new aircraft and aircraft-related capital investments, such as procuring new aircraft. To meet funding needs for these investments, the Group may procure funds from financial institutions or capital markets. The Group’s ability to secure funds and its funding costs are affected by trends in capital and financial markets, and by changes in its credit rating, which may limit the Group's access to funds and lead to higher funding costs.

4 Disaster risk

The majority of the JAL Group's passengers use aircraft departing from or arriving at Haneda and Narita airports. Consequently, these airports play a vital role in the JAL Group's air transportation business. In addition, the Group’s Information System Center, which plays an important role in managing the Group’s flights, reservations, and other services, and the Operation Control Center, which is tasked with controlling the operation and scheduling of the Group's fleet worldwide, are both located in the Tokyo area. Consequently, a major earthquake or volcano eruption in the Tokyo area could lead to the protracted closure of Haneda or Narita airports, which would cause a significant increase in costs.

5 Market risk

Fuel price volatility risk

Fluctuations in fuel prices have a significant impact on the JAL Group's operating performance. The Group charges a fuel surcharge to partly cover the impact of higher fuel prices. However, changes in fuel prices are not immediately reflected in the fuel surcharge and it is inappropriate to ask customers to cover the entire increase in fuel prices. The Group also uses crude oil hedging transactions to mitigate the risk of fuel price volatility. However, a sudden and steep drop in oil prices may not contribute to an improvement in the Group's operating performance, as the benefits of the decline would not be reflected in business results immediately due to hedge contract positions and other factors.

6 Regulatory and litigation risk

The JAL Group conducts its operations in accordance with various laws and regulations, such as Japan's Civil Aeronautics Act and other regulations governing airline businesses, bilateral air transport agreements and other international arrangements, Japan's Antimonopoly Act and other similar antitrust laws, and rules on taxes and public dues such as landing fees. Revisions to these laws and regulations or notifications of legally enforceable airworthiness directives could have an impact on the Group's operating performance. Moreover, the allocation of flight slots at Haneda and Narita airports and the timing of the launch of new routes could also affect the Group's operating performance.

In addition, amid growing pressure on companies in recent years to fulfill their corporate social responsibility to the environment, such as preventing global warming, the JAL Group is facing tighter restrictions on CO₂ emissions, noise pollution, harmful substances, and other environment issues. A further tightening of environmental regulations that leads to a higher cost burden through emission charging mechanisms or other schemes, such as a new greenhouse gas trading system to be implemented from fiscal 2020 at earliest, could have an impact on the Group's operating performance.

2 Litigation risk

The JAL Group's business activities are exposed to the risk of various types of litigation, which could affect the Group's operations and operating performance. In the event that litigation is filed against the Group, developments in the subsequent legal case may require additional costs and the booking of provisions, which could also affect the Group's operating performance.

7 IT system and customer data handling risk

The JAL Group's operations are dependent on a large number of IT systems. Failures in these IT systems caused by viruses in computer programs, computer viruses, and other cyber-attacks may lead to the loss of critical data, as well as issues in flight operations, which could affect the Group's operations. Large-scale failures in power systems, communication networks, and other infrastructure that support IT systems could also result in significant disruption to the Group's operations.

In addition, inadequate handling of customers' personal information by the Group or unauthorized access that results in the disclosure of such information could damage public trust in the Group's business, systems and corporate brand and undermine customer and market trust in the JAL Group, which could affect the Group's financial position and operating performance.

8 Personnel and labor relations risk

The JAL Group's business is dependent on securing personnel who have national certificates and other legally required qualifications related to the operation of aircraft. However, due to the considerable amount of time required by employees to acquire these qualifications and skills during the course of their duties, the JAL Group may not be able to secure sufficient personnel when required, which could affect the Group's business operations.

In addition, many of the Group's employees are members of labor unions. A collective strike by Group employees or other labor disputes could affect the Group's aircraft operations.

The JAL Group's air transportation business operates in Japan and markets worldwide. Demand for air travel may be affected by trends in the global economy, natural disasters and adverse weather conditions, terrorist attacks and political conflicts, war, the outbreak and spread of infectious diseases, and other events.

In addition, the JAL Group's services are partly dependent on maintenance companies, airport personnel, sky marshals, fuel suppliers, luggage handling companies, security companies, and other third parties, which could affect the Group's business operations.

The Group's operations are subject to various international legal restrictions and national and local government laws and regulations. Revisions to these laws and regulations may result in even tighter restrictions on the Group's operations, which could lead to a significant increase in costs.

6 Regulatory and litigation risk

The Group's operations are subject to various international legal restrictions and national and local government laws and regulations. Revisions to these laws and regulations may result in even tighter restrictions on the Group's operations, which could lead to a significant increase in costs.

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## CONSOLIDATED FINANCIAL STATEMENTS

### Consolidated Balance Sheets

Japan Airlines Co., Ltd. and Consolidated Subsidiaries

### As of March 31

<table>
<thead>
<tr>
<th>ASSETS</th>
<th>2018</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Millions of yen</strong></td>
<td><strong>Thousands of U.S. dollars (Note 4)</strong></td>
<td><strong>Millions of yen</strong></td>
<td><strong>Thousands of U.S. dollars (Note 4)</strong></td>
</tr>
<tr>
<td><strong>Current assets:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and deposits (Notes 5, 7 and 10)</td>
<td>¥ 417,842</td>
<td>¥ 392,075</td>
<td>$3,933,000</td>
</tr>
<tr>
<td>Notes and operating accounts receivable (Note 7)</td>
<td>151,262</td>
<td>142,745</td>
<td>1,423,776</td>
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<tr>
<td>Securities (Notes 5, 7 and 8)</td>
<td>30,999</td>
<td>12,000</td>
<td>291,782</td>
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<tr>
<td>Flight equipment spare parts and supplies</td>
<td>21,996</td>
<td>21,118</td>
<td>207,040</td>
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<tr>
<td>Deferred tax assets (Note 12)</td>
<td>5,576</td>
<td>7,436</td>
<td>52,484</td>
</tr>
<tr>
<td>Other</td>
<td>58,924</td>
<td>51,450</td>
<td>554,631</td>
</tr>
<tr>
<td>Allowance for doubtful accounts</td>
<td>(533)</td>
<td>(493)</td>
<td>(5,016)</td>
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<tr>
<td><strong>Total current assets</strong></td>
<td>686,069</td>
<td>626,332</td>
<td>6,457,727</td>
</tr>
<tr>
<td><strong>Non-current assets:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment securities (Notes 6, 7, 8 and 10)</td>
<td>90,757</td>
<td>82,680</td>
<td>854,263</td>
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<tr>
<td><strong>Tangible fixed assets, net:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Flight equipment (Notes 10 and 16)</td>
<td>704,134</td>
<td>671,387</td>
<td>6,627,767</td>
</tr>
<tr>
<td>Ground property and equipment (Notes 10 and 16)</td>
<td>52,728</td>
<td>51,708</td>
<td>496,310</td>
</tr>
<tr>
<td>Advances on flight equipment and other purchases</td>
<td>123,902</td>
<td>101,832</td>
<td>1,166,246</td>
</tr>
<tr>
<td><strong>Total tangible fixed assets</strong></td>
<td>880,765</td>
<td>824,928</td>
<td>8,290,333</td>
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<tr>
<td><strong>Total assets</strong></td>
<td>¥1,854,227</td>
<td>¥1,728,777</td>
<td>$17,453,190</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>LIABILITIES</th>
<th>2018</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Millions of yen</strong></td>
<td><strong>Thousands of U.S. dollars (Note 4)</strong></td>
<td><strong>Millions of yen</strong></td>
<td><strong>Thousands of U.S. dollars (Note 4)</strong></td>
</tr>
<tr>
<td><strong>Current liabilities:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating accounts payable (Note 7)</td>
<td>¥ 177,937</td>
<td>¥ 159,218</td>
<td>$1,674,858</td>
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<tr>
<td>Short-term loans payable (Notes 7 and 10)</td>
<td>3,150</td>
<td>5,372</td>
<td>29,649</td>
</tr>
<tr>
<td>Current portion of long-term loans payable (Notes 7 and 10)</td>
<td>14,555</td>
<td>13,037</td>
<td>137,001</td>
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<tr>
<td>Lease obligations (Notes 7 and 10)</td>
<td>2,389</td>
<td>5,712</td>
<td>22,486</td>
</tr>
<tr>
<td>Accounts payable—installment purchase (Notes 7 and 10)</td>
<td>185</td>
<td>181</td>
<td>1,741</td>
</tr>
<tr>
<td>Income taxes payable</td>
<td>14,074</td>
<td>10,829</td>
<td>1,011,916</td>
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<tr>
<td>Advances received</td>
<td>107,506</td>
<td>96,453</td>
<td>721,507</td>
</tr>
<tr>
<td><strong>Total current liabilities</strong></td>
<td>396,846</td>
<td>364,601</td>
<td>3,735,372</td>
</tr>
<tr>
<td><strong>Non-current liabilities:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bonds payable (Notes 7 and 10)</td>
<td>20,000</td>
<td>20,000</td>
<td>188,253</td>
</tr>
<tr>
<td>Long-term loans payable (Notes 7 and 10)</td>
<td>80,696</td>
<td>65,802</td>
<td>759,563</td>
</tr>
<tr>
<td>Lease obligations (Notes 7 and 10)</td>
<td>4,319</td>
<td>5,353</td>
<td>4,310</td>
</tr>
<tr>
<td>Long-term accounts payable—installment purchase (Notes 7 and 10)</td>
<td>480</td>
<td>666</td>
<td>4,518</td>
</tr>
<tr>
<td>Deferred tax liabilities (Note 12)</td>
<td>458</td>
<td>353</td>
<td>4,310</td>
</tr>
<tr>
<td>Reserve for loss on antitrust litigation</td>
<td>9,393</td>
<td>5,965</td>
<td>55,826</td>
</tr>
<tr>
<td>Net defined benefit liability (Note 11)</td>
<td>230,084</td>
<td>238,481</td>
<td>2,165,700</td>
</tr>
<tr>
<td>Total non-current liabilities</td>
<td>363,253</td>
<td>360,783</td>
<td>3,419,173</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>760,099</td>
<td>725,384</td>
<td>7,154,546</td>
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</tbody>
</table>

