

# Consolidated Financial Statements

## Consolidated Balance Sheets

February 28, 2009, 2010 and 2011

ASSETS	Millions of yen			Thousands of U.S. dollars (Note 4)
	2009	2010	2011	2011
<b>Current assets:</b>				
Cash and time deposits (Notes 5 and 13)	¥ 11,080	¥ 9,023	¥ 12,253	\$ 149,427
Notes and accounts receivable (Note 13):				
Trade	10,480	9,847	7,252	88,439
Other	2,350	2,019	3,870	47,195
Less: Allowance for doubtful accounts	(22)	(17)	(3)	(37)
	12,808	11,849	11,119	135,598
Inventories	2,618	3,119	2,751	33,549
Prepaid expenses and other current assets	908	959	917	11,183
Deferred tax assets (Note 15)	957	1,194	1,200	14,634
<b>Total current assets</b>	<b>28,373</b>	<b>26,146</b>	<b>28,241</b>	<b>344,402</b>
<b>Investments and advances:</b>				
Investment securities (Notes 9 and 13)	4,335	4,656	4,952	60,390
Investments in and advances to an unconsolidated subsidiary	20	20	20	244
Other investments	382	394	473	5,768
	4,737	5,071	5,446	66,415
<b>Property and equipment (Note 11):</b>				
Store facilities, at cost	177,877	182,058	219,224	2,673,463
Less: Accumulated depreciation	(69,471)	(73,445)	(76,639)	(934,622)
Less: Accumulated impairment losses (Note 7)	(1,291)	(1,211)	(992)	(12,098)
	107,113	107,401	141,592	1,726,732
<b>Leasehold deposits (Notes 10 and 13)</b>	<b>47,098</b>	<b>45,100</b>	<b>43,099</b>	<b>525,598</b>
<b>Deferred tax assets (Note 15)</b>	<b>2,804</b>	<b>1,783</b>	<b>1,529</b>	<b>18,646</b>
<b>Other assets</b>	<b>1,554</b>	<b>1,591</b>	<b>2,226</b>	<b>27,146</b>
<b>Total assets</b>	<b>¥191,681</b>	<b>¥187,093</b>	<b>¥222,135</b>	<b>\$2,708,963</b>

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

LIABILITIES	Millions of yen			Thousands of U.S. dollars (Note 4)
	2009	2010	2011	2011
<b>Current liabilities:</b>				
Short-term bank loans (Notes 11 and 13)	¥ 4,630	¥ 6,562	¥ 1,194	\$ 14,561
Current portion of long-term debt (Notes 11 and 13)	4,222	4,222	17,022	207,585
Notes and accounts payable (Note 13):				
Trade	19,455	17,637	16,118	196,561
Other	3,360	3,781	2,470	30,122
	22,815	21,419	18,588	226,683
Accrued income taxes (Note 15)	871	1,151	2,266	27,634
Accrued expenses	2,923	2,798	3,068	37,415
Other current liabilities	3,286	4,236	4,821	58,793
Total current liabilities	38,747	40,389	46,961	572,695
<b>Long-term debt</b> (Notes 11 and 13)	31,925	27,703	40,231	490,622
<b>Convertible bonds with stock acquisition rights</b> (Notes 11 and 13)	-	-	15,000	182,927
<b>Guarantee deposits received from tenants</b> (Note 16)	41,820	38,494	36,159	440,963
<b>Reserve for retirement benefits</b> (Note 14)	1,303	1,341	1,510	18,415
<b>Accrued retirement benefits for directors and corporate auditors</b>	11	13	-	-
<b>Allowance for loss on store closing</b>	1,809	255	44	537
<b>Other long-term liabilities</b>	445	238	360	4,390
Total liabilities	116,064	108,435	140,267	1,710,573
<b>NET ASSETS</b> (Note 19):				
Common stock				
Authorized:				
320,000,000 shares at February 28, 2009, 2010 and 2011				
Issued:				
82,475,677 shares at February 28, 2009, 2010 and 2011	26,867	26,867	26,867	327,646
Capital surplus	27,528	27,528	27,528	335,707
Retained earnings	21,527	24,317	27,400	334,146
Treasury stock, at cost (Note 20)	(60)	(60)	(61)	(744)
Unrealized gains/losses on securities, net of taxes	(104)	99	275	3,354
Foreign currency translation adjustments	(165)	(119)	(164)	(2,000)
Minority interests	24	25	23	280
Total net assets	75,617	78,657	81,868	998,390
Total liabilities and net assets	¥191,681	¥187,093	¥222,135	\$2,708,963

