

Financial Results, Second Quarter, FY2011 Q&A Summary

Q-1

- ◆ Operating income for the first half appeared to outperform expectations. Why hasn't ANA made an upward revision for its full-year earnings forecast?

A-1

- Compared to our original plan announced on July 29, domestic passenger and international passenger operating revenues were each approximately 2.5 billion yen higher, amounting to a 5.0 billion yen increase in total. Operating expenses were approximately 5.0 billion yen lower than plan, mainly in lower fuel expenses and aircraft maintenance expenses. As a result, first-half operating income in our air transportation business outperformed plan by approximately 10.0 billion yen.
- At the same time, current concerns about the future of the global economy and the impact of yen appreciation have led us to expect that operating revenues will underperform plan by approximately 12.0 billion yen in international passengers and 3.0 billion yen in international cargo. We also expect operating expenses to come in below plan by about 5.0 billion yen due to fuel expenses and contracts being comparatively cheaper because of the strong yen. We also forecast sales-linked expenses, like commission and promotion costs, to be lower. Given these factors, we have made a downward revision of 10.0 billion yen for our second-half operating income plan.
- As a result of this downward revision in operating revenues and operating expenses by 10.0 billion each, we have not made any changes to our full-year earnings forecast for operating income.
- A key to earnings for this fiscal period will be the size of the impact of global economic trends. We believe it will take some time to recover from the economic slowdown and resolve the issue of the strong yen currency valuation.

Q-2

- ◆ In connection with the downward revision in international passenger revenues for the fiscal second half, what forecasts do you have in passenger demand and unit prices? Please include a description of the short-term trends in your answer.

A-2

- Compared to our original plan, we have reduced international passenger revenues for the second-half by 12.0 billion yen, and for the full year by 9.5 billion yen. This is still an expected 19.0 billion yen increase compared to the second half of the prior fiscal year. Specifically, passenger number-related factors will contribute 16.0 billion yen, while unit price factors should contribute 3.0 billion yen in increased revenues.

- Current demand forecasts for international routes show year-on-year passenger numbers up 12% for October, 8% for November, and 15% for December. Even with an increasingly foggy outlook on the business environment, passenger demand continues to be strong. The Senkaku Islands dispute led to a drop in passengers on our Chinese routes during the prior fiscal year, but our demand figures show a recovery in these routes.
- International passenger unit prices during the second half are expected to be 6% higher year on year, as we announced in July. However, we have revised this to 0.7% in the latest forecast. More specifically, unit price factors will contribute 3.0 billion yen, consisting of a 17.0 billion yen increase in fuel surcharges, a decrease of 12.0 billion in passenger mix effect, and a decrease of 2.0 billion yen in foreign exchange factors. Each of these factors represents a downward revision of our original forecasts.
- In particular, concerns about declining corporate earnings led to a shift toward lower-fare business class tickets during the fiscal first half. We believe this trend will continue throughout the second half. Since the recovery of inbound traffic is still slower than expected, for the time being, we will manage unit prices to retain demand, including leisure travel demand, while we keep a close eye on overall unit price levels—including fuel surcharges.

Q-3

- ◆ The chart on the right side of Page 16 shows a marked decrease in September promotional fare passengers on domestic routes compared to the same month last year. What is behind the decrease?

A-3

- The primary reason was an embargo on promotional fares in August that had been in place until last year. This year, we lifted the embargo for certain periods to stimulate demand. That change shifted a portion of the normal September demand among promotion-fare passengers to August.
- Another reason was that we had made an advanced announcement about promotional fare increases to begin in October of last year. This resulted in a rush of demand for September travel last year.
- These two factors contributed to a lower result in September of this year.

Q-4

◆ Since the delivery of the first B787, have there been any changes in the delivery schedule? How will the introduction of the B787 reduce fuel expenses or other operating expenses?

