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***JAL Group's Medium-term Business  
Plan for FY2004 – 06***

***(Analyst Briefing)***

***March 10, 2004***

***Japan Airlines System Corporation***



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# **Revision of the Forecast of Business Results for FY2003**



## Revision of the Forecast of Business Performance for FY2003

<b>(Unit : billion yen)</b>	<b>FY03(announced on Nov. 14,03) (a)</b>	<b>FY03(announced on Mar. 10,04) (b)</b>	<b>Difference (b) - (a)</b>
<b>Operating Revenue</b>	1,975.0	1,956.0	(19.0)
<b>(International Passenger)</b>	564.0	546.0	(18.0)
<b>(Domestic Passenger)</b>	669.0	669.0	0.0
<b>(International Cargo)</b>	153.0	153.0	0.0
<b>(Others)</b>	589.0	588.0	(1.0)
<b>Operating Income (Loss)</b>	(48.0)	(72.0)	(24.0)
<b>Ordinary Income (Loss)</b>	(50.0)	(75.0)	(25.0)
<b>Net Income (Loss)</b>	(65.0)	(89.0)	(24.0)

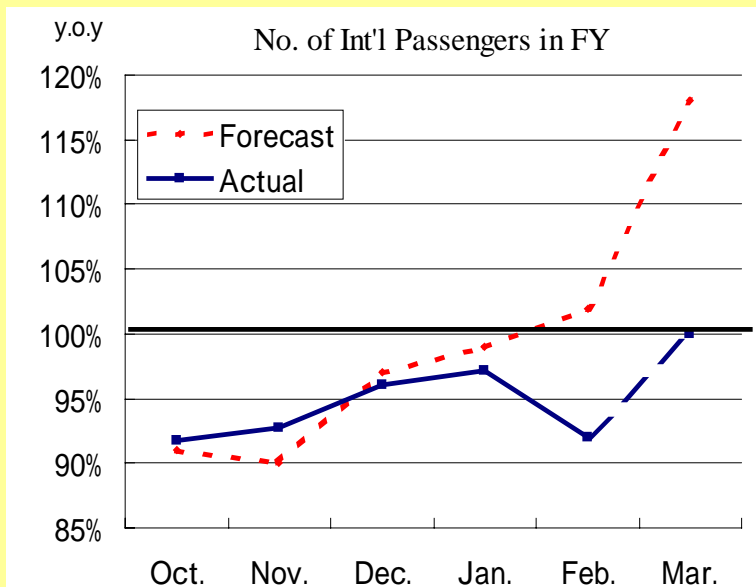


# Factors of Correction

Sluggish Demand for International Leisure Travel and Rise in Fuel Price

## Decrease in Operating Revenue (19) Billion yen

Int'l Pax (18) billion yen    Others (1) billion yen



## Increase in Operating Cost

Fuel Cost +5 billion yen

	Singapore Kerosene	CIFJ
LH Budget	\$32.5 / bbl	\$28.3 / bbl
LH Actual	\$35.3 / bbl	\$29.8 / bbl

(Other cost increase factors)  
Increase of valuable costs due to extra flights / charter flights etc.

(Cost Reduction factors)  
Decrease of variable costs such as Passenger Service cost, commissions due to demand decline

# **Medium-term Business Plan**

## **for FY2004 – 06**

# **I. What JAL Group is aiming**

# Target

## Maximization of corporate value

Consolidated Operating Income (FY06)

145 billion yen

(consolidated ROE 10% or more)

