


# J A L R E P O R T 2 0 1 4



***JAPAN AIRLINES***





Gazing up the blue  
Pointing at an airplane  
Our hearts' desires stirred  
In our longing to soar the skies

Dreams made true by our passions,  
determination, and appreciation  
All hearts skyward together

## Fly into Tomorrow



04:50

Cast in dawn's early glow  
An airplane awaits in silence  
Then engines awaken the morning air

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## 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.

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Editorial Policy	JAL Report 2014 was compiled using various referential guidelines as an integrated report on financial information and CSR activities, and is intended to promote understanding of the corporate value and growth prospects of the JAL Group.
Period Covered by the Report	In principle, the report covers activities for the period from April 2013 to March 2014 (FY2013).
Scope of the Report	JAL Group companies
Date of Publication	July 2014

# Highlights

## Major Financial Items

Japan Airlines Co., Ltd. Consolidated performance

FY2013 (Accounting date: March 31, 2014), FY2012 and FY2011

(Millions of yen)

	FY2011	FY2012	FY2013
Operating Revenue	1,204,813	1,238,839	<b>1,309,343</b>
Operating Expense	999,890	1,043,596	<b>1,142,550</b>
Operating Profit	204,922	195,242	<b>166,792</b>
Ordinary Income	197,688	185,863	<b>157,634</b>
Net Income	186,616	171,672	<b>166,251</b>
Net Income Per Share (Yen)	1,029.03	946.71	<b>916.90</b>
Interest-bearing Debt	208,460	160,145	<b>134,282</b>
Shareholders' Equity	388,523	565,048	<b>690,288</b>
Net Assets	413,861	583,189	<b>711,064</b>
Total Assets	1,087,627	1,216,612	<b>1,340,168</b>
Shares Issued (Thousand shares)	181,352	181,352	<b>181,352</b>

## Traffic Results

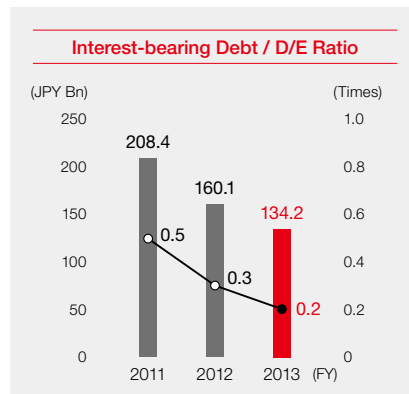
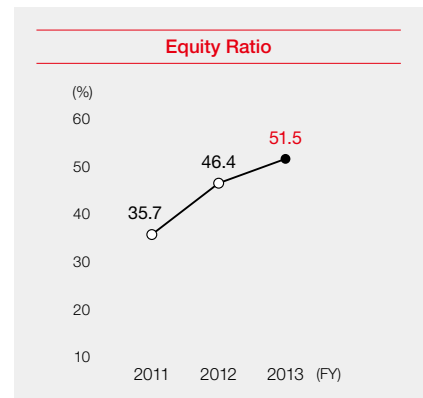
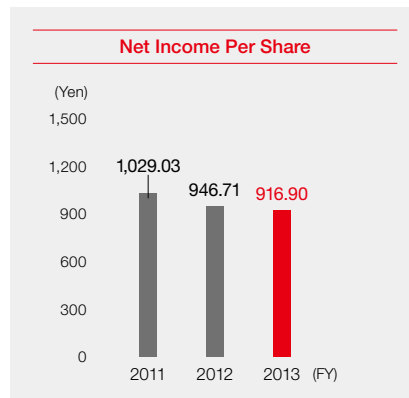
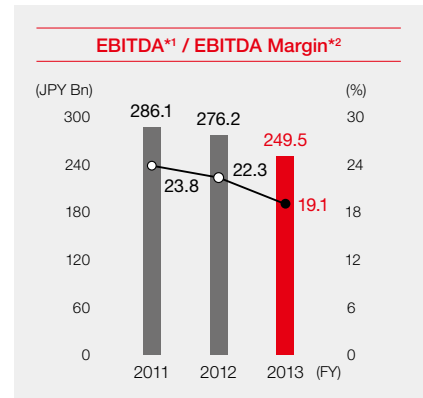
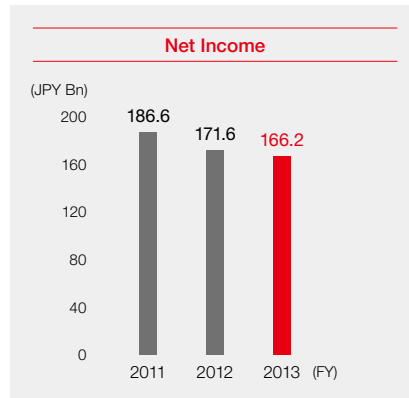
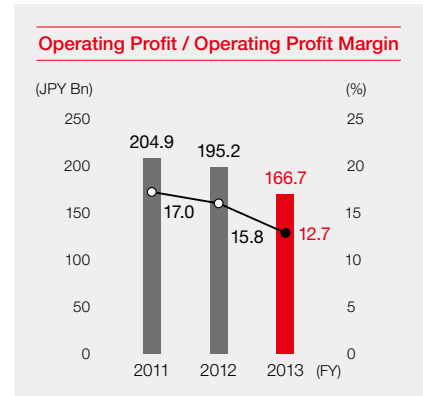
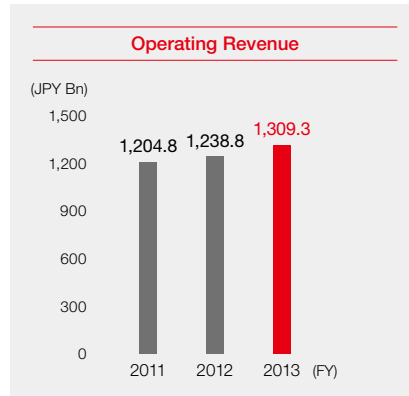
Japan Airlines Co., Ltd. Consolidated performance

FY2013 (Accounting date: March 31, 2014), FY2012 and FY2011

		FY2011	FY2012	FY2013
Revenue passengers carried (number of passengers)	Domestic	28,965,514	30,020,440	<b>31,218,734</b>
	International	6,844,772	7,525,038	<b>7,723,293</b>
	Total	35,810,286	37,545,478	<b>38,942,027</b>
Revenue passenger km (1,000 passenger-km)	Domestic	22,264,394	23,012,898	<b>23,745,163</b>
	International	30,313,789	34,036,119	<b>35,390,384</b>
	Total	52,578,184	57,049,018	<b>59,135,548</b>
Revenue passenger-load factor (%)	Domestic	62.7	63.1	<b>64.0</b>
	International	70.4	76.1	<b>76.5</b>
	Total	66.9	70.3	<b>71.0</b>
Available seat-km (1,000 seat-km)	Domestic	35,523,214	36,443,994	<b>37,084,260</b>
	International	43,036,984	44,745,317	<b>46,235,058</b>
	Total	78,560,199	81,189,311	<b>83,319,319</b>
Revenue cargo ton-km (1,000 ton-km)	Domestic	355,909	360,176	<b>366,989</b>
	International	1,314,295	1,378,282	<b>1,512,142</b>
	Total	1,670,205	1,738,458	<b>1,879,132</b>







\*1 EBITDA: Operating Profit + Depreciation  
 \*2 EBITDA Margin: EBITDA ÷ Operating Revenue

## President's Message





# Working Together with Our Employees to Become the Most Preferred Airline in the World

We announced the JAL Group Medium Term Management Plan for Fiscal Years 2012–2016 two years ago as the first plan formulated independently by the current management team, set up after the corporate bankruptcy in 2010. Development of the plan involved about six months of in-depth discussions on the direction JAL should take to establish a high-profit structure aimed at fully regaining stakeholder confidence, continue providing the best service for customers and serve reliably as a company that contributes significantly to society.

Our primary objective was to create a plan that every employee could understand and act upon. Maintaining safe operations and providing the best service for our customers require the complete alignment of all employees toward the same goal as we “pass the baton,” regardless of their individual worksites. We began by studying the JAL Philosophy and bringing in the divisional profitability management system to unite all 32,000 Group employees as one team so that we could quickly, effectively and accurately respond to the changing business environment and any challenges that may arise.

Since the plan's announcement, our business environment has in fact been subject to significant change, including a further weakening of the yen, rising fuel prices and escalating competition due to an increase in the number of departure and arrival slots in the Tokyo metropolitan area. Nevertheless, thanks to the patronage of our many customers as well as public support, we were able to build on our efforts with employees and enter into the third year of the plan without having to change our three management targets: maintaining the highest standard of safety, Customer Satisfaction No. 1, and operating profit margin of 10% or more and equity ratio of 50% or more in FY2016.

Our projections for the current fiscal year anticipate lower earnings on higher revenues for the third consecutive year, reflecting severe operating conditions. This year will be a time of preparation for achieving higher earnings on higher revenues starting with next fiscal year, and we intend to face each challenge, united with our employees as a single team. We look forward to your continued patronage and support as we advance toward our goal of becoming the most preferred airline in the world.

**Yoshiharu Ueki**

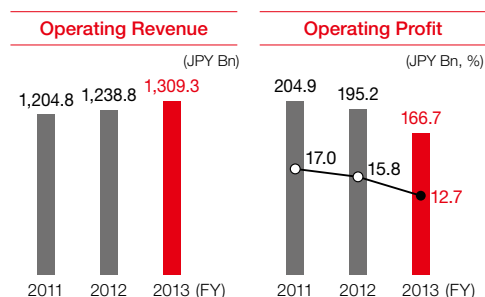
Representative Director, President  
Japan Airlines Co., Ltd.

## Looking Back on FY2013

During the consolidated fiscal year ended March 31, 2014, consolidated operating revenue increased 5.7% year-on-year to 1,309.3 billion yen, operating profit declined 14.6% year-on-year to 166.7 billion yen and net income fell 3.2% year-on-year to 166.2 billion yen. Operating profit margin declined by 3.0 percentage points year-on-year but was maintained at a high level of 12.7%, thereby achieving the management target of 10% or more set by the JAL Group Medium Term Management Plan for Fiscal Years 2012–2016 (hereafter “Medium Term Management Plan”).

We are steadily accumulating capital. Our equity ratio was 51.5% at the end of March 2014 compared to 46.4% a year ago. We are pressing ahead, confidently approaching the target of achieving an equity ratio of at least 50% in FY2016 as set out in our Medium Term Management Plan.

### ► Overview of FY2013 Results



	FY2011	FY2012	FY2013	Year-on-Year Change
Equity Ratio (%)	35.7%	46.4%	51.5%	+5.1 pt

## Market Outlook

Momentarily restrained by a higher consumption tax rate, the Japanese economy is expected to continue showing gradual growth. The global economy is also expected to remain on a path of recovery, alongside risk factors such as the slow-down in economic growth among both newly emerging markets and resource-rich countries and further developments in the European sovereign debt issue. Due to the continued recovery in domestic and global economies and demand generated by low-cost carriers (LCCs), we expect passenger demand for both international and domestic flights to continue rising. In our cargo business, where a rapid upturn is unlikely, we also expect steady demand to continue.

From the perspective of airline industry supply, we expect significant increases due to the greater number of departure and arrival slots for international flights in the Tokyo metropolitan area and the introduction of large aircraft by domestic competitors, further expansion of LCCs and development of the Shinkansen (bullet train) network.

As a result, supply will exceed demand, further intensifying an already competitive environment, while rising fuel costs caused by the weaker yen are expected to affect the profitability of Japanese airline companies.

## Formulation of the Rolling Plan 2014 for the JAL Group Medium Term Management Plan for Fiscal Years 2012–2016

The JAL Group did its utmost to provide customers with unparalleled service with a focus on maintaining safe operations, and heightened the profit consciousness of employees under the practice of the JAL Philosophy and a divisional profitability management system that promoted autonomous management and increased management efficiency.

We believe it is important to sufficiently review the progress and achievements of the Medium Term Management Plan, analyze and review the results, identify measures that need to be improved, and explain the status of this process and future concerns to our staff, customers, shareholders and all other stakeholders.

To initiate the third year of the Medium Term

“Let us boldly embrace the challenges facing us, especially in these difficult times, to make FY2014 the turning point for achieving higher earnings on higher revenues.”



Management Plan, we humbly reviewed the past two years, reconfirmed the policy to make sure we can accomplish our target in the remaining three years, and formulated the “JAL Group Medium Term Management Plan for Fiscal Years 2012–2016 Rolling Plan 2014” (hereafter “Medium Term Management Plan Rolling Plan 2014”) on March 26, 2014. On the basis of the current operating environment, we have confirmed that the management targets as stated in our Medium Term Management Plan will remain the

same, toward achieving the following objectives:

- to enable JAL Group staff to reaffirm the direction we are heading for, and to understand our current positioning; and
- to present our customers, shareholders and all other stakeholders with the status and progress of the plan and future concerns

By steadily implementing the Medium Term Management Plan Rolling Plan 2014 and achieving our management targets, we aim to realize the JAL Group Corporate Policy.

## FY2012–FY2013

### A period that our ability to execute the Medium Term Management Plan was tested

Drawing on lessons learned in the past that we created plans without full execution of the measures we had decided to take, and without ample analysis, all JAL Group staff worked to demonstrate that the JAL Group has changed and has become a company that keeps its promises to its stakeholders.

## FY2014

### A period for achieving management targets steadily and preparing for new growth

We have faced a more severe business environment caused by rising fuel costs due to the weaker yen, negative effects to traffic demand caused by the consumption tax hike, and intensifying competition at Tokyo metropolitan airports as a result of the dramatic increase of international flight slots at Haneda Airport.

In future, as a unique challenge of the JAL Group, we must survive the competition under the condition that fewer than expected international slots at Haneda Airport were allocated to the JAL Group. We will take on the challenge of providing the finest products and services to deliver a passenger experience that is satisfying and refreshing on Narita routes, where we compete head on with other airline routes departing from Haneda, in addition to maintaining revenue from our existing routes. FY2014 will therefore be a year of establishing a firm business foundation to achieve FY2015 growth based on improvements in revenue and profit.

## FY2015–FY2016

### A period for achieving management targets in the Medium Term Management Plan and starting new growth

Although we expect a severe business environment ahead, we are not only pursuing business expansion; we are also working to differentiate ourselves in order to survive the competition based on the keywords “Autonomy,” “Challenge” and “Speed.” We will survive the competition through strengthening our cost competitiveness and increasing convenience by enhancing the JAL Brand and improving products and services for the many customers who choose the JAL Group over other airlines. In doing so, we will accomplish growth in terms of revenue and profit improvement.

## Differentiating JAL to Survive Future Competition

As various changes in the competitive environment are foreseen during the period covered by the Medium Term Management Plan, we aim to clearly differentiate JAL from other competing airlines in the three areas of "Enhancement of the JAL Brand," "Route Network, Products and Services" and "Cost Competitiveness," to become the customers' most preferred airline group in Japan and around the world by delivering a passenger experience that is satisfying and refreshing on every journey.

### ● Enhancement of the JAL Brand

We will maintain flight safety and enhance our products and services, including those offered by personnel in direct customer contact, in order to provide customers with the finest service. In FY2013, our efforts gradually came to fruition; for example, our safety indicators improved, we received an award for having the world's best on-time arrival performance for the second con-

secutive year, and indices in internal and external customer satisfaction surveys rose. Nevertheless, we feel there is still room for improvement, and we will continuously strive to establish the JAL Brand as a full service carrier to clearly distinguish it from low-cost carriers (LCCs).

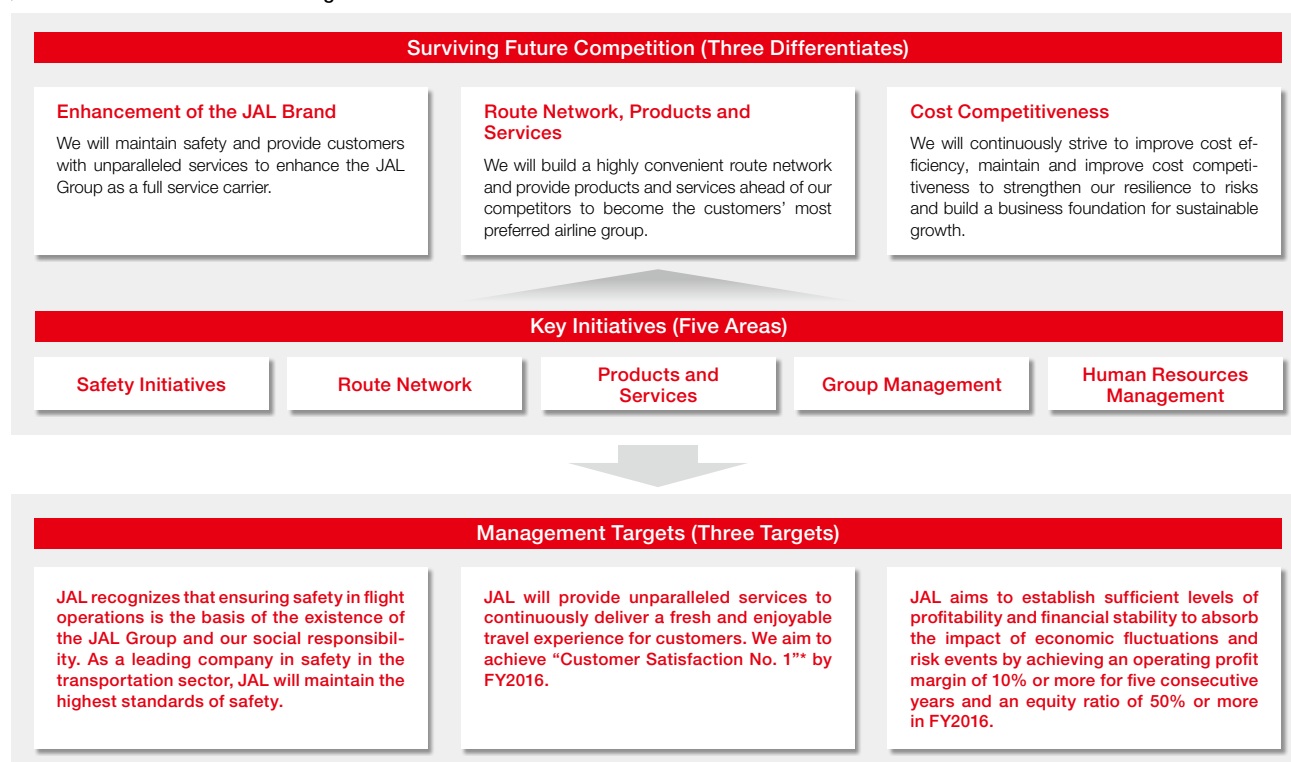
### ● Route Network, Products and Services

Taking advantage of the additionally released flight slots at Tokyo metropolitan airports (Haneda and Narita) as a business opportunity, we will not merely pursue scale expansion but seek to be chosen by more customers by quickly enhancing our route network, products and services.

In international passenger operations, we launched the Helsinki route, increased the number of aircraft equipped with new seats (full-flat business class seats and "Shinkankaku" economy class seats with a wider pitch) and in-flight Internet service. We will continue to pool our resources for mid- to long-haul routes.

In domestic passenger operations, where supply and demand are gradually being eased, we will focus on improving our route network to

## ► Outline of the Medium Term Management Plan FY2012–2016



\* In terms of the repeat intention rate and recommendation intention rate on the Japanese Customer Satisfaction Index (JCSI) announced by the Japan Productivity Center, Service Productivity & Innovation for Growth.

become more competitive. Starting from May 2014, we will renew passenger seats on all of our 777, 767 and 737-800 fleets. From July, we will introduce in-flight Internet service, a first for the Japanese domestic airline market.

#### ● Improving Unit Revenue

Since FY2013 we have adopted passenger revenue per ASK (passenger revenue earned per available-seat-kilometer, hereafter unit revenue) as a revenue benchmark so that all employees can clearly understand the improvement rate of unit revenue resulting from our measures. With respect to unit revenue for international passenger operations for FY2013, we strove to improve yields (passenger revenue per revenue-passenger-kilometer) and our load factor through revenue management, and consequently, unit revenue reached 104.1% compared to FY2012, primarily on routes where new products were launched. In domestic passenger operations, while additional domestic slots at Haneda and Itami airports were provided, we expanded the scale of our operations for competitive routes. We also offered attractive fares to boost demand and flexibly complied with demand and supply for stiffer competition with Shinkansen (bullet trains). As a result, the load factor increased whereas yields declined, and consequently, unit revenue in FY2013 was 98.7% compared to FY2012.

We will continue to improve unit revenue by introducing new products and pricing policy and implementing revenue management.

#### ● Cost Competitiveness

Although we had to face the pressure of rising costs resulting from the weaker yen and investments we made to improve our products and services, we worked hard to reduce costs by improving cost efficiency.

Toward FY2016, we will maintain our advantage in cost competitiveness by further penetrating the divisional profitability management system and innovative ingenuity of all staff.

#### ● Unit Cost Reduction

In terms of unit cost reduction, JAL uses unit

cost, which we define as consolidated operating expenses related to air transport per ASK (the cost to carry one seat for one kilometer, hereafter unit cost), as an indicator for setting targets and monitoring achievement progress to manage group-wide costs.

Under the Medium Term Management Plan, ASK for FY2013 was projected to be 104.0%; however, due to the grounding of 787s and other issues, ASK was 102.6% compared to FY2012. Despite our best efforts to restrain costs by improving productivity and pursuing the divisional profitability management system, operating expenses in FY2013 were 109.5% compared to FY2012 due to cost-increasing elements such as rising costs on a foreign currency basis and expenditures for service improvement measures. Consequently, unit cost for FY2013 was 12.2 yen on a total cost basis, or 8.8 yen excluding fuel costs.

While we will revise our unit cost target (excluding fuel costs) for the end of FY2016 to 8.3 yen due to higher costs on a foreign currency basis and costs related to measures for enhancing services, we remain committed to our group-wide effort to further improve cost competitiveness.

#### ● Productivity Improvement

We are striving to increase labor productivity in all our departments through actions such as minimizing increases in back office staff, raising the utilization rate, reducing training periods by improving the efficacy of curriculums for cabin training, strengthening the capability of staff to multi-task at airports and bolstering aircraft quality through preventive maintenance and shorter maintenance cycles.

We also sought to more efficiently use our resources by improving the aircraft utilization rate by 3.0% as well as consolidating facilities and optimizing our spare parts inventory.

In addition, we responded to the changing business environment by setting up a project team for fuel conservation and revamping fundamental IT systems. We intend to achieve greater productivity on all fronts.



## Key Initiatives

We are pursuing key initiatives in the five areas of safety initiatives, route network, products and services, Group management and human resources development in order to realize the three differentiates.

### ● Safety Initiatives

To ensure flight safety, the foundation of the JAL Group, and continuously accumulate our safety layers, we will focus on three areas to maintain safety: developing human resources, evolving systems and creating a corporate culture to protect safety.

JAL Group Safety Education was launched in the latter half of 2012 to develop human resources for maintaining safety. A total of 23,300 employees, about 70% of all JAL Group staff, have participated as of the end of FY2013.

We started the same program for 3,200 staff of entrusted companies (JAL Brand partners) handling major domestic airports in Japan.

As for evolving systems to protect safety, our safety database, in which safety-related information is electronically stored, has been upgraded and used to implement countermeasures to prevent incidents.

In creating a corporate culture to protect safety, we addressed the Safety Advisory Group's recommendation to "develop a culture to polish manuals" and revised our manuals to make them easier to use.

We intend to deepen our efforts in these

three initiatives as a leading company in the transportation sector to establish an advanced safety management system for proactive risk management, in which every staff member has the required knowledge and a high degree of awareness when responding to risks.

### ● Group Management

By instilling the JAL Philosophy and introducing the divisional profitability management system widely throughout the JAL Group, we will promote "management by all" and establish autonomous and sound management by each Group company to attain higher levels of productivity and profit.

As we did in FY2012, we continuously conducted JAL Philosophy Sessions to instill the JAL Philosophy in the minds and souls of every Group staff member. At the pace of one theme every three months, all Group staff attended courses and studied four themes during the year. In the Tokyo area, 67,700 staff participated in total (from April 2013 to March 2014). In other regions in Japan and overseas, teaching materials as well as instructors were sent to embed the JAL Philosophy in every employee. In other efforts, we introduced the divisional profitability management system to 9 companies in FY2013; a total of 19 companies currently have it in place. We plan to introduce the system to 35 major consolidated subsidiaries by the end of FY2015.

### ● Human Resources Development

In FY2013 we established the Human Resources Department by consolidating departments dealing with human resources including work philosophy reform and human resources development to implement a series of measures for the recruitment, training and assignment process. We also held the first joint training for new employees of all Group companies. Five hundred new JAL Group employees were assembled to mainly learn about the JAL Philosophy, safety and service.

At the JAL Group initiation ceremony



“Our strength lies in our employees”

We will continue to recruit employees required by the company in appropriate numbers and conduct training from a long-term perspective plan in order to educate our staff to become professionals, advance the careers of our diverse human resources, including women, and promote efforts to improve quality and productivity being undertaken by each division. This will enable us to maintain the headcount at around the 32,000 level (consolidated number of employees for the Group), as targeted by the Medium Term Management Plan, even as we expand the scope of our business.

## Progress of Management Targets

**1** JAL recognizes that ensuring safety in flight operations is the basis of the existence of the JAL Group and our social responsibility. As a leading company in safety in the transportation sector, JAL will maintain the highest standards of safety.

In the JAL Group's safety targets, we aimed for zero aircraft accidents and zero serious incidents, but with much regret, we recorded one serious incident in FY2013.

We sincerely apologize to the passengers and persons affected for causing substantial distress and inconvenience. We take this incident seriously and will investigate the cause and implement countermeasures.

### FY2013 Management Indicators and Results

Indicators	Results	Outline
Aircraft accidents	0	—
Serious incidents	1	<b>May 6, 2013</b> JAL2362 (Oita-Itami) Fire erupts in right engine while taxiing after landing at Itami Airport.*

\* The Japan Transport Safety Board is investigating the cause of the incident. JAL has conducted repeated inspections to determine the cause and establish countermeasures.

**2**

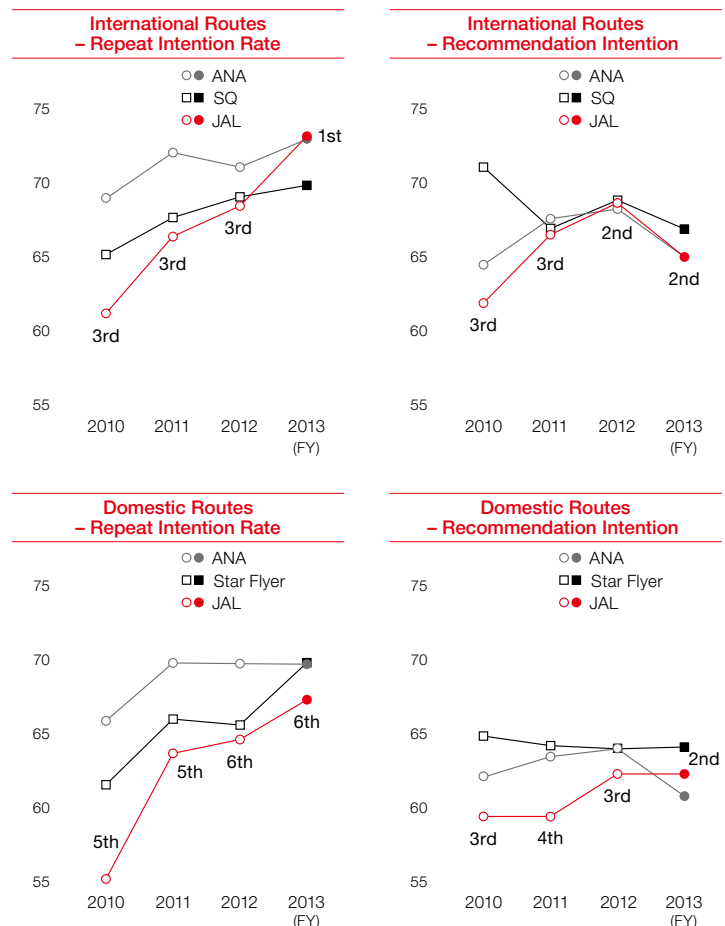
JAL will provide unparalleled services to continuously deliver a fresh and enjoyable travel experience for customers. We aim to achieve "Customer Satisfaction No. 1" by FY2016.

By introducing new products, and with every employee working hard to improve our services, we have made cross-departmental efforts to raise the quality of our services, which resulted in our achieving the top ranking for on-time arrival performance in the world. Our efforts have also enabled us to achieve the top ranking for customer loyalty (a measure of customer intention to use a service again) on international flights, and also narrowed the gap with competing airlines in other rankings as well.

We will analyze our results in FY2013, and will continuously and quickly expand to develop new services in order to accomplish our targets by FY2016.

### JCSI (Japanese Customer Satisfaction Index)

Source: JCSI Survey



### 3

JAL aims to establish sufficient levels of profitability and financial stability to absorb the impact of economic fluctuations and risk events by achieving an operating profit margin of 10% or above for five consecutive years and an equity ratio of 50% or above in FY2016.

In FY2013 we achieved an operating profit of 166.7 billion yen and an operating profit margin of 12.7% as a result of an increase in revenue, particularly from international passengers, and cost reductions through productivity improvement. As a result, equity was 690.2 billion yen and the equity ratio was 51.5% as of the end of FY2013.

#### Dividend Policy

Passing benefits to shareholders is one of the most important management goals of the company. It is our basic policy to distribute benefits to our shareholders in the form of dividends, while executing capital expenditures to respond to future business growth and changes in business conditions, and maintaining internal reserves for building a strong financial structure.

With respect to dividends for FY2013, we have decided to maintain a ratio of approximately 20% of consolidated net income after adjusting for taxes to result in a dividend per share of 160 yen.

#### ► Dividend Policy

FY2013 Results	
Net Income	166.2 JPY Bn
Shares Issued	181,352,000
Dividend Per Share	160.00 JPY

#### CSR Activities

To express our appreciation to customers, shareholders and business associates who have kindly supported us, we have decided to promote CSR activities that only the JAL Group can do.

Among the problems Japanese society is facing, we chose to continue supporting recovery from the Great East Japan Earthquake, as we are confident we can contribute to some solutions for the affected region. Concretely, we set up the JAL Tohoku Support Project "Visit Tohoku!" in response to thoughts shared by all communities in affected areas regardless of the resulting condition or amount of reconstruction in progress, including "Don't forget the affected areas" and "Please come, see, consume and take part in the recovery." We implemented this project from the two perspectives of promoting local industries and supporting people in the affected areas. We will continue to offer our united support to promote industry in Tohoku in FY2014 and beyond.

## Toward a New Growth Stage

With an overarching commitment to ensuring safe operations, we introduced the JAL Philosophy and the divisional profitability management system to increase the profit consciousness of every Group staff member.

Changes in the business environment impact the airline business faster and deeper than other industries, which is evident from the number of airline companies, including JAL, that have entered bankruptcy. Therefore, while we will maintain our efforts to forecast the future by evaluating current conditions, we will also fully consider all the means for maximizing the strengths of the JAL Group and develop our strategies in grow-

ing markets in order to establish a new business portfolio that is resilient against highly volatile conditions.

Ever grateful for the support of our customers, shareholders and stakeholders, we will strive to further enhance our business performance by maintaining safe operations and providing comfortable services based on the key concepts of intentionally developing autonomous management that is consistently aware of risks, boldly embracing the challenge of new tasks, and quickly responding to new and unforeseen situations. We also intend to pass on benefits to shareholders through ongoing dividend payments. We thank you in advance for your continued patronage and support.



*T. Ueki*

Representative Director, President  
Japan Airlines Co., Ltd.

# Review of Operations

## Air Transport Segment

### International Operations

#### International Passenger Business

We stepped up measures to improve profitability, products and services in order to become the world's most preferred airline group by customers.

In our route operations, as Boeing 787 operations resumed in June 2013, after being suspended in January of the same year, we consequently increased flights on the Narita-San Diego route and launched a new Narita-Helsinki route. We also fine-tuned supply to balance with demand. For example, flight frequency was temporarily reduced on the Narita-Beijing route, while the Boeing 767 was progressively replaced by the larger Boeing 777-200ER for the Narita-Honolulu, Chubu/Kansai-Honolulu and Haneda-Bangkok routes.

#### Route Network

● Implemented ● Scheduled

- Launched route between Narita-Helsinki
- Increased flights between Narita-San Diego
- Decreased flights between Kansai-Seoul
- Haneda: Respond to demand for overseas and domestic routes as a hub connecting domestic and international flights
- Narita: Respond to demand for North America-Asia routes as a hub connecting international flights

#### Flight Operations Using Boeing 787s (as of July 1, 2014)



With respect to alliances, Finnair was included in our joint business with British Airways on European routes, and joint operations began in April 2014. We also started codesharing with fellow oneworld alliance member Qatar Airways starting in December 2013. As for collaboration with the oneworld alliance, which continues to induct new partners, we intend to further improve customer convenience by making full use of the networks of member airlines.

#### Alliances and Business Strategy

● Implemented ● Scheduled

- Finnair participated in joint business with British Airways on European routes
- Started codesharing with Qatar Airways
- Maintained a strong alliance with American Airlines on Pacific routes
- Further develop joint business to improve customer convenience and increase the efficiency of our business
- Continue to make maximum use of the oneworld alliance network including our new partners\*

\* US Airways (joined March 2014), TAM Airlines (joined March 2014), SriLankan Airlines (joined May 2014)

#### Member Airlines of the oneworld Alliance (as of July 1, 2014)



On the product side, we introduced JAL SKY SUITE 777, which offers sweeping upgrades in spaciousness, comfort and functionality in every class, and the in-flight Internet service, "JAL SKY Wi-Fi," to aircraft for the Europe, North America and Jakarta routes.

