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# PARCO

PARCO Co., Ltd.

Interim Results Briefing for Fiscal 2005  
(Ending February 2006)

1. Highlights of Fiscal 2005 First-Half Results, and Fiscal 2005 Full-Term Earnings Forecasts

2. Key Issues

- Operating Highlights
- First-Half Highlights
- Second-Half Highlights

3. Progress Report for the Five-Year Medium-Term Management Plan

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**1. Highlights of Fiscal 2005  
First-Half Results, and  
Fiscal 2005 Full-Term  
Earnings Forecasts**

## Consolidated Results Unit: Million yen

	FY2005, 1 <sup>st</sup> half	FY2004, 1 <sup>st</sup> half	Amount of difference	YOY percentage
Net sales	126,301	124,825	1,476	101.2%
Operating income	4,648	4,101	547	113.3%
Ordinary income	4,526	3,778	747	119.8%
Net income	2,210	1,570	639	140.7%
	End of FY2005, 1 <sup>st</sup> half	End of FY2004, 1 <sup>st</sup> half	Amount of difference	YOY percentage
Total assets	182,356	187,993	-5,636	97.0%
Shareholders' equity	64,224	61,760	2,464	104.0%
Interest-bearing debt	43,698	48,732	-5,034	89.7%
Shareholders' equity/total assets	35.2%	32.9%		
Shareholders' equity/total assets, at market value	38.9%	28.7%		
Debt redemption period	3.5 years	4.6 years		
Interest coverage ratio	15.8	11.4		

Notes:

1. Seiyo Investment (S) Pte Ltd was excluded from consolidated results starting 1<sup>st</sup> half of FY2005, due to transfer of shares by a PARCO subsidiary.
2. HARLEY-DAVIDSON CITY CO., LTD. was included in the consolidated profit and loss statement starting 1<sup>st</sup> half of FY2005, due to transfer of shares.

Unit: Million yen

## ● Shopping Complex Business

Both sales and profit exceeded the first half of fiscal 2004, which is attributable to strong performances by key stores, including Nagoya PARCO, and the success of sales planning.

## ● Retail Business

Both sales and profit exceeded the first half of fiscal 2004, driven by aggressive opening of new stores and strong performances by existing stores at NEUVE A Co., Ltd.

## ● Space Engineering and Management Business

Although sales at PARCO SPACE SYSTEMS Co., Ltd., fell below the results of the first half of fiscal 2004 when there were major projects, the business achieved initial targets due to an expansion in work orders.

## ● Other Business

Hotel New Creston Co., Ltd., has increased its business results, mostly due to the Expo Aichi 2005.

		FY05, 1 <sup>st</sup> half	FY04, 1 <sup>st</sup> half	Difference
Shopping Complex Business	Sales	118,321	115,266	3,054
	Operating income	4,062	3,497	564
Retail Business	Sales	8,033	7,475	558
	Operating income	235	130	105
Space Engineering and Management Business	Sales	9,524	12,511	-2,987
	Operating income	92	306	-214
Other Business	Sales	1,235	1,216	18
	Operating income	102	25	76
Total	Sales	137,114	136,470	644
	Operating income	4,493	3,960	532
Eliminations or Corporate	Sales	(9,926)	(10,830)	904
	Operating income	155	140	14
Consolidated Total	Sales	127,187	125,639	1,548
	Operating income	4,648	4,101	547

Note: Sales results by segment include operating revenues.

## Non-Consolidated Results Unit: Million yen

	FY2005, 1 <sup>st</sup> half	FY2004, 1 <sup>st</sup> half	Amount of difference	YOY percentage
Net sales	117,234	114,258	2,976	102.6%
Operating income	4,017	3,436	580	116.9%
Ordinary income	3,798	2,914	883	130.3%
Net income	1,558	1,085	472	143.6%
	End of FY2005, 1 <sup>st</sup> half	End of FY2004	Amount of difference	YOY percentage
Total assets	182,562	183,890	-1,327	99.3%
Shareholders' equity	65,925	64,171	1,754	102.7%
Interest-bearing debt	49,198	53,652	-4,454	91.7%
Shareholders' equity/total assets	36.1%	34.9%		

