



JAPAN AIRLINES

The Pursuit of Our Vision Continues



JAL Group Medium Term Management Plan - Rolling Plan 2018

28th February, 2018 Japan Airlines Co., Ltd.



JAPAN AIRLINES

Rolling Plan 2018

I Positioning of Rolling Plan 2018

- 1 10-Year Grand Design Initiated from This Medium Term Management Plan
- 2 Positioning of Rolling Plan 2018



II Growth Initiatives

III Financial Strategy and Related Materials



JAL Vision



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

1 Transform JAL into a truly global airline

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



2 Create new values one step ahead of competitors

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

3 Achieve sustainable growth

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

Within this 10-Year Grand Design period, we will

- Service over 500^{*1} major cities in the world
- Have 50%^{*2} of revenue from overseas sales for international passenger operations
- As a group of professionals that are able to dynamically accommodate with multi-cultural and diversified markets and environments

- Provide a stress-free travel experience for all our customers
- Create new businesses and services that stimulate air travel demand
- Adopt new technology and source capabilities to improve quality and productivity, and to innovate customer experience

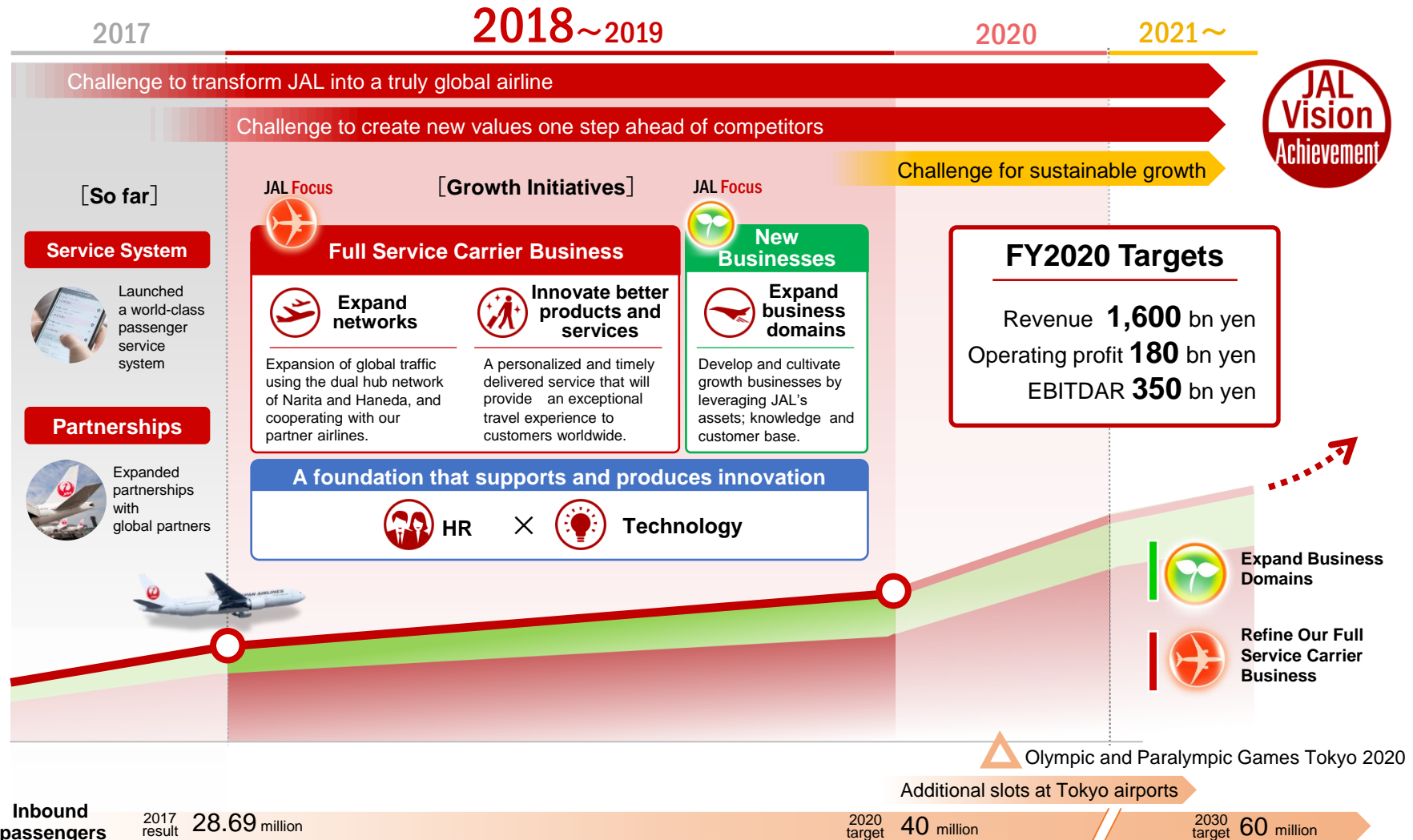
- Aiming to maintain the target of profit margin 10% or above, achieve Operating Revenue 2 tn yen/Operating profit 250 bn yen/Market capitalization 3 tn yen
- Maintain safe operations and lead development of the airline industry
- Actively contribute to tackling social issues such as SDGs^{*3}