We also introduced the JAL SKY SUITE 767, equipped with full-flat business class seats for more direct access to the aisle, and the new SKY WIDER economy class seat, offering passengers an additional 10 centimeters of legroom compared to its predecessor, on routes between Narita and Kuala Lumpur, Singapore (some flights), Hanoi and Dalian.

In addition, we have been developing new menus for in-flight meals on an ongoing basis as part of our efforts to continually enhance our products and services.



### Enhancing the JAL Brand (High quality, full service)

● Implemented ● Scheduled

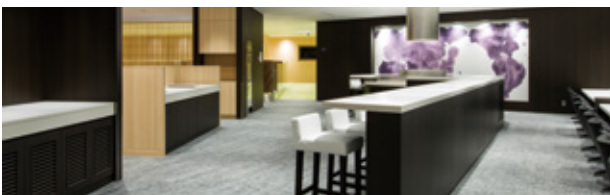
- JAL SKY SUITE 777 service expanded to routes between Narita and London, New York, Paris, Los Angeles, Chicago, Frankfurt and Jakarta
- JAL SKY SUITE 767 introduced to routes between Narita and Kuala Lumpur, Singapore (some flights), Hanoi and Dalian routes
- JAL SKY Wi-Fi service expanded to seven routes between Narita and New York, Chicago, Los Angeles, London, Paris, Frankfurt and Jakarta
- New menu added to in-flight meals served in JAL BEDD-SKY AUBERGE under the concept of JAL's "exclusive restaurant in the sky" in first class and business class on Europe and North America routes
- New menu developed for popular AIR Series served in economy class
- Renovated the international lounge at Haneda Airport for enhanced comfort and convenience
- Install full-flat business class seats on 787 aircraft
- Progressively expand JAL SKY Wi-Fi service



JAL BEDD-SKY AUBERGE – First class in-flight menu (part of it) for flights from Paris



AIR KUMAMON from the popular AIR Series in-flight meal (limited time offer)

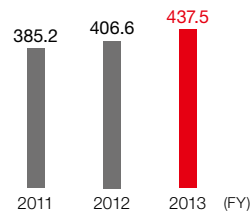


Renovated international lounge at Haneda Airport, which embodies the heart of Japan and Japanese hospitality

As a result, international supply for FY2013 increased by 3.3% year-on-year measured by available-seat-kilometer (ASK), demand in terms of revenue-passenger-kilometer (RPK) increased by 4.0%, load-factor (L/F) increased by 0.5 points to 76.5%, and international passenger revenue increased by 7.6% to 437.5 billion yen.

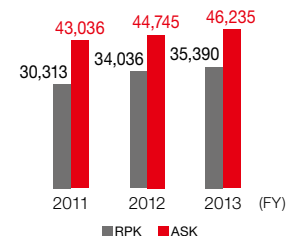
#### Operating Revenue

(JPY Bn)



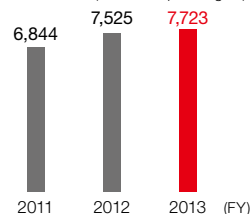
#### Revenue-Passenger-Kilometer (RPK) / Available-Seat-Kilometer (ASK)

(Mn passenger-km, Mn seat-km)



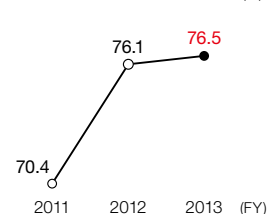
#### Revenue Passengers Carried

(Thousand passengers)



#### Load-Factor

(%)



### International Cargo

Due to low growth prospects for total inbound and outbound demand in Japan, we sought to maximize revenue by securing volume by, for example, aggressively capturing transit cargo. In sales, we continued to improve performance by expanding customized transportation. As a result, demand was considerably higher compared to last year, and the volume of international cargo increased 9.7% year-on-year on a revenue-cargo-ton-kilometer basis (RCTK) and revenue increased by 7.4% to 54.2 billion yen.

## Air Transport Segment

### Domestic Operations

#### Domestic Passenger Business

We strove to improve profitability by taking action to stimulate demand and adjusting capacity to fit demand.

We increased the number of Haneda flights and launched services between Haneda and Chubu to improve connectivity to international flights. At Itami, we resumed scheduled flights to Matsuyama, Hakodate and Misawa, and added a total of 18 flights on 16 routes.

Joint operations with Hokkaido Air System were launched for greater customer convenience and to contribute to the regional and economic development of Hokkaido.

#### Route Network

● Implemented ● Scheduled

- Launched the Haneda-Chubu route
- Launched (resumed) Itami routes to Matsuyama, Hakodate and Misawa
- Increased flight frequencies for Itami routes to Sapporo, Hanamaki, Sendai, Niigata, Fukuoka, Oita and Miyazaki
- Launch (resume) Itami routes to Matsumoto and Memanbetsu, Sapporo routes to Izumo and Tokushima, and Chubu routes to Kushiro and Obihiro

#### Major New (and Resumed) Routes and Additional Flights for Routes in FY2013



In sales, we offered more affordable fares through the new Tokubin Discount 21. We increased the number of flights featuring Sakitoku and Super Sakitoku discount fares during the New Year holidays to serve greater demand by customers returning home or taking other trips.

We also began selling JAL Jalan Pack, a Dynamic Package product, through a partnership with one of Japan's largest accommodation booking sites. Furthermore, to improve smart-phone services and better serve the diversifying needs of customers, new functions were added and upgraded in various apps, such as JAL Countdown, JAL Sakitoku Calendar and JAL Schedule.



#### JAL Countdown

This useful app provides customers with timely information about domestic flights, including flight status and boarding gate details, as well as boarding procedures and notifications at the airport.



#### JAL Sakitoku Calendar

The Sakitoku Calendar helps customers find the best bargains by showing them the lowest available prices in a user-friendly graph and enables them to directly make reservations.



#### JAL Schedule

This app shows information on reservations for customer convenience while displaying regularly updated photographs of JAL aircraft, cabin attendants and splendid scenery. Information on events around Japan recommended by JAL staff is also made available.

In terms of products and services, we have been progressively introducing the new JAL SKY NEXT aircraft featuring an updated cabin interior under the theme of "Pioneering Standard" since May 2014 and the JAL SKY Wi-Fi in-flight Internet service since July 2014.

### Enhancing the JAL Brand: Convenience and Simplicity

● Implemented ● Scheduled

- Renovated airport lounges for greater comfort and convenience at Itami, Kansai, Hiroshima, Matsuyama, Kumamoto and Kagoshima
- Started introducing JAL SKY NEXT on the Haneda-Fukuoka route
- Started introducing JAL SKY Wi-Fi on domestic routes

JAL SKY NEXT, featuring high quality genuine leather seats in all classes



JAL First Class Seats



Class J Seats

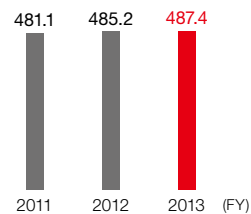


Economy Class Seats

As a result, domestic supply for FY2013 increased by 1.8% year-on-year when measured in available-seat-kilometer (ASK), demand in terms of revenue-passenger-kilometer (RPK) increased by 3.2%, load-factor (L/F) increased by 0.9 points to 64.0%, and domestic passenger revenue increased by 0.5% to 487.4 billion yen.

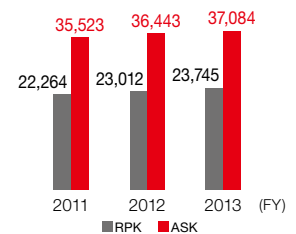
#### Operating Revenue

(JPY Bn)



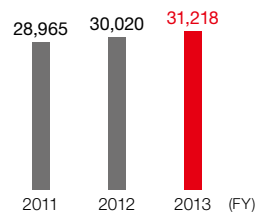
#### Revenue-Passenger-Kilometer (RPK) / Available-Seat-Kilometer (ASK)

(Mn passenger-km, Mn seat-km)



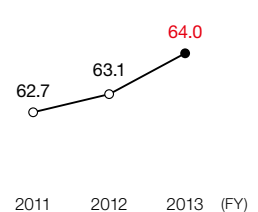
#### Revenue Passengers Carried

(Thousand passengers)



#### Load-Factor

(%)



### Domestic Cargo

In spite of sluggish demand for farm products due to unseasonable weather and a shift to transporting goods by overland freight, we have endeavored to maximize our revenue by capturing home delivery parcels. As a result, the volume of domestic cargo increased by 1.9% year-on-year on an RCTK basis, and revenue increased by 1.5% to 25.4 billion yen.

## Air Transport Segment

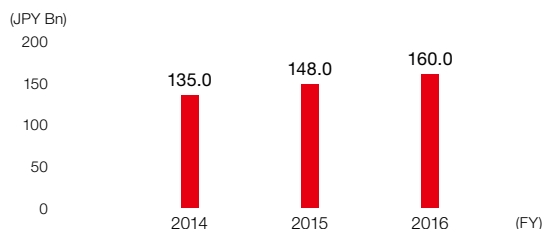
### Aircraft Investment and Fleet

We plan to invest approximately 443.0 billion yen between FY2014 and FY2016.

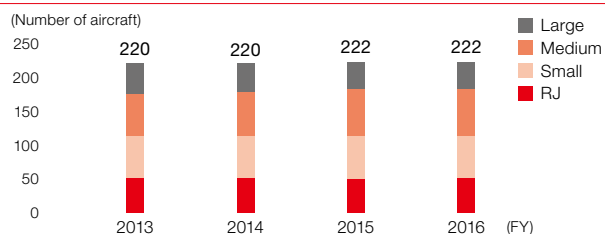
By the end of FY2016, the JAL Group's fleet will consist of 222 aircraft (82 international and 140 domestic aircraft), in line with the original Medium Term Management Plan.

#### Aircraft Investment and Fleet

##### Amount Invested in Aircraft (JAL Group)



##### Changes in the Number of Aircraft (JAL Group)



Figures are as of the end of the fiscal year. Large: 777, Medium: 787/767, Small: 737, RJ (regional jet or smaller): ERJ/CRJ/Q100-Q400/SAAB

● Implemented ● Scheduled

- Invest 443.0 billion yen by FY2016, introduce 33 787 aircraft by the end of FY2016
- Start introducing 787-9 aircraft in FY2015

## Others

We strove to maximize the JAL Group's corporate value and improve our profit margin. The financial results of two major companies in this segment were as follows.

JALPAK Co., Ltd. rolled out timely products, handled more customers for its growing JAL Dynamic Package offerings to maximize revenue and effectively managed expenses. The number of overseas travelers handled by JALPAK reached 302,000, down 6.5% from the previous year, while the number of domestic travelers was 2,142,000, up 8.6% year-on-year. As a result, operating revenue (prior to intercompany transaction elimination) increased by 4.0% from last year to 168.0 billion yen.



JALCARD, Inc. proactively conducted activities to increase membership through efforts such as a membership promotion campaign in commemoration of the 30th anniversary of issuing JAL cards and brought in an additional 156,000 members as of March 31, 2014 from the previous year for a total of 2.92 million members. It sought to enhance its products by offering improved services for JAL CARD navi, a credit card for students, and adding the new JAL CLUB EST, a high value-added card for members in their 20s. Companies catering to daily needs were added as special "double-mile partners" to encourage the use of JAL Cards by cardholders, and JALCARD, Inc. consequently reported record high sales. As a result of these efforts, operating revenue (prior to intercompany transaction elimination) increased by 6.7% from the previous year to 18.5 billion yen.





# Each of Us Making JAL What It Is

JAL REPORT 2014



10:30

Travelers mixing and flowing into the lobby  
Voices filled with anticipation for journeys  
Our eyes greet many approaching smiles



# Putting Ourselves in the Customer's Position

Our sensitivity, values, decisions and actions are all rooted in the JAL Philosophy as we put ourselves in the position of our customers.

## ► Customer Service Line

We interact with our customers every day through our service system, reservations over the phone and check-in operations at airports, and always adhere to our goal of providing ever-refreshing, unparalleled services for the people we serve.

## System

### High Quality Services Made Possible by IT

**PHILOSOPHY** ► Today Should Be Better Than Yesterday; Tomorrow Better Than Today

Yoshinori Tanino  
Passenger Systems, International,  
Japan Airlines Co., Ltd.

I am in charge of the airport check-in system for international flights. JAL's reliable reservation and check-in system ensures that making reservations, checking in at the airport and boarding all proceed smoothly for customers. We are continually improving our systems by using the most advanced technologies, which enables us to provide services of ever higher quality so that our customers can comfortably depart from any airport in the world, arrive on time and, above all, enjoy the world's No. 1 flight experience.



## ► Flight Operation Line

Unseen by customers, we provide backstage support for our flight and business operations in the areas of aircraft procurement and maintenance, piloting, sales and cargo handling. We strive to ensure safety and security by putting ourselves in the customer's position.

## Network

### Building Networks that Offer New Value

**PHILOSOPHY** ► Conceive Optimistically, Plan Pessimistically, and Execute Optimistically

Tatsuro Asami  
International Network Planning,  
Japan Airlines Co., Ltd.



My job is to plan international routes and the number of flights. The most enjoyable aspect of my work is developing the image of a new route network, based not only on data, but also on the

many requests we receive from customers. Then I conduct extensive research on the feasibility of these routes to make sure they can be recommended with confidence, since opening routes that prove to be unprofitable and short-lived is a disservice to customers. I intend to continue creating valuable new options that people will appreciate.

## Mileage

### Making it Easier to Save and Use Mileage Points

**PHILOSOPHY** ▶ Put Yourself in the Customer's Position

Sayaka Sugiyama  
Loyalty Marketing,  
Japan Airlines Co., Ltd.

I'm responsible for developing mileage alliances with other airline companies. By flying with a partner airline, travelers have a wider choice of destinations they can choose from. Their journeys become even more enjoyable and exciting when they are able to save and use mileage points. In seeking new partners, or while planning privileges and campaigns, I always keep in mind we're offering a service that people can feel is easy to use and convenient for saving points and redeeming them.



## Products

### Developing Top Quality Seats

**PHILOSOPHY** ▶ Face Challenges with Courage

Junta Nishigaki  
Product & Service Strategy Development,  
Japan Airlines Co., Ltd.

My role at JAL is to develop passenger seats. To provide ever-refreshing services, we apply the principle "Designed to evoke a 'one-class higher' feel" for seats of all classes on our JAL SKY SUITE 777 and JAL SKY SUITE 767 for international routes. We have achieved an unparalleled level of comfort and functionality by addressing customer needs and breaking away from the constraints of conventional thinking. We will continue to take on the challenge of creating new products to deliver traveling experiences that exceed customer expectations.



## Procurement

### Procuring the World's Most Preferred Aircraft

**PHILOSOPHY** ▶ Think Through to Visualize the Results

Yusuke Hatakeda  
Purchasing Fleet Transactions,  
Japan Airlines Co., Ltd.

I work in aircraft procurement, where we strive to procure the world's most preferred aircraft. A lot of consideration goes into the procurement of an airplane; however, our most important objective is to obtain aircraft that simultaneously satisfy the needs for safety, comfort and economy. Customer feedback, as well as negotiations and discussions with aircraft and engine manufacturers and related internal departments, have led me to believe we can ultimately find aircraft that offer an optimal balance by thinking through all the options and visualizing the results.



## Cargo

### Guaranteeing Consistent Operations

**PHILOSOPHY** ▶ Strive for Perfection

Shuko Nakagawa  
Reservation Coordination Group, First Sales Division,  
Japan Area Cargo Sales Branch, Japan Airlines Co., Ltd.

In my job I deal with reservations, arrangement of cargo space and cargo transport. Reliable work by a number of staff members is required in determining whether to accept certain cargo and ensuring its safe delivery. Focused attention and verbal confirmation are vital; and if you are paying attention only 90% of the time, you may lose track of what is happening. Working together as one team, we strive for perfection on a daily basis so that our operations can always ensure the secure delivery of our customers' valuable cargo and earn their trust.



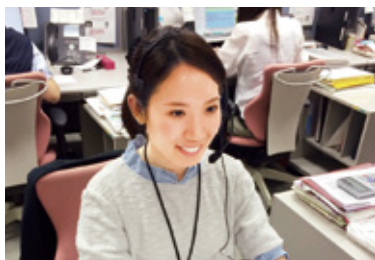
## Call Center

### Conveying Our Gratitude with a “Smile” in Our Voices

#### PHILOSOPHY ► Be Thankful

Rina Ishikawa  
Domestic Division First Group,  
JAL Navia Co., Ltd.

I handle reservations and ticketing over the phone and offer guidance in response to various queries. I always try to provide assistance that's easy to understand, and to respond appropriately to each customer's tone of voice and manner of speaking. Since the call center is the first point of contact between JAL and its customers, we must be sincere and, with a “smile” in our voices, express our gratitude to them for choosing JAL. I intend to continue making an effort to provide ever-refreshing services for our customers with a smile in my voice.



## Airport

### Face Challenges with a Can-do Attitude

#### PHILOSOPHY ► Face Challenges with Courage

Parker Daran  
Passenger Traffic Section, London Airport Office,  
Japan Airlines Co., Ltd.



Heathrow is one of the busiest airports in the world, operating at 98% capacity, and therefore vulnerable to disruption under the slightest adverse weather or situation. We strive at London to deliver the best customer service. This is only possible through effective teamwork, effort and creativity in our desire to improve and includes building strong relationships with all airport stakeholders. Our customers expect JAL to provide a great product and services, with both passenger and baggage arriving on time, every time. When we face challenges, having the desire and a can-do attitude, we prove that what seems at first to be impossible becomes possible.

## Sales

### Winning the Competition by Setting Our Sights One Step Ahead

#### PHILOSOPHY ► Decide and Act with Speed

Takuji Oharu  
First Sales Group, International Sales Department, Head Office,  
JAL Sales Co., Ltd.



Through various travel agencies, I sell overseas package tours and group tours including tickets for international flights. I'm involved in a broad range of business, including sales for chartered flights and joint sales with member airlines of the same alliance, in addition to selling tickets for regular flights featuring new products such as the JAL SKY SUITE 777. In the fast-paced tourism market, quick decision-making and action

is important to make full use of these attractive products, so my goal is to keep our customers satisfied with JAL by consistently looking ahead in our sales activities.

## Maintenance

### Ensuring Safety and Security for Customers through Quiet Dedication

#### PHILOSOPHY ► Accumulate Tedious Efforts

Tatsuhiro Yasui  
#1 Team, Line Maintenance Office #5 Section, Line Maintenance Department,  
Aircraft Maintenance Center, Narita, JAL Engineering Co., Ltd.

I undertake maintenance work to make sure that our operations remain safe. An aircraft combines cutting-edge technology that involves a massive accumulation of information. Mechanics must go through various training to receive the best information about repairing aircraft. In addition to expanding their knowledge, they have to develop skills for applying their knowledge on the job while also accumulating years of experience. This is why we are all working hard to build up our expertise. I'm convinced this is the only way we can ensure customer safety and security.



## Cabin

### Creating Services that Stand Out from the Competition

#### PHILOSOPHY ► "Workfloor" Management

Natsuko Saito  
Operations Group, Cabin Quality Planning Department,  
Japan Airlines Co., Ltd.

My job is to improve the in-flight service provided by our cabin attendants to satisfy customers in response to their feedback and requests. To ensure that customers select us over the many other airlines, we must thoroughly understand their changing needs as well as trends while staying ahead of the curve to offer services that set us apart from the competition. While respecting our tradi-

tion, we must also be flexible in our thinking at all times as we strive to create ever-refreshing services toward our goal of becoming the world's No. 1 airline.



## Customer Center

### Acting as a Company Representative from the Customer's Standpoint

#### PHILOSOPHY ► Possess Opposing Extremes

Asuka Nakamaru  
Customer Support,  
Japan Airlines Co., Ltd.

In my role I communicate with customers over the phone and by email. Occasionally, a customer will call to complain about a particular flight. Although it is extremely important to understand how they feel and defer to their desired course of action, there are times when we must deny a request due to safety reasons. I make sure not to draw any biased conclusions, and I always seek to maintain opposing views while aiming to strike a proper balance that will satisfy customers as far as possible.



## Ground Handling

### Offering Our Customers the Highest Quality

#### PHILOSOPHY ► Work with Voluntary Attention

Yusuke Hayashi  
#2 Team, #3 Cabin Group, Maintenance Service No. 2 Division,  
Narita Branch Office, JAL Ground Service Tokyo Co., Ltd.

When cleaning a cabin, I pay attention to every seat so that customers will experience absolute comfort during their flight. Once I've finished cleaning an area, I sit down in a seat to double check my surroundings from the customer's perspective. To create a finer sense of luxury, I meticulously arrange the in-flight magazines and seat amenities. I always think about ways to make our customers happy by reading their feedback and requests to better understand their expectations for cleanliness.



## Cockpit

### Providing the Best Service through the Best Teamwork

#### PHILOSOPHY ► Put Yourself in the Customer's Position

Masayuki Nakahashi  
777 Flight Crew,  
Japan Airlines Co., Ltd.

Pilots are seldom in direct contact with customers, so we always imagine our families, friends and ourselves among the passengers each time we operate a flight, while also placing top priority on safety with due consideration to on-time performance and comfort. Ultimately responsible for the flight, I make sure to demonstrate good teamwork with the cabin attendants and airport ground staff, who are in direct contact with customers. This creates an environment where staff members in every position are able to perform as top professionals.







## Employee Dialog

# Uniting Our Hearts as We Move Forward

How did the JAL Philosophy take root and how is it being applied throughout the company? Front-line operations staff shared their reflections with students who have chosen to research CSR and who represent the future leaders of Japan.

### Overcoming objections to become a trusted source of guidance

**Student** ● We study CSR and corporate ethics at university, but we aren't so familiar with the practical aspects of business. Sometimes we wonder whether corporate ethics and philosophy are nothing more than academic theories. Has the JAL Philosophy truly taken root?

**Nogami (Route Marketing)** ● Every employee carries a JAL Philosophy pocketbook and we're all encouraged to read it carefully and decide what it means to us. Whenever we're in doubt, we turn to these booklets for guidance.

**Saito (Cabin)** ● In our cabin operations, we choose a theme from the JAL Philosophy for each flight so we can work as a team toward the same goal.

**Horiguchi (Airport)** ● During our end-of-day evaluation meetings at Nagasaki Airport, we set aside time to discuss

our favorite passage from the JAL Philosophy and explain why it's important to us. Whenever I encounter a situation mentioned in the principles, or when a problem arises with a customer, the JAL Philosophy immediately springs to mind.

**Student** ● How did the JAL Philosophy take root in your minds?

**Fukushima (Maintenance)** ● Actually, objections were initially raised on the work floor at some distance from management. Some of us doubted the value of investing in the pocketbook during a time of crisis. Then, through participation in many JAL Philosophy Sessions and workshops, and by reading the pocketbook over and over again, I eventually gained a firm understanding of its content. I also saw my supervisor turn to the pocketbook when difficult decisions had to be made, so I began doing the same.

**Katayama (Pilot)** ● During four years of

“Watching my supervisor, using the pocketbook became natural for me.”



Atsushi Fukushima (Maintenance)

JAL Philosophy Sessions, it became clear to us that putting the principles into action led to results that benefit both the company and society at large. From the front lines to top management, we share an unwavering commitment to





The students toured the corporate facilities to gain a deeper understanding of JAL.

Dialog participants: Students studying CSR at Reitaku University



From left: Tatsuya Fujiwara, Risa Totani, Atsushi Shimada, Maiko Kitano and Yuichi Otsuka

placing the JAL Philosophy at the center of all our operations.

**Saito (Cabin)** ● When I first received the pocketbook, I wondered why we had to once again review the fundamentals. Then I realized we hadn't really been on the same page, even for the most basic issues. I said to myself, I've got to read this and learn how to apply it mentally and in my actions. Nowadays we hold meetings in which younger cabin attendants are able to speak freely. The atmosphere is casual and our discussions naturally turn to the JAL Philosophy. Although it wasn't easy to get people to participate at first, more and more people have been attending.

**Nogami (Route Marketing)** ● In our Monday morning assembly, we read aloud the JAL Group Corporate Policy, and my supervisor often tells us that when we're in doubt, we should refer to the pocketbook.

**Student** ● Is that how the Philosophy

spread?

**Nogami (Route Marketing)** ● Yes, for me it took root as a natural result of repeating that experience. In my workplace, employees voluntarily take part in a workshop called the "Group for Making the Best Use of the JAL Philosophy." In fact, we just met yesterday. About 50 out of 60 employees at the site come together after work to discuss the JAL Philosophy, and other departments hold these meetings too.

### Putting the JAL Philosophy into practice in the workplace

**Student** ● What are some of the advantages of the sharing of thoughts that's encouraged through the JAL Philosophy Sessions and workshops as well as the JAL Philosophy itself?

**Saito (Cabin)** ● We participate in four JAL Philosophy Sessions a year. Having employees in various positions come

together to talk at the same table has enabled us to overcome departmental divides.

Suppose, for example, that a departure time is approaching and a passenger will be arriving late. We want to wait as long as possible for that customer, but at the same time we must ensure

“Mutual understanding has deepened across departments.”



Kana Saito (Cabin Attendant)

on-time performance for the hundreds of other people who have already boarded. In the past, conflicting opinions and standpoints may have had a lasting effect in this type of situation. Now, we see it as being the result of us all practicing the JAL Philosophy of “Put Yourself in the Customer’s Position,” and this has deepened our mutual understanding. As you encounter everyday situations that bring the JAL Philosophy to mind, you realize that this is indeed where you can turn for guidance.

“I relay information like a baton in the most effective way possible.”



Rina Horiguchi (Airport Passenger Service)

**Horiguchi (Airport)** ● I remember a customer with a leg injury arriving while I was at the check-in counter. When I informed the cabin attendant, she immediately asked whether it was the left or right leg. I wondered why that was important. Then I realized that if the person were to be seated on the aisle side, the cart could run into the leg during in-flight service. That’s why having information beforehand is so important; it allows us to provide customers with the best care.

**Student** ● So the “Make the Best Baton Pass” aspect of the JAL Philosophy is realized when employees think well ahead of their actions?

**Horiguchi (Airport)** ● That’s right, and after the experience I mentioned, relaying as much information as possible became a regular part of my job.



**Katayama (Pilot)** ● In my work I always try to keep in mind the JAL Philosophy of “The Result of Life and Work = Attitude × Effort × Ability.”

**Student** ● Could you elaborate on that?

**Katayama (Pilot)** ● Having a negative mindset can only lead to negative consequences in all that we do, even for pilots with a high degree of ability and lots of passion. When I realized this, I felt as though I had really seen the light! Now I’m naturally aware that making negative comments to a younger pilot could bring bad results, and this has significantly changed my approach to work.

Pilot training takes a lot of time. Passing on the knowledge and experience of our predecessors to the next generation through training is crucial. It also makes pilots fully aware of the “Put Yourself in the Customer’s Position” principle. For training sessions on the most challenging situations, I advise pilots to take the right course of action based on what would be best for our customers.

**Nogami (Route Marketing)** ● Since I deal with figures related to passenger traffic data and revenue performance, I adhere to the phrase: “Maximize Revenues and Minimize Expenses.” The Boeing 777 aircraft has 500 seats, so 200 reserved seats would leave 300 vacancies. And larger aircraft have higher costs for fuel and so forth. However, if we can change a particular flight to a 260-seat Boeing 767, we can carry the same number of passengers while reducing the number of vacant seats and thus minimize expenses. Incidentally, this is why JAL makes last-minute changes in the assigning of aircraft by size.

**Fukushima (Maintenance)** ● Ensuring safety remains the overarching commitment on the maintenance work floor, but we now also have a keen awareness of

costs, and that leads to practicing the idea: “Put Yourself in the Customer’s Position.” Suppose we discover a malfunction in a component. Our policy had been to shorten times for fixing a malfunction, and we therefore tended to replace all related components without considering the costs.

**Student** ● That sounds like a good approach to ensure safety.

**Fukushima (Maintenance)** ● However, the repetition of that approach was one reason our expenses mushroomed into a massive debt that led to the company’s collapse and caused great concern for so many people, including our customers. Now, we strive to get to the root of the malfunction and follow the manuals to replace components with greater precision, thereby reducing redundant stock and man-hours. While safety remains our overarching commitment, using cash at hand generated by cutting costs has allowed us to make investments while putting ourselves in the customer’s position, such as by offering business class seats styled like individual compartments and economy class seats with more space.

### Saying “I love JAL” with pride together with colleagues

**Student** ● What do you like most about JAL, and what do you hope to accomplish with the company?

**Katayama (Pilot)** ● I appreciate the way

“Lead by example by passing on my skills and ways of thinking to younger colleagues.”



Takashi Katayama (Pilot)



JAL provides us with opportunities to grow and allows us to take the initiative in advancing our careers. I have gained a lot of experience in the more than twenty years I've been with the company. Yet, I still seek new challenges and intend to continue growing without becoming complacent. I like to lead by example by passing on my skills and ways of thinking to younger colleagues.

**Horiguchi (Airport)** ● I like JAL's commitment to the "Put Yourself in the Customer's Position" principle. My senior colleagues are always considering how we can better serve customers, and I learn from them on the job. Although I'm only in my second year at JAL, I'm already involved in training new employees. I want to hone my knowledge of operations and grow through teaching others, so that I can be a good role model.



**Saito (Cabin)** ● What I like most about JAL are my colleagues. Our goal is to become the world's most preferred and valued airline group, and every department and individual is working to achieve this goal.

**Student** ● What were your initial thoughts on the challenge of becoming the world's No. 1 airline?

**Saito (Cabin)** ● At first I thought we had a long way to go to make it to the top.

But now I think that with these colleagues, becoming No. 1 in the world may be more than a dream after all. I have reached the year of my career in which I can take on a supervisory position and lead the cabin attendants. I'd like to become a leader who can clearly express what must be done to become the world's most preferred and valued airline.

**Fukushima (Maintenance)** ● I like my colleagues best, too. We have overcome hard times together and are now united in striving toward our new goal.

The JAL Philosophy includes a section on "Workfloor" Management. Since joining the company, I've really enjoyed doing hands-on tasks on the work floor. So, I got certified for Boeing 737 maintenance first, and now I'm trying to do the same for the 777. I intend to absorb the skills of my superiors so I can develop my career as a specialist, and my personal aim is to consider management from the standpoint of a work floor specialist.

**Nogami (Route Marketing)** ● "Discuss Frankly" is another key aspect of the JAL Philosophy. I can approach my supervisors and honestly say what's on my mind. I also appreciate the fact that I'm granted a certain level of discretion to do what I think is best. What's more, I feel fortunate that I'm able to take on new opportunities. In the future, I'd like to enhance the accuracy of our numerical analysis and make improvements. I think I would feel a great sense of accomplishment if my efforts were reflected in JAL's results.

I work in a back-office division, where

"What I most like about JAL is being able to speak frankly with supervisors."



Satoshi Nogami (Route Marketing)

I have few opportunities to interact with customers. The company holds a "JAL Nikko Day" on the 25th of each month, during which we present handwritten cards of gratitude to customers on the street. I will continue to participate in this event since it's a valuable opportunity to express my gratitude to customers.

**Student** ● While you've been explaining the JAL Philosophy, we've noticed how worn the pocketbooks have become, which indicates your principles are indeed being embraced throughout your operations. And each of you seemed to light up when you spoke about what you like most at JAL, proving the extent of your appreciation for the company. You are a group of individuals who all love JAL in your own way, and that seems to portend a bright future.



# Taking Customer Satisfaction to a Class Above

Our efforts to deliver an ever-refreshing experience for customers have led to solid results.



## The World's Most Punctual Airline

We Promise On-time Operations Now and into the Future



Major International Airlines  
JAL On-time performance rate: **88.94%**

**World's No. 1** for a second year running

Asia-Pacific Major Airlines  
JAL On-time performance rate: **88.94%**

**Asia-Pacific's No. 1**

Major Airline Networks  
JAL Group On-time performance rate: **89.75%**

**World's No. 1**

By achieving an on-time performance rate of 88.94% for domestic and international flights from January through December 2013, JAL was recognized as the best of 31 major airlines in the Major International Airlines category for the second consecutive year by FlightStats, Inc., a company that analyzes on-time performance and other data.

The JAL Group also won No. 1 recognition in the Major Airline

Network category created in 2013 to evaluate the punctuality of airline groups, by achieving an on-time performance rate of 89.75% for domestic and international flights flown under the JAL name by JAL Group companies (JAL, JAL Express and J-AIR).

## JAL Honored with the “Best Business Class Airline Seat” Award

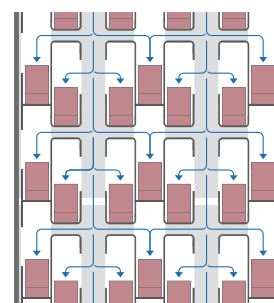
**JAL SKY SUITE for the World's Best Traveling Space**

In 2013, JAL became the first Japanese airline to receive the Best Business Class Airline Seat award in the World Airline Awards, hosted by the British services research company SKYTRAX. JAL won for its new business class seat, “JAL SKY SUITE,” which took the top honor among business class seats offered by airlines around the world for its customer privacy and seat width in the fully reclined flat-bed position.

JAL will strive for even higher quality to deliver ever-refreshing experiences to its customers through products and services under the JAL NEW SKY PROJECT.



