

Fiscal Years 2012-2016

# JAL GROUP MEDIUM TERM MANAGEMENT PLAN

## ROLLING PLAN 2014 Summary

- To The Next Growth Stage Upon Establishing A High Profitability Structure -

Fly into tomorrow.



**JAPAN AIRLINES**

March 26, 2014  
Japan Airlines Co., Ltd

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# 1. Points of the Medium Term Management Plan FY2012-2016



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## Surviving Future Competition (3 differentiations)

- Enhancement of the JAL Brand
- Route Network, Products and Services
- Cost Competitiveness

## Key Initiatives (5 areas)

Safety Initiatives

Route Network

Products and Services

Group Management

Human Resources Development

## Management Target (3 targets)

1. JAL recognizes that “flight safety” 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.
2. JAL will provide unparalleled service to continuously deliver a fresh and enjoyable travel experiences for customers. We aim to achieve “Customer Satisfaction No.1<sup>1</sup>” by FY2016.
3. JAL aims to establish sufficient profitability and financial stability levels capable of absorbing the impact of economic fluctuations and risk events by achieving “10% or above operating margin for 5 consecutive years and 50% or above equity ratio in FY2016”.

<sup>1</sup> Customer Loyalty rate, Word by Mouth rate: JCSI values (Japanese Customer Satisfaction Index) announced by Japan Productivity Center, Service Productivity and Innovation for Growth

## 2. Progress of Management Targets – (1) Flight Safety



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Taking One Record of “Serious Incident” As an Important Issue,  
Enhance to Accumulate the “Layers of Safety”

### Key Indicators

Achieve “Zero Aircraft Accidents<sup>2</sup> and Serious Incidents<sup>3</sup>”

### Results

Indicators	FY2012	FY2013 <sup>1</sup>
Aircraft Accidents	1	0
Serious Incidents	4	1



### Review

- While zero “Aircraft Accident” in FY2013, one “Serious Incident” was recorded
- Although we managed to reduce number of “Customer Injuries”, we could not reduce the number of “Irregular Operation” and “Irregularities by human error”

<sup>1</sup> As of 19 March, 2014

<sup>2</sup> Fatal or serious human injury as a result of aircraft operations, or and aircraft crash, collision or fire, or damage(major repair), etc.

<sup>3</sup> An incident involving circumstances indicating that there was a high probability of an accident, such as overrunning, emergency evacuation.

<sup>4</sup> Diversion, etc. as a result of air turning back in air, etc. for safety reasons after pilots have responded, according to the manual, to partial failure of aircraft’s multisystem, etc., as classified by MLIT.

<sup>5</sup> When a customer is injured in the aircraft or at the airport, and receives a medical examination at a medical facility. This is verified through an internal report.

<sup>6</sup> Typical troubles caused by human error involving Flight Operations, Cabin Attendants, Maintenance, Airports, Cargo and Security Divisions, which repeatedly occur and must be eliminated with priority. This is verified through an internal report.

## 2. Progress of Management Targets - (2) Customer Satisfaction



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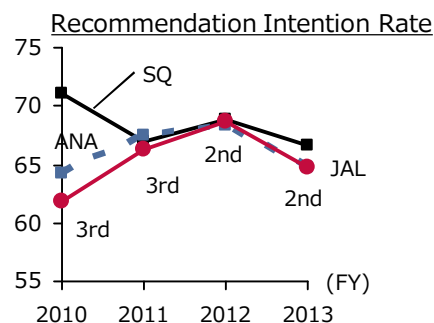
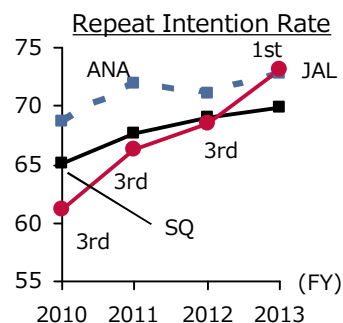
### Making Steady Progress to the Target

Key Indicator

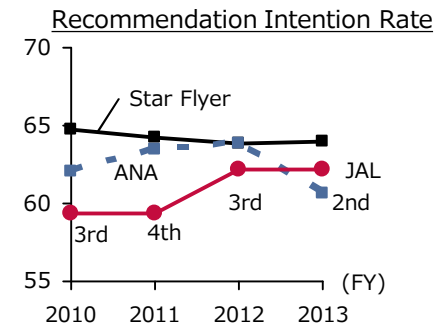
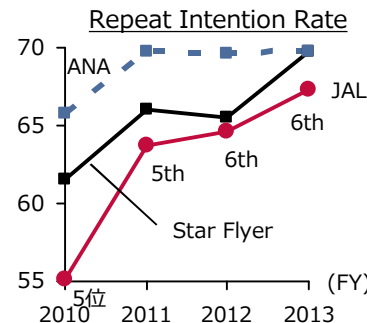
Achieve "Customer Satisfaction No.1" by FY2016

