

**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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***\*JTB posted increase in operating income by 70% to 21 billion yen for the first half of FY2006***

JTB announced the consolidated financial results for the first half of FY 2006 ended September 30 for the first time after restructuring of the Group. Compared to the same period last year, sales increased by 0.2% to 673.9 billion yen, and cost of sales decreased by 1.2% to 519.7 billion yen. Accordingly gross profit on sales increased by 5.2% to 154.2 billion yen.

As a result of keeping operating cost at the same amount as an average year, operating income rose largely by 72.8% to 21.0 billion yen, and ordinary income was up by 42.8% to 23.3 billion yen. Finally net income largely increased by 51.7% to 13.3 billion yen.

Out of the total of sales, sales in the travel business increased by 0.3% to 60.7 billion yen, broken down into decrease in the domestic travel business by 5.3% to 316.4 billion yen, increase in the overseas travel business by 7.8% to 273.4 billion yen, and sales in the international travel business was 16.3 billion yen, approximately the same amount as average year. In other segments, sales in the publishing business was up by 4.8% to 5.7 billion yen, and sales in the event business increased by 6.9% to 5.4 billion yen.

JTB changed its accounting system from the first half of FY2006, and even in comparison with the financial results a year ago under the old accounting system, JTB marked 3.9% increase of sales; 0.7% increase of sales in the domestic travel business and 9.8% increase of sales for the overseas travel business.

JTB Managing Director Norihito Shiga said, "The increase in sales as whole was mainly due to the growth in the corporate business, online sale, retailing of travel products." In the overseas travel business, in particular, the Group had 1,975,000 customers, 14% more than the same period a year ago, which accounted for a 22.4% record-breaking share (up 2.2 points) of 8,816,000 Japanese departures for the first half of FY2006.

Shiga commented, "We need to hold a dominance in the special segments, such as online selling for accommodation, selling on media or selling in the FIT market although revenue in each segment is growing well."

The Group's e-commerce revenue for the first half of FY2006 increased by 11.7% to 40.7 billion yen over the same period last fiscal year. Out of the whole e-commerce revenue, online selling rose by 13.8% to 33.5 billion yen, and selling at convenience stores was up by 0.3% to 7.2 billion yen.

The Group's consolidated forecast for FY2006 ending March 31, 2007 has been revised upward: sales to be up from 1,280 billion yen to 1,294 billion yen, ordinary income to be up from 14 billion yen to 26 billion yen, and full year net income to be up from 7 billion yen to 14.5 billion yen. The Group planned to invest 8.0 billion yen in new businesses and other segments at the beginning of the first half-year, however it indicated that the investment would be increased because of the satisfactory result in the first half of FY2006. Especially, investment will be made in Internet-related businesses, as selling of dynamic package will be started in February next year.

The number of the Group's customers destination-wise in overseas travel is as follows (percentage in parenthesis is the comparison with last year):

Hawaii = 264,724 (up 12.9%)

Guam/Saipan = 250,708 (up 40.3%)

North America = 209,723 (up 3.5%)

China = 204,396 (up 32.1%)

Hong Kong = 63,032 (up 23.1%)

South Korea = 207,791 (up 9.1%)

Taiwan = 84,762 (up 7.9%)

Singapore = 34,761 (up 5.9%)

\*Total of Asian destinations = 802,242 (up 13.9%)

Europe/Russia = 296,656 (up 11.5%)

Pacific/Oceania = 106,327 (up 3.6%)

\*Grand total = 1,974,595 (up 14.0%)

The number of the customers to Hawaii, Guam and Saipan largely increased as a result of taking R & C Tours in to the Group as a subsidiary company.

The followings are the major companies of JTB Group after restructuring of the Group, and their growths of transactions compared to the previous year:

JTB Hokkaido = up 3.1%

JTB Tokyo Metropolitan = up 3.7%

JTB Chubu = up 1.7%

JTB Western Japan = up 0.9%

JTB Kyushu = up 3.4%

JTB Traveland = up 4.1%

Pacific Tour Systems = up 2.9%

JTB Tokai = up 0.4%

JTB Osaka = up 2.7%

JTB Business World Tokyo = up 0.4%

JTB Business Travel Solutions = up 10.7%

i.JTB = up 32.0%

### *"Fly & Drive 2007" will be kicked off on January 26 next year*

The mainland U.S. sub-committee under the U.S.-Japan Tourism Export Expansion Initiative Working Group held a meeting in Tokyo on November 28 to officially decide to kick off "Fly & Drive 2007" on January 26 next year, after accepted an annual action plan based on a report on promotion of fly & drive products in the mainland U.S., which was drafted in October this year.

