

PARCO

INTEGRATED REPORT 2017




"PARCO Integrated Report 2017" was compiled and edited with reference to the "International Integrated Reporting Framework" propagated by the International Integrated Reporting Council. In addition to the content found in previous reports, this latest report contains content describing non-financial business value, such as an explanation of the cycle of business activities labeled the "PARCO Group Value Creation Process," "Three Social Roles of the PARCO Group," and insight into the corporate governance system that underpins business.

The cover for this year's report was produced by Cap, a design office involved in PARCO campaign posters and seasonal catalogs, as well as high-quality design advertising.

The colorful designs rendered with a textured touch are unconventional for any age and express PARCO's commitment to continuously transmitting freeform creation.

Refer to the Investor Relations section of the PARCO website for more detailed information concerning financial reporting.

 www.parco.co.jp/en/ir/

Refer to the CSR section of the PARCO website for detailed information concerning ESG.

 www.parco.co.jp/en/csr/

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.

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PARCO Corporate Mission

Creating welcoming, forward-thinking, innovative spaces that provide an enjoyable experience for customers and help our tenants prosper.

The Concept Behind Our Name

Our company name, PARCO, is the Italian word for “park.” Like a park, each PARCO location is a space where people come together to share time and space, where they can relax and have fun.

Our Corporate Mission is “Creating welcoming, forward-thinking, innovative spaces that provide an enjoyable experience for customers and help our tenants prosper.”

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

Our employees are constantly striving to create new value that surpasses what customers expect in order to provide a space where people can feel happy and inspired.

History of Value Creation

Since its initial opening, PARCO has proposed new lifestyles to the public by actively introducing the cutting edge of culture not only in fashion but also music, the arts, theater, and other areas. By functioning as a space for the creativity of many new people of talent, PARCO has also created new value shared by society at large.

Amid the changing times and economic climate, and even transformation in consumer trends, facing these challenges and evolving the social role of the PARCO Group, namely its origin points of “Incubation,” “Urban Revitalization,” and “Trends Communication,” provides the foundation that spurs business growth and is leading to the realization of our Long-term Vision and sustained profit growth.

(Millions of yen)

13,000

12,000

11,000

10,000

9,000

2005

Five-year Medium-term Business Plan (FY 2005-2009)

Promotion Themes

- **Reinforcement of operational and development capacities for commercial facilities**
 - (1) Promote strategic complex grouping policy
 - (2) Develop new complexes primarily in Japan's major cities
- **New business development and challenge**
 - (1) Promote property management business
 - (2) Take on challenge of new development schemes
- **Cultivation and development of peripheral businesses**
 - (1) Expand content utilization business (PARCO CO., LTD.)
 - (2) Strengthen building management business and develop new businesses (PARCO SPACE SYSTEMS CO., LTD.)
 - (3) Expand operations by actively opening new stores (NEUVE A CO., LTD.)



Shizuoka PARCO, first new complex in 10 years (Mar. 2007)



Sendai PARCO, first complex in Tohoku area (Aug. 2008)

2010

Medium-term Business Plan (FY2010-2012) “Urban lifestyle producer”

Three business strategies

- Strategy 1** Innovation at existing complexes: create strong revenue base
- Strategy 2** Expansion of commercial activities in urban areas both in Japan and overseas: create business base for next stage of growth
- Strategy 3** Rapid development of related and new businesses: expand business domain

Strengthen management foundation in support of the three strategies

- Strengthen management foundation 1** Diversify financial strategy
- Strengthen management foundation 2** Revamp real estate strategy
- Strengthen management foundation 3** Promote M&A and alliance strategy

* Signed a capital partnership agreement with J. FRONT RETAILING Co., Ltd. (Aug. 2012)



Fukuoka PARCO, opened as new-style PARCO with lower apparel rate (Mar. 2010)



Shinsaibashi ZERO GATE, opened as new business model for revenue from rental income (Apr. 2013)

Incubation

See P28

Urban Revitalization

See P30

Trends Communication

See P32

2007 Mar. Shizuoka PARCO Oct. Urawa PARCO

2008 Aug. Sendai PARCO

2007 • EC mall “PARCO-CITY”

2010 • Corporate Message “LOVE HUMAN.” • PARCO-arranged shop “once A month” (Fukuoka)

2010 Mar. Fukuoka PARCO

2011 • Shibukaru Festival, an opportunity for women artists and creators to present their work

2011 Apr. Shibuya store changed its format to ZERO GATE

2013 Apr. Shinsaibashi ZERO GATE Apr. Dotonbori ZERO GATE Oct. Hiroshima ZERO GATE

2013 • Developed “P-WALL” digital signage display

News

2008 Global financial crisis

2011 The Great East Japan Earthquake

2012 Abenomics, Japan's economic stimulus package

PARCO Group Long-term Vision

A business group that prospers in urban markets
—Designers of unique offerings for 24/7 urban life
—Creative drivers of urban evolution

Three Business Strategies

- Strategy 1** Cultivation of major urban areas
- Strategy 2** Expansion of core targets
- Strategy 3** Innovative use of ICT

Fiscal 2016
J-GAAP

¥12.8 billion

Fiscal 2016
IFRS (special adjusted trial balances*)

¥11.5 billion

2017 →

Medium-term Business Plan (FY 2017-2021)

Realizing growth by widening unique value provided to urban areas

Three Tactics

- Tactic 1** Evolve store brands
- Tactic 2** Produce commercial real estate
- Tactic 3** Expand soft content

Four Directions

- 1** Expand domain to include commercial real estate and soft businesses that leverage PARCO's intrinsic expertise and capabilities
- 2** Increase operational efficiency through business resource choice and focus —be a compact, high-yield business group
- 3** Widen unique value provided to meet the diversifying needs of urban consumers and business owners
- 4** Develop corporate culture that expands our purpose in society



Evolve Business through Creation of New Shibuya PARCO

We are currently promoting the redevelopment of Shibuya PARCO, the starting point of the PARCO Group, and will create the New Shibuya PARCO so that the essence of this next-generation commercial space comes to permeate Group businesses.

Project Overview

Total land area	Approx. 5,380 m ²
Total floor area	Approx. 63,930 m ²
Floors	19 above-ground floors, 3 belowground floors

2014 →

Medium-term Business Plan (FY 2014-2016) Execution of Growth Strategy

Five Tactics for Realizing PARCO Long-term Vision

- 1.** Prioritization of the PARCO Stores business
- 2.** Development centered on areas around core urban stores and entry into new major cities in Japan
- 3.** Expansion of related business and creation of new business
- 4.** Rebuilding overseas business
- 5.** Strengthen management foundation to support further business advances



Provide Services Utilizing the Web

We worked to create an environment that allows customers to enjoy PARCO 24 hours a day by releasing the Kaeru PARCO service, which allows customers to reserve and purchase merchandise from PARCO shops online, and POCKET PARCO, our official smartphone app.



Create Districts with Distinctive Personalities

In the Fukuoka area, we opened the Fukuoka PARCO New Building and added floor space to the Fukuoka PARCO Main Building to make the complex one of the largest shopping centers in the Tenjin area. By assembling stores providing new forms of culture, offering Wi-Fi throughout the complex, utilizing digital signage and making other facility enhancements, we provided new styles of consumption experience. (Nov. 2014)

2014

- Corporate Message "SPECIAL IN YOU."
- Crowd-funding service "BOOSTER"

2014

Oct. Nagoya ZERO GATE
Nov. Fukuoka PARCO New Building

2015

Mar. Expanded floor space of Fukuoka PARCO
Mar. Nagoya PARCO midi

2016

Feb. Sapporo ZERO GATE
Jul. Sendai PARCO2
Sept. Hiroshima ZERO GATE2

2017

Fall New South Wing of Matsuzakaya Ueno
Fiscal 2017 Kyoto ZERO GATE

2018

Spring Harajuku ZERO GATE
2nd half of fiscal 2018 Kinshicho Station Area project

2019

Summer Okinawa Urasoe West Coast Development project
Fall New Shibuya PARCO
Opening date to be decided
Sanmomiya ZERO GATE

2014

- ACROSS recorded its 400th set of fixed-point observations
- POCKET PARCO, an official smartphone app

2014

Consumption tax hike

2016

Negative interest rates

2020

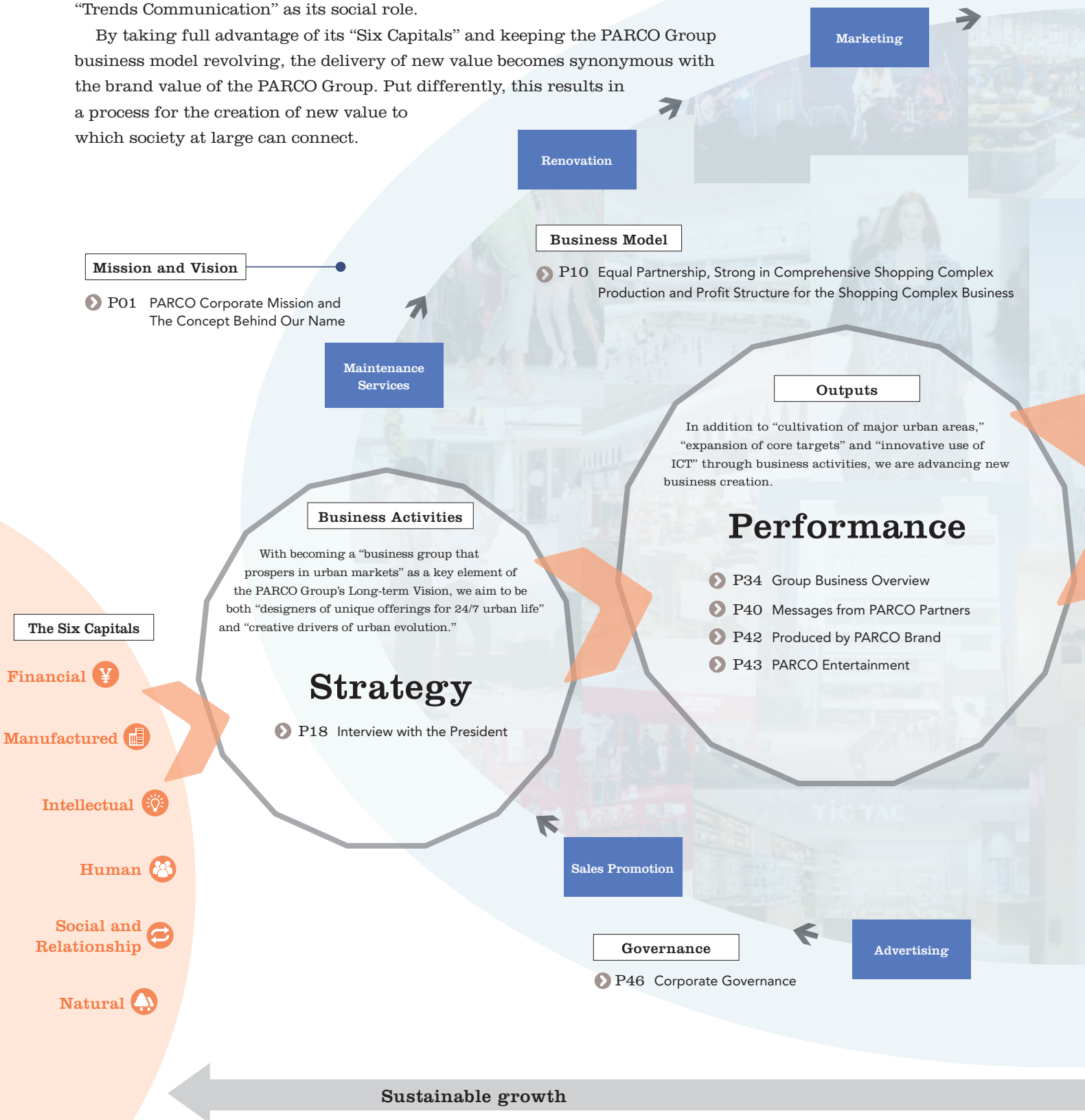
Tokyo Olympic and Paralympic Games

* Fiscal 2016 IFRS results are reference figures obtained by restating results based on Japanese accounting standards on the basis of IFRS standards; audit procedures have not been completed, so they are subject to change.

The PARCO Group Value Creation Process

PARCO, together with its stakeholders, strives to create new lifestyles, guided by the PARCO Group Corporate Mission and the sentiment embodied in the PARCO name. In business, PARCO leverages its capabilities as a comprehensive commercial space producer, while pursuing management strategies in step with the times, to propose ways to enrich consumer lifestyles. This encapsulates the creation of new value to which society can connect. PARCO views the tireless advancement of such value through “Incubation,” “Urban Revitalization” and “Trends Communication” as its social role.

By taking full advantage of its “Six Capitals” and keeping the PARCO Group business model revolving, the delivery of new value becomes synonymous with the brand value of the PARCO Group. Put differently, this results in a process for the creation of new value to which society at large can connect.



Planning

Tenant Leasing

Outcomes

Along with fulfillment of its three social roles of “Incubation,” “Urban Revitalization” and “Trends Communication,” PARCO is poised to push ahead further with evolving from its point of origin.

Social Responsibility

Incubation

Urban Revitalization

Trends Communication


- P02 History of Value Creation
- P28 Feature: Three Social Roles of the PARCO Group

Designing

Operations

The Six Capitals


PARCO is improving the value of its “Six Capitals” through “Incubation,” “Urban Revitalization” and “Trends Communication.”

- 
Financial
 Boosting financial and shareholder value
 - **A record-high ¥12.8 billion in operating income**
 - **Annual dividend of ¥23 per share, an increase of ¥3**


- 
Manufactured
 PARCO stores that are futuristic, innovative and brimming with hospitality
 - **PARCO complexes: 18***
 - **ZERO GATE complexes: 7**
 - **Complexes under development: 6**(As of February 28, 2017)

* Including Shibuya PARCO which is temporarily closed for redevelopment

- 
Intellectual
 Improving operational value
 - **Fixed-point observation of street fashion: 434 times**(As of February 28, 2017)

- 
Human
 Enhancing human resources and client value
 - **Percent of female managers: 12.1%**(As of February 28, 2017)

- 
Social and Relationship
 Customer understanding, confidence and trust
 - **Number of SNS followers: about 1.2 million**

- 
Natural
 Creating commercial spaces with minimal environmental footprint
 - **Electricity consumption at existing stores: 28.1% reduction compared with fiscal 2010**

To Our Stakeholders



With becoming “a business group that prospers in urban markets” as a key element of the PARCO Group Long-term Vision, the PARCO Group aims to be both “designers of unique offerings for 24/7 urban life” and “creative drivers of urban evolution.” The focus of our prior Medium-term Business Plan (FY 2014-2016) was on execution of our growth strategy, and we therefore worked to innovate existing formats, acquire new sites through promoting development, and expand external businesses. This included promoting development of new commercial facilities combining the comprehensive strengths of the PARCO Group and the operational assets of the J. Front Retailing Group, as well as actively developing the ZERO GATE business with an emphasis on efficient operations based on the business scale. In addition, we implemented unique ICT strategies linking online resources to physical stores and this resulted in significant progress in customer promotions as well as the work efficiency of shop staff.

The consumption environment in Japan is being shaped by continuing urban maturation in the form of rapidly evolving technologies, diversifying lifestyles, ongoing aging and population declines, city population growth from urban revivals, changes in inbound demand, and other developments.

To accommodate these changes taking place in Japan and overseas and leverage them to create business opportunities, we formulated our new Medium-term Business Plan (FY 2017-2021) with a focus on increasing the unique value we provide to urban areas. Under the plan, we will promote business selection and concentration and accelerate the pace of business portfolio reform. We intend to integrate the inspirational essence of the New Shibuya PARCO opening in 2019 into the Urban Complexes Group as a whole, and after it opens to extend the essence generated by the New Shibuya PARCO to PARCO complexes and Group businesses throughout the country in order to create next-generation commercial space and further promote the evolution of the PARCO store brand. Through our three main social roles of “Incubation,” “Urban Revitalization,” and “Trends Communication,” which constitute PARCO’s point of origin, we will meet the diversifying needs of consumers desiring fulfilling urban lifestyles and business proprietors active in urban areas by providing value that is unique to PARCO, which includes personal fulfillment, new inspiration, and contentment.

From the time I was appointed president, I have emphasized the importance of thinking closely about where we started and evolving from there and have promoted our business using the phrase “Evolving From Our Point of Origin.” Moving forward, we intend to constantly evolve by steadily executing our new Medium-term Business Plan and realize our Long-term Vision of becoming a “business group that prospers in urban markets” and our Corporate Mission of “Creating welcoming, forward-thinking, innovative spaces that provide an enjoyable experience for customers and help our tenants prosper.”

We ask for the continued understanding and support of our many stakeholders as we move forward.

July 2017

PARCO CO., LTD.
President and Representative Executive Officer

Kozo Makiyama

PARCO Group Net Sales and Operating Income Composition

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

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

Shopping Complex Business



Ikebukuro PARCO

The Shopping Complex Business is the PARCO Group’s flagship operation. As a commercial developer, this business functions as a hybrid business model that combines retail and real estate operations.

On the retail side, this business seeks to improve the sales of each tenant by enhancing the appeal of new shopping complex additions through renovation, attracting customers through advertisement and sales promotion activities, and by offering detailed tenant support. On the real estate side, this business serves as a comprehensive producer for a full menu of services essential to commercial facility operation, ranging from building development and planning to upkeep and management.

While focusing on the development and operation of PARCO locations, this business promotes development of ZERO GATE and other new business models.

Retail Business



TIC TAC Shibuya Hikarie store

The Retail Business is centered on NEUVE A CO., LTD., which develops and operates select stores based on a five-business structure consisting of wristwatches, eyewear, cosmetics, fashion accessories, and new business format development.

As a company that operates unique specialty stores with a focus on general merchandise, NEUVE A has 201 store locations across Japan (as of February 28, 2017) and an online store, with 69 new locations opening in just the last five years. NEUVE A aims to expand earnings by enhancing its lineup of original goods, taking steps to develop new business formats, and promoting the opening of stores in highly fashionable commercial facilities in established and emerging urban centers.

(As of February 28, 2017, 149 non-PARCO locations, with 74.1% of locations outside of PARCO)

Space Engineering and Management Business



Contracted for event planning and proposal and marketing visuals and displays for a Halloween event at First Avenue Tokyo Station

PARCO SPACE SYSTEMS CO., LTD., which handles the Space Engineering and Management Business, provides comprehensive services and solutions for every phase of the creation of a facility, including space design planning and construction, facility operation, and safety management. Services range from the space product business, which covers aspects of space creation such as interior design and display presentation, to the building management business, concerned with the maintenance and management of facility safety and comfort.

For shopping complexes, specialty stores, public facilities, large-scale city hotels, medical facilities, museums, and other facilities where users value aesthetic design and comfort, we take advantage of PARCO’s deep expertise to help sustain and enhance the business partner’s asset value.

Other Business



Digital signage for Nagoya PARCO’s restaurant floor

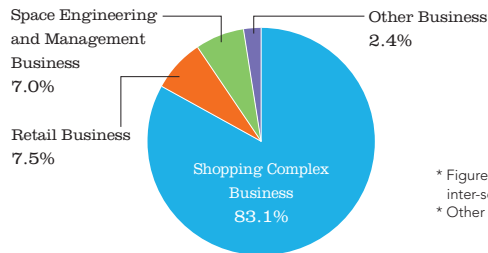
Entertainment Business

In the entertainment business, handled by PARCO CO., LTD., we produce a wide variety of compelling content for theater, music, movies and publications. Through this business, we disseminate information of the most popular topics of the day and create added value, which in turn enhances the PARCO brand.

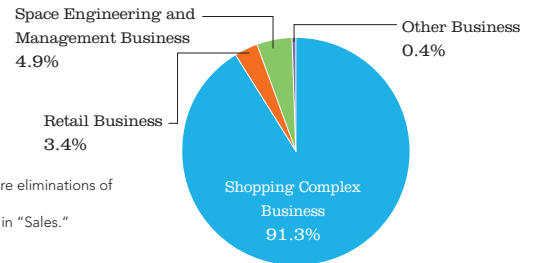
Web-based Consulting Business

PARCO Digital Marketing CO., LTD.* handles our web-based consulting business and provides support for use of ICT technologies at PARCO. In its core business of providing support for ICT use at commercial facilities, the company draws on the technological and operational capacities it has cultivated through ICT use at PARCO to provide digital marketing support for some 150 commercial facilities and specialty stores outside the PARCO Group.

Net Sales Composition (Fiscal 2016)

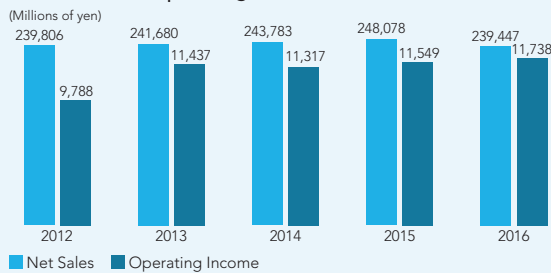


Operating Income Composition (Fiscal 2016)



* Figures calculated using figures before eliminations of inter-segment transactions.
* Other operating revenue is included in "Sales."

Net Sales and Operating Income*



■ Net Sales ■ Operating Income

* PARCO CO., LTD.'s entertainment business results are included in its Other Business segment.

PARCO CO., LTD.

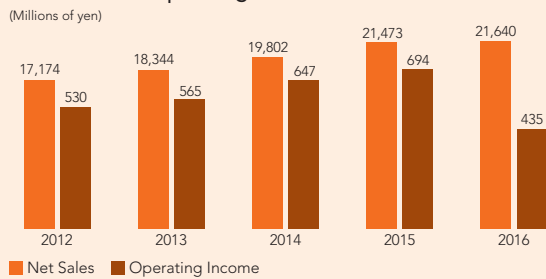
www.parco.co.jp/en/

Head Office	8-16 Shinsen-cho, Shibuya-ku, Tokyo
Established	February 13, 1953
Net Sales	¥240,221 million
Operating Income	¥11,815 million
Paid-in Capital	¥34,367 million
Employees	607
No. of locations (PARCO/ZERO GATE)	18 locations* /7 locations

*Including Shibuya PARCO, which is temporarily closed for redevelopment.

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Net Sales and Operating Income



■ Net Sales ■ Operating Income

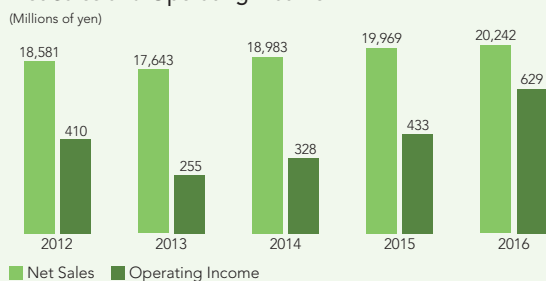
NEUVE A CO., LTD.

www.neuve-a.com

Head Office	8-16 Shinsen-cho, Shibuya-ku, Tokyo
Established	June 1, 2001
Net Sales	¥21,640 million
Operating Income	¥435 million
Paid-in Capital	¥490 million
Employees	577
No. of locations	201

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Net Sales and Operating Income



■ Net Sales ■ Operating Income

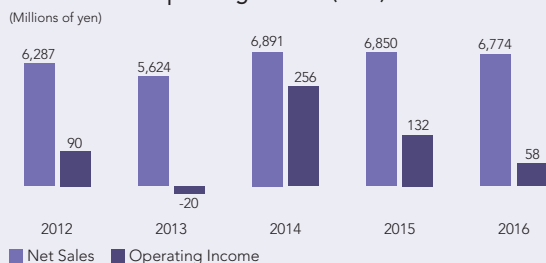
PARCO SPACE SYSTEMS CO., LTD.

www.parco-space.co.jp

Head Office	8-16 Shinsen-cho, Shibuya-ku, Tokyo
Established	April 1, 1969
Net Sales	¥20,242 million
Operating Income	¥629 million
Paid-in Capital	¥490 million
Employees	842
No. of locations	29

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Net Sales and Operating Income (Loss) *



■ Net Sales ■ Operating Income

* PARCO CO., LTD.'s entertainment business results are included in its Other Business segment.

PARCO Digital Marketing CO., LTD. *

www.parco-digital.co.jp

Head Office	8-16 Shinsen-cho, Shibuya-ku, Tokyo
Established	March 1, 2000
Net Sales	¥921 million
Operating Income	¥70 million
Paid-in Capital	¥10 million
Employees	58

* Changed company name from PARCO-CITY CO., LTD. as of March 1, 2017

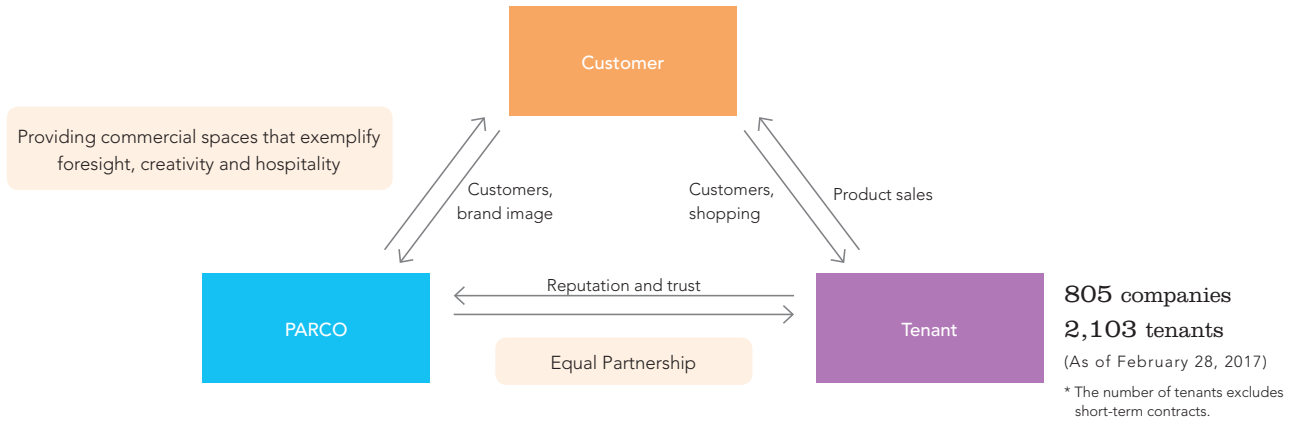
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Equal Partnership

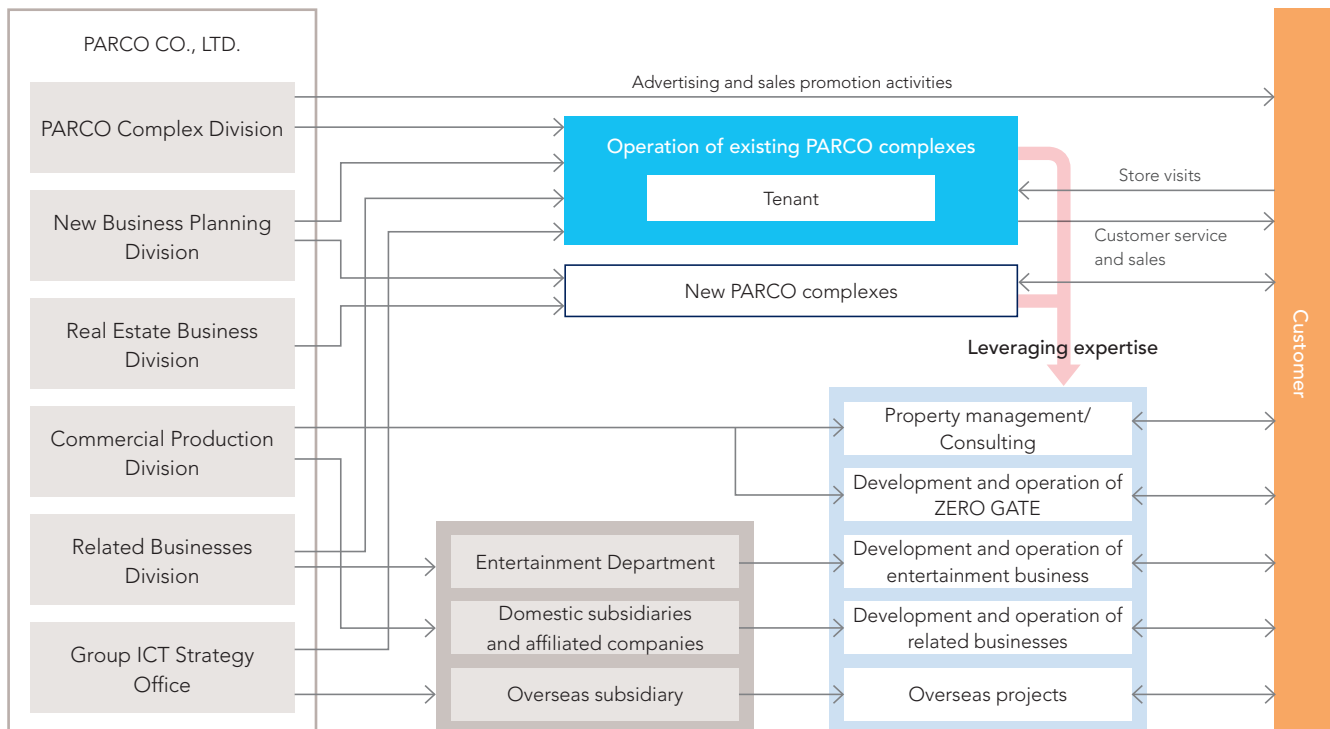
One of the main characteristics that distinguishes the PARCO Group’s core Shopping Complex Business is our equal partnership with tenants. We view our tenants as partners with whom we can grow and develop by virtue of our mutually shared values. Every one of our corporate divisions at PARCO headquarters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

The PARCO Complex Division promotes business operations in the two categories of urban complexes and community complexes. The New Business Planning Division is responsible for new complex handling, support for the PARCO Complex Division, and new business planning, and it works on this basis to further expand business. The Commercial Production Division and Related Businesses Division leverage expertise cultivated by PARCO through commercial facility development and operations in new business activities.

Building “Win-Win” Relationships through Strong Ties of Trust with Tenants



Leveraging Expertise Cultivated in the Operation and Development of PARCO Shopping Complexes in New Businesses



Strong in Comprehensive Shopping Complex Production



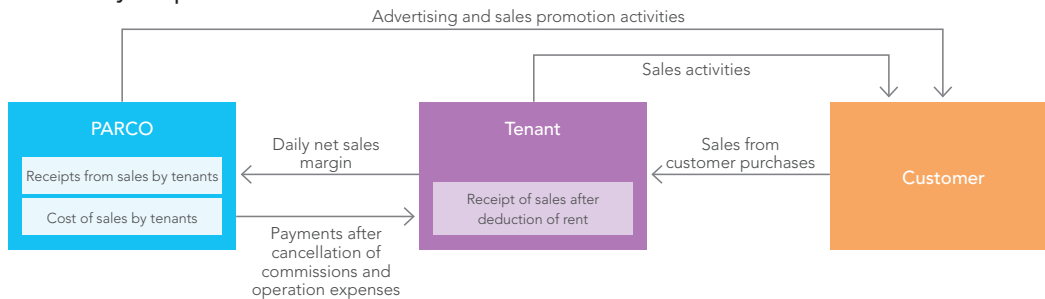
The production of shopping complexes involves marketing in the area of the store, planning the building from the proposal stage onward, the selection of tenants and design of environments that fit the concept, and the store's management. At the same time, we enhance customer appeal through advertising and sales promotion activities utilizing ICT and through our management of daily maintenance, and support the peace of mind and safety operation of shops. In addition, we are constantly creating novel sales spaces by promoting their remodeling. This integrated production supports the creation of attractive commercial spaces.

Profit Structure for the Shopping Complex Business

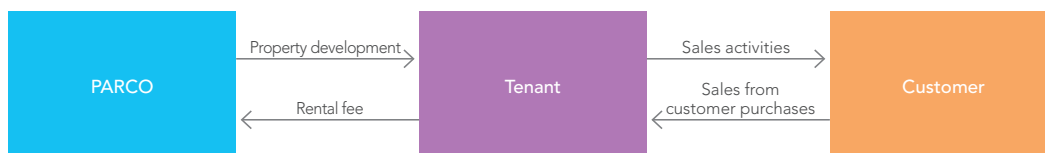
Under store lease agreements, tenants conduct sales with the support of PARCO's advertising, sales promotion and other marketing activities. PARCO receives the revenue that these tenants generate through sales to customers as its net sales. After a certain period of time, PARCO pays tenants a commission on these sales after deduction of rent and other items. This system has the advantages of eliminating the risks of carrying inventories and bad debt. Commissions are based on a declining rate system, with commissions fixed up to a certain amount of sales and a lower rate applying beyond a certain sales amount. The setting of a minimum rent amount hedges the risk of stagnant sales. The application of a diminishing rent rate to sales offers advantages to both the tenant and to PARCO. If tenant sales from customer purchases increase due to the tenant's sales efforts, the tenant's rent rate decreases. At the same time, PARCO's rent income increases in terms of the absolute amount.

In contrast to earlier PARCO-style operations, in the ZERO GATE business there are no sales promotions, and profits come from rental revenue.

PARCO-style Operations Profit Structure



ZERO GATE Business Profit Structure

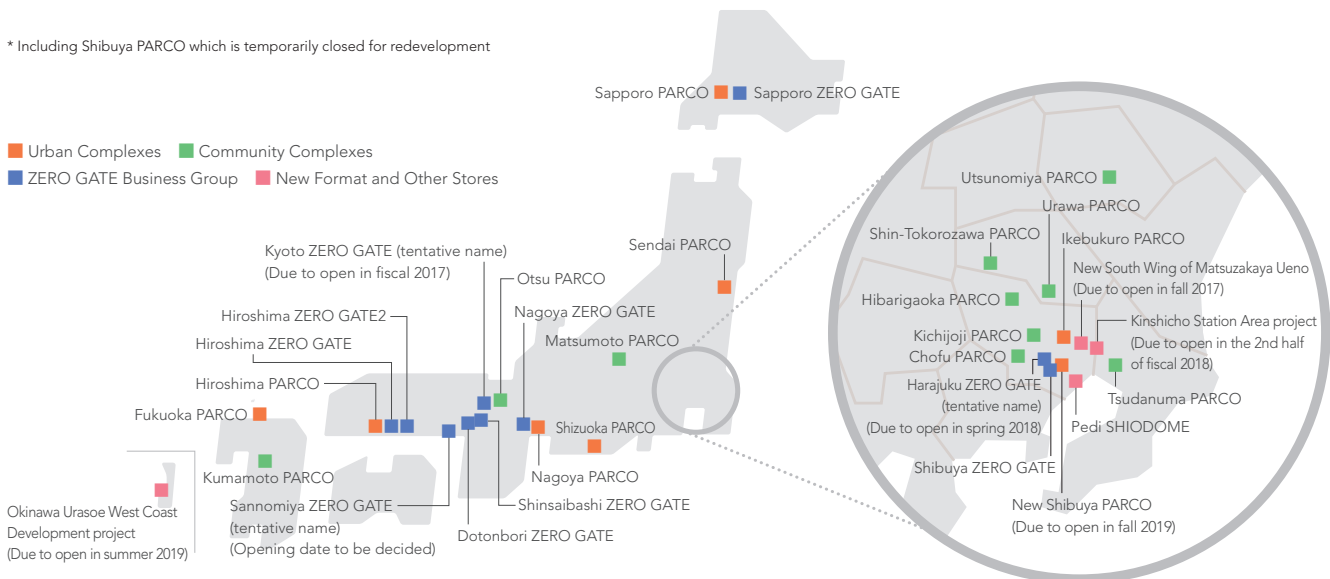


We operate PARCO Complexes as either Urban Complexes or Community Complexes, depending on the target market and are also strengthening our ZERO GATE business as a new business model.

Producing commercial real estate to acquire sites in primarily urban areas where we have not yet opened complexes
In each market where PARCO shopping complexes open, we utilize a different store concept. In order to be able to respond quickly and precisely to the constant changes in the environments of each location, we group the 18 shopping complexes* according to function based on their target market characteristics. After categorizing a complex as either an Urban Complex or a Community Complex, the next step in building a robust revenue base is to optimize product composition and operation methods at each facility to suit the applicable customer base.

