

Chapter 5. Becoming a more competitive company

1. The way NCA should go

Medium-term management concepts (FY 1997–2000)

NCA's medium-term management concepts (FY 1997–2000) were set forth in 1997, the airline's 12th year of operation. Overcoming the losses of FY 1992–1994, NCA recorded ordinary profit of ¥4.4 billion in FY 1995 and ¥5.1 billion in FY 1996. At long last, the elimination of the accumulated loss carried since NCA began operations was in sight. At that time, there were big plans in Asia, i.e., in Hong Kong, Kuala Lumpur, Seoul, and Shanghai, for major new airports. In addition, deregulation and the development of the second phase at Narita pointed to a new era of competition for NCA.

In this environment, the process for creating medium-term management concepts emphasized seeking and discussing employee opinions from the stage of basic ideas. The “TO-BE 21/Soaring to the 21st century” program was released in July 1997. Its essentials are as follows.

A vision for the company as it welcomes the 21st century

1. A carrier that constantly pursues customer satisfaction, with safe operation as its basic premise
2. A carrier that continually seeks challenges as a leader in the air cargo field
3. A carrier that meets its social responsibilities and makes its personnel proud

Medium-term management goals

- (1) Work to secure stable ordinary profit of at least ¥3 billion annually and to eliminate accumulated loss during FY 1999.
 - (2) Work to maintain and improve productivity by controlling cost per flight hour and cost per ATK. The target values for these costs in the management concepts are set as follows.
 - a) Cost per flight hour: ¥1.4 million or less
 - b) Cost per ATK: ¥20 or less

Note 1. Cost = (operation costs – sales commission – trucking fee) + interest on plant and equipment funds

Note 2. ATK = available ton kilometer
 - (3) Strive to build an income structure that will control the impact of currency fluctuation.
-

Basic policies

- (1) Develop the human resources who will carry NCA in the 21st century.
- (2) Continue to pursue “Transport quality: Sky-high Quality.”
- (3) Continue to seek low-cost production systems.
- (4) Work to construct strategic information systems.
- (5) Promote cooperation with ANA.

The management environment was favorable during FY 1997, the first fiscal year of our company newsletter “TO-BE 21,” leading to ordinary profit of ¥6.166 billion. With NCA posting record ordinary profits each year during the three terms from FY 1995 through FY 1997, the concepts were positioned for a good start.

Although FY 1998 saw the Japanese economy’s recession continue to deepen, NCA was able to post ordinary profit of ¥2.049 billion by working to keep costs down. The result was elimination of the airline’s accumulated loss a year ahead of the goal set forth in the management concepts. Elimination of the accumulated loss had been a goal of the airline ever since NCA’s inaugural flight in 1985. Achieving that goal in the airline’s 14th year of operation made for a truly epoch-making year.

Takashi Ijichi becomes President

At the Board of Directors meeting following the Regular General Shareholders Meeting on June 23, 1999, NCA President Toyoichiro

Nakada became Vice Chairman and Director, while Vice President Takashi Ijichi became President in his stead.

President Ijichi sent the following message to NCA's personnel, calling for cooperation and teamwork in taking on issues.

“International air cargo is a sector that will continue to expand and can be expected to further develop. However, harsher competition than ever before awaits us. In order to face up to it, we must work to strengthen and expand our management base more than ever before. In other words, in addition to eliminating our accumulated loss, we must maintain the energy and structure to post a profit every fiscal year. This is our duty to our shareholders.”

The MAX 07 medium-term management plan (FY 2003–2007)

The MAX 07 medium-term management plan was released in January 2003, six years after the setting forth of the previous medium-term management concepts. The name “MAX 07” comes from “Maximize Challenging Spirit” (CS) and “2007,” the final fiscal year of the plan.

MAX 07 is the first plan to clarify NCA's corporate philosophy in terms of “reason for being” and “commitments.” It shows the basic awareness and direction that all NCA personnel should share into the future. The main points of the plan are as follows.



