

Japan's Leading Tourism and Aviation Weekly

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This Week Headline

*KNT increases HOLIDAY travel courses with tour conductors for the second half	1
+Offering Las Vegas products via Seoul	1
*Japanese departures slightly increased for the first six months of 2006	2
+Foreign arrivals largely grew for the first six months of 2006	3
*Hong Kong welcomed 7.6% more Japanese visitors for the first six months	3
*Hawaii reduced Japanese visitors, but increased travelers' spending	4
*ANA enjoyed the best financial performance for the 1st quarter ever	4
*UAL will shift its east coast flights from JFK to Washington DC this winter	4
*JAL serves six charters for Ayers Rock in August	5
*ANA & JP Express begins its cargo business from Haneda	5
*Star Alliance launches a cargo alliance project	6
*Centrair expanded the monthly reduction rate of passengers for June	6
*Kansai handled the monthly most foreign passengers for June	6

****KNT increases HOLIDAY travel courses with tour conductors for the second half***

Kinki Nippon Tourist (KNT) has started selling products of its overseas travel brand HOLIDAY for the second half of FY2006 (October 2005 to March 2007). KNT distinctively increases travel courses guided by tour conductors to make strong approaches to the baby boomer generation customers particularly. Also, KNT extends application options for America and Australia products by newly offering a discount system for early booking customers.

KNT increased its overseas travel customers by 5% to 236,000 for the first half of 2006 (January to June 2006) over the same period last year, although the growth rate was lower than originally expected 7%. For the second half of 2006 (July to December 2006), KNT aims to collect 334,000 overseas travel customers, 11% more than a year earlier, and expects to achieve 570,000 overseas travel customers for a full year of 2006 as it initially planned.

KNT has to collect 25 to 30 customers at least for a travel product with a tour conductor, but it is not so easy, now that whole sellers recently increase overseas travel products that can be performed with only two customers without tour conductors. KNT said, "It is challenging, however we have to do it to enrich our overseas travel products."

According to the business strategy, KNT has increased travel products with tour conductors for Europe from 31 courses to 38 courses for the second half of FY2006, adding new destinations, such as Sicily or Poland. Also, two courses guided by tour conductors have been offered in South America. In Asia, where KNT hardly offered products with tour conductors, it is selling four courses with tour conductors, including Golden Triangle in India. In Micronesia, KNT is selling a new product touring Guam, Saipan and Tinian for five days. Some of cruise products are accompanied by tour conductors if each of the products collects more than 15 customers.

+Offering Las Vegas products via Seoul

In accordance with suspension of JAL's Narita-Las Vegas flights after September 30 this year, KNT is selling new Las

Vegas products via Incheon (Seoul) using Korean Airlines that flies into airports of Sapporo, Narita, Central Japan International, Kansai International, Okayama and Fukuoka. It is easier or sooner than transfer to domestic flights for Las Vegas at Los Angeles or San Francisco when time-consuming immigration procedure or check-in procedure in the U.S. is taken into consideration, according to KNT.

Today it is true that Japanese airlines tend to shrink leisure flights from local airports, however major whole sellers, including KNT, will probably pay attention to foreign airlines' flights between its hub airports and local cities of Japan to create new overseas travel products for the local travel market. In this sense, Bali products via Guam can be offered in the local market, using Continental airlines' flights between local cities of Japan and Guam, for instance.

HOLIDAY customer results for the first half of FY2006 (compared to a year ago)

Hawaii = 52,000 (up 8%)
 Micronesia = 35,000 (down 2%)
 America = 16,000 (down 15%)
 Europe = 21,000 (even)
 Asia = 66,000 (up 8%)
 China = 14,000 (up 50%)
 Oceania = 24,000 (down 9%)
 Taiwan = 8,000 (up 5%)
 Total = 236,000 (up 5%)

HOLIDAY customer targets for the second half of FY2006 (compared to a year ago)

Hawaii = 67,000 (even)
 Micronesia = 46,000 (up 2%)
 America = 31,000 (up 3%)
 Europe = 33,000 (up 18%)
 Asia = 92,000 (up 26%)
 China = 18,000 (up 23%)
 Oceania = 37,000 (up 1%)
 Taiwan = 10,000 (up 63%)
 Total = 334,000 (up 11%)

HOLIDAY customer targets for full year of FY2006 (compared to a year ago)

Hawaii = 119,000 (up 3%)
 Micronesia = 81,000 (even)
 America = 47,000 (down 4%)
 Europe = 54,000 (up 10%)
 Asia = 158,000 (up 18%)
 China = 32,000 (up 33%)
 Oceania = 61,000 (down 3%)
 Taiwan = 18,000 (up 64%)
 Total = 570,000 (up 8%)

**Japanese departures slightly increased for the first six months of 2006*

Japan National Tourist Organization (JNTO) recently reported that the number of Japanese departures for June this year was up 4.8% to 1,420,000 over the same month last year, resulting in growth for two consecutive months. Including the monthly result, the number of Japanese departures for the first six months of 2006 was up 1.0% to 8,393,000 over the same period last year. During the six months, the tourist market has recovered well from negative influences from the anti-Japan demonstrations in China and Korea last spring, and also appreciation of the yen against the dollar has encouraged Japanese travelers to go abroad from late April to early June this year.

