

# Management's Discussion and Analysis

## 1. The ANA Group

The ANA Group comprises 174 subsidiaries and 54 affiliates. Of those companies, 115 are consolidated subsidiaries and 33 are accounted for by the equity method. The Group's operations are classified into four business seg-

ments: air transportation, travel services, hotel operations, and other businesses. For each segment, the fields of business and the operational positions of the parent company, subsidiaries, and affiliates are described below.

As of March 31, 2000					
Operational segment	No. of subsidiaries	of which, consolidated	of which, equity method	No. of affiliates	of which, equity method
Air Transportation	32	29	–	6	4
Travel Services	14	12	–	5	4
Hotel Operations	25	24	–	5	4
Other Businesses	103	50	6	38	15
Group Total	174	115	6	54	27

### Air Transportation

All Nippon Airways Co., Ltd., Air Nippon Co., Ltd. (ANK), Air Hokkaido Co., Ltd. (ADK), and Nippon Cargo Airlines Co., Ltd., conduct air transportation operations (domestic and international scheduled passenger, cargo, and mail transportation). Airport customer services, telephone reservation and information services, and aircraft maintenance are provided by the International Airport Utility Co., Ltd., ANA TELEMART Co., Ltd., ANA Aircraft Maintenance Co., Ltd., and other companies. Airport handling and maintenance services are also provided to domestic and overseas airlines that are not members of the ANA Group.

### Travel Services

Travel packages are structured and sold under the brand names ANA Hello Tour and ANA Sky Holiday, mainly by All Nippon Airways World Tours Co., Ltd., ANA Sky Holiday Tours Co., Ltd., and All Nippon Airways Travel Co., Ltd. These operations principally comprise the development and sale of products using the air transportation services of ANA or ANK and accommodations at ANA hotels.

### Hotel Operations

Subsidiaries and affiliates, centered on ANA Enterprises, Ltd., develop and operate hotels in Japan and overseas. A wide range of services is provided in Japan and overseas, including lodging, meals, banquets, and wedding receptions.

### Other Businesses

Group companies provide communications, trading and sales, real estate, building management, ground transportation and distribution, temporary employment, and other services. ANA Information Systems Planning Co., Ltd., Infini Travel Information, Inc., and others principally develop terminals and software for airline-related information. ANA Trading Co., Ltd., and others conduct operations centered primarily on the import of airline-related materials and on sales through stores and catalogs. ANA Real Estate Co., Ltd., and other companies conduct the sale, rental, and management of real estate, and affiliate M.C. Mates Co., Ltd., and others offer temporary employment services.

## 2. Operational Review

During the year ended March 31, 2000, the Japanese economy showed signs of improvement as a result of public-sector investment and the recovery in Asian economies. Nonetheless, the unemployment rate remained high, and the economy did not enter a full-scale recovery. Conditions remained challenging.

In this setting, in May 1999 ANA initiated a medium-term corporate plan covering the four-year period ending March 2003 and worked to fundamentally reform the Company's management structure. Based on the principle of "selection and concentration," the plan's major goals include improving profitability by reorganizing domestic and international route operations, expanding revenues by upgrading sales capabilities, building an effective administrative system by reducing indirect fixed costs, and improving the financial structure by reducing investment and using assets more efficiently. The Company is working aggressively to implement the plan. In the year under review, the first year of the plan, the progress of various initiatives was still in the early stages, and the Company recorded special losses associated with operational reorganization. As a result, the net loss increased from the previous year. On the other hand, there were signs of improvement in overall operations, such as the recording of operating income following the operating loss in the previous year.

Operating revenues increased 13.0%, to ¥1,209.6 billion. This gain was attributable to an increase in the

number of consolidated subsidiaries and to improved conditions in air transportation, which accounts for more than 70% of the Company's operating revenues, in the second half of the year, when passenger demand picked up and passenger yields stopped declining. Growth in operating expenses, which amounted to ¥1,178.0 billion, was limited to 9.5% due to Companywide efforts to reduce operating costs and measures to reduce public-sector fees, principally airport landing and navigation fees. As a result, operating income was ¥31.5 billion, compared with an operating loss of ¥5.1 billion in the previous year.

