

# PARCO

Annual Report 2013



## Advancing From Our Origin — Utilizing PARCO's Strengths to “Advance” to the Next Generation —

Since Ikebukuro PARCO was opened in 1969, PARCO has actively introduced not only fashion but also cutting-edge culture in such fields as music, art, and theater, providing variety in our “culture of consumption.” As a place of creation, PARCO draws together many new people with talent and then widens their circle of creativity, thereby leading on to further creation in the next cultural fields. PARCO believes that amid changes in the times and economic environment, as well as in people’s consumption behavior, PARCO’s strengths can be found in this continuous creation of culture.





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#### Cautionary Statement About Forecasts

Descriptions related to future prospects in this report are based on our targets and forecasts and are not intended to provide any assurance or guarantee. Please use this report with the understanding that future earnings of PARCO may differ from our current forecasts.



## PARCO Corporate Mission

Creating futuristic, innovative spaces that brim with hospitality, providing an enjoyable experience for customers visiting our stores, and helping our tenants prosper.



## The Concept Behind Our Name

Our company name, PARCO, is the Italian word for “park.” Like a park, each PARCO location is a space where people come together to share time and space, where they can relax and have fun. Our Corporate Mission is to create parks: futuristic, innovative spaces that brim with hospitality, provide an enjoyable experience for customers visiting our stores, and help our tenants prosper.

The “main characters” at each PARCO location are the people who gather there, that is, customers and retail shops. The role of PARCO as a company is to create stores that customers want to visit, and then visit again, and to strengthen the link between retail shops and customers.

Our employees are constantly seeking out customer wants and needs in order to provide a space where people can feel happy and inspired, and working to meet those needs fully.

# New Winds Blow From PARCO



Current personal consumption trends are marked by an increasingly cautious and prudent consumption stemming from concerns over employment and income prospects going forward. Nevertheless, a distinct orientation to consumption has also been gaining strength. It is characterized by the emergence of a demand for good quality products and also for products that contribute to the environment or society in some form. Amid such conditions, the PARCO Group has categorized existing PARCO stores based on the characteristics of their catchment areas, and engaged in innovations to optimize product mixes and operating methods for their respective target customers. In our ZERO GATE business, a new business model for domestic development activities, and in our overseas business, we moved forward on new store openings and promoted related businesses and new businesses in coordination with PARCO Group companies. As a result of these efforts, in fiscal 2012 net sales totaled ¥264.7 billion, up 1.9% from the previous year, operating income came to ¥10.8 billion, up 18.1% from the previous year, and net income amounted to ¥5.0 billion, up 17.7% from the previous year, which represents a record high for income.

The corporate mission of the PARCO Group is “Creating futuristic, innovative spaces that brim with hospitality, providing an enjoyable experience for customers visiting our stores, and helping our tenants prosper,” and since our establishment we have created stimulation by offering cultural activities and new lifestyles pivoting on fashion to urban dwellers. This is PARCO’s origin. With economic conditions and consumption

trends continuing to change with the times, we will further advance from our origin to give rise to new movements through the creation of stimulation that transcends market expectations and enables new winds to blow from PARCO.

In 2012, J. FRONT RETAILING Co., Ltd. (JFR) executed a tender offer and the PARCO Group became a member of the JFR Group. We believe the corporate value of the PARCO Group will be raised through tighter coordination in marketing and store development.

Going forward, we aim to realize our corporate mission and redouble our efforts to enhance corporate value and contribute to our stakeholders. We ask for your continued understanding and support in the future.

June 2013

PARCO CO., LTD.

President and Representative Executive Officer

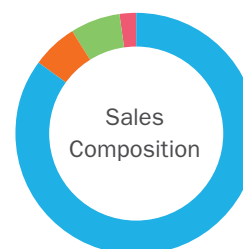
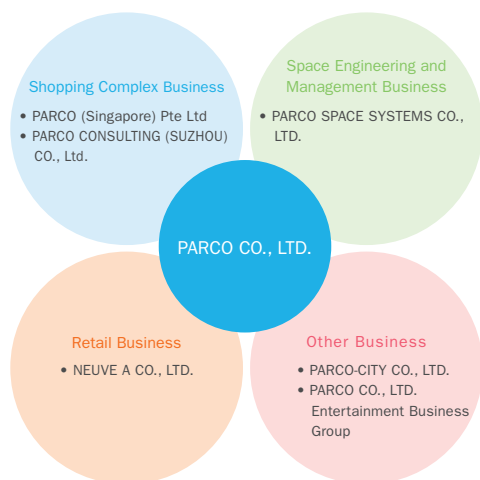
*Kozo Makiyama*

## PARCO Group

The PARCO Group is involved in four categories of business. Our core **Shopping Complex Business** operates our PARCO commercial facilities. The **Retail Business** operates distinctive specialty shops. The **Space Engineering and Management Business** conducts interior design, decorating and electrical work, and manages buildings. Finally, our **Other Business** segment operates our entertainment business and provides web-based information services.

PARCO works with its tenants to create commercial spaces that provide customers with enjoyment and maximize synergies within the Group.

### Major PARCO Group companies



Shopping Complex Business	85.1%
Retail Business	6.1%
Space Engineering and Management Business	6.6%
Other Business	2.2%

\*Figures calculated using figures before eliminations of inter-segment transactions.

## Shopping Complex Business

The Shopping Complex Business is the PARCO Group's flagship operation. Expert in comprehensive commercial facility production, this business develops and operates PARCO shopping complexes in Japan and overseas.

This business currently operates 19 domestic PARCO stores and 1 overseas PARCO store in Singapore. It also operates three ZERO GATE stores, which is a new business model.



Ikebukuro PARCO



Nagoya PARCO



Sapporo PARCO



Fukuoka PARCO

### PARCO CO., LTD.

Head Office	8-16 Shinsen-cho, Shibuya-ku, Tokyo
Established	February 13, 1953
Net Sales	¥242,706 million
Operating Income	¥10,166 million
Paid-in Capital	¥34,367 million
Employees	626

<http://www.parco.co.jp/group/en/>

### PARCO (Singapore) Pte Ltd

Head Office	9 Raffles Boulevard #03-02 Millenia Walk, Singapore 039596
Established	November 25, 1991
Operating Loss	(¥275 million)
Paid-in Capital	S\$15,926 thousand (Singapore Dollars)

<http://www.parco.com.sg>

### PARCO CONSULTING (SUZHOU) CO., Ltd.

Head Office	Suzhou City, China
Established	January 5, 2012
Operating Income	¥8 million
Paid-in Capital	¥70 million



## Retail Business

The Retail Business is centered on NEUVE A CO., LTD., which develops and operates select stores offering fashion-related goods. The 159 individual retail shops (end of the fiscal year ended February 2013) each fall into one of four store formats based on the concept of customer lifestyle support. In addition to developing new stores outside of PARCO complexes, we are expanding our lineup of original products, and continue to develop new business formats together with pursuing other ways to bring new information to customers, with the aim of expanding earnings.



TIC TAC at TOKYO Solamachi



POKER FACE at Shibuya PARCO



ROSEMARY at Tsudanuma PARCO



COLLECTORS at Nagoya PARCO

### NEUVE A CO., LTD.

Head Office	8-16 Shinsen-cho, Shibuya-ku, Tokyo
Established	June 1, 2001
Net Sales	¥17,174 million
Operating Income	¥530 million
Paid-in Capital	¥490 million
Employees	455

<http://www.neuve-a.com>

Number of locations: 159 (55 in PARCO complexes)

Ratio of shops outside of PARCO: 65.4%

TIC TAC Business	Watch specialty store	73 (17 in PARCO complexes)
EYEWEAR Business	Eyeglass specialty store	26 (10 in PARCO complexes)
ROSEMARY Business	Cosmetics and accessories specialty shop	25 (15 in PARCO complexes)
COLLECTORS Business	Men's variety shop/ Women's variety shop	35 (13 in PARCO complexes)

## Space Engineering and Management Business

PARCO SPACE SYSTEMS CO., LTD., which handles the Space Engineering and Management Business, is involved in the development and operation of commercial facilities through its two pillars of the Space Production Department, which handles activities ranging from the planning and design of commercial spaces to interiors, fixtures and electrical work, as well as supervising interior decorating, and the Building Management Department, which provides safety and maintenance, and janitorial and security services for maintaining a comfortable building environment. We develop and sell original lighting fixtures products, pursue contracts with external commercial facilities, and promote energy saving lighting designs for commercial spaces (lighting with a lower environmental impact) taking advantage of our specialized and comprehensive expertise accumulated through designing PARCO spaces and managing facilities.



once A month (Fukuoka PARCO), a store completely illuminated by LED lights

### PARCO SPACE SYSTEMS CO., LTD.

Head Office	8-16 Shinsen-cho, Shibuya-ku, Tokyo
Established	April 1, 1969
Net Sales	¥18,581 million
Operating Income	¥410 million
Paid-in Capital	¥490 million
Employees	800
Number of locations	28

<http://www.parco-space.co.jp>

## Other Business

Our entertainment business engages in a diverse range of novel promotion activities for theater, music, film and publishing, designed to differentiate us from other commercial facilities.

PARCO-CITY CO., Ltd. provides web-based consulting services for commercial facilities and retail shops.

In particular, in our promotion and support of communication with customers, we are actively proposing the use of smartphones and store-front digital signage to meet the recently growing need of online-to offline (O2O). Moreover, we operate shop-snavi, a mobile phone-based employment website specializing in the fashion retail industry that forms one part of our recruitment support.



The Wiz: The Super Soul Musical "Wonderful Wizard of Oz" produced by PARCO

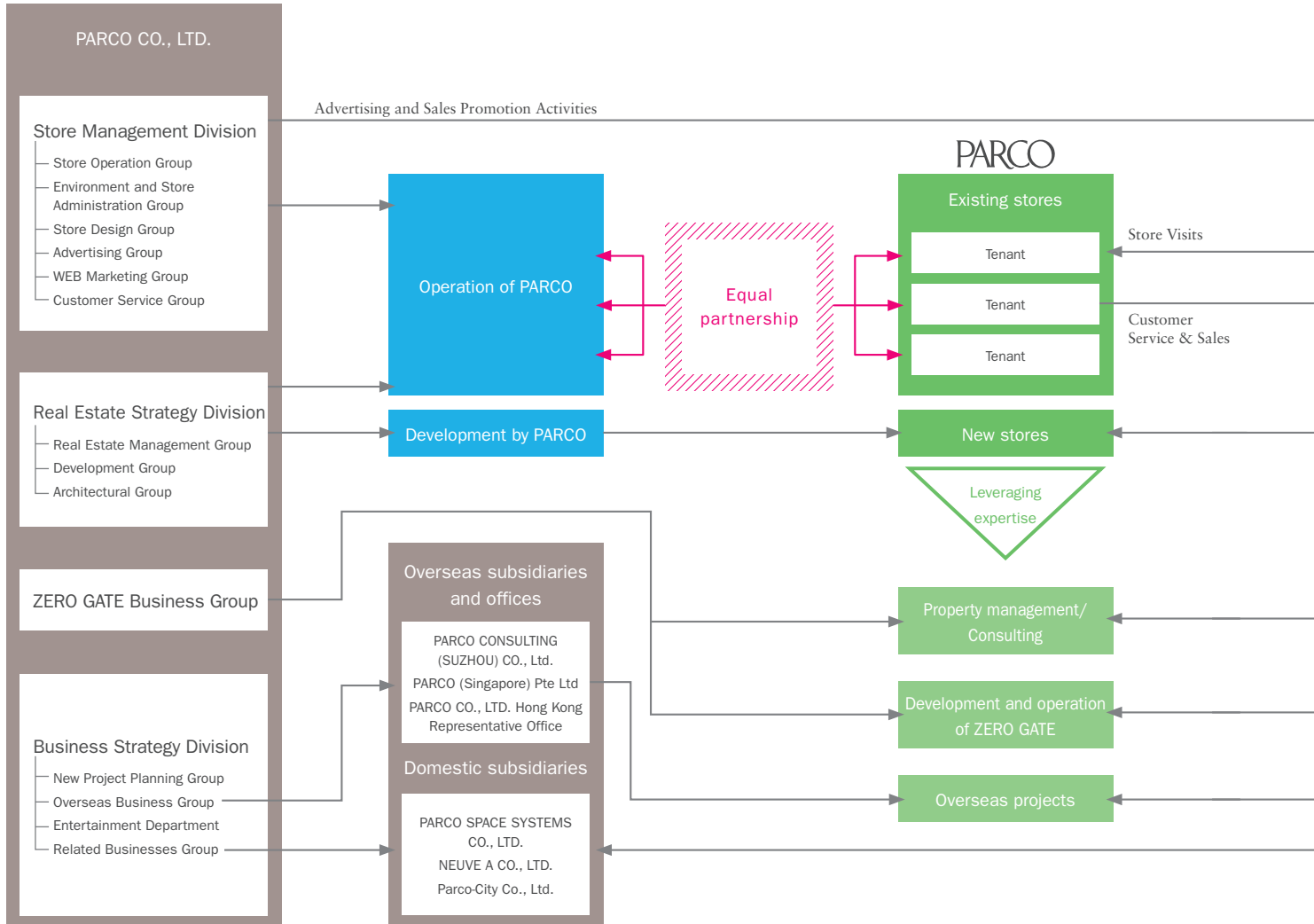
### PARCO-CITY CO., LTD.

Head Office	8-16 Shinsen-cho, Shibuya-ku, Tokyo
Established	March 1, 2000
Net Sales	¥781 million
Operating Loss	(¥20 million)
Paid-in Capital	¥10 million
Employees	52

<http://www.parco-city.co.jp>

# PARCO Business Model

Structure of the Shopping Complex Business



## Operating Method of the Shopping Complex Business

### Linking Each Store and the Support Organization Through the Philosophy of Equal Partnership

One of the main characteristics that distinguishes PARCO is our equal partnership with tenants. We view our tenants as partners with whom we can grow and develop by virtue of our mutually shared values. Every one of our corporate divisions at PARCO headquarters works to support the operations of the PARCO shopping complexes where our tenants open their stores.

The Store Management Division comprises six groups: the Store Operation Group, the Environment and Store Administration Group, the Store Design Group, the Advertising Group, the WEB Marketing Group, and the Customer Service Group. The Division controls and supports the business processes related to the operation of each store.

The Real Estate Strategy Division comprises three groups: the Real Estate Management Group, the Development Group, and the Architectural Group. The Division formulates and implements policies regarding the strategic uses of the real estate it owns, and promotes the development of new real estate for PARCO businesses and new business-format shopping centers.

The Business Strategy Division comprises four groups: the New Project Planning Group, the Overseas Business Group, the Entertainment Department, and the Related Businesses Group. The Division develops new business-format shopping centers, and develops and nurtures related businesses.



### 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 the absolute amount.

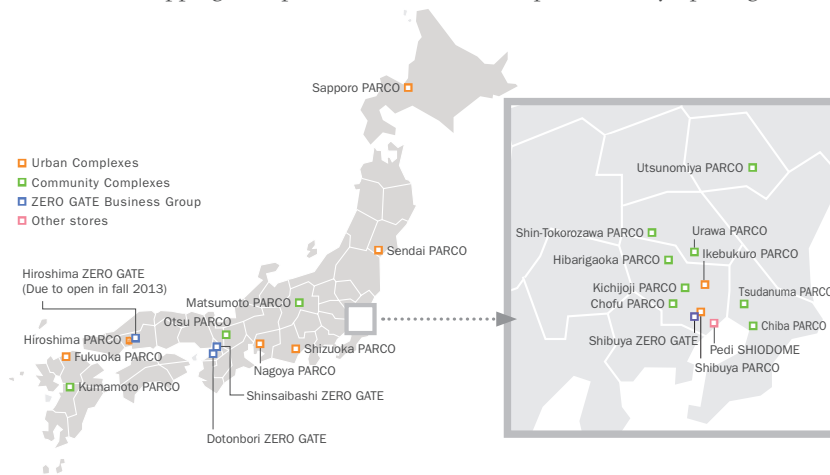


## PARCO Stores

We operate PARCO Complexes as either Urban Complexes or Community Complexes, depending on the target market and are also strengthening our ZERO GATE business as a new business model.

In each market where PARCO shopping complexes open, we utilize a different store concept. In order to be able to respond quickly and precisely to the constant changes in the environments of each location, we group the 19 shopping complexes according to function based on their target market characteristics. After categorizing a complex as either an Urban Complex or a Community Complex, the next step in building a robust revenue base is to optimize product composition and operation methods at each facility to suit the applicable customer base.

The ZERO GATE Business Group is strengthening the development of urban low- to medium-rise commercial facilities as a new business model established in the Shopping Complex Business. The Group is currently opening 3 facilities.



### Urban Complexes

PARCO will secure predominance in the market by providing well-informed, active urban consumers with relevant themes and topics, while offering fashionable, innovative and enjoyable lifestyle propositions. We will also lay the foundation for new business by pursuing unique collaborations with tenants, creators and companies in other industries.

**Sapporo PARCO**  
3-3 Minami-Ichijo Nishi, Chuo-ku, Sapporo City, Hokkaido  
B2F-8F  
**Open** 24 August, 1975  
sapporo.parco.jp



**Sendai PARCO**  
1-2-3 Chuo, Aoba-ku, Sendai City, Miyagi  
B1F-9F  
**Open** 23 August, 2008  
www.parco-sendai.com



**Ikebukuro PARCO**  
1-28-2 Minami-Ikebukuro, Toshima-ku, Tokyo  
**Main Building:** B2F-8F  
**Open** 23 November, 1969  
**P\*PARCO:** B2F-8F  
**Open** 10 March, 1994  
ikebukuro.parco.jp



**Shibuya PARCO**  
15-1 Udagawa-cho, Shibuya-ku, Tokyo  
**PART 1:** B1F-9F  
**Open** 14 June, 1973  
**PART 3:** B1F-8F  
**Open** 10 September, 1981  
**CLUB QUATTRO:** 4F-5F  
**Open** 28 June, 1988  
**ZERO GATE:** B1F-4F  
**Open** 27 April, 2002  
From April 16, 2011, it changed its business format to a ZERO GATE business.  
shibuya.parco.jp



**Shizuoka PARCO**  
6-7 Koyamachi, Aoi-ku, Shizuoka City, Shizuoka  
B1F-8F  
**Open** 15 March, 2007  
www.parco-shizuoka.com



**Nagoya PARCO**  
3-29-1 Sakae, Naka-ku, Nagoya City, Aichi  
**West Building:** B1F-11F  
**East Building:** B1F-8F  
**Open** 29 June, 1989  
**South Building:** B1F-10F  
**Open** 6 November, 1998  
nagoya.parco.jp



**Hiroshima PARCO**  
10-1 Hondori, Naka-ku, Hiroshima City, Hiroshima  
**Main Building:** B1F-10F  
**Open** 9 April, 1994  
**New Building:** B1F-9F  
**Open** 21 September, 2001  
hiroshima.parco.jp



**Fukuoka PARCO**  
2-11-1 Tenjin, Chuo-ku, Fukuoka City, Fukuoka  
B1F-8F  
**Open** 19 March, 2010  
fukuoka.parco.jp



## Community Complexes



This category of complex does not merely market fashion but will make proposals that respond to regional needs by taking into account such market characteristics as functionality and convenience. Facilities are multi-functional and multi-purpose, featuring a range of goods and services from food, general merchandise, appliances, school supplies, to sports goods. Various activities such as community events will be organized to attract customers from the local neighborhood.

### Utsunomiya PARCO

3-1-1 Baba-dori, Utsunomiya City, Tochigi  
B1F-10F  
**Open** 20 March, 1997  
www.parco-utsunomiya.com



### Kichijoji PARCO

1-5-1 Kichijoji-honcho, Musashino City, Tokyo  
B2F-8F  
**Open** 21 September, 1980  
www.parco-kichijoji.com



### Urawa PARCO

11-1 Higashi-Takasago-cho, Urawa-ku, Saitama City, Saitama  
B1F-7F  
**Open** 10 October, 2007  
urawa.parco.jp



### Chofu PARCO

1-38-1 Kojima-cho, Chofu City, Tokyo  
B1F-10F  
**Open** 25 May, 1989  
www.parco-chofu.com



### Chiba PARCO

2-2-2 Chuo, Chuo-ku, Chiba City, Chiba  
B1F-8F  
**Open** 1 December, 1976  
www.parco-chiba.com



### Matsumoto PARCO

1-10-30 Chuo, Matsumoto City, Nagano  
B1F-6F  
**Open** 23 August, 1984  
www.parco-matsumoto.com



### Tsudanuma PARCO

2-18-1 Maebara-Nishi, Funabashi City, Chiba  
**A Building:** B1F-6F  
**B Building:** B1F-6F  
**Open** 1 July, 1977  
www.parco-tsudanuma.com



### Otsu PARCO

14-30 Uchidehama, Otsu City, Shiga  
B1F-8F  
**Open** 2 November, 1996  
www.parco-otsu.com



### Shin-Tokorozawa PARCO

1-2-1 Midori-cho, Tokorozawa City, Saitama  
**PARCO:** B1F-5F  
**Let's:** B1F-4F  
**Open** 23 June, 1983  
www.parco-shintokorozawa.com



### Kumamoto PARCO

5-1 Tetorihoncho, Chuo-ku, Kumamoto City, Kumamoto  
B1F-9F  
**Open** 2 May, 1986  
www.parco-kumamoto.com



### Hibarigaoka PARCO

1-1-1 Hibarigaoka, Nishi-Tokyo City, Tokyo  
B1F-5F  
**Open** 8 October, 1993  
www.parco-hibarigaoka.com



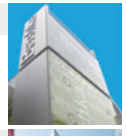
## ZERO GATE Business



PARCO has been producing and proposing urban lifestyles centered on fashion, culture, and a variety of other themes. Now, the ZERO GATE business will propose new lifestyles and values based on the concepts of making a new beginning, or "ZERO," followed by a "GATE," which symbolizes making an entry to an urban area.  
www.parco.co.jp/group/zerogate/

### Shibuya ZERO GATE

15-1 Udagawa-cho, Shibuya-ku, Tokyo  
B1F-4F  
**Open** 16 April, 2011



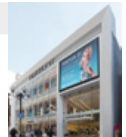
### Shinsaibashi ZERO GATE

1-9-1 Shinsaibashi-suji, Chuo-ku, Osaka City, Osaka  
B2F-4F  
**Open** 13 April, 2013



### Dotonbori ZERO GATE

1-8-22 Dotonbori, Chuo-ku, Osaka City, Osaka  
1F-3F  
**Open** 20 April, 2013



### Hiroshima ZERO GATE

2-10, Shintenchi, Naka-ku, Hiroshima  
B1F-14F  
(Floors that are leased to PARCO: 1F-3F)  
Due to open in fall 2013

## Overseas Business



### PARCO Marina Bay

9 Raffles Boulevard  
#03-02 Millenia Walk,  
Singapore 039596  
1F-3F  
**Open** 31 March, 2010  
www.parco.com.sg/



## Other Stores



### Pedi SHIODOME

1-9-1 Higashi-Shinbashi,  
Minato-ku, Tokyo  
B2F-B1F, 2F  
**Open** 16 February, 2005  
www.pedi-s.com/



Interview with the President



**Aiming to be an  
“Urban Lifestyle  
Producer”**

## Achieved gains in both sales and profit as well as a new record high for operating income

### Q

Please give us a general overview of fiscal 2012.

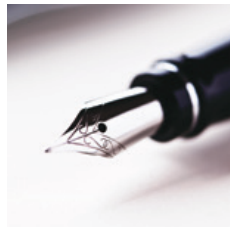
### A

In fiscal 2012, we aggressively renovated stores based on the characteristics of their respective catchment areas on the scale of roughly 53,000 m<sup>2</sup> (up 15% compared to original plan; approximately 15% of total floor area), which exceeded initial plans. Sales from renovated zones grew significantly, increasing 17.4% from the previous year.

In addition, we attracted new customers by enhancing PARCO Card membership services to increase the number of new cards issued (47.4% up from the previous year). The amount spent by new PARCO Card members was an increase of 77.9% from the previous year, which helped underpin sales and enable the Group to set a new record high for income (operating income of ¥10.8 billion).

In addition, we pushed ahead with activities for our “LOVE HUMAN.”\* campaign, a corporate campaign which is dedicated to uncovering and supporting new talent. These activities included holding the Shibukaru Festival 2012, a participatory event showcasing young creative talent, promoting the Fight Fashion Fund by PARCO initiative, which utilizes micro funding to support the careers of young fashion designers, administering Hello, Shibuya Tokyo with Singapore, a program that provides business growth opportunities in the ASEAN region to promising Japanese fashion brands as a part of the fiscal 2012 Cool Japan Strategy promoted by the Ministry of Economy, Trade and Industry, and conducting the PARCO next Next fashion incubation project, which supports the transnational activities of young overseas fashion designers.

\* For details about our “LOVE HUMAN.” campaign, please refer to the feature on “LOVE HUMAN.” starting on page 18.



## Targeting increases in both sales and profit for the 2nd consecutive year to achieve record income

### Q

What is your business outlook for fiscal 2013?

### A

The business environment of the PARCO Group is marked by a lack of clarity on how to stop deflation, and against this backdrop an increase in the consumption tax rate is also planned. Along with having to respond to diversification in consumption patterns and sales channels, it will likely be even more essential that we bolster competitiveness to fight the competition through such strategies as development in centrally located urban train stations and development of large-scale, multi-function retail complexes in suburban locations.

