



# JAL Group

## FY2006-2010 Medium-Term Business Plan Presentation

—Mobilizing the Group's Collective Efforts  
Toward Restoring Trust—

March 2, 2006

Japan Airlines Corporation

# Notice



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This document is for background information purposes only. Please see other disclosure and public filings we made or will make for information regarding the results of our operations.

Certain statements made in this document, including some management strategies and targets, may contain forward-looking statements which reflect management's views and assumptions. We may not be successful in implementing our business strategies, and management may fail to achieve its targets. 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 without limitation adverse economic or political conditions in Japan or other countries; increased jet fuel prices, negative changes in foreign exchange rates, terrorist attacks and military conflicts, and health epidemics. Please see our latest Annual Report for additional information regarding the risks in our businesses. To the extent this document contains such forward-looking statements, we have no obligation or intent to update them.

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# Commitment to Corporate Revitalization

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- **We must act now.**
- **We will always consider safety our top priority and strive to offer the highest level of customer service.**
- **We will endeavor to implement comprehensive business structure reform measures so that we may expand and develop our operations from fiscal 2009 onward.**
- **Deeming fiscal 2006 as the first phase in our revitalization initiative, we will make a groupwide concerted effort to achieve the targets stated in the plan.**



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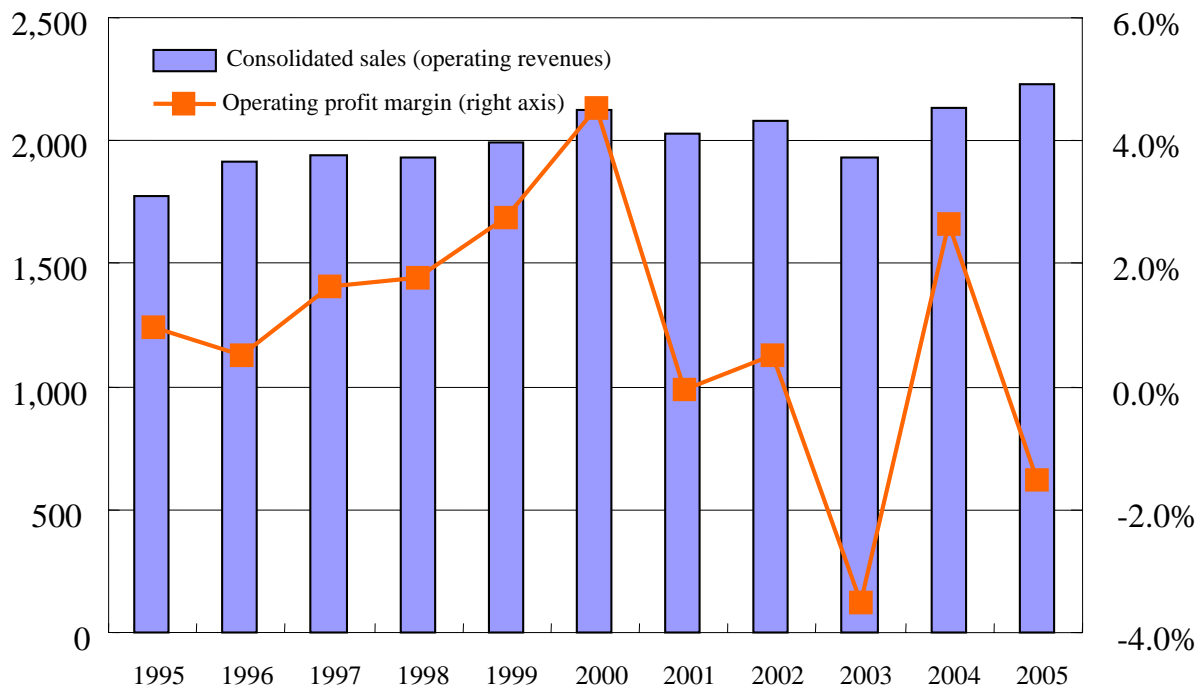
# I. Challenges We Face in Implementing the FY2006-2010 Medium-Term Business Plan



# FY1995-2005 Business Results

## ➤ Sales/operating profit margin since 1995

(billion of yen)



FY2001 onward: Profit margin has been significantly lower than past periods.

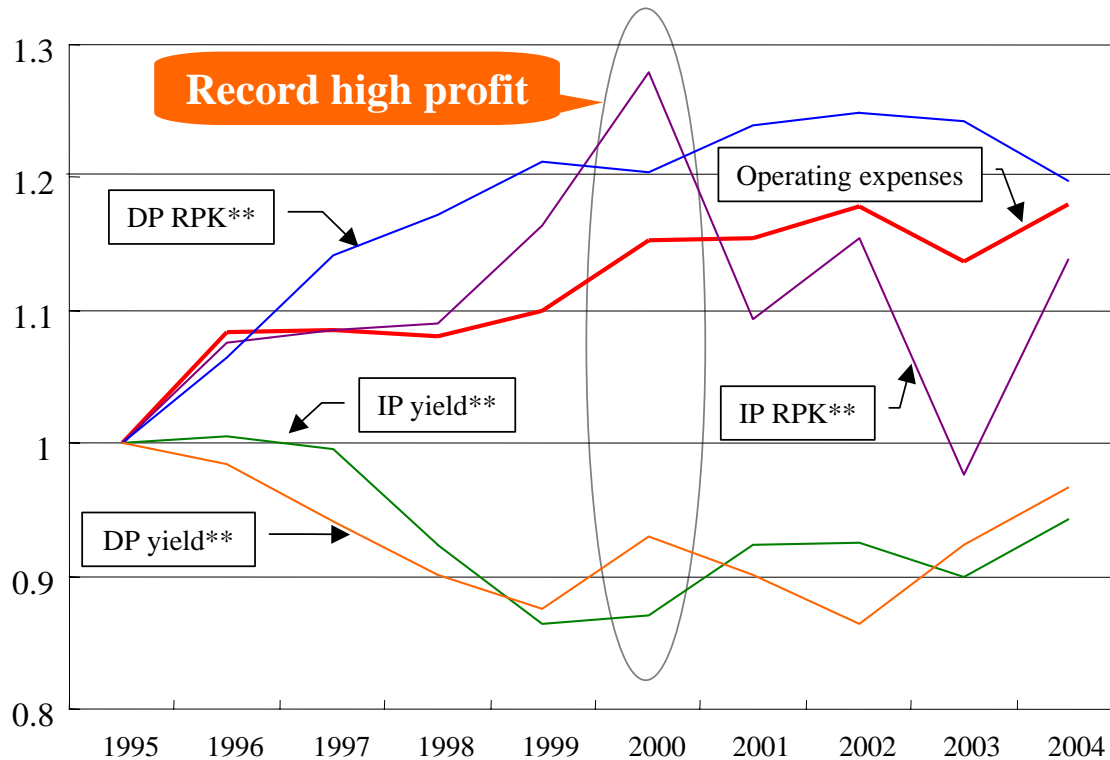
(The operating profit margin for fiscal 2004 would have been approximately 0.1%, but for the one-time ¥ 52.9 billion retirement benefit plan reform in that year)

•Figures prior to fiscal 2002 show the simple sum of for JAL and JAS. Figures for fiscal 2002 and after are on a consolidated basis under the current holding company. Figures for fiscal 2005 are estimates.



# Past Principal Operation Indices

➤ Performance indices (base year: FY1995=1)



**FY1995-FY2000**

Yields were on downward trend, but the record-high earnings were posted in fiscal 2000 due to high growth in both international and domestic demand.

**FY2001-FY2004**

Yields remained low with wide fluctuations in demand for international flights and slow-down in the growth in demand for domestic flights.

· Current Fiscal Year

In addition to record high jet fuel prices, customer demand declined due to safety issues.

•Figures prior to 2002 show the simple sum of figures for JAL and JAS. Figures for fiscal 2002 and after are on a consolidated basis under the current holding company.

\*\*IP: International Passengers, DP: Domestic Passengers, RPK: Revenue Passengers Kilometers km.



# Factors Contributing to Poor Performance and Challenges We Face in Implementing the New Medium-Term Business Plan

## ➤ Analysis of external/internal factors

### External Factors

1. Demand decreased due to factors such as continued terrorist activities after 2001, epidemics and natural disasters
2. Record high jet fuel prices

### Internal Factors

1. Lack of group integration due to insufficient communication within the group
2. Customer loyalty was declining due to concerns about safety and weakening service competitiveness
3. Failure to adjust to changing market structure resulted in supply-demand mismatch

## ➤ 2006-2010 Medium-Term Business Plan Challenges

<b>1. Reforming our corporate culture and employee mind-set</b>	✓ Full integration of the group, and creation of an open-minded corporate culture by strengthening intra-company communication.
<b>2. Restoring customer trust and rigorously pursuing customer-oriented services</b>	<ul style="list-style-type: none"> <li>✓ Restore our safety standards to a higher level.</li> <li>✓ Thoroughly improve product/service quality, always keeping in mind customer's perspective, in order to become the airline of customers' choice.</li> </ul>
<b>3. Restructuring our business base</b>	✓ Fully restructure our business base by the end of fiscal 2008, by improving our profitability of our international passengers business and ensuring implementation of cost cutting measures. We aim to maximize profit, taking full advantage of business opportunities from fiscal 2009 onward.



