

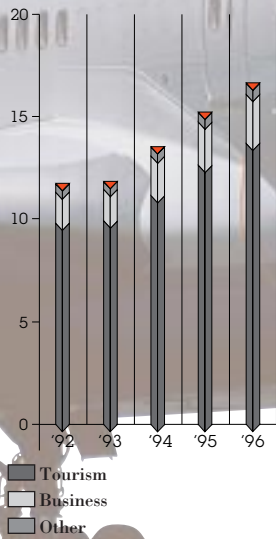


# Injecting Higher Cost-compe

## The Number of Japanese Traveling Overseas

(Millions)

Years Ended December 31



Source: Government white paper on travel

JAL will celebrate the tenth anniversary of its privatization in November 1997. Over the past ten years, the company has enjoyed vigorous, albeit sometimes tumultuous, growth alongside the Japanese economy. Today, competition in the world's skies is intensifying. To prevail in this environment, JAL aims to meet and surpass international standards as quickly as possible. The company continues striving to be the airline travelers always choose.

## Fiscal Year Ended March 31, 1997: Targeting a Resilient Corporate Structure

Over the past three years, JAL's corporate realignment plan has targeted

improved competitiveness in terms of both cost structure and services offered. The aim has been to strengthen the organization and make it resilient to the challenges of the new age of competition.

In the fiscal year ended March 31, 1996, the results of these efforts could be clearly seen in the improved level of operating profit. In the fiscal year ended March 31, 1997, JAL began implementing its third corporate reform plan, dubbed "Challenge 21." Partly due to the sharp rise in fuel prices during the year, costs rose. However, this unusual increase sets the stage for a likely recovery in the current year. As in the previous year, the fiscal year ended March 31, 1997 witnessed solid growth

## Topics

### Expanded Resócha Campaign

Targeted at sparking new tourist demand, the Resócha campaign has proved a big hit with passengers. JAL has responded by expanding the number of Resócha routes and inaugurating new flights as part of the campaign. By running a Hawaii campaign in concert with Resócha initiatives, JAL is promoting its image as the only airline for resort travel across the Pacific.



### JAL Euro Express

The JAL Euro Express coach travel service, linked to JAL flights to Europe, represents a new concept in tourist travel for the European market. JAL has fostered this concept by extending the popular JAL Europe campaign, which also played an important part in this year's promotions.



# titiveness

From seats to service,  
JAL is always  
aiming for world-  
class quality.



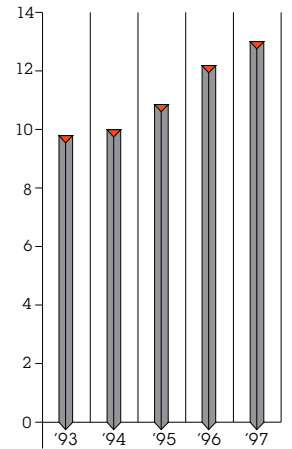
in demand in both the domestic and international sectors. In the overseas travel market, growth was supported by the consistently remarkable numbers of Japanese traveling abroad. JAL expanded its international network to capitalize on these trends—over the past three years, the company has inaugurated 14 new routes.

On domestic routes, tourist demand to Sapporo, Okinawa and other popular destinations fueled solid growth. On August 15, 1996, JAL set a new in-house record for the number of passengers carried on a single day: 79,877. Fare initiatives, centering on the discount fare banding system introduced two years ago, spurred off-season

demand. The effectiveness of these measures translated into much higher average passenger load factors. In the fiscal year ended March 31, 1997, total domestic passenger volume increased 3% over the previous year to 21 million. To upgrade convenience, JAL opened new routes and expanded the domestic network. New Sendai-Obihiro, Sapporo-Niigata and Kansai-Hakodate routes opened in July 1996. In December 1996, the Nagoya-Miyazaki route joined the list. Flight frequencies on the Haneda-Miyazaki route were also increased. The new-generation Boeing 777-200 airliner began service on Kagoshima routes during the year, further raising service quality.

The Number of Passengers Traveling Overseas Via JAL, JAA and JAZ

(Millions) Years Ended March 31



## Birth of the New Executive Class "Seasons"

JAL revamped its Executive Class service to embody the concept of "spending quality time with JAL." The new service is loosely based on the core theme of Japan's changing seasons. Meals and the coordination of seat colors, among other things, change with the seasons.

JAL EXECUTIVE CLASS  
❖ SEASONS

The re-styled cabin also features new "JAL Skyluxe Seats," developed jointly with British Aerospace of the U.K. Together all these high-class elements help to turn a long flight into a pleasurable way of spending

time. For example, many seasonal delicacies are now included, and of course, are served with hot steamed rice for our traditional Japanese dinners. Even Western meals featuring steak can be enjoyed with Japanese rice upon your request. Japanese tableware aptly expresses traditional Japanese hospitality with patterns like "Komon" and "Sometsuke", and our Western place settings are smart, simple and contemporary.

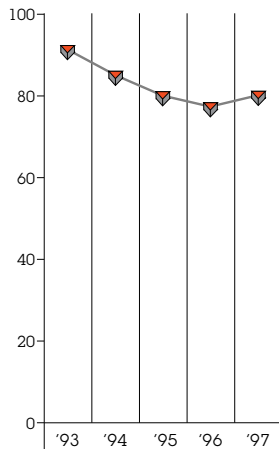


## Targeting Global Leadership



JAL is proud to be the businessman's choice of airline.

**Indexed Operating Costs Per Available Ton-Km (Non-Consolidated)**



(Note: 1992=100)

### Decisive Measures to Reduce Costs

Cutting costs is an ongoing task not just for the civil aviation business, but in any industry. JAL's structural realignment initiatives focus on driving down the cost base. This involves making the best use of JAL's human resources, improving the efficiency of work practices, and making more use of JAZ wet-lease operations for charter flights. The recent switch to using approved flight simulators for pilot training not only improves safety, but also contributes to cost-savings from reduced fuel consumption. JAL established JAL Express Co., Ltd. in April 1997 with the aim of further improving route management.

### Effectiveness of the Discount Fare Banding System

The benefits of the discount fare banding system became apparent during the year. Introduced two years ago, this system allows all domestic airlines in Japan a degree of flexibility in setting standard fares. This helps to even out sales across the year and offset the marked concentration of demand in peak seasonal periods. Another aim of the system was to stimulate demand in off-peak periods by allowing airlines to offer discount fares. The system demonstrated its efficacy during the August 1996 peak season—the first since its introduction. Despite higher fares on many routes, the

## Topics



### Disney Campaign

With the aim of raising competitiveness on routes to the U.S. mainland, JAL has signed a contract naming it a "partnership airline" with Walt Disney Attractions. JAL is making use of this agreement to offer a variety of privileges in concert with a special Disney-oriented campaign.



### JAL Mileage Bank

JAL upgraded its former JAL Sky Plus club during the year, changing it from a coupon system to one where air miles are stored in a personal account. The company has expanded the renamed JAL Mileage Bank service to encompass more partners, including international phone companies and hotels. From April 1997, the system began offering miles for flights on JAL's domestic network.

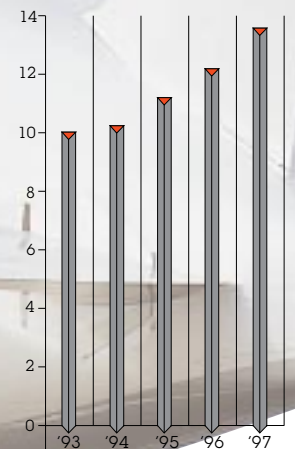
load factor in the peak period from August 1-20 actually rose over the previous-year level, from 71.0% to 71.2%. The load factor rose significantly during the rest of the month as well, climbing by 2.9% to 70.6%. For the month as a whole, the passenger load factor was 1.1% higher than in the fiscal year ended March 31, 1996, at 71.0%. In short, there was a definite boost to demand. To translate this boon into higher earnings, JAL phased out by June 1996 the Tobi-Sasuke fares which it had introduced in May 1995, and replaced these with a variety of advance-purchase discount fares. In June 1996, the company brought in 28-day and 14-day advance-purchase fares. These were joined by a 21-day fare in November 1996.

**Further Honing the Competitive Edge of Services**

On both domestic and international routes, a higher grade of service is being demanded to satisfy the diverse needs of

customers. Inexpensive fares alone are insufficient; high quality in all areas is critical. To thrive as a global airline, JAL must offer high-quality services to respond quickly to customer requirements at reasonable prices. JAL completely revamped its Executive Class service during the year, renaming it "Seasons." The company also expanded the popular Resócha campaign to include Bali, and inaugurated a Narita-Kona flight to Hawaii in June 1996. The successful JAL Europe campaign was further developed: as well as extending JAL Euro Express coach trips to regions of Spain, JAL featured Spain specifically as a tourist destination in the campaign. Finally, the company initiated a high value-added Disney campaign as its main promotional vehicle for flights to the U.S. mainland.

**Number of AXESS Terminals in Japan**  
(Thousands)



**JAZ**

Japan Air Charter Co., Ltd. (JAZ) was established by JAL to raise efficiency in its charter operations. The subsidiary flies direct charter flights from 22 cities around Japan to 13 Pacific tourist destinations. JAZ also plans to begin flights shortly to a further four places, including Tahiti and Noumea. JAL also



contracts out some of its scheduled flights on the Honolulu and Bangkok routes to JAZ, which therefore plays an important part in the Resócha campaign.



**JAL Express Co., Ltd.**

JAL established JAL Express Co., Ltd. to boost its competitiveness in the domestic market. Operat-

ing a fleet of Boeing 737s on routes where demand is comparatively light, the new subsidiary will help expand JAL's domestic network more effectively and raise the convenience of services for customers.