

Management Strategies Designed to Create Value

In fiscal year 2017, the JAL Group initiated the JAL Group Medium Term Management Plan for Fiscal Years 2017 – 2020, under the key words “Challenge, Leading to Growth.” In this section, we outline the plan’s initiatives and explain the JAL Group’s value creation cycle.

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MESSAGE FROM THE PRESIDENT

Yoshiharu Ueki
Representative Director,
President

The JAL Vision and our new Medium Term Management Plan were established to realize the JAL Group Corporate Policy. We aspire to be an airline that not only achieves corporate growth but also contributes value to society.

01 The JAL Group embraced the challenge of the last five years by working with a strong team spirit toward its goals.

When we formulated our previous medium term management plan—the JAL Group Medium Term Management Plan for Fiscal Years 2012-2016—our two goals were to regain the trust of society through sincere responses to the 2010 bankruptcy and to build a solid financial base by establishing a high profitability structure to promote sustainable growth. To reach these goals, we established targets in three areas: safety, customer satisfaction, and finance. Specifically, they were zero aircraft accidents and zero serious incidents; number one in customer satisfaction by fiscal year 2016; and an operating margin of 10% or above for five consecutive years and an equity ratio of 50% or above by fiscal year 2016. In spite of these challenging goals, every JAL Group staff member worked determinedly over the five-year period to accomplish and fulfill the plan.

The JAL Philosophy and the amoeba management system, both introduced after our bankruptcy, generated a dramatic change in the awareness and behavior of JAL Group executives and employees. All JAL Group employees now put in joint efforts each day to realize the JAL Group Corporate Policy: deliver unparalleled service to customers, increase corporate value, and contribute to the betterment of society. As a result, we were able to achieve our financial targets, thought to be the most challenging of the three, of an operating margin of 10% or above for five consecutive years and an equity ratio of 50% or above by fiscal year 2016. I believe that this has enabled us to create a firm foundation to enter a new growth phase. Regarding our safety target, one aircraft accident occurred in fiscal year 2016, and consequently we were not able to achieve the targeted zero record for five years. As for customer satisfaction, we reached our target for international flights, but fell short of our target for domestic flights. We take these results seriously and will continue to push forward determinedly to reach our customer satisfaction target.

It is regrettable that we did not fully achieve all the targets set out in the previous Medium Term Management Plan. It is significant, however, that all JAL Group employees worked in unison to fulfill our yearly rolling plans, updated by reviewing the progress made each year and the direction of our policy under the five-year plan. I think we can compare finishing the plan to crossing the finish line of a marathon. By implementing the JAL Philosophy and the amoeba management system over the past five years, the JAL Group has laid a solid business foundation, and established a high-profitability structure and a strong financial base. I believe that this strategy has enabled us to regain the trust of all stakeholders and fulfill their expectations for sustainable growth.

For an outline of the previous Medium Term Management Plan, please refer to P.06-07: Summary of Overview of Fiscal Years 2012-2016 JAL Group Medium Term Management Plan.

For details of aircraft accidents and serious incidents, please refer to P.128: Data on Incidents.

02

The JAL Vision— our first step toward implementing the JAL Group Corporate Policy

The JAL Group regards the 2020 Olympic and Paralympic Games in Tokyo as a major turning point, when an expansion of flight slots at Tokyo metropolitan airports is expected. Bearing this in mind, we established a new JAL Group Medium Term Management Plan for Fiscal Years 2017-2020 under the key phrase “Challenge, Leading to Growth.”

If I were to compare the JAL Group when we initiated the previous medium term management plan to an aircraft in flight, I would say we were in the phase of having taken off and climbing through thick clouds and poor visibility. Now that we have finished the previous plan, I would say the aircraft has finished climbing and is in the cruising phase of the flight. Having reached this point and begun considering what is most important for the next phase, we have concluded that we should steadfastly implement our Corporate Policy and gain public recognition as a company that makes valuable contributions to society. We therefore established the JAL Vision to indicate what kind of company we aspire to be in ten years’ time through the process of implementing the Corporate Policy.

The JAL Vision, which outlines our ideal future profile, expresses our wish to bring happiness to customers worldwide including Japan, and to communities and society as well as individual customers. It also encapsulates our determination to become an airline that meets a broad range of societal needs. To realize these ambitions, we envisage transforming JAL into a true global airline that is one step ahead of its competitors in value creation, and thereby ensuring sustainable growth. The new Medium Term Management Plan translates this vision into concrete measures so that we may realize it.

JAL Vision

To customers worldwide,
From region to society



To realize the JAL Group Corporate Policy and become
“the world’s most preferred and valued airline,”
everyone at JAL will put in joint efforts to ensure flight safety and to:

1

Transform JAL into a true global airline

×

2

Create new values one step ahead of our competitors

=

3

Continue sustainable growth



03

New Medium Term Management Plan:
To realize the JAL Vision

The new Medium Term Management Plan identifies two growth drivers for the JAL Group to concentrate on, under the key words “JAL Focus.”

The first growth driver is to refine our full-service carrier business. We aim to achieve steady growth by positioning it as the core business domain of JAL and by maximizing its strengths. As part of active investments in “hard” services, we will proceed with expanding international routes operated with JAL SKY SUITE-configured aircraft, while on domestic routes, we will deploy the A350 for the first time in fiscal year 2019.

As for our route network, we will steadily expand routes, primarily international routes, to further improve customer convenience. We launched the route between Haneda and New York in April 2017, and will open routes between Narita and Melbourne and between Narita and Kona in September this year.

In addition to these improvements in “hard” services and routes, we will further refine our spirit of hospitality, which is the JAL Group’s greatest strength, to deliver the finest service and a pleasant travel experience at all customer touch points before, during, and after the flight.

The second growth driver is the expansion of our business domains. As well as further expanding our airline-related businesses such as providing services relating to airport handling and aircraft maintenance, and in the travel agency and credit card sectors, we will devote our energy to entering new business domains, and meet the challenge of creating and cultivating new revenue sources. We target a revenue increase of 10% and 30% in our core business domain and new business domains, respectively, in fiscal year 2020 compared to fiscal year 2016.



As with the previous plan, the new Medium Term Management Plan sets management targets in the three areas of safety, customer satisfaction, and finance. To reach our safety target, which was not achieved in the previous plan as mentioned above, we will further accumulate safety layers to achieve zero aircraft accidents and zero serious incidents. Regarding customer satisfaction, we aspire to provide unparalleled service to deliver a refreshing and inspiring travel experience to every customer, and thereby become the preferred airline in each global region. As for finance, we set a new management target of achieving a 9% or above return on invested capital (ROIC)* by fiscal year 2020, in addition to the target of 10% or above operating margin. We will continuously strive to maintain an equity ratio of approximately 60%.

To reach these management targets, the new Medium Term Management Plan sets out concrete initiatives under five headings: Safety; Network & Products; Divisional Profitability Management; Human Resources; and Innovation. By tackling these areas, we believe that we will be able to progress steadily step by step to achieve sustainable growth for the JAL Group.

* Return on invested capital (ROIC) (%) = Operating profit (excluding tax)/fixed assets (including future rental expenses under operating leases)
 * For an outline of the new Medium Term Management Plan, please refer to P.24-27: Outline of JAL Group Medium Term Management Plan for Fiscal Years 2017-2020.

04

Initiatives Relating to the Environment, Society, and Corporate Governance

The JAL Group recognizes that a company that seeks to contribute value to society as well as corporate growth and profits will gain trust from society. Therefore, we believe that initiatives relating to the environment, society, and corporate governance are essential.

Environmental initiatives

Under the key phrase “Living in Harmony with the Planet,” we are taking steps to reduce CO₂ emissions, industrial waste, and electric power consumption. We particularly believe that reducing fuel consumption contributes significantly to reducing impacts on the environment. We therefore enforce various measures, including renewing our fleet with state-of-the art aircraft, which have improved mileage performance, applying optimal flight courses and flying techniques, and reducing aircraft weight through optimal onboard loads. Since 1993, we have been participating in the CONTRAIL Project by conducting atmospheric observations using our aircraft. This project has received an array of awards such as the Environment Excellence Award, the Minister of the Environment Prize, and the Special Global Environment Prize. It is a valuable asset of ours that we have been engaged in these activities since the days when environmental issues did not draw such strong public attention. Going forward, we remain committed to conducting environment-conscious business operations.

Social initiatives

Our social initiatives focus on nurturing the next generation through JAL SORAIKU and other related projects, and on contributing to communities through support for disaster recovery, regional revitalization, and support to developing countries. Regarding regional revitalization, the JAPAN PROJECT, launched in May 2011, promotes for instance attractive regional tourist destinations and local products through our in-flight magazines, in-flight meals, and other JAL Group media. In fiscal year 2015, the project further evolved into the JAL NEW-JAPAN PROJECT, in which we collaborate with regional communities to promote revitalization of industries and economies. Through this project, we assist in attracting domestic and inbound demand, and continue supporting regions across Japan.

