

Financial Results for the Nine Months Ended December 2019 Q&A Summary

1. Financial Results for the Nine Months Ended December 2019

Q1)

- **What were the variances between Q3 actual results and plan for operating revenues and operating expenses in the Air Transportation Business?**

A1)

- The main variances compared to plan in our Air Transportation Business for stand-alone Q3 operating revenues and operating expenses were as follows:

(Main Variances vs. Plan)

- Operating revenues : -11.0 billion yen
(Domestic Passenger +2.0 billion yen, International Passenger -7.0 billion yen, International Cargo -5.5 billion yen)
- Operating expenses : -6.0 billion yen
(Fuel expenses -3.0 billion yen, Aircraft leasing fees -1.5 billion yen, Sales-linked expenses -1.0 billion yen and more)

As a result, stand-alone Q3 operating income underperformed plan by 5.0 billion yen.

2. International Passenger Business

Q2)

- **You mentioned that business travel demand has decreased. Have there been any changes in demand trends compared to Q2?**

A2)

- Business travel demand continues to be weak. Corporate travel passengers for Q2 and Q3 were down 7% and 8%, respectively, year on year.
By sector, we saw decreases in electrical equipment, automotive, and other manufacturing sector travel. On the other hand, trading company and pharmaceutical sector corporate travel remained firm.

Q3)

- **Regarding Q3 yield, please provide a year-on-year breakdown by market-related factors (fuel surcharge, foreign exchange) and substantial yield.**

A3)

- Yield for Q3 decreased by 6.5%, for the following reasons:
 - Market-related factors : slightly below -2%
 - Substantial yield : slightly below -4%
- The following two points were the main reasons behind the decrease in substantial yield:
 - (1) Impact of change in passenger composition ratio by destination

We implemented growth strategies mainly for our international business, generating a steady rise in RPK. The Rugby World Cup during Q3 and other factors provided support, which increased the ratio of passengers on Europe and U.S. routes in particular. At the same time, the ratio of passengers on Chinese routes declined due to greater competition from other airlines. While the ratio of passengers on comparatively low-yield European and U.S. routes increased, the ratio of passengers on higher-yield Chinese routes decreased, resulting in lower substantial yield.
 - (2) Impact of change in passenger segment composition ratio

The impact of U.S.-China trade friction over the past while has been another factor having a negative impact on demand for business travel. To compensate, we have boosted our capture of trilateral demand on routes linking North America and Asia, as well as demand for inbound travel to Japan. As a result, although passengers decreased for relatively high-yield business travel, activity increased for low-yield trilateral and inbound travel, leading to a decrease in substantial yield.

Q4)

- **Please tell us your Q4 forecasts by destination.**

A4)

- Our forecasts for Q4 demand by destination are as described below:
 - North America : Increase in ASK year on year
 - Capture of trilateral and inbound travel; RPK increased faster than ASK
 - Europe : Demand firming up for the Haneda-Vienna route
 - Capturing demand for leisure and inbound travel, resulting in RPK growing in line with ASK
 - China : While we forecast increased competition, the future is difficult to predict
 - We will determine the impact of the novel coronavirus and implement a response
 - Asia : Monitor trends for Hong Kong and Korean routes
 - Capturing demand in good order for other routes; RPK will grow at the same level as ASK
 - Hawaii : Seeing steady results from the adoption of the Airbus A380
 - Favorable performance progress; RPK increased faster than ASK

- We forecast a 3%-plus decrease in yield year on year, reflecting the impact of high fuel surcharges in the prior fiscal year. This fuel surcharge factor will be applied to all destinations in Q4.

Q5)

- **The impact of the novel coronavirus is spreading. What is your outlook for demand on Chinese routes? Also, what will your policy be on capacity adjustments?**

A5)

- Chinese airlines made significant increases to capacity for Japan-China routes, mainly at Narita Airport, beginning with the winter schedule at the end of last October. The impact of this development resulted in an eight-point decrease in Q3 load factor year on year for our Chinese routes.

During Q4, we intend to make an objective observation of the impact of the novel coronavirus, including capacity changes among Chinese airlines.

- Our approach to capacity adjustments will include our view of the next fiscal year. We will make a timely and appropriate decision in consideration of overall capacity (including other airlines), the impact on cargo demand, and other factors.

3. International Cargo Business

Q6)

- **You mentioned continued weakness in demand. Are there any changes in demand trends?**

A6)

- Amidst ongoing U.S.-China trade friction, weakness in demand continued through Q3 for flights to China from Japan and flights to North America from China.

As demand for imports and exports weakens, we have endeavored to limit the impact of decreased revenues through sales strategies that give priority to weight factors and efforts to actively capture trilateral demand.

- Despite signs of recovery in demand in connection with 5G and semiconductor-related items, our outlook for Q4 reflects our view that overall weakness will continue, mainly for automobile-related demand to Europe and the U.S.

Once we determine the environment for supply and demand, we intend to improve profitability by making flexible capacity adjustments at even greater levels than Q3.

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