Amid such conditions, the PARCO Group will engage in the following basic initiatives, which essentially constitute the origin of PARCO, in order to raise our social significance as an anchor of urban life. By doing so, we will make real connections between people and the things that enrich urban life, and accommodate the demand for personal experience among urban dwellers, who have become diverse and mature consumers.

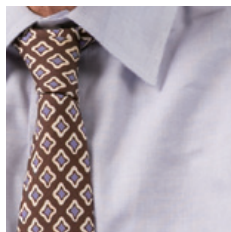
- ① Incubation: Unearth new seeds and grow along with them
- ② Innovation: Promote the maturation and vitalization of cities by contributing to urban development through innovation
- ③ Communication: Create new stimulation in cities that attracts people by means of effective communication through the Group's business activities

We intend to actualize and advance these three initiatives through our business activities.

Specifically, we are planning to actively renovate existing PARCO stores this year, with 46,000 m<sup>2</sup> of renovations slated.

We are also steadily promoting our ZERO GATE business, a new venture, our overseas business and other new initiatives.

Through these activities, we will work to achieve increased sales and profit in fiscal 2013 to also set another new record high for income.





## “Advancing from our origin” means generating “creative stimulation”

**Q**

What do you mean when you talk about advancing from the origin of PARCO?

**A**

We have achieved considerable growth supported by the efforts of tenants and business partners, artists and creative professionals and our predecessors. PARCO's strength lies in the relationships we have cultivated along the way. Leveraging this strength to create new stimulation is how PARCO will advance from its origin. The creation of stimulation does not simply mean running campaigns, staging events and carrying out the other usual marketing practices; it means giving rise to movements that completely transcend market expectations. PARCO is the place where such movements are orchestrated, which will amplify their effects as store applications come in from tenants. In tandem, as these contemporary trendsetters of tenants congregate they make connections with each other, and the circle widens to include people coming to learn from them. It is my belief that the dynamic capacity to generate such “creative stimulation” is what is demanded of us by society. Moreover, the driving force behind such movements is the corporate value of PARCO, which is nothing other than the existence of our employees. What I want out of PARCO employees is for them to constantly and sensitively perceive changes in the times and then, possessing flexible ideas and an ability to act on them, create relationships of mutual growth with tenants, artists and creative professionals as their equal partners. This will raise PARCO's corporate value and lead to additional growth.

In 1973, Shibuya PARCO was established on top of a slope on a street 500 meters away from the station. At the time there were questions about whether anyone would actually bother to walk to such a location, but by communicating culture in the form of fashion, advertising, theater, live music, art space, movies and more the store has succeeded in changing the complexion of Shibuya.

The street name was even changed from “Ward Office” to “Park” (“parco” is Italian for park). In this way PARCO changed the landscape from a grid of quiet streets lined with parking lots and multi-tenant buildings to fashion central.

Shibuya PARCO is celebrating its 40th anniversary in 2013\* and we hope to generate a variety of new movements from it.

\*A special website for Shibuya PARCO's 40th anniversary

<http://shibuya.parco.jp/web/40th>

## New businesses also created by movements

### Q

We would like to hear about the progress made with new businesses.

### A

The ZERO GATE business, a new business model, involves the development and operation of urban low- to medium-rise commercial facilities developed on prime urban land. In April 2013 we opened Shinsaibashi ZERO GATE and Dotonbori ZERO GATE, which along with Shibuya ZERO GATE, brings the total to three stores. In the fall of 2013 Hiroshima ZERO GATE is also scheduled to open, as we continue to steadily expand this business format. ZERO GATE has been proceeding ahead of schedule as a new business, but in order to further accelerate growth we plan to make the ZERO GATE Business Group an independent entity. We will quickly actualize new projects to follow Shinsaibashi, Dotonbori and Hiroshima and create the foundation for spinning off the ZERO GATE business into a new affiliate in the future. From these initiatives a new role for the PARCO Group has begun to come into relief: multifaceted support for the fusion of the needs of real estate owners seeking to effectively utilize their land, buildings and other properties, with those of tenants with the desire to try something new in urban districts. Moreover, we intend to proactively develop this role going forward.

In addition, in March 2013, we acquired the Fukuoka PARCO building and the adjacent land and building. The Tenjin district of Fukuoka, where Fukuoka PARCO is located, has a commercial market on par with Tokyo, Osaka and Nagoya, and as a gateway to Japan from Asia, growth is also projected in the number of overseas visitors. As a result, further growth can be expected in the future as well. The Tenjin district is also the hub of a transportation network that reaches all of Kyushu, making it one of Japan's most important commercial cores for drawing people, information and more from Kyushu and beyond. The adjacent land will be rebuilt into a new shopping complex, which will tentatively be called the Fukuoka PARCO New

Building, and Fukuoka PARCO will operate across a pair of buildings. Many Fukuoka residents are looking forward to the opening of the new complex, and preparations will be coordinated with Fukuoka PARCO. The pivotal entity here is the Fukuoka PARCO New Building Project established in the Store Operation Group with a view to opening the facility in the fall of 2014. Thus, we hope to create a new distinctively PARCO movement in Fukuoka as well.



## Expanding collaborative business opportunities through leveraging mutual customer bases

### Q

Please tell us about initiatives derived from the capital and business alliance with J. FRONT RETAILING.

### A

In 2012 J. FRONT RETAILING Co., Ltd. (JFR), our largest shareholder, executed a tender offer (TOB) for PARCO shares, which strengthened capital ties and resulted in the signing of a capital and business alliance agreement. As a new member of the JFR Group, the PARCO Group is now able to further strengthen coordination in marketing and store development. I believe it represents a major positive for raising the Group's corporate value. As we continue to exchange information in order to deepen mutual understanding, we have already begun collaborating with the JFR Group in specific ways in 2013, including Spring's Ultra Thanks Festival, our first joint promotion. Going forward we plan to increase collaborative opportunities that utilize the expertise, customer bases and other assets of both groups.

#### Initiatives with JFR Group

- ① Strengthen business base as a retail business group
  - Implement exchange of personnel
  - Speed up cultivation of mutual understanding and creation of business synergies
- ② Strengthen competitiveness as a shopping complex using the expertise of both companies
- ③ Expand opportunities for collaboration with mutual customer bases
  - Mutual provision of shareholder rewards (from fiscal 2013)
  - Implement and increase scale of planning of joint promotions

#### Spring's Ultra Thanks Festival, the first joint promotion between Daimaru, Matsuzakaya and PARCO

- ④ Expand opportunities for collaboration in related businesses

## PARCO is ahead of the times as an "Urban Lifestyle Producer"

### Q

In closing, please tell us about your vision for PARCO in the future.

### A

As expressed in our corporate mission, we intend to create new stages for "Providing an enjoyable experience for customers visiting our stores and helping our tenants prosper." We also intend to create new markets with new ideas by believing in the potential their future holds together with tenants, creative professionals and artists. PARCO is not only a retailer; as an Urban Lifestyle Producer we have developed and communicated culture that is ahead of the times. And as the times continue to change, we intend to once again demonstrate to society that it is PARCO that can provide design, culture and urban entertainment. As we do so, we will continue to promote the new PARCO and provide cities with stimulation. You can fully expect PARCO to be the continuing source of new movements.

## Based on the concept behind our corporate message “LOVE HUMAN,” we discover and support new talent.



Since Ikebukuro PARCO first opened in 1969, PARCO has not only propagated fashion but has also actively introduced music, art, theater and other forms of culture while discovering and supporting up-and-coming talent in these areas. As a producer of urban lifestyles, we have combined events, products and services for each era to create stores that offer ideas for enriched, fulfilling lives. Having reexamined contemporary times, we once again announce our intention of being a company that supports the talented people who will confidently blaze a path to the future.

[http://www.parco.co.jp/parco/love\\_human/](http://www.parco.co.jp/parco/love_human/)

Providing a venue where young female creators can express themselves

### Shibukaru Festival A festival produced by female creators from many genres

19 October to 29 October, 2012 Shibuya PARCO

The Shibukaru Festival has been held since fiscal 2011, and each year features a total of about 100 teams of young female creators. “parco” means “park” in Italian, and our name indicates that PARCO is a place where people gather. Returning to this origin, and as a company that has long supported women, we provided Shibuya PARCO as a space for a wide variety of young female creators to express their talents, show their work and interact with their peers.

<http://www.shibukaru.com/>



Opening event of Shibukaru Festival

Supporting young overseas designers' borderless activities

### PARCO next NEXT

PARCO next Next is a fashion incubation project started in March 2010 to help develop young designers in Singapore. It is run jointly by PARCO (Singapore) Pte Ltd and the Textile & Fashion Federation (Singapore) with the support of SPRING Singapore (a government organization that provides assistance for entrepreneurs), and has supported a total of 55 brands to date. Global initiatives for PARCO next Next are being developed, such as providing the opportunity to set up shop in the sales space of PARCO Marina Bay in Singapore, as well as opportunities to utilize our stores in Japan in order to introduce their fashion products.

<http://www.parco.com.sg/parconextnext/>



A fashion event showcasing young Singaporean designers



A social event held in August 2012 for the designers who received funding and their sponsors

First in Japan. ¥30,000 per lot.  
A fund that supports new fashion, from PARCO  
**FIGHT FASHION FUND**  
by PARCO

The FIGHT FASHION FUND is Japan's first program in which the businesses of young fashion designers based in Japan are supported by the general public. Using micro funding in ¥30,000 allotments, the program supports the business growth of fashion designers who lack the funds, fans and business sponsors, or sales and PR opportunities to get them to the next stage. PARCO believes these designers may well possess the talent and passion to contribute to the next generation of Japanese fashion. The program not only directly provides money, or financial benefits, it also provides the benefits of a community through engagement between investors and recipients, and the benefits of business growth. As a result, the designers receive three types of benefits.

The program began in 2011, and two designers selected for funding debuted in the 2012 Tokyo Collection. Subsequently, they launched their own branded shops, and are continuing to further expand the scope of their activities.

<http://nippon-fafafa.jp>

Introducing the "Japanese fashion" that Japan is proud to show the world to ASEAN countries

**PARCO Cool Japan Project**  
**HELLO, SHIBUYA TOKYO**  
**WITH SINGAPORE**

22 February to 10 March, 2013

The Hello, Shibuya Tokyo with Singapore project provides opportunities for business growth in the ASEAN region to the next-generation of Japanese fashion brands as one of the projects supported by the Ministry of Economy, Trade and Industry's fiscal 2012 Cool Japan Strategy. The overall event was held in Singapore with a wide range of partners, both domestic and overseas. Harnessing PARCO's expertise, events were held with Japan's next-generation designers and creators on the themes of incubation, contributing to Shibuya from an inbound perspective and creating markets with local partners.

The events included a sale floor arranged with fashion, decorative and household items, food products and more (called the Pop-Up Shop), a fashion show, and business meetings. The project has been enjoying broad-ranging support.

<http://www.helloshibuyatokyo.jp>

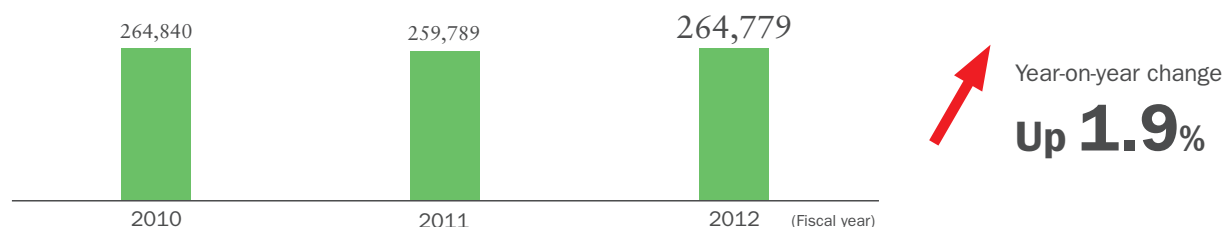


Many local people visited the Pop-Up Shop and so were able to come into contact with creative works from Japan.

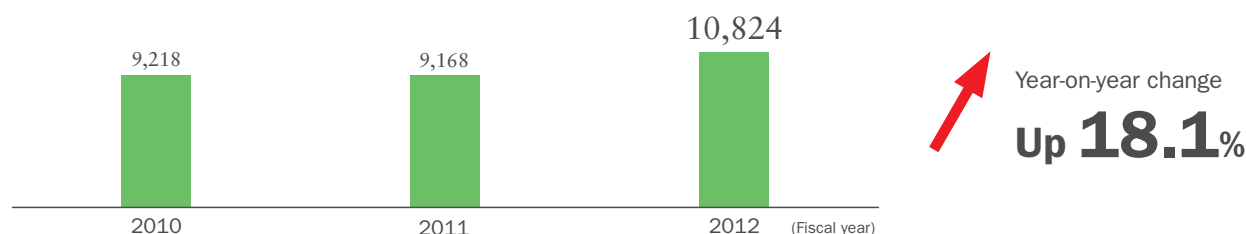
## Consolidated Financial Highlights

We have **achieved record levels of earnings** through innovation at existing complexes by renovations and business plans, sales promotions and developing projects, all tailored to the characteristics of their catchment area.

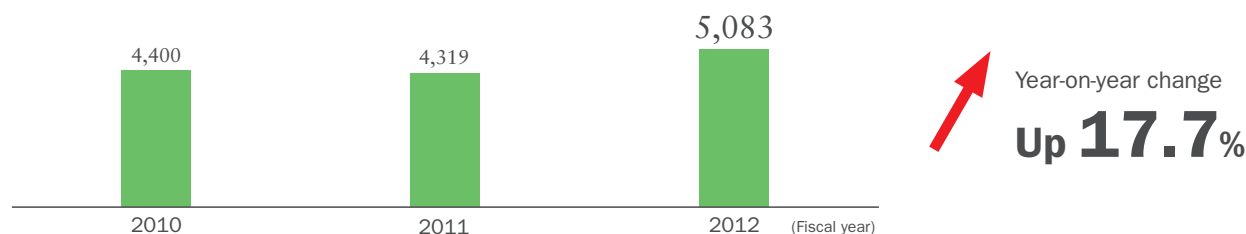
## Net Sales (Millions of yen)



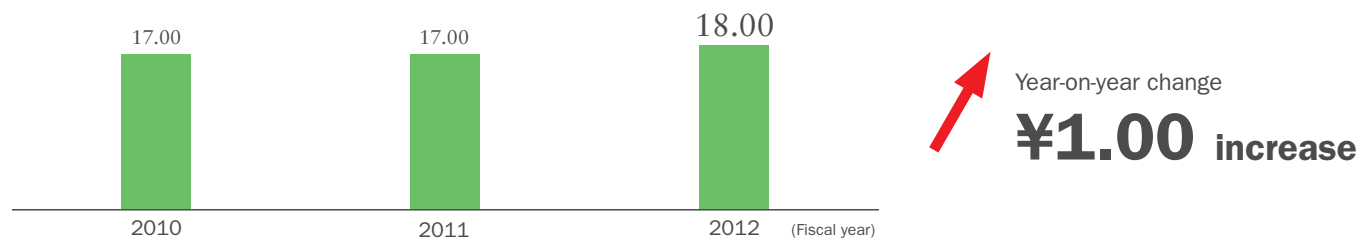
## Operating Income (Millions of yen)



## Net Income (Millions of yen)



## Cash Dividend Per Share (Yen)



For long-term numerical data and other indices, please refer to the PARCO website and FACTBOOK 2013.

Corporate/Investor Relations

<http://www.parco.co.jp/group/en/corporate/>

FACTBOOK 2013

[http://www.parco.co.jp/group/pdf/file130405\\_od986mwd.pdf](http://www.parco.co.jp/group/pdf/file130405_od986mwd.pdf)

## Sales by Store

The Urban Complexes Group achieved growth as a result of renovations and other programs. The Community Complexes Group also continued to achieve stable growth.

	(Millions of yen)		Year-on-year change
	Fiscal 2011	Fiscal 2012	
<b>Urban Complexes Group</b>	126,107	140,593	102.3%
Sapporo* <sup>1</sup>	10,805	10,847	100.4%
Sendai	12,153	13,362	109.9%
Ikebukuro	28,721	29,275	101.9%
Shibuya	12,278	12,790	104.2%
Shizuoka	10,591	10,317	97.4%
Nagoya	34,569	34,899	101.0%
Hiroshima	16,987	17,164	101.0%
Fukuoka	11,382	11,934	104.8%
<b>Community Complexes Group</b>	94,386	96,118	101.8%
Utsunomiya	5,296	5,103	96.4%
Urawa	14,738	16,175	109.8%
Shin-Tokorozawa	8,077	8,409	104.1%
Chiba	7,140	7,101	99.5%
Tsudanuma	9,260	9,169	99.0%
Hibarigaoka	7,826	7,817	99.9%
Kichijoji	8,155	7,940	97.4%
Chofu	16,599	16,904	101.8%
Matsumoto	7,733	7,639	98.8%
Otsu	4,465	4,596	102.9%
Kumamoto	5,093	5,258	103.2%
<b>Total of Existing Store Group</b> * <sup>2</sup>	220,493	236,711	102.1%
Sapporo New Building (closed in March 2011)	71		
Shinsaibashi (closed in September 2011)	762		
<b>Total</b> * <sup>3</sup>	232,710	236,711	101.7%

\*1 The year-on-year percentage change for Sapporo PARCO excludes figures for the New Building which closed on March 30, 2011.

\*2 Existing store figures exclude figures for Sapporo PARCO New Building (closed on March 30, 2011), and Shinsaibashi PARCO (closed on September 30, 2011).

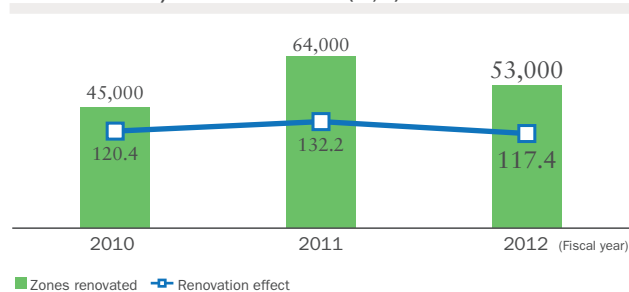
\*3 The year-on-year percentage change for all stores includes last year's figures for the closed Sapporo PARCO New Building and for Shinsaibashi PARCO.

## Store Renovations Results (Non-consolidated)

We expanded our customer bases by renovating zones to produce theme-based transformations, by strengthening the development and new businesses and business formats of many leading shops, and by responding to customer needs and diversifying products.

	Fiscal 2010	Fiscal 2011	Fiscal 2012
Zones renovated	429	639	522
Area renovated (m <sup>2</sup> )	45,000	64,000	53,000
Renovation effect (Year-on-year sales comparison by zone,%)	120.4	132.2	117.4
New tenant store openings in renovated zones	181	255	232

### Area Renovated/Renovation Effect (m<sup>2</sup>/%)



## Year-on-year Sales Comparison by Category (Non-consolidated)

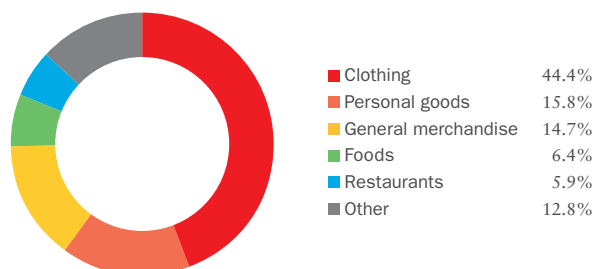
Store structural renovations generated synergistic effects as regards raising the quality of consumption. Businesses related to eating, drinking and other services performed well against the backdrop of ongoing "place" consumption and "discriminating" consumption.

	Fiscal 2010	Fiscal 2011	Fiscal 2012
Clothing	99.8%	97.4%	101.4%
Personal goods	102.3%	100.8%	103.4%
General merchandise	101.7%	91.3%	93.5%
Foods	100.1%	97.9%	102.9%
Restaurants	101.4%	92.5%	109.3%
Other	104.1%	110.0%	114.2%

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.

### Sales Composition by Category (Non-consolidated,%)



## Shopping Complex Business Initiatives

In an effort to reinforce our revenue base, we categorized existing stores into urban complexes and community complexes and worked to apply innovations to each format to optimize product mixes and operating methods in line with their respective target customer segments. In addition, in the ZERO GATE business, a new business model being developed domestically, we moved forward with plans to open new stores and promote new and related business in coordination with PARCO Group companies.



### Urban Complexes

We introduced communication-oriented shops that fuse art, culture and fashion and carried out renovations to raise the level of fashionableness by clustering together shops in new formats and select shops. These changes enhanced the progressiveness of the complexes as fashion destinations and improved them as sources of the latest information.

#### Shibuya PARCO

We opened “Meetscal Store by once A month,” a self-arranged shop that serves as an incubator for up-and-coming creative professionals and communicates a fusion of art, culture and fashion. We also opened the very first “my panda” shop for designers participating in “FIGHT FASHION FUND by PARCO,” a micro funding program started by PARCO, and, for a limited time, the “JUN OKAMOTO pop up shop.” In addition, for PART 1 6th floor, we created a floor that provides products and items found nowhere else that are related to social television programs and anime. The floor is billed as the Shibuya Pop-Culture Market and has generated a great deal of buzz.

#### Nagoya PARCO

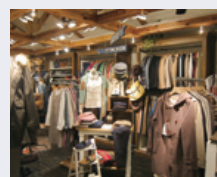
Renovations were made to Nagoya PARCO, primarily the South Building, to enhance its status as the leading fashion complex in the Chukyo district, raise its value as an information source and promote its progressiveness to the market. Prominent select shops were enticed to the South Building’s first floor (ground floor) and second floor (connects to West Building), and with the West Building and East Building, the three buildings now constitute one of the largest clusters of men’s and women’s select shops in the Nagoya area. A combined men’s, women’s and children’s shop was placed on the sixth floor of the West Building as the floor was redefined as a space catering to couples and families. In this way the three buildings were coordinated to reinforce its high-quality lifestyle offerings for urban residents.



PART 1: 1F Meetscal Store by once A month



PART 1: 6F Shibuya Pop-Culture Market “ONE PIECE MUGIWARA STORE”



South Building: 1F “BEAMS”



West Building: 6F “GARRET MARKET”



### Community Complexes

Renovations were conducted to add shops designed to meet the day-to-day needs of communities as well as shops with the latest fashion brands or a high degree of specialization in line with local characteristics. PARCO built zones proposing new types of consumption rooted in the local community.

#### Tsudanuma PARCO

Directly connected to JR Tsudanuma Station, Tsudanuma PARCO was renovated based on the characteristics of the shops that comprise its two buildings, A Building and B Building. Pivoting on fashion, A Building’s renovations involved rearranging cosmetics and other personal accessories and developing the theme of sports and unisex fashion. B Building’s renovations centered on appealing to a broad swath of customer segments by adding PARCO’s first large shop specializing in family-oriented casual fashion to provide visitors with a new family zone. Another new initiative was establishing a blood donation center to expand the complex’s function as a community shopping center.

#### Matsumoto PARCO

In a market that has seen a series of roadside specialty shops open nearby, we enhanced the variety of items offered to add to the enjoyment of shopping downtown for a broad range of customers coming in from a wide area. Drawing on the characteristics of its location—a gateway to the Kamikochi Highlands and Japanese Alps—a large outdoor specialty store with a track record in other community complexes was added in an effort to further bolster sales and attract a greater number of customers. The eclectic first basement floor was also completely overhauled with living, interior, travel and other spaces to improve its image.



A Building: 2F “niko and...”



B Building: 6F “Tsudanuma blood donation room”



6F “Kojitsusanso”



B1F “MUJI”





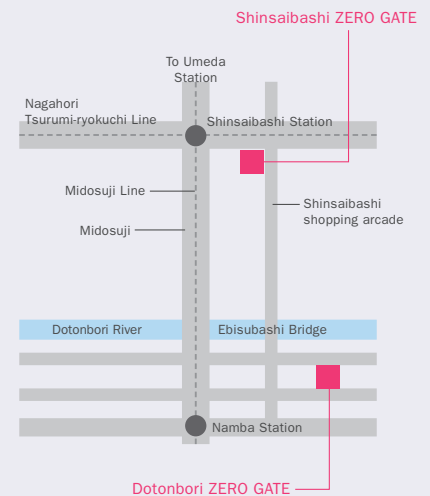
## ZERO GATE Business, a New Business Model, Moves Steadily Forward

The ZERO GATE business is our urban low- to medium-rise commercial facility development business. In April 2013, Shinsaibashi ZERO GATE and Dotonbori ZERO GATE opened in Osaka. In the fall of 2013, Hiroshima ZERO GATE is also scheduled to open, as the ZERO GATE business moves steadily forward. We plan to continue promoting the development of appealing retail complexes in prime urban locations that take advantage of the quality of such locations.

### Shinsaibashi ZERO GATE

#### H&M

LED lights on the exterior walls set the silhouette of this sharp, clean-lined building into sharp relief, with the appearance changing over time. The building's luxurious, high-ceilinged sales floors provide visitors with a novel shopping experience.



