

Fiscal 2006 - 2010 NAA Group Mid-term Management Plan

1. Foreword

Following privatization on 1 April 2004, we formulated a 3-year mid-term management plan for fiscals 2004 through 2006, earmarking it as the period for consolidating the fundamentals of autonomous, independent management in which the group will strive to establish greater corporate value through specific goals that rank safety as the paramount objective while improving airport facilities, reducing landing charges, directing more energy into new business activities, reducing costs and improving the internal administrative structure.

On the issue of extending the parallel runway to 2,500 meters, Narita Airport does not have a moment to lose for accommodating the growing demand for international air transport in the Tokyo metropolitan region. A decision was made to begin extending the runway northwards in August 2005 and we hope to complete the work as soon as possible.

Meanwhile, on the long-standing issue of reductions in landing charges, we were also able to introduce substantial reductions in October 2005, which were eagerly welcomed by the airlines, and we were also able to forecast a new set of revenue and expenditure targets. In June 2006, we celebrated the grand opening of the long-awaited South Wing in Terminal 1.

New Stage 2010



2.Management Environment

With these changes, we have decided to produce a group mid-term management plan, "New Stage 2010", to take effect from fiscal 2006.

New Stage 2010 places safety as the paramount objective while seeking to consolidate fundamentals such as the extension of the parallel runway to 2,500 meters and the completion of the Narita Rapid Railway system to provide dramatic improvements in airport capacity and passenger convenience. It sets out the view for the five years through to the end of 2010 when we move into a new stage equipped with facilities for further growth beyond that period. This has been earmarked as a period for consolidating the fundamentals in readiness for a great leap forward, placing the combined strength of the NAA group behind the initiatives described below.

The global economy is expected to shift gradually into a recovery phase from fiscal 2006 with continued high growth rates forecast for China, in particular, and other Asian nations. Japan is also seen as having worked itself free of deflation and on the road to a solid, long-term period of business recovery.

The environment in which the airlines operate has come under increasingly harsh conditions with rising aviation fuel prices, etc. and they are moving towards aircraft downsizing and other yield-focused strategies to overcome these changes in the environment.

Like the airlines, the airports are also seeing changes in their environment. The activity by major airports around the world to attract airlines and alliance members is accelerating and the airports are being caught up in a great torrent of competition of global proportions. For Narita Airport also, there are expectations that competition with airports in Asia such as Haneda, which will begin operating international schedule services in fiscal 2010, Incheon and Shanghai, will escalate.

In the environment surrounding Japan's overseas travel market, we can expect strong growth in business travel supported by a favorable business climate. In tourist travel, although Japan's population is in decline, we can expect an increase in Japanese travelers driven by an increase in senior citizens with more disposable time, and with the economic prosperity in East Asia in particular, the effects of the Visit Japan Campaign and the granting of visas throughout China, visitors to Japan will also gradually increase.





3. Basic Guidelines

The pursuit of safety at all levels will be the primary concern for the NAA Group as it brings to completion the extensions to the parallel runway and the construction of the Narita Rapid Railway system in order to overcome the changes in the business environment and meet growing demand for air travel at one of the most important airports in the world while at the same time consolidating its management fundamentals to expand revenues and reduce costs.

The Group will continue to work to enhance its esteem in the community by offering quality services based on customer needs, playing a leading role in promoting environment strategies, community integration and eco-airport programs while also working towards launching an IPO as soon as possible.

(1) Consolidating Group Fundamentals

- Safety First

By pursuing aircraft operational safety and airport security at all levels, the Group's objective is to offer an airport where passengers can board their aircraft with supreme confidence.

- Better Facilities for Greater Capacity, Convenience

As one of the most important airports in the world, Narita will improve its facilities (parallel runway extension, Narita Rapid Railway, etc.) to enhance capacity and convenience and equip itself to handle up to 220,000 flights a year and further long-term demand for air transport.

- Increased Revenues, Reduced Costs

The extension of the parallel runway to 2,500 meters will increase aeronautical revenue, the main source of income. The Group is expanding retailing and other non-aeronautical revenue and work to further reduce the cost of facility and equipment investment and operational expenses.

