# Message from the President & CEO

**SHIBATA Koji**

**President & Chief Executive Officer, Representative Director**

## We are making even greater strides, driven by the strength and teamwork of ANA Group employees.

### FY2023-25 ANA Group Corporate Strategy Progress

In fiscal 2023, the ANA Group posted operating income at the ¥200 billion level for the first time in our history, reaching the target for the final year of the ANA Group Corporate Strategy in only our first year under the new plan. Operating income margin exceeded 10% for the first time ever, and ROE reached a record high of 16.5%. The Company has improved performance rapidly in just three years since posting our largest-ever loss in fiscal 2020.

These strong results were due in part to the recovery in passenger demand on domestic routes in the wake of COVID-19 being reclassified to a Category 5 infectious disease under Japan's Act on the Prevention of Infectious Diseases. Tightening supply–demand balance on international routes and high unit price also contributed. Other factors include the impact of fixed cost reductions under Business Structure Reform and, of course, the efforts of the ANA Group employees who have worked so hard and creatively to recover capacity. At the same time, we must not forget to thank you, our stakeholders, for your support. We announced the resumption of dividends at the end of the interim period and raised the year-end dividend from ¥30 to ¥50 per share to reward our shareholders who believed in and supported our revival. However, dividends and the dividend payout ratio (14.9% for fiscal 2023) remain insufficient at levels still lower than pre-COVID-19. We intend to recover our financial base to pre-pandemic levels as quickly as possible, after which we will raise shareholder returns.

We are progressing generally in line with the action plans formulated under the ANA Group Corporate Strategy. In February 2024, Air Japan Co., Ltd. launched international routes under the AirJapan brand, adding another brand to the ANA and Peach multi-brand approach. ANA is increasing international route sales steadily while recovering business scale. This recovery includes the announcement of service to Milan, Stockholm, and Istanbul from December 2024 onward—service that had been postponed due to the impact of COVID-19. To grow our Cargo business, we continue to make arrangements for obtaining approvals from authorities in various countries in connection with the basic agreement to acquire all shares of Nippon Cargo Airlines Co., Ltd. from NYK Line. Our fiscal 2024 reflects plans for lower profits due to reduced government support and increased maintenance costs. In fiscal 2025, however, we aim to return to operating income at the ¥200 billion level. To gain a foothold for full-fledged growth, we intend to implement the strategies described in the ANA Group Corporate Strategy consistently and steadily.

### A Shift in Management Focus to the Medium and Long Term

The current corporate strategy runs through fiscal 2025. Given that performance has stabilized to a certain degree, however, we plan to shift management focus to the medium and long term, accelerating discussions toward business growth on all cylinders. Specifically, the Board of Directors has begun analyzing our business environment and discussing issues to address over the next 10 years through fiscal 2035. The construction of a new third runway at Narita International Airport is scheduled to be completed by the end of March 2029. With the additional capacity, Prime Minister Kishida reiterated the government's target for 60 million inbound travelers by 2030 at the April 2024 ministerial Council for Promoting Japan as a Tourism Nation. The Travel Agency projects that demand for air transportation will grow with the expansion of the Indian and Southeast Asian economies, and we expect a significant opportunity for growth in air transportation demand and supply. After identifying our aims to what extent, we will formulate our next management strategy through backcasting, showing our investors the future growth story of the ANA Group. Here, I want to share my thoughts on the three areas we believe will be growth drivers.

#### International Passenger Business as the Pillar of Further Growth by Conducting Management that Overlooks the Whole World

The first point is the International Passenger Business, which will eventually become a pillar of profit growth. In fiscal 2023, ANA International Passenger revenues were ¥728.1 billion, surpassing Domestic Passenger revenues for the first time ever and becoming a pillar of our business in both name and practice. I joined the Company chasing a dream to work in some capacity related to international flights at ANA. Ever since, I have been

involved in the International Passenger Business, so this is a very inspirational moment for me. When I joined ANA in 1982, operating revenues were approximately ¥420 billion. Revenues have increased fivefold in about 40 years, and the International Passenger Business has been the power behind this growth. At the same time, several airlines around the world, mainly in Europe and the U.S., have revenues more than twice the size of the ANA Group. We still have room to aim higher.

Looking at the current routes operated by the ANA Group around the globe, South America and Africa are considered white spots (empty zones where we do not operate our own direct flights). For example, I recently visited Brazil. The trip took a total of more than 30 hours between Haneda Airport and connections to flights of other airlines. I don't imagine this style of travel is very comfortable for most people. Many destinations even outside South America and Africa are inconvenient to access, including airports located outside major cities.

ANA, Peach, and AirJapan will expand the number of destinations to create an infrastructure for customers to travel more quickly and conveniently to any point in the world. Each brand will take advantage of their respective characteristics and strengthen alliances with overseas airlines—particularly those of Star Alliance. Offering the best mix of in-house and code-share flights, we will create a truly global network offering broad access to the world with more destination options and more convenient connection schedules.

