

Effects of LCCs Entering Japan's Aviation Market and JAL's Strategy



JAPAN AIRLINES

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1. Acknowledging Today's Business Environment

1-1. Domestic Air Transport Demand Predictions

1-2. Effects of LCC's Domestic Operations in Japan

1-3. Visitor Demand to Japan Boosts Domestic Travel Demand

2. JAL's Strategy

2-1. JAL's Relationship with the LCC Business

2-2. Expanding Aggregate Air Travel Demand and
its Changing Structures

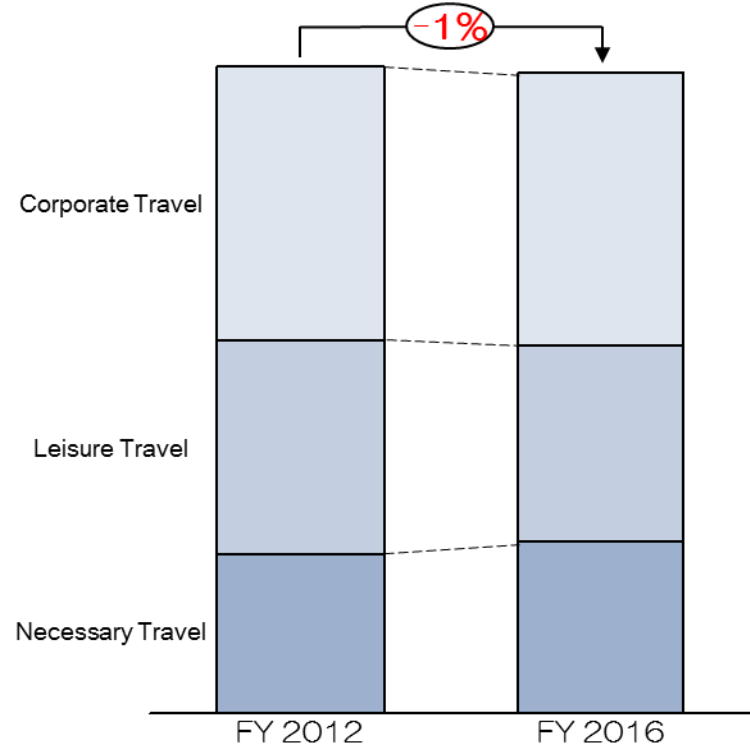
The slow growth in Japan's economy, its aging and decreasing population, as well as engineering developments in bullet trains etc., make it difficult to expect domestic air transport demand to rise from basic growth.

Projected economic growth rate based on IMF's World Economic Outlook (Oct. 2012)

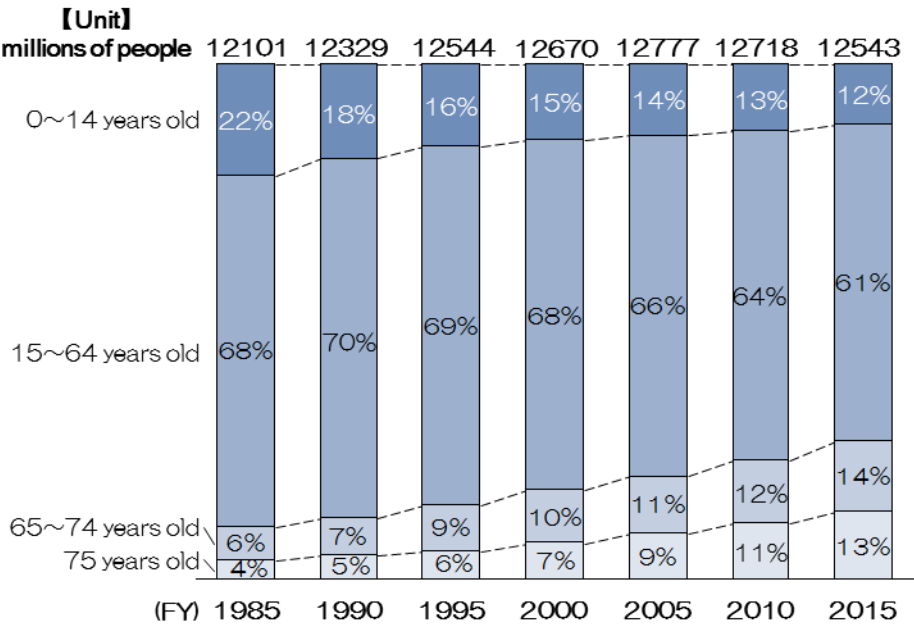
	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	Yearly average growth rate
World average	3.3%	3.6%	4.1%	4.4%	4.5%	4.0%
Japan	2.1%	1.6%	-0.7%	0.0%	1.1%	0.8%

