

Skymark Airlines Inc. Supplementary Material for Financial Results Q3 FY2023 (FY2024/3)

February 9, 2024



Highlights for Q3 FY2023

*In this material, definitions are, FY: fiscal year (from April 1 to March 31 of the next year), Q1: from April to June, Q2: from July to September, Q3: from October to December, Q4: from January to March

1 Recorded Solid Performance Exceeding the Q1-Q3 Profit Targets

- The achievement rates of operating income(94.5%), ordinary income(114.6%), and income before income taxes(114.6%) are progressing far more than expected exceeding our Q1-Q3 targets

2 Q1-Q3 Operating Revenues Reached a Record High due to Strong Passenger Demand

- Domestic passenger demand continues to remain strong, driven by steady leisure and VFR¹ travel demands, as well as the increase in inbound tourism and the shift from overseas travel due to the weaker yen and inflation

3 Achieved Solid Price Increases through Continuous Yield Management

- Achieved a price increase exceeding the Q1-Q3 targets by JPY431 (approximately JPY 2.6 billion² increase in operating revenues)
- Q3 average price per passenger (JPY12,618) increased by JPY1,750 (+16.1%) compared to the same period last year

4 Focus on Thorough Cost Management against the Cost Pressure by the Continued Weaker Yen and High Crude Oil Prices

- Covered cost increases due to market fluctuations through continuous yield management and cost reduction efforts

5 Announced the Dividend Forecast for FY2023 (21 Yen per Share)

- The year-end dividend forecast of 21 yen per share is based on the income before income taxes of JPY5.6 billion
- We may adjust the dividends according to a discrepancy with the forecast based on the disclosed formula

Notes:

- 1: Visit Friends and Relatives
 2: Estimated effect of increased average price per passenger: Q1-Q3 FY2023 increase in Average Price per Passenger JPY431 × Q1-Q3 FY2023 Revenue Passengers 5,997k = c.JPY2.6bn
 3: Annual Dividend Payout = Income Before Income Taxes × (1 - Effective Tax Rate of 34.59%) × Payout Ratio of 35%
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We would like to explain the highlights of our performance.

Firstly, business performance remained strong in Q3, with all profit categories exceeding targets and making steady progress toward achieving performance forecasts.

The second point is the demand situation. The strong demand for passengers resulted in record-high operating revenues for Q1-Q3. Domestic passenger demand remains strong, driven by high demand for leisure and VFR travel, as well as increased domestic travel and inbound demand due to the weaker yen and inflation.

The third point is regarding unit price. We achieved a price increase exceeding the Q1-Q3 targets by JPY431, through yield management. Furthermore, Q3 average price per passenger has increased by JPY1,750 (+16.1%), compared to the same period last year.

The fourth point, operating expenses increased more than expected due to macro factors such as the weaker yen and higher crude oil prices. However, we have conducted thorough cost management, and we covered cost increases due to market fluctuations through continuous yield management and cost reduction efforts.

The fifth point is that we have announced the dividend forecast for FY2023. The year-end dividend forecast is 21 yen per share, assuming that the business results forecast is achieved.

Overview of Financial Results for Q3 FY2023

Recorded historical high in operating revenues for Q1-Q3 following the previous quarter, and profits increased significantly due to increased operating revenues that exceeded cost increases

Financial Results

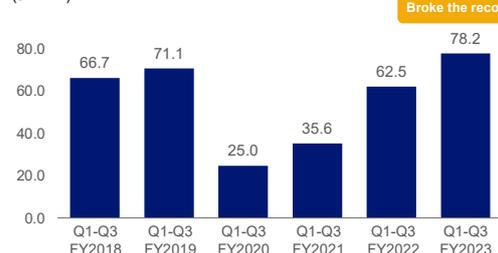
Unit: JPY MM	Q1-Q3 FY2018	Q1-Q3 FY2022	Q1-Q3 FY2023	vs. Q1-Q3 FY2022	vs. Q1-Q3 FY2018
Operating Revenues	66,765	62,577	78,210	+25.0%	+17.1%
Passenger Revenues	64,813	60,648	76,193	+25.6%	+17.6%
Other Revenues	1,951	1,928	2,016	+4.5%	+3.3%
Operating Expenses	60,280	59,175	72,920	+23.2%	+21.0%
Operating Costs	54,681	55,155	68,596	+24.4%	+25.4%
SG&A	5,599	4,020	4,324	+7.6%	▲22.8%
Operating Income	6,484	3,401	5,289	+55.5%	▲18.4%
Operating Income Margin (%)	9.7	5.4	6.8	+1.3pt	▲2.9pt
Ordinary	8,166	3,656	6,418	+75.5%	▲21.4%
Income before Income Taxes	8,155	2,444	6,418	+162.6%	▲21.3%
Net Income	7,589	1,876	3,590	+91.3%	▲52.7%
Adjusted Net Income ¹	5,334	1,598	4,198	+162.6%	▲21.3%
Dubai Crude Oil Price (After Hedging)(US\$/Barrel)	67.0	70.6	74.8	+6.0%	+11.7%
Exchange Rate Used for Fuel Cost (After Hedging)(JPY/US\$)	110.8	132.6	141.2	+6.5%	+27.5%
Exchange Rate Used for Foreign Currency Transactions (After Hedging)(JPY/US\$)	110.5	117.9	129.3	+9.6%	+17.1%

Note: 1. Income Before Income Taxes × (1 – effective tax rate 34.59%)

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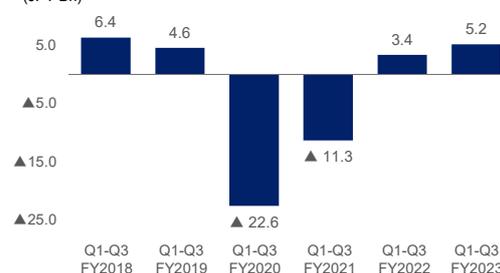
Operating Revenues

(JPY Bn)



Operating Income (Loss)

(JPY Bn)



First of all, we will explain the key performance figures for the current fiscal year.

Operating revenues for Q1-Q3 reached a new record high of JPY78.2 billion, owing to strong passenger demand.

