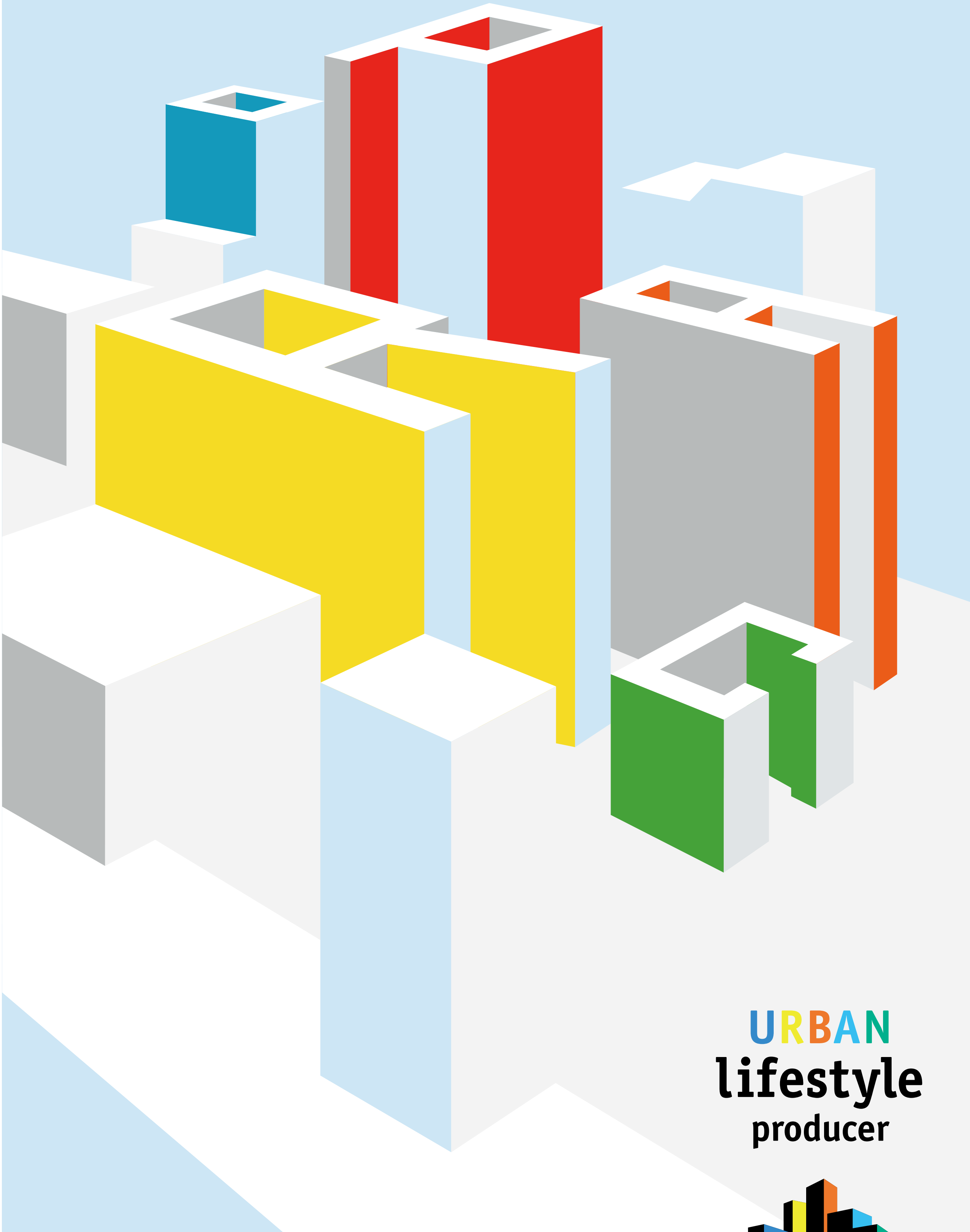
PARCO

2011 Management Review



URBAN
lifestyle
producer

Contents

Vision Book

This corporate Management Review is designed to provide financial and management data about PARCO CO., LTD. For details on PARCO's vision and business activities, please refer to the separate Vision Book.

Cautionary Statement About Forecasts

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

Note on Fiscal Year Notation

In this report, fiscal 2010 refers to the fiscal year from March 1, 2010 to February 28, 2011.

Overview of the PARCO Group (As of February 28, 2011)

Shopping Complex Business

- Development, management and operation of shopping complexes

PARCO CO., LTD.

Head Office:	8-16 Shinsen-cho, Shibuya-ku, Tokyo
Established:	February 13, 1953
Capital:	¥26,867 million
Number of employees:	633
Number of shopping complexes:	20
Net sales in fiscal 2010:	¥245,488 million

PARCO (Singapore) Pte Ltd

Head Office:	9 Raffles Boulevard #03-02 Millenia Walk, Singapore 039596
Established:	November 25, 1991
Capital:	S$15,926 thousand (Singapore dollars)

Retail Business

- Sales of clothing and sundries

NEUVE A CO., LTD.

Head Office:	8-16 Shinsen-cho, Shibuya-ku, Tokyo
Established:	June 1, 2001
Capital:	¥490 million
Number of employees:	471
Number of locations:	140
Net sales in fiscal 2010:	¥15,396 million

Space Engineering and Management Business

- Building maintenance, including interior design, construction, cleaning, security and safety operations

PARCO SPACE SYSTEMS CO., LTD.

Head Office:	8-16 Shinsen-cho, Shibuya-ku, Tokyo
Established:	April 1, 1969
Capital:	¥490 million
Number of employees:	839
Number of locations:	23
Net sales in fiscal 2010:	¥18,830 million

Other Business

- Internet-related businesses

PARCO-CITY CO., LTD.

Head Office:	8-16 Shinsen-cho, Shibuya-ku, Tokyo
Established:	March 1, 2000
Capital:	¥10 million
Number of employees:	46
Net sales in fiscal 2010:	¥600 million

For additional details, please refer to the Group Companies page of the PARCO Website:

➪ **http://www.parco.co.jp/group/en/parco_group/**

Attaining our vision for fiscal 2015

The focus of our current medium-term business plan (fiscal 2010 to fiscal 2012) is to become an

"Urban Lifestyle Producer" proposing new, more fulfilling lifestyles.

