



JAPAN AIRLINES

Challenge, Leading to Growth



**Fiscal Years 2017-2020
JAL Group Medium Term Management Plan**

April 28, 2017 Japan Airlines Co., Ltd.



On Establishing New Medium Term Management Plan

- In the FY2012-16 Medium Term Management Plan, we concentrated on our Full Service Carrier business, and pursued initiatives for high quality service and profitability improvement, while making investments in aircraft, products, services, and human resources.
- As for management targets, we achieved the financial target of “10% or above operating margin for five consecutive years ,and 50% or above equity ratio by the end of FY2016.” Although we fell short of our “Safety “and “Customer Satisfaction” targets, we put in joint efforts to accumulate safety layers and took first place for the JCSI “Repeat Intention Rate” and “Recommendation Intention Rate “ of international flights.
- On establishing the FY2017-2020 Medium Term Management Plan, we laid out JAL VISION, which describes what we aim to be in future. We recognized 2020 as a milestone; Tokyo hosts Olympic/Paralympic Games and the flight slot is expected to expand at Tokyo metropolitan airports.



Challenge, Leading to Growth

- In New Medium Term Management Plan , we will continue to “refine our Full Service Carrier business,” and will also adapt ourselves to global changes, while making capital expenditures for safety and service enhancements to become the customers’ airline of choice.
- In addition, we will make necessary preparations and take action to expand into new business domains such as creating and nurturing new profit resources by leveraging JAL’s strengths.
- Through the above measures, we will proceed step by step under the theme “Challenge, Leading to Growth” to realize sustainable and stable growth, and contribute to regions and society.



JAPAN AIRLINES

Medium Term Management Plan 2017-2020

I

Key Concept

- 1** JAL Vision – What we aim to be
- 2** Review and Expected Environment
- 3** Positioning and Direction
- 4** Initiatives and Business Portfolio
- 5** Steps for Growth

II

Action

Reference

Financial Data

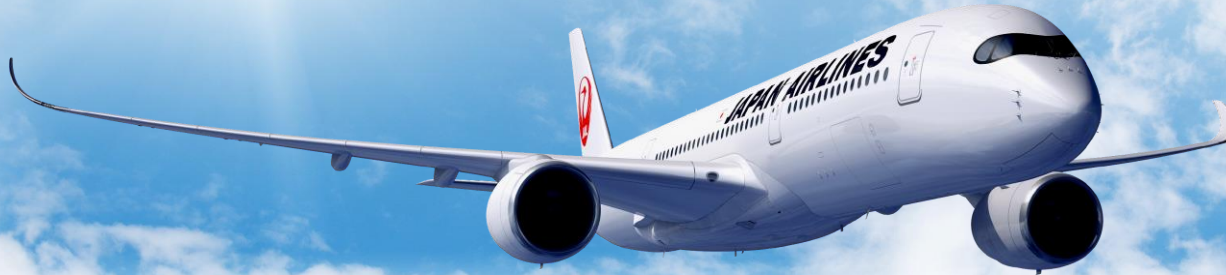
JAL Vision

To customers worldwide, From region to society

Corporate Policy

JAL Vision

Medium Term
Management Plan



**To realize the JAL Group Corporate Policy and become
“The world’s most valued and preferred airline”, everyone who supports JAL’s wings
will put in joint efforts to maintain flight safety and to;**

1

**Transform JAL
into a true global
airline**

As a Japanese carrier, we will optimize Japan’s merits, which are acclaimed around the world, and further expand business in global markets. We aim to become an airline that is recognized and supported by customers in Japan and a greater number of customers around the world. To accomplish this, we will diversify our 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 one step ahead of competitors in the industry, and become an airline which continuously creates refreshing and inspiring values. To accomplish this, we will face each and every customer sincerely and provide human and technology integrated services.



3

**Continue
sustainable
growth**

Although being in the competitive and volatile airline industry, we will become an airline that maintains a balance of both growth and stability. To accomplish this, we will maintain 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 society.

