Management's Discussion and Analysis

1. The ANA Group

The ANA Group comprises 143 subsidiaries and 41 affiliates. Of those companies, 109 are consolidated subsidiaries and 24 are accounted for by the equity method. The Group's operations are classified into four business segments: 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, 2003 Operational segment	No. of subsidiaries	of which, consolidated	of which, equity method	No. of affiliates	of which, equity method
Air Transportation	31	30	–	6	3
Travel Services	16	13	–	3	3
Hotel Operations	23	22	–	1	1
Other Businesses	73	44	6	31	11
Group Total	143	109	6	41	18

• Air Transportation

The ANA Group's air transportation operations and other aircraft operations are centered on All Nippon Airways Co., Ltd. (ANA); subsidiaries Air Nippon Co., Ltd. (ANK), and Air Japan Co., Ltd. (AJX); and affiliate Nippon Cargo Airlines Co., Ltd. (NCA). These operations principally comprise the provision of passenger, cargo, and mail air transportation. Incidental operations include airport customer services, telephone reservation and information services, and the maintenance of aircraft and are provided by International Airport Utility Co., Ltd., ANA TELEMART Co., Ltd., ANA Aircraft Maintenance Co., Ltd., and other companies. Airport passenger, cargo handling, and aircraft 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 Hallo Tour and ANA Sky Holiday, mainly by ANA Sales and Tours Co., Ltd., and its wholly owned subsidiaries, All Nippon Airways World Tours Co., Ltd., ANA Sky Holiday Tours Co., Ltd., and All Nippon Airways Travel Co., Ltd. In Japan, these operations comprise the development and sale of products that use the air transportation services of ANA or ANK and accommodation at ANA hotels.

Overseas, ANA World Tours (Europe) Ltd. and other companies provide a range of services to customers traveling on ANA Hallo Tour brand packages and sell airline tickets and travel products.

• Hotel Operations

Subsidiaries and affiliates, centered on ANA Hotels Co., Ltd., provide a wide range of services, including lodging, meals, banquets, and wedding receptions.

• Other Businesses

Group companies provide communications, trading and sales, real estate, building management, ground transportation and distribution, aircraft equipment maintenance, 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 Logistic Service Co., Ltd., operates a warehouse for imported air cargo. All Nippon Airways Trading Co., Ltd., and others conduct operations centered primarily on the export and import of airline-related materials and on sales through stores and catalogs. ANA Real Estate Co., Ltd., and other companies carry out the sale, rental, and management of real estate, and affiliate Jamco Corporation and others provide the maintenance of on-board aircraft equipment. ANA and Group subsidiaries and affiliates are customers for these products and services.

2. Operational Review

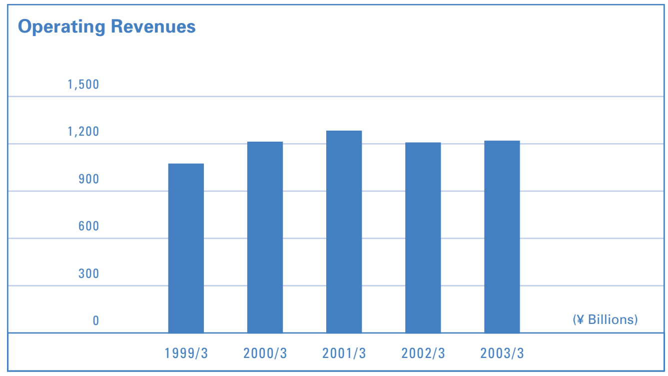
Operating Environment and Performance

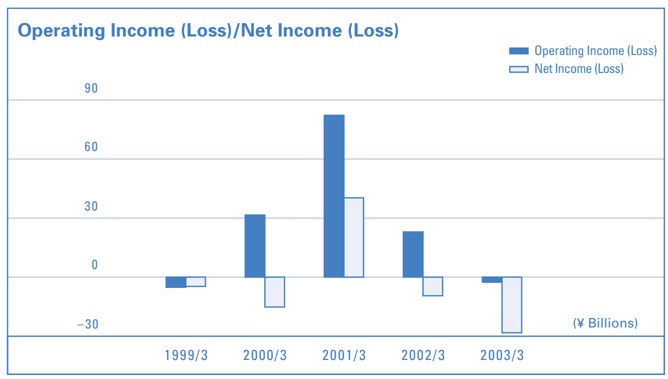
In the first half of the year under review, there were signs of recovery in certain sectors of the Japanese economy. For example, production increased slightly as exports to China and other Asian countries rose. However, in the second half of the year domestic business conditions worsened due to concern about the future course of the U.S. economy and to declining stock prices stemming from uncertainty about the international situation. Moreover, as the deflationary trend in the domestic economy continued, poor conditions in employment and incomes were reflected in continued sluggishness in consumer spending. Progress toward an economic recovery was slow, and a full-fledged recovery was not reached during the year.

In this setting, the Company's operating revenues rose 0.9%, to ¥1,215.9 billion, and operating expenses increased 3.1%, to ¥1,218.5 billion. As a result, an operating loss of ¥2.5 billion was recorded, compared with operating income of ¥22.9 billion in the previous year.

In non-operating items, the Company recorded income, such as rebate on aircraft purchases, and expenses, such as loss on sale or disposal of property and equipment and loss on sale and liquidation of affiliates. Net non-operating expenses amounted to ¥52.2 billion, compared with ¥30.1 billion in the previous year.

Loss before income taxes and minority interests was ¥54.8 billion, compared with ¥7.1 billion in the previous year. After income taxes, including the effect of accounting for deferred income taxes stemming from the application of the interperiod allocation method, and minority interests in income of consolidated subsidiaries, net loss was ¥28.2 billion, compared with ¥9.4 billion in the previous year.





