November 2014

Financial Results, Second Quarter in FY2014 Q&A Summary

Q-1

◆ Please provide a breakdown of second quarter profit in terms of actual versus planned.

A-1

■ While international passenger revenues and other revenues outperformed plans for the second quarter alone, domestic passenger revenues fell below the target due to impact of typhoons and other factors. As a result, revenues for the air transportation business for the first half exceeded plans by approximately 2.0 billion yen.

■ On the other hand, operating expenses increased by approximately 2.0 billion yen. This was due to a rise in fuel expenses caused by increased fuel consumption volume corresponding to the non-scheduled flights during the high demand season. As a result, operating income for the first half was almost on par with the original plan.

■ Fuel expenses for the second half are forecast to decrease by approximately 7.0 billion yen compared to plans mainly due to a decline in crude oil market. However, considering the impact of typhoons during October on domestic passenger business and the decline in revenues from fuel surcharges for international passenger business, total income of this fiscal year is forecast to be on par with the original budget. As such, at this point, we have decided to leave the earnings forecast announced at the onset of the fiscal year remain the same.

Q-2

◆ Looking at performance for each fare types of your domestic passenger business, it appears that the number of individual passengers for the second quarter has declined compare to the previous year. What are the factors behind this decline? (Question related to “Trends of passengers by Segment and Unit Price” on Page 18 of Presentation materials)

A-2

■ Corporate demand did not decline during the first half and we saw no particular impact from the consumption tax rate hike or fare raise. However, we have seen the trend of a certain portion of price sensitive customers shifting from “individual” to “promotional fares.”

■ We are aware that such an environment requires even more precise yield management. Throughout the first half, we implemented strategic pricing management that resulted in the overall combined demand for individual and promotional fares exceeding the previous year. Also, this led to increased revenues for our domestic passenger business. We see these changes as the benefit of having developed new types of fare for the highly price sensitive segment of customers.

■ When comparing performance during the first half of the current fiscal year with the same period of fiscal year 2012, ASK increased approximately 3% and RPK is approximately 5% higher. This indicates the positive effects of initiatives to capture demand, which includes promotional fare management. Our intent is to expand revenues by controlling both the passenger numbers and unit price by initiatives to capture overall combined demand for individual and promotional fares.

Q-3

- ◆ What is the state of the passenger class mix and demand by regions for international passenger business? Is there any change from the original plan for this fiscal year in regards to your unit price forecast?

A-3

- ■ We forecast that the same trend as the first half of the fiscal year will continue during the second half for international passenger business. Passenger numbers during the third quarter will increase by more than 10% year-on-year for both business and economy class. ASK and RPK will increase year-on-year by 16.5% and 13%, respectively. Although a year-on-year decrease in fuel surcharges, we forecast that the unit price will be almost on par with the previous year. During the second half, we anticipate that both unit price and yield will outperform our original plan.
- ■ Regarding our demand forecasts by regions for the third quarter, revenues in North America, Europe, and China will be almost on par with or outperform original plans. We forecast that ASK and RPK will increase year-on-year by 12% and 10%, respectively, on North American routes and by 41% and 26%, respectively, on European routes. On China routes, ASK will decline by 0.6% while RPK will increase by 5%. On Asian routes, ASK and RPK will increase by 19% and 13%, respectively. We realize that there are a couple of challenges on specific Asian routes such as weaker demand. However, we anticipate that those are covered by North American, European, and China routes.

Q-4

- ◆ Please tell us how issued routes have performed during the second quarter which identified as challenges during the first quarter following the expansion of international network.

A-4

- ■ During the first quarter, we recognized the challenges of securing demand on the Paris route, which saw a significant increase in overall supply from both ANA and other airlines, the Bangkok route, which faced concerns of a coup d'etat, and the Jakarta and Manila routes, which were newly established out of Haneda.
- ■ During the second quarter, the load factor for the Haneda-Paris route was over 80% while it was mid-60% in the first quarter. We were successful in capturing leisure travel demand, particularly during the peak summer season.
- ■ On the Bangkok route, leisure travel demand fell below our original plan during the first quarter due to concerns of a coup d’etat but this situation was mostly resolved by the end of August. On the Jakarta and Manila routes, although business demand has been firm, overall demand fell below expectations during the second quarter as well. We will continue to take the competitive advantages of Haneda as we enhance various of initiatives aimed at securing demand including leisure travel passengers.
- ■ From October 26, we resumed operation of the Haneda-Chubu route in order to enhance competitiveness for our international network at Haneda. This change will make easier connection for customers in the Nagoya region, who used to transit at Narita to take international flights, can transfer to our international network at Haneda.