## Improvement of B/S

Reduction of Investment

Reform of Retirement Benefit Scheme

Interest-bearing Debt Repayment Period

Less than 10 years

Interest-bearing Debt (400) billion yen

Increase of  
Operating Cash Flow

## Improvement of profitability

Cost Reduction

Revenue Increase

Integration Effects (FY05) 68 billion yen

## Improvement of Customer Satisfaction



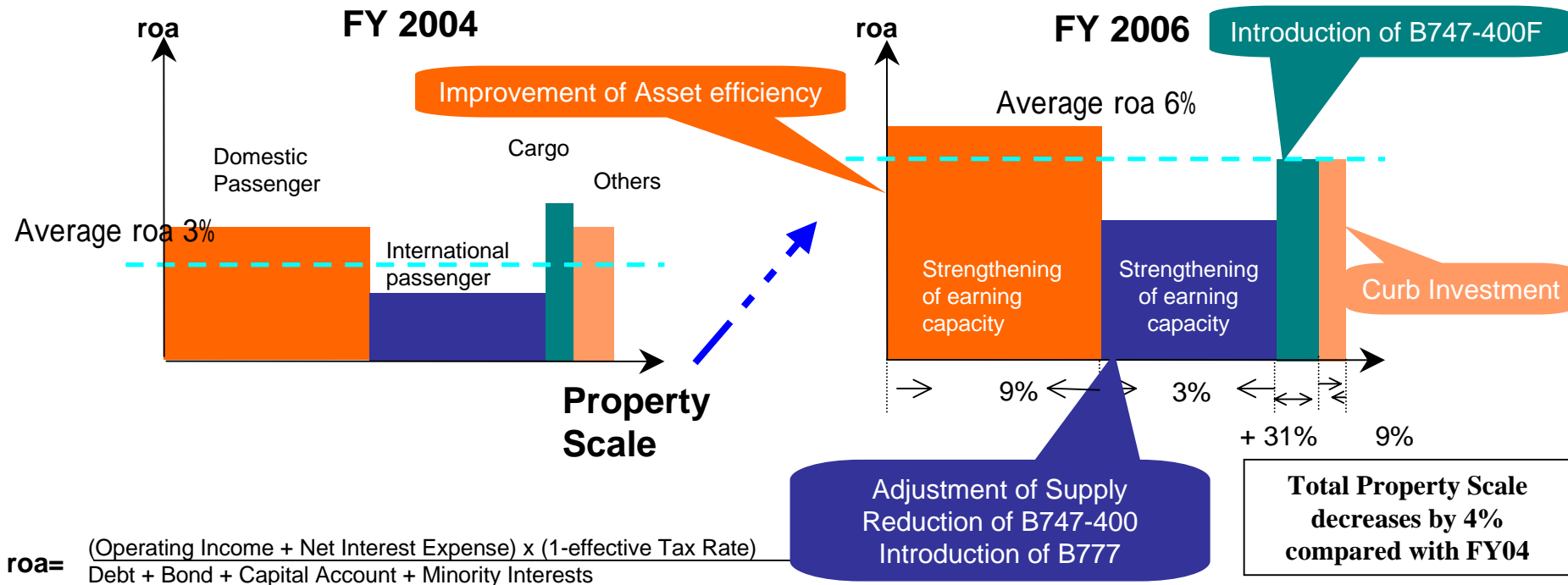


# Business Portfolio

**Domestic Passenger : improvement of competitiveness and asset efficiency through Integration**

**International Passenger: enhancement of profitability and reduction of supply**

**International Cargo: expansion of property scale corresponding to the improvement of profitability**



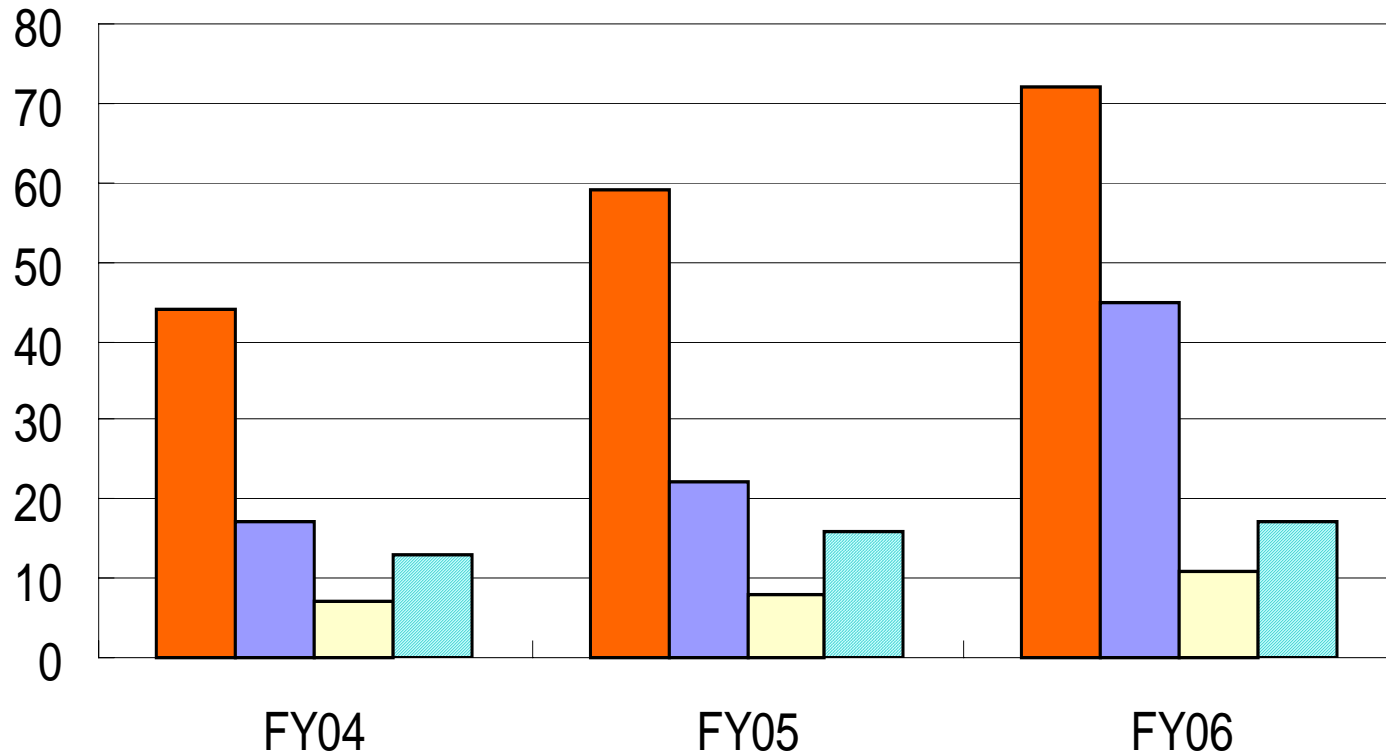
roa = 
$$\frac{(\text{Operating Income} + \text{Net Interest Expense}) \times (1 - \text{effective Tax Rate})}{\text{Debt} + \text{Bond} + \text{Capital Account} + \text{Minority Interests}}$$



# Operating Income by Business Segment (image)

## Operating Income by Business Segment

Billion yen

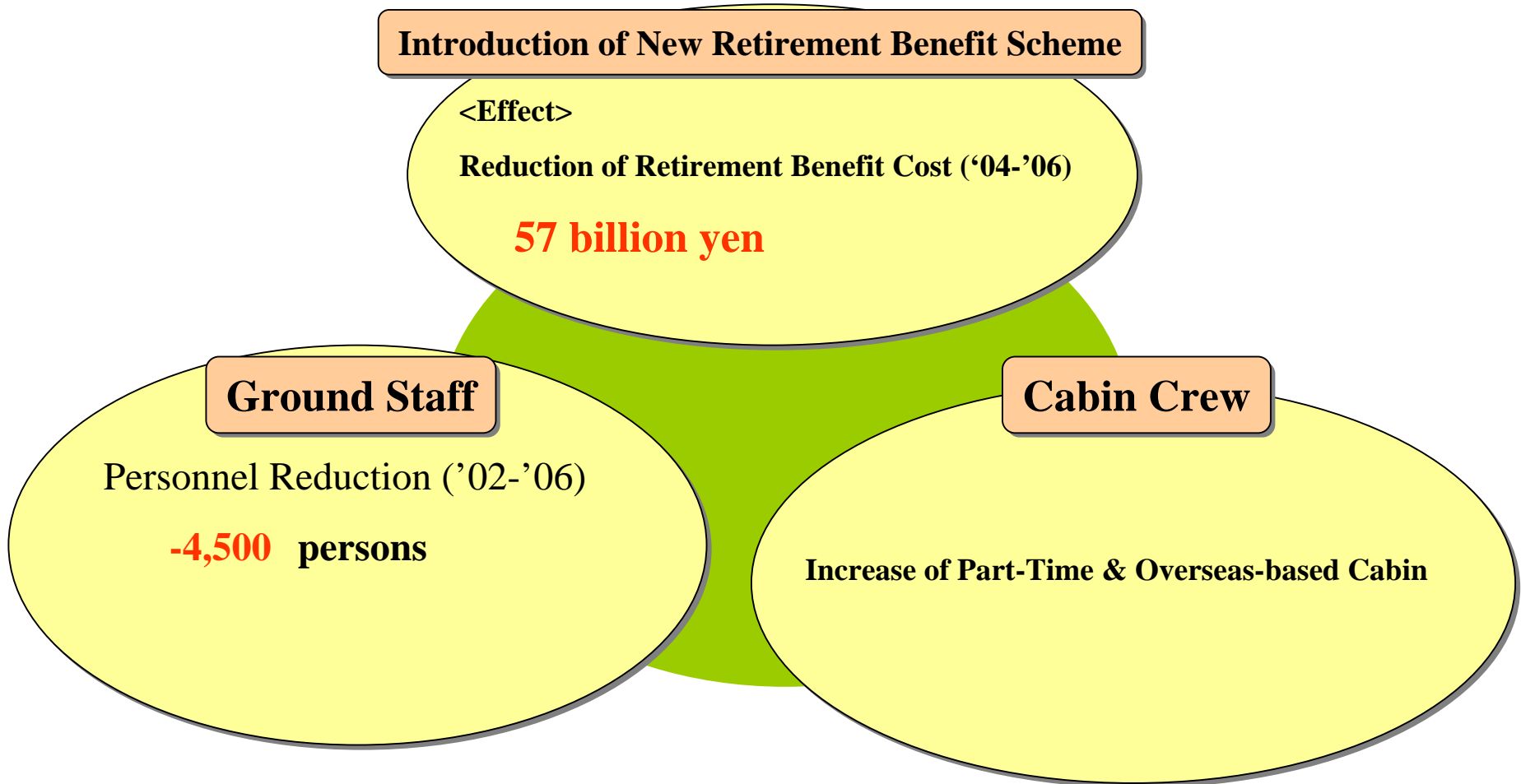


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## **II. Measures of Cost Reduction**

### **- Acceleration of Cost Reduction -**

# Measures to decrease Personnel Cost



## Enhancement of Cost Reduction

### Integration Effect

- \* Steady reduction of rents etc.

