

# PASSENGER OPERATIONS

(International)



*JAL is attracting passengers to international flights by offering more flights and destinations and utilizing code sharing agreements. New advance purchase discounts and the extension of the JAL Mileage Bank to package tour passengers are also making JAL more appealing. To hold down costs, JAL will soon begin transferring responsibility for certain flights to subsidiary JALways.*

**RESULTS—YEAR ENDED MARCH 31, 1999**

Demand for business and leisure travel from Japan declined in the past fiscal year, impacted by Japan’s persistent economic downturn and soft consumer spending. Solid demand on Asia-U.S. routes, however, enabled JAL to achieve a 0.6 percent increase in international passenger volume to 12,831 thousand. Revenues were affected by intense competition and a drop in first class and executive class passengers due to a decrease in business travel. As a result, non-consolidated international passenger revenues were down 6.9 percent to ¥581.6 billion (US\$4.8 billion). On a consolidated basis, revenues fell 10.9 percent to ¥595.2 billion (US\$4.9 billion). This is the result of the transfer to the incidental and other category of revenues generated by sales of JAL Group airline tickets at the 29 overseas JALPAK subsidiaries. The inclusion

of these sales lifted incidental and other revenues 20.9 percent to ¥489.8 billion (US\$4.0 billion).

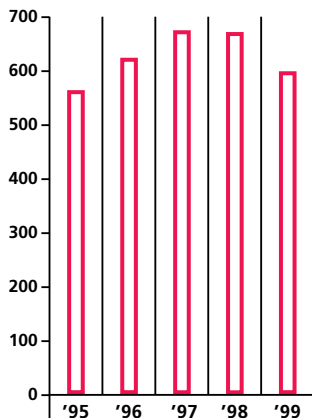
**HIGHLIGHTS OF THE YEAR**

In light of the trend toward independent individual travel, JAL increased the number of official fare discounts. The *JAL Goku* discounts have already demonstrated their popularity; to these were added the *Maeuri Goku 28* and *Maeuri Goku 42* advance purchase discounts. All fares aim to stimulate demand for leisure travel. To make the JAL Mileage Bank more attractive, group-fare tickets were brought under this program in January 1999.

Several sales campaigns targeted leisure travelers during the year. Among them were a campaign to promote *Reso’cha*, a program now in its fifth year that offers flights to resorts in

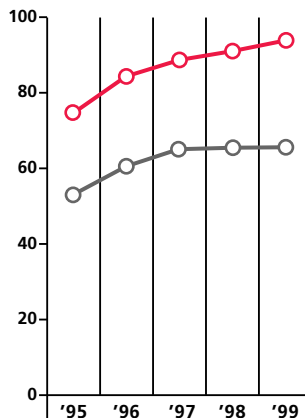
**CONSOLIDATED INTERNATIONAL PASSENGER REVENUES**

(Billions of Yen)  
Years Ended March 31



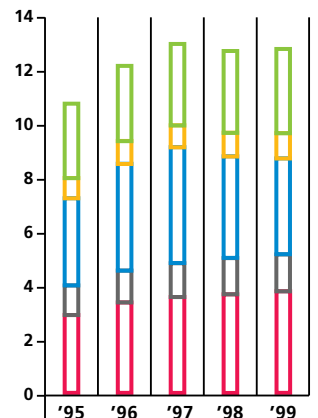
**INTERNATIONAL REVENUE PASSENGER-KM & AVAILABLE SEAT-KM**

(Billions of Passenger-km)  
Years Ended March 31



**BREAKDOWN OF INTERNATIONAL PASSENGERS CARRIED BY ROUTE**

(Millions of Passengers)  
Years Ended March 31



○ RPK  
○ ASK

■ Korea/China ■ Guam/Saipan  
■ S.E. Asia/Oceania ■ Europe  
■ Trans-Pacific



#### MAEURI GOKU 28 AND 42 MAKE THEIR DEBUT

The *Maeuri Goku* plan was created specifically to attract passengers from Japan who are traveling overseas on their own. The 28-day advance-purchase option, launched in April 1998, offers fares below the standard JAL *Goku* discount. The 42-day option, introduced in October 1998, has an even steeper discount.



#### CHARTER FLIGHTS MEET DEMAND FOR JAPANESE WORLD CUP FANS

A lot of Japanese fans went to France in June 1998 to watch the World Cup. JAL was involved in the event too, shuttling fans between Tokyo and Paris on a total of 14 charter flights and painting slogans of support for the Japanese team on its planes.



#### DIRECT FLIGHTS BETWEEN TOKYO AND LAS VEGAS

In October 1998, JAL inaugurated service linking Tokyo and Las Vegas. A series of new casinos, theme parks and other attractions has made this entertainment capital an appealing destination for the entire family. JAL plans to aggressively promote travel to the "entertainment capital of the world" to a variety of passenger categories.

the Pacific Ocean, and marketing efforts to raise awareness of the new Tokyo-Las Vegas service.

