

ANA Group Mid-Term Corporate Strategy (April 2006 to March 2010)

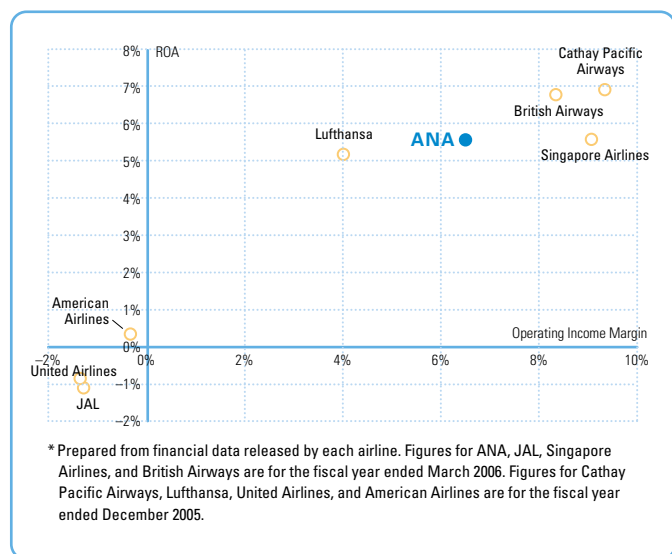
The expansion of Haneda Airport, scheduled for completion in 2009, represents both a major business opportunity for ANA and the advent of an era of intensified competition. To compete successfully and to become the number one airline in Asia, ANA is working to strengthen its profitability. To that end, the Company has formulated a new mid-term corporate strategy covering the period from April 2006 to March 2010. In the following interview, Mineo Yamamoto, President and CEO of ANA, discusses ANA's new strategy.

Q1

What are the goals of ANA's new mid-term corporate strategy?

A1 The expansion of Haneda Airport, scheduled for completion in 2009, will be a major turning point for Japan's airline industry, with competition expected to intensify on both domestic and international routes. We consider these changes in the operating environment to be an opportunity to achieve further growth, and we formulated the ANA Group Mid-Term Corporate Strategy, which covers the period from April 2006 to March 2010, taking

Profitability of Major Airlines



ANA is moving forward with management reforms with the objective of boosting its profitability to the level of Singapore Airlines and Cathay Pacific Airways.



Mineo Yamamoto, President and Chief Executive Officer

into account the expansion of Haneda Airport.

The new mid-term strategy, which maintains the fundamental direction of the previous mid-term strategy, has been fine-tuned for emerging trends in the operating environment and clearly lays out our growth drivers—international passenger operations and cargo operations. The strategy is designed to help us to achieve the ANA Group corporate vision of surpassing the top-rank Asian airlines and becoming the number one airline in Asia by the fiscal year ending March 2010 in all areas, including quality, customer satisfaction, and value creation.

For the fiscal year ending March 2010, our goals are to achieve operating income of ¥100.0 billion and to raise our key management indicators—operating income margin and ROA—to the top rank among Asian airlines. We will continue to concentrate our management resources on air transportation operations and will not reduce the pace of reforms, including cost structure reforms, such as our Fleet Strategy. As for our financial position, we plan to achieve a debt/equity ratio of about 2 times by accumulating profits and steadily reducing interest-bearing debt.

Q2

Why is ANA focused on the expansion of Haneda Airport?