## II. Toward the Creation of a New JAL Group



# Reforming Our Corporate Culture

Endeavoring to create a sense of group unity and foster an open corporate culture so that all group employees can work pleasantly based on their own initiatives

◆ Create a sense of unity and foster open corporate culture

· Enhance communication leader meetings, and upgrade and improve training sessions for intragroup interaction.

◆ Encourage employees' initiatives and creativity

· Appropriately evaluate actions based on employees' own initiatives

◆ Improve the customer satisfaction (CS) promotion system

· Standardize and strengthen the current CS promotion activities and promote improvements in communication with partners outside the company

◆ Promote personnel rotation

· Appropriate job rotation between front-line staff and administrative staff and between business segments

◆ Improve human resource development & reward system

· Establish career paths (human resource development plan)

◆ Strengthen educational system and training sessions

· Implement follow-up training designed for employees' careers and positions

◆ Re-establish corporate philosophy

· Set goals, emphasizing safety, customer satisfaction, and coordination with other departments

# Restoration of Customer Trust and Truly Customer-Oriented Services 1



## Reestablishing a company with high safety standards

➤ Seeking to implement measures recommended by the safety advisory group to enhance trust of customers in our services

- ◆ Restructure safety operation system
  - Establish a safety promotion division
- ◆ Efforts to reduce human errors
  - Review manuals, strengthen safety training, establish a safety development center
- ◆ Actively promote safety activities
  - PR activities to enhance safety procedures by pilots and mechanics
- ◆ Strengthening our maintenance system
  - Implement new integrated maintenance systems

### ◆ Investment related to safety (Targets)

Classification	(¥ billion)	Item	Specific examples
IT related	27	<ul style="list-style-type: none"> <li>· New maintenance system</li> <li>· Safety information database</li> <li>· Computerize safety information/manual</li> </ul>	<ul style="list-style-type: none"> <li>· Establish a safety information database</li> <li>· Online operating manual</li> <li>· Computerize operations related services</li> </ul>
Flight equipment	24	<ul style="list-style-type: none"> <li>· Equipment repair</li> <li>· Parts/engines purchases</li> </ul>	<ul style="list-style-type: none"> <li>· Equipment repair (R-NAV support, etc.)</li> <li>· Purchase backup engines</li> </ul>
Facilities	8	<ul style="list-style-type: none"> <li>· Strengthen maintenance base/facilities</li> </ul>	<ul style="list-style-type: none"> <li>· Narita B777 dock</li> <li>· Automated cargo weight measurement system</li> </ul>
HR/education	1	<ul style="list-style-type: none"> <li>· Safety education</li> </ul>	<ul style="list-style-type: none"> <li>· Establish a safety development center</li> <li>· Simulator update</li> </ul>
Total	60		

Spending each fiscal year (Targets)						(¥ billion)
	2006	2007	2008	2009	2010	Total
	22	17	14	4	3	60

# Restoration of Customer Trust and Truly Customer Oriented Operations 2



## Improving product/service quality

➤ Seeking to provide services that customers can comfortably take advantage of

◆ Value “customer input” and utilize it in order for customers to comfortably use our service

- Customer participation in product planning
- Product planning in a joint effort between the front line and the planning department

◆ Strengthen product and service quality

- Increase seats for class J and operate more smaller aircraft
- Enlarge the network by joining oneworld and improve convenience

◆ Promote Universal Design (UD)

- Improve and reinforce facilities and equipment based on the UD concept
- Improve our ability to respond to irregularities
- Improve our airport handling ability

◆ Service-related investments (Targets)

Classification	(¥ billion)	Item	Specific examples
Strengthen products and services	25	<ul style="list-style-type: none"> <li>· International passengers</li> <li>· Domestic passengers</li> </ul>	<ul style="list-style-type: none"> <li>· Remodel aircraft cabins (new F/C product, etc.)</li> <li>· Remodel aircraft cabins (increase Class J seats, etc.)</li> </ul>
Upgrade the system software	16	<ul style="list-style-type: none"> <li>· Marketing/travel products sales system</li> <li>· Customer information/mileage related</li> <li>· e-business related</li> <li>· Responding to irregularities</li> <li>· Improve reservation service quality</li> </ul>	<ul style="list-style-type: none"> <li>· Travel products sales related system</li> <li>· Improve customer database</li> <li>· e-ticket support</li> <li>· Improve communication of operation information</li> <li>· Improve call center system</li> </ul>
Maintenance of facilities and equipment	24	<ul style="list-style-type: none"> <li>· Take advantage of airport restructuring projects</li> <li>· Invest in airport facilities</li> </ul>	<ul style="list-style-type: none"> <li>· Restructure the Narita terminal and take advantage of expansion of international flight operations at Haneda airport</li> <li>· Upgrade snow removal equipment</li> </ul>
Total	65		

Spending each fiscal year (Targets)	(¥ billion)					Total
	2006	2007	2008	2009	2010	
	27	11	9.5	9.5	8	65

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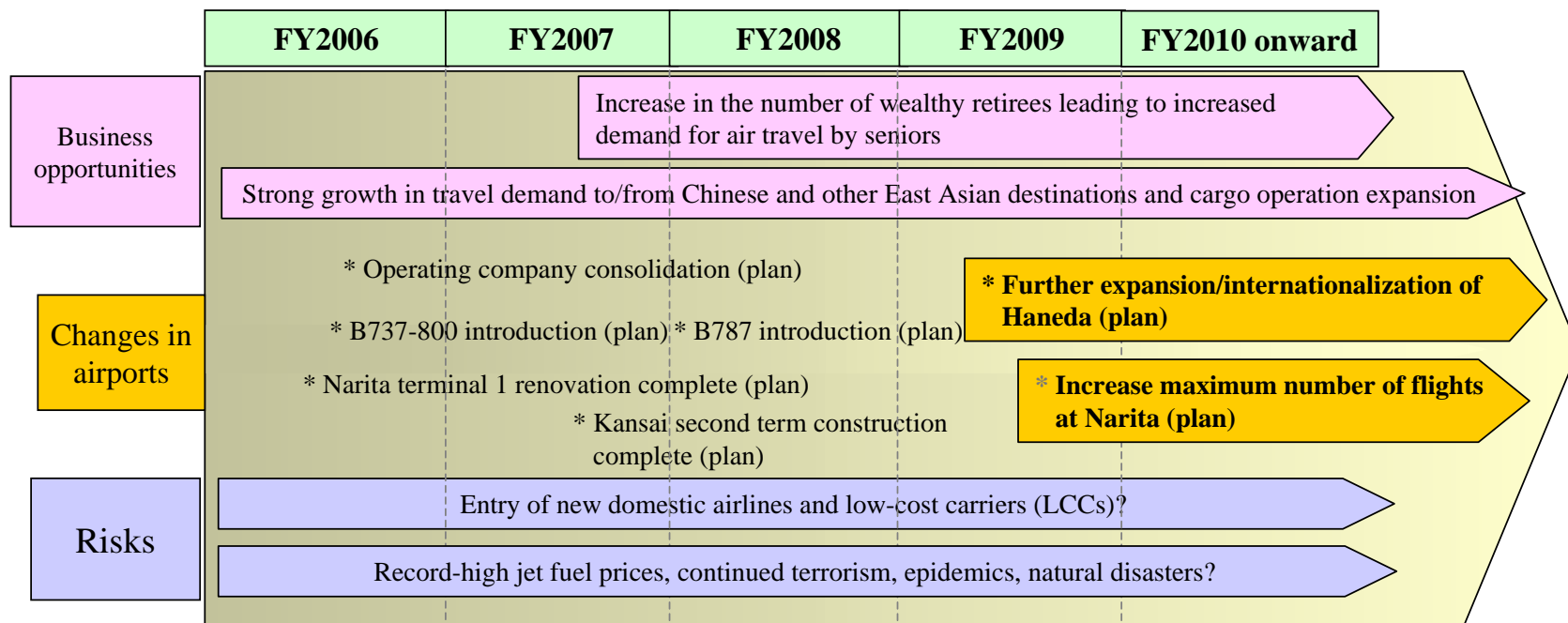
# III. FY2006-2010 Medium-Term Business Plan Summary



# Management's Assumptions about Business Environment for the Period under the Medium-Term Business Plan

## ➤ Areas of potential growth and change in future business environment

- ✓ Further expansion and internationalization of Haneda, as well as expansion of Narita, can present a great business opportunity.
- ✓ In anticipation of airport expansions, introduce new medium-sized and small aircraft

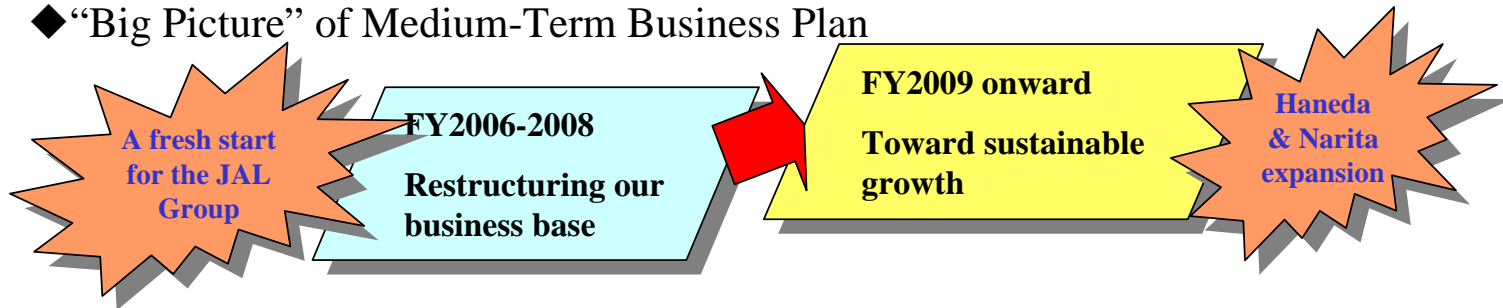


# Vision for the Group

## ➤ Medium-Term Business Plan Goals

Transform into an airline that can maintain a high level of safety and service quality worldwide. Also, ensure a sound financial position by improving asset efficiency and profitability with the aim of maximizing enterprise value. Establish strong business base and company structure that enables the Company to respond to changes in business environment.

