

## Management's Discussion and Analysis



Our Medium-term Business Plan is proceeding smoothly, with sales and profits gains achieved in fiscal 2010. Going forward, we plan to take dynamic steps in executing projects “super-aggressively” in order to attain our targets.

President and Representative Executive Officer  
Kouzou Makiyama

### Current Situation

In fiscal 2010, ended February 28, 2011, the outlook for the Japanese economy remained uncertain as concerns lingered over economic conditions overseas and the continued strength of the yen. There were signs of a partial recovery though, with corporate earnings improving and exports increasing, particularly in emerging economies. The Government implemented stimulus measures designed to boost consumer spending, but there was still anxiety among consumers over the severity of the job climate, among other factors. As a result, consumer behavior continued in the same defensive vein as consumers focused on price when making purchasing decisions.

### Evaluating Fiscal 2010 Results

#### ■ Overview

In order to attain further growth and adapt to changes in the harsh market environment described above, we announced our medium-term business plan for fiscal 2010 through 2012 in August 2010, and moved forward with the strengthening of the Group's management foundation that underpins the three strategies that this plan sets out. These business strategies are: 1 innovation at existing complexes, 2 expansion of commercial activities in urban areas both in Japan and overseas, and 3 rapid development of related and new businesses.

Fiscal 2010 saw the Group concentrate particularly on the first two strategies—in the form of expansion of our shopping complex business.

The upshot of these efforts was an increase in consolidated net sales of 1.4%, or ¥3,763 million, to

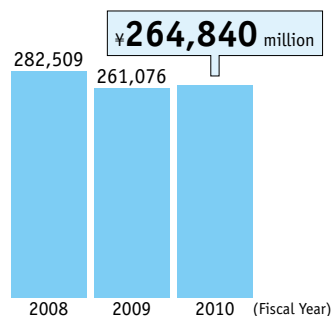
¥264,840 million. Contributing factors included strong performance across the Group as a whole, and brisk sales at Fukuoka PARCO, opened in March. Gross profit was down 0.5%, or ¥202 million, to ¥39,204 million. The gross profit ratio also fell, by 0.3 of a percentage point, to 14.8%.

Selling, general and administrative expenses declined 1.8%, or ¥611 million, to ¥32,806 million, as lease/rental expenses fell and we constrained advertising costs. The ratio of SG&A expenses to net sales decreased 0.4 of a percentage point, to 12.4%.

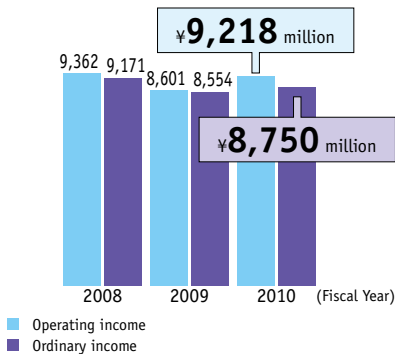
Operating income jumped 7.2%, or ¥617 million, to ¥9,218 million. The operating income margin increased 0.2 percentage point to 3.5%.

In other income (expenses), the posting of a loss on store closing, a loss on impairment of fixed assets, and other charges mainly relating to the scheduled September 2011 closing of Shinsaibashi PARCO (main building), and the DUE Building, was partially offset by the posting, in the previous fiscal year, of the loss on store closing and other charges related to the closing of Oita PARCO in

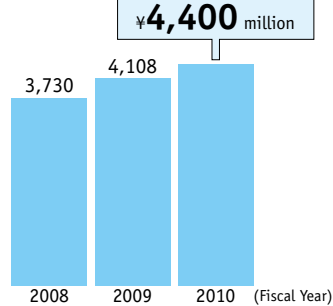
Net sales  
(Millions of yen)



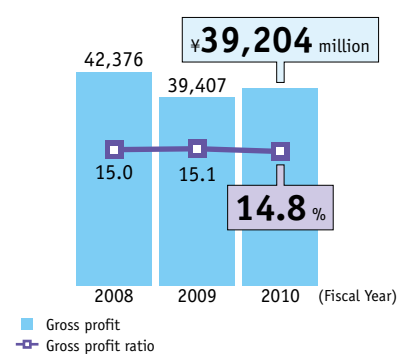
### Operating income/Ordinary income (Millions of yen)



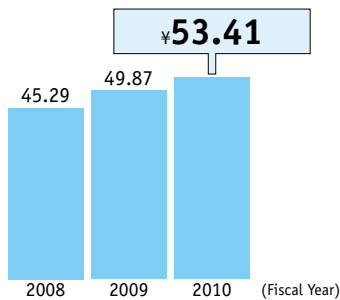
### Net income (Millions of yen)



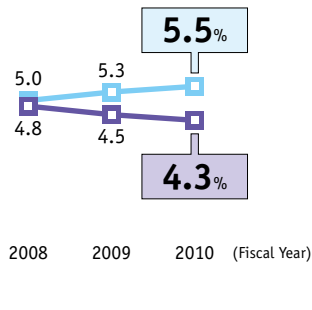
### Gross profit/Gross profit ratio (Millions of yen/%)



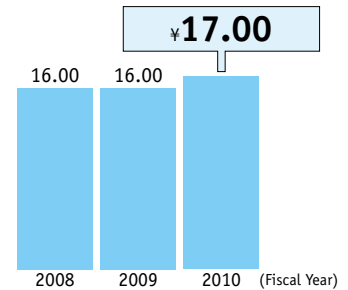
### Net income per share (Yen)



### ROE/ROA (%)



### Cash dividends per share (Yen)



— ROE  
— ROA

\*ROE (Return on Equity) = Net income / Shareholders' equity (average at start and end of fiscal year) x 100

This management indicator highlights management efficiency by showing how much profit was generated in a year.