### Dotonbori ZERO GATE

#### FOREVER 21

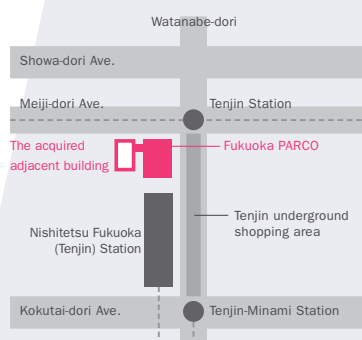
The large LED display that faces Dotonbori Street broadcasts the latest fashion news, and the highly transparent glass used on the front of the building creates a very dynamic space. Passing through the giant entrance, visitors are welcomed into an open and airy space with a vaulted 10-meter-high ceiling.

## Fukuoka PARCO and the Adjacent Fukuoka PARCO New Building (Tentative Name)

Fukuoka PARCO, which opened in March 2010, had operated with a building lease, but in March 2013 we acquired the land and building along with an adjacent property. The adjacent building will be rebuilt and opened as a new shopping complex tentatively named Fukuoka PARCO New Building.



Exterior view of Fukuoka PARCO and the adjacent Fukuoka PARCO New Building (tentative name)



Exterior view of Fukuoka PARCO

Produced by PARCO Brand

Advertising Campaigns

Advertising campaigns are run in coordination with seasonal motivations.

Moreover, with consumer preferences diversifying and subdividing, we have been developing advertising on the theme of women actively enjoying their lifestyles.



For the fiscal 2012 fall and winter campaign, we enlisted the help of jazz pianist Hiromi Uehara. Through the appeal of Ms. Uehara, who is both endearing and fashionable, we worked to motivate people to enjoy the fall season, in particular the arts, including fashion, literature and music, as well as seasonal food products.



The theme of the fiscal 2013 summer campaign is spending the summer like it would be in the movies, which means showing that fashion is fun and the mood is light and cheerful. To express this sense of summer, we turned to the popular young actress Ito Ono and pursued forms of expression that would capture the hearts of women.



Semiannual Grand Bazaar Bargain Sales

Summer:

Thursday 5 July to Monday 22 July, 2012

Winter:

Wednesday 2 January to Sunday 20 January, 2013

We mobilized our mascot Parcoala, who navigates through the twice yearly Grand Bazaar, to show visitors various ways of having fun with the sales. For the summer bazaar, we held exclusively screenings of the film “Helter Skelter,” in partnership with the producers, which further enlivened the event. In the winter, we did the same with the film “Kiuroizo,” which created a relaxed and cheerful atmosphere for the sale.



Summer Grand Bazaar  
Tie-up with movie “Helter Skelter”



Winter Grand Bazaar  
Tie-up with movie “Kiuroizo”

## Shibuya PARCO's 40th Anniversary



Shibuya PARCO's 40th anniversary poster

Shibuya PARCO, which opened in June 1973, celebrated its 40th anniversary in 2013. Since the store's founding we have fostered incubation, community-building and bringing information to customers that have reflected the needs of the times. A new campaign was kicked off in March 2013 and will feature promotions and fashion events throughout the year to lend even further excitement to Shibuya PARCO.



15 March to 1 April, 2013  
Shibu Paru exhibition  
As the main event to kick off the 40th anniversary campaign, 12 creative talents with ties to PARCO displayed their work on the theme of collaboration.



24 May to 28 May, 2013  
The Party Sale  
A party was held on the night of the first day of the event. Dressed in the latest fashion, customers who had applied for an invitation toured the store with shop staff.

## Redesigning the PARCO Website

A platform was launched to enable customer service rooted in real shops to be provided online from the website as well. The initiative is being conducted to achieve 24-hour (omni-channel<sup>\*1</sup>) PARCO.

In order to give customers the same enjoyable shopping experience online that is available at actual PARCO shops, tenant shop blogs have been set up on PARCO's website and shop sites have been redesigned to enable shop information to be obtained simultaneously on the website as well. This serves to direct users from PARCO's e-commerce<sup>\*2</sup> malls to the e-commerce sites of individual tenants. Going forward, we intend to promote the PARCO Group's O2O ("online-to-offline") strategy and further enhance services offered online.

The new Web Communication Department will be established in fiscal 2013 in order to improve the efficiency and quantity of communication between tenants and customers. In addition, we will further enhance tenant services by transferring the operation and administration of the PARCO-CITY online shopping mall from PARCO-CITY Co., Ltd. to the new department.

\*1 An initiative for providing points of contact with customers both offline (particularly in stores) and online (particularly on the website)

\*2 Electronic commerce



Promotion of the PARCO Group's O2O ("online-to-offline") strategy pivoting on operating the website



Redesign of store websites to improve online services

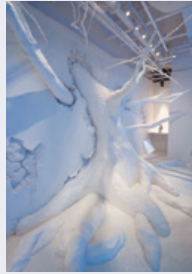
## PARCO Museum Projects

At Shibuya PARCO Museum, a wide range of projects are conducted around art, fashion, culture, animation and more. Travelling store exhibitions and many other projects are conducted for the enjoyment of customers.

### Ellie Omiya “Conveying Thoughts” Exhibition

Friday 3 February to Monday 27 February, 2012

Ellie Omiya is involved in a wide variety of activities without borders and without labels, as a film and video director, producer, playwright, copywriter, writer, radio personality and more. Whatever she is doing is always garnering attention. This was her first exhibition and it drew a large number of visitors with whom her creativity resonates.



Many people were strongly attracted by her unique sense of the world.

### 3rd Exhibition of World Heritage Sites Built with Lego® bricks

Friday 2 November to Sunday 3 December, 2012

PIECE OF PEACE Part 3 is the third travelling exhibition of World Heritage sites built with Lego® bricks that was started in 2003. It is being held for the third time. It began at Shibuya PARCO and then travelled to Nagoya, Fukuoka, Sapporo, Sendai and Urawa. It is scheduled to be held in Hong Kong in the summer of 2013.



©PIECE OF PEACE  
LEGO, the LEGO logo and Minifigure are trademarks of the LEGO Group.  
(C)2013 The LEGO Group



In addition to the World Heritage site exhibits, each exhibition venue also displayed collaborative works by various artists.

### Chim ↑ Pom Exhibition

Saturday 22 September to Sunday 14 October, 2012

Chim ↑ Pom, a group of young and spirited artists, held an exhibition of new work that utilized locations inside Shibuya PARCO to achieve a truly trademark PARCO event. The provocative exhibition extended from inside to outside Shibuya PARCO.



The PARCO logo on Shibuya PARCO was removed and displayed as a part of the work.

### Jin Katagiri’s Tear-making Treasures Exhibition Shows 14 Years of Deadline Battles with “The Way of Clay” Works

Friday 5 April to Monday 22 April, 2013

“Why don’t you make something out of clay every month?” This offhand comment by Rahmens partner Kentaro Kobayashi was the springboard for Jin Katagiri’s magazine serial “The Way of Clay.” He battled with deadlines day in and day out and missed a few along the way, but managed to release his provocative work into the public eye at the pace of one per month. Almost all of his works, both new and old, were exhibited together at the PARCO Museum.



Works made by Jin Katagiri over the course of 14 years were exhibited together.

## Street Fashion Marketing ACROSS

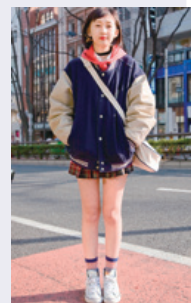
Established in 1977, ACROSS carries out a unique form of market research that involves both quantitative and qualitative research conducted from the micro perspective. The aim is not only to sensitively track small daily trends but to also make observations on the mood of the times and people’s changing values, connecting points of information into lines of trends. Its marketing data is also utilized in store operations. ACROSS has conducted fixed-point observations on a monthly basis since August 1980 to observe and analyze Tokyo youth and fashion. It issues market reports and provides a variety of information.

Street Fashion Marketing ACROSS

<http://www.web-across.com/>



ACROSS top page



Making full use of the data accumulated from fixed-point observations in the stores business

## PARCO Entertainment

PARCO's entertainment business engages in a range of business activities covering the fields of theater, music, film and publishing. The entertainment business has a strong value-added and sales-promotion aspect, enhancing PARCO's corporate value and raising stores' ability to attract customers through multifaceted cultural activities. Through this business, we are proposing to customers fun ways to spend time and ways to enjoy new lifestyles.

PARCO's entertainment information website

<http://www.parco-enta.com/>

# THEATER

## Theater

<http://www.parco-play.com/>

PARCO develops theatrical and dance productions at stage theaters nationwide, mainly at PARCO Theater (Shibuya PARCO Part 1 9F).

### PARCO Theater's 40th Anniversary

In 1973, PARCO opened the Seibu Theater on the 9F of Shibuya PARCO PART 1. In 1985, it was renamed as the current PARCO Theater and this year it is celebrating its 40th anniversary. The theater is presenting a series of highly distinctive shows over the year from February 2013 entitled "PARCO Theater 40th Anniversary Performances." The PARCO Theater, already well-known for 40 years for creating many illustrious performances that involve very talented creators and attractive acting troupes, is taking a new step forward.

Special website for PARCO Theater's 40th anniversary

<http://www.parco-play.com/web/40th/>



The PARCO Theater presented "Dialogue with Horowitz" as the opening work for its series of 40th anniversary performances.

**Dates** Monday 8 July to Sunday 28 July, 2013

### "What Makes This Extraordinary Person so Extraordinary?"

A mysterious story by Gennai Hiraga and Genpaku Sugita



Conceived and directed by  
Nozomi Makino  
Starring:  
Kuranosuke Sasaki  
Kenichi Okamoto  
Yu Koyanagi  
Tatsuhito Okuda  
Eisuke Sasai

**Dates** Saturday 5 October to Sunday 3 November, 2013

### Lost in Yonkers



Original work by  
Neil Simon  
Conceived and directed by  
Koki Mitani  
Starring:  
Nakatani Miki  
Masahiro Matsuoka  
Takashi Kobayashi  
Yousuke Asari  
Jingi Irie  
Satomi Nagano  
Mitsuko Kusabue

**Dates** Sunday 24 November to Sunday 29 December, 2013

### Dai PARCO Jin 2 Baka Rock Opera Baka

### High School Panic! A Small Collision!!



Playwright/Director  
Kankuro Kudo  
Starring:  
Ryuta Sato  
Ryo Katsuji  
Kento Nagayama  
Umika Kawashima  
Hiroki Miyake  
Sarutoki Minagawa  
Yusuke Shoji  
Yokaikun  
Kankuro Kudo  
Maki Sakai  
Sho Ayanokoji

## Music

<http://www.club-quattro.com/>

We invite popular new performers from Japan and abroad to perform at our four CLUB QUATTRO venues in Shibuya, Nagoya (Nagoya PARCO East Annex 8F), Hiroshima (Hiroshima PARCO Main Building 10F), and Umeda.

### Umeda CLUB QUATTRO Opened in 2012

The former Shinsaibashi CLUB QUATTRO moved from Shinsaibashi to Umeda on April 13, 2012, and re-opened as Umeda CLUB QUATTRO.

Umeda CLUB QUATTRO will create new culture with the latest sound specifications and music content while carrying on the tradition of CLUB QUATTRO, which has a tradition of leading the Kansai music scene.



EGO-WRAPPIN' returns for a 1-year anniversary opening performance at Umeda CLUB QUATTRO

### Shibuya CLUB QUATTRO's 25th Anniversary

In 1988, the first CLUB QUATTRO opened in Shibuya.

Shibuya CLUB QUATTRO is a live music venue located on the top floor of Shibuya PARCO's fourth building named QUATTRO (after the Italian for "four") following on from the first three buildings, PART 1, PART 2, and PART 3. Shibuya CLUB QUATTRO celebrates its 25th anniversary in 2013.

The 25th anniversary event "QUATTRO QUARTER" will establish a new type of music presentation in the area by going back to the basic impulse that prevailed when the QUATTRO building first opened: the desire to create a new style in the neighborhood. Going forward, CLUB QUATTRO will continue to revitalize the community and music by keeping its finger on the urban pulse.

#### Shibuya CLUB QUATTRO 25th Anniversary lineup



The Birthday



Ken Yokoyama



Poster for the 25th Anniversary

## Movies

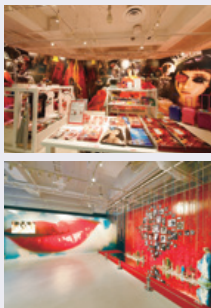
<http://www.cinequinto.com/>

CINE QUINTO (Shibuya PARCO Part 3 8F) screens a wide range of first-run films from Japan and overseas. PARCO also produces, invests in, and purchases films, and arranges tie-ins and other exciting events that generate synergies with PARCO stores.

### PARCO's Sales Promotion Planning and Collaborative Advertising Activities



A poster for the movie "Helter Skelter"



We deployed multifaceted initiatives that included an exhibition at the PARCO Museum and sales of related books.

For the film "Helter Skelter" in which PARCO invested in during fiscal 2012, we implemented collaborative advertising activities together with our Grand Bazaar sales, which are held at all PARCO stores once every six months. In fact, the commercials for our summer Grand Bazaar sale featured some scenes from this film.

In addition, we linked the film with a book publication and holding of an exhibition, thereby generating interest in the content in both directions.

Nationwide first run scheduled for December 2013

### Cutie and the Boxer

"Cutie and the Boxer" won a U.S. director's prize (in the documentary category) at the Sundance Film Festival in 2013!

The film is a documentary covering the 40-year marriage of the renowned "boxing" painter Ushio Shinohara, an avant-garde artist living in New York, and his wife Noriko who is also an artist.



A poster for the movie "Cutie and the Boxer"

# PUBLISHING BOOK

<http://www.parco-publishing.jp/>

The PARCO publishing team is involved in a variety of publishing activities, from art books and practical guidebooks to works of literature. We are engaged in a wide range of “typically PARCO” projects, including publishing the works of the most contemporary artists and creators of our era in Japan and overseas, and those tied in with art exhibitions.

## SUPER RAT by Chim ↑ Pom

The full story of the art criminal Chim ↑ Pom!  
 This publication is a complete introduction to all the major works of SUPER RAT, from their formation in 2005 through to the one-man exhibition Chim Pom held at the PARCO Museum. Moreover, it presents a wide range of essays by critics and creators from around the world, together with close looks at “hot” groups of artists.



The publication SUPER RAT.



Dates: 22 September to 14 October, 2012  
 Chim ↑ Pom exhibition at the PARCO Museum

## Cup no Fuchiko Postcard Book by Katsuki Tanaka, Kitan Club

We published the postcard book featuring Cup no Fuchiko, the very popular capsule toy currently being sold by Kitan Club. Everyone finds pictures of the office worker Fuchiko sitting on the edge of a glass just so cute! Even adults adore her, with their numbers soaring. Our publication contains 15 photos of her brimming with a sense of fun taken by a professional cameraman under the direction of Mr. Katsuki Tanaka, the original creator of Cup no Fuchiko.

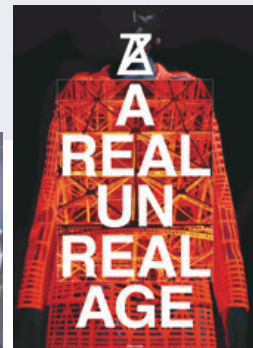


The postcard book, “Cup no Fuchiko”

Photo: Masanori Ikeda (Yukai)

## A REAL UN REAL AGE by ANREALAGE

The fashion brand ANREALAGE is a made-up word derived from the words REAL (our daily reality), UNREAL (extraordinary experiences), and AGE (the era we live in). It made its debut 10 years ago and has ceaselessly pushed at boundaries with hand-made works that are conceptually condensed and crystallized. We broke down the brand’s visual and conceptual elements into “A book of photographs” and “A book of words,” which together embody the spirit of the brand.



Dates: 7 December to 25 December, 2012  
 PARCO Museum’s ANREALAGE exhibition

## An Anthology of Curry & Rice!

Today, we feel like eating curry, and here are 33 written pieces all about curry.  
 This is a collection of essays on curry all penned by famous writers as listed below:  
 Sawako Agawa, Hiroyuki Agawa, Mizumaru Anzai, Shotaro Ikenami, Shizuka Ijuin, Asato Izumi, Juzo Itami, Hiroyuki Itsuki, Hisashi Inoue, Yasushi Inoue, Takehiro Irokawa, Hyakken Uchida, Makiko Uchidate, Yasujiro Ozu, Katsuhiko Otsuji, Takuro Kanki, Morio Kita, Masayuki, Kusumi, Bunroku Shishi, Sadao Shoji, Yu Takita, Shuji Terayama, Ramo Nakajima, Mariko Hayashi, Shinya Fujiwara, Komao Furuyama, Kou Machida, Kuniko Mukoda, Tomomi Muramatsu, Hitomi Yamaguchi, Takaaki Yoshimoto, Banana Yoshimoto and Junnosuke Yoshiyuki.

Photo: Masafumi Sanai



The book, “An Anthology of Curry & Rice!”

## Corporate Social Responsibility

The PARCO Group is creating new value that can be shared with society through the futuristic and innovative PARCO approach known as the PARCO WAY.

The PARCO Group defines CSR as “measures taken in the course of business to gain the trust and satisfaction of stakeholders, and enhance corporate value,” and many such initiatives have been undertaken. We formulated the PARCO Group Environmental Policy in 2010, and pushed forward with environmental conservation activities including the creation of commercial business spaces with little environmental impact.

Next, we formulated a Fundamental CSR Policy in 2011 to further enhance the quality of future CSR activities. PARCO categorizes the group’s stakeholders into seven groups, led by “customers” and “tenants” and also “employees,” “shareholders and investors,” “members of the local community and society at large,” “landowners and leaseholders,” and “contract business partners.” At the same time, we work to bolster corporate governance by preserving management transparency while building smooth relationships with all stakeholders.

Please refer to the link below for details about PARCO Group’s CSR activities.

<http://www.parco.co.jp/group/en/csr/>

### Initiatives for the Next Generation

#### Healthy Menu Fair Held at 80 Restaurants Inside PARCO Complexes

Thursday 17 January to Thursday 28 February, 2013

The Healthy Menu Fair was held at participating restaurants inside PARCO complexes. The restaurants prepared a special menu with a good balance of nutrients and low-calorie offerings, and when customers would order off the special menu, 20 yen per order (the equivalent of one school meal in a developing country) was donated through the organization TABLE FOR TWO to provide school meals for children in Rwanda, Uganda, Ethiopia, Kenya and Tanzania. Students of nearby universities helped advertise and promote the program, which resulted in 18,000 meals being delivered.



TABLE FOR TWO  
University student unions helped with publicizing the fair



Providing a special menu with a good balance of nutrients and low-calorie offerings

#### Operating Experimental Shops Through Industry-university Cooperation

Shibuya PARCO

Wednesday 20 March to Monday 25 March, 2013

Kumamoto PARCO

Wednesday 20 March to Sunday 24 March, 2013

Kichijoji PARCO

Wednesday 20 March to Tuesday 26 March, 2013

We regularly partner with apparel-related vocational schools located near PARCO stores to sell products made by students and operate experimental shops.

The students gain the experience of actually selling the fashion items they have designed in the marketplace, which facilitates understanding of the various mechanisms of the apparel industry, from the flow of goods to the role of distribution, and provides the opportunity to learn how their own creations are evaluated by the market.



Kichijoji PARCO  
Limited-time shop “b tan erasure” by Joshibi University of Art and Design



Upper photo: Limited-time shop “en” in Shibuya PARCO by Bunka Fashion College

Lower photo: Limited-time shop in Kumamoto PARCO by Hiro-Design FASHION & BRIDAL COLLEGE



## “Tenjin Laboratory” Culture Week for the New Generation of Talent

Fukuoka PARCO Friday 9 November to Sunday 18 November, 2012

In line with the theme of the Shibukaru Festival (page 18), an event to support young talent was also held at Fukuoka PARCO.

All of Fukuoka PARCO was turned into a laboratory for young creative talent in Fukuoka who were solicited to participate through networks and publicly. These creative professionals and artists working in Fukuoka and elsewhere in Kyushu used the store as a creation space, holding events and displaying their works.

Fukuoka PARCO is also actively engaged in a series of initiatives in fiscal 2013 to support young talent active in Fukuoka and other parts of Kyushu, guided by the slogan, “The Future Is OK!”



Live painting inside the store

## Jane Birkin Holds VIA JAPAN Concert in Support of the Great East Japan Earthquake

Monday 25 March to Thursday 28 March, 2013

The actress Jane Birkin came to Japan in April 2011 immediately after the Great East Japan Earthquake and for the past two years has organized 74 benefit concerts for Japan in 27 countries together with Japanese musicians. She visited Japan again recently and held another concert.

She also visited Ishinomaki in Miyagi Prefecture, which was devastated by the earthquake, and observed the area. She held mini-concerts at Ishinomaki NEWSée and Shokado Confectionaries, and performed with the Matsushima Junior High Orchestra, as she engaged with many people in the region through the medium of music.



Jane Birkin together with Matsushima Junior High students

## Basic CSR Activities

### Environmental Initiatives

The PARCO Group actively conducts environmental initiatives with the cooperation of our partner tenants that include reducing energy consumption, promoting recycling and reuse, and participating proactively in local activities. We intend to more aggressively promote energy efficiency at our stores by verifying and instituting operational improvements that conserve energy and upgrading equipment while maintaining even higher quality retail space.



Certification logo showing LED lighting is being used in-store

### Working to Improve Facility Environments

In order to provide customers with an even more comfortable shopping experience, we are working to improve rest areas and powder rooms and are separating facilities into smoking and non-smoking areas. We also actively participate in disaster preparedness drills conducted by municipalities and fire departments so that we can respond quickly in emergencies. The Customer Service committees of each store meet regularly and carry out initiatives to make individual improvements.



Ikebukuro PARCO: Main Building  
2F Powder room



Sapporo PARCO: 6F  
Children's space

### Tenant Staff Support System

At PARCO stores, all the tenant staff working in sales areas are supported by a variety of training to help sales staff think and act for themselves to provide the best services they can offer customers. The staff who work at shops receive orientation training before they begin, crime and disaster prevention training, and staff training to improve customer service by becoming aware of customers' needs.

Each store actively works to provide opportunities for staff to verify their growth, including by conducting customer service awareness surveys from the customer's perspective and team-based customer service role-playing contests aimed at improving the customer service abilities of the entire team.



Scene from a role-playing contest

### Employee Work/Life Balance Support System

PARCO supports employees with both childcare and nursing care responsibilities and their work responsibilities as a part of our work-life balance initiative.

In 2007 and 2012 PARCO was certified as conforming to the standards for general employers in accordance with the Law for Promoting Measures to Support the Development of the Next Generation through formulating and implementing an appropriate action plan for the establishment of employment conditions. As a result of this, PARCO received the “Kurumin” certification logo.

In addition, up to March 2015 during this 3rd phase of our general-employer action plan, we are promoting efforts to improve time management and work efficiency (“smart work”). We are also striving to raise awareness of existing programs for balancing work with childcare and nursing care duties in order to maintain an environment in which male employees can also readily participate in raising their children.



Kurumin Certification Logo

## Corporate Governance

### Fundamental Policy

PARCO constantly works to strengthen its corporate governance, recognizing that to enhance its corporate value it is essential for it to protect the rights and earnings of shareholders, build smooth relationships with stakeholders other than shareholders, preserve transparency in management and establish an effective management oversight structure. PARCO has adopted the “Company with Committees” system in order to make a clear distinction between supervision and execution in management, build a highly transparent corporate governance structure, and delegate substantial authority to executive officers in order to establish a means of quick decision-making and business execution.

### Directors

The Board of Directors is responsible for deciding fundamental policies regarding management, and for the supervision of directors and executive officers. The Board of Directors comprises eight directors (of which six are external directors), and it convenes once a month, with additional irregular meetings held flexibly as necessary. In fiscal 2012, the Board of Directors convened a total of 16 times for both regular and irregular meetings.

### Committees

Each committee acts in its capacity to conduct management supervision and reports to the Board of Directors. A Committees’ Secretariat has been established to support the activities of each committee by providing dedicated staff.

#### ■ Nominating Committee

The Nominating Committee determines the content of proposals to be submitted at the General Meeting of Shareholders regarding the appointment or dismissal of directors, as well as nominates candidates for representative director for the Board of Directors and executive officers, and recommends their removal. The Nominating Committee comprises five directors, of which four are external directors (they are all independent directors). In fiscal 2012, the Nominating Committee convened nine times.

#### ■ Audit Committee

The Audit Committee monitors the execution of business by directors and executive officers, and determines the content of proposals to be submitted at the General Meeting of Shareholders regarding the selection or dismissal of the financial auditor. The Audit Committee comprises four external directors (they are all independent directors). In fiscal 2012, the Audit Committee convened 13 times.

#### ■ Compensation Committee

The Compensation Committee determines the compensation of individual directors and executive officers based on the

compensation policy formulated by the Compensation Committee. The Compensation Committee comprises five directors, of which four are external directors (they are all independent directors). In fiscal 2012, the Compensation Committee convened four times.

### Executive Officers and the Management Committee

Executive officers execute specific operations based on the fundamental policies decided by the Board of Directors.

The Management Committee is a deliberative organ designed to facilitate decision-making by a president and representative executive officer in the execution of concrete business operations. The Management Committee meets every week with the attendance of directors who also serve as executive officers. It comprises the executive officer for the Group Auditor Office; the various executive officers for the Personnel Group, the Administration and Legal Group, the Finance Group, the Accounting Group and the Business Operation Group; and the executive officers for departments related to submitting proposals.

