

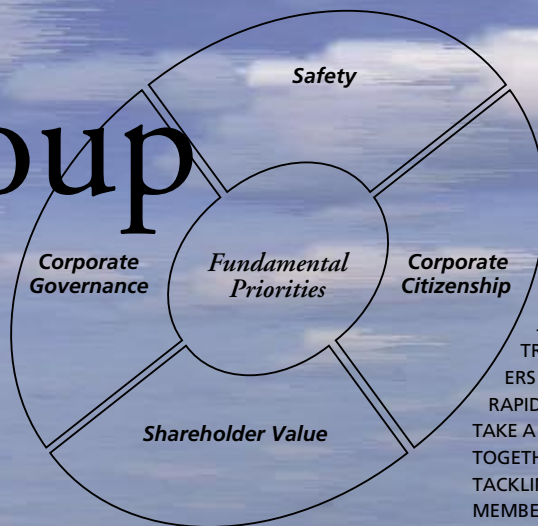


A More Competitive

Structural reforms have been sweeping through JAL since early in the 1990s. They culminated in the October 1998 formulation of management goals and corresponding basic policies for the entire group and the March 1999 release of a medium-term management plan. Covering the period from April 1999 to March 2002, the plan provides a clear blueprint for completing JAL's ongoing restructuring program. JAL is determined to prevail in the next stage of global competition in the upcoming decade.



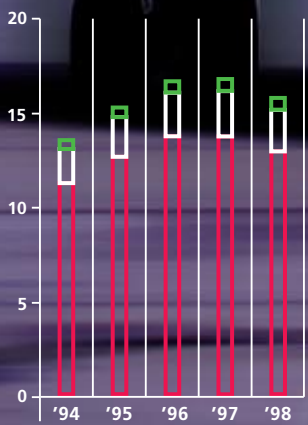
JAL Group



JAL IS DETERMINED TO OPERATE IN A TRANSPARENT FASHION, TREAT CUSTOMERS AND PARTNERS FAIRLY, MAKE DECISIONS RAPIDLY, SHOW STRATEGIC FORESIGHT AND TAKE A GLOBAL PERSPECTIVE IN ALL ITS ACTIVITIES. TOGETHER, THESE QUALITIES DEFINE HOW JAL IS TACKLING THE ISSUES THAT FACE ALL GROUP MEMBERS.



JAPANESE TRAVELING OVERSEAS
(Millions)
Years Ended December 31



■ Tourism ■ Business ■ Other

Source: Government white paper on travel

A Relentless Drive to Achieve Higher Goals

ALLIANCES WITH INTERNATIONAL PARTNERS

In today's airline industry, companies are forming relationships that extend far beyond a single activity. Airlines worldwide now regard broad-based alliances as a highly effective and valuable strategic tool.

JAL is no exception. Teams have conducted exhaustive studies of the advantages and disadvantages of possible alliances, particularly in relation to the Japanese air-transportation market. As a result, JAL is building multi-faceted relationships grounded in a long-term perspective. The year to March 1999 was an active one. In the passenger sector, JAL entered into agreements with American Airlines, British Airways, Swissair, Cathay Pacific and other carriers of world repute. Ties with Lufthansa Cargo, Singapore Airlines and other partners bolstered JAL's cargo operations. In all, JAL has ties with 16 foreign airlines in passenger and cargo service, as well as frequent flyer programs. Few rivals have as many partnerships.

JAL plans to maintain and enlarge where appropriate bilateral ties with other airlines. The resulting benefits are essential to improving services for all its customers worldwide.

HOW DEREGULATION SPAWNS OPPORTUNITIES FOR JAL

Deregulation is redefining Japan's air-transportation market. One result is the appearance of new airline companies for the first time in 36 years. Skymark Airlines began service in September 1998 and Hokkaido International Air the following December. Five airline companies now operate on major domestic routes, offering a wide variety of deeply discounted tickets. Average fares have fallen steeply as a result.

Airlines will soon have the freedom to enter and withdraw from routes as they wish. This is certain to spark more competition. JAL has responded with new fares and other efforts to become more competitive, thus generating higher revenues. One move in the past fiscal year was the abolition of the extra jet charges. All expenses are now included in ordinary ticket prices. An advance purchase discount called Maeuri 21 was introduced to spur demand in the new year

period. Another discount ticket, Tokuuri Kippu, was expanded to cover more flights.