(2) A Highly Regarded Corporate Group

- Offer Quality Services

The Group will improve customer satisfaction with quality services designed to meet customer needs.

- Implementation of Environment & Community Programs

The Group has been faithfully implementing environment and community programs for the extensions to the parallel runway as required.

- Eco-Airport Initiatives

The Group will attain the goals of the Eco-Airport Master Plan and introduce environmental auditing for its initiatives as a means of achieving sustained development at Narita Airport.

- Human Resources

The Group will continue to initiate human resources programs aimed at providing a workplace of which its employees are proud and can work with confidence and enthusiasm.

- Regulatory Compliance

The Group aims for public confidence through compliance at all levels.

- IPO

Public listing as soon as possible.



4. Specific Commitments

(1) Consolidation of Group Fundamentals

Safety First

- To ensure the safety and punctuality of arriving and departing aircraft, CATIIB operation is available in low visibility (runway visual range at 100 meters) from April 2006.
- In line screening has been introduced in all terminals with explosive detection system (EDS) scanning of all check-in baggage before loading into the aircraft.
- The NAA Group and all personnel involved with Narita Airport will share the same safety guidelines and objectives, forge a closer sense of cooperation and liaison, and build an airport safety system for practicing essential safety measures.
- Stable fuel supplies will be established by ensuring the safety of aviation fuel transportation and maintaining necessary reserves in the airport.

Better Facilities for Greater Capacity, Convenience

- The management plan includes facility investment for improvements in airport capacity and convenience to provide greater competitiveness with the international services to be introduced at Haneda and with the major international airports in East Asia.
- The Group aims to open the 2,500-meter Runway by the end of fiscal 2009 by extending it northwards to accommodate 220,000 slots a year and equip it for further long-term growth beyond that.
- Completion of the Narita Rapid Railway system in April 2010. This will drastically reduce the traveling time from Tokyo from approximately 1 hour to just over 30 minutes and provide greater convenience for airport customers.
- Operational efficiency will be introduced to optimize the capacity of the existing cargo facilities and additional facilities will be given consideration as required by cargo demand and the needs of airlines, etc.

Increased Revenue, Reduced Costs

- The extension of the parallel runway will provide additional handling capacity and boost aeronautical revenue, the main source of income, in fiscal 2010.
- Non-aeronautical revenue will continue to be boosted with the opening of new retailing facilities by NAA Retail Corporation, NAA & ANA Duty Free Corporation and NAA & JAL-DFS Corporation in the South Wing in Terminal 1 in 2006 and the central section of the Main Building in Terminal 2 in 2007.
- Information bulletins from Narita Airport will also promote it as a user friendly airport and use by non-traveling customers as well as passengers will boost non-aeronautical revenue.
- The Group will devise sales improvement strategies for concession operators and tenant assistance steps as a means of increasing retail sales and expanding income from tenancy fees. The Group will also continue to introduce new contract and tenancy management formats to provide the incentive to promote sales.
- Further improvements has been made to the price negotiation system introduced after privatization to reduce the cost of investment in plant and equipment.
- A revision of the procurement system will be one of the methods used to rationalize facility maintenance and introduce greater efficiency and further cost reductions will be introduced across the entire spectrum of operational expenditures.
- The Group aims to reduce staff numbers in NAA by approximately 150 (17%) over the five years to the end of fiscal 2010. The introduction of a rehiring system will also make available the skills of senior personnel and the outsourcing of repetitive tasks will increase efficiency.