• Operating Revenues

The ANA Group's operating revenues consist of air transportation revenues, comprising passenger, cargo, and incidental and other revenues; travel services revenues; hotel operations revenues; and other businesses revenues. Detailed information regarding passenger revenues and cargo revenues is provided on the following pages.

Summary of Financial Results

ANA and consolidated subsidiaries

Years ended March 31,	Yen (Millions) except per share amounts 2003	2002
Operating revenues	¥1,215,909	¥1,204,514
Operating expenses	1,218,506	1,181,546
Operating income (loss)	(2,597)	22,968
Non-operating income (expenses)	(52,224)	(30,146)
Loss before income taxes and minority interests	(54,821)	(7,178)
Income taxes	(27,829)	2,244
Minority interests in income of consolidated subsidiaries	1,264	34
Net loss	¥ (28,256)	¥ (9,456)
Per share data:		
Net loss	¥(18.42)	¥(6.17)
Net income assuming full dilution	–	–
Cash dividends	–	–

Years ended March 31,	Yen (Millions) 2003	2002
Passenger revenues	¥ 760,263	¥ 762,923
Domestic	600,063	612,380
International	160,200	150,543
Cargo revenues	64,688	57,648
Domestic	24,295	24,711
International	40,393	32,937
Incidental and other revenues	390,958	383,943
Total	¥1,215,909	¥1,204,514

Note: Operating revenue figures are stated after the elimination of intra-segment and inter-segment transactions.

	2003	2002
Operating Data		
Domestic Passengers:		
• Passengers (thousands)	47,133	45,796
• Available seat-km (ASK, millions)	62,565	60,980
• Revenue passenger-km (RPK, millions)	40,388	38,780
• Passenger load factor (%)	64.6	63.6
• Unit revenues (¥/ASK)	10.3	10.8
International Passengers:		
• Passengers (thousands)	3,783	3,438
• Available seat-km (ASK, millions)	25,974	26,928
• Revenue passenger-km (RPK, millions)	18,719	17,799
• Passenger load factor (%)	72.1	66.1
• Unit revenues (¥/ASK)	7.1	6.3
Domestic Cargo:		
• Cargo ton (ton)	383,583	386,727
• Cargo ton-kilometer (ton-km)	371,224	370,214
• Cargo ton-kilometer yield (¥/ton-km)	65.5	66.8
International Cargo:		
• Cargo ton (ton)	195,669	152,942
• Cargo ton-kilometer (ton-km)	957,721	861,976
• Cargo ton-kilometer yield (¥/ton-km)	42.2	38.2
Unit costs (¥/ASK)	11.8	11.1

Notes: 1. Domestic and international figures include the operations of the parent company ANA and subsidiaries Air Nippon Co., Ltd. (ANK), Air Japan Co., Ltd. (AJX), Air Hokkaido Co., Ltd. (ADK), and Air Nippon Network Co., Ltd. (ANN).
2. Figures for unit revenues, cargo ton-kilometer yield, and unit costs are the weighted average for ANA, ANK, AJX, ADK, and ANN.
3. Unit revenues amounts were calculated using passenger revenues figures before the elimination of intra-segment transactions.

• Passenger Revenues

Passenger revenues in the year under review declined 0.3%, to ¥760.2 billion. Domestic routes accounted for 78.9% of the total, and international routes for 21.1%.

• Domestic Passenger Revenues

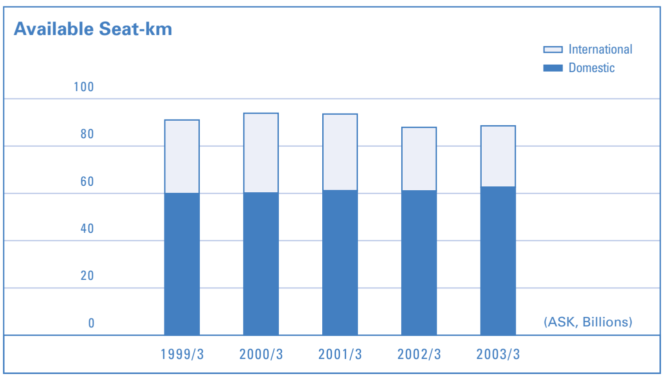
The ANA Group took steps to expand domestic passenger revenues. We increased the number of flights on certain routes, centered on trunk routes through Haneda Airport, where demand is expected to be strong. We also worked to expand revenues through tie-ups with other companies. We significantly expanded capacity on highly profitable routes through code-share arrangements with other airlines, including Hokkaido International Airlines Co., Ltd. In addition, we enhanced our domestic-international connection services at Narita Airport. Nonetheless, intensified price competition led to a decline in yields, adversely affecting revenues.

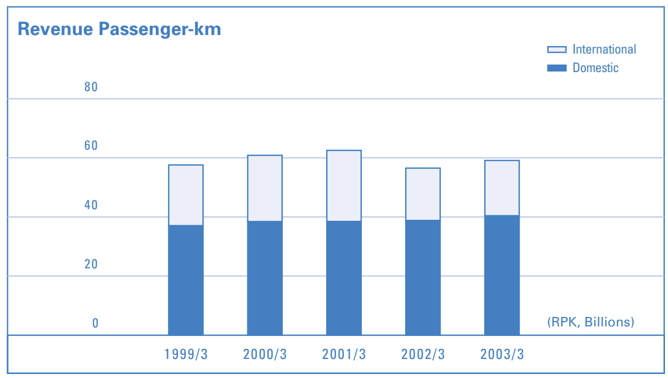
Passenger revenues declined 2.0%, to ¥600.0 billion, in the year under review. The number of passengers, however, increased 2.9%, to 47.1 million. Available seat-kilometers rose 2.6%, and revenue passenger-kilometers were up 4.1%. As a result, the load factor increased 1.0 percentage point, to 64.6%. Unit revenues were 10.3 ¥/ASK, compared with 10.8 ¥/ASK in the previous year.