*¹ Currently 343 cities, including alliances and codeshares

*² FY2016 30%+

*³ Global Sustainable Development Goals

From FY2018, we will accelerate growth through innovation, while catering to the demand growth that comes with the Olympic and Paralympic Games Tokyo 2020, as well as the 40 million inbound visitors target





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Rolling Plan 2018

I

Positioning of Rolling Plan 2018

II

Growth Initiatives

- 1 Expand networks
- 2 Innovate better products and services
- 3 Expand business domains
- 4 Enhance core competencies in “HR × Technology”
- 5 Aspirational goals through innovation
- 6 Medium term revenue and profit targets
- 7 Progress of medium term targets

JAL Focus



Top Out

Refine our Full Service Carrier business

- Increase competitiveness by adapting swiftly to changes in overseas and Japanese regional market environments.
- Pursue high safety and service quality standards. Intertwine hospitality with digital technology.



Stretch

Expand business domains

- Create and develop businesses besides our Full Service Carrier business by leveraging JAL's strengths.
- Develop new businesses that contribute to increase in inbound passengers and revitalization of regional Japan.

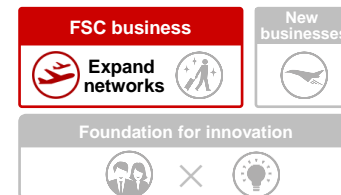
III

Financial Strategy and Related Materials



FSC domain

Expansion of global traffic using the dual hub network of Narita and Haneda, and cooperating with our partner airlines



2018~2020 Challenge to create new values one step ahead of competitors

2021~ Challenge for sustainable growth



New Partners

From FY2018



AEROFLOT Russian Airlines
Hawaiian Airlines
VISTARA
Vietjet Aviation Joint Stock Company
AeroMexico

JAL Operation

as of FEB 2018 90 cities

- Increase frequency on international routes such as Asia and resort routes, and operate additional charter flights, in FY2018. Open new routes to Amami Islands, which may become a World Natural Heritage site, and to Okinawa on domestic routes.
- Plans to launch a new route to the west coast of North America, thereby further improve connectivity between North America and Asia, in FY2019.
- Increase international flights, with the addition of new flight slots at Narita and Haneda in FY2020.

Airline Partners

As of FEB 2018 253 cities

- Expand global networks with existing joint business partners, oneworld members and other codeshare partners.
- Forge partnerships with new airline partners and increase destinations of codeshare flights in the Hawaiian Islands, Asia, Russia, etc.
- Coordinate with each partner to increase JAL's presence in overseas markets.



Servicing over 500*¹ major cities in the world

*¹ Currently 343 cities, including alliances and codeshares

Having 50%*² of revenue from overseas sales for International passenger operations

*² FY2016 30%+



FSC domain

A personalized and timely delivered service that will provide an exceptional travel experience to customers worldwide



2018~2020 Challenge to create new values one step ahead of competitors

2021~ Challenge for sustainable growth



Airbus A350

Excellent Quality & Comfort

- Introduce inflight satellite TV in FY2018 and personal monitors and seat power supply on domestic routes in FY2019.
- Introduce the A350, fitted with cutting-edge inflight facilities on domestic routes from FY2019.
- Improve services to ensure peace of mind for every customer, meeting diverse needs, including the provision of multilingual services and vegetarian meal choices.

Personal & Timely

- Provide timely information on flight delays, cancellations, etc. to each customer, and ensure a smooth recovery process with mobile apps from FY2018.
- Introduce new mobile device functions, such as providing timely travel information and campaign coupons that suit customer needs from FY2019.
- Provide stress-free service at touchpoints such as at the airport, leveraging IoT, biometric authentication and high-precision position technology.

