February 2019

Financial Results for the Nine Months Ended December 2018 and ANA Group Corporate Strategy, Q&A Summary

1. Financial Results for the Nine Months Ended December 2018

Q1)

- **What were the variances between actual results and plan for Q3 in the Air Transportation Business?**

A1)

- Stand-alone Q3 operating revenues outperformed plan by 14.0 billion yen, while operating expenses were 8.0 billion yen over plan. As a result, operating income outperformed plan by 6.0 billion yen. The following shows the detail of actual-versus-plan results.

  (Detail of major variances compared to plan)

・Revenues	: Domestic Passenger Business	7.5 billion yen above plan
	International Passenger Business	6.5 billion yen above plan
・Expenses	: Fuel & fuel tax	8.0 billion yen over plan

  First half operating income was 5.0 billion yen above plan; results for the nine months ended December 2018 outperformed plan by 11.0 billion yen.

Q2)

- **Your company recorded special losses related to a class action civil litigation in the United States. Will you be posting more related losses? Does your company have any similar cases outstanding?**

A2)

- The incident to which you refer occurred in 2007 (we have since noted this case in every annual securities report). We continued negotiations after 2007 and recently agreed to a settlement, so there will be no further losses. While we recorded a special loss of 6.5 billion yen, a certain amount of special loss was already budgeted at the time we drew up our original plan. Better-than-expected revenues in our Air Transportation Business and other areas will cover this loss, so there will be no impact on our full-year earnings forecast.
- At present, we do not have any similar cases outstanding.

2．International Passenger Business

Q3)

- **Revenue fluctuation factors include the effects of passenger class/route mix, which resulted in +3.5 billion yen for the stand-alone third quarter. This is an improvement compared to the first half of the fiscal year. What is the cause of this change?**

A3)

- The major reasons for passenger class/route mix as a revenue fluctuation factor are as follows:
  - ・First Half : China route passenger share of our total international routes increased (mainly during Q1)
    → Drove overall average unit price down by 2.5 billion yen
  - ・Third quarter : We focused on capturing high-unit-price demand for flights to and from Japan, reducing the ratio of the comparatively lower-priced demand for trilateral routes
    →Yield management improved in terms of both passenger class and route, providing a +3.5 billion yen effect

  We believe the trends above led to improved yield management over time.

3．International Cargo Business

Q4)

- **The overall market is showing signs of sluggish demand. Will the introduction of the Boeing 777F have a negative effect on profits?**

A4)

- We plan to introduce the Boeing 777F on the Shanghai route and North American routes where demand is strong and we see room for more revenue growth. We intend to respond with improved revenue management, predicting demand trends accurately and finding a proper balance between unit price and weight.
- Lately, certain products for Japan-China flights and China-North America flights have started to show the effects of U.S.-China trade friction. We will keep close watch on future developments. If there is a significant effect on demand, we intend to respond by making flexible adjustments to capacity using our entire cargo network, including our Okinawa hub.

4. Fuel Expense, Fuel Surcharge Revenue

Q5)

- **Prices in the crude oil market are declining, while fuel surcharge revenues grew beginning in February. What influence will this have on profits in the future?**

A5)

- During the first half, crude oil prices were on an upward trend. Accordingly, fuel expense increases led ahead of fuel surcharge revenues. In November, crude oil prices began to decline. We expect the effect on profits causing a period mismatch between fuel expenses and fuel surcharge revenues to converge over time.

5. Compensation Negotiations with Engine Manufacturer

Q6)

- **What is the progress in negotiations for compensation from the engine manufacturer involved in the Boeing 787 engine issues?**

A6)

- While I cannot address the progress in negotiations at this time, we still intend to seek compensation from the engine manufacturer for the negative effect on revenues. At present, we are continuing negotiations as we apply pressure to receive a stable supply of parts to rectify the situation.

6. Capacity in the Next Fiscal Year and Beyond

Q7)

- **Fiscal 2019 ASK growth for International Passenger Business is 8%. What has been the effect of the Boeing 787 engine issues? Also, could ASK increase beginning with winter flights, depending on the engine repair progress and the demand/supply situation?**

A7)

- Our top priority for fiscal 2019 is to stabilize operations. We decided to limit operations of certain Boeing 787 aircraft to avoid planned flight cancellations. Meanwhile, we are moving forward steadily in opening routes to prominent destinations such as Perth and Chennai. We will establish stable operating systems while continuing to expand international routes.
- With respect to future capacity, we plan to respond flexibly according to the progress of engine repairs, while keeping abreast of flight crew availability, slot expansions, and other developments.

Q8)

- **Why does fiscal 2020 ASK growth rates for the LCC Business decrease compared to the original plan under the ANA Group Corporate Strategy?**

A8)

- Initially, our group corporate strategy projected ASK of 1.5 times fiscal 2017 levels. However, emerging challenges in securing pilots have led us to take a closer look. As a result, we decided to revise projected ASK to 1.3 times fiscal 2017 levels. While we have reduced our outlook compared to our original plan, we remain committed to growing the capacity of our two LCC companies after merger.

7. Shareholder Returns

Q9)

- **You made an announcement today about aircraft orders. How will that affect future free cash flows? What are your current thoughts on policies for shareholder returns?**

A9)

- We have already reflected the effect of these aircraft orders on cash flows in our original plan under our corporate group strategy. Accordingly, we will not be making any major changes in forecast. We have prioritized growth investments leading into fiscal 2020; however, we have not changed our policy to expand shareholder returns after that time.
- We plan to pay fiscal 2018 dividends of 70 yen per share, an increase of 10 yen compared to the previous year. We forecast our payout ratio to be about 23%. We will continue to aim for between 20% and 30% in payout ratio, assuming the continuation of stable dividends.