



Annual Report 2018

Fiscal 2017 (Year ended March 2018)

Spreading Our Wings



Mission Statement

Built on a foundation of security and trust,
“the wings within ourselves”
help to fulfill the hopes and dreams
of an interconnected world.

ANA Group Safety Principles

Safety is our promise to the public and
is the foundation of our business.

Safety is assured by an integrated
management system and mutual respect.

Safety is enhanced through individual
performance and dedication.

Management Vision

It is our goal to be the world’s leading
airline group in customer satisfaction and
value creation.

ANA’s Way

To live up to our motto of “Trustworthy,
Heartwarming, Energetic!”, we work with:

1. Safety

We always hold safety as our utmost priority,
because it is the foundation of our business.

2. Customer Orientation

We create the highest possible value for our customers
by viewing our actions from their perspective.

3. Social Responsibility

We are committed to contributing to a better,
more sustainable society with honesty and integrity.

4. Team Spirit

We respect the diversity of our colleagues and
come together as one team by engaging in direct,
sincere and honest dialogue.

5. Endeavor

We endeavor to take on any challenge in the global market
through bold initiative and innovative spirit.

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Editorial Policy

The ANA Group (ANA HOLDINGS INC. and its consolidated subsidiaries) emphasizes proactive communication with its stakeholders in all of its business activities. In Annual Report 2018, we aim to deepen comprehensive understanding of the social and economic value created by the ANA Group through its management strategies and its business and corporate social responsibility (CSR) activities. We have published information on our activities that we have selected as being of particular importance to the ANA Group and society in general. For more details, please visit the ANA Group corporate website in conjunction with this report.

Scope of Report

- This report covers business activities undertaken from April 1, 2017 to March 31, 2018 (includes some activities in and after April 2018).
- In this report, “the ANA Group” and “the Group” refer to ANA HOLDINGS INC., and its consolidated subsidiaries.
- “The Company” in the text refers to ANA HOLDINGS INC.
- Any use of “ANA” alone in the text refers to ALL NIPPON AIRWAYS CO., LTD.

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Shinya Katanozaka

President & Chief Executive Officer



The ANA Group is taking a step into the future, creating new value for sustainable growth and striving to be the world's leading airline group.



➤ Targets Under the Fiscal 2018-2022 ANA Group Corporate Strategy

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

For those of you affected by the Heavy Rain Event of July 2018 in western Japan, know that you are in our thoughts.

Fiscal 2017 in Review

Fiscal 2017 was not only a year of solidifying our management platform for future growth; the ANA Group set record profits for a third consecutive year.

The ANA international business was a significant driver of top-line revenues. We have expanded our network over the past several years, resulting in our International Passenger Business recording fiscal 2017 revenues 1.5 times greater than fiscal 2013, the year prior to expanding our routes out of Haneda Airport. The ANA name is growing steadily as a recognized brand overseas. A full 50 percent of our

→ **P.54-57***Special Feature:**LCC Business Merger*

recent sales of passenger seats consists of overseas sales. Since adopting a policy to control capacity in our Domestic Passenger Business in fiscal 2014, the business has nevertheless grown steadily as we optimize supply to demand. As sales have grown, so has profitability. Meanwhile, in April 2017, we consolidated Peach Aviation into the ANA Group. Peach Aviation and Vanilla Air have been pioneers in building the low cost carrier (LCC) market in Japan. During fiscal 2019, we intend to merge these two companies to create the leading LCC in Asia.

We have reached nearly ¥1 trillion in shareholders' equity as of the end of fiscal 2017, adding support to our A credit rating and reflecting a solid financial platform to meet our current goals. In September 2017, we issued convertible bonds to secure funds for future growth, as well as to shift from a capital policy of capital accumulation to one of improving capital efficiency.

Corporate Strategy for Sustainable Growth

Indeed, fiscal 2017 was a year of success for both business strategy and financial strategy. Having connected previous strategies to results, we published the ANA Group Corporate Strategy in February 2018 to accelerate future growth. We see numerous opportunities on the horizon. More slots at Tokyo metropolitan area airports, more inbound traveler traffic, the Tokyo 2020 Olympic and Paralympic Games. We will seize these opportunities to build sustainable profit growth for the future.

Our new strategy consists of three strategic pillars. The first is to expand our airline revenue platform. We intend to build a stronger revenue platform and pursue an optimized business portfolio for the Group as a whole, raising basic quality for the ANA and LCC businesses. The second strategic pillar is to select and concentrate on existing businesses, while creating new business domains. Here, we will find growth through selection, concentration, and winning the challenge to build new businesses in non-airline sectors. The third pillar is to utilize open innovation and information and communications technology (ICT). The ANA Group will contribute to a super-smart society by improving the competitiveness of our products, by promoting work-style reform, and by incorporating the use of artificial intelligence (AI). As we execute initiatives aligned with these strategies, we will secure our position as the world's leading airline group.

→ **P.28-43**

*FY 2018-22 ANA Group
Corporate Strategy*

Fiscal 2018:

A Year to Finish Solidifying Our Business Platform

Fiscal 2018 will be our first year executing this new strategy. We will continue to invest in the safety, quality, services, and human resources initiatives launched last fiscal year, solidifying our revenue platform.

Safety lies as the very core of our group management. As a group, ANA, Peach Aviation, and Vanilla Air operate nearly 1,100 flights on a daily basis. I continually emphasize to our employees that safety is our first and most important priority. At the group new-hire orientation this year, I stood before nearly 2,700 new employees, repeating the message that safety is everything. Safety is not just the responsibility of our crew, maintenance workers, and other personnel on the front lines. We must foster a corporate culture in which we build safety as a group, foremost in the minds of every single employee. The cornerstone of creating value in the future will be the trust of our customers and other stakeholders.

→ P.44-47

How We Ensure Safety and Develop Stellar People

We have introduced a number of work arrangements, mainly for female and senior employees, supporting employee needs to balance child and nursing care with their jobs. As a result, the average years worked for an ANA employee in fiscal 2017 was more than 10 percent longer than five years ago. Today, Japan struggles with a shortage of labor. For our group to continue to grow, we must recruit and train a stable pool of personnel, who represent the source of our competitive ability. We are not simply looking for numbers. We must improve our basic service quality, such as our ability to handle unexpected irregularities in operations, all while building our ability to compete toe-to-toe with overseas airlines on cost. To do this will require work-style reform and AI, raising our productivity per employee.

Once we have strengthened our revenue platform in terms of safety, quality, services, and human resources, and begin executing our current strategy, our next order of business is to implement policies for achieving our Management Vision for fiscal 2020.

→ P.16-19

Our Four Greatest Strengths and Value Creation Cycle

The Value Creation Cycle

The ANA Group has not always voyaged through smooth seas. We have endured poor economies, risks, and other negative impacts on our earnings. We have faced our share of crises. But, having overcome numerous difficulties, the ANA Group has been able to create new levels of unique value and corporate culture. To continue to grow, we will execute our strategy on the wings of our four greatest strengths: Innovation, Quality, Scale, and Comprehensive Capabilities. At the same time, we must ensure that our Value Creation Cycle functions correctly.

One testament to the success of our initiatives has been our economic value over the past several years. We have reached a level of operating income at between ¥150 and ¥160 billion, net income of ¥100 billion, and an ROE of around 10 percent. Still, we have room to strengthen our capacity for social value if we are to move forward steadily into the future. As we pursue sustainable growth, we must speed our initiatives for environmental, social, and governance (ESG). We must do this from the approach of collaborative value creation, having clearly defined the connection between the ANA Group business model and our strategy.

→ Pursuing Sustainable Growth Through ESG Management

Building ESG Management Into Corporate Strategy

Over the past several years, we have seen a number of international rules and guidelines established to secure a future sustainable society. One of the most prominent of these new guidelines is the Sustainable Development Goals (SDGs) promulgated by the United Nations in 2015. This framework provides corporate activities for achieving certain goals by the year 2030.

We believe corporate ESG initiatives help a company reduce reputation risk, raise brand value, and contribute to the achievement of the SDGs. To achieve these initiatives, the ANA Group has identified matters having an impact on society, incorporating these matters into our corporate strategy. We plan to strengthen our ESG management to tie the social value created through our business activities to ANA Group economic value.

→ P.20-21

Creating Value Under Our Current Group Strategy

For example, we plan to increase our total number of aircraft (ANA and LCC) by nearly 40 planes between fiscal 2017 and fiscal 2022. Expanding our network and improving in-flight products and services relate directly to improving the economic value of our businesses. At the same time, we intend to incorporate fuel-efficient aircraft into our fleet to reduce CO₂ emissions per revenue passenger-kilometer (RPK). In this way and others, we will secure our standing as an environmentally friendly airline group.

The ANA universal service policy ensures we achieve higher levels of convenience for our customers in every possible situation. In the future, we plan to create barrier-free environments (both soft and hard aspects) at every airport in Japan that services ANA flights. While this will require some investment on our part, we believe responding to customer diversity and providing better accessibility is part of creating a harmonious society.

We have defined four material issues and incorporated them into our latest strategy: Environment, Human Rights, Diversity and Inclusion, and Regional Revitalization. I believe we will fulfill our ESG management responsibilities by making real progress in these four issues.

As we expand globally, our strategies must be tied to improved value for all stakeholders. Contributing to the achievement of the SDGs is a mission that we must achieve, if we are to be considered a top-tier global airline group.

→ P.60-68*Material Issues***Stronger Governance**

Sustainable corporate growth requires an ongoing commitment to stronger corporate governance. In fiscal 2013, the ANA Group transitioned to a holding company structure, engaging in portfolio management aimed at growing our profit domains. ANA HOLDINGS INC. will continue to fulfill its role as holding company, only as we build a stronger structure supporting corporate governance.

We have made several major business decisions recently, including our new corporate strategy and merging our LCC companies. During fiscal 2017, we provided for better discussions prior to our Group Management Committee meeting. This measure was the result of feedback received through questionnaires sent to every member of the board of directors and Audit & Supervisory Board in fiscal 2016. Through better reporting standards required in communication between the Group Management Committee and the board of directors, we have ensured sufficient deliberations at board of director meetings. We have strengthened the oversight functions of the board of directors, reflecting company-wide strategies that include providing more opportunities to receive advice on various topics from outside directors.

As competition intensifies with overseas airlines, we must make the right decisions on material issues, including our business portfolio and the allocation of management resources. Making the right decisions requires the support of a solid corporate governance structure, as we remain aware of and respond to changes in our business environment. One way in which we are improving the effectiveness of our board of directors is to hold individual interviews with board members and members of the Audit & Supervisory Board. These interviews also help us identify measures for ongoing improvement.

→ P.76-79*Board of Directors**Toward Stronger Governance*



Contributing to the achievement of the SDGs is a mission that we must achieve, if we are to be considered a top-tier global airline group.

Heading Into the Future

The subtitle of our corporate strategy is “Strengthening the Foundations of the Business and Looking Into the Future.” The short-term opportunities of inbound travelers and the 2020 Tokyo Olympics will be a tailwind pushing ANA Group growth. We are looking even further into the future. For example, contributing to the achievement of the SDGs by the year 2030 is one of our major goals. Creating both social value and economic value at the same time is a responsibility demanded of a global business, and we will exercise ESG management to meet this duty.

The ANA Group mission is to use the management platform we have created to identify our direction as a global company, leaving a legacy of flexible, adaptive thinking to the next generation. I am taking a step into the future to ensure the ANA Group creates new value and achieves sustainable growth as we become the world’s leading airline group.

July 2018

Shinya Katanozaka

President & Chief Executive Officer

The ANA Group at a Glance

The ANA Group leverages a global network and worldwide customer platform to operate air transportation and other businesses. ANA HOLDINGS INC. is the holding company responsible for raising group value and brand recognition through effective management resource allocation and support of independent group companies.

ANA HOLDINGS INC.



→ P.48

Air Transportation

Composition of Operating Revenues

73.5%

The Air Transportation Business is the core of the ANA Group driving sustainable growth. We own and operate the full service carrier (FSC) ANA brand and the low cost carrier (LCC) brands Vanilla Air and Peach Aviation, leveraging the strengths of each entity to grow our airline business.

In terms of total passengers, the ANA brand is ranked No. 10 in domestic service across all airlines worldwide and No. 14 in global service*.

* Source: International Air Transport Association (IATA), 2018

Full Service Carriers (FSCs)

ALL NIPPON AIRWAYS
CO., LTD.

ANA WINGS CO., LTD.

Air Japan Co., Ltd.



Low Cost Carriers (LCCs)

Vanilla Air Inc.



Peach Aviation Limited



→ P.53

Airline Related

Composition of Operating Revenues

12.1%

In the Airline Related Business, ANA Group companies mainly support the Air Transportation Business with services that include airport ground support, aircraft maintenance, vehicle maintenance, cargo and logistics, catering (in-flight meals), and contact center services.

These companies also accept outsourcing work from airlines outside of the ANA Group to expand and further enhance the Group's business.

ANA AIRPORT SERVICES Co., Ltd.

ANA Base Maintenance Technics Co., Ltd.

ANA MOTOR SERVICE CO., LTD.

ANA Cargo Inc.

Overseas Courier Service Co., Ltd.

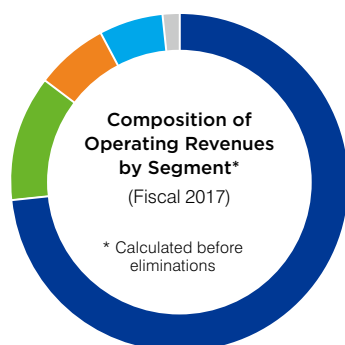
ANA Systems Co., Ltd.

ANA Catering Service Co., Ltd.

ANA TELEMART CO., LTD.

ANA X Inc., and more

Fiscal 2017 Results



	(¥ Billions)	
	Operating Revenues	Operating Income (Loss)
■ Air Transportation	1,731.1	156.8
■ Airline Related	284.3	10.6
■ Travel Services	159.2	3.7
■ Trade and Retail	143.0	4.5
■ Others	38.7	2.7
Adjustments	(384.7)	(14.0)
Total (Consolidated)	1,971.7	164.5



→ P.53

Travel Services

Composition of Operating Revenues

6.7%

In Travel Services, ANA Sales Co., Ltd., is involved in airline ticketing in which it sells tickets for both individual and corporate customers, and travel services in which it plans and markets travel packages that combine the air transportation services offered by the ANA Group with accommodations and other travel options. We offer a wide variety of travel services, including travel packages such as *ANA Sky Holiday*, *ANA Hallo Tour*, *ANA Wonder Earth*, and dynamic package *Tabisaku* as well as travel savings plans.

ANA Sales Co., Ltd., and more



→ P.53

Trade and Retail

Composition of Operating Revenues

6.1%

ALL NIPPON AIRWAYS TRADING Co., Ltd. and group companies perform aircraft parts procurement, conduct aircraft trading (import, export, leasing, sales), operate airport shops (*ANA DUTY FREE SHOP* and *ANA FESTA*) across Japan, and manage other businesses related to air transportation. The Group also trades in non-airline products (paper, pulp, food import and sales; semiconductor and electronic component import/export), provides advertising agency services, and operates the ANA online shopping site.

ALL NIPPON AIRWAYS TRADING Co., Ltd., and more

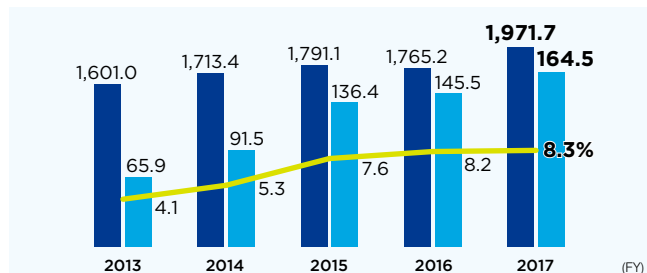
Financial Highlights

Financial Data

Operating Revenues / Operating Income / Operating Income Margin

■ Operating Revenues (¥ Billions) ■ Operating Income (¥ Billions)
— Operating Income Margin (%)

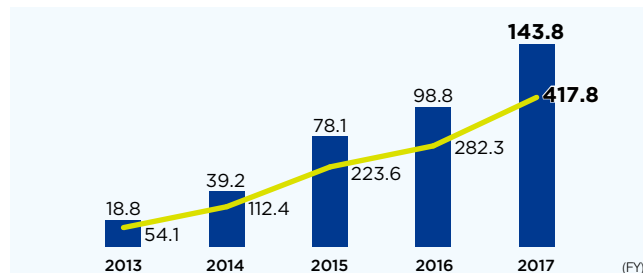
Operating Income Margin **8.3%**



Net Income Attributable to Owners of the Parent / Earnings per Share*1

■ Net Income Attributable to Owners of the Parent (¥ Billions)
— Earnings per Share (¥)

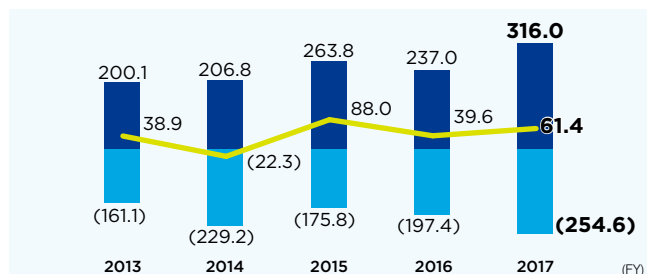
Earnings per Share **¥417.8**



Cash Flows from Operating Activities / Cash Flows from Investing Activities*3 / Substantial Free Cash Flow*3

■ Cash Flows from Operating Activities (¥ Billions)
■ Cash Flows from Investing Activities (¥ Billions)
— Substantial Free Cash Flow (¥ Billions)

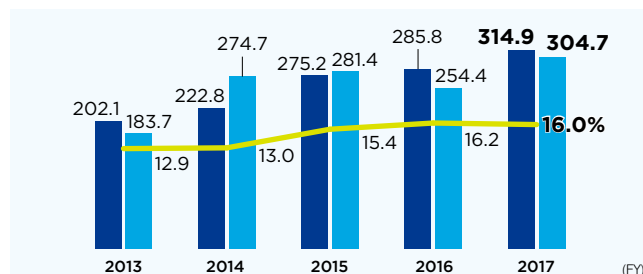
Substantial Free Cash Flow **61.4 billion**



EBITDA*4 / Capital Expenditures / EBITDA Margin*5

■ EBITDA (¥ Billions) ■ Capital Expenditures (¥ Billions) — EBITDA Margin (%)

EBITDA Margin **16.0%**



ESG Data

Ratio of Fuel-Efficient Aircraft*7

69.5%



Aircraft CO₂ Emissions per RTK

0.96 kg-CO₂



*1 Calculated assuming reverse stock split at the beginning of fiscal 2013 (a 1-for-10 ordinary share reverse stock split was conducted on October 1, 2017)

*2 Excluding off-balanced lease obligations

*3 Excluding time deposits and negotiable deposits with maturity dates of more than three months

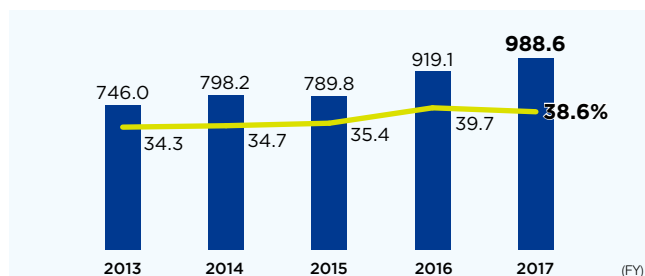
*4 EBITDA = Operating income + Depreciation and amortization

*5 EBITDA margin = EBITDA ÷ Operating revenues

Shareholders' Equity / Shareholders' Equity Ratio

■ Shareholders' Equity (¥ Billions) ■ Shareholders' Equity Ratio (%)

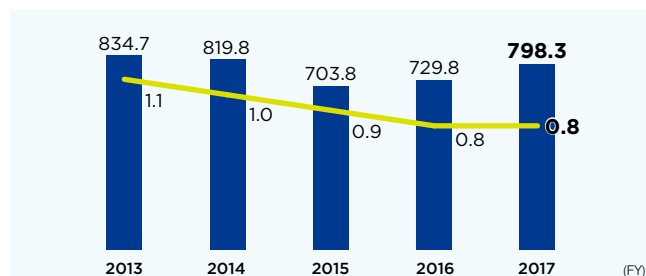
Shareholders' Equity Ratio **38.6%**



Interest-Bearing Debt / Debt/Equity Ratio*2

■ Interest-Bearing Debt (¥ Billions) ■ Debt/Equity Ratio (Times)

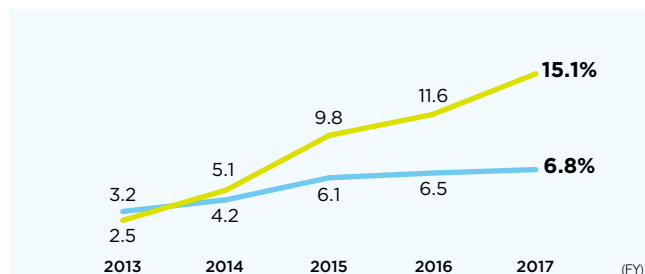
Debt/Equity Ratio **0.8 times**



ROA / ROE

■ ROA (%) ■ ROE (%)

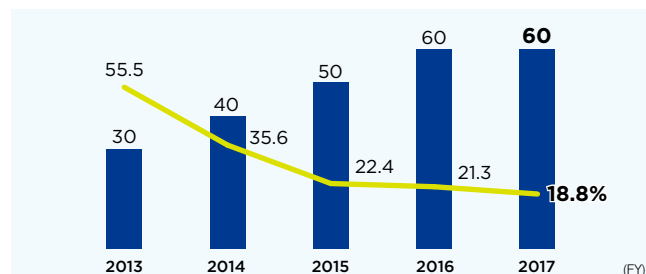
ROE **15.1%**



Dividends per Share*1 / Payout Ratio*6

■ Dividends per Share (¥) ■ Payout Ratio (%)

Payout ratio **18.8%**



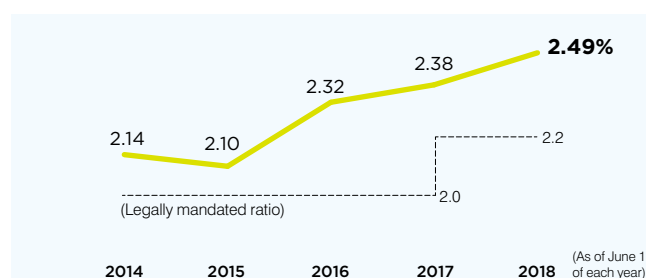
Ratio of Female Managers*8

13.9%



Ratio of Employees with Disabilities*9

2.49%

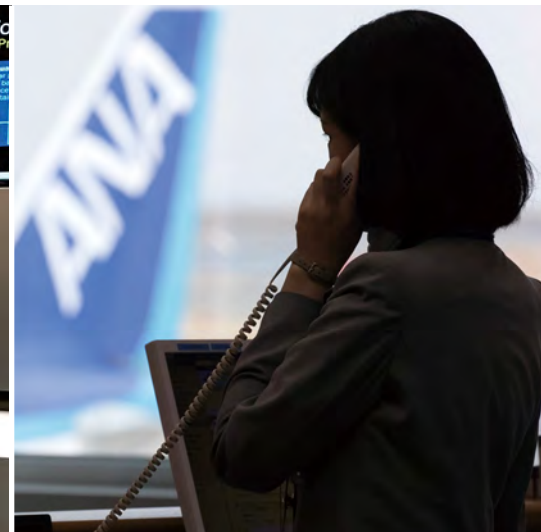
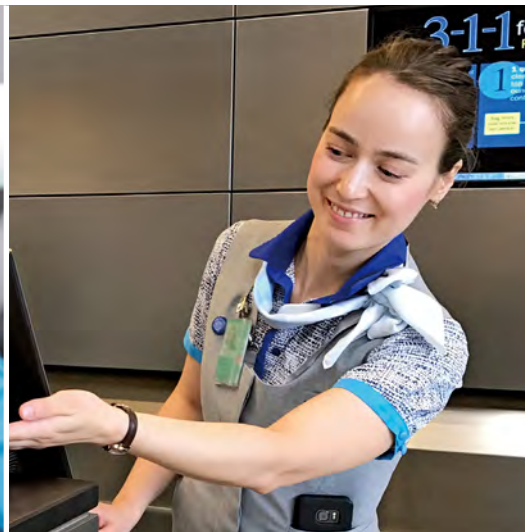


*6 Fiscal 2017 payout ratio calculation excludes special gains related to consolidation of Peach Aviation

*7 Boeing 777-200/-300, 787-8/-9, 737-700/-800; Airbus A320neo, Airbus A321neo (ANA brand only)

*8 ANA only; excluding individuals 60 years and older

*9 Total of ANA and qualified ANA Group companies (2014: total of 11 companies including 1 special subsidiary; 2015-2018: total of 12 companies including 1 special subsidiary)



How We Create Value

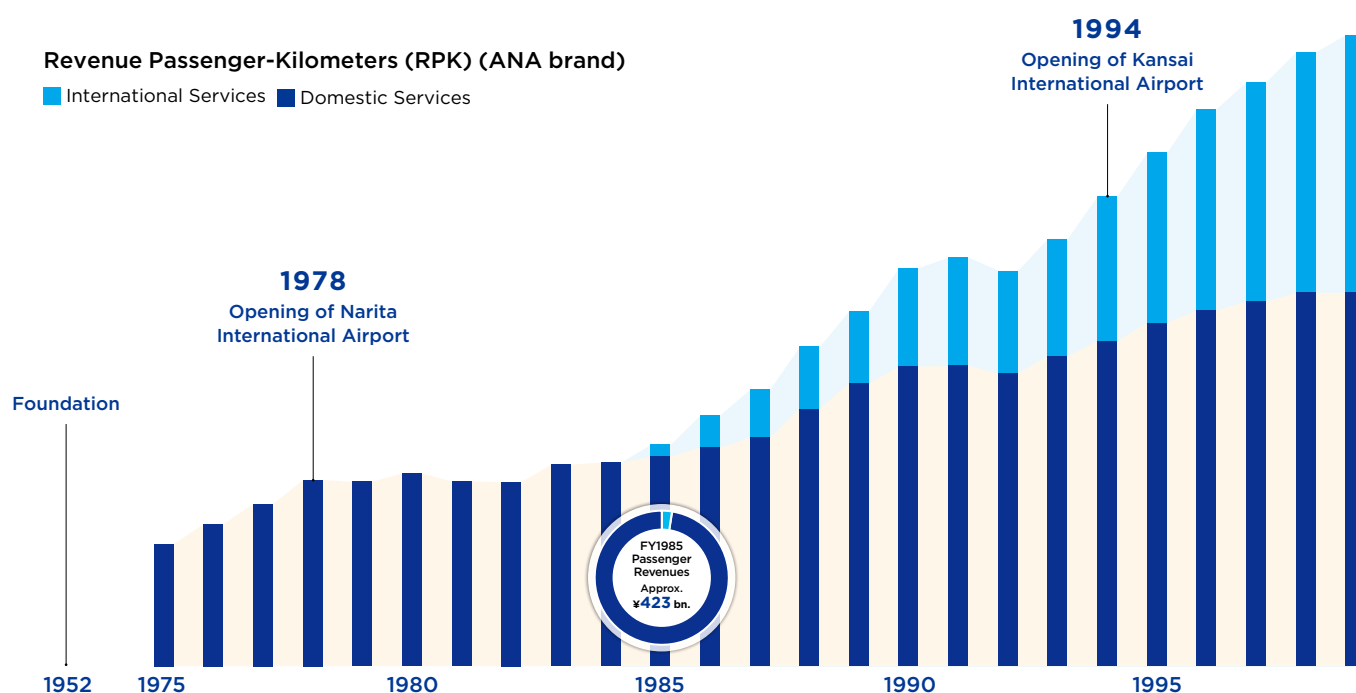
The ANA Group creates both social and economic value through our business activities. As we build corporate value, we also offer solutions to serious global issues.

Progress of the ANA Group

A History of Endeavor

The ANA Group has continued to provide air transportation services with safe operations as its top priority since its foundation in 1952. Today, we have grown into a world-class airline group serving more than 53 million passengers in a year.

Our founding philosophy stressed integrity and independence, and this philosophy remains an integral part of the very DNA of the ANA Group.



1952-



Starting with just two helicopters

ANA's predecessor was founded as Japan's first private airline company in 1952. Ten years later, in 1962, we became the launch customer for the YS-11, the first domestically produced aircraft in the postwar era. We used this aircraft to fulfill the important mission of transporting the Olympic torch for the Games of the XVIII Olympiad, which took place in Tokyo in 1964. In this manner, ANA grew together with postwar Japan.

1970-



Introduction of jet and wide-body aircraft

ANA focused predominately on domestic flights due to restrictive government policies, although we operated an international charter between Tokyo and Hong Kong in 1971. In 1976, we reached the milestone of a cumulative 100 million passengers. This was also the era in which we adopted the Boeing 747-SR, our first jumbo jet.

1986-



Regular operation of international flights

Entering the era of full-fledged competition between airlines in Japan, we finally achieved our dream to begin regular international flight operations, starting with the Tokyo-Guam route, introduced on March 3, 1986. We introduced Tokyo-Los Angeles and Tokyo-Washington routes in the same year. As our network continued to grow, we introduced many other routes, including Tokyo-New York in 1991.

The airline group with the largest network in Japan

2017

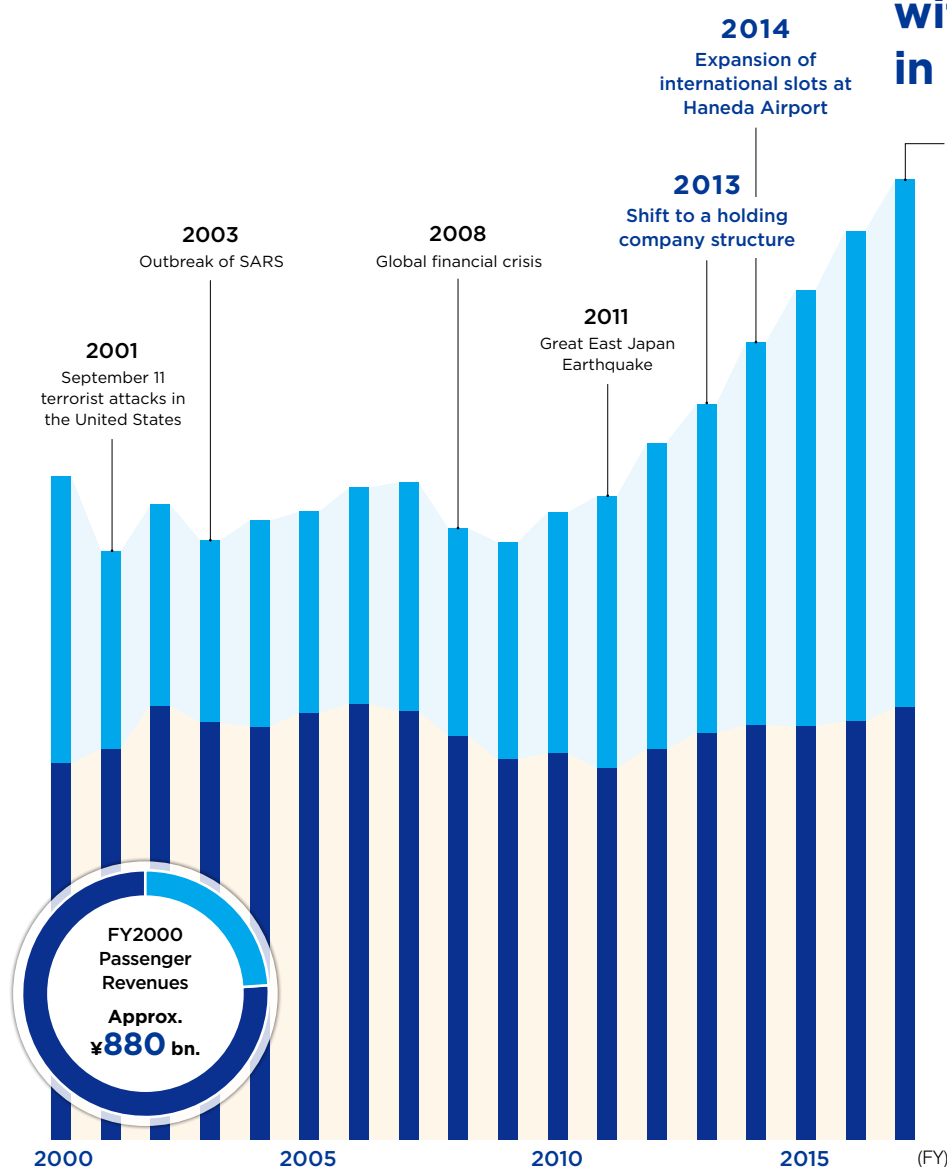
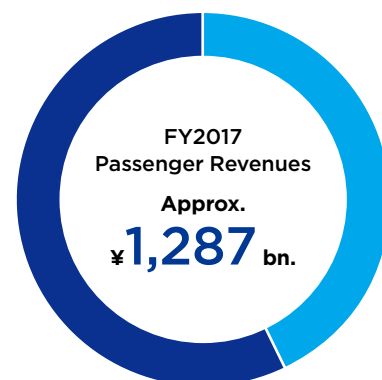
Global No.10*
in domestic network passengers

Global No.14*
in passengers served worldwide

Passengers Served (FY2017)

53.9 million

* Source: International Air Transport Association (IATA), 2018



1999–



Expansion of overseas network

ANA became the ninth member to join Star Alliance, the world's first and largest global airline alliance, in 1999. We continued to improve customer convenience and grow our International Business thereafter. Overcoming the event risks that materialized on a global scale around this time, the International Business posted a profit for the first time in fiscal 2004.

2013–



Bold advance on to the global stage

The airline industry reached a major turning point in the 2010s, prompting the ANA Group to shift to a holding company structure in fiscal 2013 to facilitate swift and autonomous group management. We will continue to rise to all challenges, becoming the world's leading airline group in customer satisfaction and value creation.

ANA Group's strengths

Quality

Scale

Innovation

Comprehensive
Capabilities

Our Four Greatest Strengths

The ANA Group has risen to meet every challenge in our path, developing strengths unique to the Group. We will remain true to the ANA Group identity, creating synergies between and among our strengths, while further reinforcing them to secure our position as the world's leading airline group.

Each ANA Group company relies on its own expertise to contribute to our overall strategy. These companies develop innovative businesses, products, and services, raising our organization to higher levels of quality and creating more revenue opportunities.

CULTIVATE STRENGTHS

Innovation



Comprehensive Capabilities

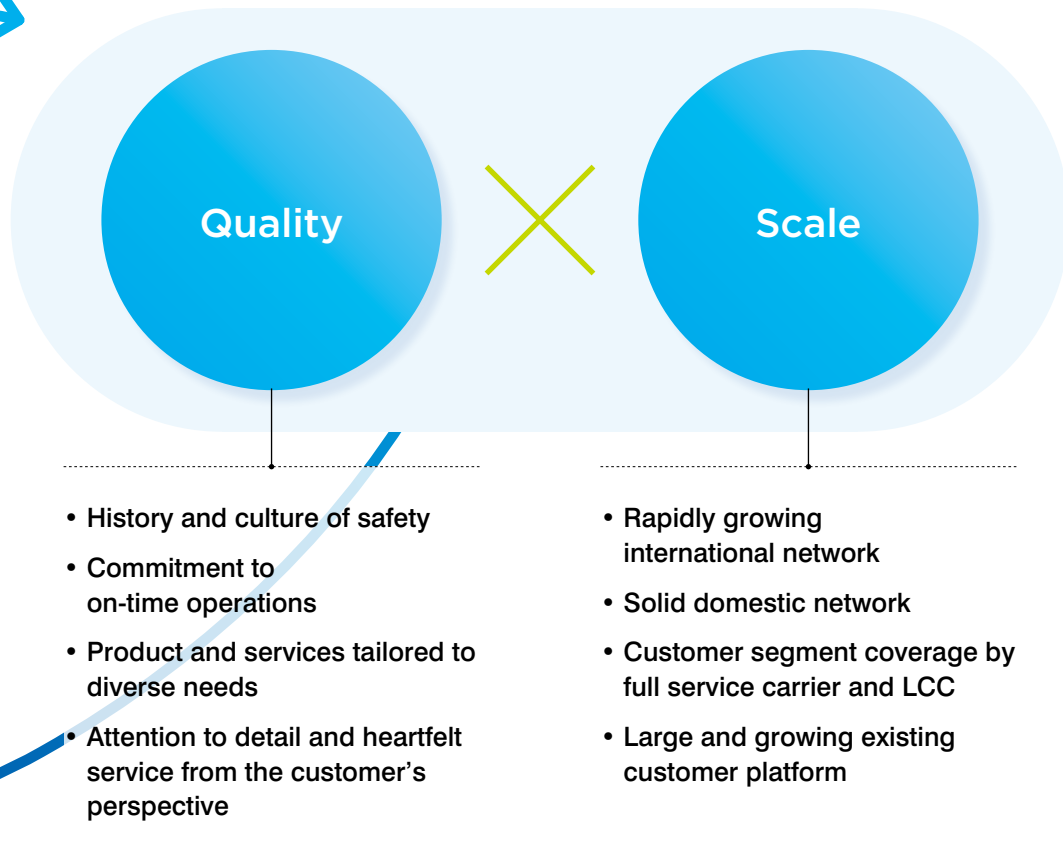
- Early adoption of state-of-the-art aircraft
- Leading-edge products and services
- Active incubation of non-airline businesses
- Culture and organization that pursues innovative businesses

- Decision-making independence for group companies along with business portfolio
- Network of nearly 42,000 group employees
- Cost management focusing on optimum group structure





GENERATE FURTHER STRENGTHS

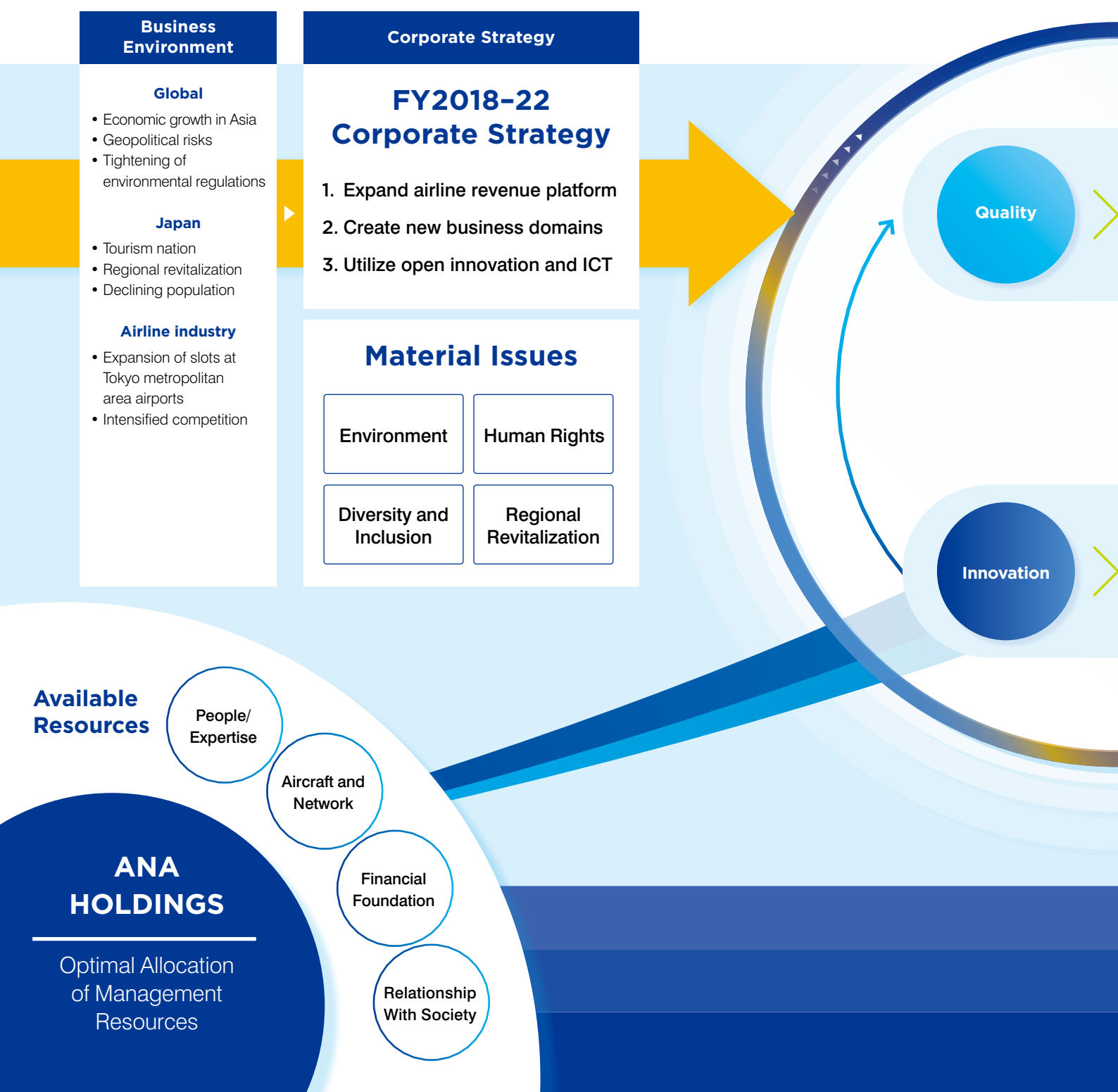


We seek new challenges by embodying the essence of team spirit, embracing the support of our stakeholders around the world, who have responded to our obsessive focus on quality and our extensive network.

Value Creation Cycle

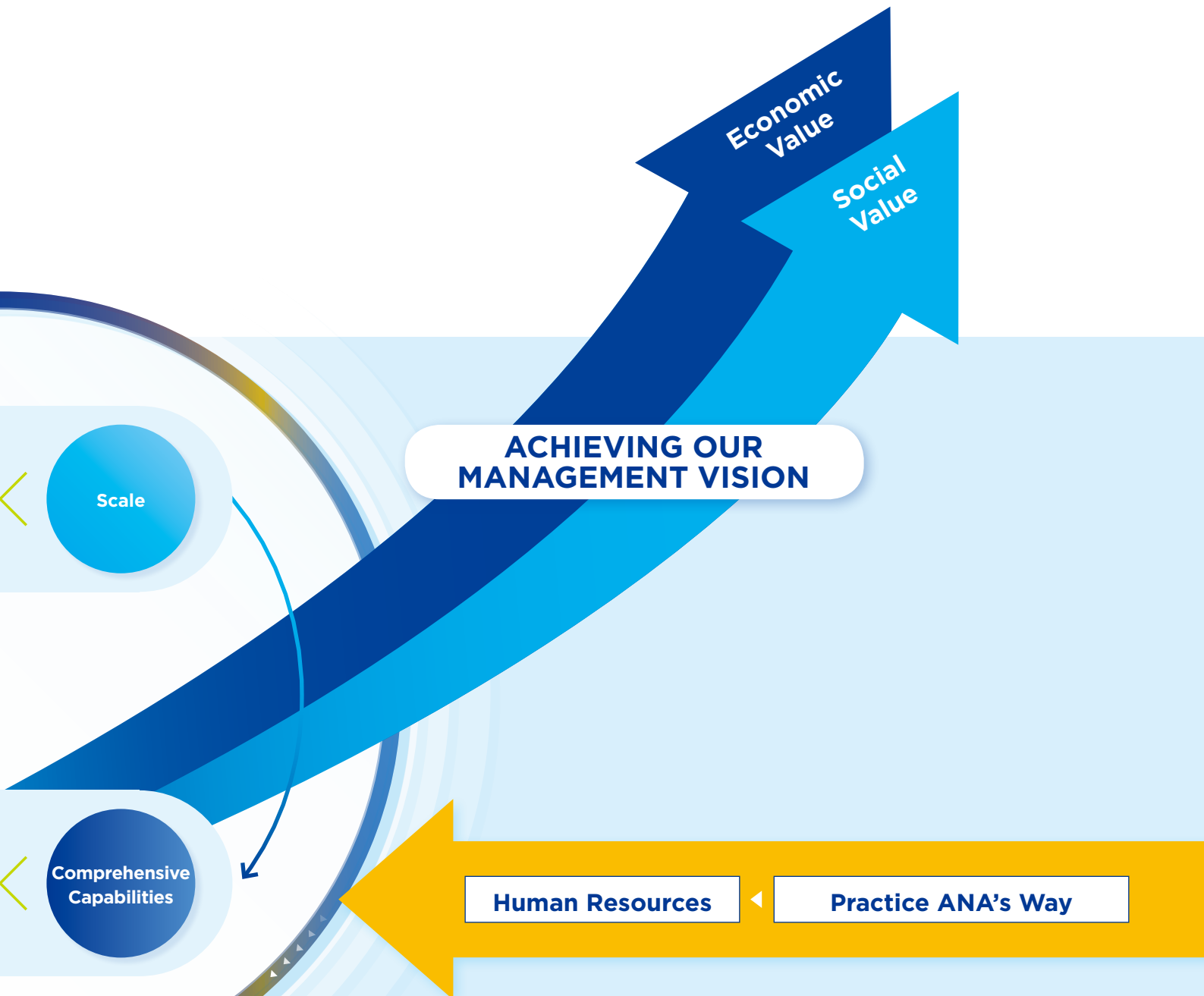
The ANA Group identifies material issues, and then asks our employees to maximize ANA's four greatest strengths in executing our medium-term strategy for growth.

Through this cycle, we grow and create social and economic value, contributing to achievement of the Sustainable Development Goals (SDGs).



Sustainable Corporate Value Enhancement

SUSTAINABLE
DEVELOPMENT **GOALS**
17 GOALS TO TRANSFORM OUR WORLD



Corporate Governance

Safety

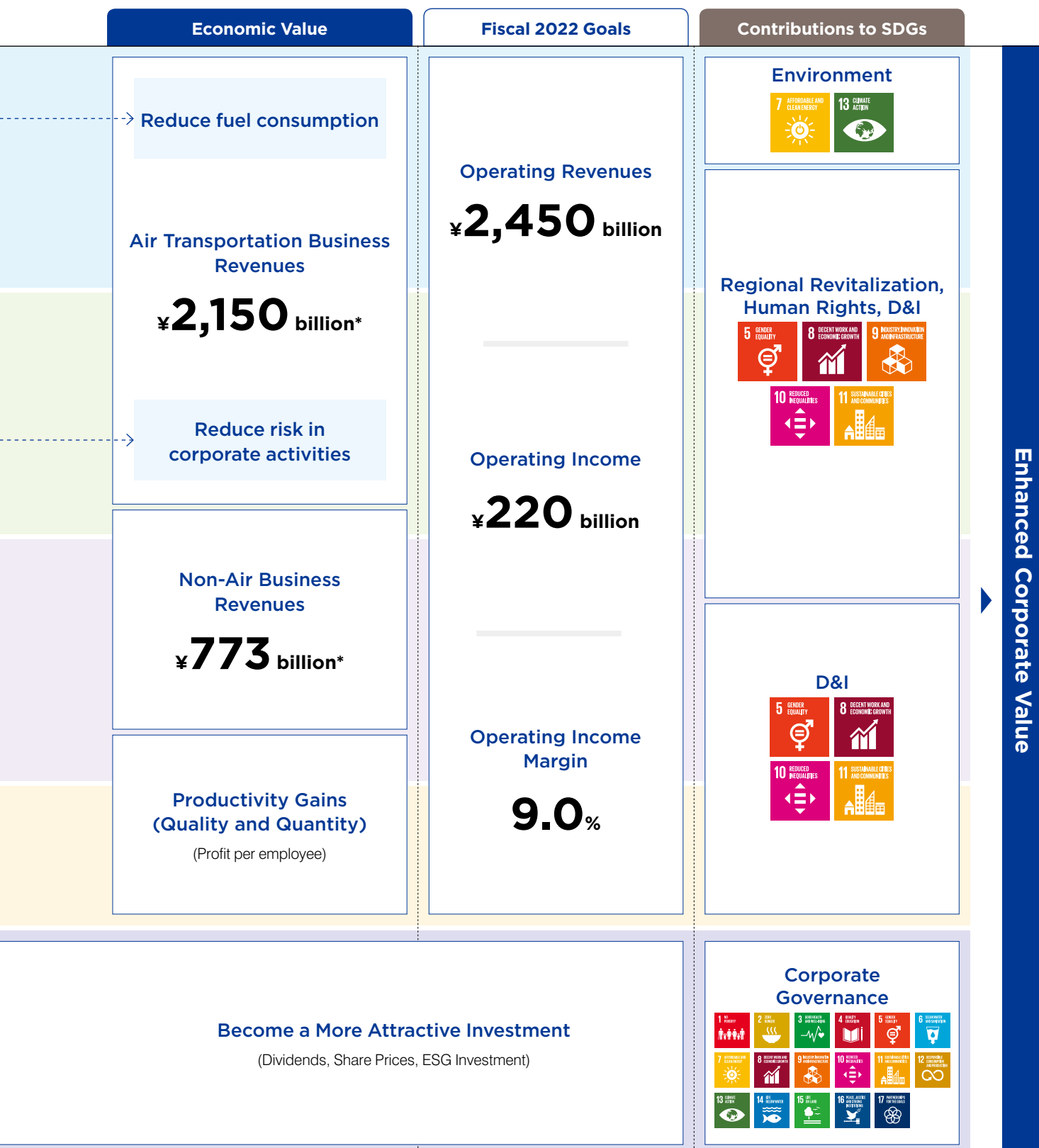
Mission Statement

Creating Value Under Our Current Group Strategy

Our most recent corporate strategy describes how we will achieve sustainable growth and value creation, focusing on management informed by environmental, social, and governance (ESG) considerations. Our plan ties together the relationships between social



value and economic value within the ANA Group. Under this plan, we will work to achieve our value creation goals for fiscal 2022, while contributing to the achievement of the Sustainable Development Goals (SDGs) of the United Nations.



* Fiscal 2022 targets (excluding eliminations of intersegment transactions)



ANA HOLDINGS INC.
President & Chief Executive Officer

Shinya Katanozaka

Keio University Graduate School
of Media and Governance
Professor

Norichika Kanie

Discussion: The ANA Group Corporate Activities and SDGs

Society expects businesses to do more with regard to the environment, society, and governance (ESG). At the same time, the ANA Group has committed to doing its part to achieve the Sustainable Development Goals (SDGs) on a global level. We invited Professor Norichika Kanie from Keio University Graduate School of Media and Governance to talk with Shinya Katanozaka, president & CEO of ANA HOLDINGS INC, about the relationship of business activities and the SDGs, as well as expectations of the ANA Group. Prof. Kanie is one of the foremost authorities on the SDGs, participating in expert committees in Japan and around the world. He is also heavily involved in education and promotion of the SDGs.



SDGs and ESG: A Changing Environment and Social Perception

Katanozaka I recognize that SDGs and ESG are two significant movements among Japanese companies and important issues for corporate management. In addition to being expected by society, some investments are measured whether the corporate management concerns ESG. SDGs and ESG now represent very important factors in corporate value creation.

Kanie I see that not only companies but also the general public is more aware of the importance of sustainability these days. This movement will only grow faster as it becomes part of corporate behavior. Sometimes, a movement encounters a breakthrough event resulting in unexpected exponential growth. I feel the same will happen for SDGs and ESG.

Although the SDGs are goals meant to be accomplished by the year 2030, some could be achieved by the Tokyo 2020 Olympic and Paralympic Games. This is particularly true for goals that enjoy a high level of public interest, including support for the disabled, the empowerment of women in society, and regional revitalization. A mega event such as the Olympic and Paralympic Games accelerates social change.

Katanozaka Recently, I had an opportunity to talk with a Paralympic athlete, and she mentioned the difficulties she encounters when traveling by airplane. It was very eye-opening to me. As we improve access through universal services, we must understand and remain aware of the standpoints of our diversifying customer base.

Kanie Experiencing an event like the Olympic and Paralympic Games can change perceptions and society. I think companies can use the SDGs as an effective tool in corporate activities. For example, developing the air travel more accessible and stress-free makes your contribution to SDG 10, *Reduce inequality within and among countries*, more visible. I'm confident that more people will choose ANA for air travel and investment because of your efforts

for sustainability. I also encourage you to track and disclose increases in passenger numbers, and changes in customer feedback toward the ANA Group.



Katanozaka The ANA Group sets numerical targets for strategic material issues, checking our progress on an annual basis. For example, we monitor data related to several issues, including controlling CO₂ emissions, with which every airline company struggles, limiting CO₂ emissions across all business locations, and increasing the number of women in management roles.

Kanie That's wonderful. Due to their earnest nature, Japanese companies tend to focus on setting and achieving numerical targets. SDG targets are a bit more optimistic. SDG targets are set to higher hurdles to make everyone aim together. These targets inspire employees, motivating them to be happy and energetic in their work. I think setting and working to achieve goals that are a little less binding could make the process more enjoyable.

Creating Social and Economic Value through Contribution to the SDGs

Kanie Some view the SDGs simply as a matter of ethics or good practices. But, the world will not take action if the SDGs are not connected to behavioral economics or corporate profits. Higher profits attract more people, making it a sustainable activity in a real sense. International agreements on sustainable development so far have highlighted environmental concerns. These agreements required additional costs and became a burden to the companies. The main feature of the SDGs is that they include social value and economic value in addition to environmental concerns. It's important to recognize that economic issues have both environmental and social aspects.

Katanozaka I agree that the concept of sustainability is very important. Growth and sustainability are critical elements in CSR, the 10 principles of the United Nations Global Compact (UNGC), and the 17 targets of the SDGs. Companies are meant to reward their investors with growth. Ongoing profits allow for social contribution, so sustainability is an extremely important key concept. I believe it is important to inform investors about our initiatives related to sustainability, the environment, and other social issues. Being a component member of the Dow Jones Sustainability World Index and the Dow Jones Sustainability Asia Pacific Index is a great motivator, as is our selection as a Nadeshiko Brand. Ratings agencies tend to give considerable weight to ESG investment; for example, green bond is likely to become an important topic this year.

“We must link our SDG initiatives to new business opportunities and higher revenues.”



Initiatives Contributing to SDGs

Kanie As a customer, I am very familiar with your in-flight meals. I'm curious about your initiatives related to food loss*. I assume this corresponds to SDG 12, *Ensure sustainable consumption and production patterns*. It's not just a matter of assigning an initiative to a particular SDG. I think you would be best served to demonstrate how working toward a goal leads to achievement of an SDG over time.

* Food loss is also known as food waste. Unsold, expired, or leftover food items that could have been consumed, but have been disposed instead. Estimated food waste in Japan accounts for 6.46 million tons per year. This is almost double the volume of food aid assistance delivered worldwide by the World Food Programme. (Source: Ministry of Agriculture, Forestry and Fisheries))



Katanozaka Our food loss initiative was prompted by a suggestion from the ANA Singapore city / airport office about unused in-flight snacks that can keep for a certain period of time. In October 2016, we partnered with a local catering company and a nongovernmental organization (NGO) to donate unused in-flight snacks to local childcare centers. Being overseas provides easier access to information about global trends. This insight can lead to specific programs, which contribute to progress toward the SDGs. If every one of the more than 40,000 ANA Group employees embraced the SDGs, their new ideas could do more than just contribute to SDG progress; they could also lead to valuable business opportunities.

Kanie One of the best aspects of the SDGs is that they can be advanced from a bottom-up approach. Fostering initiatives distributed across an organization is better than having them imposed from the top down. The process might be similar to people bringing business ideas together to share and build on.

Katanozaka The ANA Group identifies the Environment, Human Rights, Diversity and Inclusion, and Regional Revitalization as four material issues. Initiatives in other areas tend to receive less attention, so we need to broaden our base. In July 2012, the ANA Group started a forest preservation project called *ANA Forest of the Heart* in Minamisanriku, Miyagi Prefecture. That project continues to this day, not only contributing to post-disaster recovery, but also to new businesses that sell products made using the forest timber. I think it is important to include economic recovery and local employment in the equation, helping businesses grow profits and recover investments.

Kanie Although the SDGs are global targets, on closer inspection, they represent issues that can be addressed locally. Combining two or more together can even stimulate ideas for potential projects, serving as a source of innovation.

Katanozaka We believe the ANA Group can contribute directly to about seven of the 17 SDGs through our business activities. But, there could be other ways to contribute as well. For example, there are nearly 9,000 cabin attendants at the ANA Group who can use their positions to observe and note passenger behavior to prevent human trafficking via aircraft. We are working to raise their

awareness and share the importance of this awareness. The SDGs include room for such innovation.

Kanie That is absolutely correct. Changing awareness changes behavior.

Expectations of Top Management

Kanie The first step is to set goals, but companies shouldn't be too rigid. I think it is important share a vision of the end target with employees. Set aspirational goals that excite the world. If you analyze the data collected through your air transportation business, I believe you will uncover surprising ways you already contribute to the SDGs. It is important to disclose this information, too. As an ANA customer, I hope the ANA Group can find ways to provide an even higher degree of transparency in disclosures.

