



MEMBERSHIP

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PARCO Group Medium-term Business Plan (Fiscal 2010-2012)

The PARCO Group (the “Group”) has implemented ongoing business reforms from fiscal 2000 onward, focusing on its core shopping complex business, improving its financial position, and developing its corporate governance. The Group achieved steady growth over the three years from fiscal 2007, opening three new complexes in Japan.

However, changes in the Japanese retail business environment have accelerated since the financial crisis that broke out in the second half of fiscal 2008. In response to these changes and in order to achieve further growth, the Group has adopted a new business vision for fiscal 2015 and formulated a medium-term business plan that runs through fiscal 2012.

1. Characteristics of the Group’s Business Model

The Group’s core shopping complex business integrates real estate operations that create value from buildings and retail operations that bring together various individual specialty stores.

This business is characterized by stable earnings from the fixed revenue generated by real estate operations and the benefit of increased earnings when tenant sales increase, similar to the retail industry. The business is also unique in its retail capabilities and ability to generate extensive added value through such initiatives as floor space renovations and exciting advertising that appeals to present day consumers.

The business model that applies to the entire Group is based on creativity that integrates soft businesses such as entertainment and IT/website development with the core shopping complex business.

Going forward, the Group intends to further develop this business model and work to achieve further growth.

2. New Vision / Three Business Strategies / Two-Stage Process

New vision:

Becoming an “urban lifestyle producer,” a company that enriches the lifestyle of its customers

Following a long period of remarkable economic growth, the Japanese market has matured and present day Japanese consumers are starting to adopt fulfilling lifestyles and consumption patterns that stress social value. This trend will likely continue to evolve.

Thus far, the Group has mainly focused on developing and managing its shopping complex business. Going forward, however, the Group intends to promote an urban lifestyle to its customers through a broader range of businesses.

As a knowledge-creating corporate group centered on the shopping complex business but with a unique scope of business that extends to soft businesses, the Group is striving to become an “urban lifestyle producer” that offers consumers a fulfilling lifestyle.

1) Strengthening PARCO’s three business strategies and its management foundation

In order to achieve the vision outlined above, the Group will implement three business strategies and strengthen the management foundation that underpins these strategies.

Business strategies

1. Innovation at existing complexes

→ Build a robust revenue base

2. Expansion of commercial activities in urban areas both in Japan and overseas

→ Establish a business foundation for further growth

3. Rapid development of related and new businesses

→ Broaden business fields

Strengthen the management foundation

1. Diversification of financial strategy

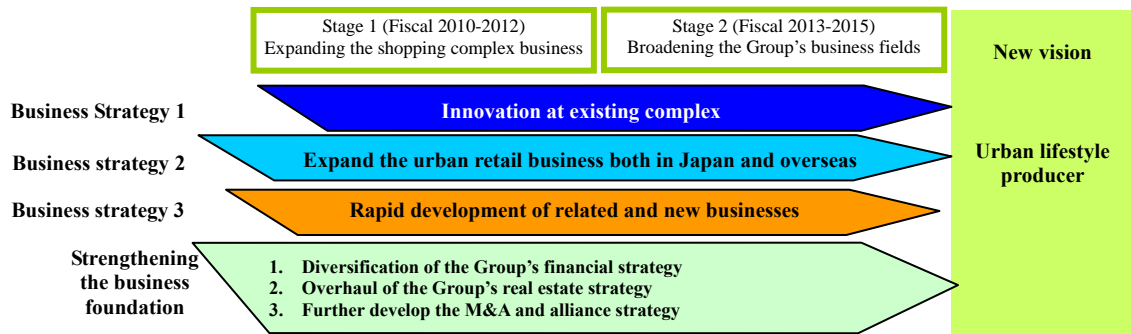
2. Overhaul of real estate strategy

3. Development of M&A and alliance strategy



2) Two-Stage Process

The three business strategies will be implemented in two stages.



Stage 1 (Fiscal 2010-2012)

During the first stage, priority will be given to innovation at existing complexes (business strategy 1) and expansion of the urban retail business both in Japan and overseas (business strategy 2), thereby strengthening the Group's business and management foundations.