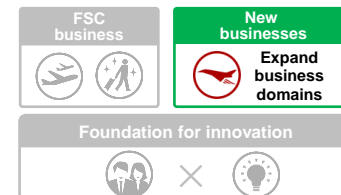


Providing a stress-free travel experience for all our customers



New business
domains

**Providing new values to customers, regions and communities
by developing and cultivating growth businesses, leveraging
JAL's assets, knowledge and customer base**



2018~2020 Challenge to create new values one step ahead of competitors

Airline-related and New business domain revenue target +100 bn yen (1.3 fold increase from FY2016)

2021~ Challenge for sustainable growth

Develop new revenue sources



Airline Business

Inbound demand
Regional revitalization

Stimulate inbound travel demand and support regional revitalization

Introduce high-quality Japanese goods collaborating with the agriculture and fishing industry.



Participate in developing travel business

Contribute to expansion of regional nonresident population through investment and collaboration with ALL JAPAN Tourism Oriented Country Fund, Hyakusen Renma Inc., etc.



LCC Partner strategy



Deepen relations with foreign-affiliated Japanese LCC partner to capture overseas travel demand and contribute to bringing more inbound visitors and dispersing travel across Japan by offering inexpensive fares.

Expand ground handling business

Extend ground handling services to the increasing number of foreign carriers ahead of the Tokyo Olympic and Paralympic Games.

...

Appealing air transport products and services for global markets

Airline-related business

Contribute to the
airline industry

Expand provision of comprehensive maintenance services

Expand provision and support of MRO*, including management advisory, leveraging JAL's knowledge.
*Maintenance, Repair, Overhaul



Expand capacity for providing pilot training

Expand capacity to provide pilot training. Alleviating pilot shortages will allow the industry to meet growing travel demand.



...

Maintaining safe operations and lead development of the airline industry

New Business domains

Create new value
offerings

Establish Fin Tech Company

Enter the international brand prepaid card business / provide new financial products and services as a neobank.



New business development opportunities

Enter into new businesses leveraging JAL's strengths. Collaborate with external partners, and cutting-edge technologies to achieve improved customer services and materialize new business creation opportunities.

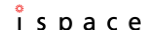
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Creating new businesses and services that stimulate air travel demand

Participate in supersonic aircraft development

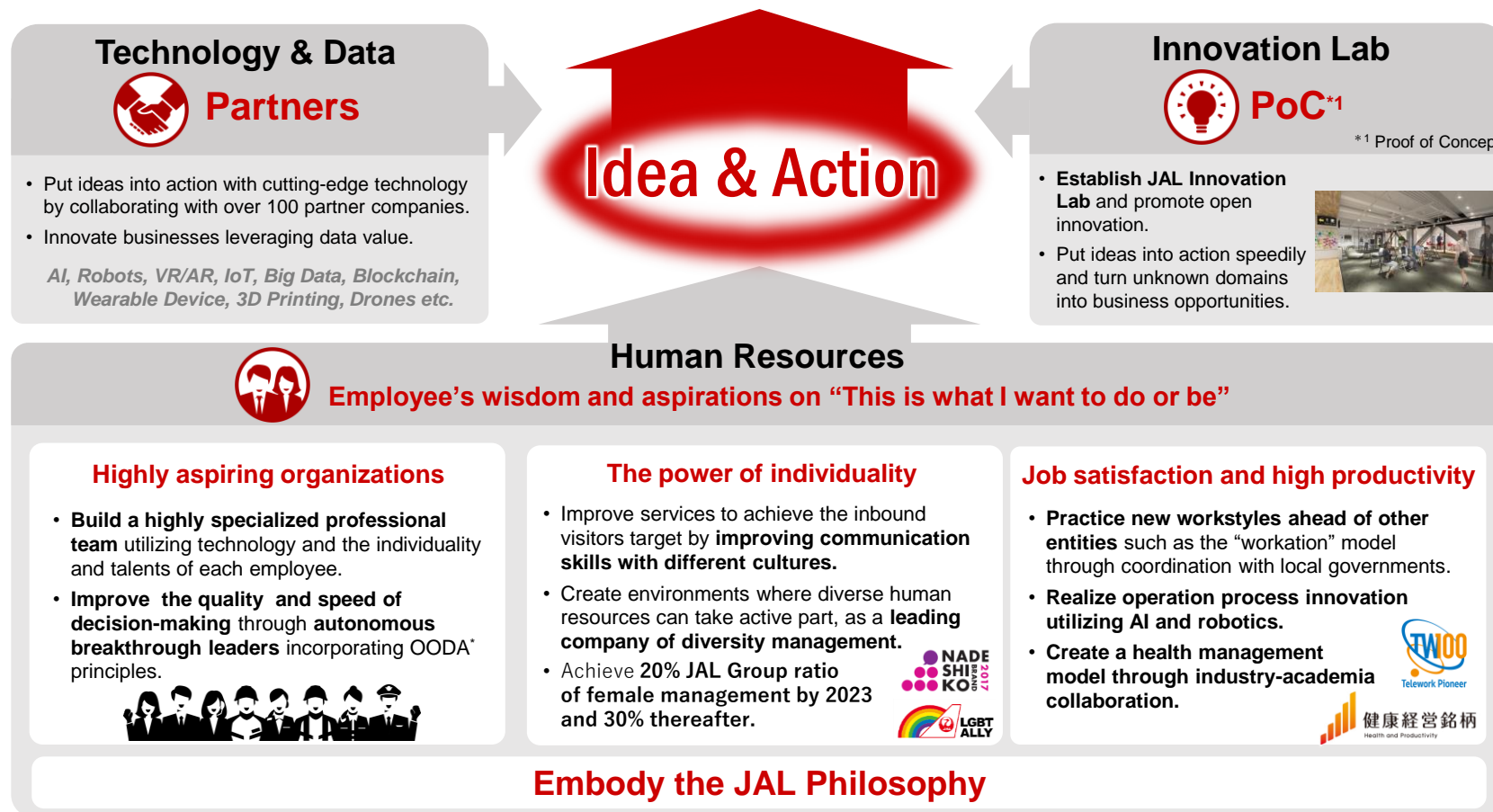
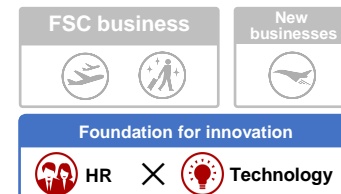


