August 2018

Fiscal 2018(ended June) Financial Results Q&A Summary

1. Financial Results for the Three Months ended June 30, 2018

Q1)

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

A1)

■ On the Air Transportation Business in the first quarter (April to June), revenue was above approximately 8 billion yen and expenses were above approximately 5 billion yen versus original plans respectively. The main factors are as follows :

(Difference breakdown vs. original plan)

Revenue	Domestic Passenger Business	above 2.5 billion yen
	International Cargo Business	above 2.0 billion yen
	Mileage & Card	above 2.5 billion yen
Expenses	Fuel & Fuel Tax	above 8.0 billion yen
	Maintenance	below 2.0 billion yen

As a result, operating income was approximately 3 billion yen above plans.

■ First quarter earnings resulted in decreased income but income was higher than our original plan. This fiscal year, we are incorporating quality improvement measures related to safety, quality services and human resources. As such, our full-year forecast breaks down as a year-on-year decrease in income during the first half due to higher expenses. On the other hand, we are planning on increased income during the second half.

Q2)

◆ **Fuel expenses increased during the first quarter. To what extent did fuel surcharge revenues cover those increased expenses? Also, what is your forecast for the second quarter onward?**

A2)

■ Fuel expenses were up approximately 13 billion yen year-on-year. 10 billion yen out of them depends on price factor due to the increase in the crude oil market. On the other hand, Fuel Surcharge revenue was up approximately 5 billion yen year-on-year. As such, our analysis is that this difference, the equivalent of approximately 5 billion yen, was the result of increased fuel expenses ahead of increased Fuel Surcharge revenue.

- As for the second quarter onward, we need to carefully evaluate trends in the crude oil markets. We will continue to analyze trends during financial accounting for each quarter.

2. International Passenger Business

Q3)

- **In your revenue analysis, unit price factors account for a 5 billion yen decline in revenues due to changes in passenger class and route mix. What is the background behind this?**

A3)

- Looking at first quarter results by destination, China routes were extremely favorable. ASK was largely unchanged from the previous year while RPK and revenues increased significantly. Also, the ratio of RPK and revenues from China routes relative to overall are increasing. Our analysis is that changes in route mix due to the increased ratio of China routes, which are relatively short distance and low unit price, had an impact that resulted in decreased revenues on the unit price factors. It is NOT the case that fare competitiveness for the International Passenger Business is declining.

Q4)

- **Please tell us the breakdown in yield change by Fuel Surcharge, Foreign exchange and other factors.**

A4)

- First quarter yield was up by 4.0% year-on-year. This breaks down as follows:
  1) Impact of higher Fuel Surcharge : Up approximately 3%
  2) Impact of currency fluctuations : Up 0.3%
  3) Increase in substantial yield : Up 0.6% - 0.7%
- Substantial yield has steadily increased due to the effect of network expansion that enables us to enhance yield management.

Q5)

◆ **Tell us about trends for North America and Asia/Oceania routes, for which you increase the number of flights over the past year. Also, what is your second quarter forecast for demand trends on China routes?**

A5)

■ In North America route

We increased flights for the Narita-Los Angeles route in October of last year. While the route is gradually capturing demand, first quarter RPK for North America overall was slightly below plans. Our analysis indicates the following two points as attributable factors.

(1) Although awareness of the additional flights for the Los Angeles route is increasing, more time is required to spread consumer recognition.

(2) Among US east coast routes, Chinese carriers are expanding ASK and we are seeing some carriers introduce low fare pricing strategies.

We are steadily capturing business travel demand, particularly for Business class travelers, but passenger numbers for Economy class were below plans. The second quarter is a high-demand season so we expect demand to increase compared to the first quarter.

■ In Asia / Oceania route

We've increased the frequency of flights on the Haneda - Jakarta route in August 2017 and the Haneda - Bangkok route in June 2018. Recent RPK for those routes are in line with the plan, and maintain the same level of increase ratio compared to last year.

■ In China route

We forecast the demand keeps firm in second quarter, with the reasons below.

1) from Japan to China : Business demand is firm. Demand by Chinese living in Japan for return visits to China is increasing during the summer season.

2) from China to Japan : Business class demand continues to increase. Load factor in Economy class is already at a high level.

The demand increase in Business class will exceed that in Economy class, which makes an effect of class mix. Then we forecast the yield in second quarter will be above the first quarter.

