

**Japan's Leading Tourism and Aviation Weekly**

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***\*ANA achieved the best financial result ever for FY2005***

ANA released the consolidated financial result for FY2005 (April 1 2005 to March 31 2006) on April 28 this year, reporting that it achieved the highest-ever revenue, operating profit and recurring profit for all business segments. Revenue for FY2005 was up 5.9% to 1,368.7 billion yen, compared to FY2004, which were broken down into 685 billion yen from the domestic flight business (up 3.9%), 229.2 billion yen from the international flight business (up 8.7%) and 85 billion yen from the cargo business (up 6.7%). ANA achieved the most revenues in each of the business segments in its history.

ANA posted operating profit of 88.8 billion yen (up 14.2%), recurring profit of 66.8 billion yen (up 2.3%) and net profit of 26.7 billion yen (down 0.9%) for FY2005. The reduction of net profit was attributed to special loss of 20.4 billion yen.

ANA Group carried a total of 45,474,069 passengers on its domestic flights through FY2005, 2.2% more than a year ago. The load factor improved from 63.4% for FY2004 to 65.1% for FY2005. It carried a total of 4,134,552 passengers on its international flights through FY2005, 0.4% more than a year ago. The load factor dropped from 76.2% for FY2004 to 74.1% for FY2005.

Although ANA resulted in the slight increase of international flight passengers, it succeeded in increasing revenue and recurring profit for the business segment primarily because of the rise of unit prices particularly on its long-haul flights.

ANA revealed that it has estimated the special demand shifted from the troubled JAL at approximately 9 billion yen, including its own business efforts. Other positive impacts on the increase of revenue were 3 billion yen from introduction of Super Seat Premium for B767, 2 billion yen from PROS and Fleet Assignment Model, 8.5 billion yen from the rise of airfares and 4.5 billion yen from special demands combined the Aichi Expo and the open of Central Japan International Airport.

Regarding financial outlook for FY2006, ANA estimates to reduce operating profit from 88.8 billion yen to 76 billion yen and recurring profit from 66.8 billion yen to 47.5 billion yen because it expects that it will need additional 45 billion

yen for fuel cost for FY2006 based on the assumption of \$74 per barrel in the Singapore Kerosene market. However, ANA forecasts to increase revenue from 1,368.7 billion yen to 1,420 billion yen and net profit from 26.7 billion yen to 27 billion yen.

ANA revealed that it would suffer from additional loss of more than 9 billion yen if the oil price keeps at around \$88 per barrel in the Singapore Kerosene market as it is today, although it has hedged 75% of all necessary fuels. ANA will have to make further efforts to cut costs before raising airfares again.

ANA expects to have additional revenues of 38 billion yen from the rise of airfares and fuel surcharges on both domestic and international flights, which will compensate for part of the estimated additional expenses of 45 billion yen for FY2006. At the same time, ANA will try to cut expenses of 6 billion yen in total.

Although ANA forecasts to decrease domestic flight passengers for FY2006 because of no large tourist event this year, such as the Aichi Expo, it expects to add revenue of 12 billion yen in the domestic flight business by raising airfares by 4% on average.

Regarding the international flight business for FY2006, ANA expects to carry 2% more passengers and to add revenue of 15.5 billion yen by increasing production volume, such as change of aircraft from B777-200 to B777-300ER on its trans-Pacific routes. Also, ANA highly expects that a new bilateral aviation agreement between Japan and China will enable it to increase flights.

Meanwhile, ANA sees that it will also add revenue of 17.5 billion yen in the cargo business by increasing freighters, expanding networks and developing an express business through FY2006.

### *\*JATA launches a special conference for Japan-China tourism exchanges*

Japan Association of Travel Agents (JATA) launched Japan-China Tourism Exchanges Special Promotion Conference on April 27 to expand tourist demands between both nations. The conference consists of a working group for outbound travel to China (OUT/WG) and a working group for inbound travel to Japan (IN/WG) to discuss particular ideas for both outbound and inbound travels. Also, JATA hopes to set up a discussion table with the counterpart of China to seek effective solutions for expansion of tourist exchanges, like the official discussion between JATA and Korea Association of Travel Agents (KATA).