JAL SKY SUITE 777  
Business Class



Stress-free, all-aisle access seats



Relaxed position

Bed position (full-flat)



**BEST BUSINESS CLASS AIRLINE SEAT**

# JAL Group's Corporate Social Responsibility

JAL REPORT 2014



14:00

Focus channeled through fingertips  
"It's ready to fly!" soon follows  
Eyes raised, deep azure appears behind an aircraft



# JAL Group's Corporate Social Responsibility

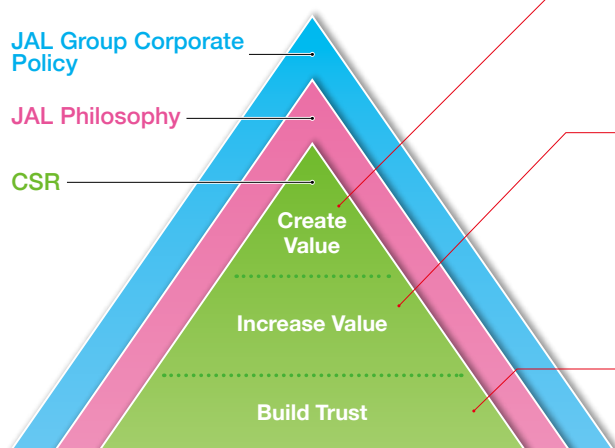
The JAL Group promotes CSR activities so that we may pass on a better society to future generations.

## Basic CSR Policy of the JAL Group

The JAL Group will strive to meet the expectations of society, address social issues, and pass on a better society to future generations through its core air transport business.

## JAL Group's CSR Activities

The JAL Group will carry out corporate social responsibility activities that embody its code of conduct, the JAL Philosophy, which is closely aligned with our Corporate Policy.



### Activities to Present New Value to Society that Only JAL Can Perform

We will strive to address and alleviate social issues through our core air transport business, and present new value that only JAL can deliver.

### Activities that Meet Society's Expectations of the Airline Business

We will increase corporate value through activities that meet society's expectations of the airline business, such as by improving our network, tourism promotion and social contribution activities.

### Activities that Form the Foundation of the Company as a Member of Society

Referring to ISO26000 Guidance on Social Responsibility, the JAL Group will fulfill its responsibility as a corporate citizen by incorporating a CSR approach to activities that create the basis of the company in order to build a relationship of trust with society.

## The CSR Promotion Structure

The JAL Group convenes a meeting of its CSR Committee every six months to deliberate on various CSR-related issues. Chaired by the President of Japan Airlines Co., Ltd., its members include the Executive Officers of each department correlating with the 7 Core Subjects defined by ISO26000, as well as the Executive Officers of departments responsible for front-line operations. The committee discusses all areas and issues to

which companies are required to respond as part of their social responsibility, and seeks to ascertain the current state of the Group, identify problems and consider appropriate measures to be taken while regularly implementing an effective plan-do-check-act cycle with the aim of building on and promoting the Group's CSR activities.

## Participation in the UN Global Compact

Since December 2004, the JAL Group has been participating in the Global Compact, advocated by the United Nations.

On January 31, 1999, then UN Secretary-General Kofi Annan called on business leaders to join an international initiative, the Global Compact, to support nine (now ten) principles in areas including human rights, labor, the environment and anti-corruption. The Global Compact's operational phase was launched at the UN headquarters in New York on July 26, 2000.

The JAL Group will support and implement the ten principles of the UN Global Compact in all its business activities, and will act as a bridge to bring people, their cultures and their hearts closer together through its air transport business, and thus contribute to world peace and prosperity.



This is our Communication on Progress in implementing the principles of the United Nations Global Compact and supporting broader UN goals.

We welcome feedback on its contents.

## Four Key Areas of the JAL Group's CSR Activities

The JAL Group will carry out a wide range of CSR activities in various fields in accordance with ISO26000 Guidance on Social Responsibility, especially in four areas that correspond to the features of our business.

### 1 Safety and Security

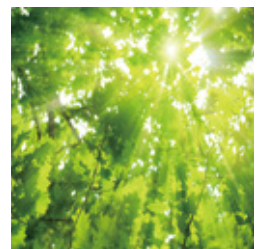
Flight safety is the very foundation and social responsibility of the JAL Group. We will maintain the safe operation of every flight, provide support at times of disaster in ways that only JAL is capable of, eliminate all kinds of barriers, and provide customers with pleasant, enjoyable travel experiences. Ensuring safety and security is most important to us.



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### 2 The Environment

The JAL Group is aware of the impact its business activities have on the environment and has been exploring ways to reduce its environmental footprint in every area of its operations. We will also conduct ecological activities unique to JAL, such as tropospheric observations by aircraft to ensure that our planet, as seen from the sky, remains beautiful for future generations.



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### 3 Bridging Japan and the World

JAL was founded and developed in Japan. Returning to the pioneer spirit of our former colleagues at the time of the company's founding, we will bridge Japan and the world as the "Wings of Japan," promote human, economic and cultural exchanges, and contribute to economic growth and world peace as a network carrier.



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### 4 Nurturing the Next Generation

The JAL Group wants to pass on a promising future to the next generation and therefore strongly hopes that children will have dreams to pursue for the future. We will support the futures of children of diverse ages through employee participation programs.



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#### Column

#### JAL Charity Miles

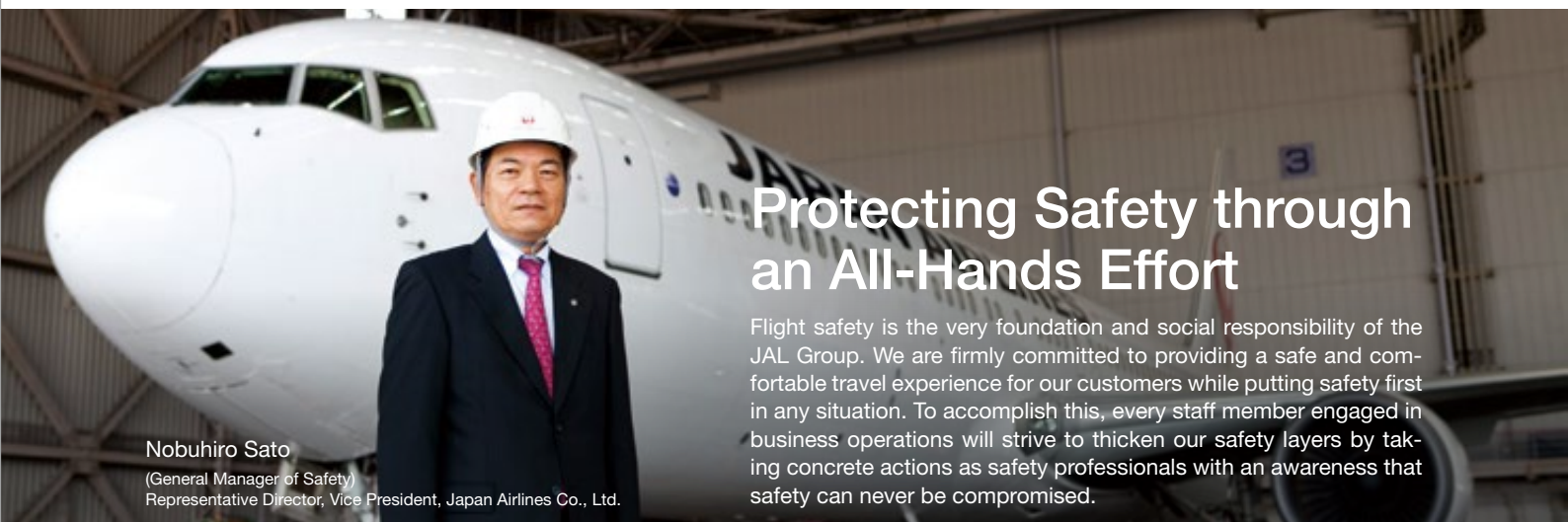
With the cooperation of our customers, we operate the JAL Charity Mile program year round as a CSR activity that only an airline can deliver. JAL supports NPOs in their environmental conservation and other social impact activities by assisting with air transport and publicity campaigns. We also encourage JAL Mileage Bank members to donate their mileage and then donate the equivalent amount in cash, in an effort to provide other forms of support for these initiatives.

##### ▶ Track Record for FY2013

	Total donated miles	Recipient of donation
April 16 to May 31: "Mileage Donation for Amakuro Charity"	1,428,000 miles	The Association of National Trusts in Japan
July 1 to September 30: "Let's Deliver Water Filters to Schools in Indonesia!" Charity Miles	6,324,000 miles	Kopernik Solutions (NPO)
October 15 to November 30: "Pink Ribbon" Charity Miles	1,160,000 miles	Breast Cancer Network Japan Akebono Kai (NPO), Breast Cancer Research Foundation (U.S. NPO)
November 14 to December 15: "Typhoon Haiyan Relief Effort Miles for Children"	7,140,000 miles	Japan Committee for UNICEF
December 24 to March 16: "Sky Baton Tohoku Support Mileage Donation-Kikkake Bus 47 Project"	3,666,000 miles	Tasukeai Japan (NPO)

## 1 Safety and Security – About Safety

Many professionals are involved in ensuring the safety and comfort of passengers during flight.



**Nobuhiro Sato**  
(General Manager of Safety)  
Representative Director, Vice President, Japan Airlines Co., Ltd.

### Protecting Safety through an All-Hands Effort

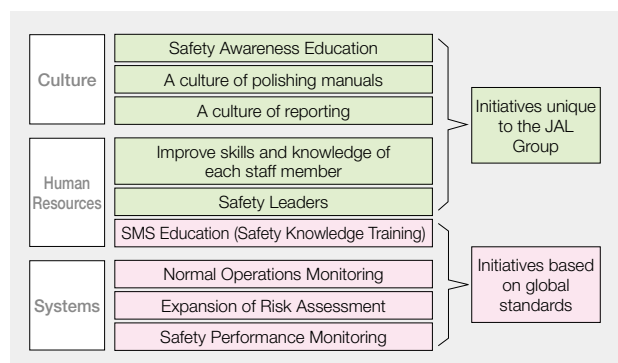
Flight safety is the very foundation and social responsibility of the JAL Group. We are firmly committed to providing a safe and comfortable travel experience for our customers while putting safety first in any situation. To accomplish this, every staff member engaged in business operations will strive to thicken our safety layers by taking concrete actions as safety professionals with an awareness that safety can never be compromised.

#### Safety Initiatives in the JAL Group Medium Term Management Plan FY2012–2016 Rolling Plan 2014

To firmly maintain the safety of flights, which is the very foundation of the JAL Group, we have been seeking to achieve our management target as the leading company in safety in the transportation sector. We are doing this mainly by developing human resources to protect safety, evolving systems to protect safety and cultivating a culture to protect safety.

With a focus on preventive measures, we will further strengthen our proactive risk management by adopting the most advanced and outstanding systems in the airline industry and combining them with our original initiatives. This will enable us to create a safety management system of the highest standard.

#### ► Safety Initiatives



Here we introduce our efforts to improve the skills and knowledge of each staff member as a part of our safety initiatives. The following system took us almost seven years to establish through research, development and installation tests, which were led by members of our flight crews.

We established our original quality management system, which integrated training appropriate for each flight crew's abilities and IT so that a database could be used to visualize and

manage the crews' abilities and their work, which have not been clearly seen in the past.

The Flight Operations Department introduced CB-CT (Competency-Based Check and Training) in 2013. This quality management system effectively utilizes a database JAL developed to raise the competency level of flight crews and the quality of flight operations.

Conventional training and reviews focus on acquiring and maintaining qualifications, which only confirm a pilot's ability to perform specific procedures, such as one-engine-inoperative takeoffs.

In adopting CB-CT, we sorted piloting and other operations into categories and drew up evaluation criteria for each group. This would help in creating an objective evaluation, which evaluators would use to assess the skills of flight crew members, the knowledge required for flight operations, and staff attitudes, and the results would be entered into the database. By analyzing the data stored there, we can identify the strengths and weaknesses of individual pilots as well as the entire group, thereby enabling us to make improvements.

We plan to develop a system similar to CB-CT for other jobs as well so that we can gain a more objective understanding of the strengths and weaknesses of individual staff members.



## Safety Troubles and Measures in FY2013

The JAL Group proactively discloses safety-related information so that passengers can board our flights with peace of mind.

One serious incident occurred in FY2013. We again deeply apologize to the people involved for the inconvenience and their concerns.

### Serious Incident (one)

On May 6, 2013, a fire occurred in the right engine of JAL2362 (CRJ200) during taxi after landing at Itami (Osaka) Airport. The JAL Group is fully cooperating with the Japan Transport Safety Board, which is investigating the cause of the incident.

As a preventive measure, the Company is conducting multiple inspections of the part of the aircraft presumed to have caused the incident.

JAL Group Safety Report contains safety-related problems and measures.

### ► Number of Safety-Related Incidents

In brackets: number of incidents per 1,000 flights

Type of Incident	FY2013	FY2012	FY2011
Aircraft Accident* <sup>1</sup>	0 (0.000)	1 (0.003)	1 (0.003)
Serious Incident* <sup>2</sup>	1 (0.003)	4 (0.011)	1 (0.003)
Irregular Operation* <sup>3</sup>	75 (0.209)	69 (0.194)	58 (0.166)
Safety-Related Issue* <sup>4</sup>	226 (0.630)	276 (0.776)	258 (0.740)
Total Annual Flights	358,629	355,489	348,815

\*1 Fatal or serious injury of a person as a result of the operation of an aircraft, or an aircraft crash, collision, fire or damage to an aircraft during flight (that requires major repairs), as classified by the Japanese Ministry of Land, Infrastructure, Transport and Tourism (MLIT).

\*2 Incident involving circumstances that indicate there was a high probability of an accident, such as overrunning, emergency evacuation, fire or smoke inside the cabin and abnormal depressurization, as a result of encountering abnormal weather conditions, etc., as classified by MLIT.

\*3 Incidents resulting in a flight schedule change, such as a change of the flight destination. When a malfunction occurs in part of the multiple systems of an aircraft, the aircraft is turned back to ensure maximum safety after the flight crew has completed actions in accordance with the flight manual. In general, these incidents do not pose any immediate risk to flight safety.

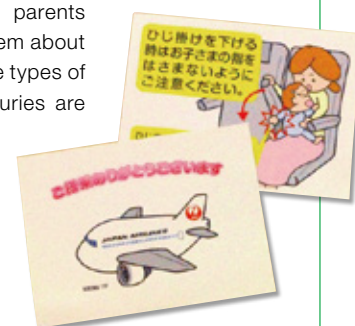
\*4 Legally mandated incident reports to the MLIT under regulations that went into effect on October 1, 2006 (Civil Aeronautics Act, Article 111-4; and the Ordinance for Enforcement of the Civil Aeronautics Act, Article 221-2 (3) and (4)). Such incidents include aircraft damage caused by lightning or bird strike, and situations in which the TCAS (Traffic Collision Avoidance System) is activated and appropriate avoidance maneuvers are subsequently undertaken. In general, these incidents do not immediately result in an aircraft accident.

We define "aircraft accidents" in some cases as occurrences in which passengers or a member of a flight crew suffers a serious injury, such as a bone fracture caused by unexpected bumping during a flight. To ensure safe and comfortable flights, we are not only taking measures to avoid aircraft accidents, but also working to prevent injuries at airports and on aircraft.

In fiscal 2013, we used our website and inflight magazines to provide customers with practical information such as what posture they should take to avoid injury in the event of unexpected turbulence when they are away from their seats.

In addition, we strived to take preventive measures by reviewing and investigating past accidents. For instance, in one case a child's finger was pinched when moving an armrest, so now cabin crew members hand out information cards to parents and guardians warning them about the danger. By using these types of cards to alert people, injuries are less likely to occur.

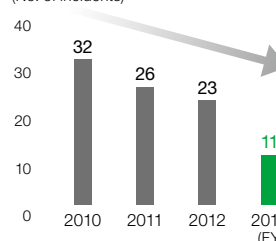
We intend to continue our multilateral efforts to provide security for our customers.



Children Safety Cards

### Customer Injuries\*

(No. of incidents)



\* Incidents of customer injury during a flight or at the airport requiring treatment at a medical facility. (Company statistics)

## Disclosure of the JAL Group Safety Report

Information about the safety-related initiatives of the Group's six air transport companies is disclosed every year in the JAL Group Safety Report in accordance with the rules of Article 111-6 "Release of Safety Report by Domestic Air Carrier" of the Civil Aeronautics Act. The JAL report simply and concisely explains the safety initiatives of these companies.



The JAL Group Safety Report (in Japanese) is available for download from:  
<http://www.jal.com/ja/flight/safety/report/>



## Safety and Security – About Safety

The JAL Group will carry forward its rigorous safety culture with advice from the Safety Advisory Group and never forget past accidents.

### Safety Advisory Group

The JAL Group established its Safety Advisory Group on August 3, 2005 to receive advice with a third-party perspective and because of repeated occurrences of safety-related problems even after the Japanese Ministry of Land, Infrastructure, Transport and Tourism (MLIT) issued a Business Improvement Order to JAL on March 17, 2005.

The Safety Advisory Group is a panel of five experts from outside the JAL Group who have extensive knowledge and experience in such areas as human factors, analysis of failure and imperfection, organizational operation and culture, and safety. The group is chaired by Mr. Kunio Yanagida, a nonfiction writer and critic.

Meetings are held with JAL management twice a year, where the members check the progress of the JAL Group's safety activities and offer recommendations and advice.

The JAL Group will reflect the feedback and advice offered by the Safety Advisory Group in group management and safety operations.

### Safety Promotion Center

In the wake of the catastrophic JAL Flight 123 crash, in which 520 passengers perished, and the subsequent pain and grief of the bereaved families and public distrust in airline safety, we pledged we would never again allow such a tragic accident to occur.

We opened the Safety Promotion Center on April 24, 2006 to reconfirm the importance of flight safety and to embed in our minds the lessons learned from this accident. In December 2013, the center was relocated to the Haneda Shin-Seibijo area with a bigger exhibition space equipped with larger monitors, allowing a more effective presentation of debris from the plane crash. A newly added library also made the center more useful to learn about safety in depth.

All of us in the JAL Group utilize the Safety Promotion Center as a "Fortress of Safety" and the starting point of safe and reliable operations. Every group staff member is reminded that valuable lives and property are entrusted to us in our work. As of March 31, 2014, the center has received about 141,467 visitors from inside and outside the Group.



### JAL Group Safety Education

Since October 2012, JAL Group Safety Education has been conducted for all JAL Group employees to cultivate "safety professionals." It is designed to raise awareness of safety in daily operations by having participants observe wreckage from Flight 123 and watch videos of interviews with people who were involved. Through these activities, participants learn about the accident and are encouraged to reflect on and form an emotional attachment to the event so that they more deeply consider what must be done in the context of maintaining safe operations. They also compose their own safety pledges to ensure their commitment to safety in daily operations, and share their pledges with their colleagues.

A total of 23,786 employees, about 70% of all Group employees, have completed the training since the start of the program in October 2012 up to March 31, 2014. We intend to complete the education for all Group employees by March 31, 2015.



**Mr. Yotaro Hatamura**

Safety Advisory Group  
Professor at Kogakuin University,  
Professor Emeritus of the University  
of Tokyo

The Safety Promotion Center represents an unprecedented initiative that honors the memory of a dark moment in JAL's corporate history and provides a vital source of learning how to secure a safer future. I hope employees will visit the center often so they can fully understand the significance of safety and the tragic reality of the Flight 123 accident.

As a means of getting to the core of a matter, I have been advocating the "three *gen* approach" of "*genchi* (actual place)," "*genbutsu* (actual object)" and "*gennin* (actual person)." With respect to the accident, I think it is possible to understand the significance of safety for an airline company by climbing Mount Osutaka (*genchi*) in a commemorative visit, seeing aircraft debris (*genbutsu*) displayed at the Safety Promotion Center, and listening to people who were involved in the accident (*gennin*).

JAL Group safety education has also been developed to incorporate the "three *gen* approach." I hope to see JAL become the "leading company in safety in the transportation sector," as promised in its Medium Term Management Plan.



## “My Safety Pledge” of JAL Group Employees

All JAL Group employees who have participated in the JAL Group safety education program have made a “My Safety Pledge.” These are written down on “Safety Charter Cards” and carried by staff at all times. Employees strive to ensure operations remain safe by regularly reviewing their actions while referring to the Safety Charter, and reaffirming that safe operations is our very foundation.



## Safety and Security – About Security

Here are some of our programs designed to ensure that all our customers can comfortably enjoy their flights.

### Becoming a JAL that is Friendly to Everyone

We aspire to provide products and services that ensure a safe and comfortable flight for every passenger on JAL Group flights, from small children to elderly customers and customers who require special assistance, by fulfilling the “Friendly JAL = Universal Design”<sup>\*</sup> initiative. We offer universal design extensively from our Domestic Class J Seats and desks at the JAL Smile Support Counters for customers requiring assistance, to our broad range of special in-flight meal options for passengers with allergies or health conditions. Furthermore, we strive to deliver a “universal design for the heart” that is born in the hearts and actions of each employee, which is demonstrated through the hospitality they provide and learned through an experience-based program.



<sup>\*</sup> A concept for the development of “design that is easy for everyone,” regardless of age, physical capability or environmental conditions.

### Priority Guest Support

The JAL Group refers to customers with reduced mobility or who are sick or injured as “Priority Guests,” serving them with precedence over other customers.

In 1994 we launched the Priority Guest Center as the first of its kind in the airline business in Japan, and it has subsequently handled a wide range of situations. The center's experienced staff members are on standby to respond with care to customer needs.

- Transport support for para-sports organizations in events such as the Paralympic Games
- Medical transportation using stretchers for patients, including people traveling for overseas heart transplant operations
- Joint Priority Guest operations with American Airlines and British Airways
- Activities to raise public awareness through events for people with disabilities
- Cooperation with flight experience programs for children with developmental disorders



Passengers with walking disabilities



Physically challenged passengers requiring an assistance dog

### Supporting the Sochi Paralympic Games

During the Sochi Winter Olympics and Paralympic Games in February and March 2014, JAL transported a delegation of about 190 people – including about 80 Olympians and 20 Paralympic athletes – as an official partner of the Japanese Olympic Committee and the Japanese Paralympic Committee.

JAL has been providing support for Paralympic delegations since 2005 as the only official airline in Japan. To make sure that Japanese athletes reach their destinations comfortably, JAL departments including Sales, Priority Guest Center, Airport Passenger Handling, Cargo and Cabin collaborate in preparations and share information from the earliest stage. On the day of departure, all the arrangements are made so that the athletes can use their own wheelchairs up to the point of boarding the aircraft, where our highly capable cargo staff then handles the wheelchairs with the utmost care.

Our staff all share the idea that “From the first moment, we recognize they're just great athletes, with nothing particularly special.” We support Paralympic athletes with our collective experience, expertise and timely service under a strong passion to make their trips as stress-free as possible, regardless of whether they have a disability.



Preparing a wheelchair for storage near the door of the aircraft



Check-in procedures at Moscow Domodedovo Airport

### Tour for Children with Food Allergies

With a growing number of children experiencing allergic reactions to specific foods such as eggs, milk, soybeans, flour and peanuts, the JAL Group has created an environment in which these children and their families can comfortably enjoy their trips.

In March 2014, JALPAK collaborated with the Parents' Association for Food Allergy Patients, NH Foods Ltd. and Hilton Niseko Village to organize a three-day skiing tour in Niseko, Hokkaido, with due consideration to food allergies throughout the entire trip. Ten families participated, sharing comments such as: "We were very happy to see the delight in our children's eyes as they could eat whatever they wanted from the buffet and enjoyed touring Hokkaido and skiing for the first time" and "We had given up on traveling but felt at ease on this tour. We hope JAL organizes more like this."



### JAL Smile Support (Domestic Flight)

The JAL Group has a dedicated support desk for customers requiring assistance on our domestic flights. We provide various types of assistance to ensure comfortable trips for as many customers as possible, including pregnant women, children, the elderly and passengers requiring the use of a wheelchair.



Mother and Baby Travel Support Guide

**Baby Travel Support Service**  
Assisting passengers traveling with babies or infants

**Kids Travel Support Service**  
Assisting children traveling on their own

**Expectant Mother Travel Support Service**  
Assisting pregnant passengers to travel in comfort

**Senior Citizen Travel Support**  
Assisting elderly passengers

### VOICE



**We are Working to Provide Optimal Support from the Customer's Perspective.**

Priority guest group, JAL Navia Co., Ltd.  
**Chika Ogura**

The Priority Guest Center serves passengers who require assistance when traveling by air and also coordinates transportation for the Paralympic delegations and food allergy tours. Support for Sochi Paralympic delegations involved a broad range of activities, such as checking wheelchair size, securing space for baggage and confirming the routes to be taken in the airport. We took extra care during handovers so that athletes can relax during long flights.

On the day of their departure, I provided them with assistance at the airport, and I felt that all my colleagues shared this same commitment. I will never forget how grateful I was when athletes smiled and said "Thank you for your support" upon departure. We will continue working together to ensure that everyone boards our flights in comfort.

### Column

### Emergency Aid for the Central Philippines Affected by Typhoon Haiyan

As an airline company that bridges Japan with the world as well as the various regions of Japan, JAL extends emergency aid that only an airline can provide at times of major disaster.

In November 2013, Typhoon Haiyan caused catastrophic damage to the central Philippines. Following the Japanese government's decision to dispatch a disaster relief team from the Japan International Cooperation Agency, JAL operated an emergency charter flight within 23 hours of the request. At Manila Airport, Filipino staff hoping to serve at a time of national calamity helped the Japanese relief team unload and load their relief supplies so that the group could quickly transfer to an aircraft bound for the affected area of the country. Our staff also raised a banner inside the airport expressing our sympathy and support as well as encouragement for the people whose lives had been affected.

JAL cooperated with the Japan Platform, an NGO network, by offering free air transport for eight NGO staff members participating in the relief effort and 11 tons of relief goods and supplies. We also provided support through a JAL Charity Mileage campaign and made a donation from the Group as well as individual contributions from employees.



## 2 The Environment

JAL Group promotes "Sky Eco" for a Greener Tomorrow.

### Our Eco-First Commitment

In 2010, the JAL Group made an "Eco-First" commitment to renew its efforts for preserving the global environment and received certification as an "Eco-First Company" from the Ministry of the Environment of Japan.



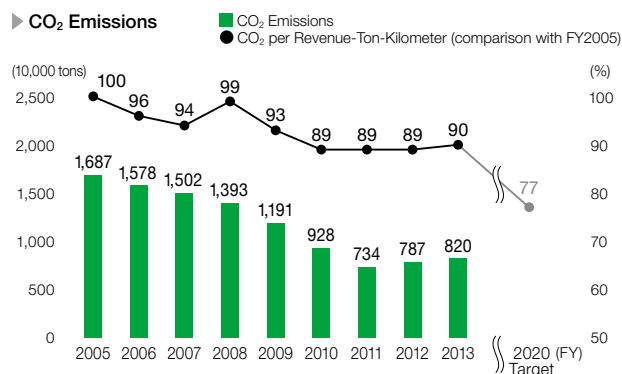
### Environmental Guidelines

As an airline transportation company that is an important social infrastructure, we are conscious of the fact that we have a responsibility to the global environment, and as such, the JAL Group has placed the control of our environmental impact and the protection of the environment as core themes in our business operations, as we continue to implement "Sky Eco," so we will be able to pass this rich earth on to the next generation and they will always be able to see the beautiful earth from the sky.

### CO<sub>2</sub> Emissions by JAL Group Aircraft

In FY2013, CO<sub>2</sub> emissions by JAL Group aircraft per unit transport volume (revenue-ton-kilometer) were reduced by 10.4% compared to the FY2005 level. CO<sub>2</sub> emissions per unit transport volume were slightly higher because our introduction of new aircraft, such as the Boeing 787, improvements to flight operations efficiency, and regular engine cleaning for more efficient fuel consumption did not do enough to offset the loss in efficiency from equipping aircraft with fewer seats on long-distance flights to enhance passenger comfort.

Total CO<sub>2</sub> emissions increased by 330,000 tons from the previous fiscal year as a result of expanded operations.



Airports, Offices,  
Maintenance Centers  
(Japan)

Industrial Waste

**3,720**  
tons

Airports, Offices,  
Maintenance Centers  
(Japan)

Electricity Use

**129**  
million kWh

Airports, Offices,  
Maintenance Centers  
(Japan)

Heat Use (crude oil equivalent)

**49,633**  
kiloliters



## CONTRAIL Atmospheric Greenhouse Gases Observation Project by Passenger Aircraft

The JAL Group has been participating in the "CONTRAIL Atmospheric Greenhouse Gases Observation Project by Passenger Aircraft" as an environmental effort that can only be implemented by airline companies. This joint project with Japan's National Institute for Environmental Studies, the Meteorological Research Institute, JAMCO Corporation and the JAL Foundation, marked its 20th anniversary in 2013. Eight Boeing 777-200ER aircraft in our fleet, two of which bear the CONTRAIL project logo, have been modified to allow for the installation of air sampling equipment (ASE and CME) that can measure atmospheric CO<sub>2</sub> and other greenhouse gases and are now being used for atmospheric observations. The project has been widely recognized as a pioneering collaboration between industry, government and academia, and received the "Environment Minister's Award" and "Environmental Excellence Award" under the 40th Environmental Awards for FY2013, sponsored by the Hitachi Environment Foundation, as well as the "Japan-South Korea International Environment Award," sponsored by The Mainichi Newspapers Co., Ltd. and other organizations.



The CONTRAIL project logo is painted on JA707J aircraft carrying the observation equipment.



### VOICE

#### Enjoying the Challenge of Participating in a Global Project

**Yuki Nakajima**  
Mechanical System Group  
Technology Department  
JAL Engineering Co., Ltd.

With respect to the CONTRAIL project, the Technology Department makes plans and adjustments every month, based on requests from researchers and flight schedules, as it determines the optimal routes and installation timing for observation equipment on aircraft. We provide technical support for modifying airframes to enable installation of observation equipment and support for obtaining approval from airline authorities in the U.S. and Japan, and during servicing operations, while also handling any problems that arise during the modification process. We work under considerable pressure, since the entire process must be carried out within a limited period, which makes it all the more satisfying when the work is completed without a hitch.

As an airline engineer, participating in the globally acclaimed CONTRAIL project is very rewarding. I hope to make the best use of my skills on this and other projects as my contribution to environmental efforts that can only be accomplished by an airline company.

Airports, Offices,  
Maintenance Centers  
(Japan)

Water Use

**452**

thousand m<sup>3</sup>



Aircraft in Flight  
(Japan, International)

CO<sub>2</sub> Emissions

**8.2**

million tons



## Action Plan

We have placed the control of our environmental impact and the protection of the environment as core themes in our business operations, and create action plans for these areas. Our philosophy and dedication toward them are set out in the "Action Plan."