The number of visitors to Japan continues to increase. At the same time, we recognize significant room for improvement in ANA Group overseas sales, both in terms of passenger volume and unit price. When I engage in overseas investor relations, I sometimes hear from local investors that given the world-class ANA service quality, we should be able to raise the unit price. While our fares have been traditionally higher than the competition, we believe there is room to increase profit from our international routes by raising awareness overseas, improving convenience for non-Japanese customers, and expanding sales channels.

### Domestic Passenger Business as a Stable Revenue Platform

The second pillar is to improve the profitability of our Domestic Passenger Business. Although domestic routes have been a stable base of revenue for many years, profitability has begun to show signs of weakening more recently. In addition to the existing structural issues, including a shrinking domestic population and large fluctuations in demand depending on the day of the week and time of day, we believe a combination of other factors have contributed to a decline in domestic passengers. These factors include a decline in business demand due to the rising trend of online meetings, soaring fuel oil prices, increased maintenance costs due to the aging of aircraft, and rising domestic wages and prices.

Certain issues will require time to resolve, but we will take care of the issues we can handle in-house as quickly as possible. The first of these issues is to build an optimal fleet portfolio based on the size of the market. We were sad to see that the former Mitsubishi Aircraft Corporation abandoned the development of the SpaceJet. At the same time, we must move forward decisively in selecting narrow-body aircraft of around 100 seats to replace the void left behind. We will improve load factors and increase asset efficiency through a route network, schedule, and appropriate aircraft to meet the demand for flights as we increase the ratio of narrow-body aircraft over the medium term.

The second is to expand the number of travelers to rural areas. The Japanese government has made tourism an important policy pillar. The ANA Group also pursues regional revitalization as a materiality. Communicating the rich nature, cultures, food, and other attractions of each region—as well as by matching regional issues with ANA Group assets—we will encourage mobility and personal interactions through tourism and agriculture, promoting the use of ANA Group-operated flights. Today, in-country travel by inbound travelers accounts for about 3% of all domestic passengers. We want to expand this ratio in the future.

We must address numerous other issues to improve profitability in terms of revenue and cost approaches. Examples include utilizing more sophisticated marketing and introducing more labor savings in ground handling. Air transportation is indispensable for an island nation such as Japan. We must continue to implement multifaceted structural reforms and establish a stable revenue platform if we are to help revitalize regional economies and fulfill our roles and responsibilities in a sustainable manner.

### DX as the Center of Management Strategy

The third point is digital transformation (DX). In an environment of rapid change and diversifying customer needs, we must make effective use of digital technologies and data across the ANA Group, speeding up management decision-making and pursuing transformations that include more attentive services to customers. Based on this strong desire, we moved our DX strategy beyond the former positioning as a part of our management foundation, placing DX at the center of our business strategy.

One key topic is to balance enhanced productivity with improved customer and employee experience. We already pursue automation and mechanization in a variety of ground handling tasks. We will see significant labor savings if we extend these technologies to other key airports. Through generative AI and other advanced technologies in other operations, customer service, and staff operations, we aim to maximize the value we provide employees and customers. We will create an environment with the best mix of human and digital, allowing our people to focus on what they do best. DX is also important in the evolution of ANA Smart Travel to provide customers with a more comfortable travel experience. For example, some overseas airlines are ahead of the curve in terms of convenient services, such as mobile flight rebooking in the event of a flight cancellation. We will accelerate functional improvements to our website and the ANA app to ensure a smoother, more stress-free experience at every stage of the travel process, from planning and booking to airports, boarding, and arrival.

Another important topic is to create group synergies through data usage. The ANA Group collects data across several businesses, including data on approximately 42 million ANA Mileage Club members. However, we have yet to utilize this wealth of information to its full potential. By upgrading to one-to-one marketing based on customer preferences, consumption behavior patterns, and other information, we will expand the *ANA Economic Zone*, offering more opportunities to use air and non-air services to more customers.

## ANA Group-Style Human Capital Management

### Achieving a Virtuous Value Creation Cycle Centered on Human Capital

Human capital is the axis around which the ANA Group value creation process revolves. In fact, a full 80% of the compliments and 40% of the complaints we receive from customers at our contact center relate to human services. This fact proves that what customers expect most from us is high service quality from our employees. Providing customer experience value that exceeds expectations and creates customer delight is our aim when we say *Uniting the World in Wonder*.

We held a Corporate Transformation Council in fiscal 2023 to communicate our new management vision, increase productivity, and foster work-style reform. In fiscal 2024, we are developing initiatives to put ANA Group-style human capital management into practice, rolling out this system in a progressive manner. First, we clearly communicated to employees management's intention to invest generously in human capital. We also unveiled the value creation cycle by which we enhance basic quality and productivity through improved engagement. In turn, this cycle leads to customer satisfaction, social value, and economic value. I then shared my thoughts on human capital management with directors and division heads, asking them to hold dialogues with employees in their respective workplaces. The phrase *human capital management* sounds very formal, but I urge managers to create an atmosphere in which employees feel comfortable stating their true opinions. I want managers to listen to and accept feedback with sincerity, basing discussions on true feelings and taking prompt action for actionable measures by management or employees. The most important factor in practicing the value creation cycle is to create work environments in which employees have a sense of job satisfaction and work with vitality and enthusiasm. I want to create environments in which employees see themselves as responsible for solving workplace issues, expressing their honest opinions without reserve. To this end, we will increase opportunities for two-way dialogue between management and employees, at the same time pursuing fair, impartial organizational management and a culture that embraces diversity.