\*ROA (Return on Assets) = Ordinary income / Total assets (average at start and end of fiscal year) x 100

This indicator highlights overall profitability by showing whether a company's assets are being used effectively to secure profit.

### Net sales and operating income by segment (Fiscal 2010)

	Shopping Complex	Retail	Space Engineering and Management	Others	Total	Elimination or Corporate	Consolidated
(Millions of yen)							
<b>Net Sales:</b>							
External Customers	248,307	7,918	11,192	241	267,659	—	267,659
Intersegment	—	7,477	7,638	349	15,466	(15,466)	—
<b>Total</b>	<b>248,307</b>	<b>15,396</b>	<b>18,830</b>	<b>591</b>	<b>283,126</b>	<b>(15,466)</b>	<b>267,659</b>
Operating Expenses	239,873	15,063	18,445	574	273,957	(15,515)	258,441
Operating Income	8,434	332	385	16	9,169	49	9,218

\*Net sales by segment include other operating revenue.

fiscal 2009 resulting in ¥1,501 million in net other expenses in fiscal 2010.

Net income therefore rose 7.1%, or ¥291 million, to ¥4,400 million.

Net income per share was ¥53.41 (a diluted net income per share of ¥48.50), while return on equity rose 0.2 of a percentage point to 5.5%.

Our medium-term business plan outlined consolidated forecasts for net sales, operating income, ordinary income,

and net income in fiscal 2010 of ¥264,000 million, ¥8,700 million, ¥8,300 million, and ¥4,200 million respectively.

Actual results exceeded these figures on all counts. In line with our policy of maintaining stable shareholder returns, this positive performance allowed us to increase the year-end dividend by ¥1, from ¥8 to ¥9, giving a total cash dividend per share of ¥17.

## ■ Segment Performances

### Shopping Complex Business

In fiscal 2010, “Stage 1” of our medium-term business plan, we aggressively pursued our goals of the first two business strategies of our plan: innovation at existing complexes, and expansion of commercial activities in urban areas both in Japan and overseas. In addition, we also made progress in our third strategy—the rapid development of related and new business.

These efforts bore fruit as segment sales increased 0.9% from a year earlier, to ¥248,307 million. Operating income was ¥8,434 million, up 5.4% from a year earlier.

Total store sales increased year on year. Contributing factors included brisk sales at a number of our stores including Fukuoka PARCO, opened in March, 2010. In addition, store remodeling and business planning at Shizuoka PARCO (opened in March 2007), Urawa PARCO (opened in October 2007), and Sendai PARCO (opened in

August 2008), all stores that opened under the previous business plan, allowed us to expand our consumer base and strengthen our presence in local markets.

Fukuoka PARCO was successful in exceeding its expected performance for fiscal 2010 through a number of initiatives. Firstly, the amount of sales floor space devoted to beauty products, general merchandise, foods, eating and drinking was increased to create a product mix centered on variety to give shoppers the opportunity to buy everything they want and need under one roof. We also introduced some new types of tenant, as well as tenants that are new to the area. In addition, we boosted shopper traffic and expanded our customer based through localized promotion and IT-based advertising campaigns. A major highlight in a successful year for Fukuoka PARCO was its winning of the Fukuoka Urban Beautification Award. This competition, voted for by residents of Fukuoka, rewards architectural features that add to the attractiveness of the city.

#### ● Innovation at existing complexes

PARCO's 20 stores are divided up and operated in separate groups to allow a more flexible, timely response to their respective markets. Operations at each of the stores are tailored to the needs of the local market to provide scope for increasing customer bases as well as the number of customers.

The policies at the heart of remodeling projects differ from group to group. The remodeling of stores in the City Center Store Group strengthened the lineup of influential trend fashion tenants, and introduced cosmetics and general merchandise tenants to increase the internal movement of shoppers and to maximize the time spent by each shopper in the shopping complex. Stores in the Kanto Store Group and Regional Store Group on the other hand, paid more attention to local markets when remodeling; they focused more on introducing larger tenants in the family-oriented clothing and general merchandise sectors, and renovating food floors to increase shopping frequency. We renovated about 45,000 m<sup>2</sup> of sales floor space in fiscal 2010, resulting in a 20.4% year-on-year rise in sales in these zones. Cash register visits saw a huge increase of 21.9% year on year.

In business planning, in addition to store sales, the PARCO Group was successful in securing solid customer numbers and sales through seasonal campaigns and promotions for the PARCO Card.

#### Sales by store

		(Millions of yen)		(%)
		FY2009	FY2010	Change
City Center stores	Sapporo	12,058	<b>11,240</b>	93.2
	Sendai	9,704	<b>10,143</b>	104.5
	Ikebukuro	31,349	<b>30,329</b>	96.7
	Shibuya	15,187	<b>13,537</b>	89.1
	Shizuoka	10,534	<b>10,993</b>	104.4
	Nagoya	36,545	<b>34,431</b>	94.2
	Hiroshima	17,859	<b>17,011</b>	95.3
<b>Total of Urban Complex</b>			<b>127,688</b>	95.8
Kanto stores	Utsunomiya	6,397	<b>5,568</b>	87.0
	Urawa	12,549	<b>13,257</b>	105.6
	Shin-Tokorozawa	8,197	<b>8,132</b>	99.2
	Chiba	7,459	<b>6,907</b>	92.6
	Tsudanuma	9,574	<b>9,303</b>	97.2
	Hibarigaoka*1	9,128	<b>7,930</b>	102.1
	Kichijoji	9,214	<b>8,741</b>	94.9
	Chofu	17,031	<b>16,914</b>	99.3
<b>Total of Kanto Store Group</b>			<b>76,755</b>	98.2
Regional stores	Matsumoto	7,884	<b>7,649</b>	97.0
	Otsu	6,044	<b>5,022</b>	83.1
	Shinsaibashi	1,863	<b>1,856</b>	99.6
	Kumamoto	5,208	<b>4,952</b>	95.1
<b>Total of Regional Store Group</b>			<b>19,480</b>	92.8
<b>Total of Existing Store Group*2</b>			<b>223,924</b>	96.3
	Fukuoka	—	<b>13,126</b>	—
	Oita	3,998	<b>3,454</b>	—
<b>Total</b>		237,791	<b>240,505</b>	101.1