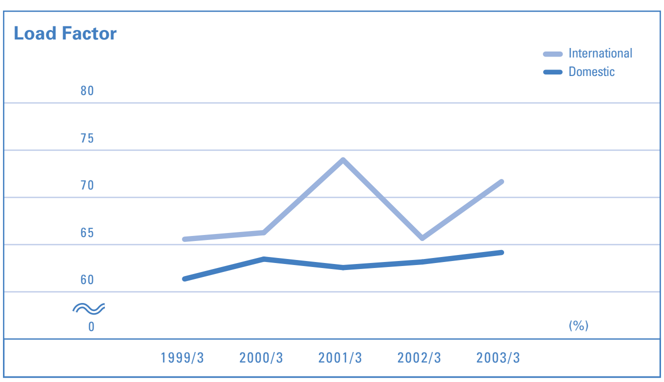
• International Passenger Revenues

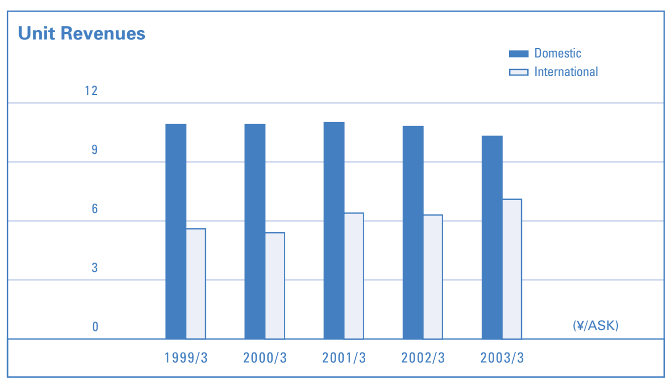
In the year under review, we worked to expand our route network, principally our short-haul Asian routes, and to raise revenues from international passenger services. For example, when the new runway was opened at Narita Airport in April 2002, we took steps to enhance our service to China, where our profitability is strong and demand is expected to increase, by establishing new routes and increasing flights on existing routes.

Passenger revenues increased 6.4%, to ¥160.2 billion, and the number of passengers rose 10.0%, to 3.7 million. Available seat-kilometers declined 3.5%, while revenue passenger-kilometers rose 5.2%. The load factor increased 6.0 percentage points, to 72.1%, and unit revenues increased to 7.1 ¥/ASK, from 6.3 ¥/ASK in the previous year.









• Cargo Revenues

Cargo revenues rose 12.2%, to ¥64.6 billion. Domestic cargo revenues accounted for 37.6% of the total, and international cargo revenues for 62.4%.

• Domestic Cargo Revenues

Domestic cargo volume declined 0.8%, to 383 thousand tons, and revenues were down 1.7%, to ¥24.2 billion.

With the economy sluggish, the domestic distribution of goods declined, and some air cargo was switched to land transportation due to the tightened inspections for explosives that have been implemented since the previous year's terrorist attacks. As a result, the volume of cargo handled was down throughout the first half of the year under review. Demand, which had fallen since the terrorist attacks, stopped declining in September 2002 and began to recover thereafter. Nonetheless, the progress toward recovery was slow, and demand in the second half was down from the same period of the previous year. Since its introduction in September 2002 as the Company's first cargo freighter, ANA's Boeing 767-300F has been used mainly on scheduled international cargo flights. However, we also began to use this aircraft on unscheduled domestic routes and charter flights. In addition, we implemented various measures to increase revenues, including taking a flexible approach to aircraft usage in line with cargo demand.

• International Cargo Revenues

International cargo volume was up 27.9%, to 195 thousand tons, and revenues rose 22.6%, to ¥40.3 billion.

In the first half of the fiscal year, our international cargo and mail operations grew steadily due to the trend toward recovery in the U.S. economy. In the second half, growth remained strong due to a number of special factors. These factors included a temporary shift of cargo from sea to air transportation due to a harbor strike on the west coast of the United States and increased goods shipments as the situation in Iraq worsened. Strong automobile parts cargo demand through the year also made a significant contribution to higher cargo volume. With the September 2002 introduction of a Boeing 767-300F, our first cargo freighter, we worked to expand cargo volume, principally on China routes. We launched *PRIO*, an international priority service, in April 2001, and at the end of the year under review, in response to more advanced and diverse cargo transport needs, we added *PRIO DOOR*, *PRIO COOL*, *PRIO SPACE*, and *PRIO SENSITIVE* to the *PRIO* lineup.

Incidental and Other Revenues

Incidental and other revenues include revenues from domestic and international mail; revenues from providing other airlines with aircraft maintenance, passenger check-in, baggage loading, and other ground services; and revenues from conducting in-flight sales. In the year under review, we worked to increase revenues from each of these sources, and as a result incidental and other revenues rose 1.8%, to ¥390.9 billion.

For information on the travel services, hotel operations, and other businesses segments, refer to Section 4, Segment Information (page 34).

• Operating Expenses

Operating expenses rose 3.1% overall, to ¥1,218.5 billion. Details are as follows:

	Yen (Millions)	
Years ended March 31,	2003	2002
Aircraft	¥ 385,568	¥ 373,708
Aircraft and flight operations	298,574	292,677
Aircraft maintenance	86,994	81,031
Services	321,791	299,529
In-flight services	62,417	56,468
Flight control and ground handling	259,374	243,061
Reservations, sales and advertising	212,553	210,845
General and administrative	34,290	33,837
Depreciation and amortization	61,852	61,337
Other costs	202,452	202,290
Total	¥1,218,506	¥1,181,546

Aircraft expenses rose 3.2%, to ¥385.5 billion. Aircraft and flight operations expenses grew 2.0% due to increased fuel tax and leasing expenses accompanying a higher level of operation, while aircraft maintenance expenses were up 7.4% as a result of increased parts purchases.