To raise wages sustainably while seeking profits in the future, we must add value through the power of people. Customers must feel that the value they receive is worth the higher fares compared to other companies. We will achieve this virtuous value creation cycle while increasing value-added productivity (see p.49) to establish a competitive advantage through more refined and consistent ANA Group quality.

### Understanding the Thoughts and Feelings of Our Employees

We practice the *three reality principle*, which emphasizes visiting the real site, understanding the real situation, and being realistic. To practice this principle, I take the time to visit and converse with ANA Group employees in their actual work locations. At the end of 2023, I made three visits to our maintenance shop, going early in the morning at 5:00 a.m. to see employees working on aircraft and engines. In guiding the rudder of our business, I place high importance on understanding the thoughts and feelings of our employees. I want to gain a deep understanding of what each employee does every day. In what kind of environment do they work? What are they thinking? I want to understand not from a superficial level, but more deeply from the same perspective as our employees. Only when we empathize truly with our employees can we speak in words that resonate with them. Only then can we reach out when they are in need and set the perfect stage for them to achieve their full potential. From this perspective, the job of a president is not only about management skills but also about work skills that include an in-depth knowledge of business and the ability to get work done. Even today, I strive constantly to improve my work skills.

Having received requests from one of our workplaces to add one more service member due to the heavy workload of flight attendants and the time required to serve customers, in fiscal 2023 our flight attendant division began a careful study of various perspectives, including perspectives of employees, customers, and productivity. I personally observed the service on an actual flight and spoke directly with flight attendants about specific service procedures and operational difficulties. After carefully considering the situation and taking into account the feelings of the employees, I supported the decision to increase the number of service members on the relevant flights. By combining several measures, we improved customer service times without increasing the overall organizational headcount. This is just one case in point, and I believe that an accurate understanding of employee thoughts and feelings should be the basis for many types of management decisions.

### Teamwork Is a Unique Strength

After discussions about the ANA Group strengths underlying our human capital management story, we once again came to the conclusion that teamwork is our most unique strength. Peter Drucker, the father of modern business management, famously said, "Culture eats strategy for breakfast." The driving force by which we weathered the COVID-19 pandemic was nothing more or less than the team spirit as described in ANA's Way; the spirit of *wakyo* (close cooperation). At the beginning of 2024, a collision occurred between a Japan Airlines flight and the Japan Coast Guard aircraft on a runway at Haneda Airport. It was our own ground handling staff who worked with the firefighters to guide evacuees away from the damaged aircraft. Our ground staff and mechanics also helped the evacuees access bathrooms on ANA aircraft. I believe this episode is proof of the strong sense of mission shared by our employees as individuals involved in the airline business who work together as a team every day. To ensure we always retain these unique strengths, we continue to encourage active communication within the group and strive for teamwork-based value creation.

### Becoming a Beloved Company

Another major element helping us survive the COVID-19 pandemic was the support we received from stakeholders with whom our employees had built relationships of trust over our nearly 70-year history, including investments, loans, and employee secondments. I came to understand firsthand how non-financial capital not presented on financial statements—relationships of trust with employees, customers, and society—can be of real value when a company is in crisis. Creating ANA Group fans through our businesses and becoming a beloved company are essential for increasing corporate value. These factors also represent the greatest tool for risk management. To deepen relationships with our stakeholders, we will continue to engage in management from a long-term perspective, focusing on more than our own profits and building a corporate culture where ANA Group executives and employees act with integrity. We are dedicated to practicing ANA Group-style human capital management, and we will strive to foster an atmosphere where employees and people outside the Company feel a sense of attachment to the ANA Group.

## Evolution toward an Integrated Management Philosophy

I mentioned that we are shifting our management focus to the medium to long term. I also want the ANA Group to evolve toward an integrated management philosophy. As part of our efforts to achieve this goal, we began to study redefining materiality. We defined our current base of materiality in fiscal 2015, and we have not revised materiality significantly since. We plan to redefine what we view as our challenges, taking into account the post-COVID-19 business environment and the role we should play. These considerations will serve as a new basis for our next management strategy in fiscal 2026 and beyond. When we formulate management strategies based on materiality, we strengthen the link between business strategies and ESG strategies. We also raise the awareness of Group employees regarding sustainability and tie materiality to concrete, practical actions.

CFO NAKAHORI Kimihiro explains elsewhere in this integrated report our policy for achieving a price-to-book ratio (PBR) of 2 times. (See p.22) To achieve a PBR that exceeds accounting value significantly, we must visualize our non-financial capital, especially human capital, which is the strength of the ANA Group. We must clarify the relationship between non-financial capital and financial values, using data to communicate our value creation process in a more coherent story than we have to date. This story will benefit ANA Group employees in establishing a common understanding of the Company's strengths, to understand accurately the meaning and aims of strategies and measures, and to work with a sense of conviction in the process of improving corporate value. We intend to make progress in this area through trial and error.