## Consolidated Statements of Income

For the years ended February 28, 2009, 2010 and 2011

	Millions of yen			Thousands of U.S. dollars (Note 4)
	2009	2010	2011	2011
<b>Net sales</b>	¥282,509	¥261,076	¥264,840	\$3,229,756
<b>Cost of sales</b>	240,133	221,668	225,635	2,751,646
Gross profit	42,376	39,407	39,204	478,098
<b>Other operating revenue</b>	2,600	2,611	2,819	34,378
Gross operating profit	44,976	42,019	42,024	512,488
<b>Selling, general and administrative expenses</b>	35,614	33,417	32,806	400,073
Operating income	9,362	8,601	9,218	112,415
<b>Other income (expenses):</b>				
Interest income	87	82	81	988
Interest expenses	(639)	(656)	(990)	(12,073)
Loss on disposal/sales of property and equipment	(702)	(279)	(552)	(6,732)
Loss on impairment of fixed assets (Note 7)	(110)	(411)	(38)	(463)
Loss on write-down of investment securities	(1,332)	(0)	(4)	(49)
Loss on store closing (Notes 6 and 7)	-	(619)	(341)	(4,159)
Compensation for cancellation of leasehold contracts	204	-	-	-
Loss on restructuring (Notes 7 and 8)	(894)	(148)	(14)	(171)
Amortization of leasehold right	(325)	-	-	-
Other, net	598	485	359	4,378
	(3,113)	(1,548)	(1,501)	(18,305)
Income before income taxes and minority interests	6,248	7,053	7,717	94,110
<b>Provision for income taxes (Note 15):</b>				
Current	2,742	2,302	3,189	38,890
Deferred	(218)	643	127	1,549
Total	2,523	2,945	3,317	40,451
<b>Minority interests</b>	(5)	(0)	(0)	(0)
<b>Net income</b>	¥ 3,730	¥ 4,108	¥ 4,400	\$ 53,659
			Yen	U.S. dollars (Note 4)
<b>Per share (Note 21):</b>				
Net income, basic	¥ 45.29	¥ 49.87	¥ 53.41	\$ 0.65
Net income, diluted	-	-	48.50	0.59
Cash dividends applicable to the year	¥ 16.00	¥ 16.00	¥ 17.00	\$ 0.21

The accompanying notes are an integral part of these statements.

## Consolidated Statements of Changes in Net Assets

For the years ended February 28, 2009, 2010 and 2011

	Millions of yen								
	Number of shares issued (thousands)	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Unrealized gains (losses) on securities, net of taxes	Foreign currency translation adjustments	Minority interests	Total
Balance at February 29, 2008	82,475	¥26,867	¥27,527	¥19,114	¥(57)	¥ 315	¥ 144	¥ 69	¥73,981
Net income for the year ended February 28, 2009	-	-	-	3,730	-	-	-	-	3,730
Cash dividends paid	-	-	-	(1,318)	-	-	-	-	(1,318)
Changes in foreign currency translation adjustments	-	-	-	-	-	-	(309)	-	(309)
Changes in unrealized gains (losses) on securities, net of taxes	-	-	-	-	-	(420)	-	-	(420)
Changes in minority interests	-	-	-	-	-	-	-	(44)	(44)
Acquisition of treasury stock (Note 20)	-	-	-	-	(2)	-	-	-	(2)
Sale of treasury stock (Note 20)	-	-	0	-	0	-	-	-	0
Balance at February 28, 2009	82,475	¥26,867	¥27,528	¥21,527	¥(60)	¥(104)	¥(165)	¥ 24	¥75,617
Net income for the year ended February 28, 2010	-	-	-	4,108	-	-	-	-	4,108
Cash dividends paid	-	-	-	(1,318)	-	-	-	-	(1,318)
Changes in foreign currency translation adjustments	-	-	-	-	-	-	45	-	45
Changes in unrealized gains (losses) on securities, net of taxes	-	-	-	-	-	204	-	-	204
Changes in minority interests	-	-	-	-	-	-	-	0	0
Acquisition of treasury stock (Note 20)	-	-	-	-	(0)	-	-	-	(0)
Sale of treasury stock (Note 20)	-	-	0	-	0	-	-	-	0
Balance at February 28, 2010	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)
Changes in unrealized gains (losses) on securities, net of taxes	-	-	-	-	-	175	-	-	175
Changes in minority interests	-	-	-	-	-	-	-	(1)	(1)
Acquisition of treasury stock (Note 20)	-	-	-	-	(0)	-	-	-	(0)
Balance at February 28, 2011	82,475	¥26,867	¥27,528	¥27,400	¥(61)	¥ 275	¥(164)	¥ 23	¥81,868

	Thousands of U.S. dollars (Note 4)								
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Unrealized gains (losses) on securities, net of taxes	Foreign currency translation adjustments	Minority interests	Total	
Balance at February 28, 2010	\$327,646	\$335,707	\$296,549	\$(732)	\$1,207	\$(1,451)	\$305	\$959,232	
Net income for the year ended February 28, 2011	-	-	53,659	-	-	-	-	53,659	
Cash dividends paid	-	-	(16,073)	-	-	-	-	(16,073)	
Changes in foreign currency translation adjustments	-	-	-	-	-	(549)	-	(549)	
Changes in unrealized gains (losses) on securities, net of taxes	-	-	-	-	2,134	-	-	2,134	
Changes in minority interests	-	-	-	-	-	-	(12)	(12)	
Acquisition of treasury stock (Note 20)	-	-	-	(0)	-	-	-	(0)	
Balance at February 28, 2011	\$327,646	\$335,707	\$334,146	\$(744)	\$3,354	\$(2,000)	\$280	\$998,390	

The accompanying notes are an integral part of these statements.