Result

International Routes



Domestic Routes



Review

- Our activities across the department resulted to achieve the best ranking for on-time arrival performance<sup>1</sup> in the world for the 2<sup>nd</sup> consecutive year
- These efforts let us to achieve the top ranking in Int'l Repeat Intention Rate and narrowed the gap with competing airlines in other ranking



<sup>1</sup> Flight Stats: On-time Performance Service Awards

## 2. Progress of Management Targets – (3) Financial



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Expect to Achieve 10%+ Operating Profit Margin and 50%+ Equity Ratio in FY2013

### Key Indicators

Achieve “10%+ operating profit margin for 5 consecutive years and 50%+ equity ratio in FY2016”

### Result (Expected)

(Billions of Yen)	FY2013 <sup>1</sup>
Operating Revenue	1,291.0
Operating Expense	1,133.0
Operating Profit	158.0
Operating Profit Margin	12.2%
Ordinary Income	147.0
Net Income	148.0
Total Assets	1,310.0
Shareholder's Equity	676.0
Equity Ratio	51.6%

### Review

- Making steady progress to achieve the target; expected 12.2% of Operating profit margin and 51.6% of Equity ratio in FY2013

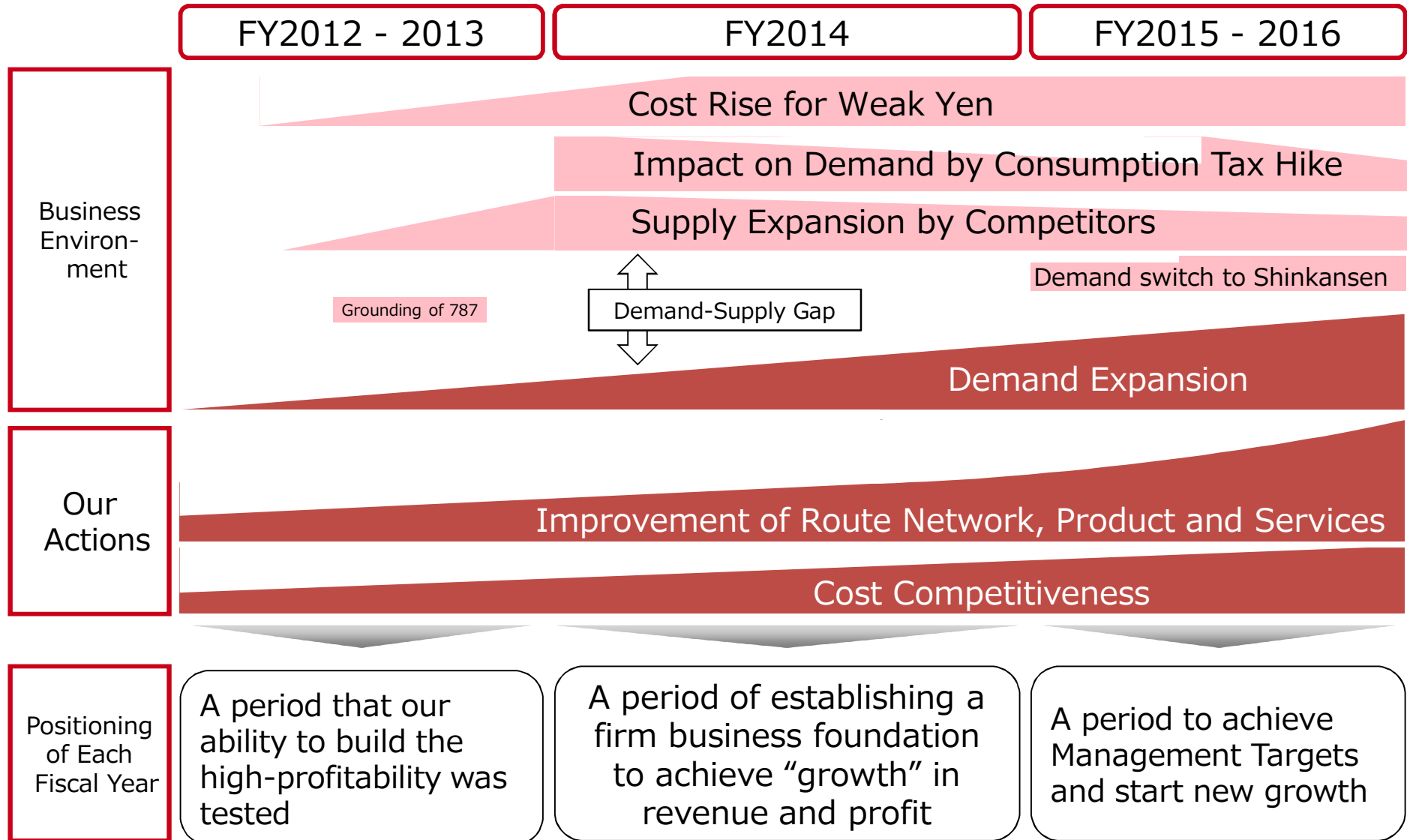
<sup>1</sup> Not changed from 31 Jan 2014 release