### Action Plan 1 We actively conduct initiatives to prevent global warming.

Commitment	Status
We are working to reduce CO <sub>2</sub> emissions per revenue-ton-kilometer from JAL Group aircraft by 23 percent in 2020 as compared to 2005 level.	<ul style="list-style-type: none"> <li>CO<sub>2</sub> emissions per revenue-ton-kilometer for FY2013 declined by 10.4 percent from FY2005 level.</li> <li>We did not achieve our target of 1.5 percent average annual improvement (average figure for FY2005 to FY2013), falling short by 0.2%, since aircraft modifications to enhance passenger comfort by installing fewer seats reduced efficiency.</li> </ul>
We are upgrading our fleet to lower fuel consumption and low noise aircraft (e.g., Boeing 787, 737-800 and Embraer 170).	<ul style="list-style-type: none"> <li>We introduced 12 aircraft with reduced fuel consumption (787-8, 737-800 and E170) and retired four aircraft (767-300 and 737-400).</li> <li>We implemented a series of performance improvement modifications on 777-200ER aircraft and finished attaching winglets (small drag-reducing attachments at the tip of a plane's wing) on six 767-300ER aircraft.</li> </ul>
We are conducting "Eco Flights."	<ul style="list-style-type: none"> <li>We achieved annual reductions in CO<sub>2</sub> emissions of approximately 45,000 tons, mainly through implementing 5 "Eco Flight" activities: engine out taxi, idle reverse, reduced flap, delayed flap and delayed gear.</li> </ul>
We are endeavoring to reduce weight.	<ul style="list-style-type: none"> <li>We started using 480 of the world's most advanced cargo containers, which are approximately 40% lighter than conventional units.</li> </ul>
We are cutting CO <sub>2</sub> emissions by washing engines and pursuing other methods of CO <sub>2</sub> reduction.	<ul style="list-style-type: none"> <li>We implemented engine water washing at intervals of 190 days to 270 days for the 777 aircraft, 767 aircraft and 737-800 aircraft. Result: Annual CO<sub>2</sub> emissions were reduced by approximately 22,000 tons.</li> <li>Reduction in APU (auxiliary power unit) usage time for 777 aircraft and 737-800 aircraft was nearly equal to last year's reduction.</li> </ul>
We work together with the associated ministries and aviation authorities such as air traffic control in various countries to introduce leading methods for fuel efficient aviation, and will actively continue to do so in the future.	<ul style="list-style-type: none"> <li>We obtained certification for reduced environmental impact for the flight operations methods adopted on our Haneda-San Francisco route. Estimated reduction in CO<sub>2</sub> emissions: around 660 tons per year (see page 43).</li> <li>We have been implementing CDO (continuous descent operations) at San Francisco International Airport and Kansai International Airport.</li> <li>We have been operating UPR (user preferred route) on flights to Hawaii, Australia, the West Coast of North America (Los Angeles, San Francisco and Vancouver) and Palau.</li> <li>Efficient selection of alternative airports (alternatives for HEL and DEL)</li> <li>Estimated annual reduction in CO<sub>2</sub> emissions as a result of the above efforts: around 5,000 tons.</li> </ul>
We are collaborating in the research and development of aviation biofuel made from inedible plants.	<ul style="list-style-type: none"> <li>We conducted a biofuel demonstration flight in January 2009 and have been exploring the feasibility of using biofuel on commercial flights by exchanging information with the ICAO, IATA, related authorities, manufacturers, research institutions and universities. We are participating as a leading member of the Initiative for Next-Generation Aviation Fuels (INAF) to create a roadmap for developing biofuel processed in Japan.</li> <li>We are planning an aggressive effort as part of an all-Japan team of industry, government and academia to realize the full-scale introduction of biofuel by around 2020 (the year of the Tokyo Olympics) at major airports.</li> </ul>
We promote energy saving activities in our ground facilities (offices, factories, etc.).	<ul style="list-style-type: none"> <li>We continued to consolidate maintenance facilities, conducting various energy-saving activities and upgrading to electricity-saving lighting in our offices.</li> </ul>

### Action Plan 2 We actively promote social and environmental activities and environmental awareness activities.

Commitment	Status
By continuing to conduct environmental and social activities, we are able to contribute to long-term conservation of the environment, and we strive to improve the environmental awareness of children who will lead the next generation, as well as all of society and our own employees.	<ul style="list-style-type: none"> <li>Our flight crew took the initiative to derive and put into practice organizational solutions for environmental problems in the area of flight operations. Initiatives include Sky Eco Project activities and environmental awareness seminars (Sky Eco classes) offered by captains for children (32 times in FY2013).</li> <li>We contributed to reducing CO<sub>2</sub> emissions with cooperation from passengers by implementing the "Shades Closed Exercise" and improving on-time performance (currently the world's top).</li> </ul>
We will continue to participate in the atmosphere observation project and the forest fire reporting project using our aircraft.	<ul style="list-style-type: none"> <li>We have been participating in the "CONTRAIL Atmospheric Greenhouse Gases Observation Project by Passenger Aircraft" (see page 41).</li> <li>We have been participating in the "Siberian Forest Fire Reporting Project." Since 2003, pilots have been reporting any fires detected during summer flights over Siberia to a research team led by Hokkaido University in a cooperative research effort on early fire detection by satellites (199 fires were reported in 2013).</li> </ul>

### Action Plan 3 We work toward the realization of a recycling-based society and for the preservation of the environment.

Commitment	Status
Ultimately we are aiming for a disposal rate of less than 2% for industrial waste from domestic worksites.	<ul style="list-style-type: none"> <li>Despite increased waste emissions related to facility reorganization and aircraft seat modifications, total waste volume in FY2013 was reduced by 14% from FY2012. The final disposal rate was 1.2%, achieving our target of less than 2%.</li> </ul>
We work to reduce water usage.	<ul style="list-style-type: none"> <li>Water use was reduced through facility reorganization and reuse of wastewater.</li> </ul>
We work to reduce the amount of emissions of chemicals (governed by the PRTR Act).	<ul style="list-style-type: none"> <li>While little room remained for further reductions, as we had already introduced maintenance materials with less impact on the human body and the environment, use of trichloroethylene increased significantly in line with increased maintenance operations. As a result, the total volume of PRTR substances handled in FY2013 (462 chemicals) increased 7% year-on-year to 66 tons. (Total volume of PRTR substances except for trichloroethylene (461 chemicals) decreased 15% year-on-year to 29 tons.)</li> </ul>
We work to recycle uniforms and items used in aircraft cabins such as in-flight magazines, newspapers, aluminum cans, plastic bottles and cargo packing materials.	<ul style="list-style-type: none"> <li>We actively recycled beverage cans, newspapers, in-flight magazines and plastic bottles. We are promoting comprehensive efforts to dispose of in-flight waste in collaboration with IATA and airport companies.</li> <li>Total amount of recycled waste in FY2013: 2,540 tons including 180 tons of recycled fiber as a result of updating the design of uniforms.</li> </ul>

#### Action Plan 4 We work to conserve the environment around airports.

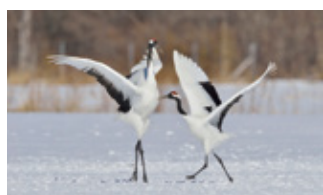
Commitment	Status
We actively introduce low-noise aircraft and noise abatement operational procedures, and respond to other airport noise issues.	<ul style="list-style-type: none"> <li>• We actively practice "Reduction of Noise at Source" and "Noise Abatement Operational Procedures" as responsibilities of airlines under the "Balanced Approach" recommended by the ICAO. All JAL aircraft are compliant with ICAO Chapter 4, the most stringent standard for noise.</li> <li>• Under the "Noise Abatement Operational Procedures," we practice noise abatement procedures at takeoff and operate under more stringent rules when taking off from Tokyo International Airport (Haneda) and Osaka International Airport (Itami).</li> <li>• As for noise abatement procedures upon landing, we practice reduced flap, delayed flap and idle reverse. At San Francisco International Airport and Kansai International Airport, we conduct CDO (continuous descent operations) to significantly reduce both noise and CO<sub>2</sub> emissions.</li> </ul>
We work to reduce NOx emissions from aircraft, automobiles, etc. (NOx, HC, CO and other aircraft engine emissions are strictly regulated by the ICAO. Similar restrictions have been established under Japan's Civil Aeronautics Act. NOx emission restrictions are particularly stringent.)	<ul style="list-style-type: none"> <li>• All JAL aircraft engines are compatible with the ICAO's CAEP6 and CAEP8 standards (the applicable standard differs depending on when a plane's Certificate of Airworthiness was issued).</li> </ul>

#### Action Plan 5 We give due consideration to biodiversity.

Commitment	Status
We convey to customers and society at large the importance of biodiversity and follow the "JAL Group Policy on Biodiversity" in our business operations.	<ul style="list-style-type: none"> <li>• We formulated the "Biodiversity Policy of the JAL Group" in recognition of the fact that the JAL Group's air transport business may indirectly impact biodiversity.</li> </ul>
We take part in the "United Nations Decade of Biodiversity" initiative. In addition, we promote activities that convey the importance of protecting the natural beauty of Japan, including cranes, etc.	<ul style="list-style-type: none"> <li>• We painted the "United Nations Decade of Biodiversity" logo on our aircraft, sponsored a photo contest on the theme of the Japanese red-crowned crane, contributed to the JAL Endemic Rabbit's Forest and served certified coffee on our flights in consideration of biodiversity.</li> </ul>

#### Activities for Preserving Biodiversity

Recognizing that biodiversity is a major environmental issue, the JAL Group formulated the "Biodiversity Policy of the JAL Group" and implemented actions to raise public awareness and encourage the preservation of biodiversity. In 2013, we cooperated with the Endemic Rabbit Trust campaign to preserve and sustain the forest of Amami Oshima, which provides the habitat for an endangered species of rabbit designated as a Special Natural Treasure of Japan. We supported the campaign through donations, Charity Miles and public service announcements for passengers on our Amami flights. We also sponsored a second photo contest on the theme of the Japanese red-crowned crane as a symbol of the importance of preserving Japan's natural beauty.



#### JAL San Francisco Route Obtains Certification for Reduced Environmental Impact

Our San Francisco route became the first from Japan to obtain certification from ASPIRE (Asia and Pacific Initiative to Reduce Emissions), an international environmental protection initiative in the Asia-Pacific region, for adopting operation methods that reduce environmental impact. We introduced three fuel-efficient, environmentally friendly operation methods (UPR, 30-mile air traffic control intervals, and CDO), which allow us to select efficient altitudes and routes based on the latest weather forecasts and to reduce fuel consumption and noise by conducting more efficient descents. These efforts are expected to reduce CO<sub>2</sub> emissions by 660 tons per year.



#### ► Environmental Data

	FY2011	FY2012	FY2013	Unit
Environment				
CO <sub>2</sub> Emissions	734	787	820	10,000 tons
CO <sub>2</sub> Emissions/RTK (comparison with FY2005)	88.8	88.8	89.6	%
NOx (LTO cycle)	5.66	6.08	6.26	1,000 tons
CO (LTO cycle)	3.51	3.76	4.39	1,000 tons
HC (LTO cycle)	0.63	0.64	0.72	1,000 tons
Electricity Use	140	134	129	Million kWh
Heat Use (crude oil equivalent)	53,209	50,997	49,633	1,000 liters
Water Use	—	—	452	1,000 m <sup>3</sup>
Industrial Waste	2,944	4,327	3,720	Tons
Ratio of Final Disposal	1.9	0.9	1.2	%

### 3 Bridging Japan and the World

We will bridge Japan and the world as the “Wings of Japan” and as a network carrier that contributes to the revitalization of Japanese industry and the regional economy while enhancing mutual understanding in the international community.

#### JAL Tohoku Support Project “VISIT TOHOKU!”

In June 2013, more than two years after the Great East Japan Earthquake, we launched the JAL Tohoku Support Project “VISIT TOHOKU!” as our response to the current needs and hopes of residents in the affected areas. They feared being forgotten and hoped more people would visit, take in the sights and spend money to support for revitalization. We are seeking to facilitate regional development and encourage people there through our air transport business.

##### Facilitating Regional Development

- Bringing more customers to Tohoku by expanding international charter flights and organized tours
- Holding employee training courses in the affected areas to encourage our staff to visit Tohoku
- Working in collaboration with local governments in the Tohoku region to assist in the sales of local products, and selecting products from the area as items to offer during flights and in the airport lounge, or to be obtained by redeeming mileage
- Stimulating interest in Tohoku by flying specially painted aircraft and providing information to customers

##### Encouraging People in the Affected Region


- Supporting visits by student volunteers to the affected areas through the JAL Charity Miles program
- Offering trips to families affected by the earthquake to provide some joy



Specially painted aircraft

#### Facilitating Regional Development 1: Employee Training Course in Affected Areas

In September 2013, we began holding training programs for JAL directors and other employees in the affected areas in an effort to expand our onsite activities. As of March 2014, about 350 employees have visited the towns of Minami-Sanriku and Onagawa, where they listened to storytelling guides and participated in voluntary activities. They also contributed to the local economy by staying at local hotels, dining out and purchasing souvenirs.



VOICE

Getting More Employees to Visit the Affected Areas

**Kenji Furukawa**  
Domestic Route Marketing  
Japan Airlines Co., Ltd.

Prior to launching this project, employees from various departments got together to discuss what we could do to support the Tohoku region. It was my first time to visit the affected areas. Although I already had some idea of the local situation from the media, when I got there I realized there are many things you can only understand when you experience them for yourself. I started planning the training program with the hope that it would trigger the interest of a lot of colleagues, encourage them to discover what it's like now in Tohoku, and get them thinking about how to help out. At first I was concerned about imposing ourselves upon the people there, but these worries vanished when locals told us they wanted people to visit and enjoy themselves. Encouraged by their expressions of gratitude for our being there, I will strive to get more people involved in a greater circle of support to spread some happiness for the people of Tohoku.

#### Column

#### JAL × Kopernik: “Connecting People to People, Bridging Japan and the World” Project

Kopernik is a non-profit organization that delivers innovative technologies to developing countries toward addressing various social issues such as improving the quality of life and eradicating poverty. JAL endorses their work through various assistance and collaboration activities. In fiscal 2013, we participated in delivering water filters to schools in Indonesia. We asked customers to donate their mileage points to JAL Charity Miles, and by extending the equivalent value in cash, we were able to deliver 800 water filters to 160 schools. We also selected two university students from those who had applied to take part in our initiatives through the JAL Facebook page and sent them to Indonesia to report on how the water filters were improving the children's lives. As part of our partnership with Kopernik, we will also visit technology companies and universities around Japan in search of new advances that meet the needs of people living in developing countries.





### ● Facilitating Regional Development 2: Helping Sales of Specialty Goods from Tohoku

Since June 2013, we have been collaborating with the local governments of the Tohoku region to stimulate tourism demand by distributing brochures, and helping to sell specialty goods as part of our activities for JAL Nikko Day, which takes place around the 25th of every month. In March 2014, we held the Tohoku Market @ Tennozu Building at our head office. Many employees purchased specialty products to show their support for the region.

### ● Encouraging People in the Affected Region 1: SKY BATON

The JAL Group launched the SKY BATON project to pass the "revitalization baton" from working adults to younger generations in an effort both to help foster future generations and support the areas affected by the earthquake-tsunami disaster. Under this project, working adults will provide financial support (i.e., "pass the baton") to university students who will be responsible for building the future of Tohoku and Japan. Sending students to participate in local visits and volunteer activities will provide them with the opportunity to better understand the issues faced by the disaster-affected areas, help enable them to think for themselves and translate those ideas into action (i.e., foster future generations), and encourage them to develop deeper ongoing interest and involvement in the disaster-affected areas over the long term (i.e., support to disaster-affected areas).

As the first phase of SKY BATON, we supported the KIKKA-KE BUS 47 Project\* organized by the NPO "Tasukeai Japan," by providing air transport and by donating the equivalent value in cash for 3,666,000 miles donated through the JAL Charity Miles program.

\* Program funded by working adults to send approximately 1,800 university students from all 47 prefectures on bus tours to the affected areas and to provide young people with an opportunity to get involved in the revitalization effort.



### ● Encouraging People in the Affected Region 2: Gifts of Smiles project

JAL launched the Gifts of Smiles project in the summer of 2013 to assist children suffering from stress caused by the Great East Japan Earthquake by helping them go on family trips and get away from everyday reminders of the disaster. We help them make a new start through refreshing, encouraging experiences. The cost of this project is covered by donations from JAL Group employees matched by JAL. Employees volunteer to accompany the families. In our first tour, we invited 52 people representing 20 families from the Tohoku area to a four-day trip to Okinawa. We observed delighted smiles on the faces of the participants while they enjoyed the brilliant sunshine and blue sea.



### ● Facilitating Regional Development 3: Tohoku Cotton Project

The Tohoku Cotton Project began in 2011 as a reconstruction effort for tsunami-stricken fields with the goal of reviving agriculture and creating new industries and jobs by planting and spinning cotton, developing commercial products and selling them in a cooperative effort between local agricultural corporations and companies mainly in the apparel industry. In addition to publicity and the voluntary participation of employees to help with farming, the JAL Group makes original products from the harvested cotton. We support the project by offering these products in exchange for mileage and to passengers on



domestic and international first class cabins. The initiative was also boosted at JAL SKY, where employees produced a Tohoku Cotton tote bag that employees carry when in uniform.

## Column

### JAPAN PROJECT

Since May 2011, the JAL Group has been undertaking the JAPAN PROJECT to revitalize local communities by communicating the splendors of Japan using every tool available to us, including in-flight magazines, onboard videos, in-flight meals and the JAL Group website. The project focuses on a single region each month and reveals its attractive features of the area in collaboration with local governments and companies. We have worked with 25 prefectures as of March 2014, and in January and February 2014 we organized a special feature on Tohoku as the project's first expanded version, linked with JAL Tohoku Support Project "Visit Tohoku!"

The JAL Group will continue to build on the JAPAN PROJECT in order to generate demand for tourism and contribute to revitalizing regional communities.



## 4 Nurturing the Next Generation

The JAL Group strongly hopes that children will have dreams to pursue for the future, and supports their future through programs for children of diverse age groups.

### JAL SORAIKU

The JAL Group has been organizing and conducting “JAL SO-RAIKU” educational programs for nurturing the next generation. These include the “JAL Origami Hikoki” course, in which children learn to enjoy playing together, and the “JAL Sky Eco” course, in which changes in the global environment are displayed as seen from the sky. We have also started offering new courses introducing jobs related to air travel.

In FY2013, we conducted a total of 160 courses for five programs at schools and public facilities around Japan as well as at Japanese schools in other Asian countries, the U.S., Australia and Europe. The courses were attended by about 12,000 people.



JAL Origami Hikoki: Fun Paper-Aeroplane Activity



JAL Sky Eco: Talks on Environmental Issues

### VOICE

#### Off-Duty CSR – JAL Sky Eco

Hideya Sasaki

Flight Operations Administration  
Japan Airlines Co., Ltd.

I fly short-distance international routes and domestic routes as captain of a 737 aircraft, but I also serve as a lecturer for “JAL Sora Eco” and “JAL Career Talk” courses at elementary schools and town halls as well as universities around the country.

In the JAL Sora Eco course, I explain changes in the earth that pilots directly experience every day, using the latest data and photographs taken from the air. I also introduce JAL's efforts to prevent global warming, such as its participation in the CONTRAIL project, reporting on forest fires and implementing EOT (Engine-Off Taxiing: shutting down one engine after landing).

I hope to continue these lectures in the hope they will provide opportunities for a broad range of people, from elementary schoolchildren to adults, to think about the global environment, learn about JAL's efforts, and perhaps favor JAL even more.

	JAL Origami Hikoki: Fun Paper-Aeroplane Activity	JAL Sky Eco: Talks on Environmental Issues	JAL Career Talk Event for Students	JAL Safety Demonstrations by Cabin Attendants	JAL Professionals Interviewed by Students
Age group	Six years old and older	Elementary schoolchildren (from third grade), junior high school students, high school students, college students (adult-only class available)	Elementary schoolchildren (in fifth and sixth grades), junior high school students, high school students	Junior high school students, high school students	Junior high school students, high school students
Format	Onsite course	Onsite course	Onsite course	JAL Haneda facility	JAL Haneda facility
Time required	90 minutes	90–120 minutes	60 minutes	60 minutes	40 minutes (including 20 minutes of travel)
Number of courses per month (in general)	3	3	2 (arranged by job)	2	4
Number of participants per course	30 to 100	30 or more	30 or more	20 to 50	3 to 15

### JAL Career Talk Event for Students

We held the first “JAL Career Talk Event for Students” during summer vacation in 2013 in response to requests from junior high school and high school students around Japan who wanted to hear stories from people with interesting professions. JAL Group employees, who work in various positions, including pilots, cabin attendants, ground staff and mechanics, answer students' questions about their jobs. The event was attended by about 50 junior high school and high school students and their guardians, all of whom engaged in an enthusiastic dialog. We plan to continue holding JAL Career Talk Events for Students to encourage children to create their own lifestyles associated with their preferred jobs in the future.



### Cooperation with UNICEF

In 1991, JAL launched the “Change for Good®” fundraising campaign for UNICEF on its flights between Tokyo (Narita) and New York to collect spare change in foreign coins from passengers. The campaign was expanded in 2006 to include all international flights operated by JAL. Coins collected through this initiative are donated to support UNICEF activities for protecting children's lives, health and rights.



As a member of the Steering Committee for UNICEF's Foreign Coin Collection Program, we also provide support by transporting foreign coins collected on the ground in Japan to different countries for free.

### JAL Factory Tours – SKY MUSEUM

JAL has been offering tours of its aircraft maintenance center as part of its social contribution activities since the mid-1950s, soon after the airline's founding. The “JAL Factory Tours – SKY MUSEUM,” which was renovated and reopened in July 2013, provides the first public displays of various material chronicling JAL's history of opening up new air travel routes since its establishment in 1951. We have set up a new booth to introduce the work of staff behind JAL Group flights and also exhibit JAL's new seats and services. The facility enables visitors to deepen their knowledge about the airline industry in general through airline classes where they learn about aircraft and tour the hangar to observe airplanes under maintenance up close. In FY2013, the SKY MUSEUM received over 100,000 visitors.



### Column

#### World Children's Haiku Contest

JAL Foundation, in partnership with JAL, has been hosting the biennial “World Children's Haiku Contest” since 1990 to spread the joy of composing haiku among children around the world and promote international exchange. The applicants are children aged 15 years and under, and they are asked to send in haiku with accompanying artwork.

To date we have received over 650,000 entries from about 50 countries and regions. Prize-winning works are published in a picture book under the title *Haiku By World Children*. The book includes haiku printed in the native languages of the writers as well as in English and Japanese, and is presented to libraries and similar institutions in Japan and abroad. The 2013-2014 contest was selected as an official project for the events commemorating the 400th anniversary of Japan-Spain relations and the 40th anniversary of the Japan-Vietnam diplomatic relationship.





# Relationship with Our Employees

We actively develop human resources for the next generation that will embody the JAL Group Corporate Policy by practicing the JAL Philosophy. Focusing on supporting the career success of our diverse workforce as one of our management strategies, we intend to create a dynamic, energetic JAL Group together with our human resources powered by enriching experiences, strong core values and fresh perspectives.

## JAL Philosophy and Educational Training

### ● JAL Philosophy Session

JAL Group employees continue their education through courses that deepen their understanding of the JAL Philosophy, which they use as a common criterion for decision making in daily operations. As a result, employees are united through mutual trust in a company that contributes to the betterment of society.

Facilitators for the JAL Philosophy Session are selected from each worksite, including cockpit, cabin, maintenance airport and sales. They create educational materials at every quarter, and carry out the session for Tokyo as well as other regions nationwide occasionally.



### ● JAL Group Basic Education and Training System

The “JAL Group Medium Term Management Plan for Fiscal Years 2012–2016” identifies “Human Resources Development” as a key initiative. We established a common basic education and training system for the JAL Group in fiscal 2012 aimed at developing leadership as well as safety and service professionals. In addition to existing grade-based training, we also expanded group-wide programs such as the “open-type challenge training” and the “improve business management skill training.”

Each Group company and department conducts and continually upgrades its expert training so that employees can gain the knowledge and skills required in their respective fields.

In addition, we are addressing challenges to maximize the effectiveness of our education and training through group-wide program management by utilizing the JAL Education and Training Center, established in April 2012.

### ● JAL Group New Employee Training

For four days starting on April 1, 2014, the JAL Group held joint training for newly hired employees. With seven more companies compared to the previous year, a total of 572 new employees from 28 Group companies were gathered in Tokyo to learn about the JAL Group Corporate Policy, JAL Philosophy, and fundamental perspectives on safety and service that JAL employees must possess.



VOICE

### Conveying the Passions of the JAL Staff to New Members

**Masamitsu Narikawa**  
Domestic Flights 2nd Division  
JAL SKY Co., Ltd.

I recently assumed responsibility for leading new employee trainings and oversaw the training of 27 new employees. I wanted them to experience four unforgettable days of getting to know about the aspirations of senior employees, which they could apply to their jobs as well. To accomplish that, I collaborated with 42 other facilitators from 12 JAL Group companies in preparation for the training. While the training was underway, I conveyed our passions to the new members.

I believe my role continues after training sessions end. That's why I am committed to providing follow-up support beyond the boundaries of Group companies and departments.





## Diversity in Human Resources

### ● Group Management System

We specify the positions recognized as important for our business and management as “Group Management” and assign highly motivated employees with strong potential to these positions regardless of which Group company they have worked for. We therefore offer a program for all Group companies in which candidates for leadership roles can receive training and opportunities to enhance their abilities together and beyond the boundaries of companies. These competent, highly motivated individuals developed through our system have been fulfilling their roles with a broadening range of opportunities available to them through cross-sectional recruitment and transfers.



On the final day of the six-week workshop program, participants present their proposals outlining business problem solutions to management, including the president.

### ● Recruitment of Experienced Workers

The rapidly changing business environment of the airline industry makes it more important than ever to hold onto competent personnel who are capable of taking the lead and transforming challenges into business opportunities. Japan Airlines has therefore resumed its recruitment of experienced workers in fiscal 2013 and welcomed 59 new members to the Group. We plan to invigorate our corporate organization by leveraging the diverse experience and expertise of our human resources.

### ● Global HR Policy

We have formulated a Global HR Policy for developing and promoting human resources in accordance with the abilities, motivation and leadership qualities of each individual, regardless of the original hiring source, and have been focusing on the development of staff hired in countries or regions outside Japan. We encourage the nurturing of competent human resources from any nationality or place of residence through programs where participants gain work experience in Japan and Japanese proficiency, as well as the global training that brings together overseas hires and staff hired in Japan.

## VOICE



### Taking on Challenges with My Colleagues to Overcome National and Regional Barriers

**Sze Hunn Yap**

Marketing Strategy Research & Development Group, Marketing Department  
Japan Airlines Co., Ltd.

I came to Japan from the Singapore branch office in 2009 and was assigned to the Public Relations Department to serve as a spokesperson for overseas media. The job was tough, but I managed to fulfil my responsibilities with the help of many people both inside and outside the company. Following my transfer to the Marketing Department in 2013, I am currently working on overseas marketing strategy. I do my best to contribute to the company's future through my work, which involves formulating a growth strategy for the JAL Group, and I'm using this opportunity to develop my career. When I participated in the global training with colleagues from overseas branch offices, I felt they all had a great love for JAL regardless of their nationality, and their enthusiasm has emboldened me. JAL faces many challenges, and I am ready to face them, too, together with my colleagues.

### ● Promoting the Career Development of Women

The JAL Group has actively supported career development for women and created a working environment in which women have been achieving success in various fields. As a result, 14% of managerial positions were filled by women as of the end of fiscal 2013. However, we feel there are still opportunities for improvement. Half of all JAL Group employees are women, so it is essential to provide them with career paths that are fulfilling and enable them to participate in developing the future of the Group. We also believe that incorporating women's viewpoints into the management of our business is essential for generating new corporate value.

Promoting the career development of women has therefore been a top management priority since March 2014, and a number of initiatives have been set in place to this end. In future, we intend to raise corporate value and competitiveness by providing career development opportunities for diverse human resources toward our goal of becoming the most preferred airline in the world.

## Concrete Actions for Promoting the Career Development of Women

### ● Action 1: Flexible Working Styles and Work-Life Balance

We are introducing greater flexibility into the workplace for both men and women so that our diverse human resources can demonstrate their abilities with high efficiency. In fiscal 2014, we launched a program whereby employees can work at home one day per week, primarily for the approximately 4,000 JAL Group staff working regular shifts. We also introduced a flexible work hour system that allows full-time employees to finish work at 4 p.m. as needed.

### ● Action 2: Enhanced Career Development

Committed to placing the right talent in the right job, we have been adding more positions for women, including overseas assignments, so that they gain new experiences that can further enrich their careers. We have also introduced an open application system for selected overseas posts. To ensure successful long-term careers for women, we are expanding training programs aimed at further developing their abilities.

### ● Action 3: Creation of a Corporate Culture

We conduct middle management training aimed at creating a corporate culture where diverse human resources are cultivated. For grade-based training, we have added a session on the value of diversity and flexibility in an effort to establish a workplace environment and culture that supports the careers of diverse human resources.

### ● Action 4: Support for Balancing Work and Family

We have established a system that supports both men and women in balancing the demands of work with childcare and nursing care needs. Information on programs, role models and specific activities is provided through our corporate intranet.

- Employees can take up to three years of childcare leave. This program also allows for advancing or postponing the timing of an employee's return to work depending on specific circumstances during the leave. In fiscal 2013, 702 employees took childcare leave.
- Many employees take advantage of programs available for different situations, including exemption from late night duty, shortened working hours for childcare and a flexible work hour system.
- In addition to subsidies for hiring babysitters, our subsidy system has been expanded to cover costs for temporary childcare, monthly childcare, rented childcare items and housekeeping services.
- Nursing care leave and special carry-over holidays are available to support employees who are providing nursing care. In fiscal 2013, 62 employees took nursing care leave.

### Continued "Kurumin" Mark Certification

Following its initial certification in 2008, Japan Airlines again obtained the "Kurumin" certification mark from the Tokyo Labor Bureau in 2013. Companies formulate an "Action Plan for Enterprises" (hereafter "Action Plan") based on the "Act on Advancement of Measures to Support Raising Next-Generation Children," and the mark is awarded to companies that achieve the objectives set out in their action plans.

Under the two-year action plan that began in April 2013, we are continuing to support the parenting of children by incorporating the concept of a work-life balance.



### ● Increasing the Number of Female Managers in the JAL Group

The actions shown at left along with our merit-based appointment policy is intended to increase the number of female managers in the JAL Group to 20% from the current 14%, and the number of female managers in organizational management posts in Japan Airlines to 15% or higher\* from the current level of about 10% within the next 10 years (by the end of fiscal 2023).

\* In view of these objectives, the number of women in organizational management posts has been calculated to include managerial posts for flight operations and maintenance, which are departments primarily consisting of men.

Note: Women account for 8% of directors and 4% of executive managers at Japan Airlines Co., Ltd., as of July 2014.

# Partnership with Business Associates

We work in concert with business associates, our valued partners who help keep JAL flying, in order to provide safe and comfortable flights.

Recognizing that our flight operations, services and products are made possible through the cooperation and support of our business associates, we strive to establish solid partnerships of mutual trust, not only through fair and transparent procurement, but by maintaining a sense of gratitude.

## Fair and Transparent Procurement

When we select business associates, we take full consideration of their service and product quality, pricing and delivery times, as well as overall reliability and ongoing CSR (corporate social responsibility) efforts.

Since August 2010, we have been centralizing procurement operations in the Japan Airlines Purchasing Department. We have sought to provide excellent opportunities for business associates in Japan and abroad and to consistently maintain fair and transparent procurement practices.

Our goal for centralized procurement also includes cost reduction and standardization as well as higher efficiency in the operational process of procurement.

## Providing Safe and Comfortable Service to Passengers

To ensure the comfort of all passengers aboard our flights, we are working with our business associates to nurture a culture in which the highest priority is placed on safety while also promoting thorough quality control to offer premier hospitality.

## Promoting Procurement Activities with Due Consideration of Corporate Social Responsibility

In accordance with the Basic CSR Policy of the JAL Group, we are working with our business associates to promote procurement activities with due consideration of CSR, including legal compliance, protection of the global environment, respect for human rights, proper labor practices, fair operating practices and consumer issues.

### ► Social Data

	FY2011	FY2012	FY2013	Unit
<b>Human Resources</b>				
Consolidated Number of Employees*1	30,875	30,882	31,472	Persons
Ground Jobs	23,105	22,858	23,084	Persons
Flight Crew	2,466	2,293	2,405	Persons
Cabin Crew	5,304	5,731	5,983	Persons
Average Age*1	—	38.0	37.4	Years
Ground Jobs	—	38.4	37.5	Years
Flight Crew	—	43.1	42.1	Years
Cabin Crew	—	34.9	35.0	Years
Ratio of Men*1	56.3	53.8	53.3	%
Ratio of Women*1	43.7	46.2	46.7	%
Managerial Staff*1	15.9	15.9	15.6	%
General Staff*1	84.1	84.1	84.4	%
Ratio of Staff with Disabilities*2	1.87	1.91	2.00	%
Ratio of Female Managers*1	13.1	14.3	14.1	%
Training Period per Person	—	64.5	65.7	Hours/Person
Training Cost per Person	—	352,357	360,227	Yen/Person
Childcare Leave Applicants	751	747	702	Persons
Nursing Care Leave Applicants	55	69	62	Persons
Ratio of Local Hires at Overseas Offices*1	90.7	92.3	92.0	%
Ratio of Locally Hired Managers at Overseas Offices*1	57.9	64.7	62.1	%
<b>Community Contribution</b>				
Participation in Voluntary Activities	409	444	915	Persons
Total Hours of Voluntary Activities	1,698	1,491	3,144	Hours

\*1 As of the end of the fiscal year.

\*2 As of June 1 of the fiscal year that follows the current fiscal year.

# Third-Party Opinion

## Iwao Taka

Professor, School  
of Economics and  
Business  
Administration  
Reitaku University



The content of this year's JAL REPORT reflects an even greater emphasis on CSR than in the previous year, in which the New JAL expressed both regret and determination to customers, creditors and shareholders. This year, JAL offers a readily understandable explanation of its activities in line with the requirements of social responsibility standards under the categories of "Safety and Security," "Environment," "Bridging Japan and the World" and "Nurturing the Next Generation." I will leave the details of the Report to stand on their own merits and comment on three initiatives that I find particularly significant.

The first initiative is the "Tour for Children with Food Allergies." Food restrictions prevent children with allergies and their families from enjoying ordinary package tours. In the hope of giving them a chance to create happy memories of family trips, JAL organized a tour offering safe food throughout the entire itinerary. I can only imagine the joy felt by the families on their first trips, and I commend this effort from the bottom of my heart.

The second initiative is the Tohoku Support Project "VISIT TOHOKU!" This multifaceted effort supports the region with a broad range of content, such as expanded tour plans for regional development, local product sales, and training programs for JAL directors and employees in the affected region. Mindful of

regional expectations and ever-changing circumstances, JAL has consistently taken action by coming up with ingenious ideas for applying its corporate strengths and management resources. I highly commend this initiative as well.

The third initiative is the educational and training program for developing diverse human resources under the "JAL Group Medium Term Management Plan for Fiscal Years 2012–2016." JAL has established a JAL Philosophy Session, grade-based training, skill enhancement training and so on, that has already begun to show results. One might think there is nothing new in human resource development. One prominent characteristic in JAL's education, and a JAL Philosophy Session in particular, however, cannot be found in other companies.

Last year, I had the opportunity to observe a JAL Philosophy Session at work. The theme was "Align Mental Vectors," and the facilitator provided an introductory explanation that was outstandingly clear. I learned afterward that the facilitators meet beforehand to consider ways to explain and continuously improve the program. During the training session, participants from different lines of work were divided into discussion groups of six or seven people. Since the topic had been so well-defined by the facilitator, a lively discussion ensued. I have never witnessed a training session so full of energy – this is my honest impression.