\*1 The year-on-year percentage change excludes figures for the NosVos by PARCO annex which closed on February 28, 2010.

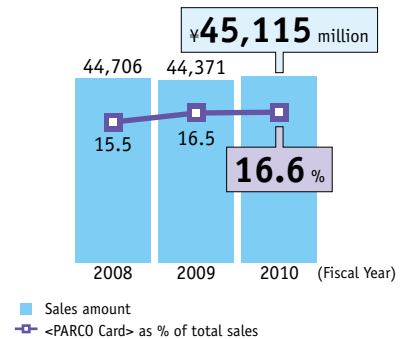
\*2 Excludes figures for Fukuoka PARCO (opened on March 19, 2010), Hibarigaoka PARCO's NosVos by PARCO annex (closed on February 28, 2010), and Oita PARCO (closed on January 31, 2011).

### Sales data (Non-consolidated)

	FY2008	FY2009	FY2010
Stores	20	20	20
Sales floor area (m <sup>2</sup> )	447,500	444,500	454,000
Tenant companies	832	808	826
New tenant companies	94	63	106
Tenant stores	3,087	2,872	2,857
Zones renovated	390	362	429
Area renovated (m <sup>2</sup> )	34,000	36,000	45,000
Year-on-year comparison by zone	117.8	110.9	120.4
New tenant store openings in renovated zones	179	165	181

### <PARCO Card> Sales amount

(Millions of yen/%)



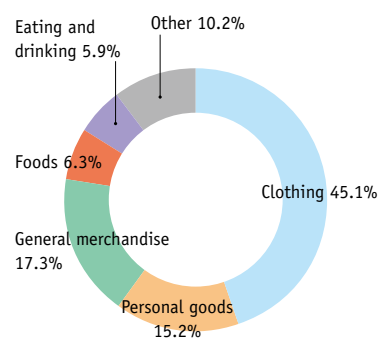
### Year-on-year sales comparison by category (Non-consolidated)

	FY2008	FY2009	FY2010 (%)
● Clothing	97.1	91.6	99.8
● Personal goods	101.0	93.6	102.3
● General merchandise	98.6	94.6	101.7
● Foods	118.9	100.5	100.1
● Eating and drinking	107.3	94.1	101.4
● Other	110.0	91.6	104.1

Year-on-year comparisons use total store sales.

In order to demonstrate the total sales capability of each store, total store sales include tenant sales as well as sales from fixed-rate rent tenants such as PARCO Theatre.

### Share of sales by category (Non-consolidated)

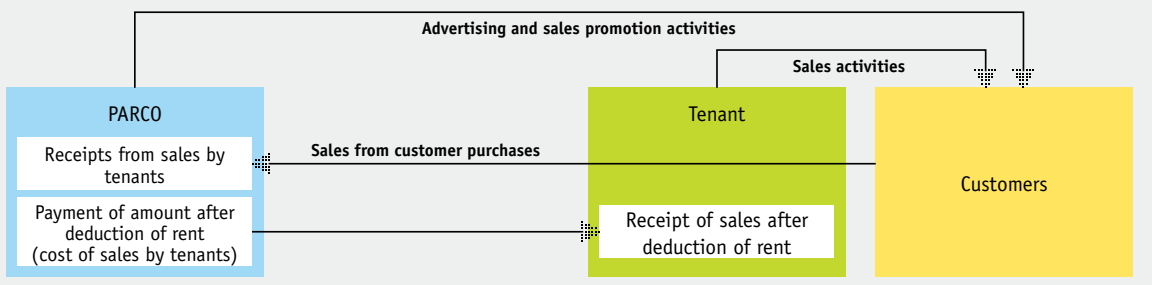


### Profit structure for the shopping complex business

Under store lease agreements, tenants conduct sales with the support of PARCO's advertising, sales promotion and other marketing activities. PARCO receives the revenue that these tenants generate through sales to customers as its net sales. After a certain period of time, PARCO pays tenants a commission on these sales after deduction of rent and other items. This system has the advantages of eliminating the risks of carrying inventories and bad debt.

Commissions are based on a declining rate system, with commissions fixed up to a certain amount of sales and a lower rate applying beyond a certain sales amount.

The setting of a minimum rent amount hedges the risk of stagnant sales. The application of a diminishing rent rate to sales offers advantages to both the tenant and to PARCO. If tenant sales from customer purchases increase due to the tenant's sales efforts, the tenant's rent rate decreases. At the same time, PARCO's rent income increases in terms of absolute amount.



A variety of advertising and sales promotion activities across all store groups had the desired effect in attracting more customers. City center stores held exhibitions and developed projects with external business partners. Activities at Kanto stores and regional stores were centered mainly on events encompassing the entire shopping area in the local neighborhood. At the same time, we have enhanced our sales promotion toolkit by making full use of digital tools such as the live webcasting of events and the real-time transmission of information on sales events via Twitter and our shop blogs.