We are promoting the diversification of development schemes, in the PARCO and ZERO GATE formats and in new formats, to acquire sites in primarily urban areas where we have not yet opened complexes.

* Including Shibuya PARCO which is temporarily closed for redevelopment



Urban Complexes

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

Sapporo PARCO

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



New Shibuya PARCO

Part of 14 and 15 Udagawa-cho, Shibuya-ku, Tokyo
B3F-19F
Due to open in fall 2019
CLUB QUATTRO:
32-13 Udagawa-cho, Shibuya-ku, Tokyo
4F-5F
Open 28 June, 1988
club-quattro.com



Shizuoka PARCO

6-7 Koyamachi, Aoi-ku, Shizuoka City, Shizuoka
B1F-8F
Open 15 March, 2007
shizuoka.parco.jp



Sendai PARCO

1-2-3 Chuo, Aoba-ku, Sendai City, Miyagi
Main Building: B1F-9F
Open 23 August, 2008
Sendai PARCO2:
3 Chuo, Aoba-ku, Sendai City, Miyagi
Open 1 July, 2016
sendai.parco.jp



Nagoya PARCO

3-29-1 Sakae, Naka-ku, Nagoya City, Aichi
West Building: B1F-11F
East Building: B1F-8F
Open 29 June, 1989
South Building: B1F-10F
Open 6 November, 1998
midi: 1F-3F
Open 27 March, 2015
nagoya.parco.jp



Fukuoka PARCO

2-11-1 Tenjin, Chuo-ku, Fukuoka City, Fukuoka
Main Building: B1F-8F
Open 19 March, 2010
New Building: B2F-6F
Open 13 November, 2014
fukuoka.parco.jp



Ikebukuro PARCO

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



Hiroshima PARCO

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



Community Complexes

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

Utsunomiya PARCO

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



Hibarigaoka PARCO

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



Otsu PARCO

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



* Scheduled to be closed at the end of August 2017

Urawa PARCO

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



Kichijoji PARCO

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



Kumamoto PARCO

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



Tsudanuma PARCO

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



Chofu PARCO

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



Shin-Tokorozawa PARCO

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



Matsumoto PARCO

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



ZERO GATE Business

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

Sapporo ZERO GATE

3-15-1 Minami-Nijo Nishi, Chuo-ku,
Sapporo City, Hokkaido
B2F-4F
Open 26 February, 2016



Hiroshima ZERO GATE

2-10, Shintenchi, Naka-ku,
Hiroshima City, Hiroshima
1F-3F
Open 10 October, 2013



Shibuya ZERO GATE

16-9 Udagawa-cho,
Shibuya-ku, Tokyo
B1F-4F
Open 16 April, 2011



Hiroshima ZERO GATE2

9-3 Hondori, Naka-ku,
Hiroshima City, Hiroshima
1F-3F
Open 10 September, 2016



Nagoya ZERO GATE

3-28 Sakae, Naka-ku,
Nagoya City, Aichi
1F-3F
Open 10 October, 2014



Kyoto ZERO GATE (tentative name)

84 Shijo Street Takakura Higashiiru,
Tachirinakancho, Shimogyo-ku,
Kyoto City, Kyoto
B2F-7F
Due to open in 2017



Shinsaibashi ZERO GATE

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



Harajuku ZERO GATE (tentative name)

4-31-5 Jungumae, Shibuya-ku,
Tokyo (lot number)
1F-4F
Due to open in spring 2018



Dotonbori ZERO GATE

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



Sannomiya ZERO GATE (tentative name)

2-11-3 Sannomiya-cho, Chuo-ku,
Kobe City, Hyogo
Opening date to be decided

New Format and Other Stores

Pedi SHIODOME

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



New South Wing of Matsuzakaya Ueno

22-3 Ueno, Taito-ku, Tokyo
1F-6F
Due to open in fall 2017



Kinshicho Station Area project

4-27-14 Kotobashi,
Sumida-ku, Tokyo
Planned opening area
Current LIVIN building: B1F-7F
(the name will be changed)
Annex: 3F-6F
Due to open in the 2nd half of fiscal 2018
www.parco.co.jp/kinshicho/
(available from July 2017)



Okinawa Urasoe West Coast Development project

3 floors of the commercial
complex, 3 Irijima,
Urasoe-shi, Okinawa (planned)
Due to open in fiscal 2019
www.parco.co.jp/san-a_parco/

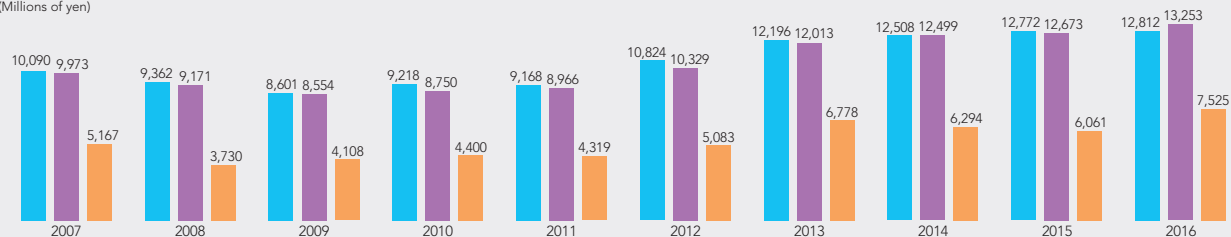


As of May 31, 2017

* Images of properties prior to opening are renderings.

Operating Income / Ordinary Income / Profit Attributable to Owners of Parent

(Millions of yen)



■ Operating Income ■ Ordinary Income ■ Profit attributable to owners of parent

(Millions of yen)

	Fiscal 2012	Fiscal 2013	Fiscal 2014	Fiscal 2015	Fiscal 2016
Net Sales	264,779	264,384	269,889	276,358	268,373
Operating Income	10,824	12,196	12,508	12,772	12,812
Ordinary Income	10,329	12,013	12,499	12,673	13,253
Profit Attributable to Owners of Parent	5,083	6,778	6,294	6,061	7,525
EBITDA* ¹	16,926	18,052	18,402	19,010	18,189
Cash Dividend per Share (Yen)	18.00	18.00	18.00	20.00	23.00
Return on Assets (ROA) (%) ^{*2}	5.0	5.6	5.6	5.5	5.4
Return on Equity (ROE) (%)	5.4	6.4	5.7	5.3	6.3
Sales Floor Areas (Non-consolidated) (m ²)	442,600	442,600	451,000	456,000	409,000
Area Renovated (Non-consolidated) (m ²)	53,000	44,000	46,000	40,000	55,000
PARCO Card Sales Amounts (Non-consolidated)	49,214	52,465	56,478	58,158	58,538
PARCO Card Holders (Non-consolidated) (People)	1,614,637	1,643,027	1,754,321	1,885,972	1,990,970
Percent of Female Employees (Non-consolidated) (%)	43.1	43.7	43.4	43.8	42.5
Number of Female Managers (Non-consolidated) (People)	13	16	17	16	19
Electricity Consumption at Existing Stores (Year-on-year, Non-consolidated) (%) ^{*3}	98.0	97.3	95.0	98.8	97.8
Total Water Consumption at Existing Stores (Year-on-year, Non-consolidated) (%) ^{*3}	91.6	99.6	97.0	98.0	95.2
Recycling Rate (Non-consolidated) (%)	66.51	66.71	67.29	67.69	68.29

*1 EBITDA=Operating Income + Depreciation and Amortization

*2 Return on Assets=Ordinary Income/Assets (average of start and end of year values) ×100

*3 Calculated based on the opening of Fukuoka PARCO New Building in fiscal 2014, the expanding floor space of Fukuoka PARCO Main Building and the opening of the Nagoya PARCO midi in fiscal 2015, the opening of Sendai PARCO2, the temporary closing of Shibuya PARCO, and the closing of Chiba PARCO in fiscal 2016, excluding tenant areas.

Fifth straight year of record-high operating income

¥12.8 billion

From steady progress on the Medium-term Business Plan (FY2014-2016), operating income rose 0.3% year on year, with ordinary income also up 4.6%, for a fifth consecutive year of record-high earnings.

Increase in annual dividend

¥23 annual dividend

PARCO positions the return of profit to shareholders as one of its most important management policies. For fiscal 2016, we have decided to increase the annual dividend by ¥3 per share to ¥23.

Percent of independent external directors

50%

PARCO has adopted the "Company with Three Committees" system, which includes a Nominating Committee, in order to build a highly transparent corporate governance structure. Independent directors (external directors) make up half of the Board of Directors, ensuring the objectivity necessary to supervise management.

Number of SNS followers

About **1.2 million**

PARCO is connected with over 1.2 million followers through social networking services (Facebook, Twitter, Instagram and Google+) and provides new services and ways of enjoying commercial facilities that are rooted in stores and utilize the Internet.

As of February 28, 2017

Number of POCKET PARCO downloads

540,000

By introducing AI (artificial intelligence) in POCKET PARCO, our official smartphone application, we provide rich information and services catering to individual customers.

As of February 28, 2017

Number of Class S PARCO Card members

129.2% Year on Year

With a new "Pre Member^{*4}" rank alongside the existing "Class S," PARCO Card members continue to increase. Liaising with POCKET PARCO, our official smartphone application, we nurture them to become loyal PARCO customers.

Renovated zone year-on-year sales comparison

112.7%

Through renovations reflecting themes that propose new lifestyles, PARCO is aggressively unveiling shops that meet various needs, including those for new consumption and inbound demand.

Percent of employees returning to work after childbirth

100%

Work-life management is deeply embedded within PARCO, and we work to support both working life and the childrearing and nursing care demands of our employees. PARCO has a full menu of systems in place that exceed legal standards, and is sharing role models for diverse working styles.

Electricity consumption at existing stores compared to FY2010^{*5}

Down 28.1%

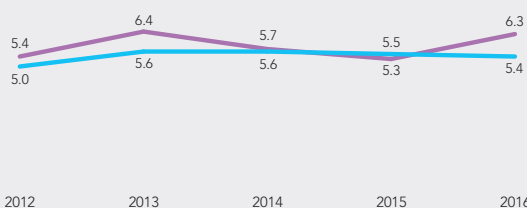
To reduce electricity consumption, which accounts for a majority of the energy used by commercial facilities, PARCO is converting to energy-saving facilities and equipment and working to utilize energy more efficiently through introduction of the latest technologies and other measures.

^{*4} With this membership class, when card use totals ¥100,000 or more, 5% off is received any time the card is used between the next-next month and the following April.

^{*5} We formulated the PARCO Group Environmental Policy in fiscal 2010 and recognize the importance of our relationship with the global environment in shopping center operations and other related activities as a key theme. On this basis, we promote environmental conservation activities to help pass on a sustainable society to future generations.

ROA / ROE

(%)



— ROA — ROE

For long-term numerical data and other indices, please refer to the PARCO website and FACT BOOK 2017

[Investor Relations]

www.parco.co.jp/en/

[Promotion of ESG Initiatives]

www.parco.co.jp/en/ir/esg/

[CSR]

www.parco.co.jp/en/csr/

[FACT BOOK 2017]

www.parco.co.jp/en/ir/library/financial/factbook.php

	Fiscal 2006	Fiscal 2007	Fiscal 2008	Fiscal 2009
Consolidated				
Net Sales	266,645	286,788	282,509	261,076
Selling, General and Administrative Expenses	30,429	33,992	35,614	33,417
Operating Income	9,756	10,090	9,362	8,601
Operating Income Ratio	3.7	3.5	3.3	3.3
Ordinary Income	9,594	9,973	9,171	8,554
Profit Attributable to Owners of Parent	4,503	5,167	3,730	4,108
EBITDA* ¹	13,639	14,676	14,953	14,189
Total Assets	182,553	189,989	191,681	187,093
Equity* ²	70,581	73,912	75,592	78,632
Interest-Bearing Debt	34,863	33,065	40,777	38,487
Equity Ratio (%)	38.7	38.9	39.4	42.0
Debt-to-Equity Ratio (times)	0.49	0.45	0.54	0.49
Return on Assets (ROA) (%) ^{*3}	5.3	5.4	4.8	4.5
Return on Equity (ROE) (%)	6.5	7.2	5.0	5.3
Net Cash Provided by Operating Activities	10,322	12,705	2,713	8,921
Net Cash Used in Investing Activities	(3,673)	(6,611)	(14,148)	(7,405)
Free Cash Flows	6,649	6,093	(11,434)	1,516
Capital Expenditure	7,474	10,163	14,306	7,796
Depreciation and Amortization	3,883	4,585	5,591	5,588
Basic Earnings per Share (Yen)	54.83	62.73	45.29	49.87
Cash Dividend per Share (Yen)	13.00	15.00	16.00	16.00

Non-consolidated

Sales Floor Areas (m ²)	388,000	425,600	447,500	444,500
Area Renovated (m ²)	52,000	49,000	34,000	36,000
Renovation Effect (Year-on-year by zone) (%)	122.2	117.1	117.8	110.9
PARCO Card Sales Amounts	36,736	40,702	44,706	44,371
PARCO Card Holders (People)	1,408,549	1,542,591	1,564,331	1,574,888
Number of POCKET PARCO Downloads	-	-	-	-

Society (Non-consolidated)

Percent of Female Employees (%)	39.5	40.5	42.0	45.2
20s (%)	49.5	51.1	54.0	61.2
30s (%)	47.5	47.8	52.3	54.5
40s (%)	31.2	30.9	34.5	36.4
50s or over (%)	18.0	20.3	19.4	20.4
Number of Female Managers (People)	7	11	12	12
Percentage of Female Managers (%)	8.0	7.6	10.7	7.6
SNS Followers (People)	-	-	-	-

Environment (Non-consolidated)

Electricity Consumption at Existing Stores				
Year-on-year (%) ^{*4}	-	-	96.9	98.3
Total Water Consumption at Existing Stores				
Year-on-year (%) ^{*4}	-	-	96.1	99.7
CO ₂ Emissions at Existing Stores				
Year-on-year (%) ^{*4}	-	-	109.1	102.4
Recycling Rate (%)	-	52.59	54.74	58.49

*1 EBITDA=Operating Income + Depreciation and Amortization

*2 Equity is calculated based on Net Assets and Non-controlling Interest

*3 Return on Assets=Ordinary Income/Assets (average of start and end of year values) ×100

*4 Calculated based on the closing of Atsugi PARCO and the opening of Sendai PARCO in fiscal 2008, the opening of Fukuoka PARCO and the closing of Oita PARCO in fiscal 2010, the closing of Shinsaibashi PARCO in fiscal 2011, the opening of Fukuoka PARCO New Building in fiscal 2014, the expanding floor space of Fukuoka PARCO Main Building and the opening of the Nagoya PARCO midi in fiscal 2015, the opening of Sendai PARCO2, the temporary closing of Shibuya PARCO, and the closing of Chiba PARCO in fiscal 2016, excluding tenant areas.

(Millions of yen)

Fiscal 2010	Fiscal 2011	Fiscal 2012	Fiscal 2013	Fiscal 2014	Fiscal 2015	Fiscal 2016
264,840	259,789	264,779	264,384	269,889	276,358	268,373
32,806	32,456	31,742	31,580	32,760	33,883	32,633
9,218	9,168	10,824	12,196	12,508	12,772	12,812
3.5	3.5	4.1	4.6	4.6	4.6	4.8
8,750	8,966	10,329	12,013	12,499	12,673	13,253
4,400	4,319	5,083	6,778	6,294	6,061	7,525
15,837	15,508	16,926	18,052	18,402	19,010	18,189
222,135	208,697	206,243	220,757	226,830	236,315	250,323
81,844	84,555	103,573	108,823	113,211	116,474	122,039
73,447	59,536	37,375	50,424	45,229	54,518	58,099
36.8	40.5	50.2	49.3	49.9	49.3	48.8
0.90	0.70	0.36	0.46	0.40	0.47	0.48
4.3	4.2	5.0	5.6	5.6	5.5	5.4
5.5	5.2	5.4	6.4	5.7	5.3	6.3
12,025	11,274	13,938	9,864	15,281	14,652	12,901
(42,290)	(584)	(2,139)	(27,886)	(7,612)	(19,325)	(10,098)
(30,265)	10,689	11,798	(18,022)	7,668	(4,673)	2,802
43,553	3,395	5,632	36,330	10,532	23,487	18,723
6,618	6,339	6,101	5,856	5,894	6,238	5,377
53.41	52.49	54.44	66.81	62.04	59.75	74.17
17.00	17.00	18.00	18.00	18.00	20.00	23.00
454,000	443,000	442,600	442,600	451,000	456,000	409,000
45,000	64,000	53,000	44,000	46,000	40,000	55,000
120.4	132.2	117.4	111.0	118.6	116.6	112.7
45,115	44,738	49,214	52,465	56,478	58,158	58,538
1,618,616	1,612,634	1,614,637	1,643,027	1,754,321	1,885,972	1,990,970
-	-	-	-	23,797	273,274	540,234
44.5	43.6	43.1	43.7	43.4	43.8	42.5
62.2	60.1	59.2	58.5	58.2	56.8	56.2
49.7	47.9	46.4	49.2	47.4	50.3	49.0
38.6	40.6	39.8	42.2	44.6	44.6	43.1
24.8	24.6	24.6	28.3	29.3	29.8	30.2
9	9	13	16	17	16	19
7.8	7.6	9.2	11.2	11.6	10.6	12.1
-	-	-	480,684	1,027,045	1,206,903	1,217,630
97.7	84.1	98.0	97.3	95.0	98.8	97.8
98.1	89.7	91.6	99.6	97.0	98.0	95.2
98.2	82.8	99.4	104.2	90.8	94.0	100.0
62.34	66.08	66.51	66.71	67.29	67.69	68.29

Interview with the President



Review of Previous Medium-term Business Plan

Question **1** What successes came out of your Medium-term Business Plan (FY 2014-2016) and what issues remain?

Achieved Record-high Operating Income; Issues Include Raising Profitability

A. We at the PARCO Group promoted Three Business Strategies to realize our Long-term Vision and executed Five Tactics. Under the previous Medium-term Business Plan, which began in fiscal 2014, the period of the plan was dedicated to execution of our growth strategy, and to accomplish this we worked to innovate existing formats, acquire new sites through promoting development, and expand external businesses.

In the stores business, we have moved ahead with the Shibuya PARCO redevelopment project and have worked to strengthen the business through floor-space expansion at the Fukuoka PARCO New Building and Main Building, opening Nagoya PARCO midi and Sendai PARCO2 and increasing managed floor space at urban complexes with high profitability. At

the same time, to raise profitability, we closed Chiba PARCO and will close Otsu PARCO at the end of August 2017.

In addition, we implemented an ICT strategy aimed at increasing the added value of commercial facilities. This included launching POCKET PARCO, the official PARCO smartphone app, which links online resources with physical stores, and the Kaeru PARCO service, which allows customers to reserve and purchase merchandise from PARCO shops online. Further, we promoted the provision of new consumption experiences to customers and the creation of environments for novel customer communications with individual shops.

In the development business, we opened Nagoya ZERO GATE, Sapporo ZERO GATE and Hiroshima ZERO GATE2

and pursued area revitalization through development in areas surrounding existing complexes. In addition, new development projects include Kyoto ZERO GATE (tentative name), Harajuku ZERO GATE (tentative name), Sannomiya ZERO GATE (tentative name), Kinshicho Station Area project, and Okinawa Urasoe West Coast Development project, and we continue planning the acquisition of sites in areas where we have not yet opened complexes.

In related businesses, profit growth is being achieved through expansion of external development, including in the Space Engineering and Management Business and Web consulting business. Overseas, we opened the "itadakimasu by PARCO" Japanese restaurant zone in a Singapore commercial facility and have

continued to expand “THE GUEST cafe & diner” chain.

In new businesses, we began developing the crowd-funding service BOOSTER and directly managed “& éclé” restaurants in order to pursue further business growth.

Through these initiatives, operating income for fiscal 2016 was ¥12.8 billion, as we achieved stable income growth and a

record high for the fifth consecutive year. However, with respect to management indicator targets, due in part to slower growth in the stores business and the impact of timing differentials in development projects, we did not meet our targets for net sales, operating income or EBITDA. Regarding profit attributable to owners of parent, we met our forecasted target due in

part to recording extraordinary income on the sale of real estate associated with the Shibuya PARCO redevelopment project. We recognize also that there is still room for improvement in initiatives to raise the profitability of the stores business and in the growth of new and overseas businesses.

● Policies and Assessment of Previous Medium-term Business Plan

Three Business Strategies			
	Cultivation of major urban areas	Expansion of core targets	Innovative use of ICT
Five Tactics	Policies Executed	Assessment	
TACTIC 1 Prioritization of the PARCO Stores business <ul style="list-style-type: none"> Make PARCO stores the leaders in urban retail by attracting tenants, increasing customer traffic 	<ul style="list-style-type: none"> Promotion of format innovation through the two formats of Urban Complexes and Community Complexes (theme-based renovations and accommodating inbound demand) Actualization of advanced commercial facilities (Wi-Fi availability, digital signage displays, etc.) Actualization of Shibuya PARCO redevelopment project 	→	Greater provision of unique value in line with diversifying needs
	<ul style="list-style-type: none"> Creation of “Pre Members” category for PARCO CARD 	→	Increased loyal customers by strengthening services. Worked to further increase loyal customers and raise profitability
	<ul style="list-style-type: none"> Launch of the PARCO PRICA prepaid card (Dec. 2016) *Advance issue at Chofu PARCO and Fukuoka PARCO 	→	Improved customer convenience. Will consider introducing new payment services
	<ul style="list-style-type: none"> Introduced “Kaeru PARCO” (May 2014) Introduced “POCKET PARCO” (Oct. 2014) 	→	Provided new consumption experiences and new consumption environment. Promoted further unique utilization of cutting-edge ICT
	<ul style="list-style-type: none"> Introduced SUTEKI LABO, a portal site for supporting shop staff (Sept. 2015) 	→	Helped improve tenant customer service
TACTIC 2 Development centered on areas around core urban stores and entry into new major cities in Japan <ul style="list-style-type: none"> Use a variety of approaches to aggressively promote property development in urban areas. Three-year development goal: Four PARCO-type, new business format (additional floor space and buildings) projects; seven ZERO GATE projects (five ZERO GATE, two property management projects) 	<ul style="list-style-type: none"> Opened four PARCO-type/new business format stores Fukuoka PARCO New Building (Nov. 2014), Fukuoka PARCO Main Building floor space extension (Mar. 2015), Nagoya PARCO midi (Mar. 2015), Sendai PARCO2 (July 2016) 	→	Achieved initial target and expanded managed floor space at highly profitable urban stores. Also, announced New South Wing of Matsuzakaya Ueno, New Shibuya PARCO and a new business format, and promoted development in urban areas
	<ul style="list-style-type: none"> Opened three ZERO GATE format stores Nagoya ZERO GATE (Oct. 2014), Sapporo ZERO GATE (Feb. 2016), Hiroshima ZERO GATE2 (Sept. 2016) 	→	Achieved six of seven project announcements initially targeted and revitalized areas surrounding existing complexes. Further promoted actualization of development projects
TACTIC 3 Expansion of related business and creation of new business <ul style="list-style-type: none"> Corporate value, customer satisfaction— create and develop a third revenue pillar to follow on from PARCO Stores business and development business 	<ul style="list-style-type: none"> External development of Space Engineering and Management Business and Web consulting business 	→	Promoted further profit growth in related businesses
	<ul style="list-style-type: none"> Promoted further profit growth in related businesses Launched Crowd-funding service BOOSTER (Dec. 2014) Opened neo-bistro “& éclé” (July 2015) 	→	Achieved commercialization of new businesses. Worked to further promote and cultivate related and new businesses
TACTIC 4 Rebuilding overseas business <ul style="list-style-type: none"> Establish a foundation for a globalized PARCO Stores business 	<ul style="list-style-type: none"> Opened collaboration cafe “Pokémon cafe” for limited times in Singapore (May and Nov. 2016) Opened the “itadakimasu by PARCO” Japanese restaurant zone in Singapore (Dec. 2016) 	→	Expanded development in Asian region and promoted increased recognition of PARCO brand
TACTIC 5 Strengthen management foundation to support further business advances <ul style="list-style-type: none"> Promotion of diversity management, development of unique CSR activities, promotion of ICT utilization, strengthening of financial base 	<ul style="list-style-type: none"> Actively promoted women’s workplace participation 	→	Selected as one of 25 companies for the fiscal 2016 Semi-Nadeshiko Brands. Will further promote management based on the values of diversity and inclusion
	<ul style="list-style-type: none"> Set four priority themes of “Next Generation,” “Culture,” “Local Communities,” and “Environment,” and conducted activities on this basis 	→	Promoted sustainable management
	<ul style="list-style-type: none"> Voluntary adoption of International Financial Reporting Standards (IFRS) from fiscal 2017 	→	Raised relative international potential. Strengthened initiatives to raise profit creation capability

Question

2

How would you describe the management environment and what are your current management issues?

Necessary to Increase Unique PARCO Value Provided to Meet Diversifying Needs

A. The environment surrounding the retail industry in recent years has continued to be marked by cautious consumer spending, and sales at existing stores in 2016 fell short of the previous year. Although foreign visitors to Japan have continued to increase, shopping sprees have tailed off and this is one reason for the struggles of consumption overall. At the same time, the EC* market continues to grow due to its high level of convenience and to changes in lifestyles being brought about by an increase in dual-income households.

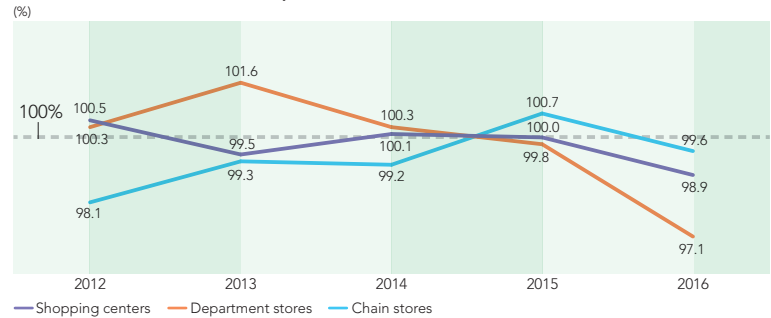
Regarding the management environment going forward, changes are expected in the consumption environment due to the rapid advance of technology, diversification of lifestyles, continuing aging and population decline, more intense competition from an inflow of people into urban areas, inbound demand for the opening of the 2020 Tokyo Olympic and Paralympic Games, and other factors. Regarding consumption trends in Japan, spending on apparel will decline but spending on food and beverages, general merchandise, services and other items is trending upward. In addition, such consumption formats as sympathetic consumption and the sharing economy will expand rapidly and in the midst of this it will be important to respond to new values in a way that goes beyond conventional methods.

Given these anticipated changes in the operating environment, we believe it will be necessary in maturing cities to respond to expanding needs in a way that goes beyond the value provided currently by the Group pivoting on the stores business, so the Group recognizes the necessity of promoting selection and concentration of business areas and accelerating the process of business portfolio reform.

In order to respond to these changes, we are taking the approach of business selection and concentration, which also means increasing the value provided by the Group through its business in urban areas, and on this basis we will advance a scrap-and-build policy for stores to raise the competitiveness of urban stores, increase the variety in development formats and schemes to further respond to development needs and acquire solid profits, and increase the unique value provided by the Group to accommodate diversification in consumption needs.

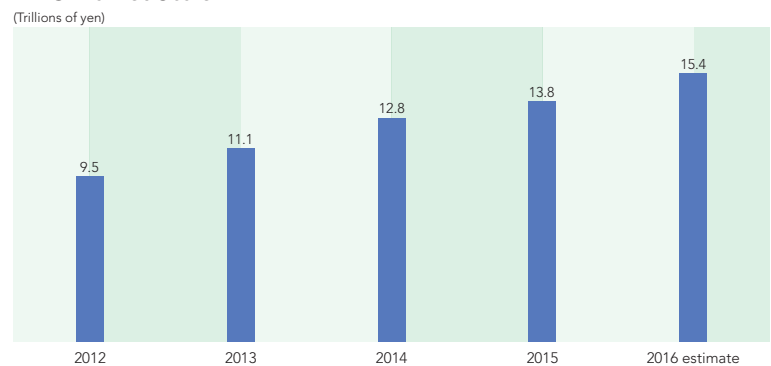
*EC is an abbreviation for electronic commerce.

Year-on-year sales comparison by retail format (existing stores)



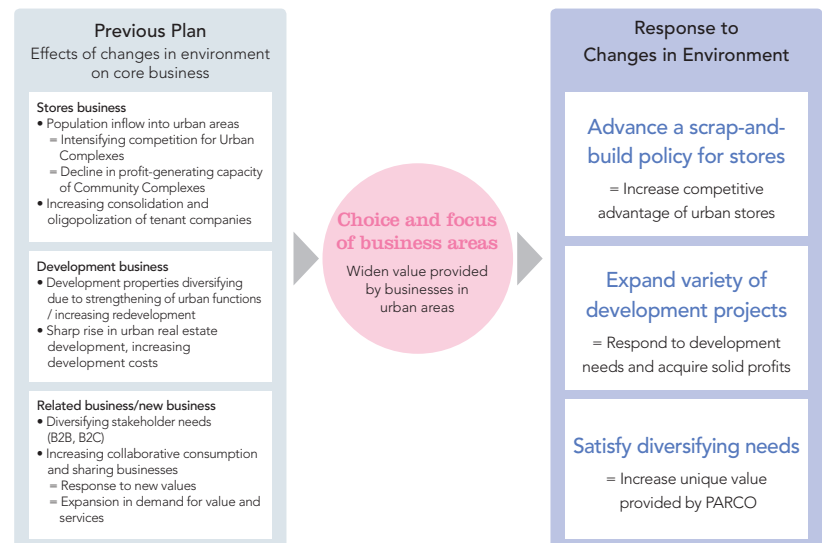
Sourced from the Japan Council of Shopping Centers, Japan Department Stores Association, and Japan Chain Stores Association

EC Market Scale



Cited from the Ministry of Economy, Trade and Industry's E-Commerce Market Survey

Impact of Environmental Changes on PARCO Group and Response

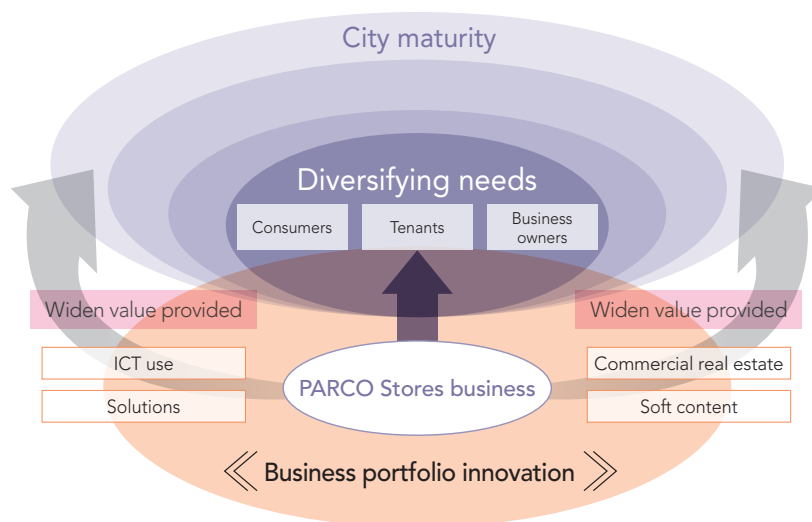


Question **3** What are the aims of the PARCO Group Medium-term Business Plan for fiscal 2017-2021?

Realizing Growth by Widening Unique Value Provided to Urban Areas

A. To realize the Group's Long-term Vision set forth in fiscal 2014, which specifically is becoming "A business group that prospers in urban markets," "Designers of unique offerings for 24/7 urban life," and "Creative drivers of urban evolution," we formulated the Medium-term Business Plan for fiscal 2017-2021 based on the Three Business Strategies of "Cultivation of major urban areas," "Expansion of core targets," and "Innovative use of ICT."

We will contribute to urban maturation by providing unique PARCO value, which encompasses values like personal fulfilment, new inspiration and contentment, throughout our Group businesses, including the stores business, to meet the needs of consumers seeking fulfilling urban lifestyles and business owners active in urban areas. To achieve this we will refine our businesses and expand business areas to raise the value of the Group's existence and reform our business portfolio.



Tactics and Directions of New Medium-term Business Plan

Question 4 What specifically are the initiatives of the PARCO Group’s Medium-term Business Plan for FY 2017-2021?

Three Tactics and Four Directions for Realizing Growth by Widening Unique Value Provided to Urban Areas

A. We will engage in Three Tactics: “Evolve the store brand,” “Produce commercial real estate,” and “Expand soft content.”

For **Tactic 1, “Evolve the store brand,”** we will apply key concepts that emerge in the creation of the New Shibuya PARCO to strengthen urban stores and will reinforce our business advantage by advancing a scrap-and-build policy for stores. We will also work to create next-generation commercial spaces and stabilize earnings by enhancing unique tenant services and providing consumers with genuine retail experiences.

For **Tactic 2, “Produce commercial real estate,”** we will work to expand format variety by creating new formats alongside the existing PARCO and ZERO GATE formats with the goal of acquiring sites primarily in urban areas with growth potential where we have not yet opened complexes. In addition,

we will offer unique solutions to commercial facility operators and tenant stores, including the Space Engineering and Management Business and Web consulting business provided by Group companies. These initiatives will serve to increase our sources of revenue.

For **Tactic 3, “Expand soft content,”** we plan to evolve existing content and create new content in the entertainment business, the locus of PARCO’s unique soft content, and further expand the range of specialty stores managed by Group companies in the lifestyle business. Further, the Group will play the role of incubator and collaborate with up-and-coming creators and companies to provide novel experiences to consumers.

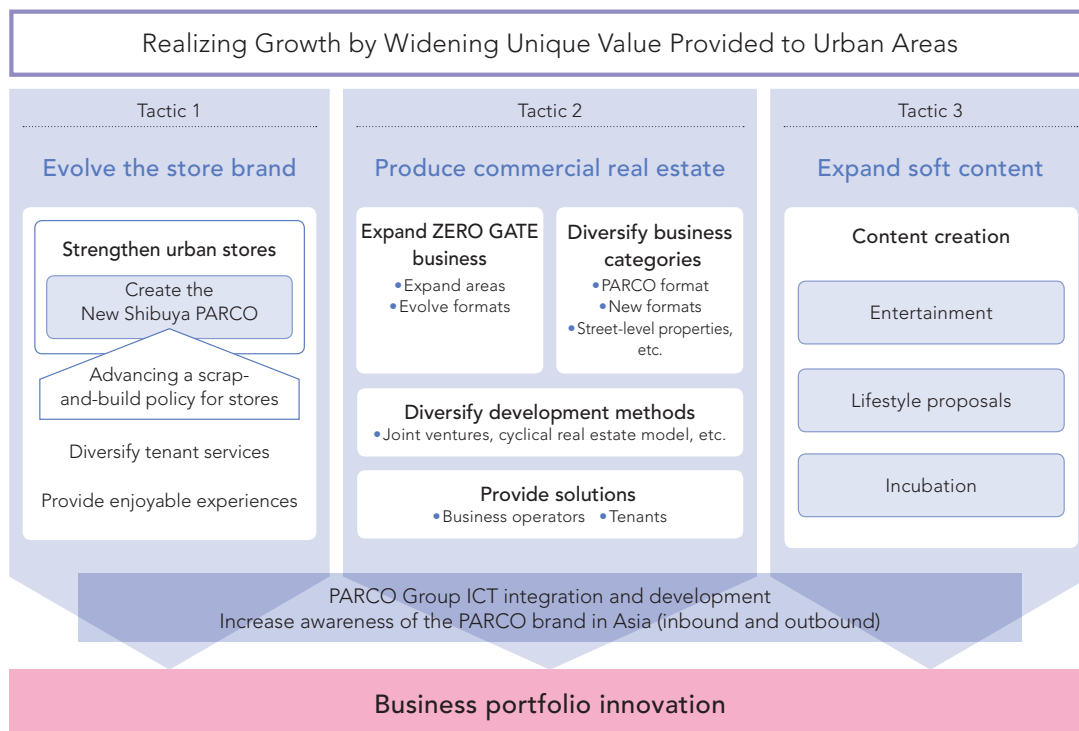
In addition to carrying out these Three Tactics directly, we will also promote them by integrating and further developing the PARCO Group’s ICT initiatives. Moreover,

through development of our content overseas and conducting communications that utilize networks with prominent overseas shopping centers, we will also work to increase awareness of the PARCO brand in Asian markets.