President Takashi Ijichi

- **Our reason for being**

Through the international transport of air cargo, NCA supports international exchange and contributes to the development of societies, economies, and cultures in Japan and all over the world.

- **Our commitments: “To do ourselves proud”**

1. To ensure safe operation through the strong will of each member of the company.
2. With customer satisfaction always in mind, to continuously take on the challenge of raising transport quality (operations quality/ shipping quality).
3. To maximize the value of NCA in order to meet the expectations of our supporters.
4. To obey society’s rules as a corporate citizen, and to work to coexist with society through consideration for the environment, social contributions, and so on.
5. As a leader in international air cargo, to maintain sufficient expertise while actively exercising initiative.
6. As a company and as individuals, to maintain the spirit of enthusiastically meeting challenges.
7. To carry out our work with passion and creativity and to deal sincerely with other people.

In addition, the plan set two major goals, “elimination of accumulated loss in FY 2004” and “payment of a shareholder dividend in FY 2007,” and the six management strategies shown below. The plan also described issues in marketing, operations, transport, and maintenance and systems to realize the goals and strategies.

- (1) Construction of mechanisms to maximize income
- (2) Further promotion of low-cost systems
- (3) Improvement of transport quality
- (4) Smooth adoption and operation of new aircraft types
- (5) Building a corporate culture that welcomes challenges
- (6) Strengthening of risk management systems

NCA posted a major loss in FY 2001, but in FY 2002 the world economy showed signs of recovering from the loss of momentum caused by the collapse of the IT bubble and the simultaneous terror attacks in the USA. In addition, the rapid growth of the China market and a shift from sea to air transport due to the blocking of ports on the US West Coast provided further impetus. Both transport volume and revenue rose above their levels for FY 2000, and NCA posted a profit.

Furthermore, in FY 2003, the first year of the MAX 07 plan, overall cargo movement was favorable despite the influence of factors such as the Iraq War, SARS, and avian influenza. NCA was able to post an ordinary profit of ¥2.428 billion. The loss accumulated since FY 2001 was eliminated a year earlier than initially planned.

Takuro Uchiyama becomes President

NCA President Takashi Ijichi resigned on June 24, 2003, at the Board of Directors meeting following the 25th Regular General Shareholders Meeting. He was replaced as President by Senior Managing Director Takuro Uchiyama. In addition, Chairman Jiro Nemoto and Vice Chairman Toyochiro Nakada also resigned, and Yoshiyuki Nakamachi became Chairman of the Board of Directors. President Uchiyama encouraged NCA's personnel to speak and act with confidence in the following way.

“1. NCA must become a company with greater international competitiveness than it has now. Therefore, the most important thing is to develop internationalized human resources who can lead the industry's international activities. Each person must gain the ability to make appropriate decisions at appropriate times while remaining a team player. Next, the maintenance of an internationally competitive fleet is an urgent task for us. In addition, we need to strengthen our marketing ability to respond to changes in the sources of cargo. 2. Let's become a company that responds quickly to change. We need to reconsider our present condition, in which internal decisions and actions take longer than they did in the past. We need to further delegate authority and create a business structure that can make decisions more quickly. 3. Let's be fair, equitable, and open, and create a free and vigorous corporate culture in an environment where we can enjoy working.”



Chairman Yoshiyuki Nakamachi



President Takuro Uchiyama

Cost Optimization Project (FY 2004)

The Cost Optimization Project aims to realize the MAX 07 management strategy of “Further promotion of low-cost systems” and contribute to achievement of the plan’s profit goals. It began in December 2003. In June 2004, based on working group recommendations to the project team, the project devised an action plan for FY 2004–2007 that aims to cut ¥2.49 billion in costs over those four years. Supervising sectors are taking responsibility for its implementation and evaluating the results every quarter. In addition, second-stage action plans make clear action to be taken and amounts of cost reductions that were not specified in the first-stage plans.

