

## **JAL Group Announces its FY2006 - 2010 Medium-Term Business Plan**

-Mobilize the Group's Strengths to Regain Trust -

**Tokyo, Thursday March 2, 2006:** The JAL Group today announced its medium-term business plan for the five years FY2006 to FY2010, from April 1, 2006 to March 31, 2011. Safety and customer satisfaction will be at the forefront of the JAL Group's medium-term business plan. Specifically, we plan to return to our traditional strengths in order to win back the trust and confidence of all of our stakeholders by rebuilding our safety record one day at a time and by providing the customer with products and services that prioritize safety, comfort and reliability. We aim to launch the revival of the JAL Group in FY 2006 through, among other measures, the merger in October of our two main operating subsidiaries, JAL International and JAL Domestic.

The JAL Group plans to execute this new Medium-Term Business Plan, which sets forth concrete steps for the achievement of the goals announced last November in our JAL Group Corporate Reform Policy. In order to capitalize on the business opportunities presented from FY 2009 by the expansion of Haneda Airport, which includes increased international flights, and the increase in slots at Narita Airport, we see the first three years (from FY 2006-2008) as the rebuilding stage for our Group's business base, during which time we plan to further restructure costs as well as international passenger operations. We aim to realize sustained growth by rebuilding our business base by focusing our resources on safety and customer satisfaction.

The three main pillars of the new Medium Term Business Plan are as follows:

### **1. Toward a New JAL Group – Regaining Trust and Focusing on Customer Satisfaction**

We plan to implement the recommendations of the Safety Advisory Group, an external committee of experts established last year to advise the JAL Group on safety issues, in order to rebuild the foundation for flight safety and refocus our corporate mind set to concentrate on customer satisfaction. We plan on investing an estimated 125 billion yen in the areas of safety and service so that we can strive to reemerge as a company with high safety standards and strengthen the quality of our products and services.

### **2. Improve profitability through the restructuring of international passenger operations and the downsizing of our equipment**

In FY2006 - 2008, we plan to continue to focus on high profit and high growth routes and will suspend low profits routes to build a more profit-focused network; achieve downsizing of our fleet by replacing older aircraft with new mostly medium and small size aircraft to strengthen our competitive edge; and enhance our cost effectiveness in accordance with our reassessment of our business. We plan to increase both seat load factor and yield through measures such as enhancing route networks to meet the needs of business travelers and providing high quality products and services.

### **3. Implement further cost-restructuring**

We will seek to continue to build upon the measures we have taken to improve our return estimated to generate cost savings of approximately 57 billion yen for FY2005. In order to achieve our medium term goal, which is cost restructuring in the amount of approximately 119 billion yen\* per year, by the end of FY 2010, we plan to continue to focus on and continually reassess our cost structure on a Group wide basis.

\* As compared to FY2005 estimated projection in the FY2004-2006 Medium-Term Business Plan.

### Medium Term Business Plan Targets

- FY 2006 Target: Consolidated Net Income - Recover Profitability
- FY 2008 Target: Completion of the Rebuilding of the Business Foundation
- FY 2010 Target: Consolidated Operating Profit Margins of 5% or more

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## 1. Toward a New JAL Group – Regaining Trust and Focusing on Customer Satisfaction

### (a) Promote Corporate Culture and a Reformed Mind Set

The Group will promote unity and create an open corporate climate, which encourages interaction and communication between its various businesses.

This will include:

- Management visits to the frontlines and encouraging exchange of ideas between management and those in the field; regular meetings among younger leaders of each of the divisions; and more opportunities to experience training in other divisions/areas.
- Placement of employees from the field (e.g., Group companies) into the Planning Department; and strengthening headquarters' support for those in the field.
- Reassessment of the existing methods of making proposals and/or improvements; and unification of information channels to get more immediate and focused feedback to the field.
- Proactive strengthening of the individual's ability to act decisively in the field based on an individual's own judgment as well as encouragement of action based on effort and a mindset seeking challenges.

### (b) Restore the company into one with high safety standards

Based on recommendations of the Safety Advisory Group, JAL will establish a Safety Promotion Committee to oversee group-wide safety improvement, and carry out group-wide activities to increase safety. The Group plans to strengthen its safety education and training programs to establish a culture of safety and enhance measures for addressing human error, whilst continuing to listen to recommendations from the Safety Advisory Group.

