



Summary on the Q&A Session at the Briefing on JAL Group Account Settlement for FY2007

📅 Date & Time: May 9th, 2008 4:00pm-5:30pm JST

📍 Venue: Keidanren-kaikan, Tokyo

The following dialogue is a summary of the Q&A session at the briefing on JAL Group Account Settlement for FY2007 held on May 9th, 2008.

Q1 .

Please tell us the reason why the operating costs of the air transportation segment drastically decreased compared to the forecast.

A1 .

The reason why our operating costs decreased drastically was that we were able to reduce almost every cost including the cost of fuel through self-help initiatives.

With safety as the very foundation of our business, we have been working on cost reduction including personnel cost reduction through productivity improvement. In FY2007 we were also able to reduce maintenance costs and general costs beyond our original expectations.

Even though the market price of jet fuel reached an unprecedented high level, we were also able to reduce our fuel consumption more than expected by not only reviewing routes, downsizing our aircraft, and renewing our fleet by replacing older aircraft with more fuel efficient state of the art versions, but also, for example, by increasing the frequency we wash the engines of our aircraft in order to increase their operational efficiency resulting an estimated 1% reduction in an aircraft's fuel consumption, plus optimizing flight operations and selecting more fuel-efficient routings. In addition, flexible fuel hedging and the appreciation of the yen contributed to the reduction of fuel cost. As a result, we were able to drastically reduce our fuel cost from a year earlier.

Q2 .

You forecast that fuel price (Singapore Kerosene) would continue to be \$110/bbl over the period of FY2008. However, at the present moment the market price is still rising at a higher pace and this could lead to further increase in fuel cost. What countermeasures are you taking for the unprecedented rise in fuel cost?

A2 .

If the fuel price hovers at the level of \$140/bbl, the fuel cost is expected to increase by 4 billion yen compared to our initial plan.

Unlike the fuel price, the yen exchange rate, which is also exposed to the market fluctuation risk, has been stronger than our assumption. (\$1=¥110).

As for countermeasures for absorbing the fuel cost hike, taking into account the aforementioned effect of appreciation of yen, we will make every effort to further reduce our fuel consumption, concentrate our resources on high profit and high growth routes, and optimize the capacity of our fleet.

Also, we will start partly implementing "Cost Structure Reform" in FY2008, one year ahead of schedule which we set forth in our "FY2008-FY2010 JAL Group Medium-term Revival Plan".

By implementing the several measures mentioned above, we will absorb the impact of the increasing fuel cost as much as feasibly possible.

However, we will have to consider raising fuel surcharges since the market price of fuel is at an unprecedented level exceeding our self-help efforts.

Q3 .

Please explain the system behind your international passenger fuel surcharge.

A3 .

The fuel surcharge system which we have been currently applying is a highly flexible and transparent one, since the surcharge will automatically reflect the market fuel price hike or decline without undue delay. More precisely, the average fuel price for three months will be reflected to the new surcharge level after two months interval.

The current fuel surcharge level is based upon the benchmark of US\$120 to US\$130 per barrel.

Q4 .

Please tell us your hedging ratio and sensitivity to fluctuations in price of fuel & foreign exchange rates. Also, please explain your hedging policy.

A4 .

Currently, we have hedged approximately 66% of our expected fuel requirements for FY2008. Also, the sensitivity (positive or negative impact to the operating income when the fuel cost fluctuates \$1/ bbl.) of fuel is approximately 0.4 billion yen on a non-hedge basis.

As for the FOREX, the current hedging ratio is approximately 80%. It is rather difficult for us to outline the sensitivity of our business in terms of FOREX, as our income and expenditure is connected to various currencies. If the fluctuation of currencies other than the yen and the US dollar is ignored, if the Japanese yen depreciates by one yen against the US dollar, it will negatively affect our operating income by approximately 0.35 billion yen.

Our basic policy of fuel hedging is to flexibly enter into hedging transactions up to 2 to 3 years onward. At the beginning of each fiscal year, we usually hedge up to approximately 65% of our expected fuel requirements, and we are allowed to increase the hedging ratio up to 100% over the period if required.

Regarding foreign exchange, our basic policy is to hedge up to approximately 80% at the beginning of each fiscal year.

Q5 .

JAL has fully achieved its personnel cost reduction target of 5 billion yen on a consolidated basis for FY2007. What do you expect the personnel cost reduction to be in FY2008?

A5 .

Regarding the personnel costs for the air transportation segment in FY2008, we will be able to absorb the rebound of one-time reduction of retirement benefit expenses stemming from revision of pension-related system implemented in FY2007 by way of the full year effect of "Daiko Henjo", the revision of pension-related system, and the early retirement plan.

Q6 .

Please tell us the assumption of the numbers of domestic passenger for FY2008 and the latest situation.

A6 .

The number of domestic passengers is expected to remain almost unchanged from a year earlier. With regard to the latest results, the number of passengers in May has been steadily growing, although the number of passengers in April slightly declined due to the fragmented nature of this year's Golden Week national holidays, and a reduction in the number of available seat resulting from fleet downsizing, and route restructuring. The result for the Japanese holiday in May (Golden Week,) shows that the seat factor remained almost unchanged from a year earlier due to good weather. Regarding the number of passengers by destinations, Kansai, Okinawa · Amami regions were relatively robust.

Q7 .

Please tell us the latest situation regarding business passengers on international routes. Since there are growing concerns about a slowdown in the world economy in the wake of the sub prime mortgage loan problem etc, do you see any negative impact on your recent demand?

A7 .

Business passenger demand has been continuously robust. The number of passenger is largely increasing especially on Southeast Asia routes such as India and Vietnam. We have not found any notable negative impact on passenger demand even after the sub-prime loan mortgage crisis occurred. However, we will continue to closely monitor the market trend not to overlook any negative symptoms to passenger demand including business passengers. If needed, we are ready to take appropriate action.

Q8 . Please tell us the impact on the delay in delivery of 787 and the latest delivery schedule.

A8 .

We do not see any negative impact on our FY2008 fleet plan since the introduction of

the 787 was not originally incorporated into this plan. The exact new delivery schedule has yet to be announced by Boeing, but we assume that it will start being delivered some time in FY2009. At the present moment, we do not expect the first aircraft to be delivered any later than that.

We are considering delaying the retirement of our older-type 767 aircraft as one way of dealing with delay in delivery of the 787. We are also considering acquiring substitute aircraft. On the other hand, we are determined to implement the retirement of classic type 747 as scheduled, irrespective of the 787 delivery delays. In any event, not to negatively affect our intended business plan, we are going to keep in close contact with Boeing to negotiate such items as the specific delivery schedule and possible compensation.

Q9 .

To rebuild your Cargo business, what kind of options are you considering?

A9 .

Currently, we are exploring a variety of options to fundamentally rebuild our cargo business. However, we are not yet in a position to inform you of the details.

Q10 .

JAL set aside a reserve for loss on antitrust litigation for the investigation of the European Union antitrust authorities. Has there been any progress with regard to this International cargo cartel case?

A10 .

JAL submitted its Reply to the Statement of Objections of the Europe Commission at the end of last March. And the law firm representing JAL has provided the best estimate. Considering those factors totally, JAL decided to provide the allowance.