### Promotion of e-Business

- \* Personnel reduction in reservations  
& airports
- \* Reduction of Sales Commission

### Fleet

- \* Shift to low-operation-cost aircraft  
from MD11/DC10/A300 to B777/B767
- \* Reduction of number of aircraft types  
11 types (Mar. '04)    8 types (Mar. '07)  
(Excluding regional aircraft)

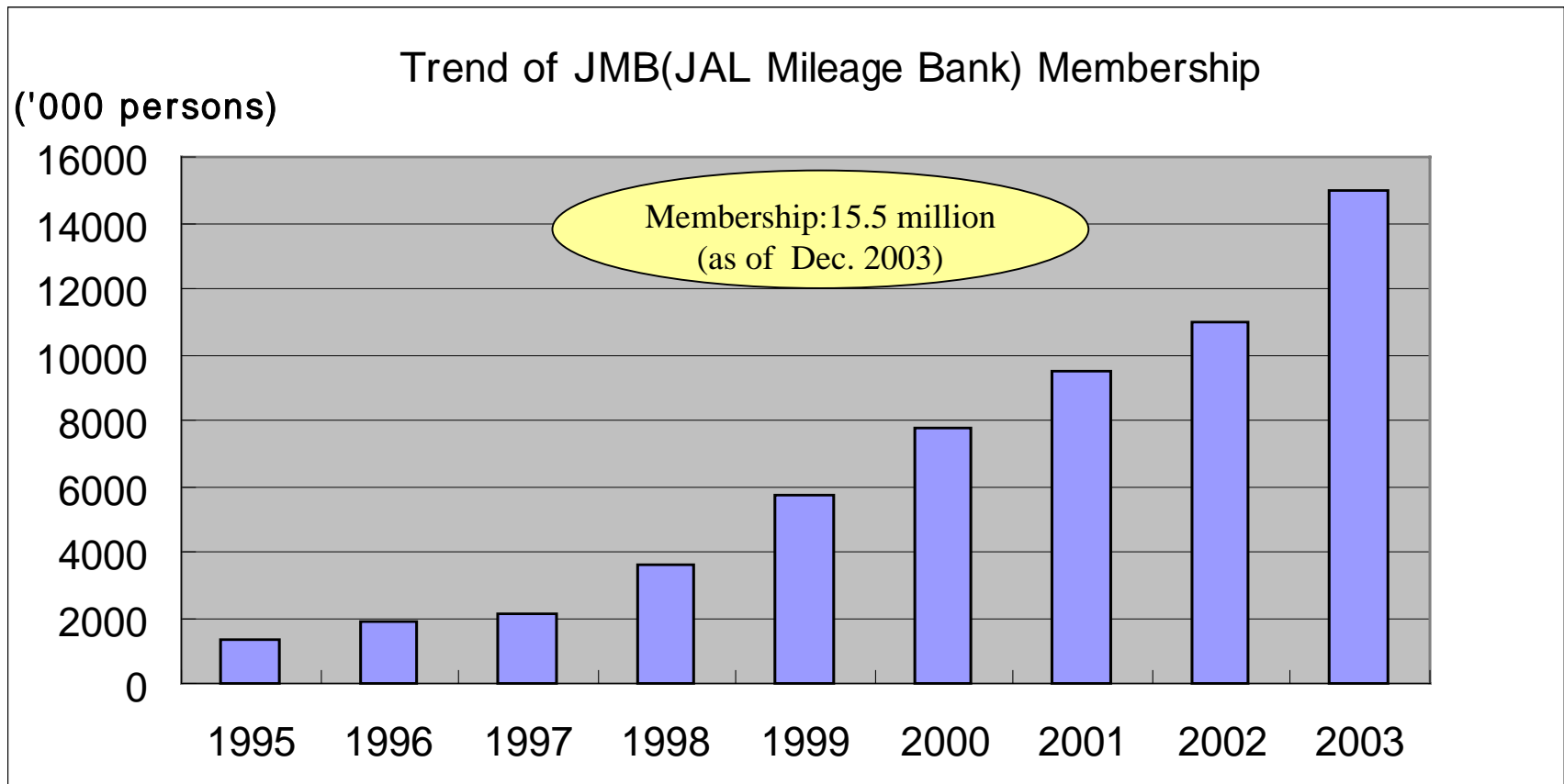
### Low-cost Carrier

- \* International routes : JALways
- \* Domestic routes : JAL express

## **III. Revenue Increase Measures**

# New FFP Strategy

**Enhancement of competitiveness by introduction of New FFP Strategy**



# Domestic Passenger

## Focus on individual passengers

### Class-J

=> Target high-yield customers



### e-business

=> Promotion of Direct Sales

### Unification of flight

=> easy to understand and user friendly





# International Passenger

## Focus on high-yield Passengers

### First-class

Increase of JAL NEW  
