

NCA Phoenix Project “Declaration of Evolution”

Introduction

While the cargo industry has seen economic slowdowns in the past, what we are experiencing since the latter half of 2008 is proving to be unprecedented. The economic crisis that started as a housing problem and a sub-prime mortgage issue in the US quickly became a global banking crisis. Lack of consumer confidence worldwide has led to drastically decreased spending, resulting in lower demand for production. And without manufacturing production, airfreight will continue to suffer.

According to JAJA data, exports from Japan in 2nd half of FY2008 have decreased 40% on a year-over-year basis. Imports have also suffered, declining 20%. Similar tonnage decreases can be seen in almost every market of the world. And while this drastic downturn has resulted in some carriers reducing capacity, the reality is that we are still in an overcapacity situation, creating a highly competitive marketplace for air freight.

NCA Operating Results

Unfortunately, the situation at NCA is similar to the overall market results. The combination of lower volume of freight and downward pressures on yields resulted in an ordinary loss of 18.8 billion yen for the full year FY2008. But the real problem began in the second half of FY2008, where revenue declined sharply, while costs remained high. The situation is worsening, and we cannot simply sit and wait for the market to recover. While our revenue base has eroded, many of our costs have not declined and therefore are too high to support the lower revenue base. It is essential that we take actions now to modify our business plan in order to survive the economic crisis.

Market Outlook

It is impossible to predict when the global recession will end; it is equally difficult to determine what shape the recovery will take. There are some people that think the slowing of the year-over-year declines in April and May are an indication that the recession is coming to an end. Even if this is true, we do not expect the market to recover the 30% to 40% declines immediately. A more reasonable expectation is for the markets to begin a recovery with cargo growths in the 6%-8% range for the coming years. But with this growth rate, it will take the markets 3-5 years to return to the volumes we saw in 2007.

The recession has forced businesses to seek more resource-saving and efficient business models. But the need for a global logistics network has not changed – businesses will continue to seek out lower cost sources for manufacturing, and take advantage of the global economies around the world.

For the next few years, capacity for air freight will remain at a surplus. Even with the retirement of old freighter aircraft, there are new B747-400 freighters that are currently parked and can be easily reinstated into service if demand picks up. And the emergence of new passenger aircraft such as the Boeing 787 that are more “cargo friendly” create more competition within the air freight business.

Finally, more liberal operating rights through open skies agreements will further allow free competition in the key cargo markets of the world.

Update to Phoenix Project

For NCA to survive, it means that we must be able to compete profitably under the current poor market conditions, and we must position ourselves to take advantage of the market recovery once it finally happens.

The current “NCA Phoenix Project” was designed to establish our independence as an airline and to capitalize on the strong market growth to expand our network with a fleet of 24 aircraft. Phase 1 –Independence – was very successful, and it was accomplished earlier than expected in FY2008. The result is that we have implemented our own organization and programs for Flight Operations, Maintenance, and Technology. We also completely replaced our fleet with the newest B747 technology, and we greatly improved our on-time performance to the best in the industry. And most importantly,

this independence and higher reliability has greatly lowered our operating cost when compared to the “old NCA”, and provided us with new flexibility to create our own future.

However, as we enter Phase 2 of Phoenix Project, where we planned to dramatically grow our network, the current market situation and near-term outlook will not support such aggressive growth plans. Adding new routes and expanding our fleet in a time when the markets are already at an overcapacity situation would be unwise and very unprofitable. So we are forced to rethink our strategy and define a new plan that can succeed under these economic conditions.

Therefore, we created a new plan named “NCA Phoenix Project – Declaration of Evolution”, focused on the restructure of NCA’s business model. While this new plan will create some pain, it is essential for our long term survival. And it will continue to support our long term goal to become a truly global, dedicated cargo airline, delivering safe, reliable, and high quality air freight services to our customers.

This new plan will allow NCA to improve the revenue and lower the operating cost in order to achieve a break-even result in FY2011, and it continues the network of 8 B747 freighters under NCA’s own operation.

The rest of this document explains the purpose of the changes, the direction of our business, and the concrete measures that we will take under this new mid-term strategy plan.

1 The direction of NCA's business

Our Future Vision

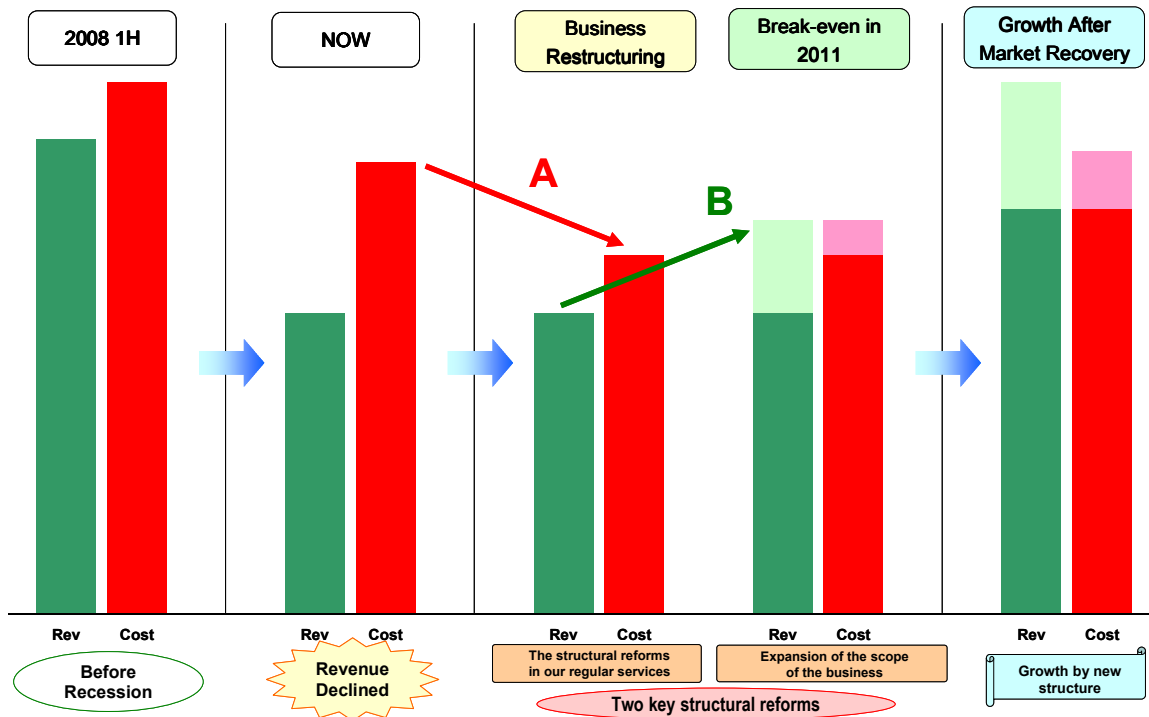
A truly global, dedicated all-cargo carrier that provides diversified services and contributes to the development of society, economy and culture of the world.

