

# Foreword

Two years have now passed since our company was privatized. The second year, fiscal 2005, was earmarked as a period for stabilizing our corporate structure as a private firm and for reviewing Narita Airport's fundamentals. A concerted effort was made to attain targets set out in the mid-term management plan. Here are three initiatives that were undertaken in fiscal 2005.

The first initiative was the reduction of landing charges. For many years, landing charges at Narita were reputed to be among the highest in the world. We took a major step in October 2005 to rid ourselves of this unenviable reputation by drastically lowering the charges. From a short-term perspective, the step will undeniably have an adverse impact with a JPY 6.5 billion fall in revenue annually from airport usage charges overall. However, in the long run, it will stimulate competition in core aeronautical revenue businesses and thereby bring benefits. We are confident that our customer-first stance on management based on our belief that the key to the success of our airport lies with our customers, namely passengers, airlines and other airport-related organizations, will gain public understanding.

Along with these reductions, a new charging system was introduced for the first time in Japan in which different charges are applied in proportion to aircraft noise levels. We hope that this system will give airlines incentive to introduce quieter aircraft for Narita's environment as a landlocked airport.

The second initiative was the terminal development projects. We have invested JPY 250 billion over a period of 12 years on the Terminal 1 reconstruction project. Fiscal 2005 saw the last leg of this project completed and the terminal marked its grand opening in June 2006 as planned. The capacity of the terminal has increased considerably. At the same time, we have grouped together airlines by alliances in the respective terminals for the first time anywhere in the world. The reallocations have reduced connection times between alliance airlines and have contributed to making Narita Airport more convenient for airlines and passengers.

The third initiative was the establishment of new revenue sources. We have been striving to cover the losses in aeronautical revenue that accompanied the reduction in landing charges by expanding our non-aeronautical revenue, in particular, the retail field. The renovated South Wing in Terminal 1 features the largest airport duty-free exclusive fashion boutique mall in Japan, "narita nakamise". Passengers enjoy the shopping experience in a sophisticated mall with Japanese hospitality as its design concept and we are also hopeful of generating more revenue from this venture. We plan to expand and refurbish the retail facilities in Terminal 2 as well. Our aim is to boost Narita's appeal and to build on its brand.

Turning our attention now to the consolidated figures for fiscal 2005, operating revenues were down 0.2% over the previous year at JPY 171.2 billion while operating profit rose 0.5% to JPY 42 billion.

Airport operations on all routes were stable but demand fell in neighboring countries due to political difficulties. This caused a 1.0% decline in passenger figures. In addition, with the reduction in landing charges, operating revenues were down 3.2% at JPY 116.3 billion and operating profit fell by 10.4% to JPY 17.7 billion.

Meanwhile, growth in tenancy fees aided by increased retail activities as well as increased revenue from land and facility rentals resulted in operating revenue from the use of airport space totaling JPY 52.9 billion, which was almost the same as the previous year, and 9.6% growth in operating profit at JPY 24.5 billion.

Operating revenue from other activities such as rail services and advertisements was up 43.1% at JPY 1.9 billion and our operating loss staged an 18.5% recovery over the previous year to JPY 300 million.

Ordinary profit increased by JPY 2.5 billion. This is attributed to a reduction in interest paid due to a fall in average interest rates. Net income was 2.3 times that of the previous fiscal year at JPY 14.7 billion as impairment losses for fixed assets were written off last year and the amortization of consolidation difference for subsidiary company valuation became unnecessary.

We intend to drive forward with cost reductions and customer-first management in fiscal 2006, and seek to expand our revenue and profit through the use of airport space.

Lastly, the extension of the parallel runway to 2500 meters (currently 2,180 meters) remains a matter of utmost importance for us. The existing runway is severely limited when it comes to serving large aircraft because of its inadequate length and must be extended at the earliest opportunity.

Discussions are in progress with residents of areas that are likely to be affected most by noise and if everything proceeds according to plan, the full runway will be in operation in March 2010.

In conjunction with this, preparations are underway to open a high-speed rail link in April 2010 to curtail traveling time from Tokyo.

Narita Airport is continuing to make daily improvements in offering greater convenience.

We look to you, therefore, for your continued support.



**Isao Matsuhashi**  
Chairman



**Masahiko Kurono**  
President & CEO