SKYSLEEPER SOLO



### Business class

Increase of Shell-flat seats



### Economy class

Promote e-business  
Focus on individual passengers

前売り悟空

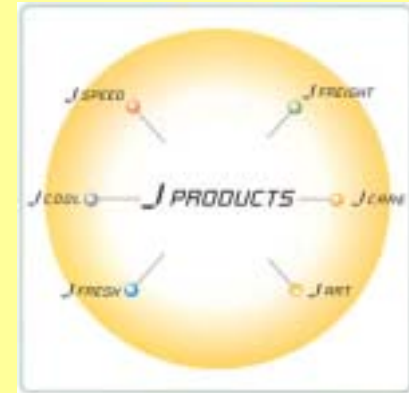
JALエコノミーセイバー運賃

# International cargo

## Meeting a high-growth market

### J-PRODUCTS

pursuit of value-added products



### Introduction of 4 B747-400F

Increase of Load Capacity per aircraft

Expansion of Network

13 Freighters in FY'06 (+2 compared with FY'03)

### Strengthening China routes

focus on high-growth market

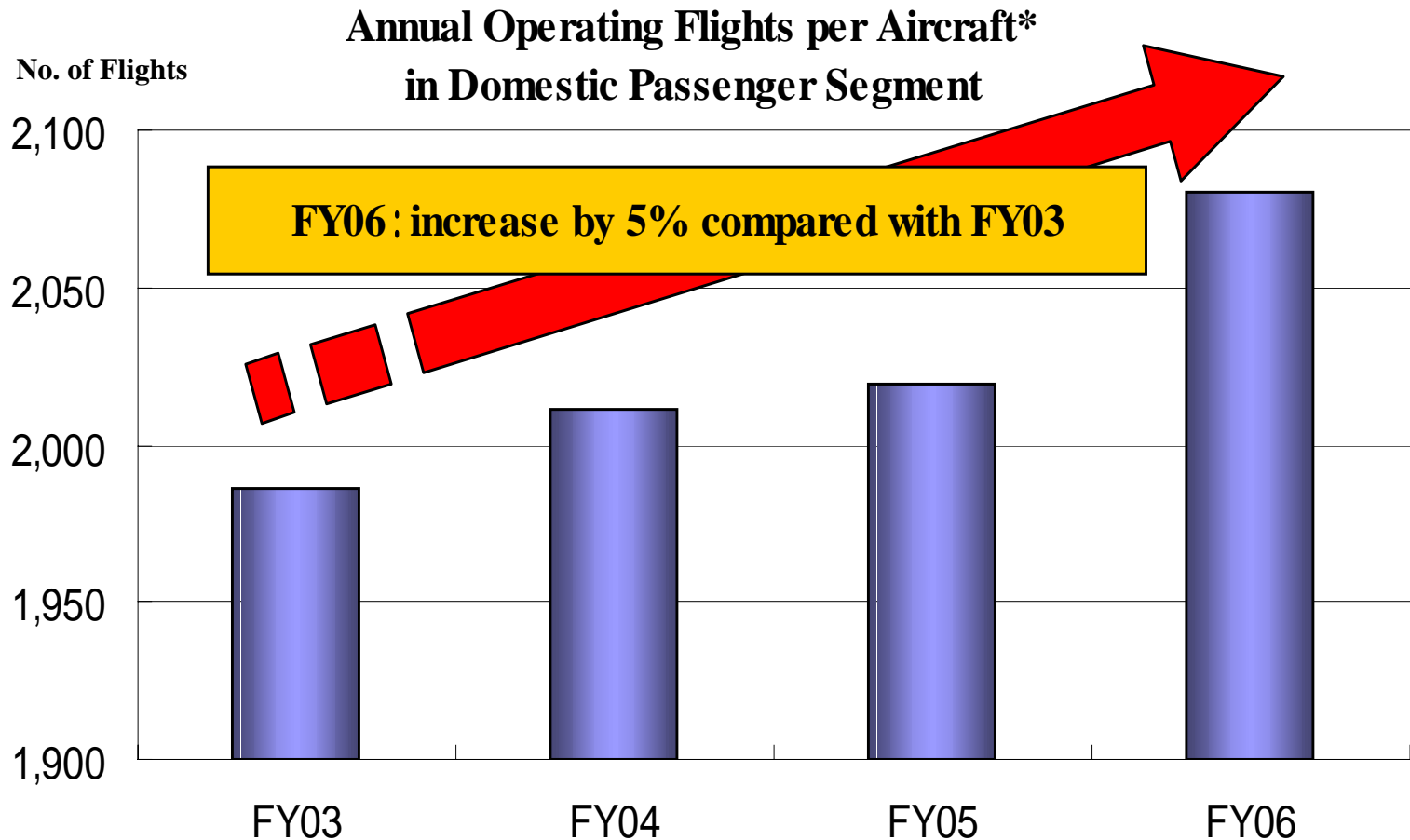
improvement in operation & transportation



# **IV. Measures to improve Balance Sheet**



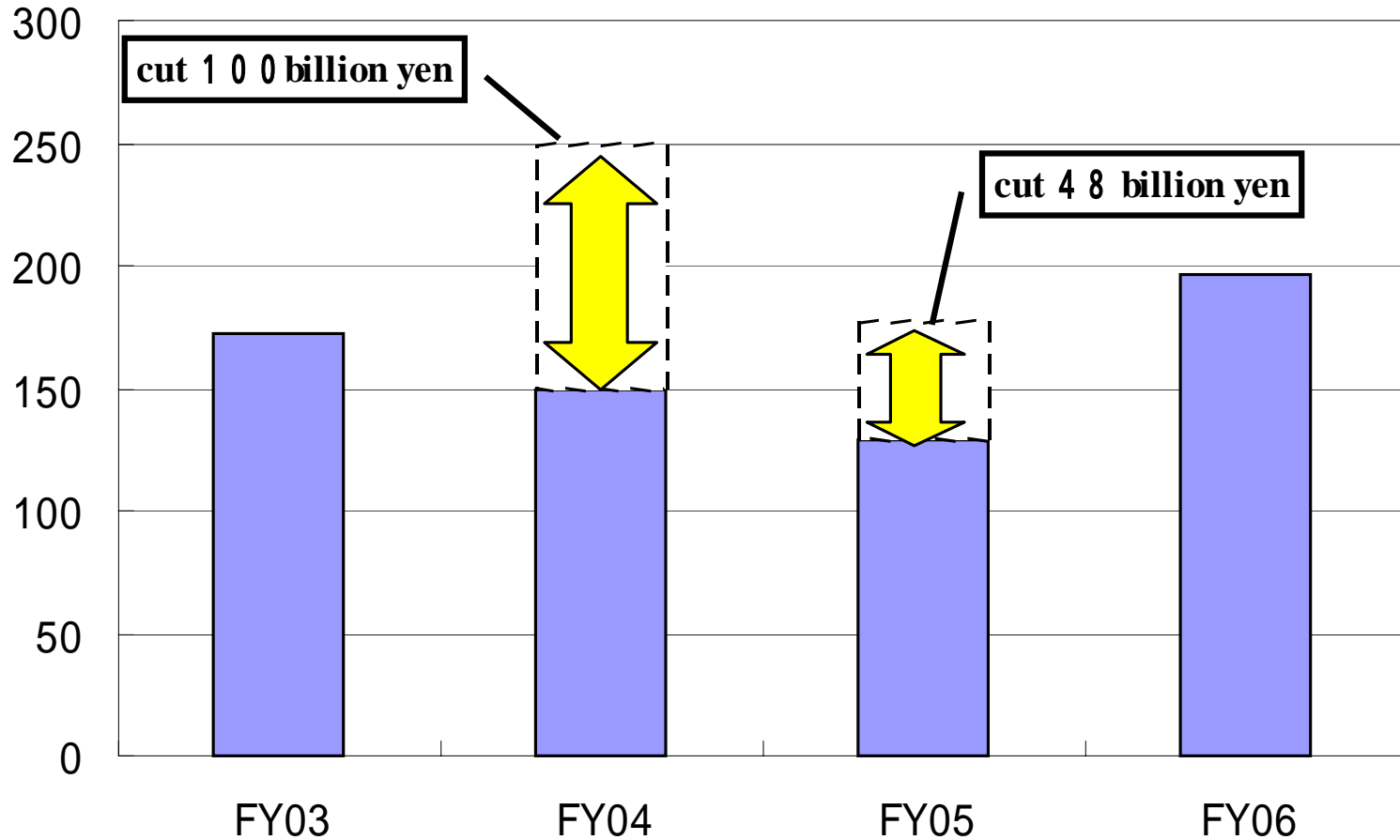
# Increase in Efficiency of Aircraft Operations



\* Aircraft in operation + non-operational aircraft for maintenance/training

# Control of Investment

(billion yen)