Corporate governance initiatives

With regard to corporate governance, we are working to further improve our corporate governance system, compliance, risk management, and related activities, which form the business base of corporate activities. As a corporation that supports public infrastructure, we recognize the importance of establishing a business continuity plan in the event of a natural disaster, major fire, terrorist attack, or other emergency situations, and are reinforcing relevant activities.

05

Closing words

The JAL Group was given the opportunity to rebuild the company after the 2010 bankruptcy through the support of all stakeholders. Having pulled through the five-year period up to the end of fiscal year 2016, we are once again ready to take off on a renewed path toward growth. To ensure JAL remains one of the world’s most preferred and valued airlines, we will maintain the highest standards of flight safety and draw on the strengths of everybody in the JAL Group to meet the high expectations of our stakeholders. I hope we can count on your continued support and understanding as we move into a new phase of growth.”

Yoshiharu Ueki
Representative Director, President

MESSAGE FROM THE CFO



Promoting active investments for growth and effective use of business resources while raising business management awareness across the JAL Group

Review of the JAL Group Medium Term Management Plan for Fiscal Years 2012-2016

Looking back over the JAL Group Medium Term Management Plan for Fiscal Years 2012-2016, we can point to success in meeting both of our financial targets: an operating profit margin of 10% or above for five consecutive years and an equity ratio of 50% or above by fiscal year 2016. Major contributing factors were firstly the change in the awareness of all employees achieved by sharing the principles set out in the JAL Philosophy, and secondly a profit-conscious approach to business activities through the introduction of the business management techniques of the amoeba management system. In concrete terms, each organization visualizes its profitability status each month for reporting at the Group Earnings Report Session. This measure has resulted in frank discussions, leading to higher profit consciousness. Additionally, consistent implementation of the PDCA cycle, with feedback from monthly business results, enables timely adjustment of performance targets. In this way, we have established a system that enables each organization to react flexibly to changes in the business environment. That is the reason for our success in realizing a high profitability business structure.

Financial strategy under the JAL Group Medium Term Management Plan for Fiscal Years 2017-2020

Financial Policy

The financial policy of the new Medium Term Management Plan is to realize an increase in corporate value in a way that combines profitability with stability by building on the solid financial foundation and business management system which we have established so far and by maintaining the potential for sustainable growth.

Our profitability targets are to achieve an operating profit margin of 10% or above each fiscal year and return on invested capital (ROIC)* of 9% or above by fiscal year 2020. Management of individual investment projects will continue to be based on net present value (NPV) as we have done up till now. Going forward, the key performance indicator applied to company-wide investment will be ROIC, which indicates the efficiency of return on fixed assets (including future rental expenses under operating leases). Unlike return on equity (ROE), which measures the efficiency of return on shareholders' equity, this will enable us as the finance department to monitor the effective use of invested capital as a whole.

Regarding stability, in view of future risks which need to be considered given the particular nature of the aviation business, we will continue to maintain an equity ratio of approximately 60% and an improvement in our credit rating.

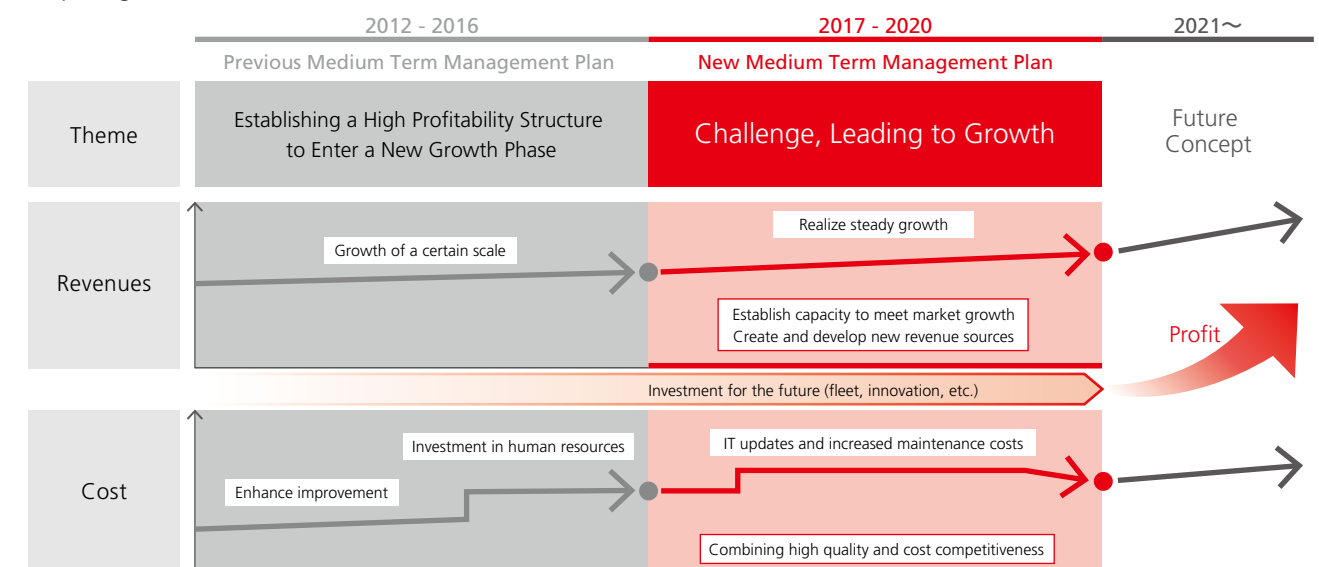
As for growth potential, we envisage that increased expenditures in the initial stage of the plan, which are allocated to advance investment for sustainable growth, will be balanced by revenue-increasing measures and cost control measures, leading to higher revenues and profits in the later stages. In fiscal year 2016, the increase in expenses was mainly attributable to a review of the salary system and higher base salaries as key human resource investments in order to solidify our foundation for future growth.

In fiscal year 2017, the increase in expenses will mainly be attributable to investments in IT system upgrades and rising aircraft maintenance costs.

Regarding IT systems, we are updating our passenger service system for the first time in fifty years. The new system, which will go live in November 2017, is expected to produce enhanced

For detailed information on revenue management, please refer to P.127: Glossary

Steps to growth



MESSAGE FROM THE CFO

online functions that will contribute to advanced revenue management and greater customer convenience. It should also generate revenue increases through a more flexible fare system. Additionally, it will help reduce system maintenance and management costs and enable us to switch to variable costs linked to customer demand, which together with other benefits will contribute to greater cost efficiency at the entire company level. As fiscal year 2017 will include the period of transition to the new system, relevant increases in depreciation expenses, training needs for system cutover, and other demands will result in a front-loaded increase in costs in the short term, but I believe the benefit to build an IT platform to serve as the basis for sustainable growth will justify our medium-term investments.

As for maintenance costs, we expect an increase in engine maintenance costs, notably for 787 aircraft, with particular increases in fiscal years 2016 and 2017. However, our aim is to reduce overall maintenance costs for fiscal year 2020—three years from now—to fiscal year 2017 levels by increasing maintenance cost efficiency through effective use of information technology among other things.

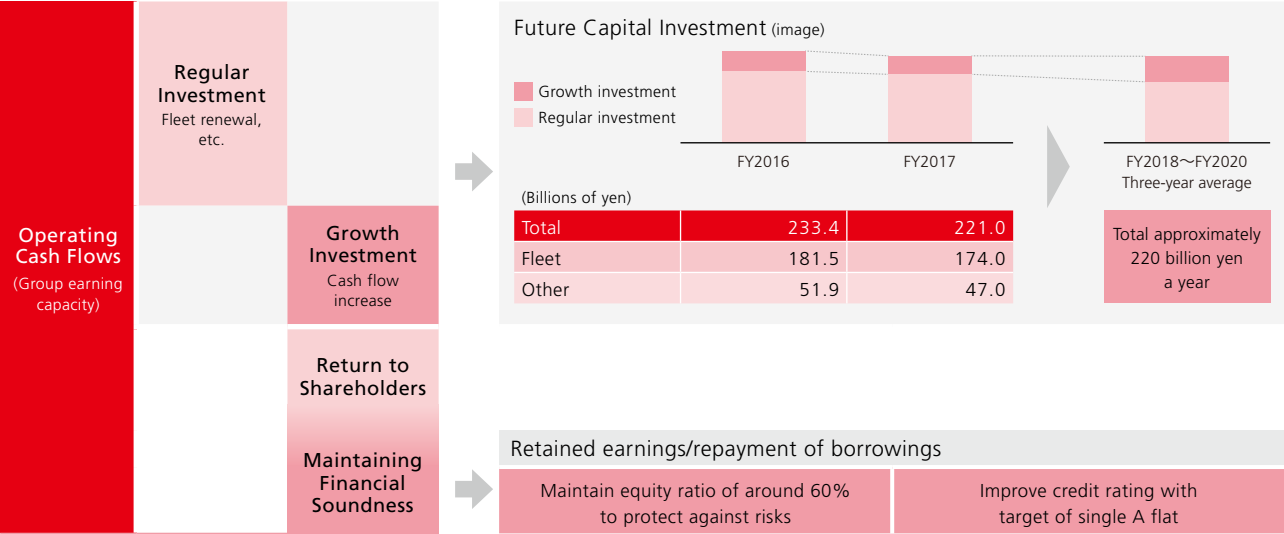
As a consequence of these capital expenditures required for long-term growth, a reduction in profits is forecast for fiscal year 2017. However, from fiscal year 2018, we aim to establish a sustainable trend of higher profits on higher revenues.

