

Financial Statements

for the Term ended March 31, 2006



The Japanese economy maintained recovery momentum in the term ended March 31, 2006, with capital investment continuing to expand amid high levels of corporate profitability. Sustained recovery was also the story with business confidence, with employment showing improvement in most sectors and personal spending increasing moderately on higher income levels.

In the term under review, Narita International Airport matched its operational performance in the previous term, which was its best-ever overall, supported by a sound business environment.

In this favorable environment, the Company put into effect on October 1, 2005 new landing charges agreed with International Air Transport Association (IATA) as part of a package of revisions of airport usage charges. The move was undertaken to reduce costs for airlines in line with the expected benefits of privatization and strengthen the medium- to long-term international competitiveness of Narita International Airport, and to clarify the relationship between revenues and outlays and enhance our financial position.

To further strengthen safety and security in flight and airport facilities, and provide a more comfortable experience for passengers, the Company worked to improve service awareness in all staff working for the airport, instilling in them a more sincere, personal approach to customers. In new business projects, we took aggressive measures to increase potential to generate profits by focusing on retail operations at passenger terminals.

1. Consolidated Balance Sheet

Assets

Total assets rose 2.5% year-on-year to JPY 992,670 million at term-end. Current assets rose 33.5%, with cash and deposits rising JPY 5,521 million and marketable securities JPY 8,748 million. Fixed assets increased 1.0% due mainly to the acquisition of the South Wing of Terminal 1, opened in June 2006.

Item	(JPY million)	
	Fiscal 2004 (As of March 31, 2005)	Fiscal 2005 (As of March 31, 2006)
Assets		
Current assets	45,143	60,271
· Cash and deposits	27,903	33,425
· Notes and accounts receivable	12,133	12,341
· Marketable securities	552	9,300
· Inventories	1,000	1,342
· Deferred tax assets-current	1,716	1,059
· Other	1,838	2,806
· Allowance for doubtful accounts	(2)	(3)
Fixed assets	922,721	931,812
Tangible fixed assets	894,861	900,201
· Buildings and structures	520,004	542,406
· Machinery, equipment and vehicles	64,331	62,697
· Tools, furniture and fixtures	12,599	16,210
· Land	261,895	264,549
· Construction in progress	36,029	14,337
Intangible fixed assets	4,338	5,991
· Software, etc.	4,338	5,991
Investments and other assets	23,521	25,619
· Investment securities	435	353
· Long-term loans receivable	141	97
· Deferred tax assets-non current	22,519	24,213
· Other	446	960
· Allowance for doubtful accounts	(22)	(6)
Deferred assets	699	586
· Discounts on bonds payable	699	586
Total Assets	968,564	992,670

Liabilities

Liabilities rose 1.0% year-on-year to JPY 797,211 million. Of this total, corporate bonds increased by JPY 17,370 million, with JPY 27,430 million in repayments on maturity more than offset by JPY 44,800 million in new issues. Long-term borrowings declined by JPY 24,451 million, due mainly to repayments. Other items affecting liabilities were: a JPY 22,531 million rise in accounts payable, from construction works for the South Wing of Terminal 1 opened in June 2006; a JPY 8,613 million decline in accrued income taxes due to tax payments made in the period under review; and a JPY 2,156 million increase in provisions to the reserve for loss on removal of head office.

Long-term borrowings including the current portion totaled JPY 222,903 million including JPY 127,453 million in interest-free government loans, and corporate bonds including the current portion totaled JPY 453,532 million, yielding a term-end balance of long-term liabilities of JPY 676,435 million.

Equity

Shareholders' equity rose 8.3% year-on-year to JPY 192,324 million, due chiefly to an increase in net income. As a result, the shareholders' equity ratio rose from 18.3% to 19.4% at the term-end.