In non-operating items (including special items), the Company recorded extraordinary income on the sale of overseas hotel shareholdings as well as extraordinary losses—an appraisal loss on investment securities, special retirement expenses accompanying the implementation of an early retirement program, and asset liquidation. The Company registered non-operating expense of ¥54.2 billion, compared with non-operating income of ¥2.7 billion in the previous year. As a result, the loss before income taxes and minority interests increased significantly, from ¥2.4 billion in the previous year to ¥22.6 billion in the year under review. After income taxes, including the impact of accounting for deferred income tax for the first time, and minority interests, net loss for the year was ¥15.2 billion. As a result, the Company regretfully had to suspend dividend payments. Net loss per share for the year was ¥10.54.

### Summary of Financial Results

ANA and consolidated subsidiaries

Years ended March 31,	Yen (Millions) except per share amounts	
	2000	1999
Operating revenues . . . . .	<b>¥ 1,209,647</b>	¥ 1,070,773
Operating expenses . . . . .	<b>1,178,088</b>	1,075,934
Operating income (loss) . . . . .	<b>31,559</b>	(5,161)
Non-operating income (expenses) . . . . .	<b>(54,248)</b>	2,731
Income (loss) before income taxes and minority interests . . . . .	<b>(22,689)</b>	(2,430)
Income taxes . . . . .	<b>(5,476)</b>	3,058
Minority interests in income of consolidated subsidiaries . . . . .	<b>2,012</b>	756
Net income . . . . .	<b>¥ (15,201)</b>	¥ (4,732)
Per share data:		
Net income . . . . .	<b>¥(10.54)</b>	¥(3.28)
Cash dividends . . . . .	—	—

## Operating Revenues

The Group's operating revenues consist of passenger revenues; cargo revenues; and incidental and other revenues, such as travel services and hotel operations. Detailed information regarding passenger revenues and cargo revenues is provided below.

Years ended March 31,	Yen (Millions)	
	2000	1999
Passenger revenues	¥ 778,765	¥ 788,414
Domestic	621,188	645,127
International	157,577	143,287
Cargo revenues	67,763	63,599
Domestic	27,682	27,843
International	40,081	35,756
Incidental and other revenues	363,119	218,760
<b>Total</b>	<b>¥1,209,647</b>	<b>¥1,070,773</b>

Note: Operating revenue figures are the amounts after the elimination of intrasegment and intersegment transactions.

## Operating Data and Yields

### Domestic Passengers:

• Passengers (thousands)	45,430	43,892
• Available seat-km (ASK, millions)	60,098	59,875
• Revenue passenger-km (RPK, millions)	38,410	37,009
• Passenger load factor (%)	63.9	61.8
• Passenger yield (¥/RPK)	17.0	17.7

### International Passengers:

• Passengers (thousands)	3,998	3,571
• Available seat-km (ASK, millions)	33,772	31,137
• Revenue passenger-km (RPK, millions)	22,510	20,562
• Passenger load factor (%)	66.7	66.0
• Passenger yield (¥/RPK)	8.0	8.5

### Domestic Cargo:

• Cargo ton(ton)	420,846	410,820
• Cargo ton-kilometer (ton-km)	400,360	390,887
• Cargo ton-kilometer yield (¥/ton-km)	69.2	71.2

### International Cargo:

• Cargo ton (ton)	195,384	161,537
• Cargo ton-kilometers (ton-km)	1,178,444	967,626
• Cargo ton-kilometer yield (¥/ton-km)	34.0	37.0

Unit costs (¥/ASK)	10.3	10.9
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Notes: 1. Domestic and international figures include the operations of the parent company ANA and subsidiaries Air Nippon Co., Ltd. (ANK), and Air Hokkaido Co., Ltd., (ADK).

2. Figures for passenger yield, cargo ton-kilometer yield, and unit costs are the weighted averages of the figures for ANA, ANK, and ADK.

### **Passenger Revenues**

Passenger revenues in the year under review declined 1.2%, to ¥778.7 billion. Scheduled domestic routes accounted for 79.8% of the total, and scheduled international routes for 20.2%.

In the year under review, the ANA Group added one Boeing 777-300, one Boeing 777-200, two Airbus A321-100s, and two Boeing 737-500s to its aircraft fleet. The Company worked to improve profitability by managing capacity, including changing the numbers of flights on international and domestic routes and withdrawing from certain routes.

In October 1999, ANA formally joined Star Alliance, the world's largest airline alliance. As an alliance member, ANA strengthened its competitiveness and worked to improve convenience for its customers.