* Return on invested capital (ROIC) (%) = operating income (excluding tax)/fixed assets (including future rental expenses under operating leases)

Allocation of Cash Flows

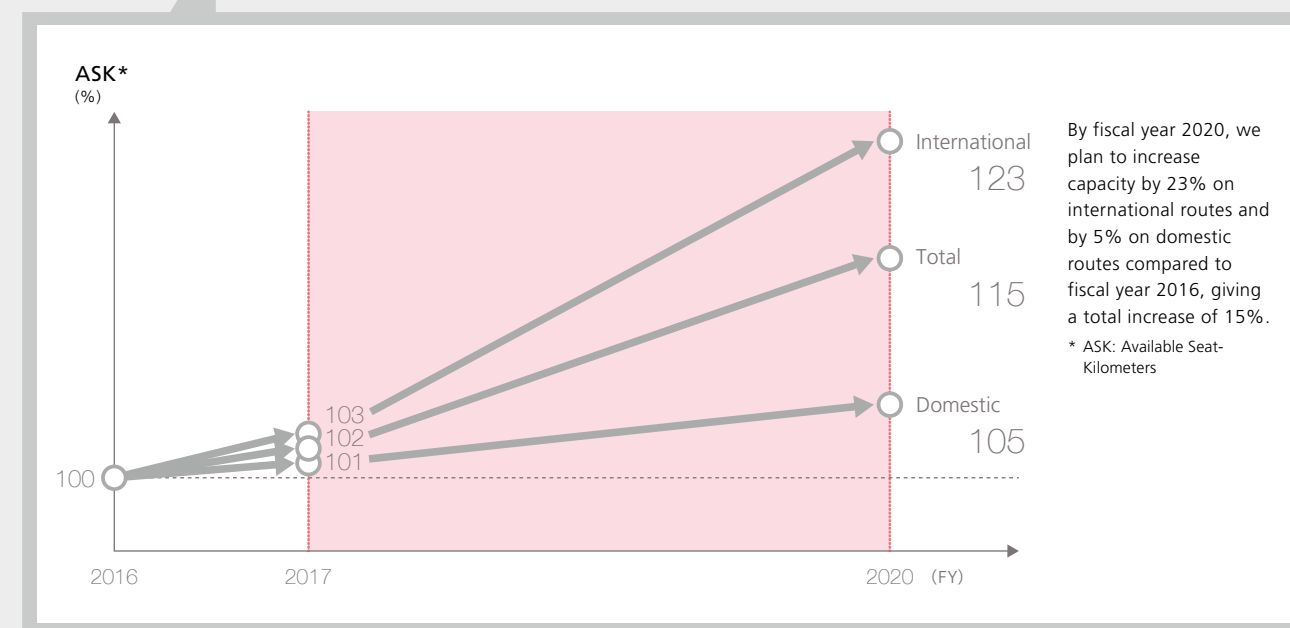
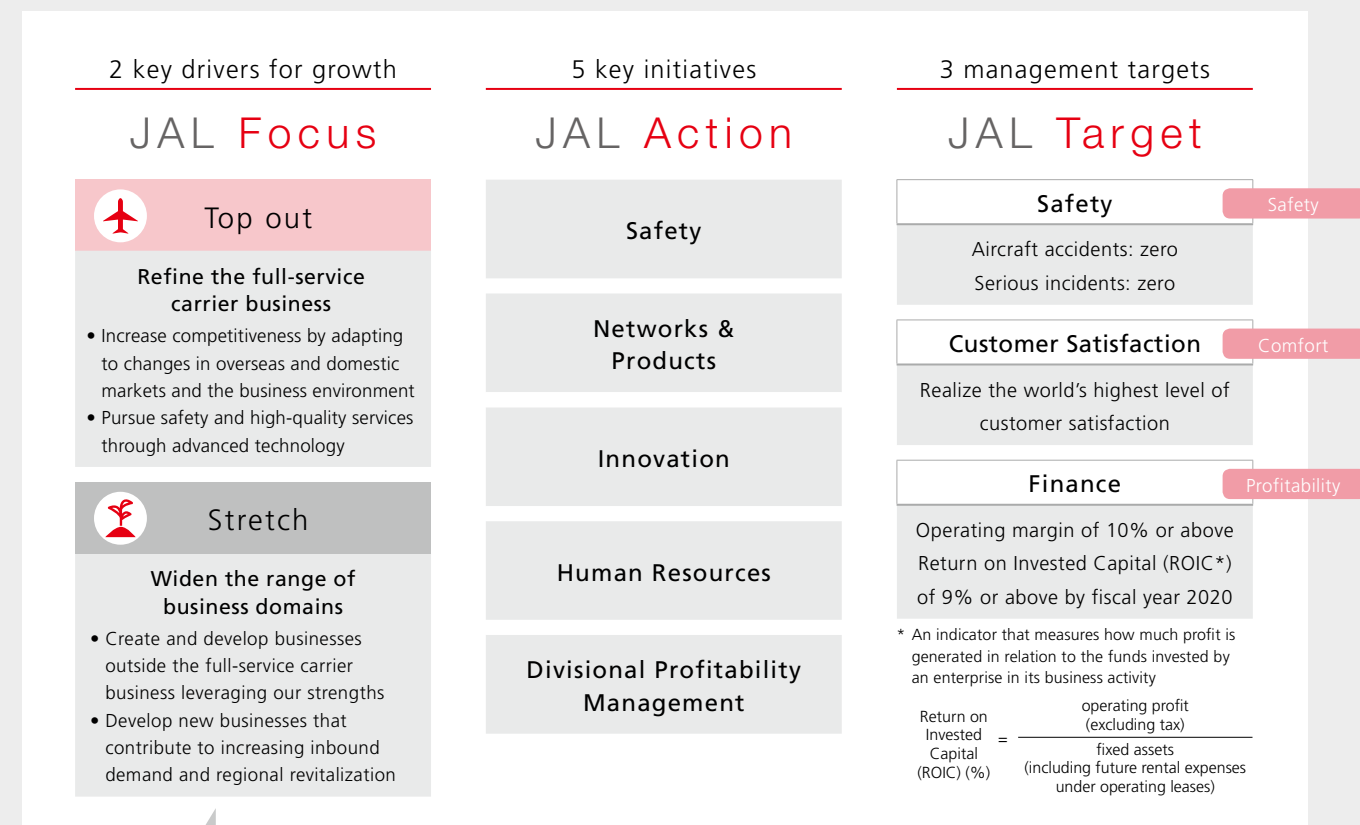
With financial stability required as an absolute precondition and with the aim of achieving sustainable growth in the medium to long term, allocation of cash flows is carried out focusing on three areas: investment for growth, shareholder return, and financial soundness. Our investment plan for the three years from fiscal year 2018 to fiscal year 2020 foresees a yearly average of approximately 220 billion yen. Going forward, we plan to increase the proportion allocated to investment for growth so that this growth can drive an increase in operating cash flows. Additionally, we continue to view shareholder return as one of our main management priorities. With continuous payment of a stable dividend as the basis of our policy in this area, we decided to raise the dividend payout ratio to 30% from fiscal year 2017. Additionally, to increase outlets for shareholder return, we will introduce an interim dividend. It is also our policy to give flexible consideration to share buy backs and additional shareholder return options depending on the economic environment and financial conditions.

Allocation of cash flows



OUTLINE OF JAL GROUP MEDIUM TERM MANAGEMENT PLAN FOR FISCAL YEARS 2017-2020

We regard the year 2020, the year of the Olympic and Paralympic Games in Tokyo, as a major turning point in realizing the JAL Vision, as capacity expansion of flight slots is expected at Tokyo metropolitan airports. To coincide with this significant year, we established the new JAL Group Medium Term Management Plan for Fiscal Years 2017-2020 under the key words "Challenge, Leading to Growth."