Protecting profit margins is essential as fares move downward. On this front, JAL formed a subsidiary carrier called JAL Express (JEX) that started service in July 1998. With expenses about 20 percent lower than at JAL itself, JEX turned in a strong performance during its first year in the sky.

DEMONSTRATING THAT SAFETY COMES FIRST

Safety is integral to everything that JAL does. Every member of the JAL team keeps safety uppermost in his or her mind. At this time, JAL is following up on revisions to Japanese air safety laws and is mobilizing the latest technology to ensure safety of operations. New systems include a ground proximity warning system for aircraft and a new navigation system. Adopting new ideas and improving on existing systems are two of many ways in which JAL is constantly enhancing its safety procedures.

In 1999, airlines are tackling an additional safety issue: year 2000 compliance. JAL is placing top priority on ensuring that safe airline operations can continue uninterrupted when the new year comes. Remediation programs are supervised by a Year 2000 Committee. Air traffic control and other critical systems around the world are being monitored and back-up systems installed to prepare for an unforeseen problem.

Reaffirming JAL's safety posture is the regular disclosure of information. Data is available through many channels, including the Internet.

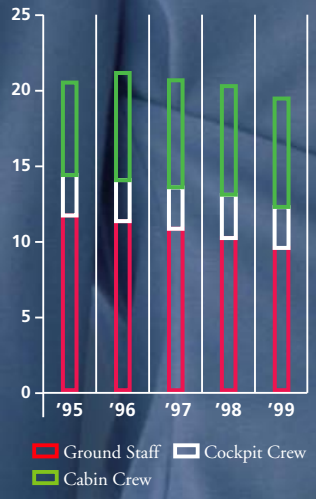


Vital to JAL's future, safety and service have precedence above all other aspects of JAL's operations.

JAL



NUMBER OF EMPLOYEES
(JAL ONLY)
(Thousands)
Years Ended March 31



The Productivity and Flexibility for Success

A RELENTLESS COST CONTAINMENT DRIVE

JAL has been remodeling its cost structure for many years. General operating expenses are just the beginning. The process encompasses a review of contracts with external service providers, the suspension of almost all new investments and structuring the network of offices to optimize efficiency. Personnel expenses are going down, too. An annual salary system was started in 1997 for general managers and a new selective career path introduced for managers desiring other means of advancement. JAL's entire salary system was then reviewed in 1998. In the air, many subtle improvements have yielded substantial savings with no sacrifice in passenger services.

Benefits are already becoming apparent. Costs per seat-kilometer at JAL have fallen to a level comparable with most major U.S. and European airlines. But changes in the airline industry are outpacing the drop in expenses. To prevail against even harsher competition, JAL must slash costs even more. In this drive, a number of specific targets have been set forth:

- ◆ Cut costs per seat-kilometer at JAL for the year ending March 31, 2000 by 10 percent compared with the year ended March 31, 1998.
- ◆ Cut ground employment of the JAL Group, both in Japan and overseas, by 10 percent from 36,000 as of March 31, 1999 during the next three years. This will include a reduction of about 2,300 at JAL.

In terms of financial goals, the following guidelines have been established:

- ◆ Cut interest-bearing debt including leases of the JAL Group from ¥1,526 billion at March 31, 1999 to ¥1,400 billion by March 31, 2002 by reviewing fleet procurement plans and improving operating cash flows.
- ◆ An accounting center was formed in April 1999 to centralize all JAL Group accounting services and improve the efficiency of administrative activities. In April 2000, plans call for the establishment of a treasury center to handle all fund procurement and management activities.
- ◆ A comprehensive review of the pension system, including the revision of projected returns, for the purpose of preserving the financial soundness of JAL's pension system in line with yields on funds under management.

A NEW ROLE FOR DIRECTORS

To simplify and accelerate the decision-making process, JAL has decided to completely redefine the role of directors and other members of the management team. Under the guidelines of the new management plan, directors will become responsible for making decisions regarding strategies and policies. Corporate executive officers will then implement those strategies, and assume responsibility for their respective operations. In line with resolutions approved at the June 1999 stockholders' meeting, JAL has taken the following actions:

- ◆ The board of directors now has 15 members instead of the previous 28. Two of these directors are not employed by JAL. At the same time, the position of corporate executive officer was established.
- ◆ One-year terms were established for directors and corporate executive officers.
- ◆ The post of senior advisor was eliminated.