A significant number of new flights were inaugurated during the year. In April 1998, service began on the Nagoya-Los Angeles, Nagoya-London, Hiroshima-Honolulu, Osaka-Tianjin and Nagoya-Tianjin routes. Tokyo-Dalian and Tokyo-Qingdao service started in July and Tokyo-Las Vegas flights the following October. Niigata-Honolulu flights started in December and Tokyo-Dallas service was inaugurated in March 1999. Code sharing agreements were another means of growth. Tokyo-Zurich and Osaka-Zurich service began with Swissair and Tokyo-Istanbul with Turkish Airlines, both in October. Flight frequency was raised on many high-volume routes including those between Tokyo and New York, Los Angeles, San Francisco and Shanghai, and service linking Osaka with Honolulu, London and Shanghai. In June 1998, JAL operated a large number of charter flights to meet demand generated by the World Cup in France.

#### OUTLOOK

On Pacific routes, JAL plans to begin services between Osaka and Chicago and add Tokyo-Dallas and Tokyo-Las Vegas routes, among others. The first step in the code sharing agreement with American Airlines was taken in May 1999 with cooperation on 28 routes. This collaboration will be extended to about 150 routes by March 2000, thus enabling JAL to better serve independent travelers. Code sharing flights with Canadian Air and Cathay Pacific are slated to begin during the summer of 1999. An agreement linking JAL's mileage program with that of British Airways took effect in June 1999. To enlarge the *Resocha* Pacific Resort strategy and serve more group travelers, JAL began service between Nagoya and Guam and added other flights. And to take full advantage of its cost competitiveness, subsidiary JALways began operating its first scheduled flights. This company will gradually take over JAL's Southeast Asian, Oceania and Pacific resort routes.

# PASSENGER OPERATIONS

(Domestic)

*Deregulation is altering the dynamics of Japan's air travel industry. JAL is responding in many ways. JAL Express, JAL's low-cost subsidiary, took to the air in July 1998. Flights will be added at Haneda and Itami airports, including early-morning and late-night services. JAL is also expanding its popular Tokuuri Kippu discount fares and making more passengers eligible for the JAL Mileage Bank.*

**RESULTS—YEAR ENDED MARCH 31, 1999**

Demand for domestic air travel remained flat during the past fiscal year, a reflection of the stagnation in the Japanese economy. JAL did manage a 1.0 percent increase in passenger volume to 22,660 thousand. However, domestic passenger revenues decreased 4.5 percent to ¥307.4 billion (US\$2.5 billion) as competition, especially on trunk lines, exerted pressure on ticket prices.

**HIGHLIGHTS OF THE YEAR**

The addition of slots at Haneda and Itami airports allowed JAL to increase flight frequency on routes between Tokyo (Haneda) and Fukuoka and Osaka (Itami) and Okinawa and Nagasaki in April 1998. In July, flights were added on routes between Itami and Fukuoka, Sapporo, Okinawa and Fukushima.

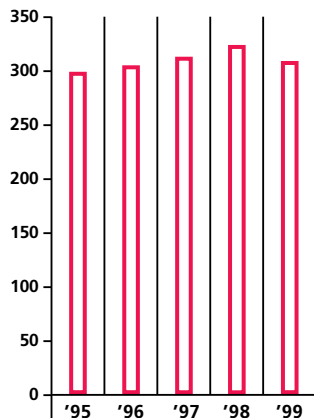
Seasonal service between Fukushima and Sapporo took off in May 1998. JAL's low-cost subsidiary JEX inaugurated scheduled service in July 1998 by taking over the Itami-Miyazaki and Itami-Kagoshima routes. Flexibility was another theme. More seasonal, early-morning and late-night flights were added during peak travel periods, thus boosting efficiency.

Aggressive actions were taken to keep fares attractive. Symbolizing this program was the new *Tokuuri Kippu* that offers discounts on routes that compete directly with new airline companies and the Shinkansen bullet train. Additionally, marketing campaigns targeting Okinawa, Hokkaido and other destinations served to raise interest in domestic pleasure travel.