In fiscal 2011, the PARCO Group will continue to renovate existing shopping malls and further fortify its shopping center business by pursuing overseas expansion. At the same time, the Group will also seek to expedite development of related and new businesses.

2011 April

Expanding Overseas Business

Memorandum of Understanding signed with CapitaMalls Asia Limited (CMA) regarding business collaborations in China and Japan

Examples of retail properties in Asia managed by CMA

Raffles City Shanghai

ION Orchard (Singapore)

Expansion of Commercial Activities in Urban Areas

Spanish casual brand "Bershka" opens first store in Japan in Shibuya PARCO ZERO GATE

Shibuya PARCO ZERO GATE Bershka

Accelerated Development of E-commerce Business

Business and capital alliance formed with Stylife Corporation Trend-setting fashion site "Stylife" opened on the PARCO-CITY online shopping mall

PARCO-CITY online shopping mall (Stylife opening campaign)

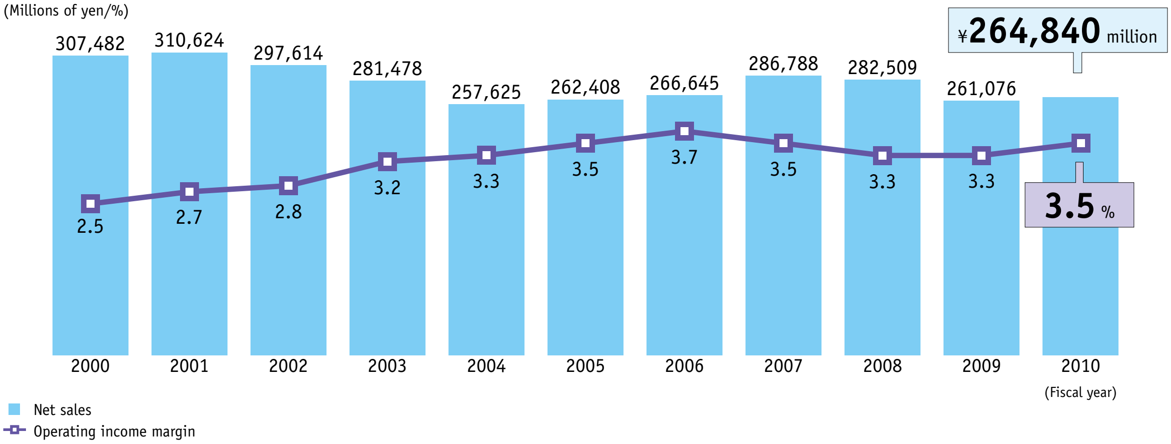
Consolidated Eleven-Year Summary

PARCO CO., LTD. and Consolidated Subsidiaries
For the fiscal years ended February 28/29, 2001–2011

	FY2000	FY2001	FY2002	FY2003
Operating Results:				
Net sales	¥307,482	¥310,624	¥297,614	¥281,478
Shopping complex business	248,891	250,318	246,810	244,348
Retail business	62,112	58,539	51,770	37,703
Space engineering and management business	33,344	34,307	26,949	23,577
Other business	3,633	3,555	3,484	3,025
Cost of sales	257,922	261,024	251,598	238,562
Other operating revenue	1,482	1,384	1,605	1,532
Selling, general and administrative expenses	43,456	42,659	39,273	35,553
Operating income	7,587	8,325	8,348	8,894
Ordinary income	6,205	7,082	7,328	7,792
Net income	683	2,454	2,373	2,791
Financial Position:				
Total assets	¥248,268	¥230,561	¥222,541	¥203,688
Shareholders' equity*2	44,536	52,916	55,209	54,575
Net assets	–	–	–	–
Shareholders' equity ratio (%)	17.9	23.0	24.8	26.8
Interest-bearing debt	100,480	79,829	80,150	67,341
Debt/equity ratio (times)	2.26	1.51	1.45	1.23
Per Share Data:				
Net income, basic*3 (yen)	¥ 12.18	¥ 34.38	¥ 30.94	¥ 36.97
Net income, diluted (yen)	–	–	–	–
Shareholders' equity (yen)	794.52	702.97	717.59	767.07
Net assets (yen)	–	–	–	–
Cash dividends (yen)	8.00	8.00	8.00	8.00
Major Indicators:				
Return on equity (ROE) (%)	1.5	5.0	4.4	5.1
Return on assets (ROA) (%)*4	2.5	3.0	3.2	3.7
Capital investment	¥ 5,008	¥ 7,085	¥ 5,100	¥ 4,213
Depreciation and amortization	4,546	4,333	4,267	4,102
EBITDA*5	12,133	12,658	12,615	12,996
Free cash flow	4,012	10,638	3,625	10,269

*1. U.S. dollar amounts have been translated, for convenience only, at the rate of ¥82=US$1.
*2. From fiscal 2006, listing of net assets has been changed due to application of accounting standards. In order to facilitate comparison, figures from fiscal 2006 and beyond are listed as net assets less minority interests while figures from fiscal 2005 and prior years are listed as total equity.

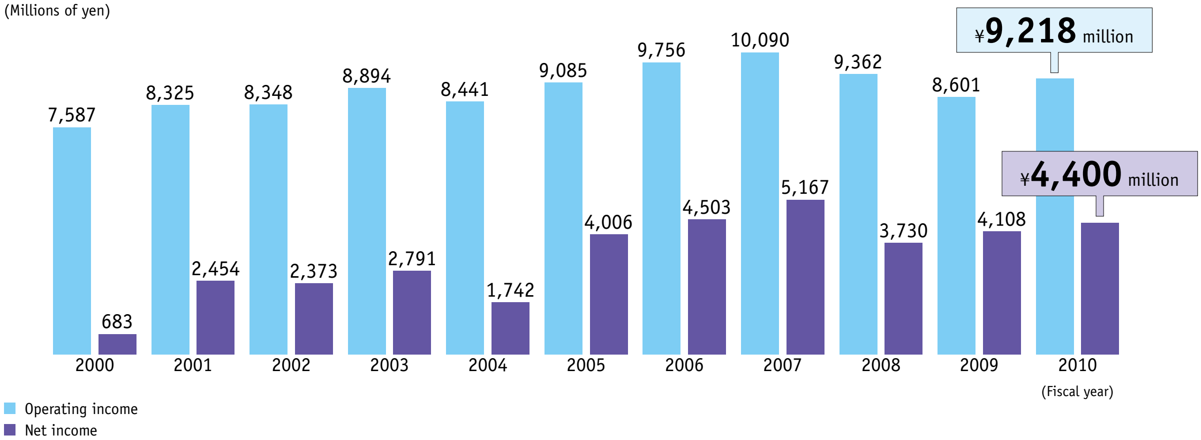
Net sales/Operating income margin
(Millions of yen/%)