2. Constant effort and creation of structure for safe operations

Operations quality

(1) Flight crew structure

Since it began operating, NCA's flight crews had been personnel transferred from ANA. As NCA's need for flight crews increased along with the expansion of its route network and ANA began flying its own international routes, a shortage of crewmembers developed. It grew increasingly difficult for NCA to receive the needed steady supply of transferred crewmembers from ANA. In 1989, therefore, NCA signed a contract with TWA of the USA and created a structure to accept foreign flight crewmembers seconded from that airline and based overseas (in New York and San Francisco). NCA subsequently worked to broaden its sources for crewmembers by signing contracts to employ temporary personnel with Ireland's Parc Aviation and Australia's Awas in 1995 and Hawaii's Hacs in 1999. It enhanced its structure by creating a new crew base in Amsterdam.

During this period, NCA's contract with TWA expired at the end of 1998. Although crewmembers transferred from ANA were still the mainstays, NCA had stabilized its medium- and long-term productivity by establishing a basic operations structure that assigned foreign crewmembers from staffing companies to overseas bases.

Accepting gifts from Parc Aviation
in recognition of NCA's promotion
of trade with Ireland
(From left, Director Otsuki, Director
Nagakura, President Uchiyama)



(2) Ground support system

At first, NCA ran its own operations management and operations support system, but as the number of the airline's flights and destinations increased, it was faced with the necessity of building a more efficient work structure. As entrusting of operations support work at each base and the concentration of operations management bases advanced, NCA first turned to local entrusting of operations support work in October 1986 when it engaged Cathay Airways for the new Hong Kong route. In addition, operations management work was unified at Narita in 1989. Operations support work only was entrusted locally in New York and San Francisco. In order to ensure proper management of the company performing the work, however, an NCA Operations Manager was assigned to each destination in Europe and the USA.

As with flight crews, ground operations workers were generally operations managers assigned from ANA. However, because the number of operations managers became insufficient as both NCA and ANA expanded, and to cut costs, adjustments with the JCAB enabled "operations manager sharing" in which individual operations managers could carry out work for multiple airlines. NCA and ANA thus began sharing operations managers. Starting in July 1995, ANA operations managers at the ANA Flight Control Center (now the Operation Center) were recognized as NCA operations managers and began performing operations management for NCA. In addition, when sharing of operations managers began, an Operations Control Office was established to coordinate relevant sections inside and outside the airline and

the ANA operations management sector. Aiming to make operations more efficient, it now serves as the core of NCA operations.

(3) New technologies

NCA eagerly studied the Future Air Navigation System (FANS) concept organized mainly by the ICAO in 1991. In May 1997, NCA decided to equip its B747s with the Future Management System (FMS) and install equipment needed for satellite navigation and communications. Actual installation will begin in the autumn of 2005.

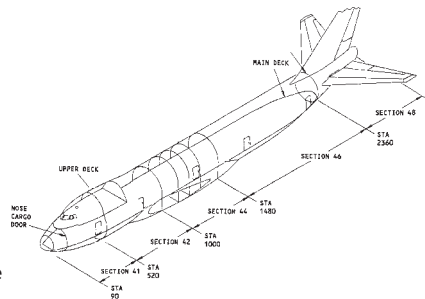
Aircraft maintenance

(1) Introduction of customized freighters

From the late 1980s into the early 1990s, the Japanese economy faced many difficulties, such as the collapse of the bubble economy and a sudden rise in the yen exchange rate. Because of companywide efforts to cut costs and the recovery of cargo demand, NCA was finally able to bring its seventh aircraft (B747-100SF, JA8158) into duty in July 1995. This was NCA's first customized freighter. It was modified over four months at Boeing's Wichita, Kansas, plant from an ANA passenger jet. Subsequent aircraft through NCA's 11th, introduced in April 2002, were also modified ANA passenger planes.