# Highlights of Fiscal 2005 First-Half Results, Part 4: Main Selling, General and Administrative Expenses

## SG&A Expenses

Unit: Million yen

	FY2005, 1 <sup>st</sup> half			FY2004, 1 <sup>st</sup> half			Forecast for FY2005			
	Results	YOY	% of Sales	Results	YOY	% of Sales				
<b>Consolidated</b>	Salaries & wages	4,347	98.6%	3.4%	4,407	70.8%	3.5%	30,500	102.6%	11.8%
	Leased land & office rent	4,240	105.4%	3.4%	4,023	74.3%	3.2%			
	Advertising expenditure	1,657	104.4%	1.3%	1,588	94.6%	1.3%			
	Commission	2,522	100.0%	2.0%	2,521	102.6%	2.0%			
	Depreciation & amortization	1,942	98.9%	1.5%	1,964	97.3%	1.6%			
	<b>Total SG&amp;A expenses</b>	<b>14,685</b>	<b>100.7%</b>	<b>11.6%</b>	<b>14,580</b>	<b>77.3%</b>	<b>11.7%</b>			
<b>Non-consolidated</b>	Salaries & wages	2,370	96.0%	2.0%	2,469	102.3%	2.2%	23,700	101.8%	9.9%
	Leased land & office rent	3,851	104.3%	3.3%	3,691	97.2%	3.2%			
	Advertising expenditure	1,577	102.8%	1.3%	1,533	100.9%	1.3%			
	Commission	2,718	100.4%	2.3%	2,706	106.5%	2.4%			
	Depreciation & amortization	2,028	97.8%	1.7%	2,075	102.9%	1.8%			
	<b>Total SG&amp;A expenses</b>	<b>11,482</b>	<b>100.3%</b>	<b>9.8%</b>	<b>11,450</b>	<b>100.4%</b>	<b>10.0%</b>			

## Capital Investment and Depreciation & Amortization

Unit: 100 million yen

	FY2005, 1 <sup>st</sup> half		FY2004, 1 <sup>st</sup> half		Forecast for FY2005		
	Results	YOY	Results	YOY	YOY		
<b>Consolidated</b>	Capital investment	30	118.4%	26	143.6%	95	128.4%
	Depreciation & amortization	19	98.9%	20	97.3%	40	97.4%
<b>Non-consolidated</b>	Capital investment	34	127.7%	27	103.2%	91	135.6%
	Depreciation & amortization	20	97.8%	21	102.9%	42	97.1%

# Fiscal 2005 Full-Term Earnings Forecasts

## ● Earnings Forecasts

Unit: Million yen

		FY2005 forecast	FY2004 results	YOY	Initial FY2005 forecast
Consolidated	Net sales	258,000	257,625	374	255,000
	Operating income	8,800	8,441	358	8,500
	Ordinary income	8,400	8,079	320	8,200
	Net income	3,500	1,742	1,757	3,200
Non-consolidated	Net sales	240,000	236,359	3,640	237,000
	Operating income	7,500	7,212	287	7,300
	Ordinary income	7,100	6,557	542	6,800
	Net income	2,700	1,262	1,437	2,500

\* HARLEY-DAVIDSON CITY CO., LTD. was excluded from consolidated results starting 2<sup>nd</sup> half of fiscal 2005, due to transfer of shares.

### About the forecasts

In August 2005 we announced an upward revision in the forecast for consolidated sales in FY2005. In light of the increased sales in the 1st half results for FY2005, we have further revised the forecast for FY2005 full-term consolidated sales by 1,000 million yen to 258,000 million yen.

## Dividend

The meeting of the board of directors held on October 12, 2005 approved an interim dividend of 5 yen per share. The annual dividend is expected to be 10 yen (including the interim 5-yen dividend).