Oita PARCO closed on January 31, 2011.

#### ● Expanding overseas business

In our overseas business, March 2010 saw the opening of our new store, PARCO Marina Bay, in Singapore. In China, an important market in our overseas strategy, we are continuing detailed discussions with a number of potential local partners on business models and proposals. We also entered into a Memorandum of Understanding with CapitaMalls Asia Limited on April 13, 2011 regarding business collaborations in China and Japan.

For details, please refer to “Business Strategy 2: Expansion of commercial activities in urban areas both in Japan and overseas” on P.15.

#### ● Rapid development of related and new businesses

In our entertainment business, there were two particular highlights in fiscal 2010. One was the success of “Solanine”—a film adaptation, executive produced by PARCO, of a popular Japanese manga. A second was the production under contract of the stage version of “The Temple of the Golden Pavilion.” This, the first performance at the new Kanagawa Arts Theater (KAAT), proved so popular that all the allocated advance tickets sold out.

PARCO continued adding new strings to its entertainment bow with a project bringing overseas dance troupes to perform in Japan. The performances were so well received that we intend to build on this element of our entertainment business going forward.

### Retail Business

Retail Business sales were ¥15,396 million, down 9.3%. Operating income rose 9.5% to ¥332 million.

\*PALM GARDEN CO., LTD., included in figures for fiscal 2009, withdrew from the directly managed stores business.

Both sales and operating income at group company NEUVE A CO., LTD. exceeded figures for fiscal 2009. Sales rose 2.8% to ¥15,396 million, while operating income increased 3.0% to ¥338 million.

Contributing factors to these increases include strong performance in our TiCTAC watch business, improved customer numbers at our ROSEMARY shops, and a jump in subscriber numbers at both the mobile phone- and newly established (March 2010) PC-version of our ROSEMARY websites (cosmetics and cosmetics accessories shop). Pushing ahead with our scrap and build strategy, we opened 15 new stores, renovated 6 stores, and closed 11. At the end of fiscal 2010, our retail business operated 140 stores. Of this 140, 82 were stores at non-PARCO facilities. Sales at these stores accounted for 50.9% of total sales at all stores, the first time these stores have provided a greater proportion than stores at PARCO facilities. Furthermore, e-commerce sales in our TiCTAC and COLLECTORS (men’s variety shop and ladies’ lifestyle goods shop) businesses exceeded projections, posting strong results.

Our two social contribution projects that were started in fiscal 2009, the watch trade-in campaign and the Pink Ribbon Project (promotion of breast cancer screening), continued in fiscal 2010. In addition, we launched a new campaign under which customers can trade in their used bags and wallets, which are then used as fuel in a waste-to-energy scheme aimed at reducing CO<sub>2</sub> emissions.

#### Number of stores by category (NEUVE A CO., LTD.)

	End of fiscal 2008	End of fiscal 2009	End of fiscal 2010
TiCTAC (watch specialty shop)	50	57	61
POKER FACE (eyeglass specialty shop)	27	26	26
COLLECTORS (men’s lifestyle goods shop)	25	26	27
ROSEMARY (cosmetics and cosmetics accessory shop)	21	20	22
Annabelle (ladies’ lifestyle goods shop)	8	7	4
Total	131	136	140
Percentage of shops located outside of PARCO shopping complexes	52%	56%	59%

### Space Engineering and Management Business

Space Engineering and Management Business sales were ¥18,830 million, up 6.0%. Operating income rose 84.5% to ¥385 million.

PARCO SPACE SYSTEMS CO., LTD. saw both sales and operating income rise on the previous fiscal year. Behind this was an increase in orders, including those related to the opening of PARCO's new store Fukuoka PARCO, renovations at existing stores such as Urawa PARCO, and related maintenance services. Business outside the Group was also brisk, such as those work orders received for electrical work at large commercial facilities, for other structural improvements, and for retail outlet construction. Comprehensive proposals leveraging PARCO's expertise in lighting design and electrical work were well received by clients, resulting in increased work orders, and consequently stronger sales, for the P'es Lighting range of lighting fixtures with reduced environmental impact.

### Other Business

Segment sales were ¥591 million, down 38.1%. Operating income fell 37.9% to ¥16 million.

\*All shares held by the PARCO Group in HOTEL NEW CRESTON CO., LTD., included those held in fiscal 2009, were transferred on June 1, 2009, resulting in the withdrawal of the Group from the directly managed stores business.

Performance at PARCO-CITY CO., LTD. was solid, with sales growing 5.2% to ¥600 million, and operating income increasing 18.1% to ¥16 million. This strong showing was on the back of a number of factors. In the website business, covering e-commerce consulting and the production and operation of online stores, we supported the introduction of blogs and Twitter into promotional campaigns for PARCO stores including Fukuoka PARCO and updated PARCO websites, and we also expanded our external orders for online stores from non-PARCO commercial facilities, among others. In November 2010, we took advantage of our extensive network of connections with major companies in the apparel industry to set up a mobile phone-based employment website, shopsnavi (<http://shopsnavi.com>). This site, focused on bringing information on current job vacancies in the fashion retail industry and at fashion-centric shopping complexes to the attention of potential employees, made an auspicious start, exceeding expectations both in terms of the number of vacancy listings and the number of registered employers. Meanwhile, in the e-commerce business, we put a number of projects into action in conjunction with business planning at PARCO stores, such as swimwear campaigns and "Lucky Bag" promotions.