### **Domestic Routes**

On scheduled domestic routes, passenger revenues declined 3.7%, to ¥621.1 billion. The number of passengers rose 3.5%, to 45.4 million. Available seat-kilometers increased marginally 0.4%, and passenger-kilometers rose 3.8%. As a result, the load factor increased 2.1 percentage points, to 63.9%. Nonetheless, passenger yields declined to ¥17.0, from ¥17.7 in the previous year.

In the year under review, ANA took steps to improve profitability, including the transfer of the Kansai-Sendai route and eight other routes to ANK and the reevaluation of low-demand routes and flight frequencies to raise load factors. The Company also worked to increase revenues by offering fares that meet diverse customer needs. ANA bolstered its discount fare structure by expanding the number of discount fares. Accompanying the revision of the law regulating aviation in February 2000, in the current fiscal year the Company began offering new discount fares.

### **International Routes**

On scheduled international routes, passenger revenues increased 10.0%, to ¥157.5 billion, and the number of passengers grew 12.0%, to 4.0 million. Available seat-kilometers rose 8.5%, and passenger-kilometers increased 9.5%. The load factor rose 0.7 percentage points, to 66.7%. Passenger yields declined to ¥8.0, from ¥8.5 in the previous year.

The Company expanded its route network in accordance with demand trends, inaugurating the Tokyo-

Chicago route in April and reopening the Tokyo-Shanghai route. In addition, ANA bolstered its route network by expanding code-share flights with Star Alliance member companies, such as the Tokyo-São Paulo-Rio de Janeiro route operated with Varig Brazil. The Company also strengthened its tie-ups with alliance member companies in services, such as frequent flyer program tie-ups and through-check-in services onto connecting flights operated by other member airlines.

### **Cargo Revenues**

Cargo revenues rose 6.5%, to ¥67.7 billion. Domestic cargo revenues accounted for 40.9% of the total, and international cargo revenues for 59.1%.

### **Domestic Routes**

Domestic cargo volume rose 2.4%, to 420 thousand tons, but revenues declined 0.6%, to ¥27.6 billion, due to declining prices. Cargo from parcel delivery companies remained favorable, and the volume of computer-related cargo increased. Demand was strong throughout the year. Mail volume and revenues were both favorable.

### **International Routes**

International cargo volume increased 21.0%, to 195 thousand tons, and revenues were up 12.1%, to ¥40.0 billion. Demand was brisk, especially for automotive parts and electronic equipment destined for Europe and North America, due to the recovery in Asian economies and to Y2K-related demand. Japan-bound cargo was firm overall, with strong demand for computer-related products from Asia and fresh foods from China, as well as a recovery in demand from Europe starting in the summer. The Company worked to improve service, making progress in improving its U.S. and European trucking networks and operational tie-ups with overseas airlines. Mail volume and revenues were both favorable.

### **Incidental and Other Revenues**

For information on the business segment comprising travel services, hotel operations, and others, refer to 3. Segment Information (page 21).

The Group worked to expand its provision of ground support services, such as the maintenance of other airlines' aircraft and check-in and baggage handling services, as well as to expand in-flight sales. Revenues totaled ¥73.9 billion.

## Operating Expenses

Although aircraft and services expenses declined from the previous year, other costs increased significantly. As a result, operating expenses rose 9.5%, to ¥1,178.0 billion.

Years ended March 31,	Yen (Millions)	
	2000	1999
Aircraft . . . . .	¥ 352,361	¥ 376,416
Aircraft and flight operations . . . . .	284,152	274,489
Aircraft maintenance . . . . .	68,209	101,927
Services . . . . .	302,628	325,064
In-flight services . . . . .	62,029	68,565
Flight control and ground handling . . . . .	240,599	256,499
Reservations, sales and advertising . . . . .	200,999	180,899
General and administrative . . . . .	39,604	50,167
Depreciation and amortization . . . . .	58,441	73,420
Other costs . . . . .	224,055	69,968
<b>Total . . . . .</b>	<b>¥1,178,088</b>	<b>¥1,075,934</b>

Aircraft expenses declined 6.4%, to ¥352.3 billion. Aircraft and flight operations expenses rose 3.5% due to higher aircraft leasing and fuel expenses. Aircraft maintenance expenses decreased 33.1%. This decline resulted principally from consolidation of aircraft parts purchasing subsidiaries in 2000 that had previously been accounted for by the equity method. As these newly consolidated subsidiaries do not belong to the air transportation segment, related aircraft maintenance expenses for the year ended March 2000 are included in other costs.

