

Poised for growth

JAL Group



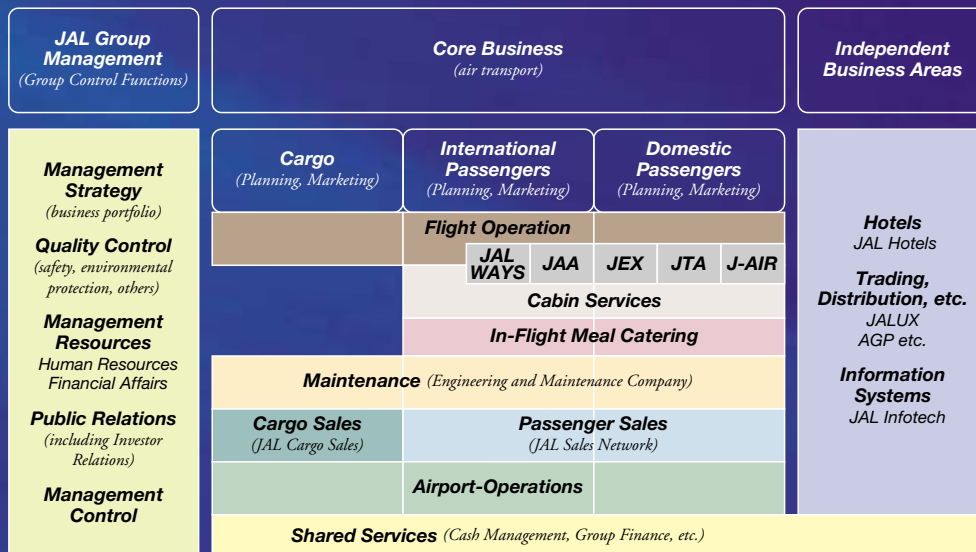
JAL achieved growth from the time it was established, in 1951. As the industry leader in Japan, JAL has initiated corporate structural reforms to counter the fall-off in business performance that resulted from the economic weakness that has followed in the 1990s, following the end of the bubble-economy period, and the accompanying change in the business environment. Since 1998, on the premise that sustained safe operation of aircraft is the foundation for the continued existence of the company, JAL has kept as its performance objective a Forging a Stronger, More Dynamic JAL Group, and given the new emphasis on consolidated business performance, has striven to improve the competitiveness of the JAL corporate group as a whole.

Moreover, amidst even greater amplitude and speed of change of the environment in which the company does business, JAL adopted Deepening of a Forging a Stronger, More Dynamic JAL Group as a sub-theme in the "Medium Term Plan 2001 through 2003" which was adopted in March 2001. In this corporate plan, where the highest priority is given to "strengthening the basic quality of safety and service," a long-term strategy and flexible tactics are provided for attainment of the delineated goals of "strengthening the corporate base," "maximizing corporate value," and "strengthening Group management." The JAL Group is implementing this plan with the maximum power provided by the confluence of all employees' resources of knowledge and creativity.

in the 21st century



Schematic Image of JAL Group Management



The managerial organization that JAL has built for its corporate group distinguishes between two types of business operations area, the original "business areas related to air transport," and "independent business areas," encompassing hotels, trading and distributive activities, information systems and the like.

In each of the three segments making up the "business areas related to air transport," "international passenger service," "domestic passenger service," and "cargo," the company has sought to improve business viability and profitability. Moreover, the company has endeavored to establish the functions of flight operation, maintenance, cabin services, sales, and airport operations, and to maintain effective management that excels in fundamental quality, to support these three segments from the viewpoint of function.

In the "independent business areas," where operations can be implemented completely separate from air transport service, contributions to the JAL Group have been provided by use of the specific characteristics of each area, by going public, by business links and alliances with other companies, and other means.

Safety Assigned Highest Priority

Every Employee Assures Certainty in the Operation of Every Flight

Ensuring safe flight is the basis for the very existence of the company, and is the subject that the entire JAL Group treats with the highest priority. Extremely important for this are the slow-but-steady, untiring efforts day-to-day of every employee of the Group companies, beyond those of divisions directly associated with safety such as operations, maintenance and engineering, cabin service, airport services, and cargo.

