

Review of Operations



<Sendai PARCO>

Shopping Complex Business

○ Fiscal 2008

In fiscal 2008, the Shopping Complex Business was affected by the severe economic downturn, resulting in net sales of ¥264,595 million, down 0.6% from the previous year, and operating income of ¥8,826 million, down 2.9%.

In response to the sluggish consumer environment, we worked to strengthen our competitiveness through the promotion of strategic remodeling and enhanced sales planning at existing PARCO CO., LTD., shopping complexes.

Remodeling was conducted in 390 zones (approximately 34,000m²) of sales floor space at stores including <Sapporo PARCO>, <Chofu PARCO> and <Nagoya PARCO>. Net sales in these zones were favorable, rising 17.8% year on year.

Sales planning focused on measures to stimulate personal consumption. Our companywide large-scale "4 DAYS SALE" project, held in summer and winter, gained recognition as PARCO'S representative large-scale sales project through the cooperation of each of our tenants and the wide support of our customers.

We opened <Sendai PARCO>, our first base of

operation in the Tohoku region, on August 23, 2008. PARCO operates the commercial portion of the building complex, which is accessible from JR Sendai Station via a pedestrian walkway. Aiming to create a commercial facility, this "Urban Life-Styling Building" offers a fresh approach to consumption that we expect to attract a wide range of customers.

<Northport Mall>, operated by our Property Management Business, is ensuring the establishment of its position in the market and its net sales have continued to grow in the third year since its grand opening.

In addition to efforts in our entertainment business, such as the appointment of a new creator in the theater business, we are enjoying the fruits of various labors including the performance of our original production in London, which has been received favorably by the local media.

<Le Theatre GINZA by PARCO> has increased the ratio of original productions and gained considerable recognition as one of our new bases of operation. In an attempt to expand the licensing business in our audio-visual business, to bolster earnings we are financing various productions in addition to those screened at our facilities.

○ Outlook

It will likely be some time before we see the recovery of the global economy, and the direction of the Japanese economy is also uncertain. We will strengthen the business structure of our flagship Shopping Complex Business by enhancing the marketing capabilities of existing stores, developing new properties and expanding our overseas business. The business headquarters will construct an integrated support structure to form and implement policies for existing store management, while introducing a store group structure to create strategies that reflect the unique characteristics of individual stores and strengthen their competitiveness.

Through continued remodeling plans and sales projects, we will attempt to improve the attractiveness of our buildings, differentiate our facilities from competitors and enhance our ability to draw customers. Remodeling

will focus on <Ikebukuro PARCO>, <Nagoya PARCO>, <Hiroshima PARCO>, <Shizuoka PARCO> and <Urawa PARCO> in precise response to customer needs in each market. Fiscal 2009 is a milestone year for many stores, marking the 40th anniversary of <Ikebukuro PARCO>, the 25th anniversary of <Matsumoto PARCO>, the 20th anniversary of <Chofu PARCO>, and <Nagoya PARCO> and the 15th anniversary of <Hiroshima PARCO>. We will develop these anniversary projects to attract customers and improve earnings, increasing the images of the stores and the Company.

In new properties, we are engaged in full-scale preparations for the spring 2010 grand opening of <Fukuoka PARCO (provisional name)> and <PARCO@Millenia (provisional name)> in Singapore's Marina district.