Despite Japan-China Year of Tourism Exchanges this year, it is true that the travel industry of Japan has not completely swept away negative influences on outbound travels to China from Japan by the anti-Japan demonstrations last year. Also, there are several problems in the travel market between Japan and China, such as quality control and payments in China or entry visa, entry and departure procedures and tour guides in Japan.

JATA aims to find solutions for such issues at the conference to establish a healthy and stable travel market between Japan and China. The conference will regularly be held by the end of FY2007, focusing on Japan-China Year of Tourism Exchanges 2006 and the 35th anniversary of the normalization of diplomatic relation between Japan and China 2007. JATA expects that solutions found at the conference will function well even after 2007, particularly when China hosts Olympics in Beijing in 2008 and Expo in Shanghai in 2010.

JATA President Kentaro Kaneko took office as chairman of the conference.

### *\*TIA will renew "SeeAmerica.jp" to encourage consumers to visit the U.S.*

Travel Industry Association of America (TIA) will completely renew "SeeAmerica.jp," its portal website for Japanese consumers, on June 15 this year in accordance with the new promotional campaigns started this year by the Department of Commerce. TIA expects that the new website will help Japanese consumers acquire a variety of travel information in America, as Kayoko Inoue TIA Representative of Japan said that it would play a role to increase Japanese tourists to America.

According to a theme of American movies in the promotional campaigns, a special page will be opened on "SeeAmerica.jp," on which "SeeAmerica Movie Trivia Game," a short quiz attraction, will be offered to draw views' attentions. Among persons who give the right answers for quizzes, some winners selected in a drawing will receive movie-themed travel products and other related presents.

In addition to such an attraction, the renewed website will extend information in Japanese, linking to Japanese websites of States' or cities' tourism authorities. Inoue said, "We will make efforts to provide information in Japanese as much as we can to keep attracting Japanese views' interests in the website." Also, TIA will try to encourage its members of tourist authorities, airlines, hotels or attractions to open websites in Japanese.

For the travel industry of Japan, the website will also strengthen to provide information from TIA members.

One of the noteworthy points in renewing the website is to introduce package tours linking to the TIA campaign's themes. If you click a certain package tour icon on the website, you can next see contents of the package tour. Inoue said, "We would like to introduce tours visiting movie backdrops in America, for instance." TIA will accept package tour information from travel companies at no charge.

Titling "Online Marketing Campaign," TIA will set up "Featured Destination" and "Featured Special" on the renewed website to introduce products or activities of TIA members sponsored the Campaign for three months from September to November this year. TIA expects that about 40 companies or organizations will join the Campaign, Inoue revealed.

Monthly page views for "SeeAmerica.jp" reach 27,000 approximately this year, 2.5 times more than a year ago. Inoue said, however, that the number is still small for a general travel site. "TIA is trying to increase page views more and more through the promotional campaigns," she added.

### *\*Keikyu and KNT form capital tie-up to seek synergetic effects*

Keihin Electric Express Railway (Keikyu), including its subsidiary Keikyu Travel Service, and Kinki Nippon Tourist (KNT) announced on April 26 that both companies have reached an agreement on business tie-up by forming capital alliance. Each one will acquire stocks of about 100 million yen respectively at the market price.

Under the tie-up agreement, Keikyu Travel Service will begin selling KNT package tour products of "Mate" and "Holiday" after July this year, placing those as core products.

As Keikyu has a railway line into Haneda Airport, it has strengthened business relations with travel companies and has selected KNT as a business partner with its 100% subsidiary Keikyu Travel Services for its business development in the future.

In the meantime, KNT has been driving "Platform Strategy" by incorporating several travel companies into the Group as 100% subsidiaries and forming business tie-ups with Yomiuri Travel Service and Nankai Travel International. The capital alliance with Keikyu is one of the KNT's strategies. KNT particularly expects that the tie-up with Keikyu will enable it to extend its business in Kanagawa Prefecture because Keikyu has important railway lines there.

### *\*KNT to offer 140 charter flight tours for overseas destinations this summer*

Kinki Nippon Tourist (KNT) is offering 140 charter flight tours for 11 overseas destinations without direct scheduled flights this summer from June to October, targeting to collect approximately 6,000 customers for those products, 54% more than a year ago. The customer target is broken down into about 2,700 from Narita and Haneda airports and about 3,300 from 14 airports nationwide.