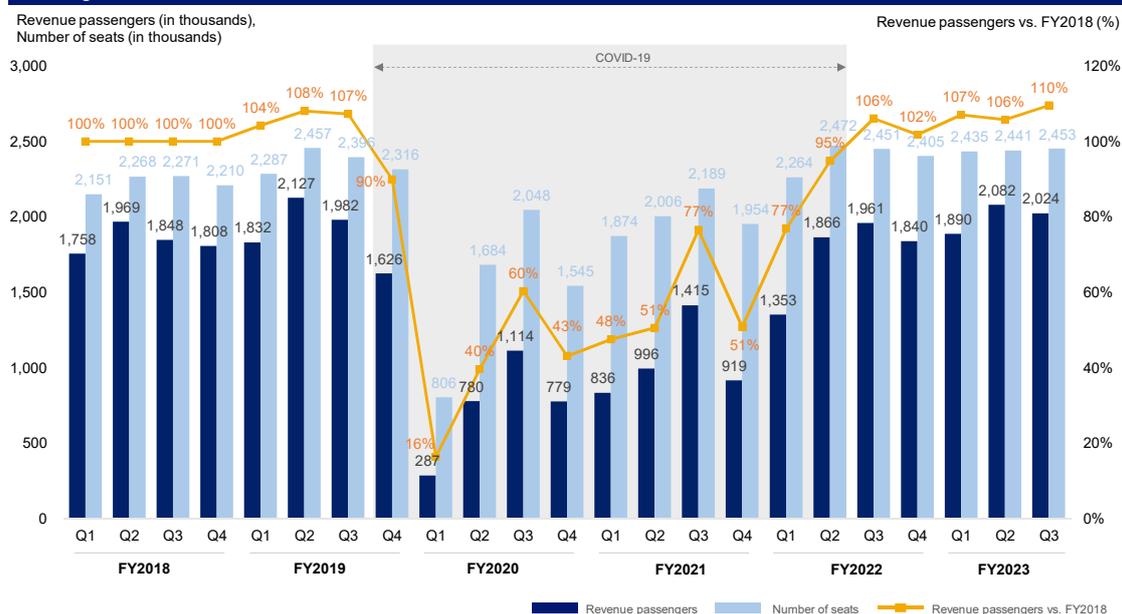
Despite the ongoing challenging market fluctuations, we managed to expand sales at a rate higher than cost increases, and our operating income of JPY5.2 billion exceeded our Q1-Q3 targets.

Ordinary income was JPY6.4 billion due to foreign exchange gains, etc., net income was JPY3.5 billion due to adjusted corporate tax, etc., and adjusted net income was JPY4.1 billion, which is referred to as the basis for dividends. All exceeded our Q1-Q3 targets, and we are on track to reach our performance forecasts for FY2023.

Trend of Travel Demand

Strong passenger demand continues, exceeding pre COVID-19 levels for five consecutive quarters

Passenger Demand



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Next, we will explain the trend of our number of revenue passengers.

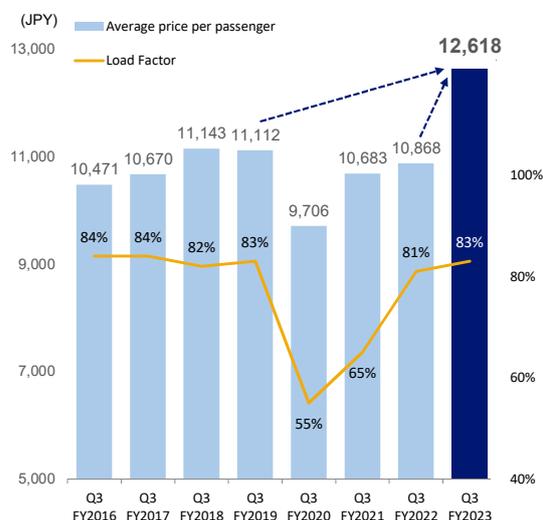
In the third quarter, the number of revenue passengers increased by 110% compared to the same period in 2018, well beyond pre-COVID-19 levels. In addition to high demand for leisure and VFR, we believe that the continued strong demand is due to the expansion of domestic travel and inbound demand as the yen weakens and inflation rises.

Although 54 flights were canceled as a result of the aircraft collision that happened at Haneda Airport on January 2, we believe that the impact on the performance of this fiscal year would be minimal. Reservations have stayed as strong as ever since then.

Continuous Increase in Average Price per Passenger in Q3 FY2023, Successfully Offsetting Cost Increase

Average price per passenger in Q3 FY2023 increased by JPY1,750 (+16.1%) compared to the same period last year while maintaining a pre COVID-19 levels load factor

Trend in Average Price per Passenger / Load Factor (Each Year's Q3 Results)



Results of Q3 Average Price per Passenger Increase and the Estimated Effect of that Increase

	Q3 FY2023 Increase in Average Price per Passenger	Q3 FY2023 # of Revenue Passengers	Increase in Revenue
vs. Q3 Target	JPY609 ✗	2,024k	= c.JPY1.2bn
vs. Q3 FY2022	JPY1,750 ✗	2,024k	= c.JPY3.5bn
vs. Q3 FY2019	JPY1,506 ✗	2,024k	= c.JPY3.0bn

Factors of Average Price per Passenger Increase

- Strong passenger demand
- Continuously improving service quality, including high on-time performance and improved customer satisfaction
- Thorough yield management
- Price revision for winter schedule (from October 29, 2023)

Next, we would like to explain our efforts to increase unit price.

Average price per passenger in Q3 FY2023 was JPY12,618, an increase of JPY1,750 compared to the same period last year, and a significant increase of JPY1,506 compared to the same period in FY2019. Load factor also remained at an appropriate level at 83%, which we believe is the result of thorough yield management efforts against the backdrop of strong passenger demand and high service quality. We also believe that the fare revisions for the winter timetable starting in November were effective.

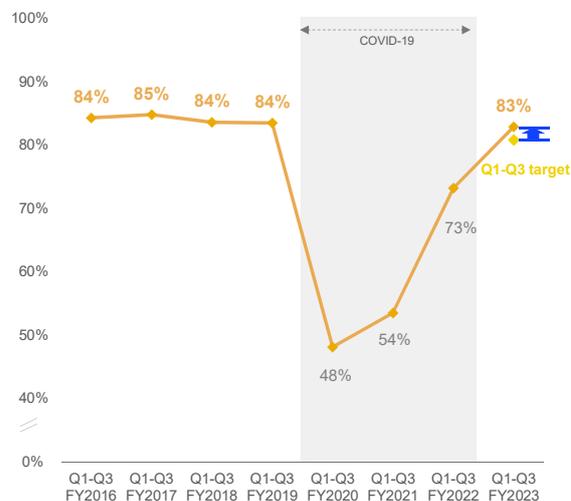
The average price per passenger increased by JPY609 compared to Q3 target. By multiplying this average price increase by the number of revenue passengers of 2,024,000, we can calculate that the revenue increase effect due to the average price increase in Q3 is approximately JPY1.2 billion.

The increase in revenues due to average price increases will have a very large impact considering the scale of our company's profits.