						Millions of yen	Thousands of U.S. dollars*1
FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	**FY2010**	**FY2010**
¥257,625	¥262,408	¥266,645	¥286,788	¥282,509	¥261,076	**¥264,840**	**$3,229,756**
238,410	244,884	248,725	266,263	264,595	246,010	**248,307**	**3,028,134**
15,320	15,946	16,718	17,097	17,079	16,971	**15,396**	**187,756**
25,729	21,985	22,754	26,365	22,437	17,758	**18,830**	**229,634**
2,510	2,586	2,449	2,330	2,218	954	**591**	**7,207**
221,111	224,866	228,467	245,198	240,133	221,668	**225,635**	**2,751,646**
1,649	1,923	2,008	2,493	2,600	2,611	**2,819**	**34,378**
29,722	30,380	30,429	33,992	35,614	33,417	**32,806**	**400,073**
8,441	9,085	9,756	10,090	9,362	8,601	**9,218**	**112,415**
8,079	8,879	9,594	9,973	9,171	8,554	**8,750**	**106,707**
1,742	4,006	4,503	5,167	3,730	4,108	**4,400**	**53,659**
¥187,993	¥182,381	¥182,553	¥189,989	¥191,681	¥187,093	**¥222,135**	**$2,708,963**
61,760	66,975	70,581	73,912	75,592	78,632	**81,844**	**998,098**
–	–	70,777	73,981	75,617	78,657	**81,868**	**998,390**
32.9	36.7	38.7	38.9	39.4	42.0	**36.8**	
48,732	38,883	34,863	33,065	40,777	38,487	**73,447**	**895,695**
0.79	0.58	0.49	0.45	0.54	0.49	**0.90**	
¥ 21.87	¥ 49.26	¥ 54.83	¥ 62.73	¥ 45.29	¥ 49.87	**¥ 53.41**	**$ 0.651**
–	–	–	–	–	–	**48.50**	**0.591**
763.9	817.6	–	–	–	–	**–**	**–**
–	–	856.74	897.19	917.61	954.52	**993.52**	**12.116**
10.00	11.00	13.00	15.00	16.00	16.00	**17.00**	**0.207**
3.0	6.2	6.5	7.2	5.0	5.3	**5.5**	
4.1	4.8	5.3	5.4	4.8	4.5	**4.3**	
¥ 7,369	¥ 8,688	¥ 7,474	¥ 10,163	¥ 14,306	¥ 7,796	**¥ 43,553**	**$ 531,134**
4,140	3,944	3,883	4,585	5,591	5,588	**6,618**	**80,707**
12,581	13,029	13,639	14,676	14,953	14,189	**15,837**	**193,134**
8,670	10,533	6,649	6,093	(11,434)	1,516	**(30,265)**	**(369,085)**

*3. Adjusted by the weighted average number of shares.
*4. ROA = Ordinary income / Average total assets. Ordinary income = Operating income + Non-operating income – Non-operating expenses
*5. EBITDA: Earnings before interest, taxes, depreciation and amortization = Operating income + Depreciation and amortization

Operating income/Net income
(Millions of yen)



Corporate Governance

Fundamental Policy

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

Board of Directors

The Board of Directors is responsible for deciding fundamental policies regarding management, and for the supervision of directors and executive officers. The Board of Directors comprises ten directors (of which eight are external directors), and it convenes once a month, with additional irregular meetings held flexibly as necessary. In fiscal 2010, the Board of Directors convened a total of 14 times for both regular and irregular meetings.

Committees

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

■ Nominating Committee

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

In fiscal 2010, the Nominating Committee convened nine times.

■ Audit Committee

The Audit Committee monitors the execution of business by directors and executive officers, and determines the content of proposals to be submitted at the General Meeting of Shareholders regarding the selection or dismissal of the financial auditor. The Audit Committee comprises five external directors. (They are all independent directors.)

In fiscal 2010, the Audit Committee convened 13 times.

■ Compensation Committee

The Compensation Committee determines the compensation of individual directors and executive officers. The Compensation Committee comprises five external directors. (They are all independent directors.)

In fiscal 2010, the Compensation Committee convened four times.

Executive Officers and the Management Committee

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

The Management Committee is a deliberative organ designed to facilitate decision making by a president and representative executive officer in the execution of concrete business operations. The members of the Management Committee comprise directors who also serve as executive officers, the Executive Officer for the Store Operation Headquarters, the Executive Officer for the Finance and IR Group, and the Accounting Group, and the executive officers for the Group Auditor Office, and departments related to submitting proposals.

