

Japan's Leading Tourism and Aviation Weekly

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****The JAL internal conflict forces CEO to leave his office***

JAL announced at a news conference on March 1 that JAL Group CEO Toshiyuki Shinmachi (Photo:left) will move to chairman without right of representation from the Group CEO, and instead Haruka Nishimatsu (Photo:right), senior vice president of JAL Corporation (the JAL Group holding company) and the two main operating companies of JAL International and JAL Domestic, will be promoted to new CEO. The change will officially be effective after approval of the annual general meeting of shareholders in late June this year. Shinmachi remains in his present post as CEO until the shareholders' meeting



Kiyoshi Kishida will be promoted from currently managing director, flight operations of JAL International, to senior managing director, Safety and flight operations, for all three JAL companies. Also, Fumio Tsuchiya, senior vice president and deputy managing director, corporate planning, JAL Corporation will be promoted to managing director, corporate communications and compliance and environment for all three JAL companies.

At the same time, Katsuo Haneda, executive vice president of the three companies, Hidekazu Nishizuka, senior managing director, Takenori Matsumoto, managing director, will leave their offices. Other retiring board members are: Nobuyoshi Sera from JAL Corporation, Takao Imai, Hiroyasu Omura and from JAL International, and Gentaro Maruyama, and Tetsuo Takahashi from JAL International and JAL Domestic and Masuhisa Yokoyama from JAL Domestic.

Three executive officers will also step down. These are Hideyuki Kanenari, Nobutaka Ishikure and Ichiro Funabashi. Executive officers are responsible for day-to-day operations in the departments they manage but do not have voting rights.

The change of board members resulted from the internal conflict that four managing directors have called for resignation of Toshiyuki Shinmachi, Katsuo Haneda and Hidekazu Nishizuka to pursue the management responsibilities for aggravation of the businesses. Agreement signatures were collected from more than 400 managers over JAL Group. To bring the situation under control, the three board members will leave their offices, and at the same time two of the four managing directors who called for the resignations will step down.

Shinmachi said, "The new management is formed by putting the right persons in right positions," without any reprisals on the rebellion against the top management. The change of board members may also be accepted by managers who agreed to call for the resignations of the three management members, Shinmachi added.

Meanwhile, Shinmachi explained that he judged it was urgent to bring the situation under control as soon as possible for stable management, although he once rejected the demand of resignation. Also, he acknowledged that he had to take his responsibility for three reasons: insufficient restoration of reliability for safety operations, large-scale downward revision of FY2005 financial outlook and outbreak of the internal conflict.

Shinmachi will remain in JAL Group as chairman to be in charge of business relations with outside organizations, such as IATA or economic organizations, and new CEO Nishimatsu will concentrate on corporate reforms.

Nishimatsu is a JAL career man and joined the airline in 1972 after graduating in economics from Tokyo University. His JAL career has been predominantly in finance. He took a neutral position in the internal conflict, as he said, "Paying attention to the financial condition, I thought it would fall into a real corporate crisis if it dragged out for a while." Nishimatsu emphasized, "All we have to do first is to restore reliabilities of customers, society and stockholders. For that, we must work in complete solidarity."

**JAL aims to move into the consolidated black for FY2006 under new midterm plan*

JAL Group released the new midterm corporate plan (FY2006 to FY2010) on March 2 this year to set a goal of consolidated net profit of 3 billion yen for FY2006, improving from estimated net loss of 47 billion yen for FY2005. New CEO Haruka Nishimatsu said, "This is a crucial goal for us. If we fail to achieve the goal, we will fall into real crisis."

JAL Group first expects that rise of airfares on both domestic and international flights will help the Group have additional revenue of 60 to 70 billion yen through FY2006, however annual revenue improvement may practically reach 40 to 50 billion yen because the Group approximately needs additional 20 billion yen for fuel expenses. For the international passenger flight business, JAL Group aims to earn 8 billion yen more revenue by suspending several unprofitable flights, such as Narita-Las Vegas flight, which may bring the business to break-even. The most important point to achieve the financial goal is to recover reliability for safety operations on domestic flights to call back passengers.

Under the new midterm plan, JAL Group aims to increase revenue by 11% to 2,437 billion yen for FY2010 compared to FY2005 and achieve operating profit of 130 billion yen and net profit of 55 billion yen for the last fiscal year of the midterm plan. Payment of dividend may be revived in FY2007 or FY2008. Interest-bearing debt is expected to be reduced from 1,976 billion yen as of the end of FY2005 to 1,384 billion yen as of the end of FY2010.

At the same time, JAL Group will make every effort to reduce costs with 10% cut of wages for all employees, reduction of expenses on the international passenger flights, revision of business and contract processes, reduction of distribution cost by promoting e-commerce and asset streamlining.