## Toward the Next Stage: Our Will to Enhance Corporate Value

### Struggling and Forging New Paths

The recovery in demand following the COVID-19 pandemic has slowed. Now is a critical juncture to determine whether we can achieve sustainable growth. In the process of implementing change, we expect to encounter challenges. But if we keep moving forward with a strong will—never giving up—a path will surely open. I have had many experiences in my working life in which, faced with difficult challenges, I focused singly on the one outcome I desired. After thinking deeply and pondering at length, I eventually arrived at an answer to break through the difficult situation from unexpected sources. Our management team, every employee, and I will continue to ponder measures to create added value. We will push forward directly toward our goals, forging new paths to the future of the ANA Group.

### A Further Leap Ahead, Together with Group Employees

The International Air Transport Association (IATA) projects that the total number of passengers worldwide in 2024 will be approximately 4.7 billion, a record high. The airline business, which is the mainstay of the ANA Group, will undoubtedly continue to be a growth industry. When faced with COVID-19, people outside the Company concluded that the investment related to the expansion of international flight slots at Haneda Airport in 2020 had backfired. At the time, such opinions had an impact on our business performance; however, our willingness to take on the challenge of growing our business remains unchanged to this day. Of course, we must return to a growth trajectory to avoid a repeat of history. At the same time, we must engage in total risk management and strengthen our resistance to volatility in both business and financial aspects.

Our company song was composed 62 years ago on the occasion of the 10th anniversary of the Company's founding. The lyrics of that song say, "building a bridge of love that connects the world, with pride and determination, we go forward today with our hands and wings." Our predecessors were already thinking about the global skies back then. Their lofty aspirations led to our vision of *Uniting the World in Wonder*. Since our very first days, the spirit of creating connections in the sky, expanding the potential of our employees, customers, and society, and contributing to a future full of dreams has been the foundation of the unyielding spirit of the ANA Group. Today, 41,000 ANA Group employees share the same passionate aspirations as our predecessors. We work hard every day to achieve the same goals. To me, this is our greatest asset and the driving force behind the growth of our group. I will take the responsibility to unite the dreams and hopes of our employees to contribute to a peaceful society by connecting the hearts and minds of people around the world through the movement of people and goods. I will take the responsibility to ensure we take a leap ahead toward the skies of the future.

I ask for your continued support and encouragement of the ANA Group.

August 2024
**SHIBATA Koji**
President & Chief Executive Officer,
Representative Director

# Message from the CFO

Toward Improving Return on Capital and Share Price Further

**We are strengthening management that is oriented toward the cost of capital and share price, striving for improved corporate value over the medium to long term.**

**NAKAHORI Kimihiro**
**Member of the Board of Directors, Executive Vice President Group Chief Financial Officer**

## 1 Fiscal 2023 in Review

### Q The ANA Group posted record profits in fiscal 2023. What were the factors behind this strong performance?

The ANA and Peach brands captured the strong post-COVID-19 inbound travel demand effectively, resulting in a significant increase in operating revenues, particularly in the Passenger Business. The brands improved profitability by controlling yields to a high standard, even as the scale of operations recovered. In terms of expenses, we controlled fixed costs and leveraged continued partial government support, including subsidies and exemptions of taxes and public dues.

### Q What progress have you made in restoring the group's financial base, as described in the ANA Group Corporate Strategy?

The strong performance of our Passenger Business led to a steady recovery in profits and cash flow generation. We are restoring our financial base at a pace faster than anticipated. Shareholders' equity amounted to ¥1,044.5 billion, and our shareholders' equity ratio was 29.3%, improving by about 4 points compared with the previous fiscal year. We think the appropriate level of liquidity on hand from a medium-term perspective is ¥500 billion. When correcting to that level, the shareholders' equity ratio would be 37.1%, maintaining financial soundness. Rating and Investment Information, Inc. (R&I) recognized our rapid recovery in earnings and finances, upgrading our credit rating to A- and helping ensure flexibility in financing.

## 2 Balance Sheet Management

### Q What is your perception of the current balance sheet?

We recognize that the balance sheet is inflated temporarily, mainly due to an increase in cash and deposits and interest-bearing debt resulting from funds procured to prepare against the possibility of the prolonged impact of the COVID-19 pandemic. The current balance sheet poses a challenge from the standpoint of efficiency. We plan to reduce our balance sheet over the medium term by using cash on hand for interest-bearing debt repayments. We also plan to manage our aircraft, spare engines, and spare parts—the ANA Group's main assets—appropriately, while reducing cross-shareholdings.

### Q Describe the repayment plan for the subordinated loans, which could be considered one measure to reduce the balance sheet.

As we progress in restoring our financial base with the recovery in our performance, we intend to use cash on hand to repay ¥200 billion each in 2025 (tranche A) and 2027 (tranche B) as early repayments. We will keep a close eye on the impact of the change in lease accounting standards scheduled for fiscal 2027 and beyond.

