



# A strong sense of solidarity

## Envisioning total management: Incorporating five airlines into one

In addition to Japan Airlines, The JAL Group incorporates five other airlines: Japan Asia Airways, JALways, JAL Express, Japan Trans Ocean Air, and J-Air. Each airline has its own unique characteristics. Given the diversity of operations, however, it is not maximally effective for each of the Group's airlines to pursue its own path to management efficiency. Instead, we need to establish a unified structure for the entire JAL Group, both to enhance the strength of constituent members and to create a strong sense of solidarity. Ideally, each route will be operated by the most suitable group airline, and each airline will have the proper aircraft to meet customer needs and remain the first choice for air travel. Accordingly, we have taken the following steps toward an optimized management system:

Japan Asia Airways (JAA) will secure a foundation of steady management and pursue further reductions in operating costs, while continuing to offer flights between Japan and Taiwan. In October 1999, JALways (JAZ) took over the Tokyo-Kona-Honolulu-Tokyo route from JAL, with a view to enhance cost-competitiveness. In April 2000, JAZ took over the Guam-Tokyo route and other routes linking Honolulu with regional airports in Japan. To further improve efficiency, JAZ will also take over the Saipan-Tokyo and Fukuoka-Honolulu routes in October. Meanwhile, JAL Express (JEX) is planning to take over a total of eight B737s from JAL during fiscal 2000, and to add more B737s and begin operation of B767s in the near future. Japan Trans Ocean Air (JTA) serves as a hub for the JAL Group in Okinawa and has been gradually upgrading its B737-200 aircraft

to B737-400 models as a means of enhancing productivity. J-Air will introduce two Bombardier CRJ-200s—small jets with fifty-seat capacities—in fiscal 2000, and in April 2001 J-Air will begin flight operations on long-distance routes with a high demand for this type of aircraft or regional routes that can yield high profits by serving private passengers.

## Cost reductions

The JAL Group as a whole has continually striven to enhance its cost efficiency, and the results of its efforts have been steady. We have transferred routes to JALways and JAL Express, our subsidiaries pursuing low-cost operations. In addition, we have implemented cost reductions in general expenses, personnel streamlining, management consolidation, and productivity enhancement. In this way, we will continue the corporate strategies established for the sake of customer safety, operating performance, and profitability. With respect to Japanese taxes and surcharges—which are relatively high compared to those of other nations—we and our colleagues have been working to promote more reasonable fees. We have already realized a 33% reduction in landing fees for the second- and third-tier airports (fiscal 1999), marking the first step toward greater competitiveness in the international market.

In addition, in order to minimize expenditures from the JAL Group and improve our consolidated cash flow, the entire organization has been engaged in an exhaustive review of contracts and transaction prices with outside vendors.

In fiscal 1999, despite skyrocketing fuel prices, we succeeded in reducing the cost of transportation by 10 percent per unit versus the level in fiscal 1997. This ambitious goal was originally

targeted for fiscal 2000.

In its midterm management plan for fiscal years 2000–2002, the JAL Group will work to enhance its competitiveness in terms of cost-efficiency. At the same time, we will play an active role in the reduction of landing fees, fuel taxes, and other surcharges. Moreover, we will seek greater efficiency in sales operations by restructuring our marketing system and reinforcing direct marketing. And finally, we will aim at increasing group profits by reducing our interest-bearing debt.

## Emphasizing stockholder values and setting management indexes

The JAL Group recognizes that strong management abilities must be reinforced by increasing attentiveness to and respect for our stockholders. With a long-term goal of profit redistribution to stockholders, we will do our best to maintain earnings per share of ¥10 or more and a return on assets of at least 2 percent. As an intermediate goal with respect to the achievement of these group management indexes, we have established an index on cash-flow return on investment, which measures investment efficiency per route on a cash-flow basis, and will be maintaining this index at 10 percent or higher.