Item	(JPY million)	
	Fiscal 2004 (As of March 31, 2005)	Fiscal 2005 (As of March 31, 2006)
Liabilities		
Current liabilities	90,356	121,389
· Accounts payable	5,327	6,369
· Short-term borrowings	821	837
· Corporate bonds redeemable within one year	27,430	30,270
· Long-term borrowings repayable within one year	24,649	37,371
· Accrued income taxes	12,955	4,342
· Reserve for bouus	1,671	1,741
· Other	17,501	40,457
Fixed liabilities	676,221	654,156
· Corporate bonds	408,732	423,262
· Long-term borrowings	222,705	185,531
· Leasehold deposits held as surety	16,525	13,506
· Reserves for retirement benefits	26,930	25,654
· Reserves for directors' retirement allowances	188	264
· Reserves for loss on removal of head office	-	2,156
· Long-term advance charges received for construction	-	2,682
· Other	1,139	1,098
Reserve under special law	22,592	21,664
· Allowance for Narita New Rapid Railway	22,592	21,664
Total liabilities	789,169	797,211
Minority interests		
Minority interests	1,846	3,134
Shareholders' equity		
Common stock	100,000	100,000
Capital surplus	52,000	52,000
Earned surplus	25,547	40,320
Net unrealized gain / loss on securities	0	4
Total shareholders' equity	177,548	192,324
Total liabilities, minority interests and shareholders' equity	968,564	992,670

2. Consolidated Profit and Loss Statement

Operating revenues

Operating revenues declined 0.2% year-on-year to JPY 171,247 million. Operating revenues from airport operations declined 3.2% year-on-year to JPY 116,308 million, due to reduction in landing charges and in Japanese passengers for China and South Korea. On the other hand, revenue from airport space utilization rose 5.9% to JPY 52,982 million, due to new outlet openings rising and increases in retail sales at duty-free shops at Terminals 1 and 2, as well as an increase in leased areas.

Operating expenses

Operating expenses declined 0.4% to JPY 129,247 million. Cost of revenues rose 0.8% year-on-year to JPY 108,333 million. The main factors were the booking in cost of revenues of a portion of loss on disposal of fixed assets previously recorded as extraordinary losses, an increase in depreciation accompanying the increase in assets, and an increase in expenses relating to subsidiaries (recording of full-year expenses at subsidiaries consolidated during the previous term, and recording of expenses of newly consolidated subsidiaries). At the same time, selling, general and administrative expenses declined 6.3% year-on-year to JPY 20,914 million, due to a decline in periodic expenses for retirement benefits following a robust performance by pension funds.

Operating profit

As a result of the above, operating profit rose 0.5% year-on-year to JPY 42,000 million. The ratio of operating profit to operating revenues rose 0.1 percentage point to 24.5%.

Ordinary profit and loss

The net non-operating loss shrank 18.8% year-on-year from JPY 12,235 million in the previous term to JPY 9,933 million, due chiefly to a JPY 1,666 million decline in interest expenses and interest expenses on corporate bonds amid falling average interest rates. The average interest rate on long-term interest-bearing liabilities during the term under review was 1.7%. As a result, ordinary profit in the term under review rose 8.6% year-on-year to JPY 32,066 million.

Income before income taxes and minority interest

Net extraordinary losses shrank by 47.2% year-on-year from JPY 15,218 million to JPY 8,042 million. In the previous term, the Company posted a loss of JPY 9,004 million from early application of impairment accounting for fixed assets, and a JPY 1,788 million loss on amortization of consolidation difference, both of which were one-time expenses. In the term under review, however, the Company made provision in the amount of JPY 2,156 million for removal of head office, and recorded JPY 3,089 million in special depreciation on fixed assets. Another factor was a JPY 1,672 million decline in losses on disposal of fixed assets due to a change in accounting methods. As a result, net income before income taxes and minority interest rose 67.8% year-on-year to JPY 24,024 million.

Net income

Net income rose 130.1% year-on-year to JPY 14,772 million. Earnings per share came to JPY 7,386.45, compared with JPY 3,210.31 in the previous term.

