2012 Management Review

PARCO

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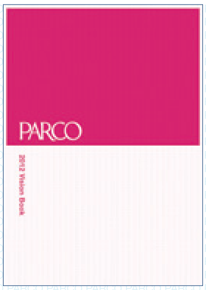
Cautionary Statement About Forecasts

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

Note on Fiscal Year Notation

In this report, fiscal 2011 refers to the fiscal year from March 1, 2011 to February 29, 2012.

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.

In order to become an "Urban Lifestyle Producer" proposing new, more fulfilling lifestyles, PARCO is actively promoting its ZERO GATE and overseas businesses while continuing to promote innovation at existing complexes.

Overview of the PARCO Group (As of February 29, 2012)

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:	624
Number of shopping complexes:	19
Net sales in fiscal 2011:	¥239,078 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 personal goods 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:	465
Number of locations:	153
Net sales in fiscal 2011:	¥16,404 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:	792
Number of locations:	29
Net sales in fiscal 2011:	¥18,221 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 2011:	¥722 million

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

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

Expansion of Commercial Complexes in Urban Areas

Opened in April 2011

Shibuya ZERO GATE
Bershka

Due to open in spring 2013

Shinsaibashi ZERO GATE
(tentative name)
H&M

Expanding overseas business

Due to open in spring 2013

Nison Plaza Project
(tentative name)
(Suzhou, China)

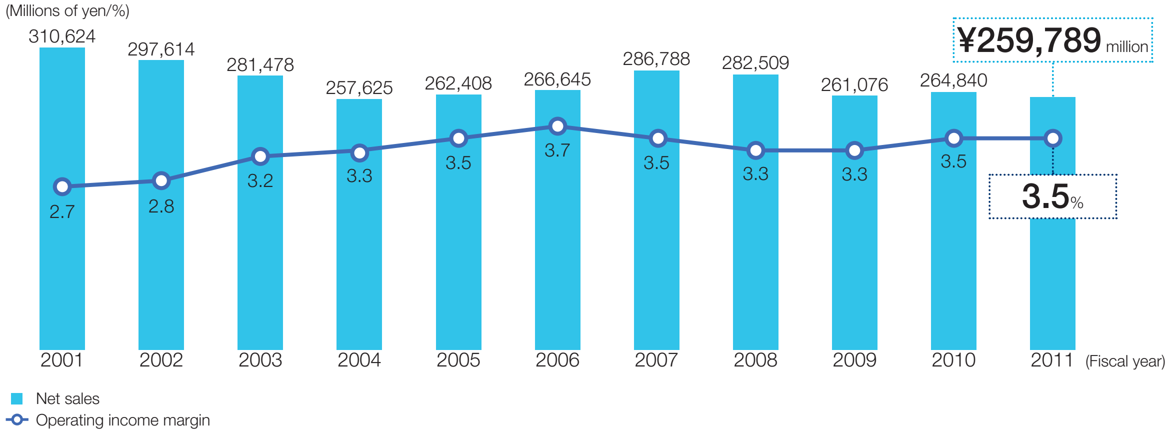
Consolidated Eleven-Year Summary

PARCO CO., LTD. and Consolidated Subsidiaries
For the fiscal years ended February 28/29, 2002–2012

	FY2001	FY2002	FY2003	FY2004
Operating Results:				
Net sales	¥310,624	¥297,614	¥281,478	¥257,625
Shopping complex business	250,318	246,810	244,348	238,410
Retail business	58,539	51,770	37,703	15,320
Space engineering and management business	34,307	26,949	23,577	25,729
Other business	3,555	3,484	3,025	2,510
Cost of sales	261,024	251,598	238,562	221,111
Other operating revenue	1,384	1,605	1,532	1,649
Selling, general and administrative expenses	42,659	39,273	35,553	29,722
Operating income	8,325	8,348	8,894	8,441
Ordinary income	7,082	7,328	7,792	8,079
Net income	2,454	2,373	2,791	1,742
Financial Position:				
Total assets	¥230,561	¥222,541	¥203,688	¥187,993
Shareholders' equity*2	52,916	55,209	54,575	61,760
Net assets	—	—	—	—
Shareholders' equity ratio (%)	23.0	24.8	26.8	32.9
Interest-bearing debt	79,829	80,150	67,341	48,732
Debt/equity ratio (times)	1.51	1.45	1.23	0.79
Per Share Data:				
Net income, basic*3 (yen)	¥ 34.38	¥ 30.94	¥ 36.97	¥ 21.87
Net income, diluted (yen)	—	—	—	—
Shareholders' equity (yen)	702.97	717.59	767.07	763.90
Net assets (yen)	—	—	—	—
Cash dividends (yen)	8.00	8.00	8.00	10.00
Major Indicators:				
Return on equity (ROE) (%)	5.0	4.4	5.1	3.0
Return on assets (ROA) (%)*4	3.0	3.2	3.7	4.1
Capital investment	¥ 7,085	¥ 5,100	¥ 4,213	¥ 7,369
Depreciation and amortization	4,333	4,267	4,102	4,140
EBITDA*5	12,658	12,615	12,996	12,581
Free cash flow	10,638	3,625	10,269	8,670

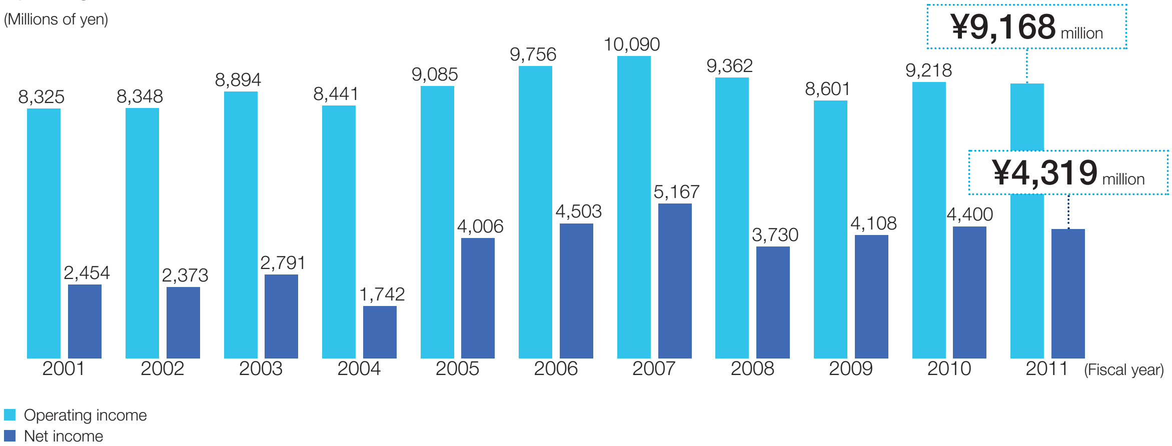
*1. U.S. dollar amounts have been translated, for convenience only, at the rate of ¥81=US$1.
*2. From fiscal 2006, listing of net assets has been changed due to application of accounting standards. In order to facilitate comparison, figures from fiscal 2006 and beyond are listed as net assets less minority interests while figures from fiscal 2005 and prior years are listed as total equity.
*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
*6. PARCO's entertainment business results, which were included in the Shopping Complex Business until the fiscal year ended February 2011, have been included in our Other Business segment from the fiscal year ended February 2012.

Net sales/Operating income margin



						Millions of yen	Thousands of U.S. dollars*1
FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2011
¥262,408	¥266,645	¥286,788	¥282,509	¥261,076	¥264,840	¥ 259,789	$3,207,272
244,884	248,725	266,263	264,595	246,010	248,307	235,841	2,911,617
15,946	16,718	17,097	17,079	16,971	15,396	16,404	202,519
21,985	22,754	26,365	22,437	17,758	18,830	18,221	224,951
2,586	2,449	2,330	2,218	954	591	6,630	81,852
224,866	228,467	245,198	240,133	221,668	225,635	220,864	2,726,716
1,923	2,008	2,493	2,600	2,611	2,819	2,700	33,333
30,380	30,429	33,992	35,614	33,417	32,806	32,456	400,691
9,085	9,756	10,090	9,362	8,601	9,218	9,168	113,185
8,879	9,594	9,973	9,171	8,554	8,750	8,966	110,691
4,006	4,503	5,167	3,730	4,108	4,400	4,319	53,321
¥182,381	¥182,553	¥189,989	¥191,681	¥187,093	¥222,135	¥ 208,697	$2,576,506
66,975	70,581	73,912	75,592	78,632	81,844	84,555	1,043,889
—	70,777	73,981	75,617	78,657	81,868	84,577	1,044,160
36.7	38.7	38.9	39.4	42.0	36.8	40.5	
38,883	34,863	33,065	40,777	38,487	73,447	59,536	735,012
0.58	0.49	0.45	0.54	0.49	0.90	0.70	
¥ 49.26	¥ 54.83	¥ 62.73	¥ 45.29	¥ 49.87	¥ 53.41	¥ 52.49	$ 0.648
—	—	—	—	—	48.50	43.31	0.535
817.60	—	—	—	—	—	—	—
—	856.74	897.19	917.61	954.52	993.52	1,028.21	12,694
11.00	13.00	15.00	16.00	16.00	17.00	17.00	0.210
6.2	6.5	7.2	5.0	5.3	5.5	5.2	
4.8	5.3	5.4	4.8	4.5	4.3	4.2	
¥ 8,688	¥ 7,474	¥ 10,163	¥ 14,306	¥ 7,796	¥ 43,553	¥ 3,395	$ 41,914
3,944	3,883	4,585	5,591	5,588	6,618	6,339	78,259
13,029	13,639	14,676	14,953	14,189	15,837	15,508	191,457
10,533	6,649	6,093	(11,434)	1,516	(30,265)	10,689	131,963

Operating income/Net income



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 12 directors (of which 10 are external directors), and it convenes once a month, with additional irregular meetings held flexibly as necessary. In fiscal 2011, the Board of Directors convened a total of 18 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 seven directors, of which six are external directors.

In fiscal 2011, the Nominating Committee convened 12 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 six external directors. (They are all independent directors.) In fiscal 2011, the Audit Committee convened 14 times.

❒ Compensation Committee

The Compensation Committee determines the compensation of individual directors and executive officers based on the compensation policy formulated by the Compensation Committee. The Compensation Committee comprises seven directors, of which six are external directors.

In fiscal 2011, the Compensation Committee convened six 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 an organ designed to facilitate decision making by a president and representative executive officer in the execution of concrete business operations. The Management Committee meets every week with the attendance of directors who also serve as executive officers. It comprises the executive officer for the Group Auditor Office; the executive officer for the Store Operation Group, the Store Planning Group and the Store Design Group; the executive officer for the Real Estate Management Group, the Development Group, the Architectural Group, and the New Project Planning Group; and the executive officer for the Accounting Group and the Administrative Control Group; and the executive officers for departments related to submitting proposals.

Group Auditor Office

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

Role of External Directors

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

CSR Committee

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

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.