Participate in space development



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

**Cultivate innovation in every possible domain and
become a company that sustainably grows**



^{*} OODA : Observe/Orient/Decide/Act. A decision-making process to enhance speed and creativity through the OODA Loop.

Create Added Value that leads the airline industry by concentrating on three aspects

Providing a stress-free travel experience for all our customers

Creating new businesses and services that stimulate air travel demand

Adopting new technology and source capabilities to improve quality and productivity, and to innovate customer experience

Before departure

Provide preflight experience services

Offer advanced simulated experience using AR/AR on inflight and airport services to make the travel experience stress-free.

Reservations and Purchases

Improve convenience on website and contact centers

Provide an environment to customers worldwide to enjoy user-friendliness through advanced technologies such as AI, as well as multilingual and foreign currency services.

Airports

Realize "smart" airports

- Aim for "zero waiting time at the airport" through new technologies such as face authentication systems.
- Concentrate human resources in customer support fields and partly automate operation processes.
- Realize high safety levels and productivity through autonomous driving technology.

Cargo & Mail

Realize new operation processes

Convert to electronic operation processes utilizing technology. Promote automation, and realize highly productive cargo handling.

In-flight

Realize personalized service

Respond to customer needs speedily through coordination between staff using mobile devices.

Maintenance

Shift from "fix" to "prevent" and create new maintenance system

Actively incorporate Big Data analysis and new technologies such as mobile devices. Further promote workstyle innovation of mechanics, and create new maintenance system which proactively prevents failures.

Back Offices

Maximize productivity

Realize efficient operation processes by inventorying work and utilizing robotics, AI and such.