We have defined Four Directions to promote the Three Tactics and will carry out initiatives based on them.

For **Direction 1, Expand domain to include commercial real estate and soft businesses that leverage PARCO’s intrinsic expertise and capabilities,** we will move the business forward by working to promote the commercial real estate production business, expand the lifestyle business and further develop the entertainment and overseas businesses.

In promoting the commercial real estate production business, we are aiming to



develop 12 projects over five years, including four PARCO complexes, five ZERO GATE complexes and three projects in new formats. In addition, a cyclical real estate investment model will be considered to improve real estate development capabilities and raise asset efficiency.

Group company PARCO SPACE SYSTEMS will increase orders and revenue by making client-tailored innovation proposals through its multi-skilled personnel. PARCO Digital Marketing, which specializes in providing Web consulting for shopping centers, will carry out new development and strengthen partnerships to accommodate service enhancements and technology innovation in order to provide services to the next generation of shopping centers and thereby expand its business.

To expand the lifestyle business, Group company NEUVE A will add new formats to its existing formats in order to open more shops in urban areas and operate its EC service on a full-fledged basis. The company will also seek to expand its business

● Seven Announced Development Projects (scheduled opening)

PARCO format	New South Wing of Matsuzakaya Ueno (fall 2017) New Shibuya PARCO (fall 2019)
ZERO GATE format	Kyoto (fiscal 2017) Harajuku (spring 2018) Sannomiya (to be decided)
New formats	Kinshicho Station Area project (the 2nd half of fiscal 2018) Okinawa Urasoe West Coast Development project (Summer 2019) *Joint venture with SAN-A CO., LTD.



Rendering of New South Wing of Matsuzakaya Ueno



Rendering of Okinawa Urasoe West Coast Development project

domain by considering alliances with outside companies.

To further develop the entertainment business, we will increase the scale of entertainment by opening the new PARCO Theater and acquiring venues for live entertainment. We also plan to enhance the promotion functions of PARCO complexes, strengthen development of the content business, and expand the business outward on a full-fledged basis.

To further develop the overseas business, we will develop the Group's content in Asian markets, further engage inbound and outbound demand through collaboration with overseas shopping centers, and continue working to raise awareness of the PARCO brand in Asia.

For **Direction 2, Increase operational efficiency through business resource choice and focus – be a compact, high-yield business group**, we will work to strongly solidify a stable foundation of the stores business, advance a scrap-and-build policy for stores and apply International Financial Reporting Standards (IFRS), and will promote business on this basis.

To strongly solidify a stable foundation for the stores business, the plan is to shift management resources to urban stores with higher profitability and growth potential, and transition away from commercial facilities based on the model of selling goods at complexes supported by store owners and consumers and to next-generation commercial spaces that offer experiences based on services and information. In addition, to further enhance the competitive advantage and distinctness of the stores business, we will coordinate with the merchandising, restaurant and crowd-funding businesses in line with diversifying lifestyles and also further promote the growth of each.

Regarding advance a scrap-and-build policy for stores, we make decisions on closures based on comprehensive considerations of changes in the commercial environment, future returns on invested capital, and the property's contractual period. Based on this, the decision has been made to close Otsu PARCO at the end of August 2017.

In applying IFRS standards, we take it as an opportunity to raise operating efficiency by promoting management reforms to

strengthen both cash flow and balance sheet perspectives. Group companies will also pursue operations that raise profitability.

For **Direction 3, Widen unique value provided to meet the diversifying needs of urban consumers and business owners**, we will promote the redevelopment of Shibuya PARCO, the Group's starting point, integrate essential elements behind the creation of the New Shibuya PARCO (scheduled to open in the fall of 2019) into Group businesses and provide next-generation commercial spaces. To accomplish this, we will expand our menu of services for consumers and tenants through a CRM* strategy with a unique PARCO perspective that utilizes ICT. In addition, we will create new experiences for consumers by identifying up-and-coming talent and collaborating with new creators and outside companies with which we have not done so before.



Rendering of the completed New Shibuya PARCO in fall 2019

* CRM is the abbreviation of customer relationship management, which is a method of raising customer satisfaction through management of customer information.

For **Direction 4, Develop a corporate culture that expands our purpose in society**, the Group sees its social role as incubation, urban revitalization, and trend communication and will strive to develop a corporate culture that delivers value in excess of market expectations through coordination and collaboration between the creative ideas of Group employees and the abilities of outside partners. To achieve this, we will carry out organizational reforms and HR policy innovations, promote management based on diversity and inclusion, and further develop sustainable operations with an emphasis on social significance, social responsibility, business efficiency and governance.

Targets for Management Indicators

Question 5 What are your targets for key management indicators?

Business Portfolio Innovation for Non-Reliance on Stores Business

A. The PARCO Group will voluntarily apply International Financial Reporting Standards (IFRS) starting in March 2017 when our new Medium-term Business Plan goes into effect in order to make it possible for stakeholders to more readily make international comparisons of financial information, to promote a greater understanding of the Group by having the actuality of our business model better reflected in our financial statements, and to further strengthen initiatives for raising our profit-generating capacity.

In fiscal 2016, operating income was buoyed by special transitory factors that included recording other income (expenses) in connection with the redevelopment of Shibuya PARCO, closure of Chiba PARCO and the decision to close Otsu PARCO.

Fiscal year comparisons therefore are on an adjusted basis.

Regarding investment plans, on a cumulative basis over the five years of our

Medium-term Business Plan, we intend to make strategic investments for the Group's growth of ¥40.4 billion in commercial facilities development, new business and other areas and recurring investment of ¥26.4 billion in store renovations, related businesses and other areas, for total investments of ¥66.8 billion. With respect to cash

flows, we will work to generate operating cash flow of ¥77.3 billion or more over the five-year period.

In addition, with respect to the relative proportion of profit accounted for by each business, we intend to reform our business portfolio so that it is not reliant on the stores business.

● Comparison of Management Indicator Targets

	Fiscal 2016 results (special adjusted trial balances*)	Fiscal 2021 plan	Compared to FY2016
Operating income	¥11.5 billion	¥14.7 billion	↑ 27.8% up
EBITDA*2	¥16.8 billion	¥23.5 billion	↑ 39.9% up
ROE*3	6.1%	6.5~7.0%	↑ +0.4~+0.9%
EPS*4 (Basic earnings per share)	¥68.94	¥92.02	↑ + ¥23.07

* Fiscal 2016 IFRS results are reference figures obtained by restating results based on Japanese accounting standards on the basis of IFRS standards; audit procedures have not been completed, so they are subject to change.

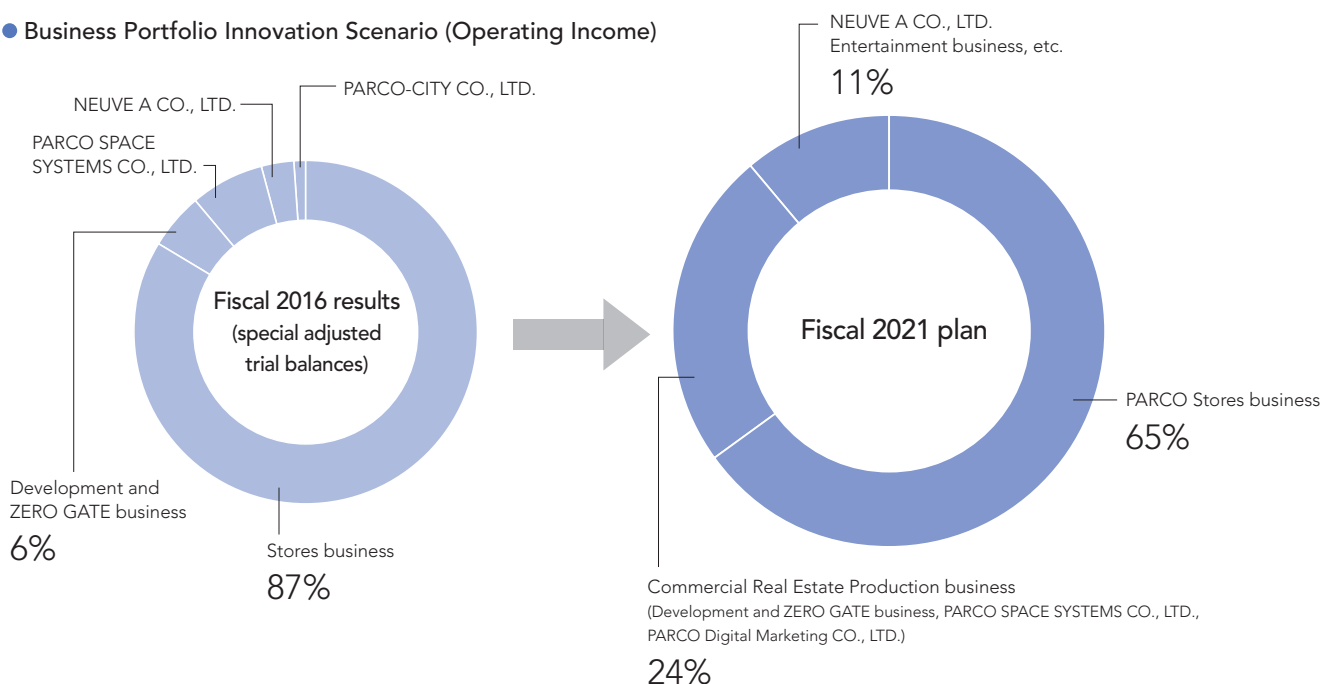
*1 Adjustments have been made for proceeds from the sale of Shibuya ZERO GATE, proceeds from the sale of Chiba parking, losses on the closure of Otsu PARCO and other factors.

*2 EBITDA=Operating Income + Depreciation and Amortization

*3 ROE= Profit Attributable to Owners of Parent+Shareholders' Equity

*4 EPS (basic earnings per share) = Profit Attributable to Owners of Parent+Number of Common Shares Outstanding

● Business Portfolio Innovation Scenario (Operating Income)





Outlook for Fiscal 2017

Question **6** What are your forecasts for the initial year of the PARCO Group's Medium-term Business Plan (FY 2017-2021)?

Forecasting Increased Revenues, and Lower Profits Due to Store Closures, Increased Depreciation, etc.

A. The Japanese economy is expected to recover moderately against a backdrop of improvement in the employment and income environment, but because of uncertainties in economic conditions, consumer spending is expected to continue to mark time. The environment surrounding the Group will be marked by further diversification of consumer preferences, changes in sales channels, rising real estate costs in urban areas, and competition in commercial facility development in central and suburban areas; so in response it will be necessary for us to strengthen our competitiveness in urban areas.

Turning to performance in fiscal 2017, the first year of our new Medium-term Business Plan, we are projecting higher revenues due to opening the New South Wing of Matsuzakaya Ueno and the

contribution of Sendai PARCO2, which opened in fiscal 2016. For operating income, we are expecting increased income from NEUVE A, but a decline overall due to the impact of the temporary closure of Shibuya PARCO, the closure of Chiba PARCO, an increase in depreciation due to increased assets, the impact of sales of Shibuya-area fixed assets in fiscal

2016, and other factors. Profit attributable to owners of parent is also being forecast to decline due in part to the impact of net financial revenue and other factors.

● Fiscal 2017 forecasts (IFRS)

(Millions of yen)	Fiscal 2017 forecasts (IFRS)	Fiscal 2016 Results (Restated from J-GAAP)	Change	Year on year
Operating revenue	95,100	94,022	1,077	101.1%
Operating income	11,500	14,203	(2,703)	81.0%
Profit attributable to owners of parent	7,400	8,795	(1,395)	84.1%

* Fiscal 2016 IFRS results are reference figures obtained by restating results based on Japanese accounting standards on the basis of IFRS standards; audit procedures have not been completed, so they are subject to change.

ESG Initiatives

Question 7 What are your ESG initiatives?

Actively Develop CSR Activities with New ESG Perspective to Achieve Sustained Corporate Value Growth

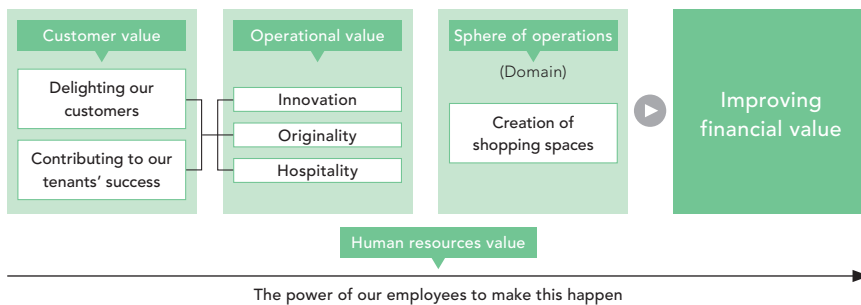
A. We view CSR as the concrete embodiment of our Corporate Mission and the backbone of our business itself. That mission is expressed as “Creating welcoming, forward-thinking, innovative spaces that provide an enjoyable experience for customers and help our tenants prosper.” CSR for the PARCO Group consists of working through our business activities to realize

this mission while earning the trust and satisfaction of stakeholders. Forward-thinking, innovative activities in this context means to further the evolution of the points or origin that define PARCO, “Incubation,” “Urban Revitalization,” and “Trends Communication,” which also represent our role in society, while staying on top of the changing times. We have organized this

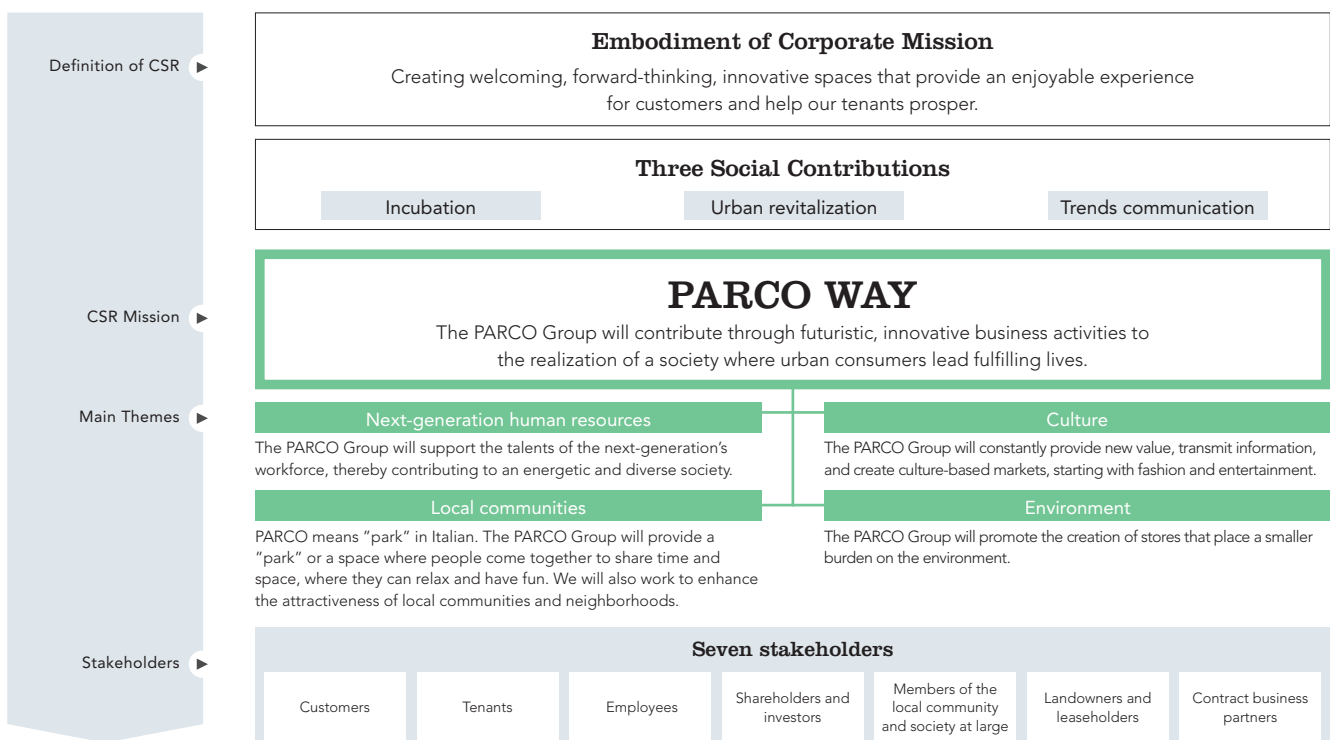
approach in a system diagram to more fully integrate it into the company. Our aim is to develop and grow as a company by creating value that satisfies all stakeholders, including customers, tenants, shareholders and employees, continuing to provide that value, and securing appropriate levels of profit as a result.

I have chaired the Diversity Committee since fiscal 2014, and we have promoted in an expedited manner a variety of initiatives to create a corporate culture that brings out the individual qualities of employees, encourages horizontal communication, supports the diverse working styles of diverse personnel and generates a succession of new ideas. Our efforts have been formally recognized through our inclusion as one of the 25 companies selected for the fiscal 2016 Semi-Nadeshiko Brands

System Diagram



PARCO Group Fundamental CSR Policy



program, which was established by the Ministry of Economy, Trade and Industry to recognize companies with an exceptional record of promoting women's workplace participation and advancement.

In addition, we believe that corporate governance is vital to continuing to raise corporate value. In 2016, we formulated the Fundamental Policy for Corporate Governance to stipulate our basic thinking on corporate governance and how it should best be applied to achieve sustained growth

and increased corporate value over the medium/long term through the creation and provision of value that will satisfy customers, tenants, shareholders, investors and other stakeholders based on our Corporate Mission. We will also make appropriate accommodations for Japan's Corporate Governance Code and carry out initiatives to raise corporate value on a sustained basis.

The PARCO Group has conducted a variety of activities on the basis of four priority themes, "next-generation human

resources," "culture," "local communities," and "environment," in order to obtain the understanding and support of seven main groups of stakeholders, customers, tenants, employees, shareholders and investors, members of the local community and society at large, landowners and leaseholders, and contract business partners. Beginning in fiscal 2017, we will add to this an ESG perspective and actively conduct CSR activities to raise corporate value on a sustained basis.

● New ESG Perspective

E – Environment

- Achieve targets for electricity reductions and recycling rate
- Reduce utility costs
- Register PARCO complexes with the Ministry of the Environment's promotion policy
- Fully subsidize employee Eco Test fees

S – Society

- Promotional tie-ups with local areas where stores are located
- Selected for Semi-Nadeshiko Brands program for promoting women's participation and advancement
- ICT tools for supporting tenant operations
- Expansion of flex-time program
- Work-at-home program

G – Governance

- Analysis and assessment of effectiveness of the Board of Directors
- Meetings with investors and external directors
- Reinforcement of fair disclosure by enhancing English-language materials

■ For details, refer to "Promotion of ESG Initiatives" beginning on p. 44.

Shareholder Returns

Question 8 What is your policy on shareholder returns?

Stable Shareholder Returns Is One of Our Important Policies

A. We view the return of profits to shareholders through the achievement of sustainable growth and medium- to long-term improvements in corporate value as one of our most important policies. In

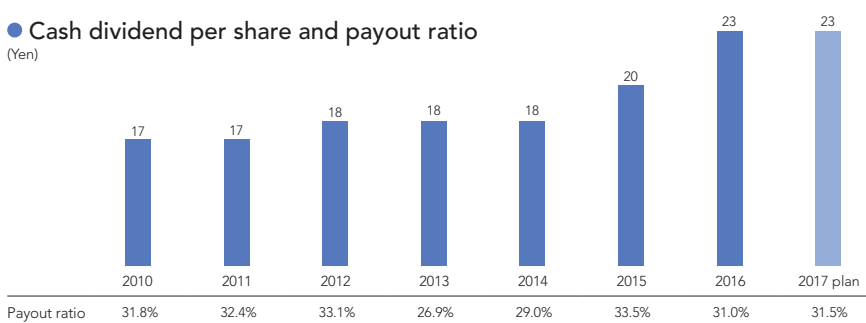
paying cash dividends from retained earnings, our basic stance is to pay a stable dividend to shareholders following careful consideration of business performance and the payout ratio. Our policy regarding

internal reserves is to effectively utilize such funds to preserve financial soundness and promote future business development.

In fiscal 2016, our annual dividend per share was ¥23, which is ¥3 higher than initially planned, and the payout ratio was 31.0%. For fiscal 2017, we plan to pay ¥23, with an expected payout ratio of 31.5%. We have also instituted various rewards programs to make shopping at PARCO nationwide even more enjoyable for shareholders.

● Cash dividend per share and payout ratio

(Yen)



■ Annual dividend per share

Visit our website for details on shareholder rewards.

■ www.parco.co.jp/en/ir/benefit/

Feature: Three Social Roles of the PARCO Group

Incubation / Urban Revitalization / Trends Communication

Incubation

Incubation Initiatives for Discovering and Supporting New Talent and Creating New Value

Since the opening of Ikebukuro PARCO in 1969, PARCO has been at the forefront of introducing the public to the cutting edge of culture, whether in music, the arts, the theater or other areas, discovering and supporting a host of new talent along the way. PARCO is taking advantage of its domestic and overseas networks and business expertise to provide opportunities for business growth.



2017 Featured Artist Sergei Polunin

Corporate Message for discovering and supporting new talent

"SPECIAL IN YOU."

www.parco.co.jp/specialinyou/

In 2010, PARCO launched the corporate message "LOVE HUMAN." Staying true to that sentiment, from 2014 we unveiled a new corporate message, "SPECIAL IN YOU." This message drives PARCO to a more powerful focus on incubation activities to uncover and support talent.

In 2017 we will feature the brilliant ballet dancer Sergei Polunin, who has had the courage to continue to fight his own sense of isolation and failure while engaging in a dialogue with his body and mind.

Profile

Sergei Polunin was born in Ukraine in 1989 and is 27 years old.

He underwent accelerated training in ballet from early childhood and entered The Royal Ballet School at the age of 13.

Dubbed the second-coming of Rudolf Nureyev, at the age of 19, Polunin became the Royal Ballet's youngest ever principal. Just two years later, however, at the height of his powers, he resigned from the company, shocking the world. He was called the enfant terrible of the ballet world, and amid rumors of having traded glory for a path of self-destruction, he appeared in the music video for the song "Take Me to Church" by Hozier, which was directed by the photographer David LaChapelle. The video was viewed over 20 million times world-wide and once again put Polunin in the limelight globally.

A documentary on the dancer, an intimate portrait of Polunin's glories and his struggles since childhood, entitled "Dancer," will be released in Japan in July 2017 (distributed in Japan by PARCO/UPLINK).

This advertisement was shot at Tokyo University of the Arts' Sogakudo Concert Hall on April 27, 2017 at a Japan premiere event sponsored by PARCO/UPLINK.

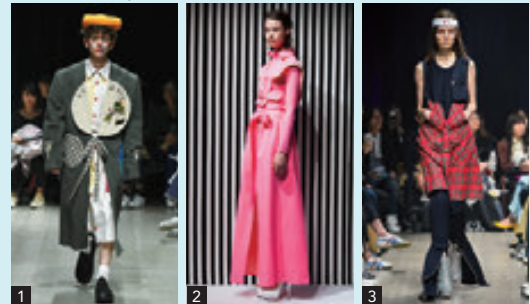
Support for Young Designer Fashion Show

FASHION PORT NEW EAST

We provided support for the 2017 spring-summer and autumn-winter collection shows at FASHION PORT NEW EAST, an event held as a part of Amazon Fashion Week TOKYO to discover and encourage young designers. FASHION PORT NEW EAST is a platform for supporting new designers by giving them the opportunity to show their work on their own terms. Changing the format from TOKYO NEW AGE, an event supported by PARCO over a number of years, for the future growth and independence of the brands, shows were held by each brand in an independent format. We also work to stimulate the industry as a whole by inviting in overseas designers and having Japan's young designers polish their skills alongside global talent.

We believe that having young designers show their designs to a domestic and overseas audience through this initiative will give them opportunities for further growth and that new talent for the next generation will serve as a new source of strength for the fashion industry.

Brands Participating in 2017 Autumn/Winter Collection Show



Profile

1 motoguo

A unisex brand launched in 2015 and based in Kuala Lumpur, and here showing its collection.

2 AKIKOAKI

After graduating from Joshi University of Art and Design, studied fashion at Central Saint Martins College of Arts and Design, and following work as an assistant at MIKIOSAKABE, launched a ladieswear brand in 2014.

3 KEISUKEYOSHIDA

Launched activities with the 2015 fall/winter season after stints at coconogacco and ESMOND JAPON AMI.



Saturday, February 11, 2017
Commemorative photo after the runway show at New York Fashion Week
Venue: Skylight Clarkson Sq

Support for the Global Efforts of Young Designers from Asia

Asia Fashion Collection

Through partnerships with apparel design schools in Japan and fashion organizations in countries across Asia, PARCO is involved in measures to discover and encourage young designers in Japan, Korea, Taiwan and Hong Kong. Through various support programs, including runway shows at fashion events in Tokyo, New York and Taiwan, PARCO is providing designers with opportunities to grow their business. Our aim is to spur advancement of both the global efforts of young Asian designers and Asia's fashion industry.

Asia Fashion Collection

Vanitas PARCO



Creation of a Presentation Space for the Next Generation of Women Creators Shibukaru Festival

www.shibukaru.com

The Shibukaru Festival, which has been held since 2011 with Shibuya PARCO as the main venue, provides young women creators the opportunity to show their work and interact with their peers. Over 1,000 young women artists and creators have participated. In 2016, the Shibukaru Summer Festival was held in August in connection with the temporary closing of Shibuya PARCO, and the Shibukaru Fall Festival was held in October with Shibuya CLUB QUATTRO as the main venue. Also, in December, the Shibukaru Girls Art Exhibition was held at GALLERY X BY PARCO as its inaugural exhibition. Even with Shibuya PARCO temporarily closed, we will continue supporting and encouraging the next generation of female creators.



Shibukaru Girls Art Exhibition
Friday, December 9 to Sunday, December 25, 2016
Venue: GALLERY X BY PARCO opened on Spain Hill Street in Shibuya

PARCO's Crowd-Funding Service BOOSTER

www.booster-parco.com

In 2014, PARCO launched BOOSTER, a crowd-funding service dedicated to supporting the realization of projects across the full spectrum of creative content domains through a framework that enables individual consumers to come together to put innovative challenges out into the public sphere. In addition to supporting the launch of projects, BOOSTER draws on the nationwide strengths of PARCO to expand awareness of projects and support business growth after launches.

In August 2016, the "FOR the THEATER LOVERS" charity event was held in connection with the temporary closure of Shibuya PARCO to raise money through the sale of furnishing and fixtures from PARCO Theater. Curtains used since 1973 and seats used by theatergoers over the years were refashioned by a spirited team of artists into commemorative merchandise. On the very first day of the sale, we achieved our goal to much fanfare. Going forward, we will continue to fuse online and physical retail (PARCO stores) to increase engagement with customers and encourage individuals and organizations that take on new challenges.

Special Feature

Message from stakeholders



Architectural Design Office intentionallies

Tei Shuwa
President

Refashioning PARCO Theater Seats for "FOR the THEATER LOVERS"

It was on walks in Shibuya in the 1980s and at PARCO in particular that I went a bit beyond myself and first learned to engage style and culture on a life-size scale. Shibuya has its own unique atmosphere and its buildings and facilities do, too; it was a place that very much satisfied my curiosity. As the times change and facilities are being remade and reborn, I was given this opportunity to refashion the seats from a theater as a symbol of this; it was a very fresh, very distinctively PARCO way of bringing closure to the age. I look forward to seeing new initiatives and engagement with the future.

Profile

Tei Shuwa's recent projects include new architectural design for U-TOWN, a large-scale facility in Taipei, Sumida Aquarium, Yebisu Garden Cinema, and Edo Wonderland. He is also involved in the new ADDA project in Indonesia while participating in the IoT furniture brand KAMARQ and other ventures.



"PARCO THEATER Seat (for One) by intentionallies' Tei Shuwa," PARCO Theater memorial seat with number plate



MAMORIO Inc.

Daiki Masuki
President

Pre-Sale Project for Japan's First IoT Gloves

We successfully commercialized Japan's first "Forget about forgetting" IoT gloves, the "MAMORIO Gloves," on BOOSTER. Due in part to being an almost inconceivably unique product, after its release it was picked up by television and other major media—the reaction was incredible—and this allowed us to successfully commercialize it. The project has been proven to be potentially applicable to various other fields as well, and from the standpoint of developing our company, it has served as a major springboard toward future business growth.

Profile

Daiki Masuki joined SBI Holdings after graduating from college and worked in public offer underwriting and risk management at SBI Securities. He established otoshimono.com in July 2012, which provides comprehensive solutions for lost items, the first of its kind in Japan, and changed its name to MAMORIO in June 2016.



MAMORIO Gloves, IoT gloves developed with NEUVE A, a PARCO Group company

Feature: Three Social Roles of the PARCO Group

Incubation / Urban Revitalization / Trends Communication

Urban Revitalization

Promoting Diverse Development to Create Distinctive Urban Areas

Alongside its existing businesses, PARCO also actively conducts area development centering on expansion of the ZERO GATE business, a new business model, in order to create new vital and pleasing urban districts. PARCO believes in equal partnerships with tenant stores and establishments, so to adequately respond to market potentials and meet the expectations of customers, we work with them to take on new challenges and create areas and districts with distinct personalities.

Stores opened in fiscal 2016

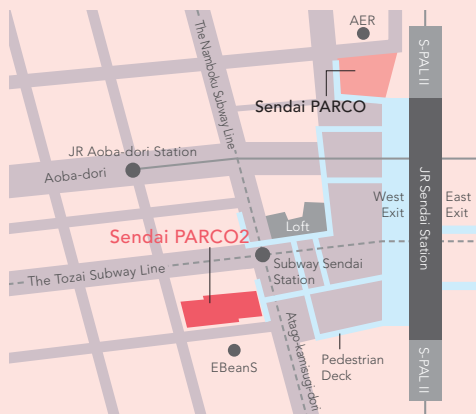


Sendai PARCO2

Opened on Friday, July 1, 2016

Sendai PARCO2 opened in front of the West Exit of JR Sendai Station, the gateway to the Tohoku region. Since Sendai PARCO opened in 2008, it has continued to evolve as a facility in a highly convenient location that offers new lifestyles to urban dwellers.

Sendai PARCO2 has an enhanced lineup of cosmetics, general merchandise and other products on its second floor, which serves as the facility's main floor due to being connected directly to the station via a pedestrian walkway. In light of the area's many street-level eating and drinking establishments, we have made the first floor of the complex a restaurant floor, which is a first for a PARCO facility. It also features a cinema complex, as there are very few theaters in the city, along with various other time-spending options. Going forward, we intend to further accentuate the presence of the two buildings in front of the station and lend greater vitality to the area.



Impressable main floor-style lighting greets you on the second floor coming from the pedestrian walkway



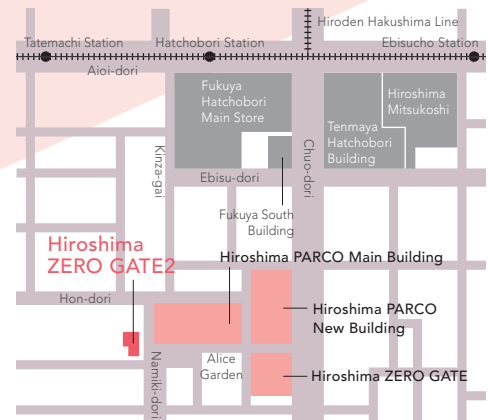
The restaurant floor on the first floor reduces the sense of division between establishments to create the feel of an alleyway or side street



Hiroshima ZERO GATE2

Opened on Saturday, September 10, 2016

We have opened our second ZERO GATE facility, after Hiroshima ZERO GATE, which opened in 2013. It is located in a commercial area adjacent to Hiroshima PARCO Main Building that extends from Hon-dori street to Namiki-dori street. With the four complexes of Hiroshima PARCO Main Building and New Building, Hiroshima ZERO GATE, and Hiroshima ZERO GATE2, we intend to create new appeal for Hiroshima's Hatchobori district and further vitalize the area.





Scheduled Openings

Okinawa Urasoe West Coast Development project

Due to open in summer 2019

Partnering with the major Okinawan retail company SAN-A CO., LTD., we established the joint venture SAN-A PARCO, Inc. to conduct operations for a new commercial complex in Okinawa Prefecture. The new facility planned by SAN-A for Urasoe, Okinawa Prefecture ("Okinawa Urasoe West Coast Development project") is expected to draw a large number of customers given the excellent access from Naha Airport and the cruise ship terminal at Naha Port. Urasoe West Coast Development will combine the extensive management resources and credibility of SAN-A and the expertise of PARCO in urban shopping complex operations to maximize the strengths of both and create a new, highly appealing commercial facility.



Message from stakeholders



SAN-A CO., LTD.
General Manager of Management Planning Department & Finance Department

Taku Toyoda

In moving forward with the Okinawa Urasoe West Coast Development project to create one of the largest shopping complexes in Okinawa Prefecture, we wanted the facility to be more appealing than anything that has come before. We felt that this would be possible by drawing on the planning and operational expertise of PARCO in urban shopping complexes while fully leveraging our own experience and track record in retail and other sectors cultivated in Okinawa Prefecture. We also formed a joint venture to develop an even stronger bond and higher level of trust.

PARCO Format

New South Wing of Matsuzakaya Ueno

Due to open in fall 2017

This new commercial facility matched to the market will combine the comprehensive strengths of the PARCO Group with the operational assets of J. FRONT RETAILING.



ZERO GATE Format

Kyoto ZERO GATE (tentative name)

Due to open in fiscal 2017

Located adjacent to the Daimaru Kyoto department store, facing Shijo Street, Kyoto's commercial center, this new facility will contribute to creating fresh appeal for the area.



New Shibuya PARCO

Due to open in fall 2019

The New Shibuya PARCO is slated to be a next-generation global shopping center that accommodates changes taking place in society, including the maturation of urban markets and innovations in technology, and contributes to further urban vitalization.



Harajuku ZERO GATE (tentative name)

Due to open in spring 2018

This new facility scheduled to open in Harajuku, one of the premier, attention-grabbing areas in the country, will broadcast new appeal to Japan and beyond while helping to create even greater vitality for the district.



New Format

Kinshicho Station Area project

Due to open in the 2nd half of fiscal 2018

For this new commercial facility in eastern Tokyo, we are leasing a portion of the Rakutenchi Building and making major renovations to the interior and exterior.



Sannomiya ZERO GATE (tentative name)

Opening date to be decided

This new commercial facility is scheduled to open in an existing building acquired in the Sannomiya area of Kobe, a central commercial district, and aims to be an establishment broadly supported by the region's residents.

* Images of properties prior to opening are renderings.

Feature: Three Social Roles of the PARCO Group

Incubation / Urban Revitalization / Trends Communication

Trends Communication

For details on cultural activities, refer to p. 40, "Messages from PARCO Partners," p. 42, "Produced by PARCO Brand," and p. 43, "PARCO Entertainment."