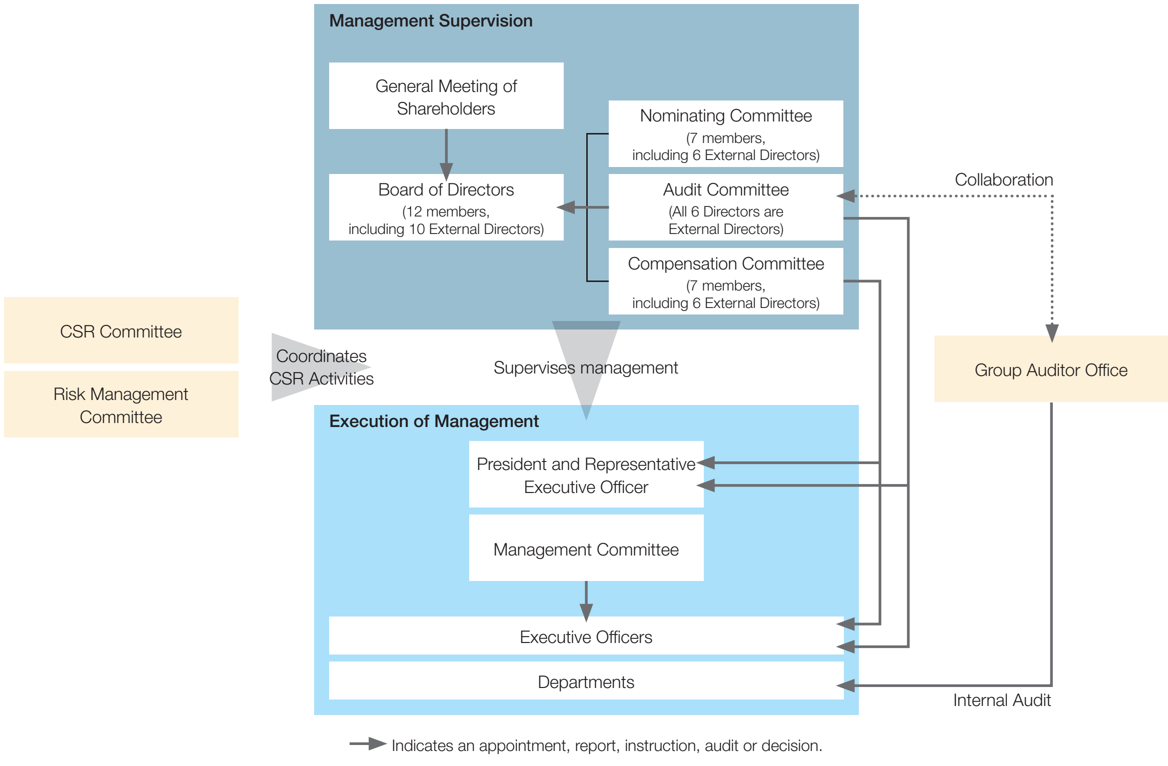
❐ Compliance Structure

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 senior executive officer for financial accounting to provide cross-organizational monitoring of various risks, companywide 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: ▷ http://www.parco.co.jp/group/en/corporate/ ▷ Corporate ▷ Corporate Governance

In a severe business environment, PARCO has steadily implemented three business strategies with the aim of becoming an "Urban Lifestyle Producer."

President and
Representative Executive Officer
Kouzou Makiyama

Current Situation

The outlook for the Japanese economy remained uncertain during fiscal 2011, ended February 29, 2012. Economic activity gradually recovered from the stagnation following the Great East Japan Earthquake, and from the subsequent restrictions on power supplies and other difficulties. However, several factors carried risks of a downward economic turn, including financial instability in Europe, weak share prices, and the persistently strong yen.

In the retail industry, there were several positive factors during the year, including an upturn in consumer spending as the earthquake disaster abated, greater sales of bridal gifts and goods for families spending Christmas and New Year's holidays together that stemmed from a heightened awareness of personal connections, as well as brisk movements for summer "cool biz" business clothing and winter clothing. However, consumers maintained a cautious stance due to the effects of the earthquake disaster and inclement weather, and the industry never reached a full-scale recovery.

Evaluating Fiscal 2011 Results

Overview

Under the market environment described above, the Parco Group steadily implemented its strategies comprising innovation at existing complexes, expansion of commercial activities in urban areas both in Japan and overseas, and steady development of related and new businesses. For innovation at existing complexes, from the fiscal year under review we grouped existing shopping complexes into either an Urban Complex or a Community Complex, and implemented renovations and business plans tailored to the characteristics of their catchment area. For the expansion of commercial activities in Japan and overseas, we furthered development of urban low- to medium-rise commercial facilities as a new business model for Japan. In the overseas business, we pursued initiatives with several local companies in China aimed at future business development in that country, and received a contract to operate and manage a shopping complex in a multipurpose building development being conducted in Suzhou, Jiangsu Province. For new and related businesses, we continued to open new stores in the Retail Business, and pursued new initiatives in the e-commerce business.

Despite these efforts, due to closure of stores and the impact of the March 2011 earthquake, the PARCO Group's consolidated net sales decreased 1.9%, or ¥5,050 million, to ¥259,789 million. Gross profit was down 0.7%, or ¥279 million, to ¥38,924 million. The gross profit ratio improved 0.2 of a percentage point, however, to 15.0%.

Selling, general and administrative expenses declined 1.1%, or ¥349 million, to ¥32,456 million. The ratio of SG&A expenses to net sales increased 0.1 of a percentage point, to 12.5%.

Operating income decreased 0.5%, or ¥49 million, to ¥9,168 million. The operating income margin was 3.5%, on a par with the previous fiscal year's.

In other income (expenses), the posting of a loss on disposal/sales of property and equipment, a loss on write-down of investment securities, and a loss on impairment of fixed assets resulted in ¥1,835 million in net other expenses in fiscal 2011.

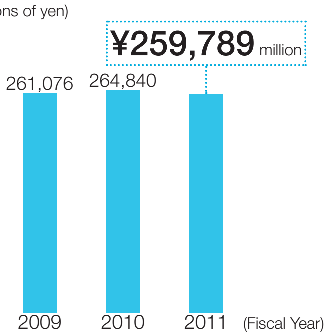
Net income therefore decreased 1.8%, or ¥80 million, to ¥4,319 million.

Net income per share was ¥52.49 (a diluted net income per share of ¥43.31), while return on equity decreased 0.3 of a percentage point to 5.2%.

In line with our policy of maintaining stable shareholder returns, management paid a year-end dividend of ¥9 per share, giving a total cash dividend applicable to the year of ¥17 per share.

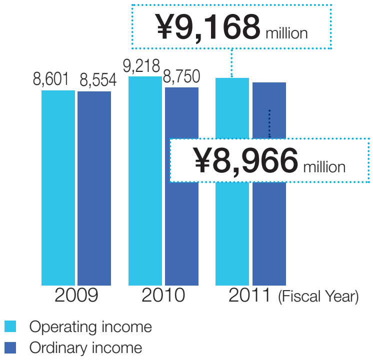
Net sales

(Millions of yen)



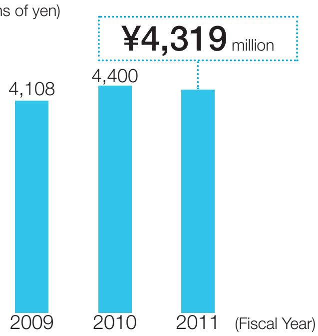
Operating income/Ordinary income

(Millions of yen)



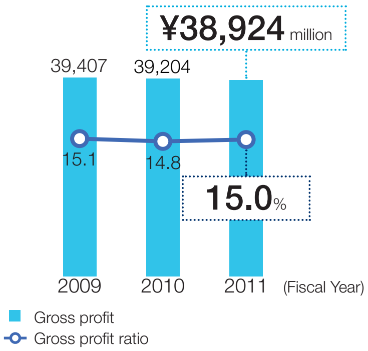
Net income

(Millions of yen)



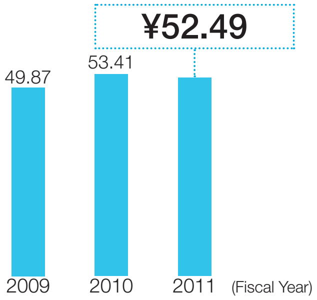
Gross profit/Gross profit ratio

(Millions of yen/%)



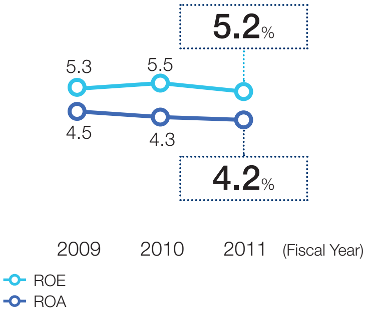
Net income per share

(Yen)



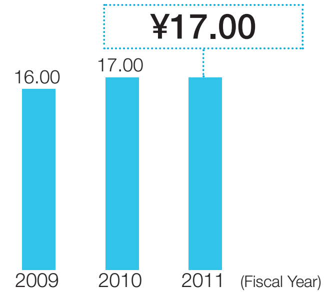
ROE/ROA

(%)



Cash dividends per share

(Yen)



*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.

Net sales and segment income by segment (Fiscal 2011)

(Millions of yen)

	Shopping complex	Retail	Space engineering and management	Others	Total	Adjustment	Consolidated
Net sales							
1. External customers	235,840	9,526	10,802	6,320	262,490	–	262,490
2. Inter-segment	0	6,878	7,418	310	14,607	(14,607)	–
Total	235,841	16,404	18,221	6,630	277,097	(14,607)	262,490
Segment income	8,158	415	406	167	9,148	20	9,168

* Net sales include other operating revenue.
* The entertainment business that was included hitherto in the Shopping Complex Business has been included in our Other Business segment from the fiscal year ended February 2012.

Segment Performances

■ Shopping Complex Business

Shopping Complex Business sales were ¥235,841 million, down 3.3%. Operating income fell 4.8% to ¥8,158 million.

*The entertainment business that was included hitherto in the Shopping Complex Business has been included in our Other Business segment from the fiscal year ended February 2012.

The Great East Japan Earthquake in March 2011 and the rolling blackouts implemented subsequently impacted on the operating structures at Sendai PARCO and 10 locations in the Kanto area, resulting in a decline in sales. However, sales recovered from April as a result of aggressive business planning and sales promotion initiatives at all locations, along with renovations. The increase in sales was particularly marked at Sendai PARCO, which reopened quickly after the earthquake disaster and implemented a major revision, as well as at Urawa PARCO, which had been extensively remodeled from the previous fiscal year.

• Innovation at existing complexes

PARCO's 19 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.

With remodeling projects to capture new customer groups and expand the number of customers (frequency of store visits, increased spending), PARCO has introduced hot fashion brands at urban complexes, conducted a major renovation of the restaurant floor at Ikebukuro PARCO, and introduced or renovated large specialty stores at community complexes such as Urawa PARCO.

Fiscal 2011 renovated space totaled approximately 64,000 m^2 for all stores, exceeding the initial plan, and a year-on-year comparison of sales in the pertinent zones showed large growth of 32.2%.

In business planning, solid results from summer and winter Grand Bazaar sales, along with successful discount promotions for PARCO Card holders and other members provided underlying support for overall performance.