### Contingent liabilities (Note 17)

### NET ASSETS (Note 13)

<table>
<thead>
<tr>
<th>Shareholders’ equity:</th>
<th>2018</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Millions of yen</strong></td>
<td><strong>Thousands of U.S. dollars (Note 4)</strong></td>
<td><strong>Millions of yen</strong></td>
<td><strong>Thousands of U.S. dollars (Note 4)</strong></td>
</tr>
<tr>
<td><strong>Common stock:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Authorized: 700,000,000 shares in 2018 and 2017</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Issued: 353,715,800 shares in 2018 and 2017</td>
<td>181,352</td>
<td>181,352</td>
<td>1,707,003</td>
</tr>
<tr>
<td>Capital surplus</td>
<td>183,049</td>
<td>183,047</td>
<td>1,722,976</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>731,106</td>
<td>647,701</td>
<td>6,881,645</td>
</tr>
<tr>
<td>Treasury shares, at cost:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2,555,957 shares in 2018 and 199,873 shares in 2017</td>
<td>(10,535)</td>
<td>(531)</td>
<td>(99,162)</td>
</tr>
<tr>
<td><strong>Total shareholders’ equity</strong></td>
<td>1,084,972</td>
<td>1,011,569</td>
<td>10,212,462</td>
</tr>
<tr>
<td><strong>Accumulated other comprehensive income</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Valuation difference on available-for-sale securities (Note 8)</td>
<td>16,469</td>
<td>13,828</td>
<td>155,016</td>
</tr>
<tr>
<td>Deferred gains (losses) on hedges (Note 9)</td>
<td>6,360</td>
<td>(667)</td>
<td>59,864</td>
</tr>
<tr>
<td>Foreign currency translation adjustment</td>
<td>(30)</td>
<td>232</td>
<td>(282)</td>
</tr>
<tr>
<td>Remeasurements of defined benefit plans (Note 11)</td>
<td>(47,436)</td>
<td>(52,898)</td>
<td>(446,498)</td>
</tr>
<tr>
<td><strong>Total accumulated other comprehensive income</strong></td>
<td>(24,637)</td>
<td>(39,504)</td>
<td>(237,899)</td>
</tr>
<tr>
<td><strong>Non-controlling interests</strong></td>
<td>33,792</td>
<td>31,328</td>
<td>318,072</td>
</tr>
<tr>
<td><strong>Total net assets</strong></td>
<td>1,094,765</td>
<td>1,043,395</td>
<td>10,298,535</td>
</tr>
<tr>
<td><strong>Total liabilities and net assets</strong></td>
<td>¥1,854,227</td>
<td>¥1,728,777</td>
<td>$17,453,190</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these consolidated financial statements.
### Consolidated Statements of Income and Comprehensive Income

**Japan Airlines Co., Ltd. and Consolidated Subsidiaries**

<table>
<thead>
<tr>
<th>Years Ended March 31</th>
<th>Millions of yen</th>
<th>U.S. dollars (Note 4)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2018</td>
<td>2017</td>
</tr>
</tbody>
</table>

#### Operating revenue:

- **Passenger**
  - Domestic: ¥ 518,239, $ 4,878,002
  - International: ¥ 462,919, $ 4,357,294
- **Incidental and other revenue**: ¥ 402,099, $ 3,784,817
- **Total operating revenue**: ¥ 1,383,257, $ 13,020,114

#### Operating expenses:

- **Wages, salaries and benefits**: ¥ 290,354, $ 2,733,000
- **Aircraft fuel**: ¥ 215,270, $ 2,026,261
- **Landing fees and other rent**: ¥ 83,552, $ 786,445
- **Aircraft maintenance**: ¥ 62,084, $ 584,375
- **Aircraft rent**: ¥ 19,996, $ 188,215
- **Depreciation and amortization**: ¥ 110,860, $ 1,042,486
- **Other**: ¥ 426,571, $ 4,015,163
- **Total operating expenses**: ¥ 1,208,691, $ 11,376,586

#### Operating income:

- Non-operating income (expenses):
  - **Interest income**: ¥ 816, $ 7,680
  - **Dividend income**: ¥ 1,446, $ 13,610
  - **Interest expenses**: ¥ 789, $ 7,511
  - **Gain on sales of flight equipment**: ¥ 1,761, $ 16,575
  - **Loss on sales and disposal of flight equipment**: ¥ (11,964), $ (112,612)
  - **Loss on sales and disposal of supplies**: ¥ (1,737), $ (16,945)
  - **Share of profit of entities accounted for using equity method**: ¥ 2,521, $ 23,729
  - **Foreign exchange gains (losses)**: (¥ 2,493), $ (23,484)
  - **Gain on sales of investments in securities**: ¥ 829, $ 7,803
  - **Compensation income**: ¥ 267, $ 2,513
  - **Compensation expenses**: —
  - **Subsidy income for aircraft purchase**: ¥ 5,477, $ 51,553
  - **Loss on reduction of aircraft**: ¥ (5,475), $ (51,534)
  - **Impairment loss (Note 15)**: ¥ (1,209), $ (11,379)
  - **Other**: ¥ (1,523), $ (14,335)
  - **Total non-operating income (expenses)**: ¥ (12,584), $ (113,743)

#### Profit before income taxes:

- ¥ 162,480, $ 1,529,367

#### Income taxes—current (Note 12):

- ¥ 24,974, $ 235,071

#### Income taxes—deferred (Note 12):

- ¥ 3,480, $ 32,831

#### Total income taxes:

- ¥ 28,455, $ 267,202

#### Profit:

- ¥ 140,995, $ 1,262,136

#### Profit attributable to:

- Owners of parent: ¥ 135,406, $ 1,274,529

#### Other comprehensive income (Note 14):

- Valuation difference on available-for-sale securities: ¥ 2,590, $ 24,378
- Deferred gains on hedges: ¥ 6,969, $ 65,596
- Foreign currency translation adjustment: ¥ (296), $ (2,786)
- Remeasurements of defined benefit plans, net of tax: ¥ 5,481, $ 51,590
- Share of other comprehensive income of entities accounted for using equity method: ¥ 70, $ 658

#### Total other comprehensive income:

- ¥ 14,814, $ 139,439

#### Comprehensive income:

- ¥ 155,809, $ 1,466,575

#### Comprehensive income attributable to:

- Owners of parent: ¥ 150,274, $ 1,414,476

#### Non-controlling interests: ¥ 5,535, $ 52,099

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*The accompanying notes are an integral part of these consolidated financial statements.*
**CONSOLIDATED FINANCIAL STATEMENTS**

### Balance at April 1, 2017

<table>
<thead>
<tr>
<th>Common stock</th>
<th>Capital surplus</th>
<th>Retained earnings</th>
<th>Treasury shares</th>
<th>Total shareholders equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>$1,181,352</td>
<td>$183,049</td>
<td>$6,647,701</td>
<td>$3,531</td>
<td>$1,711,169</td>
</tr>
</tbody>
</table>

### Changes of items during period

<table>
<thead>
<tr>
<th>Dividends of surplus</th>
<th>$51,790</th>
<th>$51,790</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit attributable to owners of parent</td>
<td>$135,406</td>
<td>$135,406</td>
</tr>
<tr>
<td>Purchase of treasury shares</td>
<td>2</td>
<td>(9,999)</td>
</tr>
<tr>
<td>Changes of scope of consolidation, etc.</td>
<td>2</td>
<td>(211)</td>
</tr>
</tbody>
</table>

### Total changes of items during period

<table>
<thead>
<tr>
<th>Common stock</th>
<th>Capital surplus</th>
<th>Retained earnings</th>
<th>Treasury shares</th>
<th>Total shareholders equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>$1,181,352</td>
<td>$183,049</td>
<td>$7,011,106</td>
<td>$10,535</td>
<td>$1,984,972</td>
</tr>
</tbody>
</table>

### Balance at March 31, 2018

<table>
<thead>
<tr>
<th>Common stock</th>
<th>Capital surplus</th>
<th>Retained earnings</th>
<th>Treasury shares</th>
<th>Total shareholders equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>$1,181,352</td>
<td>$183,049</td>
<td>$7,011,106</td>
<td>$10,535</td>
<td>$1,984,972</td>
</tr>
</tbody>
</table>

### Accumulated other comprehensive income

<table>
<thead>
<tr>
<th>Common stock</th>
<th>Capital surplus</th>
<th>Retained earnings</th>
<th>Treasury shares</th>
<th>Total shareholders equity</th>
</tr>
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<tr>
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<td>$183,049</td>
<td>$7,011,106</td>
<td>$10,535</td>
<td>$1,984,972</td>
</tr>
</tbody>
</table>

###合并财务报表

#### 股东权益变动

<table>
<thead>
<tr>
<th>年末</th>
<th>增减变动金额 (百万日元)</th>
<th>备注</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2017</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2016</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

#### 现金流量表

<table>
<thead>
<tr>
<th>项目</th>
<th>2018 (百万日元)</th>
<th>2017 (百万日元)</th>
<th>2016 (百万日元)</th>
</tr>
</thead>
<tbody>
<tr>
<td>筹资活动现金流量净额</td>
<td>1,148,260</td>
<td>1,042,874</td>
<td>941,311</td>
</tr>
<tr>
<td>投资活动现金流量净额</td>
<td>1,274,529</td>
<td>1,274,529</td>
<td>1,274,529</td>
</tr>
<tr>
<td>经营活动现金流量净额</td>
<td>1,722,976</td>
<td>1,722,976</td>
<td>1,722,976</td>
</tr>
</tbody>
</table>

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<table>
<thead>
<tr>
<th>项目</th>
<th>2018 (百万日元)</th>
<th>2017 (百万日元)</th>
<th>2016 (百万日元)</th>
</tr>
</thead>
<tbody>
<tr>
<td>现金及现金等价物净增加额</td>
<td>1,148,260</td>
<td>1,042,874</td>
<td>941,311</td>
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<tr>
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<td>1,722,976</td>
<td>1,722,976</td>
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#### 年报

<table>
<thead>
<tr>
<th>年度</th>
<th>内容</th>
<th>2018(百万日元)</th>
<th>2017(百万日元)</th>
<th>2016(百万日元)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018年</td>
<td>股东权益变动</td>
<td>1,148,260</td>
<td>1,042,874</td>
<td>941,311</td>
</tr>
<tr>
<td></td>
<td>现金流量表</td>
<td>1,274,529</td>
<td>1,274,529</td>
<td>1,274,529</td>
</tr>
<tr>
<td></td>
<td>合并财务报表</td>
<td>1,722,976</td>
<td>1,722,976</td>
<td>1,722,976</td>
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</table>

#### 年报

<table>
<thead>
<tr>
<th>年度</th>
<th>内容</th>
<th>2018(百万日元)</th>
<th>2017(百万日元)</th>
<th>2016(百万日元)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018年</td>
<td>股东权益变动</td>
<td>1,148,260</td>
<td>1,042,874</td>
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</tr>
<tr>
<td></td>
<td>现金流量表</td>
<td>1,274,529</td>
<td>1,274,529</td>
<td>1,274,529</td>
</tr>
<tr>
<td></td>
<td>合并财务报表</td>
<td>1,722,976</td>
<td>1,722,976</td>
<td>1,722,976</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these consolidated financial statements.
CONSOLIDATED FINANCIAL STATEMENTS

Notes to Consolidated Financial Statements
Japan Airlines Co., Ltd. and Consolidated Subsidiaries

1. BASIS OF PRESENTING FINANCIAL STATEMENTS
Japan Airlines Co., Ltd. (the “Company”) and its domestic consolidated subsidiaries maintain their accounting records and prepare their financial statements in accordance with accounting principles generally accepted in Japan, which are different in certain respects to the application and disclosure requirements of International Financial Reporting Standards. The accompanying consolidated financial statements have been compiled from the consolidated financial statements filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Act of Japan and include certain additional financial information for the convenience of readers outside Japan. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

As permitted by the Financial Instruments and Exchange Act of Japan, amounts of less than one million yen have been omitted. As a result, the totals shown in the accompanying consolidated financial statements (both in yen and U.S. dollars) do not necessarily agree with the sum of the individual amounts.