A2 Haneda Airport is close to the center of Tokyo, and, with about 63 million passengers a year, it is the fourth largest airport in the world. In 2009, when the

ANA Group Mid-Term Corporate Strategy (April 2006 to March 2010)

Goal:	By the fiscal year ending March 2010, become the number one airline in Asia in all areas of quality, customer satisfaction, and value creation		
Numerical Objectives:	Operating revenues ----- ¥1,550.0 billion Operating income ----- ¥100.0 billion Operating income margin ----- 6.5%	Net income ----- ¥42.0 billion ROA ----- 6%–7% Debt/equity ratio ----- approximately 2.0 times	Fiscal Year Ending March 2010
Key Strategies:	<div> International Passenger Operations —Increase profits through an expanded network Implement strategic network development <ul style="list-style-type: none"> Long-haul routes: Increase routes to partner hubs Short-haul routes: Expand China/Asia network Move to South Wing, Terminal 1, Narita Airport —Asia hub airport for Star Alliance <ul style="list-style-type: none"> Increase connection convenience Gain from use of shared facilities </div> <div> Cargo Operations —Expand scale of operations to strengthen foundation Add freighters <ul style="list-style-type: none"> 1 or 2 a year Expand network with freighters and cargo space on passenger aircraft <ul style="list-style-type: none"> China/Asia–Japan–North America Domestic, late-night cargo flights Expand distribution tie-ups <ul style="list-style-type: none"> Enter international express business </div>		
	<div> Domestic Passenger Operations —Further increase unit revenues Enhance demand-supply matching <ul style="list-style-type: none"> Strengthen Group operations; strengthen tie-ups Increase competitiveness <ul style="list-style-type: none"> Strengthen revenue management Advance differentiation strategy </div> <div> Improve Cost Structure —Shift to corporate constitution that is less susceptible to economic fluctuations Reduce indirect fixed costs <ul style="list-style-type: none"> Trim by ¥10.0 billion by fiscal year ending March 2008 Effectively utilize idle space Reevaluate indirect workforce, etc. Reduce direct costs <ul style="list-style-type: none"> Trim by ¥10.0 billion by fiscal year ending March 2010 Advance fuel management, etc. Implement Fleet Strategy <ul style="list-style-type: none"> Advance fleet consolidation, standardizing on highly economical aircraft </div>		

completion of the expansion project increases the number of runways from three to four, the airport's capacity will be raised to about 1.4 times its current level, marking a substantial increase in what has been a bottleneck. The expansion of Haneda Airport is a significant opportunity for the ANA Group to record further growth.

After the expansion, it will be possible to operate scheduled international flights from Haneda, principally short-haul flights, and international passenger demand and cargo demand are expected to increase. On the other hand, all of the domestic airlines will be able to increase flights on domestic routes, and competition on domestic routes is expected to intensify straightaway. During the period covered by the ANA Group Mid-Term Corporate Strategy, we will further increase competitiveness.

* For more information about Haneda Airport, please refer to page 16.

Q3

Please discuss ANA's operating strategy in international passenger operations, which you have indicated is a growth field for the Company.

A3 We have not changed our strategy of emphasizing

business demand in our route system and allocating aircraft in line with demand as we expand our network. We will continue to implement our strategy of expanding our network with an emphasis on routes that meet business demand and a focus on aircraft allocation in line with demand trends. We expect a high level of growth, especially on China routes. Since the fiscal year ended March 2000, we have reevaluated our routes and taken steps to optimize our use of aircraft. And as a result, we have raised our unit revenues* by more than 60%. We will work to achieve further growth in revenues and profits and to establish stable operations by maintaining our unit revenues and emphasizing profitability.

Under the ANA Group Mid-Term Corporate Strategy, which extends from April 2006 to March 2010, as we work to expand our basic network with a balance between North America, Europe, Asia, and China, we will pay close attention to effectively utilizing capacity at Narita Airport from the second half of the fiscal year ended March 2007 and to the steady expansion of the transportation capacity between Japan and China.

* Unit revenues = passenger operating revenues (before eliminations) / ASK
An indicator of route profitability

Q4

Please tell us more about the expansion of ANA's basic network.

A4 On long-haul routes, based on our “partner hub” strategy, we will selectively expand service to the hub airports of Star Alliance members, increase connectivity, and work to secure not just demand for single segments but also demand for connecting flights. We have already achieved a certain level of results with our efforts on our Frankfurt route, and we are expanding these initiatives to North America and Asia routes. In North America, in addition to the east and west coasts, we will restart service to Chicago, which is the main hub of United Airlines and will serve as a strategic base for us in central North America.