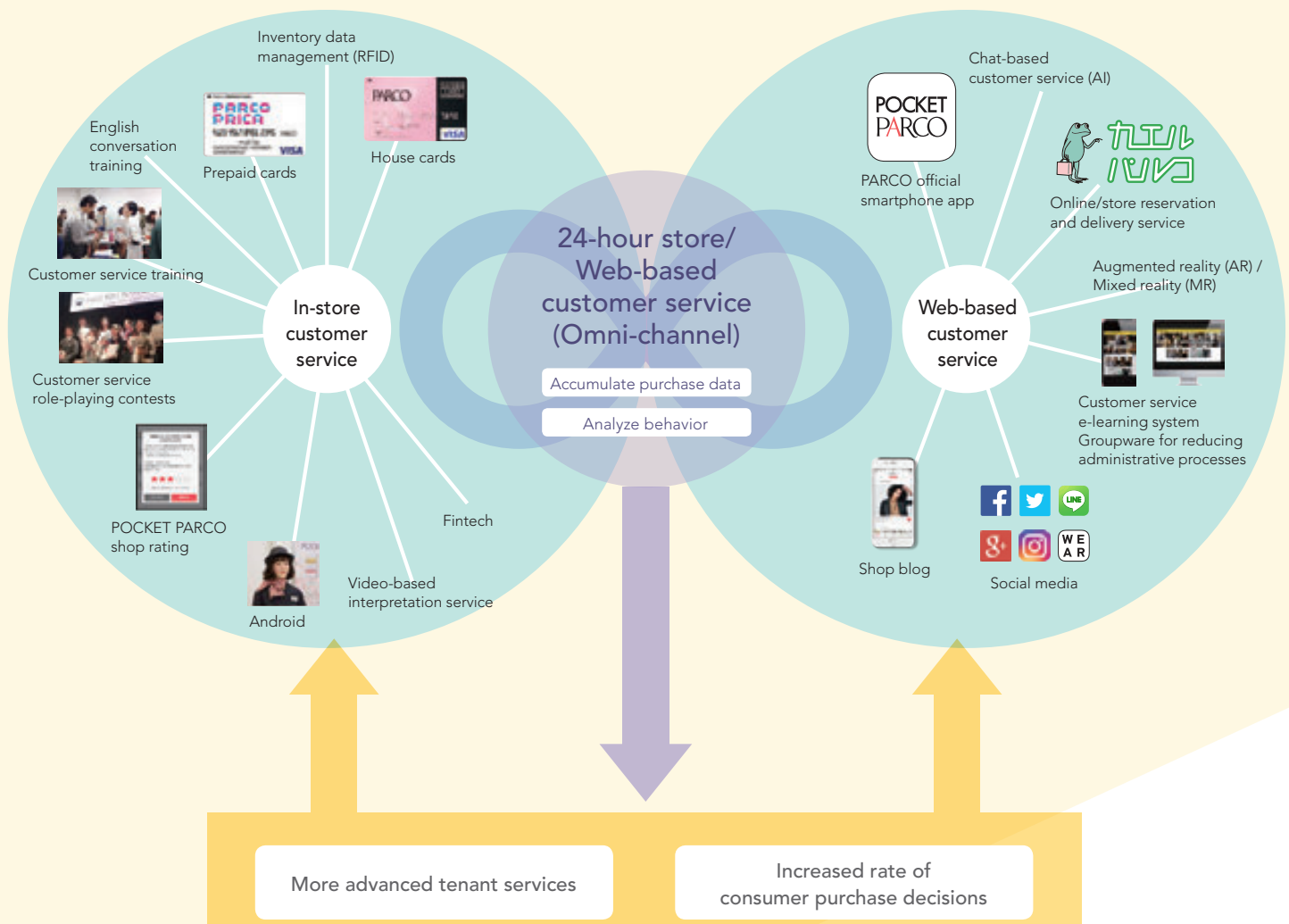
Providing Web-based Trend Communication and Services for a "24-Hour PARCO"

PARCO is actively leveraging advanced ICT technologies backed by its store network and establishing a digital environment at stores in line with rapidly changing consumption patterns to create new modes of enjoyment at commercial facilities.

The PARCO Shop Blog is used by some 3,000 tenant shops within PARCO complexes to transmit information in a faster, more appealing way and promote store visits by customers. We also provide the "Kaeru PARCO" service, which allows in-store items seen on the Shop

Blog to be reserved and purchased online, and have released POCKET PARCO, the official PARCO smartphone app, which allows us to provide information tailored to each individual user. Through these efforts, we are working to create infrastructure that allows customers to enjoy a "24-hour PARCO" over the Internet. What's more, utilizing ICT, we are promoting improvements in the job efficiency of shop staff working at PARCO.

24-Hour PARCO Omni-channel Concept



たぐいばのあ

Information provided using original advanced ICT

POCKET PARCO has made it possible to analyze customer purchase information that had not previously been rendered and has dramatically improved the PDCA cycle for increasing customer satisfaction. With POCKET PARCO, we can register the information of customers who use the PARCO Card, our house card, and since March 2016 we have been using artificial intelligence to provide information tailored to each individual customer based on their purchase and visit data, registered favorites and other types of information. Customers who have registered their PARCO Card information on POCKET PARCO are visiting PARCO 1.5 times more often and purchasing 1.7 times more than before, so it has been an effective tool for customer engagement. The day after customers make a purchase, they are

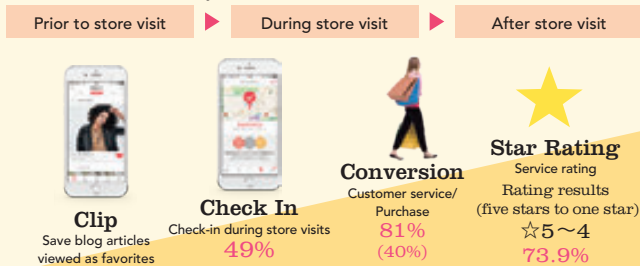
contacted with a request for their satisfaction level and opinion, and their evaluations are fed back to shop staff. In fiscal 2016, 720,000 feedback items were received from customers, and the assessments and comments of so many customers have also helped to further motivate shop staff. In addition, in order to raise customer satisfaction amidst diversification in payment methods, in December 2016 we began issuing* the PARCO PRICA prepaid card, which is used with the POCKET PARCO app and provides 0.5% cash back on purchases. It is part of our efforts to also enhance services for customers using payment methods other than credit cards.

Further, we continue to reinforce online communications through Shop Blog, accounts for which have been provided to approximately 3,000 shops at our complexes. Shop Blog has a card function, and we have enhanced the functions of "Kaeru PARCO," which allows customers to buy or reserve in-store products online. This means customers can take advantage of the same services as are available when making in-store purchases, such as special discounts when paying with the PARCO Card. In fiscal 2016, around 300 shops participated in "Kaeru PARCO," utilizing it for lucky bags (gift bags filled with mystery items), sales of limited-time products, and more, which has enabled the shops to engage with customers beyond their local markets.

* Advance issue at Chofu PARCO and Fukuoka PARCO

Four Steps from Clip to Purchase

3C+S user behavior analysis



Fiscal 2016 results

Message from stakeholders



Samantha Vega
Hiroshima PARCO

Narika Iwahara
Staff Member

To raise daily customer service levels, we have enhanced role-playing training based on a broad range of customers and strengthened presentation of our shop cards. These efforts have raised the shop's rate of repeat visits. We primarily promoted sales of products tied in with the Hiroshima Toyo Carp baseball team through communications that emphasized their high value as "rare items only available for a limited time." In addition, we utilize "Kaeru PARCO" to allow Carp fans around the country who are unable to come to the store to make purchases. We also maintain a blog and have received support even from people outside the prefecture.



Hiroshima Toyo Carp Tie-In Products

- 1 Large bag
- 2 Small bag
- 3 Mini wallet
- 4 Long wallet



CECIL McBEE
Hiroshima PARCO

Megumi Takano
Sales Chief

Our store utilizes "Kaeru PARCO" and social networking services for sales of products tied in with the Hiroshima Toyo Carp baseball team. Carp tie-in merchandise is very popular each year with many customers, and people who come to the store for the products are increasing each year, from both inside and outside the prefecture.

Recently, for marketing the Carp tie-in products, in addition to the PARCO blog, we have also strengthened promotions on branded social media. "Kaeru PARCO" is a convenient service that allows even people far away and unable to come to the shop to make purchases easily, so it is a very helpful tool for our shop.

Looking ahead, we have high expectations for measures to increase awareness of "Kaeru PARCO." And, of course, all the staff members at our store actively introduce POCKET PARCO and "Kaeru PARCO" to customers so that even more people become aware of the services.



Tunic-style dress available only at Hiroshima PARCO

Success of Value Creation

Group Business Overview

Shopping Complex Business

Net Sales:
¥239,447 million

Operating Income:
¥11,738 million

Themes for Fiscal 2017

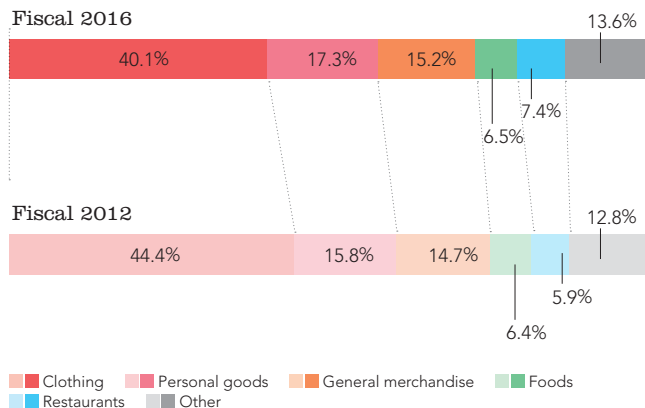
- Stronger base from opening of New South Wing of Matsuzakaya Ueno, Kyoto ZERO GATE (tentative name) and Harajuku ZERO GATE (tentative name)
- PARCO shopping complexes accommodate diversifying consumer values and growing service consumption
- Strengthening tenant support pivoting on proprietary ICT utilization and promoting new consumer experiences
- Expanding operational scale by pushing forward with related and new businesses

Store Data Highlights

Sales floor area: 409,000 m² (89.7%)
 Store visitors: 131,017,000 (97.9%) (Existing stores)
 Year-on-year comparison of existing average spend per customer: 100.6% (Existing stores)

Sales Composition by Category

Strengthening our hand not only in fashion, but also in personal goods and foods, in response to changing lifestyles.



Store Renovations Results

Renovations are promoted based on service consumption growth and other lifestyle changes and on meeting inbound demand.

	Fiscal 2012	Fiscal 2013	Fiscal 2014	Fiscal 2015	Fiscal 2016
Zones renovated	522	450	425	380	441
Area renovated (m ²)	53,000	44,000	46,000	40,000	55,000
Renovation effect (Year-on-year sales comparison by zone/ %)	117.4	111.0	118.6	116.6	112.7
New tenant store openings in renovated zones	232	249	233	219	225

Sales by Store (Tenant Sales and Year-on-year Sales Comparison*1)

Total sales fell due to the temporary closure of Shibuya PARCO and the closure of Chiba PARCO.

	(Millions of yen)		
	Fiscal 2015	Fiscal 2016	Year-on-year change
Urban Complexes Group	151,689	144,245	95.1%
Sapporo PARCO	12,415	11,897	95.8%
Sendai PARCO	13,309	17,015	127.8%
Ikebukuro PARCO	27,296	25,767	94.4%
Shibuya PARCO	15,336	7,615	49.7%
Shizuoka PARCO	10,339	10,310	99.7%
Nagoya PARCO	36,772	36,287	98.7%
Hiroshima PARCO	16,645	15,932	95.7%
Fukuoka PARCO	19,573	19,417	99.2%
Community Complexes Group	91,389	89,727	98.2%
Utsunomiya PARCO	4,311	3,576	83.0%
Urawa PARCO	16,869	17,319	102.7%
Shin-Tokorozawa PARCO	9,303	9,385	100.9%
Chiba PARCO	5,157	4,302	83.4%
Tsudanuma PARCO	8,526	8,106	95.1%
Hibarigaoka PARCO	7,255	7,066	97.4%
Kichijoji PARCO	6,934	6,904	99.6%
Chofu PARCO	17,064	16,950	99.3%
Matsumoto PARCO	7,219	7,133	98.8%
Otsu PARCO	3,613	3,500	96.9%
Kumamoto PARCO	5,135	5,482	106.8%
Total of Existing Store Group*2	235,979	215,578	97.6%
Total	243,079	233,973	96.3%

*1 Tenant sales exclude fixed rent tenants.

*2 Data for extended floor area at Fukuoka PARCO Main Building, Nagoya PARCO midi, Sendai PARCO2, Shibuya PARCO PART 1 and PART 3, and Chiba PARCO excluded from "Total of Existing Store Group."

In fiscal 2016, we continuously stepped up our strategy of developing two different types of shopping facilities - Urban Complexes and Community Complexes - by implementing initiatives tailored to each complex. In store renovations, we renovated a total of roughly 55,000m² of floor space to address changing consumer lifestyles, such as growth in the service consumption, and to capture inbound demand. Newly refurbished areas achieved a combined increase in sales of 12.7% year on year.

On the sales planning front, we worked to create a more advanced customer base by rolling out individually targeted sales promotions. With PARCO Card, we stepped up efforts to attract new card members and conducted reward campaigns for existing members to encourage more store visits. Also, by implementing joint CRM initiatives with our POCKET

PARCO app, which was upgraded in March 2016, we increased the number of active PARCO Card members with the app and boosted sales among Class S PARCO Card members, our top customers with strong loyalty to the brand. As a result, PARCO Card transaction volume at existing stores increased 1.3% year on year. At PARCO MUSEUM and shopping complex event space, sales from mobilization projects increased 14% year on year and visitors increased 1% on the same basis thanks to conducting projects with a high degree of contemporary relevance. As part of efforts to address the overseas visitors to Japan, we upgraded the shopping environment, including adding more shops that handle tax-free transactions and China Union Pay credit cards, and enhanced communication using media aimed at overseas visitors.

Key Renovations in Fiscal 2016

Nagoya PARCO Urban Complexes

Our fall 2016 renovations were based on the theme of fun and sensitive fashion for adult men and women, and by proposing high fashion, expanding cosmetics and accessories, adding gourmet markets with eat-in facilities, and introducing mixed men's and women's apparel, we strove to meet the diversifying needs of women and make consumption proposals fun for both men and women alike.



Nagoya PARCO West Building 1st floor
Men's and women's clothing and general merchandise
MADSTORE UNDERCOVER
Opened Friday, September 16, 2016

Fukuoka PARCO Urban Complexes

In the spring 2016 renovations, we revamped approximately 50 shops, the most in Fukuoka PARCO's history, centering on the first and second floors in the main building. The renovations targeted adults with a youthful sensibility by raising the complex's fashion sensitivity with new fashion themes and the first stores in the area from prominent brands.



Fukuoka PARCO Main Building 1st floor
Men's and women's clothing
MHL
Opened Friday, February 26, 2016

Ikebukuro PARCO Urban Complexes

Ikebukuro PARCO, which is now home to PARCO Museum and THE GUEST cafe & diner, both places for the latest in cultural information relocated from Shibuya PARCO, provided urban lifestyle proposals for not only fashion but also the enjoyment of art and music.



Ikebukuro PARCO Main Building 7th floor
THE GUEST cafe & diner
Your name. cafe
Saturday, January 7, 2017-Tuesday, February 7

Chofu PARCO Community Complexes

At Chofu PARCO, we introduced large, mixed-format stores with women's, men's and children's apparel to capture the family segment and further expand the complex's customer base.



Chofu PARCO 6th floor
Men's and women's clothing
GLOBAL WORK
Opened Friday, October 21, 2016

Retail Business

Net Sales:

¥21,640 million

Operating Income:

¥435 million

Themes for Fiscal 2017

- Aggressively open new stores, including through new business format development
- Boost profit margins through a full range of original products and an improved product mix
- Expand profits by reinforcing e-commerce operations

NEUVE A CO., LTD.

www.neuve-a.com

Top-line growth through aggressive store openings

Increased profitability in fiscal 2017 from improved product mix

NEUVE A CO., LTD. enjoyed higher sales year on year thanks to promoting a scrap-and-build approach, but operating income was down from the previous year due to lower existing store sales, increased new store expenses and other factors.

In fiscal 2017, the company will work to boost sales at existing stores while actively opening new stores, including new formats. It will also work to lift margins by offering a wider choice of original products and improving the product mix, as well as increase profits by strengthening the e-commerce business.



TiCTAC
HIROSHIMA T-SITE store
Opened Friday, April 28, 2017

This business maintains shop brands that reflect target market tastes and offers merchandise based on the sensibilities of buyers and shop staff. It identifies emerging foreign brands that have yet to enter the Japanese market and collaborates with popular brands and develops original products to cultivate new appeal for watches beyond their timepiece functionality.



POKER FACE
POKER FACE KYOTO TRADITION
(An independent store on Teramachi-dori, Kyoto)
Opened Monday, December 28, 2015

Committed to setting a "high-quality standard," POKER FACE offers a carefully selected range of fashionable eyewear, from domestic frames to imported brands, and also focuses on cultivating related gift items.

It also maintains its own programs and comprehensive training system to cultivate its expert and technologically savvy professional staff.



Tour de Brain
Saitama COCOON CITY store
Opened Friday, April 24, 2015

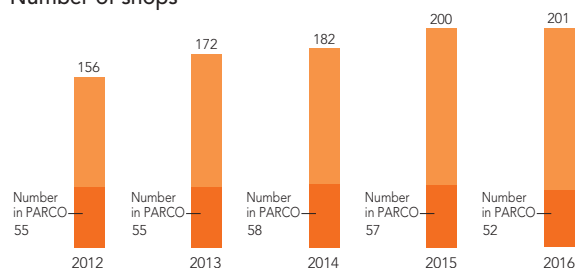
The store takes a broad view of "stationery," redefining it as a tool for activating the mind, and positioning it as a tool for providing intellectual stimulation and a way to creatively enjoy every day. It is a new-approach, lifestyle-oriented general merchandise store operating in the increasingly diverse and ever-evolving general merchandise market that provides a wide range of personal tools and goods centering on stationery, a sector of growing need among individual consumers.

Number of locations: 201 (52 in PARCO complexes)

Ratio of shops outside of PARCO: 74.1%

TiCTAC Business	Watch specialty store	100 (15 in PARCO complex)
EYEWEAR Business	Eyeglass specialty store	29 (11 in PARCO complex)
ROSEMARY Business	Cosmetics and accessories specialty shop (including Rirerecipe)	25 (15 in PARCO complex)
COLLECTORS Business	Men's variety shop	42 (12 in PARCO complex)
Business format development		5 (0 in PARCO complex)

Number of shops



Satoru Abe
President

Unique, Mixed-Format Specialty Stores to Help Enhance Customer Lifestyles

We're in the business of general merchandise, but we don't limit ourselves to items that are typically handled; rather, we make endless proposals of products and services that add color to life in various ways, for seeking, playing, decorating, giving, combining, and more.

In the area of e-commerce as well, we're working toward establishing the NEUVE A Mall to expand product lineups and further raise shopping convenience through services combined with traditional stores, and to thereby help further enhance customer lifestyles.

Space Engineering and Management Business

Net Sales:
¥20,242 million

Operating Income:
¥629 million

Themes for Fiscal 2017

- Leverage expertise and technologies honed through work with PARCO and outside commercial facilities as a key strength, building a structure to handle complex orders for external projects, centered on electrical work orders for outside facilities and interior work for specialty stores

PARCO SPACE SYSTEMS CO., LTD.

www.parco-space.co.jp

Achieved higher sales and income on increased orders and changes to contract terms Aiming for high-revenue complex orders for non-PARCO commercial facilities in fiscal 2017

PARCO SPACE SYSTEMS CO., LTD. reported higher sales and operating income compared with the previous fiscal year, supported by an increase in orders and changes to contract terms that lifted the gross profit ratio.

In fiscal 2017, the company will leverage the expertise and technologies it has built up through contracting work for PARCO and external clients to strengthen and improve its set up for securing a mix of orders, centered on external orders for electrical work in non-PARCO retail facilities and interior fitting work for specialty retailers.



Interior and Electrical Work
 bono SAGAMIONO Shopping Center

We will draw on our expertise in commercial, public, medical, hotel and other facilities, as well as our experience and expertise-driven technical prowess and responsiveness to create and offer sophisticated spaces that accurately and safely materialize client requirements.

We manage construction period schedules and make adjustments to ensure that work proceeds safely and smoothly in line with facilities' rules. We also mediate between architects and construction contractors, working closely with them in efforts to enhance quality.

Electrical construction work spans every facet of electrical work for facilities from that relating to electrical equipment to that on cellular antenna base stations outdoors to ensure comfort and safety for facilities users.



Conserving Energy and Cutting Environmental Impact
 SLOW HANDS (Kyodo, Tokyo)

Efforts to lower energy consumption and environmental impact are a social responsibility and an important issue to address company-wide.

We endeavor to safeguard the environment in all aspects of our work in creating spaces. We employ high-performance, energy-saving lighting designs, install LED and other high-efficiency lighting fixtures, and propose interiors and furniture incorporating recycled materials.



Displays and Visual Merchandising
 TAMAPLAZA TERRACE

We accommodate diverse requirements from clients, optimizing presentations of merchandise and exhibits that they most wish to promote to attract and connect with customers.

We also employ visual merchandising, which utilizes not only show windows but also stores and other sales areas to offer examples of how and where products should be staged, creating sales areas that present attractive merchandise in ways that make it easy for customers to select and buy items.

Service operations

Interior Construction	Electrical Work	Construction Administration	Lighting / LED / ECO	Facility Management
Property Management	Security	Information	Parking	Cleaning
Housekeeping	Hotel Banquet	Advertising Visuals	Display / Visual Merchandising	Interior Design



Tatsumi Imaeda
 President

One-Stop / All-Around / Owner Perspective

We have a three-part strategy that is based on our new medium-term management plan. The first part is "One-Stop." We aim for complex orders, doing a variety of jobs for each individual client. As an aspect of this, we gain an understanding of the client's issues and budget and share the client's perspective of overall optimization and long-term optimization. The second is "All-Around." We can do a whole host of things. We have a variety of specialists to allow clients to consult with us about anything. Our company and our employees are also multi-skilled, which makes up very dependable. The third part is "Owner Perspective." We single-handedly undertake the owner's dreams and issues and operate from a rigorously customer-oriented perspective. As a company, we will strive to be the "No. 1 and Only One" for everything from unique and interesting jobs to difficult projects.

Other Business (Entertainment Business and PARCO Digital Marketing CO., LTD.)

Net Sales: ¥6,774 million Operating Income: ¥58 million

Entertainment Business

www.parco.co.jp/en/business/entertainment/

Themes for Fiscal 2017

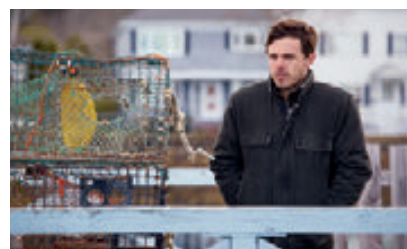
- Strengthen events at outside venues and expand movie distribution business
- Deploy character-themed cafes in Japan and overseas
- Expand business with unique entertainment content

The entertainment business of PARCO CO., LTD. successfully produced a number of popular plays, including Shuji Terayama's "La Marie-Vision," produced by and starring Akihiro Miwa, and "Cabaret," produced by Suzuki Matsuo and starring Masami Nagasawa. The content business also performed well due to investment in hit Japanese movie "TOO YOUNG TO DIE!" and new store openings for popular character-themed cafes. However, sales and operating income both declined year on year, reflecting a drop in the number of locations due to the temporary closure of Shibuya PARCO.

In fiscal 2017, this business plans to increase the number of shows staged in other locations. The lineup includes another staging of "SINGIN' IN THE RAIN," which was a popular show in 2014. In visual entertainment, we will expand our movie distribution business, which has handled recent topical movies such as "Manchester by the Sea," a winner in two categories at the 89th Academy Awards. In content development, we plan to expand our chain of character-themed cafes in Japan and overseas, aiming to continue using these physical locations as a base to enhance our lineup of live entertainment.



Musical "Cabaret" produced by Suzuki Matsuo
Performance starting in January 2017 at Tokyo's EX Theater Roppongi and in Kanagawa, Osaka, Miyagi, Aichi and Fukuoka



"Manchester by the Sea"
©2016 K Films Manchester LLC. All Rights Reserved.

PARCO Digital Marketing CO., LTD. (former PARCO-CITY CO., LTD.)

www.parco-digital.co.jp

Themes for Fiscal 2017

- Provide services as primary partner in digital marketing for external commercial facilities, and work to increase profits

PARCO Digital Marketing CO., LTD. achieved year-on-year increases in sales and income due to an increase in transactions with external commercial facilities and specialty stores. The company's "SC Concierge" service is used as a shared platform by 150 commercial facilities nationwide as of fiscal 2016.

In fiscal 2017, the company changed its name from PARCO-CITY CO., LTD. on March 1, 2017, and it will continue to provide progressive ICT services for external commercial facilities as their primary partner in digital marketing.



Digital marketing support using websites and robotics



Kenji Kawase
President

Developing Diverse Digital Services to Help Commercial Facilities

With technology advancing at an accelerating rate, commercial facilities and specialty stores need to engage actively in digital marketing. To support the initiatives of these commercial facilities, we will develop a variety of services between now and fiscal 2021 and work to provide services to 300 commercial facilities, which amounts to 10% of the industry.

We intend to help raise the appeal of commercial facilities using websites, apps and a wide range of other services, including digital signage, robots and AI, and help consumers further enrich their lives.

New PARCO Group Initiatives

To increase the unique value we provide based on the diversifying needs of urban dwellers and achieve the goals of our new Medium-term Business Plan, we are actively taking on the challenge at the PARCO Group level of new initiatives that leverage our expertise and networks.

Restaurant Business

PARCO's directly managed neo-bistro “& éclé”

and-eclé.com



Original, limited-time menu created by Olivier Rodriguez

A new restaurant directly managed by PARCO, “& éclé,” which opened in July 2015 in Tokyo's Aoyama district, is our first neo-bistro jointly developed and operated with Olivier Rodriguez, the former chef of a Michelin-starred restaurant. With the food sector gaining in importance in recent years, the new bistro offers new modes of enjoying French food to urban dwellers.

Collaborating with Iittala X Issey Miyake, in March 2017 the bistro developed an original, limited-time menu that is arranged with porcelain, textiles, illustrations and other items from the Iittala X Issey Miyake Home Collection, which celebrated its one-year anniversary in the spring of 2017.

Overseas Business

Japanese restaurant zone “itadakimasu by PARCO”

www.parco.com.sg/itadakimasu



“itadakimasu by PARCO” opened in 2016

In December 2016, we opened “itadakimasu by PARCO,” a Japanese restaurant zone produced by PARCO, in the 100 AM commercial facility in the prominent Singapore office district of Tanjong Pagar. Based on the concept of “Japanese flavors every day of the week,” seven restaurants were established that provide Japan-equivalent flavors and quality at affordable prices.

In the overseas business, we will strengthen systems for communicating the Group's content overseas, centering on Asia.

PARCO-Arranged Business

“BY Parco” Communicating New PARCO Culture

www.parco.jp/byparco/



“BY PARCO,” a PARCO-arranged shop in Tokyo's Aoyama district

“BY PARCO” was opened in Tokyo's Aoyama district in August 2016, combining PARCO-arranged and tenant shops. BY PARCO is made up of three shops, the PARCO-arranged shop “Mitsukaru Store,” the directly managed “ANREALAGE” fashion-brand boutique and “BY PARCO shop & gallery,” which features short-term rotating collections, and through them communicates new forms of PARCO culture.

BY PARCO pivots on “Mitsukaru Store,” a university-like environment where customers can meet with designers, receive inspiration and learn. The adjoining gallery also regularly holds events and exhibitions.

Fiscal 2016 Accolades and Awards

PARCO Group

PARCO Group Corporate Website

- Received an Excellence in Corporate Website Award 2016 from Nikko Investor Relations Co., Ltd. ranking in all listed companies in Japan
- Received an Internet IR Commendation Award from Daiwa Investor Relations Co., Ltd., which recognizes outstanding websites of listed companies

Shopping Complex Business

- The “Nagoya PARCO” commercial facility won the fiscal 2016 Fighting Spirit Prize at the 19th Grand Prize for Developers Chosen by Leading National Tenants sponsored by Senken Shimbun.
- M/M (Paris), which handled PARCO's seasonal collection advertising in 2016-2017, won a TDC Award in the advertising category at The Tokyo Type Directors Club Annual Awards 2017
- The design group Tomato, which handled the main visuals for the “O tomato parco” exhibition and event, won a TDC Award in the advertising category at The Tokyo Type Directors Club Annual Awards 2017
- Received an award at the 2nd Retail Promotion Awards, which are given to companies that conduct exceptional customer promotions at physical stores



“O tomato parco”

Entertainment Department

Produced by PARCO

“Haha to Wakusei ni Tsuite, Oyobi Jiten Suru Onnatachi no Kiroku” (Regarding Mothers and Planets, and Recollections of the Rotating Women)

- Ryuta Hourai won the 20th Tsuruya Nanboku Drama Award
- An Suzuki won the 24th Yomiuri Theater Award for Best Actress

Distributed by PARCO

“Manchester by the Sea”

- Won the 74th Golden Globe Awards for Best Performance by an Actor in a Motion Picture-Drama
- Won the 89th Academy Award for Actor in a Leading Role and Writing (Original Screenplay)

Investment by PARCO

“Kori no Hanabi Sayoko Yamaguchi” (Fireworks of Ice, Sayoko Yamaguchi)

- Won the grand prize at the 2016 Agency of Cultural Affairs (ACA) Film Award

Investment by PARCO

“Close-Knit”

- Won the Teddy Special Jury Award and finished second in the voting for the Panorama Audience Award at the 2017 Berlin International Film Festival



“Haha to Wakusei ni Tsuite, Oyobi Jiten Suru Onnatachi no Kiroku”



“Close-Knit”
©2017 “Close-Knit” Production Committee

Expectations for the New Shibuya PARCO

Several artists and creative professionals who have supported PARCO-brand productions and entertainment reveal their hopes and expectations for the new Shibuya PARCO.



Fashion Designer

ANREALAGE

Kunihiko Morinaga

Kunihiko Morinaga was born in Tokyo in 1980. His company name "ANREALAGE" creatively combines the words "A Real," "Unreal" and "Age." While still in college, Morinaga began designing clothing at the Vantan Design Institute, and with a mantra of "God is in the details," he created intricate, brightly colored patchwork and clothing in distinctive forms that did not necessarily adhere to the shapes of the human body. In 2003, he launched ANREALAGE and in 2005 won the Avant-Garde Grand Prix award at Gen Art in New York. In 2011, he was awarded the 29th Mainichi Fashion Grand Prix for the best new designer and Shiseido Incentive Award. Morinaga's "A REAL UN REAL AGE" exhibition was held in 2012 at PARCO Museum on the 3rd floor of Shibuya PARCO PART 1, and in 2014, he showed at Paris Fashion Week for the first time with a spring and summer women's collection.

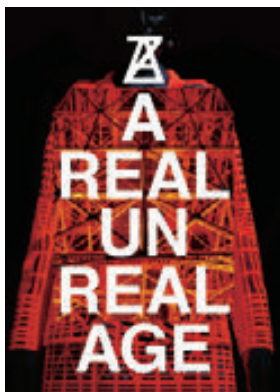
Hope for an Innovative Facility that Overturns Convention

Shibuya PARCO is a place very close to my heart. The Vantan Design Institute, which I went to as a student, used to be in the building next to Shibuya PARCO PART 2, so I would drop by Shibuya PARCO just about every day. At that time, there was a boutique called Midwest that had fashion on the global cutting-edge, mostly from Antwerp, much of which I'd never seen the likes of before. For a student of fashion at the time, it was quite painful to see the enormous difference between all those highly creative items and the clothes I was making in class (laughter). That pain I think was a formative experience for me that has driven my own creations.

In 2013, I held my first exhibition, "A REAL UN REAL AGE," at PARCO Museum inside Shibuya PARCO to commemorate the 10th anniversary of my brand, and I think now that it marked a turning point in the development of my current style, in terms of the concepts behind the brand and certain cultural elements. Even now when I look at the book that was published for the exhibition, I think back on the enormous amount of time that was spent in the midst of various restrictions and feel a sense of being cleansed by the fresh liveliness of the creative work that came out of it. ANREALAGE up to that point had generally put out clothes, whether at shops or fashion shows or wherever, for our fans or for people just generally interested in fashion. With the "A REAL UN REAL AGE" Exhibition, though, people came who didn't know anything about us or who had very little interest in fashion. It struck me then how important it was to cross borders and how interesting it could be as well. It made me very conscious of going beyond the distinctions between fashion and non-fashion, and at the same time the exhibition was the reason I ended up deciding to participate in Paris Fashion Week, something I'd been hesitant about before.

I hope the Shibuya PARCO opening in 2019 will be a highly innovative facility that more or less overturns the conventions governing commercial complexes. To create a place that successfully draws people solely within the field of fashion has become difficult, I think, in the current environment, which is a bit of a sad thing, but at the same time there is potential in going beyond fashion. This is why I think it is important to look not at fashion per se but at the things that surround it, things like theaters and gallery space, of course, but also places like workshop space. I want there to be lots of places that have an indirect focus on fashion so that the complex functions like an enticing hub for creators and prospective creators.

In other words, it would be a new type of fashion building distinguished from conventional commercial facilities where the objective is basically consumption only. I think that no matter how innovative and appealing the items for sale, unless the environment in which they are sold and the services provided are changed, their newness won't penetrate very far into society. Instill fresh ideas into how operating hours are structured and sales areas are divided, for example. Also, children's clothing sections tend to appeal primarily to the adults who are the direct purchasers, but they're generally somewhat boring places for kids, who are the true stars of the show. It would be great if the concept could be completely uprooted and re-imagined to create a place for kids to become aware of the fun and appeal of fashion. As an historic institution that has delivered the latest in fashion to the wider world, I believe the new Shibuya PARCO will reconfigure the conventions of commercial facilities from the ground up.



"A REAL UN REAL AGE" Exhibition
PARCO Museum, Shibuya PARCO PART 1, 3rd floor
Friday, December 7, 2012 to Tuesday, December 25, 2012

Artist Collective

Chim ↑ Pom

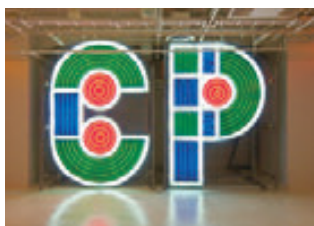
Chim ↑ Pom is an artist collective formed in Tokyo in 2005 by Ryuta Ushiro, Ellie, Yasutaka Hayashi, Toshinori Mizuno, Masataka Okada, and Motomu Inaoka. As a reflexive response to the reality of the times, the collective has put out work after work with a strong social message, constituting a powerful intervention in contemporary society. Based in Tokyo, Chim ↑ Pom artists also participate in various exhibitions and projects overseas, supervise art publications, curate exhibitions and more. Their main publications are "Geijutsu Jikkohan" (Asahi Publishing, 2012) and "SUPER RAT" (Parco Publishing, 2012).



Photo by Leslie Kee



Photos by TAKAMURADAISUKE



Chim ↑ Pom Exhibition
Saturday, September 22, 2012 to Sunday,
October 14, 2012
The "P" and "C" were removed from the outer
wall of PARCO Museum on the 3rd floor of
Shibuya PARCO PART 1 and installed as the
work "PAVILION" inside the museum, and this
was also used as the design for the flyer for the
Chim ↑ Pom Exhibition.

Turning the Tables on Limitations

The only exhibition Chim ↑ Pom has ever held at a commercial complex was the Chim ↑ Pom Exhibition in 2012 (at PARCO Museum on the 3rd floor of Shibuya PARCO PART 1). The PARCO staff expressed an interest in our ideas, no matter how madcap they happened to be, and got excited about them with us. It is a commercial facility, yes, but they turn the tables on the inherent limitations to move in an interesting direction with artists—this is the PARCO we know and appreciate.

Shibuya is a singular place sitting at the intersection of multiple and manifold cultures and media, and the revolutions effected by PARCO thus far in line with the times we would like to see occur again with the Shibuya PARCO of 2019. For example, how about a real estate agency? That would be interesting. One that features properties that could be remodeled, units that could be used as galleries—it could curate properties and units that people like artists and gallerists, as well students as future creators, would tend to seek out. A remodeling service under the direction of practicing artists, too, might be interesting. There are a ton of general

merchandise stores and knick-knack shops wherever you turn in Tokyo these days, but you have to have a room first. And if you have a cool room, you're going to want to decorate it with art and fill it with your various finds. You will then want to start going to museums and participating in art events. Having a real estate agency would create this kind of positive momentum and at the same time create a greater awareness of Shibuya as a district—it's the kind of thing that really only Shibuya PARCO can do. Essentially, there's food, clothing and shelter, and though doing even better on the food front would be great, too, it might be productive we think to do something new with shelter as well.

