

Japan's Leading Tourism and Aviation Weekly

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Published every Monday by The WING Aviation Press (Koku Shimbun Sha).
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Subscription Rates: Overseas: One year \$ 215.00, Half year \$ 125.00
Domestic (including tax): One year 26,000 Yen, Half year 15,000 Yen

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****JAL restructures its international flight network for higher profitability***

JAL Group released partial change of the international flight plan for the second half of FY2006 on August 17, reporting that it will enforce increase of Central Japan International Airport (Centrair)-Guangzhou flights and of Narita-Bangkok/Delhi flights, but decrease of Narita-Chicago flights and suspension of Centrair-Manila flights from October 29 this year.

JAL will increase Centrair-Guangzhou flights from three flights a week to seven flights a week with B767 operation. Also, JAL is supposed to announce another extension of its China flights in late August this year, probably focusing on China flights based on the new aviation agreement between Japan and China.

Expecting high demand on the Narita-Bangkok route in this winter season, JAL will serve 21 flights a week after October 29 this year, increasing from 14 flights a week today. Also, it will increase Narita-Delhi flights from three flights a week today to four flights a week with B777-200ER operation to meet business trip demand particularly.

On the contrary, the Narita-Chicago flights will be reduced from 14 flights a week today to seven flights a week because JAL has judged that it is difficult to make a profit from the flights in the low season under the current condition of soaring fuel price.

JAL will suspend four Centrair-Manila flights a week during the second half of FY2006.

Through the restructuring efforts for the international flight business, JAL expects to make additional profits of 1,300 million yen approximately for the second half of FY2006.

****JAL Group will again raise fuel surcharges on international flights***

JAL Group has officially decided to raise fuel surcharges on its international flights again to cope with the soaring fuel price. The new fuel surcharges will be effective to international flights departing from October 1 this year.

According to the application to the Ministry of Land, Infrastructure and Transport, JAL will raise fuel surcharges on flights from Japan to Hong Kong from 1,800 yen today to 6,000 yen on a one-way basis. Fuel surcharges on transpacific, Europe, Middle East and Oceania flights will be 13,600 yen on a one-way basis, 70% more than 8,000 yen today. Also, JAL will collect 4,800 yen a one-way ticket for China flights, 60% more than 3,000 yen today.

Fuel surcharges on Hawaii flights will be raised from 8,000 yen to 10,000 yen on a one-way basis, which will be the lowest increase. Those on Thailand, Malaysia, Singapore, Indonesia and India flights will be raised from 6,500 yen to 10,000 yen on a one-way basis. Also, JAL will collect 6,000 yen a one-way ticket on Guam, Taiwan, Philippine and Vietnam flights, much more than 3,900 yen today.

JAL explains, "We are making every effort to improve our financial condition, however the current rise of fuel price cannot be handled by our voluntary efforts." The fuel surcharges will be reduced if the Singapore Kerosene market price is below \$80 per barrel for 30 consecutive business days or will be suspended if the Singapore Kerosene market price is below \$40 per barrel for 30 consecutive business days.

JAL expects that the new fuel surcharges will generate additional revenue of about 13 billion yen. JAL has explained that it will need additional fuel expenses of 17 billion yen, based on the today's market price of more than \$90 per barrel.

Also, JAL has revealed that it is planning to raise fuel surcharges on international cargo flights.

**JAL increased revenue but still suffered from losses for the 1st quarter*

JAL Group released its consolidated financial result from the first quarter of FY2006 (April 1 to June 30 2006) on August 7, reporting that it succeeded in increasing operating revenue to 522.2 billion yen for the first quarter of FY2006 from 503.3 billion yen for the first quarter of FY2005, however still failed to turn a profit. JAL explained that JAL was influenced by rise of fuel price larger than ANA, who achieved the best financial result for the first quarter of FY2006 ever, because JAL provided three times more international flights than ANA did.

Operating expenses for the first quarter of FY2006 increased by 3.5% to 554.1 billion yen over the same period last fiscal year. As a result, operating loss slightly improved to 31.9 billion yen from 32 billion yen a year earlier. Also, ordinary loss improved to 35.5 billion yen from 37.4 billion yen a year earlier. Although JAL still posted net loss of 26.7 billion yen for the first quarter of FY2006, but it was better than net loss of 38.3 billion yen a year earlier.