Sales by store

		FY2010 (Millions of yen)	FY2011 (Millions of yen)	Change (%)
Urban Complexes Group	Sapporo*1	11,240	**10,805**	104.3
	Sendai	10,143	**12,153**	119.8
	Ikebukuro	30,329	**28,721**	94.7
	Shibuya	13,537	**12,278**	90.7
	Shizuoka	10,993	**10,591**	96.3
	Nagoya	34,431	**34,569**	100.4
	Hiroshima	17,011	**16,987**	99.9
Total of Urban Complexes Group			**126,107**	99.4
Community Complexes Group	Utsunomiya	5,568	**5,296**	95.1
	Urawa	13,257	**14,738**	111.2
	Shin-Tokorozawa	8,132	**8,077**	99.3
	Chiba	6,907	**7,140**	103.4
	Tsudanuma	9,303	**9,260**	99.5
	Hibarigaoka	7,930	**7,826**	98.7
	Kichijoji	8,741	**8,155**	93.3
	Chofu	16,914	**16,599**	98.1
	Matsumoto	7,649	**7,733**	101.1
	Otsu	5,022	**4,465**	88.9
	Kumamoto	4,952	**5,093**	102.8
Total of Community Complexes Group			**94,386**	100.0
Total of Existing Store Group*2		223,924	**220,493**	99.7
	Fukuoka (opened in March 2010)	13,126	**11,382**	—
	Sapporo New Building (closed in March 2011)	—	**71**	—
	Shinsaibashi (closed in September 2011)	1,856	**762**	—
	Oita	3,454	**—**	—
Total*3		240,505	**232,710**	96.8

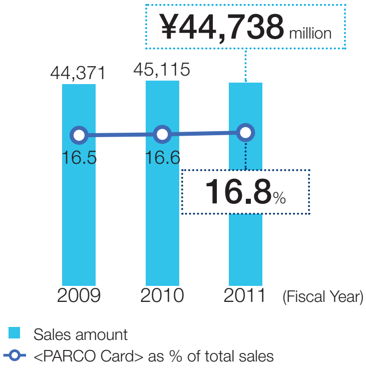
*1 The year-on-year percentage change for Sapporo PARCO excludes figures for the New Building which closed on March 30, 2011.
*2 Existing store figures exclude figures for Fukuoka PARCO (closed on March 19, 2010), Sapporo PARCO New Building (closed on March 30, 2011), Shinsaibashi PARCO (closed on September 30, 2011) and Oita PARCO (closed on January 31, 2011).
*3 The year-on-year percentage change for all stores includes last year's figures for the closed Sapporo PARCO New Building, Shinsaibashi PARCO, and Oita PARCO.

Sales data (Non-consolidated)

	FY2009	FY2010	**FY2011**
Stores	20	20	**19**
Sales floor area (m²)	444,500	454,000	**443,000**
Tenant companies	808	826	**824**
New tenant companies	63	106	**91**
Tenant stores	2,872	2,857	**2,824**
Zones renovated	362	429	**639**
Area renovated (m²)	36,000	45,000	**64,000**
Year-on-year comparison by zone	110.9	120.4	**132.2**
New tenant store openings in renovated zones	165	181	**255**

<PARCO Card> Sales amount

(Millions of yen/%)



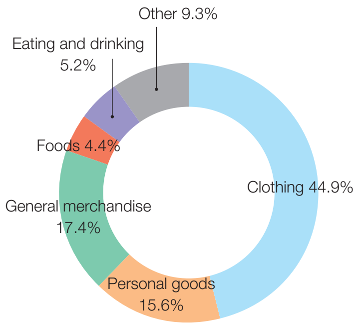
Year-on-year sales comparison by category (Non-consolidated)

(%)

	FY2009	FY2010	**FY2011**
Clothing	91.6	99.8	**97.4**
Personal goods	93.6	102.3	**100.8**
General merchandise	94.6	101.7	**91.3**
Foods	100.5	100.1	**97.9**
Eating and drinking	94.1	101.4	**92.5**
Other	91.6	104.1	**110.0**

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)

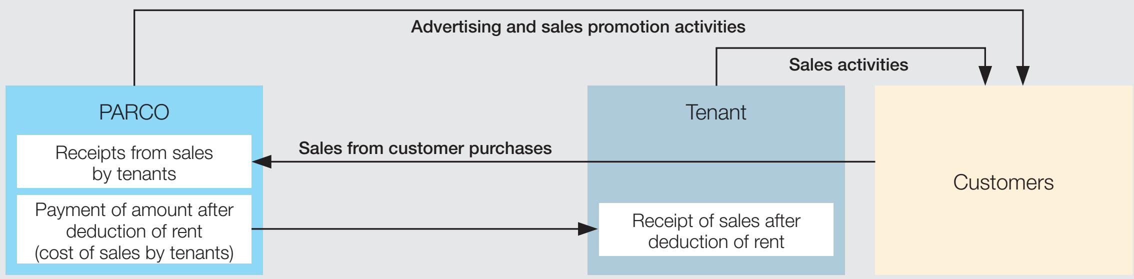


Profit structure for the shopping complex business

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.



In advertising and sales promotion activities, at Community Complexes we continually implemented community-oriented and customer-participation promotional events, while at Urban Complexes we stepped up efforts for entertainment events that make the most of our strengths in new culture and art, and scheduled exhibitions that attracted large numbers of visitors. These efforts led to increases in customer traffic at stores and in sales. At Shibuya PARCO, we held the Shibukaru Festival in which PARCO highlights female creators—it is an art, culture and fashion event that reflects our corporate stance of supporting young, creative talent in a wide range of genres.

In other initiatives, in October PARCO launched the FIGHT FASHION FUND by PARCO, a program to support the next generation of talented and eager fashion designers by providing them with capital and business networks, as well as sales and promotional opportunities. PARCO selects the designers from among the applications it receives, and by utilizing a community-oriented micro investment platform service operated by a micro-finance organization, individuals (supporters) who want to back a particular fashion are able to do so by making micro investments of ¥30,000 per unit. This is the first initiative of its type in Japan. A total of ¥7 million was solicited during a six-month period from February 2012. The full subscription amount was reached in three months, and the fund was launched.

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

In terms of domestic development, we decided on the name "ZERO GATE" for the new business model of developing low- to medium-rise commercial facilities in urban areas of Japan. The first initiative for this business was the opening of the first Japanese outlet of a foreign casual fashion brand (opened on April 16, 2011) in the newly converted Shibuya PARCO "ZERO GATE." We also decided to install ZERO GATE stores in the rebuilt Shinsaibashi PARCO, which had ceased operations on September 30, 2011 (opening planned for spring 2013), as well as in the Dotonbori district of Osaka (opening planned for spring 2013), and the low-rise commercial portion of the refurbished Hiroshima Takarazuka Kaikan (opening planned for fall 2013).

In our overseas business, we established a local business office in Hong Kong and have worked to gather information. For business development in China, we studied and considered business models and specific proposals with numerous companies. In October 2011 we concluded a contract with Suzhou Nison Plaza Co. Ltd., a group company of Nison International Holdings Limited, one of the leading conglomerates in Suzhou, Jiangsu Province. PARCO received a contract to operate and manage a shopping complex inside the Nison Plaza Project (provisional name), a multipurpose building development in Suzhou being led by Nison. The project is a large-scale multipurpose building development comprising a shopping complex, offices and residences. The shopping complex portion is scheduled to open in March 2013. PARCO decided to establish a local subsidiary in Suzhou to manage this project and to expand its business in China. We received a business license in January 2012, and completed the capitalization in March.

Retail Business

Retail Business sales were ¥16,404 million, up 6.5%. Operating income rose 25.1% to ¥415 million.

NEUVE A CO., LTD. achieved increases in both revenue and earnings during fiscal 2011. Performance was negatively impacted by the earthquake disaster and rolling blackouts, which resulted in suspended business operations and curtailed operating hours at the commercial facilities in which stores are located, but as a result of new store openings and remodeling being carried out as scheduled, and proactive implementation of various marketing plans, sales recovered led by the TiCTAC and COLLECTORS businesses. A total of 17 stores were opened during fiscal 2011, comprising nine TiCTAC locations (including the new WATCH POLITiCS model stores), three ROSEMARY shops, two POKER FACE shops, and three COLLECTORS shops. At the end of fiscal 2011, the Retail Business operated 153 stores.

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

	End of fiscal 2009	End of fiscal 2010	**End of fiscal 2011**
TiCTAC (watch specialty shop)	57	61	**70**
POKER FACE (eyeglass specialty shop)	26	26	**26**
COLLECTORS (men's lifestyle goods shop)	26	27	**29**
ROSEMARY (cosmetics and cosmetics accessory shop)	20	22	**25**
annabeille (ladies' lifestyle goods shop)	7	4	**3**
Total	136	140	**153**
Percentage of shops located outside of PARCO shopping complexes	56%	59%	**64%**

Space Engineering and Management Business

Space Engineering and Management Business sales were ¥18,221 million, down 3.2%. Operating income rose 5.4% to ¥406 million.

PARCO SPACE SYSTEMS CO., LTD. recorded a decline in revenue from the previous fiscal year. Orders increased for interior and maintenance work for PARCO and tenants in line with PARCO's renovation program, and for facilities management at foreign-owned hotels. Overall, however, sales were down due to the rebound effect from the structural improvements carried out at major large-scale commercial facilities in the previous fiscal year, and to a falloff in major investment from external commercial facilities as a result of the earthquake disaster. Operating income, however, rose year on year as a result of cost reduction efforts.

On August 12, 2011, the PARCO SPACE SYSTEMS head office obtained ISO50001:2011 certification, an international standard for energy performance, energy efficiency and ongoing improvements to low-energy operations, from the Japan Quality Assurance Organization (JQA). This was the first shopping complex design, construction and building management company in the industry to obtain such certification.

Other Business

Other Business sales were ¥6,630 million, up 36.4%. Operating income was ¥167 million compared to a ¥122 million operating loss in the previous year.

*The entertainment business that was included hitherto in the Shopping Complex Business has been included in our Other Business segment from the fiscal year ended February 2012.

In PARCO CO., LTD.'s entertainment business, sales rose as a result of hit theater performances and solid results in the content business. PARCO's planning and production work for stage performances was also acclaimed, receiving Japanese theater awards during 2011. At the 46th Kinokuniya Drama Awards, PARCO received a Group Award, which in the past has been won mainly by major production companies, becoming the first non-theater production company to do so. The award recognized its excellent achievements in theater for *Film of the People*, *The Hunting Gun*, and *Quartet*. At the 19th Yomiuri Drama Awards, *Film of the People* won the best production award, and *The Hunting Gun* won an outstanding production award.

In the content development business, we held the touring event "Jang Keun-suk no Heya & Limited-time official merchandise shop." The event generated significant sales, and helped draw customers to PARCO stores.

Shinsaibashi CLUB QUATTRO temporarily suspended business operations on September 30, 2011, with the closure of Shinsaibashi PARCO, but relocated to the Umeda area and reopened as Umeda CLUB QUATTRO on April 13, 2012.