* 2012年度-2013年度はESPフォーキャスト(2012年9月、40機関の平均)、2014年度以降はIMF "World Economic Outlook" (2012年10月)の年間ベースの数値に消費税率上げを反映(2014年4月に3%、2015年10月に2%の引上げにより、日本のGDPがそれぞれ1.8%、1.2%引き下げられると想定した)。

Domestic Air Transport Demand Predictions* (from basic growth)



Population of Japan by Age Group



* Data from the National Institute of Population and Social Security Research

* JAL's prediction

With the start of domestic services by LCCs established in Japan, new demand was created and overall air transport demand rose. It expanded aggregate air travel demand and will not only contribute to the aviation industry as a whole, but also encourage and increase the movement of people (volume of travelers), thereby potentially stimulating the Japanese economy.

Kansai = Sapporo Traffic Results *

	Passenger volume	Seating capacity	Load factor
The first half of FY 2011	500,302	874,478	57.2%
The first half of FY 2012	749,929	1,127,339	66.5%
Comparison with FY 2012 and FY 2011	49.9% UP	28.9% UP	9.3 points UP

* Cf. Public information of Ministry of Land, Infrastructure and Transport

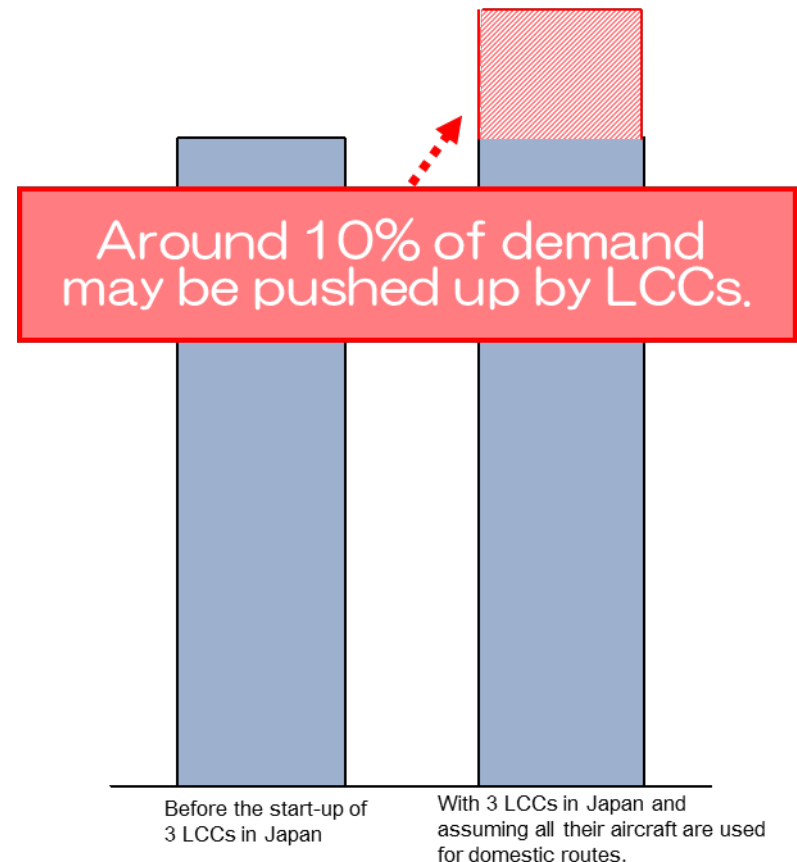
Illustrating the creation of new domestic air travel demand based on existing LCC capacity

- Total fleet size of the 3 LCCs now established in Japan = 74 (*1)
- Approximate number of seats per aircraft = 180
- Approximate sectors flown a day = 3.5 round-trips on average
- Load factor = 80%
- Ratio of new LCC users = 60% (*2)

74 aircraft × 180 seats × 3.5 round-trip flights × 365 days × 80% load factor × 60% new users = an estimated increase of approximately 8.2 million people in air travel demand

(*1) Assuming all aircraft are used for domestic flights
 (*2) With reference to when LCCs entered the European market in the late 90s

Domestic Air Transport Demand Prediction* (from basic growth + new demand from LCCs)



* JAL's prediction

Increase in international flights by LCCs could stimulate new demand for travel to Japan. Coupled with the convenience of Japan's domestic network, the synergies could potentially increase domestic travel demand as well.