The JAL Mileage Bank (JMB) frequent flyer program was significantly enlarged. In October 1998, this program was

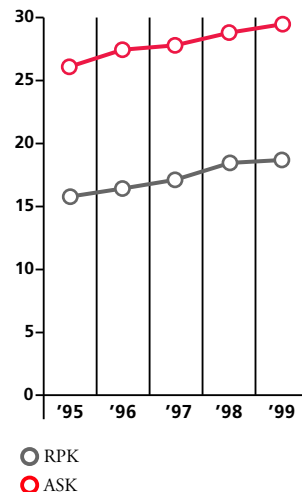
**CONSOLIDATED DOMESTIC PASSENGER REVENUES**

(Billions of Yen)  
Years Ended March 31



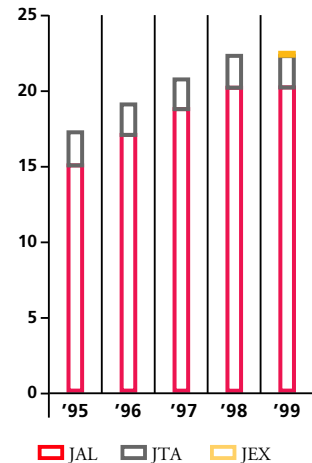
**DOMESTIC REVENUE PASSENGER-KM & AVAILABLE SEAT-KM**

(Billions of Passenger-km)  
Years Ended March 31



**DOMESTIC PASSENGERS CARRIED BY JAL, JTA AND JEX**

(Millions of Passengers)  
Years Ended March 31





#### JEX TAKES TO THE SKIES OF JAPAN

The JAL Group's new cost-efficient airline subsidiary JEX began scheduled service in July 1998. All flights currently use Osaka's Itami airport. To mark the inauguration of this service, all Itami-Miyazaki and Itami-Kagoshima ticket prices were halved for the two weeks from July 1 through 16.



#### THE BOEING 777-300 MAKES ITS DEBUT

JAL's first B777-300 made its maiden flight in August 1998, entering service on the Haneda-Kagoshima route. It boasts the longest fuselage of any passenger aircraft, and offers excellent safety, economy and environmental advantages. JAL expects that the B777-300 will eventually become the mainstay of its domestic fleet.



#### FREQUENT FLYER PROGRAM NOW COVERS GROUP FARES

Making the popular JAL Mileage Bank program even more attractive, JAL in October 1998 began crediting mileage from travel using domestic group fares. International package tours and group fares were added to the program in January 1999. Passengers can now count on building up miles almost any time they fly JAL.

extended to cover travel on group fare tickets. Furthermore, JMB members can now earn miles by patronizing other businesses, such as hotels, car rental companies, moving companies and telecommunications companies.

#### OUTLOOK

A new overland flight path has been opened at Kansai International Airport, resulting in an increase in takeoff and landing slots. JAL plans to use this opportunity to add flights serving Haneda, Okinawa and Sapporo. Frequency on the Fukuoka-Sapporo route will be raised in stages. Resulting improvements in convenience are expected to increase demand from business travelers. Other plans for the upcoming year include more flights on the Nagoya-Kagoshima and other routes as well as operation of Fukushima-Sapporo service throughout the year.

The resources of JEX and Japan Transocean Air (JTA) will be employed as much as possible to improve productivity. With regard to JEX, selected operations, mainly local service to and from Itami, will be shifted from JAL in line with growth in JEX's B737 fleet. JTA will deploy its new B737-400 aircraft on service between Fukuoka and Okinawa, Hakodate and Nagoya. More flights will be operated on the Kansai-Okinawa route and service is slated to begin between Kansai and Matsuyama. Some JTA operations will be operated under leases that cover aircraft and crew members.

Ticket prices will be an increasingly critical issue at JAL. Japan's complete deregulation of fares in February 2000 and other events are rapidly altering the competitive dynamics of the air-transportation market. JAL will continue to implement a fare policy that reconciles the needs to stimulate demand, meet passenger expectations and preserve an appropriate profit margin.

# CARGO OPERATIONS

*Code sharing is extending JAL's cargo reach. Partners include Lufthansa Cargo, SAS, Air France and Singapore Airlines. JAL is adding flights of its own as well. Highlighting the drive for excellence, JAL's Narita district cargo operations earned ISO 9001 certification, a first among Japan's airlines. Within Japan, JAL conducts high-profile sales campaigns that stress its outstanding services.*

**RESULTS—YEAR ENDED MARCH 31, 1999**

International cargo volumes remained weak, hurt by economic softness in Southeast Asia and Japan. Declines were recorded on almost all routes. The only meaningful growth occurred on flights from Southeast Asia to North America. Overall, international cargo volume decreased 1.0 percent to 3,965 million ton-kilometers and revenues dropped 8.3 percent to ¥145.6 billion (US\$1,213 million).

In addition to a sluggish economy, domestic operations felt the effects of unfavorable weather that caused a steep drop in shipments of fresh produce from Okinawa. Domestic cargo volume was down 2.8 percent to 264 million ton-kilometers and revenues decreased 0.3 percent to ¥27.9 billion (US\$233 million).

**HIGHLIGHTS OF THE YEAR**

To expand overseas service, JAL has been making use of code sharing agreements to increase frequency on new routes

and operate new ones. One such tie-up with Lufthansa Cargo led to the September 1998 inauguration of freighter flights between Kansai and Frankfurt. The addition of Scandinavian Airlines extended this service to Gothenburg in March 1999. In October 1998, code-share flights with Air France increased and the next month JAL began operating these flights with Singapore Airlines.