### 3. Changes in the Business Environment and Positioning of Each Fiscal Year



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FY2014 is a Period to Prepare for New "Growth"



## 4. Differentiating JAL to Survive Future Competition



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Differentiate Ourselves from Competitors and Aim to Achieve the Growth as a Full Service Carrier

### 3 Differentiations

#### Enhancement of JAL Brand

- Concentrate on Full Service Carrier business (Clearly differentiated from LCC business which offers our complementary network)

#### Route Network, Products and Services

- Not merely pursue expansion, but enhance our route network, products and services to provide customers with a fresh and moving travel experience

#### Cost Competitiveness

- Continue efforts to reduce costs and maintain cost competitiveness by improving productivity and penetrating the divisional profitability management system



# 5. Key Initiatives – (1) Safety Initiatives



## In Order To Ensure Flight Safety, We Accumulate Our Safety Layers

### Review

- JAL Group Safety Education
  - Completed 23,300 staff (70% of JAL Group Staff)
- Upgraded Safety Database
- Revised our manuals easier to use
- Reannounced the policy of not-punishing errors caused by human nature

### Future Action

- Continue JAL Group Safety Education
  - Completion in FY2014
  - Rebuild courses according to job titles from FY2015
- Develop Normal Operation Monitoring<sup>1</sup> and Safety Performance Monitoring<sup>2</sup>
- Introduce education seminars on Safety Management Systems from FY2015

<sup>1</sup> Proactive framework to detect a potential contributory factor of defect  
<sup>2</sup> Framework to comprehend the status of Safety Management System in a quantitative way

# 5. Key Initiatives – (2) Route Network



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**We Will Not Simply Pursue Expansion, But Build Highly Convenient Network with Profitability**

## Review

## Future Action

**Inter-national**

Focus our resources to mid/long haul routes

- Increased Narita=San Diego
- Launched Narita=Helsinki
- Promoted to assign aircraft with new product to mid/long haul routes




- Haneda Airport
  - Hub for domestic=int'l connections
  - Launch daytime service to London, Paris, Singapore and Bangkok
  - Launch midnight service to Ho Chi Minh
- Narita Airport
  - Hub for int'l=int'l connections
  - Increase New York service
- Expand Kansai and Chubu routes
- Finnair will join our Siberian Joint Business

**Domestic**

Balance capacity and traffic flexibly

- Improved our network using increased slots at Haneda and Itami Airport



- Increase Haneda=Yamagata service as chosen at a Policy Contest
- Resume 6 regional routes with the cooperation of the local governments
- Transform the business domain of Group Airlines
  - Regional competitive routes are operated by regional jets to increase convenience and profitability, while lifeline routes are operated by turbo-prop aircraft
  - JAL merge with JEX to enhance inflight human service and mobility to adjust supply