At the same time, preliminary results of Japanese departures from major airports for the first four months of 2006 were released as follows:

Narita Airport decreasing by 1.6% to 3,075,132
 Kansai International Airport decreasing by 2.4% to 1,246,877
 Central Japan International Airport increasing by 3.2% to 620,228
 Haneda Airport increasing by 45.3% to 127,076

Hiroshima Airport resulted in 17.2% increase of departures due to increase of flights for Guam by Continental Airlines, while Fukuoka Airport suffered from 15.7% decrease of departures because JAL has suspended its Fukuoka-Honolulu flights.

Japanese departures by month are as follows (compared to a year ago):

January = 1,343,554 (down 7.6%)

February = 1,398,661 (up 1.7%)

March = 1,577,432 (up 2.9%)

April = 1,280,116 (down 3.7%)

May = 1,373,000 (up 8.8%)

June = 1,420,000 (up 4.8%)

Japanese departures from major local airports for the first four months of 2006 are as follows (compared to the first four months of 2005)

Sapporo = 42,392 (down 8.5%)

Sendai = 32,896 (down 7.8%)

Niigata = 21,831 (down 7.6%)

Okayama = 23,965 (down 13.4%)

Hiroshima = 44,314 (up 17.2%)

Fukuoka = 225,173 (down 15.7%)

Naha = 14,910 (down 1.6%)

+Foreign arrivals largely grew for the first six months of 2006

In addition to 557,500 foreign arrivals for June this year, the number of foreign arrivals for the first six months of 2006 was up 8.1% to 3,522,700 over the same period last year.

Foreign arrivals by month are as follows (compared to a year ago):

January = 613,596 (up 18.8%)

February = 513,906 (down 1.1%)

March = 579,197 (up 3.9%)

April = 672,319 (up 15.0%)

May = 586,200 (up 10.4%)

June = 557,500 (up 1.2%)

Arrivals from major countries (compared to a year ago):

Korea = 153,400 in June (up 15.2%)/993,100 for the first six months (up 20.5%)

Taiwan = 110,300 in June (down 9.2%)/646,000 for the first six months (up 4.4%)

China = 51,300 in June (up 16.4%)/384,800 for the first six months (up 27.7%)

Hong Kong = 25,400 in June (up 10.5%)/174,800 for the first six months (up 25.5%)

U.S. = 83,300 in June (up 2.0%)/410,600 for the first six months (down 3.0%)

U.K. = 13,400 in June (down 4.4%)/105,100 for the first six months (down 4.4%)

Germany = 7,000 in June (down 15.0%)/ 55,900 for the first six months (down 2.2%)

France = 7,900 in June (up 2.8%)/56,700 for the first six months (up 3.3%)

**Hong Kong welcomed 7.6% more Japanese visitors for the first six months*

Hong Kong Tourism Board (HKTB) recently reported that the number of Japanese visitors to Hong Kong for the first six months of 2006 was up 7.6% to 625,763 over the same period last year. For June only, the number was largely up 17.1% to 105,770 over the same month last year. The increase of Japanese visitors has partially been attributed to growth of corporate trips and incentive tours, according to HKTB.

Japanese visitors by month are as follows:

January = 101,602 (down 12.4%)

February = 96,283 (up 7.4%)

March = 122,773 (up 10.4%)

April = 90,793 (up 5.4%)

May = 108,542 (up 23.4%)

June = 105,770 (up 17.1%)

Hong Kong welcomed a total of 12,197,245 visitors from all over the world for the first six months of 2006, 11.1% more than a year earlier. Out of the total, the number of visitors from mainland China reached 6,706,392, 14.0% more than a year earlier.

Meanwhile, Macau Government Tourist Office reported that the number of Japanese visitors for the first six months of 2006 was up 21.8% to 97,451 over the same period last year. The number in June this year was up 35.2% to 16,000 over the same month last year, marking growths for 27 consecutive months since April 2004.

**Hawaii reduced Japanese visitors, but increased travelers' spending*

The Department of Business, Economic Development & Tourism (DBEDT) recently reported that the number of Japanese visitors to Hawaii for the first six months of 2006 was down 8.8% to 667,147 over the same period last year. For June this year only, the number of those was down 13.4% to 107,224 compared to a year ago. Despite the reduction of Japanese visitors, spending by Japanese visitors in Hawaii totaled \$1 billion approximately for the first six months of 2006, and daily spending a visitor was up 8.7% to \$271 compared to a year ago.