## 2. Key Issues

- Operating Highlights
- First-Half Highlights
- Second-Half Highlights

# Operating Highlights 1: Sales by Store - 1

Unit: Million yen	Trend	FY2005, 1 <sup>st</sup> half		FY2004, full term		Topics
		Sales	YOY	Sales	YOY	
Sapporo	↗	7,479	103.4%	15,004	91.8%	Exceeding previous year due to effect of the Sapporo PARCO Annex and capacity to attract customers inspired by the 30 <sup>th</sup> anniversary
Utsunomiya		4,373	93.6%	9,498	97.3%	Continuing to struggle due to slump in large-item sundries with impact of competition and slump in capacity to attract customers
Shin-Tokorozawa	↗	4,533	119.5%	8,386	103.7%	Major expansion due to continued effect of renovation, primarily the complete renovation of foods floor
Ikebukuro	↗	15,379	101.6%	30,851	98.2%	Shifting to growth tone, supported by high growth for the main building fashion floor
Shibuya	↗	9,654	112.5%	18,272	100.2%	Steady growth due to effect of PART 3 complete renovation and PART 1 renewal
Hibarigaoka		4,326	98.3%	8,847	93.3%	Tone improving with enhancement of community functions, etc.
Kichijoji	↗	5,078	104.9%	9,871	101.6%	Exceeding previous year due to 25 <sup>th</sup> anniversary-inspired sales planning and renovation for kids merchandise, etc.
Chofu		8,711	98.2%	17,670	101.1%	Some merchandise struggling despite trend of improvement for renovated floors
Tsudanuma		5,030	97.5%	10,386	95.1%	Competition intensifying, including effect of increase in floor space at nearby large-scale shopping complexes
Chiba		4,884	92.0%	10,692	92.1%	Struggling in first half due to competition, but preparing to make a comeback with major renovations in second half

Continued on next page

# Operating Highlights 1: Sales by Store - 2

Unit: Million yen	Trend	FY2005, 1 <sup>st</sup> half		FY2004, full term		Topics
		Sales	YOY	Sales	YOY	
Atsugi	↗	2,183	106.7%	4,194	102.7%	Continued expansion due to openings of large-scale stores with capacity to attract customers and increased promotion of customer mobility for easy browsing
Matsumoto	↗	4,315	104.2%	8,756	100.3%	Steady expansion with renewal aimed 10 <sup>th</sup> anniversary of floor expansion next year and strengthening of capacity to attract customers
Gifu		1,128	90.8%	2,489	86.0%	Despite improvement, continues to under-perform previous year due to tougher competitive environment
Nagoya	↗	18,748	106.6%	38,290	102.2%	Major expansion due to renewal in anticipation of increased competition, implementation of sales planning concepts, and customer expansion measures
Otsu		3,942	98.8%	8,005	97.8%	Overall trend is on the rise, primarily in fashion, although some merchandise is struggling
Shinsaibashi	↗	854	107.2%	1,566	86.4%	Major expansion due to success of events that utilize street attractions and strengthened capacity to attract customers
Hiroshima	↗	8,318	106.5%	16,512	98.7%	Moving back to growth thanks to strengthening merchandise development (MD) in sundries and continuation of fashion renewal
Oita		2,333	92.1%	5,180	91.7%	Continuing to struggle despite development of growth strategies such as renovation aimed at next year's 30 <sup>th</sup> anniversary
Kumamoto		3,128	93.3%	6,793	91.5%	Large impact from rush of suburban shopping complex openings since last fiscal year
Total	↗	114,407	102.6%	231,270	98.0%	

# Operating Highlights 2:

## Year-on-Year Sales by Merchandise Category

- **Clothing, with new fashion proposals and major renovations in fiscal 2004, has seen good results in both women's wear and men's wear**
- **Personal effects has been strengthened by accessibility from the fashion zone, with particular effectiveness in shoes**
- **Sundries, with stronger lifestyle proposals and accessibility from clothing zone, has seen improved sales in hobbies and home goods**
- **Foods enjoyed strong sales due to last year's renovation of the Shin-Tokorozawa Store and enhanced selection of goods that meet market needs**

