

PARCO CO., LTD.
PARCO Group Medium-term Business Plan (FY2010-2012)
Capital and Business Alliance with Development Bank of Japan

PARCO

TSE 1st Section 8251

August 27, 2010

Summary

I. Formulation of medium-term business plan (FY2010-2012)

- Successfully strengthened core business and developed governance in period up to end of FY2009
- Increased EBITDA from ¥12.1 bn to ¥14.2 bn over past 10 years (high of ¥15.0 bn during the period), proceeding to the next growth stage
- Specific targets: Operating income of ¥12.0 bn (up 39.5%) and EBITDA of ¥19.0 bn (up 33.9%)
- Targeting fully diluted EPS growth of 18.7%

II. New vision, three business strategies and strengthening of the management foundation

- Becoming an “urban lifestyle producer” by evolving from being an urban commercial developer focusing mainly on the shopping complex business and broadening business fields
- Strategy 1: Innovation at existing complexes, classifying them into urban and community complexes
- Strategy 2: Expansion of commercial activities in urban areas both in Japan and overseas, targeting three new projects in Japan and two new projects overseas
- Strategy 3: Rapid development of related and new businesses
- Strengthen the management foundation that underpins the three strategies

III. Capital and business alliance with Development Bank of Japan

- Secured new management resources

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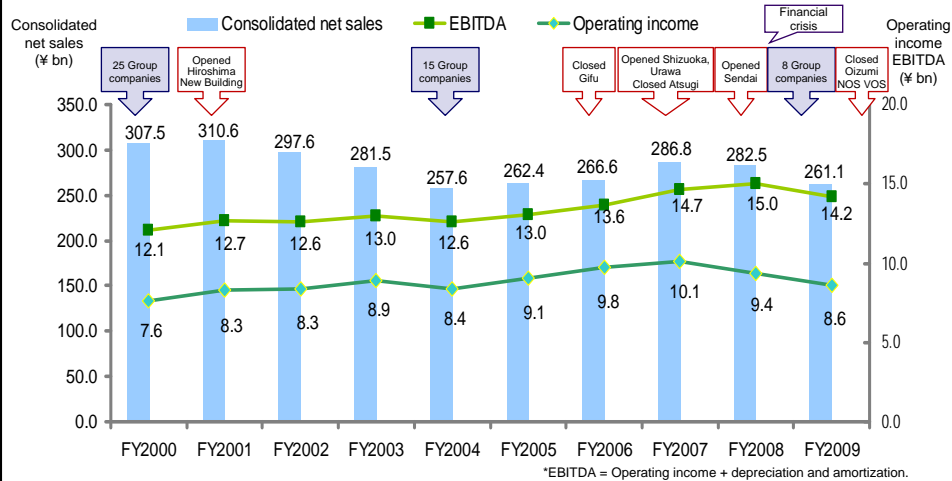
I. Positioning of medium-term business plan

FY2005-2009		FY2010-2015	
<p>Strengthen core business Improve financial position Develop governance</p>		<p>Use existing business models to broaden business fields Strengthen the management foundation</p>	
Strengthening shopping complex management and development capabilities	<p>Pursued renovation mainly at flagship complexes</p> <p>Developed complexes in major cities •Shizuoka (FY2007) •Urawa (FY2007) •Sendai (FY2008)</p>	Business strategy 1	<p>Innovation at existing complexes using two classifications Renovation and cost reform</p>
Entering new business areas	<p>Property management business •Kohoku Northport Mall (FY2007)</p>	Business strategy 2	<p>Development of complexes in Japan Expand into parts of greater Tokyo metropolitan area and Kansai region where PARCO currently does not have a presence •Fukuoka (FY2010) Expansion of overseas business Top priority is China •Singapore (FY2010)</p>
Deepening and broadening peripheral business	<p>Entertainment business •Le Theatre Ginza (FY2007) EC business •Online shopping mall PARCO-CITY (FY2007)</p>	Business strategy 3	<p>Rapid development of related and new businesses EC business, IT/website consulting business Entertainment business Retail business Space engineering and management business</p>
Group business reorganization	<p>Closed complexes •Gifu (FY2006) •Atsugi (FY2007) •NOS VOS (FY2009) Reorganized Group companies •15 in FY2004 → 8 in FY2009</p>	Strengthen the management foundation	<p>1. Diversification of financial strategy 2. Overhaul of real estate strategy 3. Development of M&A and alliance strategy</p>