Katanozaka Thank you very much for your wonderful advice. I view SDGs, ESG, and CSR in a wider sense as an intrinsic part of management. Looking more closely, I think we will find that these principles hold true for the planet, for humankind, and for all living things. The ANA Group has made progress step by step in our CSR initiatives. However, we still have much more to do. I commit to demonstrating leadership in working with the more than 40,000 group employees in daily, concentrated efforts toward making a positive difference in the communities and market sectors we serve across the world.

“I look forward to seeing your aspirational goals and even greater levels of transparency in information disclosure from the ANA Group.”





FY2018–22

ANA Group Corporate Strategy

We finalized our FY2018–22 ANA Group Corporate Strategy in February 2018.

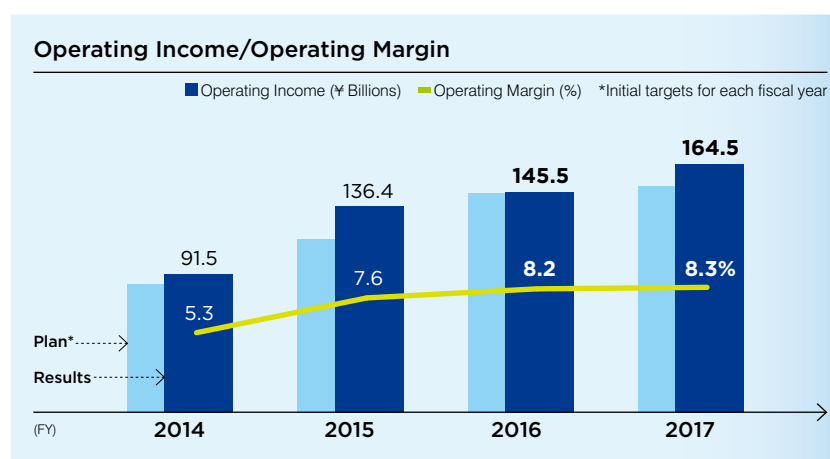
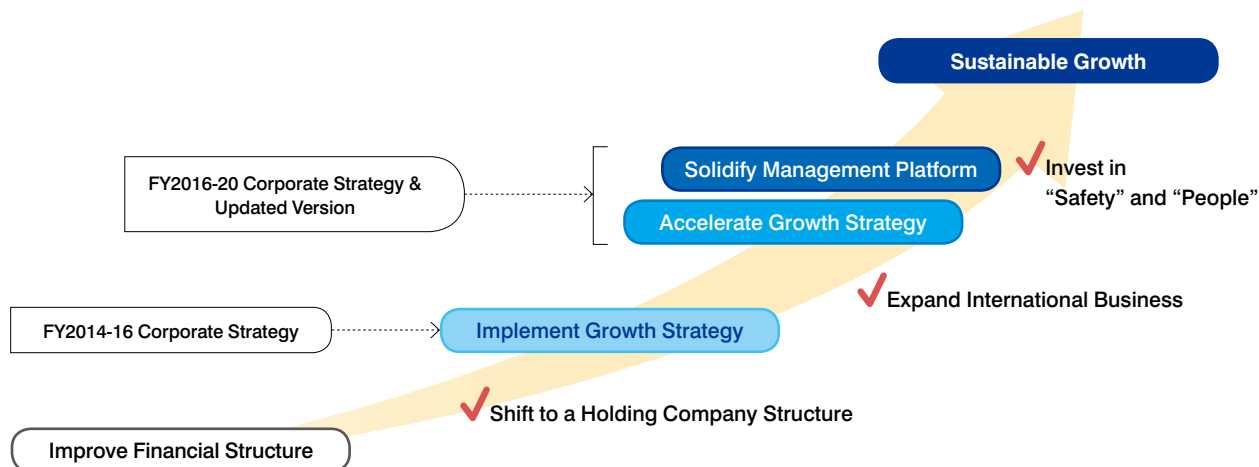
Under this strategy, we intend to leverage every business opportunity as a tailwind, propelling us toward our management vision of becoming the world's leading airline group, and ongoing sustainable growth.

Review of FY2016-20 Corporate Strategy

Implemented corporate strategy to steadily enhance profitability

The ANA Group adopted a holding company structure in fiscal 2013, under which the Group has thrived, driven mainly by the ANA international business. In the meantime, we established Vanilla Air and consolidated Peach Aviation, building a business portfolio featuring both ANA and LCC businesses.

Over the past several years, operating income results have outperformed original plan in each fiscal year, reaching record highs for three consecutive years since fiscal 2015. Having delivered successes under past strategies, we decided to plan the direction of our businesses beyond fiscal 2020. The result was our new corporate strategy, which will drive the ANA Group toward sustainable growth.



- 1) Secured income that exceeded initial target in each fiscal year
- 2) Project record high income for 3 consecutive years

“Pillars” of New Corporate Strategy

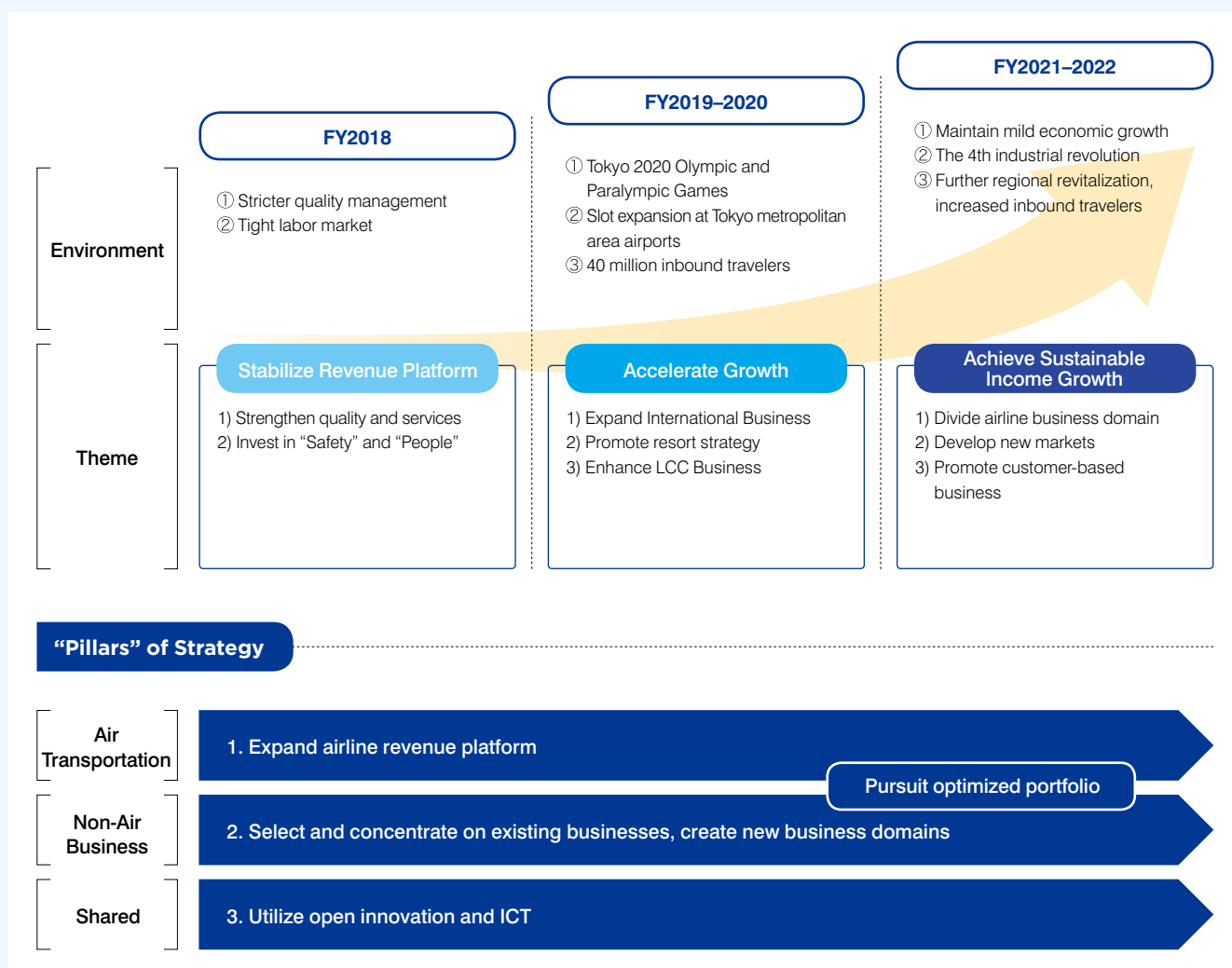
Solidify current business platform and move towards the future

We look forward to several major business opportunities for the ANA Group. These opportunities include rising demand for air travel among the emerging economies of Asia and elsewhere, increasing demand for travel to Japan, and an increase in slots at Tokyo metropolitan area airports in 2020. Fiscal 2018 marks the second year of our comprehensive review of safety, quality, and services. As we focus obsessively on safety and basic quality, which are the bedrock of our management, we plan to invest heavily in human resources (the source of our competitive ability) and growth businesses. The first task is to solidify our business platforms. From these platforms, we will generate momentum for growth and sustainable profits, mainly through our International Business.

The ANA Group identified three pillars (see below) in our new corporate strategy to accomplish these goals. The first pillar is to

expand our airline revenue platform. Here, we will build a stronger revenue platform by pursuing an optimized business portfolio for the Group as a whole, raising basic quality for our ANA and LCC businesses. The second pillar is to *select and concentrate on existing businesses, while creating new business domains*. Supported by this pillar, we will grow our revenue base, accelerating our investments in customer assets and other growth businesses. The third pillar is to *utilize open innovation and information and communications technology (ICT)*. Here, we will contribute to a super-smart society by improving the competitiveness of our products and promoting work-style reform.

We will engage in stronger ESG management, contribute to achievement of the SDGs, and create value worthy of the world's leading airline group. To do this will require a firm footing and using every business opportunity as a tailwind to propel us into the future.



Air Transportation Business (1) Network Strategy

**Strengthen marketing with both ANA and LCC brands,
expand network by entire Group**

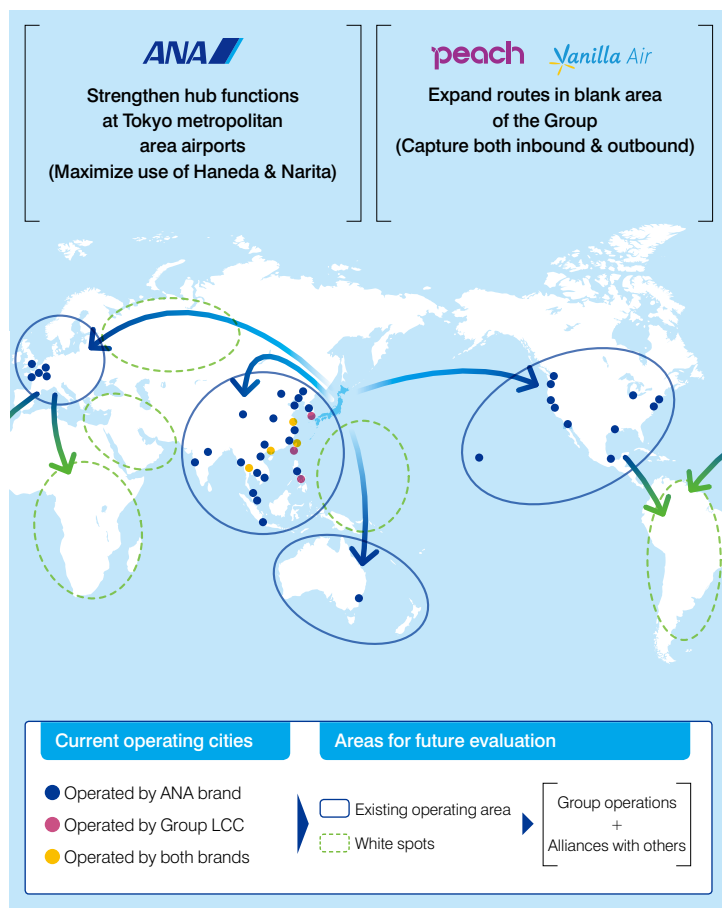
The ANA Group network strategy calls for growing our overall group business domain by offering greater convenience to our customers through our ANA and LCC businesses.

One part of this strategy is to further strengthen our hub functions in the Tokyo metropolitan area for ANA international services. Once fully realized, this Tokyo Metro Dual Hub Model will allow us to maximize the benefit of both Haneda and Narita airports. Our LCC Business will remain based in the Narita and Kansai airports, while we grow our operations at other regional airports as well.

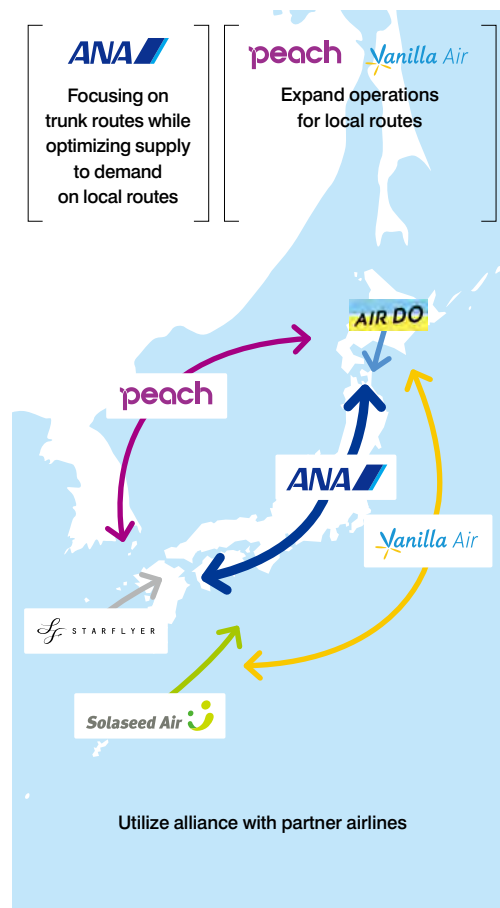
Strong leisure travel demand in Japan and inbound travelers represent prime targets to grow our business for flights to and from Japan, which will contribute to regional revitalization.

Trunk routes will continue to form the bulk of ANA domestic services, while we optimize supply to demand for local routes. We will also use our alliances with partner airlines as another measure to secure advantage as the air transportation market leader. In parallel with these moves in the ANA brand, we plan to expand the number of local routes offered in our LCC Business.

International Services



Domestic Services



Air Transportation Business (2) Fleet Strategy

**Secure fleet to support business expansion,
pursuit appropriate fleet composition with both brands**

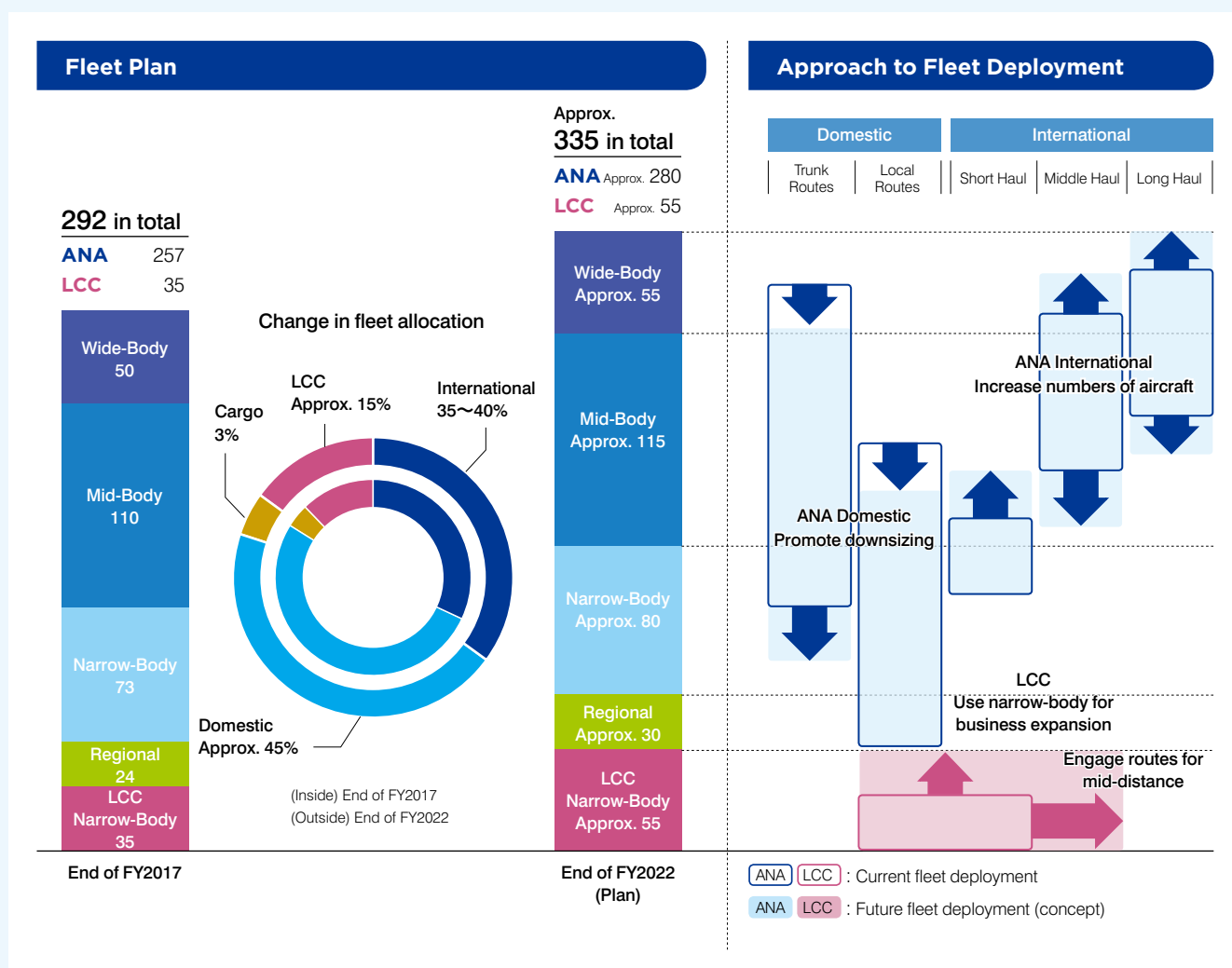
The ANA Group fleet strategy includes raising the number of groupwide aircraft to around 335 at the end of fiscal 2022, an increase of 40 compared to the end of fiscal 2017.

We will upgrade ANA aircraft while adding more over the course of time to execute our strategy. ANA domestic services will use more narrow-body aircraft, while we will add a wide range of aircraft for international services.

In our LCC Business, we plan to increase aircraft by 50 percent compared to the end of fiscal 2017. The LCC Business will continue

to grow through domestic and short-distance international routes, entering the middle-distance international market in 2020. In the future, our LCC Business could potentially take over certain routes currently operated by ANA.

In addition to network and fleet strategies, we are studying proposals for a long-term cross-industry pilot development program to address the shortage of pilots in Japan's air transport industry. This program could become part of our organization-wide resource strategy to ensure stable growth in the future.



Air Transportation Business (3) ANA Brand

Operating from Tokyo metropolitan area airports, the ANA International Passenger Business is one of our core growth drivers. The Tokyo–Honolulu route will feature the new Airbus A380 aircraft beginning spring 2019 as part of our resort strategy. We will also evolve our alliances with overseas airlines to extend our network to regions we do not currently serve. Under current plans, ASK (available seat-kilometer) capacity for fiscal 2022 should be 50 percent higher than fiscal 2017, assuming increased slots at Haneda Airport beginning in fiscal 2020.

The ANA Domestic Passenger Business will optimize supply to demand, mainly on local routes, serving as the Group's largest revenue platform. We are rolling out seat monitors and free on-board Wi-Fi, moving forward with product and service improvements to offer a refreshed and refreshing domestic flight experience. We

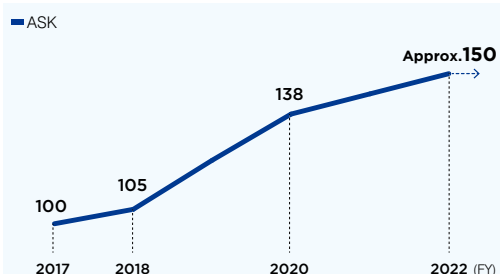
project a slightly lower fiscal 2022 ASK capacity compared to fiscal 2017.

Our plans for the ANA International Cargo Business call for network restructuring, leading to better profitability over the medium term. We will adopt the Boeing 777F to capture more cargo demand on Asia–North America routes, where we expect significant growth. This tactic will be part of our strategy to strengthen our hub functions in Tokyo metropolitan area airports. Meanwhile, we will optimize our Okinawa hub network further in consideration of the future competitive environment and demand within Asia. As with the ANA International Passenger Business, fiscal 2022 ATK (available ton-kilometer) capacity for the ANA International Cargo Business should rise 50 percent compared to fiscal 2017.

ASK/ATK Plan (FY17=100)

Points of Strategy

International Passenger



Increase revenue and income as a growth driver of the Group

- 1) Expand business focusing on Tokyo metropolitan area airports
- 2) Enhance resort strategy
- 3) Promote alliance strategy, advance into white spots

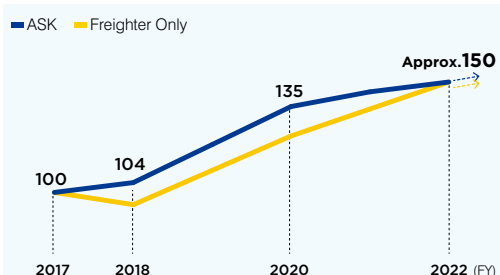
Domestic Passenger



Maintain Group's largest revenue platform

- 1) Maintain profitability mainly on Haneda and Itami (Osaka) routes
- 2) Promote downsizing to optimize supply to demand
- 3) Enhance quality of products and services

International Cargo



Rebuild network to improve profitability

- 1) Tokyo metropolitan hubs (Narita, Haneda):
 - Deploy wide-body freighters to capture demand between Asia and North America
- 2) Okinawa hub:
 - Continue network optimization

Air Transportation Business (4) LCC Brand

In March 2018, we announced the merger of Vanilla Air and Peach Aviation, scheduled for fiscal 2019. We believe combining the strengths and resources of the two companies, as well as solidifying the LCC Business platform, will speed our LCC growth strategy.

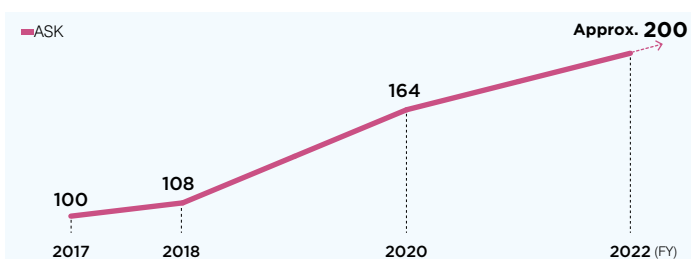
Since fiscal 2011, our LCC passenger numbers have continued to grow, reaching nearly 8 million between Vanilla Air and Peach Aviation for fiscal 2017. In the future, our LCC Business will enter the market for middle-distance international routes to capture the

growing demand for air travel expected in Asia. Here, we plan to use longer range narrow-body aircraft to increase choice in the cities in which we operate, allowing us to capture inbound traveler and leisure demand from a broader segment of customers. Our goal is to put these aircraft in service beginning fiscal 2020 to play a role in ANA Group growth strategy.

We plan to double ASK capacity in fiscal 2022 as compared to fiscal 2017 between Vanilla Air and Peach.

LCC (Vanilla & Peach)

ASK Plan (FY17=100)



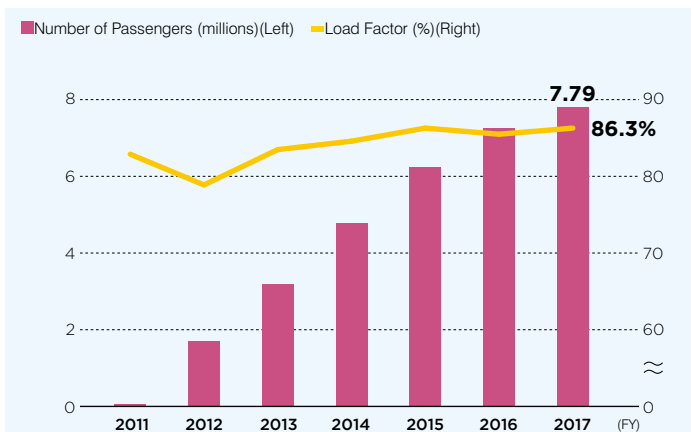
Points of Strategy

Expand revenue platform by utilizing two LCCs

- Domestic routes:
 - Develop demand with focus on local routes
- International routes:
 - Expand routes mainly on Narita and Kansai
 - Engage in blank area of the Group

Number of Passengers* Domestic & Int'l in Total

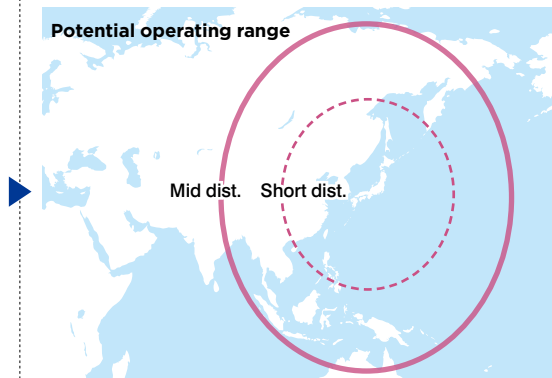
Passengers increasing steadily since FY2011



Develop Mid-Distance Routes

- Utilize narrow-body aircraft with a capability of middle-distance operation
- Capture inbound/leisure demand broadly

Potential operating range



Non-Air Business

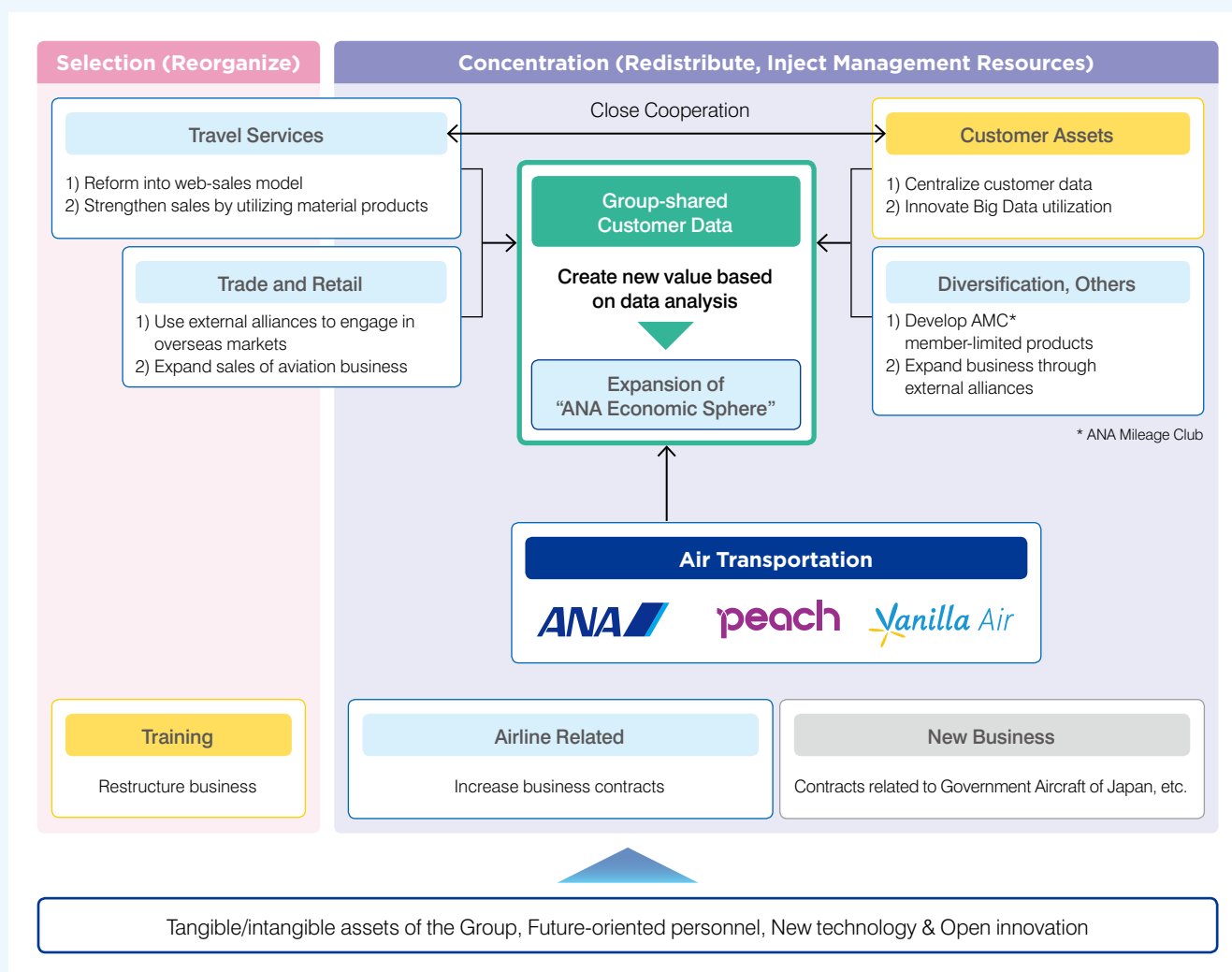
Accelerate selection and concentration with focus on customer base to rebuild portfolio

We intend to leverage our customer platform in our Non-Air Business in executing our new strategy.

The ANA Group owns significant brand recognition, expertise, technology, and other tangible and intangible assets built over many years. One example is our ANA Mileage Club membership, which has surpassed 32 million people as of March 2018. Using Big Data to unearth latent demand among this membership should allow us to grow our business.

ANA X Inc., which we established in October 2016, will take the lead in coordinating analysis and use of customer data across the Group, creating new value to expand the ANA economic sphere.

We intend to restructure our Non-Air Business portfolio, combining our storehouse of data and expertise with new technologies to grow group profits.



Society 5.0

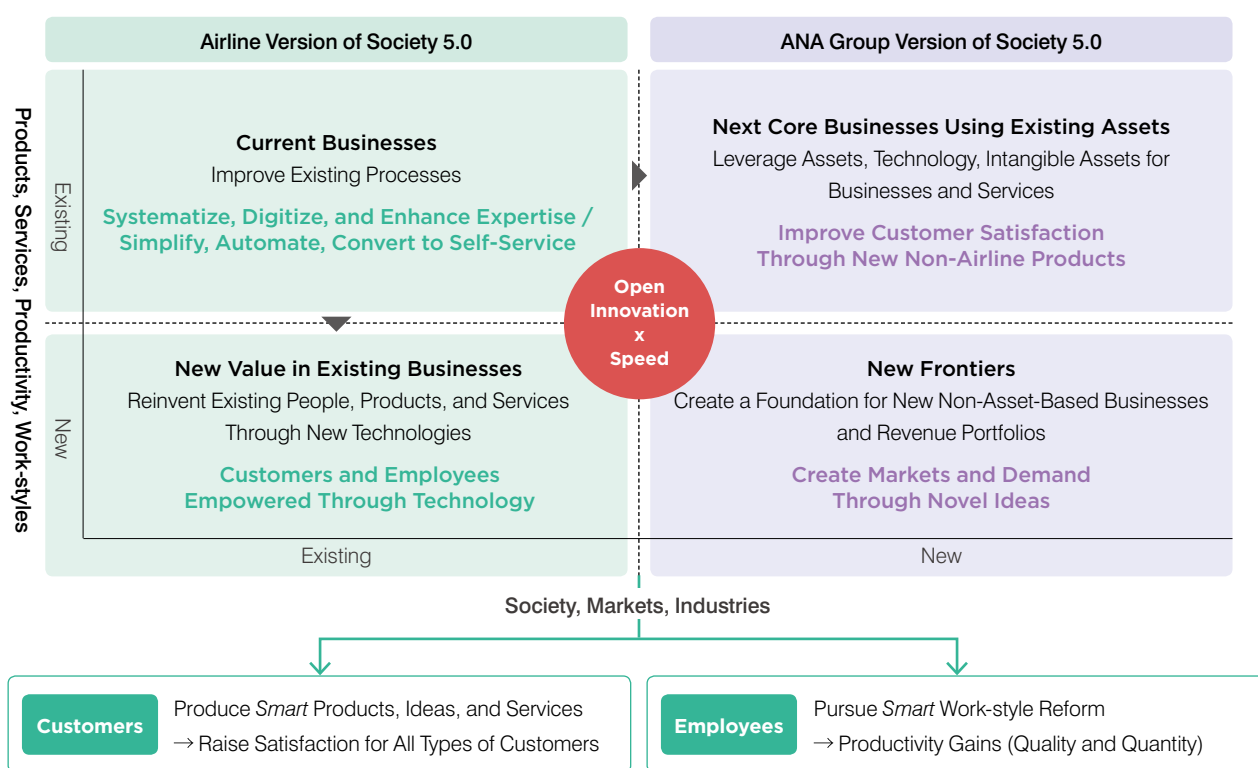
A super-smart society built on breakthrough technology and open innovation

The ANA Group uses our tangible and intangible assets to address social issues and the ever-changing future. We combine these assets with ICT and open innovation to quickly develop new products and services, as well as foster our human resources, contributing to *Society 5.0* (the super-smart society).

We envision a future that struggles with population decline and labor shortages, even as we encourage more women and seniors

to be active in society. Meanwhile, new business models are emerging that incorporate IoT, robotics, Big Data, and other new technologies to make society friendlier for living and working.

This vision of the future drives us to strive for greater customer satisfaction and higher levels of productivity made possible through employee work-style reform, bringing to bear the conceptual ability and force of action unique to an airline group.



Contributing to the Advent of Society 5.0 (Super-Smart Society)*

* Solving social issues through services tailored to each individual through innovative technologies.
Creating new demand, revolutionizing productivity

Operating Revenues & Operating Income (Consolidated)

Move into revenue and income growth stage based on past track

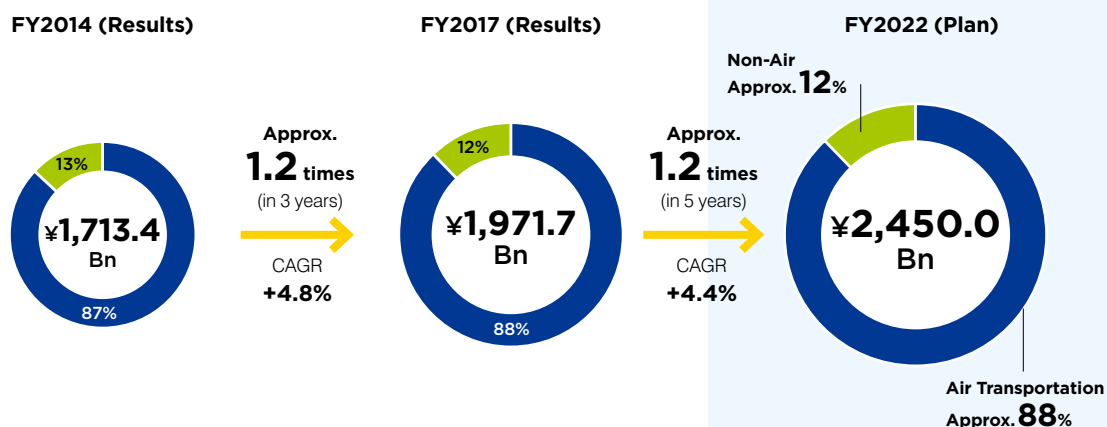
Between fiscal years 2014 and 2017, ANA Group operating revenues averaged 4.8 percent growth annually. Based on this track record, our new plans outline a 4.4 percent annual growth rate over the next five years, reaching ¥2,450 billion for fiscal 2022.

Our goal for fiscal 2022 Air Transportation operating income is ¥200 billion. This figure is 2.5 times greater than fiscal 2014

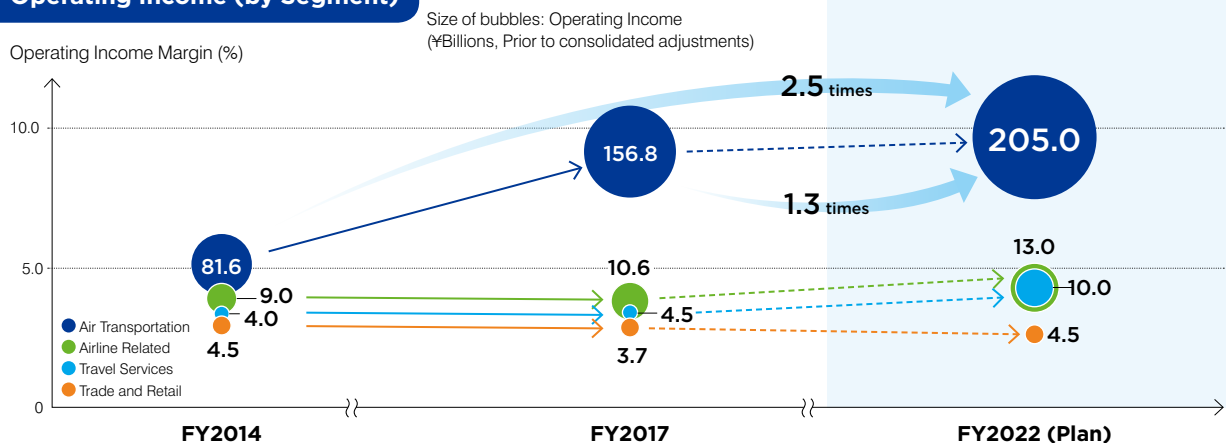
operating income and about 30 percent greater than fiscal 2017. At the same time, we are aiming for an operating income margin in excess of 10 percent.

In our Non-Air Business, we will exercise selection and focus to pursue revenue and profit growth across all segments.

Operating Revenues (Consolidated)



Operating Income (by Segment)



Operating Revenues & Operating Income (Air Transportation Business)

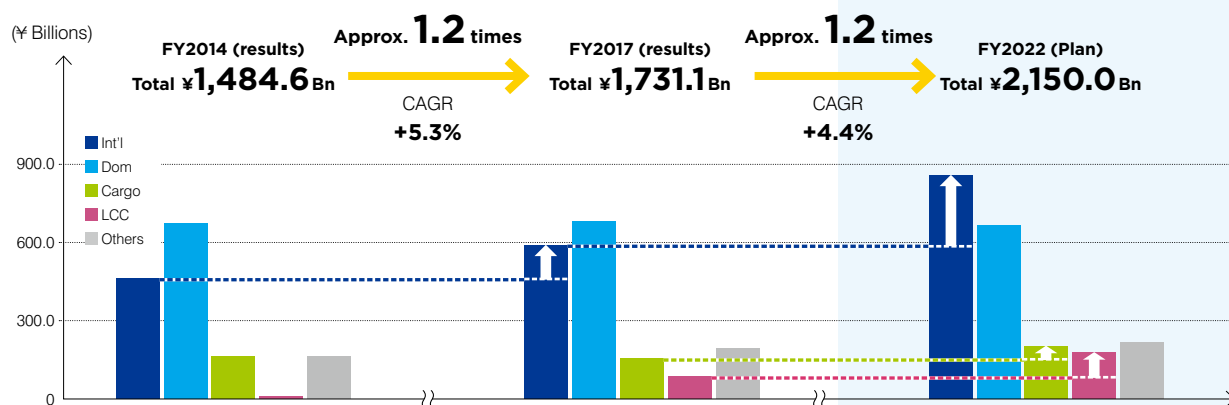
Drive topline growth and improve profitability by utilizing international business and LCC

Our goal for fiscal 2022 International Passenger Business operating revenues is ¥870 billion, or more than 80 percent higher compared to fiscal 2014 results. We also plan to grow operating revenues in our Cargo and Mail Business and LCC Business.

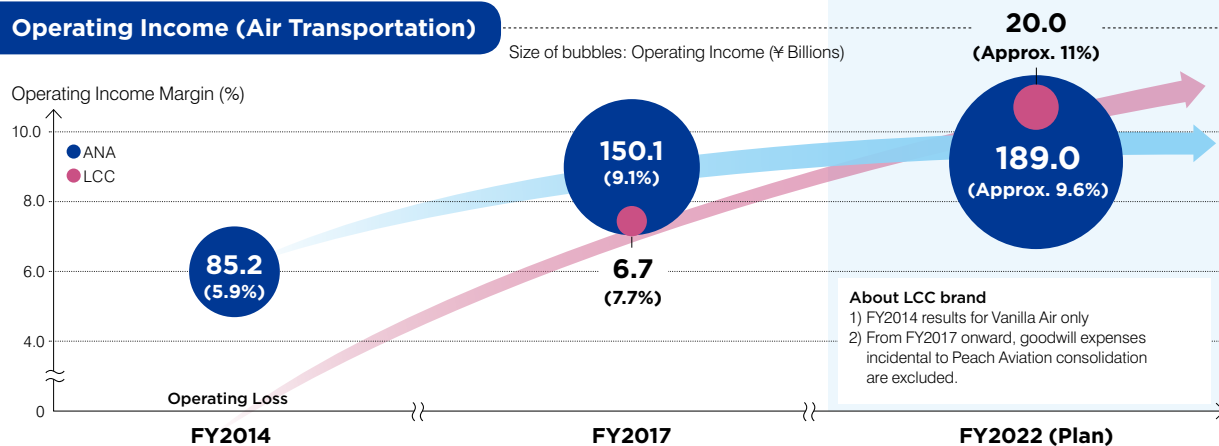
The target for ANA fiscal 2022 operating income is ¥189 billion.

Over the past several years, our LCC Business has delivered improved profits, leading us to set a target of ¥20 billion in operating income for fiscal 2022. Our advantageous low-cost structure, combined with Japanese LCC product and service quality, should help us grow both revenues and profits in the business.

Operating Revenues (Air Transportation)



Operating Income (Air Transportation)



Cost Management

Promote cost management by utilizing ICT

In fiscal 2010, unit cost in the ANA Air Transportation Business was ¥10-plus per ASK. Unit cost has decreased nearly 10 percent since fiscal 2011, the result of six years of work and an equivalent of ¥138 billion in cumulative Cost Restructuring Initiatives.

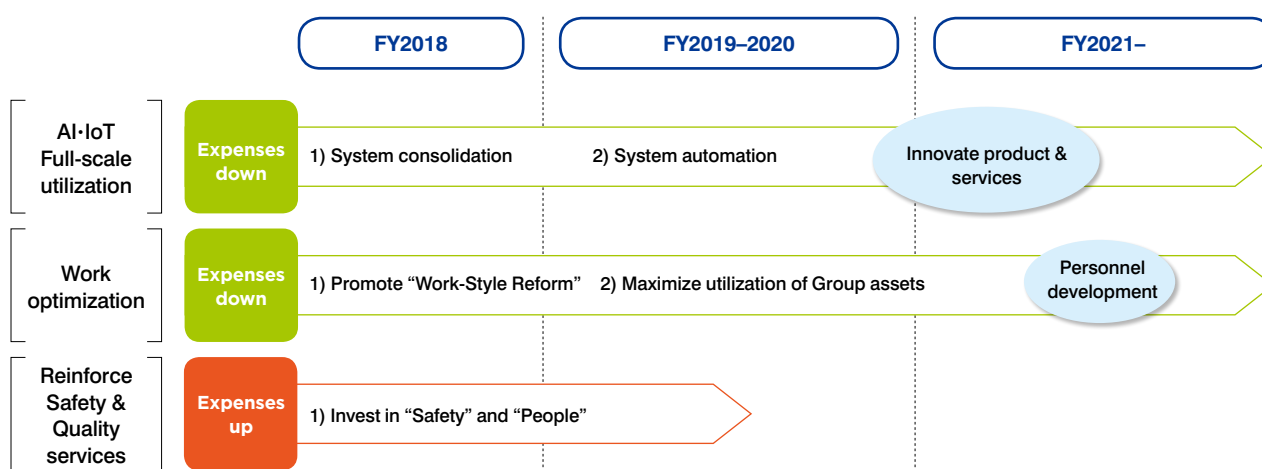
Our new corporate strategy will incorporate AI, IoT, robotics, and other technologies heavily, encouraging work-style reform to improve productivity and add even more strength behind our cost competitiveness.

Examples include self-driving vehicles in our airport ground equipment, call center quality improvements through voice recognition technology, AI-based aircraft parts and maintenance tool

management, and numerous other ways to incorporate the latest technologies in non-traditional formats. Adding more fuel-efficient aircraft to our fleet will help us control fuel cost increases.

Of course, adopting new technologies goes beyond cost reductions. These technologies will lead to greater revenues and improved basic quality when used to develop new ANA Group businesses and foster our human resources.

As we continue to invest in safety, quality, services, and our people, we expect unit costs to rise temporarily for fiscal 2018. However, unit cost should decrease ¥0.6 by fiscal 2022 to ¥8.8 according to plan as we implement appropriate cost management.

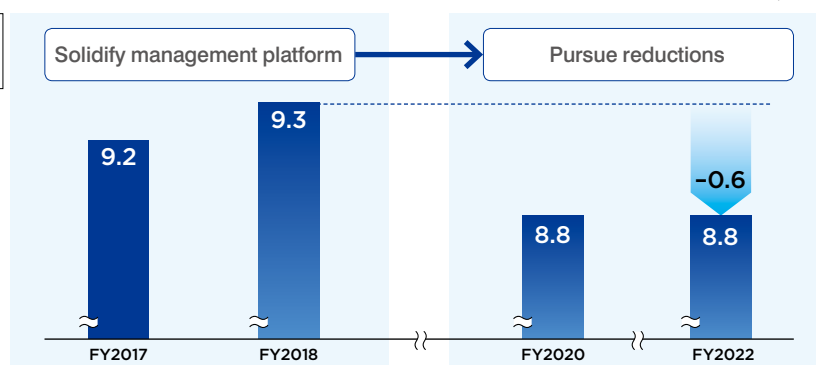


Unit Cost Plan

* Definition of Unit Cost (ANA brand only)

$$\frac{\text{Op. Expense (Total)} - (\text{Cargo \& Mail Revenues} + \text{Other Revenues})}{\text{Domestic Passenger ASK} + \text{Int'l Passenger ASK}}$$

(¥/ASK)



Financial Platform

Use optimal financial platform to accelerate business strategy, enhance corporate value

Our consistent business performance over the past several years has strengthened our financial foundation, earning us an A credit rating.

Looking ahead, we will work to improve stock value per share, while balancing growth strategy and financial soundness.

During the year, we successfully pursued both business growth and recapitalization through a financial and capital deal implemented in September 2017. Not only did we secure capital to invest in aircraft important to our revenue growth, we also

transitioned to a financial policy to improve capital efficiency through the repurchase of shares. We selected convertible bond with clauses for limited conversion, in consideration of our existing shareholders.

We concluded our share repurchase program as of March 2018, and we will aim for greater capital productivity in the future, balancing shareholders' equity and profits appropriately over the medium and long terms.



Balance Sheet

Assets	Liabilities
¥2,302.4 Bn	D/E Ratio 1.0 times
	Net Assets
	Equity Ratio 35%

End of FY2014

Assets	Liabilities
¥2,562.4 Bn	D/E Ratio 0.8 times
	Net Assets
	Equity Ratio 39%

End of FY2017

Assets	Liabilities
Approx. ¥2,850.0 Bn	D/E Ratio Approx. 0.5 times
	Net Assets
	Equity Ratio Approx. 50%

End of FY2022 (Plan)

Pursue both business growth and financial soundness

Cash Flow

Shift to the stage where we take benefits from past investments

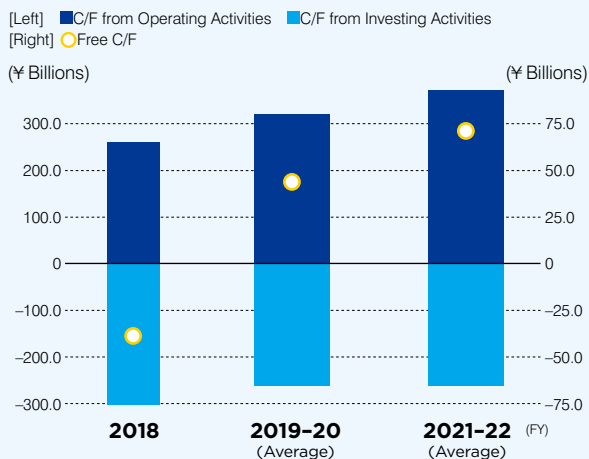
The ANA Group target for the five years between fiscal 2018 and fiscal 2022 is to secure free cash flow totaling ¥195 billion.

Although we will continue to make large capital investments, EBITDA levels during the period covered by our new strategy will be higher than capital investment amounts. Our plans call for free cash flow levels to improve significantly beginning fiscal 2021.

Capital investments through fiscal 2018 will include investments in aircraft, as well as major investments in assets other than

aircraft. One such investment will involve construction costs for the ANA Group Training Center (working name). Our plan is to consolidate facilities located in different areas near Haneda Airport into one for greater efficiency and higher levels of safety, which is the very foundation of our business. Other investments will relate to developing our people, who are the backbone of our quality and services as a business.

Cash Flow Plan



Free
C/F

FY2018-2022 (in 5 years)

Total ¥195.0 Bn

3-year total
¥50.0 Bn

2-year total
¥145.0 Bn

1) EBITDA, Interest-Bearing Debt / EBITDA

	(¥ Billions)			
(FY)	2017	2018	2019-20 (Average)	2021-22 (Average)
EBITDA	314.9	326.0	365.0	Approx. 415.0
Interest-Bearing Debt/EBITDA	2.5	2.4	2.2	Approx. 1.8

* Excluding off-balanced lease obligation in interest-bearing debt.

2) Capital Expenditures

	(¥ Billions)			
(FY)	2017	2018	2019-20 (Average)	2021-22 (Average)
Aircraft	184.6	261.0	230.0	Approx. 190.0
Others	131.7	170.0	125.0	Approx. 120.0
Total	316.4	431.0	355.0	Approx. 310.0

Continuous generation of cash flow

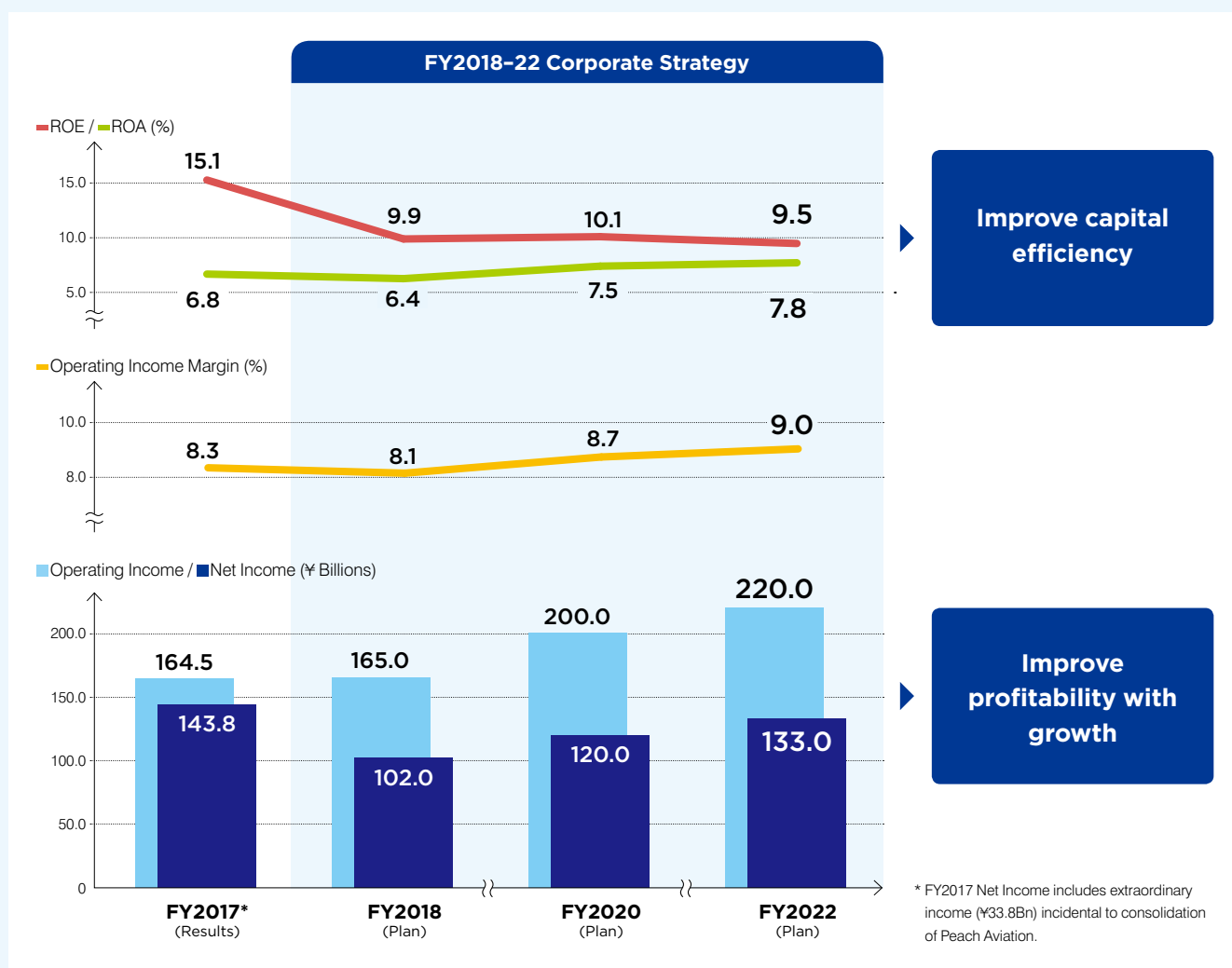
Value Creation Targets

Pursue optimal portfolio to become a top-tier airline group in profitability

The FY2016–20 Corporate Strategy formulated in January 2016 included a fiscal 2020 operating income goal of ¥200 billion. Our updated corporate strategy, however, aims for even higher levels of corporate value.

Our new plan calls for operating income of ¥220 billion and net income of ¥133 billion in fiscal 2022. Operating income margin

has been added as a value creation goal to ensure profitability rises together with profit increases. We expect to maintain an ROE of around 10 percent throughout the course of our new strategy; however, we will look for ways to secure greater capital efficiency as we go.



Management Resources Allocation

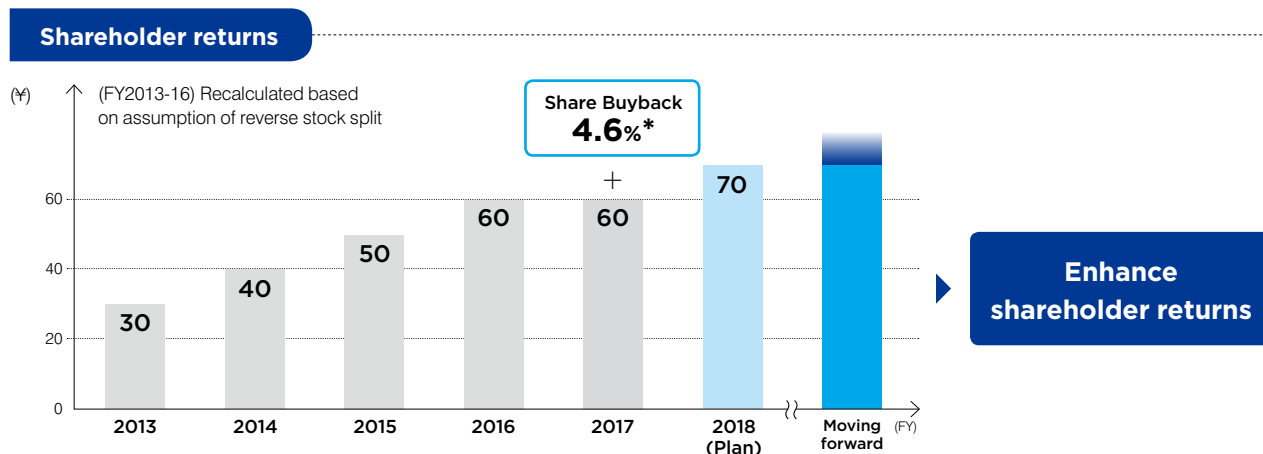
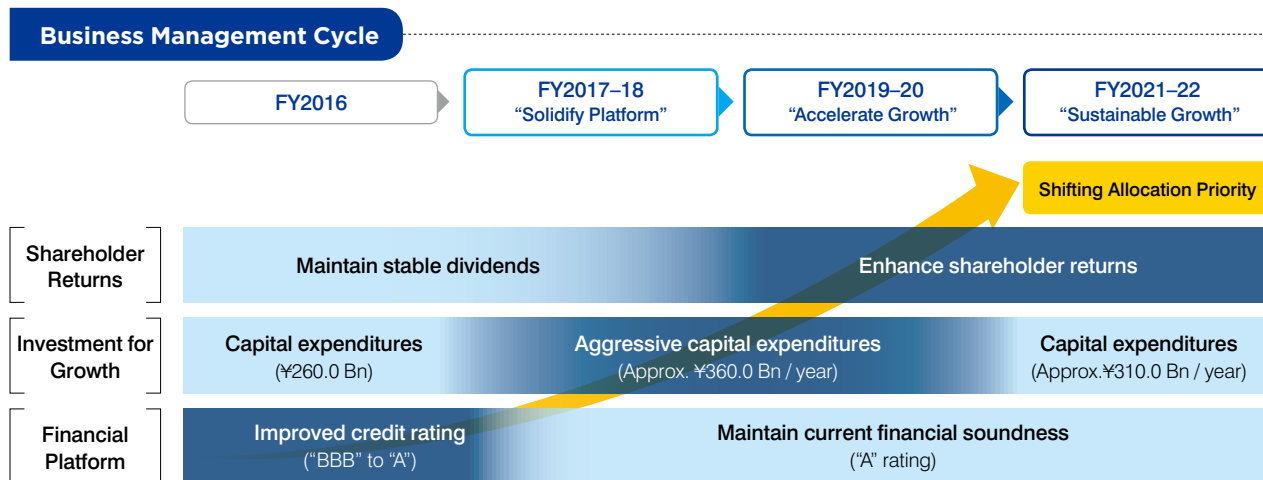
Continue growth investments, shift to the stage for gradually enhancing shareholder returns

Allocation of management resources will change in conjunction with advancements in our businesses and rising levels of free cash flow as we move through the stages of the business management cycle.