Fashion buildings and commercial facilities these days all seem the same, but we'd like to see Shibuya PARCO when it opens in 2019 continue to destroy flat and uninspiring convention. Interesting, stimulating art events, a theater, a movie theater, a bookstore....and how about a real estate agency? We want Shibuya PARCO to be a completely new cultural hub for things found nowhere else.

Lead the Tokyo Scene and Lead Japan

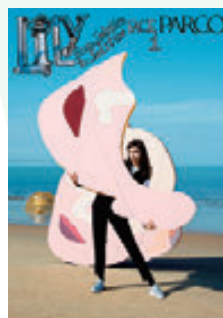
We recently read an article on Japan's fashion culture with a very interesting story on PARCO's founding. The article related how PARCO was established based on the concept of fusing New York's Macy's, one of the largest department stores in the world, with Paris' Pompidou Centre, a general cultural complex for contemporary art and music. When we heard that Shibuya PARCO was going to be rebuilt, we felt it was very exciting and noteworthy news. We would like the new Shibuya PARCO to never forget its pursuit of new sensibility in a way that mixes elements of global high fashion on the cutting edge while firmly preserving the unique aspects of Japan's culture. We would like to see it lead the Tokyo scene and lead Japan in general as an even edgier fashion building. From the time we first got involved in PARCO's seasonal campaigns three years ago, we have continued to create while constantly envisioning PARCO as the wholly unique entity it was at the time of its founding. Our hope is that the new Shibuya PARCO will continue to be a special presence in this way.

Creative Agency

M/M (Paris)

Mathias Augustyniak (left), Michael Amzalag (right)

Mathias Augustyniak and Michael Amzalag formed the creative agency M/M (Paris) in 1992 and for over 20 years have worked and excelled across genres, in fashion, art and music, presenting symbolic and impactful designs that have charmed people throughout the world. They have collaborated with major fashion houses like Dior Homme and Louis Vuitton, and in music as well, they have done the album artwork for many famous artists, including for Bjork's "Biophilia," which earned them a Grammy Award in 2013 in the Best Recording Package category. They have also done music videos and lent their hand as art directors to magazines like Vogue Paris.



The agency's first seasonal
campaign poster for PARCO
(2014 Autumn/Winter)

M/M (Paris) SUGOROKU DE L'OIE
PARCO Museum, Shibuya PARCO PART 1, 3rd floor
Friday, April 3, 2015 to Monday, April 20, 2015

M/M (Paris)

Success of Value Creation Produced by PARCO Brand

PARCO since its founding has not simply sold things; rather, our business has always been producing new ways of spending time and enjoying life. We have worked to create distinctive forms of culture as a communicator of new lifestyles, and this has played an important role in enhancing our corporate brand and differentiating “PARCO” shopping complexes from competitors.

Advertising Campaigns

www.parco.jp/style/cm_poster/

In the PARCO 2016 Autumn-Winter and PARCO 2017 Spring-Summer seasonal ad campaigns, we employed the world-famous French design firm M/M (Paris), which we have used since 2014, making this their third year of campaigns. The ads were photographed for the first time this year by Juergen Teller and featured the model Lili Sumner.

Four themed episodes were developed based on the idea of the contemporary fairytale and set in the mountains of Germany, the birthplace of numerous children's stories, including “Little Red Riding Hood,” “Snow White” and others from the Grimm Brothers' collection.



Chapter 3 PARCO 2017 Spring/Summer poster



Chapter 4 PARCO 2017 Spring/Summer poster

PARCO MUSEUM

www.parco-art.com

Since Shibuya PARCO PART3 first opened in 1981, PARCO MUSEUM has consistently captured the mood of the times as one of PARCO's key centers for cultural information. The museum was relocated to the seventh floor of the Ikebukuro PARCO Main Building, renovated and reopened on September 1, 2016. Here it will continue to create and curate diverse exhibitions and events transcending the existing categories of art, design and culture.



Robert Ryuji Akiyama
Ikebukuro Creative Operation,
Tokyo Creator's File Festival
Saturday, April 29, 2017 to Monday, May 22, 2017

The first major exhibition of Robert Akiyama, who has gained acclaim for his “Creator's File,” a series of impersonations of creative people and professionals.

GALLERY X BY PARCO

www.parco-art.com

GALLERY X BY PARCO is art space dedicated to cultural communication that opened in Shibuya on December 9, 2016. The gallery will generate culture across genres, including art, music, fashion and anime, and send it out into Shibuya and beyond.



T2 BAR –T2 Trainspotting Exhibition & BAR
Thursday, April 6, 2017 to Tuesday, April 11, 2017

This limited-time bar serving scotch whiskeys provided a glimpse into the world of “T2 Trainspotting,” the sequel to the original “Trainspotting” movie.

“ACROSS” Street Fashion Marketing

www.web-across.com

PARCO's ACROSS editorial team has researched fashion culture with Tokyo's young people since 1977 and manages an online magazine based on the results. ACROSS goes beyond fashion to focus on the intersection of person, store and city, conducting marketing analysis of street fashion based on fixed-point observation, initially started in August 1980. Data and expertise derived from this process are utilized in contract projects and joint research with outside companies and organizations inside and outside Japan.



Fixed-point observation on the first Saturday of each month has been conducted 436 times as of June 2017, providing invaluable data for insights into consumer lifestyles.

Success of Value Creation

PARCO Entertainment

The PARCO Entertainment business has actively introduced new forms of culture in a wide range of fields since our founding, while making proposals for more enriching lifestyles. Along with operating PARCO's cultural facilities, we are involved in events and shows at other venues as well, and through these activities communicate PARCO-produced entertainment inside and outside Japan.

Theater

www.parco-play.com

With the temporary closure of Shibuya PARCO, PARCO Theater has also closed temporarily after a 43-year run. Shows and events however continue to be actively produced at other venues.

Produced by PARCO

"The Addams Family" The Broadway Musical

Dates: Saturday, October 28 to Sunday, November 12, 2017

Venue: KAAAT Kanagawa Arts Theatre Hall

"The Addams Family" was highly acclaimed during its initial run in 2014 thanks to the stellar direction of Akira Shirai, a cast perfectly suited to the characters, and wonderful, highly memorable songs. Satoshi Hashimoto, who played Gomez, won the Best Actor Award at the Yomiuri Theater Awards. In response to enthusiastic calls for an encore, the show will make its long-awaited return during the Halloween season this October. This family-friendly musical about a uniquely ghoulish family is full of black humor and Gothic style. The new "Addams Family" will feature an all-star cast that includes a superb lineup of new members. Opening night is coming soon.

Director: Akira Shirai

Cast: Satoshi Hashimoto, Tsubasa Makoto/
Kazuho So (double cast), Natsumi Kon,
and Ryouta Murai

Shows also scheduled for Osaka and Toyama.



From a performance in 2014;
Photo: Nobuhiko Hikiji

Music

CLUB QUATTRO www.club-quattro.com

In offering quality live music, we invite popular new performers from Japan and abroad to perform at our four CLUB QUATTRO venues in Shibuya, Nagoya (Nagoya PARCO East Building 8th floor), Umeda, and Hiroshima (Hiroshima PARCO Main Building 10th floor).

Wilko Johnson Japan Tour

Monday, October 9 to Friday, October 13, 2017



Since his days with the band Dr. Feelgood, which led the pub rock scene in the U.K. from the early 1970s and was a major influence on the subsequent punk rock movement, timeless guitar hero Wilko Johnson has generated innumerable followers all over the world throughout his long career and continues to garner much respect. Celebrating the year of his 70th birthday, he will be in Japan for a tour of CLUB QUATTRO in Tokyo, Nagoya and Osaka.

Dates and venues:

Monday, October 9 and Tuesday October 10, 2017 at Shibuya CLUB QUATTRO
Thursday, October 12, 2017 at Nagoya CLUB QUATTRO
Friday, October 13, 2017 at Umeda CLUB QUATTRO

QUATTRO LABO www.quattrolabo.com



The music cafe and dining bar QUATTRO LABO produced by CLUB QUATTRO, which opened in 2014 in Kichijoji, provides a "third place" for adults to relax and spend time listening to vinyl records.

Movies

www.parco-enta.com

Like PARCO Theater, the CINE QUINTO movie theater has been closed temporarily. Even while closed, however, we continue to conduct multifaceted business activities, including buying overseas films and investing in Japanese films and ODS*.

* Other Digital Stuff. Live and recorded broadcasts of concerts, sports, theater performances and other events.

PARCO entertainment rights business

"Fullmetal Alchemist"

Friday, December 1, 2017 Nationwide Roadshow

"Fullmetal Alchemist" is a live-action film version of a legendary comic whose series has sold over 70 million copies worldwide. The main character Ed, a young genius in alchemy, and his younger brother Al try to bring their beloved mother back to life through pursuit of the forbidden art of "human transmutation." It's a major work of fantasy-fiction much awaited around the world with an all-star cast featuring Ryosuke Yamada as Edward Elic, Tsubasa Honda as Winry, Dean Fujioka as Colonel Mustang, and Yasuko Matsuyuki as Lust.

Cast: Ryosuke Yamada, Tsubasa Honda,
Dean Fujioka, and Yasuko Matsuyuki
Based on "Fullmetal Alchemist" comic series
by Hiromu Arakawa in SQUARE ENIX
publication "Gangan Comics"
Director: Fumihiko Sori (director of "Ping Pong")



©2017 Hiromu Arakawa/ SQUARE ENIX

©2017 Eiga "Fullmetal Alchemist" Production Committee

Publishing

www.parco-publishing.jp

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

"Close-Knit"

Story by Naoko Oigami Novelization by Shinobu Momose
Artwork by Machiko Kyo

The film "Close-Knit" written and directed by Naoko Oigami has been novelized and released as a paperback. It is the story of a kindhearted transgender woman Rinko and her accepting lover Makio who is enchanted by her beautiful spirit. A lonely little girl named Tomo comes into their lives knowing nothing of love. The three, who meet during cherry blossom season, search for happiness over a heartwarming 60 days. The cover artwork and illustrations are by Machiko Kyo.



Published in
January 2017
List price: ¥630
(tax exclusive)

Content Development

PARCO develops cafes tied in with popular characters, films and anime. Featuring themed menus, the cafes enable customers to engage in the unique worlds of particular works. The latest cafe opened in Sapporo PARCO in March 2017 and there are now five in operation around the country.

In 2016, the "Pokémon cafe" was opened for a limited time in Singapore, and development overseas is continuing.

THE GUEST café & diner

Ikebukuro PARCO, Nagoya PARCO, Fukuoka PARCO, Sapporo PARCO, Shinsaibashi 161

"Your name. cafe," which started at Ikebukuro PARCO, has proved extremely popular as at one point the wait time reached 11 hours. The cafe now operates at five locations nationwide.



©2016 "Your Name"
Production Committee

Promotion of ESG Initiatives

Environment and Society

The PARCO Group sees the defining of CSR activities as the actualization of our Corporate Mission and conducts a variety of activities on this basis. Moreover, to promote these activities, we have added the new standpoint of ESG—Environment, Society and Governance—and will strive for sustained growth while actively addressing a range of issues.

Please visit our website for further details of our initiatives.

[Promotion of ESG Initiatives]  www.parco.co.jp/en/ir/esg/

[CSR]  www.parco.co.jp/en/csr/

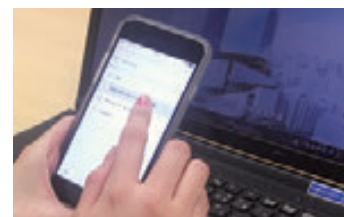
Social Initiatives

The PARCO Group recognizes as main themes “Next-generation human resources,” which involves supporting the talents of the next-generation’s workforce, “Culture,” in the form of providing new cultural value and culture-based markets, and “Local communities,” which includes working to enhance the attractiveness of local communities and neighborhoods. We are involved in a variety of related activities and promote management based on the values of diversity and inclusion.

Home Work Program Introduced; Childrearing and Nursing Care Programs Enhanced; Support for Diverse Working Styles

To provide greater flexibility in working styles for our diverse personnel, we conducted a variety of initiatives that included introducing an internal social networking service, enhancing leave and working hours programs and further raising the awareness of managers. In addition, the home work program we started on a trial basis in 2015 was introduced as an official program in March 2017 and is currently being put to use.

We also continue to enhance programs for childrearing and nursing care, for example by extending the period for reduced working hours beyond the legal requirement, in an effort to provide support for diverse working styles.



Introduced “Talknote” smartphone app, an internal SNS service for bolstering communication

Enhancement of Main Childrearing and Nursing Care Support Programs

● = Exceeds legal requirements / ○ = At legal requirement

Item	New program	Previous program	
Nursing care balance	Nursing care leave period, eligible family members	May be taken up to 3 times for up to 1 year total ●	Up to 93 days total combined with reduced working hours for nursing care; 1 time in principle (at current legal requirement)
	Unit for nursing care leave	May be taken in half-day units (first-half leave, second-half leave) ○	One-day units
	Reduced working hours for nursing care	Apart from nursing care leave, may use reduced working hours an unlimited number of times when continuing nursing care ●	Combined leave period of 93 days or less (at current legal requirement)
	Restriction on overtime work due to nursing care	Exempted from overtime by request ○	No program for limiting overtime work (at current legal requirement)
Childrearing balance	Unit for childcare leave	May be taken in half-day units (first-half leave, second-half leave) ○	One-day units
	Reduced working hours for childrearing	May use reduced working hours until child enters middle school ●	Until child enters elementary school



Seminar on women’s workplace participation and advancement

Selected for Semi-Nadeshiko Brands

PARCO was one of 25 companies selected for the fiscal 2016 Semi-Nadeshiko Brands, a program started by the Ministry of Economy, Trade and Industry to recognize companies with an exceptional record of promoting women’s workplace participation and advancement. Our efforts to promote diversity in particular were recognized, including training for woman managerial candidates, providing opportunities for raising career awareness, creating working conditions conducive to employees on limited schedules, and introducing a home work program.

PARCO Group Business Continuity Plan (BCP)

In the PARCO Group, to provide services on a continuous basis, we have procedures in place to prevent or minimize risks that could occur in the event of a major disaster. The "PARCO Basic Business Continuity Plan for Major Earthquake Disasters" was formulated in 2011 and has been periodically reviewed since.

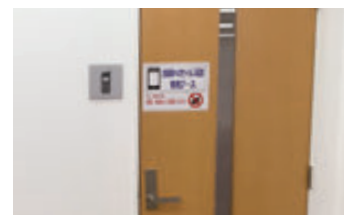
When the Kumamoto Earthquake occurred in 2016, we launched a Risk Management Committee based on the BCP and the following day staff worked from Kumamoto PARCO to respond and quickly recommence operations. Thereafter, support was provided on a continuing basis, and this included holding charity events, collaborating with Kumamoto artists, and working to enliven the community. In addition, we held training closely geared to issues involved in recommencing operations based on drills derived from experiences in the Kumamoto Earthquake and on the actual schedule used to recommence operations at Kumamoto PARCO.



BCP training

Improving Tenant Work Environment

We continue to improve the working environment for tenant staff to allow them to focus even more on customer service and thereby raise the efficiency of their working hours. At Sendai PARCO2, we set up a dedicated phone booth in the employee break room for a quiet place to make customer calls. In addition, a staff-only convenience store was established at Nagoya PARCO to enable employees to utilize their break times even more effectively.



Dedicated phone booth for customer calls at Sendai PARCO2

Environmental Initiatives

We recognize the importance of our relationship with the global environment in shopping center operations and other related activities, and out of this recognition we promote environmental conservation activities to help pass on a sustainable society to future generations. To this end, PARCO collaborates with tenant partners and other companies with which we do business to create commercial spaces with minimal environmental impact while gaining the understanding of customers and community members.

Promotion of switch-over to LED lighting

Following our efforts to introduce energy-saving lighting, chiefly LED lights, we are lowering not only the levels of heat that our lighting emits, but are also reducing CO₂ emissions. With the exceptions of fluorescent lighting and high-efficiency lighting, we have changed our incandescent lighting in our all stores to LED lighting since fiscal 2012.

In individual shop zones as well, we continue to steadily install LED lighting when shops are remodeled and at other times.



Walkway with LED lighting at Nagoya PARCO

Participation in the light down campaign

On June 22 and July 7, 2016, all PARCO stores participated in the Light Down Campaign, led by the Ministry of the Environment, which calls for reducing CO₂ emissions by turning off lights in buildings.

Held every year on the summer solstice (around June 21) and Cool Earth Day (July 7), PARCO stores cooperate with this environmental initiative by simultaneously turning off rooftop, sign and other lights.



Before (left) and after (right) turning off lights at Chofu PARCO

Promoting recycling and reuse

All PARCO stores are making great efforts in energy conservation through the adoption of cooling with outside air in spring, autumn and winter, the introduction of low-energy-consumption lamps and switch timers and by water conservation through the introduction of automatic water conservation valves, toilet flush sound imitators and water conservation sensors.

We are also pursuing initiatives for drawing underground water from wells and purifying rainwater, miscellaneous wastewater and kitchen wastewater with grey water facilities to reuse as toilet drainage water. At Nagoya PARCO and Urawa PARCO we have adopted co-generation systems, effectively using waste heat from power generation to heat water and in pools.



Grey water facilities for purifying rainwater, miscellaneous wastewater and kitchen wastewater

Promotion of ESG Initiatives

Corporate Governance

Fundamental Policy

PARCO constantly works to strengthen its corporate governance, recognizing that to enhance its corporate value it is essential for it to protect the rights and earnings of shareholders, build smooth relationships with stakeholders other than shareholders and investors, preserve transparency in management and establish an effective management oversight structure. PARCO has adopted the "Company with Three Committees" system, which includes a Nominating Committee, in order to build a highly transparent corporate governance structure. Independent directors (external directors) make up half of the Board of Directors, ensuring the objectivity necessary to supervise management. Furthermore, PARCO has signed a capital partnership agreement with parent company J. FRONT RETAILING. The purpose of this agreement is to respect the autonomy of PARCO, recognizing that the autonomy and creativity of our management and employees is the source of PARCO's corporate value creation efforts.

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

To ensure legal compliance and to conduct fair and highly transparent corporate activities, PARCO has formulated a basic philosophy on compliance and behavioral expectations; it has also drafted compliance regulations, including those stipulating preventive mechanisms, action steps, and corrective procedures regarding legal violations by executive officers and other key personnel. 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, the posting of conduct guidelines in business offices, and distribution to all employees and directors of the PARCO Employee Handbook incorporating guidelines for compliance activities. Also, in consideration of compliancy and risk management, we have set up an internal reporting system to protect persons providing information from any negative consequences that might arise from disclosure.

Refer to the PARCO website for detailed information concerning Corporate Governance.

 www.parco.co.jp/en/about/governance/

Framework for Management Supervision and Execution

CSR Management Structure

PARCO defines CSR activities as "measures taken in the course of business to gain the trust and satisfaction of stakeholders, and enhance corporate value," and to strengthen the foundation for this, it has established a CSR management structure comprised of the CSR Committee, Diversity Committee and Risk Management Committee.

CSR Committee

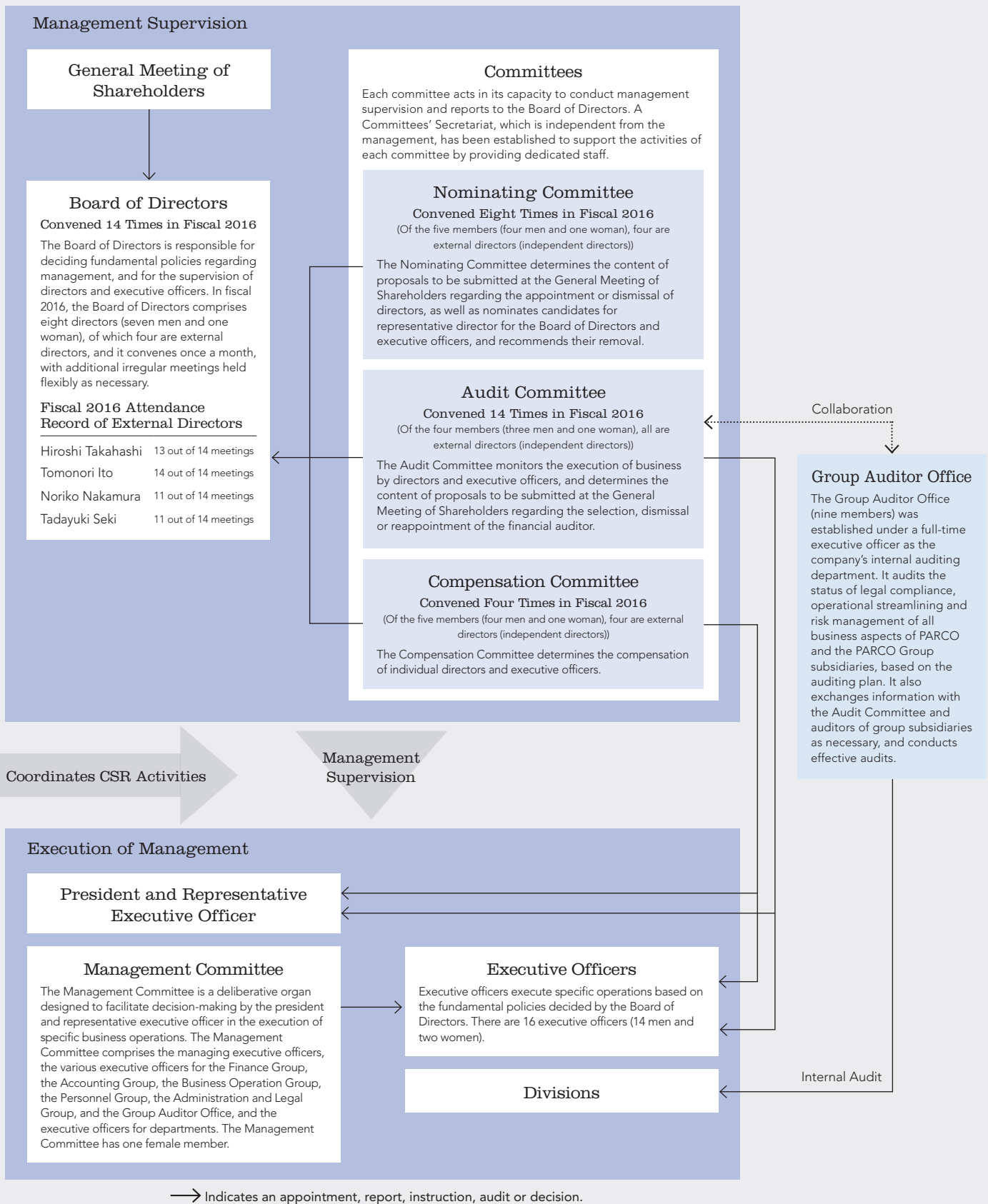
In addition to promoting the PARCO Group's corporate social responsibility (CSR) activities, the CSR Committee was established in an effort to strengthen internal controls, and is chaired alternatively by managing executive officers or the heads of the Corporate Planning Office, the Public Relations and Investor Relations Office, and the Executive Assistants Office. The CSR Committee sets the direction for, plans and implements the CSR activities of the PARCO Group, and takes measures to support external PR, promote in-house information sharing, and encourage cooperation with outside companies and groups around CSR activities. The scope of activity of the CSR Committee spans the entire company, encompassing discussions held with presidents of the Group companies and all executive officers, as well as coordination and engagement with the Diversity Committee, Risk Management Committee, various in-house divisions, and Group companies.

Diversity Committee

Chaired by the president, this committee, in step with our management strategy, is striving to create a corporate culture that can translate diversity into improved corporate value. The launch of these efforts as the PARCO Women's Network back in November 2005 broadened from fiscal 2011 into the Diversity Project, with themes that no longer focused solely on women. From fiscal 2014, these efforts were reorganized into the Diversity Committee to provide a more powerful push forward.

Risk Management Committee

The Risk Management Committee, chaired by a senior executive officer, works in accordance with the risk management regulations to identify risks incurred in the course of corporate activities, assesses risks and develops countermeasures, and conducts internal awareness programs. It also works to put in place an internal control structure across the company that is able to quickly respond to risks as they materialize, including establishing a response headquarters for times of emergency and implementing information management.



Message from the Committee Chair

Audit Committee Chair



Hiroshi Takahashi

External Director
(Independent director)

The Audit Committee consists of four members, all of whom are external directors (independent directors).

The Audit Committee is tasked with monitoring and inspecting the development and operational status of the Company's system of internal controls to ensure corporate soundness and sustainable growth, and to establish a quality corporate governance structure that earns public trust. In so doing, the Audit Committee strives to maintain a system that ensures audit effectiveness.

The Audit Committee audits the actions of executive officers and others in the conscientious, faithful and legally prescribed performance of their duties by receiving reports from the Group Auditor Office, the Independent Auditor, and the external auditors of Group companies, requesting reports from relevant executive officers, and attending weekly meetings of the Management Committee, among other actions.

Through coordination with the Group Auditor Office, the department responsible for internal audits, the Audit Committee not only audits the reliability of our financial reporting and appropriateness of business execution as a corporate group, but strives to propose improvements essential for realizing growth in corporate value through the kind of proactive governance targeted in Japan's Corporate Governance Code.

Nominating Committee Chair



Tomonori Ito

External Director
(Independent director)

The five-person Nominating Committee consists of four external directors (all independent directors) and the President and Representative Executive Officer.

The Nominating Committee is responsible for two key tasks—drafting, as required by law, agenda items for submission to the General Meeting of Shareholders regarding the election or termination of directors; and the proposal, pursuant to Company regulations, of recommendations regarding candidates for, or the termination of, the posts of executive officer and Representative Executive Officer.

Japan's Corporate Governance Code was formulated two years ago and corporate governance in the country has undergone a major transformation in the time since. With companies adopting various governance formats, there has been an increase in companies establishing a nominating committee, some on a voluntary basis. The importance of nominating committees, which evaluate representative executive officers and nominate their successors, is being progressively recognized. PARCO works to operate its Nominating Committee in a manner that contributes to the creation of shareholder value from a long-term standpoint.

Compensation Committee Chair



Noriko Nakamura

External Director
(Independent director)

The five-person Compensation Committee consists of four external directors (all independent directors) and the President and Representative Executive Officer.

The Compensation Committee is tasked with determining compensation for individual directors and executive officers. Under this remit, the Compensation Committee, in accordance with its compensation policies and set regulations and criteria, determines compensation for directors based on the director's specific role, and for executive officers based on rank, role, and an evaluation of corporate performance and individual duty performance.

PARCO recognizes the importance of preserving objectivity and transparency in the decision-making process regarding compensation. Through fair and open decision-making guided by predetermined regulations regarding annual base salary and evaluation rules, we hope to fulfill our obligation to explain our actions to shareholders and other stakeholders, while contributing to improvements in corporate value.

Responding to the Corporate Governance Code

From June 2015, the Tokyo Stock Exchange began application of the Corporate Governance Code, defining the posture expected of publically listed companies. By responding to this code and advancing related initiatives, PARCO is striving for sustainable growth and medium-to-long-term enhancement in corporate value.

In 2016, we formulated our Fundamental Policy for Corporate Governance. This policy formulates our basic way of thinking with regard

to corporate governance. That is, it sets down how PARCO believes corporate governance should best be applied to achieve continual growth and a medium-to-long-term enhancement of corporate value under the PARCO Corporate Mission, which calls for the creation and provision of value in a manner that satisfies our customers, tenants, shareholders, and other stakeholders.

Basic Principle 1

Ensuring shareholder rights and equality

Establish the appropriate responses and environment to effectively ensure shareholder rights. Similarly, effectively ensure shareholder equality.

Our response

Basic approach to Capital Policy

We have released our Long-term Vision and Medium-term Business Plan and clearly indicate qualitative and quantitative targets and investment plans for achieving strategic goals as well as appropriate management indicators, including capital efficiency. We position the return of earnings to shareholders through continual growth and medium-to-long-term enhancement of corporate value as one of our key policies. Regarding

the distribution of earned surpluses, we consider stable distributions to be fundamental and determine the level of these in reference to our earnings performance and dividend payout ratio. As for retained earnings, we strive to utilize them effectively to support business advancement into the future in line with our growth strategy, in addition to assuring an adequate financial foundation.

Strategic shareholdings

Shareholding policy

Our basic policy is not to hold strategic shareholdings on principle. However, we may maintain such shareholdings in cases where we determine that doing so would contribute to medium-to-long-term growth in corporate value by maintaining and strengthening business relationships or maintaining and developing operational alliances.

Standards for the execution of voting rights

We will decide whether to exercise those rights based on an overall consideration of whether doing so would contribute to an increase in the corporate value of our company and of the company in which we are invested.

Related-party transactions

We conduct a survey of all officers of our company and our subsidiaries to ascertain the presence or absence of related-party transactions. We also have a system for the appropriate management of related-party transactions, with reports of the situation regarding transactions between our company and our officers, our major shareholders or other such

parties to be made to the Board of Directors. Transactions between our company and our directors or executive officers that may entail a conflict of interests are to require the approval of the Board of Directors based on relevant laws and PARCO's regulations for directors.

Basic Principle 2

Appropriate collaboration with stakeholders other than shareholders

We fully recognize that sustainable growth and the creation of corporate value over the medium and long term is the end-result of the provision of resources by and contributions from our stakeholders, and thus strive for appropriate collaboration.

Our response

Promoting and ensuring diversity within the organization, including encouraging the active involvement of women

We have established a Diversity Committee to promote diversity initiatives across the PARCO Group. The Committee will carry out initiatives aimed at cultivating a corporate culture characterized by tolerance and openness to new ideas, in which people of diverse views, talents, capabilities, and cultures can work to their full potential. We regard ensuring the active involvement of women within the organization as an important

issue and strive to assure full female representation in our selection of leaders and managerial candidates. The Committee will promote other cross-organization initiatives including discussion sessions with PARCO Group Presidents and executive officers, and collaboration among group companies and PARCO internal departments.

Appropriate information disclosure and ensuring transparency

In addition to financial information, we appropriately disclose non-financial information, including management strategies and issues, and information regarding risk and governance, based on relevant laws and regulations.

Our response

Approach to information disclosure

PARCO strives to present all our stakeholders, including shareholders and investors, with timely information that is fundamentally transparent, balanced and consistent. As well as increasing management transparency, PARCO endeavors to build trusting relationships with all stakeholders and promote a deeper understanding of the company through the

timely disclosure of relevant information. In order to provide appropriate information to stakeholders, beginning with shareholders and investors, we disclose information such as our Corporate Mission, Medium-term Business Plan, Fundamental Policy for Corporate Governance, and officer appointments, dismissals, and compensation.

Policy for determining officer compensation and related procedures

Under our Nominating Committee managerial structure, PARCO has a Compensation Committee that sets standards for compensation and determines the compensation of individual directors and executive officers in a fair and impartial manner based on assessment of roles, responsibilities and work results.

Standards for determining director and executive officer compensation

Compensation Committee standards for director and executive officer compensation will be set and administered as below.

- (1) The director annual salary will take the form of fixed compensation and, depending on the role, comprise of a basic annual salary, a Committee chairman annual salary and/or a Committee member annual salary.
- (2) The executive officer annual salary will take the form of fixed compensation and, depending on the role/position, comprise of a basic annual salary, performance pay (based on company performance and personal performance) and, depending on the role, remuneration for the purpose of acquiring company stock.
- (3) The ratio of executive officer basic annual salary, performance pay (standard), and remuneration for the purpose of acquiring company stock is to be 50% : 45% (equivalent value) : 5% (equivalent value).
- (4) The executive officer basic annual salary is to be based on that person's role/position for the current term.
- (5) The executive officer performance reward is to be determined by distributing a payment pool, linked to company earnings for the previous term, among directors based on personal performance (0-200% allocation ratio).
- (6) The executive officer remuneration for the purpose of acquiring company stock is to be based on that person's role/position for the current term.
- (7) As for executive officers who also serve as directors, payment is calculated by adding executive officer annual compensation to director annual compensation.

Compensation for Directors and Other Officers in Fiscal 2016

Category	Individuals Paid (Name)	Amount Paid (Millions of yen)
Directors (excluding external directors)	4	22
External directors	7	34
Executive officers	15	390
Total	26	446

*The above figures include compensation for one external director who left office as of PARCO's 77th Ordinary General Meeting of Shareholders held on May 28, 2016.

*Compensation for external directors includes compensation for the external director indicated in the note above and the two external directors currently in office.

Policy and procedures for selection of directors and other officers

PARCO is a company with a Nominating Committee-type managerial structure. Under this structure, the Nominating Committee decides criteria for the selection of directors and other officers, selects candidates deemed suitable for the roles of director, representative executive officer, and executive officer, adds these candidates to the agenda for the

General Meeting of Shareholders, and decides which candidates will be recommended to the Board of Directors for appointment. Criteria for the selection of directors and other officers are outlined in the Fundamental Policy for Corporate Governance.

Reasons for Selection of Directors and External Directors

Name	Reason for selection
Kouzou Makiyama	After many years of involvement with the Store Management Division, Mr. Makiyama was appointed President and Representative Executive Officer of PARCO in May 2011. In addition to a wealth of experience related to PARCO operations as a whole, since May 2008, Mr. Makiyama has actively contributed to deliberations and discussions as a member of PARCO's Board of Directors. This experience to date, as well as the management supervision and check functions based on actual performance he is expected to embody, is the reason for his nomination for Director.
Hidekazu Hirano	Mr. Hirano was involved for many years in the Store Management Division and Corporate Operations Division. From March 2008, he served as President and Representative Executive Officer, and was appointed Senior Executive Officer from May 2011. In addition to a wealth of experience related to PARCO operations as a whole, since May 2008, Mr. Hirano has actively contributed to deliberations and discussions as a member of PARCO's Board of Directors. This experience to date, as well as the management supervision and check functions based on actual performance he is expected to embody, is the reason for his nomination for Director.
Hiroshi Takahashi	Mr. Takahashi is a Certified Public Accountant (formerly Senior Partner with Ernst & Young ShinNihon LLC) and President and CEO for Pronet Inc. The management supervision and check functions he is expected to embody based on specialized knowledge, experience and insight into finance and accounting cultivated through this professional background is the reason for his nomination for External Director.
Yasuyuki Kobayashi	Through his service as Representative Director and Senior Managing Executive Officer of J. FRONT RETAILING Co., Ltd., Mr. Kobayashi has a wealth of experience, achievements and insight regarding management and the retail business. The valuable advice he is expected to offer by leveraging his experience in corporate management to facilitate the smooth and proper execution of operations in PARCO businesses by Executive Officers is the reason for his nomination for Director.
Tomonori Ito	Mr. Ito is a Professor at Hitotsubashi University's Graduate School of International Corporate Strategy. The management supervision and check functions he is expected to embody based on knowledge, experience and insight into finance and accounting cultivated through a rich career in and outside of Japan and his professional background is the reason for his nomination for External Director.
Haruyoshi Fujino	Through his service as Director and Managing Executive Officer of J. FRONT RETAILING Co., Ltd., Mr. Fujino has a wealth of experience, achievements and insight regarding management and the retail business. The valuable advice he is expected to offer by leveraging his experience in corporate management to facilitate the smooth and proper execution of operations in PARCO businesses by Executive Officers is the reason for his nomination for Director.
Noriko Nakamura	Ms. Nakamura has been CEO of Poppins Holdings Co., Ltd. and Poppins Corporation, and Management Advisory Board Member of Nikkei Inc. The management supervision and check functions she is expected to embody based on knowledge, experience and insight from a global perspective cultivated as a manager through this professional background is the reason for her nomination for External Director.
Tadayuki Seki	Mr. Seki was involved for many years in the management of ITOCHU Corporation. The management supervision and check functions he is expected to embody based on knowledge, experience and insight from a global perspective cultivated as a manager through this professional background is the reason for his nomination for External Director.

