November 2017

Financial Results for the Six Months ended September 2017, QA Summary

Q-1

◆ **Please tell us about actual versus planned operating income for the Air Transportation Business during the first half. Also please explain your current revised full-year earnings forecast in detail.**

A-1

■ Air Transportation Business first half revenues were approximately 18.0 billion yen above plans. As a breakdown, domestic and international passenger revenues were approximately 6.0 billion yen and 5.0 billion yen above plans respectively, while cargo and mail revenues were approximately 7.0 billion yen above plans.

■ Operating expenses were approximately 6.0 billion yen below plans. This was mainly due to fuel expenses being approximately 5.0 billion yen below plans resulting from a crude oil market that transitioned lower than original assumptions. As a result, Air Transportation Business operating income was approximately 24.0 billion yen above plans.

■ Regarding revisions to our full-year forecast, we are forecasting 152.0 billion yen in Air Transportation Business operating income, representing an upward revision of 11.0 billion yen from our original plan. This revised plan reflects first half results and second half expense projections. In a comparison to our original expense plan, this mainly reflects an increase in maintenance expenses.

(Difference between revised vs original plans of the Air Transportation Business)

Unit : Billion		1H (Actual)	2H (Revised)	Full year (Revised)
Revenues		+18.0	—	+18.0
	Domestic Passenger	+6.0	—	+6.0
	International Passenger	+5.0	—	+5.0
	Cargo & Mail	+7.0	—	+7.0
	others	+0.0	—	+0.0
Expenses		- 6.0	+13.0	+7.0
	Fuel	- 5.0	—	- 5.0
	non-fuel	- 1.0	+13.0	+12.0
Operating Income		+24.0	- 13.0	+11.0

* No change in exchange rate and fuel price assumptions

Q-2

- **Please tell us the background behind the increase in maintenance cost in the second half. And, how will this impact profit in FY2018?**

A-2

- Second half maintenance expenses are projected to increase relative to original plans mainly due to (1) the unit price for maintenance outsourcing raised and, (2) we conducted a careful evaluation of maintenance plans for the upcoming fiscal year and beyond.
- In the current Mid-term Corporate Strategy, our Group is positioning FY2017 and FY2018 as the period for solidifying our management platform and conducting a comprehensive review of safety, quality and services. To firmly maintain safety, we have set performance levels that are higher than the standards recommended by aircraft and engine manufacturers. We are implementing voluntary maintenance response measures, including preventative inspections. As a result, we project maintenance expenses will be high in FY2018 as well. As we look forward to the 2020 slot expansion at Haneda Airport, our policy is to implement wide-ranging safety enhancements, including in the areas of engine maintenance and measures to prevent dropped objects.
- We have changed aircraft types and flight schedules on certain routes due to the status of maintenance. We will work to improve operational quality while evaluating the impact on customers.

Q-3

- **Please tell us sales results for the first half and forecasts for the second half in the Domestic Passenger Business.**

A-3

- Domestic Passenger Business first half revenue increased 7.7 billion yen year on year. Since the second half of last fiscal year we have advanced a sales policy that aims to increase revenues by expanding passenger numbers. Upon careful evaluation of flight-specific demand trends, we have been introducing "Tabiwari" promotional fares on low-demand flights. We believe the effective implementation of this strategy has been successful.
- During the third quarter, we project a year on year increase in passenger numbers although the unit price will underperform the previous year. This is because we will continue flexible fare pricing. However, since one year will have passed since we began implementing our sales strategy based on this policy, we forecast that the year on year difference will be smaller relative to first half results.

Q-4

- **Please tell us the status of the yield and demand forecasts in the International Passenger Business.**

A-4

- International Passenger Business first half yield increased by approximately 5% year on year. Substantial yield, which excludes the increase in fuel surcharge revenue and the impact of currency market fluctuations, also increased. Second quarter yield grew at a rate that outperformed first quarter results thanks to the benefits of route mix changes as a result of high inbound demand on China routes. During the third quarter as well, we project that trends similar to the first half will continue and that yield will outperform the previous year.
- Looking at demand, we project that the third quarter will continue to see firm transitions in demand, particularly with outbound business travel. Lately, various media outlets have been reporting on the Chinese government placing restrictions on group tours to Japan. However, ANA's China routes have a high composition of outbound demand and inbound individual travelers from China. As such, we do not anticipate this having a significant impact. Looking at European routes, the recovery of outbound leisure demand will level off. We project the rate of growth in passenger numbers will decline relative to first half results. On certain routes, we will implement measures such as deploying wide-body aircraft to capture further demand.

Q-5

- **Please tell us the status of the unit price and future direction of freighter business in the International Cargo Business.**

A-5

- With the International Cargo Business, we worked to capture demand that trended towards recovery and growth from the second half of last fiscal year by utilizing belly space on passenger aircraft and freighter aircraft. The unit price during the first half increased by approximately 20% thanks to initiatives aimed at capturing import/export demand and high-rate cargo from China headed to North America. During the third quarter, we project the unit price will outperform the previous year. In addition to a boost from firm demand, we also anticipate benefits from price raises for certain businesses clients. However, as the unit price has been trending upward since the second half of last fiscal year, we project the year on year growth rate will decline relative to the first half.
- With the freighter business, we have worked to capture demand while also reorganizing our route network and controlling capacity on low-profit routes to improve profitability. While we continue to see a positive operating environment, cargo demand is sensitive to the economic environment and fluctuates easily. Also, we are planning to expand our passenger route network (increase in belly capacity), hence our ongoing policy will be to control freighter capacity. For the cargo business overall, we will optimize total capacity and work to maximize income.

Q-6

- **Please tell us about the objectives for CB issuance and buybacks announced in August of this year, and how to think about future shareholder returns based on these deals.**

A-6

- The main objective of share buyback is to shift our capital strategy from enhancing capital accumulation to improving capital efficiency. We will implement recapitalization in which we secure the level of shareholders' equity required to maintain our credit rating while utilizing external capital procured through the issuance of CB with clauses for controlling conversion to conduct the large-scale share buyback. Another critical point is that we were able to use CB designed to minimize share dilution.
- This share buyback differs from that for the purpose of income distribution, for which free cash flow is used as capital. At present, we are not considering the continued share buyback and we will maintain our approach of utilizing stable dividends to provide shareholder returns.
- Thus far, we have solidified our financial platform based on an equity ratio of around 40%. However, what we view as the optimal capital structure will vary depending on future environment and scope of our businesses, risk buffer, and other factors. As such, 40% equity ratio will not be viewed as a standard or trigger for decisions regarding future share buyback.

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