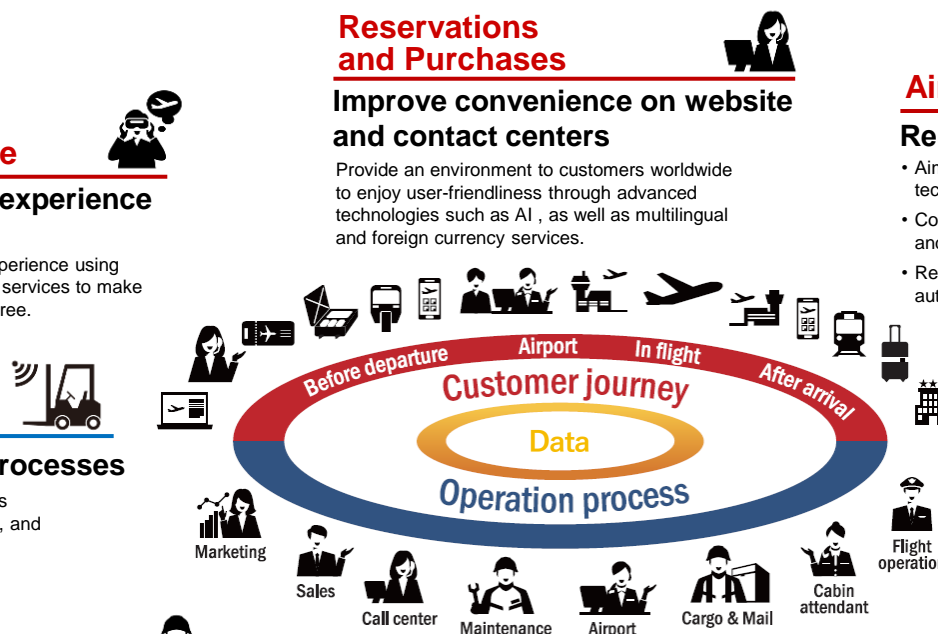
Create space and time value

Create new styles ahead of others such as Dokokani Mile and "workation".

