February 2018

FY2018-2022 ANA Group Corporate Strategy and Financial Results for the Nine Months ended December 2017, QA Summary

1. Financial Results for the Nine Months ended December 31, 2017

Q-1

◆ **Please tell us the reasons for maintaining your full-year earnings forecast, including actual versus planned earnings for the third quarter.**

A-1

■ Third quarter (October to December) revenues for the Air Transportation Business were 21.0 billion yen above plans. As a breakdown, domestic and international passenger revenues were approximately 5.0 billion yen and 10.0 billion yen above plans respectively. Also cargo and mail revenues were approximately 6.0 billion yen above plans.

■ Operating expenses were approximately 5.0 billion yen above plans, mainly due to increased fuel expenses incidental to rising prices on the crude oil market. As a result, operating income of Air Transportation Business during the third quarter was 16.0 billion yen above plans.

■ Consolidated operating income for the first nine months of the fiscal year reached our full-year earnings forecast. However, we are evaluating new programs aimed at stabilizing future maintenance expenses and controlling cash expenditures. We forecast operating expenses will increase in the fourth quarter. Therefore, at present we are keeping our earnings forecast unchanged.

Q-2

◆ **During the third quarter, the unit price for the Domestic Passenger Business recovered to a level exceeding the previous year. Do you project this trend to continue during the fourth quarter and beyond?**

A-2

■ The third quarter unit price increased by 1.2% year on year. This increase is due to multiple factors limited to the third quarter; (1) Demand was strong on consecutive holidays in November, and (2) The unit price of the previous year decreased slightly due to product sales related to the "Kyushu Fukko Wari" discount fare for Kyushu reconstruction. As a result, unit price during the fourth quarter is not projected to reach third quarter performance. However, we will work to increase the unit price over the medium-term by further optimizing supply to demand, and by enhancing yield management.

2. FY2018-2022 ANA Group Corporate Strategy

Q-3

◆ **Please tell us about your objective behind deploying wide-body freighters.**

A-3

- Over the past several years, our Group has conducted numerous evaluations concerning the deployment of wide-body freighters. Cargo demand has recovered from the second half of fiscal 2016 and this trend continues at present. We believe this favorable business environment will continue over the medium term. In light of this environment, we will deploy two wide-body freighters during the term of this corporate strategy. This will enable us to capture demand we are currently unable to address with the mid-body freighters (Boeing 767-300F), including industrial robots and machinery, semiconductor manufacturing equipment, and completed vehicles. We project the demand between Japan and China as well as between Asia and North America via Japan will continue to grow. Therefore, we will use the wide-body freighters to further capture demand.
- With the deployment of wide-body freighters, we are planning to reduce numbers for the Boeing 767-300F. As we continue to expand our passenger route network (increase in belly supply volume), we will control overall supply volume for the Cargo Businesses to respond to demand volatility.

Q-4

◆ **Please tell us about your approach to develop the LCC business for both domestic and international routes, respectively.**

A-4

- On domestic routes, we will expand business for both Vanilla Air and Peach Aviation with a focus on local routes. We will optimize route distribution throughout the entire Group, ensuring the balance with ANA operations.
- For international routes, we will position Narita and Kansai as hub airports while also engaging in routes from other domestic regional airports. Furthermore, we are planning to utilize narrow-body aircraft with a capability of middle-distance operation, mainly focusing on Asia. We are aiming to capture and develop both outbound leisure demand and inbound visitors.

Q-5

- **As to cost management, please tell us about your approach to forward-looking investments and expenses, including unit cost levels.**

A-5

- During the period of this corporate strategy, we will promote cost management with a focus on the three themes of “AI/IoT full-scale utilization,” “work optimization,” and “reinforce safety & quality services.” An example of “AI/IoT full-scale utilization” would be the use of automated vehicles at airports and voice-recognition technology at call centers. For “work optimization,” we will promote workstyle reform such as incorporating multi-language simultaneous interpreting machines that lead to labor reduction of employees working at airports. The theme “reinforce safety & quality services” refers to investments in safety and human resources.
- Our Group reinforces safety by setting hurdles higher than recommended standards by aircraft and engine manufacturers. This includes conducting preventative inspections and voluntary maintenance. To improve quality services, we will establish ANA Group Training Center in 2020 to increase our human resource competitiveness. We believe we can reap various benefits by consolidating our facilities in the areas located around Haneda Airport. Ahead of continuously increasing inbound demand, in fiscal 2018 we will begin renovating our airport facilities and global website. We are positioning these investments as a requirement in order to tie the expansion of airport slots at Haneda and Narita into the Group’s growth.
- Based on the above approach, we will gradually control the unit cost (operating expenses per ASK for the ANA Air Transportation Business) during the corporate strategy period from the peak cost of 9.3 yen in fiscal 2018 to 8.8 yen in fiscal 2022. Our Group is positioning fiscal 2017 and 2018 as a period during which we solidify management platform and are planning to advance investments in safety (maintenance expenses) and people (human resources) in preparation for future growth.

Q-6

- **Please tell us about the correlation between financial health and enhancing shareholder returns. Your plan is to increase the shareholders' equity ratio to 50% but what is your final goal ratio if taking capital efficiency into account? Also, please tell us about your benchmarks for shareholder returns, such as payout ratio, total return ratio, or dividends on equity ratio.**

A-6

- Our basic benchmarks for financial health are a shareholders' equity ratio of 40% or higher and a Debt/Equity Ratio of 1.0 or less based on the assumption that we will maintain our current credit rating of "A".
- Our basic policy for shareholder returns is to implement stable dividends. We give consideration to the fact that earnings for the transportation business are more susceptible to volatility compared to other sectors. At present, we have not set clear standards for future enhancements to shareholder returns but we will make optimal judgments based on annual cash flow levels and stock price trends.
- Assuming the income plans outlined in this corporate strategy, total free cash flow for fiscal 2018 through fiscal 2020 will be around 50 billion yen but we forecast the total amount will be around 145 billion yen in fiscal 2021 and fiscal 2022, when we expect our capital expenditures to level off. Each fiscal year, we will distribute management resources based on our Group growth stage and want to enhance shareholder returns beginning from the middle stages of this corporate strategy period.

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