



Shinya Katanozaka

President & Chief Executive Officer

Management Message

The ANA Group is looking toward the future as we strive to develop our businesses on a global scale and become an indispensable airline group to the world.

Fiscal 2018 in Review

First, I want to thank you, our customers and stakeholders, for your support of the ANA Group.

Fiscal 2018 saw groupwide operating revenues surpassing ¥2 trillion for the first time. Operating income marked a new high for the fourth consecutive year. These results are largely due to the positive performance in our mainstay Air Transportation Business. The ANA International Passenger Business has made steady progress in building demand, supported by our superior and growing network of routes from/to Haneda Airport. The ANA Domestic Passenger Business has pursued higher unit prices through the introduction of a new fare structure. Our LCC Business has continued to make progress in the lead-up to the Peach Aviation Limited and Vanilla Air Inc. merger. We have followed through with plans to invest in safety, quality and services, as well as human resources, to solidify our management platform for future business growth.

In the peak summer season, we conducted planned flight cancellations primarily on our domestic routes. These cancellations were part of our response to engine issues with Boeing 787 aircraft, or B787. Though it was a difficult decision, safety is always our top priority. We took receipt of upgraded and improved parts from the manufacturer beginning January 2019 to implement a permanent resolution to this technical issue. Engine part replacements have proceeded on schedule. From the beginning of fiscal 2020, all B787s should be in operation and playing a well-secured role in our business.

→ P.84

Our Dedication to Continued Safety

Extending Airline Business Domains to Create Greater Corporate Value

Though the ANA international business drives growth for our Group, the voyage has not always been smooth. In March 1986, ANA launched our first regular international flight operations. These flights ran at a loss for the first 17 years, leading to a number of internal calls for ANA to withdraw from international routes. We reached a turning point in 1999, when we joined Star Alliance. This was the moment that began our journey toward expertise in a working partnership with overseas partner airlines for increased revenues. This alliance also entailed adopting the Passenger Revenue Optimization System (PROS). Then, our International Passenger Business posted a profit for the first time in fiscal 2004. Our second turning point came in fiscal 2014 as we expanded our international route network. We were one of the first to leverage the new B787 worldwide, adding several new destinations, mostly along medium- and long-range routes. By leveraging this state-of-the-art aircraft, its greater fuel efficiency and comfort, we took a first-mover advantage and differentiated ourselves. ANA created a competitive advantage. Looking back on the five years between fiscal 2014 and fiscal 2018, we see that ANA's International Passenger Business available seat-kilometers (ASK) grew by 1.6 times. This growth paralleled revenue passenger-kilometers (RPK) demand, which grew 1.7 times over the same period.

In March 2012, Peach Aviation became the first LCC to offer services in Japan. Peach has established routes across Japan and Asia promoting a core concept of being a "flying train," introducing a greater number of customers to the joy of traveling through the skies at reasonable prices. Peach Aviation provides its own contribution to regional revitalization through building new demand separate from the ANA brand. This contribution includes opening routes that connect cities outside of the Tokyo metropolitan area with airports overseas. By the end of October 2019, Peach Aviation will merge with Vanilla Air, the number two LCC of the Group and a Narita-based operator of domestic and international routes. This merger is our bid into the mid-range markets in Asia.

Our ANA brand and LCC performance is already beginning to show positive results in this core Air Transportation Business. Average operating income for the last three fiscal years (FY2016 to FY2018, consolidated) has reached nearly ¥158 billion, with average net income of approximately ¥118 billion. When compared to our performance in fiscal 2013, before expansion of ANA's international network, operating income jumped about ¥100 billion, showing a steady rise in the level of corporate value generated by the Group.

Fiscal 2019: A Year of Finishing Touches Ahead of Growth in Fiscal 2020

Looking overseas, we see several airline groups that have secured higher profitability than the ANA Group and which have become a familiar part of the lives of many. We also see powerful LCCs that have captured and expanded service routes across several markets in Europe, North America, and Asia, all over the span of less than ten years. The ANA Group has bolstered our presence in Asia, pushed by a strong tailwind of growing inbound tourists to Japan. Even so, we feel we must continue to press ahead by forging a presence capable of going toe-to-toe with even the most iconic global airline groups.