Services expenses were down 6.9%, to ¥302.6 billion. Passenger services expenses declined 9.5%, due primarily to simplified in-flight services at ANA. Flight control and ground handling expenses were down 6.2% as a result of reduced landing and navigation fees.

Reservations, sales and advertising expenses were up 11.1% owing to aggressive sales promotion activities.

General and administrative expenses were down 21.1% due to increased efficiency in staff departments.

Depreciation and amortization declined 20.4% as a result of changes in depreciation methods and periods adopted by ANA and ANK.

Other costs increased more than threefold, from ¥69.9 billion in the previous year to ¥224.0 billion in the year under review. This increase was attributable to the new consolidation of a number of companies, principally in travel services, hotel operations, and other businesses, such as ANA Trading Co., Ltd., and ANA Trading subsidiaries that operate retail shops in domestic airports.

## Non-Operating Income (Expenses)

Years ended March 31,	Yen (Millions)	
	2000	1999
Interest and dividend income . . . . .	¥ 8,466	¥ 8,625
Gain on sale of property and equipment . . . . .	4,504	12,126
Interest expenses . . . . .	(38,950)	(40,305)
Loss on sales of marketable securities . . . . .	(474)	(99)
Equity in income of affiliates . . . . .	427	(211)
Other — net . . . . .	(28,221)	22,595
<b>Total . . . . .</b>	<b>¥(54,248)</b>	<b>¥ 2,731</b>

In non-operating income and expenses, the Company recorded non-operating expenses of ¥54.2 billion, compared with non-operating income of ¥2.7 billion in the previous year.

Interest and dividend income declined 1.8%.

Although shareholdings in ANA Hotels Singapore Ltd. were sold, gain on sale of property and equipment declined 62.9% because gains had been recorded in the

previous year on the sale of North American hotels (San Francisco, Washington).

Interest expenses decreased 3.4% due primarily to a decline in the average rate on interest-bearing debt. Although interest-bearing debt increased 10.8%, to ¥1,112.3 billion, lower-rate funds raised through long-term debt and the issuance of bonds were used to retire higher fixed rate debt.

### 3. Segment Information

In prior years, travel services, hotel operations, and other businesses were included in the airline-related businesses segment. Accompanying the expansion in the scope of consolidation, their importance has increased, and from

the year under review each is handled as a separate segment. Segment information is provided below. Sales figures for each segment include intra-group sales and transfers.

ANA and consolidated subsidiaries Years ended March 31,	Yen (Millions)	
	2000	1999
<b>Air Transportation:</b>		
Operating revenues . . . . .	<b>¥920,447</b>	¥923,391
Inter-segment sales . . . . .	<b>60,056</b>	42,591
	<b>980,503</b>	965,982
Operating expenses . . . . .	<b>954,811</b>	976,799
Operating income (loss) . . . . .	<b>25,692</b>	(10,817)
<b>Travel Services:</b>		
Operating revenues . . . . .	<b>124,408</b>	60,179
Inter-segment sales . . . . .	<b>11,469</b>	11,475
	<b>135,877</b>	71,654
Operating expenses . . . . .	<b>132,551</b>	71,883
Operating income (loss) . . . . .	<b>3,326</b>	(229)
<b>Hotel Operations:</b>		
Operating revenues . . . . .	<b>65,688</b>	61,910
Inter-segment sales . . . . .	<b>11,685</b>	6,600
	<b>77,373</b>	68,510
Operating expenses . . . . .	<b>73,535</b>	65,535
Operating income (loss) . . . . .	<b>3,838</b>	2,975
<b>Other Businesses:</b>		
Operating revenues . . . . .	<b>99,104</b>	25,293
Inter-segment sales . . . . .	<b>77,117</b>	19,347
	<b>176,221</b>	44,640
Operating expenses . . . . .	<b>176,439</b>	41,503
Operating income (loss) . . . . .	<b>(218)</b>	3,137
<b>Consolidation:</b>		
Total operating income (loss) . . . . .	<b>32,638</b>	(4,934)
Elimination of inter-segment sales . . . . .	<b>(1,079)</b>	(227)
Consolidated operating income (loss) . . . . .	<b>¥ 31,559</b>	¥ (5,161)

### **Air Transportation**

Operating revenues in the core air transportation segment rose 1.5%, to ¥980.5 billion, while operating expenses declined 2.3%, to ¥954.8 billion. As a result, operating income in air transportation was ¥25.6 billion, compared with an operating loss of ¥10.8 billion in the previous year.

