

# Interview with the President



*Hirano*

President and  
Representative Executive Officer

In fiscal 2009, we will enhance existing businesses and strengthen our foundation for developing future growth strategies.

**Q** Please share your thoughts on the current state of personal consumption as well as your outlook for the future.

**A.** Since autumn 2008, the U.S. financial crisis has spread throughout the world, affecting all industries and exerting pressure on the real economy. In Japan, the deterioration of global corporation earnings and failures in the real estate industry are worsening employment environment and have increased public anxiety.

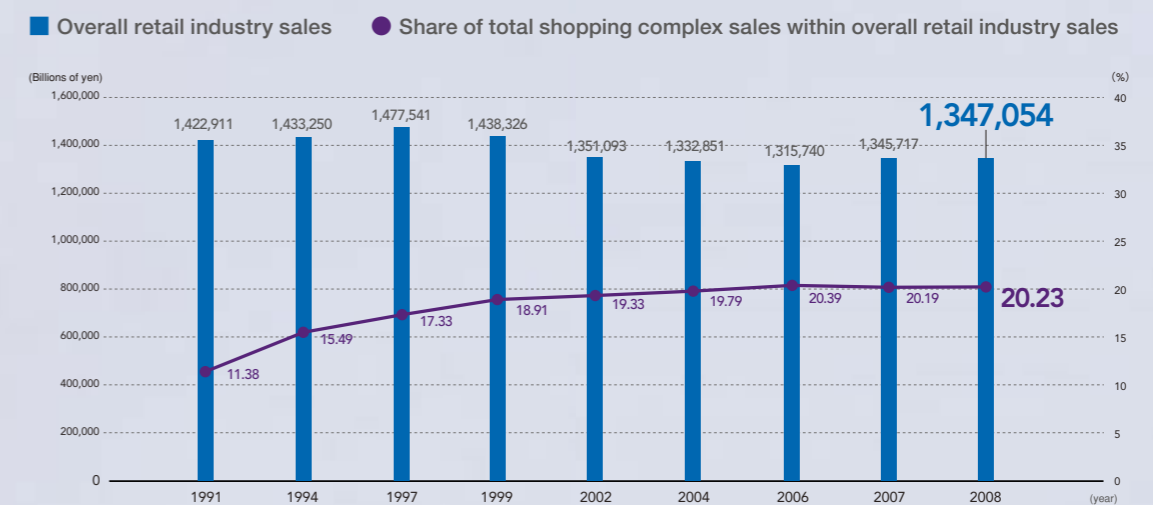
In the retail industry, changes in consumption behavior, sales channel diversification and the entrance of other businesses have resulted in hard-fought sales for existing retail businesses. As one misfortune follows another in this sluggish economy, consumer uncertainty translates into increasingly cautious purchase behavior.

In terms of the outlook for the future, we expect the decreasing birth rate and aging population to change the structure of consumption, while at the same time the costs of responding to social demands such as the pursuit of security, environmental responsiveness and adequate compliance are pressuring corporate management to undertake reforms in order to survive.

However, we do not expect the current conditions to last forever. As companies gradually dispose of their losses, the consumer mentality will change, and eventually it will be possible to overcome this difficult period.

We see this period as a time to focus on our next leap forward, and believe that there is favorable opportunity for change. We will adequately prepare for the future by reviewing our existing businesses and reforming our business structure.

Retail industry sales and share of shopping complex sales within overall retail industry sales



Source: Shopping Center White Paper 2009, Japan Shopping Center Association and Commercial Statistics Survey, Ministry of Economy, Trade and Industry

## Preparation for openings in Fukuoka and Singapore and the revitalization of existing stores through anniversary projects.

### Q. Please provide a review of your performance in fiscal 2008 and the forecast for fiscal 2009.

**A.** In fiscal 2008, the PARCO Group's consolidated net sales were ¥282,509 million (down 1.5% year on year), operating income was ¥9,362 million (down 7.2%) and ordinary income was ¥9,171 million (down 8.0%). As a result of losses on the valuation of investment securities and special losses associated with the restructuring of our hotel business, net income was ¥3,730 million (down 27.8%).

Along with the opening of <Sendai PARCO>, our first base of operations in the Tohoku region, we strengthened our marketing capability through promotion of the continuous remodeling of existing stores and enhanced business planning. As a result, net sales on a non-consolidated basis were ¥261,751 million (down 0.7% year on year).

Group company NEUVE A CO., LTD., continued to aggressively open stores in commercial facilities outside PARCO totaling 131 stores at the end of the fiscal 2008.

Income from PARCO SPACE SYSTEMS CO., LTD., declined in reaction to last year's large orders (interior work orders for new PARCO stores and <Northport Mall>'s contract-based property management).

After careful examination of the profit-earning power and future prospects of our hotel business, we made the decision to withdraw from direct management operations after a second consecutive year of unprofitability. We have identified fiscal 2009 as the year for enhancing existing businesses and strengthening our foundation for developing future growth strategies.

