

Financial Results for the Year Ended March 2019 Q&A Summary

1. Financial Results for the Year Ended March 2019

Q1)

■ What were the variances between actual results and plan for Q4 in the Air Transportation Business?

A1)

- The Air Transportation Business reported the following stand-alone Q4 results for operating revenues and operating expenses as compared to plan:

- Operating revenues : Approx. 7.0 billion yen below plan

- Operating expenses : Approx. 3.0 billion yen over plan

International Cargo revenues were negatively impacted by lower demand for cargo to and from China due to U.S.-China trade friction and a slowing Chinese economy. Combined with our Domestic Cargo Business, cargo operation revenues were 7.0 billion yen lower than plan.

Operating expenses were 3.0 billion yen higher than plan, mainly due to devaluation of aircraft parts, recorded as maintenance expenses.

As a result, stand-alone Q4 operating income was 10.0 billion yen lower than plan, while cumulative operating income for fiscal year remained in line with plan.

Q2)

■ What were the variances between actual operating revenue results and plan for Q4 in your passenger business?

A2)

- Our Domestic Passenger and International Passenger Businesses reported the following stand-alone Q4 results for operating revenues compared to plan:

- Domestic Passenger : Approx. 1.0 billion yen above plan

- International Passenger : Approx. 3.0 billion yen below plan

As in Q3, our Domestic Passenger Business captured strong demand, outperforming plan for Q4.

International Passenger Business underperformed plan due to weakened demand growth stemming from capacity expansion among overseas airlines, mainly in Asia.

Other revenue was approximately 3.0 billion yen above plan, mainly due to increased credit card and mileage revenues.

2. Compensation Negotiations with Engine Manufacturer

Q3)

- **What is the progress in negotiations for compensation involved in the Boeing 787 engine issues?**

A3)

- We established a support system for priority delivery of upgraded parts from the engine manufacturer to deal with the Boeing 787 engine issues. At the same time, we continued negotiations for compensation from the engine manufacturer. As a result, we recorded a certain amount of compensation as special gains in FY2018 for matters related to recent agreements. Although we cannot disclose specific details of compensation arrangements due to contractual obligations, we believe we were able to receive a reasonable amount of compensation from the engine manufacturer.

3. FY2019 Plan

Q4)

- **What are the background of plans calling for lower domestic passenger ASK during the second half as compared to the previous year?**

A4)

- The difference between second-half ASK for FY2018 and FY2019 is the impact of Boeing 787 engine issues, as shown below.
 - 2H, FY2018:
 - Decreased operations of B787 and increased operations of B777 (wide-body aircraft)
 - Greater ratio of wide-body aircraft usage resulted in an increase in ASK versus the prior fiscal year
 - 2H, FY2019:
 - Gradual resolution of B787 engine issues as we introduce upgraded parts
 - Higher ratio of B787 aircraft usage (mid-body) results in a decrease in ASK year on year

The impact of these results led to a 2.6-percent year-on-year increase in ASK for the second half of FY2018. We expect the opposite reaction of this trend in the second half of FY2019, reflected in our forecast for lower ASK.

Q5)

- **Your International Cargo forecast calls for an approximately 30 percent increase in RTK during the second half compared to the same period in the prior fiscal year. What are the main factors behind this forecast?**

A5)

- We cite two main reasons for the significant increase in RTK for the second half year on year:
 - (1) Introduction of B777F aircraft (wide-body freighters)
We expect to see the positive impact of two new aircraft, mainly beginning in the second half of fiscal year
 - (2) Gradual resolution of the impact of B787 aircraft engine issues
As we introduce upgraded parts, we expect a gradual lessening in the cargo load limitations we have been experiencing on certain routes

Q6)

- **Can you tell us more about demand trends for your passenger business in Q1?**

A6)

- Our Domestic Passenger Business should continue to benefit from a firm business environment and demand, performing in line with plan. We expect unit prices to exceed plan.
- We will strive to achieve plan for RPK in International Passengers, taking measures to capture demand for trilateral routes and other demand. The demand-supply gap in Asia is widening as a result of increasing capacity among overseas airlines. Accordingly, we show a slight decrease in yield as compared to plan. However, demand, mainly for inbound travelers to Japan, continues to grow, and Japan will host a number of major events during FY2019, including the Rugby World Cup and the G20 Summit. Looking ahead to Q2, we will make an additional push for sales to steadily capture demand.

Q7)

- **Can you reconfirm your forecast for LCC Business operating revenues and operating income?**

A7)

- Our forecast for combined operating revenues and operating income of the two LCC companies are as shown below:
 - Operating revenues : 102.0 billion yen
 - Operating income : 5.0 billion yenOperating revenues should be approximately 8.5 billion yen higher than FY2018. Operating income should be about 2.0 billion yen higher.

Q8)

- **Operating expenses appear to be increasing significantly. What costs in particular do you expect to increase?**

A8)

- The following two areas are the most notable in terms of our expenses plan compared to FY2018:

(1) Aircraft-related expenses (aircraft leasing fees, depreciation and amortization)

We expect these expenses to increase about nine percent, or 25 billion yen, compared to FY2018

(2) Human Resources-related expenses (personnel expenses, outsourcing expenses)

We expect these expenses to increase about eight percent, or 35 billion yen, compared to FY2018

In addition to expenses linked to increased capacity in FY2019, we also have included expenses related to network expansion for FY2020 and beyond.

end