JAL premises fuel price of \$75 a barrel on a Singapore Kerosene basis. Although the market price is moving above the premise, JAL does not change its financial outlook for a full year of FY2006 ending March 31 2007 as follows: operating revenue of 2,301 billion yen, operating profit of 17 billion yen, ordinary profit of 0.5 billion yen and net profit of 3 billion yen.

Interest-bearing debt reduced from 1,236.4 billion yen as of March 31 2006 to 1,206.7 billion yen as of June 30 2006.

The total quarter revenue was broken down into 167.8 billion yen for the international passenger flight business (159.6 billion yen a year earlier), 150.9 billion yen for the domestic passenger flight business (150.3 billion yen a year earlier), 43.8 billion yen for the international cargo flight business (41.1 billion yen a year earlier) and 159.5 billion yen for other businesses (152.3 billion yen a year earlier).

JAL Group (JAL International, Japan Asia Airways and JAL Ways) carried a total of 3,192,191 revenue passengers on its international flights for the first quarter of FY2006, 5.8% smaller than a year earlier, however the load factor improved to 69.9% from 65.3% a year earlier. JAL Group (JAL International, JAL Domestic, Japan Transocean Air, JAL Express, Japan Air Commuter, Hokkaido Air System, J-Air and Ryukyu Air Commuter) carried a total of 10,368,755 revenue passengers on domestic flights, 1.6% smaller than a year earlier, and the load factor slightly lowered to 60.4% from 61.2% a year earlier.

For the international flight business, JAL reduced ASK by 11.6% compared to a year earlier, however the reduction rates of passengers and RPK were 5.8% and 5.4% respectively compared to a year earlier. JAL explained that the reduction rate of first class and business class passengers was just 1%, while that of economy class passengers was approximately 6%. Accordingly, unit price was up 11.2% for the first quarter of FY2006 over the same period last fiscal year.

Also, unit price on domestic flights was up 1.2% for the first quarter of FY2006 over the same period last fiscal year. In competition with ANA in the domestic flight market, JAL explained that the differences of monthly load factors between JAL and ANA have shrunken: 4.3% in March, 3.5% in April, 3.1% in May and 1.3% in June.

**AAL decided to suspend KIX-Dallas/Fort Worth flights again*

American Airlines (AAL) recently announced to have decided to suspend its Kansai International Airport (KIX)-Dallas/Fort Worth flights again on October 28 this year mainly because of soaring fuel price. AAL restarted the flight service in November 2005, just one year ago. At the same time, the airline will also suspend Narita-San Jose flights on October 28 this year. Before the suspensions, AAL already stopped serving Central Japan international Airport-Chicago flights in late October last year, just seven months after it started the service in April last year.

**Japanese visitors for China have recovered well from the decline last year*

It is remarkable that Japanese visitors for China have recovered well from the decline after the anti-Japan demonstration last year for the first half of 2006. Japan National Tourist Organization (JNTO) reported that the number of Japanese departures for the first six months of 2006 was slightly up 1.0% to 8,393,000 over the same period last year. The monthly number of Japanese departures decreased in January and April but grew in May and in June, compared to a year ago. If the monthly growths continue more than 5% after July, the annual number of Japanese departures will probably reach 17.95 million, more than 17.4 million for 2005.

The number of Japanese visitors for China marked 5% growth in February, which was the monthly growth for the first time since April 2005, and kept growing by 6.8% in April, by 33.5% in May and by 25.8% in June respectively compared to a year ago due to the positive rebound from the decline last year. For the first six months of 2006, the number of Japanese visitors was up 6.7% to 1,750,370 over the same period last year, according to China National Tourism Administration. Although it is true that there are several political concerns between Japan and China, the expansion of air transport volume between the two countries is expected to activate the tourism market.

The number of Japanese visitors for Korea had declined until April this year from May 2005, however resulted in 17.3% growth in May this year over the same month last year or 6.3% growth even in comparison with May 2004. The number of Japanese visitors for the first five months of 2006 was down 7.5% to 930,488 over the same period last year because of reductions for the first four months of 2006, according to Korea National Tourism Organization.

