May 2018

Fiscal 2017 (ended March) Financial Results Q&A Summary

1. FY2017 Financial Results

Q1)

◆ **Please tell us about actual vs. planned operating income for the Air Transportation Business.**

A1)

- Fourth quarter (January to March) revenue was approximately 18 billion yen above plans. This breaks down as approximately 12 billion yen from the International Passenger Business and approximately 6 billion yen from the International Cargo Business.
- On the other hand, expenses were approximately 29 billion yen higher than plans. This was mainly due to higher maintenance costs of approximately 24 billion yen due to the impact of enrollment in the maintenance outsourcing program and higher prices on the fuel market resulting in fuel expenses increasing by approximately 3.5 billion yen.
- As a result, fourth quarter operating income was approximately 11 billion yen below plans. However, including third quarter (October to December) earnings (up approximately 16 billion yen), operating income exceeded plans by approximately 5 billion yen when compared to our full-year earnings forecast, released on November 1, 2017.

Q2)

◆ **Why did fourth quarter International Passenger Business yield increase significantly compared to the third quarter?**

A2)

- Fourth quarter yield was up by 10.6% year-on-year. This breaks down as follows:
  (1) Impact of higher fuel surcharge and currency fluctuations: Up approx. 4%
  (2) Increase in substantial yield: Up above 6%
- Favorable trends in business class, including success in capturing firm outbound business travel demand, contributed significantly to higher yield. Our analysis also suggests that overall yield increased during the fourth quarter due to growing demand on China routes, where yield is relatively higher, while ASK increases came full circle in Asia and Oceania.

2. FY2018 Earnings Forecast

Q3)

◆ **Please tell us the difference between the forecast vs. FY2017 actual expenses for the Air Transportation Business and the main factors behind those differences.**

A3)

- Our forecast for FY2018 is fuel expenses and fuel taxes of 312 billion yen (up approx. 11 billion yen YoY). Fuel consumption volume will not increase significantly from FY2017 but higher market prices will push up the unit price.
- Non-fuel expenses are forecast at 1,333 billion yen (up approx. 59 billion yen YoY). This is mainly due to the following:
  (1) Personnel and contract expenses: Up approx. 27 billion yen year-on-year (personal hiring and development to support future growth strategies)
  (2) Aircraft leasing fees and depreciation & amortization: Up approx. 25 billion yen year-on-year (fleet expansion, facility repairs, etc.)
  (3) Maintenance costs: Down approx. 11 billion yen year-on-year
  *Excluding impact of FY2017 enrollment in maintenance outsourcing program: Up approx. 13 billion yen year-on-year
  (increased maintenance work due to ASK expansion, increased maintenance contracts from other airlines, etc.)
- Including other expenses, we are forecasting 1,645 billion yen in total for the Air Transportation Business (up approx. 70 billion yen YoY).

Q4)

◆ **To what extent are expenses related to seed investments for FY2019 and beyond reflected in FY2018 expenses?**

A4)

- Amid upcoming expansion of international business with a focus on Tokyo Metropolitan area airports, our policy will be to advance our growth strategy while maintaining safety as our highest priority and being committed to a certain level of quality service. As a result, maintenance costs will increase for reasons other than ASK expansion. Furthermore, we forecast significant increases in personnel and outsourcing expences as we work to strengthen our personnel hiring and development for the entire Group.
- In total, our FY2018 plans include the equivalent of 10 to 20 billion yen as forward-looking seed investments.

Q5)

◆ **Amid firm performance for the International Passenger Business yield, please tell us why the FY2018 full-year plan only reflects a 2% year-on-year increase.**

A5)

■ Like FY2017, there is no change in our policy of working to increase the unit price by revising corporate contracts and promoting yield management. On the other hand, we treat increased ASK on overseas airlines and the trend of yen appreciation as factors that contribute to lower yield and we reflect these factors in our plan assumptions.

■ There is also the fact that we are making a slightly conservative estimate because during the second half the share of long-haul routes will represent a greater portion of all international routes and we are assuming more competition from other companies.

Q6)

◆ **Why is the second half forecast for the International Cargo Business unit price lower than the previous fiscal year?**

A6)

■ During FY2017, the unit price increased significantly thanks to price raise resulting from improved demand to supply balance for cargo. In FY2018, we believe these conditions will come full circle during the first half of the fiscal year. For the second half, our policy will be to capture more trilateral demand.

■ While we are forecasting weight factors to grow at a rate that outperforms the previous year, we will see an increase in the ratio of demand for cargo with a unit price that is relatively lower when compared to export and import cargo. As such, we are forecasting that the second half unit price will be a bit lower compared to the previous year.

Q7)

◆ **You are forecasting a high load factor for the LCC Business. Please tell us how you plan to achieve this and about your income targets for the LCC Business in FY2018.**

A7)

■ During FY2018, we will begin on reorganization for LCC integration. We will utilize the respective strengths of Vanilla Air and Peach Aviation while adjusting overlapping routes to capture demand that is different from the target of the ANA Brand. These high target figures reflect past work to build up the networks of the two companies, their brand recognition on the domestic and overseas market, the trend of firm inbound demand. Our commitment is to establish the LCC Business as an income pillar second only to the ANA Brand.

■ For FY2018, we are reflecting expenses related to provisions for maintenance fees incidental to returning leased aircraft. As a result, the LCC Business operating income is forecast to decrease slightly compared to FY2017.

3. Shareholder Returns

Q8)

- **As shareholder returns, you explained that you are targeting a payout ratio of 20% to 30%. Please tell us your approach to future shareholder returns.**

A8)

- Our collective past efforts have stabilized our financial platform and we are now able to generate operating income on the level of 160 billion yen. Based on the results of these efforts and an evaluation of current progress, we have decided to enhance shareholder returns by 10 yen increase in dividends for FY2018.
- As outlined in our Corporate Strategy released in February of this year, there is no change in our policy to continue with growth investments. We will continue to invest in safety and personnel while also advancing our current strategy aimed at achieving results following the expansion of slots at Tokyo Metropolitan area airports. Based on the assumption of our ability to achieve the strategic cycle, we will meet the expectations of the capital market through shareholder returns with a dividend payout ratio in the 20%-30% range.

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