Refine JAL's advantage and expand opportunities to leverage our strengths

2012 - 2016

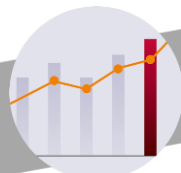
Previous Medium Term Management Plan



Unceasing efforts
for safety



Pursue high quality
service and
on-time operations of
the highest standard



Solid financial
foundation

2017 - 2020

New Medium Term Management Plan



Increase presence in
overseas markets



Increase customer
preference in
Japanese regional
markets



Develop revenue sources
besides
air transport business

Top out

Grow and refine
JAL's competitive
advantage

Stretch

Expand opportunities to
leverage JAL's strengths

Results achieved



On-Time
Performance
World No.1



JCSI Int'l flight
Repeat Intention Rate
Recommendation Rate
No.1



Acquired
Credit rating
"A—"



Health & Productivity
Stock Selection
Awarded for 3 consecutive
years

The expected environment



Increase in Inbound tourists to
Japan and
regional tourism promotion



Flight slot expansion
at Tokyo
metropolitan airports



Advances and spread of
new technology
(Chance and Risk)



Decrease in Air demand
caused by diminishing
working-age population
in Japan

To realize JAL Vision,
the theme of the New Medium Term Management Plan is
"Challenge, Leading to Growth"

$$\boxed{1} \times \boxed{2} = \boxed{3}$$

Global Airline Values one step ahead Continuous growth

Refine Our Full Service Carrier Business



**Top Out
Core Domain**

Enhancement of the JAL brand Route Network / Products and Services Cost competitiveness

Utilize technology
Adapt to changing market environments

Expand Business Domains



Create new market

**Stretch
New Domain**



**In addition to refining our Full Service Carrier business,
we will expand in business domains for our future growth**

2016 Revenue

Core Domain	Int'l Passenger
	Domestic Passenger
	Cargo and Mail
Airline-Related businesses	

JAL Focus



2020 Revenue

Core Domain ×1.1	International Passenger
	Domestic Passenger
	Cargo and Mail
New Domain ×1.3	
Airline-Related businesses	
New Field	

**To win the competition and prepare for sustainable growth,
we will continue “necessary capital expenditures” and “adaption to markets”**

2012 - 2016

2017 - 2020

2021~

Previous Medium Term Management Plan

New Medium Term Management Plan

Theme

**To the Next Growth Stage
upon Establishing a
High Profitability Structure**

**Challenge,
Leading to Growth**

**Future
Image**

Revenue

Growth of a certain scale

Realize steady growth

Establish capacity depending on market growth
Create and develop new revenue sources

Investment for the Future (Fleet Innovation etc.)

Profit

Cost

Enhance quality

Investment for
human resources

Cost increases of
Systems and Maintenance

Balance high quality and cost competitiveness



JAPAN AIRLINES

Medium Term Management Plan 2017-2020

I	Key Concept
II	Actions
1	Essence of Strategies
2	JAL Target - 3 Management Targets
3	JAL Action - 5 Key Initiatives <ul style="list-style-type: none">1. Safety2. International/Domestic Networks & Products3. Divisional Profitability Management4. Human Resources5. Innovation
4	Financial Strategy
5	To Realize the JAL Group Corporate Policy
Reference	Financial Data

2 key drivers for growth

JAL Focus



Top out

Refine our Full Service Carrier business

- Increase competitiveness by adapting to changes in overseas and Japanese regional market environments.
- Pursue safety and high quality service by utilizing technology



Stretch

Expand business domains

- Create and develop businesses besides our Full Service Carrier business where we can leverage JAL's strengths
- Initiatives for New businesses contributing to increase in inbound passengers and regional revitalization

5 key initiatives

JAL Action

Safety

Networks & Products

Divisional Profitability Management

Human Resources

Innovation

3 management targets

JAL Target

Safety

Safety

Realize "Zero Aircraft Accidents" and "Zero Serious Incidents"

Customer Satisfaction

Comfort

Achieve "Customer Satisfaction of the world's Top level"

Finance

Profitability

Achieve "10% or above operating profit margin" and "9% or above ROIC (Return on Invested Capital)" by FY2020

JAL Target

Safety

Safety

Accumulate safety layers as the leading company of safety in the transport sector, while bearing in mind that "Flight safety is the basis of existence of the JAL Group and it's our social responsibility"

- Realize "Zero aircraft accidents" and "Zero serious incidents" -

Comfort

Customer Satisfaction

Provide unparalleled service to continuously deliver a fresh and enjoyable travel experience for every customers, and aim to become one of the most preferred airlines in each region in terms of Customer Satisfaction by FY2020.