### ◆ “Big Picture” of Medium-Term Business Plan



### ◆ Medium-Term Business Plan Objectives

- ◇ FY2006 target: Turnaround to black in terms of net income on a consolidated basis
- ◇ FY2008 target: Finish restructuring our business base
- ◇ FY2010 target: Consolidated operating profit margin of more than 5%

\* Figures for 2005 are estimates and those for fiscal 2006 and after are targets.

\*This medium-term business plan covers up to 2010, including the expansion of Haneda and Narita in 2009.

# Target Figures under the New Management Plan



## ➤ Earnings targets on a consolidated basis

(billions of yen)

	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010
Operating revenues	2,195	2,301	2,345	2,368	2,399	2,437
Operating income (loss)	(34)	17	48	57	94	130
Ordinary income (loss)	(57)	0.5	24	29	55	107
Net income (loss)	(47)	3	12	17	27	55

\* Figures for fiscal 2005 are estimates and figures for fiscal 2006 and after are targets.



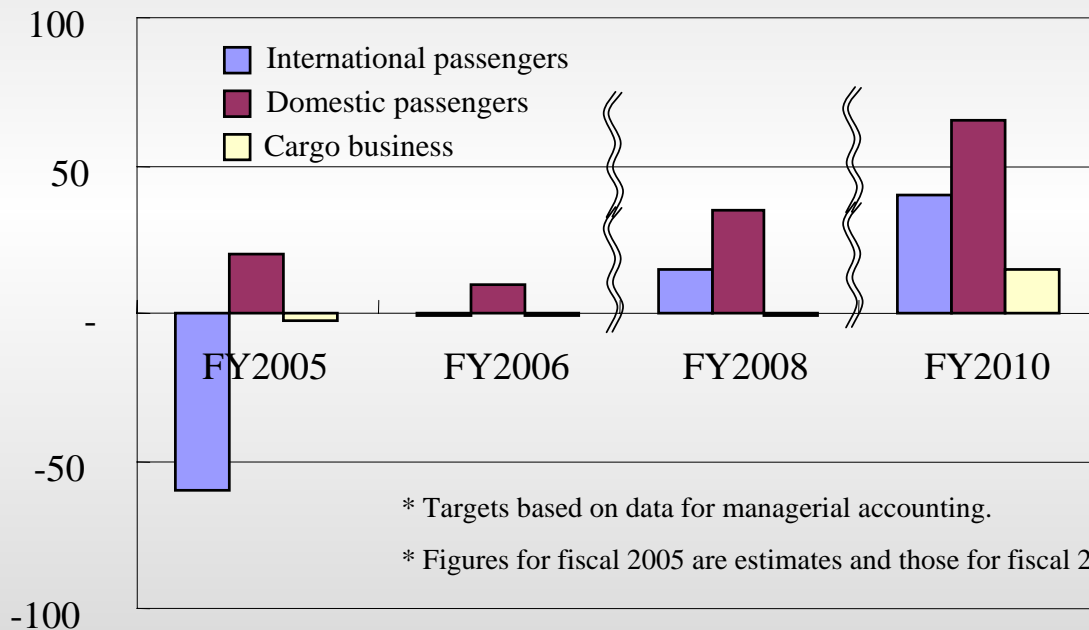


# Targets for the Group

## ➤ Profitability for each business division (targets)

- Aim to dramatically improve the profitability of international passenger business in fiscal 2006
- Aim to steadily increase operating income of domestic passenger business during this plan period
- Aim at turnaround to black for the cargo business by the end of fiscal 2009, taking advantage of introduction of new aircraft

(¥ billion)



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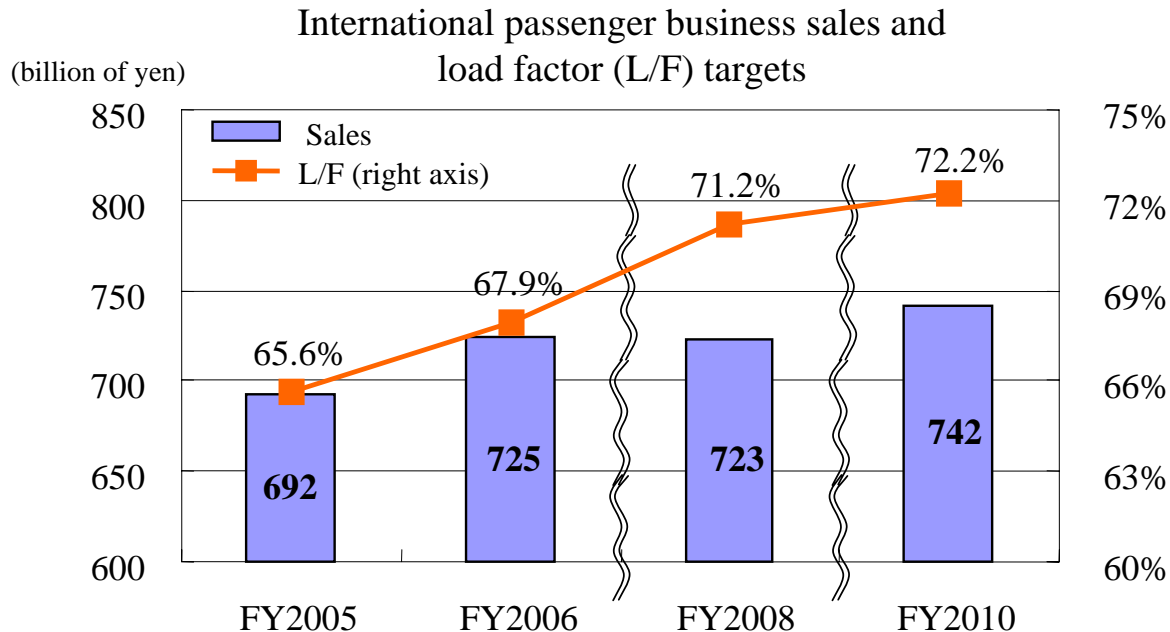
# IV. Toward Restructuring Our Business Base: Business Strategies



# International Passenger Business (Basic Policy)

## ◆ Basic policy—Resolutely carry out reforms by selection and focus—

- ✓ Aim to focus business resources on routes with high profitability and high-growth potential
- ✓ Endeavor to accelerate the replacement of aging aircraft and improve competitiveness by introducing new aircraft
- ✓ Seek to implement measures developed to meet the needs of business passengers, who are higher-yield passengers



\*Figures for fiscal 2005 are estimates and those for fiscal 2006 and after are targets.



# International Passenger Business (Supply Strategy 1)

◆ Seeking to restructure our supply system and implement a low-cost operation system

FY2006-2008: Restructuring our business base	FY2009 onward Toward sustainable growth
<p><b>&lt;Routes&gt;</b></p> <p>Southeast Asia and China seat composition ratio                      ·FY2005: 39%</p> <p>Further reduction in low profit routes                      ·Comparison with the base year of fiscal 2005 (ASK)(Targets)</p> <p>FY2006: 11% reduction    FY2010: 20% reduction</p>	<p>Haneda international service resumed                      ·Ensure maximum slot assignment in FY2009</p>
<p>Expanding JALways business scale</p> <p>·Expand the Southeast Asian routes, placing more focus on business routes, in addition to the traditional tourist routes</p> <p>·Operating scale (targets) FY2005: 129 flights (22%), FY2006: 157 flights (27%), FY2010: 182 flights (28%)</p>	
<p>Accelerate restructuring by introducing new medium-sized and small aircraft</p> <p>·FY2007: B737-800, FY2008: B787</p> <p>Ratio of medium-sized and small aircraft tagets FY2006: 42%, FY2008: 55%, FY2010: 62%</p>	
<p><b>&lt;Aircraft&gt;</b></p> <p>Early retirement of aging aircraft (targets)</p> <p>·FY2008: Begin to retire B767s                      ·FY2010: Begin to retire B744s</p>	<p>JAL Express international route development</p> <p>·FY2009: Complete B747 retirement</p>

The effect of restructuring of aircraft is expected to be quite large as JAL has traditionally focused on operations using large aircraft.