To improve cargo service, JAL earned ISO 9001 certification for its Narita export operations, in the process becoming the first Japanese airline to meet this quality assurance standard. In Europe, truck and other land transportation services were reorganized into a unified organization JAL calls its Euro Network. For customers sending cargo to Mexico and Latin America, JAL inaugurated two services: the Amigo Express and the Latin American Express.

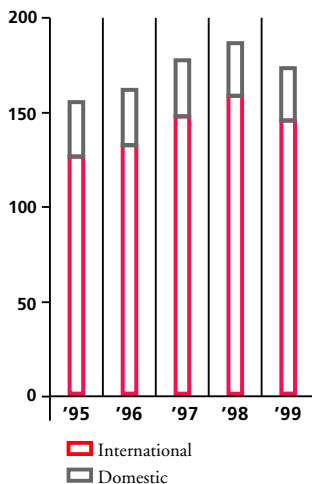
Within Japan, competing airlines are adding capacity at the same time that demand is shrinking. JAL is responding with a range of sales campaigns to protect its market share and capture business from new customers.

**OUTLOOK**

On international routes, JAL is placing priority on utilizing its nine freighters as much as possible to maintain a high level of capacity. One area of growth is the southern U.S. and Latin America. JAL plans to resume flights to Atlanta and expand its New South Network truck delivery network. This will connect with interline shipping via Miami to serve destinations in Central and South America. At the same time, JAL will seek new alliances with other airlines and expand existing ones.

The central goal in Japan is improving marketing by leveraging JAL's reputation for quality transportation services. Raising demand by convincing shippers to shift from trucks and other services to air is one theme. More non-scheduled cargo flights will be operated to add flexibility as well. JAL is working with shippers to improve transportation of frozen cargo and create containers that can be used by aircraft and trucks.

**CONSOLIDATED CARGO REVENUES**  
(Billions of Yen)  
Years Ended March 31



**NARITA CARGO OPERATIONS EARN ISO 9001 CERTIFICATION**  
In April 1998, the Narita cargo operations of JAL received ISO 9001 certification. This attests to JAL's ability to meet international standards for quality management and assurance. With this certification, JAL is in an even better position to sell its services to Japanese exporters.

# OTHER OPERATIONS

*Actions are being taken throughout the JAL Group to bolster the collective strengths of group members. Part of this process entails consolidation and restructuring selected businesses. One example was the March 1999 sale of a JAL-owned hotel in New York. Where possible, administrative and other functions not directly linked to flight operations will be spun off or outsourced.*

**RESULTS—YEAR ENDED MARCH 31, 1999**

Revenues in other operations rose 20.9 percent to ¥489.8 billion (US\$4.0 billion). This growth was achieved despite a 9.8 percent decline in hotel and resort operations to ¥57.4 billion (US\$478 million). Most of the increase was attributable to a 72.3 percent rise in travel agency operations to ¥337.6 billion due to the inclusion of a larger number of consolidated subsidiaries.

**HIGHLIGHTS OF THE YEAR**

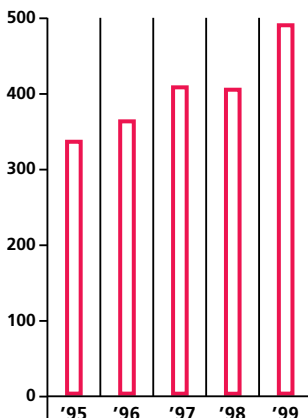
In the hotel and resort field, JAL Hotels' Hotel Nikko Pudong Shanghai held its grand opening in November 1998. In March 1999, JAL sold Essex House Hotel Nikko New York. In other fields of business, revenues rose at JAL Trading, Inc. (JLT) due to the popularity of wine in Japan and other factors.

**OUTLOOK**

JAL plans to continue to reorganize airport operations as separate companies and transfer some functions to external service providers. This process will cover all operations not directly related to core businesses, excluding functions required for managing the JAL Group. As the reorganization progresses, JAL will foster companies in fields such as trading activities, in-flight meals and information services with the aim of taking them public.

**CONSOLIDATED INCIDENTAL AND OTHER REVENUES**

(Billions of Yen)  
Years Ended March 31



**JAL TRADING, INC., THE NEXUS OF THE JAL GROUP'S COMMERCIAL ACTIVITIES**

Responsible for a diverse array of commercial services, JLT's activities support the airline business in many ways. Catalog sales, insurance, real estate and airport shops are just a few examples. JLT is known for its skill in the selection of fine wines. Handling hundreds of labels, JLT supplies wines for JAL's first class cabins as well as various fine hotels, restaurants and shops throughout Japan.