August 2019

Financial Results for the Three Months Ended June 2019 Q&A Summary

1. Financial Results for the Year Ended June 2019

Q1)

- **What were the main variances between Q1 actual results and plan for operating revenues and operating expenses in the Air Transportation Business?**

A1)

- The Air Transportation Business reported the following Q1 results for operating revenues and operating expenses as compared to plan:

  (Vs. Plan)
  ・Operating revenues : Approx. 4.0 billion yen above plan
  ・Operating expenses : In line with plan

  Domestic passenger revenues were approximately 8.0 billion yen above plan, mainly due to our capture of active demand during Golden Week holidays and the success of our new fare structure. On the other hand, international cargo was approximately 4.0 billion yen below plan. This result was mainly due to a decrease in demand on China routes stemming from U.S.-China trade friction and a downturn in Chinese economy. In combination, operating revenues outperformed plan by approximately 4.0 billion yen.
  Operating expenses were essentially in line with plan. Although maintenance expenses were 5.0 billion yen over plan, costs linked to cargo revenues decreased, while we also controlled aircraft leasing fees. These positive factors served to offset the increase in maintenance expenses.
  As a result, Q1 operating income outperformed plan by 4.0 billion yen.

Q2)

- **What were the factors that led to higher maintenance expenses compared to the same period last year? Also, do you forecast increasing maintenance expenses in Q2 and beyond?**

A2)

- The main reason for the increase in maintenance expenses is that engine issues with the Boeing 787 forced us to operate other aircraft at higher utilization. This, in turn, increased the maintenance frequency for the engines on the aircraft.
  At present, we are conducting a careful examination of our forecast for future maintenance expenses. However, we intend to control overall expenses throughout the rest of the fiscal year.

2. International Passenger Business

Q3)

■ **Can you provide Q1 performance by destination?**

A3)

■ The following describes our Q1 results for operating revenues by destination:

North America : Above plan → Captured business demand as projected; successfully captured demand for connections to/from Asia as well

Europe : Slightly below plan → Despite active promotions, competition intensified due to capacity increases at other airlines

China : In line with plan → Although passenger numbers decreased due to intentionally restricted capacity, we improved yield by capturing demand for higher unit price

Asia/Oceania : In line with plan → Successfully captured leisure demand from Japan; decrease in inbound tourists due to competition from other airlines

Hawaii : Above plan → Introduced the Airbus A380 and captured wider variety of customers, including high unit price passengers

Q4)

■ **Please tell us your forecasts by destination.**

A4)

■ For Q2, we forecast a seven percent increase in ASK due to the introduction of the Airbus A380 on our Hawaii route and the new Narita-Perth service. Meanwhile, we expect overseas airlines to increase their own capacity, leading to more intense competition. Considering this fact, passenger growth could be slightly lower than capacity.

■ Our forecasts for Q2 demand by destination are as described below:

North America : Compared to the previous year in which we reduced frequency on the Narita-Los Angeles route, ASK is increasing and demand looks steady → Capture more trilateral demand

Europe : Increased capacity among other airlines could further intensify competition → Capture demand through sales promotions

China : Continue to control ASK to optimize supply to demand → Prioritize capture of demand for higher unit price

Asia/Oceania : Impact of competition, particularly for inbound passengers from overseas, will continue → Actively capture leisure demand from Japan

Hawaii : Expand number of flights using the Airbus A380 → Favorable performance in reservation trends, particularly for business class

Q5)

- **How do you think recent circumstances in the Japan-Korea government relationship will impact demand for Korean routes?**

A5)

- We did not see any notable impact on our Korean routes during Q1.
- At this point, we think the impact for the group as a whole in Q2 will be also limited.
  Most recently, we have not seen much impact on ANA flights.
  In our LCC business, Peach Aviation operates flights to/from Incheon and Busan. Although we have started to see some slight impact, the Korean routes represent a relatively minor share of overall revenues. At present, we do not project an increasing impact related to lower revenues in this regard. We will continue to keep an eye on future trends.

3. Domestic Passenger Business

Q6)

- **What were the factors behind the significant improvement in Q1 unit price? Also, can you tell us more about Q2 unit price forecasts?**

A6)

- Q1 Unit price improved significantly due to the impact of our new fare structure. This encouraged advanced purchases driven by early ticket availability, especially during Golden Week.
- In Q2 of last year, we experienced planned flight cancellations beginning in early July arising from the Boeing 787 engine issues, which drove ASK down about five percent. To limit the impact of revenue decrease, we strengthened yield management and improved unit price last year.
  In Q2 of this year, passenger numbers should increase in connection with the recovery in ASK. Accordingly, unit price may turn negative year on year when considered as a rebound from the previous fiscal year. However, we forecast Q2 unit price to improve when compared to two fiscal years ago. We believe this demonstrates the ongoing success of our new fare structure.

4. International Cargo Business

Q7)

- **Tell us about your forecasts for Q2 demand.**

A7)

- We believe that demand for international cargo will continue to be weak in Q2, mainly in China routes due to U.S.-China trade friction and a downturn in Chinese economy.
- In response, we plan to control decreasing revenues through sales measures by focusing

on cargo volume rather than unit price.
Although demand on routes from China to North America has decreased, demand for certain routes from Asia to North America remained firm. Accordingly, we will be active in capturing demand for trilateral routes from Asian countries.

Q8)

- **Can you tell us more about the benefits of introducing Boeing 777F aircraft? Also, what measures are you taking in response to sluggish demand for international cargo business?**

A8)

- The introduction of Boeing 777F aircraft in July is off to a good start in general. Now, we will be able to handle special cargo such as large-scale semiconductor manufacturing equipment and complete vehicles, which we couldn't in the past. This new aircraft enables us to increase options for products on board.
- In the autumn and beyond, we plan to adopt Boeing 777F aircraft on North America route as well. We project that the supply and demand environment on North America routes will optimize over the medium and long term. We intend to adjust capacity in a flexible manner as necessary, keeping a careful eye on supply and demand balance. This includes flexible adjustment of Boeing 767 freighter operations and airline charters.

5. Preparations for Slot Expansion at Haneda Airport

Q9)

- **Looking ahead to slot expansions at Haneda Airport next fiscal year, how much of the up-front expenses arising this year did you incur versus plan during Q1?**

A9)

- Most of the up-front expenses looking ahead to the slot expansion at Haneda Airport consist of aircraft- and human resources-related expenses. We have incorporated over 20 billion yen of these expenses into our fiscal year plan.
  In Q1, we incurred approximately 3 billion yen to 4 billion yen in aircraft-related expenses. We are already beginning to utilize certain aircraft adopted in advance for daily operations. Meanwhile, we did not incur much in terms of human resources-related expenses in Q1. We have used a flexible approach for new employee, which includes distributing on-boarding timing to Q2 and later.
  We intend to exercise detailed unit cost control, allowing us to manage future expenses appropriately in advance of slot expansions at Haneda Airport.

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