**Early Repayment Terms**
(Without Refinancing)

**(1) Real net debt-to-equity ratio* ≦0.73**

$$\text{*} \frac{\text{(Loans + Bonds + Lease obligations + Future lease payments) - (Cash and deposits + Marketable securities)}}{\text{Shareholders' equity (Net assets - Non-controlling interests)}}$$

**(2) Shareholders' equity of ¥919.2 billion or more**

In the case of tranche A for (1) and (2), we consider the recognized equity of tranche B.

Our financial management policy is to maintain an appropriate level of shareholders' equity in line with business risks so that we can adapt to various changes in the business environment, and we will continue to utilize hybrid financing, such as subordinated loans and subordinated bonds, as one of our financing methods as needed.

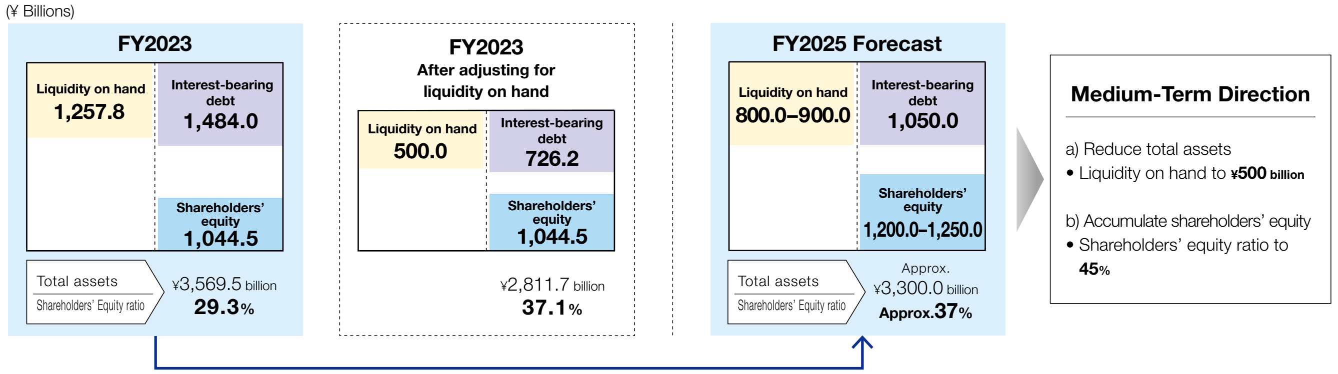
### Q What are the conversion terms of the ¥150 billion in euro–yen convertible bonds issued in December 2021?

The bonds in question have a 120% soft call option provision designed to facilitate conversion. Under this provision, if the Company's share price (closing price of ¥2,883 at the time of issuance; ¥2,838.4 as of April 1, 2024) remains at 120% or more of the conversion price for 20 consecutive trading days (equivalent to ¥3,460 or more at the time of issuance; ¥3,407 or more as of April 1, 2024), the Company has the right to redeem the bonds at 100% of the principle in advance of or on December 10, 2024, which is three years after the issuance date. If the Company exercises this option, the share price will be above the conversion price, and bondholders will find it economically rational to convert to shares prior to early redemption. This provision has the effect of encouraging conversion to shares. We established these terms to ensure a certain degree of flexibility in future financial strategies. The Company's share price reference in this provision begins on August 15, 2024. If our share price (closing price) exceeds ¥3,407 for 20 consecutive trading days after that date, we will be able to reduce interest-bearing debt and increase equity by ¥150 billion by exercising the soft call option.

On the other hand, we may not make a decision to exercise this right immediately considering share price level and our medium-term targets for shareholders' equity and shareholders' equity ratio. If the bonds are not converted into shares, the bonds will simply be zero coupon low interest bonds, redeemed when due. We plan to determine the funds based on the Company's financial condition, interest rates, capital market trends, and other factors at the time.

### Q In what direction will you aim your balance sheet over the medium term?

The policy under the current ANA Group Corporate Strategy (FY2023-25) is to prioritize restoring our financial base by building shareholders' equity through profit accumulation. We expect our shareholders' equity ratio at the end of fiscal 2025 to be around 37%. In fiscal 2026 and beyond, we believe the appropriate level of liquidity on hand will be ¥500 billion and are targeting a shareholders' equity ratio of around 45% as we continue to strengthen our risk tolerance capable of dealing with another large-scale pandemic. ANA aims to obtain a credit rating of A from R&I.