At the same time, the management of related businesses will be improved and new businesses developed (business strategy 3) in preparation for stage 2.

Stage 2 (Fiscal 2013-2015)

During the second stage, the Group will accelerate its expansion into related and new businesses (business strategy 3), thereby broadening the scope of its existing business fields.

3. Medium-Term Business Plan (Fiscal 2010-2012)

3-1. Three Business Strategies

The plans for the three business strategies during three-year stage 1 are outline below.

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, and the applicable product composition and operation methods for each complex format will be optimized for the targeted customers.

- During the three years through fiscal 2012, an area of 1.5 times the floor space for the previous 3 years will be renovated to complete these two complex formats.
- Operation of these facilities, including advertising and facility services, will also be overhauled. In addition, the cost structures for the facilities will be revised in conjunction with the reforms to operating methods.
- Based on medium to long term changes in the market, various options will be considered for each building, including changing the complex format to something other than the PARCO format.

1) Urban complexes

Retail complexes promoting a new lifestyle for urban residents by showcasing the PARCO's sense of fashion and innovation.

Location	Commercial areas in city centers
Market	Customers from a wide area
Target customers	Well-informed, active urban residents
Product composition	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.
Tenant policy	Working closely with specialty stores and manufacturers, the Group will coordinate store placement to create an original mix of stores.
Advertising and promotions	The Group will strengthen coordination between mass media advertising and its corporate website.

2) Community complexes

Retail complexes that provide quality daily products to local residents.

Location	Sites near suburban train stations in Tokyo or commercial areas in major regional cities
Market	Local area
Target customers	All age groups in the local area.
Product composition	Facilities will be transformed into multi-functional, multi-purpose venues in order to support high-standard living. The range of tenants will be expanded to include food stores, general merchandise stores, home appliances stores, school goods stores, and sports stores.
Tenant policy	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	Various activities such as community events will be organized to attract customers from the neighborhood.

Business strategy 2: Expand the urban retail business both in Japan and overseas → Establish a business foundation for further growth

The Group will aggressively expand its business both in Japan and overseas, leveraging the enhanced profitability and greater expertise in urban retailing acquired through business strategy 1 and further advancing its M&A and alliance strategy.

1) Development of Complexes in Japan

- The current trend of restructuring large-scale shopping complexes is expected to persist going forward. This constitutes a major opportunity for the Group to acquire new complexes. By advancing its M&A and alliance strategy, the Group will become a leader in the urban retail business and expand its network of existing complexes.
- Following the model of the Fukuoka PARCO and Shizuoka PARCO, new complexes will also be opened by converting facilities vacated by rivals (other department stores).
- Priority will be given to opening complexes in the greater Tokyo metropolitan area and Kansai region (Tokyo, Yokohama, Kyoto, Osaka, and Kobe) where PARCO currently does not have a presence. The Group's objective is to open two complexes in three years.
- The Group will look beyond the PARCO complex format to develop other urban commercial facilities. Efforts will also be made to raise the Group's profitability and asset value through its property management (PM) and building management (BM) expertise.

2) Expansion of Overseas Businesses

- Following its entry into the Singapore market, the Group will give priority to expanding its business into urban areas in China, which are currently experiencing remarkable growth.
- The Group is currently looking into concrete business models with multiple potential partners such as leading local real estate and financial firms and Japanese companies with an established presence in the targeted regions, and reviewing concrete projects.
- The Group will adopt a flexible attitude in how it approaches each project and is exploring various levels of involvement, including provision of expertise and licenses, participation in facility operation through a joint venture, investment in properties, or complex openings through a master lease.
- The ultimate goal is to provide Japanese retailers who run specialty stores with an opportunity to expand overseas and to achieve further growth with these companies.

Business strategy 3: Rapid expansion into related and new businesses → Broaden existing business fields

By expanding existing business fields into areas other than the shopping complex business, we are aiming to become an “urban lifestyle producer” that offers a new vision and promotes a fulfilling lifestyle.