Group Auditor Office

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

Role of External Directors

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

Internal Controls

■ Fundamental Policy

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

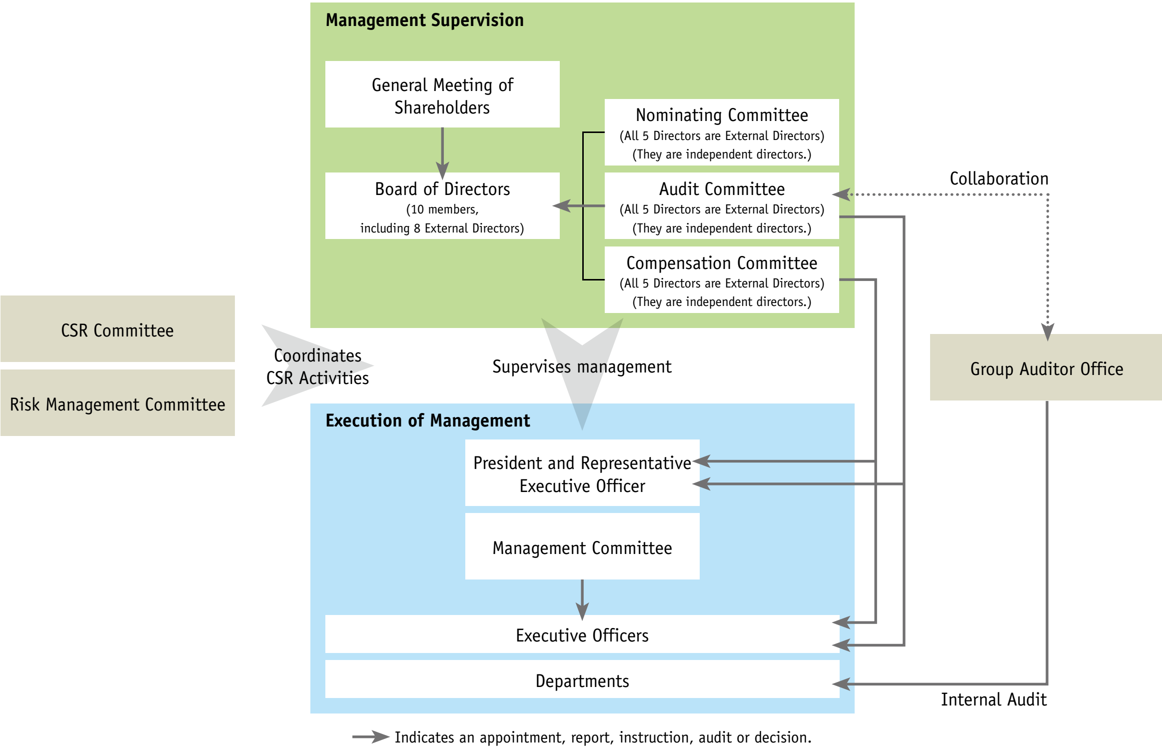
■ Compliance Structure

As part of its measures for the compliance structure, PARCO has implemented an internal awareness program that includes formulation of the Basic Principles of Compliance, and a Code of Conduct, which all employees are expected to adhere to and follow, and distribution of the PARCO Employee Handbook incorporating management principles, ten action guidelines designed to ensure application of these principles, as well as compliance guidelines. Also, in consideration of compliancy and risk management, we have set up an internal reporting system to protect the persons providing information from any negative consequences that might arise from disclosure.

■ Risk Management Structure

PARCO has established a Risk Management Committee chaired by the Administration Division general manager, to provide cross-organizational monitoring of various risks, company-wide response, and general control. We have also established a CSR Committee, chaired by the managing executive officer, which coordinates activity with the Risk Management Committee as necessary, to control and efficiently implement risk management and other CSR activities, increasing the speed and effectiveness of conduct.

Framework for Management Supervision and Execution



For further information about corporate governance at PARCO, please visit the Corporate Governance page of our website:
www.parco.co.jp/group/en/corporate/ > Corporate > Corporate Governance

Management's Discussion and Analysis

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

President and Representative Executive Officer
Kouzou Makiyama

Current Situation

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

Evaluating Fiscal 2010 Results

■ Overview

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

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

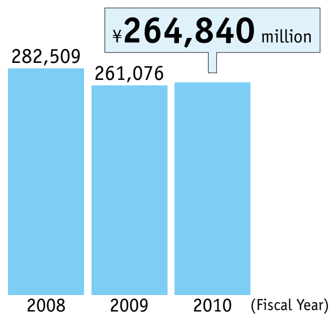
The upshot of these efforts was an increase in consolidated net sales of 1.4%, or ¥3,763 million, to ¥264,840 million. Contributing factors included strong performance across the Group as a whole, and brisk sales at Fukuoka PARCO, opened in March. Gross profit was down 0.5%, or ¥202 million, to ¥39,204 million. The gross profit ratio also fell, by 0.3 of a percentage point, to 14.8%.

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

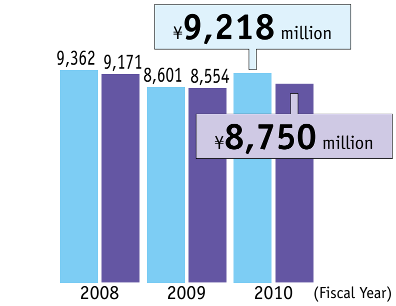
Operating income jumped 7.2%, or ¥617 million, to ¥9,218 million. The operating income margin increased 0.2 percentage point to 3.5%.

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

Net sales
(Millions of yen)

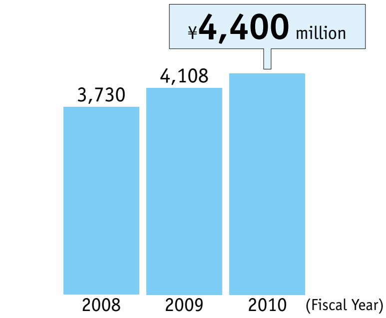


Operating income/Ordinary income
(Millions of yen)

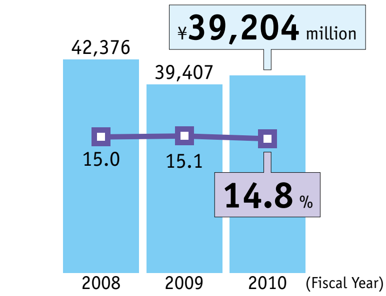


Operating income
Ordinary income

Net income
(Millions of yen)

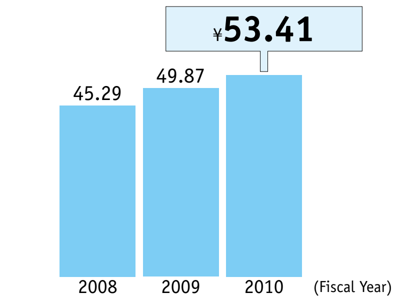


Gross profit/Gross profit ratio
(Millions of yen/%)

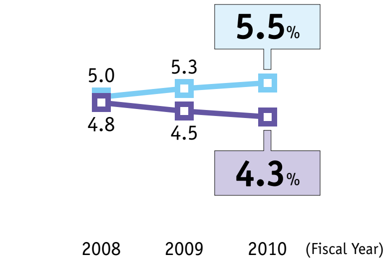


Gross profit
Gross profit ratio

Net income per share
(Yen)



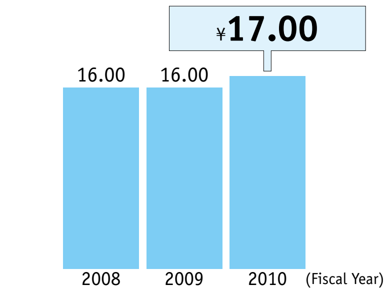
ROE/ROA
(%)



ROE
ROA

*ROE (Return on Equity) = Net income / Shareholders' equity (average at start and end of fiscal year) x 100
This management indicator highlights management efficiency by showing how much profit was generated in a year.
*ROA (Return on Assets) = Ordinary income / Total assets (average at start and end of fiscal year) x 100
This indicator highlights overall profitability by showing whether a company's assets are being used effectively to secure profit.