PARCO-CITY CO., LTD. posted sales of ¥722 million (up 20.4% year on year), with operating income of ¥17 million (up 6.8%). The increase in both revenue and earnings was due mainly to major orders in the website business for websites of external commercial facilities, along with considerable sales growth in the e-commerce business. In the e-commerce business, the number of fashion brands carried by the PARCO-CITY online shopping mall expanded considerably as a result of the opening of the Stylife PARCO-CITY store, World Online Store PARCO-CITY store and other shops. This comprised the most extensive renewal since the opening of the mall was conducted in October 2011 and January 2012, with an expansion of items in wide variety of genres beyond just fashion. We opened Living with ARTS, an online store for contemporary art, as well as amadana SELECT, offering select appliance brands with an emphasis on functionality and design, and began offering advance ticket sales for PARCO theaters and performances. We also bolstered the system and make other enhancements to further improve usability.

Financial Position

Assets

Total assets at the end of fiscal 2011 were ¥208,697 million, down ¥13,437 million.

Total current assets were ¥23,317 million, a decrease of ¥4,923 million that primarily reflected a ¥4,815 million decrease in cash and time deposits.

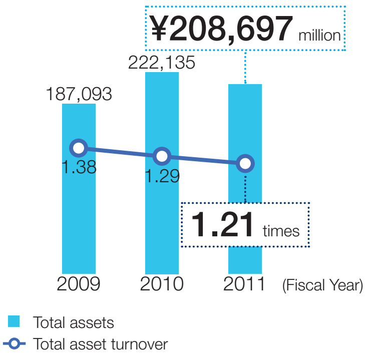
Investments and other assets decreased ¥4,361 million, to ¥47,940 million. The main factor was the sale of investment securities.

Property and equipment was down ¥4,152 million, to ¥137,439 million, due to depreciation and amortization and the sale of Sapporo PARCO New Building.

Total asset turnover was 1.21 times, while return on assets was 4.2%.

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 ¥124,120 million, down ¥16,146 million from the close of the previous term.

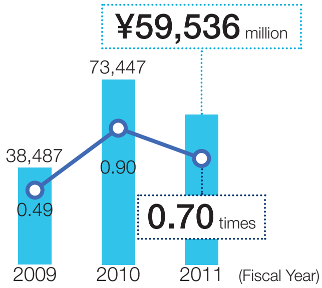
Current liabilities were ¥49,687 million, up ¥2,726 million. This was largely due to a net increase of ¥2,955 million in short-term bank loans.

Fixed liabilities were ¥74,432 million, down ¥18,873 million. The principal factors were declines of ¥17,666 million in long-term debt and ¥1,740 million in guarantee deposits received from tenants.

Interest-bearing debt was ¥59,536 million, down ¥13,910 million. The debt-equity ratio was 0.70.

Interest-bearing debt and Debt-equity ratio

(Millions of yen/Times)



Interest-bearing debt
Debt-equity ratio

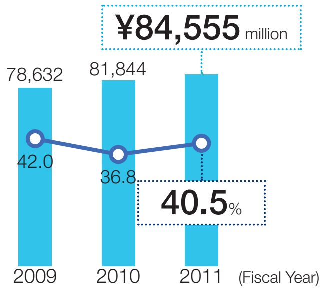
*Debt-equity ratio = Interest-bearing debt outstanding / (Net assets – Minority interests)
An indicator used to determine the financial stability of a company by examining the ratio of interest-bearing debt to total net assets excluding minority interests.

Net Assets

Net assets at the end of the term were ¥84,577 million, up ¥2,709 million from a year earlier. This was due largely to an increase in retained earnings. The equity ratio was thus 40.5%, while the net asset value per share was ¥1,028.21.

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.

Cash Flows

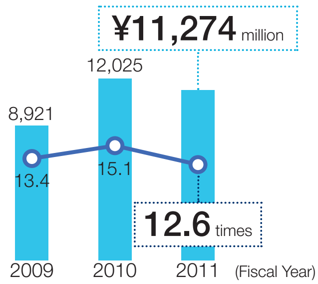
Net cash provided by operating activities was ¥11,274 million, down from ¥12,025 million a year earlier. This was after adjustments to ¥7,333 million in income before income taxes and minority interests for non-cash items including depreciation and amortization, and extraordinary income (loss). The interest coverage ratio was 12.6.

Net cash used in investing activities was ¥584 million, down from ¥42,290 million in the previous term. This decrease was mainly due to expenditures for investments in Ikebukuro PARCO and other tangible fixed assets, offset by proceeds from the sale of Sapporo PARCO New Building and proceeds from sales of investment securities.

Net cash used in financing activities was ¥15,483 million, compared with ¥33,536 million provided by such activities in the previous year. This reflected mainly a decrease in interest-bearing debt and the payment of dividends.

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.

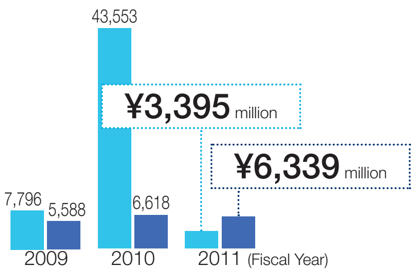
Capital Investment

Capital investment decreased ¥40,158 million, to ¥3,395 million, and included tangible fixed assets, intangible fixed assets, long-term prepaid expenses, and fixed leasehold deposits.

Depreciation and amortization decreased ¥279 million, to ¥6,339 million.

Capital investment and Depreciation and amortization

(Millions of yen)



Capital investment
Depreciation and amortization

Fiscal 2012 Initiatives

We anticipate that the uncertain economic outlook will continue during fiscal 2012. Despite growing expectations of economic recovery from such factors as reconstruction demand from the Great East Japan Earthquake, areas of instability remain, including the continuing financial instability in Europe, and rising or otherwise unstable oil prices.

Under such conditions, PARCO will continue to pursue innovation at existing complexes, develop its new business model "ZERO GATE", and promote its overseas operations. We will also make a concerted effort as a corporate group to accelerate the development of related and new businesses to achieve record levels of earnings.

Strategic Task 1
Innovation at existing complexes

We will make renovations and implement business plans tailored to the characteristics of each catchment area for the 19 PARCO stores nationwide. In terms of renovations, we plan to renovate a cumulative total of approximately 46,000 m^2, focusing on Urban Complexes. For Urban Complexes, we will install tenants offering trend-setting fashions, as well as clothing accessories and cosmetics, in order to expand the range and number of customers. For Community Complexes, we will install large specialty retailers with customer drawing power, as well as tenants providing daily necessities in order to enhance the overall makeup of community-oriented tenants. Our major renovation plans are as follows.

■ Urban Complexes

Shibuya PARCO	We will enhance the art and cultural functions that provide added value at Shibuya PARCO, and continue to create new consumption by offering lifestyle options to urban dwellers. On the 2nd, 3rd and 4th floors of Shibuya PARCO PART 1 we will welcome the first store in Japan for a certain fashion-related brand, as well as install tenants with new business models. In PART 3 we will install sports and general merchandise shops on the B1 floor. We will also undertake fresh efforts to promote next-generation fashion trends, including projects at the "once A month" free-composition space in the PART 1 B1 floor, by opening of limited-time shops for young Asian designers and designers who received investment through the FIGHT FASHION FUND by PARCO, and by convening fashion events linked to outside corporations.
Nagoya PARCO	In an effort to diversify the incentives to come to PARCO and broaden the customer base by expanding the range of variety items, on the 4th floor of the West Building we will install tenants with trendy fashion goods in order to enhance the variety appeal of fashion tenants. On the 7th and B1 floors of the South Building, we will install tenants offering such merchandise as interior and miscellaneous goods.

■ Community Complexes

Tsudanuma PARCO	Following the theme of "Convenience & Community" we will expand the range of everyday items, including fashion, sports goods, cosmetics and foods, best suited to the neighborhood and catchment area. We will install a new imported food store on the 1st floor of B Building, and expand retail floor space for cosmetics, including installing a cosmetics shop using organic ingredients on the 1st floor of A Building, and the first Japan location for a South Korean cosmetics brand on the 3rd floor of the same building.
Utsunomiya PARCO	For the 15-year anniversary renovation we will expand the 2nd young ladies' fashion floor by installing a seasonal fashion brand unique in the local market, and enhance the spillover effect for drawing customers by installing tenants with extensive offerings of daily-use items on the upper floors. These renovations will help meet the needs of a broad range of customers in the area, from trend-setting fashions to everyday items.

In terms of customer strategies, from fiscal 2012 we will partially alter the terms for the PARCO card. (The period for the 5% discount offered to new subscribers will be extended from one month to one year, and the annual purchase threshold to become a "Class S" member eligible for a 5% discount for the following year will be lowered from 200,000 to 100,000 yen.) These changes will allow us to acquire new cardholders, to create "PARCO fans," and to expand sales and our customer base.

Strategic Task 2
Expansion of commercial activities in urban areas both in Japan and overseas

Expansion in Japan will focus on pushing ahead with the new business model "ZERO GATE business" that develops urban low- to medium-rise commercial facilities.

Shinsaibashi ZERO GATE (Temporary name)	
	A ZERO GATE store will be opened in the newly rebuilt Shinsaibashi PARCO building, leveraging the favorable location of a prime spot in the heart of Osaka. (Opening scheduled for spring 2013.)
Dotonbori ZERO GATE (Temporary name)	
	A ZERO GATE store will be opened in a new building near Ebisubashi in the Dotonbori area of Osaka, a favorable location that is expected to draw many customers from a broad area. (Opening scheduled for spring 2013.)
Hiroshima ZERO GATE (Temporary name)	
	PARCO will lease the lower commercial-use floors of a new multi-use building planned for construction next to the Hiroshima PARCO New Building. (Opening scheduled for fall 2013.)

In overseas business development, we will move forward with the operation and management of a shopping complex inside the Nison Plaza Project (provisional name) in preparation for opening, and will pursue business development in Southeast Asia. In particular, from April 2012 we began the third season for "PARCO next NEXT," a "fashion incubation project" to nurture and train young designers in Singapore. This special area inside PARCO Marina Bay is jointly operated with the Textile & Fashion Federation (Singapore), a government organization supporting entrepreneurs.

Strategic Task 3
Rapid development of related and new businesses

In the entertainment business, PARCO will monetize the content it has developed by adapting it for numerous platforms, including theater, music, movies, books and DVDs. We will also strengthen ties between PARCO stores and our online shopping mall PARCO-CITY in order to attract customers and increase sales.

Group company NEUVE A CO., LTD. will continue to aggressively open new stores with a particular focus on its TiCTAC business, aiming to build a network of 160 stores by the end of fiscal 2012. The Group company will also continue to grow business by expanding original products from the TiCTAC, EYEWEAR and COLLECTORS businesses.

For PARCO SPACE SYSTEMS CO., LTD., we will continue to increase orders for lighting design, interior and electrical work for commercial complexes. For facilities other than commercial complexes, we will actively pursue an increase in orders for facilities management at hotels (such as guest room services, maintenance and related work).

For PARCO-CITY CO., LTD., in the website business we will move forward with new site developments, and strengthen our business foundations. In the e-commerce business, we will expand the business by continuing to nurture the development of leading tenants, and by expanding original content centered on the PARCO Group's unique style of culture and entertainment.

