

Financial Results Presentation for Q2, Fiscal Year Ending March 2021:
Questions and Answers (Summary)

Upward Revision to Earnings Forecasts

Q1. You have made an upward revision of ¥10 billion to operating income for the fiscal year. What is the scale of this revision broken down by air freight, cost reductions, and other factors?

A1. One of the biggest factors for our 10 billion upward revision is the impact of COVID-19 was less than we expected. For the first half of the year, operating income was 4.3 billion higher than our July 31 forecast, and we see the impact of COVID-19 during the second half to be ¥3.7 billion lower. In addition, although overseas results are three months behind Japanese standard, performance through the end of September has been very good.

Although we do not provide specific figures for individual category results, the main factors behind our revision include strong first-half performance, the impact of the decrease in the ratio of variable costs in our Japan business, closures of branches overseas and other fixed cost reductions, etc.

Future Direction of the Air Cargo Business

Q2. What is the outlook for air cargo business over the next year? You stated that performance will be solid through next spring. But do you see a decline in profits next year or a decrease in margins?

A2. Our forecast for air cargo reflects an ongoing recovery during the second half of this fiscal year. Next fiscal year, we expect air cargo originating from Japan for the both mainstay automotive and semiconductor-related industries to be solid, particularly for the global supply of Japan's prized manufacturing equipment and raw materials. Factory production plans are moving forward at a similar pace heading into the next year, and we are receiving a strong flow of orders to Asia related to semiconductors. We expect volume to grow considerably.

The direction of freight-out depends on international passenger flights. International travel demand is unlikely to recover quickly in the early part of next year and the IATA forecasts

continued cuts in flights throughout the next year. We expect to depend on belly freight transport for East Asia and South Asia and continue with charter transport. Accordingly, business via bids as in a normal year has been difficult, and we do not think this will be a factor that drives profits down.

Q3. We see East Asia and South Asia as having a significant impact on this revision. Can you explain the continuity of reconstruction demand in East Asia and South Asia?

A3. Masks and other medical related items accounted for a significant portion of air freight through July and August related to reconstruction demand originating from East Asia and South Asia. At present, demand has shifted to components related to production in Japan. Of the 833 charter transports to and from Japan that we handled, 724 originated from Asia and 159 originated from Japan, so the overwhelming majority of were charters from Asia to Japan. Until now, there were almost no cargo freighters between South Asia and Japan, the lack of which was covered by passenger flights. Therefore, we used charter transports to compensate. We expect to see continued charter flights in significant numbers, but the content is shifting from reconstruction demand to manufactured goods. We believe this will continue to contribute to revenues in the next fiscal year and beyond.

Transportation of COVID-19 Vaccines

Q4. How will it be determined which transportation companies will transport the vaccines? Will you see domestic truck transportation and warehousing in addition to air cargo transportation?

A4. Quality conditions for vaccine transportation differ according to the manufacturer who develops the vaccine. Some manufacturers might require transportation at temperatures below -20°C, while others might require temperatures of -50°C or -70°C. Existing shipping containers are not suitable for this purpose, so we intend to discuss how to proceed with operations with the pharmaceutical manufacturers. The transportation of the vaccines will be handled by a contractor in partnership with the pharmaceutical manufacturers. Domestically, the handling of the bulk API falls under the scope of the pharmaceutical manufacturer. Once turned into a vaccine, we assume that the drug will be transported at a temperature range of between 2°C and 8°C. The pharmaceutical supply chain network we are preparing can conduct transportation within this temperature range. However, we are still in the early stages and have no definite information to offer. Discussions will begin in earnest around the turn of the year. We expect to have a general outline of the transportation operations by the time the vaccine is ready for shipment.

Return to Shareholders

Q5. What is your approach to the timing of a decision on share buybacks?

A5. Our major premise and principle is that we have promised a total return ratio of at least 50%. As part of this commitment, we are always looking at the timing of dividends and share buybacks. In fact, we considered our options in depth this quarter, but we were unable to come to a decision due to various reasons. We will continue to consider our options over the next fiscal year and beyond, and we hope to implement them in some form.

Performance of Japanese Subsidiaries

Q6. What is your current understanding of the situation of Japan business subsidiaries that experienced declining profits in Q1? What is your outlook for the future?

A6. Among our subsidiaries, we operate two as a joint venture with our customers. One of these subsidiaries experienced a challenging Q1; however, the impact of COVID-19 is diminishing and we expect the business to recover in the future. Our small-lot shipment business remains a difficult situation, and we must keep a close watch on the Q3 and Q4 performance of related subsidiaries. Overall, we believe that the impact of COVID-19 is decreasing and that the second half of the year will be better than the first half.

Business Plan Outlook

Q7. How do you view the outlook of your business plan, etc., at this point in time? What direction do you think your profit margins and cost reduction efforts will take?

A7. We are now in the second year of our business plan, which we launched in April 2019. We intend to take stock of where we are in the third year of the plan. This year, the spread of COVID-19 had an unexpected and negative impact on our performance. We intend to keep a close eye on developments as we decide whether to keep to our current plan, revise the plan, or respond in anticipation of a second or third wave of infection. If we exclude the impact of COVID-19, operating income amounted to roughly ¥70 billion, which translates into a discrepancy of about ¥13 billion compared to the interim goal under our business plan. Without a doubt, this is a high hurdle for us, but we believe we must maintain our current numbers as we continue forward with our initiatives to expand sales, improve our cost structure, strengthen group management, and, hopefully, the impact of COVID-19 takes a turn for the better. In any case, we hope to make some kind of announcement after April of next year.

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