On April 13, 2011, the ladies fashion site "Stylife" opened on the PARCO-CITY online shopping mall. PARCO subsequently entered into a business and capital alliance with the operator of this site, Stylife Corporation, on April 27, 2011. Stylife Corporation has a track record of over 10 years of experience in the marketing of ladies fashion through both mail order and e-commerce channels.

For details, please refer to "Business Strategy 3: Rapid development of related and new businesses" on P.15.

## Financial Position

### ■ Assets

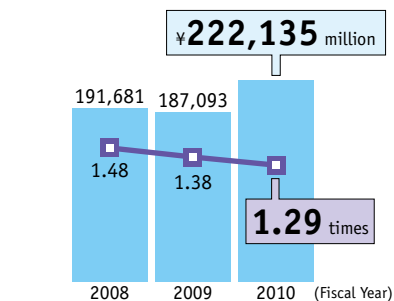
Total assets at the end of fiscal 2010 were ¥222,135 million, up ¥35,041 million.

Total current assets were ¥28,241 million, an increase of ¥2,095 million that primarily reflected a ¥3,229 million increase in cash and time deposits.

Investments and advances increased ¥375 million, to ¥5,446 million. Property and equipment was up ¥34,190 million, to ¥141,592 million due to the securing of trust beneficial rights for Urawa PARCO and Ikebukuro PARCO Annex (P'PARCO). Leasehold deposits were down ¥2,000 million, to ¥43,099 million.

Total asset turnover was 1.29 times, while return on assets was 4.3%.

**Total assets and Total asset turnover**  
(Millions of yen/Times)



■ Total assets

■ Total asset turnover

\*Total asset turnover = Net sales / Total assets (average of total assets at beginning and end of fiscal term)

An indicator used to determine the efficiency with which a company is utilizing total assets during a single fiscal year.

### ■ Liabilities

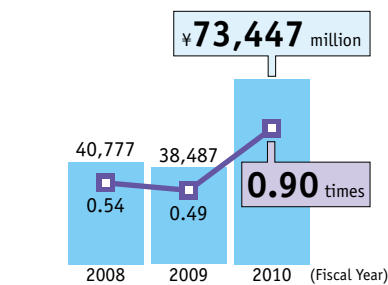
Total liabilities were ¥140,267 million, up ¥31,831 million from the close of the previous term.

Current liabilities were ¥46,961 million, up ¥6,571 million. This was largely due to a net increase of ¥7,432 million in short-term bank loans and current portion of long-term debt.

Fixed liabilities were ¥93,306 million, up ¥25,259 million. The principal factors were declines of ¥2,334 million in guarantee deposits received from tenants, offset by increases of ¥15,000 million in convertible bonds with stock acquisition rights, and ¥12,528 million in long-term debt.

Interest-bearing debt was ¥73,447 million, up ¥34,960 million. The debt-equity ratio was 0.90.

#### Interest-bearing debt and Debt-equity ratio (Millions of yen/Times)



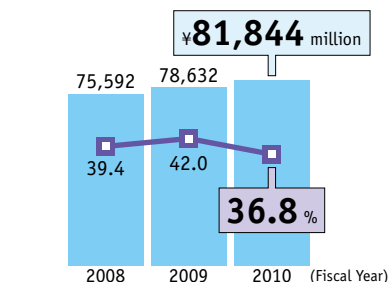
■ Interest-bearing debt

▣ Debt-equity ratio

\*Debt-equity ratio = Interest-bearing debt outstanding / (Net assets - Minority interests)

An indicator used to determine the financial stability of a company by examining the ratio of interest-bearing debt to total net assets excluding minority interests.

#### Shareholders' equity and Shareholders' equity ratio (Millions of yen/%)



■ Shareholders' equity

▣ Shareholders' equity ratio

\*Shareholders' equity = Net assets - Minority interests

\*Shareholders' equity ratio = Equity / Total assets (Liabilities + Net assets) x 100

An indicator used to determine the soundness of management by examining the ratio of total shareholders' equity in total assets.

#### Net Assets

Net assets at the end of the term were ¥81,868 million, up ¥3,210 million from a year earlier. This was due largely to an increase in retained earnings. The equity ratio was thus 36.8%, while the net asset value per share was ¥993.52.

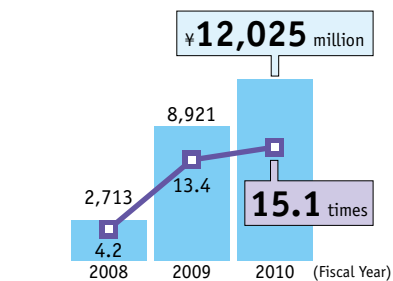
#### Cash Flows

Net cash provided by operating activities was ¥12,025 million, up from ¥8,921 million a year earlier. This was after adjustments to ¥7,717 million in income before income taxes and minority interest for non-cash items including depreciation and amortization, and extraordinary income (loss). The interest coverage ratio was 15.1.

Net cash used in investing activities was ¥42,290 million, up from ¥7,405 million in the previous term. This increase was mainly due to expenditures for the securing of trust beneficial rights (property and equipment) for Urawa PARCO and Ikebukuro PARCO Annex (P'PARCO).

Net cash provided by financing activities was ¥33,536 million, compared with ¥3,617 million used in such activities in the previous year. This reflected mainly an increase in loans associated with the securing of trust beneficial rights (property and equipment) for Urawa PARCO, and the issuing of convertible bonds with stock acquisition rights associated with the securing of trust beneficial rights (property and equipment) for Ikebukuro PARCO Annex (P'PARCO).