The company has experienced a major incident when damage occurred to an engine upon takeoff at Jakarta (September 2000) and another when passengers suffered injuries, some serious, when sudden action was required to avert a collision with another aircraft operated by the company (January 2001). The company has taken these incidents as warnings, and as occasions to redouble Group-wide efforts at assurance of safe flight. Measures have been taken to prevent the re-occurrence of such incidents as these.

Policies for Assurance and Improvement of Safety Quality

Accurately ascertaining problems that arise in daily operation of aircraft, and analyzing those problems followed by swiftly providing feedback of the results to the work of safety management is of utmost importance for the maintenance and improvement of safety. In addition to the self-check activities by each division at JAL, third-party oversight according to high standards is used, and efforts are being made to further strengthen the system for safety management.

In relation to capital equipment, advances are being made in improvement of the use of the Enhanced Ground Proximity Warning System (EGPWS) and Predictive Windshear System (PWS).

The following additional measures are being taken to raise the level of safety.

- Measures related to rationalization of safety regulations in accordance with revision of the Civil Aviation Law.
- Review of the maintenance and engineering system.
- Re-examination of procedures in all divisions.
- Strengthening of the control systems for prevention of hijacks, assurance of security, and management of risk.

Strengthening and Expansion of Crew Resource Management

A study of causes of airplane accidents throughout the world has suggested that in more than 70% of all instances human error on the part of the crew bore a relation to the accident. A Crew Resource Management (CRM) Training Program has been developed on the basis of that suggestion, to augment the ability of the crewmembers as

a team in carrying out their duties. This has the objective of preventing a chain of errors at the time of an accident or incident.

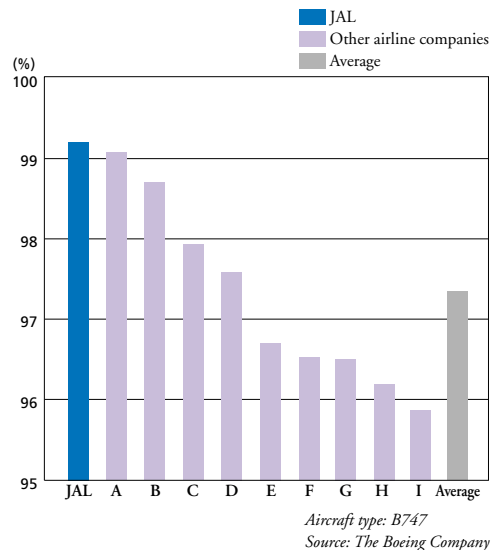
Since initiating CRM seminars, in 1986, and introducing LOFT: Line Oriented Flight Training utilizing high-performance simulators, JAL has consistently sought to strengthen its CRM and establish it more firmly in personnel management activities. In fiscal 1999, JAL identified specific CRM skills that serve as behavior parameters when CRM is implemented and at this time is giving emphasis to implementation of CRM throughout the corporate group.

In addition to flight crew, an employee category where CRM has already been carried out, DRM training was begun in May 2000 for flight operations planning personnel. In the engineering and maintenance area, MRM training for all employees of the Engineering and Maintenance Company began in April 2001, when CRM training for all cabin personnel was also started.

Role of the Engineering and Maintenance Company

An in-house company dedicated to engineering and maintenance was formed in April 2000, for the primary objectives of continuous provision of top-level confidence by maintaining safe flight operations and of improving cost competitiveness. The Engineering and Maintenance Company brings together the technical power and creative power of a staff of 5,000 persons including many from JAL Group companies. As a result, we have achieved the highest level in the world with regard to the representative indicators of the quality of engineering and maintenance, the on-time departure rate and in-flight engine stall rate.

Rate of on-schedule departures of major airlines in 1999
(a measure of the integrity and quality of aircraft and maintenance services)



