



August 25, 2010

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Notice regarding Capital and Business Alliance with Development Bank of Japan
and the Issuance of Unsecured Convertible Bonds with Stock Acquisition Rights
to Be Issued by Third-Party Allotment

PARCO CO., LTD. (“PARCO”) hereby announces that, pursuant to a resolution adopted at its Board of Directors’ Meeting held on August 25, 2010, it has agreed to enter into a capital and business alliance (the “Alliance”) with Development Bank of Japan Inc. (“DBJ”) and issue the first series of PARCO CO., LTD., unsecured convertible bonds with stock acquisition rights (hereinafter referred to as the “Convertible Bonds” with the bond portion referred to as the “Bonds” and the stock acquisition rights portion referred to as the “Stock Acquisition Rights”) to DBJ, as outlined below.

I. Capital and Business Alliance with DBJ

1. Overview of the Alliance

The PARCO Group has decided to enter into an Alliance with DBJ to further enhance its corporate value as outlined below.

- 1) Business Alliance: Provision of added value to the PARCO Group by leveraging DBJ’s networks and expertise
- 2) Capital Alliance: 15 billion yen allotment of Convertible Bonds to DBJ

2. Purpose and Background of the Alliance

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

However, domestic business conditions have been rapidly changing since the financial crisis broke out in the second half of fiscal 2008. To respond to these changes, the PARCO Group has formulated a new

e further growth and a medium-term business plan (the “New Medium-Term Plan”) ending in fiscal 2012.

The New Medium-Term Plan encompasses a vision that aims to enrich the lifestyles of our customers as an “urban lifestyle producer.” It will promote the PARCO Group’s two-pronged business model of real estate that creates value in buildings, and retailing that draws customers into specialty stores based on the following three business strategies: 1) ongoing innovation at existing stores, 2) expansion of commercial activities in urban areas both in Japan and overseas, and 3) rapid development of related and new businesses. For more details regarding the New Medium-Term Plan, please refer to the separate “PARCO Group Medium-Term Business Plan (fiscal 2010-2012)” document, also released today.

In order to achieve the goals outlined in its New Medium-Term Plan, PARCO has to strengthen the three fundamental management areas that underpin its business strategies: 1) diversify its financial strategy, 2) revamp its real estate strategy, and 3) strengthen its M&A and business alliance strategy. It also needs to secure a certain amount of funds for strategic investment.

In light of these circumstances, DBJ proposed a “Value-creating equity investment to assist corporate growth strategy” (a new investment method actively implemented by DBJ from fiscal 2010) to resolve the issues PARCO faces and provide support for long-term growth through equity investment. After careful review, PARCO has concluded that the proposal will help it achieve the goals in its New Medium-Term Plan and contribute to enhancing corporate value. As a result, PARCO formally decided today to enter into the Alliance with DBJ.

3. Significance of the Alliance

Under the business alliance, which constitutes one part of the broader Alliance, DBJ, as a financial player, will leverage its expertise in M&A and business alliance strategy, financial and IR strategy, and real estate strategy, and its broad domestic and overseas networks and resources to facilitate the expansion of PARCO’s shopping complex business in Japan and the development of businesses in China and other Asian countries as outlined in the New Medium-Term Plan. PARCO believes these contributions will help it achieve the goals in its New Medium-Term Plan and further enhance the corporate value of the Group.

The capital alliance, on the other hand, will provide PARCO with the funds needed to achieve the goals outlined in its New Medium-Term Plan, enabling it to (1) strengthen its earnings base by acquiring properties currently rented by the shopping complex business, which can then be remodeled as appropriate, and (2) create a new business base by expanding the number of shops in the shopping complex business. In addition, PARCO believes the alliance could also meet future needs to increase capital as part of PARCO’s financial strategy.

4. Details of the Capital and Business Alliance

(1) Details of the Business Alliance

DBJ will focus its support on the areas of the New Medium-Term Plan outlined below (“DBJ Support Areas as Part of the Business Alliance”). It will assist with the provision of adequate human resources and leverage its networks in Japan and overseas to collect and provide information to PARCO, both contributions that are essential to achieve the goals in the New Medium-Term Plan. In addition, DBJ is expected to add value by providing advice and support for individual projects (“Added Value Provided by the Business Alliance with DBJ,” detailed below), thereby enhancing PARCO’s corporate value through achievement of the goals outlined in the New Medium-Term Plan.

DBJ Support Areas as Part of the Business Alliance

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

Added Value Provided by the Business Alliance with DBJ

- 1) DBJ will help provide adequate human resources that possess relevant experience, knowledge and expertise in the fields of M&A strategy, overseas expansion strategy, real estate strategy, and financial and IR strategy.
- 2) Through its networks in Japan and overseas (particularly in Asia), DBJ will collect and provide information that will contribute to the achievement of the goals outlined in the New Medium-Term Plan and increase corporate value. This includes information related to the acquisition of business partners, uncovering M&A and alliance targets, and real estate projects with potential for new store openings.
- 3) DBJ will provide support with review and implementation of M&A, alliance, or other investment projects that fall outside the scope of regular operations by leveraging its experience and expertise to advise on due diligence, appropriate pricing and conditions, funding methods, and the impact of such projects on the stock market, as well as assistance with execution of any of the above.

(2) Details of the Capital Alliance

PARCO today concluded an underwriting agreement with DBJ for the first issuance of PARCO CO., LTD., unsecured convertible bonds with stock acquisition rights. The agreement allots the full value (15 billion yen) of the Convertible Bonds issued by PARCO to DBJ. Please see “II. Issuance of Convertible Bonds with Stock Acquisition Rights” for details. The transfer of the Convertible Bonds

and the conversion of the Stock Acquisition Rights shall be based upon the Alliance agreement which aims to contribute to enhancing the PARCO Group's corporate value principally through the actualization of its New Medium-Term Plan. In addition, in light of concerns regarding the threat of dilution, PARCO and DBJ have agreed that the Convertible Bonds cannot be transferred or converted without PARCO's prior written approval for the effective period of the alliance agreement (not including any extension of the period after the initial three years).

However, from November 9, 2011 onward, this restriction will not apply to any transfer or conversion provided that the ratio obtained by dividing the total number of shares to be issued assuming that DBJ converts its entire holding of Convertible Bonds, by the total of PARCO's issued and dilutive shares at the time, is not less than 10%, or if certain grounds arise that warrant early redemption of the Convertible Bonds.

In addition, PARCO currently does not plan to acquire DBJ shares or equity.

(3) Overview of DBJ

For an overview of DBJ please see "II. Issuance of Convertible Bonds with Stock Acquisition Rights, 6. Reasons for selecting DBJ and other related matters, (1) Overview of DBJ."

5. Contract Period

The contract period shall be from August 25, 2010 to August 25, 2013.

However, provided both parties are in agreement, the contract period may be extended for an additional two years after the initial contract expires.

6. Timing

(1) Resolution by the Board of Directors	August 25, 2010
(2) Conclusion of Agreement to Form Capital and Business Alliance	August 25, 2010
(3) Conclusion of Underwriting Agreement for the Convertible Bonds	August 25, 2010
(4) Payment for the Convertible Bonds	September 9, 2010

7. Future Prospects

PARCO plans to increase its corporate value through its New Medium-Term Plan. In this regard, PARCO believes the alliance with DBJ will improve its ability to actualize its plan because it will enable leverage of DBJ's resources, such as its expertise and networks, to expand PARCO's domestic shopping complex business, develop overseas operations, and accelerate various other strategies. PARCO believes the alliance will also help to strengthen its financial position by reducing future interest-bearing liabilities and increasing its capital.