(2) A Highly Regarded Corporate Group Offer Quality Services

- The airlines were relocated since the South Wing in Terminal 1 opened in June 2006 to establish a uniform distribution of peak traffic between the two terminals and enable code-share partner airlines to operate in the same building. Enabling the world's three largest airline alliances to operate in the same terminals will offer advantages to customers and airlines alike.
- The objective is to offer a user-friendly airport based on a universal design that is usable by all passengers regardless of disability, age or gender.
- Upper deck boarding bridges for the A380 will be introduced in stages depending on schedules and flight frequencies. These improvements will mean smoother boarding and deplaning of aircraft and will also result in improvements in airline services to passengers in accordance with classes and services to special needs passengers.
- The e-Airport concept will also continue to unfold with the use of the world's most advanced information technology to present a futuristic airport. The pursuit of safety and service improvements are both issues that can take advantage of leading edge IT and produce terminal facilities in which passengers can undertake all of the necessary travel procedures easily and quickly.
- We will also provide more facilities where passengers spend time waiting for flights and improve information displays so that our customers can spend their time in comfort at the airport.
- Better customer satisfaction is also one of our objectives with initiatives aimed at our personnel so that all staff throughout the airport offer courteous hospitality and pleasant service, which will present an airport that our customers feel confident and at ease with.

Implementation of Environment & Community Programs

- The NAA group will faithfully and fully implement environment and community strategies with the northern extension of the parallel runway and the increase in capacity to 220,000 slots a year.

Eco-Airport Initiatives

- We will attain the objectives of the Eco-Airport Master Plan to achieve sustainable development at Narita Airport. This will mean monitoring and auditing initiatives on a yearly basis, setting new targets and formulating improvements. NAA will also introduce environmental auditing to evaluate its environment strategies.
- The Group will expand its drive to nurture the natural environment around the airport and make use of its land to provide local residents with locations in which to enjoy that environment.
- As part of our initiatives for the environment, we are monitoring the impact of airport operations and make that information fully available to the public while also expanding the methods of releasing information in a readily understandable format and offering more content.

Human Resources

- We are enhancing our human resources by establishing a staff evaluation system and expanding the different study programs and, at the same time, we will add greater vitality to our organization by introducing a system for recruiting and enhancing the skills of personnel in more highly specialized fields.
- Human resources has also been greatly improved in our group company as well with the introduction of result-based assessments, the introduction of a rehiring program for older workers and the exchange of staff within the group.

Regulatory Compliance

- Strongly affirming corporate responsibility to society, the Group is adhering strictly to regulatory, ethical and company standards to establish public confidence.

IPO

- We will look closely at the timing of the completion of the parallel runway as well as the Group's overall financial status with a view to IPO as soon as possible.

5. Group Investment Plan

The following facility and equipment investment programs will be implemented with emphasis on increased capacity, improved safety and improved service. This investment will peak during the management plan period.

Investment related to increasing capacity and improving basic airport functions (parallel runway extension, construction of taxiways and aircraft parking bays, repair of Maintenance Area aprons, etc.)	JPY 120 billion
Investment related to safety improvements and increased airport security (installation of in-line screening and security devices around Runway A, facility maintenance renewal works, etc.)	JPY 90 billion
Investment related to improving services to passengers, etc. (Narita Rapid Rail development, installation of A380 upper-deck boarding bridges, refurbishment of Terminal 2, etc.)	JPY 190 billion
Total	JPY 400 billion

6. Corporate Objectives

To make the necessary investments in facilities and equipment to meet growing demand for aviation, expand revenues, reduce costs aiming for mid to long-term corporate stability and growth, and attain the following corporate objectives in fiscal 2010.

Operating revenue (NAA group target)
JPY210 billion

- The Group aims to expand non-aeronautical revenue from its three retail companies in the new retailing facilities in the South Wing in Terminal 1 (opened in 2006) and the central section of the Main Building in Terminal 2 (opened in 2007) and by absorbing aviation demand with the longer parallel runway, achieve an operating revenue of JPY210 billion overall in fiscal 2010.
- By expanding non-aeronautical revenue, we also aim to increase its ratio of operating revenues by 10 points above the fiscal 2005 level in fiscal 2010.

Operating profit (NAA group target)
JPY35 billion

- As a result of the parallel runway being extended to 2,500 meters, our operating profit target in fiscal 2010 is JPY35 billion.

Free cash flow (NAA group target)
The target is for a surplus free cash flow by NAA Group (JPY25 billion)

- In addition to expanding operating revenues and reducing operating expenses, investment cash flow will be reduced by fiscal 2010 when investment in the parallel runway extensions and the Narita Rapid Rail system and other facilities for future growth will slow down at which time a surplus free cash flow will emerge and liabilities will be reduced.

ROA (NAA group target)
3.3%