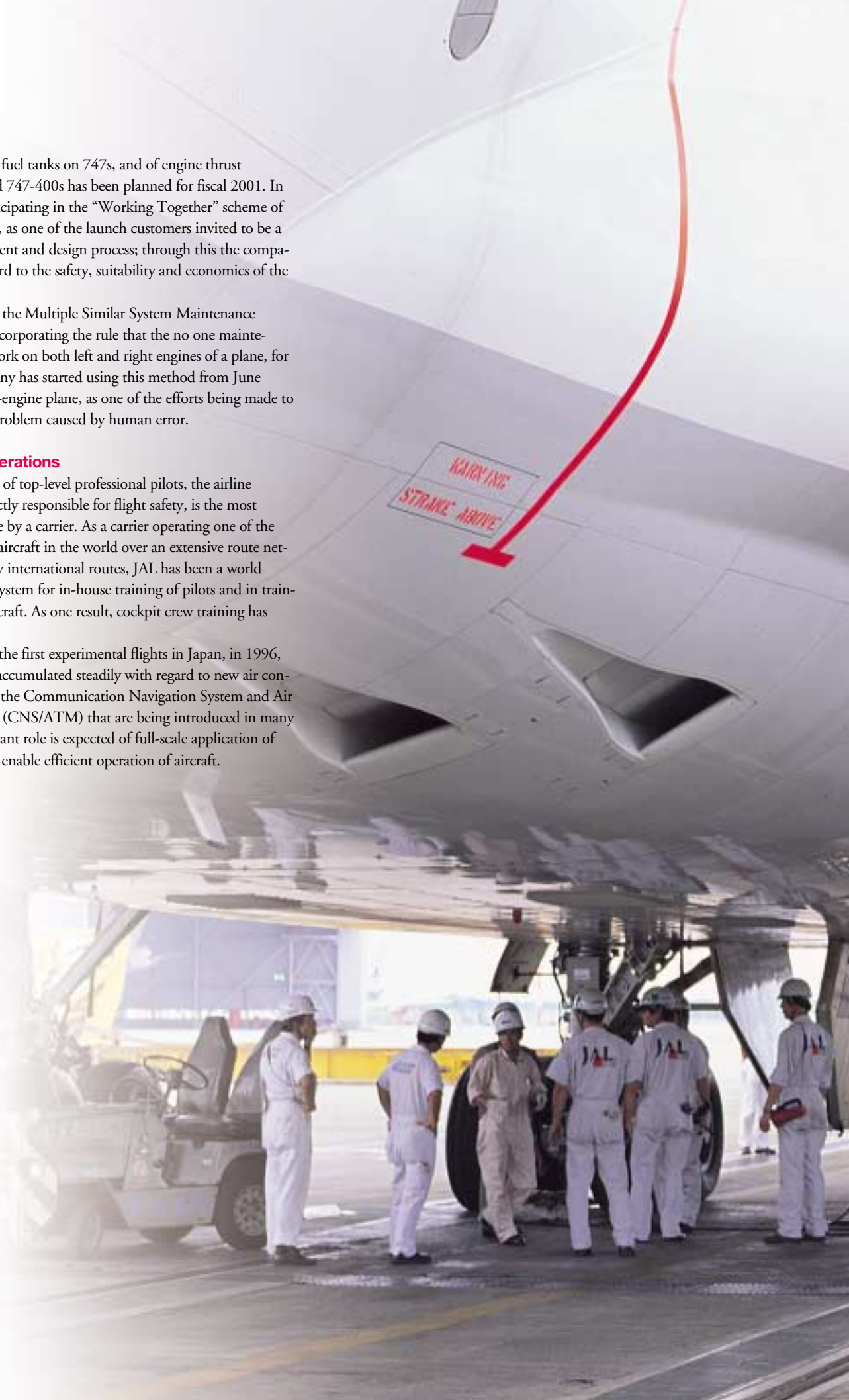
Improvement of fuel tanks on 747s, and of engine thrust reversers on 747s and 747-400s has been planned for fiscal 2001. In addition, JAL is participating in the "Working Together" scheme of the Boeing company, as one of the launch customers invited to be a part of the development and design process; through this the company is assisting in regard to the safety, suitability and economics of the 777-300ER.

JAL has adopted the Multiple Similar System Maintenance method (MSSM), incorporating the rule that the no one maintenance worker is to work on both left and right engines of a plane, for example. The company has started using this method from June 2000, at first on two-engine plane, as one of the efforts being made to reduce the risk of a problem caused by human error.

Role of Flight Operations

Developing the skills of top-level professional pilots, the airline employees most directly responsible for flight safety, is the most important work done by a carrier. As a carrier operating one of the largest fleets of large aircraft in the world over an extensive route network including many international routes, JAL has been a world leader in building a system for in-house training of pilots and in training pilots of large aircraft. As one result, cockpit crew training has progressed well.

