August 2014

Financial Results, First Quarter in FY2014　Q&A Summary

Q-1

◆ **Please provide a breakdown of first quarter profit in terms of actual versus planned. It appears that first quarter revenues outperformed targets. Do you think revenues will outperform plans in the second quarter as well?**

A-1

- Operating revenues for the air transportation business outperformed plans by approximately 1.5 billion yen. Specifically, domestic passenger revenues fell 3.0 billion yen short of plans but international passenger revenues outperformed plans by approximately 1.5 billion yen and other revenues exceeded plans by approximately 3.0 billion yen. Cargo and mail revenues, for domestic and international operations combined, roughly remained flat with plans. Other revenues outperformed plans due to better-than-expected commission fees and mileage-linked revenues as well as increased revenues from maintenance and handling services.
- On the other hand, operating expenses were 2.0 billion yen lower than planned. Specifically, fuel expenses were below plans by 1.0 billion yen and non-fuel expenses also were below plans by 1.0 billion yen. As a result of these factors, operating income was 3.5 billion yen above plans.
- The second quarter represents the peak seasons, which will help accelerate the market penetration of network expansion of the Tokyo Metropolitan area airports for our international business. We will work to see both passenger and cargo revenues exceed plans. Since early July, we have been raising fares for domestic passenger business. We will aim to maximize profit by focusing on the balance between supply and demand in order to control both revenues and expenses.

Q-2

◆ **What factors are causing the decline in yield and unit price on domestic passenger business? You have been raising fares for domestic passenger business since early July. Please let us know about your second quarter unit price forecast and the impact on demand.**

A-2

- During the first quarter, unit price on domestic passenger business decreased by 2.2% year on year, a result that was below plans. This was due to a withdrawal of a fare raise and a change in passenger class mix by offering promotional fares. On the other hand, we achieved increased revenues despite a year-on-year decrease in ASK. We see this as the result of our efforts to maximize revenues by paying careful attention to both unit price and passenger volumes.
- We began raising fares in early July but we will continue to offer promotional fares. We forecast that the year-on-year decrease in unit price during the second quarter will be less than the first quarter.
- Our plans for domestic business outline a year-on-year decrease of approximately 3% in ASK during the second quarter. For RPK, plans outline a level that is slightly below the previous year but our latest forecast is that RPK will exceed the previous year. This will be accomplished by promoting the optimization of supply and demand and by implementing appropriate supply volume control.

Q-3

◆ **What factors caused the year-on-year increase in the unit price for international passengers business during the first quarter? Do you forecast that this trend will continue during the second quarter and beyond? Also, please tell us about forward reservation trends.**

A-3

■ The unit price on international passengers business during the first quarter increased by 3.7% year on year. Of this, we view 2.7% to be the result of yield management initiatives. For international flights from/to Haneda, our main target is business demand and we set our unit price based on the demand for high yield passengers.

■ Our plans outline an increase of 6% year on year for the unit price on international business during the second quarter and our most recent forecast calls for performance that will slightly exceed plans. Compared to the first quarter, unit price during the second quarter has a higher growth because the application of fuel surcharges during August and September of last year was lower than this year.

■ Plans outline an increase in ASK of over 19% and an increase in RPK of just below 13% for international passenger operations during the second quarter, while our most recent forecast calls for RPK that will slightly exceed plans.

Q-4

◆ **How are you viewing first quarter performance on Europe and Asia routes added as part of the expansion of your international network? Do these results reflect the benefits of network expansion?**

A-4

■ During the first quarter, revenues exceeded plans on European routes while revenues fell below plans on Asian routes. Overall revenues on international passenger business exceeded plans and, in terms of profitability, we think we achieved levels outlined in our plan. As the network expansion began during a period of low demand, average L/F for international passenger operations during the first quarter was below 70%. Since the second quarter is a period of high demand, we forecast that L/F will increase.

■ Reviewing demand conditions in the first quarter, we are aware of the need for countermeasures on certain routes. Business demand on the Paris route was strong while leisure travel demand should be improved. We forecast that leisure travel demand will increase during the second quarter. We made changes the flight schedule of the Jakarta route from Narita, but it will take time for penetration in overseas market. Moving forward, both ANA and our joint venture partners will focus on securing greater demand for connections to North American routes. On the Manila route, business demand from Tokyo Metropolitan area fell below plans. We will implement sales promotions targeting corporate clients. Also we will enhance countermeasures for developing demand on low traffic.

Q-5

◆ **Please tell us about inbound traffic trends as well as connection demand between domestic passenger operations and international passenger operations.**

A-5

- For international passenger business, approximately 30% of revenues is foreign currency basis and this ratio has increased gradually in recent years. On North American routes and China routes, 40-50% of passengers are non-Japanese and the number of non-Japanese passengers increases each year. We are offering discount fares for inbound passengers to Japan that target our domestic passenger business. The number of foreigners visiting Japan who use our domestic flights, including those utilizing these discount fares, has increased significantly.
- The number of connecting passengers on domestic and international operations at Haneda and Narita increased by a total of more than 10% combined. Routes for European and Southeast Asian regions shifting from Narita to Haneda resulted in a significant increase in passengers using connections at Haneda.
- On the other hand, there has been a decrease in connection demand from Nagoya and Sendai, which have no domestic services to Haneda. However, as we are planning to offer a new Haneda-Nagoya (Centrair) beginning from the end of October, we expect to see higher demand connecting from/to Haneda.

Q-6

◆ **Please let us know about the status of progress for cost restructuring initiatives.**

A-6

- Cost restructuring initiatives achieved in the first quarter totaled 7.0 billion yen. At present, initiatives are progressing in accordance with the plan and we project being able to achieve 34.0 billion yen for the full year.

Q-7

◆ **Please tell us about the status of the LCC business.**

A-7

- As the first quarter was a low demand period, domestic operations L/F on Vanilla Air was low but it was above 70% for international operations. In particular, the Taiwan route has been favorable thanks to an increase in inbound traffic. We launched a new Narita – Amami Oshima route in July and since we are entering a period of high demand, we expect L/F to reach the mid-70% range for both domestic and international operations.
- Peach Aviation recorded minor losses for the first quarter. We forecast the company will turn a profit for the full year and expect the company will be a profit contributor in terms of our equity in earnings of affiliate. We also have implemented countermeasures to address the pilot shortage issue.

End