**ANA enjoyed the best financial performance for the 1st quarter ever*

ANA Group released the consolidated financial result for the first quarter of FY2006 (April to June 2006) on July 31, reporting that it achieved the best first quarter performance ever as it increased passengers and revenues on both domestic and international flights, despite the rise of fuel expenses. Revenue for the first quarter of FY2006 reached 345.2 billion yen, 10.5% more than the same period last fiscal year, primarily because of increase of passengers, rise of unit prices and recovery of passenger demand for China.

ANA Group was forced to use about 25 billion yen more operating expenses for the quarter than a year earlier because of the rise of fuel cost, however it succeeded in posting operating profit of 19.5 billion yen, 66.1% more than a year earlier. Also, it posted recurring profit of 14.5 billion yen, 132.8% more than a year earlier. Although the Group posted special loss of 1.03 billion yen for movement to the first passenger building of Narita Airport in June this year, it finally achieved net profit of 7.68 billion yen for the first quarter of FY2006, remarkably 255.7% more than a year earlier.

ANA Group forecasts that passengers will grow on both domestic and international flights for the rest of FY2006, however it does not revise upward financial outlook for the full year of FY2006 because it sees fuel price will still hover at a high level, expecting that it will need fuel expenses of another 10 billion yen approximately for the full year of FY2006, in addition to originally forecasted 45 billion yen more fuel expenses than a year earlier.

For the domestic passenger flight business, ANA Group earned revenue of 167.3 billion yen for the first quarter of FY2006, 10.3 billion yen more than a year earlier, carrying 11,106,843 passengers, 2.3% more than a year earlier. The load factor was 63.1%, improving from 62.2% a year earlier. ANA estimated that major additional revenues were roughly 7 billion yen from rise of airfares, 2 billion yen from "Tabi Wari," the new airfare discount system, 1 billion from Super Seats of B767s, 1.6 billion yen from code-sharing flights with Skynet Asia Airways and 1 billion yen from its business efforts and shift of passengers from other airlines.

For the international passenger flight business, ANA Group posted revenue of 65 billion yen for the first quarter of FY2006, 12.3 billion yen more than a year earlier, carrying 1,091,636 passengers, 16.2% more than a year earlier. The load factor was 76.2%, much better than 71.8% a year earlier. The additional revenue of 12.3 billion yen was roughly broken down into 2 billion yen from rise of airfares, 2 billion yen from increase of ASK, 6 billion yen from increase of passengers for China and Asia and 1 billion yen from effects of PROS.

ANA Group earned 21.2 billion yen from the cargo flight business for the first quarter of FY2006, 1.6 billion yen more than a year earlier, handling domestic cargos of 107,689 tons (up 6.8%) and international cargos of 61.516 tons (up 6.8%).

**UAL will shift its east coast flights from JFK to Washington DC this winter*

United Airlines (UAL) recently announced that it would suspend its Narita-New York (JFK) flights in the winter schedule beginning October 28 this year and instead begin serving daily Narita-Washington DC flights with B777. UAL will keep code shares with ANA's Narita-New York flights.

Flight schedules on the Narita-Washington DC route are:

UA804 departs from Narita at 16:55 to arrive at Washington Dulles International Airport at 15:25
UA803 departs from Washington Dulles International Airport at 12:20 to arrive at Narita at 16:25 on next day

UAL places Dulles International Airport as one of its hub airports, serving 137 flights a week for 49 destinations. ANA also serves daily Washington DC flights from Narita today, but will keep serving the flights even after UAL starts the new services.

In this winter schedule, Narita-New York flights will be served by only four airlines of JAL, ANA, American Airlines and Continental Airlines (flying to Newark International Airport).

At the same time, UAL will strengthen its transpacific flight services, as it carries out reopen of San Francisco-Taipei route, full year operation of San Francisco-Seoul flights and increase of San Francisco-Hong Kong flights.

**JAL serves six charters for Ayers Rock in August*

JAL will serve six direct charter flights from Japan to Alice Springs, the gateway city to Ayers Rock, in Australia in August this year. The charter flights, served with B777, depart from Narita on August 2, from Fukuoka on August 5, from Kansai International Airport on August 8, from Central Japan International Airport on August 11 and from Narita on August 14 and 17. JAL offers the charter from Fukuoka for the first time.

The six charters will carry a total of more than 1,100 Japanese passengers to Alice Springs. More than 3,500 Japanese tourists have visited the central part of Australia with charter flights since the first charter service was provided in 2003. This summer JAL will operate the most charters for the destination ever.