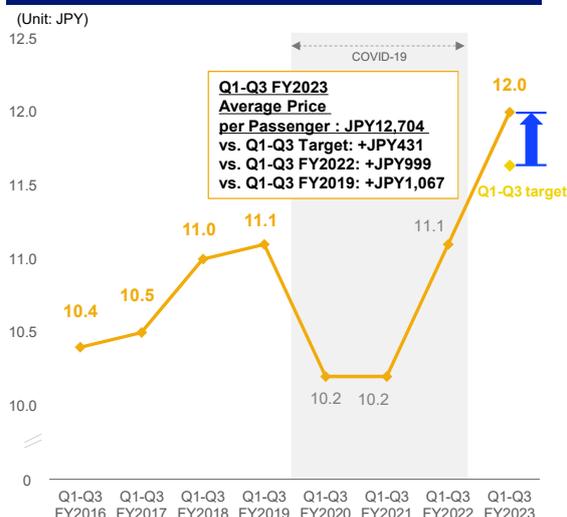
Load Factor and Yield Performance(Q1-Q3)

Load factor¹ maintained at an appropriate level similar to pre COVID-19 levels
 The average price per passenger (JPY12,704) steadily increased by JPY431 compared to Q1-Q3 targets, and the yield² significantly exceeded the targets

Load Factor



Yield



Notes:
 1. Load Factor is calculated as follows: RPK (revenue passenger kilometers) / ASK (available seat kilometers)
 2. Yield is calculated as follows: Passenger Revenue / RPK

Next slide represents the load factor and yield.

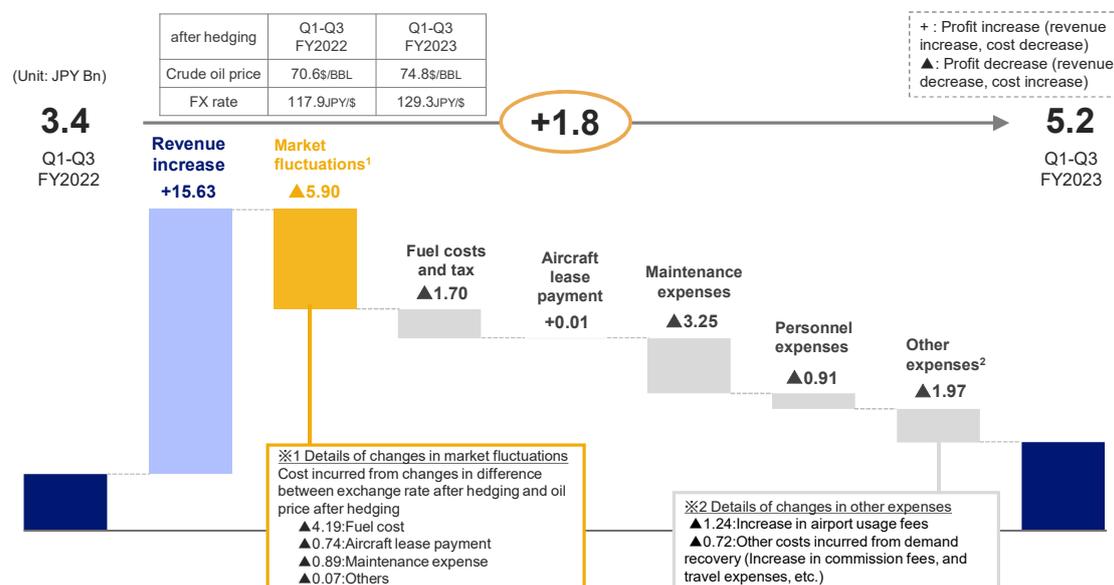
Load Factor were 83%, maintaining an appropriate level similar to pre-COVID-19 levels.

The yield for Q1-Q3 was JPY12.0, and the average price per passenger was JPY12,704, an increase of JPY431 compared to the target, an increase of JPY999 compared to the same period last year, and an increase of JPY1,067 compared to the same period of FY2019. We have also achieved a significant increase in unit prices year-to-date.

We will continue to strive to raise yields while maintaining load factor at appropriate levels.

Changes in Operating Income (vs. Q1-Q3 FY2022)

Operating income recovered significantly owing to demand recovery and yield management, while costs increased due to normalized flight schedules, a weaker yen, and high crude oil prices



This slide shows the detailed changes in operating income by factors.

Operating expenses increased due to the negative impact of market factors such as the continued depreciation of the yen and high crude oil prices, as well as an increase in flight-related costs due to the normalization of the number of flights due to recovery from the COVID-19 pandemic. Due to a recovery in passenger demand and continued thorough yield management in response to cost increases, revenues significantly recovered, resulting in an increase in profit of JPY1.8 billion compared to the previous year.

Details of Operating Expenses for Q3 FY2023

While maintenance costs rose due to the weaker yen and price increase of maintenance parts, we kept costs low by controlling advertising and other expenses primarily. We will compensate for market-related cost increases through yield management and expense reductions

Unit: JPY MM	Q1-Q3 FY2018	Q1-Q3 FY2022	Q1-Q3 FY2023	vs. Q1-Q3 FY2022		
				Change (JPY)	From Market Fluctuations	From Other Factors
Number of Aircraft (Average for each fiscal year)	26.5	29.0	29.0	-	-	-
Available Seat-km (ASK) (MM seats km)	7,019	7,500	7,646	+146	-	-
Fuel Cost and Tax	15,803	15,540	21,443	+5,902	+4,195	+1,706
Airport Usage Fees	5,892	3,479	4,724	+1,245	-	+1,245
Aircraft Lease Payment	7,536	8,059	8,781	+722	+740	▲18
Maintenance Expenses	6,488	7,093	11,245	+4,152	+893	+3,259
Personnel Expenses (Excluding Bonuses)	10,662	11,711	12,135	+424	-	+424
Bonuses	1,062	1,572	2,066	+493	-	+493
Depreciation and Amortization	1,754	1,806	1,845	+39	-	+39
Others	11,081	9,912	10,679	+766	+75	+690
Total Operating Expenses	60,280	59,175	72,920	+13,745	+5,905	+7,839
Dubai Crude Oil Price (After Hedging)(US\$/Barrel)	67.0	70.6	74.8	+4.2	-	-
Exchange Rate Used for Fuel Cost (After Hedging)(JPY/US\$)	110.8	132.6	141.2	+8.6	-	-
Exchange Rate Used for Foreign Currency Transactions (After Hedging)(JPY/US\$)	110.5	117.9	129.3	+11.4	-	-

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Major Changes from Previous Period (Q1-Q3 FY2022) (Unit: JPY MM)

Increase in Fuel Cost and Tax	+5,902
• Market fluctuations	
– Increases due to FX rate (weaker yen), increases in crude oil prices and aircraft jet fuel prices that remain high	+4,195
• Impact of removal of interim measures during COVID-19	+964
• Increase by recovery of # of flights etc.	+741
Increase in Airport Usage Fees	+1,245
• Impact of removal of interim measures during COVID-19	+1,061
• Increase by recovery of # of flights etc.	+183
Increase in Aircraft Lease Payment	+722
• Increases due to FX rate (weaker yen)	
Increase in Maintenance Expenses	+4,152
• Increase due to the concentration of engine maintenance timing, increased parts/components prices	+3,259
• Increases due to FX rate (weaker yen)	+893
Other	+766
• Respective increase in cost due to recovery in number of passengers (commission fees, outsourcing expenses, etc.)	