JAL Focus

2 KEY DRIVERS FOR GROWTH

Top out

Refine the full-service carrier business

Under the new Medium Term Management Plan, we will continue to work on refining our full-service carrier business, which is our core business, and aim for steady growth. To realize this, we will strive to maximize profit by adapting quickly, in terms of revenues and expenses, to changes in the market and business

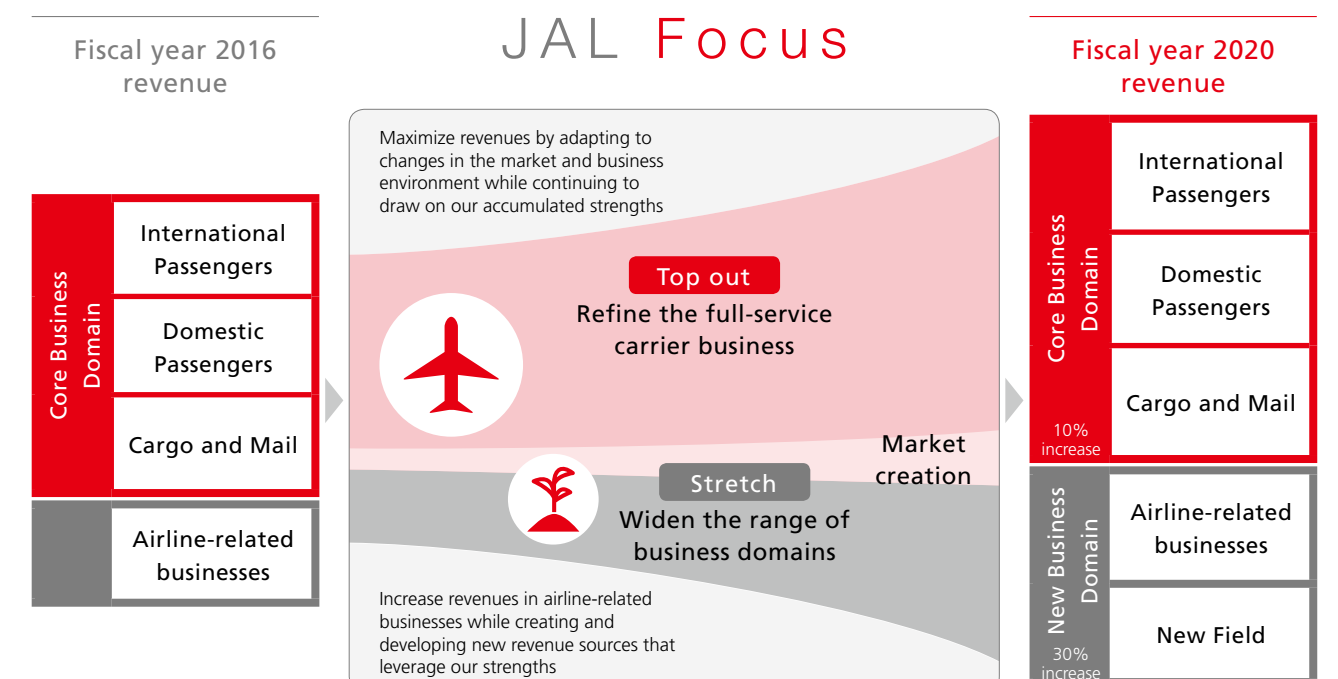
environment, while retaining the strengths we have built so far. Meanwhile, we will adapt to global changes as well as make investments to refine safety and services so that we become the customers' choice of airline.

Stretch

Widen the range of business domains

After making the necessary preparations, we will expand our business domains by creating and developing new revenue sources leveraging our strengths. In domains outside the full-service carrier business, we will work to increase revenues in our airline-related businesses such as providing services for airport handling and aircraft maintenance and in the travel

agency and credit card business sectors. Furthermore, we will strive to create and develop new businesses that optimize JAL's expertise and other advantages, while carefully investigating feasibility and monitoring growth. In this way, we will widen the scope of growth into the future.




JAL Action

5 KEY INITIATIVES

Safety

We will maintain our safety targets of zero aircraft accidents* and zero serious incidents.* Under the new Medium Term Management Plan, we aim to establish a stable record of zero incidents by introducing a new approach, for instance rolling out a range of initiatives to evolve our safety management system to proactively prevent accidents through multi-layered defenses, evolving our security management system to protect

customers from terrorist threats, and generating a culture that gives top priority to safety and ensures that lessons learned from accidents are passed on.

 For detailed information, please refer to P.30: Safety Charter.


* For an explanation of terms, please refer to P.110.

Network & Products

On international routes, our growth strategy is to continuously offer a network and product lineup to cater to customer needs, and implement promotional measures for international customers. As part of this strategy, we will increase fully flat seats in Business Class and increase aircraft fitted with New Spacious Economy seats that offer more legroom.

On domestic routes, we will realize stable growth by delivering high-value services and stimulating new air travel demand. Initiatives include introducing the latest A350 aircraft

model on main routes and new aircraft such as the Embraer 190 and the ATR42-600 on regional routes, expanding routes offering in-flight Wi-Fi service, and increasing aircraft fitted with high-quality seats. We will also take steps to expand our network services to outlying islands and Hokkaido.

 For detailed information, please refer to P.46-47: International Passenger Operations; and P.48-49: Domestic Passenger Operations.

Divisional Profitability Management

We will maximize revenues and minimize expenses through strict cost control, reduction of fixed costs by shifting to variable costs, and other measures. In parallel, we will promote "muscular management," which increases the ability to generate cash by making efficient use of management resources. Meanwhile, we will take advantage of "management by all," involving speedy implementa-

tion of the PDCA cycle and harnessing the creative talents of all employees, to consolidate the strengths of each employee, and thereby increase effectiveness in reaching our targets.

 For detailed information, please refer to P.32: Amoeba Management System.

Human Resources

To allow diverse human resources to express themselves individually, we will maintain a work environment that improves productivity, and pursue initiatives to develop global human resources and promote diversity. Additionally, by nurturing leaders who accelerate change on their own initiative and encourage staff to work as a professional team, we aim to make

the JAL Group an entity filled with energy for value creation and human resources who can translate ideas into reality.

 For detailed information, please refer to P.38-42: Human Resources Strategy.

Innovation

We will embrace the challenge of innovation by improving and changing existing businesses through the use of IT and other tools, contributing to regional communities and society, and developing new revenue sources. To address the issues of inbound demand and regional revitalization, we will strive to improve trans-

port infrastructure to meet the growth in inbound demand and enforce measures to promote tourism to regional Japan. We will also collaborate with regional communities through projects such as the JAL-NEW JAPAN PROJECT and contribute to developing regional economies and reversing population decline.

JAL Target

3 MANAGEMENT TARGETS

Safety

Maintaining awareness that ensuring flight safety is the foundation and social responsibility of the JAL Group, we will accumulate multiple safety layers as the leading company for safety in the transport sector. Consequently, we will be able to maintain flight safety and reach our target of zero aircraft accidents and zero serious incidents.

Customer Satisfaction

We will provide customers with unparalleled service to deliver a refreshing and inspiring travel experience with the aim of realizing the world's highest level of customer satisfaction by fiscal year 2020.

* Using Net Promoter Score (NPS), a numerical indicator of customer loyalty, we will work to improve customers' willingness to recommend JAL to others.

Finance

We aim for sustainable growth by undertaking proactive investments for future growth and making effective use of management resources, and at the same time maintaining both the high profitability and the strong financial stability that we

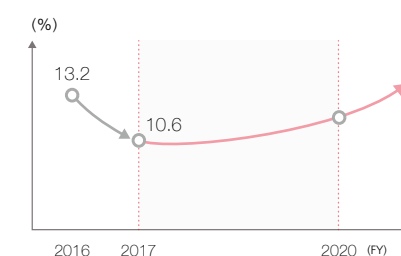
have built so far. To reach these goals, we set the financial targets of an operating margin of 10% or above and return on invested capital (ROIC)* of 9% or above by fiscal year 2020.

* For an explanation of terms, please refer to P.24.

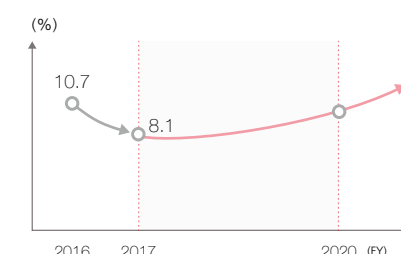
Profitability

- Continue to pursue profitability
- Strong awareness of return on resources and assets

Operating margin: 10% or above



Return on invested capital (ROIC): 9% or above by fiscal year 2020



Return on equity (ROE): maintain at 10% or above

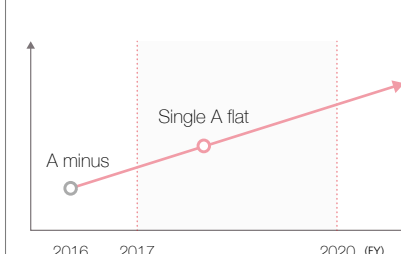
Stability

- Equity ratio: maintain at an appropriate level
- Improve credit rating

Equity ratio: maintain at approximately 60%



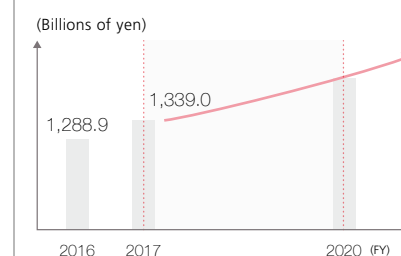
Credit rating



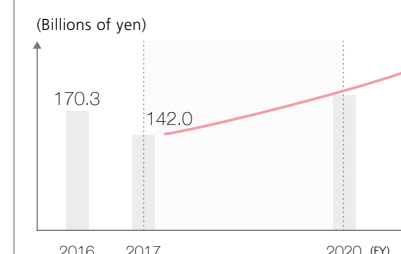
Growth potential

- By controlling cost increases, we will achieve a turnaround to increased revenues and profits from fiscal year 2018