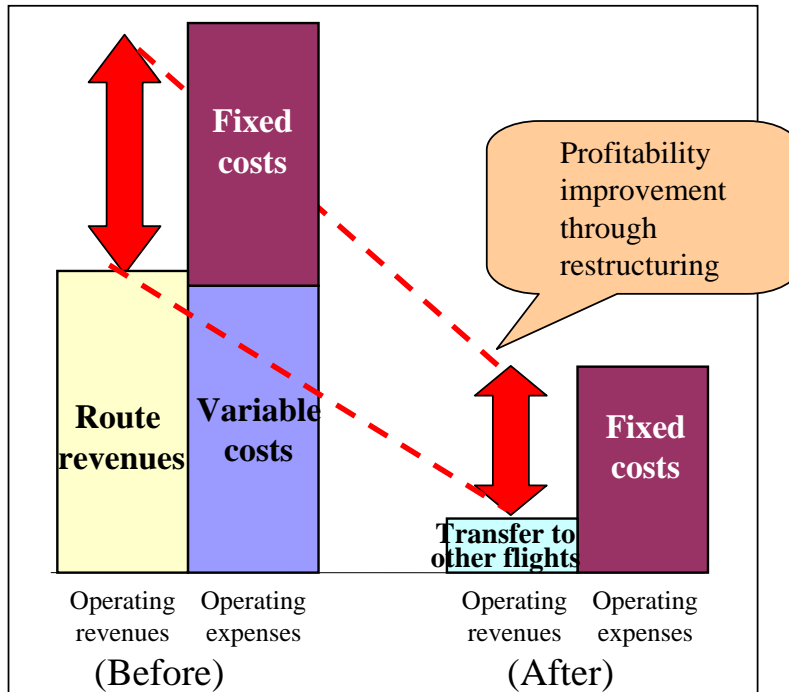
\* Figures for 2005 are estimates and those for fiscal 2006 and after are targets.

# International Passenger Business (Supply Strategy 2)

◆ Seeking to improve profitability by restructuring unprofitable routes and downsizing aircraft

➤ Effect of restructuring unprofitable routes (image)

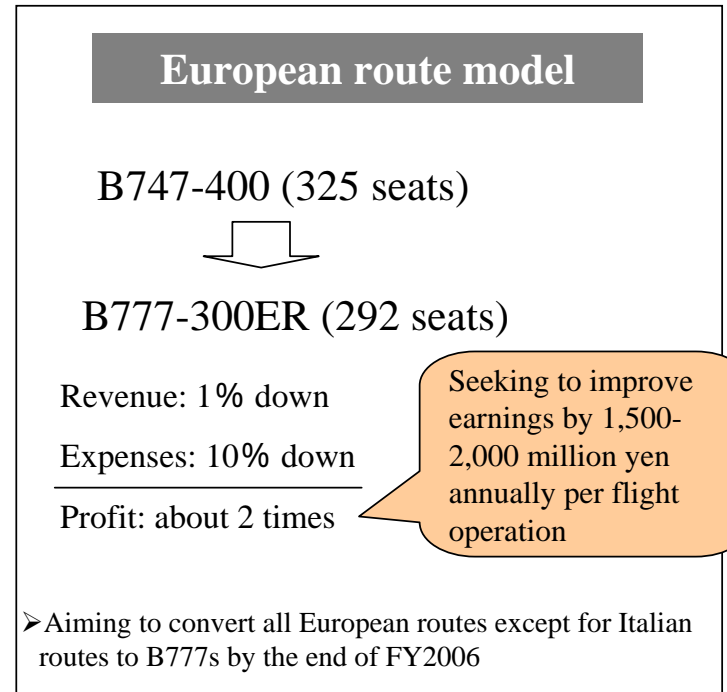
- 1) Reducing variable costs/fixed costs
- + 2) Transfer Passengers to other JAL Flights = Profitability improvement



\*The above drawing is a deficit-reduction scenario

➤ Targeted Effect of Downsizing

- 1) L/F improvement
- + 2) Yield UP = Profitability improvement



# International Passenger Business (Supply Strategy 3)



## ◆FY2006 plan for changes in operations by flight route

### Cancellations

Routes	Current planes & no. of flights	Cancellation time & period	Remarks
Tokyo - Las Vegas - Los Angeles - Tokyo	B747-400: 3 flights per week	Starting September 30, 2006	
Osaka = Los Angeles	B747-400: 7 flights per week	Starting October 1, 2006	
Komatsu = Seoul	B767: 4 flights per week	Starting March 26, 2006	Operations scheduled to continue under code sharing with KE
Hiroshima = Seoul	B767: 3 flights per week	Starting March 24, 2006	

### Reductions in flights

Routes	Changes in number of flights	Timing & period for reducing the number of flights	Remarks
Tokyo = London	14 flights per week → 7 flights per week	Starting March 26, 2006	Suspend JL403/404 flight operations
Tokyo = Bangkok	21 flights per week → 14 flights per week	Starting March 26, 2006	Suspend JO703/704 flight operations
Osaka = Denpasar	Continue with 3 flights per week (used to be 7)	March 26-October 28, 2006	3 flights per week continued

### Increases in flights

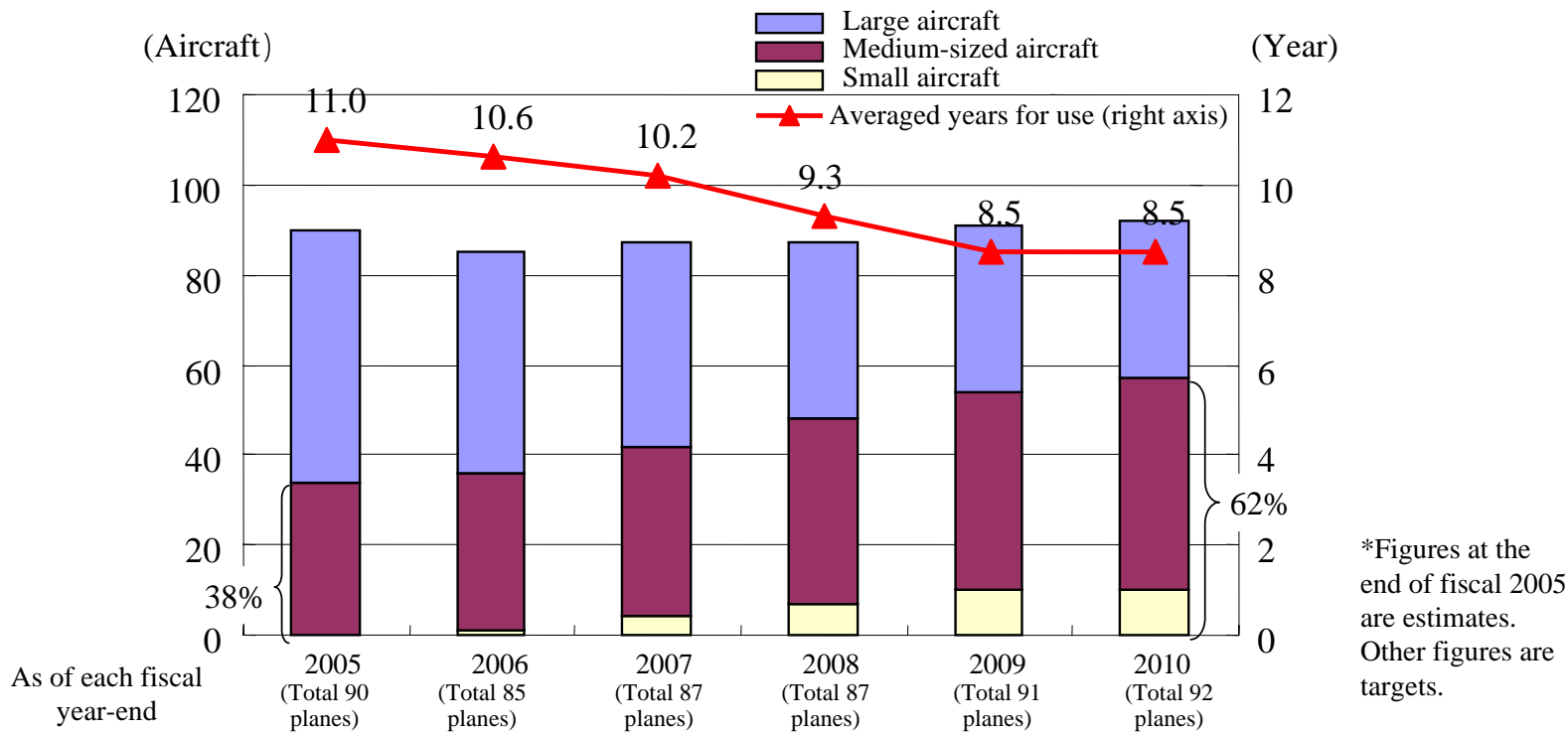
Routes	Changes in number of flights	Timing & period for increasing the number of flights	Remarks
Tokyo = Chicago	10 flights per week → 14 flights per week	Starting March 26, 2006	Operate 2 flights per day
Tokyo = Taipei	21 flights per week → 28 flights per week	Starting March 26, 2006	7 flights starting in August, 15 flights starting in October Change planes from B747 to B747-400
Tokyo = Moscow	2 flights per week → 3 flights per week	June 4-September 24, 2006	Seasonal increase of flights in summer
Tokyo = Los Angeles	7 flights per week → 8 flights per week	April 1-October 28, 2006	Operate 2 flights departed on Saturdays for the first half period
Tokyo = Vancouver	7 flights per week → 11 flights per week	July 1-August 31, 2006	



# International Passenger Business (Aircraft Strategy)

- ◆ Seeking to improve competitiveness by replacing aging aircraft, mainly with medium-sized and small aircraft.