* Measure recommendation ratio by NPS (Net Promoter Score)

Profitability

Finance

Aim for "10% or above operating margin" and "9% or above Return On Invested Capital (ROIC⁽¹⁾)" " by FY2020 , which enable us to grow continuously through proactive capital expenditures and effective use of management resources, while maintaining high profitability and strong financial stability established in the previous medium term.

(1) Return on invested capital gives a sense of how well a company is using its money to generate returns

$$\text{Return On Invested Capital (ROIC)}(\%) = \frac{\text{Operating Profit (excl. Tax)}}{\text{Fixed Asset (incl. Future Rental Expenses under Operating Leases)}}$$

Safety

We will ensure the customers' safety.

- Realize “Zero aircraft accidents” and “Zero serious incidents” -



We will proactively prevent accidents through layers of measures

Evolve the Safety Management System

- Implement prevention measures by integrating and analyzing safety information, and grasp the sign of serious trouble .
- Prevent human errors by analytical methods that take into indirect factors such as organization and culture.
- Introduce the scientific and statistic control for the flight crew's fatigue..



We will protect customers from terror threats

Evolve the Security Management System

- Strengthen coordination with related organizations, gather and assess security information, and act swiftly to strengthen the security system.
- Increase security awareness and knowledge of all staff, and detect and deal with the slightest security precursors.
- Build an adequate detection, monitoring and prevention system against increasingly sophisticated and complicated information security risks.



Continuously act with top priority on safety

Pass on lessons learned from accidents

- Pass on lessons learned from past accidents, and hold safety awareness education seminars which capture their essence based on the Three Actuals (the actual place, the actual item, the actual people).
- Hold education seminars to learn how to deal with emergency situations to all staff so that we can all help crew members and customers in an emergency.

International Network & Products

Provide the customer's top choice of Network, Products and Services
Promote activities for overseas customers toward growth



Improve/expand the route network for greater customer convenience

Improve / expand the network

- Improve the network between North America and Southeast Asia.
- Strengthen/expand partnerships with other airlines to improve convenience.
- Proactively use slots at Tokyo metropolitan area airports, expected to increase in 2020 to improve networks.



Welcome customers with comfortable spaces

Provide High-quality Products & Services

- Progressively introduce Fully-Flat Business Class seats to Southeast Asia routes, in addition to European, American, and Honolulu routes, where we have nearly completed installation in all aircraft.
- Promote New Spacious Economy Class seats "JAL SKY WIDER" with more legroom to mid- and long-haul routes
- Progressively revamp and renew airport lounges in Japan and overseas.



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Refine JAL's advantage to promote non-Japanese customer's use

Capture new demand

- Conduct promotional activities in overseas regions to introduce the attractiveness of Japan and increase recognition of JAL.
- Strengthen overseas sales organization with human resources knowledgeable of overseas markets.
- Capture new customers overseas by improving/expanding online functions in overseas regions.

Domestic Network & Products

**Realize stable growth by
“Offering high value services” and “Creating new airline demand”**



Welcome customers with new aircraft

Introduce new aircraft

- Introduce the latest Airbus A350-900 for the first time on domestic hub routes. (scheduled in FY2019)
- Introduce the new Embraer190, ATR, etc. on regional routes to improve cabin comfort.



Provide convenient and comfortable spaces for traveling

Provide High-quality Products & Services

- Realize an innovative, leading cabin environment, such as inflight Wi-Fi.
- Offer Diamond Premier Lounge at five airports and revamp Sakura Lounge.
- Offer customer-oriented service to provide relaxing travelling experience in addition to high quality facilities.



Contribute to regional revitalization by transporting customers to regions

Accelerate movement of people including foreign visitors to Japan

- Create airline travel demand to regions by providing reasonable fares to visit Japan, and upgrading webpage functions.
- Operate a customer-oriented network in remote islands and regional Japan.