Finally, I would like to offer my views on JAL Philosophy Sessions as an expert in corporate ethics. As I have stated above, JAL's training efforts are already paying off, and that is fine. Nevertheless, when one looks back on JAL's history, the company was gripped by a similar enthusiasm in an earlier period. According to Kuniharu Watanabe's book *Nihon Koku no Chosen (The Challenge of Japan Airlines)*, that happened during the five to six

years following the start of the "CI Movement" in 1987.

At that time, there was a sense of crisis in JAL that "employees were self-centered and dismissive of management and other departments," and so a Group-wide reform of corporate culture was launched. This movement ended in 1989 after 424 seminars, attended by over 20,000 employees. Many felt they had been given an opportunity for self-reflection through their dialog with fellow employees in other divisions. As one person involved at the time noted, "we felt we had been given a fresh start, and participating employees developed a desire to shake off the mindset of government dependency." Communication between staff in different departments declined over the years, however, due in part to the transition to a function-based organization. This led to a second "Service Improvement Movement" in the early 1990s, which cannot be termed a success, judging from the subsequent stagnation suffered by the company after 2000.

What should JAL do to avoid repeating its past mistake? I believe the only way is to have each individual, and especially those in management, accept "The Formula for Success (The Formula for Life and Work)," laid down by Chairman Emeritus Inamori, as their own credo and practice it. The formula emphasizes the importance of attitude, which is to say that "by thinking, deciding and acting for oneself, each of these elements creates who you will be tomorrow as well as the company's future." Each of you must remember to return to that point and reflect on what type of person you would like to become and what kind of JAL you would like to create. I cannot help feeling that "The Formula for Life and Work," which did not exist in past movements, holds the key to guiding JAL toward further success.

## Response to the Third-Party Opinion

Thank you so much for your thoughtful comments on our activities and for sharing your valuable insights upon the publication of JAL Report 2014.

When we relisted our shares, we were firmly resolved to always maintain our sense of gratitude for the support we have received as we strive to become a company that can contribute to society through our air transport business and be needed by society. We have therefore been conducting our CSR activities with an emphasis on efforts unique to JAL.

As noted in the Tohoku Support Project, or JAL SORAIKU, our CSR activities are characterized by the participation of very many employees. We believe this is rooted in the awareness we have been cultivating through the JAL Philosophy Session, that "Each of Us Makes JAL What It Is" and that we must "Align Mental Vectors," as well as the positive attitude described by the formula: "The Result of Life and Work = Attitude × Effort × Ability."

We will continue our efforts to contribute to society through activities that uniquely reflect JAL, while firmly keeping your point in mind as the management so we can lead by example, thinking positively and with passion about "what kind of JAL we would like to create" and taking action to create the "future JAL" together with our employees.



Hiroyuki Hioka

Executive Officer,  
General Affairs (CSR)  
Japan Airlines Co., Ltd.



18:00

Touchdown on a sunset-touched runway  
And arms raised, as if to send a sign  
“Welcome back”

# Governance

JAL REPORT 2014



# Corporate Governance

We have established and actively implement our Basic Corporate Governance Policy to enhance management transparency and monitoring.

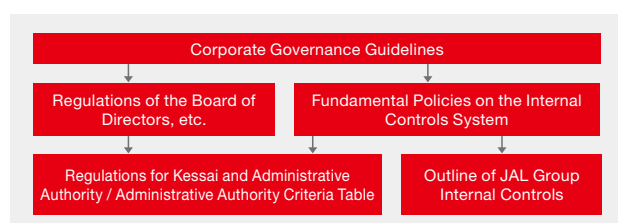
## Our Basic Corporate Governance Policy

We have established the “JAL Philosophy” under the JAL Group Corporate Policy as a set of company guidelines on proper conduct. The JAL Philosophy guides our efforts to increase corporate value and maintain accountability through a corporate governance structure that produces high management transparency and robust monitoring while also facilitating rapid, focused decision making.

The Board of Directors has established corporate governance standards by adopting Corporate Governance Guidelines as a key set of rules to supplement the Companies Act, related laws and regulations, and our own Articles of Incorporation. The Board reviews the Corporate Governance Guidelines at least once a year. Directors strive to realize our corporate policy by putting the JAL Philosophy into practice and reporting on the progress of implementing the philosophy at Board meetings.

These Corporate Governance Guidelines have been made available to the public via our website so that stakeholders—including customers—can readily refer to and understand the JAL Group’s corporate stance.

<http://www.jal.com/en/outline/corporate/governance.html>



## Board of Directors

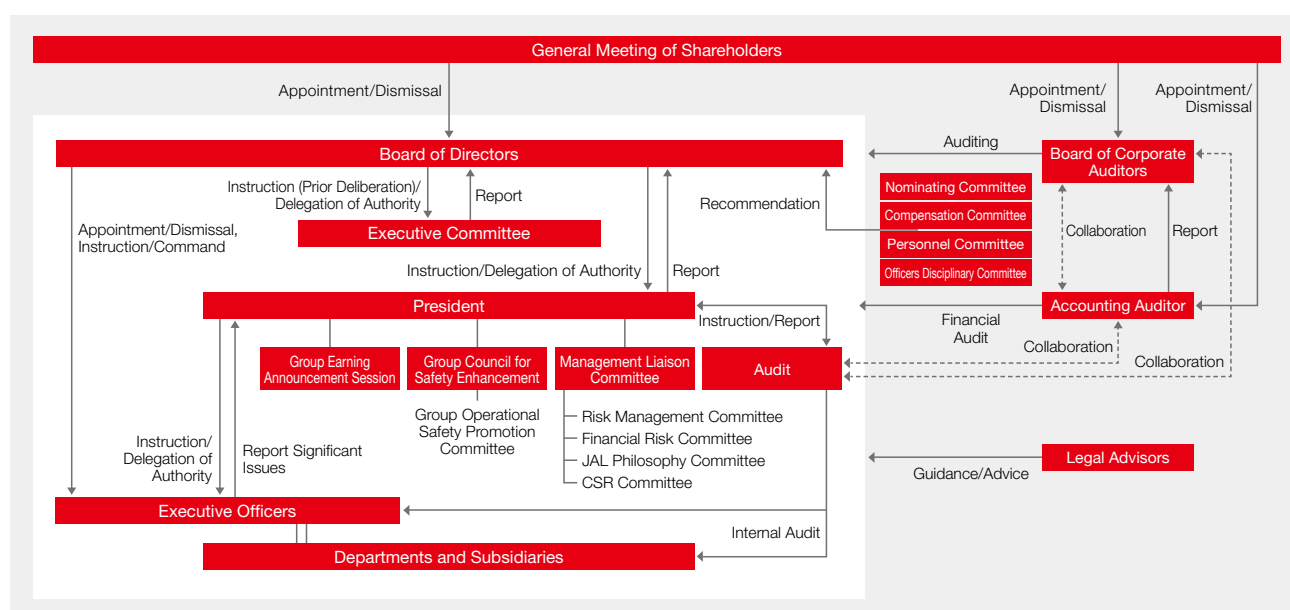
The Chairman of the Board of Directors chairs meetings of the Board to clearly separate management monitoring and business execution functions.

As of July 2014, the Board of Directors is composed of nine members, seven men and two women. We have also appointed two External Directors, Tatsuo Kainaka and Kimie Iwata. Kainaka offers a wealth of experience, accomplishments and deep insight in the areas of corporate governance and legal affairs based on extensive knowledge accumulated over his long career in the judicial system. Iwata brings a wealth of experience, accomplishments and deep insight related to supporting the professional development of women and corporate social responsibility gained through her extensive experience with government and corporate management. We believe that having both of them as External Directors provides significant benefits to JAL Group management.

Directors receive legal guidance to ensure they are aware of their formal duties, including the fiduciary duty of loyalty and the due care of a prudent manager. Directors serve one-year terms, confirming their role and accountability each fiscal year.

## Board of Corporate Auditors

As a company with auditors, we are seeking to strengthen our auditing system by appointing three External Audit and Supervisor Board Members out of a total of five auditors. External auditors are appointed on the merits of their extensive knowledge of and experience in a wide range of fields. Together with the other auditors, the external auditors work closely with the



Internal Auditing Department and corporate auditors to ensure sound management by conducting audits from a neutral and objective standpoint.

### Committees

The JAL Group has established a Nominating Committee, Compensation Committee, Personnel Committee and Officers Disciplinary Committee to enhance management transparency.

### Risk Management System

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

With respect to aviation safety, we have established a Council for JAL Group Safety Enhancement chaired by the President of Japan Airlines Co., Ltd. and composed of Directors appointed by the President and the Presidents of Group airline companies. We have also established the Operational Safety Promotion Committee under the Council for JAL Group Safety Enhancement, headed by the General Manager of Corporate Safety & Security of Japan Airlines Co., Ltd. Membership includes the Vice Presidents of the Safety Management Departments and board members in charge of safety at Group airline companies. The Operational Safety Promotion Committee monitors and evaluates the safety management system based on the status of flight operations. By formulating and evaluating the plans, policies and measures on aviation safety and making overall adjustments and offering recommendations, advice and guidance, this committee seeks to maintain and strengthen collaboration between departments and between Group airline companies on issues related to safety and enhance the level of safety.

To stabilize Group management by comprehensively managing risks other than those associated with aviation safety, which includes safety and security management, we have established the Risk Management Committee based on the JAL Group Basic Policies on Risk Management. Headed by the Executive Officer of general affairs, this committee formulates basic risk management guidelines, submits progress reports, and shares information on measures taken when risks are identified. On an annual basis, the Risk Management Committee conducts a fixed-point observation related to risks faced by each department of Japan Airlines Co., Ltd. and major Group companies. At the management level we endeavor to build a common awareness of the results of the review and policies formulated in response to the results. We also assess and analyze risks

identified by the review and provide support to responsible organizations so they can promptly implement measures to prevent risk from materializing. In dealing with specific risks that threaten our ability to fulfill our responsibility as a provider of public transportation, such as a new strain of the influenza virus or an earthquake, we have established a system that enables us to continue business in an appropriate manner under emergency situations based on guidelines set up in collaboration with regulatory bodies and other relevant institutions.

In addition, we have established an Information Security Committee headed by the Executive Officer of general affairs and Executive Officer for IT planning to strengthen our controls over personal and corporate information handled by the entire Group.

We have also established the Financial Risk Committee—headed by the Executive Officer of finance and accounting—to provide corporate management with an appropriate understanding of financial risks. The Financial Risk Committee regularly monitors the results of simulations on the financial condition of the company, estimates the potential impact of risks that may materially and quantitatively affect corporate performance, and responds to risks as necessary in tandem with the Risk Management Committee.

### Compliance System

To promote compliance with all laws, regulations and rules governing our corporate activities, we have designated the General Affairs Department of Japan Airlines Co., Ltd. to act as the supervising division for compliance issues and are making a focused effort to raise employee awareness by adopting various measures.

We have organized the JAL Group Compliance Network comprising Directors from each Group company, which seeks to enhance the compliance culture of the entire Group by promoting the prompt sharing of related information, providing e-learning and educational programs, and regularly publishing the compliance information magazine *RASHINBAN*.

A contact point has also been set up within the General Affairs Department to receive reports on legal violations from whistleblowers inside and outside the Group in an effort to gather information related to compliance.

### Internal Controls System

The JAL Group establishes the “Fundamental Policies on the Internal Controls System” according to the regulations of the Companies Act and observes these laws in order to ensure the reliability of the financial reports as well as the effectiveness and validity of our operations. The board of directors’ meeting held on March 27, 2013, decided the following “Fundamental Policies on the Internal Controls System.”

### Fundamental Policies on the Internal Controls System

#### 1. Regarding the system to ensure compliance with the Articles of Incorporation and the laws and regulations governing the execution of the duties of the director

- We established "Corporate Governance Guidelines" and set up a corporate governance system that will demonstrate high management transparency and promote a strong management monitoring function in order to ensure the proper maintenance of the internal controls system.
- We established "JAL Philosophy" as conduct guidelines of our company. The directors are encouraged to abide by these practices.
- The board of directors decides the "Fundamental Policies on the Internal Controls System," and the general affairs department promotes the maintenance of the internal controls system.
- The general affairs department supervises compliance operations and monitors the operations situation and maintenance of related regulations.
- We have set up an inspection system to ensure the duties of the directors are executed in compliance with relevant laws and regulations.

#### 2. Regarding the system related to the management and preservation of information related to the execution of the director's duties

We manage and properly preserve the information related to execution of duties according to relevant laws and regulations and company rules.

#### 3. Regarding other official regulations systems related to the management of the risk of losses

In order to manage the risk of the entire group, we have established a "Council for Safety Enhancement," a "Risk Management Committee," and a "Financial Risk Committee" to prevent losses by consistently monitoring the appropriateness of duties, establishing the "Outline of JAL Group Internal Controls," alongside managing the risks appropriately. In addition, we plan to minimize loss by corresponding on all levels when a danger of loss does happen to occur.

#### 4. Regarding the system to ensure the execution of the director's duties is effectively carried out

- We hold a monthly board of directors' meeting and additionally, hold provisional meetings when important decisions regarding group management policies and plans need to be decided. In addition, to ensure the effective execution of the directors' duties, we have installed meeting bodies such as the "Executive Committee" and "Earnings Announcements Sessions."
- In accordance with company rules, we have segregated authority in order to maintain effective execution of duties, and determined the division of duties, authority of managerial posts and authority of duties.

#### 5. Regarding the system to ensure employees execute their duties in compliance with relevant laws and regulations and the Articles of Incorporation.

- We have established "JAL Philosophy" as conduct guidelines of our company and encourage employees to put them to practice.

- The general affairs department promotes the maintenance of the internal controls system.
- The general affairs department oversees operations related to compliance and monitors the operations situation and maintenance of related official regulations.
- We have set up an inspection system to ensure the employees execute their duties in compliance with relevant laws and regulations.

#### 6. Regarding the system that ensures business appropriateness in the corporate group

We established "JAL Group Business Management Official Regulations." Each company in the group ensures that the system is used to effectively and justly carry out management based on the "JAL Philosophy." In addition, the "Outline of JAL Group Internal Controls" is enacted and continuously monitors the appropriateness of duties.

#### 7. Regarding matters related to the employees concerned in the event that auditors request that employees be appointed to assist in their duties

We appoint employees (auditing staff) to establish an organization independent from the directors to increase the effectiveness of the auditor's inspection and perform auditing duties smoothly.

#### 8. Regarding matters related to the independence of the aforementioned employees from the directors

The auditing staff is appointed with the approval of the auditors and receives instructions and orders from the auditors.

#### 9. Regarding the systems for employees and others to report to the auditors

- By establishing a corporate governance system, we strengthen the management monitoring system of directors and employees by the auditors.
- We ensure the system and the opportunity for the director and employees to appropriately report to the auditors.
- We request that auditors attend meetings of the board of directors and other important meetings, and forward important circulars to the auditors. In addition, we report the circumstances on the execution of duties and all important matters on company management and business operations to the auditors.

#### 10. Regarding the other system to ensure the effectiveness of the board of auditors and the auditors' inspection

- We establish the system in accordance with the inspection plan devised each year by the auditors in order to effectively implement the inspection.
- The directors, employees, the directors of each group and the auditing group all exchange opinions with the auditor.

\* "Employees" refers to the executive officers and trained staff.

### ► Governance Data

(As of the end of years)

	FY2011	FY2012	FY2013	Unit
<b>Governance</b>				
Executives	5	7	7	Persons
Female Directors	0	1	2	Persons
External Directors	2	2	2	Persons
Auditors	4	5	5	Persons
External Auditors	2	3	3	Persons
Executive Remuneration	—	235	294	Millions of yen
Directors Total (including external directors)	—	172	228	Millions of yen
Auditors Total (including external auditors)	—	63	66	Millions of yen

Note: There have been 9 directors (including 2 external directors) and 5 auditors (including 3 external auditors) since the 65th ordinary general meeting of shareholders held on June 18, 2014.



# Executive Officers



External Director  
**Tatsuo KAINAKA**

External Director  
**Kimie IWATA**

Director, Senior Managing  
Executive Officer  
**Tadashi FUJITA**

Director, Senior Managing  
Executive Officer  
**Hirohide KAMIKAWA**

Director, Senior Managing  
Executive Officer  
**Junko OKAWA**

Director, Senior Managing  
Executive Officer  
**Norikazu SAITO**

Director, Chairman  
**Masaru ONISHI**

Representative Director,  
President  
**Yoshiharu UEKI**

Representative Director,  
Executive Vice President  
**Nobuhiro SATO**

(As of July 1, 2014)

## Members of the Board of Directors

Director, Chairman	Masaru ONISHI	Chairman of the Board of Directors
Representative Director, President	Yoshiharu UEKI	Chairman of the Board of Managing Executive Officers, Chairman of Council for Safety Enhancement, Chairman of the JAL Philosophy Committee, Chairman of the CSR Committee
Representative Director, Executive Vice President	Nobuhiro SATO	Aide to the President, General Manager, Safety
Director, Senior Managing Executive Officer	Hirohide KAMIKAWA	General Manager, Managing Division Passenger Sales, Domestic Passenger Sales, President of JAL Sales
Director, Senior Managing Executive Officer	Junko OKAWA	Cabin Attendants
Director, Senior Managing Executive Officer	Tadashi FUJITA	Deputy General Manager, Managing Division Passenger Sales, International Passenger Sales, Web Sales, Senior Vice President, Eastern Japan
Director, Senior Managing Executive Officer	Norikazu SAITO	Finance and Accounting
External Director	Tatsuo KAINAKA	
External Director	Kimie IWATA	

## Auditors

Audit & Supervisory Board Member	Hisao TAGUCHI
Audit & Supervisory Board Member	Yasushi SUZUKA
External Audit & Supervisory Board Member	Eiji KATAYAMA
External Audit & Supervisory Board Member	Hiroyuki KUMASAKA
External Audit & Supervisory Board Member	Shinji HATTA

## Executive Officers

Senior Managing Executive Officer	Hideki KIKUYAMA	Managing Division Route Marketing
Managing Executive Officer	Shigemi KURUSU	Corporate Control
Managing Executive Officer	Toshiaki NORITA	Corporate Planning, Business Creation Strategy
Managing Executive Officer	Toshinori SHIN	Flight Operations
Managing Executive Officer	Nobuyoshi GONDO	Corporate Safety & Security
Managing Executive Officer	Kiyoshi ISHIZEKI	IT Planning
Executive Officer	Tsuyoshi YAMAMURA	Cargo & Mail
Executive Officer	Akira YONEZAWA	Managing Division Route Marketing (International Route Marketing)
Executive Officer	Toshiki OKA	Purchasing
Executive Officer	Jun KATO	Managing Division Route Marketing (Marketing & Branding)
Executive Officer	Hiroyuki HIOKA	General Affairs
Executive Officer	Tadao NISHIO	Managing Division Route Marketing (Domestic Route Marketing)
Executive Officer	Shinichiro SHIMIZU	Human Resources
Executive Officer	Hidetsugu UEDA	Human Resources in charge of Education, Vice President, Human Resources Management
Executive Officer	Tomohiro NISHIHATA	Managing Division Route Marketing (Passenger System Planning)
Executive Officer	Takahiro ABE	Airport Operations
Executive Officer	Hideki OSHIIMA	Managing Division Route Marketing (International Relations and Alliances)
Executive Officer	Yuji AKASAKA	Engineering & Maintenance, President of JAL Engineering
Executive Officer	Kiyoshi MARUKAWA	President of Japan Transocean Air
Executive Officer	Ryuzo TOYOSHIMA	President of JAL EXPRESS
Executive Officer	Tetsuya ONUKI	President of J-AIR
Executive Officer	Arata YASUJIMA	President of Japan Air Commuter
Executive Officer	Hoshiko NAKANO	Senior Vice President, Western Japan
Executive Officer	Hiroki KATO	Vice President, Haneda Airport President of JAL Sky
Executive Officer	Munemitsu ERIKAWA	Senior Vice President, China Vice President and Regional Manager, Beijing District Sales Manager, Beijing



# Financial Section

JAL REPORT 2014

20:30

From airplane windows light reaches the airport  
Behind them, thoughts of family  
The night grows darker but home is near

# Management's Discussion and Analysis

## Economic Environment

During this consolidated fiscal year (April 1, 2013 to March 31, 2014), the Japanese economy remained on a recovery track supported by an upturn in exports and the impact of various government policies that led to a rise in household income and investments, in addition to last-minute demand ahead of the increase in the consumption tax rate. Meanwhile, a downturn in overseas economies kept a lid on further growth in the domestic economy.

## The State of the JAL Group

Under these circumstances, the JAL Group did its utmost to provide customers with unparalleled service with a focus on maintaining safe operations, and heightened the profit consciousness of employees under the practice of JAL Philosophy and a divisional profitability management system. These measures are intended to further improve management efficiency and ultimately achieve the management targets set out in the JAL Group Mid-term Management Plan Rolling Plan 2013 announced on April 30, 2013.

## Consolidated Business Performance

Operating revenues for FY2013 increased by 5.7% from the previous year to 1,309.3 billion yen, mainly because of an increase in passengers on both our domestic and international routes.

While operating expenses increased by 9.5% from the previous year to 1,142.5 billion yen due to a weaker yen and other factors, we intended to restrain rising costs by further reinforcing our profit consciousness through measures such as the divisional profitability management system.

As a result, operating profit was 166.7 billion yen, with an operating profit margin of 12.7%. The EBITDAR margin was maintained at a high level of 21.5%, and unit cost was 8.8 yen.

### ► Overview of Consolidated Financial Results

(JPY Bn)

	FY2012	FY2013	% y/y
Operating Revenue	1,238.8	1,309.3	+5.7%
Air Transportation Segment	1,113.7	1,166.6	+4.8%
Operating Expense	1,043.5	1,142.5	+9.5%
Air Transportation Segment	935.2	1,017.5	+8.8%
Operating Profit	195.2	166.7	-14.6%
Air Transportation Segment	178.4	149.1	-16.4%
Operating Profit Margin (%)	15.8%	12.7%	-3.0pt
Ordinary Income	185.8	157.6	-15.2%
Net Income	171.6	166.2	-3.2%
ASK* <sup>1</sup> (Mn seat km)	81,189	83,319	+2.6%
RPK* <sup>2</sup> (Mn passenger km)	57,049	59,135	+3.7%
EBITDA Margin (%)* <sup>3</sup>	22.3%	19.1%	-3.2pt
EBITDAR Margin (%)* <sup>4</sup>	24.8%	21.5%	-3.3pt
Unit Cost (JPY)* <sup>5</sup>	8.5	8.8	+0.3
Including fuel cost	11.5	12.2	+0.7

\*1 ASK: available-seat-kilometer

\*2 RPK: revenue-passenger-kilometer

\*3 EBITDA Margin = EBITDA ÷ operating revenue,  
EBITDA = operating profit + depreciation

\*4 EBITDAR Margin = EBITDAR ÷ operating revenue,  
EBITDAR = operating profit + depreciation + aircraft leases

\*5 Unit Cost: consolidated air transportation segment cost (excluding fuel cost) ÷ ASK

Note for consolidated air transportation segment: from FY2013 the scope of consolidation was expanded from 6 air transportation companies to 32 companies by adding 26 air transportation-related companies. The figure for the previous year was calculated using the same method.



## ► Analysis of FY2013 Results

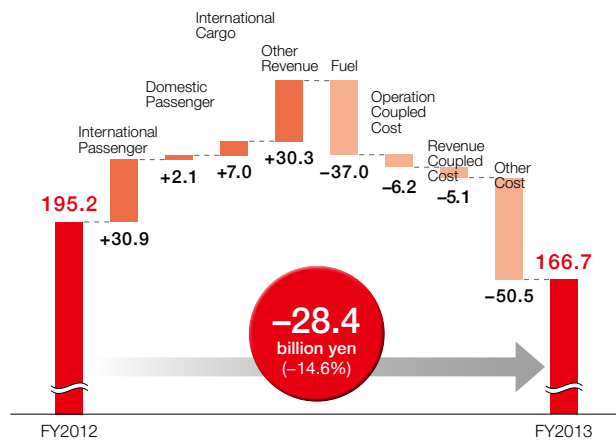
(JPY Bn)

ASK y/y: +2.6%

RPK y/y: +3.7%

Revenue +70.5 billion yen

Expenses +98.9 billion yen



## Operating Profit

Owing to a year-on-year increase in revenue of 30.9 billion yen from international flights and 2.1 billion yen from domestic flights due to a greater number of passengers, and with the addition of other revenue, aggregate revenue increased by 70.5 billion yen. As for expenses, fuel costs increased by 37.0 billion yen due to unfavorable currency markets and increased supply. While we saw rises in product and service improvement costs and in maintenance costs due to seat renovations, we kept the increase in costs at a minimum.

As a result, operating profit declined by 28.4 billion yen from the previous year to 166.7 billion yen.

## ► International Passenger Operations (Operating Results)

	FY2012	FY2013	% y/y
Passenger Revenue (JPY Bn)	406.6	437.5	+7.6%
ASK (Mn seat km)	44,745	46,235	+3.3%
RPK (Mn passenger km)	34,036	35,390	+4.0%
Passengers (thousand people)	7,525	7,723	+2.6%
L/F (%)	76.1%	76.5%	+0.5pt
Yield (JPY)*1	11.9	12.4	+3.5%
Unit Revenue (JPY)*2	9.1	9.5	+4.1%
Revenue per Passenger (JPY)*3	54,041	56,657	+4.8%

\*1 Yield = passenger revenue ÷ RPK

\*2 Unit Revenue = passenger revenue ÷ ASK

\*3 Revenue per Passenger = passenger revenue ÷ passengers

## International Passenger Operations – Operating Results and Passenger Revenue

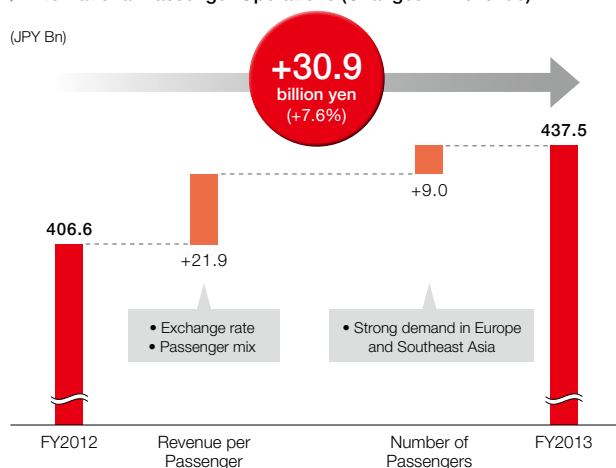
On international routes, ASK increased by 3.3% and RPK grew by 4.0% year-on-year. Our load factors rose by 0.5 points year-on-year to 76.5%. Our yield increased by 3.5% from the previous year, resulting in a 7.6% rise in passenger revenue to 437.5 billion yen.

Demand in Europe and Southeast Asia was particularly strong, resulting in load factors of 78.3% for European routes and 76.1% for Southeast Asian routes. Factors behind revenue growth in international passenger operations include an increase in inbound passengers from overseas and a rise in revenue per passenger on fares for inbound flights due to the weaker yen.

In addition, the launch of JAL SKY SUITE for more routes contributed to enhancing our load factors and yield.

## ► International Passenger Operations (Changes in Revenue)

(JPY Bn)



## Domestic Passenger Operations – Operating Results and Passenger Revenue

On domestic routes, ASK increased by 1.8%, RPK increased by 3.2% year-on-year and our load factor by 0.9 points to 64.0%.

While our yield declined by 2.6%, passenger revenue increased by 0.5% to 487.4 billion yen.

In FY2013, we enjoyed robust consumer demand resulting from our demand-stimulating promotions and group tour offerings. Particularly high demand for inbound routes from outlying regions to the Tokyo metropolitan area was generated by the 30th anniversary of Tokyo Disney Resort® as well as for routes to the San-in region following a period of renovation of the Izumo Taisha Grand Shrine in Shimane Prefecture.

We launched the “JAL Jalan Pack,” which enables customers to create their own tours by freely combining JAL air tickets with lodgings of their choice, and stimulated demand through the “Tokubin Discount 21” campaign, which also boosted revenues.

## Major Operating Expense Items

Fuel costs rose 15.0% year-on-year to 283.3 billion yen due to the weaker yen, and the exchange rate fluctuations caused fuel costs to rise by 48.2 billion yen and costs other than fuel by 19.3 billion yen, amounting to a total cost increase of 67.5 billion yen.

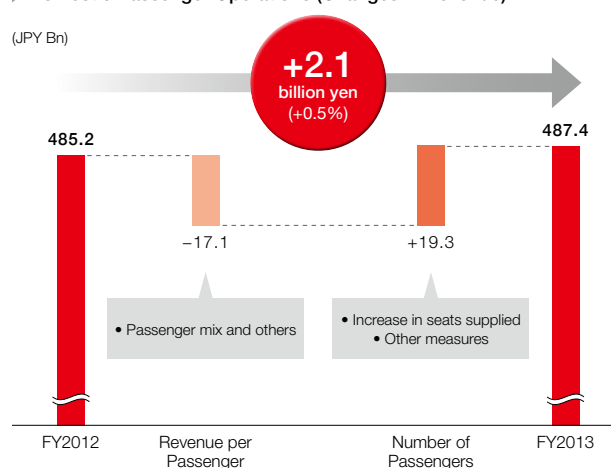
Intensive cabin renovations resulted in an increase in out-sourced maintenance cost, while personnel costs rose due to the raise in bonus levels from the previous year. In addition, there were costs related to product and service improvements and costs due to increased supply.

Sensitivity to fuel and foreign exchange was approximately 2.0 billion yen in terms of crude oil and approximately 2.5 billion yen in terms of the yen exchange rate against the U.S. dollar.

### Domestic Passenger Operations (Operating Results)

	FY2012	FY2013	% y/y
Passenger Revenue (JPY Bn)	485.2	487.4	+0.5%
ASK (Mn seat km)	36,443	37,084	+1.8%
RPK (Mn passenger km)	23,012	23,745	+3.2%
Passengers (thousand people)	30,020	31,218	+4.0%
L/F (%)	63.1%	64.0%	+0.9pt
Yield (JPY)	21.1	20.5	–2.6%
Unit Revenue (JPY)	13.3	13.1	–1.3%
Revenue per Passenger (JPY)	16,163	15,613	–3.4%

### Domestic Passenger Operations (Changes in Revenue)



### Breakdown of Operating Expenses

(JPY Bn)

	FY2012	FY2013	% y/y
Fuel	246.3	283.3	+15.0%
Landing Fees	75.1	80.2	+6.7%
Maintenance	30.4	41.1	+35.2%
Sales Commissions (Air Transport)	20.3	22.5	+10.8%
Aircraft Depreciation	60.0	62.5	+4.1%
Aircraft Leases	30.9	31.5	+1.8%
Personnel	226.7	235.2	+3.7%
Other	353.4	385.9	+9.2%
Total Operating Expenses	1,043.5	1,142.5	+9.5%

### Exchange Rates and Fuel Price

	FY2012	FY2013	% y/y
Singapore Kerosene (USD/bbl)	127.1	121.5	–4.4%
CIFJ (USD/bbl)	114.4	110.3	–3.6%
FX Rate: (JPY/USD)	82.4	99.9	+21.3%

### Fuel/FX Sensitivity (Impact on Operating Profit without Hedge)

(JPY Bn)

	FY2013
Crude Oil (Change in 1 USD/bbl)	2.0
FX (Change in 1 JPY/USD)	2.5

## Financial Conditions

(JPY Bn)

	End of FY2012	End of FY2013	Difference
Total Assets	1,216.6	1,340.1	+123.5
Cash and Deposits	347.9	368.7	+20.7
Balance of Interest-bearing Debt*1	160.1	134.2	-25.8
Off-balance Sheet Lease Payments	207.1	145.5	-61.6
Shareholders' Equity	565.0	690.2	+125.2
Shareholders' Equity Ratio	46.4%	51.5%	+5.1pt
D/E Ratio (x)*2	0.3x	0.2x	-0.1

\*1 Accounts payable – installment purchase included

\*2 Net D/E Ratio: (on-balance sheet interest-bearing debt) ÷ (shareholders' equity)

## Financial Conditions

We continued to make progress in repaying long-term loans and lease obligations, and the balance of interest bearing debts decreased by 25.8 billion yen compared to the end of the previous year to 134.2 billion yen. Off-balance sheet lease payments also decreased by 61.6 billion yen compared to the end of the previous year to 145.5 billion yen.

Our equity ratio improved by 5.1 points from the end of the previous year to 51.5%, thereby meeting our numerical target of 50% in the Mid-Term Management Plan.

## Cash Flows

(JPY Bn)

	FY2012	FY2013	Difference
Net Income before Income Taxes and Minority Interests	190.4	160.0	-30.4
Depreciation	81.0	82.7	+1.7
Other	-6.6	5.1	+11.8
Cash Flow from Operating Activities	264.8	247.9	-16.9
Capital Expenditure*1	-121.8	-164.5	-42.6
Other	-7.1	-2.1	+5.0
Cash Flow from Investing Activities*2	-129.0	-166.7	-37.6
Free Cash Flow*3	135.8	81.2	-54.5
Repayment of Interest-bearing Debt*4	-62.9	-45.9	-16.9
Other	2.3	-15.9	-18.2
Cash Flow from Financing Activities	-60.6	-61.9	-1.2
Total Cash Flow*5	75.1	19.3	-55.8
EBITDA	276.2	249.5	-26.7
EBITDAR	307.1	281.0	-26.1

\*1 Expense due to purchases of fixed assets

\*2 Excludes deposits and withdrawals from deposit accounts

\*3 Cash Flow from Operating Activities + Cash Flow from Investing Activities

\*4 Repayment of Long-term Debt + Repayment of Lease Debt

\*5 Cash Flow from Operating Activities + Cash Flow from Investing Activities + Cash Flow from Financing Activities

## Cash Flows

Net cash provided by operating activities was 247.9 billion yen. Net cash used in investing activities was 166.7 billion yen due to the purchase of new and leased aircraft, which resulted in 81.2 billion yen in free cash flow for FY2013.

