

Financial Results for the Six Months Ended September 2021 Q&A Summary

Q1) How do you view the performance in Air Transportation Business under the second quarter?

A1) As second quarter operating revenues rose significantly, we also saw the impact of deeper cost reductions, leading to the smallest operating loss since the emergence of COVID-19 during the fourth quarter of fiscal 2019.

1) ANA Domestic Passenger Business

Despite an increase in reservations for returning to family homes during the summer holiday season, the state of emergency declaration extended longer than expected, while government requests to refrain from unnecessary travel outside the home combined to slow travel.

2) ANA International Passenger Business

We assumed demand would recover due progress in vaccinations and the hosting of the Tokyo 2020 Games. However, passenger growth was sluggish due to continued travel restrictions in various countries and restrictions on entry into Japan.

3) ANA International Cargo Business

Sales of mainstay products remain strong such as automotive related, semiconductor and medical supplies. Our cargo business achieved record-high operating revenues for a fourth consecutive quarter by capturing demand through the expansion of the scale of operation.

4) Operating Expenses

Despite the expansion of capacity year on year, we have reduced operating expenses 25.6 billion yen compared with the prior year. This was because we controlled variable costs through flexible adjustment of supply to demand and reduced fixed costs by steadily implementing *Business Structure Reform*.

Q2) What is your outlook for demand for the second half of the year and how do you expect to return to profitability in the fourth quarter?

A2) Since the full lifting of the state of emergency, reservations have been increasing steadily since October, particularly for domestic flights. Our revised forecast, includes conservative assumptions regarding the timing of the easing of travel restrictions, etc. We also factored in the risk of reservation cancellations to a certain extent.

We are performing highly accurate demand forecasts for domestic flights, taking into account vaccination rates and effective reproduction number. In addition, we factored in the impact of *GoTo Travel Campaign* conservatively for the fourth quarter only.

We are strengthening our competitive ability steadily toward returning to a profit through cost structure reforms and a lowering of our break-even point. We expect the International Cargo Business to remain strong through the end of this fiscal year, and we believe it will make a significant contribution to revenue growth.

Q3) What is your cost management policy for the future? To what extent do you expect the effects of cost reduction measures to be sustained over the medium term?

A3) Our review of employee compensation packages is a temporary measure, and we intend to reinstate original levels as we return to profitability. On the other hand, as a measure to implement after the end of temporary measures, we have presented the union with a structural reform plan for personnel expenses, including a revised of allowances. We are moving forward in reforming our service model through digitalization, and we are also pursuing labor savings and productivity improvement to curb increases in personnel expenses.

We expect the impact of fixed cost reductions, 50% of which consist of early aircraft retirements and procurement cost reforms, to be sustained in the future.

Q4) Will your revision of compensation packages have an impact on employee motivation?

A4) Our internal *Employee Satisfaction Survey* indicated that employee satisfaction has improved overall, even during the pandemic. However, management is aware that asking for a prolonged period of cooperation with compensation packages could cause a decline in employee morale.

We will continue direct dialogues between management and employees, developing systems to improve motivation, including ways to compensate employees according to their skills and abilities.

Q5) Is there any change in your view of your financial soundness?

A5) Shareholders' equity was approximately 800 billion yen as of the end of the second quarter. However, if we take into account the 200 billion yen in capital appreciation portion of the 400 billion yen in subordinated loans, substantial shareholders' equity would be at the 1 trillion yen level. We believe that there is no issue with our financial position.

We also have approximately 820 billion yen in liquidity on hand, which is sufficient to hold us against the COVID-19 pandemic. We are aiming for EBITDA to turn positive in the third quarter, as we continue measures to curb the outflow of cash.

Q6) What is your outlook for demand, profit levels, and the scale of your business in the next fiscal year and beyond?

A6) If there are no significant restrictions on travel due to a re-emergence of COVID-19, we expect demand to recover in earnest in the next fiscal year. We plan to improve operating revenues, profits, and profit margins steadily by expanding capacity throughout the Group.

Our fleet strategy in the short term is to reduce the number of aircraft temporarily through the early retirement of wide-body aircraft and postponing the timing of aircraft receipt. In the next fiscal year onward, we plan to increase the number of aircraft gradually in line with the recovery in passenger demand.

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