In fiscal 2020, Tokyo metropolitan area airports will expand slots further. The same year will see the Tokyo 2020 Olympic and Paralympic Games. Even as these will be major business opportunities for the Group, we must pursue further growth to survive the accelerating wave of overseas airlines making headway in Japanese routes. To achieve this growth, we will be putting the finishing touches on safety, quality and services during fiscal 2019 ahead of growth in fiscal 2020. Though we will enter a phase of aircraft and human resources-related expenses ahead of sustainable growth, these expenses are a necessary part of building a groundwork for the future. Our plan is to implement these measures and achieve an operating income of at least ¥200 billion in fiscal 2020. I firmly believe we can achieve our management vision by consolidating the strength of our Group employees, making further expansions of our network in the Tokyo metropolitan area airports.

→ **P.40**
ANA President
Message

→ **P.41-45**
Overview by
Business Segment

→ **P.26-35**
FY2019–2022 ANA
Group Corporate
Strategy Update

We will publish an updated version of our FY2018–2022 ANA Group Corporate Strategy in the second half of fiscal 2019. Other industries, such as the finance and automotive sectors, have faced disruptive changes breaking down their existing growth models as lifestyles and consumption habits change. Those of us in the airline business must continue to pursue greater value as we consider whether we can grow under the same business model for the next ten or 20 years by leveraging our existing management infrastructure. Beyond our network expansion in fiscal 2020, we intend to offer our view of company management, working to meet the expectations of our investors with respect to future strategic direction, dividend policies, and the use of capital.

Safety and Human Resources: The Foundation of Our Group

Safety is our promise to the public and is the foundation of our business. These words are part of our Group Safety Principles and all who serve in the ANA Group are asked to remember these principles every day.

At our yearly new hire orientation ceremony, I make sure to talk about past aircraft accidents. Today, almost no officers or employees, myself included, have experienced a loss-of-life accident in the Group. Safety is the foundation of our business, and our duty. Although building experience is important, the one thing we must never experience is an aircraft accident. Therefore, we must take the lessons learned from past accidents and the importance of safety, passing this knowledge to the next generation. And what is truly the key resource of our Group that underpins this safety?

That resource is our people. Today is a time of human resources diversity. Females, males, senior citizens, international citizens, LGBT persons, persons with disabilities, and more all make up the workforce. In fiscal 2018, the Group conducted our employee awareness survey (ANA's Way Survey) twice. We have introduced a mechanism linking the results of this survey to the evaluation of management-track personnel and senior management at each Group company. Under the ANA Group Health Management Declaration, we will continue to cultivate a company culture that allows employees to have a vibrant work life, coming together in unity to ensure customer satisfaction.

I believe that this fusion of hard-working, ambitious human resources and mindfulness toward safety plants the seeds for sustainable Group growth. In April 2019, we began operations at ANA Group Training Center, *ANA Blue Base*. Trainees will gain knowledge about past accidents and learn about human error. *ANA Blue Base* also features learning facilities that provide employees with lessons they can apply in their daily activities. The facility leverages the latest technologies to help firmly entrench a culture of safety, serving as a platform for cultivating human resources capable of competing on the global stage.

→ **P.68-77**
Actions for Safety and
Human Resources

Rationale for Group Promotion of ESG Management

For us to become an airline group contributing to society on a global scale, we must become indispensable to, and grow along with, the people of the world. As a world-wide organization, we consider our coexistence with the natural environment both over the long term and on a global scale. We also monitor social issues, including climate change, food supply, resources, disparity, and education. In my observation of Group history, I have noted that the world has cultures and trade practices vastly different from those in Japan. At the same time, I learned the need to consider environments and societies where we serve to ensure the smooth continuity of our business. As we expand throughout diverse regions of the world, we must incorporate this perspective of existing and growing with society into our business strategy. This perspective has led us to pursue ESG management.