Due to the decrease in long-term borrowings and leasing liabilities, net cash used in financing activities was 61.9 billion yen.

Consequently, cash flow in total was 19.3 billion yen.

## Number of Aircraft in Service (Consolidated)

(Number of aircraft)

		End of FY2012			End of FY2013			Changes
		Owned	Leased	Total	Owned	Leased	Total	
Large	Boeing 777-200	15	0	15	15	0	15	—
	Boeing 777-200ER	11	0	11	11	0	11	—
	Boeing 777-300	7	0	7	7	0	7	—
	Boeing 777-300ER	13	0	13	13	0	13	—
	Subtotal	46	0	46	46	0	46	—
Medium	Boeing 787-8	7	0	7	15	0	15	+8
	Boeing 767-300	16	0	16	15	0	15	-1
	Boeing 767-300ER	14	18	32	18	14	32	—
	Subtotal	37	18	55	48	14	62	+7
Small	MD90	2	0	2	0	0	0	-2
	Boeing 737-400	14	2	16	11	2	13	-3
	Boeing 737-800	18	31	49	21	29	50	+1
	Subtotal	34	33	67	32	31	63	-4
Regional Jet	Embraer 170	12	0	12	15	0	15	+3
	Bombardier CRJ200	9	0	9	9	0	9	—
	Bombardier D8-400	9	2	11	9	2	11	—
	SAAB340B	9	2	11	10	1	11	—
	Bombardier D8-300	1	0	1	1	0	1	—
	Bombardier D8-100	4	0	4	4	0	4	—
	Subtotal	44	4	48	48	3	51	+3
Total		161	55	216	174	48	222	+6

## Number of Aircraft in Service

The change in the number of aircraft in service was as shown in the chart at left.

# Business Risks

Risks affecting investor decisions are discussed below. However, the following list does not cover all possible circumstances that may impact the JAL Group, as unforeseen risks could arise. This section includes forward-looking statements based on judgments as of March 31, 2014. The JAL Group is exposed to these risks within its primary business operations of scheduled and unscheduled air transport services.

## **a. Risks concerning changes in the international situation**

The JAL Group transports international air passengers and air cargo mainly to North America, Europe, Asia-Oceania, and China. Air transport demand can significantly decline due to terrorist attacks, regional conflicts, wars, and outbreaks and transmission of infectious diseases. The announcement of travel advisories recommending against travel to regions of conflict or outbreaks and epidemics of infectious diseases, or widespread decisions to defer nonessential and non-urgent travel could have serious negative impacts on demand for JAL Group flights that arrive in and depart from those regions.

## **b. Risks concerning changes in the Japanese and global economy**

The JAL Group's international and domestic passenger operations significantly depend on the Japanese market. Therefore, economic trends in Japan and global economic conditions, including the European debt crisis, or a decline in air travel demand from the customer base in Japan, natural disasters, inclement weather, or other unexpected circumstances could negatively impact the JAL Group's business. Our international passenger operations in particular are vulnerable to economic conditions.

## **c. Risks concerning our mid-term and annual plans**

Although the JAL Group establishes mid-term and annual plans, various internal and external factors pose a risk to the execution of these plans. These plans are based on a number of assumptions and if they do not proceed as expected, our ability to achieve planned revenue targets and profit goals could be negatively affected. The JAL Group's mid-term and annual plans depend on effective accounting and tax systems, processing methods, and legal requirements at the time of compilation. If

these systems, methods, and requirements are changed, financial forecasts announced in the plans could be affected.

## **d. Risks concerning our aircraft delivery plans**

The JAL Group strives to build a fleet centered on new, fuel-efficient, small to mid-sized aircraft for its air transport business, and has placed orders with aircraft manufacturers such as Boeing. Any postponed delivery of aircraft due to technical, financial, or other factors involving the aircraft manufacturer could impact the JAL Group's mid- to long-term business.

## **e. Risks concerning alliances**

Developments have been underway in the airline business to form a global alliance of several airlines or to create joint businesses with partner airlines across national borders with the approval of antitrust immunity (ATI). The JAL Group is a member of the global oneworld alliance, which includes American Airlines (AA) and British Airways (BA). We have also entered into a joint business agreement with AA for transpacific routes and with BA for European routes. Our reliance on strategic partners and the oneworld alliance may expose us to a variety of risks that could affect our alliance strategies, such as changes in business conditions affecting our partners, oneworld membership, and partnerships with the JAL Group.

## **f. Risks concerning competition**

The JAL Group faces substantial and intensifying competition with respect to routes, services, and fares in both domestic and international markets.

On domestic routes, we face tough competition with another major Japanese airline, new low-cost carriers (LCCs), and the Shinkansen; competition with LCCs is particularly expected to intensify.

On international routes, competition with major Japanese and international airlines is growing increasingly fierce, which is intensifying by the increase of departure and arrival slots at Haneda and Narita airports. Alliance and codeshare partnerships are also increasing competition over international routes.

To date, the impact of LCCs has been contained within our projections. If competition with Japanese and international LCCs intensifies, however, we will be compelled to reduce our



fares. In addition, if significant numbers of customers shift from JAL Group flights to LCCs, the Group's LCC strategies as well as our business operations could be negatively affected.

Significant changes in the competitive environment and operating environment could negatively affect our business operations. In an additional note, we have established part-ownership of Jetstar Japan, an LCC established with Jetstar of Australia and another party as an affiliated company under the equity method.

#### **g. Risks concerning cost structure**

The JAL Group maintains a high unit cost (cost per ASK) compared to Asian airlines and LCCs, and our freedom to reduce costs in the face of economic conditions is severely constrained by operating expenses that are significantly determined by the costs of fuel, personnel, aircraft, and taxes. A significant decline in demand or decrease in airfares could negatively affect our business.

#### **h. Risks concerning changes in jet fuel prices**

The JAL Group's business performance is significantly affected by fuel price fluctuations. The Group's fuel costs in FY2013 were approximately 283 billion yen, accounting for approximately 25% of consolidated operating expenses. While rising fuel prices since the summer of 2004 have negatively impacted our business, severe competition in the airline industry has made it difficult to fully compensate for the higher fuel costs by increasing fares or asking customers to pay a fuel surcharge. We conduct a variety of hedging strategies using commodity derivatives of crude oil or jet fuel to minimize the risks posed by fluctuating fuel prices. Depending on our hedging positions and associated factors, a sudden plummet in the price of crude oil or jet fuel in a short period of time may not be immediately reflected in our business performance and may not contribute to improving business results.

#### **i. Risks concerning fluctuations in foreign exchange rates**

Since the JAL Group conducts extensive business in domestic and international markets, a portion of our revenue and expense transactions is handled in foreign currencies. Jet fuel prices, which account for the largest share of costs, are particu-

larly susceptible to movements in the U.S. dollar, and therefore volatility in U.S. dollar currency wields a stronger impact on expenses than revenue. To reduce risks to profitability associated with currency volatility, foreign currency revenues are essentially applied to expenditures in the same currency. We also enter into derivative contracts.

#### **j. Risks concerning disasters**

Most passengers for the JAL Group's airlines use aircraft departing and arriving at Haneda and Narita airports and therefore these two airports are central to the Group's air transport business. The Group's key information system center for aircraft operations and reservations is located in the Tokyo area, which is also home to the Operation Control Center that manages the operations and schedules of aircraft worldwide. Our business operations could be significantly affected by interruptions to the operation of this vital facility and closure of the Haneda and Narita airports due to a large earthquake in the Tokyo area, fire, terrorist attack, or other disaster, or any extended suspension of our information systems or operations functions.

#### **k. Risks concerning trust in airline safety**

The JAL Group takes action every day to ensure the safe operations of our aircraft. In the event we were to become liable for a fatal accident caused by an aircraft crash, we would not only lose customer confidence and public trust in the safety of our operations, but we would also be required to compensate for the deaths and injuries of passengers, which could consequently place us under circumstances that make it extremely difficult to continue our business. If a safety-related incident were to occur involving aircraft of the same model being deployed in our flight operations or on a codeshare flight by a partner airline, this could cause a decline in customer confidence and public trust in the safety of our operations and negatively impact our business. The Group complies with industry standards in regard to the amount and coverage of liability insurance to alleviate any damage arising from aircraft accidents and to secure compensation for accident victims.

#### **l. Risks concerning legal regulations**

The JAL Group's business complies with international regula-

tions and operates in conformance with national and regional laws, ordinances, and regulations. Significant revisions to these laws, ordinances, and regulations could increase the regulatory burden on the business and require greater expenditures.

**(a) Airworthiness directives**

If technical problems were to seriously affect the safety of aircraft operations, the Minister of Land, Infrastructure, Transport and Tourism may issue an airworthiness directive or require corrective action in accordance with laws and ordinances, and operations of the aircraft might not be approved until safety has been confirmed. Even if an airworthiness directive is not issued under laws and ordinances, there is the possibility that we would have to voluntarily suspend operation of the aircraft under internal regulations or other applicable rules. Any of these circumstances could disrupt operations of our aircraft, including the Boeing 787, which has been a priority addition to our fleet, and negatively affect our business.

**(b) Laws, ordinances, and regulations concerning the air transport business**

The JAL Group as an air transport operator conducts business in accordance with prevailing laws, ordinances, and regulations governing the airline business. On international routes, we are required to conform to conventions such as bilateral aviation agreements and other international rules. Furthermore, fares and fees in the air transport business are subject to regulation under antitrust laws and other similar overseas laws and ordinances.

**(c) Environmental regulations**

Increased awareness of corporate social responsibility for the global environment, including the prevention of global warming, has heightened environmental regulations controlling gas emissions, noise, and toxic substances. The introduction of global economic measures in the international aviation scene or a tightening of environmental regulations, such as fines for global warming gases, could

negatively affect our business.

**(d) Tax and fees**

Taxes and fees in the airline business include such expenses as landing fees and navigation support facility fees. Landing fees at some Japanese airports are subject to governmental mitigation, but depending on the financial conditions and policies of specific transport administrations, the reinstatement of landing fees that had been reduced or a substantial increase in taxes could negatively affect our business.

**m. Risks concerning litigation**

The JAL Group is currently subject to various legal proceedings concerning its business operations, which could affect our business. Suits have been filed in one or more of the following proceedings, which, depending on the specific circumstances, could negatively affect our business if additional expenditures or a reserve fund is required.

**(a) Incidents concerning employment of former employees**

In Japan, former employees filed a suit demanding confirmation of status under their labor contracts. In March 2012, the plaintiff's claims were dismissed in the Tokyo District Court, but in April 2012 the plaintiffs appealed to the Tokyo High Court, and the suits are still in litigation as of March 2014 (a decision by the appeals court is scheduled for May or June 2014). One other labor suit is still in litigation, and several suits have been filed in Brazil demanding confirmation of wages and allowances and status under the labor contract.

**(b) Incidents concerning cartels**

The JAL Group filed a suit with European and South Korean courts in January 2011 in regard to allegations of engaging in an air cargo price cartel by antitrust authorities and objecting to orders to pay a fine. A civil suit had been filed in the Netherlands against several airlines including JAL by shippers claiming that they had suffered damages from an alleged air cargo cartel. With regard to these incidents, a

reserve fund to cover reasonably calculated future losses has been established.

#### **n. Risks concerning our dependence on third parties**

The JAL Group's business to a certain extent depends on services by third parties such as maintenance staff, airport staff, aviation security agents, fuel attendants, baggage staff, and private security companies. In addition, we place orders with Boeing and Airbus for the majority of new aircraft scheduled to be introduced into our fleet. Therefore, if Boeing or Airbus cannot fulfill its contract with JAL for financial or other reasons, we will be compelled to significantly change our fleet plan, which may affect our business in the mid to long term.

#### **o. Risks concerning IT (information systems)**

The JAL Group depends on information systems for its business operations. Our information systems are vulnerable to hardware and software problems as well as computer viruses that could result in the loss of important data or entail additional costs for repairs and thereby negatively affect our business. In addition, large-scale infrastructure problems, such as a failure in the electric power system that supports our information systems, could seriously disrupt our business.

#### **p. Risks concerning financing**

The JAL Group plans to renew part of its fleet by purchasing aircraft, refurbish cabin interiors, and upgrade core systems, and may need to procure funds from financial institutions or markets to fulfill capital requirements. Our ability to procure funds and financing costs may change depending on the condition of financial markets and our credit rating. Adverse trends in financial markets, a decline in our credit rating, or a change in the system of government-affiliated financial institutions, etc., could make it difficult to procure funds, and we could suffer a decrease in cash on hand or increased financing costs that include interest rates on our existing financial liabilities.

#### **q. Risks concerning handling of customer data**

If the JAL Group experiences information leaks or unlawful ac-

cess to customer data in its possession, the Group might be obliged to provide compensation or be subjected to administrative action. If this were to happen, public trust in our business, systems, and brand could be damaged, and we could lose the trust of the customers and markets, which could negatively affect our operations, financial conditions, and business performance.

#### **r. Risks concerning recruitment**

We need to secure employees with specific qualifications, including national certifications and the skills legally required to operate aircraft, in order to conduct our business operations. Considerable time, however, is required for staff to acquire the necessary certifications and skills. Any delay in securing the necessary workforce beyond the time it is required could affect our business and operations.

#### **s. Risks concerning labor disputes**

Many Group employees belong to labor unions. An extended labor dispute involving collective action by our employees could negatively affect our aircraft operations.

# Consolidated Balance Sheets

Japan Airlines Co., Ltd. and Consolidated Subsidiaries

	Millions of yen		Thousands of U.S. dollars (Note 4)
As of March 31	2014	2013	2014
<b>ASSETS</b>			
Current assets:			
Cash and time deposits (Notes 5, 7 and 10)	¥ 368,774	¥ 347,986	\$ 3,583,113
Short-term investments in securities (Notes 5, 7, 8 and 10)	58	7	563
Notes and accounts receivable—trade (Note 7)	143,807	121,058	1,397,269
Flight equipment spare parts and supplies	20,680	22,277	200,932
Deferred income taxes (Note 12)	4,532	1,055	44,034
Other	68,082	59,727	661,504
Allowance for doubtful accounts	(926)	(764)	(8,997)
Total current assets	605,009	551,348	5,878,439
Investments in securities (Notes 6, 7, 8 and 10)	64,931	55,826	630,888
Tangible fixed assets, net:			
Flight equipment (Note 10)	447,021	385,267	4,343,383
Ground property and equipment (Note 10)	52,263	48,745	507,802
Advances on flight equipment and other purchases	61,992	70,425	602,331
Total tangible fixed assets	561,277	504,438	5,453,527
Software	47,336	40,991	459,930
Long-term loans receivable (Note 10)	10,745	13,018	104,401
Deferred income taxes (Note 12)	10,570	4,354	102,701
Asset for retirement benefits (Note 11)	275	—	2,671
Other (Note 10)	40,392	47,011	392,460
Allowance for doubtful accounts	(371)	(376)	(3,604)
Total fixed assets	735,158	665,263	7,143,004
Total assets	¥1,340,168	¥1,216,612	\$13,021,453



		Millions of yen	Thousands of U.S. dollars (Note 4)
As of March 31	2014	2013	2014
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable—trade (Note 7)	¥ 148,999	¥ 135,830	\$1,447,716
Short-term borrowings (Notes 7 and 10)	287	828	2,788
Current portion of long-term loans payable (Notes 7 and 10)	8,062	9,767	78,332
Lease payable (Notes 7 and 10)	32,455	35,801	315,342
Accounts payable—installment purchase (Notes 7 and 10)	196	240	1,904
Advances received	72,830	55,163	707,636
Reserve for reconstruction on business	332	1,184	3,225
Deferred income taxes (Note 12)	122	2,751	1,185
Asset retirement obligations (Note 20)	1,048	—	10,182
Other	69,931	71,585	679,469
Total current liabilities	334,265	313,154	3,247,813
Non-current liabilities:			
Long-term loans payable (Notes 7 and 10)	45,084	34,517	438,048
Lease payable (Notes 7 and 10)	46,996	77,592	456,626
Long-term accounts payable—installment purchase (Note 7 and 10)	1,200	1,396	11,659
Deferred income taxes (Note 12)	91	7,669	884
Accrued pension and severance costs (Note 11)	—	154,483	—
Liability for retirement benefits (Note 11)	166,643	—	1,619,150
Reserve for loss on antitrust litigation	6,352	6,466	61,717
Asset retirement obligations (Note 20)	3,356	4,271	32,607
Other	25,112	33,871	243,995
Total non-current liabilities	294,838	320,269	2,864,729
Total liabilities	629,103	633,423	6,112,543

#### Contingent liabilities (Note 18)

#### NET ASSETS (Note 13)

##### Stockholders' equity:

Common stock:			
Authorized: 350,000,000 shares in 2014 and 2013			
Issued: 181,352,000 shares in 2014 and 2013	181,352	181,352	1,762,067
Capital surplus	183,043	183,043	1,778,497
Retained earnings	332,067	198,196	3,226,457
Treasury stock, at cost: 33,659 shares in 2014 and 31,950 shares in 2013	(130)	(122)	(1,263)
Total stockholders' equity	696,332	562,469	6,765,759
Accumulated other comprehensive income			
Net unrealized gains on other securities (Note 8)	6,450	2,353	62,670
Deferred gains on hedges (Note 9)	6,887	6,603	66,916
Foreign currency translation adjustments	(5,187)	(6,378)	(50,398)
Accumulated adjustments for retirement benefits (Note 11)	(14,193)	—	(137,903)
Total accumulated other comprehensive income	(6,044)	2,578	(58,725)
Minority interests	20,775	18,141	201,855
Total net assets	711,064	583,189	6,908,900
Total liabilities and net assets	¥1,340,168	¥1,216,612	\$13,021,453

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

	Millions of yen		Thousands of U.S. dollars (Note 4)
Years ended March 31	2014	2013	2014
Operating revenues:			
Passenger:			
Domestic	¥ 487,414	¥ 485,214	\$ 4,735,853
International	437,578	406,657	4,251,632
Incidental and other revenues	384,351	346,967	3,734,463
Total operating revenues	1,309,343	1,238,839	12,721,949
Operating expenses:			
Wages, salaries and benefits	235,278	226,779	2,286,027
Aircraft fuel	283,380	246,345	2,753,400
Landing fees and other rent	80,205	75,169	779,294
Aircraft maintenance	41,147	30,439	399,795
Aircraft rent	31,509	30,941	306,150
Depreciation and amortization	82,718	81,004	803,711
Other	388,311	352,917	3,772,940
Total operating expenses	1,142,550	1,043,596	11,101,340
Operating income	166,792	195,242	1,620,598
Non-operating income (expenses):			
Interest income	784	813	7,617
Dividend income	987	563	9,589
Interest expense	(2,078)	(3,182)	(20,190)
Gain on sales of flight equipment	1,136	3,221	11,037
Loss on sales and disposal of flight equipment	(4,716)	(3,434)	(45,821)
Equity in losses of affiliates	(3,749)	(2,188)	(36,426)
Exchange gain (loss), net	1,234	(1,826)	11,989
Gain from compensation	8,411	8,674	81,723
Lease penalties	(4,554)	(2)	(44,247)
Loss on impairment of fixed assets (Note 15)	(1,497)	(1,764)	(14,545)
Write-down of flight equipment spare parts and supplies	(1,663)	(1,748)	(16,158)
Effect of change to the standard method of accounting for the projected benefit obligation (Note 11)	—	(1,472)	—
Other	(1,040)	(2,416)	(10,104)
Total non-operating income (expense)	(6,745)	(4,764)	(65,536)
Income before income taxes and minority interests	160,047	190,477	1,555,062
Income taxes—current (Note 12)	11,159	12,882	108,424
Income taxes—deferred (Note 12)	(21,498)	1,047	(208,880)
Total income taxes	(10,338)	13,929	(100,446)
Income before minority interests	170,386	176,547	1,655,518
Minority interests	4,134	4,875	40,167
Net income	166,251	171,672	1,615,342
Minority interests	4,134	4,875	40,167
Income before minority interests	170,386	176,547	1,655,518
Other comprehensive income (Note 14)			
Net unrealized gains on other securities, net of taxes	4,026	3,019	39,117
Deferred gains on hedges, net of taxes	280	1,358	2,720
Foreign currency translation adjustments	1,512	931	14,691
Share of other comprehensive income of associates accounted for using the equity method	71	1	689
Total other comprehensive income	5,891	5,310	57,238
Comprehensive income	¥ 176,277	¥ 181,857	\$ 1,712,757
Comprehensive income attribute to			
Owners of the parent	¥ 171,822	¥ 176,646	\$ 1,669,471
Minority interests	4,455	5,211	43,286

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

# Consolidated Statements of Changes in Net Assets

Japan Airlines Co., Ltd. and Consolidated Subsidiaries

	Millions of yen		Thousands of U.S. dollars (Note 4)
Years ended March 31	2014	2013	2014
<b>Stockholders' equity</b>			
Common stock:			
Balance at beginning of year	¥181,352	¥181,352	\$1,762,067
Changes during the fiscal year	—	—	—
Total changes	—	—	—
Balance at end of year	181,352	181,352	1,762,067
Capital surplus:			
Balance at beginning of year	183,043	189,901	1,778,497
Changes during the fiscal year:			
Reserve for losses	—	(6,858)	—
Total changes	—	(6,858)	—
Balance at end of year	183,043	183,043	1,778,497
Retained earnings:			
Balance at beginning of year	198,196	19,665	1,925,728
Changes during the fiscal year:			
Reserve for losses	—	6,858	—
Cash dividends	(32,379)	—	(314,603)
Net income for the fiscal year	166,251	171,672	1,615,342
Total changes	133,871	178,530	1,300,728
Balance at end of year	332,067	198,196	3,226,457
Treasury stock, at cost:			
Balance at beginning of year	(122)	—	(1,185)
Changes during the fiscal year:			
Purchases of treasury stock	(8)	(122)	(77)
Total changes	(8)	(122)	(77)
Balance at end of year	(130)	(122)	(1,263)
Total stockholders' equity:			
Balance at beginning of year	562,469	390,919	5,465,108
Changes during the fiscal year:			
Cash dividends	(32,379)	—	(314,603)
Net income for the fiscal year	166,251	171,672	1,615,342
Purchases of treasury stock	(8)	(122)	(77)
Total changes	133,863	171,550	1,300,650
Balance at end of year	¥696,332	¥562,469	\$6,765,759

	Millions of yen		Thousands of U.S. dollars (Note 4)
Years ended March 31	2014	2013	2014
<b>Accumulated other comprehensive income</b>			
Net unrealized gains (losses) on other securities, net of taxes (Note 8):			
Balance at beginning of year	¥ 2,353	¥ (661)	\$ 22,862
Changes during the fiscal year:			
Changes other than to stockholders' equity, net	4,097	3,014	39,807
Total changes	4,097	3,014	39,807
Balance at end of year	6,450	2,353	62,670
Deferred gains on hedges, net of taxes (Note 9):			
Balance at beginning of year	6,603	5,343	64,156
Changes during the fiscal year:			
Changes other than to stockholders' equity, net	283	1,260	2,749
Total changes	283	1,260	2,749
Balance at end of year	6,887	6,603	66,916
Foreign currency translation adjustments:			
Balance at beginning of year	(6,378)	(7,077)	(61,970)
Changes during the fiscal year:			
Changes other than to stockholders' equity, net	1,190	699	11,562
Total changes	1,190	699	11,562
Balance at end of year	(5,187)	(6,378)	(50,398)
Accumulated adjustments for retirement benefits			
Balance at beginning of year	—	—	—
Changes during the fiscal year:			
Changes other than to stockholders' equity, net	(14,193)	—	(137,903)
Total changes	(14,193)	—	(137,903)
Balance at end of year	(14,193)	—	(137,903)
Total accumulated other comprehensive income			
Balance at beginning of year	2,578	(2,395)	(25,048)
Changes during the fiscal year:			
Changes other than to stockholders' equity, net	(8,622)	4,974	(83,773)
Total changes	(8,622)	4,974	(83,773)
Balance at end of year	(6,044)	2,578	(58,725)
<b>Minority interests</b>			
Balance at beginning of year	18,141	25,337	176,263
Changes during the fiscal year:			
Changes other than to stockholders' equity, net	2,634	(7,196)	25,592
Total changes	2,634	(7,196)	25,592
Balance at end of year	20,775	18,141	201,855
<b>Total net assets</b>			
Balance at beginning of year	583,189	413,861	5,666,430
Changes during the fiscal year:			
Cash dividends	(32,379)	—	(314,603)
Net income for the fiscal year	166,251	171,672	1,615,342
Purchases of treasury stock	(8)	(122)	(77)
Changes other than to stockholders' equity, net	(5,988)	(2,222)	(58,181)
Total changes	127,875	169,328	1,242,469
Balance at end of year	¥711,064	¥583,189	\$6,908,900

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



# Consolidated Statements of Cash Flows

Japan Airlines Co., Ltd. and Consolidated Subsidiaries

	Millions of yen		Thousands of U.S. dollars (Note 4)
Years ended March 31	2014	2013	2014
<b>Operating activities</b>			
Income before income taxes and minority interests	¥ 160,047	¥ 190,477	\$1,555,062
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	82,718	81,004	803,711
Gain and loss on sales and disposal of fixed assets and loss on impairment of fixed assets, net	6,875	3,089	66,799
Net reversal of accrued pension and severance costs	—	(322)	—
Decrease in liability for retirement benefits	(2,129)	—	(20,685)
Interest and dividend income	(1,772)	(1,376)	(17,217)
Interest expense	2,078	3,182	20,190
Exchange loss, net	652	2,299	6,335
Equity in losses of affiliates	3,749	2,188	36,426
Increase in notes and accounts receivable—trade	(22,131)	(3,777)	(215,031)
Decrease in flight equipment spare parts and supplies	380	718	3,692
Increase in accounts payable—trade	12,883	10,405	125,174
Other	17,194	(3,366)	167,061
Subtotal	260,546	284,523	2,531,539
Interest and dividends received	2,303	1,631	22,376
Interest paid	(2,232)	(3,349)	(21,686)
Income taxes paid	(12,675)	(17,950)	(123,153)
Net cash provided by operating activities	247,941	264,853	2,409,065
<b>Investing activities</b>			
Purchases of time deposits	(471,404)	(486,697)	(4,580,295)
Proceeds from maturity of time deposits	506,867	351,303	4,924,863
Purchases of fixed assets	(164,590)	(121,894)	(1,599,203)
Proceeds from sales of fixed assets	2,893	10,200	28,109
Purchases of investments in securities	(8,176)	(20,294)	(79,440)
Proceeds from sales and maturity of investments in securities	1,206	430	11,717
Proceeds from purchase of subsidiaries resulting in change in scope of consolidation (Note 16)	145	—	1,408
Loans receivable made	(4,293)	(295)	(41,712)
Collection of loans receivable	6,138	1,791	59,638
Other	(24)	1,019	(233)
Net cash used in investing activities	(131,237)	(264,436)	(1,275,136)
<b>Financing activities</b>			
Increase in short-term borrowings, net	23	266	223
Proceeds from long-term loans	17,880	11,836	173,727
Repayment of long-term loans	(9,833)	(26,599)	(95,540)
Dividends paid	(32,283)	—	(313,670)
Dividends paid to minority interests	(1,929)	(8,177)	(18,742)
Payments for lease payable	(36,112)	(36,342)	(350,874)
Other	342	(1,625)	3,322
Net cash used in financing activities	(61,912)	(60,643)	(601,554)
Effect of exchange rate changes on cash and cash equivalents	1,045	643	10,153
Net increase (decrease) in cash and cash equivalents	55,836	(59,582)	542,518
Cash and cash equivalents at beginning of year	99,413	158,995	965,924
Increase in cash and cash equivalents by merger	2	—	19
Cash and cash equivalents at end of year (Note 5)	¥ 155,252	¥ 99,413	\$1,508,472

The accompanying notes are an integral part of these 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 as 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 over which the Company exercises significant influence in terms of their operating and financial policies have been included in the accompanying consolidated financial statements on an equity basis.

The balance sheet date of 9 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 investments in unconsolidated 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. 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 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 at March 31, 2014 and 2013 amounted to ¥297,802 million (\$2,893,528 thousand) and ¥241,914 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 as follows:

Flight equipment: from 12 to 20 years

Other: from 2 to 65 years

Effective from April 1, 2012, the Company has changed useful lives of certain aircrafts including spare parts to reviewed useful lives based on the estimated future use. As a result of this change, for the year ended March 31, 2013, operating income decreased by ¥3,452 million and income before income taxes and minority interests decreased by ¥3,192 million compared to the amounts that would have been reported if the previous methods had been applied consistently. The effects of this change in specific segments are described in the Segment Information section.

### 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 ranges principally from 5 to 7 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.

As for certain consolidated subsidiaries, finance lease transactions that do not transfer the ownership of the leased assets to the lessee contracted prior to April 1, 2008, continue to be accounted for by a method corresponding to that used for ordinary operating lease transactions.

### 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 benefit to the accounting period is based on the straight-line basis.

The unrecognized benefit obligation at transition is being amortized by the straight-line method principally over a period of 15 years.

Actuarial gain and loss are amortized by the straight-line method over a period ranging from 5 to 15 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 being 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 in order to provide for penalty and compensation potentially arising from price cartel in cargo and passenger flight.

#### **j. Reserve for Reconstruction on Business**

Reserve for reconstruction on business is made for the amount of the estimated expenses to be incurred in connection with business reconstruction including removal of existing facilities under the reorganization plan.

#### **k. Foreign Currency Translation**

Income and expenses in foreign currencies are translated at the rates prevailing at the time of the transaction. Except as noted in I. 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.

Foreign currency translation adjustments arising from the translation of assets, liabilities, revenues and expenses of foreign consolidated subsidiaries and affiliates accounted for by the equity method into yen at the applicable exchange rates at the year end are presented as foreign currency translation adjustments and minority interests in the accompanying consolidated balance sheets.

#### **l. Derivatives and Hedge Accounting**

Derivatives positions are stated at fair value.

Gain or loss on derivatives designated as hedging instruments is deferred until the gain or loss on the underlying hedged items is recognized with any unrealized gain or loss reported as a separate component of net assets, net of taxes. Foreign currency receivables and payables are translated at the applicable forward foreign exchange rates if certain conditions are met.

#### **m. Revenue Recognition**

Passenger and cargo revenues are recognized when the transportation services are rendered.

#### **n. Income Taxes**

Deferred tax assets and liabilities are recognized for expected future tax consequences attributable to temporary differences

between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis, and operating loss and tax credit carryforwards. A valuation allowance is recorded to reduce deferred tax assets to their net realizable value if it is more likely than not that some portion or all of the deferred tax asset will not be realized.

The Company and certain domestic consolidated subsidiaries adopted the Japanese consolidated corporate tax return system.

#### **o. Cash Equivalents**

Cash equivalents are defined as highly liquid, short-term investments with an original maturity of 3 months or less.

### **3. CHANGES IN ACCOUNTING POLICY**

Effective from April 1, 2012, the Company's certain domestic subsidiaries and affiliates have changed their method of depreciation based on an amendment to the Corporation Tax Act of Japan for tangible fixed assets acquired on or after April 1, 2012. The effect of this change on the consolidated operating income and income before income taxes and minority interests for the year ended March 31, 2013 was immaterial.

Effective from the year ended March 31, 2014, the Company and its consolidated domestic subsidiaries have applied the Accounting Standard for Retirement Benefits (ASBJ Statement No. 26, May 17, 2012 (hereinafter, the "Statement No. 26")) and Guidance on Accounting Standard for Retirement Benefits (ASBJ Guidance No. 25, May 17, 2012 (hereinafter, the "Guidance No. 25")) except the article 35 of the Statement No. 26 and the article 67 of the Guidance No. 25, and actuarial gains and losses and past service costs that are yet to be recognized have been recognized and the difference between retirement benefit obligations and plan assets has been recognized as a liability (asset) for retirement benefits.

In accordance with the article 37 of the Statement No. 26, the effect of the change in accounting policies arising from initial application has been recognized in accumulated adjustments for retirement benefit in accumulated other comprehensive income.

As a result of the application, accumulated other comprehensive income has decreased by ¥14,193 million (\$137,903 thousand), at the end of the current fiscal year. The effects of this change on net assets per share have decreased by ¥78.28.

#### **Accounting Standards Issued but not yet Effective**

- Accounting Standard for Retirement Benefits (ASBJ Statement No. 26, May 17, 2012)
- Guidance on Accounting Standard for Retirement Benefits (ASBJ Guidance No. 25, May 17, 2012)

##### **a. Summary**

Under the amended rule, actuarial gains and losses and past service costs that are yet to be recognized in profit or loss would be recognized within the net asset section, after adjusting for tax effects, and the deficit or surplus would be recognized as a liability or asset without any adjustments. For determining method of attributing expected benefit to periods, the Standard now allows to choose benefit formula basis, as well as straight-line basis. Method for determination of discount rate has also been amended.

