Moving Ahead with the ANA Group Mid-Term Corporate Strategy (April 2008 to March 2012)

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What specific changes in ANA's operating environment did you take into account in creating the ANA Group Mid-Term Corporate Strategy (April 2008 to March 2012)? What are its initiatives for ANA's growth?

In 2010, takeoff and landing slots are set to increase at Tokyo area airports: at Narita Airport in March, and at Haneda Airport in October. But on the demand side, the domestic air travel market is maturing and competition has intensified. Low-cost carriers (LCCs) are emerging in the deregulated international air travel market. Moreover, with crude oil prices forecast to remain high, ANA needs a management plan that deals decisively with fuel issues.

In this changing environment, we formulated our Mid-Term Corporate Strategy to help us achieve our corporate vision of being Asia's Number 1 Airline, measured by quality, customer satisfaction and value creation. During the first two years, defined as "Step One," we will make proactive investments to prepare for the airport capacity expansions, which are an excellent opportunity for us to strengthen competitiveness and to expand our business scale. In "Step Two" during the two years to March 2012, we will be positioned to take full advantage of the increase in takeoff and landing slots and to grow our business aggressively. Ultimately, airport slots are scheduled to increase by approximately 40% and 10%, respectively, at Haneda and Narita airports, with total capacity in the Tokyo area rising by approximately 30%. By the time we complete our Mid-Term Corporate Strategy in March 2012, we project a total increase of approximately 15% from the current level, with 50,000 slots at Haneda and 20,000 at Narita. Based on this expansion, we are targeting revenue growth of approximately 16% compared with the fiscal year ended March 2008, and an increase in operating income of about 1.4 times to more than ¥120 billion.

Public awareness of environmental issues has been rising notably. Dealing with those issues is one of our key business challenges. In May 2008, we supplemented the ANA Group Mid-Term Corporate Strategy (April 2008 to March 2012) by announcing the ANA Ecology Plan (April 2008 to March 2012). ANA is the first among the world's airlines to set CO_2 emission targets. We intend to reduce CO_2 emissions on domestic routes from the current 4.9 million tons to an annual average of 4.7 million tons or less during the plan. Including international routes, our target for the fiscal year ending March 2012 is to reduce CO_2 emissions 10% on a per passenger- and ton-kilometer basis compared with the fiscal year ended March 2007.

We are well aware that the rising price of fuel exerts a substantial impact on airline management. The ongoing increase in fuel prices since we formulated the Strategy has been a concern. Therefore, reforming our cost structure is crucial to achieving our financial targets. We must accelerate innovation, which is a key element of the Mid-Term Corporate Strategy, and optimize our route networks and number of flights from the standpoint of profitability.

By steadily implementing these measures, we will create new value and meet the expectations of shareholders and investors.

Innovation and Globalization are the key themes of the ANA Group Mid-Term Corporate Strategy (April 2008 to March 2012). How will ANA give concrete expression to these themes, and what specific targets does it plan to achieve?

Airlines that stick to the approaches and mindset of the past are not going to survive in a deregulated, competitive environment. We selected Innovation and Globalization as our key themes because they highlight what we need to do to succeed in these new conditions.

Innovation is essential both for the services we offer customers and for business growth that does not require substantial increases in human and physical resources. We will introduce new approaches and practices. By automating operations with information technology (IT), we plan to raise the level of productivity per employee[1] by 20% by March 2012, with the fiscal year ended March 2008 as the benchmark. We will also change our cost structure to achieve consistent growth in profitability.

Globalization involves accurately understanding customer needs from an international perspective in markets that are expanding on a worldwide scale. We will also globalize capacity so that our profitability continues to grow as the scale of our business expands.

Our target for the fiscal year ending March 2010 is to be Asia's Number 1 Airline measured by customer satisfaction indicators.[2] We also want to be the leader in Asia in value creation. For the fiscal year ending March 2012, we have targeted operating income of ¥120 billion or higher, an operating income margin of 7% or higher, and return on total assets, calculated using operating income, of 6% or higher.

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1. Available passenger- and ton-kilometers per employee
2. Average of results of customer satisfaction index surveys

How will ANA develop its businesses under its Mid-Term Corporate Strategy? For example, ANA plans to rapidly expand the scale of its cargo business. However, trends in that industry suggest that doing so may not be feasible.