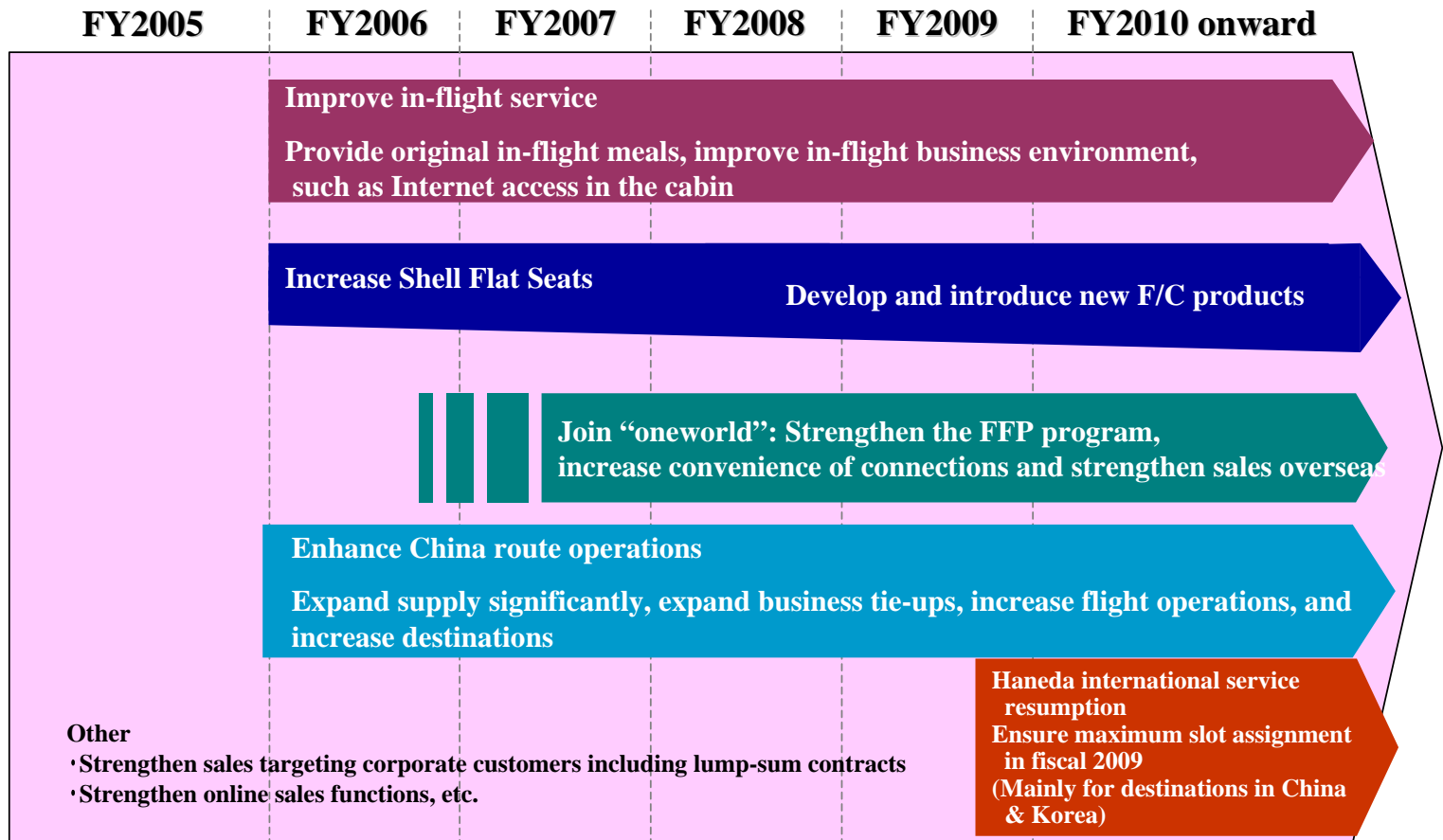
Number of aircraft used and average age of aircraft for international passenger business( targets)





# International Passenger Business (Product & Service Strategy)

- ◆ Seeking to enhance scope of products & services to better meet the needs of higher-yield passengers on business trips





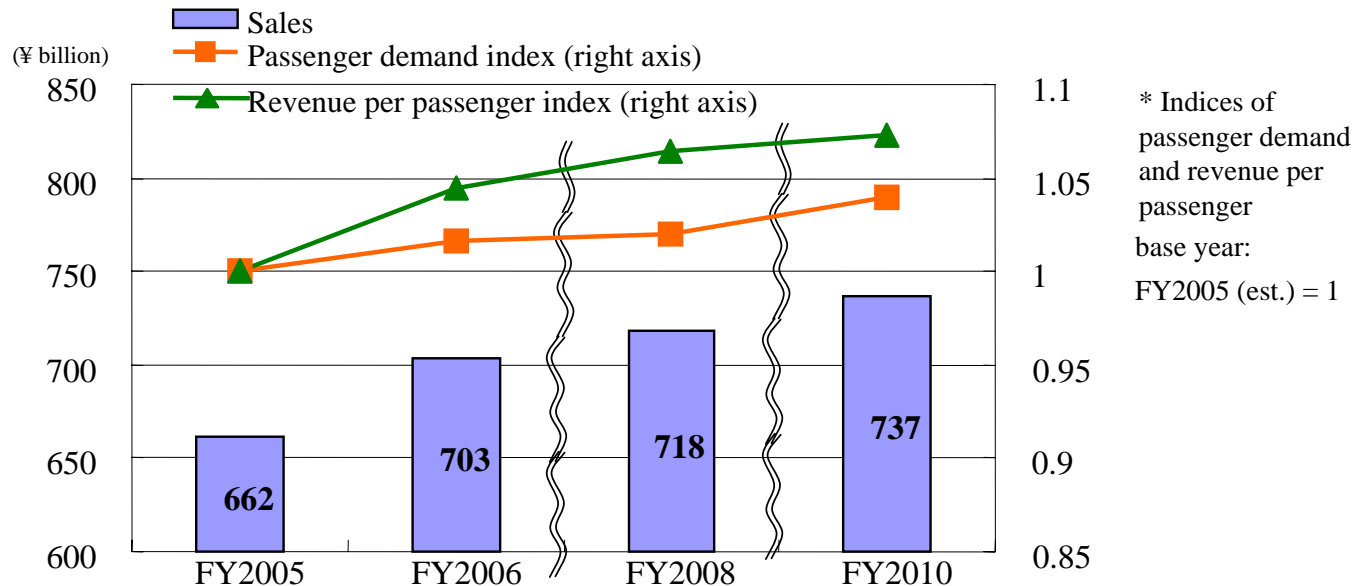


# Domestic Passenger Business (Basic Policy)

◆ Basic policy – Seeking to build competitive edge over competitors -

✓ Endeavor to improve customer convenience by creating more reliable, more comfortable, and more convenient products and services. Aim to ensure taking advantage of opportunities by securing a competitive edge over our competitors, including over railway and express bus operators.

Target Sales and Revenue per Passenger and Forecasted Demand in the Domestic Passenger Business