(Reference) Fiscal 2010 consolidated earnings forecasts (announced July 8, 2010) and fiscal 2009 consolidated results (Millions of yen)

	Consolidated net sales	Consolidated operating income	Consolidated ordinary income	Consolidated net income
Consolidated earnings forecast for the fiscal year ending February 28, 2011	264,000	8,700	8,300	4,200
Consolidated results for the fiscal year ended February 28, 2010	261,076	8,601	8,554	4,108

II. Issuance of Convertible Bonds with Stock Acquisition Rights

1. Overview of the Offer

(1) Issue Date	September 9, 2010
(2) Total Number of Stock Acquisition Rights	150
(3) Issue price of Convertible Bonds, Stock Acquisition Rights	Price per bond: 100 million yen ([Par] 100 yen per 100 yen [face value]) Price per Stock Acquisition Right: No payment required
(4) Number of dilutive shares underlying the issuance	18,987,300 shares
(5) Total issue amount	15,000,000,000 yen
(6) Conversion Price	When Stock Acquisition Rights are exercised, the value of each share received ("Conversion Price") will initially be 790 yen. The Conversion Price will not be revised.
(7) Offer and method of allotment (Allotted party)	The amount will be issued in full to Development Bank of Japan by third-party allotment.
(8) Other	Each of the items above shall be subject to the effectiveness of the securities registration statement filed under the Financial Instruments and Exchange Act of Japan.

2. Purpose of and reason for offering

The offer of Stock Acquisition Rights is implemented as part of the Alliance between PARCO and DBJ, the purpose of which is to obtain the managerial resources and strategic investment funds necessary to successfully implement the New Medium-Term Plan, as discussed above in "I. Capital and Business Alliance with DBJ."

PARCO acknowledges the possibility that this deal will dilute its shares, but as noted above in "I. Capital and Business Alliance with DBJ," the Alliance, which includes the offer of Convertible Bonds, will contribute to enhancing PARCO's corporate value and is conducted under conditions that are more favorable relative to other methods of raising funds. In addition, consideration is also given to the dilution of existing shares in the agreement with DBJ by imposing certain restrictions on the exercise of Stock Acquisition Right in the initial three years. Taking the above factors into account, PARCO concludes that this deal contributes significant value to the PARCO Group.

Accordingly, PARCO believes that the PARCO Group's corporate value will have increased as a result of the support provided by the Alliance with DBJ by the time the impact of share dilution manifests through any exercise of the Stock Acquisition Rights. Any conversion will also strengthen PARCO's financial position by reducing interest bearing liabilities and increasing capital.

3. Amount, use and scheduled timing of expenditure of proceeds to be raised

(1) Amount of proceeds to be raised (approximate net amount)

Aggregate amount to be paid	Approximate costs of issuance	Approximate net amount
15,000,000,000 yen	52,000,000 yen	14,948,000,000 yen

Notes:

1. Approximate costs of issuance do not include consumption tax.
2. Costs of issuance include the expense of creating a security registration statement, expenses for lawyers, and registration expenses.

(2) Use of proceeds to be raised

Use of funds	Amount	Payment schedule
1) Funds will be used to strengthen PARCO's earnings base by acquiring properties currently rented by the shopping complex business which can then be remodeled as deemed appropriate.	10,000 million yen	October 2010
2) Funds will be used to create a new business base by expanding the number of shops in the shopping complex business	4,948 million yen	December 2010

Notes:

1. In the case of a significant change in the payment schedule, the funds may be used for capital investment in existing stores operated by the shopping complex business.
2. The funds raised will be invested in stable financial assets such as bank deposits until used.

4. Rationale for use of funds

The funds will be used to 1) strengthen PARCO's earnings base by acquiring properties currently rented by the shopping complex business which can then be remodeled as deemed appropriate; and 2) create a new business base by expanding the number of shops in the shopping complex business. PARCO believes that using the funds in this manner is reasonable because it will establish a base for growth that will increase corporate value over the medium- to long-term. Consequently, PARCO believes raising these funds will benefit existing shareholders.

5. Rationale for Conditions of Issuance

(1) Basis of calculation of the amount to be paid and description of details

With regard to the issuance conditions, including issuance price, Conversion Price, and interest rate on the Convertible Bonds, PARCO has carried out a comprehensive review taking into consideration the liquidity of PARCO's equity, current share price levels, the volatility of its stock, and the credit costs borne by bondholders. In the interests of ensuring fairness, PARCO commissioned Plutus Consulting (Minato-ku, Tokyo) as an independent third party, to conduct a valuation analysis of the Convertible Bonds and has obtained a copy of their valuation report (hereinafter referred to as the "Plutus Valuation Report"). Taking into account the call option set by PARCO on the Convertible

Bonds, the restrictions on conversion of the bonds into common stock as set out in the Alliance agreement, the volatility of the company's share price, trading volume, and DBJ's retention policy, the Plutus Valuation Report concludes the Stock Acquisition Rights are fairly valued on the basis of a Monte Carlo simulation, one of the models widely used for calculating the price of equity options. Trading volume, one of the components of the valuation, uses the average daily trading volume based on the most recent three years of data. PARCO believes that the assumption that liquidity will continue to remain at current levels is unreasonable because no objective model exists which can determine future trading volume at the time of the issuance of the Stock Acquisition Rights.

Taking into account the independent third-party valuation by Plutus Consulting, PARCO has examined various quantitative and qualitative factors which could affect the value of the Convertible Bonds. Based on its analysis, PARCO has determined that it is rational for the issue price of the Stock Acquisition Rights to be gratis because the economic value gained by attaching the Stock Acquisition Rights is roughly equivalent to the cost of the entire issuance of the Convertible Bonds, given that the conditions adopted result in (a) a fair and reasonable valuation of the Stock Acquisition Rights attached to the Convertible Bonds and (b) a reduction in interest payments. In addition, PARCO's internal auditors, after examining the issuance process, expressed the opinion that the conditions of the issuance, based on the above estimates, are not particularly beneficial to DBJ.

PARCO believes it is reasonable to base the Conversion Price on recent market prices. Therefore, after deliberation with DBJ, both parties agreed and decided that the Conversion Price will be equivalent to the closing price of PARCO's ordinary shares on the TSE (614 yen) on August 24, 2010, the day before the Board of Directors adopted the resolution for the issuance of Convertible Bonds, multiplied by 1.286 and rounded up to the nearest yen.

(2) Rationale for the judgment that the number of shares to be issued and the scale of share dilution are reasonable

Conversion of the Convertible Bonds will result in the issuance of 18,987,300 shares (189,873 voting rights). This is equivalent to 23.02% of PARCO's current 82,475,677 issued shares and 23.06% of the recent total number of voting rights (823,353) and will result in dilution of the equity value per share. However, issuance of the Convertible Bonds will enable PARCO to secure the strategic investment funds necessary to drive its New Medium-Term Plan, which it believes will enhance the corporate value of the Group and thereby benefitting existing shareholders and outweighing the effect of dilution. PARCO therefore believes that the scale of dilution caused by the issuance of the Convertible Bonds is reasonable.