Services expenses rose 7.4%, to ¥321.7 billion. In-flight services expenses grew 10.5% due primarily to increased in-flight services accompanying a recovery in passenger numbers on international flights, which had declined following the previous year's terrorist attacks. Flight control and ground handling expenses rose 6.7% due to higher landing and navigation fees and third-party liability insurance premiums.

Due to increased spending on advertisements and campaigns targeted at raising revenues, reservations, sales and advertising expenses rose 0.8%. General and administrative expenses increased 1.3%.

Depreciation and amortization rose 0.8%, to ¥61.8 billion, due to purchases of aircraft, and other costs increased 0.1%, to ¥202.4 billion.

Non-Operating Income (Expenses)

The Company recorded net non-operating expenses of ¥52.2 billion, compared with ¥30.1 billion in the previous year. Details are as follows:

	Yen (Millions)	
Years ended March 31,	2003	2002
Interest and dividend income	¥ 6,843	¥ 7,143
Gain on sale of property and equipment	2,002	2,559
Interest expenses	(25,283)	(28,758)
Loss on sale or disposal of property and equipment	(16,304)	(10,033)
Equity in income (loss) of affiliates	364	(804)
Rebate on aircraft purchases	5,976	–
Amortization of net transitional retirement benefit obligation	(7,321)	(7,835)
Loss on sale and liquidation of affiliates	(26,914)	–
Valuation loss on investment securities	(3,373)	(2,127)
Special retirement benefit expenses	(3,191)	(1,312)
Other, net	14,977	11,021
Total	¥(52,224)	¥(30,146)

Interest and dividend income declined 4.2%, to ¥6.8 billion.

Gain on sale of property and equipment decreased 21.8%, to ¥2.0 billion.

Interest expenses declined 12.1%, to ¥25.2 billion. Interest-bearing debt was reduced, and the average rate on interest-bearing debt during the year was lower.

Loss on sale or disposal of property and equipment, primarily loss on the sale of aircraft and loss on the disposal of aircraft parts, increased ¥6.2 billion, to ¥16.3 billion.

Due primarily to improvement in the performance of companies accounted for by the equity method, including air transportation companies, equity in income of affiliates was ¥0.3 billion, compared with equity in loss of affiliates of ¥0.8 billion in the previous year.

Rebate on aircraft purchases (engine-related equipment) was ¥5.9 billion.

Loss on sale and liquidation of affiliates was ¥26.9 billion. This loss includes a ¥22.8 billion loss on the sale of two companies that operate overseas hotels and a ¥4.0 billion loss on the liquidation of a golf course subsidiary and domestic hotel affiliates.

Amortization of net transitional retirement benefit obligation declined from the previous year. This decline was attributable to the full amortization in the previous year of a subsidiary that was restructured. Valuation loss on investment securities was higher due to the decline in stock prices, and special retirement benefit expenses rose due to an increase in the number of employees taking early retirement.

3. Financial Position and Cash Flows

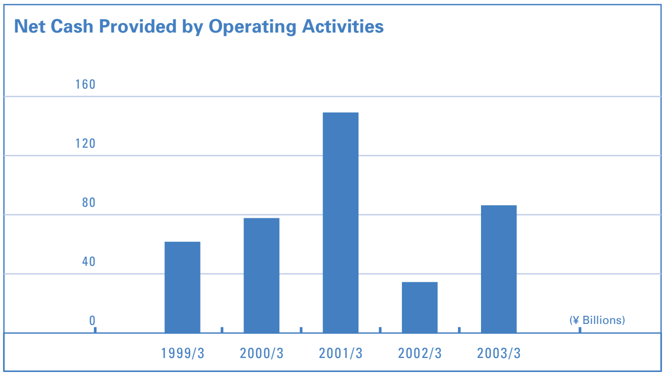
	Yen (Millions)	
Years ended March 31,	2003	2002
Net cash provided by operating activities	¥ 85,952	¥ 33,993
Net cash used in investing activities	(52,478)	(123,927)
Net cash provided by (used in) financing activities	(63,364)	69,104
Effect of exchange rate changes on cash and cash equivalents	(795)	1,786
Net decrease in cash and cash equivalents	(30,685)	(19,044)
Cash and cash equivalents at beginning of year	188,648	207,717
Net increase (decrease) resulting from changes in scope of consolidation	158	(25)
Cash and cash equivalents at end of year	¥158,121	¥ 188,648

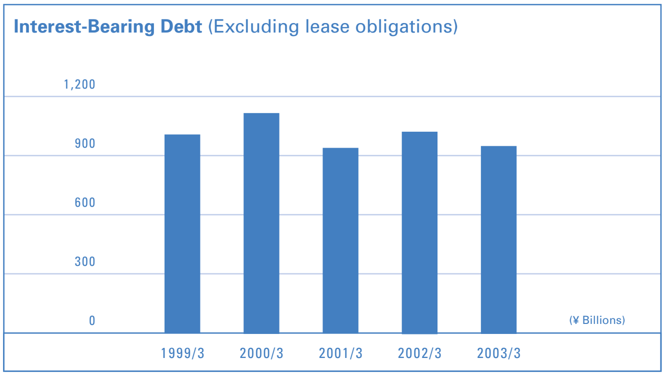
Although the Company recorded a loss before income taxes and minority interests, non-cash expenses were also recorded, such as depreciation and amortization and loss on diposal and sale of property and equipment, and as a result net cash provided by operating activities totaled ¥85.9 billion, an increase of ¥51.9 billion.