Item	(JPY million)	
	Fiscal 2004 (Year ended March 31, 2005)	Fiscal 2005 (Year ended March 31, 2006)
Operating revenues	171,571	171,247
Cost of revenues	107,470	108,333
Gross operating profit	64,101	62,914
Selling, general and administrative expenses	22,325	20,914
Operating profit	41,775	42,000
Non-operating revenues	753	200
· Interest and dividends received	24	7
· Contract termination fees	347	-
· Construction grants	99	-
· Equity in income of unconsolidated subsidiaries and affiliates	-	0
· Other	282	192
Non-operating expenses	12,988	10,134
· Interest expenses	2,620	1,851
· Interest expenses on corporate bonds	8,695	7,799
· Compensation paid for early repayment of loans	1,254	-
· Equity in loss of unconsolidated subsidiaries and affiliates	27	-
· Other	390	483
Ordinary profit	29,539	32,066
Extraordinary profit	493	361
· Gains on sales of fixed assets	281	167
· Railway subsidies	170	170
· Other	41	24
Extraordinary loss	15,712	8,404
· Losses on disposal of fixed assets	4,710	3,026
· Impairment losses	9,004	-
· Amortization of consolidation difference	1,788	-
· Special depreciation of fixed assets	-	3,089
· Provision for reserve for loss on removal of head office	-	2,156
· Other	210	131
Net income before income taxes and minority interests	14,321	24,024
Income taxes	12,883	10,253
Deferred taxes	(4,979)	(981)
Minority interests	(3)	(21)
Net income	6,420	14,772

3. Consolidated Cash Flow Statement

Consolidated cash and cash equivalents totaled JPY 41,859 million as of March 31, 2006.

Net cash provided by operating activities

Net cash provided by operating activities declined JPY 14,585 million from the previous term to JPY 58,548 million. An increase of JPY 9,702 million in income before income taxes and minority interests was outweighed by income tax payments related to the previous term. (NAA, previously a state-run entity, began paying income taxes in May 2005)

Item	(JPY million)	
	Fiscal 2004 (April 1, 2004 to March 31, 2005)	Fiscal 2005 (April 1, 2005 to March 31, 2006)
Cash flow from operating activities		
Net income before income taxes and minority interests	14,321	24,024
Depreciation	44,273	44,829
Special depreciation on fixed assets	-	3,089
Amortization of consolidation difference	2,088	366
Impairment losses	9,004	-
Increase in reserve for bonus	756	70
Increase (Decrease) in reserve for retirement benefits	1,952	(1,470)
Decrease in allowance for Narita New Rapid Railway	-	(927)
Increase in reserves for loss on removal of head office	-	2,156
Interest and dividends received	(24)	(7)
Interest expenses	11,316	9,650
Equity in loss (income) of unconsolidated subsidiaries and affiliates	27	(0)
Losses on disposal of fixed assets	4,837	2,214
Gains on sales of fixed assets	(204)	(42)
Discounts on bonds payable	109	128
(Increase)/Decrease in notes and accounts receivable	(273)	13
Increase in inventories	(276)	(340)
Increase in pension cost paid	-	(116)
Increase in notes and accounts payable	1,997	4,073
Decrease in leasehold deposits held as surety	(803)	(734)
Decrease in accounts payable	(6,294)	(142)
Increase (Decrease) in consumption tax payable	388	(2,054)
Increase (Decrease) in advance receipt	455	(1,270)
Other	2,195	3,379
Total	85,847	86,889
Interest and dividends received	34	14
Interest paid	(11,996)	(9,801)
Taxes paid	(752)	(18,555)
Net cash provided by operating activities	73,133	58,548

Net cash used in investment activities

Net cash used in investment activities declined JPY 2,809 million from the previous term to JPY 38,208 million. The chief factor was a decline in payments for acquisitions of fixed assets, which resulted from the deferment to the current term (fiscal 2006) of construction payments for the South Wing of Terminal 1.

Net cash used in financing activities

Net cash used in financing activities declined JPY 30,080 million to JPY 5,840 million. Ongoing redemptions of corporate bonds and repayments of long - term borrowings were more than offset by revenues from new corporate bond issues.