As for short-haul service, on China and Asia routes we will aggressively introduce narrow-body aircraft to match demand, such as the Airbus A320 and the Boeing 737-700, increase flight frequencies, and strive to bolster our com-



South Wing of Terminal 1 at Narita Airport

petitiveness while maintaining profitability. Narrow-body aircraft facilitate the minimization of operating risks when starting new routes, so the Company also plans to use them for new market development.

In June 2006, 10 members of Star Alliance relocated to Terminal 1 at Narita Airport. With the new facilities, the connection time between international flights has

been shortened from 110 minutes to 45 minutes. In addition, ANA has installed 126 self-service check-in terminals, the largest number available at any airport in the world, and these terminals can also be used by passengers on flights operated by other Star Alliance members. We have further enhanced ease of use and convenience

10 Star Alliance Members Co-Locate in South Wing, Terminal 1, at Narita Airport

AIR CANADA

ANA

Asiana Airlines

Austrian

Lufthansa

SAS Scandinavian Airlines

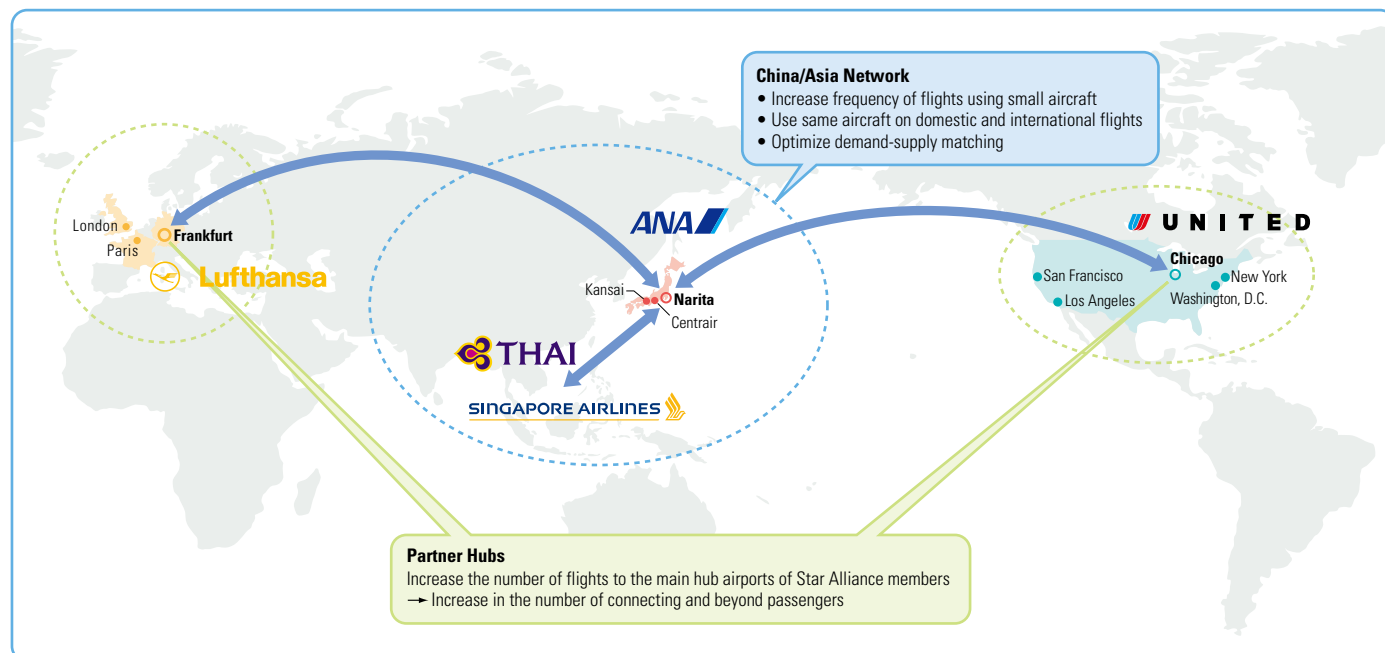
SINGAPORE AIRLINES

SWISS

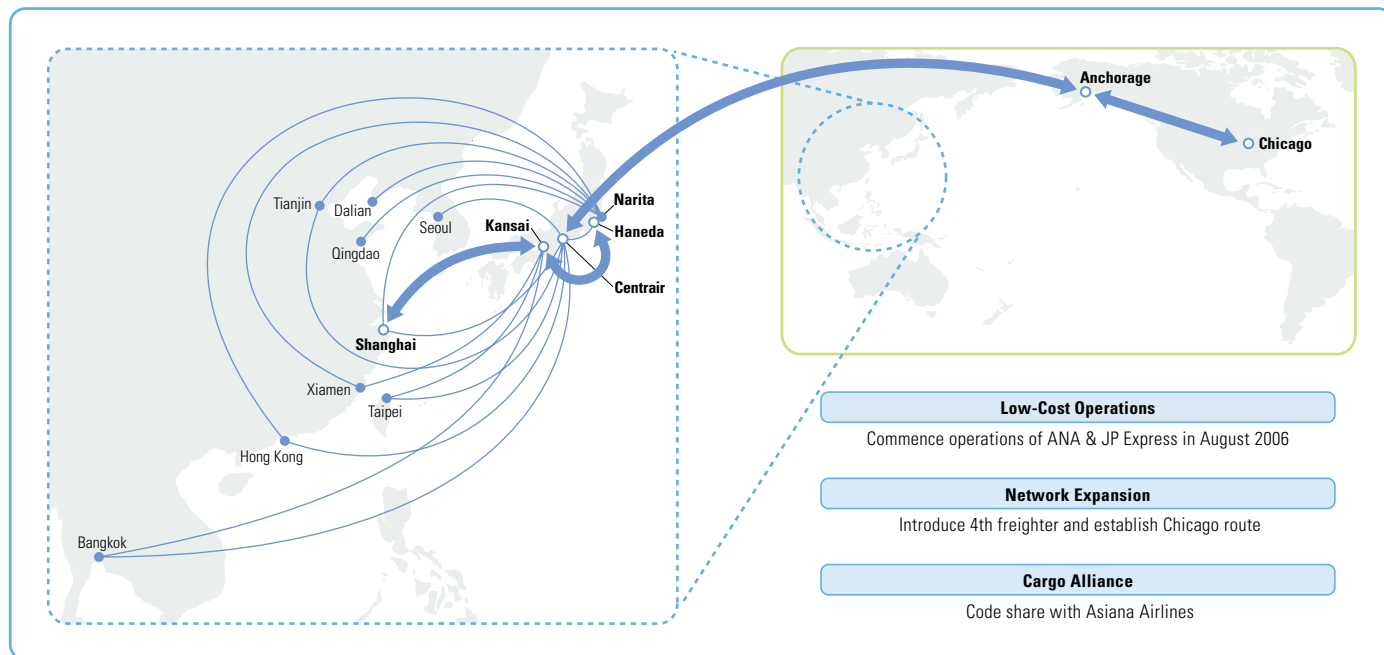
THAI

UNITED

International Passenger Operations: Expanding Our Network in Preparation for Start of International Service at Haneda Airport



Cargo Operations: Building a Business Foundation with an Expanding Network



for customers. The expanded lounge facilities and other improvements will enable us to enhance services, and we also expect to garner economic benefits from the shared use of facilities.

Q5

Please discuss ANA's focus on cargo operations, another growth field.

A5 The air cargo market is expected to record strong growth, centered on Asia. By developing our own operations with new partners, we will strive to build cargo into our third core operational field, which will support expansion in the Group's profitability.

