

Consolidated Financial Statement

for Fiscal 2007 - Overview

Japan's economy in fiscal 2007 was affected by a declining US economy as a result of the sub-prime mortgage loan problem, shaky financial markets and spiraling raw materials costs, which gave rise to growing alarm concerning the direction of the business climate. Corporate revenue weakened somewhat and conditions continue to warrant caution in case of a further decline in the business climate.

At Narita International Airport, aircraft movements were close to capacity, posting record figures this year again after some domestic slots were set aside for use by international services. International passenger traffic posted a slight increase overall due to an increase in visitors to Japan resulting from the Visit Japan campaign but Japanese traffic was down due to the cost of overseas travel as a result of increases in fuel surcharges. Air cargo was on par with figures for the previous fiscal year but fuel supplied was slightly down due to acceleration in the move to smaller, more fuel efficient aircraft.

Operating in this environment, the NAA Group continued to make steady progress with the extension of the parallel runway to 2,500 meters by shifting the project site further to the north, the construction of the Narita New Rapid Railway and other facility development projects; expanded its turnover from retailing, particularly the exclusive brand name boutique malls, "narita nakamise", which opened in the South Wing in Terminal 1 in June 2006, and "Narita 5th Avenue" which opened in Terminal 2 in April 2007; set out on further cost cutting drives and firmly established the strategies for achieving its mid-term management plan, "New Stage 2010".

Therefore, consolidated results for the fiscal year showed an 8.4% increase in operating revenues over the previous year to JPY199.873 billion as a result of the opening of "Narita 5th Avenue" and a full year trading by "narita nakamise".

However, operating profit fell 1.6% to JPY32.866 billion due to facility maintenance costs and increases in depreciation expenses consequent to revised taxation regulations. Ordinary profit fell 1.1% to JPY23.573 billion with net income for the term down 7.0% to JPY10,929 billion.

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Consolidated Balance Sheet

Assets

Total assets increased 0.2% to JPY992.199 billion. Current assets fell 1.6% mainly due to a drop in notes and accounts receivable to JPY3.988 billion. Fixed assets increased 0.3% chiefly as a result of an increase in construction in progress with the work on the Narita New Rapid Railway.

Liabilities

Liabilities fell 1.3% to JPY772.041 billion. Corporate bonds issued in the current consolidated accounting year (including those redeemable within one year) decreased by JPY4.463 billion with issued bonds valued at JPY30.000 billion and redemptions valued at JPY34.563 billion. Long term borrowings (including those repayable within one year) fell by JPY13.475 billion with borrowings totaling JPY17.501 billion and repayments totaling JPY13.475 billion. Consequently, long-

term debt totaled JPY659.252 billion, consisting of JPY448.304 billion in corporate bonds and JPY210.947 billion in long-term borrowings (of which JPY105.253 billion are long-term interest-free government loans).

Net assets

Shareholders' equity increased 3.9% to JPY209.905 billion. This was due to the fact that dividends paid totaled JPY3.094 billion while net income for term was JPY10.929 billion. As a result, capital-to-asset ratio at the end of this year improved to 21.2% up from 20.4% at the end of the previous year.

Minority interests increased 67.0% to JPY10.252 billion due to increased investment in Narita Rapid Rail Access Co., Ltd. and net assets totaled JPY220.157 billion after valuation and translation adjustments.

Consolidated Balance Sheet

Item	Fiscal 2006 (As of March 31, 2007) Amount (million yen)	Fiscal 2007 (As of March 31, 2008) Amount (million yen)
(Assets)		
I Current assets	54,249	53,366
1 Cash and deposits	30,262	29,866
2 Notes and accounts receivable	16,095	12,107
3 Marketable Securities	201	202
4 Inventories	4,524	5,590
5 Deferred tax assets	1,103	1,308
6 Other	2,067	4,300
7 Allowance for doubtful accounts	Δ5	Δ9
II Fixed assets	936,311	938,832
1 Tangible fixed assets	904,400	906,947
(1) Buildings and structures	532,948	510,652
(2) Machinery, equipment and vehicles	62,372	57,767
(3) Tools, furniture and fixtures	17,051	19,172
(4) Land	267,537	268,584
(5) Construction in progress	24,490	50,771
2 Intangible fixed assets	6,149	6,746
Software, etc.	6,149	6,746