## Consolidated Statements of Cash Flows

For the years ended February 28, 2009, 2010 and 2011

	Millions of yen			Thousands of U.S. dollars (Note 4)
	2009	2010	2011	2011
<b>Cash flows from operating activities:</b>				
Income before income taxes and minority interests	¥ 6,248	¥ 7,053	¥ 7,717	\$ 94,110
Adjustments for:				
Depreciation and amortization	5,602	5,597	6,628	80,829
Loss on impairment of fixed assets	110	411	38	463
Increase (decrease) in allowance for doubtful accounts	(6)	18	(7)	(85)
Increase (decrease) in accrued bonuses to employees	(21)	(13)	93	1,134
Increase (decrease) in allowance for sales returns	4	5	(5)	(61)
Increase in allowance for books unsold	32	3	25	305
Increase in reserve for sales promotion	20	16	27	329
Increase in reserve for retirement benefits	186	37	169	2,061
Increase (decrease) in accrued retirement benefits for directors and corporate auditors	1	1	(13)	(159)
Interest income and dividend income	(144)	(135)	(131)	(1,598)
Interest expenses	639	656	990	12,073
Loss on sales/disposal of property and equipment	343	81	181	2,207
Gain on sales of marketable securities and investment securities	(168)	(33)	-	-
Loss on write-down of marketable securities and investment securities	1,332	0	4	49
Loss on store closing	-	619	341	4,159
Loss on restructuring	894	148	14	171
Amortization of leasehold right	325	-	-	-
(Increase) decrease in receivables	(2,602)	513	2,568	31,317
(Increase) decrease in inventories	189	(506)	368	4,488
Increase (decrease) in payables	(3,748)	(1,741)	(1,519)	(18,524)
Increase (decrease) in other assets and liabilities, net	(312)	942	(2,425)	(29,573)
Other	116	114	(19)	(232)
Subtotal	9,041	13,791	15,046	183,488
Interest and dividends received	146	135	131	1,598
Interest paid	(646)	(664)	(794)	(9,683)
Payment resulting from store closing	(532)	(2,011)	-	-
Payment for business restructuring	-	(210)	(223)	(2,720)
Income taxes paid	(5,295)	(2,118)	(2,135)	(26,037)
Net cash provided by operating activities	2,713	8,921	12,025	146,646
<b>Cash flows from investing activities:</b>				
Acquisition of marketable securities	(300)	-	-	-
Proceeds from sales of marketable securities	600	-	-	-
Acquisition of tangible fixed assets	(13,298)	(5,523)	(40,721)	(496,598)
Proceeds from sales of tangible fixed assets	34	195	1	12
Acquisition of investment securities	(7)	(1)	(4)	(49)
Proceeds from sales of investment securities	274	56	0	0
Payments for leasehold deposits	(627)	(1,933)	(2,025)	(24,695)
Collection of leasehold deposits	920	3,575	3,131	38,183
Increase (decrease) in guarantee deposits received from tenants	(1,433)	(3,424)	(1,950)	(23,780)
Other	(311)	(349)	(724)	(8,829)
Net cash used in investing activities	(14,148)	(7,405)	(42,290)	(515,732)
<b>Cash flows from financing activities:</b>				
Increase (decrease) in short-term bank loans, net	(380)	1,932	(5,368)	(65,463)
Borrowing of long-term debt	9,950	-	32,000	390,244
Repayment of long-term debt	(4,858)	(3,222)	(5,672)	(69,171)
Proceeds from issuance of bonds	4,909	-	-	-
Proceeds from issuance of bonds with stock acquisition rights	-	-	14,945	182,256
Payments for redemption of straight bonds	(2,000)	(1,000)	(1,000)	(12,195)
Acquisition of treasury stock	(2)	(0)	(0)	(0)
Cash dividends paid	(1,318)	(1,318)	(1,318)	(16,073)
Cash dividends paid to minority shareholders	(30)	-	-	-
Other	-	(8)	(50)	(610)
Net cash provided by (used in) financing activities	6,270	(3,617)	33,536	408,976
<b>Effect of exchange rate changes on cash and cash equivalents</b>	(314)	43	(40)	(488)
<b>Net increase (decrease) in cash and cash equivalents</b>	(5,478)	(2,056)	3,229	39,378
<b>Cash and cash equivalents at beginning of year</b>	16,558	11,080	9,023	110,037
<b>Cash and cash equivalents at end of year (Note 5)</b>	¥ 11,080	¥ 9,023	¥ 12,253	\$ 149,427

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 of International Financial Reporting Standards.

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

### 2. Summary of Significant Accounting Policies

#### (1) Scope of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its 7 subsidiaries as of February 28, 2009, 6 subsidiaries as of February 28, 2010, and 5 subsidiaries as of February 28, 2011.

The entire shares of HOTEL NEW CRESTON CO., LTD. held by the Company were transferred on June 1, 2009. As a result, HOTEL NEW CRESTON CO., LTD. was excluded from the scope of consolidation at the end of the 1st quarter for 2010, and was consolidated only in the 1st Quarter Consolidated Statements of Income and Consolidated Statements of Cash Flows.

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 liquidation on October 29, 2010.

The major consolidated subsidiaries for the year ended February 28, 2011 are listed below:

	Capital Stock	
	Thousands of Singapore dollars	Percentage of shares
PARCO (Singapore) Pte Ltd	S\$15,926	100.0%
STRAITS PARCO RETAIL MANAGEMENT PTE LTD	S\$ 1,000	67.0%

  

	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>
STRAITS PARCO RETAIL MANAGEMENT PTE LTD	December 31 <sup>(*)</sup>

(\*) These subsidiaries' financial statements used in the consolidation are drawn up at their respective reporting dates. Adjustments are made for the effects of significant transactions or other events that occur between these dates 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) Investments in Unconsolidated Subsidiary

The Company acquired additional shares in JAPAN RETAIL ADVISORS CO., LTD. for the year ended February 28, 2009. JAPAN RETAIL ADVISORS CO., LTD. became a subsidiary from an affiliate for the year ended February 28, 2009.

The subsidiary is not consolidated but accounted for by the equity method since total assets, net sales, net income and retained earnings of the subsidiary are not material compared to consolidated financial statements.

**(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).

Effective from the year ended February 28, 2010, the Companies adopted “Accounting Standard for Measurement of Inventories” (Statement No. 9 issued by the Accounting Standards Board of Japan on July 5, 2006). The impact of this change on profit and loss is immaterial.