Item	(JPY million)	
	Fiscal 2004 (April 1, 2004 to March 31, 2005)	Fiscal 2005 (April 1, 2005 to March 31, 2006)
Cash flow from investing activities		
Payments for acquisition of marketable securities	-	(7,000)
Proceeds from redemption of marketable securities	49	7,149
Payments for acquisitions of fixed assets	(43,886)	(40,080)
Proceeds from sales of fixed assets	1,545	546
Proceeds from charges received for construction, etc.	-	2,032
Payments for acquisitions of long-term prepaid expenses	(103)	(563)
Proceeds from sales of investment securities	924	3
Payments on acquisition of new consolidated subsidiary stocks	(26)	(415)
Payments for loans	(77)	(4)
Proceeds from recovery of loans	687	52
Increase in term deposits	(155)	(30)
Decrease in term deposits	77	127
Payments for leasehold and guarantee deposits	(45)	(6)
Other	(7)	(22)
Net cash used in investing activities	(41,018)	(38,208)
Cash flow from financing activities		
Net increase in short-term borrowings	225	90
Proceeds from long-term borrowings	4,099	197
Repayments of long-term borrowings	(60,983)	(24,649)
Proceeds from corporate bond issues	66,984	44,638
Payments for redemptions of corporate bonds	(46,300)	(27,430)
Proceeds from stock issues to minority shareholders	206	1,252
Payments of dividends to minority shareholders	(152)	-
Proceeds from capital increase by minority shareholders due to establishment of a consolidated subsidiary	-	60
Net cash used in financing activities	(35,920)	(5,840)
Effect of changes in exchange rates on cash and cash equivalents	(16)	(6)
Increase/(decrease) in cash and cash equivalents	(3,821)	14,491
Balance of cash and cash equivalents at beginning of term	31,189	27,367
Balance of cash and cash equivalents at end of term	27,367	41,859

4. Segment Reports

Airport operations

The number of landings and takeoffs rose 0.7% from 186,633 in the previous term to 187,888, with a strong performance by China-bound traffic due to opening of new routes more than offsetting the impact of discontinuation of routes to Guam and other destinations. However, airport usage charge revenue (aircraft landing and parking charges) declined 7.5% year-on-year, due chiefly to a downward revision in airport usage charge rates in October 2005 and a shift by carriers toward medium-sized and smaller aircraft.

Japanese passenger numbers declined 1.6% year-on-year, with many postponed trips to Chinese and South Korean destinations particularly in the first half of the year. An additional factor was a doubling of the number of flights, from 4 to 8 a day, from Haneda Airport (Tokyo) to Gimpo Airport (Seoul), South Korea, from August 2005. By contrast, overseas passenger numbers rose 1.7% year-on-year, following easing of Japan visa restrictions on certain countries for short-term visits to Japan and the launch of the Visit Japan Campaign by public and private sector organizations in April 2005.

However, overall passenger numbers declined 1.0% year-on-year from 31,773 thousand to 31,445 thousand. As a result, revenue from Passenger Service Facilities Charge (PSFC) declined 0.6% year-on-year.

Revenue from Fuel Supply Facilities Charge declined 3.9% year-on-year, reflecting a decline in the average volume of aviation fuel consumed due to the shift to medium-sized and small aircraft (consumption fell 1.8% from 5,890 thousand kl to 5,782 thousand kl), and a 4.6% reduction in rates of Fuel Supply Facilities Charge following a revision of charges in October 2005.

As a result, operating revenue from airport activities declined 3.2% year-on-year to JPY 116,308 million and operating profit fell 10.4% to JPY 17,767 million.