6. Reasons for selecting DBJ and other related matters

(1) Overview of DBJ

(1) Name	Development Bank of Japan Inc.
(2) Location	9-1, Otemachi 1-chome, Chiyoda Ward, Tokyo
(3) Name and Title of Representative	Minoru Murofushi, President and Representative Director
(4) Principal business	Finance and Insurance
(5) Capital	1.181,194 trillion yen
(6) Established	October 1, 2008
(7) Number of shares issued	43,623,880 shares
(8) Fiscal year-end	March 31
(9) Number of employees	1,079 (at the end of fiscal 2009)
(10) Main clients	—
(11) Main banks	—
(12) Large shareholders and shareholding ratios	Finance Minister of Japan (100%)
(13) Relationship with PARCO	
Capital relationship	PARCO has no material capital relationships with DBJ. Furthermore, no material capital relationships exist between parties and companies affiliated with PARCO and parties and companies affiliated with DBJ.
Personal relationship	No material personal relationships exist between PARCO and DBJ, nor are there any material personal relationships between personnel or companies affiliated with PARCO and personnel or companies affiliated with DBJ.
Business relationship	Banking transactions
Status of related parties	DBJ is not considered a related party of PARCO. Also, related persons and related companies of DBJ are not considered related parties of PARCO.

(14) Business performance and financial condition for the last three years (million yen, unless otherwise specified)			
Fiscal year-end	Fiscal year ended March 31, 2008	Fiscal year ended March 31, 2009 (Six months Results)	Fiscal year ended March 31, 2010
Consolidated net assets	—	2,086,456	2,327,538
Consolidated total assets	—	14,028,056	15,595,740
Consolidated net assets per share (yen)	—	51,921.75	52,829.56
Consolidated ordinary income	—	151,206	347,921
Consolidated ordinary income	—	(121,693)	51,905
Consolidated net income	—	(128,342)	39,893
Consolidated net profit per share (yen)	—	(3,208.55)	970.47
Dividend per share (yen)	—	—	230.00

Note: DBJ has enacted an internal control policy and established an organization that ensures the duties performed by its executives and staff comply with applicable laws and regulations as well as its articles of incorporation. Its organization will not tolerate any connection with antisocial bodies that pose a threat to the order and safety of society. Furthermore, the Finance Minister of Japan is a shareholder of DBJ. Based on the facts above, PARCO has confirmed that no connection exists between DBJ's management, staff, and shareholders and any organizations engaged in anti-social activities and has presented certifying documentation to the TSE.

(2) Reasons for selecting DBJ

In the process of formulating the New Medium-Term Plan, PARCO realized that to succeed it would be necessary to strengthen its management base in regards to financial strategy, real estate strategy, and M&A and alliance strategy, as well as secure a certain amount of strategic investment funds. While considering these matters, PARCO received a proposal from DBJ involving the use of equity investment to resolve the issues facing the company and support long-term growth. PARCO concluded that DBJ best suited its needs as a partner because of its policy of actively investing in corporations with future potential, its neutrality, high degree of trustworthiness, and achievements in investing, in addition to agreeing that the proposed equity investment scheme would resolve the issues which stood in the way of actualizing the New Medium-Term Plan.

(3) DBJ's Holding Policy

PARCO has confirmed that DBJ plans to form a stable and continuous holding of the shares obtained through the exercise of its Stock Acquisition Rights, in accordance with the capital and business alliance agreement.

In addition, as noted in "I. Capital and Business Alliance with DBJ, 4. Details of the Capital and Business Alliance, (2) Details of the Capital Alliance," DBJ and PARCO have agreed that the transfer and conversion of the Convertible Bonds will be subject to certain restrictions.

(4) Verification of the existence of funds required by DBJ for payment

PARCO has confirmed that DBJ has sufficient funds to pay for the Convertible Bonds by examining the financial statements released by DBJ on June 30, 2010, which indicate it had cash and deposits of 128,309 million yen.

7. Major shareholders and their shareholding ratio after subscription

Before the subscription (as of May 31, 2010)		After the subscription	
Mori Trust Co., Ltd.	33.26%	Mori Trust Co., Ltd.	27.03%
Credit Saison Co., Ltd.	8.30%	Development Bank of Japan Inc.	18.73%
JP MORGAN CHASE BANK 380055 (Standing proxy: Settlement and Clearing Services Division, Mizuho Corporate Bank, Ltd.)	6.24%	Credit Saison Co., Ltd.	6.74%
The Master Trust Bank of Japan, Ltd.(Trust Account)	5.05%	JP MORGAN CHASE BANK 380055 (Standing proxy: Settlement and Clearing Services Division, Mizuho Corporate Bank, Ltd.)	5.07%
STATE STREET BANK AND TRUST COMPANY (Standing proxy: Settlement and Clearing Services Division, Mizuho Corporate Bank, Ltd.)	4.66%	The Master Trust Bank of Japan, Ltd.(Trust Account)	4.10%
Japan Trustee Services Bank, Ltd.(Trust Account)	3.70%	STATE STREET BANK AND TRUST COMPANY (Standing proxy: Settlement and Clearing Services Division, Mizuho Corporate Bank, Ltd.)	3.79%
Juniper (Standing proxy: The Bank of Tokyo-Mitsubishi UFJ, Ltd.)	2.39%	Japan Trustee Services Bank, Ltd.(Trust Account)	3.00%
BNP Paribas SEC SVC London/JAS/Aberdeen Investment Funds ICVC/Agency Lending (Standing proxy: The Hongkong and Shanghai Banking Corporation Limited, Tokyo Branch)	2.19%	Juniper (Standing proxy: The Bank of Tokyo-Mitsubishi UFJ, Ltd.)	1.94%
BNP Paribas SEC Services Luxembourg/JASDEC/Aberdeen Global Client Assets (Standing proxy: The Hongkong and Shanghai Banking Corporation Limited, Tokyo Branch)	1.74%	BNP Paribas SEC SVC London/JAS/Aberdeen Investment Funds ICVC/Agency Lending (Standing proxy: The Hongkong and Shanghai Banking Corporation Limited, Tokyo Branch)	1.78%
Mizuho Corporate Bank, Ltd.	1.58%	BNP Paribas SEC Services Luxembourg/JASDEC/Aberdeen Global Client Assets (Standing proxy: The Hongkong and Shanghai Banking Corporation Limited, Tokyo Branch)	1.42%

Notes:

1. The shareholding ratio before the subscription is based on the register of shareholders as of May 31, 2010.
2. The shareholding ratio after the subscription is calculated based on the 82,379,264 shares outstanding (excluding the 96,413 shares of treasury stock) as of May 31, 2010, plus the total number of 18,987,300 shares assuming all the Stock Acquisition Rights on the Convertible Bonds allotted to DBJ are exercised.

8. Future Prospects

Please refer to “I. Capital and Business Alliance with DBJ, 7. Future Prospects” for a discussion of the future impact of the Convertible Bonds issued by third party allotment.

(Corporate Conduct Procedures)

Matters Relating to the Corporate Conduct Procedures

As the third-party allotment under discussion will not result 1) in a dilution of more than 25% or 2) a change of major shareholders (no change expected in major shareholders even if all Stock Acquisition Rights are exercised), there is no need to obtain the opinion of an independent third party or of shareholders for this third-party allotment as outlined in Article 432 of the Security Listing Regulations stipulated by the TSE.

9. Earnings results and equity finance conditions over the last three years

(1) Earnings results for the last three years (consolidated)

	Fiscal year ended February 29, 2008	Fiscal year ended February 28, 2009	Fiscal year ended February 28, 2010
Consolidated net sales	286,788 million yen	282,509 million yen	261,076 million yen
Consolidated operating income	10,090 million yen	9,362 million yen	8,601 million yen
Consolidated ordinary income	9,973 million yen	9,171 million yen	8,554 million yen
Consolidated net income	5,167 million yen	3,730 million yen	4,108 million yen
Consolidated net income per share (yen)	62.73 yen	45.29 yen	49.87 yen
Dividends per share	15.00 yen	16.00 yen	16.00 yen
Consolidated net assets per share	897.19 yen	917.61 yen	954.52 yen

(2) Total number of shares currently issued and total number of dilutive shares (as of August 25, 2010)

	Number of shares	Percentage of shares issued
Number of shares issued	82,475,677 shares	100%
Dilutive shares at current conversion (exercise) price	—	—
Number of dilutive shares at the lowest possible conversion (exercise) price	—	—
Number of dilutive shares at the highest possible conversion (exercise) price	—	—

(3) Recent share price movements

(1) Share prices for the last three years

	Fiscal year ended February 28, 2009	Fiscal year ended February 28, 2010	Fiscal year ending February 28, 2011*
Open	1,235 yen	703 yen	687 yen
High	1,470 yen	968 yen	878 yen
Low	705 yen	596 yen	606 yen
Close	729 yen	697 yen	614 yen

*Share prices for the fiscal year ending February 28, 2011 are the prices as of 24 August, 2010.