- A company that is financially healthy and that can anticipate steady growth in the future.
- A company that can meet various needs of air cargo demands while maintaining safety and high quality service.

Three pillars of NCA Phoenix Project – “Declaration of Evolution”

- Build an adequate cost structure through drastic cost reduction and by reviewing of business process.
 - ✓ Adjust the cost structure that is appropriate for the number of aircraft in operation while always maintaining our safety standards and high quality services.
- Strengthen profitability by rationalizing and simplifying our regular scheduled services.
 - ✓ Focus our handling services on simple, efficient, and low cost
 - ✓ Provide a range of optional service by request only at an additional cost
- Improve profitability by increasing new business opportunities in different fields of air logistics (chartered business and leased business).
 - ✓ Using our highly flexible organization, reallocate our resources to other parts of air logistics so that we can respond to diversified customer's needs.

II Key Structural Changes to our Business



In order to lower our operating cost and improve our revenue, we must implement key changes in our business:

- Structural change in our regular scheduled services (A)
We must reduce the overall cost structure within our scheduled network through the elimination of fixed costs, lowering of overhead cost, and restructuring of contracts for services so that we are more flexible to respond to changing market conditions
- Structural change to expand the scope of our business (B)
We will allocate resources to other parts of the business that compliment our regular scheduled service and create a high rate of return.

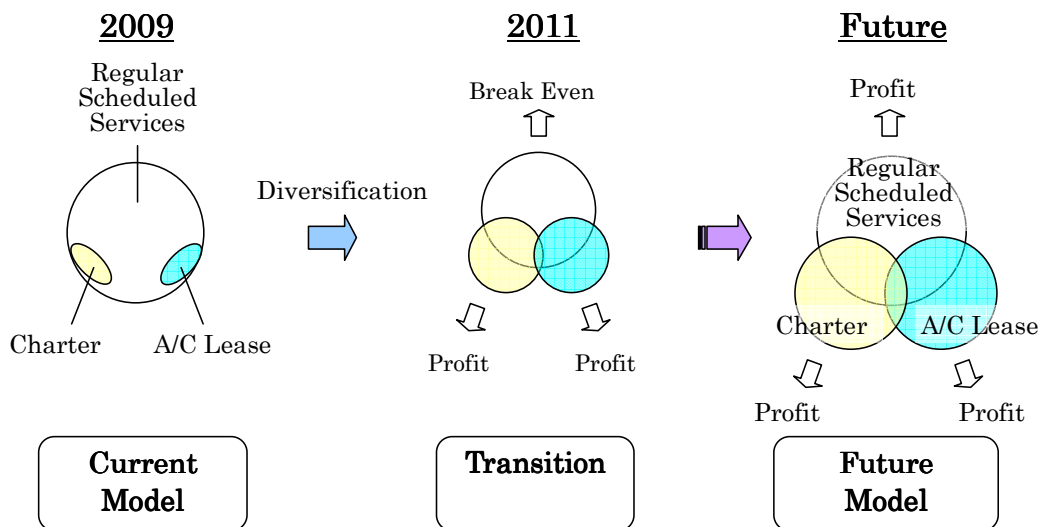
Create Flexible Charter Flight Services

- ✓ We will increase the charter business that is relatively profitable compare to our regular scheduled network.

Implement Aircraft Leasing Capabilities

- ✓ By focusing our resources to develop long term partnership or aircraft lease activities with customers that are resistant to recession, we will try to change our earnings structure.
- ✓ By exchanging space and services with partner carriers, we will try to go into a new market that used to be protected by traffic rights.

We will allocate our aircraft into “scheduled service”, “chartered service” and “leased service” so that we can keep a good balance and portfolio of our business.



III Structural reforms of NCA Japan

NCA Japan will increase NCA's group values by providing services that NCA cannot do itself and by bringing different revenue sources outside of NCA's group.

- Expansion of Commercial Activities
 - ✓ NCA Japan will establish a newly defined team that will develop and promote new business opportunities such as GSSA business and other air logistics related business.

- Expansion of Operational Support Activities
 - ✓ Enhancement of ground handling and administrative business of NCA flight and acquisition of such business from other airlines.

IV Fleet plan and profit target

- We expect to keep a fleet size of 8 aircrafts under NCA's operation during this new business plan.

- Profit target (Billion Yen)

	FY2009	FY2010	FY2011
Revenue	54	71	81
Ordinary Profit	▲20	▲7.5	±0