Airport space utilization

Operating revenues from tenancy fees and commissions from retail operations at airport premises increased 3.1% year-on-year, reflecting increased duty-free sales and new openings of retail/service outlets in Terminals 1 and 2 (including the launch of one of Japan's largest pet hotels at car parking facilities adjacent to Terminal 2 in December 2005). In addition, land and structure lease revenue rose 2.7% year-on-year, due to an increase in total leased area following the completion of rental facilities at Southern Government Agency Building No. 2, Southern Cargo Buildings Nos. 5 and 6, and Southern Car Parking for Cargo Operations in April 2005.

Revenues from retailing, food and beverage, agency and duty free outlets, operated by subsidiaries, jumped 34.2% year-on-year. Chief factors were the launch of operation of cellphone shops in Terminal 1 building by Greenport Agency Co., Ltd. and Narita Airport Service Co., Ltd. in July 2005, and increased sales and launched year-round operation at duty-free shops managed by NAA Retailing Corporation, which began operations in July 2004. Other revenue rose 1.8% on factors such as year-round foreign-exchange sales by Greenport Agency, which launched such services in November 2004.

As a result, operating revenues rose 5.9% year-on-year to JPY 52,982 million and operating profit rose 9.6% year-on-year to JPY 24,595 million.

Others

Operating revenues in other businesses increased 43.1% year-on-year to JPY 1,957 million, and the operating loss declined 18.5% to JPY 349 million. In railway operations, Narita Rapid Rail Access Co., Ltd., the principal contractor in our Narita Rapid Railway project—a new line scheduled to serve Narita International Airport from 2010—began construction work on March 22, 2006. Railway operation of Shibayama Railway Co., Ltd. saw lackluster growth in passenger numbers, but the advertising agency business run by Mediaport Narita Co., Ltd. saw business rise substantially.

Operating segment information

Fiscal year consolidated accounts (April 1, 2005 to March 31, 2006)

	(JPY million)					
	Airport operations activities	Airport space utilization	Other activities	Total	Eliminations or corporate	Consolidated
Sales and operating profit and loss						
Sales						
(1) Sales to outside customers	116,308	52,982	1,957	171,247	-	171,247
(2) Inter-segment sales and transfers	3,054	2,690	527	6,272	(6,272)	-
Total	119,363	55,672	2,484	177,519	(6,272)	171,247
Operating expenses	101,595	31,076	2,834	135,506	(6,258)	129,247
Operating profit (loss)	17,767	24,595	(349)	42,013	(13)	42,000
Assets, depreciation, impairment losses and capital expenditures						
Assets	753,935	216,378	13,198	983,512	9,157	992,670
Depreciation	37,617	10,161	140	47,919	0	47,919
Impairment losses	-	-	-	-	-	-
Capital expenditures	40,555	16,387	2,854	59,797	(1)	59,796

(Notes)

1. Classification of segments

The segments of the group were classified in such a way as to promote specific and appropriate disclosure reflecting the diversified nature of our businesses.

2. Major businesses within each segment

Airport operation: Facility management and maintenance for aircraft takeoff, landing and fueling, and provision of security and other services, and management and operation of passenger services at the airport

Airport space utilization: Duty-free shops, retail outlets, food and beverage outlets and other businesses that use the retail space available within airport premises

Other businesses: Railway operations and advertising agency, etc.

3. The total of assets included in "Eliminations or Corporate" was JPY 9,663 million; the principal item was the Company's long-term investments.

4. Depreciation include special depreciation and amortization of long-term prepaid expenses.

5. Capital expenditures include an increase in long-term prepaid expenses.

6. Changes in accounting methods

Changes in method for recording disposal expenses for fixed assets
Losses on disposals of fixed assets were previously treated as extraordinary losses. Effective from the term under review, the Company has included expenses arising from regular maintenance of airport business facilities in the ordinary profit/loss account, to clarify periodic expenses, taking into account the nature of such expenses. Thus, the Company has recorded them in cost of revenues as loss on disposal of fixed assets. Compared with the previous method of calculation, this change has yielded increases in operating expenses of JPY 1,548 million in airport operations, JPY 120 million in airport space utilization, and JPY 4 million in Other businesses, causing operating profit to decline by the corresponding amount.