(2) Share prices for the last six months

	March	April	May	June	July	August*
Open	687 yen	780 yen	825 yen	714 yen	662 yen	635 yen
High	792 yen	860 yen	878 yen	725 yen	680 yen	641 yen
Low	672 yen	768 yen	698 yen	666 yen	624 yen	606 yen
Close	788 yen	839 yen	709 yen	670 yen	629 yen	614 yen

*August prices are as of 24 August

Share price on the business day prior to the issuance resolution date

	August 24, 2010
Open	619 yen
High	622 yen
Low	613 yen
Close	614 yen

(4) Equity finance in the last three years

Not applicable.

Disclaimer

This document was prepared for the general purpose of announcing the formation of a business and capital alliance between PARCO CO., LTD. and Development Bank of Japan Inc., and the accompanying issuance of unsecured convertible bond-type bonds with stock acquisition rights. As such, it does not constitute and should not be construed as an attempt to solicit investment in or recommend the purchasing of securities issued by PARCO.

First Issuance of PARCO CO., LTD.,
Unsecured Convertible Bonds with Stock Acquisition Rights
(with special agreement on equal priority among
convertible bonds with stock acquisition rights)
Terms and Conditions of the Offer

These Terms and Conditions apply to the PARCO CO., LTD., Unsecured Convertible Bonds with Stock Acquisition Rights to be issued by PARCO CO., LTD., on September 9, 2010 pursuant to the approval of the board of directors thereof on August 25, 2010 (hereinafter referred to as the “Convertible Bonds” with the bond portion thereof referred to as the “Bonds” and the stock acquisition rights portion thereof referred to as the “Stock Acquisition Rights.”

1. Name of the Bonds
First Issuance of PARCO CO., LTD., Unsecured Convertible Bonds with Stock Acquisition Rights
(with special agreement on equal priority among convertible bonds with stock acquisition rights)
2. Total issuance
15,000,000,000 yen
3. Price per bond
100,000,000 yen; one class only
4. Amount to be paid in
[Par] 100 yen per 100 yen [face value] of the Bonds
However, no payment is required for the Stock Acquisition Rights.
5. Nominal amount of the Stock Acquisition Rights
Registered, with no certificates issued for the new convertible bonds.

Further, pursuant to Article 254 Paragraph 2 and Paragraph 3 of the Companies Act the Convertible Bonds cannot be split into their respective Stock Acquisition Rights and Bonds and transferred separately.
6. Interest rate
0.75% per annum
7. Collateral or guarantee
The Convertible Bonds are not secured or guaranteed, nor have any assets been set aside for the Convertible Bonds.

8. Application Period
September 7, 2010 to September 8, 2010
9. Payment deadline for the Bonds and allotment date for Stock Acquisition Rights
September 9, 2010
10. Offer method
Third-party allotment in full to Development Bank of Japan (“DBJ”)
11. Redemption and term of the Bonds
 - (1) Redemption upon maturity
The Bonds shall be redeemed in full at par on September 9, 2015 (the redemption date)
 - (2) Early Redemption
 - (A) Early redemption by election of the issuer
 - 1) Early redemption pursuant to the call option provision
On or after September 9, 2010, if the closing price (including indicative quotes; hereinafter “Closing Price”) on Tokyo Stock Exchange, Inc. (“TSE”) of common stock of PARCO, is above the Reference Price (defined below) for 20 consecutive Trading Days (“Trading Days” defined as days on which shares of common stock of PARCO are traded normally on the TSE; excluding, however, days on which there is no Closing Price for the common stock of PARCO; hereinafter the same), then PARCO may, by giving holders of the Convertible Bonds (hereafter, the “Bondholders”) notice, within five (5) business days of the end of such 20 day period, of early redemption the date of which shall not be more than 60 days and not less than 30 days thereafter; provided that the such redemption of the Bonds must be made in full for all outstanding Bonds at face value (100 yen per 100 yen face value) together with all accrued but unpaid interest, on or before such redemption date; and provided, further, that if PARCO provides such early redemption notice pursuant to the provisions of (A) 2) or (A) 3) hereof by the redemption date, or if Bondholders request early redemption pursuant to (B) hereof, then thereafter, no early redemption may be made pursuant to the provisions of (A) 1) hereof and any early redemption pursuant to the provisions of (A) 1) prior thereto shall be invalid.

“Reference Price” shall be equal to 150% of the initial conversion price of the Convertible Bonds (as specified in Article 14(3)(C) 1)

hereof) subject to the adjustment provisions in Article 14(3)(C) 2) hereof.

2) Early redemption due to Corporate Restructuring Activities

In the event that Corporate Restructuring Activities (defined below) are approved at a general shareholders' meeting of PARCO (or approved by the board of directors thereof, in the event that approval of general shareholders' meeting is not required), and the Convertible Bonds are not assumed by the Surviving Entity (defined below) or shares of common stock of the Surviving Entity are not listed on any financial instruments exchange, then PARCO shall, upon 30 days prior notice thereof to the Bondholders, redeem all outstanding Bonds (without exception) together with all accrued but unpaid interest payable thereon.

The redemption price in the case of redemption according to the above provision shall be calculated pursuant to the following table according to reference parity and redemption date (table shows percentage of amount for each of the Bonds).

Redemption Date	Parity								
	70	80	90	100	110	120	130	140	150
2010/9/9	102.08	105.31	109.40	114.29	120.09	126.53	133.76	141.62	150.00
2011/9/9	102.62	105.62	109.55	114.36	120.07	126.53	133.84	141.81	150.00
2012/9/9	102.57	105.28	109.01	113.75	119.46	126.07	133.46	141.49	150.00
2013/9/9	101.87	104.12	107.54	112.16	117.94	124.76	132.47	140.98	150.00
2014/9/9	100.49	101.91	104.69	109.08	115.07	122.42	130.87	140.14	150.00
2015/9/9	100.00	100.00	100.00	100.00	110.00	120.00	130.00	140.00	150.00

Further, "Reference Parity" shall be determined pursuant to the following terms.

(i) In the case that ordinary shareholders of PARCO are paid out in cash only, in relation to the Corporate Restructuring Activities:

the value calculated by dividing the amount of such cash payable per share of common stock, by the valid conversion price as of the date on which such Corporate Restructuring Activities are approved (calculated to 5 decimal places, with the last digit rounded to the nearest fourth decimal place – with 5 rounded up and 4 down; with such amount shown as a percentage).

(ii) Cases other than that described in (i) above:

The value calculated by dividing the average Closing Price for PARCO common stock in ordinary trading on the TSE for five consecutive Trading Days beginning on the Trading Day immediately after the date on which the PARCO Board of Directors or other organ of PARCO makes payment in relation to such Corporate Restructuring Activities, or on which a decision is made or resolution passed approving terms including price thereof, by the valid conversion price on the last of the five consecutive Trading Days (calculated to 5 decimal places, with the last digit rounded to the nearest fourth decimal place – with 5 rounded up and 4 down; with such amount shown as a percentage). If a cause for adjustment of the conversion price arises pursuant to Article 14(3)(C) 2), then the average Closing Price of PARCO common stock over such five Trading Days shall be reasonably adjusted pursuant to such adjustment provisions.