Operating revenue

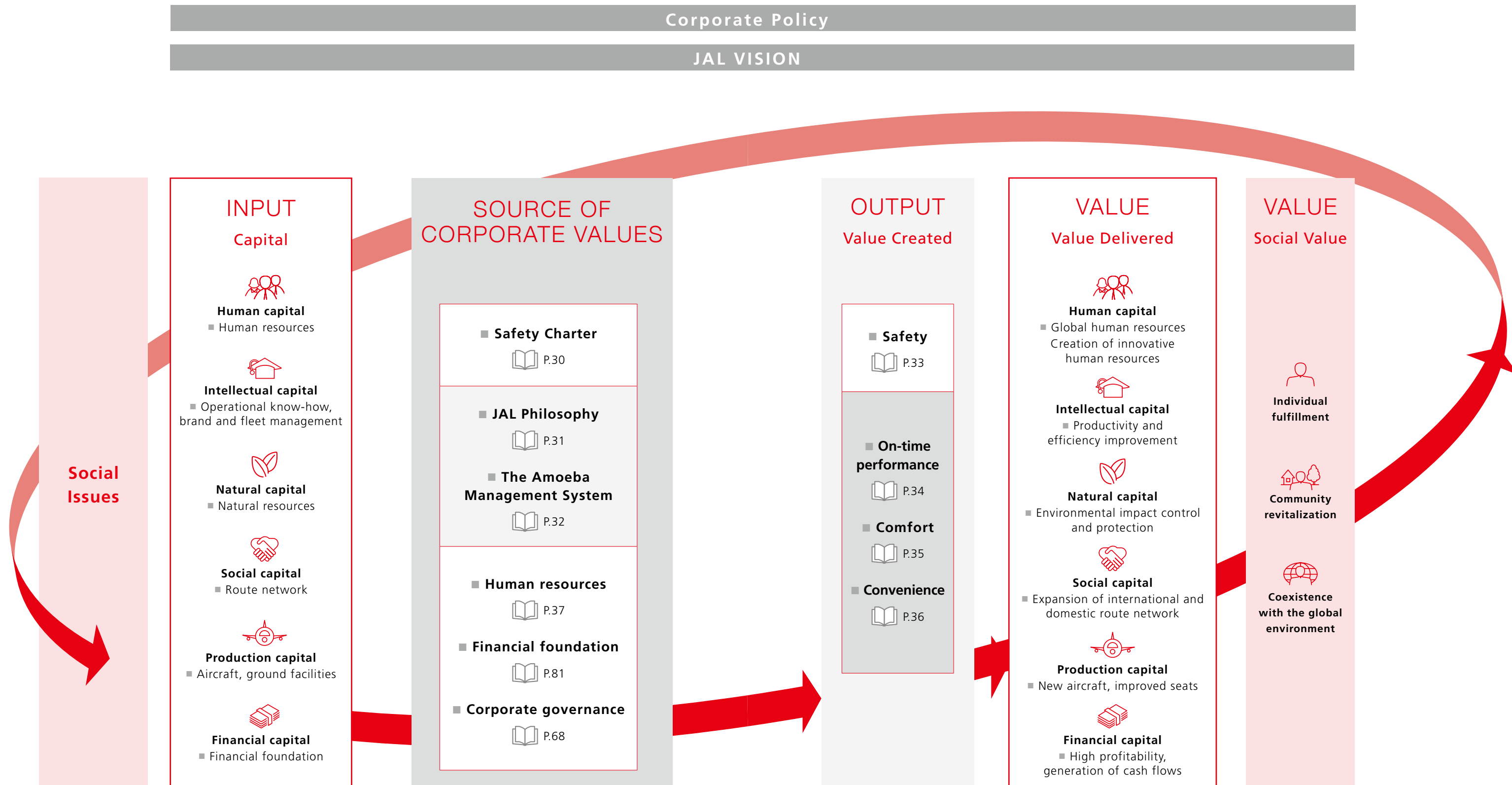


Operating income



JAL GROUP VALUE CREATION CYCLE

The JAL Group's initiatives for value creation are guided by the JAL Corporate Policy and the JAL Vision. We maintain an awareness of social issues when using the Group's assets to develop our business. By enhancing the JAL Brand, we enhance corporate assets and create social value.



SOURCE OF CORPORATE VALUES

SOURCE OF CORPORATE VALUES

SAFETY CHARTER

Flight safety is the foundation and social responsibility of the JAL Group. To fulfill this responsibility, JAL established the Safety Charter. All JAL Group employees carry a safety card imprinted with the Safety Charter, on which they base their conduct at work each day.

Safety Charter

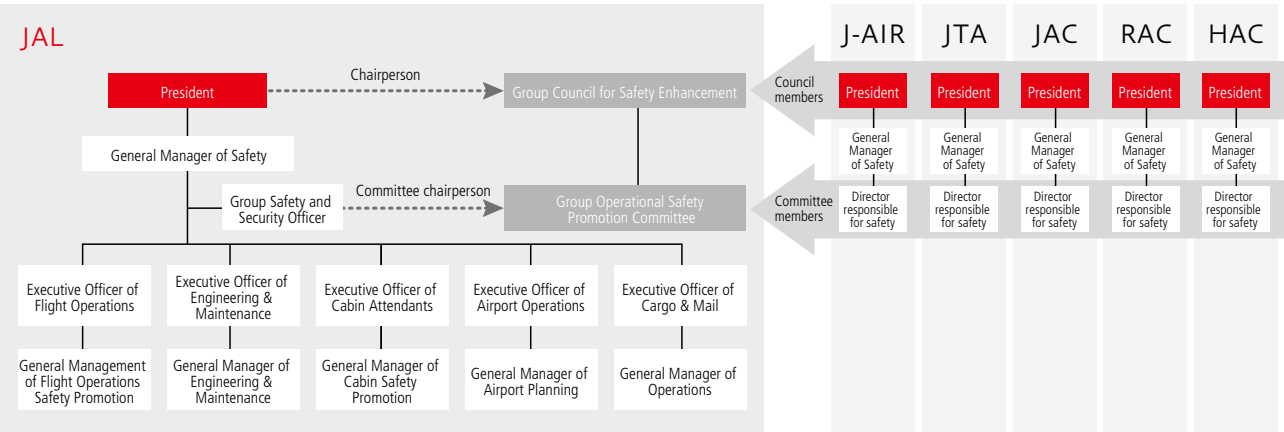
Safety in flight operations is the very foundation and social responsibility of the JAL Group. To carry out our mission of assuring safety, the management will exert its strong resolve and the employees will bear an awareness of their individual roles and responsibilities, and together we will combine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

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

Safety Management System

To maintain the highest safety standards and attain further improvement, the JAL Group has established a safety management system (SMS), which it strives to continuously improve and strengthen. Under the system, JAL employees, who are equipped with strong safety awareness, are trained for example to make a detailed report on any event, however trivial it may appear, that occurs on the frontline of day-to-day flight operations. Risk factors are then systematically identified and evaluated,

Safety Management System



and appropriate action is taken to ensure that factors threatening safety are dealt with before they develop into real dangers. We will continue to implement and enhance this kind of preventive safety management.

Safety Advisory Group

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

Follow-up meetings with management

The members of the Safety Advisory Group hold annual follow-up meetings with management. The progress of the JAL Group's safety measures is examined, and the members offer advice as they consider appropriate.

Safety Advisory Group members	
Mr. Kunio Yanagida (Chair)	Non-fiction writer, critic
Prof. Yotaro Hatamura	Professor, Kogakuin University, Professor Emeritus, University of Tokyo / Areas of expertise: nano-micro machining, production processing, medical support engineering, failure science, study of danger, creative design theory
Prof. Shinichi Kamata	Professor Emeritus, National Defense Academy of Japan / Areas of expertise: organizational theory, business administration
Prof. Shigeru Haga	Professor, Rikkyo University / Areas of expertise: traffic psychology, industrial psychology, human engineering
Prof. Akinori Komatsubara	Professor, Waseda University / Area of expertise: human life engineering

Safety Promotion Center

On August 12, 1985, JAL flight 123 crashed on the ridges of Mount Osutaka, and 520 precious lives were lost. To reaffirm the importance of flight safety and to instill the lessons learned from this accident in our minds, we established the Safety Promotion Center in April 2006.

All members of the JAL Group use this facility as the "foundation of safety" and the starting point for providing society with safe, reliable operations. Every employee is continuously reminded that precious lives are entrusted to us in our work. The Safety Promotion Center is open to anyone interested in aviation safety.

In fiscal year 2016, the Center received 17,497 visitors from inside and outside the Group, bringing the cumulative total since fiscal year 2006 to 196,689.

The JAL Philosophy was adopted as a statement of the awareness, values, and attitude to be shared by everyone involved in JAL products and services. Making it the common basis for decision-making in the JAL Group helps build a sense of unity, which supports our committed efforts to deliver unparalleled service to customers, increase corporate value, and contribute to the betterment of society.