Moreover, since the first experimental flights in Japan, in 1996, experience has been accumulated steadily with regard to new air control systems, notably the Communication Navigation System and Air Traffic Management (CNS/ATM) that are being introduced in many countries. An important role is expected of full-scale application of CNS/ATM that will enable efficient operation of aircraft.



Augmenting Fundamental Quality, Increasing Corporate Value ... Management Structure

Thorough Attention to Shareholders, and Improvement of Capital Efficiency Based on Management Targets

On the premises of Maintenance of flight safety and Pursuit of good-quality service, the basic policy of management of the JAL Group is to make the requisite reforms of organization and systems required so as to enable attainment of stable profits even under conditions of intensified competition, so as to provide a continuous return to all stakeholders, including shareholders, customers and society, employees and financial position.

The entire Group is working hard to determine performance objectives based on management targets, and improve capital efficiency in order to thoroughly implement the policy of according high importance to shareholders.

- Achievement of 10% return on equity on a consolidated base
- Raising the ratio of cash flow originating in operations to consolidated interest-bearing liabilities, including lease and pension pay obligations, to 10% or higher
- Adopt in each division, in-house company and related company the intra-Group control indicators (J.VASE) that provide a measure of corporate value, in order to achieve the objective for return on equity
- Further improve the system for investor relation's activities, by means including strengthening the Shareholders' Service Department.

In the area of corporate governance, each company in the JAL Group has introduced a performance evaluation system, which is being used to link the objectives of each company to objectives of the Group as a whole. By the adoption of enterprise resource planning (ERP), we will further clarify the responsibilities of each company and strengthen the function of monitoring. In addition, the company is using equity policy to contribute to the unification of Group strategy. With regard to operations related to air services this has entailed measures such as the exchange of shares in March 2000 whereby JALways was made into a fully owned subsidiary. Also, the company is proceeding with strengthening of the functions of the standing auditor in order to further improve corporate governance.

Strengthening of the Group's Managerial System and Organization

The six key factors in the following two areas have been identified as the basic venues for management of the JAL Group. By work related to these factors, the intangible assets of the company, embodied in quality of service and in its personnel, will enhance the value of the company.

In the area of Strengthening the Group foundation, these factors are vital:

- Improvement of safety quality,
- Offering of high-quality service by the Group as a whole,
- Elevating customer satisfaction by further reform of the corporate style.

In the area of Maximizing corporate value, these are vital:

- Improving the utilization of assets, including attaining a consolidated ROE of 10%,
- Augmenting the role of air transport as an industry,
- Augmenting the company's social role as a corporate citizen.

Second, in the area of Improvement of the JAL Group's managerial system and organization, JAL group functions are separated into

- Functions governing the Group as a whole,
- Passenger, cargo and other operating segments,
- Marketing, engineering and maintenance, and airport service function segments,
- Functions that are to be shared in common within the Group.

With the objective of optimization in keeping with each of these functions the company is carrying out, for example, the following specific policies.

- Participation in the Cash Management Center: Of the 89 domestic consolidated companies in the JAL Group, 72 are participating in a joint-operation Cash Management Center. Further, 46 are joining to operate and use an Accounting Center. These organizations will improve the efficiency in use of capital, and of accounting tasks (end of March 2001).

- Personnel cutbacks: It is anticipated that there will be a reduction of 4,200 ground personnel by the end of fiscal 2002 (relative to the level at the end of fiscal 1998).


- Shifts of route service: As of fiscal 2001, 15% of all international passenger flights operated by the groups were by JALways (exclusive of code-sharing flights). Of domestic operations, those using B737s have all been transferred to JAL Express, and from April 2001, delivery of CRJ200 regional jets has begun and these are now in service in addition, the further transfer of routes to J-AIR is to be promoted. As a result, more effective route management will be realized.

Increasing Income and Reducing Costs

The Approach to Increasing Income

Transfer of business operations to marketing companies: marketing company, JAL Sales Network, has been established, as a subsidiary fully owned by JAL. By April 2001 almost all marketing activities in Japan has been transferred to this company. Our intention in doing this is to improve the overall marketing ability of the company, acquire greater ability to respond to diversified market requirements, and lower business operating costs on a company-wide scale. The



The background of the page is a photograph of an airport terminal. In the foreground, the dark silhouettes of several people are visible, some carrying luggage. They are positioned in front of a large glass window that looks out onto an airport tarmac. Through the window, the tail fin of a white aircraft is prominent, featuring the red JAL logo (a stylized crane) and the letters 'JAL' in white. The sky outside is a pale blue with some light clouds. The overall lighting is bright, suggesting daytime.