### Group Auditor Office

The Group Auditor Office (nine members) was established under a full-time executive officer as the company’s internal auditing department. It audits the status of legal compliance, operational streamlining and risk management of all business aspects of PARCO and the PARCO Group subsidiaries, based on the auditing plan. It also exchanges information with the Audit Committee and auditors of group subsidiaries as necessary, and conducts effective audits.

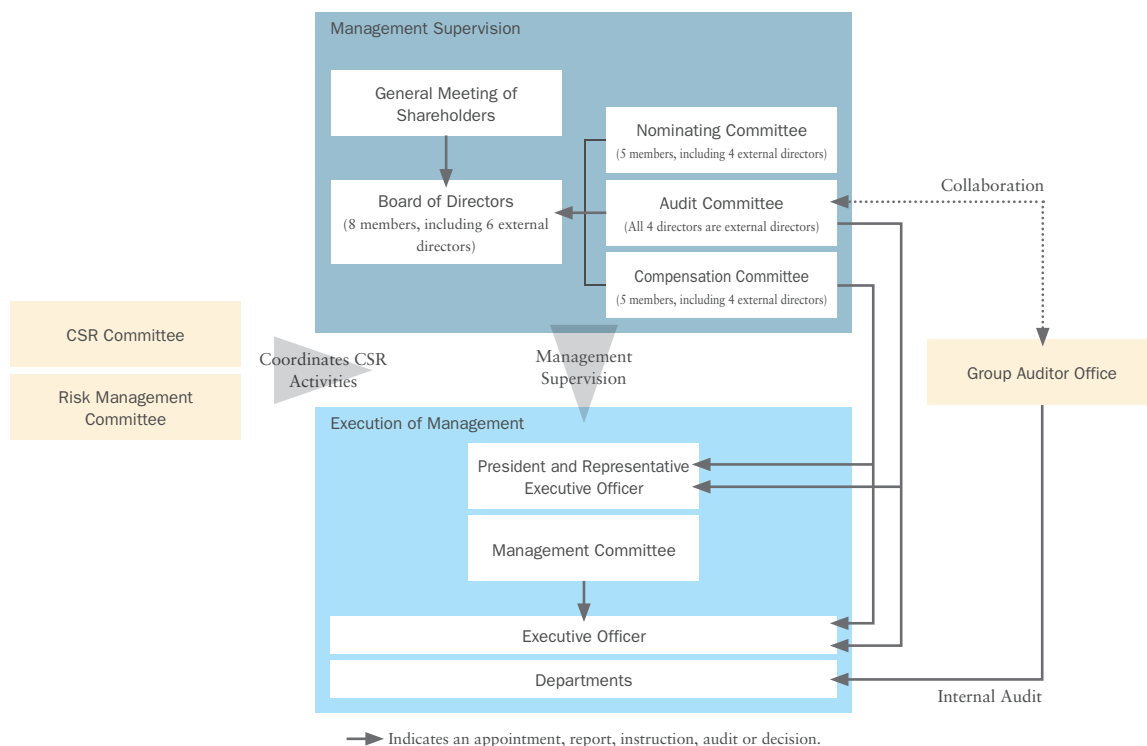
### Role of External Directors

Each external director is selected for the Board of Directors from the viewpoint of possessing a variety of external knowledge and experience, with the aim of further improving the transparency of management and the effectiveness of the supervision of business execution, and appointed as the head or a committee member of the Nominating Committee, Audit Committee or Compensation Committee.

### CSR Committee

A CSR Committee has been established, chaired by a Managing Executive Officer, to strengthen internal controls in addition to promoting the corporate social responsibility (CSR) activities of the PARCO Group. The CSR Committee makes the PARCO Group’s policies for the CSR activities and its action plans, supports external publicity, promotes internal information sharing, and cooperates with external companies and organizations. The CSR Committee also coordinates CSR activities across PARCO’s business departments through discussions by all executive officers and cooperation with the Risk Management Committee, in-house departments and Group companies.

## Framework for Management Supervision and Execution



### Internal Controls

#### ■ Fundamental Policy

PARCO retains a structure to maintain the appropriateness of the operations of PARCO and the PARCO Group in terms of the effectiveness and efficiency of operations, the credibility of financial statements, compliance with laws and regulations related to business activities and the protection of assets and other areas. At the same time, PARCO works to further improve corporate value.

#### ■ Compliance Structure

As part of its measures for the compliance structure, PARCO has implemented an internal awareness program that includes formulation of the Basic Principles of Compliance, and a Code of Conduct, which all employees are expected to adhere to and follow, and distribution of the PARCO Employee Handbook incorporating management principles, ten action guidelines designed to ensure application of these principles, as well as compliance guidelines. Also, in consideration of compliancy and risk management, we

have set up an internal reporting system to protect persons providing information from any negative consequences that might arise from disclosure.

#### ■ Risk Management Structure

PARCO has established a Risk Management Committee chaired by the senior executive officer for the Business Strategy Division and Related Business Division to provide cross-organizational monitoring of various risks, company-wide response and general control. We have also established a CSR Committee, chaired by the Managing Executive Officer who is responsible for public relations, which coordinates activities with the Risk Management Committee as necessary, to control and efficiently implement risk management and other CSR activities, increasing the speed and effectiveness of conduct.

For further information about corporate governance at PARCO, please visit the Corporate Governance page of our website:

[http://www.parco.co.jp/group/en/corporate/about\\_04\\_01.php](http://www.parco.co.jp/group/en/corporate/about_04_01.php)

## Board of Directors and Officers (As of 31 May, 2013)

### Directors



**Kouzou Makiyama**  
Member of the Board, President,  
Representative Executive Officer



**Hidekazu Hirano**  
Member of the Board, Senior Executive  
Officer, Senior Manager of the Business  
Strategy Division, Executive Officer for the  
Related Business Group



**Hiroto Tsukada**  
Member of the Board (External Director)



**Yasuyuki Kobayashi**  
Member of the Board (External Director)



**Keiji Aritomi**  
Member of the Board (External Director)



**Aiko Okawara**  
Member of the Board (External Director)



**Hiroshi Takahashi**  
Member of the Board (External Director)



**Tomonori Ito**  
Member of the Board (External Director)

### Executive Officers

#### Masaaki Abe

Managing Executive Officer for the  
Corporate Planning Office, the Public  
Relations and Investor Relations Office,  
the IT Promotion Office, and the Presi-  
dent's Office

#### Takashi Sensui

Managing Executive Officer, Senior Man-  
ager of the Store Management Division,  
Executive Officer of the Store Operation  
Group, the Environment and Store Manage-  
ment Group, and the Store Design Group

#### Shuji Kainaga

Executive Officer for Group Auditor  
Office

#### Koichi Yamazaki

Executive Officer for the Entertain-  
ment Business Group

#### Yuji Hirai

Executive Officer for the Real Estate  
Management Group, the Develop-  
ment Group, the Architectural Group,  
and the ZERO GATE Business Group

#### Kazuko Hamada

Executive Officer for the Personnel  
Group, and the Administration and  
Legal Group

#### Shigeyoshi Sato

Executive Officer for the Overseas  
Business Group

#### Hideki Noguchi

Executive Officer for the Finance  
Group, the Accounting Group, and  
the Administrative Control Group

#### Hajime Inoue

Executive Officer for the Advertising  
Group, the WEB Marketing Group, and  
the CS and Customer Policy Group

#### Tomoyuki Yamaki

Executive Officer and Store Manager of  
Nagoya PARCO

#### Gaku Mizoguchi

Executive Officer for the New Project  
Planning Group

# Financial Section

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**WE  
NEVER  
STOP!**  
SHIBUYA PARCO  
40th ANNIVERSARY

## Management's Discussion and Analysis

For long-term numerical data and graph data, please refer to the PARCO website and FACTBOOK 2013.

### Corporate/Investor Relations

<http://www.parco.co.jp/group/en/corporate/>

### FACTBOOK 2013

[http://www.parco.co.jp/group/en/pdf/file130405\\_od986mwd.pdf](http://www.parco.co.jp/group/en/pdf/file130405_od986mwd.pdf)

### Current Situation

In fiscal 2012, ended February 28, 2013, the Japanese economy followed a gradual recovery path against the backdrop of reconstruction demand from the Great East Japan Earthquake and other factors. However, the outlook for the Japanese economy remained uncertain, partly due to factors carrying the risk of a downward economic turn, including continued financial instability in Europe. This was despite developments such as the yen's depreciation and rising stock prices, reflecting anticipation for new economic policies following the change in Japan's government in December 2012.

In regard to consumer spending, we saw an increasingly stronger trend toward clear-cut consumer preferences for different priorities. On the one hand, there was heightened consumer awareness of the need for prudent and sound spending given concerns about hikes in electricity fees, and an uncertain outlook for employment and income conditions. On the other hand, consumers also showed a clear preference for high-quality goods and services as well as for purchases that contribute to the environment and society.

### Evaluating Fiscal 2012 Results

#### Overview

Under the market environment described above, the PARCO Group took steps to strengthen its earnings base. Specifically, we grouped existing PARCO shopping complexes into either an Urban Complex or a Community Complex based on the characteristics of their catchment area. For each of the target customer bases of these two groups, we pursued business model innovation aimed at optimizing the product mix and management methods. Furthermore, we pressed ahead with

operations directed at opening new stores in the "ZERO GATE business," which is a new business model for the development of urban low- to medium-rise commercial facilities in Japan, as well as in the overseas business. At the same time, the PARCO Group companies made a coordinated effort to promote related operations and new businesses.

As a result, the PARCO Group's consolidated net sales increased 1.9%, or ¥4,989 million, to ¥264,779 million. Gross profit was up 2.3%, or ¥909 million, to ¥39,834 million. The gross profit ratio was 15.0%, mostly unchanged from the previous fiscal year.

Selling, general and administrative expenses declined 2.2%, or ¥713 million, to ¥31,742 million. The ratio of SG&A expenses to net sales decreased 0.5 of a percentage point, to 12.0%.

Operating income jumped 18.1%, or ¥1,655 million, to a record-high ¥10,824 million. The operating income margin increased 0.6 of a percentage point to 4.1%.

In other income (expenses), we recorded net other expenses of ¥1,722 million, mainly due to equity in loss of affiliates accounted for by the equity method and loss on cancellation of leasehold contracts, which were partly offset by gain on sales of investment securities and compensation income for loss from damage.

As a result of the foregoing, net income increased 17.7%, or ¥764 million, to ¥5,083 million.

Net income per share was ¥54.44, while return on equity rose 0.2 of a percentage point to 5.4%.

In line with our policy of maintaining stable shareholder returns, management paid a year-end dividend of ¥9 per share for fiscal 2012, giving a total cash dividend applicable to the year of ¥18 per share.

## Segment Performances

### ■ Shopping Complex Business

Shopping Complex Business sales were ¥239,806 million, up 1.7%. Operating income rose 20.0% to ¥9,788 million.

- Innovation at existing complexes

At PARCO's 19 complexes across Japan, PARCO conducted renovation as well as marketing and sales promotions in an effort to optimize complexes for their respective target customer bases.

In regard to renovation, PARCO promoted measures including renovations focused on remodeling floor zones according to theme, expanding shops of prominent retail franchises to multiple PARCO complexes, and strengthening initiatives with new companies and business formats. Another measure was to expand the customer base by diversifying product lineups and approaches to meet customer needs. At Urban Complexes, PARCO introduced trend-setting shops fusing art, culture and fashion, and conducted renovation with an emphasis on fashion by bringing together new-format shops and select stores. Through these measures, PARCO enhanced the innovative features and trend-setting capacity of Urban Complexes as fashion buildings. At Community Complexes, we created new proposal-based consumption zones closely tied to communities, in a manner unique to PARCO. Measures included renovation focused on introducing the latest fashion brands and highly unique specialty shops according to each complex's location, while introducing shops catering to the daily shopping demand of the local catchment area. As a result of these measures, fiscal 2012 renovated space totaled approximately 53,000 m<sup>2</sup> for all stores, and a year-on-year comparison of sales in the pertinent zones showed large growth of 17.4%.

In marketing and sales promotions, we began strengthening PARCO Card member services from fiscal 2012. We conducted trial measures such as extending the 5% discount period on shopping at PARCO for new members to one year after the issuance of cards, compared to one month previously. We also changed the minimum card purchase conditions for upgrade to PARCO Card Class S, which brings a 5% discount on shopping at PARCO for the following year, from annual card use of ¥200,000 to ¥100,000 a year. As a result, new card member enrollment increased dramatically, and credit card transaction volume grew substantially by 10% year on year.

Furthermore, we held events that provide young creators with the opportunity to exhibit and market their works, namely the Shibukaru Festival 2012—Female Creators' Mixed Cultural Festival at Shibuya PARCO from October 19–29, 2012 and the Tenjin Labo at Fukuoka PARCO from November 9–18, 2012. These events reflect our corporate stance of discovering young, creative talent and supporting their activities, and have helped us to energize our complexes by enhancing their ability to generate publicity and attract customers. In terms of CSR, PARCO participates in the TABLE FOR TWO program for donating school lunches to children in developing countries as part of its CSR

activities. A total of 80 foodservice establishments within PARCO complexes took part in the TABLE FOR TWO program, marking the largest extent of participation for any single company. In conjunction with this program, we held the “Karada Ga Yorokobu Healthy Menu Fair” event from January 17 to February 28, 2013. Thanks to the strong popularity of this event among numerous customers, PARCO was able to donate 18,000 meals to children in developing countries, 8,000 more than its initial target of 10,000.

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

In terms of domestic development, we pursued our ZERO GATE business, which is a new business model for developing low- to medium-rise commercial facilities mainly in prime spots of urban areas of Japan. Moving forward with the business of opening stores, we opened Shinsaibashi ZERO GATE H&M (April 13, 2013) and Dotonbori ZERO GATE FOREVER21 (April 20, 2013).

In our overseas business, in China we established a local subsidiary PARCO CONSULTING (SUZHOU) CO., LTD. in Suzhou City, and moved ahead in the work of successively opening in May 2013 the NISON CITY MALL, a shopping complex inside the Nison Plaza Project, a multipurpose building development in Suzhou. Furthermore, PARCO subsidiary PARCO (Singapore) Pte Ltd. and the Textile & Fashion Federation (Singapore) operates “PARCO next NEXT,” a zone for fostering local Singaporean designers, with the support of SPRING Singapore, a government agency for supporting business entrepreneurs. In connection with PARCO next NEXT, a limited-time shop was opened in Shibuya PARCO (March 27 to April 4, 2012), and PARCO strengthened its collaboration in the area of transmitting next-generation fashion information. Also in Singapore, we held Hello, Shibuya Tokyo with Singapore (February 22 to March 10, 2013), a program that supports the business growth of next-generation fashion businesspeople of Japan in the ASEAN region as a part of the fiscal 2012 Cool Japan Strategy promoted by the Ministry of Economy, Trade and Industry.

### ■ Retail Business

Retail Business sales were ¥17,174 million, up 4.7%. Operating income rose 27.5% to ¥530 million.

NEUVE A CO., LTD. achieved increases in both net sales and operating income in fiscal 2012. The company-wide performance was driven by the TiCTAC watch business with its favorable business planning that focused on environmental themes and social contributions. Moreover, sales of original merchandise grew substantially. As regards opening new stores, the company actively opened stores in commercial facilities that have a wide range of customers. A total of 8 stores were opened during fiscal 2012 and at the end of fiscal 2012, the Retail Business operated 159 stores.

### ■ Space Engineering and Management Business

Space Engineering and Management Business sales were ¥18,581 million, up 2.0%. Operating income rose 1.0% to ¥410 million.

PARCO SPACE SYSTEMS CO., LTD. recorded increases in both net sales and operating income from the previous fiscal year. Orders increased for interior construction work for large-scale tenants and for LED light conversion work for commercial facilities against the backdrop of corporate needs to save energy and reduce environmental burdens. Furthermore, orders also increased in the facilities management business at foreign-owned hotels.

### ■ Other Business

Other Business sales were ¥6,287 million, down 5.2%. Operating income fell 45.9% to ¥90 million.

In PARCO CO., LTD.'s entertainment business, we provided a number of talked-about events, ranging from the opening of Umeda CLUB QUATTRO in April 2012 in the music field, to stage shows such as Koki Mitani's adaptation of Chekhov's "Sakura no Sono" (Mitani's production of the Cherry Orchard), "Sorenari Shinjyu," Mitani's first attempt in bunraku (written and produced by Mitani), "Naniwa Butterfly N.V." (written and produced by Mitani), and Amon Miyamoto's adaptation of the musical "WIZ" (produced by Miyamoto), and the movie "Helter Skelter" in which PARCO had invested. Moreover, contributions to attracting customers and obtaining sales at PARCO's real stores and online shopping malls were made through multi-media expansion of this content to exhibits, as well as DVD releases, book publications and other formats.

PARCO-CITY CO., LTD. posted sales of ¥781 million (up 8.2% year on year), but incurred an operating loss of ¥20 million (compared with operating income of ¥17 million in the previous year). In the website consulting business, the company created and operated websites of commercial facilities and expanded its operational support activities for social networking services such as Facebook. In the e-commerce business, we expanded the business by attracting leading tenants in the fashion world, and by expanding original content centered on the PARCO Group's unique style of culture and entertainment.

## Financial Position

### Assets

Total assets at the end of fiscal 2012 were ¥206,243 million, down ¥2,454 million.

Total current assets were ¥28,991 million, an increase of ¥5,674 million that primarily reflected a ¥3,025 million increase in cash and time deposits.

Investments and other assets decreased ¥5,443 million, to ¥41,708 million. The main factor was a ¥5,368 million decrease in fixed leasehold deposits.

Property and equipment were ¥123,698 million, a decrease of ¥2,791 million that primarily reflected a decline in assets due to depreciation and amortization.

Total asset turnover was 1.28 times, while return on assets was 5.0%.

### Liabilities

Total liabilities were ¥102,670 million, down ¥21,449 million from the close of the previous term.

Current liabilities were ¥36,375 million, down ¥13,312 million. This was largely due to a net decrease of ¥14,993 million in short-term bank loans.

Fixed liabilities were ¥66,295 million, down ¥8,137 million. This was due largely to a decrease in convertible bonds with stock acquisition rights.

Interest-bearing debt was ¥37,375 million, down ¥22,160 million. The debt-equity ratio was 0.36.

### Net Assets

Net assets at the end of the term were ¥103,573 million, up ¥18,995 million from a year earlier. This was due largely to increases in common stock and capital surplus resulting from new shares issued upon exercise of stock acquisition rights. The equity ratio was thus 50.2%, while the net asset value per share was ¥1,020.92.

### Cash Flows

Net cash provided by operating activities was ¥13,938 million, up from ¥11,274 million a year earlier. This was after adjustments to ¥9,102 million in income before income taxes and minority interests for non-cash items including depreciation and amortization, and extraordinary income (loss).

Net cash used in investing activities was ¥2,139 million, up from ¥584 million in the previous term. This increase was mainly due to expenditures for investments in tangible fixed assets for the renovation and improvement of Ikebukuro PARCO and other facilities.

Net cash used in financing activities was ¥8,826 million, compared with ¥15,483 million used in such activities in the previous year. This reflected mainly a decrease in interest-bearing debt and the payment of dividends.

### Capital Investment

Capital investment increased ¥2,236 million, to ¥5,632 million, and included tangible fixed assets, intangible fixed assets, long-term prepaid expenses, and fixed leasehold deposits.

Depreciation and amortization decreased ¥237 million, to ¥6,101 million.



## Fiscal 2013 Initiatives

The PARCO Group will develop key projects and put in place the business and managerial foundations to support them in the course of implementing its strategies comprising innovation at existing complexes, of expanding its commercial activities in urban areas both in Japan and overseas, and of developing related and new businesses, all of which are already under way. Looking to the future, we will formulate measures to secure earnings, the cornerstone of business sustainability, in the existing store business, based on the important themes of improving medium-term profitability and making structural reforms in management. At the same time, we will work to develop a unique and highly profitable new shopping complex business and shift development of related businesses, together with putting in place the PARCO Group framework that will implement these actions.

Also, we will take the opportunity of having become a new member of the J. FRONT RETAILING Group (JFR Group) to make full use of the JFR Group's business resources. At the same time, we aim to collaborate with them in the creation of new urban shopping complexes, and we will examine collaborative projects in a variety of business fields.

### ■ Shopping Complex Business

In PARCO's existing store business, we further evolved our two types of shopping complexes, the Urban Complex and the Community Complex, in order to make them distinctively different and with the aim of making them stable and sustainable revenue bases of the PARCO Group. As regards renovation, we plan to remodel about 46,000 m<sup>2</sup> throughout all shopping complexes in fiscal 2013. Based on the diversifying nature of the lifestyles of women, our main target, we will offer a wide variety of lifestyle proposals by rotating items and services related to our customers' interests and needs not only for fashion but for merchandise and activities as well. The following describes our main renovation projects.

### ■ Urban Complexes

#### Shibuya PARCO

This year Shibuya PARCO celebrates its 40th anniversary and this year, following on from last fiscal year, we are actively introducing trend-setting shops that fuse fashion and culture. Centered on ladies fashion, and including nine stores (of which five are new-format stores) that are new to the Shibuya area, we carried out remodeling in 2013, from March to April.

#### Ikebukuro PARCO

Targeting all women ranging from the young to the young-minded, at Ikebukuro PARCO we renovated the ladies fashion zone in March 2013, centered on the main building's 2nd floor. With five stores (of which one is a new-format store) that are new to the Ikebukuro area, the second "my panda" branded store is being opened utilizing the micro funding investment scheme that PARCO has launched.

#### Nagoya PARCO

Following on from the 1st and 2nd floors in the South Building which we renovated in fall last year, we completely remodeled the building's 3rd floor in March 2013. Making the most of rotating "design" and "mode" in four stores (of which two are new-format stores) that are new to the Nagoya area, we have changed to a floor on which shopping can be enjoyed by all customers, irrespective of gender or age.

#### Kichijoji PARCO

This store has been undergoing a spring remodeling from February to April 2013. On the ladies fashion floor on the 2nd floor, we provided a comfortable environment by renovating the powder rooms as well as introducing some brands for the first time in Kichijoji, based on the theme of "the quality and natural taste exemplified by Kichijoji casual." On the 1st floor, we introduced new cosmetics brands to enhance the cosmetics zone.

#### Shizuoka PARCO

Following the renovation of the ground floor in fall of last fiscal year, Shizuoka PARCO completely remodeled the ladies 3rd floor in 2013, from March to April. Together with eight stores that are new to the Shizuoka area (of which two are new-format stores), this floor offers women lifestyle proposals ranging from beauty applications in the form of trend fashions, fingernail and toenail salons and eyebrow extension counters, to a new type of café.

Moreover, from March 1, 2013 the operation and management of PARCO-CITY, an online shopping mall, was transferred to PARCO from PARCO-CITY CO., LTD. to strengthen the PARCO store business. PARCO will rebuild the e-commerce business as one of its platform functions that enables "contact" with customers through the Internet.

In terms of domestic development, PARCO secured the trust beneficial rights for the Fukuoka PARCO building, which is one of PARCO's important stores, and the adjacent land and building. As regards the latter, PARCO will soon propose a plan for its use as a commercial facility. PARCO is also moving ahead with the ZERO GATE business with the scheduled opening of Hiroshima ZERO GATE in the fall of 2013.

In our overseas business, PARCO will continue to operate NISON CITY MALL, a commercial facility inside the Nison Plaza Project, a multipurpose building development in China.

### ■ Retail Business

Group company NEUVE A CO., LTD. will continue to aggressively open new stores with a particular focus on its TiCTAC business, aiming to build a network of 172 stores by the end of fiscal 2013. The Group company will also continue to raise profit margins and grow business by expanding original products in the TiCTAC, EYEWEAR and COLLECTORS businesses (men's variety shops and ladies' lifestyle goods shops).

### ■ Space Engineering and Management Business

PARCO SPACE SYSTEMS CO., LTD. will increase its orders received for commercial facilities outside the PARCO Group and for hotels, leveraging its strengths in making proposals to save energy and reduce environmental impact in the areas of lighting design, electrical work and interior decoration. In the building management business, the company will use the expertise of PARCO stores to gain new clients in the vicinity of PARCO stores.

### ■ Other Business

In PARCO CO., LTD.'s entertainment business, PARCO Theater is celebrating its 40th anniversary this year and so the theater is presenting a series of shows from February 2013 to February 2014 entitled "PARCO Theater 40th Anniversary Performances." Following the opening work of "Dialogue with Horowitz" written and produced by Koki Mitani, a variety of performances will include the "Shumi-no-heya" (Room of Hobbies) written by Ryota Furusawa and produced by Isao Yukisada, and Lemmings commemorating the 30th anniversary of Shuji Terayama's death. The multifaceted content business will implement collaborative projects with PARCO stores and strengthen new entertainment business development projects.

PARCO-CITY CO., LTD. will specialize in the Internet consulting business. It will enhance product development by making full use of the PARCO Group's expertise, and further expand business for commercial facilities outside the PARCO Group and specialty store companies.

### Outlook for Fiscal 2013

Through the above initiatives, we expect a 2.5% increase in consolidated net sales for fiscal 2013, to ¥271,400 million, with consolidated operating income rising 9.0% to ¥11,800 million and consolidated ordinary income increasing 9.9% to ¥11,350 million. At the same time, we project an 18.0% increase in consolidated net income, to ¥6,000 million, thereby achieving record high profits.