In the event that the relevant Reference Parity or redemption date is not listed in the above table, then the redemption amount shall be calculated as follows; provided, however, that the redemption amount calculated pursuant to the following method shall be equal to at least 100%, and at most 150%, of the amount of each bond.

- (i) If the Reference Parity is between two values listed in the first line of the above table, or if the redemption date is between two dates listed in the first column, then the redemption amount shall be calculated by straight line interpolation between such two values or two dates, or both, as the case may be (calculated to 5 decimal places, with the last digit rounded to the nearest fourth decimal place – with 5 rounded up and 4 down; with such amount shown as a percentage); provided, however, that interpolation between dates shall be calculated based on a year of 365 days.
- (ii) If the Reference Parity is higher than the value shown in the far right of the first line of the above table, then the Reference Parity shall be regarded as equal to such value.
- (iii) If the Reference Parity is lower than the value shown in the far left of the first line of the above table, then the Reference Parity shall be regarded as equal to such value.

“Corporate Restructuring Activities” herein refers to activities such as mergers in which PARCO is the extinguishing entity, “absorbtion-type company split” or “incorporation-type company split” in which PARCO is the split-off entity (limited to cases in which the Surviving Entity assumes the obligations of PARCO

under the Bonds and new stock acquisition rights are delivered in place of the Stock Acquisition Rights), share exchange or transfer (limited to cases in which PARCO becomes a 100% subsidiary of the other company), or other corporate restructuring procedure under Japanese law pursuant to which the obligations of PARCO under the Bonds are assumed by another company.

“Surviving Entity” herein refers to, in regard to the Corporate Restructuring Activities of PARCO, the surviving company in an absorption-type merger or new company in a consolidation-type merger, the absolute parent company in a share exchange or transfer, the succeeding company in an absorption-type company split or new company in an incorporation-type company split, company assuming assets thereof, or any similar company pursuant to other laws.

Once PARCO has issued notice pursuant to (A) 2) hereof, it may not rescind or cancel such early redemption notice.

3) Early redemption in connection with delisting due to public tender offer

In the event that a public tender offer is made for the common stock of PARCO, and PARCO expresses its approval for the offer and as a result of the offer PARCO common stock is in a position where it may be de-listed, then upon notice within 15 days from the date of the acquisition of PARCO common stock through such tender offer (meaning the date on which settlement of the tender offer is commenced), all remaining Bonds (without exception) shall be early redeemed on or before the notified redemption date, within at least 30 days but no more than 60 days of such notice date, in an amount calculated pursuant to the method prescribed in (A) 2) hereof, together with all accrued but unpaid interest. Provided, however, that the Reference Parity shall be (i) in the case that the tender offer is an all cash bid, the tender offer price as of the last date of such tender offer period divided by the valid conversion price as of such date (calculated to 5 decimal places, with the fifth digit rounded to the nearest fourth decimal place – with 5 rounded up and 4 down; with such amount shown as a percentage); or 2) in cases other than 1) above the average Closing Price of the common stock of PARCO on the TSE over five consecutive Trading Days ending on the last day of the tender offer period divided by the valid conversion price as of the last day of the tender offer period (calculated to 5 decimal places, with the fifth digit rounded to the nearest fourth decimal

place – with 5 rounded up and 4 down; with such amount shown as a percentage). If a cause for adjustment of the conversion price arises pursuant to Article 14(3)(C) 2), then the average Closing Price of PARCO common stock over such five Trading Days shall be reasonably adjusted pursuant to such adjustment provisions.

If redemption of the Bonds is required pursuant to both (A) 2) and (A) 3) hereof, then the provisions of (A) 2) shall apply; provided, however, that in the case that notice is given pursuant to (A) 3) hereof prior to public notice of the intention to carry out restructuring, then the provisions of (A) 3) shall apply.

(B) Early redemption by election of the bondholders

Early redemption due to change in control provision

If a Control Change Event (defined below) occurs, then the Bondholders has the right, at any time after the occurrence of such event, to require PARCO to redeem all or part of the Bonds held by the same on a specified redemption date no less than 30 days but no more than 60 days after giving written notice to PARCO of its election to do so; such early redemption shall be made at full par value of 100 yen per 100 yen amount of the Bonds together with payment of accrued and unpaid interest; provided, however, that notwithstanding the above provision, if redemption request is made pursuant to a Control Change Event (ii) not attributable to DBJ, then redemption shall be made at the redemption amount calculated using the method set out in (A) 2) above.

Further, the Reference Parity in the case described in the proviso above shall be the average Closing Price of the common stock of PARCO on the TSE over five consecutive Trading Days ending on the day before such early redemption request notice date, divided by the valid conversion price as of the last day of the tender offer period (calculated to 5 decimal places, with the fifth digit rounded to the nearest fourth decimal place – with 5 rounded up and 4 down; with such amount shown as a percentage). If a cause for adjustment of the conversion price arises pursuant to Article 14(3)(C) 2), then the average Closing Price of PARCO common stock over such five Trading Days shall be reasonably adjusted pursuant to such adjustment provisions.

“Control Change Event” herein means any of the following events:

- (i) A specified shareholder group (meaning holders (including “holders” defined in Article 27-23 Paragraph 3 of the Financial

Instruments and Exchange Act (“FIEA”)) and “joint-holders” (as defined in FIEA Article 27-23 Paragraph 5, including those deemed to be joint-holders pursuant to Paragraph 6 of the same Article) of PARCO “Share Certificates Etc.,” (as defined in FIEA Article 27-23 Paragraph 1)) has a “holding ratio of share certificates etc.,” (as defined in FIEA Article 27-23 Paragraph 4) in excess of 50%.

- (ii) In the event that there is a violation of the Capital and Business Alliance Agreement of August 25, 2010 with DBJ or for any reason the same agreement is terminated; excluding termination pursuant to completion of the term thereof.
- (3) If the date of redemption pursuant to this paragraph falls on a bank holiday, the date shall be brought forward to the preceding bank business day.
- (4) Payment of the redemption amount shall be handled by the Financial Agent.

12. Method and period of interest payments on the Bonds

- (1) Interest on the Bonds shall accrue from the day following the paid-in date until the final redemption date (or the early redemption date in the case of early redemption) with the first interest payment date being March 9, 2011 and payable by that date, and payments thereafter on March 9 and September 9 each year (or in the case of early redemption date, on such date) (hereinafter, the “Interest Payment Date”), as payment for the preceding 6-month interest period from but excluding the preceding Interest Payment Date to and including such Interest Payment Date (hereinafter the “Interest Calculation Period”); provided, however, that calculation of interest for Interest Calculation Periods shorter than 6-months, the period shall be calculated pro-rata per diem based on a year of 365 days, disregarding any units smaller than one yen generated by such calculation. Interest amount payable on each of the Bonds on each Interest Payment Date as determined pursuant to the preceding paragraph shall herein be referred to as the “Interest Amount.”
- (2) If the Interest Payment Date falls on a bank holiday for banks in Tokyo, then the payment shall be made on the immediately preceding bank business day.
- (3) After the effective date of exercise of the Stock Acquisition Rights, no interest shall be incurred on the Bonds with respect to which such Stock Acquisition Rights have been exercised. Further, interest accrued up to the effective date of exercise shall be payable within 10 business days thereof.
- (4) No interest shall accrue after the redemption date; provided, however, that if no repayment has been provided on the redemption date, a delinquency charge of 14.5% per annum shall apply from (but excluding) the redemption date, to (and including) the date on which such principle amount is paid.
- (5) Payment of interest amounts shall be handled by the Financial Agent.