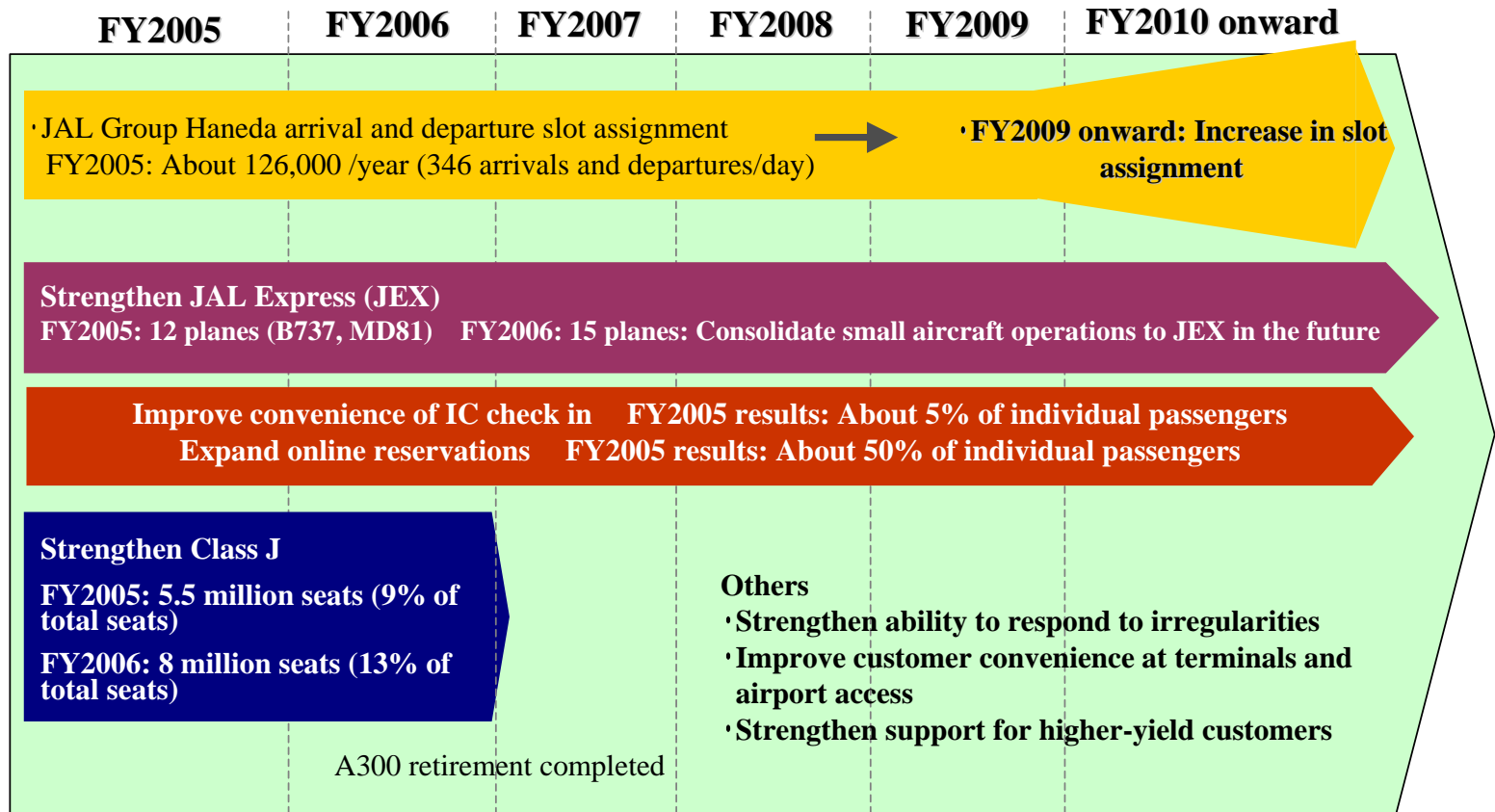


\* Figures for 2005 are estimates and others are targets.

# Domestic Passenger Business (Primary Strategy)



◆ Seeking to provide friendly and warm service



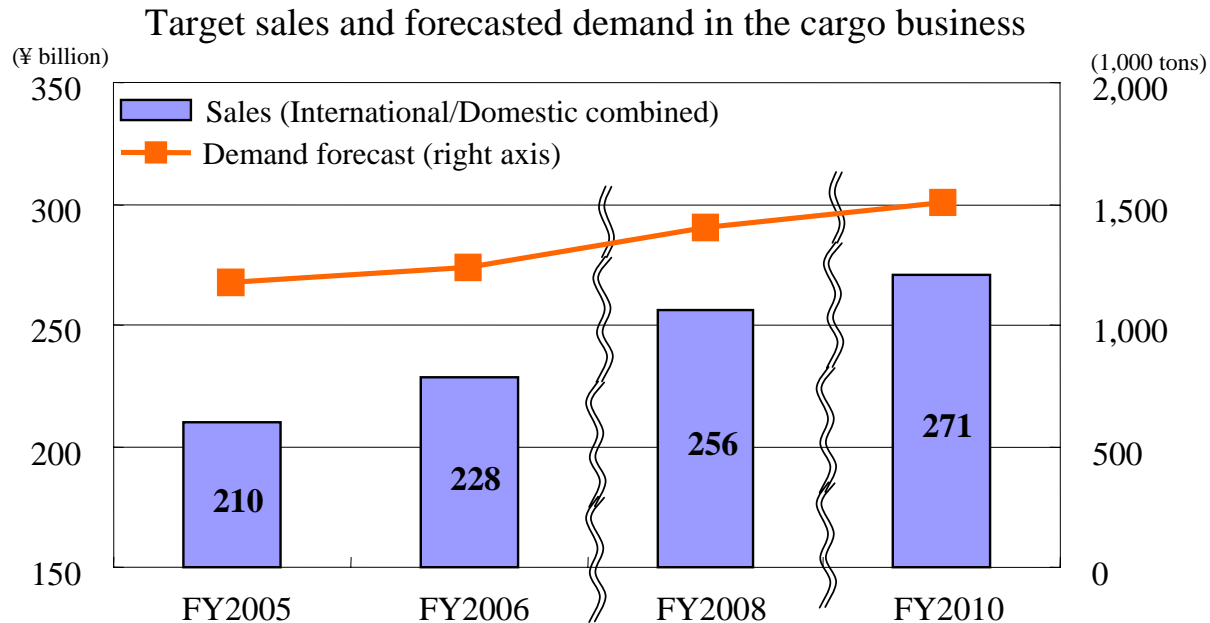
\* Figures for fiscal 2005 are estimates and others are targets.



# Cargo Business (Basic Policy)

◆ Basic policy—Seeking to expand operating scale and aggressively develop business—

✓ Aim for revenue expansion by expanding our business scale, entering into growing markets, and expansion of our scope of operations, while maintaining and improving service quality.



\* Figures for fiscal 2005 are estimates and others are targets.



# Cargo Business (Primary Strategy)

◆ Cargo business strategy



\*Logistics subsidiary \*\*Improve safety, quality, and productivity based on the Toyota Production System



# Other Businesses

## ◆ Basic policies

- ✓ Seek to maintain efforts to reduce interest-bearing debt and improve asset efficiency.
- ✓ Endeavor to improve earning capabilities by enhancing product competitiveness.
- ✓ Aim to maximize JAL Group's customer satisfaction by better coordinating with the air transportation business and among the different group companies.

## ◆ Hotels (resort-hotel operations)

- Interest-bearing debt in the hotel business is declining as expected by utilizing funds generated from the sale of assets, etc. and we are seeking to specialize in hotel operations on a consignment basis to establish our own business model aiming to improve the asset efficiency and profitability of the JAL group.

## ◆ Trading firms/Retailing

- Aim to raise enterprise value by enhancing the brand profile by developing attractive products that meet customer needs, centered on the B2C business.

## ◆ Others (credit cards, leasing, etc.)

- Endeavor to make a continued effort to raise asset efficiency and to improve the quality of products and services to support our air transportation business.

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## V. Toward Restructuring our Business Base —to improve cost structure—



# Details for Reforming our Cost Structure

➤ Breakdown of benefits we seek to generate by cost structure improvement measures (Compared with the figures for fiscal 2005 stated under the previous (FY04-06) medium-term business plan)

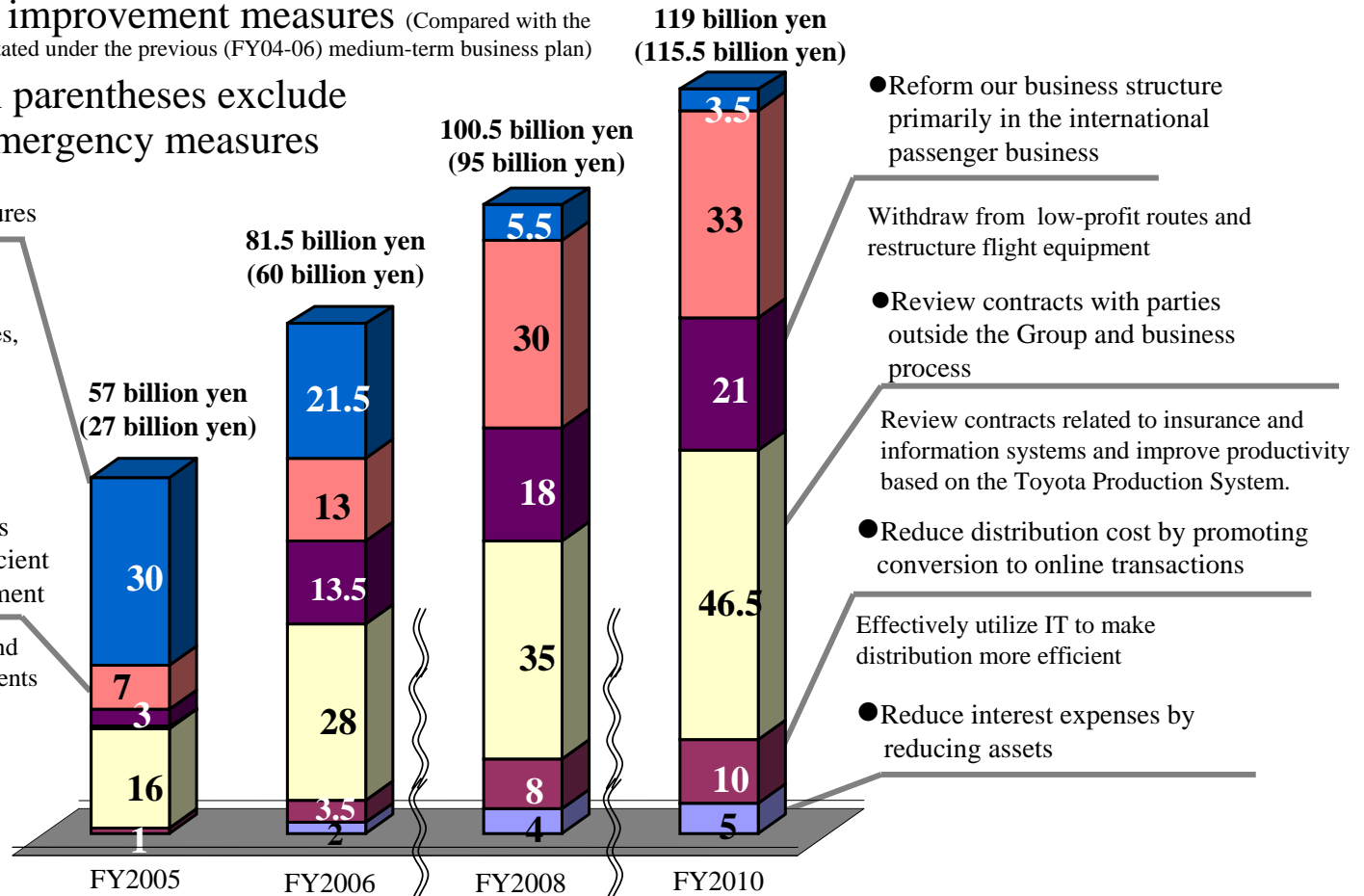
➤ Amounts in parentheses exclude effects of emergency measures