### 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 27, 2013.

#### 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.

## Consolidated Balance Sheets

February 28, 2011, February 29, 2012 and February 28, 2013

ASSETS	Millions of yen			Thousands of U.S. dollars (Note 5)
	2011	2012	2013	2013
<b>Current assets:</b>				
Cash and time deposits (Notes 6 and 15)	¥ 12,253	¥ 7,437	¥ 10,463	\$ 112,505
Notes and accounts receivable (Note 15):				
Trade	7,252	7,686	7,675	82,527
Other	3,870	3,510	5,471	58,828
Less: Allowance for doubtful accounts	(3)	(7)	(5)	(54)
	11,119	11,190	13,140	141,290
Inventories	2,751	2,828	3,025	32,527
Prepaid expenses and other current assets	917	941	957	10,290
Deferred tax assets (Note 17)	1,200	919	1,404	15,097
<b>Total current assets</b>	<b>28,241</b>	<b>23,317</b>	<b>28,991</b>	<b>311,731</b>
<b>Investments and other assets:</b>				
Investment securities (Notes 10 and 15)	4,952	2,352	2,850	30,645
Investments to an unconsolidated subsidiary and an affiliate	20	349	74	796
Other investments	473	453	460	4,946
Leasehold deposits (Notes 11 and 15)	43,099	41,000	35,631	383,129
Deferred tax assets (Note 17)	1,529	1,689	1,615	17,366
Other assets	2,226	2,095	1,971	21,194
<b>Total investments and other assets</b>	<b>52,301</b>	<b>47,940</b>	<b>42,603</b>	<b>458,097</b>
<b>Property and equipment (Note 13):</b>				
Store facilities, at cost	219,224	217,776	218,330	2,347,634
Less: Accumulated depreciation	(76,639)	(79,369)	(82,524)	(887,355)
Less: Accumulated impairment losses (Note 9)	(992)	(967)	(1,157)	(12,441)
	141,592	137,439	134,648	1,447,828
<b>Total assets</b>	<b>¥222,135</b>	<b>¥208,697</b>	<b>¥206,243</b>	<b>\$2,217,667</b>

The accompanying notes are an integral part of these balance sheets.

LIABILITIES	Millions of yen			Thousands of U.S. dollars (Note 5)
	2011	2012	2013	2013
<b>Current liabilities:</b>				
Short-term bank loans (Notes 12 and 15)	¥ 1,194	¥ 4,149	¥ 19	\$ 204
Current portion of long-term debt (Notes 12 and 15)	17,022	17,822	6,959	74,828
Notes and accounts payable (Note 15):				
Trade	16,118	16,526	16,278	175,032
Other	2,470	3,413	3,226	34,688
	18,588	19,939	19,504	209,720
Accrued income taxes	2,266	1,072	3,406	36,624
Accrued expenses	3,068	3,047	3,044	32,731
Other current liabilities	4,821	3,657	3,441	37,000
Total current liabilities	46,961	49,687	36,375	391,129
<b>Non-current liabilities</b>				
Long-term debt (Notes 12, 15 and 19)	40,231	22,565	30,397	326,849
Convertible bonds with stock acquisition rights (Notes 12 and 15)	15,000	15,000	—	—
Guarantee deposits received from tenants (Note 18)	36,159	34,419	33,377	358,892
Reserve for retirement benefits (Note 16)	1,510	1,617	1,737	18,677
Allowance for loss on store closing	44	—	—	—
Asset retirement obligations (Note 13)	—	313	320	3,441
Other long-term liabilities	360	517	461	4,957
Total non-current liabilities	93,306	74,432	66,295	712,849
Total liabilities	140,267	124,120	102,670	1,103,978
<b>NET ASSETS (Note 22):</b>				
Shareholders' equity				
Common stock				
Authorized:				
320,000,000 shares at February 28, 2011, February 29, 2012 and February 28, 2013				
Issued:				
82,475,677 shares at February 28, 2011 and February 29, 2012, 101,462,977 shares at February 28, 2013	26,867	26,867	34,367	369,538
Capital surplus	27,528	27,526	35,124	377,677
Retained earnings	27,400	30,320	33,830	363,763
Treasury stock, at cost (Note 24)	(61)	(150)	(7)	(75)
Total shareholders' equity	81,734	84,563	103,314	1,110,903
Accumulated other comprehensive income				
Valuation difference on available-for-sale securities	275	200	397	4,269
Foreign currency translation adjustment	(164)	(209)	(138)	(1,484)
Total accumulated other comprehensive income	110	(8)	258	2,774
Minority interests	23	22	—	—
Total net assets	81,868	84,577	103,573	1,113,688
Total liabilities and net assets	¥222,135	¥208,697	¥206,243	\$2,217,667

## Consolidated Statements of Income

For the years ended February 28, 2011, February 29, 2012 and February 28, 2013

	Millions of yen			Thousands of U.S. dollars (Note 5)
	2011	2012	2013	2013
<b>Net sales</b>	¥264,840	¥259,789	¥264,779	\$2,847,086
<b>Cost of sales</b>	225,635	220,864	224,945	2,418,763
Gross profit	39,204	38,924	39,834	428,323
<b>Other operating revenue</b>	2,819	2,700	2,732	29,376
Gross operating profit	42,024	41,625	42,567	457,710
<b>Selling, general and administrative expenses</b>	32,806	32,456	31,742	341,312
Operating income	9,218	9,168	10,824	116,387
<b>Other income (expenses):</b>				
Interest income	81	79	52	559
Interest expenses	(990)	(816)	(620)	(6,667)
Loss on disposal/sales of property and equipment	(552)	(929)	(959)	(10,312)
Loss on impairment of fixed assets (Note 9)	(38)	(352)	(149)	(1,602)
Loss on disaster (Note 7)	—	(103)	—	—
Loss on adjustment for changes of accounting standard for asset retirement obligations	—	(148)	—	—
Loss on cancellation of leasehold contracts	—	—	(999)	(10,742)
Loss on write-down of investment securities (Note 10)	(4)	(477)	(1)	(11)
Loss on store closing (Notes 8 and 9)	(341)	(4)	—	—
Loss on restructuring	(14)	—	—	—
Compensation income for loss from damage	—	—	569	6,118
Other, net	359	917	385	4,140
	(1,501)	(1,835)	(1,722)	(18,516)
Income before income taxes and minority interests	7,717	7,333	9,102	97,871
<b>Provision for income taxes (Note 17):</b>				
Current	3,189	2,816	4,538	48,796
Deferred	127	198	(519)	(5,581)
Total	3,317	3,014	4,018	43,204
<b>Income before minority interests</b>	4,400	4,319	5,083	54,656
<b>Minority interests</b>	(0)	(0)	—	—
<b>Net income</b>	¥ 4,400	¥ 4,319	¥ 5,083	\$ 54,656
			Yen	U.S. dollars (Note 5)
	2011	2012	2013	2013
<b>Per share (Note 25):</b>				
Net income, basic	¥ 53.41	¥ 52.49	¥ 54.44	\$ 0.59
Net income, diluted	48.50	43.31	—	—
Cash dividends applicable to the year	¥ 17.00	¥ 17.00	¥ 18.00	\$ 0.19

The accompanying notes are an integral part of these statements.

## Consolidated Statement of Comprehensive Income

For the years ended February 29, 2012 and February 28, 2013

	Millions of yen		Thousands of U.S. dollars (Note 5)
	2012	2013	2013
<b>Income before minority interests</b>	¥4,319	¥5,083	\$54,656
<b>Other comprehensive income</b> (Note 23)			
Valuation difference on available-for-sale securities	(74)	196	2,108
Foreign currency translation adjustment	(45)	62	667
Share of other comprehensive income of associates accounted for using equity method	—	8	86
Total other comprehensive income	(119)	267	2,871
<b>Comprehensive income</b> (Note 23)	¥4,199	¥5,351	\$57,538
<b>Comprehensive income attributable to</b> (Note 23):			
Owners of the parent	¥4,200	¥5,351	\$57,538
Minority interests	(1)	—	—

The accompanying notes are an integral part of these statements.

## Consolidated Statements of Changes in Net Assets

For the years ended February 28, 2011, February 29, 2012 and February 28, 2013

	Millions of yen								
	Shareholders' equity					Accumulated other comprehensive income			Total
	Number of shares issued (thousands)	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Minority interests	
<b>Balance at February 28, 2010</b>	82,475	¥26,867	¥27,528	¥24,317	¥ (60)	¥ 99	¥(119)	¥ 25	¥ 78,657
Net income for the year ended February 28, 2011	—	—	—	4,400	—	—	—	—	4,400
Cash dividends paid	—	—	—	(1,318)	—	—	—	—	(1,318)
Changes in foreign currency translation adjustments	—	—	—	—	—	—	(45)	—	(45)
Valuation difference on available-for-sale securities	—	—	—	—	—	175	—	—	175
Changes in minority interests	—	—	—	—	—	—	—	(1)	(1)
Acquisition of treasury stock (Note 24)	—	—	—	—	(0)	—	—	—	(0)
<b>Balance at February 28, 2011</b>	82,475	¥26,867	¥27,528	¥27,400	¥ (61)	¥275	¥(164)	¥ 23	¥ 81,868
Net income for the year ended February 29, 2012	—	—	—	4,319	—	—	—	—	4,319
Cash dividends paid	—	—	—	(1,399)	—	—	—	—	(1,399)
Changes in foreign currency translation adjustments	—	—	—	—	—	—	(44)	—	(44)
Valuation difference on available-for-sale securities	—	—	—	—	—	(74)	—	—	(74)
Changes in minority interests	—	—	—	—	—	—	—	(1)	(1)
Acquisition of treasury stock (Note 24)	—	—	—	—	(111)	—	—	—	(111)
Sale of treasury stock (Note 24)	—	—	(1)	—	21	—	—	—	20
<b>Balance at February 29, 2012</b>	82,475	¥26,867	¥27,526	¥30,320	¥(150)	¥200	¥(209)	¥ 22	¥ 84,577
Net income for the year ended February 28, 2013	—	—	—	5,083	—	—	—	—	5,083
Cash dividends paid	—	—	—	(1,652)	—	—	—	—	(1,652)
Changes in foreign currency translation adjustments	—	—	—	—	—	—	70	—	70
Valuation difference on available-for-sale securities	—	—	—	—	—	196	—	—	196
Changes in minority interests	—	—	—	—	—	—	—	(22)	(22)
Acquisition of treasury stock (Note 24)	—	—	—	—	(0)	—	—	—	(0)
Sale of treasury stock (Note 24)	—	—	98	—	144	—	—	—	242
Issuance of new shares-exercise of subscription rights to shares	18,987	7,500	7,500	—	—	—	—	—	15,000
Change of scope of equity method	—	—	—	78	—	—	—	—	78
<b>Balance at February 28, 2013</b>	101,462	¥34,367	¥35,124	¥33,830	¥ (7)	¥397	¥(138)	¥ —	¥103,573

	Thousands of U.S. dollars (Note 5)								
	Shareholders' equity					Accumulated other comprehensive income			Total
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Minority interests		
<b>Balance at February 29, 2012</b>	\$288,892	\$295,978	\$326,022	\$(1,613)	\$2,151	\$(2,247)	\$ 237	\$ —	\$ 909,430
Net income for the year ended February 28, 2013	—	—	54,656	—	—	—	—	—	54,656
Cash dividends paid	—	—	(17,763)	—	—	—	—	—	(17,763)
Changes in foreign currency translation adjustments	—	—	—	—	—	753	—	—	753
Valuation difference on available-for-sale securities	—	—	—	—	2,108	—	—	—	2,108
Changes in minority interests	—	—	—	—	—	—	—	(237)	(237)
Acquisition of treasury stock (Note 24)	—	—	—	(0)	—	—	—	—	(0)
Sale of treasury stock (Note 24)	—	1,054	—	1,548	—	—	—	—	2,602
Issuance of new shares-exercise of subscription rights to shares	80,645	80,645	—	—	—	—	—	—	161,290
Change of scope of equity method	—	—	839	—	—	—	—	—	839
<b>Balance at February 28, 2013</b>	\$369,538	\$377,677	\$363,763	\$ (75)	\$4,269	\$(1,484)	\$ —	\$ —	\$1,113,688

The accompanying notes are an integral part of these statements.



## Consolidated Statements of Cash Flows

For the years ended February 28, 2011, February 29, 2012 and February 28, 2013

	Millions of yen			Thousands of U.S. dollars (Note 5)
	2011	2012	2013	2013
<b>Cash flows from operating activities:</b>				
Income before income taxes and minority interests	¥ 7,717	¥ 7,333	¥ 9,102	\$ 97,871
Adjustments for:				
Depreciation and amortization	6,628	6,350	6,120	65,806
Loss on impairment of fixed assets	38	352	149	1,602
Increase (decrease) in accrued bonuses to employees	93	15	13	140
Increase in reserve for retirement benefits	169	106	120	1,290
Increase (decrease) in accrued retirement benefits for directors and corporate auditors	(13)	—	—	—
Interest income and dividend income	(131)	(135)	(101)	(1,086)
Interest expenses	990	816	620	6,667
Loss on sales/disposal of property and equipment	181	10	213	2,290
Compensation income for loss from damage	—	—	(569)	(6,118)
Increase (decrease) in provision for loss on store closing	—	(103)	—	—
Loss on store closing	341	4	—	—
Loss on restructuring	14	—	—	—
(Increase) decrease in receivables	2,568	(435)	17	183
(Increase) decrease in inventories	368	(77)	(197)	(2,118)
Loss on adjustment for changes of accounting standard for asset retirement obligations	—	148	—	—
Increase (decrease) in payables	(1,519)	407	(247)	(2,656)
Increase (decrease) in other assets and liabilities, net	(2,425)	1,398	54	581
Other	24	195	2	22
Subtotal	15,046	16,389	15,298	164,495
Interest and dividends received	131	135	101	1,086
Interest paid	(794)	(891)	(685)	(7,366)
Payment resulting from store closing	—	(361)	(87)	(935)
Payment for business restructuring	(223)	—	—	—
Compensation for loss from damage received	—	—	1,578	16,968
Income taxes paid	(2,135)	(3,998)	(2,266)	(24,366)
Net cash provided by operating activities	12,025	11,274	13,938	149,871
<b>Cash flows from investing activities:</b>				
Acquisition of tangible fixed assets	(40,721)	(2,993)	(4,131)	(44,419)
Proceeds from sales of tangible fixed assets	1	1,471	228	2,452
Acquisition of investment securities	(4)	(229)	(1)	(11)
Proceeds from sales of investment securities	0	2,139	322	3,462
Payments for leasehold deposits	(2,025)	(105)	(1,189)	(12,785)
Collection of leasehold deposits	3,131	2,151	3,717	39,968
Increase (decrease) in guarantee deposits received from tenants	(1,950)	(2,778)	(805)	(8,656)
Other	(724)	(240)	(279)	(3,000)
Net cash used in investing activities	(42,290)	(584)	(2,139)	(23,000)
<b>Cash flows from financing activities:</b>				
Increase (decrease) in short-term bank loans, net	(5,368)	2,955	(4,130)	(44,409)
Borrowing of long-term debt	32,000	175	15,000	161,290
Repayment of long-term debt	(5,672)	(16,040)	(17,078)	(183,634)
Proceeds from issuance of bonds with stock acquisition rights	14,945	—	—	—
Payments for redemption of straight bonds	(1,000)	(1,000)	(1,000)	(10,753)
Acquisition of treasury stock	(0)	(90)	241	2,591
Cash dividends paid	(1,318)	(1,399)	(1,652)	(17,763)
Other	(50)	(82)	(206)	(2,215)
Net cash provided by (used in) financing activities	33,536	(15,483)	(8,826)	(94,903)
<b>Effect of exchange rate changes on cash and cash equivalents</b>	(40)	(21)	53	570
<b>Net increase (decrease) in cash and cash equivalents</b>	3,229	(4,815)	3,025	32,527
<b>Cash and cash equivalents at beginning of year</b>	9,023	12,253	7,437	79,968
<b>Cash and cash equivalents at end of year (Note 6)</b>	¥ 12,253	¥ 7,437	¥ 10,463	\$ 112,505

The accompanying notes are an integral part of these statements.

## Notes to Consolidated Financial Statements

PARCO CO., LTD. and Consolidated Subsidiaries

### 1. Basis of Presenting the Consolidated Financial Statements

The accompanying consolidated financial statements are prepared from accounts and records maintained by PARCO CO., LTD. (the “Company”) and its consolidated subsidiaries (together, the “Companies”) in accordance with the provisions set forth in the Corporate Law and the Japanese Financial Instruments and Exchange Law, and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards.

Certain items presented in the consolidated financial statements submitted to the Director of the Kanto Finance Bureau in Japan are

### 2. Summary of Significant Accounting Policies

#### (1) Scope of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its 5 subsidiaries as of February 28, 2011, February 29, 2012 and February 28, 2013.

PALM GARDEN CO., LTD. reached a dissolution resolution on May 31, 2010. As the impact on the consolidated financial statements is immaterial, it was excluded from the scope of consolidation at the end of the 1st quarter for 2011. PALM GARDEN CO., LTD. completed its

The major consolidated subsidiaries for the year ended February 28, 2013 are listed below:

	Capital Stock	
	Thousands of Singapore dollars	Percentage of shares
PARCO (Singapore) Pte Ltd	S\$ 15,926	100.0%

	Capital Stock	
	Millions of yen	Percentage of shares
NEUVE A CO., LTD.	¥490	100.0%
PARCO SPACE SYSTEMS CO., LTD.	¥490	100.0%
PARCO-CITY CO., LTD.	¥ 10	100.0%

The reporting dates of the following consolidated subsidiaries are listed below:

PARCO (Singapore) Pte Ltd	December 31 <sup>(*)</sup>
PARCO CONSULTING (SUZHOU) CO., LTD.	December 31 <sup>(*)</sup>

(\*1) Financial statements of the subsidiary used in the consolidation are drawn up at the reporting date. Adjustments are made for the effects of significant transactions or other events that occur between this date and the date of the Company's financial statements.

#### (2) Elimination of Intercompany Accounts and Transactions

All significant intercompany accounts and transactions including unrealized intercompany profits are eliminated in preparing the accompanying consolidated financial statements. The portion attributable to minority shareholders is recognized as minority interests.

#### (3) Equity Method

Investments in an unconsolidated subsidiary and an affiliate are accounted for by the equity method and, accordingly, are stated at cost adjusted for equity earnings and losses of the investments after elimination of unrealized inter-company profits and losses from the date of acquisition of shares.

The Company acquired approximately 15% of the total outstanding shares in Stylife Corporation and appointed a director from the PARCO

reclassified in these accounts for the convenience of readers outside Japan.

The consolidated financial statements are not intended to present the consolidated financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

Relevant notes are added, and certain reclassifications of account balances as disclosed in the consolidated financial statements in Japan are made so as to present them in a form which is more familiar to readers outside Japan.

liquidation on October 29, 2010. PARCO CONSULTING (SUZHOU) CO., LTD. which was established in January 2012, was included in the scope of consolidation during the fiscal year ended February 28, 2013.

In addition, STRAITS PARCO RETAIL MANAGEMENT PTE LTD was excluded from the scope of consolidation at the end of the 1st quarter for 2013 as the impact on the consolidated financial statements is immaterial. It was accounted for by the equity method.

Group to the Stylife board for the year ended February 29, 2012. Stylife Corporation became an equity-method affiliate for the year ended February 29, 2012. Because the Company's influence over Stylife Corporation decreased in the year ended February 28, 2013, it was excluded from coverage as an equity-method affiliate.

Effective from the year ended February 29, 2012, the Companies adopted “Accounting Standard for Equity Method of Accounting for Investments” (Statement No. 16, issued by the Accounting Standards Board of Japan [ASBJ] on March 10, 2008) and “Practical Solution on Unification of Accounting Policies Applied to Associates Accounted for Using the Equity Method” (Practical Issues Task Force No. 24, issued by the ASBJ on March 10, 2008).

This change has no effect on profit and loss.

#### **(4) Cash and Cash Equivalents**

Cash and cash equivalents in the accompanying consolidated statements of cash flows are composed of cash on hand, demand deposits, and other short-term highly liquid investments with original maturities of three months or less.

#### **(5) Securities**

Securities are classified as (a) securities held for trading purposes (“trading securities”), (b) debt securities intended to be held to maturity (“held-to-maturity debt securities”), (c) equity securities issued by an affiliate or a subsidiary, or (d) all other securities that are not classified in any of the above categories (“available-for-sale securities”). The Companies have no trading securities or held-to-maturity debt securities.

Available-for-sale securities with available fair market value are stated at fair market value. Unrealized gains and losses on these securities are reported, net of applicable income taxes, as a separate component of “Net assets.” The cost of securities sold is determined by the moving-average method.

Available-for-sale securities with no available fair market value are stated at cost by the moving-average cost.

#### **(6) Inventories**

Inventories are stated at cost as determined mainly by the specific identification method (the cost method with book value written down to the net realizable value).

#### **(7) Property and Equipment**

Buildings (excluding leasehold improvements and attached facilities) are depreciated mainly on a straight-line basis. A declining-balance method is mainly used for the other assets.

The Company acquired trust beneficial rights (*Shintaku Juekiken*), which are fixed assets, for 2011. Ordinarily, fixed assets such as buildings (excluding leasehold improvements and attached facilities) were depreciated on a straight-line method and other fixed assets were depreciated using a declining-balance method. However, a straight-line method is used for the trust beneficial rights.

#### **(8) Intangible Assets, Long-term Prepaid Expenses and Bonds Issue Expenses**

Intangible assets and long-term prepaid expenses included in “Other assets” are amortized on a straight-line basis.

Costs of software for internal use are amortized on a straight-line basis over their expected useful lives (5 years).

Bonds issue expenses are accounted for as expenses in a lump when they are paid.

#### **(9) Leases**

Lease assets in finance lease transactions that do not transfer ownership are depreciated on a straight-line basis over the lease term with zero residual value.

The Companies account for finance leases that commenced on and before February 28, 2009 and which did not transfer ownership in the same method as operating leases.

#### **(10) Allowances and Accruals**

The Companies use the accrual basis of accounting for all income and expenses.

##### **i) Allowance for Doubtful Accounts**

The allowance for doubtful accounts is provided for possible losses on bad debts. For general receivables, the amount is determined based on the actual bad debt ratio. For doubtful receivables, estimated uncollectible amounts for each receivable are used.

##### **ii) Accrued Bonuses to Employees**

The estimated bonuses payable in the future as of the balance sheet date are accrued.

##### **iii) Reserve for Retirement Benefits**

The Companies have contributory funded defined benefit pension plans which provide employees lump-sum payments or pension payments for life after the age of 60. Employees with service years of 20 years or more can choose between the two. Employees with service years of more than 5 years but less than 20 years are entitled to a lump-sum payment only.

Reserve for retirement benefits is computed based on the estimated amount of projected benefit obligation and the fair value of the plan assets at the end of the year.

The unrecognized transition amount arising from adopting the new standard is amortized on a straight-line basis over the period of 15 years.

Unrecognized prior service costs and unrecognized actuarial differences are amortized on a straight-line basis within the employee’s average remaining service years of the time they occur (mainly 11 years). The amortization of unrecognized actuarial differences starts from the subsequent year.

Effective from the year ended February 28, 2011, the Companies adopted “Partial Amendments to the Accounting Standards for Retirement Benefits (Part 3)” (Statement No. 19 issued by ASBJ on July 31, 2008). This change has no effect on profit and loss.

##### **iv) Reserve for Sales Promotion**

Reserve for sales promotion is recorded for the projected amounts of unused vouchers issued on the promotional reward card system to be used in the future based on the past actual rate of usage.

##### **v) Allowance for Loss on Store Closing**

Allowance for loss on store closing is recorded based on the reasonably estimated loss on store closing for a store the Company decided to close.

##### **vi) Other Allowances**

Japanese income tax laws set limits to the amounts of certain accrued expenses, which are essentially the estimates of the future, deductible from the tax base. The allowance for sales returns and the allowance for books unsold are recorded in accordance with the income tax laws.

**(11) Derivative Financial Instruments**

The Companies use interest rate swap and currency swap contracts only for the purpose of mitigating the risk of fluctuations in interest rates and foreign exchange rates. Interest rate swap contracts which are used as hedge and meet certain hedging criteria are accounted for by the special case interest rate swap treatment. Currency swap contracts which are used as hedge and meet certain hedging criteria are accounted for by the appropriation treatment in the following manner.

Where a currency swap contract is executed to hedge a transaction denominated in a foreign currency, the transaction is recorded using the contracted forward rate and no gains or losses on the forward foreign exchange contract are recognized. (“Appropriation treatment”)

Also where interest rate swap contracts of the Companies are used as hedges and meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract was executed. (“Special case interest rate swap treatment”)

The following summarizes hedging derivative financial instruments used by the Companies and items hedged:

Hedging instruments:

- Currency swap contracts
- Interest rate swap contracts

Hedged items:

- Bank loans and interest on bank loans

**(12) Net Income and Dividends per Share**

Basic net income per share is computed based on the net income available for distribution to shareholders of common stock and the weighted average number of shares outstanding for respective years. Diluted net income per share is computed based on the net income available for distribution to shareholders of common stock and the weighted average number of shares outstanding for respective years after adjusting the

dilutive effect of shares of common stock to be issued upon the conversion of convertible bonds.