#### Cash flows from operating activities and Interest coverage ratio (Millions of yen/Times)



■ Cash flows from operating activities

▣ Interest coverage ratio

\*Interest coverage ratio = Cash flows from operating activities / Interest expenses

An indicator used to determine the company's ability to pay interest, arrived at by calculating the multiple of profit gained on business against financial expenses such as interest payments on loans.

\*Operating cash flows and interest coverage ratio in fiscal 2008 fell significantly compared to fiscal 2007 due to temporary factors. Correcting for these temporary factors, the interest coverage ratio for fiscal 2008 was 14.1 times.

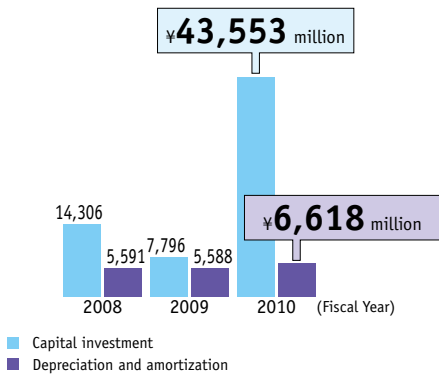
## ■ Capital Investment

Capital investment increased ¥35,757 million, to ¥43,553 million, and included tangible fixed assets, intangible fixed assets, long-term prepaid expenses, and fixed leasehold deposits.

Depreciation and amortization increased ¥1,030 million, to ¥6,618 million.

Of the capital investment described above, ¥36,421 million was associated with the securing of trust beneficial rights for Urawa PARCO in March 2010, and Ikebukuro PARCO Annex (P'PARCO) in October 2010.

Capital investment and Depreciation and amortization  
(Millions of yen)



## Promotion of Medium-Term Business Plan (Fiscal 2010 to Fiscal 2012)

In August 2010 the Group announced its new vision for fiscal 2015, and a new medium-term business plan for fiscal 2010 to fiscal 2012.

Our new vision is to become an “Urban Lifestyle Producer” proposing new, more fulfilling lifestyles.

The Japanese economy, after years of growth, has now settled down in a period of maturation. In the present situation, we find consumer behavior is now centered on prioritizing social value and emotional wellbeing when making decisions on purchases. However, we expect the future to bring further changes. As a result, PARCO intends to reach out to consumers through a more varied range of businesses, in addition to its mainstay business—shopping malls. We intend to position PARCO as a Group focused on knowledge creation that combines the shopping mall business, located at its core, with service businesses, thereby achieving a unique growth path not seen anywhere else. In this way we shall push forward towards our goal

of becoming an “Urban Lifestyle Producer” that proposes new, more fulfilling lifestyles.

Our vision comprises three business strategies, and the strengthening of the management foundation that underpins them, to be executed over a six year period. This period is divided into two stages: “Stage 1” from fiscal 2010 to fiscal 2012, and “Stage 2” from fiscal 2013 to fiscal 2015. The first stage, starting this year, will see us take our first steps towards attaining these goals.

### Three business strategies

#### Strategy 1

Innovation at existing complexes

Build a robust revenue base

#### Strategy 2

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

Establish a business foundation for further growth

#### Strategy 3

Rapid development of related and new businesses

Broaden business fields

### Strengthening of the management foundation

**Strategic Task 1** Diversification of financial strategy

**Strategic Task 2** Overhaul of real estate strategy

**Strategic Task 3** Advancing of M&A and alliance strategy

#### <Specific Targets>

■ Fiscal 2010 results and revenue and earnings targets for fiscal 2012

Consolidated	Millions of yen		Comparison with FY2009
	FY2010 Results	FY2012 Target	
Net sales	264,840	300,000	114.9%
Operating income	9,218	12,000	139.5%
Net income	4,400	6,000	146.0%
EBITDA	15,837	19,000	133.9%

■ Investment over the three years to fiscal 2012

Recurring investments	¥12,000 million (investment etc. in store renovations)
Strategic investments	¥50,000 million* (Acquisition of properties currently being rented and opening of new complexes)
Total	¥62,000 million

\*Approximately ¥40,000 million of the planned ¥50,000 million in strategic investment has already been used in fiscal 2010.

For additional details on our medium-term management plan, please refer to the following page of our website.  
[http://www.parco.co.jp/group/en/corporate/ir\\_06.php](http://www.parco.co.jp/group/en/corporate/ir_06.php)

## Fiscal 2011 Initiatives

Lingering concerns over the impact of the Great East Japan Earthquake, occurring on March 11, 2011, have combined with unpredictability in consumer behavior to create a murky outlook going forward.

Fiscal 2011, the second year of our medium-term business plan will see PARCO work to further fortify its shopping center business by continuing to renovate existing malls. In addition, the Group's collective strengths will be harnessed to expedite development of related and new businesses in tandem with taking concrete steps towards constructing a business foundation, in preparation for Stage 2.

PARCO's corporate structure will undergo a number of changes under the current plan in order to facilitate quicker and more flexible decision-making and business execution. By empowering the Corporate Operations department and Store Management Division with supervisory functions we expect deeper cooperation between these two units to give further impetus in moving our strategies forward. As a preliminary step to the fortifying of the management foundation, PARCO will establish three new projects. These projects, on real estate strategy, personnel system reform, and diversity promotion, will allow PARCO flexibility when devising strategies regarding the allocation of managerial resources for specific issues in the medium to long term.

### ■ Strategy 1

#### Innovation at existing complexes

We reorganized the Head Office to bolster policy formulation and the store support functions. In addition, the 20 malls PARCO currently operates nationwide were re-categorized as either urban complexes or community complexes based on their target market characteristics. As a second step, a program of renovations, covering a record total of 61,000 m<sup>2</sup>, is being carried out to further tailor each complex to its target market. Our main refurbishment plans are as follows.