Responsibilities of the Board of Directors

The role and responsibilities of the Board of Directors is to accelerate the Company's sustainable growth and enhance its medium-to-long-term corporate value and strive for improving the Company's performance, such as earnings and capital efficiency.

Our response

Scope of responsibility over the managerial team

PARCO utilizes a Nominating Committee type of managerial structure. Under this structure and as a general principle, the Board of Directors delegates authority to executive officers, retaining for itself only those powers stipulated by regulations and our Articles of Incorporation, and instead concerns itself with the supervision of executive duties. This notwithstanding, the Board of Directors is to itself resolve matters that it deems necessary to be addressed by the Board.

Effective utilization of independent (external) directors

To assure objectivity regarding company management, four of the eight members of the Board of Directors are independent (external) directors. By bringing in the views of external directors and the diverse range of knowledge and experience that they possess to the Board, we seek to enhance managerial transparency and the effectiveness of executional oversight. External directors are to satisfy the independent standards of the Tokyo Stock Exchange, as well as those of our company, and serve a member or chairman of the Nominating Committee, Audit Committee or Compensation Committee.

Furthermore, meetings of these committees may be held with only external directors in attendance when necessary, such as when assessing the performance of the President and Representative Executive Officer. We do not appoint a senior independent director. However, the Chairman of the Audit Committee works together with the management team by, for example, attending Management Committee meetings in an observer status. Chairmen of the other Committees also work closely with management.

Standards and criteria for determining independent (external) directors' independence

Our company will formulate a set of standards for determining the independence of candidates for independent (external) director based on the independence standards of the Tokyo Stock Exchange and the Japan Association of Corporate Directors.

Standards for Determining the Independence of Independent (External) Directors

Independent (external) directors are to be selected from among people with a high degree of independence and with no conflicts of interest vis-à-vis our company or general shareholders. A director will not be deemed independent if he or she falls under any of the following categories or descriptions:

- (1) A person who executes the operations of PARCO Group (either currently or at any time over the past 10 years)
- (2) An employee of the parent company or one of its subsidiaries. This restriction also applies to executive officers, as do restrictions (3) to (8) below.
- (3) A major shareholder of PARCO Group
- (4) A major contract business partner of PARCO Group
- (5) A major lender to PARCO Group
- (6) A law firm, an auditing firm, or other consultant, etc., that has received payment exceeding a certain amount from PARCO Group as something other than executive compensation
- (7) A beneficiary of funds from PARCO Group exceeding a certain amount
- (8) An employee of a company with which PARCO Group has reciprocal appointments to the Board of Directors
- (9) A person to whom any of restrictions (2) through (8) has applied over the past 5 years
- (10) A person whose spouse or close relative (up through the second degree of kinship) falls under any of restrictions (1) through (9) above.

"A person who executes the operations of PARCO Group" above, refers to executive directors, executive officers, or other key personnel. "Major shareholder" refers to a shareholder who holds a 10% or higher share of voting rights. "Major contract business partner" refers to a contract business partner who, in any fiscal year over the past five years, has, in transactions with PARCO Group, accounted for at least 2% of our annual consolidated revenues or at least 2% of that partner's annual revenues. "Major lender to PARCO Group" refers to a company that ranks among the top three in terms of the value of borrowings by PARCO within the most recent business year. "Certain amount" refers to "¥10 million annually in any fiscal year over the past five years."

Also, any person who currently serves as an independent (external) director at our company may not be reappointed as an independent (external) director if that person has served in that capacity for a total of more than six years.

Approach to Board of Directors' balance of knowledge, experience and abilities, and its diversity and size

Based on officer appointment standards established by the Nominating Committee, the Board of Directors is comprised of diverse directors with differing backgrounds in terms of expertise, experience and other factors, and four of the eight directors are independent (external) directors. An appropriate number of directors is maintained for the board's efficient and effective functioning.

Concurrent positions of directors at other organizations

The duties of directors are based on rules concerning the roles of directors, and concurrent positions at other organizations are allowed provided such appointments do not hinder execution of duties. The main concurrent positions of directors are disclosed in the Notice on the Convocation of the Ordinary General Meeting of Shareholders.

Analyzing and assessing overall effectiveness of the Board of Directors

To improve the effectiveness of the Board of Directors, from December 2016 to January 2017, PARCO conducted an effectiveness evaluation of its Board of Directors and each Board member. Evaluation results were shared at the Board of Directors, and substantive discussions conducted. We will continue these annual assessments given our view that repeated assessment, analysis, debate, and reform can lead to favorable changes in the Board and enhance its effectiveness.

(i) Evaluation process

The Committees Secretariat and the Board Secretariat (Corporate Planning Office) conduct questionnaires and hearings with all Board members on an individual basis to evaluate the Board's effectiveness.

(ii) Evaluation points

Evaluation is conducted on the current status of issues such as the current composition of the Board of Directors, the status of debate, agenda topics, and the operations and support structure, as well as on improvements made to these issues since the previous fiscal year's evaluation, and opinions are collected on how to enhance the Board's effectiveness going forward.

(iii) Results of effectiveness evaluation and subsequent points for improvement

1. Composition of the Board of Directors

Although a certain level was achieved in the overall evaluation amid a partial change in external directors, in several evaluations, the opinion emerged that external directors lack information vital to fulfilling their roles, particularly information regarding the thought process of executive officers and the status of their duties. Accordingly, we will increase the opportunities for reports from each executive officer and communication between directors and individual executive officers. Increasing opportunities for such communication will also lead to an effective succession plan.

2. Status of debate and agenda topics

In fiscal 2016, selection of agenda items for substantive discussion and debate received a positive evaluation as a result of efforts to select items of greater strategic importance and schedule the agenda more expeditiously, but deliberation proceedings for higher quality debate and securing time for committee meetings remain issues, and some opinions indicated the need to clarify debate points and ensure an adequate response structure, so we will move to adopt a structure for further enhancing pre-briefings and facilitating more precise responses to questions. In addition, regarding debate points of particular importance, feedback suggested the need to continue discussions on the matter, so in fiscal 2017 as well, agenda items for the Board of Directors will be set in advance for strategic discussion and scheduling expedited.

3. Operations and support structure

Although a certain level was achieved in the evaluations of pre-briefing and information provision, several opinions suggested the need for more time for meetings in order to fully debate the issues. We are therefore moving forward the start times of meetings and will work to improve the quality of agenda item briefing materials.

Officer training policy

Upon assuming office, newly appointed executive officers, including internal directors, are given explanations of the duties, obligations and responsibilities of executive officers and/or directors, contractual arrangements between them and the company, related rules and regulations, and so on. Also, compliance training and the like are to be held after assuming office. Newly appointed external directors are, upon assuming office, given explanations on subjects

such as our company, Corporate Mission, management situation, matters relating to corporate governance, and related rules and regulations. After assuming office, there will be ongoing measures aimed at deepening their understanding of our company, such as explanations and store observations focusing on subjects such as our business operations, managerial environment, and trends within the retail industry.

Basic Principle 5

Dialogue with shareholders

We strive for mutual understanding through constructive dialogue with shareholders, who contribute to our sustainable growth and medium-to-long-term enhancement of our corporate value.

Our response

Policy regarding constructive dialogue with shareholders

Shareholder dialogue is handled by the executive officers of departments responsible for investor relations. Requests for constructive dialogue submitted by a shareholder or investor are first examined to surmise their basic outline and intent and then handled by either the President and Representative Executive Officer, the Executive Officer of the relevant department, or an external director. The departments responsible for investor relations are to coordinate closely with relevant internal departments in their approach to shareholder dialogue.

We conduct IR activities in a manner that builds smooth relationships with investors, including our shareholders; promotes active dialogue and, by extension, mutual understanding; and contributes to a medium-to-long-term increase in corporate value. We also strive to maintain a good understanding of our shareholder base by conducting periodic surveys twice annually. In addition, we arrange and schedule interviews with external directors as necessary.

Twice annually, our company holds periodic financial results briefings for analysts and institutional investors, and also separate explanatory briefings to discuss business progress. Explanatory materials, videos, and other materials for our financial results briefings are posted on our website in both Japanese

and English. For individual investors, we provide information with a particular emphasis on promptness and usefulness.

From fiscal 2015, we will also create comprehensive annual reports as a tool for constructive dialogue.

Views, opinions, and questions obtained through investor dialogue are fed back as appropriate to the management team. We also compile the results of our financial results briefings and report these to the Board of Directors.

We work to prevent insider transactions by officers and employees by providing PARCO Group Regulations for the Control of Insider Trading and Regulations for the Prevention of Insider Trading which set out rules for the management of insider information pertaining to our company and its subsidiaries, and for the handling of stock, including buying and selling, of our company and subsidiaries. In fiscal 2015, we revised our disclosure policy, which contains sections on basic policy on information disclosure, information disclosure standards, information disclosure methods, improving information disclosure, silent periods, and concerning forecasts. We have posted this revised policy on our website and strive to disclose information in a manner that is fundamentally transparent, balanced and consistent.

Activities in Fiscal 2016

Measures for individual investors	Regarding IR activities for individual investors, a briefing was held in Sapporo in November 2016, and the quantity of IR-related information was increased for greater responsiveness to investor needs. We also continue to send out twice monthly IR newsletters and provide information over social networking services.
Measures for analysts and institutional investors	Earnings briefings are held twice a year for analysts and institutional investors and both are run by the President and Representative Executive Officer. (148 people attended in April 2016 and 141 in October.) Small meetings to explain earnings results were also held twice during the year on the days results were announced. Moreover, individual meetings were held 37 times and small meetings (with a total of 33 people) seven times by managing executive officers.
Measures for overseas investors	Individual meetings with overseas investors were held ten times. We also strengthened our approach by providing English translations of earnings presentations and videos on the same day as results announcements to enhance the information provided and its timeliness.

Board of Directors and Officers (As of May 31, 2017)

Directors



Kouzou Makiyama

Director, Chairman of the Board, President and Representative Executive Officer

1981 Enters PARCO CO., LTD.
2004 Serves as Executive Officer
2007 Serves as Managing Executive Officer
2008 Serves as Director and Senior Executive Officer
2011 Serves as Director, President and Representative Executive Officer
2013 Serves as Director, Chairman of the Board, President and Representative Executive Officer (current post)
Serves as Director for J. FRONT RETAILING Co., Ltd.
2017 Serves as Director and Managing Executive Officer for J. FRONT RETAILING Co., Ltd. (current post)



Hidekazu Hirano

Director, Senior Executive Officer for the Related Businesses Division and the Related Businesses Department

1981 Enters PARCO CO., LTD.
2004 Serves as Executive Officer
2007 Serves as Managing Executive Officer
2008 Serves as Director, Chairman of the Board, President and Representative Executive Officer
2011 Serves as Senior Executive Officer
2013 Serves as Director and Senior Executive Officer (current post)



Hiroshi Takahashi

External Director
(Independent director)
Audit Committee Chair

1973 Enters Huso Audit Corporation
1986 Serves as Partner for Shinko Audit Corporation
1995 Serves as Representative Partner for Chuo Audit Corporation
2007 Serves as Representative Partner and Regular Officer responsible for business development in the Marketing Department for Shin Nihon Audit Corporation (currently Ernst & Young ShinNihon LLC.)
2009 Serves as Regular Officer of the Business Development Office, Audit Supervision Division, Client Service Department for the company above
2010 Serves as Manager of the Business Development Office, Audit Operation Department for the company above
2011 Serves as External Director for PARCO CO., LTD. (current post)
Serves as President & CEO for Pronet Inc. (current post)
2012 Serves as External Director for Sansei Landic Co., Ltd. (current post)
2015 Serves as External Director for General Oyster, Inc.
2017 Serves as External Vice President for eSOL Co., LTD. (current post)



Yasuyuki Kobayashi

Director

1973 Enters The Daimaru, Inc. (currently Daimaru Matsuzakaya Department Stores Co. Ltd.)
2003 Serves as Director and Executive Officer for the company above
2007 Serves as Executive Officer for J. FRONT RETAILING Co., Ltd.
2008 Serves as Director and Executive Officer for The Daimaru, Inc.
2010 Serves as Director and Executive Officer for Daimaru Matsuzakaya Department Stores Co., Ltd.
Serves as Director and Managing Executive Officer for Daimaru Matsuzakaya Department Stores Co., Ltd.
2012 Serves as External Director for PARCO CO., LTD.
2013 Serves as Director and Managing Executive Officer for J. FRONT RETAILING Co., Ltd.
2015 Serves as Director and Senior Managing Executive Officer for J. FRONT RETAILING Co., Ltd.
2016 Serves as Representative Director and Senior Managing Executive Officer for J. FRONT RETAILING Co., Ltd.
Serves as Director for PARCO CO., LTD. (current post)
2017 Serves as Director and Chair of the Board of Directors for J. FRONT RETAILING Co., Ltd. (current post)



Tomonori Ito

External Director
(Independent director)
Nominating Committee Chair

1979 Enters The Bank of Tokyo, Ltd. (currently The Bank of Tokyo-Mitsubishi UFJ, Ltd.)
1990 Serves as Investment Banking Group Vice President for the New York Branch of the bank's trust company
1995 Enters Tokyo Branch of Union Bank of Switzerland (currently UBS-AG)
1997 Serves as Tokyo Branch Manager and Investment Banking Unit Manager for the bank above
1998 Serves as General Manager, Japan Investment Banking Division, Managing Director for UBS Securities Japan Co., Ltd.
2011 Serves as Visiting Professor at Hitotsubashi University's Graduate School of International Corporate Strategy
2012 Serves as External Director for PARCO CO., LTD. (current post)
Serves as Professor at Hitotsubashi University's Graduate School of International Corporate Strategy (current post)
2014 Serves as External Director for Aozora Bank, Ltd. (current post)
2016 Serves as External Director for Electric Power Development Co., Ltd. (current post)



Haruyoshi Fujino

Director

1983 Enters The Daimaru, Inc. (currently Daimaru Matsuzakaya Department Stores Co. Ltd.)
2010 Serves as Executive Officer for Daimaru Matsuzakaya Department Stores Co., Ltd.
2014 Serves as Executive Officer for J. FRONT RETAILING Co., Ltd.
Serves as Director and Managing Executive Officer for J. FRONT RETAILING Co., Ltd.
Serves as External Director for PARCO CO., LTD.
2016 Serves as Director for PARCO CO., LTD. (current post)
2017 Serves as Director and Managing Executive Officer for J. FRONT RETAILING Co., Ltd. (current post)



Noriko Nakamura

External Director
(Independent director)
Compensation Committee Chair

1973 Enters TV Asahi Corporation
1985 Serves as Representative for Japan Association for Female Executives (current post)
1987 Serves as Representative Director for JAFE Service Co., Ltd. (currently Poppins Corporation)
1989 Serves as Vice Chairman for All-Japan Babysitter Association
2001 Serves as Member of Council for Promoting Women's Success, Ministry of Health, Labour and Welfare
2003 Serves as Special Member of Special Zones for Structural Reform Evaluation Committee, Cabinet Secretariat
2011 Serves as CEO for Poppins Corporation (current post)
2014 Serves as External Director for PARCO CO., LTD. (current post)
2016 Serves as Management Advisory Board Member, Nikkei Inc. (current post)
Serves as Chief Executive Officer, Poppins Holdings Co., Ltd. (current post)



Tadayuki Seki

External Director
(Independent director)

1973 Enters ITOCHU Corporation
1998 Serves as General Manager of Finance Division for ITOCHU International Inc. (Stationed in New York)
2004 Serves as Executive Officer and CFO of Food Company for ITOCHU Corporation
2005 Serves as Executive Officer, General Manager of Finance Division and CFO Office for ITOCHU Corporation
2007 Serves as Managing Executive Officer, General Manager of Finance Division for ITOCHU Corporation
2009 Serves as Representative Director, Managing Director, Chief Officer of Finance, Accounting, Risk Management and CFO for ITOCHU Corporation
2010 Serves as Representative Director and Senior Managing Executive Officer for ITOCHU Corporation
2011 Serves as Representative Director, Senior Managing Executive Officer and CFO for ITOCHU Corporation
2013 Serves as Representative Director, Executive Vice President and CFO for ITOCHU Corporation
2014 Serves as Representative Director, Executive Vice President, Executive Advisory Officer and CFO & CAO for ITOCHU Corporation
2015 Serves as Adviser for ITOCHU Corporation
2016 Serves as External Director for PARCO CO., LTD. (current post)
Serves as External Director for NIPPON VALQUA INDUSTRIES, LTD. (current post)

Executive Officers

Masaaki Abe

Managing Executive Officer for the Corporate Planning Office, the Public Relations and Investor Relations Office, and Executive Assistants' Office

Takashi Sensui

Managing Executive Officer for the New Business Planning Division, the Ueno New South Building Planning Office and the New Business Planning Department

Tomoyuki Yamaki

Managing Executive Officer for the PARCO Complex Division and the Urban Complex Group Department

Yuji Hirai

Executive Officer for the Development Department, the Architectural Department, and the Estate Management Department

Kazuko Hamada

Executive Officer for the Group Audit Office

Shigeyoshi Sato

Executive Officer for the Overseas Business Department

Hideki Noguchi

Executive Officer for the Finance Department, the Accounting Department, and the Accounting Coordination Department

Hajime Inoue

Executive Officer for the Entertainment Department

Gaku Mizoguchi

Executive Officer for the ZERO GATE Business Department and the Business Development Department

Chiaki Nakano

Executive Officer for the Store Management Department

Masao Tominaga

Executive Officer for the Personnel Department and Administration and Legal Department

Takashi Kashimoto

Executive Officer for the Shibuya Project

Naotaka Hayashi

Executive Officer for the Group ICT Strategy Office

Masaki Utsunomiya

Executive Officer for the Community Complex Group Department

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For long-term numerical data and graph data, please refer to the PARCO website and FACTBOOK 2017.

Investor Relations

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

FACTBOOK 2017

http://www.parco.co.jp/pdf/en/library/file170406k_7w1Dkfm2.pdf

Management's Discussion and Analysis

Current Situation

In fiscal 2016, ended February 28, 2017, the Japanese economy recovered at a moderate pace, supported by improving employment and income conditions, despite rising uncertainty in overseas economies and the impact of fluctuations in financial markets. The domestic consumption environment continued to lack momentum amid sluggish consumer sentiment and changing trends in inbound demand.

Evaluating Fiscal 2016 Results

Overview

Under the market environment described above, the PARCO Group pushed ahead with business development in line with the final-year goals of its Medium-term Business Plan (fiscal 2014-16).

In fiscal 2016, we expanded our business locations in urban markets. In July 2016, we opened Sendai PARCO2 to offer new urban lifestyle ideas to shoppers in Sendai, and in September we opened Hiroshima ZERO GATE2 to promote new fashion trends in the area around our main Hiroshima PARCO store. Meanwhile, Shibuya PARCO was closed temporarily in August 2016 for redevelopment and Chiba PARCO was closed permanently in November.

At existing PARCO stores, we carried out refurbishment work to address changes in consumer lifestyles and inbound demand and to expand our target customer segment. We also implemented customer relationship management (CRM) initiatives tied in with

PARCO Card and POCKET PARCO, our official smartphone app launched in the previous fiscal year.

As a result, the PARCO Group's net sales declined 2.9%, or ¥7,984 million, to ¥268,373 million. Gross profit was down 3.6%, or ¥1,520 million, to ¥40,443 million. The gross profit ratio was 15.1%, down 0.1 of a percentage point year on year.

Selling, general and administrative expenses declined 3.7%, or ¥1,249 million, to ¥32,633 million. The ratio of SG&A expenses to net sales declined 0.1 of a percentage point, to 12.2%.

Operating income increased 0.3%, or ¥40 million, to ¥12,812 million, a record high for the fifth consecutive year. The operating margin was 4.8%, up 0.2 of a percentage point from the previous fiscal year.

In other income (expenses), the Company booked net other expenses of ¥982 million, mainly reflecting loss on closing of stores due to the permanent closure of Otsu PARCO, which outweighed gain on sales of non-current assets.

As a result of the above, profit attributable to owners of parent increased 24.1%, or ¥1,463 million year on year, to ¥7,525 million, a record high for the Group.

Basic earnings per share was ¥74.17, while return on equity (ROE) increased 1.0 percentage point to 6.3%.

In line with our policy of maintaining stable shareholder returns, the Company paid a year-end dividend of ¥12 per share for fiscal 2016, giving a total cash dividend applicable to the year of ¥23 per share, an increase of ¥3 per share compared with the previous fiscal year.

Segment Performances

■ Shopping Complex Business

Shopping Complex Business sales were ¥239,447 million, down 3.5%. Operating income rose 1.6% to ¥11,738 million.

At PARCO's 18 complexes across Japan, we stepped up our strategy of developing two different types of shopping facilities - Urban Complexes and Community Complexes - by implementing initiatives tailored to each complex.

In store renovations, we focused on adjusting tenant composition to address changing consumer lifestyles, such as growth in the consumption of "value" rather than "things," and to capture inbound demand. Based on those themes, we renovated a total of roughly 55,000m² of floor space across all our stores, excluding Shibuya PARCO, which was temporarily closed in August 2016 for redevelopment, and Chiba PARCO, which was permanently closed in November. Newly refurbished areas achieved a combined increase in sales of 12.7% year on year.

In CRM initiatives, we worked to create a more advanced customer base by rolling out individually targeted sales promotions. With PARCO Card, we stepped up efforts to attract new card members and conducted reward campaigns for existing members to encourage more store visits. Also, by implementing joint CRM initiatives with our POCKET PARCO app, which was upgraded in March 2016, we increased the number of active PARCO Card members with the app and boosted sales among Class S PARCO Card members, our top customers with strong loyalty to the brand. As a result, PARCO Card transaction volume at existing stores increased 1.3% year on year.

Also, we ran a number of popular promotional events that attracted wide attention and helped lift the number of visitors to our stores. Events included "THE TOMATO PROJECT 25TH ANNIVERSARY EXHIBITION 'O'", an exhibition spread across Shibuya PARCO to mark the 25th anniversary of global design collective TOMATO, and Gunpla EXPOs held at various PARCO stores.

Also, as part of efforts to address the growing number of overseas visitors to Japan, we upgraded the shopping environment, including adding more shops that handle tax-free transactions and China Union Pay credit cards, and enhanced communication using media aimed at overseas visitors.

In addition to POCKET PARCO mentioned above, we implemented various ICT initiatives, such as strengthening systems to support the operation of the Kaeru PARCO service, which allows customers to reserve and purchase merchandise from PARCO shops online, and the installation of proprietary IT systems that enable us to offer online shopping reward services for PARCO Card members.

In store development, we formed a joint venture in December 2016 with SAN-A CO., LTD. to operate a new commercial facility in Okinawa Prefecture. The joint venture, SAN-A PARCO, Inc., has started the project planning phase and aims to open the new facility in 2019.

In new businesses, our BOOSTER crowd-funding business, which aims to support the development of new talent, accelerated efforts to form new business incubation projects, such as identifying new creative talent and supporting the creation of local businesses, securing funding roughly double the amount in the previous fiscal year.

In overseas businesses, the entertainment business teamed up with THE GUEST cafe & diner to open the popular Pokémon cafe in a Singapore commercial facility for a limited time, with the cafe registering strong sales and customer numbers. We also opened the "itadakimasu by PARCO" Japanese restaurant zone in a Singapore commercial facility from December 2016.

■ Retail Business

Retail Business sales were ¥21,640 million, up 0.8%. Operating income fell 37.3% to ¥435 million.

Sales increased year on year at NEUVE A CO., LTD. after the company opened more stores in the previous fiscal year. However, operating income declined due to weaker sales at existing stores and an increase in store opening costs. As of the end of fiscal 2016, the company operated a total of 201 stores.

■ Space Engineering and Management Business

Space Engineering and Management Business sales were ¥20,242 million, up 1.4%. Operating income was up 45.2% to ¥629 million.

PARCO SPACE SYSTEMS CO., LTD. reported higher sales and operating income compared with the previous fiscal year, supported by an increase in store fit-out orders and changes to contract terms that lifted the gross profit ratio.

■ Other Business

The Other Business reported sales of ¥6,774 million, down 1.1%, and operating income of ¥58 million, down 55.9% from the previous fiscal year.

PARCO CO. LTD.'s entertainment business successfully produced a number of popular plays, including Shuji Terayama's "La Marie-Vison", produced by and starring Akihiro Miwa, and "Cabaret," produced by Suzuki Matsuo and starring Masami Nagasawa. The content business also performed well due to investment in hit Japanese movie "TOO YOUNG TO DIE!" and new store openings for popular character-themed cafes. However, sales and operating income both declined year on year, reflecting a drop in the number of locations due to the temporary closure of Shibuya PARCO.

PARCO-CITY CO., LTD.'s website consulting business saw an increase in orders for external support systems for shopping center operations, leading to higher sales and operating income compared with the previous fiscal year.

Financial Position

Assets

Total assets at the end of fiscal 2016 were ¥250,323 million, up ¥14,007 million.

Total current assets were ¥35,048 million, an increase of ¥11,153 million. That primarily reflected an increase of ¥6,406 million in real estate for sale in process, which was related to the redevelopment of Shibuya PARCO.

Investments and other assets declined ¥2,288 million, to ¥27,679 million. The main factor was a ¥1,299 million drop in deferred tax assets.

Property and equipment was ¥187,595 million, an increase of ¥5,142 million, mainly reflecting the opening of Sendai PARCO2.

Total asset turnover was 1.10 times, while return on assets (ROA) was 5.4%.

Liabilities

Total liabilities were ¥128,284 million, up ¥8,443 million from the close of the previous fiscal year.

Current liabilities were ¥53,126 million, up ¥2,393 million. This was largely due to an increase of ¥10,261 million in short-term loans payable offsetting a decrease of ¥9,299 million in commercial papers.

Non-current liabilities were ¥75,158 million, up ¥6,050 million. This was due largely to an increase of ¥2,620 million in long-term loans payable.

Interest-bearing debt was ¥58,099 million, up ¥3,581 million. The debt-equity ratio was 0.48.

Net Assets

Net assets at the end of the fiscal year were ¥122,039 million, up ¥5,564 million from a year earlier. This mainly reflected an increase in retained earnings due to an increase in profit attributable to owners of parent. The equity ratio was thus 48.8%, while the net asset value per share was ¥1,202.85.

Cash Flows

Net cash provided by operating activities was ¥12,901 million, down from ¥14,652 million a year earlier. This was after adjustments to ¥11,829 million in profit before income taxes for noncash items such as depreciation, extraordinary income (loss), and increase (decrease) in inventories, as well as proceeds from compensation related to the redevelopment of Shibuya PARCO.

Net cash used in investing activities was ¥10,098 million, compared with net cash used of ¥19,325 million in the previous fiscal year. The main use of cash was for the purchase of property, plant and equipment related to the opening of Sendai PARCO2 and the redevelopment of Shibuya PARCO.

Net cash provided by financing activities was ¥1,118 million, compared with net cash provided of ¥7,203 million in the previous fiscal year. That mainly reflected proceeds from long-term loans payable.

Capital Investment

Capital investment declined ¥4,763 million, to ¥18,723 million, and included tangible fixed assets, intangible fixed assets, long-term prepaid expenses, and lease and guarantee deposits.

Depreciation declined ¥861 million, to ¥5,377 million.

Fiscal 2017 Initiatives

In fiscal 2014, we formulated a long-term vision for the Group, aiming to transform PARCO into a “business group that prospers in urban markets – designers of unique offerings for 24/7 urban life; creative drivers for urban revolution.” Based on that vision, we have developed a new medium-term business plan covering fiscal 2017 to fiscal 2021. The plan has three main business strategies: cultivate major urban areas, expand core targets, and use ICT innovatively.

Outline of the Medium-term Business Plan

PARCO will contribute to city maturity by leveraging the businesses of the entire Group, including the stores business, to meet the diversifying needs of consumers who enjoy urban lifestyles and business owners active in urban areas through the provision of unique PARCO values, such as personal fulfilment, new inspirations, and contentment.

To achieve this, PARCO Group will update its businesses and expand into new business areas to improve existing value provided and realize business portfolio innovation.

< Three tactics for realizing the Medium-term Business Plan >

- Tactic 1: Evolve the store brand
- Tactic 2: Produce commercial real estate
- Tactic 3: Expand soft content

< Four directions for advancing the three tactics >

1. Expand domain to include commercial real estate and soft businesses that leverage PARCO's intrinsic expertise and capabilities
2. Increase operational efficiency through business resource choice and focus – be a compact, high-yield business group.
3. Widen unique value provided to meet the diversifying needs of urban consumers and business owners
4. Develop a corporate culture that expands our purpose in society

In fiscal 2017, the plan's first year, we will lay the foundations for future growth by boosting profitability in the stores business, enhancing our unique ICT content, developing commercial facilities in urban areas, and reinforcing our business base in order to expand the value we provide in urban markets.

Please refer to the Interview with the President on P18 and our website for more details about the Medium-term Business Plan.

<http://www.parco.co.jp/en/ir/plan/>

■ Shopping Complex Business

We will continue to push ahead with our scrap-and-build policy to boost profitability in the stores business. Otsu PARCO is scheduled to close in August 2017, but we plan to open a number of new locations, such as the Matsuzakaya Ueno New South Wing Store, scheduled to open in autumn 2017. We will adjust tenant composition to address diversifying consumer values and growth in the consumption of “value” rather than “things.” We will also enhance our tenant support system centered on proprietary ICT assets, offer new consumer experiences and step up joint CRM initiatives linking our Kaeru PARCO service, POCKET PARCO app, and PARCO Card, aiming to target each customer individually via our store and online channels. In fiscal 2017, we plan to refurbish a total of 44,000m² of retail floor space across our store network. We will actively introduce new retail formats and service formats, based on market growth themes in food (food products and restaurants) and in cosmetics, enabling us to address diversifying consumer values and growth in the consumption of “value,” where the real experiences and feelings of consumers play an important role. The main spring renovation projects are as follows:

Nagoya PARCO

Targeting discerning male and female customers with distinct values, we plan to develop new formats such as leading Japanese brands that pioneer fashion trends, cosmetic stores that are yet to establish a presence in the Nagoya area and ladies’ apparel brands, aiming to enhance the store’s distinctive position in fashion retailing. We will also fully refurbish the store’s restaurant floor, focusing on local produce and ingredients, offering new ways for a wide range of people in different customer segments to spend their time.

Fukuoka PARCO

In the new building, we plan to open an innovative new hostel, the first in commercial facilities, to give customers new ways of spending time in the city. We will also enhance the modern fashion appeal of the new building by launching the area’s first fashion brand. New sports and unisex fashion brand stores will be opened in the main building to attract a broader base of customers.

Urawa PARCO

Ahead of the store’s 10th anniversary in autumn 2017, we plan to open a large lifestyle and homewares store, the first of its kind in the area, aiming to strengthen our ability to address demand from families in the local retail trading area.

In marketing activities, we will upgrade our CRM system, aiming to create individually targeted initiatives by linking PARCO Card and Kaeru PARCO to our POCKET PARCO app. Specifically, we plan to build an integrated data management platform to centrally manage all data related to individual shopping behavior, giving us the ability to roll out optimized communication measures. Our goal is to maximize purchases by each customer to grow PARCO Card and Kaeru PARCO transaction volume.

Also, we plan to harness the latest ICT technology to create new shopping experiences and strengthen the customer service support environment to help tenants boost sales.

In store development in fiscal 2017, we plan to open the Matsuzakaya Ueno New South Wing Store, a joint project with the J. Front Retailing Group (scheduled to open autumn 2017), Kyoto ZERO GATE (tentative name; scheduled to open fiscal 2017), a commercial development in an urban market where we do not have any stores at present, and Harajuku ZERO GATE (tentative name; scheduled to open in winter 2017). Also, we are targeting fiscal 2019 opening dates for the redeveloped Shibuya PARCO and for Urasoe West Coast Development, a new project in Okinawa Prefecture being developed by SAN-A PARCO, Inc.

In new businesses, we will reinforce our business incubation capabilities and content development by creating a joint support framework that links crowd-funding business BOOSTER, directly managed restaurant chain & *éclé* in the restaurant business, directly managed MEETSCAL Stores, which sell a range of in-house curated products, and the PARCO Stores business.

In overseas businesses, we plan to strengthen our ability to promote the Group’s content in overseas markets in Asia.

■ Retail Business

NEUVE A CO., LTD. will work to boost sales at existing stores while actively opening new stores, including new formats. The company will also work to lift margins by offering a wider choice of original products and improving the product mix, as well as increase profits by strengthening the e-commerce business.

■ Space Engineering and Management Business

PARCO SPACE SYSTEMS CO., LTD. will leverage the expertise and technologies it has built up through contracting work for PARCO and external clients to strengthen and improve its set up for securing a mix of orders, centered on external orders for electrical work in non-PARCO retail facilities and interior fitting work for specialty retailers.

■ Other Business

PARCO CO., LTD.’s entertainment business plans to increase the number of shows staged in other locations due to the temporary closure of Shibuya PARCO. The lineup includes another staging of “SINGIN’ IN THE RAIN,” which was a popular show in 2014. In visual entertainment, we will expand our movie distribution business, which has handled recent topical movies such as “Manchester by the Sea,” a winner in two categories at the 89th Academy Awards. In content development, we plan to expand our chain of character-themed cafes in Japan and overseas, aiming to continue using these physical locations as a base to enhance our lineup of live entertainment.

PARCO-CITY CO., LTD. changed its name to PARCO Digital Marketing CO., LTD., effective March 2017. The company plans to use ICT to strengthen its focus on support for commercial facilities, its core business, use digital marketing to attract new external clients and expand the business.

Outlook for Fiscal 2017

The PARCO Group will adopt International Financial Reporting Standards (IFRS) from fiscal 2017. By implementing the above initiatives, we are targeting fiscal 2017 operating revenue of ¥95.1 billion, operating income of ¥11.5 billion and profit attributable to owners of parent of ¥7.4 billion, based on IFRS.

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 29, 2017.

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 has business bases in Japan and overseas. It operates, or operates under contract, shopping complexes in major cities in Japan, as well as standalone tenant stores in shopping complexes in Japan. 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.

10. Risk Related to IT systems

The PARCO Group utilizes various IT systems in its business operations. Management of these systems is largely carried out at data centers operated by external contractors. These data centers incorporate various safety measures, such as earthquake-proof designs, redundancy in power and communications cabling, on-site power generation and security systems to prevent unauthorized access. However, in the event of a natural disaster or accident that exceeds expectations, the Group's business activities could be affected by damage to facilities, system outages and communication difficulties between business sites, which may have a significant impact on the PARCO Group's business performance and financial position.