Cash dividends per share are computed based on dividends declared for each year.

**(13) Consumption Tax**

Consumption tax is an indirect tax levied on domestic consumption goods and services at the flat rate of 5%. Subject transactions are recorded at the amounts net of consumption taxes which are withheld as assets/liabilities until tax filing.

**(14) Appropriation of Retained Earnings**

Appropriation of retained earnings is recorded when it is actually approved by the Board of Directors.

**(15) Change in Presentation****Consolidated Statements of Cash Flows**

“Increase (decrease) in allowance for doubtful accounts,” “Increase (decrease) in allowance for sales returns,” “Increase in allowance for books unsold,” “Increase in reserve for sales promotion” and “Loss on write-down of marketable securities and investment securities” under cash flows from operating activities, which had been reported separately in the fiscal year ended February 29, 2012, is included in “Other” since amount-of-money importance is scarce in the fiscal year ended February 28, 2013. The consolidated statement of cash flows for the fiscal year ended February 29, 2012, has been reclassified accordingly, resulting in “Increase (decrease) in allowance for doubtful accounts” being ¥(30) million, “Increase (decrease) in allowance for sales returns” being ¥2 million, “Increase in allowance for books unsold” being ¥14 million, “Increase in reserve for sales promotion” being ¥(1) million and “Loss on write-down of marketable securities and investment securities” being ¥477 million, lower than previously reported, reflecting the separate reporting of the same amount as “Other.”

**3. Accounting Standards Issued But Not Yet Applied****(1) Revision of “Handling in Present Audit Concerning Depreciation” (The Japanese Institute of Certified Public Accountants, Auditing and Assurance Practice Committee Report No. 81, revised on February 14, 2012)****a) Outline**

A revision was made to comply with the revision of the declining balance method of depreciation for depreciable assets under the “Act for Partial Revision of Income Tax Act, etc., for the Purpose of Creating a Taxation System Responding to Changes in Economic and Social Structures” (Act No. 114 of 2011, December 2, 2011).

**b) Timing of application**

The Company will adopt these accounting standards effective from the fiscal year ending February 28, 2014.

**c) Effects of application of accounting standards**

The effects of application of these accounting standards on the consolidated financial statements are currently being estimated.

**(2) The “Accounting Standard for Retirement Benefits” (ASBJ Statement No. 26 of May 17, 2012) and “Guidance on Accounting Standard for Retirement Benefits” (ASBJ Guidance No. 25 of May 17, 2012)****a) Outline**

Under the revised accounting standard, actuarial gains and losses and past service costs shall be recognized within net assets in the consolidated balance sheets, after adjusting tax effects, and the funding deficit or surplus shall be recognized as a liability or asset. In addition, the new accounting standard allows a choice for the method of attributing expected benefits to periods of either the straight-line basis or plan’s benefit formula basis. In addition, the determination method of discount rate was amended.

**b) Timing of application**

The Company will adopt these accounting standards effective from the fiscal year ending February 28, 2015. However, the Company will adopt the method of period attribution for retirement benefits effective from the fiscal year ending February 29, 2016.

**c) Effect of application of accounting standards**

The effect of application of these accounting standards on the consolidated financial statements is currently being estimated.

#### **4. Change in Accounting Policy**

##### **(1) Accounting Standard for Construction Contracts**

Effective from the year ended February 28, 2011, the Companies adopted “Accounting Standard for Construction Contracts” (Statement No. 15 issued by ASBJ on December 27, 2007) and “Implementation Guidance on Accounting Standard for Construction Contracts” (Guidance No. 18 issued by ASBJ on December 27, 2007). Previously, the Companies used a completed contracts basis with regard to the recognition of the revenue on construction contracts.

In accordance with this new accounting standard, the percentage of completion method is used for the construction contracts which commenced during this fiscal year, and the progress can be reasonably measured at the end of the fiscal year (the proportion of the cost method is mainly used to estimate the progress of such construction projects). The completed contract method applies to other construction projects.

This change has no effect on profit and loss.

##### **(2) Accounting Standard for Asset Retirement Obligations**

Effective from the year ended February 29, 2012, the Companies adopted “Accounting Standard for Asset Retirement Obligations” (Statement No. 18 issued by ASBJ on March 31, 2008) and “Guidance on Accounting Standard for Asset Retirement Obligations” (Guidance No. 21 issued by ASBJ on March 31, 2008). As a result, operating income and income before income taxes and minority interests decreased by 27 million yen (333 thousand U.S. dollars) and 172 million yen (2,123 thousand U.S. dollars), respectively, for the year ended February 29, 2012.

##### **(3) Accounting Standard for Business Combinations**

Effective from the year ended February 29, 2012, the Companies adopted “Accounting Standard for Business Combinations” (Statement No. 21 issued by ASBJ on December 26, 2008), “Accounting Standard for Consolidated Financial Statements” (Statement No. 22 issued by ASBJ on December 26, 2008), “Partial Amendments to Accounting Standard for Research and Development Costs” (Statement No. 23 issued by ASBJ on December 26, 2008), “Accounting Standard for Business Divestitures” (Statement No. 7 issued by ASBJ on December 26, 2008), “Accounting Standard for Equity Method of Accounting for Investments” (Statement No. 16 issued by ASBJ on December 26, 2008) and “Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures” (Guidance No. 10 issued by ASBJ on December 26, 2008).

##### **(4) Accounting Standard for Consolidated Financial Statements**

Effective from the year ended February 29, 2012, the Companies adopted “Cabinet Office Ordinance Partially Revising the Rules on Financial Statement Terminology, Forms and Preparation Method, etc.” (Ordinance No. 5 issued by Cabinet Office on March 24, 2009) based on “Accounting Standard for Consolidated Financial Statements” (Statement No. 22 issued by ASBJ on December 26, 2008). As a result,

“Income before minority interests” is presented on the consolidated financial statements for the years ended February 28, 2011, February 29, 2012 and February 28, 2013, respectively.

##### **(5) Accounting Standard for Presentation of Comprehensive Income**

Effective from the year ended February 29, 2012, the Companies adopted “Accounting Standard for Presentation of Comprehensive Income” (Statement No. 25 issued by ASBJ on June 30, 2010).

As a result, the Companies presented the consolidated statement of comprehensive income in the consolidated financial statement for the year ended February 29, 2012.

In addition, the consolidated balance sheets as of February 28, 2011 and the consolidated statements of changes in net assets for the years ended February 28, 2011 have been modified to conform to the new presentation rules of 2012.

##### **(6) Introduction of Employee Stock Ownership Plan Trust (“ESOP Trust”)**

The Company resolved to introduce the “ESOP Trust Utilizing Employee Shareholding Association” (“the Plan”) on June 29, 2011.

The Company introduced the Plan for the purpose of increasing employees’ motivation toward work and raising their awareness of the importance of proactively participating in management. The Company envisages that its corporate value will be improved as a result.

During a predetermined period the ESOP Trust acquired using borrowed funds a number of the Company’s shares that the Employee Shareholding Association was expected to acquire over a set period in the future.

The Company transferred 96,500 treasury shares to the ESOP Trust on August 4, 2011.

The Company compensates for the losses in the ESOP Trust account, resulting from the purchase and selling of the Company’s stock and all other liabilities of the ESOP Trust; therefore, the Company accounts for the transactions involving the ESOP Trust as its own. Accordingly, the Company’s stock in the ESOP Trust account, other assets, liabilities, revenues and expenses were stated in the Company’s consolidated financial statements.

The ESOP Trust owned 239,400 shares of common stock of the Company as of February 29, 2012.

##### **(7) Accounting Standard for Accounting Changes and Error Corrections**

Effective from the year ended February 28, 2013, for accounting changes and correction of errors contained in past reports, “Accounting Changes and Error Corrections” (ASBJ Statement No. 24, December 4, 2009) and “Guidance on Accounting Changes and Error Corrections” (ASBJ Guidance No. 24, December 4, 2009) have been applied.

### 5. Japanese Yen Amounts and U.S. Dollar Amounts

The consolidated financial statements presented herein are expressed in Japanese yen, which are stated in millions of yen by discarding fractional amounts less than one million yen. Therefore, their total or subtotal amounts do not necessarily agree with the aggregate sum of such account balances.

Solely for the convenience of readers, Japanese yen amounts shown

in the consolidated financial statements are translated into U.S. dollar amounts at the exchange rate of ¥93 = U.S.\$1, the prevailing exchange rate on February 28, 2013. The translations should not be construed as representations that the Japanese yen amounts have been, could have been, can be or could in the future be converted into U.S. dollars at that rate or any other rate.

### 6. Consolidated Statements of Cash Flows

Cash and cash equivalents in the consolidated statements of cash flows for the years ended February 28, 2011, February 29, 2012 and February 28, 2013 consist of the following:

	Millions of yen			Thousands of U.S. dollars
	2011	2012	2013	2013
Cash and time deposits	¥12,253	¥7,437	¥10,463	\$112,505
Cash and cash equivalents	¥12,253	¥7,437	¥10,463	\$112,505

### 7. Loss on Disaster

Loss on disaster represents the costs and expenses that were incurred as a result of the Great East Japan Earthquake which occurred on March 11, 2011.

### 8. Loss on Store Closing

Major items in loss on store closing for the years ended February 28, 2011, February 29, 2012 and February 28, 2013 are as follows:

	Millions of yen			Thousands of U.S. dollars
	2011	2012	2013	2013
Loss on store closing	¥248	¥—	¥—	\$—
Impairment loss	92	—	—	—
Total	¥341	¥—	¥—	\$—

### 9. Impairment of Fixed Assets

The Companies recorded impairment losses on the following asset groups for the years ended February 28, 2011, February 29, 2012 and February 28, 2013.

For the year ended February 28, 2011

Location	Use	Classification	Millions of yen 2011
PARCO CO., LTD. Shinsaibashi PARCO [Chuo-ku, Osaka City]	Store	Buildings, etc.	¥87
PARCO CO., LTD. Other	Store	Buildings, etc.	¥ 5
NEUVE A CO., LTD. Other [Misato-City, Saitama, etc.]	Store	Buildings, etc.	¥38

The Companies group their fixed assets based on managerial accounting segment.

The Company decided to rebuild the main building of Shinsaibashi PARCO into a new shopping complex as part of its strategy of innovating existing complexes, which was one of the strategies of the Company's then new medium-term business plan. The Company scheduled the

closure of Shinsaibashi PARCO for September 2011. Loss on store closing of 239 million yen was recorded, which included including 87 million yen in impairment loss for "Buildings, etc." The book value of "Buildings, etc." was written off to zero as continuous operating losses (See Note 8).

The book values of other assets which incurred continuous operating losses were written off to recoverable amounts. An impairment loss of 43 million yen for “Buildings, etc.” was recorded. The recoverable amount of a “Store” is computed based on its selling price.

For the year ended February 29, 2012

Location	Use	Classification	Millions of yen	
				2012
PARCO (Singapore) Pte Ltd PARCO Marina Bay [Singapore]	Store	Buildings, etc.		¥331
NEUVE A CO., LTD. Other [Chuo-ku, Sapporo City, etc.]	Store	Buildings, etc.		¥ 20

The Companies group their fixed assets based on the managerial accounting segment.

The book value of PARCO Marina Bay which incurred continuous operating losses was written off to recoverable amounts. An impairment loss of 331 million yen for “Buildings, etc.” was recorded.

The book values of other assets which incurred continuous operating losses were written off to recoverable amounts. An impairment loss of 20 million yen for “Buildings, etc.” was recorded.

The recoverable amount of a “Store” is computed based on its selling price and value in use.

For the year ended February 28, 2013

Location	Use	Classification	Millions of yen	Thousands of U.S. dollars
			2013	2013
PARCO (Singapore) Pte Ltd PARCO Marina Bay [Singapore]	Store	Buildings, etc.	¥82	\$882
NEUVE A CO., LTD. Other [Tama City, Tokyo, etc.]	Store	Buildings, etc.	¥67	\$720

The Companies group their fixed assets based on the managerial accounting segment.

The book value of PARCO Marina Bay which incurred continuous operating losses was written off to recoverable amounts. An impairment loss of 82 million yen (882 thousand U.S. dollars) for “Buildings, etc.” was recorded.

The book values of other assets which incurred continuous operating losses were written off to recoverable amounts. An impairment loss of 67 million yen (720 thousand U.S. dollars) for “Buildings, etc.” was recorded.

The recoverable amount of a “Store” is computed based on its selling price and value in use.

## 10. Securities

### Available-for-sale Securities

Acquisition costs and book values of Available-for-sale Securities with available fair market values are as follows:

As of February 28, 2011	Millions of yen		
	Acquisition cost	Book value	Difference
Book value exceeding acquisition cost:			
Equity shares	¥ 487	¥1,094	¥ 606
Book value not exceeding acquisition cost:			
Equity shares	968	825	(143)
Total	¥1,456	¥1,919	¥ 463
As of February 29, 2012	Millions of yen		
	Acquisition cost	Book value	Difference
Book value exceeding acquisition cost:			
Equity shares	¥ 476	¥1,066	¥ 590
Book value not exceeding acquisition cost:			
Equity shares	980	701	(279)
Total	¥1,456	¥1,767	¥ 311

As of February 28, 2013	Millions of yen		
	Acquisition cost	Book value	Difference
Book value exceeding acquisition cost:			
Equity shares	¥ 687	¥1,484	¥ 797
Book value not exceeding acquisition cost:			
Equity shares	962	780	(182)
Total	¥1,649	¥2,265	¥ 615

As of February 28, 2013	Thousands of U.S. dollars		
	Acquisition cost	Book value	Difference
Book value exceeding acquisition cost:			
Equity shares	\$ 7,387	\$15,957	\$ 8,570
Book value not exceeding acquisition cost:			
Equity shares	10,344	8,387	(1,957)
Total	\$17,731	\$24,355	\$ 6,613

Available-for-sale Securities sold are as follows:

	Millions of yen			Thousands of U.S. dollars
	2011	2012	2013	2013
Total sold	¥—	¥2,139	¥322	\$3,462
Total gain on sales	—	169	286	3,075
Total loss on sales	—	—	0	0

#### Impairment Loss on Securities

Impairment losses of 1 million yen (11 thousand U.S. dollars) were recognized in the consolidated statements of income as “Loss on write-down of investment securities” as to available-for-sale securities for the year ended February 28, 2013.

When the fair market value of Available-for-sale Securities has declined by more than 30% from their acquisition costs, the impairment

losses are recognized by taking into account recoverability and other factors.

For Available-for-sale Securities without fair market value, when the value of those securities has significantly declined from their acquisition costs, the impairment losses are recognized by taking into account recoverability and other factors.

#### 11. Leasehold Deposits

Leasehold deposits are those deposits furnished by the Companies in accordance with customary business practices in Japan. In connection with the leasing of store buildings, lessees are required to furnish lessors with deposits in an amount deemed sufficient to secure the lease contracts

and the annual lease rental payments.

The leasehold deposits are normally non-interest-bearing and are refundable only when the lease contracts are terminated.

#### 12. Short-Term Bank Loans and Long-Term Debt

The weighted average interest rates for short-term bank loans were 0.95%, 0.55% and 0.73% for the years ended February 28, 2011, February 29, 2012 and February 28, 2013, respectively.

Breakdown of long-term debt is as follows:

	Millions of yen			Thousands of U.S. dollars
	2011	2012	2013	2013
Long-term loans from banks including current portion	¥ 54,253	¥ 38,387	¥36,356	\$390,925
Weighted average interest rates of the above long-term loans	1.59%	1.52%	1.06%	—
Bonds payable:				
1.20% straight bonds due 2014	¥ 3,000	¥ 2,000	¥ 1,000	\$ 10,753
0.75% convertible bonds with stock acquisition rights due 2015	15,000	15,000	—	—
	72,253	55,387	37,356	401,677
Less: Portion due within 1 year	(17,022)	(17,822)	(6,959)	(74,828)
	¥ 55,231	¥ 37,565	¥30,397	\$326,849



The details of convertible bonds with stock acquisition rights are as follows:

Stock to be issued	Common stock
Issue price for the stock acquisition rights	Gratis
Stock price to be issued	¥790 per stock (U.S.\$8)
Total issue price	¥15,000 million (U.S.\$161 million)
Total stock amounts raised from the exercise of the stock acquisition rights	¥15,000 million (U.S.\$161 million)
Ratio of the stock acquisition rights granted	100%
Exercise period of the stock acquisition rights	From September 22, 2010 through September 4, 2015
Matters relating to substitutive payments for the rights	Upon exercising one stock acquisition right, it is deemed that the required funds to redeem the right are fully invested. Additionally, the amount invested upon exercising the stock acquisition right equals the same amount as the bond.

The Companies' assets pledged as collateral for short-term and long-term loans from banks as of February 28, 2013 are as follows:

	Millions of yen	Thousands of U.S. dollars
Net book value of assets pledged as collateral:		
Buildings	¥ 1,757	\$ 18,892
Buildings and structures in trust	13,260	142,581
Machinery and equipment in trust	7	75
Tools, furniture and fixtures in trust	73	785
Land	2,039	21,925
Land in trust	10,898	117,183
	¥28,037	\$301,473

Secured liabilities as of February 28, 2013 are as follows:

	Millions of yen	Thousands of U.S. dollars
Short-term loans	¥ 164	\$ 1,763
Long-term loans	8,000	86,022
	¥8,164	\$87,785

The aggregate annual maturities of long-term debt as of February 28, 2013 are as follows:

Year ending February 28/29,	Millions of yen	Thousands of U.S. dollars
2014	¥ 6,959	\$ 74,828
2015	5,700	61,290
2016	3,750	40,323
2017	2,700	29,032
2018 and thereafter	18,247	196,204
	¥37,356	\$401,677

### 13. Asset Retirement Obligations

#### (1) Asset Retirement Obligations Recognized in the Consolidated Balance Sheet as of February 29, 2012 and February 28, 2013

i) Overview of the asset retirement obligations

Expenses for removing asbestos used in buildings and expenses for the obligation to remove the facilities from leased real estate.

ii) Basis for calculating the asset retirement obligations

Asset retirement obligations are calculated on the assumption of prospective usable years of 10 to 20 years and discount rates of 1.236 to 2.050%.

iii) Changes in the asset retirement obligations for the year ended February 28, 2013

	Millions of yen		Thousands of U.S. dollars
	2012	2013	2013
Balance at beginning of year	¥278	¥313	\$3,366
Increase by acquisition of property and equipment	34	14	151
Adjustment with the passing of time	3	4	43
Decrease by fulfillment of obligation	(2)	(14)	(151)
Foreign currency translation differences	(0)	3	32
Balance at end of year	¥313	¥320	\$3,441

Effective from the year ended February 29, 2012, the Companies adopted “Accounting Standard for Asset Retirement Obligations” (Statement No. 18 issued by ASBJ on March 31, 2008) and “Guidance on Accounting Standard for Asset Retirement Obligations” (Guidance No. 21 issued by ASBJ on March 31, 2008).

## (2) Asset Retirement Obligations not Recognized in the Consolidated Balance Sheet as of February 28, 2013

In leased real estate, the Companies have entered into real estate lease contracts and are obligated to the landlords to dismantle the facilities upon exit. However, sufficient information is not available to reasonably estimate the obligation amount due to uncertainty about the timing of settlement or lack of plan to settle. Thus asset retirement obligations are not recognized except for those mentioned in (1) above.

## 14. Leases

### (1) Finance Leases

The Companies account for finance leases that commenced on and before February 28, 2009 and which did not transfer ownership in the same method as operating leases.

Pro forma information on leased property, such as acquisition costs, accumulated depreciation, net book value and future minimum lease payments under finance leases that do not transfer the ownership of the leased assets to lessees is as follows (See Note 2(9)):

	Millions of yen		
	Acquisition costs	Accumulated depreciation	Net book value
As of February 28, 2011			
Machinery and equipment	¥1,169	¥744	¥424
Other	191	167	24
Total	¥1,360	¥912	¥448
As of February 29, 2012			
Machinery and equipment	¥907	¥698	¥209
Other	43	38	5
Total	¥951	¥736	¥215
As of February 28, 2013			
Machinery and equipment	¥533	¥474	¥59
Other	29	29	—
Total	¥563	¥504	¥59
As of February 28, 2013			
Machinery and equipment	\$5,731	\$5,097	\$634
Other	312	312	—
Total	\$6,054	\$5,419	\$634

	Millions of yen			Thousands of U.S. dollars
	2011	2012	2013	2013
Future minimum lease payments:				
Due within 1 year	¥238	¥156	¥59	\$634
Due after 1 year	221	63	1	11
Total	¥460	¥219	¥60	\$645

Lease expenses, depreciation equivalents and interest expense equivalents are as follows:

	Millions of yen			Thousands of U.S. dollars
	2011	2012	2013	2013
Lease expenses	¥294	¥224	¥195	\$2,097
Depreciation equivalents	287	216	152	1,634
Interest expense equivalents	7	3	2	22

Depreciation equivalents are calculated on a straight-line basis over the lease terms without residual value.

Interest expense equivalents are computed using the interest method based on the differences between the lease payments and acquisition costs of each asset, which are considered to be interest-bearing.

## (2) Future Minimum Lease Payments under Operating Leases

	Millions of yen			Thousands of U.S. dollars
	2011	2012	2013	2013
Future minimum lease payments:				
Due within 1 year	¥ 65	¥59	¥20	\$215
Due after 1 year	71	12	8	86
Lease rental expenses	¥136	¥71	¥29	\$312

## (3) Impairment Loss

No impairment loss was allocated to leased assets for the years ended February 28, 2011, February 29, 2012 and February 28, 2013.

## 15. Financial Instruments

Effective from the year ended February 28, 2011, the Companies adopted the “Accounting Standard for Financial Instruments” (Statement No. 10 issued by ASBJ on March 10, 2008) and the “Implementation Guidance for the Disclosure of Fair Value, etc. of Financial Instruments” (Guidance No. 19 issued by ASBJ on March 10, 2008).

### (1) Matters Regarding the Conditions of Financial Instruments

#### i) Policy on financial instruments

The Companies procure necessary funding mainly from loans from financial institutions and bonds. Occasional idle funds are invested in financial instruments of high grade. The Companies use derivatives transactions in order to mitigate interest rate fluctuation risk and exchange rate fluctuation risk, but they do not enter into speculative transactions.

#### ii) Details of financial instruments and their risks

Trades receivable namely notes receivable and accounts receivable are exposed to credit risk of customers. Leasehold deposits are exposed to credit risk of the land owners.

The Companies hold investment securities of business related parties. Certain securities are exposed to market price fluctuation risk.

The majority of trades payable, namely notes payable and accounts payable, have due dates within one year.

Loans, bonds and convertible bonds with stock acquisition rights are used to procure funds to invest mainly in facilities. Loans with variable interest rates are exposed to interest rate fluctuation risk. Thus for, long-term loans, the Companies use interest rate swaps to avoid such risk and minimize the interest expense. In addition, the Companies are exposed to exchange rate fluctuation risk with respect to foreign currency loans. To avoid such risk, the Companies use currency swaps.

#### iii) Risk management of financial instruments

##### 1. Management of credit risk (Breach of contracts by the customers, etc.)

As per the Company’s internal accounting regulations, the Company limits its exposures to credit risk by controlling the due dates and balances for each customer, and by making periodical checks of the credit conditions of customers. The same management system is used for the consolidated subsidiaries.

In order to avoid credit risk, the Companies enter into derivative transactions with financial institutions with high credit ratings.

2. Management of interest fluctuation risk and exchange rate fluctuation risk

The Company utilizes derivative transactions (interest rate swap transactions) in order to mitigate interest fluctuations for loans payable and to attempt to fix the amounts of interest payments.

Moreover, in regards to a debt denominated in foreign currency, in order to avoid the currency risks and the foreign exchange risk of an interest expense, interest rate and currency swap dealings are used to fix principal and interest.

The approval decisions of swap transactions are made at a management round-table. As for the consolidated subsidiaries,

they conform to the accounting rules set by each subsidiary.

3. Management of market price fluctuation risk

As for investment securities, the Companies periodically review the market prices and financial positions of the issuers and make modifications accordingly, taking their business relations into consideration.

4. Management of insolvency risk on procurement of funds (Risk of inability to make timely payment by due date)

In the Companies, the finance divisions manage insolvency risk, by making and modifying the funding plans to maintain financial solvency based on reports from each department, by maintaining liquidity.

