February 2015

Long-term Strategic Vision and Financial Results Third Quarter in FY2014 Q&A Summary

Q-1

◆ **Please tell us about the long-term approach of your international network expansion. Also, how will you respond to business volatility as you enhance network expansion?**

A-1

■ For the Group, we plan to achieve revenues of 450.0 billion yen in international passenger business for the current fiscal year and, compared to other airlines in Asia, we believe there are still significant chances for additional expansions. This view is based on an evaluation of factors not only the scale of the Japanese market but also the geographical advantages of being positioned between Asia and North America.

■ Measures to address business volatility include, for example, our cost restructuring initiatives. Those implemented over recent years have resulted in both measurable declines in unit costs of air transportation business and gradual increases to our risk tolerance. As for medium to long-term outlook, we will see more opportunities for business optimization as we continue with fleet integration initiatives. This will enable us to enhance further cost reductions and improve competitiveness. We also are planning to increase revenues from outside of the group by our non-air businesses. We believe that optimizing our business portfolio will lead to reduced volatility on a consolidated basis.

Q-2

◆ **How do you intend to expand the LCC business? The LCC market is already highly competitive in Asia. Please tell us about the ANA Group strategy for distinguishing your LCCs from other competitors?**

A-2

■ In Southeast Asia, competition between LCCs is already intensifying but in Northeast Asia, there are still opportunities for growth. Speaking specifically about domestic services in Japan, the LCC market share remains at just 6-7%.

■ Looking at Group performance, LCC business is generating air travel demand that differs from that seen by typical full service carriers. The cannibalization within our group is limited. Also, looking at the most recent results for Vanilla Air and Peach Aviation, we are seeing a notable increase in the number of foreign visitors to Japan on Taiwan, Hong Kong and Korean routes. Particularly in Asia, we anticipate strong growth in inbound traffic and see this as a great opportunity to expand our LCC business.

■ Our policy is to continue to expand LCC business and evaluate the various possibilities including investment in an overseas LCC.

Q-3

- **Your long-term strategy vision outlines doubling revenues from non-air businesses compared to current levels. Specifically, in which businesses do you expect to increase sales?**

A-3

- Non-air businesses can be separated into three main segments: Trade and Retail, Travel Services, and Airline-Related. One keyword common to all these segments is foreign visitors to Japan. For example, with the Trade and Retail, consumption by inbound passengers at airport duty free shops is increasing. At the same time, with Travel Services, increased demand for travel to Japan is contributing directly to increased revenues.
- As indicated by IATA demand projections, air traffic demand in Asia is forecast to see continued growth. We will work to capture the vast demand in Asia for pilot training and maintenance, repair & overhaul (MRO) to increase revenues for our non-air businesses and achieve the Group's growth strategies.

Q-4

- **Tell us about how you will utilize the most recently ordered aircraft as it relates to the further optimization of supply and demand on domestic passenger business. Also, what is your forecast for future investment cash flow and financing?**

A-4

- Domestic passenger operations experience a significant difference in demand between peak and off-peak periods. Thus far, we have responded to this by optimizing supply and demand, which entails maximizing the use of narrow-body aircraft during low demand periods in order to control variable costs and the use of wide-body aircraft during high demand periods to expand revenues. We believe this most recent aircraft procurement will further increase the benefits of supply and demand optimization, which will lead to sustainable long-term profitability for domestic passenger business.
- Fleet-related expenses including depreciation and amortization will increase due to the deployment of new aircraft but this will enable us to control variable costs to an extent that exceeds the increase in fleet-related expenses. We expect that maintaining revenue levels while decreasing expenses will result in a positive return on our investment.
- We forecast cash flow from investment activities to be approximately 160.0 to 230.0 billion yen annually and free cash flow of 80.0 billion yen in total for the three-year period between fiscal 2014 and 2016. This reflects the revisions in our currency market assumptions from 105 yen/dollar to 120 yen/dollar as well as the most recent aircraft order. Capital for this expenditure will be procured through liquidity on hand and borrowing.