In existing stores, we introduced a store group structure (Urban Store Group, Kanto Store Group and Regional Store Group) to create strategies that reflect the unique characteristics of each store and enhance competitiveness as the policies are put into action. Executive officers were appointed to each group with the aim of quick and optimal store management.

Under this structure, we aim to promote ongoing and aggressive remodeling and enhance sales plans.

Fiscal 2009 is a year of milestones for many stores, marking the 40th anniversary of <Ikebukuro PARCO>, our first store, the 25th anniversary of <Matsumoto PARCO>, the 20th anniversary of <Chofu PARCO> and <Nagoya PARCO> and the 15th anniversary of <Hiroshima PARCO>. We aim to bolster sales through anniversary projects.

We are engaged in full-scale preparations for the grand opening of <Fukuoka PARCO (provisional name)> and <PARCO@Millenia (provisional name)> in Singapore, which are scheduled for spring 2010.

In addition, as part of our forward-looking platform enhancement initiatives, we strengthened the structure of our organizational system during the period under review with the aim of increasing our corporate value through the establishment of a Business Strategy Office to devise new strategies, strengthening our marketing function and the strategic use of IT. In the Development Business Department, we will develop additional properties, integrating the expansion of the Shopping Complex Business through the consolidation of property management and consulting functions.

For fiscal 2009, we forecast net sales of ¥280 billion (down 0.9% year on year), operating income of ¥9.4 billion (up 0.4%), ordinary income of 9.2 billion (up 0.3%) and net income of ¥4.5 billion (up 20.6%).



and as a result of new store openings and the shedding of unprofitable stores in accordance with the steady implementation of our build and scrap policy, we were able to milestones ahead of schedule.

Preparing for future business developments, including the strengthening of our personnel system, and as a result of aggressive investment in store design and equipment, selling, general and administrative costs were higher than stipulated in the plan, but this translated into higher sales that generated the earnings to keep us on track.

Affected by the sudden economic slowdown in fiscal 2008, sales were sluggish, and we were unable to absorb the increased selling, general and administrative costs. Therefore, the achievement of our targets in this final year of the Five-Year Medium-Term Management Plan may be difficult.

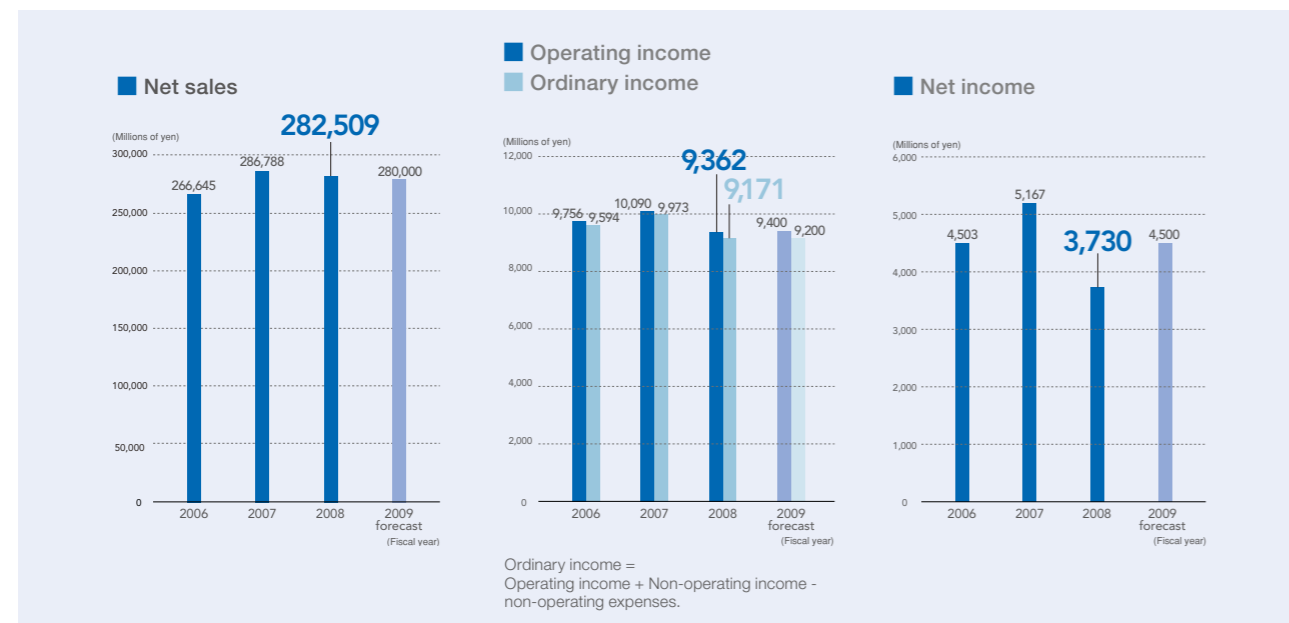
At the same time, the successful implementation of the plan though fiscal 2007 enabled us to reduce interest-bearing debt and strengthen our financial structure.