● Emergency measures

Reduce personnel costs, review advertising expenses, sell-off tangible fixed assets and securities

● Reduce fixed costs through more efficient workforce assignment

Reduce workforce and reform staff assignments



● Reform our business structure primarily in the international passenger business

Withdraw from low-profit routes and restructure flight equipment

● Review contracts with parties outside the Group and business process

Review contracts related to insurance and information systems and improve productivity based on the Toyota Production System.

● Reduce distribution cost by promoting conversion to online transactions

Effectively utilize IT to make distribution more efficient

● Reduce interest expenses by reducing assets

\* Figures for fiscal 2005 are estimates and others are targets. 30

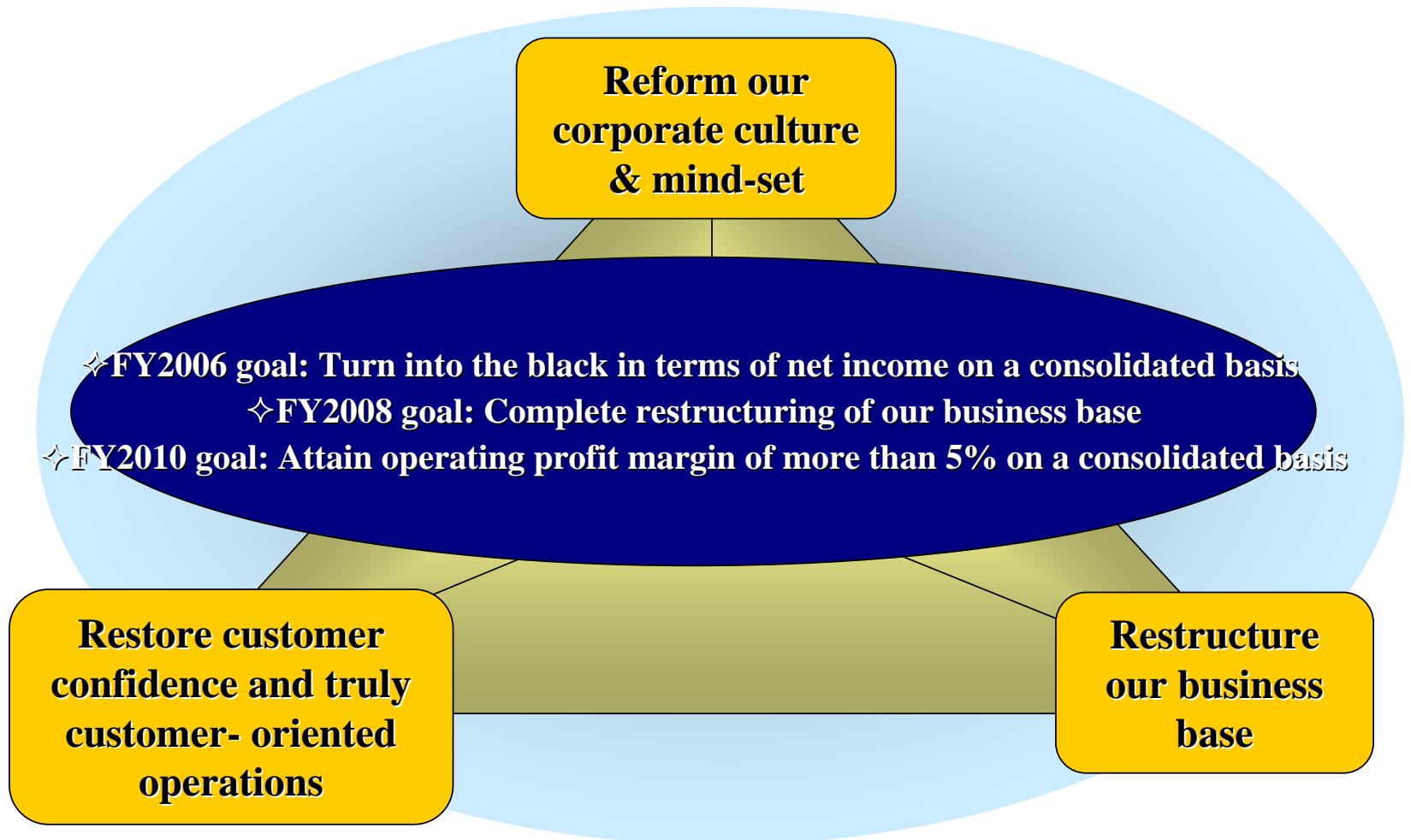
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## VI. FY2006-2010

# Medium-Term Business Plan Overview : “Toward Restoring Trust”



# Toward Restoring Trust



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# . APPENDIX



# Management's Assumption about Business Factors

y/y %

		FY2005	FY2006	FY2007	FY2008	FY2009	FY2010
International Passenger	ASK	-1.6%	-11.1%	-6.9%	-3.0%	-4.3%	4.1%
	No. of Passenger	-3.9%	-3.6%	-1.3%	-1.1%	-0.5%	3.3%
	Yield	7.2%	8.7%	1.2%	1.0%	1.2%	-1.3%
Domestic Passenger	ASK	-1.7%	1.1%	-1.3%	0.0%	0.8%	1.2%
	No. of Passenger	-1.4%	1.7%	0.5%	-0.2%	0.7%	1.2%
	Yield	-0.9%	4.5%	1.8%	0.0%	0.4%	0.4%
International Cargo	ATK*	1.7%	9.2%	12.5%	5.9%	3.4%	-3.2%
	Tonnage	-3.4%	5.4%	7.4%	8.3%	3.9%	4.5%
	Yield	9.2%	4.1%	-1.7%	-0.7%	-0.6%	-1.5%

\*cargo freighter

		FY2005	FY2006	FY2007	FY2008	FY2009	FY2010
	Singapore Kerosene	\$72/bbl	\$75/bbl	\$75/bbl	\$75/bbl	\$75/bbl	\$75/bbl
Fuel Price	Hedging Ratio (Average rate)	about 75% (\$61/bbl)	about 75% (\$68/bbl)	about 35% (\$68/bbl)	-	-	-
Forex	US\$1	JPY112	JPY120	JPY120	JPY120	JPY120	JPY120

Figures for FY2005 are estimates and those for FY2006 and after are targets.



# Consolidated Business Performance (Targets)

(billions of yen)

	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010
Operating Revenue	2,195	2,301	2,345	2,368	2,399	2,437
(Int'l passenger)	692	725	724	723	728	742
(Domestic passenger)	662	703	719	718	726	737
(Int'l cargo)	181	198	209	225	233	239
(Others)	660	675	693	702	712	719
Operating Income	34	17	48	57	94	130
Ordinary Income	57	0.5	24	29	55	107
Net Income	47	3	12	17	27	55
Operating Margin	-	0.7%	2.0%	2.4%	3.9%	5.3%
ROE *	-	1.6%	4.8%	6.5%	10.1%	18.3%

\*Average capital between start and end of period is used when calculating ROE.

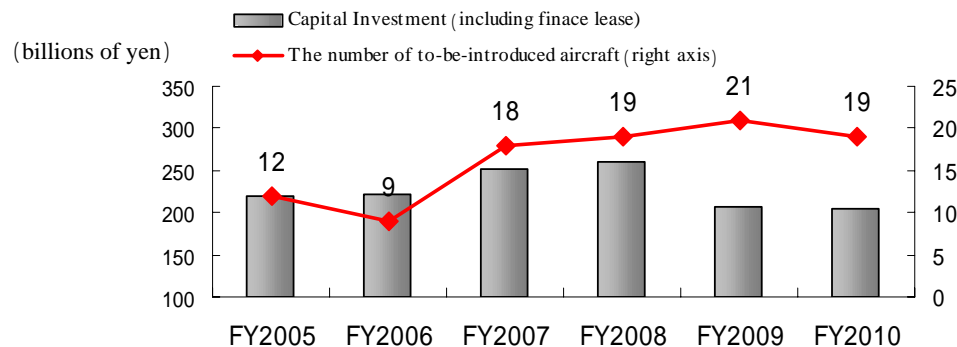
Figures for FY2005 are estimates and those for FY2006 and after are targets.

