



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.