Certain amounts previously reported have been reclassified to conform to the current year’s classification.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
a. Principles of Consolidation and Accounting for Investments in Unconsolidated Subsidiaries and Affiliates
The accompanying consolidated financial statements include the accounts of the Company and all significant subsidiaries controlled directly or indirectly by the Company. Companies controlled by the Company and its consolidated domestic subsidiaries are included in the accompanying consolidated financial statements on the equity basis.

The balance sheet date of 4 of the consolidated subsidiaries is December 31. Any significant differences in intercompany accounts and transactions arising from intervening intercompany transactions during the period between the balance sheet date of each subsidiary and the consolidated balance sheet date have been adjusted, if necessary. The differences between the acquisition and the fair value of the net assets at the respective dates of acquisition of the consolidated subsidiaries and companies accounted for by the equity method are recorded as goodwill amortized by the straight-line method over a period of 5 years.

All significant intercompany accounts and transactions and unrealized gain or loss on intercompany accounts and transactions are eliminated in consolidation.

b. Securities
Securities, except for investment securities of non-consolidated subsidiaries and affiliates, are classified as trading securities, held-to-maturity securities, or other securities. Trading securities are carried at fair value. Held-to-maturity securities are carried at amortized cost. Marketable securities classified as other securities are carried at fair value with any unrealized gain or loss reported as a separate component of net assets, net of taxes. Non-marketable securities classified as other securities are carried at cost or amortized cost. Cost of securities sold is determined principally by the moving-average method.

c. Inventories
Inventories are valued at the lower of cost and net realizable value with cost determined principally by the moving-average method.

d. Tangible Fixed Assets (excluding leased assets)
Tangible fixed assets, excluding leased assets, are stated at cost, net of accumulated depreciation, and accumulated impairment losses, if any, except as indicated in the following paragraph.

Accumulated depreciation of tangible fixed assets on March 31, 2018 and 2017 amounted to ¥436,907 million ($4,112,452 thousand) and ¥394,080 million, respectively. Depreciation of tangible fixed assets is computed as follows:

- Flight equipment: the straight-line method based on its estimated useful life.
- Other: principally the straight-line method based on the estimated useful lives of the respective assets.

The estimated useful lives are principally as follows:

- Flight equipment: from 12 to 20 years.
- Other: from 2 to 65 years.

e. Software (excluding leased assets)
Computer software intended for internal use is amortized by the straight-line method based on its estimated useful life, which is principally 5 years.

f. Leased Assets
Depreciation of leased assets is computed as follows:

- Leased assets arising from finance lease transactions that transfer the ownership of leased assets to the lessee are depreciated by the same method applied to assets arising from purchase transactions.
- Leased assets under finance lease transactions that do not transfer the ownership to the lessee are depreciated to a residual value of zero by the straight-line method using the lease term as the useful life.

g. Allowance for Doubtful Accounts
General provision for doubtful accounts is provided by applying a reserve percentage to receivables based on experience from past transactions. When considered necessary, specific reserves are made based on the assessment of individual accounts.

h. Accounting Method for Retirement Benefits
In calculating the retirement benefit obligation, the method of attributing expected benefits to the accounting period is principally based on the benefit formula.

- Actuarial gain and loss are amortized by the straight-line method over a period ranging from 5 to 17 years, which is less than the average remaining years of service of the active participants in the plans. Amortization is computed from the fiscal year subsequent to the year in which the difference was recorded.
- Past service cost is principally charged to income as incurred. However, at certain subsidiaries, past service cost is amortized by the straight-line method over a period which is less than the average remaining years of service of the active participants in the plans.

i. Reserve for Loss on Antitrust Litigation
Estimated future loss is accrued to provide for penalties and compensation potentially arising from price cartels.

j. Foreign Currency Translation
Revenues and expenses in foreign currencies are translated at the rates prevailing at the time of the transaction. Except as noted in k. Derivatives and Hedge Accounting, foreign currency receivables and payables are translated into yen at the applicable year-end foreign exchange rates and any gain or loss on translation is included in current earnings.

Differences arising from the translation of assets, liabiliti-
CONSOLIDATED FINANCIAL STATEMENTS

4. U.S. DOLLAR AMOUNTS

Amounts in U.S. dollars are included solely for the convenience of the reader. A rate of JPY 106.24 = USD 1.00, the approximate exchange rate prevailing on March 31, 2018, has been used in translation. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

5. CASH AND CASH EQUIVALENTS

The components of cash and cash equivalents in the accompanying consolidated statements of cash flows at March 31, 2018 and 2017 were as follows:

6. INVESTMENT SECURITIES OF NON-CONSOLIDATED SUBSIDIARIES AND AFFILIATES

Investment securities of non-consolidated subsidiaries and affiliates which were included in “Investment securities” in the consolidated balance sheets on March 31, 2018 and 2017 amounted to ¥37,477 million ($352,757 thousand) and ¥35,244 million, respectively. Bonds of affiliates which were included in “Investment securities” in the consolidated balance sheets on March 31, 2018 and 2017 amounted to ¥3,330 million ($31,344 thousand) and ¥3,330 million, respectively.

7. FAIR VALUES OF FINANCIAL INSTRUMENTS

The Company and its consolidated subsidiaries (the “JAL Group”) manage its financial instruments to raise funds, principally for the purpose of flight equipment and facilities in accordance with management plans for air transport, utilizing loans from financial institutions, issuance of bonds, finance lease transactions, and derivatives. Funds from short-term loans payable are utilized for ordinary operations. Funds from long-term loans payable and finance lease transactions are utilized for flight equipment and facilities. Derivatives are utilized for the purpose of reducing the risk of fluctuations of interest rates and foreign currency exchange rates, not for the purpose of speculation.

With respect to operating accounts receivable, the JAL Group exercises due date management and outstanding balance management in accordance with internal policies. The JAL Group makes its best efforts to identify and mitigate risks of bad debt from major customers with financial difficulties by periodically monitoring their creditworthiness. Securities and investment instruments are composed mainly of shares of companies with which the JAL Group has business relationships. The JAL Group reviews the fair values of such financial instruments and the financial position of the issuers periodically in order to identify and mitigate risks of impairment. Most operating accounts payable are due within one year. As for derivatives, the JAL Group believes that the credit risks are extremely low, as it enters into derivative transactions only with reputable financial institutions with a sound credit profile.

The Company utilizes derivatives in order to mitigate the risks of fluctuations in interest rates and foreign currency exchange rates on receivables and payables. The JAL Group utilizes currency options to reduce the risk of foreign currency exchange rate fluctuations for specific foreign-currency-denominated receivables and payables, mainly for fuel purchase payments.

The JAL Group also utilizes commodity derivatives in order to mitigate the risk of fluctuations in commodity prices of fuel and stabilize such fuel costs.

There are internal policies for derivative transactions which set forth authorization levels and upper limits on transaction volumes and the JAL Group enters into derivative transactions in accordance with such policies. Moreover, monthly meetings are held with the attendance of board members responsible for derivatives to determine methods and ratios for minimizing risks as well as to report and confirm results of derivative transactions.

The fair value of financial instruments is based on the quoted market price, when it is available. When there is no market price available, fair value is reasonably estimated. Since various assumptions and factors are reflected in estimating the fair value, different assumptions and factors could result in a different fair value.

The book value of financial instruments in the consolidated balance sheets, their fair value and the differences as of March 31, 2018 and 2017 were as follows:
(i) Methods of calculating the fair value of financial instruments, including securities and derivatives transactions

**Assets**

(1) Cash and deposits and (2) Notes and operating accounts receivable

The fair value equates to the book value due to the short-term nature of these instruments.

(3) Securities and investment securities

The fair value of securities is determined mainly based on the market price. These investment securities are described further in “Note 8. INVESTMENT SECURITIES.”

**Liabilities**

(1) Operating accounts payable

The fair value equates to the book value due to the short-term nature of these instruments.

(2) Bonds payable

The fair value of bonds payable is determined based on the market price.

(4) Long-term loans payable, (5) Lease obligations, and (6) Bonds payable

The fair value of long-term loans payable, lease obligations, and long-term accounts payable—installment purchase with fixed interest rates is based on the present value of future cash flows discounted using the current borrowing rate for similar debt of a comparable maturity.

Derivatives

Derivatives are described further in “Note 9. DERIVATIVES AND HEDGING ACTIVITIES.”

(ii) Financial instruments for which the fair value is extremely difficult to measure

The above are not included in “(3) (i) Other investment securities” in the fair value of financial instruments because there is no market value and it is difficult to measure the fair value.

(iii) Redemption schedule for monetary claims and securities with maturity date subsequent to the consolidated balance sheet date

**Assets**

The redemption schedule for short-term and long-term debt subsequent to the consolidated balance sheet date is described in “Note 10. SHORT-TERM LOANS PAYABLE AND LONG-TERM DEBT.”

Proceeds from sales of securities classified as other securities for the year ended March 31, 2018 amounted to ¥1,496 million ($14,081 thousand). For the year ended March 31, 2018, the aggregate gain realized on those sales totaled ¥764 million ($7,191 thousand), and the aggregate loss realized on those sales totaled ¥2 million ($18 thousand). Neither of them was applicable for the year ended March 31, 2017.
9. DERIVATIVES AND HEDGING ACTIVITIES

Certain consolidated subsidiaries utilize forward foreign exchange contracts and currency options on a consistent basis to hedge certain foreign currency transactions related to foreign purchase commitments, principally for flight equipment and foreign accounts payable, and other items. The Company also enters into a variety of options in its management of risk exposure related to the commodity prices of fuel.

The Company and certain consolidated subsidiaries enter into these hedging transactions in accordance with the internal guidelines and strategies established by management. The routine operations of the department which is responsible for hedging transactions are examined by other departments. Gains and losses on hedging instruments and the assessment of hedge effectiveness, which are performed both at inception and on an ongoing basis, are reported at meetings of the related department managers on a timely basis. Other consolidated subsidiaries have adopted procedures for hedging transactions which are more simplified than those adopted by the Company.

The contract amount and the estimated fair value of the open derivatives positions on March 31, 2018 and 2017, which met the criteria required for the application of hedge accounting, are summarized as follows:

<table>
<thead>
<tr>
<th>Type of derivative</th>
<th>As of March 31, 2018</th>
<th>As of March 31, 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Contract amount (Millions of yen)</td>
<td>Fair value (Millions of yen)</td>
</tr>
<tr>
<td>Forward foreign currency exchange contracts:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Buy:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>USD</td>
<td>Operating accounts payable</td>
<td>¥36,805</td>
</tr>
<tr>
<td>EUR</td>
<td>Operating accounts payable</td>
<td>728</td>
</tr>
<tr>
<td>Others</td>
<td>Operating accounts payable</td>
<td>730</td>
</tr>
<tr>
<td>Currency options:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Buy:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Call option</td>
<td>Operating accounts payable</td>
<td>67,232</td>
</tr>
<tr>
<td>Sell:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Put option</td>
<td>Operating accounts payable</td>
<td>60,885</td>
</tr>
<tr>
<td>Commodity swap:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Received variable/pay fixed</td>
<td>Aircraft fuel</td>
<td>68,395</td>
</tr>
<tr>
<td>Method of hedge accounting: Special treatment (Note 2. k)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Forward foreign currency exchange contracts:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Buy:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>USD</td>
<td>Operating accounts payable</td>
<td>593</td>
</tr>
<tr>
<td>EUR</td>
<td>Operating accounts payable</td>
<td>303</td>
</tr>
<tr>
<td>Others</td>
<td>Operating accounts payable</td>
<td>80</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>¥ (153)</td>
</tr>
</tbody>
</table>

All derivative transactions were conducted as over-the-counter transactions. Fair value is estimated based on prices quoted by financial institutions and others.