3. International Cargo Business

Q6)

- **You were controlling freighter supply volume through last fiscal year but volume increased year-on-year during the first quarter. Is there a strategic reason for this change?**

A6)

- Looking at freighter performance, ATK increased by approximately 15% year-on-year and RTK increased by approximately 28% year-on-year, both representing significant increases compared to the previous year. This was partially impacted by aircraft charter from Western Global Airlines beginning in April. Looking solely at ANA brand mid-body freighters, ATK and RTK decreased year-on-year by approximately 7% and 3%, respectively. There is no change in our existing of policy optimizing volume for mid-body freighters. We plan on deploying Boeing 777 freighters in the near future. As a stepping stone to capturing latent pacific ocean traffic demand, we will increase supply volume on North American routes.
- For passenger aircraft (belly), it is easy to improve sales rates thanks to the current favorable state of the demand to supply balance. As we are intentionally focused on the supplier side need to avoid seeking out demand on low rate routes, RTK growth was lower than ATK growth. Over the medium-term, we expect belly supply volume to increase with the expansion of the International Passenger Business and we will effectively utilize both passenger aircraft and freighters to capture demand.

Q7)

- **Please tell us the impact for suspension of operation by Nippon Cargo Airlines (NCA).**

A7)

- With the suspension of operation by NCA, we see some cargo demand flowing into our Group. On the other hand, due to our partnership with NCA, we have been purchasing a portion of flight space (block space agreement). Due to not being able to utilize this space, we have lost certain revenue opportunities. As these two factors overlap, the impact on our Group profit is limited.

4. LCC business

Q8)

◆ **Please tell us the financial results of LCC business.**

A8)

- Total net sales from the two LCCs increased by approximately 1.7 billion yen year-on-year and load factor was also firm. However, the two companies combined for operating income decreased by approximately 1 billion yen. This was attributable to increased fuel expenses and increased aircraft leasing expenses due to increasing Vanilla Air fleet numbers.
- From the second quarter onward, we expect Vanilla Air to capture revenues largely on par with plans mainly on high unit price demand such as Taiwan routes. Peach Aviation is also expected overall firm performance on international routes. Reservation trend for the Kansai-Kushiro route starting in August is also favorable. Over the remaining three quarters, we will aim to achieve our fiscal year income targets.

Q9)

◆ **How is the LCC competition environment trending? Also, has there been progress in policies related to the stable hiring of pilots?**

A9)

- The 2018 summer flight schedule has no routes that have seen significant changes in the competition environment compared to the previous year. Vanilla Air launched a new Fukuoka-Taiwan route. Peach Aviation keeps favorable performance on international routes and increases domestic routes originating from Sendai and Sapporo. We are implementing measures that address competitor LCCs, while capturing new demand and expanding our network.
- Regarding pilot hiring, with the consolidation of LCC operations into Peach Aviation, we are proceeding with preparations focused on efficient training as we aim to reduce pilot fatigue attributable to the integration. Also, CEOs of both companies are leading efforts related to reforming awareness among all employees, including pilots, ahead of the integration.

5. Status of Boeing 787 operation

Q10)

- **Tell us about the impact Boeing 787 engine inspections will have on expenditures. Also, amid the upcoming increase in slots at Haneda in fiscal 2020, can future growth strategies be implemented according to your Mid-Term Corporate Strategy?**

A10)

- I want to take this opportunity to again apologize to all those involved including our customers for the concerns and inconveniences we are causing.
- The Boeing 787 engine inspections have resulted in the cancellation of a limited domestic flights since July. We are anticipating reduced revenues of approximately 5 billion yen as the impact on the first half, including August and September. As for expenses, we expect maintenance expenses to remain under budget and we expect expenditures related to the procurement of parts, etc. to be covered under the Maintenance Outsourcing Program in which we enrolled in the fourth quarter of the previous fiscal year. We will revise business plans for the second half. Air Transportation Business demand is steady for both passenger and cargo, then we will implement various sales measures as we aim to maximize revenues.
- At present, the impact of engine inspections on operations is expected to subside by the end of the current fiscal year. We plan to advance growth strategies for next fiscal year and beyond in accordance with our Mid-Term Corporate Strategy. We will continue to respond while placing safety as our highest priority.

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