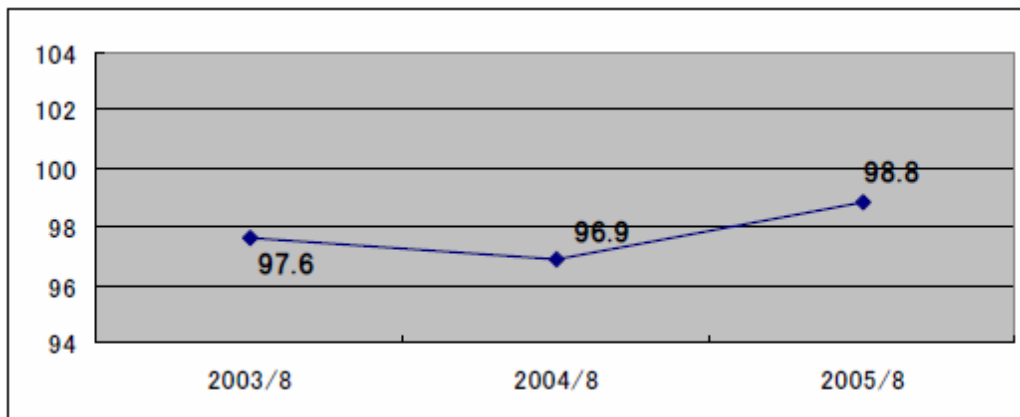
Merchandise category		YOY percentage
	Women's wear	103.4%
	Men's wear	104.9%
	Sports wear	100.9%
	Kimono	88.8%
	Children's wear	95.5%
	General clothing	102.3%
Clothing		102.9%
	Shoes	110.9%
	Bags	100.7%
	Jewelry, watches, etc.	100.4%
	Cosmetics	104.1%
Personal effects		104.6%
Sundries		99.5%
Foods		104.2%
Restaurants		99.1%
Other		107.7%

\* Year-on-year comparisons are based on store integrated net sales. Store integrated sales indicates overall sales strength of stores and includes tenant net sales as well as the sales of PARCO Theater and fixed rent tenants.

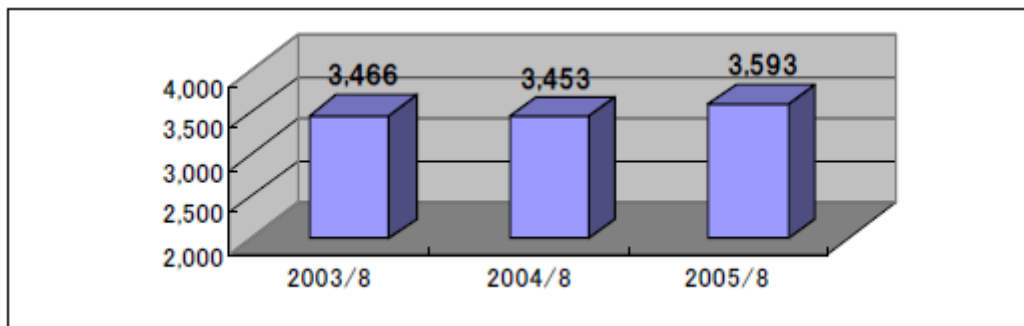
# Operating Highlights 3:

## Number of Customers and Average Spending per Customer

- **Number of Customers (YOY, unit: %)**



- **Average Spending per Customer (Unit: Yen)**

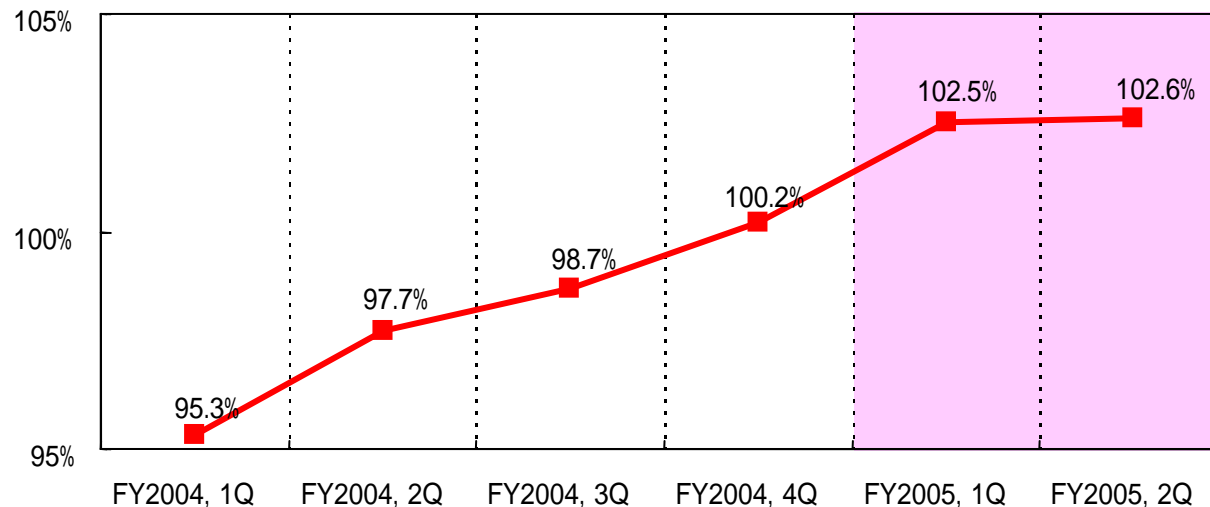


\* No. of customers and average spending per customer are based on the store integrated sales. Store integrated sales indicates overall sales strength of stores and includes tenant net sales as well as the sales of PARCO Theater and fixed rent tenants.

- **Sales floor: No. of tenants: 2,533, Sales floor area: 397,725m<sup>2</sup>**

\* Sales floor area is based on the floor space included when calculating store integrated net sales. Store integrated sales indicates overall sales strength of stores and includes tenant net sales as well as the sales of PARCO Theater and fixed rent tenants.

- **Tenant net sales and year-on-year change, per quarter**



**Steady growth for the 1st half from March to August, achieving year-on-year growth for six consecutive months**

## Renovation status

1 <sup>st</sup> half	Scale: 128 projects/Approx. 16,400m <sup>2</sup> implemented (of which, 71 is new stores) Effect: 42.0% year-on-year increase of sales (+1,152 million yen)
Full-year plans	Scale: 408 projects/Approx. 36,600m <sup>2</sup>

# First-Half Highlights 2: Sapporo PARCO



●1st-half tenant sales: 7,479 million yen (YOY increase of 3.4%)

●Changes in tenant net sales

	1Q	2Q	1st Half
Sapporo	105.3%	101.5%	103.4%

●1st-half renovation status

Scale: 19 projects, approx. 4,600m<sup>2</sup> implemented (including the Annex)

● Overview of the Sapporo PARCO Annex

Open: March 31, 2005, floors: 1B - 5F

Concept:

New lifestyle building that can win broad customer support, regardless of gender or age

● Renovation theme

The Annex introduces a cluster of brand-name shops, the first of its kind in Sapporo. Also, the main building has expanded its merchandise selection with an “elegant” theme.



Sapporo PARCO now spans a total of 17,400 m<sup>2</sup>, and is developing into a “PARCO for all ages”





- 1<sup>st</sup>-half tenant sales: 18,748 million yen (YOY increase of 6.6%)
- Changes in tenant net sales

	1Q	2Q	1 <sup>st</sup> half
Nagoya	106.4%	106.7%	106.6%

- 1<sup>st</sup>-half renovation status  
Scale: 5 projects, approx. 1,100m<sup>2</sup> implemented



- Response to changes in the market

Amid strong competition between the Nagoya Station and Sakae areas, as well as within the Sakae area, Nagoya PARCO, with a firm grip on these market changes, had already started renovation of the entire building as early as fiscal 2002

- Scale of renovations in FY2002-FY2004: About 14,700m<sup>2</sup>  
-- Equivalent to about 40% of all store space

### 1st-half situation

In a competitive environment, implementation of renovation as planned and customer attraction programs, coupled with timely campaigns, successfully secured PARCO fans and achieved a 1st half year-on-year increase of 6.6%