10. SHORT-TERM LOANS PAYABLE AND LONG-TERM DEBT

The weighted-average interest rate for short-term loans payable outstanding on March 31, 2018 was 1.0%. Long-term debt on March 31, 2018 and 2017 consisted of the following:

<table>
<thead>
<tr>
<th></th>
<th>Weighted-average interest rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long-term loans:</td>
<td></td>
</tr>
<tr>
<td>Current portion of long-term loans payable</td>
<td>¥14,555</td>
</tr>
<tr>
<td>Long-term loans payable (excluding current portion) due 2019 to 2030</td>
<td>¥80,696</td>
</tr>
<tr>
<td>Lease obligations:</td>
<td></td>
</tr>
<tr>
<td>Current portion of lease obligations</td>
<td>2,389</td>
</tr>
<tr>
<td>Lease obligations (excluding current portion) due 2019 to 2032</td>
<td>4,319</td>
</tr>
<tr>
<td>Long-term loans payable—installment purchase:</td>
<td></td>
</tr>
<tr>
<td>Current portion of long-term loans payable—installment purchase</td>
<td>185</td>
</tr>
<tr>
<td>Long-term loans payable—installment purchase (excluding current portion) due 2021</td>
<td>4,80</td>
</tr>
<tr>
<td>Bonds payable</td>
<td>20,000</td>
</tr>
<tr>
<td>Total</td>
<td>¥212,626</td>
</tr>
</tbody>
</table>

The aggregate annual maturities of long-term debt within 5 years subsequent to March 31, 2018 are summarized as follows:

<table>
<thead>
<tr>
<th>Year ending March 31</th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>¥11,530</td>
<td>$151,238</td>
</tr>
<tr>
<td>2019</td>
<td>16,165</td>
<td>152,155</td>
</tr>
<tr>
<td>2020</td>
<td>11,644</td>
<td>109,600</td>
</tr>
<tr>
<td>2021</td>
<td>20,525</td>
<td>193,194</td>
</tr>
<tr>
<td>2022</td>
<td>9,482</td>
<td>89,250</td>
</tr>
<tr>
<td>2023 and thereafter</td>
<td>40,653</td>
<td>448,766</td>
</tr>
<tr>
<td>Total</td>
<td>¥212,626</td>
<td>$1,154,236</td>
</tr>
</tbody>
</table>
For the years ended March 31, 2018 and 2017

a. Defined benefit plans

(1) Balances of retirement benefit obligations, excluding plans adopting the simplified method

<table>
<thead>
<tr>
<th>Year ended March 31</th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>2017</td>
<td>2018</td>
</tr>
<tr>
<td>Balance at beginning of period</td>
<td>¥477,584</td>
<td>$4,495,331</td>
</tr>
<tr>
<td>Service cost</td>
<td>12,966</td>
<td>12,738</td>
</tr>
<tr>
<td>Interest cost</td>
<td>3,527</td>
<td>3,497</td>
</tr>
<tr>
<td>Actuarial loss</td>
<td>1,363</td>
<td>1,280</td>
</tr>
<tr>
<td>Benefit paid</td>
<td>(24,169)</td>
<td>(22,749)</td>
</tr>
<tr>
<td>Reclassification of retirement benefit obligations due to the change from simplified method</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Other</td>
<td>(3)</td>
<td>(223)</td>
</tr>
<tr>
<td>Balance at end of period</td>
<td>¥471,248</td>
<td>$4,315,692</td>
</tr>
</tbody>
</table>

(2) Balances of plan assets, excluding plans adopting the simplified method

<table>
<thead>
<tr>
<th>Year ended March 31</th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>2017</td>
<td>2018</td>
</tr>
<tr>
<td>Balance at beginning of period</td>
<td>¥242,402</td>
<td>$2,281,645</td>
</tr>
<tr>
<td>Expected return on plan assets</td>
<td>3,698</td>
<td>3,669</td>
</tr>
<tr>
<td>Actuarial gain</td>
<td>1,091</td>
<td>1,216</td>
</tr>
<tr>
<td>Contributions paid by the employer</td>
<td>17,917</td>
<td>16,338</td>
</tr>
<tr>
<td>Benefit paid</td>
<td>(19,579)</td>
<td>(19,668)</td>
</tr>
<tr>
<td>Reclassification of retirement benefit obligations due to the change from simplified method</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Other</td>
<td>(11)</td>
<td>(10)</td>
</tr>
<tr>
<td>Balance at end of period</td>
<td>¥245,410</td>
<td>$2,310,146</td>
</tr>
</tbody>
</table>

(3) Reconciliation from retirement benefit obligations and plan assets to net defined benefit liability (asset), applying the simplified method

<table>
<thead>
<tr>
<th>Year ended March 31</th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>2017</td>
<td>2018</td>
</tr>
<tr>
<td>Balance at beginning of period</td>
<td>¥ 2,059</td>
<td>$19,380</td>
</tr>
<tr>
<td>Service cost</td>
<td>134</td>
<td>138</td>
</tr>
<tr>
<td>Contributions paid by the employer</td>
<td>156</td>
<td>(148)</td>
</tr>
<tr>
<td>Benefit paid</td>
<td>(149)</td>
<td>(172)</td>
</tr>
<tr>
<td>Reclassification of retirement benefit obligations due to the change from simplified method</td>
<td>—</td>
<td>(1,141)</td>
</tr>
<tr>
<td>Other</td>
<td>(0)</td>
<td>(11)</td>
</tr>
<tr>
<td>Balance at end of period</td>
<td>¥ 2,148</td>
<td>$20,199</td>
</tr>
</tbody>
</table>

(4) Reconciliation from retirement benefit obligations and plan assets to net defined benefit liability (asset)

<table>
<thead>
<tr>
<th>Year ended March 31</th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>2017</td>
<td>2018</td>
</tr>
<tr>
<td>Funded retirement benefit obligations</td>
<td>¥ 380,893</td>
<td>$3,585,212</td>
</tr>
<tr>
<td>Plan assets</td>
<td>(248,801)</td>
<td>(2,341,876)</td>
</tr>
<tr>
<td>Unfunded retirement benefit obligations</td>
<td>95,871</td>
<td>92,002</td>
</tr>
<tr>
<td>Total net defined benefit liability (asset)</td>
<td>227,964</td>
<td>2,145,745</td>
</tr>
<tr>
<td>Net defined benefit liability</td>
<td>230,084</td>
<td>2,165,700</td>
</tr>
<tr>
<td>Net defined benefit asset</td>
<td>(2,119)</td>
<td>(19,945)</td>
</tr>
<tr>
<td>Total net defined benefit liability (asset)</td>
<td>227,964</td>
<td>2,145,745</td>
</tr>
</tbody>
</table>

(5) Retirement benefit costs

<table>
<thead>
<tr>
<th>Year ended March 31</th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>2017</td>
<td>2018</td>
</tr>
<tr>
<td>Service cost</td>
<td>¥12,906</td>
<td>$121,856</td>
</tr>
<tr>
<td>Interest cost</td>
<td>3,527</td>
<td>33,198</td>
</tr>
<tr>
<td>Expected return on plan assets</td>
<td>(3,898)</td>
<td>(34,807)</td>
</tr>
<tr>
<td>Past service costs amortization</td>
<td>(149)</td>
<td>(461)</td>
</tr>
<tr>
<td>Net actuarial loss amortization</td>
<td>7,771</td>
<td>73,145</td>
</tr>
<tr>
<td>Retirement benefit cost based on the simplified method</td>
<td>343</td>
<td>3,228</td>
</tr>
<tr>
<td>Other</td>
<td>(670)</td>
<td>(6,306)</td>
</tr>
<tr>
<td>Subtotal</td>
<td>20,169</td>
<td>189,843</td>
</tr>
<tr>
<td>Reclassification of retirement benefit obligations due to the change from simplified method</td>
<td>—</td>
<td>70</td>
</tr>
<tr>
<td>Total</td>
<td>¥20,169</td>
<td>¥19,153</td>
</tr>
</tbody>
</table>

(6) Remeasurements of defined benefit plans in other comprehensive income

<table>
<thead>
<tr>
<th>Year ended March 31</th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>2017</td>
<td>2018</td>
</tr>
<tr>
<td>Past service costs</td>
<td>¥ (49)</td>
<td>$ (461)</td>
</tr>
<tr>
<td>Actuarial gains</td>
<td>7,449</td>
<td>70,114</td>
</tr>
<tr>
<td>Total</td>
<td>¥7,498</td>
<td>¥70,114</td>
</tr>
</tbody>
</table>

(7) Remeasurements of defined benefit plans in accumulated other comprehensive income

As of March 31

<table>
<thead>
<tr>
<th></th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>2017</td>
<td>2018</td>
</tr>
<tr>
<td>Past service costs that are yet to be recognized</td>
<td>¥ (320)</td>
<td>$ (3,012)</td>
</tr>
<tr>
<td>Actuarial losses that are yet to be recognized</td>
<td>68,157</td>
<td>641,538</td>
</tr>
<tr>
<td>Total</td>
<td>¥67,837</td>
<td>$638,525</td>
</tr>
</tbody>
</table>

(8) Plan assets

<table>
<thead>
<tr>
<th>Year ended March 31</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bond</td>
<td>91</td>
<td>90</td>
</tr>
<tr>
<td>Other</td>
<td>5</td>
<td>6</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

Current and target asset allocations, historical and expected returns on various categories of plan assets have been considered in determining the long-term expected rate of return.

(9) Actuarial assumptions

As of March 31

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discount rate</td>
<td>0.4–1.2</td>
<td>0.4–1.2</td>
</tr>
<tr>
<td>Long-term expected rate of return</td>
<td>1.0–2.0</td>
<td>1.0–2.5</td>
</tr>
</tbody>
</table>

b. Defined contribution plans

The Company and its consolidated subsidiaries contributed a total of ¥1,614 million ($15,192 thousand) and ¥1,581 million for the fiscal years ended March 31, 2018 and 2017, respectively.