# 5. Key Initiatives – (3) Products and Services



**We Will Offer Products and Services That Always Deliver a Fresh and Enjoyable Travel Experience for Customers**

	Review	Future Action
<b>Human Service</b> JAL Philosophy <sup>1</sup>	<ul style="list-style-type: none"> <li>➤ Trained with emphasis on hospitality</li> <li>➤ Conducted competence-based training<sup>2</sup> and customer satisfaction based training</li> </ul>	<ul style="list-style-type: none"> <li>➤ Capture the progress of service enhancement measures through both internal and external survey</li> <li>➤ Conduct JAL Brand Seminar for All JAL Group Staff and entrusted company personnel (total 36,000)</li> </ul>
<b>International</b> High Quality Full Service	<ul style="list-style-type: none"> <li>➤ Expanded "JAL SKY SUITE"                             <ul style="list-style-type: none"> <li>• Increased 777 routes</li> <li>• Launched 767 service</li> </ul> </li> <li>➤ Developed new inflight menus "Exclusive restaurant in the sky"</li> </ul>	<ul style="list-style-type: none"> <li>➤ Continue to expand "JAL SKY SUITE" service                             <ul style="list-style-type: none"> <li>• Expand 777/767, launch 787</li> </ul> </li> <li>➤ Provide Full-Flat Seats<sup>3</sup> or Shell-Flat Seats<sup>4</sup> throughout Business Class on Southeast Asia and Honolulu flights</li> <li>➤ Increase "JAL SKY Wi-Fi" equipped aircraft</li> </ul>
<b>Domestic</b> Convenience Simplicity	<ul style="list-style-type: none"> <li>➤ Upgraded smartphone application "JAL COUNT DOWN"</li> </ul>	<ul style="list-style-type: none"> <li>➤ Introduce new interior "JAL SKY NEXT"                             <ul style="list-style-type: none"> <li>• Genuine leather seating in "Class J" and Economy Class</li> <li>• LED lighting</li> <li>• "JAL SKY Wi-Fi"</li> </ul> </li> </ul>
<b>Mileage</b> Easier to accumulate Easier to use	<ul style="list-style-type: none"> <li>➤ Increased partner companies</li> <li>➤ Expanded partner airlines                             <ul style="list-style-type: none"> <li>• Qatar, TAM, US Airways</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>➤ Strive to facilitate the use of Award Tickets                             <ul style="list-style-type: none"> <li>• Continue "Mile Flights" and "JAL Card Discounts"</li> </ul> </li> <li>➤ Expand new services and tie up companies</li> </ul>



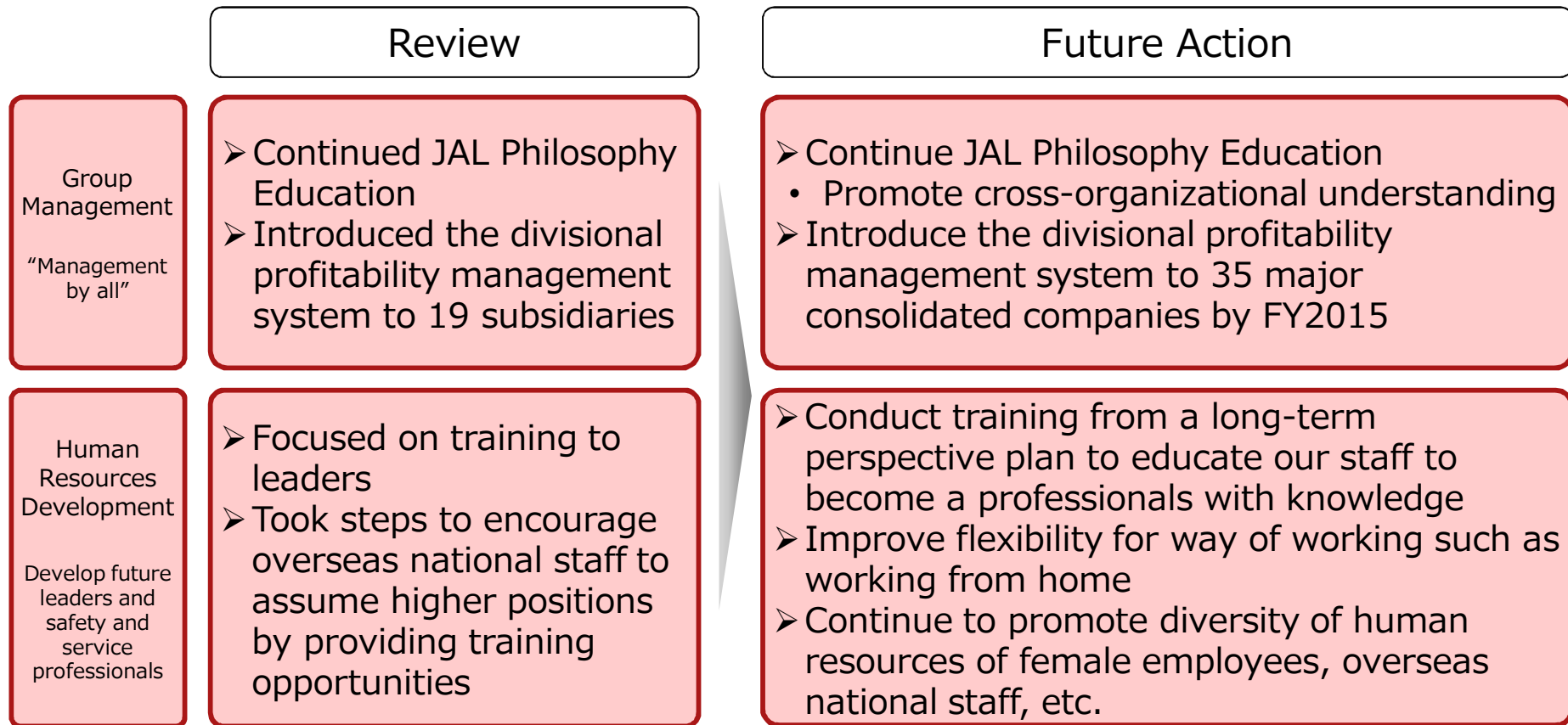
1 Guide for basic attitudes and philosophy to manage JAL  
 2 Training to bring out concrete action by JAL Philosophy. 80% of object staff are completed.  
 3 Equipped with JAL SKY SUITE 777/767  
 4 Equipped with 777-200 and 787 (all 777-300 will be equipped with JAL SKY SUITE during the early years of FY2014)