Cash dividends per share
(Yen)



Net sales and operating income by segment (Fiscal 2010)

(Millions of yen)

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

*Net sales by segment include other operating revenue.

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

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

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

Our medium-term business plan outlined consolidated forecasts for net sales, operating income, ordinary income, and net income in fiscal 2010 of ¥264,000 million, ¥8,700 million, ¥8,300 million, and ¥4,200 million respectively. Actual results exceeded these figures on all counts. In line with our policy of maintaining stable shareholder returns, this positive performance allowed us to increase the year-end dividend by ¥1, from ¥8 to ¥9, giving a total cash dividend per share of ¥17.

■ Segment Performances

Shopping Complex Business

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

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

Total store sales increased year on year. Contributing factors included brisk sales at a number of our stores including Fukuoka PARCO, opened in March, 2010. In addition, store remodeling and business planning at Shizuoka PARCO (opened in March 2007), Urawa PARCO (opened in October 2007), and Sendai PARCO (opened in August 2008), all stores that opened under the previous business plan, allowed us to expand our consumer base and strengthen our presence in local markets.

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

Sales by store

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

*1 The year-on-year percentage change excludes figures for the NosVos by PARCO annex which closed on February 28, 2010.
*2 Excludes figures for Fukuoka PARCO (opened on March 19, 2010), Hibarigaoka PARCO's NosVos by PARCO annex (closed on February 28, 2010), and Oita PARCO (closed on January 31, 2011).

● Innovation at existing complexes

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

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

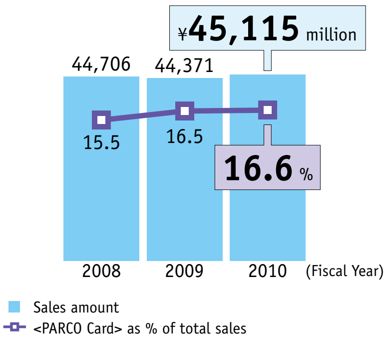
In business planning, in addition to store sales, the PARCO Group was successful in securing solid customer numbers and sales through seasonal campaigns and promotions for the PARCO Card.

Sales data (Non-consolidated)

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

<PARCO Card> Sales amount

(Millions of yen/%)



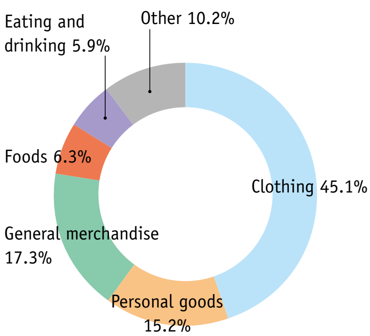
Year-on-year sales comparison by category (Non-consolidated)

(%)

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

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

Share of sales by category (Non-consolidated)

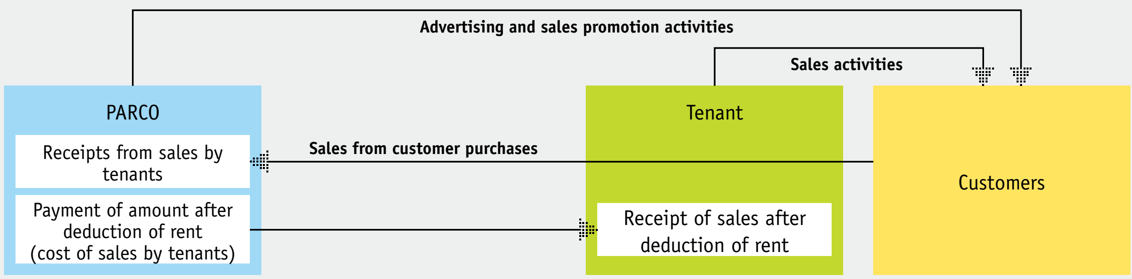


Profit structure for the shopping complex business

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

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

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



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

Oita PARCO closed on January 31, 2011.

● Expanding overseas business

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

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

● Rapid development of related and new businesses

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

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

Retail Business

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

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

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

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

Our two social contribution projects that were started in fiscal 2009, the watch trade-in campaign and the Pink Ribbon Project (promotion of breast cancer screening), continued in fiscal 2010. In addition, we launched a new campaign under which customers can trade in their used bags and wallets, which are then used as fuel in a waste-to-energy scheme aimed at reducing CO_2 emissions.

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

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

Space Engineering and Management Business

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

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

Other Business

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

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

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

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

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

Financial Position

■ Assets

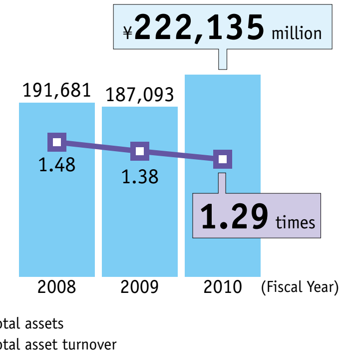
Total assets at the end of fiscal 2010 were ¥222,135 million, up ¥35,041 million.

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

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

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

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



*Total asset turnover = Net sales / Total assets (average of total assets at beginning and end of fiscal term)
An indicator used to determine the efficiency with which a company is utilizing total assets during a single fiscal year.

■ Liabilities

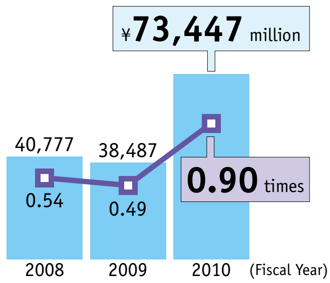
Total liabilities were ¥140,267 million, up ¥31,831 million from the close of the previous term.