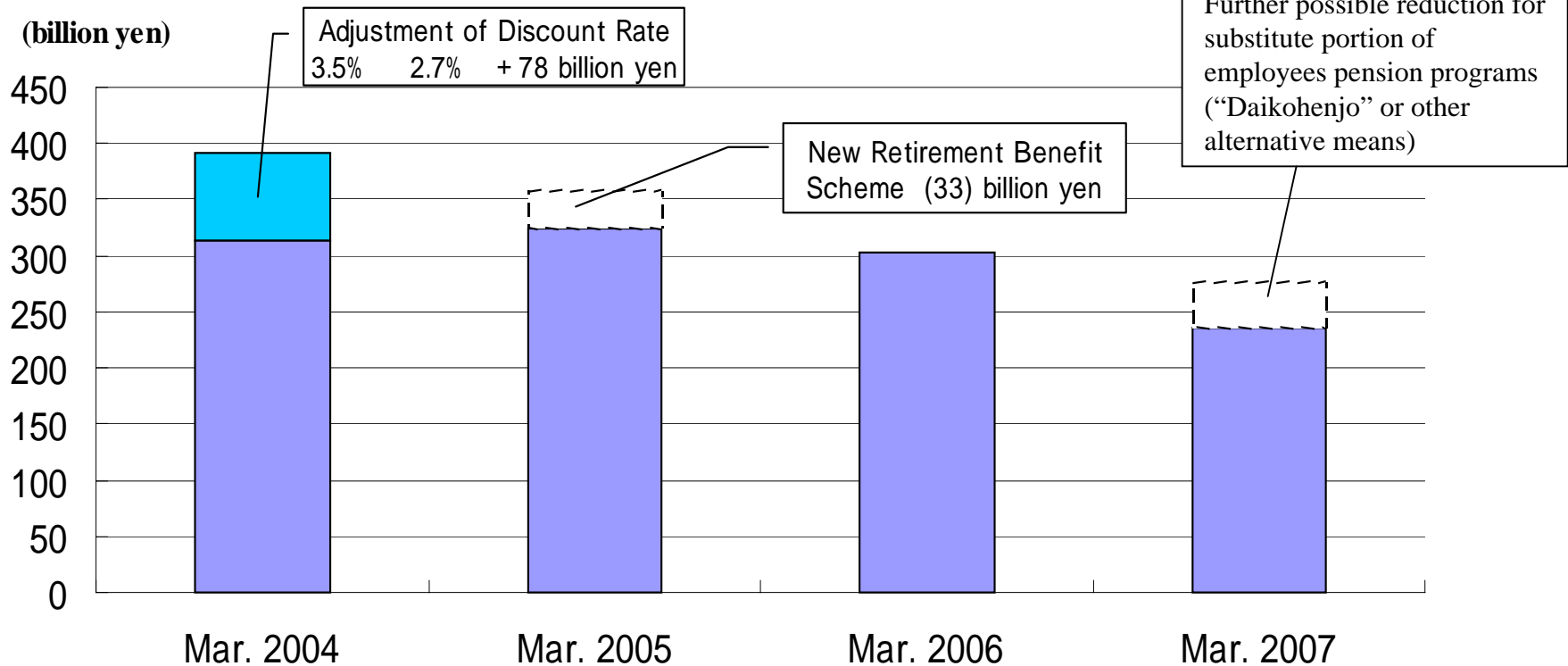




# Reduction of Unrecognized Pension & Severance related Obligation

**Introduction of New Retirement Benefit Scheme in FY2004**  
**Cut Unrealized Pension & Severance Obligation : 33 billion yen**  
**[Cut PBO (Projected Benefit Obligation) : 100 billion yen]**

[Trend of Amounts of Unrealized Pension & Severance related obligation]



# **V. Forecast of Business Performance FY04-06**



## Assumptions

y.o.y.		FY 0 4	FY 0 5	FY 0 6
International Passenger	ASK	+ 6.5 %	+ 1 %	1 %
	No. of Pax.	+ 3 3.3 %	+ 4 %	+ 2 %
	Yield (per Pax.)	4.5 %	0 %	+ 1 %
Domestic	ASK	3.6 %	2 %	0 %
	No. of Pax.	0.1 %	1 %	+ 1 %
	Yield (per Pax.)	+ 3.2 %	+ 2 %	0 %
International Cargo	ATK	+ 2.0 %	+ 3 %	+ 3 %
	Tonnage	+ 2.5 %	+ 3 %	+ 3 %
	Yield (per weight)	+ 3.6 %	0 %	0 %

\*Freighters only

		FY 0 4	FY 0 5	FY 0 6
Fuel Price	SIN Kerosene	\$34/bbl	\$32/bbl	\$32/bbl
	CIF	\$29/bbl	\$27/bbl	\$27/bbl
FOREX	USD	¥110	¥110	¥110
	EUR	¥129	¥129	¥129





## Forecast of Business Performance

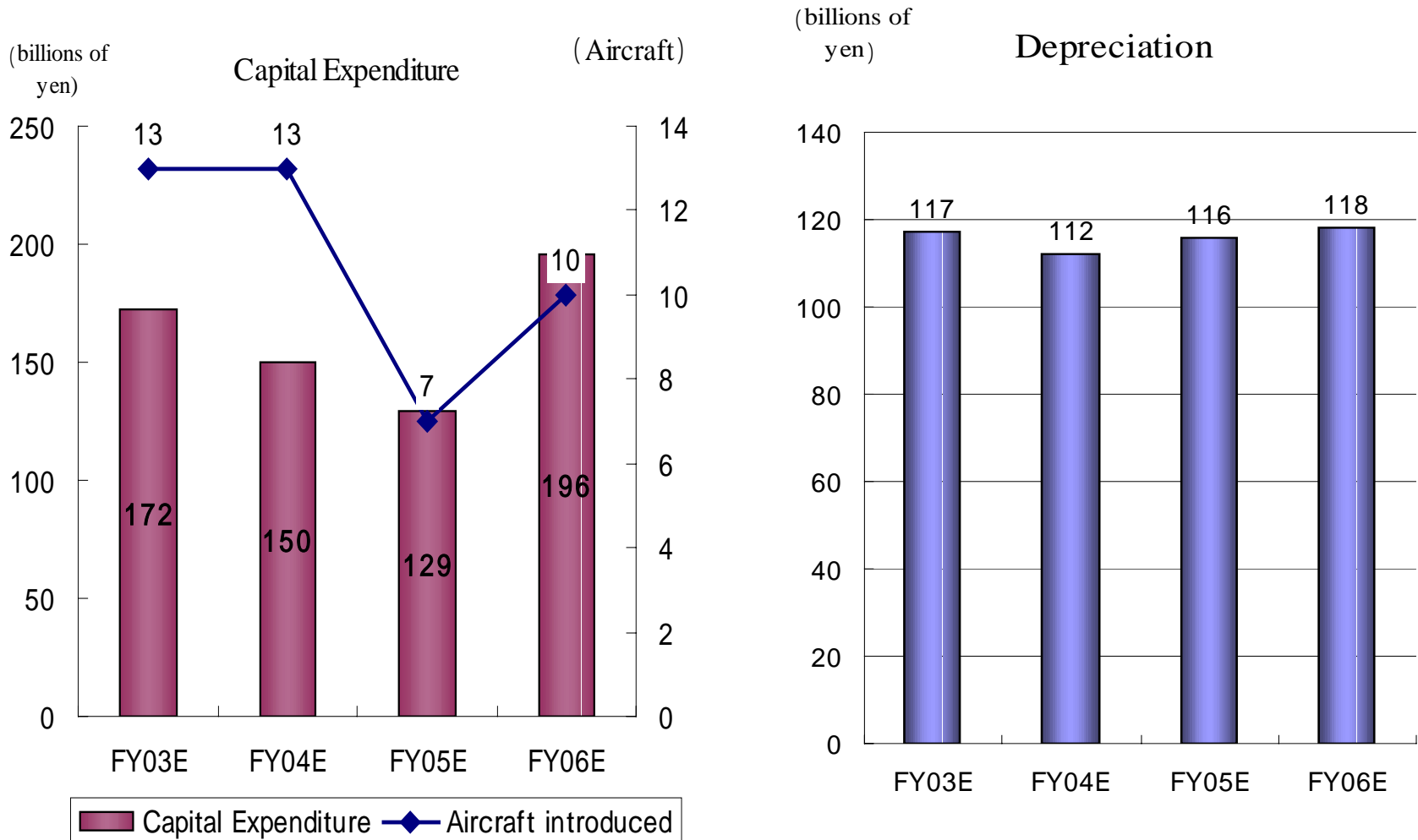
(billion yen)

