August 2013

Financial Results, First Quarter, FY2013 Q&A Summary

Q-1

◆ How did the results for the first quarter profit compare to the budget plan?

A-1

- Operating revenues for the air transportation business fell approximately 1.0 billion yen short of plans. Specifically, domestic passenger revenues were approximately 2.5 billion yen short and international passenger revenues were approximately 1.0 billion yen short of plans. Domestic and international cargo and mail revenues were nearly in line with planned figures while other revenues, including mileage/card revenues, exceeded budget plan figures by approximately 3.0 billion yen.
- Operating expenses exceeded plans by approximately 5.0 billion yen, thus there was a difference of approximately 6.0 billion yen on an operating income basis.
- Fuel expenses exceeded plans by approximately 7.0 billion yen, of which the currency impact of 4 yen depreciation against our assumption of 95 yen per US dollar was approximately 2.0 billion yen. Next, the resumption of Boeing 787 scheduled flights began in June, which was one month earlier than initial plans. This, together with the implementation of test and crew familiarization flights, resulted in increased fuel consumption and was a factor that resulted in an increase of approximately 2.0 billion yen. Furthermore, increased consumption not related to Boeing 787 factors also contributed to plans being exceeded.

Q-2

◆ Considering first quarter earnings fell below plans, what is your view on your earnings forecast for the full year? Are any additional cost-reduction measures possible?

A-2

- In the past, we have recorded operating income exceeding 100.0 billion yen during the nine-month period beginning with the second quarter, the high demand season. If yen depreciation continues to exceed the budget rate, we will continue to face cost increase factors. However, recently the Japanese GDP has been revised upward and we are in an environment where we can expect to see an increase in air transportation demand linked to economic growth. Furthermore, yen depreciation is resulting in improved business performance among export industries. As such, we anticipate future growth in demand, particularly with demand for business travel on international routes.
- Accordingly, we are maintaining our full year forecast for operating income of 110.0 billion yen and will continue our efforts with measures to increase revenues as well as with cost restructuring.

- Regarding cost reductions, we currently are continuing with our program for reducing unit costs by 1 yen. Of our fiscal year goal of 25.0 billion yen in reductions, we successfully reached the 5.0 billion yen reduction as a target included in first quarter plans. As such, our primary focus is on executing and successfully achieving existing plans for the current fiscal year.
- As usual, we are planning to announce our revised business plan for the second half of this fiscal year in August. We will conduct earnings forecasts based on that revised business plan and confirm the measures necessary to address cost increase factors such as fuel expenses.

Q-3

- Regarding underlying conditions related to domestic routes, please explain trends in passenger numbers and unit prices.

A-3

- When looking at individual passengers as a whole, passenger numbers during the first quarter are basically flat compared to the previous year. We anticipated +5% growth in package/leisure travel demand compared to the previous year but actually this grew to +6.5%.
- Unit prices during the first quarter decreased by 3.2% year on year and fell below planned figures. It was not a situation in which we experienced a significant drop in unit price on any specific routes due to expanded supply resulting from an increase in Haneda slots or tough competition from competitor airlines, LCCs, or bullet train services. Due to increased use of shareholders' coupons since the second half of the previous fiscal year, in our plan we forecast a year-on-year decrease of 1.7% in unit price but the passenger class mix experienced significant growth in package/leisure travel and this resulted in a decline in unit price that was more severe than planned.
- Our forecasts for second quarter passenger numbers call for year-on-year increases of 3%, 3%, and 2% for July, August, and September, respectively. Continuing from the first quarter, we are seeing strong passenger numbers in package/leisure travel and individual passenger numbers are particularly firm among promotional fare passengers. As such, we anticipate that the year-on-year comparison of unit prices for the second quarter will show improvement compared to the first quarter.

Q-4

◆ Regarding underlying conditions related to international routes, please explain trends in passenger numbers and yield.

A-4

■ Our forecasts for international passenger numbers call for year-on-year decreases of 3%, 6%, and 3% for July, August, and September, respectively. These figures are still negative due to the continued impact of stagnant demand on China routes. However, the extent of the negative numbers is improving and we project RPK to increase by nearly 5% year on year.

■ Business class demand is strong on medium and long-haul routes and we predict year-on-year growth of approximately 6% for the second quarter.

■ Passenger numbers on China routes decreased more than 20% year on year in the first quarter but during the second quarter we forecast this will be limited to a decrease of less than 10%.

■ Overall yield during the first quarter increased by 5.3% year on year. Excluding China routes, first quarter load factors were higher than 70% on almost all other routes. Our forecast for the second quarter calls for load factors of nearly 80%, excluding China routes. With such load factor conditions, in terms of net fares, which exclude the effect of yen depreciation, we believe this is an environment that will allow us to implement appropriate yield control. Conversely, as we will lower the fuel surcharge (FSC) beginning in August, this element will cause a decrease in FSC-included yield.

Q-5

◆ Recovery of passenger numbers on China routes is slow. Tell us about your policies for matching of supply and demand, such as switching to narrow-body aircraft or reducing the number of scheduled flights, as well as your thoughts on the future positioning of China routes within your international network.

A-5

■ We are continuing our response to stagnant passenger demand on China routes by maintaining the number of flights in operation while switching to narrow-body aircraft to control ASK. During the first quarter, ASK, RPK, and revenue share represented by China routes all fell year on year.

■ Currently, business demand, which has higher unit prices, has recovered to levels prior to the Senkaku Islands territorial dispute. Recovery is steady for package tour/leisure travel demand from China to Japan and between China and USA via Japan. However, the only remaining problem is the continued stagnant pleasure demand out of Japan to China.

■ Conversely, cargo demand for China routes is strong and we are beginning to see routes for which it will be more profitable to switch to wide-body aircraft.

■ Based on both passenger and cargo revenues, we believe that continuing a basic policy of changing aircraft size to match demand while maintaining our network will contribute to overall profit.

Q-6

◆ Regarding the rebuilding of the business model for AirAsia Japan, are there risks of incurring one-time expenses or expanded losses? Also, explain how making the company a 100% subsidiary will restructure the company into a profitable business and put it on a path for growth.

A-6

- It was explained in the initial plan for the current fiscal year that we forecast operating losses of approximately 1.0 billion yen due to the implementation of various improvements. However, at present it is expected that the amount of losses will exceed planned losses. We are planning to continue operating under the current format until October and we will resume operations under a new format in December. We will work to increase revenues as much as possible while promoting cost reductions in order to limit the extent of losses.
- The 100% capitalization will allow us to have complete management control, through which we will be able to utilize our experience of airline business in the Japanese market while rebuilding a new LCC based in Narita. The successful experience seen in Peach, which has recorded recent load factors of levels near 85% and which is forecasting a profit for the current fiscal year, is a source of confidence for LCC business in ANA Group. Having had the opportunity to study AirAsia's advantage through AirAsia Japan management for approximately one year, we will combine the superior parts of AirAsia to improve the competitiveness and profitability of our Narita LCC business.

Q-7

◆ What is the background behind the decision to acquire the US-based pilot training business and deploy those services in Asia?

A-7

- Through a partnership with our Group pilot training company, panda Flight Academy, we have always had dealings with the Pan Am International Flight Academy. Not only does the company have a more than sufficient business structure, experience, and know-how, but they also were considering expanding into Asia. As such, we determined that combined with the ANA Group's business platform in Asia, this could be a promising business for our strategic investment activities.
- In addition to appropriate due diligence, we also reviewed reports noting future strong demand for development and training of airline pilots in the Asia-Pacific region, which continues to see expansion of the air transportation business. As such, we concluded we can expect sufficient commercial viability.

End