A-4

- Originally we planned to receive 12 aircraft this fiscal year and eight aircraft in the next fiscal year; however, our most recent initial two-year schedule includes some small changes. According to the latest schedule, we plan to receive 11 aircraft this fiscal year, and an additional nine during the next. However, this doesn't change the fact that we intend to receive 20 aircraft during these first two years.
- Besides saving fuel expenses, the reduced weight of the B787 should also mean an additional savings in landing and navigation fees, which are determined by aircraft weight.

Q-5

◆ Jetstar Japan is planning to start domestic service. Is ANA thinking of revising its business strategy for AirAsia Japan's domestic routes? What are your thoughts about service cities and fare levels?

A-5

- At this stage, we have no specific route plans for domestic and international services with AirAsia Japan. But, when we launch the low cost carrier, we believe we will create a new demand in air travel. We think there will be a demand shift to low cost carriers in domestic passenger traffic, which has relied mainly on ground transportation such as bus and rail. We do expect a certain level of demand cannibalization between AirAsia Japan and ANA; however AirAsia Japan will make a contribution to the total growth of ANA Group on a consolidated basis.
- Appropriate fare policies and effective aircraft utilization should maintain yields that lead to increased profits. We realize that it is important to act with a sense of urgency in expanding business and building demand, while keeping an eye on our competitors.

Q-6

◆ What are your thoughts concerning the strategy to leave the Asian route network to AirAsia Japan, with ANA specializing in long-haul routes to Europe and North America?

A-6

- As far as the ANA Group is concerned, our global operation and network are very important. Traffic from North America across the Pacific Ocean to the growing Asian market represents business that we have to capture in our network. Asian routes operated by ANA as a full service carrier will continue to be important. Our attitude in this area has never been changed. At the same time, AirAsia Japan is pursuing a strategy of growth in the Asian market by targeting a passenger segment with completely different needs.

Q-7

- ◆ Reconsidering the medium-term fleet plan is a theme of ANA's next mid-term Corporate Plan. Does this mean that ANA is considering changing its traditional hub-and-spoke strategy creating a network using wide-body aircraft and connecting flights to an international network of direct flights using B787s and other mid-body aircraft? Will this have an impact on investment plans in wide-body aircraft and financing going forward?

A-7

- We have structured an international route network that uses mainly B777-300ER aircraft flying into gateway airports in Europe and North America, with connecting flights operated by our alliance partners. There is about a 100-seat difference in the international long-haul spec B787 and the B777-300ER. Rather than use the B787 as a replacement of our current B777-300ER aircraft, we envision using the B787 where expected demand on certain direct routes is somewhat small for a wide-body plane, or for added flights on existing routes.
- Accordingly, we do not plan on putting only mid-body planes into operation for international long-haul routes. We haven't made any major changes in our wide-body fleet plan. The issue of wide-body aircraft should not be a factor that has any special impact on future financing plans.

Q-8

- ◆ Is the 100 billion yen in cost reductions a plan for ANA on a stand-alone basis? Does the plan include AirAsia Japan? What areas can provide costs savings, and when do you expect to see a cost-savings effect?

A-8

- We anticipated an increase in the number of slots in Tokyo metropolitan area airports and that the progress of open skies would lead to a tougher competitive environment in which overseas airlines—including low cost carriers—expand into the Japanese market. We also have considered event risk, as well as stronger cost competition due to the restructuring of our main competitor in Japan. These are the reasons we have targeted an operating expense reduction of 100 billion yen, which is equivalent to a reduction in unit costs of 1.0 yen. We are very aware that a stronger corporate structure is vital to be able to respond to changes brought about by the external environment.
- Our cost reductions are not just ANA stand-alone, but are rather Group-wide initiatives. Nothing is off limits; we will look for cost savings in every aspect of our business, reflecting global standards in how we pursue our operations, our organizational concepts, and our work procedures.
- We will continue to derive benefits from the cost-reduction measures we have put into place, while working to accomplish our goals in the next two-to-three years.

End