August, 2022

Financial Results for the Three Months Ended June 2022 Q&A Summary

Q1) What were the main variances between Q1 results and plan for operating revenues and expenses in the Air Transportation Business?

A1)
- International passenger and cargo drove Q1 revenue growth, while we continued cost containment measures via capacity adjustments. These factors resulted in a 27.0 billion yen improvement in operating income over plan.
- The main variances compared to plan for Q1 results were as follows:

[Breakdown of the differences vs. plan in Air Transportation Business]

Operating Revenues : +23.0 billion yen

(Int'l Passenger : +18.0 billion yen, Int'l Cargo & Mail : +7.0 billion yen)

Operating Expenses : -4.0 billion yen

Q2) What are the recent trends in demand, unit price, and yield in passenger business?

A2) 1) ANA Domestic Passenger

[Demand Trends]

- Although ticket refunds increased in response to the reemergence of COVID-19 infections in Japan, the uptake of new bookings has exceeded cancellations, and the trend toward a recovery in demand continues.
- For the July-August period, combined number of passengers for both ANA and Peach brands is expected to be around 80% of pre-COVID-19 levels. We expect that demand will return to pre-COVID-19 levels in Q3 or later.

[Unit Price, Yield]

- We implemented flexible capacity adjustments in Q1 while balancing market share, focusing primarily on improving profitability. We also saw the impact of yield management, including price increases covering tickets issued at the end of March onward.
- In Q2, we expect leisure demand to lead the recovery. Unlike Q1, which experienced an early recovery in higher-priced business demand, we believe average unit price may decline comparatively due to a share increase of lower-priced leisure travel. However, we expect unit price by each passenger type to improve respectively.

2) ANA International Passenger

[Demand Trends]

・ Demand for direct flights to/from Japan is still on the way to recovery due to Japan's ongoing border control measures. On the other hand, transit demand has been recovering remarkably, accounting for about 50% of the passenger numbers.
・ We forecasted Q2 passenger volume at 30% of the pre-COVID-19 levels in our initial plan, but our latest forecast is slightly above the plan.

[Unit Price, Yield]

・ Q1 yield, excluding fuel surcharge revenue, improved compared to the same period in 2019, and we achieved high profitability through careful yield management.
・ In Q2 as well, business travel, etc., has remained firm, and unit price is rising as the supply-demand balance tightens. Trilateral traffic is experiencing a higher unit price than pre-COVID-19 levels, due in part to the slow recovery in capacity among airlines in China, Hong Kong, and Taiwan. We anticipate that the environment will continue, where strong yield management is effective, and we will continue to maximize revenue growth going forward.

Q3) Please tell us the factors behind the rise in unit price for International Cargo Business. In addition, how do you expect the supply-demand balance and price levels in Q2?

A3) ・ In Q1, unit price increased more than 1.5 times year on year as a result of increased capacity utilizing wide-body freighters and our passenger route network, strengthening the uptake of high unit price demand and special commercial products. Unit price, excluding the effect of fuel surcharge revenues, improved year on year.
・ We expect the supply-demand balance for air cargo in Q2 to ease gradually as some of the congestion in ocean transportation begins to resolve and global passenger flights resume. However, semiconductor-related products should remain strong, and given that congestion has not yet resolved at ports in Europe and the U.S., unit price levels should remain the same as Q1.

Q4) Toward the achievement of the full-year revenue plan, how will you address the possibility that the domestic passenger demand recovers slower than expected?

A4) ・ We must continue to monitor demand trends for domestic passengers carefully, as the spread of infections have yet to peak. However, we expect international passengers and international cargo to exceed plan in Q2, and we will endeavor to achieve our revenue plan for the Air Transportation Business as a whole.

Q5) How is cost management progressing against the full-year plan?

A5)
- In our initial plan for this fiscal year, we have incorporated a target of reducing fixed costs by 15% compared to pre-COVID19 level. Fixed costs for Q1 were lower than plan. This was the result of cost containment and maintaining the effects of reductions implemented by the end of the previous fiscal year.
- We will continue to implement thorough cost management in order to achieve our full-year targets.

Q6) Crude oil prices have been rising. What is the effect on the fuel expenses from the next fiscal year onwards?

A6)
- Although we have almost finished our hedging for the first half of the next fiscal year, the impact of price increases in fuel market will be apparent in the second half and beyond. However, we do not expect to see as large an impact as seen in the current market increase, given that we have been hedging for the three years prior to the expiration date and that futures prices have not risen as much as current spot prices.
- Although fuel costs may increase over the medium term, we aim to absorb the impact of higher fuel costs as much as possible. We intend to do so by improving employee productivity through technology-based new service models, pursuing business efficiencies by transitioning to smaller aircraft and through fleet integration, and by engaging in other ways to strengthen our competitiveness further.

Q7) It seems that the capacity recovery by overseas airlines has been delayed. How will you capture the recovering demand and expand your market share for International Passenger Business in the near future?

A7)
- Overseas airlines are facing personnel shortages such as crew members and airport staff. These shortages mean they are unable to restore supply fully to match passenger demand. On the other hand, the we maintained consistent employment throughout the COVID-19 pandemic. Because of this strategy, we are now able to expand capacity flexibly in response to demand trends, and we believe this as an opportunity to expand market share in the international route market.
- If the expansion of supply by Japanese airlines continues, the supply-demand balance may ease over time. Meanwhile, the ANA Group aims to maximize revenues as we engage in careful yield management.

End