First of all, in domestic passenger operations, the conventional method is to match capacity to demand by route. A shift to capacity-demand matching across our entire network will let us accommodate the maturing market and the changing competitive environment. We will concentrate on increasing operations at Haneda Airport, which are highly profitable, and employ a simple rotation system for aircraft between hubs and destinations. This system will not only facilitate the assignment of aircraft that match demand on each route, but will also allow us to excel at repositioning aircraft in the event of operational irregularities and improve on-time performance. A simple rotation system will also contribute to reducing costs. Furthermore, our differentiation strategy will include setting diverse fares in response to customer needs, promoting the evolution of the *SKiP* system that eliminates check-in at airports, and further expanding and developing our high-grade *Premium Class*.

Our international passenger operations will adopt a "network airline" business model to expand the scale of business. With the increase in airport slots in the Tokyo area, by the fiscal year ending March 2012 we expect to increase the number of flights by approximately 30% compared with the fiscal year ended March 2008. Haneda Airport will therefore be at the center of our plan to expand our network of China and short-haul Asia routes while matching capacity with demand. We plan to increase flights on existing high load factor routes and add destinations on European and medium-haul Asia routes, while strengthening profitability and competitiveness by enhancing products and services. Needless to say, both the Star Alliance and bilateral alliances with other airlines will remain strategically important.

Finally, we have formulated plans for the cargo business based on an exhaustive survey of corporate shippers. Simply expanding our existing cargo consolidation business model will not result in higher profitability. However, we do see excellent growth prospects for an integrated shipping business within

Asia that provides intercompany distribution and package express services. In April 2008, we established the international express business company All Express Corporation, which began operations in July 2008. In the fiscal year ending March 2010, we plan to meet our customers' wide-ranging needs by building a cargo hub in Okinawa that will operate 24 hours per day. Although we will emphasize business development within Asia, we will also generate synergies with our network of North America and Europe routes. We plan to increase our cargo freighters from the current six to fourteen for this purpose. We have targeted a profit margin close to 10% in the cargo business by the fiscal year ending March 2012, driven by a precision shipping service that employs sophisticated IT to ensure a tight focus on customer needs, efficient revenue management, and consistent top-line growth.

In the fiscal year ended March 2008, ANA made large-scale investments totaling ¥357.7 billion. What are ANA's future capital expenditure plans, and how will it strengthen its financial position?

In the fiscal year ended March 2008, we used the cash generated by the divestiture of our hotel business to invest in fuel-efficient aircraft to strengthen our competitiveness in anticipation of changes in our operating environment. We also aggressively invested in reinforcing operation support systems and improving safety to prevent a recurrence of the problems caused by the landing gear incident at Kochi Ryoma Airport in March 2007 and the passenger check-in system outage at Haneda Airport in May 2007.

We will continuously invest to position our businesses to grow and become more competitive during Step Two, which will begin in April 2010. Over four years, we will invest a total of ¥920 billion, consisting of ¥630 billion for aircraft and ¥290 billion mainly for IT, innovation and the highest possible operational safety. We plan to fund this investment with operating cash flow, financing and returns on our investments. Interest-bearing debt will increase moderately through the fiscal year ending March 2012, but we intend to maintain a sound financial position by improving our debt/equity ratio.

In April 2008, Boeing announced delays in delivering the Boeing 787. ANA is minimizing the impact of the delay on its Mid-Term Corporate Strategy by moving forward with required adjustments to stay on plan regarding business expansion and cost reductions.

What are ANA's plans for future shareholder returns?

Shareholder returns are ANA's top priority, and we intend to maintain a good balance with investments for future growth. We increased cash dividends per share for the fiscal year ended March 2008 by ¥2.00 compared with the previous fiscal year to ¥5.00 since we achieved results that exceeded our plan, partly by divesting our hotel business. The fiscal year ending March 2009 will be challenging, particularly because of the continuing rise in fuel prices, and we will balance shareholder returns with investment in future business expansion and a stronger financial structure. We therefore plan to pay cash dividends per share totaling ¥3.00, and we will determine dividend payments for the fiscal year ending March 2010 after comprehensively considering the operating environment and our performance.

We will increase shareholder value by achieving the objectives of the ANA Group Mid-Term Corporate Strategy (April 2008 to March 2012) as we work to enhance future shareholder returns. We are counting on the continued support of our shareholders and investors as we work to meet their expectations.