To take action for "Fly & Drive 2007," the Japanese side will launch a project team and encourage the counterpart of the U.S. to launch a team centered on LA Agents.

The sub-committee proposed several candidates of common logos and catchphrases for "Fly & Drive 2007" at this meeting. Proposed catchphrases include "Town to city, connected journey" or "New discoveries are waiting for you." Also, the action plan calls for open of a special website for fly & drive, production of posters and pamphlets as sales kits, advertising campaigns or tie-up campaigns with media.

For travel agents, fly & drive seminars will be offered in January, February, August and September next year. Also, several monitoring tours will be offered through next year.

### *\*HIS launches a new company for individual inbound travel*

HIS launched "HIS Experience Japan (HEJ)," a travel company exclusive for individual foreign travelers (inbound

travel), on November 22 this year. The new company will open a special website for inbound travel to sell package tours to individual foreign travelers who visit Japan and to produce tailor-made products for them. The full-scale business will begin in April next year.

HEJ initially targets visitors from English-speaking countries and will then extend the business to other Asian countries by developing websites in Korean or Chinese. Over sixty overseas offices of HIS will partially support the HEJ's business.

HEJ has invited ideas for experienced-typed optional tours in Tokyo from the public in the name of "Kaleidoscope Experience" and will make use of the collected ideas for production of high quality products.

HEJ has a capital of 100 million yen, invested 95% by HIS. The new company aims at sales of 1 billion yen for the first fiscal year from April 2007 to March 2008.

*\*AFR & KLM established a new office in Tokyo to complete the integration in Japan*

As part of the integration of Air France (AFR) and KLM Royal Dutch Airlines (KLM), Patrick Alexandre, Executive Vice President, International Commercial, Air France, and Paul Gregorowitsch, Executive Vice President Commercial, KLM, and other executives from both airlines recently held the opening ceremony at a new office in Tokyo.

With the launch of a new Tokyo office, following the opening of a new office in Osaka last year, AFR and KLM completed the integration of each business organization in Japan. A new Tokyo office has a total of 113 work forces to sell both AFR and KLM products. Call center for the Japanese market is situated at Sydney office. Sales activities for the Nagoya flights, which code-shared with JAL, are covered by AFR only, and one work force for both airlines is in charge of sales for the Fukuoka flights. Also, the offices of both airlines at airports will be integrated as well.

Claude Thenevin, who used to be General Manager for Japan, AFR, was appointed to General Manager for Japan, AFR and KLM.

AFR and KLM intend to increase seat capacity on their Japan routes by 3.5% by 2009. Gregorowitsch, KLM said, "The Japanese market is very important, so we are going to provide satisfying services with the latest aircraft. It is difficult to increase the number of flight due to the capacity limitation at Narita International Airport, however, both of our airlines currently operate 51 flights a week on the Japan routes including code-shared flights, in which we have the largest market share in all of the European airlines." Alexandre, AFR said, "AFR has been using B777-300ER on the Kansai route. Yet as we cannot increase flights any more on the Narita route, we are going to serve the existing flights with super jumbo jet A380 by summer in 2009, so that we can add more capacity." The A380 is configured with 9 seats in first class, 80 seats in business class, and 355 seats in economy class.

AFR is planning to open a mega-lounge at Narita Airport by around June 2007, which will be three times as large as its lounge at present, due to more space available after American Airlines (AAL), Cathay Pacific Airlines (CPA) move from North Wing of Terminal 1 to Terminal 2. Thenevin, General Manager for Japan, AFR and KLM, said, "This will be a lounge with a new concept. Not only KLM customers, but also other Skyteam customers will be welcomed to use. We hope that it will be regarded as Skyteam Terminal by April next year."

