An Interview with President and CEO Shinichiro Ito

The ANA Group has grown while overcoming numerous crises. Although our current operating environment is indeed challenging, the Group’s management and employees are working in concert to steadily capture emerging business opportunities. Our corporate vision is to be Asia’s Number 1 Airline Group. Look for the ANA Group to decisively meet challenges.

You were appointed president and CEO in April 2009 in a challenging operating environment caused by the global recession. What are your ambitions in your new position, and where will you lead the ANA Group?

I take my responsibilities at the helm of ANA’s management very seriously given our extremely challenging operating environment. I see my mission as countering our difficult circumstances while positioning the ANA Group to quickly begin growing again by taking advantage of the expansion of both airports in the Tokyo area — Haneda Airport and Narita Airport — slated for completion in 2010. Our first step will be steadily dealing with urgent issues such as increasing revenues and cutting costs. Next, we will increase competitiveness and prepare for growth in the fiscal year ending March 2011 and beyond. At the same time, our situation makes further enhancing our core fundamentals of safety, quality, service and customer commitment more important than ever. I believe my ability to lead and execute will be critical.

What is your view of the fiscal year ended March 2009? How well did the ANA Group handle the rapid deterioration of its operating environment?

During the fiscal year ended March 2009, unprecedented crude oil price volatility in the first half was followed by the start of a global recession in the second half that cut passenger demand on domestic and international routes. In addition, our cargo volume, which had been increasing significantly up to autumn 2008, fell sharply in the second half because of the global slow-
down in shipping. Consequently, operating revenues decreased ¥95.2 billion year on year to ¥1,392.5 billion.

We responded to the sharp drop in demand by reducing capacity and concurrently executing emergency cost reduction measures that included cutting the compensation of senior managers. We also reviewed routes and the number of flights while introducing smaller aircraft. As a result, we were able to maintain the load factor in domestic passenger operations at the same level as in the fiscal year ended March 2008. On the other hand, the load factor in international passenger operations decreased year on year as business demand in Japan and overseas declined sharply and demand on China routes weakened, causing the number of passengers to drop more than expected.

Fuel costs increased ¥37.3 billion year on year, reflecting the impact of high crude oil prices through the first half. However, in the air transportation business we were able to reduce operating expenses by ¥18.4 billion year on year through aggressive efforts to match capacity with demand, operating cost reductions totaling ¥25.7 billion, and marketing expense reductions totaling ¥13.4 billion that entailed cutting costs such as agent fees and advertising expenses. As a result, operating income totaled ¥7.5 billion. The bottom line, however, was a net loss of ¥4.2 billion.

Given the outlook for challenging conditions to continue, what are ANA’s strategies for the fiscal year ending March 2010 in each of its air transportation businesses? How will your management reforms differ from those of the past?

We expect the slowdown in demand to continue for the immediate future in the fiscal year ending March 2010. Despite unpredictable factors such as the outbreak of H1N1 influenza, we expect demand to recover in the third quarter. Given this outlook, our goal is to return to net profitability by steadily implementing our FY 2009 Emergency Plan, and we will increase competitiveness and prepare for growth in the fiscal year ending March 2011 and beyond.

Management reforms will differ from those of the past mainly because of the opportunities for growth that are emerging. Air transport is a network business in which profitability is a direct function of skill in matching capacity to demand. Therefore, we are going to look closely at market trends as we deepen our programs for matching capacity to demand, because we must respond faster and more flexibly than in the past. At the same time, we will set more detailed fares according to passenger trends and competitive conditions, and aggressively expand share in periods of high demand. We expect these initiatives to drive revenue growth.

In domestic passenger operations, we will accelerate the reorganization of routes that we conducted in the fiscal year ended March 2009, and restructure our network by terminating or reducing flights on unprofitable routes. In addition, we will also shorten the time frame for coordinating aircraft introduced to meet demand and tailor capacity to demand more flexibly. Our fare strategy involves energetically creating demand by offering customers attractive products and prices, which has included expansion of the Tabi-Wari system of discount airfares and introduction of the Senior Sora-Wari system of discount airfares for seniors. Moreover, we are setting more detailed fares based on market analysis with the aim of maximizing revenues by working to raise the unit price of Business Kippu and other products.

In international passenger operations, we are enhancing earnings by meticulously revising routes, the number of flights and aircraft introductions in response to demand. At the same time, we are working to reignite demand by setting competitive fares. For example, we began to see signs of a recovery in leisure travel demand on Korean and other routes at the beginning of 2009 because of reduced fuel surcharges and the appreciation of the yen. I would like to steadily link trends such as these to the ANA Group’s revenue.

In cargo and mail operations, we forecast a high growth rate for air cargo in Asia over the medium-to-long term and continue to build the foundation of this business. However, we plan to adjust the speed of our business development plan despite recent signs of recovery in some sectors because conditions remain uncertain. We also plan to put the Okinawa cargo hub into operation.
in the second half of the fiscal year ending March 2010.