Illustrating the creation of new domestic air travel demand as a result of increase in visitor demand to Japan

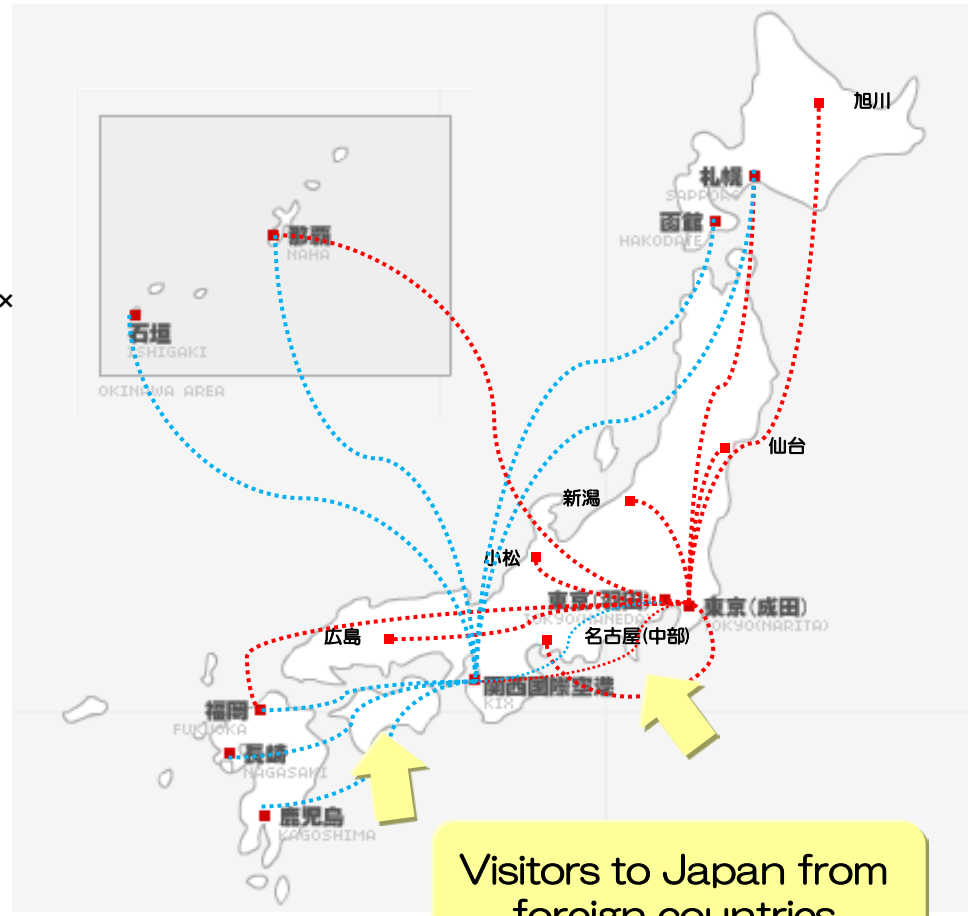
- Number of international flights operated by LCCs per day = Total of 40 round-trips (*1)
- Number of seats per aircraft = 180
- Load factor = 80%
- Ratio of non-Japanese passengers using LCCs = 30% (*2)
- Ratio of visitors to Japan with additional domestic sectors = 10%

180 seats × 40 round-trip flights × 365 days × load factor of 80% × 30% × 10% = 63,072 people
 ⇒ Approximately 63 thousand people on round-trip flights can be expected to utilize domestic flights.