##### **b. Effective dates**

Amendments relating to determination of retirement benefit obligations and current service costs are effective from the beginning of

annual periods ending on or after March 31, 2015.

c. Effect of application of the standard

As a result of the application, the beginning balance of retained earnings in the consolidated statements of changes in net assets will decrease by ¥30,965 million (\$300,864 thousand), at the beginning of the next fiscal year. In addition, operating income will increase by ¥2,301 million (\$22,357 thousand) and income before income taxes and minority interests will increase by ¥2,302 million (\$22,366 thousand), in the next fiscal year.

- Accounting Standard for Business Combinations (ASBJ Statement No. 21, September 13, 2013)
- Accounting Standard for Consolidated Financial Statements (ASBJ Statement No. 22, September 13, 2013)
- Accounting Standard for Business Divestitures (ASBJ Statement No. 7, September 13, 2013)
- Accounting Standard for Earnings Per Share (ASBJ Statement No. 2, September 13, 2013)
- Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures (ASBJ Guidance No. 10, September 13, 2013)
- Guidance on Accounting Standard for Earnings Per Share (ASBJ Guidance No. 4, September 13, 2013)

a. Summary

Under the revised accounting statements, the followings have been predominantly amended.

- (1) Accounting treatment for changes in equity of parent company to its subsidiary in case where parent company still controls its subsidiary in case of additional purchase of investment in subsidiary
- (2) Accounting treatment of acquisition related costs
- (3) Presentation of net income and change from minority interests to non-controlling stockholders' interests
- (4) Provisional accounting treatment

b. Effective dates

Effective for the beginning of annual periods ending on or after March 31, 2015. Provisional accounting treatment is effective from the beginning of annual periods ending on or after March 31, 2015.

Presentation of net income and change from minority interests to non-controlling stockholders' interests is effective from the beginning of annual periods ending on or after March 31, 2016.

c. Effect of application of the standard

The effects of adoption of these new standards are to be determined.

#### 4. U.S. DOLLAR AMOUNTS

Amounts in U.S. dollars are included solely for the convenience of the reader. A rate of JPY 102.92 = USD 1.00, the approximate exchange rate prevailing on March 31, 2014, has been used in translation. The convenience translations should not be constructed 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, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
As of March 31	2014	2013	2014
Cash and time deposits	¥ 368,774	¥ 347,986	\$ 3,583,113
Time deposits with a maturity of more than three months	(213,580)	(248,573)	(2,075,204)
Short-term investments in securities with a maturity of three months or less	58	—	563
Cash and cash equivalents	¥ 155,252	¥ 99,413	\$ 1,508,472

#### 6. INVESTMENTS IN SECURITIES OF NON-CONSOLIDATED SUBSIDIARIES AND AFFILIATES

Investments in securities of non-consolidated subsidiaries and affiliates which were included in "Investments in securities" in the consolidated balance sheets at March 31, 2014 and 2013 amounted to ¥31,227 million (\$303,410 thousand) and ¥30,329 million, respectively, and bonds of affiliates which were included in "Investments in securities" in the consolidated balance sheets at March 31, 2014 and 2013 amounted to ¥3,330 million (\$32,355 thousand) and ¥666 million, respectively.

#### 7. FAIR VALUES OF FINANCIAL INSTRUMENTS

The JAL Group manages its financial instruments to raise funds, principally for the purpose of flight equipment and facilities in accordance with management plans for air transportation, utilizing loans from financial institutions, finance lease transactions, and derivatives. Funds from short-term borrowings 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 on fluctuations of interest rates and foreign currency exchange rates, not for the purpose of speculation.

With respect to trade receivables, the JAL Group exercises due date management and outstanding balance management in accordance with internal policies. The JAL Group makes best efforts to identify and mitigate risks of bad debts from major customers with financial difficulties by periodically monitoring their credit-worthiness. Short-term investments in securities and investments in securities are composed of mainly the 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 of accounts payable-trade is 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.

In order to mitigate the risks of fluctuations in interest rates and foreign currency exchange rates on receivables and payables, the Company utilizes derivatives. The Group utilizes forward foreign currency exchange contracts to reduce the risk of foreign currency exchange rate fluctuations for specific foreign currency denominated receivables and payables, mainly for overseas travel service payables.

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 difference as of March 31, 2014 and 2013 were as follows:

Millions of yen			
As of March 31, 2014	Book value	Fair value	Differences
<b>Assets</b>			
(1) Cash and time deposits	¥368,774	¥368,774	¥ —
(2) Notes and accounts receivable—trade	143,807	143,807	—
(3) Short-term investment securities and investment securities			
(i) Investments in securities of non-consolidated subsidiaries and affiliates	13,865	12,367	(1,498)
(ii) Other investment securities	25,199	25,199	—
<b>Total</b>	<b>551,645</b>	<b>550,147</b>	<b>(1,498)</b>
<b>Liabilities</b>			
(1) Accounts payable—trade	148,999	148,999	—
(2) Short-term borrowings	287	287	—
(3) Long-term loans payable	53,146	53,146	—
(4) Lease payable	79,452	79,452	—
(5) Long-term accounts payable—installment purchase	1,396	1,396	—
<b>Total</b>	<b>283,281</b>	<b>283,281</b>	<b>—</b>
<b>Derivatives*</b>	<b>¥ 14,823</b>	<b>¥ 15,157</b>	<b>¥ 334</b>

\* Derivatives assets and liabilities are stated on a net basis, and a net liability position is enclosed in parentheses.

Thousands of U.S. dollars			
As of March 31, 2014	Book value	Fair value	Differences
<b>Assets</b>			
(1) Cash and time deposits	\$3,583,113	\$3,583,113	\$ —
(2) Notes and accounts receivable—trade	1,397,269	1,397,269	—
(3) Short-term investment securities and investment securities			
(i) Investments in securities of non-consolidated subsidiaries and affiliates	134,716	120,161	(14,554)
(ii) Other investment securities	244,840	244,840	—
<b>Total</b>	<b>5,359,939</b>	<b>5,345,384</b>	<b>(14,554)</b>
<b>Liabilities</b>			
(1) Accounts payable—trade	1,447,716	1,447,716	—
(2) Short-term borrowings	2,788	2,788	—
(3) Long-term loans payable	516,381	516,381	—
(4) Lease payable	771,978	771,978	—
(5) Long-term accounts payable—installment purchase	13,563	13,563	—
<b>Total</b>	<b>2,752,438</b>	<b>2,752,438</b>	<b>—</b>
<b>Derivatives*</b>	<b>\$ 144,024</b>	<b>\$ 147,269</b>	<b>\$ 3,245</b>

\* Derivatives assets and liabilities are stated on a net basis, and a net liability position is enclosed in parentheses.

Millions of yen			
As of March 31, 2013	Book value	Fair value	Differences
<b>Assets</b>			
(1) Cash and time deposits	¥347,986	¥347,986	¥ —
(2) Notes and accounts receivable—trade	121,058	121,058	—
(3) Short-term investment securities and investment securities			
(i) Investments in securities of non-consolidated subsidiaries and affiliates	13,359	10,415	(2,943)
(ii) Other investment securities	19,749	19,749	—
<b>Total</b>	<b>502,154</b>	<b>499,211</b>	<b>(2,943)</b>
<b>Liabilities</b>			
(1) Accounts payable—trade	135,830	135,830	—
(2) Short-term borrowings	828	828	—
(3) Long-term loans payable	44,285	44,285	—
(4) Lease payable	113,394	113,394	—
(5) Long-term accounts payable—installment purchase	1,637	1,637	—
<b>Total</b>	<b>295,975</b>	<b>295,975</b>	<b>—</b>
<b>Derivatives*</b>	<b>¥ 14,515</b>	<b>¥ 14,939</b>	<b>¥ 424</b>

\* Derivatives assets and liabilities are stated on a net basis, and a net liability position is enclosed in parentheses.

## (i) Methods of calculating the fair value of financial instruments, including securities and derivatives transactions

### Assets

- (1) Cash on hand and in banks and (2) Notes and accounts receivable—trade

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

- (3) Short-term investment securities and Investment securities

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

### Liabilities

- (1) Accounts payable—trade and (2) Short-term borrowings

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

- (3) Long-term loans payable, (4) Lease payable and (5) Long-term accounts payable – installment purchase

The fair value of long-term loans payable, lease payable 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

Millions of yen			Thousands of U.S. dollars
As of March 31	2014	2013	2014
Investments in unconsolidated subsidiaries and affiliates	¥17,362	¥16,970	\$168,694
Held-to-maturity securities	3,330	666	32,355
Other securities	5,234	5,088	50,855

The above are not included in “(3)(ii) 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**

Millions of yen				
As of March 31, 2014	Within one year	More than one year, within five years	More than five years, within ten years	More than ten years
Cash and time deposits	¥368,774	¥ —	¥ —	¥ —
Notes and accounts receivable—trade	143,807	—	—	—
Short-term investment securities and investment securities				
Held-to-maturity securities	—	—	—	3,330

Thousands of U.S. dollars				
As of March 31, 2014	Within one year	More than one year, within five years	More than five years, within ten years	More than ten years
Cash and time deposits	\$3,583,113	\$ —	\$ —	\$ —
Notes and accounts receivable—trade	1,397,269	—	—	—
Short-term investment securities and investment securities				
Held-to-maturity securities	—	—	—	32,355

Millions of yen				
As of March 31, 2013	Within one year	More than one year, within five years	More than five years, within ten years	More than ten years
Cash and time deposits	¥347,986	¥ —	¥ —	¥ —
Notes and accounts receivable—trade	121,058	—	—	—
Short-term investment securities and investment securities				
Held-to-maturity securities	—	—	—	666

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

## 8. INVESTMENT SECURITIES

No trading securities were held at March 31, 2014 and 2013. Securities classified as other securities are included in “Short-term investments in securities” and “Investments in securities” in the accompanying consolidated balance sheets.

The components of unrealized gain or loss on marketable securities classified as other securities at March 31, 2014 and 2013 were summarized as follows:

Millions of yen			
As of March 31, 2014	Acquisition costs	Carrying value	Unrealized gain (loss)
Unrealized gain:			
Stocks	¥15,595	¥24,884	¥9,289
	15,595	24,884	9,289
Unrealized loss:			
Stocks	318	314	(3)
	318	314	(3)
Total	¥15,913	¥25,199	¥9,285

Thousands of U.S. dollars			
As of March 31, 2014	Acquisition costs	Carrying value	Unrealized gain (loss)
Unrealized gain:			
Stocks	\$151,525	\$241,780	\$90,254
	151,525	241,780	90,254
Unrealized loss:			
Stocks	3,089	3,050	(29)
	3,089	3,050	(29)
Total	\$154,615	\$244,840	\$90,215

Millions of yen			
As of March 31, 2013	Acquisition costs	Carrying value	Unrealized gain (loss)
Unrealized gain:			
Stocks	¥15,799	¥19,349	¥3,549
	15,799	19,349	3,549
Unrealized loss:			
Stocks	610	400	(210)
	610	400	(210)
Total	¥16,410	¥19,749	¥3,339

Proceeds from sales of securities classified as other securities for the years ended March 31, 2014 and 2013 amounted to ¥1,190 million (\$11,562 thousand) and ¥130 million, respectively. For the years ended March 31, 2014 and 2013 the aggregate gain realized on those sales totaled ¥930 million (\$9,036 thousand) and ¥49 million, respectively, and the aggregate loss realized on those sales totaled ¥0 million (\$0 thousand) and ¥0 million, respectively.

## 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 receivable and 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. Gain and loss on hedging instruments and the assessment of hedge effectiveness, which is 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 at March 31, 2014 and 2013, which met the criteria required for the application of hedge accounting are summarized as follows:

		Millions of yen			Thousands of U.S. dollars		
As of March 31, 2014		Contract amounts			Contract amounts		
Type of derivatives	Major hedged items	Total	Maturing after 1 year	Estimate fair value	Total	Maturing after 1 year	Estimate fair value
Forward foreign currency exchange contracts:							
Buy:							
USD	Accounts payable—trade	¥ 25,976	¥ 3,047	¥ 5,255	\$ 252,390	\$ 29,605	\$ 51,059
EUR	Accounts payable—trade	3,430	—	160	33,326	—	1,554
Others	Accounts payable—trade	1,215	—	29	11,805	—	281
Currencies options:							
Buy:							
Call option	Accounts payable—trade	194,217	22,666	7,031	1,887,067	220,229	68,315
Sell:							
Put option	Accounts payable—trade	82,331	20,957	(1,151)	799,951	203,624	(11,183)
Commodity swap:							
Received variable/pay fixed	Aircraft fuel	105,640	26,964	3,364	1,026,428	261,989	32,685
Commodity options:							
Buy:							
Call option	Aircraft fuel	150,001	—	134	1,457,452	—	1,301
Method of hedge accounting: Special treatment (Note 2. I.)							
Forward foreign currency exchange contracts:							
Buy:							
USD	Accounts payable—trade	2,969	—	319	28,847	—	3,099
EUR	Accounts payable—trade	217	—	15	2,108	—	145
Others	Accounts payable—trade	157	—	(0)	1,525	—	(0)
Total			¥15,157				\$147,269

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

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

		Millions of yen		
As of March 31, 2013		Contract amounts		
Type of derivatives	Major hedged items	Total	Maturing after 1 year	Estimate fair value
Forward foreign currency exchange contracts:				
Buy:				
USD	Accounts payable—trade	¥ 41,252	¥15,757	¥ 7,381
EUR	Accounts payable—trade	2,660	—	255
Others	Accounts payable—trade	1,158	—	186
Currencies options:				
Buy:				
Call option	Accounts payable—trade	168,373	8,151	7,466
Sell:				
Put option	Accounts payable—trade	63,346	7,745	(1,930)
Commodity swap:				
Received variable/pay fixed	Aircraft fuel	99,175	25,225	919
Commodity options:				
Buy:				
Call option	Aircraft fuel	135,944	—	236
Method of hedge accounting: Special treatment (Note 2. I.)				
Forward foreign currency exchange contracts:				
Buy:				
USD	Accounts payable—trade	2,572	—	373
EUR	Accounts payable—trade	143	—	29
Others	Accounts payable—trade	94	—	21
Total			¥14,939	

## 10. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

The weighted-average interest rate for short-term borrowings outstanding at March 31, 2014 was 0.1%. Long-term debt at March 31, 2014 and 2013 consisted of the following:

	Millions of yen		Thousands of U.S. dollars	Weighted-average interest rates
As of March 31	2014	2013	2014	2014
Long-term loans:				
Current portion of long-term loans payable	¥ 8,062	¥ 9,767	\$ 78,332	1.2%
Long-term loans payable (excluding current portion) due 2015 to 2028	45,084	34,517	438,048	1.3%
Lease payable:				
Current portion of lease payable	32,455	35,801	315,342	0.1%
Lease payable (excluding current portion) due 2015 to 2024	46,996	77,592	456,626	0.2%
Long-term accounts payable – installment purchase:				
Current portion of Long-term payable – installment purchase	196	240	1,904	2.1%
Long-term accounts payable – installment purchase (excluding current portion) due 2021	1,200	1,396	11,659	2.0%
Total	¥133,995	¥159,317	\$1,301,933	

The aggregate annual maturities of long-term debt within 5 years subsequent to March 31, 2014 are summarized as follows:

Years ending March 31,	Millions of yen	Thousands of U.S. dollars
2015	¥ 40,713	\$ 395,579
2016	33,388	324,407
2017	18,537	180,110
2018	10,461	101,642
2019	7,137	69,345
2020 and thereafter	23,756	230,820
Total	¥133,995	\$1,301,933

Assets pledged as collateral at March 31, 2014 for long-term and short-term debt of ¥53,791 million (\$522,648 thousand) are flight equipment and others of ¥183,558 million (\$1,783,501 thousand). Assets pledged as collateral at March 31, 2013 for long-term and short-term debt of ¥45,112 million are flight equipment and others of ¥197,789 million.

Also included as part of pledged assets are certain assets set aside for revolving pledges on obligations accompanying syndicated loans taken out by an affiliate, Tokyo International Airport Terminal Corporation, for core business purposes. The amounts include security deposits paid to the banks regarding derivative transactions.

The Company entered into loan commitment agreements amounting to ¥50,000 million (\$485,814 thousand) with three banks. There were no loan payables outstanding at March 31, 2014 under these loan commitment agreements.

## 11. RETIREMENT BENEFIT PLANS

### Outline of Current Retirement Benefit System

An employee whose employment is terminated is entitled, in most cases, to pension annuity payments or to a lump-sum severance payment determined by reference to the employee's basic rate of pay, length of service and the conditions under which the termination occurs.

The Company and certain significant domestic consolidated subsidiaries have established contributory defined benefit pension plans such as corporate pension funds and lump-sum severance indemnity plans. In certain cases, additional severance payments may be provided.

As of March 31, 2014, the Company and 43 consolidated subsidiaries had adopted a lump-sum severance indemnity plan. Additionally, there were 3 corporate pension funds, including the Japan Airlines Welfare Pension Fund. Certain foreign subsidiaries have also established contributory defined benefit pension plans.

The Japan Airlines Welfare Pension Fund also introduced an option similar to a cash-balance plan as well as other alternatives. The JAL Group Pension Fund, which was established by certain consolidated subsidiaries, introduced a cash-balance plan option.

### For the year ended March 31, 2014

#### a. Defined benefit plans

(1) Movement in retirement benefit obligations, except plan applying the simplified method

	Millions of yen	Thousands of U.S. dollars
<b>Year ended March 31</b>	<b>2014</b>	<b>2014</b>
Balance at beginning of year	¥397,607	\$3,863,262
Service cost	10,244	99,533
Interest cost	8,119	78,886
Actuarial loss	1,454	14,127
Benefit paid	(20,966)	(203,711)
Other	(9)	(87)
Balance at end of year	¥396,449	\$3,852,011

(2) Movements in plan assets, except plan applying the simplified method

	Millions of yen	Thousands of U.S. dollars
<b>Year ended March 31</b>	<b>2014</b>	<b>2014</b>
Balance at beginning of year	¥229,229	\$2,227,254
Expected return on plan assets	3,538	34,376
Actuarial gain	2,207	21,443
Contributions paid by the employer	16,478	160,104
Benefit paid	(18,122)	(176,078)
Balance at end of year	¥233,331	\$2,267,110

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

	Millions of yen	Thousands of U.S. dollars
<b>Year ended March 31</b>	<b>2014</b>	<b>2014</b>
Balance at beginning of year	¥3,050	\$29,634
Retirement benefit cost	171	1,661
Contributions paid by the employer	(205)	(1,991)
Benefit paid	(228)	(2,215)
Decrease on partial termination of defined benefit plan	(20)	(194)
Increase by merger	464	4,508
Other	17	165
Balance at end of year	¥3,249	\$31,568

(4) Reconciliation from retirement benefit obligations and plan assets to liability (asset) for retirement benefits

	Millions of yen	Thousands of U.S. dollars
<b>Year ended March 31</b>	<b>2014</b>	<b>2014</b>
Funded retirement benefit obligations	¥299,952	\$2,914,418
Plan assets	(237,004)	(2,302,798)
	62,948	611,620
Unfunded retirement benefit obligations	103,419	1,004,848
Total net liability (asset) for retirement benefits	166,367	1,616,469
Liability for retirement benefits	166,643	1,619,150
Asset for retirement benefits	(275)	(2,671)
Total net liability (asset) for retirement benefits	¥166,367	\$1,616,469

## (5) Retirement benefit costs

	Millions of yen	Thousands of U.S. dollars
<b>Years ended March 31</b>	<b>2014</b>	<b>2014</b>
Service cost	¥10,244	\$99,533
Interest cost	8,119	78,886
Expected return on plan assets	(3,538)	(34,376)
Past service costs amortization	(18)	(174)
Net actuarial loss amortization	1,884	18,305
Amortization of unrecognized severance benefit obligation at transition	684	6,645
Retirement benefit cost based on the simplified method	171	1,661
Other	(671)	(6,519)
Subtotal	16,876	163,972
Loss on partial termination of defined benefit plan, net	25	242
Total	¥16,901	\$164,214

## (6) Accumulated adjustment for retirement benefit

	Millions of yen	Thousands of U.S. dollars
<b>As of March 31</b>	<b>2014</b>	<b>2014</b>
Past service costs that are yet to be recognized	¥ (435)	\$ (4,226)
Actuarial losses that are yet to be recognized	14,282	138,767
Unrecognized benefit obligation at transition	680	6,607
	¥14,527	\$141,148

## (7) Plan assets

<b>Years ended March 31</b>	<b>2014</b>
	%
General insurance fund	79
Bond	6
Other	15
Total	100

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.

## (8) Actuarial assumptions

The principal actuarial assumptions at March 31, 2014 (expressed as weighted averages) were as follows:

Discount rate	1.0% to 2.1%
Long-term expected rate of return	1.0% to 2.5%

### b. Defined contribution plans

The Company and its consolidated subsidiaries contributed to the total of ¥1,545 million (\$15,011 thousand) for the fiscal year ended March 31, 2014.

## For the year ended March 31, 2013

### a. Retirement Benefit Obligation

The projected benefit obligation and the funded status of the plans at March 31, 2013 were summarized as follows:

	Millions of yen
<b>As of March 31</b>	<b>2013</b>
Projected benefit obligation	¥(404,537)
Plan assets	233,109
Accrued pension and severance costs	154,483
Prepaid pension and severance costs	(892)
Net unrecognized amount	¥ (17,838)

The net unrecognized amounts at March 31, 2013 were as follows:

	Millions of yen
<b>As of March 31</b>	<b>2013</b>
Unrecognized benefit obligation at transition	¥ (1,371)
Actuarial differences	(16,920)
Past service costs	453
Net unrecognized amounts	¥(17,838)

In computing the projected benefit obligation, small companies are permitted to adopt certain simplified methods and certain subsidiaries have done so.

### b. Components of Net Periodic Retirement Benefit Expenses

The components of net periodic pension and severance costs excluding the employees' contributory portion for the years ended March 31, 2013 were as follows:

	Millions of yen
<b>As of March 31</b>	<b>2013</b>
Service cost	¥ 9,974
Interest cost on projected benefit obligation	8,312
Expected return on plan assets	(3,526)
Amortization of unrecognized severance benefit obligation at transition	685
Amortization of actuarial differences	1,599
Amortization of past service costs	(24)
Subtotal	17,021
Other	1,574
Net periodic retirement benefit expenses	18,595
Effect of changes to the standard method of accounting for the projected benefit obligation	1,472
Total	¥20,067

Special additional termination benefits paid, but not included in determining the projected benefit obligation, were charged to income when incurred. "Other" consists of contributions to defined contribution plans and lump-sum payments of retirement benefits based on an early payment scheme.

### c. Basis for Calculation of Retirement Benefit Obligations

<b>As of March 31</b>	<b>2013</b>
Periodic allocation of estimated retirement benefits	Straight-line method
Discount rates for projected benefit obligation at the end of year	1.0%–2.3%
Expected rates of return on plan assets	1.0%–2.5%



## 12. INCOME TAX

The significant components of deferred tax assets and liabilities and the related valuation allowances at March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
As of March 31	2014	2013	2014
Deferred tax assets:			
Liability for retirement benefits	¥ 57,417	¥ —	\$ 557,879
Accrued pension and severance costs	—	53,681	—
Lease payable	22,381	35,913	217,460
Deferred liability on aircraft and aircraft equipment	4,760	7,540	46,249
Accounts payable—trade	8,947	8,692	86,931
Non-recurring depreciation	3,497	2,280	33,977
Reserve for loss on antitrust litigation	2,176	2,219	21,142
Asset retirement obligations	1,513	1,514	14,700
Tax loss carryforwards	308,571	347,617	2,998,163
Other	7,755	8,524	75,349
	417,020	467,984	4,051,884
Valuation allowance	(377,712)	(439,926)	(3,669,957)
	39,307	28,058	381,917
Deferred tax liabilities:			
Leased assets	13,658	21,543	132,705
Deferred gain on hedging instruments	4,104	4,441	39,875
Net unrealized gain on other securities	3,273	1,178	31,801
Other	3,381	5,906	32,850
	24,418	33,069	237,252
Net deferred tax assets (liabilities)	¥ 14,889	¥ (5,011)	\$ 144,665

A reconciliation between the Japanese statutory income tax rate and the Company's and the consolidated subsidiaries' effective tax rates for the years ended March 31, 2014 and 2013 were as follows:

Years ended March 31	2014	2013
	%	%
Statutory rate	36.7	36.7
Equity in earnings/losses of affiliates	0.9	0.4
Changes in valuation allowance	(42.4)	(28.5)
Undistributed earnings of consolidated subsidiaries and affiliates	(1.6)	(1.0)
Other	(0.1)	(0.3)
Effective tax rate	(6.5)	7.3

Income taxes in Japan applicable to the Company and its domestic consolidated subsidiaries consist of corporation tax, inhabitants' taxes and enterprise tax. Income taxes of foreign consolidated subsidiaries are based generally on the tax rates applicable in their countries of incorporation.

On March 31, 2014, the "Act for Partial Revision of the Income Tax Act etc." (Act. No. 10 of 2014) was officially issued and, accordingly, the special Japanese reconstruction corporate tax applicable to the Company and its domestic subsidiaries will not be applied effective the year ending March 31, 2015.

Corresponding to this change, the statutory tax rate applied in calculating deferred income taxes was reduced from 36.7% to 34.3%. The effect of this change on the accompanying consolidated financial statements of the Company was immaterial.

## 13. NET ASSETS

The Companies Act of Japan (the "Act"), provides that an amount equal to at least 10% of the amount to be disbursed as distributions of capital surplus (except for distributions from additional paid-in capital) and retained earnings (except for distributions from the legal reserve) be appropriated to additional paid-in capital and the legal reserve, respectively, until the sum of additional paid-in capital and the legal reserve equals 25% of the capital stock account. Such distributions can be made at any time by resolution of the stockholders, or by the Board of Directors if certain conditions are met, but neither additional paid-in capital nor the legal reserve is available for distribution by resolution of the Board of Directors.

A company may, by a resolution of its Board of Directors, designate an amount not exceeding half of the price of new shares as additional paid-in capital, which is included in capital surplus. The maximum amount that a company can distribute as dividends is calculated based on its unconsolidated financial statements in accordance with the Act.

At the annual stockholders' meeting held on June 18, 2014, the stockholders approved cash dividends amounting to ¥29,016 million (\$281,927 thousand). Such appropriations have not been accrued in the Consolidated Financial Statement as of March 31, 2014. The total number and changes in the total number of shares of stock authorized and in issue for the year ended March 31, 2014 were as follows:

	Thousands of shares			
Year ended March 31, 2014	At April 1, 2013	Increase	Decrease	At March 31, 2014
Number of shares of stock authorized:				
Common stock	350,000	—	—	350,000
Preferred stock	50,000	—	—	50,000
Total	400,000	—	—	400,000
Number of shares of stock in issue:				
Common stock	181,352	—	—	181,352
Total	181,352	—	—	181,352
Number of shares of common stock in treasury:				
Common stock	31	1	—	33
Total	31	1	—	33

The increase in common stock in treasury of 1 thousand shares during the year ended March 31, 2014 mainly resulted from the Company's purchases of the equivalent of 1 thousand shares by affiliates accounted for by the equity method.

The total number and changes in the total number of shares of stock authorized, in issue and common stock in treasury for the year ended March 31, 2013 were as follows:

Thousands of shares				
Year ended March 31, 2013	At April 1, 2012	Increase	Decrease	At March 31, 2013
Number of shares of stock authorized:				
Common stock	225,000	125,000	—	350,000
Preferred stock	50,000	—	—	50,000
Total	275,000	125,000	—	400,000
Number of shares of stock in issue:				
Common stock	181,352	—	—	181,352
Total	181,352	—	—	181,352
Number of shares of common stock in treasury:				
Common stock	—	31	—	31
Total	—	31	—	31

The increase in common stock in treasury of 31 thousand shares during the year ended March 31, 2013 resulted from the Company's purchases of the equivalent of 31 thousand shares by affiliates accounted for by the equity method.

#### Additional Information

The Company resolved to conduct a stock split of common stock at the Board of Directors meetings held on January 31 and April 30, 2014, and amendments to the Company's Articles of Incorporation were approved at the 65th annual stockholders' meeting on June 18, 2014. Outline of stock split is as follows:

#### a. Purpose of the stock split and the partial amendment to the Company's Articles of Incorporation

The Company is aware of the general price of a stockholder's investment in companies listed on the first section of the Tokyo Stock Exchange, and will undertake a two-for-one stock split to develop an environment to make its common shares more affordable to a broader range of investors including individual investors and increase the Company's stockholder base. The Articles of Incorporation will be partially amended to implement the stock split above.

#### b. Method of stock split

- (1) The stock split will be implemented by way of a stock dividend whereby each stockholder will receive one additional share for each share owned as of the close of business on the record date, September 30, 2014. Shares which the Company refused to register in the stockholders' list (adjusted shares held by foreigners) pursuant to provisions of the Civil Aeronautics Act will also be split.
- (2) Number of shares increasing as a result of stock split  
Total number of issued shares prior to the stock split: 181,352,000 shares  
Number of shares increasing as a result of the stock split: 181,352,000 shares

Total number of issued shares after the stock split: 362,704,000 shares

Total number of authorized shares after the stock split: 750,000,000 shares

#### c. Schedule of the stock split

- (1) Official notice of record date: September 12, 2014
- (2) Record date for the stock dividend: September 30, 2014
- (3) Effective date: October 1, 2014

#### d. Per share information based on the assumption that the stock split was conducted on April 1, 2012 is as follows:

	Yen		U.S. dollars
March 31	2014	2013	2014
Net assets per share of common stock (Basic)	¥1,903.53	¥1,558.15	\$18.49
Net income per share of common stock	¥ 458.45	¥ 473.36	\$ 4.45

#### e. The content of Partial amendment to Articles of Incorporation

- (1) Total number of authorized shares of the Company will be increased from 400,000,000 shares to 750,000,000 shares, and total number of authorized shares of the Company's common stock will be increased from 350,000,000 shares to 700,000,000 shares.
- (2) Effective date: October 1, 2014.

#### 14. OTHER COMPREHENSIVE INCOME

Reclassification adjustments for each component of other comprehensive income including tax effect for the years ended March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
Years ended March 31	2014	2013	2014
Net unrealized gains on other securities, net of taxes:			
Unrealized holding gains arising during the period	¥ 5,936	¥4,189	\$ 57,675
Less: Reclassification adjustment included in net income	194	—	1,884
Pre-tax amount	6,130	4,189	59,560
Tax expense	(2,103)	(1,169)	(20,433)
Net Unrealized gains on securities, net	4,026	3,019	39,117
Deferred gains (losses) on hedges, net of taxes:			
Deferred gains (losses) during the period	13,045	3,824	126,748
Less: Reclassification adjustment included in net income	(13,033)	(1,691)	(126,632)
Pre-tax amount	11	2,133	106
Tax benefit/(expense)	268	(775)	2,603
Deferred gains (losses), net of taxes	280	1,358	2,720
Foreign currency translation adjustments:			
Translation adjustments arising during the period	1,512	931	14,691
Less: Reclassification adjustment included in net income	—	—	—
Foreign currency translation adjustments	1,512	931	14,691
Share of other comprehensive income of associates accounted for by the equity method:			
Share of other comprehensive income of associates accounted for by the equity method arising during the period	71	1	689
Total other comprehensive income	¥ 5,891	¥5,310	\$ 57,238

## 15. LOSS ON IMPAIRMENT OF FIXED ASSETS

Assets are attributed or allocated to cash generating units which generated largely independent cash flows for calculating impairment losses. 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 value 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, 2014 and 2013, respectively.

The Company and certain consolidated subsidiaries have recognized impairment losses on the following groups of assets in the accompanying consolidated statements of income and comprehensive income for the year ended March 31, 2014:

Assets utilized in the Company's and consolidated subsidiaries' operations	Groups of assets	Locations
Assets to be sold	Flight equipment	—

An impairment loss of ¥1,497 million (\$14,545 thousand) on flight equipment was recognized as non-operating expense in the accompanying consolidated statements of income and comprehensive income for the year ended March 31, 2014.

The Company and certain consolidated subsidiaries have recognized impairment losses on the following groups of assets in the accompanying consolidated statements of income and comprehensive income for the year ended March 31, 2013:

Assets utilized in the Company's and consolidated subsidiaries' operations	Groups of assets	Locations
Assets to be sold	Machinery	Ota-ku, Tokyo
Idle assets	Flight equipment	—

An impairment loss of ¥1,764 million was recognized as non-operating expense in the accompanying consolidated statements of income and comprehensive income for the year ended March 31, 2013. A breakdown of the total loss on impairment of fixed assets was as follows: ¥1,081 million on flight equipment, ¥204 million on buildings and structures, and ¥479 million on machinery.