The Company acquired and made advance payments for aircraft and acquired aircraft parts. In addition, the Company recovered investment through the sale of aircraft and the withdrawal from overseas hotel operations. As a result, net cash used in investing activities was ¥52.4 billion, a decline of ¥71.4 billion. Free cash flow rose ¥123.4 billion, to ¥33.4 billion.

The Company repaid debt and redeemed bonds, and net cash used in financing activities was ¥63.3 billion, compared with net cash provided by financing activities of ¥69.1 billion in the previous year.

As a result, the year-end balance of cash and cash equivalents was ¥158.1 billion, a decline of ¥30.5 billion from the previous year-end.

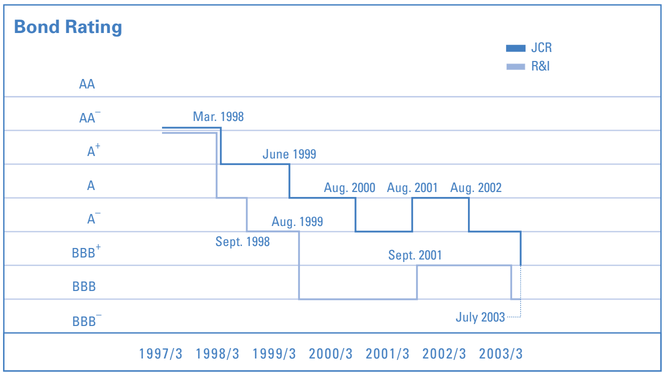




The balance of short- and long-term debt for the past two years is as follows:

As of March 31,	Yen (Millions) 2003	2002
Short-term debt:		
Loans, principally from banks	¥ 22,132	¥ 77,586
Long-term debt, including current portion:		
Loans, principally from banks	571,531	568,238
Notes and bonds	351,732	371,999
Total	¥945,395	¥1,017,823

In response to a request by ANA, Japan Credit Rating Agency, Ltd. (JCR), provides a rating on long-term bonds issued by ANA. As of July 2003, this rating was BBB+. Rating and Investment Information, Inc. (R&I), gave ANA a BBB credit rating as of July 2003. Management believes that these credit ratings present no difficulties with regard to the procurement of funds.



4. Segment Information

ANA and consolidated subsidiaries Years ended March 31,	Yen (Millions) 2003	 2002	% Year-on-year change
Air Transportation:			
Operating revenues	¥ 911,484	¥ 900,847	+ 1.2%
Intra-group sales and transfers	81,003	77,564	+ 4.4
Total	992,487	978,411	+ 1.4
Operating expenses	999,400	959,662	+ 4.1
Operating income (loss)	(6,913)	18,749	–
Travel Services:			
Operating revenues	144,940	143,367	+ 1.1
Intra-group sales and transfers	17,930	15,166	+ 18.2
Total	162,870	158,533	+ 2.7
Operating expenses	162,286	158,615	+ 2.3
Operating income (loss)	584	(82)	–
Hotel Operations:			
Operating revenues	59,547	63,366	– 6.0
Intra-group sales and transfers	13,166	12,305	+ 7.0
Total	72,713	75,671	– 3.9
Operating expenses	73,987	76,335	– 3.1
Operating income (loss)	(1,274)	(664)	–
Other Businesses:			
Operating revenues	99,938	96,934	+ 3.1
Intra-group sales and transfers	73,251	91,235	– 19.7
Total	173,189	188,169	– 8.0
Operating expenses	167,865	183,181	– 8.4
Operating income	5,324	4,988	+ 6.7
Intercompany Eliminations:			
Intra-group sales and transfers	(185,350)	(196,270)	– 5.6
Operating expenses	(185,032)	(196,247)	– 5.7
Operating income (loss)	(318)	(23)	–
Consolidated:			
Consolidated operating revenues	1,215,909	1,204,514	+ 0.9
Consolidated operating expenses	1,218,506	1,181,546	+ 3.1
Consolidated operating income (loss)	¥ (2,597)	¥ 22,968	–

• Air Transportation

In the year under review, on domestic routes intensified competition put pressure on prices and business demand was weak. On international routes, however, conditions were comparatively favorable due to strong demand on China routes. Operating revenues in the air transportation segment rose 1.4%, to ¥992.4 billion. Operating expenses increased 4.1%, a higher rate than operating revenues, and as a result operating loss was ¥6.9 billion, compared with operating income of ¥18.7 billion in the previous year.

• Travel Services

In the travel services industry, operating conditions remained challenging due to the weak domestic economy and growing international tension in Iraq. Operating revenues increased 2.7%, to ¥162.8 billion, and operating expenses rose 2.3%, to ¥162.2 billion, resulting in operating income of ¥584 million, compared with an operating loss of ¥82 million in the previous year.

• Hotel Operations

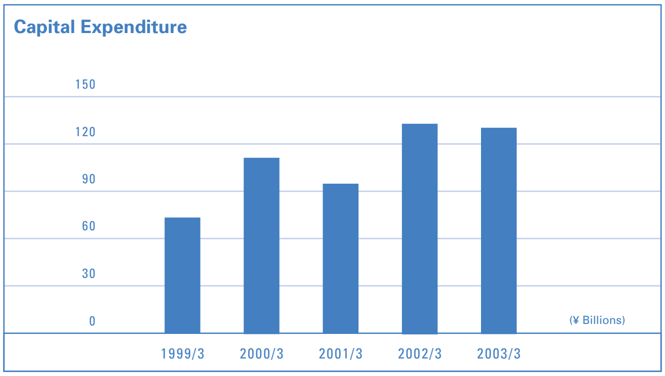
During the year under review, business conditions were extremely difficult in the hotel industry. The slowdowns in the U.S. and Japanese economies and the war in Iraq resulted in lower sales, especially in accommodations and banquet services. Moreover, the sale of overseas hotels also had an adverse influence on revenues. Operating revenues in the hotel segment were down 3.9%, to ¥72.7 billion, and operating expenses declined 3.1%, to ¥73.9 billion. An operating loss of ¥1.2 billion was recorded, compared with ¥0.6 billion in the previous year.

