

While leveraging new business opportunities, we will push forward with revamping our cost structure to build a robust operational foundation allowing us even to deal even with factors outside our projections.

*Q What are your thoughts looking back over the past year?*

In fiscal 2003, events beyond our control, such as the war in Iraq, SARS and avian flu, conspired to rob the group of about ¥200 billion in operating revenue. In 2004, by comparison, we enjoyed an extremely smooth recovery, leading to improvements of more than ¥100 billion in both operating income and net income. International routes recovered particularly strongly, primarily in the U.S. and China for cargo, and in China and other Asian countries for passengers. Overall, I feel fiscal 2004 must be considered a good year, in the sense that we reported ¥30 billion in net profit and were able to restore the dividend.

*Q What factors in the business environment do you think are likely to affect JAL in the future?*

Let me discuss positive factors first, then move on to the negative. Demand is expected to grow strongly in Asia, our priority market for the future, particularly in China. In addition, the fourth runway which will be completed at Haneda Airport in 2009, greatly increasing the number of takeoffs and landings possible, represents a major business opportunity for us. A negative factor is that our international routes are particularly vulnerable to unpredictable events beyond our control, ranging from terrorism and war to outbreaks of disease and natural disasters. The rise in fuel prices in fiscal 2004 was a huge negative factor for us. We must build a robust operational foundation which permits us to deal with this kind of external factor. In fact, this thinking is at the heart of the Medium-Term Business Plan.



We will carry out the Medium-Term Business Plan expeditiously by narrowing the gap between management and the front line, thereby speeding up how decisions are made and communicated.

*Q Can you give us a brief outline of the 2005–2007 Medium-Term Business Plan?*

The plan contains three basic threads: restructuring international passenger operations, revamping cost structures, and aggressively developing growth markets. The first, restructuring international passenger operations, involves rebuilding our network and allocating resources to high-growth routes, as well as expanding the model used by JALWAYS, a low-cost airline in the Group where costs are about 10% under JAL's. The second, revamping cost structures, involves five programs including organizing personnel costs more wisely, improving or eliminating low-profit routes, and reviewing administrative processes and reviewing group outsourcing. Each of these includes its own structural reforms. When combined with emergency profitability improvement measures such as reducing employee bonuses, these measures will result in ¥80 billion more in savings in fiscal 2005 than called for by the previous plan. The third thread, aggressively developing growth markets, calls for focusing on China and other Asian markets, where huge growth in demand is forecast for both international passenger traffic and cargo.

Together, these three approaches constitute a fundamental structural reform to be carried out in our business in fiscal 2005–2007.

*Q What is the precise implication of the term “simplification” used in the Medium-Term Business Plan?*

Simplification indicates the pursuit of truly lean management of the Group. In fiscal 2006, we will bring the holding company and operational companies together into a single entity, while also reducing the number of directors and thereby speeding up the way decisions are made and communicated. That will improve management responsiveness and efficiency. Simplification is something that we will have to continue to work on in the future as well. We need to reduce the number of aircraft types and configurations, through standardization and averaging out. This also falls under the rubric of simplification. Another point is to simplify processes by using information technology. As we introduce unattended check-in using IC card-enabled systems more widely, for example, there should be efficiencies in airport staffing. All of these lead to cost reductions.



We will leave no stone unturned in implementing structural reforms in the areas of safety and CSR, including in compliance, reliably sharing returns with stakeholders, societal contribution and the environment.

*Q What is the significance of and outlook for bringing the holding company and operating companies together into one entity as part of the simplification efforts?*

To begin with, we have integrated the marketing and planning departments in fiscal 2005. Where jobs overlap, we will step up the approach of assigning one person to both, essentially moving toward a single entity in practice. The effect will be to bridge the gap between management and the front line and speed up the way decisions are made and communicated. That in turn will help us implement the Medium-Term Business Plan more expeditiously. We have set up an Integration Conference Committee, with three sub-teams looking at corporate planning, human resources and IT, to work out specific details as to what extent integration should be implemented, and how and when. The scenario we have constructed is to sketch out an action program during the first half of fiscal 2005, resolving the pending issues of business licenses, rights to international routes, taxes, labor conditions and systems, using the second half to flesh out the details of the plan, and then to move to implement it during fiscal 2006.

*Q What are the basic issues and metrics addressed in the Medium-Term Business Plan?*

It discusses the issue of how to build the cost competitiveness required to compete with major carriers in the Asian aviation market. If we can continue to reduce costs then we can compete with them by differentiating product and quality, and as a whole, we have a chance for success. We would like to put the first priority on achieving cost competitiveness during the 2005–2007 Medium-Term Business Plan.

A major management metric for us is our market capitalization. Market capitalization reflects how much we carry, how much money we make, and how well we are doing at CSR, among other elements. Raising market capitalization requires carefully managing the balance between international and domestic routes. The profit model we aim to move towards should balance international passengers, domestic passengers and cargo. Passenger and cargo traffic are to some extent counter-cyclical. During fiscal 2003 and 2004, when events beyond our control depressed the passenger business, cargo was



much less unaffected. Moving ahead, we want our management approach to emphasize a balance between the businesses.



We are committed to ensuring flight safety in order to become the airline of first choice.

*Finally, please share with us your long-term vision and goals.*

Ever since the merger, we have talked about becoming the world's No. 1 airline in terms of both service quality and business volume. That very much remains our goal. An easier way of saying the same thing is that our vision is to become the airline of choice: I think this encompasses everything. So what do we need to do to get the customers to come to us? There is no question that safety is first and foremost. We are deeply regretful of the ongoing safety problems we have caused recently. We must rebuild our flight safety framework, and since many of the problems that occurred involved human error, our efforts will focus on campaigns to raise awareness about safety, improved handling manuals, and retraining.

In terms of service, we are developing strategies based on thinking and acting from the customer's perspective, utilizing a review of a number of problems unearthed through customer surveys.

Becoming the world's No. 1 airline also means sharing the returns from our business with stakeholders in a stable and sustainable manner. Shareholders are not the only stakeholders. Stakeholders also include customers, employees, and society as a whole. To be able to reliably share the returns from our business with stakeholders requires achieving all the things I have talked about so far.

Above all, these are things we can be proud of at JAL: our international and domestic networks, and our top-class employees. I am confident that working in tandem, these two assets can truly make us into the world's No. 1 airline in terms of both service quality and business volume.