**(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.

Effective from the year ended February 28, 2009, the tangible fixed assets acquired before April 1, 2007 were depreciated evenly over five years from the following fiscal year when they would be depreciated up to an allowable limit for depreciation, in accordance with the revision of the Corporation Tax Law, the Law for Partial Revision of the Income Tax Law (March 30, 2007, Law No. 6) and the Cabinet Order for Partial Revision of the Corporation Tax Law (March 30, 2007, Cabinet Order No. 83).

The impact of this change on profit and loss is immaterial.

Effective from the year ended February 28, 2010, the Companies changed the useful lives of the tangible fixed assets based on the revision of the Corporation Tax Law.

The impact of this change on profit and loss is immaterial.

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.

Effective from the year ended February 28, 2010, the Companies adopted the new accounting standard, “Accounting Standard for Lease Transactions” (Statement No. 13 issued by the Accounting Standards Board of Japan on March 30, 2007), and “Guidance on Accounting Standard for Lease Transactions” (Guidance No. 16 issued by the Accounting Standards Board of Japan on March 30, 2007). The new accounting standard requires that finance lease transactions which do not transfer ownership are accounted for in the same method as sales/purchase transactions.

This change has no effect on profit and loss.

In compliance with the new standard, 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.

Because the employee's average remaining service period fell below 12 years, the Company changed this period from 12 years to 11 years for the year ended February 28, 2009.

The impact of this change on profit and loss is immaterial.

The companies adopted "the partial amendment to the Accounting Standards for Retirement Benefits (Part 3)" (Statement No. 19 issued by the Accounting Standards Board of Japan on July 31, 2008). This change has no effect on profit and loss.

iv) Accrued Retirement Benefits for Directors and Corporate Auditors

The Companies accrue retirement benefits to directors and corporate auditors based on the respective internal rules at the amount which would be required to be paid if all directors and corporate auditors retired or left at the respective balance sheet date.

v) 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.

vi) Allowance for Loss on Store Closing

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

vii) 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) 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 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.

**(12) Consumption Tax**

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

**(13) Appropriation of Retained Earnings**

Appropriation of retained earnings is recorded when it is actually approved by the board of directors.

### 3. Change in Accounting Policy

Effective from the year ended February 28, 2010, the Companies adopted "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" (Practical Issues Task Force No. 18 issued by the Accounting Standards Board of Japan on May 17, 2006).

This change has no effect on profit and loss.

Effective from the year ended February 28, 2011, the Companies have adopted "Accounting Standard for Construction Contracts" (Statement No. 15 issued by the Accounting Standards Board of Japan on December 27, 2007) and "Implementation Guidance on Accounting Standard for Construction Contracts" (Guidance No. 18 issued by the Accounting Standards Board of Japan 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 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.

### 4. 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 ¥82 = U.S.\$1, the prevailing exchange rate on February 28, 2011. 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.

### 5. Consolidated Statements of Cash Flows

Cash and cash equivalents in the consolidated statements of cash flows for the years ended February 28, 2009, 2010 and 2011 consist of the following:

	Millions of yen			Thousands of U.S. dollars
	2009	2010	2011	2011
Cash and time deposits	¥11,080	¥9,023	¥12,253	\$149,427
Cash and cash equivalents	¥11,080	¥9,023	¥12,253	\$149,427

### 6. Loss on Store Closing

Major items in loss on store closing for the years ended February 28, 2009, 2010 and 2011 are as follows:

	Millions of yen			Thousands of U.S. dollars
	2009	2010	2011	2011
Loss on store closing	¥-	¥550	¥248	\$3,024
Impairment loss	-	69	92	1,122
Total	¥-	¥619	¥341	\$4,159

## 7. Impairment of Fixed Assets

The Companies recorded impairment losses on the following asset groups for the years ended February 28, 2009, 2010 and 2011.

For the year ended February 28, 2009			Millions of yen
Location	Use	Classification	2009
PARCO CO., LTD. Daisenya [Izunokuni City, Shizuoka]	Hotel	Buildings, etc. Land	¥315
PARCO CO., LTD. Kamiyama-cho Building [Shibuya-ku, Tokyo]	Hotel	Buildings, etc. Land	¥ 69
NEUVE A CO., LTD. Other [Shibuya-ku, Tokyo]	Store	Buildings, etc.	¥ 41
Other	Hotel Store	Buildings, etc. Software, etc.	¥157

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

The book value of Hotel is written off to its recoverable amounts because of the unforeseeable decline in its value as restructuring of hotel business. Impairment loss of 472 million yen is written off and recorded. Major items in the impairment loss of Hotel are 272 million yen for "Buildings, etc." and 200 million yen for "Land" (See Note 8). The recoverable amounts for Hotel are computed based on the selling price. The selling price is mainly based on sales contracts.

The book value of Store which incurred continuous operating losses is written off to its recoverable amounts. Impairment loss of 111 million yen is written off and recorded. Major items in the impairment loss of Store are 43 million yen for "Buildings, etc." and 68 million yen for "Software, etc." The recoverable amounts for Store are computed based on value in use. The value in use is computed based on the present value of estimated future cash flows. Because the Company does not foresee future cash flows due to decreasing profitability of Store, the book value of "Buildings, etc." is written off to zero.

For the year ended February 28, 2010			Millions of yen
Location	Use	Classification	2010
PARCO CO., LTD. Oita PARCO [Oita City, Oita]	Store	Buildings, etc.	¥201
PARCO CO., LTD. Other	Store	Buildings, etc.	¥ 94
NEUVE A CO., LTD. Other [Chuo-ku, Chiba City, etc.]	Store	Buildings, etc.	¥224
Other	Store	Buildings, etc.	¥ 0

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

The book value of Oita PARCO is written off to its recoverable amounts for continuous operating losses. Impairment loss of 131 million yen for "Buildings, etc." was written off and recorded on August 31, 2009.