	FY04	FY05	FY06
<b>Operating Revenue</b>	2,190	2,240	2,285
( International Passenger)	695	724	749
( Domestic Passenger)	690	694	700
( International Cargo)	162	167	172
( Others)	643	655	664
<b>Operating Income</b>	81	105	145
<b>Ordinary Income</b>	69	68	102
<b>Net Income</b>	36	46	54
<b>ROE</b>	20%	22%	21%
<b>Repayment Period of Interest-bearing Debt*</b>	10 years	8 years	6 years

\* Interest-bearing Debt ÷ Operating Cash Flow



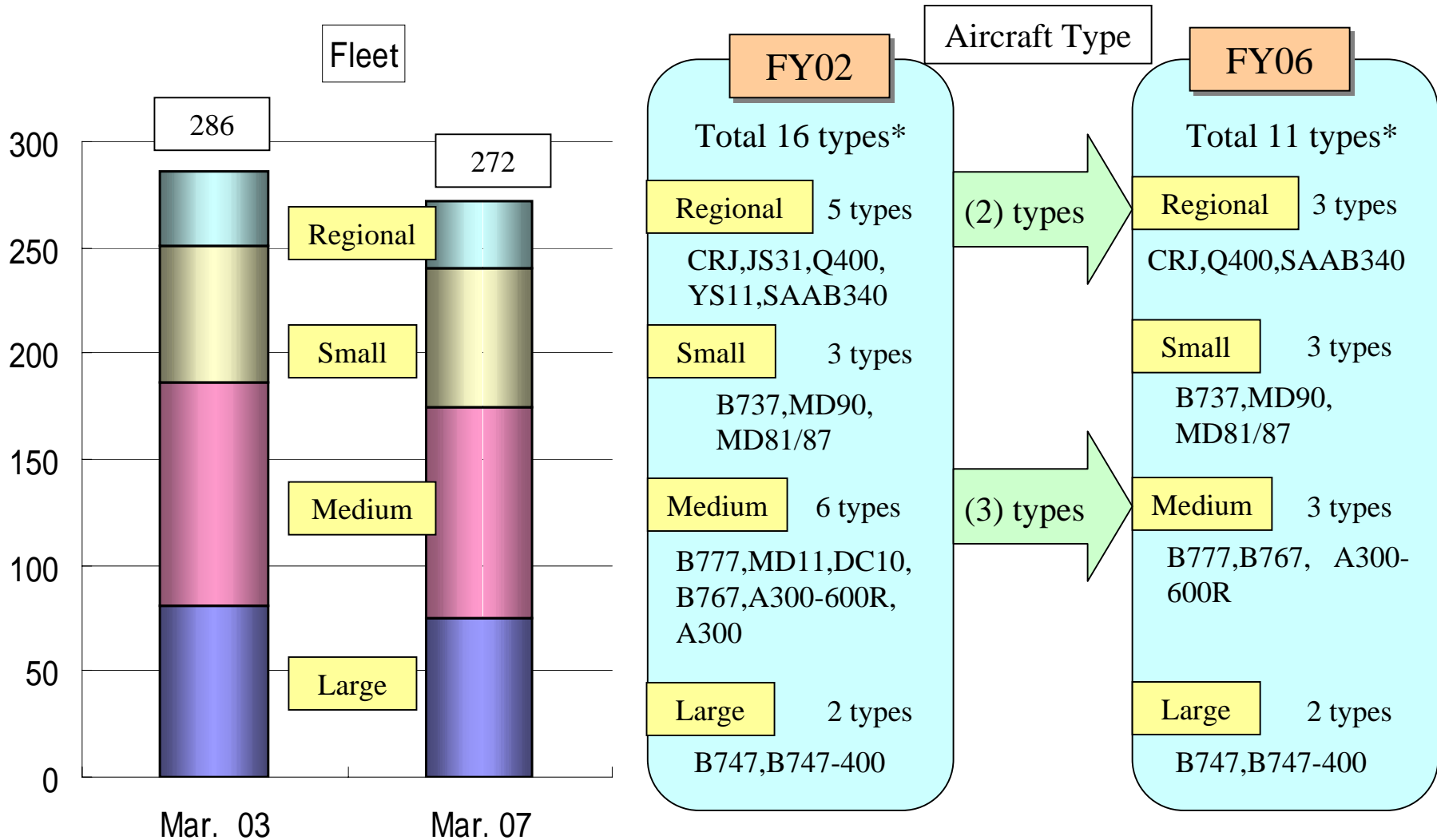
# Capital Expenditure and Depreciation



(N.B.) Figures of capital expenditure exclude leases. Aircraft introduced in FY05-06 is calculated as outright purchase. Numbers of aircraft introduced include leases.



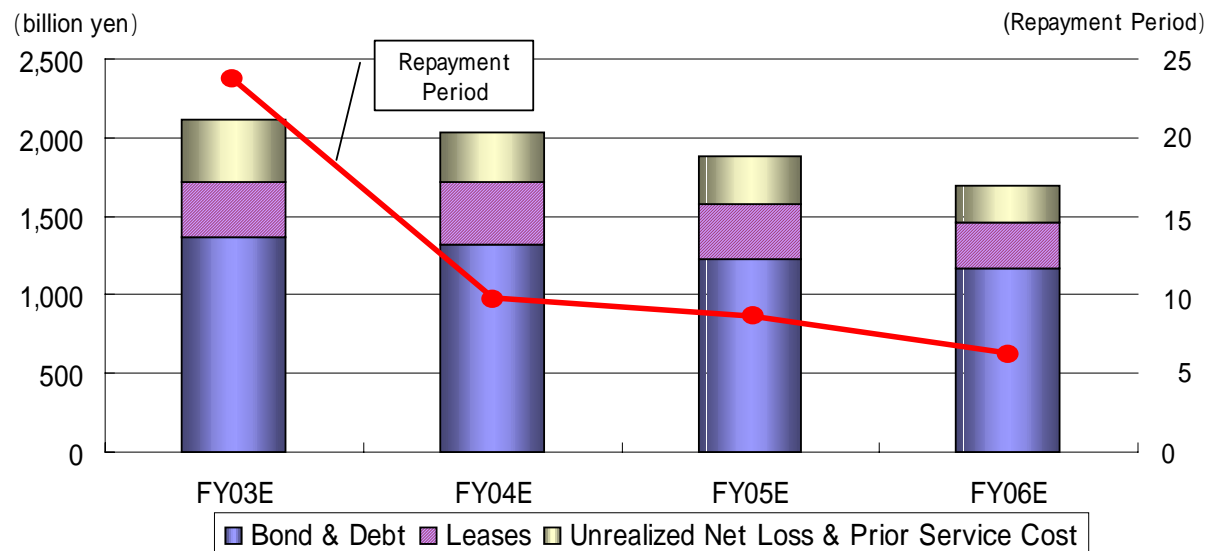
# Fleet Plan



\* Including 3 regional types aircraft



# Interest-bearing Debt



(billion yen)