Other major Asian countries have increased Japanese visitors for the first six months of 2006 as follows:

Hong Kong to increase Japanese visitors by 7.6% to 625,763 (reported by Hong Kong Tourism Board)

Macau to increase those by 21.8% to 97,451 (reported by Macau Government Tourist Office)

Vietnam to increase those by 25.8% to 172,595 (reported by Vietnam National Administration of Tourism)

Taiwan to increase those by 2.6% to 562,964 (reported by Tourism Bureau, Rep. of China)

Philippines to increase those by 218,651 (reported by The Department of Tourism of the Republic of the Philippines)

On the contrary, Bali has still suffered from reduction of Japanese visitors since the bombing case in October last year, as the number of Japanese visitors for the first six months of 2006 was down 30.4% to 107,040 over the same period last year.

Among the Pacific resort destinations, only Guam succeeded in increasing Japanese visitors by 2.8% to 480,554 for the first half of 2006, compared to a year ago, according to Guam Visitors Bureau. Department of Business, Economic Development & Tourism reported that the number of Japanese visitors for Hawaii reduced by 8.8% to 667,147 over the same period last year. Mariana decrease Japanese visitors by 24.7% to 139,044 for the first six months of 2006, compared to a year ago, according to Mariana Visitors Authority.

Australia and New Zealand each decreased Japanese visitors by 3.3% to 318,300 and by 12% to 69,353 for the first six months of 2006, compared to a year ago. New Zealand suffered from below 70,000 for the first time in the past six years.

**ANA Hello Tour extends services for each customer segment*

ANA Sales recently announced outline of its overseas package ANA Hello Tour products for the second half of FY2006, focusing on extension of services for each customer segment, increase of circular trip products, more products using

ANA business class “CLUB ANA” and enhancement of free-plans. With the business efforts, ANA Sales intends to increase customers for the second half of FY2006 by 12% to 72,900 over the same period last year, particularly aiming at 48% increase for China, 21% increase for Europe and 8% for Hawaii.

ANA Hello Tours offer many new theme-oriented courses for each tourist destination, including its original services or special sightseeing plans.

For extension of services for each customer segment, ANA Hello Tour prepares larger hotel rooms for families staying in Hawaii or Guam. Also, departures exclusively for female travelers are available for Europe products. It is distinctive that ANA Hello Tour carries out a campaign for baby boomer couples, as it presents specially-made photo frames to a couple customer who is over 100 years old in total.

Products using ANA business class “CLUB ANA” include discount services for early bookings: 20,000 yen or 40,000 yen cheaper than usually for bookings 35 days before departures for Europe, America or Hawaii or for bookings 21 days before departures for Asia, China or Guam. Also, ANA Hello Tour provides products using Premium Economy seats, which are 20% wider than seats of usual economy class, for Europe and America.

For the first six months of FY2006 (April to September 2006), ANA Sales estimates ANA Hello Tour customers at 69,800, 4% more than the same period last fiscal year. ANA Sales says that travelers for China have been back, not only city travelers to Shanghai or Beijing but also circular travelers to Jiuzhaigou Valley.

ANA Sales also explains that couple customers have been increasing especially for products of Europe or Africa. It is remarkable that customers using “CLUB ANA (average unit price of 482,000 yen)” have increased by 21% for the first half of FY2006, compared to a year ago, and the growth rate is much higher than 4% growth of customers using economy class (average unit price of 184,000 yen).

<Estimations for the first half of FY2006>

America = 4,300 (up 2%)

Hawaii = 8,200 (up 1%)

Guam = 9,600 (down 15%)

Europe/Africa = 14,700 (up 24%)

Asia = 24,000 (up 3%)

China = 9,600 (up 21%)

Total = 69,800 (up 4%)

<Targets for the second half of FY2006>

America = 3,700 (up 1%)

Hawaii = 8,400 (up 8%)

Guam = 8,000 (down 18%)

Europe/Africa = 13,200 (up 21%)

Asia = 27,700 (up 12%)

China = 11,900 (up 48%)

Total = 72,900 (up 12%)

**Overseas travel transaction totally resulted in 8.7% growth in June*

The Ministry of Land, Infrastructure and Transport recently reported that travel transaction of fifty major travel agents for June this year was up 2.3% to 484.8 billion in total yen over the same month last year, resulting in growth for two consecutive months. The monthly total was broken down into 225.8 billion yen for overseas travel transaction, 8.7% more than a year earlier, 256.3 billion yen for domestic travel transaction, 2.7% less than a year earlier, and 2.7 billion yen for foreigner-inbound travel transaction, 6.1% less than a year earlier.

