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

(Analyst Briefing)

March 10, 2004

Japan Airlines System Corporation
# Table of Contents

## Revision of the Forecast of Business Results for FY2003
- Increase in Efficiency of Aircraft Operations
- Control of Investment
- Reduction of Unrecognized Pension & Severance

## Factors of Revision
- Obligation

## Medium-term Business Plan for FY2004-06
- What JAL Group is aiming
  - Target
  - Business Portfolio
  - Operating Income by Business Segment (image)
- Measures of Cost Reduction
  - Measures to decrease Personnel Cost
  - Enhancement of Cost Reduction
- Revenue Increase Measures
  - New FFP Strategy
  - Domestic Passenger
  - International Passenger
  - International Cargo
- Forecast of Business Results for FY2004-06
  - Assumptions
  - Forecast of Business Results
  - Capital Expenditure and Depreciation
  - Fleet Plan
  - Interest-bearing Debt
  - Integration Effect
- References
  - Demand Trend -International Passenger-
  - Demand Trend -Domestic Passenger-
  - Demand Trend -International Cargo-
  - <Notice>
Revision of the Forecast of Business Results for FY2003
### Revision of the Forecast of Business Performance for FY2003

(Units: billion yen)

<table>
<thead>
<tr>
<th>(a) FY03 (announced on Nov. 14, 03)</th>
<th>(b) FY03 (announced on Mar. 10, 04)</th>
<th>Difference (b) - (a)</th>
</tr>
</thead>
<tbody>
<tr>
<td>International Passenger</td>
<td>564.0</td>
<td>546.0</td>
</tr>
<tr>
<td>Domestic Passenger</td>
<td>669.0</td>
<td>669.0</td>
</tr>
<tr>
<td>International Cargo</td>
<td>153.0</td>
<td>153.0</td>
</tr>
<tr>
<td>Others</td>
<td>589.0</td>
<td>588.0</td>
</tr>
<tr>
<td><strong>Operating Revenue</strong></td>
<td>1,956.0</td>
<td>1,975.0</td>
</tr>
<tr>
<td><strong>Operating Income (Loss)</strong></td>
<td>24.0</td>
<td>25.0</td>
</tr>
<tr>
<td><strong>Ordinary Income (Loss)</strong></td>
<td>50.0</td>
<td>50.0</td>
</tr>
<tr>
<td><strong>Net Income (Loss)</strong></td>
<td>50.0</td>
<td>50.0</td>
</tr>
</tbody>
</table>

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

No. of Int’l Passengers in FY

Increase in Operating Cost
Fuel Cost +5 billion yen

(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
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

Improvement of profitability

- Cost Reduction
- Revenue Increase
- Integration Effects (FY05) 68 billion yen

Improvement of Customer Satisfaction

Increase of Operating Cash Flow
What JAL Group is aiming

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

FY 2004
- Improvement of Asset efficiency
- Domestic Passenger
- International Passenger
- Cargo
- Others

FY 2006
- Strengthening of earning capacity
- Introduction of B747-400F
- Curb Investment
- Total Property Scale decreases by 4% compared with FY04

roa = \frac{(\text{Operating Income} + \text{Net Interest Expense}) \times \left(1 - \text{effective Tax Rate}\right)}{\text{Debt} + \text{Bond} + \text{Capital Account} + \text{Minority Interests}}
What JAL Group is aiming

Operating Income by Business Segment (image)

Operating Income by Business Segment

Billion yen

- Domestic Passenger
- International Passenger
- Cargo
- Others

FY04 FY05 FY06
II. Measures of Cost Reduction

- Acceleration of Cost Reduction -
Measures to decrease Personnel Cost

- **Introduction of New Retirement Benefit Scheme**
  - **Effect**
    - Reduction of Retirement Benefit Cost (’04-’06)
    - $57 billion yen

- **Ground Staff**
  - Personnel Reduction (’02-’06)
  - -4,500 persons

- **Cabin Crew**
  - Increase of Part-Time & Overseas-based Cabin
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

Membership: 15.5 million (as of Dec. 2003)
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
Revenue Increase Measures

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
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

Measures to improve Balance Sheet

Annual Operating Flights per Aircraft*

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

FY06: Increase by 5% compared with FY03
Measures to improve Balance Sheet

Control of Investment

(billion yen)

- Cut 100 billion yen
- Cut 48 billion yen
Introduction of New Retirement Benefit Scheme in FY2004
Cut Unrealized Pension & Severance Obligation: 33 billion yen
[Cut PBO (Projected Benefit Obligation): 100 billion yen]

Further possible reduction for substitute portion of employees pension programs ("Daikohenjo" or other alternative means)
V. Forecast of Business Performance FY04-06
## Assumptions