I. Positioning of medium-term business plan

Up to end of FY2004: Growth in operating income and EBITDA on lower net sales, due to the disposal of underperforming businesses

FY2005 onwards: Growth in EBITDA and net sales, driven by renovation of flagship complexes and effects of new complex openings



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I. Medium-term business plan specific targets

Operating income: ¥12.0 bn (up 39.5%) EBITDA: ¥19.0 bn (up 33.9%)

Targeting increase of 18.7% in fully diluted EPS (i.e. even if the recently issued convertible bonds*1 are converted into shares)

Net sales and income

Consolidated	FY2009 results (¥ bn)	FY2012 targets (¥ bn)	Comparison with FY2009		
			Three-year growth rate	Change ¥ (¥ bn)	Average annual growth rate
Net sales	261.1	300.0	14.9%	38.9	4.7%
Operating income	8.6	12.0	39.5%	3.4	11.7%
Net income	4.1	6.0	46.0%	1.9	13.4%
EBITDA ²	14.2	19.0	33.9%	4.8	10.2%
Net income per share	¥49.87	¥59.19 ³	18.7%	¥9.32	5.9%

Investment plan

	Three years (¥ bn)	Purpose
Recurring investments	12.0	Renovation of complexes, etc.
Strategic investments ⁴	50.0	Acquisition of properties currently being rented and opening of new complexes
Total investment	62.0	

1 There are restrictions on the transfer or conversion of convertible bonds (unsecured convertible bonds with stock acquisition rights) within three years of their issuance. For an overview, please see page 16.

2 EBITDA = Operating income + depreciation and amortization

3 If all convertible bonds are converted into shares.

4 Approximately ¥30 billion of the planned ¥50.0 billion in strategic investments has already been used during the first half of FY2010.

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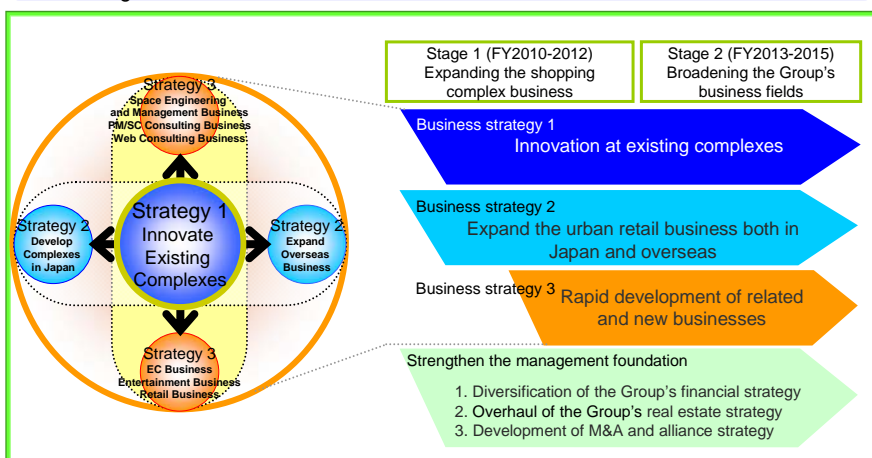
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II. New vision, three business strategies and strengthening the management foundation

Evolving from being an urban commercial developer to a new vision of being an urban lifestyle producer
Pursuing three business strategies and two-stage process for strengthening the management foundation



II. Business strategy 1 Innovation at existing complexes

- Build a robust revenue base

Existing PARCO complexes will be divided into urban complexes and community complexes based on local market characteristics

- Applicable product composition and operation methods for each complex will be optimized for the targeted customers
- 158,000m² of floor space (an area of 1.5-times the floor space for the previous 3 years) will be renovated to complete these two complex formats
- Cost structures for the facilities will be revised in conjunction with the reforms to operating methods (incl. advertising, facility services, etc.)