We intend to retain our A credit rating as we address our financial foundation.

Growth investments will continue heavily through fiscal 2020, after which we expect the scale of investment to level.

In terms of shareholder returns, we plan to increase fiscal 2018 dividends by ¥10 to ¥70 per share. Dividends will remain within a scope that represents a payout ratio of between 20 percent and 30 percent. During the period covered by our new strategy, we hope to transition gradually away from the current policy that allocates management resources heavily to growth investments toward a policy emphasizing shareholder returns, answering the expectations of our investors.



Opportunities and Risks Recognized by the ANA Group

Pursue sustainable growth, responding to changes in the global business environment

The ANA Group is being presented with many business opportunities that can be exploited in achieving future growth, including the slot expansion at Tokyo metropolitan area airports to take place in light of the upcoming Tokyo 2020 Olympic and Paralympic Games as well as anticipation surrounding measures for stimulating inbound travel demand and initiatives for supporting the development of a Japan brand.

However, we also cannot deny the presence of risks that threaten to adversely impact global air transportation demand,

such as those arising from uncertainty regarding domestic and overseas political and economic trends.

The ANA Group aims to maintain an accurate understanding of the opportunities and risks pertaining to its strategies. This understanding will thereby enable the Group to pursue sustainable growth through aggressive and speedy management and a resilient corporate constitution allowing for effective responses to changes in the global business environment.



How We Ensure Safety and Develop Stellar People

The ANA Group is pursuing a policy of *Solidifying Our Business Management Platform* through fiscal 2018, conducting a comprehensive review of our safety, quality, and services. We are investing heavily in safety and human resources to draw out the skills of every group employee, combining the strengths of our people with ICT to build new value and sustainable growth.

Case 1

Mechanics Worldwide Utilizing Mobile Devices

Connecting the World and Raising Maintenance Quality Standards Through ICT

The ANA Group issued mobile devices to every flight attendant in 2012. Since then, our mobile technology program has been rolled out to pilots, maintenance crew, and airport staff. This technology allows faster and more precise communication, providing timely information for passengers and better in-flight service. In addition, we have received the benefits of more efficient training and paperless manuals.

Our maintenance department uses mobile devices to access manuals and tap into an expansive knowledge base of maintenance techniques. If a maintenance issue is identified during an aircraft inspection at an airport, maintenance crew and staff must assess the situation quickly to organize service or repairs in a way that minimizes disruption of scheduled flights. We are currently developing a new system that will result in further improvements in maintenance and operation quality. This system will be available for daily service aircraft maintenance, allowing local staff to share images and details with off-site personnel in real-time to prepare maintenance work and receive instructions quickly.

The new system will use ICT to create a global network boosting maintenance quality, and ensuring safety, on-time operations, and comfortable flights for ANA customers around the world.



Project Team Members
ANA Engineering & Maintenance Center,
e-TPS & Innovation Office
(L to R) Kenichiro Shigenobu, Yasuo Kurakazu, Jiro Morita,
Hidetaka Ohura

Key Benefits of Mobile Technology

1. Instant access to updated maintenance manuals
2. Improved maintenance quality
by sharing the aircraft condition promptly
3. Better cross-divisional cooperation





Case 2

Retired Aircraft Used as a Maintenance Training Jet

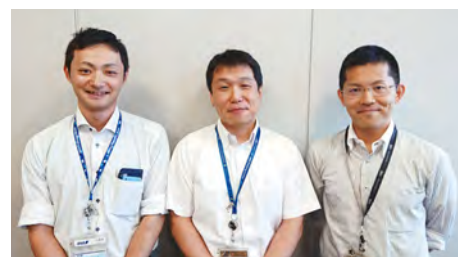
Accelerating Maintenance Crew Training, Raising Standards for Personnel and Quality

The growth of our Air Transportation Business creates a pressing need to train more aircraft maintenance crew to keep service standards at the highest level.

In August 2018, the ANA Group began using a retired Boeing 737-500 aircraft as a maintenance training jet. Our aim here is to improve the education and training environment for newly hired employees, helping them develop skills as quickly as possible.

Newly hired technical staff receive basic training on maintenance work (aircraft systems, maintenance procedures, etc.), followed by training using mock-ups of different sections of the aircraft. Previously, maintenance crew would work on service aircraft as they came into the hangar to develop practical skills, which was a very slow process. Having a dedicated maintenance training jet provides more hands-on experience, allowing for a more effective and practical training experience.

Using a maintenance training jet in this way, we are developing our maintenance crews more quickly and with more consistent quality, improving the safety and security of our flights.



Project Team Members

ANA Engineering & Maintenance Center, Education & Training Division
(L to R) Takeshi Kubota, Isao Kobayashi, Morio Otomo

Key Benefits Maintenance Training Jet

1. Early experience with actual aircraft, learning from mistakes in a low-risk environment
2. More opportunities to test knowledge on actual aircraft
3. Train larger numbers of personnel at one time



Boeing 737-500 Maintenance Training Jet



Training Using a Maintenance Training Jet

Initiatives for Strengthening Safety and Fostering Human Resources



World's First Video-Based Flight Review Application, “Furikaeri”

Using Big Data to Help Pilots Fly Safer and Improve Skills

As the world's first, the ANA Group has introduced an application that allows pilots to watch a video review of their performance post-flight via tablet. Post-flight reviews assist pilots in flying safer and polishing their technical skills.

This review application immediately analyzes Big Data collected from on-board sensors and other sources, combining this data with animations of flight conditions, gauges, and ground topography for a visual reproduction of the flight. Pilots can use their own mobile devices to review their flight performance at any time. The cutting-edge technology behind the video review was created by a project team made up of some 50 experts drawn from various companies and divisions within the ANA Group, as well as consultants from outside.

The major global airlines have been emphasizing unanticipated risk as an important safety concept alongside traditional incident avoidance and the prevention of recurrence. At the same time, aircraft technology is rapidly advancing through IoT, networking, and data processing.

Globalization is allowing more freedom of movement and demand for air travel, which is leading to a pilot shortage now noted even among greater society. Obviously, pilot recruiting and training is critical for future airline business growth.

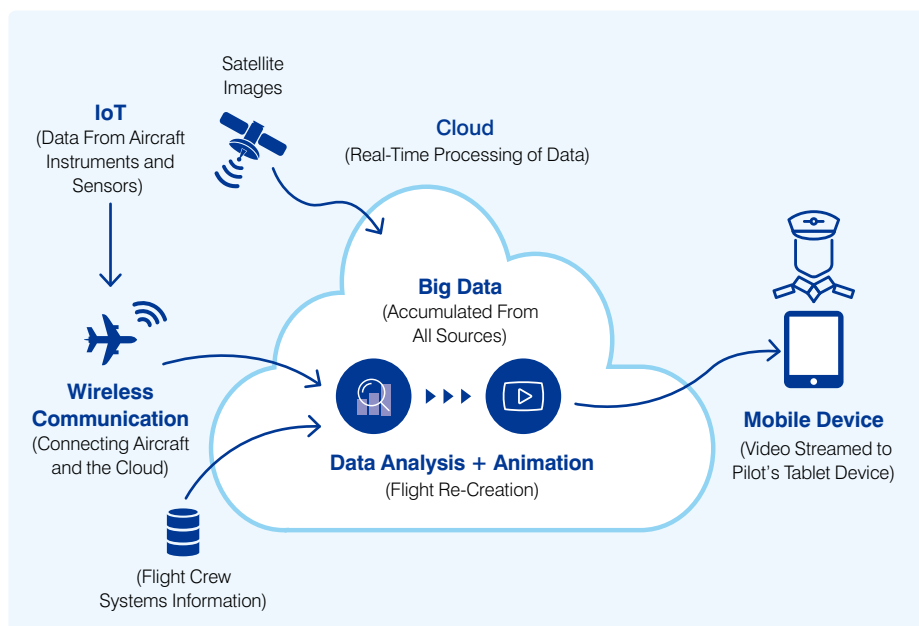
With an evolving aviation industry and diverse work-styles among pilots, the ANA Group is aware of the need for an environment that supports ongoing skills development for pilots. This environment must include personal mentorship and the use of data to be effective and sustainable.

The post-flight review video application aids in the training of already experienced and skilled pilots. This tool also fosters a culture of communication among pilots in a new format, helping the ANA Group become even more unified behind safe flight operations.



Conceptual Image of the Post-Flight Video Review Application

Post-Flight Review Video Application



Benefits of Big Data

1. AI-based predictive analysis for improved flight operation and safety
2. Improved fuel consumption and reduced environmental impact via correlation analysis of flight rules and fuel consumption
3. Effective training through feedback

Case 4

Preventing Falling Debris From Aircraft

Safety is our promise to the public and is the foundation of our business. In keeping with this safety principle, the ANA Group is committed to eliminating all forms of aircraft debris*.

* Aircraft debris is defined as frozen solids or parts and/or components that have fallen to the ground (except where this occurs within the confines of an airport). We have implemented a reporting system for missing parts.

1 Background

A spate of aircraft debris incidents in August and September 2017 (panel, engine fragments, etc.) caused considerable public concern about falling objects. In one incident, the exterior panel section an overseas airline flight fell and caused damage to a vehicle on the ground. The Japanese Ministry of Land, Infrastructure, Transport and Tourism declared this accident a Serious Incident, causing a further increase in public concern.

As new flight paths are being considered to strengthen the utility of Tokyo metropolitan area airports, airlines must demonstrate their commitment to the highest standards of safety, particularly with respect to aircraft debris.

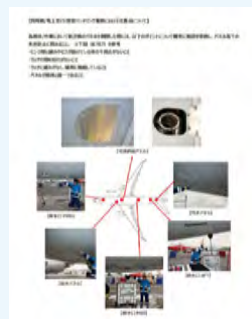


Boeing 767 With Missing Panel

2 ANA Group Aircraft Debris Initiatives

Individual Division Initiatives

To better recognize even the smallest warning signs of potential aircraft debris, the ANA Group has established a mechanic inspection program, while striving to make pilots and other staff working around aircraft more aware of the issue. We are also working with aircraft manufacturers on technical solutions and other initiatives to prevent aircraft debris.



Diagrams Showing Typical Sources of Aircraft Debris
Left: For airport ground staff Right: For Mechanic

Adopting Recommendations From the Committee on Aircraft Debris Prevention

The Committee on Aircraft Debris Prevention was inaugurated on November 6, 2017, consisting of experts and other members drawn from academia, government, airlines, and airport management companies. The ANA Group is an active member of the committee and committee working groups. The ANA Group is committed to adopting recommendations issued by this Committee.

Companywide Awareness Education

- Distribution of email magazine and instructional video
- Posters in the workplace
- Awards related to prevention activities

The ANA Group will continue to work closely with aircraft manufacturers and other airlines on these and other initiatives to ensure we safely operate our aircraft in a way that meets the expectations of customers and the general public.

 Air Transportation

Becoming the World's Leading Airline: Pursuing Safety and Quality Through Obsessive Focus on Our Front Lines

Yuji Hirako

Member of the Board of Directors, ANA HOLDINGS INC.
President & Chief Executive Officer, ALL NIPPON AIRWAYS CO., LTD.

Since being named ANA president and chief executive officer in April 2017, my complete focus has been on the front lines of our business. How can we take our existing strengths in our front lines and make them even stronger? As often as I can, I visit the airports and other workplaces, taking the opportunity to interact directly with our employees. There, my conversations help me identify everyday operational issues and call for a review and response as quickly as possible. Repeating this pattern has generated a movement toward the greater pursuit of safety and quality across our entire organization. Nothing is a higher priority than safety. My engagement with employees provides hints and ideas about what to include in my monthly corporate message. My message includes a system to receive employee feedback, which is creating a new culture of open and frank discussion about improving our safety and quality.

Looking back on fiscal 2017, we see that our performance was supported by strong demand. Financially, we set record-high results in operating income, ordinary income, and net income. Our focus on the front lines and initiatives for quality improvement

during fiscal 2017 led to international recognition. SKYTRAX of the U.K. certified ANA with the maximum 5-Star Rating on customer satisfaction for the sixth consecutive year. Air Transport World of the U.S. awarded us Airline of the Year 2018, their most prestigious award.

We at ANA operate under the brand concept, *Inspiration of JAPAN*. We strive to share the excitement and fun of travel to our customers through our innovative spirit, leading-edge technology, and the heartfelt service representing the manners and courtesy for which Japan is known. I have shared the illustration at the top of the next page with our employees as a visual representation of the ideal to which we aspire. I encourage every employee to design their own action plan toward realizing this ideal. When every employee is willing to take on new challenges without fear of failure, this will be the engine driving ANA services to the next stage.

Looking ahead to the year 2020 and beyond, we have been aggressively adopting new digital technologies. Here, the most important thing is to separate the jobs of humans from the jobs of machines. We should automate those tasks best performed by



machines, while allowing humans to perform those tasks only humans can do. We must combine digital technologies with the attention to detail and inspiration that ANA has developed through the cumulative expertise and knowledge of every employee working at the front lines of our business. This will lead to new ideas that become the platform for ANA services of the next era.

Japan is preparing diligently for the Tokyo 2020 Olympic and Paralympic Games. Government-led tourism and regional revitalization projects will likely increase inbound tourist traffic to even higher levels than today. At the same time, plans are under way to expand slots at the Tokyo metropolitan area airports. Our International Business will be a driver of future growth, and we intend to continue with our dual hub network strategy, which leverages the distinct advantages of the Haneda and Narita airports. We have plans of our own to introduce new products and services, including putting the Airbus A380 into service for our Hawaii route beginning spring 2019. We are also aiming to lead in eco-friendly operations, adopting the latest, most fuel-efficient aircraft available.

Moving forward, we intend to seize the big opportunities that lie in front of us, securing our position as the world's leading airline. We will exercise obsessive focus on the front lines of our business to raise safety and quality, continuing to provide air transportation that inspires customers to say, "I'm glad I chose ANA!"

In July 2018, ANA canceled a limited number of flights to perform inspection and maintenance on engines made by Rolls-Royce Holdings Plc used in Boeing 787 aircraft. We sincerely regret the inconvenience to our customers and everyone else involved, and we want to ensure everyone that we spare no effort or expense when it comes to safety. Thank you for your understanding.

August 2018

Air Transportation

Operating revenues of Air Transportation Business for fiscal 2017 amounted to ¥1,731.1 billion, up 12.7% year on year. Operating income rose 12.4% to ¥156.8 billion. This positive performance was mainly due to our capturing strong demand within our international business for passenger and cargo service, as well as to the consolidation of Peach Aviation in our LCC Business. Our targets for fiscal 2018 operating revenues and operating income are ¥1,805 billion (4.3% increase) and ¥160 billion (2.0% increase), respectively. We expect to grow top line revenues through our international business and other operations, supported by a solidifying management platform.

INTERNATIONAL PASSENGER BUSINESS

Building Network Competitive Advantage Through a Deepening Dual Hub Network Strategy and Strengthening Product and Services

International Passenger Business fiscal 2017 operating revenues rose 15.6% year on year to ¥597.4 billion. Passengers rose to 9.74 million for the year, representing a 6.8% increase. These results reflected strong demand for higher-priced business travel out of Japan, as well as active inbound tourist traffic. We expanded our products and services offerings during the year, adding flights to our Haneda–Jakarta route in August and to our Narita–Los Angeles route in late October. We also pursued an ambitious schedule for adding more Boeing 787-9 aircraft into service. Our analysis suggests that these results stem from the competitive advantage of our network, which we have worked to expand over the past several years.

Our fiscal 2018 plan calls for International Passenger Business operating revenues of ¥648 billion, an 8.5% increase over fiscal 2017. We also plan to commit further to our Dual Hub Network Strategy, taking advantage of our late-night slots at Haneda. Although we expect available seat-kilometers (ASK) to increase 4.7%, this will be the slowest growth rate since fiscal 2014. However, we will strive to capture more demand and increase yield.

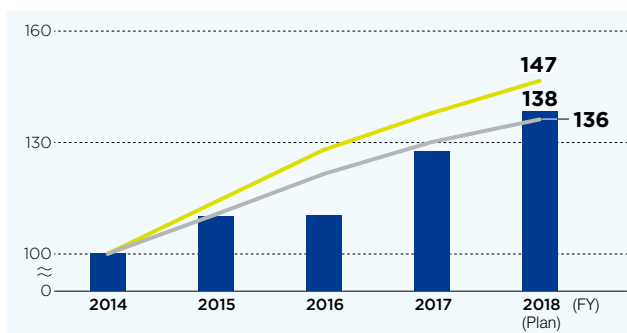
In June, we added flights on our Haneda–Bangkok route. We now offer five round-trip flights between Tokyo (Haneda/Narita) and Bangkok. Strengthening our presence in Asia, we plan to capture demand connecting to North American routes in the region, in addition to demand for departures and arrivals in the Tokyo metropolitan area. We will begin code-sharing with Alitalia Airlines in October to expand our Europe-bound network and services. Our fleet development plans call for putting Boeing 787-9 aircraft into service on the Narita–Bangkok route and the Narita–Kuala Lumpur route. In addition to providing full-flat seats in business class, we will be offering premium economy services.

We plan to introduce the Airbus A380 aircraft to our Tokyo–Honolulu route in spring 2019.

We will offer entirely new services to take advantage of the A380's roomy, full two-deck configuration, including couch seating and other amenities. We will also be offering ANA-branded lounges, which will be the only directly operated lounges in overseas airports. These new services will strengthen our engagement with leisure travelers, including our more affluent customers.

Performance of the International Passenger Business

■ Revenues ■ ASK ■ RPK
(Index) Fiscal 2014 = 100



Adding Flights on the Haneda–Jakarta Route



Airbus A380

DOMESTIC PASSENGER BUSINESS

Maintaining a Stable Earnings Platform Through Optimized Routes Utilizing Narrow-Body Aircraft, Fare Structure Reformulation

Our Domestic Passenger Business recorded fiscal 2017 operating revenues of ¥689.7 billion (1.7% year-on-year increase), supported by 44.15 million passengers (2.8% increase). In June, we introduced a new Chubu–Miyako route, added a late-night Haneda–Okinawa flight (limited period), and added flights to our Haneda–Hiroshima route. These new routes and added flights captured demand dictated by the nature of the routes in question. We also added the Airbus A321neo aircraft to our fleet as part of these efforts, working to optimize supply to demand.

We plan for fiscal 2018 Domestic Passenger Business operating revenues of ¥691 billion, which will be a 0.2% increase over fiscal 2017. We intend to maintain a strong revenue platform, offering the improved convenience and comfort of a full service carrier, including the addition of the Airbus A321neo (with personal monitors in all seats) and onboard free Wi-Fi.

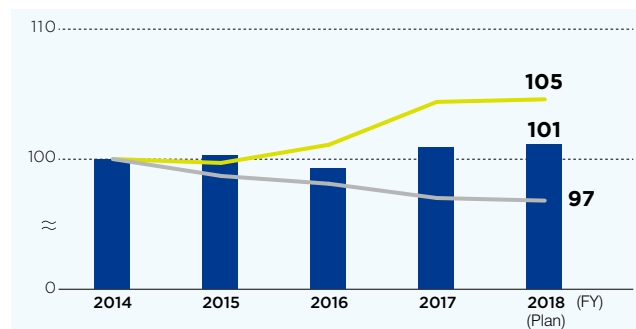
Despite a decreasing population, changes in work-style reforms are providing the Japanese people with more leisure time. At the same time, we are seeing more inbound visitors traveling within Japan. These and other factors point to solid fiscal 2018 demand for our domestic business.

ANA will take advantage of our diverse fleet to promote optimization of supply to demand, as well as to boost our profitability. We opened the Fukuoka–Miyako route in June as a new fiscal 2018 initiative. Along with the year-round Chubu–Miyako route and the Fukuoka–Ishigaki route launched in March 2018, we are expanding nonstop service from points in Japan to the Sakishima Islands (islands south-west of Okinawa) to respond to high-value leisure travel demand. Our fleet development plan calls for new narrow-body aircraft coinciding with the retirement of the Boeing 777s we have been operating on our domestic business. We will optimize our network with a focus on regional routes, while continuing to control production capacity over the medium term. In October, we will begin to reformulate our domestic fares.

We will see even greater improvement in unit revenues as we exercise flexible yield management through innovations in fare structure (reservations and sales up to 355 days prior to date of departure, etc.).

Performance of the Domestic Passenger Business

■ Revenues — ASK — RPK
(Index) Fiscal 2014 = 100



New Chubu–Miyako Route Launched in June 2017



New Airbus A321neo (Interior) Provides a Personal Monitor in Each Seat

Self-Service Baggage Check-in Machine “ANA Baggage Drop”

ANA now uses the ANA Baggage Drop system at Haneda, Sapporo (New Chitose), and Fukuoka airports as part of the ANA Fast Travel program to simplify the domestic flight boarding process. We have cut average waiting time by more than half for our passengers by increasing the number of locations where passengers can drop off their checked luggage (including counters with service agents). Freed from baggage handling tasks, reallocated airport staff are able to provide even higher-level customer services in airport lobbies. We provide guidance in English, Chinese (traditional and simplified), and Korean for our passengers from overseas. We plan to deploy these services at other major airports across Japan soon.



ANA Baggage Drop

CARGO AND MAIL BUSINESS

Pursuing Profitability via Utilizing Alliances / Charters and Optimizing Freightier Capacity

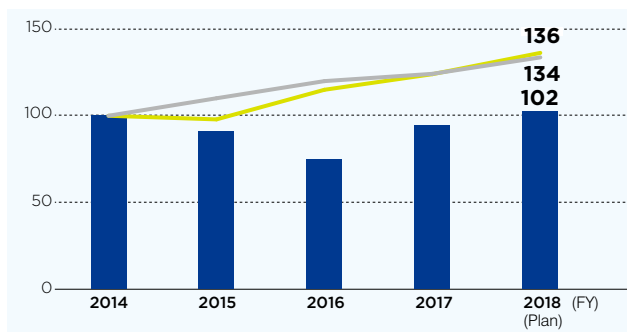
During fiscal 2017, our Cargo and Mail Business captured growing demand mainly in international routes, while improving unit prices via fare raises. We saw strong demand for flights from Japan to North America and Europe, and both international cargo volume and revenues surpassed the prior fiscal year.

For fiscal 2018, we plan for ¥168 billion in operating revenues, which represents a 6.3% year-on-year increase. We anticipate strong demand for cargo transportation originating in Japan during the year. Automotive parts (associated with increasingly stringent environmental regulations) and semiconductors (associated with AI and IoT) are likely to be the major drivers of demand. As we optimize the size of our Okinawa Cargo Hub Network, we will draw on the resources of other companies on North American routes to capture demand for cargo with higher unit prices.

During fiscal 2019, we will phase in the Boeing 777F to capture more business for large-sized and other cargo. We intend to leverage our current network to improve connections, winning a larger share of the cargo demand between Asia and North America.

Performance of the International Cargo Business

■ Revenues ■ ATK ■ RTK
(Index) Fiscal 2014 = 100



LCC BUSINESS

Merger and Network Optimization: Creating a New Air Transportation Pillar Second Only to the ANA Brand

During fiscal 2017, we consolidated Peach Aviation (April 2017) and expanded our LCC network including Vanilla Air. Vanilla Air introduced a new Fukuoka–Taipei route, while Peach Aviation opened domestic routes for Sendai–Sapporo, Sapporo–Fukuoka, and Kansai–Niigata. Peach also launched new international routes between Sendai–Taipei and Sapporo–Taipei.

Our fiscal 2018 plan calls for LCC Business operating revenues of ¥100 billion, representing an increase of 14.2% compared to fiscal 2017. Both Vanilla and Peach will expand their route networks during the year, focusing mainly on regional airports within Japan. In July, Vanilla Air introduced Narita–Ishigaki and Naha–Ishigaki routes. At the end of April, Peach Aviation launched a Naha–Kaohsiung route, followed by a new Kansai–Kushiro route in August. We intend to make Sapporo (New Chitose) Airport a new operating base this year, expanding our routes from Hokkaido and other locations.

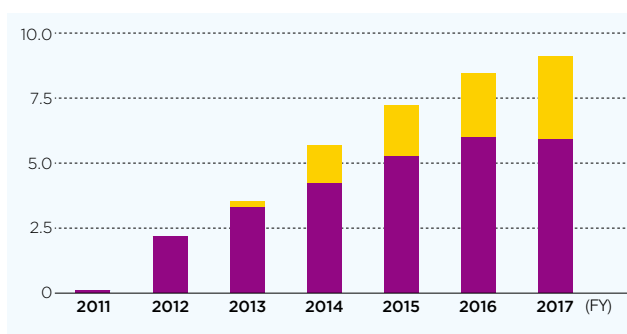
We plan to merge Vanilla and Peach in fiscal 2019, while at the same time continuing to optimize our network. This entity will drive the Japanese LCC market, aiming to become Asia's leading LCC in customer satisfaction and market share.

LCC Business: Number of Available Seats

(Domestic and International in Total)

(Millions)

■ Vanilla Air ■ peach



Non-Air Business

Future Revenue Sources Through Innovating Business Models and Creating New Profitable Domains

AIRLINE RELATED BUSINESS

For fiscal 2018, our Airline Related Business plans to generate ¥288 billion in operating revenues and ¥11 billion in operating income, representing year-on-year increases of 1.3% and 3.4%, respectively.

As the number of visitors to Japan continues to increase, we anticipate that foreign carriers will have more opportunities to open Japan routes. We intend to boost revenues at airports in Japan where the ANA Group has already established networks. Here, we will contract services from other airlines, primarily for passenger and cargo ground handling services and in-flight meal production.

Airline Related Business: Operating Revenues

(¥ Billions)



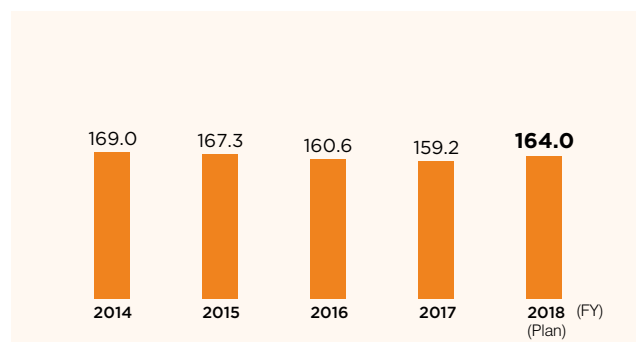
TRAVEL SERVICES

Travel Services plans to generate fiscal 2018 operating revenues of ¥164 billion and operating income of ¥1 billion. While we expect revenues to grow 3.0% year on year, operating income is budgeted to decline 73.3%.

During the year, we are scheduled to adopt a new reservation and sales system, by means of which we expect to increase our ability to compete. This new system will facilitate direct sales and dynamic packages, among other advantages. We will also improve coordination between our inbound customer system (launched in 2017) and systems at overseas travel agencies to capture more inbound demand.

Travel Services: Operating Revenues

(¥ Billions)



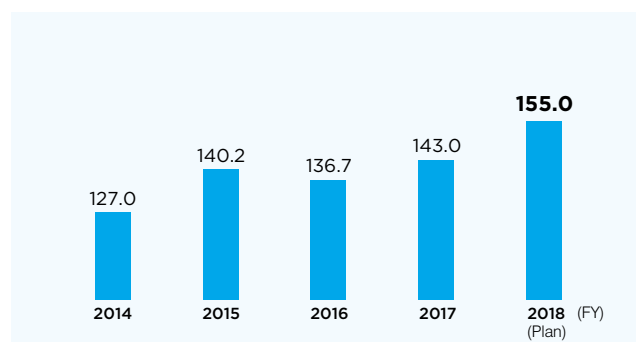
TRADE AND RETAIL

Our fiscal 2018 plan for Trade and Retail calls for operating revenues of ¥155 billion (8.4% increase year on year) and operating income of ¥5 billion (11.0% increase).

We will open an arrivals side duty-free store at the Kansai International Airport as one measure to increase retail earnings. Our food business will begin selling bananas to China and the Middle East, while our aerospace and electronics business will establish stronger sales of semiconductors to China. We intend to identify the most promising growth fields, exercising selection and concentration to strengthen existing businesses. At the same time, we plan to create new businesses that contribute to greater revenue growth.

Trade and Retail: Operating Revenues

(¥ Billions)



Special Feature: LCC Business Merger

Massing the Strengths and Resources of Peach Aviation and Vanilla Air; Expanding the LCC Business Revenue Platform



The ANA Group Corporate Strategy identifies *expanding our airline business* as one strategic pillar for growth. As we execute this corporate strategy, we intend to establish in our LCC Business a revenue platform second only to the ANA brand.

At present, Peach Aviation Limited and Vanilla Air Inc. operate separately as low cost carriers within the ANA Group. We have decided to merge these two companies in fiscal 2019. In this special feature, we discuss the events leading up to this decision, our objectives, and the enthusiasm that the LCC leaders have for this change.



From ANA HOLDINGS INC.



Toyoyuki Nagamine

Senior Executive Vice President,
Representative Director
ANA HOLDINGS INC.

Peach Aviation and Vanilla Air have grown their respective businesses by creating new demand independent of the ANA brand. These companies are responsible for establishing the LCC market in Japan, and they have done much for regional revitalization in Japan. Peach began service slightly more than six years ago. In the past several years, we have seen more overseas LCCs begin servicing routes from and to Japan. At the same time, we face other challenges, including consistent hiring, training, and cost competitiveness. To beat the LCC competition in Asia and grow rapidly via narrow-body aircraft operations, we must first solidify the management infrastructure of our group LCCs. We decided a merger between Peach and Vanilla Air would be the best way to leverage the strengths of each firm, as well as to improve aircraft and crew operating efficiencies.

Overseas, more than one-third of all passenger volume is serviced by LCCs in the major air travel markets of Europe, North America, and Southeast Asia. All of the main LCCs operate in each region, growing as they serve a separate consumer segment compared to the full service carriers. In Japan, we deal with several factors not present in overseas markets. These factors include special airport requirements and competition with rail travel. The LCC share of total passenger volume in Japan languishes at around 10 percent. Further, the Japanese government has set a goal to receive 40 million inbound travelers annually by the year 2020 and 60 million by the year 2030. LCCs will have to play an important role in achieving these goals, and we must prepare for expansion beginning now, working faster than ever.

We intend to leverage economies of scale to become more cost competitive, while we move into mid-distance routes. Our fiscal 2020 targets for the newly merged company will be ¥150 billion in operating revenues and ¥15 billion in operating income. The new firm will achieve these goals through innovative marketing separate and distinct from the ANA brand, as well as through unique network strategies.

We will continue to respect the independence of LCC decision makers, while providing support as a holding company to help this new entity grow into a revenue platform within our Air Transportation Business second only to the ANA brand.

Objectives

1. Leverage the strengths of both firms to improve competitiveness
2. Strengthen the LCC operating platform to support route expansion
3. Pursue business portfolio optimization as quickly as possible

Become the Leading LCC in Asia

1) Accelerate Growth

- a. Expand narrow-body aircraft operations
- b. Enter mid-distance routes

2) Maintain Independence

- a. Operate from Narita and Kansai airports
- b. Utilize innovative marketing

Company Merger (Scheduled for Fiscal 2019)

- a. Combine resources
- b. Pursue efficiencies
- c. Compensate for crew member shortages

peach

Vanilla Air

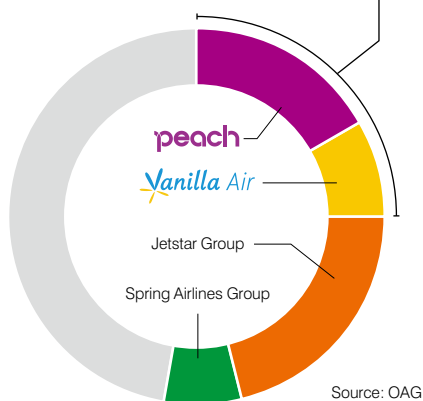
Special Feature: LCC Business Merger

Massing the Strengths and Resources of Peach Aviation and Vanilla Air;
Expanding the LCC Business Revenue Platform

Share of Seat Capacity**Fiscal 2017 LCC Business:
No. of Available Seats**

(Total Domestic and International)

Combined, Peach Aviation and Vanilla Air
represent nearly **25** percent share (No.1)
of the seat capacity
in Japan's LCC market



Post-merger, we intend to grow our share,
driving the LCC market in Asia

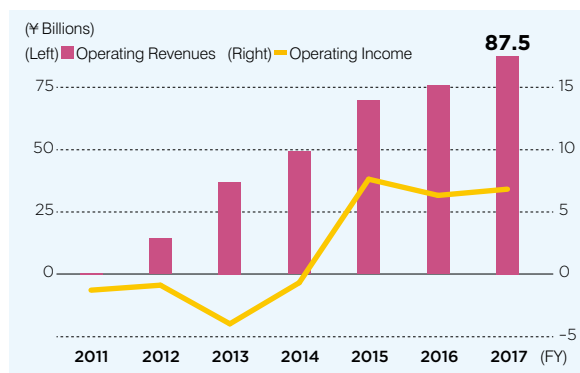
Financial Performance**Operating Revenues/Operating Income**

(Peach Aviation and Vanilla Air Combined)

Fiscal 2012 → Fiscal 2017

Average **43** percent, or **six**-fold,
operating revenue growth over five years

Stable operating income levels since fiscal 2015



The merger will be an opportunity to turn our LCC
Business into a pillar of our Air Transportation Business,
second only to the ANA brand

Routes

- Peach Aviation
- Vanilla Air
- Overlapping Routes



Compilation by ANA HOLDINGS INC. (As of August 1, 2018)

Messages from LCC Top Management



Shinichi Inoue

Representative Director & CEO
Peach Aviation Limited

Company Profile (As of July 31, 2018)

Company name: Peach Aviation Limited
Representative: Shinichi Inoue,
Representative Director & CEO
Founded: February 10, 2011
Capital: ¥7,515,050,000
Aircraft: Airbus A320-200
Number of
aircraft in service: 21
Shareholders: ANA HOLDINGS INC. 77.9%
First Eastern Aviation
Holdings Limited 7.0%
Innovation Network Corporation
of Japan 15.1%

In March 2012, Peach became Japan's first full-scale LCC, providing service based on Osaka. In the following seven years, we have enjoyed the support of our many customers and others. We are rolling out routes quickly, growing our business under the concept of a "flying train," offering safety as a top priority, easy access, and the fun of travel by air. Our aim now is to be the main bridge across Asia. We have introduced several innovations to the airline industry, creating customer value through such services as a day trip tour from Japan to Korea, tailored to female customers. Asia and the rest of the world have recognized the value represented by Peach. In 2015, we were the first-ever LCC in Japan and Northeast Asia to receive the Asia Pacific LCC of the Year, presented by leading aviation industry think tank, CAPA.

A sound financial footing is also critical for sustainable business growth. Since the beginning, we operated under the concept, "No Profit, No Business," generating profits just 25 months after launching our service and sweeping clean all cumulative losses in our fifth year. Peach was honored as the only airline selected as member of the Council for the Development of a Tourism Vision to Support the Future of Japan, guided under the chairmanship of Japan's prime minister in fiscal 2015. We are involved in a number of other initiatives related to government tourism strategies and regional revitalization, as well.

I believe this merger with Vanilla Air will be an important step to building an overwhelming competitive position and management infrastructure unmatched in our industry, even as the competitive environment becomes more challenging. Employees representing 27 different nationalities work at Peach today. Their work, combined with Vanilla Air's strengths and experience will result in business growth beyond the traditional framework of airlines, leading to higher levels of unique experienced value. We will continue in our quest to be the leading LCC in Asia, pursuing operational safety as we go.

Look forward to another exciting chapter in the Peach story.



Katsuya Goto

President
Vanilla Air Inc.

Company Profile (As of July 31, 2018)

Company name: Vanilla Air Inc.
Representative: Katsuya Goto, President
Founded: August 31, 2011
Capital: ¥7,500,000,000
Aircraft: Airbus A320-200
Number of
aircraft in service: 15
Shareholders: ANA HOLDINGS INC. 100.0%

We at Vanilla Air have been serving passengers out of Narita since December 2013. As an LCC within the ANA Group, we have worked to secure new sources of demand, as well as inbound traveler demand, in the Tokyo metropolitan area.

We pride ourselves on our quality of operations, convenient website, and friendly services. We have contributed to regional revitalization around Japan, as embodied by the "Vanilla Effect" experienced by the island of Amami Oshima. Raising our profile in Taiwan and other overseas markets, we have served a cumulative 8.5 million travelers as of July 2018. Truly, we feel proud of this accomplishment, which owes much to our unwavering commitment to safe operations and our unified team approach.

We have determined that we must leverage the strengths of Vanilla Air, operating out of Narita Airport, and Peach, operating out of Kansai Airport, to generate economies of scale and build out our route network. In doing so, we will raise our competitive posture, winning out over the competition and capturing rapidly growing demand in Asia. By massing the talents of each employee in Vanilla and Peach, I believe we will be successful in entering the market for mid-distance routes and growing into the leading LCC across all of Asia.



Material Issues / Foundation Supporting Value Creation

Our aspiration is to be the world's leading airline group. To this end, we constantly refine our future vision and direction, strengthening the foundations of our business to support value creation for all stakeholders.

Environment

Contributions to SDGs



**As an airline group centered on the air transportation business,
we are working to control CO₂ emissions.**

Basic Approach

In response to the Paris Agreement signed at the 2015 United Nations Climate Change Conference (COP21), the government of Japan set its own targets related to the reduction of greenhouse gas emission for 2020 and beyond.

Meanwhile, the aviation industry is showing an increasing awareness about controlling CO₂ emissions. Based on the resolutions of the 2016 General Assembly of the International Civil Aviation Organization (composed of the member states of the ICAO), global airline companies have made an international commitment to generate carbon-neutral growth (CNG2020) in the year 2021 and beyond.

The ANA Group is committed to reducing the environmental footprint of our operations. In 1998, we reorganized the ANA Group Environmental Principles. Our environmental initiatives stem from our *ANA FLY ECO 2020* environmental plan covering 2012 through 2020.

In June 2017, we established the ANA Group Environmental Policies. These policies demonstrate to be the world that we aim to be the leading airline group in environmental policy.

ANA Group Environmental Principles

(formulated in 1998)

ANA Group Environmental Policies

(formulated in June 2017)

ANA Group, recognizing the global environmental issues, including climate change and the conservation of biodiversity, as a quintessential management task, aims to be an "Environmental Leading Airline Group" through all engaged activities.

"ANA FLY ECO 2020" Medium- to Long-Term Environmental Plan for FY2012-2020



Implementation Structure

The Group CSR / Risk Management / Compliance Committee oversees two subcommittees dedicated to reducing our environmental impact: The Eco-First Subcommittee (dealing with flight operations) and the Ground Energy Subcommittee (dealing with ground operations).

Our main environmental concern is our aircraft, which are a major source of CO₂ emissions. Here, we intend to create economic value by controlling fuel costs, while creating social value by reducing our environmental footprint.

Group CSR / Risk Management / Compliance Committee

Eco-First
Subcommittee

Ground Energy
Subcommittee

Certified Eco-First Company

In 2008, ANA became the first-ever company in airline and transport industry certified by the Minister of the Environment as an Eco-First Company. We received this honor in recognition of our commitment to social responsibility.

In fiscal 2017, we began sorting cabin waste (glass, cans, and PET bottles) from all inbound international flights. Further, all plastic beverage cups and salad bowls used on international flights are made from recycled PET bottles. These are two examples of how we promote appropriate recycling to reduce our environmental impact.



未来のために、いま選ぼう。

Reducing CO₂ Emissions

The ANA Group has upgraded to fuel-efficient aircraft and introduced a number of other improvements to control CO₂ emissions from our aircraft. Fuel-efficient aircraft represent the most effective way we can reduce CO₂ emissions. As of March 2017, fuel-efficient aircraft accounted for 69.5% of the ANA fleet. The Boeing 787 is our main medium-body aircraft, nearly 20% more fuel efficient than the Boeing 767.

Under CNG2020, international airlines are required to comply with MRV (monitoring-reporting-verification) regulations, tracking fuel consumption of aircraft operating on international routes and having this data verified by a third-party agency.

After verification, the companies report this fuel consumption data to government authorities. We are preparing now to comply with these regulations, including a mechanism for collecting and sending fuel consumption data from aircraft to ground-based systems.

The use of biojet fuel and emissions credits represent two other initiatives we have adopted to reduce our environmental impact.

Progress toward Targets

Reduction of CO₂ emissions per revenue ton-kilometers
(Total for domestic and international services)

Target: Reduce by **20%**
from FY2005 to FY2020

Progress: Reduce by **23%**
(As of March 31, 2018)

Reducing Ground Energy Consumption

Every company in the ANA Group works to reduce energy consumption. ANA, ANA Catering Service, and ANA Foods (Specified Business Operators under the Act on the Rational Use of Energy) have received Excellence in Energy Efficiency Award (S Class)* certification under the Act on the Rational Use of

Energy of the Ministry of Trade, Economy and Industry in each of the three years since this scheme was established.

In October 2017, we launched a new environment data integrated management system called *ANA Eiims*. The system has improved our accuracy in environment data input, monitoring, and analysis.

* Business locations achieved at least one percent reduction in energy consumption intensity over five fiscal years.

Carbon Disclosure Project (CDP) Rating

Since FY2016, the ANA Group has disclosed greenhouse gas emissions data corresponding to Scope 1, 2, and 3 as defined in the Act on the Rational Use of Energy. This data is verified for accuracy by a third-party agency.

In response to investor requests for disclosure, the ANA Group received a CDP assessment for greenhouse gas emissions and climate change data. We received an A- rating, compared to an industry average C rating.

The Leading Airline Group

ANA served as host for the 27th meeting of the Environment Committee of International Air Transport Association (IATA), held in Tokyo in March 2018. The meeting, which featured lively discussions about CNG2020 preparations, was attended by 38 delegates representing the 26 IATA member airlines and industry groups.

We will continue to participate actively in industry environmental initiatives, and take a leadership role in creating new rules.



27th meeting of the IATA Environment Committee in Tokyo



Human Rights

The ANA Group is actively promoting efforts to respect human rights with an emphasis on stakeholder engagement.

Basic Approach

The ANA Group is committed to upholding human rights in accordance with the global standards provided in the United Nations Guiding Principles on Business and Human Rights. In April 2016, we established the ANA Group Policy on Human Rights. We based this policy on the International Bill of Human Rights (the Universal Declaration of Human Rights and two International Covenants), the International Labour Organization Declaration on Fundamental Principles and Rights at Work, the Ten Principles of the United Nations Global Compact, and the United Nations Guiding Principles on Business and Human Rights. We will encourage our contractors and suppliers to adopt similar policies.

We believe that respect for human rights lies at the very foundations of the philosophy of the SDGs, which is to “leave no one behind.” The ANA Group will foster a clear understanding of this principle, as we continue to engage in initiatives that respect human rights.

Implementation Structure

The Group CSR / Risk Management / Compliance Committee, led by the Chief CSR Promotion Officer, discusses human rights initiatives within the ANA Group (identified risks, response plans, progress, etc.). Also the committee works closely with CSR Promotion Leaders in each group company and department to advance initiatives related to respect for human rights.

Publish of Human Rights Report 2018

We released our Human Rights Report 2018 in May 2018. The ANA Group endeavors to disclose appropriate information related to corporate responsibility for human rights. Our reports conform to the UN Guiding Principles Reporting Framework, which provides a comprehensive guideline for reporting on corporate correspondence of human rights issues.

https://www.ana.co.jp/group/en/csr/effort/pdf/Human_Rights_Report_2018_e.pdf



Regular Initiative Reviews With Human Rights Experts

The ANA Group holds advisory meetings with human rights experts on a regular basis. In September 2017, we invited two leading experts from the Danish Center for Human Rights*¹ and the Institute for Human Rights and Business*² to evaluate the responses of the ANA Group to the advice received last year. These experts recommended useful principles and guidelines to keep in mind when executing initiatives. They also discussed the effectiveness of working in cooperation with outside parties (other companies, industry groups, economic federations, government, CSOs*³).

*1 The Danish Center for Human Rights was established by the Danish Parliament to gather information and develop tools related to human rights and business.

*2 Founded in 2009, the Institute for Human Rights and Business is an international think-tank active in the field of business and human rights. This Institute is a leading driver of initiatives in this field.

*3 CSO (Civil Society Organization) is a general term, applied collectively to groups of non-government, non-profit public benefit organizations including NGOs, NPOs, community groups, and volunteer groups.



Review With Human Rights Experts

→  See the ANA Group corporate website for more:
https://www.ana.co.jp/group/en/csr/human_rights/

Responding to Human Rights Issues Identified Through Risk Assessments

In 2016, we conducted a review to identify potential risks related to human rights in every location where the ANA Group operates. Our evaluation identified three key issues for risk prevention.

Understanding the Workplace Environment of Foreign Workers in Japan

With the cooperation of local contractors, we engaged an independent third-party agency to help us assess working conditions for non-Japanese nationals employed as ground handling staff at airports. This survey included direct interviews with workers and inspections of living arrangements. We intend to expand the scope of this survey in the future.

Strengthening In-Flight Meal Supply Chain Management

In 2017, the ANA Group became the first Japanese company to join the Bluenumber Initiative^{*4}. The ANA Group is committed to establishing a transparent food supply chain structure for in-flight meals by registering information of the producers and vendors to the Bluenumber platform. This initiative will also help us ensure



Producer and vendor information mapped on the Bluenumber Initiative administration site

respect for human rights and environmental preservation throughout the production process.

Preventing Human Trafficking Via Air Transportation

In April 2018, we invited representatives from the United States NPO Airline Ambassadors International^{*5} to Japan to present a workshop based on their Anti-Trafficking training program for airlines. We will work with other related entities to develop the program that prevents our services from being used to commit human rights violations.



Anti-Trafficking workshop conducted by Airline Ambassadors International

^{*4} The Bluenumber Initiative is a global program to establish food supply chain platforms by Bluenumber Foundation.

^{*5} Initially a network of airline employees, Airline Ambassadors International has become an NPO working to prevent human trafficking.

Engagement With Our Stakeholders

The ANA Group understands that engagement with our stakeholders is a key component of our business activities, and we make opportunities to interact with stakeholders on a regular basis.

Communication With Our Employees

As part of our efforts to educate and train our employees about respect for human rights, we required all employees to complete an e-learning course on Corporate Social Responsibility and Human Rights in February 2018. This was the second such training since fiscal 2016. A total of 87 percent of employees completed the module during the month.

Influencing Business Partners

We inform all contractors and suppliers of the ANA Group Purchasing Guidelines. We work together to ensure their workplace environments uphold respect for human rights.

Dialogue with Overseas Institutions

In May 2018, representatives of the ANA Group visited Thailand to listen to the experiences of actual human trafficking victims and to hold discussions with the Thai government and NGOs about human rights issues in Thailand.



Dialogue in Thailand

Diversity and Inclusion

The ANA Group respects diversity among our customers and contributes to an inclusive society that values and welcomes all people.

Contributions to SDGs



Basic Approach

As we approach the year 2020, we see a rapidly changing environment in which people, goods, culture, and information move on a global scale. In this changing environment, being chosen and trusted by a diverse customer base will be critical for future ANA Group growth. We believe our responsibility as a public transportation organization is to serve an inclusive society through our businesses.

The ANA Group respects diversity, and we are pushing forward to provide world-class inclusive and universal services* that support a sustainable society in which no one is left behind.

Implementation Structure

We created a policy for inclusive and universal services* to reflect our shared values and foster a culture that makes every customer feel welcome. Under this policy, we carry out programs to improve our facilities and services.

* Facilities, products, information, and services allowing stress-free access to all customers, regardless of culture, language, nationality, age, gender, or disability.

ANA Group's Goal for Inclusive and Universal Services

Excerpt from the policy

Our promise

Excellence in Quality

Provide services that can easily be accessed by all people

Respect for the Individual

Create an environment that supports and meets the needs of every customer

Collaboration

Create new experiences and enjoyment together with our customers

Our Goals

- Maximize comfort and convenience in all aspects of the customer's travel experience
- Create new value by accepting diversity and individuality, tailoring services to customer needs



Initiatives

Facilities

- Implement the recommendations of the *Tokyo 2020 Accessibility Guidelines* for the Tokyo 2020 Olympic and Paralympic Games
- Advance universal services responding to the needs of a super-aging society

Services

- Activities that encourage an inclusive society and the implementation of barrier-free mindsets
- Expand universal service training to back office staff

Service Legacy of Diversity, Implementation of Barrier-Free Mindsets

The ANA Group sponsors programs that encourage the implementation of barrier-free mindsets for an inclusive society.

Visually Impaired Soccer Experience

750
Participants



We developed and rolled out our own training program across all locations in Japan, calling in instructors from the Japan Blind Football Association.

Japan Walk in Tokyo

740
Participants



ANA employees walked alongside Olympic and Paralympic athletes to learn more about sports and disabled people at an official event sponsored by the Tokyo Organizing Committee of the Olympic and Paralympic Games.

Implementation of Barrier-Free Mindsets

600
Participants



Seminar series featuring Paralympians and guest instructors from NPOs, universities.



See the ANA Group corporate website for more:
https://www.ana.co.jp/group/en/csr/customer_diversity/

The ANA Group continues to improve service standards, ensuring comfort and peace of mind for all customers.

Flight Boarding Experience for Developmentally Disabled Children



- Joint initiative with Narita International Airport
- Designed to relieve the stress of the boarding process for children and their families

Universal Service Training for All Employees



- All employees now required to participate in universal service training for front-line personnel
- Promote awareness of diversity among all staff involved in product/service planning and development

Audio and Braille Versions of WING SPAN



- Audio recordings available for eight essays and other articles from the ANA WING SPAN in-flight magazine
- Cabin crew carry braille editions as necessary

The ANA Group aims to cultivate human resources capable of leading the movement toward a barrier-free mindset within Japanese society.

Facility Legacy of Diversity

We continue to offer equipment and facilities at domestic airports to ensure our diverse base of customers from around the world enjoy comfortable, welcoming service in every situation.

Airport (Departures/Arrivals)



- Morph resin wheelchairs and HandyWalk walkers

Lounge



- Low counters at customer service desks
- Improved accessibility in lounge traffic paths

Boarding



- Wider boarding gates

Aircraft



- Special on-board wheelchairs
- Wheelchair-accessible restrooms on selected narrow-body aircraft (Airbus A320 neo/A321)

The ANA Group has been widely praised for our service innovations, including the *Morph* resin wheelchair, 17-language electronic communication support boards, and PBB adaptors for propeller planes. We were the first company in the airline industry to receive the Prime Minister's Award in the Promotion of Barrier-Free and Universal Design Awards.

Becoming an LGBT-Friendly Airline Group

In accordance with the ANA Group Diversity and Inclusion Declaration, we strive to further the acceptance of LGBT individuals by and among all group employees. As part of our efforts, we published the ANA Group LGBT Booklet in June 2018.

Along with LGBT-friendly innovations that include recognizing same-sex couples under the ANA Mileage Service program, the ANA Group will introduce new ways to promote awareness within our organization.





Regional Revitalization

The ANA Group is committed to economic revitalization and international interchange worldwide, in the areas where we operate.

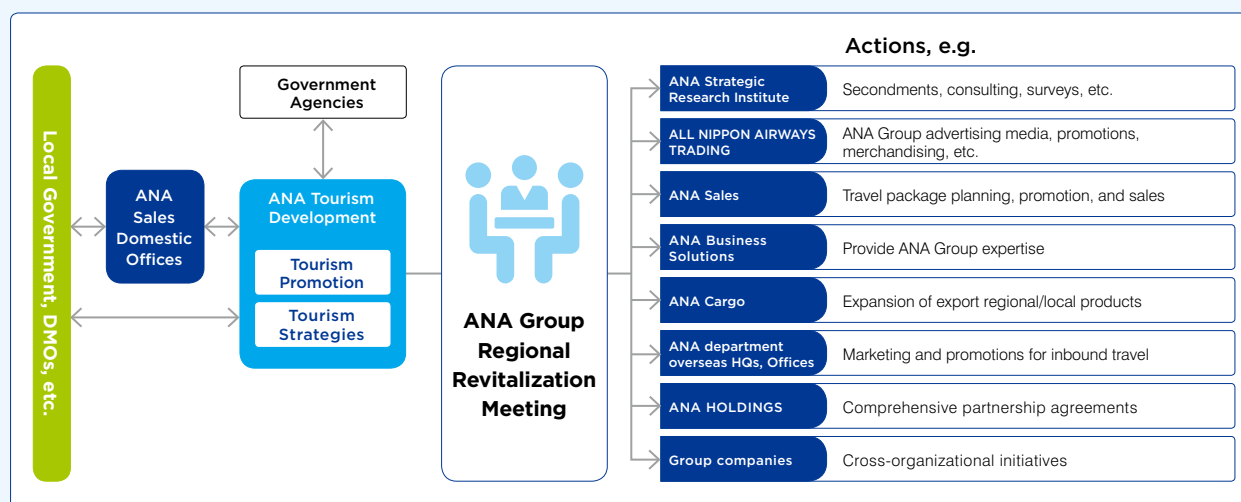
Basic Approach

Japan is famous for its traditional culture and tourism attractions. On the other hand, Japan faces concerns about falling populations in rural areas and the gradual decline of traditional industries. The ANA Group works together with other companies, NGOs, NPOs, and local governments to be a bridge to deliver the rich heritage of Japan to the world. Our efforts contribute to regional revitalization while generating aviation demand over the long term. Through social contribution activities in the areas where we operate, we seek to build productive relationships with stakeholders and resolve social issues.

Implementation Structure

In October 2017, we set up the Tourism Development within ANA Marketing Sales to integrate the ANA Group company initiatives and maximize results in a more coordinated fashion.

The Tourism Development drives the ANA Group Regional Revitalization Meeting to coordinate among group companies, pursuing strategic actions for regional revitalization by leveraging the comprehensive resources of the ANA Group to promote tourism.



Major Initiatives

The ANA Group focuses on two initiatives in "Regional Revitalization (Tourism Promotion)" and "Social Contribution."

Regional Revitalization (mainly tourism promotion)

- Offer consulting services leveraging ANA Group human resources
- Discover and market tourism resources throughout Japan
- Develop, distribute, and sell local products
- Establish systems to host foreign visitors to Japan
- Stage promotional campaigns involving air transportation services
- Promote domestic/international tourism via ANA flights
- Develop training programs incorporating ANA Group expertise

Social Contribution

- Participate in reconstruction activities (Regional recovery support after large-scale disasters)
- Support environmental and biodiversity conservation programs (Project to regenerate coral reefs in Okinawa, etc.)
- Develop next-generation education programs (Aviation Class, career training, etc.)
- Overseas in the areas where we operate implement social contribution programs (Educational support, tourism resource preservation, etc.)

→  See the ANA Group corporate website for more:
https://www.ana.co.jp/group/en/csr/regional_creation/

Regional Revitalization Initiatives (mainly tourism promotion)

Partnering With Local Governments

The ANA Group enters into partnership agreements with local governments to promote regional revitalization and collaborate to resolve social issues. Agreements typically cover tourism, culture, sports, increase inbound populations, alliances with overseas businesses, and disaster relief.

As of July 2018, the ANA Group has signed agreements with eight prefectures (Mie, Shizuoka, Hokkaido, Kochi, Tokushima, Oita, Miyazaki and Miyagi). We will continue to collaborate with them using our comprehensive strengths.



ANA signed a comprehensive partnership agreement with Oita prefecture in October 2017

Leveraging Air Transportation Services

In 2013, we launched *Tastes of Japan by ANA*, which showcases local cuisine, *sake*, sweets, and cultural traditions from the 47 prefectures of Japan. The ANA Group encourages inbound travel to outlying regions and contributes to regional revitalization by introducing in-flight meals and desserts featuring local specialties. We also highlight regional cultures and information about Japanese famous tourism destinations in our in-flight magazine and entertainment program, on our website, etc.

