

Cargo Operations

To satisfy the diversifying requirements of cargo owners and forwarders, who are giving more attention to supply chain management and e-commerce fulfillment, JAL created an in-house cargo company in April 2000. Subsequently, an Information Technology Planning Office was established. The new cargo marketing company, JAL Cargo Sales, began business operations in Japan. IT application has made it possible for the company to offer its range of time-related J-PRODUCTS highly value added cargo services at 31 main airports in the world, as an example of dynamic approach to business that exploits the whole of the Group's strengths.

Operating Results for the March 2001 Term

International cargo service demand, led by personal computers, semiconductor-related shipments, and fresh foods, remained strong during the first half with regard to both incoming and outgoing cargo. During the second half, the influence of slowing of the American economy led to soft demand for shipments from Southeast Asia and Japan to American destinations, and Japanese shipments to Southeast Asian destinations. As a result, volume carried during the entire year rose 1.0% year on year while income rose 3.0% to ¥155.7 billion.

Domestic cargo service demand was strong during the first half, especially with regard to both parcel delivery service and general cargo, but during the second half there was a drop in fresh food shipments from production areas and for the entire year volume fell 0.7%, while income declined 2.1% year on year to ¥28.2 billion.

Highlights of the Term

In order to respond to the requirements of global strategy seeking optimal location of production, the JAL Group has offered timely, high-priority transport service and has developed products for the supply of the latest transport-related information. From April 2000 the Cargo Company was made through combining Head Office Planning, Administration and Systems departments, Narita Cargo Branch, and Cargo Sales Company, while the Cargo Sales Company was spun off as JAL Cargo Sales, a subsidiary that would begin business operations from fiscal 2001. Separation of this company serves to improve marketing capability and to facilitate the development of experts in this field.

Concerning route management, capacity was increased by addition of cargo flights on the Tokyo=Shanghai cargo route (in April) and the company's tenth B747-200 freighter on the Tokyo=Los Angeles route (from December). The number of flights on the Tokyo=Los Angeles route was increased. Besides these additions, through code sharing arrangements with Northwest Airlines, transpacific cargo flights were made with code sharing as of September, and cooperation started on Southeast Asian routes. Moreover, code sharing was expanded with Singapore Airlines, Lufthansa Cargo AG and SAS, further adding to the convenience offered to customers.

In the area of transport services, Narita Cargo branch which had

obtained ISO9001 certification for handling export, import and inland cargo, was additionally certified for handling mail in March. In the same month, the company's Kansai International Airport branch also obtained ISO9001 certification for export, import and inland cargo and mail. In keeping with the redevelopment of the cargo area at Narita capacity was increased by 15% in order to accommodate growth of demand.

Following upon fare deregulation in Japan as provided by revision of the Civil Aviation Law, the cargo rate tariffs were modified on the basis of transport distance and made easier for customers to understand.

Outlook

JAL is augmenting its ability to respond to the requirements of cargo owners who are pursuing zero-inventory and geographic optimization of production policies as part of their global strategy, and is improving its third-party logistics capability on behalf of forwarders. These are part of the company's approach to dealing with increased demand for air cargo. JAL offers a suite of J-PRODUCTS, J-SPEED, that provides high-priority delivery of small parcels, J-FREIGHT, that provides delivery service of large items, and J-SPECIAL, that provides satisfaction-assured delivery of works of art, semiconductor devices or other goods that require very-special handling. J-PRODUCTS are provided with freight information services for which state-of-the-art information technology is used: JTR, and FZE and have been highly acclaimed by the company's customers. The range of J-PRODUCTS will be enlarged to comply with requirements of users for safe, swift, certain transport services, and in future versions the value added will be enhanced, so that increased contributions to earnings are expected.

Regarding domestic freight, the company intends to increase the number of flights, and make use of the cargo space of the passenger plane B777-300s (that are idle at night) as means of coping with the increase in demand.

JAL also plans to use the business model for domestic freight business -- for which a patent application has been filed -- to form a Domestic Air Freight Business Processing Network, that will contribute to the company's maintenance of leadership in the industry.