Financial Results of Second Quarter of FY2012 ending in March 31, 2013, Q&A

◆ Financial results

Q： Operating profit in the first half of FY2012 is JPY112.1Bn. What are the reasons or the fluctuations in operating profit and operating costs compared to the targets?

A： Initially, we had expected operating profit to increase by approx. JPY10 Bn, operating costs to decrease by approx. JPY10 Bn, and consequently, operating profit to increase by approx. JPY20Bn. Operating profit increased by approx. JPY10Bn, due to an increase in international passenger revenue by approx. JPY5 Bn, domestic passenger revenue by approx. JPY1.5Bn, and others by approx. JPY3.5Bn respectively. On the other hand, operating costs decreased by approx. JPY19Bn+ due to the progress in cost reduction of other costs, centering on fixed costs, though fuel costs were nearly equivalent to our target.

Q： Revenue per domestic passenger declined in the first-half by 4.3％. How do you assess this?

A： One of the reasons for the decline in unit revenue in the first half is the change in the ratio of ticket types. Compared to last year, when Advance Purchase and low cost leisure tickets decreased due to the earthquake, this year we started to offer Super Sakitoku 55 discounts and enjoyed a steady recovery in group passengers, resulting in changes in the ratio of ticket types and a decline in unit revenue. Despite the decline in unit revenue, however, we were able to achieve the revenue target through a strong demand for Advance Purchase tickets and a steady recovery in group passengers.

However, we are not satisfied with the current situation and aim to further attract passengers, as larger aircraft have been assigned to domestic routes in this year.

Q： Operating profit in 2Q has declined. What do you think about the operating profit rate?

A： It is true that operating profit has declined, and we are not satisfied with this, as we are practicing the JAL Philosophy principle, "Maximize revenue and minimize expenses.” Although there were reasons for the increase in costs in the first half, such as an increase in bonuses and depreciation costs, we intend to constantly strive to maximize profit. We consider the operating profit rate of 10% in the Mid-Term Management Plan as the minimum to be achieved.

Q： LCCs have entered the market. What are their impacts on business performance, and differences from initial expectations?

A： LCCs have had an impact on customers seeking low cost fares, but negative impacts are not as bad as we had initially expected. They are within expectations.

◆ Forecasts

Q：A year-on-year decline in consolidated operating revenue is expected in the second half. What are the reasons?

A：In the second half, we expect operating profit to decline by approx. JPY24 Bn, operating costs to increase by approx. JPY22 BN, and an operating loss of approx. JPY46Bn. Taking into account the increase in profit in the first half by approx. JPY6Bn, we expect profit to decline by approx. JPY40Bn for the full fiscal year.

When revising forecasts for the second half, we factored in impacts on revenue from China routes caused by territorial issues, and estimated a lower growth rate in demand (RPK) compared to the growth rate in capacity (ASK).

As for costs, fuel costs have been increased due to an increase in oil price to CIFJ USD119/BBL from USD112.4/BBL a year before, an increase in depreciation costs caused by shorter years of aircraft depreciation, and an increase in other costs as a result of product and service enhancement measures, etc.

Q： Revenue per international passenger is expected to decrease year-on-year by 3.0% in the second half. Did you estimate individual factors lower than expected? What are the preconditions for estimating unit revenue of international passengers?

A： We expect revenue per international passengers to decline due to a worsening competitive environment, such as an increase in capacity of other airlines including LCCs. We factored in demand and capacity in markets when estimating revenue per passengers.

Q： You pointed out that you factored in impacts of territorial issues on China routes to the maximum. Could you tell us how much in figures?

A： We expect demand on China routes to decline by 30% to 40% year-on-year in the second half, and the load factor on China routes to fall by approximately 20% year-on-year.

Q： What is the trend of recent unit revenue of international passengers?

A： Leisure demand both inbound and outbound has recovered from the post-quake decline last year, causing a high percentage of low yield passengers, and a decline in unit revenue. Although impacts of the earthquake will weaken in the second half, demand from overseas, where impacts of the earthquake still linger, is expected to recover, and therefore, unit revenue is seen to fall slightly.

◆ Cost structure and cost reduction

Q： You pointed out that your Plan is conservative. How much further can you reduce costs? Do you still have the strength to do so?

How is cost reduction proceeding in areas besides the air transportation business?

A： Our presentation on financial results shows the sensitivity of fuel prices and foreign exchange rates without hedging. We can reduce costs if the situation improves in FOREX JPY85.0 and the USD119/BBL oil price.

Companies in other business operations, besides air transportation, are also striving to reduce costs. We will expand the divisional profitability management system to 8 companies including JAL, and make group-wide efforts to reduce costs.

◆ Returning profits to the shareholders

Q： Your targeted equity ratio target is 50%. If you achieve the target, will you change measures to return profits to the shareholders? What is the possibility of changing the dividend ratio of 15% of consolidated net income?

A： If we achieve an equity ratio of 50% or above, we would like to consider reviewing the dividend ratio of 15%, as we previously explained. We plan to consider this at an appropriate timing when we expect to reach the target.

Q： On November 2, 2012, you announced that you were making preparations to make adjustments to your Articles of Incorporation so that even if shares held by foreign shareholders account for 1/3 or more of outstanding shares, you would pay dividends to adjusted shares held by foreigners, and that you plan to submit the proposed revision at the next annual shareholders' meeting. Couldn't you submit it at an Extraordinary Shareholders' Meeting, instead of the annual shareholders' meeting ?

A： We also considered submitting the proposed revision at an Extraordinary Shareholders' Meeting, instead of the annual shareholders' meeting. But JAL had just relisted, and we considered having the shareholders judge for themselves after presenting our financial results for this fiscal year. Therefore, we judged it reasonable to submit it for deliberation at the annual shareholders' meeting.

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