## 5. Key Initiatives – (4) Group Management (5) Human Resources Development



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We Promote “Management By All” and Conduct Training to Develop Future Leaders and Safety and Service Professionals



## 6. (1) Financial Plan – Unit Cost (UC)



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While UC<sup>1</sup> of 8.8 yen (excl. fuel costs) for FY2014, We Aim to Reach 8.3 yen for FY2016 by Continuing Challenge to Improve Productivity

### Review

- UC is expected to be “8.7 yen” for FY2013
  - Increased costs on a foreign currency basis and expenditures for service enhancement measures
  - Decreased costs by productivity improvement in each division



### Future Action

- Expect UC of “8.8 yen”<sup>2</sup> for FY2014 due to an increase in costs on a foreign currency basis
- Revise our Unit Cost target for FY2016 from original “8.0 yen” to “8.3 yen” owing to an increase in costs on a foreign currency basis and expenditures for service enhancement measures
- We will do our utmost effort to accomplish the Unit Cost target by furthermore penetrating the divisional profitability management system and all staff’s innovative ingenuity

Unit Cost (Yen)		FY2013 <sup>3</sup>	FY2014	FY2016
<b>Original MTMP<sup>4</sup></b>	Total Cost (6 companies)	11.3	-	11.0
	Excluding Fuel Cost	-	-	-
<b>Rolling Plan 2013</b>	Total Cost (32 companies)	12.0	-	11.1
	Excluding Fuel Cost	8.6	-	<b>8.0</b>
<b>Rolling Plan 2014</b>	Total Cost (32 companies)	12.1	12.7	12.3
	Excluding Fuel Cost	8.7	8.8	<b>8.3</b>