On international routes, leisure demand was strong, and the number of passengers traveling overseas increased from the previous year. On domestic routes, competition intensified, but there were some signs that conditions were improving. A variety of discount fares stimulated demand, and in the second half of the year domestic passenger yields stopped declining.

### **Travel Services**

Operating revenues in travel services rose 89.6%, to ¥135.8 billion, due to the new consolidation of ANA Sky Holiday Tours Co., Ltd., and other companies. Operating expenses were up 84.4%, to ¥132.5 billion, resulting in operating income of ¥3.3 billion, compared with an operating loss in the previous year.

With trends toward lower-priced package tours and the diversification of customer needs, the Company worked to further reinforce its integrated tour structuring and sales system, which is closely linked to market conditions. At the same time, the Company took steps to strengthen product competitiveness, quality control, and agency sales promotions. In domestic travel, the Company bolstered its planning and sales capabilities by spinning off ANA Sky Holiday Tours from ANA Trading Co., Ltd. As a result, ANA Sky Holiday brand packages surpassed 1 million customers for the first time, reaching 1.2 million customers for the year, due in part to the success of an Okinawa campaign. In overseas travel products, the Company began sales of products utilizing Star Alliance member companies and worked to expand sales of its mainstay ANA Hello Tour packages.

### **Hotel Operations**

Operating revenues in hotel operations rose 12.9%, to ¥77.3 billion. Operating expenses rose only 12.2%, to ¥73.5 billion, and operating income increased 29.0%, to ¥3.8 billion.

Developments during the year included the start-up of operations at the ANA Hotel Toyama in August 1999 and the sale of shareholdings in ANA Hotels Singapore Ltd. Profits from domestic hotel operations rose from the previous year due to increased management efficiency resulting from the concentration of hotel assets in ANA Property Management Co., Ltd. (Narita, Okinawa Harbor View, Okinawa Royal View, Hiroshima), and to improvement in the cost structure due primarily to cost reduction efforts. In overseas hotel operations, hotels in Vienna and Sydney achieved record high levels of profits due to strong demand, marketing efforts that responded to customer needs, and the continued implementation of appropriate cost control measures.

### **Other Businesses**

Operating revenues in other businesses increased 294.8%, to ¥176.2 billion. However, operating expenses, at ¥176.4 billion, exceeded operating revenues, resulting in an operating loss of ¥0.2 billion.

ANA Trading Co., Ltd., and ANA Trading subsidiaries that operate retail shops in domestic airports were newly consolidated, resulting in the large increase in operating revenues. Principal companies other than those newly consolidated are as follows. Infini Travel Information, Inc., which mainly develops terminals for airline-related information, recorded a large increase in sales due to aggressive sales activities. ANA Information Systems Planning Co., Ltd., which develops, maintains, and operates systems, worked to build a data warehouse for Group use and to increase sales to non-Group companies, and sales rose by a large margin. ANA Real Estate Co., Ltd., which conducts real estate sales and leasing and building management, maintained a high occupancy rate even though office leasing levels were declining and, in real estate sales, sold all of the properties that it had available for sale.

## **4. Passenger Data by Route (International)**

### **Asia/Oceania**

On flights serving Sydney and certain destinations in China, many business travelers downgraded, and leisure demand remained sluggish. However, Singapore, Hong Kong, and Seoul routes met customer preferences for inexpensive and close destinations, and conditions recov-

ered, centered on leisure demand. On Asian routes overall, available seat-kilometers declined 4.6%, but revenue passenger-kilometers rose 7.0% and the load factor increased 7.7 percentage points. Passenger revenues were up 2.8%, but passenger yields declined about 4%.

### Transpacific

Overall, business and leisure demand were both sluggish. From the fourth quarter, business demand showed signs of improvement, centered on the Los Angeles route. A significant contribution to performance was made throughout the year by such newly established routes as the Honolulu (inaugurated October 1998), San Francisco (December 1998), and Chicago (April 1999) routes. Available seat-kilometers on transpacific routes increased 34.6% and revenue passenger-kilometers rose 25.7%, while passenger revenues rose 21.3%. However, the load factor declined 4.3 percentage points, and passenger yields declined about 4% due to intensified competition with other companies and exchange rate fluctuations.

