November 2018

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

1. Financial Results for the Six Months ended September 30, 2018

Q1)

◆ **Please tell us about actual vs. planned first half operating income for the Air Transportation Business, broken down by revenues and expenses. Also, what is your forecast for second half considering you made no changes to your profit plan for the full year?**

A1)

■ Compared to the original plan, first half operating revenues were 2.5 billion yen above plans while operating expenses were 2.5 billion yen below plans. As a result, operating income decreased year on year, but was outperformed plans by 5.0 billion yen. A breakdown of major differences compared to plans is as follows.

(Breakdown of major differences vs. original plan)

・Revenues	Domestic Passenger Business	below 2.5 billion yen
	Mileage & Card, and other ancillary income	above 5.0 billion yen
・Expenses	Fuel & Fuel tax	above 14.0 billion yen
	Maintenance	below 12.0 billion yen
	Landing and navigation fees	below 1.0 billion yen

The Domestic Passenger Business was impacted by decreased revenues attributable to typhoons and earthquakes (down approx. 9 to 10 billion yen).

■ In the second half, we forecast the top-line will continually grow on firm demand trends. In the fourth quarter of the previous fiscal year, we recorded approximately 25 billion yen as the Maintenance Outsourcing Program enrollment costs. However we are not expecting any significant unplanned expenses in the second half of this fiscal year. As such, we think it is possible to secure profits in line with plans.

2. International Passenger Business

Q 2)

◆ **As revenue fluctuation factors on page 24, passenger class/route mix change had an impact of -5.0 billion yen in the first quarter but improved to +2.5 billion yen in the second quarter. Please explain the background behind this change.**

A2)

■ The main reasons for change in the impact of passenger class/route mix change on revenues are as follows.

- 1st quarter: China route inbound demand grew significantly and the share of China route passenger numbers as a percentage of all international routes increased.
  → Pushed down average unit price: -5.0 billion yen
- 2nd quarter: Amid significant growth in China route passenger numbers during the previous fiscal year, this fiscal year we maintained a high load factor.
  → Unit price and yield improved by strengthening yield management: +2.5 billion yen

Unit Price and yield in China route forecast to remain strong in third quarter.

3. International Cargo Business

Q3)

◆ **Under the original plan, your assumption was that unit price would decline in the second half, and thus adopted policies to further capture weight mainly. Is there any change in this outlook at this time?**

A3)

■ In the original plan, our second half strategy was to capture weight mainly with a focus on trilateral cargo. Currently, however, we are prioritizing capturing the firm demand for import/export cargo services. We plan to continue with this strategy in the third quarter and beyond as we prioritize unit price over weight.

■ While it appears the shipping industry has been slightly impacted by US-China trade friction, there has been little influence on air cargo because the air transport industry represents only a small share of US-China logistics. We will continue to monitor the situation going forward.

4. LCC Business

Q4)

◆ **Please discuss first half progress for your full-year profit plans. Also, what measures are you considering for profit margin improvement from next fiscal year and beyond?**

A4)

■ Total first half operating income for the two LCC companies decreased year on year. Major factors include increased fuel expenses for both companies. Peach Aviation faced temporary factors such as revenue decrease of approximately 1 billion yen due to the closure of Kansai International Airport. Also, with engaged in route restructuring to merge with Peach Aviation, Vanilla Air is facing a temporary situation where the number of aircraft in operation is not aligned with ASK change. However, these are hurdles that must be overcome for merger, and we believe we can reach our targeted income level by steadily moving ahead with preparations for merger.

■ As Peach Aviation expands its network in Japan and overseas to enhance brand recognition, Vanilla Air has pioneered its own routes such as the Narita/Kansai-Amami Oshima routes. Through the merger in LCC Business, we can strengthen yield management while taking advantage of the characteristics of both companies. Thus, we believe it is possible to improve profitability.

5. Expenses

Q5)

◆ **To what extent are fuel surcharges covering fuel expense increases? Please indicate first half results and full year forecasts.**

A5)

■ First half fuel expenses increased 25.5 billion yen year on year. Of this, approximately 22 billion yen is attributable to ANA operations. On the other hand, fuel surcharge revenues from International Passenger Business increased by only 11 billion yen. As such, we are treating the difference of approximately 11 billion yen as the increase in first half fuel expenses that exceeded fuel surcharges. If current oil price continues, we are considering the possibility that fuel expense increase will exceed fuel surcharge increase by approximately 5 billion yen in the second half.

■ For the full year, fuel expense increase will exceed fuel surcharge increase by approximately 16 billion yen. However we believe this amount can be covered by steady revenues from capturing the strong demand of this current environment. As such, there is no change to our full-year profit plan. In case oil price declines, fuel expense reductions will outpace any decreases in fuel surcharge. From a long-term management perspective, our hedge policy is functioning sufficiently in terms of stabilizing operating income and leveling expenses.

6. Operations of Boeing 787

Q6)

- **What impact have Boeing 787 engine issues had on revenues and expenses? Also, please tell us about the progress of the compensation negotiations with engine manufacturers.**

A6)

- The planned flight cancellations due to Boeing 787 engine issues made an impact on decreased revenues of 5.5 billion yen in the first half. However, it doesn't mean that we will pursue compensation based on this amount. Negotiations with manufacturers are underway and our policy will be to respond in a way that does not damage the interests of our shareholders. As our forecast for this fiscal year, we believe it possible to secure operating income of 165 billion yen as planned without factoring in this compensation.
- For Rolls-Royce engines, we had cases of blade malfunctions during fiscal 2016, and received compensation in accordance with contractual rules. On the other hand, issue we're facing this time requires that we claim compensation from the manufacturer beyond the scope of the contractual provisions because of the direct impact on business caused by the inability to aircraft operations due to the requirement for engine inspections. At present we have yet to determine a deadline or method of compensation but we will approach negotiations based on a practical review of all factors.

7. Looking ahead to next fiscal year

Q7)

- **Crude oil market trends are resulting in increased fuel expenses. Please tell us about future pricing strategies for Domestic Passenger Business, for which there is no fuel surcharge structure.**

A7)

- Domestic Passenger Business during the first half resulted in increased RPK amid declining ASK. We feel positive about reaching a load factor near 70%. We recently just completed a full reworking of fare structure, including adopting ANA FLEX Fares in August. We will first analyze the effect of these fare structure reforms and then evaluate future measures.

Q8)

- **The current Mid-term Corporate Strategy outlines focusing on expansion at Narita Airport during 2019 before expanding ASK at Haneda Airport from fiscal 2020. At present, what is your outlook for next fiscal year?**

A8)

- Currently, we are in the process of evaluating our business plan for fiscal 2019. There are still available slots at Narita Airport that we can apply towards capturing transit demand between Asia and North America. As such, we believe we can establish a dual hub by separating the functions between Narita Airport and Haneda Airport.
- For our fleet, we plan to deploy new aircraft such as Airbus A380, Boeing 777 Freighter, and Boeing 787-10 to increase revenues by capturing both passenger and cargo demand.