3 Investments and other assets	25,761	25,138
(1) Investment securities	742	1,685
(2) Long-term loans	71	57
(3) Deferred tax assets	23,982	22,614
(4) Other	969	783
(5) Allowance for doubtful accounts	Δ4	Δ4
Total assets	990,561	992,199
Liabilities		
I Current liabilities	100,619	105,192
1 Accounts payable	7,405	7,382
2 Short-term borrowings	720	250
3 Corporate bonds redeemable within 1 year	34,552	36,162
4 Long-term loans repayable within 1 year	30,827	31,243
5 Accrued income taxes	4,457	3,082
6 Reserves for bonuses	1,881	1,972
7 Other	20,774	25,099
II Fixed liabilities	662,019	654,005
1 Corporate bonds	418,215	412,142
2 Long-term borrowings	193,595	179,704
3 Lease and guarantee deposits received	11,668	11,381
4 Reserves for retirement benefits	25,355	23,848
5 Reserves for director retirement allowances	356	377
6 Reserves for loss on relocation of head office	2,119	—
7 Long-term advance charges received for construction	9,713	25,681
8 Other	994	870
III Reserves under special law	19,710	12,842
1 Allowance for Narita New Rapid Railway	19,710	12,842
Total liabilities	782,349	772,041
Net assets		
I Shareholders' equity		
1 Common stock	100,000	100,000
2 Capital surplus	52,000	52,000
3 Earned surplus	50,070	57,905
Total shareholders' equity	202,070	209,905
II Valuation / Exchange Difference etc.		
1 Net unrealized gains on other securities	2	Δ0
Total valuation and translation adjustments	2	Δ0
III Minority interests	6,139	10,252
Total net assets	208,211	220,157
Total liabilities and net assets	990,561	992,199

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Consolidated Profit & Loss Statement

Operating revenues

Although aircraft and passenger traffic set record figures, revenue from airport operations dropped 0.7% to JPY112.171 billion due to declines in revenue from airport and fuel facility usage fees arising from the introduction of smaller and more fuel efficient aircraft. With the opening of new subsidiary shops in Narita 5th Avenue and a full year of trading at narita nakamise, revenue from retailing and food and beverage operations rose, producing a 41.7% increase over the previous year to JPY54.067 billion. Therefore, operating revenue increased 8.4% to JPY199.873 billion.

Operating expenses

Operating costs rose 11.2% to JPY139.318 billion due to increases in facility maintenance expenses, depreciation expenses as a result of amendments to taxation regulations, and the cost of sales in duty-free shops, etc. Sales and general administrative expenses also increased 7.8% to JPY27.688 billion due to increased labor costs as a result of launching new duty-free and other shops. Therefore, operating expenses rose 10.6% to JPY167.007 billion.

Operating profit

Consequently, consolidated operating profit for the fiscal year was down 1.6% to JPY32.866 billion. The margin of operating profit to operating revenue was

16.4% for the current term in contrast to 18.1% for the previous term

Ordinary profit

Consolidated non-operating profit and loss improved 2.8% from a JPY9.563 billion (net) loss in the previous fiscal year to a (net) loss of JPY9.292 billion. This was mainly due to a decline in interest paid and bond interest expense. The average interest rate on long-term interest-bearing liabilities for the term was 1.6%. Therefore, ordinary profit was down 1.1% to JPY23.573 billion.

Net income before income taxes and minority interests

Extraordinary profit and loss posted a (net) loss of JPY3.584 billion in contrast to JPY3.448 billion posted in consolidated figures for the previous fiscal year. This was mainly due to a decline of JPY128 million in gains on sales of fixed assets. Therefore, net income before income taxes and minority interests fell 1.9% to JPY19.988 billion.

Net income

Net income after income taxes, deferred taxes and minority interests declined 7.0% to JPY10.929 billion. Net income per share was JPY5,464.53 compared to JPY5,874.91 in the previous year.

Consolidated Profit & Loss Statement

Item	Fiscal 2006	Fiscal 2007
	(From April 1, 2006 to March 31, 2007) Amount (million yen)	(From April 1, 2007 to March 31, 2008) Amount (million yen)
I Operating revenue	184,343	199,873
II Operating expenses	125,262	139,318
Gross operating profit	59,081	60,555
III Selling and general administrative expenses	25,691	27,688
Operating profit	33,389	32,866
IV Non-operating revenue	564	709
1 Interest and dividends received	41	95
2 Charges received for shop fixtures	108	—
3 Construction settlement received	76	—
4 Accident compensation received	—	258
5 Equity in loss of unconsolidated subsidiaries and affiliates	9	—
6 Other	328	355
V Non-operating expenses	10,128	10,002
1 Interest paid	1,962	1,933
2 Interest expenses on corporate bonds	7,770	7,543
3 Equity in earnings of affiliates	—	8
4 Other	394	516
Ordinary profit	23,826	23,573
VI Extraordinary profit	410	295
1 Gains on sales of fixed assets	228	100
2 Railway subsidies	170	170
3 Other	12	24
VII Extraordinary loss	3,859	3,879
1 Losses on disposal of fixed assets	2,961	3,741
2 Relocation compensation	847	3
3 Other	50	134
Net income before income taxes and minority interests	20,377	19,988
Income taxes	8,341	7,525
Deferred taxes	168	1,125
Minority interests	117	409
Net income	11,749	10,929

3 Cash Flow

Consolidated cash and cash equivalents at the end of the year fell JPY355 million to JPY29.883 billion.