ANA Cargo Inc. recently opened a Kitakyushu route to improve convenience of cargo transportation into and out of Kyushu. Our Okinawa cargo hub provides next-day delivery of goods from anywhere in Japan into an expanding range of locations in China and Asia. We plan to restructure our cargo network and use the ANA Group network to accelerate profitability while encouraging the export of local specialties.



Launch of regular cargo service between Kitakyushu and Okinawa in June 2018

Regional Revitalization Through Tourism

ANA Strategic Research Institute Co., Ltd., serves as the secretariat of the ONSEN & Gastronomy Tourism Association. The association began activities during fiscal 2017, offering ONSEN & Gastronomy Walking Tours in 16 locations in Japan. About 3,000 people participated in these tours during the year. These walking tours and events are new tourism tools attracting people to experience the nature, culture, history, and local cuisine in the hot springs town area. The association plans to develop *onsen* (hot springs) throughout Japan to appeal world-wide, designed to stimulate interaction with these areas and encourage long-stay tourism.

ONSEN & Gastronomy Tourism website
<https://onsen-gastronomy.com/en>



ONSEN & Gastronomy Walking Tour

Regional Revitalization

Social Contribution

ANA Introduces a Next-Generation Education Program Using Group Resources

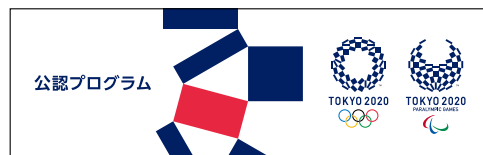


Launched in October 2017, *ANA Blue Academy Mirai Tsukuru* is a career education program for fifth and sixth graders. ANA plans to roll out this program in all 47 prefectures by March 2019.

We designed this program in accordance with new government guidelines for education. Students work with their friends in an active learning environment discussing and creating solutions to various issues. ANA Group pilots, cabin attendants, aircraft mechanics, ground staff, and ground handling staff serve as instructors, sharing the view of their work and the ANA's Way core values. Through these experiences, we offer opportunities for children to learn the importance of having and striving to follow their dreams.

School teachers experiencing the program have mentioned that it encourages children to dream and reach for the future, inspired by the words and experiences of career professionals.

The ANA Group is proud to contribute to the education of future generations through the *ANA Blue Academy Mirai Tsukuru*.



* ANA Blue Academy Mirai Tsukuru is a certified Tokyo 2020 program.

*ANA Blue Academy
Mirai Tsukuru*

**Total of
1,827 students
at 21 schools**
(as of June 30, 2018)



Experiencing the roles of aircraft mechanic, pilot, and cabin attendant



Maki Wakae
(President, Career Link Inc.)

Message From Maki Wakae, Program Development and Operation Partner

When ANA Group representatives visit a class, they always tell the teachers that they have come to deliver dreams and futures to the children. All teachers are instantly fascinated to the message from the instructors in uniforms and their smiles.

In today's chaotic and ever-changing world, traditional education has reached a major crossroads in dealing with what and how to teach the children who will be taking over in future generations.

What is important for career education programs is to present real-world themes that highlight a company's internal workings. Learning in person from active professionals provides a type of education that bridges the gap between learning and society. In the beginning, instructors and students look nervous. Gradually, their facial expressions turn to smiles, and the children begin to envision their own dreams and goals, inspired by the message and experiences of the instructors. Children are interested in listening to adults who work on the front lines of business talk about their core values and main concerns related to work, as well as how they approach their future.

This program provides children an opportunity to learn what it means to strive toward future dreams and goals. I believe that the *ANA Blue Academy Mirai Tsukuru* provides learning connected to society, which is something needed in current Japanese education.

External Recognition

Inclusion in Socially Responsible Investment (SRI) Indexes

- Dow Jones Sustainability World Index
- Dow Jones Sustainability Asia Pacific Index
- FTSE4Good Index Series
- FTSE Blossom Japan Index
- Morningstar Socially Responsible Investment Index
- MSCI Japan Empowering Women Index

MEMBER OF
Dow Jones Sustainability Indices
In Collaboration with RobecoSAM



FTSE4Good FTSE Blossom

Management Strategy

- Ministry of Economy, Trade and Industry
New Diversity Management Selection 100 (2016–)
Ministry of Economy, Trade and Industry and Tokyo Stock Exchange
2018 Nadeshiko Brand
2018 Health & Productivity Stock Selection
2018 Competitive IT Strategy Company Stock
- 2018 J-Win Diversity Award (ANA)
- Business Travel Awards (ANA)
Best Corporate Social Responsibility Programme 2018
Business Airline of the Year 2018



Quality

- SKYTRAX (ANA)
World Airline Rating 5-STAR AIRLINE
Categories
Best Airline Staff in Asia
World's Best Airline Cabin Cleanliness
- Air Transport World (ANA)
Airline of the Year 2018



On-Time Performance

- FlightStats (ANA)
No. 2 in Asia-Pacific Major Airlines Category
No. 3 in Major International Airlines Category



Universal Services

- Prime Minister's Award in the Promotion of Barrier-Free and Universal Design Awards (ANA / ANA WINGS)
- 10th Minister of Land, Infrastructure, Transport and Tourism Award for Barrier-Free Design Contributor (ANA / ANA WINGS)

Regional Revitalization

- The 3rd Japan Tourism Awards
Regional Category, Field of Domestic and Inbound Travel
ONSEN & Gastronomy Tourism Association*
Certification of and sharing of information regarding walking courses



* Secretariat: ANA Strategic Research Institute Co., Ltd.

Corporate Governance System

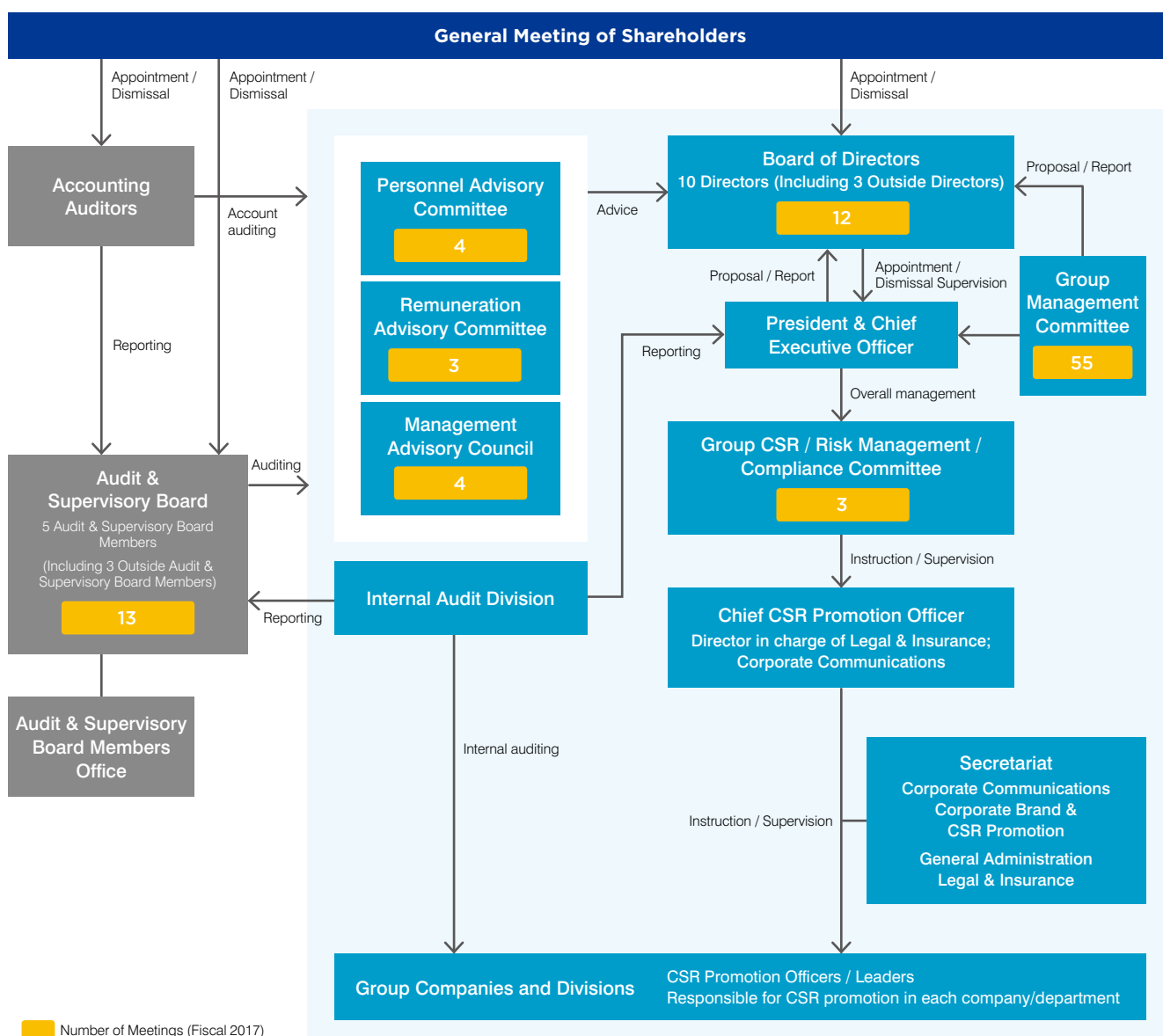
Mission Statement

Built on a foundation of security and trust, “the wings within ourselves” help to fulfill the hopes and dreams of an interconnected world.

“Security and Trust” is the Group’s unwavering promise to our customers. It defines the core of our entire operations and is our solemn responsibility. “The wings within ourselves” are our desire to continually rise to new challenges, contribute to the strong rebirth of our organization, and always be there for our customers. The Group pledges to transcend generations in support of developing society and fulfilling future with hopes and dreams.

Corporate Governance System

* See page 76 for details of each committee.



ANA HOLDINGS Corporate Governance System

Corporate Governance Structure

Organization	Company with Audit & Supervisory Board Members
Directors (including outside directors)	10 (3)
Audit & Supervisory Board Members (including outside Audit & Supervisory Board members)	5 (3)
Independent Directors / Audit & Supervisory Board Members	6
Director Term of Service	One Year (also applies to outside directors)
Audit & Supervisory Board Members Term of Service	Four Years (also applies to outside Audit & Supervisory board members)
Corporate Executive Officer System	Yes
Body Supporting President & CEO	Group Management Committee
Voluntarily Established Board of Director Committees	Personnel Advisory Committee, Remuneration Advisory Committee, Management Advisory Council

Holding Company Structure

The ANA Group has adopted a holding company structure under ANA HOLDINGS INC. ("the Company") whereby our group practices management that contributes to value creation for our various stakeholders in accordance with our Mission Statement. This structure supports swift decision-making in each group company, as well as supervisory and monitoring functions over the execution of group company businesses, to promote sustainable growth and the enhancement of corporate value over the long term. Under this holding company structure, the Company appoints highly experienced individuals with sophisticated specialties to serve as directors or in other positions at group companies. The Company delegates authority to each company for business operations, encouraging functional and effective execution.

Company With Audit & Supervisory Board Members

The Company has adopted a Company With Audit & Supervisory Board Member system to ensure fair, unbiased, and transparent corporate governance. This system also enhances corporate value through the efficient conduct of business among group companies. Director performance is audited and supervised by the Board of Directors and the Audit & Supervisory Board members. Furthermore, the Company strengthens the supervisory functions of the board of directors by appointing several outside directors. The Company also appoints a full-time outside member of the Audit & Supervisory Board to strengthen the auditing function of board members.

Corporate Executive Officer System

The Company has adopted a Corporate Executive Officer system to promote efficient decision-making and to clarify responsibilities and authority in the execution of duties. Under this system, management and executive functions are separated, with directors responsible for supervising management decision-making and the execution of duties, while Corporate Executive Officers execute the day-to-day business.

Auditing Functions

Audits by the Audit & Supervisory Board

Audits by the Audit & Supervisory Board are conducted by full-time Audit & Supervisory Board members that are well-versed in the Group's business and highly independent outside Audit & Supervisory Board members, while the full-time outside Audit & Supervisory Board member, who has experience working at financial institutions, serves as the main proponent of these audits. The Audit & Supervisory Board Members Office was established and placed under the direct control of the Audit & Supervisory Board members to provide support for audits. This office cooperates with the Internal Audit Division, which is directly under the supervision of the president and CEO, and the accounting auditors, to enhance the Company's auditing system.

Internal Audit

The Internal Audit Division, which reports directly to the president and CEO, audits the operations and accounts of ANA HOLDINGS INC. and group companies and conducts evaluations from an independent, objective perspective that correspond to the standards in the Financial Instruments and Exchange Act on the reporting system for the internal control over financial reporting. Audits are comprised of regular audits, which are conducted in accordance with annual audit plans, and intermittent audits conducted at the discretion of management. Regular audits are impartially and objectively conducted based on risk analyses of each division and group company.

The results of audits are reported to the president and CEO every month and to the Audit & Supervisory Board members when needed.

Audits by the Accounting Auditors

The accounting auditors perform audits of ANA HOLDINGS INC. and group companies in accordance with the Companies Act of Japan and the Financial Instruments and Exchange Act of Japan. The accounting auditors prepare for the introduction or amendment of various laws and regulations, accounting standards, and other rules by allowing sufficient time for discussions to take place with the Company's finance division.

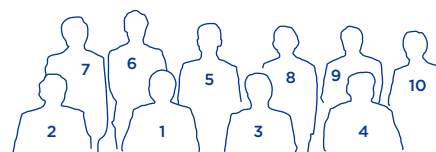
Management Members: Directors

As of July 31, 2018



Reasons for Appointment of Directors

- The following director candidates were selected based on the judgment that their abundant experience, performance, and insight would be crucial to achieving sustainable increases in the Group's corporate value.
- These director candidates assumed their positions after being appointed at the 73rd Ordinary General Meeting of Shareholders.



1 Shinichiro Ito

Chairman of the Board
Chairman of the Board of Directors

2004: Executive Vice President
2006: Senior Executive Vice President
2007: Senior Executive Vice President,
Representative Director
2009: President & Chief Executive Officer,
Representative Director
2015: Chairman of the Board of Directors,
Representative Director
2017: Chairman of the Board (present)

Shinichiro Ito has extensive experience in sales, human resources, and other disciplines. After being appointed president & CEO of ANA HOLDINGS INC. in April 2009, Mr. Ito guided the ANA Group through the challenging business environment left in the wake of the Lehman Shock, introducing management reforms and expanding the Group's revenue base to support a successful performances recovery. Since April 2015, Mr. Ito has served as chairman of the board of directors, working to strengthen the functions of the board.

Major concurrent position

Outside Director, Member of Audit Committee, etc., of Mitsubishi Heavy Industries, Ltd.

2 Osamu Shinobe

Vice Chairman

2009: Executive Vice President
2011: Senior Executive Vice President
2012: Senior Executive Vice President,
Representative Director
2013: Member of the Board of Directors
President & CEO of ALL NIPPON
AIRWAYS CO., LTD.
2017: Vice Chairman (present)

Osamu Shinobe has extensive experience in maintenance operations, corporate planning, and other disciplines. He was appointed president & CEO of ALL NIPPON AIRWAYS CO., LTD. in April 2013. Under his strong leadership and uncompromising stance on safety, ANA experienced growth, mainly through international businesses, and made significant progress toward becoming the world's leading airline. Since being appointed vice chairman of ANA HOLDINGS INC. in April 2017, Mr. Shinobe has supported the board of directors and headed initiatives for even higher levels of safety within the Group.

Major concurrent position

Outside Director, Kao Corporation

3 Shinya Katanozaka

President & Chief Executive Officer,
Representative Director and
Chairman of the ANA Group Management
Committee Head of Group CSR /
Risk Management / Compliance Committee
In charge of the Internal Audit Division
Chairman of ALL NIPPON AIRWAYS CO., LTD.

2011: Executive Vice President
2012: Senior Executive Vice President
2013: Senior Executive Vice President,
Representative Director
2015: President & Chief Executive Officer,
Representative Director (present)

Shinya Katanozaka has extensive experience in sales, human resources, corporate planning, and other disciplines. He was appointed representative director and president of ANA HOLDINGS INC. in April 2015. Under his strong leadership, energy, uncompromising stance on safety, and focus on global business, Mr. Katanozaka has established a stronger foundation for group business management. At the same time, the Group has made steady progress toward the profit goals defined in group management strategies.

Major concurrent position

Vice Chair, Japan Business Federation

4 Toyoyuki Nagamine

Senior Executive Vice President,
Representative Director
In charge of Human Resources Strategy,
Digital Design Lab,
Corporate Strategy, Finance & Accounting,
and Okinawa Region

2015: Member of the Board of Directors
2016: Senior Executive Vice President and
Director (present)

Toyoyuki Nagamine has extensive experience in operations, labor relations, corporate planning, and other disciplines. Since being appointed director in June 2015, he has contributed to steady progress in the execution of group management strategies. Since being appointed vice president of ANA HOLDINGS INC. in April 2017, Mr. Nagamine has provided appropriate support to the president and contributed to steady progress toward the profit goals defined in group management strategies.

Major concurrent positions

Outside Director, Japan Airport Terminal Co., Ltd.
Outside Director, Airport Facilities Co., Ltd.

5 Yuji Hirako

Member of the Board of Directors
President & Chief Executive Officer of
ALL NIPPON AIRWAYS CO., LTD.

2015: Member of the Board of Directors
(present)

Yuji Hirako has extensive experience in sales, finance, and other disciplines. In April 2012, Mr. Hirako was appointed representative for businesses in America. In June 2015, he was also appointed director, overseeing financial strategies to enhance corporate value. Since being appointed president & CEO of ALL NIPPON AIRWAYS CO., LTD. in April 2017, Mr. Hirako has guided the company with an uncompromising stance on safety and a focus on global business, leading the company toward becoming the world's leading airline.

Major concurrent position

Chair, The Scheduled Airlines Association of Japan

6 Naoto Ishizaka

Corporate Executive Officer
In charge of Government & Industrial Affairs,
Facilities Planning

2017: Member of the Board of Directors
(present)

Naoto Ishizaka has extensive experience in domestic passenger services, industrial policy, living/working in the United Kingdom, and other disciplines. Since being appointed director in June 2017, he has worked to expand our international business and prepare infrastructure in conjunction with progress of internationalization in Haneda Airport. Mr. Ishizaka's efforts have strengthened the Group's ability to compete in our markets.

7 Naoto Takada

Corporate Executive Officer
Chairman of Group CSR / Risk Management /
Compliance Committee
In charge of Executive Secretariat, Legal & Insurance
Director of Corporate Communications

2017: Member of the Board of Directors
(present)

Naoto Takada has extensive experience in labor relations, industrial policy, public relations, and other disciplines. Since being appointed director in June 2017, Mr. Takada has focused on group CSR activities, building up a platform for sustainable growth in cooperation with society. His activity in communicating with individual investors has promoted a greater understanding of our businesses. Further, his public relations activities have contributed to wider brand awareness, strengthening our ability to compete in our markets.

Reasons for Appointment of Outside Directors

- The following candidates for positions as outside directors (also to be designated as independent directors as stipulated by the Tokyo Stock Exchange) were selected with the aim of reinforcing the supervisory function of the board of directors to help achieve sustainable enhances of the Group's corporate value.
- These outside director candidates assumed their positions after being appointed at the 73rd Ordinary General Meeting of Shareholders.

8 Shosuke Mori*

2006: Outside Director (present)

Shosuke Mori has a wealth of experience and expertise in managing companies that deal with public issues. At meetings of board of directors, Mr. Mori offers the benefit of his background to provide opinions and advice on strengthening group internal controls and other governance mechanisms, improving safety, and enhancing group management strategy.

Mr. Mori was appointed as a member of the Remuneration Advisory Committee in February 2011 and later chairman of the Remuneration Advisory Committee in June 2013, and also as a member of the Personnel Advisory Committee in June 2016 and later chairman of the Personnel Advisory Committee in August 2016.

Major concurrent positions

Senior Advisor of The Kansai Electric Power Co., Inc.
Outside Director, Hankyu Hanshin Holdings, Inc.
Outside Director, The Royal Hotel, Ltd.

9 Ado Yamamoto*

2013: Outside Director (present)

Ado Yamamoto has a wealth of experience and expertise in transportation industry management. At meetings of board of directors, Mr. Yamamoto offers the benefit of his background to provide opinions and advice across a wide range of subjects, including group business strategy, group management strategy, appropriate information disclosure, other matters related to governance, and matters related to safety.

Mr. Yamamoto was appointed as a member of the Remuneration Advisory Committee and the Personnel Advisory Committee in June 2016.

Major concurrent positions

Chairman and Representative Director of Nagoya Railroad Co., Ltd.
Outside Director, Yahagi Construction Co., Ltd.
Chairman of Nagoya Chamber of Commerce & Industry

10 Izumi Kobayashi*

2013: Outside Director (present)

Izumi Kobayashi has a wealth of experience and expertise in private financial institutions and international development and finance institutions. At meetings of board of directors, she offers the benefit of her background to provide opinions and advice from a global perspective on group management strategy, strengthening basic quality, matters related to safety, and communications with stakeholders.

Ms. Kobayashi was appointed as a member of the Remuneration Advisory Committee in July 2013 and a member of the Personnel Advisory Committee in June 2016.

Major concurrent positions

Outside Director, Mitsui & Co., Ltd.
Outside Director, Mizuho Financial Group, Inc.
Governor of Japan Broadcasting Corporation

Management Members: Audit & Supervisory Board Members

As of July 31, 2018



Akihiko Hasegawa

Audit & Supervisory
Board Member

Kiyoshi Tonomoto

Audit & Supervisory
Board Member

Sumihito Okawa*

Outside Audit &
Supervisory
Board Member

Shingo Matsuo*

Outside Audit &
Supervisory
Board Member

Eiji Ogawa*

Outside Audit &
Supervisory
Board Member

Reasons for Appointment of Audit & Supervisory Board Members (Eiji Ogawa)

- Striving for sustainable growth in the Group's corporate value, we have nominated Mr. Eiji Ogawa to continue as an independent outside Audit & Supervisory Board member. This nomination is based on Mr. Ogawa's experience and expertise in finance and accounting as well as our confidence in his ability to strengthen the audit function within the Group.
- Mr. Ogawa assumed his positions after being appointed at the 73rd Ordinary General Meeting of Shareholders

Eiji Ogawa

Outside Audit & Supervisory Board Member

2014: Audit & Supervisory Board Member
(present)

Eiji Ogawa is a highly knowledgeable expert across a range of international finance disciplines. Mr. Ogawa also has a wealth of experience and expertise in university management. At meetings of the board of directors and Audit & Supervisory Board, Mr. Ogawa offers the benefit of his background to provide opinions and advice on matters of concern in group management strategy from the perspective of risk management, as well as on matters related to financial policies.

Major concurrent positions

Professor, Graduate School of Business Administration,
Department of Business Administration, Hitotsubashi University
Chair, Council on Customs, Tariff, Foreign Exchange and Other Transactions,
Ministry of Finance

* Independent Audit & Supervisory Board Members

Mr. Kiyoshi Tonomoto and Mr. Akihiko Hasegawa were elected at the 72nd General Meeting of Shareholders
Mr. Sumihito Okawa was elected at the 70th General Meeting of Shareholders.
Mr. Shingo Matsuo was elected at the 71st General Meeting of Shareholders

Directors and Audit & Supervisory Board Members

Appointing Directors and Audit & Supervisory Board Members

Directors

The Company selects directors from among candidates inside and outside the Company who have impeccable character, extensive experience, broad insight, and advanced expertise. Ideal candidates have the potential to contribute to improved policy-making, decision-making, and oversight befitting a global airline group with widespread businesses centered on the Air Transportation Business. Our selection is made without regard to gender, nationality, or other such factors, and falls within the scope of the Civil Aeronautics Act and other relevant laws.

We select a multiple number of outside directors who possess practical viewpoints based on extensive experience in corporate management, or who possess unique global or regional viewpoints. These individuals must be independent from the Company, and able to offer objective and expert opinions based on a sophisticated knowledge of social and economic trends.

Audit & Supervisory Board Members

To ensure healthy development and to earn greater levels of trust from society through audits, the Company appoints individuals to Audit & Supervisory Board members from inside and outside the Company who possess extensive experience and the advanced expertise required to conduct audits. Our selections do not consider gender, nationality, or other factors. The Company appoints at least one individual who possesses appropriate levels of knowledge related to finance and accounting.

Outside Audit & Supervisory Board members are selected from among candidates who have advanced levels of knowledge in a variety of areas and who are independent of the ANA Group. These individuals include candidates who are well-versed in corporate management, candidates who have sophisticated knowledge of social and economic trends, and candidates who have advanced knowledge in finance, accounting, or legal matters.

Director and Audit & Supervisory Board Member Remuneration

The basic policies used in the determination of remuneration of directors of the Company are as follows.

- Ensure the transparency, fairness, and objectivity of remuneration and establish a remuneration level worthy of his/her roles and responsibilities
- Reinforce incentives for achieving management objectives by introducing performance-linked remuneration based on management strategies
- Aim to establish a remuneration system that enables the Company to share profits with its shareholders by working to raise medium- to long-term corporate value

The board of directors decides on director remuneration, taking into account reports by the Remuneration Advisory Committee. The total amount of director remuneration shall be within the scope of the amount approved at the Ordinary General Meeting of Shareholders.

In addition to a fixed basic remuneration, the remuneration for directors (excluding outside directors) consists of a performance-linked bonus and long-term incentive share remuneration plan as a means of providing healthy incentives for pursuing sustainable growth for the Company.

The remuneration of outside directors consists of fixed remuneration (monthly remuneration) only given their role of supervising management from an independent stance. The retirement allowance system was abolished in 2004.

The remuneration of Audit & Supervisory Board members consists of fixed remuneration (monthly remuneration) only given their role of auditing management from an independent stance. The standards for remuneration were set based on other companies' levels as researched by an external institution upon the Company's request. The retirement allowance system was abolished in 2004.

Remuneration of Directors and Audit & Supervisory Board Members (Fiscal 2017)

Management members	Total amount of remuneration (¥ Millions)	Total amount by remuneration type (¥ Millions)			Number of persons entitled to payment
		Basic remuneration	Bonus	Share remuneration	
Directors	493	336	87	70	10
(Outside directors)	(40)	(40)	(—)	(—)	(3)
Audit & Supervisory Board members	116	116	—	—	7
(Outside Audit & Supervisory Board members)	(53)	(53)	(—)	(—)	(3)
Total	609	452	87	70	17

Notes:

1. It was resolved at the 66th Ordinary General Meeting of Shareholders of the Company, held on June 20, 2011, that the maximum amount of remuneration of directors per year would be ¥960 million.
2. It was resolved at the 60th Ordinary General Meeting of Shareholders of the Company, held on June 28, 2005, that the maximum amount of remuneration of Audit & Supervisory Board members per month would be ¥10 million.
3. The amount displayed for share remuneration is the expenses recorded in association with the share remuneration plan introduced based on a resolution of the 70th Ordinary General Meeting of Shareholders of the Company, held on June 29, 2015. This amount is separate from the amount described in Note 1 above.
4. In the abovementioned amounts, figures of less than ¥1 million are truncated.

Board of Directors

Role of the Board of Directors

The board of directors sets the groupwide management policies and goals while also taking on the role of overseeing the management and business execution of each group company.

The members of the board of directors are diverse in terms of experience, knowledge, expertise, and gender. There are nine male directors and one female director sitting on the board of directors. Furthermore, three of the 10 directors are outside directors. In addition, Audit & Supervisory Board members participate in meetings of the board of directors to facilitate swift and appropriate decisions and reinforce supervisory functions. The three outside directors are registered as independent directors with the Tokyo Stock Exchange.

Committees Supporting the Board of Directors

Voluntarily Established Committees

The Company has established the Personnel Advisory Committee, the Remuneration Advisory Committee, and the Management Advisory Council to serve as advisory bodies to the board of directors. Through these committees, we strive to improve the transparency and impartiality of our corporate governance system.

Management Advisory Council:

The Management Advisory Council is separate from legally-mandated bodies and is comprised of seven experts (six men, one woman) in various industries. The role of the council is to offer unbiased, frank opinions and advice about group management, which we reflect in business management.

Personnel Advisory Committee:

The Personnel Advisory Committee consists of a majority of outside directors to ensure transparency and impartiality in selection process for director candidates. The Personnel Advisory Committee provides prudent suggestions to the board of directors to use in deliberations prior to board resolutions on director selection.

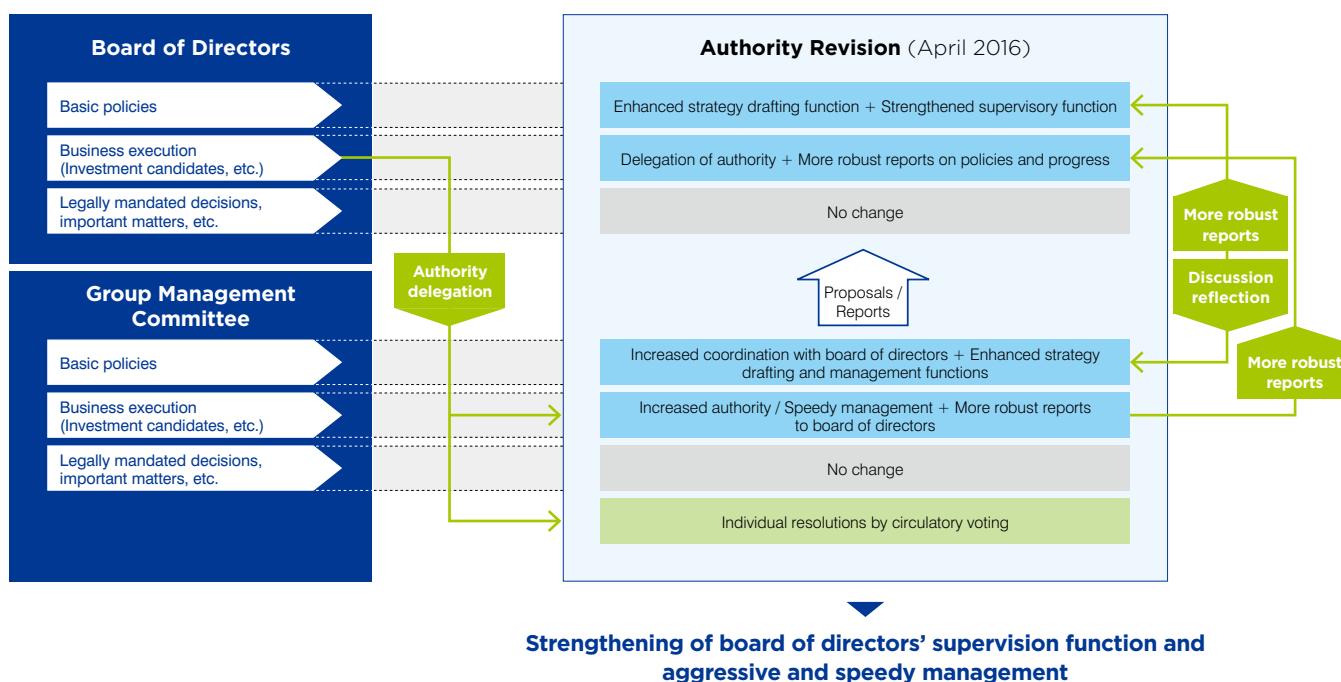
Remuneration Advisory Committee:

The Remuneration Advisory Committee consists of a majority of outside directors and experts to ensure appropriate and transparent process of decision-making related to director remuneration. The committee is in charge of the director remuneration system and director remunerations standards, supported by surveys of director remuneration at other companies provided by outside experts.

Group Management Committee

Chaired by the president and CEO, the Group Management Committee consists of full-time directors, full-time Audit & Supervisory Board Members, and other individuals. The role of the committee is to provide more timely and detailed discussions of management matters. In April 2016, the Company transferred a significant amount of decision-making authority related to material matters of business execution from the board of directors to the Group Management Committee. These matters include the selection and management of capital investing projects.

Board of Directors and Group Management Committee



Board of Director Activities

Major Agenda Items for the Board of Directors (Fiscal 2017)

- | | |
|--|--|
| <ol style="list-style-type: none"> 1. Items Related to General Meetings of Shareholders <ul style="list-style-type: none"> • Proposals to be submitted to General Meetings of Shareholders for approval 2. Items Related to Directors, Corporate Executive Officers, the Board of Directors, etc. <ul style="list-style-type: none"> • Selection of director candidates and corporate executive officers • Evaluation of the board of directors 3. Items Related to Financial Results <ul style="list-style-type: none"> • Financial results and earnings forecasts • Reports from operating companies 4. Items Related to Stocks and Capital <ul style="list-style-type: none"> • Repurchases of stock 5. Items Related to Organizational Restructuring 6. Items Related to Personnel and Organizations <ul style="list-style-type: none"> • Important revisions to personnel systems and organizations for employees | <ol style="list-style-type: none"> 7. Items Related to the Company and Important Subsidiaries 8. Items Related to Establishment and Abolition of Important Regulations and Rules 9. Items Related to Disposal and Receipt of Important Assets <ul style="list-style-type: none"> • Investment-related items • Aircraft introduction, sales, and leases 10. Items Related to Major Debts <ul style="list-style-type: none"> • Financing plans • Bond issuances 11. Items Related to Corporate Governance <ul style="list-style-type: none"> • Internal audit plans and results reports • Overview of the proceedings of the Group CSR / Risk Management / Compliance Committee 12. Other Items |
|--|--|

Board Discussion Related to Corporate Strategy

Example: 606th Ordinary Meeting of the Board of Directors (November 29, 2017)

Agenda Items: Next medium-term corporate strategy

The board held early-stage discussions to formulate our next medium-term corporate strategy. In this meeting, the board addressed human resources and ESG, two material issues for the Company. After an open discussion and consideration of ideas and suggestions (including input from outside directors and outside members of the Audit & Supervisory Committee), the board finalized a strategic policy for the two themes mentioned.

1 Direction for Medium-Term Human Resources Strategy

Opinions and recommendations from outside directors, outside Audit & Supervisory Board members

- Revise hiring methods (clear career track, job descriptions)
- Improve quality of analysis through data usage and reconsider hiring standards
- Use on-the-job training as a core component in human resources education
- Instill the ANA culture through consistent education about our history



Final decisions on important human resources strategy

- 1) Build a corporate culture unique to the ANA Group
- 2) Secure and train experts
- 3) New human resources management in the era of digital revolution, an aging and decreasing population, and the advancement of AI

2 Initiatives for ESG Management

Opinions and recommendations from outside directors, outside Audit & Supervisory Board members

- Exercise consistent, comprehensive human rights due diligence
- Publish specific policies related to controlling CO₂ emissions
- Raise awareness of investor concerns about stronger corporate governance



Incorporation into medium-term corporate strategy

- 1) Create social value and economic value in parallel
- 2) Contribute to the SDGs through engagement in material issues

Board of Directors

Analysis and Evaluation of Effectiveness of the Board of Directors

Method of Evaluation

The Company recognizes the importance of an ongoing process of self-evaluation by the board of directors. Through this process, the board searches for new solutions as it works toward defined ideals for board activity and governance. At least once per year, the Company analyzes, evaluates, and discusses the overall effectiveness of the board of directors, aiming to improve board effectiveness.

(Method of Evaluation During Fiscal 2017)

Every director and Audit & Supervisory Board members received a questionnaire to be returned no later than January 2018. The questionnaire solicited responses regarding progress and assessments related to issues identified by each director through past analyses and evaluations of board effectiveness.

Outside directors and outside members of the Audit & Supervisory Board were interviewed prior to February 2018 to delve deeper into the results of the surveys. A report was presented to the board of directors in April 2018, providing a detailed analysis of survey and interview results. In response, the Company established a PDCA cycle to enhance further effectiveness of the board of directors through operational changes toward new solutions.

Major Topics Covered by the Fiscal 2017 Board Effectiveness Survey

- 1) The performance of board functions (decision-making, supervision of business execution)
- 2) Progress in measures to improve director effectiveness
- 3) Management of the board of directors

Fiscal 2017 Initiatives and Assessments

The board set aside a generous amount of time for discussions mainly related to our management environment in meetings. These discussions supported a more in-depth deliberation of corporate strategy in light of the analyses and evaluations of board effectiveness. We endeavored to provide outside directors and outside Audit & Supervisory Board members with information about the proceedings of major Company committees (Group Management Committee, etc.) prior to the board of directors. This information allowed the board to use its time more efficiently during discussions. In addition, we arranged for on-site visits and for business strategy presentations by top leaders at our major subsidiaries to promote a better understanding of our main businesses in the ANA Group.

The director surveys and interviews confirmed that our efforts to support outside directors and outside Audit & Supervisory Board members have been improving every year. In our assessment, the Company board of directors functions sufficiently. We also believe the board is effective in making decisions related to material management issues and in supervising the execution of our businesses. We will continue to conduct evaluations and analyses of this type as we strive to improve the effectiveness of the board of directors.

Issues

The Company recognized the need for further improvements in the board of director supervisory function to enhance the quality of discussions about medium- and long-term corporate strategy.

Notable Opinions Stemming From the Fiscal 2017 Questionnaires/Interviews

- 1) Need for more specific and detailed discussions about the development of our medium-term corporate strategy
- 2) Opportunities should be provided outside of board meetings to hear explanations and ask questions about medium-term corporate strategy
- 3) Proceedings from company committees should be shared more widely with outside directors and outside Audit & Supervisory Board members to foster more efficient and open discussions

Future Initiatives

- 1) Share and discuss information about important corporate issues (safety, customer satisfaction, alliances, human resources strategy, etc.)
- 2) Provide direct interactions between outside directors and employees who work at airports and sales offices
- 3) Share corporate strategies and progress of ANA Group companies regularly
- 4) Make board meetings more efficient by organizing the meeting agenda, revising operating rules, reducing the number of documents handed out

Toward Stronger Governance

Basic Approach

In 2013, we transitioned to a holding company structure and realigned the authority of the board of directors and the Group Management Committee to build a foundation supporting aggressive and speedy management. We will continue to pursue better quality in governance by encouraging discussions in board meetings, providing meaningful dialogue with stakeholders, and introducing other measures to implement management policies that contribute to the creation of corporate value.

Ongoing Initiatives

Training for Directors and Audit & Supervisory Board Members

The Company implements training and individual coaching tailored to the knowledge and experience of internal directors. This training will include outside seminars dealing with finance, accounting, compliance, and other disciplines. To provide directors with information and knowledge necessary for their duties, we intend to offer regular group training for directors, as well as lectures and discussions led by outside experts. Internal Audit & Supervisory Board members also have opportunities for training in audit methodology, CSR, risk management, compliance, and other topics, according to the member's knowledge and experience.

We provide opportunities for outside directors and outside Audit & Supervisory Board members to learn more about the ANA Group and the airline industry. These opportunities include on-site visits at airport handling, maintenance, flight operations, in-flight services, and other departments. Other training provides basic knowledge about the airline industry and presentations on the businesses of group companies.

ANA's Way Survey

Following the principles of Japan's Corporate Governance Code, we conduct an annual survey to determine whether ANA Group employees understand and comply with ANA's Way, our group code of conduct. We will continue to report and address any issues that emerge as a result of this survey.

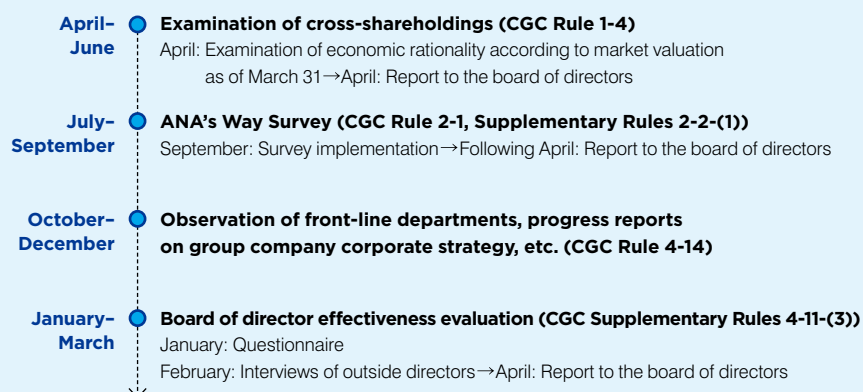
At total of 46 ANA Group companies participated in the fiscal 2017 survey, accounting for a group response rate of 97 percent. The results of the survey indicated that more work remains to stimulate communication between management and employees. The Company has increased the number of opportunities for conversations between internal directors and employees. In fiscal 2018 we will create new opportunities for direct conversations with outside directors to facilitate mutual understanding between management and employees in the front line.

Items for Review

The Japanese Corporate Governance Code was revised during fiscal 2017, while the publication of *Guidelines for Investor and Company Engagement* was published in June 2018. With these changes, our board of directors plans to discuss and confirm a number of matters that we will include in our corporate governance report. These matters include an examination of cross shareholdings and the allocation of management resources (revised business portfolio based on accurate understanding of cost of capital, capital investments, etc.).

We recognize the need for stronger governance related to greater engagement through improved board of director effectiveness (stronger PDCA cycle) and for securing a more diverse membership among directors.

(Reference) Initiatives in Response to the Corporate Governance Code (Fiscal 2017)



Year-Round Director Training

(Internal Directors)

- More robust training by topic (Society 5.0, SDGs, AI, design concepts, innovation, etc.)
- Discussions with employees in other departments

(Outside Directors)

- Opinion exchange with internal directors, group company presidents

Discussion Between the Chairman of the Board and an Outside Director

Investing in Safety and Human Resources as an Engine for Growth

Shinichiro Ito
Chairman of the Board,
Chairman of the Board of Directors
ANA HOLDINGS INC.

Ado Yamamoto
Outside Director
ANA HOLDINGS INC.

The latest ANA Group Corporate Strategy calls for investing in safety and human resources in addition to medium- and long-term strategy. We had a discussion with outside director Ado Yamamoto about critical perspectives of the ANA Group as an airline business. Mr. Yamamoto offered insights based on his extensive experience in transport industry management.

1. Safety

[**Ito**] Financial performance improved steadily throughout fiscal 2017, supported by strong demand. I believe this result was not only due to high levels of quality and service, but also due to high levels of safety. The ANA Group Safety Principles state that safety is our promise to the public and is the foundation of our business. As a person involved in transport industry leadership for many years, what is your opinion of the ANA Group status related to safety? What do you see as issues to be addressed?

[**Yamamoto**] The ANA Group has worked out an ambitious growth strategy, while dealing with a changing environment at the same time. This strategy has translated into steady results over time. In the transport industry, safety is the primary management concern before all others. The Fiscal 2018–2022 ANA Group Corporate Strategy identifies safety as an issue of the highest priority. The Group has gone to great lengths to address and instill safety.

The front lines of the airline industry extend across the globe. Compared to the rail business, airlines make enormous investments in safety and systems to back up the human element. Even if systems and organizations are flawless, those ultimately responsible for securing safety are the people. The same goes for the rail industry. I frequently visit and observe ANA front-line operations. I feel that discussions there are mutually respectful and fair, not dictated by the hierarchical relationships one might expect between a captain and a first officer, for example. A workplace encouraging abundant

communication and an open atmosphere is important for ensuring safety.

A workplace encouraging abundant communication and an open atmosphere is important for ensuring safety.—Yamamoto

[**Ito**] The ANA Group is very supportive of assertiveness activities. Before we begin work, we make a statement that we will assert ourselves, which makes it easier for subordinates to point out an error on the part of a superior. But, we must ingrain this movement deeper into our organization. We must pay more respect to those divisions that work so hard on the front lines of our businesses.

We truly value the activities taking place at the ANA Group Safety Education Center. The more than 40,000 group employees receive training to ensure lessons of the past are never forgotten. By experiencing the process through which human error occurs, we raise our awareness of safety. As we go through our day-to-day tasks, persistent efforts are extremely important in preventing incidents that may threaten safety.

[**Yamamoto**] When I visited the aircraft maintenance hangar, I saw how our young employees answered questions firmly, carrying themselves with confidence and pride as technical professionals. Our board of directors discuss things overheard at the front lines of our business. I am confident that employee comments are shared at the management level.

2. Human Resources

[Ito] Investing in safety is obviously important. Investing in people is also important, as people represent the foundation of our ability to compete in quality and service. As we continue to grow, we hire and train large numbers of employees. With so many young employees on the front lines, sometimes we field complaints from customers about lacking service. In fiscal 2018, we intend to go back to basics, pursuing foundational management matters that include quality and service.

[Yamamoto] Raising customer satisfaction with a rapidly growing international business is not always an easy task. One key to meeting customer expectations is investing in groupwide employee training. In this context, I think opening a new training center is a very good idea. We are faced with providing human resources training on a global basis, hiring staff and shoring up our Japanese national support structure.

[Ito] To provide better service, it is important that every employee understand and support the thoughts of top management for a more customer-oriented mindset. I hope the new training center will be a place for employees from various departments to come together, sharing ideas and perspectives to improve service quality, including punctuality and comfort. We will raise the standard of our comprehensive group capabilities, living up to our motto and shared value, "Trustworthy, Heartwarming, Energetic!"

[Yamamoto] An indispensable part of future global growth will be our endeavors, fostered through human resources training rooted in ANA's Way. ANA has been called a group of wandering samurai in the past, and the ANA Group does have a reputation for taking on bold challenges. Now, as our organization has grown to a tremendous size and our financial performance has stabilized, we must hand down the vitality and ambition that make up our DNA to the next generation.

We must hand down the vitality and ambition that make up our DNA to the next generation.—Yamamoto

[Ito] We should never forget the words of our founder, who said, "Impoverished today, hopeful tomorrow." The ANA Group has overcome difficult times, taking on any number of daunting challenges. During my tenure as president, we experienced the Lehman Shock. Today, one wrong step could spell serious trouble for a company in the airlines industry. That we were able to recover against adversity owed much to the relationships of trust we developed with our customers. We must keep in mind that the basics consist of daily quality improvements. As we're facing the issue of hiring and recruiting, we need to be more productive by embracing efficient and effective practices.

3. Strengthening Board of Director Functions

[Ito] As we move forward in these initiatives, it is important that we improve the functions of the board of directors for stronger governance. In my experience, our discussions are much more active and meaningful than ever. We are receiving very important opinions. Do you have any comments regarding improvements or issues?

[Yamamoto] First, I want to commend the Group for revising the authority of the Group Management Committee and holding active discussions that include opinions from specialists in each division. We are receiving better agenda documents prior to the meetings, which let us follow and participate in the deliberations more easily.

[Ito] There is probably room for improvement in putting together our agenda. For example, discussions about group corporate strategy could include more information about the state of the industry, so all participants begin from a common understanding. While time is a factor, we want to provide more opportunities to observe the situation at the front lines of our business and listen to the true opinions of employees.

We want to provide more opportunities to observe the situation at the front lines of our business and listen to the true opinions of employees.—Ito

[Yamamoto] It's important to have a good understanding of the state of affairs at ANA, which is the most influential entity within the Group. We had an opportunity to go to the operations center and interact directly with personnel there. This was a tremendous aid in becoming familiar with structure of the company and quickly identifying issues. Outside directors could benefit from more information, education, and interaction with officers and employees prior to discussions about safety, personnel, and other management issues.



Responsible Dialogue with Stakeholders

The ANA Group is conducts business activities through our relationships with stakeholders. We engage in ongoing dialogue with stakeholders to build trust and offer peace of mind. As we do so, we increase the effectiveness of our strategies by incorporating the opinions and requests of stakeholders into our businesses. During fiscal 2017, we created several opportunities to hold dialogues with stakeholders, including our general meeting of shareholders, analyst presentations, and facility tours.

Dialogue with Shareholders and Investors

Toward improving shareholder value, we endeavor to create a stronger business foundation to generate steady, continued profits and provide shareholder returns, striving for timely, appropriate information disclosure and shareholder engagement.

The 73rd Ordinary General Meeting of Shareholders

Number of attendees **1,714** people
Voting rights exercise ratio **64.1%**

IR large meetings / small meetings **8** times
(for institutional investors / analysts)

Dialogue with institutional investors / analysts **255** times
(in Japan: 134 times; overseas: 121 times)

Presentations for private investors **14** times
Total: **1,615** people
(including IR fairs)

Aircraft maintenance center tours for private shareholders **10** times
Total: **597** people



The 73rd Ordinary General Meeting of Shareholders

Dialogue with Employees

Through direct dialogue between managers and employees, we are actively sharing management strategies and the intentions of managers and thereby deepening mutual understanding.

FY2018-22 Group Corporate Strategy tour event with top management **20** times
Total: **1,268** people



Exchanging opinions about the FY2018-22 Group Corporate Strategy

Dialogue with International Society

In regard to material issues in management strategies, by actively conducting dialogue with industry groups as well as NGOs / NPOs, we are fostering understanding of the ANA Group's approaches and initiatives. In addition, we are working to rapidly identify changes in the environment and to reflect them on a global level in our business activities.

Participating in an international conference on the environment **11** times
(Indonesia, Malaysia, Canada, Switzerland, Mexico, Japan)

Overseas dialogue with human rights organizations **3** times
(Germany, Thailand, Malaysia)

Participation in international conferences on human rights **8** times
(Switzerland, Japan, Germany)



Dialogue in Thailand With Human Rights Groups

Dialogue with Business Partners

We share our CSR Guidelines with our business partners and seek their understanding and cooperation in encouraging CSR practices throughout the entire supply chain.

We demonstrate the importance we attach to ANA Group food safety and hygiene to customers and business partners by offering tours of the ANA in-flight meal processing factory. This is a helpful way to promote an understanding of the ANA Group commitment to safety and security.

CSR monitoring survey

Vendors/Business Partners Surveyed ... **201** companies

ANA in-flight meal factory tours **55** times
Total: **1,357** people



ANA hosts visitors on in-flight meal processing factory tours

Safety

Strengthening Safety as a Business Foundation, Passing Down Safety as a Culture

Safety is the unequivocal mission of every business in the ANA Group.

An Unwavering Commitment

Safety is the absolute value underlying every ANA Group corporate activity. Safety is the bedrock of everything we do. We strive to ensure safe aircraft operations as a matter of course. Our dedication to safety extends to every part of our group businesses, including food services, cargo, and information. Our everyday efforts to improve safety, and conscientious response to customer expectations build confidence and trust with society.

An environment of mutual understanding and trust form relationships among employees across various job descriptions to support safe aircraft operations and other aspects of the ANA Group business. In every workplace, we post the ANA Group Safety Principles and Course of ANA Group Safety Action, which are pledges shared by all ANA Group employees.

ANA Group Safety Principles

Safety is our promise to the public and is the foundation of our business.

Safety is assured by an integrated management system and mutual respect.

Safety is enhanced through individual performance and dedication.

Course of ANA Group Safety Action

- ① Strictly observe rules & regulations, and all actions will be grounded on safety.
- ② As a professional, place safety as the #1 priority while keeping your health in mind.
- ③ Address any questions and sincerely accept the opinions of others.
- ④ Information will be accurately reported and shared in a timely manner.
- ⑤ Continuous self-improvement for prevention and avoiding re-occurrence.
- ⑥ Lessons learned from experiences and increased skills for risk awareness.

Fostering People Who Carry on and Build Our Culture of Safety

The ANA Group engages in ongoing programs to preserve the memory of past accidents and hijackings in our unblinking pursuit of safety.

Safety Caravan



Approximately

1,770 attendees during fiscal 2017

(conducted at 38 workplaces in Japan and overseas)

The president and the board members visit offices in Japan and overseas to maintain an ongoing dialogue, fostering a shared culture of safety with ANA Group employees.

ANA Group Safety Education Center (ASEC)



Fiscal 2017

Visited by **13,525** ANA employees and others

We offer safety education about past accidents and human error through displays of aircraft involved in accidents similarly themed multimedia.

Aviation Safety and Security Month



July is the Aviation Safety and Security Month every year at ANA. During the month, we sponsor a wide variety of events to reflect on and emphasize the importance of safety. TALKSAFE is a program featuring seminars from outside experts, as well as a presentation and awards ceremony celebrating safety initiatives implemented instead of practices.



See the ANA Group corporate website for more:
<https://www.ana.co.jp/group/en/safe/>

A Foundation for Ongoing Safety Adherence

The FY2016–20 ANA Group Medium-Term Safety Promotion Plan identifies prevention as a key component of safety risk management. Under this plan, we use rules and educational materials to define a process for analyzing and mitigating risk by identifying hazards. Once identified, information about hazards are communicated throughout the Group to strengthen our response.

Example of the Safety Risk Management Process



All employees involved in aircraft operations are trained in the Four Axes of Safety Risk Management: Operations, Employees (front-line), Customers, and Security. Further, the Group conducts regular monthly reviews of risk occurrence events. We are designing business processes to analyze underlying causes and implement permanent measures against such risks. Once designed, these processes become part of our regular operations.

4 Axes of Safety Risk Management



The ANA Group has revised and updated our safety management rules across the board. We have built internal systems to ensure ongoing compliance with applicable laws and the safety audit program (IOSA: IATA Operational Safety Audit) of the International Air Transport Association, which confirms whether airline company safety management systems are functioning effectively.

Group, Global Safety Improvement Initiatives

The ANA Group has adopted Flight Operations Quality Assurance (FOQA), an analysis program that uses flight data from aircraft. This program provides an overview of the status of daily aircraft operations across the ANA Group, supporting policies and initiatives designed for safer airline services. We use information from this program not only for the ANA Group but also as a basis to analyze, study response measures, and hold discussions with code-share partners in Japan.

We also exchange information about new insights and initiatives at the regular *ANA-G FOQA/JAL-G FDM Information Liaison Group Meeting* sponsored by the ANA Group and JAL Group operating companies. At the Symposium on Transport Industry Safety 2017, sponsored by the Ministry of Land, Infrastructure, Transport and Tourism, we were honored to receive the Risk Management and Transport Safety Policy Councilor's Award in recognition of our active contribution to transportation safety improvements through activities that cross traditional corporate group borders.

The ANA Group is proud to share our safety initiatives globally through our participation in the International Air Transport Association, the Association of Asia Pacific Airlines (AAPA), the Star Alliance, and other international councils.

We go beyond our own structural improvements and evolution to share our knowledge with society, fulfilling our social responsibility as the *world's leading airline group*.



Award Winners at the ANA Safety Promotion Center

Human Resources

Capitalizing on the Talents of Our People for Sustainable Growth

We respect diversity and allow employees the freedom to be individuals and to explore their potential.

This attitude contributes to the comprehensive capabilities of the ANA Group.

Approach to Human Resources

Human resources are the most important asset of the ANA Group. We believe that our people differentiate us from our competitors, providing the power to succeed in global competition. We aim for sustainable growth as a global top-class airline group. One important component is our medium-term human resources strategy, built on the foundation provided by the ANA's Way, work-style reform, and health management. This human resources strategy consists of three key elements: Talent Management, Globalization, Diversity and Inclusion, and Innovation.

By maximizing the group employees' potential, combining the power of people and the power of ICT to bring our comprehensive capabilities to bear, we will create new value and secure our position as the world's leading airline group.



Creating an Organization and People Who Practice ANA's Way

We work to instill an understanding of Mission Statement, Management Vision, and ANA's Way in our people. At the same time, we are developing and evolving ANA's Way to be at the same level as our corporate culture. The ANA Group pursues organizational and human development, continuing to adopt initiatives that pass on the *Team Spirit* and *Challenge and Endeavor in the Group's DNA* handed down to us over the 60

years since our founding. In parallel, we encourage communications that activate our organization.

The annual ANA's Way Survey (employee awareness survey) is one tool we use to observe, analyze, and improve workplace attitudes and job satisfaction among our employees. A total of 37,403 people across the 46 ANA Group companies responded to the fiscal 2017 survey, representing a response rate of 97 percent.

ANA's Day



We foster creativity and independence through trainings in which employees learn, resonate with, and practice *Challenge and Endeavor in the Group's DNA*.

Building team spirit through regular dialogues with diverse employees throughout the entire ANA Group.

ANA's Way Ambassadors



As of fiscal 2015, the ANA's Way Ambassadors program is being practiced at all overseas offices. The program includes ANA's Day Training to communicate important values, both in Japan and around the world.

ANA's Way AWARDS



The ANA's Way AWARDS is open to all group employees worldwide. The awards have become a mechanism to celebrate examples of best practices in local workplaces, initiating our culture of recognizing and praising each other.



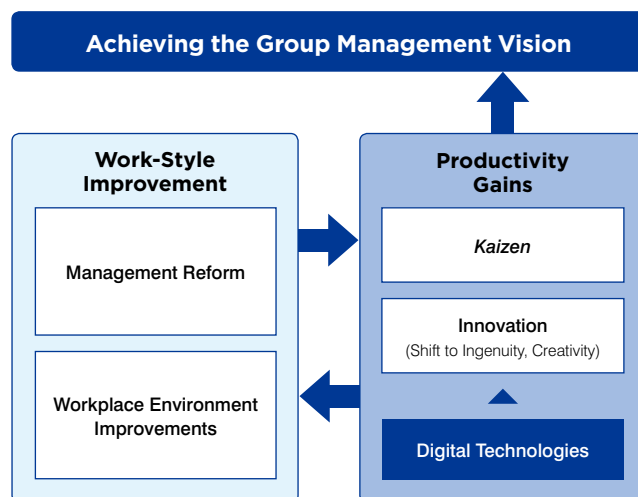
See the ANA Group corporate website for more:
https://www.ana.co.jp/group/en/csr/human_resources/

Work-Style Reform

ANA Group top management has declared that the Group will practice work-style reform to create an environment in which a diverse employee base can work with enthusiasm, improve their talents, and maximize their performance. Leaders of their organizations have committed to adopting related measures, including practicing the principle of *kaizen*.