### Europe

As on transpacific routes, business and leisure demand on European routes remained sluggish. The especially weak demand on European routes using Kansai Airport had a significant adverse effect on performance. From February 2000, however, demand began to recover on the Paris and London routes. On European routes overall, revenue passenger-kilometers declined 4.0%, while available seat-kilometers were down 5.1% due to the closing of the Kansai-Rome route. As a result, the load factor improved 0.8 percentage points. However, passenger revenues were down 11.4% and passenger yields declined about 8%.

Years ended March 31,	Passenger revenues Yen (Millions)		RPK (Millions)		ASK (Millions)		Load factor (%)	
	2000	1999	2000	1999	2000	1999	2000	1999
Asia . . . . .	<b>63,910</b>	62,154	<b>7,230</b>	6,756	<b>10,096</b>	10,578	<b>71.6</b>	63.9
Transpacific . . . .	<b>60,895</b>	50,191	<b>8,608</b>	6,846	<b>14,194</b>	10,547	<b>60.6</b>	64.9
Europe . . . . .	<b>54,043</b>	60,991	<b>6,560</b>	6,830	<b>9,302</b>	9,801	<b>70.5</b>	69.7
Total . . . . .	<b>178,849</b>	173,337	<b>22,398</b>	20,433	<b>33,593</b>	30,928	<b>66.7</b>	66.1

Note: Passenger revenues by destination are the total of passenger revenues for ANA, ANK, and ADK and do not include intercompany eliminations.

## 5. Employment

Years ended March 31,	2000	1999
Air transportation (ANA, ANK, ADK) . . . . .	<b>15,931</b>	16,590
Others (consolidated subsidiaries) . . . . .	<b>12,133</b>	8,830
Total . . . . .	<b>28,064</b>	25,420

Note: Figures are averages for each fiscal year.

March 31,	2000	1999
Air transportation . . . . .	<b>21,165</b>	18,894
Travel services . . . . .	<b>1,567</b>	803
Hotel operations . . . . .	<b>4,082</b>	4,081
Other businesses . . . . .	<b>3,489</b>	2,046
Total . . . . .	<b>30,303</b>	25,824

Note: Figures represent year-end data.

There was a rise in the number of consolidated subsidiaries, and average employment rose 10.4%, to 28,064. The increase was principally due to the consolidation of ANA Trading and passenger handling companies. Approximately 57% of employees were involved in air transporta-

tion, compared with 65% in the previous year. Average employment in air transportation declined 4.0%, to 15,931, but productivity, measured by available seat-kilometers per employee, improved by 7.5%.

## 6. Facilities

Based on the principle of “selection and concentration,” the ANA Group conducts capital investment with the goals of improving safety, competitiveness, and profitability. Capital investment in the year under review, which

was principally for aircraft in air transportation operations, was ¥110.8 billion. Information for each operational segment is provided below.

Years ended March 31,	Yen (Millions)	
	2000	1999
Air transportation . . . . .	¥ 96,413	¥57,197
Travel services . . . . .	423	87
Hotel operations . . . . .	18,186	6,604
Other businesses . . . . .	5,295	14,127
Subtotal . . . . .	120,317	78,015
Intercompany eliminations . . . . .	(9,501)	(5,087)
Total . . . . .	¥110,816	¥72,928

Notes: 1. Figures represent the book values of tangible and intangible fixed assets.  
2. Figures do not include consumption tax.

### Air Transportation

Purchases of aircraft and aircraft parts and advance payments on aircraft purchases totaled ¥69.5 billion. The delivery of six aircraft was accepted during the year. Purchases of air transportation related computer terminals and peripherals and of aircraft maintenance equipment totaled ¥9.1 billion. Advance payments for the construction of training facilities totaled ¥5.9 billion. ANA and consolidated subsidiaries in the air transportation segment made capital expenditures totaling ¥8.5 billion for the development and purchase of software for administrative laborsaving.

### Travel Services

Capital expenditures of ¥0.2 billion were made for the development and purchase of software related to the sale of travel products.

### Hotel Operations

Capital expenditures of ¥14.8 billion were made for hotel facilities and land as a result of the opening of the ANA Hotel Toyama and the purchase of hotel assets in Okinawa accompanying the reorganization of domestic hotel operations. Additional capital expenditures were made for the renovation and remodeling of existing hotel facilities.