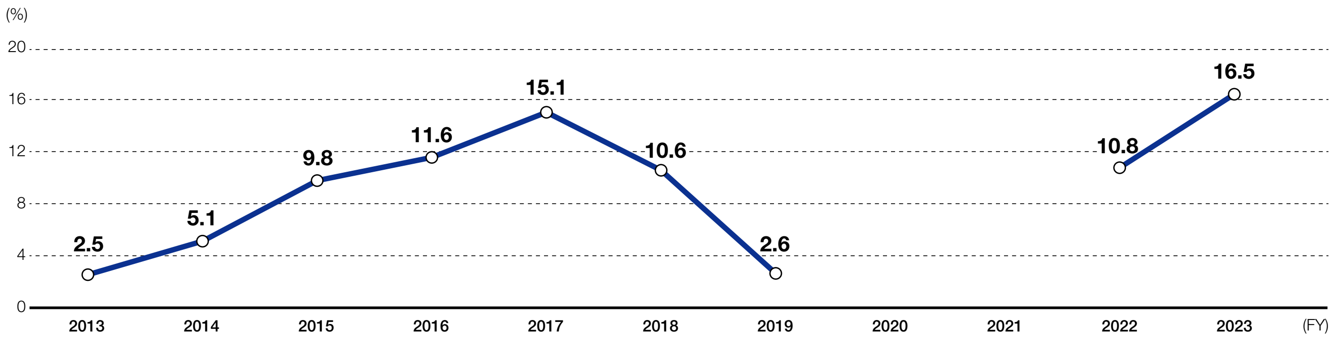
## 3 Return on Capital and Cost of Equity

### Q How do you view ROE levels historically? What initiatives are you taking to improve ROE?

From a premise of financial soundness, we work to maximize corporate value by improving ROE. With the expansion of slots at Haneda Airport in fiscal 2014, we increased our routes and network focused on international routes while improving profitability, leading to an ROE in excess of 10% for fiscal 2016. On the other hand, ROE declined due to weakening earnings caused by the COVID-19 pandemic after the first half of 2020. In fiscal 2022, ROE again exceeded 10%, reaching a record high of 16.5% in fiscal 2023, as passenger demand recovered and we engaged in detailed cost management. Our policy is to improve ROE by increasing profitability (net income margin) and efficiency (asset turnover).

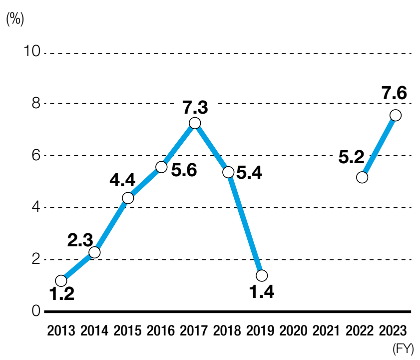
We plan to increase profitability by expanding our strong International Passenger Business and investing in growth, including in new business sectors. In addition, we intend to accelerate discussions on our airline portfolio (ANA, Peach, AirJapan) and business portfolios (passenger and cargo; airlines and non-air) to optimize the allocation of management resources across the ANA Group. As mentioned above in terms of efficiency, we recognize the balance sheet challenges we face, and we will continue to manage the balance sheet for effective value creation.

#### Return on Equity (ROE)



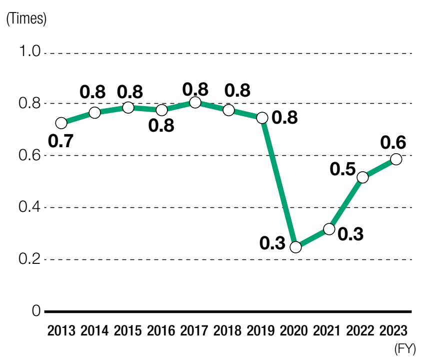

Note: Fiscal 2020 and fiscal 2021 omitted due to net losses.

#### Net Income Margin (Profitability)



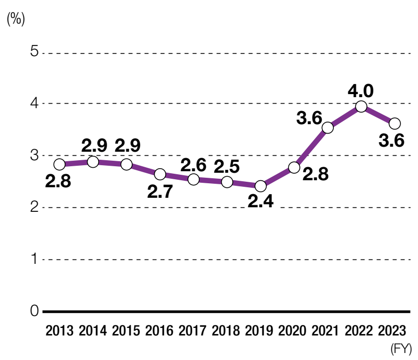

- Expand the International Passenger Business and improve profitability
- Expand business through growth investments, including new business sectors
- Accelerate discussions on the airline portfolio and business portfolio to optimize the allocation of management resources across the group

#### Asset Turnover (Efficiency)




- Optimize investment scale
- Optimize assets owned (aircraft, engines, parts, etc.)
- Reduce cross-shareholdings

#### Financial Leverage (Debt)



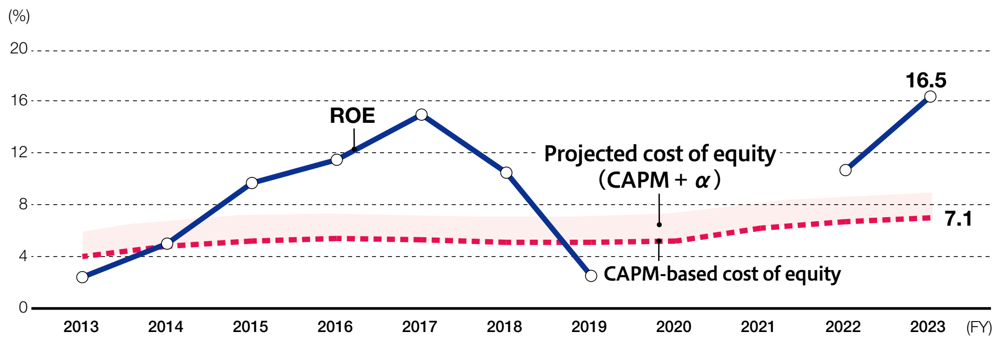

- Maintain a certain level of liquidity on hand and shareholders' equity against risk events
- Maintain liquidity on hand at ¥500 billion
- Maintain shareholders' equity ratio at 45%

Note: Fiscal 2020 and fiscal 2021 omitted due to net losses.

