May 2015

FY2014 (ended March 2015) Financial Results Q&A Summary

Q-1

◆ **It looks like the load factor for European routes is declining. Please tell us the forecast and countermeasures. Also, is there any impact from the lower fuel surcharge (FSC) levels on demand trends in International Passenger Operations?**

A-1

■ In terms of the situation for each European route, we had steady demand for the London and three German routes. However, for the Paris route, which ANA operates from both Haneda and Narita, the total frequency of flights including other airlines has exceeded overall demand in the market since last spring. Under these circumstances, the terrorist attacks in France had a slight impact on demand especially for travel and leisure in the fourth quarter. The current reservation trends for European routes remain firm, mainly on business, but we will optimize demand and supply for Paris routes by switching from wide-body (Boeing 777) to mid-body (Boeing 787) aircraft from the beginning of May.

■ In consideration of lower FSC levels resulting from the decline in fuel prices, we expect a certain degree of demand stimulation, as included in our revenue plan for FY2015. Currently, we have firm leisure demand out of Japan and expect a further increase especially in the summer season.

Q-2

◆ **Foreign visitors to Japan are increasing. What is the status of overseas sales in International Passenger Operations in FY2014? Also, please tell us the impact on Domestic Passenger Operations.**

A-2

■ In recent years, the overseas sales composition in International Passenger Operations has been on an upward trend. In FY2014, overseas sales accounted for roughly 45% of passengers in total, which was approximately 5% higher compared to the previous year. On North American routes in particular, overseas sales accounted for more than half.

■ For Haneda and Narita combined, the number of foreign visitors to Japan flying with our international flights increased by over 40% year-on-year. This has also resulted in a substantial increase in the number of passengers connecting to domestic flights. In FY2014, the number of foreign visitors using promotional fares on domestic flights including “Experience Japan Fare”, increased by more than 50% year-on-year, and we are expecting a further increase.

Q-3

- **Regarding the FY2015 revenue plan for International and Domestic Passenger Business, please tell us the breakdown of the revenue increase (+¥19.6 billion international, +¥9.6 billion domestic) in unit price and passenger factors.**

A-3

- In the International Passenger Business, we plan for a roughly ¥20 billion decrease in revenue due to unit price factors and a roughly ¥40 billion increase due to passenger factors. In terms of unit price factors, the trend of the weaker yen in exchange rates will contribute to a revenue increase in overseas sales. However, the impact of lower FSC levels will result in a revenue decrease. As for passenger factors, we expect an increase in revenue due mainly to expansion of the business scale and the effect of demand stimulation resulting from FSC revisions.
- In the Domestic Passenger Business, we plan for a roughly ¥6 billion increase in revenue due to unit price factors and a roughly ¥3.5 billion increase due to passenger factors. In terms of unit price factors, we consider the continued effect of the fare raise implemented in July of last year to be one of the revenue-increasing factors. As for passenger factors, we suppose a revenue-decreasing impact from the Hokuriku Shinkansen bullet train, but demand stimulation from the effective use of promotional fares and demand during the consecutive holidays in September, “Silver Week”, will lead to an overall revenue increase.

Q-4

- **Please tell us the FY2014 results in the LCC business. Also, how will you achieve profitability in FY2015?**

A-4

- Revenues in FY2014 increased substantially year-on-year. We had an operating loss, but there was greater improvement than the initial plan. The load factor was 75% in 1H and 86% in 2H, so the business is steadily penetrating the market. The load factor for the full year was 80% and nearly 90% in March.
- Looking ahead to FY2015, we are working to improve the flight in-service rate by enhancing operational quality and have also introduced a yield management system. Additionally, we are reviewing the network while keeping an eye on the market environment and demand trends. We feel that the business is taking a positive turn. Although, there is no concern about pilot shortages currently, we plan to maintain eight aircraft in service throughout the fiscal year. We will put effort into improving business performance by implementing various measures.

Q-5

◆ **You have completed your hedging against foreign currency and fuel for total exposures of FY2015. What is the impact of future market fluctuation on the profit plan?**

A-5

- We have completed the required amount of hedging against both foreign currency and fuel for FY2015. We do not expect market fluctuation to have an impact on operating profit.
- In terms of foreign currency, expenses that have not been hedged will fluctuate according to market conditions, but they will be offset by foreign currency revenue, so we expect no sensitivity on profit. For fuel, expenses that have not been hedged and FSC revenue from International Operations will fluctuate at around the same level, so we believe that the impact on operating profit will be very limited.

Q-6

◆ **Please tell us your policy for dealing with credit ratings agencies and your approach for financing. Also, in the FY2015 plan, the level of cash-flow from investing activities is smaller than the amount of capital expenditures. What are the factors behind that?**

A-6

- The results at the end of FY2014 were that the D/E ratio was 1.0, and the shareholders' equity ratio was approximately 35%. Once we achieve both a D/E ratio of 1.0 and a shareholders' equity ratio of 40%, obtaining a credit rating of "A" by Rating and Investment Information, Inc. will be in our sights.
- We believe around ¥400 billion is an appropriate level of liquidity on hand for the time being, including the commitment line agreements with the banks. As for financing, we will continue to take loans from banks effectively and combine a wide range of measures including utilization of the import guarantee system for aircraft, issuing corporate bonds and aircraft leasing, as we have done in the past.
- We will continue aircraft investment actively, which is the future growth capital, but we think it is important to make free cash-flow positive. We will work in consideration of the free cash-flow level by incorporating sales and lease back for some aircraft of which the period in service is limited.

Q-7

- **In terms of the capital injection into Skymark Inc.(“Skymark”)”, what economic advantage do you prospect? Also, please tell us how much of a share you will acquire and how long ANA HOLDINGS INC. is going to maintain a stake.**

- We have a track record of contributing to the revitalization of other domestic airlines. We think that specific support measures such as sales cooperation through code-sharing and procurement support including joint purchasing of jet fuel etc. will lead to an advantage for both the ANA Group and Skymark. We believe that our efforts to support the revitalization of Skymark will lead to higher corporate value for us.
- Currently, we are at the stage of signing “Memorandum of Understanding Regarding joint sponsorship of Skymark Inc.” We will determine the specific capital contribution ratio through future negotiations within a maximum of 19.9%. Based on past examples, we believe that support for revitalizing an airline is a relatively long-term endeavor. We have not been required by the Ministry of Land, Infrastructure, Transport and Tourism to limit the investment period.

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