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This slide shows detailed breakdown of operating expenses.

Q1-Q3 operating expenses increased due to weaker yen, as well as an increase in price of maintenance parts, etc.

JPY5.9 billion of the 13.7 billion rose over the same period last year has been due to factors driving market fluctuations, as weaker yen and rising crude oil prices.

The remaining expenses are mainly because of growing maintenance costs brought on by rising maintenance part prices, declining impact of government subsidies, and rising variable costs brought on by recovery in the number of flights.

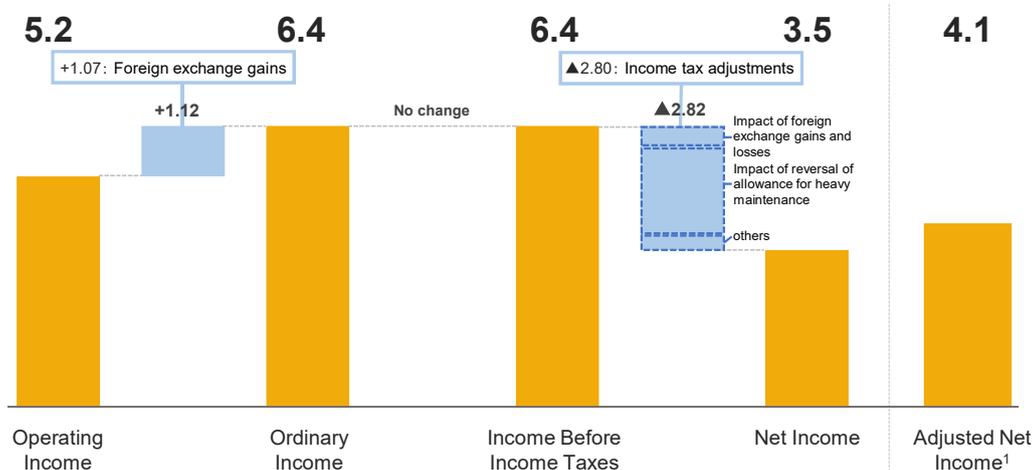
We will continue to thoroughly implement yield management to cover the cost increase caused by market fluctuations, while also making efforts to reduce cost.

Details on Respective Profit in Q1-Q3 FY2023

Recorded FX gain on foreign currency-denominated assets as of the end of Q3 FY2023 due to weaker yen
Income tax adjustments were incurred for foreign exchange gains and losses and the reversal of allowance for heavy maintenance

Change in Respective Profit

(Unit: JPY Bn)



Note:
1. Dividends are based on adjusted net income. Adjusted net income = Income Before Income Taxes × (1 - effective tax rate 34.59%)

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This slide shows the details in each level of profit.

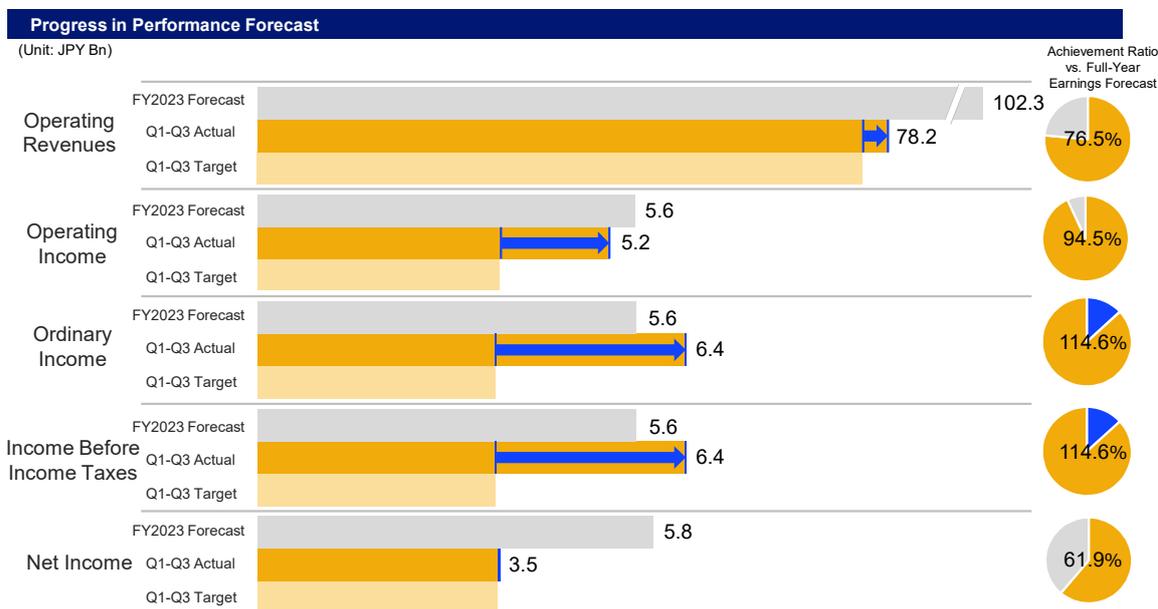
As a result of revaluating assets and liabilities denominated in foreign currencies using the exchange rate as of the end of the quarter, we recorded foreign exchange gains of JPY1.07 billion, resulting in ordinary income of JPY6.4 billion. In addition, as no special income or loss was generated, income before income taxes was also JPY6.4 billion.

Net income was JPY3.5 billion due to the reversal of allowance for engine overhaul resulting in an increase in income tax adjustments.

Adjusted net income, which is the basis for dividends, was JPY4.1 billion.

Progress in Performance Forecast

All categories are progressing well towards achieving performance forecasts
Despite headwinds on the cost side, as a result of our efforts in yield management, we exceeded Q1-Q3 targets in all categories



Next, we would like to explain our progress compared to our forecasts.

We outperformed our targets for Q1-Q3 FY2023 on all KPIs, primarily due to effective yield management and high demand despite rising expenses.

We are on track to meet our forecasts for ordinary income and income before income taxes, with foreign exchange gains playing a significant role. Because this is connected to the market value evaluation of assets and liabilities denominated in foreign currencies at the end of each quarter, we have kept our forecasts unchanged due to of such uncertainty that will continue to fluctuate based on the exchange rate at the end of the period.