Outlook for Fiscal 2012

By further evolving the above initiatives, we expect a 5.5% increase in consolidated net sales for fiscal 2012, to ¥274,000 million, with consolidated operating income rising 16.7% to ¥10,700 million and consolidated ordinary income increasing 14.9% to ¥10,300 million. At the same time, we project a 20.4% increase in consolidated net income, to ¥5,200 million, thereby achieving record high profits.

Management plans to pay an annual cash dividend of ¥18 per share, including an interim payment of ¥9 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 28, 2012.

1. Risk of Fluctuations in Demand

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

2. Risk of Natural Disasters and Accidents

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

3. Risk of Regulatory Restraints

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

4. Risk of Fluctuations in the Industry and Markets

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

5. Risk of Corporate Reorganization

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

6. Risk Related to Business Associates

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

7. Risk Related to the Supply of Products and Services

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

8. Risk Related to Fixed Assets in Possession

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

9. Risk Related to the Protection of Personal Information

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

Consolidated Balance Sheets

February 28, 2010, 2011 and February 29, 2012

	Millions of yen			Thousands of U.S. dollars (Note 4)
ASSETS	2010	2011	2012	2012
Current assets:				
Cash and time deposits (Notes 5 and 15)	¥ 9,023	¥ 12,253	¥ 7,437	$ 91,815
Notes and accounts receivable (Note 15):				
Trade	9,847	7,252	7,686	94,889
Other	2,019	3,870	3,510	43,333
Less: Allowance for doubtful accounts	(17)	(3)	(7)	(86)
	11,849	11,119	11,190	138,148
Inventories	3,119	2,751	2,828	34,914
Prepaid expenses and other current assets	959	917	941	11,617
Deferred tax assets (Note 17)	1,194	1,200	919	11,346
Total current assets	26,146	28,241	23,317	287,864
Investments and other assets:				
Investment securities (Notes 10 and 15)	4,656	4,952	2,352	29,037
Investments in and advances to an unconsolidated subsidiary and an affiliate	20	20	349	4,309
Other investments	394	473	453	5,593
Leasehold deposits (Notes 11 and 15)	45,100	43,099	41,000	506,173
Deferred tax assets (Note 17)	1,783	1,529	1,689	20,852
Other assets	1,591	2,226	2,095	25,864
Total investments and other assets	53,545	52,301	47,940	591,852
Property and equipment (Note 12)**:**				
Store facilities, at cost	182,058	219,224	217,776	2,688,593
Less: Accumulated depreciation	(73,445)	(76,639)	(79,369)	(979,864)
Less: Accumulated impairment losses (Note 8)	(1,211)	(992)	(967)	(11,938)
	107,401	141,592	137,439	1,696,778
Total assets	¥187,093	¥222,135	¥208,697	$2,576,506

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

LIABILITIES	Millions of yen 2010	2011	2012	Thousands of U.S. dollars (Note 4) 2012
Current liabilities:				
Short-term bank loans (Notes 12 and 15)	¥ 6,562	¥ 1,194	¥ 4,149	$ 51,222
Current portion of long-term debt (Notes 12 and 15)	4,222	17,022	17,822	220,025
Notes and accounts payable (Note 15):				
Trade	17,637	16,118	16,526	204,025
Other	3,781	2,470	3,413	42,136
	21,419	18,588	19,939	246,160
Accrued income taxes (Note 17)	1,151	2,266	1,072	13,235
Accrued expenses	2,798	3,068	3,047	37,617
Other current liabilities	4,236	4,821	3,657	45,148
Total current liabilities	40,389	46,961	49,687	613,420
Non-current liabilities				
Long-term debt (Notes 12 and 15)	27,703	40,231	22,565	278,580
Convertible bonds with stock acquisition rights (Notes 12 and 15)	—	15,000	15,000	185,185
Guarantee deposits received from tenants (Note 18)	38,494	36,159	34,419	424,926
Reserve for retirement benefits (Note 16)	1,341	1,510	1,617	19,963
Accrued retirement benefits for directors and corporate auditors	13	—	—	—
Allowance for loss on store closing	255	44	—	—
Asset retirement obligations (Note 13)	—	—	313	3,864
Other long-term liabilities	238	360	517	6,383
Total non-current liabilities	68,046	93,306	74,432	918,914
Total liabilities	108,435	140,267	124,120	1,532,346
NET ASSETS (Note 21)**:**				
Shareholders' equity				
Common stock				
Authorized:				
320,000,000 shares at February 28, 2010, 2011 and February 29, 2012				
Issued:				
82,475,677 shares at February 28, 2010, 2011 and February 29, 2012	26,867	26,867	26,867	331,691
Capital surplus	27,528	27,528	27,526	339,827
Retained earnings	24,317	27,400	30,320	374,321
Treasury stock, at cost (Note 23)	(60)	(61)	(150)	(1,852)
Total shareholders' equity	78,652	81,734	84,563	1,043,988
Accumulated other comprehensive income				
Valuation difference on available-for-sale securities	99	275	200	2,469
Foreign currency translation adjustment	(119)	(164)	(209)	(2,580)
Total accumulated other comprehensive income	(19)	110	(8)	(99)
Minority interests	25	23	22	272
Total net assets	78,657	81,868	84,577	1,044,160
Total liabilities and net assets	¥187,093	¥222,135	¥208,697	$2,576,506

Consolidated Statements of Income

For the years ended February 28, 2010, 2011 and February 29, 2012

			Millions of yen	Thousands of U.S. dollars (Note 4)
	2010	2011	2012	2012
Net sales	¥261,076	¥264,840	¥259,789	$3,207,272
Cost of sales	221,668	225,635	220,864	2,726,716
Gross profit	39,407	39,204	38,924	480,543
Other operating revenue	2,611	2,819	2,700	33,333
Gross operating profit	42,019	42,024	41,625	513,889
Selling, general and administrative expenses	33,417	32,806	32,456	400,691
Operating income	8,601	9,218	9,168	113,185
Other income (expenses):				
Interest income	82	81	79	975
Interest expenses	(656)	(990)	(816)	(10,074)
Loss on disposal/sales of property and equipment	(279)	(552)	(929)	(11,469)
Loss on impairment of fixed assets (Note 8)	(411)	(38)	(352)	(4,346)
Loss on disaster (Note 6)	—	—	(103)	(1,272)
Loss on adjustment for changes of accounting standard for asset retirement obligations	—	—	(148)	(1,827)
Loss on write-down of investment securities (Note 10)	(0)	(4)	(477)	(5,889)
Loss on store closing (Notes 7 and 8)	(619)	(341)	(4)	(49)
Loss on restructuring (Notes 8 and 9)	(148)	(14)	—	—
Other, net	485	359	917	11,321
	(1,548)	(1,501)	(1,835)	(22,654)
Income before income taxes and minority interests	7,053	7,717	7,333	90,531
Provision for income taxes (Note 17)**:**				
Current	2,302	3,189	2,816	34,765
Deferred	643	127	198	2,444
Total	2,945	3,317	3,014	37,210
Income before minority interests	4,108	4,400	4,319	53,321
Minority interests	(0)	(0)	(0)	(0)
Net income	¥ 4,108	¥ 4,400	¥ 4,319	$ 53,321
			Yen	U.S. dollars (Note 4)
Per share (Note 24)**:**				
Net income, basic	¥ 49.87	¥ 53.41	¥ 52.49	$ 0.65
Net income, diluted	—	48.50	43.31	0.53
Cash dividends applicable to the year	¥ 16.00	¥ 17.00	¥ 17.00	$ 0.21

The accompanying notes are an integral part of these statements.

Consolidated Statement of Comprehensive Income

For the year ended February 29, 2012

	Millions of yen	Thousands of U.S. dollars (Note 4)
	2012	2012
Income before minority interests	¥4,319	$53,321
Other comprehensive income (Note 22)		
Valuation difference on available-for-sale securities	(74)	(914)
Foreign currency translation adjustment	(45)	(556)
Total other comprehensive income	(119)	(1,469)
Comprehensive income (Note 22)	¥4,199	$51,840
Comprehensive income attributable to (Note 22)**:**		
Owners of the parent	¥4,200	$51,852
Minority interests	(1)	(12)

The accompanying notes are an integral part of these statements.

Consolidated Statements of Changes in Net Assets

For the years ended February 28, 2010, 2011 and February 29, 2012

Millions of yen

		Shareholders' equity				Accumulated other comprehensive income			
	Number of shares issued (thousands)	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Minority interests	Total
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
Valuation difference on available-for-sale securities	—	—	—	—	—	204	—	—	204
Changes in minority interests	—	—	—	—	—	—	—	0	0
Acquisition of treasury stock (Note 23)	—	—	—	—	(0)	—	—	—	(0)
Sale of treasury stock (Note 23)	—	—	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)
Valuation difference on available-for-sale securities	—	—	—	—	—	175	—	—	175
Changes in minority interests	—	—	—	—	—	—	—	(1)	(1)
Acquisition of treasury stock (Note 23)	—	—	—	—	(0)	—	—	—	(0)
Balance at February 28, 2011	82,475	¥26,867	¥27,528	¥27,400	¥ (61)	¥ 275	¥(164)	¥23	¥81,868
Net income for the year ended February 29, 2012	—	—	—	4,319	—	—	—	—	4,319
Cash dividends paid	—	—	—	(1,399)	—	—	—	—	(1,399)
Changes in foreign currency translation adjustments	—	—	—	—	—	—	(44)	—	(44)
Valuation difference on available-for-sale securities	—	—	—	—	—	(74)	—	—	(74)
Changes in minority interests	—	—	—	—	—	—	—	(1)	(1)
Acquisition of treasury stock (Note 23)	—	—	—	—	(111)	—	—	—	(111)
Sale of treasury stock (Note 23)	—	—	(1)	—	21	—	—	—	20
Balance at February 29, 2012	82,475	¥26,867	¥27,526	¥30,320	¥(150)	¥ 200	¥(209)	¥22	¥84,577

Thousands of U.S. dollars (Note 4)

	Shareholders' equity				Accumulated other comprehensive income			
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Minority interests	Total
Balance at February 28, 2011	$331,691	$339,852	$338,272	$ (753)	$3,395	$(2,025)	$284	$1,010,716
Net income for the year ended February 29, 2012	—	—	53,321	—	—	—	—	53,321
Cash dividends paid	—	—	(17,272)	—	—	—	—	(17,272)
Changes in foreign currency translation adjustments	—	—	—	—	—	(543)	—	(543)
Valuation difference on available-for-sale securities	—	—	—	—	(914)	—	—	(914)
Changes in minority interests	—	—	—	—	—	—	(12)	(12)
Acquisition of treasury stock (Note 23)	—	—	—	(1,370)	—	—	—	(1,370)
Sale of treasury stock (Note 23)	—	(12)	—	259	—	—	—	247
Balance at February 29, 2012	$331,691	$339,827	$374,321	$(1,852)	$2,469	$(2,580)	$272	$1,044,160