## (2) Fair Values of Financial Instruments

The book value, fair value and their differences are as follows. The financial instruments for which fair value is considered to be difficult to obtain are excluded. (See Note II below)

As of February 28, 2011	Millions of yen		
	Book value	Fair value	Difference
(i) Cash and time deposits	¥12,253	¥12,253	¥ —
(ii) Notes and accounts receivable—trade	7,252	7,252	—
(iii) Investment securities	1,919	1,919	—
(iv) Leasehold deposits	12,762	12,280	(481)
<b>Total</b>	<b>¥34,187</b>	<b>¥33,705</b>	<b>¥(481)</b>
(i) Short-term bank loans	¥ 1,194	¥ 1,194	¥ —
(ii) Current portion of long-term debt	17,022	17,022	—
(iii) Notes and accounts payable—trade	16,118	16,118	—
(iv) Long-term bank loans	38,231	38,842	611
(v) Bonds	2,000	1,978	(21)
(vi) Convertible bonds with stock acquisition rights	15,000	14,548	(451)
<b>Total</b>	<b>¥89,565</b>	<b>¥89,704</b>	<b>¥ 139</b>
Derivative transactions	¥ —	¥ —	¥ —

As of February 29, 2012	Millions of yen		
	Book value	Fair value	Difference
(ii) Cash and time deposits	¥ 7,437	¥ 7,437	¥ —
(ii) Notes and accounts receivable—trade	7,686	7,686	—
(iii) Investment securities	2,097	1,927	(170)
(iv) Leasehold deposits	11,415	11,189	(226)
<b>Total</b>	<b>¥28,637</b>	<b>¥28,240</b>	<b>¥(396)</b>
(i) Short-term bank loans	¥ 4,149	¥ 4,149	¥ —
(ii) Current portion of long-term debt	17,822	17,822	—
(iii) Notes and accounts payable—trade	16,526	16,526	—
(iv) Long-term bank loans	21,565	21,474	(90)
(v) Bonds	1,000	993	(6)
(vi) Convertible bonds with stock acquisition rights	15,000	14,737	(262)
<b>Total</b>	<b>¥76,062</b>	<b>¥75,701</b>	<b>¥(360)</b>
Derivative transactions	¥ —	¥ —	¥ —

As of February 28, 2013	Millions of yen		
	Book value	Fair value	Difference
(i) Cash and time deposits	¥10,463	¥10,463	¥ —
(ii) Notes and accounts receivable—trade	7,675	7,675	—
(iii) Investment securities	2,265	2,265	—
(iv) Leasehold deposits	9,965	9,911	(53)
<b>Total</b>	<b>¥30,369</b>	<b>¥30,315</b>	<b>¥(53)</b>
(i) Short-term bank loans	¥ 19	¥ 19	¥ —
(ii) Current portion of long-term debt	6,959	6,959	—
(iii) Notes and accounts payable—trade	16,278	16,278	—
(iv) Long-term bank loans	30,397	30,752	355
(v) Bonds	—	—	—
(vi) Convertible bonds with stock acquisition rights	—	—	—
<b>Total</b>	<b>¥53,653</b>	<b>¥54,009</b>	<b>¥355</b>
Derivative transactions	¥ —	¥ —	¥ —

As of February 28, 2013	Thousands of U.S. dollars		
	Book value	Fair value	Difference
(i) Cash and time deposits	\$112,505	\$112,505	\$ —
(ii) Notes and accounts receivable—trade	82,527	82,527	—
(iii) Investment securities	24,355	24,355	—
(iv) Leasehold deposits	107,151	106,570	(570)
<b>Total</b>	<b>\$326,548</b>	<b>\$325,968</b>	<b>\$ (570)</b>
(i) Short-term bank loans	\$ 204	\$ 204	\$ —
(ii) Current portion of long-term debt	74,828	74,828	—
(iii) Notes and accounts payable—trade	175,032	175,032	—
(iv) Long-term bank loans	326,849	330,667	3,817
(v) Bonds	—	—	—
(vi) Convertible bonds with stock acquisition right	—	—	—
<b>Total</b>	<b>\$576,914</b>	<b>\$580,742</b>	<b>\$3,817</b>
Derivative transactions	\$ —	\$ —	\$ —

Note: I. Calculations of the fair values for financial instruments and items regarding security instruments and derivative transactions

Assets

- (i) Cash and time deposits (ii) Notes and accounts receivable—trade

Since these accounts are to be settled in the short-term, the fair values and the book values are similar. Therefore, fair values of these accounts are stated by the applicable book values.

- (iii) Investment securities

These are stated at market prices.

- (iv) Leasehold deposits

These values are calculated by discounting the present value of the future cash flow by a risk-free rate.

Liabilities

- (i) Short-term bank loans (ii) Current portion of long-term debt (iii) Notes and accounts payable—trade

Since these accounts are to be settled in a short-term, the fair values and the book values are similar. Therefore, fair values of these accounts are stated by the applicable book values.

- (iv) Long-term bank loans

Fair values are calculated by discounting the rate at which the Companies assume to pay to borrow a new loan. In the previous consolidated accounting year as for long-term loans with variable interest rates, the interest rate swapping exception rule was applied. As such, the total amount of the principal and interest calculated by an applicable interest rate swap was discounted by a reasonable borrowing rate which may be used to make a similar loan. In regards to long-term loans, to which the interest rate swapping exception rule was applied or a currency swap was assigned in the consolidated-financial-accounting fiscal year ended February 28, 2013, the total amount of the principal and interest calculated by an applicable interest rate swap and currency swap were discounted by a reasonable borrowing rate which may be used to make a similar loan. Long-term bank loans are included in long-term debt in the balance sheets.

- (v) Bonds (vi) Convertible bonds with stock acquisition rights

These fair values have their present value calculated by discounting the principal and interest by applicable residual term and credit risk. Bonds are included in long-term debt in the balance sheets.

Derivative transactions

The fair values of interest rate swaps or currency swaps are included in the fair value of long-term debt since such interest rate swaps and currency swaps are treated together with long-term debt being hedged.

Note: II. Financial instruments for which fair value is considered to be difficult to obtain are as follows:

As of February 28, 2011		Millions of yen
Classification		Book value
Non-listed securities		¥ 3,053
Leasehold deposits		30,336
Guarantee deposits received from tenants		36,159
As of February 29, 2012		Millions of yen
Classification		Book value
Non-listed securities		¥ 605
Leasehold deposits		29,584
Guarantee deposits received from tenants		34,419
As of February 28, 2013		Millions of yen
Classification		Book value
Non-listed securities		¥ 659
Leasehold deposits		25,666
Guarantee deposits received from tenants		33,377
As of February 28, 2013		Thousands of U.S. dollars
Classification		Book value
Non-listed securities		\$ 7,086
Leasehold deposits		275,978
Guarantee deposits received from tenants		358,892

These items have no market price and it is impossible to estimate future cash flow. Therefore, they are excluded from the table above.

Note: III. The redemption schedule for receivables is as follows:

As of February 28, 2011		Millions of yen			
	Within 1 year	Over 1 year, within 5 years	Over 5 years, within 10 years	Over 10 years	
Cash and time deposits	¥12,253	¥ —	¥ —	¥ —	
Notes and accounts receivable—trade	7,252	—	—	—	
Leasehold deposits	11	6,911	4,015	1,824	
<b>Total</b>	<b>¥19,516</b>	<b>¥6,911</b>	<b>¥4,015</b>	<b>¥1,824</b>	
As of February 29, 2012		Millions of yen			
	Within 1 year	Over 1 year, within 5 years	Over 5 years, within 10 years	Over 10 years	
Cash and time deposits	¥ 7,437	¥ —	¥ —	¥ —	
Notes and accounts receivable—trade	7,686	—	—	—	
Leasehold deposits	—	6,799	3,610	1,006	
<b>Total</b>	<b>¥15,124</b>	<b>¥6,799</b>	<b>¥3,610</b>	<b>¥1,006</b>	
As of February 28, 2013		Millions of yen			
	Within 1 year	Over 1 year, within 5 years	Over 5 years, within 10 years	Over 10 years	
Cash and time deposits	¥10,463	¥ —	¥ —	¥ —	
Notes and accounts receivable—trade	7,675	—	—	—	
Leasehold deposits	—	6,071	3,164	729	
<b>Total</b>	<b>¥18,138</b>	<b>¥6,071</b>	<b>¥3,164</b>	<b>¥729</b>	
As of February 28, 2013		Thousands of U.S. dollars			
	Within 1 year	Over 1 year, within 5 years	Over 5 years, within 10 years	Over 10 years	
Cash and time deposits	\$112,505	\$ —	\$ —	\$ —	
Notes and accounts receivable—trade	82,527	—	—	—	
Leasehold deposits	—	65,280	34,022	7,839	
<b>Total</b>	<b>\$195,032</b>	<b>\$65,280</b>	<b>\$34,022</b>	<b>\$7,839</b>	

Note: IV. The redemption schedule for long-term bank loans, bonds and convertible bonds is as follows:

	Millions of yen			
	Within 1 year	Over 1 year, within 5 years	Over 5 years, within 10 years	Over 10 years
As of February 28, 2011				
Long-term bank loans	¥—	¥31,031	¥7,200	¥—
Bonds	—	2,000	—	—
Convertible bonds with stock acquisition rights	—	15,000	—	—
<b>Total</b>	<b>¥—</b>	<b>¥48,031</b>	<b>¥7,200</b>	<b>¥—</b>
	Millions of yen			
	Within 1 year	Over 1 year, within 5 years	Over 5 years, within 10 years	Over 10 years
As of February 29, 2012				
Long-term bank loans	¥—	¥15,965	¥5,600	¥—
Bonds	—	1,000	—	—
Convertible bonds with stock acquisition rights	—	15,000	—	—
<b>Total</b>	<b>¥—</b>	<b>¥31,965</b>	<b>¥5,600</b>	<b>¥—</b>
	Millions of yen			
	Within 1 year	Over 1 year, within 5 years	Over 5 years, within 10 years	Over 10 years
As of February 28, 2013				
Long-term bank loans	¥5,959	¥23,750	¥6,600	¥47
Bonds	1,000	—	—	—
<b>Total</b>	<b>¥6,959</b>	<b>¥23,750</b>	<b>¥6,600</b>	<b>¥47</b>
	Thousands of U.S. dollars			
	Within 1 year	Over 1 year, within 5 years	Over 5 years, within 10 years	Over 10 years
As of February 28, 2013				
Long-term bank loans	\$64,075	\$255,376	\$70,968	\$505
Bonds	10,753	—	—	—
<b>Total</b>	<b>\$74,828</b>	<b>\$255,376</b>	<b>\$70,968</b>	<b>\$505</b>

## 16. Retirement Benefit Plan

The breakdown of reserve for retirement benefits presented in the accompanying balance sheets is as follows:

	Millions of yen			Thousands of U.S. dollars
	2011	2012	2013	2013
Retirement benefit obligation	¥(4,767)	¥(4,858)	¥(4,887)	\$(52,548)
Fair value of pension assets	2,347	2,418	2,709	29,129
Unrecognized prior service costs	(502)	(334)	(206)	(2,215)
Unrecognized actuarial differences	907	757	353	3,796
Unrecognized transition amount arising from adopting the new standard	503	398	293	3,151
<b>Reserve for retirement benefits</b>	<b>¥(1,510)</b>	<b>¥(1,617)</b>	<b>¥(1,737)</b>	<b>\$(18,677)</b>

The breakdown of retirement benefit expenses included in the accompanying statements of income is as follows:

	Millions of yen			Thousands of U.S. dollars
	2011	2012	2013	2013
Service costs	¥ 268	¥ 264	¥ 264	\$ 2,839
Interest costs	96	96	95	1,022
Expected return on plan assets	(49)	(46)	(48)	(516)
Amortization of unrecognized prior service costs	(168)	(168)	(127)	(1,366)
Amortization of unrecognized actuarial differences	270	222	222	2,387
Amortization of unrecognized transition amount arising from adopting the new standard	105	105	105	1,129
Premium severance pay	30	35	64	688
Prepaid retirement benefit	110	115	124	1,333
<b>Retirement benefit expenses</b>	<b>¥ 663</b>	<b>¥ 625</b>	<b>¥ 699</b>	<b>\$ 7,516</b>

The discount rate and rate of expected return on plan assets used are mainly 2.0% for 2011, 2012 and 2013. Prior service costs and actuarial differences are amortized on a straight-line basis mainly over 11 years

for 2011, 2012 and 2013. The unrecognized transition amount arising from adopting the new standard is amortized on a straight-line basis over a period of 15 years (See Note 2(10)).

## 17. Income Taxes

Japanese income taxes applicable to the Companies consist of corporate tax, inhabitant tax and corporate enterprise tax, which in the aggregate resulted in the statutory tax rate of approximately 40.7% for 2011, 2012 and 2013.

Major items in deferred tax assets and liabilities are as follows:

	Millions of yen			Thousands of U.S. dollars
	2011	2012	2013	2013
Deferred tax assets:				
Adjustments for unrealized gains	¥ 785	¥ 764	¥ 750	\$ 8,065
Accrued bonuses to employees	408	414	392	4,215
Reserve for sales promotion	101	100	108	1,161
Accrued corporate enterprise tax	198	137	275	2,957
Allowance for doubtful accounts	101	82	81	871
Reserve for retirement benefits	661	623	665	7,151
Loss on impairment of fixed assets	257	130	129	1,387
Allowance for loss on store closing	180	—	—	—
Write-down of investment securities	—	178	178	1,914
Asset retirement obligations	—	105	106	1,140
Real estate acquisition taxes payable	112	—	—	—
Loss on cancellation of leasehold contracts	—	—	379	4,075
Others	366	393	390	4,194
Gross deferred tax assets	3,175	2,930	3,458	37,183
Less: Valuation allowance	(176)	(67)	(75)	(806)
Total deferred tax assets	¥2,999	¥2,862	¥3,383	\$36,376
Deferred tax liabilities:				
Valuation difference on available-for-sale securities	199	146	263	2,828
Investment in a subsidiary	70	61	61	656
Asset retirement obligations	—	45	37	398
Others	0	0	0	0
Total deferred tax liabilities	¥ 269	¥ 253	¥ 363	\$ 3,903
Net deferred tax assets	¥2,729	¥2,608	¥3,020	\$32,473

Reconciliations between the statutory tax rates and the effective tax rates are as follows:

	Percentage	
	2011	2013
Statutory tax rates	40.7%	40.7%
Adjustments:		
Permanent non-deductible differences including entertainment expenses	0.7	0.7
Permanent non-taxable differences including dividend income	(0.3)	(0.1)
Inhabitant tax—per capita levy	0.6	0.8
Valuation allowance	1.3	1.2
Others	(0.1)	0.8
Effective income tax rates	43.0%	44.1%



With respect to the fiscal year ended February 29, 2012, the difference between the statutory income tax rate and the effective income tax rate for 2012 was not disclosed as such difference was less than 5%.

Following the promulgation on December 2, 2011 of the “Act for Partial Revision of the Income Tax Act, etc. for the Purpose of Creating Taxation System Responding to Changes in Economic and Social Structures” (Act No. 114 of 2011) and the “Act on Special Measures for Securing Financial Resources Necessary to Implement Measures for Reconstruction Following the Great East Japan Earthquake” (Act No. 117 of 2011), the corporate tax rate is reduced and a special recovery tax is

imposed effective from the year beginning on or after April 1, 2012.

The Companies changed the statutory tax rate to calculate deferred tax assets and liabilities from 40.7% to 38.0% for temporary differences which are expected to reverse during the period from the year beginning on March 1, 2013 to the year beginning on March 1, 2015, and to 35.6% for temporary differences which are expected to reverse from the year beginning on or after March 1, 2016.

As a result, for the year ended February 29, 2012 net deferred tax assets decreased by 128 million yen, and income taxes—deferred increased by 143 million yen.

### 18. Guarantee Deposits Received from Tenants

The Company receives guarantee deposits from tenants of floor space according to Tenant Agreements for specialty stores and shops. These deposits do not bear interest and are refundable when the agreements are terminated.

### 19. Derivative Information

The Companies enter into interest rate swap agreements in order to minimize the risk of fluctuation in interest rates and exchange rates on borrowings. The Companies do not enter into these agreements for trading or speculative purposes.

The Companies establish a risk management system reporting and monitoring transactions involving derivative financial instruments.

The Companies are exposed to the risk of credit loss in the event of a breach of contracts by the counterparties to the interest. However, the Companies do not anticipate a breach of contracts by any of these counterparties, all of whom are financial institutions with high credit ratings.

The derivative instruments for the years ended February 28, 2011, February 29, 2012 and February 28, 2013 are listed below:

			Millions of yen		
			2011		
Method of hedge accounting	Type of transaction	Main subject of a hedge	Contractual prices	Over 1 year contractual prices	Fair value
Special case interest rate swap treatment	Interest rate swap transaction (fluctuating receipts/fixed payments)	Long-term bank loans	¥37,325	¥25,255	(See Note)
			Millions of yen		
			2012		
Method of hedge accounting	Type of transaction	Main subject of a hedge	Contractual prices	Over 1 year contractual prices	Fair value
Special case interest rate swap treatment	Interest rate swap transaction (fluctuating receipts/fixed payments)	Long-term bank loans	¥25,255	¥11,785	(See Note)
			Millions of yen		
			2013		
Method of hedge accounting	Type of transaction	Main subject of a hedge	Contractual prices	Over 1 year contractual prices	Fair value
Appropriation treatment	Currency swaps U.S. dollar receipts/Japanese yen payments	Long-term bank loans	¥ 300	¥ 300	(See Note)
Special case interest rate swap treatment	Interest rate swap transaction (fluctuating receipts/fixed payments)	Long-term bank loans	¥17,885	¥13,000	(See Note)
			Thousands of U.S. dollars		
			2013		
Method of hedge accounting	Type of transaction	Main subject of a hedge	Contractual prices	Over 1 year contractual prices	Fair value
Appropriation treatment	Currency swaps U.S. dollar receipts/Japanese yen payments	Long-term bank loans	\$ 3,226	\$ 3,226	(See Note)
Special case interest rate swap treatment	Interest rate swap transaction (fluctuating receipts/fixed payments)	Long-term bank loans	\$192,312	\$139,785	(See Note)

Note: The above currency swaps and interest rate swap transactions, both of which qualify for hedge accounting and meet specific matching criteria, are not remeasured at market value, but the differences in payments made or received under the swap agreements are recognized and included in interest expense. In addition, the fair values of such currency swaps and interest rate swap transactions are considered part of the fair values of hedged items.

## 20. Segment Information

### For the Years Ended February 28, 2011, February 29, 2012 and February 28, 2013

Effective from the year ended February 29, 2012, the Companies adopted the “Accounting Standard for Disclosures about Segments of an Enterprise and Related Information” (Statement No. 17 issued by ASBJ on March 27, 2009) and “Guidance on Accounting Standard for Disclosures about Segments of an Enterprise and Related information” (Guidance No. 20 issued by ASBJ on March 21, 2008).

#### (1) Summary of Reportable Segments

The reportable segments of the Companies are constituent units of the Companies whose separate financial information is readily available and which are periodically examined by the Board of Directors for the purpose of deciding the allocation of management resources and evaluating the business results.

The Companies have identified four reportable segments: “Shopping

complex,” “Retail,” “Space engineering and management” and “Others.” The “Shopping complex” business is the Companies’ flagship operation.

“Shopping complex” is development, management and operation of shopping centers. “Retail” is sales of accessories and sundry goods. “Space engineering and management” is design and construction of building interiors and providing cleaning, security and maintenance services for buildings. “Others” is entertainment business and internet business.

#### (2) Calculation of Sales, Income or Loss, Assets and Other by Reportable Segment

The accounting method for the business segments that are reported is generally the same as described in Note 2. The segment income figures stated in the reportable segments are based on operating income. The inter-segment sales or the inter-segment figures are based on actual market prices.

	Millions of yen						
For the year ended February 28, 2011:	Shopping complex	Retail	Space engineering and management	Others	Total	Adjustment	Consolidated
<b>Sales:</b>							
External customers	¥244,012	¥ 7,918	¥11,192	¥4,536	¥267,659	¥ —	¥267,659
Inter-segment	—	7,477	7,638	324	15,440	(15,440)	—
<b>Total</b>	<b>244,012</b>	<b>15,396</b>	<b>18,830</b>	<b>4,860</b>	<b>283,100</b>	<b>(15,440)</b>	<b>267,659</b>
Segment income (loss)	¥ 8,573	¥ 332	¥ 385	¥ (122)	¥ 9,169	¥ 49	¥ 9,218
Segment assets	¥216,096	¥ 4,871	¥ 8,976	¥2,315	¥232,260	¥(10,124)	¥222,135
<b>Other:</b>							
Depreciation and amortization	6,286	265	45	104	6,702	(74)	6,628
Loss on impairment of fixed assets	94	39	—	—	133	(2)	130
Increase of property and equipment and intangible assets	41,239	236	7	60	41,544	(15)	41,528

Notes: 1. The adjustments are as follows:

- (1) Adjustment of segment income (loss) of 49 million yen is inter-segment eliminations.
  - (2) Adjustment of segment assets of (10,124) million yen is inter-segment eliminations.
  - (3) Adjustment of depreciation and amortization of (74) million yen is inter-segment eliminations.
  - (4) Adjustment of loss on impairment of fixed assets of (2) million yen is inter-segment eliminations.
  - (5) Adjustment of increase of property and equipment and intangible assets of (15) million yen is inter-segment eliminations.
2. Segment income (loss) is reconciled to operating income in the consolidated statements of income.  
3. Other operating revenue is included in “Sales.”

	Millions of yen						
For the year ended February 29, 2012:	Shopping complex	Retail	Space engineering and management	Others	Total	Adjustment	Consolidated
<b>Sales:</b>							
External customers	¥235,840	¥ 9,526	¥10,802	¥6,320	¥262,490	¥ —	¥262,490
Inter-segment	0	6,878	7,418	310	14,607	(14,607)	—
<b>Total</b>	<b>235,841</b>	<b>16,404</b>	<b>18,221</b>	<b>6,630</b>	<b>277,097</b>	<b>(14,607)</b>	<b>262,490</b>
Segment income	¥ 8,158	¥ 415	¥ 406	¥ 167	¥ 9,148	¥ 20	¥ 9,168
Segment assets	¥202,493	¥ 5,353	¥ 8,062	¥2,503	¥218,413	¥ (9,715)	¥208,697
<b>Other:</b>							
Depreciation and amortization	5,938	333	54	88	6,415	(64)	6,350
Loss on impairment of fixed assets	331	20	—	—	352	(0)	352
Increase of property and equipment and intangible assets	2,890	458	29	13	3,392	(102)	3,289

Notes: 1. The adjustments are as follows:

- (1) Adjustment of segment income of 20 million yen is inter-segment eliminations.
  - (2) Adjustment of segment assets of (9,715) million yen is inter-segment eliminations.
  - (3) Adjustment of depreciation and amortization of (64) million yen is inter-segment eliminations.
  - (4) Adjustment of loss on impairment of fixed assets of (0) million yen is inter-segment eliminations.
  - (5) Adjustment of increase of property and equipment and intangible assets of (102) million yen is inter-segment eliminations.
2. Segment income is reconciled to operating income in the consolidated statements of income.
  3. Other operating revenue is included in "Sales."

Millions of yen

For the year ended February 28, 2013:	Shopping complex	Retail	Space engineering and management	Others	Total	Adjustment	Consolidated
Sales:							
External customers	¥239,806	¥10,477	¥11,250	¥5,978	¥267,512	¥ —	¥267,512
Inter-segment	—	6,697	7,331	308	14,337	(14,337)	—
Total	239,806	17,174	18,581	6,287	281,849	(14,337)	267,512
Segment income	¥ 9,788	¥ 530	¥ 410	¥ 90	¥ 10,819	¥ 5	¥ 10,824
Segment assets	¥199,966	¥ 5,503	¥ 8,129	¥3,097	¥216,697	¥(10,454)	¥206,243
Other:							
Depreciation and amortization	5,614	362	74	129	6,180	(60)	6,120
Loss on impairment of fixed assets	82	68	—	—	151	(1)	149
Increase of property and equipment and intangible assets	3,585	336	125	386	4,433	9	4,442

Thousands of U.S. dollars

For the year ended February 28, 2013:	Shopping complex	Retail	Space engineering and management	Others	Total	Adjustment	Consolidated
Sales:							
External customers	\$2,578,559	\$112,656	\$120,968	\$64,280	\$2,876,473	\$ —	\$2,876,473
Inter-segment	—	72,011	78,828	3,312	154,161	(154,161)	—
Total	2,578,559	184,667	199,796	67,602	3,030,634	(154,161)	2,876,473
Segment income	\$ 105,247	\$ 5,699	\$ 4,409	\$ 968	\$ 116,333	\$ 54	\$ 116,387
Segment assets	\$2,150,172	\$ 59,172	\$ 87,409	\$33,301	\$2,330,075	\$(112,409)	\$2,217,667
Other:							
Depreciation and amortization	60,366	3,892	796	1,387	66,452	(645)	65,806
Loss on impairment of fixed assets	882	731	—	—	1,624	(11)	1,602
Increase of property and equipment and intangible assets	38,548	3,613	1,344	4,151	47,667	97	47,763

Notes: 1. The adjustments are as follows:

- (1) Adjustment of segment income of 5 million yen (54 thousand U.S. dollars) is inter-segment eliminations.
  - (2) Adjustment of segment assets of (10,454) million yen ((112,409) thousand U.S. dollars) is inter-segment eliminations.
  - (3) Adjustment of depreciation and amortization of (60) million yen ((645) thousand U.S. dollars) is inter-segment eliminations.
  - (4) Adjustment of loss on impairment of fixed assets of (1) million yen ((11) thousand U.S. dollars) is inter-segment eliminations.
  - (5) Adjustment of increase of property and equipment and intangible assets of 9 million yen (97 thousand U.S. dollars) is inter-segment eliminations.
2. Segment income is reconciled to operating income in the consolidated statements of income.
  3. Other operating revenue is included in "Sales."

### (3) Related Information

#### i) Products and Services

Information on products and services is omitted since similar information is disclosed in the segment information.

#### ii) Sales and property and equipment information by region

Geographic area information has been omitted since revenue from outside customers in the Japan area and property and equipment

located in the Japan area accounted for more than 90% of revenue from operations on the consolidated income statements and property and equipment on the consolidated balance sheets, respectively.