	FY03E	FY04E	FY05E	FY06E
Bond & Debt	1,368	1,315	1,231	1,166
Leases	351	398	345	296
Unrealized Net Loss & Service Cost	391	324	303	236
<b>Total</b>	<b>2,110</b>	<b>2,037</b>	<b>1,879</b>	<b>1,698</b>

Interest-bearing Debt Repayment Period 23 years 10 years 8 years 6 years



## Integration Effects

(billion yen)

	FY03		FY04		FY05	
	Announced Nov.11,03	Mar.10,04	Announced Nov.11,03	Mar.10,04	Announced Nov.11,03	Mar.10,04
<b>Cost Reducing Effects</b>	18.5	17.5	44.0	47.0	61.0	62.0
Reduction of rents, etc.	6.5	6.5	15.0	12.5	19.0	16.0
Improvement of personnel efficiency	3.0	3.0	16.0	22.0	28.0	32.0
Improvement of equipment efficiency	6.0	6.0	9.5	9.5	11.0	11.0
Other reductions	3.0	2.0	3.0	3.0	3.0	3.0
<b>Decrease in Revenue</b>	(5.5)	(5.5)	(4.0)	(4.0)	(4.0)	(4.0)
Airfare reduction	(2.0)	(2.0)	-	-	-	-
Return of slots	(3.5)	(3.5)	(4.0)	(4.0)	(4.0)	(4.0)
<b>Increase in Revenue</b>	14.5	16.0	17.5	20.5	21.5	22.5
<b>Total Integration Effects</b>	27.5	28.0	57.5	63.5	78.5	80.5
<b>Additional Integration-related Cost</b>	(6.0)	(7.0)	(18.5)	(17.5)	(15.5)	(12.5)
<b>Net Total Integration Effects</b>	21.5	21.0	39.0	46.0	63.0	68.0

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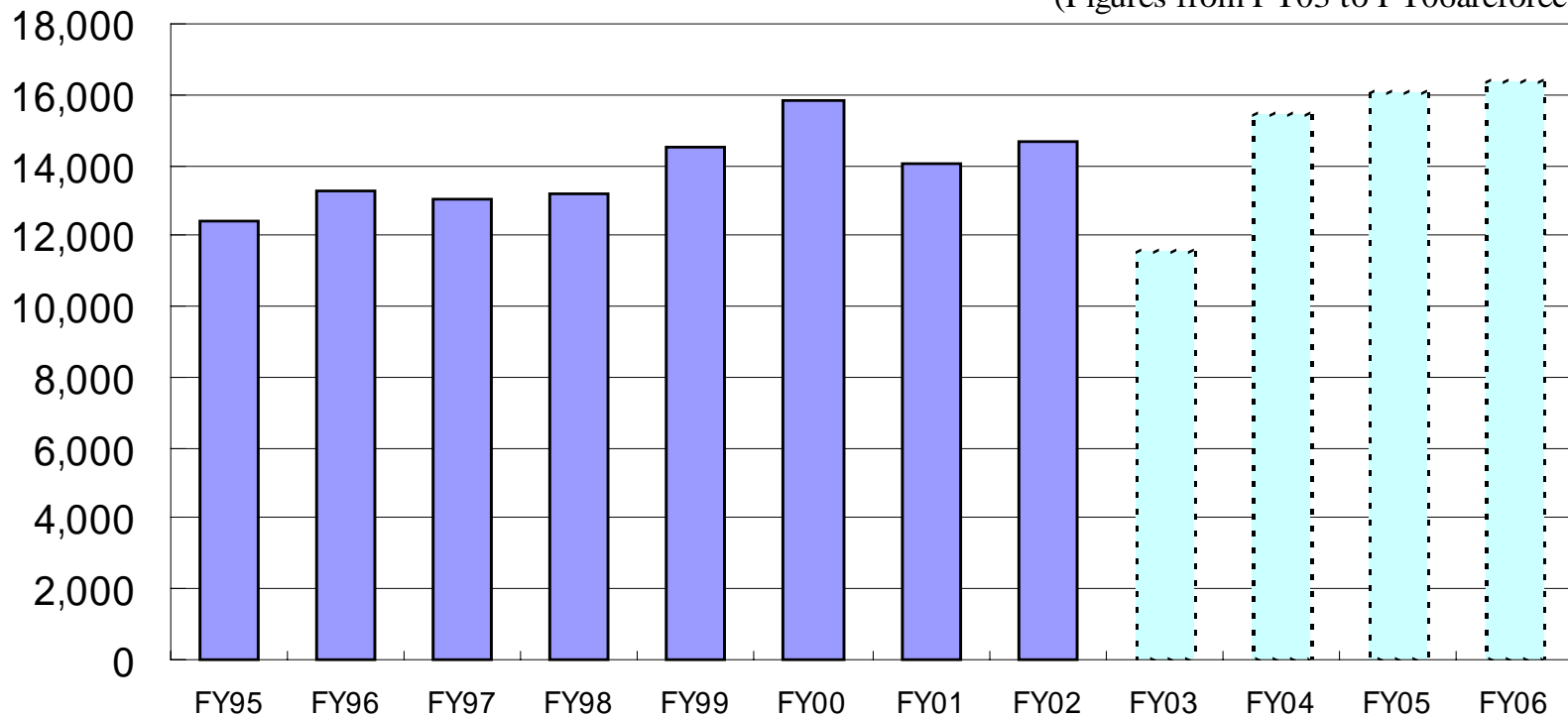
# References

# Demand Trend -International Passenger-

## Demand Trend of International Passenger

('000 passengers)

(Figures from FY03 to FY06 are forecast)