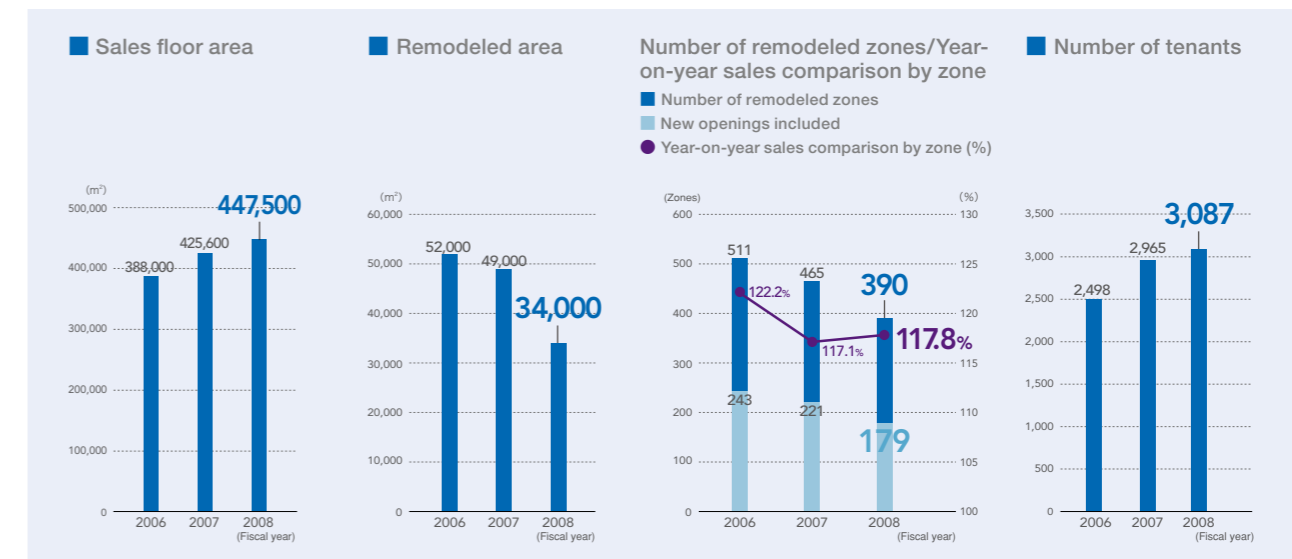
[ROSE BUD], 1F, <Hiroshima PARCO> main building



New Year 2009 company campaign



May 2009 "PARCO 4DAYS SALE"



Structure of the Shopping Complex Business

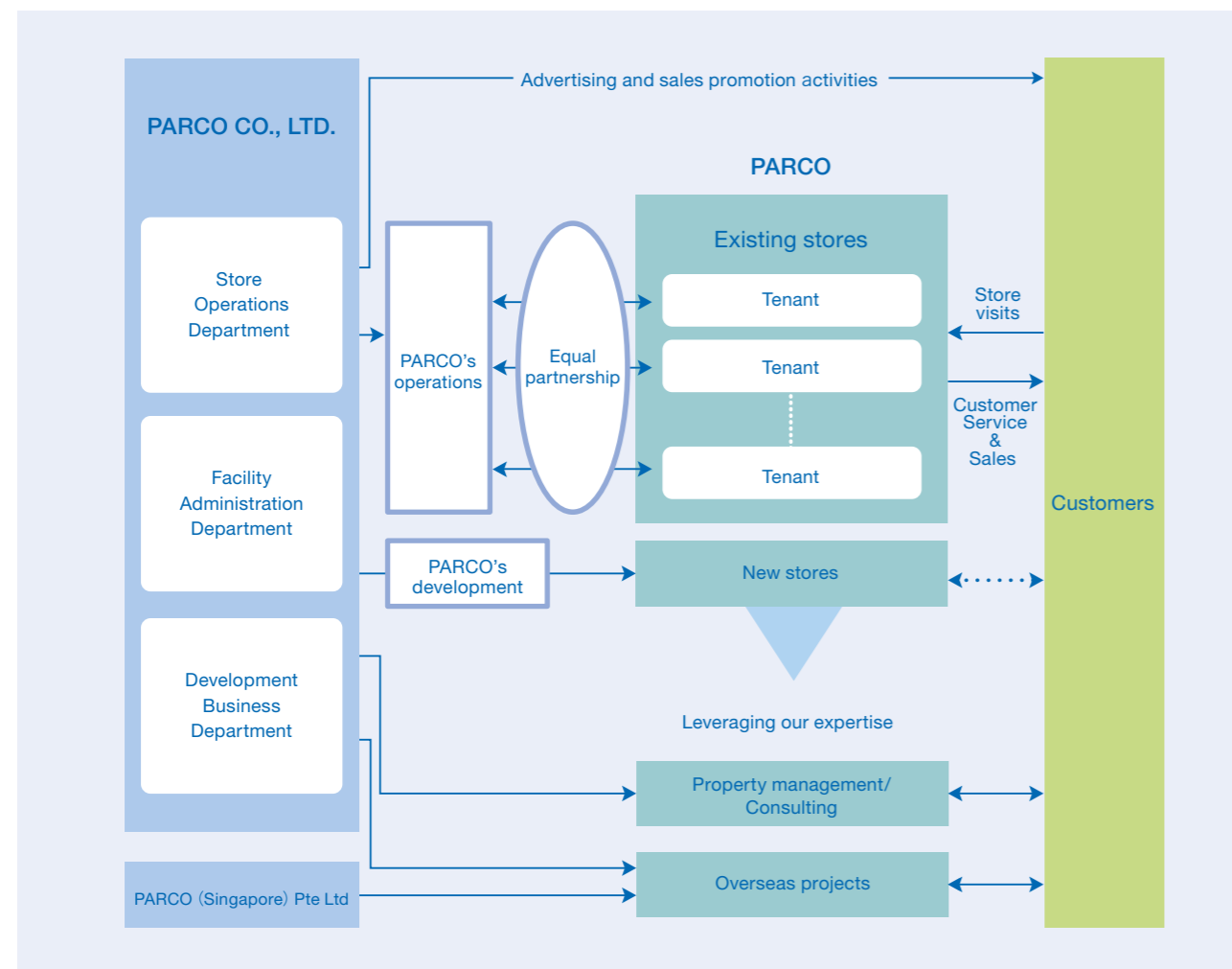
PARCO operates its shopping complexes in accordance with the concept of each store as an equal partner with its tenants. The three departments at the business headquarters—the Store Operations Department, the Facility Administration Department and the Development Business Department—provide solid operational support to vitalize the stores.