**Nagoya PARCO has solidified its market position and now leads all of PARCO**





- 1<sup>st</sup>-half tenant sales: 9,654 million yen (YOY increase of 12.5%)
- Changes in tenant sales

	1Q	2Q	1 <sup>st</sup> half
Shibuya	109.1%	116.2%	112.5%

- 1<sup>st</sup>-half renovation status  
Scale: 15 projects, approx 2,300m<sup>2</sup> implemented



- Shibuya PARCO 30-year renovation mostly completed  
Shibuya PARCO, pushing revitalization since fiscal 2001 as PARCO flagship store, implemented a complete renewal of PART 3 in fiscal 2004 as part of 30-year anniversary renovation
- 1<sup>st</sup>-half situation  
Through the renovation of PART 3, on-going renovation efforts of PART 1 and PART 2, and strengthening the appeal of the building's image, Shibuya PARCO has enhanced mobility between floors and solidified its position as a building fully supported by the market



Some stores in PART 3 renovated this autumn, strengthening hot-selling items, and strengthening market response for sustainable growth



## Hotel New Creston Co., Ltd.

- 1<sup>st</sup>-half sales: 924 million yen (YOY increase of 3.2%)
- The Nagoya Creston Hotel achieved high occupancy rates, with hotel room sales sharply higher than the previous year, due to the Expo Aichi 2005



## Ikebukuro PARCO

**Scale: 27 projects, approx. 2,300m<sup>2</sup>**

**Open:**

**September 2005: New specialty shops zone focusing on floors 3 and 4 of main building**

**November 2005: First floor of main building, and the P'PARCO B1 underground floor. Surrounding environment also improved.**



- Started major renovation including exterior of main building's 1<sup>st</sup> floor to change the building's entire image
- Ikebukuro PARCO will enhance its appeal through the opening of the renovated 1st floor of the main building, renewal of large specialty shops, and opening of new shops this autumn

## Nagoya PARCO



**Scale: 52 projects, approx. 3,200m<sup>2</sup>**  
**Progressive openings from September 2005**

**Nagoya PARCO, with one of the most prominent men's wear zones in Japan, is this autumn renewing the men's zone in West Bldg. 5<sup>th</sup> floor and South Bldg 5<sup>th</sup> and 6<sup>th</sup> floor**

**In ladies zone, as well, hot new brands and shops are being introduced**

## Chiba PARCO



**Scale: 24 projects, approx. 1,800m<sup>2</sup>**  
**Open: Late November to early December 2005**

**Chiba PARCO, approaching its 30-year anniversary next year, is implementing renewal to meet market needs and propose suburban lifestyles**

**Renewal includes the full renovation of entrance and first floor. Mid-level fashion floors are to be overhauled in stages.**

## PARCO-City Co., Ltd.

- In first half, showed steady sales growth driven by the Internet outsourcing business and mail-order ticket sales (Sales: 307 million yen, YOY increase of 23.4%)
- In the second half, the company will target developer companies and shopping center management companies (as clients) and strengthen its mainstay business of IT consulting in an effort to win more orders from this clientele



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### 3. Progress Report for the Five-Year Medium-Term Management Plan

## 1. Strengthen Shopping Complex Operations

- Strategic joint planning being developed alongside store renovations and competition measures
- Flagship stores are performing well (Ikebukuro, Shibuya, Sapporo, Chofu, Nagoya, Hiroshima)  
-> Total tenant sales for flagship stores in FY2005 showed YOY increase of 4.7%

## 2. Store Development

Launched in-house project teams for Urawa Project and Sendai Project on 3/1/05



**Construction  
Start March 2005**

### Urawa Station, East Exit

Urawa Station East Exit Area  
Type II Urban Area  
Redevelopment Project  
through Development of  
Facilities and Building

Completion: Fall 2007 (planned)  
Floor area: About 67,000m<sup>2</sup>  
(1B, floors 1-7)



### Sendai Station, West Exit

Chuo 1-chome District 2 Urban  
Redevelopment Project

Completion: Spring 2008 (planned)  
Floor area: About 26,000m<sup>2</sup>

(1B, Floors 1-9)

Concept illustrations may differ from the actual building.