In the package tour segment, overseas travel transaction was up 8.2% to 59.6 billion yen with 328,248 customers (up 4.6%) however domestic travel transaction was down 0.7% to 63.9 billion yen with 2,597,639 customers (down 3.5%), compared to a year earlier. Foreigner-inbound travel transaction reached 209 million yen with 14,584 customers (up 8.2%), 1.5% more than a year earlier.

Twelve companies enjoyed more than 10% growth of travel transaction in June, out of which HIS (up 21.4%), Big Holiday (up 21.4%), Okinawa Tourist (up 29.4%) and United Tours (up 30.0%) marked more than 20% growth. The companies that resulted in more than 30% growth of overseas travel transaction in June were Nishitetsu Travel (up 35.6%), Big Holiday (up 30.3%), JR Hokkaido (up 30.5%), JR Kyushu (up 25.9%), Nankai Travel International (up 57.2%) and United Tours (up 30.1%).

**ANA hopes to serve another ANA Connection for Naha*

ANA is planning to open Narita-Naha route as ANA Connection, the feeder flight service, in this coming November. ANA Group and IBEX Airlines in tie-up with ANA serve ANA Connection flights between Narita and Sapporo, Itami (Osaka), Sendai, Komatsu, Central Japan International, Hiroshima and Fukuoka.

Although ANA does not reveal flight schedule for the new feeder service between Narita and Naha, it will offer feeder flights from Naha for passengers to catch long-haul international flights from Narita in the evening and those from Narita to Naha after long-haul international flights arrive at Narita.

**JAL air transport result for June 2006*

INTERNATIONAL FLIGHT (JAL, JAS, JAA, JAL Ways)

Passengers = 1,110,312 (93.0%)
RPK = 5,446,411 thousand passenger kilometers (93.3%)
ASK = 7,298,659 thousand seat kilometers (87.7%)
Load factor = 74.6%

<Results by destination>

Trans-Pacific routes
Passengers = 280,468 (93.7%)
RPK = 2,243,700 thousand passenger kilometers (96.5%)
ASK = 2,660,209 thousand seat kilometers (94.7%)
Load factor = 84.3%

Europe routes
Passengers = 131,641 (90.3%)
RPK = 1,220,412 thousand passenger kilometers (90.2%)
ASK = 1,490,246 thousand seat kilometers (80.5%)
Load factor = 81.9%

Southeast Asia routes
Passengers = 332,236 (90.8%)
RPK = 1,122,395 thousand passenger kilometers (92.8%)
ASK = 1,750,216 thousand seat kilometers (84.2%)
Load factor = 64.1%

Oceania routes
Passengers = 49,907 (87.8%)
RPK = 345,959 thousand passenger kilometers (87.7%)
ASK = 564,681 thousand seat kilometers (91.1%)
Load factor = 61.3%

Guam
Passengers = 38,359 (45.5%)
RPK = 96,673 thousand passenger kilometers (46.4%)
ASK = 140,114 thousand seat kilometers (50.0%)
Load factor = 69.0%

Korea routes
Passengers = 131,112 (105.6%)
RPK = 137,262 thousand passenger kilometers (108.6%)
ASK = 203,788 thousand seat kilometers (105.7%)
Load factor = 67.4%

China routes
Passengers = 146,589 (124.4%)
RPK = 280,010 thousand passenger kilometers (125.1%)
ASK = 489,405 thousand seat kilometers (100.0%)
Load factor = 57.2%

DOMESTIC FLIGHT (JAL, JAS, JTA, JEX, J-Air, JAC, HAC, RAC)

Passengers = 3,459,042 (98.0%)
RPK = 2,578,831 thousand passenger kilometers (98.8%)
ASK = 4,222,302 thousand seat kilometers (100.6%)
Load factor = 61.1%