Cargo Division transferred marketing operations in Japan to JAL Cargo Sales as of April 2001; this company operates closer to the market.

Price strategy: In the domestic market, in accordance with provision of the revised Civil Aviation Law (effective as of February 2000), JAL has greatly expanded its menu of discount fares, and improved the offerings available in the reduced-price JAL Goku (Goku is the Japanese reading for the Chinese name Sun Wukong, the Monkey King) scheme for international travelers. The company also has sought to increase the ratio of high yield customers, and increase the unit price. In addition, the company has taken a pro-active stance regarding e-business, and has introduced e-discounts and e-tickets, both of which have elicited a swift response from customers.

Improvement of product quality: During fiscal 2001 the company will improve the seats and seat pitch in business class compartments of aircraft operated on major routes, improve in-flight meals, and renovate DC10s, to enhance customer evaluation and improve competitiveness.

The Approach to Reducing Costs

Reduction of landing fees: Through the Scheduled Airlines Association of Japan (Isao Kaneko [President, JAL], chairman), the company is endeavoring to have landing fees, that are high relative to other countries, reduced by one-third for domestic flights arriving at Haneda and by about 9% for international flights arriving at Kansai International Airport.

Reducing cash outflows from the Group: To improve consolidated cash flow, in addition to reviewing the details of contracts with vendors and paying greater attention to purchase prices, the company will work to achieve a more flexible structure of fixed and variable costs, using such means as the sale of assets, expansion use of leases and expanded scope of outsourcing.

By means of these measures for reduction of costs, the objective of a 10% reduction in unit transport costs relative to that of 1997 was achieved in 1999 (followed by a small increase in 2000 because of higher fuel costs).

JAL Group Business Plans

Expanded Links and Alliances

Formation and use of links and alliances with other carriers is extremely important for accomplishing the objectives of improvement of both competitiveness and earnings. As the company has a long history of links and alliances, as of May 2001 such relations were in operation with 19 major foreign carriers. Since setting up the framework for cooperation with American Airlines in 1994, JAL has reached agreements regarding mileage plans (frequent flyer programs) and computerized reservation systems. Since the start of code sharing on transpacific flights in 1999, JAL has increased the routes between the U.S.A. and Japan that it offers to customers. Code sharing has enabled JAL to build one of the world's largest route systems, with 1,700 flights weekly over 116 routes as of summer, 2001.

As new arrangements made in fiscal 2000 with European counterparts, JAL and Alitalia are now code sharing on all flights between Japan and Milan and Rome starting in November 2000. Code sharing with Swissair was expanded to include flights between Zurich and Vienna, also from last November. In cooperation with Iberia, Routes to Madrid and Barcelona were added to code sharing flights in order to link with the Tokyo=Amsterdam route operated by JAL, from April 2001. Code sharing with Air France was expanded in June 2000 to include service between Paris and both Copenhagen and Stockholm, and again in April 2001 with the addition of Paris to Hamburg and Dusseldorf.

Increased Flights on Existing Routes; Shifting of Routes

JAL increased daily domestic flights by one arriving and one departing flight on each of nine routes, when the number of slots at Haneda was increased in July 2000. Further, one flight daily between Haneda and Fukuoka (from April), and between Haneda and Okinawa (from June) were added in anticipation of growth of demand. Regarding changes within the JAL Group, J-AIR began operating two 50-seat low-noise CRJ200 jets in keeping with its new strategic task of operating the Group's domestic flights. Further, progress will be made in transferring routes; during fiscal 2001, eleven flights on six routes will be transferred to JTA, JEX and J-AIR.

Flexible modifications have been made in the type of aircraft, number of flights, and routes in response to change in customer demand, with the intention of simultaneously improving the convenience afforded to passengers and improving corporate earnings.

