

The fiscal year ended March 31, 2001, during which the curtain was raised on the 21st century, was extremely important for the JAL Group. It came at the close of a century that witnessed the birth and astounding growth of the air transportation industry—a development of historical significance for the entire world. This year, as the new century begins to unfold, Japan Airlines marks the 50th anniversary of its establishment and looks forward to a new stage of business expansion. Having grown into an organization that carries over 38 million passengers and over one million tons of freight annually, the company worked to further sharpen its management vision for the entire JAL Group. This effort included steady progress in carrying out a medium-term plan for 2001-2003 that maps out a strategy and reforms needed to provide high-quality products and services on a global scale. The aim is to create an enterprise that is “Chosen and Relied On by Customers and Society.” The JAL Group intends to forge itself into a corporate group that creatively responds to rapid advances in information technology and sweeping social and economic changes—a strong and healthy group capable of reform and fully aware of its responsibilities as a good corporate citizen.

Results of Operations in the Year Ended March 31, 2001

Large expansion of overall demand for international passenger travel led to healthy growth in that area during the term. The number of individual passengers increased as a result of the company's improvement of its discount domestic airfare plan and other Web-based discount services. The result was that demand for passenger travel on domestic routes remained at approximately the same level as that of the previous fiscal year. In cargo operations, although demand picked up along with signs of economic recovery in the first half of the term, the influence of the economic slowdown in the U.S. led to annual demand on both domestic and international routes remaining nearly the same as in the previous year.

To strengthen management capabilities in associated business operations, the JAL Group moved ahead with streamlining and restructuring, and with efforts to improve consolidated accounting and systems used to evaluate the performance of Group companies. As a result, revenue increased by ¥105.2 billion (6.6%) to ¥1,703.7 billion. At the same time, despite our review of all expenses and energetic cost-cutting efforts, a sharp rise in the cost of petroleum, the feedstock used to make aviation fuel, caused operating expenses to rise ¥71.5 billion (4.6%) over the previous fiscal year. These efforts led to operating income moving upward by ¥33.7 billion (75.2%) to ¥78.6 billion. Net income improved by ¥21.2 billion (107.8%) to ¥41.0 billion.

Strengthening the Competitiveness of the Corporate Group in the Age of Consolidated Management

In fiscal 2000, we continued our plan for Forging a Stronger, More Dynamic JAL Group, and we stepped up efforts to carry out reforms. In international passenger travel, JAL enhanced business alliances and expanded the number of code-share flights with other carriers such as American Airlines, Swissair, Iberia, and Vietnam Airlines. As of May 2001, the JAL Group had expanded this type of activity to tie-ups with 19 companies. Also, in response to the growth in personal air travel, we aggressively promoted sales of discount tickets to individual travelers.

To stimulate increased demand and greater revenue in domestic passenger operations, JAL adopted a new, flexible fare system in February 2000. This was in response to the new operating environment created by the revision of the Civil Aviation Law of Japan. As part of a three-airline cooperative effort, the company also took advantage of new, expanded runway at Haneda Airport to begin shuttle service between Tokyo and Osaka. In addition, we completed a transfer of B737 operation to our subsidiary, JAL Express (JEX).

To meet diversifying customer needs and broaden sales channels in its cargo operations, JAL began offering new high-value-added products such as J-SPEED, J-FREIGHT, and J-SPECIAL, along with JAL Tracker Report (JTR), a service that makes full use of information technology.

In response to the age of advanced information technology, JAL has introduced e-Discount, Japan's first Web-based domestic airfare service, that provides discounts to passengers making JAL reservations via the Internet, i-mode or JAL ONLINE. The company also upgraded its Web site and engaged in other activities to speedily and attentively respond to changing customer needs.

Further Growth on into the 21st Century—after 50 Years in Business

As it commemorates its fiftieth anniversary, JAL projects an overall healthy expansion of demand for air travel in the years to come. The company recognizes that its operating environment will become even more challenging because passengers' intentions to seek lower airfares is a given factor and intensification of competition can be expected to continue. Under these conditions, as in any age, ensuring safety is retained as the JAL Group's highest priority. To enhance efforts in this most important area, JAL has made significant improvements in its Group-wide comprehensive safety inspection system.

We are also restructuring routes to achieve further gains in profitability, which means improving and increasing services on routes where demand and profitability are higher. Along with this, we are aggressively pursuing strategic alliances with other airlines when it will contribute to an expansion of our network of routes. In response to



market trends in route management, the JAL Group is also moving ahead with a transfer of route operations from JAL to other Group companies such as JALways, JAL Express, Japan TransOcean Air and J-Air. These moves are being made to raise efficiency of route operations on a Group basis.

In other operations, in April 2000, JAL Sales Network Co. began business activity to handle nationwide passenger sales operations for the entire JAL Group. At the same time, our cargo operations are being bolstered by further clarifying business responsibilities in our domestic cargo division. We also began operations of JAL Cargo Sales, which was established as a separate company to enhance competitiveness. In the e-business field, JAL is strengthening ties with customers and business partners and raising the efficiency of interaction between JAL Group companies by obtaining maximum benefit from the utilization of information technology (IT). We are promoting an "e-JAL Group" plan to radically change the way we handle business activity with IT.

The aims of the efforts summarized above are, first and foremost, to ensure the safety of our flight operations and provide service of superior quality to make our airline the one chosen first by passengers. The Company also intends to build a powerful corporate brand to fortify the value of the JAL Group as a whole and will strengthen its management capabilities to continue returning profits to shareholders. JAL will step up its activity to Forge a Stronger, More Dynamic JAL Group to reward the trust it has been given by its shareholders.

September 2001



Isao Kaneko
President



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president