Consolidated Balance Sheets

February 29, 2016 and February 28, 2017

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 6)
	2016	2017	2017
Current assets:			
Cash and deposits (Notes 7 and 15)	¥ 6,840	¥ 10,582	\$ 93,646
Notes and operating accounts receivable (Note 15):			
Trade	8,289	8,378	74,142
Other	2,333	2,714	24,018
Less: Allowance for doubtful accounts	(3)	(44)	(389)
	10,620	11,047	97,761
Inventories			
Real estate for sale in process	—	6,406	56,690
Other	4,077	4,324	38,265
Prepaid expenses and other current assets	1,284	1,440	12,743
Deferred tax assets (Note 17)	1,071	1,245	11,018
Total current assets	23,894	35,048	310,159
Investments and other assets:			
Investment securities (Notes 10 and 15)	786	679	6,009
Investments to unconsolidated subsidiaries	405	71	628
Other investments	690	699	6,186
Lease and guarantee deposits (Notes 11 and 15)	23,863	22,865	202,345
Deferred tax assets (Note 17)	2,369	1,070	9,469
Other assets	1,851	2,293	20,292
Total investments and other assets	29,968	27,679	244,947
Property and equipment:			
Store facilities, at cost	278,045	267,422	2,366,566
Less: Accumulated depreciation	(93,550)	(78,372)	(693,558)
Less: Accumulated impairment losses (Note 9)	(2,042)	(1,454)	(12,867)
	182,453	187,595	1,660,133
Total assets	¥236,315	¥250,323	\$2,215,248

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

LIABILITIES	Millions of yen		Thousands of U.S. dollars (Note 6)
	2016	2017	2017
Current liabilities:			
Short-term loans payable (Notes 12 and 15)	¥ 7,919	¥ 18,180	\$ 160,885
Commercial papers (Note 15)	11,399	2,099	18,575
Notes and operating accounts payable (Note 15):			
Trade	17,258	15,882	140,549
Other	3,123	2,648	23,434
	20,381	18,531	163,991
Income taxes payable	2,627	1,290	11,416
Accrued expenses	3,418	3,407	30,150
Provision for loss on store closing	487	1,063	9,407
Other current liabilities	4,498	8,552	75,681
Total current liabilities	50,732	53,126	470,142
Non-current liabilities:			
Long-term loans payable (Notes 12, 15 and 19)	35,200	37,820	334,690
Guarantee deposits received (Notes 15 and 18)	30,188	27,036	239,257
Net defined benefit liability (Note 16)	2,281	1,976	17,487
Provision for loss on store closing	564	—	—
Asset retirement obligations (Note 13)	505	474	4,195
Other non-current liabilities	368	7,851	69,478
Total non-current liabilities	69,108	75,158	665,115
Total liabilities	119,841	128,284	1,135,257
NET ASSETS (Note 23):			
Shareholders' equity			
Capital stock			
Authorized:			
320,000,000 shares at February 29, 2016 and February 28, 2017			
Issued:			
101,462,977 shares at February 29, 2016 and February 28, 2017	34,367	34,367	304,133
Capital surplus	35,129	35,129	310,876
Retained earnings	47,154	52,549	465,035
Treasury shares (Note 25)	(3)	(4)	(35)
Total shareholders' equity	116,647	122,041	1,080,009
Accumulated other comprehensive income			
Valuation difference on available-for-sale securities	15	37	327
Foreign currency translation adjustment	(86)	(103)	(912)
Remeasurements of defined benefit plans	(101)	63	558
Total accumulated other comprehensive income	(172)	(2)	(18)
Total net assets	116,474	122,039	1,079,991
Total liabilities and net assets	¥236,315	¥250,323	\$2,215,248

Consolidated Statements of Income

For the years ended February 29, 2016 and February 28, 2017

	Millions of yen		Thousands of U.S. dollars (Note 6)
	2016	2017	2017
Net sales	¥276,358	¥268,373	\$2,374,982
Cost of sales	234,394	227,930	2,017,080
Gross profit	41,963	40,443	357,903
Operating revenue	4,691	5,003	44,274
Operating gross profit	46,655	45,446	402,177
Selling, general and administrative expenses	33,883	32,633	288,788
Operating income	12,772	12,812	113,381
Other income (expenses):			
Interest income	37	31	274
Interest expenses	(388)	(360)	(3,186)
Loss on sales and retirement of non-current assets	(843)	(992)	(8,779)
Gain on sales of investment securities	1,220	55	487
Impairment loss (Note 9)	(1,024)	(781)	(6,912)
Loss on closing of stores (Note 8)	(1,887)	(2,731)	(24,168)
Gain on sales of non-current assets	0	3,158	27,947
Compensation income	—	975	8,628
Other	251	(339)	(3,000)
	(2,634)	(982)	(8,690)
Profit before income taxes	10,137	11,829	104,681
Income taxes (Note 17):			
Current	4,663	3,263	28,876
Deferred	(588)	1,040	9,204
Total	4,075	4,304	38,088
Profit	6,061	7,525	66,593
Profit attributable to owners of parent	¥ 6,061	¥ 7,525	\$ 66,593
		Yen	U.S. dollars (Note 6)
	2016	2017	2017
Per share (Note 26):			
Basic earnings	¥59.75	¥74.17	\$0.66
Diluted earnings	—	—	—
Cash dividends applicable to the year	¥20.00	¥23.00	\$0.20

The accompanying notes are an integral part of these statements.

Consolidated Statements of Comprehensive Income

For the years ended February 29, 2016 and February 28, 2017

	Millions of yen		Thousands of U.S. dollars (Note 6)
	2016	2017	2017
Profit	¥6,061	¥7,525	\$66,593
Other comprehensive income (Note 24):			
Valuation difference on available-for-sale securities	(640)	21	186
Foreign currency translation adjustment	(16)	(16)	(142)
Remeasurements of defined benefit plans, net of tax	27	164	1,451
Share of other comprehensive income of entities accounted for using equity method	(10)	—	—
Total other comprehensive income	(640)	170	1,504
Comprehensive income (Note 24)	¥5,421	¥7,695	\$68,097
Comprehensive income attributable to (Note 24):			
Comprehensive income attributable to owners of parent	¥5,421	¥7,695	\$68,097
Comprehensive income attributable to non-controlling interests	—	—	—

The accompanying notes are an integral part of these statements.

Consolidated Statements of Changes in Net Assets

For the years ended February 29, 2016 and February 28, 2017

	Millions of yen								
	Number of shares issued (thousands)	Shareholders' equity				Accumulated other comprehensive income			Total net assets
		Capital stock	Capital surplus	Retained earnings	Treasury shares	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	
Balance at February 28, 2015	101,462	¥34,367	¥35,129	¥43,249	¥(2)	¥ 656	¥ (59)	¥(129)	¥113,211
Cumulative effects of changes in accounting policies	—	—	—	(229)	—	—	—	—	(229)
Restated balance	101,462	34,367	35,129	43,020	(2)	656	(59)	(129)	112,981
Dividends of surplus	—	—	—	(1,927)	—	—	—	—	(1,927)
Profit attributable to owners of parent	—	—	—	6,061	—	—	—	—	6,061
Purchase of treasury shares (Note 25)	—	—	—	—	(1)	—	—	—	(1)
Disposal of treasury shares (Note 25)	—	—	—	—	—	—	—	—	—
Net changes of items other than shareholders' equity	—	—	—	—	—	(640)	(27)	27	(640)
Balance at February 29, 2016	101,462	¥34,367	¥35,129	¥47,154	¥(3)	¥ 15	¥ (86)	¥(101)	¥116,474
Dividends of surplus	—	—	—	(2,130)	—	—	—	—	(2,130)
Profit attributable to owners of parent	—	—	—	7,525	—	—	—	—	7,525
Purchase of treasury shares (Note 25)	—	—	—	—	(0)	—	—	—	(0)
Disposal of treasury shares (Note 25)	—	—	(0)	—	0	—	—	—	0
Net changes of items other than shareholders' equity	—	—	—	—	—	21	(16)	164	170
Balance at February 28, 2017	101,462	¥34,367	¥35,129	¥52,549	¥(4)	¥ 37	¥(103)	¥ 63	¥122,039

	Thousands of U.S. dollars (Note 6)								
		Shareholders' equity				Accumulated other comprehensive income			Total net assets
		Capital stock	Capital surplus	Retained earnings	Treasury shares	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	
Balance at February 29, 2016	\$304,133	\$310,876	\$417,292	\$(27)	\$133	\$(761)	\$ (894)	\$1,030,743	
Dividends of surplus	—	—	(18,850)	—	—	—	—	(18,850)	
Profit attributable to owners of parent	—	—	66,593	—	—	—	—	66,593	
Purchase of treasury shares (Note 25)	—	—	—	(0)	—	—	—	(0)	
Disposal of treasury shares (Note 25)	—	(0)	—	0	—	—	—	0	
Net changes of items other than shareholders' equity	—	—	—	—	186	(142)	1,451	1,504	
Balance at February 28, 2017	\$304,133	\$310,876	\$465,035	\$(35)	\$327	\$(912)	\$ 558	\$1,079,991	

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

For the years ended February 29, 2016 and February 28, 2017

	Millions of yen		Thousands of U.S. dollars (Note 6)
	2016	2017	2017
Cash flows from operating activities:			
Profit before income taxes	¥ 10,137	¥ 11,829	\$ 104,681
Adjustments for:			
Depreciation	6,277	5,424	48,000
Impairment loss	1,024	781	6,912
Increase (decrease) in provision for bonuses	(27)	47	416
Increase (decrease) in net defined benefit liability	27	(63)	(558)
Interest and dividend income	(59)	(34)	(301)
Interest expenses	388	360	3,186
Compensation income	—	(975)	(8,628)
Share of loss of entities accounted for using equity method	—	339	3,000
Loss (gain) on sales and retirement of non-current assets	240	(2,768)	(24,496)
Gain on sales of investment securities	(1,220)	(55)	(487)
Loss on store closings	1,887	2,731	24,168
Decrease (increase) in notes and accounts receivable—trade	3,366	(89)	(788)
Increase in inventories	(300)	(6,654)	(58,885)
Decrease in notes and accounts payable—trade	(592)	(1,376)	(12,177)
Increase/decrease in other assets/liabilities	(716)	1,251	11,071
Other, net	121	146	1,292
Subtotal	20,555	10,894	96,407
Interest and dividend income received	59	34	301
Interest expenses paid	(407)	(375)	(3,319)
Proceeds from compensation	—	7,855	69,513
Payment resulting from store closing	—	(758)	(6,708)
Income taxes paid	(5,554)	(4,748)	(42,018)
Net cash provided by operating activities	14,652	12,901	114,168
Cash flows from investing activities:			
Payments into time deposits	(257)	(80)	(708)
Proceeds from withdrawal of time deposits	256	243	2,150
Purchase of property, plant and equipment	(22,179)	(17,399)	(153,973)
Proceeds from sales of property, plant and equipment	7	9,906	87,664
Purchase of investment securities	(402)	(2)	(18)
Proceeds from sales of investment securities	1,722	195	1,726
Payments for lease and guarantee deposits	(660)	(388)	(3,434)
Proceeds from collection of lease and guarantee deposits	3,892	1,164	10,301
Decrease in guarantee deposits received	(863)	(2,736)	(24,212)
Other, net	(841)	(1,000)	(8,850)
Net cash used in investing activities	(19,325)	(10,098)	(89,363)
Cash flows from financing activities:			
Net decrease in short-term loans payable	(1,000)	(19)	(168)
Net increase (decrease) in commercial papers	6,900	(9,299)	(82,292)
Proceeds from long-term loans payable	11,000	21,000	185,841
Repayments of long-term loans payable	(7,606)	(8,100)	(71,681)
Net increase in treasury shares	(1)	(0)	(0)
Cash dividends paid	(1,927)	(2,130)	(18,850)
Other, net	(161)	(331)	(2,929)
Net cash provided by financing activities	7,203	1,118	9,894
Effect of exchange rate change on cash and cash equivalents	(7)	(2)	(18)
Net increase in cash and cash equivalents	2,523	3,918	34,673
Cash and cash equivalents at beginning of period	4,059	6,582	58,248
Cash and cash equivalents at end of period (Note 7)	¥ 6,582	¥ 10,501	\$ 92,929

The accompanying notes are an integral part of these statements.

Notes to Consolidated Financial Statements

PARCO CO., LTD. and Consolidated Subsidiaries

1. Basis of Presenting the Consolidated Financial Statements

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

Certain items presented in the consolidated financial statements submitted to the Director of the Kanto Finance Bureau in Japan are reclassified in these accounts for the convenience of readers outside Japan.

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

2. Summary of Significant Accounting Policies

(1) Scope of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its 4 subsidiaries as of February 29, 2016 and February 28, 2017.

The consolidated subsidiaries for the year ended February 28, 2017 are as follows:

	Capital Stock	
	Thousands of Singapore dollars	Percentage of shares
PARCO (Singapore) Pte Ltd	\$4,500	100.0%

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

Note: PARCO-CITY CO., LTD. changed its name to PARCO Digital Marketing CO., LTD. on March 1, 2017.

The reporting date of the following consolidated subsidiary is as follows:

PARCO (Singapore) Pte Ltd	December 31 ^(*)
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(*) The financial statements of the subsidiary used in the consolidation are drawn up at the reporting date. Adjustments are made for the significant transactions or other events that occur between this date and the date of the Company's financial statements.

(2) Elimination of Intercompany Accounts and Transactions

All significant intercompany accounts and transactions including unrealized intercompany profits are eliminated in preparing the accompanying consolidated financial statements.

(3) Equity Method

Investments in unconsolidated subsidiaries 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 intercompany profits and losses from the date of acquisition of shares.

(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 method.

(6) Inventories

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

(7) Property and Equipment

Tangible fixed assets (excluding lease assets) are depreciated mainly on a straight-line basis.

(8) Intangible Assets and Long-term Prepaid 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).

(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.

(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, the estimated uncollectible amounts for each receivable are used.
- ii) Provision for Bonuses
The estimated bonuses payable in the future as of the balance sheet date are accrued.
- iii) Provision for Sales Promotion Expenses
Provision for sales promotion expenses 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.
- iv) Provision for Loss on Store Closing
Provision for loss on store closing is recorded based on the reasonably estimated loss on store closing for a store the Company decided to close.
- v) Other Provisions
Japanese income tax laws set limits to the amounts of certain accrued expenses, which are essentially future estimates, deductible from the tax base. The provision for sales returns and the provision for books unsold are recorded in accordance with income tax laws.

(11) Accounting Methods for Retirement Benefits

The retirement benefit obligation for employee is attributed to each period by the benefit formula basis over the estimated years of service of the eligible employees.

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

The unrecognized actuarial differences after tax effect adjustments are recorded as remeasurements of defined benefit plans classified in accumulated other comprehensive income of net assets.

(12) Derivative Financial Instruments

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

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

(the "Appropriation Treatment")

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

(the "Special Case Interest Rate Swap Treatment")

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

Hedging instruments:

Currency swap contracts

Interest rate swap contracts

Hedged items:

Bank loans and interest thereon

(13) Basic Earnings and Dividends per Share

Basic earnings per share is computed based on the profit available for distribution to shareholders of common shares and the weighted average number of shares outstanding for respective years.

Diluted earnings per share is not presented since the Company had no securities with dilutive effect.

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

(14) Consumption Tax

Consumption tax is an indirect tax levied on domestic consumption goods and services at the flat rate of 8%. Subject transactions are recorded at the amounts net of consumption taxes that are withheld as assets/liabilities until tax filing.

(15) 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) Application of the Accounting Standard for Business Combinations

The Companies have adopted the "Revised Accounting Standard for Business Combinations" (ASBJ Statement No. 21 of September 13, 2013 (the "Statement No. 21")); the "Revised Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22 of September 13, 2013 (the "Statement No. 22")) and the "Revised Accounting Standard for Business Divestitures" (ASBJ Statement No. 7 of September 13, 2013 (the "Statement 7")) from the current fiscal year, and have recognized the differences resulting from changes in a parent's ownership interest in a subsidiary when control over the subsidiary is retained as capital surplus and acquisition costs as expenses in the year in which they were incurred.

Also, for business combinations carried out after the beginning of the current fiscal year, the reallocation of acquisition costs due to the finalization of provisional accounting treatments is now to be reflected in the consolidated financial statements for the year in which the business combination occurs.

In addition, the presentation of net income has been changed.

With respect to application of the Accounting Standard for Business Combinations, the transitional treatments as prescribed in article 58-2(4) of the Statement No. 21, article A44-5(4) of the Statement No. 22 and article 57-4(4) of the Statement No. 7 were applied from the beginning of the current fiscal year.

These changes have no impact on the consolidated financial statements for the current fiscal year.

(2) Changes in accounting policies that are difficult to distinguish from those in accounting estimates

Changes in depreciation method for tangible fixed assets

The depreciation method for tangible fixed assets (excluding lease assets) that the Company and its domestic consolidated subsidiaries used was mainly the declining balance method (excluding buildings, tangible fixed assets related to trust beneficiary rights); however, the depreciation method for all tangible fixed assets has been changed to the straight-line method from the current fiscal year.

This change is based on the conclusion that the profit and loss can be calculated more appropriately by matching cost with revenue. In order to formulate future income and expenditure plans in the shopping complex business, the Company evaluated and verified the profit structure of all stores, and as the revenue is becoming more stabilized due to the expansion of fixed business models with rent income, the straight-line method that allocates the acquisition cost equally over the usage period is more appropriate for calculating the periodical profit and loss by matching cost with revenue.

As a result of this change, operating income, ordinary income, and income before income taxes for the current fiscal year has each increased by 1,294 million yen (11,451 thousand U.S. dollars) when compared to the previous method.

The impact on segment information is described in the relevant section.

4. Accounting Standards Issued But Not Yet Applied

"Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26 of March 28, 2016)

a) Summary

When responsibility for providing practical guidelines on the accounting and auditing treatment of recoverability of deferred tax assets (limited to the portion related to accounting treatment) was transferred from the Japanese Institute of Certified Public Accountants (JICPA) to the ASBJ, the ASBJ partially revised the requirement criteria for entity categorization and the treatment of net deferred tax assets regarding guidance for the recoverability of deferred tax assets prescribed in JICPA Audit Committee Report No. 66 (Auditing Treatment for Determining the Recoverability of Deferred Tax Assets). The ASBJ has mainly adhered to the basic framework for categorization of entities and for estimating the recoverability of deferred tax assets by category. In addition, implementation guidance is described in this guidance for entities adopting Accounting Standard for Tax Effects (Business Accounting Council (Japan)) and assessing deferred tax assets.

b) Timing of application and effect of application of accounting standards

As the Company will voluntarily apply the International Financial Reporting Standards (IFRS) as of the first quarter of the fiscal year ending February 28, 2018, the effect of the application of these accounting standards on the consolidated financial statements is not estimated.

5. Additional Information

Accounting for redevelopment

Based on article 7-9, paragraph 1 of the Urban Renewal Act, the Company received approval from the Bureau of Urban Development Tokyo Metropolitan Government for individual construction of the Udagawacho 14 & 15 Development Project on August 3, 2016 and started business. The Company is the executor of the individual construction in the local urban redevelopment project including the rebuilding of Shibuya PARCO, and the consolidated financial statements include accounting for individual construction of such urban redevelopment project. For this reason, the accounting treatments as an executor of a redevelopment project such as the receipt of construction cost and the payment to builders were included.

As a result of these accounting treatments, cash and deposits on the consolidated balance sheet are decreased by 4,476 million yen (39,611 thousand U.S. dollars) and other current assets are decreased by 57 million yen (504 thousand U.S. dollars). Real estate for sale in process of 6,406 million yen (56,690 thousand U.S. dollars), accounts payable-other of 413 million yen (3,655 thousand U.S. dollars) and other current liabilities of 1,460 million yen (12,920 thousand U.S. dollars) are recorded in the consolidated balance sheets. In addition, cash flows from operating activities in the consolidated statements of cash flows are presented as a decrease of 6,406 million yen (56,690 thousand U.S. dollars) in inventories and an increase of 1,930 million (17,080 thousand U.S. dollars) in other assets and liabilities.

6. 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 ¥113 = U.S.\$1, the prevailing exchange rate on February 28, 2017. 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.

7. Consolidated Statements of Cash Flows

a) Cash and cash equivalents in the consolidated statements of cash flows for the years ended February 29, 2016 and February 28, 2017 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Cash and deposits	¥6,840	¥10,582	\$93,646
Time deposits with maturities exceeding three months	(257)	(80)	(708)
Cash and cash equivalents	¥6,582	¥10,501	\$92,929

b) Significant non-cash transactions for the years ended February 29, 2016 and February 28, 2017 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Amount of assets and liabilities related to finance lease transactions	¥231	¥2,831	\$25,053

8. Loss on Closing of Stores

The Companies recorded a loss on closing of stores for the years ended February 29, 2016 and February 28, 2017.

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Loss on closing of stores	¥1,052	¥1,092	\$ 9,664
Impairment loss	¥ 835	¥1,638	\$14,496

9. Impairment Loss

The Companies recorded impairment losses on the following asset groups for the years ended February 29, 2016 and February 28, 2017.

For the year ended February 29, 2016

Location	Use	Classification	Millions of yen 2016
PARCO CO., LTD. Chiba PARCO [Chuo City, Chiba.]	Store	Buildings, etc.	¥656
PARCO CO., LTD. Utsunomiya PARCO [Utsunomiya City, Tochigi.]	Store	Land, Buildings, etc.	¥863
PARCO SPACE SYSTEMS CO., LTD. Chiba PARCO parking [Chuo City, Chiba.]	Parking lot	Land, Buildings, etc.	¥178
NEUVE A CO., LTD. Other [Higashikurume City, Tokyo, etc.]	Store, etc.	Buildings, etc.	¥160
NEUVE A CO., LTD. TIC TAC Chiba [Chuo City, Chiba.]	Store	Buildings, etc.	¥ 0

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

The Company scheduled the closure of Chiba PARCO on November 30, 2016 in view of the overall deterioration in the market environment. A loss on store closing of 1,887 million yen was recorded including 835 million yen of impairment loss for "Land, Buildings, etc."

The recoverable amount of "Chiba PARCO" is the appraisal value according to an outside real estate appraiser for "Land" based on Japanese Real Estate Appraisal Standards.

The book value of "Buildings, etc." was written off to zero.

The book values of Utsunomiya PARCO assets that incurred a continuous fall in land prices and continuous operating losses were written off to recoverable amounts. An impairment loss of 863 million yen for "Land, Buildings, etc." was recorded.

The recoverable amount of "Utsunomiya PARCO" is the appraisal value according to an outside real estate appraiser based on Japanese Real Estate Appraisal Standards.

The book values of other assets were written off to recoverable amounts mainly because some facilities and businesses, which are to be discontinued, continued incurring losses and the Companies cannot expect to recover their investment in these facilities and businesses due to their lower profitability. An impairment loss of 160 million yen for "Buildings, etc." was recorded.

The recoverable amount of "Buildings, etc." is computed based on value in use, which was calculated by discounting future cash flows. The future cash flows were negative, so the discount rate is not presented.

For the year ended February 28, 2017			Millions of yen	Thousands of U.S. dollars
Location	Use	Classification	2017	2017
PARCO CO., LTD. Otsu PARCO [Otsu City, Shiga.]	Store	Land, Buildings, etc.	¥1,638	\$14,496
PARCO CO., LTD. Sannomiya ZERO GATE [Chuo City, Kobe.]	Store	Trust Buildings, etc.	¥ 323	\$ 2,858
PARCO CO., LTD. Utsunomiya PARCO [Utsunomiya City, Tochigi.]	Store	Land, Buildings, etc.	¥ 154	\$ 1,363
PARCO CO., LTD. Chiba PARCO [Chuo City, Chiba.]	Store	Land	¥ 89	\$ 788
PARCO CO., LTD. Shibuya PARCO [Shibuya City, Tokyo.]	Store	Land	¥ 5	\$ 44
NEUVE A CO., LTD. Other [Omiya City, Saitama, etc.]	Store, etc.	Buildings, etc.	¥ 181	\$ 1,602
PARCO SPACE SYSTEMS CO., LTD. Other [Chuo City, Nagoya, etc.]	Parking lot	Lease assets	¥ 12	\$ 106
PARCO City CO., LTD. Other [Shibuya City, Tokyo.]	Head office	Software	¥ 14	\$ 124

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

With regard to Otsu PARCO, as the recoverable amount fell below the book value, in conjunction with the decision to transfer fixed assets and terminate the business in August 2016, the book value of Otsu PARCO was written off to the recoverable amount, an impairment loss of 1,638 million yen (14,496 thousand U.S. dollars) for "Land, Building, etc." and a loss on store closing of 2,731 million yen (24,168 thousand U.S. dollars) including the impairment loss were recorded.

With regard to Chiba PARCO, as the recoverable amount fell below the book value, in conjunction with the decision to transfer fixed assets in October, 2016, the book value of Chiba PARCO was written off to the recoverable amount, and an impairment loss of 89 million yen (788 thousand U.S. dollars) for "Land" was recorded.

Regarding a part of the land of Shibuya PARCO, as the recoverable

amount fell below the book value, in conjunction with the decision to transfer such land in August 2016, the book value of the property was written off to the recoverable amount, an impairment loss of 5 million yen (44 thousand U.S. dollars) for "Land" was recorded.

The recoverable amounts of Otsu PARCO, Chiba PARCO and Shibuya PARCO, which are measured at their net realizable values, are based on the selling prices in the sales contract.

With regard to Sannomiya ZERO GATE, as the recoverable amount fell below the book value, in conjunction with the decision to rebuild the building, its book value was written off to the recoverable amount, and an impairment loss of 323 million yen (2,858 thousand U.S. dollars) for "Building, etc." was recorded.

In addition, regarding the recoverable amount of Sannomiya ZERO GATE, its book value was completely written off to zero due to a decision to rebuild the building.

With regard to Utsunomiya PARCO, as the investment amount is not expected to be collected due to declining profitability, the book value of the property was written off to the recoverable amount, and an impairment loss of 154 million yen (1,363 thousand U.S. dollars) for "Land, Building, etc." was recorded.

The recoverable amount of Utsunomiya PARCO is the appraisal value according to an outside real estate appraiser based on the Japanese Real Estate Appraisal Standards.

The book values of other assets were written off to their recoverable amounts mainly because some facilities and businesses, which are to

be discontinued, continued incurring losses and the Companies cannot expect to recover their investment in these facilities and businesses due to the lower profitability. An impairment loss of 207 million yen (1,832 thousand U.S. dollars) for "Buildings, lease assets and software" was recorded.

The recoverable amounts of other assets were computed based on the value in use, which were calculated by discounting future cash flows. The future cash flows were negative, so the discount rate is not presented.

10. Securities

Available-for-sale Securities

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

As of February 29, 2016	Millions of yen		
	Acquisition cost	Book value	Difference
Book value exceeding acquisition cost:			
Equity shares	¥ 78	¥136	¥58
Book value not exceeding acquisition cost:			
Equity shares	140	105	(35)
Total	¥219	¥242	¥22

As of February 28, 2017	Millions of yen		
	Acquisition cost	Book value	Difference
Book value exceeding acquisition cost:			
Equity shares	¥27	¥ 88	¥61
Book value not exceeding acquisition cost:			
Equity shares	54	46	(7)
Total	¥81	¥135	¥53

As of February 28, 2017	Thousands of U.S. dollars		
	Acquisition cost	Book value	Difference
Book value exceeding acquisition cost:			
Equity shares	\$239	\$ 779	\$540
Book value not exceeding acquisition cost:			
Equity shares	478	407	(62)
Total	\$717	\$1,195	\$469

Available-for-sale Securities sold are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Total sold	¥1,722	¥195	\$1,726
Total gain on sales	1,220	55	487
Total loss on sales	—	—	—

Impairment loss on securities

For the years ended February 29, 2016 and February 28, 2017, no impairment loss on securities was recognized.

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

11. Lease and Guarantee Deposits

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

12. Long-Term Loans Payable

The breakdown of long-term loans payable is as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Long-term loans from banks including current portion	¥43,100	¥ 56,000	\$ 495,575
Weighted average interest rates of the above long-term loans	0.80%	0.68%	—
	43,100	56,000	495,575
Less: Portion due within 1 year	(7,900)	(18,180)	(160,885)
	¥35,200	¥ 37,820	\$ 334,690

The aggregate annual maturities of long-term loans payable as of February 28, 2017 are as follows:

Year ending February 28/29,	Millions of yen	Thousands of U.S. dollars
2018	¥18,180	\$160,885
2019	7,580	67,080
2020	7,380	65,310
2021	5,080	44,956
2022 and thereafter	17,780	157,345
	¥56,000	\$495,575

13. Asset Retirement Obligations

(1) Asset Retirement Obligations Recognized in the Consolidated Balance Sheets as of February 29, 2016 and February 28, 2017

i) Summary 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

The asset retirement obligations are calculated on the assumption of prospective usable years of 5 to 34 years and discount rates of 0.000 to 2.050%.

iii) Changes in the asset retirement obligations for the years ended February 29, 2016 and February 28, 2017

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Balance at beginning of year	¥453	¥510	\$4,513
Increase by acquisition of property and equipment	63	55	487
Adjustment with the passing of time	6	5	44
Decrease by fulfillment of obligation	(13)	(83)	(735)
Foreign currency translation differences	—	(6)	(53)
Balance at end of year	¥510	¥481	\$4,257

(2) Asset Retirement Obligations Not Recognized in the Consolidated Balance Sheets

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

14. Leases

(1) Finance Leases

The Companies recorded an impairment loss on leased property of 12 million yen (106 thousand U.S. dollars) for the year ended February 28, 2017.

(2) Operating Leases

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
As a lessee			
Due within 1 year	¥ 1,052	¥ 1,239	\$10,965
Due after 1 year	9,347	9,784	86,584
Total	¥10,399	¥11,023	\$97,549
As a lessor			
Due within 1 year	¥ 2,419	¥ 2,469	\$21,850
Due after 1 year	7,730	5,653	50,027
Total	¥10,150	¥ 8,122	\$71,876

15. Financial Instruments

(1) Matters Regarding the Conditions of Financial Instruments

i) Policy on financial instruments

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

ii) Details of financial instruments and their risks

Trades receivable—namely, notes receivable and operating accounts receivable—are exposed to credit risk of customers. Lease and guarantee deposits are exposed to credit risk of the land owners.

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

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

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

iii) Risk management of financial instruments

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

As per the Company's internal accounting regulations, the Company limits its exposures to credit risk by controlling the due dates and balances for each customer, and by making

periodical checks of the credit conditions of customers. The same management system is used for the consolidated subsidiaries.

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

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

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

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

The approval decisions of swap transactions are made at a management round-table. As for the consolidated subsidiaries, they conform to the accounting rules set by each subsidiary.

3. Management of market price fluctuation risk

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

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

With 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 and by maintaining liquidity.

(2) Fair Values of Financial Instruments

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

As of February 29, 2016	Millions of yen		
	Book value	Fair value	Difference
(i) Cash and deposits	¥ 6,840	¥ 6,840	¥ —
(ii) Notes and operating accounts receivable—trade	8,289	8,289	—
(iii) Investment securities	242	242	—
(iv) Lease and guarantee deposits	4,690	4,810	119
Total	¥20,062	¥20,182	¥119
(i) Notes and operating accounts payable—trade	¥17,258	¥17,258	—
(ii) Short-term loans payable	7,919	7,919	—
(iii) Commercial papers	11,399	11,399	—
(iv) Long-term loans payable	35,200	35,595	395
Total	¥71,777	¥72,172	¥395
Derivative transactions	¥ —	¥ —	¥ —

As of February 28, 2017	Millions of yen		
	Book value	Fair value	Difference
(i) Cash and deposits	¥10,582	¥10,582	¥ —
(ii) Notes and operating accounts receivable—trade	8,378	8,378	—
(iii) Investment securities	135	135	—
(iv) Lease and guarantee deposits	4,039	4,120	80
Total	¥23,135	¥23,216	¥ 80
(i) Notes and operating accounts payable—trade	¥15,882	¥15,882	¥ —
(ii) Short-term loans payable	18,180	18,180	—
(iii) Commercial papers	2,099	2,099	—
(iv) Long-term loans payable	37,820	37,930	110
Total	¥73,982	¥74,092	¥110
Derivative transactions	¥ —	¥ —	¥ —

As of February 28, 2017	Thousands of U.S. dollars		
	Book value	Fair value	Difference
(i) Cash and deposits	\$ 93,646	\$ 93,646	\$ —
(ii) Notes and operating accounts receivable—trade	74,142	74,142	—
(iii) Investment securities	1,195	1,195	—
(iv) Lease and guarantee deposits	35,743	36,460	708
Total	\$204,735	\$205,451	\$708
(i) Notes and operating accounts payable—trade	\$140,549	\$140,549	\$ —
(ii) Short-term loans payable	160,885	160,885	—
(iii) Commercial papers	18,575	18,575	—
(iv) Long-term loans payable	334,690	335,664	973
Total	\$654,708	\$655,681	\$973
Derivative transactions	\$ —	\$ —	\$ —

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

Assets

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

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

(iii) Investment securities

These are stated at market prices.

(iv) Lease and guarantee deposits

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

Liabilities

- (i) Short-term loans payable, (ii) Commercial papers and
(iii) Notes and operating accounts payable—trade

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

- (iv) Long-term loans payable

Fair values are calculated by discounting the rate at which the Companies assume to pay to borrow a new loan. In regards to long-term loans, to which the interest rate swapping exception rule was applied or a currency swap was assigned in the consolidated financial accounting fiscal years ended February 29, 2016 and February 28, 2017, the total amount of the principal and interest calculated by an applicable interest rate swap and currency swap was discounted by a reasonable borrowing rate that may be used to make a similar loan. Long-term bank loans are included in long-term loans payable in the balance sheets.

Derivative transactions

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

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

As of February 29, 2016		Millions of yen
Classification		Book value
Non-listed securities		¥ 950
Lease and guarantee deposits		19,172
Guarantee deposits received		30,188
As of February 28, 2017		Millions of yen
Classification		Book value
Non-listed securities		¥ 615
Lease and guarantee deposits		18,826
Guarantee deposits received		27,036
As of February 28, 2017		Thousands of U.S. dollars
Classification		Book value
Non-listed securities		\$ 5,442
Lease and guarantee deposits		166,602
Guarantee deposits received		239,257

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

Note III. The redemption schedules for receivables are as follows:

As of February 29, 2016					Millions of yen
	Within 1 year	Over 1 year, within 5 years	Over 5 years, within 10 years	Over 10 years	
Cash and deposits	¥ 6,840	¥ —	¥ —	¥ —	
Notes and operating accounts receivable—trade	8,289	—	—	—	
Lease and guarantee deposits	—	2,236	1,720	734	
Total	¥15,129	¥2,236	¥1,720	¥734	
As of February 28, 2017					Millions of yen
	Within 1 year	Over 1 year, within 5 years	Over 5 years, within 10 years	Over 10 years	
Cash and deposits	¥10,582	¥ —	¥ —	¥ —	
Notes and operating accounts receivable—trade	8,378	—	—	—	
Lease and guarantee deposits	—	2,648	767	623	
Total	¥18,960	¥2,648	¥767	¥623	
As of February 28, 2017					Thousands of U.S. dollars
	Within 1 year	Over 1 year, within 5 years	Over 5 years, within 10 years	Over 10 years	
Cash and deposits	\$ 93,646	\$ —	\$ —	\$ —	
Notes and operating accounts receivable—trade	74,142	—	—	—	
Lease and guarantee deposits	—	23,434	6,788	5,513	
Total	\$167,788	\$23,434	\$6,788	\$5,513	

Note IV. The redemption schedules for short-term loans payable, commercial papers and long-term loans payable are as follows:

	Millions of yen			
As of February 29, 2016	Within 1 year	Over 1 year, within 5 years	Over 5 years, within 10 years	Over 10 years
Short-term loans payable	¥ 7,919	¥ —	¥ —	¥—
Commercial papers	11,399	—	—	—
Long-term loans payable	—	34,200	1,000	—
Total	¥19,318	¥34,200	¥1,000	¥—

	Millions of yen			
As of February 28, 2017	Within 1 year	Over 1 year, within 5 years	Over 5 years, within 10 years	Over 10 years
Short-term loans payable	¥18,180	¥ —	¥ —	¥—
Commercial papers	2,099	—	—	—
Long-term loans payable	—	30,820	7,000	—
Total	¥20,279	¥30,820	¥7,000	¥—

	Thousands of U.S. dollars			
As of February 28, 2017	Within 1 year	Over 1 year, within 5 years	Over 5 years, within 10 years	Over 10 years
Short-term loans payable	\$160,885	\$ —	\$ —	\$—
Commercial papers	18,575	—	—	—
Long-term loans payable	—	272,743	61,947	—
Total	\$179,460	\$272,743	\$61,947	\$—

16. Retirement Benefit Plans

1) Summary of retirement benefit plans

The Company and its major subsidiaries have defined benefit plans (i.e., a lump-sum retirement benefit plan, prepaid retirement benefit plan and corporate pension fund system plan). Additional retirement payments are made in some cases when employees retire or resign.