12. INCOME TAX

The significant components of deferred tax assets and liabilities and the related valuation allowances on March 31, 2018 and 2017 were as follows:

<table>
<thead>
<tr>
<th></th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>2017</td>
<td>2018</td>
</tr>
<tr>
<td>Deferred tax assets:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net defined benefit liability</td>
<td>¥ 69,633</td>
<td>$694,672</td>
</tr>
<tr>
<td>Operating accounts payable</td>
<td>11,790</td>
<td>105,355</td>
</tr>
<tr>
<td>Non-recurring depreciation</td>
<td>4,826</td>
<td>39,118</td>
</tr>
<tr>
<td>Reserve for loss on antitrust litigation</td>
<td>1,777</td>
<td>17,786</td>
</tr>
<tr>
<td>Deferred liability on flight equipment</td>
<td>1,625</td>
<td>20,235</td>
</tr>
<tr>
<td>Asset retirement obligations</td>
<td>1,194</td>
<td>11,340</td>
</tr>
<tr>
<td>Deferred losses on hedges</td>
<td>675</td>
<td>5,333</td>
</tr>
<tr>
<td>Lease obligations</td>
<td>269</td>
<td>2,532</td>
</tr>
<tr>
<td>Tax loss carry forwards</td>
<td>152,047</td>
<td>1,416,160</td>
</tr>
<tr>
<td>Other</td>
<td>9,612</td>
<td>8,786</td>
</tr>
<tr>
<td>Total</td>
<td>¥253,453</td>
<td>$2,189,684</td>
</tr>
</tbody>
</table>

Valuation allowance | (174,066) | (197,885) | (1,610,422) |

Deferred tax liabilities:

<table>
<thead>
<tr>
<th></th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>2017</td>
<td>2018</td>
</tr>
<tr>
<td>Valuation difference on available-for-sale securities</td>
<td>6,854</td>
<td>64,514</td>
</tr>
<tr>
<td>Deferred gains on hedges</td>
<td>3,521</td>
<td>33,141</td>
</tr>
<tr>
<td>Asset retirement obligations</td>
<td>336</td>
<td>3,162</td>
</tr>
<tr>
<td>Leased assets</td>
<td>202</td>
<td>1,901</td>
</tr>
<tr>
<td>Other</td>
<td>2,662</td>
<td>22,223</td>
</tr>
<tr>
<td>Total</td>
<td>¥13,577</td>
<td>127,795</td>
</tr>
</tbody>
</table>

Deferred tax assets:

<table>
<thead>
<tr>
<th></th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>2017</td>
<td>2018</td>
</tr>
<tr>
<td>Statutory rate</td>
<td>30.2</td>
<td>30.2</td>
</tr>
<tr>
<td>Share of loss of entities accounted for using equity method</td>
<td>(0.5)</td>
<td>(0.4)</td>
</tr>
<tr>
<td>Changes in valuation allowance</td>
<td>(14.3)</td>
<td>(36.6)</td>
</tr>
<tr>
<td>Other</td>
<td>(2.2)</td>
<td>1.8</td>
</tr>
<tr>
<td>Effective tax rate</td>
<td>13.2</td>
<td>(5.0)</td>
</tr>
</tbody>
</table>
The number of shares of common stock in treasury increased by 2,356 thousand shares. Because the Company purchased 2,354 thousand shares and 2 thousand shares increased with the influence that the entity accounted for using the equity method which holds the shares of the parent company purchased its own treasury shares.

The number and changes in the total number of shares of stock authorized and in issue and common stock in treasury for the year ended March 31, 2017 were as follows:

<table>
<thead>
<tr>
<th>Year ended March 31, 2017</th>
<th>On April 1, 2016</th>
<th>Increase</th>
<th>Decrease</th>
<th>On March 31, 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of shares of stock authorized:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Common stock</td>
<td>700,000</td>
<td>—</td>
<td>—</td>
<td>700,000</td>
</tr>
<tr>
<td>Preferred stock</td>
<td>50,000</td>
<td>—</td>
<td>—</td>
<td>50,000</td>
</tr>
<tr>
<td>Total</td>
<td>750,000</td>
<td>—</td>
<td>—</td>
<td>750,000</td>
</tr>
<tr>
<td>Number of shares of common stock in treasury:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Common stock</td>
<td>362,704</td>
<td>—</td>
<td>—</td>
<td>362,704</td>
</tr>
<tr>
<td>Total</td>
<td>203,898</td>
<td>—</td>
<td>—</td>
<td>203,898</td>
</tr>
</tbody>
</table>

14. OTHER COMPREHENSIVE INCOME

Reclassification adjustments for each component of other comprehensive income including tax effect for the years ended March 31, 2018 and 2017 were as follows:

<table>
<thead>
<tr>
<th>Year ended March 31</th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pre-tax amount</td>
<td>3,722</td>
<td>(1,414) 35,033</td>
</tr>
<tr>
<td>Tax expense (benefit)</td>
<td>(1,131) 443</td>
<td>(10,645)</td>
</tr>
<tr>
<td>Valuation difference on available-for-sale securities, net of taxes</td>
<td>2,590 (971) 24,378</td>
<td></td>
</tr>
<tr>
<td>Deferred gains (losses) on hedges, net of taxes</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Deferred gains (losses) arising during the period</td>
<td>12,595 18,053 118,552</td>
<td></td>
</tr>
<tr>
<td>Less: Reclassification adjustment included in profit</td>
<td>(2,702) 13,596 25,432</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>9,892</td>
<td>31,650 93,109</td>
</tr>
<tr>
<td>2017</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pre-tax amount</td>
<td>4,084</td>
<td>(1,414) 35,033</td>
</tr>
<tr>
<td>Tax expense (benefit)</td>
<td>(1,968) 2,356</td>
<td>(18,524)</td>
</tr>
<tr>
<td>Valuation difference on available-for-sale securities, net of taxes</td>
<td>5,481 16,152 51,590</td>
<td></td>
</tr>
<tr>
<td>Deferred gains (losses) on hedges, net of taxes</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Deferred gains (losses) arising during the period</td>
<td>17,749 20,153 149,149</td>
<td></td>
</tr>
<tr>
<td>Less: Reclassification adjustment included in profit</td>
<td>(271) (11,713) (2,350)</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>7,449</td>
<td>7,449 70,114</td>
</tr>
</tbody>
</table>

15. IMPAIRMENT LOSS ON NON-CURRENT ASSETS

Assets are attributed or allocated to cash-generating units which generated largely independent cash flows for calculating impairment loss. Assets to be sold and idle assets are written down to their respective recoverable amounts.

The Company and its consolidated subsidiaries estimated recoverable amounts at the higher of fair value less costs to sell and in use. Fair value is based on reasonable estimates made by the Company and its consolidated subsidiaries in accordance with the contract amounts of sales for the periods ended March 31, 2018 and 2017, respectively.

The Company and certain consolidated subsidiaries have recognized impairment loss on the following groups of assets in the accompanying consolidated statements of income and comprehensive income for the year ended March 31, 2018:

- Assets held in the Company's and consolidated subsidiaries' operations: Flight equipment
- Location: —

An impairment loss of ¥1,209 million ($11,379 thousand) was recognized mainly on flight equipment as non-operating expenses in the accompanying consolidated statements of income and comprehensive income for the year ended March 31, 2018.

The Company has recognized impairment loss on the following groups of assets in the accompanying consolidated statements of income and comprehensive income for the year ended March 31, 2017:

- Assets held in the Company's and consolidated subsidiaries' operations: Flight equipment
- Location: —

An impairment loss of ¥505 million was recognized as non-operating expenses in the accompanying consolidated statements of income and comprehensive income for the year ended March 31, 2017.

16. LEASES

As Lessee

Depreciation equivalent is calculated by the straight-line method on the assumption that the useful lives of the related assets are the same as the lease term and the residual value is zero. Interest expenses equivalent is calculated on the
assumption that the difference between aggregate lease rentals and the acquisition cost of leased assets is deemed to be the interest portion and is apportioned over the term of the lease by the interest method.

No impairment loss has been recognized on leased property under finance leases accounted as operating leases for the years ended March 31, 2018 and 2017.

Future rental expenses under noncancelable operating leases outstanding on March 31, 2018 and 2017 were as follows:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Within 1 year</td>
<td>¥12,278</td>
<td>¥15,468</td>
<td>¥115,568</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Over 1 year</td>
<td>55,188</td>
<td>60,983</td>
<td>519,463</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>¥67,466</td>
<td>¥76,457</td>
<td>¥635,031</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

17. CONTINGENT LIABILITIES
On March 31, 2018 and 2017, contingent liabilities for guarantees on bank loans of employees amounted to ¥107 million ($1,007 thousand) and ¥150 million, respectively. On March 31, 2018 and 2017, contingent liabilities for guarantees for lease obligations of Jetstar Japan Co., Ltd. amounted to ¥4,042 million ($38,045 thousand) and ¥4,400 million, respectively.

The Company guarantees for damage resulting from a breach of the obligation, assertion or guarantee on the contract regarding stock transfer reservation concluded between Fukuoka Airport Holdings Co., Ltd. (transferee), in which the Company holds an investment, and the Ministry of Land, Infrastructure, Transport and Tourism Civil Aviation Bureau (transferee), capped at ¥7,867 million ($74,049 thousand) on March 31, 2018 and 2017.

18. AMOUNTS PER SHARE
Basic earnings per share is computed based on the earnings available for distribution to or allocable to the shareholders of common stock and the weighted-average number of shares of common stock outstanding during each year. Diluted earnings per share are computed based on earnings available for distribution to the shareholders and the weighted-average number of shares of common stock outstanding during each year after giving effect to the potentially dilutive securities to be issued upon the conversion of convertible bonds. However, diluted earnings per share have not been presented for the years ended March 31, 2018 and 2017 since the Company had no equity instruments issued that had a dilutive effect on earnings per share.

The following table sets forth the computation of basic earnings per share of common stock for the years ended March 31, 2018 and 2017:

<table>
<thead>
<tr>
<th>Year ended March 31</th>
<th>2018</th>
<th>2017</th>
<th>U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Earnings per share of common stock:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Basic</td>
<td>¥383.23</td>
<td>¥456.56</td>
<td>$3.60</td>
</tr>
</tbody>
</table>

19. ASSET RETIREMENT OBLIGATIONS
a. Asset retirement obligations recognized in the consolidated balance sheets on March 31, 2018 and 2017
The Company and its consolidated subsidiaries, in connection with some buildings and land, have entered into real estate lease contracts with terms ranging from 1 to 46 years for the years ended March 31, 2018 and 2017. Asset retirement obligations have been recognized in light of the obligation of the Company and its consolidated subsidiaries to the owners of the buildings and land to remove the facilities from leased real estate at the end of those contracts. The liabilities on March 31, 2018 and 2017 have been calculated with expected useful lives ranging from 1 to 46 years and discount rates ranging from 0.1% to 2.5%.