Although JAL plans to add new 200 maintenance engineers to improve the safety operation system, it will overall cut a total of 6,000 jobs from FY2005 to FY2007.

+20% reduction of international passenger flights

To achieve the goal under the new midterm corporate plan, Nishimatsu stresses on recovery of customer reliability and customer-centered services, downsizing of the international flight network and continuous reform of the cost structure.

For improvement of the international passenger flight business, which is regard as an urgent theme, JAL will change the fleet composition. Today the JAL's large aircraft fleet accounts for 62% of all 90 aircraft, however JAL will increase the percentage of small or middle-size aircraft to 62% of the whole fleet by the end of FY2010.

Also, JAL hammers out a plan to extend operations of JAL Express (JEX), which is now dedicated to low-cost operations on domestic flights, to international flights during the midterm plan. JEX will be placed as an operator of B737s, including new B737-800s on China routes.

JAL Ways (JAZ), the low-cost international flight operator of JAL Group, will fly into Southeast Asia as well with operation of B747-400s and B767s.

JAL plans to decrease ASK on its international flights by 11% for FY2006 and by 20% for FY2010, compared to FY2005, keeping first and business classes' seats but decreasing economy class's seats. JAL hopes to collect more high-yield individual passengers for economy class on international flights.

Regarding revision of the international flight network, JAL will expand available seats on China and Southeast Asia flights to 46% of the whole for FY2010 from 39% of the whole for FY2005. JAL will basically shrink its international scheduled flights for resort destinations, however it will serve charter flights to compensate for the reduction of scheduled flights.

+AdditiOnal 60 billion yen investment to recovery of reliability

JAL has decided to invest 60 billion yen to recovery of customer reliability on safety operations and 65 billion yen to improvement of services and products under the midterm corporate plan.

The investment for recovery of customer reliability consists of 27 billion yen for establishment of a new integrated system for maintenance and safety information database, 24 billion yen for aircraft modifications and purchase of aircraft parts and spare engines, 8 billion yen for reinforcement of maintenance facilities and 1 billion yen for launch of an educational center on safety operations.

The investment for improvement of services and products consists of 25 billion yen for quality improvements, 16 billion yen for reinforcement of system bases and 24 billion yen for development of facilities.

The followings are financial targets for each fiscal year:

<Forecast for FY2005>

Operating revenue = 2,195 billion yen (692 billion yen from the international passenger flight business, 662 billion yen from the domestic passenger flight business, 181 billion yen from the international cargo flight business and 660 billion yen from other businesses)

Operating loss = 34 billion yen

Ordinary loss = 57 billion yen

Net loss = 47 billion yen

Interest-bearing debt = 1,976 billion yen for 17 years

<FY2006>

Operating revenue = 2,301 billion yen (725 billion yen from the international passenger flight business, 703 billion yen from the domestic passenger flight business, 198 billion yen from the international cargo flight business and 675 billion yen from other businesses)

Operating profit = 17 billion yen

Ordinary profit = 0.5 billion yen

Net profit = 3 billion yen

Interest-bearing debt = 1,805 billion yen for 9 years

<FY2008>

Operating revenue = 2,368 billion yen (723 billion yen from the international passenger flight business, 718 billion yen from the domestic passenger flight business, 225 billion yen from the international cargo flight business and 702 billion yen from other businesses)

Operating profit = 57 billion yen

Ordinary profit = 29 billion yen

Net profit = 17 billion yen

Interest-bearing debt = 1,627 billion yen for 7 years

<FY2010>

Operating revenue = 2,437 billion yen (742 billion yen from the international passenger flight business, 737 billion yen from the domestic passenger flight business, 239 billion yen from the international cargo flight business and 719 billion yen from other businesses)

Operating profit = 130 billion yen
 Ordinary profit = 107 billion yen
 Net profit = 55 billion yen
 Interest-bearing debt = 1,384 billion yen for 5 years

**COA boosts local flight demands by working out "Hometown Airline" concept*

Continental Airlines (COA) Managing Director Japan Charles Duncan said at a meeting with journalists, "We will work out 'Hometown Airline' concept to serve resort flights from local airports of Japan, and with the concept we will boost flight demands particularly from local cities." COA aims to restore available seats on its flights between Japan and Guam to the level in 1997, he added.

Duncan first mentioned new Central Japan International Airport (Centrair)-Honolulu flights and Hiroshima-Guam flights. On the Centrair-Honolulu flights, COA is particularly making efforts to sell its Business First class seats, for which it develops "Ambassador Program," an educational program for the travel industry in cooperation with Hawaii Tourism Japan (HTJ). Also, the airline is trying to exploit new travel demand for Hawaii by developing "Cruise Program" incorporating local cruise products.