About the JAL Philosophy

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

To deepen understanding, we conduct JAL Philosophy Education seminars for all JAL Group staff and executives in Japan and overseas regions. The JAL Group spans a wide range of job categories, but all participants in these seminars sit at the same table, regardless of seniority, position, or department, which helps to generate an atmosphere of mutual understanding.

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

States, Europe, Asia-Oceania, and China are given by local instructors using multilingual materials.

Practicing the JAL Philosophy More Intensively

The annual JAL Philosophy Presentation Meeting marks its seventh session in 2017. It is greeted enthusiastically each year as employees share their thoughts on the JAL Philosophy and examples of how they have applied it. The presentations by colleagues performing a wide range of roles are enlightening and instructive, and serve as a good opportunity to reflect on how to practice the JAL Philosophy in one's duty.

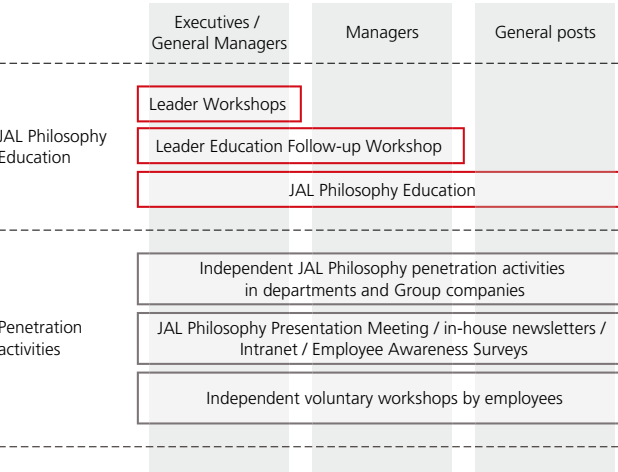
The departments and Group companies have started instituting their own approaches to instilling the JAL Philosophy.

The JAL Group will continue to nurture human resources through diverse activities that promote the wider application of the JAL Philosophy. This will enable every JAL Group employee to provide customers with unparalleled service, increase corporate value, and contribute to the betterment of society.



At the 6th JAL Philosophy Presentation Meeting

Overview of the approach to instilling the JAL Philosophy



SOURCE OF CORPORATE VALUES

THE AMOEBA MANAGEMENT SYSTEM

Under the amoeba management system, corporate management is not the responsibility of top management alone; all employees are involved. Organizations are divided into the smallest possible units, and the results of activities conducted by each unit are presented in an easily understandable manner. The system thus encourages participation in management by every employee, that is, “management by all.” We aim to achieve sound and flexible corporate management by consolidating individual strengths in a style of management that encourages full staff participation.

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

The introduction of the amoeba management system has clarified the roles and responsibilities of each organization and made it possible to identify the revenue and costs of each unit in such a way that staff can see the results of their own efforts. As each department can pinpoint its achievements clearly through revenue and costs, staff feel a sense of responsibility for the figures, and feel more motivated and creative in their work attitude.

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

After passing through a checking stage by relevant departments, the results and numerical forecasts of each department are presented to senior management by the relevant divisional managers and affiliated company presidents at the Group Earnings Announcement Session. The session is attended by around 120 participants, including the President, all directors, presidents of major affiliated companies, and observers, who join in earnest discussions on JAL Group management with the common aim of realizing the Corporate Policy.

Future Initiatives

Up till now, we focused on embedding the amoeba management system, but to ensure future growth, we will accelerate divisional profitability, which is one of the five key initiatives selected for specific action under the JAL Action Plan in the new Medium Term Management Plan.

Comprehensive profitability management

We will pursue initiatives to improve hourly profitability and unit profitability within each Group department and company. We will also rigorously enforce cost control in response to changes in the market environment and fluctuations in revenues to optimize the balance sheet and improve risk resilience.

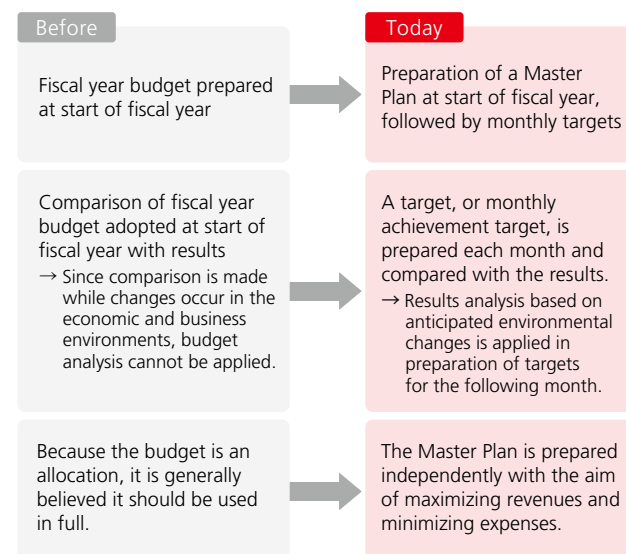
Participatory management

To bring together individual strengths and thereby increase practical effectiveness in reaching our targets, we will visualize management data to make it easier to understand, and encourage all employees to display creativity and initiative to reach our targets. We will also devote our energy to nurture leaders with managerial competencies to motivate employees.

Effective use of management resources

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

Before and after introduction of the amoeba management system



OUTPUT

SAFETY

OUTPUT

Safety

On-time performance

Comfort

Convenience

Unparalleled Service

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

Safety targets

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

Maintaining flight safety (numerical targets)

- Aircraft accidents: zero
- Serious incidents: zero

* Target of 'zero' each fiscal year.

Accumulating safety layers (action targets)

- Evolve the safety management system to the world's highest standard
- Evolve the security management system to the world's highest standard
- Ensure that the lessons learned from past accidents are passed on

* Specific measures will be implemented to meet the action targets.

Maintaining Flight Safety

Maintaining flight safety, which is the foundation of the JAL Group, we continuously strive to realize zero aircraft accidents and zero serious incidents. In addition to efforts to prevent recurrence of similar accidents, we are working to proactively prevent them by detecting precursors to aircraft accidents and serious incidents.

Accumulating Safety Layers

Evolve the safety management system to the world's highest standard

- ① Introduce an integrated safety database
Integrating and analyzing safety data will make it possible to detect precursors to serious malfunctions and take preventive action.
- ② Introduce human factor analysis
This analysis method takes into account organizational, cultural, and other indirect factors to prevent human error.
- ③ Conduct risk management of flight crew fatigue
We will undertake scientific and statistical management of the degree of fatigue among flight crews.

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

- ④ Introduce new security risk management
We will strengthen coordination with partner institutions, collect and evaluate security data, and facilitate rapid response to strengthen security systems. We will also establish adequate detection, monitoring, and preventive systems to deal with the increasingly sophisticated and complex external threats to data security.
- ⑤ Cultivate security awareness among all staff
We will improve awareness and knowledge of security among all staff so that even the smallest signs are not overlooked but responded to appropriately.

Ensure that the lessons learned from past accidents are passed on

- ⑥ Implement safety awareness education based on the PIP principle
We will ensure that lessons learned from past accidents are passed on and will provide education on safety awareness based on “the PIP Principle”* (derived from “place, item and people”) that captures the essence of the issues.
- ⑦ Conduct emergency evacuation training
We will provide training in how to respond to an emergency situation so that all Group employees know how to assist cabin attendants and customers in the event of an emergency.

* Advocated by Prot. Yotaro Hatamura of the Safety Advisory Group as vital for understanding the true nature of safety issues.

OUTPUT

ON-TIME PERFORMANCE

COMFORT

On-Time Performance – An Important Factor of JAL Service

The JAL Group has declared delivering unparalleled service to customers as part of its Corporate Policy. Maintaining on-time performance, which means valuing the customers' precious time with top priority on safety, is an essential factor in the basic service quality of a public transport operator, and forms a proud part of our mission.

The times presented in our flight schedule are product descriptions and represent a promise to customers and society. To transport customers to their destination within the scheduled timeframe and without endangering safety—a basic value for any airline—requires smooth communication and coordination among numerous departments such as Reservations, Airports, In-Flight, Ground Handling, Cargo, Maintenance, Flight Operations, Cabin Attendants, and Sales, as well as other support departments and head office planning divisions. By proceeding surely and steadily with each flight, we strive to achieve on-time performance in air transport as a competitive product advantage.

Specific initiatives

To further improve on-time performance, the JAL Group aims for improvement on a daily basis by giving serious consideration to not only relevant measures within each department, but also proposed measures and revisions that cross departmental boundaries. As a result, the US-based FlightStats, Inc. which analyzes the on-time arrival rates and other data of airlines, named JAL the most punctual major Asia-Pacific airline in the period from January to December 2016. The award applies to both the mainline category and network category, and is based on combined figures for domestic and international flights.



A Refreshing and Inspiring Travel Experience

To deliver not only safety and on-time performance, but also high levels of convenience and comfort, the JAL Group believes that adopting the customer perspective is extremely important. We ensure the ability to deliver unparalleled service by combining advanced "hard" and "soft" systems with staff dedication to customer care.