Other than Japan offices, eight offices except in France and Holland have been integrated since April 2006. AFR's Alexandre said that 90% of the integration process would be completed by the end of this year and 100% by March 2007. The integration is expected to bring huge cost reduction. Actually, 350 million Euros have been reduced since the integration was announced in 2004, and 465 million Euros are estimated to be reduced during April 2006 through March 2007.

As other merits of integration, AFR and KLM now have wider network, two hubs in Paris and Amsterdam, a common FFP program and more corporate programs. They, as European carriers combined, now have the largest market share of 12% with 188 flights a week (as of winter 2006) in the Europe-Asia & Pacific market. Passenger revenue in the market in the first half of 2006 increased by 13% compared to the previous year. Operating income for FY2006 is also forecasted to increase proportionally with a high demand in passenger segment. The business focus in the future is to ensure the leading position among European airlines, to further reduce costs through the integration and to strengthen the middle-range and the leisure flight businesses as well as the long-range flight business.



*\*JAL and ANA each have a different idea for international flight operations at Haneda*

JAL President and CEO Haruka Nishimatsu said that it is appropriate for the Ministry of Land, Infrastructure and Transport to set up a certain perimeter restriction for international flights from Haneda Airport after the Haneda re-expansion project completes in 2009, while ANA President and CEO Mineo Yamamoto asserted that such a perimeter restriction should be excluded as much as possible, when they were invited to the third aviation sectional meeting under Traffic Policy Advisory Board.

JAL's Nishimatsu also understood that the Ministry has decided to offer 30,000 departure slots a year for international flights at renewed Haneda Airport, saying that it is necessary to develop facilities and airport functions for on-time operations even after the re-expansion project completes. In this point, ANA's Yamamoto hoped that departure slots would be increased in accordance with market demands, pointing out that the airline industry will have to deal with growing international flight demands in the future. Also, he added that it is necessary to expand departure slots at Narita International Airport even after the extension of the 2nd runway to 2,500 meters allows it to offer 220,000 departure slots a year.

At the meeting, Nishimatsu explained the JAL's business direction as well. For the international passenger flight business, JAL is propelling introduction of new small and middle-sized aircraft, increase of flights for Asia, expansion of JAL Ways' role and charter flight operations from local cities not having scheduled flights. For the domestic passenger flight business, placing the Haneda re-expansion as a big business chance, JAL will shift its operational style to higher frequent operations with smaller aircraft to improve passengers' convenience.

The cargo flight business is a promising field for JAL. Nishimatsu said that JAL will make further efforts to effective fleet combination, increase of cargos from Japan, expansion of businesses in emerging China and other Asian markets and new business for midnight cargo flight operation in the domestic market.

Regarding the fleet plan, JAL will increase a share of its small and middle-sized aircraft from 38% today to 62% in the end of FY2010, but instead decrease a share of large-sized aircraft from 62% today to 38%. At the same time, JAL will reduce aircraft types from 16 to 11 by the end of 2009, including retirement of B747s. JAL is planning to downsize aircraft from B747-400 to B777 on all of its Europe routes except Italy by the end of this year.

In the meantime, ANA President and CEO Yamamoto said that ANA would largely expand its international passenger flight business, as ANA aims to be number one airline in Asia in FY2009 in terms of quality, customer satisfaction and value creation. For the aim, ANA has a business strategy to maintain or increase flights to hub airports of Star Alliance members and to exploit passengers beyond such hub airports.

Also, ANA is emphasizing the cargo flight business, as ANA & JP Express, a new joint venture for cargo flight operation, has started its business in August this year. ANA will introduce one or two B767 freighters a year.

*\*NCA expects cargo operations at Narita and Haneda will be organized well*

Nippon Cargo Airlines (NCA) President and CEO Takuro Uchiyama said at the third aviation sectional meeting under Traffic Policy Advisory Board on November 29 that the cargo operator has a business plan to consolidate its financial basis from FY2006 to FY2008 and to expand the business at Narita International Airport and Haneda Airport with a fleet of eight B747-8Fs from FY2009 to FY2011. In addition, NCA plans to introduce another six B747-8Fs from FY2012 to FY2015 to establish the global network with advantage of scale.

Uchiyama revealed that the world air cargo market will triple for the next 20 years, particularly boosted by high demand in the Asian market. For FY2006, NCA temporarily suspends part of its business because of fleet renewal, however expands alliance tie-ups with other operators on Asia and Europe routes. For FY2007 and FY2008, NCA will increase flights for China and expand the business network to Asia, India, Middle East, Europe and the U.S. through a variety of alliance tie-ups.