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

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

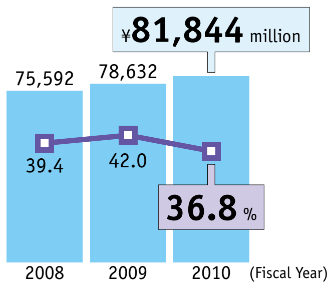
Interest-bearing debt was ¥73,447 million, up ¥34,960 million. The debt-equity ratio was 0.90.

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



Interest-bearing debt
Debt-equity ratio
*Debt-equity ratio = Interest-bearing debt outstanding / (Net assets − Minority interests)
An indicator used to determine the financial stability of a company by examining the ratio of interest-bearing debt to total net assets excluding minority interests.

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



Shareholders' equity
Shareholders' equity ratio
*Shareholders' equity = Net assets − Minority interests
*Shareholders' equity ratio = Equity / Total assets (Liabilities + Net assets) x 100
An indicator used to determine the soundness of management by examining the ratio of total shareholders' equity in total assets.

■ Net Assets

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

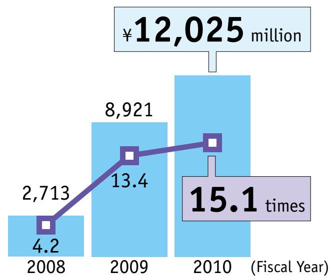
■ Cash Flows

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

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

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

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



Cash flows from operating activities
Interest coverage ratio
*Interest coverage ratio = Cash flows from operating activities / Interest expenses
An indicator used to determine the company's ability to pay interest, arrived at by calculating the multiple of profit gained on business against financial expenses such as interest payments on loans.
*Operating cash flows and interest coverage ratio in fiscal 2008 fell significantly compared to fiscal 2007 due to temporary factors. Correcting for these temporary factors, the interest coverage ratio for fiscal 2008 was 14.1 times.

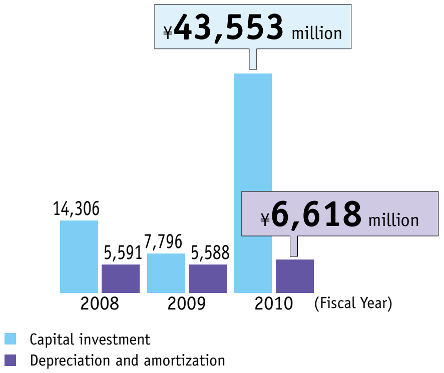
Capital Investment

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

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

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

Capital investment and Depreciation and amortization
(Millions of yen)



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

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

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

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

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

Three business strategies

Strategy 1

Innovation at existing complexes
Build a robust revenue base

Strategy 2

Expansion of commercial activities in urban areas both in Japan and overseas
Establish a business foundation for further growth

Strategy 3

Rapid development of related and new businesses
Broaden business fields

Strengthening of the management foundation

Strategic Task 1 Diversification of financial strategy
Strategic Task 2 Overhaul of real estate strategy
Strategic Task 3 Advancing of M&A and alliance strategy

<Specific Targets>

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

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

■ Investment over the three years to fiscal 2012

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

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

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

Fiscal 2011 Initiatives

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

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

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

■ Strategy 1
Innovation at existing complexes

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

Urban Complexes

Fukuoka PARCO	Always looking to stay ahead of the latest trends we applied a little retouching to Fukuoka PARCO, one year after its opening. We introduced organic cosmetics, personal items, household goods, and ladies' fashion, all of which are store categories currently enjoying much popularity, to floors 1, 2 and 4. On the first basement floor, our food section, there were new sweets on offer as well as new restaurants and drinking establishments. These included tenants making their first appearance, not only in Fukuoka, but on the entire island of Kyushu.
Nagoya PARCO	Nagoya PARCO will strive to further diversify its tenant mix to create more reasons for more shoppers to visit the complex. The first floor of the WEST Building saw the introduction of cosmetics and personal goods tenants, while floors 3 and 4 saw new outlets for ladies' fashion that targeted customers of a wide variety of age groups. These changes were part of a broader plan to increase the number of shoppers in their thirties and forties.
Shibuya PARCO	We changed the complex format of Shibuya PARCO ZERO GATE in line with our new business model for urban commercial facilities. To coincide with this renovation we introduced a store that markets products of an overseas casual brand to our tenant mix. This store, making its first appearance in Japan, opened in April 2011.

Community Complexes

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

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

■ Strategy 2
Expansion of commercial activities in urban areas both in Japan and overseas

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

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

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

Overview of CMA

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

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

■ Strategy 3
Rapid development of related and new businesses

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

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

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

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

This alliance will allow PARCO to further cultivate its partnership with Stylife, and thus strengthen brand development, increase distribution channels, and attract a greater number of customers. By linking our e-commerce business with our shopping complex business, we aim to fortify our value chain and thereby secure growth in both domains. Furthermore, we intend to increase external orders from commercial facilities and the retail sector for services provided by our web business.

Outlook for Fiscal 2011

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

Risks Related to Our Business

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

1. Risk of Fluctuations in Demand

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

2. Risk of Natural Disasters and Accidents

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

3. Risk of Regulatory Restraints

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

4. Risk of Fluctuations in the Industry and Markets

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

5. Risk of Corporate Reorganization

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

6. Risk Related to Business Associates

The PARCO Group provides fixed leasehold deposits to land and property owners in its Shopping Complex and Retail Businesses. It also has claims to sales receivables against its business associates in the Space Engineering and Management Business. While we conduct due diligence in credit management with respect to these business associates, land and property owners may experience financial difficulties, causing problems in the collection of fixed leasehold deposits. The business associates may also suffer deterioration in credit standing, giving rise to irrecoverable loans. Under these circumstances, the PARCO Group's business performance and financial position may be significantly affected.