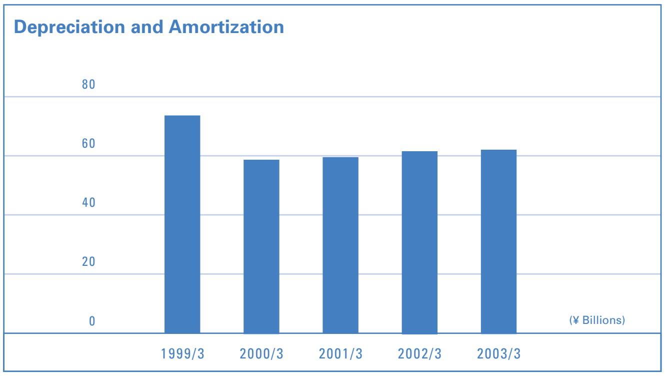
• Other Businesses

Net sales in the other businesses segment totaled ¥173.1 billion, down 8.0%, and operating expenses decreased 8.4%, to ¥167.8 billion. As a result, operating income increased 6.7%, to ¥5.3 billion.

5. Capital Investment

Based on the principle of "selection and concentration," the ANA Group conducts capital expenditure with the goals of improving safety, competitiveness, and profitability. Capital expenditure in the year under review, which was principally for aircraft in air transportation operations, amounted to ¥129.8 billion, which was funded by internal funds, borrowings, and the issuance of bonds.





• **Air Transportation**

Purchases of aircraft and aircraft parts and advance payments on aircraft purchases made by ANA and ANK totaled ¥95.7 billion. During the year, the Company accepted delivery of three Boeing 767-300s that it had purchased and switched two Airbus A320-200s to its own after the expiration of operating lease terms.

Purchases of air transportation related computer terminals and peripherals and of aircraft maintenance equipment totaled ¥2.8 billion. Improvements to offices in Japan and overseas, including airport offices, amounted to ¥8.1 billion, including advance payments. ANA and consolidated subsidiaries in the air transportation segment made capital expenditure totaling ¥14.4 billion for the development and purchase of software for administrative labor saving.

• **Travel Services**

Capital expenditure of ¥1.2 billion was made for the development and purchase of software related to the sale of travel products.

• **Hotel Operations**

Capital expenditure of ¥3.5 billion, including advance payments, was made for the renovation and remodeling of existing hotel facilities.

• **Other Businesses**

Investment in the development and purchase of software for administrative labor saving at consolidated subsidiaries totaled ¥1.1 billion, and investment in the purchase of administrative equipment was ¥0.3 billion.

ANA and consolidated subsidiaries	Yen (Millions)		%
As of and for the years ended March 31,	2003	2002	Year-on-year change
Air Transportation:			
Identifiable assets	¥1,179,728	¥1,195,497	– 1.3%
Depreciation and amortization	53,602	52,527	+ 2.0
Capital expenditure	121,734	121,451	+ 0.2
Travel Services:			
Identifiable assets	¥37,153	¥37,437	– 0.8
Depreciation and amortization	733	527	+ 39.1
Capital expenditure	1,345	1,601	– 16.0
Hotel Operations:			
Identifiable assets	¥111,191	¥146,311	– 24.0
Depreciation and amortization	4,026	4,571	– 11.9
Capital expenditure	4,435	6,749	– 34.3
Other Businesses:			
Identifiable assets	¥180,789	¥215,917	– 16.3
Depreciation and amortization	3,491	3,712	– 6.0
Capital expenditure	3,042	2,748	+ 10.7
Intercompany eliminations:			
Identifiable assets	¥(66,288)	¥(84,180)	–
Depreciation and amortization	–	–	–
Capital expenditure	(693)	(141)	–
Consolidated:			
Identifiable assets	¥1,442,573	¥1,510,982	– 4.5
Depreciation and amortization	61,852	61,337	+ 0.8
Capital expenditure	129,863	132,408	– 1.9

6. Passenger Data by Route (International)

	Passenger revenues Yen (Millions)		RPK (Millions)		ASK (Millions)		Load factor (%)	
Years ended March 31,	2003	2002	2003	2002	2003	2002	2003	2002
Asia	¥ 79,573	¥ 65,371	6,147	5,581	9,167	8,184	67.1	68.2
Transpacific	56,268	58,739	7,267	7,327	9,749	11,763	74.5	62.3
Europe	50,025	46,903	5,305	4,891	7,058	6,981	75.2	70.1
Total	¥185,866	¥171,013	18,719	17,799	25,974	26,928	72.1	66.1

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

• Asia

On China routes, ANA made substantial increases in capacity, moving to twice-daily service on the Narita–Beijing and Narita-Shanghai routes, and demand was favorable throughout the year in both economy and business classes. Because these are high-yield routes, these increases in capacity made a strong contribution to improving profitability on international routes.

• Transpacific

As a result of the use of smaller aircraft on the Washington, D.C., route and other routes, profitability on Transpacific routes improved considerably. Passenger demand, which had been firm, was adversely influenced by the war in Iraq in the fourth quarter of the year under review and was down for the full year.

• Europe

As with Transpacific routes, although the war in Iraq had an adverse influence from February 2003, the effect of the terrorist attacks in the United States was no longer evident. The Company moved to daily service on major routes, and utilization rates increased due to strong passenger demand. As a result, revenues increased from the previous year.