The Company scheduled the closure of Oita PARCO on February 28, 2011 in view of the overall deterioration in the market environment. Loss on store closing of 324 million yen is recorded including 69 million yen of impairment loss for "Buildings, etc." The book value of "Buildings, etc." is written off to zero (See Note 6).

The book value of other assets which incurred continuous operating losses is written off to their recoverable amounts. Impairment loss of 319 million yen for "Buildings, etc." is written off and recorded. The recoverable amounts for Store are computed based on the selling price and value in use.

For the year ended February 28, 2011

Location	Use	Classification	Millions of yen	Thousands of U.S. dollars
			2011	2011
PARCO CO., LTD. Shinsaibashi PARCO [Chuo-ku, Osaka City]	Store	Buildings, etc.	¥87	\$1,061
PARCO CO., LTD. Other	Store	Buildings, etc.	¥ 5	\$ 61
NEUVE A CO., LTD. Other [Misato-City, Saitama, etc.]	Store	Buildings, etc.	¥38	\$ 463

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

The Company has decided to rebuild the main building of Shinsaibashi PARCO and change the complex format to a new shopping complex as a part of its strategy of innovating existing complexes, one of the strategies of PARCO's new medium-term business plan. The Company is scheduled the closure of Shinsaibashi PARCO in September 2011. Loss on store closing of 239 million yen (2,915 thousand U.S. dollars) is recorded including 87 million yen (1,061 thousand U.S. dollars) of impairment loss for "Buildings, etc." The book value of "Buildings, etc." is written off to zero for continuous operating losses (See Note 6).

The book value of other assets which incurred continuous operating losses is written off to their recoverable amounts. Impairment loss of 43 million yen (524 thousand U.S. dollars) for "Buildings, etc." is written off and recorded. The recoverable amounts for Store are computed based on the selling price and value in use.

## 8. Loss on Restructuring

Loss on restructuring for the year ended February 28, 2009 consists of loss on restructuring of 420 million yen and impairment loss of 474 million yen. Loss on restructuring for the year ended February 28, 2010 consists of loss on restructuring of 108 million yen and impairment loss of 39 million yen.

## 9. Securities

### Available-for-Sale Securities

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

	Millions of yen		
	Acquisition cost	Book value	Difference
As of February 28, 2009			
Book value exceeding acquisition cost:			
Equity shares	¥ 212	¥ 288	¥ 76
Book value not exceeding acquisition cost:			
Equity shares	1,238	984	(253)
Total	¥1,450	¥1,273	¥(177)
As of February 28, 2010			
Book value exceeding acquisition cost:			
Equity shares	¥ 485	¥ 830	¥ 344
Book value not exceeding acquisition cost:			
Equity shares	965	789	(176)
Total	¥1,451	¥1,619	¥ 167
As of February 28, 2011			
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 28, 2011	Thousands of U.S. dollars		
	Acquisition cost	Book value	Difference
Book value exceeding acquisition cost:			
Equity shares	\$ 5,939	\$13,341	\$ 7,390
Book value not exceeding acquisition cost:			
Equity shares	11,805	10,061	(1,744)
Total	\$17,756	\$23,402	\$ 5,646

Available-for-sale securities sold are as follows:

	Millions of yen			Thousands of U.S. dollars
	2009	2010	2011	2011
Total sold	¥274	¥56	¥-	\$-
Total gain on sales	168	33	-	-
Total loss on sales	-	-	-	-

Major items and book values of securities with no market values are as follows:

	Millions of yen	
	2009	2010
Available-for-sale securities:		
Non-listed securities	¥3,079	¥3,036
Other	2	-

Repayment schedules of available-for-sale securities with maturities are as follows:

	Millions of yen	
	2009	2010
Due within 1 year	¥2	¥-

## 10. 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.

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

The weighted average interest rates for short-term bank loans are 1.19%, 0.86% and 0.95% for the years ended February 28, 2009, 2010 and 2011, respectively.

Breakdown of long-term debt is as follows:

	Millions of yen			Thousands of U.S. dollars
	2009	2010	2011	2011
Long-term loans from banks including current portion	¥31,147	¥27,925	¥ 54,253	\$ 661,622
Weighted average interest rates of the above long-term loans	1.83%	1.85%	1.59%	-
Bonds payable:				
1.20% straight bonds due 2014	¥ 5,000	¥ 4,000	¥ 3,000	\$ 36,585
0.75% convertible bonds with stock acquisition rights due 2015	-	-	15,000	182,927
	36,147	31,925	72,253	881,134
Less: Portion due within 1 year	(4,222)	(4,222)	(17,022)	(207,585)
	¥31,925	¥27,703	¥ 55,231	\$ 673,549

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.\$10)
Total issue price	¥15,000 million (U.S.\$183 million)
Total stock amounts raised from the exercise of the stock acquisition rights	-
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, 2011 are as follows:

	Millions of yen	Thousands of U.S. dollars
Net book value of assets pledged as collateral:		
Buildings	¥ 3,311	\$ 40,378
Buildings and structures in trust	14,459	176,329
Machinery and equipment in trust	9	110
Tools, furniture and fixtures in trust	113	1,378
Land	4,445	54,207
Land in trust	10,898	132,902
	¥33,235	\$405,305

Secured liabilities as of February 28, 2011 are as follows:

	Millions of yen	Thousands of U.S. dollars
Short-term loans	¥ 252	\$ 3,073
Long-term loans	8,316	101,415
	¥8,568	\$104,488

The aggregate annual maturities of long-term debt as of February 28, 2011 are as follows:

Year ending February 28/29,	Millions of yen	Thousands of U.S. dollars
2012	¥17,022	\$207,585
2013	17,822	217,341
2014	6,759	82,427
2015	5,300	64,634
2016 and thereafter	25,350	309,146
	¥72,253	\$881,134

## 12. Leases

### (1) Finance Leases

In compliance with the new standard, 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, 2009			
Machinery and equipment	¥1,423	¥541	¥ 882
Other	409	257	152
Total	¥1,833	¥799	¥1,034

	Millions of yen		
	Acquisition costs	Accumulated depreciation	Net book value
As of February 28, 2010			
Machinery and equipment	¥1,247	¥578	¥669
Other	314	260	54
Total	¥1,562	¥838	¥723

	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

	Thousands of U.S. dollars		
	Acquisition costs	Accumulated depreciation	Net book value
As of February 28, 2011			
Machinery and equipment	\$14,256	\$ 9,073	\$5,171
Other	2,329	2,037	293
Total	\$16,585	\$11,122	\$5,463

	Millions of yen			Thousands of U.S. dollars
	2009	2010	2011	2011
Future minimum lease payments:				
Due within 1 year	¥ 341	¥288	¥238	\$2,902
Due after 1 year	713	457	221	2,695
Total	¥1,054	¥745	¥460	\$5,610

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

	Millions of yen			Thousands of U.S. dollars
	2009	2010	2011	2011
Lease expenses	¥468	¥345	¥294	\$3,585
Depreciation equivalents	452	327	287	3,500
Interest expense equivalents	19	10	7	85

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
	2009	2010	2011	2011
Future minimum lease payments:				
Due within 1 year	¥0	¥ 61	¥ 65	\$ 793
Due after 1 year	2	133	71	866
Lease rental expenses	¥3	¥194	¥136	\$1,659

**(3) Impairment Loss**

No impairment loss was allocated to leased assets for the years ended February 28, 2009, 2010 and 2011.

**13. Financial Instruments**

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

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

## i) Policy on financial instruments

The Companies procure the 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 risk and no speculative transactions are made.

## ii) Details of financial instruments and their risks

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

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

The majority of trade 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. Because some loans have variable interest rates, the Companies are exposed to interest fluctuation risk.

## 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 the credit risk by controlling the due dates and balances by 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 the credit risk, the Companies make derivative transactions with financial institutions with high credit ratings.

## 2. Management of interest 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.

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 the 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

As of February 28, 2011, book value, fair value and their differences are as follows. The financial instruments that are difficult to obtain fair value are excluded. (See Note II below)

	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	¥ -	¥ -	¥ -

	Thousands of U.S. dollars		
	Book value	Fair value	Difference
(i) Cash and time deposits	\$ 149,427	\$ 149,427	\$ -
(ii) Notes and accounts receivable-trade	88,439	88,439	-
(iii) Investment securities	23,402	23,402	-
(iv) Leasehold deposits	155,634	149,756	(5,866)
<b>Total</b>	<b>\$ 416,915</b>	<b>\$ 411,037</b>	<b>\$(5,866)</b>
(i) Short-term bank loans	\$ 14,561	\$ 14,561	\$ -
(ii) Current portion of long-term debt	207,585	207,585	-
(iii) Notes and accounts payable-trade	196,561	196,561	-
(iv) Long-term bank loans	466,232	473,683	7,451
(v) Bonds	24,390	24,122	(256)
(vi) Convertible bonds with stock acquisition rights	182,927	177,415	(5,500)
<b>Total</b>	<b>\$1,092,256</b>	<b>\$1,093,951</b>	<b>\$ 1,695</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 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.

- (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 by the rate which the Companies assume to pay to borrow a new loan. As for long-term loans with variable interest rates, the interest rate swapping exception rule applies. As such, the total amount of the principal and interest calculated by an applicable interest rate swap is 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 are 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 special case interest swap treatment are included in the fair value of long-term debt since such interest swap is treated together with long-term debt being hedged.

Note: II. Financial instruments that are considered difficult to obtain fair value are as follows:

Classification	Millions of yen
Non-listed securities	¥ 3,053
Leasehold deposits	30,336
Guarantee deposits received from tenants	36,159

  

Classification	Thousands of U.S. dollars
Non-listed securities	\$ 37,232
Leasehold deposits	369,951
Guarantee deposits received from tenants	440,963

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. Redemption schedule for receivables is as follows:

	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
Total	¥19,516	¥6,911	¥4,015	¥1,824

  

	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	\$149,427	\$ -	\$ -	\$ -
Notes and accounts receivable-trade	88,439	-	-	-
Leasehold deposits	134	84,280	48,963	22,244
Total	\$238,000	\$84,280	\$48,963	\$22,244

Note: IV. 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
Long-term bank loans	¥-	¥31,031	¥7,200	¥-
Bonds	-	2,000	-	-
Convertible bonds with stock acquisition rights	-	15,000	-	-
Total	¥-	¥48,031	¥7,200	¥-

  

	Thousands of U.S. dollars			
	Within 1 year	Over 1 year, within 5 years	Over 5 years, within 10 years	Over 10 years
Long-term bank loans	\$-	\$378,427	\$87,805	\$-
Bonds	-	24,390	-	-
Convertible bonds with stock acquisition rights	-	182,927	-	-
Total	\$-	\$585,744	\$87,805	\$-

#### 14. Retirement Benefit Plan

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

	Millions of yen			Thousands of U.S. dollars
	2009	2010	2011	2011
Retirement benefit obligation	¥(5,143)	¥(4,851)	¥(4,767)	\$(58,134)
Fair value of pension assets	2,175	2,456	2,347	28,622
Unrecognized prior service costs	(839)	(670)	(502)	(6,122)
Unrecognized actuarial differences	1,773	1,115	907	11,061
Unrecognized transition amount arising from adopting the new standard	729	608	503	6,134
Reserve for retirement benefits	¥(1,303)	¥(1,341)	¥(1,510)	\$(18,415)