To date, we have reduced work location and time restrictions, offering childcare leave, a shorter work-hour system, telework, and other work-style options. In parallel, we have introduced IT, digital devices, and similar tools for greater work efficiency.

Work-style reform allows employees more time for work-life balance. Combined with management reform, which impacts the activity of each individual, employees bring more energy to the workplace and enjoy greater job satisfaction. This type of reinvented the workplace inspires new ideas that result in the creation of new value.



Ikuboss Training

In fiscal 2015, the ANA Group introduced the first *Ikuboss* seminar. In consideration of work-life balance for subordinates, the *Ikuboss* program trains managers to support individuals in their careers and lives, as well as to improve team performance, while also setting a personal example of balance in satisfaction from work and home life.

To date, nearly 300 ANA Group managers and general managers have participated in *Ikuboss* training. The seminars have raised awareness of the actions and attitudes managers should practice in terms of work-style reform and management of diverse human resources within the ANA Group. Each participant pledges a commitment to the *Ikuboss Declaration*, leading the way in their divisions and departments.



Fiscal 2017 *Ikuboss* Training

ANA Group Internal Nursery School

In April 2018, we opened the 'OHANA Nursery School Haneda, an in-house nursery school to ensure employees can achieve a balance between job and child-rearing, while working in a stimulating environment. The nursery school is open from 7 AM to 10 PM, 365 days per year. The day care offers other services to ease the burden on parents, one example of which is the *Tebura Service* that provides diapers and laundry services for clothing, bedding, and other personal articles. This convenient service is just one thoughtful way in which the day care allows employees to work with a peace of mind.



Opening Ceremonies of the 'OHANA Nursery School Haneda

Human Resources

Health Management

The engine that drives sustainable growth for the ANA Group and society is reflected in our employees who embody the motto, *Trustworthy, Heartwarming, Energetic!* We believe that happy employees make happy customers, and in that spirit, we announced the ANA Group Health Management Declaration in April 2016.

The ANA Group has appointed a chief wellness officer, a director responsible for group health management, and wellness leaders at each group company. Through this leadership, the ANA Group ensures that group employees, companies, and health insurance associations work in unison for health management.

In recognition of our efforts for employee safety, health, and comfortable workplaces, we were selected in February 2018 as a 2018 Health & Productivity Stock Selection. We were also certified as a White 500 large enterprise company for a second consecutive year.



In the future, we plan to structure a PDCA cycle covering four key health management issues, while at the same time creating a visual representation of health management policies utilizing information such as work absence data and groupwide questionnaires.

1 Health management initiatives

- Set group standard categories for regular physical examinations
- Set health management offices in each major location in Japan
- Adopt a health management system accessible to all group employees

2 Disease prevention initiatives

- Implement lifestyle disease prevention (body composition measurement campaigns, smoking cessation seminars)
- Measures addressing illnesses specific to women (add echo mammogram as a standard physical examination category, display breast cancer palpation models in workplaces)

3 Mental health initiatives

- Appoint an ANA Group mental health advisor (psychiatrist)
- Implement a stress check system

4 Initiatives for safety and health activities

- ANA Group physical exercise program

Key Issues

Promoting Diversity and Inclusion (D&I)

The ANA Group aims to establish a framework for valuing diversity across organizations and groups, leveraging differences among individuals to create new value.

Helping Individuals Develop Their Own Talents and Maximize Their Strengths



Third Annual ANA Group D&I Forum

The third ANA Group D&I Forum was held in December 2017 for 180 management members from group companies. The theme of the forum was *Moving Forward Together: Respecting One Another and Building a Bright Future for Each Individual*.

The forum featured lectures and workshops on diversity and inclusion and workshops led by outside experts, providing opportunities for attendees to learn more about the importance of mutual respect and how to encourage diversity and inclusion in one's own workplace.



Participants at the fiscal 2017 ANA Group D&I Forum



See the ANA Group corporate website for more:
https://www.ana.co.jp/group/en/csr/human_resources/

Major D&I Initiatives Within the ANA Group

To become a group that truly engenders diversity, the ANA Group established a dedicated organization to promote work-style reform as well as initiatives to improve the workplace environment, encouraging the success of women, disabled employees, seniors, and employees of different nationalities.

Support for the success of women

- Advancement measures, such as systems and training, through collaboration among people who are supporting the success of women at each group company
- Career support by job title, robust intra-group network of female managers
- Support for both work and child-rearing/nursing care, support for the participation of men in child-rearing

Globalization

- Global standardization of personnel system
- Expanding overseas employment of cabin attendants
- Strengthen capacity for global responsiveness and foster human resources through staff exchanges between Japan and overseas locations

Seniors

- Messages from leaders incorporating their expectations for active employment of people 60 and over
- Expand areas that leverage the extensive experience and expertise of seniors
- Enhancing career training for experienced people and seniors

Employment of people with disabilities

- Further adoption of the 36K-Employee Kickoff Group code of conduct
- Conducting educational activities in rank-based training, meetings of people in charge of human resources, etc.
- Establishing workplaces in which all employees can play an active role, regardless of disabilities

Initiatives for Employing People With Disabilities

More than 760 employees in the ANA Group with disabilities play active roles across our businesses in duties related to safe flight operations, customer service, office work, and many other responsibilities. We aim to create workplace environments that are comfortable for any individual, regardless of disabilities. Accordingly, we are working to spread the adoption of the 36K-Employee Kickoff (code of conduct for hiring disabled persons) throughout the Group. At the same time, we are pursuing initiatives to systematically expand our hiring of persons with disabilities.

The ANA Group also participates as a corporate member of the Accessibility Consortium of Enterprises (ACE).



Promotional materials publicizing 36K-Employee Kickoff

LGBT-Friendly Initiatives

Along with our support for customer diversity, the ANA Group established the ANA Group LGBT Hotline for exclusive use of group employees to promote a better understanding of LGBT issues and provide inclusive workplace environments within the Group. We are also pursuing other efforts to support LGBT persons, including improved corporate benefits and LGBT-related training and instructional materials. We plan to accelerate our response to these initiatives through the LGBT-Friendly Promotion Project, which consists of representatives from the major departments dealing with customer service and internal group systems.

Having been honored in fiscal 2016 with the highest level of Gold in the PRIDE Index from work with Pride*, which is Japan's first index that evaluates LGBT-related initiatives, the ANA Group was once again honored with a Gold rating in fiscal 2017.



* work with Pride: A private voluntary organization that supports the promotion and establishment of diversity management related to sexual minorities, such as LGBT individuals.

CSR Management

Preserve and Enhance Corporate Value by Taking Advantage of the Group's Business Strengths

The ANA Group strives for sustainable growth, pursuing initiatives that address more material issues to the Group and to society, while incorporating the opinions of our stakeholders.

Basic Approach to CSR

In 2008, the ANA Group joined the United Nations Global Compact. The UN Global Compact is a movement joined voluntarily by companies and organizations to build a global framework for achieving sustainable growth. As we draw closer to the Japan-hosted Rugby World Cup 2019 and the Tokyo 2020 Olympic and Paralympic Games, Japanese companies will gain greater international attention. The ANA Group remains committed to global CSR activities that create economic and social value, reflecting an understanding of opportunities and risks identified through communications with our stakeholders in Japan and around the world.



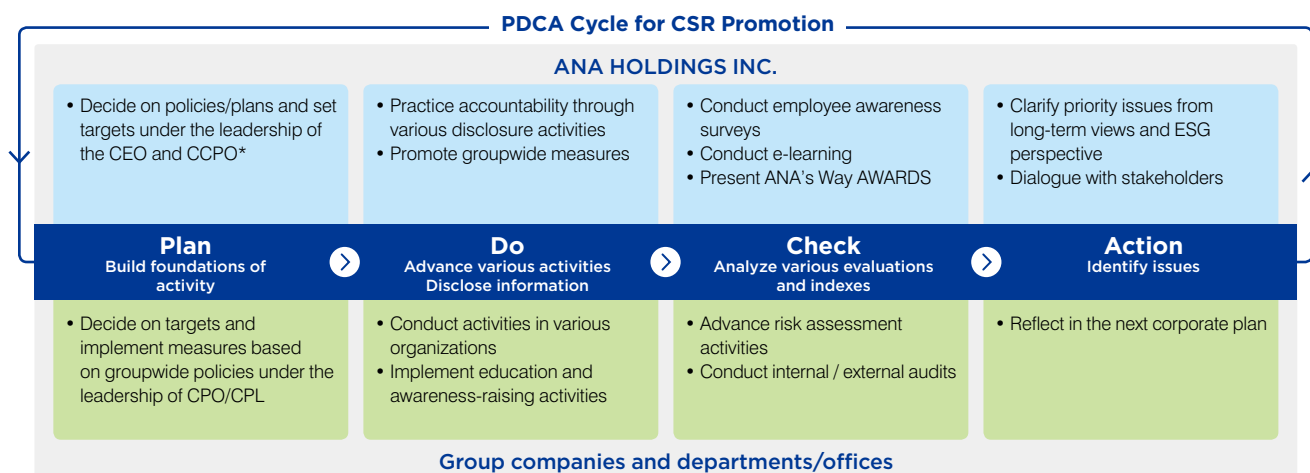
CSR Activity Themes by Stakeholder Group

Stakeholder Group	Major Themes of CSR Activities		
Customers	Pursuit of safety and security	Respect for human rights	Improvement of safety, convenience, and comfort Provision of universal services
Shareholders and investors			Accomplishment of value creation targets, issuance of shareholder returns Timely and appropriate disclosure of information
Business partners			Fair operating practices Promotion of CSR activities through the supply chain
Employees			Cultivation of human resources Promotion of diversity and inclusion
Environment			Control CO ₂ emissions and other environmental burdens
Communities			Stimulating economies through regional revitalization, performing social contribution activities in the areas where we operate

CSR Promotion System

We established the Group CSR / Risk Management / Compliance Committee according to the ANA Group CSR Regulations. This committee, which operates under the guidance of the president and membership consisting of full-time directors and full-time Audit & Supervisory Board members, is tasked with establishing core policies, examining important matters, formulating proposals, and implementing activities related to CSR. Each group company has an appointed CSR Promotion Officer (CPO), while each group

company and department have CSR Promotion Leaders (CPL). These individuals promote CSR activities within their organizations. We also engage with domestic and overseas NGOs, NPOs, the UN Global Compact, international institutions, and other stakeholders well-versed in social issues. This engagement helps us maintain an understanding of society's expectations and requirements for the Group to be reflected in our activities.



* CCPO: Chief CSR Promotion Officer

Social Responsibility Guidelines

We established the Social Responsibility Guidelines to serve as a mandatory code of conduct for group executives and employees. These guidelines reinforce the foundations of ANA Group CSR management. We cultivate understanding and instill an awareness of the guidelines among employees through briefing materials, training tools, and employee awareness surveys.

We present the ANA's Way AWARDS—Excellence in Social Responsibility Award to groups of employees that have made significant contributions to improving group corporate value. These contributions include helping resolve social issues through communications with stakeholders, developing a new idea unbound by preconceived notions, or demonstrating excellence in other ways. By publicizing these awards across the entire group, we aim to further promote CSR activities.

Social Responsibility Guidelines

- ① We will provide security and satisfaction to customers and society.
- ② We will obey the statutes and rules of each country and area.
- ③ We will manage information appropriately and communicate with integrity.
- ④ We will respect human rights and diversity.
- ⑤ We will take actions that reflect consideration for the environment.
- ⑥ We will help to build a positive society.

Management Discussions About SDGs

In November 2017, the ANA Group invited Keio University Graduate School of Media and Governance Prof. Norichika Kanie to provide a seminar for all ANA HOLDINGS directors and nearly 40 ANA directors. Prof. Kanie is a leading authority on the SDGs in Japan. The SDGs identify global issues and set related targets to bring about a more ideal world by the year 2030. Corporations are expected to contribute toward the achievement of these goals. At the same time, these goals form important policies determining the direction of new strategic growth. Prof. Kanie's seminar highlighted strategic initiatives at other companies and expectations of the ANA Group. Attendees discussed policies and issues, the results of which we incorporate into our FY2018-22 ANA Group Corporate Strategy.



November 2017 Sustainable Development Goal Training for ANA Group Executives

Promotion of CSR throughout the Supply Chain

The ANA Group believes it is important to promote CSR measures not just in its own business activities but also throughout the entire supply chain, which includes suppliers, manufacturers, and subcontractors. To facilitate these efforts, we have established the ANA Group Purchasing Policy by referencing international social responsibility guidelines, such as ISO 26000. Based on this policy, we formulated the Supplier Management Policy and CSR Guidelines, which we share with business partners.

In fiscal 2017, CSR monitoring surveys based on the CSR Guidelines were carried out at 201 business partners to promote CSR throughout the supply chain.

CSR Guidelines for Business Partners

Overall (internal promotion system)	Voluntary CSR measures (formulation of in-house CSR standards, etc.)
Human rights / Labor conditions	Respect and observe international norms on human rights and labor
Safety and health	Consideration for occupational safety and health at workplaces
Environment	Measures to reduce environmental impact
Fair transactions / Ethics	Fair business activities that comply with social norms
Quality / Safety	Assure product quality and safety
Information security	Proper management and safeguards for personal and confidential information

Compliance

Preserve Corporate Value by Enhancing Internal Systems and Further Entrench Mission Statement

The ANA Group is taking steps to minimize exposure to legal risks and prevent incidents that could diminish corporate value.

Compliance Implementation Structure

Based on the ANA Group Compliance Regulations, the ANA Group promotes compliance initiatives with laws and regulations as well as other standards in its business activities. CSR Promotion Leaders are the driving force behind this compliance promotion system.

In addition, the Company has secured clearly identified venues with the Legal & Insurance Department and group companies in order to establish a system that facilitates mutual communication.

Major Initiatives

Compliance with Various Laws

The Group must conduct fair competition and transactions in accordance with various laws and regulations related to sales and marketing and various other areas. Accordingly, the Company provides seminars on the Act Against Unjustifiable Premiums and Misleading Representations, the Act Against Delay in Payment of Subcontract Proceeds, Etc. to Subcontractors, and contract affairs to help compliance staff master the appropriate knowledge.

At the same time, the Company conducts training and awareness-raising activities with regard to a range of laws and regulations that include legislation related to air transport and labor laws. These activities include holding seminars and issuing email magazines for group companies.

Fair Trade Initiatives

The Group recognizes the serious risks that may materialize in the event of a violation of competition or anti-bribery laws of the countries in which we operate, and we have implemented measures to address these risks. We have established the ANA Group Rules for Competition Law Compliance and the ANA Group Anti-Bribery Rules as internal rules for the Group. We distribute a handbook that provides commentary on these rules using specific case studies to relevant departments. We also provide regular education and e-learning programs for relevant managers.

Protection of Intellectual Property

The ANA Group works to upgrade system to protect and use intellectual property, as well as for respecting the intellectual property rights of other companies and preventing infringement. We have clearly identified a contact point within the Group to provide consultation and support on matters related to intellectual property to all group executives and staff.

Coordination with Overseas Branches

The Company has clearly identified venues for communicating between the Legal & Insurance Department and overseas branches and is stepping up measures to minimize exposure to legal risks on a global level and prevent occurrences that could diminish corporate value. Furthermore, the Company seeks to foster a mind-set focused on legal compliance among all Group executives and employees, including those working overseas. To this end, we hold legal compliance seminars at overseas branches.

Implementation of Internal Reporting System

We have established the ANA Group Rules for Handling Internal Reporting as a subordinate rule under the ANA Group Compliance Regulations. In addition to an internal contact point for reporting, we have also implemented a system to identify management risk by outsourcing reporting system processes to an external law firm. We are also developing an outsourced contact point to receive information in English for reports originating overseas. These reporting systems are available to all group executives, employees, and temporary personnel involved in operations. ANA Group retirees and officers and employees of our business partners may also use these reporting systems. We protect the privacy of the caller and other relevant parties, and the Group assures that no punitive measures will be taken against those that seek consultation or cooperate in confirming facts.

We publicize these reporting systems via posters displayed on group premises, as well as through a dedicated website on the group intranet.



See the ANA Group corporate website for more:
https://www.ana.co.jp/group/en/csr/basic_approach/compliance/

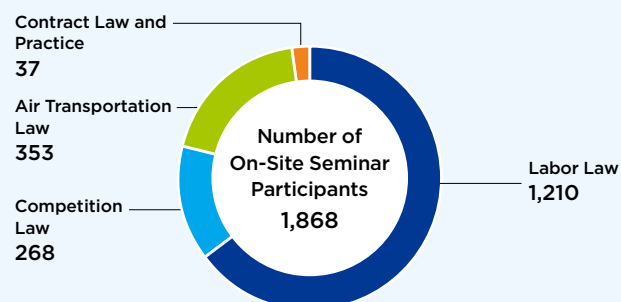
Major Initiatives in Fiscal 2017

On-Site Seminars at Group Companies

Held 48 seminars at 23 group companies

Our Legal & Insurance Department travels to group companies providing seminars tailored to the requests of each. The seminars provide for better understanding in a more conducive environment.

During fiscal 2017, we saw an increase in demand for seminars, particularly in the area of labor law. A total of 1,868 people attended the seminars, representing a two-fold increase compared to the prior year.



Competition Law and Anti-Bribery Law Seminars at Overseas Branches

Held 7 seminars at overseas branches

Seminars were held at overseas branches of the ANA Group on competition and anti-bribery laws in light of the recent trend toward stricter enforcement by the authorities in each country to prevent unfair competition.

These seminars employed case studies that presented situations similar to those found at each business site based on the ANA Group Cartel Prevention Handbook and the ANA Group Anti-Bribery Handbook.



Seminar at an overseas branch



Group Companies Compliance Survey

Investigations of circumstances surrounding compliance at group companies are conducted once each year. These investigations consist of self-checks on the degree to which compliance was practiced with regard to relevant laws and regulations as well as examinations of issues pertaining to each group company and to the entire Group. In fiscal 2017, the Group added *work hour management* as a category in our compliance survey. While survey results were generally favorable, we performed follow-up on corrective measures as necessary, working towards the resolution of issues identified.

Risk Management

Preserve Corporate Value through Safe and Reliable Business Operation

The ANA Group takes steps to identify, analyze, and appropriately address risks with the potential to severely impact management. In addition, we have developed groupwide frameworks to minimize the impact of risks and prevent reoccurrence in case risks materialize.

Risk Management System

The ANA Group Total Risk Management Regulations set out the basic terms of the Group's risk management system. Under these regulations, the secretariat of the Group CSR / Risk Management / Compliance Committee (Corporate Brand & CSR Promotion, General Administration, and Legal & Insurance), CSR Promotion Officers assigned to companies and divisions, and CSR

Promotion Leaders facilitate risk management activities. The role of CSR Promotion Leaders is to promote risk management in each group company and department by executing risk countermeasures according to plans and to take swift action while contacting the secretariat in the event of a crisis.

Major Initiatives

The ANA Group's Risk Management

The ANA Group takes a two-pronged approach toward managing risk comprised of risk management measures conducted from a preventive perspective and crisis management in the event of materialization of a risk. Given the Group's role as a provider of social infrastructure, business continuity management and information security are areas of particular importance. We prioritize initiatives in these areas accordingly.

Risk Management from a Preventive Perspective

Each group company implements autonomous risk management activities that include identifying risks, analyzing and evaluating these risks, formulating and implementing countermeasures, and monitoring the results of these activities.

The group companies confirm and evaluate the progress, effectiveness, and level of achievement of the measures taken with respect to significant risks identified in each organization. The Company also takes the lead in implementing measures to address issues faced by the entire Group and confirms progress through the Group CSR / Risk Management / Compliance Committee.

Crisis Management in the Event of Materialization of a Risk

The ANA Group has constructed a crisis management system based on detailed manuals in order to minimize damage and ensure safe and reliable future operations by investigating the causes of crises.

The Emergency Response Manual (ERM) sets out responses to incidents with a direct impact on operation of the ANA Group's aircraft including accidents and hijacks, and the Crisis Management Manual (CMM) provides responses to other crises including system failures, information leaks, and risks from external sources.

Information Security

To preserve information assets, such as the personal information of customers, the ANA Group implements measures in compliance with technical standards, including ISO 27001 and other global standard guidelines, as well as various laws and regulations.

To ensure effective information security, the Group conducts annual Control Self Assessments (CSA) of the status of compliance with the ANA Group Information Security Management Regulations at all group companies and departments. The Group also consistently implements awareness-raising activities to firmly entrench information security rules throughout the organization.

Steps were also taken to increase our resilience to ever diversifying cyberattacks. In addition to reinforcing network monitoring precautions, awareness was promoted by regularly sending emails simulating targeted email attacks to all group employees.

We are revising our internal rules to respond to laws and regulations related to personal information in Japan and overseas.

Security Trade Control

The parts, chemicals, apparatuses, and other articles necessary for aircraft maintenance are exported to overseas airports and aircraft maintenance centers. Certain articles employ technologies that could be adapted to create weapons. Accordingly, we practice rigorous security trade control* of exported articles.

A stringent security trade control structure is maintained through once-annual audits and trainings. These activities target divisions that are considered exporters for being directly involved in exporting as well as divisions that are not considered exporters but are still involved due to handling customs clearance and other transportation-related processes.

* Security trade control is a term that refers to all regulations placed on exports from Japan by the Foreign Exchange and Foreign Trade Act.



See the ANA Group corporate website for more:
https://www.ana.co.jp/group/en/csr/basic_approach/risk_management/

Business Continuity Management

The ANA Group has prepared a business continuity plan (BCP) that details policies and procedures for responding to large-scale natural disasters, such as an earthquake directly under the Tokyo metropolitan area or in the Nankai Trough, that render ANA Group flight control facilities unusable. The provisions of this plan include measures for ensuring the health and safety of customers and all ANA Group employees, minimizing the impact on group management and on society as a whole, and resuming normal operation as quickly as possible.

Improve, reinforced communication networks

- Deploy emergency use radios and satellite telephones
- Conduct regular employee safety confirmation drills

Backup facility construction, functional improvement

- Implement regular joint drills and training at backup facilities
- Ensure equipment and software are up-to-date at all times
- Conduct equipment operation drills at backup facilities

We plan to develop and distribute education and training materials teaching employees how to protect themselves while engaged in the safety evacuation of customers in the immediate aftermath of a large-scale disaster.

Information Technology Business Continuity Plan (IT-BCP)

The ANA Group uses many systems for business management. Establishing an information technology business continuity plan (IT-BCP) is essential for safe and stable continuation of our business.

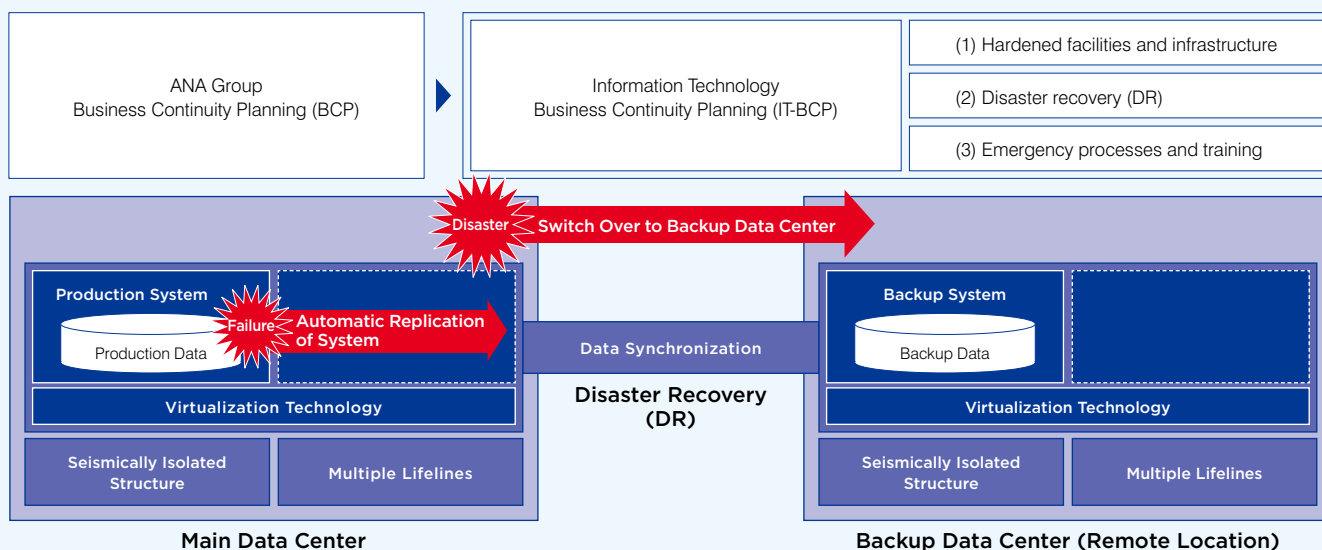
The ANA Group is engaged in a five-year project to build an IT-BCP environment for all systems. This project takes into account the damage projections for an earthquake occurring directly under the Tokyo metropolitan area, as estimated by the Central Disaster Prevention Council operated by Japan's Cabinet Office. We plan to reconstruct multiple lifeline systems in stages in a highly seismically isolated data center by the end of fiscal 2018.

In parallel, we are preparing a backup data center in a remote location as part of disaster recovery (DR) plans that will allow us to

continue business operations by switching to a backup data center from our main data center during a disaster.

The system platform of the new data center will make use of virtualization and other advanced IT technologies, contributing to both enhanced system resilience and cost reductions.

The ANA Group will continue to accurately and promptly assess IT risks that pose potentially severe risks to our business. We will make ongoing improvements in both hard and soft aspects of our systems, including processes and trainings allowing for a proper response during emergencies. These efforts will allow us to continue to provide safe and reliable service to our customers, and to fulfill our responsibilities as a critical part of social infrastructure.



Consolidated 11-Year Summary

ANA HOLDINGS INC. and its consolidated subsidiaries (Note 1)

(Years ended March)	2018	2017	2016	2015
For the Year				
Operating revenues (Note 3)	1,971,799	1,765,259	1,791,187	1,713,457
Operating expenses	1,807,283	1,619,720	1,654,724	1,621,916
Operating income (loss)	164,516	145,539	136,463	91,541
Income (loss) before income taxes	196,641	139,462	131,064	77,983
Net income (loss) attributable to owners of the parent	143,887	98,827	78,169	39,239
Cash flows from operating activities	316,014	237,084	263,878	206,879
Cash flows from investing activities	(324,494)	(194,651)	(74,443)	(210,749)
Cash flows from financing activities	(29,989)	3,349	(133,257)	(30,424)
Free cash flow	(8,480)	42,433	189,435	(3,870)
Substantial free cash flow (Note 4)	61,410	39,655	88,035	(22,350)
Depreciation and amortization	150,408	140,354	138,830	131,329
EBITDA (Note 5)	314,924	285,893	275,293	222,870
Capital expenditures	304,707	254,425	281,416	274,702
At Year-End				
Total assets	2,562,462	2,314,410	2,228,808	2,302,437
Interest-bearing debt	798,393	729,877	703,886	819,831
Short-term debt	100,125	118,382	94,781	210,029
Long-term debt	698,268	611,495	609,105	609,802
Total shareholders' equity (Note 6)	988,661	919,157	789,896	798,280
Per Share Data (Yen, U.S. dollars) (Note 7)				
Earnings per share	417.82	28.23	22.36	11.24
Book value per share	2,954.47	262.44	225.87	228.45
Cash dividends	60.00	6.00	5.00	4.00
Average number of shares during the year (Thousand shares)	344,372	3,500,205	3,496,561	3,492,380
Management Indexes				
Operating income margin (%)	8.3	8.2	7.6	5.3
Net income margin (%)	7.3	5.6	4.4	2.3
ROA (%) (Note 8)	6.8	6.5	6.1	4.2
ROE (%) (Note 9)	15.1	11.6	9.8	5.1
Shareholders' equity ratio (%)	38.6	39.7	35.4	34.7
Debt/equity ratio (Times) (Note 10)	0.8	0.8	0.9	1.0
Interest-bearing debt/EBITDA (Times)	2.5	2.6	2.6	3.7
Asset turnover (Times)	0.8	0.8	0.8	0.7
Interest coverage ratio (Times) (Note 11)	36.1	23.9	22.3	14.7
Current ratio (Times)	1.2	1.2	1.1	1.0
Payout ratio (%)	14.4	21.3	22.4	35.6
Number of employees	41,930	39,243	36,273	34,919
Operating Data				
Domestic Passenger Operations				
Passenger revenues	689,760	678,326	685,638	683,369
Available seat-km (Millions)	58,426	59,080	59,421	60,213
Revenue passenger-km (Millions)	40,271	38,990	38,470	38,582
Number of passengers (Thousands)	44,150	42,967	42,664	43,203
Load factor (%)	68.9	66.0	64.7	64.1
Unit revenues (¥)	11.8	11.5	11.5	11.3
Yield (¥)	17.1	17.4	17.8	17.7
International Passenger Operations				
Passenger revenues	597,446	516,789	515,696	468,321
Available seat-km (Millions)	64,376	60,148	54,710	49,487
Revenue passenger-km (Millions)	49,132	45,602	40,635	35,639
Number of passengers (Thousands)	9,740	9,119	8,167	7,208
Load factor (%)	76.3	75.8	74.3	72.0
Unit revenues (¥)	9.3	8.6	9.4	9.5
Yield (¥)	12.2	11.3	12.7	13.1
Domestic Cargo Operations				
Cargo revenues	30,710	30,860	31,740	32,584
Cargo volume (Tons)	436,790	451,266	466,979	475,462
International Cargo Operations				
Cargo revenues	118,002	93,301	113,309	124,772
Cargo volume (Tons)	994,593	954,027	810,628	841,765

Notes: 1. As of March 31, 2018, there were 64 consolidated subsidiaries and 16 equity-method subsidiaries and affiliates.
2. U.S. dollar amounts in this report are translated, for convenience only, at the rate of ¥106.24=US\$1, the approximate exchange rate as of March 31, 2018.
3. Effective from the fiscal year ended March 2015, revenue of jet fuel which is resold to airlines outside the Group is offset by its purchasing cost and the net amount is recorded in operating revenues.
4. Substantial free cash flow is excluding purchase and redemption of marketable securities (time deposits and negotiable deposits of more than three months).
5. EBITDA = Operating income + Depreciation and amortization
6. Total shareholders' equity = Shareholders' equity + Accumulated other comprehensive income
From the fiscal year ended March 2014, the Accounting Standard for Retirement Benefits (May 17, 2012) has been applied and the amount affected by liabilities for retirement benefits has been adjusted to be recorded in remeasurements of defined benefit plans.

Yen (Millions)							U.S. dollars (Thousands) (Note 2)
2014	2013	2012	2011	2010	2009	2008	2018
1,601,013	1,483,581	1,411,504	1,357,653	1,228,353	1,392,581	1,487,827	18,559,855
1,535,027	1,379,754	1,314,482	1,289,845	1,282,600	1,384,992	1,403,438	17,011,323
65,986	103,827	97,022	67,808	(54,247)	7,589	84,389	1,548,531
36,391	70,876	63,431	35,058	(95,593)	(4,445)	115,224	1,850,913
18,886	43,140	28,178	23,305	(57,387)	(4,260)	64,143	1,354,358
200,124	173,196	214,406	203,889	82,991	(39,783)	165,765	2,974,529
(64,915)	(333,744)	(166,323)	(139,619)	(251,893)	(111,139)	(69,827)	(3,054,348)
(85,569)	84,549	16,171	(10,596)	173,791	114,504	(87,336)	(282,275)
135,209	(160,548)	48,083	64,270	(168,902)	(150,922)	95,938	(79,819)
38,929	54,256	52,043	27,870	(123,902)	(150,922)	95,938	578,030
136,180	123,916	119,268	118,440	113,806	112,881	116,787	1,415,737
202,166	227,743	216,290	186,248	59,559	120,470	201,176	2,964,269
183,739	162,752	196,881	211,698	209,937	145,709	357,733	2,868,100
2,173,607	2,137,242	2,002,570	1,928,021	1,859,085	1,761,065	1,783,393	24,119,559
834,768	897,134	963,657	938,819	941,691	897,236	767,876	7,514,994
188,748	142,601	127,405	146,395	180,775	169,462	136,399	942,441
646,020	754,533	836,252	792,424	760,916	727,774	631,477	6,572,552
746,070	766,737	549,014	520,254	473,552	321,883	452,972	9,305,920
5.41	13.51	11.22	9.29	(24.67)	(2.19)	32.93	3.93
213.82	218.41	218.24	207.35	188.93	166.50	232.58	27.80
3.00	4.00	4.00	2.00	—	1.00	5.00	0.56
3,493,860	3,192,482	2,511,841	2,507,572	2,326,547	1,945,061	1,947,736	
4.1	7.0	6.9	5.0	(4.4)	0.5	5.7	
1.2	2.9	2.0	1.7	(4.7)	(0.3)	4.3	
3.2	5.1	5.1	3.7	(2.8)	0.6	5.3	
2.5	6.6	5.3	4.7	(14.4)	(1.1)	15.1	
34.3	35.9	27.4	27.0	25.5	18.3	25.4	
1.1	1.2	1.8	1.8	2.0	2.8	1.7	
4.1	3.9	4.5	5.0	15.8	7.4	3.8	
0.7	0.7	0.7	0.7	0.7	0.8	0.9	
12.4	9.5	10.8	10.7	4.6	—	10.7	
1.2	1.6	1.2	1.1	0.9	0.9	0.9	
55.5	29.6	35.7	21.5	—	—	15.2	
33,719	32,634	32,884	32,731	32,578	33,045	31,345	
675,153	665,968	651,556	652,611	630,976	699,389	739,514	6,492,469
61,046	58,508	56,756	56,796	57,104	59,222	62,651	
37,861	36,333	34,589	35,983	35,397	37,596	39,928	
42,668	41,089	39,020	40,574	39,894	42,753	45,557	
62.0	62.1	60.9	63.4	62.0	63.5	63.7	
11.1	11.4	11.5	11.5	11.0	11.8	11.8	
17.8	18.3	18.8	18.1	17.8	18.6	18.5	
395,340	348,319	320,066	280,637	214,124	291,077	311,577	5,623,550
41,451	37,947	34,406	29,768	26,723	27,905	28,285	
30,613	28,545	25,351	22,430	20,220	19,360	21,291	
6,336	6,276	5,883	5,168	4,666	4,432	4,827	
73.9	75.2	73.7	75.3	75.7	69.4	75.3	
9.5	9.2	9.3	9.4	8.0	10.4	11.0	
12.9	12.2	12.6	12.5	10.6	15.0	14.6	
32,116	32,231	33,248	32,413	31,829	33,097	30,566	289,062
477,081	463,473	467,348	453,606	458,732	475,014	462,569	
104,736	86,589	87,978	86,057	55,750	69,069	72,192	1,110,711
710,610	621,487	570,684	557,445	422,449	354,251	332,507	

7. The Group conducted a 1-for-10 reverse stock split effective October 1, 2017. Calculations have been made assuming a reverse stock split at the beginning of the fiscal year ended March 2018.

8. ROA = (Operating income + Interest and dividend income) / Simple average of total assets

9. ROE = Net income attributable to owners of the parent / Simple average of total shareholders' equity

10. Debt/equity ratio = Interest-bearing debt / Total shareholders' equity

11. Interest coverage ratio = Cash flows from operating activities / Interest expenses

* Yen amounts are rounded down to the nearest million yen and percentages are rounded to the nearest one decimal place. U.S. dollar amounts are truncated.

Management's Discussion and Analysis

Economic Conditions

General Economic Overview

The Japanese economy experienced a gradual recovery during fiscal 2017, supported by rising consumer spending in response to ongoing improvements in corporate earnings and employment. The airline industry enjoyed firm demand in general, mainly due to a rise in business travel among Japanese companies and increasing numbers of inbound travelers to Japan.

Concerns remain about the risk of a downturn in the economy, including currency and trade issues, as well as terrorism and conflict in Europe and the Middle East. Nevertheless, the economic outlook calls for a gradual recovery, driven by an improving job market, rising income levels, and the positive impact of government policies.

Fuel Price Trends

The average price for Dubai crude oil was \$55.6 per barrel during fiscal 2017. At the end of the fiscal year, Dubai crude was \$62.7 per barrel, exceeding last year's price. The Organization of the Petroleum Exporting Countries (OPEC) made a decision to reduce production in November 2016. In the wake of this decision, crude oil prices rose, reflecting a strong recovery in demand, as well as concerns about geopolitical risk.

The market price of Singapore kerosene tracked the price of crude oil. The average price for the fiscal year was \$67.9 per barrel, ending at \$80.3 per barrel on March 31, 2018.

Foreign Exchange Market

The Japanese yen averaged ¥110.8 to the U.S. dollar for fiscal 2017, ending the year at ¥106.2 per U.S. dollar. The yen weakened gradually compared to the U.S. dollar throughout the first half of the fiscal year, fueled by predictions of a spreading interest rate gap between the two countries caused faster interest-rate increases in the United States. The value of the yen rose slowly throughout the second half of the year in response to concerns about the situation in North Korea and other factors.

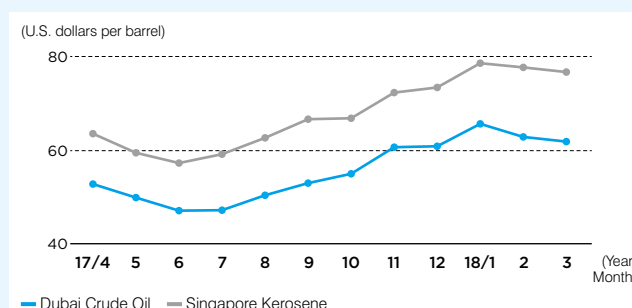
Air Transport Traffic Trends

International Air Transportation Association (IATA) member airlines reported 1,690 million passengers on scheduled international flights for fiscal 2017 (8.3% increase year on year). Passengers on scheduled domestic flights numbered 2,390 million (6.7% increase). At the same time, scheduled global air cargo volume increased 7.9%. (Source: IATA World Air Transport Statistics, 2018)

In Japan, passengers on trunk routes* increased 3.2% to 43.65 million for fiscal 2017. The number of passengers on local routes* increased 4.7% to 58.46 million. In total, Japanese air transport passengers numbered 102.12 million, an increase of 4.1%. Domestic cargo volume decreased 0.6% to 0.9 million tons. The number of passengers carried by Japanese airlines on international services increased 6.3% to 22.39 million, while the volume of international cargo handled by Japanese airlines increased 10.0% to 1.76 million tons. (Source: Ministry of Land, Infrastructure, Transport and Tourism preliminary report)

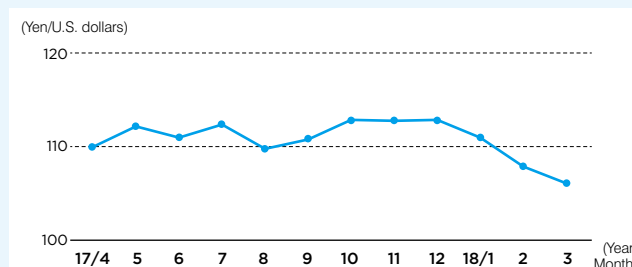
* Trunk routes refer to routes connecting Sapporo (New Chitose), Tokyo (Haneda), Tokyo (Narita), Osaka (Itami), Osaka (Kansai), Fukuoka, and Okinawa (Naha) airports with one another. Local routes refer to all other routes.

Monthly Prices for Dubai Crude Oil and Singapore Kerosene



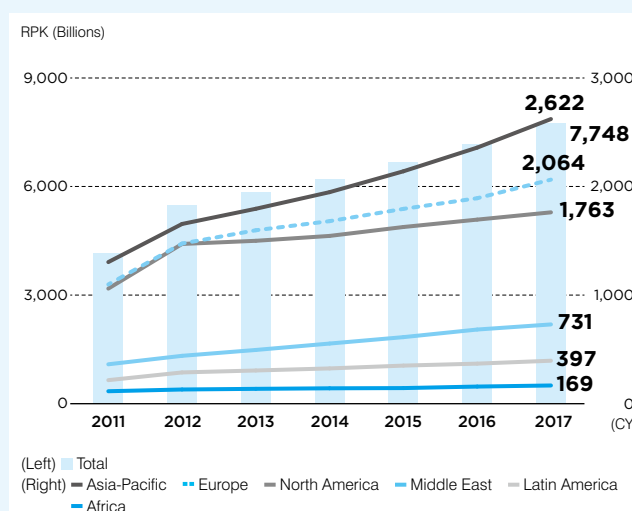
Source: Bloomberg

Monthly Yen-Dollar Exchange Rate



Source: Bloomberg

Global Air Transportation Passenger Volume by Region



Source: International Air Transportation Association (IATA), 2018

Performance for Fiscal 2017

Overview of the ANA Group

As of March 2018, the ANA Group ("the Group"), led by holding company ANA HOLDINGS INC., consists of 126 subsidiaries (including ALL NIPPON AIRWAYS CO., LTD.) and 45 affiliates. A total of 64 companies are treated as consolidated subsidiaries, with another 16 treated as equity-method subsidiaries and affiliates. The Group had 41,930 employees as of March 31, 2018, up 2,687 employees year on year.

During fiscal 2017, we operated under the major initiatives of the updated FY2016–20 Corporate Strategy: Expand airline business domains and Create new business and accelerate growth of existing businesses. We practiced aggressive and speedy management to make quick and timely decisions about new investment, innovations, and responding to diversifying customer needs.

Consolidated Operating Revenues, Operating Expenses, and Operating Income

Fiscal 2017 operating revenues amounted to ¥1,971.7 billion, a ¥206.5 billion (11.7%) increase year on year. This increase was mainly due to positive trends in our mainstay Air Transportation Business, as well as increased revenues in Airline Related, Trade and Retail, and Others segments.

Operating income increased 13.0%, or ¥18.9 billion, to ¥164.5 billion. Operation-linked expenses increased in conjunction with growth. While we gave priority to our investments in safety and people, we also engaged in cost management initiatives. As a result, operating expenses increased ¥187.5 billion, or 11.6%, to ¥1,807.2 billion.

Review by Segments

The Group operates four reportable segments: Air Transportation, Airline Related, Travel Services, and Trade and Retail.

Segment Information

(¥ Millions)

(Fiscal Year)	Operating Revenues			Operating Income (Loss)			EBITDA		
	2017	2016	Change	2017	2016	Change	2017	2016	Change
Air Transportation	¥1,731,173	¥1,536,349	¥194,824	¥156,873	¥139,511	¥17,362	¥301,097	¥273,347	¥27,750
Airline Related	284,331	264,457	19,874	10,635	8,309	2,326	15,000	13,201	1,799
Travel Services	159,289	160,609	(1,320)	3,745	3,741	4	4,026	3,912	114
Trade and Retail	143,039	136,761	6,278	4,506	4,385	121	5,821	5,657	164
Subtotal	2,317,832	2,098,176	219,656	175,759	155,946	19,813	325,944	296,117	29,827
Others	38,708	34,776	3,932	2,767	1,368	1,399	2,990	1,551	1,439
Adjustments	(384,741)	(367,693)	(17,048)	(14,010)	(11,775)	(2,235)	(14,010)	(11,775)	(2,235)
Total (Consolidated)	¥1,971,799	¥1,765,259	¥206,540	¥164,516	¥145,539	¥18,977	¥314,924	¥285,893	¥29,031

Notes: 1. "Others" represents all business segments that are not included in the reportable segments, such as facility management, business support, and other operations.

2. Adjustments of segment profit represent the elimination of intersegment transactions and group management expenses of ANA HOLDINGS INC. and certain other items.

3. Segment operating income is reconciled with operating income in the consolidated financial statements.

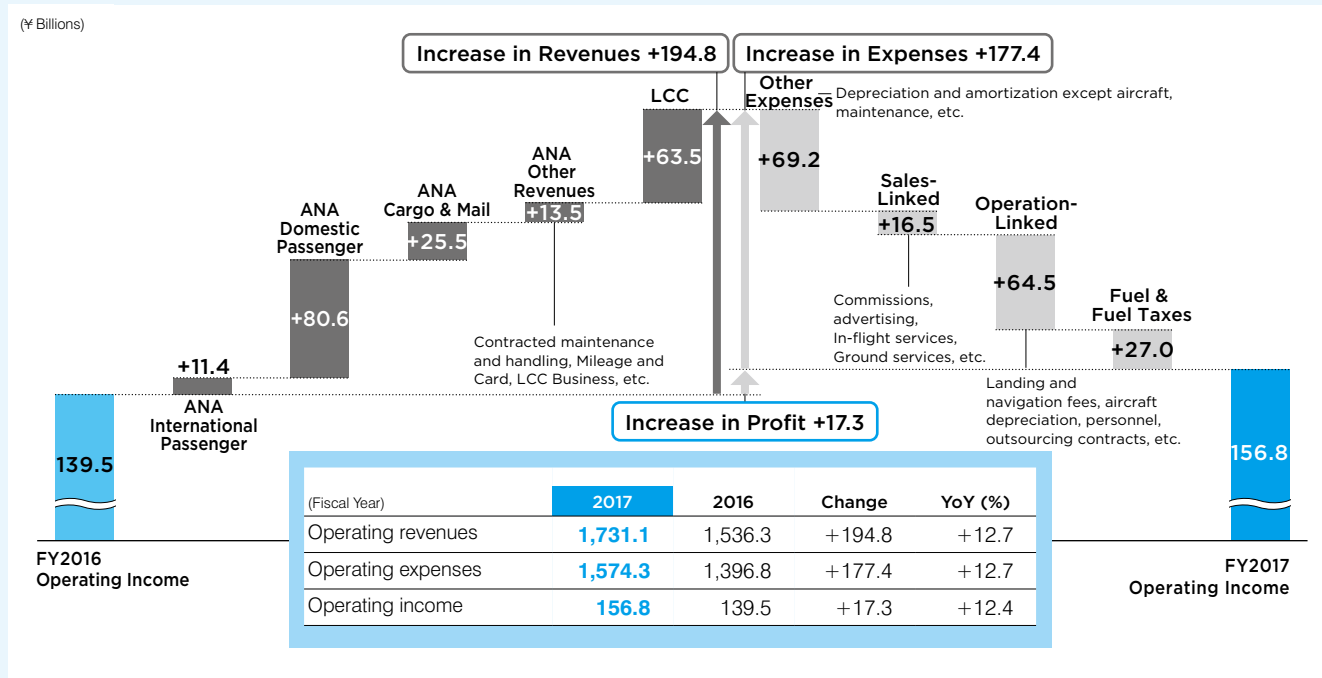
4. EBITDA = Operating income + Depreciation and amortization

Management's Discussion and Analysis

Air Transportation Business

Changes in Operating Income (FY2017 vs FY2016)

* FY2016 review does not include results from Peach Aviation Limited



Air Transportation operating revenues amounted to ¥1,731.1 billion, a year-on-year increase of ¥194.8 billion (12.7%). This increase was mainly due to strong demand in International Passenger and Cargo Businesses, as well as the addition of revenues from Peach Aviation, which became a consolidated subsidiary during the year. Operating income rose ¥17.3 billion (12.4%) to ¥156.8 billion. Expenses rose in

conjunction with business growth, while we also saw a significant increase in maintenance-related costs due to participation in a Maintenance Outsourcing Program. However, proactive cost management resulted in operating income gains for the year.

Results by business are as follows.

ANA International Passenger Business

The ANA International Passenger Business outperformed prior year in both passenger numbers and revenues. Demand for business travel from Japan was strong throughout the year, while we also captured increased inbound traveler demand.

A total of 9.74 million passengers used the ANA network in fiscal 2017 (6.8% increase), while unit price rose to ¥61,336 per passenger (8.2% increase). Operating revenues rose 15.6% year on year to ¥597.4 billion. We recorded a 7.0% increase in available seat-kilometers (ASK), while increasing revenue passenger-kilometers (RPK) by 7.7%. Load factor increased by 0.5 points to 76.3%.

ANA continued to build our network into and out of the Tokyo metropolitan area airports. ANA added a Haneda-Jakarta route in August 2017 and increased the Narita-Los Angeles route in October

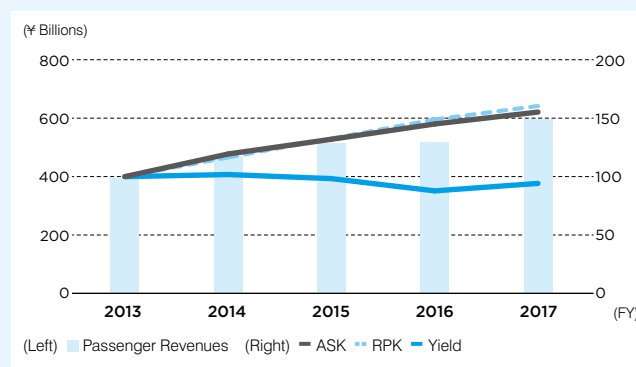
2017 to two flights daily. In addition to business demand into and out of the Tokyo metropolitan area, we have responded to demand for flights between Asia and North America, as well as connections to other airports within Japan. ANA upgraded product and service offerings during the year. We switched to Boeing 787-9s on the Honolulu route to offer *ANA BUSINESS STAGGERED* full-flat seats and *PREMIUM ECONOMY* services.

Supported by positive movements in the domestic and international economies, we bolstered yield management to benefit from the strong year-round demand for business travel. We captured demand for leisure travel both into and out of Japan through a variety of discount fares. We also engaged in promotional activities to encourage greater demand among inbound travelers.

ANA International Passenger Business Results

(Fiscal Year)	2017	2016	YoY (%)
ASK (Millions)	64,376	60,148	+7.0
RPK (Millions)	49,132	45,602	+7.7
Number of passengers (Thousands)	9,740	9,119	+6.8
Load factor (%)	76.3	75.8	+0.5*
Passenger revenues (¥ Billions)	597.4	516.7	+15.6
Unit revenues (¥)	9.3	8.6	+8.0
Yield (¥)	12.2	11.3	+7.3
Unit price (¥)	61,336	56,669	+8.2

* Difference



* Figures for ASK, RPK, and Yield are indexed using the figures for fiscal 2013 as 100.

ANA Domestic Passenger Business

The ANA Domestic Passenger Business saw growth in both passenger numbers and revenues, optimizing supply to demand through the use of narrow-body aircraft, while offering a variety of discount fares to stimulate demand.

Despite the impact of typhoons, snow, and other inclement weather during the second half of the fiscal year, passenger numbers grew 2.8% to 44.15 million. Operating revenues rose 1.7% to ¥689.7 billion, despite a 1.0% unit price decrease to ¥15,623. ASK declined 1.1%, while we increased RPK by 3.3% year on year. Load factor was 68.9%, an increase of 2.9 points.

We captured demand across our network by being flexible in adapting to the characteristics of each route. In addition to introducing Chubu–Miyoko route in June 2017, we launched the late-night

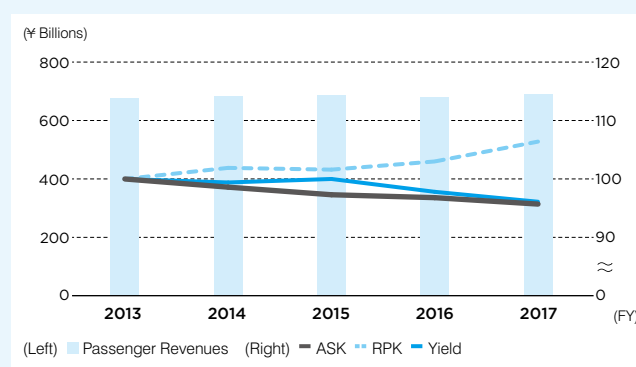
Galaxy Flight between Haneda and Okinawa during the summer season. With the extension of Hiroshima Airport operation hours starting in the winter season, we added more flights to the Haneda–Hiroshima route.

In addition to *Tabiware* promotional fares, we have encouraged the use of our domestic routes by passengers visiting Japan. We initiated a new service with the September 2017 introduction of the Airbus A321neo, which is equipped with touchscreen personal monitors in each seat. We also opened upscale lounges for premium members and adopted new automated *ANA Baggage Drop* (self-service baggage check-in) machines at the Sapporo (New Chitose) Airport. In these and many other ways, we are striving to improve comfort and convenience for our passengers.

ANA Domestic Passenger Business Results

(Fiscal Year)	2017	2016	YoY (%)
ASK (Millions)	58,426	59,080	-1.1
RPK (Millions)	40,271	38,990	+3.3
Number of passengers (Thousands)	44,150	42,967	+2.8
Load factor (%)	68.9	66.0	+2.9*
Passenger revenues (¥ Billions)	689.7	678.3	+1.7
Unit revenues (¥)	11.8	11.5	+2.8
Yield (¥)	17.1	17.4	-1.5
Unit price (¥)	15,623	15,787	-1.0

* Difference



* Figures for ASK, RPK, and Yield are indexed using the figures for fiscal 2013 as 100.

ANA Cargo and Mail Business

ANA Cargo and Mail Business operating revenues for fiscal 2017 increased 19.3% year on year to ¥158.0 billion.

The International Cargo Business recorded operating revenues of ¥118.0 billion, a year-on-year increase of 26.5%, reflecting a 21.3% increase in unit price achieved through raising prices in response to strong cargo demand. Cargo volume increased 4.3% to 990,000 tons.

Demand for international cargo from Japan to overseas destinations grew primarily for automobile parts and electronic devices to North America and Europe. Demand was also strong for cargo flights bound for Japan from overseas locations, including Asia and China.

We also succeeded in incorporating trilateral cargo from China to North America via Japan. Available ton-kilometers (ATK) increased 3.4% year on year, while revenue ton-kilometers (RTK) rose 7.8%.

Domestic Cargo Business operating revenues decreased 0.5% to ¥30.7 billion, reflecting a 3.2% decrease in cargo volume to 430,000 tons, offset in part by a unit price increase of 2.8%. One focus during the year was to increase revenues through cargo connections with international routes, capturing the strong demand in this sector. We also set non-scheduled extra cargo flights for the Okinawa–Haneda route during peak demand for flowers. Despite our efforts, demand

Management's Discussion and Analysis

for domestic cargo transportation was sluggish throughout the year. Demand for cargo home delivery was also weak. These factors combined to decrease both ATK and RTK by 2.5% year on year.

ANA Cargo and Mail Business Results

(Fiscal Year)	2017	2016	YoY (%)
Cargo and mail services revenues (¥ Billions)	158.0	132.4	+19.3
International cargo			
ATK (Millions)	6,809	6,583	+3.4
RTK (Millions)	4,474	4,150	+7.8
Cargo volume (Thousand tons)	994	954	+4.3
Cargo revenues (¥ Billions)	118.0	93.3	+26.5
Unit price (¥/kg)	119	98	+21.3
Mail revenues (¥ Billions)	5.9	4.8	+22.0
Domestic cargo			
ATK (Millions)	1,739	1,783	-2.5
RTK (Millions)	448	459	-2.5
Cargo volume (Thousand tons)	436	451	-3.2
Cargo revenues (¥ Billions)	30.7	30.8	-0.5
Unit price (¥/kg)	70	68	+2.8
Mail revenues (¥ Billions)	3.3	3.4	-0.8

Others (Including LCC Business)

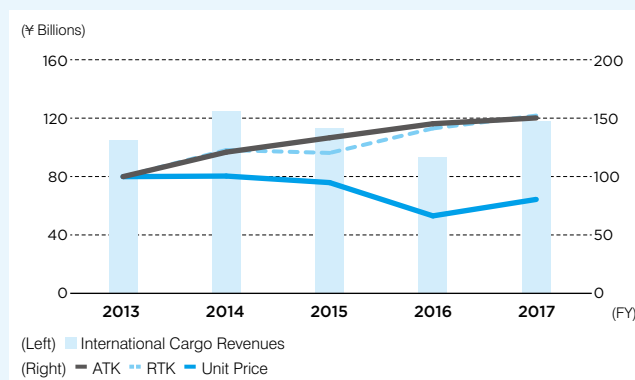
The Others within our Air Transportation Business recorded ¥285.9 billion in operating revenues, a 36.9% increase year on year. The LCC Business contributed ¥87.5 billion in operating revenues, while ¥198.3 billion came from other businesses. This significant growth was mainly due to the consolidation of Peach Aviation and higher revenues at Vanilla Air. We also saw higher revenues from airport ground handling contracts and other ancillary businesses, including credit card and mileage programs.

Vanilla Air operating revenues increased approximately ¥9 billion compared to the prior fiscal year. ASK increased 18.0% year on year, RPK rose 17.6%, and load factor decreased 0.3 points to 85.5%. These results reflected our efforts to increase revenues by capturing strong inbound traveler demand, primarily from Taiwan, and introducing campaign fares in response to changes in demand.