13. Purchase and Extinguishment

PARCO and its subsidiaries may purchase the Convertible Bonds from time to time at any price, upon agreement with the Bondholders.

In the event that PARCO purchases the Convertible Bonds, PARCO may, at any time, by its election extinguish the Convertible Bonds (in the case that a subsidiary of PARCO purchases the same, then after the date on which such Convertible Bonds are delivered from the subsidiary for extinguishment), and the Stock Acquisition Rights connected with such Convertible Bonds shall extinguish at the same time as such Convertible Bonds.

“Subsidiary” herein refers to a “subsidiary” as defined in Article 2 Item 3 of the Companies Act.

14. The Stock Acquisition Rights

(1) Number of Stock Acquisition Rights attached to the Bonds

Each of the Bonds shall have one Stock Acquisition Right, with a total of 150 Stock Acquisition Rights issued.

(2) Payment for Stock Acquisition Rights

The Stock Acquisition Rights will not require payment therefor.

(3) Calculation of number of and type of shares subject to the Stock Acquisition Rights

(A) Type

PARCO common stock

(B) Number

The number of shares of PARCO common stock newly issued by PARCO, or number of shares of PARCO common stock held by PARCO and transferred in lieu thereof (hereinafter, such issuance or transfer of PARCO common stock shall be referred to as “delivery” of PARCO common stock) shall be equal to the total outstanding amount of the Bonds with Stock Acquisition Rights exercised at such time, divided by the valid conversion price at the time of such exercise; provided, however, that units smaller than one share shall be settled in cash pursuant to the provisions of the Companies Act (if PARCO uses a share unit system, then if there are shares fewer than the share unit as a result of exercise of the Stock Acquisition Rights, then the same shall be settled in cash pursuant to the Companies Act as if a purchase request had been exercised, and rounding down the number of shares to the nearest whole unit); further, cash amounts smaller than one whole yen shall be disregarded in such cash settlement.

(C) Conversion Price

1) Initial Conversion Price

The conversion price shall initially be 790 yen. Further, the conversion price shall be subject to adjustment pursuant to the provisions of (C) 2) through (C) 8) hereof.

2) Adjustment of the conversion price

If, after issuance of the Convertible Bonds, there is a change in the number of issued shares of PARCO common stock for any of the reasons listed in (C) 3) hereof, or there is a chance that such change may occur, then PARCO shall adjust the conversion price pursuant to the following formula (hereinafter the “Market Issuance Conversion Price Adjustment Formula”).

$$\text{Conversion price after adjustment} = \text{Conversion price prior to adjustment} \times \frac{\text{Number of shares of common stock already issued} + \frac{\text{Number of shares issued or disposed of} \times \text{Issuance or disposition price per share}}{\text{Market price}}}{\text{Number of shares of common stock already issued} + \text{number of shares issued or disposed of}}$$

3) The following provision shall apply in the case of adjustment of the conversion price of the Convertible Bonds using the Market Issuance Conversion Price Adjustment Formula, and in relation to the applicable period for the conversion price after adjustment.

(i) If persons are solicited for purchase of the PARCO common stock issued or disposed of by PARCO at a paid-in price lower than market price (defined in (C) 6)(ii) (provided, however, that in the case of (ii) below this shall exclude the exercise of stock acquisition rights including bonds with stock acquisition rights, acquisition of shares with put options or shares with call options, or PARCO common stock delivered due to exercise of other rights to require delivery of PARCO common stock, or share exchange or transfer resulting in delivery of PARCO common stock).

After (but excluding) the paid-in date or the last day of the paid-in period, or if the right to receive allocation of shares is offered, the post-adjustment conversion price shall apply from (but excluding) the reference date for determining the shareholders to be allocated such rights.

(ii) If common stock are subject to a stock split, or share allotment without contribution

The post-adjustment conversion price shall apply from (but excluding) the reference date (or if no reference date is determined, then the effective date) for determining

shareholders to acquire stock by such stock split or share allotment without contribution.

- (iii) If shares with put options, shares with call options, stock acquisition rights with call options (including bonds with stock acquisition rights) are issued requiring PARCO common stock to be delivered, or if stock acquisition rights (including bonds with stock acquisition rights) or other securities or rights are issued requiring delivery of PARCO common stock. The post-adjustment conversion price shall be calculated pursuant to the Market Issuance Conversion Price Adjustment Formula, assuming that all issued stock or stock acquisition rights or other securities or rights (hereinafter, “Shares with Put Options, etc.”) have been acquired or exercised on their original terms and PARCO common stock delivered, and the same shall apply from (but excluding) the paid-in date of such Shares with Put Options, etc., or last day of the paid-in period thereof or the reference date for determining the shareholders to be allocated stock pursuant to such offer (and if no reference date is determined, then the effective date thereof).
- (iv) In the case of (i) through (iii) above, if the reference date is determined, and if the effectiveness thereof is subject to approval by the Board of Directors or general shareholders’ meeting or other organ of PARCO, then notwithstanding the provisions of (i) through (iii) above, the post-adjustment conversion price shall apply from (but excluding) the date on which such approval is issued. In the case described above, PARCO common stock will be delivered to the person holding the Stock Acquisition Rights for which exercise was requested after such reference date, but by the date on which such approval is issued, in accordance with the following formula.

$$\text{Number of shares of common stock delivered} = \frac{\left(\begin{array}{c} \text{Pre-adjustment} \\ \text{Conversion} \\ \text{Price} \end{array} - \begin{array}{c} \text{Post-adjustment} \\ \text{Conversion} \\ \text{Price} \end{array} \right) \times \text{Number of shares of common stock delivered during such period at the pre-adjustment conversion price}}{\text{Conversion price after adjustment}}$$

Units of less than one share arising as a result of such calculation shall be disregarded, and no settlement shall be made in cash.

- 4) If PARCO makes any special dividends pursuant to (C) 5) hereof after issuance of the Convertible Bonds, the conversion price shall be adjusted pursuant to the following formula (hereinafter, the “Special Dividend Conversion Price Adjustment Formula”)

$$\text{Post-adjustment conversion price} = \text{Pre-adjustment conversion price} \times \frac{\text{Market price} - \text{amount of per-share special dividend.}}{\text{Market price}}$$

“Per-Share Special Dividend” herein refers to the special dividend divided by the number of shares subject to the Stock Acquisition Rights per bond amount (100,000,000 yen) as of the last reference date during such fiscal year in relation to distribution of surplus funds. Per-share special dividend shall be calculated to two decimal places below one whole yen, then rounded off to a single decimal place (with 5 rounded up and 4 down).

- 5) (i) “Special Dividend” herein refers to amount by which the cumulative amount during a fiscal year of the amount of surplus dividends (including money payable pursuant to the provisions of Article 455 paragraph 2 and 456 of the Companies Act; in the event of distribution in kind, the amount of distribution shall be the book value of such distribution in kind) per share of PARCO common stock on each reference date during a fiscal year multiplied by the number of shares subject to the Stock Acquisition Rights per amount (100,000,000 yen) of each Bond as of such reference date, exceeds the reference distribution amount (reference distribution amount being the amount of each of the Bonds (100,000,000 yen) divided by the initial conversion price (calculated to one decimal place then rounded off to a whole number), and multiplied by 25).
- (ii) The conversion price adjustment for special dividends shall apply from the 1st day of the month following that in which resolution was passed in relation to distribution of surplus funds pursuant to Article 454 or 459 of the Companies Act for the final reference date in relation to distributions in each fiscal year.
- 6) (i) Calculation of the Market Issuance Conversion Price Adjustment Formula and Special Dividend Conversion Price Adjustment Formula shall be made to two decimal places with the second digit below one whole yen disregarded.