The Group will invest approximately 60 billion yen, mainly to strengthen the maintenance foundation and improve operational quality. The investment will also contribute to the re-strengthening of operational and aircraft quality, to boost customer trust.

#### Safety-related Investment Details

Investment	Example Items	Billions (Yen)
Facilities	777 dock at Narita. / large engine test center/ cargo automatic weighing system.	8
Aircraft	Aircraft modification for R-NAV system / Spare engine reserve.	24
IT	New maintenance system/ safety information database creation/ Safety related information electronic distribution system	27
Personnel & Education	Safety Promotion Center/ Purchase safety education equipment/ improved flight simulators.	1
<b>Total (estimate)</b>		<b>60</b>

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**(c) Improve product and service quality from the customers' standpoint**

In order to become a corporate group that is consistently chosen by our customers, we will further improve the quality of products and services to meet their wants and needs. We plan to invest approximately 65 billion yen to enhance the quality of products and services and maintain our systems infrastructure, as well as to bolster our capability to handle unexpected operational events (e.g., delays, etc.). With regard to developing and providing JAL Group products and services, our fundamental approach is to apply the concept known as “Universal Design (UD).

**Product & Service Quality Related Investments**

<b>Investment</b>	<b>Example items</b>	<b>Billions (Yen)</b>
Product/ Service Quality Improvements	1) Next generation First /Business class product development on international aircraft etc. 2) In-flight entertainment & meal service development. 3) oneworld membership measures 4) Class J business class seat expansion on domestic aircraft 5) Express cargo business expansion	25
System Structure Strengthening	1) Travel sales system improvement 2) Aircraft scheduling revision 3) Customer database development 4) E-style business development 5) Irregularity handling capability upgrade 6) Call center development 7) In flight sales IC development 8) Cargo revenue management system development	16
Facilities & Equipment Maintenance	1) Airport projects 2) Airport handling systems development 3) De-icing equipment upgrade	24
<b>Total</b>		<b>65</b>

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## **2. Building a solid corporate structure capable of responding flexibly to external factors**

### **Business restructuring**

#### International passenger operations

- During the period from FY 2006 to 2008, which we have labeled the Rebuilding Stage of the Business Foundation, we will seek to improve operational profits by concentrating on high profit and high growth routes and suspending low-yield routes, and downsizing our fleet introducing more medium/ small-size aircraft.
- We will build route networks that meet the needs of business travelers, provide high quality products and develop innovative sales policies.
- We plan to advance the renewal of our fleet by replacing older aircraft with new equipment such as 737-800s (from FY 2007) and 787 (from FY 2008), in an effort to enhance the competitiveness of our fleet.
- During the period after FY 2009, which we have labeled the Stage of Sustained Growth, we plan to focus on routes with growth potential, utilizing medium to small aircraft, as well as actively taking advantage of the increase in scheduled international flights out of Haneda Airport and the additional slots at Narita Airport.
- By implementing the measures outlined above, we plan to further enhance our profitability after FY2007 by improving both seat load factor and yield and becoming more cost efficient in accordance with the reassessment of our business demand.

#### Domestic passenger operations

- We aim to provide a warm and friendly, quality service that customers can have confidence in.
- We plan to enhance customer convenience by creating comfortable, reliable and convenient products and services through such measures as expanding Class J our domestic business class product by increasing the number of Class J seats on aircraft and adding Class J seats to smaller aircraft, broadening the range of fares for which IC check-in service is available, and strengthening e-marketing.
- We plan to advance the renewal of our fleet by replacing older aircraft with new aircraft such as 737-800s (from FY 2007) and 787 (from FY 2008), in an effort to enhance the competitiveness of our fleet.
- We aim to improve cost competitiveness by focusing on a low cost operational structure and expanding the operations of JAL Express, our low overhead subsidiary.
- We aim to aggressively pursue one of the biggest business opportunities during this Medium Term Business Plan period, which is the increase in slots at Haneda Airport in 2009.

#### Cargo Business

- We plan to expand our business operations while securing stable operational profitability by building an efficient operational base that utilizes a combination of large and medium size aircraft.
- We plan to aggressively develop growth markets such as China while servicing the demands of the Japan outbound international cargo market, through such measures as strategic alliances.
- We are seeking to develop growth businesses that include the logistics business, express business and domestic night cargo flight market. <more>

## Cost restructuring

While continuing to implement the cost restructuring policies outlined in the FY2005-07 Medium term Corporate Plan, the JAL Group plans to further streamline its fixed costs after reassessing the results of international business restructuring. The Group also plans to expand simplification of business processes Group wide. By FY 2010, the last year of the new Plan, we plan to realize a cost restructuring of approximately 119 billion yen for the year.