Peach Aviation added new Sendai-Sapporo and Sapporo-Fukuoka domestic routes in September 2017. Peach opened new service between Kansai-Niigata in March 2018. Peach Aviation extended its international network by adding new Sendai-Taipei and Sapporo-Taipei routes in September 2017. Load factor for Peach in fiscal 2017 was 86.9%.

International Mail Business operating revenues increased 22.0% year on year to ¥5.9 billion, while Domestic Mail operating revenues decreased 0.8% to ¥3.3 billion.

International Cargo Business Results



Figures for ATK, RTK and Unit price are indexed using the figures for fiscal year 2013 as 100.

LCC Business Results (Vanilla Air Inc.) (Domestic and International in Total)

(Fiscal Year)	2017	2016*2	YoY (%)
ASK (Millions)	11,832	4,221	+180
RPK (Millions)	10,212	3,622	+182
Number of passengers (Thousands)	7,797	2,129	+266
Load factor (%)	86.3	85.8	+0.5*3
Passenger revenues (¥ Billions)*1	87.5	23.9	+265
Unit revenues (¥)	7.4	5.7	+30.2
Yield (¥)	8.6	6.6	+29.5
Unit price (¥)	11,228	11,264	-0.3

*1 Revenues include ancillary income.

*2 Figures for FY2016 do not include results from Peach Aviation Limited

*3 Difference

Operating Expenses

Air Transportation Business operating expenses increased ¥117.4 billion (12.7%) year on year to ¥1,574.3 billion. Specific expense amounts and reasons for year-on-year changes are described below.

Breakdown of Operating Revenues and Expenses

(Fiscal Year)		(¥ Millions)		
		2017	2016	YoY (%)
Segment operating revenues		¥1,731,173	¥1,536,349	¥194,824
Domestic	Passenger	689,760	678,326	11,434
	Cargo	30,710	30,860	(150)
	Mail	3,388	3,417	(29)
International	Passenger	597,446	516,789	80,657
	Cargo	118,002	93,301	24,701
	Mail	5,934	4,863	1,071
Other revenues		198,378		
LCC revenues		87,555	208,793	77,140
Segment operating expenses		1,574,300	1,396,838	177,462
Fuel and fuel tax		300,642	273,602	27,040
Landing and navigation fees		122,434	114,537	7,897
Aircraft leasing fees		110,443	100,095	10,348
Depreciation and amortization		144,224	133,836	10,388
Aircraft maintenance		166,991	112,491	54,500
Personnel		201,927	185,417	16,510
Sales commissions and promotion		102,636	92,711	9,925
Contracts		223,634	201,375	22,259
Others		201,369	182,774	18,595
Segment operating income		¥ 156,873	¥ 139,511	¥ 17,362

<Fuel and Fuel Tax>

Fuel and fuel tax expenses amounted to ¥300.6 billion, a ¥27.0 billion (9.9%) increase year on year. This expense accounted for 19.1% of segment operating expenses, compared with 19.6% in the previous fiscal year. This ¥27.0 billion increase was mainly due to increases in ANA price factors (including hedging effectiveness) of approximately ¥7 billion, an increase in ANA consumption volume factors of approximately ¥6 billion for ANA and an increase in LCC Business of approximately ¥14 billion.

Fuel consumption volume increased due to the expansion of international services. The ANA Group is working to control fuel consumption volume increases by introducing fuel-efficient aircraft and other measures, including the adoption of efficient flight operations. During fiscal 2017, we engaged in the same measures as we followed in the previous fiscal year.

<Landing and Navigation Fees>

Landing and navigation fees amounted to ¥122.4 billion, up ¥7.8 billion (6.9%) year on year. Although the number of flights were almost unchanged versus the previous year for passenger aircraft on ANA domestic operations, we increased 4.8% on ANA international operations. The number of ANA freighter flights decreased 0.9% year on year. ANA introduced more narrow-body aircraft on domestic services; however, the expansion of operations on international services and the effects of the consolidation of Peach Aviation led to the above-mentioned rise in landing and navigation fees.

<Aircraft Leasing Fees>

Aircraft leasing fees increased ¥10.3 billion (10.3%) year on year to ¥110.4 billion. This increase was mainly due to the consolidation of Peach Aviation, resulting in leased aircraft in service increasing from 63 to 86 compared to the end of the previous fiscal year.

<Depreciation and Amortization>

Depreciation and amortization expenses increased ¥10.3 billion (7.8%) to ¥144.2 billion. This increase was mainly due to putting seven Boeing 787-9 aircraft into service during this fiscal year as we continue to update the ANA-owned fleet.

<Aircraft Maintenance>

Aircraft maintenance expenses increased ¥54.5 billion (48.4%) year on year to ¥166.9 billion. This significant increase included approximately ¥25 billion for participation in Maintenance Outsourcing Programs, as well as an increase in the frequency of parts replacement and engine maintenance as we further strengthen our maintenance services.

<Personnel>

Personnel expenses increased ¥16.5 billion (8.9%) year on year to ¥201.9 billion. This increase was mainly due to stepped-up hiring in response to business growth and the recording of a lump-sum reserve in connection with a performance-linked compensation due to an improvement in earnings.

<Sales Commissions and Promotion>

Sales commissions and promotion expenses increased ¥9.9 billion (10.7%) year on year to ¥102.6 billion. This increase mainly due to an increase in demand in our International Passenger and Cargo Businesses, as well as mileage program-related expenses.

<Contracts>

Contract expenses increased ¥22.2 billion (11.1%) year on year to ¥223.6 billion. This increase was mainly due to ASK/ATK capacity-related increases in operations outsourcing and an increase in internal transactions between reportable segments.

<Others>

Others increased ¥18.5 billion (10.2%) year on year to ¥201.3 billion. This result was mainly due to increased expenses related to airport lounges and in-flight services. We also saw an increase in goodwill amortization expenses associated with the consolidation of Peach Aviation.

Management's Discussion and Analysis

Airline Related Business

Fiscal 2017 segment operating revenues increased ¥19.8 billion (7.5%) year on year to ¥284.3 billion. Operating income increased ¥2.3 billion (28.0%) year on year to ¥10.6 billion. These increases were mainly due to increased contracts for airport ground support work (check-in procedures, baggage handling, etc.) at Haneda and Kansai airports. We also saw an increase in the cargo transaction volume of our logistics business, reflecting strong demand.

In September 2017, Overseas Courier Service Co., Ltd. (OCS), which handles international logistics, opened the new *Tokyo Sky Gate* logistics hub to consolidate parcel pickup and sorting functions. This new facility features extensive automation equipment.

Performance in the Airline Related Segment

(Fiscal Year)	2017	2016	Change
Segment operating revenues	¥284,331	¥264,457	¥19,874
Segment operating expenses	273,696	256,148	17,548
Segment operating income	¥ 10,635	¥ 8,309	¥ 2,326

Travel Services

Travel Services fiscal 2017 operating revenues amounted to ¥159.2 billion, a ¥1.3 billion (0.8%) decrease year on year. Operating income was virtually unchanged at ¥3.7 billion.

Domestic travel services operating revenues declined ¥3.7 billion (2.9%) to ¥127.0 billion. While we captured demand for advanced purchases of *Tabisaku* dynamic packages through stronger promotions and product attractiveness, our mainstay *ANA Sky Holiday* struggled to attract customers in the Tokyo metropolitan and Okinawa areas.

Overseas travel services operating revenues increased ¥2.4 billion (13.0%) to ¥21.6 billion. Sales of *ANA Hallo Tour* travel packages benefited from strong demand to Hawaii and North America. Operating revenues included in other income declined slightly, amounting to ¥10.5 billion. While inbound travel demand from China was strong, traffic from Taiwan declined due to rising competition.

Performance in the Travel Services Segment

(Fiscal Year)	2017	2016	Change
Segment operating revenues	¥159,289	¥160,609	¥(1,320)
Domestic package products	127,065	130,818	(3,753)
International package products	21,658	19,170	2,488
Other revenues	10,566	10,621	(55)
Segment operating expenses	155,544	156,868	(1,324)
Segment operating income	¥ 3,745	¥ 3,741	¥ 4

Trade and Retail

Fiscal 2017 operating revenues in our Trade and Retail business increased ¥6.2 billion (4.6%) year on year to ¥143.0 billion. Operating income increased ¥0.1 billion (2.8%) to ¥4.5 billion.

In our food business, transaction volume for our mainstay product, bananas, declined due to intense market competition. In the retail business, however, an increase in passengers on international services and a stronger product lineup to stay in step with changing preferences of inbound travelers led to *ANA DUTY-FREE SHOP* and *ANA FESTA* airport shop operating revenues outperforming the previous fiscal year. The aerospace and electronics businesses also saw increases in semiconductor transaction volume.

Performance in the Trade and Retail Segment

(Fiscal Year)	2017	2016	Change
Segment operating revenues	¥143,039	¥136,761	¥6,278
Segment operating expenses	138,533	132,376	6,157
Segment operating income	¥ 4,506	¥ 4,385	¥ 121

Others

Operating revenues in the Others segment increased ¥3.9 billion (11.3%) year on year to ¥38.7 billion. Operating income increased ¥1.3 billion (102.3%) to ¥2.7 billion. These increases were mainly due to firm performance in our real estate-related and airport security businesses.

Performance in the Others Segment

(Fiscal Year)	2017	2016	Change
Segment operating revenues	¥38,708	¥34,776	¥3,932
Segment operating expenses	35,941	33,408	2,533
Segment operating income	¥ 2,767	¥ 1,368	¥1,399

Non-Operating Income / Expenses

Net non-operating income amounted to ¥32.1 billion for fiscal 2017 against net non-operating expenses of ¥6.0 billion in fiscal 2016.

Special gains reflected a gain on step acquisition related to Peach Aviation, which was consolidated during this fiscal year.

Non-Operating Income / Expenses

(Fiscal Year)	2017	2016	Change
(¥ Millions)			
Interest and dividend income	¥ 2,014	¥ 1,691	¥ 323
Interest expenses	(8,676)	(9,804)	1,128
Foreign exchange gain/loss, net	(1,234)	(2,106)	872
Gain on sales of assets	3,408	1,957	1,451
Loss on sales/disposal of assets	(4,313)	(5,877)	1,564
Impairment loss	(6,061)	(2,208)	(3,853)
Equity in earnings of unconsolidated subsidiaries and affiliates	1,485	3,610	(2,125)
Gain on sales of investment securities	1,311	1,976	(665)
Gain on step acquisition	33,801	—	33,801
Loss on valuation of investments in unconsolidated subsidiaries and affiliates	(577)	(571)	(6)
Gain on sales of property and equipment	9,623	121	9,502
Gain on donation of non-current assets	1,134	3,238	(2,104)
Loss on sales/disposal of property and equipment	(748)	(361)	(387)
Other, net	958	2,257	(1,299)
Total	¥32,125	¥(6,077)	¥38,202

Net Income Attributable to Owners of the Parent

The preceding factors combined to increase income before income taxes by ¥57.1 billion (41.0%) year on year to ¥196.6 billion. After income taxes, municipal taxes, business taxes, and other adjustments, net income attributable to owners of the parent increased ¥45.0 billion (45.6%) to ¥143.8 billion. Earnings per share were ¥417.82 compared with ¥282.35 for the previous fiscal year*.

Comprehensive income increased ¥16.8 billion (11.6%) to ¥162.4 billion, mainly due to the growth in net income attributable to owners of the parent.

* The Group conducted a 1-for-10 reverse stock split effective October 1, 2017. Calculations have been made assuming a reverse stock split at the beginning of the previous fiscal year.

Cash Flows

Fundamental Approach

The ANA Group's fundamental approach to cash management is to conduct continuous investments strategically to strengthen competitiveness over the medium and long term, while maintaining financial soundness.

Capital expenditures are ordinarily kept within the scope of cash flows from operating activities, including repayment of lease obligations, to generate free cash flow, which enables us to maintain a balance between total interest-bearing debt and shareholders' equity.

The Group's primary means of raising funds are borrowings from banks and bond issuances. The Group has also concluded commitment lines totaling ¥150.6 billion with leading domestic financial institutions to ensure reliable access to working capital in case of emergency. Commitment lines were unused as of the end of March 2018.

The Group has access to the Japan Bank for International Cooperation (JBIC)'s guarantee system for investments in aircraft, our primary assets.

Overview of Fiscal 2017

Free cash flow resulted in expenditures of ¥8.4 billion (sum of cash flows from operating activities and investing activities). Net cash used in financing activities totaled ¥29.9 billion. As a result, cash and cash equivalents decreased ¥38.5 billion from the beginning of the fiscal year, amounting to ¥270.5 billion at the end of the fiscal year.

Cash Flows from Operating Activities

After adjusting the ¥196.6 billion in income before income taxes for depreciation and amortization, notes and accounts payable, notes and accounts receivable, and other non-cash items, net cash provided by operating activities amounted to ¥316.0 billion, up ¥78.9 billion year on year. This increase was mainly due to an increase in operating income during fiscal 2017 and a decrease in income tax payments.

Interest Coverage Ratio*

(Fiscal Year)	2017	2016
Interest coverage ratio	36.1	23.9

* Interest coverage ratio = Cash flows from operating activities / Interest expenses

Management's Discussion and Analysis

Cash Flows from Investing Activities

Net cash used in investing activities totaled ¥324.4 billion, up ¥129.8 billion year on year. The increase was mainly due to payments for purchases of property and equipment related to payments upon delivery of aircraft, purchases of spare parts, and advance payments for aircraft to be put into service in the future. Payments were also made for intangible assets, including investments in software. Net cash used in investing activities amounted to ¥254.6 billion when excluding cash movements that resulted in net outlays of ¥69.8 billion related to the acquisition and sale of time deposits and negotiable deposits of more than three months.

Free Cash Flow

As mentioned above, net cash provided by operating activities totaled ¥316.0 billion. Since net cash used in investing activities was ¥324.4 billion, free cash flow for fiscal 2017 amounted to net expenditures of ¥8.4 billion, compared to net expenditures of ¥42.4 billion for fiscal 2016. Substantial free cash flow increased ¥21.7 billion year on year to ¥61.4 billion, when excluding cash movements associated with the acquisition and sale of time deposits and negotiable deposits of more than three months.

Cash Flows from Financing Activities

Net cash used in financing activities was ¥29.9 billion, compared to net cash provided by financing activities of ¥3.3 billion in the previous fiscal year. This result was mainly due to funds raised from the issuance of bonds, etc., offset by loan repayments and stock repurchases.

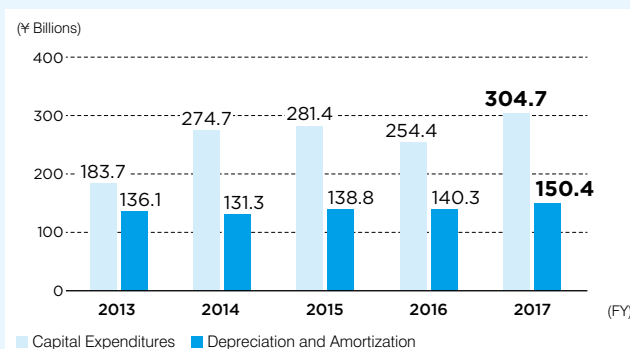
Capital Expenditures and Aircraft Procurement

Capital Expenditures

ANA Group capital expenditures are intended to improve future competitiveness and profitability in pursuit of the Group's growth strategy. These expenditures primarily include the acquisition of aircraft, spare engines, and aircraft parts, as well as information systems and facilities expenditures. Fiscal 2017 capital expenditures increased 19.8% year on year to ¥304.7 billion, mainly reflecting investment in aircraft within our Air Transportation Business.

By segment, Air Transportation Business capital expenditures increased 18.2% year on year to ¥292.1 billion. Airline Related expenditures increased 35.5% to ¥11.4 billion, while Travel Services expenditures decreased 18.7% to ¥0.8 billion. Trade and Retail capital expenditures decreased 26.0% to ¥1.0 billion, and Others decreased 9.9% to ¥0.4 billion.

Capital Expenditures* / Depreciation and Amortization



* Capital expenditures contains only fixed assets.

Fundamental Approach to Aircraft Procurement

Aircraft are major investments used over the long term (10-plus years). Decisions regarding the selection of aircraft types suited to routes and networks and the pursuit of the best fleet composition are among the most important issues for airline management.

The ANA Group fleet strategy is based on three basic policies: (1) Strengthening cost competitiveness by introducing fuel-efficient aircraft, (2) Optimizing supply to demand by increasing the ratios of narrow- and medium-body aircraft; and (3) Enhancing productivity by integrating aircraft types.

Fundamentally, the Group purchases and owns strategic aircraft we intend to use over the medium to long term. We employ operating leases to procure aircraft for use over the short term or for capacity adjustment. The Group may also utilize sale-leaseback transactions as a means to diversify corporate financing methods. In these and other ways, the Group selects the most economical aircraft procurement method.

Aircraft Procured in Fiscal 2017

Based on our fleet strategy, aircraft in service totaled 292 as of the end of fiscal 2017, an increase of 24 compared to the end of the previous fiscal year.

During the fiscal year, the ANA Group purchased 18 new aircraft. These consisted of seven Boeing 787-9s, two Airbus A321-200neos, one Airbus A320-200neo, five Airbus A320-200s, and three

Bombardier DHC-8-400s. Meanwhile, the Group sold a total of 12 aircraft, including three Boeing 777-200s, three Boeing 767-300s, three Boeing 737-500s, and three Airbus A320-200s.

The number of Vanilla Air aircraft in service increased by three, while the number of Peach Aviation aircraft in service increased by two.

The table below shows changes in the number of aircraft in service.

Changes in the Number of Aircraft in Service in Fiscal 2017

() changes

Aircraft	Number of Aircraft as of March 31, 2018	Owned	Leased
Boeing 777-300 / -300ER	29	25 (+2)	4 (-2)
Boeing 777-200 / -200ER	21 (-3)	15 (-2)	6 (-1)
Boeing 787-9	28 (+7)	25 (+5)	3 (+2)
Boeing 787-8	36	31	5
Boeing 767-300 / -300ER	34 (-3)	23 (-2)	11 (-1)
Boeing 767-300F / -300BCF (Freighter)	12	8	4
Airbus A321-200neo	2 (+2)	0	2 (+2)
Airbus A321-200	4	0	4
Airbus A320-200neo	3 (+1)	3 (+1)	0
Airbus A320-200	42 (+20)	7 (-3)	35 (+23)
Boeing 737-800	36	24	12
Boeing 737-700	7	7	0
Boeing 737-500	14 (-3)	14 (-3)	0
Bombardier DHC-8-400	24 (+3)	24 (+3)	0
Total	292 (+24)	206 (+1)	86 (+23)

Figures for Airbus A320-200s included 35 aircraft (all leased) operated by Vanilla Air Inc. and Peach Aviation Limited. (12 as of March 31, 2017, excluding those operated by Peach Aviation Limited.). Separate from the figures above, as of March 31, 2018, 18 aircraft were leased outside the Group (18 as of March 31, 2017).

Aircraft Procurement Plan for Fiscal 2018

The ANA Group plans to add a total of 25 aircraft to expand our international business. These aircraft will help us better respond to leisure travel demand, as well as optimize supply to demand in our domestic business as we shift to narrow-body aircraft. Our plans call for purchasing one Airbus A380, two Boeing 777-300ERs, one Boeing 787-10, two Boeing 787-9s, nine Airbus A321-200neos,

six Airbus A320-200neos, and four Airbus A320-200s. Meanwhile, the Group plans to retire 20 aircraft, consisting of three Boeing 777-200s, six Boeing 767-300s, seven Boeing 737-500s, and four Airbus A320-200s..

Management's Discussion and Analysis

Financial Position

Assets

Total assets as of March 31, 2018 amounted to ¥2,562.4 billion, an increase of ¥248.0 billion compared to March 31, 2017.

Total current assets amounted to ¥751.1 billion as of March 31, 2018, up ¥84.4 billion from one year earlier. Cash and deposits amounted to ¥78.0 billion, an increase of ¥17.2 billion compared to the end of the previous fiscal year. Marketable securities increased ¥21.5 billion to ¥279.5 billion. As a result, liquidity on hand amounted to ¥357.5 billion, up ¥38.7 billion year on year.

Total non-current assets at the end of the fiscal year stood at ¥1,810.8 billion, up ¥163.6 billion from one year earlier. This increase was mainly due to an increase in property and equipment through the acquisition of aircraft, in addition to an increase in goodwill associated with the consolidation of Peach Aviation.

Liabilities

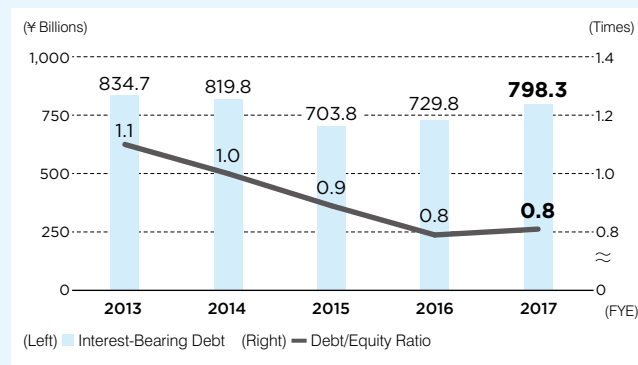
Total liabilities as of March 31, 2018 amounted to ¥1,561.9 billion, up ¥171.6 billion compared to the end of the previous fiscal year.

Current liabilities totaled ¥648.0 billion at the end of the fiscal year, an increase of ¥75.4 billion. This result was primarily due to increases in trade accounts payable and other factors.

Long-term liabilities amounted to ¥913.8 billion as of March 31, 2018, a decrease of ¥96.2 billion compared to the end of the previous fiscal year. This decrease was mainly due to an increase of ¥140.0 billion in corporate bonds resulting from the issuance of convertible bonds with equity purchase warrants.

Interest-bearing debt, including finance lease obligations, increased ¥68.5 billion year on year to ¥798.3 billion. Debt/equity ratio remained unchanged from March 31, 2017 at 0.8 times. Debt/equity ratio including off-balanced lease obligations remained the same as the end of previous fiscal year, standing at 0.8 times.

Interest-Bearing Debt / Debt/Equity Ratio



Excluding off-balanced lease obligations

Interest-Bearing Debt

(End of Fiscal Year)	2017	2016	Change
Short-term debt:	¥100,125	¥118,382	¥ (18,257)
Short-term loans	176	70	106
Current portion of long-term loans	84,738	93,292	(8,554)
Current portion of bonds	10,000	20,000	(10,000)
Finance lease obligations	5,211	5,020	191
Long-term debt*:	¥698,268	¥611,495	¥ 86,773
Bonds	125,000	125,000	—
Convertible bonds with stock acquisition rights	140,000	—	140,000
Long-term loans	418,185	469,655	(51,470)
Finance lease obligations	15,083	16,840	(1,757)
Total interest-bearing debt	¥798,393	¥729,877	¥ 68,516

* Excluding current portion of long-term loans and current portion of bonds

Net Assets

Total net assets amounted to ¥1,000.5 billion as of March 31, 2018, an increase of ¥76.3 billion compared to the end of the previous fiscal year.

Shareholders' equity increased ¥52.5 billion to ¥985.7 billion at the end of the fiscal year as a result of share buybacks and retirement of treasury stock, as well as an increase in retained earnings stemming from net income.

Total accumulated other comprehensive income amounted to ¥2.9 billion, an increase of ¥16.9 billion compared to the end of the previous fiscal year. This increase was mainly due to an increase in deferred gain on derivatives under hedge accounting.

As a result, total shareholders' equity increased ¥69.5 billion from the previous fiscal year-end, standing at ¥988.6 billion. Shareholders' equity ratio decreased 1.1 points to 38.6%.

Book value per share (BPS) at the end of the fiscal year was ¥2,954.47, up from ¥2,624.44 at the end of the previous fiscal year*.

* The Group conducted a 1-for-10 reverse stock split effective October 1, 2017. Calculations have been made assuming a reverse stock split at the beginning of the previous fiscal year.

Bond Ratings

The Company has obtained credit ratings on its various long-term bonds from the Japan Credit Rating Agency, Ltd. (JCR) and Rating and Investment Information, Inc. (R&I). Bond ratings as of March 31, 2018 were as follows:

Bond Ratings

	JCR (Revised March 2017)	R&I (Revised March 2016)
Issuer rating	A- → A	BBB+ → A-
Outlook	Stable	Stable

Retirement Benefit Obligations

The ANA Group defined benefit plans consist of welfare pension fund plans, defined benefit corporate pension plans, and lump-sum retirement benefit plans. In addition, the Group has adopted a defined contribution pension plan. Certain employees are entitled to additional benefits upon retirement.

Certain consolidated subsidiaries adopting defined-benefit corporate pension plans and lump-sum retirement benefit plans use a simplified method for calculating retirement benefit expenses and liabilities.

Retirement Benefit Obligation and Related Expenses

(Fiscal Year / End of Fiscal Year)	2017	2016
	(¥ Millions)	
Retirement benefit obligation	¥(227,114)	¥(227,979)
Plan assets at fair value	70,661	72,563
Unfunded retirement benefit obligation	(156,453)	(155,416)
Liability for retirement benefits	(156,765)	(156,751)
Asset for retirement benefits	312	1,335
Net liability and asset for retirement benefits in the consolidated balance sheet	(156,453)	(155,416)
Retirement benefit expenses of defined benefit corporate pension plans	15,519	14,983
Main basis for actuarial calculations		
Discount rates	0.1–1.2%	0.1–1.2%
Expected rates of return on plan assets	1.5–2.5%	1.5–3.0%
Contribution to defined contribution pension plans	¥ 4,062	¥ 3,995

Fuel and Exchange Rate Hedging

The ANA Group pursues and conducts optimal hedge transactions that reduce the impact of volatility in fuel prices and foreign exchange rates to control the risk of fluctuations in earnings. The objective of this hedging is to both stabilize profitability and equalize expenses in response to rising fuel surcharges and foreign currency revenues associated with growth in our international business.

The Group conducts fuel hedging three years in advance of the applicable period after considering fuel surcharge revenues. As of March 31, 2018, the Group had a hedge ratio of approximately 30% for fiscal 2018, approximately 15% for fiscal 2019, and approximately 5% for fiscal 2020.

The Group hedges U.S. dollar payments for fuel expenses three years in advance and U.S. dollar payments associated with capital expenditures for aircraft and other items five years in advance of the payment periods. Based on a balance of foreign currency revenues, revenues linked to foreign exchange market fluctuations, and foreign currency expenses with respect to U.S. dollar payments, the Group uses forward exchange agreements to hedge any portion of foreign currency expenses in excess of foreign currency revenues. As of March 31, 2018, the Group had a hedge ratio for U.S. dollar fuel payments of approximately 45% for fiscal 2018, approximately 20% for fiscal 2019, and approximately 10% for fiscal 2020.

Fuel Expense Sensitivity

The Group calculated fuel expense sensitivity to fluctuations in crude oil prices for fiscal 2018 (calculated at the beginning of the fiscal year, excluding hedging):

- Fuel expenses: Approximately ¥3.2 billion per year (change of \$1/bbl of crude oil, ANA brand only)

Foreign Currency Cost Sensitivity

The Group calculated foreign currency cost sensitivity to foreign exchange market fluctuations for fiscal 2018 (calculated at the beginning of the fiscal year, excluding hedging*):

- Foreign currency costs: Approximately ¥4.7 billion per year (fluctuation of ¥1/U.S. dollar*, ANA brand only)

* Assumption: Calculation for foreign currencies other than the U.S. dollar assume fluctuations similar to ¥1/U.S. dollar.

Allocation of Profits

Basic Policy on Allocation of Profits

Shareholder returns are an important management priority for the Group.

The Group strives to bolster shareholder returns while maintaining financial soundness. This goal will be accomplished as we secure the funds needed to conduct growth investments (aircraft, etc.) to support future business development. We examine the possibility of further shareholder returns through dividend increases and share buybacks on an ongoing basis, while considering the appropriate level for free cash flow.

Dividends for Fiscal 2017 and Plans for Fiscal 2018

In line with our initial plan, the Group paid fiscal 2017 cash dividends of ¥60.0 per share, an amount equal to the previous fiscal year. This dividend reflects due consideration of factors that include fiscal year earnings, financial condition, and future outlook of the business environment*.

For fiscal 2018, the Group expects to pay cash dividends of ¥70.0 per share, an increase of ¥10.0 over fiscal 2017. This amount is based on our earnings forecast announced April 27, 2018.

* The Group conducted a 1-for-10 reverse stock split effective October 1, 2017. Calculations have been made assuming a reverse stock split at the beginning of the previous fiscal year.

Operating Risks

The following risks could have a significant effect on the judgment of investors in the ANA Group, or “the Group.” Further, the forward-looking statements in the following section are the Group’s judgments as of March 31, 2018.

(1) Risk of Economic Recession

The airline industry is susceptible to the effects of economic trends, and if the domestic or global economy is sluggish, this may cause decline of demand for air travel due to deterioration in personal consumption and corporate earnings.

International operations (passenger and cargo) depend on overseas markets, especially China, other parts of Asia, and North America, and economic conditions in these regions could lead to a decline in the passenger and cargo volume or a fall in the unit price.

(2) Risks Related to the Group’s Management Strategy

1. Risks Related to the Group’s Fleet Strategy

In the Air Transportation business, the Group is pursuing a fleet strategy centered on introducing highly economical aircraft, integrating aircraft types, and better optimizing supply to demand. This strategy involves ordering aircraft from The Boeing Company, Airbus S.A.S., Bombardier Inc., and Mitsubishi Aircraft Corporation. Delays in delivery from any of those four companies for financial or other reasons could create obstacles to the Group’s operations.

In addition, elements of the fleet strategy could prove ineffective or their expected benefits could diminish significantly due to the factors given below.

1) Dependence on The Boeing Company

In accordance with the above fleet strategy, the Group has ordered a large number of aircraft from The Boeing Company (Boeing). Therefore, should financial or other issues render Boeing unable to fulfill its agreements with the Group or companies such as those that maintain Boeing products, the Group would be unable to acquire or maintain aircraft in accordance with its fleet strategy. Such eventualities could affect the Group’s operations.

2) Delay of Aircraft Development Plans by Mitsubishi Aircraft Corporation

The Group has decided to introduce the Mitsubishi Regional Jet (MRJ) that Mitsubishi Aircraft Corporation is developing, with delivery scheduled for midway through fiscal 2020. Delivery delays could create obstacles to the Group’s operations.

2. Risks Related to Airport Slots

The Group has made various investments and operational changes to take advantage of significant business opportunities created by the expansion of slots at Haneda and Narita airports. Around fiscal 2020, slots are expected to increase from 447 thousand to 486 thousand per year at Haneda Airport, and from 300 thousand to 340 thousand at Narita Airport. However, if the number or the timing of the allocation of slots at the two Tokyo metropolitan area airports (Haneda and Narita) differs from the Group’s projections, it could affect achievement of the targets of the Group’s corporate strategy.

3. Risks Related to the LCC Business

In the LCC Business, the Group might not obtain the desired results from entering the LCC Business if it fails to achieve the objective of creating new passenger demand, or if competition intensifies with domestic or overseas LCCs. Additionally, flight crew shortages and outflows of flight crew personnel to other airlines could preclude the execution of the Group’s corporate strategy. Furthermore, customers could turn away from LCCs as a result of accidents and other safety incidents caused by LCCs, including those overseas.

4. Risks Related to Investments

The Group may enter new businesses and invest in or acquire other companies to further expand its business in growth areas. These investments and other initiatives may not produce the intended effects. Moreover, if the interests of equity investors do not align, the joint venture may not operate in the manner the Group considers appropriate. If joint venture operations deteriorate, the Group may be exposed to an economic burden. In addition, equity investors other than the Group may experience poor financial results or withdraw from the business.

The Group may also expand into foreign countries, and enter into businesses with remote relation to the airline business. These initiatives may incur unforeseen detriments.

(3) Risks Related to Crude Oil Price Fluctuations

Jet fuel is a crude oil derivative and its price tracks the price of crude oil. Variance that exceeds the Group estimates for factors that affect the price of crude oil, including political instability in oil-producing nations, increased demand for crude oil due to rapid economic growth in emerging countries, reductions in oil stockpiles or reserves, speculative investment in crude oil, and natural disasters can affect the Group’s performance as follows.

1. Risk of Increase in Crude Oil Prices

Generally, an increase in the price of crude oil causes an increase in the price of jet fuel, which imposes substantial additional costs on the Group. Accordingly, to control the risk of fluctuations in the price of jet fuel and to stabilize operating income, the Group hedges risks using crude oil and jet fuel commodity derivatives in planned, continuous hedging transactions for specific periods of time. In the event that crude oil prices rise over a short period, there are limitations to the Group’s ability to offset increases in crude oil prices through ongoing cost reductions as well as raising fares and charges. For these reasons, the Group may be unable to avoid the influence of a sharp increase in crude oil prices completely, depending on factors such as hedging positions.

2. Risk of Sudden Decrease in Crude Oil Prices

The Group hedges against changes in the price of crude oil. Therefore, a sudden decrease in oil prices may not directly

contribute to earnings because, in addition to decreases in or expiration of fuel surcharges, hedge positions and other market conditions may preclude the immediate reflection of a sudden drop in crude oil prices in results.

(4) Risks Related to Pandemic Illnesses Including New Strains of Influenza

All of the Group's businesses including but not limited to its international routes are exposed to the risk of a decline in demand due to the outbreak and spread of major illnesses including new strains of influenza. The spread of disease and the harm it may cause, including reduced desire to travel by air among customers due to rumors, could affect the Group's performance by causing the number of passengers on the Group's domestic and international routes to drop sharply.

Furthermore, more employees and contractors than expected could fall ill due to the spread of highly contagious new strains of influenza and other diseases, or due to increased virulence caused by changes in its profile, which could affect the continuity of the Group's business.

(5) Risks Related to Foreign Exchange Rate Fluctuations

The Group's expenditures in foreign currencies are greater than its revenues in foreign currencies. Therefore, depreciation of the yen affects the Group's profits. Accordingly, to the greatest extent possible, foreign currency taken in as revenue is used to pay expenses denominated in the same foreign currency to minimize the impact on operating income from the risk of fluctuations in foreign exchange rates. In addition, the Group uses forward exchange agreements and currency options for a portion of the foreign currency needed for its purchases of aircraft and jet fuel to stabilize and control payment amounts on a yen conversion basis. However, there are limits to the extent to which the Group can reduce and offset costs by adjusting fares and charges should costs increase due to the rapid depreciation of the yen in the foreign exchange market over a short period of time. Accordingly, such an occurrence could, depending on hedge positions and other factors, affect Group income and expenditures. Conversely, if the yen should appreciate rapidly in the foreign exchange market over a short period of time, depending upon hedge positions and other factors, this may preclude immediate reflection in lower jet fuel costs and impact the Group's ability to enjoy the benefits from appreciation of the yen.

(6) Risks Related to the International Situation

The Group currently operates international routes, primarily to North America, Europe, China, and other parts of Asia. Going forward, incidents including political instability, international conflicts, large-scale terrorist attacks, or deterioration in diplomatic relations with countries where the Group operates and has offices and other bases could affect the Group's performance due to the accompanying decrease in demand for travel on these international routes.

(7) Risks Related to Statutory Regulations

As an airline operator, the Group undertakes operations based on the stipulations of statutory regulations relating to airline operations. The Group is required to conduct passenger and cargo operations on international routes in accordance with the stipulations of international agreements, including treaties, bilateral agreements, and the decisions of the International Air Transport Association (IATA) and the International Civil Aviation Organization (ICAO). The Group's fares, airspace, operating schedule, and safety management are subject to a variety of constraints due to these regulations. Further, the Group's operations are constrained by the Japanese Antitrust Law and similar laws and regulations in other countries with regard to the pricing of fares and charges.

(8) Risks Related to Litigation

The Group could be subject to various lawsuits in connection with its business activities, which could affect the Group's performance. Moreover, the following may result in lawsuits or other legal action in the future, which could result in similar investigations in other countries and regions.

Price Adjustment Case in the United States

Upon overall consideration of various circumstances, the Company reached a plea bargain agreement with regard to the investigation being conducted by the United States Department of Justice into price adjustments relating to international air cargo and passenger transport services. Providing a detailed analysis of this matter at the present time is difficult.

(9) Risks Related to Public-Sector Fees

Public-sector fees include jet fuel taxes, landing fees, and fees for the use of navigational facilities. The Japanese government is currently implementing temporary measures to reduce jet fuel taxes and landing fees but could scale back or terminate these measures in the future, which could affect the Group's performance.

Operating Risks

(10) Risks Related to Environmental Regulations

In recent years, numerous Japanese and overseas statutory environmental protection regulations have been introduced or strengthened with regard to such issues as noise, aircraft emissions of CO₂ and other greenhouse gases, use of environmentally polluting substances and their disposal, and energy use at major offices. Compliance with such statutory regulations imposes a considerable economic burden on the Group and business activities may be constrained or additional significant expenses incurred if new regulations are introduced, such as a globally shared environmental tax related to an international greenhouse gas emissions credit trading scheme planned for implementation toward 2021.

(11) Risks Related to the Business Environment of the Airline Industry

There could be material changes in the current competitive and business environment within Japan, such as changes in aviation policy or regional policy, as well as changes in the standing of competitors due to mergers or capital tie-ups stemming from bankruptcies and other factors. These changes could affect the Group's performance.

(12) Risks Related to Competition

The possibility of future increases in costs related to the Group's operations due to such factors as jet fuel expenses, financing cost, and responses to environmental regulations cannot be ruled out. If such costs increase, in order to secure income, it will be necessary for the Group to cut costs through such means as reducing indirect fixed costs, and to pass on costs through higher fares and charges. However, because the Group is in competition with other airlines and LCCs in Japan and overseas as well as with alternative modes of transportation, such as the Shinkansen, on certain routes, passing on costs could diminish competitiveness. Further, price competition with competitors greatly restricts the passing on of costs that could affect the Group's performance.

(13) Risks Related to Ineffective Strategic Alliances

The Group belongs to the Star Alliance. Based on antitrust immunity (ATI) approval, joint venture operations are introduced in collaboration with United Airlines in the network between Asia and the United States, and with Lufthansa and Lufthansa group companies, Swiss International Air Lines, Austrian Airlines, and Lufthansa Cargo AG. in the network between Japan and Europe. The Group has also entered into individual agreements, mainly in Asia, that go beyond the frameworks of these alliances.

However, the benefits of Star Alliance membership might diminish if the alliance is broken up by antitrust laws in various countries; an alliance partner withdraws from the Star Alliance or changes its business policies; another alliance group becomes more competitive; bilateral alliances between member companies end; an alliance partner performs poorly, restructures, or becomes less creditworthy; or restrictions on alliance activities are tightened due to external factors. Such eventualities could affect the Group's performance.

(14) Risks Related to Flight Operations

1. Aircraft Accidents

An aircraft accident involving a flight operated by the Group or a code-share partner could cause a drop in customer confidence and impair the Group's public reputation, creating a medium- to long-term downturn in demand that could significantly affect the Group's performance.

Major accidents suffered by other airlines could similarly lead to a reduction in aviation demand that could affect the Group's performance. An aircraft accident would give rise to significant expenses including compensation for damages and the repair or replacement of aircraft, but aviation insurance would not cover all such direct expenses.

2. Technical Circular Directives

If an issue arises that significantly compromises the safety of an aircraft, MLIT by law issues a technical circular directive. In some cases, all aircraft of the same model might be grounded until the measures to improve the airworthiness of the aircraft and equipment have been implemented as directed. Even when the law does not require a directive to be issued, in some cases when safety cannot be confirmed from a technical perspective, operation of the same model might be voluntarily suspended and inspections and other maintenance activities may be performed. The occurrence of such a situation could affect the Group's safety credibility or performance.

Of particular note, the Group has been consolidating its fleet around the Boeing 787 and other new models. The discovery of an unanticipated design flaw or technical issue with new aircraft used heavily by the Group could profoundly affect the Group's performance.

(15) Risks Related to Unauthorized Disclosure of Customer Information and Other Data

The Group holds a large amount of information relating to customers, such as that pertaining to the approximately 32.68 million members (as of the end of March 2018) of the ANA Mileage Club. The Personal Information Protection Law of Japan and similar laws in countries overseas require proper management of such personal information. The Group has established a privacy policy, apprised customers of the Group's stance regarding the handling of personal information, and established measures to counter any foreseeable contingency to ensure information security, including in its IT systems. In addition, work procedures and information systems are continuously monitored and revised to eliminate any potential security gaps. Despite these precautions, the occurrence of a major leak of personal information caused by unauthorized access, an error in conducting business, or some other factor could carry significant costs, in terms of both compensation and loss of public confidence, which could affect the Group's performance.

(16) Risks Related to Disasters

The extended closure or operational restriction of airports or flight path restrictions due to disasters including an earthquake, a tsunami, a flood, a typhoon, heavy snow, a volcanic eruption, an infectious disease, a strike, or a riot could impact flight operations using affected airports and routes or result in significantly reduced demand for air transportation, which could affect the Group's performance.

In particular, the Group's data center is located in the Tokyo metropolitan area, while the operational control for all of the Group's domestic and international flights is conducted at Haneda Airport and most of the Group's passengers use Tokyo metropolitan area airports. As a result, a major disaster, such as an earthquake or a typhoon; a disaster at the abovementioned facilities, such as a fire; or a strike that closes the airports or limits their access could lead to a long-term shutdown of the Group's information systems, operational control functions, or its operations themselves that could significantly affect the Group's performance.

(17) Risks Related to Revenue and Expense Structure

Expenses that are largely unaffected by passenger load factors, including fixed costs such as aircraft expenses, along with fuel expenses and landing and navigation fees which are largely determined by the type of aircraft, account for a significant proportion of the Group's costs, which limits the Group's ability to immediately change the scale of its operations in response to changes in economic conditions. Therefore, decreases in the number of passengers or volume of cargo could have a large impact on the Group's revenue and expenses.

Moreover, a significant decrease in demand during the summer could affect the Group's performance for that fiscal year because passenger service sales typically increase during summer.

(18) Risks Related to IT Systems

The Group is highly dependent on information systems for such critical functions as customer service and operational management. A major disruption of one of those systems or of telecommunications networks caused by natural disasters, accidents, computer viruses or unauthorized access, power supply constraints, large-scale power outages, or system failures or malfunctions would make it difficult to maintain customer service and operations and would result in a loss of public confidence, which could affect the Group's performance. Further, the Group's information systems are also used by its partner airlines so there is a possibility that the impact of systems failure would not be limited to the Group.

(19) Risks Related to Personnel and Labor

Many group employees belong to labor unions. Events including a collective strike by group employees could have an effect on the Group's aircraft operation.

(20) Risk of Inability to Secure Required Personnel

The growth of our LCC Business and other factors have increased demand for flight crews and other personnel. A certain period of time is required to cultivate and train flight crews and other personnel. Inability to secure the required number of competent flight crews and other personnel in a timely manner could affect the Group's performance. In addition, a change of the supply-demand balance in labor markets could lead to personnel shortages in airport handling and other operations, as well as a sharp increase in wage levels.

(21) Financial Risks

1. Increase in the Cost of Financing

The Group raises funds to acquire aircraft primarily through bank loans and bond issuances. However, the cost of financing could increase due to deteriorating conditions in the airline industry, the turmoil in capital and financial markets, changes in the tax system, changes in the government's interest rate policy, changes to the guarantee systems at governmental financial institutions, or a downgrade of the Company's credit rating that makes it difficult or impossible to finance on terms advantageous to the Group. Such eventualities could affect the Group's performance.

2. Risks Related to Asset Impairment or Other Issues

The Group owns extensive property and equipment as a function of its businesses. If the profitability of various operations deteriorates, or a decision is made to sell an asset, the Group may be required to recognize asset impairment losses or loss on sales of property and equipment in the future.

Consolidated Financial Statements

Consolidated Balance Sheet

ANA HOLDINGS INC. and its consolidated subsidiaries
As of March 31, 2018

	Yen (Millions)		U.S. dollars (Thousands) (Note 2)
	2018	2017	2018
ASSETS			
Current assets:			
Cash and deposits (Notes 16 and 21)	¥ 78,036	¥ 60,835	\$ 734,525
Marketable securities (Notes 5 and 16)	279,540	257,950	2,631,212
Notes and accounts receivable (Note 16)	174,211	154,668	1,639,787
Accounts receivable from and advances to unconsolidated subsidiaries and affiliates	3,324	4,262	31,287
Lease receivables (Note 8)	27,310	28,948	257,059
Inventories (Notes 6, 8 and 23)	62,470	64,912	588,008
Deferred income taxes (Note 11)	27,678	36,173	260,523
Prepaid expenses and other	99,081	59,332	932,614
Allowance for doubtful accounts	(479)	(355)	(4,508)
Total current assets	751,171	666,725	7,070,510
Property and equipment:			
Land (Note 8)	55,786	49,887	525,094
Buildings and structures (Note 8)	265,891	263,340	2,502,739
Aircraft (Note 8)	1,856,178	1,773,182	17,471,554
Machinery and equipment	107,900	107,201	1,015,625
Vehicles	29,381	28,971	276,553
Furniture and fixtures	52,952	52,144	498,418
Lease assets (Notes 8 and 13)	13,594	15,095	127,955
Construction in progress	202,328	151,889	1,904,442
Total	2,584,010	2,441,709	24,322,383
Accumulated depreciation	(1,150,909)	(1,081,446)	(10,833,104)
Net property and equipment	1,433,101	1,360,263	13,489,278
Investments and other assets:			
Investment securities (Notes 5 and 16)	83,871	76,387	789,448
Investments in and advances to unconsolidated subsidiaries and affiliates (Note 7)	40,274	46,821	379,085
Lease and guaranty deposits	21,845	10,791	205,619
Deferred income taxes (Note 11)	65,698	52,759	618,392
Goodwill	55,336	1,041	520,858
Intangible assets	99,902	87,963	940,342
Other assets	11,264	11,660	106,024
Total investments and other assets	378,190	287,422	3,559,770
TOTAL (Note 18)	¥ 2,562,462	¥ 2,314,410	\$ 24,119,559

LIABILITIES AND NET ASSETS	Yen (Millions)		U.S. dollars (Thousands) (Note 2)
	2018	2017	2018
Current liabilities:			
Short-term loans (Notes 8 and 16)	¥ 176	¥ 70	\$ 1,656
Current portion of long-term debt (Notes 8 and 16)	99,949	118,312	940,785
Accounts payable (Note 16)	225,889	181,768	2,126,214
Accounts payable to unconsolidated subsidiaries and affiliates	4,545	4,866	42,780
Advance ticket sales	181,353	150,614	1,707,012
Accrued expenses	65,805	62,025	619,399
Income taxes payable	37,709	11,288	354,941
Other current liabilities (Note 10)	32,654	43,704	307,360
Total current liabilities	648,080	572,647	6,100,150
Long-term liabilities:			
Long-term debt (Notes 8 and 16)	698,268	611,495	6,572,552
Liability for retirement benefits (Note 9)	156,765	156,751	1,475,574
Deferred income taxes (Note 11)	94	1,444	884
Asset retirement obligations (Note 10)	1,196	1,074	11,257
Other long-term liabilities	57,507	46,824	541,293
Total long-term liabilities	913,830	817,588	8,601,562
Contingent liabilities (Note 15)			
Net assets (Note 14):			
Common stock:			
Authorized – 510,000,000 shares;			
Issued – 348,498,361 shares in 2018 and 2017*	318,789	318,789	3,000,649
Capital surplus	268,208	283,249	2,524,548
Retained earnings	457,746	334,880	4,308,603
Treasury stock – 13,866,101 shares in 2018 and 1,412,231 shares in 2017*	(59,015)	(3,756)	(555,487)
Accumulated other comprehensive income:			
Unrealized gain on securities	24,467	20,636	230,299
Deferred loss on derivatives under hedge accounting	(3,471)	(11,799)	(32,671)
Foreign currency translation adjustments	3,201	3,364	30,129
Defined retirement benefit plans	(21,264)	(26,206)	(200,150)
Total	988,661	919,157	9,305,920
Non-controlling interests	11,891	5,018	111,925
Total net assets	1,000,552	924,175	9,417,846
TOTAL	¥2,562,462	¥2,314,410	\$24,119,559

*Shares have been restated, as appropriate, to reflect a 1-for-10 ordinary share reverse stock split effected October 1, 2017.
See accompanying notes to consolidated financial statements.

Consolidated Statement of Income

ANA HOLDINGS INC. and its consolidated subsidiaries
Year Ended March 31, 2018

	Yen (Millions)		U.S. dollars (Thousands) (Note 2)
	2018	2017	2018
Operating revenues (Note 18)	¥1,971,799	¥1,765,259	\$18,559,855
Cost of sales (Note 9)	1,481,881	1,324,846	13,948,428
Gross profit	489,918	440,413	4,611,426
Selling, general and administrative expenses (Notes 9 and 19)	325,402	294,874	3,062,895
Operating income (Note 18)	164,516	145,539	1,548,531
Other income (expenses):			
Interest income	623	502	5,864
Dividend income	1,391	1,189	13,092
Equity in earnings of unconsolidated subsidiaries and affiliates	1,485	3,610	13,977
Gain on sales of assets	3,408	1,957	32,078
Gain on donation of non-current assets	1,134	3,238	10,673
Gain on step acquisition (Note 4)	33,801	—	318,157
Interest expenses	(8,676)	(9,804)	(81,664)
Foreign exchange loss, net	(1,234)	(2,106)	(11,615)
Loss on sales of assets	(161)	(493)	(1,515)
Loss on disposal of assets	(4,152)	(5,384)	(39,081)
Impairment loss (Note 22)	(6,061)	(2,208)	(57,050)
Other, net (Note 23)	10,567	3,422	99,463
Other income (expenses), net	32,125	(6,077)	302,381
Income before income taxes	196,641	139,462	1,850,913
Income taxes (Note 11):			
Current	61,650	41,557	580,289
Deferred	(10,647)	(1,402)	(100,216)
Total income taxes	51,003	40,155	480,073
Net income	145,638	99,307	1,370,839
Net income attributable to non-controlling interests	1,751	480	16,481
Net income attributable to owners of the parent	¥ 143,887	¥ 98,827	\$ 1,354,358

	Yen		U.S. dollars (Note 2)
	2018	2017*	2018
Per share of common stock (Notes 3, 14 and 20):			
Basic net income	¥417.82	¥282.35	\$3.93
Cash dividends applicable to the year	60.00	60.00	0.56

Net income per share assuming full dilution is not disclosed as the Company had no potentially dilutive shares outstanding during the years ended March 31, 2018 and 2017.

* Per share figures have been restated, as appropriate, to reflect a 1-for-10 ordinary share reverse stock split effected October 1, 2017.

See accompanying notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

ANA HOLDINGS INC. and its consolidated subsidiaries
Year Ended March 31, 2018

	Yen (Millions)		U.S. dollars (Thousands) (Note 2)
	2018	2017	2018
Net income	¥145,638	¥ 99,307	\$1,370,839
Other comprehensive income (Note 12):			
Unrealized gain on securities	3,788	1,100	35,655
Deferred gain on derivatives under hedge accounting	8,334	39,245	78,445
Foreign currency translation adjustments	(149)	(576)	(1,402)
Defined retirement benefit plans	4,944	5,943	46,536
Share of other comprehensive (loss) income in affiliates	(60)	589	(564)
Total other comprehensive income (Note 12)	16,857	46,301	158,669
Comprehensive income	¥162,495	¥145,608	\$1,529,508
Total comprehensive income attributable to:			
Owners of the parent	¥160,825	¥145,204	\$1,513,789
Non-controlling interests	1,670	404	15,719

See accompanying notes to consolidated financial statements.

Consolidated Statement of Changes in Net Assets

ANA HOLDINGS INC. and its consolidated subsidiaries
Year Ended March 31, 2018

Year Ended March 31, 2018	Thousands	Yen (Millions)											
	Number of shares of common stock outstanding*	Accumulated other comprehensive income											
		Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Unrealized gain on securities	Deferred gain (loss) on derivatives under hedge accounting	Foreign currency translation adjustments	Defined retirement benefit plans	Total	Non-controlling interests	Total net assets
Balance at April 1, 2016	349,719	¥318,789	¥282,774	¥253,545	¥ (4,830)	¥850,278	¥19,527	¥(51,620)	¥3,873	¥(32,162)	¥(60,382)	¥ 5,004	¥ 794,900
Net income attributable to owners of the parent				98,827		98,827							98,827
Cash dividends ¥50.00 per share (Note 14)*				(17,492)		(17,492)							(17,492)
Purchase of treasury stock (Note 14)	(10)				(31)	(31)							(31)
Disposal of treasury stock (Note 14)	520		475		1,138	1,613							1,613
Changes in scope of consolidation					(33)	(33)							(33)
Net changes in the year	—					—	1,109	39,821	(509)	5,956	46,377	14	46,391
Total changes during the fiscal year		—	475	81,335	1,074	82,884	1,109	39,821	(509)	5,956	46,377	14	129,275
Balance at March 31, 2017	350,230	318,789	283,249	334,880	(3,756)	933,162	20,636	(11,799)	3,364	(26,206)	(14,005)	5,018	924,175
Net income attributable to owners of the parent				143,887		143,887							143,887
Cash dividends ¥60.00 per share (Note 14)*				(21,021)		(21,021)							(21,021)
Purchase of treasury stock (Note 14)	(16,257)				(70,165)	(70,165)							(70,165)
Disposal of treasury stock (Note 14)	3,803		1,096		1,410	2,506							2,506
Termination of employee stock ownership trust			(2,641)			(2,641)							(2,641)
Retirement of treasury stock	(3,144)		(13,496)		13,496	—							—
Net changes in the year						—	3,831	8,328	(163)	4,942	16,938	6,873	23,811
Total changes during the fiscal year		—	(15,041)	122,866	(55,259)	52,566	3,831	8,328	(163)	4,942	16,938	6,873	76,377
Balance at March 31, 2018	334,632	¥318,789	¥268,208	¥457,746	¥(59,015)	¥985,728	¥24,467	¥ (3,471)	¥3,201	¥(21,264)	¥ 2,933	¥11,891	¥1,000,552

* Per share figures have been restated, as appropriate, to reflect a 1-for-10 ordinary share reverse stock split effected October 1, 2017.

	Thousands	U.S. dollars (Thousands) (Note 2)											
	Number of shares of common stock outstanding*	Accumulated other comprehensive income											
		Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Unrealized gain on securities	Deferred gain (loss) on derivatives under hedge accounting	Foreign currency translation adjustments	Defined retirement benefit plans	Total	Non-controlling interests	Total net assets
Balance at March 31, 2017	350,230	\$3,000,649	\$2,666,123	\$3,152,108	\$ (35,353)	\$8,783,527	\$194,239	\$(111,059)	\$31,664	\$(246,667)	\$(131,824)	\$ 47,232	\$8,698,936
Net income attributable to owners of the parent				1,354,358		1,354,358							1,354,358
Cash dividends \$0.56 per share (Note 14)*				(197,863)		(197,863)							(197,863)
Purchase of treasury stock (Note 14)	(16,257)				(660,438)	(660,438)							(660,438)
Disposal of treasury stock (Note 14)	3,803		10,316		13,271	23,588							23,588
Termination of employee stock ownership trust			(24,858)			(24,858)							(24,858)
Retirement of treasury stock	(3,144)		(127,033)		127,033	—							—
Net changes in the year						—	36,059	78,388	(1,534)	46,517	159,431	64,693	224,124
Total changes during the fiscal year		—	(141,575)	1,156,494	(520,133)	494,785	36,059	78,388	(1,534)	46,517	159,431	64,693	718,910
Balance at March 31, 2018	334,632	\$3,000,649	\$2,524,548	\$4,308,603	\$(555,487)	\$9,278,313	\$230,299	\$(32,671)	\$30,129	\$(200,150)	\$ 27,607	\$111,925	\$9,417,846

* Per share figures have been restated, as appropriate, to reflect a 1-for-10 ordinary share reverse stock split effected October 1, 2017.
See accompanying notes to consolidated financial statements.