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

For the years ended February 28, 2010, 2011 and February 29, 2012

			Millions of yen	Thousands of U.S. dollars (Note 4)
	2010	2011	2012	2012
Cash flows from operating activities:				
Income before income taxes and minority interests	¥ 7,053	¥ 7,717	¥ 7,333	$ 90,531
Adjustments for:				
Depreciation and amortization	5,597	6,628	6,350	78,395
Loss on impairment of fixed assets	411	38	352	4,346
Increase (decrease) in allowance for doubtful accounts	18	(7)	(30)	(370)
Increase (decrease) in accrued bonuses to employees	(13)	93	15	185
Increase (decrease) in allowance for sales returns	5	(5)	2	25
Increase in allowance for books unsold	3	25	14	173
Increase in reserve for sales promotion	16	27	(1)	(12)
Increase in reserve for retirement benefits	37	169	106	1,309
Increase (decrease) in accrued retirement benefits for directors and corporate auditors	1	(13)	—	—
Interest income and dividend income	(135)	(131)	(135)	(1,667)
Interest expenses	656	990	816	10,074
Loss on sales/disposal of property and equipment	81	181	10	123
Loss on write-down of marketable securities and investment securities	0	4	477	5,889
Increase (decrease) in provision for loss on store closing	—	—	(103)	(1,272)
Loss on store closing	619	341	4	49
Loss on restructuring	148	14	—	—
(Increase) decrease in receivables	513	2,568	(435)	(5,370)
(Increase) decrease in inventories	(506)	368	(77)	(951)
Loss on adjustment for changes of accounting standard for asset retirement obligations	—	—	148	1,827
Increase (decrease) in payables	(1,741)	(1,519)	407	5,025
Increase (decrease) in other assets and liabilities, net	942	(2,425)	1,398	17,259
Other	80	(19)	(266)	(3,284)
Subtotal	13,791	15,046	16,389	202,333
Interest and dividends received	135	131	135	1,667
Interest paid	(664)	(794)	(891)	(11,000)
Payment resulting from store closing	(2,011)	—	(361)	(4,457)
Payment for business restructuring	(210)	(223)	—	—
Income taxes paid	(2,118)	(2,135)	(3,998)	(49,358)
Net cash provided by operating activities	8,921	12,025	11,274	139,185
Cash flows from investing activities:				
Acquisition of tangible fixed assets	(5,523)	(40,721)	(2,993)	(36,951)
Proceeds from sales of tangible fixed assets	195	1	1,471	18,160
Acquisition of investment securities	(1)	(4)	(229)	(2,827)
Proceeds from sales of investment securities	56	0	2,139	26,407
Payments for leasehold deposits	(1,933)	(2,025)	(105)	(1,296)
Collection of leasehold deposits	3,575	3,131	2,151	26,556
Increase (decrease) in guarantee deposits received from tenants	(3,424)	(1,950)	(2,778)	(34,296)
Other	(349)	(724)	(240)	(2,963)
Net cash used in investing activities	(7,405)	(42,290)	(584)	(7,210)
Cash flows from financing activities:				
Increase (decrease) in short-term bank loans, net	1,932	(5,368)	2,955	36,481
Borrowing of long-term debt	—	32,000	175	2,160
Repayment of long-term debt	(3,222)	(5,672)	(16,040)	(198,025)
Proceeds from issuance of bonds with stock acquisition rights	—	14,945	—	—
Payments for redemption of straight bonds	(1,000)	(1,000)	(1,000)	(12,346)
Acquisition of treasury stock	(0)	(0)	(90)	(1,111)
Cash dividends paid	(1,318)	(1,318)	(1,399)	(17,272)
Other	(8)	(50)	(82)	(1,012)
Net cash provided by (used in) financing activities	(3,617)	33,536	(15,483)	(191,148)
Effect of exchange rate changes on cash and cash equivalents	43	(40)	(21)	(259)
Net increase (decrease) in cash and cash equivalents	(2,056)	3,229	(4,815)	(59,444)
Cash and cash equivalents at beginning of year	11,080	9,023	12,253	151,272
Cash and cash equivalents at end of year (Note 5)	¥ 9,023	¥ 12,253	¥ 7,437	$ 91,815

The accompanying notes are an integral part of these statements.

Notes to Consolidated Financial Statements

PARCO CO., LTD. and Consolidated Subsidiaries

1. Basis of Presenting the Consolidated Financial Statements

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

Certain items presented in the consolidated financial statements submitted to the Director of 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 6 subsidiaries as of February 28, 2010, and 5 subsidiaries as of February 28, 2011 and February 29, 2012.

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 29, 2012 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) Equity Method

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

The Company acquired approximately 15% of the total outstanding shares in Stylife Corporation and appointed a director from the PARCO Group to the Stylife board for the year ended February 29, 2012. Stylife Corporation became an equity-method affiliate for the year ended February 29, 2012.

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

This change has no effect on profit and loss.

(4) Cash and Cash Equivalents

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

(5) Securities

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

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

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

(6) Inventories

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

Effective from the year ended February 28, 2010, the Companies adopted “Accounting Standard for Measurement of Inventories” (Statement No. 9 issued by ASBJ 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, 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 ASBJ on March 30, 2007), and “Guidance on Accounting Standard for Lease Transactions” (Guidance No. 16 issued by ASBJ 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.

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

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

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

(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

(1) Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements

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 ASBJ on May 17, 2006).

This change has no effect on profit and loss.

(2) Accounting Standard for Construction Contracts

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

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

This change has no effect on profit and loss.

(3) Accounting Standard for Asset Retirement Obligations

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

(4) Accounting Standard for Business Combinations

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

(5) Accounting Standard for Consolidated Financial Statements

Effective from the year ended February 29, 2012, the Companies adopted “Cabinet Office Ordinance Partially Revising the Rules on Financial Statement Terminology, Forms and Preparation Method, etc.” (Ordinance No. 5 issued by Cabinet Office on March 24, 2009) based on “Accounting Standard for Consolidated Financial Statements” (Statement No. 22 issued by ASBJ on December 26, 2008). As a result, “Income before minority interests” is presented on the consolidated financial statements for the years ended February 28, 2010, 2011 and February 29, 2012.

(6) Accounting Standard for Presentation of Comprehensive Income

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

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

In addition, the consolidated balance sheets as of February 28, 2010 and 2011 and the consolidated statements of changes in net assets for the years ended February 28, 2009, 2010 and 2011 have been modified to conform with the new presentation rules of 2012.

(7) Introduction of Employee Stock Ownership Plan Trust ("ESOP Trust")

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

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

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

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

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

The ESOP trust owned 239,400 shares of common stock of PARCO as of February 29, 2012.

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 ¥81 = U.S.$1, the prevailing exchange rate on February 29, 2012. 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, 2010, 2011 and February 29, 2012 consist of the following:

	Millions of yen			Thousands of U.S. dollars
	2010	2011	**2012**	**2012**
Cash and time deposits	¥9,023	¥12,253	**¥7,437**	**$91,815**
Cash and cash equivalents	¥9,023	¥12,253	**¥7,437**	**$91,815**

6. Loss on Disaster

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

7. Loss on Store Closing

Major items in loss on store closing for the years ended February 28, 2010, 2011 and February 29, 2012 are as follows:

	Millions of yen			Thousands of U.S. dollars
	2010	2011	**2012**	**2012**
Loss on store closing	¥550	¥248	**¥—**	**$—**
Impairment loss	69	92	**—**	**—**
Total	¥619	¥341	**¥—**	**$—**

8. Impairment of Fixed Assets

The Companies recorded impairment losses on the following asset groups for the years ended February 28, 2010, 2011 and February 29, 2012.

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. An impairment loss of 131 million yen for "Buildings, etc." was 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 7).

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

For the year ended February 28, 2011

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

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

The Company 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 scheduled the closure of Shinsaibashi PARCO in September 2011. Loss on store closing of 239 million yen is recorded including 87 million yen of impairment loss for "Buildings, etc." The book value of "Buildings, etc." is written off to zero for continuous operating losses (See Note 7).

The book value of other assets which incurred continuous operating losses is written off to their recoverable amounts. An impairment loss of 43 million yen for "Buildings, etc." is recorded. The recoverable amounts for Store are computed based on the selling price.

For the year ended February 29, 2012

Location	Use	Classification	Millions of yen 2012	Thousands of U.S. dollars 2012
PARCO (Singapore) Pte Ltd PARCO Marina Bay [Singapore]	Store	Buildings, etc.	**¥331**	**$4,086**
NEUVE A CO., LTD. Other [Chuo-ku, Sapporo City, etc.]	Store	Buildings, etc.	**¥ 20**	**$ 247**

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

The book value of PARCO Marina Bay which incurred continuous operating losses is written off to their recoverable amounts. An impairment loss of 331 million yen (4,086 thousand U.S. dollars) for "Buildings, etc." is recorded.

The book value of other assets which incurred continuous operating losses is written off to their recoverable amounts. An impairment loss of 20 million yen (247 thousand U.S. dollars) for "Buildings, etc." is recorded.

The recoverable amounts for Store are computed based on the selling price and value in use.

9. Loss on Restructuring

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.

10. 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, 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

			Millions of yen
As of February 29, 2012	Acquisition cost	Book value	Difference
Book value exceeding acquisition cost:			
Equity shares	¥ 476	¥1,066	¥ 590
Book value not exceeding acquisition cost:			
Equity shares	980	701	(279)
Total	¥1,456	¥1,767	¥ 311

			Thousands of U.S. dollars
As of February 29, 2012	Acquisition cost	Book value	Difference
Book value exceeding acquisition cost:			
Equity shares	$ 5,877	$13,160	$ 7,284
Book value not exceeding acquisition cost:			
Equity shares	12,099	8,654	(3,444)
Total	$17,975	$21,815	$ 3,840

Available-for-sale securities sold are as follows:

	Millions of yen			Thousands of U.S. dollars
	2010	2011	2012	2012
Total sold	¥56	¥—	¥2,139	$26,407
Total gain on sales	33	—	169	2,086
Total loss on sales	—	—	—	—

Impairment loss on securities

Impairment losses of 477 million yen (5,889 thousand U.S. dollars) were recognized in the consolidated statements of income as "Loss on write-down of investment securities," as to available-for-sale securities for the year ended February 29, 2012.

When the fair market value of available-for-sale securities has declined by more than 30% from their acquisition costs, the impairment losses are recognized by taking into account recoverability and other factors.

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

11. Leasehold Deposits

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

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

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

The weighted average interest rates for short-term bank loans are 0.86%, 0.95% and 0.55% for the years ended February 28, 2010, 2011 and February 29, 2012, respectively.