- (ii) The market price to be used in the conversion price adjustment formula shall be the average of the PARCO common stock Closing Price over the 30 Trading Days (excluding days on which there is no Closing Price) commencing on the 45th Trading Day prior to the date of application of the post-adjustment conversion price.
In this case, the average price shall be calculated to two decimal places, and the second digit below one whole yen disregarded.
 - (iii) For the number of shares already issued using the Market Issuance Conversion Price Adjustment Formula, this shall be the number of already issued shares of PARCO common stock as of the date one month prior to the date on which the post-adjustment conversion price is applied, or, when shareholders are offered rights to receive allocation of stock, as of the reference date for determination of the shareholders to be allocated such rights, less the number of shares of PARCO common stock held by PARCO as of such date.
 - (iv) When the difference between the conversion price calculated using the Market Issuance Conversion Price Adjustment Formula and the pre-adjustment conversion price is less than one yen, then the conversion price adjustment shall not be made; provided, however, that if conversion price needs to be calculated again due to need for adjustment thereafter, this difference shall be deducted from the pre-adjustment conversion price to be used in the conversion price adjustment formula.
- 7) In the following cases other than adjustment of conversion price pursuant to (C) 3) and (C) 4), PARCO shall perform the necessary conversion price adjustment.
- (i) When conversion price adjustment is necessary due to merger of stock, merger, company split or share exchange.
 - (ii) When other conversion price adjustment is necessary due to change in the number of shares of common stock issued by PARCO or there is a possibility of occurrence of event.
 - (iii) When two or more causes for conversion price adjustment arise, and the impact of one event upon the market price to be used for calculation of the conversion price after adjustment for one such event.
- 8) When adjusting the conversion price pursuant to (C) 3) and (C) 7), PARCO will notify in advance to the Bondholders the reason therefore, the pre-adjustment conversion price, the post-adjustment

conversion price, the date of application thereof, and other relevant matters; provided, however, that when such notice cannot be made prior to the date on which the same becomes applicable, then it shall be made as soon as possible thereafter.

- (4) Details of assets contributed on exercise of Stock Acquisition Rights, and price and calculation thereof.
 - (A) On exercise of one Stock Acquisition Right, the Bonds related to such Stock Acquisition Right shall be funded.
 - (B) The price of assets contributed at the time of exercise of one Stock Acquisition Right shall be equal to the face value of each of the Bonds.
- (5) Period during which Stock Acquisition Rights may be exercised
The holder of the Stock Acquisition Rights may exercise such rights at any time between September 22 2010 and September 4 2015. The Stock Acquisition Rights cannot be exercised after the exercise period has elapsed.
- (6) Conditions of exercise of the Stock Acquisition Rights
Stock Acquisition Rights may not be exercised in part.
- (7) Acquisition provisions relating to the Stock Acquisition Rights
There are no acquisition provisions relating to the Stock Acquisition Rights.
- (8) Matters relating to increase in capital and capital reserves upon issuance of stock in relation to exercise of the Stock Acquisition Rights
 - (A) The amount of capital increase upon issuance of stock in relation to exercise of the Stock Acquisition Rights, shall be half of the capital increase limit calculated pursuant to Article 17 Paragraph 1 of the Corporate Accounting Regulations, with any decimal places smaller than one whole yen remaining after calculation thereof rounded up to the next whole number.
 - (B) The amount of increase in capital reserves upon issuance of stock in relation to exercise of the Stock Acquisition Rights shall be equal to the above amount of the capital increase limit in (A) less the amount by which capital is increased pursuant to the above (A).
- (9) Exercise request services in relation to the Stock Acquisition Rights shall be performed at the place specified in Article 20 hereof (hereinafter the "Exercise Request Location").
- (10) Method of requesting exercise of the Stock Acquisition Rights
 - (A) Bondholder wishing to exercise shall indicate the Convertible Bonds with Stock Acquisition Rights on the exercise request form specified by PARCO, listing the date of exercise thereof, name, affix seal thereto and submit together with documents evidencing that Bondholder is actual holder of the Bonds with Stock Acquisition Rights, confirmed on the list of bondholders, and submit to the Exercise Request Location during the exercise request period.

- (B) When the documents necessary for a request for exercise are received at an Exercise Request Location, the Stock Acquisition Rights holder cannot rescind the request.
- (11) The request for exercise of Stock Acquisition Rights shall be effective from the date on which the documents necessary for the same arrive at the Exercise Request Location pursuant to (10) above. When exercise of Stock Acquisition Rights becomes effective the Bonds relating to such Stock Acquisition Rights shall be deemed due and payable.
- (12) After exercise becomes effective, PARCO shall deliver to the exercising Bondholder such stock by recording the increase in transferred stock in the ownership column of the transfer account with the book-entry transfer institution or account management institution specified by such Bondholder.
- (13) Succession of bonds with stock acquisition rights by a succeeding company in restructuring of PARCO.

Excluding early redemption of the Convertible Bonds pursuant to Article 11(2)(A) 2), when PARCO carries out corporate restructuring, PARCO shall have the Surviving Entity deliver, to the holder of the Stock Acquisition Rights connected to the Convertible Bonds remaining immediately after such restructuring takes effect, in exchange for the Stock Acquisition Rights held by such rights holder, the following (A) through (J) as the case may be (hereinafter, the “Successor Stock Acquisition Rights”). In this case, as of the date on which the restructuring takes effect, the Stock Acquisition Rights shall be extinguished and the obligations relating to the Bonds will be assumed by the Surviving Entity, while the Stock Acquisition Rights shall be held by the holder of the Successor Stock Acquisition Rights, and the provisions of these terms and conditions as relating to the Stock Acquisition Rights shall be applied with respect to such Successor Stock Acquisition Rights.

- (A) The number of stock acquisition rights of delivered to the Surviving Entity
The same number as the number of remaining Stock Acquisition Rights held by the Convertible Bond holder immediately prior to the date on which such Corporate Restructuring Activities are effective.
- (B) Type of target shares for the stock acquisition rights of the Surviving Entity
Common stock of the Surviving Entity.
- (C) Number of shares for the stock acquisition rights of the Surviving Entity
The number of shares of common stock of the Surviving Entity to be delivered on execution of the stock acquisition rights of the Surviving Entity shall be as follows in consideration of the conditions of such Corporate Restructuring Activities and as

determined with reference to these terms and conditions. Further, the conversion price shall be adjusted as set out in Article 14(3)(C)

- 1) In the case of merger, share exchange or transfer, when the Surviving Entity exercises the stock acquisition rights immediately after the Corporate Restructuring Activities take effect, the conversion price shall be determined such that the holder of PARCO common stock receives the same number of shares of common stock of the Surviving Entity upon the Corporate Restructuring Activities as would have been received in the case of exercise of Stock Acquisition Rights immediately prior to the Corporate Restructuring Activities take effect. At the time of such Corporate Restructuring Activities, if securities or other assets other than common stock of the Surviving Entity are deliverable, then the same number of shares of common stock of the Surviving Entity may be received as calculated by dividing the fair market value of such securities or other assets by the market price of the common stock of the Surviving Entity.
- 2) In the case of other Corporate Restructuring Activities, the conversion price shall be determined such that the holder of the Convertible Bonds receives the same economic benefit in the case of exercise of the stock acquisition rights in the Surviving Entity immediately after such Corporate Restructuring Activities take effect, as they would have been received in the case of exercise of the Stock Acquisition Rights immediately prior to the same.