Cash flow from operating activities

Despite a decline in net income before taxes and minority interests, cash inflow increased JPY6.757 billion to JPY59.856 billion due to an increase in depreciation expenses and a decrease in refunds of lease and guarantee deposits received

Cash flow from investing activities

Payments for acquisitions of fixed assets fell substantially, producing a cash outflow decline of JPY24.931 billion to JPY42.251 billion.

Cash flow from financing activities

Free cash inflow was appropriated to the redemption of corporate bonds and repayment of long-term borrowings etc. This resulted in net outflow of JPY 17.984 billion this year, in contrast to the net inflow of 2.438 billion in the previous year.

Consolidated Cash Flow Statement

Item	Fiscal 2006	Fiscal 2007
	(From April 1, 2006 to March 31, 2007) Amount (million yen)	(From April 1, 2007 to March 31, 2008) Amount (million yen)
I Cash flow from operating activities		
Net income before income taxes and minority interests	20,377	19,988
Depreciation expenses	49,552	51,291
Increases in reserves for bonus	139	91
In/decrease in reserves for retirement benefits (decrease: Δ)	Δ298	Δ1,507
Decrease in allowance for Narita New Rapid Railway	Δ1,954	Δ6,868
In/decrease in reserves for loss on removal of head office (decrease: Δ)	Δ37	Δ2,119
Interest and dividends received	Δ41	Δ95
Interest paid and bond interest	9,733	9,477
Equity in loss/income of unconsolidated subsidiaries and affiliates (income: Δ)	Δ9	8
Losses on disposal of fixed assets	2,786	4,987
Losses/gains on sales of fixed assets (gains: Δ)	Δ197	Δ65
In/decrease in notes and accounts receivable (increase: Δ)	Δ3,754	3,988
In/decrease in inventories (increase: Δ)	Δ3,173	Δ1,023
In/decrease in prepaid pension expense (increase: Δ)	Δ89	18
In/decrease in notes and accounts payable (decrease: Δ)	Δ379	Δ489
In/decrease in leasehold deposits held as surety (decrease: Δ)	Δ4,385	Δ283

In/decrease in amounts payable (decrease: Δ)	Δ205	1,358
In/decrease in consumption tax payable (decrease: Δ)	1,122	98
In/decrease in advance receipts (decrease: Δ)	Δ410	518
Other	2,238	Δ1,315
Sub-total	71,012	78,059
Interest and dividends received	48	99
Interest paid	Δ9,733	Δ9,397
Taxes paid	Δ8,228	Δ8,904
Cash flow from operating activities	53,098	59,856
II Cash flow from investing activities		
Proceeds from redemption of securities	100	—
Payments for acquisitions of fixed assets	Δ74,088	Δ57,054
Proceeds from sales of fixed assets	366	278
Proceeds from charges received for construction	7,031	15,604
Payments for acquisitions of long-term prepaid expenses	Δ258	Δ168
Payments for acquisition of investment securities	Δ405	Δ958
Proceeds from acquisition of new consolidated subsidiary	17	—
Payments for loans	Δ1	Δ2
Proceeds from recovery of loans	28	16
Increase in term deposits	Δ10	—
Decrease in term deposits	30	40
Payments for leasehold and guarantee deposits	Δ4	Δ12
Other	11	5
Cash flow from investing activities	Δ67,182	Δ42,251
III Cash flow from financing activities		
Net in/decrease in short-term borrowings (decrease Δ)	405	Δ470
Proceeds from long-term borrowings	39,055	17,501
Repayments of long-term borrowings	Δ37,535	Δ30,977
Proceeds from corporate bond issues	29,890	29,905
Payments for redemptions of corporate bonds	Δ30,270	Δ34,563
Proceeds from stock issues to minority shareholders	2,876	3,713
Proceeds from capital increase by minority shareholders due to establishment of a consolidated subsidiary	17	—
Dividends paid	Δ2,000	Δ3,094
Cash flow from financing activities	2,438	Δ17,984
IV Effect of changes in exchange rates on cash and cash equivalents	25	23
V In/decrease in cash and cash equivalents (decrease: Δ)	Δ11,619	Δ355
VI Balance of cash and cash equivalents at the beginning of term	41,859	30,239
VII Balance of cash and cash equivalents at end of term	30,239	29,883

4 Segment Reports

Airport operations

Aircraft movements rose 1.8% from 190,636 to 194,115, owing to growth on China and Asia routes ever since some domestic slots were transferred to international routes. However, due to a downward trend in maximum take-off weight from the growing use of smaller and quieter aircraft, revenue from airport usage charges comprising landing and parking charges was down 1.7%.