On the Hiroshima-Guam flights, COA will penetrate the "Hometown Airline" concept into the market not only for expansion of demand on the route but also for exploitation of flight demands beyond Guam. COA plans to develop joint promotional events with Guam Visitors Bureau, Tourism Queensland or Mariana Visitors Authority.

At the same time, COA will boost demands from local cities of Japan, such as Sapporo, Sendai, Niigata, Okayama or Fukuoka, by appealing various merits of direct flights for Guam, as Duncan said that the potentiality in the local markets is higher than Narita.

COA also pays attention to the sport training camp market in Guam because the resort island provides high quality training facilities. In February this year, Albirex Niigata, a J-League team, visited Guam for its spring training camp. Duncan said, "Training camp of a professional sport team can be reported by local media, which is a big chance to let local community know more about Guam. I hope that Rakuten Eagles of Sendai or Hokkaido Nippon Ham Fighters of Sapporo (both are professional baseball teams) will select Guam as a place for their spring training camps."

In the meantime, COA will strengthen sales promotions for its Latin America flights in Japan, as it just opened Houston-Buenos Aires route in December last year. Targets in the Japanese market are business passengers, leisure passengers or Japanese ancestries who live in Japan.

Duncan also mentioned COA's efforts for e-ticketing. COA signed an interline contract for e-ticketing with ANA on February 24 this year. The e-ticketing ration of the airline in the Japanese market reached 97% as of August last year. Duncan revealed, "For 100% e-ticketing, COA aims to make an interline contract with JAL come true as early as the first half of this year and also makes efforts to solve e-ticketing for infant airfares, working together with GDSs."

**Tahiti aspires for expansion of the market through a new promotional campaign*

Tahiti Tourisme recently announced its new marketing strategy for FY2006 to develop "Bonjour Tahiti Campaign" from March this year. The tourism authority will expand the market by introducing a variety of charms for the islands under the new campaign. Main targets are honeymooners and couples, who are defined as core visitors, divers and families and also include rich active seniors as a challenging target. It aspires for overall market expansion not only by focusing on the main targets but also by growing repeaters.

Particular contents of the campaign include tie-up plans with magazines, in which Tahiti Tourisme tries to communicate real Tahiti, in addition to beach resorts, to general consumers. Also, the authority will collaborate with other media, such as websites, TV programs, product pamphlets or tourism events, to spread Tahiti's tourist attractions into the Japanese market.

For the travel industry of Japan, "Tiare Agent Program" for Tahiti specialists is offered continuously. Tahiti Tourisme emphasizes that supports from travel companies of Japan are absolutely essential for expansion of the market.

In addition, Tahiti Tourisme is planning to make TV CM to encourage the 30th anniversary "pearl wedding" couples to

visit Tahiti in cooperation with Japan Black Pearl Promotion, appealing a theme of “celebrating the pearl wedding anniversary in Tahiti.”

Through a series of the marketing approaches, Tahiti Tourisme hopes to increase annual Japanese visitors to 25,000 for 2006 from 21,986 for 2005, which were 7.0% fewer than a year ago.

**KNT successfully increased net profit for FY2005 by 71.6% to 2 billion yen*

Kinki Nippon Tourist (KNT) released the consolidated financial result for FY2005 (January 1 to December 31 2005) on February 28 this year, reporting that it posted net profit of 2,007 million yen, 71.6% more than a year ago, although it decreased revenue by 9.7% to 84,521 million yen compared to a year ago. Operating profit and recurring profit each increased by 5.3% to 1,960 million yen and by 43.8% to 2,633 million yen.

Revenue and operating profit of each business segment are as follows:

The travel business segment = revenue of 77,573 million yen, operating profit of 2,537 million yen

The insurance business segment = revenue of 1,680 million yen, operating profit of 449 million yen

Other business segments in total = revenue of 5,267 million yen, operating profit of 89 million yen

For FY2006, the first fiscal year under the midterm corporate plan, KNT estimates revenue at 86,500 million yen, recurring profit at 2,500 million yen and net profit at 700 million yen. KNT will heighten improvement of customer satisfaction by offering group travel products planned for large-scale events, such as World Cup Soccer in Germany, extending ECC businesses, selling more cruise products particularly for active seniors and upgrading overseas wedding products.

**Nippon Travel Agency marked increases both in revenue and profit*

Nippon Travel Agency (NTA) recently reported that it posted net profit of 1,725 million yen on consolidated financial result for the full year of FY2005 (January 1 to December 31 2005), which was 36.8% more than a year ago. NTA also increased revenue by 5.2% to 66,509 million yen for FY2005 compared to a year ago. Despite 4.3% increase of operating expense to 64,473 million yen, operating profit was up 46.6% to 2,035 million yen, and recurring profit was also up 38.8% to 2,938 million yen.