(*1) Cf. Each airline public information document

テジュ航空	6往復	関西-仁川	関西-全南	関西-安州	名古屋-全南	名古屋-仁川	福岡-仁川
イースター航空	3往復	関西-仁川×2	成田-仁川				
ティーウェイ航空	2往復	福岡-仁川×2					
エアブサン	5往復	成田-釜山	関西-釜山×2	福岡-釜山×2			
ジンエアー	2往復	札幌-仁川	福岡-仁川				
春秋航空	2往復	茨城-上海	高松-上海	佐賀-上海			
セブパシフィック	1往復	関西-マニラ					
エアアジア	2往復	羽田-クアラルンプール	関西-クアラルンプール				
ジェットスター	5往復	成田-マニラ	成田-クアアンス×2	成田-ゴールドコースト×2			
スクート	1往復	成田-台北-シンガポール					
ピーチエアライン	6往復	関西-仁川	関西-香港	関西-台北			
ジェットスター・ジャパン	3往復	成田-仁川	成田-台北				
エアアジア・ジャパン	2往復	成田-仁川	成田-釜山				
合計	40往復						

(*2) JAL's prediction



Visitors to Japan from foreign countries

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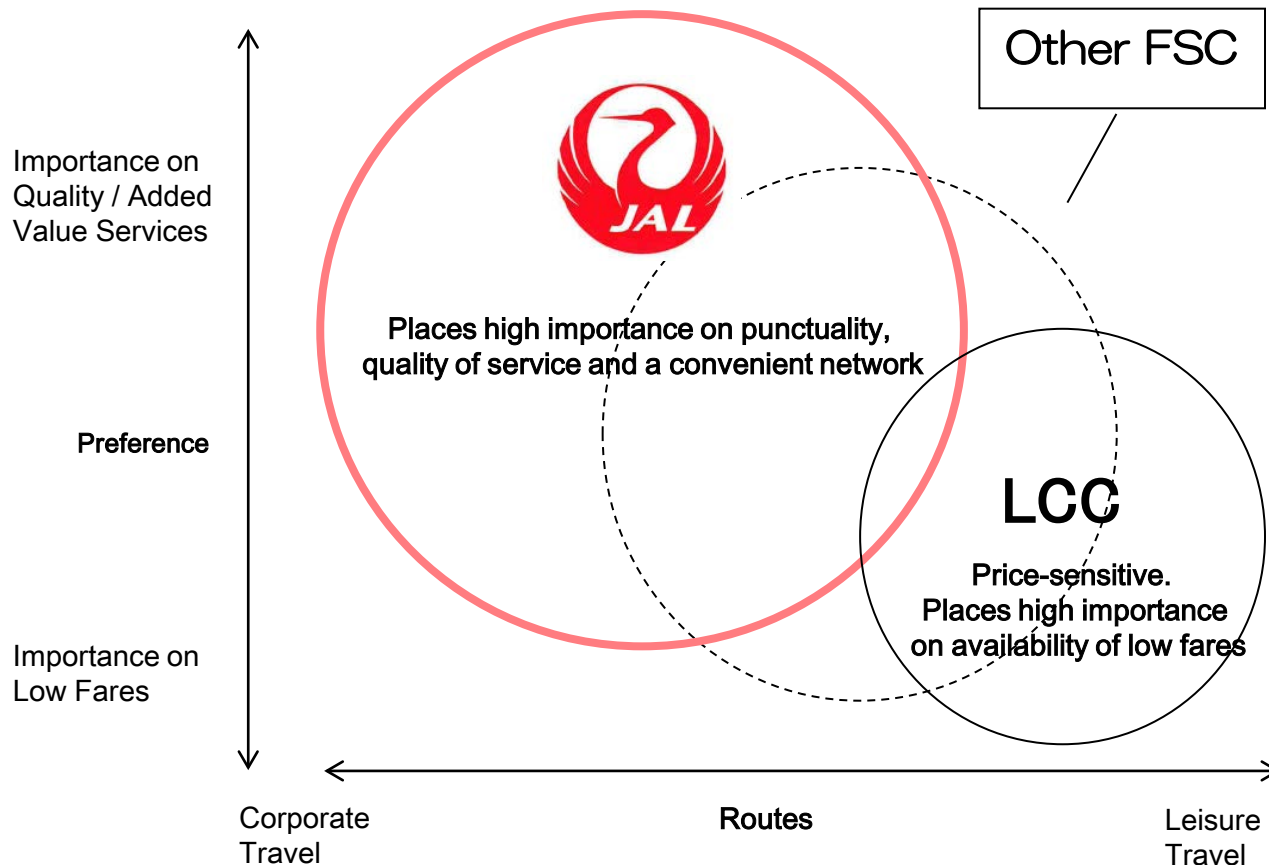
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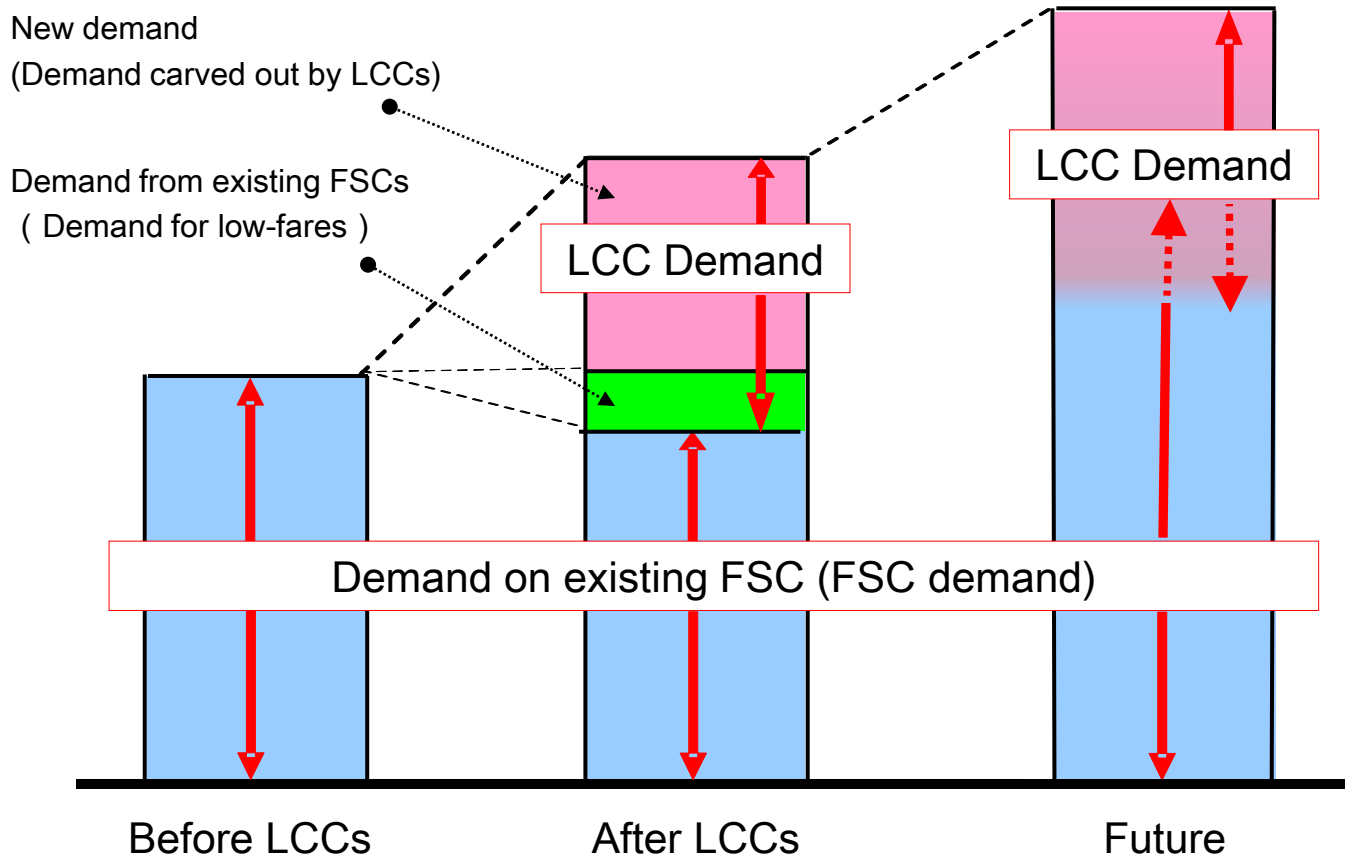
In pursuing the JAL Brand, JAL focuses on a premium strategy of value-added services to mainly target high-yield customers. At the same time, JAL is also engaged in the LCC business through investments, to tap on the new demand created by LCCs and thus also benefit from the low-fares market where there is expected growth.

Difference in Target Audience of JAL and LCCs



While there may be a portion of seepage in market share to LCCs, we expect it to be limited by the fact that JAL operates in different business areas and has an entirely different target audience. On the other hand, the expanded aggregate air travel demand may in the future spread towards other FSCs and LCCs with the change in the customers' purpose of travel and destination, and thus potentially increase travel demand on JAL as well.

Changes to the Demand Structure (Conceptual diagram)



Thank you for your kind attention.