Aircraft planning

While adhering to the basic presumption that the foundation of any air carrier is "safe flight," JAL has sought to exploit the business opportunity presented by increases in slots at Narita and Haneda. To meet this capacity increase, JAL has both improved aircraft and shifted resources to routes showing strong demand, and has constructed a

framework for provision of services that has been made flexible by measures including the use of outsourcing of flights. As plans for fiscal 2001, JAL intends to retire one 747 from international passenger service, and acquire a new 747-400. At Group companies, JTA will replace four B737-200 planes with B737-400s, and J-AIR will replace two Jetstream 31 jets with CRJ200s. At the end of fiscal 2001 the JAL Group fleet as a whole will consist of 176 aircraft.

Medium- and long-term plans include the sale of ten three-engine MD11s during the period from fiscal 2002 to 2004, and replace them with eight two-engine B777-200ERs and two B767-300ER planes. These changes in the fleet composition will increase the number of passenger seats available for our customers while the reduction in the number of types of aircraft we operate will make possible reductions in maintenance costs and aircrew training costs. The net savings will result in an improvement of annual cash flow to the order of ¥10 billion.

Moreover, as a launch customer of the Boeing Company, JAL has contracted to acquire eight B777-300s during the period from 2004 to 2008. These are long-haul aircraft that are comparable to the B747-400 long-distance jet in terms of fuel economy, but perform better in terms of noise and exhaust content, two major environmental considerations.

Formation of an "e-JAL" Group

The company is making progress in forming an e-JAL Group through the application of information technology to relations with customers, relations with vendors, optimization of inter-company relations within the JAL Group, and support for management of the Group as a whole. During the spring of 2002, enterprise resource planning (ERP) system will be adopted in major JAL Group companies as a tool for maintaining access to real-time information and assurance of maneuverability when policy requires it. This will increase the speed and improve the quality of management of the Group by architecting a system that makes instant monitoring of current management conditions in companies of the Group.

As specific measures, in addition to improving the home page of Group companies so that they are more responsive to the diverse needs and requirements of customers, and provide greater convenience to site visitors, greater emphasis will be given to links and alliances with other companies.

In the area of procurement, the company is a participant in Aerexchange, the largest marketplace for the air transport industry, Jet-A.com, an online marketplace for jet fuel, and is making maximum use of supply chain management as part of ongoing efforts to improve business operations.

- Overseas travel arrangements via the Web for the Japanese Market: In addition to forming a holding company for investment by domes-

tic and foreign carriers, JAL through a joint venture with the American Internet company Travelocity.com reached an agreement on starting a company that will offer overseas travel services via the Internet to domestic Japanese customers. A website is to open within 2001 and the company is expected to generate ¥60 billion or more in sales in five years' time.

Improvement of service at the JAL website: In August 2000 the entire website was re-designed. Starting in February 2001, members of the JAL Mileage Bank (JMB) have a page dedicated to services for them. The company has also arranged for one-on-one service for selected products such as e-JMB tours, provision of seat charts for use on online seat selection, JAL domestic (Japan) flight reservations, ticket purchases, and e-payment service via the Bank of Tokyo-Mitsubishi, and a JAL Internet Help desk at the website.

Online services for corporate customers: At the end of February 2000 a hotel reservation function was added to the business-trip software, JAL Online, that JAL makes available to the more than 2,000 companies that have contracted for this service, that is offered within Japan. In addition, a model for use on the worldwide web was constructed and from June 2001 was accessible to all corporate customers.

"e-milenet" begins business activities: a website for JMB members, offering information on flights, travel and general subjects related to daily life, has been opened and has the working objective of encouraging customers to accumulate miles and exchange them for a variety of attractive goods.

Expansion of Runway Capacity at Haneda and Narita Airports

Large-scale expansion of capacity of the metropolitan region's airports is indispensable for improvement of the network between the region and other parts of Japan, and for coping with the growth of demand for air travel. This is a matter of importance to users of regional airports and is not confined to being an issue of the Tokyo region. Apart from this, even though pressure on capacity will be relieved when the interim runway at Narita becomes available in 2002, it is certain that capacity will again become insufficient, because of the continued growth of demand. JAL's position is that expansion of Tokyo region airport capacity is an issue of national importance and one for the entire nation. Moreover, JAL believes that the most appropriate method for resolving the problem of insufficient capacity is for expansion of capacity at Haneda and, with the provision that access between the two airports and between them and central Tokyo be improved, that there be a coordinated management of all flights, international and domestic, at Haneda and Narita.



CRJ200



B-747-400



B-737-400