<table>
<thead>
<tr>
<th></th>
<th>FY04</th>
<th>FY05</th>
<th>FY06</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assumptions</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Fuel Price</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>FOREX</strong></td>
<td>±65%</td>
<td>+1%</td>
<td>±1%</td>
</tr>
<tr>
<td><strong>ASK</strong></td>
<td>±33%</td>
<td>+4%</td>
<td>+2%</td>
</tr>
<tr>
<td><strong>No. of Pax.</strong></td>
<td>±35%</td>
<td>±2%</td>
<td>0%</td>
</tr>
<tr>
<td><strong>Yield (per Pax.)</strong></td>
<td>±0%</td>
<td>±1%</td>
<td>1%</td>
</tr>
<tr>
<td><strong>ASK</strong></td>
<td>±2%</td>
<td>±2%</td>
<td>0%</td>
</tr>
<tr>
<td><strong>Tonnage</strong></td>
<td>±2%</td>
<td>±2%</td>
<td>0%</td>
</tr>
<tr>
<td><strong>Yield (per weight)</strong></td>
<td>±0%</td>
<td>±1%</td>
<td>1%</td>
</tr>
</tbody>
</table>

## Forecast of Business Results for FY2004-06

<table>
<thead>
<tr>
<th></th>
<th>FY04</th>
<th>FY05</th>
<th>FY06</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>International Passenger</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Domestic</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>International Cargo</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Domestic Freighters</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

©JAL 2004
## Forecast of Business Performance

**Operating Revenue**

<table>
<thead>
<tr>
<th></th>
<th>FY04</th>
<th>FY05</th>
<th>FY06</th>
</tr>
</thead>
<tbody>
<tr>
<td>International Passenger</td>
<td>2,190</td>
<td>2,240</td>
<td>2,285</td>
</tr>
<tr>
<td>Domestic Passenger</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>International Cargo</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Others</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Operating Income**

<table>
<thead>
<tr>
<th></th>
<th>FY04</th>
<th>FY05</th>
<th>FY06</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Ordinary Income**

<table>
<thead>
<tr>
<th></th>
<th>FY04</th>
<th>FY05</th>
<th>FY06</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Net Income**

<table>
<thead>
<tr>
<th></th>
<th>FY04</th>
<th>FY05</th>
<th>FY06</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**ROE**

<table>
<thead>
<tr>
<th></th>
<th>FY04</th>
<th>FY05</th>
<th>FY06</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Repayment Period of Interest-bearing Debt***

<table>
<thead>
<tr>
<th></th>
<th>FY04</th>
<th>FY05</th>
<th>FY06</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Interest-bearing Debt ÷ Operating Cash Flow*
Forecast of Business Results for FY2004-06

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

**FY02**
- Total 16 types*
  - Regional: 5 types
    - CRJ, JS31, Q400, YS11, SAAB340
  - Small: 3 types
    - B737, MD90, MD81/87
  - Medium: 6 types
    - B777, MD11, DC10, B767, A300-600R, A300
  - Large: 2 types
    - B747, B747-400

**FY06**
- Total 11 types*
  - Regional: 3 types
    - CRJ, Q400, SAAB340
  - Small: 3 types
    - B737, MD90, MD81/87
  - Medium: 3 types
    - B777, B767, A300-600R
  - Large: 2 types
    - B747, B747-400

* Including 3 regional types aircraft
## Forecast of Business Results for FY2004-06

### Interest-bearing Debt

<table>
<thead>
<tr>
<th></th>
<th>FY03E</th>
<th>FY04E</th>
<th>FY05E</th>
<th>FY06E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bond &amp; Debt</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Leases</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unrealized Net Loss &amp; Service Cost</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Interest-bearing Debt Repayment Period</strong></td>
<td>23 years</td>
<td>10 years</td>
<td>8 years</td>
<td>6 years</td>
</tr>
</tbody>
</table>

### Graph

- The graph illustrates the forecast of interest-bearing debt for FY2004-06, showing the breakdown of Bond & Debt, Leases, and Unrealized Net Loss & Service Cost for each year.
- The bar chart also indicates the interest-bearing debt repayment period for each year.
### Forecast of Business Results for FY2004-06

#### Integration Effects

<table>
<thead>
<tr>
<th></th>
<th>FY03</th>
<th>FY04</th>
<th>FY05</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cost Reducing Effects</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reduction of rents, etc.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Improvement of personnel efficiency</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Improvement of equipment efficiency</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other reductions</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Decrease in Revenue</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Airfare reduction</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Return of slots</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Increase in Revenue</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total Integration Effects</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Additional Integration-related Cost</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Net Total Integration Effects</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Note: Values are in billion yen.*
References
Demand Trend of International Passenger

(Figures from FY03 to FY06 are forecast)
Demand Trend of Domestic Passenger

(Figures from FY03 to FY06 are forecast)
Demand Trend -International Cargo-

Demand Trend of International Cargo

Tonnage

(Figures from FY03 to FY06 are forecast)
(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.

This document was published as supplemental materials for the Briefing on JAL Group’s Medium-term Business Plan held on March 10, 2004. The copyright of this document belongs to Japan Airlines System Corporation.

You can watch this presentation on our Homepage (Sorry! Only in Japanese). Please refer to the following URL:  http://www.jal.co.jp/broadband/