Financial Report for FY2024, Major Q&As

(1) Full-year Performance of FY2024

Q1: International passenger traffic has been strong, mainly driven by inbound demand. On the other hand, has outbound traffic increased recently due to the yen appreciation?

A1: The impact of the stronger yen is not significant yet, but outbound traffic has been gradually increasing, with solid tourism demand during Golden Week (long holidays in May). While the direct influence of the yen appreciation remains small, they are starting to appear gradually. Additionally, although unrelated to the FX impact, outbound business demand from Japan has surpassed 70% of the pre-COVID levels.

Q2: The earnings of the Mileage/Financial Commerce and other businesses have been favorable. Did the profits from the Ground handling business contribute to this performance as well?

A2: Regarding Ground handling business, the number of flights of ground handling has returned to the pre-COVID level, improving efficiency, and contract unit prices have risen. However, the growth of the Ground handling business is expected to moderate to some extent during fiscal year 2024.On the other hand, the Mileage/Financial and Commerce business is expanding steadily with an increase in the number of miles being issued. Although revenue from Mileage business declined in fiscal year 2023 due to adjustments related to liabilities stemming from a decrease in mileage expiry rates, such impacts did not occur much in fiscal year 2024.

(2)Forecast of FY2025

■International and Domestic Passengers

Q3: Please provide a detailed outlook for international and domestic passengers for the first quarter of fiscal year 2025 (April to June 2025).

A3: International passenger demand remained very strong in the fourth quarter of fiscal year 2024 (January to March 2025), and this trend continues. However, we believe there is still room for improvement in yield, and we aim to further enhance revenue management. Regarding domestic passengers, we learned from lessons from the first quarter of the last fiscal year 2024 (April to June 2024) that we were not able to capture demand. Then, we have been actively stimulating demand since the second half of fiscal year 2024. We are continuing this approach. Consequently, the fiscal year 2025 has seen growth secured from fiscal year 2024, and overall revenues, both international and domestic, are expected to exceed the planned figures.

Q4: What is the situation for international passenger demand by region in the first quarter of fiscal year 2025?

A4: Passenger numbers and unit price, except for China routes, have been consistently strong across all the routes. Unit prices for China routes are expected to decline.

Q5: Regarding the domestic passenger plans for fiscal year 2025, please provide more details by the first and second halves of the year respectively.

A5: In the first half, the focus will be on stimulating demand to capture passenger volume so that a significant increase in yield is not anticipated. The current load factor is increasing, and in the second half, our main focus will shift to improving yield. Additionally, since the results of the fourth quarter of fiscal year 2024 exceeded expectations when the plan was drafted, the planned figures may appear conservative, but we expect to exceed the prior year's results.

Q6: The domestic passenger business appears challenging, likewise for competitors. Please provide the strategy for medium to long-term improvements in this business.

A6: The situation is indeed challenging. Structural changes in demand and rising foreign-currency-based costs have not been fully offset, making yield improvement essential for us. To tighten the balance between supply and demand, we aim to increase inbound demand within the domestic passenger business. We have reached a record-high load factor in the fourth quarter of fiscal year 2024, partially contributed by strong inbound demand. Our goal is to maintain this level of load factor in fiscal year 2025 as well, and in addition to that, we will consider implementing fuel surcharges at appropriate times. While ASK (Available Seat Kilometers) may seem stable overall, capacity on trunk routes is being increased, whereas smaller aircraft are being used for non-trunk routes. We aim to achieve supply-demand balance optimization by continuing these efforts over the medium to long term.

Q7: Considering the ratio of EBIT to net profit in fiscal year 2024, the net profit forecast for fiscal year 2025 seems somewhat conservative. If the net profit exceeds the planned figure, is there a possibility of further dividend increases in fiscal year 2025?

A7: The fiscal year 2025 performance plan is somewhat conservative in certain areas. Regarding dividends, our policy is based on a payout ratio of around 35%. We will continue to determine dividend amounts based on this fundamental policy.

■ LCC

Q8: Regarding the plan of fiscal year 2025, could you provide a breakdown for ZIPAIR and SPRING JAPAN?

A8: While we do not disclose figures by each company, more than the half of the full-year EBIT forecast of 19 billion yen is expected to come from ZIPAIR's profits. However, SPRING JAPAN also achieved profitability in fiscal year 2024 and plans to further increase profits in fiscal year 2025. On the other hand, Jetstar Japan is expected to remain in a challenging situation.

■ Costs

Q9: Fuel costs are expected to rise in fiscal year 2025. However, based on the sensitivity table on page 26 of the presentation materials, it seems the impact on profits will be minimal, given the current levels of FX and fuel price. Could you explain the reasoning behind this forecast?

A9: The increase in fuel costs is based on higher fuel consumption by capacity growth and additional costs related to SAF (Sustainable Aviation Fuel) introduction. Furthermore, subsidies will no longer be available, but this gap should be offset in part by buoyant market conditions. Regarding the sensitivity table, the current fuel surcharge is being applied based on a 13,000-yen fuel price. In this case, if the Singapore kerosene price drops from $90 to $80 while the exchange rate remains at 145 yen, there will be no impact on profits.

(3)Others

Q10: Have US tariffs impacted international business demand originating from Japan? Additionally, please share with us the trends by industry.

A10: While we do not have data by industry, business demand originating from Japan in the first quarter of fiscal year 2025 has increased, recovering to about 70% of pre-COVID levels. There is likely some demand from companies traveling overseas to address tariff-related matters. On the other hand, we are concerned that, if the financial performance of relevant companies deteriorates due to the tariff impacts, those companies may cut travel expenses. We are closely monitoring this trend.

Q11: Have US tariffs caused any short- or mid-term changes in cargo or aircraft deliveries?

A11: Currently, there is no direct impact. In the short term, there has been some last-minute demand in cargo, but the scale is not significant. While U.S. airlines have reported weaknesses in U.S. domestic routes, inbound demand for our services remains strong, as indicated by our reservation outlook. Although it is unclear what kind of tariff measures might be enacted, we recognize the risk of potential impacts on China-origin cargo flights. We aim to respond flexibly, for example, by utilizing cargo space on routes other than those originating from China. For international passengers, North American routes are a driving force currently, so we are monitoring this situation closely. Regarding aircraft prices, they are determined by pre-contracted agreements and are generally not subject to changes, although there may be increases linked to CPI (Consumer Price Index). If the supply chain is affected, we anticipate potential impacts on aircraft deliveries in subsequent years.

Q12: Regarding the perpetual subordinated bonds issued in April 2025, the issuance amount did not reach 200 billion yen. Do you think that you could not make the target? Additionally, please provide the evaluation of the interest rates. Also, please let us know the use of proceeds.

A12: While the upper limit for the total amount was set at 200 billion yen, our target was actually around 180 billion yen. Given the timing when market uncertainties rapidly increased, we consider raising 178.9 billion yen in that circumstances as a success. Although the interest rate rose slightly above our initial expectations, it remained within the anticipated range. The funds will be used partially for capital investments, such as the purchase of fuel-efficient and low-noise aircraft like the Airbus A350 and Boeing 787. Furthermore, this will enhance the certainty of repaying the existing subordinated finance, allowing us to focus toward strengthening shareholder returns, such as share buybacks. The timing of share buybacks will be determined based on future circumstances.

End.