

**Financial Results, First Quarter, FY2010**

**Q & A Summary**

Q-1

- ◆ What were the Q1 results for operating revenues and operating expenses vs. plan?
- ◆ It appears that operating income outperformed plan; why haven't you revised your forecast for full-year results?

A-1

- Domestic passenger revenues, international passenger revenues, and international cargo revenues exceeded plan by approximately 5.5 billion yen, 6.0 billion yen, and 1.0 billion yen. In total, revenues exceeded plan by approximately 12.0 billion yen, while expenses were lower than plan by approximately 8.0 billion yen. Accordingly, operating income outperformed plan by approximately 20.0 billion yen.
- However, the outlook for the economies of Japan and the rest of the world, as well as demand for air traffic, remains unclear. We expect new slots at the Haneda Airport during the second half of the fiscal year; however, bilateral air services agreements between Japan and China have not been concluded. It is also difficult to forecast how the business environment will change after our major competitor in Japan announces their reorganization plan at the end of August. Other factors also remain in question, which is why we have decided not to revise our full-year earnings forecast at this time.

Q-2

- ◆ If the strong Q1 performance leads to full-year results outperforming plan, will you consider raising dividends?

A-2

- Our current full-year earnings forecast is 5.0 billion in net income. If we hit that number, then 2.5 billion yen will be available for a one yen per share dividend at a payout ratio of 50%. It has been our practice to take payout ratios and dividend levels of other companies listed on the First Section of the Tokyo Stock Exchange into consideration when establishing dividends. However, we do recognize that our critical goal is to achieve 5.0 billion yen in net income and a dividend payment of one yen per share. In the event that net income exceeds plan, we will consider a per-share dividend based on an overall payout ratio.

Q-3

- ◆ Tell us more about the decrease in Q1 operating expenses and the impact on full-year forecast for expenses.

A-3

- Certain operating expenses came in approximately 9.5 billion yen under plan, while others were approximately 1.5 billion yen over plan. The result was a net decrease in expenses vs. plan of approximately 8.0 billion yen. Aircraft maintenance expenses were lower by approximately 4.0 billion yen, while aircraft leasing fees and depreciation and amortization expenses were each about 1.0 billion yen lower than plan. Landing and navigation fees were approximately 0.5 billion yen lower, while several other expense categories were collectively approximately 3.0 billion yen lower than plan. Sales commissions and promotion expenses incurred to grow revenue accounted for most of the 1.5 billion yen in overages versus plan.
- Aircraft maintenance expenses decreased due to engine repairs moved forward to the end of the prior fiscal year, while a portion of maintenance operations originally scheduled for Q1 has been rescheduled to Q2 and later. We do not, however, anticipate a significant delay in implementation.
- As a result of revised agreements with partner carriers on domestic routes, block space expenses experienced a slight decrease. Depreciation and amortization expenses also decreased, due to a delay in the introduction of certain aircraft towing to problems with passenger seats. In any event, the impact of these decreases will be minimal on full-year earnings. For international routes, the volcanic eruptions in April resulted in a five-day suspension of flights from/to Europe. We also did not increase the number of Chinese routes as originally called for in our plan. Accordingly, ASK was slightly lower than plan. Due to these factors - and being essentially direct fixed expenses - fleet-related expenses did not decrease.

Q-4

- ◆ Can you provide a breakdown of the factors behind the impact of fuel surcharges (FSC) and passenger mix on the increase in international passenger revenues for Q1?

A-4

- Of the 20.3 billion yen in year-on-year revenue growth, about 10.0 billion yen can be attributed to unit price factors, with another 10.0 billion yen or so attributed to passenger number factors. The approximate 10.0 billion yen in revenue increase attributed to unit price factors consists of 2.0 billion yen from fuel surcharges (FSC) and another 9.0 billion yen from passenger mix. Exchange rate factors (appreciation of the yen) accounted for about 1.0 billion yen in revenue decreases.

#### Q-5

- ◆ What impact has the demand in shift away from your major domestic competitor had on your business?

#### A-5

- An accurate analysis is difficult to make, but we have been able to confirm that our competitive strength (calculated as RPK share divided by ASK share) has continued to improve since last summer. I think we also see this impact in the strength of our recent growth in individual passengers.
- International passenger growth in terms of passenger numbers and load factor vs. the prior period has grown significantly. This is mainly due to our major competitor withdrawing from several Chinese routes (Hangzhou, Qingdao, Xiamen).

#### Q-6

- ◆ Can you provide more information about the forecast for domestic and international passengers by passenger composition and destination for Q2?

#### A-6

- We expect to see year-on-year increases of 3%, 4%, and -1%, in July, August and September for domestic individual passengers. Leisure travel is expected to be -2%, 1% and -5% for July, August and September. Our forecast for domestic routes as a whole for September is -3% year-on-year, mainly due to the lack of a long holiday week this September compared to last year. However, this figure is better than the -4% of comparative ASK. This level is on par with the actual passenger numbers from September 2008. Demand for domestic passengers is expected to be solid through Q2.
- The comparative growth forecast for RPK for international routes as a whole is 8% for Q2, with July, August and September up 12%, 6% and 4%. We expect year-on-year growth in business class to be 43%, 32% and 16% for July, August and September. Economy class comparative growth is projected at 13%, 7%, and 6% for the same months.
- Demand on international routes had already recovered to drive load factors to about 80% as of Q2 last fiscal year. Considering this fact, we believe our forecast for Q2 this year is a very good number. Compared to Q2 of fiscal 2008, passenger numbers are expected to grow 14%, indicating a continued strong recovery in demand in international passengers.
- The impact of the volcanic eruption and downgauging of aircraft in Europe compared to the prior year combined to drive Q1 performance lower year-on-year for Europe. The inauguration of the Narita-Munich route in July has resulted in stronger demand for Q2 and beyond.

Q-7

- ◆ What is your expectation for international cargo unit prices during the second half of the fiscal year and beyond?

A-7

- We are working for further increases in unit revenue and yield. Cargo operations (including freighter operations) have not reached unit revenue levels allowing profitability. However, we understand that our major domestic competitor will be withdrawing from freighter operations beginning with the winter flight schedule. We will be keeping a close eye on this development to make it work for our advantage in the market.

Q-8

- ◆ Please tell us more about the progress of your LCC business.

A-8

- Considering the standard LCC business model, we see flight time of somewhere between three and four hours in general. Assuming that we will be operating an LCC out of Narita and Kansai, we can then project how far out we can fly regionally. We haven't changed our assumption that overseas LCC will enter the Japanese market with the expansion of slots at Haneda and Narita. At present, we are diligently conducting simulations and research from the standpoint of competing in such a market as the leading LCC operator.
- We need to develop our assumptions about the business environment, including the extent of the reductions in airport facility and other related fees, as well as what fare system will support a profitable business. We intend to consult with outside experts, understanding that we will have to make a decision as to whether we will roll out an LCC at some point.

End