## 16. SUPPLEMENTARY CASH FLOW INFORMATION

The assets and liabilities of a subsidiary included in consolidation following the purchase of its shares during the year ended March 31, 2014 were as follows:

Year ended March 31, 2014	Millions of yen	Thousands of U.S. dollars
Current assets	¥323	\$3,138
Fixed assets	12	116
Current liabilities	(329)	(3,196)
Non-current liabilities	(7)	(68)
Minority interests	3	29
Expenditure for purchase of shares of common stock	2	19
Gain on step acquisition	(2)	(19)
Cash and cash equivalents held by subsidiaries	(145)	(1,408)
Net proceeds	¥145	\$1,408

## 17. LEASES

### As Lessee

The following amounts represent the acquisition costs, accumulated depreciation and net book value of the leased assets at March 31, 2014 and 2013, and the related depreciation and interest expense for the periods ended March 31, 2014 and 2013, which would have been reflected in the accompanying consolidated balance sheets and the related consolidated statements of income if finance lease accounting had been applied to the finance leases currently accounted for as operating leases whose contracts were entered into prior to April 1, 2008:

	Millions of yen		
As of March 31, 2014	Acquisition cost	Less accumulated depreciation	Net book value
Flight equipment	¥ 988	¥ 939	¥49
Machinery, equipment and vehicles	118	100	17
Other	407	385	22
Total	¥1,514	¥1,424	¥89

	Thousands of U.S. dollars		
As of March 31, 2014	Acquisition cost	Less accumulated depreciation	Net book value
Flight equipment	\$ 9,599	\$ 9,123	\$476
Machinery, equipment and vehicles	1,146	971	165
Other	3,954	3,740	213
Total	\$14,710	\$13,835	\$864

	Millions of yen		
As of March 31, 2013	Acquisition cost	Less accumulated depreciation	Net book value
Flight equipment	¥ 988	¥ 840	¥148
Machinery, equipment and vehicles	1,146	996	149
Other	407	317	90
Total	¥2,542	¥2,154	¥388

	Millions of yen		Thousands of U.S. dollars
Years ended March 31	2014	2013	2014
Lease expenses	¥320	¥518	\$3,109
Depreciation equivalent	296	480	2,876
Interest equivalents	10	27	97

The present value of future rental expenses under finance leases accounted for as operating leases outstanding at March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
As of March 31	2014	2013	2014
Within 1 year	¥92	¥312	\$893
Over 1 year	2	94	19
Total	¥94	¥407	\$913

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 expense 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 year ended March 31, 2014 and 2013.

Future rental expenses under operating leases outstanding at March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
As of March 31	2014	2013	2014
Within 1 year	¥ 28,079	¥ 36,498	\$ 272,823
Over 1 year	117,398	170,276	1,140,672
Total	¥145,478	¥206,774	\$1,413,505

## 18. CONTINGENT LIABILITIES

At March 31, 2014 and 2013, contingent liabilities for guarantees, principally for employees, amounted to ¥281 million (\$2,730 thousand) and ¥341 million, respectively.

## 19. AMOUNTS PER SHARE

Basic net income per share is computed based on the net income available for distribution to or allocable to the stockholders of common stock and the weighted-average number of shares of common stock outstanding during each year. Diluted net income per share is computed based on the net income available for distribution to the stockholders 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 net income per share had not been presented for the years ended March 31, 2014 and 2013 since the Company had no equity instruments issued that had a dilutive effect on earnings per share.

	Yen		U.S. dollars
Year ended March 31	2014	2013	2014
Net income per share of common stock:			
Basic	¥916.90	¥946.71	\$8.90
Diluted	—	—	—

The following table sets forth the computation of basic net income per share of common stock and diluted net income per share of common stock for the years ended March 31, 2014 and 2013:

	Millions of yen		Thousands of U.S. dollars
Years ended March 31	2014	2013	2014
Net income (allocable to) available for stockholders of common stock:			
Net income	¥166,251	¥171,672	\$1,615,342
Appropriations for payment of preferred dividend	—	—	—
	¥166,251	¥171,672	\$1,615,342

	Thousands of shares	
Years ended March 31	2014	2013
Weighted-average number of shares of common stock outstanding	181,319	181,335

Net assets per share are computed based on the net assets available for distribution to the stockholders of common stock and the number of shares of common stock outstanding at each balance sheet date.

	Yen		U.S. dollars
As of March 31	2014	2013	2014
Net assets per share of common stock	¥3,807.05	¥3,116.30	\$36.99

## 20. ASSET RETIREMENT OBLIGATIONS

a. Asset retirement obligations recognized in the consolidated balance sheets at March 31, 2014 and 2013

The Company and its consolidated subsidiaries, in connection with some buildings and land, have entered into real estate lease contracts with terms ranging from 2 to 46 years and 2 to 46 years for the years ended March 31, 2014 and 2013, respectively. Asset retirement obligations have been recognized in respect of the obligation of the Company and its consolidated subsidiaries to the owner of the buildings and land to remove the facilities from leased real estate at the end of those contracts. The liabilities at March 31, 2014 and 2013 have been calculated with expected useful lives ranging from 2 to 46 years and 2 to 46 years, respectively, and discount rates ranging from 0.1% to 2.5% and 0.1% to 2.5%, respectively.

The following table summarizes the changes in the aggregate carrying amount of asset retirement obligations for the years ended March 31, 2014 and 2013:

	Millions of yen		Thousands of U.S. dollars
Years ended March 31	2014	2013	2014
Balance at beginning of year	¥4,271	¥3,166	\$41,498
Increase due to purchases of tangible fixed assets	111	—	1,078
Accretion due to the passage of time	61	60	592
Decrease due to settlement	(38)	(3)	(369)
Changes in estimated obligations and accretion	—	1,047	—
Balance at end of year	¥4,405	¥4,271	\$42,800

b. Asset retirement obligations not recognized in the consolidated balance sheets as of March 31, 2014 and 2013

The Company and its consolidated subsidiaries have rented lots and buildings from domestic service airports based on the permission of national property use and the real estate rental contract about national property, and have obligation to remove the facilities from leased real estate. The enterprise of the Company and its consolidated subsidiaries have a large role of public traffic, and depend on the trend of the aviation administration of a country. For this reason, the time of building withdrawal and leaving cannot be determined only by discretion of the Company and its consolidated subsidiaries about the rented airport related facilities. Moreover, since there is also no schedule of building withdrawal and leaving at present, asset retirement obligations cannot be estimated rationally. Therefore, the asset retirement obligations corresponding to the debt concerned is not added up.

## 21. SEGMENT INFORMATION

The reportable segments of the Company and its consolidated subsidiaries are components for which discrete financial information is available and whose operating results are regularly reviewed by the Board of Directors to make decisions about resource allocation and to assess performance. Air transportation

includes international and domestic passenger operations, cargo operations and other transportation services.

The accounting policies of the segments are substantially the same as those described in the significant accounting policies in Note 2. Inter-group sales are recorded at the same conditions used in transactions with third parties.

Millions of yen

Year ended March 31, 2014	Air transportation	Other	Total	Eliminations	Consolidated
Net sales					
External	¥1,048,107	¥261,236	¥1,309,343	¥ —	¥1,309,343
Intersegment	118,574	31,852	150,426	(150,426)	—
Total	1,166,681	293,089	1,459,770	(150,426)	1,309,343
Operating income	¥ 149,135	¥ 17,648	¥ 166,784	¥ 8	¥ 166,792
Assets	¥1,279,671	¥155,475	¥1,435,146	¥ (94,978)	¥1,340,168
Depreciation and amortization	¥ 80,643	¥ 2,080	¥ 82,724	¥ (5)	¥ 82,718
Impairment losses	¥ 1,497	¥ —	¥ 1,497	¥ —	¥1,497
Investments in companies accounted for using the equity method	¥ 3,121	¥ 20,613	¥ 23,735	¥ —	¥ 23,735
Capital expenditure	¥ 159,406	¥ 3,945	¥ 163,351	¥ —	¥ 163,351

Thousands of U.S. dollars

Year ended March 31, 2014	Air transportation	Other	Total	Eliminations	Consolidated
Net sales					
External	\$10,183,705	\$2,538,243	\$12,721,949	\$ —	\$12,721,949
Intersegment	1,152,098	309,483	1,461,581	(1,461,581)	—
Total	\$11,335,804	\$2,847,736	\$14,183,540	\$(1,461,581)	\$12,721,949
Operating income	\$ 1,449,038	\$ 171,472	\$ 1,620,520	\$ 77	\$ 1,620,598
Assets	\$12,433,647	\$1,510,639	\$13,944,286	\$ (922,833)	\$13,021,453
Depreciation and amortization	\$ 783,550	\$ 20,209	\$ 803,769	\$ (48)	\$ 803,711
Impairment losses	\$ 14,545	\$ —	\$ 14,545	\$ —	\$ 14,545
Investments in companies accounted for using the equity method	\$ 30,324	\$ 200,281	\$ 230,616	\$ —	\$ 230,616
Capital expenditure	\$ 1,548,834	\$ 38,330	\$ 1,587,164	\$ —	\$ 1,587,164

Up until the previous fiscal year, the Company and five consolidated subsidiaries of transport operators were reported in the reporting segment (air transport segment). However, as the cost structure of the air transport business practically covers many group company businesses relating to air transportation, the Company has decided to change the reporting segment (air transport

segment) to the Company and 31 consolidated subsidiaries, starting from the current fiscal year in order to build a more appropriate cost management system.

Segment information for the previous fiscal year has been made and disclosed, based on the categorization of reporting segment after this change.



Millions of yen

Year ended March 31, 2013	Air transportation	Other	Total	Eliminations	Consolidated
Net sales					
External	¥ 995,127	¥243,711	¥1,238,839	¥ —	¥1,238,839
Intersegment	118,576	33,942	152,519	(152,519)	—
Total	¥1,113,704	¥277,654	¥1,391,359	¥(152,519)	¥1,238,839
Operating income	¥ 178,461	¥ 17,522	¥ 195,983	¥ (741)	¥ 195,242
Assets	¥1,159,136	¥141,814	¥1,300,951	¥ (84,338)	¥1,216,612
Depreciation and amortization	¥ 79,254	¥ 1,820	¥ 81,074	¥ (70)	¥ 81,004
Impairment losses	¥ 1,764	¥ —	¥ 1,764	¥ —	¥ 1,764
Investments in companies accounted for using the equity method	¥ 2,662	¥ 20,077	¥ 22,740	¥ —	¥ 22,740
Capital expenditure	¥ 122,719	¥ 2,641	¥ 125,361	¥ (679)	¥ 124,681

As described in "Note 2. d. Tangible Fixed Assets", effective from April 1, 2012, the Company has changed useful lives of certain aircrafts including spare parts to reviewed useful lives based on the estimated future use. As a result of this change, for the year ending March 31, 2013, operating income of the air transportation segment decreased by ¥3,452 million compared to the amounts that would have been reported if the previous methods had been applied consistently.

### Information by Geographical Area

Operating revenues from overseas operations, which include international passenger and cargo services of domestic consolidated airline subsidiaries rendered during the years ended March 31, 2014 and 2013, export sales of domestic consolidated subsidiaries, and sales of consolidated subsidiaries outside Japan, for the years ended March 31, 2014 and 2013 were as follows:

Years ended March 31	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Asia and Oceania	¥235,696	¥222,244	\$2,290,089
North America	171,803	156,046	1,669,286
Europe	99,918	90,571	970,831
Total	¥507,418	¥468,861	\$4,930,217

Information about amortization and unamortized balances of goodwill by segment for the years ended March 31, 2014 and 2013 were as follows:

Millions of yen

Year ended March 31, 2014	Air transportation	Other	Total	Eliminations	Consolidated
Amortization during the year	¥ —	¥ 852	¥ 852	¥ —	¥ 852
Unamortized balance	—	2,154	2,154	—	2,154

Thousands of U.S. dollars

Year ended March 31, 2014	Air transportation	Other	Total	Eliminations	Consolidated
Amortization during the year	\$ —	\$ 8,278	\$ 8,278	\$ —	\$ 8,278
Unamortized balance	—	20,928	20,928	—	20,928

Millions of yen

Year ended March 31, 2013	Air transportation	Other	Total	Eliminations	Consolidated
Amortization during the year	¥ —	¥ 836	¥ 836	¥ —	¥ 836
Unamortized balance	—	3,004	3,004	—	3,004

## 22. RELATED PARTY INFORMATION

There are no material transactions that need to be presented for the years ended March 31, 2014 and 2013.

# 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, 2014 and 2013, 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 misstatements, 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 judgement, 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 the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the 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, 2014 and 2013, 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, 2014 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.

KPMG AZSA LLC  
June 19, 2014  
Tokyo, Japan

# Consolidated Subsidiaries

## ► Number of Group Companies

Business Segment	Number of Subsidiaries	Consolidated Subsidiaries	Affiliated Companies	Equity Method Affiliates
Air Transport Business	33	31	3	3
Other	62	29	56	9
Group Total	95	60	59	12

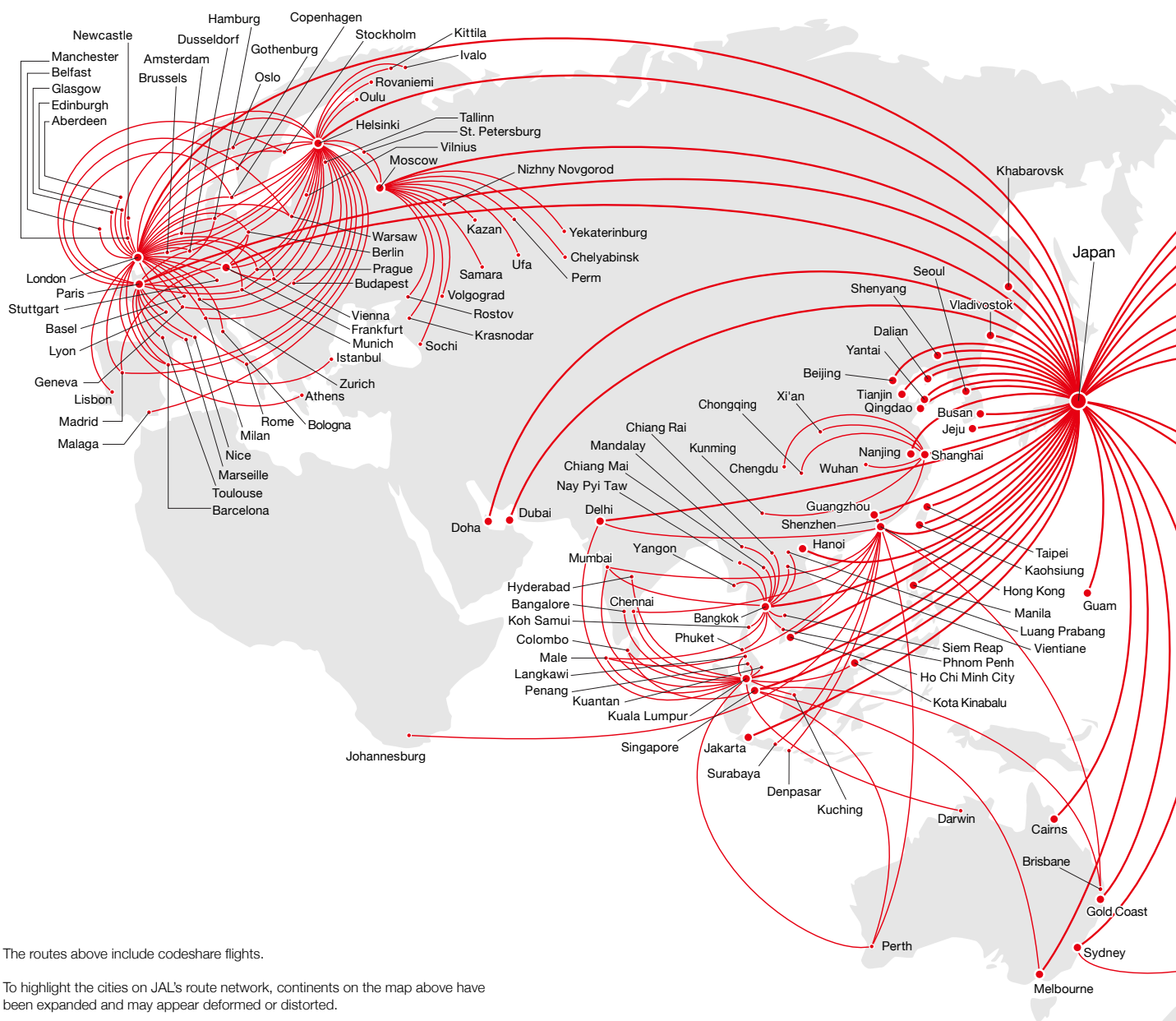
Segment	Company Name	Paid-in Capital (Millions of yen)		Ratio of Voting Rights		
				Direct (%)	Indirect (%)	Total (%)
Air Transport Business						
Air Transport Business	JAPAN TRANSOCEAN AIR CO., LTD.	4,537		72.8	—	72.8
	JAL EXPRESS CO., LTD.	2,500		100.0	—	100.0
	JAPAN AIR COMMUTER CO., LTD.	300		60.0	—	60.0
	J-AIR CO., LTD.	200		100.0	—	100.0
	RYUKYU AIR COMMUTER CO., LTD.	396		—	74.5	74.5
Airport Passenger Handling	JAL SKY CO., LTD.	100		100.0	—	100.0
	JALSKY OSAKA CO., LTD.	30		100.0	—	100.0
	JALSKY KYUSHU CO., LTD.	30		100.0	—	100.0
	JALSKY SAPPORO CO., LTD.	30		100.0	—	100.0
	JALSKY NAHA CO., LTD.	30		51.0	49.0	100.0
	JTA SOUTHERN SKY SERVICE CO., LTD.	20		—	100.0	100.0
	JALSKY KANAZAWA CO., LTD.	10		100.0	—	100.0
	JALSKY SENDAI CO., LTD.	10		100.0	—	100.0
Ground Handling	JAL GROUND SERVICE CO., LTD.	474		99.8	0.2	100.0
	JAL GROUND SERVICE TOKYO CO., LTD.	20		—	100.0	100.0
	JAL GROUND SERVICE OSAKA CO., LTD.	10		—	100.0	100.0
	JAL GROUND SERVICE KYUSHU CO., LTD.	10		—	100.0	100.0
	JAL GROUND SERVICE SAPPORO CO., LTD.	10		—	97.7	97.7
	OKINAWA AIRPORT SERVICE CO., LTD.	33		70.6	29.4	100.0
Maintenance	JAL ENGINEERING CO., LTD.	80		100.0	—	100.0
	JAL MAINTENANCE SERVICE CO., LTD.	10		100.0	—	100.0
Cargo	JAL KANSAI AIRCARGO SYSTEM CO., LTD.	123		69.2	—	69.2
	JAL CARGO SERVICE CO., LTD.	50		100.0	—	100.0
	JAL CARGO HANDLING CO., LTD.	50		—	100.0	100.0
	JAL CARGO SERVICE KYUSHU CO., LTD.	20		40.0	40.0	80.0
Passenger Sales	JAL NAVIA CO., LTD.	50		100.0	—	100.0
	JAL MILEAGE BANK CO., LTD.	40		100.0	—	100.0
Airport-Related Business	JAL ROYAL CATERING CO., LTD.	2,700		51.0	—	51.0
Airport Passenger Handling	JAL HAWAII, INC.	USD 1,000	100	—	100.0	100.0
Passenger Sales	JAL PASSENGER SERVICES AMERICA INC.	USD 1,000	205	—	100.0	100.0
Other	PACIFIC INVESTMENT HOLDINGS CORP.	USD 1,000	59,701	100.0	—	100.0
Other						
Maintenance	JAL AIRTECH CO., LTD.	315		66.6	3.4	70.0
	JAL SIMULATOR ENGINEERING CO., LTD.	10		100.0	—	100.0
Passenger Sales	JALPAK CO., LTD.*1	80		96.4	1.2	97.7
	JAL SALES CO., LTD.	460		100.0	—	100.0
	JAL JTA SALES CO., LTD.	30		16.7	83.3	100.0
Airport-Related Business	OKINAWA FUELING FACILITIES CO., LTD.	100		40.0	20.0	60.0
	JAL ABC, INC.	100		51.0	—	51.0
Other	JAL INFORMATION TECHNOLOGY CO., LTD.	702		100.0	—	100.0
	AXESS INTERNATIONAL NETWORK, INC.	700		100.0	—	100.0
	JAL AEROPARTS CO., LTD.	490		100.0	—	100.0
	JALCARD, INC.	360		50.6	—	50.6
	JAL FACILITIES CO., LTD.	180		85.0	—	85.0
	JAL BRAND COMMUNICATIONS CO., LTD.	100		100.0	—	100.0
	JTA INFORMATION & COMMUNICATION CO., LTD.	50		—	100.0	100.0
	JAL SUNLIGHT CO., LTD.	20		100.0	—	100.0
	OFFICIAL FILING CO., LTD.	10		50.0	4.0	54.0
Cargo	JUPITER GLOBAL LTD.	HKD 1,000	1,960	46.4	4.6	51.0
Passenger Sales	JALPAK INTERNATIONAL HAWAII, INC.	USD 1,000	1,000	—	100.0	100.0
	JALPAK INTERNATIONAL (CHINA) CO., LTD.	USD 1,000	600	—	100.0	100.0
	JALPAK INTERNATIONAL (EUROPE) B.V.	EUR 1,000	1,600	—	100.0	100.0
	JALPAK INTERNATIONAL (FRANCE) S.A.S.	EUR 1,000	160	—	100.0	100.0
	JALPAK INTERNATIONAL (GERMANY) GMBH	EUR 1,000	102	—	100.0	100.0
	EURO-CREATIVE TOURS (U.K.) LTD.	GBP 1,000	100	—	100.0	100.0
	JALPAK INTERNATIONAL ASIA PTE. LTD.	SGD 1,000	146	—	100.0	100.0
	JAL SATELLITE TRAVEL CO., LTD.	HKD 1,000	750	—	100.0	100.0
	PT. TAURINA TRAVEL DJAYA*2	IDR 1,000	500,000	—	49.0	49.0
	JLC INSURANCE CO., LTD.	USD 1,000	2,000	100.0	—	100.0
Other	PACIFIC BUSINESS BASE, INC.	USD	400	100.0	—	100.0
	JAL AIRLINES MANAGEMENT CORP.	USD	93	—	100.0	100.0

\*1 Operating revenue (excluding operating revenue between consolidated subsidiaries) of JALPAK CO., LTD. accounts for over 10% of consolidated operating revenue.

\*2 Although JAL's ownership is 50% or less, the company is considered a subsidiary because JAL exerts effective control.

# International Routes

(Schedule for Summer 2014)







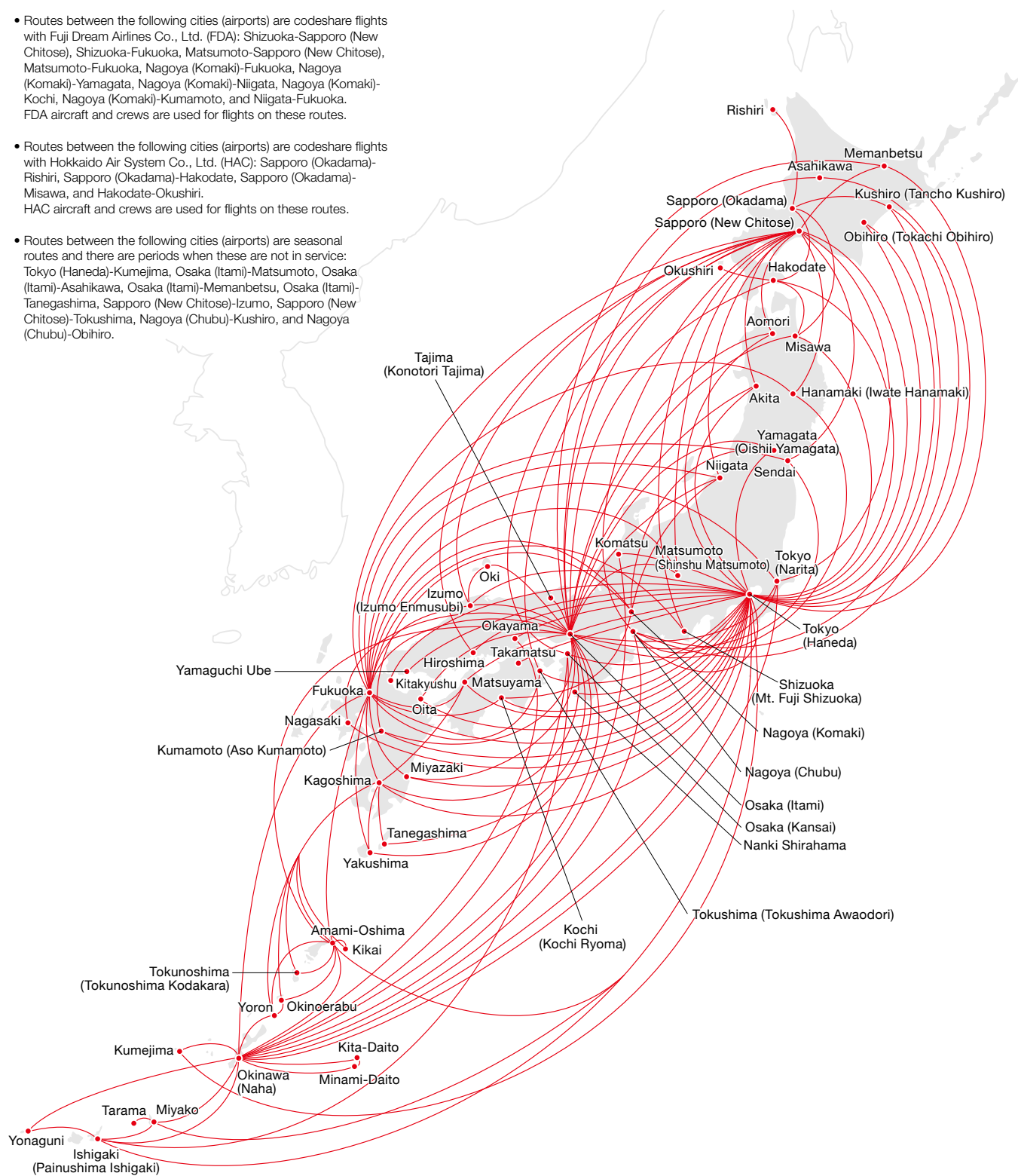
# Domestic Routes

(Schedule for Summer 2014)

- Routes between the following cities (airports) are codeshare flights with Fuji Dream Airlines Co., Ltd. (FDA): Shizuoka-Sapporo (New Chitose), Shizuoka-Fukuoka, Matsumoto-Sapporo (New Chitose), Matsumoto-Fukuoka, Nagoya (Komaki)-Fukuoka, Nagoya (Komaki)-Yamagata, Nagoya (Komaki)-Niigata, Nagoya (Komaki)-Kochi, Nagoya (Komaki)-Kumamoto, and Niigata-Fukuoka. FDA aircraft and crews are used for flights on these routes.

- Routes between the following cities (airports) are codeshare flights with Hokkaido Air System Co., Ltd. (HAC): Sapporo (Okadama)-Rishiri, Sapporo (Okadama)-Hakodate, Sapporo (Okadama)-Misawa, and Hakodate-Okushiri. HAC aircraft and crews are used for flights on these routes.

- Routes between the following cities (airports) are seasonal routes and there are periods when these are not in service: Tokyo (Haneda)-Kumejima, Osaka (Itami)-Matsumoto, Osaka (Itami)-Asahikawa, Osaka (Itami)-Memanbetsu, Osaka (Itami)-Tanegashima, Sapporo (New Chitose)-Izumo, Sapporo (New Chitose)-Tokushima, Nagoya (Chubu)-Kushiro, and Nagoya (Chubu)-Obihiro.



# Shareholder Information

<b>Fiscal Year</b>	From April 1 through March 31 of the following year
<b>General Meeting of Shareholders</b>	Within 3 months after March 31
<b>Record Date</b>	March 31
<b>Record Date for Dividend Payment</b>	March 31
<b>Trading Unit</b>	100 shares
<b>Repurchase of Odd-lot Shares</b>	
• Location of Handling Office	Mitsubishi UFJ Trust and Banking Corporation, Stock Transfer Agency Division 4-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo
• Administrator of Shareholder Registry:	Mitsubishi UFJ Trust and Banking Corporation 4-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo
• Intermediary Offices	—
• Negotiating Commission	Free of charge

## Method of Public Notice

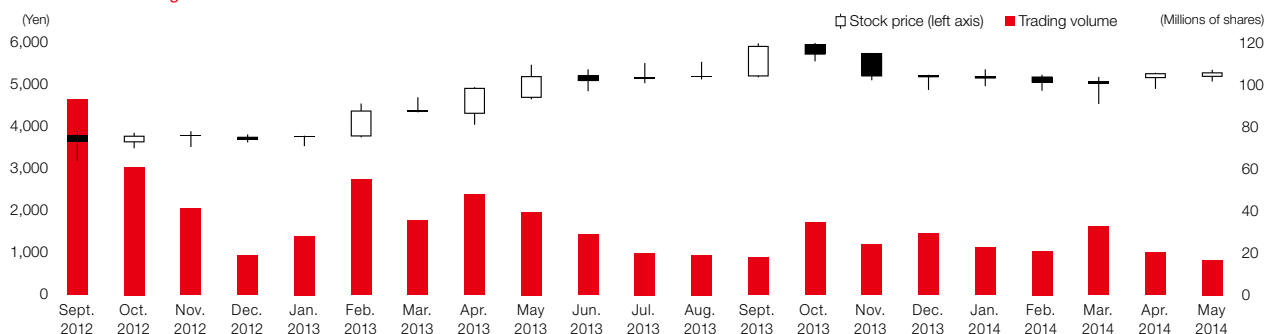
The Company will publish notices electronically. If by accident or other unavoidable circumstance the Company is unable to publish a public notice electronically, it will publish the notice in the *Nihon Keizai Shimbun*, issued in the Tokyo area.

## Restrictions on the Entry or Recording of Foreign Entities in the Shareholder Registry

In relation to Article 120-2 of the Civil Aeronautics Act, the Company has included the following provisions in its Articles of Incorporation.

- Article 12 In the event that complying with a request by any of the entities listed below to enter or record their name and address in the Company's shareholder registry would result in the total voting rights held by the below entities to exceed one third of the Company's voting rights, the Company shall refuse to enter or record the name or address in the shareholder registry.
- (1) Non-Japanese nationals
  - (2) Foreign public organizations and similar establishments in foreign states
  - (3) Juridical persons and other organizations established in accordance with foreign laws
2. With respect to shareholders notified by the Book Entry Transfer Institution under the Law Concerning Book-Entry Transfer of Corporate Bonds, Shares, etc., Article 151-1 or Article 151-8, in the event that entering or recording the entire shareholdings of entities listed above would result in the total voting rights held by these entities to exceed one third of the Company's voting rights, the Company shall enter or record a portion of the shares in the shareholder registry in accordance with procedures for entering and recording information in the shareholder registry as designated by the Ministry of Land, Infrastructure, Transport and Tourism in order to ensure that the total voting rights held by the above entities does not exceed one third of the Company's voting rights.

## Stock Price and Trading Volume



## Major Shareholders

	Number of Shares Held	Ratio of Shareholding (%)
The Master Trust Bank of Japan, Ltd. (trust account)	8,517,100	4.69
Japan Trustee Services Bank, Ltd. (trust account)	5,914,000	3.26
State Street Bank and Trust Co. (Standing proxy: The Hongkong and Shanghai Banking Corporation Limited, Tokyo Branch)	4,682,100	2.58
MSCO Customer Securities (Standing proxy: Morgan Stanley MUFG Securities Co., Ltd.)	3,833,200	2.11
Kyocera Corp.	3,819,200	2.10
Daiwa Securities Group Inc.	2,500,000	1.37
Goldman, Sachs & Co., REG (Standing proxy: Goldman Sachs Securities Japan)	2,237,100	1.23
Japan Trustee Services Bank, Ltd. (trust account 1)	2,097,200	1.15
Morgan Stanley MUFG Securities Co., Ltd.	1,932,611	1.06
The Bank of New York, Non-Treaty JASDEC Account (Standing proxy: The Bank of Tokyo-Mitsubishi UFJ, Ltd.)	1,914,600	1.05

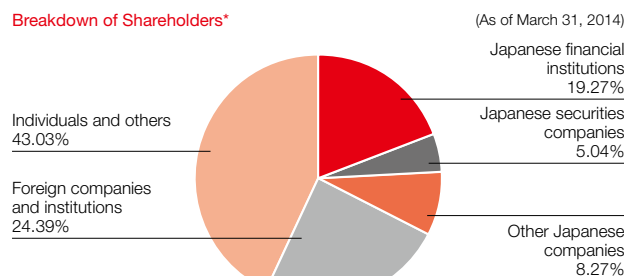
## Disclaimer

Unless specifically dealing with matters of historical fact, the plans, forecasts and strategies described in this document represent estimates of future results based on the information available at the time of writing, but are inherently subject to risks and uncertainties. These risks and uncertainties may result in divergence between actual results and the forecasts and estimates contained herein. Risks and uncertainties include but are not limited to market risks, rising fuel costs, changes in the exchange rate between the Japanese yen and the US dollar and other currencies, acts of terrorism and war, contagion, and other risks inherent in the airline business. Information contained herein regarding companies, etc., other than JAL and members of the JAL Group is quoted from public sources, etc., but we have not verified and do not guarantee the accuracy or appropriateness of this information. All copyrights and other rights with respect to this document belong to Japan Airlines Co., Ltd.

<b>Aggregate Number of Shares Issuable</b>	400,000,000 shares*
<b>Aggregate Number of Shares Issued and Outstanding (Common Stock)</b>	181,352,000 shares
<b>Number of Shareholders</b>	89,411
<b>Stock Listing</b>	Tokyo Stock Exchange (First Section)

\* Includes common stock (350,000,000 shares) and Class 1 to Class 4 preferred stock (12,500,000 shares each).

## Breakdown of Shareholders\*



\* Excluding odd lot.

Note: Figures for "Individuals and others" include 48,635,100 shares the Company refused to enter or record in the shareholder registry (shares adjusted for foreign ownership) under the Civil Aeronautics Act and Articles of Incorporation.

05:00

Dawn returns  
An aircraft awaits in silence  
Engines awaken again to take off to the skies







**JAPAN AIRLINES**



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