The Store Operations Department provides stores with diverse support including the integration of all aspects of shopping complex operation, analysis of consumption and industry trends, the gathering and exchange of information with tenants, the creation of marketing strategy, leasing tenants along with remodeling, management of contracts with tenants, production of television commercials, the

planning and implementation of marketing projects and CRM activities.

The Facility Administration Department supports shopping complex operations to maintain safety, security and comfort, and handles the planning of space formation, the management of shopping complex assets and relationship-building with landowners.

The Development Business Department develops PARCO's new properties, new commercial facilities other than PARCO-type business as a horizontal extension of our main business, the property management business, as well as the commercial consulting business and the development of business overseas.



Horizontal Deployment of Our Core Business

Property Management and Consulting

It has been 40 years since the opening of <Ikebukuro PARCO>, and we are taking advantage of our expertise in shopping complex development management to offer property management and consulting services to commercial facilities other than PARCO.

We conduct property management at <Northport Mall> at Tsuzuki-ku in Yokohama (Kanagawa Prefecture), sub-

property management at <Mallage Shobu> at Shobu-machi in South Saitama (Saitama Prefecture), and provide consulting services to <Amu Plaza> in the shopping complexes in Nagasaki, Kagoshima and Kokura train stations. We will continue to seek further opportunities to promote the expansion of this business.



Contract-based property management <Northport Mall>



Contract-based consulting service <Amu Plaza Kagoshima>

Overseas Business

We plan to expand business within the Overseas Business Group in the Development Business Department through various development projects focused on promising Asian regions using expertise accumulated over many years of shopping complex development and operation in Japan and overseas, leveraging the power of the PARCO brand.

PARCO (Singapore) Pte Ltd

PARCO (Singapore) Pte Ltd proactively develops overseas business in its Singapore location. In conjunction with PARCO's Overseas Business Group, PARCO Singapore offers the rapidly growing countries of Asia the shopping center development and operational expertise PARCO has acquired over many years of business in Japan and overseas as well as serving as a bridge to foster interactions in numerous areas between Japan and the globalizing Asia region.

Business developments include the grand opening of <PARCO@Millenia (provisional name)> at the Millenia Walk in Singapore's Marina district, scheduled for spring 2010. This project, with the support of Singapore's Textile and Fashion Federation (TaFf) and SPRING Singapore, a government enterprise development agency, will develop "PARCO next NEXT," a fashion incubator zone for young Singaporean designers. The project aims to introduce Singapore designers domestically and overseas.