Our express business will be an integrated shipping business that handles business-to-business (B2B) distribution and package express services. Our international express business company, All Express Corporation, began operations in July 2008, and we are taking advantage of synergies in strengthening the sales system of Overseas Courier Service Co., Ltd., a company that provides overseas newspaper delivery and other services in which we took an equity stake in March 2009.

The extent and speed of economic recovery remains to be seen and forecasting demand is extremely difficult. However, we will respond quickly and flexibly, even significantly changing our business plan, if future demand turns out to be lower than our projections.

Please provide an overview and comment on the effectiveness of the FY 2009 Emergency Plan announced in April 2009 and the related measures to achieve unprecedented cost reductions totaling ¥73.0 billion. Considering the ANA Group’s past success at cutting costs and raising efficiency, how much room is left to cut costs going forward?

The short answer is that we still have plenty left to do. The FY 2009 Emergency Plan encompasses three core initiatives: revising our business plan, reducing costs and restraining investment. As I discussed earlier, revising our business plan entails matching capacity to demand more quickly and precisely. Moreover, our efforts to restrain investment will focus on areas other than strategic investments in safety and future growth.

I imagine that our shareholders and investors are most concerned about cost reductions. Fuel cost reductions are the largest component of our plan to cut costs on an unprecedented scale. We forecast fuel cost savings of approximately ¥48.0 billion supported by the Fuel Saving Project, a program to reduce fuel use that we initiated in the second half of the fiscal year ended March 2009 in addition to reductions in capacity. The Fuel Saving Project is a horizontal, interdivisional approach to changing the way we use fuel. We are working toward our goal of reducing fuel consumption by approximately 60,000 kiloliters and CO₂ emissions by approximately 150 thousand tons in the fiscal year ending March 2012 compared with the fiscal year ended March 2008. (Please refer to the Special Feature, Together We Can, on pages 12 to 19 for additional details.)

Our approach to personnel expenses has already included reductions in the compensation of senior managers, the base salaries and bonuses of managers, and the bonuses of employees. On international routes, we are promoting reduced agent fees and as well as reductions in sales planning and advertising expenses. We are putting every effort into these cost-reduction initiatives as we move toward the fiscal year ending March 2010.

Over the medium-to-long term we will revise the internal organization and functions of the ANA Group. We intend to further reduce fixed costs while promoting reforms that raise the productivity of passenger services and airport operations as we build an efficient operating system.
Expansion at both airports in the Tokyo area, Haneda and Narita, is scheduled for completion in 2010, which will allow ANA to use Narita more and begin fully using Haneda for international routes. While this change in the operating environment will certainly create opportunities for ANA, won’t it also present competitive risks?

We cannot simply depend on the maturing domestic market for continued growth. We also need to expand international passenger operations to tap into global passenger flows. A particularly important point over the medium-to-long term will be accurately capturing expected strong growth in Asia. Increased flight slots and the full-scale operation of international routes from Haneda give the ANA Group a rare opportunity to do so by expanding its business. The increase in availability of international flights through Haneda dramatically increases the convenience of traveling to the major cities of Asia during the daytime. Moreover, it also enables long-haul nighttime service to Europe and elsewhere. It also lets passengers on ANA Group flights originating in cities throughout Japan make rapid connections to international flights at Haneda.

On the other hand, the increase in international flights originating at Narita will increase our competitiveness. We plan to aggressively tap into international passenger flows as a third-country carrier, such as flights between North America and Asia. We will use a similar approach to expand cargo operations. Competition is expected to increase as more foreign carriers begin using Narita. However, the opportunities for growth outweigh the risks because the ANA Group will be able to exercise the strengths of its network in Japan.

We anticipate that 2010 will revolutionize the air transport business in Japan, and the ANA Group is steadily moving forward with preparations. We have been focusing resources on the airline business, starting with the sale of our hotel operations in June 2007. We are also building a Group framework for strengthening our domestic network, and have invested in the Boeing 787 as the launch customer for this aircraft. All these measures are part of our moves to prepare for 2010.

Currently, our international flights out of Haneda operate as scheduled charters to Seoul, Shanghai and Hong Kong. However, our ability to attract solid business demand for easy access to central Tokyo will reaffirm the importance of Haneda. Moreover, to upgrade Haneda as an international hub airport with a strong domestic network is essential to the growth of the ANA Group’s international business.

The ANA Group is controlling future capital expenditures so that they match the scale of its businesses. Please discuss the Group’s investment plans and fleet strategy.

The FY 2009 Emergency Plan entails reviewing the scale of our businesses and reducing capital expenditures compared with our initial plan by ¥119.0 billion in

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All Nippon Airways Co., Ltd.

the two years beginning with the year ended March 2009 and by ¥153.0 billion over the four years through the year ending March 2012. We are reducing or postponing capital expenditures for all projects except strategic investments in safety and future growth. As a result, during the year ending March 2010 we plan to invest a total of ¥230.0 billion, consisting of ¥172.0 billion for aircraft and ¥58.0 billion for areas such as information technology. We will fund capital expenditures primarily using cash on our balance sheet and external loans while working to restrain the increase in interest-bearing debt as much as possible.