Specific initiatives

We have launched various services in response to the customers' wish to use time at the airport effectively and reduce waiting time. Among these are a smartphone app that informs customers of waiting times at security checkpoints at Haneda Airport, and the JAL Express Tag Service, which speeds up the baggage check-in procedure and reduces waiting time. We are also renovating lounges at airports in Japan and overseas so that waiting time can be spent more comfortably.

Meanwhile, JAL SKY SUITE-configured aircraft, which offer spaciousness and high quality, have been introduced on an increased number of international routes. On domestic routes, JAL SKY NEXT seating, which features genuine leather-covered seats, has been introduced on all domestic aircraft and in-flight Wi-Fi service is now available free of charge. As for in-flight meals, we are now delivering top-quality cuisine on Europe, North America, Australia, and Southeast Asia routes in collaboration with professional chefs based on the concept of 'your exclusive restaurant in the sky.' On all international routes from Japan, we have a brand-new in-flight menu for children called BEDD for Kids, and serve halal-certified meals for Muslim customers as part of efforts to meet diverse dietary needs.

Delivering comfort that exceeds the customers' expectations means not only comfort in "hard" and "soft" services, but also the personal touch of JAL Group employees, who are dedicated to customer care.

Underpinning the JAL Group's human services is the JAL Philosophy, which outlines the awareness, values, and mindset to be shared by all employees. Not only staff in departments that have direct contact with customers, such as Reservations, Airports, Cabin Attendants, and Flight Operations, but all employees, including Maintenance, Cargo, Ground Handling, and back office departments, receive JAL Philosophy Education to develop the right attitude. It is on that basis that staff acquire the required knowledge and skills to ensure that customers have a safe and pleasant journey.

Providing JAL Philosophy Education to all staff regardless of job category also promotes active cooperation between staff in different work areas. To give an example from the airport department, when special care is needed by a customer using a wheelchair or baby stroller, a 'baton pass' takes place from Reservations and Ticketing or Sales, and the information is also passed on to flight crew, cabin attendants, and ground handling staff. This kind of cooperation between departments in making preparations ensures a smooth journey for the customer.

We would like not only departments who serve customers one on one but also all employees to be able to respond to individual requests. The roughly 33,000 members of the JAL Group, each responsible for different work areas, develop fine sensitivity and the ability to cater to customer needs and pass them on to the next department. In this way, we deliver a travel experience that stays in the memory and the heart of each customer.



OUTPUT

CONVENIENCE

For Greater Convenience

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

Specific initiatives

On international routes, we increased seasonal flight frequency to meet robust demand on the Narita = Honolulu and Narita = Bangkok routes. On the Haneda = Honolulu route, a new First Class service was introduced during the year-end holidays in response to customer demand, with promotional measures stepped up to deliver a higher-quality travel experience for customers flying to Hawaii. To meet high demand during the summer period, the Narita = Moscow route was increased to five flights a week.

From October 30, 2016, flights which had been operated by Hokkaido Air System Co., Ltd. (HAC) switched flight code from the HC flight code to the JL flight code. Meanwhile, the Haneda = Yamagata route, using the Haneda Airport Policy Contest Slot awarded in fiscal year 2014, will continue to operate two flights a day through the cooperation of regional governments and other parties. To improve customer comfort, the new Embraer 190 aircraft model with Class J seating was introduced successively on regional routes to and from Osaka, starting with the Itami = Kagoshima route. We further upgraded products and services on domestic routes with JAL SKY NEXT seats offering a pioneering standard of seat specs to all routes operated with the 777-300, 777-200, 767-300, and 737-800 (excluding aircraft owned by Japan Transocean Air Co., Ltd.). By offering free in-flight Wi-Fi service, we delivered new value and greater convenience so that passengers can connect with family and friends from the skies just as they would on the ground.

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

TOPICS

JAL ranks number one in two indicators of the International Airlines category in the JCSI survey

In the 4th Japan Customer Satisfaction Index survey conducted in 2016 by Service Productivity and Innovation for Growth* (Head Office: Shibuya-ku, Tokyo), JAL placed first in the International Airlines category in the indicators Repeat Intention and Recommendation Intention.

One of JAL's management targets was to rank first in these two indicators of the International Airlines category and the Domestic Routes category of this survey by fiscal year 2016. This result means the target has been achieved in the first of the two categories.

Recent improvements to our international routes have seen an expansion in routes operated with JAL SKY SUITE-configured aircraft and improved in-flight meals based on collaborative agreements. On domestic routes, a promotional campaign to offer free in-flight Wi-Fi service has been one of the benefits for customers. In this way, the JAL Group has united to embrace the challenge of creating new value in order to deliver a refreshing and inspiring travel experience to every customer.

* Website of Service Productivity and Innovation for Growth:

 www.service-js.jp/

HUMAN RESOURCES STRATEGY

VALUE-UP

OUR POLICY



Under the new Medium Term Management Plan, we aim to further enhance human resources opportunities guided by the key phrase 'Linking the contribution of individual strengths to value creation.'

Linking the contribution of individual strengths to value creation

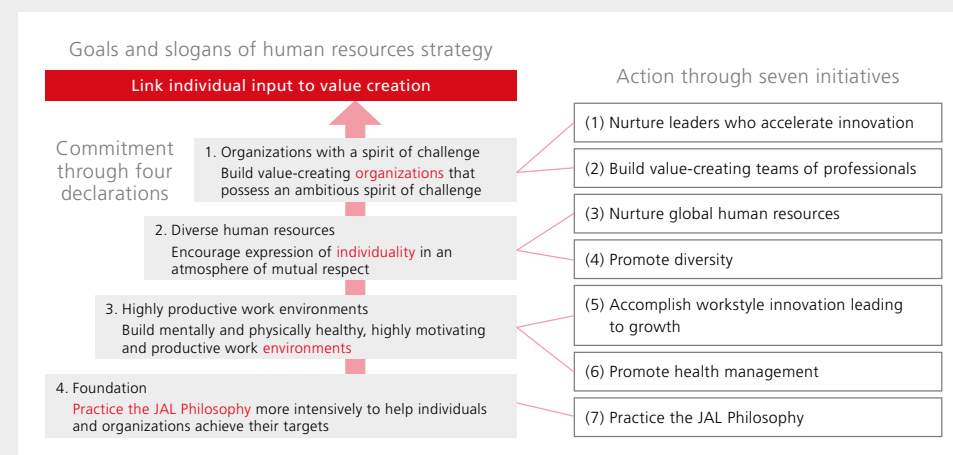
To deliver high-quality service to customers and make contributions to society, it is essential to encourage the personal growth of individual employees. To do that, we have established a variety of systems and structures for recruitment, education, personnel management, and other areas to enable employees to develop their potential to the maximum.

Under the new Medium Term Management Plan, Human Resources Management has adopted the slogan 'Linking the contribution of individual strengths to value creation' and is working to further enhance human resources opportunities through the following four measures:

- **Build mentally and physically healthy, highly motivating and productive work environments**
Through workstyle innovation, wellness promotion, and measures to develop highly productive work environments, we aim to create professional opportunities for diverse human resources, and thus develop conditions for consistent personal growth.
- **Encourage expression of individuality in an atmosphere of mutual respect**
We will continue efforts to cultivate global human resources and promote diversity to make JAL a truly global airline where diverse human resources can express their individuality.



- **Build value-creating organizations that possess an ambitious spirit of challenge**
To realize our aim of staying one step ahead in value creation, we are working to create organizations possessing a spirit of challenge. In response to dramatic changes in the business environment, JAL will nurture leaders who consistently embrace the challenge of accelerating innovation on their own initiative and encourage each employee to act as a member of a professional team. In this way, we aim to transform the JAL Group into a company full of value-creating energy, richly endowed with human resources who strive to put ideas into reality.
- **Practice the JAL Philosophy more intensively to achieve targets**
The basis for these measures is the JAL Philosophy. Deepening efforts to ensure its full permeation by moving from “understanding” to “practice” will help each individual and organization achieve their targets.



Diversity and Inclusion

In 2014, JAL Group top management declared their commitment to diversity. Since then, we have aspired to be a company where everyone can work in a positive atmosphere regardless of gender, career, nationality, age, sexual orientation, gender identity, disability, or other personal attributes. We will continue to promote diversity and inclusion, developing the abilities of each employee in an atmosphere of mutual respect for individuality, and thereby grow as a team that creates unprecedented new value.



To respond to diverse customer needs, we give opportunities to employees from a wide range of backgrounds

Examples of Diversity and Inclusion Initiatives

Career opportunities for female employees

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



Researchers from Nadeshiko Lab present the results of their activities

In fiscal year 2016, we introduced group mentoring as a means of instilling awareness of women's career development. We also introduced a career continuity support system offering employment opportunities within the JAL Group to employees who relocate due to marriage, a partner's work transfer, or to care for a family member. Meanwhile, we held seminars in Shanghai and Beijing, where female employees—who form the mainstay of our operations in mainland China— assembled to think about what was needed to achieve further career advancement including workstyles for women.

Cultivating global human resources

As part of our aspiration to become a truly global airline, we are strengthening human resources cultivation measures in both domestic and overseas regions.