## Urban Complexes

**Fukuoka PARCO** Always looking to stay ahead of the latest trends we applied a little retouching to Fukuoka PARCO, one year after its opening. We introduced organic cosmetics, personal items, household goods, and ladies' fashion, all of which are store categories currently enjoying much popularity, to floors 1, 2 and 4. On the first basement floor, our food section, there were new sweets on offer as well as new restaurants and drinking establishments. These included tenants making their first appearance, not only in Fukuoka, but on the entire island of Kyushu.

**Nagoya PARCO** Nagoya PARCO will strive to further diversify its tenant mix to create more reasons for more shoppers to visit the complex. The first floor of the WEST Building saw the introduction of cosmetics and personal goods tenants, while floors 3 and 4 saw new outlets for ladies' fashion that targeted customers of a wide variety of age groups. These changes were part of a broader plan to increase the number of shoppers in their thirties and forties.

**Shibuya PARCO** We changed the complex format of Shibuya PARCO ZERO GATE in line with our new business model for urban commercial facilities. To coincide with this renovation we introduced a store that markets products of an overseas casual brand to our tenant mix. This store, making its first appearance in Japan, opened in April 2011.

## Community Complexes

**Urawa PARCO** Urawa PARCO, which since last year has functioned as the model for our community complex concept, was at the center of our renovation program. Plans, targeting increased customer footfall and a widening of the customer base, include the expansion of floor space in the vaulted atrium section, and the introduction of major appliance retailers and general clothing tenants.

The Shinsaibashi PARCO complex is also scheduled for a change of format. Both the Main Building and DUE will close in September 2011. The Main Building is due to be rebuilt by the owner on the same site, and will reopen in June 2013.

## ■ Strategy 2

### Expansion of commercial activities in urban areas both in Japan and overseas

Expansion in Japan will focus on the opening of new stores and the conversion of existing complexes in the greater Tokyo metropolitan area and the Kansai region through a combination of M&A and alliance strategies. A new business model for low- to medium-rise commercial facilities was established using a new complex format based on Shibuya PARCO ZERO GATE and Shinsaibashi PARCO.

In our overseas business, we are continuing discussions with a number of potential local partners in China. We also entered into a Memorandum of Understanding with CapitaMalls Asia Limited (CMA), a group company of one of Asia's largest real estate companies, CapitaLand Limited, on April 13, 2011 regarding business collaborations in China and Japan. Since the signing, discussions have progressed significantly and we are now ready to start discussing the concrete details of the project. This tie-up will allow us to accelerate our business operations domestically, and in the major cities of China, Shanghai and Beijing in particular. We also opened an office in Hong Kong on March 1, 2011.

Our plans also include a renovation of our PARCO Marina Bay mall in Singapore to better serve local needs and attract new customers.

#### Overview of CMA

- Listed in Singapore, CMA is one of the largest shopping mall developers, owners and managers in Asia.
- It operates 38 malls, such as the Raffles City Shanghai, in 34 Chinese cities including Shanghai and Beijing, and plans to open a further 15, aiming to achieve a total of 100 complexes in the next three to five years.
- It has developed a vibrant relationship with PARCO based on a mutual understanding of one another's capabilities in the management of commercial facilities. This relationship first began in 1995 with the co-management of PARCO Bugis Junction in Singapore.

Name:	CapitaMalls Asia Limited
Businesses:	retail real estate investment, development, mall operations, asset management, and fund management (REIT)
Paid-in capital:	S\$4,605,000,000 (Approximately ¥299,300 million at an exchange rate of S\$1 = ¥65)
Established:	October 12, 2004

## ■ Strategy 3

### Rapid development of related and new businesses

In our entertainment business, PARCO produced a stage adaptation of *The Temple of the Golden Pavilion* under contract. This production was the only one from Japan to be invited to take part in the world-famous performing arts festival—the Lincoln Center Festival—to be held in July and August 2011. In addition to continuing to provide contract services for theatrical productions, we have also been active in the realm of cinema. This includes an order for the schedule management of Cinema Rise, located close to Cine Quinto, among other contract services for non-PARCO clients.

Group company NEUVE A CO., LTD. will continue to expand its businesses through aggressive increases in store openings, both within and outside the PARCO Group, with a particular focus on its TiCTAC and ROSEMARY businesses. There will also be new product lines from TiCTAC, the EYEWEAR business (eyeglass specialty store), and the COLLECTORS business (men's variety shop and ladies' lifestyle goods shop).

PARCO SPACE SYSTEMS CO., LTD. is focusing on becoming an enterprise that optimizes spaces in commercial facilities from a hardware perspective and expands external orders for eco-friendly (power-saving) products and services. With these twin goals in mind, PARCO SPACE SYSTEMS CO., LTD. will strive to further expand orders, from both within and outside the PARCO Group, for its range of services that extend from interior furnishing and electrical work (replacement of light fittings with more energy-efficient alternatives) based on the P'es Lighting brand for commercial facilities, to facility management.

On April 13, 2011, the ladies fashion site "Stylife" opened on the PARCO-CITY online shopping mall, adding approximately 200 popular brands to PARCO stores across the country. PARCO subsequently entered into a business and capital alliance with the operator of this site, Stylife Corporation, on April 27, 2011. Stylife Corporation has over 10 years of experience in the distribution of ladies fashion through both mail order and e-commerce channels.

This alliance will allow PARCO to further cultivate its partnership with Stylife, and thus strengthen brand development, increase distribution channels, and attract

a greater number of customers. By linking our e-commerce business with our shopping complex business, we aim to fortify our value chain and thereby secure growth in both domains. Furthermore, we intend to increase external orders from commercial facilities and the retail sector for services provided by our web business.