Using ANA charter flights for Calgary, KNT is offering five tour products for Canadian Rocky from Narita, Central Japan International Airport (Centrair) and Hiroshima in August this year. Also, KNT will use JAL charter flights for 13 seven-days tour products for Alaska from Narita from July to September this year.

KNT is selling two tour products for Ayers Rock in Australia with JAL charter flights for Alice Springs in August, one of which is sold as a product incorporating the KNT's original event related to Australia-Japan Year of Exchange 2006.

For Budapest and Prague, KNT will use four JAL charter flights in July and August this year.

At the same time KNT emphasizes charter flight tour products from local airports as follows:

Four tour products for Vienna, where the 250th anniversary of Mozart's birth is celebrated this year, from Sapporo, Sendai and Hiroshima between June and September (Austria Airlines),

Three tour products for Milan and Rome from Sapporo and Hiroshima between June and September (Blue Panorama Airlines)

Four tour products for Yellow Mountain of China from Nagasaki, Kumamoto, Oita and Kagoshima in June (Air China)  
Five tour products for Guilin of China from Kansai International, Hiroshima, Izumo, Takamatsu and Okayama in September and October (China Southern Airlines)  
Two tour products for Taipei from Niigata in June and September (China Airlines)  
22 tour products for Honolulu from Sapporo, Sendai and Fukuoka between June and September (JAL or Omni Air International)

KNT is also selling a total of 80 tour products for Guam using JAL and ANA charter flights during the summer period from July 20 to September 20, for which KNT aims to collect about 1,600 customers.

### *\*More direct charters for Central and Eastern Europe this summer*

More direct charter flight services for Central and Eastern European countries will be offered this summer by several airlines to meet higher tourist demands for the destinations with no scheduled flights from/to Japan. JAL will serve four charter flights between Narita and Prague and Budapest in July and August this year, which will be used for the travel products by JAL PAK and Kinki Nippon Tourist.

LOT Polish Airlines will serve five charter flights between Narita and Warsaw with Boeing 767-300ER (18 business class seats and 215 economy class seats) in July and August this year. The charter flights, which will be the first direct flights for Poland from Japan for the last 15 years, will be used by JTB, HIS, Tabix Japan and Club Tourism for their planning travel products.

Malev Hungarian Airlines plans to serve four charter flights between Budapest and local cities of Japan with Boeing 767-200 in October this year. The airline will serve the charters for the first time in the last four years, expecting to fly scheduled flights to Japan in the future.

Pulkovo Aviation of Russia will serve five charters between St. Petersburg and Haneda with TU-154M (18 business class seats and 119 economy class seats) in July and August this year. The charters will be used by JTB, HIS and Tabix Japan for their products. Also Austria Airlines will operate 19 direct charters between Vienna and Japan.

The increase of charter flights results from recent growth of Japanese tourists for Central and Eastern Europe. The number of Japanese visitors to Poland for 2004 was up 17% to 33,000 compared to 2003 and may reach about 40,000 for 2005, according to the Polish tourism authority. Also, the number of Japanese visitors to Czech for 2005 was largely up 25.6% to 153,980 compared to a year ago. The number of Japanese visitors to Vienna, a gateway city for Central and Eastern Europe, reached 167,000 for 2005, 17% more than a year ago. Hungary has steadily increased Japanese visitors.

### *\*JAL and ANA to change fuel surcharges on their China flights*

JAL and ANA have applied for change of fuel surcharges on their China flights to the Ministry of Land, Infrastructure and Transport because both of the airlines could not acquire approvals on the original fuel surcharges, which was applied in January this year, from the Chinese government. International airfares are not effective without bilateral approvals.

The revised fuel surcharges are:

- >From 1,300 yen to 1,900 yen on Fukuoka-Shanghai flights
- >From 2,700 yen to 3,100 yen on other China flights than Fukuoka-Shanghai
- >From 3,900 yen to 3,100 yen on China flights beyond 2,000 km

Those will be effective from June 1 this year if approved.

The Chinese government has probably judged that fuel surcharge of 3,900 yen on flights beyond 2,000 km is too high, though it does not announce the reason why it has rejected the original fuel surcharge applied by the Japanese airlines. Chinese airlines have applied for fuel surcharges of around \$26 on their Japan flights to both of the Japanese and Chinese aviation authorities, and the applications will soon be approved by the Japanese government.