Consolidated Statement of Cash Flows

ANA HOLDINGS INC. and its consolidated subsidiaries
Year Ended March 31, 2018

	Yen (Millions)		U.S. dollars (Thousands) (Note 2)
	2018	2017	2018
Cash flows from operating activities:			
Income before income taxes	¥ 196,641	¥ 139,462	\$ 1,850,913
Adjustments for:			
Depreciation and amortization (Note 18)	150,408	140,354	1,415,737
Impairment loss (Note 22)	6,061	2,208	57,050
Amortization of goodwill (Note 18)	4,031	176	37,942
(Gain) loss on disposal and sales of property and equipment	(7,970)	4,160	(75,018)
Gain on sales and valuation of investment securities	(1,170)	(1,976)	(11,012)
Loss on valuation of investments in unconsolidated subsidiaries and affiliates	446	571	4,198
Increase in allowance for doubtful accounts	339	143	3,190
Increase in liability for retirement benefits	6,430	1,615	60,523
Interest and dividend income	(2,014)	(1,691)	(18,957)
Interest expenses	8,676	9,804	81,664
Foreign exchange loss	261	1,668	2,456
Gain on step acquisition	(33,801)	—	(318,157)
Increase in notes and accounts receivable	(14,201)	(16,092)	(133,669)
(Increase) decrease in other current assets	(19,784)	5,808	(186,219)
Increase in notes and accounts payable	37,149	13,026	349,670
Increase in advance ticket sales	22,949	21,996	216,010
Other, net	2,742	(2,041)	25,809
Subtotal	357,193	319,191	3,362,132
Interest and dividends received	2,906	3,519	27,353
Interest paid	(8,763)	(9,910)	(82,483)
Income taxes paid	(35,322)	(75,716)	(332,473)
Net cash provided by operating activities	316,014	237,084	2,974,529
Cash flows from investing activities:			
Increase in time deposits	(28,265)	—	(266,048)
Proceeds from withdrawal of time deposits	25,705	118	241,952
Purchases of marketable securities	(159,970)	(29,460)	(1,505,741)
Proceeds from redemption of marketable securities	92,640	32,120	871,987
Purchases of property and equipment	(265,531)	(224,888)	(2,499,350)
Proceeds from sales of property and equipment	75,807	68,145	713,544
Purchases of intangible assets	(39,176)	(29,537)	(368,750)
Purchases of investment securities	(3,539)	(13,898)	(33,311)
Proceeds from sales of investment securities	2,379	4,701	22,392
Proceeds from withdrawal of investment securities	—	162	—
Payment for purchases of investments in subsidiaries with changes in scope of consolidation	(19,476)	—	(183,320)
Proceeds from purchases of investments in subsidiaries with changes in scope of consolidation	—	64	—
Other, net	(5,068)	(2,178)	(47,703)
Net cash used in investing activities	(324,494)	(194,651)	(3,054,348)
Cash flows from financing activities:			
Increase (decrease) in short-term loans, net	111	(95)	1,044
Proceeds from long-term loans	35,078	79,729	330,176
Repayment of long-term loans	(95,170)	(91,761)	(895,801)
Proceeds from issuance of bonds	149,863	39,769	1,410,608
Repayment of bonds	(20,000)	—	(188,253)
Repayment of finance lease obligations	(6,187)	(8,162)	(58,236)
Net (increase) decrease of treasury stock	(67,652)	1,580	(636,784)
Payment for dividends	(21,021)	(17,492)	(197,863)
Other, net	(5,011)	(219)	(47,166)
Net cash (used in) provided by financing activities	(29,989)	3,349	(282,275)
Effect of exchange rate changes on cash and cash equivalents	(80)	(1,847)	(753)
Net (decrease) increase in cash and cash equivalents	(38,549)	43,935	(362,848)
Cash and cash equivalents at beginning of year	309,058	265,123	2,909,054
Cash and cash equivalents at end of year (Note 21)	¥ 270,509	¥ 309,058	\$ 2,546,206

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

ANA HOLDINGS INC. and its consolidated subsidiaries
Year Ended March 31, 2018

1. Basis of presenting consolidated financial statements

The accompanying consolidated financial statements of ANA HOLDINGS INC. (hereinafter referred to as the "Company") and its consolidated subsidiaries have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations and in accordance with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards ("IFRS").

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the consolidated financial statements of the previous fiscal year to conform to the classifications used in the current fiscal year.

2. Translation of financial statements

The consolidated financial statements presented herein are expressed in Japanese yen and, solely for the convenience of readers outside of Japan, have been translated into U.S. dollars at the rate of ¥106.24 = US\$1, the approximate exchange rate prevailing on the Tokyo Foreign Exchange Market on March 31, 2018. This translation should not be construed as a representation that the amounts shown could be converted into U.S. dollars at that or any other rate. Translations of U.S. dollars are rounded down to the nearest thousand and, therefore, the totals shown in tables do not necessarily agree with the sums of the individual amounts.

3. Summary of significant accounting policies

(a) Consolidation

The consolidated financial statements as of March 31, 2018, include the accounts of the Company and its 64 (63 in 2017) significant subsidiaries (collectively, the "Group").

Under the control and influence concepts, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

Investments in 16 (17 in 2017) unconsolidated subsidiaries and significant affiliates are accounted for by the equity method.

The difference between the cost and the underlying net assets at dates of acquisition of consolidated subsidiaries and companies accounted for by the equity method is amortized using the straight-line method over a period of 10 to 15 years.

Investments in 91 (85 in 2017) subsidiaries and affiliates which are not consolidated or accounted for by the equity method are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is also eliminated.

Certain subsidiaries have fiscal years ending on December 31 and February 28, and necessary adjustments for significant transactions, if any, are made in consolidation.

(b) Foreign currency translation

All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into yen at the rates of exchange in effect at the balance sheet date, except for payables and receivables hedged by qualified forward exchange contracts, and differences arising from the translation are included in the consolidated statement of income.

The balance sheet accounts of consolidated foreign subsidiaries are translated into yen at the rates of exchange in effect at the balance sheet date, except for the components of net assets excluding non-controlling interests which are translated at their historical exchange rates. Revenue and expense accounts are translated at the average rate of exchange in effect during the year. Differences arising from the translation are presented as foreign currency translation adjustments in net assets.

(c) Marketable securities and investment securities

Marketable securities and investment securities are classified into three categories: trading, held-to-maturity or available-for-sale. Under the accounting standard, trading securities are carried at fair value and held-to-maturity securities are carried at amortized cost. Marketable securities classified as available-for-sale securities are carried at fair value with changes in unrealized holding gain or loss, net of the applicable income taxes, included directly in net assets. Non-marketable securities classified as available-for-sale securities are carried at cost, determined by the moving-average method. See Note 5 "Marketable securities and investment securities" for additional information.

(d) Allowance for doubtful accounts

The allowance for doubtful accounts is stated in amounts considered to be appropriate based on the Group's past credit loss experience and an evaluation of potential losses in the receivables outstanding.

(e) Inventories

Inventories include aircraft spare parts, supplies and stock in trade of consolidated subsidiaries, and are stated at cost, principally determined by the moving-average method. The net book value of inventories in the consolidated balance sheet is written down when their net realizable value is less than book value. See Note 6 "Inventories" and Note 23 "Supplementary information for the consolidated statement of income" for additional information.

(f) Property and equipment (excluding leased assets)

Property and equipment, excluding leased assets, are stated at cost less accumulated depreciation. Depreciation of property and equipment is computed based on the estimated useful lives. Major assets are depreciated by the following method:

Buildings	Straight-line method
Aircraft	Straight-line method

The Company and certain subsidiaries employ principally the following useful lives for major property and equipment, based upon the Company's estimate of durability:

Buildings	3–50 years
Aircraft	9–20 years

Major additions and improvements are capitalized at cost. Maintenance and repairs, including minor remodels and improvements, are charged to income as incurred.

The Group reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. The assets of the Group are grouped by individual property in the case of rental real estate, assets determined to be sold and idle assets, and by management accounting categories in the case of business assets. An impairment loss is recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition. See Note 22 "Impairment loss" for additional information.

(g) Intangible assets and amortization (excluding leased assets)

Intangible assets are amortized principally by the straight-line method. Cost of software purchased for internal use is amortized by the straight-line method over five years, the estimated useful life of purchased software.

(h) Retirement benefits

The retirement benefit plans of the Group cover substantially all employees other than directors and corporate auditors. Under the terms of this plan, eligible employees are entitled, upon mandatory retirement or earlier voluntary severance, to lump-sum payments or annuity payments based on their compensation at the time of leaving and years of service with the Company and subsidiaries.

The Company and certain significant domestic subsidiaries have trustee employee pension funds to provide coverage for part of the lump-sum benefits or annuity payments.

The Company and certain consolidated subsidiaries sponsor defined contribution pension plans as well as defined benefit pension plans.

The Company accounts for the liability for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date. The projected benefit obligations are attributed to periods on a benefit formula basis. Actuarial gains and losses and prior service costs that are yet to be recognized in profit or loss are recognized within net assets (accumulated other comprehensive income), after adjusting for tax effects, and are recognized in profit or loss over the average remaining service years of employees.

(i) Income taxes

The provision for income taxes is computed based on the pretax income included in the consolidated statement of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted income tax rates to the temporary differences. See Note 11 "Income taxes" for additional information.

(j) Leases

Leased assets arising from transactions under finance lease contracts are depreciated to a residual value of zero by the straight-line method using the term of the contract as the useful life.

Notes to Consolidated Financial Statements

(k) Derivatives

The Group uses derivatives, such as forward foreign currency exchange contracts, interest rate swaps, and commodity options and swaps are to limit its exposure to fluctuations in foreign currency exchange rates, interest rates and commodity prices. The Group does not use derivatives for trading purposes.

Derivative financial instruments are carried at fair value with changes in unrealized gains or losses charged or credited to income, except for those which meet the criteria for deferral hedge accounting under which an unrealized gain or loss is deferred. Receivables and payables hedged by qualified forward exchange contracts are translated at the corresponding foreign exchange contract rates. Interest rate swaps that qualify for hedge accounting and meet specific matching criteria are not measured at fair value, but the differential paid or received under the swap agreements is recognized and included in interest expenses.

(l) Revenue recognition

Passenger revenues, cargo and other operating revenues are recorded when services are provided.

(m) Cash equivalents

Cash equivalents are short-term investments that are readily convertible into cash and exposed to insignificant risk of changes in value. Cash equivalents include time deposits and negotiable certificates of deposit, all of which mature or become due within three months of the date of acquisition. See Note 21 "Supplementary cash flow information" for additional information.

(n) Per share information

The Company conducted a 1-for-10 ordinary share reverse stock split effected October 1, 2017. All prior year share and per share figures have been restated to reflect the impact of the reverse stock split, to provide data on a basis comparable to the year ended March 31, 2018.

Such restatements include calculation regarding the Company's weighted-average number of common shares, basic net income per share, and cash dividends per share.

(o) Transactions to deliver shares of the Company's stock to employees, etc., through trusts

The Company has transactions which consist of delivery of shares of the Company's stock to the Employee Stock Ownership Group through trusts for the benefit of the Company's employees.

(1) Transaction outline

The Company introduced a "Trust Type Employee Stock Ownership Plan" (the "Plan") on July 12, 2013 as an incentive for the Group's employees to work in unison to overcome the current harsh business environment and achieve further growth, and as a measure to advance employee welfare. The aim of the Plan is to promote employee asset-building by encouraging stock acquisition and holding through the expansion of the "ALL NIPPON AIRWAYS CO., LTD. Employee Stock Ownership Association," "ANA Group Employee Stock Ownership Association" and "ALL NIPPON AIRWAYS TRADING CO., LTD. Employee Stock Ownership Association" (collectively, the "Stock Ownership Association").

The Plan is an incentive plan for all employees who participate in the Stock Ownership Association. Under the Plan, the "ANA Group Employee Stock Ownership Trust" (the "ESOT"), which was established to transfer the Company's shares to the Stock Ownership Association, will acquire a portion of the Company's shares in a single purchase and sell the shares to the Stock Ownership Association over a certain period of time. If a gain on sale of shares is then accumulated within the ESOT through the sale of the Company's shares to the Stock Ownership Association by the termination of the ESOT, residual assets will be distributed to the Group employees who meet the beneficiary requirements (all individuals who have participated in the Stock Ownership Association during the trust period, including retirees).

The ESOT was terminated in July 2017. The gain resulting from sale of shares (Capital surplus) of ¥2,641 million, which was accumulated within the ESOT through the sale of the Company's shares to the Stock Ownership Association, was distributed as residual assets to ANA Group employees who met the beneficiary requirements.

The Company guarantees the borrowings for the ESOT's acquisition of the Company's shares, and repays any borrowings outstanding at the termination of the trust pursuant to the guarantee agreement.

(2) Accounting method for transactions to deliver the Company's treasury stock through trusts

The Company has adopted the "Practical Solution on Transactions of Delivering the Company's Own Stock to Employees, etc. through Trusts" (Accounting Standards Board of Japan ("ASBJ") Practical Issues Task Force ("PITF") No. 30 issued on March 26, 2015). In accordance with PITF No. 30, upon transfer of treasury stock to the employee stock ownership trust (the "Trust") by the entity, any difference between the book value and fair value of the treasury stock is recorded in capital surplus. At year end, the Company records (1) the Company stock held by the Trust as treasury stock in net assets, (2) all other assets and liabilities of the Trust on a line-by-line basis, and (3) a liability/asset for the net of (i) any gain or loss on delivery of the stock by the Trust to the employee shareholding association, (ii) dividends received from the entity for the stock held by the Trust, and (iii) any expenses relating to the Trust.

(3) Matters concerning the Company's treasury stock held by trusts

The book value of the Company's treasury stock held by trusts was ¥1,346 million as of March 31, 2017, and is recorded as treasury stock in net assets.

None of the Company's stock remains in the trust for the current fiscal year. The number of shares held by the ESOT as of March 31, 2018 and 2017 was 1,378 thousand and 6,379 thousand, respectively. The average number of shares during the year ended March 31, 2017 was 8,493 thousand. For the purpose of calculating per share information, the number of shares at the end of the fiscal year and the average number of shares during the fiscal year are included in treasury stock that is deducted from the calculation.

(p) Share remuneration plan for directors

The Company has transactions for delivery of the Company's treasury stock through a trust as a share remuneration plan (the "Trust for Delivery of Shares to Directors") in order to improve its operating performance, increase its corporate value and raise the directors' awareness of shareholder-oriented management.

(1) Transaction outline

Trust for Delivery of Shares to Directors is a system in which funds are contributed by the Company, and shares acquired are distributed to the Company's directors in accordance with the Company's operating performance, etc.

(2) The Company's treasury stock remaining in the trust

The Company's treasury stock remaining in the trust is recorded at book value (excluding associated expenses) of the trust and is reflected as treasury stock in net assets. The book value was ¥417 million for the previous fiscal year and ¥360 million for the current fiscal year. The number of shares was 1,318 thousand shares for the previous fiscal year and 114 thousand shares for the current fiscal year.

(q) Unapplied new accounting standard

"Accounting Standard for Revenue Recognition" ("ASBJ" Statement No. 29 – March 30, 2018)

"Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30 – March 30, 2018)

(1) Overview

The International Accounting Standards Board ("IASB") and Financial Accounting Standards Board ("FASB") issued a new revenue standard, "Revenue from Contracts with Customers", (International Financial Standard 15 ("IFRS 15") and Accounting Standard Codification 606 ("Topic 606") issued by IASB and FASB, respectively) on May 2014.

Against the background of the fact that IFRS 15 will be effective from periods beginning on or after January 1, 2018 and Topic 606 will be effective from periods beginning on or after December 15, 2017, the ASBJ issued ASBJ Statement No. 29, "Accounting Standard for Revenue Recognition," and ASBJ Guidance No. 30, "Implementation Guidance on Accounting Standard for Revenue Recognition." The core principle of the standard and guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The ASBJ's primary policy for developing its accounting standard for revenue recognition was to include the basic principles of IFRS 15 for the purpose of comparability, between financial statements in accordance with Japanese GAAP and those in accordance with IFRS or accounting principles generally accepted in the United States. Also, for particular items for which industrial practice should be taken into consideration, alternative means are to be provided to the extent that comparability is maintained.

(2) Application date

The Company will apply the accounting standard and guidance for annual periods beginning on or after April 1, 2021, and is in the process of measuring the effects of applying the accounting standard and guidance on its consolidated financial statements in future applicable periods.

4. Business combination

(Business Combination through Acquisition)

On April 13, 2017, the Company acquired a portion of the shares of Peach Aviation Limited ("Peach") held by First Eastern Aviation Holdings Limited and Innovation Network Corporation of Japan and, as a result, Peach became a consolidated subsidiary of the Company.

(a) Outline of the business combination

(1) Name and business of the acquired company

Name: Peach Aviation Limited

Business: Air transportation

Notes to Consolidated Financial Statements

(2) Major reason for the business combination

By acquiring a portion of the shares of Peach, the Company will expand the Group's airline business and pursue optimization of its business portfolio, which includes full-service and low cost carriers.

Maintaining Peach's uniqueness and accelerating its growth, the Company will lead the Japanese low cost carrier industry.

(3) Date of business combination

April 13, 2017

(4) Legal form of business combination

Acquisition of shares by cash

(5) Company name after the business combination

No change

(6) The percentage of voting rights acquired

The percentage of voting rights held before the acquisition: 38.7%

The percentage of additional voting rights acquired on the date of business combination: 28.3%

The percentage of voting rights held after the acquisition: 67.0%

(7) Basis for determining the acquirer

It is based on the fact that the Company came to hold the majority, 67%, of voting rights of Peach by additionally acquiring 28.37% of voting rights in consideration for cash.

(b) The period for which the operations of the acquired company is included in the consolidated statements

Since the deemed effective acquisition date is April 1, 2017, results of operations from April 1, 2017 through March 31, 2018 are included in the consolidated statement of income for the year ended March 31, 2018.

(c) Acquisition cost of the acquired company and related detail of each class of consideration

Market value of the shares held at the date of business combination immediately before the business combination: ¥41,567 million (\$391,255 thousand)

Acquisition cost of the acquired corporation: ¥30,458 million (\$286,690 thousand)

Total acquisition cost: ¥72,025 million (\$677,946 thousand)

(d) The amount of the difference between the cost of acquisition and the total cost of acquisition per transaction

Amount of gain on step acquisition: ¥33,801 million (\$318,157 thousand)

(e) Amount of goodwill incurred, reason for the goodwill incurred, and the method and period of amortization

Amount of goodwill incurred: ¥58,334 million (\$549,077 thousand)

Reason for the goodwill incurred

Additional future income-generating power (including synergies) is expected to be derived from future business development.

Method and period of amortization

Goodwill is amortized on a straight-line method

(f) The assets acquired and liabilities assumed at the acquisition date

Current assets	¥24,408 million	(\$229,743 thousand)
Fixed assets	16,950 million	(159,544 thousand)
Total assets acquired	41,359 million	(389,297 thousand)
Current liabilities	13,690 million	(128,859 thousand)
Long-term liabilities	7,234 million	(68,091 thousand)
Total liabilities assumed	20,924 million	(196,950 thousand)
Net assets acquired	¥20,435 million	(\$192,340 thousand)

5. Marketable securities and investment securities

Marketable and investment securities as of March 31, 2018 and 2017 are summarized as follows:

	Yen (Millions)		U.S. dollars (Thousands)
	2018	2017	2018
Current:			
Negotiable certificates of deposits	¥279,540	¥257,950	\$2,631,212
Other	—	—	—
Total	¥279,540	¥257,950	\$2,631,212
Non-current:			
Marketable equity securities	¥ 58,395	¥ 51,492	\$ 549,651
Other	25,476	24,895	239,796
Total	¥ 83,871	¥ 76,387	\$ 789,448

The costs and aggregate fair values of marketable and investment securities at March 31, 2018 and 2017, were as follows:

As of March 31, 2018	Yen (Millions)			
	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale:				
Negotiable certificates of deposit	¥279,540	¥ —	¥ —	¥279,540
Marketable equity securities	22,907	35,491	(3)	58,395
Held-to-maturity	—	—	—	—
As of March 31, 2017	Yen (Millions)			
	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale:				
Negotiable certificates of deposit	¥257,950	¥ —	¥ —	¥257,950
Marketable equity securities	22,907	28,783	198	51,492
Held-to-maturity	—	—	—	—
As of March 31, 2018	U.S. dollars (Thousands)			
	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale:				
Negotiable certificates of deposit	\$2,631,212	\$ —	\$ —	\$2,631,212
Marketable equity securities	215,615	334,064	(28)	549,651
Held-to-maturity	—	—	—	—

The proceeds, realized gains and realized losses on the available-for-sale securities sold during the years ended March 31, 2018 and 2017 were as follows:

	Yen (Millions)		U.S. dollars (Thousands)
	2018	2017	2018
Proceeds	¥2,379	¥4,696	\$22,392
Gain on sales	1,311	1,976	12,339
Loss on sales	—	—	—

The breakdown of securities for which fair value cannot be reliably determined at March 31, 2018 and 2017 is as follows:

	Yen (Millions)		U.S. dollars (Thousands)
	2018	2017	2018
Available-for-sale	¥25,476	¥24,895	\$239,796

Notes to Consolidated Financial Statements

The redemption schedule of available-for-sale securities with maturities and held-to-maturity securities as of March 31, 2018 and 2017 is summarized as follows:

	Yen (Millions)		U.S. dollars (Thousands)
	2018	2017	2018
Bonds:			
Within 1 year	¥ —	¥ —	\$ —
Over 1 year to 5 years	—	—	—
Over 5 years to 10 years	—	—	—
Over 10 years	—	—	—
Other securities with maturities:			
Within 1 year	279,540	257,950	2,631,212
Over 1 year to 5 years	139	—	1,308
Over 5 years to 10 years	3,062	3,535	28,821
Over 10 years	164	—	1,543
Total:			
Within 1 year	¥279,540	¥257,950	\$2,631,212
Over 1 year to 5 years	139	—	1,308
Over 5 years to 10 years	3,062	3,535	28,821
Over 10 years	164	—	1,543

6. Inventories

Inventories at March 31, 2018 and 2017 consisted the following:

	Yen (Millions)		U.S. dollars (Thousands)
	2018	2017	2018
Inventories (Merchandise)	¥12,364	¥ 9,951	\$116,378
Inventories (Supplies)	50,106	54,961	471,630
Total	¥62,470	¥64,912	\$588,008

7. Investments in and advances to unconsolidated subsidiaries and affiliates

Investments in and advances to unconsolidated subsidiaries and affiliates at March 31, 2018 and 2017 consisted of the following:

	Yen (Millions)		U.S. dollars (Thousands)
	2018	2017	2018
Investments in capital stock	¥36,091	¥42,981	\$339,711
Advances	4,183	3,840	39,373
Total	¥40,274	¥46,821	\$379,085

8. Short-term loans and long-term debt

Short-term loans and current portion of long-term debt at March 31, 2018 and 2017 consisted of the following:

	Yen (Millions)		U.S. dollars (Thousands)
	2018	2017	2018
Short-term loans	¥ 176	¥ 70	\$ 1,656
Current portion of long-term loans	84,738	93,292	797,609
Current portion of bonds	10,000	20,000	94,126
Current portion of finance lease obligations	5,211	5,020	49,049
Total	¥100,125	¥118,382	\$942,441

The average interest rates on the above short-term loans were 1.37% and 0.001% per annum in 2018 and 2017, respectively.

Long-term debt at March 31, 2018 and 2017 consisted of the following:

	Yen (Millions)		U.S. dollars (Thousands)
	2018	2017	2018
Bonds:			
3.20% notes due 2017	¥ —	¥ 20,000	\$ —
2.45% notes due 2018	10,000	10,000	94,126
1.22% notes due 2024	30,000	30,000	282,379
1.20% notes due 2026	15,000	15,000	141,189
0.38% notes due 2019	30,000	30,000	282,379
0.99% notes due 2036	20,000	20,000	188,253
0.26% notes due 2020	20,000	20,000	188,253
0.88% notes due 2037	10,000	—	94,126
Convertible bonds with stock acquisition rights due 2022	70,000	—	658,885
Convertible bonds with stock acquisition rights due 2024	70,000	—	658,885
	275,000	145,000	2,588,478
Loans, principally from banks:			
Secured, bearing interest from 0.15% to 2.11% in 2018 and 0.15% to 2.11% in 2017, maturing in installments through 2038	295,227	335,944	2,778,868
Unsecured, bearing interest from 0.46% to 3.54% in 2018 and 0.46% to 3.54% in 2017, maturing in installments through 2029	207,696	227,003	1,954,969
	502,923	562,947	4,733,838
Finance lease obligations:			
Finance lease agreements expiring through 2027	20,294	21,860	191,020
	798,217	729,807	7,513,337
Less current portion	99,949	118,312	940,785
Total	¥698,268	¥611,495	\$6,572,552

The details of the convertible bonds with stock acquisition rights are as follows:

	Zero coupon convertible bonds due 2022
Class of shares to be issued	Common stock
Total issue price of stock acquisition rights	Zero
Initial conversion price	¥5,180 (\$48.75) per share
Total issue price	¥70,000 million (\$658,885 thousand)
Total issue price of shares issued upon the exercise of stock acquisition rights	—
Percentage of stock acquisition rights granted	100.0%
Exercise period	October 3, 2017 through September 2, 2022
	Zero coupon convertible bonds due 2024
Class of shares to be issued	Common stock
Total issue price of stock acquisition rights	Zero
Initial conversion price	¥5,100 (\$48.00) per share
Total issue price	¥70,000 million (\$658,885 thousand)
Total issue price of shares issued upon the exercise of stock acquisition rights	—
Percentage of stock acquisition rights granted	100.0%
Exercise period	October 3, 2017 through September 5, 2024

As is customary in Japan, short-term and long-term bank loans are made under general agreements which provide that security and guarantees for future and present indebtedness will be given upon request of the bank, and that the bank shall have the right, as the obligation becomes due or in the event of default and certain other specified events, to offset cash deposits against such obligations due to the bank.

Notes to Consolidated Financial Statements

The following assets were pledged as collateral for short-term and long-term debt at March 31, 2018 and 2017:

	Yen (Millions)		U.S. dollars (Thousands)
	2018	2017	2018
Assets at net book value:			
Aircraft (including aircraft spare parts included in inventories)	¥529,637	¥588,699	\$4,985,288
Land and buildings	3,013	3,154	28,360
Lease receivables	16,543	17,733	155,713
Others	10,146	10,146	95,500
Total	¥559,339	¥619,732	\$5,264,862

The aggregate annual maturities of long-term debt after March 31, 2018 are as follows:

Years ending March 31	Yen (Millions)	U.S. dollars (Thousands)
2019	¥ 99,949	\$ 940,785
2020	107,127	1,008,349
2021	95,284	896,875
2022	60,315	567,724
2023	119,715	1,126,835
Thereafter	315,827	2,972,769
Total	¥798,217	\$7,513,337

9. Retirement benefit plans

The Company and certain consolidated subsidiaries provide defined contribution pension plans as well as defined benefit pension plans, i.e., welfare pension fund plans, defined benefit corporate pension plans and lump-sum payment plans for the benefit of employees. Premium severance pay may be paid at the time of retirement of eligible employees in certain cases.

Certain consolidated subsidiaries adopting defined benefit corporate pension plans and lump-sum payment plans use a simplified method for calculating retirement benefit expenses and liabilities.

(a) The changes in the defined benefit obligation for the years ended March 31, 2018 and 2017 are as follows:

	Yen (Millions)		U.S. dollars (Thousands)
	2018	2017	2018
Balance at the beginning of the fiscal year	¥227,979	¥238,030	\$2,145,886
Service cost	9,843	9,520	92,648
Interest cost	1,763	1,818	16,594
Actuarial (gains)	(1,950)	(4,064)	(18,354)
Benefits paid	(11,734)	(16,083)	(110,448)
Accrued prior service cost	238	49	2,240
Other	975	(1,291)	9,177
Balance at the end of the fiscal year	¥227,114	¥227,979	\$2,137,744

(b) The changes in plan assets for the years ended March 31, 2018 and 2017 are as follows:

	Yen (Millions)		U.S. dollars (Thousands)
	2018	2017	2018
Balance at the beginning of the fiscal year	¥72,563	¥74,748	\$683,010
Expected return on plan assets	1,288	1,309	12,123
Actuarial gains (losses)	182	(662)	1,713
Employer contributions	1,721	2,353	16,199
Benefits paid	(5,093)	(5,377)	(47,938)
Other	—	192	—
Balance at the end of the fiscal year	¥70,661	¥72,563	\$665,107

(c) A reconciliation between the liability recorded in the consolidated balance sheet and the balances of the defined benefit obligation and plan assets as of March 31, 2018 and 2017 is as follows:

	Yen (Millions)		U.S. dollars (Thousands)
	2018	2017	2018
Funded defined benefit obligation	¥ 85,042	¥ 85,092	\$ 800,470
Plan assets at fair value	(70,661)	(72,563)	(665,107)
	14,381	12,529	135,363
Unfunded defined benefit obligation	142,072	142,887	1,337,274
Net liability arising from defined benefit obligation in the consolidated balance sheet	¥156,453	¥155,416	\$1,472,637
Liability for defined benefits	¥156,765	¥156,751	\$1,475,574
Asset for defined benefits	(312)	(1,335)	(2,936)
Net liability arising from defined benefit obligation in the consolidated balance sheet	¥156,453	¥155,416	\$1,472,637

(d) The components of net periodic benefit costs for the years ended March 31, 2018 and 2017 are as follows:

	Yen (Millions)		U.S. dollars (Thousands)
	2018	2017	2018
Service cost	¥ 9,843	¥ 9,520	\$ 92,648
Interest cost	1,763	1,818	16,594
Expected return on plan assets	(1,288)	(1,309)	(12,123)
Recognized actuarial losses	4,379	4,575	41,217
Amortization of prior service cost	822	379	7,737
Net periodic benefit costs	¥15,519	¥14,983	\$146,074

(e) Amounts recognized in other comprehensive income (before income tax effect) related to the defined retirement benefit plans for the years ended March 31, 2018 and 2017 are as follows:

	Yen (Millions)		U.S. dollars (Thousands)
	2018	2017	2018
Prior service cost	¥ (584)	¥ (330)	\$ (5,496)
Actuarial losses	(6,511)	(7,977)	(61,285)
Total	¥(7,095)	¥(8,307)	\$ (66,782)

(f) Amounts recognized in accumulated other comprehensive income (before income tax effect) related to the defined retirement benefit plans as of March 31, 2018 and 2017 are as follows:

	Yen (Millions)		U.S. dollars (Thousands)
	2018	2017	2018
Unrecognized actuarial losses	¥20,718	¥27,229	\$195,011
Unrecognized prior service cost	9,944	10,528	93,599
Total	¥30,662	¥37,757	\$288,610

(g) Plan assets

(1) Components of plan assets

Plan assets as of March 31, 2018 and 2017 consisted of the following:

	2018	2017
Bonds	42%	46%
General accounts	11	12
Stocks	10	9
Cash and deposits	6	3
Other	31	30
Total	100%	100%

Notes to Consolidated Financial Statements

(2) Method of determining the expected rate of return on plan assets

The expected rate of return on plan assets has been estimated based on the anticipated allocation to each plan asset class and the expected long-term returns on plan assets held in each category.

(h) Assumptions used for the years ended March 31, 2018 and 2017 are set forth as follows:

	2018	2017
Discount rates	0.1 – 1.2%	0.1 – 1.2%
Expected rate of return on plan assets	1.5 – 2.5%	1.5 – 3.0%

(i) Defined contribution pension plans

The contributions to the defined contribution pension plans of the Company and certain subsidiaries were ¥4,062 million (\$38,234 thousand) and ¥3,995 million for the years ended March 31, 2018 and 2017, respectively.

10. Asset retirement obligations

(a) Asset retirement obligations recorded on the consolidated balance sheet

(1) Overview of asset retirement obligations

The Company and its domestic subsidiaries enter into agreements with national government entities that allow for the use of Japanese government property and have entered into real estate lease contracts with such entities for the Head Office, sales branches, airport branches and certain other offices. As the Company and its domestic subsidiaries have restoration obligations for such properties at the end of each lease period, related legal obligations required by law and the contracts are recorded on the consolidated balance sheet as asset retirement obligations.

(2) Calculation of asset retirement obligations

The Group estimates the expected period of use as 1 to 30 years and calculates the amount of asset retirement obligations with a discount rate of 0% to 2.27%.

The following table indicates the changes in asset retirement obligations for the years ended March 31, 2018 and 2017:

	Yen (Millions)		U.S. dollars (Thousands)
	2018	2017	2018
Balance at the beginning of the fiscal year	¥1,074	¥ 949	\$10,109
Liabilities incurred due to the acquisition of property and equipment	1	5	9
Accretion expense	14	15	131
Liabilities settled	(31)	(14)	(291)
Other	261	119	2,456
Balance at the end of the fiscal year	¥1,319	¥1,074	\$12,415

(b) Asset retirement obligations not recorded on the consolidated balance sheet

The Company and its domestic subsidiaries enter into agreements with national government entities that allow for the use of Japanese government property, and have entered into real estate lease contracts with such entities for land and office at airport facilities, including Tokyo International Airport, Narita International Airport, New Chitose Airport, Chubu Centrair International Airport, Osaka International Airport, Kansai International Airport, Fukuoka Airport and Naha Airport. The Company and its domestic subsidiaries have restoration obligations when they vacate and clear such facilities. However, as the above airports are considered to be critical infrastructure, it is beyond the control of the Company alone to determine when to vacate and clear such facilities, and it is also impossible to make reasonable estimates as there are currently no relocation plans for the above properties. Therefore, the Company and its domestic subsidiaries do not record asset retirement obligations for the related liabilities.

11. Income taxes

The Company and certain of its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 30.86% for each of the years ended March 31, 2018 and 2017.

The Group files a tax return under the consolidated corporate-tax system, which allows companies to base tax payments on the combined profits or losses of the parent company and certain of its domestic subsidiaries.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2018 and 2017 are as follows:

	Yen (Millions)		U.S. dollars (Thousands)
	2018	2017	2018
Deferred tax assets:			
Liability for retirement benefits	¥ 48,276	¥ 48,447	\$ 454,405
Accrued bonuses to employees	14,488	13,458	136,370
Prepaid expenses	7,452	-	70,143
Long-term unearned revenue	6,460	7,270	60,805
Unrealized gain on inventories and property and equipment	4,728	4,976	44,503
Other provisions	3,546	679	33,377
Deferred loss on hedging instruments	3,138	5,953	29,536
Impairment loss	2,775	1,457	26,120
Accrued enterprise tax	2,528	2,034	23,795
Other	22,197	24,292	208,932
Total gross deferred tax assets	115,588	108,566	1,087,989
Less valuation allowance	(7,050)	(6,486)	(66,359)
Total net deferred tax assets	108,538	102,080	1,021,630
Deferred tax liabilities:			
Unrealized gain on securities	(10,315)	(8,721)	(97,091)
Retained earnings of subsidiaries and affiliates	(2,316)	(2,173)	(21,799)
Deferred gain on hedging instruments	(1,728)	(808)	(16,265)
Other	(897)	(2,890)	(8,443)
Total gross deferred tax liabilities	(15,256)	(14,592)	(143,599)
Net deferred tax assets	¥ 93,282	¥ 87,488	\$ 878,030

A reconciliation of the difference between the normal effective statutory tax rate and the actual effective income tax rate for the years ended March 31, 2018 and 2017 is as follows:

	2018	2017
Normal effective statutory tax rate	30.86%	30.86%
Reconciliation:		
Amortization of goodwill	0.63	0.04
Expenses not deductible for income tax purposes	0.38	0.49
Changes in valuation allowance	0.20	(1.98)
Inhabitant tax per capita levy	0.11	0.14
Gain on step acquisitions	(5.30)	-
Income taxes for prior periods	(0.93)	(0.14)
Other, net	(0.01)	(0.62)
Actual effective income tax rate	25.94%	28.79%

Notes to Consolidated Financial Statements

12. Other comprehensive income

The following table presents reclassification and tax effects allocated to each component of other comprehensive income for the years ended March 31, 2018 and 2017:

	Yen (Millions)		U.S. dollars (Thousands)
	2018	2017	2018
Unrealized gain on securities:			
Amount arising during the fiscal year	¥ 6,563	¥ 3,155	\$ 61,775
Reclassification adjustments to profit or loss	(1,180)	(1,973)	(11,106)
Amount of unrealized gain on securities before tax effect	5,383	1,182	50,668
Tax effect	(1,595)	(82)	(15,013)
Total	3,788	1,100	35,655
Deferred gain on derivatives under hedge accounting:			
Amount arising during the fiscal year	28,205	93,876	265,483
Reclassification adjustments to profit or loss	(16,308)	(37,580)	(153,501)
Amount of deferred gain on derivatives under hedge accounting before tax effect	11,897	56,296	111,982
Tax effect	(3,563)	(17,051)	(33,537)
Total	8,334	39,245	78,445
Foreign currency translation adjustments:			
Amount arising during the fiscal year	(149)	(576)	(1,402)
Total	(149)	(576)	(1,402)
Defined retirement benefit plans:			
Amount arising during the fiscal year	1,894	3,353	17,827
Reclassification adjustments to profit or loss	5,201	4,954	48,955
Amount of defined retirement benefit plans before tax effect	7,095	8,307	66,782
Tax effect	(2,151)	(2,364)	(20,246)
Total	4,944	5,943	46,536
Share of other comprehensive (loss) income in affiliates:			
Amount arising during the fiscal year	(30)	345	(282)
Reclassification adjustments to profit or loss	(30)	244	(282)
Total	(60)	589	(564)
Total other comprehensive income	¥ 16,857	¥ 46,301	\$ 158,669

13. Leases

As lessee

(a) Finance leases

Finance lease transactions are capitalized by recognizing lease assets and lease obligations in the consolidated balance sheet.

Tangible fixed lease assets include mainly aircraft, flight equipment, host computers and peripheral equipment. Intangible lease assets include software. The depreciation method for leased assets is described in Note 3 (j) "Leases."

(b) Operating leases

The amount of outstanding future lease payments under non-cancelable operating leases are as follows:

	Yen (Millions)		U.S. dollars (Thousands)
	2018	2017	2018
Current portion of operating lease obligations	¥ 51,117	¥ 44,979	\$ 481,146
Long-term operating lease obligations	237,363	216,899	2,234,214
Total	¥288,480	¥261,878	\$2,715,361

As lessor**(a) Operating leases**

The amount of outstanding future lease receivables under non-cancelable operating leases are as follows:

	Yen (Millions)		U.S. dollars (Thousands)
	2018	2017	2018
Current portion of operating lease receivables	¥ 500	¥ 626	\$ 4,706
Long-term operating lease receivables	4,101	4,853	38,601
Total	¥4,601	¥5,479	\$43,307

14. Supplementary information for the consolidated statement of changes in net assets

Supplementary information for the consolidated statement of changes in net assets for the year ended March 31, 2018 consisted of the following:

(a) Dividends

Under the Companies Act of Japan (the "Companies Act"), the appropriation of unappropriated retained earnings of the Company with respect to a financial period is made by resolution of the Company's shareholders at a general meeting to be held subsequent to the close of the financial period and the accounts for that period do not therefore reflect such appropriation.

(1) Dividends paid to shareholders

Date of approval	Resolution approved by	Type of shares	Yen (Millions)	U.S. dollars (Thousands)	Paid from	Yen	U.S. dollars	Shareholders' cut-off date	Effective date
			Amount	Amount		Dividends per share	Dividends per share		
June 23, 2017	Ordinary General Meeting of Shareholders	Common stock ^(*1, *2)	¥21,021	\$197,863	Retained earnings	¥6.00	\$0.05	March 31, 2017	June 26, 2017

(*1) The total amount of dividends does not include ¥45 million (\$423 thousand) in dividends paid to the ESOT, subsidiaries and affiliates. This is because the Company's shares held by the ESOT, subsidiaries and affiliates are recognized as treasury stock.

(*2) Since a 1-for-10 ordinary share reverse stock split was conducted effective October 1, 2017, dividend amount per share is based on the assumption that it was calculated prior to the reverse stock split.

(2) Dividends with a shareholders' cut-off date within the current fiscal year but an effective date within the subsequent fiscal year

Date of approval	Resolution approved by	Type of shares	Yen (Millions)	U.S. dollars (Thousands)	Paid from	Yen	U.S. dollars	Shareholders' cut-off date	Effective date
			Amount	Amount		Dividends per share	Dividends per share		
June 28, 2018	Ordinary General Meeting of Shareholders	Common stock ^(*1)	¥20,084	\$189,043	Retained earnings	¥60.00	\$0.56	March 31, 2018	June 29, 2018

(*1) The total amount of dividends does not include ¥7 million (\$65 thousand) in dividends to be paid to the subsidiaries and affiliates. This is because the shares held by subsidiaries and affiliates are recognized as treasury stock.

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus), depending on the equity account charged upon the payment of such dividends, until the aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts within equity under certain conditions upon resolution of the shareholders.

Notes to Consolidated Financial Statements

(b) Type and number of outstanding shares

As of March 31, 2018 Type of shares	Number of shares (Thousands)			
	Balance at beginning of year	Increase in shares during the year	Decrease in shares during the year	Balance at end of year
Issued stock:				
Common stock ^{(*)4}	351,642	–	3,144	348,498
Total	351,642	–	3,144	348,498
Treasury stock:				
Common stock ^{(*)1, *)2, *)3, *)4}	1,412	16,257	3,803	13,866
Total	1,412	16,257	3,803	13,866

(*)1 The increase of 16,257 thousand shares of treasury stock is the total of 16,214 thousand shares, which are issued shares subsequently purchased by the Company; 38 thousand shares, which the Company purchased from holders of fractional shares; and 4 thousand shares, which is the increase associated with changes of ownership ratios of affiliates which hold the Company's stock.

(*)2 The decrease of 3,803 thousand shares of treasury stock is the total of 3,144 thousand shares, which is retirement of treasury stock; 3 thousand shares, which the Company sold to the holders of fractional shares at their request; 637 thousand shares, which were sold by the ESOT during the current fiscal year; and 17 thousand shares, which were sold by the Trust for Delivery of Shares to Directors. Additionally, the ESOT was terminated in July 2017.

(*)3 Treasury stock includes 114 thousand shares held by the Trust for Delivery of Shares to Directors.

(*)4 Since a 1-for-10 ordinary share reverse stock split was conducted effective October 1, 2017, the noted items were calculated based on the assumption that the reverse stock split was conducted at the beginning of the current fiscal year.

As of March 31, 2017 Type of shares	Number of shares (Thousands)			
	Balance at beginning of year	Increase in shares during the year	Decrease in shares during the year	Balance at end of year
Issued stock:				
Common stock ^{(*)4}	3,516,425	–	–	3,516,425
Total	3,516,425	–	–	3,516,425
Treasury stock:				
Common stock ^{(*)1, *)2, *)3, *)4}	19,227	100	5,205	14,122
Total	19,227	100	5,205	14,122

(*)1 The increase of 100 thousand shares of treasury stock corresponds to the purchase of fractional shares.

(*)2 The decrease of 5,205 thousand shares of treasury stock consists of 13 thousand shares, which the Company sold to the holders of fractional shares upon their request; 5,152 thousand shares, which were sold by the ESOT during the current fiscal year; and 39 thousand shares, which were sold by the Trust for Delivery of Shares to Directors.

(*)3 Treasury stock includes 6,379 thousand shares in the Company held by the ESOT, and 1,318 thousand shares held by the Trust for Delivery of Shares to Directors, each at the end of the current fiscal year.

(*)4 Although a 1-for-10 ordinary share reverse stock split was conducted effective October 1, 2017, the noted items were not calculated based on the assumption that the reverse stock split was conducted.

15. Contingent liabilities

The Group was contingently liable as a guarantor of loans, principally to affiliates, totaling ¥3,568 million (\$33,584 thousand) at March 31, 2018.

The Group was contingently liable as a guarantor for a stock transfer agreement between third parties, totaling ¥6,111 million (\$57,520 thousand) at March 31, 2018.

The Group was contingently liable as a guarantor of loans, principally to affiliates, totaling ¥3,476 million at March 31, 2017.

The Group was contingently liable as a guarantor for a stock transfer agreement between third parties, totaling ¥6,732 million at March 31, 2017.

16. Financial instruments and related disclosures

Overview

(a) Group policy for financial instruments

The Group limits its fund management to short-term time deposits and raises funds through borrowings from financial institutions, including banks. The Group uses derivatives for the purpose of reducing the risks described below and does not enter into derivatives for speculative or trading purposes.

(b) Types of financial instruments and related risk

Trade receivables (notes and accounts receivable) are exposed to credit risk in relation to customers.

Marketable securities and investment securities are exposed to the risk of market price fluctuations. Those securities are composed mainly of the shares of other companies with which the Group has business relationships.

Substantially all trade payables have payment due dates within one year.

Borrowings are taken out principally for the purpose of making capital investments, and certain long-term debt with variable interest rates is exposed to interest rate fluctuation risk. However, to reduce such risk for long-term interest-bearing debt at variable rates, the Group utilizes interest rate swap transactions as hedging instruments. Interest rate swaps that qualify for hedge accounting and meet specific matching criteria are not measured at fair value, but the differential paid or received under the swap agreements is recognized and included in interest expenses.

For derivatives, in order to reduce the foreign currency exchange rate risk arising from receivables and payables denominated in foreign currencies, the Group enters into forward foreign exchange contracts for specific receivables and payables denominated in foreign currencies, mainly for aircraft purchase commitments. In addition, the Group enters into commodity derivative transactions such as swaps and options to mitigate fluctuation risk of the commodity prices of fuel and to stabilize operating profit.

1) Management of credit risks (risks such as breach of contract by customers)

The Group manages its credit risk from receivables on the basis of internal guidelines, which include monitoring of payment term and balances of major customers by each business administration department to identify the default risk of customers at an early stage.

As for derivatives, the Group believes that the credit risks are extremely low, as it enters into derivative transactions only with reputable financial institutions with sound credit profiles.

2) Management of market risks (fluctuation risks of foreign currency exchange rates and interest rates)

In order to reduce foreign currency exchange rate risks, the Group principally utilizes forward foreign exchange contracts for receivables and payables denominated in foreign currencies. In order to mitigate the interest rate fluctuation risks related to debt, the Group utilizes interest rate swap transactions. In addition, the Group enters into commodity derivative transactions such as swaps and options to mitigate fluctuation risk related to commodity prices for fuel.

As for marketable securities and investment securities, the Group periodically reviews the fair values and the financial conditions of the issuers to identify and mitigate risks of impairment.

There are internal management regulations for derivative transactions which set forth transaction authority and limits on transaction amounts.

The Group enters into derivative transactions in accordance with such policies. Moreover, the Group reports plans and results of methods and ratios for offsetting risks at the quarterly meetings of the Board of Directors.

3) Management of liquidity risks related to financing (risks that the Group cannot meet the due dates of payables)

The Group manages liquidity risks by establishing a financial plan in order to procure and invest funds that are necessary for the operation of the Group over a certain period of time, in accordance with the Group's business operating plan and budget.

(c) Supplementary explanation of the estimated fair value of financial instruments

The fair value of financial instruments is based on their quoted market price, if available. When there is no quoted market price available, fair value is reasonably estimated. Since various assumptions and factors are reflected in estimating the fair value, different assumptions and factors could result in different fair value estimates. In addition, the notional amounts of derivatives presented in Note 17 "Derivatives and hedging activities" are not necessarily indicative of the actual market risk involved in derivative transactions.

Notes to Consolidated Financial Statements

Estimated fair value of financial instruments

The carrying values of financial instruments on the consolidated balance sheet as of March 31, 2018 and 2017, and their estimated fair values, are shown in the following tables. The following tables do not include financial instruments for which fair value cannot be reliably determined (Please refer to Note 2 below).

As of March 31, 2018	Yen (Millions)		
	Carrying value	Fair value	Differences
Assets:			
Cash and deposits	¥ 78,036	¥ 78,036	¥ –
Notes and accounts receivable	174,211	174,211	–
Marketable securities and investment securities	337,935	337,935	–
Total assets	¥ 590,182	¥ 590,182	¥ –
Liabilities:			
Accounts payable	¥ 225,889	¥ 225,889	¥ –
Short-term loans	176	176	–
Bonds	135,000	138,009	(3,009)
Convertible bonds with stock acquisition rights	140,000	144,865	(4,865)
Long-term loans	502,923	514,093	(11,170)
Total liabilities	¥1,003,988	¥1,023,032	¥(19,044)
Derivatives*	¥ (4,665)	¥ (4,665)	¥ –

As of March 31, 2017	Yen (Millions)		
	Carrying value	Fair value	Differences
Assets:			
Cash and deposits	¥ 60,835	¥ 60,835	¥ –
Notes and accounts receivable	154,668	154,668	–
Marketable securities and investment securities	309,443	309,443	–
Total assets	¥524,946	¥524,946	¥ –
Liabilities:			
Accounts payable	¥181,768	¥181,768	¥ –
Short-term loans	70	70	–
Bonds	145,000	148,984	3,984
Long-term loans	562,947	576,370	13,423
Total liabilities	¥889,785	¥907,192	¥17,407
Derivatives*	¥ (17,064)	¥ (17,064)	¥ –

As of March 31, 2018	U.S. dollars (Thousands)		
	Carrying value	Fair value	Differences
Assets:			
Cash and deposits	\$ 734,525	\$ 734,525	\$ –
Notes and accounts receivable	1,639,787	1,639,787	–
Marketable securities and investment securities	3,180,864	3,180,864	–
Total assets	\$5,555,176	\$5,555,176	\$ –
Liabilities:			
Accounts payable	\$2,126,214	\$2,126,214	\$ –
Short-term loans	1,656	1,656	–
Bonds	1,270,707	1,299,030	(28,322)
Convertible bonds with stock acquisition rights	1,317,771	1,363,563	(45,792)
Long-term loans	4,733,838	4,838,977	(105,139)
Total liabilities	\$9,450,188	\$9,629,442	\$(179,254)
Derivatives*	\$ (43,910)	\$ (43,910)	\$ –

* The value of assets and liabilities arising from derivatives is shown as a net value, and the amount in parentheses represents a net liability position.

Notes:

1. Methods to determine the estimated fair value of financial instruments and other matters related to securities and derivative transactions

Assets

(a) Cash and deposits

The carrying values of cash and deposits approximate fair value because of their short maturities.

(b) Notes and accounts receivable

The carrying values of notes and accounts receivable approximate fair value because of their short maturities.

(c) Marketable securities and investment securities

The fair values of marketable and investment securities are measured at the quoted market price of the stock exchange for the equity instruments, and at the quoted price obtained from the financial institution for certain debt instruments. The information on the fair values of marketable and investment securities by classification is included in Note 5 "Marketable securities and investment securities" of the notes to the consolidated financial statements.

Liabilities

(a) Accounts payable

The carrying values of notes and accounts payable approximate fair value because of their short maturities.

(b) Short-term loans

The carrying values of short-term loans approximate fair value because of their short maturities.

(c) Bonds

The fair value of bonds issued by the Company is measured at the present value of the total of principal and interest discounted by an interest rate determined by taking into account the remaining period of each bond and current credit risk.

(d) Long-term loans

The fair values of long-term loans are determined by discounting the cash flows related to the debt at the Group's assumed corporate borrowing rate.

2. Financial instruments for which it is extremely difficult to determine the fair value

As of March 31, 2018	Yen (Millions)		U.S. dollars (Thousands)
	2018	2017	2018
Unlisted stocks	¥25,476	¥24,895	\$239,796

Because no quoted market price is available and the fair value cannot be reliably determined, the above financial instruments are not included in the fair value tables above.

3. The redemption schedule for receivables and available-for-sale and held-to-maturity securities with maturities as of March 31, 2018 and 2017 is summarized as follows:

As of March 31, 2018	Yen (Millions)			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Deposits	¥ 77,206	¥ –	¥ –	¥ –
Notes and accounts receivable	174,211	–	–	–
Held-to-maturity bonds	–	–	–	–
Other securities with maturities	279,540	139	3,062	164
Total	¥530,957	¥139	¥3,062	¥164

As of March 31, 2017	Yen (Millions)			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Deposits	¥ 60,059	¥ –	¥ –	¥ –
Notes and accounts receivable	154,668	–	–	–
Held-to-maturity bonds	–	–	–	–
Other securities with maturities	257,950	–	3,535	–
Total	¥472,677	¥ –	¥3,535	¥ –

As of March 31, 2018	U.S. dollars (Thousands)			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Deposits	\$ 726,713	\$ –	\$ –	\$ –
Notes and accounts receivable	1,639,787	–	–	–
Held-to-maturity bonds	–	–	–	–
Other securities with maturities	2,631,212	1,308	28,821	1,543
Total	\$4,997,712	\$1,308	\$28,821	\$1,543

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4. The redemption schedule for bonds, loans and other interest-bearing liabilities as of March, 2018 and 2017 is summarized as follows:

As of March 31, 2018	Yen (Millions)			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Short-term loans	¥ 176	¥ –	¥ –	¥ –
Bonds	10,000	50,000	45,000	30,000
Convertible bonds with stock acquisition rights	–	70,000	70,000	–
Long-term loans	84,738	249,566	129,927	38,692
Total	¥94,914	¥369,566	¥244,927	¥68,692

As of March 31, 2017	Yen (Millions)			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Short-term loans	¥ 70	¥ –	¥ –	¥ –
Bonds	20,000	60,000	45,000	20,000
Long-term loans	93,292	277,065	149,058	43,532
Total	¥113,362	¥337,065	¥194,058	¥63,532

As of March 31, 2018	U.S. dollars (Thousands)			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Short-term loans	\$ 1,656	\$ –	\$ –	\$ –
Bonds	94,126	470,632	423,569	282,379
Convertible bonds with stock acquisition rights	–	658,885	658,885	–
Long-term loans	797,609	2,349,077	1,222,957	364,194
Total	\$893,392	\$3,478,595	\$2,305,412	\$646,573

17. Derivatives and hedging activities

The Group operates internationally and is exposed to the risk of fluctuations in foreign currency exchange rates, interest rates and jet fuel prices. In order to manage these risks, the Group utilizes forward exchange contracts to hedge certain foreign currency transactions related to purchase commitments, principally of flight equipment, and foreign currency receivables and payables. Also, the Group utilizes interest rate swaps to minimize the impact of interest rate fluctuations related to outstanding debt. In addition, the Group also enters into a variety of swaps and options in its management of risk exposure related to jet fuel prices. The Group does not use derivatives for speculative or trading purposes.

The Group has developed internal hedging guidelines to control various aspects of derivative transactions, including authorization levels and transaction volumes. The Group enters into derivative transactions in accordance with these internal guidelines. Derivative and hedging transactions initiated by respective operational departments have been examined by the accounting department and these transactions, including their measures and ratios, are generally monitored by management on a quarterly basis. Assessment of hedge effectiveness is examined at inception and, on an ongoing basis, periodically.

The Group is also exposed to credit-related losses in the event of non-performance by counterparties in regard to derivative financial instruments; however, it is not expected that any counterparties will fail to meet their obligations, as the majority of the counterparties are internationally recognized financial institutions.

Summarized below are the notional amounts and estimated fair values of the derivative financial instruments outstanding as of March 31, 2018 and 2017 for which hedged accounting has been applied.

(a) Derivative transactions to which hedge accounting is not applied

(1) Currency-related transactions

As of March 31, 2018		Yen (Millions)		
		Notional amount		Fair value
		Total	Maturing after one year	
Forward foreign exchange contracts:				
Sell:				
	USD	¥ –	¥–	¥ –
	EUR	–	–	–
	Other	206	–	0
Buy:				
	USD	23,857	–	42
	EUR	–	–	–
	Other	–	–	–
Total		¥24,063	¥–	¥42

As of March 31, 2018		U.S. dollars (Thousands)		
		Notional amount		Fair value
		Total	Maturing after one year	
Forward foreign exchange contracts:				
Sell:				
	USD	\$ -	\$-	\$ -
	EUR	-	-	-
	Other	1,939	-	0
Buy:				
	USD	224,557	-	395
	EUR	-	-	-
	Other	-	-	-
Total		\$226,496	\$-	\$395

(b) Derivative transactions to which hedge accounting is applied

(1) Currency-related transactions

As of March 31, 2018		Yen (Millions)		
		Notional amount		Fair value
		Total	Maturing after one year	
Forward foreign exchange contracts for accounts receivable, accounted for by the deferral method:				
Sell:				
	USD	¥ 7,722	¥ -	¥ (222)
	EUR	11	-	0
	Other	286	-	(5)
Forward foreign exchange contracts for accounts payable, accounted for by the deferral method:				
Buy:				
	USD	376,353	185,135	(13,404)
	EUR	98	-	(2)
	Other	108	-	(1)
Currency option contracts for accounts payable, accounted for by the deferral method:				
Sell:				
	USD (Put)	49,622	24,084	(2,440)
Buy:				
	USD (Call)	54,516	26,638	619
Forward foreign exchange contracts, accounted for as part of accounts receivable:				
Sell:				
	USD	432	-	(*)
	EUR	23	-	(*)
	Other	-	-	(*)
Forward foreign exchange contracts, accounted for as part of accounts payable:				
Buy:				
	USD	14,730	-	(*)
	EUR	835	-	(*)
	Other	49	-	(*)
Currency swap contracts for accounts payable, accounted for as part of accounts payable:				
Receive/USD and pay/JPY		537	-	(*)
Total		¥505,322	¥235,857	¥(15,455)

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As of March 31, 2017		Yen (Millions)		
		Notional amount		Fair value
		Total	Maturing after one year	
Forward foreign exchange contracts for accounts receivable, accounted for by the deferral method:				
Sell:				
	USD	¥ 370	¥ 203	¥ 3
	EUR	9	—	0
	Other	—	—	—
Forward foreign exchange contracts for accounts payable, accounted for by the deferral method:				
Buy:				
	USD	456,195	254,100	2,943
	EUR	186	—	(1)
	Other	152	—	(1)
Currency option contracts for accounts payable, accounted for by the deferral method:				
Sell:				
	USD (Put)	72,425	36,964	(2,365)
Buy:				
	USD (Call)	78,850	40,517	2,497
Currency swap contracts for accounts payable, accounted for by the deferral method:				
	Receive/USD and pay/JPY	2,025	—	41
Forward foreign exchange contracts, accounted for as part of accounts receivable:				
Sell:				
	USD	388	—	(*)
	EUR	31	—	(*)
	Other	49	—	(*)
Forward foreign exchange contracts, accounted for as part of accounts payable:				
Buy:				
	USD	9,799	—	(*)
	EUR	99	—	(*)
	Other	7	—	(*)
Total		¥620,585	¥331,784	¥ 3,117

		U.S. dollars (Thousands)		
		Notional amount		Fair value
As of March 31, 2018		Total	Maturing after one year	
Forward foreign exchange contracts for accounts receivable, accounted for by the deferral method:				
Sell:				
	USD	\$ 72,684	\$ –	\$ (2,089)
	EUR	103	–	0
	Other	2,692	–	(47)
Forward foreign exchange contracts for accounts payable, accounted for by the deferral method:				
Buy:				
	USD	3,542,479	1,742,611	(126,167)
	EUR	922	–	(18)
	Other	1,016	–	(9)
Currency option contracts for accounts payable, accounted for by the deferral method:				
Sell:				
	USD (Put)	467,074	226,694	(22,966)
Buy:				
	USD (Call)	513,140	250,734	5,826
Forward foreign exchange contracts, accounted for as part of accounts receivable:				
Sell:				
	USD	4,066	–	(*)
	EUR	216	–	(*)
	Other	–	–	(*)
Forward foreign exchange contracts, accounted for as part of accounts payable:				
Buy:				
	USD	138,648	–	(*)
	EUR	7,859	–	(*)
	Other	461	–	(*)
Currency swap contracts for accounts payable, accounted for as part of accounts payable:				
Receive/USD and pay/JPY				
		5,054	–	(*)
Total		\$4,756,419	\$2,220,039	\$ (145,472)

Note: Calculation of fair value is based on the data obtained from financial institutions.