### Q What is your perspective on cost of equity?

While we believe that ongoing communications with investors is the most important way to determine the appropriate cost of equity, we also monitor the cost of equity as calculated by the capital asset pricing model (CAPM) and earnings yield. ROE for fiscal 2023 was 16.5%, compared to our recognized 7.1% cost of equity based on CAPM. We believe this is a sufficient equity spread. Note that the CAPM-based cost of equity was in the 5% range prior to the pandemic. The cost of equity has been on an upward trend since the end of the pandemic, partly due to changes in leveraged beta. Given the most recent views from the capital market, we believe we must maintain a cost of equity at around 8%. We intend to maintain an equity spread of at least 4%, looking to possibly raise our current medium-term ROE target of 12%. We will continue to engage in constructive dialogue with a wide range of investors, striving to understand the expectations of the capital markets.

#### ROE and Cost of Equity




#### Future Guidelines

ROE Target 12% or more

Equity Spread Target 4% or more

Cost of Equity Approximately 8%

### Q What steps are you taking to reduce the cost of equity to ensure a stable equity spread?

We are implementing three broad categories of initiatives to reduce the cost of equity. The first is to control interest-bearing debt in light of an optimal capital structure. Our analysis of the changes in levered and unlevered betas indicates that the cost of capital has increased with higher financial risk due to the increase in Interest-bearing debt since the COVID-19 pandemic. We will improve our financial security by repaying interest-bearing debt consistently. The second is to control performance volatility. Struggling performance during the COVID-19 pandemic was inevitable. Learning from this experience, we know the importance of building a strong business structure and implementing a portfolio strategy capable of withstanding risk events. The third relates to our ESG initiatives. We must remove uncertainties to future growth from a medium- to long-term perspective, focusing on measures to reduce $CO_2$ emissions, an important issue for an airline group. We will reduce the cost of capital through progress in these three initiatives as we communicate closely with the capital markets.

| | |
|---|---|
| 1. Control interest-bearing debt | • Repay interest–bearing debt consistently<br>(¥500 billion–¥600 billion: forecast total for 2023–2025)<br>• Early repayments of subordinated loans (FY2025 and FY2027) |
| 2. Control performance volatility | • Secure aircraft and human capital to expand profits in the Air Transportation Business<br>• Control fixed costs via cost management<br>• Expand Non-Air Business profit segments |
| 3. Implement ESG initiatives | • Ensure the stable procurement of SAF (strengthen outreach and coordination with relevant parties)<br>• Refine estimates of costs for medium- to long-term environmental response<br>(e.g., costs related to CORSIA* compliance)<br>• Strengthen governance (risk management and compliance enhancement initiatives) |

* CORSIA: Carbon Offsetting and Reduction Scheme for International Aviation

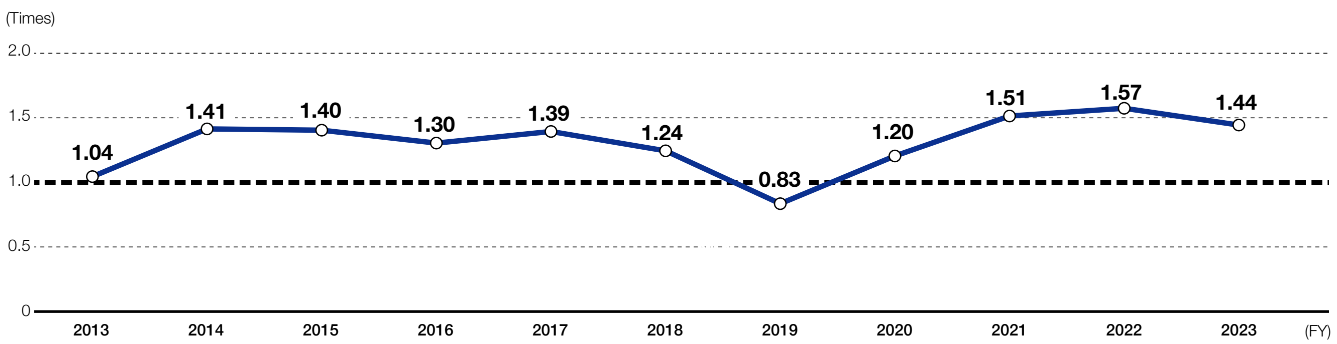
**Step Up IR Activities** Present timely and full information disclosures to the capital market and pursue dialogues with investors