Details of Balance Sheet for Q3 FY2023

Unit JPY MM	Mar 31 2023	Dec 31 2023	vs Previous Period
Assets	107,837	105,925	▲1.8%
Cash and Bank Deposits	22,519	25,867	+14.9%
Aircraft	11,408	10,504	▲7.9%
Long-term Deposits	31,102	29,413	▲5.4%
Deferred Tax Assets	22,897	19,855	▲13.3%
Other Assets	19,909	20,284	+1.9%
Liabilities	83,919	78,267	▲6.7%
Short-term Bank Loans	30,000	21,125	▲29.6%
Contract Liabilities	12,165	10,483	▲13.8%
Long-term Bank Loans	1,000	9,625	+862.5%
Allowance for Maintenance	30,838	28,353	▲8.1%
Other Liabilities	9,914	8,680	▲12.5%
Equity	23,917	27,658	+15.6%
Shareholders' Equity	24,179	27,468	+13.6%
Common Stock	100	100	—
Capital Surplus	18,353	18,353	—
Retained Earnings	5,726	9,015	+57.4%
Deferred Gain (Losses) on Derivatives under Hedge Accounting	▲262	189	—

Unit JPY MM	Mar 31 2023	Dec 31 2023	vs Previous Period
Total Debt ¹	31,725	31,387	▲1.1%
Net Debt ²	9,206	5,519	▲40.0%
Equity Ratio (%)	22.2	26.1	+3.9pt
Net D/E Ratio (x) ³	0.4	0.2	▲0.2pt

<Reference> Net Operating Loss Carryforwards

Unit JPY MM	Mar 31 2023
Applicable Until FY2024 ⁴	30,164
Applicable Until FY2030 ⁴	30,396
Applicable Until FY2031 ⁴	15,064
Total	75,625

Notes

1. Total Debt: Short-term Bank Loans + Long-term Bank Loans + Lease Obligations (on-balance finance lease)

2. Net Debt: Total Debt — Cash and Bank Deposits

3. Net D/E Ratio: Net Debt / Equity

4. Taxable income (before deduction of NOL carryforwards) is generated during the carryforward period of NOL carryforwards, we assume, based on the current tax system, that NOL carryforwards that occurred within the prior 10 years as a small or medium-sized corporation in Japan will continue to be deductible. However, if all or part of the tax regulation changes in the future, actual results may differ.

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This slide shows the balance sheet.

The net debt-to-equity ratio is 0.2 and the equity ratio is 26.1%; both indicators are showing good improvement.

Shareholder Returns

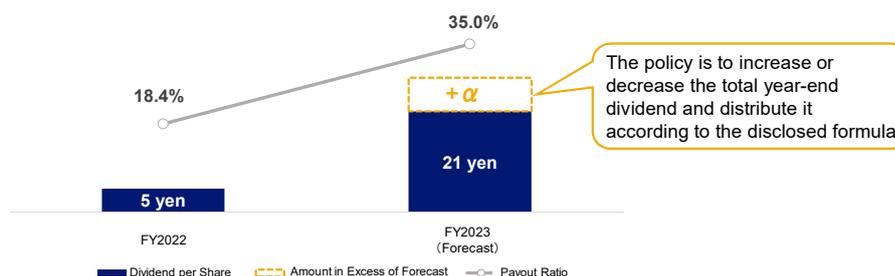
Announced the dividend forecast for FY2023

Shareholder Return Policy

- As a shareholder return policy, we will set payout ratio standard based on adjusted net income¹ as c. 35% on an annual bases.
- We may consider to conduct additional shareholder returns flexibly according to the achievement status of financial soundness target (at equity ratio of c. 40%).
 - The majority of the treasury stock acquired on January 10, 2024 will be used as restricted stock compensation for employees.

Dividend Forecast

- The annual dividend forecast for FY2023 is 21 yen per share.
(This is based on the assumption of income before income taxes of JPY5.6 billion.)



Note:
1. Adjusted net income = Income before income taxes × (1 - effective tax rate 34.59%)

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Next, I would like to explain shareholder returns.

Today, we announced the annual dividend forecast for FY2023 at 21 yen per share. This is a forecast amount based on the forecasted income before income taxes of JPY5.6 billion. In the event that the actual income before income taxes differs from the performance forecast, our policy is to increase or decrease the total year-end dividend and distribute it in accordance with the disclosed formula.

Our shareholder return policy is based on income before income taxes, with a dividend payout ratio of approximately 35% based on adjusted net income multiplied by 1 minus the effective tax rate. Our policy is to consider flexible additional returns depending on the achievement of the equity ratio of 40%.

Moreover, on January 10, 2024, we acquired Treasury Stock. These shares will primarily used as restricted stock compensation for employees within the aim to find and keep skills that will support the company's medium- and long-term growth strategy.

TOPIC: Enhance Customer Convenience and Marketing

“My Page Service” will be launched on February 14, 2024¹

Outline for “My Page Service”

- 1 Users can easily book and pay by pre-registering their passenger and credit card information.



- 2 The function is added to view the information for booked flights. Makes easier to manage booking.



- 3 Barcode (QR code) for check-in can be displayed with a single tap from the Skymark Website².

The Expected Benefits of Introducing “My Page Service”

Enhance Customer Convenience

By implementing this service, which many customers have requested, we will eliminate the inconvenience of reservations and reservation management.

Strengthening CRM

Utilize “My Page” to collect data in order to provide better services to meet customer needs.

Advanced marketing through managing, collecting, and analyzing customer data.

Aiming to increase repeat customers by promoting DX and further pursuing customer satisfaction and refining the service providing.

Notes:

1. Service is scheduled to begin once system maintenance is completed. Please be aware that the service start date is subject to change depending on the operation status on the day of the service.
2. As before, please check in on automatic check-in machine or at check-in counter before proceeding to the baggage check-in area.
3. Tickets booked through travel agencies or “Sky-Style” (an online reservation system for corporate use only) are not eligible for the “My Page Service”.

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Finally, we will start “My Page Service” next week on February 14, 2024.

We aim to further promote DX, pursue customer satisfaction, and increase repeat customers by improving customer convenience and strengthening CRM.