1 Unit Cost = Expenses of Air Transportation / ASK; cost to carry 1 seat for 1 km

2 Excluding fuel costs for our affiliate company listed at “Other Expense”

3 Forecast

4 MTMP=Medium Term Management Plan

## 6. (2) Financial Plan – Key Management Indicators

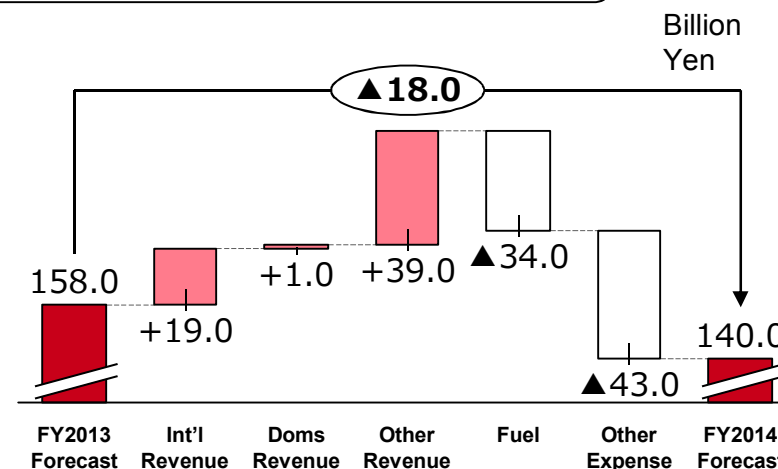


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### Consolidated PL

(Billion Yen)	FY2013 Forecast <sup>1</sup>	Rolling Plan 2014	Difference
Operating Revenue	1,291.0	<b>1,350.0</b>	+59.0
Operating Expense	1,133.0	<b>1,210.0</b>	+77.0
Operating Profit	158.0	<b>140.0</b>	▲18.0
OP Margin (%)	12.2	<b>10.4</b>	▲1.8
Ordinary Income	147.0	<b>135.0</b>	▲12.0
Net Income	148.0	<b>115.0</b>	▲33.0

### Changes of Operating Profit



### Consolidated BS

(Billion Yen)	FY2013 Forecast <sup>1</sup>	Rolling Plan 2014	Difference
Total Assets	1,310.0	<b>1,387.0</b>	+77.0
Total Debt	132.0	<b>101.0</b>	▲31.0
Net Assets	676.0	<b>723.0</b>	+47.0
Equity Ratio (%)	51.6%	<b>52.1%</b>	+0.5pt
ROA (%) <sup>2</sup>	12.5%	<b>10.4%</b>	▲2.1pt

### Consolidated CF

(Billion Yen)	FY2013 Forecast <sup>1</sup>	Rolling Plan 2014	Difference
Operating CF	246.0	<b>221.0</b>	▲25.0
Investment CF <sup>3</sup>	▲171.0	<b>▲195.0</b>	▲24.0
Free CF <sup>3</sup>	75.0	<b>26.0</b>	▲49.0
Financing CF	▲60.0	<b>▲62.0</b>	▲2.0
EBITDA	240.0	<b>227.0</b>	▲13.0
EBITDAR	272.0	<b>253.0</b>	▲19.0

<sup>1</sup> Not Changed from 31 JAN 2014 release

<sup>2</sup> (Operating Profit) / (Average of Total Assets at beginning of year and ending of year)

<sup>3</sup> Excludes deposit and withdrawal from deposit accounts

## 6. (3) Financial Plan – Other Indicators



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### ASK and Market Assumptions

	FY2013 Forecast <sup>1</sup>	FY2014 Rolling Plan 2014	FY2016 Rolling Plan 2014
ASK <sup>2</sup> Int'l	107	<b>113</b>	126
Domestic	105	<b>102</b>	97
Total	106	<b>108</b>	113
Flight <sup>3</sup> Int'l	107	<b>113</b>	122
Domestic	106	<b>108</b>	106
Total	106	<b>108</b>	108

ASK/Flights: FY2011=100

Singapore Kerosene (USD/BBL)	120.6	<b>125</b>	125
FX (USD/JPY)	99.1	<b>107</b>	107

### Sensitivity

#### Sensitivity for Fuel Costs<sup>4</sup> (without hedging)

Singapore Kerosene (Change in 1 USD/bbl.)	2.3 Bn YEN per Year
FX (Change in 1 JPY/USD)	2.6 Bn Yen per Year

### Revenue Indicators

UR/RPK/Yield: FY2011=100

	FY2013 Forecast <sup>1</sup>	FY2014 Rolling Plan 2014
UR <sup>5</sup> Int'l	104	<b>104</b>
Dom	96	<b>99</b>
Total	100	<b>100</b>
RPK <sup>6</sup> Int'l	117	<b>120</b>
Dom	106	<b>106</b>
Total	112	<b>114</b>
Yield <sup>7</sup> Int'l	96	<b>98</b>
Dom	95	<b>96</b>
Total	94	<b>95</b>
L/F <sup>8</sup> Int'l	76.6%	<b>74.9%</b>
Dom	63.5%	<b>64.9%</b>
Total	70.8%	<b>70.6%</b>

- 1 Not changed from 31 JAN 2014 release
- 2 Available Seat Kilometers (Including codeshare flights)  
JAL based on Great-Circle Distance for both Int'l and Domestic flights
- 3 JAL group operations Only
- 4 Based on our market assumptions for Rolling Plan 2014
- 5 Revenue/ASK
- 6 Revenue Passenger Kilometer (Including codeshare flights)
- 7 Revenue/RPK
- 8 RPK/ASK