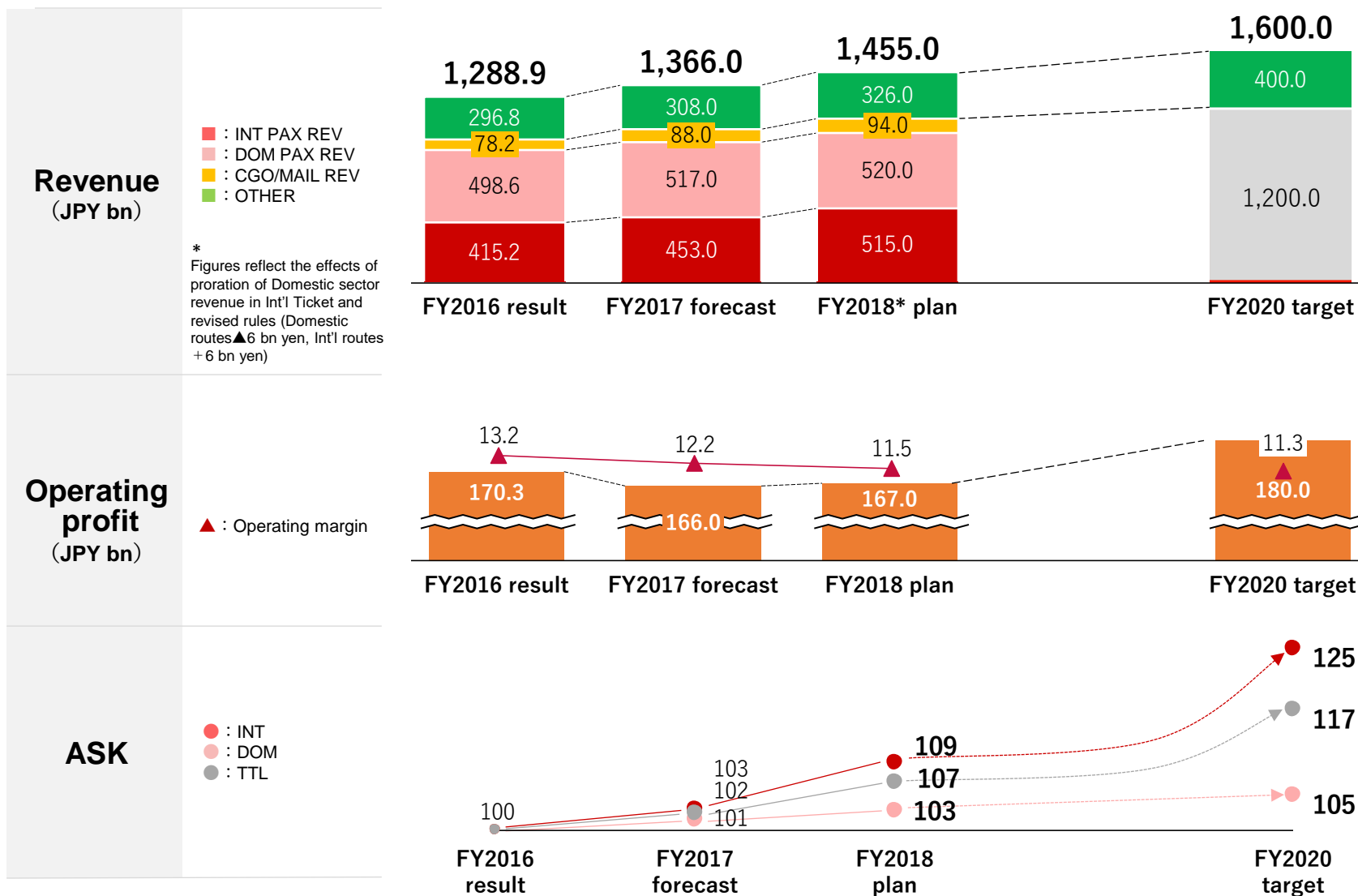
After arrival • Daily life

Personalized suggestions to suit individual lifestyles

Offer timely information "on a 1 to 1" basis which suits individual needs. Utilizing customer database to hyperpersonalize.



Moving forward to the next growth stage from 2021 onwards



Having achieved our financial targets in FY2017, we will continue to work towards achieving our flight safety and customer satisfaction targets

3 management targets

JAL Target

Safety

Realize “Zero Aircraft Accidents” and “Zero Serious Incidents”

Aircraft accidents

0

Serious incidents

1

- Implement a risk management system which grasps signs of serious trouble based on data, utilizing a most advanced integrated safety database.
- Reinforce recurrence prevention and proactive prevention utilizing new human factor analysis methods.
- Continue to hold safety awareness education seminars based on the “Three Actuals” (the actual place, items, people).

Customer Satisfaction

Achieve world top-level Customer Satisfaction by FY2020

NPS

(Net Promoter Score)

Domestic
+1.4 Points

International
+2.1 Points

- Further refine JAL’s strengths and utilize ICT/IoT capabilities to deliver exceptional customer service and meet needs of diversified customer groups around the world.
- Aim to improve NPS by +5.3pt* on domestic flights and +4.5pt* on international flights by 2020.
*compared with FY2017Q1 scores

Finance

Achieve “10% or above operating profit margin” and “9% or above ROIC (Return on Invested Capital)”

Operating margin

12.2 %

Return on Invested Capital (ROIC)

9.5 %

- Continue profitability-focused management, maximize revenues and minimize expenses, and achieve “10% or above operating margin”.
- Undertake “Lean management” with emphasis on asset efficiency while investing for growth, and achieve “9% or above Return On Invested Capital (ROIC)”.
- Consider optional application of International Financial Reporting Standards (IFRS).



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Growth Initiatives

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Financial Strategy and Related Materials

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Financial Strategy and Capital Policy