7. Risk Related to the Supply of Products and Services

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

8. Risk Related to Fixed Assets in Possession

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

9. Risk Related to the Protection of Personal Information

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

Consolidated Financial Statements

Consolidated Balance Sheets

February 28, 2009, 2010 and 2011

	Millions of yen			Thousands of U.S. dollars (Note 4)
ASSETS	2009	2010	**2011**	**2011**
Current assets:				
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**
Total current assets	28,373	26,146	**28,241**	**344,402**
Investments and advances:				
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**
Property and equipment (Note 11)**:**				
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**
Leasehold deposits (Notes 10 and 13)	47,098	45,100	**43,099**	**525,598**
Deferred tax assets (Note 15)	2,804	1,783	**1,529**	**18,646**
Other assets	1,554	1,591	**2,226**	**27,146**
Total assets	¥191,681	¥187,093	**¥222,135**	**$2,708,963**

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

LIABILITIES	2009	2010	2011	2011
	Millions of yen			Thousands of U.S. dollars (Note 4)
Current liabilities:				
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**
Long-term debt (Notes 11 and 13)	31,925	27,703	**40,231**	**490,622**
Convertible bonds with stock acquisition rights (Notes 11 and 13)	–	–	**15,000**	**182,927**
Guarantee deposits received from tenants (Note 16)	41,820	38,494	**36,159**	**440,963**
Reserve for retirement benefits (Note 14)	1,303	1,341	**1,510**	**18,415**
Accrued retirement benefits for directors and corporate auditors	11	13	**–**	**–**
Allowance for loss on store closing	1,809	255	**44**	**537**
Other long-term liabilities	445	238	**360**	**4,390**
Total liabilities	116,064	108,435	**140,267**	**1,710,573**
NET ASSETS (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
Net sales	¥282,509	¥261,076	**¥264,840**	**$3,229,756**
Cost of sales	240,133	221,668	**225,635**	**2,751,646**
Gross profit	42,376	39,407	**39,204**	**478,098**
Other operating revenue	2,600	2,611	**2,819**	**34,378**
Gross operating profit	44,976	42,019	**42,024**	**512,488**
Selling, general and administrative expenses	35,614	33,417	**32,806**	**400,073**
Operating income	9,362	8,601	**9,218**	**112,415**
Other income (expenses):				
Interest income	87	82	**81**	**988**
Interest expenses	(639)	(656)	**(990)**	**(12,073)**
Loss on disposal/sales of property and equipment	(702)	(279)	**(552)**	**(6,732)**
Loss on impairment of fixed assets (Note 7)	(110)	(411)	**(38)**	**(463)**
Loss on write-down of investment securities	(1,332)	(0)	**(4)**	**(49)**
Loss on store closing (Notes 6 and 7)	–	(619)	**(341)**	**(4,159)**
Compensation for cancellation of leasehold contracts	204	–	**–**	**–**
Loss on restructuring (Notes 7 and 8)	(894)	(148)	**(14)**	**(171)**
Amortization of leasehold right	(325)	–	**–**	**–**
Other, net	598	485	**359**	**4,378**
	(3,113)	(1,548)	**(1,501)**	**(18,305)**
Income before income taxes and minority interests	6,248	7,053	**7,717**	**94,110**
Provision for income taxes (Note 15)**:**				
Current	2,742	2,302	**3,189**	**38,890**
Deferred	(218)	643	**127**	**1,549**
Total	2,523	2,945	**3,317**	**40,451**
Minority interests	(5)	(0)	**(0)**	**(0)**
Net income	¥ 3,730	¥ 4,108	**¥ 4,400**	**$ 53,659**
			Yen	U.S. dollars (Note 4)
Per share (Note 21)**:**				
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**
Cash flows from operating activities:				
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**
Cash flows from investing activities:				
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)**
Cash flows from financing activities:				
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**
Effect of exchange rate changes on cash and cash equivalents	(314)	43	**(40)**	**(488)**
Net increase (decrease) in cash and cash equivalents	(5,478)	(2,056)	**3,229**	**39,378**
Cash and cash equivalents at beginning of year	16,558	11,080	**9,023**	**110,037**
Cash and cash equivalents at end of year (Note 5)	¥ 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 (*1)
STRAITS PARCO RETAIL MANAGEMENT PTE LTD	December 31 (*1)

(*1) 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

Location	Use	Classification	Millions of yen 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

Location	Use	Classification	Millions of yen 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			Millions of yen	Thousands of U.S. dollars
Location	Use	Classification	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
As of February 28, 2009	Acquisition cost	Book value	Difference
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)

			Millions of yen
As of February 28, 2010	Acquisition cost	Book value	Difference
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

			Millions of yen
As of February 28, 2011	Acquisition cost	Book value	Difference
Book value exceeding acquisition cost:			
Equity shares	**¥ 487**	**¥1,094**	**¥ 606**
Book value not exceeding acquisition cost:			
Equity shares	**968**	**825**	**(143)**
Total	**¥1,456**	**¥1,919**	**¥ 463**

As of February 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		
As of February 28, 2009	Acquisition costs	Accumulated depreciation	Net book value
Machinery and equipment	¥1,423	¥541	¥ 882
Other	409	257	152
Total	¥1,833	¥799	¥1,034

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

	Millions of yen		
As of February 28, 2011	Acquisition costs	Accumulated depreciation	Net book value
Machinery and equipment	**¥1,169**	**¥744**	**¥424**
Other	**191**	**167**	**24**
Total	**¥1,360**	**¥912**	**¥448**

	Thousands of U.S. dollars		
As of February 28, 2011	Acquisition costs	Accumulated depreciation	Net book value
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)
Total	¥34,187	¥33,705	¥(481)
(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)
Total	¥89,565	¥89,704	¥ 139
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)
Total	$ 416,915	$ 411,037	$(5,866)
(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)
Total	$1,092,256	$1,093,951	$ 1,695
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)	–
Total	264,595	17,079	22,437	2,218	306,330	(21,220)	285,109
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)	–
Total	246,010	16,971	17,758	954	281,695	(18,007)	263,688
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	**¥248,307**	**¥ 7,918**	**¥11,192**	**¥241**	**¥267,659**	**¥ –**	**¥267,659**
Intersegment	**–**	**7,477**	**7,638**	**349**	**15,466**	**(15,466)**	**–**
Total	**248,307**	**15,396**	**18,830**	**591**	**283,126**	**(15,466)**	**267,659**
Operating expenses	**239,873**	**15,063**	**18,445**	**574**	**273,957**	**(15,515)**	**258,441**
Operating income	**¥ 8,434**	**¥ 332**	**¥ 385**	**¥ 16**	**¥ 9,169**	**¥ 49**	**¥ 9,218**
Assets	**¥218,218**	**¥ 4,871**	**¥ 8,976**	**¥193**	**¥232,260**	**¥(10,124)**	**¥222,135**
Depreciation and amortization	**6,386**	**265**	**45**	**4**	**6,702**	**(74)**	**6,628**
Loss on impairment of fixed assets	**94**	**39**	**–**	**–**	**133**	**(2)**	**130**
Capital expenditures	**41,299**	**236**	**7**	**0**	**41,544**	**(15)**	**41,528**

