

## Financial Results for the Six Months Ended September 2019 Q&A Summary

### 1. Financial Results for the Six Months Ended September 2019

Q1)

**What were the main variances between Q2 actual results and plan for operating revenues and operating expenses in the Air Transportation Business?**

**Also, what are the main revisions to your plan for the second half of the year?**

A1)

- The main variances compared to plan in our Air Transportation Business for Q2 operating revenues and operating expenses were as follows:

(Main Variances vs. Plan)

•Operating revenues :

[ANA] -19.0 billion yen

(International Passenger -7.0 billion yen; International Cargo -8.0 billion yen)

[LCC] -4.0 billion yen

•Operating expenses :

Sales commissions and promotion -3.0 billion yen;

Outsourcing expenses -1.5 billion yen;

Maintenance expenses +3.5 billion yen

As a result, stand-alone operating income for Q2 was 18.0 billion yen below plan and 14.0 billion yen below plan for the first half of the fiscal year.

- Our revised operating income plan for the second half is 11 billion yen below original plan. The main revisions to our operating revenues forecast calls for a decrease of 20 billion yen in International Passengers, a 3.0 billion yen increase in Domestic Passengers, a 10 billion yen decrease in International Cargo, and a 7 billion yen decrease in LCC.

## 2. International Passenger Business

Q2)

- **Yield decreased during the first half of the fiscal year. Has business demand decreased?**

A2)

- Yield for the first half decreased 1.6%. The main factors were as follows:

- Market-related factors : +0.8%
- Substantial yield : A little bit below -2%

- The following two points were the main reasons behind the decrease in substantial yield:

(1) Impact of change in passenger composition ratio by destination

As we are processing our growth strategy focused on our international business, ASK on routes to/from Europe and the North America has increased. On the other hand, we have been downsizing aircraft on our China routes, leading to lower ASK for the first half of the fiscal year. The results in passenger numbers for the first half by destination were as follows:

First-Half Passenger Number Results (by Destination):

Europe +9%, North America +4%, China -7%

The number of passengers increased on routes to/from Europe and North America, which feature a comparatively lower yield. At the same time, passenger numbers decreased on routes to/from China, which have a comparatively higher yield. The impact of this structural change in passenger numbers by destination resulted in lower substantial yield.

(2) Impact of change in passenger segment composition ratio

The impact of recent U.S.-China trade friction and other factors has led to weaker business demand. To compensate, we boosted our capture of trilateral demand on routes linking North America and Asia. As a result, performance in passenger numbers for the first half by class was as follows:

First half passenger numbers (by segment) : Business -6%; Trilateral +15%

While demand decreased for the relatively high-yield business travel, demand increased for the relatively low-yield trilateral travel. The impact of this change in passenger segment composition ratio resulted in lower substantial yield in real terms

Q3)

- **What are your thoughts concerning Q3 demand trends? Also, what is your forecast by destination?**

A3)

- Our forecasts for Q3 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 → Capture more trilateral demand
  - Europe :Increased capacity among other airlines continues to intensify a severe competitive environment → Capture inbound demand through sales promotions
  - China :Increased capacity among other airlines has resulted in intense competition; struggling to capture inbound demand → Steadily capture more outbound demand
  - Asia/Oceania :Strong demand, mainly for inbound and trilateral → Develop demand on new routes through sales promotions
  - Hawaii :Introduction of the Airbus A380 has resulted in strong reservation performance through the end of the year → Continue to capture high-unit-price demand
- Our outlook for yield includes a negative 2%-plus year on year for all destinations during the second half due to the impact of market conditions. This also takes into consideration the high level of fuel surcharges in the prior fiscal year.

### 3. International Cargo Business

Q4)

- **RTK is 13% higher year on year according to your revised plan for the second half. What are the main factors behind this increase?**

A4)

- The main factor behind the increase in RTK for the second half is the introduction of Boeing 777F aircraft. During the first half, we introduced this aircraft to our Shanghai route, securing load factors between 60% and 70%. During the second half, we expect to see load factors between 70% and 80%, as we start the Chicago route with this freighter aircraft. We intend to capture products suited to wide-body aircraft, including semiconductor manufacturing equipment.
- However, the direction of U.S.-China trade frictions remains uncertain, requiring a steady understanding of demand trends. We have established a schedule for our Chicago route that considers supply and demand balance by day of the week including the use of airline charters. Moving forward, we will be flexible in adjusting ATK in response to demand. In the event that we limit capacity, RTK results may underperform plan.

#### 4. Preparations for Slot Expansion at Haneda Airport

Q5)

- **Looking ahead to the slot expansions next year at Haneda Airport, tell us more about the progress of up-front expenses incurred in the first half of this fiscal year and your outlook for the second half.**

A5)

- We incorporated up-front costs ahead of the next fiscal year into our plan. We included 10 billion yen each in aircraft- and human resources-related expenses. Our progress for the first half of the fiscal year and outlook for the second are as follows:
  - Q1 results : 3.5 billion yen
  - Q2 results : 5.5 billion yen
  - Second-half forecast : Approximately 11 billion yen

Q6)

- **Will you continue to incur costs in the next fiscal year and beyond to improve Safety, Quality and Services?**

A6)

- We incorporated costs of 14.0 billion yen related to Safety, Quality and Services into our current plan with the objective of improving airport services, strengthening our front-line personnel, and improving in-flight quality. In line with our plan, we incurred 7.0 billion yen of this amount during the first half of the fiscal year, and we expect to incur the remaining 7.0 billion yen during the second half.  
We are incurring these costs this fiscal year to complete the finishing touches before fiscal 2020. Accordingly, we do not expect to record such costs next fiscal year.

Q7)

- **Tell us more about your plans to use the new slots at Haneda Airport. Also, are you considering revising your plan for ASK in your International Passenger Business next fiscal year?**

A7)

- We are currently formulating our strategy related to slot expansions at Haneda Airport. We intend to create an optimized network that reflects considerations of a dual hub network strategy, taking advantage of the unique characteristics of Haneda and Narita Airports, as well as the plans of other carriers.  
We plan to announce our business plan for next fiscal year, including ASK, by January 2020.
- From fiscal 2013 to the present, ASK on international routes have risen 1.7 times. As we steadily captured demand, RPK have risen about 1.8 times in that same period, while substantial yield has continued to improve over the medium term. Load factors on our

newest routes have remained high, with an 80% load factor on our Vienna route and a 70% load factor on our Perth route.

Based on these results, we remain convinced that the International Passenger Business will be our driver of growth in fiscal 2020 and beyond. However, having identified external factors, including the decrease in cargo demand and weaker business demand, mainly in the manufacturing sector, we may revise our capacity plan.

## 5. Medium-Term Corporate Strategy

Q8)

- **Are your businesses progressing smoothly in support of the 200 billion yen operating income target set in your current corporate strategy?**

A8)

- While the external environment is undergoing significant changes, we are steadily executing our initiatives for achieving the profit goal set in our medium-term corporate strategy. This includes improving the competitiveness of our products and growing our market share. For example, I believe our seventh-consecutive 5-Star Rating by SKYTRAX and recent surveys results showing improved customer satisfaction during the first half indicate that we are raising our ability to compete internationally.
- We intend to introduce a rolling update to our medium-term corporate strategy, reflecting the latest trends in external factors that include the impact of our Korean and Hong Kong routes. We plan to make a related announcement during Q4.

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