Q-5

- **Your long-term strategic vision sets a goal of 200.0 billion yen in operating income level in fiscal 2025. Can you tell us your current forecasts for the operating income levels of each business? Also, tell us your thoughts on what you feel are suitable level of shareholders' equity for addressing event risks.**

A-5

- Compared to current levels, we expect that revenues from domestic passenger business will have declined in fiscal 2025 but are planning for a nearly two-fold increase in international passenger business. We also anticipate achieving over 200.0 billion yen in revenues from LCC business as well as nearly 300.0 billion yen from cargo business. We anticipate achieving an operating margin of 8-10% for each business.
- The expansion of international passenger business will require that we strengthen our ability to respond to event risks. As such, we have increased the ratio of capital to shareholders' equity as we aim for a target figure of 40%. Over our history, we have overcome numerous event risks and believe that our current financial position is within the target range.
- Ten years ago, shareholders' equity was roughly 350.0 billion yen and the ratio of shareholders' equity was nearly 20%. Today, shareholders' equity is 800.0 billion yen and the ratio of shareholders' equity is improved to 35%. Based on our plans for net income of 60.0 billion yen in fiscal 2016, which is the final year of the current corporate strategy, we can accumulate roughly 400.0 billion yen in shareholders' equity over the next 10 years. With a sturdy foundation consisting of shareholders' equity exceeding 1 trillion yen and a ratio of shareholders' equity approaching 40%, we believe our financial position will provide more sufficient protection against event risks.

Q-6

- **In light of the value creation targets outlined in your long-term strategic vision, what are your thoughts on future shareholder's returns?**

A-6

- For shareholder's returns we will look to set a target dividend ratio of 30%, which is the average for listed companies. Considering our forecast of an ROE of 5% for the current fiscal year, we must aim for a profitable structure if we are to succeed in creating value. The major assumption here is that we succeed in applying our growth strategies toward expanding revenues while controlling expenses.
- Needless to say, maintaining stable dividends is important. At the same time, we will pursue to be a corporation that can offer capital gains by elevating income to effect an increase in our stock price.

Q-7

◆ **Please tell us about the current status of currency hedging for fiscal 2015. Also what impact do you believe declining crude oil prices will have on operating income?**

A-7

■ Based on our forecast that the termination of quantitative easing in the U.S.A. would result in further yen depreciation, we implemented flexible currency hedging measures by the end of last September. Also, the revision of our fuel market assumptions resulted in a decline in the amount of foreign currency required for fuel expense payments. As such, currency hedging for the upcoming fiscal year is almost complete.

■ On the other hand, the crude oil market has been in a decline since the end of last August. Through the third quarter of this year, we have not enjoyed benefits from this decline. However, from the fourth quarter and beyond, we forecast that we will gradually see the benefits of this decline in the market. In light of the impact of revised currency assumptions and the rescheduling of cost restructuring initiatives, we estimate that the impact on operating income for next fiscal year could be an increase in profit of nearly 5.0 billion yen at maximum.

Q-8

◆ **Please tell us about the unit price and yield forecasts for domestic business outlined in the corporate plan for the upcoming fiscal year. Also, can you tell us your forecast on the benefits of the international network expansion centered on Narita as well as your supply and demand forecast in international business?**

A-8

■ Looking solely at the third quarter, unit price factors contributed to increased revenues for domestic passenger business thanks to the fare raises implemented in last July. The trend for unit price in the fourth quarter also has been steady. For the upcoming fiscal year, we plan to continue controlling ASK for domestic passenger business and forecast that both unit price and yield will remain steady.

On international passenger business, next fiscal year we are planning for network expansion centered on of Narita. Supported by firm economic trends in the U.S.A. and the Asia region as well as our advantageous geographical position of Japan, network expansion implemented thus far has resulted in success especially on our trans-Pacific routes. The Narita-Houston route scheduled to begin next fiscal year is expected to develop demand from businesses in the energy sector and will serve as a gateway that connects Asia and Latin America. The Narita-Kuala Lumpur route will capture demand expected to increase with growth in Asia and increased flights for the Narita-Honolulu route will ensure stable leisure travel demand.

■ The upcoming fiscal year will mark the second year since expanding international passenger business out of Haneda. We believe business demand mainly in the Tokyo Metropolitan area as well as transit demand from various airports in Japan will take hold. Also, the decrease in fuel surcharges is expected to drive an increase in Japan outbound leisure travel demand. We will continue to expand our network gradually based on appropriate decisions supported by highly accurate demand predictions.

Q-9

- **Please tell us about the status of LCC business and your progression towards achieving profitability.**

A-9

- For the third quarter, Vanilla Air achieved a load factor exceeding 80%, indicating the company has sufficient ability as it relates to passenger numbers. We will implement yield management in order to improve unit price. Also, with the benefits of the recent decline in the crude oil market, we will aim to achieve our original target of having a breakeven budget for the upcoming fiscal year.
- We will continue to examine overall Group route optimization and expand LCC services with a focus on mainly resort destinations not covered by ANA.

End