7. Retirement Benefit Plan

The Company and its consolidated subsidiaries offer the following defined benefit plans: welfare pension fund plans, tax qualified pension plans, and lump-sum payment plans.

Retirement benefit obligations as of March 31, 2003 and 2002, and periodic pension and severance cost on a consolidated basis for the fiscal years ended March 31, 2003 and 2002, were as follows:

	Yen (Millions)	
Years ended March 31,	2003	2002
Retirement benefit obligation	¥(398,377)	¥(395,755)
Plan assets at fair value	112,482	123,006
Unfunded retirement benefit obligation	(285,895)	(272,749)
Net amount unrecognized	179,751	184,322
	¥(106,144)	¥ (88,427)
Prepaid pension cost	636	553
Accrued employees' retirement benefits	(106,780)	(88,980)
	¥(106,144)	¥(88,427)
Periodic pension and severance cost	¥36,374	¥29,410
Discount rate	2.5%	2.5%

Effective April 1, 2003, the Company changed a part of the lump-sum payment plans to defined contribution plans and the lump-sum payment plans and welfare pension fund plans were revised.

These changes resulted in prior service cost (reduction in retirement benefit obligation) of approximately ¥39.5 billion, and pension cost will be reduced in the fiscal year ending March 2004 and thereafter. In the fiscal year ending March 2004, these changes will have the effect of reducing pension cost by ¥2.8 billion.

8. Jet Aircraft Procurement

Year Ended March 2003

ANA took delivery of six Boeing 767-300s (three purchased and three under operating leases), two Boeing 737-500s (both under operating leases), and one Boeing 767-300 Freighter (under an operating lease). As part of its plan to standardize its aircraft types, the Company used the sale and lease-back method to switch six A321-100s that it had owned to leasing arrangements.

Two Airbus A320-200s were switched to its own after the expiration of operating lease terms.

One Boeing 747-200LR, one Boeing 747-100SR, and five Boeing 767-200s were retired.

Years Ending March 2004, 2005, and 2006 (Planned)

In accordance with cost reduction plans over the three-year period ending March 2006, ANA will standardize its medium-sized and wide-body aircraft. As a result, medium-sized aircraft will be streamlined from three types to one, the Boeing 767-300, and wide-body aircraft will be reduced from four types to three, the Boeing 747-400, Boeing 777-200, and Boeing 777-300.

Years Ending March 2007 and Thereafter (Planned)

In the years ending March 2007 and thereafter, the Company will further standardize its narrow-body aircraft types to one type. In the future, the Company will change its medium-sized and wide-body aircraft to more economical types, thereby further reducing operating costs.

The ANA Group owns 52 small jet aircraft—Airbus A320s and Boeing 737s. The introduction of new models accompanying aircraft changes has been examined by the New Aircraft Model Selection Committee. Comprehensive examinations were conducted from the viewpoint of economical operation and suitability for our route network, leading to the selection of the B737 Next Generation series, principally the Boeing B737-700. By introducing 45 new aircraft and standardizing on new models, we expect to save about ¥6.0 billion a year in operating costs.

Principal fleet composition is shown below.

Fleet Composition

	2003		
As of March 31,	Total	Owned	Leased
B747-400	23	15	8
B747-200LR	2 (–1)	2 (–1)	0
B747-100SR	8 (–1)	8	0 (–1)
B777-300	5	1	4
B777-200	16	5	11
B767-300	48 (+6)	30 (+3)	18 (+3)
B767-300F	1 (+1)	0	1 (+1)
B767-200	4 (–5)	1 (–1)	3 (–4)
B737-500	25 (+2)	9	16 (+2)
B737-400	2	0	2
A321-100	7	0 (–6)	7 (+6)
A320-200	25	15 (+2)	10 (–2)
Total	166 (+2)	86 (–3)	80 (+5)

Note: Figures in parentheses show changes from the previous year-end.

9. Employment

Years ended March 31,	Employee numbers 2003	2002
Air transportation (ANA, ANK, AJX, ADK, and ANN)	14,506	14,463
Others (consolidated subsidiaries)	14,495	14,763
Total	29,001	29,226

Note: Figures are averages for each fiscal year.

As of March 31,	Employee numbers 2003	2002
Air transportation	20,882	20,489
Travel services	1,728	1,638
Hotel operations	2,961	3,604
Other businesses	3,336	3,364
Total	28,907	29,095

Note: Figures represent year-end data.

The workforce is being reduced in accordance with such plans as the early retirement system. Average employment for all segments was down 0.8%, to 29,001 employees, and the number of employees at the end of March 2003 was 28,907, a reduction of 188 from the previous year-end.

With an uncertain political and international situation and significant developments in the competitive situation in the airline industry, the ANA Group's operating environment is undergoing dramatic change. In response, we will follow the ANA Group Corporate Plan & Strategy, which covers the three-year period ending March 2006 and is centered on workforce reductions. Over this period, we plan to reduce the workforce of parent company ANA by approximately 9%.

10. Dividend Policy

The Company gives a high priority to providing a return to shareholders while working to secure a stable management foundation. In the year under review, however, domestic business demand was lower due to economic conditions, and price competition among airlines intensified. In addition, as the situation in Iraq moved toward war, business demand declined on international routes. Also, in ANA's non-consolidated settlement of accounts, an extraordinary loss was recorded as a result of the restructuring of hotel operations, including the Company's withdrawal from the overseas hotel business. For these reasons, the Company regretfully decided to continue the suspension of dividend payments.

