CFO Small Meetings were held on Dec. 17, 2018 (three meetings were held)
Speaker: Norikazu Saito, Director, Senior Managing Executive Officer, Finance & Accounting

Norikazu Saito opened up the meetings with the three remarks below:

1. Alcohol-related issues
2. Updates of the allocation of capital
3. Expected impacts when IFRS is adopted

   It would have the three major impacts shown below if IFRS is adapted. However, those are all non-cash impacts so that there would be mostly nominal effects and no substantial impacts on profitability:

   (1) Mileage accounting change

   When a new standard is applied, recognition of unused mileage will be based on a sales-basis from the current expense-basis. Accordingly, liability increases while net asset decreases. As the result, the equity ratio will decline by several points.

   (2) Operating lease accounting change

   Operating lease is currently off the balance sheet. When IFRS is adopted, it will be onto the balance sheet and both assets and liability will increase. Aircraft or real estate will be included. (The future rent under operating leases as of the end of March, 2018, is less than 70 billion Yen.)

   (3) Depreciation method change (component approach)

   Major aircraft component including engine parts or cabin interior is currently depreciated with a same useable life-period as aircraft. However, some of the components have a shorter life-period and there occur losses upon disposal of those components. The component approach will base depreciation on the economic life-period of each component. Accordingly, depreciation expense will increase with shorter depreciation periods. However, disposal losses of aircraft equipment will decrease by the almost same amount, making the total impact on pretax profits to neutral.

Q&A :

Q　Further additional benefits of the new passenger system

A　Further benefits are expected through introduction of more flexible domestic pricing, enhancement of web settlement method for international passenger route, and earlier partnership program inauguration with shortened periods of IT system linkage with new partner airlines.

Q　The current outlook of revenue and expense

A　Revenue is on the plan. Expenses will be lower than the plan if the current oil market price continues.

Q　Updates on Strategic growth investment line

A　So far, 10 to 20 billion will be allocated to the new LCC. JAL will announce new projects when ready.

Q　Outlook of expenses in FY19, ending March 2020, toward capacity expansion in 2020

A　Rise of personnel expenses, caused by hiring more employees as a preparation for capacity growth, as well as aircraft and the Tokyo Olympic Games advertisement is expected. However, JAL is currently working to prepare a business plan, aiming for higher profit year on year with new routes and further effects of the new passenger system.

Q　Outlook of long-term demand growth

A　The international passenger market growth rate, especially in the Asia-Pacific region, is expected to be about 6% annually in the long-run. On the other hand, the domestic passenger market growth rate is expected to be around 1% annually.

Q Impact of partnership with other airlines

A An increase in passengers sent from partner airlines have been seen. Expanded network has improved our service, resulting in more revenues.

Q Effects of IFRS Adoption

A If IFRS is adopted, there will likely be no equivalent index as the current operating profit. Therefore, a new index will be necessary for profit benchmark.

Q Outlook of expenses

A Personnel cost increase will be less than capacity increase through utilization of IT technology and maintenance facility integration. Operating expense per ASK excluding fuel expense should be under control, peaking out in the fiscal year ending March, 2021.