To rapidly establish the infrastructure needed for future operational development, we will add freighters and expand our network. Centered on medium-sized Boeing

767-300 freighters that can be used to respond flexibly to changes in demand, we will add one or two aircraft every year and establish a network between Japan and China/Asia and between North America and Asia.

After introducing

our fourth Boeing 767-300 freighter in October 2006, we will establish a Centrair–Anchorage–Chicago route and use Centrair as a relay point for the rapidly growing air cargo market between North America

and China. We will enhance our profitability by building a freighter network for cargo loaded in Asia, with connections in Japan.

To grow our cargo operations, we must develop our business in global transactions with express operators and freight forwarders and in direct transactions with manufacturers.

In express services, we will use our domestic and international networks to develop cargo services that provide late-night loading of cargo in Japan and next-morning delivery. From March 2006, we commenced the operation of freighters, which play a central role in express operations, on the Haneda–Kansai–Shanghai route. We will utilize ANA & JP Express to enter express services, which have high potential for market growth.

Also, in cooperation with tie-up partners, we will develop



Mineo Yamamoto, President and Chief Executive Officer of ANA (left), and Masaharu Ikuta, President of Japan Post



Boeing 767-300 freighter

the optimal network and secure stable revenue sources, minimizing the risk of fluctuating demand. By expanding our network, we will be able to conclude comprehensive contracts with major forwarders in the field of general air cargo and handle transactions with specified consignors, thereby creating additional opportunities to increase our profits.

On domestic routes, we will work to reinforce nighttime cargo distribution through late-night cargo flights. We will also expand the freighter network linking major domestic airports and East Asian cities and bolster our ability to offer competitive services.

Q6

Would you discuss ANA's domestic passenger operations?

A6 I think that passenger demand on domestic routes will gradually increase. To steadily expand our profits in domestic passenger operations, we will continually reinforce the initiatives that we have been implementing—matching the supply and demand of aircraft, focusing on revenue management, and enhancing on-board facilities.

Specifically, guided by the key words “simple” and “convenient,” we will focus on making it easy for customers to choose ANA. Group airlines will implement coordinated route development, and we will boost flight frequencies by increasing code-share flights with Hokkaido International Airlines (Air Do) and Skynet Asia Airways. From September 2006, we will launch *Skip Service*,

a new boarding service under which customers who have completed advance reservation, payment, and seat selection procedures can proceed directly to the boarding gate 10 minutes before departure without checking in.

We will also work to differentiate ANA from competitors by providing high-value-added products that meet the needs of our customers, thereby boosting our revenues. In the second half of the fiscal year ended March 2006, we completed the introduction of *Super Seat Premium* on medium-sized and wide-body aircraft, including the Boeing 767 and larger aircraft. Available *Super Seat Premium* seats increased by about two times from the previous fiscal



Boeing 787

year, but we earned the support of customers seeking high added value and secured favorable load factors.

In April 2006, we revised fares on domestic routes. We will revise not only fare levels but also the discount fare system itself and, using PROS*, implement finely tuned revenue management, thereby increasing unit revenues.

* PROS: Passenger Revenue Optimization System.

Q7

Please discuss ANA's Fleet Strategy.

A7 Our Fleet Strategy is designed to further enhance our cost competitiveness. We are flexibly using medium-sized and narrow-body aircraft in line with demand trends, and at the same time, on an ongoing basis, we are converting to aircraft that can help us to minimize the risk of fluctuations in economic conditions and demand trends. In an operating environment marked by rising fuel prices, we will continually introduce new aircraft that offer superior fuel efficiency and highly economical operation.