Groundwork is being laid for other actions as well:

- ◆ A management conference will replace the previous executive management board. This will provide a forum for the president, directors, auditors and corporate executive officers to make decisions about corporate issues.
- ◆ All JAL Group members will adopt similar systems.

FULFILLMENT OF SOCIAL RESPONSIBILITIES

Determined to restore the confidence of the public, JAL has created the Business Activities Reappraisal Committee and overhauled a number of internal procedures and corporate governance policies:

- ◆ JAL will continue to implement a rigorous internal inspection and supervision system.
- ◆ A comprehensive auditing function has been added to the Business Activities Reappraisal Department with the objective of ensuring that all operations are conducted in an appropriate, transparent and efficient manner.
- ◆ Knowledge gained about such environmental issues through the acquisition of ISO 14001 certification at JAL's maintenance facilities will be shared among all JAL Group members.



A Plan to Optimize the Deployment of Resources

A MANAGEMENT VISION FOR THE JAL GROUP

To map out the future direction of the JAL Group, members have collectively formulated a management vision. The importance of this task is immense. Investors, business partners and others place increasing importance on the strength of entire corporate groups. At JAL, this drive extends from the parent company to the restructuring of subsidiaries and affiliates. To coordinate strategies and more closely unify the group, a strategic management data system, auditing function and other organizations spanning the entire group will be added.

Assigning the proper role to each group member is imperative to success. In this respect, JAL is active on many fronts. On passenger flights, subsidiaries JALways, formerly Japan Air Charter (JAZ), and JAL Express (JEX) will be used as much as possible to raise productivity. During the fiscal year ending in March 2000, JALways will inaugurate scheduled services, taking over from JAL on routes to and from resort destinations in Southeast Asia, Oceania and elsewhere in the Pacific. Within Japan, JAL plans to complete the transfer of its B737 fleet to JEX by the end of March 2001. B767 aircraft will also be transferred to JEX as soon as possible. JAL is preparing to reorganize the cargo operation as an internal company by the end of March 2000, so it can react more quickly to changes in the marketplace.

Group improvements cover marketing, too. To maximize customer satisfaction, JAL is stepping up efforts to devise travel packages and other services from the customer's standpoint. For passengers, more products that closely reflect individuals' needs will be developed. At the same time, sales and marketing activities will increasingly tap information technology. In the cargo field, JAL will target new business opportunities created by customers' supply chain management programs. The data infrastructure will be enhanced as well, forming a base from which to spin off cargo sales as a separate company. For maintenance, JAL's operations may be reorganized as an internal company in a fashion that preserves the company's high safety standards. Accompanying this move would be closer ties with business partners who already perform maintenance services under consignment. This will

facilitate the gradual increase in external servicing of aircraft within the scope of JAL's comprehensive quality assurance and supervision system.

Airport operations and administrative functions excluding group oversight will be organized as separate companies or contracted to external vendors. An accounting center is already operative, and a treasury center is likely to be next. Concentrating all group accounting and financial services in these two organizations will contribute to JAL's drive to cut debt, improve cash flows and raise returns on capital.

Many JAL Group operations have the potential to become viable businesses in their own right. Examples are hotels, trading, in-flight meals and data processing. In each of these fields, a core company will be designated to oversee all operations. If a suitable operating base is established, selected companies may conduct an initial public offering. Upgrading group functions also has the advantage of facilitating the movement of people from one JAL field to another, an essential prerequisite for offering rewarding career opportunities.

JAL itself will concentrate on two functions: operating aircraft on trunk routes and overseeing all activities of the group in its role as a holding company. Enhancing oversight functions is essential. This is why JAL is creating internal "virtual companies" and spinning off other operations where appropriate. Through this process, JAL is clarifying lines of responsibility and establishing the ideal framework for each function.

PERFORMANCE INDICATORS THAT TARGET STOCKHOLDER VALUE

While reinforcing group performance, JAL is adopting a policy that places more weight on building value for stockholders. To improve stockholder services and investor relations activities, the parent company's Shareholders' Service Department has been upgraded to an autonomous division. In conjunction with this move, JAL plans to begin releasing operating results on a quarterly basis. Giving stockholders a consistently good return on their investments is another objective. JAL aims to keep earnings per share above ¥10 and maintain a return on assets of at least 2 percent.