Divisional profitability management

Realize “Maximize revenues, Minimize expenses” and “Lean management” through “Management by All”



Promote activities to increase risk resilience and maximize profits

Thorough profitability management

- Improve hourly profitability.
- Improve earning capacity, per unit.
- Reinforce cost control.
 - Control costs according to changes in market environments and revenues.
 - Restrain increases in fixed costs and promote variable costs.



Consolidate efforts of each staff and improve performance to achieve targets

Management by all

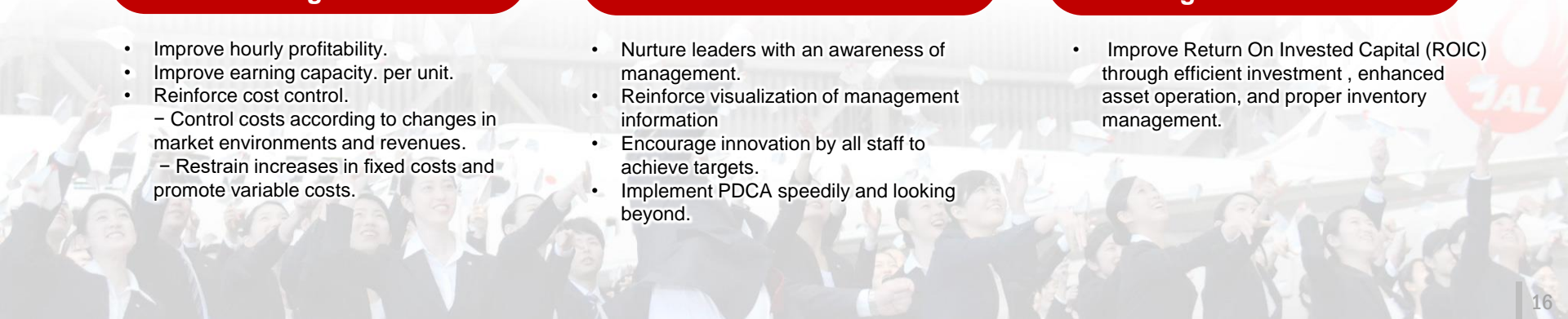
- Nurture leaders with an awareness of management.
- Reinforce visualization of management information
- Encourage innovation by all staff to achieve targets.
- Implement PDCA speedily and looking beyond.



Manage the company with ROIC awareness to realize lean management

Efficient use of management resources

- Improve Return On Invested Capital (ROIC) through efficient investment, enhanced asset operation, and proper inventory management.



Human resources

Nurture the individuality of each staff who supports JAL's wings into value creation



Develop environments to generate rewarding, high labor productivity in good health, both physically and mentally

Environments to increase labor productivity

- Promote workstyle innovation by reviewing the work process through use of IT tools, etc.
- Support employees for the proactive actions by health promotion based on JAL Wellness 2020 to promote both health and productivity.



Each staff will express their individuality and respect one another

Diverse human resources

- Nurture global human resources who respect and adapt to diverse cultures by expanding opportunities for overseas assignments and training, and by appointing national staff to management posts.
- Promote diversity to allow variety of human resources to exert their individuality and talents to work lively.



Aim for organizations which continuously aim high, meet challenges, and create new values

Challenging organizations

- To promote voluntary changes in a rapidly changing environment.
- Nurture leaders through a framework whereby divisional leaders declare and challenge high goals.
- Proactively meet challenges by holding various labs, business contests, etc. Create a group of professionals.

Embody the "JAL Philosophy"

Embody the JAL Philosophy in every possible situation toward achieving organizational/individual targets

Innovation

**Establish new revenue resources by
Contribute to regions and society, Improve/change existing businesses, and
Integrating human capabilities and technology**



Create new values by integrating human capabilities and technology

Utilize advanced technology

- Improve safety quality with maintenance and meteorological big data.
- Adapt to changing market environment by introducing global passenger IT platform.



Create inbound tourism demand to Japan and contribute to regional revitalization

Contribute to Inbound passenger and regional revitalization

- Respond to increasing inbound passengers to Japan by carrying customers to regions as "transport infrastructure".
- Conduct activities in unison with regions to contribute to Japanese regional economic growth and increase in the regional population.