### Outlook for Fiscal 2011

The immediate impact on our business performance of the Great East Japan Earthquake, and the rolling blackouts that followed, was a decrease in net sales for March 2011 at stores in the affected areas, including Sendai PARCO, and the Kanto region. While figures from April onwards indicate a transition to a recovery trajectory, we expect consumer behavior to retain its cautious streak for the remainder of the first half of fiscal 2011. By undertaking the above initiatives, we expect net sales for fiscal 2011, the second year of our medium-term management plan, to remain at ¥264,900 million, with operating income falling 6.7% to ¥8,600 million. Ordinary income may decline 6.3% to ¥8,200 million. At the same time, we project a 9.1% decrease in net income, to ¥4,000 million, reflecting the posting of other expenses, including a loss on impairment of fixed assets due to renovations, a loss on disaster associated with the Great East Japan Earthquake, and asset retirement obligations resulting from changes in accounting standards. Management plans to pay an annual cash dividend of ¥17 per share, including an interim payment of ¥8 per share.

### Risks Related to Our Business

With respect to information contained in the financial statements relating to business and accounting conditions, the following factors may significantly affect investment decisions. Recognizing these risks, the PARCO Group will strive to prevent their occurrence and to respond appropriately in the event they occur. Information pertaining to the future is based on the PARCO Group's knowledge as of May 30, 2011.

#### 1. Risk of Fluctuations in Demand

The PARCO Group engages in the Shopping Complex Business, including the operation of shopping centers; the Retail Business; and the Space Engineering and Management Business. The Group's business performance and financial position may be significantly affected by decreased sales and orders caused by declining consumer confidence and a slowdown in corporate profitability due to deterioration in the economy and tax reforms such as higher consumption tax rates. Sluggish sales of seasonal products caused by unusual weather, such as cool summers and warm winters, could also dampen sales.

#### 2. Risk of Natural Disasters and Accidents

The PARCO Group operates, or operates under contract, shopping complexes in major cities in Japan and abroad (Asian region), and has business bases in Japan and abroad as tenant shops within shopping complexes in various locations nationwide. These locations may experience difficulties in their sales activities in the event of disasters such as earthquakes, fire, acts of terrorism, or unrest. In particular, the PARCO Group has stores and locations in the Tokai and Kanto regions, where major earthquakes are predicted, and may therefore incur damages in these regions. A risk response system is being set up and enhanced to minimize damage from such incidents by implementing countermeasures such as ensuring anti-seismic measures, formulating and disseminating the Manual on Major Earthquakes, and conducting disaster drills at the stores. However, depending on the specific circumstances, the PARCO Group's business performance and financial position may be significantly affected.

### 3. Risk of Regulatory Restraints

The PARCO Group operates its business under a regulated environment, shaped by legislation including the Large-Scale Retail Stores Location Law, the Central City Invigoration Law, the City Planning Law, the Building Law and the Building Standard Law. In planning new store openings and expanding floor space in the future, we may be subject to regulatory controls that may affect our new store plans and operational plans, and restrict our business activities. Under such circumstances, the PARCO Group's business performance and financial position may be significantly affected.

### 4. Risk of Fluctuations in the Industry and Markets

The PARCO Group conducts detailed marketing to develop shopping complexes and launch new outlets for specialty stores. However, an unpredictable intensification of competition and changes in market conditions may affect store sales and new store opening plans. To quickly respond to such changes in the business environment, the Group is rationalizing its store operating system and adopting a scrap-and-build approach. However, under certain circumstances, the Group's business performance and financial position may be significantly affected.

### 5. Risk of Corporate Reorganization

The PARCO Group undertakes its business as an integrated whole, comprising PARCO CO., LTD. and its affiliates in Japan and abroad, through an organic collaboration among the Group members. In the future, the scope or business domain of this corporate group may change due to mergers, transfers or acquisition of operations, and the sale or disposal of affiliated companies, in which case the Group's business performance and financial position may be significantly affected.

### 6. Risk Related to Business Associates

The PARCO Group provides fixed leasehold deposits to land and property owners in its Shopping Complex and Retail Businesses. It also has claims to sales receivables against its business associates in the Space Engineering and Management Business. While we conduct due diligence in credit management with respect to these business associates, land and property owners may experience financial difficulties, causing problems in the collection

of fixed leasehold deposits. The business associates may also suffer deterioration in credit standing, giving rise to irrecoverable loans. Under these circumstances, the PARCO Group's business performance and financial position may be significantly affected.

### 7. Risk Related to the Supply of Products and Services

The PARCO Group handles clothing, sundries and foods, and provides services including interior design and construction work, and building management and operation. While the utmost care is exercised to control quality and ensure the hygienic aspects of products and services, should flaws or defects in products or services cause damage to customers, the Group may lose customers and the public's trust, with a resulting impact on business performance and financial position.

### 8. Risk Related to Fixed Assets in Possession

The PARCO Group possesses fixed assets for business purposes, including land intended for stores and buildings, as part of its business activities. In the event that profits from business and cash flows deteriorate, or should the application of impairment accounting result in a decline in land prices, the PARCO Group's business performance and financial position may be significantly affected.

### 9. Risk Related to the Protection of Personal Information

The PARCO Group possesses personal information of its customers for marketing activities. Recognizing the consequences of any leakage of personal information on corporate management and trust, the Group has established a system for managing personal information, including a manual of rules, employee education, and certification regarding the handling of personal information. However, in the event a leak of personal information results in claims for damages and loss of the public's trust, the Group's business performance and financial position may be significantly affected.