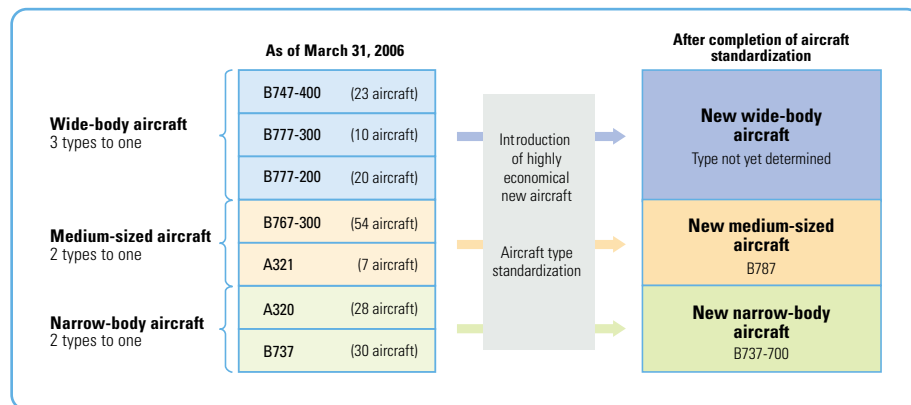
Under the ANA Group Mid-Term Corporate Strategy, we will aggressively introduce highly fuel-efficient aircraft—the Boeing 777-300ER, which will be our main wide-body aircraft on international routes; the Boeing 787, a medium-sized aircraft that we will be the first in the world to introduce in 2008; and the narrow-body Boeing 737-700. Moreover, we will take steps to implement a fleet composition tailored to forward-looking, strategic network development, such as adding freighters to strengthen our platform for cargo operations.

When the expansion of Haneda Airport is completed in 2009, we will increase our use of Boeing 737-700 and Boeing 787 aircraft on both domestic and international routes. And we will work to improve our productivity while strengthening our international network, centered on Asia.

Skip Service



Fleet Strategy: Standardizing on 3 Aircraft Types



Boeing 737-700 and the Boeing 787, and to information systems. We plan to fund this investment with operating cash flow and the capital increase of about ¥100.0 billion that we implemented in March 2006. The funds raised through the issuance of new shares will be used for capital investment, such as the new aircraft that will help us to realize our Fleet Strategy, and will also contribute to improving our financial position, thereby facilitating more-stable fund-raising in the future.

Q8

What steps is ANA taking to deal with rising fuel costs?

A8 In the face of ongoing increases in fuel costs, we continue working to bolster our corporate structure so that we can generate stable profits.

We expect that fuel costs and fuel taxes will account for about 20% of our air transportation operating expenses. We hedge fuel prices to stabilize our fuel expenses. Also, through fuel management practices, such as engine washing and optimal altitude operation, and the introduction of highly economical, leading-edge aircraft, we are working to limit our fuel consumption.

In response to rising fuel prices, the entire Company is working to reduce costs. Through efforts to reduce labor costs by increasing productivity and to trim airport landing charges by using smaller aircraft, we will strive for a ¥10.0 billion saving in direct costs by the fiscal year ending March 2010. And we will take steps to further reduce indirect fixed costs, such as effectively utilizing idle space, using the Internet to cut reservations costs, and reevaluating our staffing in indirect departments. We plan to achieve a ¥10.0 billion saving in these costs by the year ending March 2008.

Q9

Would you outline ANA's investment strategy?

A9 Under the new ANA Group Mid-Term Corporate Strategy, we are planning total investment of about ¥700.0 billion, which will be concentrated on our air transportation operations. The majority of this investment will be allocated to the purchase of new aircraft, such as the

Q10

What are ANA's plans for bolstering its financial position?

A10 From the viewpoints of focusing our management resources on air transportation operations and emphasizing investment profitability, in real estate and other diversified operations we will take steps to recover our investment, such as disposing of assets, and to reduce interest-bearing debt.

We completed the disposal of commercial real estate in the fiscal year ended March 2006. In hotel operations, we will move our assets off-balance-sheet during the fiscal year ending March 2008.

In air transportation operations, we will continue to invest for the purpose of growth, and at the same time we will work to further increase our profitability and expand our cash flow.

Q11

Would you discuss ANA's approach to raising shareholder value?