### Other Businesses

Investment in the development and purchase of software for administrative laborsaving at consolidated subsidiaries totaled ¥2.5 billion, and investment in the purchase of computer terminals and administrative equipment was ¥1.3 billion.

## 7. Aircraft Procurement Plan

ANA took delivery of four aircraft during the year under review: one Boeing 777-300, one Boeing 777-200, and two Airbus A321-100s. ANK took delivery of two Boeing 737-500s. Future air transportation related capital investment was reevaluated in accordance with the medium-term corporate plan. As a result, of firm orders scheduled for

delivery in the two-year period ending March 2003, nine aircraft deliveries were postponed to the year ending March 2004 or later. At the end of March 2003, ANA plans to have 127 aircraft and ANK 22. Planned aircraft acquisitions and principal fleet composition during the period covered by the corporate plan are shown below.

### New Aircraft Schedule

Years ended March 31,	2001	2002	2003	Total
B747-400 .....	1	0	0	1
B777-200 .....	3	0	0	3
A321-100 .....	2	0	0	2
Total	6	0	0	6

### Projected Fleet Composition

Years ended March 31,	2000		2001		2002		2003	
	Actual		Plan	vs. 2000	Plan	vs. 2001	Plan	vs. 2002
B747-400 .....	22	(8)	23	+1	23	0	23	0
B747-200LR .....	4	(2)	3	-1	3	0	3	0
B747-100SR .....	11	(3)	11	0	9	-2	8	-1
B777-300 .....	5	(4)	5	0	5	0	5	0
B777-200 .....	13	(10)	16	+3	16	0	16	0
B767-300 .....	42	(15)	42	0	42	0	42	0
B767-200 .....	13	(11)	10	-3	6	-4	2	-4
B737-500 .....	16	(7)	16	0	16	0	16	0
B737-200 .....	3	(0)	0	-3	0	0	0	0
A321-100 .....	5	(1)	7	+2	7	0	7	0
A320-200 .....	25	(16)	25	0	25	0	25	0
YS-11 .....	7	(0)	6	-1	4	-2	2	-2
Total	166	(77)	164	-2	156	-8	149	-7

Notes: 1. Figures include leased aircraft except ANK's operating leased aircraft.

2. Figures in parentheses indicate the number of leased aircraft included.

## 8. Financial Condition and Cash Flows

Years ended March 31,	Yen (Millions)	
	2000	1999
Net cash provided by operating activities . . . . .	¥ 77,249	¥ 61,285
Net cash used in investing activities . . . . .	(85,207)	(19,626)
Net cash provided by financing activities . . . . .	45,640	17,227
Net increase (decrease) resulting from changes in exchange rates and scope of consolidation . . . . .	15,146	(13,675)
Net increase (decrease) in cash and cash equivalents . . . . .	52,828	45,211
Cash and cash equivalents at end of year . . . . .	¥237,440	¥184,612

Capital investment was made in aircraft, including some not yet delivered, and in IT. In preparation for funds needed in the first half of the current fiscal year, marketable securities were sold, lent out funds collected, and bonds issued. As a result, cash and cash equivalents at the end of the year on a consolidated basis were ¥237.4 billion.

Operating income (loss) improved substantially, centered on air transportation operations, but special retirement expenses accompanying the implementation of an early retirement program and asset reduction measures for the Group as a whole were recorded. As a result, a loss before income taxes and minority interests was recorded, but this was offset by depreciation and amorti-

zation and other non-cash expenses, and net cash provided by operating activities was ¥77.2 billion.

Investment in aircraft, including some not yet delivered, and in IT, principally software development, totaled ¥111.2 billion. The Company took steps to raise funds, such as through the sale of investment securities and the collection of lent out funds. As a result, net cash used in investing activities was ¥85.2 billion.

Long- and short-term debt was reduced by ¥38.3 billion. To meet needed funds in the current fiscal period, such as the receipt of aircraft and the redemption of bonds, funds were raised, principally through the issuance of bonds. As a result, net cash provided by financing activities was ¥45.6 billion.

The balance of short- and long-term debt for the past two years is as follows.

March 31,	Yen (Millions)	
	2000	1999
Short-term debt:		
Loans, principally from banks . . . . .	¥ 102,586	¥ 107,762
Long-term debt, including current portion:		
Loans, principally from banks . . . . .	575,051	546,661
Notes and bonds . . . . .	434,703	349,703
Total . . . . .	¥1,112,340	¥1,004,126

In response to a request by ANA, Japan Credit Rating Agency, Ltd., provides a rating on long-term bonds issued by ANA. As of August 2000, this rating was A. Japan Rating and Investment Information, Inc., gave ANA a BBB

credit rating as of August 2000. Management believes that these credit ratings present no difficulties with regard to the procurement of funds.