Appendix

Vocabulary

Explanation of aviation industry-specific terms used in this material

On-time Performance Rate

Proportion of flights flown within 15 minutes from the scheduled departure time to the total scheduled flights

Cancellation Rate

Proportion of cancelled flights to the total scheduled flights

B737-(Boeing737-)

A group of jet aircraft manufactured by The Boeing Company, the US aerospace company

VFR

Visit Friends and Relatives

FSC(Full Service Carrier)

Airlines with a wider range of addressable markets and provides more traditional passenger services based on a broader network both for direct and transit flights compared to LCCs. FCCs offer multiple cabin classes, in-flight meals and beverages in the fare. A term "LCC" is used as an antonym

LCC(Low Cost Carrier)

Airline that provide low-cost and simplified air transportation services with a single-type aircraft, in-flight ancillary service and low-cost service

RPK(Revenue Passenger-Kilometers)

A sum of the distances that each revenue passenger has boarded and flown. RPK is calculated as follows: "Revenue passengers x distance transported (kilometers)"

ASK(Available Seat-Kilometers)

A unit of transport capacity of passengers. ASK is calculated as follows: "total number of seats x distance transported (kilometers)"

L/F (Load Factor)

An indicator used to measure proportion of revenue passengers to total offered seat capacity. L/F is calculated as follows: "RPK (Revenue Passenger kilometers) ÷ ASK (Available Seat kilometers)"

Yield

An unit revenue per kilometer per passenger. Yield is calculated as follows: "Passenger Revenue ÷ Revenue Passenger kilometers"

Unit Cost

A measure of cost per unit in the airline industry to evaluate the cost per seat and per transport distance (kilometer). Unit cost is calculated as follows: "Operating Cost ÷ Available Seat kilometers"

Unit Revenue

A measure of revenue per unit in the airline industry to evaluate the revenue per seat per transport distance (kilometer). Unit Revenue is calculated as follows: "Passenger Revenue ÷ Available Seat kilometer = Load Factor x Yield"

Unit Profit

A measure of profit per unit in the airline industry. Unit profit is calculated as unit revenue minus unit cost

Revenue Management

Methods to achieve the best mix of passengers and to maximize passenger revenue by "yield management," in which airlines sell the optimal number of seats at the optimal time and price

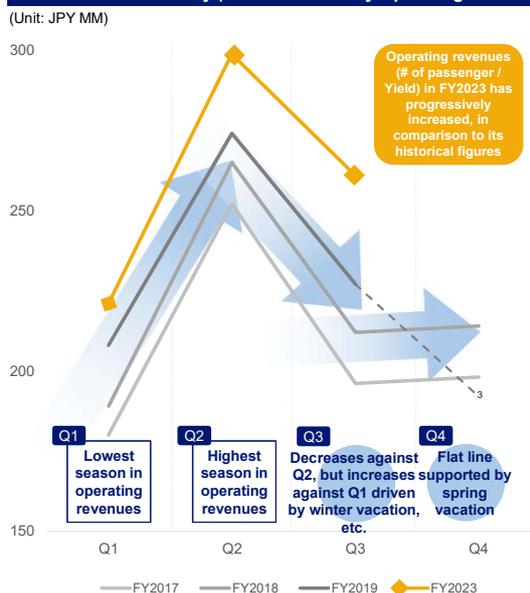
Q3 FY2023: Key Financials

Unit: JPY MM	Q3 FY2018	Q3 FY2022	Q3 FY2023	vs. Q3 FY2022	vs. Q3 FY2018
Operating Revenues	21,202	22,009	26,175	+18.9%	+23.5%
Passenger Revenues	20,599	21,314	25,547	+19.9%	+24.0%
Other Revenues	602	694	628	▲9.6%	+4.2%
Operating Expenses	21,522	20,251	24,066	+18.8%	+11.8%
Operating Costs	18,984	18,817	22,691	+20.6%	+19.5%
SG&A	2,538	1,434	1,375	▲4.1%	▲45.8%
Operating Income	▲319	1,757	2,108	+20.0%	—
Operating Income Margin (%)	▲1.5	8.0	8.1	+0.1pt	+9.6pt
Ordinary	432	▲439	439	—	+1.6%
Income before Income Taxes	422	▲439	439	—	+4.2%
Net Income	1,737	▲827	272	—	▲84.3%
Adjusted Net Income ¹	276	▲287	287	—	+4.2%
Dubai Crude Oil Price (After Hedging)(US\$/Barrel)	70.3	67.7	77.6	+14.7%	+10.5%
Exchange Rate Used for Fuel Cost (After Hedging)(JPY/US\$)	112.9	142.8	148.4	+3.9%	+31.4%
Exchange Rate Used for Foreign Currency Transactions (After Hedging)(JPY/US\$)	113.6	125.8	130.7	+3.9%	+15.1%

Notes:
 1. Income Before Income Taxes × (1 - effective tax rate 34.59%)
 2. FY2020-FY2022 is extracted due to taking COVID-19 impact
 3. Figures in Q4 FY2019 declined a lot because of COVID-19

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Business Seasonality (Trend in Quarterly Operating Revenue)²



Q3 FY2023: Breakdown of Operating Expenses

Unit: JPY MM	Q3 FY2018	Q3 FY2022	Q3 FY2023	vs. Q3 FY2022	vs. Q3 FY2018
Number of Aircraft (Average for each fiscal year)	27.0	29.0	29.0	-	+2.0
Available Seat-km (ASK) (MM seats km)	2,355	2,567	2,570	+2	+214
Fuel Cost and Tax	5,407	5,437	6,992	+1,554	+1,584
Airport Usage Fees	1,965	1,210	1,576	+366	▲388
Aircraft Lease Payment	2,658	3,013	3,192	+178	+534
Maintenance Expenses	2,396	1,796	3,142	+1,345	+745
Personnel Expenses (Excluding Bonuses)	3,623	3,973	4,100	+126	+476
Bonuses	1,142	758	803	+45	▲339
Depreciation and Amortization	655	608	619	+11	▲35
Others	3,673	3,452	3,638	+186	▲34
Total Operating Expenses	21,522	20,251	24,066	+3,815	+2,543
Dubai Crude Oil Price (After Hedging)(US\$/Barrel)	70.3	67.7	77.6	+9.9	+7.3
Exchange Rate Used for Fuel Cost (After Hedging)(JPY/US\$)	112.9	142.8	148.4	+5.6	+35.5
Exchange Rate Used for Foreign Currency Transactions (After Hedging)(JPY/US\$)	113.6	125.8	130.7	+4.9	+17.1