Challenge to the new revenue resources by leveraging our strength

Create and nurture new domains

- Expand airline - related businesses with airline assets and know-how.
- Create and nurture new businesses.



**Airline-related and new domain business revenues
1.3 times vs.FY2016 revenues**

Core Domain

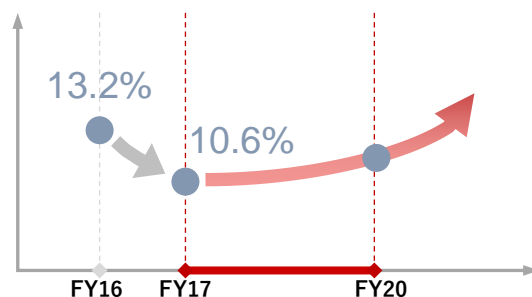
New Domain

Aim to increase our corporate value by growing continuously, while staying equipped with a high profitability structure and strong financial stability.
Study the optional application of IFRS

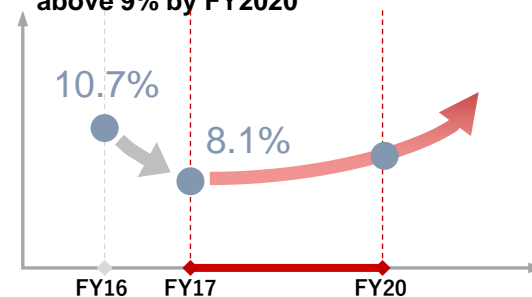
Profitability

- Pursue Profitability from previous management plan
- Keep strong notion of returns on investment and asset

