

## Progress of JAL Group Medium Term Corporate Plan

**Tokyo, June 19, 2009:** As a consequence of the unprecedented global economic meltdown, airlines the world over are impacted by the severe business environment. The JAL Group is in the process of constructing a medium term corporate plan that will see drastic reformation to its business model and processes, from the period starting FY2009 and onwards. While it is due to be completed and announced by the middle of the current fiscal year, the basic course of actions under this plan was announced today at the request of the Ministry of Land, Infrastructure, Transport and Tourism (MLIT).

The fundamental objective of this corporate plan is to develop a business model that does not overly rely on the recovery in the economy, but instead, to look within the company and implement sweeping cost cuts across the Group wherever possible.

### Key Considerations

The new business model has to be one that can stay profitable and allow the Group to be resilient against the volatility of current operating conditions. The key considerations for the reform are as follows.

- a. The financial crisis dramatically altered both international and domestic economies, and correspondingly, demand for air transport faltered to an all-time low. The new business model will not excessively depend on the recovery in traffic demand under such uncertain circumstances.
- b. The airline industry is susceptible to the risks presented by sudden unforeseen crises such as the recent pandemic. The new business model must have a solid foundation upon which the Group can depend on to withstand the impact of such sporadic threats to the business.

### Current Measures

#### A) Domestic Passenger

In the course of restructuring the network, a total of 23 underperforming routes were suspended and the flight frequencies on 11 other routes were reduced in the fiscal years of 2007 and 2008.

The domestic network for FY2009 will see an additional 7 routes discontinued and the flight frequency of 1 route reduced. As an overall result of this capacity cut for the 3 fiscal years, the size of the Group's domestic fleet will be reduced by 9 aircraft by the end of FY2009.

#### B) International Passenger

On the international network, 6 unprofitable routes were suspended and 3 routes saw cuts in frequency in FY2007 and FY2008. As for FY2009, operations on another route will be ceased and the flight frequency on 2 routes reduced.



## C) Cargo

The Group's cargo business model is undergoing a radical make-over with plans that include establishing more strategic partnerships with external companies in order to condense the risks faced by cargo operations in this economic climate.

## D) Cost Reduction

In the fiscal year 2008, JAL achieved a 50 billion yen cost reduction through a variety of such measures as the temporary decrement in annual bonuses, and adjustments to the wage system alone led to a 5 billion yen saving. The Group estimates that the annual effect of this wage adjustment for FY2009 will be an overall cost savings of 10 billion yen.

Also contributing to the cost reduction achieved, the early retirement scheme in FY2007 and FY2008 shrank the workforce by a total of 5,574 persons, from 53,100 employees at the end of FY2006, to 47,526 employees at the end of FY2008 and thereby decreasing labour cost.

Plans for FY2009 include adjustments to the pension scheme which is expected to bring about 88 billion yen in extraordinary gain. In addition, special early retirement scheme will be implemented and each department is to re-look at their business processes to sift out more ways to lessen cost.

## Measures to be Implemented

Aircraft in the Group fleet used for international and domestic routes are progressively undergoing downsizing and renewal, and the overall fleet size will be reduced as JAL continues the switch to smaller, more fuel-efficient aircraft. More emphasis will be placed on routes with higher profitability and drastic cost cuts will be pursued fervently.

### A) Domestic Passenger

The domestic network will be reassessed and revised based on more conservative projection of demands and profitability, not discounting the possibility of discontinuing more under-performing routes. In addition, JAL plans to operate more regional jets on domestic routes and re-evaluate the management structure of subsidiary airlines of the JAL Group, where it will look for further areas for cost cuts.

### B) International Passenger

The international network will also be reassessed and revised based on more conservative projection of demands and profitability, not discounting the possibility of discontinuing more under-performing routes. Furthermore, higher efficiency, state-of-the-art aircraft are progressively replacing older, bigger aircraft in the fleet to cut fuel consumption and cost.

### C) Cargo

The Group's cargo business model will continue to undergo drastic changes which include establishing more strategic relationships with external companies, while concurrently scrutinizing every aspect of the business to cut cost where possible.



## D) Cost Reduction

In addition to changes in the pension system and the implementation of the special early retirement scheme, cost cutting measures will also converge on departments such as maintenance, flight operations, cabin crew, airport operations, sales and other backend operations. Efforts will be made to significantly streamline the processes in these fields, and thereby make each unit more efficient in order to accomplish greater costs reductions.

The Group will carefully examine the feasibility and effectiveness of the fleet renewal plan as well as the method and timing of financing through the coordination with parties concerned.

## About Japan Airlines

The JAL Group airlines serve some 220 airports in 35 countries and territories, including 60 airports in Japan. Its international network covers over 250 passenger routes and 28 cargo routes, while its domestic operations include flights on 143 routes.

With around 23,000 employees in the air transport segment, JAL Group operates a fleet of some 270 aircraft including Boeing 747s and 777s and is now in the process of a major fleet renewal, introducing more fuel-efficient small and medium aircraft such as the B737 New Generation series and in the future the new high-tech Boeing 787 "Dreamliner".

JAL First Class offers fully reclining Skysleeper or Skysleeper Solo seats. "JAL Executive Class - Seasons," introduces the concept of "quality time" spent on board and features the award-winning JAL Shell Flat Seat that reclines to almost the horizontal and provides a high degree of personal privacy. From December 2007 JAL started offering JAL Premium Economy on key business routes, and from August 2008 started introducing on US routes a luxurious new suite to JAL First Class and the JAL Shell Flat NEO, a leading-edge seat for JAL Executive Class.

Top quality in-flight service has always been the hallmark of JAL's reputation. Cuisine offered in all classes is a combination of Western and Japanese food. JAL carries a fine selection of award-winning wines and sake in First Class and JAL Executive Class - Seasons, JAL's business class. Quality in-flight entertainment systems are a feature of JAL's international fleet aircraft.

A member of the **oneworld** global alliance since April 2007, JAL offers customers many benefits, such as the JAL Mileage Bank frequent flier program.