## 9. Market Risks

### Exchange Rates, Fuel, and Interest Rates

The Company uses forward exchange agreements and currency options to hedge risks associated with exchange rate fluctuations posed by obligations denominated in foreign currencies, principally obligations to purchase aircraft. ANA uses commodity derivatives to control the risk of jet fuel price fluctuations and to stabilize expenses. The Group does not conduct hedging transactions for speculative purposes. The Company's fuel-related hedging activities are limited to a certain percentage of aggregate purchases of fuel in Japan and overseas.

Furthermore, individual transactions are maintained within limits that are set monthly or quarterly in such a way that the Company's transactions will not affect the spot market. Foreign currency hedging is limited to the purchase of U.S. dollar forward agreements representing no more than a certain percentage of the cost of purchasing an aircraft.

In regard to interest rate risks, the Company principally raises funds at fixed rates and plans to take a flexible approach to fund-raising while monitoring interest rate trends.

### Pension Liability

The pension plan of ANA and certain subsidiaries covers almost all employees other than corporate officers. Under this system, when an eligible employee reaches the mandatory retirement age or elects early retirement, a lump-sum payment is made based on the basic salary at the time of retirement and on the number of years of service at ANA or certain subsidiaries. In accordance with existing regulations, ANA and its principal domestic subsidiaries use a corporate pension plan to pay a portion of the lump-sum payments. In accordance with new pension accounting standards that took effect from the fiscal year beginning in April 2000, the Company must amortize the present value of its unfunded liability over a period no longer than 15 years.

As of March 31, 2000, the Group's outstanding pension liabilities calculated with a discount rate of 3.5% were ¥320.0 billion, pension assets were about ¥130.0 billion, and the reserve for employees' retirement benefits was about ¥70.0 billion. Accordingly, the unfunded pension liabilities were about ¥120.0 billion. The Company plans to amortize this amount over 15 years beginning with the fiscal year that started April 2000, which will result in the recording of about ¥8.0 billion a year as an expense in the non-consolidated and consolidated statements of income (loss). In addition, to reduce pension obligations to employees, the Company is in the process of amending the

terms of its existing pension plan that are expected to reduce the unfunded pension liabilities by ¥30.0 billion. The decrease in the unfunded liability will be proportionally divided over a fixed number of years beginning in the year in which the pension system is amended, with the annual amortization expense of ¥8.0 billion described above reduced by an equivalent amount on the consolidated statements of income (loss).

ANA's medium-term corporate plan calls for lowering personnel expenses by freezing hiring and reducing the workforce. Through attrition and the expansion of the early retirement program, the plan aims for a 9% reduction in the workforce over the four years ending March 2003, to 2,600. At this point, it is not possible to accurately estimate the total expense of these workforce reductions over the period covered by the plan, but in the year ended March 2000, the Group recorded an expense of ¥5.7 billion.

### Public-Sector Fees

Public-sector fees include landing and navigation fees, aviation fuel taxes, and fixed-asset taxes on aircraft. It is not possible for ANA to reduce landing and navigation fees and aviation fuel taxes through its own efforts. In the year ended March 2000, these two items accounted for about 16% of operating expenses in the air transportation segment. Beginning in April 1999, landing fees at Japanese airports other than those in the Tokyo and Osaka areas were reduced, and as a result during the year under review public-sector fees declined about 10%, to approximately ¥150.0 billion.

Over the past five years, revenue passenger-kilometers have declined about 23% on international routes and 15% on domestic routes. As a result, total public-sector fees represent about 20% of the cost of an average domestic airline ticket, a level far above most other countries. This presents Japanese airlines with an onerous burden at a time when competition is projected to remain intense. The early implementation of a significant reduction in public-sector fees would benefit not only ANA but also the traveling public in Japan. Furthermore, any such reduction would lead to a significant rise in the demand for air transportation.

### Year 2000 Issue

ANA recognized the Year 2000 issue as an important management issue and took Groupwide countermeasures. There were no irregularities in aircraft; in reservation, ticket issuance, and flight operations systems; or in other general administrative systems. No problems were experienced within the ANA Group.