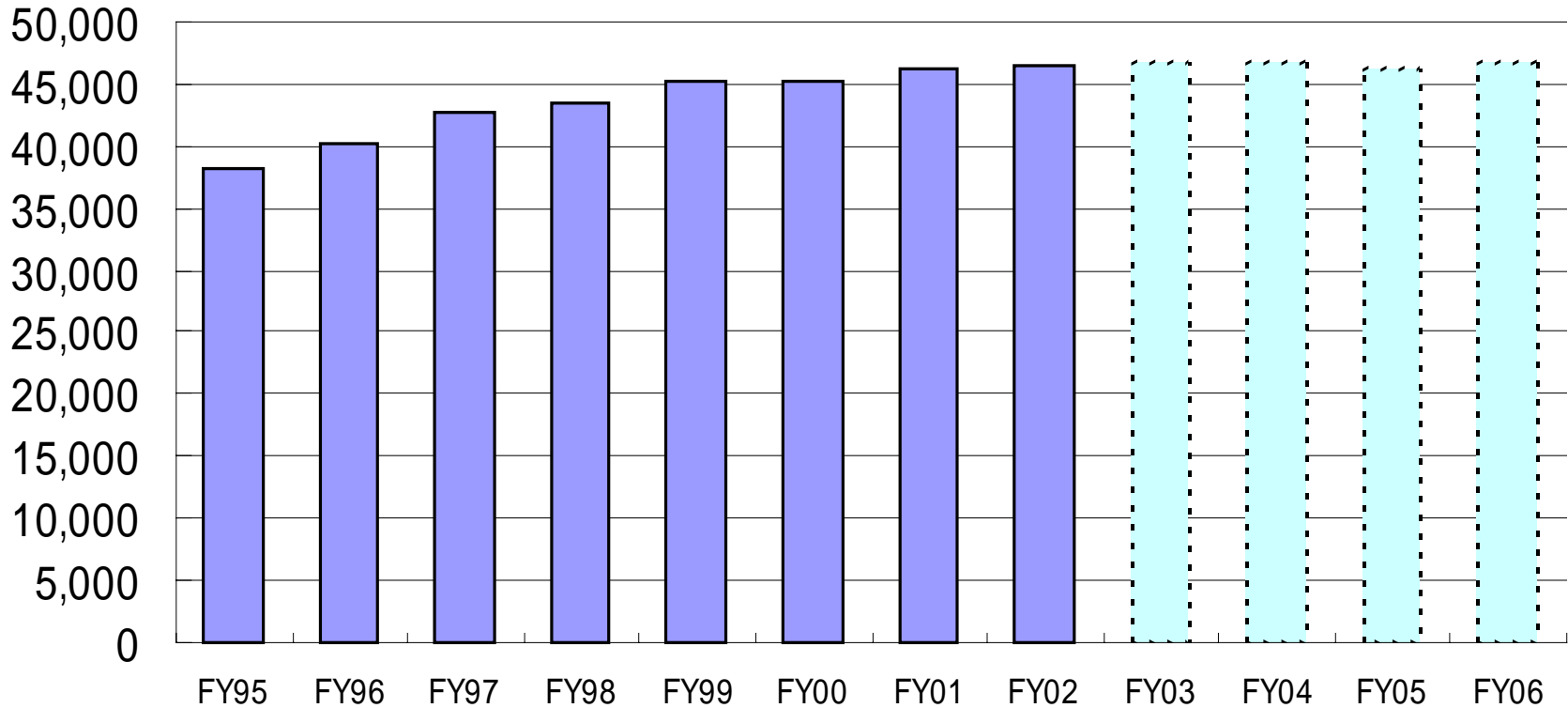


# Demand Trend-Domestic Passenger-

## Demand Trend of Domestic Passenger

('000 passengers)

(Figures from FY03 to FY06 are forecast)

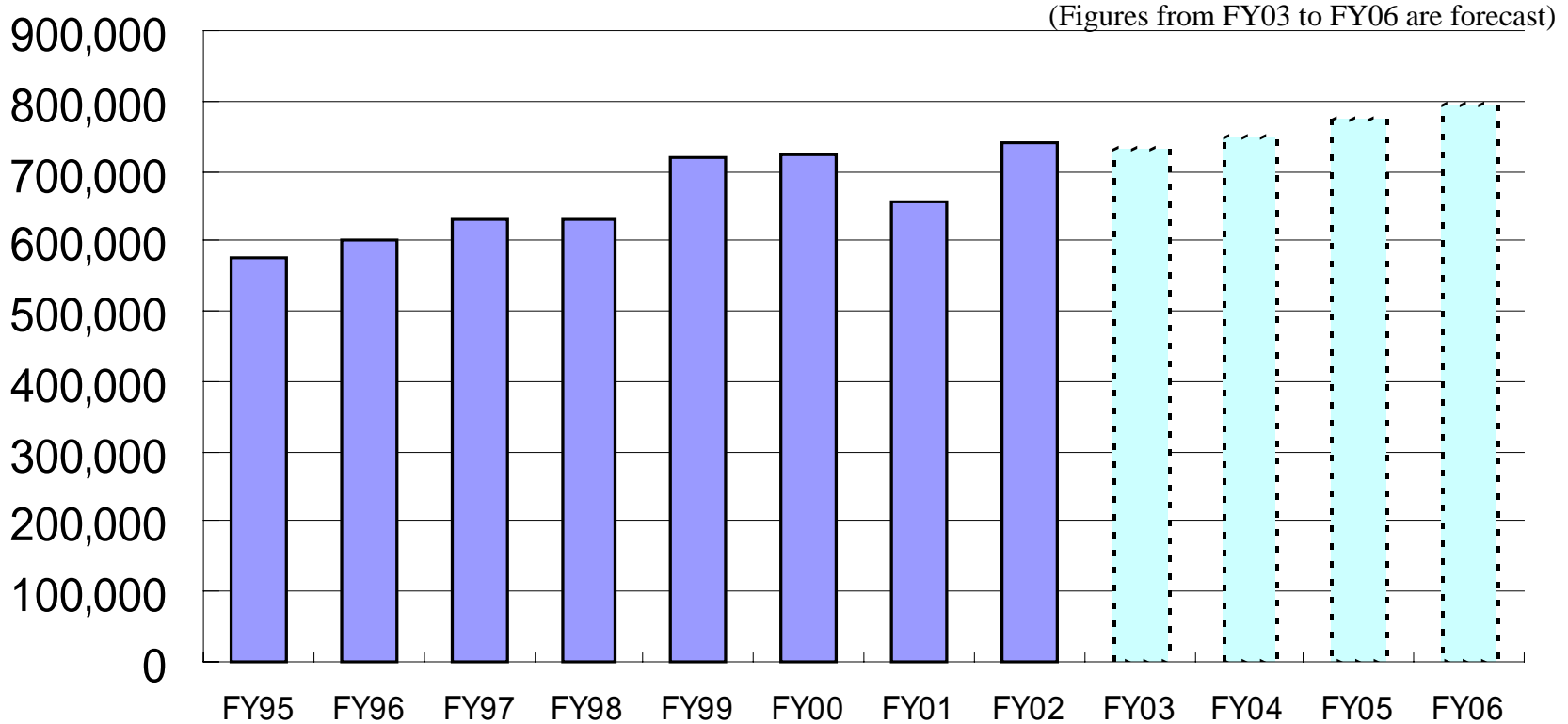




# Demand Trend -International Cargo-

## Demand Trend of International Cargo

Tonnage



## <Notice>



**(N.B.)**

**Any statement in this document, other than those of historical facts, are forward-looking statements about future performance, which are based on management's assumption and beliefs in light of information currently available, and involve risks and uncertainties. Actual results may differ materially from this forecast.**

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