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

	Millions of yen			Thousands of U.S. dollars
	2009	2010	2011	2011
Service costs	¥ 298	¥ 236	¥ 268	\$ 3,268
Interest costs	95	97	96	1,171
Expected return on plan assets	(53)	(41)	(49)	(598)
Amortization of unrecognized prior service costs	(199)	(168)	(168)	(2,049)
Amortization of unrecognized actuarial differences	333	340	270	3,293
Amortization of unrecognized transition amount arising from adopting the new standard	107	106	105	1,280
Premium severance pay	-	50	30	366
Prepaid retirement benefit	111	114	110	1,341
Others	-	(27)	-	-
Retirement benefit expenses	¥ 692	¥ 709	¥ 663	\$ 8,085

Discount rate and rate of expected return on plan assets used are mainly 2.0% for 2009, 2010 and 2011. Prior service costs and actuarial differences are amortized on a straight-line basis mainly over 11 years for 2009, 2010 and 2011. 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)).

## 15. 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 2009, 2010 and 2011.

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

	Millions of yen			Thousands of U.S. dollars
	2009	2010	2011	2011
Deferred tax assets:				
Adjustments for unrealized gains	¥ 845	¥ 814	¥ 785	\$ 9,573
Retirement benefits to directors and corporate auditors	94	92	-	-
Accrued bonuses to employees	388	370	408	4,976
Reserve for sales promotion	83	90	101	1,232
Accrued corporate enterprise tax	95	176	198	2,415
Allowance for doubtful accounts	102	109	101	1,232
Reserve for retirement benefits	578	629	661	8,061
Loss on impairment of fixed assets	608	362	257	3,134
Allowance for loss on store closing	736	103	180	2,195
Loss on restructuring	254	102	-	-
Unrealized losses on securities	72	-	-	-
Real estate acquisition taxes payable	109	112	112	1,366
Others	288	472	366	4,463
Gross deferred tax assets	4,258	3,437	3,175	38,720
Less: Valuation allowance	(406)	(275)	(176)	(2,146)
Total deferred tax assets	¥3,851	¥3,161	¥2,999	\$36,573
Deferred tax liabilities:				
Unrealized gains on securities	-	94	199	2,427
Investment in a subsidiary	70	70	70	854
Others	18	18	0	0
Total deferred tax liabilities	¥ 89	¥ 183	¥ 269	\$ 3,280
Net deferred tax assets	¥3,761	¥2,977	¥2,729	\$33,280

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

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

The difference between the statutory income tax rate and the effective income tax rate for 2009 and 2010 is not disclosed as the difference is less than 5%.

#### 16. 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.

#### 17. Derivative Information

The Companies enter into interest rate swap agreements in order to minimize the risk of fluctuation in interest 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.

Derivatives that are designated as "hedging instruments" are not disclosed in the accompanying financial statements for 2009 and 2010.

The derivative instruments for the year ended February 28, 2011 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 swap treatment	Interest rate swap transaction (fluctuating receipts/fixed payments)	Long-term bank loans	¥37,325	¥25,255	(See Note)

			Thousands of U.S. dollars		
			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 swap treatment	Interest rate swap transaction (fluctuating receipts/fixed payments)	Long-term bank loans	\$455,183	\$307,988	(See Note)

Note: The fair values of special case interest swap treatment are included in the fair value of long-term debt since such interest swap is treated together with long-term debt being hedged.

## 18. Segment Information

### (1) Business Segment Information

Millions of yen							
For the year ended February 28, 2009:	Shopping complex	Retail	Space engineering and management	Others	Total	Elimination	Consolidated
Sales:							
External customers	¥264,344	¥ 7,030	¥11,875	¥1,859	¥285,109	¥ -	¥285,109
Intersegment	250	10,048	10,561	359	21,220	(21,220)	-
<b>Total</b>	<b>264,595</b>	<b>17,079</b>	<b>22,437</b>	<b>2,218</b>	<b>306,330</b>	<b>(21,220)</b>	<b>285,109</b>
Operating expenses	255,769	16,802	22,053	2,343	296,969	(21,221)	275,747
Operating income/(loss)	¥ 8,826	¥ 276	¥ 383	¥ (125)	¥ 9,361	¥ 0	¥ 9,362
Assets	¥186,691	¥ 5,055	¥10,655	¥ 412	¥202,814	¥(11,133)	¥191,681
Depreciation and amortization	5,278	352	33	33	5,697	(94)	5,602
Loss on impairment of fixed assets	387	42	-	156	586	(2)	584
Capital expenditures	13,913	332	11	59	14,316	(637)	13,679

Millions of yen							
For the year ended February 28, 2010:	Shopping complex	Retail	Space engineering and management	Others	Total	Elimination	Consolidated
Sales:							
External customers	¥245,960	¥ 7,269	¥ 9,840	¥618	¥263,688	¥ -	¥263,688
Intersegment	50	9,702	7,918	335	18,007	(18,007)	-
<b>Total</b>	<b>246,010</b>	<b>16,971</b>	<b>17,758</b>	<b>954</b>	<b>281,695</b>	<b>(18,007)</b>	<b>263,688</b>
Operating expenses	238,005	16,668	17,549	928	273,151	(18,065)	255,086
Operating income	¥ 8,005	¥ 303	¥ 209	¥ 26	¥ 8,543	¥ 57	¥ 8,601
Assets	¥182,854	¥ 5,116	¥ 9,629	¥176	¥197,777	¥(10,683)	¥187,093
Depreciation and amortization	5,320	315	41	7	5,684	(87)	5,597
Loss on impairment of fixed assets	306	230	-	-	536	(15)	520
Capital expenditures	5,795	327	97	99	6,319	(457)	5,862