Japanese passenger numbers fell by 2.7% due to the cost of overseas travel as a result of increases in fuel surcharges. On the other hand, the number of non-Japanese passengers increased 9.2%, largely due to the Visit Japan Campaign. Overall passenger figures including transit and domestic passengers rose 0.2% from 35,336,000 last year to 35,389,000. Consequently, revenue from passenger service facilities charges was up 0.8%.

Despite an increase in aircraft movements, use of smaller and more fuel-efficient aircraft resulted in a decline in fuel supply volume of 1.3% from 5,698,000 kl in the previous year to 5,623,000 kl.

Also due to the full year of expenses for Terminal 1 South Wing which opened in June 2006 and increases in depreciation expenses consequent to revised taxation regulations, operating expenses rose 2.8%.

Therefore, operating revenue from airport activities was down 0.7% to JPY112,171 million and operating profit was down 50.4% to JPY3,213 million.

Retailing

NAA Retailing Corporation and NAA & JAL-DFS Corporation opened new retailing facilities including duty-free stores and fashion boutiques in Narita 5th Avenue. Due to the opening of these new stores, as well as the year-round operation of the

duty-free exclusive fashion mall, "narita nakamise", revenue from sales of products, food and beverage increased significantly by 73.8%. Other revenue also increased 21.7% with Green Port Agency Co., Ltd's insurance and currency exchange counters in the South Wing in Terminal 1 operating for the full fiscal year as well as a full year of advertising purchased in the same location from the advertising arm of Mediaport NARITA Company Limited and increased advertising activity with the opening of "Narita 5th Avenue".

As a result of the above, operating revenue increased 41.7% to JPY54.067 billion but operating profit posted a slight growth in comparison of 24.2% to JPY16.892 billion owing to a rise in expenses with the commissioning of "Narita 5th Avenue".

Facility leasing

Operating revenue from facility leasing rose 1.4% to JPY33.427 billion owing to an increase in airline lounge and other rental space but operating profit decreased 3.0% to JPY13.430 billion due to a rise in maintenance costs.

Railway business

Narita Rapid Rail Access Co., Ltd., the main entity in the Narita New Rapid Railway project is pushing ahead with the project with a schedule opening date sometime in fiscal 2010 and expenses will increase as the project progresses. Low passenger figures continue to affect the Shibayama Railway operated by Shibayama Railway Co., Ltd., and there has been little improvement in operating profit. As a result, operating revenue stood at JPY205 million down 10.5% and operating loss increased 40.2% over the previous year at JPY546 million.

Segment Information

Operating segment information

Fiscal 2007 Consolidated Accounts (1 April 2007 to 31 March 2008)

	Airport Operations (million yen)	Retail Business (million yen)	Facility Leasing (million yen)	Railway Business (million yen)	Total (million yen)	Eliminations of Corporate (million yen)	Consolidated (million yen)
I Sales and operating profit and loss							
Sales							
(1) Sales to outside customers	112,171	54,067	33,427	205	199,873	—	199,873
(2) Internal inter-segment sales and transfers	5,846	345	1,799	85	8,075	(8,075)	—
Total	118,017	54,413	35,227	290	207,949	(8,075)	199,873
Operating expenses	114,804	37,521	21,796	837	174,959	(7,952)	167,007
Operating profit (or loss Δ)	3,213	16,892	13,430	Δ546	32,989	(123)	32,866
II Assets, depreciation, impairment losses and capital expenditure							
Assets	727,732	49,640	164,112	51,013	992,499	(300)	992,199
Depreciation	39,254	2,529	9,400	125	51,311	(19)	51,291
Capital expenditures	31,470	2,753	5,678	22,281	62,182	(114)	62,068

Note 1. Business segmentation method

In order to disclose the real diversity of its operations in a concrete and appropriate manner, the company segments its business in a way that takes the real situation into account.