For FY2006, NTA estimates revenue at 68,900 million yen, recurring profit at 3,000 million yen and net profit at 1,600 million yen on a consolidated financial basis. NTA particularly targets increase of profit toward listing and expansion of business fields under the second phase of “NTA Innovation,” its midterm business vision.

**Top Tour achieved the highest-ever consolidated net profit*

Top Tour (former Tokyu Travel) released its consolidated financial result for FY2005 (January 1 to December 31 2005) on February 28 this year, reporting that it increased net profit by 14.1% to the highest-ever 1,115 million yen although it decreased revenue by 4.0% to 24,567 million yen compared to FY2004. Operating profit and recurring profit respectively increased by 9.9% to 1,195 million yen and by 14.1% to 1,150 million yen compared to a year ago.

For the travel business segment, revenue decreased by 4.3% to 22,809 million yen, while operating profit increased by 0.3% to 3,935 million yen, compared to a year ago.

The company name was officially changed to Top Tour from Tokyu Travel on January 31 this year. For FY2006, the 50th anniversary of the travel agency’s birth, it aims at large increase of both revenue and operating profit through efforts to strengthen its business management and functions.

**Narita reduced passengers for Korea*

Narita International Airport Co. (NAA) recently reported that the number of departures to Korea from Narita Airport for 2005 was approximately 1,304,700, around 96,300 fewer departures than those for 2004. The passenger reduction has particularly been large since eight charter flights daily on Haneda-Gimpo route started in August 2005: 28,200 in August, 18,100 in September, 22,700 in October, 22,600 in November and 21,400 in December.

On the contrary, the number of departures from Haneda Airport for 2005 reached 462,869, around 165,326 more departures than a year ago. The trend probably resulted from both factors to shift passengers for Korea to Haneda from Narita and to expand the market between Japan and Korea.

**Kansai reduced international passengers for January*

Kansai International Airport Co. reported on February 28 that the number of passengers for January 2006 was up 4% to 1,308,603 over the same month last year. However, the number of international flight passengers for the month was down 4% to 908,700 compared to a year ago, resulting in reductions for four consecutive months. Shift of flights from Itami Airport enabled the airport to increase domestic flight passengers for January 2006 by 29% to 399,903 over the same month 2005.

Kansai dealt with cargos of 57,916 tons for January 2006, 2% less than a year ago, which was broken down into 55,005 tons for international cargos (down 3%) and 2,911 tons for domestic cargos. The monthly total for international cargos was classified into 27,107 tons for loading (down 5%) and 27,898 tons for unloading (down 2%).

The number of take-offs and landings for January this year was up 8% to 9,181 times with 2% reduction of international flight take-offs and landings to 5,659 times and 33% increase of domestic flight take-offs and landings to 3,222 times. The total number of international flight take-offs and landings was broken down into 4,848 times for passenger flights (down 1%), 918 times for cargo flights (up 1%) and 93 times for others (down 47%).

**ANA Group still decreased its monthly international flight passengers*

ANA Group reported that the number of its international flight passengers for January 2006 was down 1.2% to 336,764 passengers over the same month last year, marking reductions for nine consecutive months since May 2005. The load factor was 71.5%, 2.2 points lower than a year ago. The downturn resulted from inactive business on its China routes. Despite the consecutive reductions of passengers, ANA has succeeded in increasing revenue from the international passenger flight business because a unit price has risen on average.

On the contrary, ANA Group carried a total of 3,272,779 passengers on its domestic flights for January this year, 0.5% more than a year ago. The load factor was 56.5%, 0.6 points higher than a year ago.

ANA dealt with domestic cargos of 31,402 tons, 6.1% more than a year ago, and international cargos of 19,518 tons, 13.6% more than a year ago. ANA has recorded double-digit monthly growths on the international cargo business since November last year

**Galaxy Airlines has applied for a business license to the Ministry*

Galaxy Airlines, preparing start the air cargo transport business, applied for an air transport business license to the Ministry of Land, Infrastructure and Transport on February 28 this year. Galaxy originally planned to start the full-scale business in June this year, however has changed the plan to August 22 this year because it needs longer time to train co-pilots.

Galaxy will begin serving one return flight daily with a A300-600RP2F on Haneda-New Kitakyushu and-Naha routes, and the services will be offered during early morning or midnight. A basic aim of the airline is to brush up Sagawa's express delivery business in the domestic market, establishing the "next day delivery" system by air transport.

Galaxy Airlines currently has a capital of 5 billion yen, invested 55% by Sagawa Express, 15% by Mitsui Co., 10% by JAL International, 7.5% by Sumitomo Co. and so forth.