(D) Details of assets contributed upon execution of stock acquisition rights of the Surviving Entity, and amount and method of calculation thereof

Exercise of one stock acquisition right of the Surviving Entity shall require contribution towards one of the Bonds, and the amount of assets contributable for exercise of one stock acquisition right of the Surviving Entity shall be the same as the amount of each of the Bonds.

(E) Period during which stock acquisition rights of the Surviving Entity may be exercised

From the later of the date on which the Corporate Restructuring Activities become effective or the date of delivery of the stock acquisition rights in the Surviving Entity until the end of the period for exercise of the Stock Acquisition Rights pursuant to (5) hereof.

(F) Conditions of exercise of the stock acquisition rights in the Surviving Entity

Determined pursuant to (6) hereof

- (G) Conditions of acquiring stock acquisition rights in the Surviving Entity
None specified
- (H) Matters relating to increase of capital and capital reserves in the case of issuance of stock upon exercise of stock acquisition rights in the Surviving Entity
The amount of capital increase upon issuance of stock upon exercise of the stock acquisition rights in the Surviving Entity, shall be equal to one half of the capital increase limit calculated pursuant to Article 17 Paragraph 1 of the Corporate Accounting Regulations, with any decimal places smaller than one whole yen remaining after calculation thereof rounded up to the next whole number. The amount of capital reserves to be increased shall be equal to the capital increase limit less the amount by which capital is increased.
- (I) In the case of Corporate Restructuring Activities
Determined pursuant to (13) hereof
- (J) Other
If any units of less than one share arise in calculation of the number of shares of common stock of the Surviving Entity to be delivered as a result of exercise of stock acquisition rights in the Surviving Entity, this excess shall be disregarded and no cash adjustment shall be made (if the Surviving Entity uses a share unit system, then if shares fewer than the share unit remain as a result of exercise of the Stock Acquisition Rights, then the same shall be settled in cash pursuant to the Companies Act as if a purchase request had been exercised, rounding down the number of shares to the nearest whole unit). Further, the holder of the Convertible Bonds at the time the Corporate Restructuring Activities take effect may not transfer the Bonds other than for its stock acquisition rights in the Surviving Entity. In the event that the restrictions on transfer of the Bonds becomes legally invalid, then in exchange for the Stock Acquisition Rights and the Bonds, stock acquisition rights in the Surviving Entity attached to bonds similar to the Bonds, issued by the Surviving Entity, shall be provided to the holders of the Convertible Bonds immediately prior to the Corporate Restructuring Activities taking effect.

15. Special Terms

- (1) Restriction on Security Interests
 - (A) As long as there is outstanding unredeemed balance on the Convertible Bonds, after issuance of the Convertible Bonds, if PARCO wishes to establish a security interest over other convertible bonds with stock acquisition rights issued within Japan, then a

security interest of the same priority shall also be established in favor of the Convertible Bonds pursuant to the provisions of the Secured Bonds Trust Act. Further, convertible bonds with stock acquisition rights are bonds with stock acquisition rights as defined in Article 2.22 of the Companies Act, for the purpose of funding such bonds upon exercise of the stock acquisition rights.

(B) In the case that a security interest is established over the Convertible Bonds pursuant to (A) hereof, then in addition to providing sufficient additional security rights to secure the Bonds, public notice shall be made pursuant to the provisions of Article 41.4 of the Secured Bonds Trust Act, upon prompt completion of the necessary procedures for establishment of security interest.

(2) Conditions Relating to Financial Restrictions

PARCO covenants that it will comply with each of the following after issuance of the Convertible Bonds until the same are redeemed.

(A) That it will maintain the amount of its consolidated net assets as of the last day of the reporting period each fiscal year at no less than 75% of the greater of the consolidated net assets as of the last day of the preceding fiscal period, or the consolidated net assets as of the last day of the reporting period ended February 28, 2010; provided, however, that the impact on consolidated net assets resulting from acquisition of treasury stock by PARCO, upon prior approval of Bondholders, which accounts for more than two-thirds of the balance of the Convertible Bonds based on the balance of the Bonds at the time of decision as a standard in each fiscal year, shall be removed from the consolidated net assets as at the end of the reporting period for such fiscal year.

(B) That it will avoid making a loss for two consecutive periods in its consolidated ordinary income and consolidated net income for such period each fiscal year.

(3) Special Terms Relating to Acceleration

If any of the following events occur, PARCO shall lose the benefit of time and repayment of the Bonds shall be accelerated.

(A) PARCO infringes upon the provisions of Article 11 and Article 12 hereof and fails to perform the same within three bank business days.

(B) PARCO infringes the restrictions on security interests or financial restrictions, and fails to perform or cure the same despite 30 days notice thereof from a Bondholder requiring the same.

(C) Bonds of PARCO other than the Bonds are accelerated or PARCO fails to pay the same as and when due.

(D) PARCO loses the benefit of time with respect to any borrowing other than bonds, or fails to pay the same as and when due, or

PARCO guarantees the bonds or debts of another party and fails to perform the same as and when due; provided, however, that the same shall only apply to liabilities exceeding 500,000,000 yen (after conversion to yen in the case of foreign currency liabilities).

- (E) When PARCO petitions for commencement of bankruptcy proceedings, civil rehabilitation proceedings, corporate reorganization proceedings or special liquidation proceedings, or the board of directors proposes to the general shareholders meeting that it be dissolved (except in the case of merger).
- (F) PARCO is determined to commence bankruptcy proceedings, civil rehabilitation proceedings, corporate reorganization proceedings or ordered to commence special liquidation proceedings.

16. Bond Manager

The Convertible Bonds meet the requirements of the proviso to Article 702 of the Companies Act and no bond manager will be established.

17. Financial Agent

- (1) the Financial Agent for the Convertible Bonds shall be Structured Finance Department of Sumitomo Trust and Banking Co., Ltd.
- (2) the Financial Agent shall act as the custodian of the register of bondholders for the Bonds.
- (3) the Financial Agent shall not bear any obligations or responsibilities to bondholders of the Convertible Bonds, and shall have no agency relationship or fiduciary relationship with the bondholders of the Convertible Bonds.

18. Method of notice to bondholders

Notices to the Bondholders shall be made by public notice in the method specified by PARCO; provided, however, that with the exception of matters specially provided by law, PARCO shall provide direct written notice to the Bondholders in lieu of public notice.

19. Matters relating to bondholders meetings

- (1) Bondholders meetings in relation to the Bonds shall be convened by PARCO, according to notice provided at least two weeks in advance thereof, and public notice or notice shall be provided in relation to the matters specified in Article 719 of the Companies Act.
- (2) Bondholder meetings in relation to the Bonds shall be held in Tokyo.
- (3) Bondholders holding 10% or more of the total amount of the Bonds (excluding amounts already redeemed, and not including the total amount of such bonds held by PARCO) of a type of Bonds (pursuant to the types specified in Article 681.1 of the Companies Act), may request that a bondholder meeting be convened, upon written notice of the same

providing the reasons for convening the meeting and agenda matters to be discussed.

20. Place at which exercise can be demanded
Securities Clearing Division, Sumitomo Trust and Banking Co., Ltd.
21. Governing Law
Japanese Law
22. Other
 - (1) In addition to the above, all matters relating to issuance of the Convertible Bonds shall be determined exclusively by the Representative Director and President of PARCO.
 - (2) The Convertible Bonds are issued on condition that filing pursuant to the FIEA is valid.