"PARCO next NEXT" Logo

Retail Business

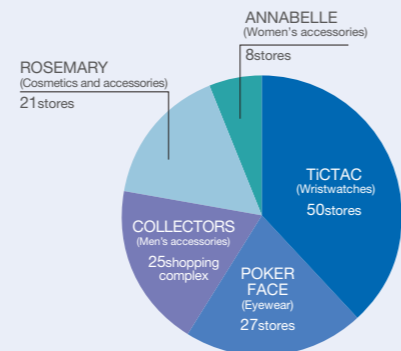
Fiscal 2008 Results and Outlook

In fiscal 2008, the Retail Business achieved net sales of ¥17,079 million, down 0.1% from the previous year, and operating income of ¥276 million, down 44.3%.

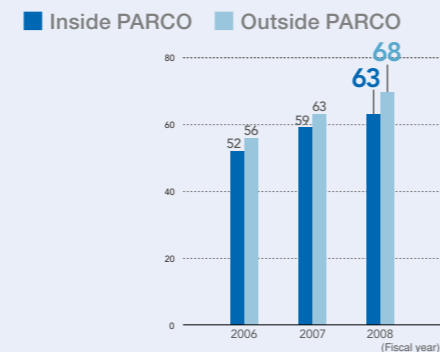
Executing its scrap and build initiative, NEUVE A CO., LTD., opened 15 stores and closed six, resulting in 131 stores currently in operation. Existing store sales, influenced by the economic recession, were down despite our efforts to contain temporary selling, general and administrative expenses related to the opening of new stores, which adversely affected operating income. We are developing new markets and business formats, including [COMPLETE WORKS Tokyo], a new business format within the COLLECTORS business located at Akasaka Sacas, and a new [TiC TAC] store located in the airport mall inside Terminal 1 at Narita Airport.

In the future, this store will open a website as part of a full-fledged e-commerce business launch. In addition to offering products that are not available in stores, through this site we aim to raise profitability and differentiate the store. We also intend to expand business by opening new shops offering carefully vetted products.

Number of stores by format (NEUVE A CO., LTD.)
Total number of stores: 131



Number of NUEVE A Stores



[TiC TAC] at Shibuya PARCO



[COMPLETE WORKS Tokyo] at Akasaka Sacas
(New business format of COLLECTORS business)

Space Engineering and Management Business

Fiscal 2008 Results and Outlook

In fiscal 2008, Space Engineering and Management Business net sales were ¥22,437 million, down 14.9% from the previous year. Operating income was ¥383 million, down 44.8%.

PARCO SPACE SYSTEMS CO., LTD. (PSS), conducted management reforms under the theme of "shifting the way we see our mission from a job to a business." PSS handled the opening of <Sendai PARCO>, which involved environmental design, interior decorating supervision, interior decorating construction and building maintenance, and supported the opening of other new stores. Net sales and operating income declined from the previous fiscal year in reaction to the large orders for interior decorating construction we received in the previous year and owing to the impact of the sudden economic slowdown. Looking ahead, we will focus on improving our service and quality of work in an attempt to contribute within the Group and develop eco-friendly business and new commercial innovations aimed at expanding our external order base. We will attempt to strengthen our marketing capability by consolidating the management structure of the interior decorating and building maintenance businesses and the integration of design, construction and maintenance into a comprehensive function with the aim of becoming a company with even stronger market competitiveness.



Building Maintenance Business
(janitorial services)



<Ikebukuro PARCO> main building B1F entrance light pillar

Other Business

Fiscal 2008 Results and Outlook

In fiscal 2008, the Other Business segment recorded net sales of ¥2,218 million, down 4.8%, and an operating loss of ¥125 million, up from a loss of ¥118 million in the previous year.

Online shopping mall <PARCO-CITY>, operated by PARCO-CITY CO., LTD., continues to expand the number of stores concentrating on high fashion sensibility as the number of users accessing the site steadily increases.

Looking toward a new growth strategy, we plan to reform our virtual business by fusing existing stores with e-commerce and collaborating with outside businesses.

After careful examination of the earning potential and future prospects of our hotel business, we decided to withdraw from direct management operations.



<PARCO-CITY> online shopping mall