1) E-commerce (EC) business and IT/website consulting business

- Within the EC business, the Group will strengthen its customer fulfillment functions (e.g., product photos, systems, and logistics) through alliances in the EC mall business and will work to attract specialty stores.
- In addition, the Group will strive to further grow the EC business by boosting sales for both the consulting business that provides advice on store-specific EC operations for specialty stores and the Group’s own EC retail business based on its unique selection of products.
- Through the end of fiscal 2009, the IT/website consulting business handled 28 web design projects for external commercial facilities, and the Group is targeting an increase to 50 projects by the end of fiscal 2012.

2) Entertainment business

- As the key driver of the Group’s entertainment operations, the theater business is handling productions for the Kanagawa Arts Theater, scheduled to open in 2011, and is working to boost profitability of the business by broadening the types of shows offered and improving its sales capabilities.
- The Group is also aiming to diversify earnings through the development of quality content and the use of the content in multiple fields such as theater and publishing. It also intends to further expand its rights business which includes investing in film rights.

3) Retail business (General goods stores)

- The Group will continue to open leading shopping centers throughout Japan and plans to expand its current network of 136 stores (as of the end of fiscal 2009) to 164 stores by the end of fiscal 2012.
- The Group is also making efforts to increase the percentage of sales accounted for by its own original products and improve profitability.

4) Space engineering and management business (Light electrical construction and building management)

- Leveraging the highly energy-efficient lighting that incorporates original equipment (P’es Lighting), jointly developed with various parties such as major electronics manufacturers, the Group is working to expand electrical construction orders from various customers including external commercial facilities and hotels.

3-2. Strengthening the Group's Management Foundation

The Group will strengthen its management foundation that underpins the following three business strategies.

1. Diversification of Financial Strategy

- The Group will continue to manage funds in an optimal manner by selecting projects based on the return on investment. As for fund raising, the Group is making continual efforts to sustain and improve its financial health and maintain an appropriate balance sheet.
- To secure the necessary funds to grow, the Group not only relies on traditional bank loans but also flexibly employs diverse methods to raise funds such as issuing equity and selling off properties.

2. Overhaul of Real Estate Strategy

- The Group intends to revise its real estate strategy in order to make optimal use of currently owned property.
- The Group is examining the use of properties for other purposes than PARCO complex format to increase overall asset efficiency.
- The Group is also promoting management that makes use of its balance sheet and is tied to its financial strategies, which includes raising funds by selling off real estate the Group owns.

3. Development of M&A and Alliance Strategy

- The Group is advancing an M&A and alliance strategy centered on three fields—developing complexes within Japan, expanding overseas businesses, and strengthening the EC business, among the three business strategies. It intends to achieve further growth by combining its business foundation with certain resources of other companies' such as brands.

3-3. Capital and Business Alliance

To achieve the goals outlined in this medium-term business plan and further enhance corporate value, PARCO CO., LTD. has decided to enter into a capital and business alliance agreement with Development Bank of Japan Inc. ("DBJ"). DBJ will provide support in the areas outlined below and covered earlier in this medium-term plan. In addition, DBJ is expected to assist with the strengthening of managerial resources, the provision of information relevant to the Group, support for individual projects, and fundraising for strategic investments. More details of the capital and business alliance can be found in the press release "Notice regarding Capital and Business Alliance with Development Bank of Japan and the Issuance of Unsecured Convertible Bonds with Stock Acquisition Rights to Be Issued Third-Party Allotment," also released today.

DBJ Support Areas as Part of the Business Alliance

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

3-4. Specific targets

1) Fiscal 2012 net sales and income targets

Net sales	300.0 billion yen	114.9%
Operating income	12.0 billion yen	139.5%
<u>Net income</u>	<u>6.0 billion yen</u>	<u>146.0%</u>
EBITDA	19.0 billion yen	133.9%

Note: The above percentages indicate change relative to fiscal 2009.

2) Three-year investment plan through fiscal 2012

Recurring investments	12.0 billion yen	(Renovation of complexes, etc.)
<u>Strategic investments</u>	<u>50.0 billion yen</u>	(Acquisition of properties currently being rented and expansion of new complexes)
Total	62.0 billion yen	

Note: Approximately 30 billion yen of the planned 50.0 billion yen in strategic investments has already been used during the first half of fiscal 2010.