The following table summarizes the changes in the aggregate carrying amount of asset retirement obligations for the years ended March 31, 2018 and 2017:

<table>
<thead>
<tr>
<th>Year ended March 31</th>
<th>2018</th>
<th>2017</th>
<th>U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at beginning of period</td>
<td>¥3,788</td>
<td>¥3,957</td>
<td>$35,655</td>
</tr>
<tr>
<td>Increase due to purchases of tangible fixed assets</td>
<td>0</td>
<td>10</td>
<td>0</td>
</tr>
<tr>
<td>Increase due to changes in estimated obligations</td>
<td>143</td>
<td>—</td>
<td>1,346</td>
</tr>
<tr>
<td>Decrease due to the passage of time</td>
<td>56</td>
<td>55</td>
<td>527</td>
</tr>
<tr>
<td>Decrease due to settlement</td>
<td>(0)</td>
<td>(235)</td>
<td>(0)</td>
</tr>
<tr>
<td>Balance at end of period</td>
<td>¥3,988</td>
<td>¥3,788</td>
<td>$37,537</td>
</tr>
</tbody>
</table>

b. Asset retirement obligations not recognized in the consolidated balance sheet as of March 31, 2018 and 2017
The Company and its consolidated subsidiaries have rented lots and buildings from domestic service airports based on permission for national property use and a real estate rental contract for national property, and have an obligation to remove the facilities from leased real estate. The Company and its consolidated subsidiaries have an important role in public traffic, and depend on the trends of the aviation administration of each country. For this reason, the time of building removal and withdrawal cannot be determined at the discretion of the Company and its consolidated subsidiaries alone in regard to rented airport-related facilities. Moreover, since there is also no schedule for building removal and withdrawal at present, asset retirement obligations cannot be reasonably estimated. Therefore, the asset retirement obligations corresponding to the debt concerned have not been calculated.
CONSOLIDATED FINANCIAL STATEMENTS

Year ended March 31, 2018

<table>
<thead>
<tr>
<th>Segment</th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
<th>Eliminations</th>
<th>Consolidated</th>
</tr>
</thead>
<tbody>
<tr>
<td>Air transportation</td>
<td>$1,140,333</td>
<td>¥2,024,023</td>
<td>¥1,183,257</td>
<td>—</td>
</tr>
<tr>
<td>External</td>
<td>116,831</td>
<td>32,386</td>
<td>149,318</td>
<td>(149,318)</td>
</tr>
<tr>
<td>Intergroup</td>
<td>1,257,265</td>
<td>275,310</td>
<td>1,532,575</td>
<td>(149,318)</td>
</tr>
<tr>
<td>Total</td>
<td>161,261</td>
<td>13,401</td>
<td>174,662</td>
<td>(96)</td>
</tr>
<tr>
<td>Segment profit</td>
<td>¥1,140,333</td>
<td>—</td>
<td>1,137,356</td>
<td>(118,128)</td>
</tr>
<tr>
<td>Assets</td>
<td>160,526</td>
<td>179,029</td>
<td>1,975,356</td>
<td>—</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>106,236</td>
<td>2,635</td>
<td>110,872</td>
<td>(11)</td>
</tr>
<tr>
<td>Impairment loss</td>
<td>1,184</td>
<td>25</td>
<td>1,209</td>
<td>—</td>
</tr>
<tr>
<td>Investments in entities accounted for using equity method</td>
<td>8,475</td>
<td>22,192</td>
<td>30,668</td>
<td>—</td>
</tr>
<tr>
<td>Increase in tangible fixed assets and intangible assets</td>
<td>¥209,541</td>
<td>¥1,263</td>
<td>¥210,804</td>
<td>—</td>
</tr>
</tbody>
</table>

Year ended March 31, 2017

<table>
<thead>
<tr>
<th>Segment</th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
<th>Eliminations</th>
<th>Consolidated</th>
</tr>
</thead>
<tbody>
<tr>
<td>Air transportation</td>
<td>$1,078,425</td>
<td>¥2,049,424</td>
<td>¥1,132,257</td>
<td>—</td>
</tr>
<tr>
<td>External</td>
<td>109,031</td>
<td>31,386</td>
<td>140,417</td>
<td>(140,417)</td>
</tr>
<tr>
<td>Intergroup</td>
<td>1,187,456</td>
<td>275,310</td>
<td>1,462,765</td>
<td>(140,417)</td>
</tr>
<tr>
<td>Total</td>
<td>160,261</td>
<td>13,401</td>
<td>173,662</td>
<td>(96)</td>
</tr>
<tr>
<td>Segment profit</td>
<td>¥1,078,425</td>
<td>—</td>
<td>1,071,356</td>
<td>(118,128)</td>
</tr>
<tr>
<td>Assets</td>
<td>159,526</td>
<td>179,029</td>
<td>1,975,356</td>
<td>—</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>106,236</td>
<td>2,635</td>
<td>110,872</td>
<td>(11)</td>
</tr>
<tr>
<td>Impairment loss</td>
<td>1,184</td>
<td>25</td>
<td>1,209</td>
<td>—</td>
</tr>
<tr>
<td>Investments in entities accounted for using equity method</td>
<td>8,475</td>
<td>22,192</td>
<td>30,668</td>
<td>—</td>
</tr>
<tr>
<td>Increase in tangible fixed assets and intangible assets</td>
<td>¥209,541</td>
<td>¥1,263</td>
<td>¥210,804</td>
<td>—</td>
</tr>
</tbody>
</table>

Increase in tangible fixed assets and intangible assets

Investments in entities accounted for using equity method

Information by Geographical Area

Operating revenue from overseas operations, which include international passenger and cargo services of domestic consolidated airline subsidiaries rendered during the years ended March 31, 2018 and 2017, export sales of domestic consolidated subsidiaries, and sales of consolidated subsidiaries outside Japan, for the years ended March 31, 2018 and 2017 were as follows:

<table>
<thead>
<tr>
<th>Region</th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asia and Oceania</td>
<td>¥237,359</td>
<td>¥239,298</td>
</tr>
<tr>
<td>North America</td>
<td>209,263</td>
<td>186,398</td>
</tr>
<tr>
<td>Europe</td>
<td>89,247</td>
<td>72,066</td>
</tr>
<tr>
<td>Total</td>
<td>¥455,872</td>
<td>¥447,663</td>
</tr>
</tbody>
</table>

Information about amortization and unamortized balances of goodwill by segment for the year ended March 31, 2017 were as follows:

<table>
<thead>
<tr>
<th>Segment</th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Air transportation</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>External</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Intergroup</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Total</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Segment profit</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Assets</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Impairment loss</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Investments in entities accounted for using equity method</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Increase in tangible fixed assets and intangible assets</td>
<td>—</td>
<td>—</td>
</tr>
</tbody>
</table>

Investments in entities accounted for using equity method

Information about amortization and unamortized balances of goodwill by segment for the year ended March 31, 2018 was not applicable.

21. RELATED PARTY INFORMATION

There are no material transactions that need to be presented.

22. SUBSEQUENT EVENTS

a. Share repurchase

The Company resolved to purchase treasury shares at the meeting of the Board of Directors held on February 28, 2018, in accordance with the Companies Act Article 178 of the Companies Act.

As a result, the following was implemented.

1. Details of repurchase

(1) Type of shares to be purchased Common shares of the Company
(2) Total number of shares to be purchased 7 million shares (maximum)
(3) Total purchase price of shares 20 billion yen (maximum)
(4) Purchase period March 1, 2018 to April 27, 2018

3. Result of repurchase

Content of shares repurchased before March 31, 2018

(1) Type of shares to be purchased Common shares of the Company
(2) Total number of shares to be purchased 2,354,000 shares
(3) Total purchase price of shares 9,999,953,483 yen
(4) Purchase period March 1, 2018 to March 31, 2018

Cost of shares repurchased after April 1, 2018

(1) Type of shares to be purchased Common shares of the Company
(2) Total number of shares to be purchased 2,283,000 shares
(3) Total purchase price of shares 10,733,556,633 yen
(4) Purchase period April 1, 2018 to April 13, 2018

b. Retirement of treasury shares

The Company resolved to retire treasury shares at the meeting of the Board of Directors held on April 27, 2018, in accordance with the Companies Act Article 178 of the Companies Act.

As a result, the following was implemented.

1. Details of the retirement

(1) Type of shares to be retired Common shares of the Company
(2) Total number of shares to be retired 4,687,100 shares
(3) Total purchase price of shares issued before the retirement 1,332,643,438 yen
(4) Purchase period May 23, 2018
(5) Purchase method Cash purchase

2. The total number of shares after the above retirement of treasury shares

349,028,700 shares.

To improve capital efficiency and expand shareholders return.

To the improvement of capital efficiency and expanding shareholders return.
## CONSOLIDATED FINANCIAL STATEMENTS

### Independent Auditor’s Report

**To the Board of Directors of Japan Airlines Co., Ltd.:**

We have audited the accompanying consolidated financial statements of Japan Airlines Co., Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2018 and 2017, and the consolidated statements of income and comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

**Management’s Responsibility for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor’s Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of our financial statement audit is to express an opinion on the overall effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Japan Airlines Co., Ltd. and its consolidated subsidiaries as at March 31, 2018 and 2017, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

**Convenience Translation**

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2018 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 4 to the consolidated financial statements.

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### Air Transport Business Segment

<table>
<thead>
<tr>
<th>Air Transport Business</th>
<th>Paid-in Capital (Millions of yen)</th>
<th>Ratio of Voting Rights Direct (%)</th>
<th>Ratio of Voting Rights Indirect (%)</th>
<th>Total (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>JAPAN TRANSOCEAN AIR CO., LTD.</td>
<td>4,537</td>
<td>72.8</td>
<td>72.8</td>
<td></td>
</tr>
<tr>
<td>JAPAN AIR COMMUTER CO., LTD.</td>
<td>300</td>
<td>60.0</td>
<td>60.0</td>
<td></td>
</tr>
<tr>
<td>J-AIR CO., LTD.</td>
<td>100</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
<tr>
<td>HOKKAIDO AIR SYSTEM CO., LTD.</td>
<td>490</td>
<td>57.3</td>
<td>57.3</td>
<td></td>
</tr>
<tr>
<td>RYUKYU AIR COMMUTER CO., LTD.</td>
<td>396</td>
<td>74.5</td>
<td>74.5</td>
<td></td>
</tr>
</tbody>
</table>

### Airport Passenger Handling

<table>
<thead>
<tr>
<th>Airport Passenger Handling</th>
<th>Paid-in Capital (Millions of yen)</th>
<th>Ratio of Voting Rights Direct (%)</th>
<th>Ratio of Voting Rights Indirect (%)</th>
<th>Total (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>JAL SKY CO., LTD.</td>
<td>100</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
<tr>
<td>JAL SKY AIRPORT OKINAWA COMPANY</td>
<td>33</td>
<td>66.7</td>
<td>33.3</td>
<td></td>
</tr>
<tr>
<td>JALSKY OSAKA CO., LTD.</td>
<td>10</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
<tr>
<td>JALSKY KYUSHU CO., LTD.</td>
<td>10</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
<tr>
<td>JALSKY SAPPORO CO., LTD.</td>
<td>10</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
<tr>
<td>JALSKY SENDAI CO., LTD.</td>
<td>10</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

### Ground Handling

<table>
<thead>
<tr>
<th>Ground Handling</th>
<th>Paid-in Capital (Millions of yen)</th>
<th>Ratio of Voting Rights Direct (%)</th>
<th>Ratio of Voting Rights Indirect (%)</th>
<th>Total (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>JAL GROUND SERVICE CO., LTD.</td>
<td>100</td>
<td>99.8</td>
<td>0.2</td>
<td></td>
</tr>
<tr>
<td>JAL GROUND SERVICE OKA CO., LTD.</td>
<td>10</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
<tr>
<td>JAL GROUND SERVICE KYUSHU CO., LTD.</td>
<td>10</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