Breakdown of long-term debt is as follows:

	Millions of yen			Thousands of U.S. dollars
	2010	2011	2012	2012
Long-term loans from banks including current portion	¥27,925	¥54,253	¥38,387	$473,914
Weighted average interest rates of the above long-term loans	1.85%	1.59%	1.52%	—
Bonds payable:				
1.20% straight bonds due 2014	¥ 4,000	¥ 3,000	¥ 2,000	$ 24,691
0.75% convertible bonds with stock acquisition rights due 2015	—	15,000	15,000	185,185
	31,925	72,253	55,387	683,790
Less: Portion due within 1 year	(4,222)	(17,022)	(17,822)	(220,025)
	¥27,703	¥55,231	¥37,565	$463,765

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.$185 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 29, 2012 are as follows:

	Millions of yen	Thousands of U.S. dollars
Net book value of assets pledged as collateral:		
Buildings	¥ 1,828	$ 22,568
Buildings and structures in trust	14,020	173,086
Machinery and equipment in trust	8	99
Tools, furniture and fixtures in trust	94	1,160
Land	2,039	25,173
Land in trust	10,898	134,543
	¥28,887	$356,630

Secured liabilities as of February 29, 2012 are as follows:

	Millions of yen	Thousands of U.S. dollars
Short-term loans	¥ 152	$ 1,877
Long-term loans	8,164	100,790
	¥8,316	$102,667

The aggregate annual maturities of long-term debt as of February 29, 2012 are as follows:

Year ending February 28/29,	Millions of yen	Thousands of U.S. dollars
2013	¥17,822	$220,025
2014	6,759	83,444
2015	5,300	65,432
2016	18,150	224,074
2017 and thereafter	7,356	90,815
	¥55,387	$683,790

13. Asset Retirement Obligations

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

i) Overview of the asset retirement obligations

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

ii) Basis for calculating the asset retirement obligations

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

iii) Changes in the asset retirement obligations for the year ended February 29, 2012

	Millions of yen	Thousands of U.S. dollars
Balance at beginning of year (See Note)	¥278	$3,432
Increase by acquisition of property and equipment	34	420
Adjustment with the passing of time	3	37
Decrease by fulfillment of obligation	(2)	(25)
Foreign currency translation differences	(0)	(0)
Balance at end of year	¥313	$3,864

Note: The balance of the asset retirement obligations at beginning of year was determined based upon the guidance set forth in "Accounting Standard for Asset Retirement Obligations" (Statement No. 18 issued by ASBJ on March 31, 2008) and "Guidance on Accounting Standard for Asset Retirement Obligations" (Guidance No. 21 issued by ASBJ on March 31, 2008).

(2) Asset Retirement Obligations not Recognized in the Consolidated Balance Sheet as of February 29, 2012

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

14. 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, 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

	Millions of yen		
As of February 29, 2012	Acquisition costs	Accumulated depreciation	Net book value
Machinery and equipment	**¥907**	**¥698**	**¥209**
Other	**43**	**38**	**5**
Total	**¥951**	**¥736**	**¥215**

	Thousands of U.S. dollars		
As of February 29, 2012	Acquisition costs	Accumulated depreciation	Net book value
Machinery and equipment	**$11,198**	**$8,617**	**$2,580**
Other	**531**	**469**	**62**
Total	**$11,741**	**$9,086**	**$2,654**

	Millions of yen			Thousands of U.S. dollars
	2010	2011	**2012**	**2012**
Future minimum lease payments:				
Due within 1 year	¥288	¥238	**¥156**	**$1,926**
Due after 1 year	457	221	**63**	**778**
Total	¥745	¥460	**¥219**	**$2,704**

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

			Millions of yen	Thousands of U.S. dollars
	2010	2011	2012	2012
Lease expenses	¥345	¥294	¥224	$2,765
Depreciation equivalents	327	287	216	2,667
Interest expense equivalents	10	7	3	37

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
	2010	2011	2012	2012
Future minimum lease payments:				
Due within 1 year	¥ 61	¥ 65	¥59	$728
Due after 1 year	133	71	12	148
Lease rental expenses	¥194	¥136	¥71	$877

(3) Impairment Loss

No impairment loss was allocated to leased assets for the years ended February 28, 2010, 2011 and February 29, 2012.

15. Financial Instruments

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

(1) Matters Regarding the Conditions of Financial Instruments

i) Policy on financial instruments

The Companies procure 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

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

			Millions of yen
As of February 28, 2011	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	¥ —	¥ —	¥ —

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

	Thousands of U.S. dollars		
As of February 29, 2012	Book value	Fair value	Difference
(i) Cash and time deposits	$ 91,815	$ 91,815	$ —
(ii) Notes and accounts receivable—trade	94,889	94,889	—
(iii) Investment securities	25,889	23,790	(2,099)
(iv) Leasehold deposits	140,926	138,136	(2,790)
Total	$353,543	$348,642	$(4,889)
(i) Short-term bank loans	$ 51,222	$ 51,222	$ —
(ii) Current portion of long-term debt	220,025	220,025	—
(iii) Notes and accounts payable—trade	204,025	204,025	—
(iv) Long-term bank loans	266,235	265,111	(1,111)
(v) Bonds	12,346	12,259	(74)
(vi) Convertible bonds with stock acquisition rights	185,185	181,938	(3,235)
Total	$939,037	$934,580	$(4,444)
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 have their present value calculated by discounting the principal and interest by applicable residual term and credit risk. Bonds are included in long-term debt in the balance sheets.

Derivative transactions

The fair values of special case interest swap treatments 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 for which fair value is considered to be difficult to obtain are as follows:

As of February 28, 2011	Millions of yen
Classification	
Non-listed securities	¥ 3,053
Leasehold deposits	30,336
Guarantee deposits received from tenants	36,159

As of February 29, 2012	Millions of yen
Classification	
Non-listed securities	¥ 605
Leasehold deposits	29,584
Guarantee deposits received from tenants	34,419

As of February 29, 2012	Thousands of U.S. dollars
Classification	
Non-listed securities	$ 7,469
Leasehold deposits	365,235
Guarantee deposits received from tenants	424,926

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:

As of February 28, 2011	Within 1 year	Over 1 year, within 5 years	Over 5 years, within 10 years	Over 10 years
				Millions of yen
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

As of February 29, 2012	Within 1 year	Over 1 year, within 5 years	Over 5 years, within 10 years	Over 10 years
				Millions of yen
Cash and time deposits	¥ 7,437	¥ —	¥ —	¥ —
Notes and accounts receivable—trade	7,686	—	—	—
Leasehold deposits	—	6,799	3,610	1,006
Total	¥15,124	¥6,799	¥3,610	¥1,006

As of February 29, 2012	Within 1 year	Over 1 year, within 5 years	Over 5 years, within 10 years	Over 10 years
				Thousands of U.S. dollars
Cash and time deposits	$ 91,815	$ —	$ —	$ —
Notes and accounts receivable—trade	94,889	—	—	—
Leasehold deposits	—	83,938	44,568	12,420
Total	$186,716	$83,938	$44,568	$12,420

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

As of February 28, 2011	Within 1 year	Over 1 year, within 5 years	Over 5 years, within 10 years	Over 10 years
				Millions of yen
Long-term bank loans	¥—	¥31,031	¥7,200	¥—
Bonds	—	2,000	—	—
Convertible bonds with stock acquisition rights	—	15,000	—	—
Total	¥—	¥48,031	¥7,200	¥—

As of February 29, 2012	Within 1 year	Over 1 year, within 5 years	Over 5 years, within 10 years	Over 10 years
				Millions of yen
Long-term bank loans	¥—	¥15,965	¥5,600	¥—
Bonds	—	1,000	—	—
Convertible bonds with stock acquisition rights	—	15,000	—	—
Total	¥—	¥31,965	¥5,600	¥—

As of February 29, 2012	Within 1 year	Over 1 year, within 5 years	Over 5 years, within 10 years	Over 10 years
				Thousands of U.S. dollars
Long-term bank loans	$—	$197,099	$69,136	$—
Bonds	—	12,346	—	—
Convertible bonds with stock acquisition rights	—	185,185	—	—
Total	$—	$394,630	$69,136	$—

16. 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
	2010	2011	2012	2012
Retirement benefit obligation	¥(4,851)	¥(4,767)	¥(4,858)	$(59,975)
Fair value of pension assets	2,456	2,347	2,418	29,852
Unrecognized prior service costs	(670)	(502)	(334)	(4,123)
Unrecognized actuarial differences	1,115	907	757	9,346
Unrecognized transition amount arising from adopting the new standard	608	503	398	4,914
Reserve for retirement benefits	¥(1,341)	¥(1,510)	¥(1,617)	$(19,963)

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

	Millions of yen			Thousands of U.S. dollars
	2010	2011	2012	2012
Service costs	¥ 236	¥ 268	¥ 264	$ 3,259
Interest costs	97	96	96	1,185
Expected return on plan assets	(41)	(49)	(46)	(568)
Amortization of unrecognized prior service costs	(168)	(168)	(168)	(2,074)
Amortization of unrecognized actuarial differences	340	270	222	2,741
Amortization of unrecognized transition amount arising from adopting the new standard	106	105	105	1,296
Premium severance pay	50	30	35	432
Prepaid retirement benefit	114	110	115	1,420
Others	(27)	—	—	—
Retirement benefit expenses	¥ 709	¥ 663	¥ 625	$ 7,716

Discount rate and rate of expected return on plan assets used are mainly 2.0% for 2010, 2011 and 2012. Prior service costs and actuarial differences are amortized on a straight-line basis mainly over 11 years for 2010, 2011 and 2012. The unrecognized transition amount arising from adopting the new standard is amortized on a straight-line basis over a period of 15 years (See Note 2(10)).

17. Income Taxes

Japanese income taxes applicable to the Companies consist of corporate tax, inhabitant tax and corporate enterprise tax, which in the aggregate resulted in the statutory tax rate of approximately 40.7% for 2010, 2011 and 2012.

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

	Millions of yen			Thousands of U.S. dollars
	2010	2011	2012	2012
Deferred tax assets:				
Adjustments for unrealized gains	¥ 814	¥ 785	¥ 764	$ 9,432
Retirement benefits to directors and corporate auditors	92	—	—	—
Accrued bonuses to employees	370	408	414	5,111
Reserve for sales promotion	90	101	100	1,235
Accrued corporate enterprise tax	176	198	137	1,691
Allowance for doubtful accounts	109	101	82	1,012
Reserve for retirement benefits	629	661	623	7,691
Loss on impairment of fixed assets	362	257	130	1,605
Allowance for loss on store closing	103	180	—	—
Loss on restructuring	102	—	—	—
Write-down of investment securities	—	—	178	2,198
Asset retirement obligations	—	—	105	1,296
Real estate acquisition taxes payable	112	112	—	—
Others	472	366	393	4,852
Gross deferred tax assets	3,437	3,175	2,930	36,173
Less: Valuation allowance	(275)	(176)	(67)	(827)
Total deferred tax assets	¥3,161	¥2,999	¥2,862	$35,333
Deferred tax liabilities:				
Valuation difference on available-for-sale securities	94	199	146	1,802
Investment in a subsidiary	70	70	61	753
Asset retirement obligations	—	—	45	556
Others	18	0	0	0
Total deferred tax liabilities	¥ 183	¥ 269	¥ 253	$ 3,123
Net deferred tax assets	¥2,977	¥2,729	¥2,608	$32,198

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 2010 and 2012 is not disclosed as the difference is less than 5%.