2

FY2018 Related Indicators

3

Fleet Plan



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

FY2018~2020 Capital Investments

Aircraft

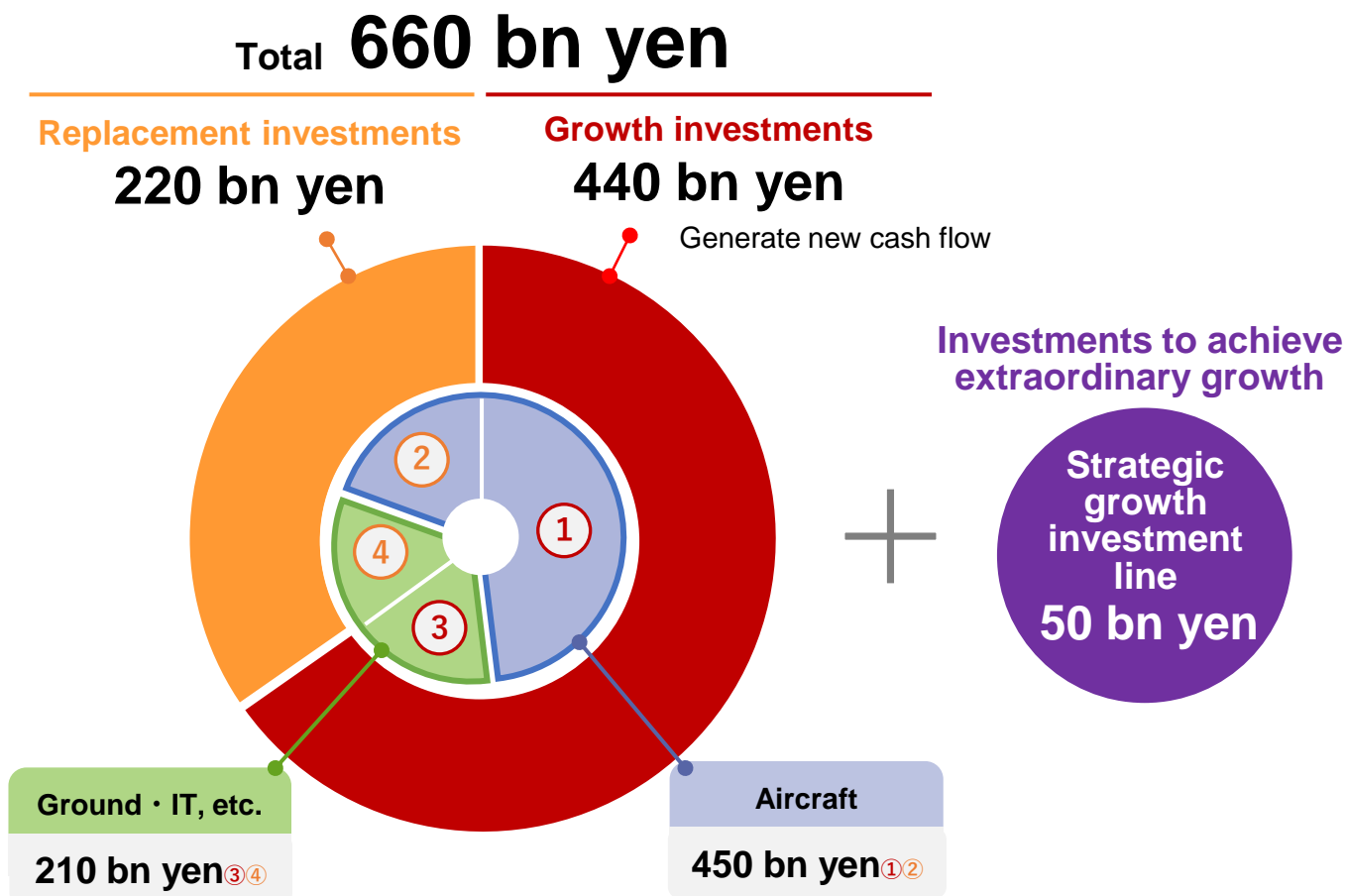
① Growth investments
Introduce aircraft that will contribute to route expansion, flight frequency increase, or operational efficiency improvement.

② Renewal investments
Replace old regional prop aircraft, aircraft parts, or etc.

Ground · IT, etc.

③ Growth investments
Improve quality, service or efficiency. Develop new business domains, etc.

④ Replacement investments
Replacement of existing old facilities or for compliance to laws and regulations, etc.

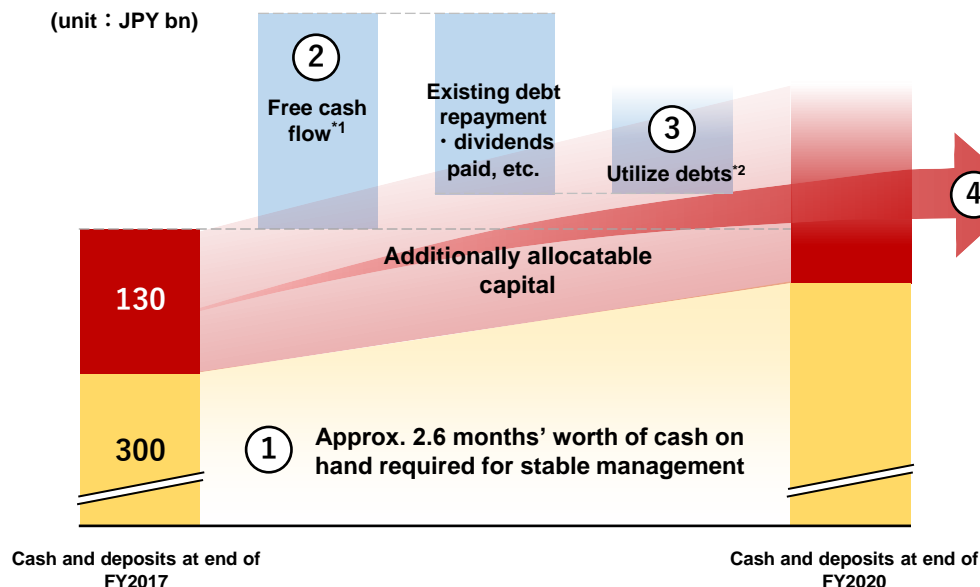


We will strategically allocate capital to increase corporate value, while maintaining a firm financial structure as well as high capital efficiency at the same time

