

Financial Results, Third Quarter, FY2010 Q&A Summary

Q-1

◆ How do third-quarter earnings compare to your plan?

A-1

- Compared to the revised business plan we announced at the end of the second quarter, third quarter cumulative operating income was almost exactly in line with plan. In terms of revenues, international passenger revenues were somewhat higher than plan, while domestic passenger revenues and other revenues came in slightly below. Total operating revenues were lower than plan. On the cost side, personnel costs increased, but maintenance-related expenses, fuel expenses—positively impacted by yen appreciation—and other expenses came in below plan. As a result, both revenues and expenses declined a little in excess of 2 billion yen, while operating income was in line with plan.
- The main factor behind the increase in personnel costs was the increase in year-end lump sum reserve related to profit performance. Given the greater accuracy in achieving our earnings forecasts for this fiscal year, we recorded a reserve at the end of the fiscal third quarter.
- Our cost reduction initiatives through the third quarter are in line with plan for nearly every category of cost reduction in connection with our target of 86 billion yen in total for the year. Cost reductions in excess of plan are mainly maintenance-related expenses. We replaced a significant number of older engines with new ones through the prior fiscal year, which reduced the number of engines needing maintenance compared to plan.

Q-2

◆ What is your outlook for fourth-quarter revenues and expenses?

A-2

- Looking at past performance and seasonality for the fourth quarter, recording an operating income for the quarter may be a challenge. For this fiscal year, we have projected fourth-quarter deficits in operating income, recurring income, and net income.
- Our outlook for fourth-quarter domestic passenger operations is three percent up year-on-year for passenger numbers and just under five percent up for unit prices. One major reason for unit price growth is the rebound from the level to which unit prices had fallen during the same period in the prior fiscal year. Unit price for January was in line with our expectations. The fourth quarter includes three-day holidays and spring holidays—periods of high demand. For periods and routes in which we expect peak demand, we can add non-scheduled flights to capture demand, as well as enhancing yield management for revenue growth.

- Our fourth-quarter forecast for international passenger operations calls for six percent year-on-year growth in passenger numbers—in line with plan—and plus 13 percent in unit prices, which will come in slightly above plan. We believe that passenger mix will continue to have a positive impact on unit prices through the fourth quarter as it had in the third.
- International cargo unit price for the third quarter was 157 yen/kg, representing a 14 percent year-on-year increase. We expect around a 16 percent year-on-year increase for the fourth quarter. The main factor behind the increase in unit prices is efforts to increase the ratio of express cargo shipments through our Okinawa Cargo Hub network, which is becoming more established. Initiatives to secure more cargo shipments routed from one country to another via Haneda or Narita have resulted in further overall international cargo unit price increases.
- With the delayed delivery of the Boeing 787, depreciation expense has decreased, but we have recorded a lump-sum payment that is mainly responsible for increased personnel costs. Accordingly, we expect a consolidated fourth-quarter operating loss of around 8 billion yen. The fourth quarter is also when we usually dispose of aircraft parts, which results in wider recurring losses.

Q-3

- ◆ You haven't made any changes to your forecast for full-year results. Might there be earnings or dividends in excess of forecast?

A-3

- We included an expected 17 billion yen in reversing a portion of deferred tax assets at the end of the quarter, assuming a five percent decrease in effective taxes related to revised corporate tax rules from the next fiscal year. This figure is already reflected in our earnings forecast. We reversed 16.7 billion yen in provision for loss on antitrust proceedings as extraordinary gains at the end of the third quarter. We left our earnings forecast unchanged as these amounts will cancel out in terms of impact on our net income.
- As of this point in time, we plan to pay one yen per share in dividends, assuming we meet our earnings forecast of 6 billion yen in net income. We recognize that our responsibility as management is to maximize net income. If net income looks to outperform plan, we will consider retained earnings, dividend payments, and payout ratios from standpoints of returning profits to shareholders and investors, continued capital investment, and the creation of a strong financial foundation.

Q-4

- ◆ Can you compare international flights at Haneda with flights at Narita in terms of demand for connections to domestic flights, unit price, and yield?

A-4

- As we showed on page 16 of our slide presentation, the three routes out of Haneda represent 24 percent of overall passenger connections from domestic routes. This is higher than connections out of Narita for the same destinations. While Narita represents more passengers connecting from international flights, this fact remains unchanged since before we began international flights at Haneda.
- Narita is maintaining its role as an international connecting point, while Haneda has come out as a full domestic network linking domestic and international routes. I think you could say that the separation of roles is fully functioning in our case.
- We have continued to demonstrate that daytime flights from Haneda—including existing flights—have higher yields than flights out of Narita. However, the over-night flights to Los Angeles, Bangkok, and Singapore—starting the end of last October—have showed no clear difference. We believe this is due to the impact of adjusting segment unit prices when recording domestic segment and international segment revenues, where there are numerous connections with domestic routes.
- We showed unit price trends—including Narita routes—on page 13 of our presentation. Unit prices are up 23.5 percent for the non-cumulative third quarter. In particular, Chinese routes experienced a significant decline in traffic due to the Senkaku Islands dispute. Leisure travel demand fell by a large margin, while business demand remained stable. As a result, we recorded a significant improvement in average unit prices. Yield improvement was slightly under 20 percent, not quite matching our unit price growth. Our analysis indicated that this was due to a proportional increase in long-haul routes, which have a comparatively lower yield than short-haul routes because of the introduction of international operations at Haneda.

Q-5

- ◆ What points do you feel are most important to address in case of revising your med-term corporate plan?

A-5

- We are currently putting together a two-year corporate strategy and profit plan for fiscal 2011 and 2012 based on the ANA Group Corporate Plan we announced on January 18.
- “Fully utilizing management resources” will be the first important factor to consider during this planning process. The expanded capacity in the Tokyo Metropolitan airports gives us a chance to see how effectively we can manage and utilize our aircraft and human resources as we grow our business to the next stage.

- The second important factor is the need to increase our capacity to respond to business volatility as the scale of our international passenger business grows, coupled with the increase in ratio of revenues from international business. In particular, we are planning a flexible cost structure that allows us to immediately reduce costs—as we have done in the current fiscal year—in the face of a global-level event that causes a significant decline of revenues. We are seriously discussing the details at this time, and we will announce our plans as soon as possible.

Q-6

- ◆ Please tell us more about the reasons for the changes to your shareholder benefits program.

A-6

- We changed the expiration date of shareholder's complimentary flight coupon to mirror the eligible boarding period. We also made the process more convenient by letting shareholders pay via Internet or at convenience stores, just as for any other fare purchase. We also set a payment deadline.
- In the past, there was no deadline for payments after a reservation had been made using shareholder's complimentary coupon. With this revision, we have established a payment deadline just the same as any other fare, which will provide a higher degree of accuracy in our reservation management process. We believe this change will decrease revenue opportunity losses and contribute to higher passenger revenues, resulting in greater value to our shareholders.

End