## 4 Share Price

### Q What is your view of the current share price and share price indicators?

Looking back at past PBR performance, we have been well above 1 times in almost every period, except those impacted by COVID-19. In the past 10 years, however, we have never achieved a PBR of 2 times, remaining in the range of 1 times. The highest share price (closing price) during the same period was ¥4,753 on January 9, 2018. While we posted record profits and profit margins in fiscal 2023, our current share price hovers around ¥3,000. The struggling share price can be attributed to a number of factors, including our public offering in the wake of the COVID-19 pandemic, the increase in outstanding shares (dilutive shares) issued with the issuance of convertible bonds, and the fact that investors may consider shareholder returns insufficient based on our focus on restoring our financial base. However, we believe the most important factor in improving our share price is to communicate the story of medium- to long-term corporate value enhancement to investors. While the forecast for the current fiscal year assumes a decline in profit, management is engaged in deep discussions regarding how we will demonstrate the likelihood of achieving our fiscal 2025 operating income target of ¥200 billion and show a concrete path to the next stage of growth. We aim to achieve a PBR on the order of 2 times and maintain a stable equity spread by raising ROE to our medium-term target of 12% as quickly as possible.

**PBR**

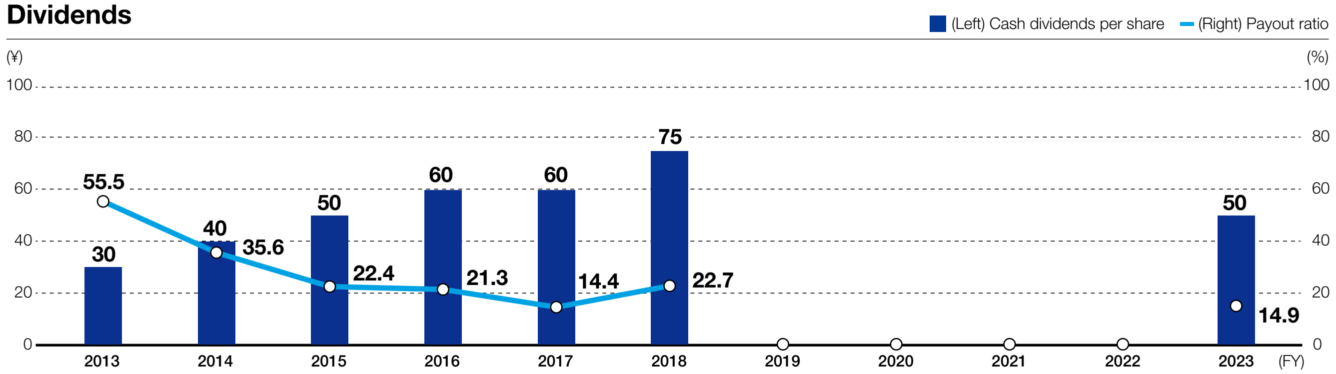



Note: Calculated using the closing share price at the end of each fiscal year

### Q What are your thoughts on the policy for shareholder returns?

In fiscal 2023, we published a release at the end of October announcing the resumption of dividend payments (¥30 per share) for the first time in five years, ultimately paying a dividend of ¥50 per share. Dividends per share and the dividend payout ratio remain lower than pre-COVID-19 levels. However, we intend to increase shareholder returns beginning in fiscal 2026, taking into account the restoration of our financial base and the balance between our profit outlook and investments in growth. In addition to dividends, we intend to meet the expectations of shareholders by increasing net income per share (EPS) and by increasing our share price. As mentioned above, the number of outstanding shares (dilutive shares) is increasing, which is a factor restraining the growth of EPS. Therefore, the Company will consider the option of share buybacks, assuming we can maintain financial health, which is a medium-term goal.

**Dividends**




## 5 A Remuneration System that Contributes to Enhanced Corporate Value

### Q Does your officer remuneration system incorporate incentives to increase corporate value over the medium to long term?

Our officer remuneration system is performance-linked, combining multiple indicators. We designed the system to improve corporate value over the medium to long term, reflect common interests with our shareholders, and encourage sustainable growth. In fiscal 2023, we added new indicators related to the Non-Airline Business/*ANA Economic Zone*. These new indicators encourage management to focus on medium- to long-term growth by addressing materiality.

| Fixed (ratio 1.0) | Performance-linked (ratio 0.00 to 0.92) | |
|---|---|---|
| | Various measures to evaluate single-year results | Evaluate contributions to corporate value over the medium to long term |
| Payment according to title, etc. | Net income<br>Safety<br>Customer satisfaction<br>Employee satisfaction | ROE<br>Non-Airline Business/*ANA Economic Zone* indicators<br>ESG indicator<br>Productivity indicator |

### Q What employee incentive program do you have in place?

We adopted a plan to grant shares not only to directors but to employees as well. This plan raises employee awareness of our business and encourages employees to play an active role in ANA Group sustainable corporate value enhancement.

| Incentive | Year Implemented | Eligibility | No. of Shares | Restriction | Purpose |
|---|---|---|---|---|---|
| Special incentive | FY2022 | Employee stock ownership association members | 70 | – | Increase work ethic |
| Restricted stock incentive (RS) | FY2023 | Employee stock ownership association members | 100 | 3 years | Step up incentives for achieving the ANA Group Corporate Strategy |