# Capital Investment & Depreciation (Targets)



(billions of yen)

	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010
Investment (Purchase) (A)	162	174	251	261	207	205
(Aircraft)	96	84	181	194	143	152
(Ground Asset etc. )	49	53	40	37	34	29
(Intangible Fixed Asset)	17	37	30	30	30	24
Investment (Finance Lease) (B)	57	47	0	0	0	0
(A)+(B)	219	221	251	261	207	205
Depreciation (C)	125	115	120	127	135	140
Principal Repayment of Finance Lease (D)	51	52	54	53	44	44
(C)+(D)	176	167	174	180	179	184

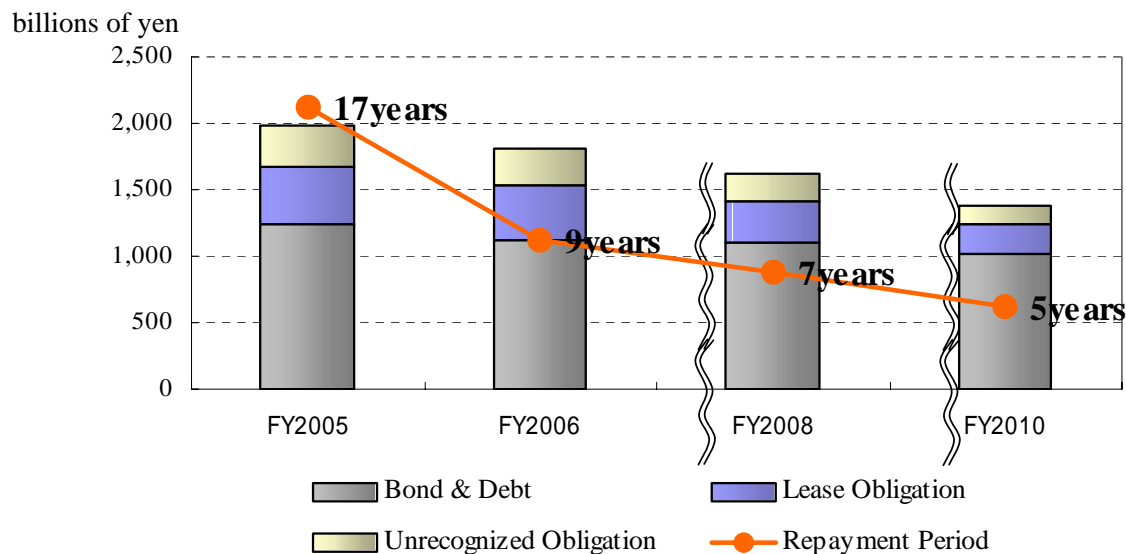


Figures for FY2005 are estimates and those for FY2006 and after are targets.

# Interest-bearing Debt (Targets)

	(billions of yen)					
	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010
Corporate Bond/Debt Loan	1,238	1,115	1,114	1,110	1,055	1,018
Lease Obligation	433	416	363	311	264	218
Unrecognized Obligation	305	274	243	206	177	148
total	1,976	1,805	1,720	1,627	1,496	1,384
Repayment Period*	17 years	9 years	7 years	7 years	6 years	5 years

\*Repayment Period = Interest-bearing debt / (Operating Income + Net Interest Expense - (Tax + Dividend) + Repayment Lease Principle + Depreciation , etc.)

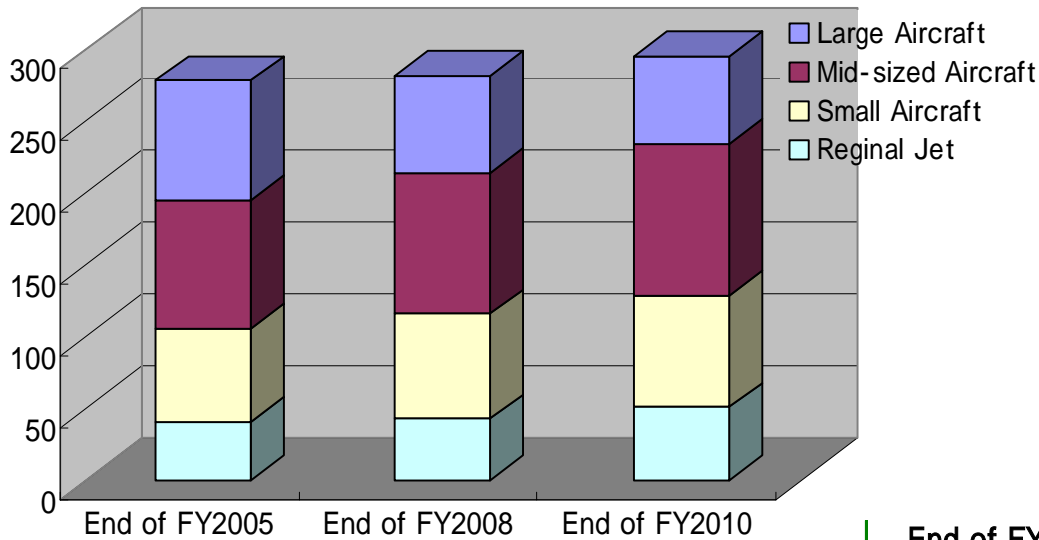


The above is based on the assumption that 100 billion yen in CB issued in March, 2004 will be converted into common shares at the end of FY2006.

Figures for FY2005 are estimates and those for FY2006 and after are targets.



# Fleet Plan (Targets)



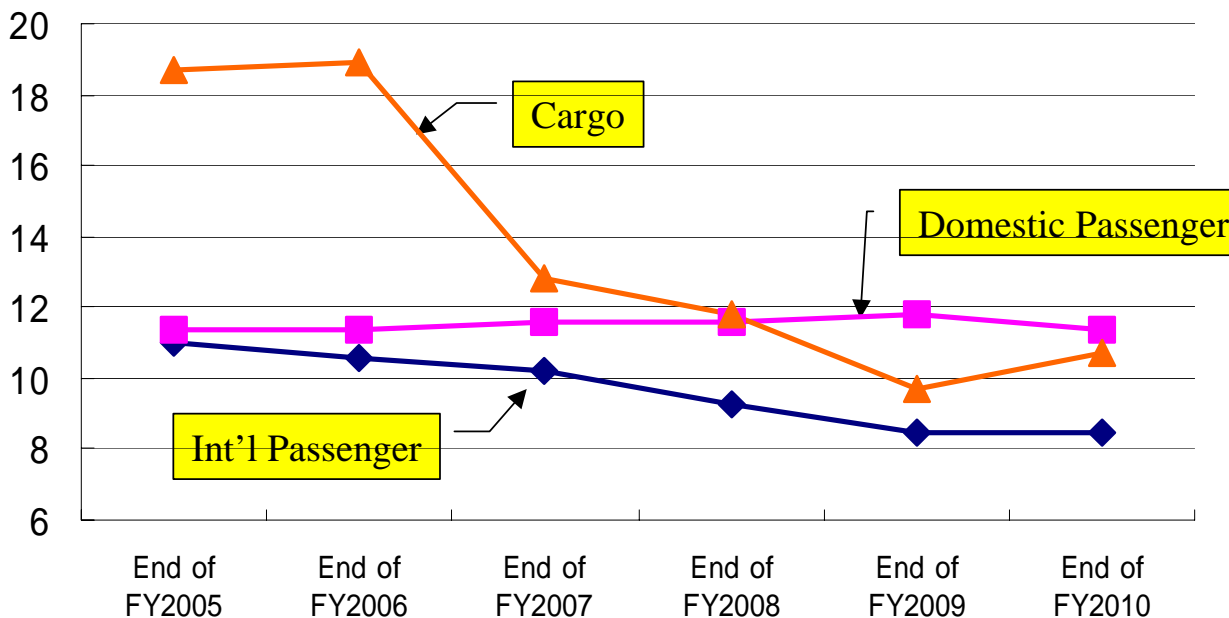
(279)      .....      (282)      ...      (296)

	End of FY2005	End of FY2010
<b>Large Aircraft</b>	B747 B747-400 B777-300	B747-400
<b>Mid-sized Aircraft</b>	B777-200 B767 A300-600R A300	B777-300 B777-200 B787 B767 A300-600R
<b>Small Aircraft</b>	B737 MD90 MD80	B737 MD90 MD80

Figures for FY2005 are estimates and those for FY2006 and after are targets.



# Aircraft Age (Targets)



	End of FY2005	End of FY2006	End of FY2007	End of FY2008	End of FY2009	(years old) End of FY2010 (Compared with FY2005)
Average Aircraft Age	11.6	11.5	11.2	10.9	10.7	10.4 ( 1.2)

Figures for FY2005 are estimates and those for FY2006 and after are targets.





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# Japan Airlines Corporation