

Domestic Passenger Operations

Since April 2003 the JAL and JAS networks have been reorganized so that domestic operations could take maximum advantage of the increase in the number of flights. To combat the increasing intensity of competition in domestic airline business, the JAL Group is pledged to stabilize the foundations of its business by enhancing competitiveness and cost efficiency.

MEASURES TAKEN AND RESULTS FOR THE TERM

Route operation

Wide-bodied jets have been assigned to serve most principal routes uniformly under the JAL name, while on regional routes the flights have been standardized under the JAS name, operated by medium-scale and small aircraft. This has maximized revenues and ensured greater operating efficiency. In addition, to give customers timetables that are easy and convenient to use, overlapping JAL and JAS departure schedules have been eliminated.

In addition, to minimize the impact of the surrender of slots at Haneda Airport at the time of the integration and the decrease in the number of flights on trunk routes from Haneda, the Company has increased fleet utilization, establishing new routes such as the Tokyo–Yamagata and Osaka–Memanbetsu routes, and increasing the number of flights on the Nagoya–Fukuoka, Nagoya–Kagoshima, and other routes. These form part of its efforts to ensure that the benefits of the integration are felt as early as possible.

Marketing

As in the previous year, the Company set easy-to-use, competitive fares, and fares were made increasingly varied so as to satisfy individual customer needs. For example the “Time Discount” and “Special Flight-Specific 7-Day Advance Booking Discount” were newly introduced. Upon the opening of the Shinagawa Station (Tokyo) of the Tokaido Shinkansen, the Company put itself on a more competitive footing by reducing fares for

multiple-ticket coupons on the routes from Tokyo to Osaka, Okayama, and Hiroshima.

Sales promotion measures included continuations of existing schemes such as the Okinawa Campaign and the Hokkaido Campaign, which were joined by the Kyushu Campaign in October 2003. The dual aim of these was to generate tourism demand and to draw attention to the JAL Group’s enhanced network.

There was also an active program of product development. Based on the concept of warmth and friendliness, services for passengers in need of assistance were combined systematically into the “JAL Smile Support” package, in which a coherent service is provided from the booking stage right through to getting to the airport and into the cabin. Another highlight has been the introduction of a new class — “Class-J” — in June 2004, providing passengers with a “new style of relaxation.” (Please see the News item below.)

In the sphere of reservations and information services, since April 2003 it has been possible to make bookings for both JAL and JAS flights at either JAL or JAS reservation centers. That facility was supplemented in July of that year by the installation of automated voice response systems at both companies’ reservation centers, enabling them to provide round-the-clock service.

Efforts were also focused on e-business. To enhance the convenience of the “JAL e-Style” service accessible through Web sites, cell phones, and JAL ONLINE (a domestic business-trip support system for companies), the JAL and JAS Web sites were amalgamated into a single site, creating an

Supply and Demand Forecast in Domestic Passenger Operations (Change from previous year)

Fiscal year	2004	2005	2006
Supply (available seat-kilometers)	(3.60)%	(2.00)%	0.00%
Demand (number of passengers)	(0.10)%	(1.00)%	1.00%
Yield per passenger	3.20%	2.00%	0.00%



easy-to-understand and easy-to-use site. As a result, in March 2004 the proportion of individual passengers on domestic routes who used e-channels to make their reservations and check in reached more than 40%. JAL also provided other new added value that takes advantage of information technologies, for example by the launch in July 2003 of Japan's first check-in procedure able to be completed by cell phone: the "Keitai Check-in."

Marketing measures such as these led to a substantial 6.7% year-on-year improvement in passenger unit revenue. The total number of passengers on the JAL Group's domestic routes slipped slightly, by 0.1% from the previous term, to 46.49 million, but revenues grew by 6.3%, to ¥668.8 billion.

FUTURE OUTLOOK AND STRATEGY: MEDIUM-TERM BUSINESS PLAN

The Group will endeavor to increase profitability, gain customer loyalty, and improve the domestic route network. This is in line with the principal theme of establishing solid business foundations by strengthening competitiveness and enhancing cost efficiency in its operations. Specifically, marketability will be enhanced by such means as strengthening the mileage program, boosting customer convenience by fostering e-business, and introducing the new "Class-J" service. As part of steps to ensure greater operating efficiency, the scale of operations of the low-cost carrier JAL Express will be expanded, costs will be reduced through the use of e-business methods, and the benefits of the business integration will be realized to the maxim extent.

"Class-J"

More space for a more relaxing flight

The JAL Group has marked its full integration with the introduction of a new class: "Class-J." This new class was created on the basis of the concept of offering "More space for more passengers for a more relaxing flight." Its main features are the advanced reclining system of its seats, giving added comfort, and its ease of use and low additional charge. The JAL Group creates products and services through constant, accurate assessment of market needs.