### Maintenance

<table>
<thead>
<tr>
<th>Maintenance</th>
<th>Paid-in Capital (Millions of yen)</th>
<th>Ratio of Voting Rights Direct (%)</th>
<th>Ratio of Voting Rights Indirect (%)</th>
<th>Total (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>JAL ENGINEERING CO., LTD.</td>
<td>80</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
<tr>
<td>JAL MAINTENANCE SERVICE CO., LTD.</td>
<td>10</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

### Cargo

<table>
<thead>
<tr>
<th>Cargo</th>
<th>Paid-in Capital (Millions of yen)</th>
<th>Ratio of Voting Rights Direct (%)</th>
<th>Ratio of Voting Rights Indirect (%)</th>
<th>Total (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>JAL KANSUI AIRCARGO SYSTEM CO., LTD.</td>
<td>100</td>
<td>69.2</td>
<td>69.2</td>
<td></td>
</tr>
<tr>
<td>JAL CARGO SERVICE CO., LTD.</td>
<td>50</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
<tr>
<td>JAL CARGO HANDLING CO., LTD.</td>
<td>50</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
<tr>
<td>JAL CARGO SERVICE KYUSHU CO., LTD.</td>
<td>40</td>
<td>40.0</td>
<td>60.0</td>
<td></td>
</tr>
</tbody>
</table>

### Passenger Sales

<table>
<thead>
<tr>
<th>Passenger Sales</th>
<th>Paid-in Capital (Millions of yen)</th>
<th>Ratio of Voting Rights Direct (%)</th>
<th>Ratio of Voting Rights Indirect (%)</th>
<th>Total (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>JAL NAVIA CO., LTD.</td>
<td>50</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
<tr>
<td>JAL MILEAGE BANK CO., LTD.</td>
<td>40</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

### Airport-Related Business

<table>
<thead>
<tr>
<th>Airport-Related Business</th>
<th>Paid-in Capital (Millions of yen)</th>
<th>Ratio of Voting Rights Direct (%)</th>
<th>Ratio of Voting Rights Indirect (%)</th>
<th>Total (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>JAL ROYAL CATERING CO., LTD.</td>
<td>2,700</td>
<td>51.0</td>
<td>51.0</td>
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</table>
ESG DATA

Environmental Data (E)

<table>
<thead>
<tr>
<th>FY2014</th>
<th>FY2015</th>
<th>FY2016</th>
<th>FY2017</th>
<th>Unit</th>
</tr>
</thead>
<tbody>
<tr>
<td>CO2 Emissions Scope 1</td>
<td>840</td>
<td>854</td>
<td>875</td>
<td>907</td>
</tr>
<tr>
<td>CO2 Emissions Scope 2</td>
<td>7.38</td>
<td>7.60</td>
<td>7.15</td>
<td>6.70</td>
</tr>
<tr>
<td>CO2 Emissions/RTK (Comparison with FY 2005)</td>
<td>86.6</td>
<td>85.1</td>
<td>84.6</td>
<td>82.2</td>
</tr>
<tr>
<td>NOx (ITD cycle)</td>
<td>6.12</td>
<td>5.78</td>
<td>5.30</td>
<td>5.02</td>
</tr>
<tr>
<td>CO (ITD cycle)</td>
<td>4.38</td>
<td>4.43</td>
<td>4.24</td>
<td>3.87</td>
</tr>
<tr>
<td>HC (ITD cycle)</td>
<td>0.7</td>
<td>0.72</td>
<td>0.71</td>
<td>0.63</td>
</tr>
<tr>
<td>Electricity Use*</td>
<td>125</td>
<td>120</td>
<td>113</td>
<td>110</td>
</tr>
<tr>
<td>Heat Use (crude of equivalent)**</td>
<td>48.494</td>
<td>46.770</td>
<td>44.936</td>
<td>43.512</td>
</tr>
<tr>
<td>Water Use</td>
<td>445</td>
<td>430</td>
<td>426</td>
<td>435</td>
</tr>
<tr>
<td>General Waste (Aircraft)</td>
<td>5,874</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General Waste (Ground)</td>
<td>2,192</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Industrial Waste</td>
<td>3,346</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ratio of Final Disposal</td>
<td>1.2</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*1 Airports, Offices, Maintenance Centers (Japan)

Social Data (Japan Airlines Co., Ltd. and 51 Consolidated Subsidiaries) (S)

<table>
<thead>
<tr>
<th>FY2014</th>
<th>FY2015</th>
<th>FY2016</th>
<th>FY2017</th>
<th>Unit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Human Resources Consolidated Staff Headcount*</td>
<td>31,534</td>
<td>31,986</td>
<td>32,753</td>
<td>33,038</td>
</tr>
<tr>
<td>Ground Staff</td>
<td>23,093</td>
<td>23,367</td>
<td>24,055</td>
<td>23,828</td>
</tr>
<tr>
<td>Cockpit Crew</td>
<td>2,446</td>
<td>2,519</td>
<td>2,570</td>
<td>2,629</td>
</tr>
<tr>
<td>Cabin Attendants</td>
<td>5,999</td>
<td>6,100</td>
<td>6,128</td>
<td>6,581</td>
</tr>
<tr>
<td>Average age</td>
<td>38.3</td>
<td>37.4</td>
<td>38.2</td>
<td>38.6</td>
</tr>
<tr>
<td>Ground Staff</td>
<td>38.7</td>
<td>37.7</td>
<td>38.6</td>
<td>38.9</td>
</tr>
<tr>
<td>Cockpit Crew</td>
<td>42.7</td>
<td>41.1</td>
<td>43.8</td>
<td>44.1</td>
</tr>
<tr>
<td>Cabin Attendants</td>
<td>35.1</td>
<td>35.0</td>
<td>34.9</td>
<td>35.6</td>
</tr>
<tr>
<td>Ratio of Men</td>
<td>53.2</td>
<td>53.3</td>
<td>52.5</td>
<td>51.6</td>
</tr>
<tr>
<td>Ratio of Women</td>
<td>46.8</td>
<td>47.7</td>
<td>47.5</td>
<td>48.4</td>
</tr>
<tr>
<td>Managerial Staff</td>
<td>15.9</td>
<td>16.0</td>
<td>15.9</td>
<td>15.8</td>
</tr>
<tr>
<td>General Staff</td>
<td>84.1</td>
<td>84.0</td>
<td>84.1</td>
<td>84.2</td>
</tr>
<tr>
<td>Ratio of Disabled*</td>
<td>2.04</td>
<td>2.28</td>
<td>2.56</td>
<td>2.69</td>
</tr>
<tr>
<td>Ratio of Female Managers</td>
<td>15.1</td>
<td>15.6</td>
<td>16.3</td>
<td>16.3</td>
</tr>
<tr>
<td>Training Period per Person*</td>
<td>60.2</td>
<td>62.8</td>
<td>66.4</td>
<td>64.7</td>
</tr>
<tr>
<td>Training Cost per Person**</td>
<td>318,249</td>
<td>380,997</td>
<td>403,519</td>
<td>422,187</td>
</tr>
<tr>
<td>Childcare Leave Applicants*</td>
<td>779</td>
<td>782</td>
<td>781</td>
<td>843</td>
</tr>
<tr>
<td>Nursing Care Leave Applicants*</td>
<td>51</td>
<td>42</td>
<td>65</td>
<td>89</td>
</tr>
<tr>
<td>Ratio of Local Hires at Overseas Offices</td>
<td>90.8</td>
<td>90.4</td>
<td>89.9</td>
<td>88.4</td>
</tr>
<tr>
<td>Ratio of Locally Hired Managerial Staff at Overseas Offices</td>
<td>62.8</td>
<td>60.8</td>
<td>61.9</td>
<td>58.4</td>
</tr>
<tr>
<td>Average Years of Continuous Service</td>
<td>14.4</td>
<td>13.9</td>
<td>14.2</td>
<td>14.5</td>
</tr>
<tr>
<td>Community Contribution Participation in Voluntary Activities</td>
<td>1,044</td>
<td>909</td>
<td>1,506</td>
<td>2,701</td>
</tr>
<tr>
<td>Total Hours of Voluntary Activities</td>
<td>4,436</td>
<td>3,182</td>
<td>5,271</td>
<td>6,224</td>
</tr>
</tbody>
</table>

* The number of employees until fiscal year 2016 excluded employees planning to retire as of the end of March that fiscal year, but since fiscal year 2017, the number of employees has included these employees and excluded temporary employees (from temporary staffing companies).

** Past data have been revised in accordance with improvements made in the accuracy of data collection.

Governance Data (Japan Airlines Co., Ltd.) (G)

<table>
<thead>
<tr>
<th>Corporation</th>
<th>(As of July 1, 2018)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Governance-related items</td>
<td>Topics discussed</td>
</tr>
<tr>
<td>Corporate Governance Committee</td>
<td>Kimie Iwata (Lead Independent External Director)</td>
</tr>
<tr>
<td>Nominating Committee</td>
<td>Masaaki Ito (External Director)</td>
</tr>
<tr>
<td>Compensation Committee</td>
<td>Eizo Kobayashi (External Director)</td>
</tr>
<tr>
<td>Personnel Committee</td>
<td>Yoshitaka Ono (Representative Director, President)</td>
</tr>
<tr>
<td>Officers Disciplinary Committee</td>
<td>Kimie Iwata (External Director)</td>
</tr>
<tr>
<td>Internal Auditing</td>
<td>KPMG AZSA LLC</td>
</tr>
<tr>
<td>Audit</td>
<td></td>
</tr>
</tbody>
</table>

Committee Structure Table

| (FY 2017) |
| Composition |
| Number |
| Number of meetings |
| Management Committee |
| Chairperson |
| 100% (Fiscal year 2017) |
| 4 |
| 2 |
| 12 |
| Group Earnings Announcement Session |
| Chairperson |
| 5 |
| 13 |
| 6 |
| 5 |
| 1 |

*1 for discussion attended by the President, Vice President, Senior Managing Executive Officers, Managing Executive Officers, senior officers, and Audit & Supervisory Board Members.