■ Operating Profit Margin: above 10%



■ Return On Invested Capital (ROIC): above 9% by FY2020

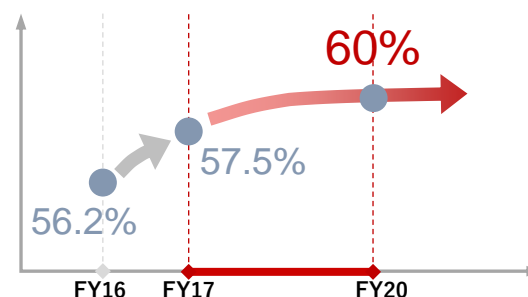


■ Return On Equity (ROE): Maintain above 10%

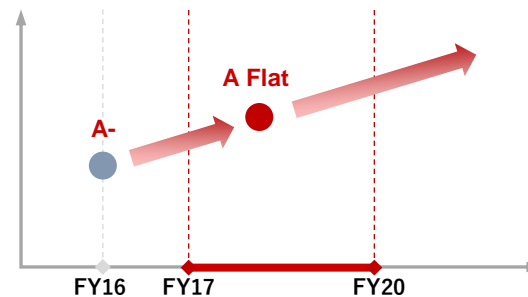
Stability

- Maintain proper equity ratio
- Plan to raise the credit rating

■ Equity Ratio: Keep approx. 60%



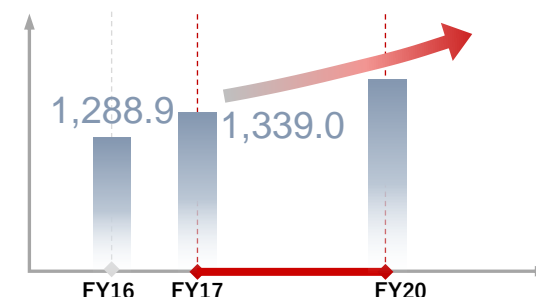
■ Credit Rating



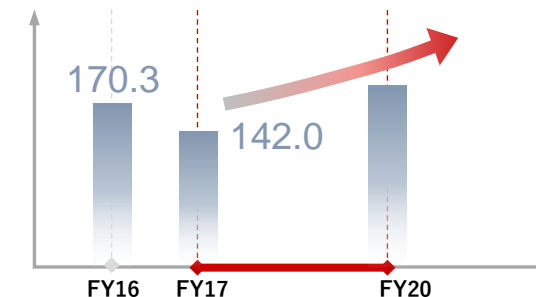
Growth

- Absorbing the cost pressure, we will move back to upward trend from FY2018

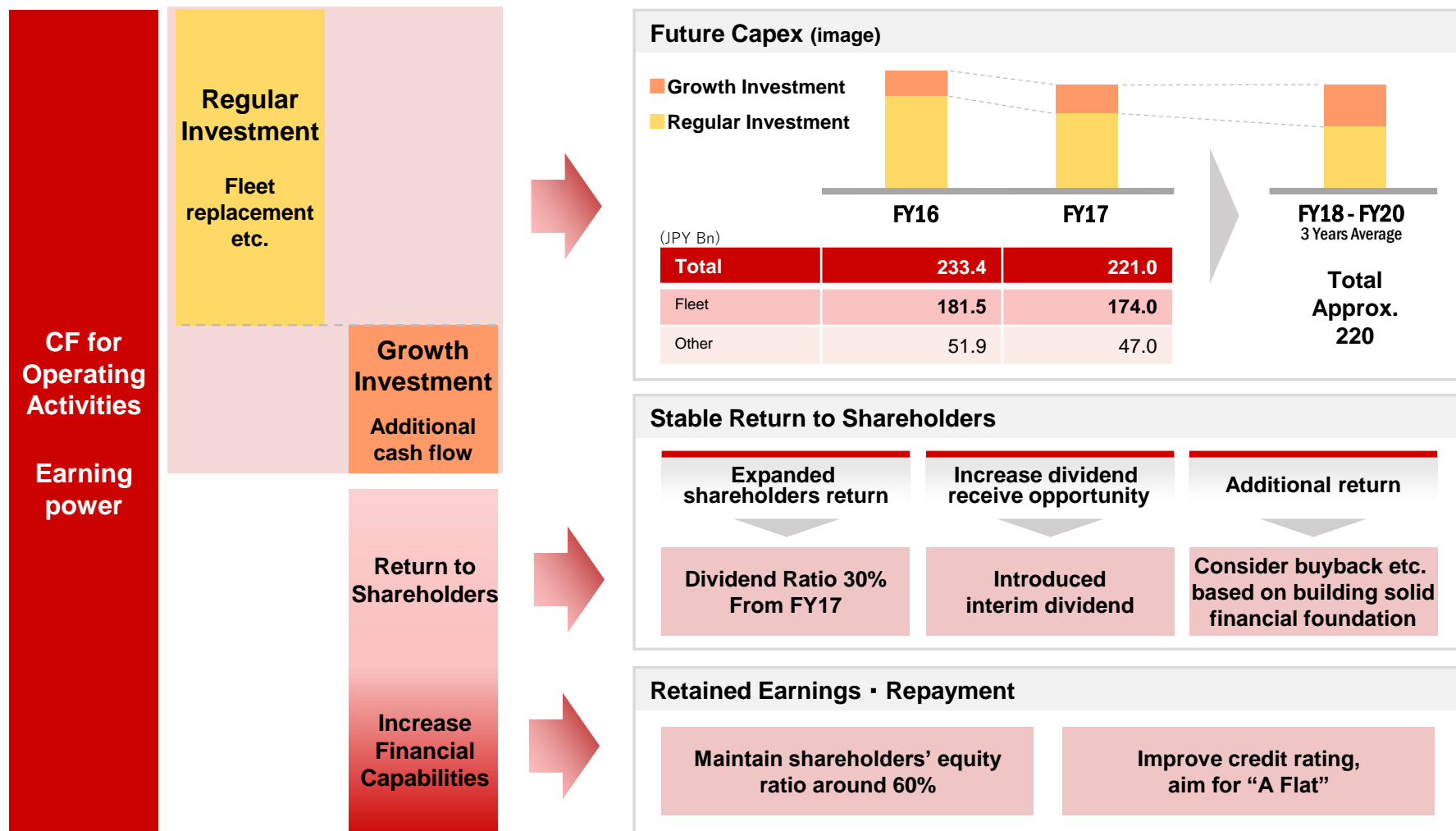
■ Operating Revenue (JPY Bn)



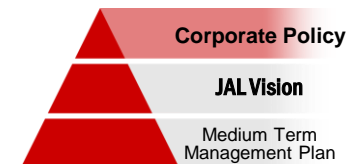
■ Operating Profit (JPY Bn)



**Cash is used for investment for growth to increase our corporate value,
return to shareholders and maintaining the financial stability**
For Growth Investment, utilize debt with strict discipline



Unite efforts of all staff, “Deliver unparalleled service to our customers”



Reservation and Sales

Deliver services to satisfy needs of customers worldwide

- Build user-friendly, highly convenient websites.
- Seek to become “friendly” contact centers.