KPI in Q3 FY2023

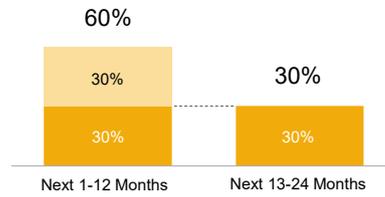
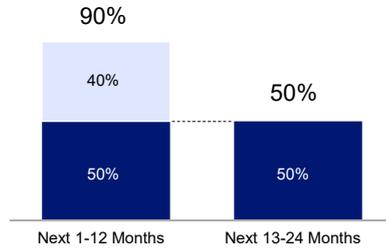
	Q1-Q3 FY2018	Q1-Q3 FY2022	Q1-Q3 FY2023	vs. Q1-Q3 FY2022	vs. Q1-Q3 FY2018	Q3 FY2022	Q3 FY2023	vs. Q3 FY2022
Number of Aircraft (Average for each fiscal year)	26.5	29.0	29.0	—	+9.3%	29.0	29.0	—
Number of scheduled Flights	37,812	40,608	41,421	+2.0%	+9.5%	13,849	13,864	+0.1%
Available Seat-km (ASK) (MM seats km)	7,019	7,500	7,646	+1.9%	+8.9%	2,567	2,570	+0.1%
Revenue Passenger- km (RPK) (MM people km)	5,870	5,486	6,338	+15.5%	+8.0%	2,084	2,144	+2.9%
Revenue Passengers (Thousands)	5,576	5,181	5,997	+15.8%	+7.5%	1,961	2,024	+3.2%
Load Factor (L/F) (%) Revenue Passenger km/Available Seat km	83.6	73.2	82.9	+9.7pt	▲0.7pt	81.2	83.5	+2.3pt
Unit Revenue (JPY) Passenger Revenue/Available Seat km	9.2	8.1	10.0	+23.2%	+7.9%	8.3	9.9	+19.7%
Yield (JPY) Passenger Revenue/Revenue Passenger km	11.0	11.1	12.0	+8.7%	+8.9%	10.2	11.9	+16.5%
Average Price per passenger (JPY) Passenger Revenue/Revenue Passengers	11,622	11,705	12,704	+8.5%	+9.3%	10,868	12,618	+16.1%
Unit Cost (excl. fuel cost and tax) (JPY) Operating Cost/Available Seat km	6.3	5.8	6.7	+15.7%	+6.3%	5.8	6.6	+15.2%

Responses to Foreign Currency and Fuel Cost Risks

Hedging Policy for Currency Risk (vs. Assumed Currency Consumption)

Hedging Policy for Fluctuation Risk of Fuel Price (vs. Assumed Fuel Consumption)

For the next 12 months, currency risk and fluctuation risk of fuel price are hedged for 90% and 60% of assumed consumption amount, respectively



Assumptions for Foreign Exchange and Fuel Transactions (FY2023) (Non-Hedge)

Dubai Crude Oil Price (US\$/BBL)	76
Foreign Exchange (JPY/US\$)	130

Sensitivity to Foreign Exchange and Fuel Price Fluctuations

Impact from FX/fuel price fluctuations (unhedged portion) on Q3-Q4 FY2023 earnings (6 months) (JPY100MM)

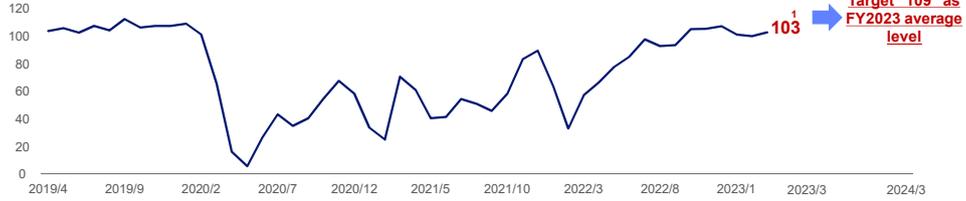
Fuel Cost (US\$/BBL)	Dubai Crude Oil Price	71	76	81	86	91
Foreign Exchange (JPY/US\$)	JPY 150	▲12	▲14	▲16	▲18	▲20
	JPY 145	▲9	▲11	▲12	▲14	▲16
	JPY 140	▲5	▲7	▲9	▲10	▲12
	JPY 135	▲2	▲4	▲5	▲7	▲9
	JPY 130	2	Assumption for forecast ±0	▲2	▲3	▲5
	JPY 125	5	4	2	0	▲1

Assumptions for FY2023 Earnings Forecast

As the passenger demand has recovered to the pre-COVID-19 level, Skymark will implement business strategies for the growth in post-COVID-19

Estimates on Passenger Demand

Number of Skymark Passengers on a Monthly Basis (each month in FY2018=100)



Assumptions for Demand Estimates

Recovery from COVID-19	Currently see greater demand than the pre-COVID level, along with the trend of recovery from COVID-19
Governmental Policies	Continuous strong domestic travel demand backed by the governmental subsidies and the downgrade of risks of COVID-19
Inbound Trend	The number of inbound tourists will increase after the ease of border control following the risk downgrade of COVID-19
Demand shift from Overseas Travels	Travelers intended to overseas trips are shifting into domestic trips, due to continued weaker yen and inflations in overseas countries



Skymark's Business Strategies

Strong top-line growth, with a focus on domestic high demand routes (ex. Haneda Routes, etc.)

Note:
1. Monthly figures on March 2023
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Earnings Forecast for FY2023

Expect to achieve operating revenues increase and operating income increase in FY2023 supported by demand recovery from COVID-19, despite the expected increase in operating expenses from market fluctuations, etc.

FY2023 Earnings Forecast

Unit: JPY MM	FY2023	vs. FY2022	
Operating Revenues	102,300	+17,639	+20.8%
Passenger Revenues	99,300	+17,256	+21.0%
Operating Expenses	96,700	+15,493	+19.1%
Operating Income	5,600	+2,147	+62.2%
Operating Income Margin (%)	5.5%	-	+1.4pt
Ordinary Income	5,600	+1,886	+50.8%
Income before Income Taxes	5,600	+3,099	+123.9%
Net Income	5,800	+74	+1.3%

FY2023 KPI Forecast

	FY2023	vs. FY2022	
Available Seat-km (ASK) (MM seats km)	10,214	+189	+1.9%
Load Factor(LF)(%) Revenue Passenger kilometers / Available Seat kilometers	83.4%	-	+9.1pt
Yield (JPY) Passenger Revenue / Revenue Passenger kilometers	11.7	+0.7	+6.4%
Dubai Crude Oil Price (After Hedging)(US\$/Barrel)	79.6	+11.1	+16.2%
Exchange Rate Used for Foreign Currency Transactions (After Hedging)(JPY/US\$)	121.5	+3.0	+2.5%
Payout Ratio (Based on adjusted net income) ¹	c. 35%	-	-

Note:
1. Income before income taxes × (1 – effective tax rate) 34.59%

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Major Changes from Previous Period (FY2022)

(Unit: JPY MM)

Increase in Operating Revenues +17,639

- Increase for normalization in number of passengers along with recovery from COVID-19
- Increase from yield improvement

Increase in Net Income +74

- Increases in comparison to income before income taxes due to changes in booked deferred tax assets. As a result, net income slightly increase vs. the same period in FY2021
- Does not expect special income (loss)

Other Notes

- ASK and L/F increases respectively up to pre-COVID-19 level, supported by demand recovery from COVID-19
- Yield increases through revenue management
- Dubai crude oil prices and exchange rate used for foreign currency transactions increase due to changes in macroeconomic environment
- Payout ratio is conducted based on adjusted net income¹