(2) Changes in the maintenance system in the past 10 years

When NCA opened for business in April 1985, as an air transport company, it began with an in-house maintenance system for operations



Modifications to the fuselage structure (section 41) of a B747F

maintenance and relied on ANA for scheduled maintenance. Under the Aviation Law at that time, management of maintenance work could not be entrusted to another company, so NCA carried it out with its own maintenance division. Beginning in 1995, NCA joined ANA in a “shared aircraft” system that enabled members of Japanese air transport industry groups to share aircraft. Currently, NCA shares five modified B747SFs. The maintenance divisions of NCA and ANA jointly set and oversee regulations for B747SF maintenance.

With the 1996 revision of the Aviation Law, the rule requiring that legal checking of operations maintenance be performed in-house was abolished. Beginning in 1998, NCA hired JCAB to perform operations maintenance checking at authorized sites in Japan and abroad. NCA currently entrusts this work at about 60 percent of its bases.

Initially, NCA commissioned ANA to carry out regular maintenance and heavy dock maintenance, but since July 2003 it has relied on TAECO in Xiamen, China, for heavy maintenance.

(3) Changes in the organization and functions of the maintenance division

Upon entering the 1990s, ISO concepts for international quality standards became general for aircraft maintenance organizations and functions. Many countries mandated legal certified of maintenance organizations. In Japan as well, a system of certified maintenance worksites was included in revisions to the Aviation Law. NCA’s maintenance division established a new Maintenance Audit Office in October



An NCA jet leaves a hanger after receiving maintenance.

1997. Two years later, it obtained approval as a certified place of business for B747 operations maintenance from the Japan Civil Aviation Bureau in accordance with international standards.

(4) Aircraft maintenance outsourcing

As aircraft have become larger and more high tech, more advanced technology, larger organizations, and major investment have become necessary for aircraft maintenance. In contrast to the common style of airlines maintaining aircraft and equipment on their own, businesses specializing in aircraft maintenance (MRO: maintenance repair overhaul) have emerged. Entrusting to MRO providers who offer excellent service is a growing trend.

Air transport businesses were also once required to manage their own maintenance. However, Japan allows legal maintenance to be entrusted in a way similar to Europe's Joint Aviation Requirement (JAR), as long as the division of responsibilities is made clear.

Since its founding, NCA had used a system of in-house maintenance centered on operations maintenance. In order to respond to the changing environment and to remain internationally competitive, NCA retained only a minimized core of maintenance management work, seeking a new maintenance system by entrusting other areas.

3. With new aircraft

From its first aircraft, a B747-200F (JA8167), which it received on December 13, 1984, through its sixth, NCA adopted new aircraft. From its seventh on, the airline has adopted modified passenger jets. As of March 2005, it has 11 aircraft. The types and numbers are as follows (as of March 2005).

B747-200F: 6 (freighters)

B747-200B (SF): 4 (converted from passenger planes)

B747SR-100 (SF): 1 (converted from a passenger plane)

These current aircraft are all part of the B747 series and are considered the classic type. As the years pass, their maintenance becomes more expensive, their flight performance compared to new models grows obsolete, and they have trouble meeting environmental regulations for noise, CO₂ emissions, and so on. For those reasons, it becomes necessary to replace them sequentially.

Against this backdrop, NCA formed the New Aircraft Selection and Adoption Committee in March 2003 under President Uchiyama. It began studying the selection and adoption of new aircraft to replace the existing ones. This resulted in the decision to adopt four new B747-400Fs, two in FY 2005 and two in FY 2006. They were selected because they have at least as much cargo capacity and range as current models, provide outstanding operating economy, can fly nonstop between Japan and Europe, can build an efficient production system for both NCA and ANA, and minimize investment costs. In addition,



A B747-400F rolls out (Boeing's Everett Plant in Seattle)