Flight operations

Provide safe and high quality flights based on the keywords; Mission, Challenge, Reliability

- Introduce cutting-edge technology and training to solidify flight safety.
- Promote flight operations with care for the global environment.



Maintenance

Provide high quality aircraft to deliver sense of security and satisfaction to customers

- To provide safe and high quality aircraft, each staff shall perform at their maximum potential, using cutting-edge technology.

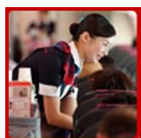
All for
JAL
Customers



Airport / Operations Control

Provide support to deliver a secure and comfortable travel experience for every customer

- Integrate human and latest technology to provide customer-focused service.
- Realize the world's highest standard of operational quality.



Cabin

Provide comfortable flights and satisfy customer's sense of safety and security

- Combine human resources and IT technology to treat customers with high stable quality.



Cargo and Mail

Provide unparalleled service to our customers “determinedly, faithfully and creatively”.

- Use our knowledge and experience to brush up basic service quality from customers' perspective.
- Challenge on creating new values by thinking outside the box.

We will respond to social needs and responsibilities
We will “increase corporate value and contribute to the betterment of society”



Improvement of the JAL brand

Safety • Customer Satisfaction • Finance

JAL Target



Environmental & Social

Coexistence with the planet earth



Reduce CO2 emissions
1.5% each year
(target by FY2020)

Nurture future generations



Aim for 1 million “Soraiku” participants
(target by FY2020)

Contribute to regional communities



Speedy disaster assistance and meticulous reconstruction assistance
(continuing activities)

Initiatives during the Medium Term Management Plan

5 Key initiatives
JAL Action

2 key drivers for growth
JAL Focus

Governance

“Corporate governance”