In addition to China flights, JAL has not acquired approvals on the rise of fuel surcharges from Brazil and Philippine yet and was forced to revise fuel surcharges on its Mexico and Hong Kong flights because it failed to acquire approvals on the initial applications of fuel surcharges.

JAL mentioned the recent oil market: "Although oil price is rising again, we have to judge it is just a temporary trend or a structural issue." JAL will maybe take an action on international airfares if it judges the market has a structural issue after market analysis for next several months.

JAL has completed to hedge 75% of all fuel procurements at \$68 per barrel on a Singapore Kerosene basis and has estimated the rest of 25% at \$75 per barrel. It has forecasted that it will need 40 or 50 billion yen more fuel cost for FY2006 than FY2005. If oil price keeps around \$85 per barrel, JAL will probably have to prepare another 10 to 15 billion yen for fuel cost.

### *\*Kansai expects to increase revenue after the 2nd phase project completes*

Kansai International Airport Co. (KIAC) released a new midterm business plan from FY2006 to FY2008 on April 26 this year, reporting that it aims to increase operating revenue by 8% to 115.3 billion yen in FY2008 compared to FY2006 by increasing aircraft movements from 119,000 in FY2006 to 135,000 in FY 2008 after the 2nd runway opens in FY2007. However, the company estimates to decrease operating profit by 14.2% to 20.6 billion yen and recurring profit by 25.5% to 8.2 billion yen in FY2008 compared to FY2006.

At the same time, KIAC intends to cut operating expenses of 3 billion yen over the period. Although it is supposed to receive a subsidy of 9 billion yen from the government every year during the midterm business plan, it will make every effort to establish a stable business base without any financial supports from the government as soon as possible.

KIAC has forecasted 113,000 aircraft movements for FY2005, actually fewer than the initial target of 116,000 aircraft movement, but it aims to increase those for FY2006 to 119,000 through efforts to attract more flights. The annual targets of aircraft movements after FY2006 are 129,000 for FY2007 and 135,000. The target for FY2006 does not include potential flights on China routes after Japan and China may agree on expansion of air traffic volumes.

KIAC has seven main themes under the new midterm business plan:

- 1) Steadily working toward start of the 2nd runway and safe and effective operation of two runways
- 2) Developing airport sales activities by appealing two-runways operation
- 3) Making efforts to establish a firm position as a core air transport base in Japan
- 4) Offering commercial services to meet a variety of passengers' needs and increase of passengers
- 5) Redeveloping the transit areas to improve customer satisfaction
- 6) Thorough reduction of expenses to ensure recurring profit after the 2nd runway opens
- 7) Increasing corporate power through human resource development

### *\*Kansai resulted in 7% increase of passengers for FY2005*

Kansai International Airport Co. reported on April 26 that the number of passengers for fiscal year 2005 (April 1 2005 to March 31 2006) totaled 16,422,215, 7% more than a year ago. The airport particularly increased domestic flight passengers for FY2005 by 27% to 5,289,063 compared to a year ago because of more domestic flights including flights shifted from Itami Airport, the other airport in Osaka. Kansai handled 11,133,152 international flight passengers for FY2005, almost the same as those for FY2004.

The total number of aircraft movements for FY2005 was up 9% to 112,579 compared to a year ago, broken down into 72,251 aircraft movements for international flights (almost the same as a year ago) and 40,328 aircraft movements for domestic flights (up 31%). The total number of aircraft movements for international flights was classified into 58,192 for passenger flights (almost the same as a year ago), 12,823 for cargo flights (up 4%) and 1,236 for other flights (down 33%).

The company also announced air traffic result for March this year as it reported that the monthly number of passengers was up 4% to 1,414,735 over the same month 2005, broken down into 976,100 for international flights (almost the same as a year ago) and 438,635 for domestic flights (up 18%).

The airport operated 9,379 aircraft movements for March this year, 6% more than a year ago, which were divided into 6,107 for international flights (almost the same as a year ago) and 3,272 for domestic flights (up 19%). The number of aircraft movements for international flights was comprised of 4,790 for passenger flights (down 2%), 1,198 for cargo flights (up 11%) and 119 for others (down 32%).