Capital Allocation

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

(unit : JPY bn)



FY2018~2020 Additionally Allocatable Capital

Improve the corporate pension fund financially

Consider approx. 80 bn yen injunction ahead of schedule

Investments to achieve extraordinary growth

Set a 50 bn yen strategic growth investment line

Strategic growth investment line

Further increase shareholder returns

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

*1 Free cash flow (3-year aggregate)=Cash flow from operating activities-Cash flow from investing activities
*2 3-year aggregate new debts used (new procurements-repayment of new procurements)

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

Consolidated Profit and Loss Statement

(JPY bn)	FY17	FY18	Difference
Operating revenue	1,366.0	1,455.0	+89.0
Operating expense	1,200.0	1,288.0	+88.0
Operating profit	166.0	167.0	+1.0
Operating profit margin(%)	12.2%	11.5%	▲0.7pt
Ordinary profit	158.0	156.0	▲2.0
Net profit Attributed to Owners of Parent	121.0	110.0	▲11.0

Consolidated Cash Flow

(JPY bn)	FY17	FY18	Difference
CF from Operating Activities	259.0	271.0	+12.0
CF from Investment Activities (1)	▲189.0	▲220.0	▲31.0
Free CF (1)	70.0	51.0	▲19.0
CF from Financial Activities	▲54.0	▲12.0	+42.0
EBITDA	276.0	291.0	+15.0
EBITDAR	294.0	307.0	+13.0

1. Exclude deposits and withdrawals

Consolidated Balance Sheet

(JPY bn)	FY17	FY18	Difference
Total Assets	1,807.0	1,927.0	+120.0
Balance of Interest-bearing Debts	127.0	165.0	+38.0
Shareholder's Equity	1,038.0	1,110.0	+72.0
Shareholder's Equity ratio (%)	57.4%	57.6%	+0.2pt
ROE (1) (%)	9.5%	9.0%	▲0.5pt
ROA (2) (%)	12.0%	10.2%	▲1.8pt
ROIC (3) (%)	9.4%	8.9%	▲0.4pt

1. (Net profit attributable to owners of the parent) / (Average of shareholder's equity at beginning and end of fiscal year)
 2. (Operating profit) / (Average of total assets at beginning and end of fiscal year)
 3. Return On Invested Capital (ROIC) gives a sense of how well a company is using its money to generate returns
 ROIC(%) = (Operating profit) (excl. Tax) / (Average of fixed asset at beginning and end of fiscal year) (incl. future rental expenses under operating leases)

International and Domestic Passenger
Operations Indicators

		FY17	FY18	Difference
RPK (1)	Int'l Domestic	41,866 25,720	44,701 25,950	+6.8% +0.9%
Yield (2)	Int'l Domestic	10.8 20.1	11.5 20.1	+6.6% ▲0.3%
Load Factor (3)	Int'l Domestic	80.6% 71.7%	80.7% 71.4%	+0.2pt ▲0.3pt
Airline Business Operation Revenue per ASK (4)		13.8	13.8	+0.0
Unit Cost (5)		10.0	10.2	+0.2











1. Revenue Per Kilometer (Incl. code-sharing flights)

2. Revenue Per RPK

3. Load Factor = RPK / ASK

4. Airline Business Operation Revenue per ASK = (Air operation revenue - Fuel surcharge - Revenue from fuel resale to a related company) / ASK

5. Unit Cost = Air Transport consolidated cost (excl. fuel) / ASK

	End of FY17	End of FY18	End of FY20
Total	Total 227 INT 85 DOM142 (excl. Regional 175)	Total 228 INT 89 DOM139 (excl. Regional 178)	Total 230 INT 92 DOM138 (excl. Regional 181)
International	Large 24	Large 24	Large
	Middle 51	Middle 55	Middle
	Small 10	Small 10	Small
Domestic	Large 16	Large 16	Large
	Middle 20	Middle 20	Middle
	Small 54	Small 53	Small
	Regional 52	Regional 50	Regional
			MRJ Will join FY21 and after
 777  787 Six 787-9 will be added in FY2018  767  NEW A350 Introducing in FY2019  737 Replace from 737-400 to 737-800 in FY2018  E170 Replace in FY2018  E190 Replace in FY2018  SAAB340  Q400CC* Replace in FY2017 <small>*Cargo-combi</small>  ATR Three aircraft will be added in FY2018			



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