In October 2018, we were the first airline in the world to issue Green Bonds. In May 2019, we were the first Social Bond issuer as a non-financial company in Japan. While we pursue our corporate strategy, we procure capital through means focused on the environment and society. Our pursuit is

- **P.46-49**
Discussion: ESG Management and Contributing to the SDGs
- **P.50-65**
Environment, Social

not simply for economic value. We conduct proactive management with an eye toward balance between social and economic values, leading to sustainable growth and, by extension, contribution to the achievement of the SDGs.

In March 2019, we became the first Japanese airline company to express support for the Task Force on Climate-related Financial Disclosures (TCFD). Corporate information disclosure is becoming more critical. First, we will set long-term ESG-related targets during fiscal 2019. We will also make processes toward goal achievement easier to track and conduct regular evaluations of our progress.

Improving Governance and Demonstrating the Functions of a Holding Company Structure

The finishing touches we will perform in fiscal 2019 will not be limited to preparing for the expansion of our ANA international network. We will also seek to establish an infrastructure within which we can strategically allocate management resources and advance business portfolios across the entire Group from the vantage point of ANA HOLDINGS INC.

In fiscal 2013, the ANA Group transitioned to a holding company structure in response to our operating environment. This structure has served to advance our corporate strategy, focusing on our Air Transportation Business. Though our first task is to grow our business in the Tokyo metropolitan area airports, I feel we can build a foundation from which we can generate reliable value even outside our airline business. To achieve this growth, we will create a more well-defined structure in which individual companies like ANA and Peach Aviation can execute their own strategies under the business portfolio definitions established by ANA HOLDINGS. Though it goes without saying, we move forward on the assumption that we will achieve plan targets based on our corporate strategy. However, it is also very important to allocate management resources in balance between social and economic value. Governance plays a critical role in this process. We believe that in respecting management autonomy, that group companies should be given the authority and responsibility for their businesses. At the same time, we believe in providing a strong group oversight function through a holding company structure.

To ensure this balance, we continue to enhance the effectiveness of and improve our board of directors. These initiatives to bolster the board's oversight function have included changes to the board's authority and large-scale transfers of decision-making authority to the Group Management Committee. Most recently, our board of directors has received presentations from major Group companies related to our corporate strategy, discussed medium- and long-term issues in our Air Transportation Business, and held direct discussions among directors and teams working in the front lines. These and other measures advance our agenda. We have also discussed several issues beyond the scope of matters included in our corporate governance report. These issues include the study of plans related to succession candidates and cross-shareholdings. We continued to incorporate the PDCA cycle in management. Moreover, we strive to ensure transparency and fairness in our management. Our Personnel Advisory Committee and Remuneration Advisory Committee each support the board of directors in an advisory capacity, and each committee consists of a majority of outside directors.

As we advance these various initiatives, we steadily raise awareness among members of the board, leading to more lively discussions. We continue to adapt to the changing environment around us, and we will pursue qualitative enhancement of governance, practicing management that contributes to creation of corporate value.

- **P.86-97**
Corporate Governance
- **P.98-101**
Discussion: Strengthening Governance for Further Corporate Value Growth



Looking to the Future

Forty years ago, when I was just a new hire at ANA, I submitted my dream to our internal corporate newsletter. I wrote, "Even though ANA may only be a domestic airline today, someday we will expand internationally, and maybe even offer space travel in the future." Today, ANA operates 172 of daily international passenger flights (as of August 1, 2019). And, our eyes are already set on the stars, as we sow the seeds of future businesses. Forty years from now, I imagine that the wings of ANA will extend to the stars as a matter of course.

Though our Group had once sought to be the No.1 airline in Asia, I want to raise our sites to operate on a global scale. Through the expertise and brand power we have grown over the last nearly 60 years, and through the hospitality that is a particular strength of airlines in Japan, we will shine bright on the world stage, uncovering value that has lain dormant until now. Advances in innovation, including AI, will allow us to exercise speedy management. Setting our goals and working hard every day will enable us to certainly fulfill our dreams. As the head of the management team, I will spare no effort in leading our Group toward becoming an airline group that is indispensable to the people of the world.

I ask for your continued support of the ANA Group.

August 2019

Shinya Katanozaka

President & Chief Executive Officer