### *\*Narita resulted in 1% reduction of passengers for FY2005*

Narita International Airport Co. (NAA) reported on April 27 that the number of passengers for fiscal year 2005 (April 1 2005 to March 31 2006) was down 1% to 21,445,266 compared to FY2004. Out of the FY2005 total, the number of

international flight passengers was down 1% to 30,337,267, which were classified into 19,045,443 Japanese (down 2%), 8,066,003 foreigners (up 2%) and 3,225,821 transits (down 4%). The number of domestic flight passengers for FY2005 was also down 3% to 1,107,999 compared to FY2004.

The airport dealt with cargos of 2,236,346 tons in total for FY2005, 3% less than a year ago, broken down into 1,064,968 tons for loading (down 4%) and 1,171,378 tons for unloading (down 2%).

The airport handled 187,888 aircraft movements for FY2005, 1% more than a year ago. The number of those for international flights was up 1% to 175,296, which were classified into 145,927 for passenger flights (almost the same as a year ago), 26,703 for cargo flights (up 3%) and 2,666 for others (up 11%). The number of those for domestic flights was up 3% to 12,592, including 12,125 for passenger flights.

NAA reported at the same time that the number of passengers for March 2006 leveled off with 2,779,374, which consisted of 1,745,356 Japanese (up 2%), 677,032 foreigners (down 2%) and 260,031 transits (down 8%). The monthly growth of Japanese passengers was for the first time since November last year. The number of domestic flight passengers for March 2006 was down 3% to 95,955 over the same month last year.

The volume of cargos for March 2006 was up 3% to 204,574 tons, which were broken down into 97,370 tons for loading (up 7%) and 107,204 tons for unloading (almost the same as a year ago).

The airport handled 16,020 aircraft movements for March 2006, almost the same as a year ago. The number of those for international flights reached 14,956, which were broken down into 12,282 for passenger flights (almost the same as a year ago), 2,408 for cargo flights (up 3%) and 266 for others (up 9%). The number of those for domestic flights was down 1% to 1,064 over the same month last year.

*\*Annual domestic passengers marked the first increase since FY2002*

The Ministry of Land, Infrastructure and Transport preliminarily reported that the number of domestic flight passengers for FY2005 (April 1 2005 to March 31 2006) was up 1.1% to 93,451,978 over FY2004, marking year-on-year increase for the first time since FY2002. Eight domestic airlines provided a total of 147,196,746 available seats through the fiscal year, 0.5% more than a year ago, and the average load factor for FY2005 was accordingly 64.3%, 0.6 points higher than that for FY2004. However the total number of domestic flight passengers for FY2005 was still smaller than 95,024,626 for FY2002.

The total for FY2005 was broken down into 39,024,623 passengers (up 1.3%) for 59,702,697 available seats (up 1.3%) on trunk routes and 54,427,335 passengers (up 1.0%) for 87,493,979 available seats (even) on local routes. The growth of passengers on trunk routes mainly resulted from increase of flights by newcomer airlines.

It is noteworthy that JAL suffered from 3.3% reduction of domestic flight passengers through the fiscal year, while ANA enjoyed 2.2% increase of those.

Results of eight airlines are as follows (comparison with FY2004):

JAL = 38,030,534 passengers in total (down 3.3%), comprising 18,014,069 on trunk routes (down 3.8%) and 20,016,465 on local routes (down 2.9%)

ANA = 44,820,281 passengers in total (up 2.2%), comprising 17,936,304 on trunk routes (up 4.2%) and 26,883,977 on local routes (up 0.9%)

Japan Transocean Air = 2,644,088 passengers in total (up 2.1%), comprising 248,996 on trunk routes (down 4.4%) and 2,395,092 on local routes (up 2.8%)

Japan Air Commuter = 1,407,927 passengers in total (up 5.9%)

JAL Express = 1,288,241 passengers in total (up 9.7%)

Skymark Airlines = 2,342,393 passengers in total (up 22.2%), comprising 1,532,657 on trunk routes (up 30.3%) and 809,738 on local routes (up 9.4%)

Hokkaido International Airlines = 1,945,427 passengers in total (up 36.1%), comprising 1,292,597 on trunk routes (up 13.6%) and 652,810 on local routes (up 123.9%)

Skynet Asia Airways = 937,417 passengers in total (up 21.1%)

Star Flyer = 35,626 passengers (start-up)

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