Management Foundation

JAL Philosophy

Divisional profitability management

Financial foundation

Corporate governance

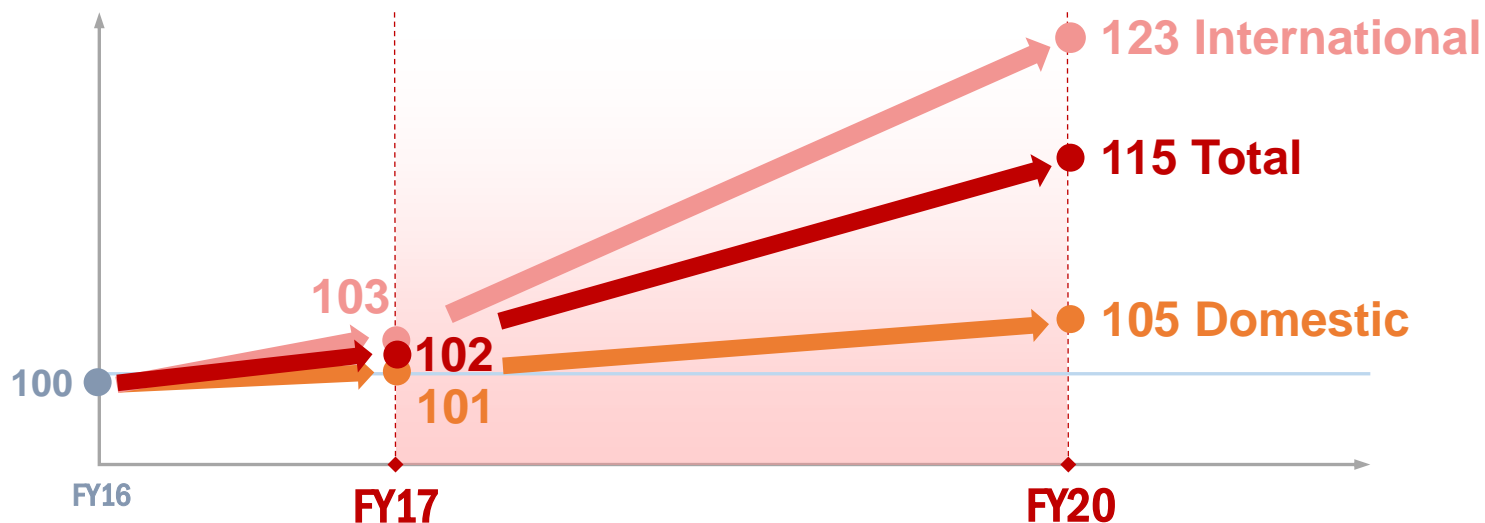


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Medium Term Management Plan 2017-2020

I	Key Concept
II	Action
Reference	Financial Data
1	Assumptions and Indicators
2	Financial Indicators
3	Fleet Plan

ASK



Assumptions

		FY16	FY17
Fuel (USD/bbl.)	Singapore Kerosene	57.2	66
	Dubai Crude	45.6	53
FX	USDJPY	108.6	115

Consolidated Profit and Loss Statement

	FY16	FY17	Difference
(JPY Bn)			
Operating Revenue	1,288.9	1,339.0	+50.0
Operating Expenses	1,118.6	1,197.0	+78.3
Operating Profit	170.3	142.0	▲ 28.3
Margin(%)	13.2%	10.6%	▲ 2.6pt
Ordinary Income	165.0	137.0	▲ 28.0
Net Income Attributed to Owners of Parent	164.1	100.0	▲ 64.1

Consolidated Balance Sheet

	FY16	FY17	Difference
(JPY Bn)			
Total Asset	1,728.7	1,793.0	+64.2
Interest Bearing Debt	116.0	133.0	+16.9
Equity	972.0	1,031.0	+58.9
Equity Ratio(%)	56.2%	57.5%	+1.3pt
ROE (%) ⁽¹⁾	18.1%	10.0%	▲8.1pt
ROA (%) ⁽²⁾	10.3%	8.1%	▲2.2pt
ROIC (%) ⁽³⁾	10.7%	8.1%	▲2.6pt

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)

Consolidated Cash Flow Statement

	FY16	FY17	Difference
(JPY Bn)			
CF from Operating Activities	253.1	231.0	▲22.1
CF from investment Activities ⁽¹⁾	▲215.5	▲210.0	+5.5
Free CF ⁽¹⁾	37.5	21.0	▲16.5
CF from Financial Activities	▲53.5	▲35.0	+18.5
EBITDA	266.1	254.0	▲12.1
EBITDAR	286.2	271.0	▲15.2

1. Exclude deposits and withdrawals

Other Indicators

		FY16	FY17	YoY
RPK ⁽¹⁾	Int'l Doms	40,633 24,550	41,970 24,866	+3.3% +1.3%
Yield ⁽²⁾	Int'l Doms	10.2 20.3	10.8 20.2	+6.2% ▲0.3%
Load Factor ⁽³⁾	Int'l Doms	80.3% 69.3%	80.7% 69.3%	+0.5pt ▲0.0pt
Airline Business Operation Revenue per ASK ⁽⁴⁾		13.3	13.4	+0.1
Unit Cost ⁽⁵⁾		9.4	9.9	+0.5

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

Fleet Plan Detail

End of FY16

End of FY17

End of FY20

Total

Total **230**International 84
Domestic 146
(excl. Regional 174)Total **226**International 85
Domestic 141
(excl. Regional 174)Total **231**International 92
Domestic 139
(excl. Regional 182)

Int'l

Large 24

Large 24

Middle 50

Middle 51

Small 10

Small 10

Large

Middle

Small

Domestic

Large 16

Large 16

Middle 20

Middle 20

Small 54

Small 53

Large

Middle

Small

Regional
56Regional
52

Regional

**777****787**Continue to introduce and
three 789s will be added in
FY2017.**767**

NEW

A350Introducing
in FY2019**737**Continue to replace from
737-400 to 737-800**E190**Replace
CRJ200 and
Q400

NEW

ATR42Start to replace
SAAB 340**Q400CC***Continue to replace
from DHC8

*CARGO COMBI

**E170****SAAB340****MRJ**

Will join FY21 and after



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