Details of Operating Expenses for FY2023

Operating expenses increase due to market fluctuations

Unit: JPY MM	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	vs. FY2022		
							Change (JPY)	From Market Fluctuations	From Other Factors
Number of Aircraft (Average for each fiscal year)	26.6	28.8	29.0	29.0	29.0	29.0	-	-	-
Available Seat-km (ASK) (MM seats km)	9,317	9,906	6,298	8,371	10,025	11,214	+189	-	-
Fuel Cost and Tax	20,706	21,676	11,468	14,883	21,392	29,000	+7,608	+4,380	+3,228
Airport Usage Fees	7,844	8,112	4,372	2,445	4,780	6,500	+1,720	-	+1,720
Aircraft Lease Payment	10,120	11,335	11,378	10,046	11,036	11,600	+564	+1,180	▲616
Maintenance Expenses	7,060	10,314	9,344	7,385	11,053	13,000	+1,947	+480	+1,467
Personnel Expenses (Excluding Bonuses)	14,697	15,994	15,133	15,245	15,600	16,000	+400	-	+400
Bonuses	2,865	1,135	-	-	1,594	2,400	+806	-	+806
Depreciation and Amortization	2,433	2,552	2,960	2,812	2,413	2,200	▲213	-	▲213
Others	15,273	17,022	11,081	11,022	13,335	16,000	+2,665	+70	+2,595
Total Operating Expenses	81,002	88,144	65,740	63,841	81,207	96,700	+15,493	+6,110	+9,383
Dubai Crude Oil Price (After Hedging)(US\$/Barrel)	64.8	61.1	55.8	59.6	68.5	79.6	+11.1	-	-
Exchange Rate (After Hedging)(US\$/Barrel)	110.7	110.3	106.5	108.3	118.5	121.5	+3.0	-	-

Major Changes from Previous Period (FY2022)

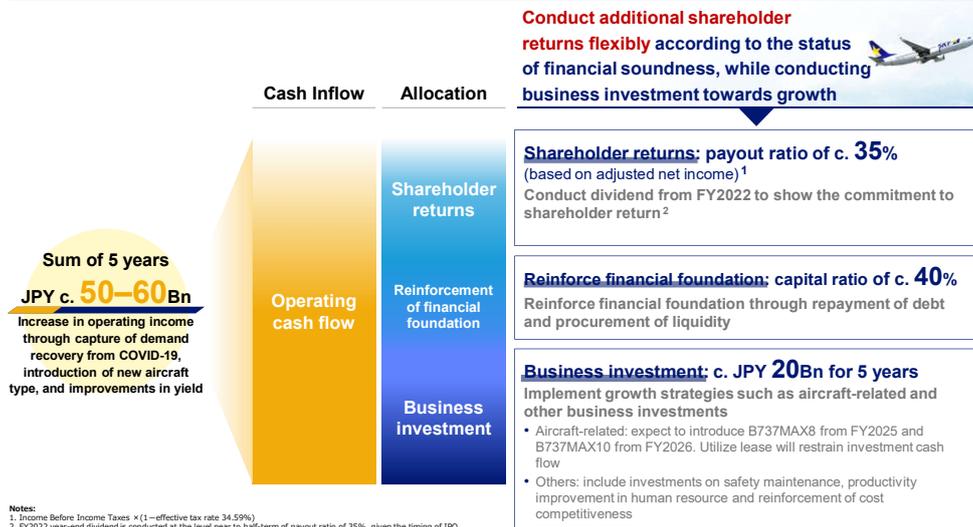
(Unit: JPY MM)

Increase in Fuel Cost and Tax	+7,608
<ul style="list-style-type: none"> Market fluctuations Increase due to increases in oil prices and aircraft jet fuel prices that remain high Impact of removal of interim measures during COVID-19, etc. 	+4,380 +3,228
Increase in Airport Usage Fees	+1,720
<ul style="list-style-type: none"> Impact of removal of interim measures during COVID-19, etc. 	
Increase in Aircraft Lease Payment	+564
<ul style="list-style-type: none"> Increase in aircraft cost in JPY due to foreign currency fluctuations reduce lease payment 	+1,180 ▲616
Increase in Maintenance Expenses	+1,947
<ul style="list-style-type: none"> Increase due to the temporary concentration of engine maintenance timing Increase due to rising prices of maintenance parts due to inflation and foreign currency factors 	
Increase in Others	+2,665
<ul style="list-style-type: none"> Respective increase in cost due to recovery in number of operated flights (commission fees, outsourcing expenses, etc.) 	

Capital Policy

Conduct investments on further growth strategies while reinforcing financial foundation via improvements in cash flow generation, realized by respective growth strategies. Start shareholder returns at 35% payout ratio at the end of FY2022

Illustrative Image of Cash Allocation



Notes:
1. Income Before Income Taxes × (1 - effective tax rate 34.59%)
2. FY2022 year-end dividend is conducted at the level near to half-term of payout ratio of 35%, given the timing of IPO

Utilization of Net Operating Losses Carryforwards

We expect to increase cash flow and improve balance sheet by utilizing tax benefits of Net Operating Losses Carryforwards (“NOL carryforwards”)

NOL as of the End of FY2022



Impact on Cash Flow and Balance Sheet

Impact of NOL carryforwards on Cash Income (Estimated Cash Impact up to JPY 26.2Bn)⁽²⁾

- In Japan, we can enjoy the tax benefit of NOL carryforwards, which are permitted for up to 10 years from loss incurrence, by deducting up to 100% of the NOL¹
 - Approx. 53%² increase of cash flow compared to net income without the tax benefit in next 10 years if 100% of the NOL is deducted
- Example of Cash Income in the Event of Taxable Income of JPY 10Bn in the Fiscal Year (JPY Bn)¹



Impact of NOL carryforwards on Balance Sheet

- Usage of NOL carryforwards, in addition to cash inflow upon capital increase, will enable improvement in the balance sheet

Indicative Impact of NOL on Financial Health¹³



Notes:
 1. Taxable income (before deduction of NOL carryforwards) is generated during the carryforward period of NOL carryforwards. We assume, based on the current tax system, that NOL carryforwards that occurred within the prior 10 years as a small or medium-sized corporation in Japan will continue to be deductible. However, if all or part of the tax regulation changes in the future, actual results may differ.
 2. Assuming an effective tax rate of 34.99% for small and medium-sized corporations in Japan. (100 - (100 - 34.99) × 1). The amount is maximum amount and actual value may differ from value illustrated on the slide.
 3. It is an illustrative image under certain assumptions and they are not guaranteed. In case of future factors or events beyond our control, actual results may differ from our illustrative example.

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