Given these conditions, we will continue to examine the aggressive allocation of management resources aimed at increasing corporate value in the future.

### Q. How are you progressing with the Five-Year Medium-Term Management Plan?

**A.** Fiscal 2009 is the final year of the Five-Year Medium-Term Management Plan, which began in fiscal 2005.

The plan was conceived under the themes of Strengthening Operational and Development Capabilities for Shopping Complexes, Fostering New Businesses and Taking on New Challenges and Deepening and Broadening Peripheral Businesses. Since fiscal 2007, the sales of existing stores and subsidiaries have been on target,



## PARCO has built up various strengths over the year.

### Q. What are strengths and the competitive edge the Company has?

**A.** In the 40 years since we opened <Ikebukuro PARCO> in 1969, we have been involved in shopping complex development and operation. Our strength, or rather, PARCO's driving force supporting creation of shopping complex, is our commercial facility total production capability. When we open a new store, we conduct thorough marketing to discover what local customers want from PARCO.

The next step is planning, where the floor concept and entire complex design is considered in light of the marketing results. After planning, the next step is tenant leasing, where our driving force comes from our solid network of more than 800 unique specialty store tenants, which in itself demonstrates our ability to draw tenants.

We are able to increase the attractiveness of our tenants' stores through interior design and common space fittings based on a unified design in accordance with the PARCO concept.

After a store has opened, the operational phase is focused on novel advertising methods to convey PARCO's attractiveness to customers, trendy sales promotion projects and events designed to increase the amount of customers visiting the store. The entertainment business, including theater, film, live music venues and publishing, also differentiates PARCO from the competition.



Furthermore, our Group companies give foremost consideration to safety and comfort, provided through maintenance supporting store operation. We also attempt to continually renew and maintain the freshness of our sales floor atmosphere by remodeling certain parts of existing stores each year.

Through efforts that make use of expertise accumulated over many years and based on the concept of consistency from PARCO development to operation, our Group's internal capabilities are the source of our originality and competitive edge.

At the same time, our stable earnings are the result of a combination of our retail business operation capabilities and the stability of the real estate industry.

Our business model dictates that we hold no inventory, maintain low risk in accounts receivable collection and have no salespeople on our sales floor, which results in a compact business structure that is linked to the maintenance of stable earnings.

Although rent (cost of sales by tenant) received from tenant specialty stores fluctuates according to sales amounts, we have established a fixed standard amount for rent that goes into effect when sales drop below the standard rent amount.

### Q. Going forward, what do you see as important management policies and measures?

**A.** In terms of management issues relating to future growth, we recognize the importance of existing store innovation through enhanced competitiveness and the creation of an efficient management structure, the planning and launch of new business for increased corporate value in the future and the expansion of businesses that makes use of our expertise, including cooperation with a wide range of partners.

With respect to these issues, management policy this term aims at placing a priority on ensuring sales and

## We are strengthening our Shopping Complex Business and formulating new growth strategies.

earnings through the strengthening of existing businesses, while enhancing our foundation to develop future growth strategies.

Looking ahead, we will focus on two priority policies: strengthening the Shopping Complex Business and creating new growth strategies.

Plans for strengthening the Shopping Complex Business will focus on:

- 1 A growth strategy based on expanding our market share, including the peripheral development of existing stores.
- 2 The establishment of new business models through collaboration with external companies such as the creation of customizable sales areas.
- 3 Maintaining sales floor freshness through efficient, ongoing remodeling based on an appropriate return on investment.
- 4 Making effective use of management resources through scrap and build initiatives.

The creation of new growth strategies will entail:

- 1 The restructuring of business that PARCO has begun by leveraging its core shopping center operations (property management, consulting, and general building management).
- 2 Develop overseas business through master leases with stores and collaboration with local companies.
- 3 Expand entertainment-related businesses that use content.
- 4 Engage in specialty store business through collaborations with specialty stores possessing a unique fashion sensibility.
- 5 Transforming our online business by combining bricks and mortar and e-commerce activities and through cooperation with outside entities.

By implementing these measures, we will realize balanced growth in both the Shopping Complex and new value creation businesses aimed at improving the corporate value of the entire PARCO Group.

### Q. What is your financial strategy with regard to shareholder return?

**A.** Until now, profits have been on track, as we were able to reduce interest-bearing debt and enhance our financial structure. Viewing the current sluggish economy as an opportunity, we think this is the time to aggressively allocate management resources to realize our aforementioned growth strategy.

Accordingly, our basic policy will be to allocate free cash flow to growth investments while maintaining stable return to our shareholders.

In fiscal 2008, we raised our annual dividend ¥1 per share, to ¥16, for the fifth consecutive year of increases. Given the challenging economic environment, we plan to maintain this dividend level in fiscal 2009.

