February 2016

FY2016-2020 ANA Group Corporate Strategy, Financial Results for the Nine Months ended March 2016, Q&A Summary

Q-1

◆ **Please tell us about your view of business environment in your next Corporate Strategy.**

A-1

- Currently, MLIT is spearheading discussion regarding slot expansion at the Tokyo Metropolitan area airports. We aim to increase the number of flights by taking advantage of this opportunity. At the same time, our market environment is more likely to be fiercely competitive due to an increase in routes and flight services by other airlines. We recognize that the recent declines in crude oil prices may stimulate LCCs in the Asian region and other competitors.
- The increase in inbound traffic has been a tailwind for our business and we think that demand expansion will continue. Although the impact of economic downturn might be a concern in China, we have not seen any significant demand changes on our China routes.

Q-2

◆ **Please tell us about the strategy for each business in terms of the background for your revenue plan and your initiatives and policies in order to increase profitability.**

A-2

- This strategy continually positions the International Passenger Business as a growth driver. Our policy will be to facilitate ASK expansion by increasing aircraft numbers in all areas without focusing on particular regions. We believe it is important to cover future growth markets steadily with our aircraft and through partnerships with other airlines, particularly with the Star Alliance members. Through our marketing activities, we will work to capture various demands such as Japan outbound/inbound and trilateral traffic via Japan. Heading towards fiscal 2020, yield levels will be impacted by factors such as changes in our route mix and in fuel surcharge revenues due to fluctuations in the crude oil market.
- For Domestic Passenger Business, we will maintain our revenue platform by the strategic optimization of supply to demand such as the implementation of Dynamic Fleet Assign Model. We will work to capture demand among foreign visitors to Japan since the working-age population is gradually decreasing in Japan. We think that factors, such as our pricing strategy targeting foreign visitors to Japan, will impact future unit price levels.
- For the International Cargo Business as well as International Passenger Business, we will work to increase revenues significantly by expanding capacity. We are facing a decline in cargo market demand in this fiscal year, particularly among Japan import/export cargo, but we will implement the following three specific measures to improve conditions.

(1) Aggressively capture the steady market for trilateral cargo between Asia and North America.
(2) Pursue profitability for freighters based on the current assumption of maintaining a 12-aircraft fleet for the foreseeable future. Suspend operation and set flexible charter and non-scheduled flights along with demand trends to control costs and maximize revenues.
(3) Work on exporting foods from various regions in Japan in response to the booming popularity of Japanese food in China and Asia in cooperation with local governments.

- For expenses, we will use unit cost, cost per ASK, as a monitoring index. In addition to implementing Cost Restructuring Initiatives we have planned through fiscal 2016, we thereafter will reinforce cost management initiatives aimed at further improving profitability and promoting competitiveness for the Air Transportation Business.
- Although nothing has been determined at this time, we will make decisions concerning restructuring duplicative business and the withdrawal from or outsourcing of low-performance business by considering the performance of each Group company.

Q-3

◆ **Please provide details on your resort strategy for International Passenger Business.**

A-3

- For International Passenger Business, we will promote the development of our resort routes on which we previously did not focus, as a part of our growth strategy. We plan to procure three new Airbus A380 and use them between Honolulu and Tokyo Metropolitan area airports. Trends over the past 10 years have shown that the Honolulu route consistently has extremely high demand without significant seasonality-based fluctuations throughout the year. Currently, we operate three flights per day on the Honolulu route using the mid-body Boeing B767. Gradual transition to A380 from 2019 will enable us to capture demand not only in the Tokyo Metropolitan area, but also transit passengers from various regions in Japan and overseas that we did not capture enough.
- We project that deploying A380 will not result in significantly losing the balance of supply and demand for this route based on our Group results and past trends in ASK for the entire market. We believe that increasing the number of seats will expand revenues not only for the Air Transportation Business, but also for the Travel Services Business. Furthermore, this transition will make it easier to use flight awards for ANA Mileage Club members and it will enable us to enhance customer satisfaction and overall competitiveness for the Group.
- Although switching to the A380 will result in increased costs per flight, we calculate the cost per seat tends to decrease because the number of seats will significantly increase approximately by 2.5 times compared to the current aircraft. We will establish an efficient system of operation for the three aircraft using measures such as parts leasing and the outsourcing of heavy maintenance.
- The key point to our International resort strategy will be for both the full-service carrier ANA and our Group LCCs to expand their resort routes. Not limited to Hawaii, based on careful research of demand for various destinations, we will examine new services that are best suited to the characteristics of each brand.

Q-4

◆ **Please tell us about the factors taken into consideration and the background of planning for fiscal 2016 profit plan.**

A-4

- For fiscal 2016, we plan operating income of 145.0 billion yen, which is 20.0 billion yen above our fiscal 2015 earnings forecast.
- For revenues, we assume that fuel surcharge revenues will decline for our International Business. As for expenses, we will assume some inevitable expenses such as an increase in personnel costs in order to enhance hiring competitiveness at Group companies to address a movement of increase wages throughout Japan.
- We have carefully formulated our profit plan in consideration of potential lag on air traffic demand from changes in the overall economic environment.

Q-5

◆ **Please tell us your approach to future shareholders' return.**

A-5

- Basically, we are going to continue stable dividends of five yen per share.
- The increase in profit will result in a shareholders' equity ratio of 40% in fiscal 2017 and nearly 45% by fiscal 2020 if we are able to implement our strategy as planned. We expect to achieve both D/E ratio of 1.0 and a shareholders' equity ratio of 40%, which are required for improving our credit rating to A.
- Maintaining a healthy balance sheet and securing the appropriate level of liquidity on hand that will enable us to endure any sudden drops in revenue caused by event risks, we will have the option of a dividend increase or buy-backs while promoting aggressive growth investments. Going forward, we will continuously evaluate our dividend payout ratio and consider establishing total return ratio as a benchmark.

End