In Japan, from fiscal year 2016 we enhanced training for staff who are transferred overseas by adding a lecture on diverse cultures to the program, among other things. We also introduced a system of intern training at overseas companies for young mid-level employees, with little experience of working overseas. For staff in overseas regions, we implemented such measures as global training to help nurture human resources to lead the JAL Group in the future. The number of employees sent on long-term assignments to Japan was 26, an increase of five over fiscal year 2015, some of whom were assigned to organizational manager posts in Japan.

LGBT* initiatives

The JAL Group also strives to promote understanding of LGBT and participates in discussions with LGBT students, LGBT Ally events, and other activities. We have also made LGBT Ally stickers to distribute to employees who participate in LGBT-related training in order to raise employee awareness. We will continue to promote various forms of training and activities that contribute to a more accurate awareness and understanding of LGBT issues.

* LGBT is a general term for the sexual minority groups Lesbian, Gay, Bisexual, and Transgender.



Opportunities for the elderly

The JAL Group has established systems to support diverse life plans after retirement. Employees who wish to continue working are given active opportunities to suit their abilities and experience in an environment that allows them to work over the long term with a sense of security. Making use of their accumulated rich experience and knowledge, they contribute to maintaining and improving the quality of customer service and nurturing aviation professionals.



This senior specialist works on the frontline of aircraft maintenance to support safety in the skies

Employment of people with disabilities

The JAL Group actively promotes the employment of people with disabilities, ensuring that individual employees grow day by day in an environment that does not see disabilities as barriers to employment. In fiscal year 2016, the coffee shop 'Kilatto,' run by

employees with low-level intellectual disabilities, opened a branch at Narita in addition to the one at Haneda. Through these initiatives, the employment rate of people with disabilities in fiscal year 2016 reached 2.56%. We have expanded these activities into the agricultural field, and now use agricultural produce grown by the disabled as ingredients for in-flight meals. By creating an environment in which everyone, regardless of disability status, can work together in an atmosphere of mutual respect, we are expanding the scope of activities into a wide range of fields.

Workstyle Innovation

The Workstyle Innovation Promotion Office, established in fiscal year 2014, plays the central role in offering opportunities for workstyle reform. These include use of IT tools that allow more freedom in the way of working, improvement of the office environment, and introduction of telework. To improve work efficiency by streamlining the work process, we will implement initiatives in fiscal year 2017 to visualize total work hours, review work processes, and integrate common tasks. In this way, we hope to set up a cycle of accelerated personal growth for speedier decision-making and value creation, leading to corporate growth.

In fiscal year 2016, we set up the IT Service Desk, which offers on-the-spot troubleshooting of problems with IT equipment, and a Business Support Center, which provides translation

and other services common to all departments. Going forward, we will support the review of work processes in other departments to boost work efficiency and improve the productivity of the entire JAL Group.



At the fully renovated Fukuoka Airport office, frontline and back-office departments have merged, significantly improving communication and information sharing

continue working while dealing with other personal demands such as illness, childrearing, and nursing care of family members, integrating this activity with diversity promotion, including women's career advancement and workstyle innovation.



Cabin attendants perform stretch exercises before flight duty

Practicing the JAL Philosophy

The awards are open to all JAL Group employees and all employees who handle JAL services and products, including employees of entrusted companies, subcontractors, companies we invest in, and other partner companies.

In fiscal year 2016, a new award was introduced in the Effort and Ambition category for efforts that contribute significantly to invigorating the workplace through unwavering efforts and ambitious setting of challenging new initiatives and higher goals.

Supporting Employees' Development Through Promotion of Health Management

The mental and physical health of employees is an essential precondition in pursuing the material and intellectual growth of all employees, as advocated in the JAL Group Corporate Policy. Based on this principle, we worked from fiscal year 2012 to enhance health in cooperation with employees, society, and health insurance associations through health promotion measures called JAL Wellness 2016 in the previous Medium Term Management Plan.

In fiscal year 2017, JAL's Executive Vice President was appointed Health Management Officer, and under his strong leadership, enhanced health promotion measures will be implemented under JAL Wellness 2020. We will also support employees who

CASE STUDY

Building a Professional Team with an Ambitious Spirit of Challenge

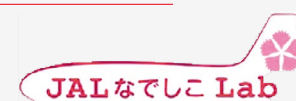
The JAL Nadeshiko Lab is a cross-departmental project engaged in investigating what is needed to ensure that JAL is a company that offers opportunity to all employees. Having entered its second year in October 2016, it has further expanded the scope of its activities. In addition to the existing research team, a new team has been formed to carry out projects proposed by the researchers in the first year. For example, the new team gave in-house nursing care seminars and distributed nursing care badges. It also regularly organizes events such as panel discussions with 'ikubosu'—a term for managers who understand the needs of working parents—and lunchtime networking clubs to promote interactions among employees, all of which contribute to women's career advancement.

Among other initiatives in fiscal year 2016 was the startup of a new Innovation Lab, in which 31 enthusiasts from different departments and job categories got together to innovate with robots, virtual reality, and other advanced technologies. The Lab has carried out experimentation and testing with these technologies to explore new business models in collaboration with various companies.

Into the future, JAL will continue advancing in a spirit of challenge to deliver fresh value to customers and realize innovative products and services.



A trial of robot-assisted baggage transport at Fukuoka Airport



TOPICS

Come see Mom and Dad at work! Office tours

As an initiative to promote Premium Friday, we organized office tours for family members of employees to visit the office.

The children enjoyed wide-ranging hands-on experiences, from exchanging business cards with the company president to taking a guided tour, where they saw a different side of Mom and Dad up close at work.



Come see Mom and Dad at work! Exchanging business cards with an executive was a valuable experience

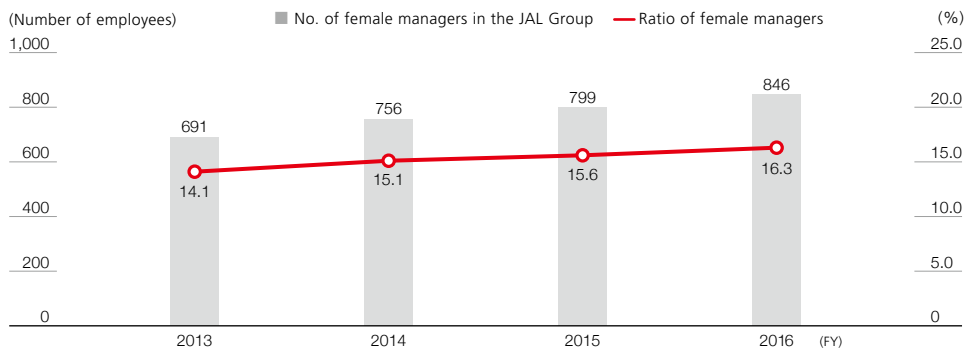
2017 Global Summit of Women (GSW) in Tokyo

The Global Summit of Women for female leaders in business and government circles was held in Tokyo and attracted more than 1,300 participants from 62 countries. JAL, which has signed the Women's Empowerment Principles (WEPs), served as the official airline for the Summit, and has supported worldwide activities for women's career advancement since 1990.

VALUE - UP

ACHIEVEMENTS

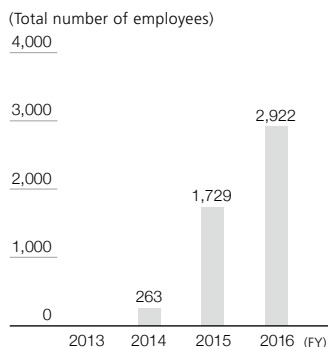
JAL Group Ratio of Female Managers



We have been working to promote diversity since fiscal year 2014, aiming to become a company where diverse human resources including women can participate. The current number of female executives is nine.

Workstyle Innovation

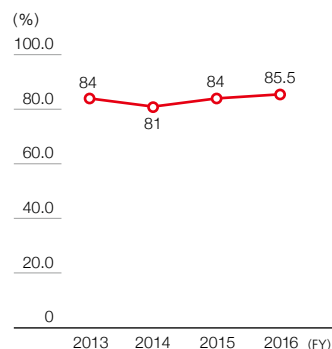
Number of telework cases



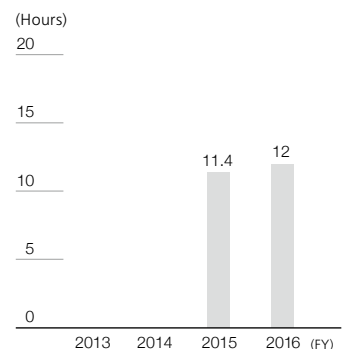
Telework has become accepted as a workstyle that enables employees to work from anywhere, at any time. It also allows logging of work time in units of hours and working even from outside the home.

Total work hours (paid vacation/average overtime hours)

Ratio of paid holiday taken



Monthly average overtime hours



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

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

In fiscal year 2016, the average paid holiday taken was 17 days, or 85.5% of the total entitlement, while in back-office departments the monthly average of overtime work was 12 hours. In fiscal year 2017, we will strive to achieve our declared targets of 20 days of paid holiday taken (100%), and 1,850 hours of total work time.