November 2016

"Financial Results for the Six Months ended September 30, 2016" Q&A Summary

Q-1

- **Please tell us about actual versus planned operating revenues and expenses for the Air Transportation business during the first half.**

A-1

- Air Transportation business revenues were approximately 11.5 billion yen below plans. Revenues from International Passenger Business were in line with targets while revenues from the Domestic Passenger Business were below plans due to the impact of the Kumamoto Earthquake and other factors. Revenues from the Cargo Business also were below targets due to both intensifying competition with other airlines and yen appreciation that was stronger than the assumptions in our fiscal year plan. LCC Business revenues also were below plans.
- On the other hand, operating expenses were approximately 13.5 billion yen below plans. As a breakdown, fuel expenses were approximately 1.5 billion yen and non-fuel expenses were about 12.0 billion yen below plans. Yen appreciation resulted in a decline in expenses in foreign currencies (yen conversion) and sales-linked expenses, mainly on Cargo Business, were below plans.
- As a result, operating income for Air Transportation business was above plans by approximately 2.0 billion yen.

Q-2

- **Please tell us about your forecast for demand trends and unit price for the Domestic Passenger Business.**

A-2

- The Domestic Passenger Business experienced a decline in leisure demand due to the impact of the Kumamoto Earthquake that occurred in April of this year. First half passenger numbers returned to largely the same level of the previous year thanks to demand stimulation based mainly on the aggressive sales of promotional fares. However, unit price was below the previous year.
- As most of the impact from the earthquake is diminishing, we forecast passenger numbers in the third quarter will exceed the previous year while unit price will underperform due to changes in the passenger class mix and other factors. We will expand revenues by continually implementing appropriate measures to address competition from other airlines and taking maximum advantage of our revenue management system.

Q-3

- **Please tell us about the status of unit price for the business demand you successfully captured in the International Passenger Business.**

A-3

- There were concerns that a decline in earnings at export companies and resource and energy-related corporations due not only to continued yen appreciation but a drop in the crude oil market would result in constraints on business travel. However outbound business demand from Japan was firm throughout the first half. Corporate demand from overseas also grew thanks to a joint venture with United Airlines.
- As a result, business class passenger numbers increased by more than 11% year on year in the both the first and second quarters. While we are impacted by decreased fuel surcharge revenue, we are thoroughly managing unit price and we think sales have been successful in terms of both passenger numbers and unit price.

Q-4

- **Please tell us about measures you will implement for the International Cargo Business while a severe business environment continues.**

A-4

- As reflected in the financial results of maritime shipping companies, the environment of the Cargo Business is severe on a global level. Our current medium-term corporate strategy outlines maintaining 12 freighters. We are also reexamining our cargo freighter network and controlling the operations of those freighters.
- We have been enhancing measures focused on revenue-expenditure balance for Cargo Business, including recently terminating wet leases for wide-body freighters from other airlines.

Q-5

◆ **Regarding the revision to the earnings forecast for the current fiscal year, please tell us about the factors behind why the International Passenger Business yield for the second half will be lower than the first half.**

A-5

■ The International Passenger Business revenue forecast assumes that second half yield will be approximately 15% lower than the previous year. When compared to first half yield results down by approx. 11%, the decline in fuel surcharge revenue will have a similar impact both on the first and second halves. On the other hand, the impact of yen appreciation on the second half is expected to be larger than the first half.

■ Factors behind the significant decline in yield compared to the previous year include a decline in fuel surcharge revenue due to lower crude oil prices, the impact of yen appreciation, and changes in route mix by network expansion. Similar to first half results, in consideration of these factors, we think we can maintain substantial yield during the second half as the same level of the previous year.

Average FX Rate (¥/US$)	1H Results	2H Plan
FY2016 （FY2015 Results）	105.2 （121.8）	100.0 （118.4）

Q-6

◆ **Please tell us the background behind the downward revision of 53.5 billion yen compared to your original expenses forecast for Air Transportation business.**

A-6

■ In our forecast for the Air Transportation business, we revised our fuel expenses downward by approximately 5.5 billion yen compared to our original plan. The major factor behind this is the change in our foreign currency assumptions for the second half from ¥115/US$ to ¥100/US$.

■ We revised our forecast for non-fuel expenses downward by approximately 48.0 billion yen compared to our original plan. The factors behind this revision are as follows.

(1) Change in currency market assumptions: Approx. -22.0 billion yen

(2) Net recording of revenues and expenses based on abolishment of International Cargo Agency Commissions: Approx. -20.0 billion yen (No impact on profit)

(3) Updates to sales-linked and operation-linked expenses: Approx. -6.0 billion yen

Q-7

- **Please tell us about your future measures to the Boeing 787 engine parts issue and the impact on your profit plan.**

A-7

- The Boeing 787 engine blade issue is being addressed by working closely with Boeing and Rolls-Royce to conduct appropriate parts replacement with a focus on safety as our first priority. As the agreement with the manufacturer includes a compensation system, we have only a limited burden of costs related to blade replacement. However, in the event that we incur unexpected costs related to this issue, we intend to negotiate with the manufacturer as necessary.
- This year, we faced other issues, including a malfunction of airport systems and insufficient management of handling procedures at airport security inspection zones and boarding gates. We will thoroughly inspect these issues to identify the cause and implement improved measures.

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