11. Market Risks

Derivative Transactions, Currencies, Fuel, and Interest Rates

• Management of Risk Associated with Derivative Transactions

The Company uses derivative transactions, such as futures, swaps, and options, to control the risk of foreign exchange rate, jet fuel price, and interest rate fluctuations. The Company does not conduct transactions for speculative purposes. These derivative transactions are carried out in accordance with internal risk control standards. Furthermore, the Company holds regularly scheduled meetings, attended by managing directors, where decisions are made regarding risk hedging methods, percentages, and amounts and where transaction details are reported and confirmed. Consolidated subsidiaries make decisions in a similar manner. Also, daily checks of derivative transactions are conducted on a reciprocal basis by departments entering into these contracts and by the accounting department.

• Currencies

To the greatest extent possible, foreign currency taken in as revenues is used to pay expenses denominated in the same foreign currency, thereby minimizing risk and foreign exchange commissions. In order to more efficiently manage foreign currency amounts, a cash management system linking certain overseas bases and the Head Office finance department has been introduced. For obligations denominated in foreign currencies that cannot be offset in this manner, principally obligations to purchase aircraft or jet fuel, the Company uses forward exchange agreements and currency options to control the risk of fluctuations in foreign exchange rates and to stabilize payment amounts.

• Jet Fuel

To control the risk of fluctuations in the price of jet fuel and to stabilize expenses, ANA hedges risks using crude oil and jet fuel commodity derivatives.

Through the use of planned, continuous hedging transactions for specific periods of time, the Company aims to reduce the influence of fluctuations in the oil markets on its fuel expenses and to stabilize its fuel expenses.

The Company's hedging transactions are limited to a certain percentage of aggregate purchases of fuel in Japan and overseas, with plans for hedging amounts set quarterly. Individual transactions are maintained within limits that are set in such a way that the Company's transactions will not affect the spot market, and margins are adjusted monthly or quarterly to avoid any physical delivery obligations.

• Interest Rates

To control the risk of increases in interest rates, the Company's fund-raising is carried out principally at fixed interest rates. The Company uses interest rate swaps to control the risk of fluctuating interest rates on obligations in an integrated manner and to improve the balance of financial income and expenses.

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 2003, these two items accounted for about 15% of operating expenses in the air transportation segment.

On domestic routes, public-sector fees in Japan represent about 20% of the cost of an average airline ticket, a level far above most other countries. This presents Japanese airlines with an onerous burden. 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.

12. Safety and Environmental Conservation

Safety

Safe operations are the foundation of ANA's management, and the maintenance of safety is an airline's duty to society. The safety of ANA's flight operations is supported by aircraft equipped with leading-edge technology, by highly trained employees, and by complete systems that provide feedback of the latest information.

Aiming to secure an even higher level of safety, we have installed Ground Proximity Warning Systems (GPWS), wind sheer alarms, and TCAS crash prevention devices on all aircraft. Furthermore, we plan to install the next-generation models of these systems as well as Future Air Navigation System (FANS) equipment.

ANA conducts training to maintain and improve the knowledge and skills of cockpit crew members, maintenance workers, flight managers, and cabin attendants, all of whom contribute directly to flight operations. To achieve even higher quality in administrative execution, we are also conducting resource management training and human factors training.

In addition, based on the recognition that safety supports the entire Company, ANA is working to enhance its safety training programs and its safety education system in order to maintain and improve the safety awareness of all employees, including staff in administrative departments that support operations.

In consideration of the fact that maintenance of the same level of safety as ANA is also essential for the ANA Group companies and code-share partners that support the ANA brand, we are actively sharing information and providing support as needed while evaluating quality assurance functions through safety checks. The Company's mission is to make a "promise of safety" so that customers can rely on the ANA brand and feel safe boarding ANA flights. In the future, we will continue striving to maintain world-class safety without becoming overconfident about our past record of safe operations.

Environmental Conservation

• Noise Countermeasures

Since 1994, ANA has followed the standards for International Civil Aviation Organization (ICAO) Chapter III compliant aircraft (subsonic aircraft), which meet the most stringent noise standards. ANA was one of the first airlines in the world to meet these standards.

In 2001, the ICAO set more stringent Chapter IV standards for aircraft manufactured in 2006 or thereafter. The majority of ANA's fleet, such as Boeing 767s, Boeing 747-400s, Boeing 777s, and Airbus A320s, are low-noise, energy-efficient aircraft that already meet these new standards.

In the future, ANA will acquire environmentally friendly aircraft and will continue its efforts to reduce noise in its daily flight operations by reanalyzing and improving its operational methods.

• Measures to Control Global Warming

Aircraft exhaust gases include CO_2 and NOx. With regard to CO_2, in 1997 the United Nations concluded the Kyoto Protocol, which deals with the prevention of global warming, and Japan ratified the protocol in June 2002. The Scheduled Airlines Association of Japan is participating in the voluntary action plan promoted by the government and the association has formulated its own voluntary plan targeting a 10% reduction in CO_2 emissions per available seat-kilometer by 2010 in comparison with the level in 1990. In 2003, ANA set its own more-rigorous goal calling for a 12% reduction by March 2008, and the Company is taking a number of steps to ensure that this important goal is reached.

• Environmental Organization

To promote environmental conservation activities, ANA has formed a global environmental committee composed of corporate officers and a global environmental protection division. ANA considers environmental issues to be one of its most important management challenges, and the Company is implementing environmental activities through an environmental liaison committee composed of airline, maintenance, and ground handling companies in the ANA Group as well as through environmental conservation organizations coordinated through Star Alliance and the Scheduled Airlines Association of Japan.

• Environmental Management System

In February 2002, the Narita Maintenance Center received ISO 14001 international environmental certification from UKAS, a U.K. accreditation organization, for the maintenance of aircraft used on international routes. ANA draws on this experience in the promotion of Companywide environmental compliance and environmental accounting, and the Company's environmental efforts have been highly rated in Japan and the United States. ANA will continue working to contribute to society through environmental activities. In the current year, the Company will hold an international environmental picture book competition.