Millions of yen							
For the year ended February 28, 2011:	Shopping complex	Retail	Space engineering and management	Others	Total	Elimination	Consolidated
Sales:							
External customers	<b>¥248,307</b>	<b>¥ 7,918</b>	<b>¥11,192</b>	<b>¥241</b>	<b>¥267,659</b>	<b>¥ -</b>	<b>¥267,659</b>
Intersegment	-	<b>7,477</b>	<b>7,638</b>	<b>349</b>	<b>15,466</b>	<b>(15,466)</b>	-
<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	<b>239,873</b>	<b>15,063</b>	<b>18,445</b>	<b>574</b>	<b>273,957</b>	<b>(15,515)</b>	<b>258,441</b>
Operating income	<b>¥ 8,434</b>	<b>¥ 332</b>	<b>¥ 385</b>	<b>¥ 16</b>	<b>¥ 9,169</b>	<b>¥ 49</b>	<b>¥ 9,218</b>
Assets	<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	<b>6,386</b>	<b>265</b>	<b>45</b>	<b>4</b>	<b>6,702</b>	<b>(74)</b>	<b>6,628</b>
Loss on impairment of fixed assets	<b>94</b>	<b>39</b>	-	-	<b>133</b>	<b>(2)</b>	<b>130</b>
Capital expenditures	<b>41,299</b>	<b>236</b>	<b>7</b>	<b>0</b>	<b>41,544</b>	<b>(15)</b>	<b>41,528</b>

Thousands of U.S. dollars

For the year ended February 28, 2011:	Shopping complex	Retail	Space engineering and management	Others	Total	Elimination	Consolidated
<b>Sales:</b>							
External customers	\$3,028,134	\$ 96,561	\$136,488	\$2,939	\$3,264,134	\$ -	\$3,264,134
Intersegment	-	91,183	93,146	4,256	188,610	(188,610)	-
<b>Total</b>	<b>3,028,134</b>	<b>187,756</b>	<b>229,634</b>	<b>7,207</b>	<b>3,452,756</b>	<b>(188,610)</b>	<b>3,264,134</b>
Operating expenses	2,925,280	183,695	224,939	7,000	3,340,939	(189,207)	3,151,720
Operating income	\$ 102,854	\$ 4,049	\$ 4,695	\$ 195	\$ 111,817	\$ 598	\$ 112,415
<b>Assets</b>	<b>\$2,661,195</b>	<b>\$ 59,402</b>	<b>\$109,463</b>	<b>\$2,354</b>	<b>\$2,832,439</b>	<b>\$(123,463)</b>	<b>\$2,708,963</b>
Depreciation and amortization	77,878	3,232	549	49	81,732	(902)	80,829
Loss on impairment of fixed assets	1,146	476	-	-	1,622	(24)	1,585
Capital expenditures	503,646	2,878	85	0	506,634	(183)	506,439

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

Management of hotels (until the year ended February 28, 2010)

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 nor 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 years ended February 28, 2009, 2010 and 2011.

## (3) Export Sales Information

Export sales information is not prepared nor disclosed since the sales to overseas customers are less than 10% of the consolidated net sales for the years ended February 28, 2009, 2010 and 2011.

## 19. 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 price 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, 2011 include amounts representing year-end cash dividend of ¥741 million (\$9,037 thousand), ¥9.0 (\$0.11) per share, which was resolved at the Board of Directors meeting held on April 13, 2011.

## 20. Treasury Stock

Breakdown of treasury stock (common stock) for the years ended February 28, 2009, 2010 and 2011 is as follows:

	Number of shares outstanding (thousands)
Balance at February 29, 2008	93
Purchase of fractional shares from stockholders	2
Sales of fractional shares to stockholders	(0)
Balance at February 28, 2009	95
Purchase of fractional shares from stockholders	0
Sales of fractional shares to stockholders	(0)
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

## 21. Net Income per Share

Basis of computation of basic net income and diluted net income per share ("EPS") for the years ended February 28, 2009, 2010 and 2011 are as follows:

	Net income	Weighted-average shares	EPS	
	Millions of yen	Thousands of shares	Yen	
For the year ended February 28, 2009				
Basic EPS:				
Net income available to common shareholders	¥3,730	82,380	¥45.29	
For the year ended February 28, 2010				
Basic EPS:				
Net income available to common shareholders	¥4,108	82,379	¥49.87	
For the year ended February 28, 2011				
Basic EPS:				
Net income available to common shareholders	¥4,400	82,379	¥53.41	\$0.65
Effect of dilution				
Convertible bonds with stock acquisition rights	31	8,999		
Diluted ESP-Net income for computation	¥4,431	91,378	¥48.50	\$0.59

**Independent Auditors' Report**

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

We have audited the accompanying consolidated balance sheets of PARCO Co., Ltd. and consolidated subsidiaries as of February 28, 2009, 2010 and 2011, and the related consolidated statements of income, changes in net assets and cash flows for each of the three years in the period ended February 28, 2011, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently 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 plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of PARCO Co., Ltd. and consolidated subsidiaries as of February 28, 2009, 2010 and 2011, and the consolidated results of their operations and their cash flows for each of the three years in the period ended February 28, 2011, in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended February 28, 2011 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 4 to the consolidated financial statements.

**KPMG AZSA LLC**

Tokyo, Japan  
May 30, 2011