2. Main activities of the segments

Airport operations: Maintenance and operation of airport facilities for departure and arrival, refueling, security, etc., and the management and operation of passenger service facilities and other facilities associated with airport activities.

Retail business: Operation of duty-free shops, retail shops, food and beverage outlets, airport related services and advertising agencies.

Facility leasing: Leasing of offices and cargo facilities etc. to airlines and other tenants.

Railway business: Railway business.

3. Eliminated assets and those included in items for all group companies were JPY1.406 billion with the principal item being long-term investment funds, etc.

4. Depreciation expenses and capital expenditure includes payments for acquisitions of long-term prepaid expenses and depreciation associated with that expenditure.

5. Changes in accounting procedures

Changes in depreciation methods for tangible fixed assets

In accordance with the amendments to the Corporate Tax Law, starting with this accounting year, NAA and its consolidated subsidiaries employ the depreciation method prescribed by the amended Corporate Tax Law in calculating depreciation for tangible fixed assets acquired since 1 April 2007. In line with this change, operating expenses for the 2007 consolidated accounting year posted an increase of JPY81 million for airport operations activities, JPY21 million for retail business, JPY19 million for facility leasing and JPY0 million for railway business, and operating profit posted a decrease by the same amount.

Furthermore, tangible fixed assets acquired on or prior to 31 March 2007, are depreciated evenly for a period of 5 years by the difference between the amount equivalent to 5% of the acquisition price and the memorandum price, starting from the consolidated accounting year following the year when the asset value reaches 5% of the acquisition price, in accordance to the depreciation method prior to the amendment of the Corporate Tax Law. In conjunction with this change, operating expenses for the 2007 consolidated accounting year posted an increase of JPY830 million for airport operations, JPY23 million for retail business, JPY179 million for facility leasing and JPY0 million for railway business, and operating profit posted a decrease by the same amount.

Fiscal 2006 Consolidated Accounts (April 1, 2006 to March 31, 2007)

	Airport Operations (million yen)	Retail Business (million yen)	Facility Leasing (million yen)	Railway Business (million yen)	Total (million yen)	Eliminations of Corporate (million yen)	Consolidated (million yen)
I Sales and Operating Profit and Loss							
Sales							
(1) Sales to outside customers	112,980	38,167	32,965	229	184,343	—	184,343
(2) Internal inter-segment sales and transfers	5,189	983	1,586	40	7,800	(7,800)	—
Total	118,170	39,150	34,552	270	192,143	(7,800)	184,343
Operating expenses	111,694	25,555	20,706	660	158,617	(7,663)	150,953
Operating profit (or loss Δ)	6,475	13,595	13,846	Δ390	33,526	(136)	33,389
II Assets, Depreciation, Impairment Losses and Capital Expenditure							
Assets	742,390	47,171	175,307	26,052	990,921	(359)	990,561
Depreciation	38,042	2,192	9,214	109	49,558	(5)	49,552
Capital expenditures	31,262	3,806	10,763	11,848	57,681	(128)	57,553

Note 1. Business segmentation method

In order to disclose the real diversity of its operations in a concrete and appropriate manner, the company segments its business in a way that takes the real situation into account.

2. Main activities of the segments

Airport operations: Maintenance and operation of airport facilities for departure and arrival, refueling, security, etc., and the management and operation of passenger service facilities and other facilities associated with airport activities.

Retail business: Operation of duty-free shops, retail shops, food and beverage outlets, airport related services and advertising agencies.

Facility leasing: Leasing of offices and cargo facilities, etc. to airlines and other tenants.

Railway business: Railway business.

3. In the assets segment, the all company assets inclusive of eliminations and corporate items stand at JPY459 million, the principal item being long-term investment funds, etc.

4. Depreciation expenses and capital expenditure includes payments for acquisitions of long-term prepaid expenses and depreciation associated with that expenditure.

5. Changes in accounting procedures

Changes in business segmentation

Until the last consolidated accounting year, operation of duty-free shops, retail shops and food and beverage outlets were categorized under the Airport Space Utilization segment. Starting with this accounting year, however, Airport Space Utilization will be categorized separately into Retail Businesses and Facility Leasing. This is because under the NAA Group mid-term management plan, NAA has vowed to take constructive measures to expand its retail activities as a means of increasing non-aeronautical revenue and because turnover from retailing has increased with the opening of the Terminal 1 building in June 2006, raising its importance, thus creating the need to disclose operations in a more appropriate manner.

At the same time, advertising agency activities, which was formerly included in Other Business, is now included in Retailing Business. Railway activities in the Other Business segment has been renamed Railway Business.

Segment information for the last consolidated accounting year adjusted to the new segmentation is as follows: