



Isao Kaneko
President

Results for the Year Ended March 1998

Against a backdrop of cooling personal consumption, financial system instability and other negatives, Japan's economy moved to the brink of recession in the year under review. Abroad, while the U.S. and European economies trended well, those in Asia lost momentum. For these reasons the airline industry saw falling passenger demand for flights originating in Japan and Southeast Asia. International air cargo demand felt some impact in the year's second half from Asian economic turmoil. But results were favorable overall, centering on exports to the U.S. and Europe, with revenues exceeding last year's. Domestic passenger demand was also higher as airlines worked to become more competitive. JAL made its flights more attractive by expanding the JAL Mileage Bank service to domestic routes, starting in April 1997, and other actions.

The fiscal year ended March 31, 1998, was a very difficult period — not only for JAL but also for the entire domestic airline industry, and indeed the Japanese economy as a whole. In this environment, JAL promoted various structural reforms aimed at an early resumption of dividend payments and posting of stable profits. The result was a recovery in profitability, with consolidated operating income rising fourfold over the prior year's level. With a one-time write-off of accumulated losses in the year ended March 1998, we have reached the point where we can foresee a level of earnings sufficient to support parent-company dividends.

We took a number of steps to raise efficiency. Service was inaugurated on several domestic and international routes. While expanding our service network, we altered flight frequencies and aircraft utilization to match changes in demand. In related operations, we embarked on the reorganization and restructuring of some businesses during the year.

The result was that JAL's combined domestic and international passenger and cargo volume rose 2.4 percent year-to-year to 11,909 million ton-kilometers. Operating revenues were up 0.9 percent to ¥1,581,559 million (US\$11,981 million). And our even more intensive efforts to cut costs reduced operating expenses by 1.0 percent to ¥1,541,376 million (US\$11,677 million). Consolidated operating income therefore came in at ¥40,182 million (US\$304 million). However, after non-operating income (expenses) and others, the net loss for the year was

¥62,918 million (US\$476 million).

Non-operating expenses, including valuation losses on related businesses, were the major factor behind this net loss. Events such as the U.S.-Japan aviation agreement and domestic deregulation indicate that competitive pressures will become yet more intense. To ensure the flexibility to cope with these challenges, improve our profitability and assure stable earnings, we believe it necessary to concentrate our resources on air transport and associated businesses. In line with this policy, we disposed of certain related businesses, primarily some overseas hotels. The aforementioned net loss arose from the lump sum posting of the valuation losses incurred.

In March 1998, we announced our decision to aggregate the non-operating expenses resulting from these revaluations and the loss carryforwards of the preceding five years, and post them to the accounts

for the year ended March 1998 at one stroke. And at the annual general shareholders' meeting in June 1998, our shareholders approved proposals to use the reserve for special depreciation, the special reserve, legal reserve, and part of the additional paid-in capital to clear accumulated losses all at once.

Toward Global Competitiveness

In January 1998, working-level officials reached basic agreement on a new U.S.-Japan aviation treaty, and in March the respective cabinet officers signed a Memorandum of Understanding. The negotiations

JAL is responding to the challenges of deregulation and intensified competition, both at home and abroad, by stressing convenience and customer satisfaction. Internally, cost cutting and improvement of our financial condition have high priority.

were aimed at ironing out various imbalances in the passenger sector. Divergences between the two sides in respect of deregulation and promotion of competition were left for the next round. For the Japanese firms affected, led by JAL, the stiff terms of the agreement mean that we will have to reinforce our competitive position in terms of services and cost.

As one way to achieve this goal, JAL in February agreed to form a code sharing arrangement with American Airlines (AA). This is an extremely large scale tie-up. When it becomes effective later in 1998, code-sharing will cover about 15 routes

within the U.S., between the two countries, and beyond Japan. Ultimately, this far-reaching agreement will embrace more than several hundred city combinations. It will significantly expand the JAL and AA networks and raise flight frequencies, placing both companies in an even better position to meet the expectations of the traveling public.

To Prevail Over Competitors

JAL is now implementing a medium-term business plan that ends in March 2002. Based on the major premise of safety, we are taking steps to bolster

both product and cost competitiveness. Specifically, we unified the international and domestic mileage programs, made our first class and JAL Executive Class – “SEASONS” business class more attractive, and took other measures to increase revenues. In the area of cost cutting, nothing was off limits; every category was reviewed from the ground up with a view to radical improvement in cost efficiency. These measures, along with the ongoing restructuring program that aims to resume dividends and generate stable earnings, yielded steady progress in restoring profitability at the parent company.

With the conclusion of the U.S.-Japan aviation negotiations and the entrance of new airlines into the domestic market, we foresee a period of even fiercer competition ahead. To prevail, and to pay dividends in the fiscal year ending March 1999, we devised last year our medium-term management plan for the four years to March 2002. This new plan pushes forward the structural reforms contained in the existing medium-term plan. I will flesh out some of the main points of the new plan.

In our international services, we will respond flexibly to demand on each route, adding and deleting flights as necessary in respect of profitability. In addition, plans call for an aggressive stance regarding alliances to expand our network, centering on transpacific routes.

On the domestic side, we will increase service on existing trunk routes. For other routes, we will raise efficiency by aligning service with demand and profitability.

In our cargo business, we will be expanding our service network through alliances and reinforcing our route network via subcontracting of transport operations.

A key point is promoting reform of our cost structure. ATK costs, already down 20 percent over five years, are targeted for a further decline of more than 10 percent during the four years of the medium-term plan. We are taking a new approach to our domestic routes by transferring B737 routes

to JAL Express and making low-cost operation our basic principle. In addition, we are moving aggressively to make more of our expenses foreign currency-denominated, centering on Japan Air Charter.

In related businesses, plans call for review of unprofitable operations with a view to reducing interest-bearing liabilities of the group as a

flight frequencies, deregulation of fares, the effects of the U.S.-Japan aviation agreement and other adverse factors will affect not only the domestic air carriers. We expect an intensification of borderless competition for overseas carriers as well.

Against this backdrop, the fundamental premises of our business remain uncompromising safety

willingness of top management to accept responsibility for quick judgments based on strategic considerations. This enables employees in the front lines to do their jobs expeditiously.

As an organization certain to remain one of Japan's best-known companies in the 21st century, and as a leading global airline, JAL regards the building of a sound company to pass along to future generations as our mission. We will respond as one to the expectations of our shareholders and exert utmost efforts toward recovery in our business results.

A final note: three employees of JAL, including a former director, were found to have engaged in improper corporate practices during the period November 1995 – May 1998. JAL deplors such activity and has taken steps in the corporate governance area to ensure that it does not recur. While the incident had no effect on our business results, we sincerely regret any concern it may have occasioned for our shareholders.

I would like to take this opportunity to thank our shareholders for their continuing patience and understanding, and to solicit their support in the challenging period ahead.

My management approach is to set clear objectives and seek results. . . . Top management must be willing to accept responsibility for quick judgments based on strategic considerations. . . . We will respond as one to the expectations of our shareholders and exert utmost efforts toward recovery in our business results.

whole. In addition to spin-offs and restructuring, we will be looking to strengthen group management and to take our principal subsidiaries public.

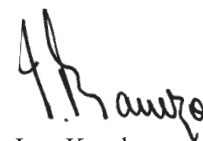
Through these and other measures, we are projecting average annual growth on the order of 4 percent on a company-wide ATK basis during the four-year period ending March 2002.

Outlook

Japan's economic outlook remains clouded, and an unsatisfactory situation looks to continue. While we expect air transport demand to fall off temporarily, both domestically and internationally, the overall trend should remain favorable. But the invasion of the domestic market by new competitors, elimination of regulations on domestic routes and

twinned with services of the highest quality. We will work even harder to reinforce our service and cost competitiveness. In addition, we are aiming at a management system that makes possible both a dividend resumption in the fiscal year ending March 1999 and continuous dividend payouts thereafter. These are the main axes of the medium-term management plan for the years from April 1998 to March 2002.

I succeeded Mr. Akira Kondo as your president in June 1998. This change marks the commencement of a new management system at JAL. My approach is to set clear objectives and to seek results. These results are to be achieved through speedy decision-making and fair and open management. One element of speedy decision-making involves the



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