

Message from the President

The fiscal year ended March 2000 marked the close of the 20th century. It was also a very important year for Japan Airlines. In the midterm management plan entitled "Forging a stronger, More Dynamic JAL Group" initiated in 1999, we spelled out the path we should take as a worldwide organization, and for the past year we have been working steadily toward the implementation of the corresponding operational reforms. And in response to the ever-changing environment surrounding the air transport industry, we have developed yet another midterm plan for fiscal years 2000 through 2002, as a means of setting guidelines with which we might further implement our reforms and strategies.

The efficiency of our overall system, and a structure that facilitates rapid decision making, will enable the entire network of JAL Group companies to work as one. And with our renewed energy and commitment we will seize upon the winds of change and transform the Group into a globally competitive organization of the highest quality and integrity.

Results for the Year Ended March 2000

Overall demand for international passenger travel and cargo operations showed an upward trend during the year in review, thanks mainly to routes covering our Asian destinations. Domestic routes also benefited from a strong demand for passenger travel and cargo, sharing in an increase in air-transport demand brought about by signs of a gradual recovery in Japan's economy.

JAL has enhanced its international service network through the addition of routes and flights, as well as by expanding the number of code-share flights with American Airlines and other carriers. At the same time, we have restructured our system of domestic flight routes for improved profitability, and transferred appropriate routes to JAL Express in order to ensure greater efficiency. Moreover, amid the increasingly fierce competition in the air-transport industry—chiefly as a result of deregulation and the revised Aviation Act of Japan—JAL has endeavored to boost its market profile through highly competitive, demand-based airfare pricing.

Regarding associated business operations, as part of our efforts to realize a strong and healthy JAL Group, we have been strengthening our general management capabilities. The effort is being carried forward by the entire organization for the sake of greater efficiency in operations, and has been accompanied by the reduction and restructuring of several associated business operations. This has produced a revenue increase of ¥32.4 billion—up 2.1% from the previous year—to ¥1,598.5 billion. And thanks to measures aimed at key cost reductions, we were able to maintain operating expenses at a minimum level of ¥1,553.6 billion, an increase of ¥20.3 billion (1.3%). As a result, during the year in review we achieved a ¥12-billion increase in operating income, to ¥44.8 billion (up 36.6%).

Building a Globally Competitive Group

Safety in flight operations is our top-priority issue, and we have been striving to instill the concept of "safety first" throughout our entire employee roster. And in response to the rapidly changing

environment surrounding the airline industry, we are creating a corporate structure that will bolster our competitiveness in the international arena.

JAL's international service network has been enhanced through the transfer of Asian Pacific resort routes to JALways, a cost-effective operating unit, as well as by increasing the number of code-share flights with American Airlines and other carriers. On the domestic front we have promoted the shift of relatively low-demand routes to JAL Express (JEX) as part of our dedicated effort on behalf of low-cost operations. We have done this while actively restructuring our entire system of routes, thereby enhancing our profit potential.

JAL's preparations with regard to the issue of Year 2000 compliance were well underway as far back as 1995, with the corporate-wide testing of all related systems. Accordingly, we were able to overcome all Y2K issues, and our air and ground operations entered the new millennium without any trouble or incident. By accepting the challenge of Y2K well in advance, we as a group became versed in the entire spectrum of issues regarding management risk.

Expediting Comprehensive Management Reform

Although the outlook for the Japanese economy remains somewhat ambiguous in certain respects, the nation is nevertheless expected to witness a gradual trend toward a full, self-perpetuating recovery. And while the demand for air transportation is also expected to grow, it is likely that JAL will continue facing the challenges of a harsh, fiercely competitive business environment, both domestically and overseas. Therefore, even though the general economic picture will improve, the airline industry will find itself in a prolonged atmosphere of pricing competition. Moreover, the industry has reached a major turning point, as exemplified in the reevaluation of safety regulations and deregulation following the February 2000 revision of the Aviation Act of Japan. These changes go hand in hand with increases in flight frequency, such as that due to the



Isao Kaneko
President

opening of Haneda Airport's new Runway B.

JAL will therefore redouble its efforts in safety management by sharing information among Group companies and clarifying the lines of accountability regarding this issue.

In April of 2000 JAL reorganized its passenger sales, cargo and maintenance operations as in-house companies in order to better define operational responsibilities, expedite decision-making, enhance profitability and strengthen group management. In addition, we launched the JAL Sales Network Co., Ltd., a holding company set up to supervise JAL Group companies engaged in passenger sales. In so doing we will achieve a more efficient structure of sales and thus enhance our marketing capabilities.

Given the rapid progress of information technology, there is demand for an ever-increasing diversity of sales services. Accordingly, JAL now offers the latest information on cargo shipments through the JAL Cargo Tracker Report (JTR), a system that utilizes advanced information technology. We have also introduced e-Discount, a new system that applies discounts to reservations made via the Internet, JAL Online, and i-mode, the new cellular handheld device from NTT DoCoMo. Business Process Reengineering (BPR) is another key aspect of the new high-tech business environment, employing a wealth of information technology. We are forming a team of professionals in these fields in order to respond to emerging needs and further promote e-business and BPR.

The evaluation of a modern corporation must emphasize the performance of the group to which it belongs. That is why we are working to shore up our consolidated operation, improve our

income and expense figures, optimize cash flow and, reduce the value of consolidated, interest-bearing liabilities.

The entire JAL organization shares the fundamental goal of ensuring safety in flight operations and bringing our customers more of the quality services they expect. In this way we are aspiring to be a corporation that can compete and win in any international market: an airline that meets the expectations of our loyal shareholders.

August 2000

Isao Kaneko
President