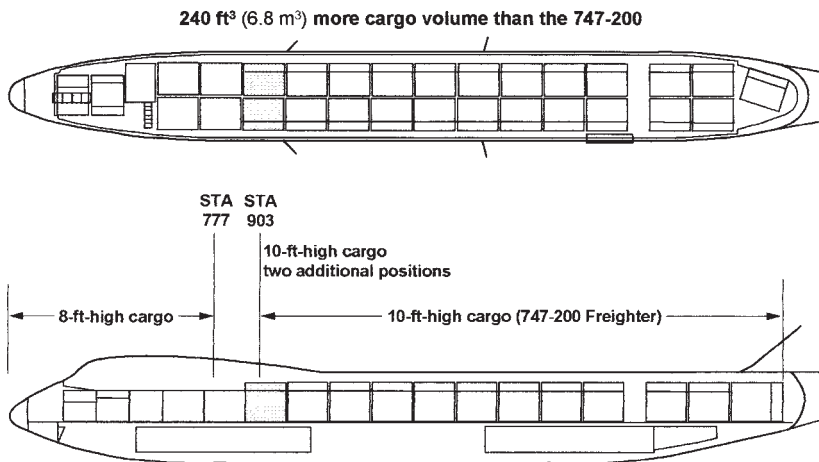
NCA decided to adopt four more aircraft, B747-400SFs converted from passenger planes, with an option for four more, during FY 2007 through FY 2009. (These fleet plans subsequently changed in part.)

Major specifications of the new aircraft are shown in Figure 5-1. NCA took delivery of the first plane in June 2005, with the second expected in August.

Table 5-1. Major specifications of new aircraft

	New aircraft		Existing aircraft
	B747-400F	B747-400SF	B747-200F/SF
Length	70.7 m		70.7 m
Width	64.6 m		59.6 m
Height	19.4 m		19.3 m
Engines	GE CF6-80C2B1F		GE CF6-50E2
Max. takeoff weight	875,000 lbs, about 397 tons	870,000 lbs, about 395 tons	833,300 lbs, about 378 tons
Cargo capacity	116.5 tons	112.6 tons	110.7 tons
Main deck pallet capacity (96 x 125 in. pallets)	30		29
Range (with full cargo)	7,850 km	7,430 km	6,200 km
Cruising speed	M 0.85		M 0.83

Figure 5-1. 747-400 and 747-400ER Freighters



4. The coming 10 years

On May 8, 2005, NCA celebrated the 20th anniversary of its commencement of operations with small parties in its each office. In his greeting, NCA President Uchiyama emphasized that “The road we have taken over the past 20 years has not been an easy one. We have climbed several mountains to get to where we are today.” NCA experienced the difficulties of its startup, the troubled world economy since the Gulf War, the Asian economic crisis, the collapse of the IT bubble, and many other events. It has also weathered the fluctuating risks of exchange rates and oil prices that can determine the fate of an international transport company. On the other hand, with economic globalization advancing, high-speed logistics is becoming more important than ever, and international air cargo transport has grown to become an indispensable industry.

Joining Mr. Uchiyama for the greeting, NCA’s first President, Takeo Hori, now an Advisor to NCA, looked back on the public hearings held in 1983. In contrast to those who testified then that NCA was unnecessary, 22 years later Mr. Hori rejoiced to once more confirm the importance of the airline’s existence. He spoke with deep emotion of the correctness of what NCA has done.

The most important thing was reaching 20 years without a major accident. This is the highest responsibility of those engaged in transportation, and NCA is proud of this accomplishment. It is a tribute to constant efforts of all the NCA personnel who have worked to ensure safe operations.



President Uchiyama delivers an address on the occasion of NCA’s 20th anniversary

NCA is one of only a few cargo airlines not just in Japan but in the entire world. As such, it has had to face the difficulties of blazing its own trail. This has been supported by the pioneering and challenging spirit of those who came before us. Revenue over the 20 years of NCA's operations is just short of ¥100 billion. The sequential introduction of new B747-400Fs beginning this year will greatly improve productivity. Into the future, NCA's tasks are to hold fast to the record of safe operations it has and to fulfill the responsibilities of a mature company. All personnel should look back on the spirit of NCA's beginning. If they face the future with passion and conviction, without a doubt NCA will soar even higher during the coming 10 years.

