

Business Performance

In the face of the mounting uncertainty about the future course of the world economy during the year, there were moves towards a recovery in certain quarters of the Japanese economy, reflected in pick-ups in some corporate earnings. However, factors such as the ongoing sluggishness of consumer spending meant that the employment situation remained severe, and disposable incomes continued to be weak.

► *The reborn JAL Group aims to stand in the front rank of the world's air transportation groups*

The new JAL Group aims to be in the front rank of the world's air transportation groups. To that end we have taken steps that include strengthening competitiveness by optimizing the benefits of integration, enlarging our network, making route operation and management resources more efficient, and improving our flight schedules. Here are some of the other measures we have been taking to ensure early optimization of the effects of the integration.

- Unifying passenger sales activities by concentrating them on a passenger sales subsidiary
- Merging subsidiaries for the planning and production of travel goods to create a system of one company for domestic travel and one for international travel



Isao Kaneko, President and CEO. Honored in 2003 by *Orient Aviation* (globally respected Asia-Pacific airline industry magazine) as "Personality of the Year." Praised for powerful leadership during the business integration of JAL and JAS.

- For cargo sales, centralizing work by concentration on a sales subsidiary
- Concentrating urban and airport facilities so as to reduce leasing and other costs
- Merging subsidiaries in the fields of finance and leasing
- Establishing a company dedicated to accounting by spinning-off the accounting divisions of the main operating companies

In parallel with these measures, a series of steps have been taken to enhance

sales competitiveness. First, administration has been centralized through the linkage of the mileage programs and amalgamation of the sales structure. In addition, we have been building a Group brand structure to maximize brand strength, including by introducing a unified brand with a new logo, redesigning the aircraft livery, and unifying the brands of package-tour products.

The preparations we have been making for the integration of the JAL and JAS computer systems in April 2004 give the utmost priority to retaining the

confidence of customers and enhancing their convenience. We have also done as much as possible to begin providing an integrated service, including by partially unifying the reservation systems.

► *Measures to maximize the effects of the integration will be implemented steadily*

The effect of all the efforts we made over the year was to generate consolidated Group operating revenues of ¥2,083,480 million (US\$17,362 million), and net income of ¥11,645 million (US\$97 million).

Future Tasks

The state of the Japanese economy is likely to remain very difficult, characterized by the persistence of deflation and the ongoing delay in achieving a recovery. In the airline industry, the operating environment of and the whole JAL Group is expected to be extremely difficult, on both international and domestic routes. This is principally because of the steep slump in demand and the fear that a recovery will be delayed, resulting from factors such as the military action in Iraq, the spread of Severe Acute Respiratory Syndrome (SARS), and the protracted economic recession.

Against this backdrop, as a holding company with the mission of overseeing the Group as a whole and of maximizing the

► *The entire Group will supply goods and services from a customer perspective*

value of Group companies, our task will be to take charge of Group strategies, resource allocation, external activities, and the management of the operating companies. The tasks of the operating companies will be to maintain the safety of operations, draft and implement business plans, devise and carry out market strategies, and ensure that the efficiency of assets is raised and earnings are maximized.

In the sphere of route operation, the airline operators within the Group will join together to ensure the active and efficient management of routes in a way that ensures the integration is effected steadily, and that its effects are maximized.

As regards the form in which our business will be managed, in the spring of 2004 JAL and JAS will be reorganized into Japan Airlines International, which will take charge of international passenger operations and cargo operations, and Japan Airlines Domestic, which will be responsible for domestic passenger operations. That will be followed by ongoing steps to carry the integration process still further, with the aim of assuring efficient management attuned to the characteristics of each business field.

Our basic policies for computer system integration are to implement it in a sound and reliable manner, and to give priority to customer-related systems. In line with these, the Passenger Core Systems will be integrated by April 2004, and the other internal systems will be integrated successively from FY2003 through FY2004.

As ever, our dedication to safety will remain absolute. The maintenance of safe operations is the very cornerstone of the existence of the JAL Group, and to that end we will continue to enhance all aspects of safety. For risk-management purposes the safety-management structure will be further strengthened, and all personnel will do their utmost to maintain and increase the safety factor in our products and services, not only in areas associated directly with safety, such as flight operations, maintenance, cabins, airports, cargo, and passengers, but also at every company in the Group.

By implementing a diversity of measures such as these, our aim is to triumph over the difficult operating environment, maximize the benefits of the integration, and live up to the confidence placed in us by our shareholders. We hope to receive your continuing understanding and support.

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Isao Kaneko
President and CEO