Q-5

◆ For your international passenger business, tell us the status of demand from foreign countries and your success in capturing demand among foreigners visiting Japan.

A-5

■ The network expansion of international passenger business enables us to capture trilateral traffic demand of sales in overseas, as sales results of a joint venture with United Airlines for the first half increased by approximately 50% compared to the previous year. On the other hand, looking at performance by airport for domestic sales, the composition of ASK is below 40% for Haneda and well above 60% for Narita. However, the composition of revenues is well above 40% for Haneda, which reflects the competitive advantage. We are being successful in securing demand with the same level of yield as previous year while increasing ASK.

■ Continuing on the success of the first quarter, the second quarter also saw growth in the sales figures of promotional fares targeting foreigners visiting Japan on our domestic passenger business. We forecast that this trend will continue during the second half. We also forecast that the number of foreigners visiting Japan will represent approximately 2% of overall passengers on our domestic passenger operations for the current fiscal year. Converted into load factor, this is equivalent to a positive effect of 0.2%.

Q-6

◆ Please let us know about current demand trends and your unit price forecast for international cargo business.

A-6

■ Since the end of March, we have implemented initiatives especially to secure greater trilateral traffic demand following the expansion of international network. These efforts resulted in an increase in revenue tons of approximately 30% year-on-year. In particular, demand for foreign shipments to Japan and demand for shipments from Asia to North America through Japan are increasing steadily.

■ Supported by such steady supply and demand conditions, we have seen a gradual increase in unit price. Already, nearly 70% of international cargo revenues are from overseas sales, therefore the trend toward current yen depreciation is also working to increase the unit price.

Q-7

◆ Please tell us about the performance of your LCC business and your future forecast.

A-7

■ The load factor for Vanilla Air was approx 90% during the second quarter alone and over 70% for the first half. We view this to be the result of having launched smartphone reservation services and the addition of Vanilla Air tickets to the menu of redemption miles for ANA Mileage Club members, among other strategies implemented during the first half.

■ First half income progressed according to original plans. We still forecast an operating loss for the current fiscal year but for the upcoming fiscal year we are aiming to balance out income and expenses. While the increased aircraft in service has helped secure demand, we realize that increasing yield is a priority assignment.

■ Peach Aviation faced the issue of a pilot shortage during the first half but load factor during the second quarter was in the mid-80% range, indicating steady performance for both domestic and international passenger operations.

Q-8

■ As a Group overall, how are you positioning the use of promotional fares to secure demand for your domestic passenger business with the expansion of the LCC business?

A-8

■ The purpose for offering promotional fare is to expand revenues by controlling both unit price and passenger numbers by utilizing flexible pricing. We recognize that the increase in domestic revenues during the first half compared to the previous year was the result of this additional offering of promotional fares. On the other hand, it is important that the LCC be free to set fares and establish routes independently. It is not the case that we assume demand segregation between ANA and LCC.

■ Going forward, Vanilla Air will work to expand routes mainly with a focus on international passenger operations. The Narita-Amami Oshima route launched in July is a successful example of securing domestic demand. We believe the key to success for Vanilla Air will be the continued expansion of business based on autonomous decision making.

Q-9

- ◆ We are seeing a continuing trend of yen depreciation. What kind of impact do you forecast which will have on performance during the next fiscal year?

A-9

- ■ In terms of currency hedging for the current fiscal year, we implemented flexible measures that involved completing all hedging transactions by the end of the previous fiscal year. Throughout the second quarter, we have been addressing currency hedging for the next fiscal year as well. As of the end of September, the currency hedge ratio was 60%. Compared to the end of June, this represents an increase of around 15% for the currency hedge ratio, which is approximately 10% ahead of schedule when compared to the original plan.
- ■ As a result, we do not think future fluctuations in the currency market will have a significant impact on income during the next fiscal year.

Q-10

- ◆ Please tell us the status of cost restructuring initiatives during the first half and your forecast for the second half.

A-10

- ■ We plan to implement cost restructuring initiatives for the current fiscal year in the amount of 34.0 billion yen. We achieved 14.5 billion yen during the first half and thus initiatives are proceeding according to plan.
- ■ During the second half, we will incorporate new methods for pilot training in a shorter period of time compared to the previous methods and we are also planning initiatives such as expanded group-wide procurement. Items and savings of cost reductions already have been incorporated into the fiscal year budget and the business plan. Based on a consideration of when we could expect to see the benefits of those initiatives, from the onset the plan was structured with more weight on the second half.
- ■ As for the use of consulting to improve productivity compared to other airlines or other industries, we are shifting from the planning phase to the implementation phase. The goal of 34.0 billion yen in reductions for the current fiscal year has a high possibility of achievement.

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