Uchiyama also requested to the authority that international airports of Japan should be improved in terms of both cost and service to compete with airports in Asia. For that, he said that it is necessary to organize cargo flight functions at Narita and Haneda to establish seamless 24-hours operation, such as common customs procedure, no procedure for ground transportation between Narita and Haneda or improvement of access between Narita and Haneda.

*\*Narita passengers in October were slightly up by 1%*

The traffic statistics for October this year, announced by Narita Airport Association (NAA), showed that the number of

passengers increased narrowly by 1 % to 2,725,246 compared to the same month last year, broken down into increase in international flight passengers by 1 % to 2,625,224 and in domestic flight passengers by 5 % to 100,022.

The number of Japanese passengers on international flights was 1,640,135 in October this year, 2% smaller than a year ago, while the number of foreign passengers greatly increased by 7% to 744,748. Transit passengers were 240, 341, almost the same as last year.

The number of aircraft movements for both international and domestic flights was 16,096 in total, about the same as last October. Aircraft movements of 14,923 for international flights consisted of 12,344 for passenger flights (down 1%), 2,356 for cargo flights (up 2%) and 223 for others (down 11%). The number of aircraft movements for domestic passenger flights increased by 4% to 1,173, and the number of those for other flights was 76, 95% more than a year ago. The monthly total came to 1,249, 7% more than a year ago.

Cargo volume carried by both international and domestic flights declined by 2% to 199,380 tons, broken down into 95,870 tons for loading (down 3%) and 103,510 tons for unloading (down 1%).

*\*Both domestic and international traffic at Kansai increased by 3 % after 2 months' drop*

The traffic statistics for October 2006 in Kansai International Airport (Kansai) showed that the number of passengers was 1,469,493, up 3 % on the previous October, as both international and domestic passengers increased after 2 months' decline. The numbers of international flight passengers was 963,300, slightly up 1 %, and the number of domestic flight passengers reached 506,193, up 6 %. The increase in international flight passengers was mainly because of high demand in foreign passengers visiting Japan, and the rise in the number of flights lead to the increase in domestic flight passengers.

The number of aircraft movements totaled 9,777 in October this year, remained about the same as last October. Out of the total, the number of those for international flights reached 6,220, 1% smaller than a year ago, broken down into 4,986 for passenger flights (down 1%), 1,157 for cargo flights (up 7%) and 77 for others (down 37%). The number of those for domestic flights was 3,557, 4% more than a year ago.

Cargo volume totaled to 70,746 tons in October 2006, 9 % more than a year ago. Volumes of loading and unloading by international cargo flights decreased by 13 % to 33,261 tons and by 7 % to 33,567 tons respectively. Kansai explained that the total amount in trading, though, was higher than the previous October.

*\*ADO largely reduced midterm ordinary income to 883 million yen*

Hokkaido International Airlines (ADO) released the FY2006 midterm financial result November 27, reporting that revenue for the first half of FY2006 increased by 5.3 percent to 16,172 million yen compared to the same period last year. Operating income largely declined by 60.4 percent to 863 million yen, ordinary income was down by 61.8 percent to 883 million yen. Also, net income was steeply down by 74.9 percent to 570 million yen, yet managed to keep the third consecutive first-half in black.

Operating cost for the first half of FY2006 increased by 16 percent to 15,300 million yen because of several factors, such as the starting of the Haneda-Memanbestu flight service, rise in fuel bill, airfare reduction that have particularly happened since Skymark Airlines started the service on Haneda-Sapporo route.

The forecast for FY2006 ending March 31 2006 has been revised accordingly: revenue to be 30,500 million yen, ordinary income to be 100 million yen, and net income to be 30 million yen.

The traffic statistics shows that 98 % of all flights during the period were operated without cancellations, and the on-time departure rate reached 90%. The airline increased available seats by 15 % to 1,086,000, and the number of passenger was 889,000, 26 % more than a year ago, which were made by the effect from the new service on Haneda-Memanbetsu route commenced on February 20, 2006. The load factor was 81.4 percent, much higher than a year ago.