All Nippon Airways Co., Ltd. (ANA), one of Japan’s leading airlines, has a dominant position in the domestic market and a strong presence on international routes. The Company, which has earned an excellent reputation among passengers for its reliability, is constantly working to further improve its performance in the fundamental factors of the airline business—safety, comfort, on-time operation, and convenience. Our long-standing, carefully cultivated brand image and our willingness to take on new challenges are key assets in our efforts to strengthen our competitive edge. With deregulation leading to fare liberalization, the airline industry has entered an era of full and open competition. ANA sees these developments as business opportunities and is taking an aggressive, forward-looking approach to achieving steady growth in the years ahead.
Following the implementation of a number of deregulation measures, the Japanese airline industry is in a period of full and open competition. Approaching these developments as business opportunities, ANA is working to build a foundation for future growth by formulating and implementing market-driven strategies. An example is our strategy for Tokyo International Airport (Haneda Airport), our principal domestic base and, with more than 50 million passengers a year, the sixth busiest airport in the world. By focusing on flights to and from Haneda, we are working to bolster the competitiveness of our route network and improve our

The ANA Group has the largest route network in Japan, with a market share of about 50% on domestic routes. The Company has built a strong operational foundation in the domestic market. ANA is the leading airline on seven of the top ten routes by number of passengers, including the extremely important Tokyo-Sapporo route. Customers rate ANA highly for safety, and its well-known brand image is synonymous with reliability. Domestic routes, which currently generate about 70% of ANA’s air transportation revenues, are making a significant contribution to the Company’s performance.

Building on ANA’s Predominant Position in the Domestic Market

The ANA Group has the largest route network in Japan, with a market share of about 50% on domestic routes. The Company has built a strong operational foundation in the domestic market. ANA is the leading airline on seven of the top ten routes by number of passengers, including the extremely important Tokyo-Sapporo route. Customers rate ANA highly for safety, and its well-known brand image is synonymous with reliability. Domestic routes, which currently generate about 70% of ANA’s air transportation revenues, are making a significant contribution to the Company’s performance.
profitability. ANA can already assert a dominant competitive edge at Haneda. The ANA Group, which holds about 45% of the slots at Haneda, received 13 more flights per day upon the completion of a new runway.

Currently, passenger demand on trunk routes is firm. In particular, a clear shift to air travel has begun on the routes that compete with the Shinkansen bullet train. As a result, from July 2000, we began to operate shuttle flights in cooperation with Japan Airlines Company, Ltd. (JAL), and Japan Air System Co., Ltd. (JAS), between Tokyo and Osaka. Including land transportation, about 35 million people a year travel between these two cities. We are also reorganizing our local route network by transferring lower-demand routes to subsidiary Air Nippon Co., Ltd., and by focusing on efficiency and convenience in commuter flights, such as those offered by Air Hokkaido Co., Ltd. In these ways, ANA is leveraging its competitive edge in the domestic market to further strengthen and expand its operations on domestic routes.
ANA has used its strong position in the domestic market to make an aggressive entrance into the international arena. In terms of total passenger numbers, ANA is the largest airline in Asia and the sixth largest IATA member airline. In 1998, we became an incumbent carrier*, and we are taking steps, such as the initiation of service on the Honolulu (October 1998), San Francisco (December 1998), and Chicago routes (April 1999), to steadily expand our business opportunities. In October 1999, we began a new phase of growth in international routes when we joined Star Alliance (see page 9), the world’s largest airline network. As of July 2000, our network, including code-share flights, had expanded to 40 cities on 100 routes with 1,261 flights per week. With our own aircraft, we served 27 cities on 44 routes with 354 flights per week.

Since joining Star Alliance, ANA has worked to rebuild its profit foundation by shifting its fundamental strategic emphasis on international routes from “scale” to “quality and profitability.” Membership in Star Alliance will increase our international competitiveness and foster opportunities to obtain new customers.
Accordingly, we are striving to make the most of our alliance membership. Specifically, we are working to expand regions served and flights offered through code-sharing, to attract more alliance passengers through frequent flyer program tie-ups, and to increase customer satisfaction by providing high-quality, seamless service from reservation to arrival (see page 12). Each of these steps will make a significant contribution to improving customer convenience, one of the fundamental factors of the airline business. At the same time, these measures will also serve to strengthen ANA’s presence in overseas markets.

ANA will focus its international operations on New Tokyo International Airport (Narita Airport), which will be utilized as a hub. A new runway will open at Narita in 2002, presenting ANA with new business opportunities. We will take advantage of those opportunities by offering daily service on key routes, thereby improving our profitability. ANA will further strengthen its operational foundation on international routes by following a growth strategy that leverages the provision of mutually beneficial services by alliance partners.

* Incumbent carrier
Incumbent carriers are those airlines that can freely determine, without limitations, routes and flight frequencies for service between Japan and the United States as well as for service on routes continuing on from Japan and the United States to third-country destinations. Japan has three incumbent carriers—ANA, JAL, and Nippon Cargo Airlines Co., Ltd. (NCA). The United States also has three—Northwest, United, and Federal Express.
Generating Value for Customers

ANA’s operational development activities are based on the fundamental management policy of always providing customers with the best value in terms of both service and price. ANA is highly regarded by its customers for the high quality of its service. In an annual survey conducted by Nikkei Business magazine, for example, ANA has been selected by business leaders as “Best Airline” for four consecutive years. With competition intensifying domestically and internationally, we will use our strong brand image to build enterprise value through the provision of high-value-added service and a fare structure that meets the needs of customers.

In service, our strategy mainly targets business travelers, which are highly profitable, especially on international routes. During the year under review, we worked to further improve customer service. For example, we became the first Japanese airline to introduce the advanced B777-200ER aircraft, which we put into service on the Tokyo-Chicago and Tokyo-San Francisco routes.

Building on the popularity of our B747-400 aircraft deployed on our Chicago route, we equipped our B777-200ER aircraft with in-flight bar counters and business counters, which continued to draw favorable attention. We are
also steadily expanding the number of loyal ANA customers by taking steps to raise customer satisfaction, including the introduction of such customer-oriented services as on-demand video equipment in first class and business class.

We have taken advantage of the liberalization of fares and our dominant market position in Japan to offer passengers flexible fare schedules developed in consideration of demand trends, principally in the domestic market. In this way, we are working to improve value for customers by offering them a wider range of more convenient choices. The effective use of a variety of discount fares, such as advance-purchase discounts, has contributed to a recovery in demand, which had been sluggish. As a result, domestic passenger revenues have begun a full-fledged fundamental recovery. In addition, we are pursuing a strategy of expanding our points of contact with customers by making use of Internet sales and information technology (IT). In the future, ANA will continue working to expand its passenger base by adding value in ways that strengthen customer loyalty.