A11 Under the ANA Group Mid-Term Corporate Strategy, we will strive to maintain safe operations and enhance the fundamental quality of our air transportation operations, as well as to improve profitability, thereby enhancing the trust placed in us by shareholders.

So that we can generate profits no matter how the operating environment changes, we will further strengthen our corporate structure and financial position as we work to achieve further gains in shareholder value and continue to make stable dividend payments.

Expansion of Haneda Airport

Overview of Haneda Airport

Haneda's official name is Tokyo International Airport, and it is located 20 kilometers from the center of Tokyo. With three runways and the capability to support 24-hour operation, Haneda is the largest airport in Japan and, with 63.3 million passengers a year, the fourth largest in the world. The airport handles about 800 round-trip flights a day to 48 domestic airports as well as international charter flights to Seoul and Guam. Currently, all of the 295 thousand yearly slots that can be used for scheduled service are in use, and the airport is operating at full capacity.

International Airports by Passenger Movements (2005) (Thousand passengers)

Rank	Airport	City	Country	Passenger Movements
1	Hartfield	Atlanta	U.S.	85,907
2	O'Hare	Chicago	U.S.	76,510
3	Heathrow	London	U.K.	67,915
4	Tokyo International (Haneda)	Tokyo	Japan	63,280
5	Los Angeles	Los Angeles	U.S.	61,451
6	Dallas-Fort Worth	Dallas	U.S.	59,064
7	Charles de Gaulle	Paris	France	53,756
8	Frankfurt	Frankfurt	Germany	52,219
9	McCarran	Las Vegas	U.S.	44,280
10	Schiphol	Amsterdam	Netherlands	44,163

Source: Airports Council International

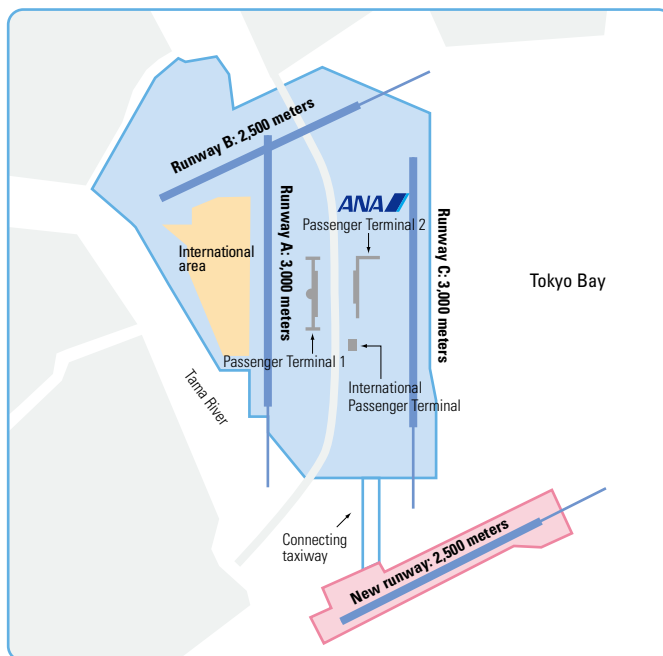
40% Capacity Increase Paves Way for Short-Haul International Flights

The construction of a fourth runway was chosen as the best way to expand the number of available operating slots, all of which were in use, and construction got under way with a goal of having the runway ready for use in 2009. When the runway is completed, the number of operational slots at Haneda will be about 40% higher than the current level, rising to 407 thousand a year. For airlines, which will have greater freedom in setting routes and flight frequencies, the new runway will be a major business opportunity. In addition, short-haul international flights are also scheduled for after the expansion, and, with the airport being conveniently situated close to the center of Tokyo, one-day business trips between Japan and neighboring Asian countries will be possible, and growth in air transportation demand is anticipated.

Location of Haneda Airport and Narita Airport



Haneda Airport after the Expansion



Passenger Terminal 2 at Haneda Airport