For the year ended February 28, 2011:	Shopping complex	Retail	Space engineering and management	Others	Total	Elimination	Consolidated
	Thousands of U.S. dollars						
Sales:							
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)	–
Total	3,028,134	187,756	229,634	7,207	3,452,756	(188,610)	3,264,134
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
Assets	$2,661,195	$ 59,402	$109,463	$2,354	$2,832,439	$(123,463)	$2,708,963
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
For the year ended February 28, 2009	Millions of yen	Thousands of shares	Yen
Basic EPS:			
Net income available to common shareholders	¥3,730	82,380	¥45.29

	Net income	Weighted-average shares	EPS
For the year ended February 28, 2010	Millions of yen	Thousands of shares	Yen
Basic EPS:			
Net income available to common shareholders	¥4,108	82,379	¥49.87

	Net income	Weighted-average shares	EPS	
For the year ended February 28, 2011	Millions of yen	Thousands of shares	Yen	U.S. dollars
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

Stock Information (As of February 28, 2011)

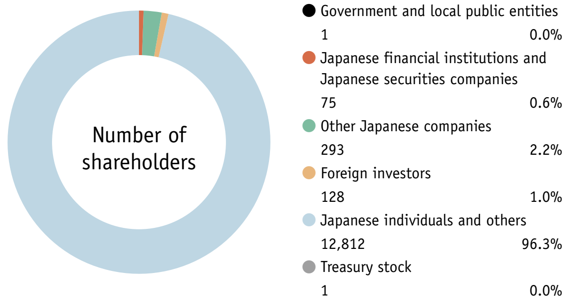
Number of shares authorized	320,000,000
Number of shareholders	13,310
Number of shares issued and outstanding	82,475,677

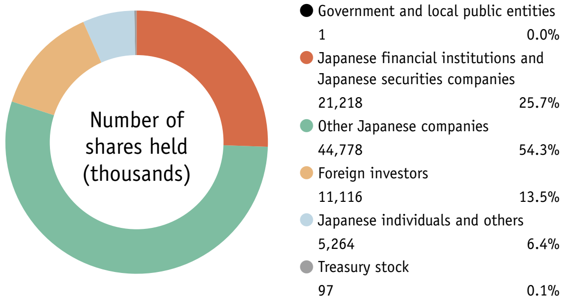
Principal Shareholders

Name	Number of shares held (thousands)	Shareholding ratio (%)
Mori Trust Co., Ltd.	27,400	33.26
Aeon Co., Ltd.	8,272	10.04
Credit Saison Co., Ltd.	7,336	8.91
Japan Trustee Services Bank, Ltd. (Trust Account)	4,406	5.35
The Master Trust Bank of Japan, Ltd. (Trust Account)	3,381	4.10
JUNIPER	1,970	2.39
BNP PARIBAS SEC SVC LONDON/JAS/ ABERDEEN INVESTMENT FUNDS ICVC/AGENCY LENDING	1,381	1.68
NORTHERN TRUST CO. (AVFC) SUB A/C AMERICAN CLIENTS	1,309	1.59
Mizuho Corporate Bank, Ltd.	1,300	1.58
Sumitomo Mitsui Banking Corporation	1,210	1.47

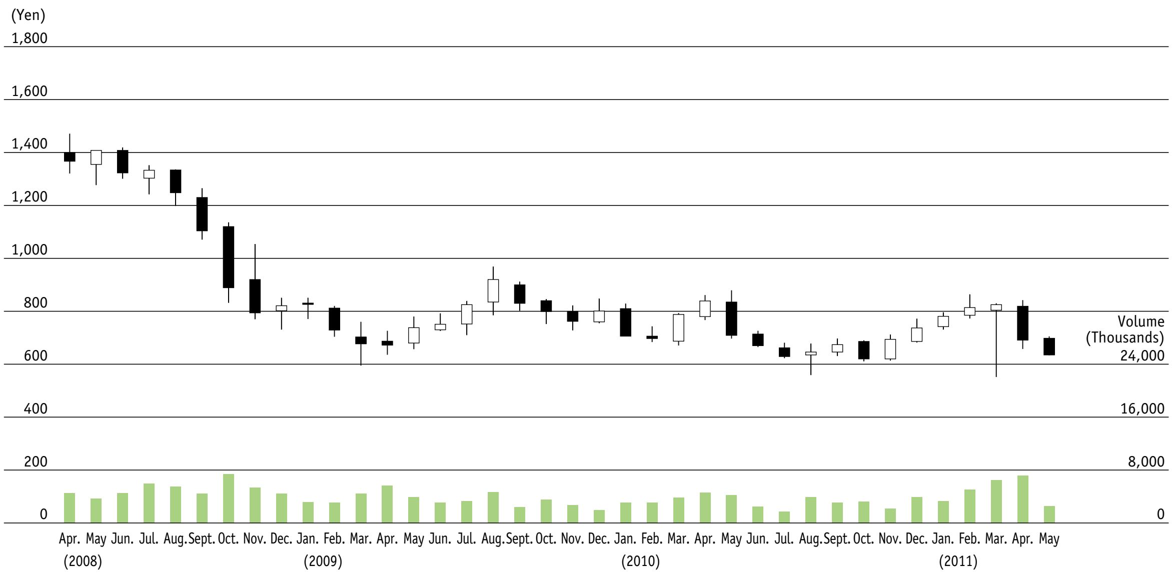
Shareholding ratios are calculated after deduction of treasury stock (97,083 shares).

Breakdown of Shares by Type of Shareholder





Stock Performance



PARCO CO., LTD.
www.parco.co.jp

Printed in Japan