	Urban complexes	Community complexes
Market and location	•Customers from a wide area: Commercial areas in city centers	•Customers from the local area: Sites near suburban train stations in Tokyo or commercial areas in major regional cities
Target customers	•Specialized customers: Well-informed, active urban residents	•General customers: All age groups in local area
Characteristics	•Trend-setting: Highlighting the fashionable and trendy •Proposal-based: Offering new lifestyle proposals	•Supporting: Supporting the provision of quality daily products to local residents
Product composition	•Fresh, trendy, original → Complexes will swiftly introduce the latest fashion trends. Although centered on clothing, the scope of stores will be expanded to include general merchandise stores, food stores, and restaurants	•Dependable standard items, reassuring, trustworthy → Products and services for variety of scenes: food stores, general merchandise stores, home appliance stores, school lessons (language, cooking, etc.), sporting stores, etc.
Tenant policy	•Originality: Working closely with specialty stores and manufacturers, the Group will coordinate store placement to create an original mix of stores	•Dependable standards: Efforts will be made to feature stores from a wide variety of industries with an emphasis on stores that have not yet been introduced
Advertising and promotions	•The Group will strengthen coordination between mass advertising and stores websites	•Community events

Improve operating efficiency and consider changing complex formats
Based on medium to long term changes in the market, various options will be considered for each building, including changing complex formats to something other than the PARCO format

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II. Business strategy 2 (1) Development of complexes in Japan

- Establish a business foundation for further growth

By expanding existing complex network, become a leader in the urban retail business
Step up efforts to develop complexes outside the PARCO format

Development goal: 3 complexes in 3 years

1. Advance M&A strategy and expand network of existing complexes
Continue to open complexes by converting facilities vacated by rivals

Strategic areas

Parts of greater Tokyo metropolitan area and Kansai region where PARCO currently does not have a presence (Tokyo, Yokohama, Kyoto, Osaka, and Kobe)



2. Look beyond the PARCO complex format to develop other urban commercial facilities
 - Develop small urban properties
 - Plan to become involved in low-cost real estate management-type business
 - Increase linkage between property management (PM) and building management (BM) business

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II. Strengthening the Group's management foundation

Strengthen management foundation that underpins the following three business strategies

Measure 1 Diversification of Financial Strategy

- Raise funds while maintaining balance sheet soundness, with debt-to-equity ratio within 1x range
- Not only rely on traditional bank loans but also issue equity to raise funds
- To secure the necessary funds to grow, employ diverse methods to raise funds such as selling off properties

Measure 2 Overhaul of Real Estate Strategy

- To improve balance sheet quality, make optimal use of real estate holdings and reconfigure asset portfolio
- To increase overall asset efficiency, examine the use of properties for other formats than PARCO complex format,
- Promote management that makes use of the Group's balance sheet and is tied to its financial strategies, which includes raising funds by selling off real estate

Measure 3 Development of M&A and Alliance Strategy

- Advance M&A and alliance strategy centered on three fields—developing complexes within Japan, expanding business overseas, and strengthening the EC business

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III. Overview of capital and business alliance

Entered into capital and business alliance with Development Bank of Japan Inc. ("DBJ")

- Securing access to necessary funds for growth to achieve medium-term business plan
- DBJ supporting the Group's efforts to enhance its corporate value, centered on achieving medium-term business plan

First project of DBJ's "Value-creating equity investment to assist corporate growth strategy"

Contract period: Aug. 25, 2010 to Aug. 25, 2013 (extendable up to 2 years upon mutual agreement)

Overview of business alliance

Efforts to enhance corporate value. DBJ to:

- (1) Help source required specialist external personnel
- (2) Utilize domestic/overseas network to provide information
- (3) Provide advice and support for M&A and other specific initiatives

DBJ support areas

- (1) Store development in Japan (M&A, alliance strategy)
- (2) Overseas business operation (M&A, alliance strategy)
- (3) EC business (M&A, alliance strategy)
- (4) Real estate strategy
- (5) Financial and IR strategy

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III. Overview of capital and business alliance

Overview of capital alliance

Procuring ¥15.0 bn for use as strategic investment funds by issuing unsecured convertible bonds with stock acquisition rights

Allotted party: Development Bank of Japan Inc.

Redemption date: September 9, 2015 (5-year period)

Coupon: 0.75% per annum

Conversion price: ¥790

Conversion premium: 28.6%

No. of shares: Approx. 82.47 million issued shares; approx. 18.98 million dilutive shares; Total of = approx. 101.46 million shares
DBJ's ownership interest of total including dilutive shares: 18.73%

Restrictions on conversion: No transfer or conversion for 1 year after issuance
Once 1 year has passed after issuance, transfer or conversion possible as long as DBJ maintains an ownership interest of 10% of the total of approx. 101.46 million issued and dilutive shares

Use of funds procured: (1) Acquisition of properties currently being leased in the Shopping Complex Business
(2) Expansion of new complexes in the Shopping Complex Business, etc.

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