(*) The estimated fair value of forward foreign exchange contracts is included in the estimated fair value of accounts payable, as the amounts in such derivative contracts accounted for as part of accounts receivable and payable are aggregated with the receivables and payables denominated in foreign currencies that are subject to hedge accounting. See Note 16 "Financial instruments and related disclosures" for additional information.

(2) Interest-related transactions

		Yen (Millions)			
		Notional amount		Fair value	
As of March 31, 2018		Total	Maturing after one year		
Interest rate swap hedging long-term loans:					
Receive/floating and pay/fixed					
		¥145,035	¥111,253	(*)	

		Yen (Millions)			
		Notional amount		Fair value	
As of March 31, 2017		Total	Maturing after one year		
Interest rate swap hedging long-term loans:					
Receive/floating and pay/fixed		¥187,685	¥145,035		(*)

		U.S. dollars (Thousands)			
		Notional amount		Fair value	
As of March 31, 2018		Total	Maturing after one year		
Interest rate swap hedging long-term loans:					
Receive/floating and pay/fixed					
		\$1,365,163	\$1,047,185	(*)	

(*) Interest rate swap contracts are used as hedges and meet specific matching criteria, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the long-term loans. The estimated fair value of interest rate swap contracts is included in the estimated fair value of long-term loans.

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(3) Commodity-related transactions

		Yen (Millions)	
		Notional amount	
As of March 31, 2018		Total	Maturing after one year
		Fair value	
Commodity (crude oil) swap contracts for accounts payable, accounted for by the deferral method:			
Receive/floating and pay/fixed		¥ 59,826	¥26,374
Commodity (crude oil) option contracts, accounted for by the deferral method:			
Sell:	Crude oil (Put)	34,052	13,366
Buy:	Crude oil (Call)	44,389	17,600
Total		¥138,267	¥57,340

		Yen (Millions)	
		Notional amount	
As of March 31, 2017		Total	Maturing after one year
		Fair value	
Commodity (crude oil) swap contracts for accounts payable, accounted for by the deferral method:			
Receive/floating and pay/fixed		¥ 68,471	¥22,551
Commodity (crude oil) option contracts, accounted for by the deferral method:			
Sell:	Crude oil (Put)	46,470	19,408
Buy:	Crude oil (Call)	59,245	25,083
Total		¥174,186	¥67,042

		U.S. dollars (Thousands)	
		Notional amount	
As of March 31, 2018		Total	Maturing after one year
		Fair value	
Commodity (crude oil) swap contracts for accounts payable, accounted for by the deferral method:			
Receive/floating and pay/fixed		\$ 563,121	\$248,249
Commodity (crude oil) option contracts, accounted for by the deferral method:			
Sell:	Crude oil (Put)	320,519	125,809
Buy:	Crude oil (Call)	417,818	165,662
Total		\$1,301,458	\$539,721

Note: The calculation of fair value is based on the data obtained from financial institutions.

18. Segment information

(a) Description of reportable segments

The reportable segments of the Company and its consolidated subsidiaries are components for which discrete financial information is available and whose operating results are regularly reviewed by the Executive Committee to make decisions about resource allocation and to assess performance.

The Group's reportable segments are categorized under "Air Transportation," "Airline Related," "Travel Services" and "Trade and Retail."

The "Air Transportation" segment conducts domestic and international passenger operations, cargo and mail operations and other transportation services. The "Airline Related" segment conducts air transportation-related operations, such as airport passenger and ground handling services and maintenance services. The "Travel Services" segment conducts operations centering on the development and sales of travel plans. It also conducts planning and sales of branded travel packages using air transportation. The "Trade and Retail" segment conducts mainly import and export operations of goods related to air transportation and is involved in in-store and non-store retailing.

(b) Methods of measurement for the amounts of sales, profit, assets and other items for each reportable segment

The accounting policies of the segments are substantially the same as those described in Note 3 "Summary of significant accounting policies."

Segment performance is evaluated based on operating income or loss. Intersegment sales and transfers are based on current market prices.

(c) Information about sales, profit, assets and other items

As of and for the year ended March 31, 2018	Yen (Millions)				
	Reportable Segments				
	Air Transportation	Airline Related	Travel Services	Trade and Retail	Subtotal
Operating revenues:					
Operating revenues from external customers	¥1,642,994	¥ 51,355	¥149,009	¥115,044	¥1,958,402
Intersegment revenues or transfers	88,179	232,976	10,280	27,995	359,430
Total	¥1,731,173	¥284,331	¥159,289	¥143,039	¥2,317,832
Segment profit	¥ 156,873	¥ 10,635	¥ 3,745	¥ 4,506	¥ 175,759
Segment assets	2,323,476	151,181	62,095	59,985	2,596,737
Other items:					
Depreciation and amortization	144,224	4,365	281	1,315	150,185
Amortization of goodwill	3,888	29	–	114	4,031
Increase in property and equipment and intangible assets	292,155	11,496	839	1,004	305,494

As of and for the year ended March 31, 2018	Yen (Millions)			
	Other	Total	Adjustments	Consolidated
Operating revenues:				
Operating revenues from external customers	¥13,397	¥1,971,799	¥ –	¥1,971,799
Intersegment revenues or transfers	25,311	384,741	(384,741)	–
Total	¥38,708	¥2,356,540	¥(384,741)	¥1,971,799
Segment profit	¥ 2,767	¥ 178,526	¥ (14,010)	¥ 164,516
Segment assets	22,116	2,618,853	(56,391)	2,562,462
Other items:				
Depreciation and amortization	223	150,408	–	150,408
Amortization of goodwill	–	4,031	–	4,031
Increase in property and equipment and intangible assets	401	305,895	(1,188)	304,707

Notes:

1. "Other" refers to all business segments that are not included in reportable segments, such as facility management, business support and other operations.

2. Adjustments are as follows:

(a) Adjustments to segment profit consist of the elimination of intersegment transactions of ¥(7,367) million and corporate expenses of ¥(6,643) million.

(b) Adjustments to segment assets consist of long-term investments (investment securities and stocks of subsidiaries and affiliates) in consolidated subsidiaries of ¥132,960 million and eliminations of intersegment transactions of ¥(189,351) million.

(c) Adjustments to increase in property and equipment and intangible assets mainly consist of the elimination of intersegment transactions.

3. Segment profit is reconciled to operating income on the consolidated statement of income.

As of and for the year ended March 31, 2017	Yen (Millions)				
	Reportable Segments				
	Air Transportation	Airline Related	Travel Services	Trade and Retail	Subtotal
Operating revenues:					
Operating revenues from external customers	¥1,445,576	¥ 46,999	¥150,553	¥110,676	¥1,753,804
Intersegment revenues or transfers	90,773	217,458	10,056	26,085	344,372
Total	¥1,536,349	¥264,457	¥160,609	¥136,761	¥2,098,176
Segment profit	¥ 139,511	¥ 8,309	¥ 3,741	¥ 4,385	¥ 155,946
Segment assets	2,088,214	149,562	58,958	56,200	2,352,934
Other items:					
Depreciation and amortization	133,836	4,892	171	1,272	140,171
Amortization of goodwill	–	62	–	114	176
Increase in property and equipment and intangible assets	247,200	8,487	1,032	1,356	258,075

As of and for the year ended March 31, 2017	Yen (Millions)			
	Other	Total	Adjustments	Consolidated
Operating revenues:				
Operating revenues from external customers	¥11,455	¥1,765,259	¥ –	¥1,765,259
Intersegment revenues or transfers	23,321	367,693	(367,693)	–
Total	¥34,776	¥2,132,952	¥(367,693)	¥1,765,259
Segment profit	¥ 1,368	¥ 157,314	¥ (11,775)	¥ 145,539
Segment assets	19,552	2,372,486	(58,076)	2,314,410
Other items:				
Depreciation and amortization	183	140,354	–	140,354
Amortization of goodwill	–	176	–	176
Increase in property and equipment and intangible assets	445	258,520	(4,095)	254,425

Notes:

1. "Other" refers to all business segments that are not included in reportable segments, such as facility management, business support and other operations.

2. Adjustments are as follows:

(a) Adjustments to segment profit consist of mainly the elimination of intersegment transactions of ¥(5,461) million and corporate expenses of ¥(6,376) million.

(b) Adjustments to segment assets consist of long-term investments (investment securities and stocks of subsidiaries and affiliates) in consolidated subsidiaries of ¥133,933 million and eliminations of intersegment transactions of ¥(192,009) million.

(c) Adjustments to increase in property and equipment and intangible assets mainly consist of the elimination of intersegment transactions.

3. Segment profit is reconciled to operating income on the consolidated statement of income.

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As of and for the year ended March 31, 2018	U.S. dollars (Thousands)				
	Reportable Segments				
	Air Transportation	Airline Related	Travel Services	Trade and Retail	Subtotal
Operating revenues:					
Operating revenues from external customers	\$15,464,928	\$ 483,386	\$1,402,569	\$1,082,868	\$18,433,753
Intersegment revenues or transfers	829,998	2,192,921	96,762	263,507	3,383,189
Total	\$16,294,926	\$2,676,308	\$1,499,331	\$1,346,376	\$21,816,942
Segment profit	\$ 1,476,590	\$ 100,103	\$ 35,250	\$ 42,413	\$ 1,654,358
Segment assets	21,870,067	1,423,013	584,478	564,617	24,442,178
Other items:					
Depreciation and amortization	1,357,530	41,086	2,644	12,377	1,413,638
Amortization of goodwill	36,596	272	–	1,073	37,942
Increase in property and equipment and intangible assets	2,749,952	108,207	7,897	9,450	2,875,508

As of and for the year ended March 31, 2018	U.S. dollars (Thousands)			
	Other	Total	Adjustments	Consolidated
Operating revenues:				
Operating revenues from external customers	\$126,101	\$18,559,855	\$ –	\$18,559,855
Intersegment revenues or transfers	238,243	3,621,432	(3,621,432)	–
Total	\$364,344	\$22,181,287	\$(3,621,432)	\$18,559,855
Segment profit	\$ 26,044	\$ 1,680,402	\$ (131,871)	\$ 1,548,531
Segment assets	208,170	24,650,348	(530,788)	24,119,559
Other items:				
Depreciation and amortization	2,099	1,415,737	–	1,415,737
Amortization of goodwill	–	37,942	–	37,942
Increase in property and equipment and intangible assets	3,774	2,879,282	(11,182)	2,868,100

(d) Information about geographical areas

Net sales to third parties by countries or areas grouped according to geographical classification for the years ended March 31, 2018 and 2017 are summarized as follows:

	Yen (Millions)		U.S. dollars (Thousands)
	2018	2017	2018
Japan	¥1,604,604	¥1,478,040	\$15,103,576
Overseas	367,195	287,219	3,456,278
Total	¥1,971,799	¥1,765,259	\$18,559,855

Notes:

1. "Overseas" consists substantially of the Americas, Europe, China and Asia.
2. Net sales of "Overseas" represents sales made in countries or regions other than Japan.

(e) Information about impairment loss on long-lived assets

For the year ended March 31, 2018	Yen (Millions)						
	Reportable Segments						
	Air Transportation	Airline Related	Travel Services	Trade and Retail	Other	Adjustments	Total
Impairment loss	¥5,695	¥281	¥–	¥85	¥–	¥–	¥6,061

For the year ended March 31, 2017	Yen (Millions)						
	Reportable Segments						
	Air Transportation	Airline Related	Travel Services	Trade and Retail	Other	Adjustments	Total
Impairment loss	¥1,954	¥202	¥–	¥52	¥–	¥–	¥2,208

For the year ended March 31, 2018	U.S. dollars (Thousands)						
	Reportable Segments						
	Air Transportation	Airline Related	Travel Services	Trade and Retail	Other	Adjustments	Total
Impairment loss	\$53,605	\$2,644	\$–	\$800	\$–	\$–	\$57,050

(f) Information about amortization and the remaining balance of goodwill

	Yen (Millions)						
	Reportable Segments						
	Air Transportation	Airline Related	Travel Services	Trade and Retail	Other	Adjustments	Total
As of and for the year ended March 31, 2018							
Amortization of goodwill	¥ 3,888	¥ 29	¥—	¥114	¥—	¥—	¥ 4,031
Balance at the end of the fiscal year	¥54,446	¥204	¥—	¥686	¥—	¥—	¥55,336

	Yen (Millions)							
	Reportable Segments							
	Air Transportation	Airline Related	Travel Services	Trade and Retail	Other	Adjustments	Total	
As of and for the year ended March 31, 2017								
Amortization of goodwill	¥—	¥ 62	¥—	¥114	¥—	¥—	¥ 176	
Balance at the end of the fiscal year	¥—	¥241	¥—	¥800	¥—	¥—	¥1,041	

	U.S. dollars (Thousands)						
	Reportable Segments						
	Air Transportation	Airline Related	Travel Services	Trade and Retail	Other	Adjustments	Total
As of and for the year ended March 31, 2018							
Amortization of goodwill	\$ 36,596	\$ 272	\$—	\$1,073	\$—	\$—	\$ 37,942
Balance at the end of the fiscal year	\$512,481	\$1,920	\$—	\$6,457	\$—	\$—	\$520,858

19. Selling, general and administrative expenses

The main components of selling, general and administrative expenses for the years ended March 31, 2018 and 2017 are as follows:

	Yen (Millions)		U.S. dollars (Thousands)
	2018	2017	2018
Commissions	¥96,991	¥84,763	\$912,942
Advertising	13,132	11,363	123,606
Employees' salaries and bonuses	38,976	36,653	366,867
Provision for accrued bonuses to employees	8,693	7,992	81,824
Retirement benefit expenses	3,462	3,203	32,586
Depreciation	22,014	18,342	207,210

Notes to Consolidated Financial Statements

20. Amounts per share

Amounts per share as of and for the years ended March 31, 2018 and 2017 are as follows:

	Yen		U.S. dollars
	2018	2017	2018
Net assets per share	¥2,954.47	¥2,624.44	\$27.80
Net income per share	417.82	282.35	\$ 3.93

Notes: 1. Net income per share assuming full dilution is not disclosed as the Company had no dilutive shares during the years ended March 31, 2018 and 2017.
 2. Since a 1-for-10 ordinary share reverse stock split was conducted effective October 1, 2017, the noted items were calculated based on the assumption that the reverse stock split was conducted at the beginning of the previous fiscal year.
 3. The basis for calculating net income per share is as follows:

Years ended March 31	Yen (Millions)		U.S. dollars (Thousands)
	2018	2017	2018
Net income attributable to common shareholders	¥143,887	¥ 98,827	\$1,354,358
Amount not attributable to common shareholders	—	—	—
Net income attributable to common stock	¥143,887	¥ 98,827	\$1,354,358
Weighted-average number of shares outstanding during the fiscal year (in thousands)	344,372	350,020	344,372

Notes: 1. Since a 1-for-10 ordinary share reverse stock split was conducted effective October 1, 2017, the noted items were calculated based on the assumption that the reverse stock split was conducted at the beginning of the previous fiscal year.
 2. The basis for calculating net assets per share is as follows:

As of March 31	Yen (Millions)		U.S. dollars (Thousands)
	2018	2017	2018
Net assets	¥1,000,552	¥924,175	\$9,417,846
Amounts deducted from total net assets:			
Non-controlling interests	(11,891)	(5,018)	(111,925)
Net assets attributable to common stock at the end of the fiscal year	¥ 988,661	¥919,157	\$9,305,920
Number of shares of common stock at the end of the fiscal year used to determine net assets per share (in thousands)	334,632	350,230	334,632

The average number of shares of the Company held by the trust account of the ESOT for the years ended March 31, 2018 and 2017 were 137 thousand and 849 thousand, respectively. Also, the average number of shares held by the Trust for Delivery of Shares to Directors for the years ended March 31, 2018 and 2017 were 116 thousand and 132 thousand, respectively. The shares held by those trusts were deducted from the weighted-average number of shares outstanding during each of the years ended March 31, 2018 and 2017.

The number of shares of the Company held by the trust account of the ESOT as of March 31, 2017 was 637 thousand. The trust was terminated in July 2017. Also, the number of shares held by the Trust for Delivery of Shares to Directors as of March 31, 2018 and 2017 were 114 thousand and 131 thousand, respectively. The shares held by those trusts were deducted from the number of shares of common stock at the end of each of the years ended March 31, 2018 and 2017, which were used to determine net assets per share.

Note: Since a 1-for-10 ordinary share reverse stock split was conducted effective October 1, 2017, the noted items were calculated based on the assumption that the reverse stock split was conducted at the beginning of the previous fiscal year.

21. Supplementary cash flow information

A reconciliation of the difference between cash and deposits stated in the consolidated balance sheet as of March 31, 2018 and 2017, and cash and cash equivalents in the consolidated statement of cash flows is as follows:

	Yen (Millions)		U.S. dollars (Thousands)
	2018	2017	2018
Cash and deposits	¥ 78,036	¥ 60,835	\$ 734,525
Time deposits with maturities of more than three months	(11,097)	(1,087)	(104,452)
Marketable securities	279,540	257,950	2,631,212
Marketable securities with maturities of more than three months	(75,970)	(8,640)	(715,079)
Cash and cash equivalents	¥270,509	¥309,058	\$2,546,206

22. Impairment loss

The Group reviewed its long-lived assets for impairment as of the years ended March 31, 2018 and 2017. As a result, the Group recognized impairment losses of ¥6,061 million (\$57,050 thousand) and ¥2,208 million, included in other expenses, for the years ended March 31, 2018 and 2017, respectively. The details are as follows:

For the year ended March 31, 2018			Yen (Millions)	U.S. dollars (Thousands)
Application	Location	Category	Impairment loss	
Company housing	Osaka	Land, buildings and structures	¥2,232	\$21,009
Company housing	Chiba	Land, buildings, structures, tools, furniture and fixtures	2,144	20,180
Company housing	Kanagawa	Land, buildings, structures, tools, furniture and fixtures	1,319	12,415
Business assets, stores and other assets	Thailand, domestic airports, etc.	Machinery, buildings, structures, etc.	366	3,445
Total			¥6,061	\$57,050

Note: The Group grouped its operating assets for impairment testing based on management accounting categories, and also grouped lease assets, assets to be disposed of by sale and idle assets on an individual basis. Company housing in Osaka was written-down to recoverable amounts, since the assets were expected to be sold. As a result, an impairment loss of ¥2,232 million (\$21,009 thousand) was recognized. Details are as follows: ¥1,192 million (\$11,219 thousand) for land and ¥1,040 million (\$9,789 thousand) for buildings and structures. Company housing in Chiba was written-down to recoverable amounts, since the assets were expected to be sold. As a result, an impairment loss of ¥2,144 million (\$20,180 thousand) was recognized. Details are as follows: ¥1,883 million (\$17,724 thousand) for land, ¥258 million (\$2,428 thousand) for buildings and structures, and ¥3 million (\$28 thousand) for tools, furniture and fixtures. Company housing in Kanagawa was written-down to recoverable amounts, since the assets were expected to be sold. As a result, an impairment loss of ¥1,319 million (\$12,415 thousand) was recognized. Details are as follows: ¥907 million (\$8,537 thousand) for land, ¥407 million (\$3,830 thousand) for buildings and structures, and ¥5 million (\$47 thousand) for tools, furniture and fixtures. The recoverable amount of the assets is calculated by using the fair value less costs to sell based on the estimates.

For the year ended March 31, 2017			Yen (Millions)
Application	Location	Category	Impairment loss
Company housing and dormitories	Kanagawa	Land, buildings, structures, tools, furniture and fixtures	¥1,756
Idle assets and other assets	Chiba, etc.	Land, buildings, structures, etc.	452
Total			¥2,208

Note: The Group grouped its operating assets for impairment testing based on management accounting categories, and also grouped lease assets, assets to be disposed of by sale and idle assets on an individual basis. Company housing and dormitories were written-down to recoverable amounts, since the assets were expected to be sold. As a result, an impairment loss of ¥1,756 million was recognized. Details are as follows: ¥1,446 million for land, ¥301 million for buildings and structures, and ¥7 million for tools, furniture and fixtures. The recoverable amount of the assets is calculated by using the fair value less costs to sell based on the estimates.

23. Supplementary information for the consolidated statement of income

(a) Write-downs of inventories

Inventories were valued using prices after write-downs of book value due to a decrease in net selling value.

Write-downs of inventories included in cost of sales are as follows:

Yen (Millions)		U.S. dollars (Thousands)
2018	2017	2018
¥1,189	¥(565)	\$11,191

Note: Figures in parentheses represent gains from the reversal of write-downs.

(b) Other income (expenses), net

Yen (Millions)		U.S. dollars (Thousands)
2018	2017	2018
Gain on sales of property and equipment (other than aircraft-related)	¥ 9,623	\$90,577
Gain on sales of investment securities	1,311	12,339
Loss on sales of property and equipment (other than aircraft-related)	—	—
Loss on disposal of property and equipment	(748)	(7,040)
Loss on valuation of investments in unconsolidated subsidiaries and affiliates	(577)	(5,431)
Other	958	9,017
Other income (expenses), net	¥10,567	\$99,463

Independent Auditor's Report

Deloitte

Deloitte Touche Tohmatsu LLC
 Shinjogawa InterCity
 2-15-3 Nagon
 Minato-ku, Tokyo 108-6221
 Japan
 Tel: +81 (3) 6720 8200
 Fax: +81 (3) 6720 8205
www.deloitte.com/jp/en

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of ANA HOLDINGS INC.:

We have audited the accompanying consolidated balance sheet of ANA HOLDINGS INC. and its consolidated subsidiaries as of March 31, 2018, and the related consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of ANA HOLDINGS INC. and its consolidated subsidiaries as of March 31, 2018, and the consolidated results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

Our audit also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in accordance with the basis stated in Note 2 to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu LLC

June 28, 2018

Member of
 Deloitte Touche Tohmatsu Limited

Glossary

Passenger Business Terms

Available Seat-Kilometers (ASK)

A unit of passenger transport capacity, analogous to "production capacity." Total number of seats x Transport distance (kilometers).

Revenue Passenger-Kilometers (RPK)

Total distance flown by revenue-paying passengers aboard aircraft. Revenue-paying passengers x Transport distance (kilometers).

Load Factor

Indicates the seat occupancy ratio (status of seat sales) as the ratio of revenue passenger-kilometers to available seat-kilometers. Revenue passenger-kilometers / Available seat-kilometers.

Yield

Unit revenues per revenue passenger-kilometer. Revenues / Revenue passenger-kilometers.

Unit Revenues

Quantitatively measures revenue management performance by showing unit revenues per available seat-kilometer (Revenues / Available seat-kilometers). Calculated as yield (Revenues / Revenue passenger-kilometers) x load factor (Revenue passenger-kilometers / Available seat-kilometers).

Unit Cost

Indicates cost per unit in the airline industry. Calculated as cost per available seat-kilometer.

Revenue Management

This management technique maximizes revenues by enabling the best mix of revenue-paying passengers through yield management that involves optimum seat sales in terms of optimum timing and price based on network and fare strategy.

Optimizing Supply to Demand

Involves flexibly controlling production capacity (available seat-kilometers) according to demand trends in ways such as increasing or decreasing the frequencies on routes and adjusting aircraft size.

Cargo Business Terms

Available Ton-Kilometers (ATK)

A unit of cargo transport capacity expressed as "production capacity." Total cargo capacity (tons) x Transport distance (kilometers).

Revenue Ton-Kilometers (RTK)

Total distance carried by each revenue-paying cargo aboard aircraft. Revenue-paying cargo (tons) x Transport distance (kilometers).

Freighter

Dedicated cargo aircraft. Seats are removed from the cabin space where passengers would normally sit, and the space is filled with containers or palletized cargo.

Belly

The space below the cabin on passenger aircraft that is used to transport cargo.

Okinawa Cargo Hub & Network

The ANA Group's unique cargo network. With Okinawa (Naha) Airport as an international cargo hub, the network uses late-night connecting flights in a hub and spoke system servicing major Asian cities.

Airline Industry and Company Terms

IATA

The International Air Transport Association. Founded in 1945 by airlines operating flights primarily on international routes, functions include managing arrival and departure slots at airports and settling receivables and payables among airline companies. Approximately 290 airlines are IATA members.

ICAO

The International Civil Aviation Organization. A specialized agency of the United Nations created in 1944 to promote the safe and orderly development of international civil aviation. More than 190 countries are ICAO members.

Star Alliance

Established in 1997, Star Alliance was the first and is the world's largest airline alliance. ANA became a member in October 1999. As of July 2018, 28 airlines from around the world, including regional airlines, are members.

Code-Sharing

A system in which airline alliance partners allow each other to add their own flight numbers on other partners' scheduled flights. The frequent result is that multiple companies sell seats on one flight. Also known as jointly operated flights.

Antitrust Immunity (ATI)

Granting of advance approval for immunity from competition laws when airlines operating international routes cooperate on planning routes, setting fares, conducting marketing activities, or other areas, so that the airlines are not in violation of the competition laws of such countries. In Japan, the United States, and South Korea, the relevant department of transportation grants ATI based on an application (in countries other than these three, it is common for a bureau such as a fair trade commission to be in charge), but in the European Union the business itself performs a self-assessment based on the law. ATI approval is generally based on the two conditions that the parties do not have the power to control the market and approval will increase user convenience.

Joint Venture

A joint business in the international airline industry between two or more airlines. Restrictions such as bilateral air agreements between countries and caps on foreign capital investments still exist in the international airline industry. Therefore, airlines form ATI-based joint ventures, instead of the commonly known methods used in other industries such as capital tie-ups and M&As, etc. By forming joint ventures, airlines in the same global alliance are able to offer travelers a broader, more flexible network along with less expensive fares, thus strengthening their competitiveness against other alliances (or joint ventures).

Full Service Carrier (FSC)

An airline company that serves a wide range of markets based on a route network that includes code-sharing connecting demand. FSCs offer multiple classes of seats and provide in-flight food and beverages that are included in advance in the fare paid. FSCs are also called network carriers or legacy carriers when compared with low cost carriers (LCCs).

Low Cost Carrier (LCC)

An airline that provides air transportation services at low fares based on a low-cost system that includes using a single type of aircraft, charging for in-flight services, and simplifying sales. Fundamentally, LCCs operate frequent short- and medium-haul point-to-point flights (flights between two locations).

Maintenance, Repair, and Overhaul (MRO) Business

A business that is contracted to provide aircraft maintenance services using its own maintenance crew and other personnel, along with dedicated facilities. Services include the maintenance, repair, and overhaul of aircraft and other equipment owned by airlines.

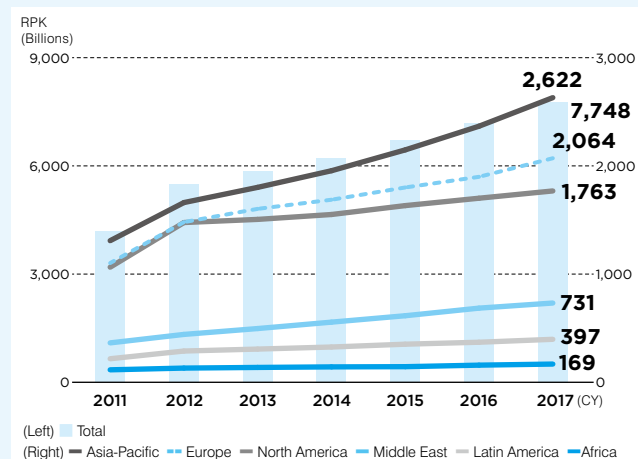
Dual Hub Network Strategy

A strategy for using the two largest airports in the Tokyo metropolitan area (Haneda and Narita) for different yet complementary strategic aims and functions. At Haneda, which offers excellent access from central Tokyo, the strategy targets overall air travel demand in the Tokyo metropolitan area, including the outskirts of Tokyo, as well as demand for connecting flights from various Japanese cities to international routes that harness ANA's existing domestic network. Meanwhile, at Narita the strategy aims to capture transit demand for travel between third countries via Narita, focusing on Trans-Pacific travel between North America and Asia/China. This will be accomplished by upgrading and expanding the international network and enhancing connecting flights by setting efficient flight schedules.

Market Data

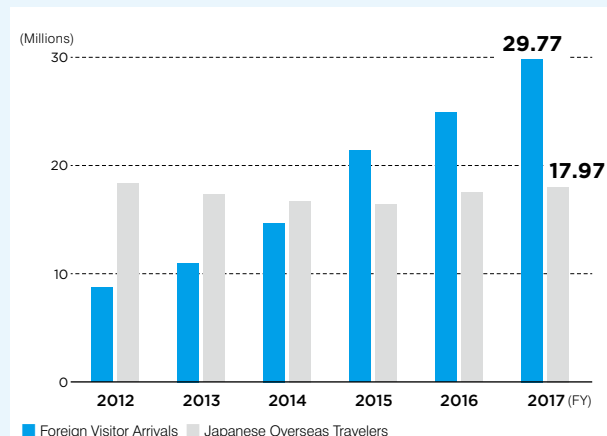
International Passenger Market

Global Air Transportation Passenger Volume by Region



Source: International Air Transport Association (IATA), 2018

Foreign Visitor Arrivals / Number of Japanese Overseas Travelers



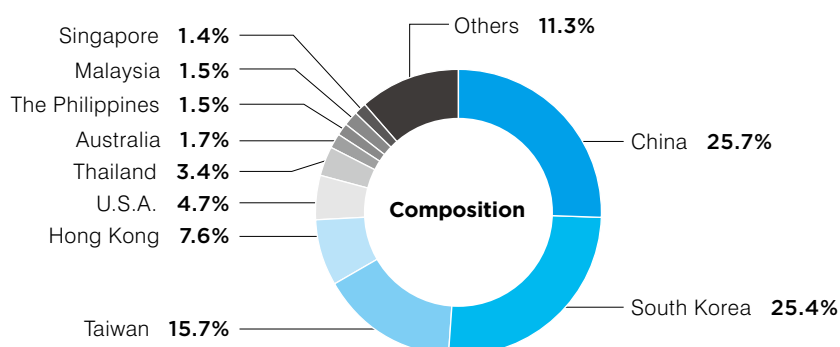
Source: Japan National Tourism Organization (JNTO), 2018

Foreign Visitor Arrivals by Country / Region

FY2017

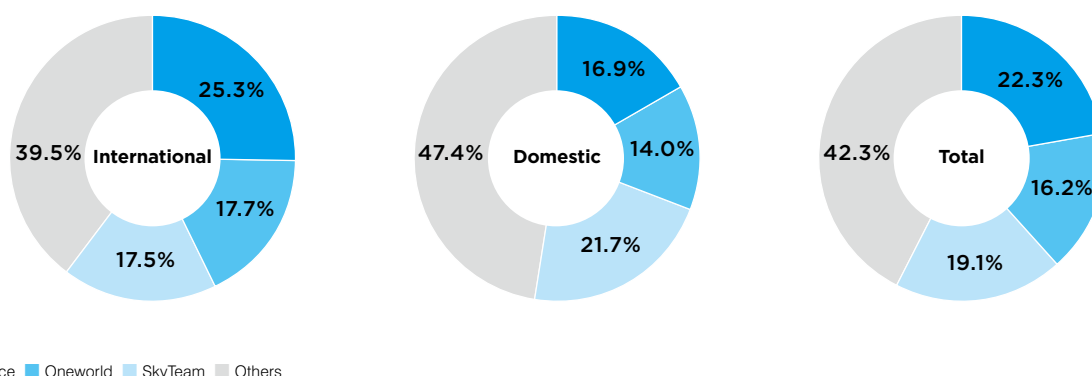
29.77 million

(+19.9% YoY)



Source: Japan National Tourism Organization (JNTO), 2018

Shares by Alliance (RPK)

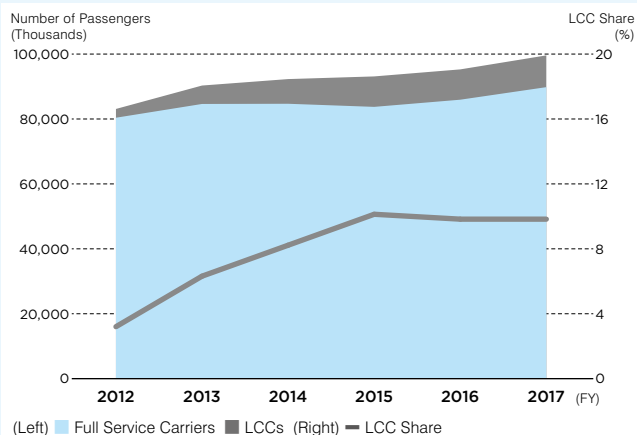


Source: International Air Transport Association (IATA), 2018

For further information, Fact Book 2018 can be downloaded from the ANA Group corporate website in PDF format.
<https://www.ana.co.jp/group/en/investors/irdata/annual/>

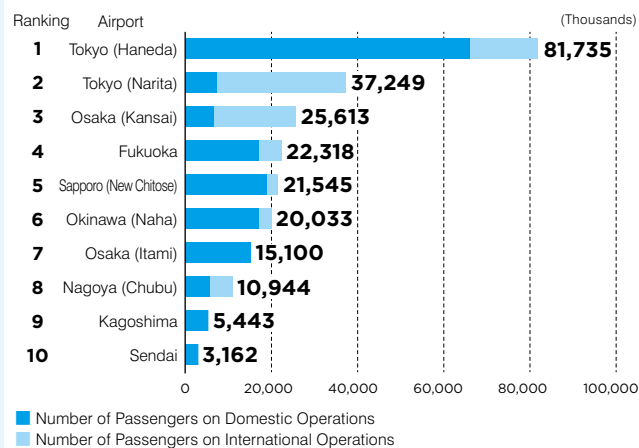
Domestic Passenger Market

Number of Domestic Passengers and LCC Share



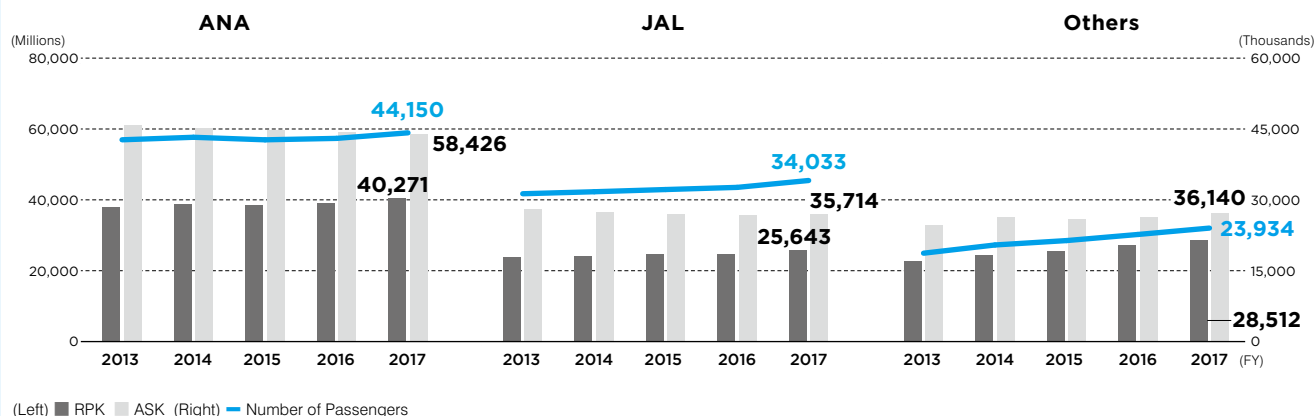
Source: Ministry of Land, Infrastructure, Transport and Tourism, fiscal 2017

Top 10 Airports in Japan by Number of Passengers



Note: Compilation from reports on Status of Airport Operations, fiscal 2016
 Source: Ministry of Land, Infrastructure, Transport and Tourism, 2017

Number of Passengers on Domestic Operations by Airline



Share of Passengers on Domestic Operations by Airline

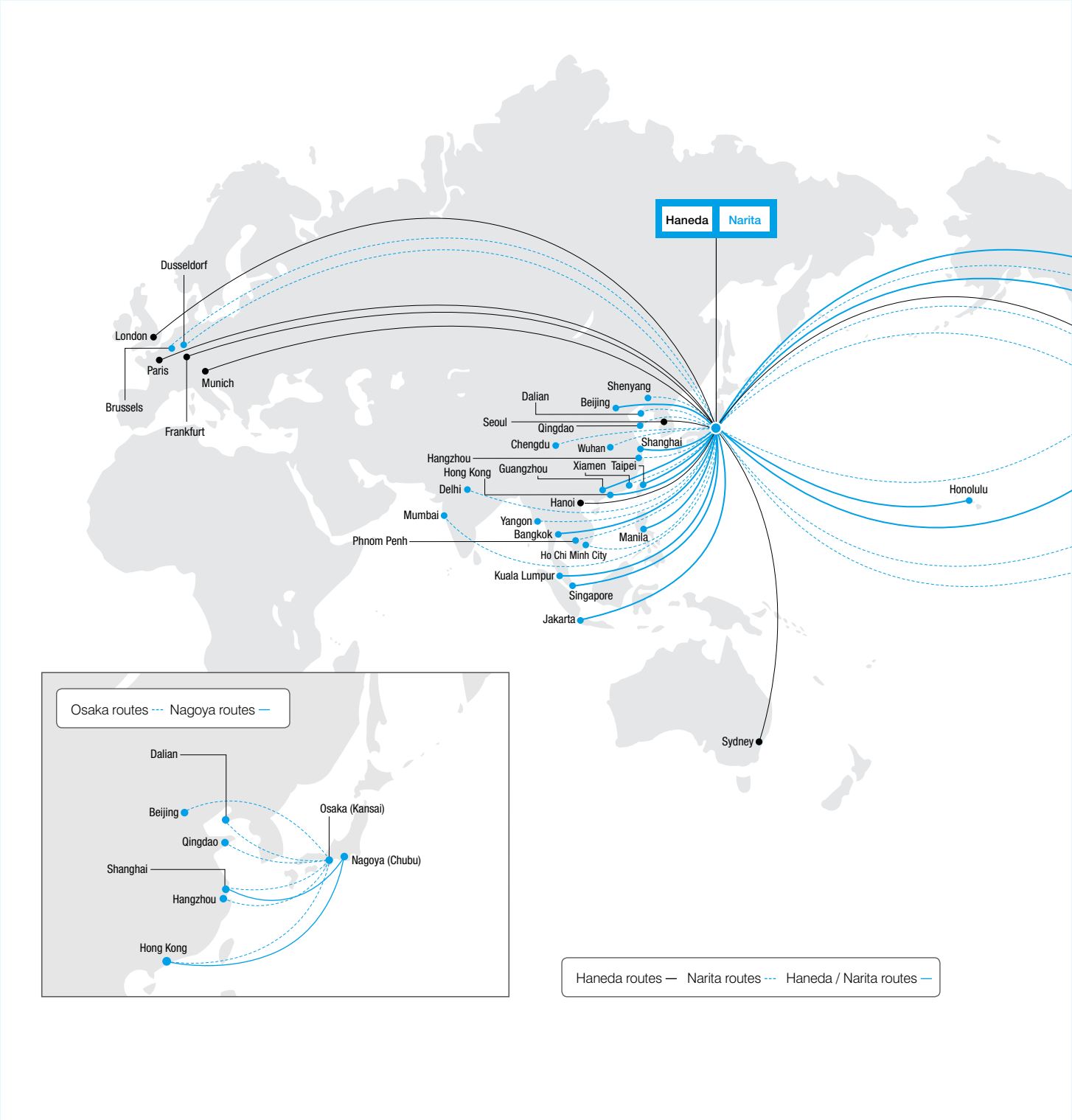


Note: Figures for ANA exclude Vanilla Air Inc. and Peach Aviation Limited

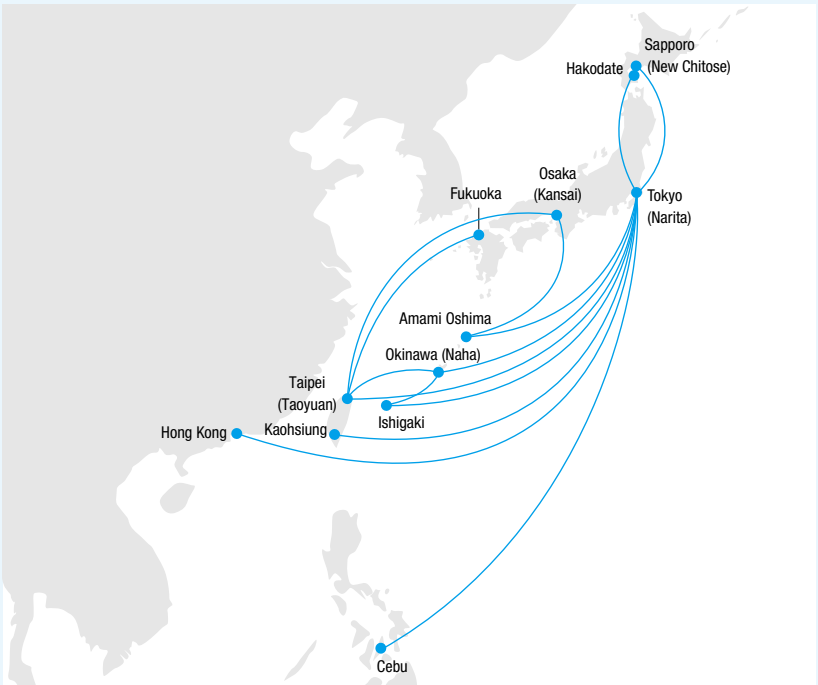
Sources: 1. Figures for ANA, JAL: The companies' annual securities reports (consolidated basis)

2. Figures for total: Ministry of Land, Infrastructure, Transport and Tourism, a preliminary report for fiscal 2017

ANA-Operated International Routes



Vanilla Air-Operated Routes



Peach Aviation-Operated Routes



Compilation by ANA HOLDINGS INC. (As of August 1, 2018)

Social Data

Human Resources Data (ANA)

	Unit	2014	2015	2016	2017	2018
Number of employees* ¹	People	12,416	12,360	12,859	13,518	13,928
Number of employees hired overseas* ¹	People	1,334	1,341	1,387	1,454	1,475
Average age of employees* ¹	Years	36.0	36.0	36.0	37.4	37.4
Average years worked* ¹	Years	10.1	10.0	10.0	13.3	13.8
Ratio of female managers* ^{2*3}	%	9.8	10.9	12.2	13.3	13.9
Ratio of female directors* ²	%	5.5	10.5	10.5	10.5	10.0
Number of employees on pregnancy or childcare leave / Men* ¹	People	470/4	595/5	586/5	545/13	587/19
Number of employees on nursing care leave* ¹	People	11	8	12	14	15
Ratio of employees with disabilities* ⁴	%	2.14	2.10	2.32	2.38	2.49
Work-related accidents* ¹		66	77	66	109	82
Ratio of employees with healthy BMI* ^{1*5}						
Male	%	—	—	63.1	69.1	70.2
Female	%	—	—	75.2	69.8	72.0
Ratio of employees that smoke* ¹						
Male	%	—	—	22.9	19.4	19.1
Female	%	—	—	4.9	4.0	3.9
Employee obesity rate* ^{1*6}						
Male	%	—	—	13.4	14.9	15.7
Female	%	—	—	0.9	1.2	1.3

*1 As of March 31 of each year

*2 As of April 1 of each year

*3 Excluding individuals 60 years old or older

*4 As of June 1 of each year

Total of ANA and qualified ANA Group companies
(2014: total of 11 companies including 1 special subsidiary; 2015–2018: total of 12 companies including 1 special subsidiary)

*5 Ratio of employees with BMI of 18.5%–24.9%

*6 Changing calculation standards from this year

Before 2017: Ratio of employees receiving guidance from designated healthcare professionals
2018 and Later: Ratio of employees meeting criteria for metabolic syndrome

Flight-Related Data (All Passenger Flights on ANA International and Domestic Services)

(FY)	Unit	2013	2014	2015	2016	2017
In-service rate	%	98.9	98.9	98.9	98.9	98.8
On-time departure rate* ⁷	%	91.9	91.4	91.9	89.4	88.0
On-time arrival rate* ⁷	%	88.1	87.6	88.7	86.1	84.8

*7 Delays of 16 minutes or less, excluding canceled flights
Passenger flight only

Customer-Related Data

(FY)	Unit	2013	2014	2015	2016	2017
Number of customer feedback reports		74,982	70,472	73,688	73,892	114,273
[Breakdown by route type]						
Domestic	%	49.9	47.8	46.1	48.3	56.0
International	%	34.9	38.5	39.5	37.4	40.1
Other	%	15.2	13.8	14.5	14.3	3.9
[Breakdown by report type]						
Complaint	%	32.9	32.2	35.8	43.4	41.1
Compliment	%	21.7	20.6	21.2	16.8	18.5
Comment/Request	%	29.4	27.9	26.1	21.5	20.8
Other	%	15.9	19.3	16.9	18.3	19.5

Environmental Data

Environmental data is from fiscal 2017 and was compiled from ANA and certain consolidated subsidiaries (those responsible for air transportation, aircraft maintenance, ground handling, vehicle maintenance, building management, etc.).

Increase in ground equipment and vehicle CO₂ emissions, ground energy consumption due to increase in number of consolidated companies beginning fiscal 2017

Climate Change Countermeasures

(FY)	Unit	2013	2014	2015	2016	2017
Carbon dioxide (CO ₂) emissions						
Total	10,000 tons	955	1,031	1,074	1,126	1,161
[Breakdown]						
Aircraft		945	1,016	1,062	1,114	1,148
Passenger		(899)	(961)	(1,005)	(1,058)	(1,097)
Cargo		(46)	(55)	(57)	(56)	(50)
Ground equipment and vehicles		10.4	11.7	11.5	11.8	13.5
[Scope 1/2/3]						
Scope 1		948	1,021	1,065	1,118	1,152
Scope 2		10.4	9.8	8.3	8.3	9.2
Scope 3		—	—	0.1	0.2	0.2
Aircraft CO ₂ emissions per RTK						
	kg-CO ₂	1.09	1.04	1.05	1.00	0.96
Total energy consumption						
Total	Crude oil equipment: 10,000 kl	389	397	414	434	448
Aircraft energy consumption		383	390	408	428	441
Ground energy consumption		6.0	6.5	5.5	5.5	6.5
Fuel-efficient aircraft (Jet aircraft only)*						
Number of fuel-efficient aircraft	Aircraft	118	132	148	155	162
Ratio of fuel-efficient aircraft	%	52.2	62.0	64.9	66.0	69.5
Ozone depletion						
Fluorocarbon (Aircraft)	kg	0.0	0.0	16.4	8.8	5.3
Halon	kg	17.7	0.0	8.3	29.4	5.0

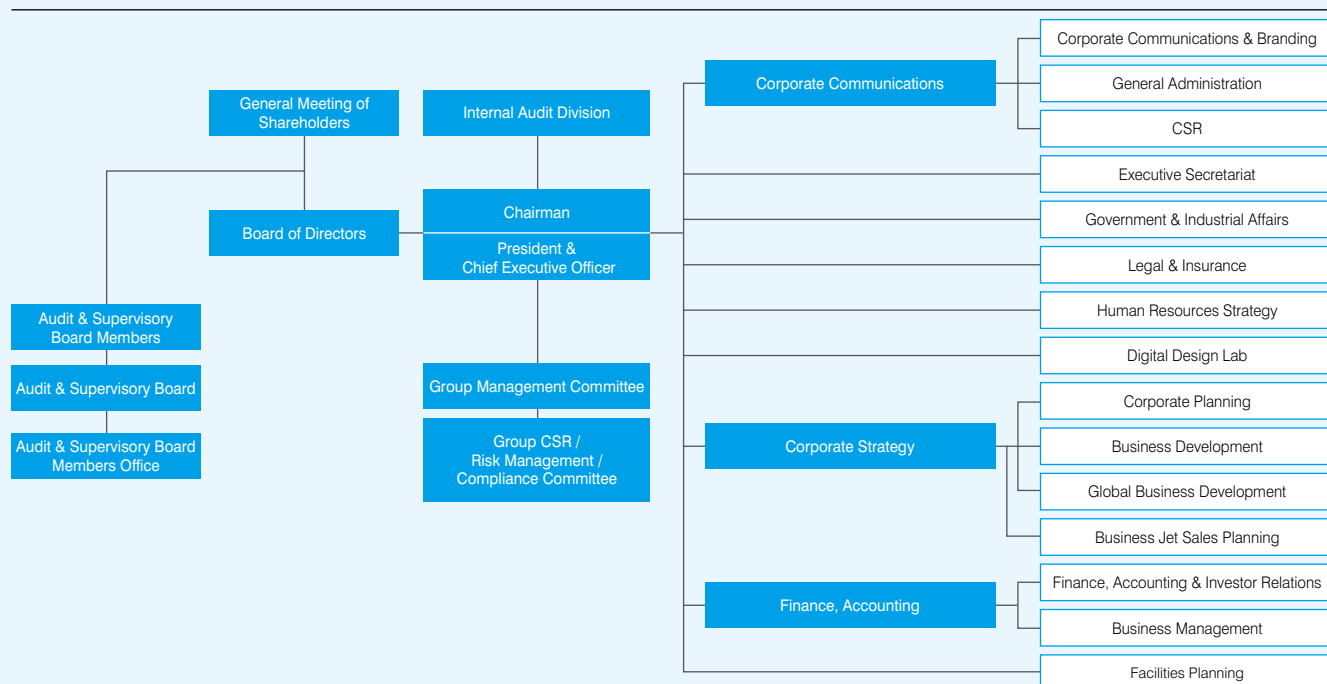
* Boeing 777-200, -300, 787-8, 787-9, 737-700, -800, Airbus A320-200neo, and A321-200neo. ANA brand only

Resource Savings

(FY)	Unit	2013	2014	2015	2016	2017
Waste produced						
Total	1,000 tons	22.5	28.9	28.9	36.8	32.1
[Breakdown]						
General waste (Cabin waste and sewage included)		16.4	21.8	22.4	28.7	25.7
General waste (Ground waste included)		2.8	2.6	2.9	3.0	2.7
Industrial waste		3.3	4.5	3.6	5.1	3.7
Total paper consumption						
	1,000 tons	5.0	4.7	4.7	4.6	4.0
Total water consumption						
Clean water	10,000 tons	50.6	53.5	51.5	54.0	61.4
Non-potable water	10,000 tons	4.3	6.9	6.3	6.6	9.4
Total waste treatment (Buildings included)						
	10,000 tons	15.5	14.6	16.3	16.0	12.7

The ANA Group Profile

ANA HOLDINGS INC. Organization (As of July 1, 2018)



Number of Subsidiaries and Affiliates (As of March 31, 2018)

Operating segment	Total of subsidiaries	of which, consolidated		Total of affiliates	of which, equity method	
			of which, equity method			of which, equity method
Air Transportation	5	5	—	3	1	
Airline Related	49	37	—	5	2	
Travel Services	5	5	—	4	1	
Trade and Retail	58	9	—	3	1	
Others	9	8	1	30	10	
Total	126	64	1	45	15	

Major Subsidiaries (As of March 31, 2018)

Company name	Amount of capital (¥ Millions)	Ratio of voting rights holding (%)	Principal business
Air Transportation			
ALL NIPPON AIRWAYS CO., LTD.	25,000	100.0	Air transportation
Air Japan Co., Ltd.	50	100.0	Air transportation
ANA WINGS CO., LTD.	50	100.0	Air transportation
Vanilla Air Inc.	7,500	100.0	Air transportation
Peach Aviation Limited	7,515	67.0*	Air transportation
Airline Related			
ANA Cargo Inc.	100	100.0	Cargo operations
Overseas Courier Service Co., Ltd.	100	91.5	Express shipping business
ANA Systems Co., Ltd.	80	100.0	Innovation and operation of IT systems
Travel Services			
ANA Sales Co., Ltd.	1,000	100.0	Planning and sales of travel packages, etc.
Trade and Retail			
ALL NIPPON AIRWAYS TRADING Co., Ltd.	1,000	100.0	Trading and retailing

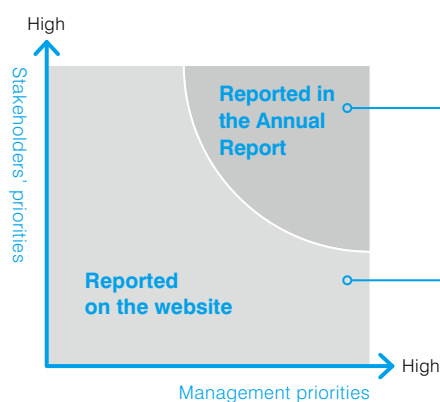
* Acquired an additional 10.9% of outstanding shares on April 20, 2018.

Corporate Data (As of March 31, 2018)

Corporate Profile

Trade Name	ANA HOLDINGS INC.	Administrator of Register of Shareholders	Sumitomo Mitsui Trust Bank, Limited (Stock Transfer Agency Department) 1-4-1, Marunouchi, Chiyoda-ku, Tokyo
Date of Foundation	December 27, 1952	Independent Auditor	Deloitte Touche Tohmatsu LLC
Head Office	Shiodome City Center, 1-5-2 Higashi-Shimbashi, Minato-ku Tokyo 105-7140, Japan	American Depositary Receipts	Ratio (ADR:ORD): 5:1 Exchange: OTC (Over-the-Counter) Symbol: ALNPY CUSIP: 032350100 Depository: The Bank of New York Mellon 240 Greenwich Street New York, NY 10286, U.S.A. Tel: 1-201-680-6825 U.S. Toll Free: 1-888-269-2377 (888-BNY-ADRS) URL: https://www.adrbnymellon.com
Number of Employees	41,930 (Consolidated)		
Paid-In Capital	¥318,789 million		
Fiscal Year-End	March 31		
Number of Shares of Common Stock	Authorized: 510,000,000 shares Issued: 348,498,361 shares * Effective October 1, 2017, the trading unit of shares changed from 1,000 to 100 and a 1-for-10 reverse stock split conducted.		
Number of Shareholders	475,978		
Stock Listing	Tokyo		
Ticker Code	9202		

Scope of This Report



Annual Report (Hard Copy and PDF)

PDF version <https://www.ana.co.jp/group/en/investors/irdata/annual/>

For Further Information (Website)

Corporate Profile <https://www.ana.co.jp/group/en/about-us/>
Investor Relations <https://www.ana.co.jp/group/en/investors/>
CSR <https://www.ana.co.jp/group/en/csr/>

Fact Book 2018

Fact Book 2018 can be downloaded from the Company's corporate website in PDF format. This document contains financial data and information on the domestic and international markets and LCC status.
<https://www.ana.co.jp/group/en/investors/irdata/annual/>

Forward-Looking Statements

This Annual Report contains statements based on the ANA Group's current plans, estimates, strategies, and beliefs; all statements that are not statements of historical fact are forward-looking statements. These statements represent the judgments and hypotheses of the Group's management based on currently available information. Air Transportation Business, the Group's core business, involves government-mandated costs that are beyond the Company's control, such as airport utilization fees and fuel taxes.

In addition, conditions in the markets served by the ANA Group are subject to significant fluctuations. Factors that could affect actual results include, but are not limited to, economic trends, sharp changes in exchange rates, fluctuations in the price of crude oil, and disasters.

Due to these risks and uncertainties, the Group's future performance may differ significantly from the contents of this Annual Report. Accordingly, there is no assurance that the forward-looking statements in this Annual Report will prove to be accurate.

Contact

ANA HOLDINGS INC.

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Investor Relations E-mail: ir@anahd.co.jp



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