2) Defined benefit plans

(a) Movement in retirement benefit obligations

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Balance at beginning of year	¥5,423	¥5,771	\$51,071
Cumulative effects of changes in accounting policies	339	—	—
Restated balance	5,763	5,771	51,071
Service cost	323	309	2,735
Interest cost	32	33	292
Actuarial gain	(54)	(104)	(920)
Benefits paid	(293)	(284)	(2,513)
Balance at end of year	¥5,771	¥5,724	\$50,655

(b) Movement in plan assets

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Balance at beginning of year	¥3,458	¥3,489	\$30,876
Expected return on plan assets	69	69	611
Actuarial gain and loss	(144)	88	779
Contributions paid by the employer	375	372	3,292
Benefits paid	(269)	(272)	(2,407)
Balance at end of year	¥3,489	¥3,748	\$33,168

(c) Reconciliation from retirement benefit obligations and plan assets to net defined benefit liability and asset

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Funded retirement benefit obligations	¥ 5,436	¥ 5,361	\$ 47,442
Plan assets	(3,489)	(3,748)	(33,168)
	1,946	1,613	14,274
Unfunded retirement benefit obligations	334	362	3,204
Total net defined benefit liability and asset at end of year	2,281	1,976	17,487
Net defined benefit liability	2,281	1,976	17,487
Total net defined benefit liability and asset at end of year	¥ 2,281	¥ 1,976	\$ 17,487

(d) Retirement benefit costs

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Service cost	¥323	¥309	\$2,735
Interest cost	32	33	292
Expected return on plan assets	(69)	(69)	(611)
Net actuarial loss amortization	80	48	425
Past service costs amortization	(22)	—	—
Transition amount amortization arising from adopting the new standard	83	—	—
Prepaid retirement benefit	136	143	1,265
Other	39	22	195
Total retirement benefit costs	¥604	¥485	\$4,292

(e) Remeasurements of defined benefit plans, before tax were as follows

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Actuarial gains and losses	¥ (9)	¥241	\$2,133
Past service costs	(22)	—	—
Transition amounts arising from adopting the new standard	83	—	—
Total balance at end of year	¥ 50	¥241	\$2,133

(f) Accumulated remeasurements of defined benefit plans

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Actuarial gains and losses that are yet to be recognized	¥(149)	¥91	\$805
Total balance at end of year	¥(149)	¥91	\$805

(g) Plan assets

I. Plan assets comprise:

	2016	2017
Bonds	49.0%	40.7%
Equity securities	17.7%	23.9%
Life insurance general account	14.5%	14.2%
Cash and deposits	1.2%	2.2%
Other	17.6%	19.0%
Total	100.0%	100.0%

II. Long-term expected rate of return

Current and target asset allocations, and historical and expected returns on various categories of plan assets have been considered in determining the long-term expected rate of return.

(h) Actuarial assumptions

The principal actuarial assumptions at the end of the financial accounting fiscal year (expressed as weighted averages) are as follows:

	2016	2017
Discount rate	(Mainly) 0.6%	(Mainly) 0.6%
Long-term expected rate of return	2.0%	2.0%
Expected rate of salary	(Mainly) 7.8%	(Mainly) 7.8%

Note: Expected rate of salary is calculated based on a point based plan.

17. Income Taxes

Japanese income taxes applicable to the Companies consist of corporate tax, inhabitants' tax and corporate enterprise tax, which in the aggregate resulted in the statutory tax rate of approximately 35.6% for 2016 and 33.1% for 2017.

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

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Deferred tax assets:			
Adjustments for unrealized gains	¥ 744	¥ 143	\$ 1,265
Allowance for doubtful accounts	59	77	681
Accrued bonuses to employees	351	363	3,212
Provision for sales promotion	121	114	1,009
Provision for loss on store closing	343	328	2,903
Net defined benefit liability	789	651	5,761
Accrued corporate enterprise tax	203	122	1,080
Impairment loss	1,119	626	5,540
Asset retirement obligations	164	145	1,283
Write-down of investment securities	161	152	1,345
Deferred revenue	—	2,116	18,726
Others	246	292	2,584
Gross deferred tax assets	4,305	5,135	45,442
Less: Valuation allowance	(67)	(21)	(186)
Total deferred tax assets	¥4,237	¥5,114	\$45,257
Deferred tax liabilities:			
Loss on conversion of land title	657	622	5,504
Valuation difference on available-for-sale securities	7	16	142
Asset retirement obligations	75	66	584
Investment in a subsidiary	56	53	469
Loss on transfer of fixed assets	—	537	4,752
Reserve for advanced depreciation of non-current assets	—	1,502	13,292
Total deferred tax liabilities	¥ 796	¥2,799	\$24,770
Net deferred tax assets	¥3,441	¥2,315	\$20,487

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

	Percentage	
	2016	2017
Statutory tax rates	35.6%	33.1%
Adjustments:		
Permanent non-deductible differences including entertainment expenses	0.6	0.5
Permanent non-taxable differences including dividend income	(0.0)	(0.0)
Inhabitants' tax—per capita levy	0.8	0.7
Valuation allowance	0.8	(0.3)
Impact of statutory income tax rate changes	2.3	1.0
Share of profit and loss of entities accounted for using equity method	0.1	1.0
Others	0.1	0.4
Effective income tax rates	40.2%	36.4%

Following the establishment in the Diet on March 29, 2016 of the "Act for Partial Revision of the Income Tax Act, etc." (Act No. 15 of 2016), and the "Act for Partial Revision of the Local Tax Act, etc." (Act No. 13 of 2016), the corporate tax rate is reduced effective from the year beginning on or after April 1, 2016.

The Companies changed the statutory tax rate from 32.3% to 30.9% in calculating the deferred tax assets and liabilities for temporary

differences that are expected to reverse from the year beginning on or after March 1, 2017.

The Companies changed the statutory tax rate from 30.9% to 30.6% in calculating the deferred tax assets and liabilities for temporary differences that are expected to reverse from the year beginning on or after March 1, 2019.

The effect of this change was immaterial.

18. Guarantee Deposits Received

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

19. Derivative Information

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

The Companies have established a risk management system for 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 contract by the counterparties to the interest. However, the Companies do not anticipate a breach of contract by any of these counterparties, all of whom are financial institutions with high credit ratings.

The derivative instruments for the years ended February 29, 2016 and February 28, 2017 are as follows:

			Millions of yen		
			2016		
Method of hedge accounting	Type of transaction	Main subject of a hedge	Contractual prices	Over 1 year contractual prices	Fair value
Appropriation treatment	Currency swaps U.S. dollar receipts/Japanese yen payments	Long-term loans payable	¥ 300	¥ 300	(See Note)
Special case interest rate swap treatment	Interest rate swap transaction (fluctuating receipts/fixed payments)	Long-term loans payable	¥12,120	¥9,940	(See Note)
			Millions of yen		
			2017		
Method of hedge accounting	Type of transaction	Main subject of a hedge	Contractual prices	Over 1 year contractual prices	Fair value
Appropriation treatment	Currency swaps U.S. dollar receipts/Japanese yen payments	Long-term loans payable	¥ 300	—	(See Note)
Special case interest rate swap treatment	Interest rate swap transaction (fluctuating receipts/fixed payments)	Long-term loans payable	¥9,940	¥1,660	(See Note)
			Thousands of U.S. dollars		
			2017		
Method of hedge accounting	Type of transaction	Main subject of a hedge	Contractual prices	Over 1 year contractual prices	Fair value
Appropriation treatment	Currency swaps U.S. dollar receipts/Japanese yen payments	Long-term loans payable	\$ 2,655	—	(See Note)
Special case interest rate swap treatment	Interest rate swap transaction (fluctuating receipts/fixed payments)	Long-term loans payable	\$87,965	\$14,690	(See Note)

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

20. Rental Property

The Company owns rental property in several cities across the country.

Rental income related to such rental property in the fiscal years ended February 29, 2016 and February 28, 2017 is 350 million yen and 538 million yen (4,761 thousand U.S. dollars). Rental revenues are recorded in operating revenue and rental expenses are recorded in selling, general and administrative expenses. Loss on retirement of

non-current assets for the years ended February 29, 2016 is 0 million yen. Impairment loss, removal costs and loss on retirement of non-current assets for the current fiscal year are 370 million yen (3,274 thousand U.S. dollars), and are recorded in extraordinary losses.

Book value, increase/decrease and fair value are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Book value			
Balance at beginning of year	¥2,293	¥3,202	\$28,336
Increase/decrease	908	2,875	25,442
Balance at end of year	3,202	6,077	53,779
Fair value at end of year	3,127	6,005	53,142

Book value is acquisition cost less accumulated depreciation and loss on impairment of fixed assets.

For the amounts for the fiscal year ended February 29, 2016, the main increases were acquisitions of real estate of 1,087 million yen. The main decreases were depreciation of 178 million yen.

For the amounts for the fiscal year ended February 28, 2017, the main increases were change of use of 3,358 million yen (29,717 thousand U.S. dollars). The main decreases were impairment loss of 323

million yen (2,858 thousand U.S. dollars) and depreciation of 159 million yen (1,407 thousand U.S. dollars).

The fair value as of the end of the fiscal year is the appraisal value according to an outside real estate appraiser based on Japanese Real Estate Appraisal Standards in the case of key properties and is deemed to be the book value in the case of depreciable assets such as some buildings.

21. Segment Information

For the years ended February 29, 2016 and February 28, 2017

(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.

Changes in depreciation method for tangible fixed assets

As described in Note3(2), the depreciation method for tangible fixed assets(excluding lease assets) of the Company and its domestic consolidated subsidiaries used was mainly the declining balance method (excluding buildings, tangible fixed assets related to trust beneficiary rights); however, the depreciation method for all tangible fixed assets was changed to the straight-line method from the current fiscal year.

As a result of this change, the segment income for the current fiscal year has increased by 1,147 million yen (10,150 thousand U.S. dollars) in the shopping complex business, 134 million yen (1,186 thousand U.S. dollars) in the retail business, 4 million yen (35 thousand U.S. dollars) in the space engineering and management business and 27 million yen (239 thousand U.S. dollars) in others, when compared to the previous method.

Millions of yen

For the year ended February 29, 2016:	Shopping complex	Retail	Space engineering and management	Others	Total	Adjustment	Consolidated
Sales:							
External customers	¥248,078	¥14,196	¥12,423	¥6,352	¥281,050	¥ —	¥281,050
Inter-segment	0	7,277	7,546	498	15,322	(15,322)	—
Total	248,078	21,473	19,969	6,850	296,372	(15,322)	281,050
Segment income	¥ 11,549	¥ 694	¥ 433	¥ 132	¥ 12,809	¥ (37)	¥ 12,772
Segment assets	¥229,853	¥ 7,148	¥ 8,288	¥3,130	¥248,420	¥(12,104)	¥236,315
Other:							
Depreciation	5,699	405	140	103	6,349	(71)	6,277
Loss on impairment of fixed assets	1,524	163	196	—	1,884	(24)	1,859
Increase of property and equipment and intangible assets	21,842	945	74	52	22,914	(87)	22,827

Notes: 1. The adjustments are as follows:

- (1) Adjustment of segment income of (37) million yen is inter-segment eliminations.
 - (2) Adjustment of segment assets of (12,104) million yen is inter-segment eliminations.
 - (3) Adjustment of depreciation of (71) million yen is inter-segment eliminations.
 - (4) Adjustment of loss on impairment of fixed assets of (24) million yen is inter-segment eliminations.
 - (5) Adjustment of increase in property and equipment and intangible assets of (87) million yen is inter-segment eliminations.
2. Segment income is reconciled to operating income in the consolidated statements of income.
 3. Other operating revenue is included in "Sales."

Millions of yen

For the year ended February 28, 2017:	Shopping complex	Retail	Space engineering and management	Others	Total	Adjustment	Consolidated
Sales:							
External customers	¥239,447	¥14,302	¥13,298	¥6,329	¥273,377	¥ —	¥273,377
Inter-segment	0	7,337	6,944	444	14,727	(14,727)	—
Total	239,447	21,640	20,242	6,774	288,104	(14,727)	273,377
Segment income	¥ 11,738	¥ 435	¥ 629	¥ 58	¥ 12,862	¥ (49)	¥ 12,812
Segment assets	¥243,989	¥ 7,505	¥ 9,608	¥3,341	¥264,445	¥(14,121)	¥250,323
Other:							
Depreciation	4,915	340	137	77	5,471	(47)	5,424
Loss on impairment of fixed assets	2,228	182	12	14	2,437	(18)	2,419
Increase of property and equipment and intangible assets	17,635	735	44	37	18,452	(117)	18,335

Thousands of U.S. dollars

For the year ended February 28, 2017:	Shopping complex	Retail	Space engineering and management	Others	Total	Adjustment	Consolidated
Sales:							
External customers	\$2,119,000	\$126,566	\$117,681	\$56,009	\$2,419,265	\$ —	\$2,419,265
Inter-segment	0	64,929	61,451	3,929	130,327	(130,327)	—
Total	2,119,000	191,504	179,133	59,947	2,549,593	(130,327)	2,419,265
Segment income	\$103,876	\$3,850	\$ 5,566	\$ 513	\$ 113,823	\$ (434)	\$ 113,381
Segment assets	\$2,159,195	\$66,416	\$ 85,027	\$29,566	\$2,340,221	\$(124,965)	\$2,215,248
Other:							
Depreciation	43,496	3,009	1,212	681	48,416	(416)	48,000
Loss on impairment of fixed assets	19,717	1,611	106	124	21,566	(159)	21,407
Increase of property and equipment and intangible assets	156,062	6,504	389	327	163,292	(1,035)	162,257

Notes: 1. The adjustments are as follows:

- (1) Adjustment of segment income of (49) million yen ((434) thousand U.S. dollars) is inter-segment eliminations.
 - (2) Adjustment of segment assets of (14,121) million yen ((124,965) thousand U.S. dollars) is inter-segment eliminations.
 - (3) Adjustment of depreciation of (47) million yen ((416) thousand U.S. dollars) is inter-segment eliminations.
 - (4) Adjustment of loss on impairment of fixed assets of (18) million yen ((159) thousand U.S. dollars) is inter-segment eliminations.
 - (5) Adjustment of increase in property and equipment and intangible assets of (117) million yen ((1,035) 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 has been 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 in the consolidated income statements and property and equipment in the consolidated balance sheets, respectively.
- iii) Customer
Customer information has been omitted since revenue from no single customer exceeded 10% of revenue from operations in the consolidated income statements.

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

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

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

Not applicable.

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

Not applicable.

22. Related Party Transactions

(1) Related Party Transactions

Transactions between the company filing the consolidated financial statements and related parties

Directors and corporate auditors, and principal individual shareholders of the company filing the consolidated financial statements, etc.

For the year ended February 29, 2016

Description	Corporate/ individual name	Address	Paid-in capital (millions of yen)	Principal business	Percentage of voting rights	Business relationship	Transaction	Trading amount (millions of yen)	Account	Ending balance (millions of yen)
The companies of which the directors or corporate auditors and their close relatives own the majority of voting rights	Poppins Co., Ltd. (Note 1)	Shibuya-ku, Tokyo	96	Childcare support service, Educational support service for toddlers and infants and Elderly care support service	—	Contract of design and construction Interlocking directors or corporate auditors	Contract of the construction of the office	39	Notes and operating accounts receivables— Trade	1

Notes: 1. Ms.Nakamura, one of the Company's directors, and her close relatives own a majority of the voting rights of Poppins Co., Ltd.

2. Amounts in Ending balance include consumption taxes and those of Trading amount exclude them.

3. Transaction condition was determined in the same way as a general transaction.

For the year ended February 28, 2017

Because of lacking importance, the description is omitted.

(2) Parent Company

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

23. Net Assets

Under the Japanese Corporate Law (the "Law"), the entire amount paid for new shares is required to be designated as common stock. However, the Company may, by a resolution of the Board of Directors, designate an amount not exceeding one-half of the prices of the new shares as additional paid-in capital, which is included in capital surplus. The Law requires that an amount equal to 10% of the dividends must be appropriated as 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 or additional paid-in capital equals 25% of common stock. All additional

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

Retained earnings at February 28, 2017 include amounts representing year-end cash dividends of 1,217 million yen (10,770 thousand U.S. dollars), based on 12.0 yen (0.11 U.S. dollars) per share, which was resolved at the Board of Directors meeting held on April 6, 2017.

24. Comprehensive Income

An analysis of each component of other comprehensive income and related tax effects for the years ended February 29, 2016 and February 28, 2017 is presented as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Valuation difference on available-for-sale securities			
Amount arising during the year	¥ 224	¥ 85	\$ 752
Reclassification to income for the year	(1,220)	(55)	(487)
Pretax amount	(996)	30	265
Tax (expense) benefit	355	(9)	(80)
Net-of-tax amount	(640)	21	186
Foreign currency translation adjustments			
Amount arising during the year	(16)	(16)	(142)
Reclassification to income for the year	—	—	—
Pretax amount	(16)	(16)	(142)
Tax (expense) benefit	—	—	—
Net-of-tax amount	(16)	(16)	(142)
Remeasurements of defined benefit plans			
Amount arising during the year	(89)	193	1,708
Reclassification to income for the year	140	48	425
Pretax amount	50	241	2,133
Tax (expense) benefit	(23)	(76)	(673)
Net-of-tax amount	27	164	1,451
Share of other comprehensive income of entities accounted for using equity method			
Amount arising during the year	(10)	—	—
Total	¥ (640)	¥170	\$1,504

25. Treasury Shares

The breakdown of treasury shares (common shares) for the years ended February 29, 2016 and February 28, 2017 is as follows:

	Number of shares outstanding (thousands)
Balance at February 28, 2015	3
Purchase of fractional shares from stockholders	0
Balance at February 29, 2016	4
Purchase of fractional shares from stockholders	0
Sales of financial shares to stockholders	(0)
Balance at February 28, 2017	4

26. Basic Earnings per Share

The basis of computation of basic earnings and diluted basic earnings per share ("EPS") for the years ended February 29, 2016 and February 28, 2017 is as follows:

	Profit attributable to owners of parent	Weighted- average shares	EPS	
For the year ended February 29, 2016	Millions of yen	Thousands of shares	Yen	
	¥6,061	101,459	¥59.75	
	Profit attributable to owners of parent	Weighted- average shares	EPS	
For the year ended February 28, 2017	Millions of yen	Thousands of shares	Yen	U.S. dollars
	¥7,525	101,458	¥74.17	\$0.66

Note: Diluted basic earnings per share for the years ended February 29, 2016 and February 28, 2017 were not presented because the Company had no shares with dilutive effects.

27. Subsequent Events

Concerning the "Udagawa-cho 14 & 15 Development Project", in which the Company promotes business as the individual executor, the Company completed a transfer agreement concerning the office floor (reserve floor space: Approximately 14,750m²) of the building with Hulic Co., Ltd. as of May 31, 2017.

Independent Auditor's Report

Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of PARCO Co., Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at February 28, 2017, and the consolidated income statement, statement of comprehensive income, statement of changes in net assets and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of PARCO Co., Ltd. and its consolidated subsidiaries as at February 28, 2017, and their financial performance and cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 3 to the consolidated financial statements, which indicates PARCO Co., Ltd. and its domestic consolidated subsidiaries changed their depreciation method for tangible fixed assets from the declining-balance method to the straight-line method.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended February 28, 2017 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 6 to the consolidated financial statements.

KPMG AZSA LLC

July 12, 2017
Tokyo, Japan

Information on PARCO's Website



Store and Entertainment Information (Japanese)

www.parco.co.jp/parco/

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



About PARCO

www.parco.co.jp/en/

The website offers an intuitive introduction to PARCO Group business data, such as corporate and investor relations information, news releases, and information on our corporate social responsibility (CSR) activities.

There is also a PARCO Group Information Blog where we post the latest information.



FACT BOOK 2017
Detailed management indicators can be found here.

Investor Relations

www.parco.co.jp/en/ir/

IR News		IR news and other timely disclosures are posted here.
Management policy		Visit here for Message from the President, Corporate Governance, Long-term Vision, Medium-term Business Plan, Business Risk, and Disclosure Policy
Financial Highlights		Visit here for graphs of operating revenue, operating profit and other key financial indicators, with data downloadable in PDF and Excel formats.
Monthly Transaction Volume Summary		A summary of monthly sales data by store is disclosed with year-on-year comparisons.
Financial Indicators		View past data on key performance indicators.
IR Library	Financial Results	Check here for disclosure of quarterly financial results.
	FACT BOOK	The FACT BOOK provides disclosure of detailed information including key indicators on a consolidated and non-consolidated basis and an itemized breakdown of sales by category.
	Financial Presentations	Supporting materials from financial presentations are disclosed here.
	Results of Major Companies of PARCO Group	Here we disclose trends in business results for Group companies.
	Quarterly Report	PARCO's quarterly reports distributed to investors are posted here.
	Integrated Report	PARCO's latest Integrated report is available in downloadable PDF and E@BOOK formats.
IR Calendar		View schedules for announcements of financial results and other events.
Stock and Bond Information	Shareholder Composition	View information on PARCO's current principal shareholders and related matters.
	Shareholder Returns	View our dividend policy, dividends, and acquisition of treasury shares.
	Shareholder Rewards	Details concerning shareholder rewards can be viewed here.
	General Meeting of Shareholders	Convocation notices of the general meetings of shareholders can be viewed here.
	Stock Price Information	Information on PARCO's stock price is presented via Bloomberg.
	Ratings and Corporate Bonds	View information on ratings and bonds here.
Promotion of ESG Initiatives		View information on our environmental, social, and corporate governance activities.



CSR

www.parco.co.jp/en/csr/

View for an introduction to CSR initiatives by the PARCO Group.

The President's CSR Message, PARCO's Fundamental CSR Policy, and CSR activities are reported here.

About PARCO

Corporate Profile (As of February 28, 2017)

Company Name	PARCO CO., LTD.	Consolidated Sales	¥268,373 million (Fiscal 2016)
Headquarters	1-28-2 Minami-Ikebukuro, Toshima-ku, Tokyo 171-0022, Japan	Sales Floor Area	409,000 m ²
Head Office	Shibuya First Place Bldg. 8-16 Shinsen-cho, Shibuya-ku, Tokyo 150-0045, Japan	Tenants	2,103
Founded	February 13, 1953	Group Companies	NEUVE A CO., LTD. (Retail Business)
Paid-in Capital	¥34,367 million		PARCO SPACE SYSTEMS CO., LTD. (Space Engineering and Management Business)
Employees	607 (male 349, female 258)		PARCO Digital Marketing CO., LTD. * (Web-based Consulting Business)
Consolidated Employees	2,089		PARCO (Singapore) Pte Ltd (Southeast Asia Shopping Center Development)

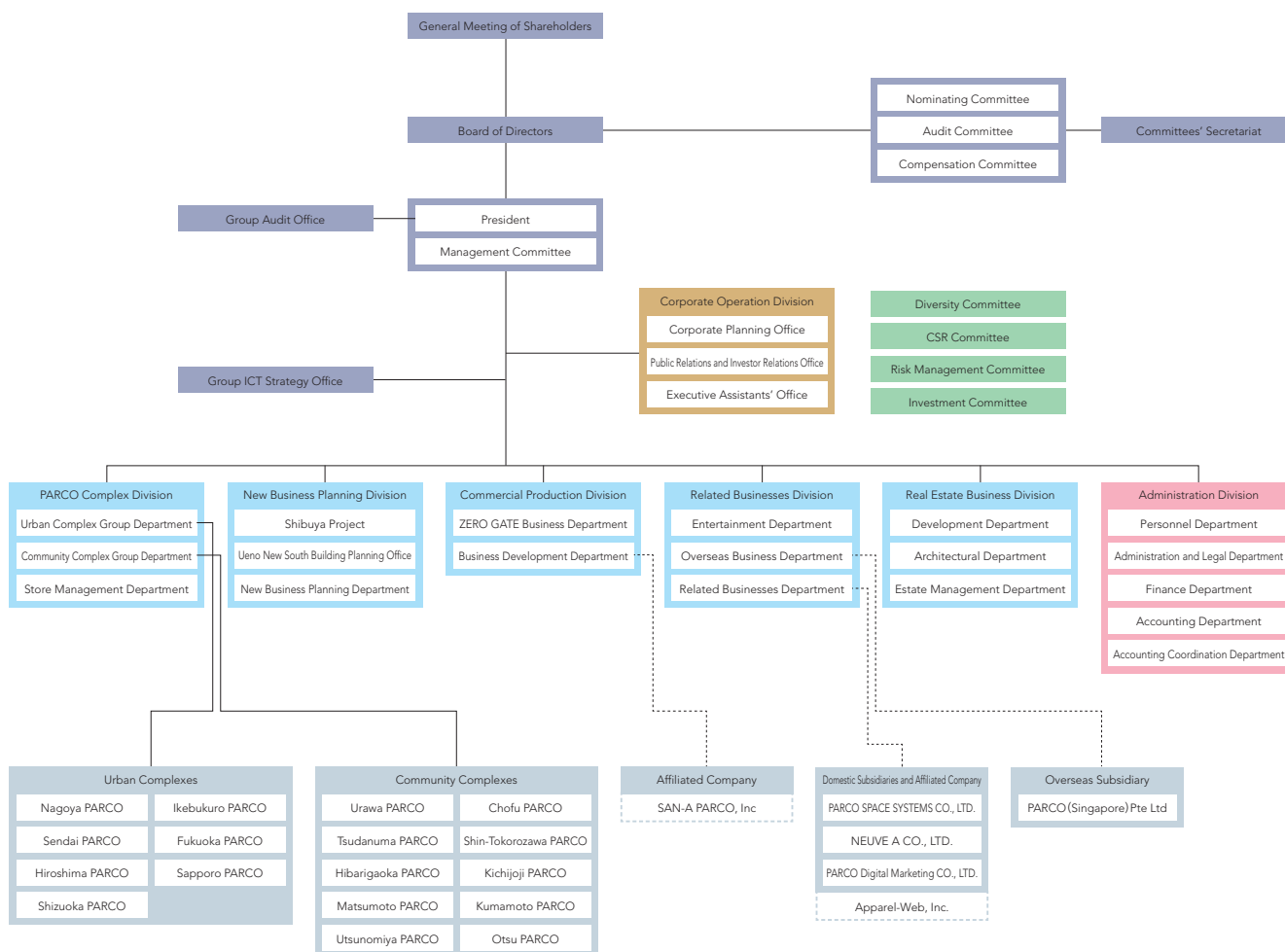
* Changed company name from PARCO-CITY CO., LTD. as of March 1, 2017

Corporate History

1953 ▶	Feb.	Established Ikebukuro Station Building Co., Ltd.	1996 ▶	Apr.	Expanded floor space of Matsumoto PARCO
1954 ▶	Oct.	With the capital participation of Marubutsu Co., Ltd., the Company shifted operations from the management of the Ikebukuro Station Building to the operation of department stores		Nov.	Opened Otsu PARCO
			1997 ▶	Mar.	Opened Utsunomiya PARCO
1957 ▶	May	Changed company name to Tokyo Marubutsu Co., Ltd.	1998 ▶	Nov.	Opened Nagoya PARCO South Building
	Dec.	Started operation of department store under the name Tokyo Marubutsu	2000 ▶	Mar.	Established PARCO-CITY CO., LTD.
				Sept.	Merged SEIDENKO CO., LTD. and PARCO PROMOTION CO., LTD.; adopted new corporate name of PARCO SPACE SYSTEMS CO., LTD.
1963 ▶	Jul.	Tokyo Marubutsu Co., Ltd. became a registered stock with the Osaka Securities Dealers Association	2001 ▶	Jun.	NEUVE A CO., LTD. started operations
1969 ▶	Jun.	Tokyo Marubutsu closed; commenced preparations for the establishment of the PARCO store		Sept.	Opened Hiroshima PARCO Annex
	Nov.	Opened Ikebukuro PARCO	2002 ▶	Apr.	Opened Shibuya ZERO GATE
1970 ▶	Apr.	Changed company name to PARCO CO., LTD.	2003 ▶	May	Adopted "Company with Committees System" (later renamed "Company with Three Committees" System)
1973 ▶	Jun.	Opened Shibuya PARCO	2005 ▶	Feb.	Opened PEDI SHIODOME
		Opened PARCO Theater (former Seibu Theater)	2006 ▶	Mar.	Credit card PEC Card renamed as PARCO Card
1975 ▶	Aug.	Opened Sapporo PARCO	2007 ▶	Mar.	Opened Shizuoka PARCO
1977 ▶	Jul.	Opened Tsudanuma PARCO		Oct.	Opened Urawa PARCO
1980 ▶	Sept.	Opened Kichijoji PARCO	2008 ▶	Aug.	Opened Sendai PARCO
1981 ▶	Sept.	Opened Shibuya PARCO PART 3	2010 ▶	Mar.	Opened Fukuoka PARCO
1983 ▶	Jun.	Opened Shin-Tokorozawa PARCO	2011 ▶	Apr.	Complex format of Shibuya ZERO GATE changed
1984 ▶	Aug.	Opened Matsumoto PARCO	2013 ▶	Apr.	Opened Shinsaibashi ZERO GATE
1986 ▶	May	Opened Kumamoto PARCO		Oct.	Opened Dotonbori ZERO GATE
1987 ▶	Jan.	Stock listed on the 2nd Section of the Tokyo Stock Exchange		Oct.	Opened Hiroshima ZERO GATE
1988 ▶	Jun.	Opened Shibuya CLUB QUATTRO (former QUATTRO by PARCO)	2014 ▶	Oct.	Opened Nagoya ZERO GATE
	Aug.	Stock listed on the 1st Section of the Tokyo Stock Exchange		Nov.	Opened Fukuoka PARCO New Building
	Sept.	Established PARCO PROMOTION CO., LTD.	2015 ▶	Mar.	Expanded floor space of Fukuoka PARCO
1989 ▶	Apr.	Launched PEC Card			Opened Nagoya PARCO midi
	May	Opened Chofu PARCO	2016 ▶	Feb.	Opened Sapporo ZERO GATE
	Jun.	Opened Nagoya PARCO		Jul.	Opened Sendai PARCO2
1991 ▶	Sept.	Acquired stake in SEIDENKO CO., LTD.		Aug.	Temporarily closed Shibuya PARCO (PART 1, PART 3) for redevelopment
	Nov.	Established PARCO (Singapore) Pte Ltd		Sept.	Opened Hiroshima ZERO GATE2
1993 ▶	Oct.	Opened Hibarigaoka PARCO	2017 ▶	Mar.	Changed company name from PARCO-CITY CO., LTD. to PARCO Digital Marketing CO., LTD.
1994 ▶	Mar.	Opened Ikebukuro P'PARCO			
	Apr.	Opened Hiroshima PARCO			

Organization Chart

To realize the PARCO Group's Long-term Vision, we will provide distinctive value in the form of inspirations, personal fulfilment, contentment, new lifestyles and more to consumers seeking their own fully satisfying brand of urban living.



■ PARCO Complex Division
Consisting of the Urban Complex Group, Community Complex Group and Store Management departments, the division works to raise profitability and increase the efficiency of operations by managing urban and community complexes in close coordination with store characteristics and through further clarification of the headquarters support structure.

■ New Business Planning Division
Consisting of the Shibuya Project, Ueno New South Building Planning Office and New Business Planning Department, the division handles merchandising development and new business planning in support of the new stores in the division as well as the PARCO Complex Division, and works to further expand business on this basis.

■ Commercial Production Division
Consisting of the ZERO GATE Business Department and Business Development Department, the division works to strengthen new format development capabilities and further promote real estate development outside of PARCO complexes, along with related solutions, to further increase profitability in the real estate business, as cultivated through ZERO GATE operations.

■ Related Businesses Division
Consisting of the Entertainment, Overseas Business and Related Businesses departments, the division works to foster related businesses.

■ Real Estate Business Division
Consisting of the Development, Architectural, and Estate Management departments, the division promotes policy development and execution related to strategic utilization of real estate assets.

■ Administration Division
Consisting of the Personnel, Administration and Legal, Finance, Accounting, and Accounting Coordination departments, the division is broadly responsible for support functions for the overall PARCO Group.

■ Corporate Operations Division
Consisting of the Corporate Planning Office, Public Relations and Investor Relations Office and Executive Assistants' Office, the division promotes policies for maximizing corporate value through drafting business strategy, strengthening external communications, and other initiatives.

■ Group ICT Strategy Office
The office coordinates the Group's overall ICT strategy and works to organically utilize Group resources. This includes converting businesses to the omnichannel strategy, promoting business management reforms that utilize ICT, researching evolving technologies and providing support for the introduction of those technologies.

Stock Information (As of February 28, 2017)

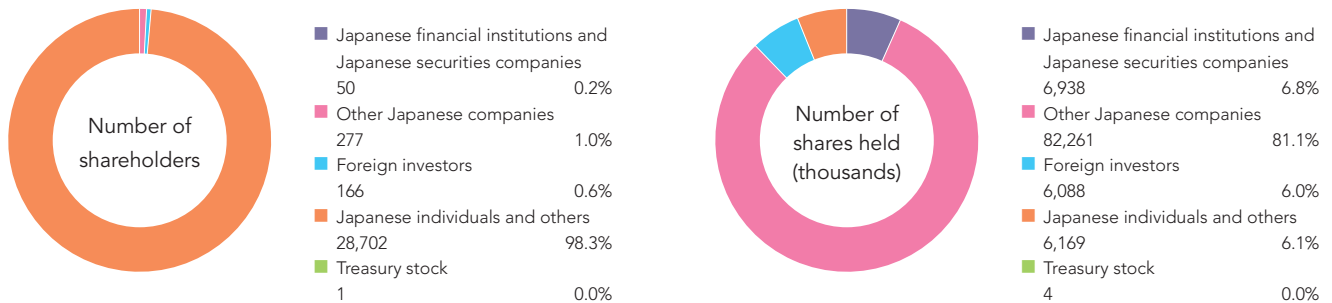
Number of shares authorized	320,000,000	Stock Listings	The Tokyo Stock Exchange 1st Section
Number of shareholders	29,196	Independent Auditor	KPMG AZSA LLC
Number of shares issued and outstanding	101,462,977		

Principal Shareholders

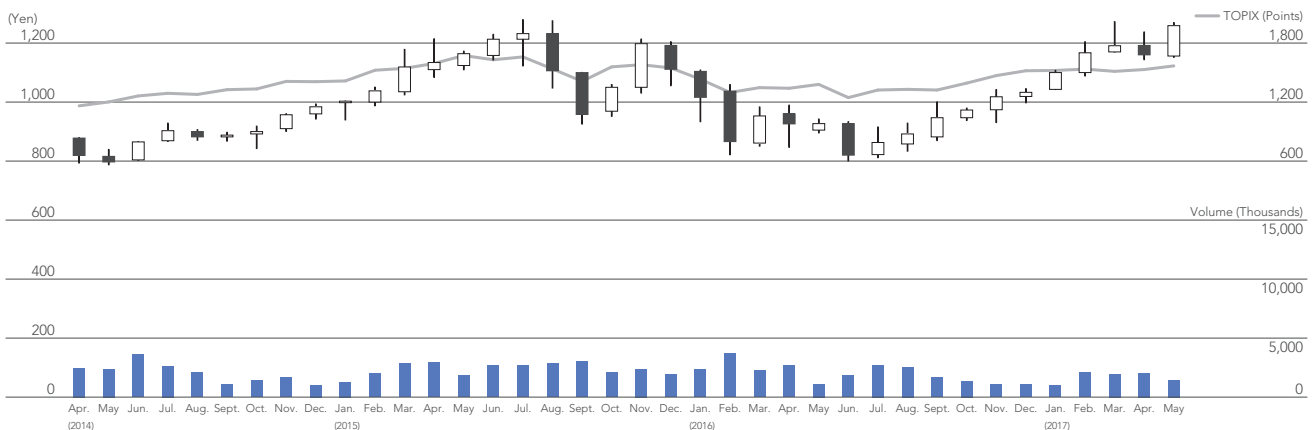
Name	Number of shares held (thousands)	Shareholding ratio (%)
J. FRONT RETAILING Co., Ltd.	65,922	64.98
Aeon Co., Ltd.	8,272	8.15
Credit Saison Co., Ltd.	7,771	7.66
Japan Trustee Services Bank, Ltd. (Trust Account)	2,577	2.54
CBNY-GOVERNMENT OF NORWAY	1,227	1.21
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	930	0.92
Japan Trustee Services Bank, Ltd. (Trust Account 9)	798	0.79
CBLDN RE FUND 107-CLIENT AC	500	0.49
CHASE MANHATTAN BANK GTS CLIENTS ACCOUNT ESCROW	469	0.46
GOLDMAN SACHS INTERNATIONAL	430	0.42

*Shareholding ratios are calculated after deduction of treasury stock (4,591 shares).

Breakdown of Shares by Type of Shareholder



Stock Performance





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

Printed in Japan