Aircraft will account for a large proportion of capital expenditures. We will systematically introduce highly economical aircraft, which we view as essential to maintaining competitiveness over the medium-to-long term. We will therefore aggressively introduce fuel-efficient aircraft ahead of our competitors. The Boeing 777-300ER, 737-700/800 and 787 will be the primary fuel-efficient aircraft we introduce, and by the conclusion of the year ending March 2012 we expect them to account for approximately 50 percent of our jet aircraft. The delivery of 787s has been delayed, but we are scheduled to begin receiving them in February 2010. These highly fuel efficient, economical and environmentally friendly aircraft will be at the center of our fleet strategy.

Cash dividends per share for the fiscal year ended March 2009 decreased by ¥4.00 to ¥1.00, and the ANA Group has not yet determined dividends for the year ending March 2010. Going forward, what is the ANA Group’s perspective on shareholder returns?

ANA recognizes that shareholder returns are a management priority, and balances them with efforts to enhance internal capital reserves in order to support stable management and capital expenditures to strengthen future competitiveness.

We revised dividends for the year ended March 2009 because we decided that we needed to further enhance our internal capital resources and strengthen our financial structure to achieve steady growth in an increasingly challenging environment. Demand contracted at an unprecedented rate during the year ended March 2009 and we incurred a net loss. We therefore decreased cash dividends per share to ¥1.00 from ¥4.00 for the previous fiscal year, and have not determined dividends for the year ending March 2010. We will make that decision as the operating environment and demand trends unfold during the fiscal year. We are confident that the FY 2009 Emergency Plan I discussed earlier as well as initiatives to generate future growth will enhance corporate value, and we are determined to execute them effectively with the aim of increasing dividends.
What concluding remarks do you have for shareholders and investors?

The ANA Group is dealing with an extremely challenging operating environment. We will overcome this crisis with the aim of being Asia’s Number 1 Airline Group in terms of quality, customer satisfaction and value creation.

Our senior managers have personally visited airports and each of our facilities, and have taken the opportunity to speak directly with various employees. I feel that this approach brings all employees together in thinking about customers, and in employing various techniques to earnestly confront and resolve problems. This is why we are continuing to make progress toward being Asia’s Number 1 Airline Group. It is also a core strength of the ANA Group. We have consistently overcome crises such as the terrorist attacks of 2001 and the outbreak of SARS. In the future, management and all employees will work in concert to achieve our corporate vision.

We care deeply about this company, and about our shareholders and investors. Now more than ever, we are counting on your continued support.

(Interview conducted June 22, 2009)

Important Announcements for Shareholders and Investors

◆ Capital Increase through a Public Offering

At a meeting held on July 1, 2009, the Board of Directors of ANA resolved to conduct a public offering of new shares of stock in Japan and overseas and to issue new shares through a third-party allotment, and subsequently carried out this resolution. Details are as follows:

Number of shares offered: 575,000,000
Issue price: ¥259 per share
Amount to be paid: ¥248.28 per share
Estimated gross proceeds after tax (maximum): ¥141,671,000,000
Estimated increase in paid-in capital (maximum): ¥71,380,500,000

ANA will use the capital obtained through the public offering to proceed with strategic investments in highly economical aircraft, primarily the Boeing 787. Also, we will establish a strong financial base as we work to maintain and improve the quality of our air transportation services toward achieving our management vision of becoming Asia’s Number 1 Airline Group.

◆ FY 2009 Emergency Income Recovery Plan

(Announced July 2009)

The impact of the global recession that began during the fiscal year ended March 2009 caused demand to decrease sharply, and we have already implemented measures to reduce costs by a total of ¥73.0 billion in the fiscal year ending March 2010.1 Since then, demand has shown moderately positive signs, but is nowhere near a full-blown recovery. Moreover, the impact of H1N1 influenza from the end of April 2009 caused a substantial drop in demand, and we project that operating revenues for the first quarter of the fiscal year ending March 2010 will fall short of our revenue target by approximately ¥30.0 billion. In this operating environment, we aim to achieve our target for the fiscal year ending March 2010 by formulating and implementing our FY2009 Emergency Income Recovery Plan in addition to the cost reduction initiatives we are already executing. Details are as follows:

1. Further matching of capacity to demand by revising business plans
2. Flexible reduction of personnel and other costs based on reduced capacity levels
3. Reduction of general procurement costs
4. Introduction of Pay for Value2

Our objective in implementing these measures is to improve profitability by approximately ¥30.0 billion.

Notes: 1. Please refer to pages 8 and 9 of the interview with President and CEO Shinichiro Ito.
2. Pay for Value: Review services provided, charge for certain services, and introduce new value-added charged services

July 15, 2009