### **3. Fleet Plan**

To increase cost competitiveness, the JAL Group will continue downsizing its fleet by introducing more fuel efficient medium and small-size aircraft and expediting the retirement of older aircraft, and will continue reducing the number of aircraft types and cabin configurations.

Fleet composition will change from nine aircraft types and a total fleet 279 aircraft at the end of FY2005 to eight types and 296 aircraft at end of FY2010. In the longer term, it is the aim to create a fleet structure of 5-6 basic types of aircraft – large, medium and small.

As a result of the introduction of new aircraft, the average age of the JAL fleet will go down from 11.6 years at the end of FY2005 (March 31 2006) to 10.4 years by the end of FY2010 (March 31 2011). Focusing just on aircraft used internationally, the average age of the international fleet will go down from 11.0 years to 8.5 years by the end of FY 2009.

JAL will complete the retirement of A300B and YS11 aircraft within FY2006. The retirement of 30 747 ‘Classic’ models now in the fleet will be completed in FY2009.

Aircraft	FY05		FY10	
	<b>Total Aircraft: 279</b>		<b>Total Aircraft: 296</b>	
<b>Large-size</b>	6 types	B747	5 types	B747-400
		B747-400		
		B777-300		B777-300
		B777-200		B777-200
<b>Medium-size</b>		B767		B787
		A300-600R	B767	
		A300B	A300-600R	
<b>Small-size</b>	3 types	B737	3 types	B737
		MD90		MD90
		MD80		MD80

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## 4. Estimated Consolidated Financial Results

To maximize corporate value for all stakeholders, the JAL Group will secure sound financial conditions, increase asset efficiency, strive to improve profitability and build a strong corporate structure capable of responding flexibly to external factors.

The following are the targets of the Medium Term Business Plan

- FY 2006 Target: Consolidated Net Income - Recover Profitability
- FY 2008 Target: Completion of the Rebuilding of the Business Foundation
- FY 2010 Target: Consolidated Operating Profit Margins of 5% or more

### JAL Group Consolidated Financial results

(Unit : billions of yen)	FY05	FY06	FY08	FY10
Operating Revenue	2,195.0	2,301.0	2,368.0	2,437.0
<i>(International passenger)</i>	692.0	725.0	723.0	742.0
<i>(Domestic Passenger)</i>	662.0	703.0	718.0	737.0
<i>(International Cargo)</i>	181.0	198.0	225.0	239.0
<i>(Other)</i>	660.0	675.0	702.0	719.0
Operating Income	34.0	17.0	57.0	130.0
Ordinary Income	57.0	0.5	29.0	107.0
Net Income	47.0	3.0	17.0	55.0
Interest Bearing Debt	1,976.0	1,805.0	1,627.0	1,384.0
<b>Interest Bearing Debt Repayment Period (Years)</b>	17	9	7	5
ROE(%)	-	1.6%	6.5%	18.3%

Forecast based on the assumption:

	FY05	FY06	FY07	FY08	FY09	FY10
Fuel per barrel (Singapore Kerosene Hedge)	\$72/bbl	\$75/bbl	\$75/bbl	\$75/bbl	\$75/bbl	\$75/bbl
Exchange rate	1US\$=¥112	1US\$=¥120	1US\$=¥120	1US\$=¥120	1US\$=¥120	1US\$=¥120

\*Above figures are estimates for FY05 and targets for FY06 and onward.

## DISCLAIMER

Certain statements made in this press release, including the forecasts of financial results, contain forward-looking statements which reflect management's beliefs, views and assumptions in light of information currently available. The management targets represent goals that management will strive to achieve through the successful implementation of JALS' business strategies. JALS may not be successful in implementing its business strategies, and management may fail to achieve the forecasted financial results. The management targets and other forward-looking statements involve current assumptions of future events as well as risks and uncertainties that could significantly affect expected results, including adverse economic or political conditions in Japan or other countries; increased jet fuel prices; negative changes in foreign exchange rates; difficulties or delays in integrating our businesses and achieving desired cost savings; increased competitive pressures; and changes in laws and regulations applicable to our business. Please see our public filings for additional information regarding the risks in our businesses. We have no obligation or intent to update any of the forward-looking statements in this press release.

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