Following the promulgation on December 2, 2011 of "Act for Partial Revision of the Income Tax Act, etc. for the Purpose of Creating Taxation System Responding to Changes in Economic and Social Structures" (Act No. 114 of 2011) and "Act on Special Measures for Securing Financial Resources Necessary to Implement Measures for Reconstruction Following the Great East Japan Earthquake" (Act No. 117 of 2011), the corporate tax rate will be reduced and a special recovery tax will be imposed effective from the year beginning on or after April 1, 2012.

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

As a result, net deferred tax assets decreased by 128 million yen (1,580 thousand U.S. dollars), and income taxes—deferred increased by 143 million yen (1,765 thousand U.S. dollars).

18. Guarantee Deposits Received from Tenants

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

19. Derivative Information

The Companies enter into interest rate swap agreements in order to minimize the risk of fluctuation in interest rates 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 2010.

The derivative instruments for the years ended February 28, 2011 and February 29, 2012 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)

			Millions of yen		
					2012
Method of hedge accounting	Type of transaction	Main subject of a hedge	Contractual prices	Over 1 year contractual prices	Fair value
Special case interest swap treatment	Interest rate swap transaction (fluctuating receipts/fixed payments)	Long-term bank loans	¥25,255	¥11,785	(See Note)

			Thousands of U.S. dollars		
					2012
Method of hedge accounting	Type of transaction	Main subject of a hedge	Contractual prices	Over 1 year contractual prices	Fair value
Special case interest swap treatment	Interest rate swap transaction (fluctuating receipts/fixed payments)	Long-term bank loans	$311,790	$145,494	(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.

20. Segment Information

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

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

(1) Summary of reportable segments

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

The Companies have identified four reportable segments: "Shopping complex," "Retail," "Space engineering and management" and "Others." The "Shopping complex" business is the Companies' flagship operation.

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

(2) Calculation of sales, income or loss, assets and other by reportable segment

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

Millions of yen

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

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

Millions of yen

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

Thousands of U.S. dollars

For the year ended February 29, 2012:	Shopping complex	Retail	Space engineering and management	Others	Total	Adjustment	Consolidated
Sales:							
External customers	$2,911,605	$117,605	$133,358	$78,025	$3,240,617	$ —	$3,240,617
Inter-segment	0	84,914	91,580	3,827	180,333	(180,333)	—
Total	2,911,617	202,519	224,951	81,852	3,420,951	(180,333)	3,240,617
Segment income	$ 100,716	$ 5,123	$ 5,012	$ 2,062	$ 112,938	$ 247	$ 113,185
Segment assets	$2,499,914	$ 66,086	$ 99,531	$30,901	$2,696,457	$(119,938)	$2,576,506
Other:							
Depreciation and amortization	73,309	4,111	667	1,086	79,198	(790)	78,395
Loss on impairment of fixed assets	4,086	247	—	—	4,346	(0)	4,346
Increase of property and equipment and intangible assets	35,679	5,654	358	160	41,877	(1,259)	40,605

Notes: 1. The adjustments are as follows:
(1) Adjustment of segment income of 20 million yen (247 thousand U.S. dollars) is inter-segment eliminations.
(2) Adjustment of segment assets of (9,715) million yen ((119,938) thousand U.S. dollars) is inter-segment eliminations.
(3) Adjustment of depreciation and amortization of (64) million yen ((790) thousand U.S. dollars) is inter-segment eliminations.
(4) Adjustment of loss on impairment of fixed assets of (0) million yen ((0) thousand U.S. dollars) is inter-segment eliminations.
(5) Adjustment of increase of property and equipment and intangible assets of (102) million yen ((1,259) thousand U.S. dollars) is inter-segment eliminations.
2. Segment income is reconciled to operating income in the consolidated statements of income.
3. Other operating revenue is included in "Sales."

(3) Related Information

i) Products and Services

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

ii) Sales and property and equipment information by region

Geographic area information has been omitted since revenue from outside customers in the Japan area and property and equipment located in the Japan area accounted for more than 90% of revenue from operations on the consolidated income statements and property and equipment on the consolidated balance sheets, respectively.

iii) Customer

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

(4) Information regarding loss on impairment of fixed assets by reportable segment

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

(5) Information regarding amortization of goodwill and remaining goodwill balance by reportable segment

Disclosure is omitted since the aggregate value is immaterial.

(6) Information regarding gain on negative goodwill by reportable segment

Not applicable.

For the years ended February 28, 2010 and 2011

(1) Business Segment Information

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

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 or disclosed since the aggregate sales and assets of the Company and its domestic subsidiaries are more than 90% of the consolidated net sales and assets for the years ended February 28, 2010 and 2011.

(3) Export Sales Information

Export sales information is not prepared or disclosed since the sales to overseas customers are less than 10% of the consolidated net sales for the years ended February 28, 2010 and 2011.

21. 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 29, 2012 include amounts representing year-end cash dividend of ¥742 million ($9,160 thousand), ¥9.0 ($0.11) per share, which was resolved at the Board of Directors meeting held on April 4, 2012.

22. Comprehensive income

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

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

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

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

23. Treasury Stock

Breakdown of treasury stock (common stock) for the years ended February 28, 2010, 2011 and February 29, 2012 is as follows:

	Number of shares outstanding (thousands)
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
Purchase of fractional shares from stockholders	177
Sales of fractional shares to stockholders	(34)
Balance at February 29, 2012	240

24. Net Income per Share

Basis of computation of basic net income and diluted net income per share ("EPS") for the years ended February 28, 2010, 2011 and February 29, 2012 are as follows:

	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
Basic EPS:			
Net income available to common shareholders	¥4,400	82,379	¥53.41
Effect of dilution			
Convertible bonds with stock acquisition rights	31	8,999	
Diluted EPS—Net income for computation	¥4,431	91,378	¥48.50

	Net income	Weighted- average shares	EPS	
For the year ended February 29, 2012	Millions of yen	Thousands of shares	Yen	U.S. dollars
Basic EPS:				
Net income available to common shareholders	¥4,319	82,289	¥52.49	$0.65
Effect of dilution				
Convertible bonds with stock acquisition rights	66	18,987		
Diluted EPS—Net income for computation	¥4,385	101,276	¥43.31	$0.53

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 its consolidated subsidiaries as of February 28, 2010, 2011 and February 29, 2012, the related consolidated statement of comprehensive income for the year ended February 29, 2012, and consolidated statements of income, changes in net assets and cash flows for each of the three years in the period ended February 29, 2012, 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 its consolidated subsidiaries as of February 28, 2010, 2011 and February 29, 2012, and the consolidated results of their operations and their cash flows for each of the three years in the period ended February 29, 2012, in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion, we draw attention to Note 22 to the consolidated financial statements, in which the comprehensive income for the year ended February 28, 2011 is disclosed.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended February 29, 2012 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 28, 2012

Stock Information (As of February 29, 2012)

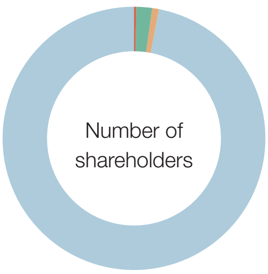
Number of shares authorized	320,000,000
Number of shareholders	16,369
Number of shares issued and outstanding	82,475,677

Principal Shareholders

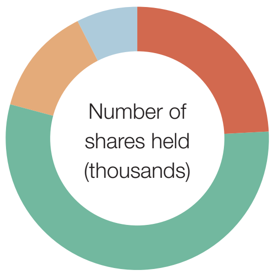
Name	Number of shares held (thousands)	Shareholding ratio (%)
Mori Trust Co., Ltd.	27,400	33.22
Aeon Co., Ltd.	8,272	10.03
Credit Saison Co., Ltd.	7,760	9.41
Japan Trustee Services Bank, Ltd. (Trust Account)	4,121	5.00
The Master Trust Bank of Japan, Ltd. (Trust Account)	2,825	3.43
JUNIPER	1,809	2.19
NORTHERN TRUST CO. (AVFC) SUB A/C AMERICAN CLIENTS	1,633	1.98
Mizuho Corporate Bank, Ltd.	1,300	1.58
Sumitomo Mitsui Banking Corporation	1,210	1.47
BNP PARIBAS SEC SVC LONDON/JAS/ ABERDEEN INVESTMENT FUNDS ICVC/AGENCY LENDING	1,001	1.21

*Shareholding ratios are calculated after deduction of treasury stock (850 shares).
*There was a change in the largest shareholder from Mori Trust Co., Ltd. to J. FRONT RETAILING Co., Ltd. as a result of the share offering carried out on March 23, 2012.

Breakdown of Shares by Type of Shareholder

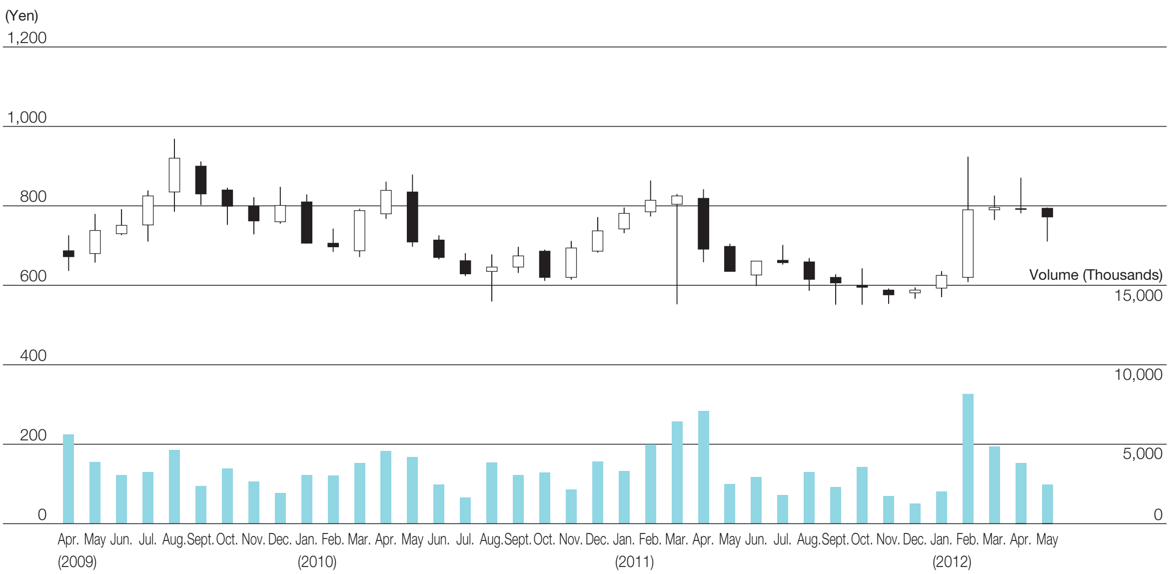


- Japanese financial institutions and Japanese securities companies: 86 — 0.5%
- Other Japanese companies: 291 — 1.8%
- Foreign investors: 132 — 0.8%
- Japanese individuals and others: 15,859 — 96.9%
- Treasury stock: 1 — 0.0%



- Japanese financial institutions and Japanese securities companies: 20,119 — 24.4%
- Other Japanese companies: 45,247 — 54.9%
- Foreign investors: 11,010 — 13.4%
- Japanese individuals and others: 6,097 — 7.4%
- Treasury stock: 0 — 0.0%

Stock Performance



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