#### iii) Customer

Customer information has been omitted since revenue from no single customer exceeded 10% of revenue from operations on the consolidated income statements.

**(4) Information Regarding Loss on Impairment of Fixed Assets by Reportable Segment**

Information on loss on impairment of fixed assets is omitted since similar information is disclosed in the segment information.

**(5) Information Regarding Amortization of Goodwill and Remaining Goodwill Balance by Reportable Segment**

Not applicable.

**(6) Information Regarding Gain on Negative Goodwill by Reportable Segment**

Not applicable.

For the years ended February 28, 2011

**(1) Business Segment Information**

	Millions of yen						
For the year ended February 28, 2011:	Shopping complex	Retail	Space engineering and management	Others	Total	Elimination	Consolidated
<b>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
<b>Assets</b>	<b>¥218,218</b>	<b>¥ 4,871</b>	<b>¥ 8,976</b>	<b>¥193</b>	<b>¥232,260</b>	<b>¥(10,124)</b>	<b>¥222,135</b>
Depreciation and amortization	6,386	265	45	4	6,702	(74)	6,628
Loss on impairment of fixed assets	94	39	—	—	133	(2)	130
Capital expenditures	41,299	236	7	0	41,544	(15)	41,528

Notes: 1. Business divisions are determined according to lines of businesses within the Companies.

2. Description of principal businesses in each business segment:

(1) Shopping complex:

Development, management and operation of shopping centers

(2) Retail:

Sales of apparel, accessories and other goods

(3) Space engineering and management:

Design and construction of building interiors

Providing cleaning, security and maintenance services for buildings

(4) Others:

Internet business

3. Other operating revenue is included in "Sales."

4. Long-term prepaid expenses and their amortization are included in "Depreciation and amortization" and "Capital expenditures."

**(2) Geographic Segment Information**

Geographic segment information is not prepared or disclosed since the aggregate sales and assets of the Company and its domestic subsidiaries are more than 90% of the consolidated net sales and assets for the year ended February 28, 2011.

**(3) Export Sales Information**

Export sales information is not prepared or disclosed since the sales to overseas customers are less than 10% of the consolidated net sales for the year ended February 28, 2011.

**21. Related Party Transactions****Parent Company**

J. FRONT RETAILING Co., Ltd. is listed on the first section of the Tokyo, Osaka and Nagoya Stock Exchanges.

## 22. Net Assets

Under the Japanese Corporate Law (“the Law”), the entire amount paid for new shares is required to be designated as common stock. However, the Company may, by a resolution of the Board of Directors, designate an amount not exceeding one-half of the prices of the new shares as additional paid-in capital, which is included in capital surplus. The Law requires that an amount equal to 10% of dividends must be appropriate as a legal earnings reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus), depending on the equity account charged upon payment of such dividends, until the aggregate amount of legal earnings reserve and additional paid-in capital equals 25% of common stock. All additional paid-in-capital and all legal

earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends upon resolution of the shareholders. The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with Japanese laws and regulations.

Retained earnings at February 28, 2013 include amounts representing year-end cash dividend of ¥913 million (\$9,817 thousand U.S. dollars), ¥9.0 (\$0.10) per share, which was resolved at the Board of Directors meeting held on April 5, 2013.

## 23. Comprehensive income

Other comprehensive income for the year ended February 28, 2011 is as follows:

	Millions of yen
Valuation difference on available-for-sale securities	¥175
Foreign currency translation adjustment	(46)
Total	¥129

Comprehensive income for the year ended February 28, 2011 is as follows:

	Millions of yen
Comprehensive income attributable to:	
Owners of the parent	¥4,530
Minority interests	(1)
Total	¥4,529

An analysis of each component of other comprehensive income (loss) and related tax effects for the year ended February 28, 2013 is presented as follows.

	Millions of yen	Thousands of U.S. dollars
Other comprehensive income		
Unrealized holding gains arising during the year	¥ 323	\$ 3,473
Reclassification to income for the year	(18)	(194)
Pretax amount	305	3,280
Tax (expense) benefit	(108)	(1,161)
Net-of-tax amount	196	2,108
Foreign currency translation adjustments		
Aggregated adjustment during the year resulting from foreign currency translation	62	667
Share of other comprehensive income of associates accounted for using equity method		
Unrealized profits arising during the year	8	86
Total	¥ 267	\$ 2,871

## 24. Treasury Stock

Breakdown of treasury stock (common stock) for the years ended February 28, 2011, February 29, 2012 and February 28, 2013 is as follows:

	Number of shares outstanding (thousands)
Balance at February 28, 2010	96
Purchase of fractional shares from stockholders	0
Sales of fractional shares to stockholders	—
Balance at February 28, 2011	97
Purchase of fractional shares from stockholders	177
Application for take-over bid and the sale by ESOP Trust	(34)
Balance at February 29, 2012	240
Purchase of fractional shares from stockholders	0
Application for take-over bid and the sale by ESOP Trust	(229)
Balance at February 28, 2013	11

## 25. Net Income per Share

Basis of computation of basic net income and diluted net income per share ("EPS") for the years ended February 28, 2011, February 29, 2012 and February 28, 2013 are as follows:

	Net income	Weighted-average shares	EPS	
	Millions of yen	Thousands of shares	Yen	
For the year ended February 28, 2011				
Basic EPS:				
Net income available to common shareholders	¥4,400	82,379	¥53.41	
Effect of dilution				
Convertible bonds with stock acquisition rights	31	8,999		
Diluted EPS—Net income for computation	¥4,431	91,378	¥48.50	
For the year ended February 29, 2012				
Basic EPS:				
Net income available to common shareholders	¥4,319	82,289	¥52.49	
Effect of dilution				
Convertible bonds with stock acquisition rights	66	18,987		
Diluted EPS—Net income for computation	¥4,385	101,276	¥43.31	
For the year ended February 28, 2013				
Basic EPS:				
Net income available to common shareholders	¥5,083	93,377	¥54.44	\$0.59

## 26. Subsequent Event

### Notice of Acquisition of Trust Beneficial Rights (*Shintaku Juekiken*)

The Company had concluded a purchase option agreement to acquire trust beneficial rights on the Fukuoka PARCO building, as well as the adjacent land and building, from its current owner Tsuzuki Gakuen.

#### 1. Reason for acquisition

Fukuoka PARCO, located in Kyushu's commercial center, the Tenjin area of Fukuoka City, and directly linked to Nishitetsu Tenjin Station and the Tenjin subway station on the Kuko (airport) Line, is one of PARCO's most important stores.

Fukuoka City's commercial market is comparable with that of Tokyo, Osaka and Nagoya. As Asia's gateway to Japan, the inflow of

foreign visitors to Fukuoka is expected to increase, and further market growth is anticipated. Most importantly, as the hub of the transport network developed throughout the entire Kyushu region, the Tenjin area is one of Japan's leading commercial centers where people and ideas from inside and outside the region converge.

Fukuoka PARCO currently leases its premises, and this decision to acquire the Fukuoka PARCO building and the adjacent land and building from Tsuzuki Gakuen will lead to future stable growth of the store's operating base and is considered an important factor in strengthening PARCO's management foundation.

A study into using the adjacent building as a shopping complex will be conducted as early as possible.

#### 2. Details of Assets to Be Acquired

Acquisition method	The current owner will place the subject property in trust, and transfer the trust beneficial rights	
Asset to be acquired	Trust beneficial rights on the Fukuoka PARCO building and adjacent land and buildings	
Fukuoka PARCO	Address	2-11-1 Tenjin, Chuo-ku, Fukuoka City (street address)
	Land	Area: 2,495 m <sup>2</sup> (as registered in property registry) Type of ownership: Regular ownership
	Building	Area: 24,407 m <sup>2</sup> (as registered in property registry) Above-ground floors: 12 Below-ground floors: 1 (officially registered building description)
Adjacent land and buildings	Address	2-9-18 Tenjin, Chuo-ku, Fukuoka City (street address)
	Land	Area: 1,653 m <sup>2</sup> (as registered in property registry) Type of ownership: Regular ownership
	Building	Area: 22,106 m <sup>2</sup> (Area in Real Property Registry) Above-ground floors: 14 Below-ground floors: 3 (Officially registered building description)
Trustee	Mitsubishi UFJ Trust and Banking	
Acquisition price	¥26,500 million (\$284,946 thousand U.S. dollars)	

### **Independent Auditor's Report**

To the shareholders and the Board of Directors of PARCO Co., Ltd.:

We have audited the accompanying consolidated financial statements of PARCO Co., Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheets as at February 28, 2011, February 29, 2012 and February 28, 2013, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in net assets and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information expressed in Japanese yen.

#### **Management's Responsibility for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

#### **Auditor's Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### **Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of PARCO Co., Ltd. and its consolidated subsidiaries as at February 28, 2011, February 29, 2012 and February 28, 2013, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

#### **Convenience Translation**

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended February 28, 2013 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 5 to the consolidated financial statements.

*KPMG AZSA LLC*  
May 27, 2013  
Tokyo, Japan



## Information on PARCO's Website



### Store and Entertainment Information (Japanese)

<http://www.parco.co.jp/parco/>

Information is presented on PARCO stores, entertainment and more in an appealing manner using the latest Web functions.



### About PARCO

<http://www.parco.co.jp/group/en/corporate/>

Information is presented on Corporate / Investor Relations (IR), news releases, CSR and Group companies.

#### ■ Corporate Information

Basic Management Policy	View a message from Kouzou Makiyama, President and Representative Executive Officer of PARCO.
Corporate Mission	This page presents an explanation and structure of PARCO's Corporate Mission.
Corporate Data	View basic corporate data, and information on various PARCO stores.
Corporate History	View a history of PARCO's development since its founding.
Business (Japanese)	This page presents operations in each category of the PARCO Group's business.
Executives	View information on PARCO's Members of the Board, Committee Members and Corporate Executive Officers.
Corporate Governance	Information on corporate governance is presented, including PARCO's basic approach to corporate governance, as well as the roles of the Board of Directors and various committees.

#### ■ Investor Relations

Monthly Sales Summaries	Monthly sales data by store are disclosed with year-on-year comparisons.
Financial Statements	View PARCO's financial reports, as well as investor presentations, supplementary materials and the FACTBOOK. The FACTBOOK provides disclosure of detailed information including key indicators on a consolidated and non-consolidated basis and an itemized breakdown of sales by category.
Annual Reports	PARCO's latest annual report is available for download in PDF and E@BOOK formats.
IR Events / IR Calendar	View schedules for announcements of financial results and other events.
Financial Highlights	View data on key performance indicators for the past 12 years.
Composition of Shareholders	View information on PARCO's current principal shareholders and related matters.
Stock Price Information	Information on PARCO's stock price is presented via Bloomberg.

## About PARCO

### Corporate Profile As of 28 February, 2013

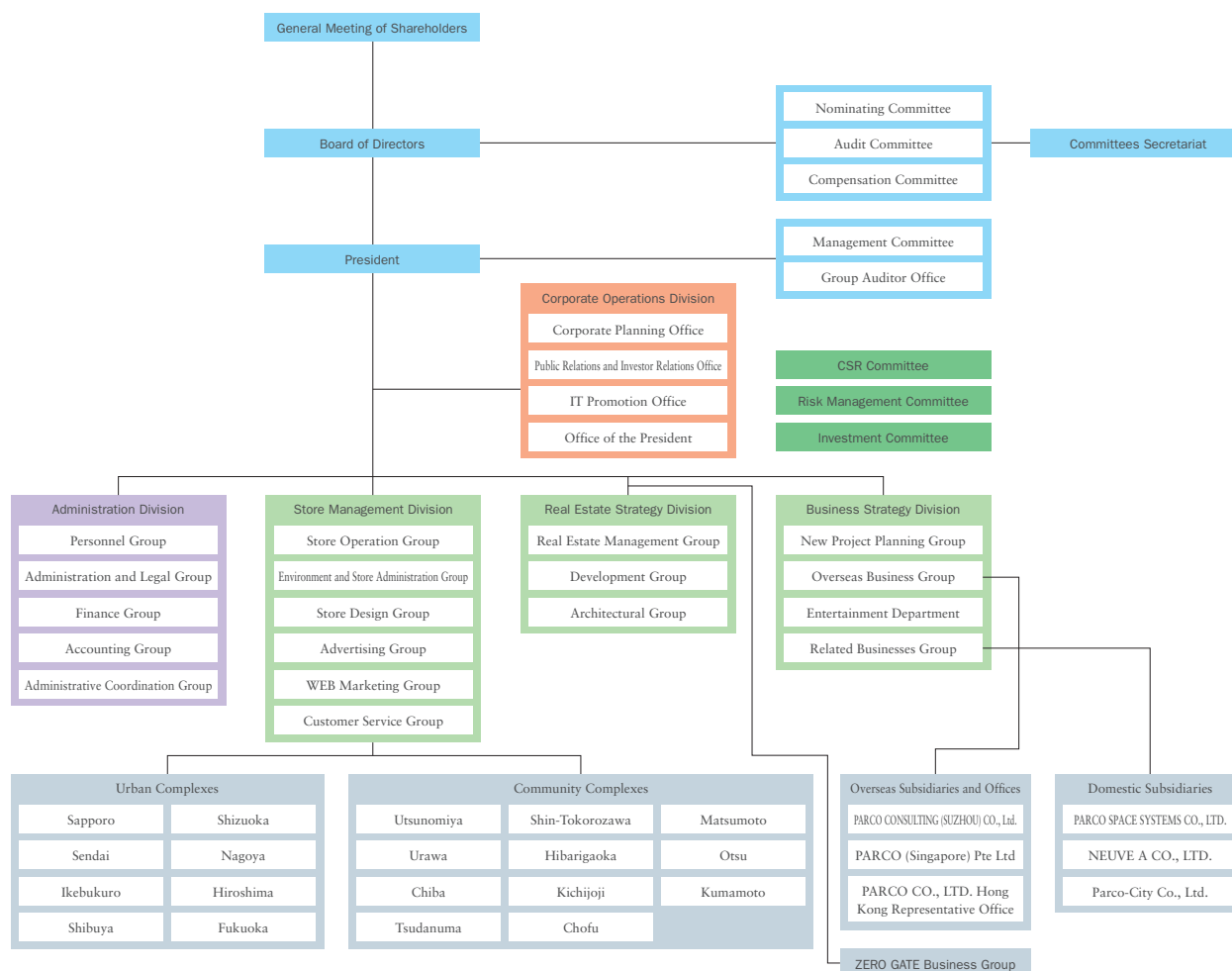
Company Name	PARCO CO., LTD.	Paid-in Capital	¥34,367 million
Headquarters	1-28-2 Minami-Ikebukuro, Toshima-ku, Tokyo 171-0022, Japan	Employees	626 (male 356, female 270)
Head Office	Shibuya First Place Bldg. 8-16 Shinsen-cho, Shibuya-ku, Tokyo 150-0045, Japan	Consolidated Employees	1,944
Founded	February 13, 1953	Consolidated Sales	¥264,779 million (Fiscal 2012)
		Sales Floor Area	442,600 m <sup>2</sup>
		Tenants	2,275

### Corporate History

1953 ▶	<b>Feb.</b>	Established Ikebukuro Station Building Co., Ltd.	1991 ▶	<b>Sept.</b>	Acquired stake in SEIDENKO CO., LTD.
1954 ▶	<b>Oct.</b>	With the capital participation of Marubutsu Co., Ltd., the Company shifted operations from the management of the Ikebukuro Station Building to the operation of department stores	1993 ▶	<b>Nov.</b>	Established PARCO (Singapore) Pte Ltd
1957 ▶	<b>May</b>	Changed company name to Tokyo Marubutsu Co., Ltd.	1993 ▶	<b>Oct.</b>	Opened Hibarigaoka PARCO
	<b>Dec.</b>	Started operation of department store under the name Tokyo Marubutsu	1994 ▶	<b>Mar.</b>	Opened Ikebukuro P'PARCO
1963 ▶	<b>Jul.</b>	Tokyo Marubutsu Co., Ltd. became a registered stock with the Osaka Securities Dealers Association		<b>Apr.</b>	Opened Hiroshima PARCO
1969 ▶	<b>Jun.</b>	Tokyo Marubutsu closed; commenced preparations for the establishment of the PARCO store	1996 ▶	<b>Apr.</b>	Expanded floor space of Matsumoto PARCO
	<b>Nov.</b>	Opened Ikebukuro PARCO		<b>Nov.</b>	Opened Otsu PARCO
1970 ▶	<b>Apr.</b>	Changed company name to PARCO CO., LTD.	1997 ▶	<b>Mar.</b>	Opened Utsunomiya PARCO
1973 ▶	<b>Jun.</b>	Opened Shibuya PARCO	1998 ▶	<b>Nov.</b>	Opened Nagoya PARCO South Building
		Opened Seibu Theater (later renamed PARCO Theater)	2000 ▶	<b>Mar.</b>	Established PARCO-CITY CO., LTD.
1975 ▶	<b>Aug.</b>	Opened Sapporo PARCO		<b>Sept.</b>	Merged SEIDENKO CO., LTD. and PARCO PROMOTION CO., LTD.; adopted new corporate name of PARCO SPACE SYSTEMS CO., LTD.
1976 ▶	<b>Dec.</b>	Opened Chiba PARCO	2001 ▶	<b>Jun.</b>	NEUVE A CO., LTD. started operations
1977 ▶	<b>Jul.</b>	Opened Tsudanuma PARCO		<b>Sept.</b>	Opened Hiroshima PARCO Annex
1980 ▶	<b>Sept.</b>	Opened Kichijoji PARCO	2002 ▶	<b>Apr.</b>	Opened Shibuya ZERO GATE
1981 ▶	<b>Sept.</b>	Opened Shibuya PARCO PART 3	2003 ▶	<b>May</b>	Adopted "Company with Committees System"
1983 ▶	<b>Jun.</b>	Opened Shin-Tokorozawa PARCO	2005 ▶	<b>Feb.</b>	Opened Pedi SHIODOME
1984 ▶	<b>Aug.</b>	Opened Matsumoto PARCO	2006 ▶	<b>Mar.</b>	Credit card PEC Card renamed as PARCO Card
1986 ▶	<b>May</b>	Opened Kumamoto PARCO	2007 ▶	<b>Mar.</b>	"Le Theatre GINZA by PARCO" theater started operations
1987 ▶	<b>Jan.</b>	Stock listed on the Second Section of the Tokyo Stock Exchange		<b>Mar.</b>	Opened Shizuoka PARCO
1988 ▶	<b>Jun.</b>	Opened Shibuya QUATTRO by PARCO (later renamed PARCO QUATTRO)		<b>Oct.</b>	Opened Urawa PARCO
	<b>Aug.</b>	Stock listed on the First Section of the Tokyo Stock Exchange	2008 ▶	<b>Aug.</b>	Opened Sendai PARCO
	<b>Sept.</b>	Established PARCO PROMOTION CO., LTD.	2010 ▶	<b>Mar.</b>	Opened Fukuoka PARCO
1989 ▶	<b>Apr.</b>	Launched PEC Card			Opened PARCO Marina Bay in Singapore
	<b>May</b>	Opened Chofu PARCO	2011 ▶	<b>Apr.</b>	Complex format of Shibuya ZERO GATE changed
	<b>Jun.</b>	Opened Nagoya PARCO	2013 ▶	<b>April</b>	Opened Shinsaibashi ZERO GATE
					Opened Dotonbori ZERO GATE

## Organization Chart

PARCO has three key points of origin: (1) Incubation: Identify and nurture new business ideas, to grow alongside them; (2) Town development through incubation: Contribute to towns by spurring their development, while helping them to mature and thrive; and (3) Setting trends: Stimulate new creativity in towns and thereby attract people to them, leveraging the PARCO Group's capacity for setting trends through its business activities. PARCO aims to bring these three points to fruition through its business activities.



### ■ Business Strategy Division

The Business Strategy Division comprises four groups: the New Project Planning Group, the Overseas Business Group, the Entertainment Department and the Related Business Group. The division is working to develop new shopping complex formats, along with developing and nurturing related businesses.

### ■ Real Estate Strategy Division

The Real Estate Strategy Division comprises three groups: the Real Estate Management Group, the Development Group and the Architectural Group. The division is pressing ahead with formulating and executing policies regarding the strategic use of real estate holdings, as well as developing new real estate that will contribute to the PARCO business and new shopping complex formats.

### ■ ZERO GATE Business Group

The ZERO GATE Business Group is promoting all aspects of the ZERO GATE business, namely ZERO GATE property development, merchandise development and store operations, as well as peripheral operations such as property management of commercial facilities in urban areas.

In the future, the ZERO GATE Business Group aims to be spun-off from the Company as an independent enterprise.

### ■ Store Management Division

This division comprises six groups: the Store Operation Group, the Environment and Store Administration Group, the Store Design Group, the Advertising Group, the Web Communication Group and the Customer Service Group. The division is working to drive further advancement and differentiation in the two types of shopping complexes in the PARCO store business: urban and community complexes. The division also aims to maintain the PARCO Group's stable earnings base.

### ■ Administration Division

This division has five groups: the Personnel Group, the Administration and Legal Group, the Finance Group, the Accounting Group and the Administrative Coordination Group. The division offers wide-ranging support to the entire PARCO Group.

### ■ Corporate Operations Division

The Corporate Operations Division comprises four offices: the Corporate Planning Office, the Public Relations and Investor Relations Office, the IT Promotion Office and the President's Office. These offices work to promote measures to maximize corporate value, including by formulating business strategies, enhancing communication with external stakeholders, and strengthening company-wide IT strategy functions.

## Stock Information (As of February 28, 2013)

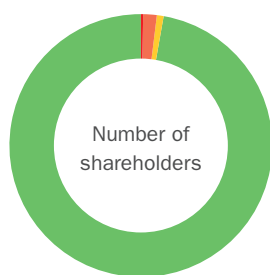
Number of shares authorized	320,000,000
Number of shareholders	15,206
Number of shares issued and outstanding	101,462,977

### Principal Shareholders

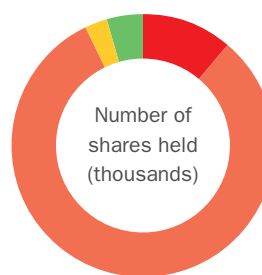
Name	Number of shares held (thousands)	Shareholding ratio (%)
J. FRONT RETAILING Co., Ltd.	65,922	64.97
Aeon Co., Ltd.	8,272	8.15
Credit Saison Co., Ltd.	7,760	7.65
Japan Trustee Services Bank, Ltd. (Trust Account)	2,732	2.69
Development Bank of Japan Inc.	1,952	1.92
Sumitomo Mitsui Trust Bank, Limited	1,381	1.36
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	930	0.92
NORTHERN TRUST CO. (AVFC) SUB A/C AMERICAN CLIENTS	815	0.80
The Master Trust Bank of Japan, Ltd. (Trust Account)	637	0.63
SANEI-INTERNATIONAL CO.,LTD.	480	0.47

\*Shareholding ratios are calculated after deduction of treasury stock (1,635 shares).

### Breakdown of Shares by Type of Shareholder

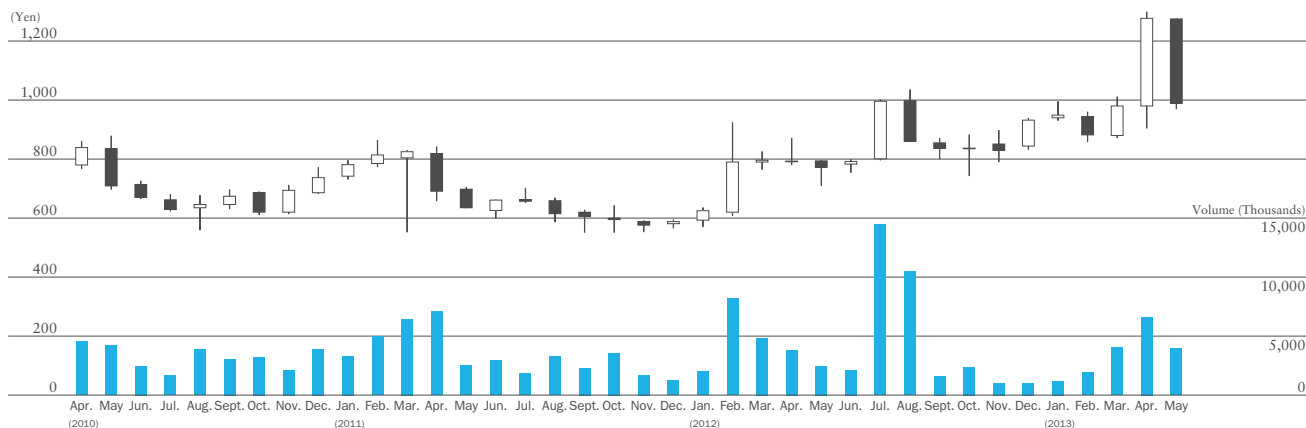


Japanese financial institutions and Japanese securities companies	65	0.4%
Other Japanese companies	252	1.7%
Foreign investors	120	0.8%
Japanese individuals and others	14,768	97.1%
Treasury stock	1	0.0%



Japanese financial institutions and Japanese securities companies	11,506	11.3%
Other Japanese companies	82,894	81.7%
Foreign investors	2,732	2.7%
Japanese individuals and others	4,327	4.3%
Treasury stock	1	0.0%

### Stock Performance





PARCO

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