**ANA & JP Express begins its cargo business from Haneda*

The first ANA & JP Express (AJV) flight took off from Haneda Airport to Kansai International Airport on August 2 this year. AJV is the start-up cargo operator established 51.67% by ANA, 33.33% by Japan Post, 10% by Nippon Express and 5% by Mitsui O.S.K. Lines on February 1 this year.

According to the business plan, AJV serves 12 cargo flights a week for seven cities on ten routes:
three flights a week on Narita-Nagoya-Tianjin-Narita,
one flight a week on Narita-Xiamen-Kansai,
one flight a week on Narita-Qingdao,
one flight a week on Kansai-Shanghai-Narita,
one flight a week on Kansai-Shanghai-Kansai,
one flight a week on Kansai-Xiamen,
one flight a week on Kansai-Dalian-Central Japan International,
one flight a week on Central Japan International-Tianjin-Narita,
one flight a week on Narita-Hong Kong,
one flight a week on Narita-Seoul,
two flights a week on Haneda-Kansai

AJV starts the business with one B767F and plans to expand its fleet to four B767Fs within this fiscal year for operation of 20 to 30 flights a week, expecting to begin offering services on North America routes, such as Central Japan International-Anchorage-Chicago or Central Japan International-Anchorage-Chicago-Anchorage-Kansai. In the future, AJV aims to become "Japan integrator."

ANA President Mineo Yamamoto said, "ANA is making strong efforts for the cargo business. The market will be very competitive in 2009, when Haneda Airport expands its capacity for international flights." The government also pays attention to air cargo business, as the Ministry of Land, Infrastructure and Transport hopes to launch an administrative section exclusively for air cargo operation.

The Ministry has already informed it to the U.S. that AJV is designated as an official operator on routes between Japan and the U.S., following JAL and Nippon Cargo Airlines (NCA).

**Star Alliance launches a cargo alliance project*

ANA President Mimeo Yamamoto revealed at a news conference on August 1 that Star Alliance would launch a cargo alliance project in this month, firstly joined by ten members including ANA, Lufthansa Airlines and United Airlines. The idea began with the Yamamoto's proposal to research business effects of cargo alliance in Montreal in December last year. The research was conducted by the third organization, and a midterm report on the research was handed to Star Alliance this spring.

It is true that several airlines are reluctant to establish a different cargo alliance, as Lufthansa and Singapore Airlines have already joined "WOW," a global cargo alliance. All of Star Alliance members will not join a new cargo alliance if it is established. However, Yamamoto said that a cargo alliance would benefit members to expand their cargo businesses even though it consists of several members.

**Centrair expanded the monthly reduction rate of passengers for June*

Central Japan International Airport Co. recently reported that the airport decreased passengers for June this year by 11% to 972,300 over the same month last year mainly because of a negative rebound from the special demand for the Aichi Expo a year ago. The monthly reduction rate was larger than 8% for April and 7% for May.

The monthly total was broken down into 442,100 international flight passengers, 1% fewer than a year ago, and 530,200 domestic flight passengers, 18% fewer than a year ago. On the contrary, the airport largely increased international cargos for June this year by 22% to 20,088 tons, compared to a year ago, which consisted of 11,516 tons for loading (up 31%) and 8,572 tons for unloading (up 12%).

For June this year, the airport handled a total of 9,062 aircraft movements, 1% more than a year ago. The number of aircraft movements for international flights was up 5% to 3,135 over the same month last year, broken down into 2,674 for passenger flights (up 1%), 400 for cargo flights (up 45%) and 61 for others (down 61%). The number of aircraft movements for domestic flights was 5,927 for June this year, almost same as a year ago.

In proportion to the reduction of passengers and visitors, sales from the terminal businesses reduced by 29% to 1,938 million yen for June this year over a year ago, comprising 721 million yen from duty-free shops (up 5%), 745 million yen from general retail shops (down 45%) and 472 million yen from restaurants (down 34%).

**Kansai handled the monthly most foreign passengers for June*

Kansai International Airport Co. reported on August 1 that the number of passengers for June this year was slightly up 1% to 1,345,794 over the same month last year. Out of the monthly total, the number of international flight passengers reached 898,500, almost the same as a year earlier. The airport handled the most foreign passengers for June ever in the history, according to the monthly report.

The number of domestic flight passengers for June this year was up 2% to 447,294 over the same month last year, marking growth for 15 consecutive months.

The number of aircraft movements for June this year was up 1% to 9,460 compared to a year earlier, broken down into 5,931 for international flights (down 2%) and 3,529 for domestic flights (up 4%). Regarding aircraft movements for international flights, the number of those for passenger flights was down 2% to 4,732, while the number of those for cargo flights was up 3% to 1,141, compared to June last year.

The airport dealt with international cargos of 61,467 tons for June this year, 8% less than a year earlier, broken down into 32,464 tons for loading (down 3%) and 29,003 tons for unloading (down 12%).