## 3. Building Closure Resulting from Profit Structure Review

- As a result of changes in surrounding business environment and aging of store facilities, the decision was taken to close Gifu Parco
- Closing date: August 31, 2006 (planned)

## Expanding the Property Management Business

### Property Management Business Started

- Name of shopping complex: Ario Kawaguchi Shopping Complex (provisional name)  
Location: Kawaguchi-shi, Saitama prefecture  
Sales floor area: Approx. 34,650m<sup>2</sup>  
Operations start date: Autumn 2005 (Planned)
- Business project commissioned from Ito-Yokado
  - (1) Support for pre-opening operations: Concept proposal for specialty shop mall, leasing, etc.
  - (2) After the opening of stores: Property management of specialty shop mall





## Challenging New Development Schemes

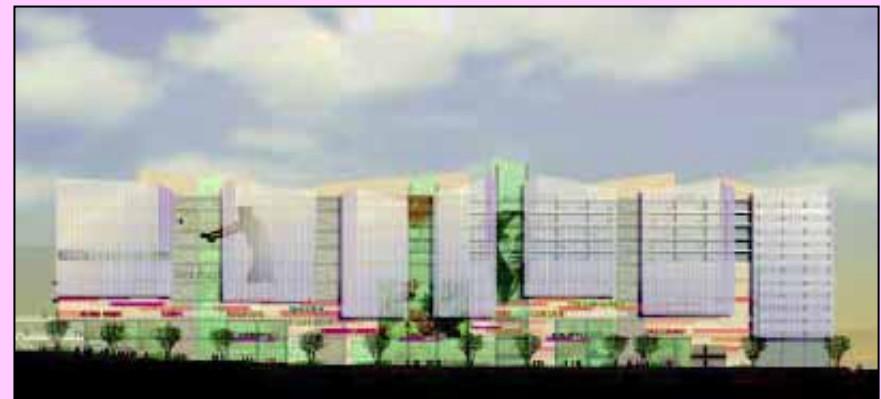
### Decision to accept commissioned business for property management and asset management operations for new shopping complexes that are developed with a securitization-type development scheme

- Name of shopping complex: Kohoku New Town Center Kita Shopping Complex (provisional name)  
Location: Yokohama-shi, Kanagawa prefecture  
Floor area: Approx. 141,400m<sup>2</sup>  
Opening date: Spring 2007 (planned)
- Commissioned project description:
  - (1) Sub-project management (support for pre-opening)
  - (2) Property management (after the opening of shopping complex)
  - (3) Asset management (after the opening of shopping complex)

- Established asset management company for shopping center after the opening:  
JAPAN RETAIL ADVISORS CO., LTD.



**Full-scale entry into the real estate securitization business**



## Entertainment Business - Expansion of Content Business

- Release of DVD of stage version of *Warai no Daigaku* by Koki Mitani
- Funding production of *Custom Made 10.30*, starring Kaela Kimura, and of *Kiraware Matsuko no Issho*, directed by Tetsuya Nakashima and starring Miki Nakatani



## NEUVE A

	No. of stores	Outside owner	Outside owner ratio
TiCTAC	32	18	56%
POKER FACE	19	10	53%
COLLECTORS	19	8	42%
ROSEMARIE	24	6	25%
ANNABELLE	4	3	75%
5 Types Total	98	45	46%

## NEUVE A CO., LTD.

- Six new stores open in 1<sup>st</sup> half, with two more planned for 2<sup>nd</sup> half
- Percentage of stores not owned by PARCO:  
Feb. 2005 42% -> Aug. 2005 46%

\* Store numbers as of August 31, 2005



## PARCO SPACE SYSTEMS, CO., LTD.

- In interior finishing and building management business, stable orders from existing customers and active approach to new customers outside the group has resulted in steady expansion of orders and projects
- New 24-hour call center business has secured new customers (294 outlets) to approach 1,350 subscribers

# PARCO

[www.parco.co.jp/](http://www.parco.co.jp/)

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