Management Structure Table

| (FY 2017) |
| Composition |
| Number |
| Number of meetings |
| Management Board Members |
| President, Vice President, Senior Managing Officers, Senior Managing Executive Officers, Managing Executive Officers, Senior Officers, and Audit & Supervisory Board Members |
| 10 |
| 6 |
| 4 |
| 12 |
| Senior Managing Executive Officers, Managing Executive Officers, Senior Officers, and Audit & Supervisory Board Members |
| 100% (Fiscal year 2017) |
| 4 |
| 12 |
| 12 |
| Senior Managing Officers, Managing Officers, and Audit & Supervisory Board Members |
| 100% (Fiscal year 2017) |
| 4 |
| 12 |
| 12 |
Flight destinations overseas: 290 cities

The map has been altered to highlight the cities on JAL's route network.
DOMESTIC ROUTE MAP

(As of July 20, 2018)

Flight destinations in Japan: 59 cities
(Including code-share flights)

* The routes below are operated as code-share flights with Fuji Dream Airlines Co., Ltd. (FDA) using FDA aircraft and crew. Sapporo (New Chitose) = Yamagata, Sapporo (New Chitose) = Matsumoto, Sapporo (Okada) = Shizuoka, Yamagata = Nagoya (Komaki), Sendai = Izumo, Niigata = Nagoya (Komaki), Niigata = Fukushima, Matsumoto = Fukushima, Shizuoka = Izumo, Shizuoka = Fukushima, Shizuoka = Kagoshima, Nagoya (Komaki) = Izumo, Nagoya (Komaki) = Koch, Nagoya (Komaki) = Fukuoka, Nagoya (Komaki) = Kitakyushu, and Nagoya (Komaki) = Kumamoto.

* Some flights on the Osaka (Itami) = Kumamoto route are also code-share flights with ANX.

* Some routes are not operated in certain seasons.

GLOSSARY

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>ASK</td>
<td>Abbreviation for Available Seat Kilometer. A unit for passenger transport capacity. &quot;Total number of seats × distance travelled (in kilometers).&quot;</td>
</tr>
<tr>
<td>LCC</td>
<td>Abbreviation for Low Cost Carrier. An airline operating at reduced fares by cutting costs through simplified services and limited baggage allowance. LCCs have emerged in many countries since airline deregulation.</td>
</tr>
<tr>
<td>ROA</td>
<td>Abbreviation for Return on Assets. Calculated by dividing operating income by total assets (net assets + liabilities). Indicates how much profit is earned from assets invested in the business.</td>
</tr>
<tr>
<td>ROE</td>
<td>Abbreviation for Return on Equity. Calculated by dividing current net income by shareholders' equity. Indicates the rate of return on shareholders' investment.</td>
</tr>
<tr>
<td>RPK</td>
<td>Abbreviation for Revenue Passenger Kilometers. The total distance flown by each revenue passenger. Number of revenue passengers × distance flown (in kilometers).</td>
</tr>
<tr>
<td>SMS (Safety Management System)</td>
<td>A system to proactively prevent accidents by identifying and managing accident risk factors in every sector of the airline. Activities should be conducted organizationally based on mutual trust, in which safety policies and safety information are shared by everyone from top management to frontline staff.</td>
</tr>
<tr>
<td>Alliance</td>
<td>Member airlines of an alliance promote business partnership by such means as operating code-share flights to their respective airports, simplifying procedures at connecting airports, participating in frequent-flyer programs of all members, and sharing airport lounge services for top-tier members. The three major airline alliances are the one-world alliance, Star Alliance, and SkyTeam.</td>
</tr>
<tr>
<td>Irregular operation</td>
<td>An occurrence in which the aircraft diverts due to aircraft system malfunction, etc., but with no immediate effect on flight safety.</td>
</tr>
<tr>
<td>Incident</td>
<td>An occurrence with risks of an aircraft accident according to the Civil Aeronautics Act, Article 76-2. Sixteen items and equivalent situations such as engine damage and fire inside an aircraft are defined in the Ordinance for Enforcement of the Civil Aeronautics Act.</td>
</tr>
<tr>
<td>Open Skies Agreement</td>
<td>An agreement signed by countries or regions allowing the free movement of people and goods. Airlines are given more freedom in selecting the number of flights, destinations and other conditions.</td>
</tr>
<tr>
<td>Code-share</td>
<td>To place the flight number of an airline on a flight operated by another airline, indicating that the flight number on reservations systems and timetables, and operating the flight as if it were its own flight. A flight undertaken jointly.</td>
</tr>
<tr>
<td>Load control</td>
<td>To control aircraft weight. Cargo and passengers are loaded taking into account the center of gravity, loading weight limitations, and loading/unloading sequences.</td>
</tr>
<tr>
<td>Load factor</td>
<td>The usage rate of revenue passenger seats. It represents how many revenue passengers boarded against the total number of seats available. An indicator for measuring sales of seats. Calculated by RPK (Revenue Passenger Kilometers)/ASK (Available Seat Kilometers). Different from seat occupancy rate, because nonrevenue passengers are excluded.</td>
</tr>
</tbody>
</table>

SERIOUS INCIDENT

An occurrence which did not result in an aircraft accident, but had the risk of causing another accident, as rated by the Ministry of Land, Infrastructure, Transport and Tourism, such as deviation from a runway, emergency evacuation, fire, and abnormal cabin decompression, encountering abnormal weather conditions.

Diversity

A management approach which provides equal opportunity in employment regardless of gender, age, race, nationality, belief, values or disability to enable everyone to reach his or her potential.

Normal line operation monitoring

A proactive preventive program to identify latent risks in daily operations and normal operations, and implement preventive measures.

Full-service carrier

An airline which has an extensive route network and provides conventional services. It offers several classes of seats (first, business, economy, etc.), and includes services such as meals, drinks, and entertainment in the fare. It is also called a network carrier or legacy carrier.

Marshaller

A specialist who uses hand signals to guide aircraft on the ground to a specified position.

Unit cost

Consolidated air transport costs (excluding fuel costs and transactions with affiliated companies in which revenues and expenses are settled internally) / ASK (Available Seat Kilometers).

Unit revenue

Revenue from passenger flights / ASK.

Revenue management system

A method of forecasting changes in demand and controlling inventory to maximize revenues, for example, setting advance discount fares in phases to secure the optimum number of revenue passengers.

Load control

To control aircraft weight. Cargo and passengers are loaded taking into account the center of gravity, loading weight limitations, and loading/unloading sequences.

Load factor

The usage rate of revenue passenger seats. It represents how many revenue passengers boarded against the total number of seats available. An indicator for measuring sales of seats. Calculated by RPK (Revenue Passenger Kilometers)/ASK (Available Seat Kilometers). Different from seat occupancy rate, because nonrevenue passengers are excluded.
DATA ON INCIDENTS

Safety issues occurring in fiscal year 2017 and countermeasures

The JAL Group undertakes active disclosure of safety data so that customers can put their confidence in our services.

In fiscal year 2017, there were no aircraft accidents, but one serious incident occurred. We apologize once again for the inconvenience and concern caused.

In response to the serious incident reported below, the JAL Group is committed to cooperating fully with the investigatory body and implementing the necessary countermeasures.

Serious incidents (1)

JAL flight 006 returning due to trouble in left engine

(September 5, 2017)

On September 5, 2017, JAL flight 006 (Tokyo International Airport to JFK International Airport) experienced engine trouble in its left engine during takeoff, so the engine was shut down, the fuel jettisoned and the flight returned to Tokyo International Airport. In the inspection of the engine after landing, damage to the low-pressure turbine in the rear of the engine and other components was found, so the incident was classified as a serious incident by the Civil Aviation Bureau of the Ministry of Land, Infrastructure, Transport and Tourism (MILT).

The incident is being investigated by MILT’s Japan Transport Safety Board to clarify the causes. JAL is fully cooperating with the board’s investigation and will implement necessary measures.

Fiscal year 2017 management indicators and results

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Result</th>
<th>Summary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aircraft accidents</td>
<td>0</td>
<td>——</td>
</tr>
<tr>
<td>Serious incidents</td>
<td>1</td>
<td>September 5, 2017</td>
</tr>
</tbody>
</table>

JAL flight 006 Returning after takeoff due to trouble in left engine

STOCK INFORMATION / CORPORATE INFORMATION

(As of March 31, 2018)

Stock Information

- Stock Exchange: The First Section of the Tokyo Stock Exchange
- Stock Code: 9201
- Number of Shares Per Unit: 100 shares
- Account closing date: March 31
- Ordinary General Meeting of Shareholders: June each year
- Date of determining Shareholders Eligible to Exercise Voting Rights at the Ordinary General Meeting of Shareholders: March 31
- Date of record for dividend: September 30 and March 31
- Shareholder Registry Administrator: Mitsubishi UFJ Trust and Banking Corporation

Contact

Stock Transfer Agency Department
Mitsubishi UFJ Trust and Banking Corporation
1-1, Nikko-Cho, Chiyoda-ku, Tokyo, Japan
Mailing address: Shintyo Post Office Post-office box no.29
Phone: 0120-232-7110 (Free only within Japan)
Open: 9:00 am to 5:00 pm except Sat, Sun and public holidays (Japantime)
Website: www.tr.mufg.jp

Stock Information

- Method of official announcement
- Electronic public notice at:

Provided, however, that if the electronic notice cannot be made due to an accident or any unavoidable reason, the public notice shall be published in the Nihon Keizai Shimbun.

- Limitation on listing or recording of Citizens of Foreign Countries and Other Persons in Register of Shareholders and Register of Beneficial Shareholders

The Articles of Incorporation lay down the following provisions concerning the Civil Aeronautics Act, Article 120-2.

- Limitation on listing or recording of Citizens of Foreign Countries and Other Persons in Register of Shareholders and Register of Beneficial Shareholders

The Master Trust Bank of Japan, Ltd.
(Trust account)
18,870,400
5.33

Japan Trustee Services Bank, Ltd.
(Trust account)
15,465,100
4.37

Kyocera Corporation
7,638,400
2.15

Japan Trustee Services Bank, Ltd.
(Trust account 9)
9,589,600
2.68

Japan Trustee Services Bank, Ltd.
(Trust account 6)
6,714,700
1.89

Daiwa Securities Group Inc.
5,090,000
1.41

Japan Trustee Services Bank, Ltd.
(Trust account 1)
4,988,500
1.41

Japan Trustee Services Bank, Ltd.
(Trust account 10)
4,890,100
1.38

Japan Trustee Services Bank, Ltd.
(Trust account 7)
3,969,900
1.12

STATE STREET BANK AND TRUST COMPANY (50501)
3,786,100
1.07

Company Profile

Corporate Name: Japan Airlines Co., Ltd.
Headquarters: Nihonsha Building, 2-4-11 Higashi Shinjuku, Shinjuku-ku, Tokyo 140-8657, Japan
Phone: +81-3-5460-3121
Website: www.jal.com

Established: August 1, 1951
Representative Director, President: Yuji Akasaka
Capital: 181,352 million yen
Employees: Consolidated Employees 33,038 people
Employees 12,127 people
Capital and Paid-in Capital: 355,845 million yen (Amount is rounded down to the nearest million yen)
Businesses: 1. Scheduled and non-scheduled air transport services
2. Aerial work services
3. Other related businesses

JAL Group Safety Report (only in Japanese)

The JAL Group Safety Report is published yearly in accordance with the Civil Aeronautics Act (Article 111-6: Publication of Safety Data). The report presents safety initiatives and other relevant data from the six companies of the JAL Group in a readily accessible form.

Note 1. Aircraft accident: A situation arising from the operation of an aircraft and resulting in serious damage to aircraft, passengers, or property.

Note 2. Serious incident: An accident not amounting to an aircraft accident, but where a recognized danger of an accident occurring was present, such as runway excursion, an encounter with abnormal weather conditions, or other situation classified as a serious incident by the Ministry of Land, Infrastructure, Transport and Tourism (MILT).